

# San Francisco

## Quick Stats

**8.3%**

Class A Vacancy

**12.6%**

Class B Vacancy

**\$83.03 fs**

Class A  
Average Annual Asking Rate

**\$75.33 fs**

Class B  
Average Annual Asking Rate

The spread of COVID-19 and the containment policies throughout California and the U.S. continue to change rapidly. While information in this report is current as of the date written, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. We are committed to you, our clients, and remain available for discussions and advice as your partners and to offer our latest insights.

## Are more tech sublease blocks on the horizon for San Francisco?

- After years of having the nation's tightest supply, COVID-19 has flipped San Francisco's office market fundamentals upside down. Notably, large blocks of sublease space are hitting the market at record-breaking levels. Despite an unemployment rate of 8.8%, San Francisco's location and proximity to academic infrastructure will most certainly lead to a faster rebound than other major markets.
- Q3 witnessed a 260 basis point increase of overall vacancy to 10.6%. Direct and sublet vacancy stood at 5.4% and 3.8%, respectively. Class A and B measured vacancies of 8.3% and 12.6% respectively.
- As the pandemic disrupts economic activity, companies continue their layoffs thus contributing to an occupancy loss of 1.9 million square feet during the quarter. A surge of large blocks of sublet space, particularly from tech titans, have contributed to almost 8.1 million square feet of available space added to the market. Tenants with more than 100,000 sf of space on the market for sublease in San Francisco include Uber, Dropbox, Credit Karma, Twitter, and Flexport.
- The third quarter ended with a noticeable dip in asking rates as supply soared. Overall, average asking rents all measured a 12.1% decrease recording \$80.17 FS overall, \$83.03 FS direct, and \$73.21 FS sublet. Class A rents decreased by 9.4% to \$83.03 FS and class B measured a 7.4% decrease to \$75.33 FS.
- Despite a decrease in overall leasing activity, more and more essential businesses are returning to the office thus prompting more touring activity. As such, OpenAI signed a 96,960 sf lease at 575 Florida, IBM renewed at 425 Market for 53,323 sf, the San Francisco Public Health Department committed to 45,000 sf at 333 Valencia and the Jewish Vocational Services signed on 26,192 sf at 225 Bush.
- While capital markets have also been affected; however, there have been some noticeable sales in the third quarter. Included are: CBRE Global Investor's buying 123 Townsend for \$140 Million, Hearst's acquisition of 1098 Harrison for \$52 Million and Paceline Investor's purchase of 1155 Bryant for \$18.3 Million. Additionally, Lovefrom Inc bought 809 Montgomery for \$8.5 Million.

## Trends to Watch

### Leases



Large occupiers such as Google, Pinterest, and Zendesk are forgoing large space commitments as they explore their workplace intelligence strategies.

### Construction



With less pre-vaccine demand, new developments will be challenged to be preleased at the premium, pre-COVID asking rates.

### Legislation

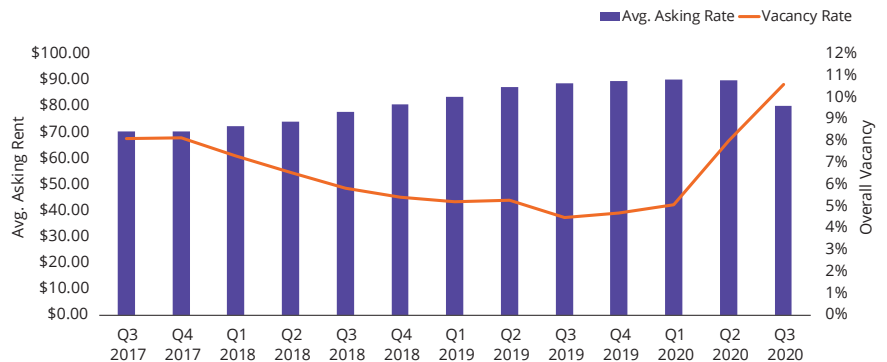


Pending legislation, such as Prop 15, 22, F, I, and L on this year's ballot, presents concern and confusion to the business community.

## Looking Forward

What was once the hottest office market in the nation, San Francisco is suddenly experiencing a disruption to its fundamentals. As more tech companies weigh the option to allow its employees to work from home or leave for more business-friendly cities, the direct impact on the market will be uncertain as ordinance restrictions are lifted. Moving forward, a vaccine should help San Francisco's office market rebound to pre-pandemic levels.

## Historical Asking Rates vs Vacancy Rates



## Notable Lease Transactions

Tenant	Building	Submarket	SF	Type
OpenAI	575 Florida	Mission District	96,960	Direct
IBM	425 Market	South Financial District	53,323	Renewal
City & County of San Francisco	333 Valencia	Mission District	45,000	Direct
Jewish Vocational Services	225 Bush	North Financial District	26,192	Direct
Castle Global	575 Market	South Financial District	24,218	Sublease
Chubb Insurance	1 Post	North Financial District	23,532	Direct
Etsy	20 California	North Financial District	15,870	Renewal

## Notable Sales

Building	Buyer	Submarket	SF	Sale Price	PSF
123 Townsend	CBRE Global Investors	Rincon/South Beach	137,031	\$140,000,000	\$1,022
1098 Harrison	Hearst Corporation	SOMA	42,039	\$52,000,000	\$1,237
1155 Bryant	Paceline Investors	Showplace Square	28,137	\$18,300,000	\$1,650
809 Montgomery	Lovefrom Inc.	Jackson Square	7,752	\$8,500,000	\$1,096

