

MARKET TRENDS

SAN FRANCISCO OFFICE

MARKET DRIVERS

THE SAN FRANCISCO OFFICE MARKET is reporting its seventh consecutive quarter of negative net absorption, with roughly negative 2.85 million SF year-to-date. At this rate, the city is on track for similar—if not more—negative net absorption than was reported in 2022 (4.9 million SF). Total office vacancy continues to climb and currently sits at 26.8%. Many firms continue to reassess their office needs, which can be seen in the uptick of 80 basis points (bps) quarter-over-quarter to 5.8% in sublease vacancy. Year-over-year sublease vacancies increased by 140 bps.

DESPITE THE YEAR'S NEGATIVE NET ABSORPTION, leasing activity totaled 952,366 SF resulting in a year-to-date total of 2.2 million SF of activity. Roughly 60% of this quarter's leasing activity was in Class A offices spaces, clearly demonstrating the ongoing "flight to quality" trend. Throughout the market, average rental rates continue to decline albeit at a slower rate as prices hold relatively steady. There is an extreme bifurcation in pricing. Class B and C buildings have been hit the hardest, reporting average asking rates of \$48.97/sf full service and \$36.11/sf full service, respectively. Class A office properties are faring much better with an average lease rate of \$61.01/sf full service. Premier Class A offices with desirable amenities and views remain competitive and have asking rates well over \$80/sf full service, with the very best buildings commanding, and getting, north of \$100/sf full service.

ECONOMIC REVIEW

THE UNEMPLOYMENT RATE throughout San Francisco dipped to 2.7% in April, 30 bps lower than the previous month. Despite the widespread tech layoffs earlier this year, year-over-year unemployment has only risen by 30 bps, indicating a stable labor market.

continued on page 3

Market Summary

	2Q23	1Q23	2Q22	Annual Change
New Construction	126,782	0	653,900	-80.6%
Under Construction	1,319,065	1,445,847	843,684	56.3%
Direct Vacancy Rate	21.0%	20.1%	16.5%	27.3%
Sublease Vacancy Rate	5.8%	5.0%	4.4%	31.8%
Overall Vacancy Rate	26.8%	25.1%	20.9%	28.2%
FIDI Direct Lease Rate (A&B)	\$57.49	\$60.18	\$63.10	-8.9%
Leased SF	952,366	1,283,561	2,392,435	-60.2%
Sold SF	50,718	431,640	434,087	-88.3%
Total Net Absorption	(1,611,554)	(1,238,795)	(972,999)	N/A

952K SF
LEASING ACTIVITY

-1.6M SF
NET ABSORPTION

26.8%
VACANCY RATE

\$57.49
ASKING RENT (AVG)

