

MARKET TRENDS | SAN FRANCISCO

OFFICE

MARKET DRIVERS

THE SAN FRANCISCO OFFICE MARKET is steadily recovering. While 2020 had historically low leasing activity sitting at a total of 3.7M SF compared to 2019's 11.1M SF, the office market seems to be on the right trajectory to get back to pre-pandemic levels, as 2021 consisted of 5.5M SF.

WHILE ACTIVITY seems to be picking up, total vacancy is still on the rise. Many employers are patiently (or impatiently) waiting to see how the COVID-19 pandemic unfolds. In early November, many companies were optimistic to return to the office only be set back by the newly discovered Omicron variant. Like what happened with the Delta variant—we are now in another holding pattern. Total vacancy is up 80 basis points quarter-over-quarter and 530 basis points year-over-year.

MUCH OF THE VACANCY in the office sector comes from Class B and C buildings, currently running 21.8% and 20.4% respectively. Class A buildings in premium submarkets have stayed strong with a much lower vacancy rate of 17%.

CBD SUBMARKETS such as South Financial District, and Showplace Square in San Francisco are having an uptick in touring activity, particularly for premium space with views. Tour activity for Class B buildings—especially in North Financial District and Union Square -- still remains quite low.

SUBLEASE VACANCY for the fourth quarter decreased by 60 basis points (bps) compared to the third quarter. Overall, the 2021 San Francisco Office Market had a sublease vacancy rate of 4.4%-- almost the same as 2020 at 4.3%. Subleasing activity consisted of almost 2M SF, comprising more than 35% of all leasing activity in 2021. The sublease market is approaching pre-pandemic levels, which indicates some level of demand, while direct leasing activity is trailing behind. The high demand for subleases is due to the uncertainty the new COVID-19 variants create for employers and the desire to keep terms short.

Market Summary

	2021	2020	2019	Annual Change
New Construction	2,228,474	-	1,534,610	N/A
Under Construction	1,024,257	2,389,593	1,591,047	-57.14%
Direct Vacancy Rate	14.6%	9.5%	5.5%	53.68%
Sublease Vacancy Rate	4.4%	4.3%	1.3%	2.33%
Overall Vacancy Rate	19.1%	13.8%	6.9%	38.41%
FIDI Direct Asking Lease Rate (A&B)	\$66.21	\$68.30	\$78.49	-3.06%
Leased SF	5,546,552	3,677,209	11,144,999	50.84%
Sold SF	5,199,750	2,633,859	7,609,480	97.42%
Total Net Absorption	(3,302,308)	(6,778,087)	1,395,110	N/A

▲ **5.54M**
LEASING ACTIVITY (SF)

▼ **-3.3M**
NET ABSORPTION (SF)

▲ **19.1%**
OVERALL VACANCY RATE

▼ **\$61.46**
AVERAGE ASKING RENT

▲ **2.23M**
NEW DELIVERIES (SF)

