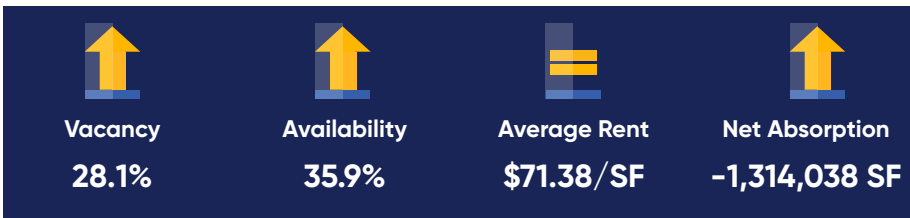


Occupier's Guide - Office

Many landlords try to justify high asking rents by pointing to the starting rents in lease comparables but for tenants it's important to know the full picture and ask questions. How much free-rent and tenant improvement dollars did the landlord give? The answer is likely a lot – especially for longer term leases. On top of increasing concessions, year-over-year market average asking rents fell \$5.72/SF. And, the average market vacancy rate continues to climb, reflecting a 6.5% increase year-over-year, up to 28.1% for the quarter.

The market is experiencing an uptick in activity, especially for requirements under 25KSF. Currently, 79.2% of all requirements fall within this segment. Expect increased competition for smaller, high-quality space, as demand for the highest quality space remains strong resulting in an extremely competitive environment. These spaces can also command premium rents at elevated or equal to pre-2020 rates.



Direct Asking Rent (\$/SF)	Sublease Asking Rent (\$/SF)	Total Vacancy Rate	QoQ Change
\$77.81	\$60.03	No. Financial Class A 25.3%	▲ 2.6%
\$61.65	\$41.82	No. Financial Class B 39.0%	▲ 2.5%
\$77.02	\$58.88	So. Financial Class A 26.2%	▲ 3.7%
\$66.21	\$46.84	So. Financial Class B 28.5%	▲ 14.5%
\$77.89	\$48.97	SOMA Class A 25.8%	▲ 7.9%
\$61.59	\$52.74	SOMA Class B 34.9%	▲ 2.9%

Recent Transactions

	Tenant	Size	Submarket	Type	Sector
1	QuantCast	63,278	Yerba Buena	Renewal	Technology
2	Hayden AI	41,976	Lower SOMA	Sublease	Artificial Intelligence
3	Adept.ai	35,648	Mission District	Sublease	Artificial Intelligence
4	Yahoo	35,358	South Financial District	Sublease	Technology
5	Rakuten	29,073	South Financial District	Sublease	e-Commerce
6	Forge Global	21,795	North Financial District	Sublease	Financial Services
7	Collective Health	18,409	South Financial District	Sublease	Health Care

Occupier's Perspective

Discounted building sales will provide value for tenants in San Francisco. After buying 350 California Street, the new owner dropped asking rates in the building by \$23/SF. Due to a lower cost basis, many new owners can make reasonable returns while offering tenants lower rental rates.

Understanding specific assets provides important context when negotiating. Knowing the underlying story for each landlord, building, and even between floors within a building, paints a valuable picture for occupiers to reconcile contradictory market outlooks. Premier assets and view space still command significant rent premiums and tenants are willing to pay it. But for other Class A and B buildings, there is a big spread between landlord and tenant expectations.

Struggling landlords are having trouble fulfilling lease obligations. It's important for tenants to make sure there are mechanisms to collect the monetary concessions in their leases, especially for TI allowances. Some mechanisms include escrow accounts, rental offsets, and self-help rights.

Market Trends

Early renewals are an ongoing topic of conversation between tenants and landlords. Given the softening in the market, landlords are eager to secure long-term commitments and are increasingly willing to renegotiate more favorable terms for an early renewal with immediate effect.

AI companies are continuing to cluster near each other. Submarkets like the Mission and SOMA are top of mind, creating a compelling argument for AI companies outside of SF to relocate to the City to be a part of "Area AI". However, these submarkets make up a mere 6.7% of the overall market potentially causing companies to disperse to adjacent submarkets in order to grow.

Tenants weigh external factors more than ever when making leasing decisions. Due to increased availability in the market and competitive pricing, tenants can be more selective about qualities like foot traffic and amenities in the building, active neighborhood shops and restaurants, cleanliness, and crime.

