San Francisco office market report

Q3 2024

AVISON YOUNG

San Francisco office market trends

1.33 msf

Q3 leasing remains strong, eclipsing post-COVID averages

Leasing activity in San Francisco slowed slightly in Q3 2024 compared to the previous quarter, totaling 1.33 msf. However, this was still 3.6% above the total post-COVID leasing average and 26.5% above the Q3 post-COVID average. Overall leasing was led by Open AI, KPMG, and Delta Dental for a combined total of 325k+ sf. Despite the summer slowdown ending the streak of consecutive growth over the previous three quarters, the demand for space continues to rise with 6.9 msf of tenant requirements in the market.

$135 psf

High vacancies push landlords to rethink concessions

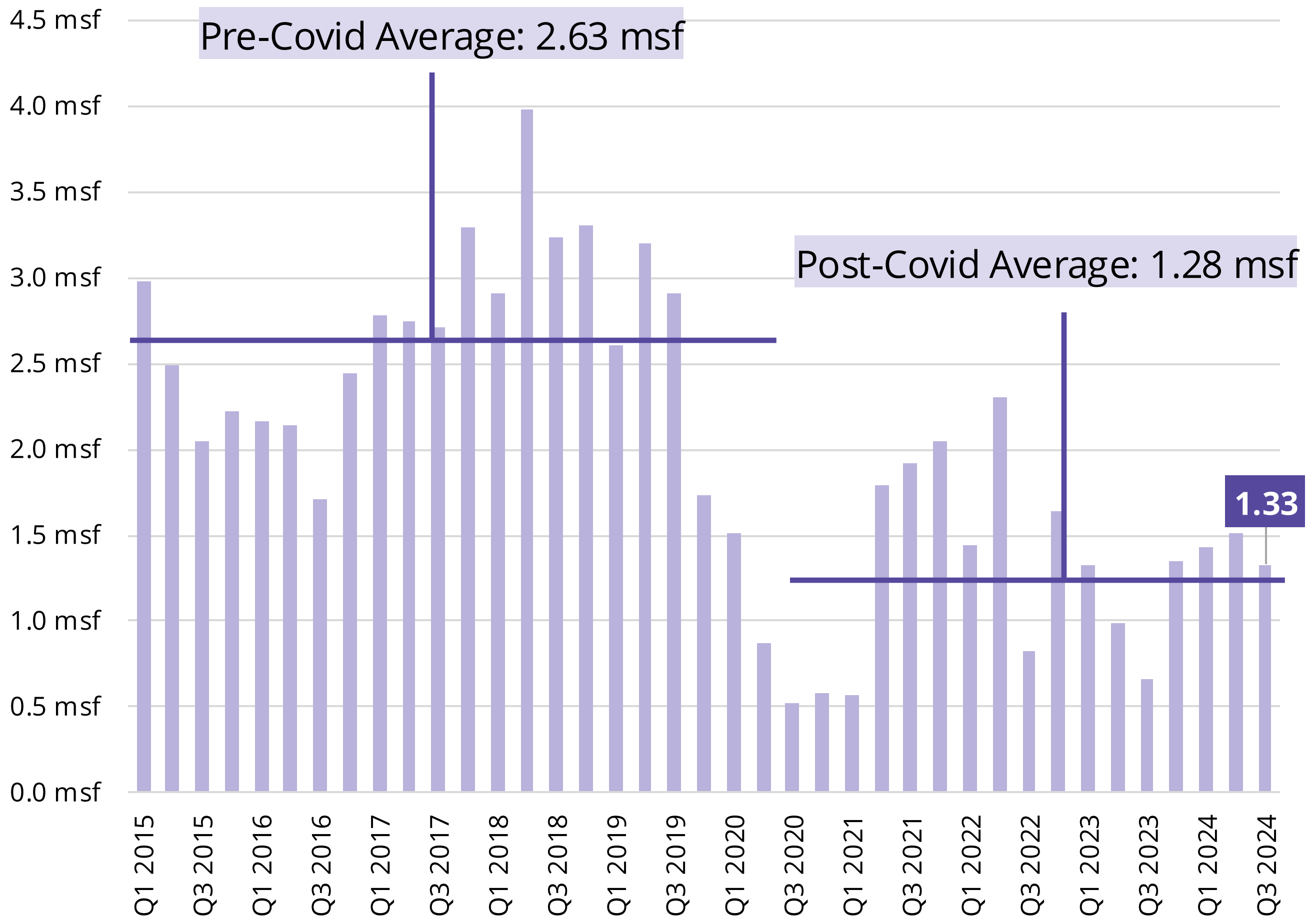
Despite the office leasing environment continuing to remain heavily tenant-favorable, many landlords have been forced to cut back on tenant improvement allowances due to the heightening constraints on available capital. This caused TIs to see a drop from $147 psf to $135 psf year-over-year. With high construction costs and lengthy turnaround times, landlords have chosen to increase abatement and absorb the expenses at a future date. However, spaces in shell condition and move-in-ready spec suites have routinely penciled at $200+ psf in TIs.

53.7%

Office utilization continues to tail national average

Office buildings in San Francisco are 53.7% as busy as they were in August 2024 compared to the same month in 2019, while the overall national average is at 60.4%. Class A and trophy assets have seen a combined office utilization of 57.6%, outpacing the rest of the San Francisco market. It is a clear sign that premium and amenitized spaces will continue to be pivotal in bringing employees back to the office.

Leasing activity



Source: AVANT by Avison Young, CoStar

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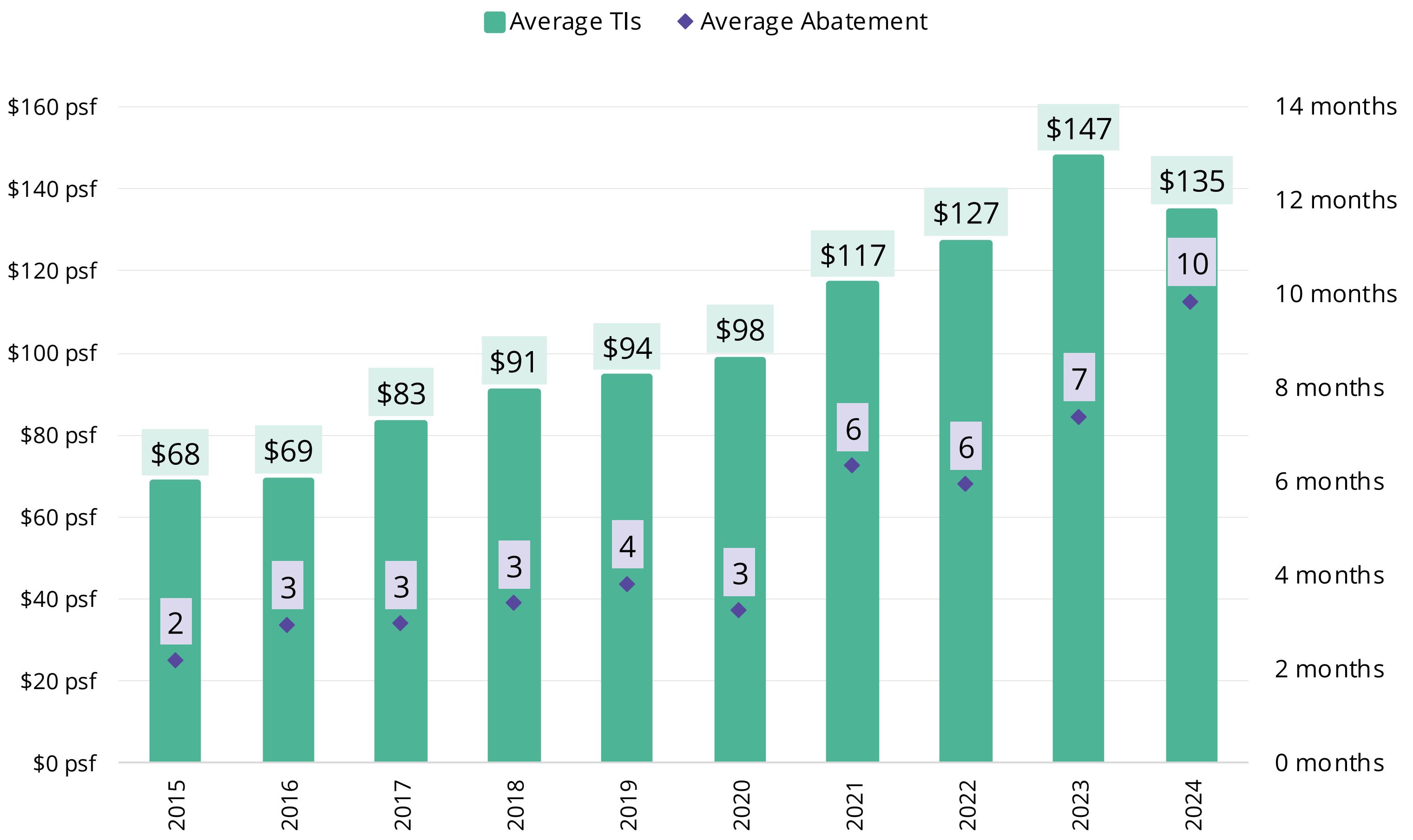
Office concessions: trophy, class A



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Note: Direct new leases only. Trophy and Class A properties.
Source: AVANT by Avison Young

