

SAN FRANCISCO

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Leasing demand plunges again as the pandemic continues to severely stall San Francisco's office market

Not long ago, San Francisco was one of the hottest commercial real estate markets in the country with no signs of slowing down. Now, however, it is facing massive disruption as business activity remains incredibly limited due to the pandemic and office market fundamentals are softening quickly. Leasing activity plummeted to just over 300,000 square feet (sf) in the quarter – a little more than half of what was recorded in the second quarter and negligible when compared to the 2.6 million square feet (msf) seen in Q3 2019. Only one lease over 50,000 sf was seen in the quarter with OpenAI leasing close to 100,000 sf at 575 Florida Street in the Mission District.

Sublease space balloons, yet asking rents lag in real repricing

Sublease supply has exploded since virus prevention measures began halting business activity at the end of the first quarter. Over 7.5 msf of sublease space is currently available, more than doubling since the end of February 2020, and reaching the highest amount on market in San Francisco's history. Sublease additions pushed overall availability to 17.7%, a 420-basis-point increase from Q2. This glut of lower-priced sublease space has spurred some repricing. Overall asking rents ended the quarter at \$75.98 per square foot (psf), falling 4.2% from Q2. Average Class A asking rents experienced an even sharper decline, dropping 4.9% quarter over quarter to \$79.55 psf. Still, with such nominal activity, there's not been opportunity for true price discovery and quoted rents remain artificially high in relation to the tsunami of sublease inventory and rapidly rising availability.

Tech tenants shed large blocks as work-from-home remains prevalent

Large tenants have been shedding space at an alarming rate as occupiers re-evaluate office space needs, with notable additions from the tech sector. Twitter placed over 100,000 sf at its HQ on the market and AirBnB recently listed 61,000 sf. Some companies are exploring permanent work-from-home policies as well, allowing employees to move out of the Bay Area and continue employment. This will continue to impact the market now – and in the future – as companies restructure their business strategies and downsize office footprints. As a prime example, Pinterest, which signed the largest office lease in San Francisco in 2019, paid \$89.5 million to terminate its 490,000-sf lease at 88 Bluxome in order to re-evaluate workplace strategy.

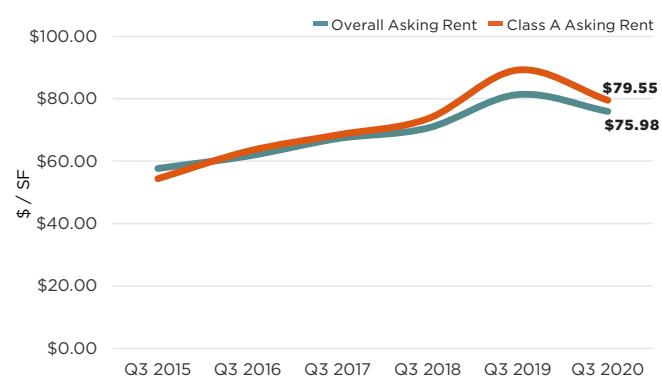
Outlook

- Market conditions continue to soften with economic uncertainty and reduced business activity due to ongoing pandemic implications
- As work-from-home environments continue indefinitely and fewer employees are expected in the office, companies are shedding large blocks of space and reducing expansion plans
- Until demand returns, asking rents are likely to lag market softening; prospective tenants that can make a move have the opportunity to secure once-scarce large blocks of contiguous space at likely-to-be reduced pricing

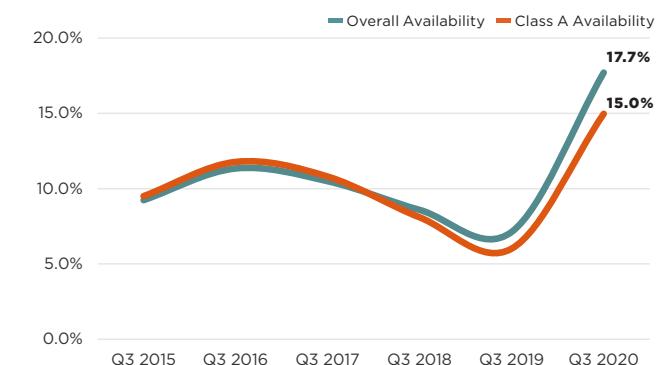
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	80.9 MSF	81.0 MSF	▲
Availability Rate	7.1%	17.7%	▲
Asking Rental Rate	\$81.34	\$75.98	▼
Class A Asking Rental Rate	\$89.23	\$79.55	▼
Quarterly Leasing Activity	2.6 MSF	0.3 MSF	▼

