

Nearly one-third of all office space is now available for lease as tech sector slowdown persists

In the fourth quarter 2022, the total availability rate in the San Francisco office market increased another 320 basis points (bps) from 28.9% reported last quarter to a new all-time high of 32.1% at year-end. Since bottoming at just 7.1% in the third quarter 2019, availability levels have surged as most occupiers have been slow to return to the office amidst widespread utilization of hybrid workplace strategies where employees have the flexibility to continue to work remotely. In addition, available sublease space has increased yet again to 8.2 million square feet (msf), up from 7.7 msf reported last quarter, as well as up from 8.1 msf reported a year ago. With office space demand remaining lower than pre-pandemic levels, expect office availability to continue to increase in 2023 as the slowdown in the technology sector persists.

Total leasing activity in 2022 down 43% from pre-pandemic

Leasing activity in the fourth quarter was 1.4 msf, up 32% from just 1.0 msf reported in the previous quarter but down 23% from 1.9 msf reported a year ago. Full year 2022 total leasing activity of 5.4 msf was down 7% from 5.8 msf reported in 2021 but down 43% from 9.4 msf reported in 2019 before the COVID-19 pandemic. The largest lease of the quarter was Levi Strauss & Company renewing at their headquarters at 1155 Battery Street which has been expected for over a year now. The overall average asking rental rate decreased from \$71.25 per square foot (psf) reported last quarter to \$71.23 psf reported this quarter. However, the Class A average asking rental rate actually increased slightly from \$74.52 psf to \$74.59 psf as even more highly priced space became available for lease this quarter. Nevertheless, expect continued downward pressure on average asking and effective rental rates as landlords aggressively fight for occupancy amidst sluggish demand.

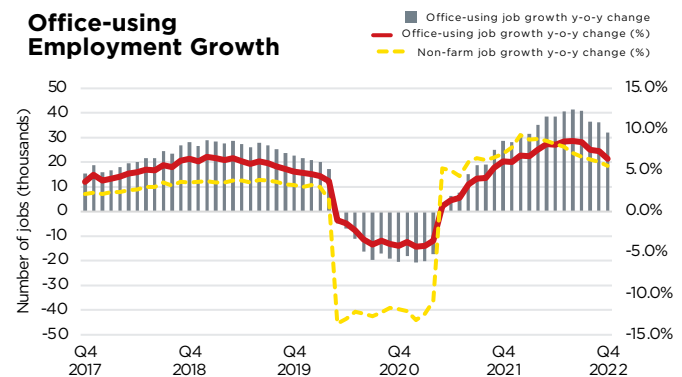
Office market continues to reset as recovery not yet on horizon

With strong year-over-year office-using employment growth, a tight labor market, and an unemployment rate that is now amongst the lowest in the country, the San Francisco office market should be in recovery. However, persistent uncertainty over the economy, the widespread adoption of the hybrid workplace, slow return to office utilization, and an ongoing correction in the technology sector has shown that lower office space demand might be the new normal going into 2023. 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 even if local employers attempt to get their employees back into the office next year.

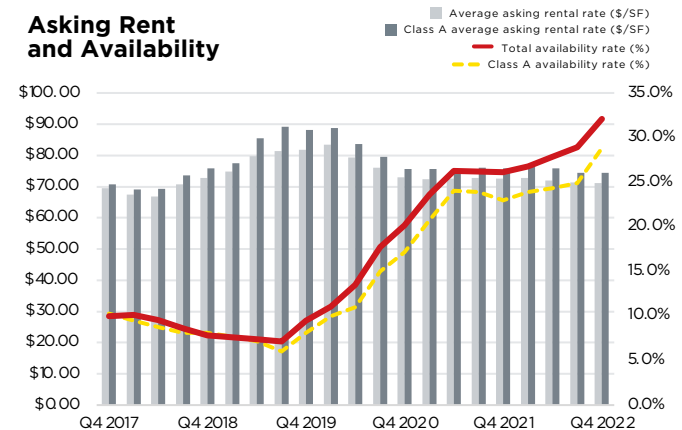
Key Statistics

	Q4 2021	Q4 2022	y-o-y Change
Inventory	83.9 MSF	85.5 MSF	▲
Availability Rate	26.1%	32.1%	▲
Asking Rental Rate	\$72.54	\$71.23	▼
Class A Asking Rental Rate	\$75.92	\$74.59	▼
Quarterly Leasing Activity	1.8 MSF	1.4 MSF	▼
Available Sublease Space	8.1 MSF	8.2 MSF	▲