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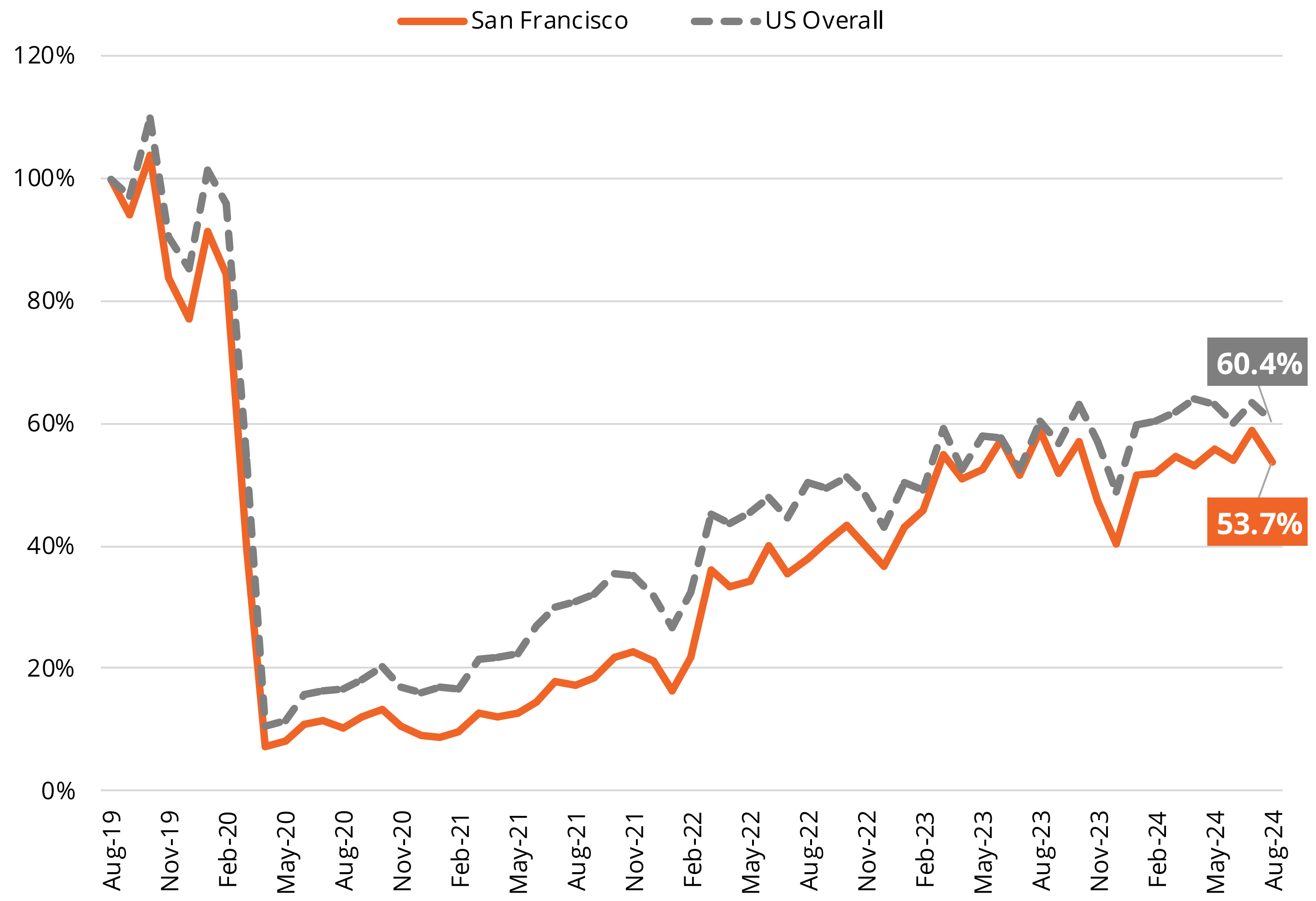
San Francisco office busyness



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Source: AVANT by Avison Young, CoStar

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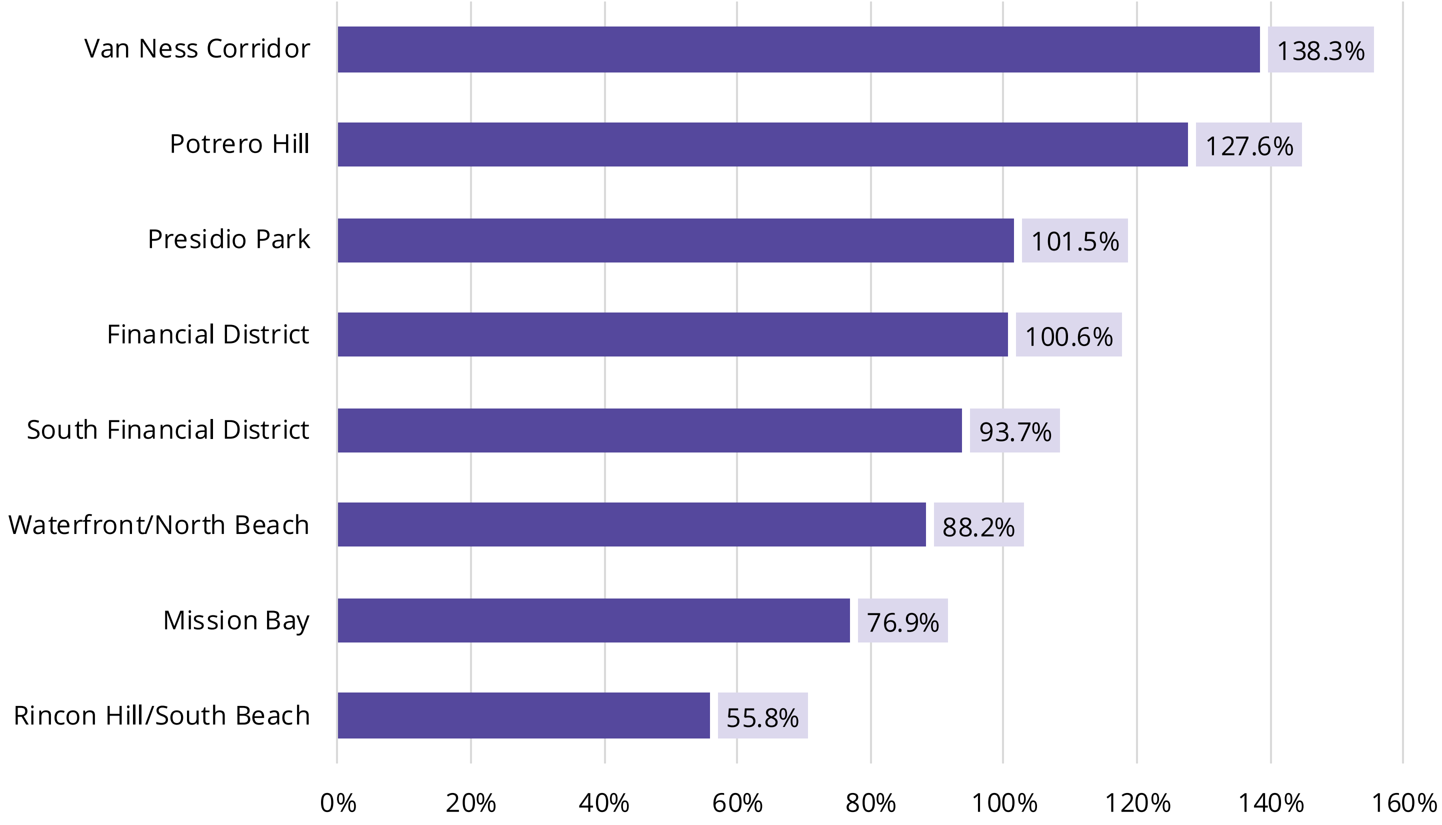
Office market trends

San Francisco office busyness by submarket, August 2024 vs. August 2023



Source: AVANT by Avison Young, Placer.ai

Many of San Francisco's fringe submarkets have experienced a significant improvement in office utilization year-over-year. Potrero Hill has seen a 27.6% increase over the same period, largely benefiting from an influx of AI companies.

The Financial District continues to be the strongest performing submarket in terms of leasing activity post-COVID and remains relatively stable year-over-year, while the South Financial district has seen a 6.3% dip, which is likely due to a tech-heavy presence.

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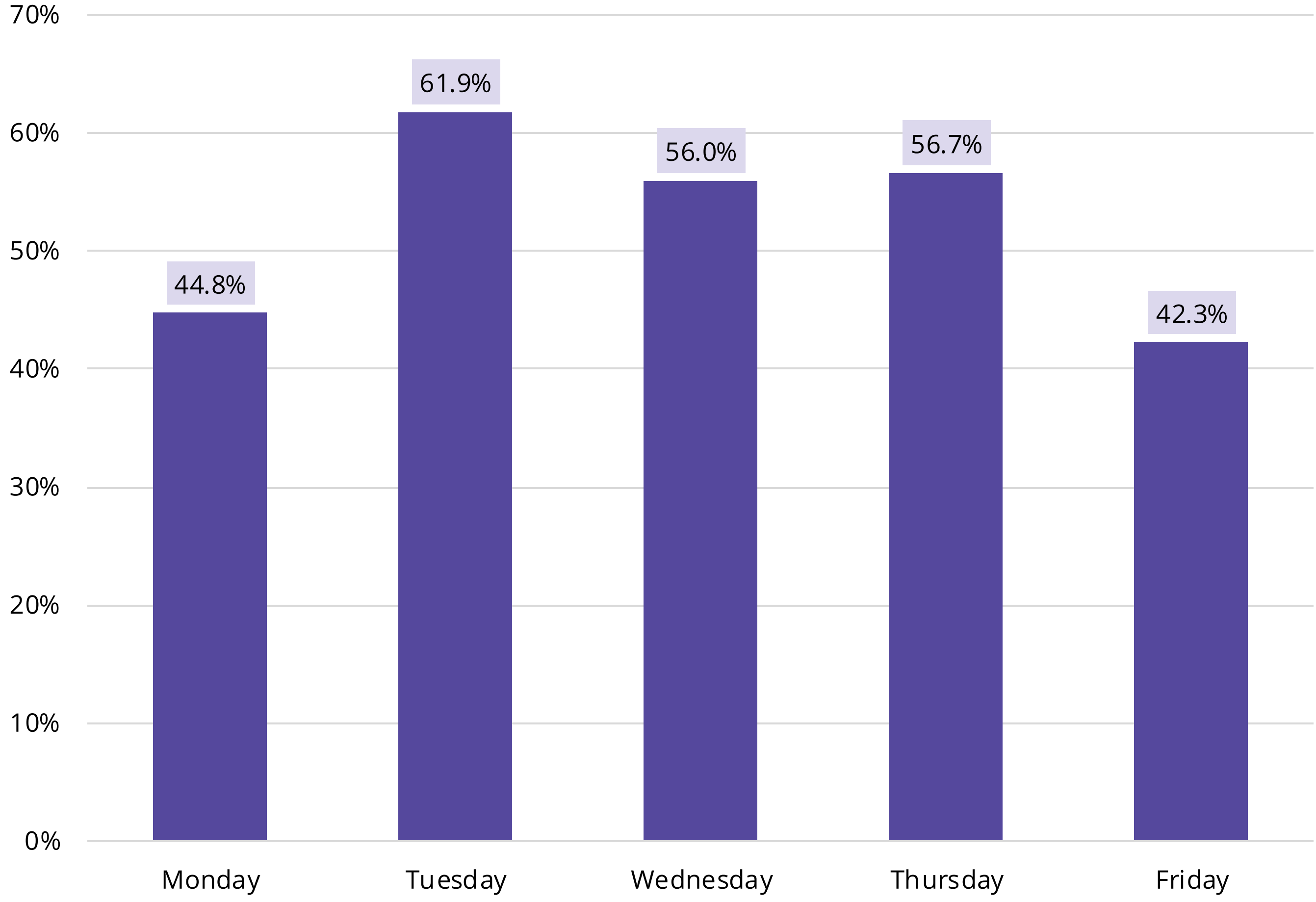
San Francisco office busyness by day of week, August 2024 vs. August 2019



While examining office utilization by day of the week, Tuesday has been the most popular day in the office for employees, followed by Wednesday and Thursday. This supports that many companies have been forced to adopt a hybrid work structure, with Mondays and Fridays remaining flexible.

