

| | YoY Chg | 12-Mo. Forecast |
|------------------------------------|---------|-----------------|
| 14.1% Vacancy Rate | ▲ | ▲ |
| -3.6M Net Absorption, SF | ▼ | ▼ |
| \$78.45 Asking Rent, PSF | ▼ | ▼ |

(Overall, All Property Classes)

**ECONOMIC INDICATORS
Q3 2020**

| | YoY Chg | 12-Mo. Forecast |
|--|---------|-----------------|
| 1.1M San Francisco Metro Employment | ▼ | ▲ |
| 9.1% San Francisco Metro Unemployment Rate | ▲ | ▼ |
| 8.8% U.S. Unemployment Rate | ▲ | ▼ |

Source: BLS, Moody's Analytics
2020Q3 data are based on the latest available data

San Francisco Economy Continues to Be Impacted by the COVID-19 Pandemic

The most recent unemployment rate for the San Francisco metropolitan division (San Francisco and San Mateo counties) was 9.1%, just above the national figure of 8.8%. Although the entire economy continues to feel the affects of the COVID-19 pandemic, it has begun to improve after a sharp decline in the second quarter. All sectors have reported year-over-year (YOY) jobs losses but thus far the office sector has fared better than non-office with YOY jobs losses of 8.5% for Information, 3.1% for Professional & Business Services, and just 0.3% for Financial Activities. This compares to Leisure & Hospitality (-37.4%), Other Services (-18.4%), and Retail Trade (-8.7%). Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

Surge in Subleases Continues to Drive New Vacancy

Citywide overall vacancy was 14.1% at the end of the third quarter, increasing 430 basis points (bps) from the second quarter and up 860 bps from one year ago. Subleases continue to be a significant driver of new vacancy. This increase in vacancy can be found in all submarkets and size segments from large blocks of 50,000 sf or more down to partial floor tenants. CBD Class A direct vacancy has been much less volatile, increasing to just 5.4% at quarter-end, 90 bps above the second quarter, or 170 bps since the pandemic began in March.

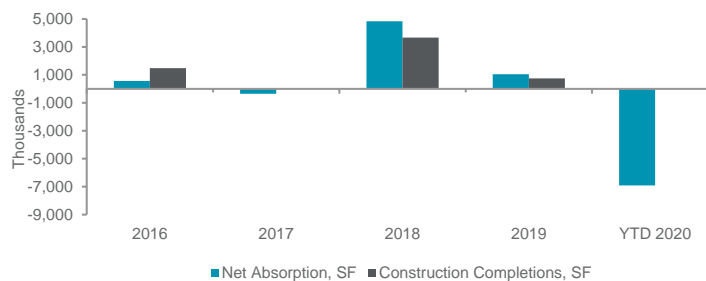
Asking Rents Begin to Adjust to Downturn

Asking rents (Citywide comparison) remain the highest on average of any major market in the U.S., closing the third quarter at \$78.45 per square foot (psf) on an annual gross basis, down 5.6% since the second quarter and down 0.8% YOY. The CBD Class A direct asking rent fell to \$87.58 psf, down 4.5% since the second quarter and flat YOY.

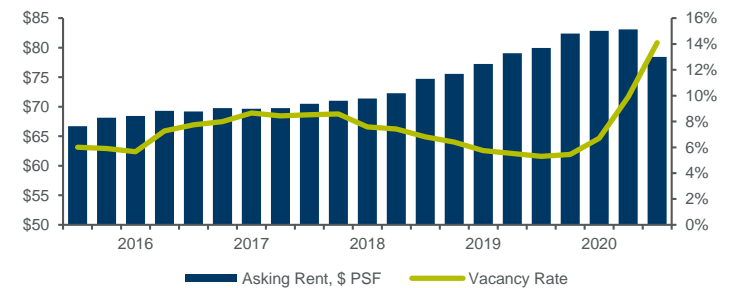
Development Continues Although No Deliveries During Quarter

A total of 3.1 million square feet (msf) was under construction at the end of the third quarter with 1.4 msf expected to deliver over the next three quarters, all at 100% pre-leased. Upcoming deliveries include 633 Folsom Street (Asana), 1 De Haro Street (Samsara), and Third Street (Uber). There are no new deliveries at all scheduled for 2021. Beyond those projects, are two others

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



SAN FRANCISCO

Office Q3 2020

scheduled to complete in the 2022-2024 timeframe – Oceanwide Center at 1.0 msf and 415 Natoma Street at 640,000 sf – both 100% available.

