

Despite largest lease signed since beginning of the pandemic, office availability continues to rise

In Q1 2022, San Francisco saw the largest transaction completed in the market since the start of the pandemic as Sephora subleased 16 floors totaling 286,000 square feet (sf) at 350 Mission Street, the Salesforce East building, in the Financial District South submarket. For Sephora, this new location will be their new U.S. headquarters building, consolidating from two locations at 425 Market Street and 525 Market Street. Leasing activity in Q1 2022 totaled 1.5 million square feet (msf), a significant improvement year over year from 0.4 msf in Q1 2021, but still below the five-year average of 1.7 msf. After a period of record-low activity during the height of the pandemic, recent quarters have shown a return of office demand.

Office availability hits new peak of 26.8% in the first quarter

Overall availability continues to rise in San Francisco, now at 26.8%, up from 26.1% over the quarter and is substantially higher than Q1 2020's availability rate of just 11.1%. With 23.1 msf of available office space on the market, more than double from pre-pandemic, it will take time for the supply-demand imbalance to moderate. San Francisco may benefit from being a key talent market that many organizations will want to retain office space in for those who do wish to come into the office. However, the long-term effects from two years of working remotely will continue to slowly reveal itself as companies figure out how to get their employees back into the office.

San Francisco's record amount of sublease supply falls 15% from peak

Sublease supply hit a high of 9.0 msf in Q2 2021 and has since fallen almost 15% to 7.7 msf in Q1 2022. Salesforce's sublease space coming off the market, smaller sublease transactions, and sublet space expiring and becoming available directly from landlords has helped to reduce supply. Tenants confident in their real estate needs and actively looking for space have been taking advantage of the favorable terms and built-out offices that availabilities on the secondary market provide. While sublease availability has fallen there is still a glut of options for tenants to take advantage of.

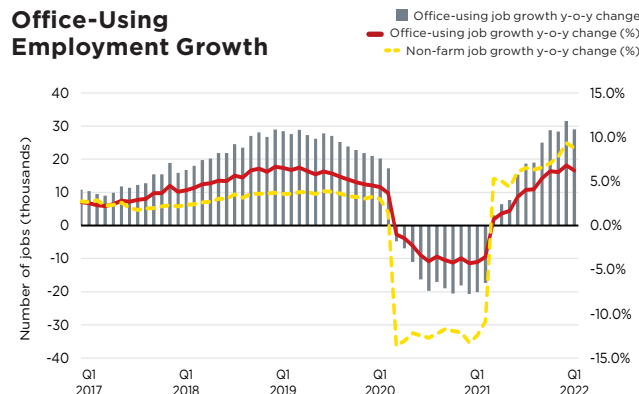
Outlook

- The war for talent has heightened as the country emerges from the pandemic and it may be more important than ever for companies to be strategic in their real estate decisions and retain space in key talent markets like San Francisco
- Companies will look to earn employees commute by creating workplaces with abundant amenities, collaborative spaces, and incorporate best practices on wellness and sustainability
- Tenants have an opportunity to rethink the way they work in the midst of pandemic disruption and a rare chance to lease premium space at a record discount which will significantly reduce their real estate costs

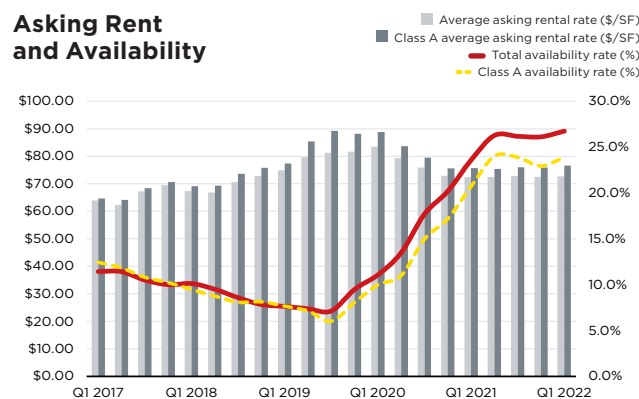
Key Statistics

	Q1 2021	Q1 2022	y-o-y Change
Inventory	77.9 MSF	86.4 MSF	▲
Availability Rate	23.6%	26.8%	▲
Asking Rental Rate	\$72.39	\$72.72	▲
Class A Asking Rental Rate	\$75.70	\$76.62	▲
Quarterly Leasing Activity	0.4 MSF	1.5 MSF	▲
Available Sublease Space	8.5 MSF	7.7 MSF	▼