Source: AVANT by Avison Young, Placer.ai

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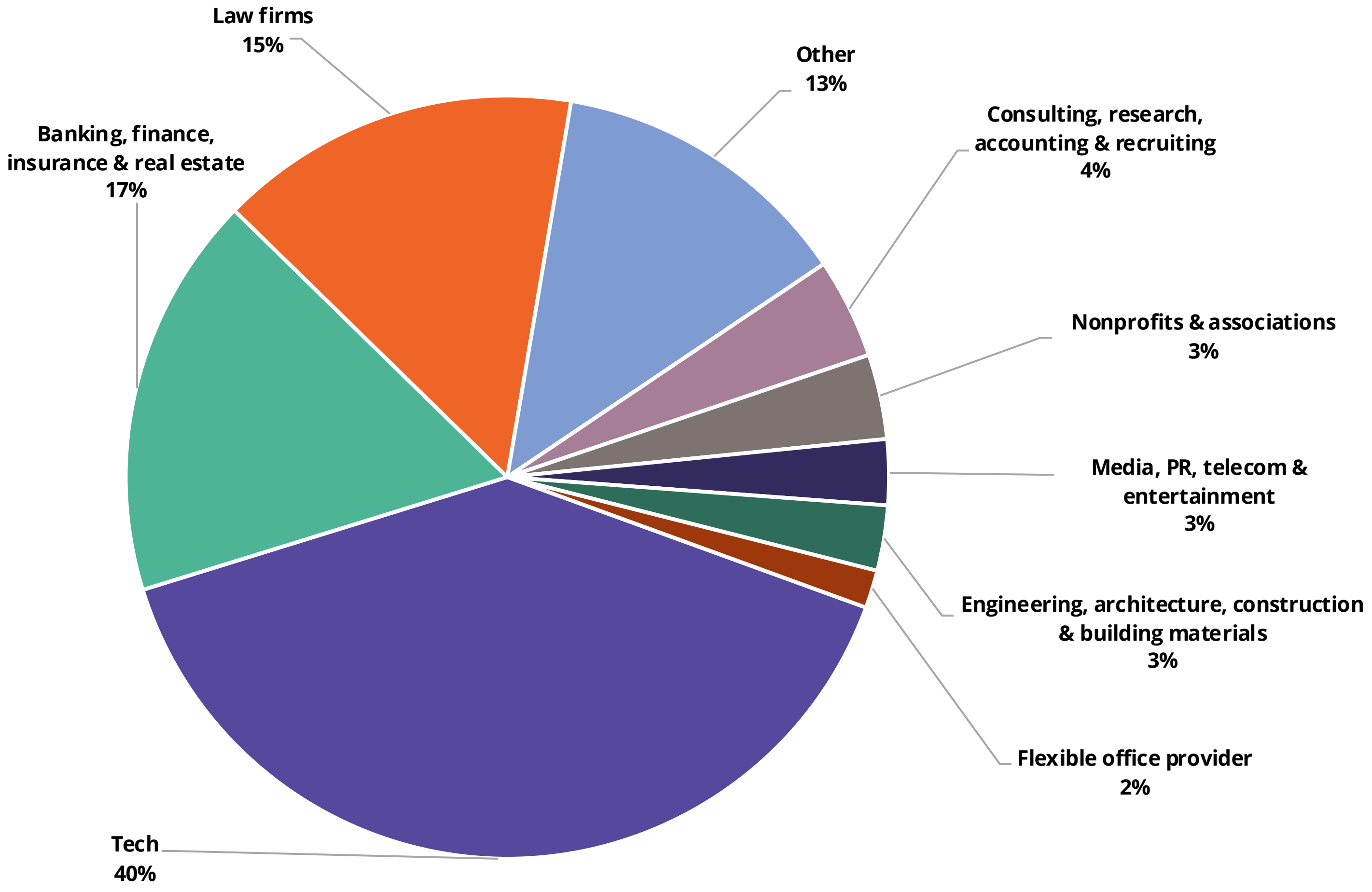
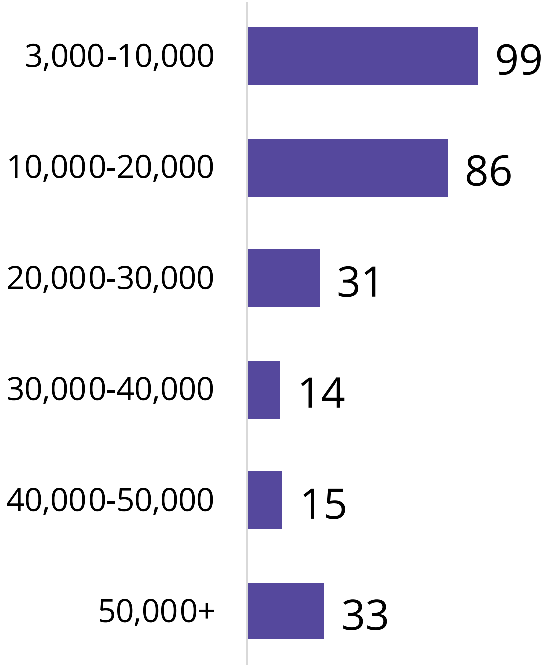
Current San Francisco tenants in the market



Total requirements by size



Source: AVANT by Avison Young

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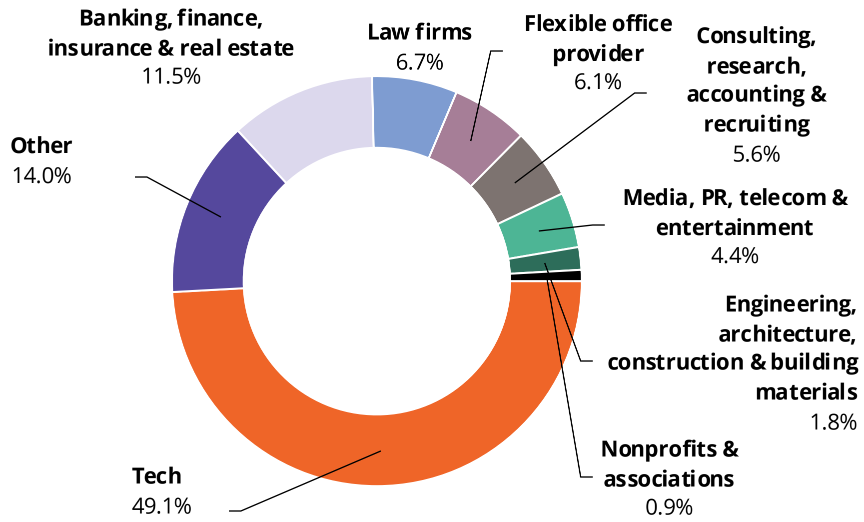
Leasing activity share by industry

-28.5% decrease in tech's share of total leasing activity, post-COVID vs. pre-COVID

