



San Francisco office market report

Q2 2024

**AVISON
YOUNG**

San Francisco office market trends

\$248M

Low sales volume outlines continued pricing disparity

Q2 2024 saw a decrease in sales volume from the previous quarter of 12.9%, with total sales volume still significantly below historical norms. Transactions above \$100M are rare to nonexistent, as the high cost of capital for acquisitions and capital improvements has continued to hinder building sales. However, there is not a shortage of buyers interested in acquiring San Francisco office buildings at rock-bottom prices. Rather, sellers are still holding out for better pricing and a hope that interest and cap rates will drop in the near future.

1.51 msf

Q2 leasing activity outlines positive leasing velocity

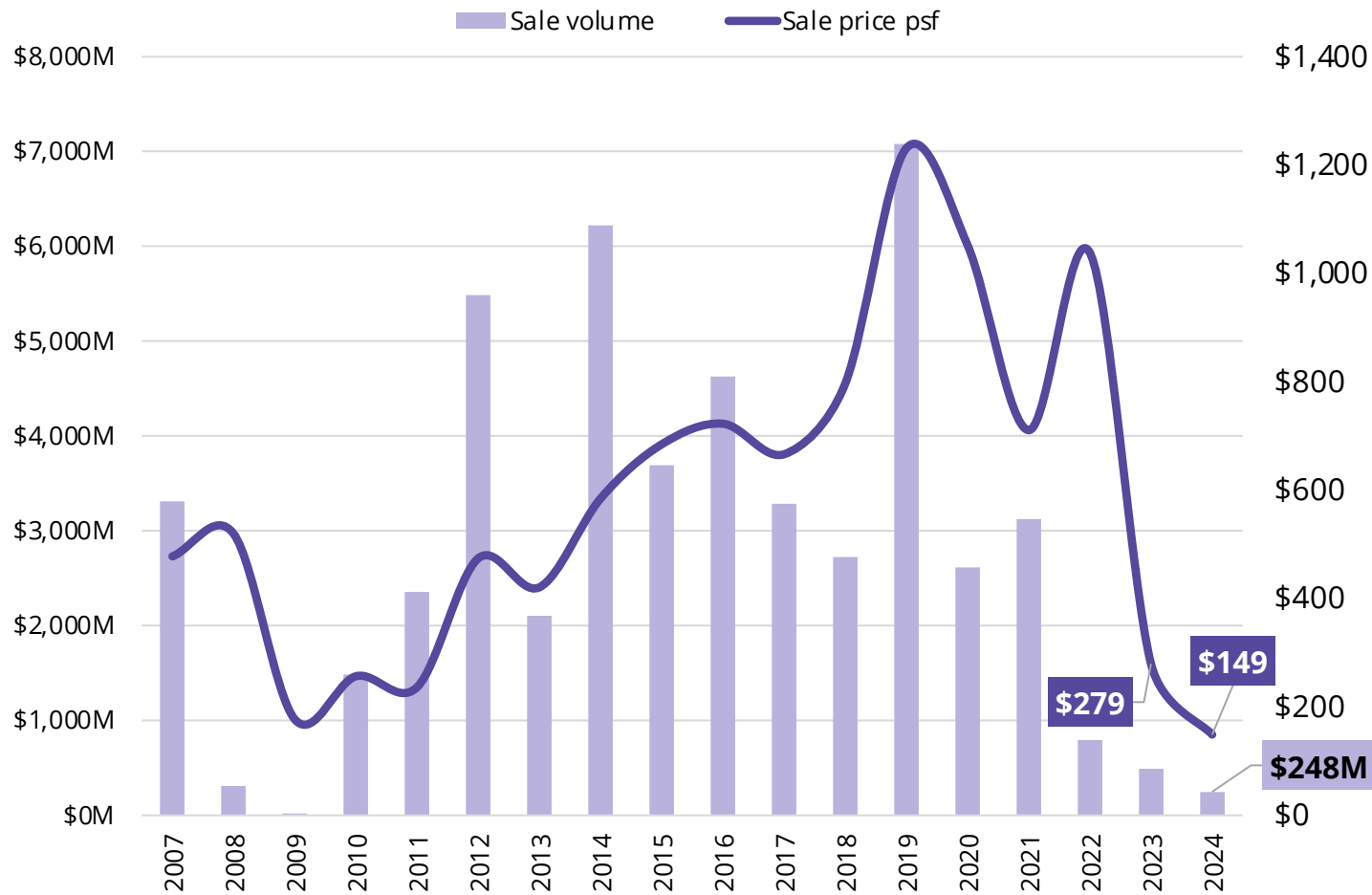
Leasing activity in Q2 2024 totaled 1.51 msf, rising 17.6% above the post-Covid leasing average. Four 100k+ sf leases from the City of San Francisco, Scale AI, Rippling and Orrick set the pace for the quarter with a combined 642k sf. With three consecutive quarters of growth in leasing activity, positive momentum can be expected with more than 6.1 msf of tenant requirements in the market.

19.4%

Remote job postings decrease as total job postings grow

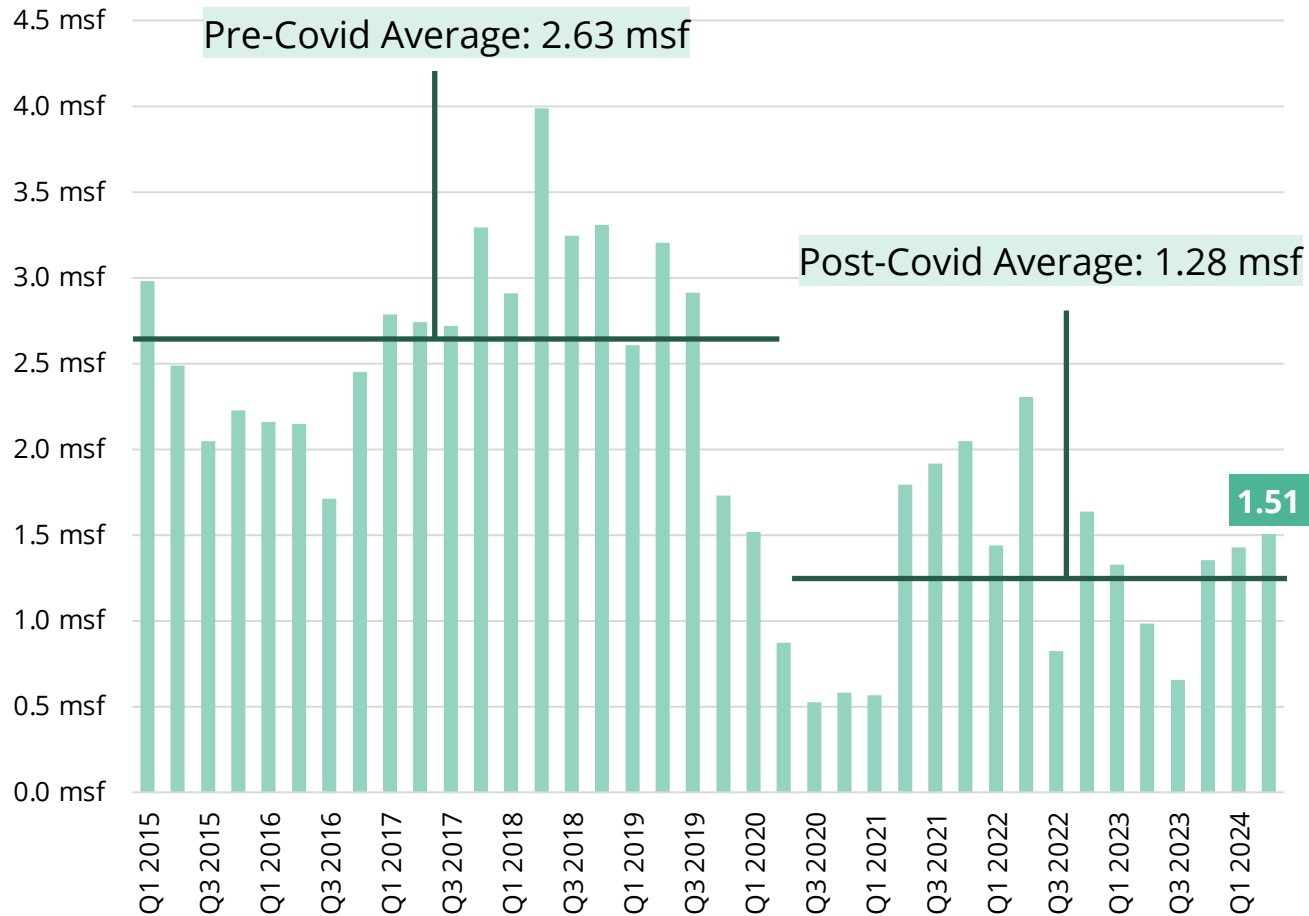
The percentage share of remote job postings has now fallen to 19.4%, marking the first time since Q4 2021 that this figure has been below 20.0%. With total office-using job postings up 16.4% quarter-over-quarter, this outlines the continued trend of return-to-office. There is increasing optimism that this trend will continue, and more employers will require their employees to work from the office instead of from home.

