



San Francisco market dynamics hold for a third consecutive quarter with improved demand and availability stable

Leasing activity in Q4 totaled 1.2 million square feet (msf) and demonstrates a significant rebound from one year ago when leasing hit a low point of 0.2 msf. This is the third quarter in a row that leasing has been over 1.0 msf and it has helped to keep availability flat at 26.1%. Many notable leases came from the tech industry, one of the first industries to embrace remote work ideologies at the start of the pandemic, and now also among the first sectors confident to move forward with leasing decisions. While transaction volume is up, some of the leases signed have been contractions which will do little to chip away at the oversupply of space. The top lease of the quarter was completed by Citigroup for 76,000 square feet (sf) at 1 Market Street, a relocation and contraction from 1 Sansome Street where the banking giant leased just over 100,000 sf. Citigroup is one of the few in the financial services sector to announce long-term remote flexibility options for employees – which likely contributed to its decision to lease less space.

The deluge of sublease space seen early in the pandemic has eased

Sublease availability has been on the decline after hitting a record high of 9.0 msf in Q2 2021 and has fallen to 8.1 msf in Q4 2021. The drop has partially been a result of subleases being leased as tenants take advantage of favorable terms and built-out space that the secondary market provides. Notable subleases signed in the fourth quarter include eBay (29,979 sf at 300 Mission Street), Tempo (25,000 sf at 346 9th Street) and Twilio (23,533 sf at 100 California Street). Sublease space has also likely seen a dip because the space has begun to expire and is now available directly from landlords. Sublease space made up 37% of total space available on the market in Q4, down from 42% in Q2. Direct space is up over that same period and made up 63% of total space available in Q4, up from 58% in Q2.

In 2021 asking rents flattened but landlords are still looking to meet the market in order to get leases signed

Overall asking rents in San Francisco averaged \$72.54 per square foot (psf) in Q4 and have only fluctuated within 0.5% over the last year after significantly dropping in 2020 from \$83.50 psf at the start of the pandemic. Asking rents have seemingly steadied, but there is an ample amount of price discovery still happening as landlords are willing to make exceptionally tenant-favorable agreements in order to secure new tenants and retain their current clientele. In addition to reduced rental rates, landlords are offering generous concession packages and increasingly flexible terms.

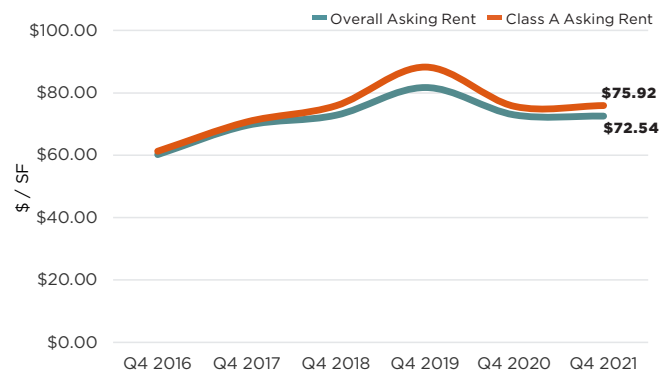
Outlook

- While a pickup in leasing has helped flatten availability, it will take time and a substantial increase in leasing activity to bring it back to pre-pandemic rates
- 2022 may bring greater clarity surrounding the future of space demand and usage as more tenants make leasing decisions
- While market conditions have stabilized, they are still firmly in the tenant's favor and organizations active in the market have an opportunity to lease premium space at a rare discount

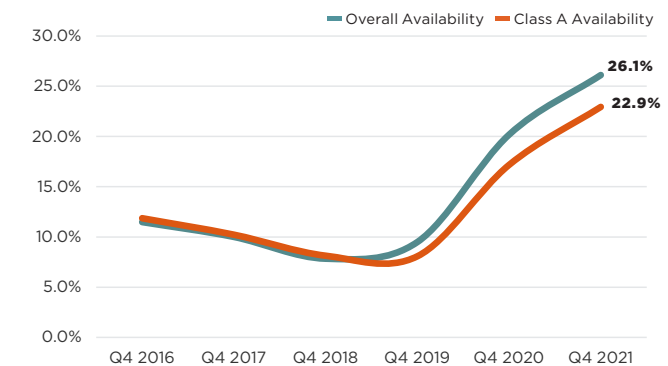
KEY STATISTICS

	Q4 2020	Q4 2021	y-o-y Change
Inventory	77.0 MSF	83.7 MSF	▲
Availability Rate	20.2%	26.1%	▲
Asking Rental Rate	\$72.93	\$72.54	▼
Class A Asking Rental Rate	\$75.66	\$75.92	▲
Quarterly Leasing Activity	0.2 MSF	1.2 MSF	▲

