# San Francisco 2022 Year-End Report

Though the volume of layoffs seems significant, the tech industry is the sector contracting the most. Employees in Tech, however, make up roughly 2% of the labor force, so losses thus far have not had a meaningful economic impact. Otherwise, the job market is still strong with the most growth in healthcare, hotel and leisure, and personal services, but the sector of office-users (finance, insurance, real estate, and legal) is increasing as well.

Tech companies that grew headcount significantly in the last two years are scaling back and evaluating office space needs. Traditional office-using companies are still building on the strategy that the office is a crucial part of the collaborative environment and focusing on creating intentional workplaces. The customized, hybrid workplace encourages employees to use the space in a meaningful and productive way. Additionally, coworking has become a cornerstone for many companies looking for maximum flexibility and growth opportunities.

RAISE

**January 2023**

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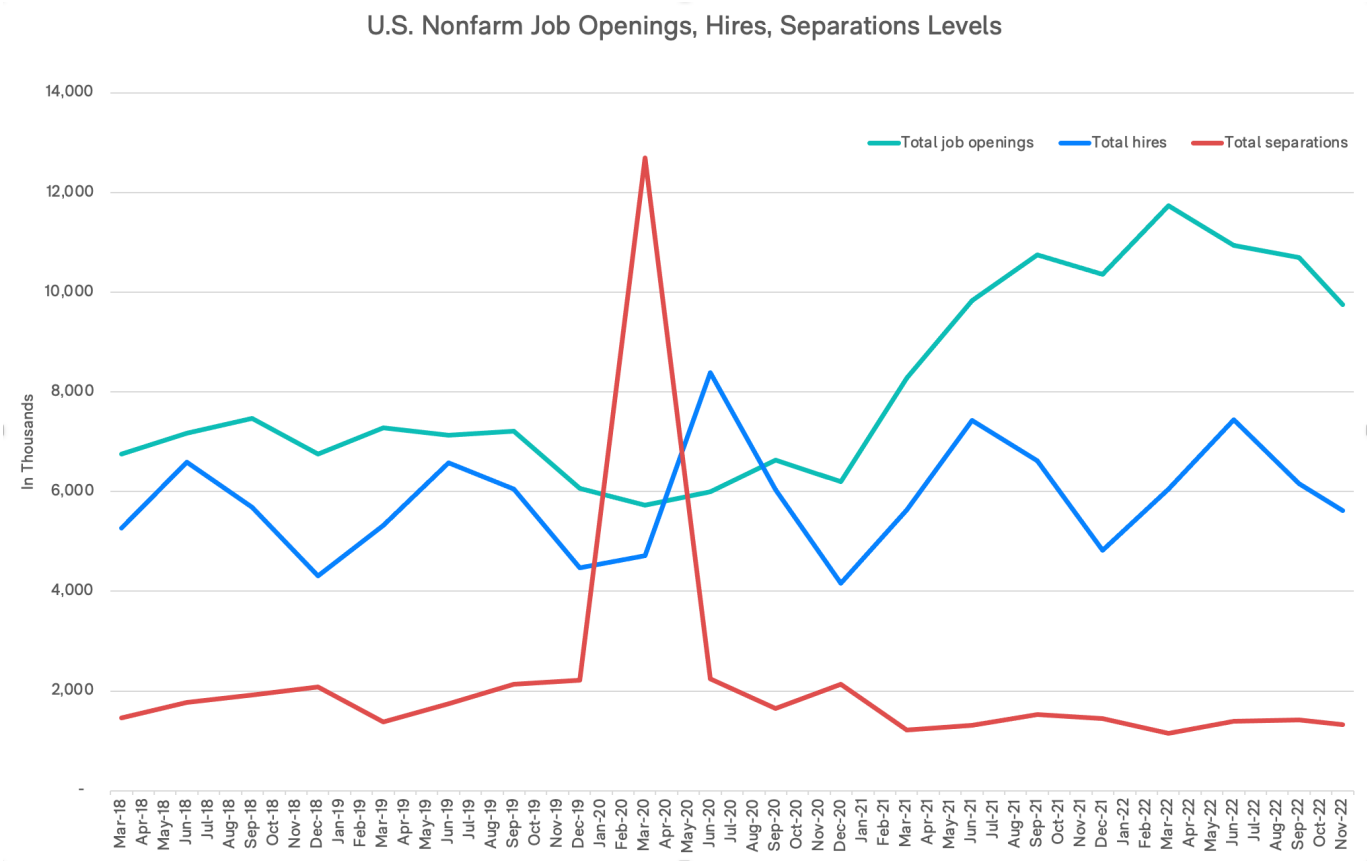
# U.S. Employment And Layoffs

