

# San Francisco

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## Leasing activity increases amidst generative A.I. demand but availability stays elevated

In Q3 2024, the total availability rate in the San Francisco office market increased 40 basis points (bps) from 36.3% reported last quarter to 36.7%. While there has been cautious optimism in 2024 that the office market might have bottomed out, with A.I. companies sustaining demand, corporate occupiers have continued to consolidate their office space such as X Corp. announcing their intention to vacate both Market Square North and Market Square South this quarter. With office-related employment growth turning negative over the past year, the San Francisco office market still faces significant challenges before it can be seen as being in recovery.

## Leasing activity up to 1.7 million square feet, surpassing 5-year average

Total leasing activity increased to 1.7 million square feet (msf) in Q3 2024, up from 1.6 msf reported in Q2 2024. As a result, leasing activity in Q3 2024 of 1.7 msf is higher than the 5-year quarterly leasing activity of 1.3 msf. The top transactions of the quarter involved OpenAI leasing 315,000 square feet (sf) at 550 Terry A. Francois Boulevard in Mission Bay/Showplace Square, as well as KPMG leasing 96,292 square feet at 505 Howard Street in Financial District South. Available sublease space of 8.1 msf is down from a peak of 9.4 msf reported a year ago as expanding A.I. companies have mostly chosen pre-built spaces with flexible lease terms that current sublease options offer.

## Overall asking rents decline but Class A rents hold strong

The overall average asking rental rate decreased from \$68.56 per square foot (psf) reported last quarter to \$68.22 psf in Q3 2024. The overall Class A average rent of \$75.10 psf has held up, driven by strong demand at the high end of the office market. Finally, it is important to note that San Francisco has seen several distressed trades that have occurred since the beginning of 2023. As a result, expect some of these office buildings to aggressively compete on rental rates, giving cost-conscious tenants further options in a market that continues to pose challenges for current owners.

## Key Statistics

	Q3 2023	Q3 2024	Y-0-Y
Inventory	86.8 msf	88.8 msf	+1.7 msf
Availability Rate	36.3%	36.6%	+30 bps
Asking Rental Rate	\$69.15	\$68.22	-1.3%
Class A Asking Rental Rate	\$74.57	\$75.10	+0.7%
Quarterly Leasing Activity	0.8 msf	1.7 msf	+0.9 msf
Available Sublease Space	9.4 msf	8.1 msf	-1.3 msf

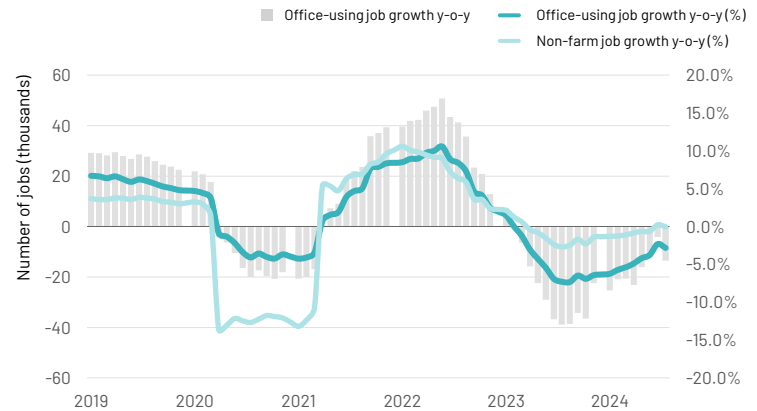
## Outlook

**01** With a significant amount of office space still on the market and no substantial drop in availability, expect landlords to continue to offer massive concessions packages to compete for deals

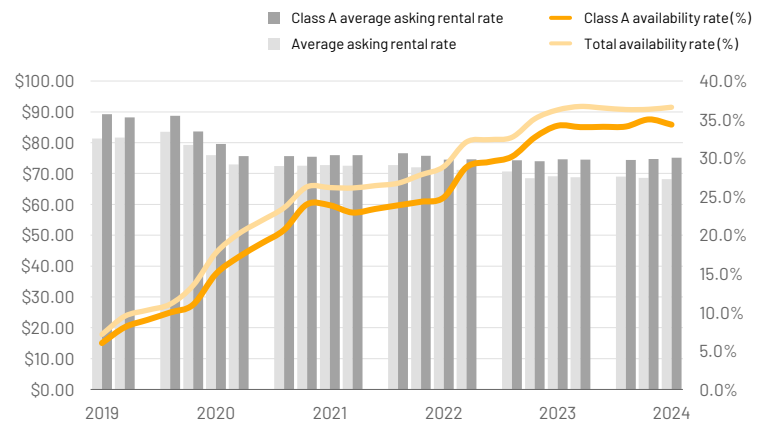
**02** Available sublease space is projected to continue to decrease due to A.I. startup demand but also due to lease terms expiring and sublease space becoming directly vacant

**03** Expect more investors to come off the sidelines as office building valuations have now appeared to have bottomed now that the Federal Reserve has cut interest rates

