

San Francisco

Quick Stats

14.3%

Citywide Class A Vacancy

17.1%

Citywide Class B Vacancy

\$77.58 fs

Citywide Class A
Average Annual Asking Rate

\$65.58 fs

Citywide 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.

Despite re-openings, uncertainty sustains a market flooded by subleases and tepid demand.

- After a year of subdued demand and increased supply, San Francisco's fundamentals are in limbo. Even as employees slowly return to the office, there remains uncertainty how quickly the market will rebound. As 2021 unfolds with widespread vaccine distributions, the question of when the office setting springs back to life will likely persist until the latter half of the year. Decision makers are in a pivotal moment as they analyze how to embrace a hybrid-work model along with an abundance of space options. With San Francisco's low unemployment rate of 5.7% as of February 2021, it continues to be one of the nation's strongest driven economy.
- As supply increases, the first quarter witnessed a 250 basis point increases in overall city-wide vacancy to 15.1%. Class A vacancy increased by 410 basis points to 14.3% while Class B climbed 280 basis points to 17.1%. Direct and sublet vacancy stood at 9.1% and 5.4% respectively. Total net absorption dropped again into the first quarter measuring an occupancy loss of 2.5 million square feet. Although new leasing continued its tepid pace, new tenant requirements kicked off and touring picked up. Q1 witnessed activity totaling 477,984 sf, a 38% uptick from the previous quarter.
- The first quarter witnessed more subleases added to the market, however at a slower pace than the previous quarters. Tech titans such as Salesforce, Oracle, Optimizely, and Wish shed large blocks of space some of which were entire buildings. 1.1 million square feet of subleases were added totaling the current inventory to 9.7 million square feet. This accounts for 40% of the total 24.3 million square feet of available space. This increase in supply however has not translated into higher activity yet as only 132,093 sf of space was subleased in the first quarter. With this surplus of options, tenants will continue to be in wait and see mode until the pandemic subsides.
- With sustained supply and decreased demand, there continues to be downward pressure on rental rates. Overall asking rents dropped year-over-year 17.3% to \$74.60 FS. Landlords for Class A assets are holding their rates more steady than Class B as they anticipate a flight to quality once the pandemic subsides. Class A measured a 15.7% decrease to \$77.58 FS and class B dropped 19.6% to \$65.58 FS.
- The largest recorded lease was from life science tenant Invitae, who took over 40,000 sf at 444 De Haro. Large renewals in CBD included Rogers, Joseph, O'Donnell's 26,868 sf at 311 California, AppDirect's 25,880 sf at 650 California, and Pacific Maritime's 20,767 sf at 555 Market. Notable subleases included Varo Money subleasing Next15's 24,793 sf space and Shook, Hardy, & Bacon took on 15,639 sf from DLA Piper at 555 Mission.

Trends to watch

Landlord



Class A landlords will find themselves negotiating "meet the market" deals with concessions to compete against the abundance of subleases.

Construction



Future office projects, particularly in Central SOMA, will notice a shift in preleasing from tech to life science companies as they are delivered.

Economy

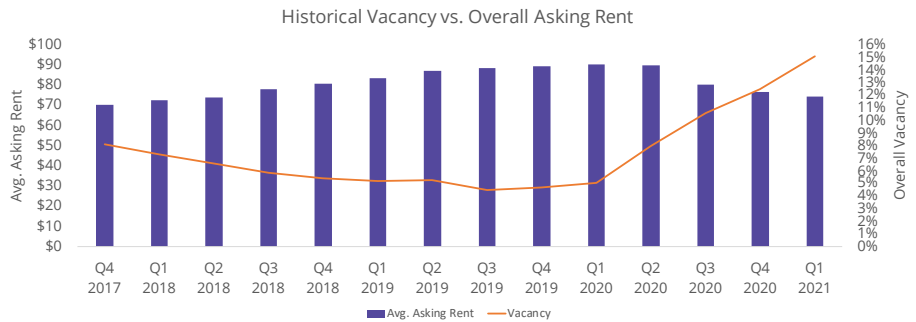


San Francisco's economy is showing signs of recovery as recent IPOs and increased VC funding has led to strong tech hiring.

Looking forward

As 2021 unfolds, decision makers are entering a pivotal moment for their company's growth projections. Given what has transpired with the new embrace of a hybrid work model and surplus of sublease options, businesses are analyzing the market and deciding the appropriate return to work policies which will influence their space needs. Mentorship and culture are pervasive to every company's success thus making a permanent remote work model difficult.

