

Sublease State of the Market

Quick Facts

# of Subleases	257 ▲
Total Sqft	10,499,752 ▲
Largest Sublandlord	Salesforce
Average Days on Market	599 ▲
Average Remaining Term	36.8 Months ▼
Current Sublease Rate	\$56.28 ◀▶

Key Takeaways

More tenants are active in the market and they are looking for larger spaces.

The number of sublease transactions dropped quarter-over-quarter, but the average rentable square footage increased to 10,256 SF, up from 7,606 SF. No subleases over 50,000 SF have been signed this year.

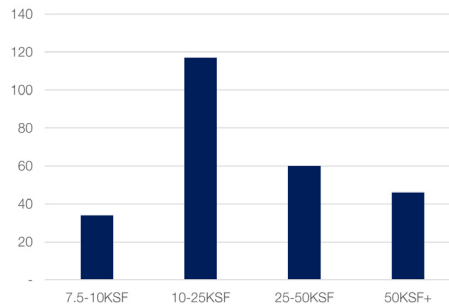
Four new Class A sublease listings, each over 100K SF, added 665K SF to the sublease availability.

The total availability rate increased 120 bps from last quarter to 35.2% due to 1.3 million SF of direct space and 1.2 million SF of sublease space added this quarter.

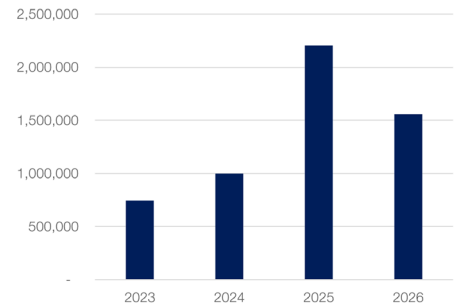
Recent / Notable Subleases

Willkie Farr & Gallagher	44,049
Squire Patton Boggs	25,377
Kandji	23,289
Parallel Advisors	15,560
Verana Health	15,446

of Spaces on Market



Active Subleases RSF Expiring by Year



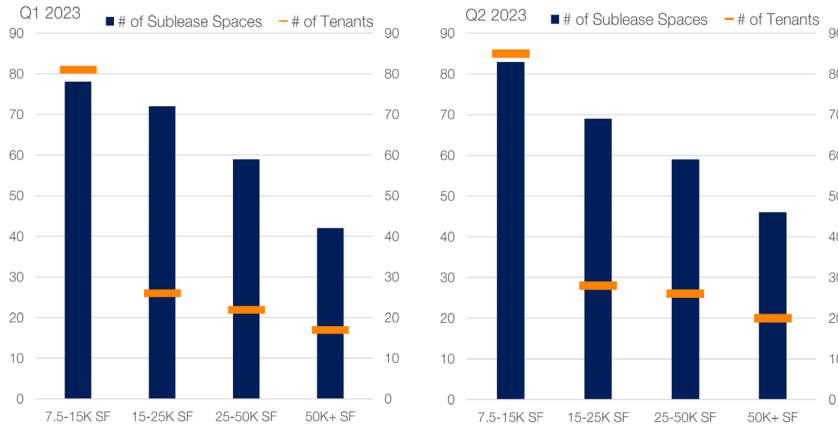
Note: 2023 excludes expired sublease listings from H1 2023

Submarket Stats

Submarket	Inventory	Sublease Asking Rent	Total Available %	Sublease Available %	Sublease Net Absorption
North Financial District	29,205,254	\$55.69	32.0%	5.8%	(128,000)
South Financial District	27,343,085	\$58.53	34.6%	12.4%	(211,384)
North Waterfront	3,392,292	\$53.12	40.9%	10.3%	17,160
Jackson Square	2,004,953	\$62.86	29.7%	5.8%	1,264
Mid Market	5,044,039	\$43.25	45.3%	23.6%	12,000
Yerba Buena	3,761,708	\$49.78	55.0%	12.3%	(10,216)
Union Square	3,531,803	\$38.24	29.3%	5.3%	(18,923)
SoMa	7,650,800	\$51.16	37.5%	14.1%	26,222
Western SoMa	1,231,116	\$48.36	25.6%	10.9%	2,500
Mission Bay / China Basin	3,278,990	\$73.97	37.5%	29.1%	(249,753)
Potrero Hill / Showplace Square	5,158,068	\$56.94	36.2%	18.4%	1,139
Civic Center / Van Ness	2,141,940	N/A	23.5%	0.1%	0
Total	93,744,048	\$56.28	35.2%	11.2%	(557,991)

