

San Francisco Office Market

Welcome Back to the Office

If full Muni buses and BART trains during commute hours are any indicator of a return to the workplace, then San Francisco is beginning to triumph. A slowdown in COVID-19 cases allowed normalcy to create a warm welcome back to the office. The first quarter of 2022 also brought a beautiful new addition to San Francisco's skyline at 415 Natoma, adding 640,000 square feet of class A office space to the city.

In the first quarter of 2022, San Francisco experienced negative 483,363 square feet of absorption. Availability saw a 110-basis-point increase from last quarter to 25.3%, or 22.2 million square feet. This quarter's increase in available direct space was accompanied by a decrease in available sublease space, which saw a 190,926-square-foot decrease in availability. Sublease space came to a total of 6.5 million square feet, or 29.4% of the total available space on the market; while direct space increased by 1.4 million square feet.

Overall vacancy saw a 120-basis-point increase during the quarter to 17.2%; in contrast, vacancy was 14.9% at the end of the first quarter of 2021. Class A vacancy increased to 14.6% from 13.5% last quarter. This increase can be partially attributed to the

Current Conditions

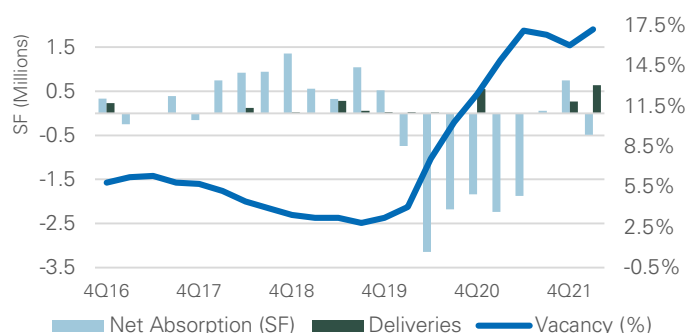
- Availability increased slightly in the first quarter of 2022 to 22.2 million square feet.
- San Francisco vacancy in the first quarter of 2022 is 17.2%, up 120 basis points since the fourth quarter of 2021.
- Year-over-year, Class A average asking rates increased 0.3% to \$84.01/SF, and overall asking rates fell 0.1% to \$78.39/SF.

Market Summary

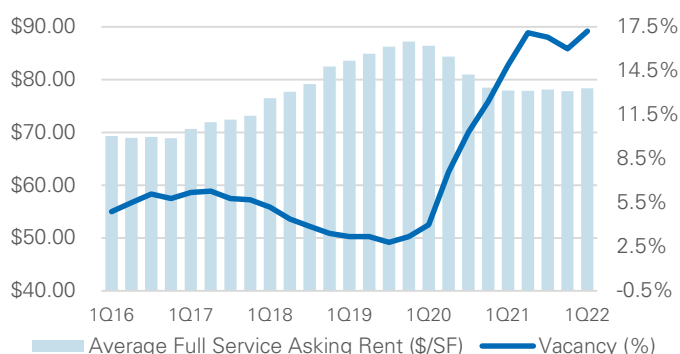
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	88.0M	87.4M	86.3M	↑
Vacancy Rate	17.2%	16.0%	15.3%	↓
Qtr Net Abs (SF)	-483K	324.3K	-2.2M	↑
Avg FS Ask Rent/SF	\$78.39	\$77.82	\$77.94	↑
Under Const (SF)	933.6K	772.0K	1.0 M	↑

Market Analysis

NET ABSORPTION V. NEW CONSTRUCTION & VACANCY RATE



VACANCY RATE (%) AND ASKING RENT (\$/SF ANNUAL, FSG)



RESEARCH Q1 2022

delivery of 415 Natoma bringing 616,900 square feet of vacant Class A office space to the market.

In the first quarter of 2022, overall asking rents increased by \$0.57 to \$78.39/SF. Leasing remained active this quarter with a slight increase compared to the fourth quarter of 2021, to 1.3 million square feet leased. This number is a favorable comparison to the 525,082 square feet leased one year ago in the first quarter of 2021, yet another indication that San Francisco's return to the office is off to a solid start in 2022.

