



The Axiant Group
COMMERCIAL REAL ESTATE SERVICES

Market Overview

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

4th Quarter 2022

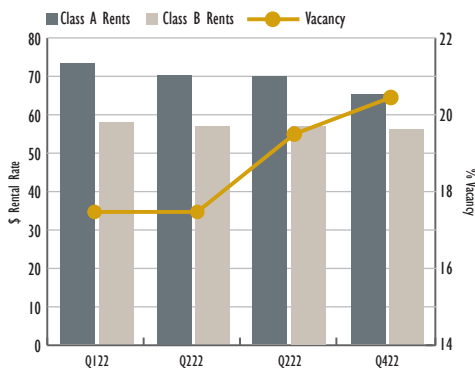
Sublease Space Continues to Hit the Market

Many technology firms made significant hires throughout the pandemic. However, San Francisco's largest employer Salesforce, has announced layoffs of 10% of their workforce. With a potential recession looming and economic demand diminishing, these groups will continue to add sublease space to the market.

Sublease Continues to Increase

The fourth quarter vacancy rate continued to increase, from 19.5% in the 3rd quarter to 20.5% in the 4th quarter, an increase of one percent. Gross leasing increased from an adjusted 580,340 square feet in the 3rd quarter to 714,311 square feet in the 4th quarter. Net absorption in the previous quarter was -1,412,392 square feet, this decreased to -494,895 in the 4th quarter.

SAN FRANCISCO FINANCIAL CORE



Average asking rental rates for Class A space was \$65.02 per square foot in the 4th quarter compared to \$69.76 per square foot in the 3rd quarter. The average rental rate for Class B financial core space

was \$55.90 in the 4th quarter compared to \$56.72 in the 3rd quarter. Class B absorption was 12,576 in the 4th quarter, higher than the adjusted -436,584 square feet in the 3rd quarter. South of Market (SOMA) vacancy rates continued moving upward from 29.9% in the 3rd quarter to 30.6% in the 4th quarter.

Salesforce Drops a Bomb in the New Year

Salesforce announced it will cut 10% of its workforce and reduce its office space requirements, but were not specific about which markets would be affected. This restructuring plan

will cost Salesforce up to \$2 billion, and will include severance payments, employee benefits, and stock-based compensation. The company was on a hiring spree over the last few years, starting with 49,000 employees in January 2020, and ballooning to 80,000 at the end of 2022, representing a 63% increase. In addition, several top Salesforce executives have recently left the firm. Founder and CEO Marc Benioff blamed the recent layoffs on hiring too many people during the pandemic when their revenues were skyrocketing, but not anticipating the economic downturn we are currently facing.

Salesforce is San Francisco's largest private employer and has over two million square feet of space leased and owned in San Francisco. They also have almost one million additional square feet of space, most of which they have sublet.



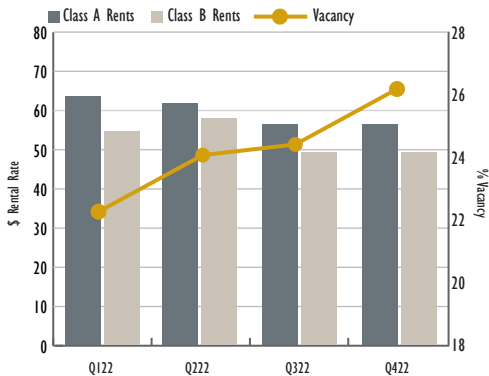
Salesforce Tower

Employers Demand More Face Time

Employers are frustrated with remote working arrangements due to a lack of cohesiveness and synergy. However, newly-announced layoffs, a tightening job market, and the darkening economic outlook is compelling employees back to the office.

Technology firms are leading the charge to bring employees back into the office. For example, social media company Snap expects its remote workforce to return in February – requiring employees to be in the office at least 80% of the week. Since Elon Musk took over, Twitter employees are expected to be in the office at least 40 hours weekly. Apple told employees to be back in the office after Labor Day for at least three days a week. Salesforce employees were completely remote, but now sales staff are required to be back in the office twice a week. Most employees enjoy working in an office environment, noting the camaraderie and relationships they develop there. The advantages of the remote workplace are no commute (2+ hour commutes are common) and flexibility of schedules.

SAN FRANCISCO SOMA



Where's the Space?

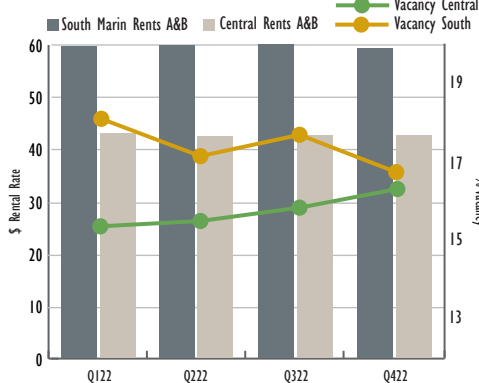
Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	1,220,639	9.30%	209,210	1.60%	1,429,849	10.90%
Fin. Dist. A	7,643,714	15.6%	2,048,076	4.20%	9,691,790	19.80%
Fin. Dist. B	2,295,345	18.40%	568,061	4.5%	2,863,406	22.90%
SOMA A	1,488,787	24.20%	396,364	6.40%	1,885,151	30.60%
SOMA B	1,825,071	15.50%	1,133,283	9.60%	2,958,354	25.20%

Major Leases Completed in the Fourth Quarter

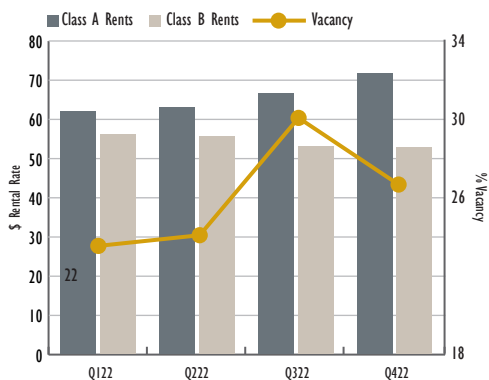
Tenant	Sq. Ft.	Address
First Republic Bank*	150,000	388 Market Street
Sigma Computing*** *	82,597	116 New Montgomery
Goodby Silverstein & Partners*	81,065	720 California Street
Databricks*** *	57,625	160 Spear Street
Federal Communication Comm.	47,800	44 Montgomery Street
Gensler	45,544	220 Montgomery Street
Open Door**	44,961	303 Second Street
NBC Sports Bay Area*	39,915	360 Third Street

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

MARIN



OAKLAND CBD

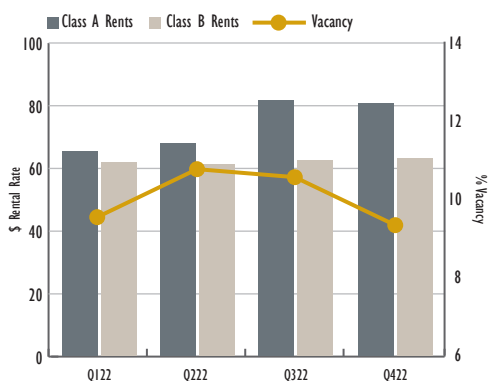


The Axiant Group Can Help You

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.

PENINSULA



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