

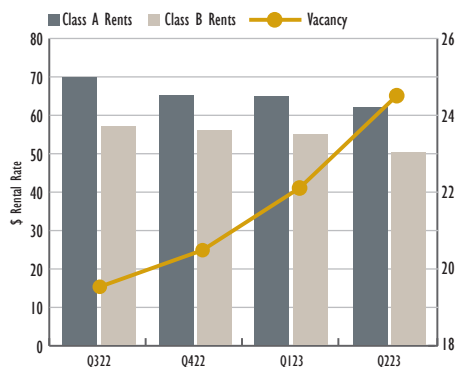
## Previously announced space give-backs are now hitting the market.

Slack tops this list. The reality of over 30% vacancy is here. We have a two-tier market, one for super-premium AA-class buildings with views, still achieving rents north of \$100 per square foot. The other market is generic class A space with asking rates in the \$70's with limited activity or demand.

### The Sublease Market Continues to Grow

Second quarter vacancy rate for class A downtown market core continued to increase, from 22% in the 1st quarter to 24.1% in the 2nd quarter of 2023, an increase of two percent. Gross leasing decreased from an adjusted 559,690 square feet in the 1st quarter to 694,010 square feet in the 2nd quarter. Net absorption in the previous quarter was -818,225 square feet. The amount of negative absorption increased to -1,282,949 in the 2nd quarter.

#### SAN FRANCISCO FINANCIAL CORE



Average asking rental rates for Class A space was \$61.73 per square foot in the 2nd quarter compared to \$64.77 per square foot in the 1st quarter. The average rental rate for Class B

financial core space was \$50.03 in the 2nd quarter, compared to \$54.67 in the 1st quarter. Class B absorption was -15,035 in the 2nd quarter, higher than the adjusted -285,179 square feet in the 1st quarter. South of Market (SOMA) vacancy rates increased rapidly from 33.6% in the 1st quarter to 37.7% in the 2nd quarter.

### Slack Space Hits the Market

Slack is moving in with its parent company Salesforce at Salesforce Tower, vacating its headquarters building at 500 Howard (totaling 250,000 square feet). Slack also has an additional 200,000 square feet of space they are trying to sublet at 45 Fremont Street; it has been on the market for over a year and a half.

### Tenant Snaps Back to the Market

In 2017, Snap leased 30,000 square feet of space South of Market at 875 Howard Street. Fast forward to October of 2022, they decided to give up their space, changing to a completely



Levi Plaza

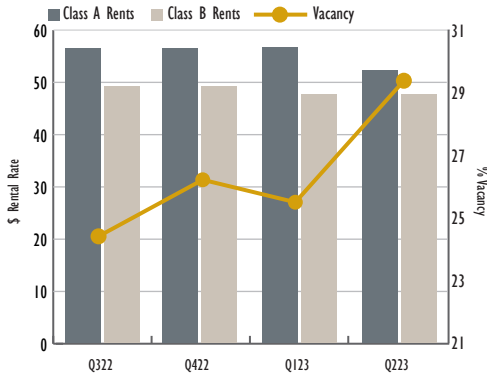
remote work model, cutting 500 jobs in the Bay Area and leaving them with no office or foothold in San Francisco. Snap then posted some of the worst numbers for quarterly growth in company history. The CEO announced that all employees would be required to be in the office at least four days a week. The company also said it would immediately phase out its remote work policy. Snap is now back in the San Francisco market, looking for 30,000 square feet of space. They are reportedly looking at a site at Levi Plaza and others.

### San Francisco Mayor Throws Ideas at the Wall

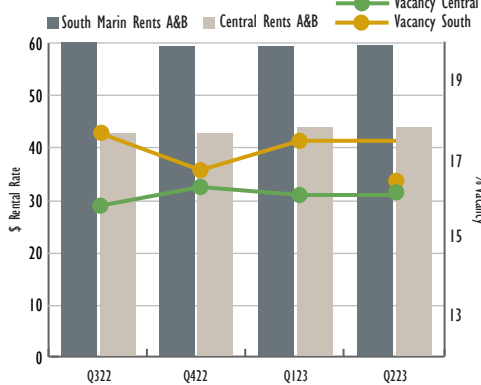
In last quarter's newsletter, we touched on one of Mayor Breed's ideas for excess office space: converting them into residential units. With astronomical construction and material costs, the idea is unrealistic. In an interview earlier this summer, the Mayor advocated for creative use of the soon to be vacant Westfield Mall where Nordstrom's was a flagship tenant for 35 years. One suggestion included redeveloping the site into a soccer stadium – another unrealistic idea with sky-high costs.