Since the dramatic spike in separations (layoffs, quits, discharges) in March 2020, levels returned to normal and November 2022 totals were 29% and 33% below the ten-year and five-year averages, respectively. Job openings peaked in April 2022, but as of November 2022, were still 50% above the ten-year average. Hires have recurrently fluctuated, with a higher-than-usual spike in September 2020, and ended 2022 just 3% above the ten-year average.

The Information sector accounted for just 3% of total nonfarm separations, as of November 2022, and was also 7% and 30% below ten-year and five-year averages, respectively. Job openings peaked in May 2020, but despite the subsequent decline, were still 60% and 29% above ten-year and five-year averages, respectively, as of November 2022. Hires levels peaked in both October 2020 and 2021 and remained at higher-than-average levels for 21 of the past 26 months.

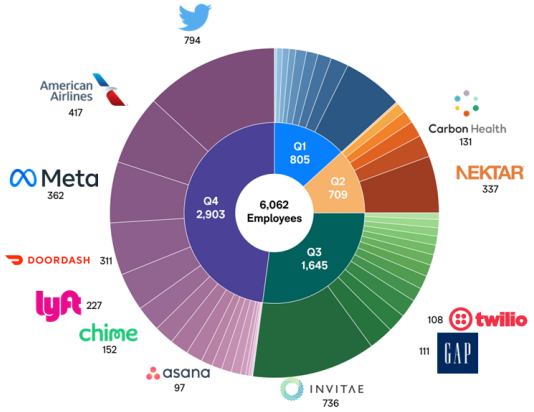



Source: JOLTS

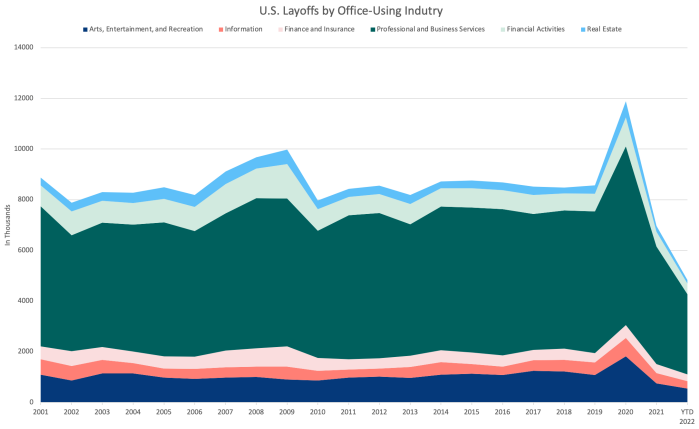
Though many recognizable companies such as Amazon, Meta, Uber, Airbnb, and Cisco announced major layoffs totaling over tens of thousands of employees, how many of those employees work in San Francisco? According to California Employment Development, just over 6,000 San Francisco employees were notified of employment change due to plant closings and/or mass layoffs in 2022. This is an overall 19% increase from 2021 with 66% of those coming from tech companies. Companies with the largest amount of employment change include Twitter (794), Invitae Corporation (736), American Airlines (417), Nektar Therapeutics (337), Meta (362), and Doordash (311).

The volume of layoffs in the office-using sector decreased sharply since 2020 and is now below even 2008 levels. Professional and Business Services typically bear the brunt of layoffs when moving into a recession, and are the slowest to recover from that cycle.

