

The Weekly Take

Turnaround: Inside San Francisco's Office Revival

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Spencer Levy

San Francisco is central to the latest tech and AI revolution, and the city's challenged office market, among other commercial sectors, has started to feel the effects of this boom. Bay Area Real Estate has been through it before, of course, with similar ups and downs in the tech industry. But amid the current cycle, developers and operators are finding new ways to make it work. On this episode: creating opportunity after a downturn, and a new wave of workplace in a market driven by innovation.

Cyrus Sanandaji

There's a lot of people that love to hate on San Francisco, but we're really finally having our moment.

Spencer Levy

That's Cyrus Sanandaji, Founder and Managing Principal of Presidio Bay Ventures, a San Francisco firm that operates across a mix of sectors and has an existing portfolio valued at nearly \$5.4 billion. Presidio Bay's latest project is called The Spear, and it's a big point of our upcoming conversation.

Conor Famulener

We're getting a lot more balanced and the flight-to-experience aspect and category is very real.

Spencer Levy

And that's Conor Famulener, a CBRE Executive Vice President who represents institutional investors throughout the greater San Francisco market. A former Cal-Berkeley basketball player who was part of three March Madness tournament teams, he took his talents across the Bay where he's covered the office sector for CBRE for more than 20 years. Coming up: disrupting office experience as workplace real estate makes a comeback in Golden Gate City. I'm Spencer Levy and that's right now on The Weekly Take.

Spencer Levy

Welcome back to San Francisco on The Weekly Take. And we've got two terrific guests here starting with Cyrus Sanandaji. Cyrus thanks for having us in.

Cyrus Sanandaji

Thanks for having me on.

Spencer Levy

And then we have our own Conor Famulener, thanks for joining us here today.

Conor Famulener

Happy to be here.

Spencer Levy

This is our third episode on the San Francisco office. But we keep coming back. Why do we keep comin' back in your opinion, Cyrus?

Cyrus Sanandaji

You know, I'd say it's easy to love and hate San Francisco. I think there's a lot of people that love to hate on San Francisco, but we're really finally having our moment. The last five, six years was a little bit of a difficult time for the city, all the doom loop narrative and so on, but thankfully as we look at all the green shoots that we sort of thought about or projected or anticipated three, four years ago all come to fruition today. The city today is a far cry from the negative stigma that was associated with it at the peak of COVID. And I think that has a lot to do with some of the fundamentals that the city and the region continue to benefit from. But as a part of that, we're seeing this incredible recovery in the office sector. We're seeing some incredible recovery and the resi sector with the departments and now even the condo sector. And so it's a great time to be in San Francisco. A lot of new company formation, a lot of capital formation, candidly, a lot of new migration and new job creation.

Spencer Levy

It's quite a remarkable turnaround story. So I think it might be our number one rent growth market in the United States. But Conor, you've been here now in the leasing business for 20-plus years. Tell us your perspective of why San Francisco today, where we've come from over the last couple of years.

Conor Famulener

Well, you mentioned it's a boom and bust market. And from the outside looking in, some of the overall stats don't really paint a real picture of what's going on on the ground. And at a 28% vacant market, we talked to investors coming in from other cities that are really scratching their head on the momentum they keep hearing about in San Francisco. But then you boil down the stats and the classes into different categories and trophies doing better than it ever has before with 6% year over year rent growth. Then Class A, Class A Prime doing extremely well. And we have some all time records that are happening right now as well. We have nine million square feet of overall tenant demand, which is a good million and a half higher than we've ever had before, which is our peak in 2019. We have 31 tenants over 100,000 square feet looking for space right now. And the amount of space they can go into has shrunk dramatically over the last few years. At the peak of COVID, we had 58 blocks of space that could go into. Now we have 36, so 36 holes, 31 tenants. We're getting a lot more balanced and the flight to experience aspect and category is very real behind some of these larger relocations, which is a great segue into The Spear.

Spencer Levy

Well, The Spear is a spectacular building and you've owned it for several years now. Tell us about the story of The Spear, how'd you get it, what you did, where it's going.

