

	YoY Chg	12-Mo. Forecast
9.9% Vacancy Rate	▲	▲
-2.8M Net Absorption, SF	▼	▼
\$83.11 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2020

	YoY Chg	12-Mo. Forecast
1.0M San Francisco Metro Employment	▼	▲
12.2% San Francisco Metro Unemployment Rate	▲	▼
13.0% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2020Q2 data are based on the latest available data

San Francisco Economy Feeling Affects of COVID-19 And Social Distancing

The San Francisco metropolitan division (San Francisco and San Mateo counties) closed the second quarter with an unemployment rate of 12.2%, below the national figure of 13.0%. Although the entire economy has felt the effects of the COVID-19 pandemic, the office-sector has thus far fared relatively better than non-office with year-over-year (YOY) jobs losses of 5.9% for Information, 2.0% for Professional & Business Services, and just 0.5% for Financial Activities. This compares to harder hit sectors of Leisure & Hospitality (-55.2%), Other Services (-27.4%), and Retail Trade (-18.5%). The COVID-19-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID-19 [here](#).

Vacancy Surges on a Wave of New Subleases

Citywide overall vacancy was 9.9% at the end of the second quarter, increasing 320 basis points (bps) from the first quarter and up 450 bps from one year ago. Two thirds of new vacancy was due to subleases, many for single or partial floors, and distributed across all submarkets. CBD Class A direct vacancy was less volatile, totaling just 4.5% at quarter-end, 80 bps above the first quarter. The market for top tier view space remained tight with direct vacancy at 2.6% and overall totaling 3.3%.

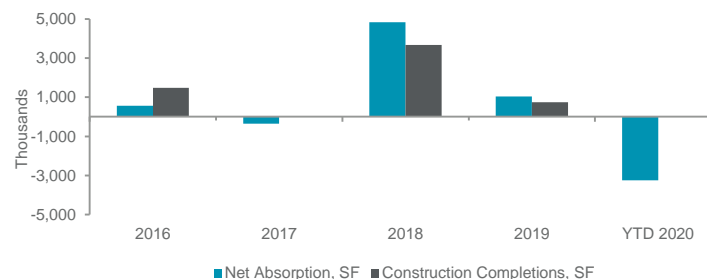
Asking Rents Slower to Adjust

Asking rents (Citywide comparison) remain some of the highest in the U.S. closing the second quarter at \$83.11 per square foot (psf), relatively flat since the first quarter and up 5.1% YOY. The CBD Class A direct asking rent was a record \$91.61 psf, up 6.5% YOY. Historically it has taken two to three quarters for asking rents to adjust to a downturn as recorded in the Global Financial Crisis (GFC) and Dot-Com Recession.

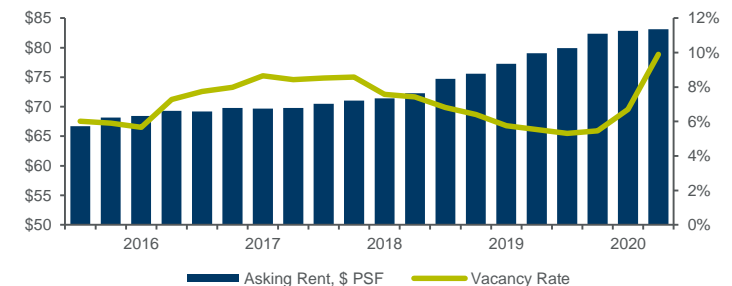
Development Continues But New Construction Deliveries Delayed

A total of 3.1 million square feet (msf) was under construction at the end of the second quarter with 1.4 msf delivering between Q3 2020 and Q2 2021, all at 100% pre-leased. Upcoming deliveries include 633 Folsom Street (Asana), 1 De Haro Street (Samsara), and Third Street (Uber). Beyond those near-term projects, are two others scheduled to complete in 2022-2023 – Oceanwide Center at 1.0 msf and 415 Natoma Street at 640,000 sf – both 100% available.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Market Pauses During Shelter In Place

New leasing totaled just 266,000 sf in the second quarter, and was the lowest quarterly total on record, down from 1.1 msf in the first quarter. This should not be surprising as San Francisco had been under a shelter-in-place (SIP) order since March as a public health strategy to counter the growing COVID-19 pandemic. With much uncertainty as to when offices would be able to reopen the market essentially took a pause with most transactions being put on hold as companies reassessed their workplace strategies and shifted to work from home (WFH) policies where possible.

Tenant demand declined to 3.2 msf in the second quarter and was below the historic quarterly average of 4.5 msf going back to 2000, falling to levels more in line with what was recorded during the GFC. That said, accounting for the post-GFC expansion and development boom that added 11.0 msf to the San Francisco office inventory, tenant demand was 3.8% of inventory in Q2 compared to a low of 3.6% in 2009 and 2.7% in the 2001 Dot-Com Recession. Technology tenants accounted for 50% of demand followed by Consumer Products (18%) and FIRE (16%). At quarter-end there were 14 large block requirements of 50,000 sf or more compared to 26 in Q1.

