

# INVESTMENT FORECAST

Office  
San Francisco

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## San Francisco Awaits Full Reopening from Tech Firms; Investor Due Diligence Rises Ahead of Recovery

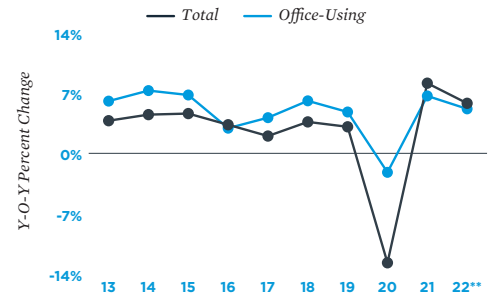
**Office recovery remains tied to health crisis.** The trajectory of the pandemic and local response to evolving conditions will have a profound impact on the pace of San Francisco's office improvement in the coming quarters. Several major employers have already transitioned to a remote or hybrid model, including Salesforce, the metro's largest office tenant. These companies are returning sublease space to the market, competing with traditional landlords. Due to the cash-heavy position of many large tech firms, the ability to undercut asking rents offered by traditional office operators is pronounced. As a result, much of the sublease space available in the city, which represents approximately 5 percent of inventory, will need to be absorbed prior to a more substantial impact on market-rate fundamentals. On the supply side, construction firms are grappling with proposed projects. Due to the extended nature of the permitting process, developers are moving forward with approved plans. For instance, the 61-story, 550 Howard mixed-use tower is scheduled to break ground in the first half of this year.

**Investors retrench to ride out soft office conditions.** Buyers are active in the market relative to prior years, though search criteria have tightened to reflect a longer timeline to absorb the supply overhang. Following the global financial crisis, office vacancy took nearly five years to return to the previous trough. Although this cycle is not anticipated to be as protracted, investors are taking precautions. Class C properties without strong tenant rosters are trading less frequently, which could open the door for owner-users or buyers with a tenant in tow. Mid-tier assets, meanwhile, attract plenty of interest when the leaseholders are secured long term, particularly if the occupants are in the tech sector. At the top of the scale, trophy properties will trade when they become available, though rising interest rates could lead to some discounting. For all sales metrowide, the average cap rate entering the year was slightly below the 5 percent threshold.

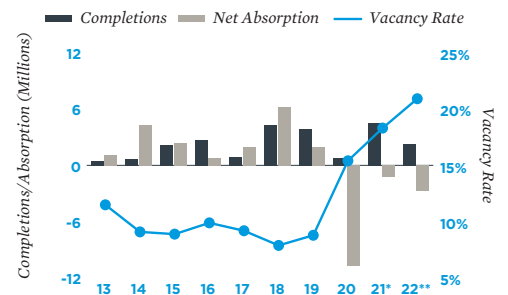
## 2022 Market Forecast

- Employment**  
up 5.8%  
Among the traditional office-using sectors, 26,000 spots are projected, representing a 5.2 percent increase.
- Construction**  
2,300,000 sq. ft.  
Inventory growth slows to 1.3 percent in 2022, following a 2.6 percent rise in 2021 when builders added 4.5 million square feet to office stock.
- Vacancy**  
up 260 bps  
As more firms return excess space, the average vacancy rate climbs to 21.0 percent. Last year, availability increased 290 basis points to 18.4 percent.
- Rent**  
down 0.4%  
Marketed rent will remain durable this year as much of the available space will be in top-tier buildings. By year-end, asking rent will settle at \$56.07 per square foot.
- Investment**  
Investors who were pushed out of the market during the height of the last growth cycle are projected to seek out deals that have long-term potential.

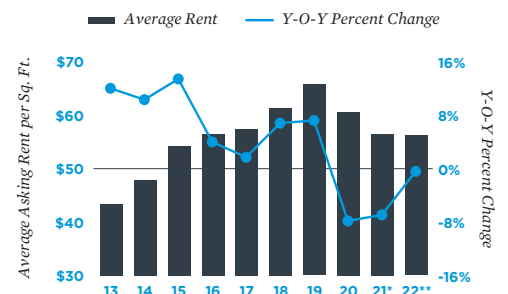
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.