Cyrus Sanandaji

Let's rewind the clock three years. The doom loop narrative had dominated all the headlines. Institutional capital was sidelined. There was virtually no debt in the market at all. And Clarion had decided to sell this asset out of an ODCE fund, and it was unlevered but they thought that it was liquid. And we were fortunate enough to have capital at the

right time and pair that up with conviction around the fact that this differentiation and what we were seeing in the market and what we found in The Spear was this fantastic canvas that gave us the opportunity to be able to really reimagine what an office building of the future should look like when you have 100% vacancy in a building and the ability to then take it down effectively to the studs and really kind of rethink that guest experience, that end-user experience, and layer in the cap-ex that's necessary a lot of square footage expansion as well, including the expansion of a couple floors vertically to add a really unique 500-person restaurant, bar and event space, and a whole host of other things – something that, fast forward a few months into our acquisition, we ended up dubbing the world's first office resort and really leaning into this hospitality idea and this notion that for office to work, you need to provide something fundamentally unique that otherwise won't exist in people's homes, and that the balance of the market is not going to be able to provide to them. And that's going to be both a combination of the actual physical space and design, but also then layering and then hospitality. And so, for us, that's really what The Spear provided.

Spencer Levy

The office resort. What exactly is the office resort and how does it work in The Spear?

Cyrus Sanandaji

So we really took a step back and thought about what the future of office would look like in a post pandemic setting and we came up with this construct of the “office resort” which really captured what we believe to be the hierarchy of needs of folks who would go to an office and—the first being the need to gather in person to have human interaction because we are fundamentally social beings, the second being focus on the health and wellness, the mind, body and soul of the occupants, and third and lastly and by design, productivity.

Spencer Levy

Let's go back, though, because I want to get specific. What exactly is an office resort? Tell me, like, just bottom line, are you getting massages there? Are you getting a bar there? Just tell me exactly what those are.

Cyrus Sanandaji

Of course. How we translated that into the actual program, both physically designing the spaces and how we're going to be managing the spaces. Our sister company, The Main Post, has this entire hospitality focus and mindset on delivering service. This is all really built on our entire notion that it's not about a flight to quality, but winners in today's market are really capturing the essence of a flight-to-experience. And so what that means at The Spear from top to bottom – and we had this great opportunity to start with a blank canvas with a building that we were able to vacate and take down to the studs effectively – we're addressing in-person interaction by putting in on the new upper floors 500 person event space, restaurant and bar with panoramic views of both the city skyline and the a bridge that has this beautiful Bay Lights that have gone on since March of this year, so it's a gorgeous art installation. Wind-protected, always a little microclimate up there, it's about 10-15 degrees warmer, and you can attest to that when we're up there in March. And then a number of other spaces within the building, the town hall that has multiple configurations. We get to health and wellness in mind, body and soul by having a variety of your traditional fitness, but also what we call the performance lab. So you've got two treatment rooms there, we're going to have a number of doctors on site providing a variety of services so we're going to have physiotherapists, acupuncturists, massage therapists, and personal trainers on site.

Spencer Levy

It's pretty remarkable for a building that's – and I say this not to disparage – that's a lot of amenities packed into a relatively small space.

Cyrus Sanandaji

It is. We had the benefit of this building having a tremendous amount of space that we could then program, but not in a one-dimensional manner. So the event space, restaurant and bar is open to the public. The spa and fitness facility, for example, is going to be a subscription membership model. And so we've partnered with a great group here in town to provide those services. Those aren't going into the building CAM. But as a tenant in the building you have the exclusive ability to be able to leverage all the services

Spencer Levy

And just so our listeners know “CAM” stands for Common Area Maintenance charges. It means that you might have all this cool stuff there, you're not paying it as part of your rent.

Cyrus Sanandaji

Correct. But people are going to pay the rents to have that.

Spencer Levy

Have better access to it.

