MARKET IN MINUTES
Savills Research

Q2 2022 - Office

San Francisco

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Technology sector correction and overall economic uncertainty hits San Francisco at mid-year 2022

In the second quarter 2022, leasing activity in the San Francisco office market totaled over 1.5 million square feet (msf), roughly the same as last quarter, as well as up 40% from 1.1 msf reported a year ago. However, it should be noted that Wells Fargo's 622,300-square-foot (sf) renewal at 333 Market Street comprised over 42% of all leasing activity in the market. With the Federal Reserve becoming more aggressive at raising interest rates to rein in inflation which is now at a 40-year high, the overall economy could be slowing in the near-term and the technology sector has already entered a correction. As a result, expect historically high availability levels to continue to increase through year-end.

Total availability rate now at an all-time high of 27.8%

The overall availability rate increased by another 100 basis points (bps) from 26.8% reported last quarter to a new all-time high of 27.8% in the second quarter 2022. This was also up 150 basis points (bps) from 26.3% reported a year ago. Since bottoming at just 7.1% in the third quarter 2019, the COVID-19 global pandemic and hybrid workstyles have caused a dramatic increase in office availability levels as many technology firms have decided to not renew their leases (Block at 1455 Market Street) or move towards a remote-first policy (Twilio at 101 Spear Street and PayPal 425 Market Street). As a result, the overall average asking rent decreased from $72.72 per square foot (psf) reported last quarter to $72.04 psf reported this quarter. With so much office space available for lease and more expected in the near-term, expect continued downward pressure on average asking and effective rental rates as landlords aggressively fight for occupancy.

Full-building Wells Fargo lease masks a leasing slowdown

As mentioned above, Wells Fargo's 622,300-sf renewal at 333 Market Street pushed the quarterly leasing volume total to 1.5 msf in the second quarter. Without this large transaction, leasing activity would have only been 882,678 sf which is indicative of a slowdown at mid-year 2022. It is important to note that the global technology sector is now in a correction as rising interest rates have led to much greater scrutiny by lenders and investors over technology startups, as well as companies which recently have gone public but have yet to show a profit. As a result, many high-profile firms have cut costs including freezing hiring or reducing headcount. While the San Francisco office market was already seeing major return-to-office headwinds post-pandemic, the return of economic uncertainty and a continued correction in the technology sector adds even more challenges to an office market that had the lowest availability levels in the U.S. just three years ago.

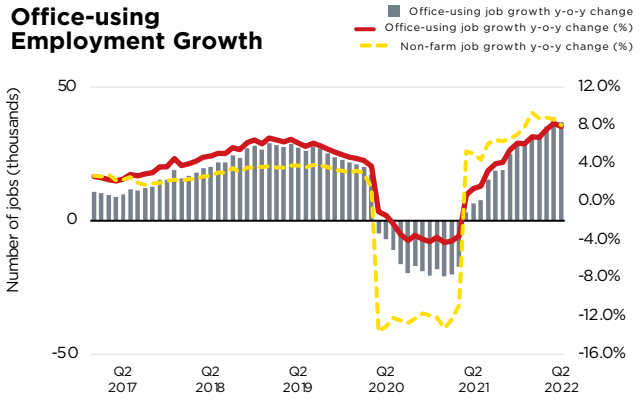
Outlook

- Expect the correction in the technology sector to disproportionately impact the San Francisco office market as elevated availability levels will most likely go even higher in the short-term
- Concessions will continue to be at an all-time high as landlords aggressively try to maintain their face rents amidst strong downward pressure on both average asking and effective rents
- Tenant flight to quality is expected to continue moving forward as high-priced new development projects and sublease offerings in the most in-demand submarkets remain highly attractive to some occupiers

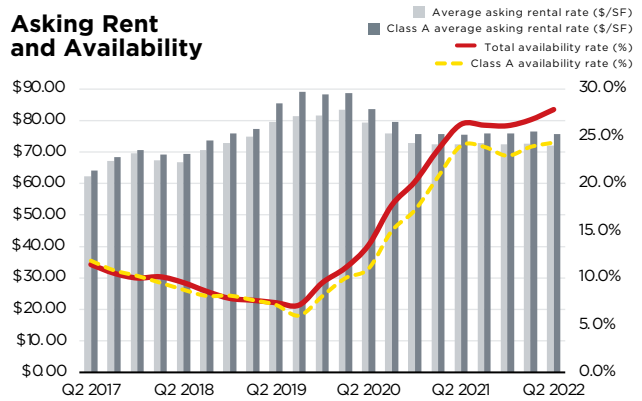
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	78.6 MSF	85.5 MSF	▲
Availability Rate	26.3%	27.8%	▲
Asking Rental Rate	$72.55	$72.04	▼
Class A Asking Rental Rate	$75.45	$75.79	▲
Quarterly Leasing Activity	1.1 MSF	1.5 MSF	▲
Available Sublease Space	9.0 MSF	7.3 MSF	▼

