



San Francisco sees small signs of market return from shutdown, eventually leading to conditions prime for tenant opportunity

A year into the COVID-19 pandemic, San Francisco remains one of the markets most impacted by disruption stemming from business restrictions and local shelter-in-place orders. Leasing has been limited and current market pricing is difficult to establish without demand to support. First-quarter leasing volume totaled 380,394 square feet (sf), and while this is well below pre-COVID levels, it is the first positive quarterly increase since Q3 2019 and marks a 56.6% increase quarter over quarter. Current activity stems mainly from lease expirations forcing tenants to sign new leases or renewals, however organizations do appear to be more active in re-engaging in space discussions as vaccination becomes more widespread. Sublease inventory remains at historic highs with an additional 200,000 sf listed on the market this quarter, bringing the city's total up to 8.9 million square feet (msf). Current conditions will present an unprecedented opportunity for occupiers to secure space in a once incredibly tight leasing environment as owners will soon need to compete with the tsunami of sublease space.

Asking rents appear to have plateaued in the short term, but are expected to drop as landlords move away from price discovery

Over the quarter, overall availability rose 340 basis points (bps) to 23.6% - more than double what it was this time last year (11.1%). Class A availability saw a similar increase, rising 350 bps from Q4 to 20.7%. Overall asking rents stabilized some, with just a 0.7% decrease quarter over quarter to \$72.39 per square foot (psf). Class A rents saw a marginal increase, but held essentially stay flat, ending the quarter at \$75.70 psf. Overall asking rents are down 13% since the onset of the pandemic, with a 15% decline for Class A space. With the glut of available space on the market, expect additional decline in coming quarters as landlords shift from a "closed market" phase into a repricing stage once tenants' appetite for space begins to re-emerge in full and the sublease market becomes real competition.

Historic headquarters sale shows owners are still bullish on San Francisco

With its tech-heavy industry profile, many speculate how the San Francisco commercial real estate landscape will look post-COVID as many large tech firms enacted more permanent work-from-home policies and hybrid work models. There will no doubt be more flexibility in the future and space use may look different, but there is reason to believe that San Francisco will remain a stalwart for physical tech offices in the future and investors are willing to pay premium for space attractive to tech occupiers. Home to Dropbox's headquarters, The Exchange on 16th sold for \$1.08 billion dollars this quarter. The sale for the 750,000-sf building registered a record of \$1,440 psf, even with half of the building currently listed for sublease.

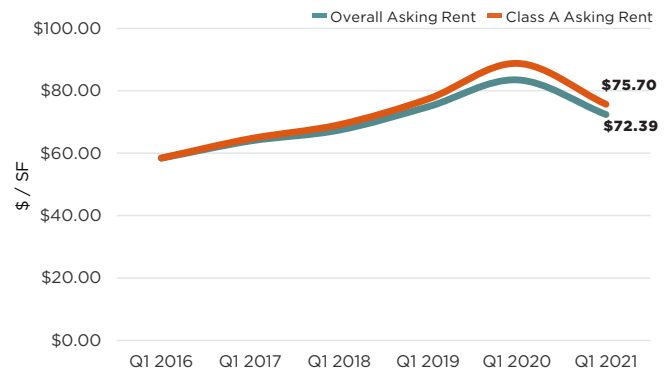
Outlook

- Leasing activity ticked up this quarter, signaling the slow start of a return to normalcy and renewed appetite among tenants
- Rent decline stalled some but is expected to decrease further in the coming quarters as landlords shift from price discovery mode into a repricing stage with the glut of direct and sublease space available
- Amongst the hardest hit markets in the nation, it remains to be seen how San Francisco will weather pandemic impact, particularly being such a public transportation centric market

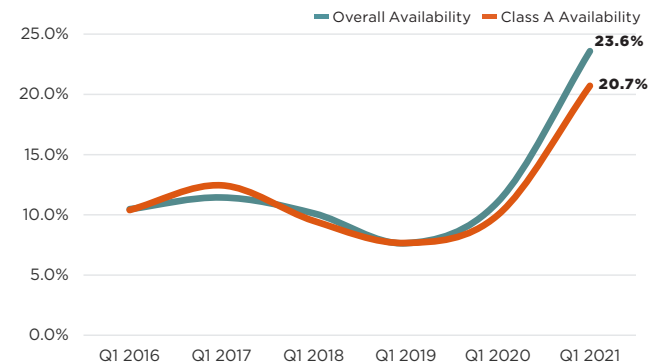
KEY STATISTICS

	Q1 2020	Q1 2021	y-o-y Change
Inventory	80.0 MSF	81.9 MSF	▲
Availability Rate	11.1%	23.6%	▲
Asking Rental Rate	\$83.50	\$72.39	▼
Class A Asking Rental Rate	\$88.78	\$75.70	▼
Quarterly Leasing Activity	1.6 MSF	0.4 MSF	▼