## San Francisco 2022 Layoffs



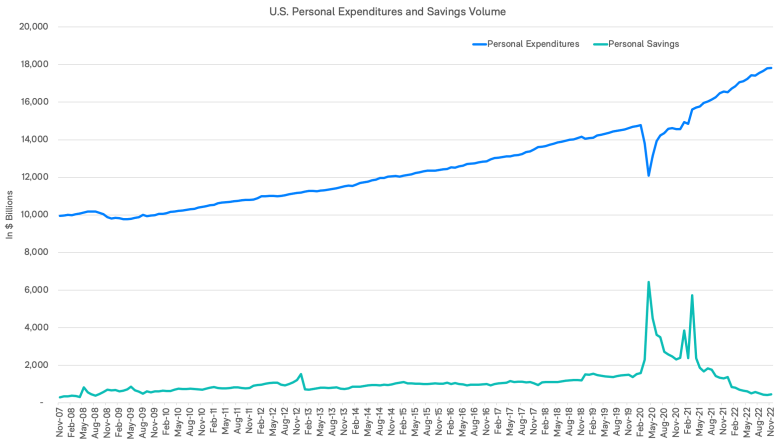

Source: WARN




Source: BLS

# U.S. Expenditures and Savings

Historic personal savings levels in April 2020 and February 2021 were related to COVID-19 and the Omicron outbreaks, followed by sharp decreases as expenditures (goods, services, household) increased due to rising prices. Used vehicle prices, which had been a major contributor to the initial inflation burst, have steadily dropped over the past year. Food prices dropped for the first time after increasing at a constant rate of 0.9% the past few months. Gasoline prices have also dropped after steady increases in 2021. If prices of goods and services keep falling as higher interest rates curb demand, the target rate can be attainable in the latter half of 2023.



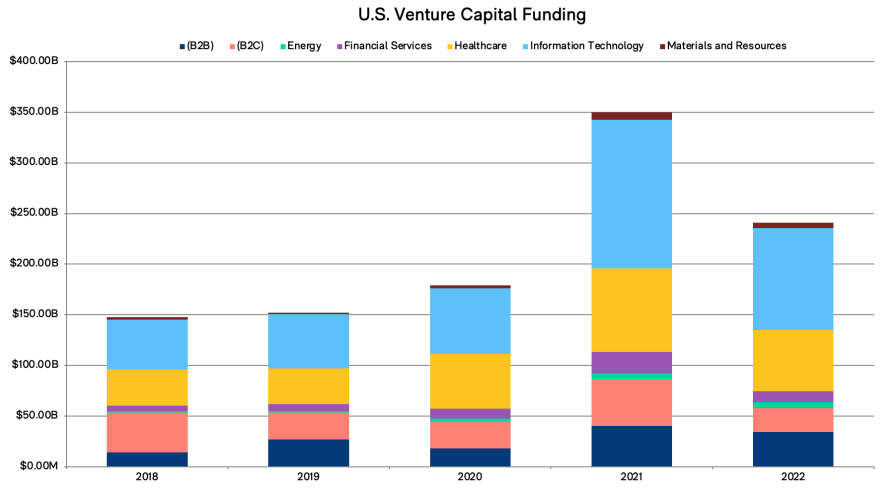

Source: BLS

# Return to Office

San Francisco workers have been steadily returning to the office pushing office building occupancy rates to a year-end high of 42%, according to Kastle Systems. Weekday BART (Bay Area Rapid Transit) station exits, located in or in close proximity to the CBD, increased over 50% since January 2022. San Francisco's Muni (light rail vehicle & motor bus) daily boardings also increased by more than 50% from Q1 thru Q3 2022 compared with 2021.

