San Francisco office market report

Q4 2022

AVISON YOUNG

San Francisco office market trends

44.9%

San Francisco's return to office struggles continue

While trending upward, San Francisco office visitor volumes show the metro is 44.9% returned the week of December 12th, 2022 compared to the week preceding the lockdown. The city witnessed a slow start reopening following the pandemic compared to other national markets due to the heavy concentration of tech opting to work remotely, coupled with tight state and county governmental regulations that limited in-person activities. Recent economic turmoil dampened the San Francisco market which saw increased layoffs and a pullback in job postings.

-53.6%

Office job postings slide from March hiring peak

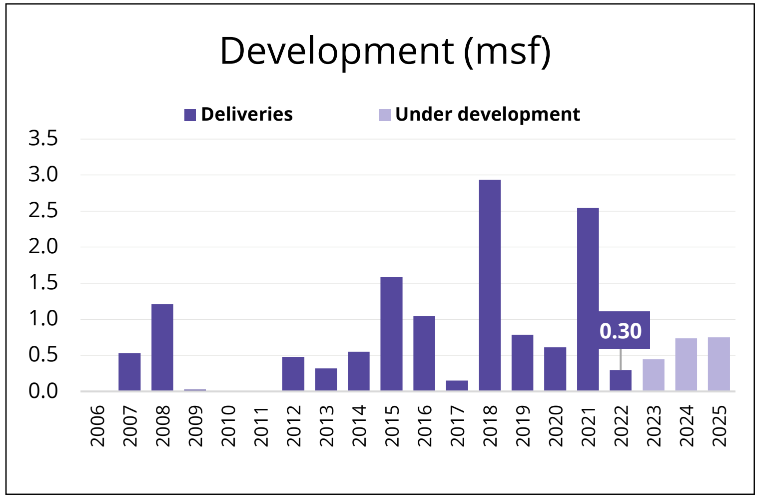
After a short COVID-induced recession in 2020, San Francisco saw record job postings, peaking in March 2022. Recent economic uncertainty in overall market conditions caused a pullback in hiring, with San Francisco seeing immediate effects reporting a -53.6% decrease in job postings in September compared to March's peaks; the second most nationally. This early prompt caused local companies to slow hiring and shed additional space. In Q4 2022, San Francisco began to stabilize while other markets and sectors are starting to see a similar economic slowdown.

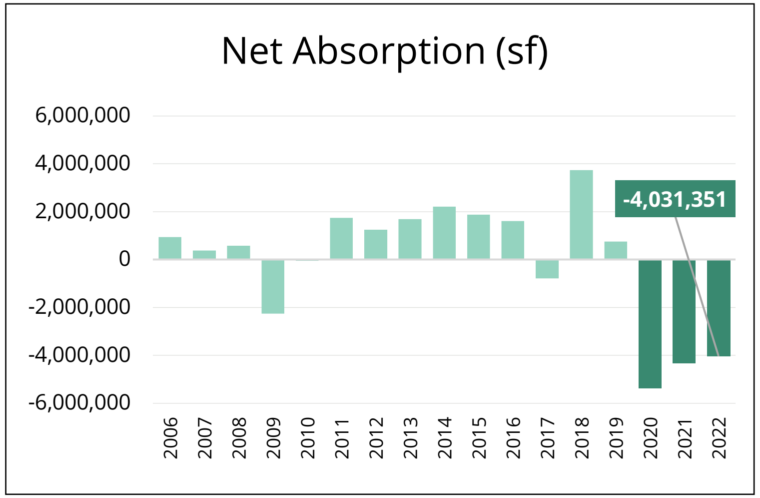
-12.8%

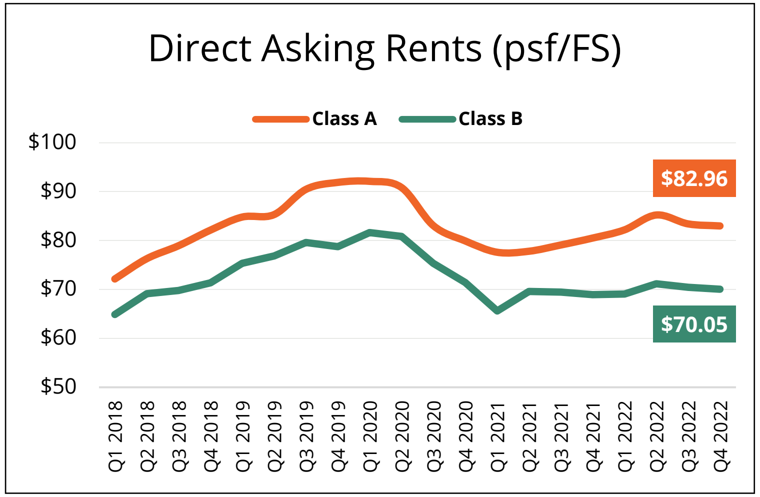
Class A effective rents down from mid-2020 peak

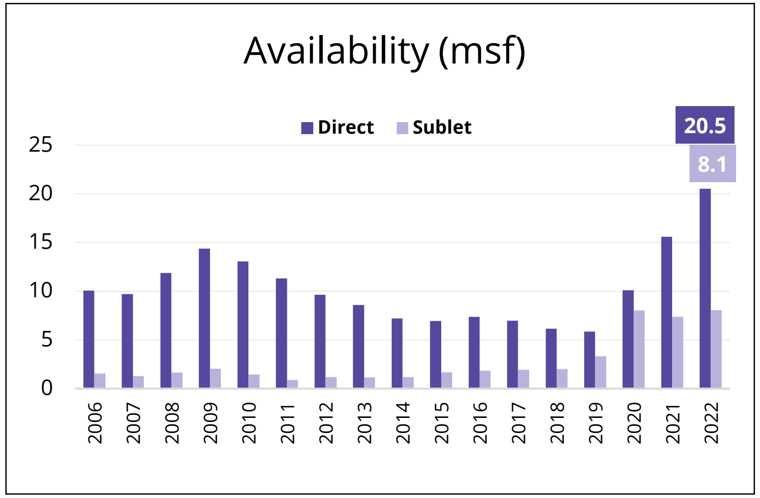
Class A net effective rents have dropped 12.8% from their mid-2020 peak, while Trophy net effective rents are up 1.2% over the same period. Class A properties occupied by tech are offering comparatively tenant-favorable concession packages to induce lease commitments, causing a net drop in rents. Trophy buildings with superior attributes and amenities remain much more competitive, which has significantly expanded the premium on these assets.

