Kidder Mathews

MARKET TRENDS | SAN FRANCISCO

OFFICE

SF Office Activity Slowly Picking up in Q1 2021

MARKET DRIVERS

OFFICE availability rose slightly in the first quarter to 26.9% across all class types. In particular, sublease availability increased to 10.0%, compared to 9.1% in the previous quarter and 4.7% in Q1 2020 for all building class types.

DIRECT asking lease rates have gradually dropped since the COVID-19 pandemic, reporting an average of $63.35/SF full service. Compared to a year ago, rates have decreased by just over 9%. Class A rates fared better, ending Q1 2021 with an average rate of $72.12/SF full service.

SAN FRANCISCO office leasing activity stood at 538,349 SF at the end of the first quarter. Total Class A lease activity reached 271,173 SF by quarter-end, with sublease activity reaching 106,927 SF

OFFICE deliveries are slowly arriving in the San Francisco office market, following a significant decrease in 2020. 420 Taylor St delivered 115,766 SF in the Union Square submarket in Q1, preleased entirely to Nextdoor. However, 2.82 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 late 2021.

Market Summary

	1Q 2021	4Q 2020	1Q 2020	Annual Change
New Construction	115,766	71,832	0	-
Under Construction	2,818,403	2,244,494	2,201,630	28.01%
Direct Vacancy Rate	11.2%	9.3%	5.8%	93.10%
Sublease Vacancy Rate	5.7%	4.4%	2.0%	185.00%
Overall Vacancy Rate	16.9%	13.7%	7.7%	119.48%
FIDI Direct Asking Lease Rate (A&B)	$65.84	$67.46	$77.23	-14.75%
Leased SF	538,349	889,997	1,502,910	-64.18%
Sold SF	816,257	1,455,041	963,107	-15.25%
Total Net Absorption	-2,951,939	-1,892,762	-965,358	N/A

1Q 2021

▼ 538K
LEASING ACTIVITY

▼ -2.95M
NET ABSORPTION (SF)

▲ 16.9%
VACANCY RATE

▼ $63.35
AVERAGE ASKING RENT

▲ 115K
NEW DELIVERIES (SF)

CHANGE FROM PRIOR YEAR

Market Highlights

DIRECT vacancy rates have increased to 11.2%, up 93% YOY.

ABSORPTION rates have fallen deeper into negative territory, reporting a loss of 2.95 million SF by the end of Q1 2021.

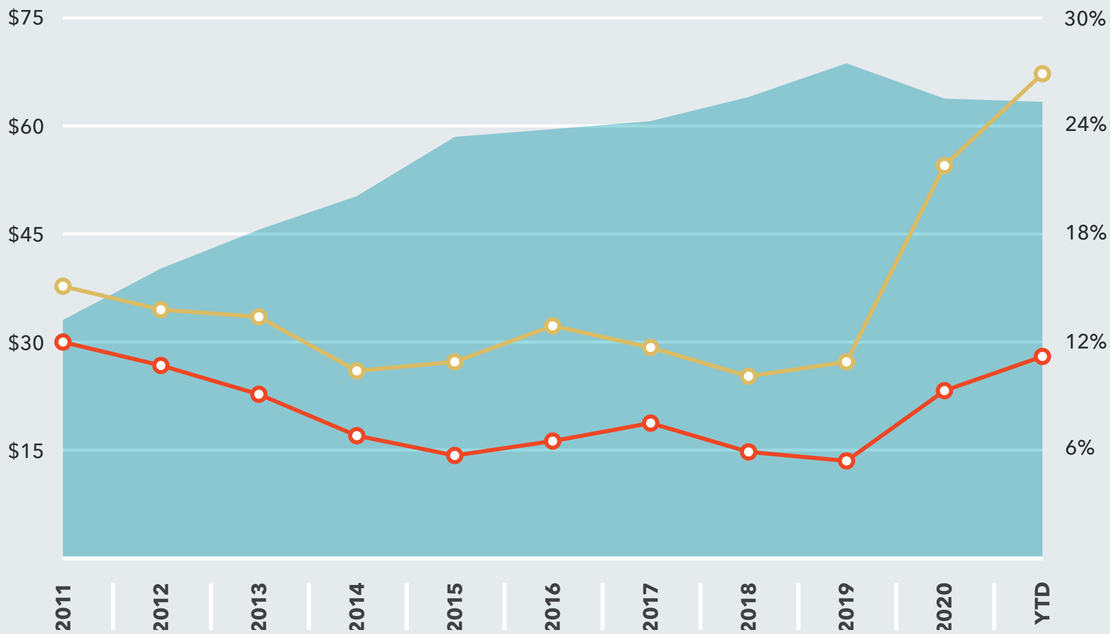
CONSTRUCTION projects remain active, with over 2.82 million SF of office developments in the pipeline.

