

## Landlord optimism rallies in the wake of vaccine rollouts, though market remains at its softest in years

After a long year of being shutdown, San Francisco's office market is beginning to show some signs of life. Although activity is still far below pre-COVID levels, tenants have become more active in searching and securing space as vaccine rollouts were successful and local governments have significantly eased health mandates. Leasing activity totaled 1.1 million square feet (msf), more than twice what was leased in the previous quarter. Still, fundamentals are shaky at best. The market's overall average asking rent held firm over the quarter, now at \$72.55 per square foot (psf) and is down 8.5% year over year. Overall availability increased by an additional 270 basis points (bps) over the quarter to 26.3% and Class A availability increased 330 bps to 24.0%. These are massive leaps from pre-pandemic levels of 9.5% and 8.8%, respectively, and it will be a long time before there is a supply-demand rebalance. The greatest factor in availability increase has been the meteoric rise in sublease inventory, which slowed this quarter but still stands at over nine million square feet (msf) available. With so much space on the market, rents will remain competitive – and will most certainly decrease further - until meaningful positive net absorption occurs to stabilize supply and demand fundamental pricing.

### Companies begin to implement return-to-work timelines and policies as San Francisco is in final stages of re-opening

Swift vaccination rollout and adoption played an immense part in spurring market activity. As the City and County of San Francisco have passed the 70% vaccination rate, the area is in its final stages of re-opening. Many large tech firms, such as Facebook, Apple, Amazon, and Microsoft, and professional service firms like Bank of America are beginning to implement return-to-work timelines and hybrid work policies with some expected back in the office as early as this summer. It remains to be seen how varying return-to-work policies will impact long-term space strategies. We will be keeping a close eye on sublease inventory to see if organizations reoccupy unused space once physically back in the office or commit to more permanent space reduction.

### Market is prime for tenant opportunity; expect discounted premium space and "flight to quality"

Current market conditions will undoubtedly result in a "flight to quality" as tenants re-enter the market and compete for discounted space in premium buildings. This opportunity is unprecedented as tenants face historically high amounts of quality options, both direct and sublease, in what once was the tightest major market in the country. And while activity appears to be rebounding with more widespread vaccination, it will take time for the market to reabsorb all of the space that returned during the pandemic. Conditions are expected to remain tenant favorable for the foreseeable future.

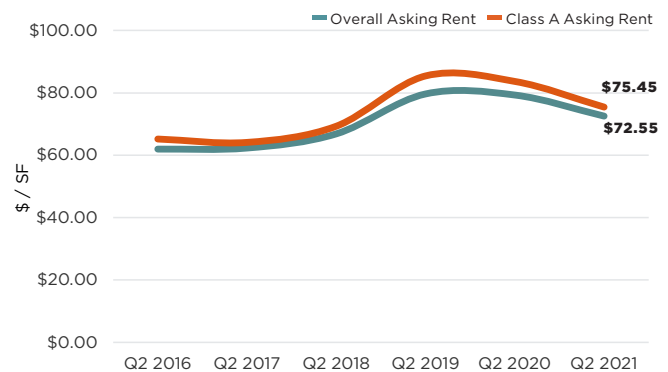
### Outlook

- For the first time in over a year there are signs of a return in leasing activity as vaccination spreads
- Return-to-work timelines and policies have been enacted by leading companies in the market, signaling a return to the office; however, it remains to be seen how this will impact future office demand
- Due to rising availability and a glut of available space on the market, there are numerous high-end options for opportunistic and agile tenants looking to secure space at a discounted rate

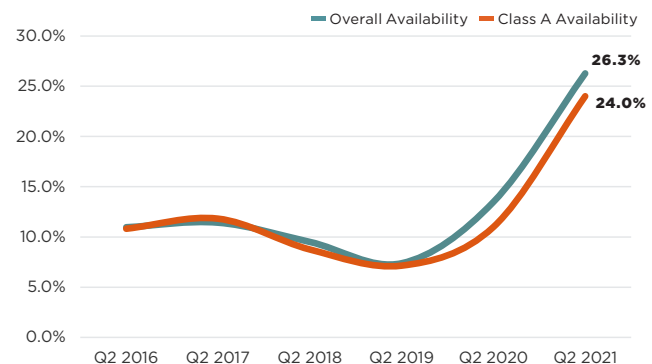
### KEY STATISTICS

|                            | Q2 2020  | Q2 2021         | y-o-y Change |
|----------------------------|----------|-----------------|--------------|
| Inventory                  | 81.0 MSF | <b>82.5 MSF</b> | ▲            |
| Availability Rate          | 13.5%    | <b>26.3%</b>    | ▲            |
| Asking Rental Rate         | \$79.31  | <b>\$72.55</b>  | ▼            |
| Class A Asking Rental Rate | \$83.68  | <b>\$75.45</b>  | ▼            |
| Quarterly Leasing Activity | 0.9 MSF  | <b>1.1 MSF</b>  | ▲            |

