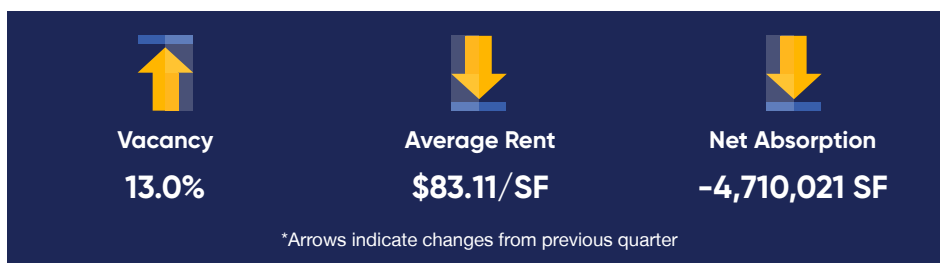


Occupier's Guide

Closing out 2020, Q4's office rental rates continued its downward trend, recording a decrease from \$86.09 to \$83.11. Quarter-over-quarter, this represents a 346-bps decline. Coupled with the decrease in rental rates, vacancy rates continue its upward trend as more direct spaces came online. Vacancy showed a 370-bps increase from the previous quarter.

Throughout the course of 2020, 6.6M SF of sublease space was added to the market. These spaces are offering more flexible terms at a discount in comparable direct spaces. This has put additional downward pressure on direct asking rates with upwards pressure on increased vacancy rates. As sublease space turns to direct, expect direct vacancies to continue increasing and rental rates to continue decreasing.



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 2019, direct deals represented 728 out of 1,057 total deals completed, compared to 2020 where they represented 239 of 343. 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 10-25% discount.

Net absorption recorded a strong performance in Q4 2019 with 1.3M SF of positive absorption. By Q4 2020, the market took a large dip into the negatives with 4.7M SF of negative absorption. These large 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.

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.