

San Francisco

Necessary industrial development is nonexistent as residential and office projects take precedence

- The conversion of industrial space in the City is influencing inventory scarcity and escalating asking rents.
- A landlord favorable market persists with rent up by 27% year over year despite 2022 ending with negative absorption.
- Vacancy declines despite obsolete facilities outweighing functional space in the market.

Amid growing demand for fleet storage, Google+ leased roughly 3.5 AC of yard space in Potrero. In contrast, leasing velocity for warehouse and light manufacturing space is declining because of functionally obsolete inventory as the scarcity of modern space persists. Limited space and outdated facilities are pushing tenants out to surrounding markets with more functionality.

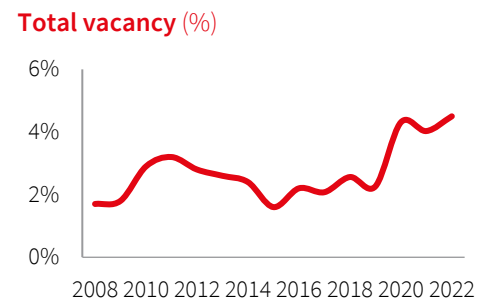
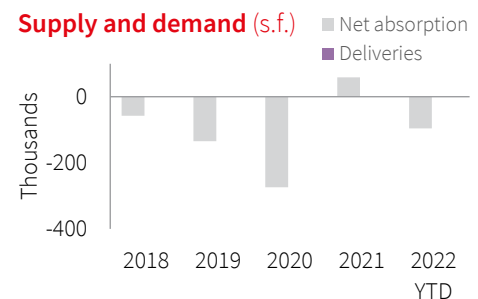
The average age of warehouse inventory in the U.S. is 43 years. Only 7% of industrial buildings were constructed after 2000 in the Bay Area. Aging inventory spurs demand for the development of modern facilities that can fulfill the tenant requirements within the country's epicenter of technological innovation. The sustainability of e-commerce, advanced mobility, and ClimateTech business sectors is limited without new construction. Distributors with large footprints have abandoned development plans in compliance with municipal regulations, putting the future of industrial leasing activity in highly regulated submarkets at risk.

Despite the negative absorption seen this year, due to move outs, San Francisco's demand persists as the average annual asking rent rose by \$5.58 p.s.f. year over year. Tenant demand is stable, with more than 2.7 million s.f. of requirements along the San Francisco Peninsula. The market maintains a sub-5% vacancy rate as it dropped by 20 bps since last quarter and 40 bps since last year. Closing out the year, restrictions on new construction are challenging Bay Area markets, causing the supply-demand imbalance to worsen. Cities are more hesitant to allow industrial use, leaving developers to deal with lengthy entitlement processes. As a result, no recorded projects are slated to deliver in the foreseeable future.

Outlook

Infrastructure revival is necessary to increase electrical capacity, among other features. Lack of power supply is limiting for industrial tenants, causing companies to resort to user-friendly markets with less zoning restrictions. What keeps tenants in the City is their proximity to Bay Area consumers and businesses. Given the constraints, 6.9% of the inventory is available, challenging tenants with strong competition for traditional leases.

Fundamentals	Forecast
YTD net absorption	-95,953 s.f. ▲
Under construction	0 s.f. ►
Total vacancy	4.5 % ▼
Sublease vacancy	33,959 s.f. ▼
Direct asking rent	\$24.97 p.s.f. ▲
Concessions	Declining ▼