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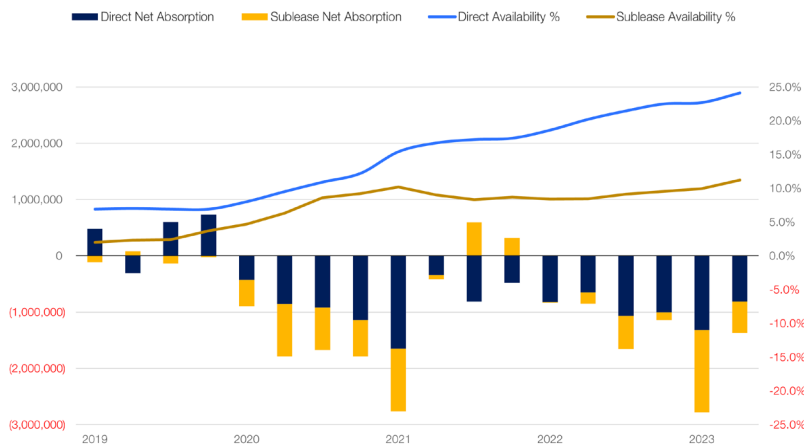
Supply vs Active Tenants



Tenants are actively looking for 4.4 million SF this quarter, up from 4.1 million SF last quarter. Most of the new activity is companies looking for space 25K SF and above. AI companies are currently in the market for 813K SF. Tenant activity is focused on the CBD with 65.8% of all active tenants looking this area.

The number of active sublease listings grew by 8.9% quarter-over-quarter. The composition of these spaces changed slightly where the number of sublease spaces in the 15-25K SF range shrank by 4.2% and the number of sublease spaces 50K+ SF range grew by 9.5%.

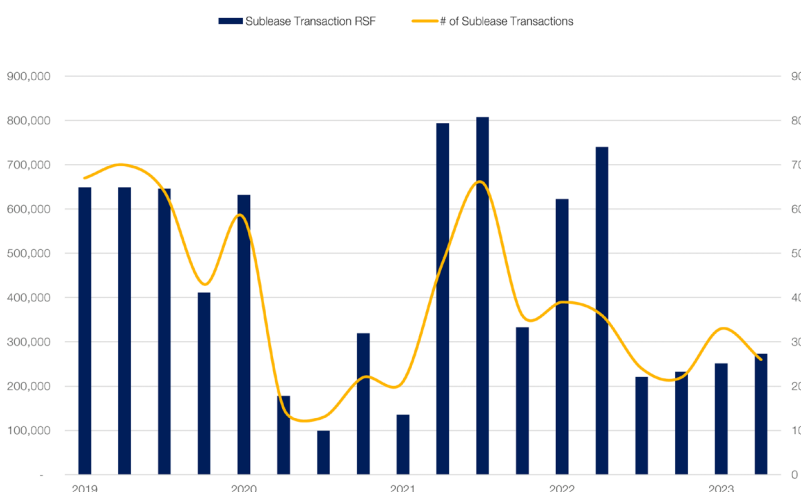
Sublease vacancy is highest in these submarkets: Mission Bay/China Basin (22.6%), Mid-Market (13.1%), and Showplace Square/Potrero (12.4%). Whereas the North Financial and South Financial submarkets have sublease vacancy rates of 4.1% and 5.8% respectively.



Net Absorption

Total Net absorption remains negative for the 14th consecutive quarter. 1.4 million SF of negative net absorption this quarter is due to negative 816K SF of direct absorption and negative 558K SF of sublease absorption.

1.8 million SF of active subleases are expiring between Q3 2023 and the end of Q4 2024. These listings have a low chance of subleasing before expiring and therefore likely they will be available direct from the landlord.

