

Office Q4 2020

	YoY Chg	12-Mo. Forecast
16.7% Vacancy Rate	▲	▲
-2.5M Net Absorption, SF	▼	▲
\$75.11 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2020

	YoY Chg	12-Mo. Forecast
1.1M San Francisco Metro Employment	▼	▲
6.0% San Francisco Metro Unemployment Rate	▲	▼
6.7% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics
2020Q4 data are based on the latest available data

San Francisco remains on lockdown but economy picking up steam

The most recent unemployment rate for the San Francisco metropolitan division (San Francisco and San Mateo counties) was 5.4%, significantly below the Q2 2020 peak of 11.2% and below the current national figure of 6.7%. The City continues to be on lockdown with most offices closed to all but essential employees and companies adopting Work From Home (WFH) policies where possible. That said, there are signs of improvement. The office sector has performed better than others. After shedding 6.7% of positions between February and April 2020, office using industries gained back 13,090 positions by November 2020 and are just 4.0% below the February 2020 peak of 489,590 jobs. Year-over-year (YOY) Financial Activities has seen a 2.5% gain in positions while Professional & Business Services and Information were both negative at 2.0% and 10.0% respectively. Leisure & Hospitality continues to be the hardest hit sector and was down 32.5% YOY as of November. There is light at the end of the tunnel now that multiple vaccines have been approved and are in the early stages of distribution. The timeframe for reopening offices will ultimately hinge on how soon a significant population of workers have been inoculated.

Vacancy surpasses Global Financial Crisis (GFC) peak; Sublease continues to be the main issue

Citywide overall vacancy was 16.7% at the end of the fourth quarter, increasing 300 basis points (bps) from the third quarter and up 11 percentage points from one year ago. Subleases remained the major driver of new vacancy, totaling 7.2 million square feet (msf) and accounting for 52% of all vacant space in San Francisco. CBD Class A direct vacancy has not yet seen the same impact, increasing to just 6.5% at quarter-end, 110 bps above the third quarter or 280 bps since the pandemic began in March.

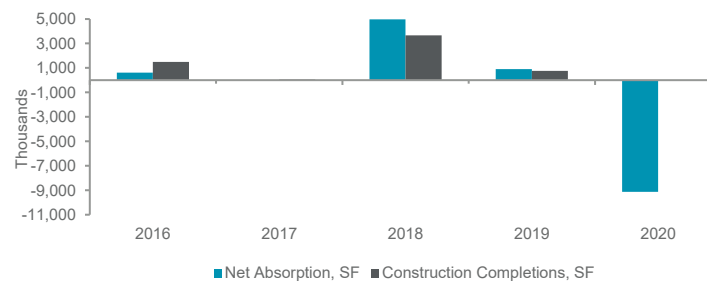
Asking rents continue to adjust; Sublease rents dragging down the average

Asking rents (Citywide comparison) remain among the highest on average of any major market in the U.S. second only to New York - Downtown, closing the third quarter at \$75.11 per square foot (psf) on an annual gross basis, down 4.1% since the third quarter and down 8.0% YOY. The CBD Class A direct asking rent fell to \$85.78 psf, down 2.1% since the third quarter and down 5.9% YOY.

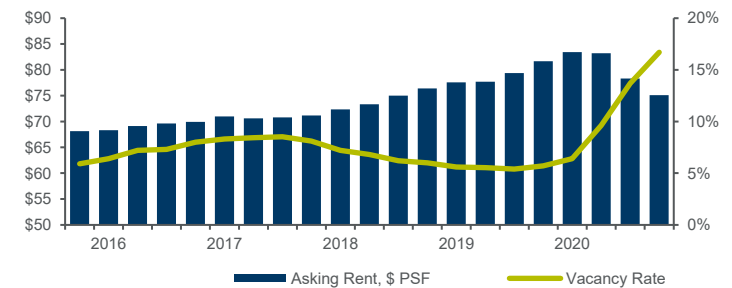
New construction deliveries delayed into 2021

