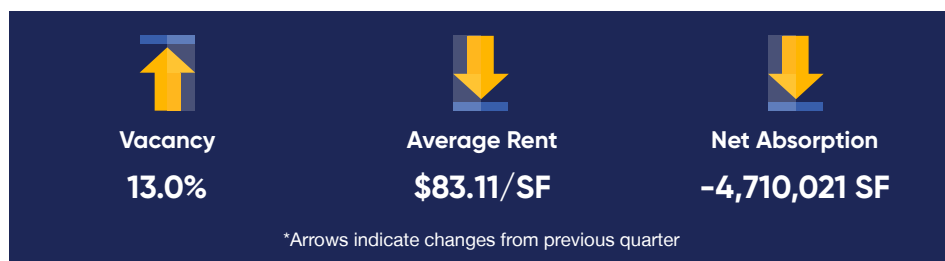


Occupier's Guide

Asking rates for office space across San Francisco continued a downward trend in the 4th quarter of 2020. Average direct asking rates decreased from \$89.09 to \$83.11 during Q4 – a 3.46% decline from Q3. Over this same period, vacancy continued an upward trend to 13.0% overall, increasing by 3.70% quarter-over-quarter. Net Absorption is down 4.71M SF for 2020.

6.6M SF of sublease space was added to the market in 2020. These subleases are quoting rates 10-30% lower than comparable direct spaces, and many are offered fully furnished. As subleases expire and vacant direct space is added to the overall supply, expect greater negative absorption, higher vacancy, and lower asking rates in 2021.



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Sublease Asking Rent (\$/SF)	Total Vacancy Rate	Q/Q Change
\$83.61	\$62.20	Financial Class A 14.4%	▲ 4.1%
\$81.70	\$67.29	Financial Class B 11.6%	▲ 5.9%
\$85.92	\$65.66	South Financial Class A 11.6%	▲ 3.2%
\$84.52	\$61.27	South Financial Class B 12.7%	▲ 5.0%
\$83.63	\$64.91	SOMA Class A 18.8%	▲ 7.0%
\$73.33	\$58.33	SOMA Class B 19.7%	▲ 12.8%

Recent Transactions

Tenant	Size	Submarket	Type	Sector
1 Vir Biotechnology	133,896	Mission Bay	Sublease	Biotechnology
2 Goldman Sachs	90,000	Financial District	Renewal	Financial Services
3 On Lok	17,898	South Financial District	Sublease	Health Care
4 Augmedix	12,936	Financial District	Sublease	Health Care
5 Clearview Healthcare	12,109	South Financial District	Sublease	Health Care

Occupier's Perspective

In 2020, direct deals represented 239 out of 343 total deals completed, compared to 2019 where they represented 728 of 1,057. As a result of the decrease in direct transactions, YoY direct vacancy RSF has increased 76.6% to 7.3M SF.

6.6M SF of office sublease space was added to the market in 2020. These spaces are now competing with direct office space at 10-30% discount.

Net absorption recorded a weak performance in Q4 2020 with 4.7M SF of negative absorption. In Q4 2019, the market was strong, recording 1.3M SF of positive absorption. Q4 2020's negative figures are predominately attributed to newly vacated sublease space from tenants trying to mitigate their financial obligations as they try to weather the pandemic.

Market Trends

Direct asking rents are feeling negative pressure due to a 70.1% decrease in total number of direct deals. As 2.4M SF of sublease space expires in the next 2 years, direct asking rents will continue to experience decreases if direct space is not absorbed at pre-pandemic levels.

Rates may continue to fall as supply outweighs demand. Overall SF direct asking rates experienced a 3.46% decrease QoQ and an even greater 8.68% decrease YoY.

As property values decrease (economists predict a 22% decline nationwide), expect that property tax assessments may be temporarily reduced. Property tax passthroughs may decrease, making costs to occupy lower for tenants in the short term.