Cyrus Sanandaji

Better access to it. We have a phenomenal, in fact, to the foodie in you, they've been written up as the best croissant in America, Arsicault Bakery.

Spencer Levy

That's a high bar. I'm a big croissant guy.

Cyrus Sanandaji

Well, we're going to put it to the test when they open up, but they're going to be on the ground floor. Now, a French bakery, a ton of butter, a lot of sugar – that smell is going to permeate the entire lobby when you walk in every morning and that sound of the espresso getting pulled in your fresh coffee getting ground, that really takes you to the resort feel, right? So from AM to PM, you know, the building sort of has you covered. And then when you think about productivity, we've got a great partnership with Arsicault, with this co-working space that's in the building. We have a number of podcast studios, so we would be doing this in one of the studios there the next time we get together. And not just audio, but also one for TV as well, so a media presentation room. Again, thinking about some of the potential tenants in the buildings with these investors, whether private equity or hedge funds or venture capital, etc. who get on Squawk Box or otherwise. Needs being able to actually accommodate

Spencer Levy

So Conor, I want to turn to you. You mentioned there were 30 plus tenants of 100,000 square feet or more in the market today. How attractive is something, an offering like this, and are other people doing things like this?

Conor Famulener

Interesting you should ask that. We originally went into The Spear as we're going into The Reserve with a game plan of going floor-by-floor, and traditionally the tenants that are willing to pay the highest rents are somewhat smaller. But as we went along and as the

crane went in the sky and as hammers were swinging at The Spear, a lot of bigger tenant activity and interest came out of the woodwork. But yes, absolutely other investors and developers are doing the same thing, even on the same block. Each one's a little bit different and unique in their own right, but all with the same goal of creating and energizing and activating a good turning great piece of real estate that has great bones in order to attract the best tenants and as a credit profile that you obviously want as an investor, but long-term at the rents that are continually growing quickly.

Cyrus Sanandaji

We had a test case at 388 Cambridge in Palo Alto as well that was actually new construction, ground-up construction, smaller jewel box of a building, but it was similar time frame. And we actually broke ground on a new construction office in that same time frame. So I think people really thought we were off our rockers. But again I think it reiterated our fundamental belief that the office by no means was dead, it was just what we expected from our office buildings and our office space that fundamentally had shifted. And if we could get ahead of that shift and start to help kind of define what that needs to look like, that we'd end up being able to attract a lot of tenancy and really outperform the market when you think about rents, when you think about vacancy, when think about absorption and so on. So fast forward three years, we're grateful for obviously San Francisco's recovery, but our bet was that even if the market had remained in its then relative stagnant place that we'd be able to outperform the market itself just given what we were doing and the basis obviously allowed us the flexibility and the latitude to be able invest the capital necessary to realize that vision.

Conor Famulener

We get the question a lot of where do AI tenants want to be? And AI tenants wants to be – there's a location aspect of it as well – but they want to be in a really good all around building that has the overall experience, the flight to experience qualities as part of it. Early on in COVID and coming out of it, it was built out of space because there was so much of it and they don't want to come out of pocket for the capital. But now it's to a building and to a location to a neighborhood that feels energetic and activated. And that's where SoMa and Mission Bay has done very well as of late, and really the specific asset versus the greater need. Neighborhood.

Spencer Levy

As I've mentioned many times in this show before, one of the ways I learn cities is I walk them. And I walked today from my hotel, Parc 55, two miles to where we're sitting right now, and I walked right through downtown. And there are still some neighborhoods of office that are struggling. So Connor, how do you break down the neighborhoods – you don't have to go through every neighborhood – but the neighborhoods that are thriving versus those that may need some more capex and some more love?