# U.S. VC Funding

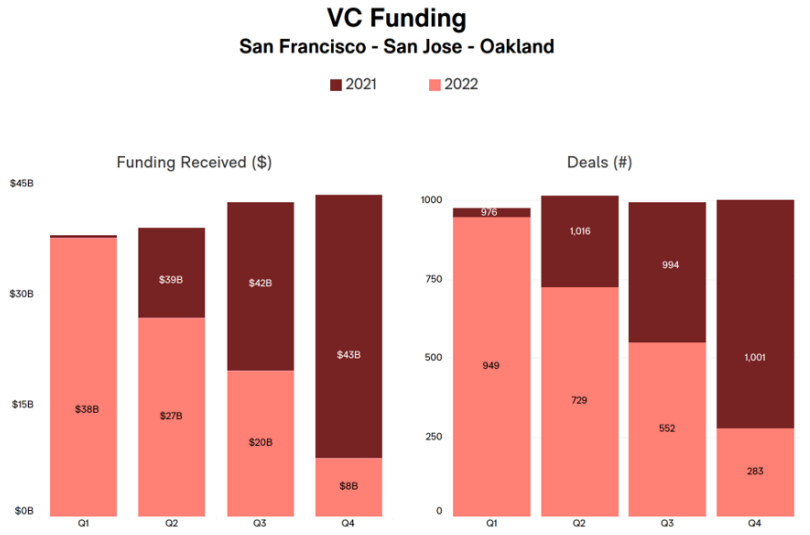
The Information Technology sector received a higher percentage of funding over the past five years totaling $414B, followed by Healthcare.




Source: Pitchbook

## San Francisco VC Funding

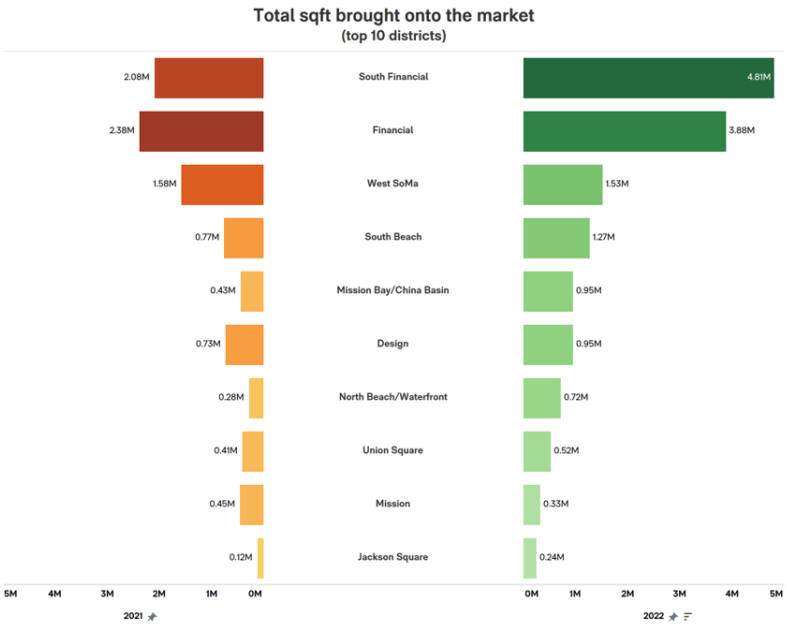
The San Francisco-San Jose-Oakland metro deals and fundings dropped steadily in 2022. Though both deals and fundings reached three-year high in 2021, 2022 deals plummeted 70% from Q1 to Q4. Fundings received fell nearly 80% from $38B in Q1 to $8B in Q4. The San Francisco-San Jose-Oakland metro made up nearly 40% of total Q4 funding received in the U.S. in 2021, which dropped to 27% in 2022.




