
3Q24

San Francisco Office Market Overview



NEWMARK

Market Observations

Economy

- Technology firms continued to adjust labor needs. Locally, the information sector was the office-using sector with the largest negative employment growth over the past 12 months declining by 8.2%.
- Other Services, Leisure and Hospitality, and Education & Health were the sectors with the largest year-over-year increases in employment. Financial activities was the only office-using industry to increase year-over-year, growing by just 0.1%.
- After surging above pre-pandemic levels for several quarters, total office using employment is now 1.9% below the pre-pandemic mark and 9.9% below a 2022 highpoint as firms continue to right-size their workforces.

Major Transactions

- The largest lease transaction of the quarter was OpenAI's 315,000 square foot lease at 550 Terry Francois Boulevard in Mission Bay. The fast-growing tech company has leased over 800,000 square feet in Mission Bay in less than a year.
- In addition to OpenAI's lease at 550 Terry Francois, UCSF preleased 300,000 square feet at the planned Potrero Power Station development. The two leases represent the third and fourth largest leases since the start of 2020.
- The largest sale by square footage during the quarter was LBA Realty's sale of 255 California to Rockpoint for \$291/SF. Sales during the quarter transacted for a weighted-average of \$285/SF.

Leasing Market Fundamentals

- Net absorption for the third quarter of 2024 was negative 559,782 square feet. This number largely consists of X's (formerly Twitter) move out of 457,000 square feet at 1355 Market Street in Midmarket.
- Vacancy increased from 29.7% in the previous quarter to 30.3%. Similarly, availability increased quarter-over-quarter from 38.1% to 38.7%. Average asking rents, now at \$69.05/SF, continued to decline quarter-over-quarter.
- Total leasing for the quarter totaled nearly 1.7 MSF, bringing the year-to-date total to roughly 4.75 MSF. This is 7% higher than the total leasing in all of 2023. Total leasing in the month of September alone easily eclipsed the quarterly total from one year ago. This is the first time since 2021 there have been back-to-back quarters with leasing over 1.5 MSF.

Outlook

- In what could be the start of a new wave of return-to-office initiatives, CEOs from Amazon and Dell are among several others to recently announce their companies would be returning to the office full-time. According to a recent report from KPMG, 83% of CEOs predict companies will require a full return to in-office work over the next three years, an increase from 64% from the prior year.
- Commute recovery is showing signs of improvement. BART ridership reached its highest level since prior to the pandemic twice during September.
- Despite a very public exit from the City, X has chosen San Francisco as the home of its AI division – recently leasing former OpenAI space at 3180 18th Street in the Mission district. This further signals San Francisco's place as the epicenter of AI development.

1. Economy
2. Leasing Market Fundamentals
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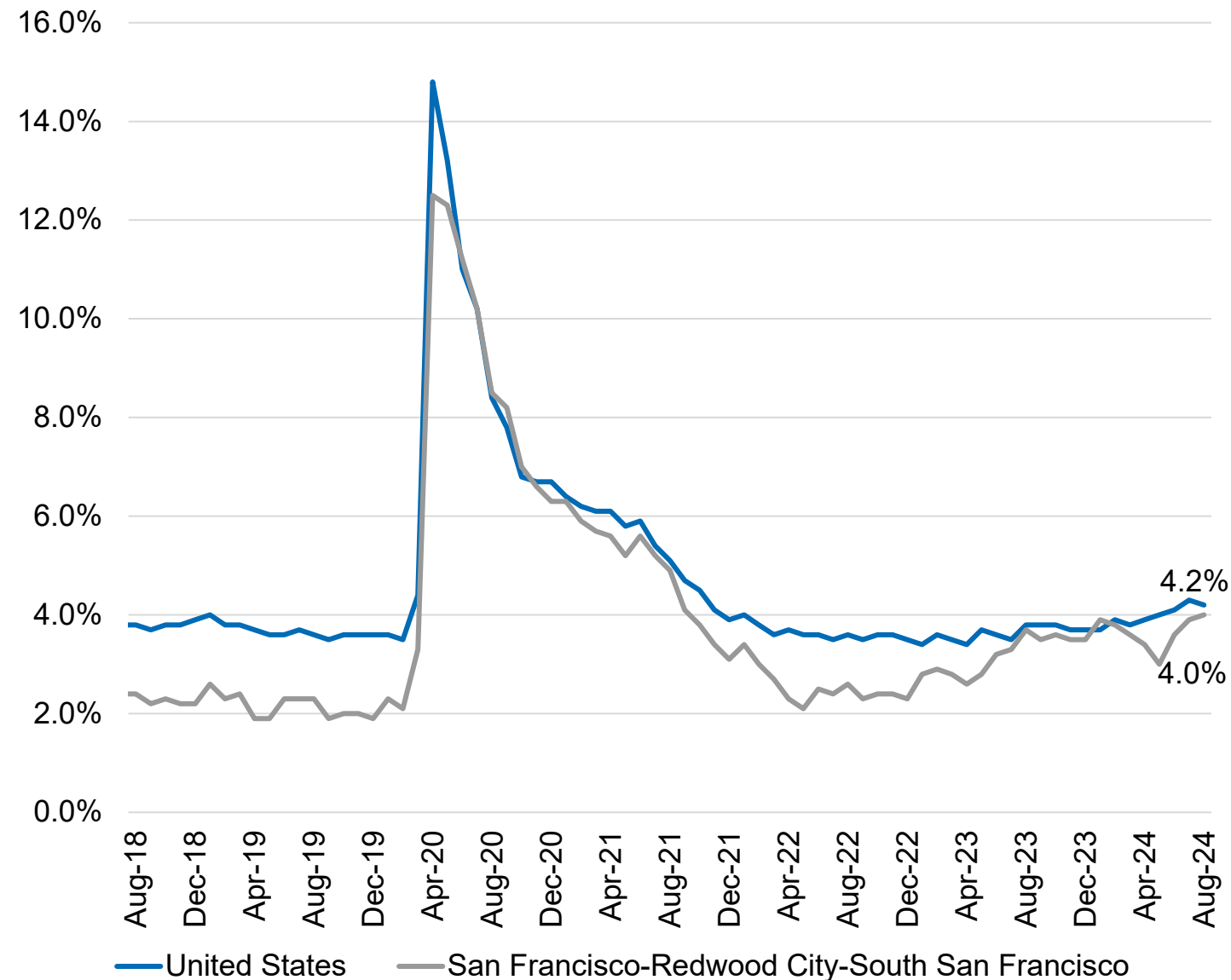
Economy



