

MARKET TRENDS | SAN FRANCISCO

OFFICE

SF Office Activity on the Rise in Q2 2021

MARKET DRIVERS

OFFICE vacancy rose slightly in the second quarter to 18.6% across all class types. Sublease vacancy stood at 5.8%, compared to 2.9% in Q2 2020.

DIRECT asking lease rates have gradually fallen since the COVID-19 pandemic, reporting an average of \$62.53/SF full service. Compared to a year ago, rates have decreased 11%. Class A rates fared better, ending Q2 2021 with an average rate of \$72.30/SF full service.

SAN FRANCISCO office leasing activity stood at 1.34 million SF at the end of the second quarter. Total Class A lease activity reached 555,538 SF by quarter-end, with sublease activity reaching 378,222 SF.

THE only office delivery in Q2 2021 was the arrival of Uber's HQ project (1.02 million SF) in the Mission Bay/China Basin submarket. However, 1.80 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 St., which is anticipated to deliver 640,000 SF of prime Class A space in the Yerba Buena submarket in late 2021.

Market Summary

	2Q 2021	1Q 2021	2Q 2020	Annual Change
New Construction	1,021,407	115,766	0	-
Under Construction	1,801,658	2,133,390	2,206,292	-18.34%
Direct Vacancy Rate	12.8%	11.5%	7.2%	77.78%
Sublease Vacancy Rate	5.8%	5.7%	2.9%	100.00%
Overall Vacancy Rate	18.6%	17.2%	10.1%	84.16%
FIDI Direct Asking Lease Rate (A&B)	\$66.27	\$65.84	\$76.78	-13.69%
Leased SF	1,341,664	496,372	882,472	52.03%
Sold SF	82,372	816,257	13,969	489.68%
Total Net Absorption	(517,398)	(2,870,452)	(1,838,890)	N/A

▲ **1.34M**
LEASING ACTIVITY (SF)

▲ **-517K**
NET ABSORPTION (SF)

▲ **18.6%**
VACANCY RATE

▼ **\$62.53**
AVERAGE ASKING RENT

▲ **1.02M**
NEW DELIVERIES (SF)

CHANGE FROM PRIOR QUARTER

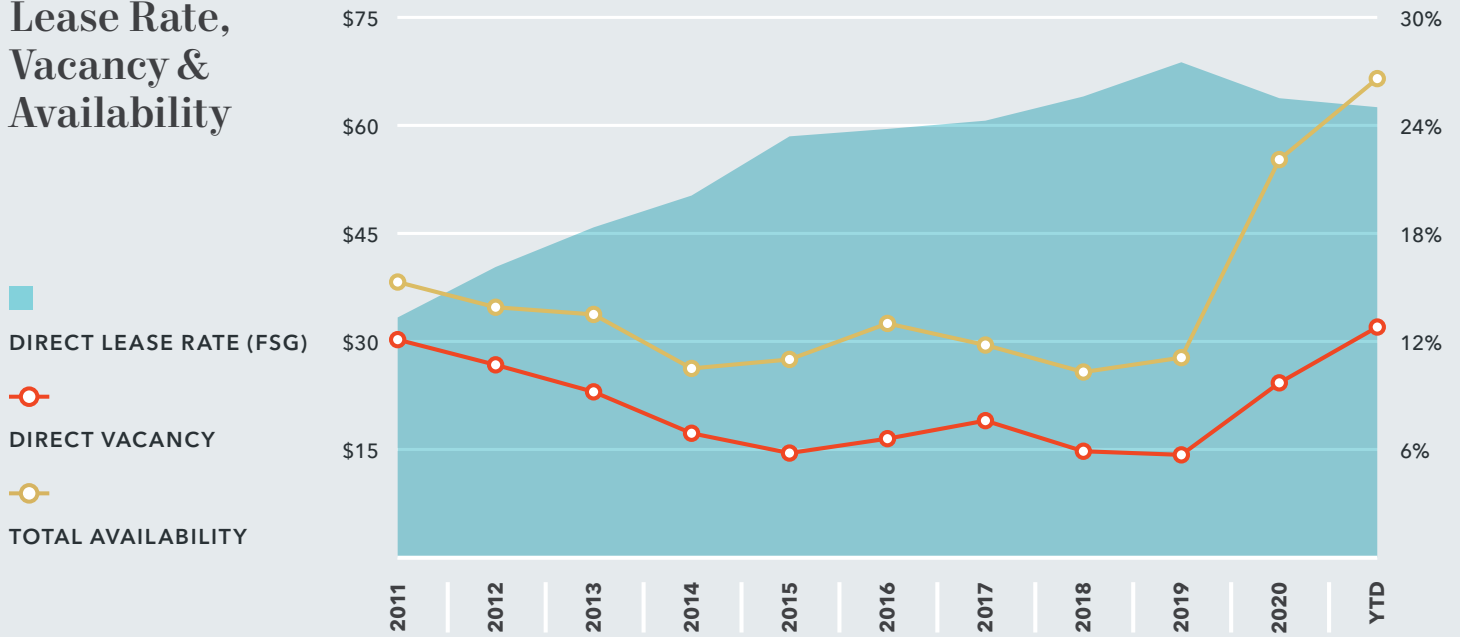
Market Highlights

DIRECT vacancy rates have increased to 12.8%, up 78% YOY.