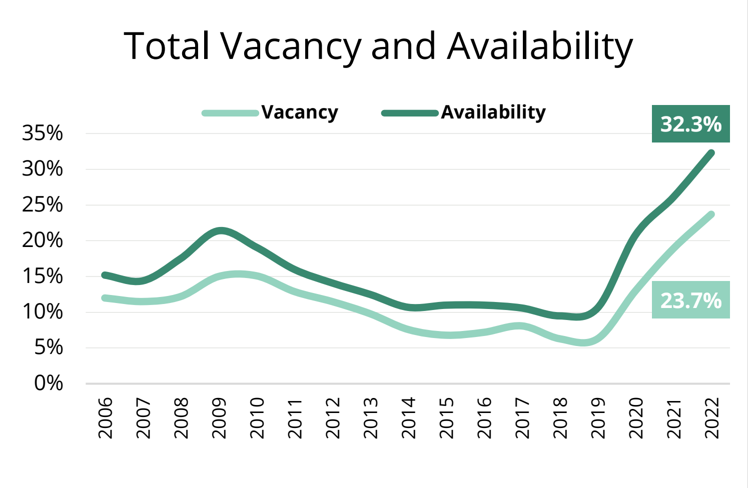
San Francisco office market indicators

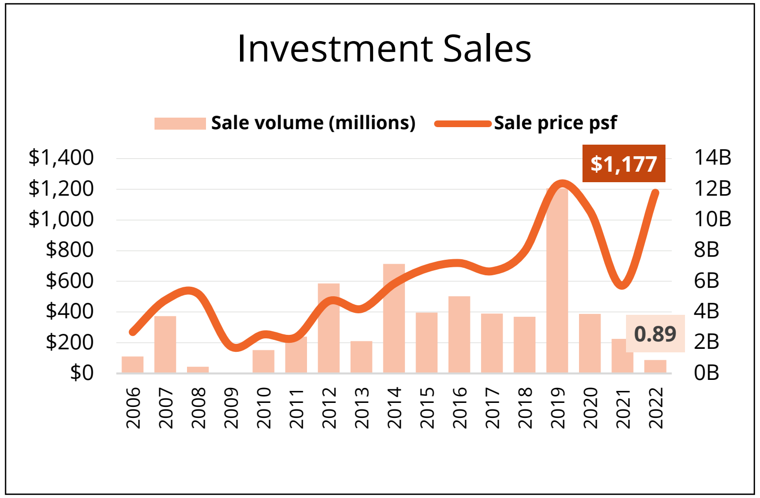












Source: AVANT by Avison Young, CoStar

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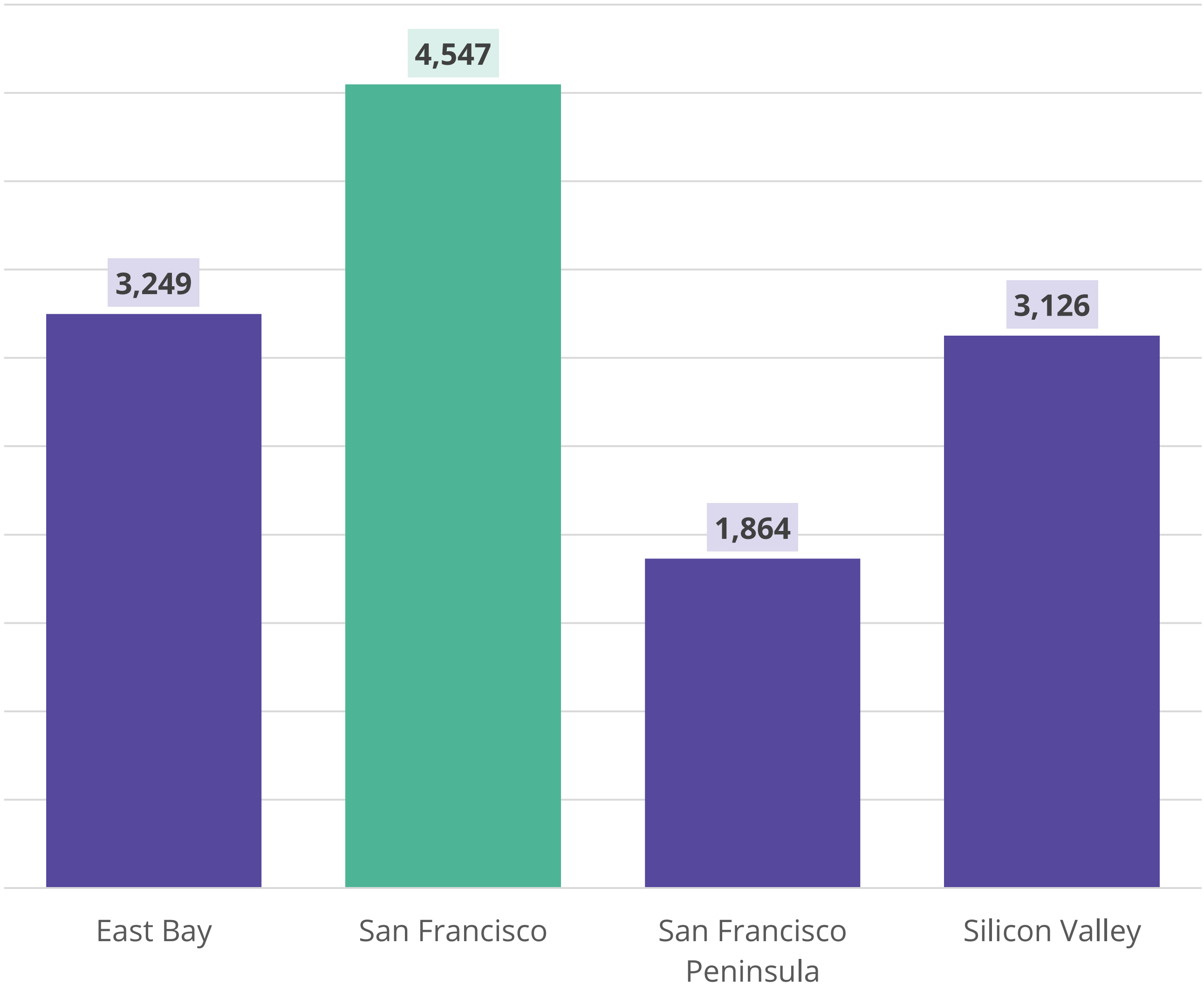
Bay Area tech company layoffs by region

35.6%

San Francisco accounted for more than a third of the layoffs in the Bay Area

As a result of weak financials and over-hiring during the pandemic, Bay Area tech companies made workforce reductions between June and November of 2022 that affected approximately 12,000 workers. San Francisco CBD is also showing a weak return to office as commute continues to be a deterrent compared to suburban markets like Silicon Valley and East Bay.