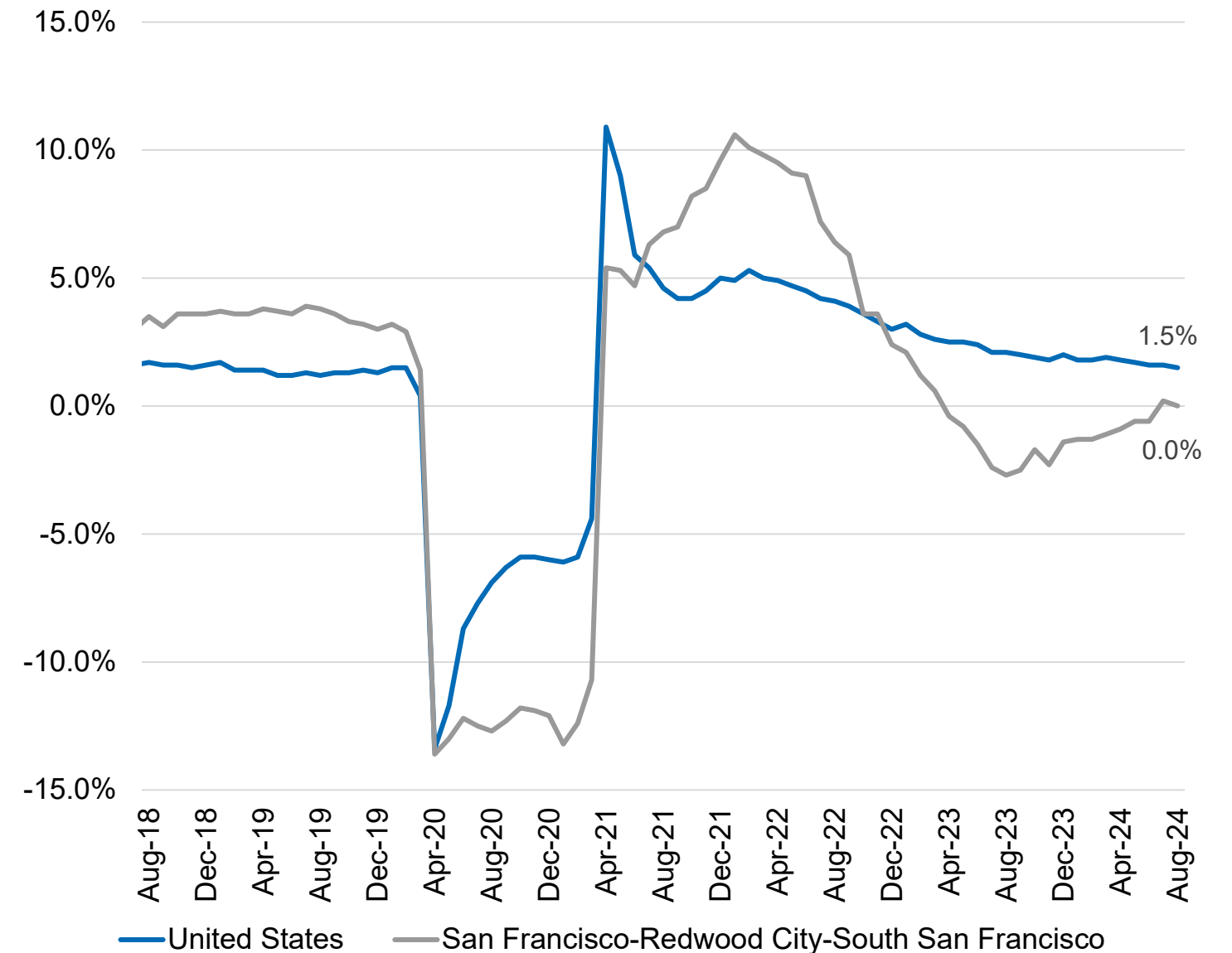
Regional Unemployment Increased Sharply Over Four-Month Span

The region's unemployment rate, at 4.0%, increased by 100 basis points since May as layoffs in the tech industry persisted. However, the region's unemployment remained just below the national average which increased 20 basis points in the same timeframe. Nonfarm payroll employment in the region was flat year-over-year while the growth nationally continued to slow.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Not Seasonally Adjusted, 12-Month % Change

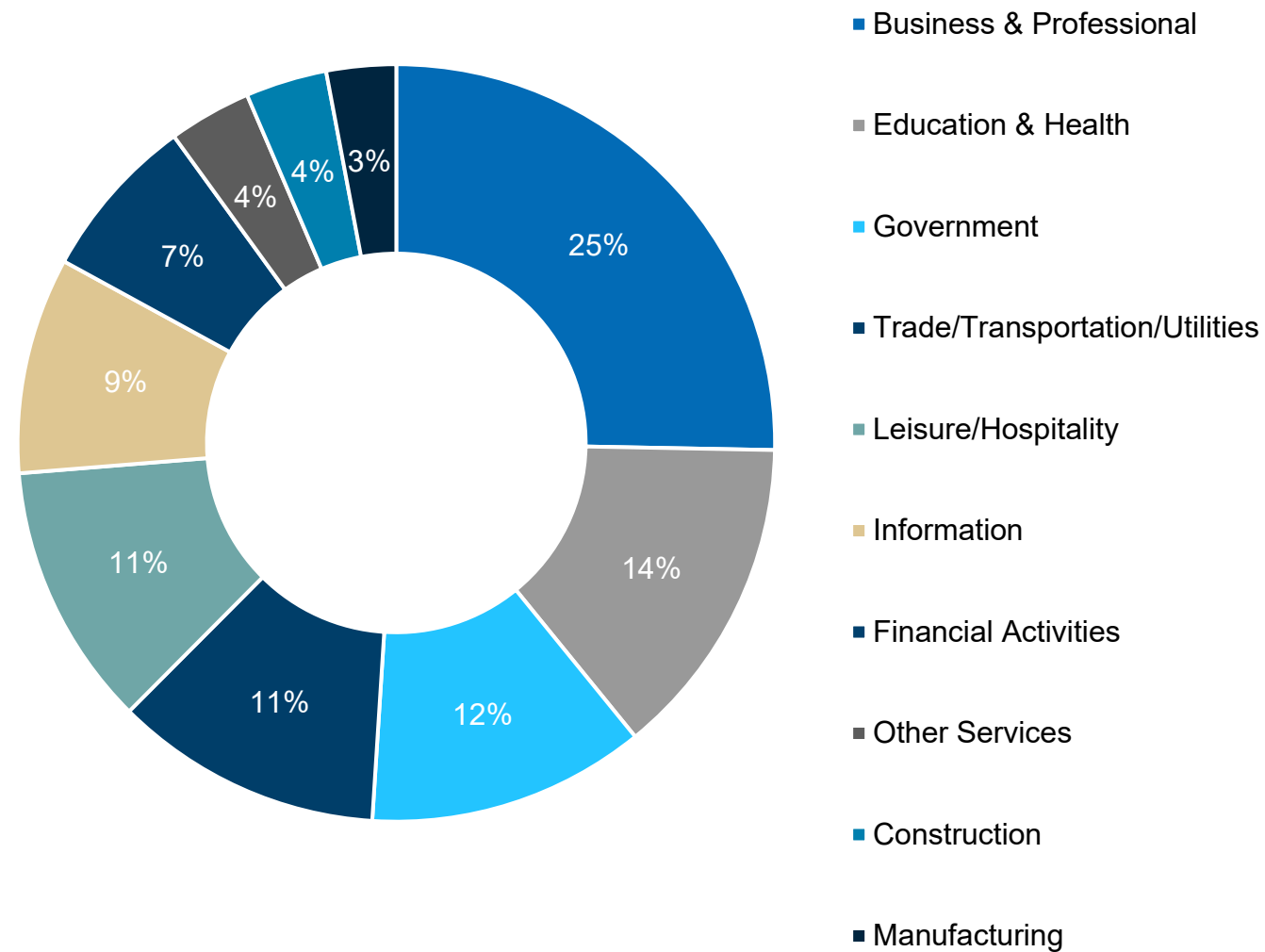


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco, August Data is Preliminary