Investment sales



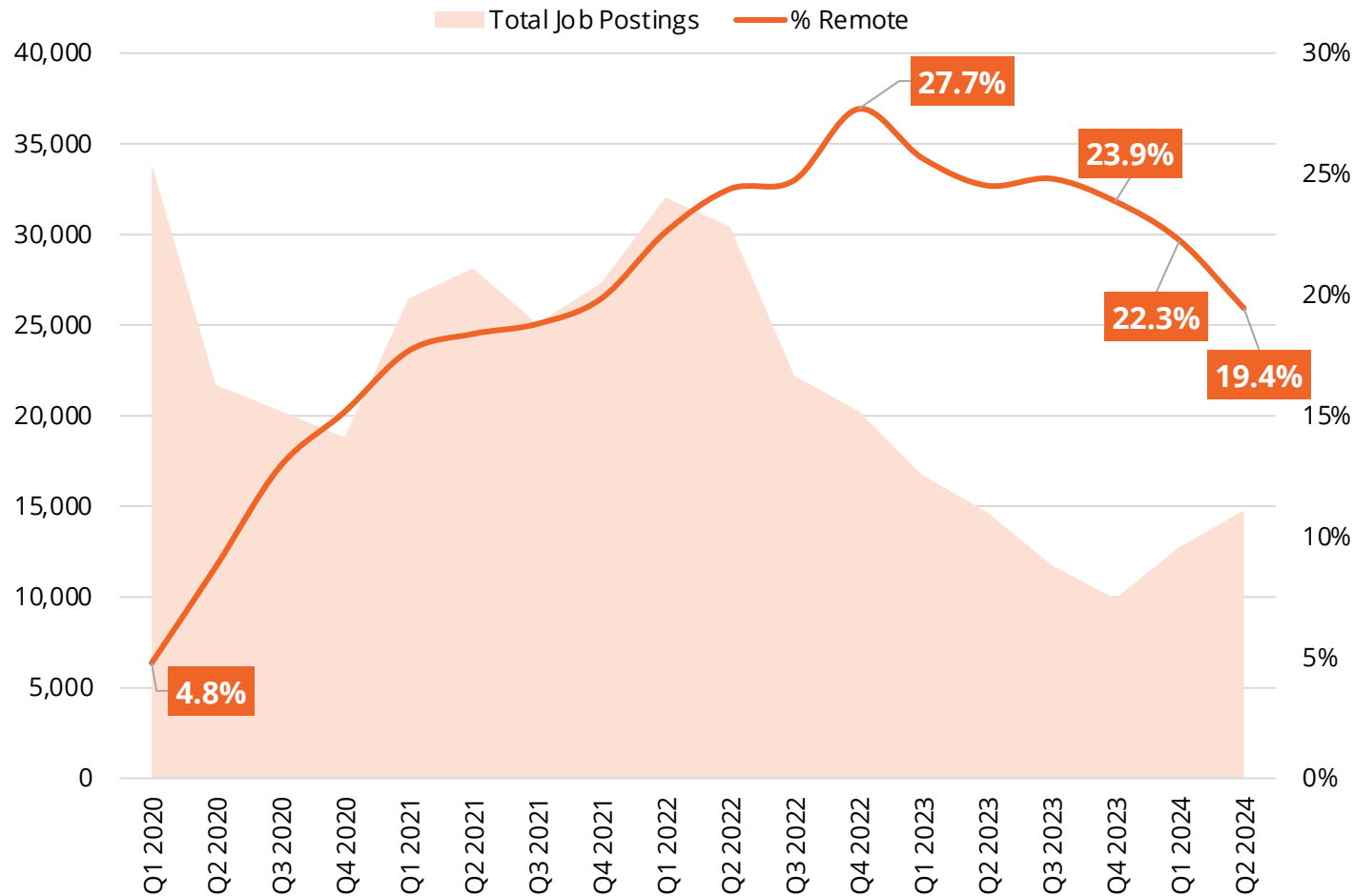
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Leasing activity



Leasing activity in San Francisco experienced its 3rd straight quarter of consecutive growth and totaled 1.51 msf, 17.6% above the post-Covid leasing average. Overall leasing was led by 100k+ sf deals from the City of San Francisco, Scale AI, Rippling and Orrick for a combined 642k sf.

Remote job postings

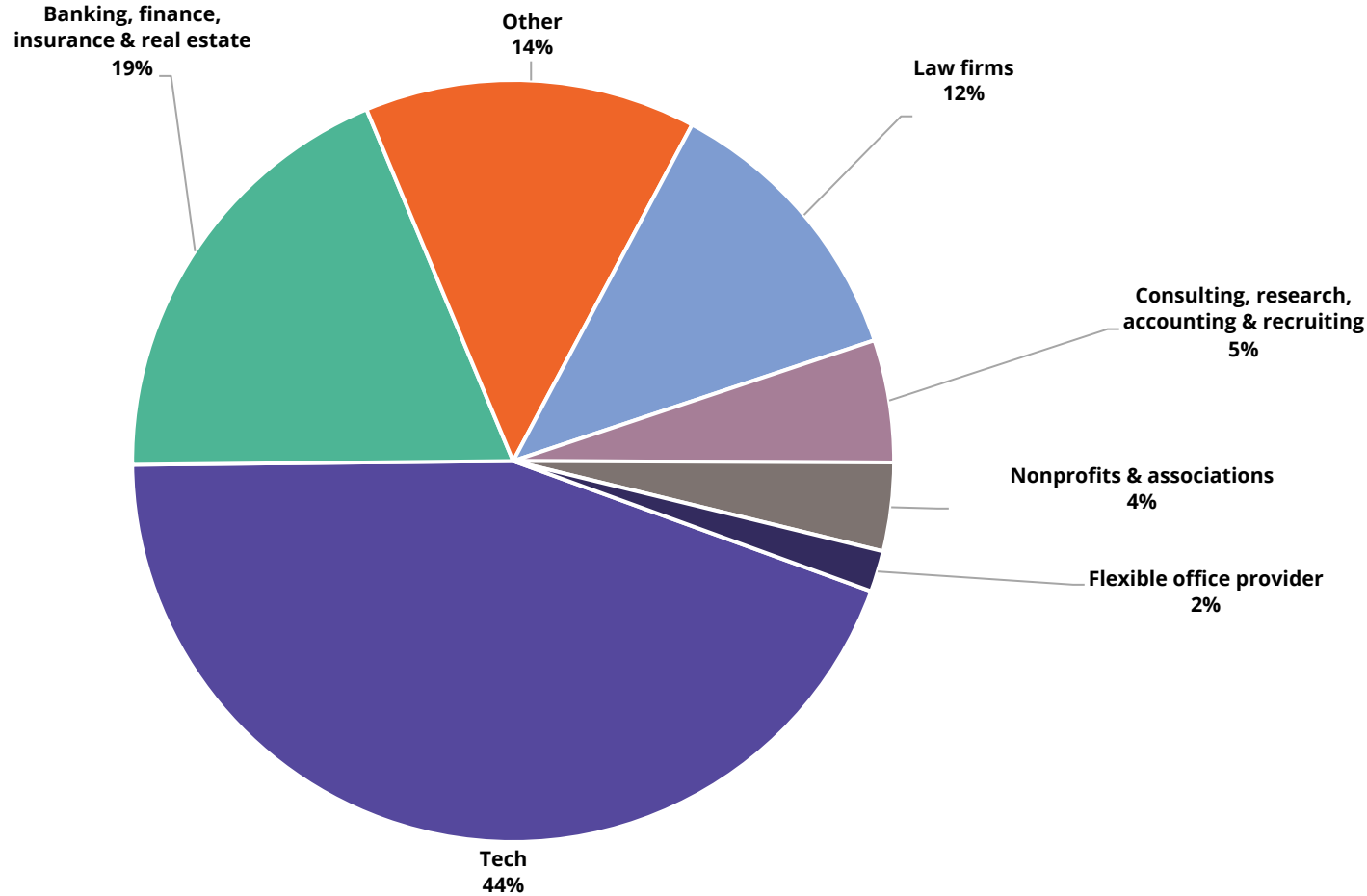


Total job postings in San Francisco have experienced an uptick of 16.0% quarter-over-quarter. The total percentage share of remote job postings has dropped from 22.3% to 19.4% over the same period, pointing to a continued trend of return-to-office.