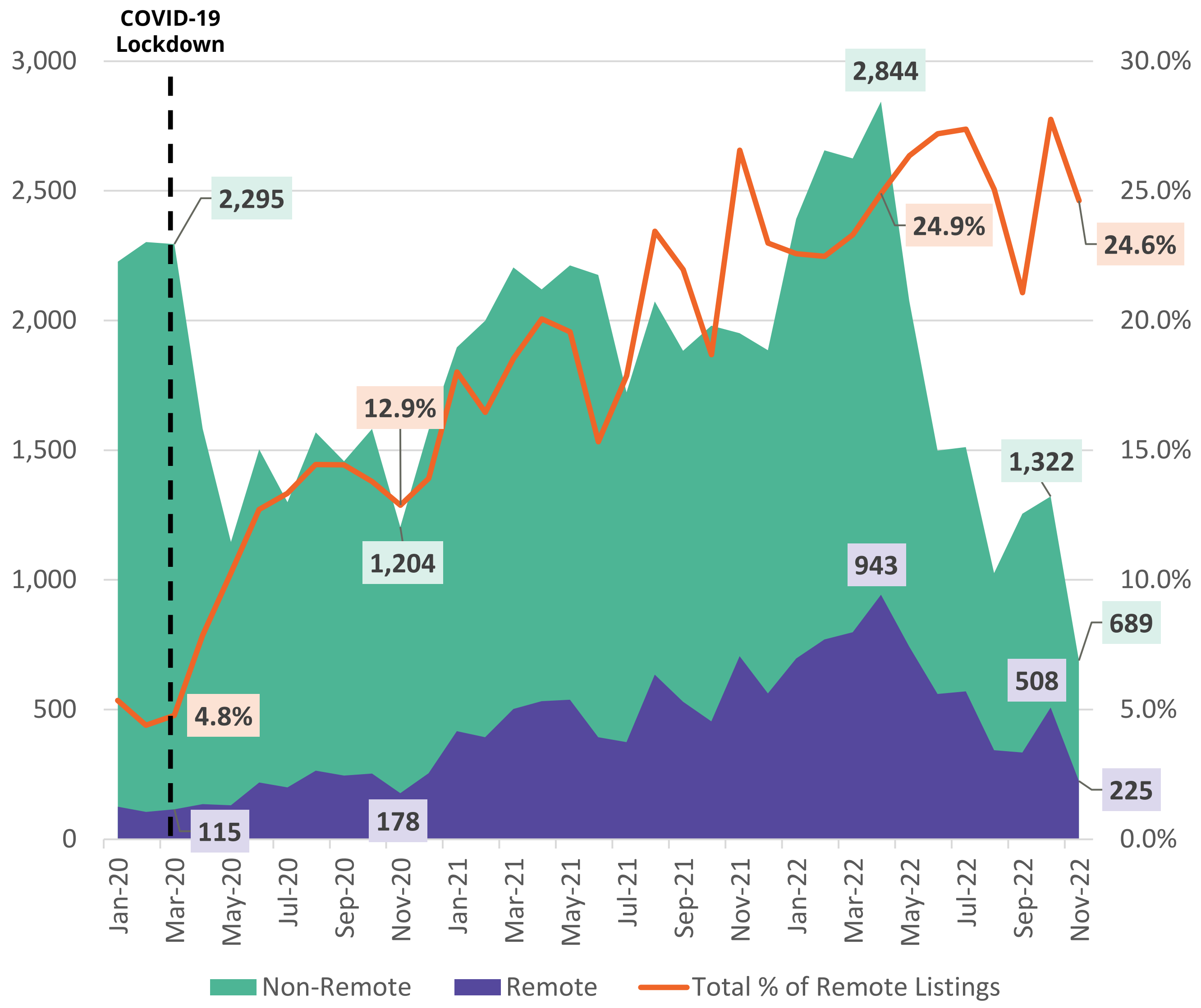
Source: California EDD, WARN report (June 2022 – November 2022)

Tech job postings in San Francisco

+24.6%

Total share of San Francisco remote job listings from March 2020 to November 2022.

At the onset of the pandemic, the tech industry was quick to adopt remote-friendly work policies and accounted for the largest share of remote positions regionally. The total percentage of remote job postings increased from 4.8% at the onset of the pandemic to 24.6% in November making up nearly a quarter of all tech job postings. Despite accelerated hiring in the first half of 2022, the number of job postings has slowed as companies pulled back hiring amid the uncertainty in the economy. While overall job postings are currently on the decline, office occupiers find themselves with an acute opportunity to capitalize on more favorable market conditions in the coming months.



Source: AVANT by Avison Young, Lightcast

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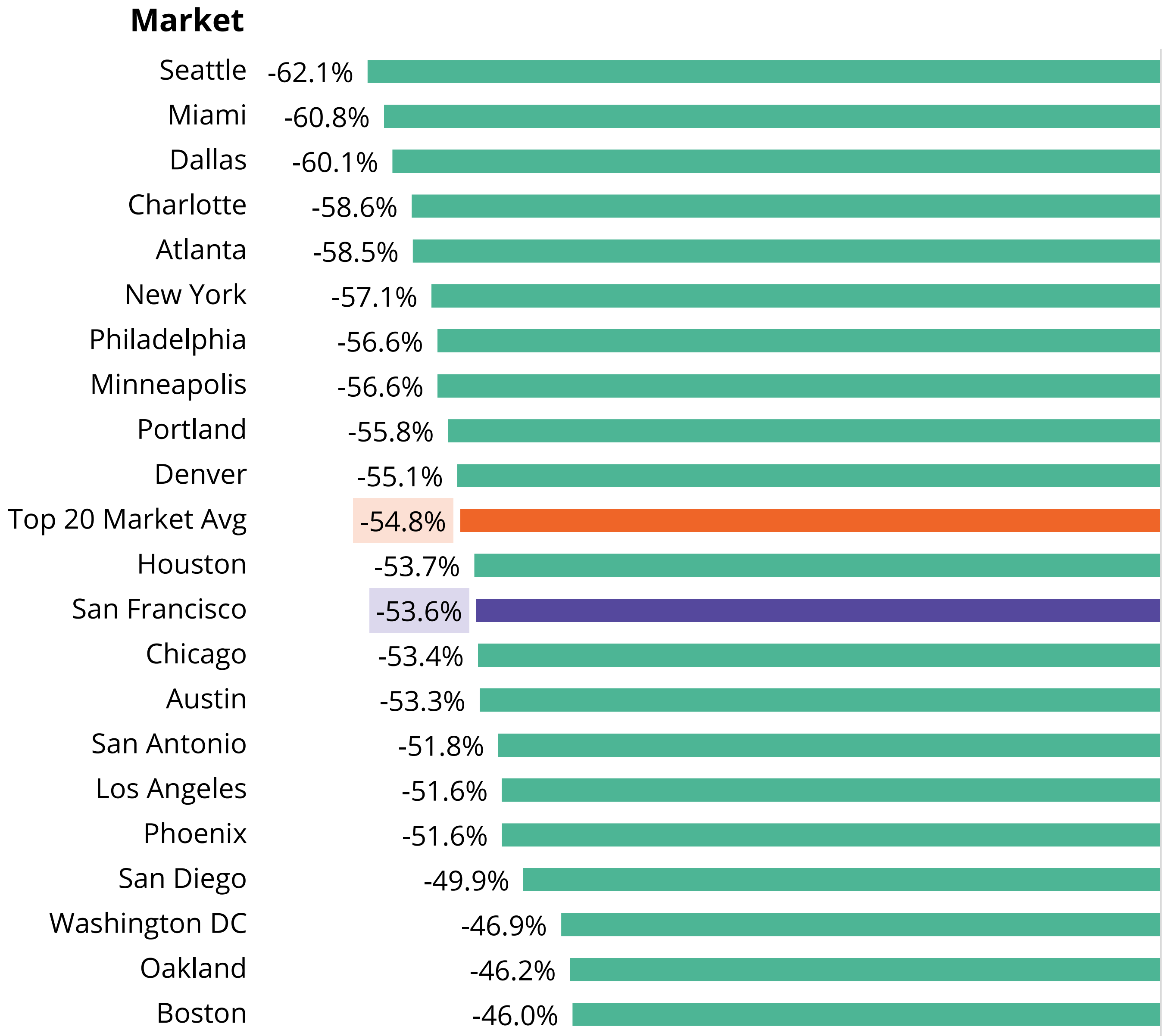
US office job postings over past 9 months

-53.6%

San Francisco office job postings down from the peak month of March 2022 to November 2022.

