



San Francisco Office Market

The Advent of the Office

While absorption in the second quarter of 2021 was still negative, San Francisco experienced a less significant drop in absorption, at negative 1.8 million square feet. Availability saw a slight increase of 120 basis points during the second quarter to 24.9%. Sublease space saw an 848,670-square-foot decrease in availability during the second quarter, to a total of 8.2 million square feet, or 37.9% of the total available space on the market.

Overall vacancy increased by 220 basis points to 17.1%; in contrast, it was 7.6% as of the end of second-quarter 2020. Class A vacancy increased by 250 basis points to 15.9%, jumping from 7.4% the previous year.

Companies are actively planning future workplaces as a sense of normalcy returns. This quarter's increase in available direct space came with a modest decrease in available sublease space. Overall

Current Conditions

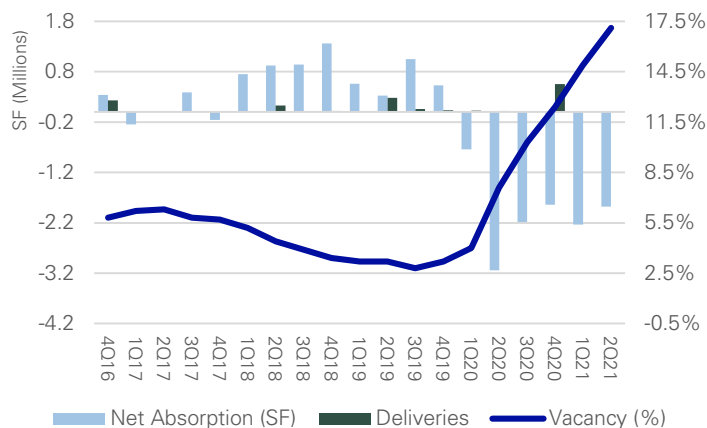
- Availability increased by 1.0 million square feet, from 20.5 million square feet last quarter to 21.5 million square feet.
- Class A vacancy increased to 15.9% from 13.4% last quarter; overall vacancy increased from 14.9% to 17.1%.
- Year-over-year, Class A direct average asking rates fell 7.6% to \$83.44/SF, and overall direct asking rates fell 7.7% to \$77.90/SF.

Market Summary

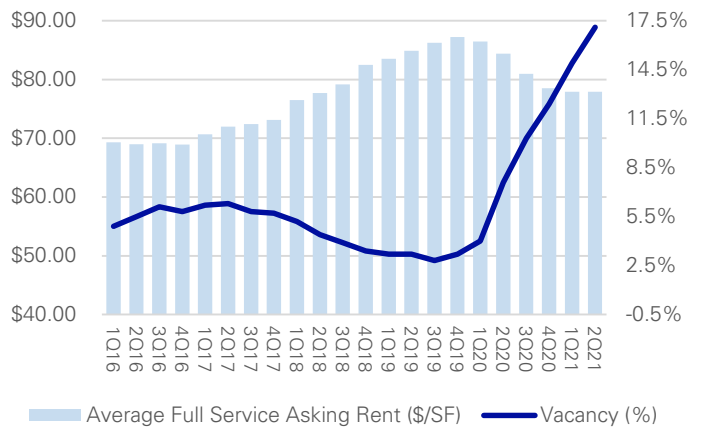
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	86.3M	86.3M	84.2M	↑
Vacancy Rate	17.1%	14.9%	7.6%	↓
Qtr Net Abs (SF)	-1.8M	-2.2M	-3.1K	↑
Avg FS Ask Rent/SF	\$77.90	\$77.94	\$84.39	→
Under Const (SF)	1.0M	1.0M	2.0M	↓

Market Analysis

NET ABSORPTION V. NEW CONSTRUCTION & VACANCY RATE



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



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asking rents are holding steady and dropped by less than 1.0%. Overall sublease rents saw a 1.7% increase during the second quarter. Leasing volume saw an increase to 1.2 million square feet, doubling since last quarter. This quarter's leasing velocity brings activity close to pre-pandemic levels, with a 57.5% year-over-year increase. Leasing in the second half of 2021 is anticipated to be strong due to the number of companies touring as they plan returns to the workplace over the next several months.