Historical asking rates vs vacancy rates



Notable lease transactions

Tenant	Building	Submarket	SF	Type
Invitae Corporation	444 De Haro	Showplace Square	40,000	Direct
Rogers Joseph O'Donnell	311 California	North Financial District	26,868	Renewal
AppDirect	650 California	North Financial District	25,880	Renewal
Varo Money	100 Montgomery	North Financial District	24,793	Sublease
Pacific Maritime Association	555 Market	South Financial District	20,767	Renewal
Shook, Hardy, & Bacon LLP	555 Mission	South Financial District	15,639	Sublease

Notable sales

Building	Buyer	Submarket	SF	Sale Price	PSF
99 Rhode Island	Exeter Property Group	Showplace Square	63,780	\$37,000,000	\$580

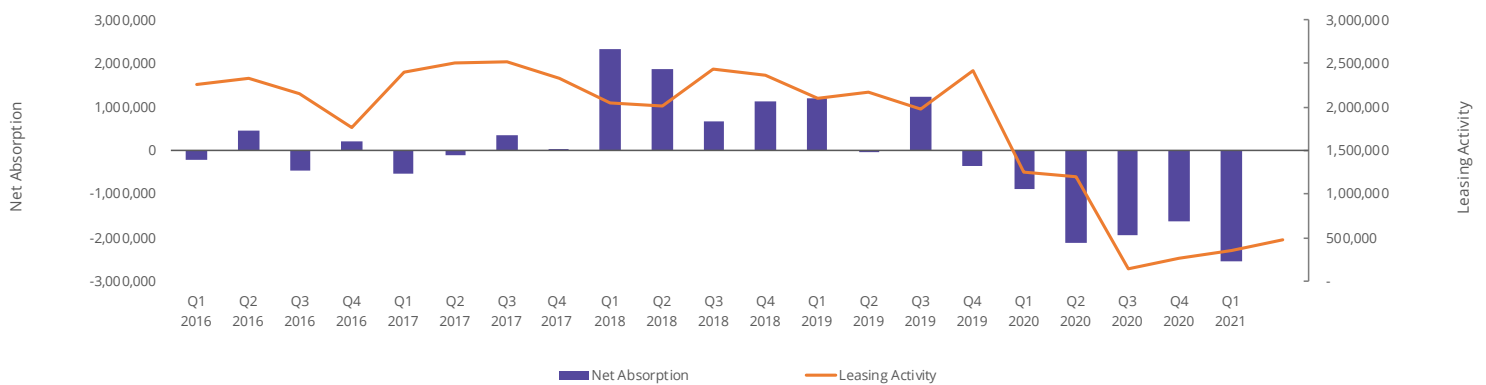
Under construction

Building	Developer	Submarket	SF	%Leased	Delivery
5M	Brookfield Office Properties	Yerba Buena	640,000	0%	Q4 2021
1051 3rd (Mission Rock)	Tishman Speyer/SF Giants	Mission Bay/China Basin	303,064	100%	Q1 2024
633 Folsom	The Swig Company	Rincon/South Beach	268,000	100%	Q2 2021
1 De Haro	SKS Partners	Showplace Square	126,537	100%	Q2 2021
77-85 Federal	Aralon Properties	Rincon/South Beach	89,374	0%	Q2 2022