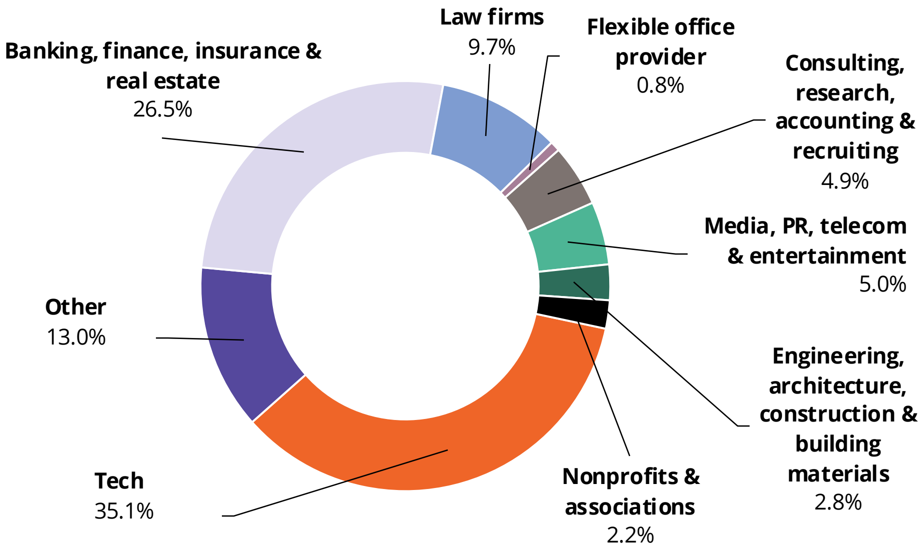
Pre-COVID

January 2018 to March 2020



Post-COVID

April 2020 to September 2024



Source: AVANT by Avison Young

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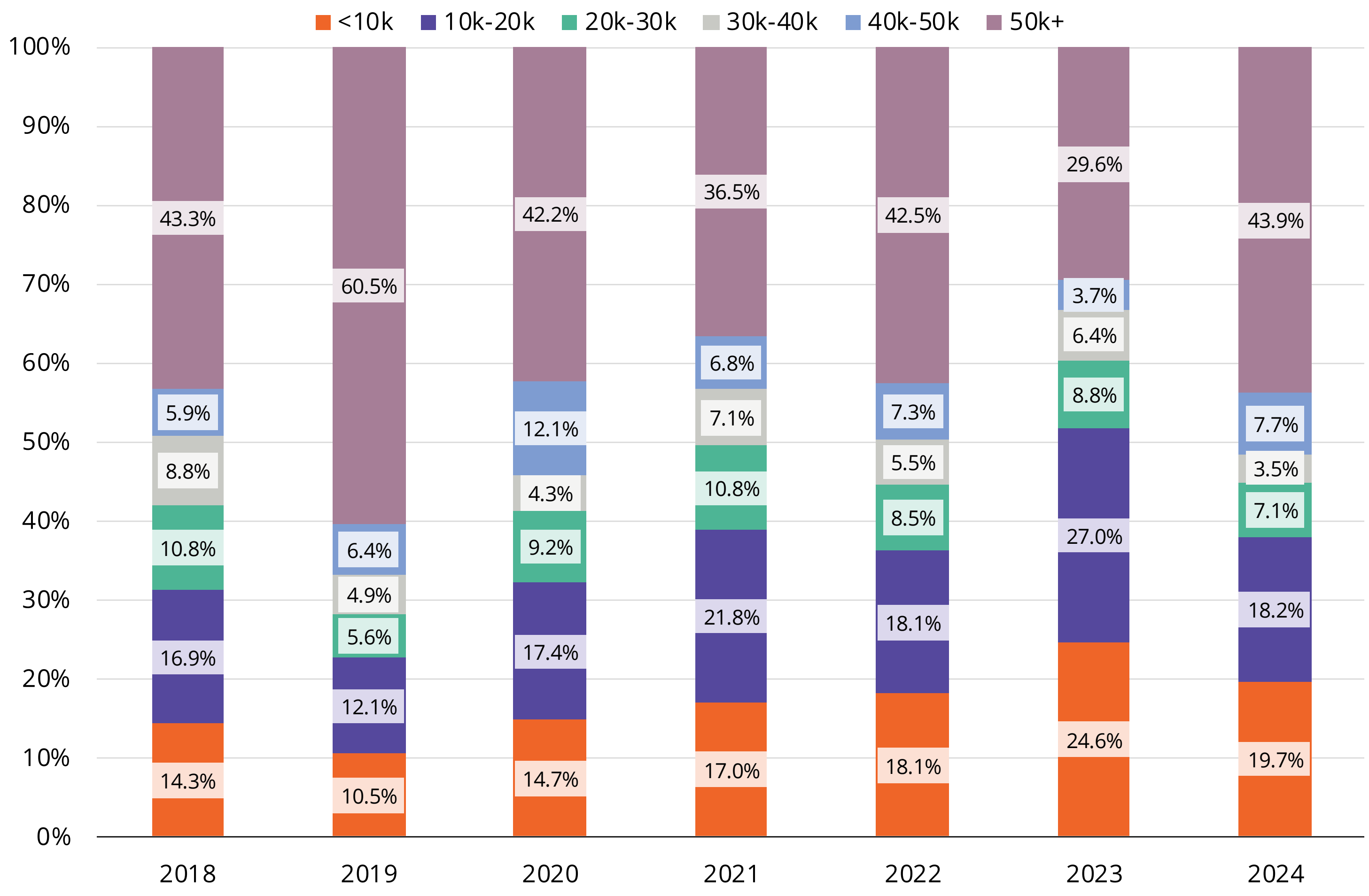
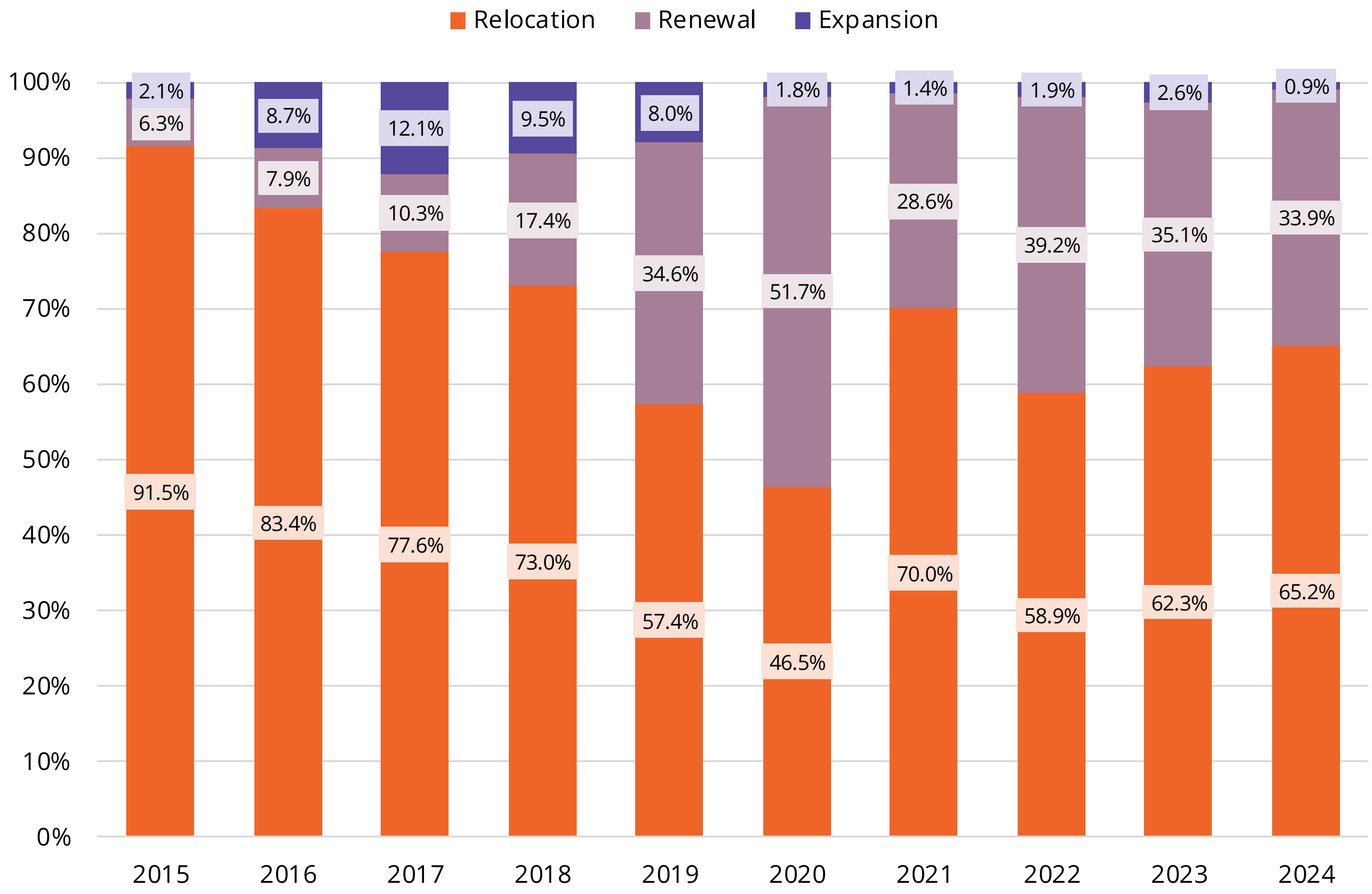
Transaction activity by size tranche



Post-COVID leasing has trended largely towards smaller spaces compared to the pre-COVID era. Currently, 66.5% of the active tenants in the market are looking for space 20,000 square feet and under, whereas pre-COVID this figure was 58.5%. The shift in the office leasing landscape towards a more diverse tenant mix and the current economic climate have been huge factors in the trend for smaller office leasing. This has also given the opportunity for many newer companies and out-of-market firms to plant a flag in San Francisco.