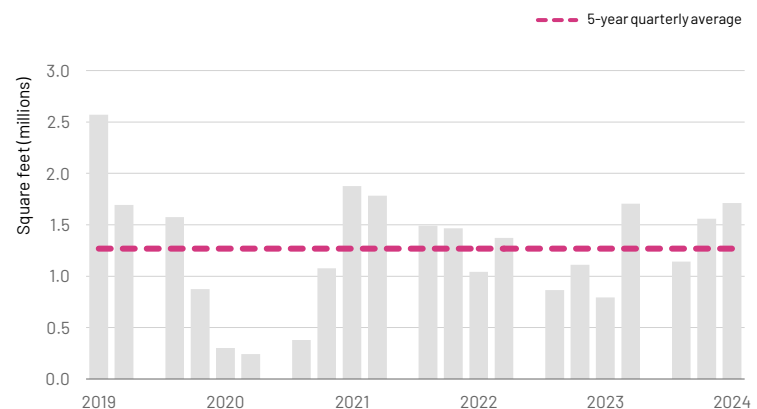
## Office-using Employment Growth



## Asking Rent and Availability



## Leasing Activity



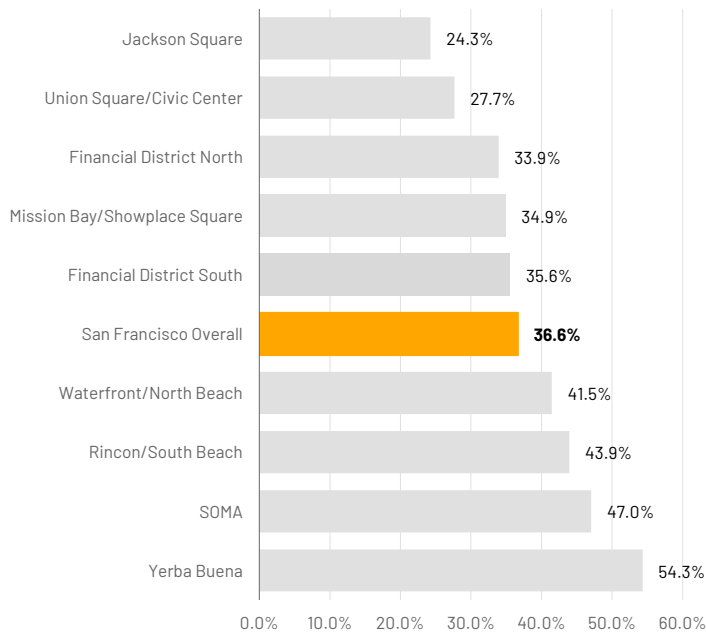
# Top Transactions

\*Trophy Building \*\*Sublease Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
OpenAI	TAMI	Mission Bay/Showplace Square	550 Terry A. Francois Boulevard	315,000	New Location
KPMG	Business, Professional and Consulting Services	Financial District South	505 Howard Street	96,292	Relocation
Udemy	TAMI	Rincon/South Beach	600 Harrison Street	59,207	Renewal
Cisco	TAMI	Mission Bay/Showplace Square	500 Terry A. Francois Boulevard	54,502	Expansion
Strava	TAMI	Financial District South	181 Fremont Street	49,062	New Location**
Delta Dental	Financial Services and Insurance	Financial District South	560 Mission Street	45,132	Renewal
Sierra	TAMI	Financial District South	235 2 <sup>nd</sup> Street	41,104	Relocation
Airtable	TAMI	Financial District North	One Front Street	37,014	New Location
LEK Consulting	Business, Professional and Consulting Services	Financial District South	45 Fremont Street	30,000	Renewal and Expansion
Volley	TAMI	Union Square/Civic Center	760 Market Street	24,723	New Location**

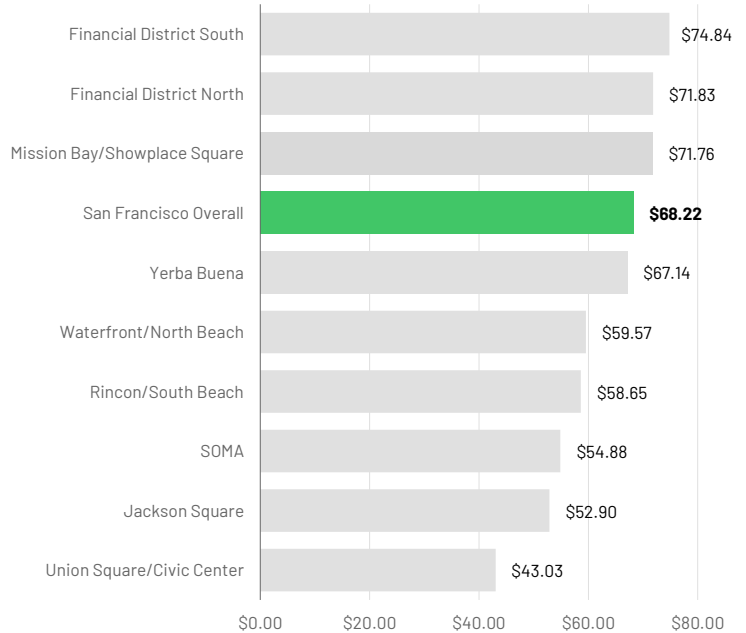
## Availability Rate Comparison (%)

SAN FRANCISCO SUBMARKETS



## Rental Rate Comparison (\$/sf)

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## San Francisco Q3 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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