MARKET IN MINUTES
Savills Research

Q3 2022 - Office

San Francisco

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Despite strong employment growth, office market remains weak as workers continue to work remotely

In the third quarter 2022, leasing activity in the San Francisco office market was 1.0 million square feet (msf), a decline of 29% from just under 1.5 msf reported last quarter. However, it should be noted that Google's 295,330 sf sublease from Stripe at 510 Townsend Street in SOMA comprised over 28% of all leasing activity in the market indicating that the overall leasing slowdown seen at mid-year has persisted into the second half of the year. As mentioned previously, the pullback in leasing in the technology sector this year has added another headwind to any office market recovery which has struggled as many office workers have continued to work remotely. As a result, expect record high office availability to continue to increase through the end of the year and into 2023.

Total availability rate increases to another all-time high of 28.9%

The total availability rate in San Francisco increased by another 110 basis points (bps) from 27.8% reported last quarter to yet another all-time high of 28.9% in the third quarter. Since bottoming at just 7.1% in the third quarter 2019, the COVID-19 global pandemic and Work From Home has seen a quadrupling in office availability as many occupiers have decided to move towards a remote-first policy or put their existing spaces on the market for sublease. Available sublease space in turn has increased yet again to 7.7 msf, up from 7.3 msf reported last quarter but down from 8.1 msf reported a year ago. The overall average asking rent decreased from $72.04 per square foot (psf) reported last quarter to $71.25 psf reported this quarter. The Class A average asking rent also decreased from $75.79 psf to $74.52 psf. Expect continued downward pressure on average asking and effective rental rates as landlords aggressively fight for occupancy amidst sluggish demand.

Technology sector correction continues to have adverse effect

As mentioned above, San Francisco's economy has reopened leading to strong year over year office-using employment growth and an unemployment rate that is now just 2.3%. However, these favorable headline numbers mask the fact that many occupiers have had a difficult time getting their employees back into the office, especially technology sector workers who relocated during the pandemic and are now working remotely. With San Francisco having the lowest weekly office occupancy rate of the 10 markets Kastle Systems tracks at just 39.2% reported in mid-September, it appears that any post-Labor Day increase in office occupancy could be temporary for now. As a result, expect highly tenant-favorable office market conditions to remain for the foreseeable future as record-high availability levels are forecasted to continue to increase.

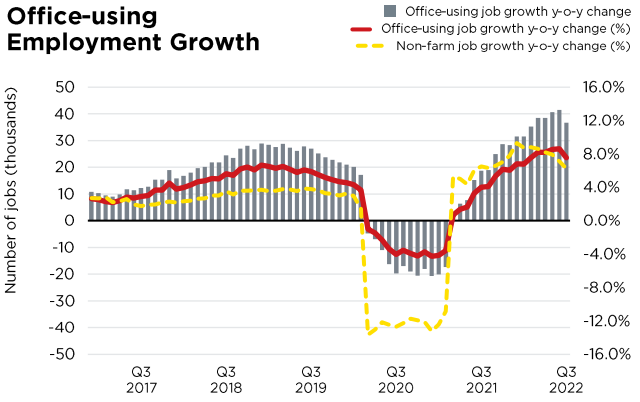
Outlook

- The correction in the technology sector has disproportionately impacted the overall market as most large firms have been cutting costs and many startups have been ordered by their investors to slow their burn rates
- Expect concessions to remain high as landlords continue to aggressively chase occupancy amidst sluggish demand
- With economic uncertainty returning, expect availability levels to increase from their already-record high as the global economy is expect to slow

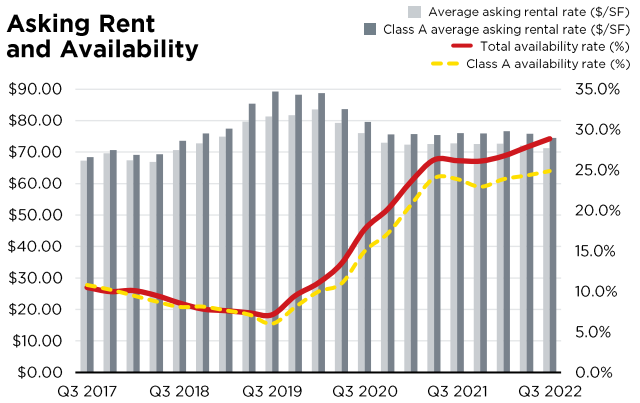
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	83.3 MSF	85.5 MSF	▲
Availability Rate	26.2%	28.9%	▲
Asking Rental Rate	$72.79	$71.25	▼
Class A Asking Rental Rate	$75.98	$74.52	▼
Quarterly Leasing Activity	1.9 MSF	1.0 MSF	▼
Available Sublease Space	8.1 MSF	7.7 MSF	▼