Source: AVANT by Avison Young, CoStar

Transaction activity by lease type

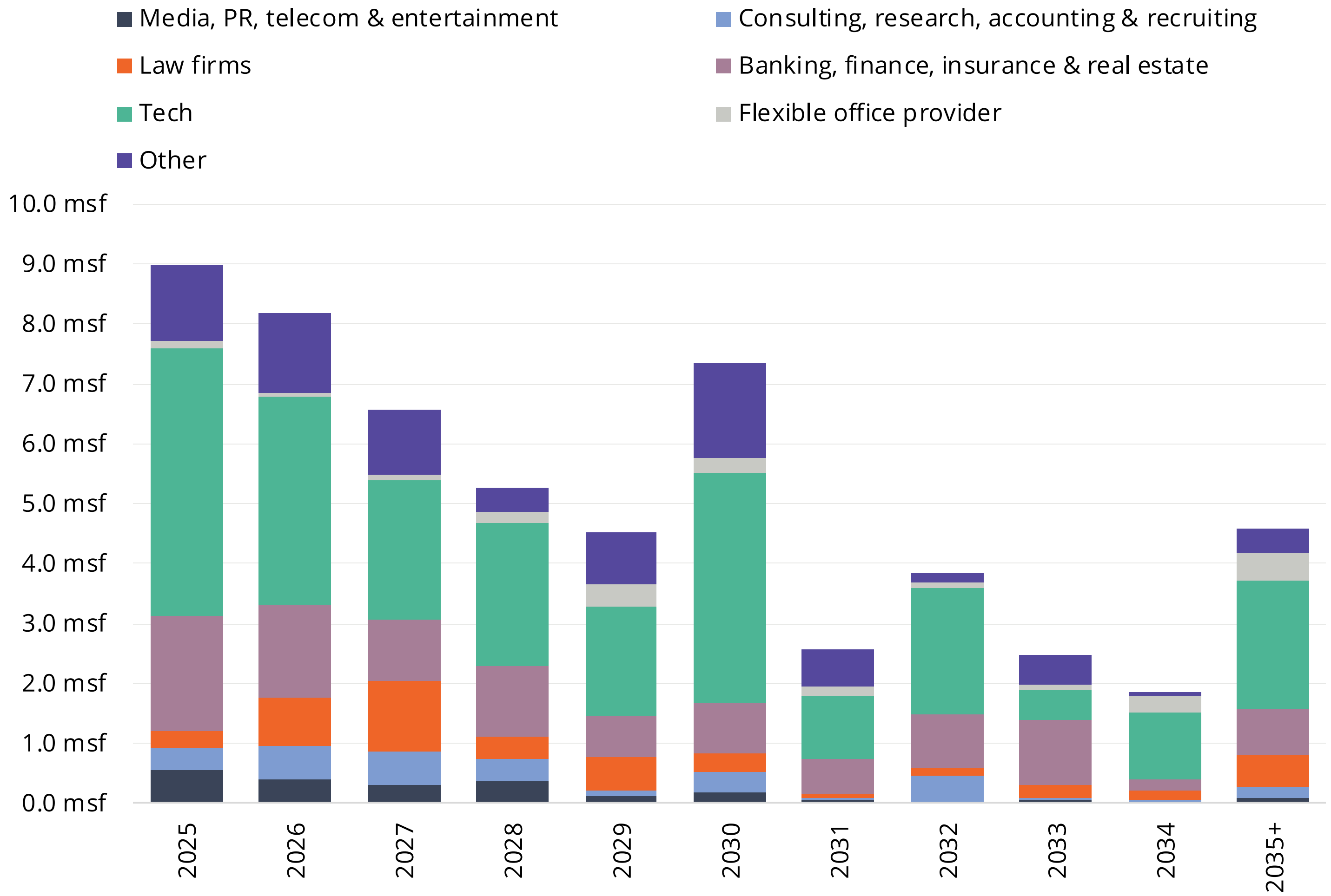


Relocations have steadily trended upwards since 2021, as companies continue to take advantage of lower office pricing in more desirable spaces and submarkets.

Renewals peaked in 2020 during the uncertainty of COVID but are now trending downwards as tenants begin to seek newer spaces or decide to right-size.

Source: AVANT by Avison Young.

Future lease expirations by industry



Source: AVANT by Avison Young

Tech companies account for 45.1% 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.

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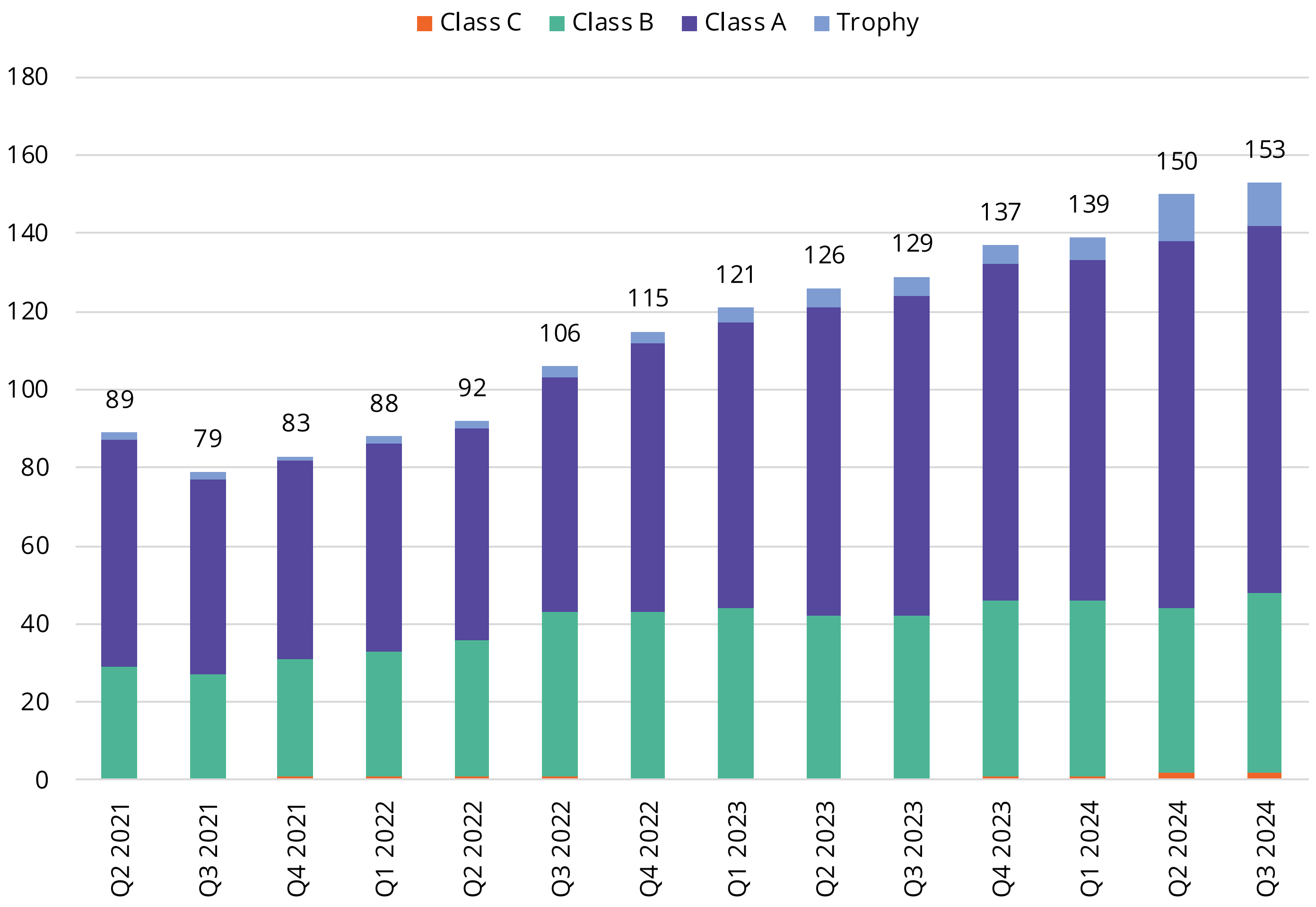
Historical office large block availability



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

Large blocks of space continue to be plentiful in supply, however, 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.

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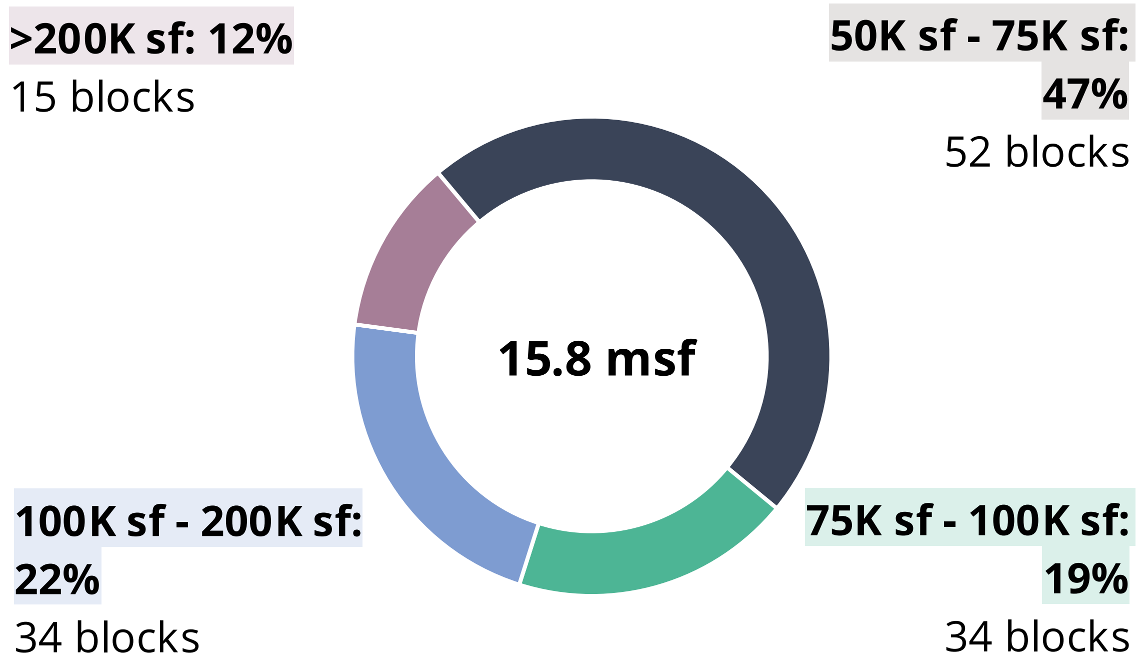
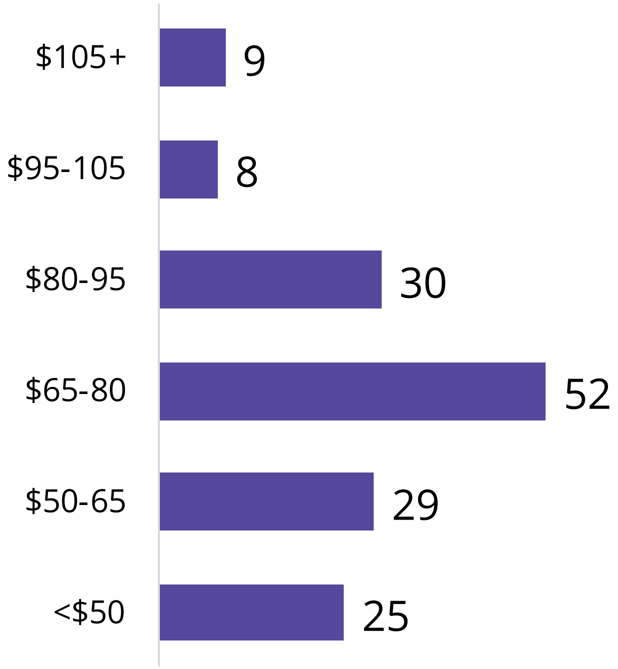
Office large block availability – 50,000+

Number of blocks by size:



Asking rents FS:



