

# San Francisco



## Market Facts

**2.9%**

Class A Vacancy

**4.7%**

Class B Vacancy

**\$90.08 FS**

Class A

Average Annual Asking Rate

**\$78.44 FS**

Class B

Average Annual Asking Rate

Going into the second half of 2019, San Francisco continues to display signs of an ever-increasing competitive office market. Even with rental rates peaking to record-breaking levels, high-growth companies find themselves drawn to the city's ample pool of skilled tech talent and proximity to venture capitalists. With an unemployment rate of 2.2% as of August 2019, it is no surprise that San Francisco's booming economy has made it the center of national headlines.

### Vacancy

Total overall, direct and sublet vacancy stood at 3.3%, 2.6% and 0.7% respectively. The submarkets with the tightest vacancies were South Financial District and SOMA both with 2.2% and Jackson Square with 3.3%. City-wide availability rate declined 62 basis points (bps) from a year ago to 8.7%. With 63% of the market's total available space located in CBD Class A buildings, the vacancy rate dropped 9 basis points to 2.9%.

### Asking Rates

Overall rents reached \$88.73 FS, with class A and class B standing at \$90.08 FS and \$78.44 FS respectively. The submarkets that commanded the largest overall asking rates were South Financial District with \$89.45 FS, a 3.4% increase from last quarter's \$88.76. North Financial District ended Q3 at \$85.54 FS, a 2.2% increase while SOMA came in at \$84.66 FS.

### Demand

Q3 leasing activity totaled 2.4 million sf (msf), a 22% increase from the 1.9 msf in Q2. Currently, active tenant requirements total 7.3 msf, of which 4 msf are requirements for 100,000 sf or greater. This amount of demand is quickly outpacing the 1.1 msf of currently available space in the market. A significant number of move-ins during the quarter accounted for positive net absorption of 1.2 msf in Q3.



### Investment Activity

Q3 was significant for venture capitalist that invested a total of \$1.6 billion in the office market compared to \$638.6 million one year earlier.

### Trends to Watch



San Francisco approves plan to raise all development fees by 143%



Central SOMA projects win approval for go-ahead

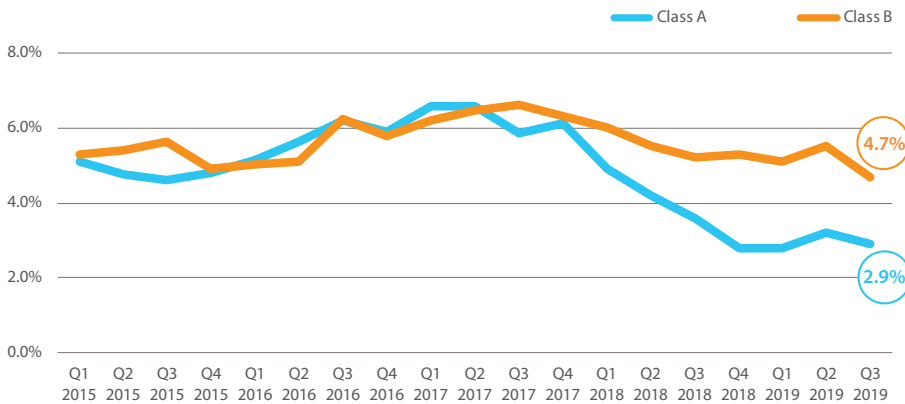


Coworking giant Wework stops all new lease agreements

## 829,537 SQUARE FEET

to be delivered in 2020, with 100% preleased

### Historical Vacancy



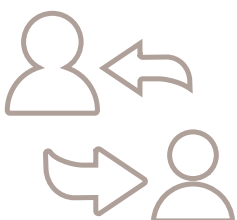
### Construction

By the end of Q3, there was a total of 2.9 msf under construction. Currently 67% of the projects underway are 100% preleased. The new construction pipeline will not provide supply relief until 2023 when Oceanwide Tower, the only project that has not yet been preleased, is expected to deliver. Salesforce is rumored to take on the whole office portion for a total of 1.2 msf.



### Deliveries

During the third quarter San Francisco's highly anticipated Chase Center was completed. The project included the new home of the Golden State Warriors and 579,436 sf of office, which was preleased by Uber Technologies in April 2019.



