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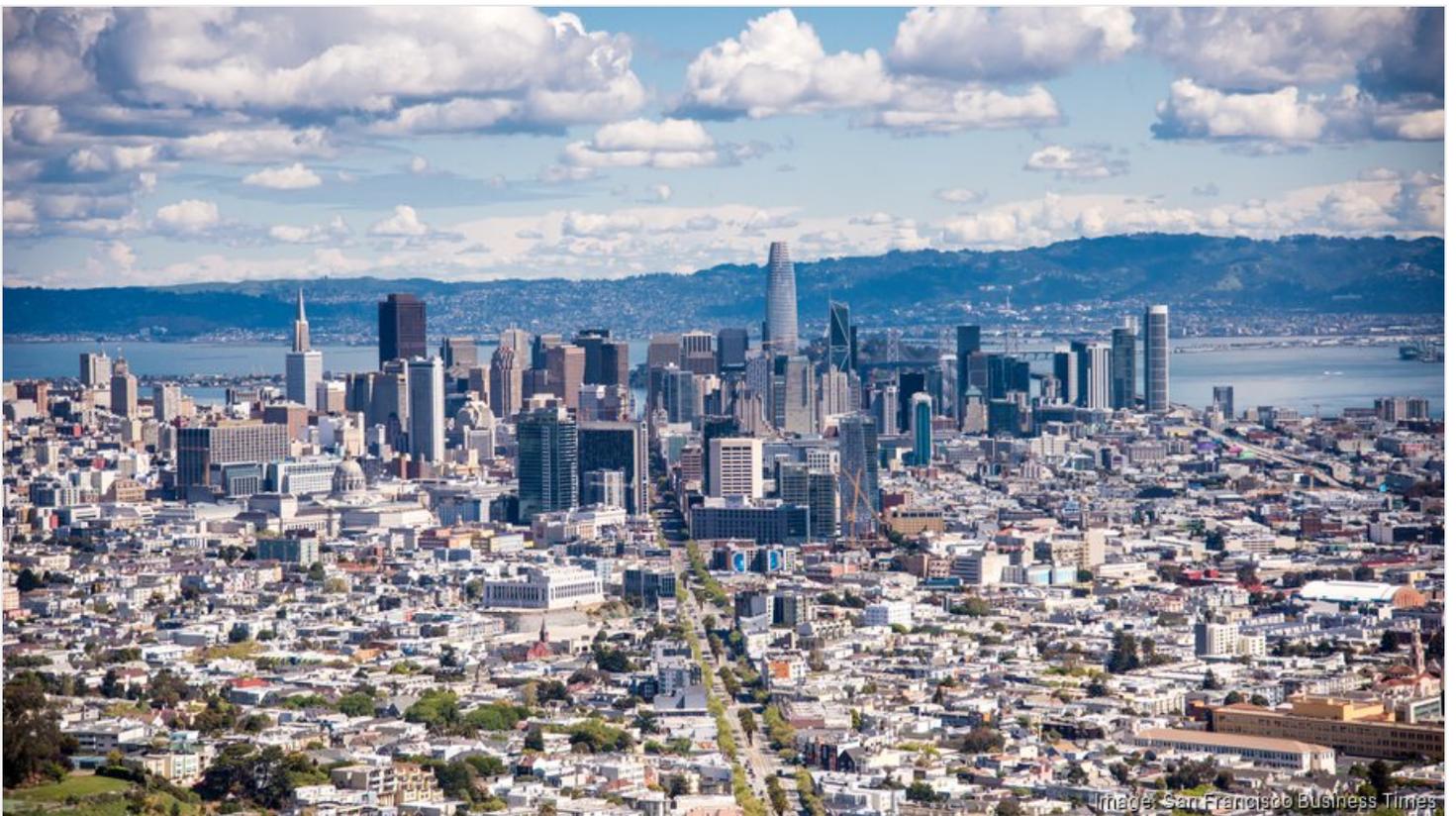
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**Commercial Real Estate**

# **S.F tenants want low-carbon office space and are willing to pay more. There's not nearly enough of it**



The San Francisco skyline from Twin Peaks on Thursday, March 26, 2020.

By **Hannah Kanik** – Reporter, San Francisco Business Times  
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As companies set higher and higher goals for carbon emission reductions, the city’s current supply of green office buildings isn’t on track to meet future demands, a report finds.

JLL released a report, [the commercial case for making buildings more sustainable](#), Tuesday that highlights the growing demand for sustainable office spaces in markets like San Francisco - despite the city’s high excess supply of space.

While the city and its utilities are taking action to eliminate building carbon emissions, the supply of sustainable buildings is not growing fast enough to meet the market demand that will come from tenants who have made ambitious commitments of their own, report author Paulina Torres said. If no further action is taken to develop new low-carbon buildings or retrofit and electrify existing building stock, 91% of the future demand for low-carbon office buildings in San Francisco won’t be met.

“While markets are experiencing softening demand, as is the case with San Francisco, there is this subset of demand from high-quality tenants that will seek low-carbon workspaces to satisfy their own carbon commitments,” Torres said. “This presents owners with a silver lining to capitalize on this demand by taking action to retrofit their buildings so that they may attract these tenants.”

San Francisco ranked among the highest projected demand surpluses in the nation, with Chicago and Washington D.C. reaching 96% and 92% respectively - higher than the national demand surplus, which is estimated to hit 75%, per the report.

The decline of office development in the pipeline means tenants will have fewer buildings with the sustainability features they’re looking for to choose from in the

coming years. San Francisco's incoming office projects have plummeted as the vacancy rates in office spaces across the city have risen. In the third quarter of this year, office development in San Francisco was 93% lower than the five-year average, Torres said. With supply of newer, more energy efficient and sustainable buildings declining in the pipeline, the demand surplus rises.

While more than three quarters of San Francisco's Class A office buildings have green building certification, tenants are looking at more than just a building's LEED rating, the report found. Tenants are looking for additional metrics like energy intensity and electrification.

"The big challenge in San Francisco is that the tenant base is extremely committed," Torres said. "They tend to have the more ambitious climate targets."

"So when you're specifically talking about carbon, you really have to look at building performance," Torres said. "And because of that, (LEED) certification isn't really a good mark for that."

More than 74% of tenants in San Francisco have a carbon commitment - and are increasing the demand for energy efficient and electrified space, Torres said. What's more, the city of San Francisco has mandated that all buildings be zero emission by 2040. Earlier this year, California legislators passed Senate Bill 253 that mandates high-earning companies to report their greenhouse gas emissions by 2026, which could put pressure on companies to seek out more sustainable buildings.

"It's not just tenants who want sustainable buildings," said JLL Executive Managing Director Wes Powell, who is a landlord leasing broker. "Landlords, from the board of directors on down, have big goals, ambitions and strategies to make their buildings more efficient. It's the right thing to do - and it's good for the marketability of the building."

There is a limited pipeline of suitable, sustainable space and existing options, creating a significant gap between supply and demand. Torres said building owners should prioritize energy retrofits and building electrification to differentiate their assets and attract this subset of high-quality, highly ambitious tenants.

San Francisco's Class A office buildings are on average 69% electrified, which is lower than market leader Seattle's electrified Class A building make up at 91%.

A **survey from CBRE** found 58% of respondents said they were willing to pay a premium for spaces with features like on-site renewable energy generation. The survey also showed 84% of respondents said they specifically look for energy-reducing features and 70% of respondents reported a heightened focus on ESG strategies in 2022.