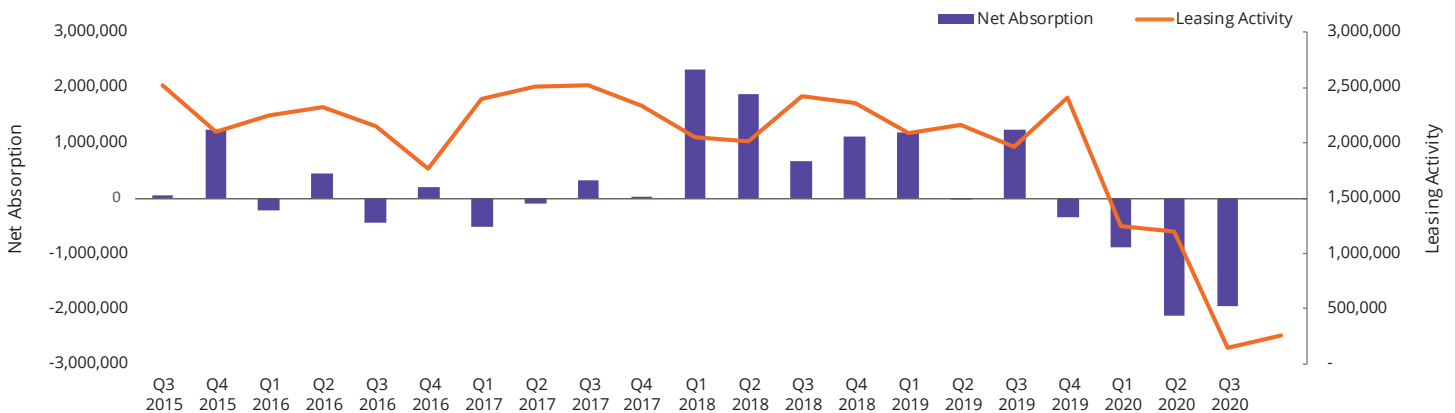
## Under Construction

Building	Developer	Submarket	SF	%Leased	Delivery
Oceanwide Center	Oceanwide Holdings	South Financial District	1,250,000	0%	Q4 2023
5M	Brookfield Office Properties	Yerba Buena	640,000	0%	Q3 2021
1455-1515 3rd (Uber HQ)	Alexandria Real Estate Equities	Mission Bay/China Basin	435,000	100%	Q4 2020
633 Folsom	The Swig Company	Rincon/South Beach	268,000	100%	Q4 2020
1 De Haro	SKS Partners	Showplace Square	126,537	100%	Q4 2020
300 Grant	Lincoln Property Co.	Union Square	71,832	0%	Q4 2020

Market by the numbers

Market	Total RBA (sf)	Vacancy Rate A	Vacancy Rate B	Availability Rate A	Availability Rate B	Net Absorption (sf)	Under Construction (sf)	Overall			Direct		
								Total	Class A	Class B	Total	Class A	Class B
NFD	27,976,940	9.0%	14.9%	10.6%	15.0%	-730,014	0	\$81.90	\$82.88	\$79.52	\$84.99	\$86.29	\$81.45
SFD	27,947,533	7.9%	9.8%	8.9%	7.2%	-577,475	1,250,000	\$82.71	\$83.35	\$74.61	\$88.32	\$88.29	\$81.82
<b>CBD</b>	<b>55,924,473</b>	<b>8.5%</b>	<b>12.8%</b>	<b>9.8%</b>	<b>11.8%</b>	<b>-1,307,489</b>	<b>1,250,000</b>	<b>\$82.29</b>	<b>\$83.14</b>	<b>\$78.46</b>	<b>\$86.46</b>	<b>\$87.33</b>	<b>\$81.51</b>
SOMA	10,121,898	10.6%	9.1%	8.9%	7.8%	-398,354	1,034,537	\$78.16	\$83.01	\$77.04	\$77.50	\$84.93	\$77.22
US	4,132,982	16.5%	19.3%	33.1%	20.7%	-155,723	71,832	\$72.91	\$73.00	\$72.67	\$72.91	\$73.00	\$72.89
MM	4,537,456	8.2%	0.0%	8.2%	10.2%	365,179	0	\$71.88	\$75.58	\$59.77	\$73.47	\$79.00	\$58.51
JSNW	5,504,503	11.4%	19.9%	4.0%	19.6%	-423,787	0	\$75.63	\$81.94	\$72.87	\$76.62	\$85.00	\$73.42
CCVNC	2,292,287	16.7%	7.6%	14.8%	12.2%	-21,011	0	\$65.91	\$72.00	\$64.25	\$66.67	\$72.00	\$65.05
MB	1,272,949	0.1%	-	0.1%	-	-17,534	435,000	\$90.33	\$90.51	\$86.00	\$91.00	\$91.00	\$0.00
<b>TOTAL</b>	<b>83,786,548</b>	<b>8.3%</b>	<b>12.6%</b>	<b>10.4%</b>	<b>12.2%</b>	<b>-1,958,719</b>	<b>2,791,369</b>	<b>\$80.17</b>	<b>\$83.03</b>	<b>\$75.33</b>	<b>\$83.03</b>	<b>\$86.27</b>	<b>\$76.40</b>

Historical Leasing vs Net Absorption



Get more market information

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