



RESEARCH 4Q 2020

# San Francisco Office Market

## Availability continued to climb

Overall vacancy increased by 210 basis points to 12.4%, a 920-basis-point year-over-year change. Class A vacancy increased by 140 basis points to 10.8%, an 830-basis-point year-over-year change.

San Francisco experienced another large drop in absorption, at negative 1.8 million square feet. This drop brought the 2020 total to negative 7.9 million square feet, surpassing the dot.com era first-year absorption decrease of 7.6 million square feet in 2001. Additionally, availability increased 250 basis points during the fourth quarter of 2020 to 20.2%. Over 60% of the increase in availability during the fourth quarter came from sublease space, which increased to a total of 8.5 million square feet, or 49.1% of the total available space on the market.

Due to uncertainty driven by the pandemic, demand remained anemic in the fourth quarter, and leasing volume dropped again to 336,000 square feet. Overall leasing in 2020 was just 34.0% of the leasing volume in 2019. Leasing activity in 2021 is anticipated to be significantly stronger as tenants prepare for occupancy following widespread distribution of the vaccine.

### Current Conditions

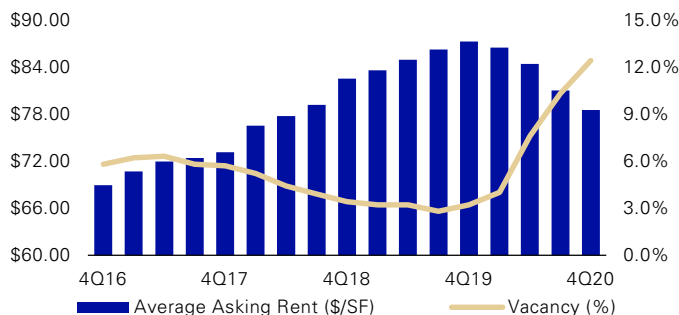
- Availability increased by more than 2.2 million square feet for the third quarter in a row, increasing from 15.1 million square feet last quarter to 17.3 million square feet.
- Class A direct average asking rates fell 10.0% year-over-year to \$84.73/SF, and overall direct asking rates decreased 8.3% year-over-year to \$78.50/SF.
- Class A vacancy was 10.8%; overall vacancy was 12.4%.

### Market Summary

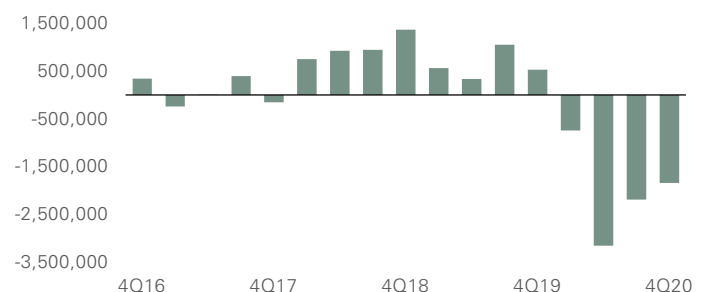
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	85.4M	85.5M	83.4M	↑
Vacancy Rate	12.4%	10.3%	3.2%	↑
Qtr Net Abs (SF)	-1.8M	-2.2M	588K	↓
Avg FS Ask Rent/SF	\$78.50	\$80.98	\$87.22	↓
Under Const (SF)	2.0M	2.0M	3.3M	→

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



### Modest Drop in Asking Rates

The lack of current demand coupled with its potential near-term resurgence has left most landlords reluctant to change official asking rates but instead deliver a message of being willing to “meet the market” by offering concessions. This has resulted in a modest decrease in overall asking rents, which ended the quarter at \$78.50/SF, a drop of 3.1% from last quarter and 10.0% over the year. At \$84.73/SF, Class A rents dropped 2.9% over the last quarter and 8.3% over the year. Class B rates have fallen 12.0% year-over-year to \$71.25/SF. Sublease asking rates also dropped, with overall rates falling 6.3% during the quarter to \$70.09/SF, and Class A rates falling 7.8% to \$72.88/SF. Overall sublease asking rates offer a 10.7% discount to direct space, and Class A sublease asking rates offer a 14.0% discount to direct rates in that class, although anecdotal evidence suggests that tenants looking to negotiate a good deal will find plenty of options.

### Investment Sales

Several notable sales transactions occurred in the fourth quarter, including SHVO/BVK/Deutsche Finance America’s acquisition of the Transamerica Pyramid Center Complex, which includes 600 Montgomery Street and 505 and 545 Sansome Street. The 756,181-square-foot portfolio traded for \$650.0 million. While the property was 91.9% leased at the time of sale, the transaction took nearly 8 months to close due to the uncertainty in the market. ARE/TMG Partners traded both 505 Brannan Street and 510 Townsend Street to Ascendas REIT for \$565.1 million. 510 Townsend Street is 100% leased to Stripe with nearly eight years left on the term and 505 Brannan is 100% leased to Pinterest with more than 12 years left on the term. Additionally this

quarter, Amazon purchased 960 Seventh Street from Recology for \$200.0 million, with plans to demolish the existing structure for redevelopment. This was the largest land sale in 2020 and among the largest in San Francisco history. Other fourth-quarter transactions included Allianz Real Estate of America’s 45.0% equity interest in 221 Main Street for \$180.0 million from Columbia Property Trust, and Kenson Ventures’s purchase of 634 Second Street for \$55.0 million from Thor Equities. Uncertainty around market rents has made value-add investments difficult to close, and multiple buildings have been pulled off the market due to the gap between seller expectations and offers from buyers; however, there continues to be demand for assets with long-term, high-quality tenancy in place.

