

San Francisco

Quick Stats

10.2%
Class A Vacancy

14.3%
Class B Vacancy

\$79.90 fs
Class A
Average Annual Asking Rate

\$71.38 fs
Class B
Average Annual Asking Rate

The spread of COVID-19 and the containment policies throughout California and the U.S. continue to change rapidly. While information in this report is current as of the date written, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. We are committed to you, our clients, and remain available for discussions and advice as your partners and to offer our latest insights.

As COVID-19 puts the market on hold, vaccine rollouts bring cautious optimism for an office rebound.

- San Francisco's office market closed 2020 with impacts not seen in decades. As the market softens, there remains implications of opportunistic scenarios to have options for both tenants and landlords. As vaccines are distributed, companies will return to the workplace with a greater sense of flexibility. As of December 2020, San Francisco's unemployment rate showed a minor uptick to 5.7% from last year's 2.0%.
- With an increase in supply and diminished demand, overall vacancy increased 200 basis points to 12.6% in Q4, while total availability in the market grew to 27.5%. Most notably, San Francisco has witnessed a surge of new sublease space coming to the market. Sublease space now totals 8.8 msf, accounting for 42% of total available supply.
- While most companies are focusing on their workplace intelligence, corresponding space needs, and having their employees continue to work from home, the fourth quarter recorded an occupancy loss of 1.6 million square feet. San Francisco's absorption for 2020 totaled a negative 6.4 million square feet, surpassing the 2001 dot.com era's 6.3 million square feet.
- With a surplus of sublease space and our once robust demand stalled, downward pressure on rents began to appear during the fourth quarter. Overall, average asking rents measured a 4.8% decrease recording \$76.53 FS overall, \$78.09 FS direct, and \$64.93 FS sublet. Class A rents decreased by 3.9% to \$79.90 FS and Class B measured a 5.5% decrease to \$71.38 FS.
- Although overall leasing activity was subdued, the fourth quarter witnessed large renewals. Anchor tenants Bank of America and Goldman Sachs both renewed at 555 California for 247,188 sf and 89,530 sf, respectively. Vir Technology subleased 133,896 sf from Dropbox at 1800 Owens while Lattice signed on 39,786 sf at 360 Spear. Google expanded its footprint by 34,759 sf at 2 Rincon Center and DroneDeploy renewed for 25,987 sf at 1045 Bryant.
- San Francisco's capital markets saw notable sale transactions occur during Q4. The iconic Transamerica 771,082 sf portfolio traded hands for the first time ever with SHVO/Deutsche Bank's acquisition of 600 Montgomery, 505 Sansome, and 545 Sansome for a total of \$650 million. Allianz RE purchased a 45% stake in 221 Main from Columbia Property Trust for \$400 million. Additionally, Alexandria Real Estate Equities/TMG Partners sold both 510 Townsend and 505 Brannan to Ascendas REIT for \$560.2 million.

Trends to watch

Landlord



Institutional owners of Class A buildings will likely offer free rent, improvement allowances, amenities, and other enhanced concessions in order to attract the best tenants.

Construction



Oceanwide Tower's ownership and sale turmoil creates uncertainty whether the project will receive enough capital for completion which will continue to be front page news in the coming year.

Subleases

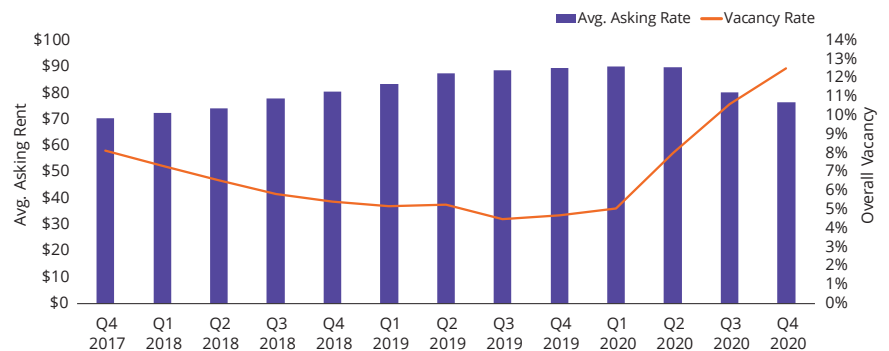


With 8.8 million sf of sublease on the market, there will be a 'flight to quality' demand from tenants looking to upgrade from Class B buildings to Class A subleases at a discount to their existing rent.

Looking forward

Despite a year of stalled leasing activity, there appears to be a sense of optimism on the horizon. As vaccine rollouts are underway, San Francisco's office market is likely to see itself poised for recovery in the latter half of 2021. Although companies have embraced remote working, it is more likely that flexible working will persist post-pandemic and employees will begin to return to the office as they begin to reopen. Tech titans such as Facebook, Google, and Zendesk made headlines announcing future expansion plans thus offering a glimmer of hope the San Francisco office market will rebound from our current tepid climate.