Sublease Space

At the end of the quarter, available sublease space was at 6.5 million square feet, or 7.4% of the total market, a drop of 190,926 square feet from last quarter. Overall sublease rents decreased by 1.7% during the first quarter of 2022 to \$64.90/SF, which is a year-over-year drop of 5.2%. San Francisco's largest transaction of the quarter was Sephora's sublease. The 286,000-square-foot sublease from Salesforce spans across 16 floors at 350 Mission Street.

Investment Sales

The first quarter of 2022 was a slow quarter for single asset sales, particularly for office buildings. The sale of 1065 Folsom Street, a sub-10,000-square-foot building that we don't track in our market stats, was the only sale in the first quarter of 2022. However, it is anticipated that investor appetite for San Francisco will increase as more companies return to the office and fundamentals get stronger.

Economic Outlook

San Francisco's unemployment rate was 3.4% as of the end of February, while the State of California's unemployment rate was 5.4%. The national unemployment rate is 3.6%. This is the same unemployment rate as January 2020, pre-pandemic. Although San Francisco remains the least active back-in-the-office market of the 10 major U.S. cities Kastle Systems tracks, its activity has increased 209 basis points since the start of the year.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Sephora	350 Mission	Financial District South	Sublease	286,627
Goodby, Silverstein & Partners	720 California	Financial District North	Renewal	81,065
ViacomCBS	680 Folsom	Financial District South	Sublease	70,770
Microsoft	555 California	Financial District North	Renewal	60,000
Finix	631 Howard	Financial District South	Direct	43,359
Mantle	1950 Cesar Chavez	Dog Patch	Direct	40,000
Green Tur	101 Second	Financial District South	Direct	31,286
SoFar Ocean	Pier 26	Financial District South	Sublease	28,341
SAP	135 Townsend	SOMA – East	Sublease	28,099

Select Sales Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
1065 Folsom	SOMA – West	\$5,600,000	\$562.19	12,000

Submarket Statistics – All Classes								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Total Availability (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Overall Ask Rent (Price/SF)
San Francisco	88,067,974	908,624	17.2%	25.3%	22,307,605	(483,363)	(483,363)	\$78.39
North Financial District	28,281,078	0	17.9%	24.9%	7,034,310	(245,620)	(245,620)	\$79.71
South Financial District	27,709,180	0	12.8%	20.6%	5,718,965	(245,069)	(245,069)	\$82.54
SOMA	27,071,556	978,624	21.2%	32.4%	6,819,278	117,421	117,421	\$77.65
Union Square	3,623,871	0	18.5%	26.5%	958,584	(48,704)	(48,704)	\$63.75
Van Ness / Civic Center	1,803,770	0	12.6%	18.6%	335,777	25,168	25,168	\$48.61
N Waterfront / Jackson Sq	5,578,519	0	20.8%	25.8%	1,440,691	(86,559)	(86,559)	\$78.71

Submarket Statistics – Class A							
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Net Absorption (SF)	Total Vacancy (SF)	Class A Ask Rent (Price/SF)
San Francisco	60,643,920	908,624	14.6%	22.9%	(119,091)	8,855,488	\$84.01
North Financial District	21,655,509	0	14.8%	22.0%	(83,402)	3,213,576	\$82.88
South Financial District	24,903,599	0	11.3%	18.5%	(68,520)	2,815,908	\$84.68
SOMA	11,242,095	908,624	19.9%	32.1%	81,700	2,241,288	\$85.99
Union Square	535,837	0	9.6%	31.1%	0	51,504	\$71.87
Van Ness / Civic Center	342,693	0	9.8%	10.1%	(1,568)	33,537	\$64.66
N Waterfront / Jackson Sq	1,964,187	0	25.4%	34.7%	(47,301)	499,675	\$85.06

For more information:

