



San Francisco shows early signs of market stabilization as pace of leasing activity cools

Quarterly leasing activity in San Francisco dropped to 1.7 million square feet (msf), marking the lowest amount of quarterly leasing activity in the city since Q2 2017. The persistent constraints on office supply that San Francisco has been experiencing for some time appear to be a predominant cause for the lull in leasing. As a result, the overall availability rate rose 240 basis points to 9.6%. Similarly, Class A availability rose 210 basis points to 8.1%, the highest seen since mid-2018. Overall asking rents remained relatively constant at \$81.18 per square foot (psf), while Class A asking rents dropped 2.1% quarter over quarter to \$87.36 psf. The market appears to be stabilizing somewhat; however, tenants still face tight competition for prime space and some of the highest rents in the country.

High asking rents continue to be a barrier for companies seeking prime space

San Francisco's eye-popping asking rents appear to be giving mid-tier tenants some pause when searching for options in the market. Owners of prime Class A space in the city have become accustomed to commanding a significant premium for top-quality space as leading tech giants are willing to pay upwards of \$110.00 - \$120.00 psf for large blocks in choice locations. However, this top tier of tech companies has appeared to settle into place for now, and the market hasn't seen significant movement within that sphere this quarter. Smaller and mid-sized companies have balked at the climbing rents and many tenants have decided to seek out more affordable options in other markets, resulting in asking rents slowly starting to plateau.

Development in South San Francisco shows companies are willing to look to non-traditional markets

South San Francisco has become an emerging market for companies looking to stay in the Bay Area, but want to escape the market constrictions of San Francisco. The market has historically been a hub for biotech companies, but it hasn't developed a great deal of office space. While Oakland has traditionally been the premier value option, new office developments in South San Francisco and the peninsula have emerged as viable competition. Kilroy's Oyster Point and BioMed Realty's Gateway of the Pacific are two under-construction developments that will increase South San Francisco's office stock once completed. These developments will provide a high-quality alternative for tenants looking outside the city.

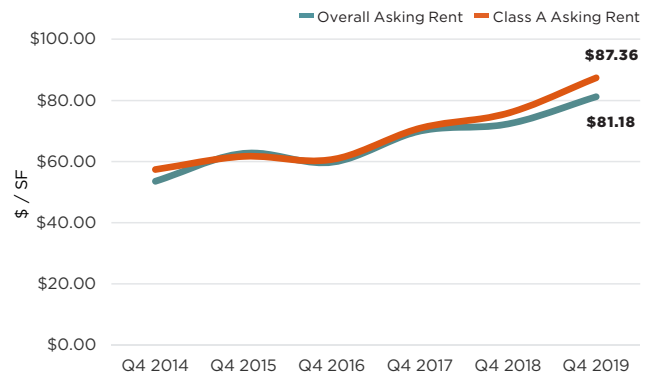
Outlook

- Rising availability rates and plateauing rents appear to be early signs of market stabilization
- As supply constrictions continue to abound, South San Francisco emerges as an option for tenants looking to relocate outside of the city, but to stay within the Bay Area
- Bolstered by its rich tech presence and highly skilled work force, San Francisco continues to be one of the premier office markets in the country

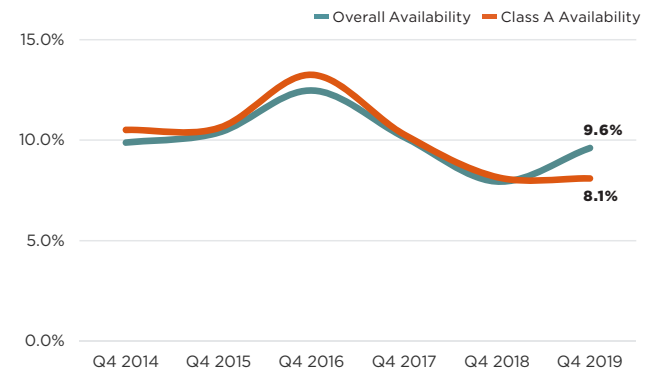
KEY STATISTICS

	Q4 2018	Q4 2019	y-o-y Change
Inventory	79.6 MSF	79.9 MSF	▲
Availability Rate	7.9%	9.6%	▲
Asking Rental Rate	\$72.29	\$81.18	▲
Class A Asking Rental Rate	\$75.82	\$87.36	▲
Quarterly Leasing Activity	2.5 MSF	1.7 MSF	▼