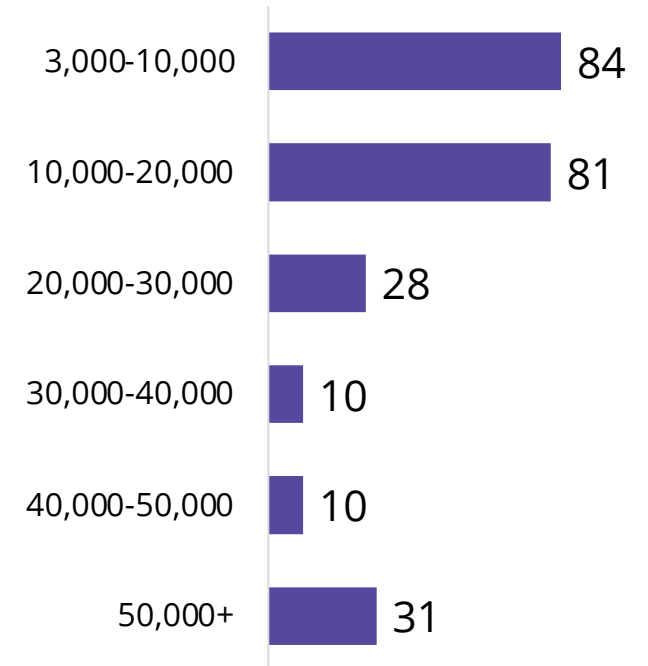
Office market trends



Current San Francisco tenants in the market



Total requirements by size

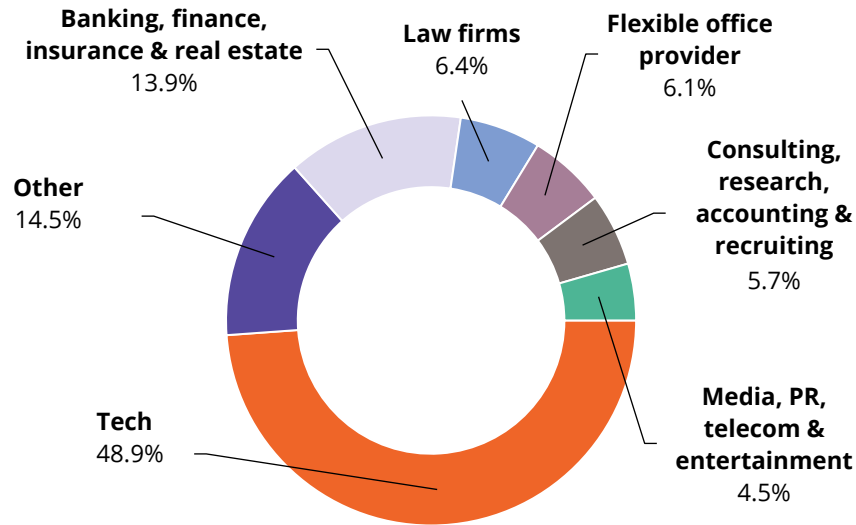


Leasing activity share by industry

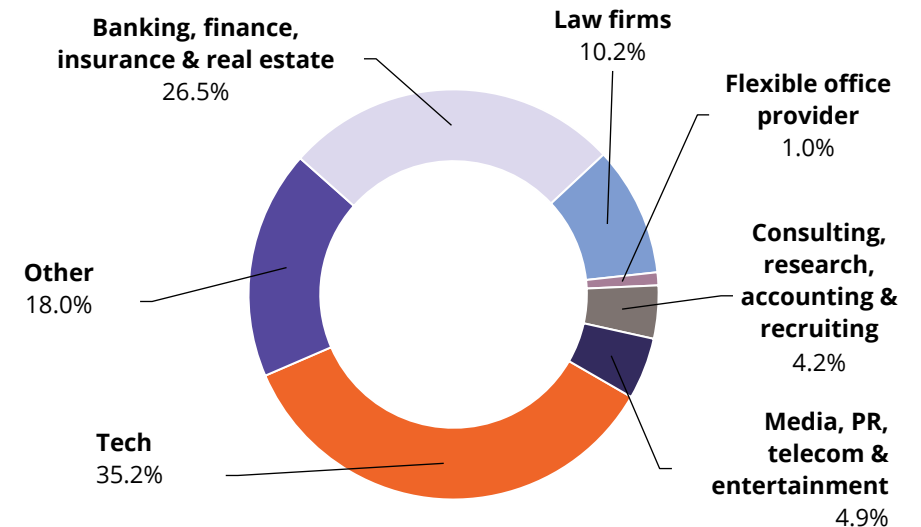
-28.0%

decrease in tech's share of total leasing activity, post-COVID vs. pre-COVID

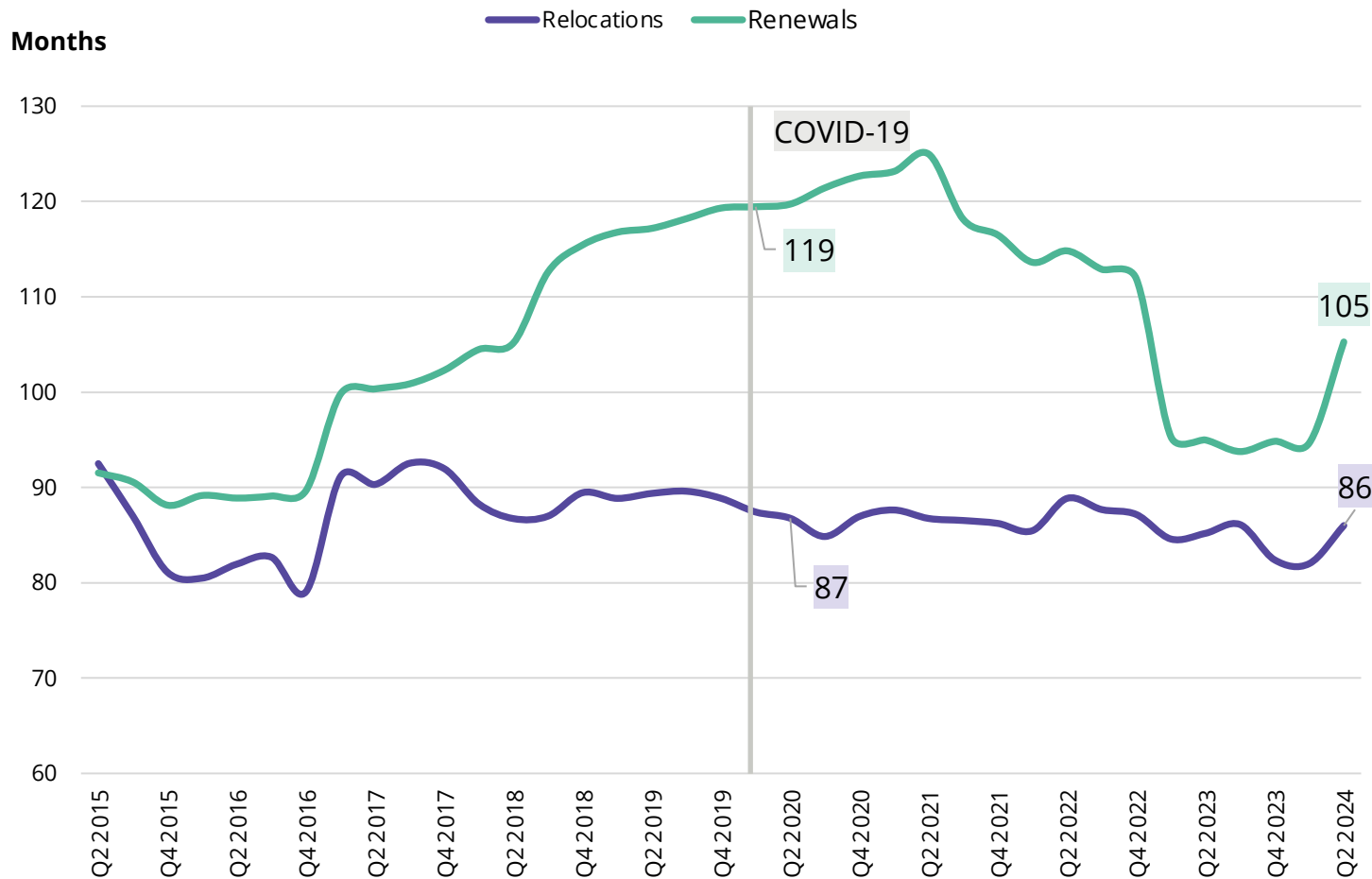
Pre-COVID 2018 to March 2020



Post-COVID April 2020 to Present