New Leasing Has Remained Low Throughout Shelter In Place

New leasing over the past two quarters has been the lowest in at least 30 years, totaling just 385,000 sf in the third quarter after a revised 421,000 sf in the second quarter and 1.1 msf in the first quarter. At its nadir during the Dot-Com Recession (DCR), new leasing only fell as low as 933,000 sf in the second quarter of 2001. There is no doubt that leasing activity has been scarce due to the pandemic and Shelter In Place (SIP) order which have kept most workers out of the office since March. Additionally, a number of San Francisco’s largest occupiers of office space have announced plans to allow employees to work from home well into 2021. Though some companies have resumed partial operations from their offices, work from home (WFH) remains firmly in place.

Tenant demand totaled 3.5 msf in the third 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 Great Financial Crisis (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 the third quarter compared to a low of 3.6% in 2009 and 2.7% in the DCR. Currently, technology tenants account for 50% of demand followed by Consumer Products (18%) and FIRE (16%).

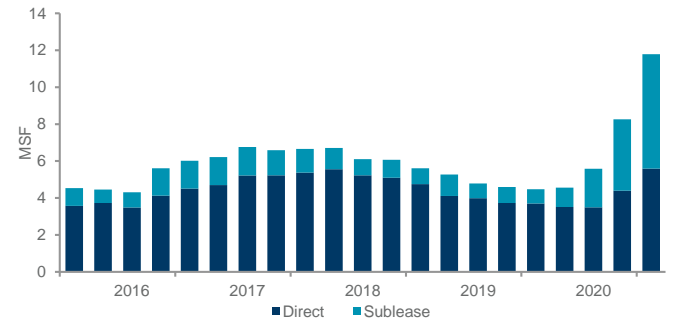
Investment Activity Resumes

After a pause in activity during the onset of the COVID-19 pandemic, activity resumed in the third quarter with the sales of 123 Townsend Street in the SOMA submarket and 1098 Harrison Street in Mid-market, both leased to credit tenants with several years of term remaining. These sales were indicative of what buyers are looking for in today’s market; stable cash flow with durability. Properties with material vacancy or near-term lease expirations are seeing the biggest hit on pricing given reduced tenant demand and increasing market vacancy.

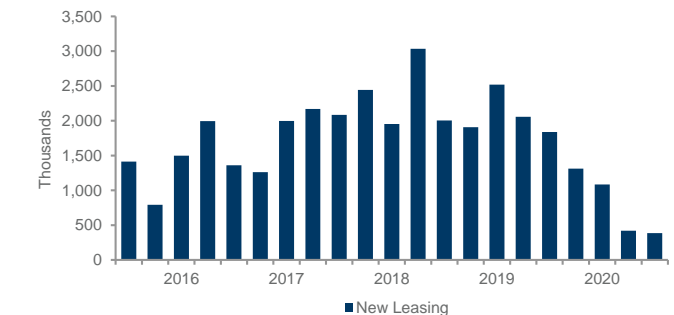
Outlook

- Office job growth is expected to remain muted through the remainder of the year and into early 2021.
- 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.
- Beyond the projects expected to deliver over the next three quarters, the pipeline remains quiet compared to recent years. Numerous projects which have been recently entitled in Central SoMa will, for the most part, wait to move forward until securing a commitment for a prospective tenant.