JLL Research Report

Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly Completions (s.f.)	YTD Completions (s.f.)	Under construction (s.f.)
San Francisco total										
Warehouse & Distribution	14,024,032	45,852	-85,525	-0.6%	4.2%	7.0%	\$25.82	0	0	0
Manufacturing	1,775,614	-11,659	-10,428	-0.6%	6.7%	6.3%	\$27.22	0	0	0
Special Purpose	27,631	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	15,827,277	34,193	-95,953	-0.6%	4.5%	6.9%	\$25.97	0	0	0
Non-CBD total										
Warehouse & Distribution	10,272,677	75,721	-124,612	-1.2%	4.1%	7.3%	\$26.30	0	0	0
Manufacturing	1,329,014	-11,659	-21,628	-1.6%	8.8%	8.3%	\$27.22	0	0	0
Special Purpose	27,631	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	11,629,322	64,062	-146,240	-1.3%	4.6%	7.4%	\$26.41	0	0	0
Dogpatch / Pier 70										
Warehouse & Distribution	827,405	0	-22,820	-2.8%	2.8%	0.0%	\$0.00	0	0	0
Manufacturing	506,571	0	31	0.0%	0.5%	0.7%	\$28.20	0	0	0
Overall Total	1,333,976	0	-22,789	-1.7%	1.9%	0.3%	\$28.20	0	0	0
Lower South of Market										
Warehouse & Distribution	390,425	0	0	0.0%	8.5%	8.5%	\$0.00	0	0	0
Manufacturing	73,013	-11,659	-11,659	-16.0%	31.0%	31.0%	\$0.00	0	0	0
Overall Total	463,438	-11,659	-11,659	-2.5%	12.0%	12.0%	\$0.00	0	0	0
MidMarket										
Warehouse & Distribution	22,500	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	22,500	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Mission Bay/China Basin										
Warehouse & Distribution	468,077	0	-20,600	-4.4%	4.6%	9.3%	\$0.00	0	0	0
Overall Total	468,077	0	-20,600	-4.4%	4.6%	9.3%	\$0.00	0	0	0
North Beach										
Warehouse & Distribution	190,000	0	0	0.0%	0.0%	54.8%	\$0.00	0	0	0
Overall Total	190,000	0	0	0.0%	0.0%	54.8%	\$0.00	0	0	0
Potrero East of 101 Fwy										
Warehouse & Distribution	5,415,904	75,531	52,556	1.0%	3.7%	6.3%	\$25.04	0	0	0
Manufacturing	425,190	0	-10,000	-2.4%	13.6%	15.4%	\$28.37	0	0	0
Special Purpose	27,631	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	5,868,725	75,531	42,556	0.7%	4.4%	6.9%	\$25.39	0	0	0
Potrero West of 101 Fwy										
Warehouse & Distribution	1,761,687	190	-14,160	-0.8%	0.8%	1.8%	\$25.00	0	0	0
Manufacturing	96,360	0	0	0.0%	19.1%	19.1%	\$25.00	0	0	0
Overall Total	1,858,047	190	-14,160	-0.8%	1.8%	2.7%	\$25.00	0	0	0
Rincon/South Beach										
Warehouse & Distribution	288,927	0	0	0.0%	0.0%	1.7%	\$0.00	0	0	0
Manufacturing	24,000	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	312,927	0	0	0.0%	0.0%	1.6%	\$0.00	0	0	0
Showplace Square										
Warehouse & Distribution	588,142	0	-100,000	-17.0%	18.2%	29.3%	\$30.00	0	0	0
Manufacturing	85,880	0	0	0.0%	18.6%	0.0%	\$0.00	0	0	0
Overall Total	674,022	0	-100,000	-14.8%	18.3%	25.6%	\$30.00	0	0	0
South of Market										
Warehouse & Distribution	319,610	0	-19,588	-6.1%	7.0%	7.0%	\$0.00	0	0	0
Manufacturing	118,000	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	437,610	0	-19,588	-4.5%	5.1%	5.1%	\$0.00	0	0	0
SF Downtown West total										
Warehouse & Distribution	116,296	-3,162	15,744	13.5%	2.7%	2.7%	\$0.00	0	0	0
Overall Total	116,296	-3,162	15,744	13.5%	2.7%	2.7%	\$0.00	0	0	0
Chinatown/Nob Hill										
Warehouse & Distribution	61,587	0	18,906	30.7%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	61,587	0	18,906	30.7%	0.0%	0.0%	\$0.00	0	0	0
Yerba Buena										
Warehouse & Distribution	54,709	-3,162	-3,162	-5.8%	5.8%	5.8%	\$0.00	0	0	0
Overall Total	54,709	-3,162	-3,162	-5.8%	5.8%	5.8%	\$0.00	0	0	0
SF Outer Areas total										

Warehouse & Distribution	244,028	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Manufacturing	41,779	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	285,807	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Southern City										
Warehouse & Distribution	168,963	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Manufacturing	27,379	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	196,342	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
West of Van Ness										
Warehouse & Distribution	75,065	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Manufacturing	14,400	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	89,465	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
SF Southeast total										
Warehouse & Distribution	3,391,031	-26,707	23,343	0.7%	4.8%	6.6%	\$21.72	0	0	0
Manufacturing	404,821	0	11,200	2.8%	0.4%	0.4%	\$0.00	0	0	0
Overall Total	3,795,852	-26,707	34,543	0.9%	4.4%	6.0%	\$21.72	0	0	0
Bayview/Hunters Point										
Warehouse & Distribution	2,324,441	-30,400	25,743	1.1%	6.4%	8.3%	\$21.41	0	0	0
Manufacturing	330,036	0	11,200	3.4%	0.5%	0.5%	\$0.00	0	0	0
Overall Total	2,654,477	-30,400	36,943	1.4%	5.7%	7.3%	\$21.41	0	0	0
India Basin										
Warehouse & Distribution	1,066,590	3,693	-2,400	-0.2%	1.5%	3.1%	\$21.92	0	0	0
Manufacturing	74,785	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	1,141,375	3,693	-2,400	-0.2%	1.4%	2.9%	\$21.92	0	0	0