

San Francisco

Market Facts

6.6%

Class A Vacancy

9.5%

Class B Vacancy

\$90.83 FS

Class A
Average Annual Asking Rate

\$80.92 FS

Class B
Average Annual Asking Rate

Is San Francisco's office market headed towards another Dot Com correction?

- As the COVID-19 pandemic continues to wreak havoc, market fundamentals have been severely disrupted. As of May 2020, San Francisco's unemployment rate of 12.7% is indicative of a market that is experiencing a significant decline after a decade of hyper economic growth.
- With the largest increase in a decade, overall vacancy jumped 290 basis points to 8.0%, while direct and sublet vacancy stood at 4.6% and 2.9% respectively. Class A and B measured vacancies of 6.6% and 9.5% respectively.
- As companies continue to experience layoffs and furloughs, 1.6 million square feet of vacant sublease space was added to the market in Q2, the largest quarterly increase since the 2001 Dot Com bust. Additionally, there was an overall net occupancy loss of approximately 1.4 million sf.
- As the impact on direct rents remains uncertain, landlords are holding steady. Overall, average asking rents all measured a slight decrease recording \$89.91 FS average, \$89.27 FS direct, and \$78.34 FS sublet. Class A rents decreased by 1.4% to \$90.83 FS and class B measured a 0.8% decrease to \$80.92 FS.
- As COVID-19 froze tenant requirements and delivery of space, leasing volume has significantly slowed dropping 64% from Q1. As touring has been prohibited, the largest leases of Q2 were renewals and subleases. Morgan Lewis & Bockius renewed 153,323 sf at One Market and First Republic Bank renewed their 110,745 sf footprint at 388 Market. Both FrontApp and Airtable subleased 48,835 sf at 1455 Market and 48,812 sf at 155 5th respectively. The largest direct deal was UserTesting committing to 45,000 sf at 144 Townsend.
- As the global economy slowed dramatically throughout shelter-in-place orders, investment activity had almost no activity. Despite zero office sales recorded in Q2, many were in contract with the anticipation they will close in the third or fourth quarter. Notable transactions that are pending include the iconic Transamerica Pyramid, 555 California, 123 Mission and 123 Townsend.

Trends to Watch



Flexible Office Space (FOS)

Looming issues with coworking operators and large blocks of FOS space hitting the market as social distancing encourages WFH.



Leases

Landlords negotiating forbearance agreements, blend & extend amendments, pandemic language and force majeure clauses.



Space Design

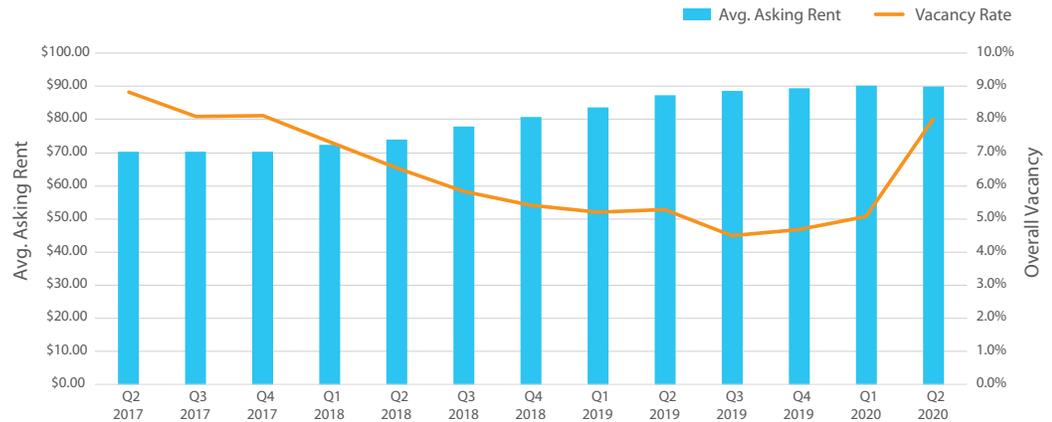
Redesigned office configuration, workplace strategy, as tenants weigh the options between increased square feet per employee or shedding unused space.

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.

Looking Forward

Until shelter in place restrictions are lifted and a vaccine is developed, the outlook for San Francisco's office activity to peak again remains uncertain. With overall vacancy, leasing activity, and absorption recording levels not seen in decades, there could potentially be long term implications. However, in a positive outlook, the Bay Area's robust tech-driven economy and high concentration of venture capitalist puts it in a greater position to recover than most markets. Looking forward, we should expect to see tenants re-evaluating their space configurations and how landlords are willing to respond to lease restructuring, both currently and in the future.

Historical Asking Rates vs Vacancy Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Morgan Lewis & Bockius	1 Market (Spear)	South Financial District	153,323	Renewal
First Republic Bank*	388 Market	North Financial District	110,745	Renewal
FrontApp	1455 Market	MidMarket	48,835	Sublease
Airtable	155 5th	Yerba Buena	48,812	Sublease
UserTesting	144 Townsend	Rincon/South Beach	45,000	Direct
Woodruff Sawyer	50 California	North Financial District	43,194	Renewal

*Denotes Avison Young Involvement

Rumored Sales in Contract

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
555 California	TBD	North Financial District	1,508,000	\$2,000,000,000	\$1,326
50 1st (Oceanwide)	Hony Capital	South Financial District	1,250,000	\$1,200,000,000	\$960
Transamerica Pyramid	SHVO/BVK	North Financial District	756,181	\$700,000,000	\$926
123 Mission	Lane Partners/PCMCO	South Financial District	345,595	\$310,000,000	\$897
123 Townsend	CBRE Global Investors	Rincon/South Beach	141,155	\$140,000,000	\$992