In September, San Francisco ranked the 2nd most severe among the top 20 US office markets (behind Seattle) in its decline of job postings due to the contraction of the tech sector. However, as other markets and sectors have started to experience a similar economic pullback, San Francisco has now fallen below the Top 20 market average.



Source: AVANT by Avison Young, Lightcast
New unique job postings in typical office using industries, March 2022 to November 2022 Percent Change

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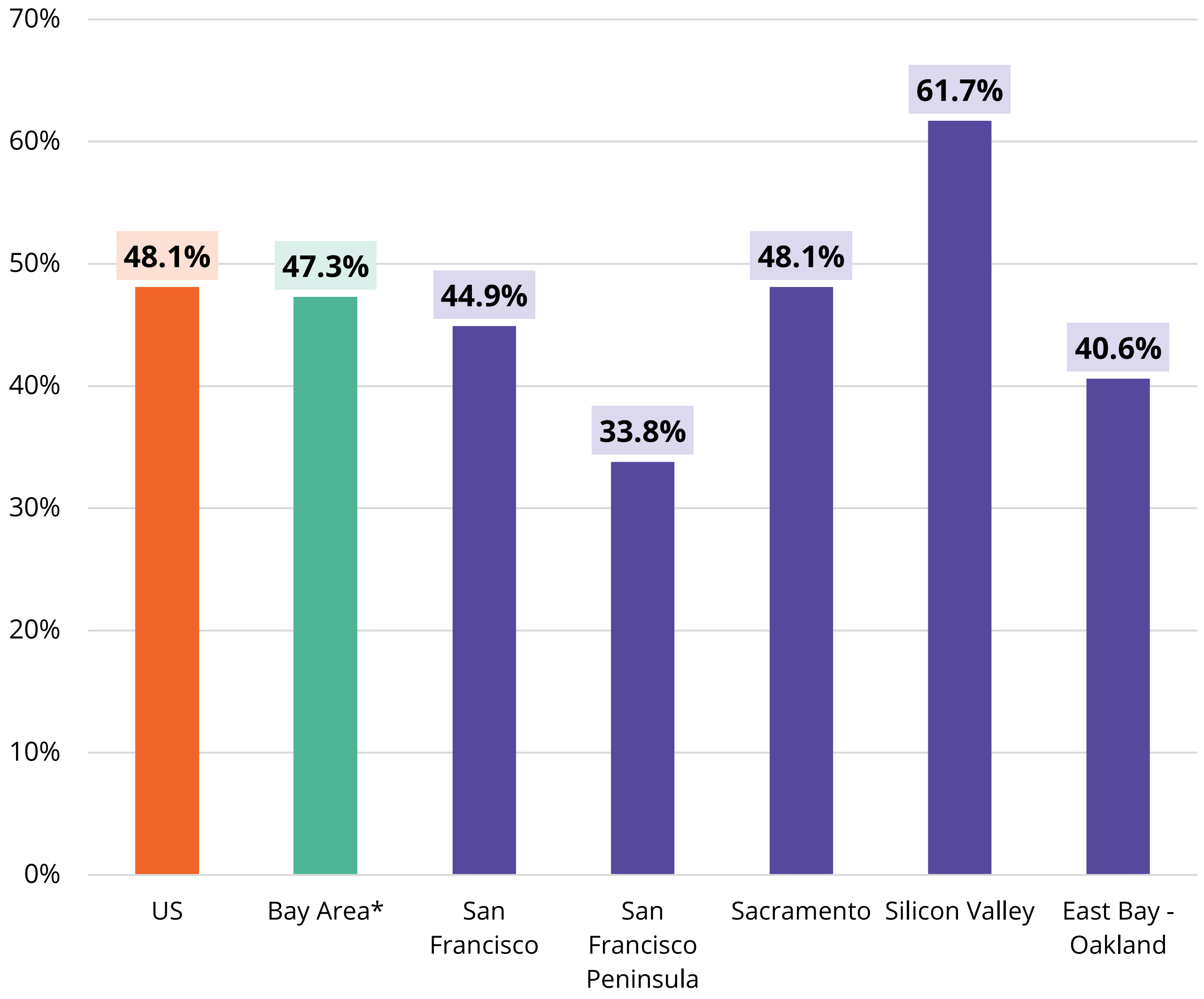
Regional visitor volumes, office properties

44.9%

San Francisco office visitor volumes, the week before lockdown vs. the week of December 12th, 2022.

San Francisco's CBD witnessed a slow start in comparison to other markets due to the heavy presence of tech users opting to stay remote, as well as state and county governmental regulations heavily influencing in-person activities. Slowed return-to-office rates have been the primary inhibitor of office demand.



Bay Area is represented by all markets listed in the graph above except Sacramento.

Note: Representative education, government, healthcare, hospitality, recreation and tourism, office, retail and transit locations. Weekdays and weekends. Source: AVANT by Avison Young, Orbital Insight