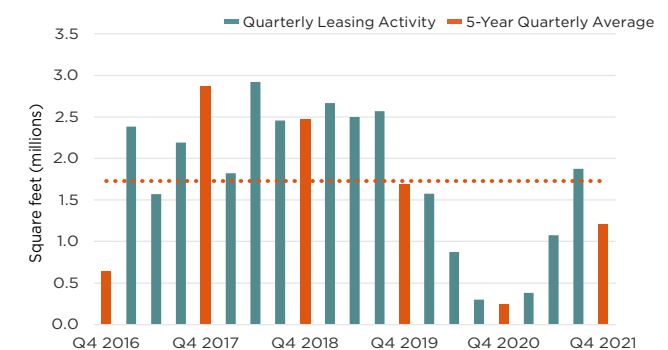
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

55.5%

of major transactions were new locations by square footage

56.6%

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

40.8%

Technology sector tenants accounted for 40.8% of major transactions by square footage

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Citigroup Inc.	76,000	1 Market Street	Relocation	Financial District South	Financial Services
Greenberg Traurig, LLP	32,000	101 Second Street	Relocation	Financial District South	Legal Services
eBay	29,979	300 Mission Street	New Location	Financial District South	Technology
Tempo	25,000	346 9th Street	New Location	SOMA	Technology
DataRobot, Inc.	24,904	140 New Montgomery Street	New Location	Financial District South	Technology
Twilio	23,533	100 California Street	New Location	Financial District North	Technology
Carr Workplaces	21,795	4 Embarcadero Center	New Location	Financial District North	Coworking
Homelight, Inc	20,730	100 California Street	New Location	Financial District North	Real Estate
Davis Wright Tremaine LLP	20,000	50 California Street	Relocation	Financial District North	Legal Services
Cockroach Labs	13,893	315 Montgomery Street	New Location	Financial District North	Technology

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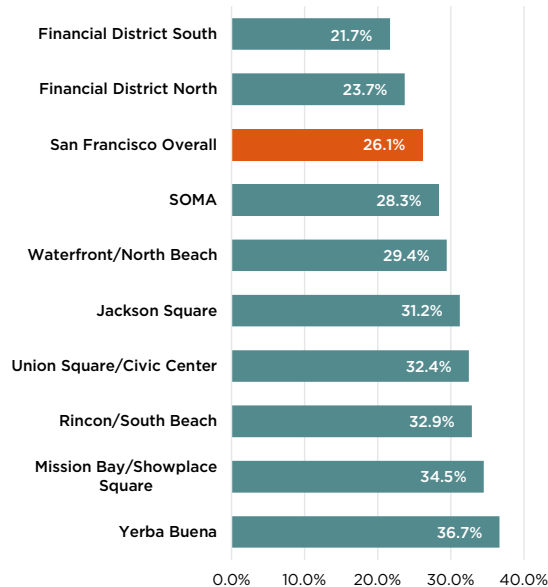
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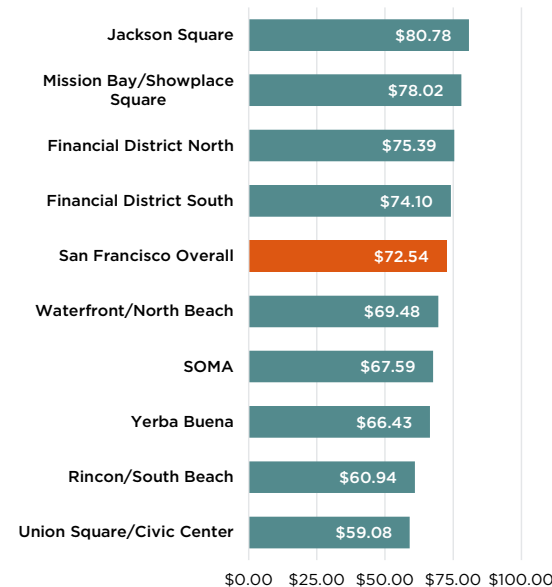
AVAILABILITY RATE COMPARISON

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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