

**Bay Area Headquarters Authority
BAHA****July 24, 2024****Agenda Item 4a.i. - 24-0717****State of the Real Estate Market**

Subject:

Staff and Cushman & Wakefield (CW) will present an update on leasing activities at the Bay Area Metro Center located at 375 Beale Street, San Francisco, CA.

Background:

The Metropolitan Transportation Commission (MTC), the Bay Area Quality Management District (BAAQMD) and the San Francisco Bay Conservation and Development Commission (BCDC) occupy approx. 207,000 square feet, and all other BAMC space were leased to other commercial tenants in 2021. From 2016 to 2023 all leasable at BAMC space was occupied by private tenants. In 2021, this Authority approved an agreement with CW to assist BAHA with its on-going and future leasing needs. In 2023, Rutherford + Chekene vacated its space on the 3rd floor (15,542 rsf); Twilio has all its space on the market for sublease on floors 3 and 4(91,000 rsf)-this lease expires 10/31/24.

Since the onset of the Pandemic in 2020, the leasing market in San Francisco continues to face very strong challenges. Return to Office rates in San Francisco are dead-last for all the major US office markets. Current numbers are approximately 45% of pre-Pandemic levels. In addition, there continues to be a significant number of layoffs in the technology industry. This has affected San Francisco tremendously –prior to 2020 technology had been a huge driver of office market leasing activity. Current leasing demand is still far below pre-Pandemic highs; as a result, rents are forecast to continue to drop further over the next two to three years, while vacancy rates are at all-time highs (i.e. 33.9%).

The leasing challenge moving forward at BAMC remains to find the right target tenants, pursue them aggressively and be willing to make value-oriented deals. The ability to respond quickly to all interested parties, especially as the market remains dynamic and competitive, will be imperative. To allow BAHA to quickly act this Authority approved Resolution No. 0047: finding that the leasing of commercial space is not subject to the Surplus Lands Act and is exempt from the California Environmental Quality Act pursuant to CEQA Guideline 15301 authorizing: 1) the Executive Director to negotiate and execute tenant leases for a portion of APN 002-3746-669 within BAMC located at 375 Beale Street, San Francisco, CA 94105, provided the Authority achieves positive cash flow in year 2 of the lease, and based on the

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direction the BAHA Board provided during closed session on June 28, 2023, and 2) to take actions necessary or incidental to effectuate the leases.

Detailed information on the state of the real estate market and current BAMC stacking plan is included in Attachment A.

Issues:

None.

Recommendations:

Information item only.

Attachments:

Attachment A - Presentation

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