



San Francisco Office Market

Signs of Market Recovery

In the fourth quarter of 2021, San Francisco experienced positive absorption at 324,343 square feet, marking the second consecutive quarter of positive absorption. Unfortunately, this number does not do much to help the year-to-date net absorption, at negative 3.0 million square feet. Availability remained consistent with last quarter at 21.1 million square feet and a 24.2% availability rate. Sublease space saw a 580,760-square-foot decrease in availability during the fourth quarter of 2021, to a total of 6.7 million square feet, or 31.9% of the total available space on the market; while direct space increased by 631,607 square feet.

Overall vacancy saw a 80-basis-point decrease during the quarter to 16.0%; in contrast, it was 12.4% as of the end of the fourth quarter 2020. Class A vacancy is down 138 basis points to 13.5%. This decrease can be attributed to the official opening of Uber’s new Mission Bay headquarters in October. The space had been considered vacant since it received its certificate of occupancy a year ago. This quarter’s increase in available direct space was accompanied by a decrease in available sublease

Current Conditions

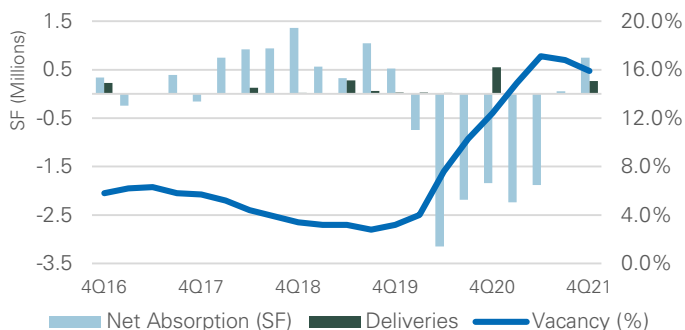
- Availability remained consistent at 21.1 million square feet.
- San Francisco Q4 vacancy is 16.0%, down 80 basis points since Q3 2021.
- Class A vacancy decreased to 13.5% from 14.9% last quarter.
- Year-over-year, Class A average asking rates fell 1.9% to \$83.10/SF, and overall asking rates fell 0.9% to \$77.82/SF.

Market Summary

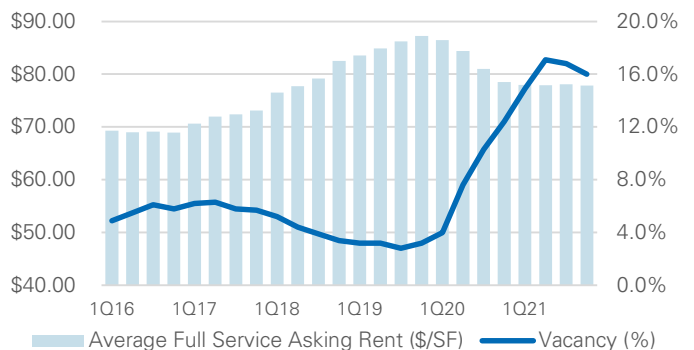
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	87.4M	87.5M	85.4 M	↑
Vacancy Rate	16.0%	16.8%	12.4%	↓
Qtr Net Abs (SF)	324.3K	56.6K	-1.8 M	↑
Avg FS Ask Rent/SF	\$77.82	\$78.10	\$78.50	↑
Under Const (SF)	772.0K	1.0M	2.0 M	↑

Market Analysis

NET ABSORPTION V. NEW CONSTRUCTION & VACANCY RATE



VACANCY RATE (%) AND ASKING RENT (\$/SF ANNUAL, FSG)



RESEARCH Q4 2021

space. Overall asking rents are holding steady, decreasing by less than 1.0% to \$77.82. Overall sublease rents decreased by 160 basis points during the fourth quarter of 2021 to \$65.59. Leasing remained active in the fourth quarter of 2021 with a slight decrease compared to the third quarter, at 1.2 million square feet leased. In total, 5.1 million square feet of space was leased in 2021. This number is a favorable bump from the 3.0 million square feet leased in 2020, but still just 57.5% of the leasing average between 2015-2019, the five years prior to the pandemic.

Leasing in the fourth quarter did not meet anticipated levels due to many companies delaying their return to office. The emergence of the Omicron variant has left many deals in limbo during 2021. However, accompanied with high vaccination rates, Omicron is predicted to help the population reach herd immunity, hopefully creating a more manageable situation in 2022.