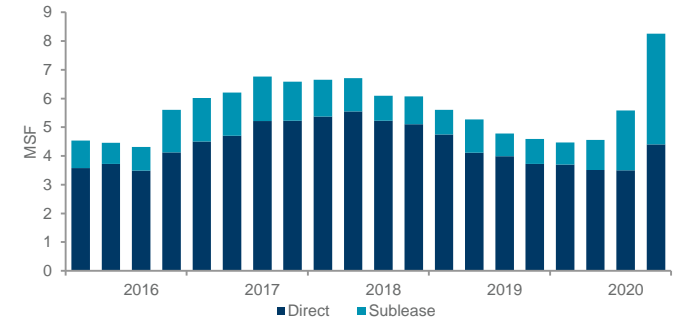
Investment Market Less Active

The investment environment was active pre-COVID-19 but uncertainty in the economy and SIP caused deals to be pulled from the market or put on hold. Since then, a number of transactions have been put in contract and are moving forward but at adjusted pricing levels. Once SIP is lifted and leasing activity picks up, investors will have more confidence in where the market is. Until that time, sales activity is expected to remain low.

Outlook

- Office job growth is expected to remain muted through the remainder of the year.
- Direct vacancy is expected to rise as low demand levels fail to counter lease terminations or space give-backs.
- Asking rents are expected to adjust downward in response to the increased vacancy and shrinking demand, through at least the early part of 2021
- Several projects currently under construction will deliver through early 2021. Entitled projects, for the most part, will wait to move forward until securing a commitment for a prospective tenant.

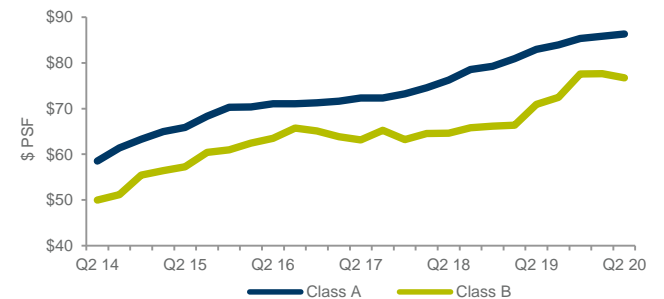
Direct vs. Sublease Vacant Space Comparison



New Leasing



Overall Asking Rent Comparison



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North Financial District	26,312,718	1,056,364	1,807,868	10.9%	-831,705	-1,071,809	459,856	0	\$86.06	\$88.80
South Financial District	27,922,059	1,127,964	970,153	7.5%	-629,748	-432,949	449,221	1,320,000	\$86.10	\$85.87
CBD TOTALS	54,234,777	2,184,328	2,778,021	9.1%	-1,461,453	-1,504,758	909,077	1,320,000	\$86.07	\$87.63
Jackson Square	2,010,212	132,086	133,703	13.2%	-152,239	-126,696	20,985	0	\$70.64	\$63.25
North Waterfront	3,348,372	111,316	254,439	10.9%	-119,234	-154,408	16,357	0	\$82.89	\$77.60
SoMa	8,002,568	793,962	404,368	15.0%	-435,404	-807,591	262,222	634,000	\$86.01	\$91.17
The Presidio	1,030,627	0	19,451	1.9%	0	4,445	4,445	0	\$100.00	\$100.00
Union Square	3,083,292	214,377	224,868	14.2%	-190,598	-184,268	70,150	44,201	\$66.09	\$70.47
Van Ness Corridor	728,356	12,998	110,662	17.0%	-16,259	-27,605	1,578	0	\$58.75	\$64.06
Showplace Square/Potrero Hill	3,980,078	244,131	154,628	10.0%	-183,948	-241,722	28,573	83,333	\$71.97	\$61.49
Mission Bay	1,771,735	0	0	0.0%	0	0	0	1,023,000	N/A	N/A
Mid-Market	4,969,359	171,169	317,612	9.8%	-206,891	-202,835	48,814	0	\$72.54	\$68.50
Third Street Corridor	313,465	0	0	0.0%	0	0	0	0	N/A	N/A
NON-CBD TOTALS	29,238,064	1,680,039	1,619,731	11.3%	-1,304,573	-1,740,680	453,124	1,786,534	\$77.42	\$81.37
SAN FRANCISCO TOTALS	83,472,841	3,864,367	4,397,752	9.9%	-2,766,026	-3,245,438	1,362,201	3,106,534	\$83.11	\$86.31

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
155 5 th Street	SOMA	Airtable	48,812	Sublease
144 Townsend Street	SOMA	User Testing	45,000	New Lease
50 California Street	North Financial	Woodruff Sawyer	37,742	Renewal
210 King Street	SOMA	Lob.com	24,950	Sublease
101 California Street	North Financial	Sitecore	24,907	Renewal
499 Illinois Street	Mission Bay	Clovis Oncology	24,877	Renewal
747 Front Street	Jackson Square	IVP	9,850	New Lease

*Renewals not included in leasing statistics

KEY PROJECTS UNDER CONSTRUCTION Q2 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
50 First Street	South Financial	N/A	1,050,000	Oceanwide Holdings / Oceanwide Center LLC
415 Natoma Street	SOMA	N/A	634,000	Hearst Corporation / Brookfield Office Properties
1715-1725 Third Street	Mission Bay	Uber	600,000	Alexandria Real Estate / Strada Investment Group
1515 Third Street	Mission Bay	Uber	423,000	Alexandria Real Estate / Uber
633 Folsom Street	South Financial	Asana	270,000	The Swig Company
1 De Haro Street	Showplace Square	Samsara	85,333	SKS Partners
300 Grant Avenue	Union Square	N/A	44,201	St. Bride's Managers

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SAN FRANCISCO

Office Q2 2020

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