Conor Famulener

I'd say that the beginning of COVID, the vast majority of deals were done. 75% of the deals were in CBD in North and South Financial District. And there's many reasons why that happened, but they can all really be put under the umbrella of energy where you have happy hours, you have proximity to hotels, you just have a dense environment where there's people. And AI has been 60% of our overall demand. And the AI employee now, you've heard of nine-nine-sixing – working nine to nine, six days a week. It's very true and they want to be in the office and they are users of the economy around that building and the entire innovation ecosystem. And that's a big reason why a lot of these AI companies want to be here is the proximity to talent with universities close by with Cal, Stanford and

UCSF, but also the energy that's created by Cyrus and folks like him creating an office resort, like at The Spear. And you just go around that block in general and you have Sobrato doing taking a building and making a good building great, and Hudson Pacific doing the same thing with Rincon Center and across the street at One Market and just this massive capital infusion into that block alone with Madison Capital across the street and 123 Mission. And these are existing buildings that are older in nature that are being converted and transformed into what the modern tenant wants and owners that have come in and that capital have been rewarded for it already. And then you have this next wave where now we're starting to talk about ground up development again as well. And that's where Related has this boutique project called The Jackson, which is in the North Financial District. And that is right on the cusp of Jackson Square and really leaning into that market. You walked through that, I'm sure, on your way to this office right now. And we're really in the heart of it where we're sitting at the moment, but a very cool neighborhood. And Jackson Square has seen a massive uptick from a venture capital and private equity and AI company demand as well. And then in the last year or so, the CBD has kind of extended out into North Waterfront, into SoMa and Mission Bay has been extremely tight too with OpenAI expanding there as well. I just want to clarify a comment.

Spencer Levy

You said nine-nine-sixing?

Conor Famulener

Yes

Spencer Levy

Working from nine to nine, six days a week.

Conor Famulener

That's right.

Spencer Levy

By the way, I was a young lawyer in New York City. That would have been like a vacation, okay? So for all you AI folks out there, you aren't the first people to really work really hard, but—

Conor Famulener

They're taking Sundays off.

Spencer Levy

Nothing but love, nothing but love there, but Cyrus, you we're gonna add something.

Cyrus Sanandaji

I'd say let's let's take a step back and sort of set a baseline as to what our office market looks like, which shockingly for the amount of talent, the amount of capital that exists in San Francisco—we have some structural issues limiting sort of what's happened here over the last series of cycles. And the fact that we are such a boom and bust town with such drastic spikes and troughs that we haven't seen a sustained amount of investment in the office sector. So when you look at our top tier buildings and you think about what those are, I would go so far as to say that as much as I love San Francisco that they pale in comparison to a lot of the great product you would get in New York City or in Chicago or really in London or any of the other major cities around the world.

Spencer Levy

Let me pause on that point for a second, because I think one of the beauties and the unusual natures of San Francisco is – and that's when I did this two-mile walk and I've walked through San Francisco many times before, and I don't mean this in a negative way – it has an eclectic mix of real estate.

Cyrus Sanandaji

It does.

Spencer Levy

A lot of old real estate, different styles, and that's before you even talk residential.

Cyrus Sanandaji

Totally agreed. And part of it is that we have this structural issue with respect to this limit, a legislative limit on office square footage. So we have the thing called Prop M, and Prop M doesn't allow you, it's not like TDRs in any other market where you could actually sell or trade your square footage, it is this central pot, think of it. And if you were to demolish an office building, unless you're rebuilding the exact same thing, it's very difficult for you to retain that same amount of square footage. So what's ended up happening is, A, we have a relatively old stock – and this is pertinent to this conversation, because that's what's going to end up leading to these structural vacancies that we have, right – is that until we have some policy change that allows us to actually think more entrepreneurially. But what's interesting is when you look at our top five or top ten buildings, they're not all the brand new glassy towers. And in fact, those very towers don't even really have amenities. So that's reflective of the broader fact that when this market turns on, and by virtue of the limits that we have on Prop M, there's only so much office space to go around and we see these drastic spikes in rents and so. You don't need to have a hugely differentiated building when the getting's good because you're renting it, but I'm really really glad to see that in the values deteriorated so much that there are enough entrepreneurial and innovative investors that have come in who are willing to now invest substantially into these buildings and believe that they can actually outperform the market because what that's going to do today is we're looking around there's this fundamental shift in the San Francisco market and I think all these new towers that are going to be built you know hopefully get built that's gonna change our skyline in a very positive way and raise the bar as to what the baseline looks like in this market