Sublease Space

The addition of sublease space began to slow in second-quarter 2021, with only 15 new subleases over 10,000 square feet totaling 682,000 square feet added to the market. This compared favorably to the first quarter, during which 31 new subleases over 10,000 square feet totaling 1.3 million square feet were added to the market. Despite the new subleases added, overall sublease space decreased by 848,670 square feet due to several factors: in the 10,000+-square-foot tranche, 197,000 square feet were subleased and another 346,000 square feet were withdrawn, although much of which was recaptured and was returned to the market on a direct basis. Additionally, about 300,000 square feet was similarly removed from the under-10,000-square-foot tranche. As of the end of the quarter, total sublease space was 8.2 million square feet, or 9.5% of the market.

Investment Sales

While leasing activity in San Francisco has increased, sales volume remains low and there was only one transaction of note completed in the second quarter: Dewey Land Company acquired the 28,454 square-foot building at 135 Mississippi Street from Zurich Alternative Asset Management for \$26.5 million, or \$931/SF. The appetite for San Francisco product is minimal unless stabilized or priced to sell on a dollar per-square-foot basis.

Economic Outlook

San Francisco's unemployment rate was 5.1% in May, seeming to have stabilized under 5.5% since March. Since reaching a peak 13.0% rate in April 2020, employment has climbed 790 basis points. This rate compares favorably to the State of California's rate of 7.5% and is in line with the national rate of 5.8% for the same period. Kastle Systems, a security company that has been tracking building access swipes in 10 major markets across the country, reported that the San Francisco Metro remains the least active back-in-the-office market, with an average of 18.9% of the workforce in the office in June. This compares favorably with the 13.7% reported in March. The 10-city average is at 32.0% occupancy. Expect to see more employees return to the office in the next few months as the summer comes to an end.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Figma	760 Market	North Financial District	Sublease	97,606
Aurora	85 Bluxome	SOMA – Central/Yerba Buena	Sublease	58,000
Sigma Computing	116 New Montgomery	South Financial District	Direct Lease	53,762
NerdWallet	55 Hawthorne	South Financial District	Sublease	51,162
Afterpay	760 Market	North Financial District	Direct Lease	50,297
Allen Matkins Leck Gamble Mallory & Natsis LLP	3 Embarcadero Center	North Financial District	Lease Renewal	40,925
Sutter Health	475 Brannan	SOMA – Central/Yerba Buena	Sublease	28,410
Expa LLC	555 Mission	South Financial District	Sublease	19,790
Baker Tilly	50 Fremont	South Financial District	Direct Lease	19,624

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
135 Mississippi	SOMA – Showplace/Potrero	\$26,500,000	\$931	28,454

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Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Vacancy (SF)	Total Availability Rate	Total Availability (SF)	Qtr Net Absorption (SF)	Direct FS Ask Rent (Price/SF)
San Francisco	86,369,007	1,040,000	17.1%	14,776,565	24.9%	21,534,193	(1,877,396)	\$77.90
North Financial District	28,281,078	0	16.5%	4,671,974	23.6%	6,675,297	(341,978)	\$79.78
South Financial District	26,599,940	0	13.4%	3,566,163	22.5%	5,993,936	(760,821)	\$82.18
SOMA	20,482,505	1,040,000	21.7%	4,445,481	28.3%	5,803,007	(603,609)	\$74.24
Union Square	3,623,871	0	17.4%	632,300	27.1%	981,983	(3,503)	\$66.06
Van Ness / Civic Center	1,803,770	0	13.1%	236,730	17.5%	316,419	8,649	\$46.93
N Waterfront / Jackson Sq	5,577,843	0	21.9%	1,223,917	31.6%	1,763,551	(176,134)	\$78.04

Submarket Statistics – Class A

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Ask Rent (Price/SF)
San Francisco	59,251,901	1,040,000	15.9%	23.4%	(1,462,814)	(3,040,635)	\$83.44
North Financial District	21,655,509	0	13.9%	20.8%	(132,957)	(954,617)	\$82.15
South Financial District	23,996,599	0	13.1%	21.0%	(794,141)	(1,472,661)	\$85.30
SOMA	10,757,075	1,040,000	23.7%	28.7%	(431,247)	(442,965)	\$83.28
Union Square	535,837	0	28.0%	73.3%	(15,822)	(15,506)	\$75.78
Van Ness / Civic Center	342,694	0	10.3%	10.3%	451	38,669	\$51.30
N Waterfront / Jackson Sq	1,964,187	0	26.7%	31.6%	(89,098)	(193,555)	\$85.30