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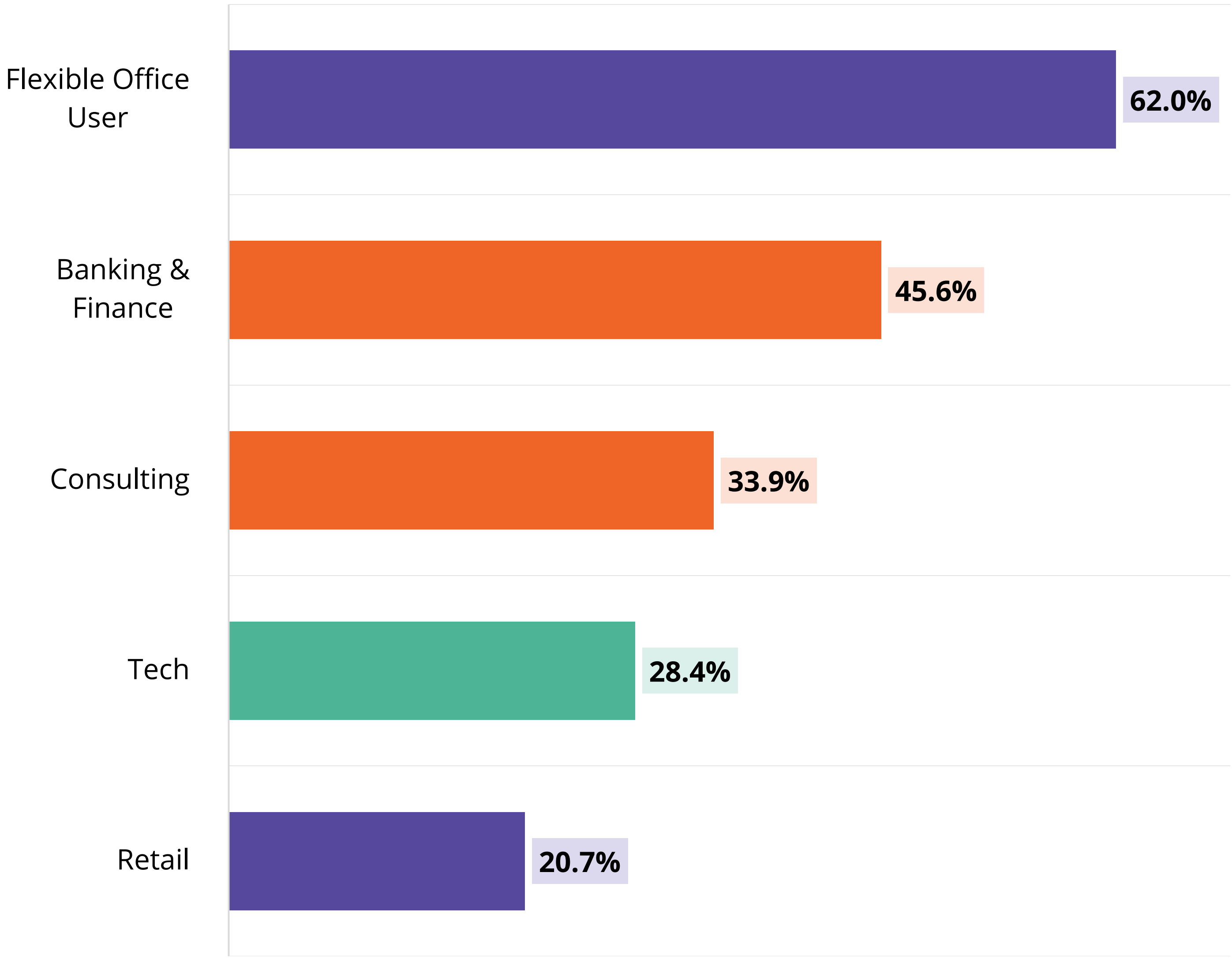
San Francisco office visitor volumes

28.4%

Tech visitor volumes, the week before lockdown vs. the week of December 12th, 2022.

Recent figures suggest flexible office providers have experienced superior visitor volumes due to occupiers' need for flexible office solutions following their sudden and unprecedented disruption to working habits. Tech occupiers have been much slower to recover due to more relaxed return-to-office policies, while professional service occupiers have fared better for their more stringent approach to RTO.



Note: Representative office locations. Weekdays only.
Source: Orbital Insight, AVANT by Avison Young

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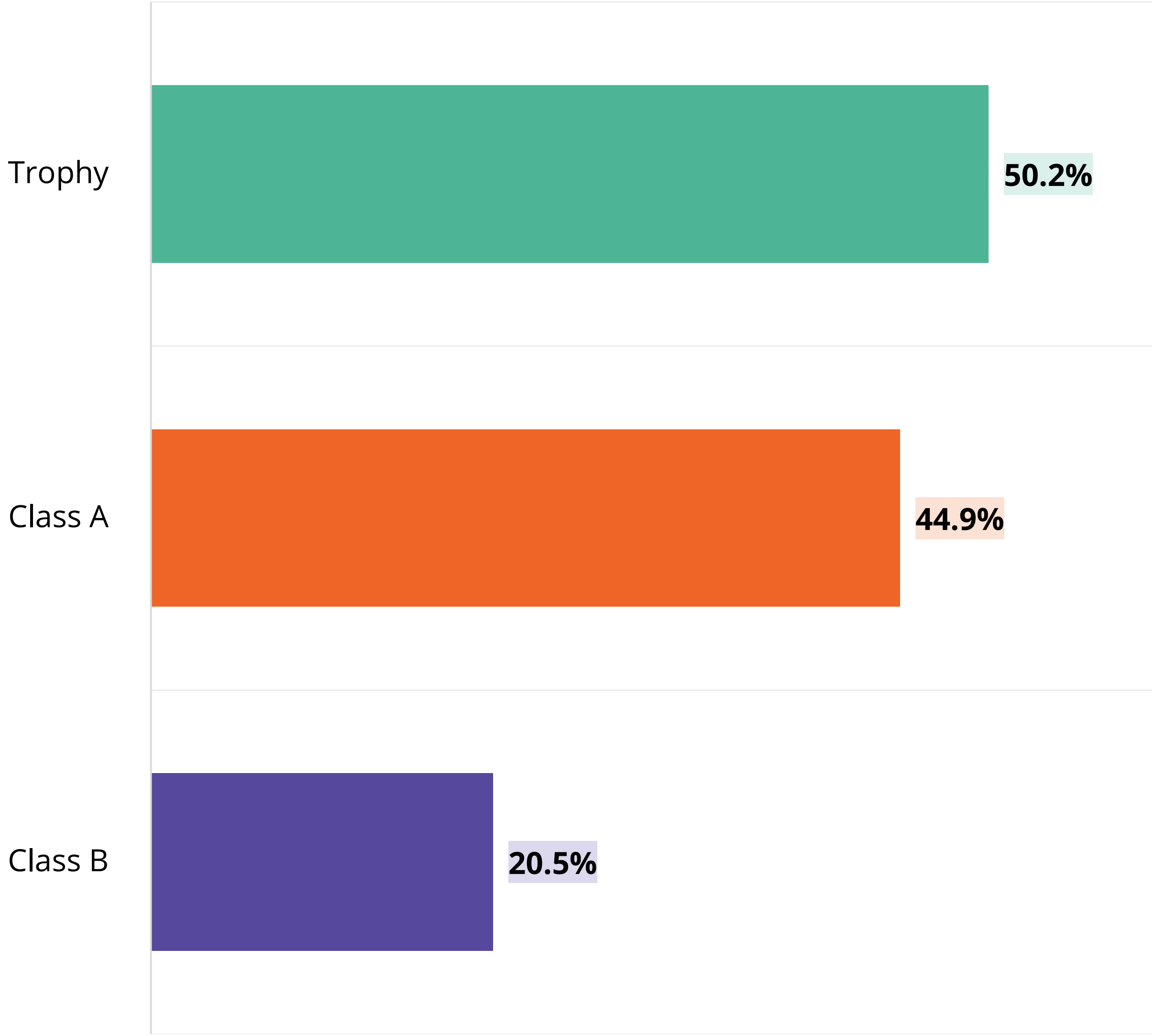
San Francisco office visitor volumes by asset type

50.2%

Trophy office visitor volumes, the week before lockdown vs. the week of December 12th, 2022.

Trophy assets in San Francisco are occupied primarily by professional service industries that currently see less remote work environments. Visitor volumes in these assets are currently outperforming commodity buildings (Class A and B) heavily occupied by tech. Class B assets have been especially weak with return-to-office efforts, which has been a significant demand inhibitor.



