

# San Francisco

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## Office availability rate decreases for the first time in three years as sublease space is leased

In Q1 2024, the total availability rate in the San Francisco office market decreased 40 basis points (bps) from 36.7% reported at year-end 2023 to 36.3%. While this remains near a historic high, there is cautious optimism again that companies are slowly getting their employees back into the office while nascent verticals such as generative artificial intelligence has caused more startup firms to look for space. On the other hand, return to office rates continue to lag behind the national average while negative office-using employment growth over the past year has caused more occupiers to be highly conscious about controlling costs.

### Quarterly leasing activity remains below pre-pandemic levels

Total leasing activity decreased from 1.7 million square feet (msf) reported in Q4 2023 to 1.1 msf in Q1 2024. Led by Adyen subleasing the entire 148,146-square-foot building at 505 Brannan Street in SOMA from Pinterest, as well as KPMG inking a short-term renewal for 142,785 square feet at 55 Second Street in Financial District South, leasing activity was top-heavy as most leasing activity remains largely expiration-driven. As a result, leasing activity in Q1 2024 of 1.1 msf continues to be below the 5-year quarterly leasing average of 1.5 msf. It should be noted that available sublease which was 8.9 msf in Q1 2023, has decreased to 7.9 msf as occupiers seeking out space have decided to choose already built-out options amidst a construction cost environment that remains very expensive.

### Downward pressure on rents expected to continue in 2024

The overall average asking rental rate decreased over last quarter to \$68.98 per square foot (psf), down 2.3% from \$70.64 psf reported a year ago. The Class A average rental rate of \$74.45 psf was barely higher from \$74.35 psf reported a year ago as landlords at the top end of the market have been able to hold their face rents while offering large concession packages. In addition, "Premium View" space has held its rental rates even more as the overall flight to quality from corporate occupiers continues. Nevertheless, expect continued downward pressure on average asking and effective rental rates as the market remains highly tenant-favorable.

### Key Statistics

	Q1 2023	Q1 2024	Y-0-Y
Inventory	86.8 msf	87.7 msf	+0.9 msf
Availability Rate	32.7%	36.3%	+360 bps
Asking Rental Rate	\$70.64	\$68.98	-2.3%
Class A Asking Rental Rate	\$74.35	\$74.45	+0.1%
Quarterly Leasing Activity	0.9 msf	1.1 msf	+0.2 msf
Available Sublease Space	8.9 msf	7.9 msf	-1.0 msf

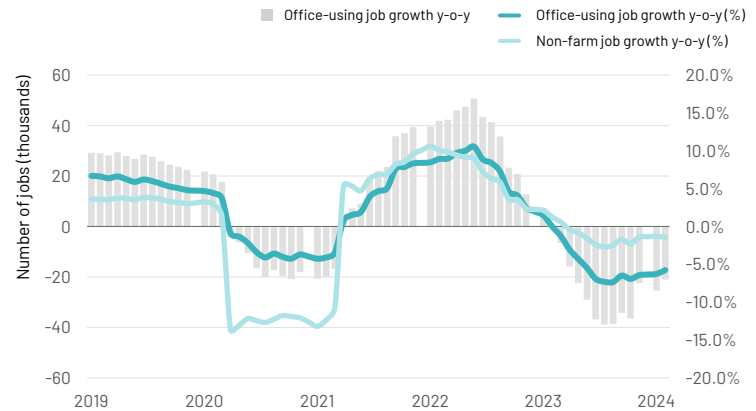
### Outlook

**01** Despite the growth in generative A.I., leasing activity will remain largely expiration-driven as occupiers remain cautious at adding costs amidst negative office-using employment growth

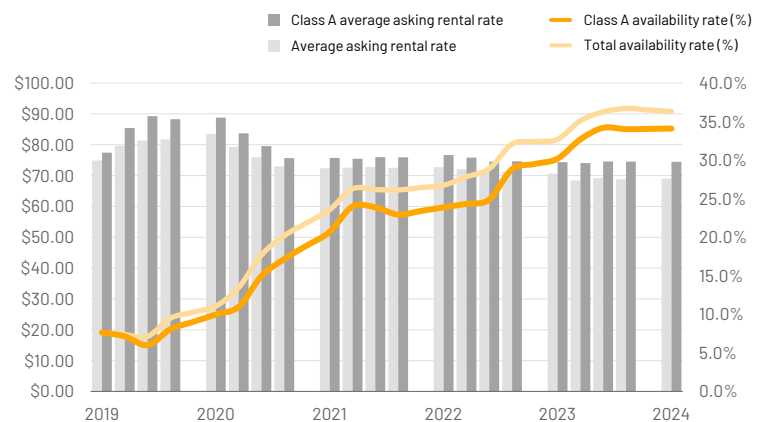
**02** Expect available sublease space to continue to decrease as occupiers seek out already built-out options although overall availability is projected to remain historically high

**03** More distressed office buildings are projected to trade at low valuations this year with private investors ready to pounce as office market valuations are being reset