127K SF
NEW DELIVERIES

Year-Over-Year Trend

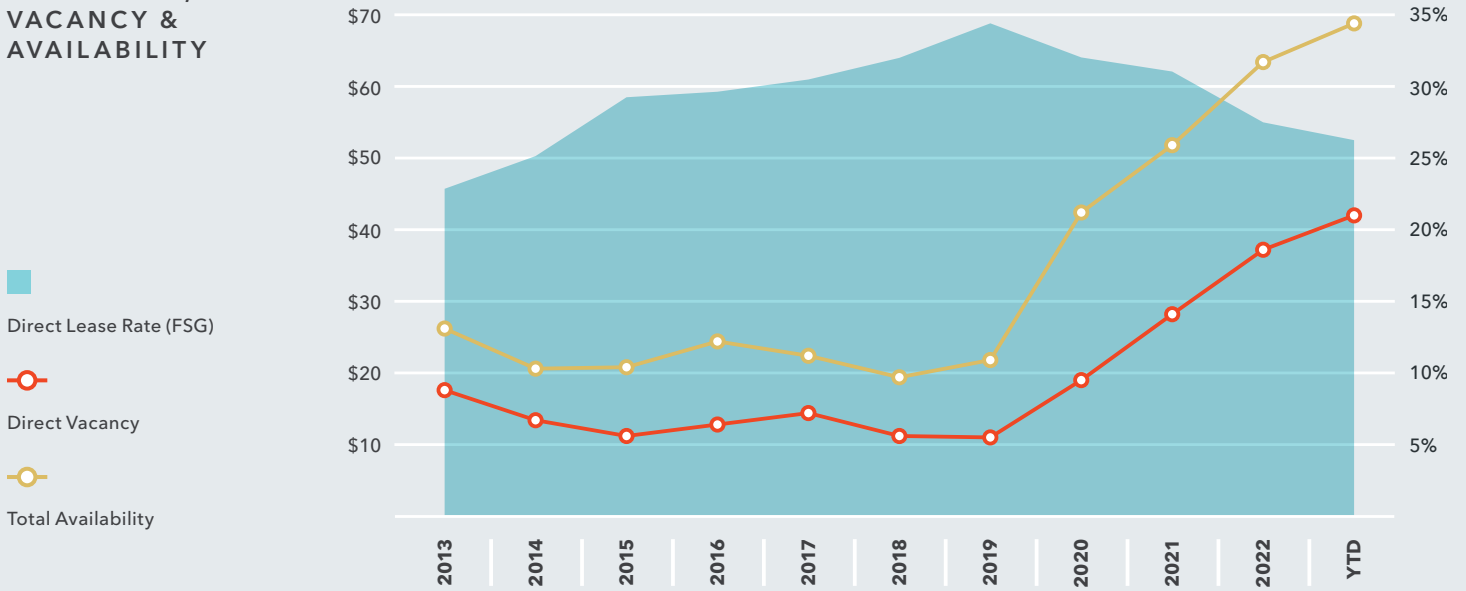
Market
Highlights

TOTAL VACANCY climbs to 26.8%

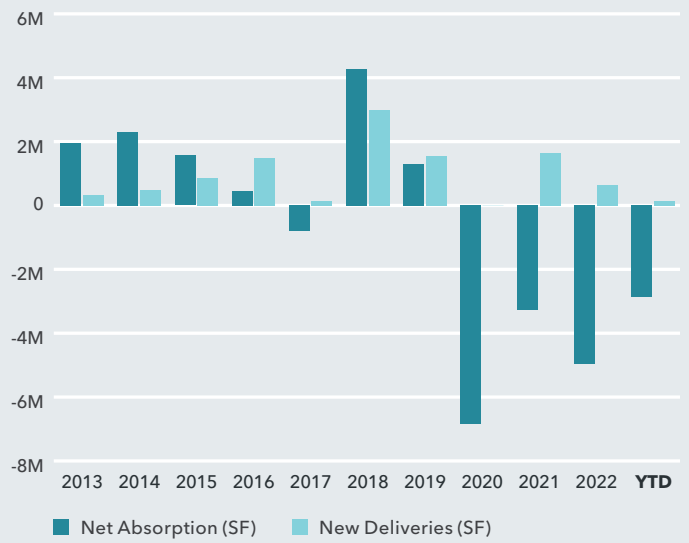
SUBLEASE VACANCY increased by 80 bps quarter-over-quarter to 5.8%

THERE IS A LARGE DISCREPANCY between pricing across Trophy, Class A, Class B, & Class C offices