Source: Pitchbook

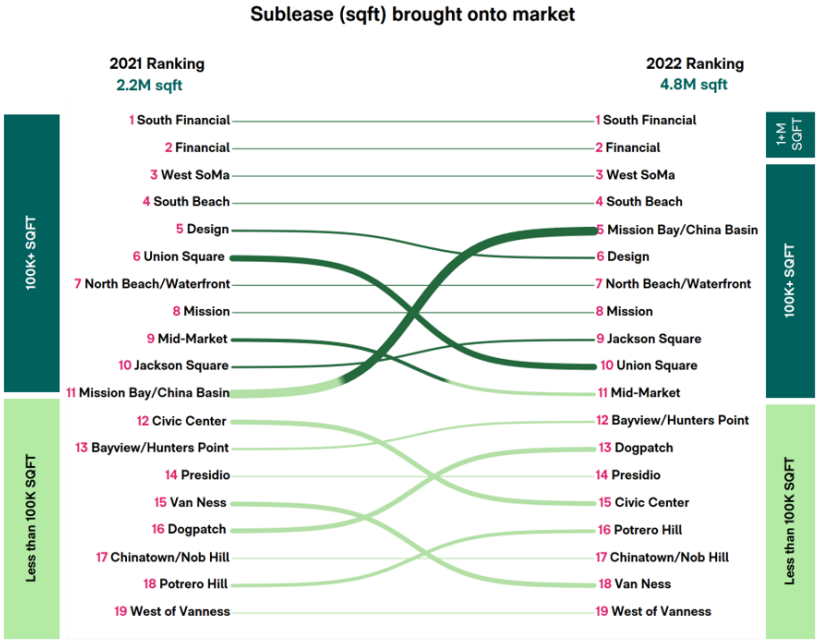
# Availability Trends

With the increase of companies re-evaluating their real estate portfolio within San Francisco, total available square feet brought to market grew exponentially reaching a new three-year high of over 32.4 million square feet (msf). Submarkets with the largest increase of square footage brought to market since 2021 include North Beach/Waterfront (148%), South Financial (123%), Mission Bay/China Basin (118%), South Beach (63%), and Financial (58%).




Source: Raise

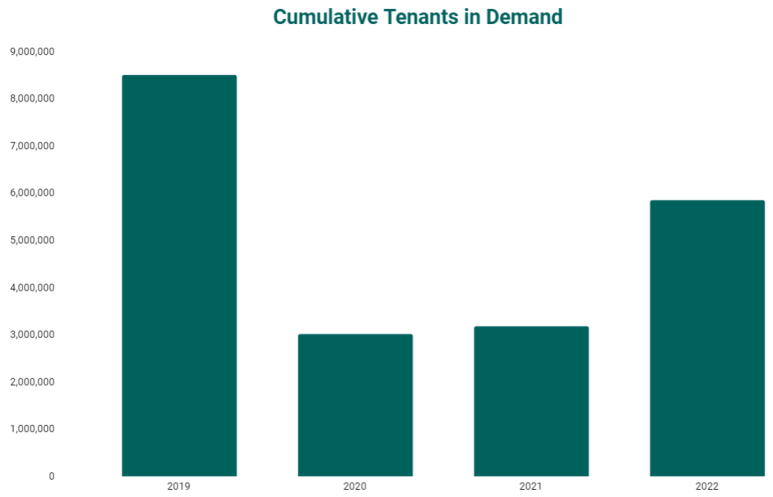
The Central Business District accounted for the majority of subleases brought to market in 2022, with an increase from 821K square feet (sf) in 2021 to 2.6 msf in 2022. The Central Business District makes up 54% of the total sublease available in 2022; an increase from 36% from 2021. Examples of companies with more than 100k sf of sublease space on the market include AirBNB, Lyft, Twilio, Slack, Doordash, and Nektar Therapeutics.