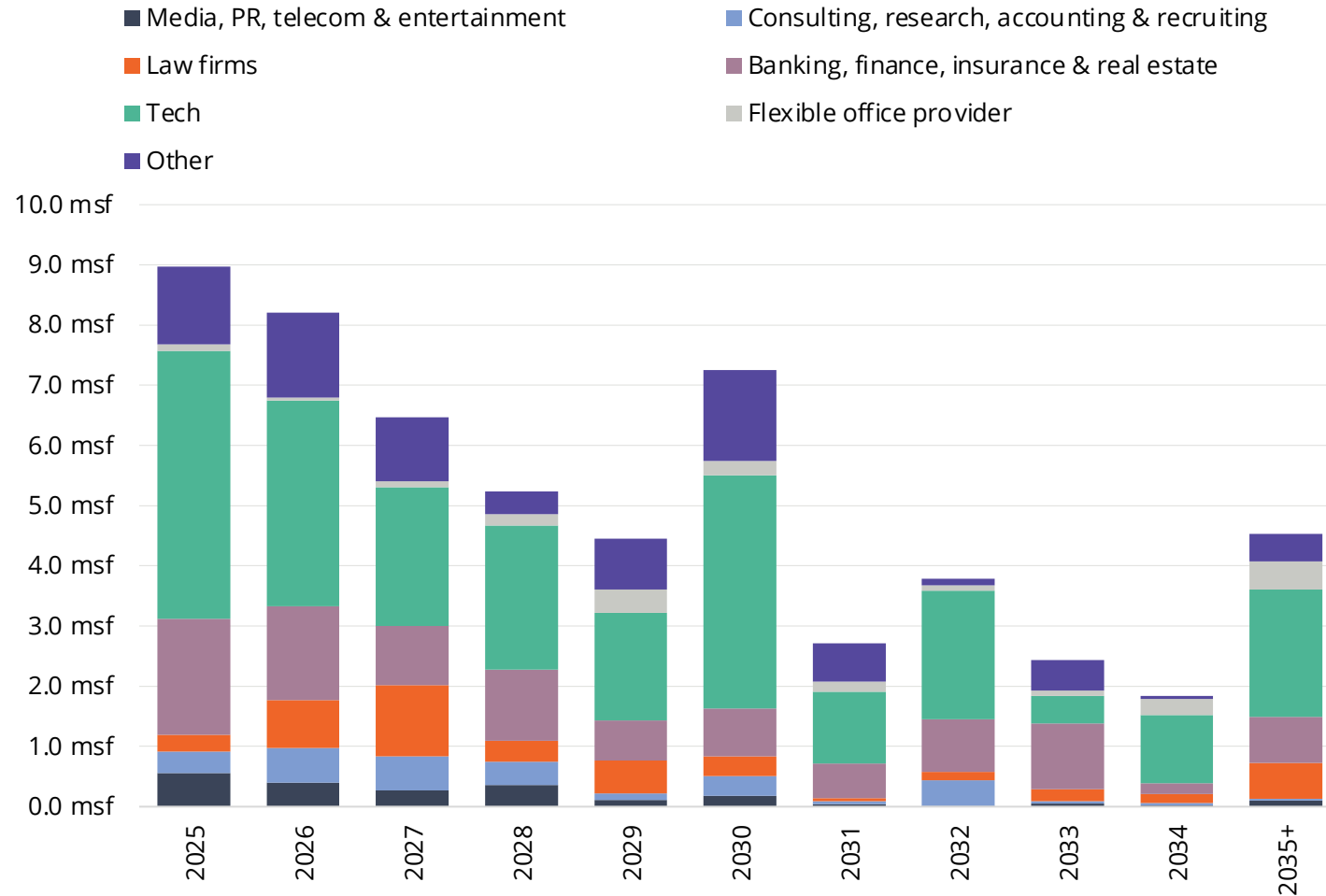


Office lease term lengths: trophy, class A



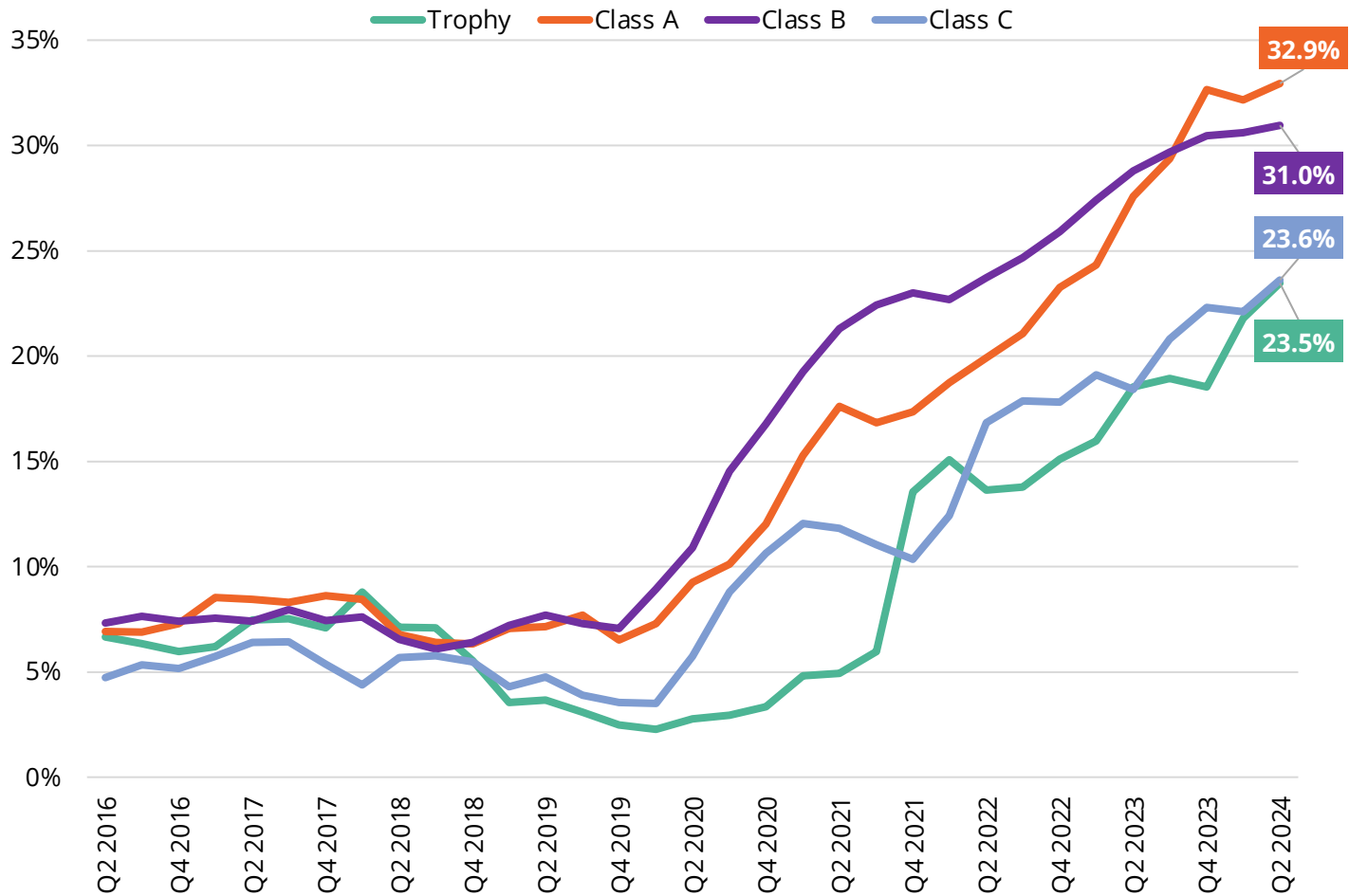
Lease term lengths for both relocations and renewals among trophy and class A properties have seen a substantial increase since Q1 2024. This is in large part due to an uptick in leasing activity over the previous 3 quarters, with many companies seemingly regaining confidence in the market and finding favorable pricing for longer lease terms.