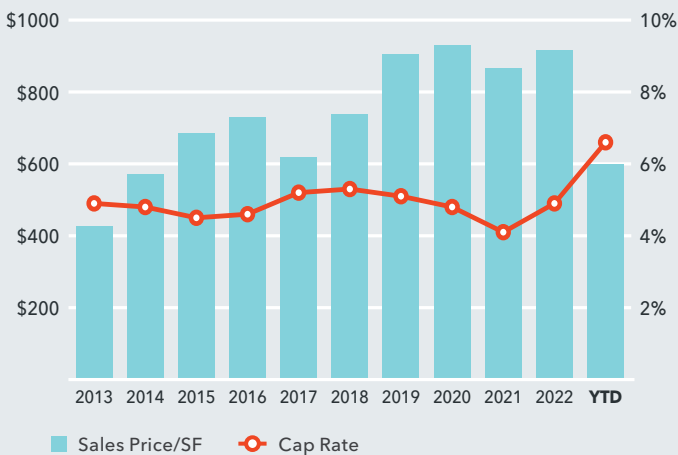
LEASE RATE, VACANCY & AVAILABILITY



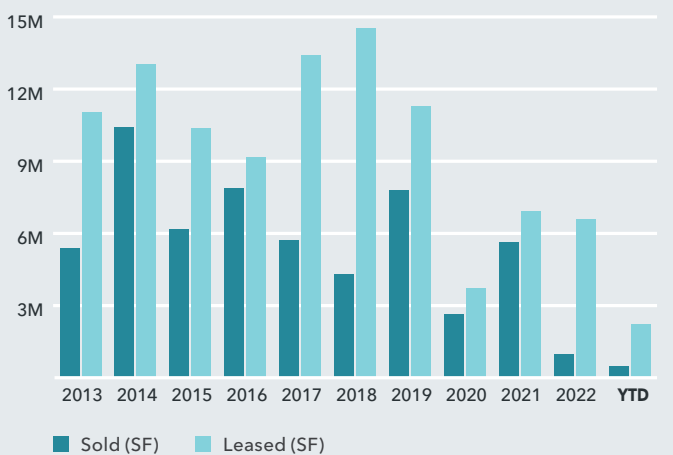
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	2Q23 Total Net Absorption	YTD Total Net Absorption	2Q23 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Civic Center	616,967	0	23.7%	0.0%	23.7%	25.1%	3,670	12,136	16,455	25,861	\$38.32
Financial District	26,677,923	0	24.4%	4.4%	28.8%	34.0%	-153,236	-696,694	324,581	656,789	\$57.60
Jackson Square	2,369,488	0	17.8%	3.0%	20.7%	27.2%	65,388	12,301	28,786	73,535	\$43.87
Mid Market	4,790,617	235,071	20.4%	7.2%	27.6%	43.6%	-411,757	-310,103	26,789	38,251	\$31.67
Mission Bay/China Basin	5,414,896	826,748	3.5%	13.9%	17.4%	28.8%	145,467	56,724	6,613	269,077	\$39.00
Mission/Potrero	3,233,112	0	19.9%	3.1%	23.0%	27.0%	92,548	90,012	38,895	98,240	\$50.00
Rincon/South Beach	6,053,816	0	22.4%	7.1%	29.5%	40.6%	-326,295	-348,798	10,506	43,027	\$73.37
Showplace Square	3,773,958	24,956	15.8%	16.3%	32.2%	43.9%	-161,839	-207,809	16,887	30,839	\$43.05
South Financial District	28,875,107	0	17.2%	5.4%	22.7%	32.6%	-856,653	-1,137,706	354,076	729,750	\$53.54
SOMA	5,861,652	232,290	26.3%	4.5%	30.9%	33.0%	-6,244	-172,893	48,700	105,014	\$51.00
Union Square	4,496,488	0	24.8%	3.2%	27.9%	31.6%	-30,864	-72,394	46,354	86,281	\$48.42
Van Ness Corridor/Chinatown	1,337,659	0	14.3%	0.2%	14.5%	29.6%	23,132	22,232	7,803	9,361	\$51.10
Waterfront/North Beach	3,943,687	0	21.6%	3.2%	24.7%	34.6%	23,479	13,785	1,942	40,095	\$25.51
Yerba Buena	3,943,225	0	40.1%	7.1%	47.3%	55.1%	-18,350	-111,142	23,979	29,807	\$51.05
San Francisco Totals	101,388,595	1,319,065	21.0%	5.8%	26.8%	34.8%	-1,611,554	-2,850,349	952,366	2,235,927	\$52.50
Class A	56,033,232	1,213,596	20.1%	6.3%	26.4%	34.8%	-1,043,291	-1,894,496	577,071	1,452,797	\$61.01
Class B	37,785,833	105,469	22.3%	5.9%	28.2%	36.1%	-690,340	-859,171	288,335	586,251	\$48.97
Class C	7,569,530	0	21.0%	2.0%	23.0%	27.8%	122,077	-96,682	86,960	196,879	\$36.11