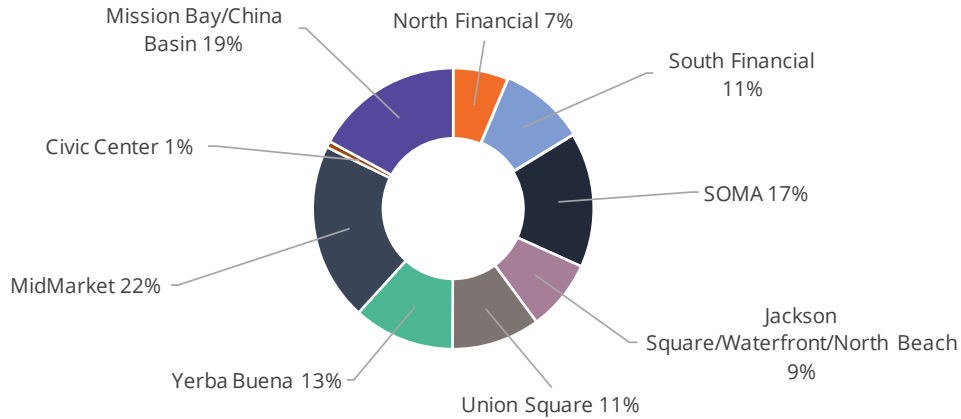
Market by the numbers

Market	Total RBA (SF)	Overall Vacancy Rate A	Overall Vacancy Rate B	Overall Availability Rate A	Overall Availability Rate B	Net Absorption (SF)	Under Construction (SF)	Overall			Direct		
								Total	Class A	Class B	Total	Class A	Class B
NFD	27,929,617	14.1%	22.3%	21.3%	34.5%	-925,811	0	\$75.01	\$76.61	\$68.33	\$80.49	\$81.96	\$72.43
SFD	28,099,010	13.3%	12.6%	23.4%	24.8%	-794,319	0	\$76.89	\$78.45	\$70.90	\$82.20	\$83.53	\$73.95
CBD	56,028,627	13.7%	18.1%	22.3%	30.3%	-1,720,130	0	\$76.08	\$77.65	\$69.96	\$81.38	\$82.77	\$73.39
SOMA	8,281,368	14.0%	12.2%	23.4%	22.8%	-214,456	1,123,911	\$74.90	\$76.23	\$63.02	\$78.36	\$83.13	\$59.77
US	4,410,538	15.9%	24.0%	41.0%	32.2%	1,729	71,832	\$64.11	\$67.50	\$62.07	\$60.55	\$67.50	\$59.46
MM	4,537,456	8.2%	21.6%	14.0%	35.4%	-64,824	0	\$64.64	\$67.37	\$57.08	\$68.73	\$70.59	\$63.14
JSNW	5,531,886	19.2%	20.4%	36.0%	24.7%	-126,272	0	\$71.91	\$76.89	\$69.50	\$72.83	\$76.31	\$71.48
CCVNC	2,398,396	17.4%	6.4%	18.8%	13.8%	130,293	0	\$52.12	\$57.28	\$49.08	\$52.56	\$57.28	\$49.55
MB	2,316,843	26.0%	17.3%	44.1%	17.3%	-538,802	303,064	\$85.02	\$85.37	\$66.53	\$91.10	\$91.87	\$34.84
TOTAL	83,505,114	14.3%	17.1%	24.4%	28.7%	-2,532,462	1,498,807	\$74.56	\$77.58	\$65.58	\$77.79	\$81.00	\$63.37

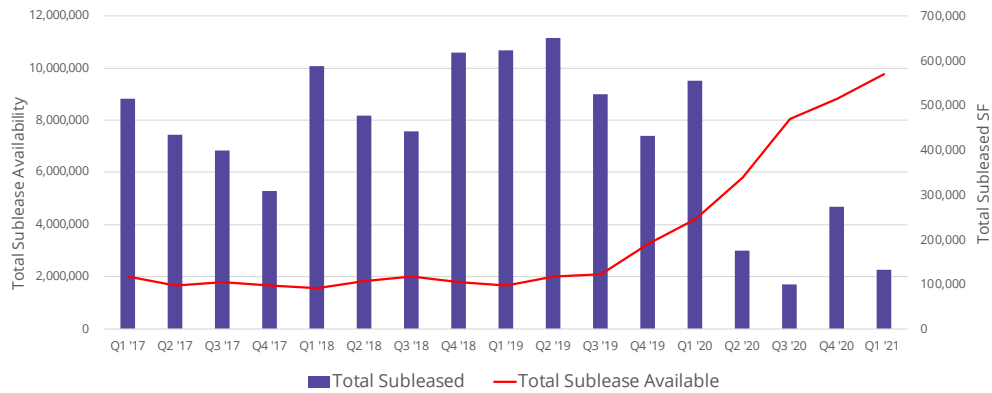
Historical leasing vs net absorption



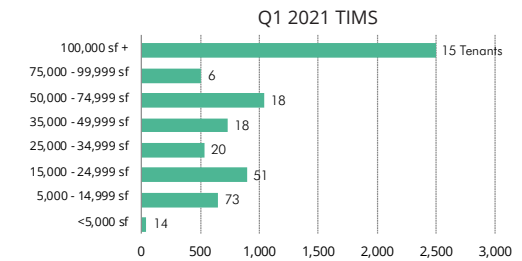
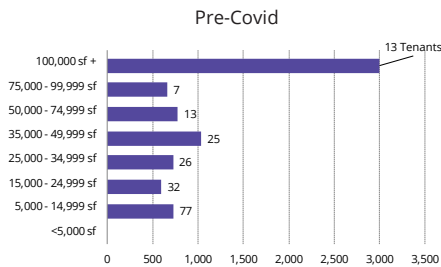
Current Available Sublease Space Snapshot (9.7 Million SF)



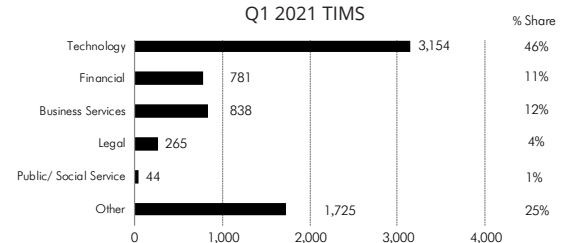
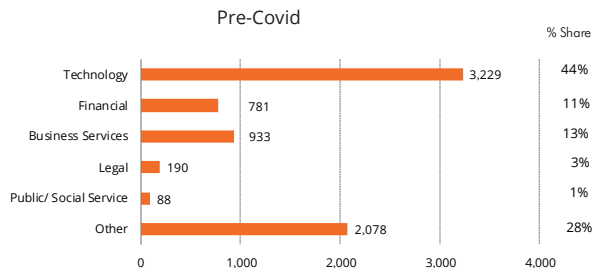
Recent Sublease Availability History (Past Three Years / 20K sf+)



Breakdown by Size Range



Breakdown by Industry Type



Get more market information

Nick Slonek
Principal & Managing Director
415.322.5051
nick.slonek@avisonyoung.com

Patrick McKenzie
Research Analyst
415.322.5056
patrick.mckenzie@avisonyoung.com