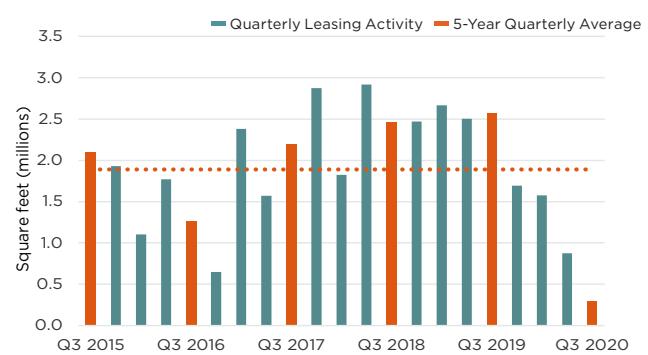
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

90.4%

major transactions were
new locations by square footage

58.6%

of major transactions occurred in the
Mission Bay/Showplace Square
submarket by square footage

67.1%

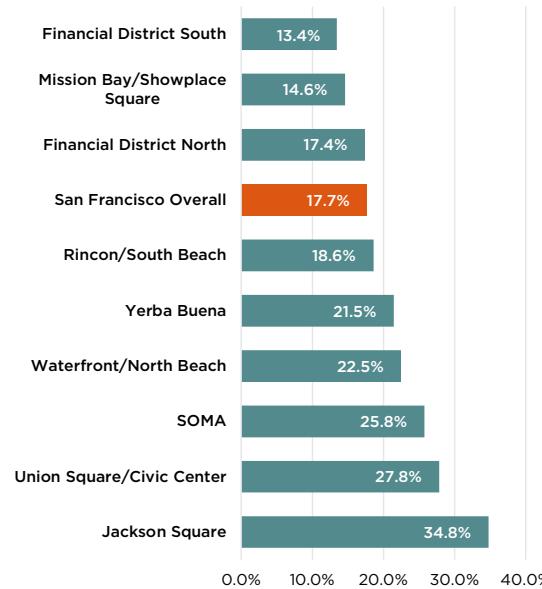
TAMI accounted for 67.1% of major
transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
OpenAI	96,960	575 Florida Street	New Location	Mission Bay/Showplace Square	Technology
Chubb Insurance	23,532	1 Post Street	New Location	Financial District North	Professional Services
Etsy, Inc	15,870	20 California Street	Renewal	Financial District North	Retail
Brightmark	15,000	1725 Montgomery Street	New Location	Waterfront/North Beach	Energy & Utilities
Finix	14,097	71 Stevenson Street	New Location	Financial District South	Technology

Source Savills Research

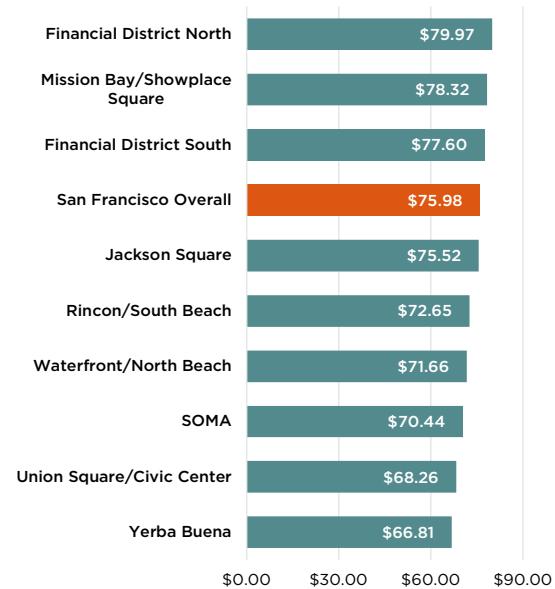
AVAILABILITY RATE COMPARISON

San Francisco Submarkets



RENTAL RATE COMPARISON (\$/SF)

San Francisco Submarkets



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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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