

Rapidly evolving COVID-19 crisis shut down activity as the quarter ended

The COVID-19 crisis has transformed life in San Francisco, one of the first cities to take unprecedented measures to slow the spread of the novel coronavirus. In February, the city declared a state of emergency and by mid-March was one of the first major metro areas to institute a shelter-in-place order, bringing much business to a halt. Market impact will be significant, and the severity is dependent on how long current circumstances extend. Ahead of any pandemic-related impact, the market saw some softening as overall availability increased 160 basis points over the quarter to 11.2%. Similarly, Class A availability rose 190 basis points to 10.0% over the same period. Overall asking rents rose 2.2% quarterly to \$83.50 per square foot (psf), while Class A asking rents increased nominally quarter over quarter to \$88.78 psf.

Sublease availabilities grew apart from any COVID-19 related impact, likely to increase further

The rise in availability rate and the plateauing of Class A rents can be attributed to the influx of sublease availability that has flooded the market. Currently 3.7 million square feet (msf) of sublease space is on the market, an increase of more than 300.0% in just a year's time. The rise comes as companies either look to reserve space for future growth, shed space as they downsize, or to move out of the city in search of cheaper rents. As organizations reevaluate workforce needs in light of the evolving circumstances, it is likely that sublease availability will increase further – placing downward pressure on overall asking rents.

Leasing activity slows to lowest level in over two years

With activity significantly curbed in the past month, just under 1.6 msf was leased in the first quarter – marking the lowest quarterly total since mid-2017. Demand is likely to continue to stall in the near term as occupiers take stock of the COVID-19 impact. Landlords are already facing pressure to increase concessions, including tenant improvement allowance and free rent offered, as they now compete with the abundance of lower-priced sublease options on the market. This may become even more necessary going forward in uncertain economic times. In the last significant nation-wide downturn during the Great Recession, Class A taking rents in San Francisco declined by 8.5% from 2008 to 2009, while concessions saw a massive 37.8% increase (in tenant improvement allowance and free rent combined).

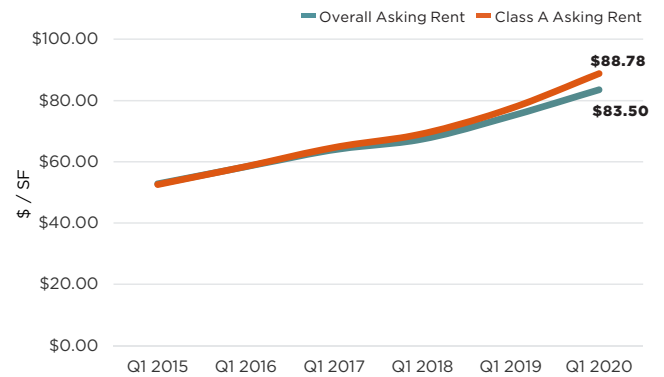
Outlook

- The San Francisco office market showed signs of softening even prior to COVID-19 shutdown; sublease supply exploded, and Class A rents plateaued amid a pullback in demand
- With an increase in availability, surplus of sublease availability, and the likelihood that more space will come to market in coming quarters, tenants can expect increased flexibility in term and concessions
- Office development faces an uncertain future with the passage Proposition E (limiting office development) and a likely shortage in labor and materials due to COVID-19 the country

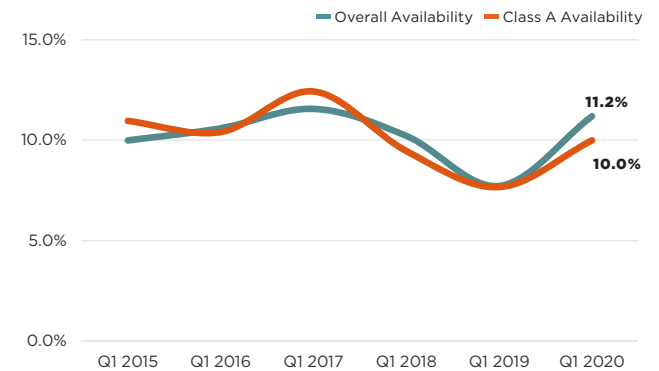
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	80.0 MSF	80.0 MSF	◀▶
Availability Rate	7.7%	11.2%	▲
Asking Rental Rate	\$74.89	\$83.50	▲
Class A Asking Rental Rate	\$77.41	\$88.78	▲
Quarterly Leasing Activity	2.7 MSF	1.6 MSF	▼