ECONOMIC REVIEW CONTINUED

THERE IS VERY LITTLE investment sales activity throughout the market; this quarter only 50,718 SF of office traded hands. Amidst climbing interest rates, buyers and sellers have not yet found a middle ground on pricing. According to a recent article in the San Francisco Business Times, 550 California is currently under contract at a steep discount and is expected to close between \$120-\$130/SF. This is just one of a handful of office properties that are currently testing the market though all seem to be generating little demand, to the extent there is demand, at substantially lower prices than were seen pre-pandemic.

SINCE MARCH OF 2022, the Federal Reserve has raised interest rates ten (10) consecutive times to combat inflation. After the most recent hike, the Federal Reserve announced its plans to not raise rates further for the month of June. According to a recent article by Reuters, policymakers anticipate two more 25-bps hikes this year.

NEAR-TERM OUTLOOK

THE SAN FRANCISCO OFFICE MARKET'S OUTLOOK remains unpredictable with record high vacancies, hybrid work models, notable companies downsizing their office footprint, and looming loan maturities for landlords. As an example, prior to the pandemic, the block surrounding Salesforce Tower at 415 Mission Street was considered one of the most desirable locations within the city and had a low vacancy rate of 5.3% (4Q 2019). Quarter-to-date the same area now has a total vacancy of 24.8%. More recently, Westfield has announced its departure from Union Square as the city's continuing struggles have begun to make its way into the retail sector. That said, record high vacancy and lower pricing opens the door for ample opportunities for investment, expansion, and relocation. Despite the economic uncertainty, this may be one of the best times for companies to position themselves before the market picks up again.

TOP SALE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
40 Jessie St	South Financial District	37,000	\$17,600,000	\$475.68	DRA Advisors	Golden Gate University
1016 Grant Ave	Van Ness/ Chinatown	6,313	\$3,250,000	\$514.81	Chansell Capital Properties Inc	Garrick Der and Annis C Der Revocable Trust
521 -523 Francisco St	Waterfront/ North Beach	2,271	\$2,305,000	\$1,014.97	Francis Mill	Fougeron Architecture

TOP LEASE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
100 1st St	South Financial District	23,289	April 2023	Norges Bank Investment Management	kandji.io
333 Bush St	Financial District	17,500	April 2023	Skidmore, Owings & Merrill, L.L.P.	InterVision
535 Mission	South Financial District	12,726	May 2023	Boston Properties, Inc.	Premise Data

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Mission Rock (Bldg B)	1051 3rd St	Mission Bay/ China Basin	313,952	Port of San Francisco	Q3 2023
Mission Rock (Bldg G)	1051 3rd St	Mission Bay/ China Basin	300,000	Port of San Francisco	Q3 2023
30 Van Ness Ave	30 Van Ness Ave	MidMarket	235,071	LendLease Real Estate Investments	Q4 2024

Data Source: Kidder Mathews Research, CoStar, US Bureau of Labor Statistics



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COMMERCIAL BROKERAGE	<i>\$12B</i> TRANSACTION VOLUME ANNUALLY	<i>32.1M</i> ANNUAL SALES SF	<i>41.2M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>53M</i> MANAGEMENT PORTFOLIO SF	<i>771+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES CLIENTS
VALUATION ADVISORY	<i>2,600+</i> ASSIGNMENTS ANNUALLY	<i>46</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

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