Source: AVANT by Avison Young, CoStar

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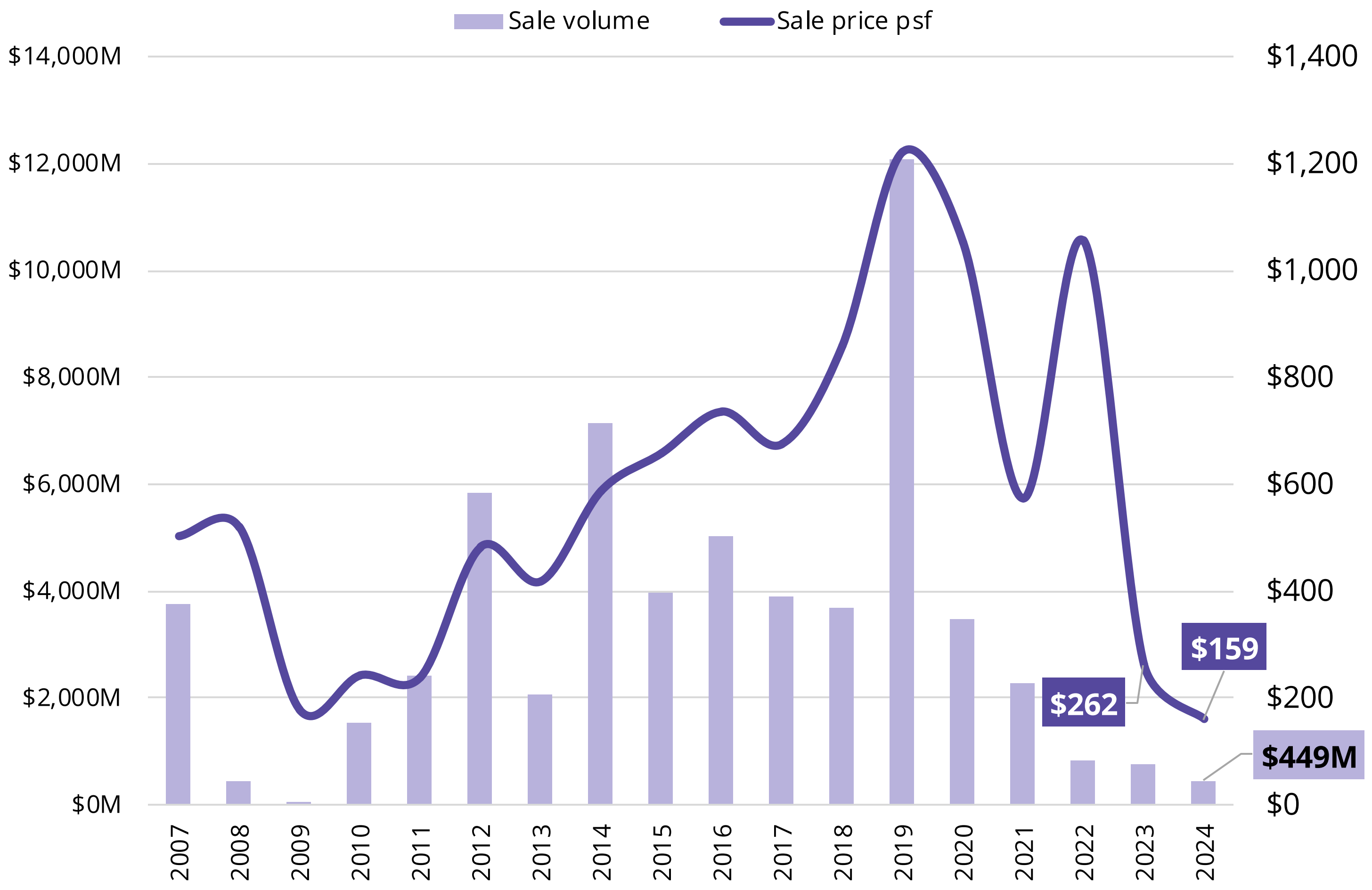
Investment sales



Source: AVANT by Avison Young, CoStar

Q3 2024 saw a decrease in sales volume from the previous quarter of 32.9%, 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.

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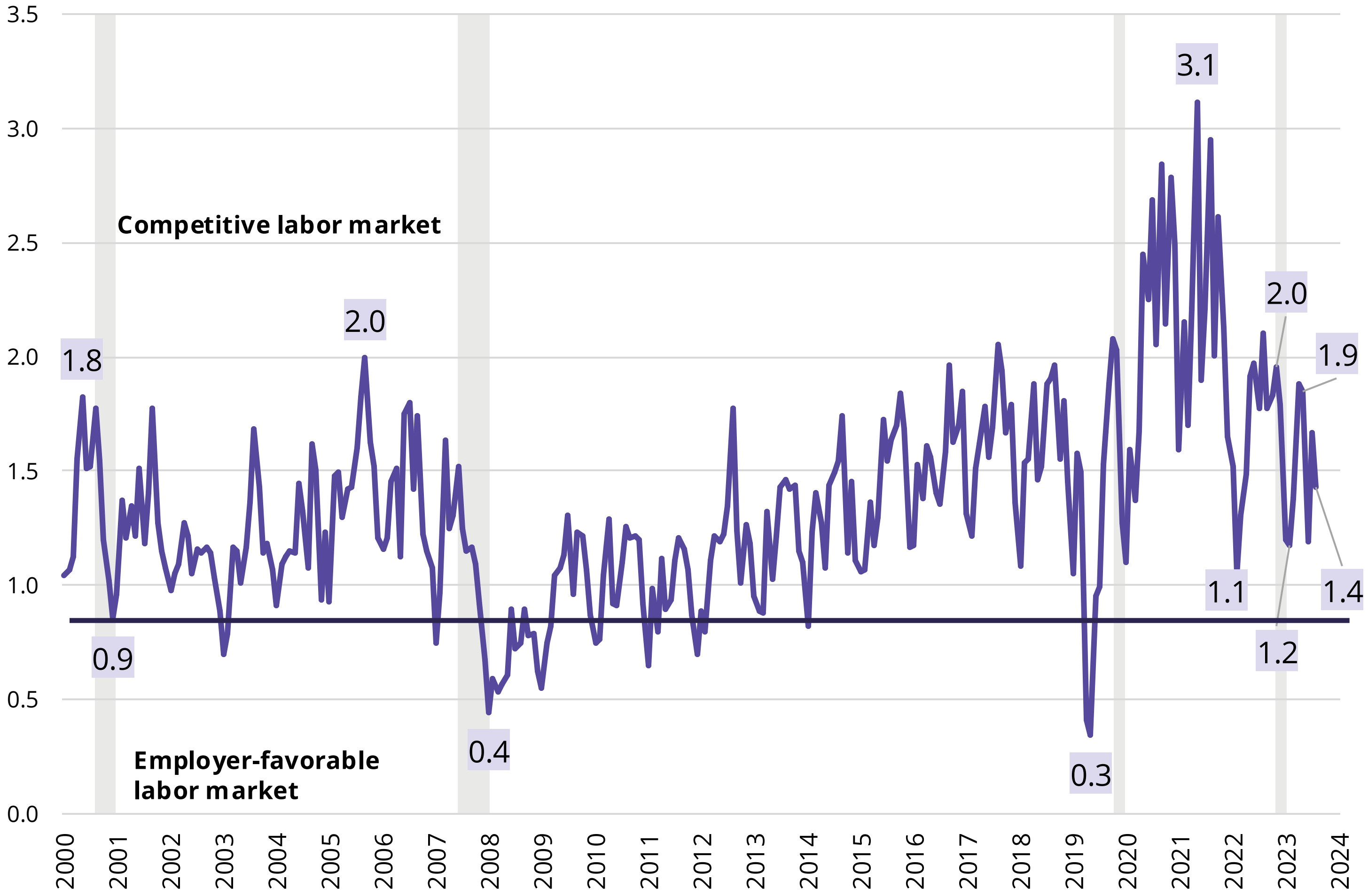
Economic trends

