



San Francisco Office Market

A Step in the Right Direction

In the third quarter, San Francisco experienced positive absorption at 56,611 square feet. This is the first bit of positive absorption the market has seen in six consecutive quarters; however, this number does not rival the year-to-date net absorption, at -4.0 million square feet. Availability saw a slight decrease of 455,192 square feet, for a drop of 80 basis points to 24.1%. Sublease space saw an 857,917-square-foot decrease in availability during the third quarter, to a total of 7.3 million square feet, or 34.7% of the total available space on the market.

Overall vacancy saw a slight 29 basis points decrease to 16.8%; in contrast, it was 10.3% as of the end of the third quarter of 2020. Class A vacancy decreased by 102 basis points to 14.9%, jumping from 9.4% the previous year.

This quarter's increase in available direct space was accompanied by a decrease in available sublease space. Overall asking rents are holding steady, increasing by less than 1.0%. Overall sublease

Current Conditions

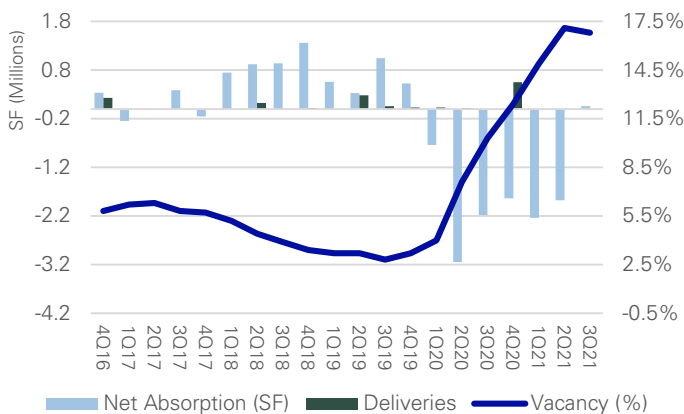
- Availability decreased in Q3, from 21.5 million square feet last quarter to 21.1 million square feet.
- Class A vacancy decreased to 14.9% from 15.9% last quarter; overall vacancy decreased from 17.1% to 16.8%.
- Year-over-year, Class A direct average asking rates fell 4.2% to \$83.58/SF, and overall direct asking rates fell 3.6% to \$78.10/SF.

Market Summary

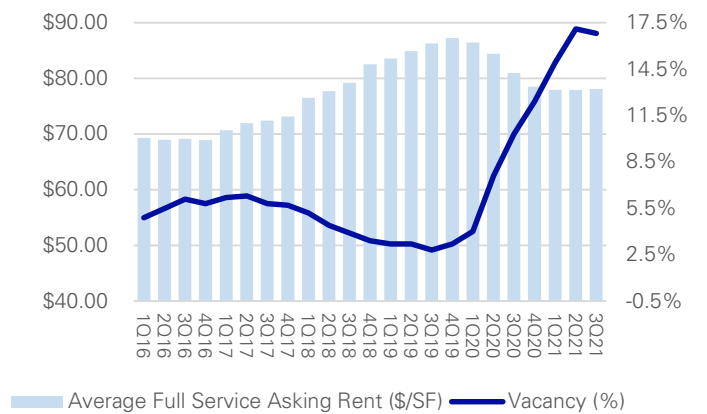
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	87.5M	86.3M	85.5M	↑
Vacancy Rate	16.8%	17.1%	10.3%	↓
Qtr Net Abs (SF)	56.6K	-1.8M	-2.2M	↑
Avg FS Ask Rent/SF	\$78.10	\$77.90	\$80.98	↑
Under Const (SF)	1.0M	1.0M	2.0M	↓

