



San Francisco office market report

Q1 2022

**AVISON
YOUNG**

Office market trends

01

Return to Office

As cases of Covid-19 continue to drop in the Bay Area, workers are starting to transition back to being in-person at the office. Industry leaders such as Salesforce, Google, Meta, Apple and Microsoft have all announced that their employees will return to varying versions of a hybrid workplace model in 2022.

Many employers currently face a difficult challenge in understanding what the future of the office looks like or when the right time to return is. However, as larger companies pave the way for their employees to return, this will likely influence others to follow suit.

02

Era of Subleasing

Available sublease space peaked in the first half of 2021 as several companies eschewed their workplaces due to Covid-19 and went fully-remote. However, this has been followed by 3 consecutive quarters of positive net sublease absorption, while direct space has continued to remain negative.

Tenants are currently looking for the best economic package amid market uncertainty, which was evident by subleases making up 38.5% of all total deals. With record high levels of available sublease space for Class A and Trophy assets, we will likely continue to see high levels of activity for sublease spaces moving forward.

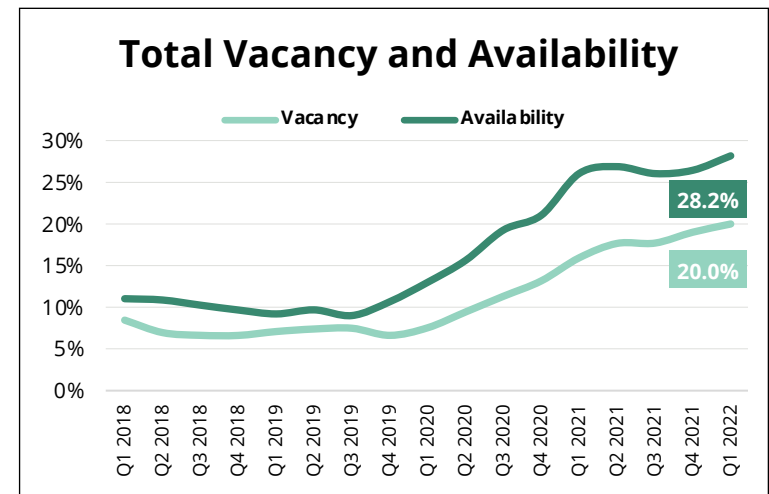
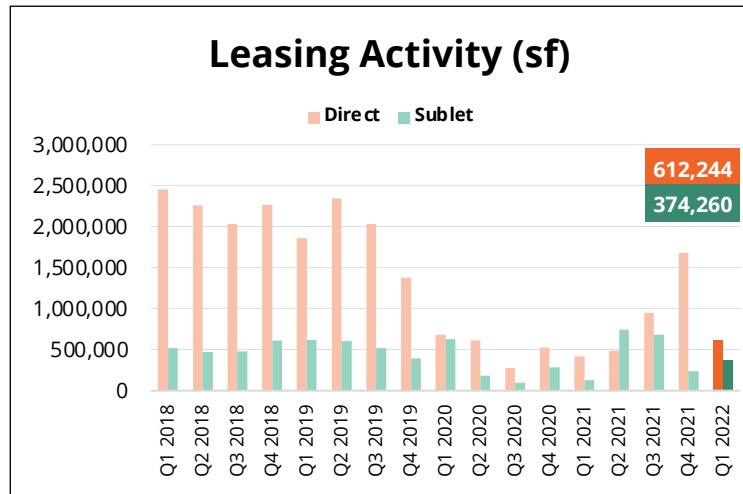
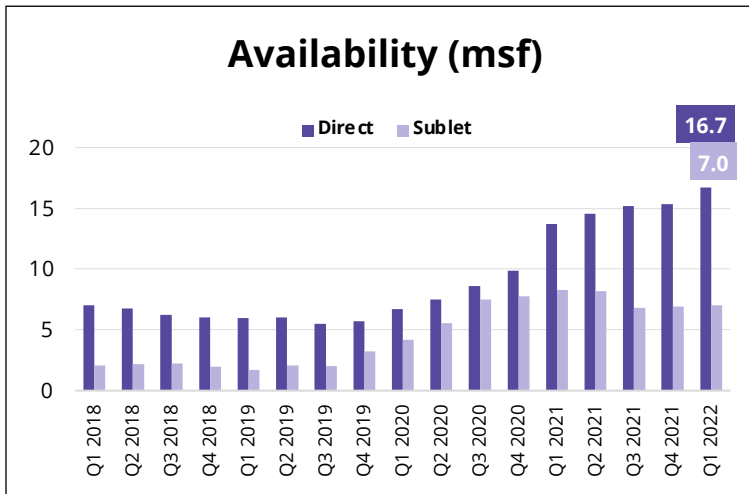
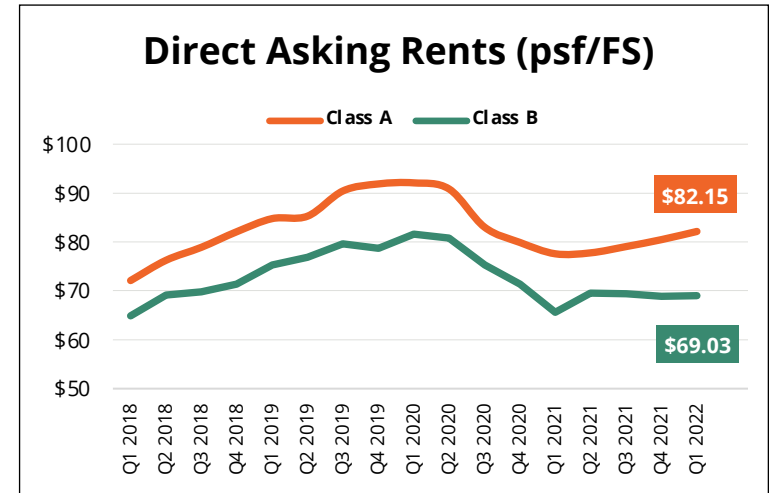
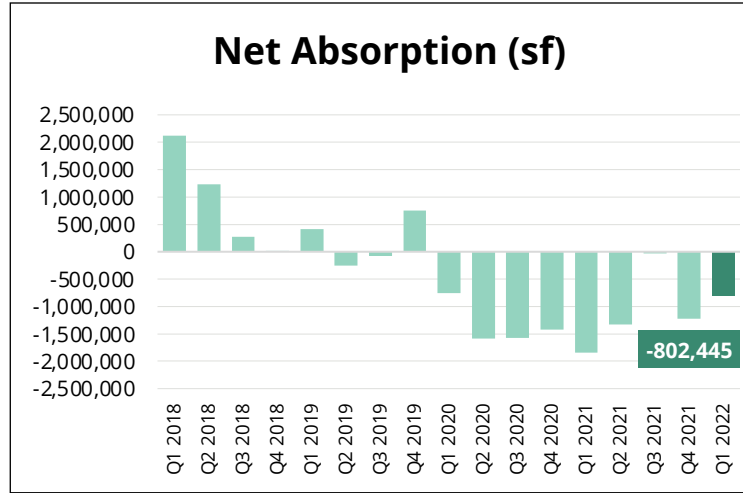
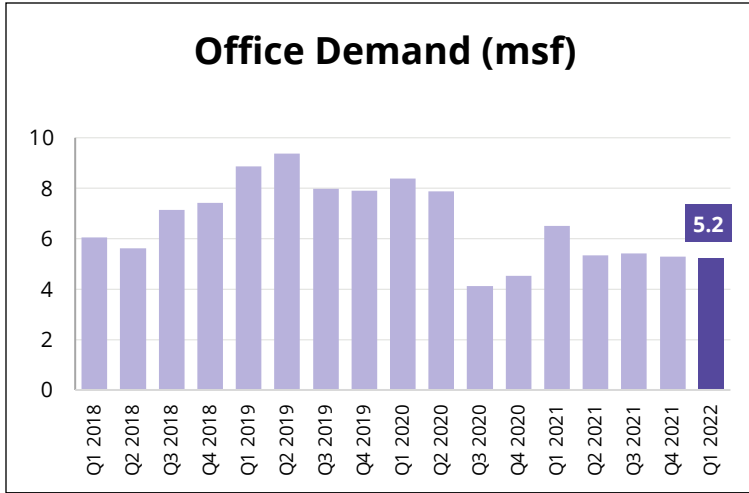
03

Flight to Quality

Premium office space accounted for 79.1% of all leasing activity this quarter, led by Sephora's massive 286,000 sf sublease from Salesforce at 350 Mission St. This is the third consecutive quarter in which Class A and Trophy spaces have dominated office demand.









