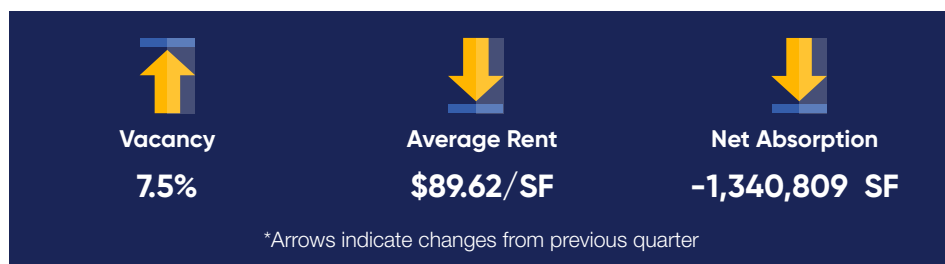


Occupier's Guide

For the first time in a decade, the San Francisco office market experienced a quarter-over-quarter decline in rental rates. From Q1 to Q2, rents declined by nearly 120 bps and vacancy increased by nearly 250 bps. Sublease space continues to increase to levels unseen in recent history, alongside massive Q/Q increases. Also notable is the increase in the ratio of sublease availability to total availability, a metric historically correlated with declines in direct rental rates. Net absorption drastically declined from -156k SF in Q1 to approximately -1.3MM SF in Q2. The City extended its eviction moratorium for commercial tenants in hopes of mitigating COVID-related business implications. Tenants continue to sign leases, albeit at significantly reduced rates, including First Republic Bank, Airtable, the AIDS Foundation, among others.



Rental and Vacancy Rates

| Direct Asking Rent (\$/SF) | Total Vacancy Rate | Q/Q Change |
|----------------------------|--------------------------------|------------|
| \$89.08 | Financial Class A 7.8% | ▲ +3.3% |
| \$87.18 | Financial Class B 7.0% | ▲ +2.4% |
| \$92.86 | South Financial Class A 7.1% | ▲ +2.8% |
| \$92.07 | South Financial Class B 7.2% | ▲ +3.3% |
| \$92.06 | SOMA Class A 8.6% | ▲ +6.0% |
| \$84.41 | SOMA Class B 5.4% | ▼ -0.1% |

Recent Transactions

| | Tenant | Submarket | Type | Size | Sector |
|---|---------------------|------------|-----------|-------------|-----------------------|
| 1 | First Republic Bank | FIDi | Renewal | 110,000 RSF | Financial Services |
| 2 | Airtable | SOMA | Sublease | 49,000 RSF | Technology |
| 3 | AIDS Foundation | Mid-Market | Renewal | 45,000 RSF | Non-profit |
| 4 | User Testing | SOMA | New Lease | 45,000 RSF | Technology |
| 5 | Woodruff Sawyer | FIDI | Renewal | 38,000 RSF | Professional Services |

Occupier's Perspective

↓ Decreases in office rent, increases in vacancy, and a sharp increase in the amount of sublease space (accounting for nearly 50% of the space on the market) are all contributing factors to the softening of the market.

↓ The TransAmerica building is being sold at a discounted \$640MM; initially at \$711MM. The TransAmerica building deal, along with others, is pending due to market uncertainties.

↑ Largely technology dominated, this quarter's largest deals were signed by a mix of technology, financial services, and professional services firms.

Market Trends



Professional and business services rose 1% in San Francisco; still down from February but coming close to pre-shelter-in-place Q1 figures. The return of jobs to San Francisco will determine how quickly activity in commercial real estate rises.

2020 Q2 vacancy registered at 7.5%, quite the increase from last quarter's 5.0%.

San Francisco's commercial tenants have been given an extension of grace from the City prohibiting landlords from evicting commercial tenants until August 1st. This emergency order has been renewed three times since the beginning of the pandemic.