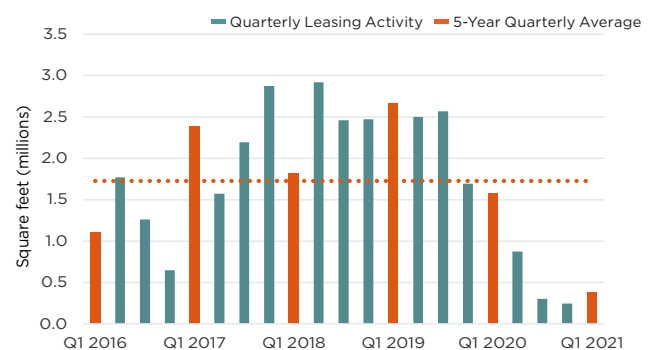
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

56.2%

of major transactions were **renewals** by square footage

69.7%

of major transactions occurred in the **Financial District North** submarket by square footage

69.7%

Financial Services accounted for 69.7% of major transactions by square footage

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Goldman Sachs & Co. - Global Investment Research	88,370	555 California Street	Renewal	Financial District North	Financial Services
Invitae Corporation	40,000	444 De Haro Street	New	Mission Bay/Showplace Square	Pharmaceuticals
Varo	24,793	100 Montgomery Street	New	Financial District North	Financial Services
Shook Hardy & Bacon LLP	15,639	555 Mission Street	New	Financial District South	Legal Services
Calera Capital	14,993	580 California Street	Renewal	Financial District North	Financial Services

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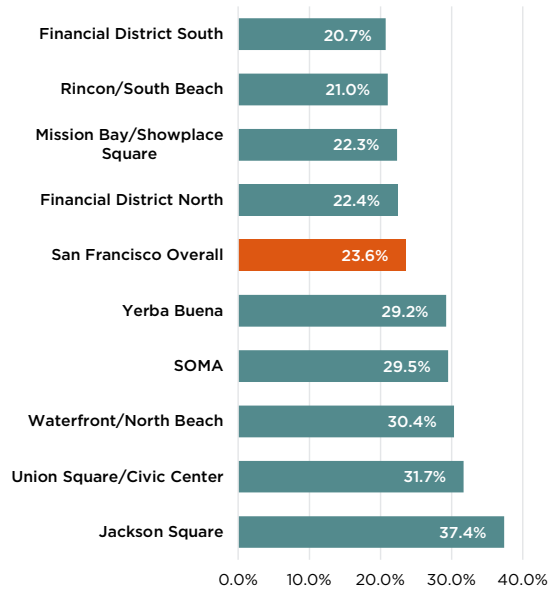
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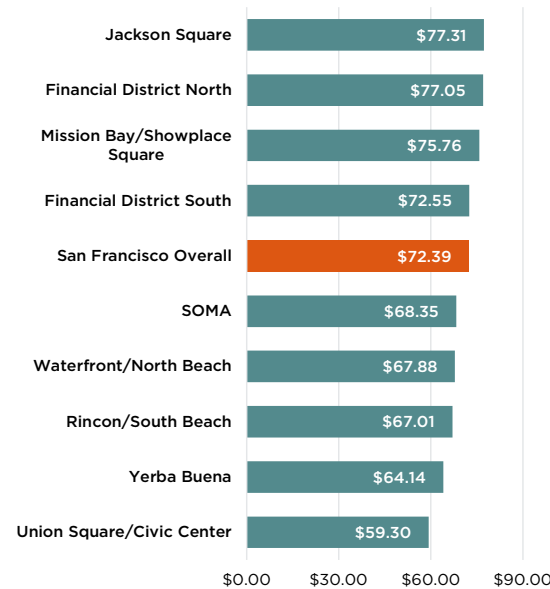
AVAILABILITY RATE COMPARISON

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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