Market Analysis

NET ABSORPTION V. NEW CONSTRUCTION & VACANCY RATE



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



RESEARCH 3Q 2021

rents saw a 2.0% decrease during the third quarter. Leasing velocity in the third quarter continued to increase, at 1.7 million square feet leased, reinforcing the trend that companies plan to reoccupy their offices during first-quarter 2022. This quarter's leasing velocity brings activity close to pre-pandemic levels, with a 308.5% year-over-year increase. Leasing in the last quarter 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 continued to slow in third-quarter 2021, with only 12 new subleases over 10,000 square feet added to the market, totaling 650,061 square feet. Despite the new subleases added, overall sublease space decreased by 857,917 square feet due to several factors: in the 10,000+-square-foot tranche, 32 subleases were removed from the market, totaling 688,000 square feet of space either leased or withdrawn. Additionally, about 170,000 square feet was similarly removed from the under-10,000-square-foot tranche year-to-date. There has been 1.6 million square feet of sublease space leased, nearly half of total leased space in 2021. Comparably, 2019 saw a total of 1.7 million square feet of sublease space leased, only a fifth of total leasing that year. As of the end of the quarter, total sublease space was 7.3 million square feet, or 8.0% of the market.

Investment Sales

Sales volume saw a dramatic spike in third-quarter 2021. Transactions of note completed in the third quarter includes Hines's acquisition of Pacific Gas & Electric's San Francisco headquarters campus for \$800 million, or \$575/SF. Hines plans on transforming 245 Market Street and 77 Beale Street into a 1.3 million-square-foot mixed use portfolio. Another notable transaction this quarter was the sale of 153 Townsend Street. Ellis Partners bought the creative asset from SVF Townsend San Francisco Corporation for \$225 million, or \$1,563.97/SF. The appetite for San Francisco product is returning, enticing investors who are willing to bet on the city's office market rebound.

Economic Outlook

San Francisco's unemployment rate was 5.6% in August, apparently stabilized around the 5.5% mark since March. Since reaching a peak 13.0% rate in April 2020, employment has climbed 750 basis points. This compares favorably to the State of California's rate of 7.5% and is in line with the national rate of 5.2% for the same period. Kastle Systems, a security company that has been tracking building access swipes, reported that the San Francisco Metro activity increased by 360 basis points this quarter, with an average of 22.5% of the workforce in the office in August. San Francisco remains the least active back-in-the-office market of the 10 major U.S. cities Kastle Systems tracks.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Chime	101 California Street	Financial District North	Direct	190,000
Sephora	525 Market Street	Financial District South	Renewal	110,588
Benchling, Inc	680 Folsom Street	Financial District South	Sublease	106,000
Pinterest, Inc.	651 Brannan Street	SOMA - Central/Yerba Buena	Renewal	98,129
Figma	760 Market Street	Union Square	Sublease & Direct	97,606
Hinge Health	455 Market Street	Financial District South	Direct	86,000
Method	631 Howard Street	Financial District South	Direct	66,436

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
77 Beale	South Financial District	\$541,006,544	\$575	940,000
245 Market	South Financial District	\$258,992,494	\$575	450,000
153 Townsend	Rincon/South Beach	\$225,000,000	\$1,564	167,983
350 Parnassus	Van Ness	\$60,000,000	\$837	143,865
260 Townsend	SOMA	\$49,000,000	\$1,089	71,700

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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	87,578,218	1,040,000	16.8%	24.1%	21,078,001	56,611	(4,045,235)	\$78.10
North Financial District	28,281,078	0	16.0%	23.6%	6,686,941	157,988	(1,262,069)	\$79.43
South Financial District	27,709,180	0	12.7%	20.7%	5,749,360	71,414	(1,404,994)	\$83.96
SOMA	20,581,800	1,040,000	23.2%	29.5%	6,074,504	(328,287)	(1,169,010)	\$73.95
Union Square	3,623,871	0	15.2%	21.3%	770,503	82,917	(14,752)	\$63.56
Van Ness / Civic Center	1,803,770	0	13.1%	16.3%	249,217	(234)	50,963	\$46.56
N Waterfront / Jackson Sq	5,578,519	0	20.4%	27.0%	1,503,476	72,183	(245,373)	\$78.48

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	60,158,900	1,040,000	14.9%	21.5%	463,861	8,949,750	\$83.58
North Financial District	21,655,509	0	13.4%	20.2%	100,916	2,907,376	\$81.91
South Financial District	24,903,599	0	12.0%	19.2%	165,089	2,977,121	\$86.68
SOMA	10,757,075	1,040,000	23.6%	27.3%	11,706	2,541,746	\$82.76
Union Square	535,837	0	6.9%	27.3%	112,857	549,383	\$71.87
Van Ness / Civic Center	342,693	0	9.3%	9.3%	3,255	236,964	\$51.82
N Waterfront / Jackson Sq	1,964,187	0	23.1%	32.4%	70,038	1,137,634	\$85.90