Sublease Space

The addition of sublease space remained consistent in the fourth quarter of 2021, with only 16 new subleases over 10,000 square feet added to the market, totaling 647,220 square feet. Despite the new subleases added, overall sublease space decreased by 580,760 square feet due to several factors. In the 10,000+ square-foot tranche, 32 subleases were removed from the market, totaling 770,216 square feet of space either leased, withdrawn, or expired. Additionally, 1.8 million square feet of sublease space was leased in 2021. As of the end of the quarter, available sublease space was at 6.7 million square feet, or 7.8% of the total market.

Investment Sales

The fourth quarter of 2021 was a slow quarter for single asset sales, particularly for office buildings, and the sale of three large portfolios dominated the sale activity for the quarter. Demonstrating strong investor demand for Life Science buildings, Nuveen acquired a 49.1% stake in 409/499 Illinois Street and 1500 Owens Street from Alexandria Real Estate Equities in October for a total of \$457.0M. The three building portfolio totals 644,788 square feet. In December, CBRE Investment Management acquired a majority stake in two life science portfolios totaling more than 1.0 million square feet from Alexandria Real Estate Equities for an undisclosed sum. The first portfolio is comprised of 409/499 Illinois and 1500 Owens Street, and the other is comprised of 455 Mission Bay Boulevard South and 1700 Owens Street, which total 375,604 square feet, as well as a development site at 1450 Owens Street. Additionally, this quarter, PIMCO's \$3.9B acquisition of Columbia Property Trust was completed, and 221 Main Street, 650 California Street, 201 California Street, and 333 Market Street were included in the acquisition.

Economic Outlook

San Francisco's unemployment rate was at 3.3% at the close of 2021. San Francisco, along with the State of California's rate of 6.9% and the national rate of 3.9% are at the lowest points on record since the start of the pandemic in April 2020. However, San Francisco remains the least active back-in-the-office market of the 10 major U.S. cities Kastle Systems tracks.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
VIR Biotechnology	1800 Owens St	SOMA - Mission Bay	Direct	134,000
Twitter	1 Tenth St	SOMA - Midmarket	Renewal	85,000
Retool	1550 Bryant St	SOMA - Potrero	Direct	72,225
Fremont Group	405 Howard St	Financial District South	Direct	58,541
Citigroup	1 Market St	Financial District South	Direct	54,673
Yelp	350 Mission St	Financial District South	Sublease	53,596

Select Sales Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
350 Rhode Island St	SOMA – Showplace Square	\$64,500,000	\$933	127,000
888 Tennessee St	SOMA – Mission Bay	\$35,155,000	\$913	38,520
451-455 Jackson St	Jackson Square	\$12,800,000	\$948	13,500

Submarket Statistics – All Classes								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Total Availability (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Overall Ask Rent (Price/SF)
San Francisco	87,427,974	772,000	16.0%	24.2%	21,129,848	324,343	(2,125,801)	\$77.82
North Financial District	28,281,078	0	17.0%	23.6%	6,664,249	(289,994)	(1,076,499)	\$79.48
South Financial District	27,709,180	0	11.9%	20.1%	5,557,408	201,322	(1,077,839)	\$81.83
SOMA	20,431,556	772,000	19.2%	30.4%	6,206,756	434,736	25,119	\$76.46
Union Square	3,623,871	0	17.2%	25.1%	908,340	(72,477)	82,919	\$64.66
Van Ness / Civic Center	1,803,770	0	14.0%	19.4%	350,012	(15,560)	41,924	\$47.16
N Waterfront / Jackson Sq	5,578,519	0	19.2%	25.9%	1,443,083	66,316	(121,425)	\$78.57

Submarket Statistics – Class A								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Net Absorption (SF)	Total Vacancy (SF)	Class A Ask Rent (Price/SF)	
San Francisco	60,003,920	772,000	13.5%	21.4%	450,973	8,075,797	\$83.10	
North Financial District	21,655,509	0	14.5%	20.5%	(222,798)	3,130,174	\$82.14	
South Financial District	24,903,599	0	11.0%	18.0%	229,733	2,747,388	\$84.10	
SOMA	10,602,095	772,000	15.7%	28.7%	456,378	1,662,388	\$70.89	
Union Square	535,837	0	9.6%	31.1%	(14,432)	51,504	\$71.87	
Van Ness / Civic Center	342,693	0	9.3%	9.3%	0	31,969	\$51.82	
N Waterfront / Jackson Sq	1,964,187	0	23.0%	34.8%	2,092	452,374	\$85.96	

