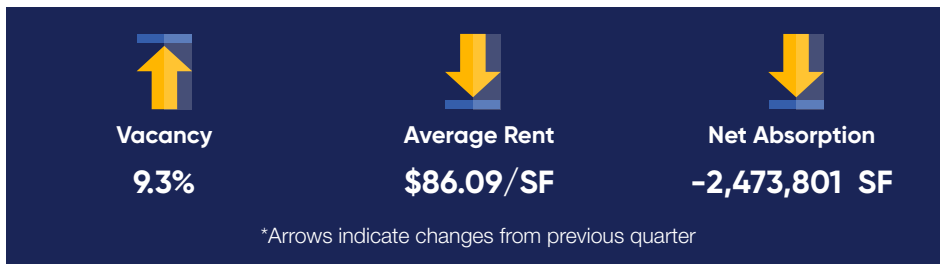


Occupier's Guide

Continuing a downward trend from Q2, San Francisco's office market experienced a sharper quarter-over-quarter decline in rental rates from previous reporting. A 350-bps rental rate decline and a following vacancy increase by nearly 180 bps puts San Francisco office rates back to mid-2019 levels. With San Francisco re-opening businesses slowly in an effort to contain the coronavirus, coupled with changing regulations and uncertainties, tenants are opting to offload space in large quantities. This offloading is a response to key employers, such as Google, Twitter, Facebook, Salesforce, and others implementing work from home strategies for the long term or permanently. These WFH policies allow tenants to reduce costs by downsizing in space and subleasing excess space at lower asking rates. Continued declines in asking rates from subleases month to month have resulted in downward pressure on direct asking rates. Third quarter begun to show direct asking rates responding to current trends in the sublease market.



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	Q/Q Change
\$85.96	Financial Class A 10.3%	▲ +2.5%
\$84.13	Financial Class B 8.7%	▲ +1.7%
\$88.90	South Financial Class A 8.4%	▲ +1.3%
\$88.07	South Financial Class B 7.7%	▲ +0.5%
\$89.27	SOMA Class A 11.8%	▲ +3.2%
\$81.17	SOMA Class B 6.9%	▲ +1.5%

Recent Transactions

	Tenant	Submarket	Type	Size	Sector
1	OpenAI	South of Market	Direct	96,700 RSF	Technology
2	IBM	South of Market	Renewal	53,000 RSF	Technology
3	Chubb	Financial District	Sublease	24,000 RSF	Financial Services
4	Etsy	Financial District	Renewal	16,000 RSF	E-Commerce
5	Brightmark	Jackson Square	Direct	15,000 RSF	Energy

Occupier's Perspective

- Pinterest announced they are backing out of 88 Bluxome St., a mixed-use development space. Minimizing costs and hedging against future uncertainties, Pinterest paid \$89.5 million to relinquish liability of future payments of the lease, totaling around \$440 million.
- Prop 15 (Split roll initiative) will be put to vote in November, effectively changing the way commercial properties will be taxed by reassessing the value of a property at current market value. This affects all commercial properties worth in aggregate more than \$3M. If passed, Prop 15 will generate roughly \$10.3B in taxes.
- High pre-pandemic costs, a thriving tech sector, and a heavy reliance on mass transit all played a major role in S.F workforce vacating. Sharp declines of rental rates, and high increases of subleasing spaces entered the market in Q3.

Market Trends



Office density will decrease as pandemic and post pandemic office planning models come into circulation. Current estimated models put workplaces at 225 SF per employee, a significant jump from previous 150 SF per employee density ratios.

San Francisco experienced a 1.1M+ negative net absorption rate quarter over quarter.

SF class A CBD rents have experienced a decline of 3.9% from Q2 2020 (QoQ), and a 5.2% decrease from Q3 2019 (YoY).