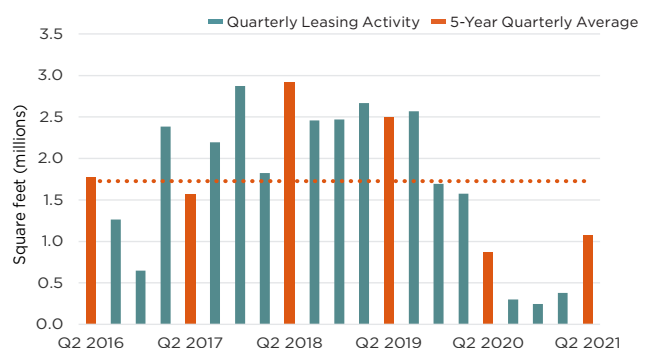
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

59.6%

of major transactions were new locations by square footage

36.6%

of major transactions occurred in the Union Square/Civic Center submarket by square footage

61.5%

Technology sector tenants accounted for 61.5% of major transactions by square footage

| Tenant              | Square Feet | Address                       | Transaction Type      | Submarket                 | Industry              |
|---------------------|-------------|-------------------------------|-----------------------|---------------------------|-----------------------|
| Figma               | 97,606      | 760 Market Street             | New Location          | Union Square/Civic Center | Technology            |
| Nerdwallet          | 51,162      | 55 Hawthorne Street           | New Location          | Financial District South  | Technology            |
| Afterpay            | 50,297      | 760 Market Street             | New Location          | Union Square/Civic Center | Technology            |
| Sigma Computing     | 49,473      | 116-118 New Montgomery Street | Renewal and Expansion | Financial District South  | Technology            |
| Allen Matkins       | 40,925      | Three Embarcadero Center      | Renewal               | Financial District North  | Legal Services        |
| Sutter Health       | 28,410      | 475 Brannan Street            | Renewal               | SOMA                      | Healthcare            |
| Kimpton Hotel Group | 24,737      | 222-224 Kearny Street         | Renewal               | Financial District North  | Real Estate           |
| Gryphon Investors   | 21,851      | 1 Maritime Plaza              | New Location          | Financial District North  | Financial Services    |
| Expa                | 19,790      | 555 Mission Street            | Renewal               | Financial District South  | Financial Services    |
| Baker Tilly         | 19,624      | 50 Fremont Street             | New Location          | Financial District South  | Professional Services |

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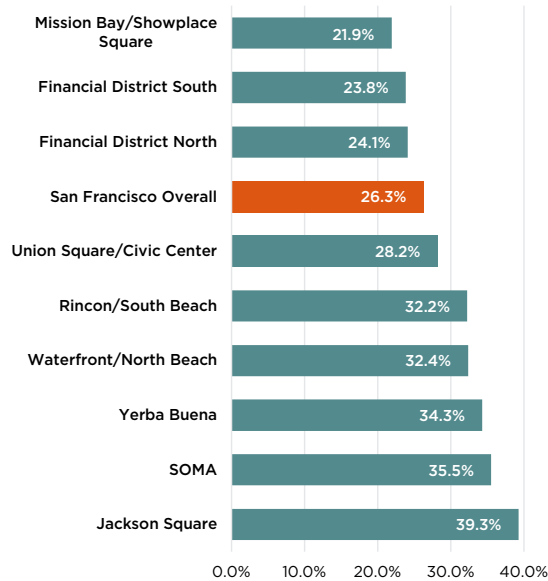
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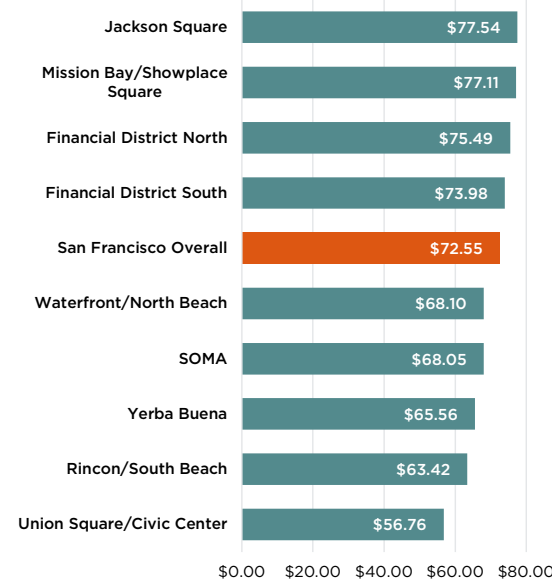
AVAILABILITY RATE COMPARISON

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.

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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