For more information:

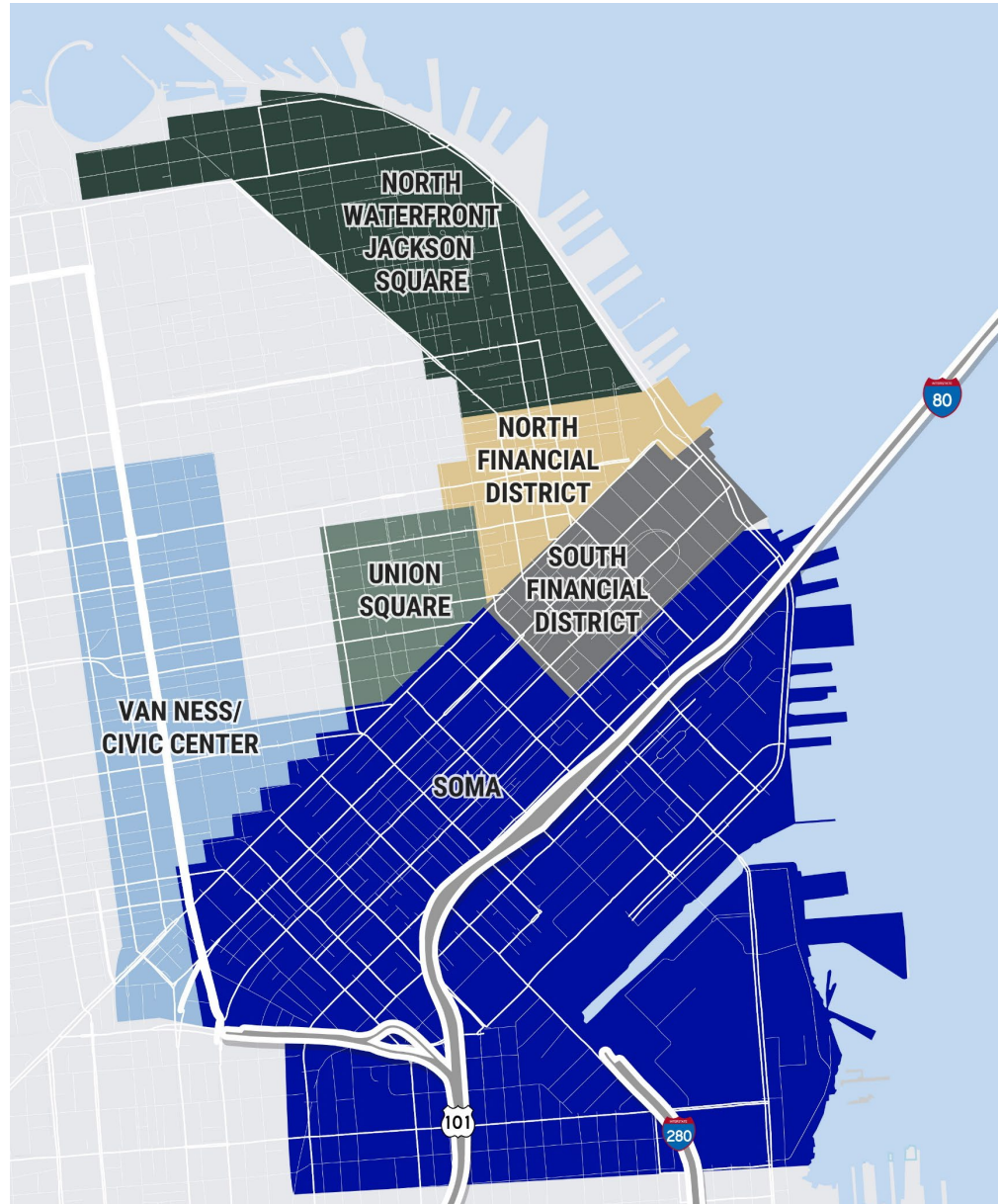
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