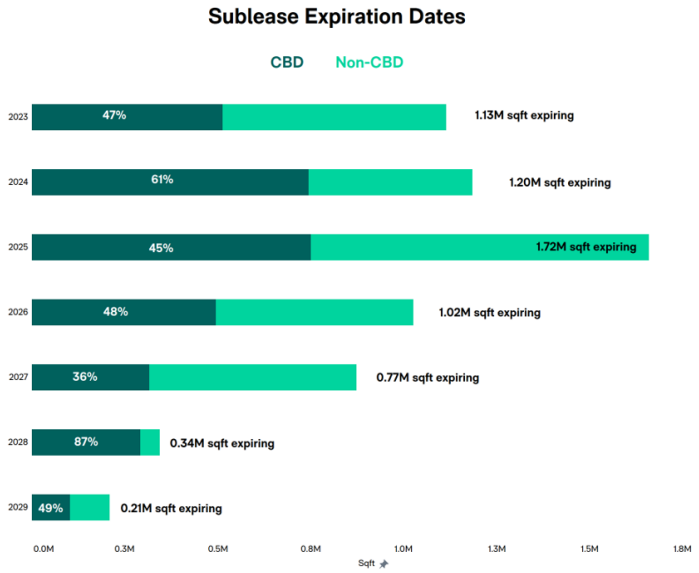

Source: Raise

# Office Demand

Square footage demand increased over 83% in San Francisco (5.8 msf) from 2021 with over 65% of those tenants in the Technology and Legal/Financial services industries. Though many large companies have put a considerable amount of their real estate portfolios on the sublease market, smaller early-stage companies and professional service firms have been able to take advantage of the increased inventory of spaces and falling rents.




Tenants looking at smaller spaces have become more common due to companies both adopting hybrid workplace strategies and further consolidating their real estate portfolio. In 2022, leased spaces smaller than 10,000 sf increased over 66% from 2021. Along with smaller spaces becoming more attractive to tenants, new subleases entered the market at record pace. Within the next three years, more than 40% of the over 9 msf of sublease space on the market will be expiring and potentially entering the market as direct space.




Source: Raise

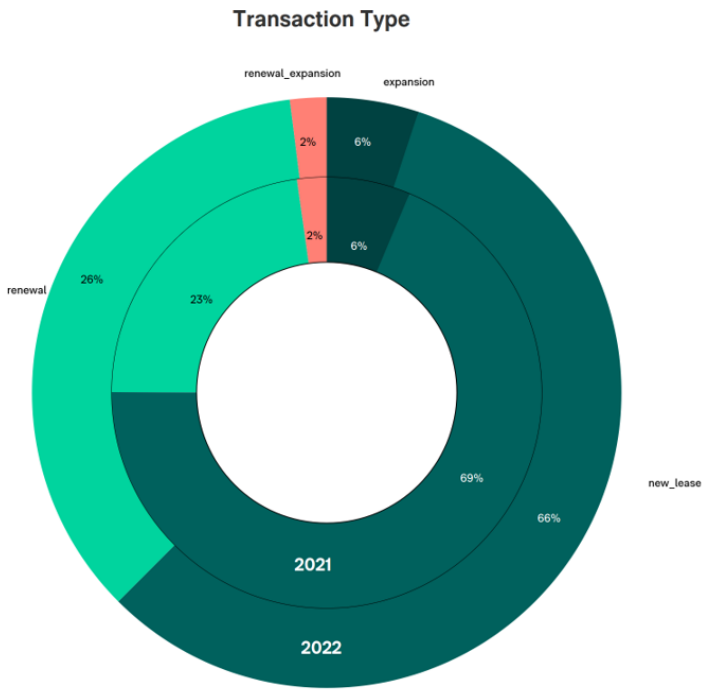
# Leasing Activity

The strongest market trend continues to be a flight to quality with the majority of lease transactions taking place in the CBD. Major factors contributing to this trend included proximity to local transportation, access to highly prized amenities, and perceived security. Total leasing activity in 2022 increased 11% from 2021 to just under 4.6 msf, of which 64% transacted within the CBD. The CBD leasing increased 17% to 430K sf since 2021. Of the leases signed in the CBD, 85% were in Class A buildings, which is an increase of over 525K sf from 2021. Sublease square footage signed decreased just over 100K sf since last year due to more favorable direct asking rents and flexible lease terms.

Taking rents for direct deals in the Class A buildings increased in the Financial and South Financial Districts, 4% and 8%, respectively, from 2021. Though other submarkets may have had sizable jumps in taking rents, over 70% of total deals transacted in 2022 have occurred in the Financial and South Financial Districts. Taking rents for subleases in Class A buildings in the CBD have stagnated since 2021.