Spencer Levy

We had as a guest on the show, Steve Cuzzo, who is the lead real estate and restaurant writer for the New York Post. And I asked him, what makes a great restaurant, right? Well, this is what he said: Number one, a good lease because if you don't have a good lease, you ain't gonna make it. Number two, fantastic service. Number three, the food. Which is like, huh? But that's what he says. And this guy's the lead restaurant writer, so this guy is pretty knowledgeable. I use that because when I take a look at great real estate and great tenants, I often say that rent is the least important factor. It's these other things. How do you see it Conor?

Conor Famulener

It's interesting you brought up London a minute ago and I have this exact thought because you look at some of these newer developments or the projects that are iconic in nature where the ideal world is to create this competitive landscape where tenants are climbing all over each other to be in this building and we've been lucky enough to be able to create

that. We have a similar situation going on at The Spear right now and some others where it's really proven that tenants are somewhat rent agnostic.

Spencer Levy

That's my point.

Conor Famulener

Why can't we have rents like London or Hong Kong or Greenwich or New York? Why can we hit a 150, a 200, a 250 in this market? And there's really nothing holding this company back from doing it because they do pay those rents in those other markets. And San Francisco so far in the last six years has climbed 50% for trophy rents.

Spencer Levy

So where are we for the best, not like the unicorn, but for the best stuff except for the unicorns, what are people paying?

Conor Famulener

We're really in the 150 to 180 range.

Spencer Levy

Okay. And where were you five years ago?

Conor Famulener

Low hundreds. So we've seen record-setting rents already so far this year. For \$130 square feet and more, we've signed 17 – we as a market, have signed 17 – deals so far.

Spencer Levy

Are these gross or net?

Conor Famulener

These are gross equivalent.

Cyrus Sanandaji

To put it in context, Pinterest pre-leased a large portion of 88 Bluxome, which was a development that Alexandria had that was in process that ended up stalling going into 2020. That deal was reportedly about \$115 a foot pre-lease for what should have been at the time the top tier building – the newest construction, we don't generally do pre-leasing here, et cetera. So to see the market go from 115 to plus or minus 180s for the top-tier product on an average basis, it just shows you how much we've moved in six years, which is again, a function of shifting, I think priorities with respect to the new type of companies that are out there, because it's not just these AI companies. It is two-thirds of our market or 60% of our market, but it's the professional services firms, too. It's the private–

Spencer Levy

They don't want to be near these tenants.

Cyrus Sanandaji

Well, I think they all value–there's certainly something to be said about the ecosystem and the–

Spencer Levy

The clustering.

Cyrus Sanandaji

-the clustering. Yeah, but I think it has more to do with the fact that there's a scarcity with respect to buildings and space That can be offered in these unique differentiated settings and the fact we have such a scarcity of it in this city that shows you that they're willing to then really step up, because what they value the most is actually their people and the talent. And the talent wars today are even more dramatic than they were pre-2020.

Conor Famulener

I want those people to be in a cool, creative workplace that is something they get excited to come in every day.

Spencer Levy

They want to be there.

Cyrus Sanandaji

It is a philosophy that from the investors all the way through the founders has just permeated this segment, this new chapter of innovation and innovators, and I'm seeing it from friends who are founders, I'm seen it from the friends that are in AI companies or otherwise. The notion of remote work, which was such a prevalent concept five years ago, six years ago has completely gone away, at least in this market, and I'd hope that that's sort of something that's going to permeate through the rest of the country and the rest of world for the benefit of office owners. But that insistence on being in person and together because of the pace of innovation, it's a necessity. It's not a luxury.

Conor Famulener

We're seeing a lot of growth also with the professional services groups for another reason, I think, that they're all benefiting off of the AI industry and the lawyers are doing business with them, the real estate brokers are doing business with them, the accountants, the bankers are taking them public, all across the board.