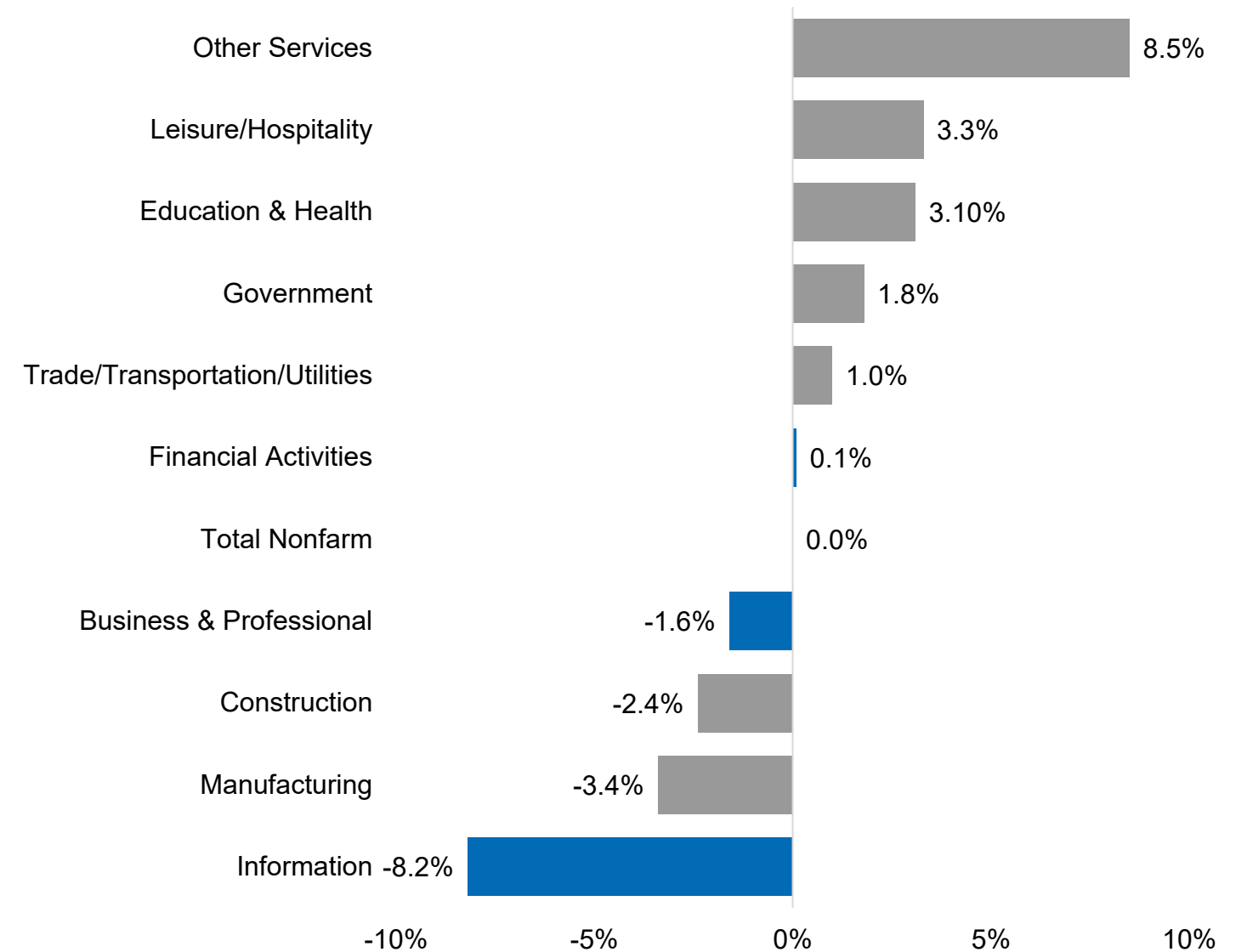
Employment in Information Industry Down 8.2% Year-Over-Year

Other Services, Leisure and Hospitality, and Education & Health sectors had the largest year-over-year increases in employment. Financial activities was the only office-using industry to increase year-over-year.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