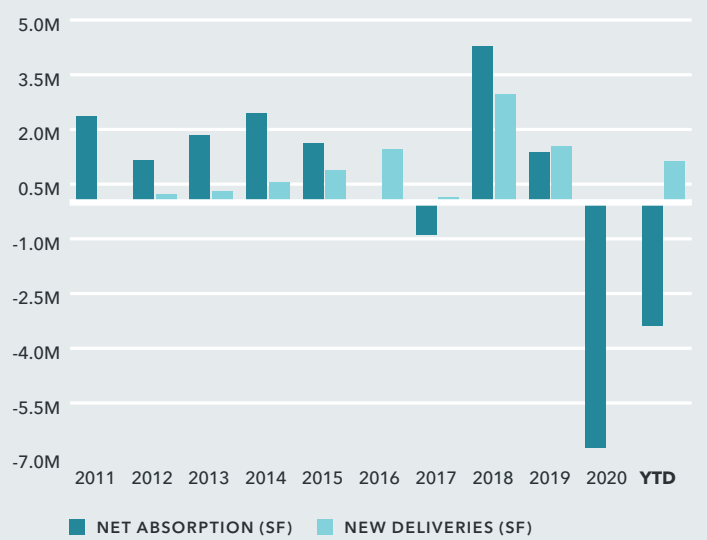
ABSORPTION rates stood at negative 517,398 SF by the end of Q2 2021.

CONSTRUCTION projects remain active, with over 1.80 million SF of office developments in the pipeline.

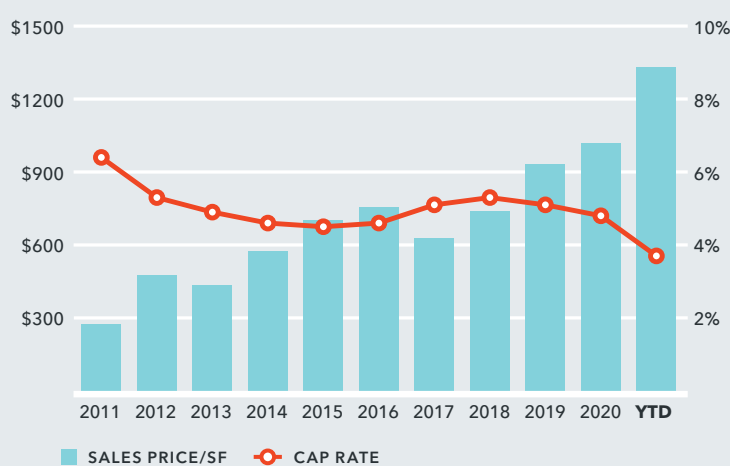
Lease Rate, Vacancy & Availability



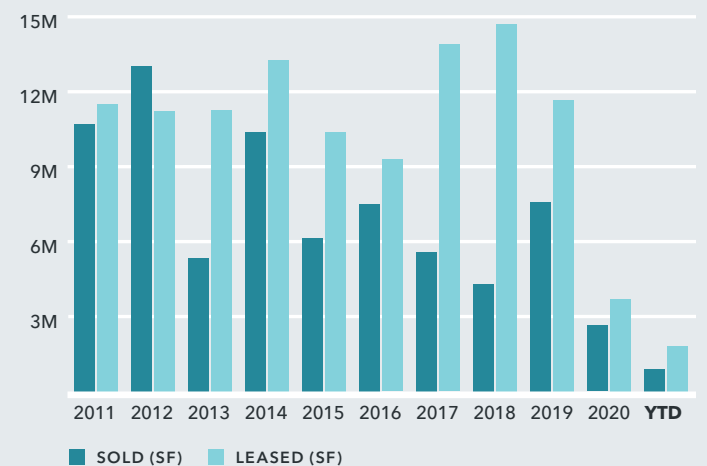
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Leasing Activity



SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q21 Total Net Absorption	YTD Total Net Absorption	2Q21 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Civic Center	682,055	0	25.1%	0.0%	25.1%	26.3%	1,226	3,290	12,381	14,445	\$23.80
Financial District	26,735,294	0	15.2%	3.9%	19.1%	25.3%	-445,041	-1,354,048	445,852	662,050	\$63.80
Jackson Square	2,338,145	0	24.3%	4.1%	28.4%	33.2%	-118,359	-182,962	20,550	67,905	\$48.00
Mid Market	4,837,247	0	8.8%	4.1%	12.9%	29.5%	22,160	-43,933	16,652	20,524	\$32.96
Mission Bay/China Basin	5,057,808	445,000	2.7%	9.7%	12.4%	13.6%	1,015,827	472,092	12,370	13,837	\$30.84
Mission/Potrero	3,288,684	0	21.8%	3.2%	25.1%	29.0%	21,501	-6,075	107,081	123,838	\$45.98
Rincon/South Beach	6,299,665	268,000	10.8%	9.2%	20.0%	28.1%	-362,482	-377,723	28,092	66,490	\$86.84
Showplace Square	4,122,377	271,183	10.0%	0.2%	10.2%	24.1%	-4,179	-53,554	62,574	118,562	\$38.26
South Financial District	26,359,558	0	8.6%	7.1%	15.7%	25.8%	-384,070	-1,000,264	344,239	397,370	\$69.70
SOMA	4,631,260	118,138	17.6%	10.8%	28.5%	32.6%	-80,162	-419,671	67,819	73,302	\$56.49
Union Square	4,235,020	0	16.0%	6.7%	22.8%	26.4%	33,154	-28,732	207,197	238,170	\$47.62
Van Ness Corridor/Chinatown	1,311,936	0	17.0%	1.1%	18.2%	30.3%	-16,742	-40,742	8,955	20,084	\$52.46
Waterfront/North Beach	3,807,337	0	18.0%	3.0%	21.0%	26.7%	-73,842	-84,248	7,196	11,627	\$36.42
Yerba Buena	3,211,590	699,337	18.9%	9.4%	28.3%	60.7%	-126,389	-261,212	706	9,832	\$60.53
San Francisco Totals	96,917,976	1,801,658	12.8%	5.8%	18.6%	27.2%	-517,398	-3,377,782	1,341,664	1,838,036	\$62.53
Class A	51,807,622	1,640,656	10.0%	6.8%	16.7%	25.6%	252,611	-1,808,717	555,538	766,463	\$72.30
Class B	37,405,638	118,138	16.1%	4.9%	21.0%	29.5%	-767,130	-1,284,398	712,139	970,957	\$56.49
Class C	7,704,716	42,864	16.4%	3.6%	20.0%	26.5%	-2,879	-284,667	73,987	100,616	\$43.17

ECONOMIC REVIEW

LAST year, the COVID-19 pandemic halted the San Francisco economy, forcing business closures, company layoffs, and remote working. However, on June 15, 2021, San Francisco reopened all businesses and activities, as the state of California fully reopened its economy. With high rates of vaccination in the city and steady job growth, there is optimism that the San Francisco economy will improve in 2021.

SAN FRANCISCO unemployment dropped slightly to a rate of 5.1%, while California unemployment fell to 7.5%.

NEAR TERM OUTLOOK

OFFICE tour activity is on the rise in San Francisco, with many office tenants continuing to consider plug & play subleases in the market, which remain plentiful.

WITH increased numbers of vaccinated individuals, some companies are more comfortable planning a 2021 return into the office, causing several subleases to be retracted from the market.

MANY tenants are focusing on finding the right balance with a “hybrid” work model, considering productivity levels among its employees, as well as current and future office space needs.

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

TOP SALE TRANSACTIONS FOR 2Q 2021

Property	Submarket	Buyer	Seller	Sale Price	\$/SF	NRSF
135 Mississippi St	Showplace Square	Dewey Land Company, Inc.	Zurich Alternative Asset Mgmt	\$26,500,000	\$931.33	28,454
2001 Van Ness Ave	Van Ness Corridor/Chinatown	Dunhill Partners West	Ted Astorian & Associates	\$12,150,000	\$445.36	27,281
1446 Market St	Mid Market	LendLease US Services Inc.	United Commercial Dev., LLC	\$8,300,000	\$474.29	17,500

TOP LEASE TRANSACTIONS FOR 2Q 2021

Property	Submarket	Landlord	Tenant	Sign Date	NRSF	
680 Folsom St	South Financial District	Boston Properties, Inc.	Benchling	May 2021	106,155	(Sublease)
760 Market St	Union Square	Thor Equities	Figma	June 2021	97,606	(Sublease)
85 Bluxome St	SoMa	Presidio Bay Ventures	Aurora Innovation	June 2021	58,000	(Sublease)

TOP UNDER CONSTRUCTION

Property	Address	Submarket	Owner	Delivery Date	SF
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
633 Folsom St	633 Folsom St	Rincon/South Beach	The Swig Company	Q3 2021	268,000

DATA SOURCE: COSTAR

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

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**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

**Asset
Services**

70M
MANAGEMENT
PORTFOLIO SF

\$12B
IN ASSETS UNDER
MANAGEMENT

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