Historical asking rates vs vacancy rates



Notable lease transactions

Tenant	Building	Submarket	SF	Type
Bank of America	555 California	North Financial District	247,188	Renewal
Vir Technology	1800 Owens	Mission Bay/China Basin	133,896	Sublease
Goldman Sachs	555 California	North Financial District	89,530	Renewal
Lattice	360 Spear	Rincon/South Beach	39,786	Direct
Google	2 Rincon Center	South Financial District	34,759	Expansion
DroneDeploy	1045 Bryant	Showplace Square	25,987	Renewal

Notable sales

Building	Buyer	Submarket	SF	Sale Price	PSF
600 Montgomery*	SHVO	North Financial District	523,000	\$464,435,696	\$888
221 Main **	Allianz Real Estate of America	South Financial District	387,943	\$400,000,000	\$1,031
510 Townsend	Ascendas REIT	SOMA	299,200	\$363,700,000	\$1,216
505 Sansome*	SHVO	North Financial District	191,142	\$135,000,000	\$706
505 Brannan	Ascendas REIT	SOMA	149,995	\$196,500,000	\$1,310
545 Sansome*	SHVO	North Financial District	56,940	\$50,563,993	\$888

*Transamerica Portfolio Sale
** 45% partial interest

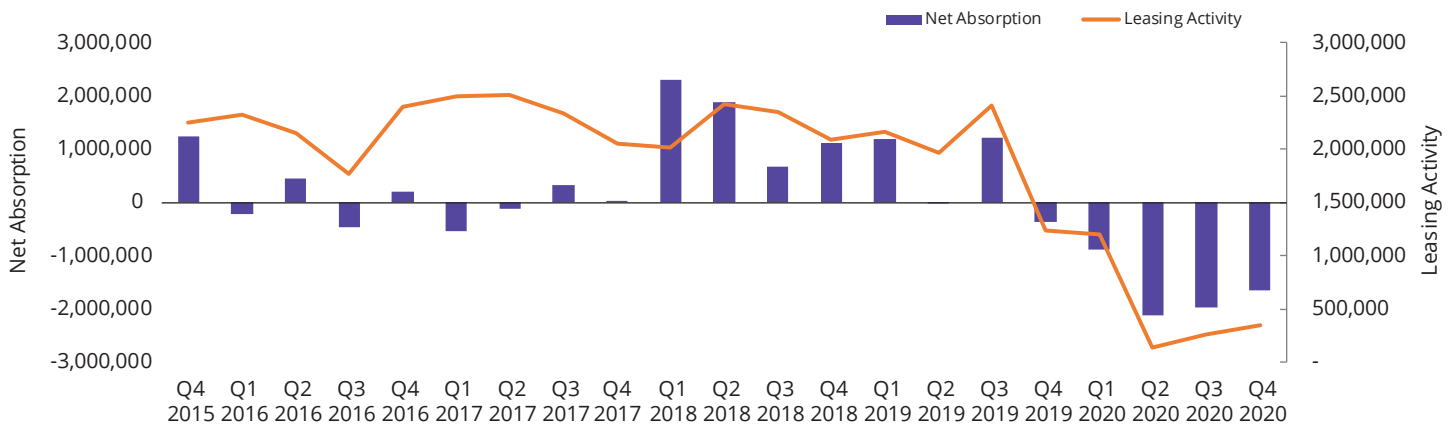
Under construction

Building	Developer	Submarket	SF	%Leased	Delivery
Oceanwide Center	Oceanwide Holdings	South Financial District	1,250,000	0%	Q4 2023
5M	Brookfield Office Properties	Yerba Buena	640,000	0%	Q3 2021
1455-1515 3rd (Uber HQ)	Alexandria Real Estate Equities	Mission Bay/China Basin	435,000	100%	Q1 2021
633 Folsom	The Swig Company	Rincon/South Beach	268,000	100%	Q2 2021
1 De Haro	SKS Partners	Showplace Square	126,537	100%	Q1 2021
300 Grant	Lincoln Property Co.	Union Square	71,832	0%	Q2 2021

Market by the numbers

Market	Total RBA (sf)	Vacancy Rate A	Vacancy Rate B	Availability Rate A	Availability Rate B	Net Absorption (sf)	Under Construction (sf)	Overall			Direct		
								Total	Class A	Class B	Total	Class A	Class B
NFD	28,323,822	11.0%	18.5%	17.7%	30.7%	-609,329	0	\$79.29	\$81.31	\$76.53	\$80.16	\$82.46	\$77.22
SFD	28,058,828	9.6%	10.9%	19.1%	23.0%	-380,327	1,250,000	\$80.47	\$83.87	\$73.85	\$84.77	\$84.87	\$78.99
CBD	56,382,650	10.3%	15.3%	18.4%	27.5%	-989,656	1,250,000	\$79.94	\$82.81	\$75.18	\$81.81	\$83.66	\$77.39
SOMA	9,526,102	11.1%	11.0%	19.1%	20.8%	-403,468	1,034,537	\$76.06	\$79.64	\$70.59	\$78.12	\$80.23	\$69.54
US	4,183,492	16.5%	19.9%	16.5%	30.6%	-37,766	71,832	\$69.41	\$71.00	\$68.41	\$62.35	\$71.00	\$60.65
MM	4,537,456	8.2%	0.0%	14.0%	35.1%	-159,105	0	\$69.96	\$70.15	\$68.35	\$73.00	\$85.00	\$62.78
JSNW	5,524,503	12.5%	20.3%	32.0%	26.5%	-46,105	0	\$67.31	\$72.55	\$67.13	\$69.02	\$79.00	\$68.88
CCVNC	2,252,467	18.6%	7.6%	20.7%	15.5%	47	0	\$51.84	\$65.43	\$51.35	\$52.36	\$65.43	\$51.88
MB	1,710,449	3.4%	17.3%	34.9%	17.3%	0	435,000	\$80.78	\$80.83	\$77.44	\$86.42	\$88.00	\$35.34
TOTAL	84,117,119	10.2%	14.3%	19.4%	26.7%	-1,636,053	2,791,369	\$76.53	\$79.90	\$71.38	\$78.09	\$81.84	\$70.27

Historical leasing vs net absorption



Get more market information

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