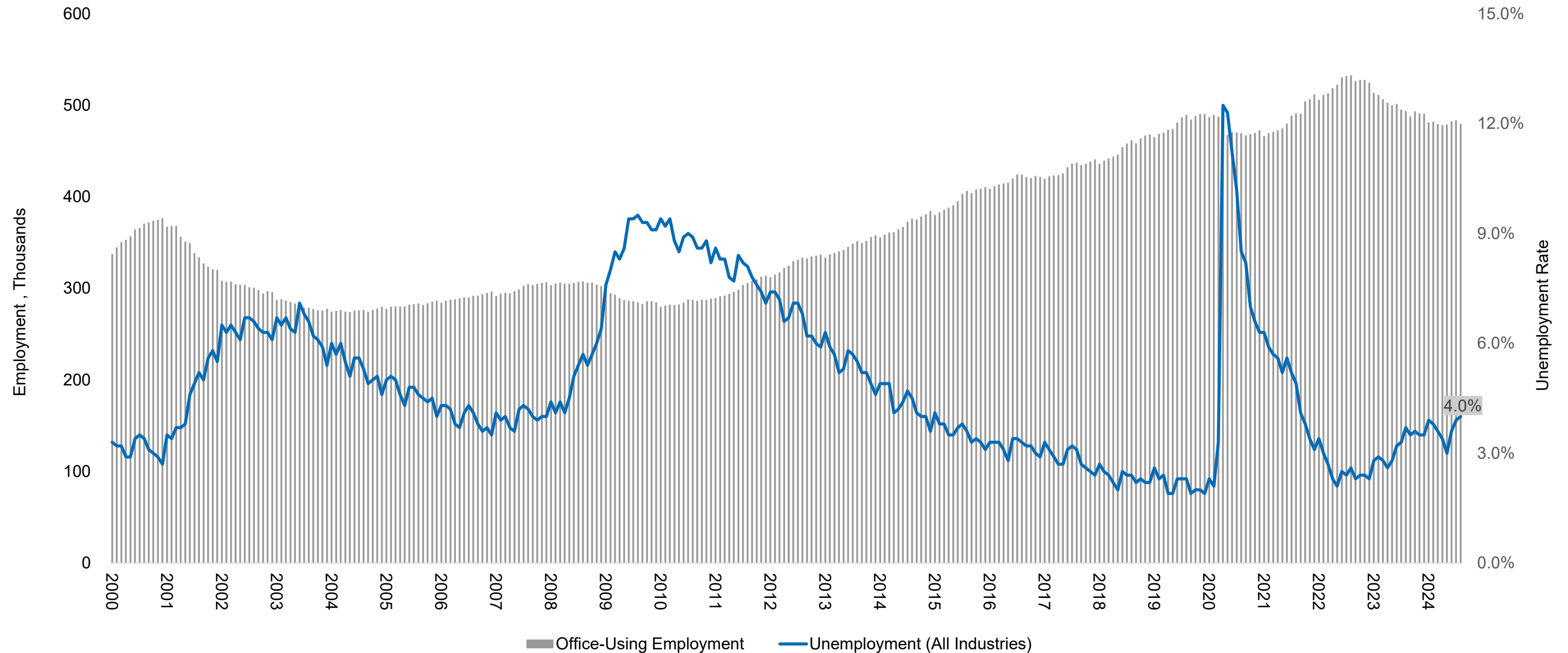


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco August Data is Preliminary

Overall Office-Using Employment Below Pre-Pandemic Levels

After surging above pre-pandemic levels for several quarters, total office using employment is now 1.9% below the pre-pandemic mark and 9.9% below a 2022 highpoint as firms continue to right-size their workforces.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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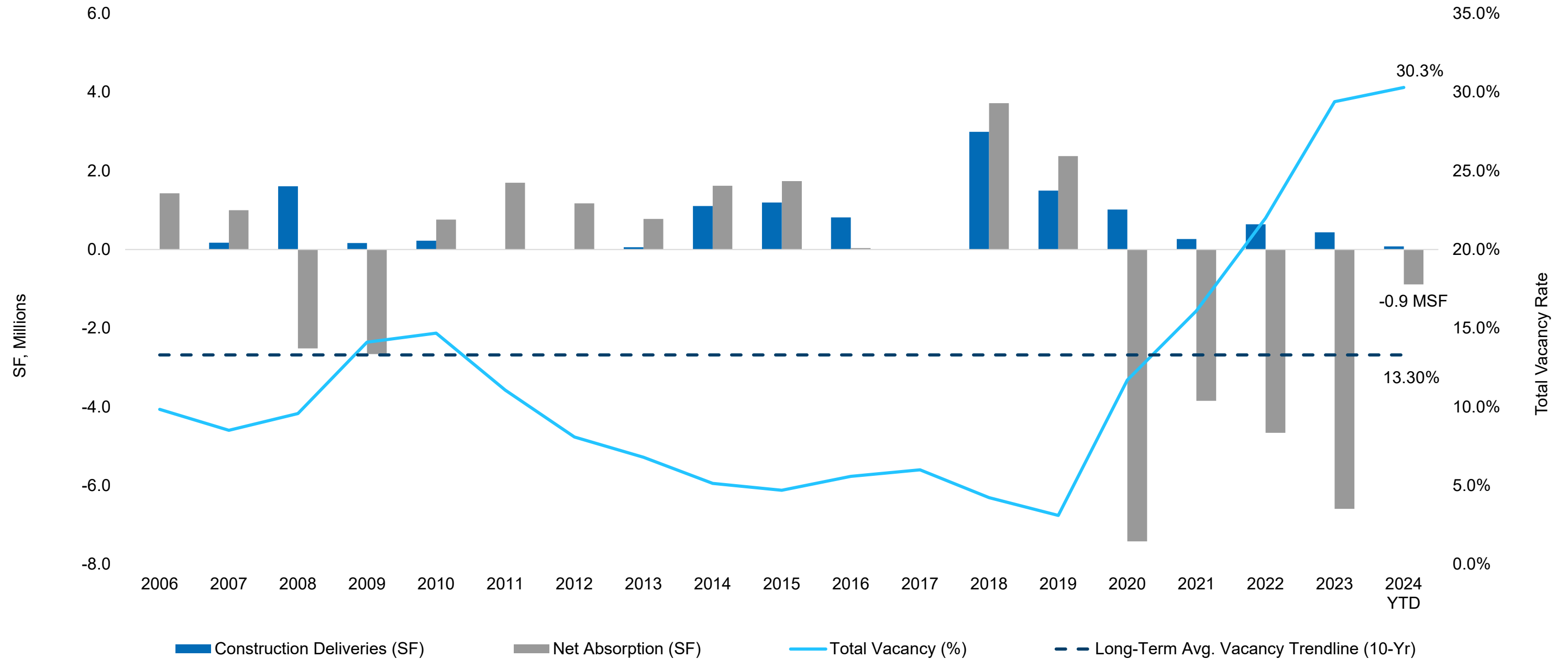
Leasing Market Fundamentals



Vacancy Increased as Net Absorption Remained Negative

Net absorption for the third quarter of 2024 was negative 559,782 square feet. This number largely consisted of X's (formerly Twitter) move out of 457,000 square feet at 1355 Market Street in Midmarket.