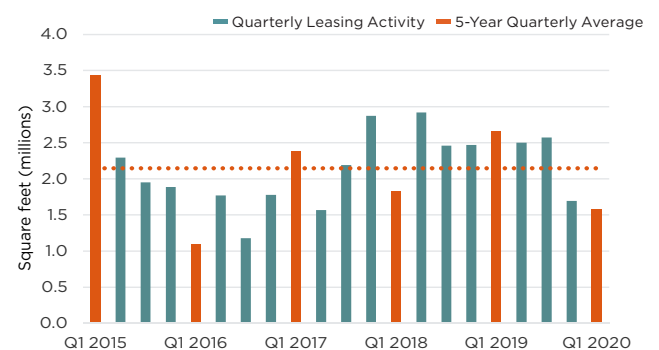
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

8 of 10

of major transactions were new locations

70.0%

of major transactions occurred in the Financial District South

45.0%

Tech tenants accounted for 45.0% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Deloitte	229,000	555 Mission Street	Renewal and Expansion	Financial District South	Professional Services
Autodesk	94,151	1 Market Street	Renewal	Financial District South	Technology
Knotel	82,830	301 Brannan Street	New Location	Rincon/South Beach	Coworking
Skillz	51,684	505 Howard Street	New Location	Financial District South	Technology
People.ai	35,557	153 Townsend Street	New Location	Rincon/South Beach	Technology
The Trade Desk	27,542	425 Market Street	New Location	Financial District South	Technology
AppAnnie	26,154	30 Maiden Lane	New Location	Union Square/Civic Center	Technology
Abnormal Security	17,956	185 Clara Street	New Location	Yerba Buena	Technology
R-T Specialty Insurance Services	16,343	44 Montgomery Street	New Location	Financial District North	Financial Services
Quotient Technology	15,607	301 Howard Street	New Location	Financial District South	Technology

*Lease is outside of Savills-tracked market boundaries, included for market significance

Source Savills Research

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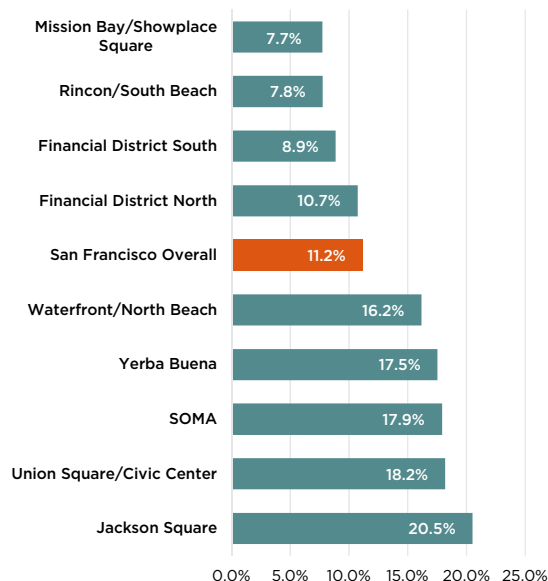
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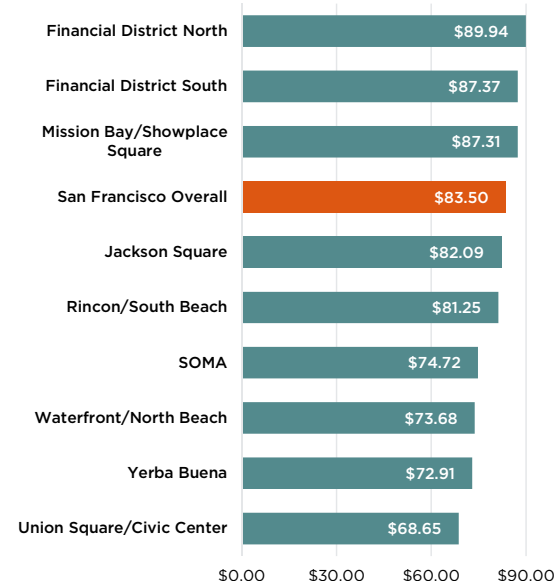
AVAILABILITY RATE COMPARISON

San Francisco Submarkets



RENTAL RATE COMPARISON (\$/SF)

San Francisco Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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