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

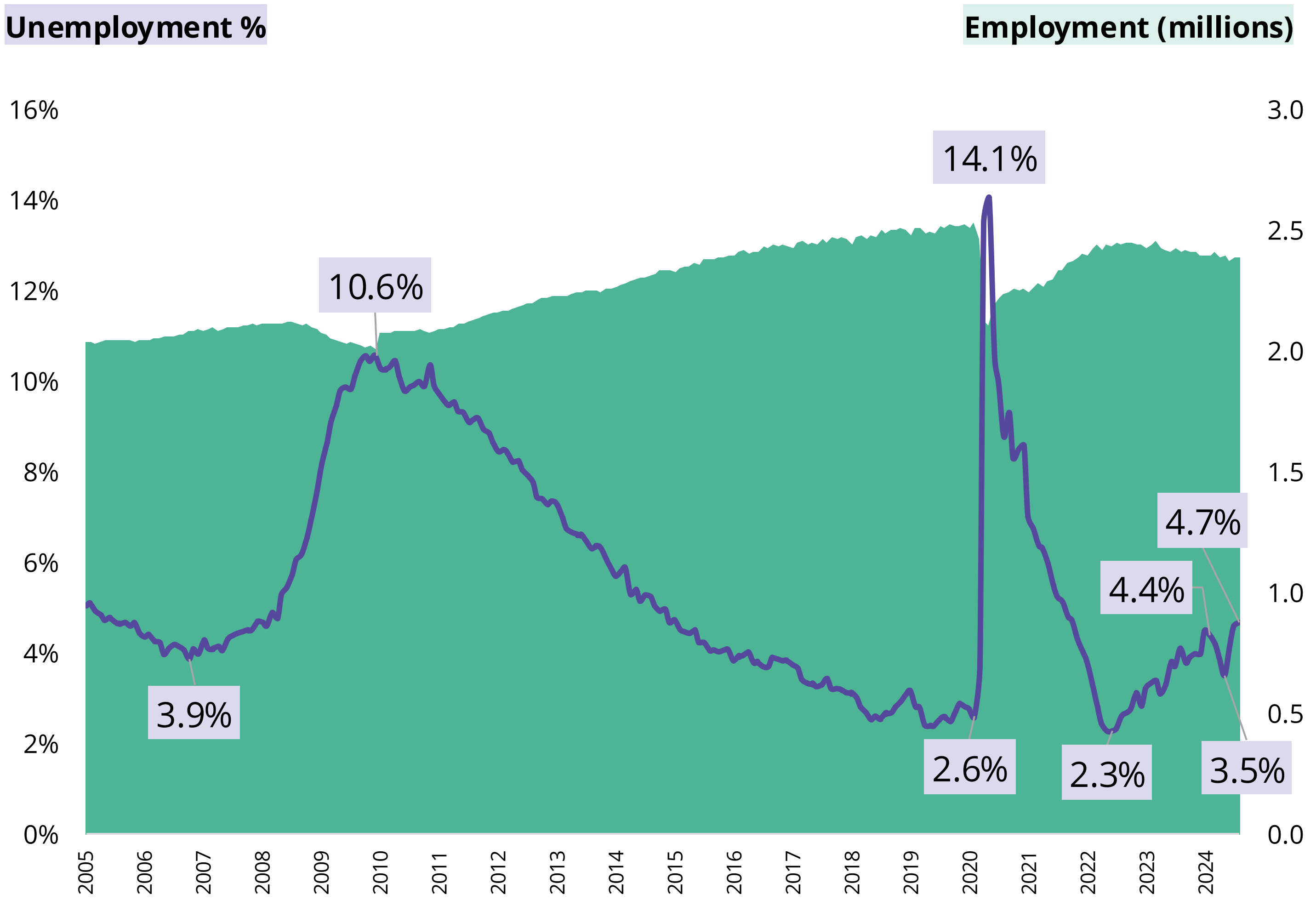


Source: Bureau of Labor Statistics

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

This ratio has hovered between 1.2 and 1.9 throughout the year, but now sits at 1.4 quits per layoff/discharge. This signifies that the labor market is trending slightly towards being employer-favorable compared to the previous quarter.

Employment and unemployment rate



Note: San Francisco-Oakland-Hayward MSA
Source: Bureau of Labor Statistics

San Francisco's unemployment rate rose from 3.5% in Q2 2024 to 4.7% in Q3 2024, while employment dipped slightly by 0.3% over the same period. This is the highest that the unemployment rate has been since June 2022.

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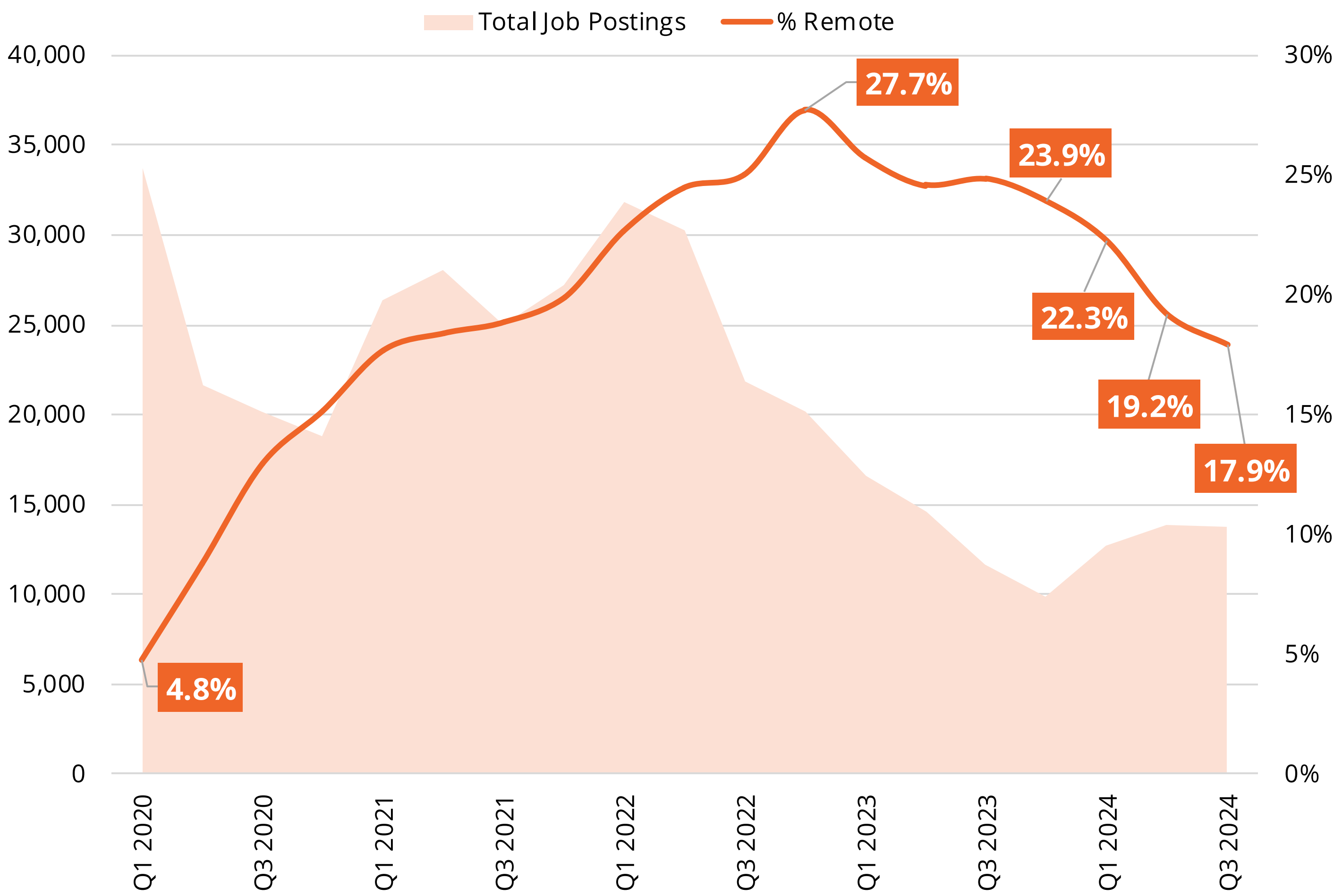
Remote job postings



Note: Office-using industries
Source: AVANT by Avison Young, Lightcast

Total job postings in San Francisco have remained steady quarter-over-quarter, while the total percentage share of remote job postings has dropped from 19.2% to 17.9% over the same period. This is the fourth consecutive decline in the percentage share of remote job postings, pointing to a continued trend towards RTO.

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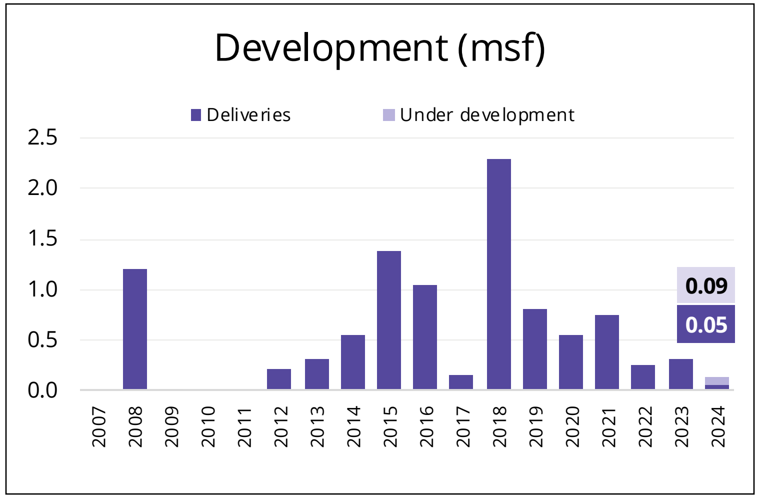
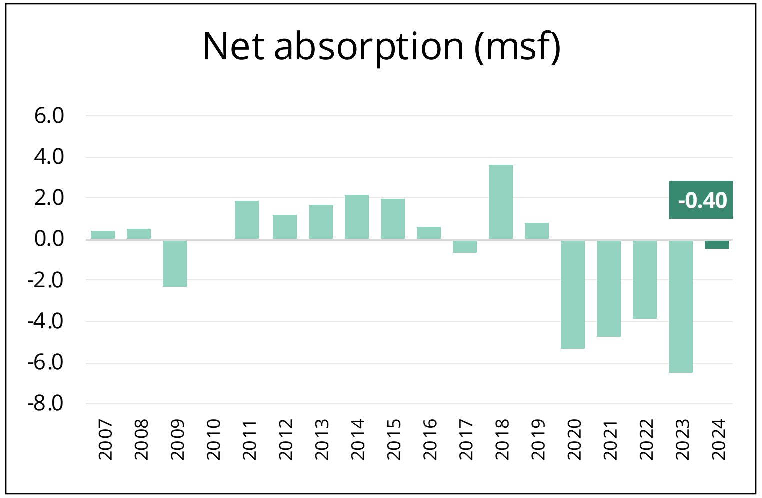
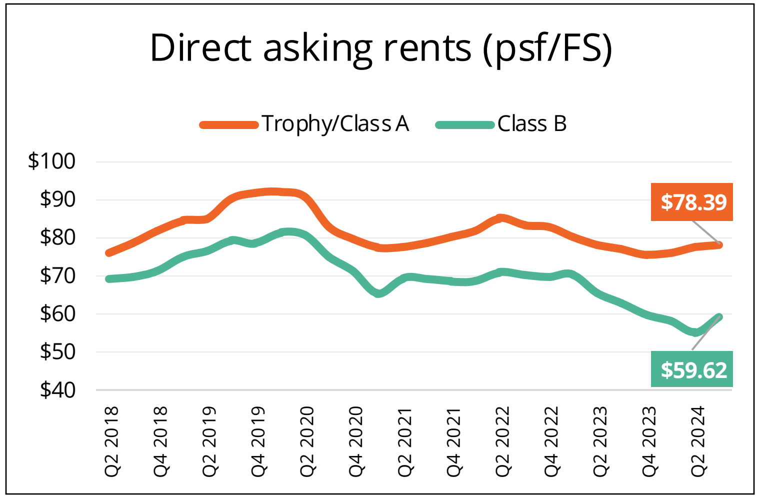
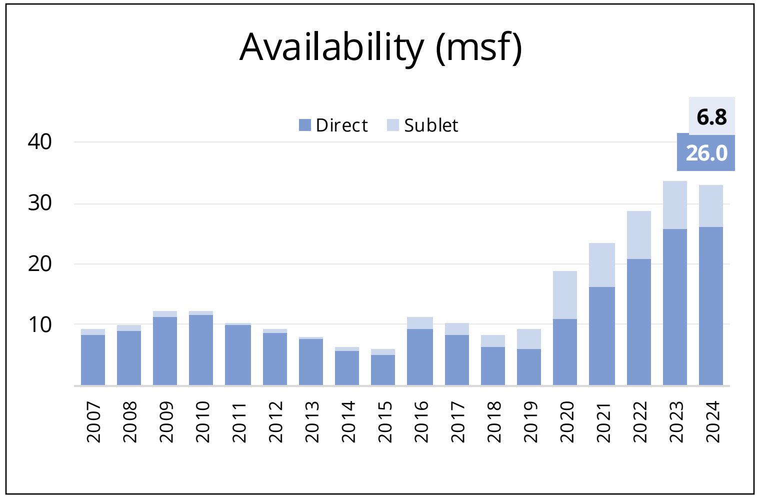
Appendix