Cyrus Sanandaji

We talk about the hierarchy of needs that these tenants have and when we defined our office resort concept we actually said that the most important aspect of what we need to deliver in terms of service and amenity and hospitality and so on is to facilitate human interaction events in person gatherings of all natures, formal, informal, et cetera. That's priority number one. Priority number two is to focus on the health and wellness of the occupants, and that's mind, body, soul. That's thinking holistically, especially sitting here in the Bay Area, there's a huge emphasis on that, and I think people joke about our Patagonia vests and our hiking culture, but I think it's a reality. As hard as people work, they also focus on longevity and their macros and et cetera. And then the third, is productivity. That's the reality in our view of office. And as a function of that, as a byproduct of that office and then multi-family and all the others, R&D, et cetera, all those other spaces and decisions that get made around the built environment follow that same logic.

Spencer Levy

So Cyrus, I know you got a new acquisition. I don't know if you were able to talk about it, but it's on Battery. Tell us about it.

Cyrus Sanandaji

We were very excited about this one, and it had our eyes on it for a number of years. 301 Battery was the original Federal Reserve building in San Francisco. Built in 1924,

spectacular architecture, it had been owned prior to the current group whom we ended up buying it from – and I'll get into the details there – by a local family who'd invested tremendously in the asset. It really was spectacular bones, great building systems, really well-appointed. And it's in the heart of this Jackson Square, sort of, Downtown boundary. It's a part of the Embarcadero Center complex, in fact, connected to it. It's a little over 200,000 square feet. It was a distress– mean, it was a note purchase. And we were fortunate enough to, again, similar to The Spear, this was a note purchase with no clear line of sight to title. You have a New York-based borrower that had, I would say, scared off a decent amount of the bidders, but not us. And we leaned in, we had the right capital to lean in, and we acquired the note, and we're in the process of taking title here now.

Spencer Levy

I note that it's in Jackson Square. Jackson Square is a smaller, older neighborhood which has buildings that are really, really old. I don't think 1924 even is close to the oldest building in that neighborhood. I think there's some buildings there that are from the 19th century. But Jackson Square's a neighborhood that has lots of venture capital money – like the venture capital as their tenants – and a great ecosystem. What is it about Jackson Square and the reserve that makes it so attractive?

Conor Famulener

Well, the greater Jackson Square area, it really has kind of a SoHo vibe, similar to New York. And you have everything from the high end boutique with fashion, to really high end restaurants with Cotogna and Quince and Kokkari, to the indoor-outdoor connectivity. And there's really just been this overarching theme of venture capital and private equity groups that really like being there. It's close to Downtown. It's a few minutes walk. It really caters well to the decision-makers that live in Pac Heights or the northern side of San Francisco, and it's just got a very cool factor to it. And then the reserve just embodies all of that. It's got the very cool old Federal Reserve story to it, and people love a charming San Francisco story. They really do. And then it's got the event space, which is going to be extremely dramatic.

Spencer Levy

Tell us more about that event space. What is that about?

Conor Famulener

So on the ground floor, there's a venue that's 35-foot high with these huge marble columns.

Spencer Levy

Like the old bank.

Conor Famulener

It is the old banking halls. And that will be converted to a tenant-only, members like club, but tenants of the building only. Similar to like the Polo Bar in New York from a look and feel and esthetic perspective. Great place to hang out, collaborate, connect, have a cup of coffee, have a drink in the afternoon. And then at night, and on weekends, and for corporate events, or for weddings, there will be a few different rooms that flex to a sports simulator and a card room and a vinyl room and just different themes of different corners where people can have that outlet to get away from the productivity for a second, to have some fun, to have their team gather.

Spencer Levy

And I don't want to correct you, but I'm going to disagree with you. I don't agree at all that they're getting away from the productivity by playing together. I believe that that is essential to it. When do you get your best ideas? When you're sitting there in front of the screen or you're just sitting there with your colleagues, playing basketball, in the pool, having a beer?

Conor Famulener

You're absolutely right.

