

San Francisco

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Office availability rates continue their upswing despite new demand from generative A.I.

In the third quarter 2023, the total availability rate in the San Francisco office market increased by another 120 basis points (bps) from 35.1% reported last quarter to 36.3%. Record-high sublease space decreased slightly to 9.4 million square feet (msf), down from 9.8 msf reported last quarter, but up 21% from 7.7 msf reported a year ago. With return to office rates amongst the lowest nationally and occupier concerns about declining quality of life and safety, expect leasing activity to remain lower over the short-term, especially as the technology sector continues to right-size after years of growth.

Total leasing activity remains low in the second half of the year

Leasing activity decreased to approximately 0.8 msf in Q3 2023, down from 1.1 msf reported last quarter. This was also down from 1.0 msf reported a year ago, as well as down from the 5-year quarterly average of 1.5 msf. Despite leasing activity remaining low, demand from generative A.I. startups is a positive development as the top 3 leases signed were generative A.I. startups. In addition, expect more leases which are in the works to be signed between now and year-end providing some positive news in a market with record high office availability.

Expect downward rent pressure to continue over the short-term

The overall average asking rental rate increased over last quarter to \$69.15 per square foot (psf). However, this is still down from \$71.25 psf reported a year ago. The Class A average rental rate of \$74.57 psf is slightly up from \$74.52 psf reported a year ago as landlords at the top end of the market have held their rents while more expensive Class A space continues to be available on the market. Looking to year-end, expect continued downward pressure on average asking and effective rental rates as landlords aggressively preserve occupancy while offering record-high concessions amidst slower leasing activity.

Key Statistics

	Q3 2022	Q3 2023	Y-O-Y
Inventory	86.8 msf	86.8 msf	0.0 msf
Availability Rate	28.9%	36.3%	+740 bps
Asking Rental Rate	\$71.25	\$69.15	-2.9%
Class A Asking Rental Rate	\$74.52	\$74.57	+0.6%
Quarterly Leasing Activity	1.0 msf	0.8 msf	-0.2 msf
Available Sublease Space	7.7 msf	9.4 msf	+1.7 msf

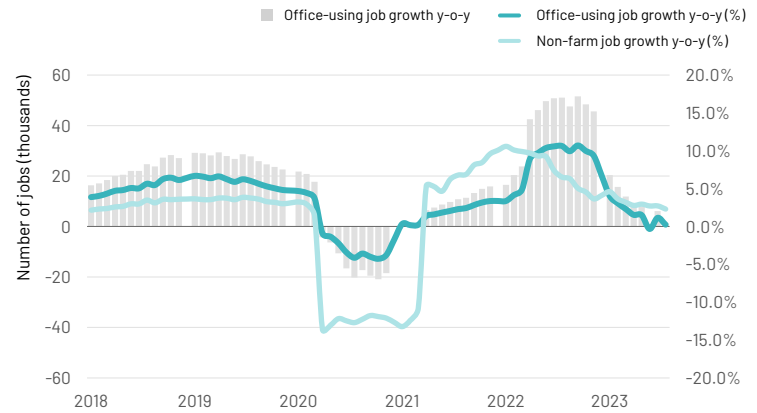
Outlook

01 Overall availability is expected to remain near an all-time high as occupiers continue to be focused on controlling costs amidst a slowing economy

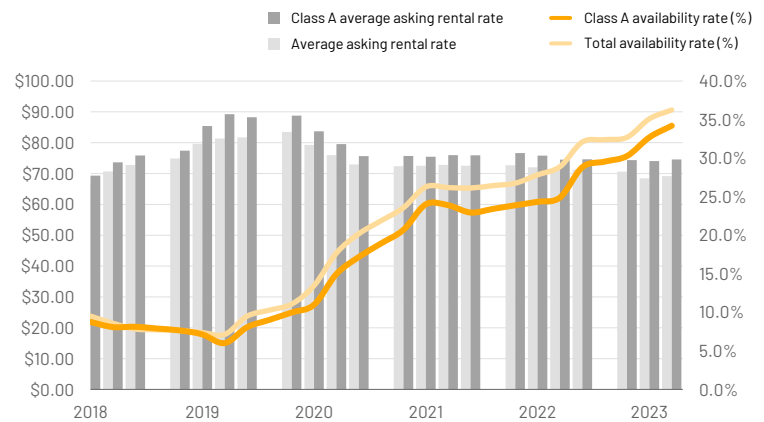
02 Office property distress is expected to increase leading to a decline in asset valuations and lower office rental rates down the road

03 Expect the correction in the technology sector to continue if interest rates increase although verticals such as generative A.I. are a lone bright spot