Historical Construction Deliveries, Net Absorption, and Vacancy

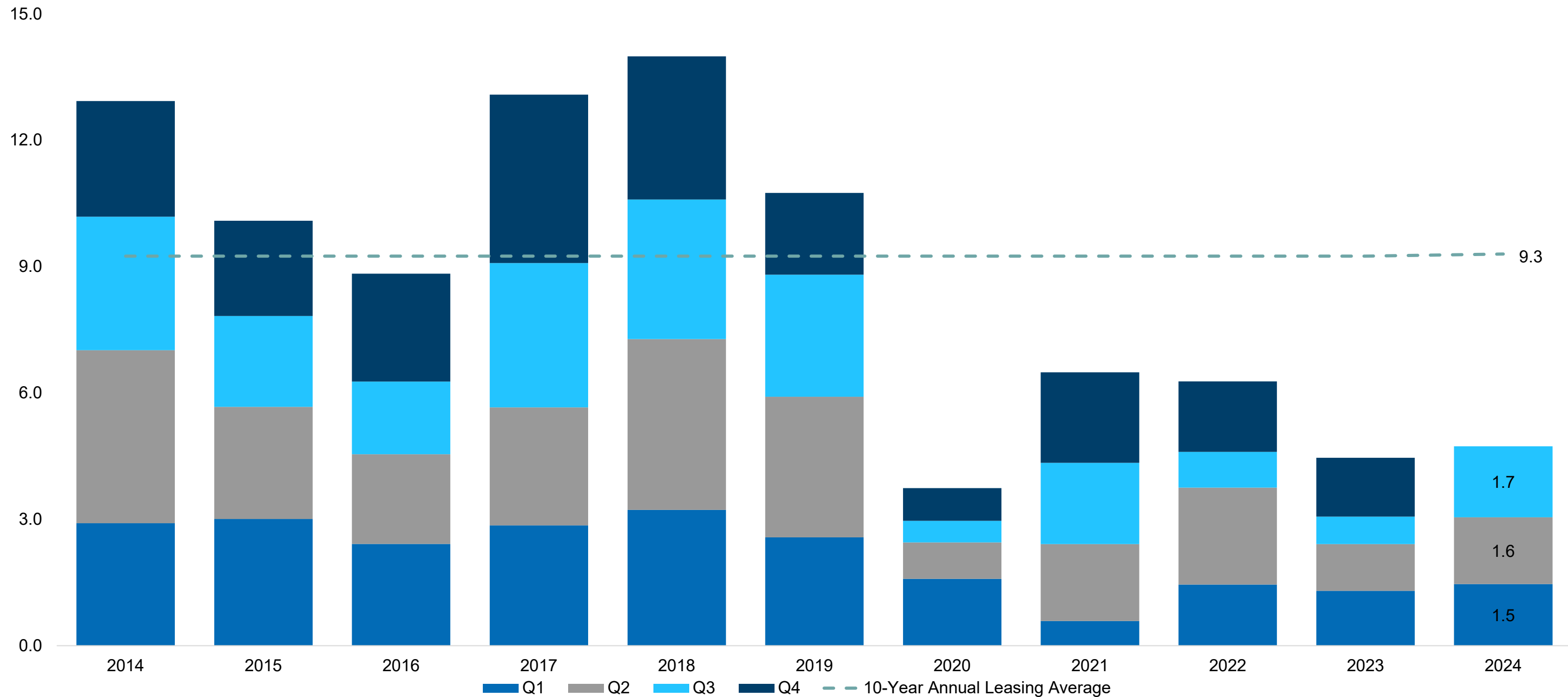


Source: Newmark Research, CoStar

Year-To-Date Leasing Activity Already Greater Than 2023 and 2020 Totals

Total leasing for the quarter totaled nearly 1.7 MSF, bringing the year-to-date total to roughly 4.75 MSF. This is 7% higher than the total leasing in all of 2023. Total leasing in the month of September alone easily eclipsed the quarterly total from one year ago. This is the first time since 2021 there have been back-to-back quarters with leasing over 1.5 MSF.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar



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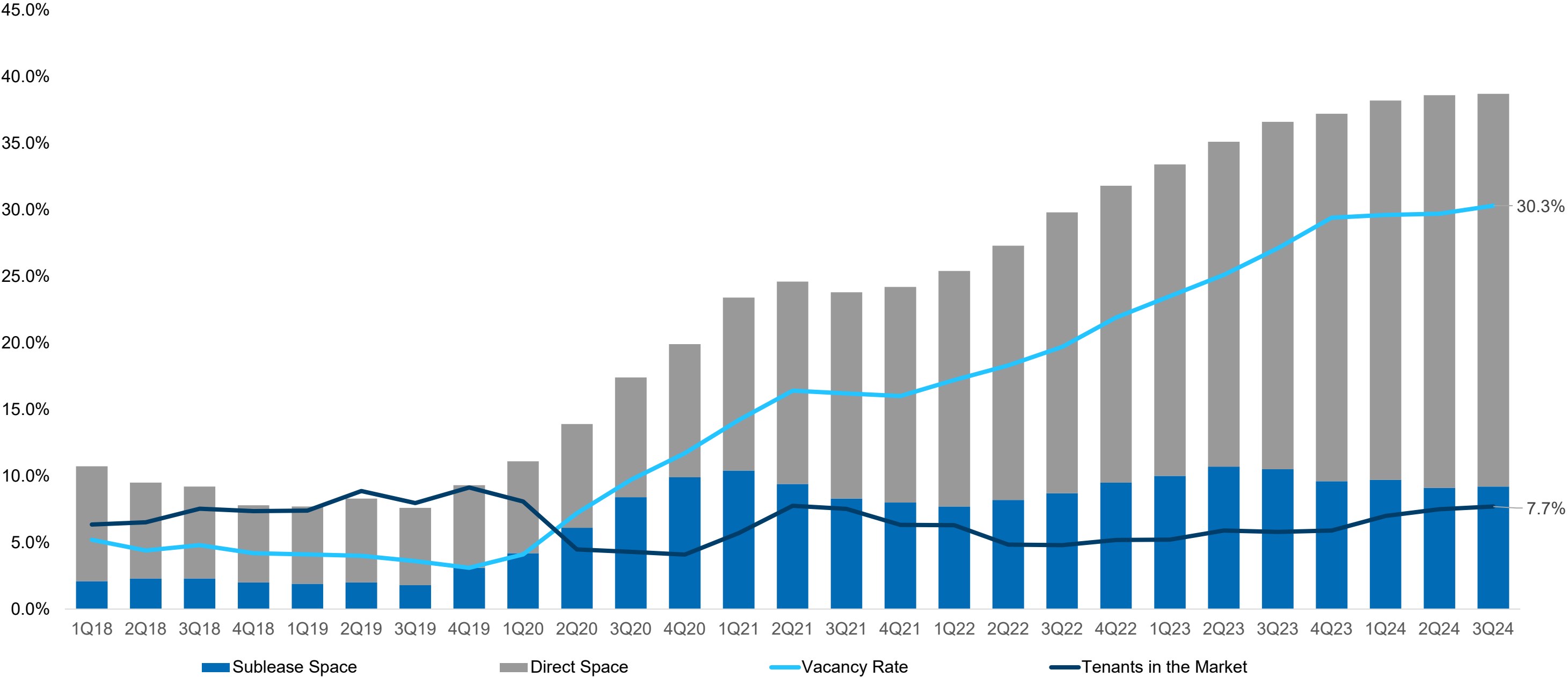


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Vacancy and Availability Climbed Higher but at a Slower Pace

Though availability continued to increase, so did tenant demand. Demand increased for the fifth straight quarter and remains at its highest level since the second quarter of 2021. Available sublease space increased slightly quarter-over-quarter due to the addition of X's (formerly Twitter) space 457,000 square foot space in SOMA's Midmarket neighborhood.

