



The Axiant Group  
COMMERCIAL REAL ESTATE SERVICES

# Market Overview

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

2nd Quarter 2020

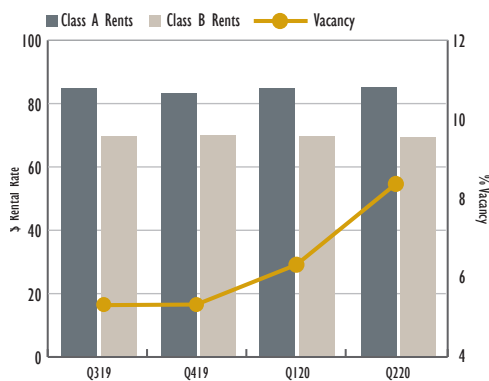
## Covid-19 has in essence shut down the office leasing market in San Francisco.

Because of shelter in place orders and a real fear of contracting the virus, building tours are non-existent. In addition, the economy has been stilted due to the pandemic. Most tenants want to see stabilization of the virus or a vaccine before considering long term commitments. We are seeing increased inventory of sublease space flooding the market, particularly from the tech industry.

### Sublease Space Increases Dramatically

Second quarter vacancy rates increased dramatically from an adjusted 6.7% in the 1st quarter to 8.4% in the 2nd quarter. Gross leasing activity decreased from 1,037,496 square feet in the 1st quarter to 791,518 square feet in the 2nd quarter. Net absorption was significantly lower again at negative absorption of 1,043,366 square feet, compared to 1st quarter with negative absorption of 297,300 square feet.

### SAN FRANCISCO FINANCIAL CORE



The rates below are accurate but do not reflect real market conditions as very few tenants are touring space or signing leases during the pandemic. Once a return to working on

site normalizes, the market will adjust to actual supply and demand. Average asking rental rates for Class A space was \$84.87 square foot in the 2nd quarter compared to \$84.59 in the 1st quarter. The average rental rates for Class B financial core space were \$69.40 in the 1st quarter compared to \$69.00 in the 2nd quarter. Class B absorption was negative at -107,548 in the 2nd quarter, representing a slight increase in absorption from the 1st quarter which was negative at -144,034 square feet. South of Market (SOMA) vacancy rates continued to increase, moving from 6.4% in the 1st quarter to 8.6% in the 2nd quarter.

## PG&E Moves Across The Bay

PG&E, embroiled in bankruptcy proceedings, has just committed to moving its headquarters from San Francisco to Oakland as a cost-cutting move. They have leased 600,000 square feet at 300 Lakeside Drive. PG&E plans to occupy the space in 2022. As leases expire, they will fill the rest of the building and also have a right to purchase the building. 300 Lakeside Drive, built in 1960 for Kaiser as their company



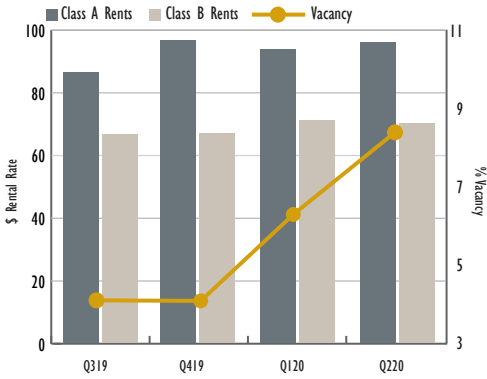
300 LAKESIDE DRIVE, OAKLAND

headquarters, went through a significant renovation in 2004. The building, located next to Lake Merritt and one block from BART, is 28 stories and has a total of 824,469 square feet. PG&E will also consolidate its Concord and San Ramon offices into the new facility. PG&E is currently headquartered in San Francisco and occupies close to a million square feet in two buildings: 77 Beale and 245 Market Street. It will be selling the two buildings which were valued (pre-pandemic) at over one billion dollars.