Future lease expirations by industry



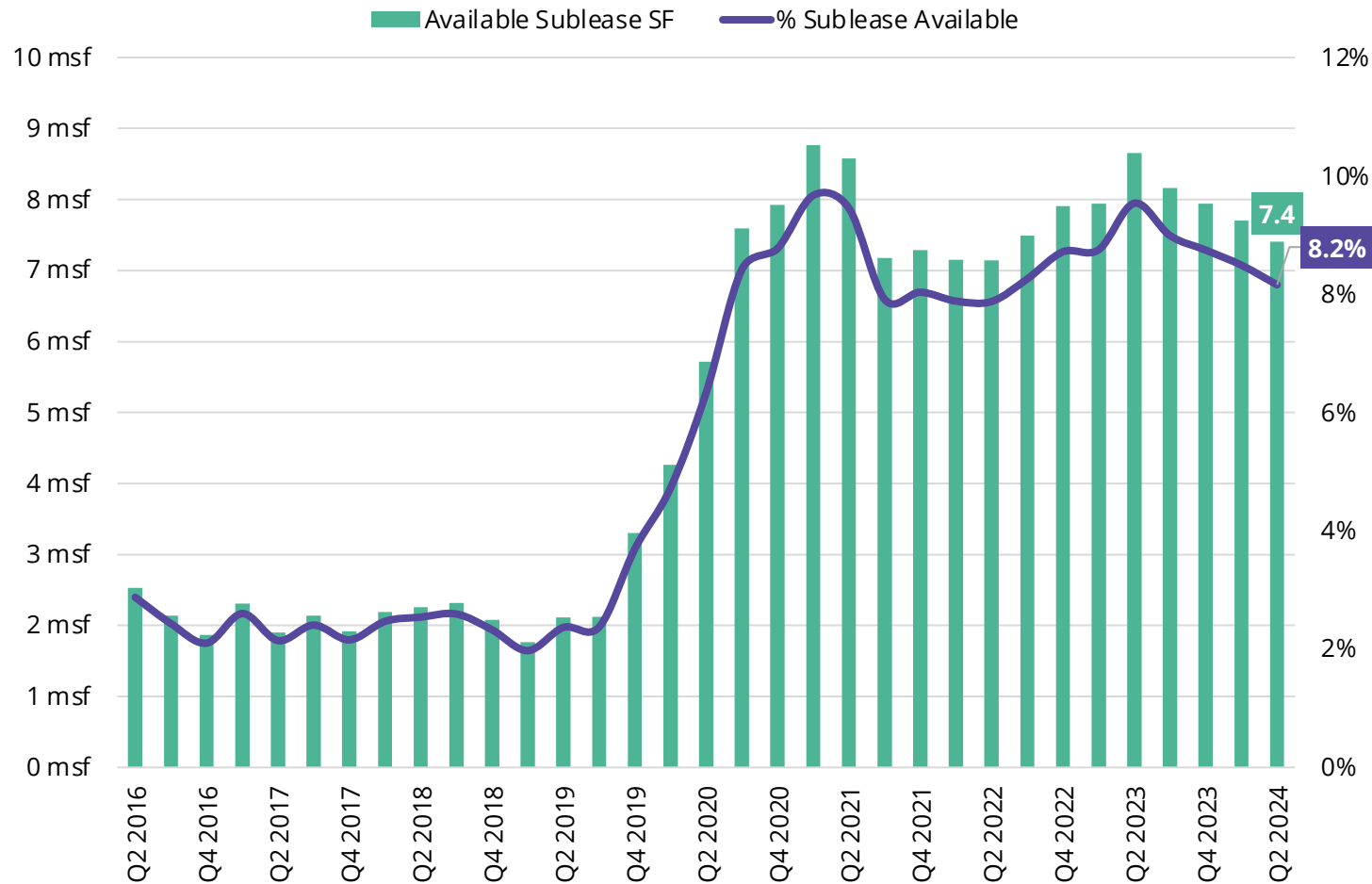
Tech companies account for 45.2% of upcoming lease expirations among major industries, with financial services trailing behind at 19.0%. Over half of the market's currently occupied space is set to expire before 2030, representing a pivotal next five years for San Francisco.

Total vacancy by class



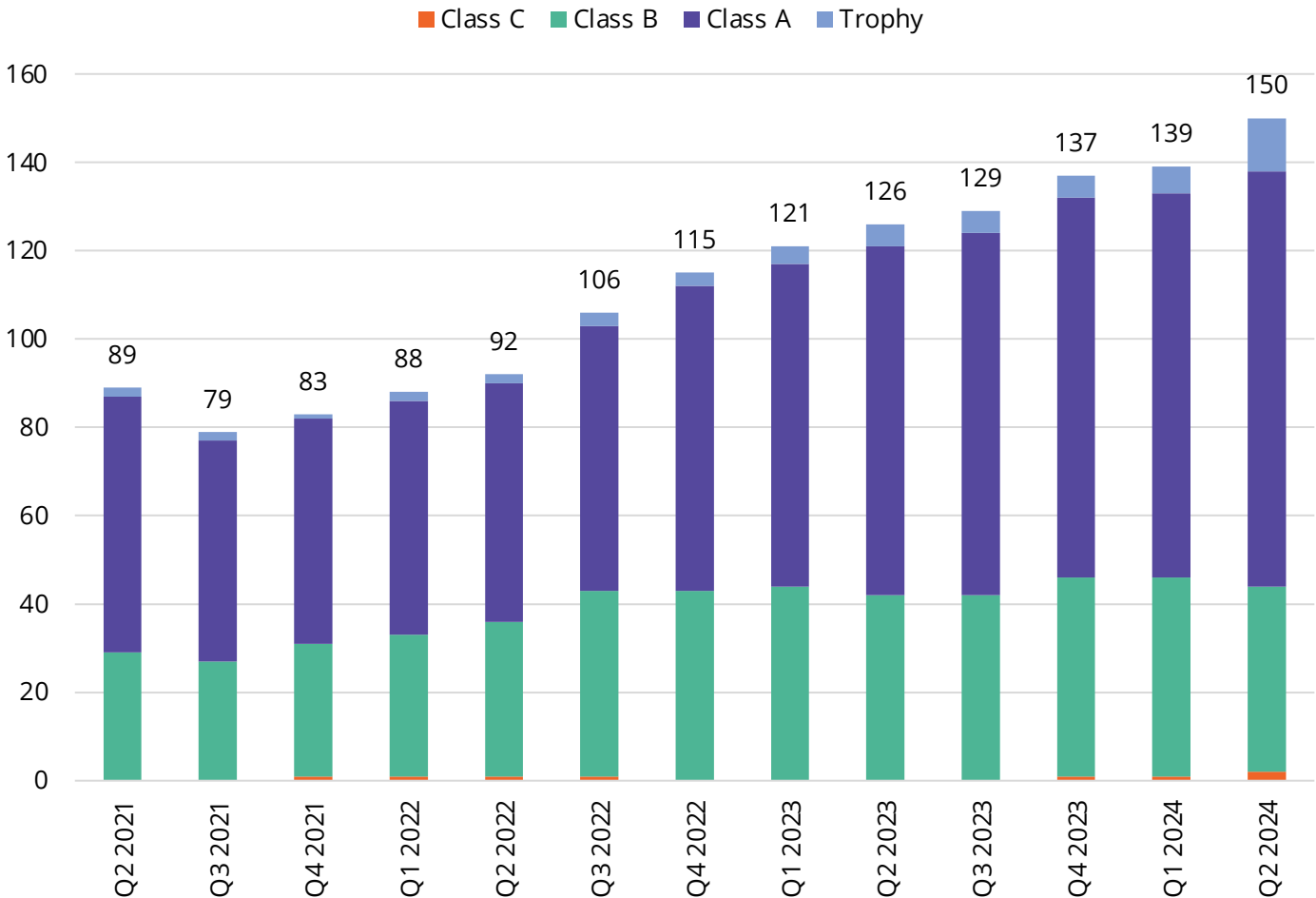
The Trophy vacancy rate increased primarily due to tenants vacating space at 4 Embarcadero and 600 Montgomery. Class A commodity space continues to face challenges with cash-constrained landlords continuing to struggle to attract tenants.

Sublease availability



Scale AI's 178k sf sublease of Airbnb's space at 650 Townsend, along with expiring leases on the sublease market contributed to a 4th consecutive quarter of decline for sublease availability.

Historical office large block availability



Although large blocks are currently plentiful in supply, a number of large deals have recently been completed and an increasing number of 100k+ sf requirements are now active in the market. It is expected that the number of large block opportunities will reach an inflection point in the coming quarters.

Note: Large blocks over 50k RSF
Source: AVANT by Avison Young, CoStar

Office large block availability - 50,000+

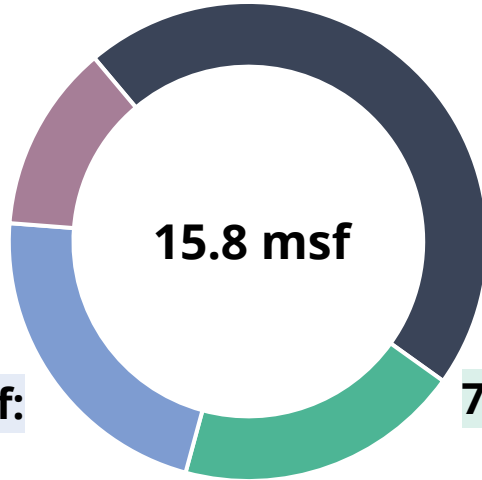
Number of blocks by size:

