

INVESTMENT FORECAST

Office
San Francisco Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Demand Growth Poised for Traditional Office Spaces, Aided by Corporate and Government Policies

San Francisco's office market well positioned for recovery. For the first time since 2019, annual net absorption turned positive as vacancy stayed at 27 percent throughout the second half of 2024. This overturn may mark an inflection point for vacancy to begin decreasing as more companies like Salesforce and Amazon adopt in-person work policies. The passage of Proposition 36, which aims to improve local urban conditions, may spur a greater influx of talent to return to central parts of the metro. Entering 2025, apartment vacancy downtown was below 6 percent. The consolidation of skilled workers here should bolster demand from firms seeking skilled labor and support the urban core, which saw the most intense pandemic effects. Notably, neighborhoods to the immediate north and south of the financial district saw heightened demand for Class B/C space last year, with vacancies falling over 200 basis points. Meanwhile, Class A demand in the core of downtown showed signs of improvement, as vacancy rose slightly but stabilized.

Final quarter of 2024 hints at stronger investor confidence. San Francisco's offices received a notable uptick in trades in the latter months of 2024 in all segments foreign, national and local. This suggests investors have begun to identify more potential opportunities in the recovering economy. Last year, buyers increasingly pursued Class A and B properties downtown, spanning Jackson Square to the Design District. In many cases, adjusted pricing allowed buyers to pursue assets experiencing challenges such as high vacancy, with some improvement plans already showing fruit. Some properties turning over to lenders contributed to the total trade count as well. However, firmer return-to-office policies and Mayor Lurie's recently expanded authority to enhance the city's shelter resources present a more optimistic investment horizon.

2025 MARKET FORECAST

-0.2%



EMPLOYMENT: Slow population growth and net in-migration, coupled with lasting tech sector headwinds, will lead to a net loss of 2,500 jobs this year.

923,000
sq. ft.



CONSTRUCTION: The metro will see its lowest delivery slate since 2020, expanding inventory by 0.5 percent this year. San Bruno will account for over 50 percent of the square foot volume.

-60 bps



VACANCY: The positive trend in net absorption expected to accelerate in 2025, along with few deliveries, aids vacancy compression. The metrowide rate will drop to 26.4 percent by year-end.

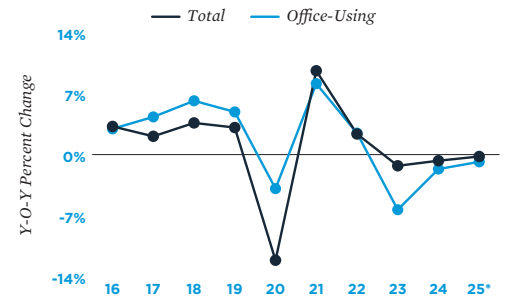
-2.1%



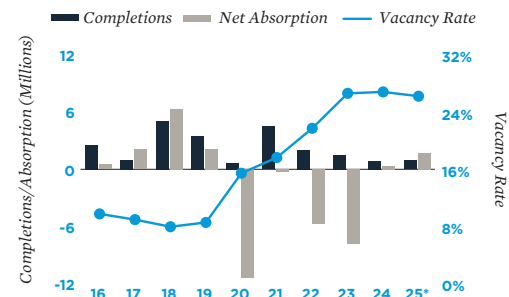
RENT: Despite compressing, vacancy above historical norms still applies downward pressure to asking rents. The metric will lower to \$44.75 per square foot by year-end — the smallest decline since 2019.

INVESTMENT: Central San Mateo County may see heightened appeal, as Class B/C vacancy fell over 100 basis points and held the tightest measure ending 2024 among submarkets with inventory over 10 million square feet.

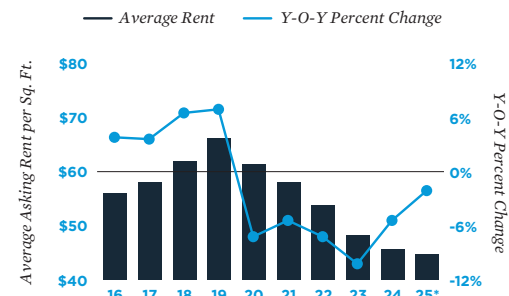
Employment Trends



Supply and Demand



Rent Trends



* Forecast

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

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Metrowide employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. 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 guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.