



Leasing activity plummets to lowest level in at least 15 years as tenants and landlords grapple with pandemic impact

As San Francisco continues to manage the ongoing COVID-19 crisis, both tenants and landlords alike are navigating unprecedented uncertainty that is now reflecting in rapidly softening market metrics. With the city's businesses and economy essentially at a standstill throughout the second quarter, demand drastically dropped: less than 600,000 square feet (sf) were leased in total in the past three months. This marks a 62.7% drop from Q1 and the lowest amount of quarterly activity in at least fifteen years. Occupiers are wary to make real estate decisions in the current environment, as the full extent of the crisis is still unknown. With the return of supply significantly outpacing demand, availability surged 240 basis points and is now at 13.5%, its highest since 2012.

Sublease availabilities surge as companies shed space

Signs of market softening were present prior to the pandemic, and in the aftermath of the initial impact, sublease inventory has increased dramatically as companies focus on cost savings, reevaluating workforce and work space needs. Sublease space accounts for approximately half of all available space on the market with 5.2 million square feet (msf) of sublet inventory, an increase of 40% over the quarter. In May alone, more than 600,000 sf was added. Companies subleasing significant blocks include Uber, as it is in the process of moving to a new headquarters in Mission Bay, as well as Pacific Gas and Electric, which will be relocating to Oakland and eventually disposing of 1.3 msf in the city. The influx of new sublease availability has decreased the market's overall average asking rent by 5.0% over the quarter, now at \$79.31 per square foot (psf).

Ongoing disruption swings market favor to tenants

Amid these uncertain times, tenants looking to lease space in the current environment will benefit from more favorable terms and increased flexibility. Tenants can expect further downward pressure on rental rates as sublandlords seek to fill availabilities quickly and direct space will be forced to compete with the glut of lower-priced sublease space on the market. With many organizations putting real estate decisions on hold, landlord-offered incentives are becoming increasingly generous to move deals across the finish line. Concessions have increased over the past three months for new, long-term, Class A leases and will continue to trend upwards as the market continues to soften.

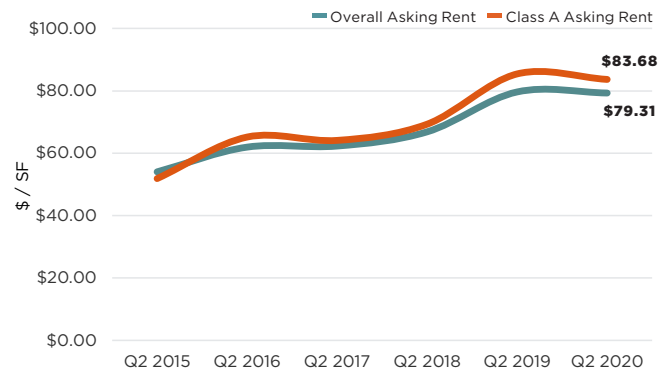
Outlook

- The San Francisco office market is expected to experience further disruption as companies react and adapt to new COVID-19 realities
- As companies reduce office footprint and adjust labor strategies, sublease space may continue to swell
- Prospective tenants that are in the market now will benefit from increasingly generous concessions and flexible terms as competition to attract occupiers will be high

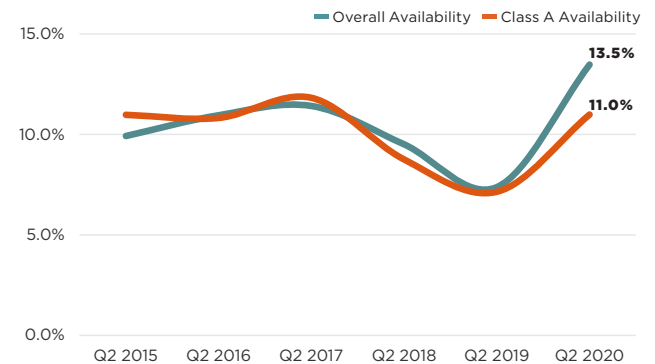
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	80.9 MSF	80.9 MSF	◀▶
Availability Rate	7.4%	13.5%	▲
Asking Rental Rate	\$79.66	\$79.31	▼
Class A Asking Rental Rate	\$85.40	\$83.68	▼
Quarterly Leasing Activity	2.5 MSF	0.59 MSF	▼