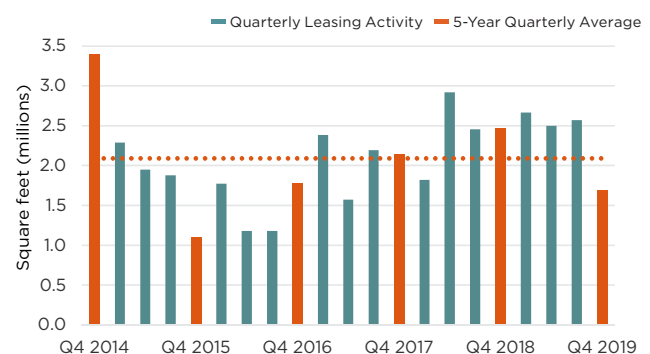
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

75.7%

of major transactions were **new locations**

40.9%

of major transactions occurred in the **Mission Bay/Showplace Square**

45.1%

Financial Services accounted for 45.1% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Visa	300,000	1051 3rd Street	New Location	Mission Bay/Showplace Square	Financial Services
Uber	79,674	71 Stevenson Street	New Location	Financial District South	Technology
Reed Smith LLP	63,317	101 Second Street	Renewal	Financial District South	Legal Services
Scale	56,721	625 2nd Street	New Location	Rincon/South Beach	Technology
EasyPost	51,156	345 California Street	New Location	Financial District North	Technology
Stripe	47,416	410 Townsend Street	New Lease	SOMA	Technology
Sentry.io	36,792	45 Fremont Street	New Location	Financial District South	Technology
Triage Consulting Group	36,668	221 Main Street	Renewal	Financial District South	Professional Services
Credit Suisse (Investment Banking)	31,170	650 California Street	Renewal	Financial District North	Financial Services
Covington & Burling LLP	31,005	One Front Street	New Location	Financial District North	Legal Services

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

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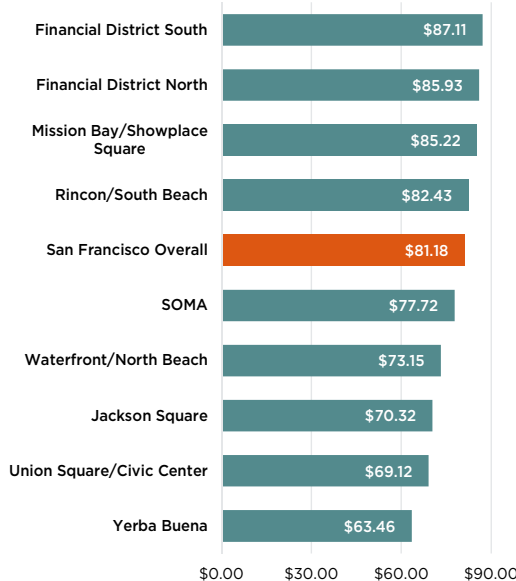
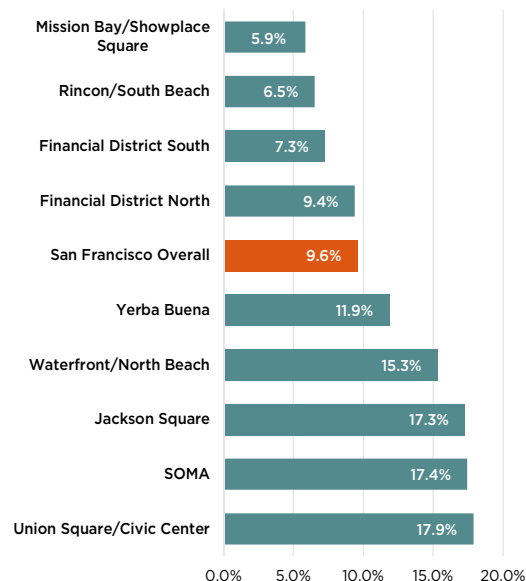
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AVAILABILITY RATE COMPARISON

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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