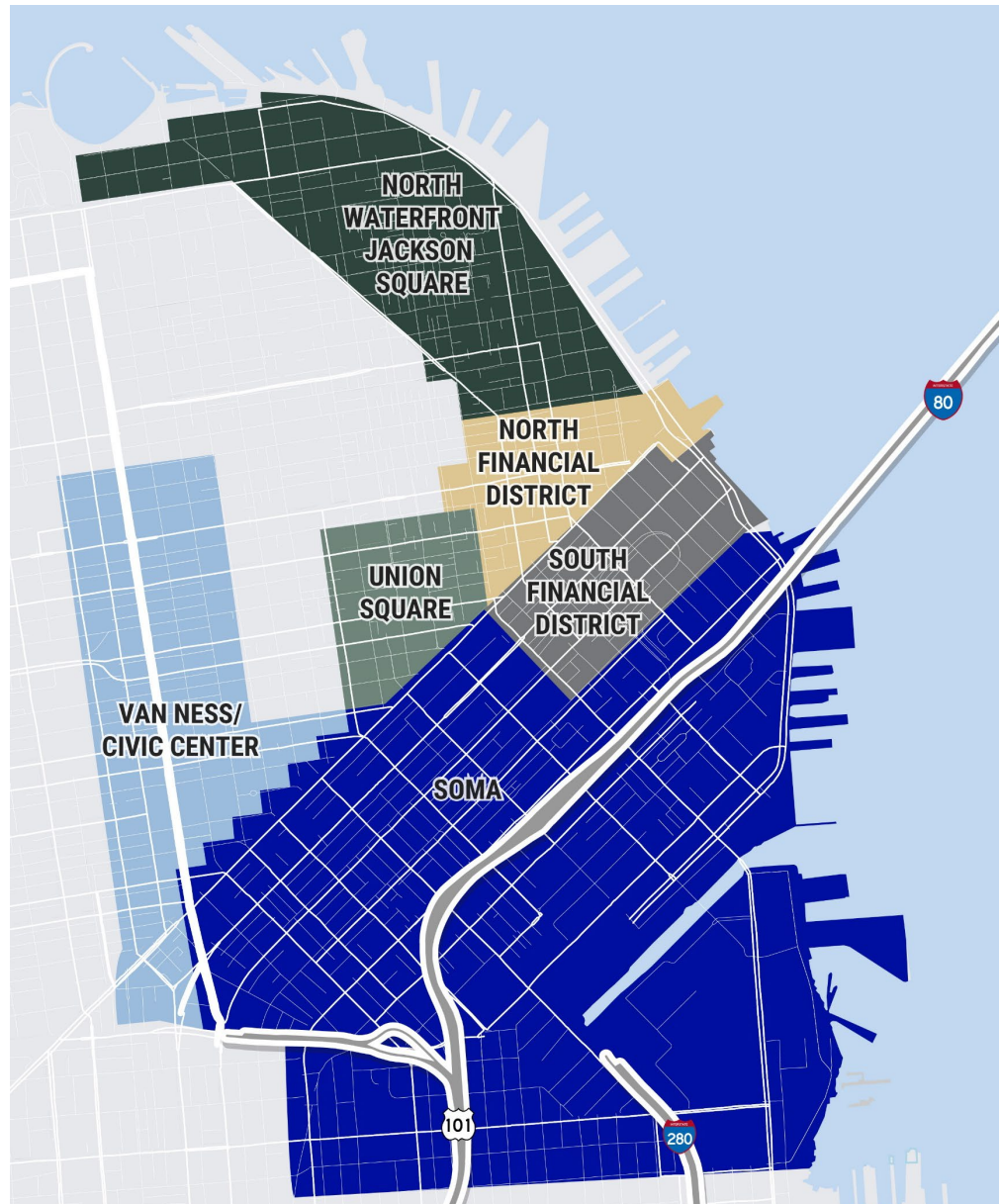
Newmark

One Bush Street, Suite 1500
San Francisco, CA 94104
t 415-445-5155
Corporate CA RE #: 00832933

Jordan Foster

San Francisco Research Analyst
jordan.foster@nrmk.com

nrmk.com



Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nrmk.com/research.

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