

San Francisco's office market softens further at year-end

Still grappling with the implications of COVID-19 and localized stay-at-home orders, the San Francisco office market is seeing ongoing softening and next to no leasing activity as companies delay long-term real estate commitments. As of now, even with optimism surrounding vaccine distribution, most companies are only expecting to bring workers back into the office in Q2 2021, at the earliest. Leasing totaled just 258,000 square feet (sf) this quarter, 40,000 sf less than the previous quarter and 85% below activity recorded in Q4 2019. The largest leases signed this quarter were Lattice signing for 40,000 sf of space at 360 Spear Street and Google expanding its footprint at 121 Spear Street by 42,000 sf.

Historic levels of sublease availability pulls asking rental rates down

Sublease options within the city continue to abound. A new peak has been reached with more than 8.6 million square feet (msf) of sublease space available in Q4, up by 1.3 msf from the end of last quarter and by 5.5 msf from the end of last year. This addition pushed overall availability to 20.2%, a 250-basis-point increase from Q3. Correspondingly, overall asking rents ended the quarter at \$72.93 per square foot (psf), down 4.0% from Q3. Class A rents dropped even further, now at \$75.66 psf, down 4.9% from the previous quarter. With such hollow demand, rents are expected to continue to decline in the coming quarters until leasing activity rebounds and true price discovery can occur. This provides an excellent opportunity for occupiers seeking space, as tenants can expect to have multiple options to choose from at pricing levels not seen in San Francisco in years.

Cautious optimism as vaccine rollout begins and tech giants regain appetite

There is cautious optimism on the horizon as the federal government has begun to roll out COVID-19 vaccines, with aims to curtail the pandemic and bring business activity back to a sense of normalcy. Tech giants, such as Google, Twitter, Facebook and Apple, driven by digital revenue growth due to the pandemic, have also regained their appetite for space and have signaled expansion plans, as evidenced by Google signing the largest lease this quarter, growing its presence at Two Rincon Center by 42,000 sf. With notable rent discounts, abundant space options and a flush talent pool, expect to see strong underlying market demand spike once the economy regains its footing.

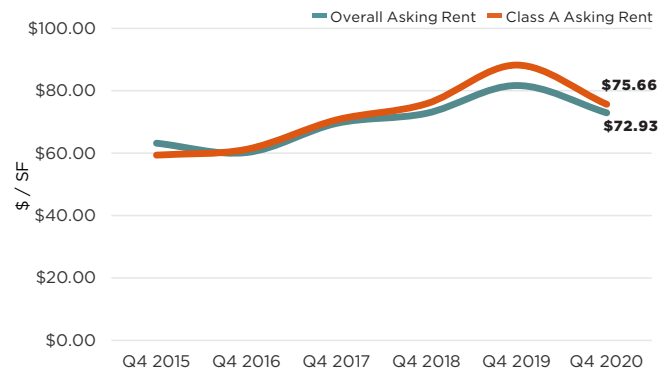
Outlook

- Market fundamentals continue to soften with demand at a halt as the majority of businesses shed space and postpone long-term real estate decisions
- The historic sublease surplus has put downward pressure on asking rents, owners will need to be aggressive in attracting and securing tenancy
- Current conditions present an extraordinary opportunity for tenants to secure once-scarce large blocks in the market at pricing that was unachievable pre-pandemic

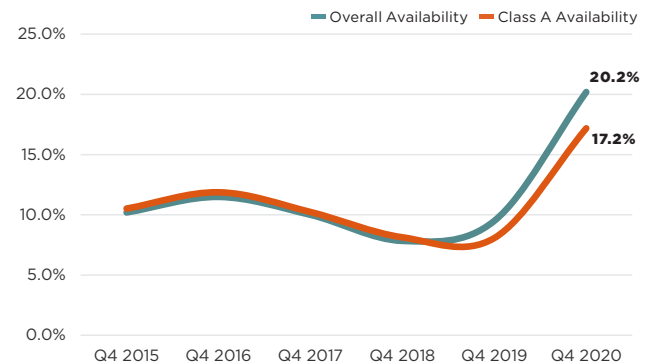
KEY STATISTICS

	Q4 2019	Q4 2020	y-o-y Change
Inventory	80.9 MSF	81.4 MSF	▲
Availability Rate	9.5%	20.2%	▲
Asking Rental Rate	\$81.72	\$72.93	▼
Class A Asking Rental Rate	\$88.24	\$75.66	▼
Quarterly Leasing Activity	2.6 MSF	0.2 MSF	▼

