CBRE

San Francisco Office Figures

▲ 27.6%
Vacancy Rate

▲ -1.3M
SF Net Absorption

▲ 834 KSF
Under Construction

▼ $75.86
Full Service Gross / Lease Rate Existing Properties

▲ 345K
Office-Using Employment San Francisco County

Note: Arrows indicate change from previous quarter.

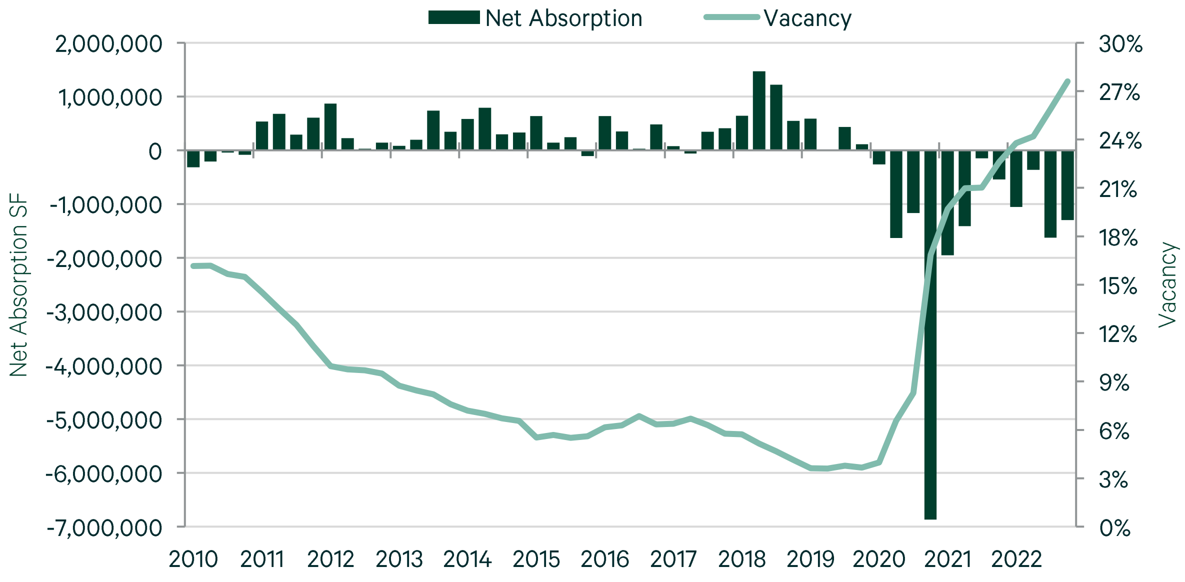
SAN FRANCISCO EMPLOYMENT

San Francisco's economy grew at an impressive clip in 2022, with a GDP gain of 4.5% for the year. The city's population increased in Q4 2022 by 4,900 residents to 833,400. Still, San Francisco's population remains below the peak of 883,600 achieved in 2018. The resident employment base in San Francisco County in Q4 2022 stood at 578,100, with the employment base inclusive of in-market commuters registering 777,200. The forecasted unemployment rate for San Francisco remained at 2.5% in Q4 2022, down from 3.7% in Q4 2021. San Francisco's office sector added 6,500 new jobs in Q4 2022, increasing the total number of office-using jobs to 345,800.

OFFICE OVERVIEW

San Francisco's office market struggled to generate positive momentum at the end of 2022. Office tenant demand slowed, and companies seemed hesitant to commit to new leases in an uncertain market. Remote and hybrid work strategies continue to weigh on market trends as long-term space needs remain unclear. As a result, vacancy and availability rates continued to climb through Q4 2022. In addition, macroeconomic headwinds regarding interest rate increases, tech industry layoffs, and recession risk contributed to office market uncertainty.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

OFFICE OVERVIEW (continued)

San Francisco office leasing activity remained low by historical standards in Q4 2022, registering about 1.05 million sq. ft. That figure is an increase from 878,000 sq. ft. in Q3 2022 but was still below leasing activity in Q1 and Q2 2022. Renewal transactions accounted for roughly 65% of the market's fourth-quarter total.

