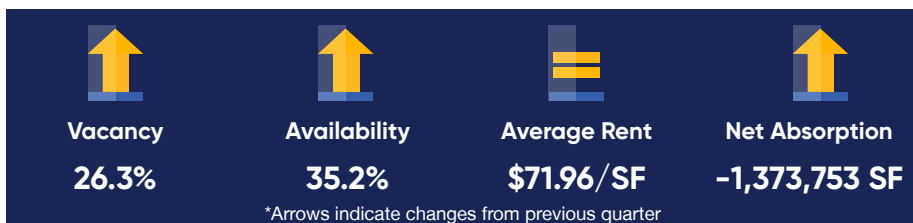


Occupier's Guide - Office

Falling asking rates and rising vacancy rates are a result of continued softening tenant demand for office space. The total vacancy rate jumped from 24.5% to 26.3% quarter-over-quarter, largely due to landlords having more space available for lease. Average asking rates dropped slightly from last quarter, sliding from \$72.09/SF to \$71.96/SF.

On a positive note, more tenants are on the lookout for space, up quarter-over-quarter from 4.4M SF to 4.7M SF. This growth was fueled by tenants looking for space in the 20-40K SF range, expanding from 929K SF to 1.2M SF quarter-over-quarter. Tech companies and legal firms signed most of the leases in this size range, with 465K SF and 325K SF respectively.



Direct Asking Rent (\$/SF)	Sublease Asking Rent (\$/SF)	Total Vacancy Rate		QoQ Change
\$79.62	\$60.28	No. Financial Class A	24.1%	0.0%
\$63.16	\$42.61	No. Financial Class B	39.0%	4.7%
\$77.05	\$53.79	So. Financial Class A	22.9%	4.2%
\$70.74	\$52.07	So. Financial Class B	24.7%	-1.9%
\$78.77	\$49.48	SOMA Class A	17.9%	-1.4%
\$62.96	\$53.07	SOMA Class B	40.1%	11.4%

Recent Transactions

	Tenant	Size	Submarket	Type	Sector
1	Autodesk	92,890	North Financial District	Renewal	Technology
2	Stifel	68,446	North Financial District	Renewal	Financial
3	SC Johnson & Son	66,436	South Financial District	Renewal	Consumer Products
4	Willkie Farr & Gallagher	44,049	North Financial District	Sublease	Legal
5	Business Wire	25,890	North Financial District	Renewal	Professional Services

Occupier's Perspective

Net absorption dropped to negative 1.4 million SF with 816K SF of negative direct absorption and 558K SF of negative sublease absorption. The largest contributors to sublease availability were Uber (250K SF) in Mission Bay, and Visa (162K SF) in the South FiDi. While Uber is downsizing its space needs, Visa is relocating to its new 300K SF office at Mission Rock in 2024.

There are 1.2 million SF of CMBS-financed office buildings that are currently delinquent and under a special servicer giving tenants great bargaining power. However, operational issues may arise if a lender takes over a property since rents often go towards recouping the debt versus operating the property.

High vacancy rates caused a sharp drop in commercial real estate valuations. Union Bank of California is under contract to sell 350 California for \$60-\$67.5 million (\$200-\$225/SF) which is 75% less than its 2020 asking price. Similarly, Wells Fargo is slated to sell 550 California for \$42.6-\$46 million (\$120-\$130/SF), a reduction of 71% from April 2022. Clarion Partners is selling 60 Spear for \$55 million (\$349/SF), almost half of the \$110 million acquisition price in 2014 (\$680/SF).

Market Trends

CBD Class A direct asking rates (\$78.17/SF) command a 21.7% premium over CBD Class B direct asking rates.

Landlords are offering plenty of lease concessions for tenants that sign a lease term of 60 months or longer. In 2Q 2023, tenants in the CBD secured net effective rents 24.2% lower than the starting rental rate of their lease due to large amounts of free rent and tenant improvement allowances.

San Francisco's largest business tax is the gross receipts tax (GRT), generating \$800 million per year based on city disclosures. Recent decisions by the Board of Supervisors Budget and Appropriations Committee delayed certain increases to the GRT until 2025.