While it may not be an absolute certainty that the market will continue to remain this robust for premium assets, the flight to quality is a clear trend. Companies are seeking to entice employees to return to the office by occupying quality buildings with superior attributes and amenities. Employers are also taking advantage of off-peak rents and an increase in concessions by building owners.

Office market indicators

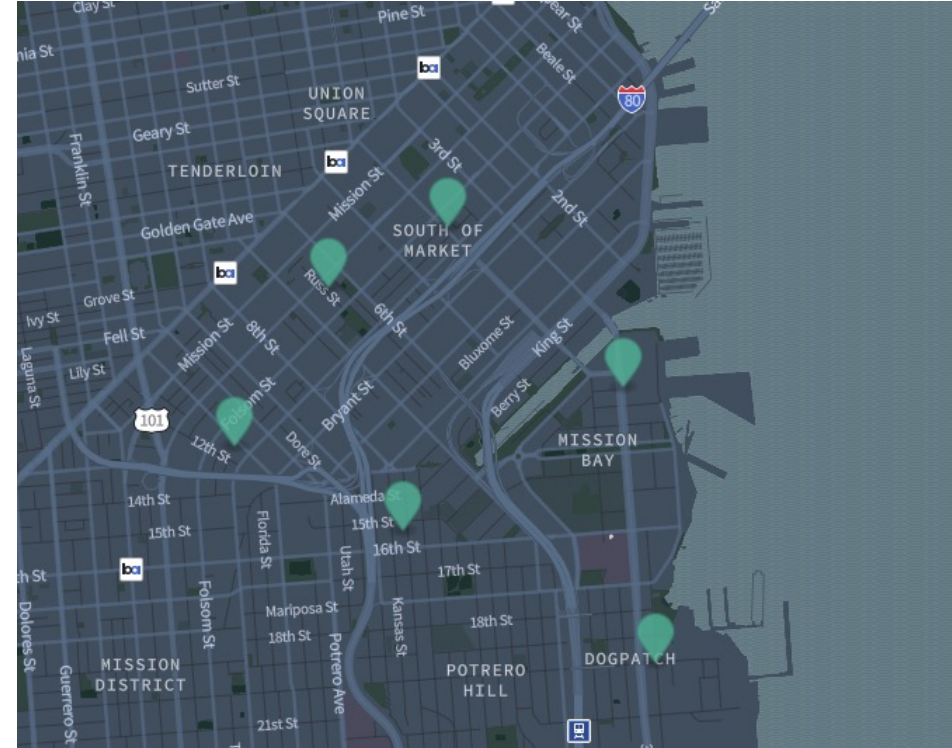


Market Fundamentals

Performance

 <p>20.0% Vacancy Rate + 1.0% q-o-q</p>	 <p>84.5 msf Total Inventory + 0 msf q-o-q</p>
 <p>0.99 msf Leasing Activity - 0.9 msf q-o-q</p>	 <p>-0.80 msf Net Absorption + 0.4 msf q-o-q</p>
 <p>0.71 msf Under Construction 0 msf q-o-q</p>	 <p>0 msf Deliveries - 0.7 msf q-o-q</p>
 <p>7.02 msf Sublease Volume + 0.1 msf q-o-q</p>	 <p>\$82.15/sf Class A Direct Rent + \$1.67/sf q-o-q</p>

Development Pipeline



Locations Under Construction in San Francisco

	Total Projects	Total Supply (sf)
Under Construction	6	714,821
Total Proposed	37	13,086,760