For more information:

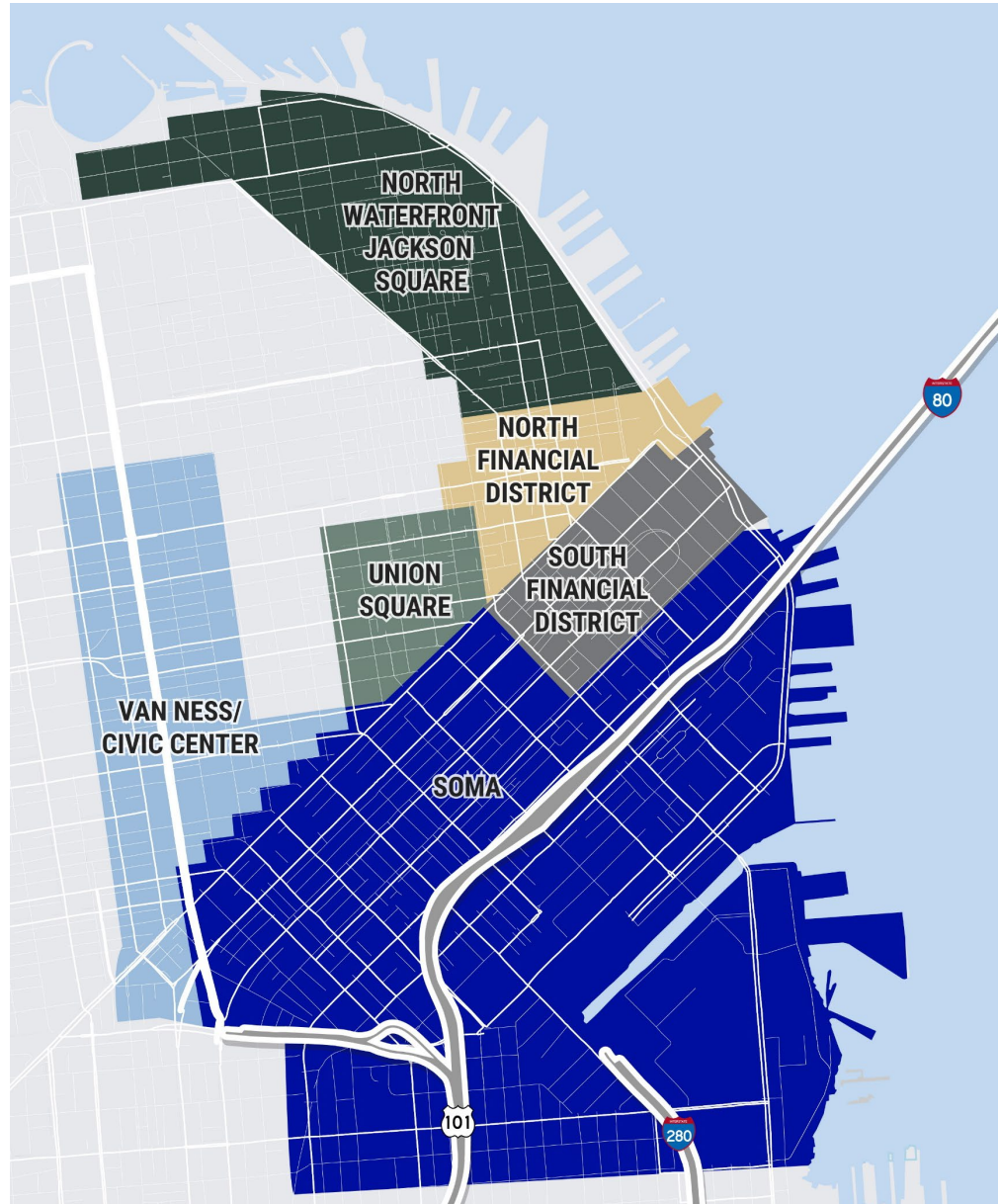
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