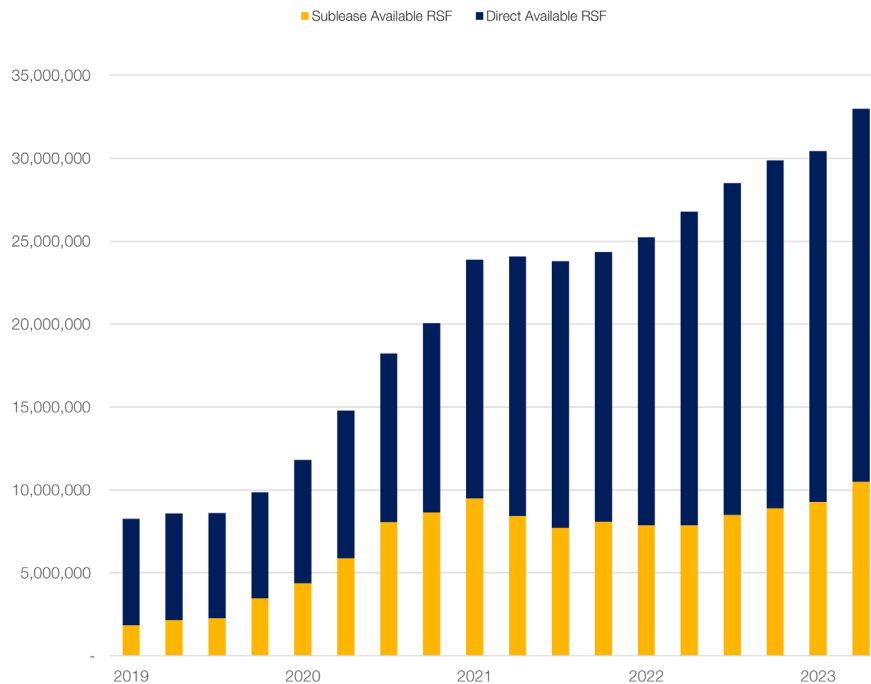


Demand

Sublease transaction volume was down by 21.2% quarter over quarter. The average rentable area of each sublease transaction grew to 10,256 SF. The median size of each sublease transaction also grew during this period, increasing from 4,949 SF to 6,167 SF.

The average sublease asking rate in the CBD is \$58.99, representing a 22.1% discount compared to the direct asking rate of \$75.68 in the CBD. Citywide sublease asking rates are \$56.28, which is a 21.8% discount compared to the citywide direct asking rate of \$71.96.

Sublease State of the Market



Availabilities

The total availability rate ticked upwards primarily due to four new sublease listings over 100K SF. The largest new sublease listings are: Uber (286K SF), Visa (162K SF), Wells Fargo (113K SF), and Salesforce (125K SF) which contributed 665K SF of the 873K SF sublease space added this quarter.

Sublease availability levels represents nearly one-third (32.5%) of total availability in the market.

42 buildings totaling 7.1M SF have more than 50% of the rentable building area available for sublease.

Notable properties with 100% of the office space available for sublease include 181 Fremont St (Meta offering 435K SF) and 1725 Third St (Uber offering 287K SF).

2023 Projections

- 1 Sublease listings outside of the CBD will linger on the market as demand and subleasing activity is heavily concentrated within the CBD. Since the beginning of 2023, 69% of sublease transactions occurred in the CBD.
- 2 Class A office space can be subleased at a citywide average discount of 21.8% compared to a direct lease presenting good opportunities for tenants to occupy with lower upfront costs.
- 3 Larger discounts and more concessions can be negotiated for subleases with less than two years of term remaining. Within the CBD, Class A sublease listings with two years of term remaining or less have a median asking rate of 23.7% less than Class A sublease listings with more than two years of term remaining.

Methodology: The information in this report is focused on office properties located in the San Francisco CBD. The report evaluates all Class A & B office properties 7,500 square feet and above, excluding owner-occupied buildings. All sublease spaces evaluated were also 7,500 square feet and above. Source data comes from CoStar along with a variety of other resources. All analytics were done by the Cresa Research Department in the San Francisco office.

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