>200K sf: 13%
15 blocks

50K sf - 75K sf: 46%
52 blocks

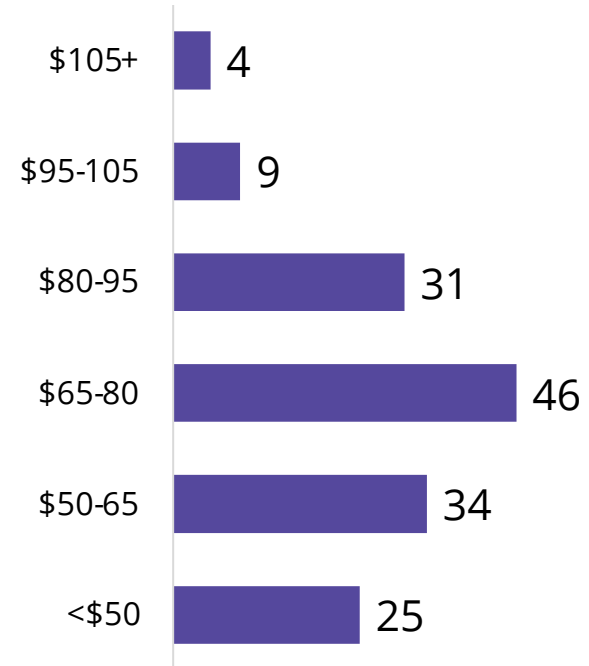
100K sf - 200K sf: 22%
34 blocks

75K sf - 100K sf: 19%
34 blocks

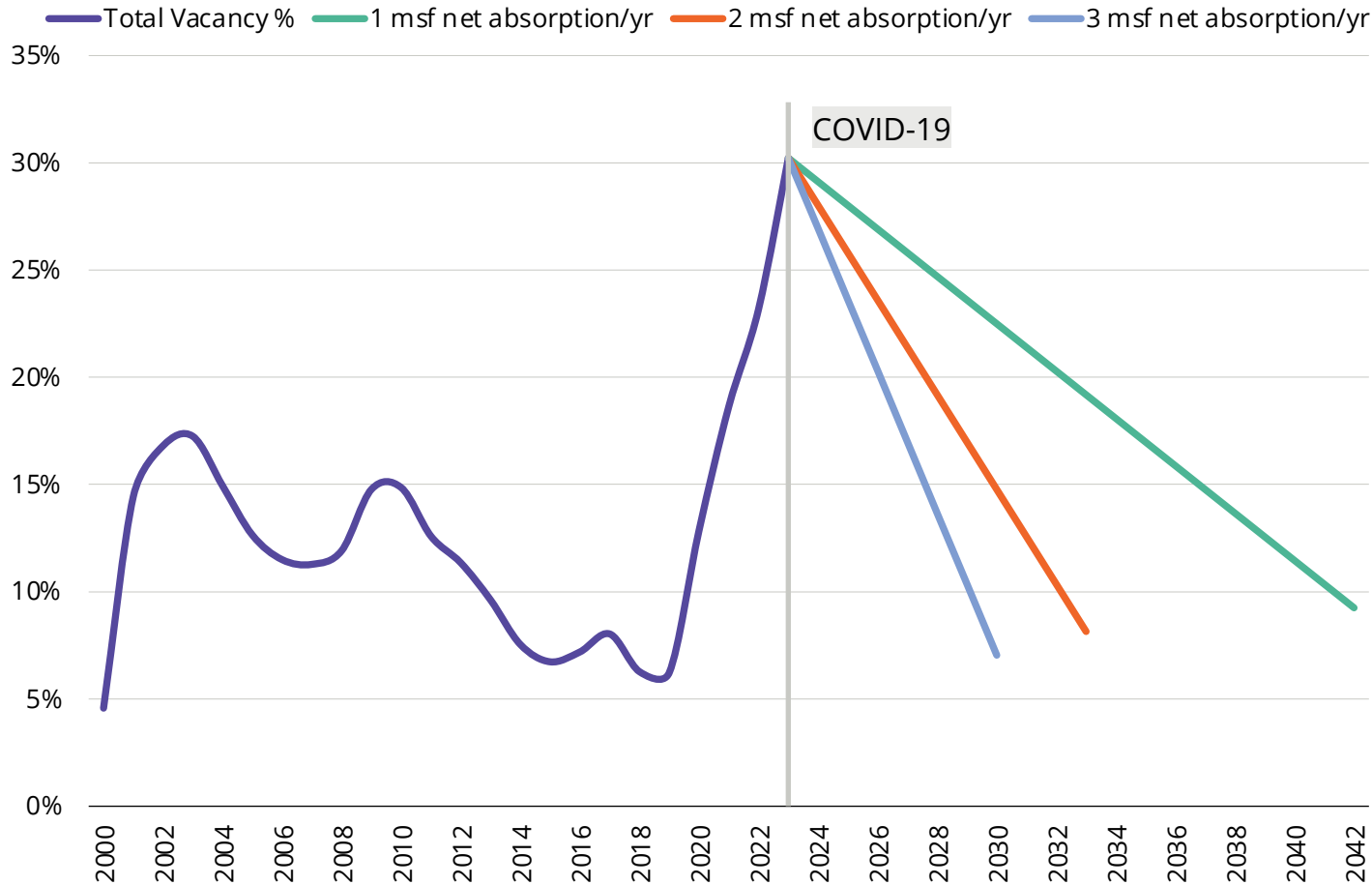


15.8 msf

Asking rents FS:



Outlining San Francisco's road to recovery

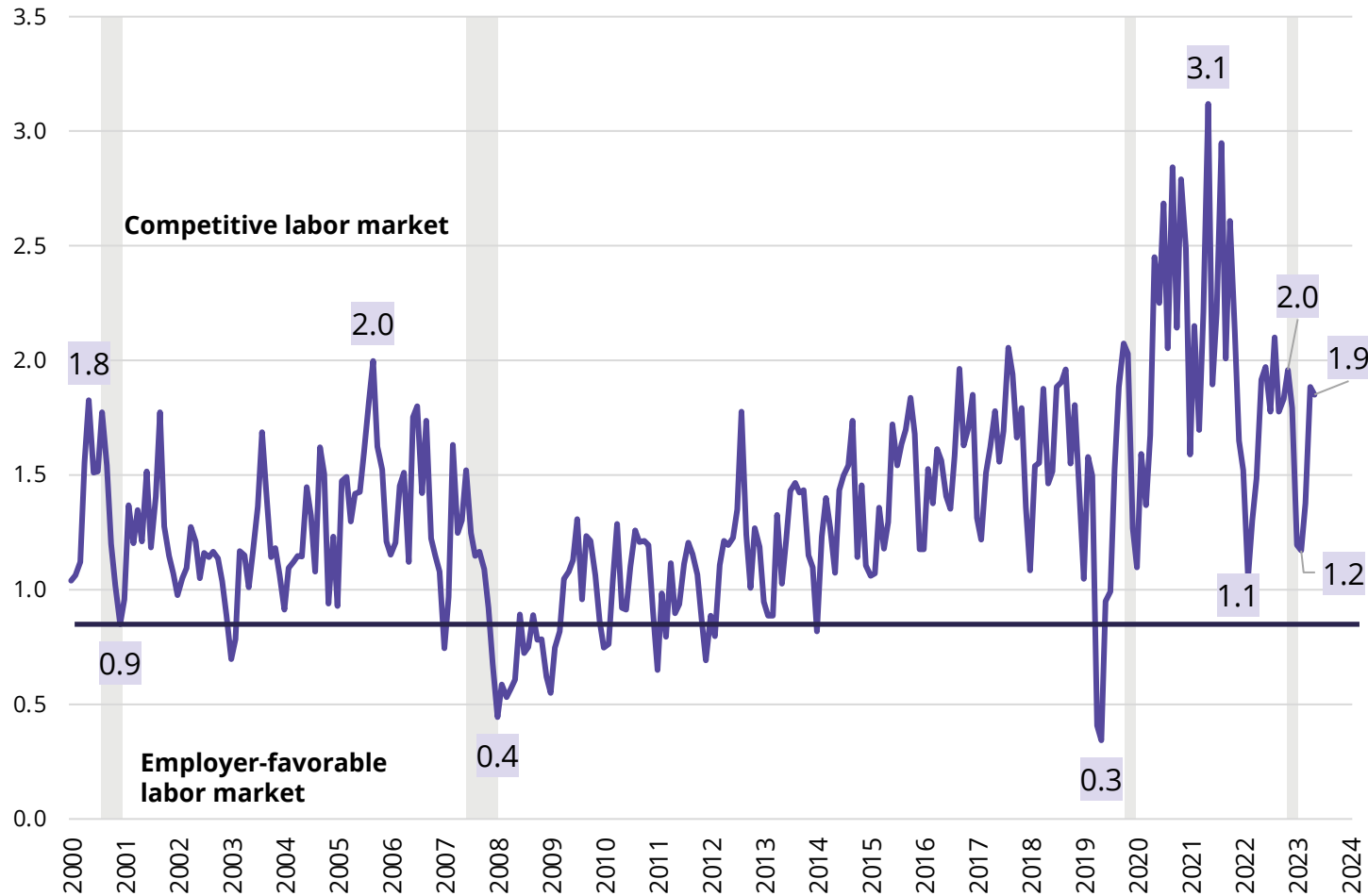


San Francisco has experienced an average of 1 msf/yr of net absorption during past periods of recovery, with a maximum of 3.7 msf in 2018. If the market recovers at 1 msf/yr, it could take until 2042 to recover. However, an average of 3 msf/yr could see the market recover in 2030.