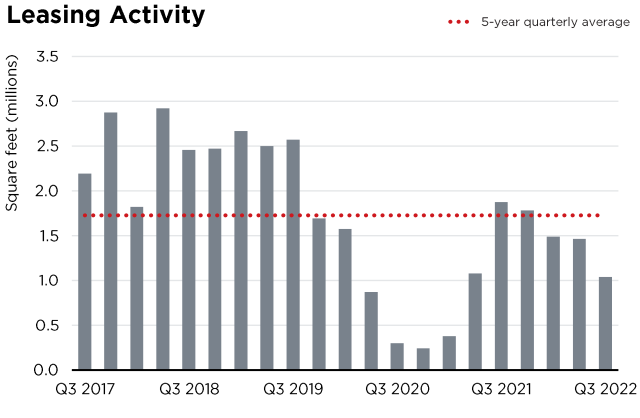
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

2.3%
San Francisco unemployment rate (as of August 2022)

7.6%
Office-using employment growth year over year (as of August 2022)

0.6 msf
Office space currently under construction

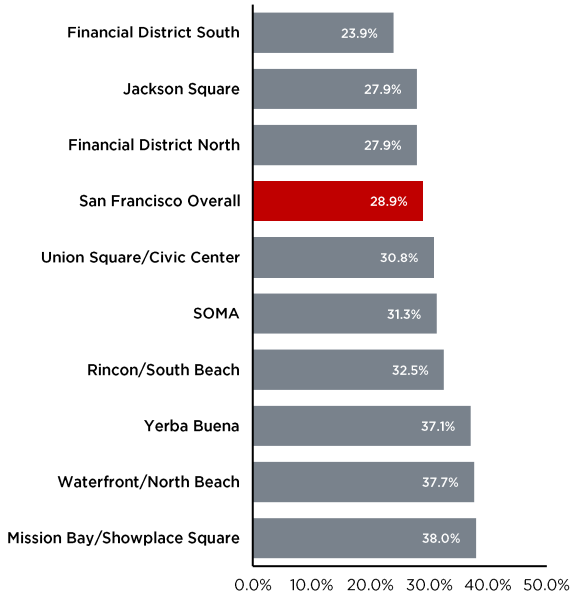
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Google*	295,330	510 Townsend Street	New Location	SOMA	TAMI
Asana*	70,770	680 Folsom Street	New Location	Financial District South	TAMI
Matthews International Capital Management	21,382	4 Embarcadero Center	Renewal	Financial District North	Financial Services & Insurance
Audacy	20,597	88 Kearny Street	Relocation	Financial District North	TAMI
Castlight Health*	19,418	50 California Street	Relocation	Financial District North	Healthcare
Included Health	17,250	1 California Street	Renewal	Financial District North	Healthcare
Anyroad*	15,823	505 Howard Street	Relocation	Financial District South	TAMI
ATEL Capital Group	14,996	505 Montgomery Street	Relocation	Financial District North	Financial Services & Insurance
Harness	12,045	55 Stockton Street	Relocation	Union Square/Civic Center	TAMI
NextRoll*	10,406	201 California Street	Relocation	Financial District North	TAMI

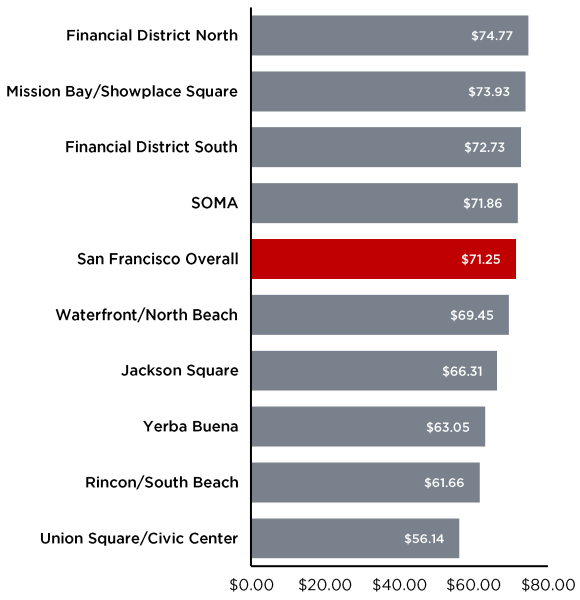
*Sublease

Source: Savills Research

Availability Rate Comparison (%)
San Francisco Submarkets



Rental Rate Comparison ($/SF)
San Francisco Submarkets



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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