Available Space, Vacancy and Tenant Demand as Percent of Overall Market



Source: Newmark Research, CoStar

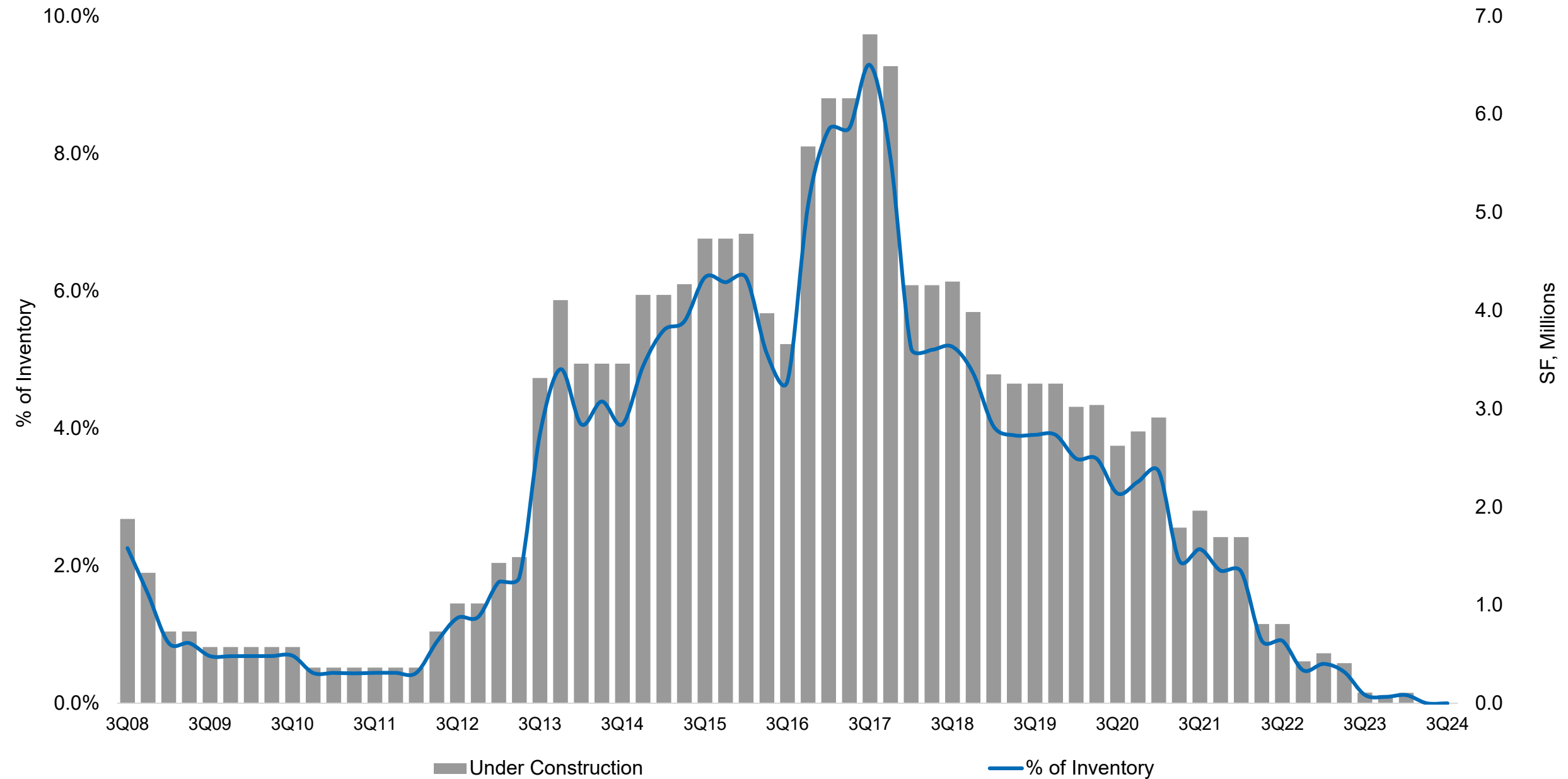


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No New Office Development Under Construction in San Francisco

Rising construction costs and an uncertain economic outlook has halted new office construction completely. This marks two quarters in a row with no new development under construction. Construction on the Potrero Power Plant is expected to start in 2025 with completion in 2028.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar, City and County of San Francisco