## Leasing Activity Drops Dramatically

With the pandemic entering its fifth month, the commercial leasing market continues to be in limbo. The shelter in place order is restricting physical tours, due to a general fear of contracting the virus. Virtual tours of office space have replaced in-person viewings. The vast majority of transactions that occurred in the 2nd quarter were tenants renewing their existing facilities. There very few groups considering a move into new facilities. Large blocks of sublease space are coming on the market, as tenants are unable to utilize their facilities and companies are significantly increasing the use of video conferencing. In addition, the current economic outlook is challenging to predict, and many companies have seen a drop in demand for their services.

**SAN FRANCISCO SOMA**



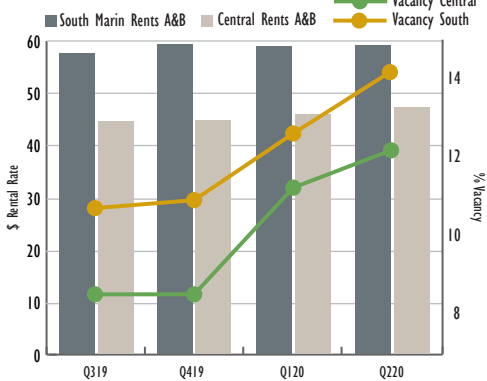
**Where's the Space?**

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	335,614	2.70%	325,547	2.60%	661,161	5.40%
Fin. Dist A	2,792,086	6.00%	1,161,999	2.50%	3,954,085	6.30%
Fin Dist. B	712,188	5.50%	323,452	2.50%	1,035,640	8.00%
SOMA A	280,055	6.80%	74,045	1.60%	354,100	8.60%
SOMA B	489,365	4.20%	507,337	4.40%	996,692	8.60%

**Large Tenants in the Market**

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

**MARIN**

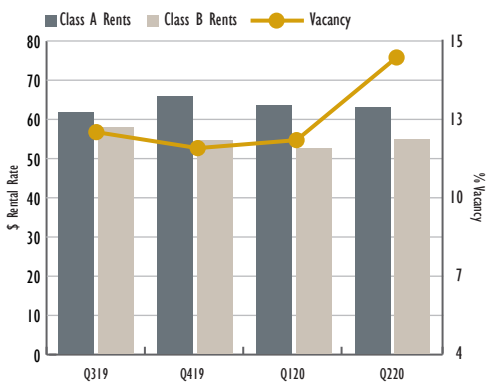


**Major Leases Completed in the Second Quarter**

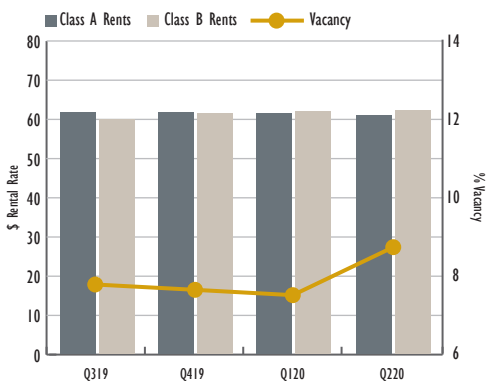
Tenant	Sq. Ft.	Address
Morgan Lewis*	152,293	1 Market Street (Spear Tower)
First Republic Bank*	116,805	388 Market Street
Airtable**	48,812	155 Fifth Street
San Francisco Aids Foundation*	45,322	1035 Market Street
User Testing	45,000	144 Townsend Street
Bleacher Report*	34,027	153 Kearny Street
Allstate Insurance*	27,480	650 Davis Street
Constellation Brands	26,914	101 Mission Street
Sitcore*	25,000	101 California Street
Lob.com**	24,950	210 King Street

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

**OAKLAND CBD**



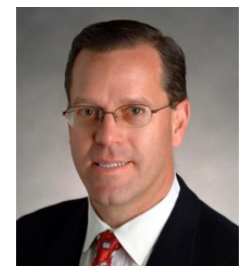
**PENINSULA**



**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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