Under Construction

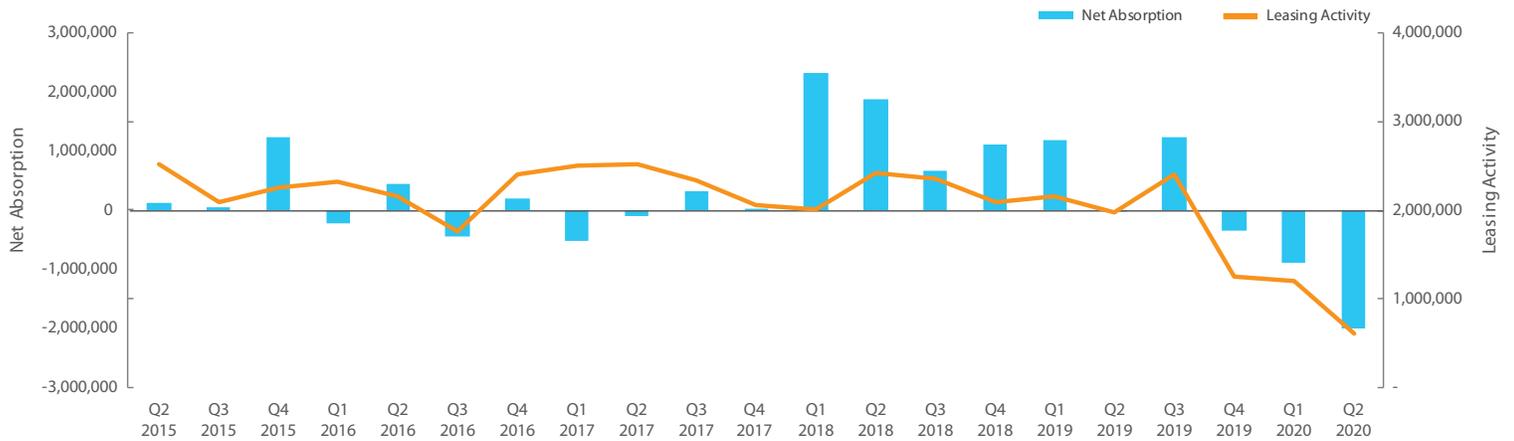
Building	Developer	Submarket	Square Feet	% Leased	Delivery
Oceanwide Center	Oceanwide Holdings	South Financial District	1,250,000	0%	Q4 2023
5M	Brookfield Office Properties	Yerba Buena	640,000	0%	Q1 2022
1455-1515 3rd (Uber HQ)	Alexandria Real Estate Equities	Mission Bay/China Basin	435,000	100%	Q4 2020
633 Folsom	The Swig Company	Rincon/South Beach	268,000	100%	Q4 2020
1 De Haro	SKS Partners	Showplace Square	126,537	100%	Q3 2020
300 Grant	Lincoln Property Co.	Union Square	71,832	0%	Q4 2020

Market By The Numbers

Submarket	Total RBA (SF)	Vacancy Rate		Avail Rate		Net Absorp (SF)	Under Construction (SF)	Avg Ask Total	Avg. Asking Rent		Direct Avg Ask Total	Avg. Direct Rent	
		Class A	Class B	Class A	Class B				Class A	Class B		Class A	Class B
North Financial	27,474,560	7.1%	10.2%	10.6%	15.0%	-605,944	0	\$87.66	\$88.14	\$87.36	\$89.29	\$90.40	\$87.80
South Financial	27,702,873	6.4%	6.2%	9.0%	7.2%	-685,120	1,250,000	\$93.16	\$93.70	\$78.39	\$95.91	\$96.10	\$82.12
CBD Average	55,177,433	6.8%	8.5%	9.8%	11.8%	-1,291,064	1,250,000	\$90.55	\$91.50	\$85.93	\$92.67	\$93.83	\$87.17
SOMA*	7,573,690	8.5%	8.4%	9.0%	7.4%	-344,106	766,537	\$82.91	\$92.64	\$80.19	\$87.75	\$97.50	\$84.56
Union-Square	4,167,895	7.2%	15.4%	33.1%	20.8%	-82,032	71,832	\$75.86	\$75.00	\$79.55	\$73.04	\$75.00	\$72.65
Mid-Market	4,059,698	8.2%	0.0%	8.2%	12.3%	-41,651	0	\$74.53	\$79.82	\$67.43	\$74.26	\$81.32	\$58.56
Jackson Square/ North Waterfront	5,504,527	4.3%	11.8%	4.0%	19.6%	-217,651	0	\$84.51	\$84.35	\$82.73	\$86.51	\$97.00	\$83.27
Civic Center/Van Ness Corridor	2,269,679	15.2%	7.1%	14.8%	12.2%	-8,083	0	\$58.31	\$59.74	\$57.59	\$58.84	\$60.50	\$57.93
Mission Bay	1,293,949	0.1%	-	0.1%	-	-3,554	435,000	\$90.28	\$91.50	\$65.18	\$83.19	\$95.00	\$35.80
San Francisco Total	80,046,871	6.6%	9.5%	10.5%	12.4%	-1,988,141	2,523,369	\$89.91	\$90.83	\$80.92	\$89.27	\$92.86	\$83.09

*Includes China Basin, South of Market, Rincon/South Beach, Yerba Buena, Showplace Square, and Potrero Neighborhoods

Historical Leasing vs Net Absorption



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