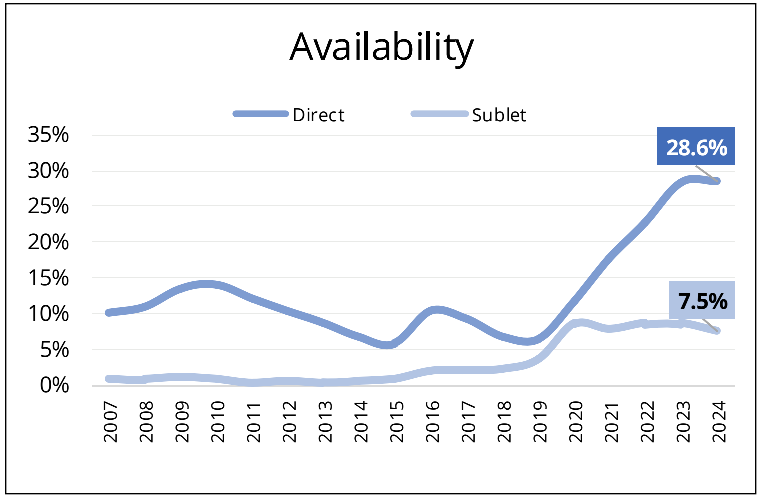
San Francisco office market indicators

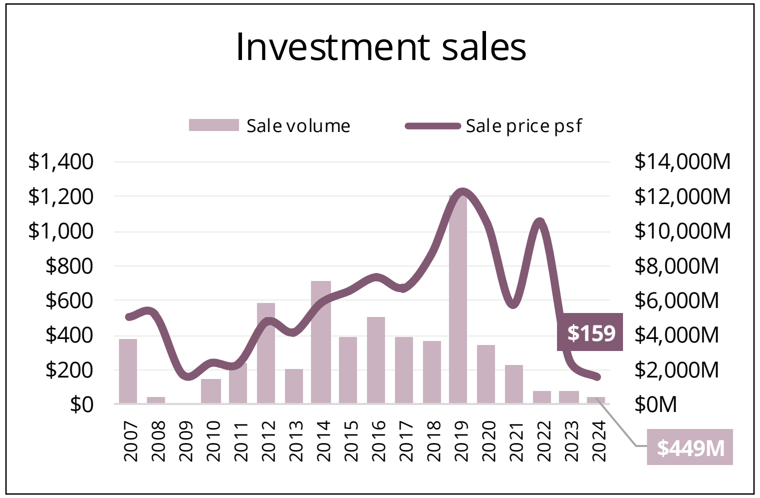












Source: AVANT by Avison Young, CoStar

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San Francisco office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (YTD)	Direct asking rent FS
Financial District	28,580,942	0	0	28.5%	3.0%	31.5%	(248,852)	$77.90
South Financial District	27,703,558	0	0	24.4%	5.7%	30.0%	(721,974)	$71.75
CBD Total	**56,284,500**	**0**	**0**	**26.4%**	**4.3%**	**30.8%**	**(970,826)**	**$75.24**
Chinatown/Nob Hill/Russian Hill	105,570	0	0	11.4%	5.7%	17.1%	6,359	n/a
Jackson Square	1,909,445	0	0	20.8%	4.0%	24.8%	(20,444)	$57.83
MidMarket	4,590,608	0	0	26.0%	7.8%	33.7%	231,420	$51.81
Mission	922,047	0	0	29.2%	7.6%	36.9%	(46,408)	$66.00
Mission Bay	2,171,239	0	0	27.6%	0.0%	27.6%	278,475	$81.43
Outer San Francisco	1,066,116	0	0	5.2%	0.3%	5.5%	(16,934)	n/a
Potrero Hill	1,031,825	0	0	24.2%	13.5%	37.7%	(69,330)	$62.97
Rincon Hill/South Beach	5,819,452	0	0	21.1%	9.0%	30.1%	93,441	$58.46
Showplace Square	3,589,444	54,452	0	23.4%	4.7%	28.1%	326,193	$62.31
South of Market	668,141	0	93,138	30.6%	8.9%	39.5%	27,550	$48.00
Union Square	4,161,910	0	0	27.8%	2.6%	30.4%	(90,787)	$52.95
Van Ness Corridor	1,619,724	0	0	17.9%	0.1%	18.0%	(50,034)	n/a
Waterfront/North Beach	3,243,220	0	0	30.6%	5.2%	35.8%	(148,547)	$68.28
Yerba Buena	3,718,149	0	0	39.9%	7.7%	47.5%	47,659	$81.61
Non-CBD Total	**34,616,890**	**54,452**	**93,138**	**25.9%**	**5.7%**	**31.6%**	**568,613**	**$68.89**
Market total	**90,901,390**	**54,452**	**93,138**	**26.2%**	**4.8%**	**31.1%**	**(402,213)**	**$73.52**

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.

Source: AVANT by Avison Young, CoStar

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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 (YTD)	Direct asking rent FS
Trophy	8,630,431	0	0	17.9%	5.4%	23.3%	(411,594)	$109.77
Class A	47,662,592	54,452	0	27.3%	5.%	32.3%	279,596	$72.47
Class B	30,922,693	0	93,138	27.8%	4.7%	32.5%	(262,644)	$59.62
Class C	3,685,674	0	0	19.5%	2.4%	22.%	(7,571)	$44.04
Market total	**90,901,390**	**54,452**	**93,138**	**26.2%**	**4.8%**	**31.1%**	**(402,213)**	**$73.52**

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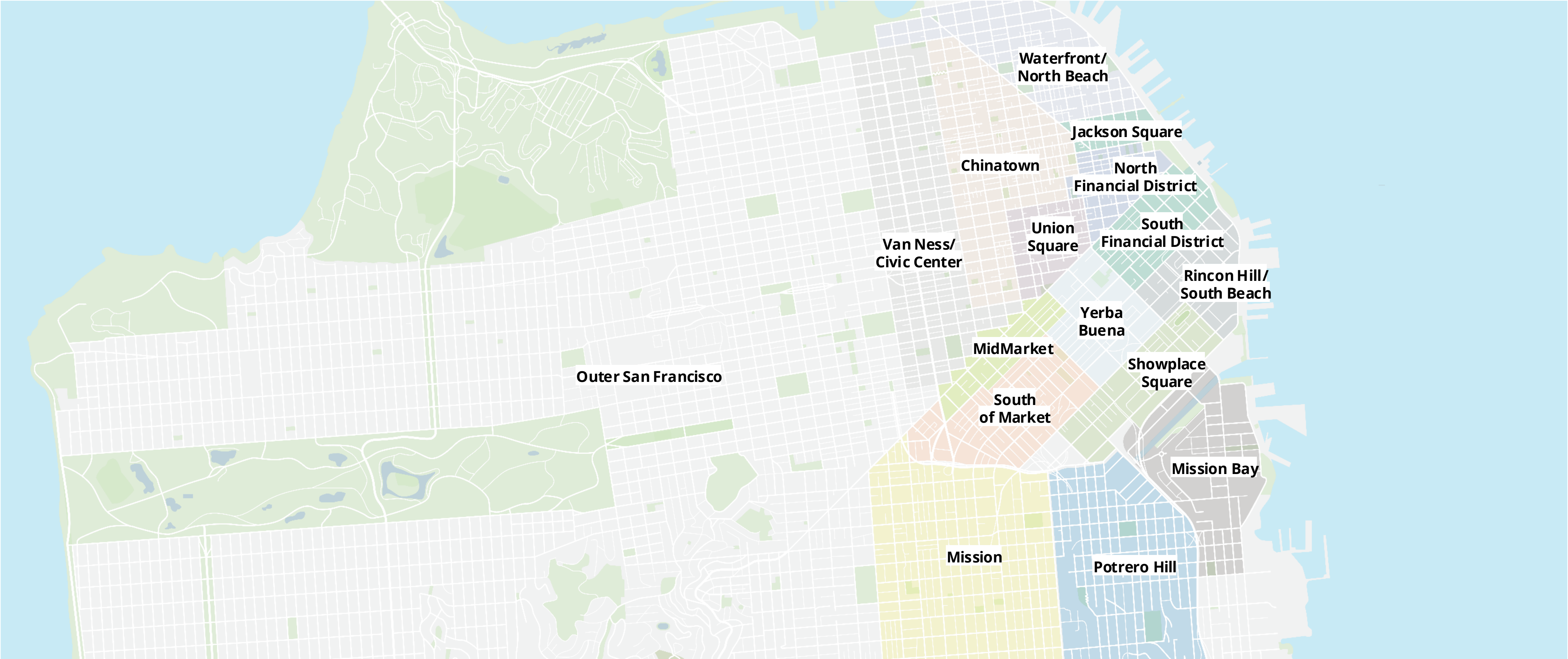
San Francisco submarket map



Source: AVANT by Avison Young

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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 information visit **avisonyoung.com**

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