Cyrus Sanandaji

It goes back to that hierarchy of needs. It is creating moments that bring people together to facilitate great ideas. And that's really what this setting is meant to do. We had the office resort for The Spear. We're calling this sort of "framework by invitation." It's this idea that the building is actually a living landmark. It's not this historic artifact. It's actually this living, breathing building that's meant to actually continue to create history in San Francisco and be the heart of creating history in San Francisco.

Conor Famulener

And we haven't even talked about the office space yet, where you have interconnecting stairwells and outdoor decks, 15- and 20-foot clear heights, and the whole brick and timber feel, all with the combination of operable windows that you can open up and have fresh air and HVAC from an institutional perspective. And we're probably a few months away from really launching it. And we've already had a number of—a flurry of activity of people that want to get in and see what is about to happen.

Spencer Levy

Now, from a New York guy's perspective, 200,000 is a very small building. But that actually makes it attractive. The average building in Jackson Square is typically small, but does not make it a—first of all, how big is The Spear? And then compare it to this building.

Cyrus Sanandaji

The Spear is taller, this is only eight stories, the floor plates here are substantially larger. The Spear's, call it plus or minus 190,000 feet. This is 210,000.

Spencer Levy

Similar size though, right?

Cyrus Sanandaji

Similar size, just very different concept. One is a tower with water views and so on. This is a near full city block with four sides of windows and two offset center cores, etc. Thank you, everyone. They are two very different offerings in two very different submarkets, but that ironically cater to the same people.

Conor Famulener

Jackson Square is an amazing sub market in San Francisco, but it's only four and a half million square feet. So here we have this 90 million square foot MSA and it's just a small pocket and the largest building I think is 250,000 square feet. It's not that big It's all a bunch of smaller buildings cobbled together But I go back to where we were earlier in this conversation where now we have 31 tenants over a hundred thousand square Feet so bigger is back and we've had 23 deals so far this year sign which is we're going to set a record this year for an amount of 100,000-foot tenants that are signed. And we've already had almost 10 million square feet of overall leasing velocity, which is where we were on

par last year. So we have another three and a half, four months left in this year to really set the tone for next year already. But what you have in the last cycle is where you had mature tech and co-working really leading the way on this industry driver. Now you've had AI leading the way in 60% of our demand, but big tech's up again and they're starting to take more space and all the ancillary companies we talked about, ancillary industries, I should say, that benefit off of AI are expanding as well, So good things are happening.

Cyrus Sanandaji

Here's a really interesting stat, and Connor can correct me on the exact number, but our 10-year trailing average in terms of tenancy and market demand was about 5.4 million, 5.5 million feet. We're almost 2x that right now. I mean that's a huge turnaround for this city and then when you look at the shadow vacancy and all that, that was a bigger problem that we had. All these large tech tenants had so much sublease inventory. That's all either being taken off the market or has been leased up. And so it's really interesting to see that large block turn back on because I can tell you that even when we're underwriting The Reserve, we're absolutely underwriting conservatively floor-by-floor leasing.

Spencer Levy

One thing I didn't touch on is the other asset types you mentioned, multifamily, retail, tell us how they play into the resurgence of office or standing alone.

Cyrus Sanandaji

Obviously, jobs and housing are directly correlated, right, and so the employment figures and the net in-migration to San Francisco, the population growth, is all directly attributable to the fact that we have companies that are starting here, that are growing here, they're hiring here, and as a result of that – and what we talked about earlier, which is this emphasis on in-person and needing to be here – that this is the epicenter. This is what we call the cradle of innovation in the universe. This is the cradle of innovation. This is where everyone wants to be. That is having a similarly direct impact in terms of pressure, upper pressure on rents and multifamily, our vacancies and historic lows again. We're in this interesting period of time where, from a capital markets perspective, we should be seeing 10, 20, 30 cranes up in the air building apartments. Office is not quite there yet at 28% top-line vacancy, but we're in the low single-digit vacancy on the multifamily side, and we're seeing condo pricing crest beyond \$1,000 a foot. I mean, we were anemic, you know, sub a thousand in the last four or five years, I mean, people that have delivered new products.