Office market activity

Recent leasing activity

Tenant name	Address	Sign date	Size	Transaction type	Lease type
Sephora	350 Mission St	Jan 2022	286,707	New	Sublease
Twitter	1301-1355 Market St	Jan 2022	78,792	Expansion	Direct
Opendoor	303 2 nd St	Mar 2022	44,961	New	Sublease
Finix Systems	631 Howard St	Feb 2022	42,349	New	Direct
BNY Mellon	101 2 nd St	Feb 2022	31,286	New	Direct

Large contiguous direct availabilities

Owner	Address	Date available	Block size	Floors
Brookfield Asset Management	5M Tower - 415 Natoma St	Vacant	653,900	1-22
Gap	550 Terry A. Francois Blvd	May 22	301,134	1-6
Brookfield Asset Management	Emporium Park - 835 Market St	Vacant	267,160	5-8
Union Bank	350 California St	Aug 22	201,140	7-22

Large contiguous sublease availabilities

Sublessor	Address	Date available	Block size	Floors
Airbnb	650 Townsend St	Vacant	294,966	2-6
Uber	1455 Market St	Flexible	179,934	1, 4-5, 10-11, 14-15, 21
Twitter	1 Tenth St	Vacant	174,750	3-7
Ancestry	153 Townsend St	Flexible	128,550	6-9

Office market stats by submarket

Submarket	Inventory (sf)	Total %	Vacancy		Net Absorption		SF Under	Average Asking Rent		
			Class A	Class B	1Q22	YTD	Construction	Total	Class A	Class B
Financial District	27,512,290	20.98%	19.89%	27.07%	-542,591	-542,591	0	\$77.85	\$81.82	\$74.23
South Financial District	26,556,153	14.47%	13.76%	20.22%	-95,897	-95,897	0	\$79.56	\$82.05	\$75.72
CBD Totals	54,068,443	17.79%	16.57%	24.22%	-638,488	-638,488	0	\$78.71	\$81.94	\$74.98
Chinatown/Nob Hill	105,570	0.00%	-	0.00%	0	0	0	-	-	-
Jackson Square	1,913,853	25.88%	23.46%	28.53%	-1,189	-1,189	0	\$76.61	\$80.35	\$71.95
MidMarket	3,707,473	17.74%	14.85%	17.29%	4,415	4,415	0	\$61.08	\$63.43	\$58.76
Mission	848,950	21.87%	-	26.28%	156,880	156,880	0	\$52.27	-	\$52.27
Mission Bay	1,646,662	14.33%	13.65%	24.80%	-57,843	-57,843	445,000	\$82.14	\$83.97	\$80.35
Potrero Hill	975,460	7.83%	0.00%	9.70%	-18,870	-18,870	0	\$79.81	\$82.34	\$77.74
Rincon Hill/South Beach	5,099,348	22.18%	18.82%	27.03%	-18,578	-18,578	0	\$62.06	\$66.35	\$61.19
Showplace Square	3,190,925	24.94%	91.10%	18.97%	-68,288	-68,288	101,782	\$80.98	\$84.00	\$77.82
South of Market	641,136	22.05%	22.40%	27.22%	14,877	14,877	118,138	\$73.87	\$84.63	\$66.79
Union Square	3,903,942	21.91%	51.28%	22.70%	-42,049	-42,049	0	\$60.13	\$63.87	\$58.41
Van Ness Corridor	1,667,754	20.26%	24.97%	15.75%	-23,152	-23,152	0	\$49.97	\$51.22	\$48.10
Waterfront/North Beach	3,235,891	24.70%	23.79%	26.26%	-57,211	-57,211	0	\$74.32	\$75.92	\$71.82
Yerba Buena	3,453,468	44.31%	78.96%	24.57%	-52,949	-52,949	49,901	\$88.76	\$90.94	\$70.06
Non-CBD Totals	30,390,432	23.83%	28.21%	22.62%	-163,957	-163,957	714,821	\$70.17	\$75.18	\$66.27
Market Total	84,458,875	19.97%	18.50%	23.13%	-802,445	-802,445	714,821	\$75.45	\$82.15	\$69.03