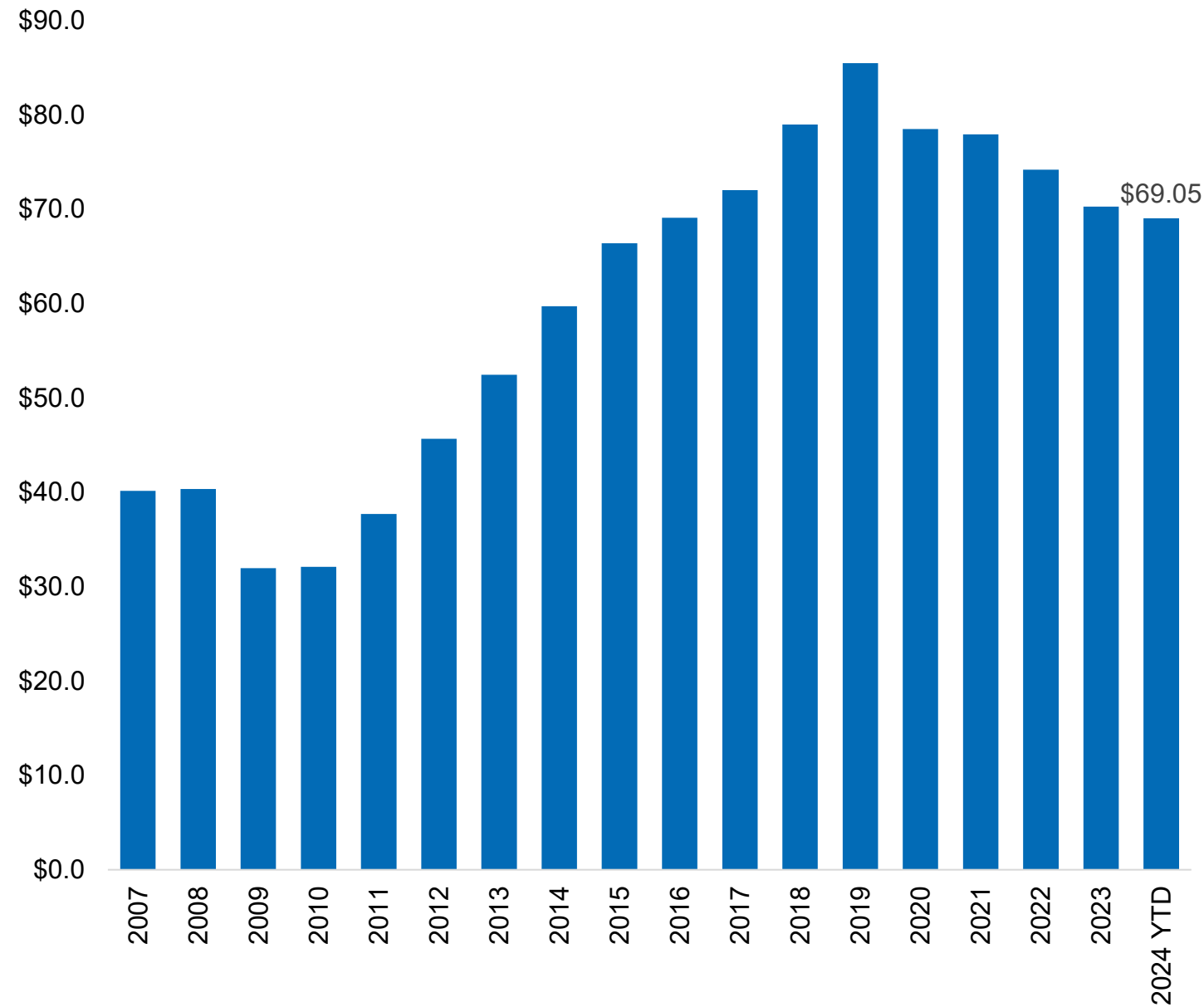


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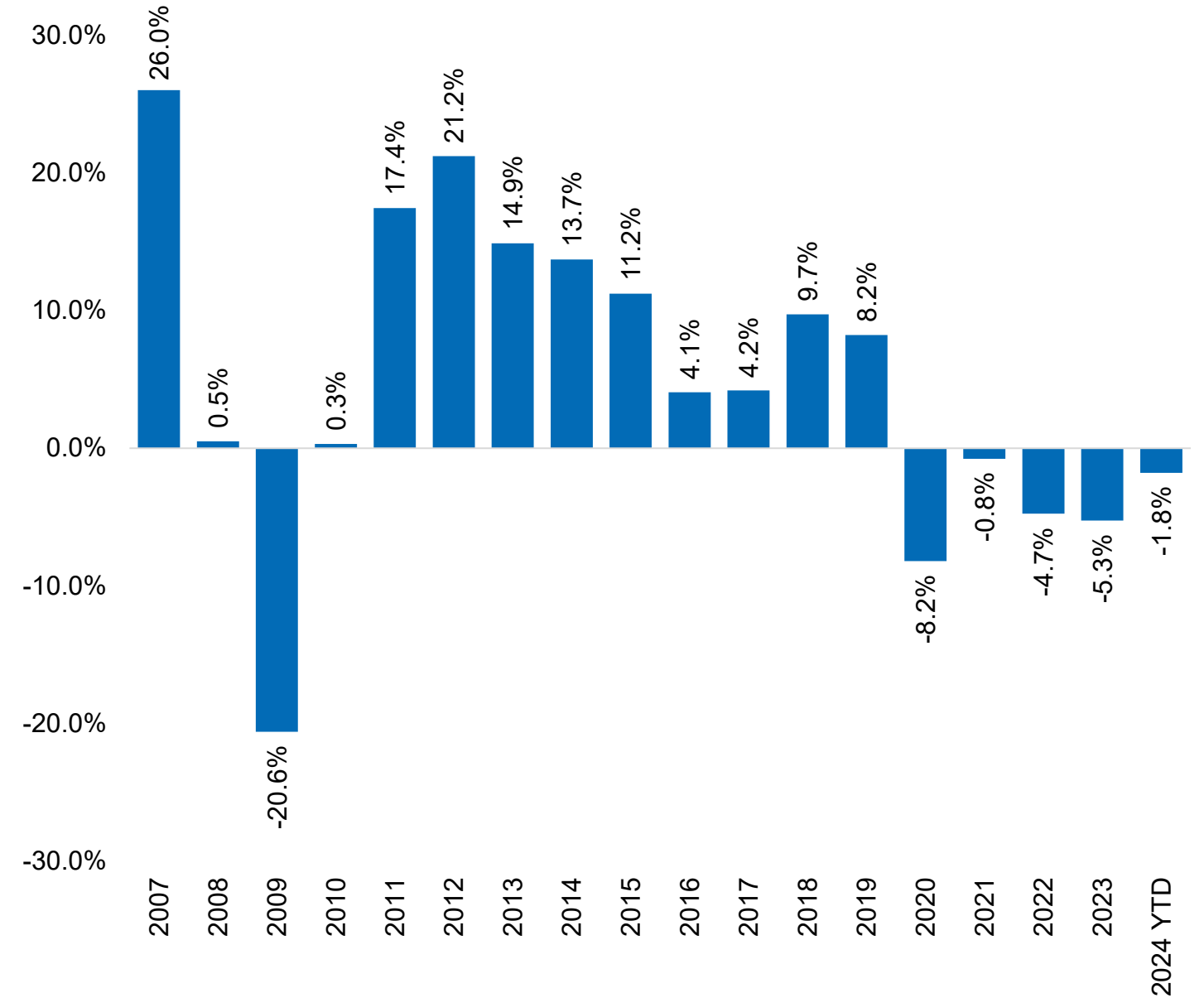
Overall Market Rents Remained at Lowest Level Since 2016

Rents have steadily declined since the start of 2020, though at a slower pace in recent quarters as demand has returned to the market. Most recently, overall asking rates declined to \$69.05/SF. This is a 1.8% decrease compared to the fourth quarter of 2023.

