

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:

In 2012, BAHA hired Cushman & Wakefield (CW) to provide real estate brokerage services and act as the leasing agent at BAMC located at 375 Beale Street, San Francisco CA. This assignment was for non-agency office space within BAMC. CW's marketing efforts commenced on the property in 2013. At that time, it was very challenging trying to capture tenants as the entire building was a major construction zone, and the country was still recovering from the Great Recession. The initial tenants were both engineering firms, who were more clearly able to understand BAHA's vision for BAMC prior to its completion. An important part of the original lease-up success at BAMC was a result of CW's ability to transact deals at value-oriented rents - the first and second leases, signed in 2014 and 2015 had starting rents of \$42.50 and \$48.50.

As the renovation at BAMC progressed and the leasing market gained momentum, CW was able to obtain additional tenants at higher rental rates - \$54 in late 2015 and \$75 in 2018 during near market highs – and completed the initial lease-up of the tenant space within the building.

From 2018 through 2021 BAHA has been without a real estate brokerage service provider since 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 was leased to other commercial tenants. Although all leasable BAMC space was occupied in 2021, this Authority approved an agreement with CW to assist BAHA with its on-going and future leasing needs.

In 2023, the leasing market in San Francisco faces very strong headwinds. Return to Office has failed to substantially materialize, and there have been a significant number of layoffs in the technology industry, particularly in the last six months. This has very adversely affected San Francisco-for the past decade, technology has been a huge driver of office market leasing activity. Current leasing demand is far below pre-Pandemic highs; as a result, rents are forecast to drop further over the next two to three years, while vacancy rates approach historical all-time highs.

The leasing challenge moving forward at BAMC is 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.

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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