



The Axiant Group
COMMERCIAL REAL ESTATE SERVICES

Market Overview

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

4th Quarter 2023

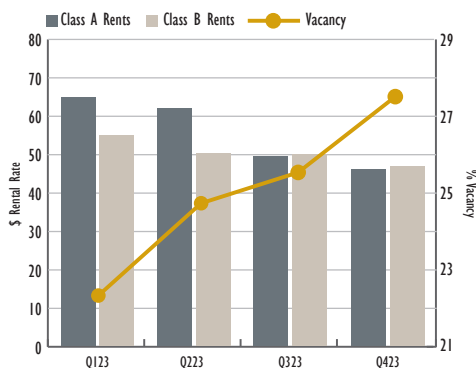
The real estate landscape in San Francisco presents a mixed bag at the end of the fourth quarter.

While two significant AI technology leases, totaling over 700,000 square feet, stand out as bright spots, the overall vacancy rates have continued to rise, reaching over thirty-five percent.

Space Continues To Flood The Market

The 4th Quarter vacancy rate for class A downtown market core space moved substantially, from an adjusted 24.9% in the 3rd quarter to 27.5% in the 4th quarter of 2023, an increase of over two and a half percent. Gross leasing increased from an adjusted 315,756 square feet in the 3rd quarter to 964,958 square feet in the 4th quarter. Net absorption in the 3rd quarter was -844,399 square feet. The amount of negative absorption increased to -1,291,845 in the 4th quarter.

SAN FRANCISCO FINANCIAL CORE



Average asking rental rates for Class A space were \$45.81 per square foot in the 4th quarter compared to \$49.45 per square foot in the 3rd quarter. The average rental rate for Class B financial core

space was \$49.31 in the 4th quarter compared to \$49.87 in the 3rd quarter. Class B absorption was -187,244 in the 4th quarter, slightly higher than the adjusted -163,188 square feet in the 3rd quarter. South of Market (SOMA) vacancy rates continued to hover over 35 percent in the 4th quarter.

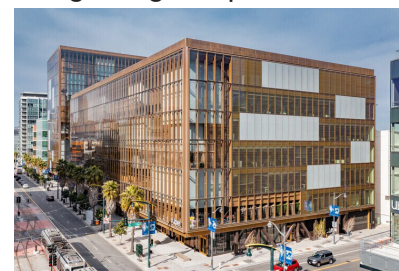
OpenAI Subleases Two Buildings from Uber

OpenAI, the developer of ChatGPT, has made a significant commitment to lease two buildings in San Francisco, marking the largest lease in San Francisco in past last five years.

The company, co-founded by Elon Musk and Sam Altman and backed by Microsoft, will occupy 486,000 square feet in Mission Bay at 1455 and 1515 Third Street. These buildings were initially constructed and furnished by Uber. Originally built as a four-building campus, Uber will continue to occupy two buildings at 1655 and 1725 Third Street.

ChatGPT, one of OpenAI's flagship products, has gained widespread popularity, procuring over 100 million users within sixty days, making it one of the fastest growing tech products in history. This underscores the rapid adoption of AI technologies and the significant user base these companies can attract.

However, the process has not been without drama. All 800 employees in the company signed a letter



1455 & 1515 Third Street

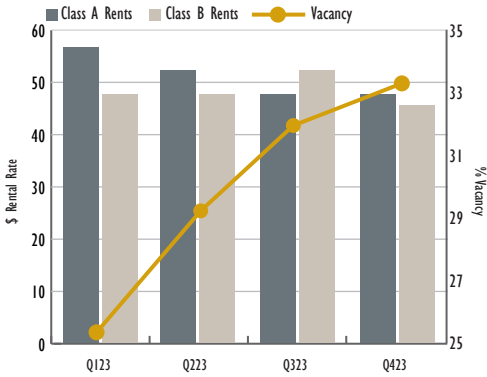
threatening to resign when the Board of Directors ousted Sam Altman, the CEO. This mass employee response led to Altman's reinstatement a week later. Subsequently, most board members who fired Altman were forced to leave. This internal episode adds an interesting twist to OpenAI's narrative, highlighting the importance of leadership and employee engagement within tech organizations.