Economic trends



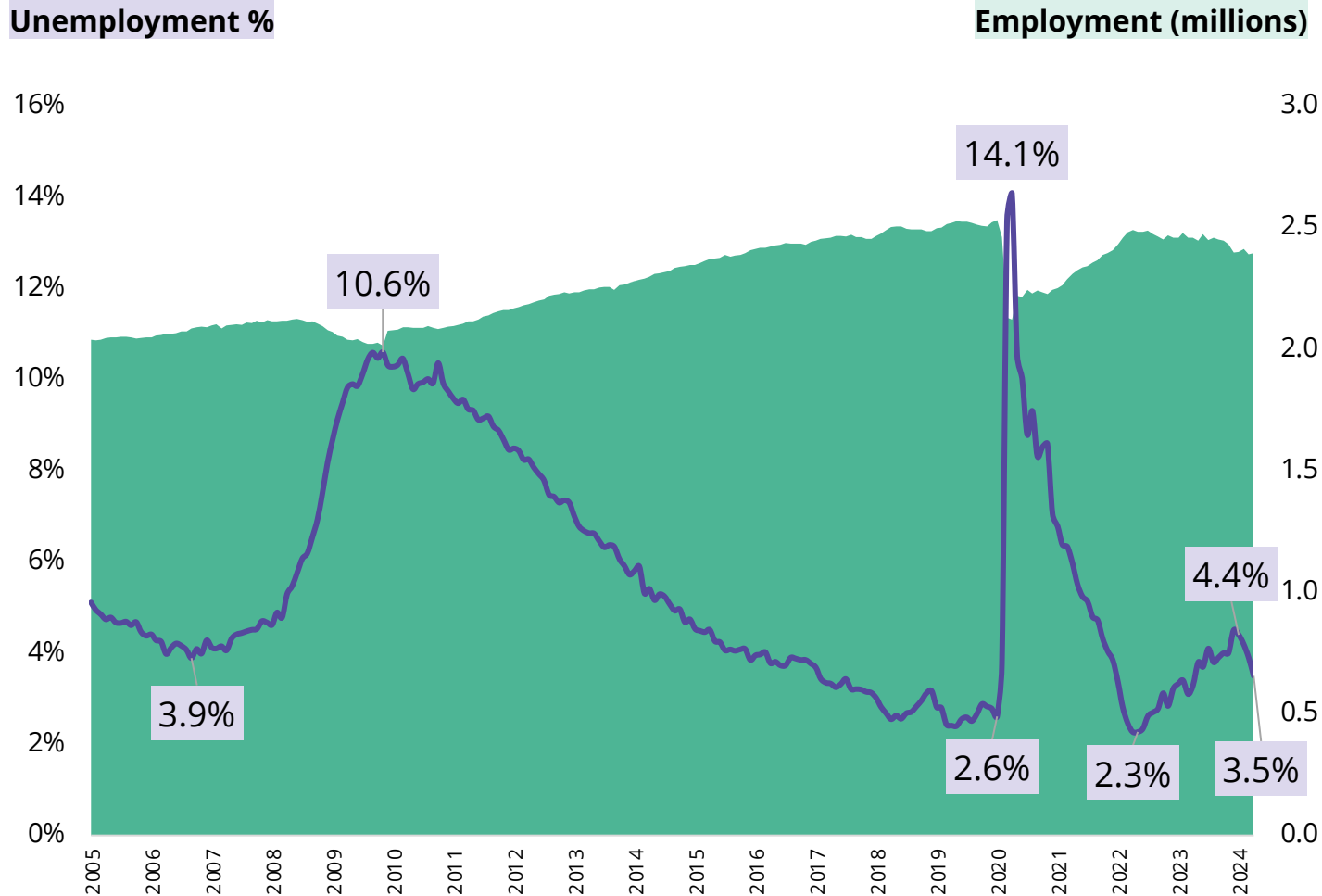
U.S. office quits-to-layoffs/discharges ratio



The “quits-to-layoffs and discharges” ratio measures the tightness of the office labor market.

Employee leverage declined heavily at the start of 2024 but has shifted back due to a 1.9 quits per layoff/discharge ratio as the job market continues to improve.

Employment and unemployment rate

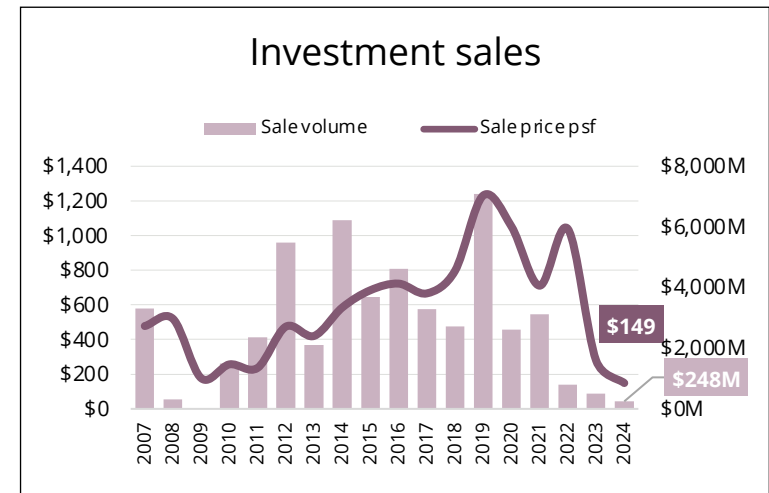
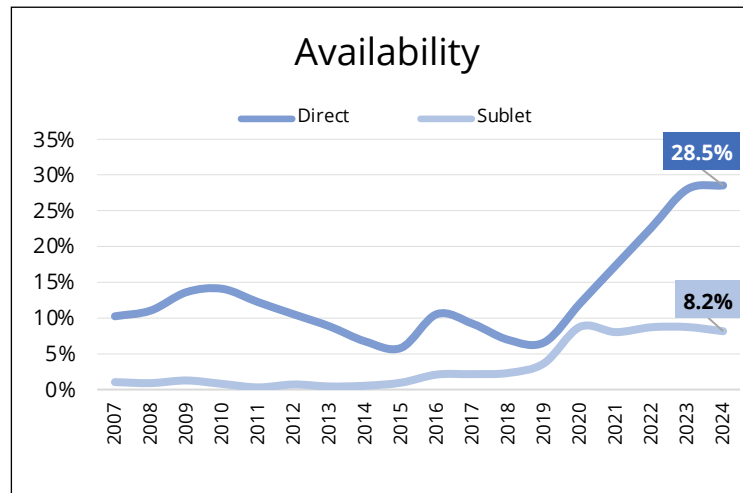
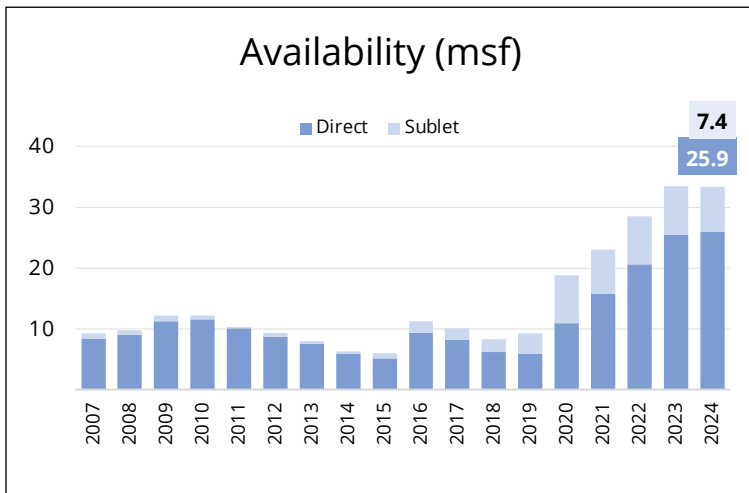
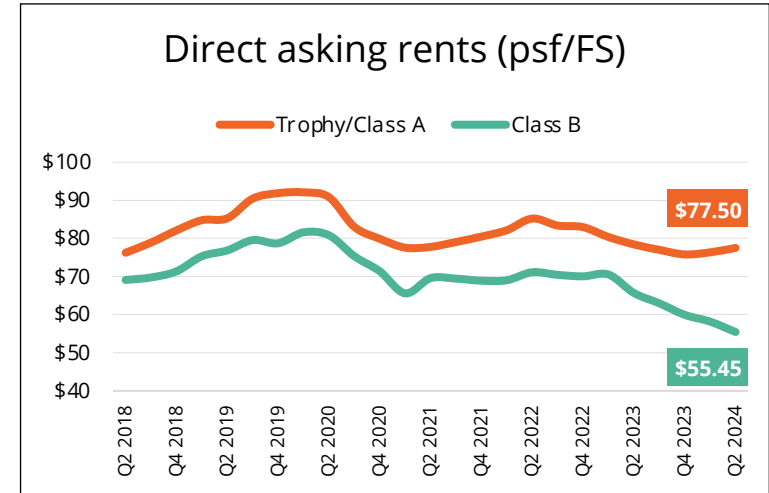
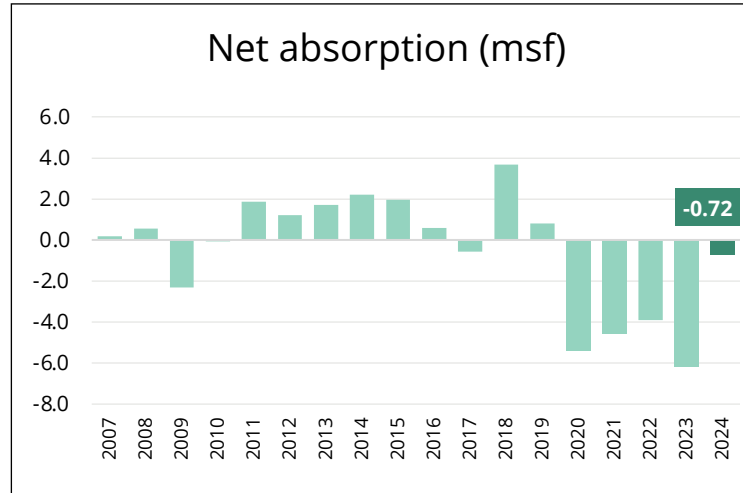
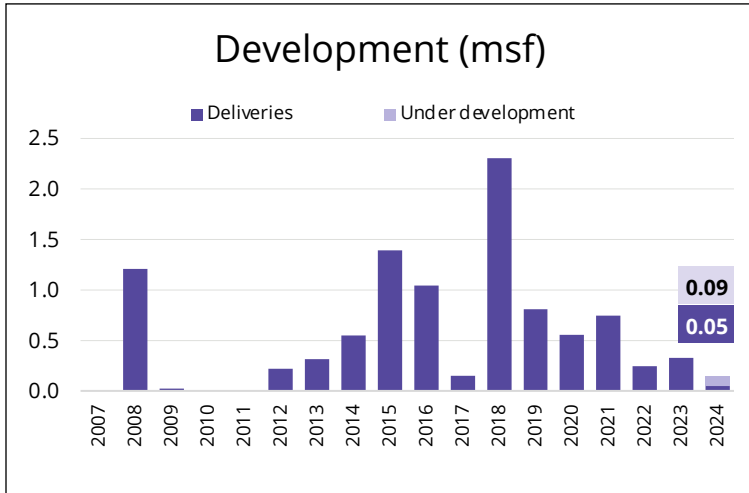