Source: Raise

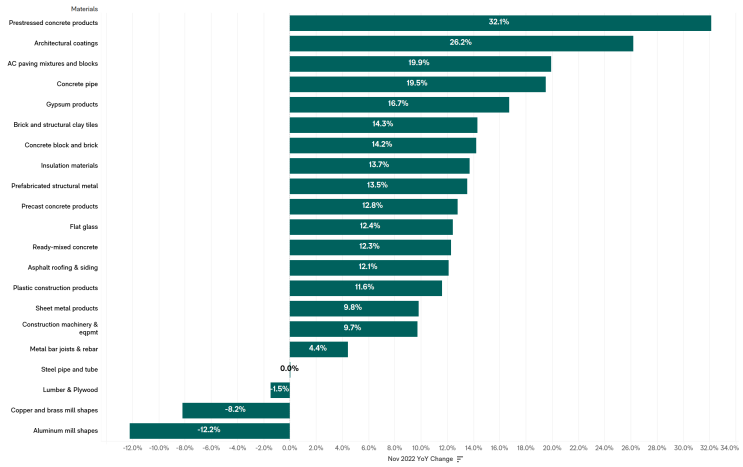
With flexibility of lease terms increasing, renewal leases have increased nearly 200K sf since 2021 for a total of 1.17 msf in 2022. New leases signed in 2022 made up 66% of all lease transactions with 63% of them located in the CBD.




Source: Raise

# U.S. Construction and Supply Chain

The impacts of supply-chain disruptions have been the steady increase in construction materials and labor costs. As of November 2022, U.S. construction materials pricing increased 9.7% YoY but dipped 0.4% from the previous month. Pricing on construction materials downstream from petroleum production such as concrete and asphalt increased sharply in 2022 driven by inflation, supply-chain disruptions, and lower oil production.




Source: BLS

# Largest Transactions

| Submarket | Tenant | Address | Leased SF | Space Type |
|---|---|---|---|---|
| South Financial | Wells Fargo | 333 Market St | 657,117 | Renewal |
| North Beach/Waterfront | Levi Strauss | 1155 Battery | 367,000 | Renewal |
| Jackson Square | Ripple Labs | 600-640 Battery St | 124,547 | New Lease |
| South Financial | Waymo | 555 Market St | 99,870 | New Lease |
| Financial | Vista Equity Partners | 4 Embarcadero Center | 89,057 | Renewal/Expansion |
| Chinatown/Nob Hill | Goodby, Silverstein & Partners | 720 California Street | 81,065 | Renewal |
| Mid-Market | Twitter | 1301-1363 Market St | 80,000 | Expansion |
| Financial | US Bank | 1 California St | 74,000 | Renewal |
| South Beach | Planet Labs | 645 Harrison St | 72,000 | Renewal/Expansion |

# Sublease Comps

| Submarket | Tenant | Address | Leased SF | Space Type |
|---|---|---|---|---|
| West SoMa | Google Cloud | 510 Townsend St | 269,059 | New Lease |
| South Financial | Sephora | 350 Mission St | 232,942 | New Lease |
| South Financial | CBS | 680 Folsom St | 90,000 | New Lease |
| South Financial | Iconiq Capital | 300 Mission St | 88,600 | New Lease |
| South Financial | Sigma Computing | 116-118 New Montgomery St | 83,015 | Expansion |
| South Financial | Asana | 680 Folsom St | 70,770 | New Lease |
| South Beach | Opendoor | 303 2nd St | 44,961 | New Lease |
| South Financial | Loom | 85 2nd St | 33,426 | New Lease |
| South Beach | Sofar Ocean Technologies | 26 Pier | 28,341 | New Lease |

# Summary

There is little doubt that the signs of a recession are accumulating and the effects of the pandemic recession are still present. On the brighter side, there is still an abundance of cash both on the investment side and personal savings. In order for inflation to stabilize, wage growth will need to level off, which will put downward pressure on demand, and subsequently, pricing on consumer goods.

In order to better weather this downturn and prepare for the next growth cycle, now is the time for companies to consider a financial strategy and review market fundamentals for flight-to-quality and repositioning opportunities. Though all eyes are on large companies to see what workplace strategy they are adopting, the large companies are also looking to the nimble startups that are test fitting hybrid models to which large companies can scale.

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