Lease Rate, Vacancy & Availability

DIRECT LEASE RATE (FSG)

DIRECT VACANCY

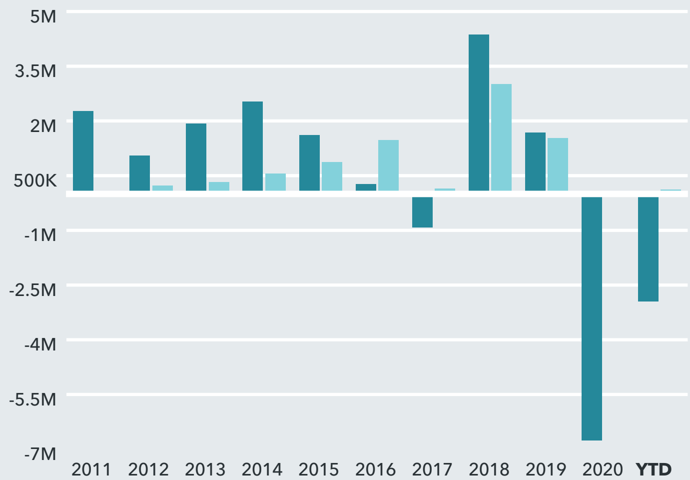
TOTAL AVAILABILITY



BIGGEST SALE OF THE QUARTER

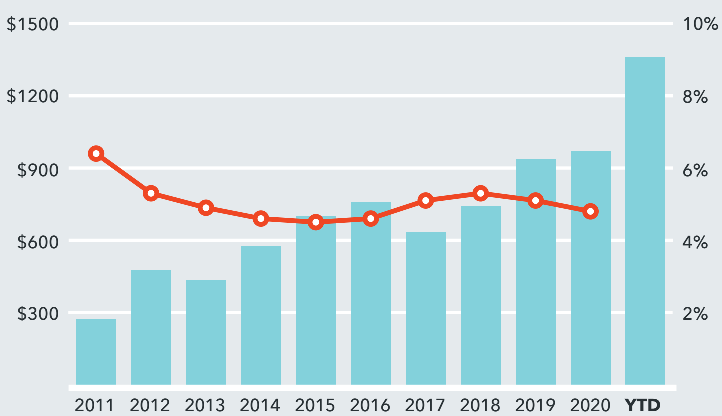
The Exchange

Net Absorption & New Deliveries



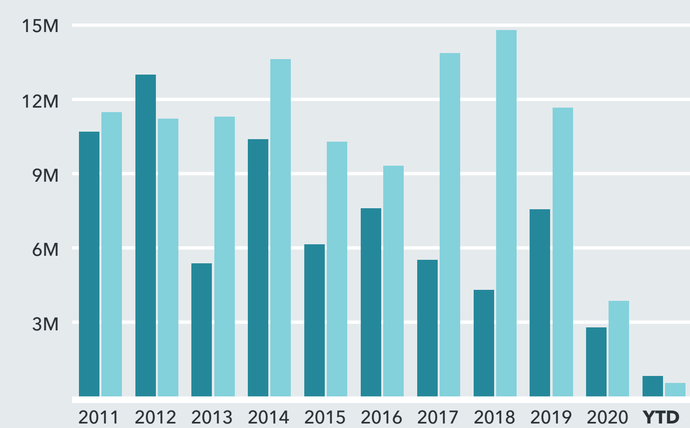
NET ABSORPTION (SF) NEW DELIVERIES (SF)

Average Sales Price/SF & Cap Rate



SALES PRICE/SF CAP RATE

Sale Volume & Leasing Activity



SOLD (SF) LEASED (SF)

SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q21 Total Net Absorption	YTD Total Net Absorption	1Q21 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Civic Center	682,055	0	24.3%	1.0%	25.3%	24.6%	2,064	2,064	2,064	2,064	$21.01
Financial District	28,146,087	0	12.8%	3.9%	16.7%	23.9%	-934,093	-934,093	269,435	269,435	$60.66
Jackson Square	2,338,145	0	19.6%	3.8%	23.4%	30.5%	-64,603	-64,603	47,355	47,355	$57.31
Mid Market	4,837,247	0	7.7%	5.6%	13.2%	30.7%	-61,083	-61,083	3,872	3,872	$32.60
Mission Bay/China Basin	4,036,401	1,461,745	2.7%	12.7%	15.4%	17.5%	-545,735	-545,735	1,467	1,467	$30.84
Mission/Potrero	3,328,895	0	22.8%	3.4%	26.2%	33.4%	-53,727	-53,727	16,757	16,757	$45.98
Rincon/South Beach	6,297,070	268,000	7.1%	8.2%	15.2%	21.7%	-54,992	-54,992	38,398	38,398	$91.46
Showplace Square	4,092,724	271,183	10.0%	0.3%	10.2%	26.2%	-49,375	-49,375	55,988	55,988	$38.26
South Financial District	26,001,177	0	7.4%	5.9%	13.3%	25.2%	-618,539	-618,539	50,889	50,889	$69.95
SOMA	4,592,172	118,138	14.5%	11.5%	26.1%	36.4%	-340,741	-340,741	5,483	5,483	$56.49
Union Square	4,301,300	0	16.5%	7.4%	23.9%	31.9%	-61,886	-61,886	29,323	29,323	$50.19
Van Ness Corridor/Chinatown	1,310,582	0	15.8%	1.1%	16.9%	26.4%	-24,000	-24,000	11,129	11,129	$52.60
Waterfront/North Beach	3,814,486	0	14.3%	4.8%	19.1%	26.5%	-10,406	-10,406	3,681	3,681	$64.61
Yerba Buena	3,211,590	699,337	14.2%	10.8%	25.1%	55.6%	-134,823	-134,823	2,508	2,508	$61.30
San Francisco Totals	**96,989,931**	**2,818,403**	**11.2%**	**5.7%**	**16.9%**	**26.9%**	**-2,951,939**	**-2,951,939**	**538,349**	**538,349**	**$63.35**
Class A	52,049,756	2,389,401	8.5%	6.2%	14.7%	24.4%	-2,121,790	-2,121,790	271,173	271,173	$72.12
Class B	37,212,763	386,138	14.2%	5.1%	19.3%	30.4%	-554,421	-554,421	238,789	238,789	$59.16
Class C	7,727,412	42,864	14.6%	5.2%	19.7%	27.4%	-275,728	-275,728	28,387	28,387	$43.18

ECONOMIC REVIEW

THE COVID-19 pandemic in 2020 halted the San Francisco economy, forcing business closures, company layoffs, and remote working. However, by the end of Q1 2021 and with COVID-19 vaccines being distributed in the area, San Francisco entered into orange tier, allowing indoor dining and businesses to open with guidelines in place.

SAN FRANCISCO unemployment has remained unchanged from Q4 at a rate of 5.7%, while California unemployment has risen to 8.4%.

NEAR TERM OUTLOOK

OFFICE activity in the San Francisco market has picked up in Q1 2021, with both direct and sublease inquiries, primarily from professional service tenants. A few tech companies are hoping to have employees return to the office by the end of 2021, although there is still concern regarding the amount of physical interaction between tenants, making full floors, rather than multi-tenant floors, more attractive.

GIVEN the current market fundamentals, Kidder Mathews still expects a "flight to quality" approach as tenants focus their search on capturing the best spaces at reduced rents.

SOURCES: STATE OF CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT, COSTAR, KIDDER MATHEWS RESEARCH

TOP SALE TRANSACTIONS FOR 1Q 2021

Property	Submarket	Buyer	Seller	Sale Price	$/SF	NRSF
The Exchange	Mission Bay/China Basin	KKR	Kilroy Realty Corporation	$1,080,000,000	$1,439.29	750,370
99 Rhode Island St	Showplace Square	Exeter Property Group	Oelsner Commercial Properties	$37,000,000	$580.12	63,780

TOP LEASE TRANSACTIONS FOR 1Q 2021

Property	Submarket	Landlord	Tenant	Sign Date	NRSF
555 California St	Financial District	Vornado Realty Trust	Goldman Sachs & Co. - Global Investment Research	January 2021	88,370 (Renewal)
650 California St	Financial District	Columbia Property Trust, Inc.	AppDirect	January 2021	25,880 (Renewal)
100 Montgomery St	Financial District	Vanbarton Group	Varo	February 2021	24,793

TOP UNDER CONSTRUCTION

Property	Address	Submarket	Owner	Delivery Date	SF
Uber HQ	1455-1725 3rd St	Mission Bay/China Basin	Alexandria Real Estate Equities, Inc.	Q3 2021	1,016,745
5M	415 Natoma St	Yerba Buena	Hearst Corporation	Q4 2021	640,000
Mission Rock	1051 3rd St	Mission Bay/China Basin	Port of San Francisco	Q2 2024	300,000

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

Commercial Brokerage
$8B TRANSACTION VOLUME (ANNUAL)
23M SALES SF (ANNUAL)
42M LEASING SF (ANNUAL)

Valuation Advisory
1,800+ ASSIGNMENTS ANNUALLY
40/19 TOTAL NO. APPRAISERS/MAI'S

Property Management
70M+ MANAGEMENT PORTFOLIO SF
$12B+ IN ASSETS UNDER MANAGEMENT

The information in this report was composed by the Kidder Mathews Research Group.

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