



The Axiant Group
COMMERCIAL REAL ESTATE SERVICES

Market Overview

A quarterly publication of the San Francisco office market by The Axiant Group

3rd Quarter 2023

Several recently sold buildings are returning to the market with their new owners.

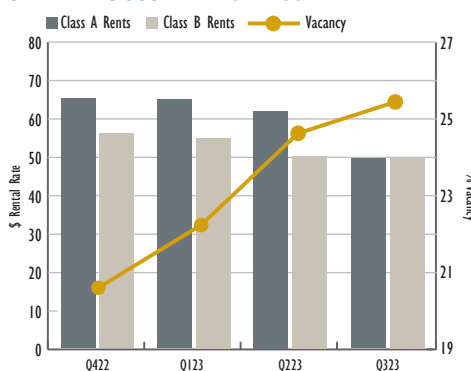
550 California Street is an example, trading at 75% of the pre-pandemic value. New owners are offering competitive asking rates in San Francisco, and the majority of demand has been for smaller, high-quality view space. Only time will tell if economics alone will result in a successful leasing program.

The Sublease Market Continues to Grow

Third quarter vacancy rate for class A downtown market core space continued to increase, from 24.1% in the 2nd quarter to 25.2% in the 3rd quarter of 2023, an increase of one percent. Gross leasing decreased from an adjusted 567,155 square feet in the 2nd quarter to 286,938 square feet in the 3rd quarter. Net absorption in the previous quarter was -1,274,223 square feet. The amount of negative absorption decreased to -832,452 in the 3rd quarter.

Average asking rental rates for Class A space was \$49.45 per square foot in the 3rd quarter compared to \$61.73 per square foot in the 2nd quarter. The average rental rate for Class B financial core space was \$49.87 in the 3rd quarter compared to \$50.03 in the 2nd quarter. Class B absorption was -175,135

SAN FRANCISCO FINANCIAL CORE



in the 3rd quarter, higher than the adjusted -8,726 square feet in the 2nd quarter. South of Market (SOMA) vacancy rates increased rapidly from 37.7% in the 2nd quarter to 39.6% in the 3rd quarter.

Wells Fargo Finally Sells 550 California Street

550 California Street is an excellent example of boom and bust cycles in real estate. Wells Fargo was the anchor tenant and owner. The building is in a coveted location, directly across

from the iconic Bank of America Tower. The project consists of two buildings: 550 California and 635 Sacramento Streets, totaling 355,000 square feet. The buildings are 275,000 square feet and 80,000 square feet, respectively, and are connected on multiple floors. The buildings were constructed in 1962, renovated in 1990, and updated late into Wells Fargo's occupancy.

Wells Fargo initially leased a large amount of space in the building and then purchased the building in 2005 for \$108 million or \$305 per square foot. They eventually filled the entire building and were the sole occupant. Over the last ten years, like most banks, they have been moving employees out of California to escape the high cost of living and the highest state income tax in the country. In addition, Wells recently implemented a company-wide mandate to reduce employees by 7%, and as a result, determined the building was no longer needed and decided to sell it.