San Francisco's unemployment rate is now at 3.5%, marking a decrease from 4.4% in Q1 2024. This coincides with the increase in the overall office quits-to-layoffs ratio, as the job market starts to loosen in the favor of employees.

Appendix



San Francisco office market indicators



San Francisco office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q2 2024)	Net absorption sf (YTD)	Direct asking rent FS
Financial District	28,577,844	0	0	28.3%	3.3%	31.6%	(230,390)	(277,283)	\$73.57
South Financial District	27,533,418	0	0	22.4%	6.4%	28.8%	(563,400)	(500,198)	\$73.26
CBD Total	56,111,262	0	0	25.4%	4.8%	30.2%	(793,790)	(777,481)	\$73.44
Chinatown/Nob Hill/Russian Hill	105,570	0	0	11.4%	5.7%	17.1%	6,359	6,359	n/a
Jackson Square	1,909,445	0	0	21.1%	1.4%	22.5%	(9,223)	24,302	\$64.27
MidMarket	4,770,971	0	0	28.4%	7.5%	35.8%	2,913	70,155	\$50.75
Mission	922,047	0	0	23.5%	0.0%	23.5%	62,282	76,545	\$62.00
Mission Bay	1,853,239	0	0	17.2%	1.3%	18.5%	248,933	230,025	\$75.56
Outer San Francisco	1,066,116	0	0	4.1%	0.3%	4.4%	7,657	(4,717)	n/a
Potrero Hill	1,095,605	0	0	26.1%	8.8%	34.9%	759	759	\$56.14
Rincon Hill/South Beach	5,851,786	0	0	21.1%	9.9%	30.9%	(81,415)	38,296	\$52.74
Showplace Square	3,584,992	50,000	0	24.7%	13.4%	38.1%	(90,088)	(33,961)	\$55.43
South of Market	668,141	0	93,138	33.5%	8.9%	42.4%	(2,309)	8,123	\$24.00
Union Square	4,161,910	0	0	26.5%	4.0%	30.5%	(42,466)	(94,295)	\$55.98
Van Ness Corridor	1,628,858	0	0	16.5%	0.2%	16.7%	(3,211)	(31,574)	\$35.00
Waterfront/North Beach	3,243,220	0	0	30.4%	5.1%	35.5%	(42,113)	(138,887)	\$71.22
Yerba Buena	3,718,149	0	0	42.0%	9.4%	51.3%	21,865	(93,721)	\$84.82
Non-CBD Total	34,580,049	50,000	93,138	25.7%	6.7%	32.4%	79,943	57,409	\$67.95
Market total	90,691,311	50,000	93,138	25.5%	5.5%	31.1%	(713,847)	(720,072)	\$71.72

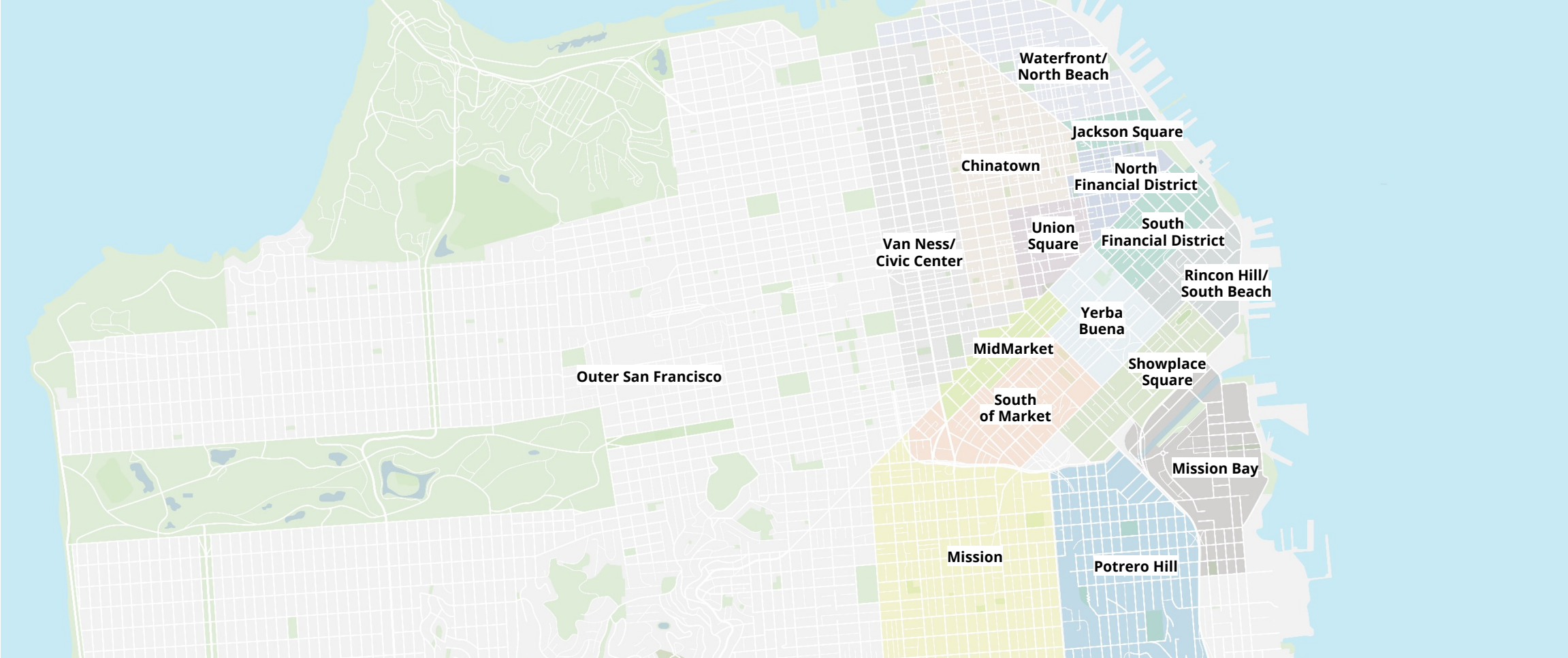
The charts and statistics in this report are composed by Class A, B, and C, non-owner-occupied office buildings 20,000 sf and above in the submarkets listed above.

San Francisco office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2024)	Net absorption sf (YTD)	Direct asking rent FS
Trophy	8,680,431	50,000	0	17.8%	5.7%	23.5%	(146,516)	(386,409)	\$104.10
Class A	48,300,425	0	0	27.1%	5.9%	33.1%	(399,688)	(140,984)	\$73.18
Class B	29,893,516	0	93,138	25.9%	5.3%	31.2%	(113,104)	(145,720)	\$55.45
Class C	3,816,939	0	0	19.8%	2.5%	22.2%	(54,539)	(46,959)	\$42.83
Market total	90,691,311	50,000	93,138	25.5%	5.5%	31.1%	(713,847)	(720,072)	\$71.72

The charts and statistics in this report are composed by Class A, B, and C, non-owner-occupied office buildings 20,000 sf and above in the submarkets listed above.

San Francisco submarket map



Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
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