Note: Representative office locations. Weekdays only.
Source: Orbital Insight, AVANT by Avison Young

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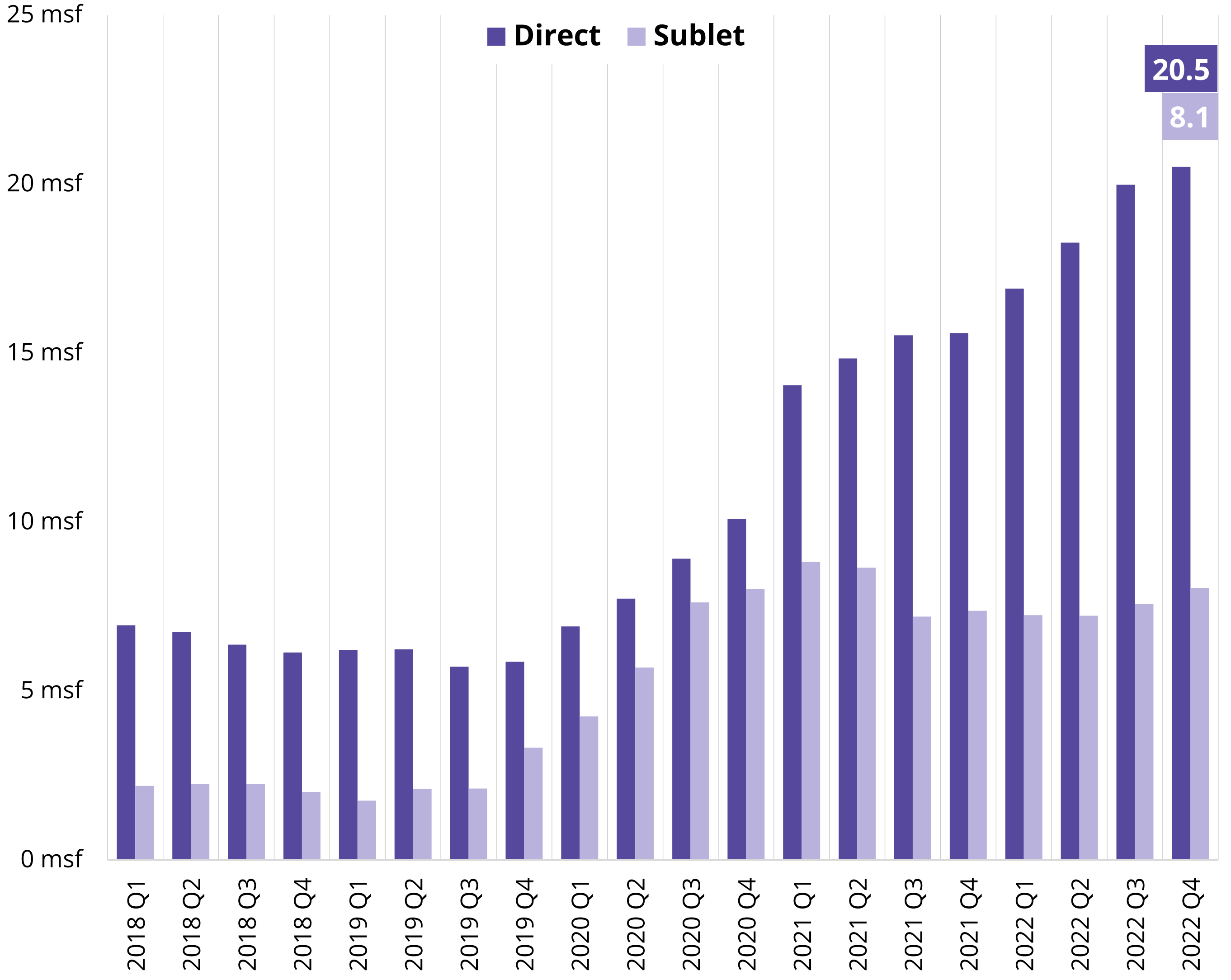
San Francisco total available space

28.6 msf

Overall available office space for San Francisco in Q4.

As the office landscape evolved during Covid-19, many companies sought to consolidate their real estate needs as part of their new workplace strategy and cost-saving measures. The amount of available space on the market now sits at a post-2005 record high. Large blocks that were once seen as a premium asset are now saturated in both size and number due to tenants downsizing their office requirements. While total available sublease space dropped after the first half of 2021, much of this space expired without securing tenants and hit the market as direct availabilities.



Source: AVANT by Avison Young, CoStar

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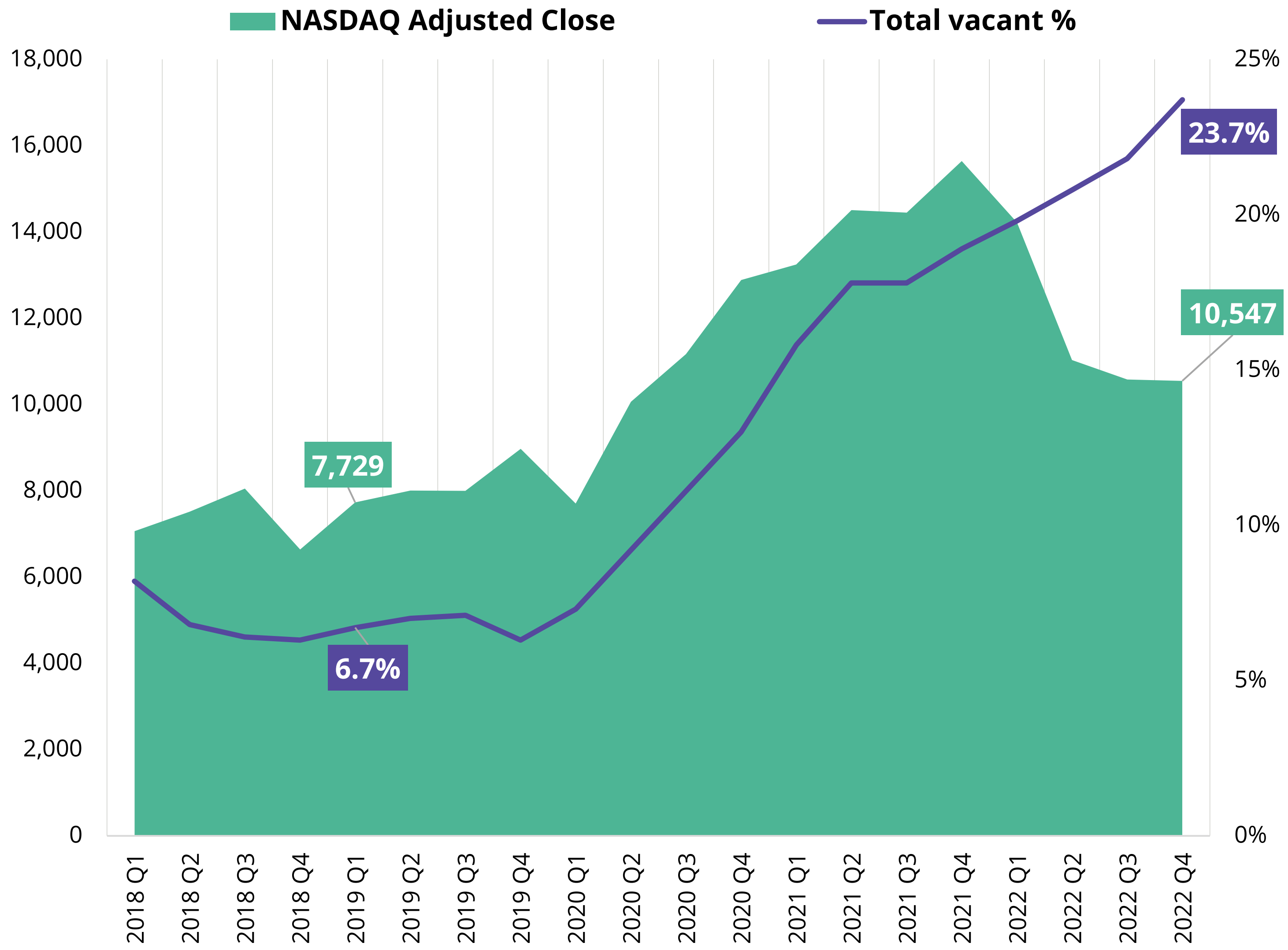
San Francisco vacancy rate and NASDAQ