Office Average Asking Rent, \$/SF, FS



Year-Over-Year Asking Rent Growth Rate

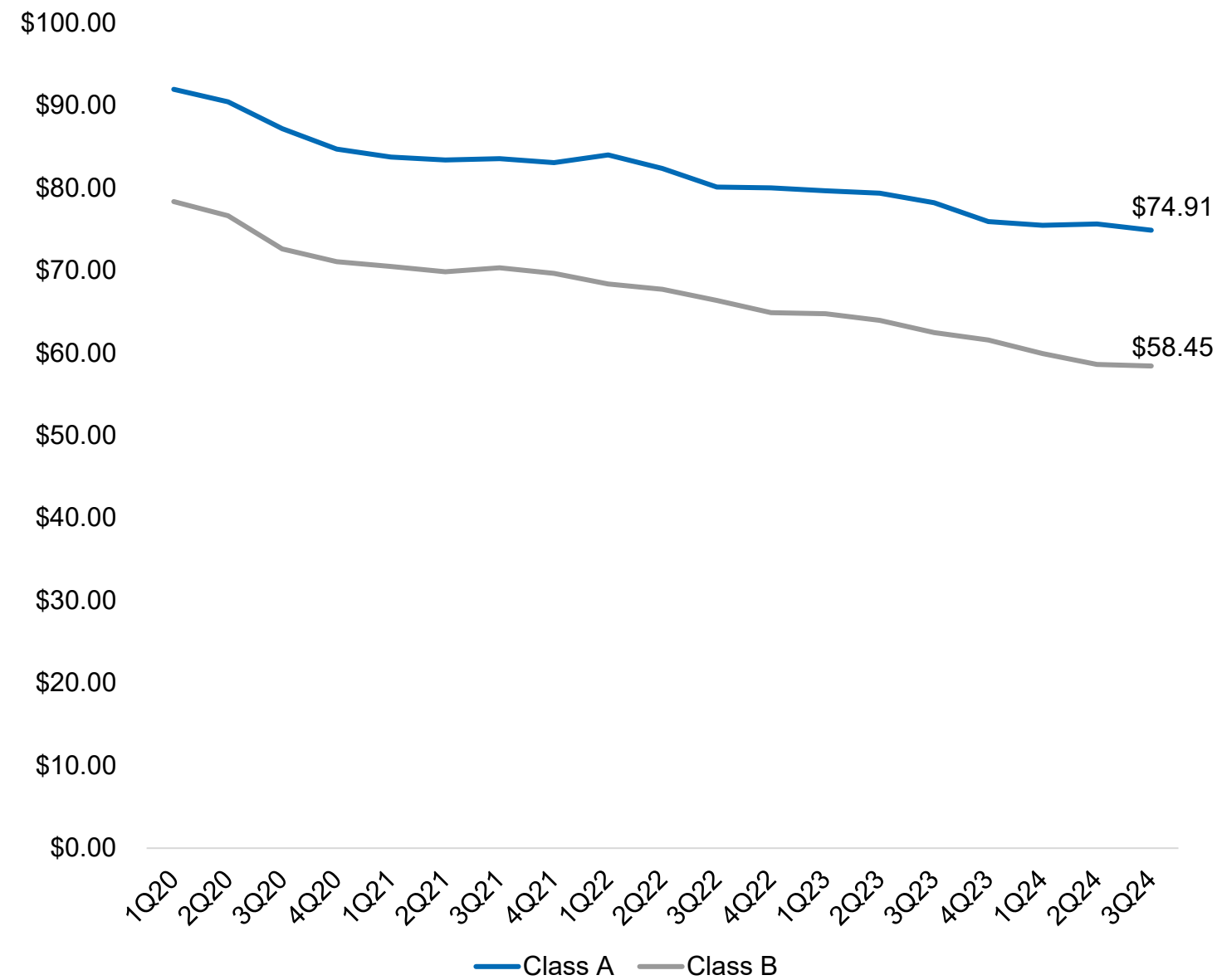


Source: Newmark Research, CoStar

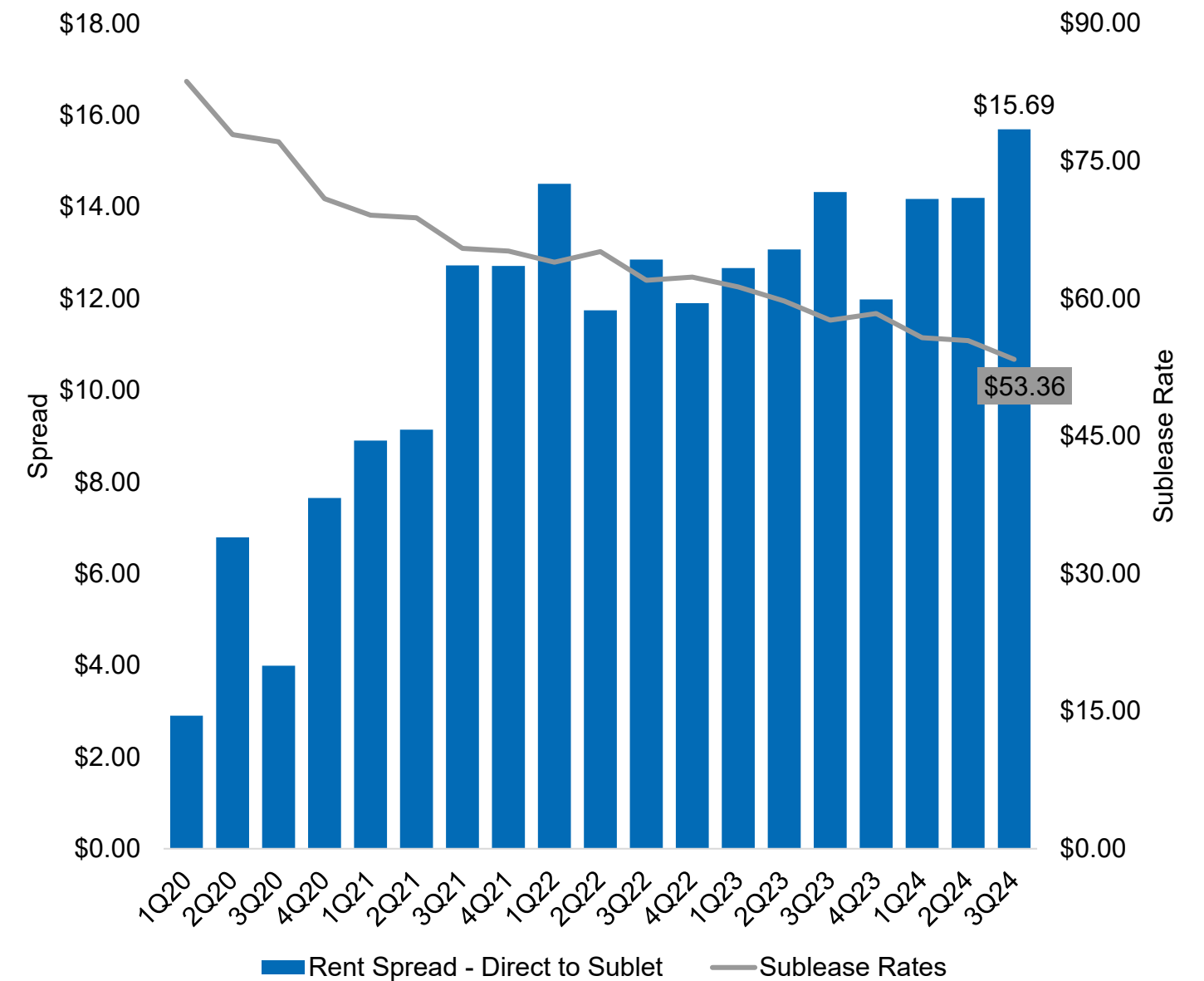
Spread Between Direct and Sublease Asking Rents Reached New High

Since the start of 2020, Class A asking rates have declined by 19%, while Class B rates have declined by just over 25%. As the San Francisco office market has gone from very low vacancy to the current highs, the spread between Direct and Sublease asking rents have expanded from \$2.90/SF to \$15.69/SF.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research, CoStar

Leasing Activity

The leases signed by OpenAI and UCSF during the quarter represented the third and fourth largest leases signed since prior to 2020. Three out of the five top leases during the quarter were expansions in Mission Bay by tech companies signaling increased demand in the area.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
OpenAI	550 Terry Francois Boulevard	SOMA – Mission Bay	Direct	315,000
<i>Leased the former Gap owned building and significantly expanded the company's Mission Bay presence.</i>				
UCSF	Potrero Power Station	SOMA – Mission Bay	Direct	300,000
<i>Fully pre-leased the first phase of the planned development.</i>				
KPMG	505 Howard Street	South Financial District	Direct	96,300
<i>Leased floors 6 through 8. Relocating and downsizing out of 55 Second Street.</i>				
Google	215 Fremont Street	South Financial District	Lease Extension	64,744
<i>Signed an extension on the seventh floor and mezzanine.</i>				
Cisco	500 Terry Francois Boulevard	SOMA – Mission Bay	Lease Expansion	54,502
<i>Expanded the company's Meraki division.</i>				

Source: Newmark Research, CoStar

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Appendix





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