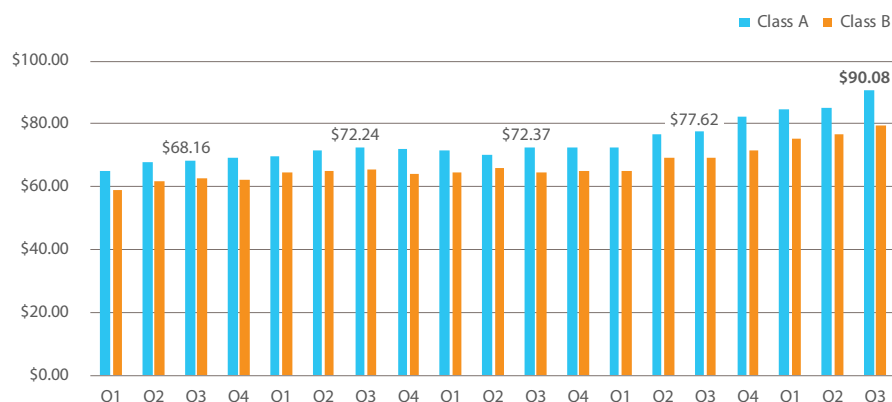
### Sublease Space

With an overall sublet vacancy of 0.7%, sublease asking rates are comparative to relets where North Financial District's are \$80.60 FS and South Financial commanding \$83.40 FS.

## Looking Forward

Moving into the rest of 2019, we should expect to see the inverse trend of vacancies declining and rental rates climbing. As San Francisco's booming economy shows no end in sight, the demand tech companies will place on premium spaces will outpace the limited supply. With traditional tenants moving out and tech companies moving in, the San Francisco office market has undergone a significant demographic shift.

## Historical Asking Rate



## Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Zynga	650 Townsend	Showplace Square	185,000	Renewal
TPG Global LLC	345 California	North Financial District	119,000	Renewal
AKQA	360 3rd	Yerba Buena	114,839	Renewal/Expansion
Amazon	525 Market	South Financial District	86,115	Direct
Reddit	1455 Market	MidMarket	78,031	Sublease
Benefit Cosmetics	595 Market	South Financial District	74,602	Direct
Discord	444 De Haro	Showplace Square	69,792	Direct
Pax Labs Inc	99 Rhode Island	Showplace Square	69,600	Direct

## Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
Levi's Plaza	Jamestown, L.P.	Waterfront/North Beach	931,160	±\$825,999,500	±\$887
600 California	The We Company	North Financial District	363,000	±\$331,000,000	±\$912
222 Kearny	GEM Realty Capital	North Financial District	144,440	±\$74,500,000	±\$516
351 California	Tidewater Capital	North Financial District	136,791	±\$108,000,000	±\$790
747 Front	Bridgeton Holdings	Jackson Square	86,171	±\$68,385,000	±\$794
400 Montgomery	Intercontinental RE	North Financial District	85,580	±\$78,500,000	±\$917
One Montgomery (Terrace)	REDCO/AEW Capital	North Financial District	75,880	±\$82,000,000	±\$1,081
888 Post	Tidewater Capital	Chinatown/Nob Hill	33,400	±\$9,999,000	±\$299

## Under Construction

Building	Developer	Submarket	Square Feet	% Leased	Delivery
Oceanwide Center	Oceanwide Holdings	South Financial District	1,250,000	0%	Q4 2023
5M	Brookfield Office Properties	Yerba Buena	640,000	0%	Q2 2021
1455-1515 3rd (Uber HQ)	Alexandria Real Estate Equities	Mission Bay/China Basin	435,000	100%	Q1 2020
633 Folsom	The Swig Company	Rincon/South Beach	268,000	100%	Q3 2020
1 De Haro	SKS Partners	Showplace Square	126,537	100%	Q1 2020