A total of 3.1 million square feet (msf) was under construction at the end of the fourth quarter with 1.4 msf expected to deliver in 2021, all at 100% pre-leased. Upcoming deliveries include 633 Folsom Street (Asana), 1 De Haro Street (Samsara), and the Uber Mission Bay campus. Beyond those projects, there is 415 Natoma Street (5M) with its 634,000 sf having an expected delivery date

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



SAN FRANCISCO



Office Q4 2020

in 2022 and two 300,000-sf buildings at the Mission Rock development, one of which is pre-leased to Visa, delivering shortly thereafter. Though under construction, it is currently unclear when the 1.0 msf Oceanwide project will deliver.

New leasing effectively on pause; lowest figure on record

New leasing continued to hit new lows, totaling just 295,000 sf in the fourth quarter after a revised 424,000 sf in the third quarter, 425,000 sf in the second quarter, and 1.1 msf in the first quarter. At just 2.2 msf, of new leasing, 2020 was the lowest year on record since at least the early 1990's. During the Dot-Com Recession (DCR), new leasing fell as low as 933,000 sf in the second quarter of 2001. Needless to say, current levels are unprecedented although not surprising due to the pandemic and Shelter In Place (SIP) order which have kept most workers out of the office since March. Work From Home remains firmly in place and is expected to continue through at least the first half of 2021.

Tenant demand has improved, albeit slowly, since bottoming earlier in 2020. Demand totaled 4.0 msf in the fourth quarter, up from 3.2 msf in March but below the historic quarterly average of 4.5 msf going back to 2000. Even at today's low levels it is comparatively higher than what was recorded during the GFC and DCR. Tenant demand was 4.7% of inventory in the fourth quarter compared to a low of 3.6% in 2009 and 2.7% in the DCR. Currently, technology tenants account for 52% of demand followed by Consumer Products (18%) and FIRE (15%).

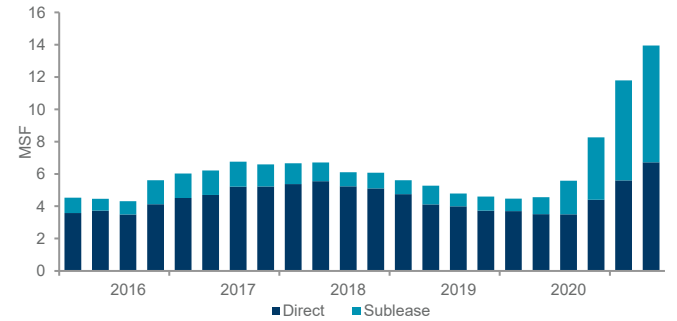
Investment activity picks up; WALT is key

Activity picked up in the fourth quarter with the sales of the Pyramid Center in the North Financial District, the partial interest sale of 221 Main Street in the South Financial District, 510 Townsend Street and 505 Brannan Street with the latter two in the SoMa submarket. There is continued demand for product in San Francisco especially for office with strong occupancy and term remaining. Of the sales that occurred in the fourth quarter, 221 Main, 510 Townsend and 505 Brannan all had substantial Weighted Average Lease Term (WALT) remaining. In 2020, multi-tenant deals with vacancy and/or near-term lease expirations priced below expectations which resulted in a number of properties being pulled from the market. With tenant activity improving going into the new year there is reason for optimism moving forward.

Outlook

- Office job growth is expected to improve by late 2021 and accelerate in 2022 though it is yet unclear if these will translate to more workers in the office.
- Direct vacancy is forecast to rise due to less than robust demand levels failing to counter lease terminations or space give-backs.
- Asking rents are expected to ease further during 2021 in response to the elevated vacancy, weaker demand and the pressure brought on by sublease space "priced to move."
- One or two projects which have been recently entitled in Central SoMa may pivot to life science use which has continued to record steady demand throughout the pandemic.