CHANGE FROM PRIOR YEAR

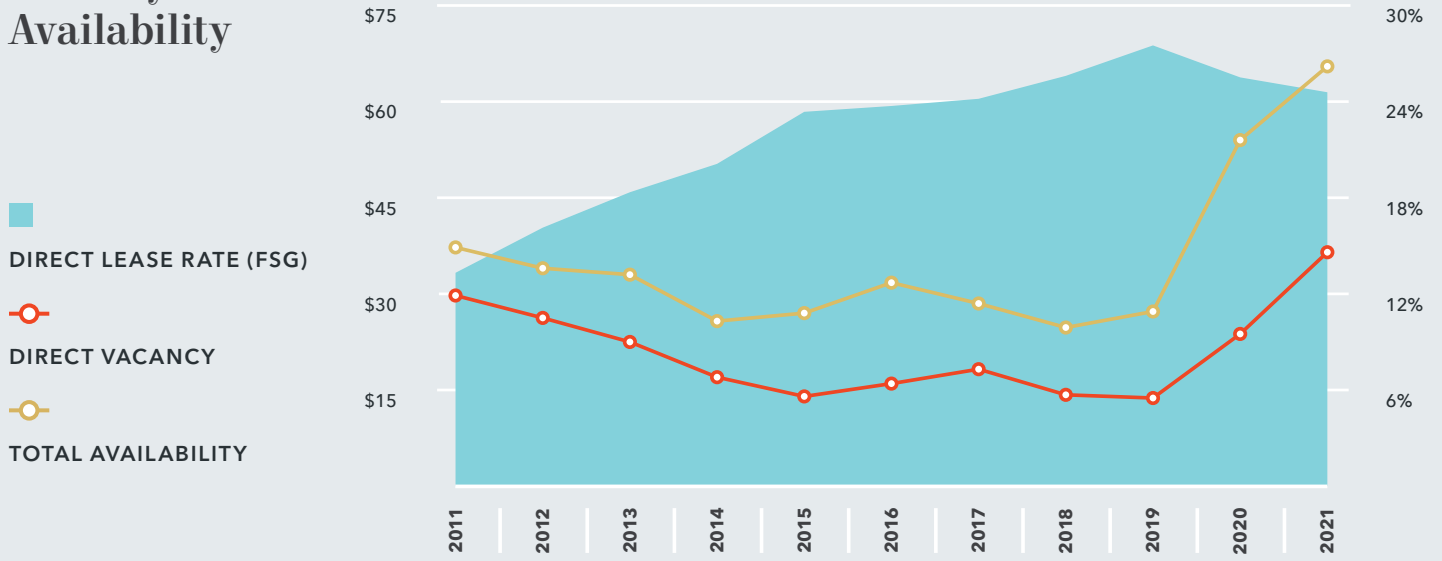
Market Highlights

DIRECT VACANCY RATES increased to 14.6% up 53% year-over-year.

ABSORPTION RATES stood at negative 3.3M SF by end of 2021.

CONSTRUCTION PROJECTS remain active, with over 1M SF of office developments in the pipeline.

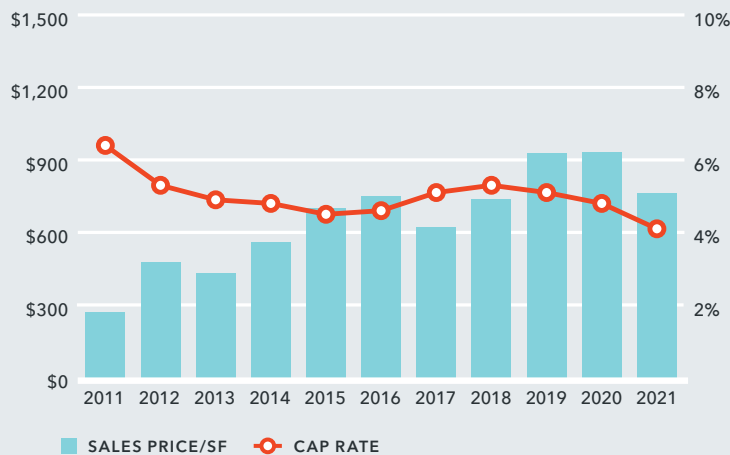
Lease Rate, Vacancy & Availability



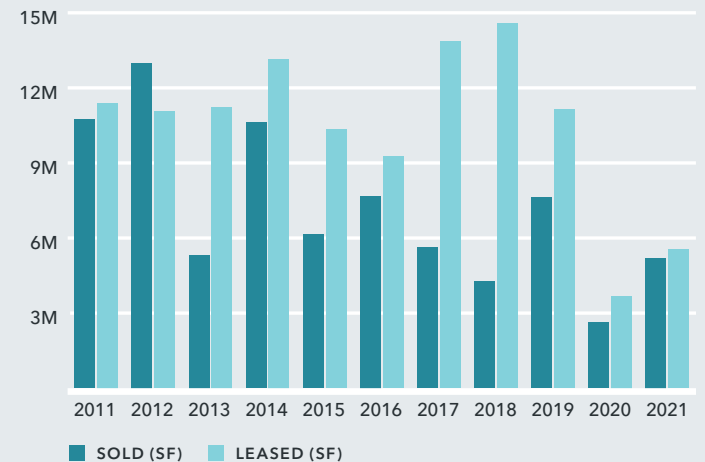
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Leasing Activity



TOP SALE TRANSACTIONS FOR 2021

Property	Submarket	Square Feet	Sale Price	\$/SF	Buyer	Seller
1800 Owens St.- The Exchange	Mission Bay/China Basin	750,370	\$1,080,000,000	\$1,439.29	KKR	Kilroy Realty Corporation
77 Beale St	South Financial District	994,311	\$534,640,453	\$537.70	Hines	Pacific Gas & Electric Company
215-245 Market St	South Financial District	583,960	\$265,359,547	\$454.41	Hines	Pacific Gas & Electric Company

TOP LEASE TRANSACTIONS FOR 2021

Property	Submarket	Square Feet	Transaction Date	Landlord	Tenant
1155 Battery St.	Waterfront/North Beach	354,614	June 2021	Jamestown, L.P.	Levi Strauss & Co.
409 Illinois St. Building 1	Mission Bay	233,069	September 2021	Nuveen	FibroGen, Inc.
101 California St	Financial District	194,440	September 2021	GIC Real Estate	Chime

TOP UNDER CONSTRUCTION

Property	Address	Submarket	Square Feet	Owner	Delivery Date
Mission Rock (Bldg G)	1051 3rd St	Mission Bay/China Basin	300,000	Port of San Francisco	Q2 2024
Mission Rock (Bldg B)	1051 3rd St	Mission Bay/China Basin	300,000	Port of San Francisco	Q3 2024
Pier 70 (Bldg 12)	Pier 70	Mission Bay/China Basin	145,000	Brookfield Properties	Q1 2022

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, asset services, consulting, project and construction management, and debt equity finance services for all property types.