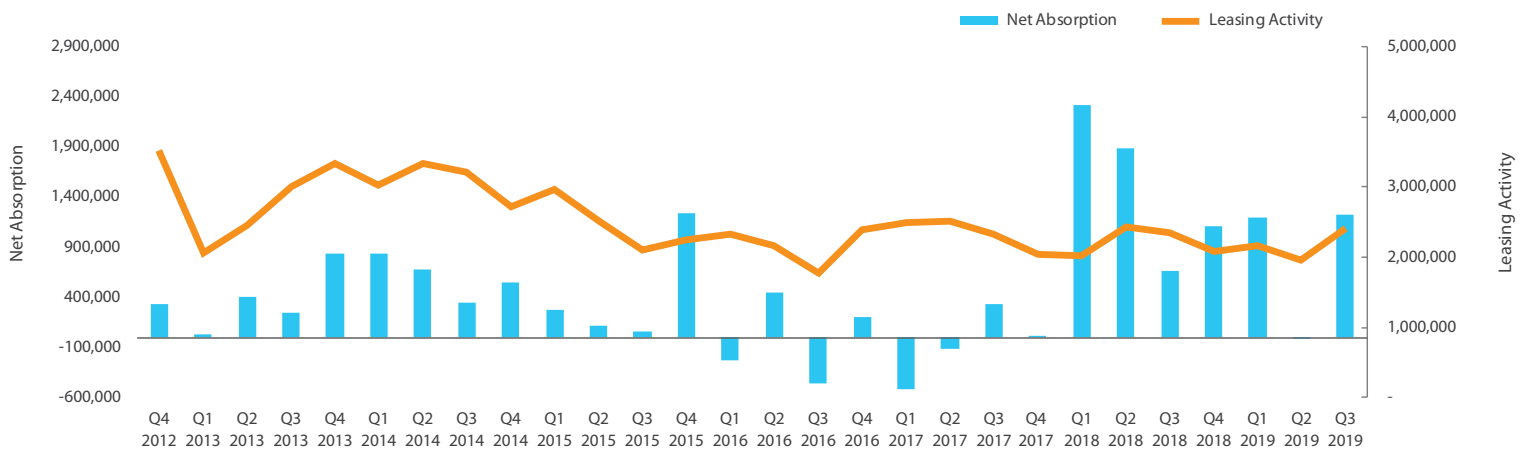
\*Denotes Avison Young Involvement

## Market By The Numbers

Submarket	Total RBA (SF)	Vacancy Rate		Avail Rate		Net Absorp (SF)	Under Construction (SF)	Avg Ask Total	Avg. Asking Rent		Direct Avg Ask Total	Avg. Direct Rent	
		Class A	Class B	Class A	Class B				Class A	Class B		Class A	Class B
North Financial	28,642,727	3.4%	5.6%	10.4%	13.9%	182,597	0	\$85.54	\$90.93	\$80.14	\$88.29	\$90.84	\$76.14
South Financial	27,431,296	2.4%	3.0%	8.8%	7.5%	5,676	1,250,000	\$89.45	\$92.96	\$85.94	\$94.18	\$93.00	\$85.37
<b>CBD Average</b>	<b>56,074,023</b>	<b>2.9%</b>	<b>4.5%</b>	<b>9.7%</b>	<b>11.3%</b>	<b>188,273</b>	<b>1,250,000</b>	<b>\$87.49</b>	<b>\$91.95</b>	<b>\$83.04</b>	<b>\$90.29</b>	<b>\$91.53</b>	<b>\$78.14</b>
SOMA*	14,208,932	2.8%	2.5%	8.8%	8.0%	153,786	1,034,537	\$84.66	\$88.27	\$79.93	\$82.64	\$87.98	\$76.77
Union-Square	4,120,986	7.7%	9.4%	27.0%	18.6%	-17,484	187,598	\$78.01	\$85.00	\$78.08	\$78.01	\$85.00	\$78.02
Mid-Market	3,968,472	3.9%	3.8%	11.5%	12.6%	120,746	0	\$83.52	\$83.99	\$83.30	\$83.75	\$83.00	\$69.38
Jackson Square/ North Waterfront	5,289,777	0.1%	4.4%	3.8%	17.3%	57,099	0	\$82.29	\$84.22	\$78.30	\$77.01	\$88.00	\$76.84
Civic Center/Van Ness Corridor	2,302,398	11.5%	8.9%	11.4%	13.0%	-9,275	0	\$63.62	\$68.96	\$61.33	\$63.62	\$68.96	\$61.33
Mission Bay	3,015,542	0.4%	0.0%	0.1%	-	738,081	435,000	\$85.00	\$85.00	-	-	-	-
<b>San Francisco Total</b>	<b>88,980,130</b>	<b>2.9%</b>	<b>4.7%</b>	<b>9.8%</b>	<b>11.6%</b>	<b>1,231,226</b>	<b>2,907,135</b>	<b>\$88.73</b>	<b>\$90.08</b>	<b>\$78.44</b>	<b>\$87.82</b>	<b>\$91.45</b>	<b>\$78.94</b>

\*Includes China Basin, South of Market, Rincon/South Beach, Yerba Buena, Showplace Square, and Potrero Neighborhoods

## Historical Leasing vs Net Absorption



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