Spencer Levy

For people with a sense of scale here, for the best departments in cities like New York, London, elsewhere, I mean you're well north of 2000, sometimes much well above that. So actually, I'm not saying it's a bargain, but it's still a lot cheaper, a condo here, than it is there.

Cyrus Sanandaji

100% and it is a bargain, but what I would say is that look at where single-family homes are and Connor made this comment earlier about these companies are paying these rents in New York and in London and in Tokyo and elsewhere in Hong Kong. Why can't they pay it here? And they finally have just decided we are and we're going to start paying. Well, you're seeing that with a lot of the wealth that's being created right now. You look at the single-family home market in San Francisco, and it is, I mean, nosebleed as to what's happening with just–forget about the price per pound–but just the rate at which this has escalated. So we were, again, five years ago at the bottom of the bottom in COVID and

the doom loop-era you were lucky if you sold a home for a thousand bucks a foot. That was a really good number. We've exceeded 2,000, we've got 3,000, 3,750 a foot comps already printing – and we haven't even hit IPO's yet. You haven't seen the massive liquidity events.

Spencer Levy

So, Connor, love to get your outlook. Where are we going today, next couple of years, primarily in the office market or beyond for San Francisco?

Conor Famulener

Well, I mentioned 28% overall vacancy. If you really boil it down and throw some zombie buildings in there, we're really closer to high teens. And we have some obsolete buildings from a functional perspective. We also have some absolute buildings from a capital stack perspective that are frozen from some sort of a debt maturity looming. So we're high teens there. I really do think we'll be in the low teens as an overall market here in the next few years. I think the AI world has a good 18 to 24 months of clear runway and beyond, but it's tough to see past that at this point. I do think it'll continue doing well. We're going to see some new projects change the city's skyline in the next few years that I'm very excited about. I mentioned Related building The Jackson. We talked about hotels in this town. And we don't have a five-star hotel. We do not have an over-the-top really nice five- star hotel in San Francisco and so that will be a 150-key very high-end hotel with the nightlife destination with office on top and then Heinz is going through their entitlement right now to build the tallest building on the west coast and that'll be taller than Salesforce Tower. That's going to be an exciting project as well.

Spencer Levy

Cyrus, I'll give you the last word.

Cyrus Sanandaji

The love that we have for San Francisco in the Bay Area, I think, cannot overstate the joy that we had with what's going on today. But I would say that the fact that we're such a boom and bust market, it really is incumbent on us in this next few years while the getting is good to really invest in some of the foundational things that the city is going to need to thrive – whether it's some great hotel infrastructure, a ton of more housing, some great retail, merchandising, et cetera – so that the next time, and candidly, also our political institutions and those in office, so the next time we experience a bust, it's muted, it's soft, it not for a prolonged period of time, and that net-net our recovery to the next boom thereafter is going to be much quicker than it was this last four or five years of COVID. So with that said, I'm over the moon with where we are and really appreciate our conversation as always.

Spencer Levy

Well, I really appreciate you both having me here in town. And what a great conversation today about San Francisco, The Spear and so much beyond that with Cyrus Sanandaji, who is the founder of Presidio Bay. Cyrus, always a pleasure to see you.

Cyrus Sanandaji

Thank you so much, Spencer.

Spencer Levy

And then Connor Baumhulner, Executive Vice President at CBRE, what a pleasure to have you here today. Go Bears.

Conor Famulener

Thanks, Spencer. Go Bears.

Spencer Levy

And thank you for being fans of our show. If you enjoyed this episode, make sure you follow us on your favorite podcast platform or join us through our website, CBRE.com/TheWeeklyTake, where you can also stay on top of our upcoming program. I'd also encourage you to check out our YouTube page, where we're posting content that includes some of our best conversations in full HD video. So check that out and stay tuned. Thanks again for joining us, I'm Spencer Levy. Be smart. Be safe. Be well.