

MARKET TRENDS | **SAN FRANCISCO**

# OFFICE

**4TH QUARTER  
2020**

▼ **ABSORPTION** | ▲ **VACANCY** | ▼ **RENTAL RATE** | ▼ **CONSTRUCTION DELIVERIES**

Year-over-year change

**MARKET DRIVERS**

**OFFICE AVAILABILITY** more than doubled in 2020 to 23.8%. In particular, sublease availability rose 550 basis points YOY, standing at 9.1% at the end of 2020 for all building class types.

**DIRECT ASKING LEASE RATES** dropped 7.1% YOY, the first time in a decade that rental rates fell in the San Francisco office market. By Q4 2020, asking rates were reported at an average of \$63.80 full service. Class A rates fared higher, closing 2020 with an average rate of \$74.26 full service.

**LEASING ACTIVITY** decreased 73% in 2020, reporting 3.12 million SF at the end of 2020. Total Class A lease activity stood at 1.5 million SF by year-end, with sublease activity reaching 370,000 SF.

**COMPLETIONS** in 2020 fell dramatically, with only one new project arriving in San Francisco following strong years of office deliveries in 2018 (3 million SF) and 2019 (1.5 million SF). 300 Grant Avenue delivered 71,000 SF in the Union Square submarket in Q4. However, 3.5 million SF of under construction space remains in the market, with several projects scheduled to be completed in 2021, including Hearst’s 5M project at 415 Natoma, which is anticipated to deliver 640,000 SF of prime Class A space in the Yerba Buena submarket in early 2021.

**ECONOMIC REVIEW**

COVID-19 caused multiple business closures and company layoffs in 2020. Remote working became the new normal in San Francisco, with several tech giants, such as Twitter and Square, going a step further by announcing permanent work-from-home policies.

The pandemic prompted restrictions on indoor dining and non-essential office work, sharply dropping economic activity in San Francisco. By the end of 2020, California unemployment stood at 7.9%, with San Francisco reporting a 5.7% rate.

**NEAR-TERM OUTLOOK**

The San Francisco office market will remain inhibited by COVID-19 in 2021 as companies continue to allow their employees to work remotely. Rental rates are expected to further decrease due to lack of demand and oversupply of available space, both direct and sublease. Given the depressed market fundamentals, we expect there will be a “flight to quality” phenomena as tenants look to lease the best spaces at reduced rents. Market concessions will continue to rise as landlords try to capture what little tenant demand exists.

## Market Breakdown

	2020	2019	2018	Annual % Change
New Construction	71,832	1,534,610	3,005,764	-95.32%
Under Construction	3,494,494	2,709,848	4,069,355	28.96%
Direct Vacancy Rate	9.4%	5.3%	5.9%	77.36%
Sublease Vacancy Rate	4.5%	1.4%	1.2%	221.43%
Overall Vacancy Rate	13.9%	6.7%	7.0%	107.46%
FIDI Direct Asking Lease Rate (A&B)	\$67.46	\$77.15	\$68.24	-12.56%
Leased SF	3,122,906	11,735,158	14,892,318	-73.39%
Sold SF	3,103,134	7,521,509	4,231,555	-58.74%
Direct Net Absorption	(3,937,710)	1,943,571	4,369,758	N/A