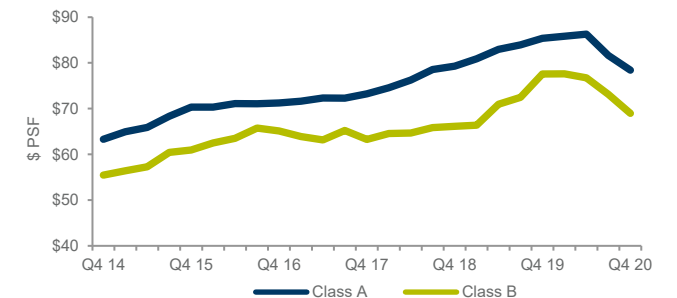
Direct vs. Sublease Vacant Space Comparison



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	1,899,907	2,724,423	17.6%	-752,273	-2,893,268	681,935	0	\$78.83	\$81.10
South Financial District	27,922,059	2,107,655	1,321,345	12.3%	-474,244	-1,797,620	654,873	1,320,000	\$75.11	\$75.36
CBD TOTALS	54,234,777	4,007,562	4,045,768	14.8%	-1,226,517	-4,690,888	1,336,808	1,320,000	\$77.32	\$78.58
Jackson Square	2,038,683	153,995	352,456	24.8%	-38,011	-386,720	42,628	0	\$74.45	\$88.79
Mid-Market	4,969,359	322,048	551,301	17.6%	-359,925	-642,100	53,281	0	\$61.36	\$53.23
Mission Bay	1,771,735	468,629	0	26.5%	-252,230	-468,629	133,896	1,023,000	\$87.00	\$87.00
North Waterfront	3,361,413	398,018	366,731	22.8%	-202,840	-573,548	44,239	0	\$74.76	\$76.90
Showplace Square/Potrero Hill	4,069,093	330,105	337,523	16.4%	-120,600	-510,591	206,901	85,333	\$62.83	\$63.01
SOMA	7,992,839	1,160,615	581,428	21.8%	-257,735	-1,379,699	328,651	634,000	\$73.97	\$83.11
The Presidio	1,030,627	10,528	27,939	3.7%	-17,051	-14,571	8,846	0	\$92.31	\$93.51
Third Street Corridor	336,482	23,017	0	6.8%	0	-23,017	0	0	\$76.50	N/A
Union Square	3,083,292	339,895	324,954	21.6%	-12,925	-411,642	78,747	44,201	\$59.87	\$61.44
Van Ness Corridor	728,356	13,990	126,901	19.3%	1,780	-37,107	9,184	0	\$58.14	\$62.81
NON-CBD TOTALS	29,381,879	3,220,840	2,669,233	20.0%	-1,259,537	-4,447,624	906,373	1,786,534	\$71.72	\$77.97
SAN FRANCISCO TOTALS	83,616,656	7,228,402	6,715,001	16.7%	-2,486,054	-9,138,512	2,243,181	3,106,534	\$75.11	\$78.39

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1800 Owens Street	Mission Bay	Vir Biotechnology	133,896	Sublease
555 California Street	North Financial	Goldman Sachs	90,000	Renewal
360 Spear Street	South Financial	Lattice	39,786	New Lease
45 Fremont Street	South Financial	On Lok	17,898	Sublease
111 Sutter Street	North Financial District	Augmedix	12,936	Sublease
575 Market Street	South Financial	Clearview Healthcare Partners	12,109	Sublease