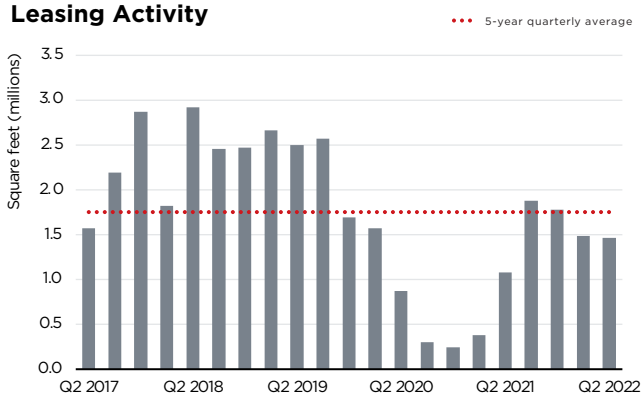
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

1.8%
San Francisco unemployment rate (as of May 2022)

7.9%
Office-using employment growth year over year (as of May 2022)

0.4 msf
Office space currently under construction

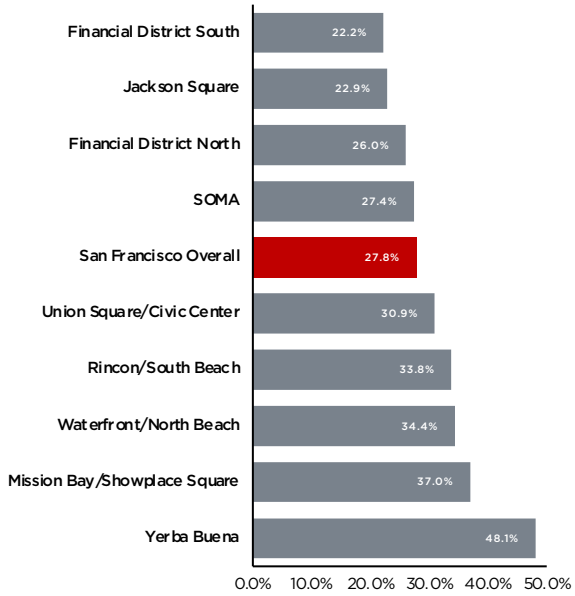
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Wells Fargo	622,300	333 Market Street	Renewal	Financial District South	Financial Services & Insurance
Ripple	124,547	600 Battery Street	Relocation	Jackson Square	TAMI
ICONIQ Capital*	88,600	50 Beale Street	New Location	Financial District South	Financial Services & Insurance
Upgrade	52,000	275 Battery Street	Relocation	Financial District North	TAMI
Lieff Cabraser	47,564	275 Battery Street	Relocation	Financial District North	Legal Services
Farella Braun + Martel	40,000	1 Bush Street	Relocation	Financial District North	Legal Services
Banyan*	28,885	303 2nd Street	Relocation	Rincon/South Beach	TAMI
Nuvation Bio*	27,639	60 Spear Street	New Location	Financial District South	Pharmaceuticals & Life Sciences
K&L Gates	22,616	4 Embarcadero Center	Renewal	Financial District North	Legal Services
AnyRoad*	15,823	505 Howard Street	Relocation	Financial District South	TAMI

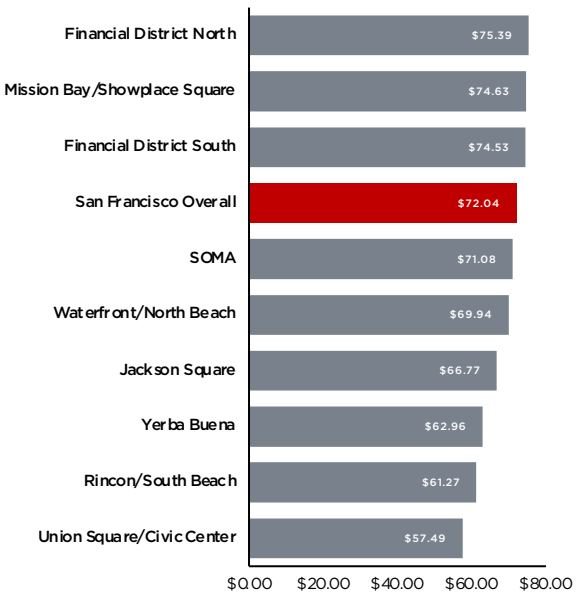
*Sublease

Source: Savills Research

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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