## SAN FRANCISCO SUBMARKET STATISTICS

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Total Availability Rate	4Q 2020 Direct Net Absorption	2020 Direct Net Absorption	4Q 2020 Leasing Activity	2020 Leasing Activity	Direct Rental Rate
Civic Center	682,055	0	24.3%	1.3%	25.6%	24.1%	1,932	-89,888	0	8,285	\$21.01
Financial District	29,383,670	0	9.9%	3.5%	13.4%	20.4%	-450,290	-1,133,250	59,516	963,314	\$63.71
Jackson Square	2,337,323	0	15.0%	5.7%	20.6%	31.8%	-45,531	-290,601	0	50,020	\$57.31
Mid Market	4,837,372	0	6.5%	5.6%	12.1%	28.9%	-32,996	-145,010	6,485	173,104	\$36.57
Mission Bay/China Basin	4,036,401	1,016,745	0.9%	1.0%	1.9%	15.9%	3,126	-26,885	5,584	73,093	\$30.84
Mission/Potrero	3,262,388	0	21.3%	3.8%	25.1%	31.0%	-59,858	-173,620	34,254	265,011	\$49.23
Rincon/South Beach	6,258,704	268,000	6.6%	8.3%	14.8%	19.7%	-45,167	-98,172	57,026	313,146	\$91.46
Showplace Square	4,055,150	144,646	9.1%	0.0%	9.1%	22.5%	-7,749	-105,737	38,400	107,734	\$38.26
South Financial District	25,948,755	1,250,000	6.0%	5.0%	10.9%	23.4%	-219,150	-588,597	45,769	754,315	\$70.74
SOMA	4,337,081	0	15.9%	5.2%	21.1%	29.3%	-218,403	-558,936	14,338	81,850	\$56.49
Union Square	4,176,249	115,766	14.1%	6.4%	20.5%	27.5%	-38,015	-243,862	31,760	146,014	\$50.45
Van Ness Corridor/Chinatown	1,310,582	0	13.6%	1.6%	15.2%	25.8%	-4,330	-24,960	1,684	22,426	\$52.94
Waterfront/North Beach	3,807,103	0	15.3%	3.4%	18.7%	24.7%	-29,636	-210,258	15,120	41,109	\$64.61
Yerba Buena	3,181,112	699,337	10.1%	11.1%	21.2%	44.4%	-81,633	-247,934	0	123,485	\$61.30
<b>San Francisco Totals</b>	<b>97,613,945</b>	<b>3,494,494</b>	<b>9.4%</b>	<b>4.5%</b>	<b>13.9%</b>	<b>23.8%</b>	<b>-1,227,700</b>	<b>-3,937,710</b>	<b>309,936</b>	<b>3,122,906</b>	<b>\$63.80</b>
Class A	53,224,583	3,051,391	7.0%	3.7%	10.7%	20.8%	-464,322	-1,393,887	136,578	1,542,653	\$74.26
Class B	36,647,733	443,103	12.5%	5.5%	18.0%	28.2%	-626,334	-2,229,315	126,374	1,386,186	\$60.11
Class C	7,741,629	0	11.0%	5.1%	16.2%	24.2%	-137,044	-314,508	46,984	194,067	\$46.21

## TOP SALE TRANSACTIONS FOR 2020

Property	Submarket	Square Feet	Sale Price	Price/SF	Buyer	Seller
505 Brannan St & 510 Townsend St	South of Market	443,479	\$560,200,000	\$1,263	Ascendas REIT	Alexandria Real Estate Equities, Inc. & TMG Partners
440-450 Mission St	South Financial District	75,800	\$145,566,000	\$1,920	Salesforce	Terminal Plaza Associates
301 Battery St	Financial District	208,686	\$143,000,000	\$685	RFR Realty LLC	Bently Reserve, LLC

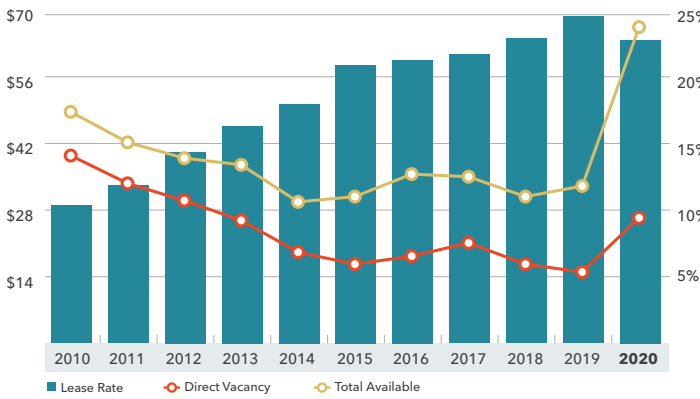
## TOP LEASE TRANSACTIONS FOR 2020

Property	Submarket	Square Feet	Date	Landlord	Tenant
555 Mission St	South Financial District	181,930	Q1 2020	Union Investment Real Estate GmbH	Deloitte (renewal)
1 Market St	South Financial District	149,182	Q2 2020	The Blackstone Group L.P.	Morgan, Lewis & Bockius LLP (renewal)
388 Market St	Financial District	116,805	Q2 2020	Honorway Investment Corporation	First Republic Bank (renewal)