### Economic Outlook

San Francisco’s unemployment rate dropped to 5.7% at the end of November, a healthy decrease from the peak 12.7% rate in May but a sober contrast to the year-ago rate of 1.9%. Additionally, San Francisco County’s labor pool decreased by 20,700 people since February, an indication that many have migrated out of the city since the stay-at-home order began. 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 remained the least active back-in-the-office market, with an average of only 12.1% of the workforce in the office in December. In the meantime, housing costs for San Francisco employees continued to decrease. Zumper reported a 24.0% year-over-year drop in two-bedroom apartment rates to \$3,495/month; the company still ranks San Francisco as the most expensive rental market in the country.

### Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
VIR	1800 Owens St	SOMA - Mission Bay	Sublease	133,896
Brightmark	1725 Montgomery St	North Waterfront/Jackson Square	Direct Lease	15,120
Clark Hill	505 Montgomery St	North Financial District	Direct Lease	15,053
Forell/Elsesser	160 Pine St	North Financial District	Lease Renewal	12,839

### Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
600 Montgomery St	North Financial District	\$464,400,000	\$888	523,000
510 Townsend St	SOMA – West	\$363,700,000	\$1,215	299,200
505 Brannan St	SOMA – Central/Yerba Buena	\$196,500,000	\$1,310	149,995
960 Seventh St*	SOMA – Potrero/Showplace Sq	\$200,000,000		
221 Main St**	South Financial District	\$180,000,000	\$1,031	387,943
505 Sansome St	North Financial District	\$135,000,000	\$766	176,241

\*Purchased for land value

\*\*45%-interest sale

## Submarket Statistics – All Classes

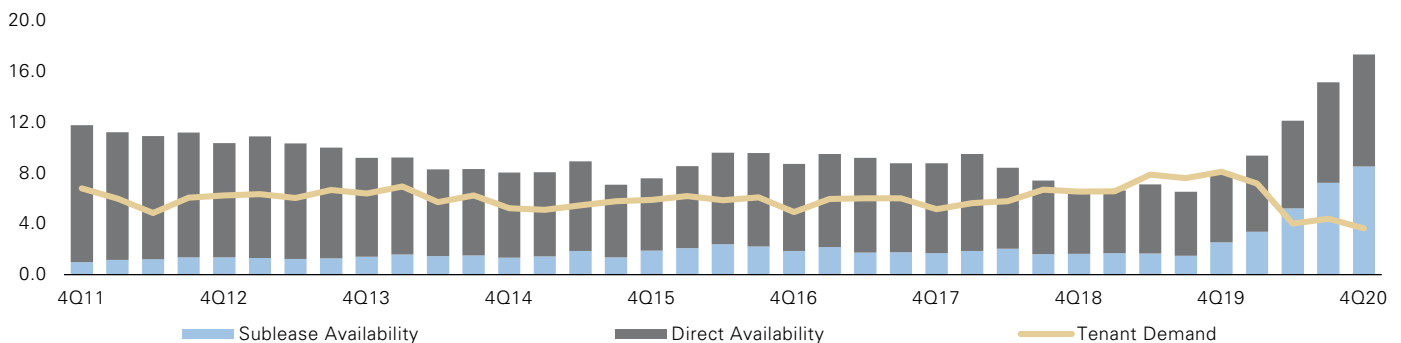
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Ask Rent (Price/SF)	Class B FS Ask Rent (Price/SF)	Direct FS Ask Rent (Price/SF)
<b>San Francisco</b>	<b>85,434,712</b>	<b>1,996,968</b>	<b>12.4%</b>	<b>20.2%</b>	<b>(1,840,406)</b>	<b>(7,865,280)</b>	<b>\$84.73</b>	<b>\$71.25</b>	<b>\$78.50</b>
North Financial District	28,203,079	0	11.2%	19.1%	(551,025)	(2,126,998)	\$83.32	\$76.72	\$81.09
South Financial District	26,588,807	956,968	7.9%	17.4%	(239,447)	(1,615,911)	\$87.93	\$76.00	\$84.45
SOMA	19,637,915	1,040,000	18.3%	22.2%	(719,046)	(2,967,097)	\$81.92	\$69.32	\$71.80
Union Square	3,623,871	0	14.8%	24.7%	(33,434)	(262,471)	\$81.49	\$61.92	\$65.54
Van Ness / Civic Center	1,803,770	0	16.0%	25.3%	(5,717)	(136,432)	\$59.91	\$56.27	\$54.43
N Waterfront / Jackson Sq	5,577,270	0	16.0%	27.9%	(291,737)	(756,381)	\$87.03	\$72.60	\$79.33