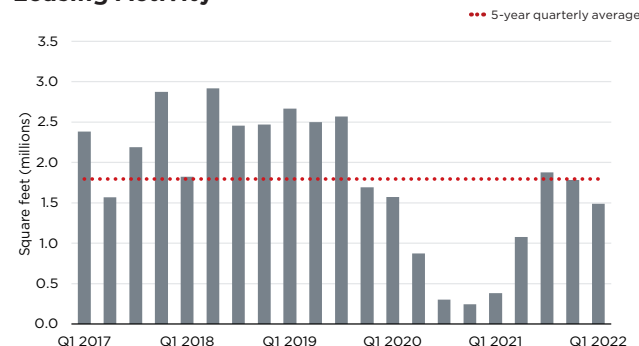
Office-Using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

3.0%

San Francisco unemployment rate
(as of Feb. 2022)

6.2%

Office-using employment growth
year-over-year (as of Feb. 2022)

0.3 msf

Office space currently
under construction

Top Transactions

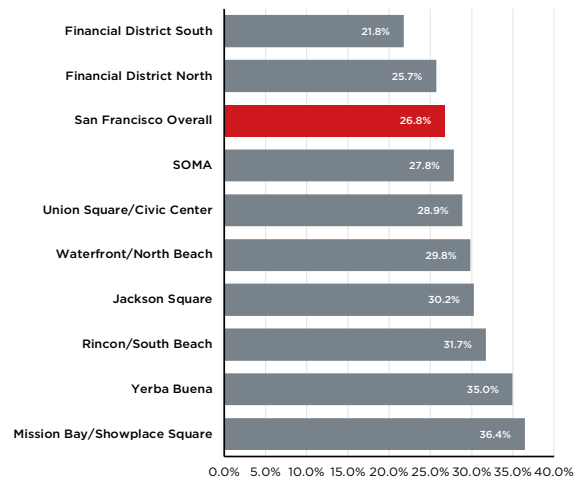
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Sephora*	286,000	350 Mission Street	Relocation	Financial District South	Retail
Vir Biotechnology	133,896	1800 Owens Street	New Location	Mission Bay/Showplace Square	Pharmaceuticals
Fremont Group	60,593	405 Howard Street	Relocation	Financial District South	Financial Services
Indeed	59,013	201 Mission Street	Renewal and Expansion	Financial District South	Professional Services
Core Club	43,335	600 Montgomery Street	New Location	Financial District North	Professional Services
Finix	42,349	631 Howard Street	New Location	Financial District South	Professional Services
HOK Group, Inc.	34,088	1 Bush Street	Extension	Financial District North	Engineering
Bank of New York Mellon	31,286	101 Second Street	New Location	Financial District South	Financial Services
Willkie Farr & Gallagher LLP	31,128	One Front Street	Relocation	Financial District North	Legal Services
Newmark	30,397	1 Sansome Street	New Location	Financial District North	Real Estate

*Sublease

Source: Savills Research

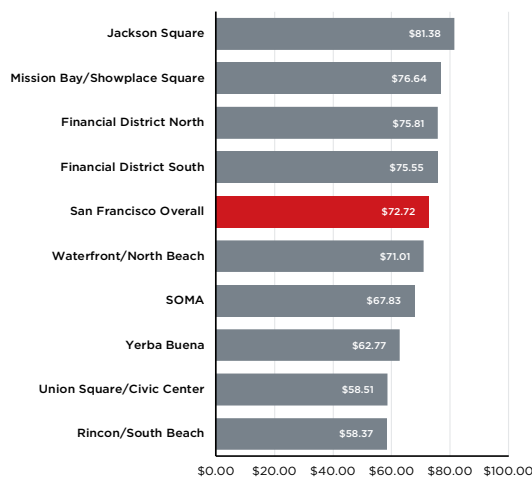
Availability Rate Comparison (%)

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.

Copyright © 2022 Savills

savills.us

For more information,
please contact us:

Savills

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

Steve Barker

Vice Chair, Director,
Branch Manager
sbarker@savills.us

Michael Soto

Director, Head of
Office Research
+1 213 553 3833
msoto@savills.us

About Savills Inc.

Savills helps organizations find the right solutions that ensure employee success. Sharply skilled and fiercely dedicated, the firm's integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, workforce and incentives strategy, workplace strategy and occupant experience, project management, and capital markets, Savills has elevated the potential of workplaces around the corner, and around the world, for 160 years and counting.

For more information, please visit Savills.us and follow us on LinkedIn, Twitter, Instagram and Facebook.

savills