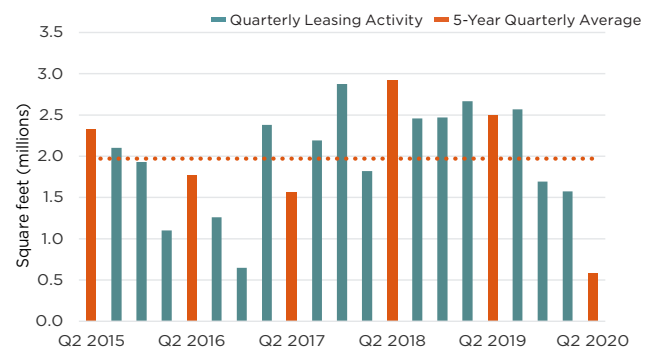
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

8 of 10

major transactions were new locations

42.2%

of major transactions occurred in the Waterfront/North Beach submarket

42.2%

Education accounted for 60.0% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
UCSF Foundation	123,936	2 North Point Street	New Location	Waterfront/North Beach	Education
Airtable	48,812	155 5th Street	New Location	Yerba Buena	Technology
User Testing	45,000	144 Townsend Street	New Location	Rincon/South Beach	Technology
Sitecore	24,907	101 California Street	TBD	Financial District North	Technology
Fyusion	15,698	555 De Haro Street	New Location	Mission Bay/Showplace Square	Technology
Consulate General of Ireland	11,809	1 Post Street	New Location	Financial District North	Government
DCI	7,644	201 Spear Street	Renewal	Financial District South	Financial Services
Meritage Group	5,818	1 Ferry Building	New Location	Financial District North	Financial Services
EPAM Systems	5,208	222-224 Kearny Street	New Location	Financial District North	Technology
Voltage Entertainment	5,183	100 Bush Street	New Location	Financial District North	Professional Services

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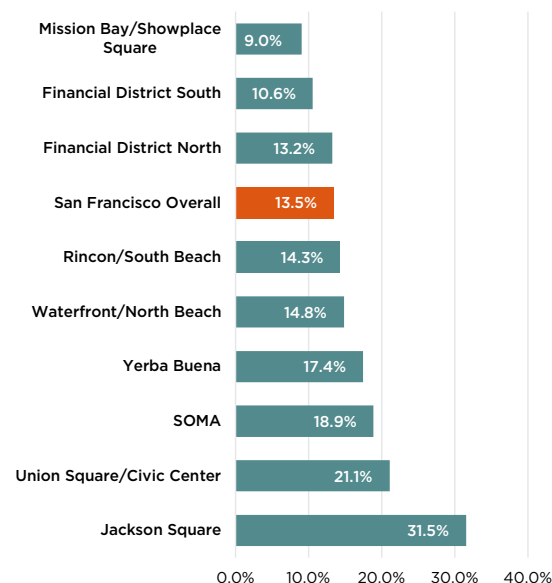
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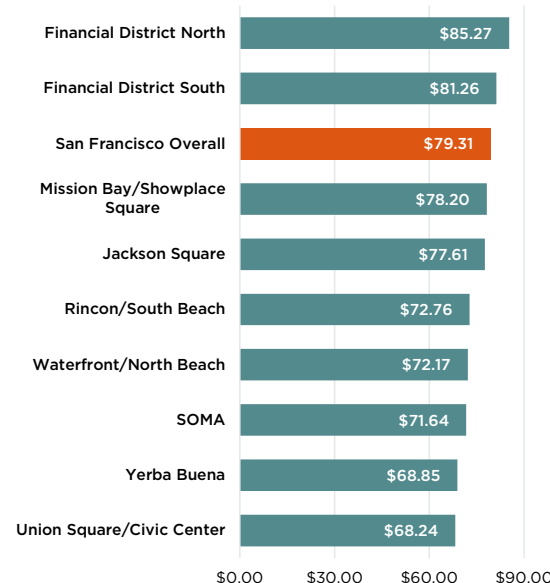
AVAILABILITY RATE COMPARISON

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.

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