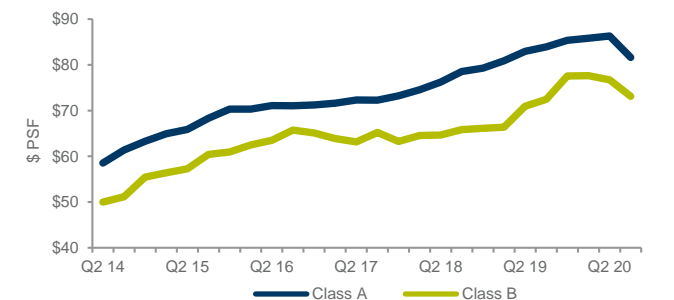
Direct vs. Sublease Vacant Space Comparison



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 | 1,617,245 | 2,305,366 | 14.9% | -1,121,521 | -2,199,098 | 641,038 | 0 | \$81.19 | \$83.74 |
| South Financial District | 27,922,059 | 1,946,713 | 1,091,834 | 10.9% | -1,017,009 | -1,406,167 | 518,926 | 1,320,000 | \$78.47 | \$78.04 |
| CBD TOTALS | 54,234,777 | 3,563,958 | 3,397,200 | 12.8% | -2,138,530 | -3,605,265 | 1,159,964 | 1,320,000 | \$80.14 | \$81.40 |
| Jackson Square | 2,034,843 | 169,820 | 320,459 | 24.1% | -201,985 | -356,374 | 39,476 | 0 | \$76.14 | \$85.24 |
| North Waterfront | 3,348,372 | 240,452 | 322,607 | 16.8% | -251,880 | -370,708 | 34,731 | 0 | \$79.92 | \$80.60 |
| SoMa | 7,992,839 | 999,617 | 535,074 | 19.2% | -299,234 | -1,159,411 | 326,521 | 634,000 | \$81.27 | \$88.69 |
| The Presidio | 1,030,627 | 1,965 | 19,451 | 2.1% | -1,965 | 2,480 | 4,445 | 0 | \$94.98 | \$97.50 |
| Union Square | 3,083,292 | 336,527 | 314,430 | 21.1% | -216,084 | -397,750 | 75,670 | 44,201 | \$62.44 | \$62.37 |
| Van Ness Corridor | 728,356 | 13,990 | 127,173 | 19.4% | -13,151 | -38,887 | 5,720 | 0 | \$58.14 | \$62.81 |
| Showplace Square/Potrero Hill | 4,054,093 | 350,061 | 216,923 | 14.0% | -97,365 | -409,947 | 193,523 | 83,333 | \$63.16 | \$60.15 |
| Mission Bay | 1,771,735 | 269,003 | 0 | 15.2% | -269,003 | -269,003 | 0 | 1,023,000 | \$90.00 | \$90.00 |
| Mid-Market | 4,969,359 | 221,011 | 343,234 | 11.4% | -114,290 | -282,175 | 48,814 | 0 | \$72.48 | \$71.93 |
| Third Street Corridor | 336,482 | 23,017 | 0 | 6.8% | -23,017 | -23,017 | 0 | 0 | \$76.50 | N/A |
| NON-CBD TOTALS | 29,349,998 | 2,625,463 | 2,199,351 | 16.4% | -1,487,974 | -3,304,792 | 728,900 | 1,786,534 | \$75.66 | \$82.22 |
| SAN FRANCISCO TOTALS | 83,584,775 | 6,189,421 | 5,596,551 | 14.1% | -3,626,504 | -6,910,057 | 1,888,864 | 3,106,534 | \$78.45 | \$81.61 |

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2020

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|---------------------|------------------|--------------------------------|--------|-----------|
| 575 Florida Street | Showplace Square | OpenAI | 96,700 | New Lease |
| 425 Market Street | South Financial | IBM | 53,000 | Renewal |
| 333 Valencia Street | Showplace Square | SF Department of Public Health | 52,000 | New Lease |
| One Post Street | North Financial | Chubb Insurance | 24,000 | Sublease |

*Renewals not included in leasing statistics

KEY SALE TRANSACTIONS Q3 2020

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/\$ PSF |
|----------------------|------------|---|---------|--------------|
| 123 Townsend Street | SOMA | Manchester Capital Management / CBRE Global Investors | 145,325 | \$963.36 |
| 1098 Harrison Street | Mid-Market | Embarcadero Capital Partners / The Hearst Corporation | 42,039 | \$1,236.95 |

KEY PROJECTS UNDER CONSTRUCTION Q3 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 |



OFFICE SUBMARKETS



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