Market-wide office availability increased by 1.23 million sq. ft. in Q4 2022, with 819,000 sq. ft. of new direct space and 416,000 sq. ft. of new sublease space becoming available. That resulted in a market-wide availability rate of 32.6% to end 2022. Net absorption registered -1.30 million sq. ft. in Q4 2022, increasing the vacancy rate to a new record high of 27.6%. The CBD accounted for most of the negative absorption, with -803,000 sq. ft. in Q4 2022. Other submarkets struggling with elevated vacancy rates include South of Market, Yerba Buena, and South of Market West—all of which have vacancy rates exceeding 35%

Direct average asking rates decreased by roughly 1.0% from Q3 2022 to $75.86 per sq. ft. annually, FSG in Q4 2022. Compared to Q1 2022, asking rents have declined 3.5% market-wide. Class A and Class B rents held up best, falling 2.0% and 4.0%, respectively, while Class C rents decreased 9.0% through Q4 2022. The market-wide average asking rate remains 14% below the all-time high of $88.40 FSG set in Q1 2020.

Total active and pending office requirements stood at 2.8 million square feet in Q4 2022, a 6.7% quarter-over-quarter decline. Tech companies accounted for roughly 25% of office demand—a significant drop from pre-pandemic levels, which exceeded 50% on average. The largest leases of Q4 were Morgan Stanley's renewal of 131,728 sq. ft. at 555 California St and Sigma Computing with an 82,597 sq. ft. renewal/expansion at 116 New Montgomery St.

The only construction delivery in Q4 2022 was 100 Stockton St, a 233,000 sq. ft. mixed-use building, which includes 58,000 sq. ft. of dedicated office space. 2022 ended with roughly 834,000 sq. ft. of under-construction office space—36% of which is pre-leased. Mission Rock – Phase I is the only development slated to deliver in 2023, with an estimated delivery date of Q3 2023.

FIGURE 2: Submarket Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Direct Asking Rate ($)	Q4 Net Absorption	YTD Net Absorption
North Financial District	27,180,161	26.3	31.9	78.72	(576,899)	(1,689,069)
Class A	20,366,610	22.4	28.0	81.88	(381,232)	(1,215,259)
South Financial District	25,383,610	21.9	27.8	79.44	(225,804)	(1,158,542)
Class A	22,348,161	20.2	26.3	81.12	(257,244)	(1,035,364)
North Waterfront/Jackson Sq	5,666,429	29.0	32.6	72.03	109,449	(129,926)
Class A	2,129,172	21.5	23.8	80.40	87,114	12,494
South of Market	8,259,148	35.0	39.9	70.24	(377,720)	(479,326)
Class A	3,747,326	36.2	41.9	81.48	(215,270)	(135,089)
Yerba Buena	4,285,303	47.4	50.7	80.11	(61,891)	(299,219)
Class A	2,230,427	57.9	64.2	87.28	(31,201)	(233,336)
South of Market West	3,622,793	38.4	48.3	62.05	5,933	(353,071)
Class A	1,633,952	52.4	69.7	73.70	0	(212,606)
Mission Bay/China Basin	4,470,792	21.0	24.4	87.98	(73,485)	54,928
Class A	4,470,792	21.0	24.4	87.98	(73,485)	54,928
Potrero Hill	2,384,875	29.6	30.5	63.88	9,477	(134,937)
Class A	573,109	21.6	21.6	75.00	0	31,794
Civic Center/Van Ness	1,830,078	28.8	32.0	55.32	(14,397)	(166,290)
Class A	624,522	42.6	42.8	68.55	6,321	(80,785)
Union Square	3,819,199	29.1	30.5	63.70	(95,210)	17,106
Class A	401,944	57.5	57.5	72.90	0	1,765
San Francisco Office Market	**86,902,388**	**27.6**	**32.6**	**75.86**	**(1,300,547)**	**(4,338,346)**
Class A	**58,526,015**	**25.0**	**30.7**	**81.67**	**(864,997)**	**(2,811,458)**

Source: CBRE Research

FIGURE 3: Notable Lease Transactions Q4 2022

Tenant	Address	SF Leased	Type
Morgan Stanley	555 California St	131,728	Renewal
Sigma Computing	116 New Montgomery St	82,597	Renewal
Databricks	160 Spear St	70,000	Renewal
Bank of the West	180 Montgomery St	49,399	Renewal
Gensler	220 Montgomery St	45,544	New Lease
SEC	44 Montgomery St	44,000	Renewal
NBC Sports Bay Area	360 3rd St	39,915	Renewal
First Republic Bank	388 Market St	31,152	Renewal
Bain Capital	450 Pacific Ave	28,586	New Lease
UCSF	1263 Mission St	28,570	New Lease
Zillow	535 Mission St	26,646	Renewal