In addition, she has asked the San Francisco Unified School District, City College of San Francisco, and City Administrator to assess their office portfolios and consider moving their operations into downtown offices. Her idea would free up those sites to create additional residential housing opportunities. While I appreciate our Mayor trying to develop solutions, the need for due diligence in the process is readily apparent. The development and construction costs associated with moving a group downtown and then converting their old location to residential units are two to three times as expensive as converting existing downtown office space to residential, making it an unrealistic option.

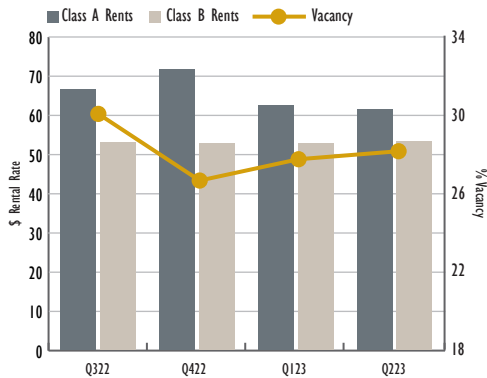
### SAN FRANCISCO SOMA



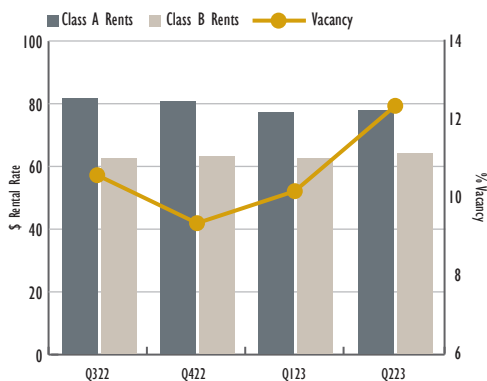
### MARIN



### OAKLAND CBD



### PENINSULA



### Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	1,118,688	9.10%	541,177	4.40%	1,659,865	13.40%
Fin. Dist. A	8,879,780	18.30%	2,615,503	5.40%	11,495,283	23.70%
Fin. Dist. B	2,765,891	22.60%	385,380	3.10%	3,151,271	25.70%
SOMA A	1,963,861	31.10%	413,297	6.50%	2,337,158	37.70%
SOMA B	2,409,491	20.10%	1,089,377	9.10%	3,498,868	29.20%

### Major Leases Completed in the Second Quarter

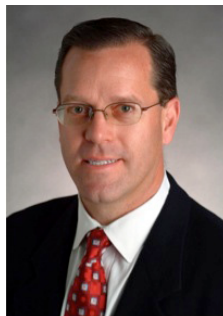
Tenant	Sq. Ft.	Address
Autodesk*	97,820	One Market Plaza *
Stifel*	70,256	One Montgomery Street *
Hive**	61,367	100 First Street **
Willke Farr & Gallagher**	44,049	333 Bush Street **
Zendesk*	34,891	989 Market Street *
Business Wire****	25,890	101 California ****
Kandji.io	23,289	100 1st Street
InterVision*	17,500	333 Bush Street *

\*Renewal \*\*Sublease \*\*\*Expansion \*\*\*\*Oakland lease

### The Axiant Group Can Help You

Do you want information about rents and space available in your building? Are you interested in subleasing or terminating your lease? Is your lease expiring in the next three years?

Contact The Axiant Group. We have handled transactions from 1,000 to 1,000,000 sq.ft. in the Bay Area and throughout the U.S. The average tenure of our brokers is over 20 years. We have handled assignments for clients including Chevron U.S.A., Coblentz, Patch, Duffy & Bass, Oracle Corporation, PG&E, Sutro & Company, Zurich Scudder Investments, Charles Schwab, Texas Pacific Group, Club One, Moss Adams, and many others.



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