23.7%

Vacancy rates increased from Q4 2019 lows as the market responds to the financial markets.

With tech now being one of the largest occupiers in San Francisco's commercial real estate market, NASDAQ fundamentals may closely begin to mirror shifts in vacancy. Similar to Silicon Valley, San Francisco is now the first to feel any economic headwinds as tech companies restabilize their balance sheets and reduce the employee headcount, the need for square footage is witnessed immediately.



Source: AVANT by Avison Young, CoStar

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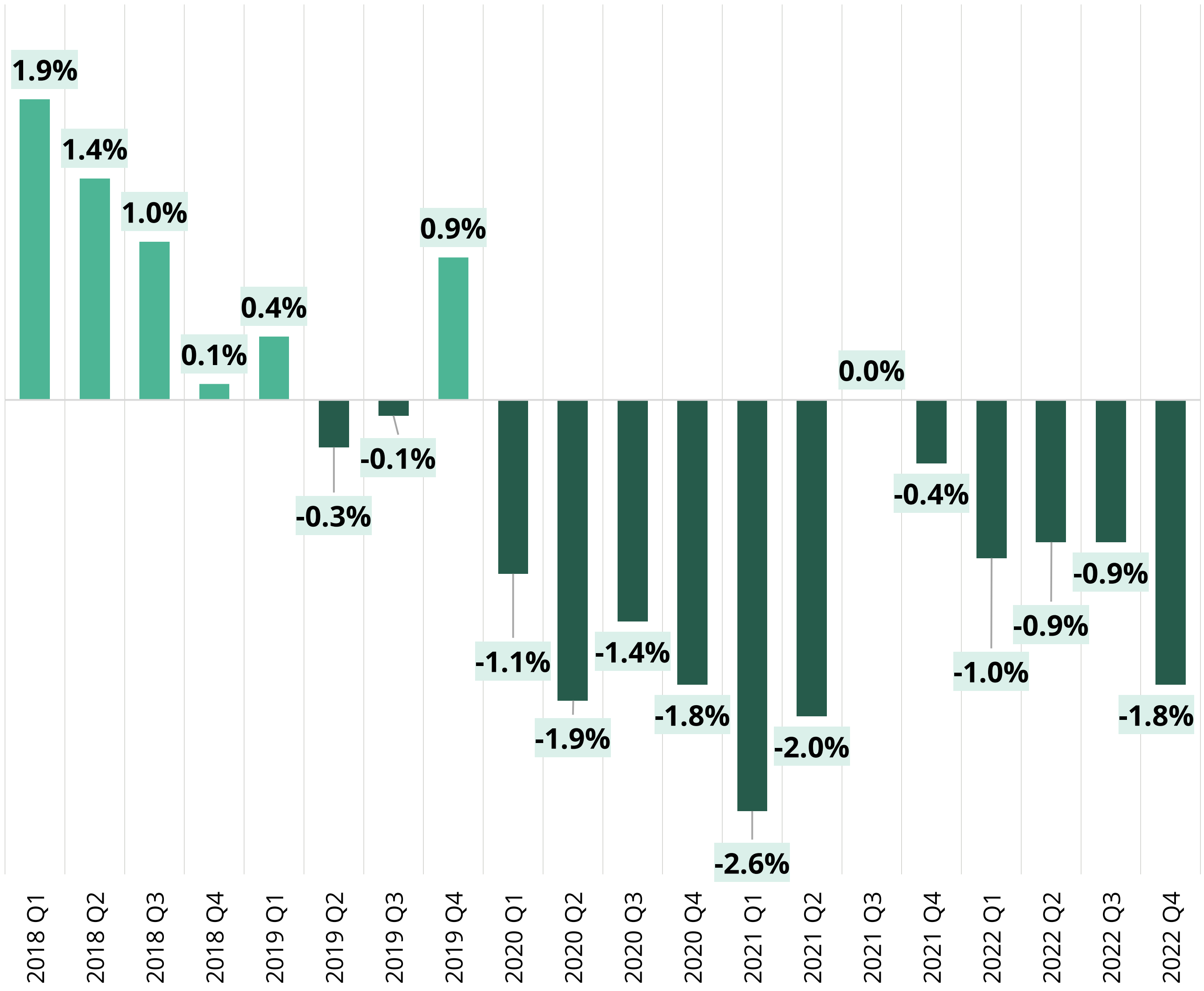
Net absorption as a share of inventory

-1.8%

The shift in unoccupied space compared to market inventory remains negative.

San Francisco has seen negative net absorption every quarter since the onset of the pandemic, totaling -13.7 msf. Work-from-home and turbulent market conditions have pushed companies to reassess their real estate needs as they look to cut costs, significantly driving vacancy rates up to 24.0%. With the increasing supply of vacant office space, rents will continue to drop until the overall market starts to recover.