## 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)
<b>San Francisco</b>	<b>58,894,106</b>	<b>1,996,968</b>	<b>10.8%</b>	<b>17.5%</b>	<b>(805,080)</b>	<b>(4,939,020)</b>	<b>\$84.73</b>
North Financial District	21,655,509	0	9.5%	16.6%	(226,684)	(1,340,908)	\$83.32
South Financial District	23,992,815	956,968	7.0%	14.8%	(178,852)	(1,315,102)	\$87.93
SOMA	10,403,065	1,040,000	20.1%	19.5%	(193,279)	(1,890,604)	\$81.92
Union Square	535,837	0	25.1%	60.8%	(20,390)	(63,524)	\$81.49
Van Ness / Civic Center	342,693	0	21.6%	24.4%	(1,591)	(20,782)	\$59.91
N Waterfront / Jackson Sq	1,964,187	0	16.8%	35.5%	(184,284)	(308,100)	\$87.03

## Historical Availability and Tenant Demand

SQUARE FEET, MILLIONS



*For more information:*

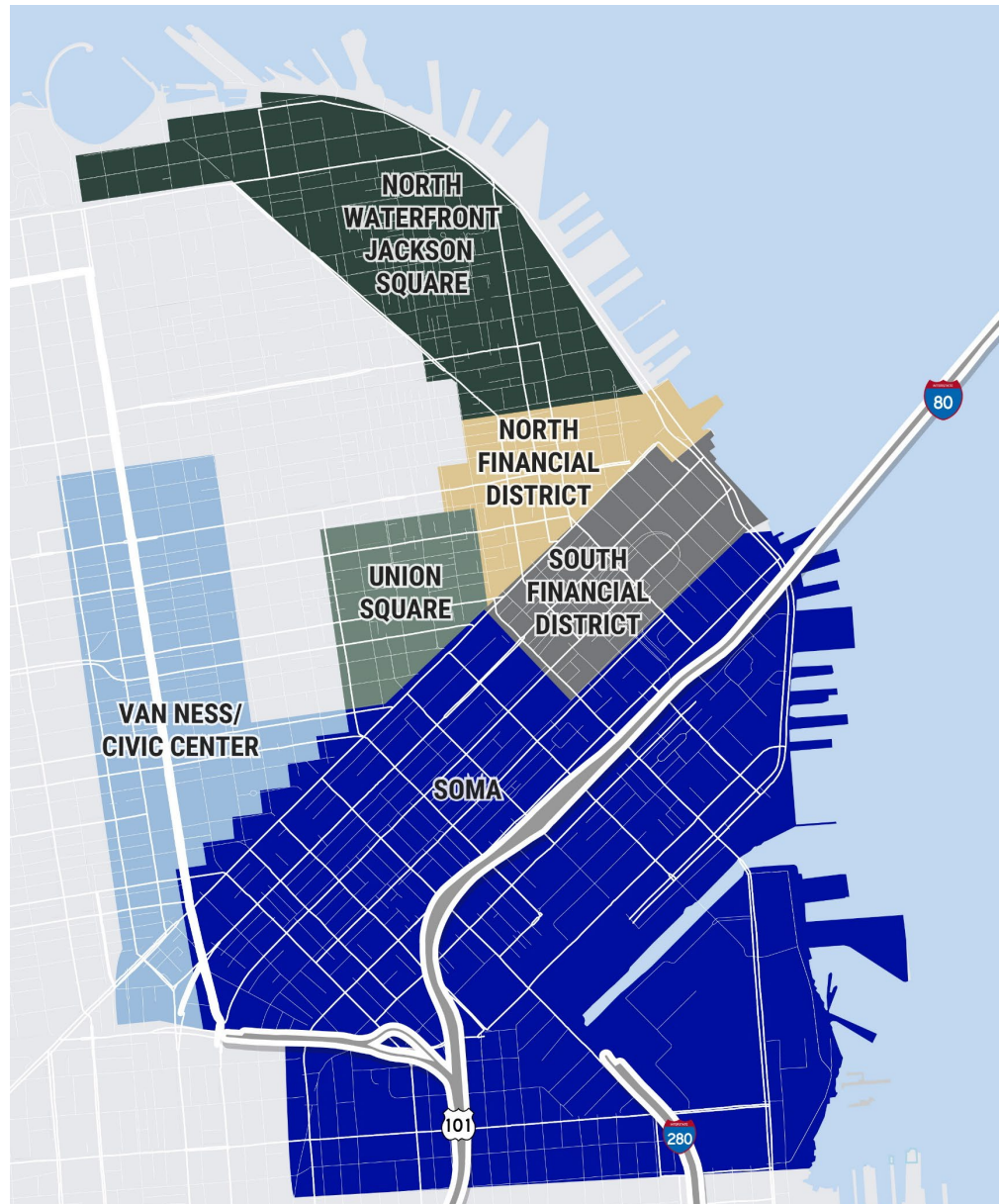
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