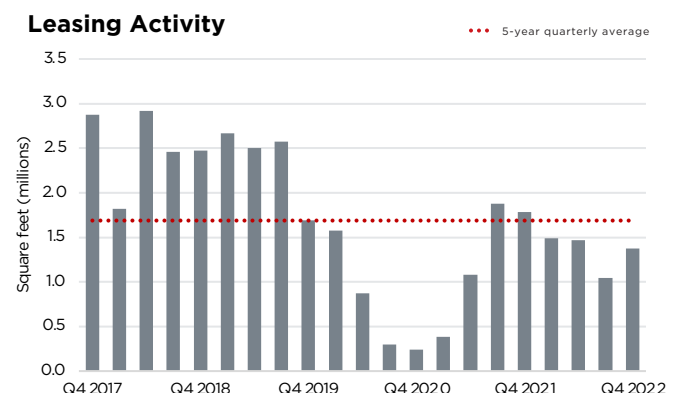
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Outlook

- Expect the technology sector correction to keep office space demand low as both large conglomerates and private startups are now in cost-cutting mode
- Landlord concessions are forecasted to remain high as landlords continue to aggressively chase occupancy amidst the overall tenant flight to quality
- Office property distress will become more of an issue next year as owners with short-term maturing loans are now facing a much higher cost of capital combined with current sluggish space demand

By the Numbers

2.2%

San Francisco unemployment rate (as of November 2022)

6.5%

Office-using employment growth year over year (as of November 2022)

0.4 msf

Office space currently under construction

Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Levi Strauss & Company	354,614	1155 Battery Street	Renewal	Waterfront/North Beach	Retail
Sigma Computing	82,597	116-118 New Montgomery Street	Renewal & Expansion	Financial District South	TAMI
Goodby, Silverstein & Partners	81,065	720 California Street	Renewal	Union Square/Civic Center	TAMI
Databricks	75,000	160 Spear Street	Renewal & Expansion	Financial District South	TAMI
Federal Communications Commission	47,800	44 Montgomery Street	New Location	Financial District North	Government
Gensler	45,544	220 Montgomery Street	New Location	Financial District North	Architecture
NBC Sports Bay Area	39,915	360 3 rd Street	Renewal	Yerba Buena	TAMI
Sideman & Bancroft LLP	25,919	One Embarcadero Center	Early Restructure/Renewal	Financial District North	Legal Services
Persona Computing*	25,672	353 Sacramento Street	New Location	Financial District North	TAMI
Parnassus Investments	25,498	1 Market Street	Renewal & Expansion	Financial District South	Financial Services

*Sublease

Source: Savills Research

For more information, please contact us:

Savills
150 California Street
14th Floor
San Francisco, CA 94111
+1 415 421 5900

David Bergeron
Executive Vice President
Bay Area Lead
dbergeron@savills.us

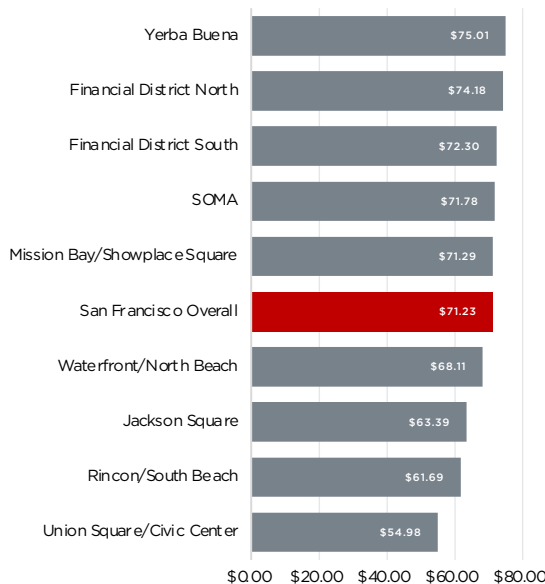
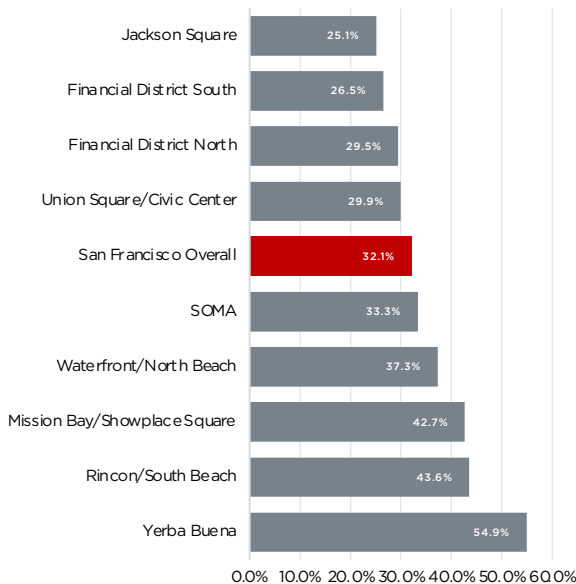
Steve Barker
Vice Chair, Branch Manager
sbarker@savills.us

Availability Rate Comparison (%)

San Francisco Submarkets

Rental Rate Comparison (\$/SF)

San Francisco Submarkets



Michael Soto
Senior Director, Head of Office Research
+1 213 553 3833
msoto@savills.us

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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.