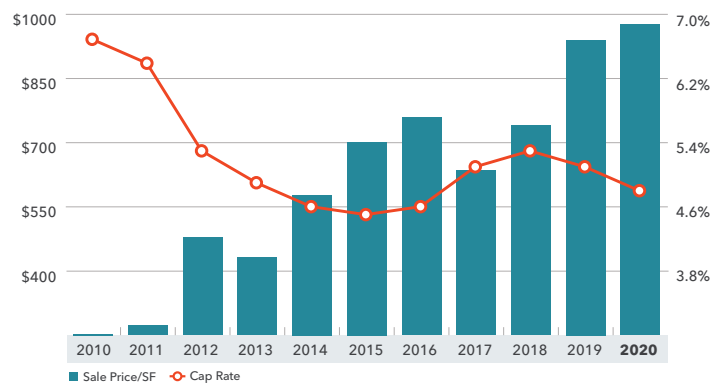
## TOP UNDER CONSTRUCTION

Property	Address	Submarket	Square Feet	Owner	Delivery Date
First Street Tower	50 1st St	South Financial District	1,250,000	Oceanwide Holdings Co. Ltd.	Q1 2023
Uber HQ	1455-1725 3rd St	Mission Bay/China Basin	1,016,745	Alexandria Real Estate Equities, Inc.	Q1 2021
5M	415 Natoma St	Yerba Buena	640,000	Hearst Corporation	Q1 2021

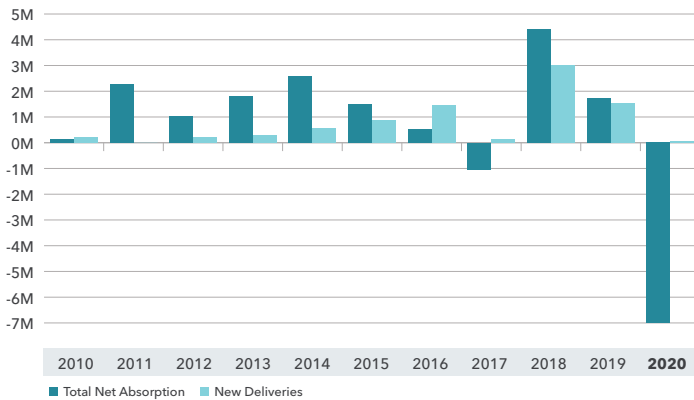
## VACANCY, AVAILABILITY, & LEASE RATE



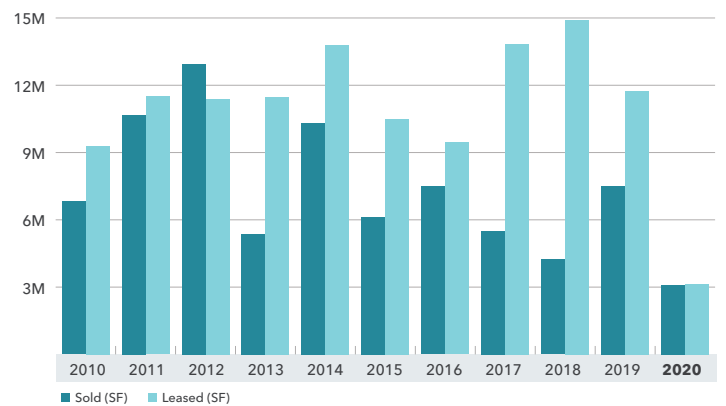
## AVERAGE SALES PRICE/SF & CAP RATES



## TOTAL NET ABSORPTION & NEW DELIVERIES



## SALE VOLUME & LEASE VOLUME



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### COMMERCIAL BROKERAGE

**23M** ANNUAL SALES SF      **470+** NO. OF BROKERS  
**\$8B** ANNUAL TRANSACTION VOLUME      **42M** ANNUAL LEASING SF

### VALUATION ADVISORY

**1,800+** APPRAISALS ANNUALLY      **39/20** TOTAL NO. APPRAISERS/MAI'S

### PROPERTY MANAGEMENT

**70M+** MANAGEMENT PORTFOLIO SF      **\$12B+** IN ASSETS UNDER MANAGEMENT

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