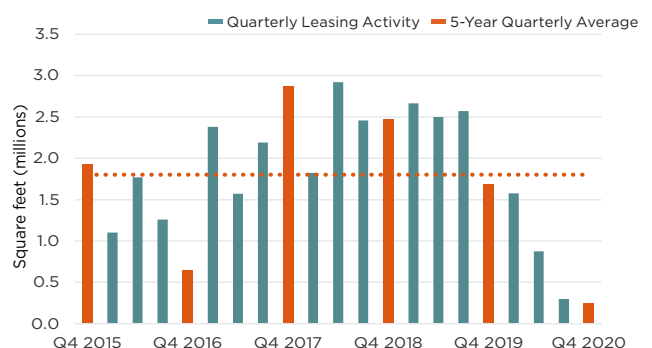
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

55.3%

major transactions were **new locations** by square footage

57.6%

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

87.1%

TAMI accounted for 87.1% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Google	42,000	121 Spear Street	Expansion	Financial District South	TAMI
Lattice	39,786	360 Spear Street	New Location	Rincon/South Beach	TAMI
Clearview Healthcare Partners	12,109	575 Market Street	New Location	Financial District South	Healthcare

Source Savills Research

For more information, please contact us:

Savills
 150 California Street
 14th Floor
 San Francisco, CA 94111
 +1 415 421 5900

Steve Barker
 Vice Chairman, Director,
 Branch Manager
 sbarker@savills.us

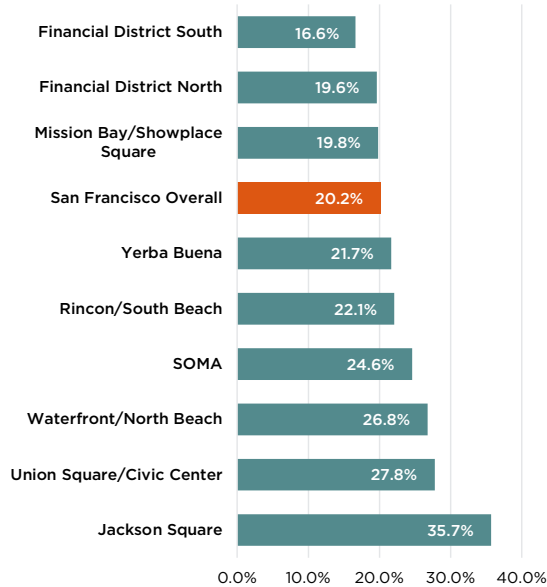
Christophe Haeberlin
 Research Manager
 chaeberlin@savills.us

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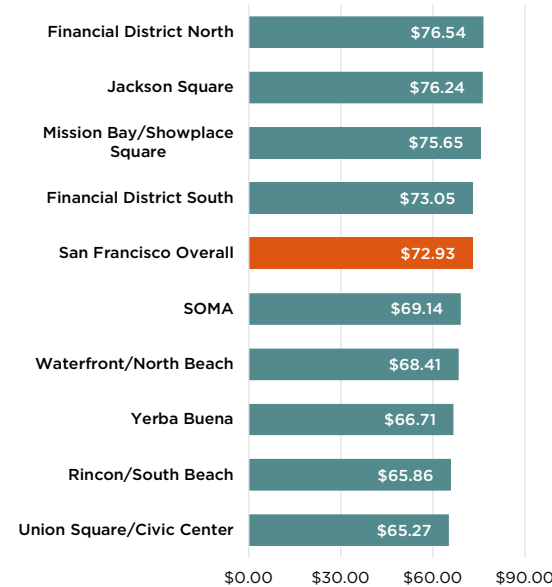
AVAILABILITY RATE COMPARISON

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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