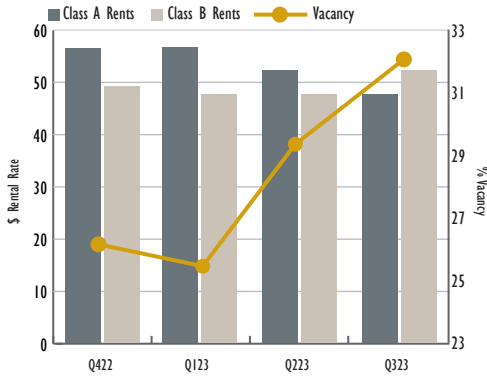


550 California Street

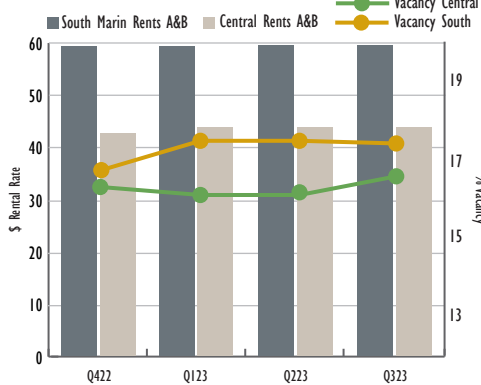
Wells put the building on the market in April 2022, setting the price at \$160 million (\$450 per square foot). The bids returned resoundingly short of this number – offers were around \$40 million (\$110 per square foot) – thus the financial services company pulled the listing off the market. In 2023 they re-listed and sold. The buyer, Roger Fields of Peninsula Land and Capital, took advantage of a market that was continuing its downward spiral, resulting in a massive loss for Wells Fargo.

While they have been active on the Peninsula and other parts of the Bay Area, this is the Peninsula Land and Capital's first venture in San Francisco. The good news for tenants is that the new ownership is passing along the great value it received on its purchase, offering asking rates in the \$38-\$40 per square foot range, significantly below current market rates. Several other properties share a similar story to 550 California. 350 California Street and 60 Spear Street are two examples; both are selling at twenty-five to thirty percent of their appraised value two years ago. Let's hope those new building owners will also pass the economics of their purchase price on to tenants.

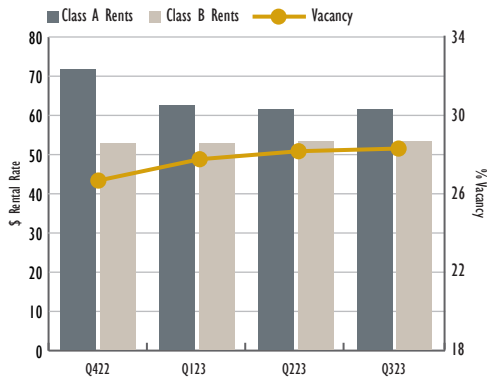
SAN FRANCISCO SOMA



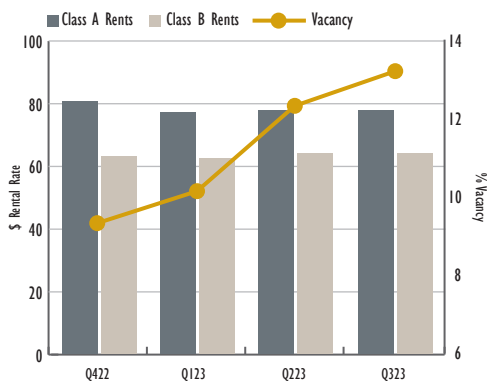
MARIN



OAKLAND CBD



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
TTop 10 Build.	1,162,513	8.90%	585,649	4.50%	1,748,162	13.40%
Fin. Dist. A	9,865,200	20.00%	2,548,951	5.20%	12,414,151	25.20%
Fin Dist. B	2,895,455	23.80%	350,158	2.90%	3,245,613	26.60%
SOMA A	2,022,975	32.10%	478,522	7.60%	2,501,497	39.60%
SOMA B	2,464,798	20.50%	1,062,336	8.90%	3,527,134	29.40%

Major Leases Completed in the Third Quarter

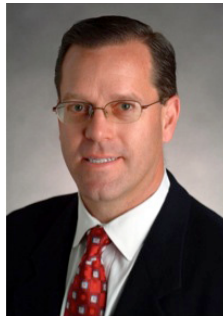
Tenant	Sq. Ft.	Address
Quantcast	63,278	795 Folsom Street *
SF Health Plan	57,600	300 Mission Street *
Hayden AI	41,976	460 Bryant Street **
Ironclad	35,903	650 California Street **
Adept AI	35,684	350 Rhode Island **
Yahoo	35,385	680 Folsom Street **
DPR Construction	22,021	55 Francisco Street ****

*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.



John Abel – Principal
T 415.374.2103
jabel@axiantgroup.com
License #00884176