Office Submarket Statistics

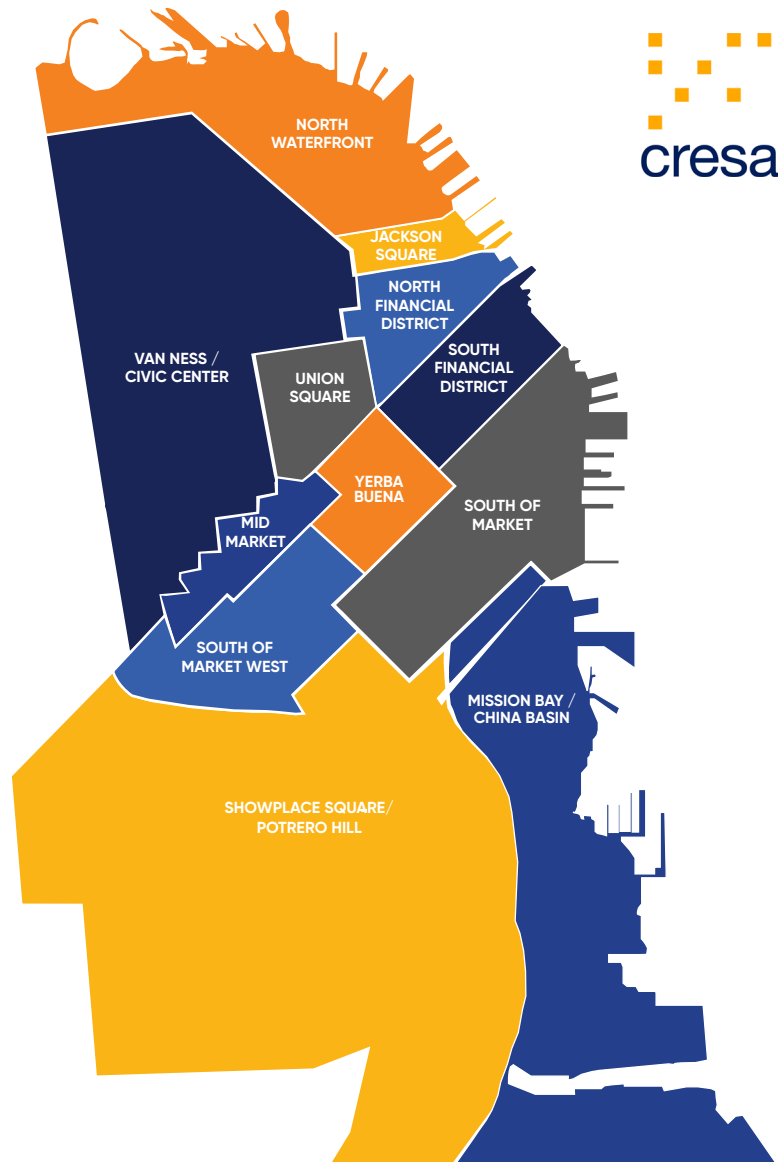
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For more information, contact:

Andrew McShea, Director, Research & Analytics
443.758.7893 | amcshea@cresa.com

Austin Tucker, Associate, Research & Financial Analysis
209.207.8235 | atucker@cresa.com

Jamie Saunders, Managing Principal
415.394.1039 | jrsaunders@cresa.com



Submarket	Inventory	Overall Rent	Direct Vacancy	Sublease Vacancy	Total Vacancy	Total Availability	Total Net Absorption
North Financial District	29,205,254	\$73.44	24.2%	3.9%	28.1%	33.8%	(620,257)
South Financial District	27,343,085	\$75.74	18.1%	8.3%	26.4%	35.3%	(394,003)
North Waterfront	3,392,292	\$72.56	23.4%	6.0%	29.5%	41.3%	(180,961)
Jackson Square	2,004,953	\$63.79	17.3%	2.1%	19.4%	24.9%	10,456
Mid Market	5,044,039	\$65.42	19.0%	8.0%	27.0%	43.6%	(12,837)
Yerba Buena	3,761,708	\$71.52	40.4%	7.5%	47.9%	54.6%	(22,362)
Union Square	3,531,803	\$56.52	17.9%	3.1%	21.1%	27.4%	18,425
Lower SOMA	7,650,800	\$66.13	20.9%	10.2%	31.1%	40.7%	(51,125)
Western SOMA	1,122,596	\$45.31	17.5%	4.5%	21.9%	25.4%	(36,439)
Mission Bay / China Basin	3,278,990	\$80.07	4.8%	28.2%	33.0%	40.3%	(27,745)
Showplace Square / Potrero Hill	5,158,068	\$66.39	15.0%	15.1%	30.2%	34.5%	(26,617)
Van Ness / Civic Center	2,141,940	\$41.23	14.6%	0.1%	14.7%	20.4%	29,427
Total	93,635,528	\$71.38	20.6%	7.5%	28.1%	35.9%	(1,314,038)