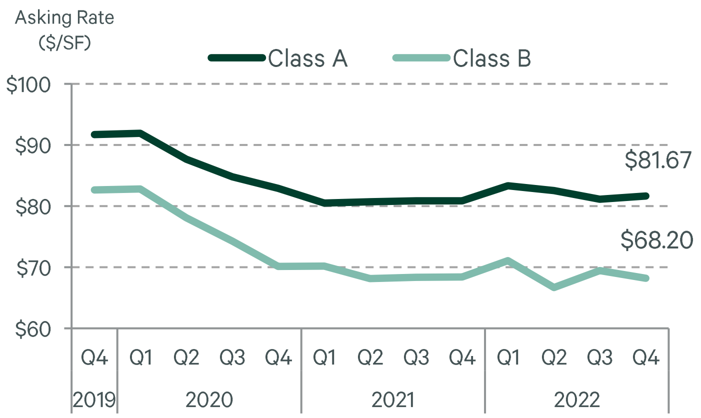
Source: CBRE Research

FIGURE 4: Notable Sale Transactions Q4 2022

Buyer	Address	SF Sold	Sale Price
No Notable Transactions			

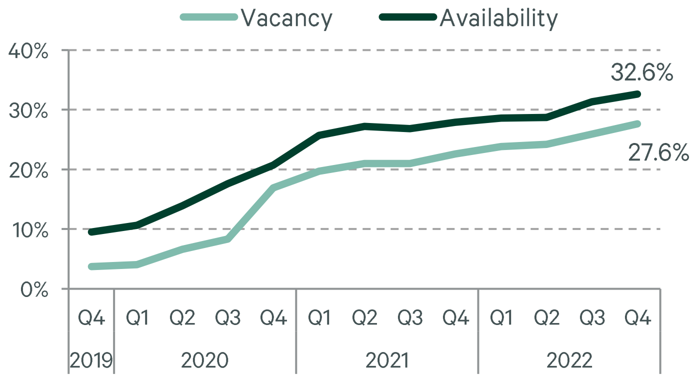
Source: CBRE Research

FIGURE 5: Lease Rates



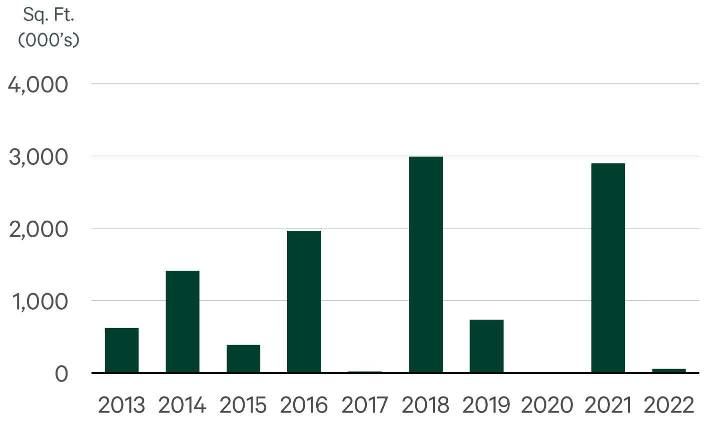
Source: CBRE Research

FIGURE 6: Vacancy & Availability



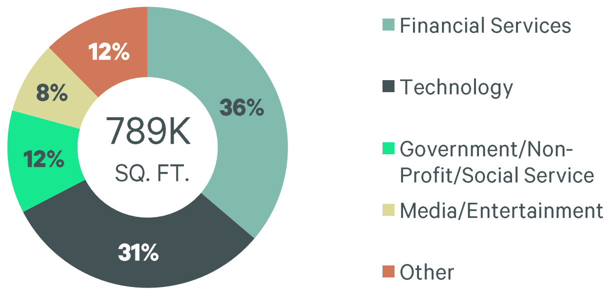
Source: CBRE Research

FIGURE 7: Construction Completions



Source: CBRE Research

FIGURE 8: Top 25 Leases of the Quarter by Industry



Source: CBRE Research

Submarket Map

Source: CBRE Research, Location Intelligence

Definitions

Average Asking Rate Direct Annual Lease Rates, Full Service Gross. Availability All existing space being marketed for lease. Total Vacancy Rate Direct Vacancy + Sublease Vacancy. CBD Central Business District; consists of Financial District and South Financial District submarkets.

CBRE's market report analyzes existing single- and multi-tenant office buildings that total 10,000+ sq. ft. in downtown San Francisco, excluding owner-occupied buildings. CBRE assembles all information through telephone canvassing, third-party vendors, and listings received from owners, tenants and members of the commercial real estate brokerage community.

Employment statistics sourced from Oxford Economics.

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