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

GARY BARAGONA

Director of Research
415.229.8925

gary.baragona@kidder.com

ERIC LUHRS

Regional President, Brokerage
Northern California & Nevada
415.229.8888

eric.luhrs@kidder.com

Designated Broker
Mark Read | LIC N° 00572743

**Commercial
Brokerage**

\$8B
TRANSACTION
VOLUME (ANNUAL)

23M
SALES SF
(ANNUAL)

42M
LEASING SF
(ANNUAL)

**Valuation
Advisory**

1,800+
ASSIGNMENTS
ANNUALLY

45/23
TOTAL NO.
APPRAISERS/MAI'S

**Asset
Services**

64M
MANAGEMENT
PORTFOLIO SF

\$11B
IN ASSETS UNDER
MANAGEMENT

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SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q21 Total Net Absorption	YTD Total Net Absorption	4Q21 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Civic Center	682,055	0	21.8%	0.9%	22.7%	28.2%	86	-22,095	0	24,791	\$24.58
Financial District	26,131,363	0	16.9%	2.6%	19.5%	26.5%	30,418	-1,454,202	249,718	1,296,633	\$62.88
Jackson Square	2,342,614	0	22.1%	1.8%	23.9%	25.5%	58,748	-77,502	80,411	284,590	\$59.98
Mid Market	4,778,697	0	11.7%	5.4%	17.1%	33.4%	-87,477	-239,227	6,100	32,307	\$28.92
Mission Bay/China Basin	5,064,879	745,000	3.5%	9.4%	12.9%	21.2%	-43,227	444,359	6,829	271,765	\$30.84
Mission/Potrero	3,299,294	0	21.1%	2.2%	23.3%	27.5%	-148,487	-137,262	107,388	345,783	\$37.55
Rincon/South Beach	6,187,076	0	12.2%	7.6%	19.9%	27.9%	283,894	-206,798	31,894	257,276	\$68.22
Showplace Square	3,555,708	101,782	5.9%	8.3%	14.2%	33.2%	-3,068	-147,618	9,046	107,494	\$38.26
South Financial District	28,704,006	0	9.5%	4.8%	14.2%	21.8%	-293,422	-839,790	349,767	1,490,240	\$68.94
SOMA	5,649,524	118,138	22.9%	3.5%	26.5%	27.2%	33,051	-342,078	96,739	518,820	\$62.00
Union Square	4,372,838	0	18.5%	2.3%	20.8%	29.1%	140,282	51,146	30,793	352,284	\$55.17
Van Ness Corridor/Chinatown	1,334,232	0	15.7%	0.8%	16.4%	28.9%	-808	-21,496	2,643	28,982	\$54.14
Waterfront/North Beach	3,823,724	0	18.2%	2.0%	20.1%	26.3%	25,961	-56,522	4,910	392,483	\$36.80
Yerba Buena	3,740,237	59,337	32.4%	8.6%	41.0%	48.3%	17,488	-253,223	39,722	143,104	\$55.73
San Francisco Totals	99,666,257	1,024,257	14.6%	4.4%	19.1%	26.6%	13,439	-3,302,308	1,015,960	5,546,552	\$61.46
Class A	53,501,514	906,119	12.5%	4.5%	17.0%	23.8%	16,359	-1,308,515	562,571	2,684,207	\$71.56
Class B	38,589,196	118,138	17.0%	4.8%	21.8%	29.9%	19,413	-1,704,699	377,918	2,575,348	\$56.31
Class C	7,575,547	0	17.7%	2.6%	20.4%	28.9%	-21,933	-289,094	75,471	286,997	\$45.83

ECONOMIC REVIEW

LIKE THE PREVIOUS QUARTER, many employers have delayed returning to the office full time and are trying to find the right balance of on-site, hybrid, and remote work models.

THE UNEMPLOYMENT RATE for San Francisco was 3.3% as of November 2021. This is 80 bps lower than September's rate of 4.1%. San Francisco's unemployment rate is currently much lower than California's 6.9%, so our local labor market remains strong.

NEAR TERM OUTLOOK

WHILE END OF YEAR TOURING ACTIVITY slowed due to the holidays, tenants seem eager to move forward with leasing discussions for early/mid 2022 occupancy. The office market began to show signs of growth throughout 2021 after an unprecedented 2020 caused by the pandemic. Near term outlook fares well for San Francisco's office market moving into 2022 as leasing activity and sales volumes start growing closer to the heights we saw in 2019.

SOURCES: STATE OF CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT, U.S. BUREAU OF LABOR STATISTICS, COSTAR, KIDDER MATHEWS RESEARCH