AI Group Leases Slack Headquarters

Anthropic another notable AI company, is leasing over 230,000 square feet at 500 Howard, the former Slack headquarters. Salesforce acquired and integrated Slack into the company in 2021. Anthropic has significant support from Google and is set to receive approximately \$7 billion in funding this year. Anthropic and OpenAI are cross-town rivals, with OpenAI having secured over \$10 billion in funding from Microsoft. The tech landscape in San Francisco continues to evolve with these significant real estate moves by prominent AI companies.

Unfortunately, AI companies cannot unilaterally turn the flood of vacant space in San Francisco. We will need substantial contributions/expansions from other technology companies and brick-and-mortar industries to have any real impact on vacancy rates.

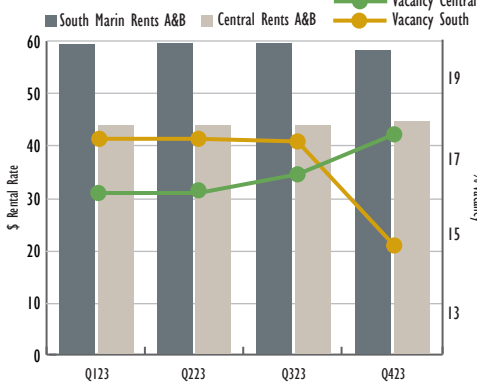
SAN FRANCISCO SOMA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	1,216,232	9.10%	1,024,049	7.60%	2,240,281	16.70%
Fin. Dist. A	10,913,187	22.10%	2,687,834	5.40%	13,601,021	27.50%
Fin Dist. B	3,212,324	26.60%	303,856	2.50%	3,516,180	29.10%
SOMA A	2,018,903	31.80%	489,583	7.70%	2,508,486	39.60%
SOMA B	2,549,637	21.40%	1,023,180	8.60%	3,572,817	30.00%

MARIN

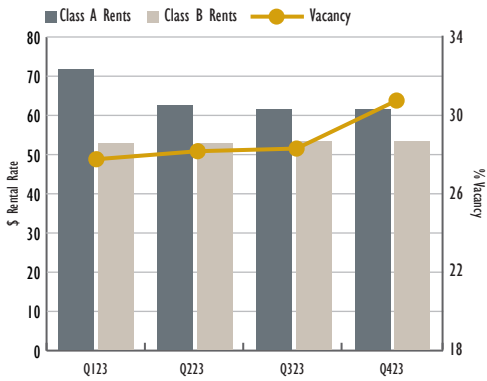


Major Leases Completed in the Fourth Quarter

Tenant	Sq. Ft.	Address
OpenAI	486,600	1515 3rd Street ****
Anthropic	230,325	500 Howard Street ****
San Francisco Health Plan	57,600	300 Mission*
HUD	55,732	One Sansome Street *
First Citizens	50,808	222 Second Street **
Patreon	41,403	600 Townsend ** *
Debevoise and Plimpton	39,516	650 California Street * ** *

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

OAKLAND CBD

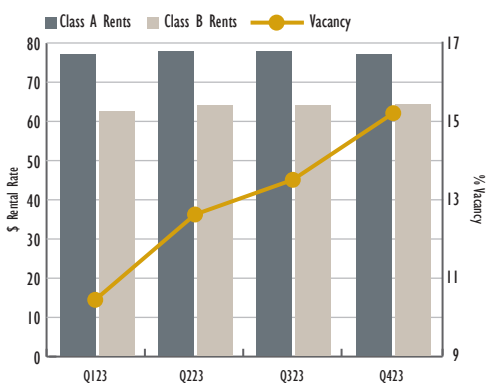


The Axiant Group Can Help You

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



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