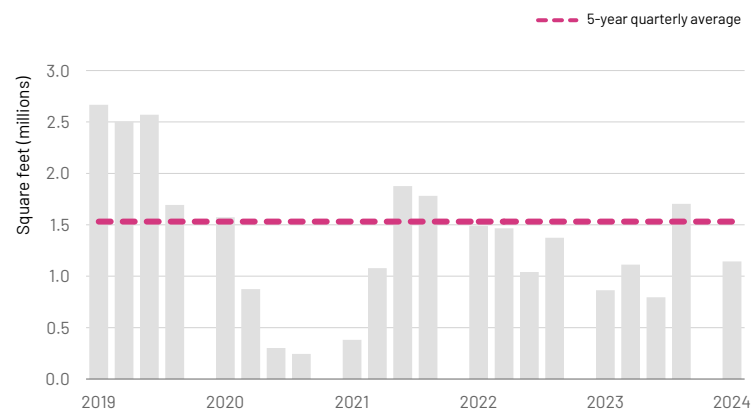
## Office-using Employment Growth



## Asking Rent and Availability



## Leasing Activity



# Top Transactions

\*Trophy Building

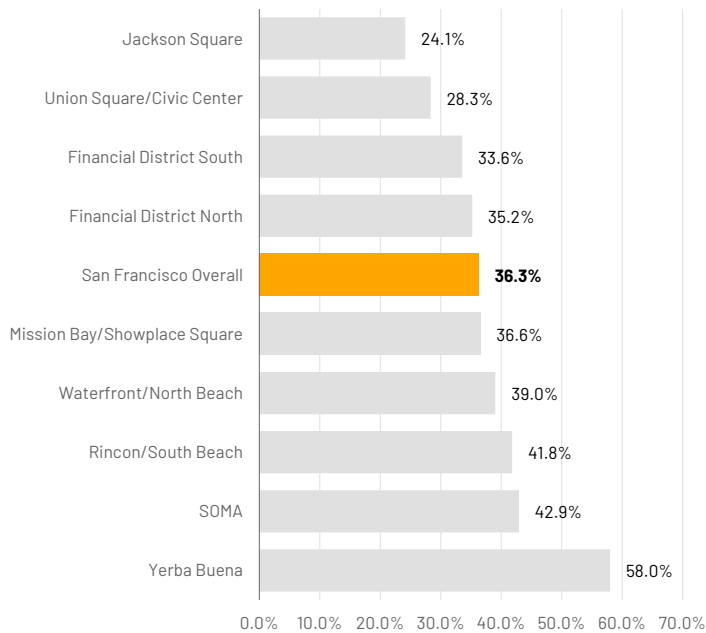
\*\*Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Adyen	TAMI	SOMA	505 Brannan Street	148,146	Relocation**
KPMG	Business, Professional and Consulting Services	Financial District South	55 2 <sup>nd</sup> Street*	142,785	Renewal
Pillsbury Winthrop Shaw Pittman LLP	Legal Services	Financial District North	4 Embarcadero Center*	74,410	Lease Restructure
Goodwin Procter	Legal Services	Financial District South	525 Market Street*	58,992	Relocation
GitHub	TAMI	Rincon/South Beach	275 Brannan Street	57,120	Renewal
Grammarly	TAMI	Financial District North	475 Sansome Street	44,341	Relocation
Felton Institute	Associations and Non-Profit Organizations	Union Square/Civic Center	1170 Market Street	37,102	Relocation
Golden Gate Capital	Financial Services and Insurance	Financial District North	1 Embarcadero Center*	29,961	Renewal
Winston & Strawn LLP	Legal Services	Financial District North	101 California Street*	25,883	Relocation**
Regus	Coworking and Executive Suite Companies	Financial District North	50 California Street*	25,826	Renewal

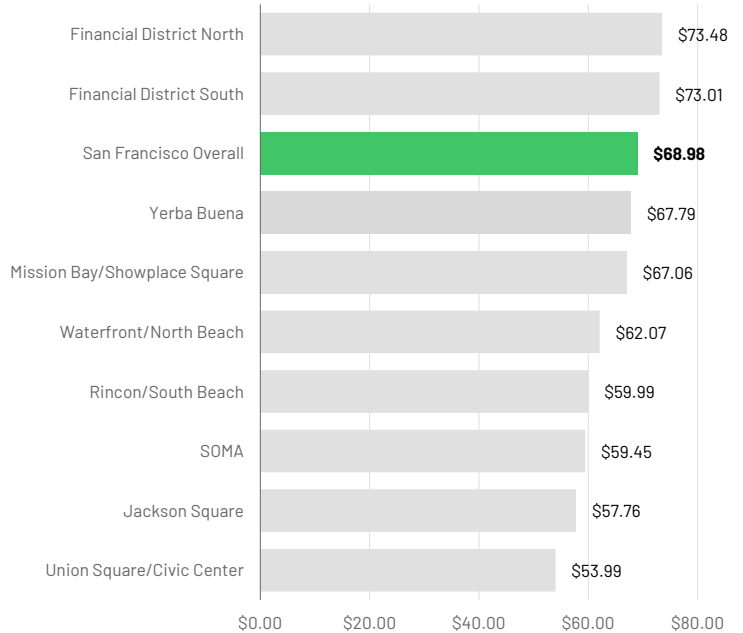
## Availability Rate Comparison (%)

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## Rental Rate Comparison (\$/sf)

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## San Francisco Q1 2024 - Office

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Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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