

## ***Study: SF Class A CBD Market Tight by 2010***

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SAN FRANCISCO-The San Francisco CBD class A office market will be tight no later than the end of 2009, according to a Cushman & Wakefield study that uses historical absorption to make aggressive, moderate and conservative vacancy and rent projections. Regardless of the track the market ends up on, it spells good news for building owners who can hold on, says Christopher Roeder, the San Francisco-based C&W senior director who crunched the numbers.

Historically, if you look back 20 years and extract 2001 as an anomaly, San Francisco has been absorbing on average more than 1 million sf annually, says Roeder, whose conservative projection shows 2.5 million sf of net absorption over the next four years. That would push average CBD vacancy down to 8.68% by the end of 2009 from 14.84% at the end of 2005 and push average annual full-service direct asking rents up to \$55.83 by the end of 2009 from \$36.48 at the end of 2005, according to the study.

The aggressive projection--5.4 million sf of absorption over the next four years--shows the San Francisco CBD surpassing the conservative projection in the third quarter of 2008. By the end of 2009, the aggressive track has average vacancy down to 3.72% and the average direct asking rent at \$71.30 per sf per year. The moderate track--4.5 million sf of net absorption through 2009--shows average occupancy and direct asking rents meeting the conservative projection during the first quarter of 2009 and ending that year at 5.94% and \$63.15, respectively.

Vacancy and rent projections in the later years could be affected by speculative construction, which Roeder estimates will occur shortly after vacancy dips into the single digits and rents rise into the low \$50s. The projections might be less attractive if not for the loss of inventory to converters, says Roeder.

"The last few years we've been fortunate enough to see more than 1.5 million sf of class B and C buildings taken off the market by converters," says Roeder. "Additionally, we saw 22 companies move into San Francisco in 2005 from surrounding markets."

The report by Roeder, who represents both landlords and tenants, paints a rosier picture than [a recent study](#) released by the tenant rep firm Studley, which points to declining lease activity in San Francisco in the fourth quarter of 2005 and projects more of the same in 2006 due to a lack of sustained job growth. The Studley report states that, when comparing job growth to leasing activity, "in 2005, San Francisco tenants seemed to plan for future growth by leasing two seats for every one job created, a ratio that will not be sustainable into 2006."

Roeder says that by his count, the combined requirement of tenants currently in the market is on par with this time last year, if slightly lower than six months ago, and that in most of the transactions he's currently working on, companies are building in some growth for 2006 and 2007. "From my perspective, being in the market, talking with

different companies and analyzing the data, it seems obvious that in the next 36 months we will have single-digit vacancy and, as a result, rental rates are going to spike,” says Roeder.