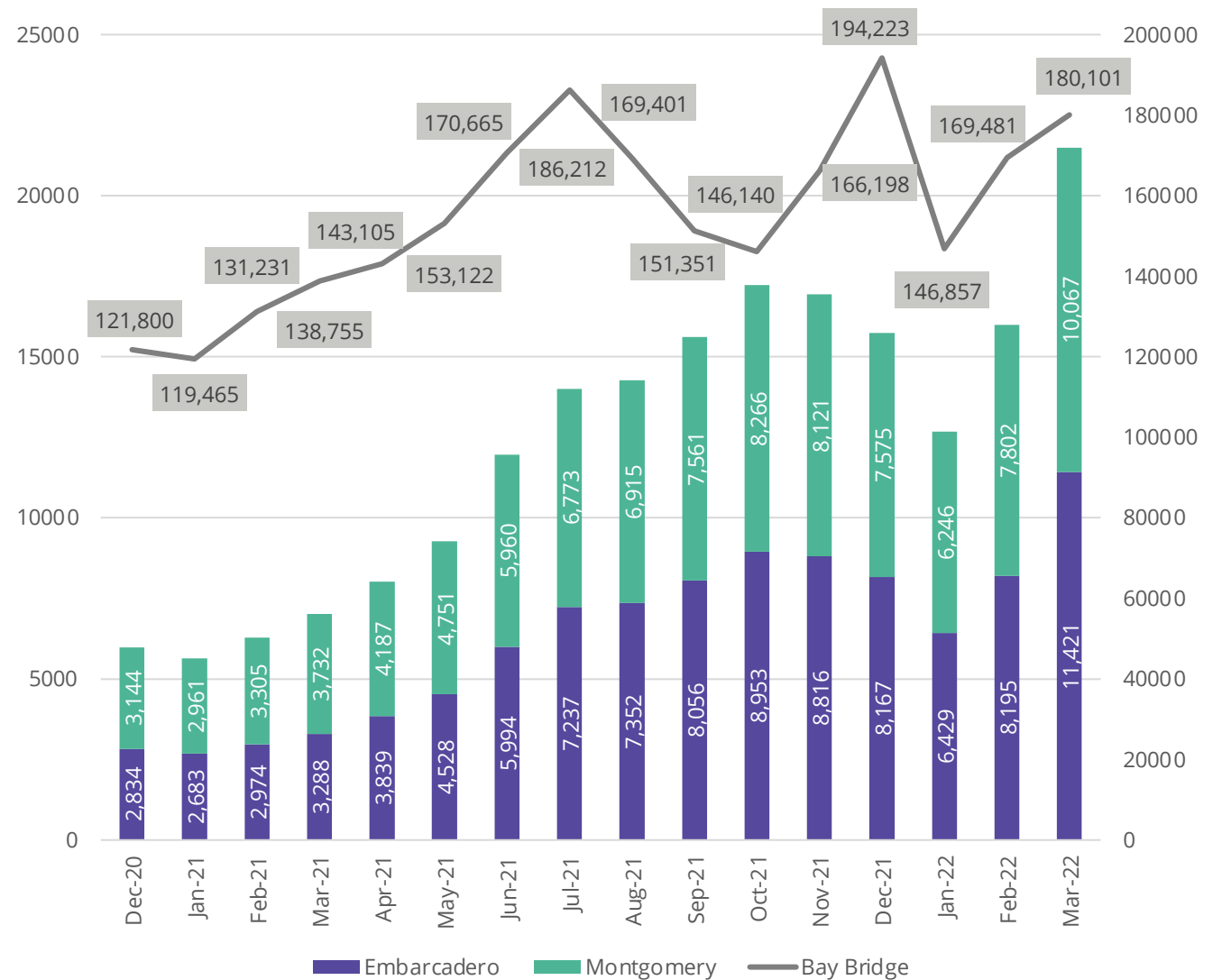
Local historical weekday commuter volumes

+38.3%

Total commuter volume, March 2021 vs. March 2022.

As employees continue to return to the office, we have seen an increase in weekday commuters on the Bay Bridge (29.8%) and BART (206.1%) over the past 12 months. The sharp increase in BART commuters is likely attributed to a combination of rising gas prices and larger companies returning to the office.

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Note: Representative areas of interest. Weekdays only.

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