Source: AVANT by Avison Young, CoStar

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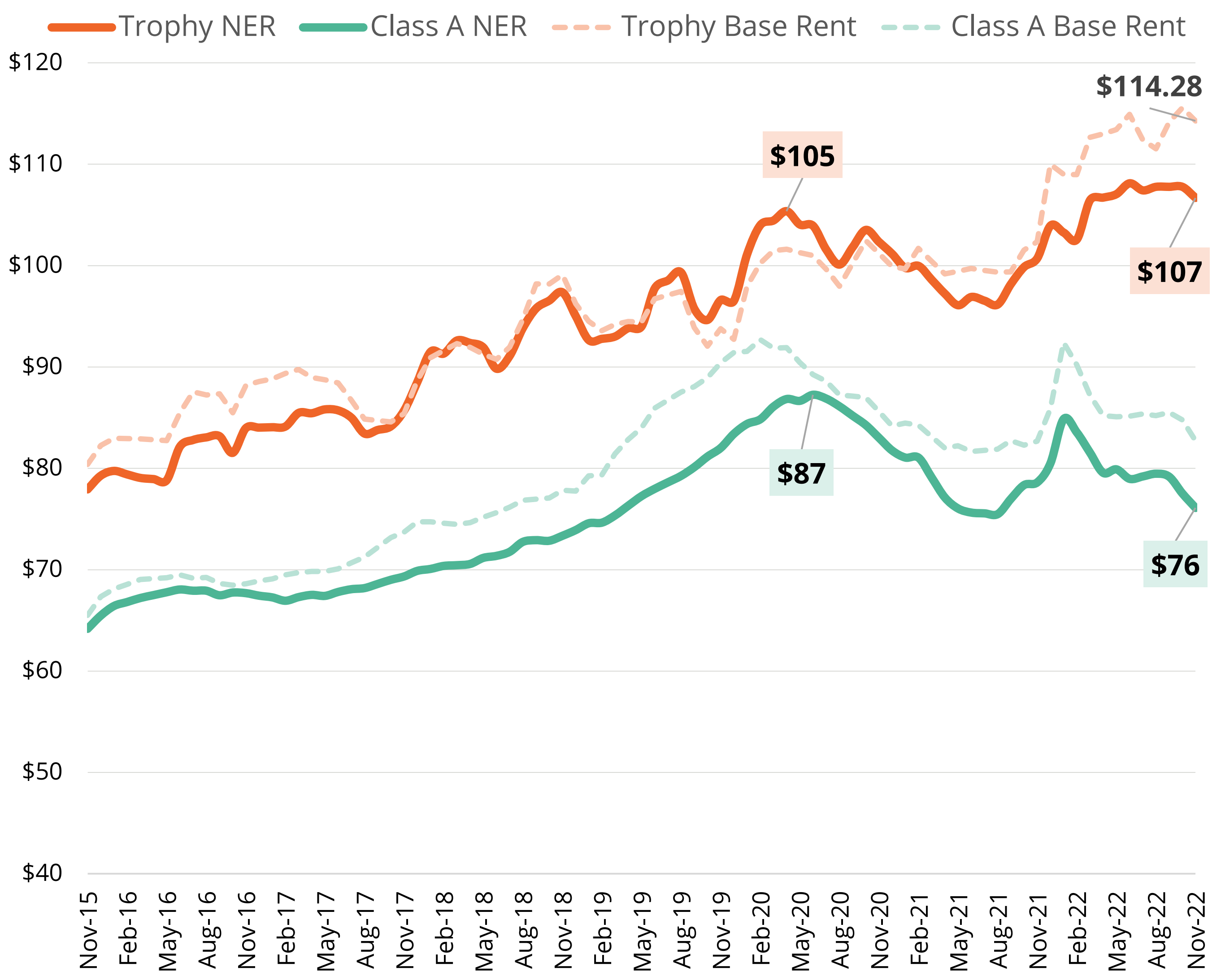
Trophy vs. Class A effective rents

-12.8%

Class A rents down from its peak of June 2020 to November 2022.

Trophy net effective rents have proven to be more stable than Class A effective rents, demonstrating the imbalance between the two sectors due to tenant mix. Class A properties occupied by tech are offering comparatively tenant-favorable concession packages to induce lease commitments, causing a drop in net effective rents. Trophy buildings with superior attributes and amenities remain much more competitive, which has significantly expanded the premium on these assets.



Source: AVANT by Avison Young, CoStar

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San Francisco office market stats

					Total vacant						Direct asking rent FS	
	Existing Inventory	Under development sf	Total direct %	Total sublet %	Total %	Class A total	Class B total	Net absorption sf (QTD)	Net absorption sf (YTD)	Class A	Class B	Total
Financial District	28,388,190	0	21.0%	4.0%	25.0%	23.0%	31.0%	(752,475)	(1,721,731)	$83.74	$67.76	$80.28
South Financial District	27,231,319	0	14.0%	5.0%	19.0%	19.0%	22.0%	(530,532)	(1,247,565)	$80.27	$79.17	$79.80
CBD Total	**55,619,509**	**0**	**17.5%**	**4.5%**	**22.0%**	**18.7%**	**28.1%**	**(1,283,007)**	**(2,969,296)**	**$82.13**	**$71.12**	**$80.07**
Chinatown/Nob Hill	105,570	0	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-
Jackson Square	1,940,354	0	24.0%	2.0%	27.0%	33.0%	26.0%	69,035	(21,007)	$77.77	$57.24	$66.78
MidMarket	4,655,106	235,071	13.0%	6.0%	19.0%	11.0%	22.0%	(2,198)	(174,441)	$71.29	$68.22	$65.00
Mission	910,492	0	19.0%	4.0%	22.0%	0.0%	26.0%	(12,653)	137,883	-	$80.52	$80.52
Mission Bay	1,826,354	300,000	15.0%	3.0%	18.0%	18.0%	7.0%	14,896	(729)	$99.81	-	$99.81
Potrero Hill	1,077,242	0	12.0%	2.0%	14.0%	0.0%	22.0%	(73,059)	9,891	$104.92	$81.14	$92.24
Rincon Hill/South Beach	5,503,401	449,995	15.0%	10.0%	25.0%	19.0%	32.0%	(237,297)	(161,820)	$74.28	$68.55	$69.19
Showplace Square	3,322,654	51,409	15.0%	15.0%	30.0%	91.0%	25.0%	(48,498)	(175,948)	-	$68.35	$67.82
South of Market	916,406	118,138	21.0%	4.0%	25.0%	100.0%	28.0%	5,933	(36,825)	-	$61.87	$61.87
Union Square	4,011,112	0	24.0%	3.0%	27.0%	49.0%	25.0%	(89,841)	(222,313)	$77.32	$68.97	$69.38
Van Ness Corridor	1,690,999	0	16.0%	0.0%	16.0%	25.0%	16.0%	8,314	(28,804)	-	$58.51	$57.05
Waterfront/North Beach	3,235,891	0	24.0%	4.0%	29.0%	31.0%	29.0%	(20,205)	(183,734)	$90.00	$70.57	$75.87
Yerba Buena	3,565,868	0	39.0%	8.0%	47.0%	83.0%	29.0%	38,163	(204,208)	$88.40	$78.07	$85.04
Non-CBD Total	**32,761,449**	**1,154,613**	**20.1%**	**6.3%**	**26.4%**	29.7%	**26.0%**	**(347,410)**	**(1,062,055)**	**$85.40**	**$69.48**	**$75.18**
Overall	**88,380,958**	**1,154,613**	**18.5%**	**5.2%**	**23.7%**	**21.9%**	**26.7%**	**(1,630,417)**	**(4,031,351)**	**$82.96**	**$70.05**	**$78.18**

Source: AVANT by Avison Young, CoStar

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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

- **Inventory:** the total amount of building square footage in the market
- **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
- **Effective rent:** base rents discounted by the dollar value of free rent concession as calculated against full service face rents (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

Vitality Index

- **Visitor volumes:** based on extrapolated, anonymized cell phone pings provided by Orbital Insight at custom, geofenced locations, the Vitality Index tracks visitor volumes at representative areas of interest across markets and property types

For more market insights and information visit **avisonyoung.com**

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