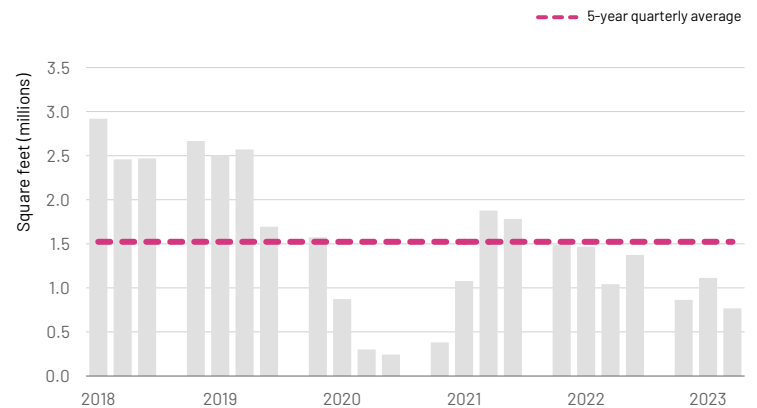
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

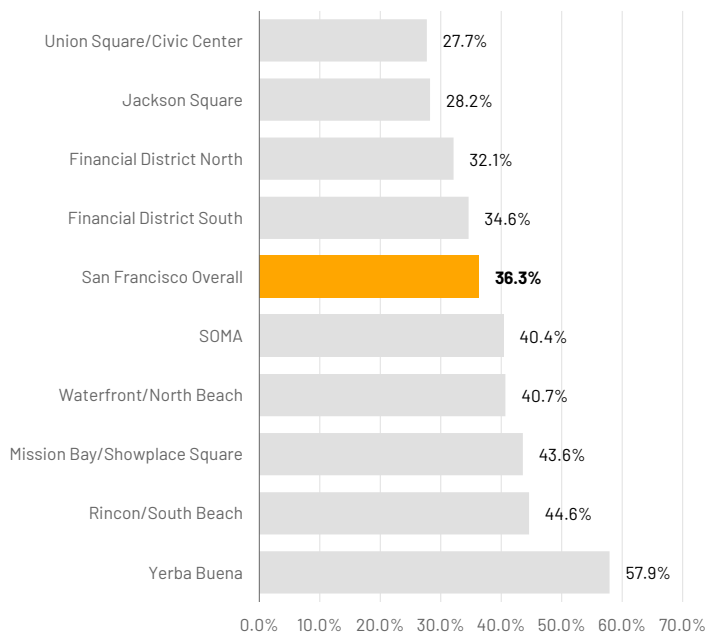
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Hive AI	TAMI	Financial District South	100 First Street	57,117	Relocation**
Hayden AI	TAMI	Rincon/South Beach	460 Bryant Street	41,976	New Location
Adept AI	TAMI	Mission Bay/Showplace Square	350 Rhode Island Street	35,834	New Location**
Yahoo	TAMI	Financial District South	680 Folsom Street	35,385	New Location**
Quantcast	TAMI	Yerba Buena	795 Folsom Street	31,611	Renewal
Kandji	TAMI	Financial District South	100 First Street	23,289	New Location**
DPR Construction	Architecture, Engineering, and Construction	Waterfront/North Beach	55 Francisco Street	22,021	Relocation
Forge Global	Financial Services & Insurance	Financial District North	4 Embarcadero Center	21,795	Relocation**
Berkshire Hathaway Homestate Insurance Companies	Financial Services & Insurance	Financial District South	45 Fremont Street	19,500	New Location**
Collective Health	Healthcare	Financial District South	45 Fremont Street	19,137	New Location**

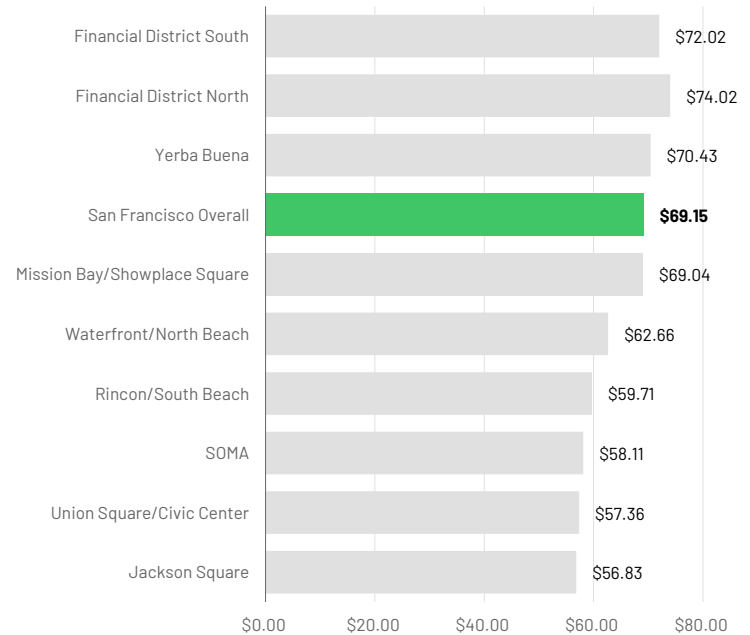
Availability Rate Comparison (%)

SAN FRANCISCO SUBMARKETS



Rental Rate Comparison (\$/sf)

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San Francisco Q3 2023 - 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.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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