*Renewals not included in leasing statistics

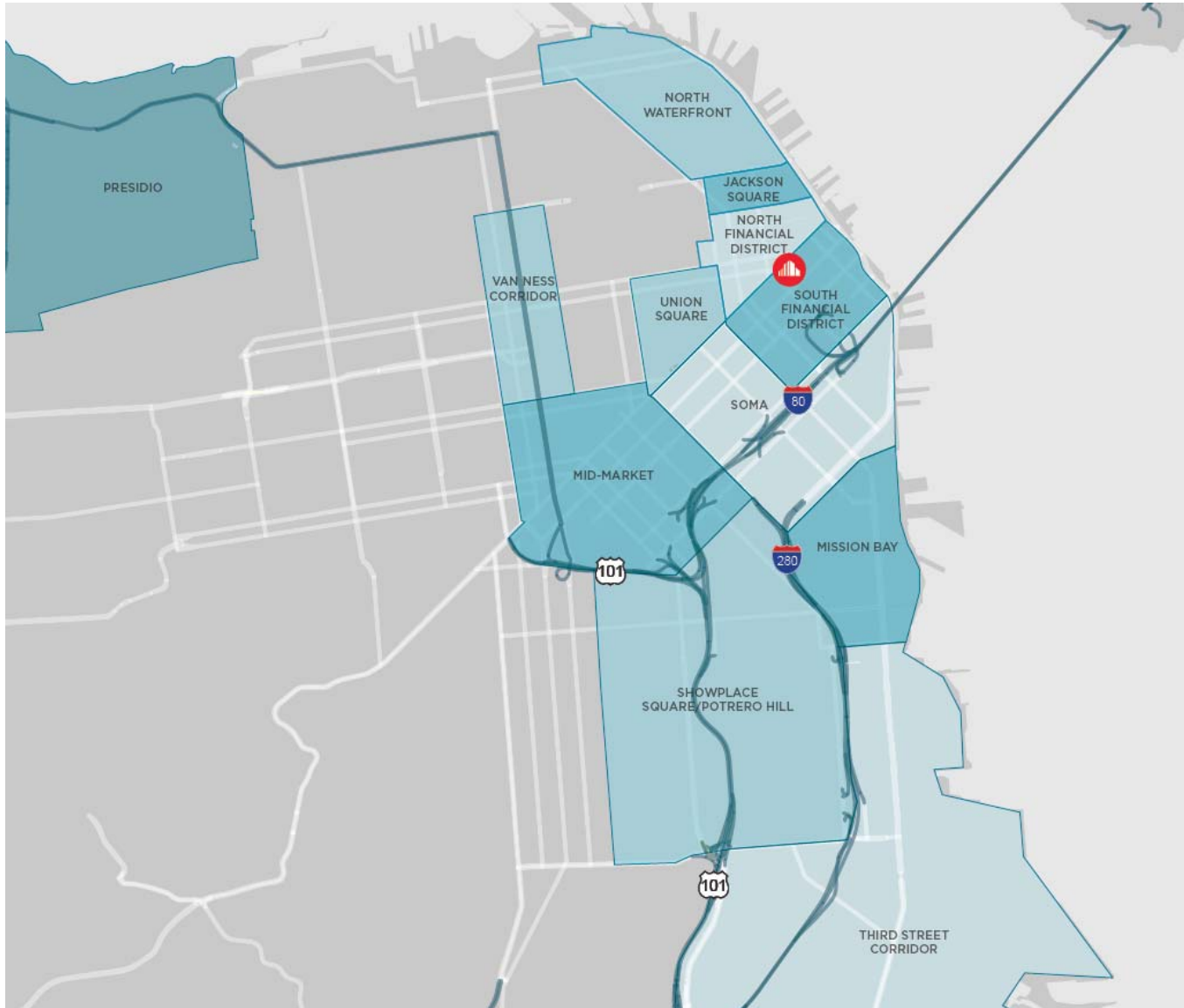
KEY SALE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
600 Montgomery Street (Pyramid Complex)	North Financial	Transamerica Corporation/AEGON SHVO Inc	530,000	\$478.0M \$902
505 Sansome Street (Pyramid Complex)	North Financial	Transamerica Corporation/AEGON SHVO Inc	185,187	\$135.0M \$729
545 Sansome Street (Pyramid Complex)	North Financial	Transamerica Corporation/AEGON SHVO Inc	51,525	\$35.6M \$691
221 Main Street (45% Recapitalization)	South Financial	Columbia Property Trust Allianz Real Estate America	387,943	\$180.0M \$464
510 Townsend Street	Showplace Square/Potrero Hill	ARE/TMG Partners Ascendas REIT	269,000	\$363.7M \$1,352
505 Brannan Street	SOMA	ARE/TMG Partners Ascendas REIT	153,117	\$196.5M \$1,283

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