Office Submarket Statistics

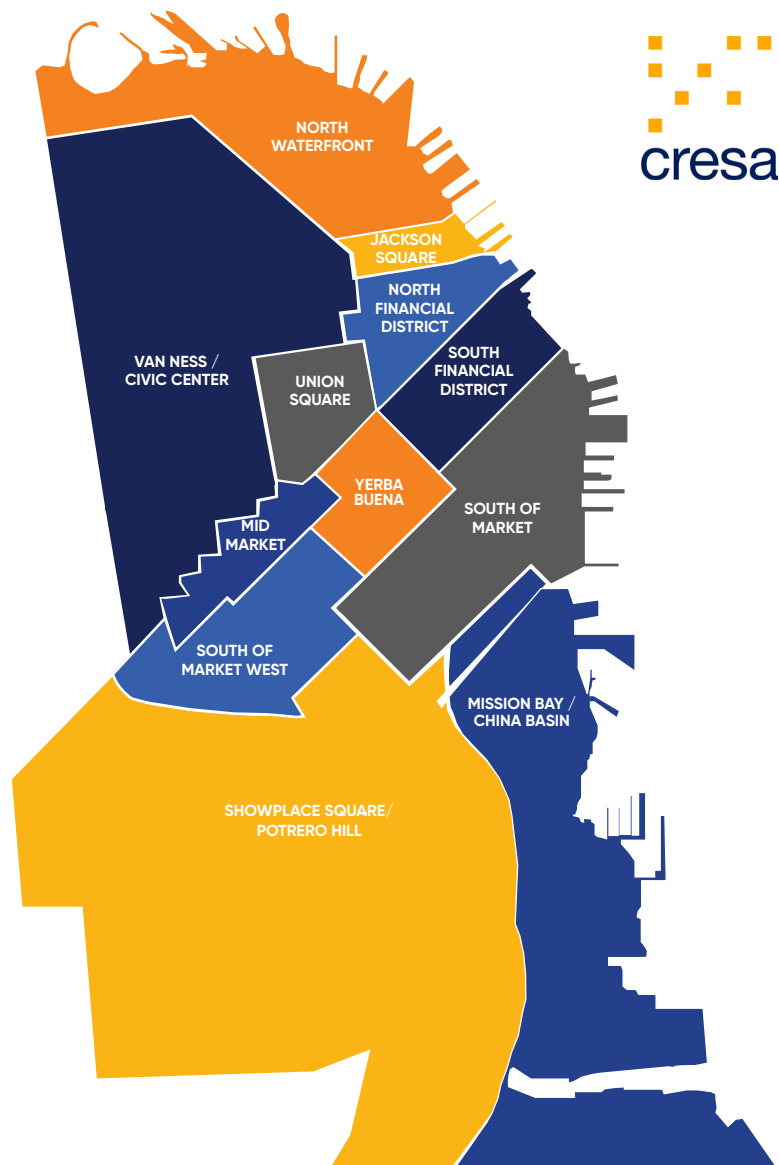
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Submarket	Inventory	Overall Rent	Direct Vacancy	Sublease Vacancy	Total Vacancy	Total Availability	Total Net Absorption
North Financial District	29,205,254	\$75.34	22.8%	4.1%	26.9%	32.0%	(427,749)
South Financial District	27,343,085	\$76.05	17.3%	5.8%	23.1%	34.6%	(562,689)
North Waterfront	3,392,292	\$68.97	23.9%	3.7%	27.6%	40.9%	22,175
Jackson Square	2,004,953	\$63.62	22.0%	3.5%	25.5%	29.7%	38,000
Mid Market	5,044,039	\$65.74	15.5%	13.1%	28.6%	45.3%	(38,407)
Yerba Buena	3,761,708	\$71.98	39.7%	8.0%	47.7%	55.0%	(34,503)
Union Square	3,531,803	\$58.04	21.0%	4.2%	25.2%	29.3%	(17,078)
Lower SOMA	7,650,800	\$66.98	18.7%	8.3%	27.0%	37.5%	(133,845)
Western SOMA	1,231,116	\$40.31	13.2%	3.8%	17.0%	25.6%	(8,594)
Mission Bay / China Basin	3,278,990	\$82.80	4.8%	22.6%	27.5%	37.5%	(251,335)
Showplace Square / Potrero Hill	5,158,068	\$66.39	14.0%	12.4%	26.5%	36.2%	28,618
Van Ness / Civic Center	2,141,940	\$41.75	16.8%	0.1%	17.0%	23.5%	11,654
Total	93,744,048	\$71.96	19.7%	6.6%	26.3%	35.2%	(1,373,753)