For more information:

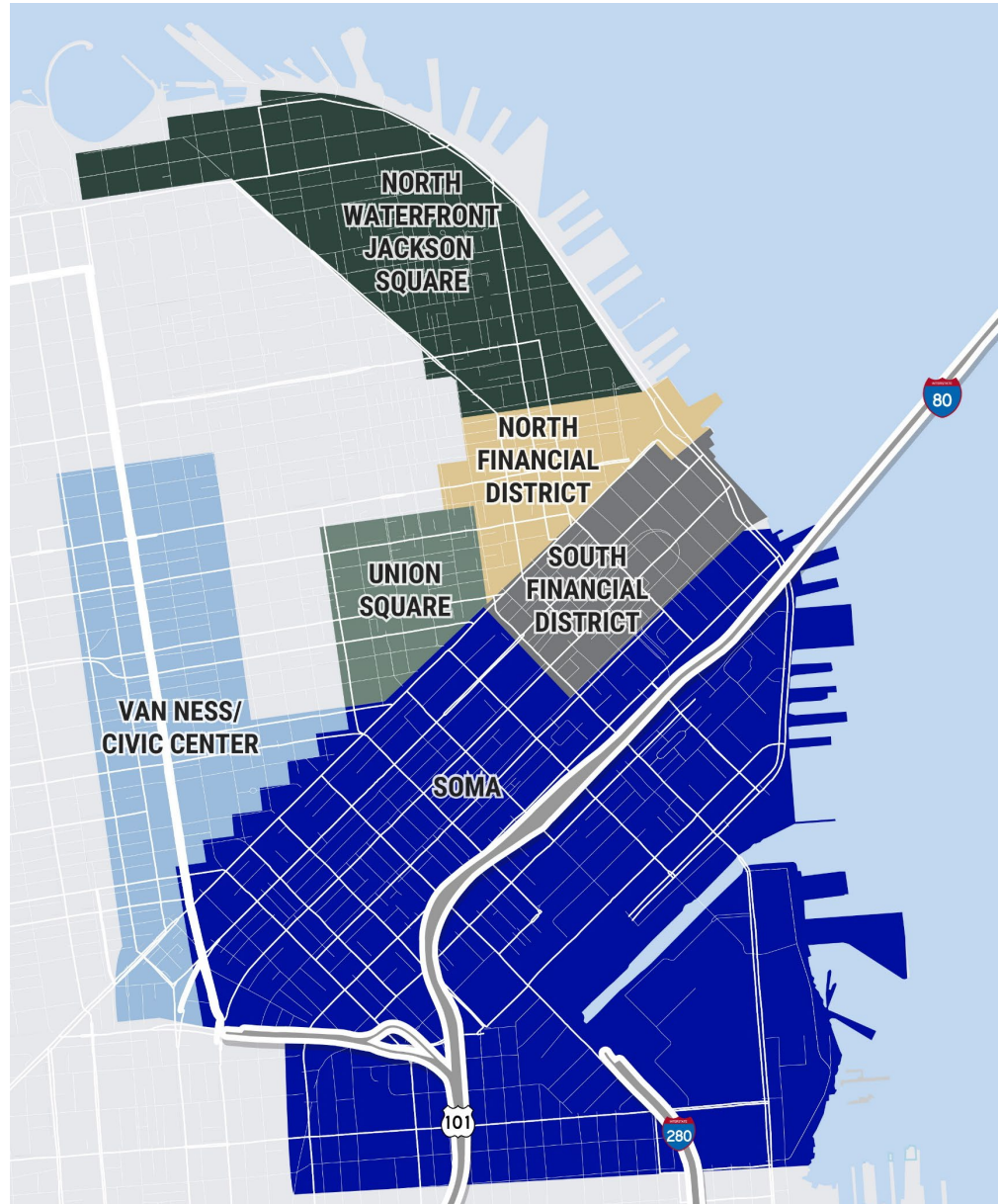
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