



The Axiant Group
COMMERCIAL REAL ESTATE SERVICES

Market Overview

A quarterly publication of the San Francisco office market by The Axiant Group

2nd Quarter 2021

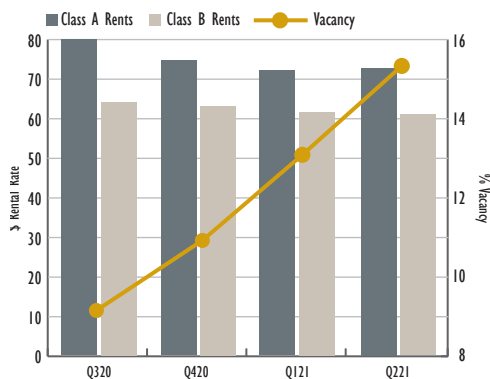
San Francisco's official reopening occurred on June 15, after California dropped the majority of Covid-19 related restrictions, including masking regulations for those who have been vaccinated.

But a question for many: How quickly will workers return to an office environment after having the luxury of avoiding the commute and work remotely?

Sublease Space Continues to Increase

Second quarter vacancy rates continue to move upward, moving from 14.0% in the 1st quarter to 15.4 in the 2nd quarter. Gross leasing was up slightly from the previous quarter going from 516,227 square feet in the 1st quarter to 771,372 square feet in the 2nd quarter. Net absorption was negative in the 2nd quarter at 846,471 square feet, decreasing dramatically compared to the 1st quarter, which had negative absorption of 1,596,601 square feet.

SAN FRANCISCO FINANCIAL CORE



Average asking rental rates for Class A space were \$72.58 per square foot in the 2nd quarter compared to \$71.83 per square foot in the 1st quarter. The average rental rates for Class B financial

core space were \$60.83 in the 2nd quarter compared to \$61.43 in the 1st quarter. Class B absorption was negative at -202,868 in the 2nd quarter, slightly lower than the 1st quarter, -304,733 square feet. South of Market (SOMA) vacancy rates continued to increase, moving from 14.2% in the 1st quarter to 18.1% in the 2nd quarter.

PG&E Headquarters Under Contract

PG&E has found a buyer for their two-building headquarters at 77 Beale and 245 Market Streets. The 1.5 million square foot complex is under contract at \$800 million or roughly \$533 per square foot. The sales price was well below the

initial pre-pandemic expectations for the property, which were over one billion dollars. Twelve buyers showed an active interest in the project, the seller selected Hines Atlas LP (a subsidiary of the Hines Group). PG&E has committed to moving its headquarters to Oakland. They signed a lease for 600,000 square feet at 300 Lakeshore. This building, adjacent to Lake Merritt, was initially built as Kaiser's Headquarters. PG&E will be moving to the space in 2022. They have options to expand into the remainder of the building and, at a later date, purchase the structure.



PG&E soon to move from 77 Beale St.

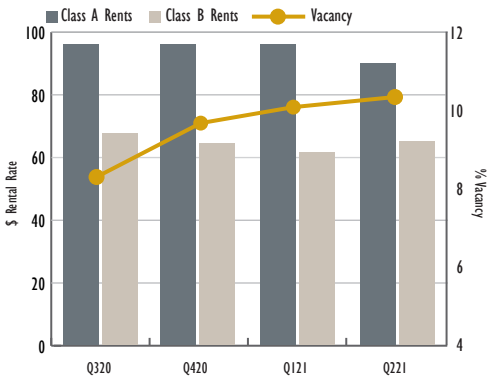
When Will Workers Return to The Office?

California has rolled back the majority of restrictions associated with Covid-19, especially for those who have been vaccinated. San Francisco has one of the country's highest vaccination rates, with 76% of the adult population having at least one shot.

However, we have one of the lowest rates of people returning to work in the office in the country at 20%. The US average is 32%. Some cities like Dallas and Houston have return rates of over 50%. Most attribute San Francisco's low return numbers to technology companies – which have become so dominant in the area, that over 50% of leases signed in 2019 were technology-based.

Implementing the remote workplace within technology companies was easy, especially compared to non tech-focused companies. However, if technology companies were surveyed on whether they want to promote the remote workplace, most would say no. The vast majority of technology firms believe that working at the office is a far more dynamic and productive team-based environment than hanging out at home in jammies all day. At the same time, the technology industry is so competitive that companies need to do everything they can to accommodate their staff. Working remotely is a desirable perk to many in the technology sector. Companies must offer this to retain their employees to prevent losing their talent to other companies.

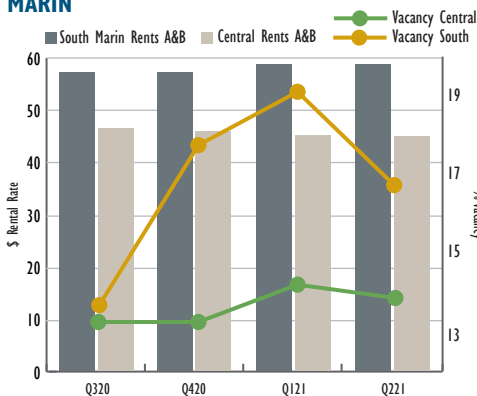
SAN FRANCISCO SOMA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	809,954	6.40%	443,304	3.50%	1,253,258	9.90%
Fin. Dist. A	4,521,958	9.50%	2,514,647	5.30%	7,036,605	14.80%
Fin Dist. B	1,775,084	14.10%	440,492	3.50%	2,215,576	17.50%
SOMA A	287,768	9.20%	551,807	17.70%	839,575	26.90%
SOMA B	1,434,471	12.30%	674,986	5.80%	2,109,457	18.10%

MARIN



Large Tenants in the Market

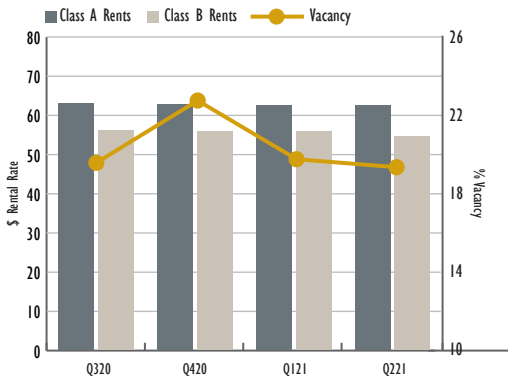
Most large tenants have postponed major decisions on leasing space at this time.

Major Leases Completed in the Second Quarter

Tenant	Sq. Ft.	Address
Benchling**	106,555	680 Folsom
Embarc	51,855	2525 16th Street
Notion**	41,843	2300 Harrison
Sutter Health*	28,220	475 Brannan Street
Go Forward Health**	18,674	550 Kearny Street
Anyscale**	17,054	55 Hawthorne

*Renewal **Sublease ***Expansion ****Oakland lease

OAKLAND CBD



The Axiant Group Can Help You

Do you want information about rents and space available in your building? Are you interested in subleasing or terminating your lease? Is your lease expiring in the next three years?

Contact The Axiant Group. We have handled transactions from 1,000 to 1,000,000 sq.ft. in the Bay Area and throughout the U.S. The average tenure of our brokers is over 20 years. We have handled assignments for clients including Chevron U.S.A., Coblenz, Patch, Duffy & Bass, Oracle Corporation, PG&E, Sutro & Company, Zurich Scudder Investments, Charles Schwab, Texas Pacific Group, Club One, Moss Adams, and many others.



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PENINSULA

