



The Axiant Group
COMMERCIAL REAL ESTATE SERVICES

Market Overview

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

3rd Quarter 2020

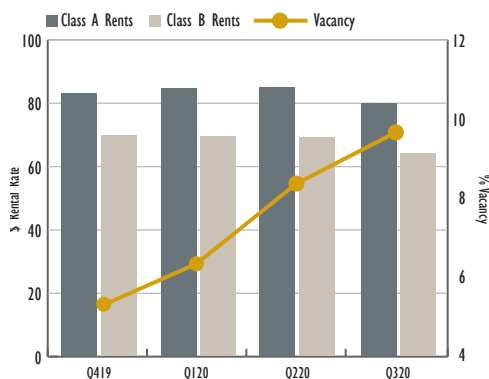
San Francisco's shelter-in-place order has been lifted, allowing companies to reopen.

Mayor London Breed made a dramatic announcement on October 20th, moving the San Francisco office market to the yellow tier. On October 27th, offices were allowed to open at 25% capacity. Smaller offices are not limited to 25% capacity, as long as they can accommodate social distancing. San Francisco is the first county in the Bay Area and the first urban county in the state to reach this level.

Sublease Space Increases Dramatically

Third quarter vacancy rates continued to increase from an adjusted 8.2% in the 2nd quarter to 9.0% in the 3rd quarter. Gross leasing activity was consistent with the previous quarter going from 784,713 square feet in the 2nd quarter to 807,970 square feet in the 3rd quarter. Net absorption was negative in the 3rd quarter at 835,065 square feet, slightly less when compared to 2nd quarter negative absorption of 980,660 square feet.

SAN FRANCISCO FINANCIAL CORE



Tour activity is marginal as tenants continue to have real concerns regarding COVID. Most companies are unwilling to commit to a long-term lease until the environment becomes more stable and a

vaccine is discovered. Average asking rental rates for Class A space were \$79.79 square foot in the 3rd quarter compared to \$84.87 in the 2nd quarter, a decrease of 6.4%. The average rental rates for Class B financial core space were \$63.92 in the 3rd quarter compared to \$69.00 in the 2nd quarter, representing a 7.9% drop in rental rates. Class B absorption was negative at -466,024 in the 3rd quarter, representing a significant increase in negative absorption from the 2nd

quarter, which at -107,548 square feet. South of Market (SOMA) vacancy rates continued to increase, moving from 8.7% in the 2nd quarter to 9.8% in the 3rd quarter.

Sublease Space Flooding the Market

The amount of sublet space that has become available in the 3rd quarter is in excess of 2,000,000 square feet, more than double the numbers seen in recent quarters. The last time the San Francisco market saw a number larger than that was in the 2nd quarter of 2003.

Among larger subleases, there are 23 spaces available over 20,000 square feet. Not surprisingly, 16 of the 23 (which account for 70% of the space) were technology firms. In 2019 and 2020,



1301 MARKET STREET

technology companies were responsible for leasing 50% of the space in San Francisco. Until recent years no particular sector has had a market share greater than 12%, further emphasizing how dominant the tech industry has been in San Francisco. Below is a sampling of some of those subleases.

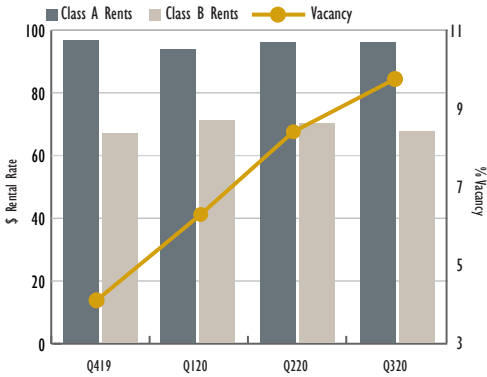
Tenant	Building	Sq. Ft.
Thumbtack	1301 Market St.	78,792
Twitter	1 Tenth St.	69,900
Skillz	505 Howard St.	35,852
People.AI	153 Townsend	35,557
Samsara	251 Rhode Island	30,194

What Are the Next Steps?

Before Mayor London Breed's announcement, San Francisco was mostly shut down but had been taking steps toward reopening. Restaurants were able to add to their outdoor seating while operating with 25% indoor capacity. Gyms and movie theaters could also operate at a limited capacity. Indoor malls are being allowed to increase their numbers –

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SAN FRANCISCO SOMA



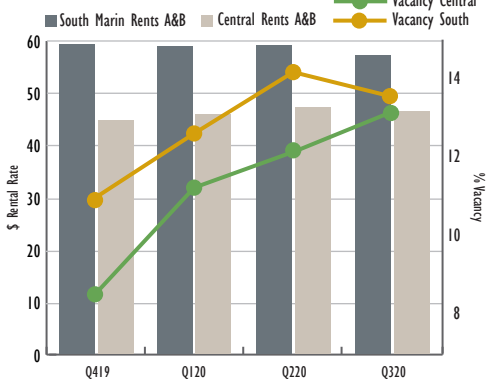
(‘Next Steps’ continued)

up to 50% capacity, with approval of a safety plan. Downtown San Francisco is still sparsely populated, but probably twice to three times as busy as it was a month ago. If COVID transmission rates remain stable, restaurants will be able to increase indoor capacity to 50% on November 3rd. Currently, many operating restaurants have outdoor seating. Officials have said office capacity would be increased to 50% if things go well the next month. This is a considerable step towards reopening downtown San Francisco.

Where’s the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	402,278	3.40%	329,581	2.70%	731,859	5.90%
Fin. Dist A	2,809,180	6.00%	1,373,241	3.00%	4,182,421	9.00%
Fin Dist. B	973,885	7.50%	527,779	4.10%	1,501,664	11.60%
SOMA A	212,230	4.60%	210,547	4.60%	422,777	9.30%
SOMA B	610,347	5.40%	515,414	4.60%	1,125,761	10.00%

MARIN



Large Tenants in the Market

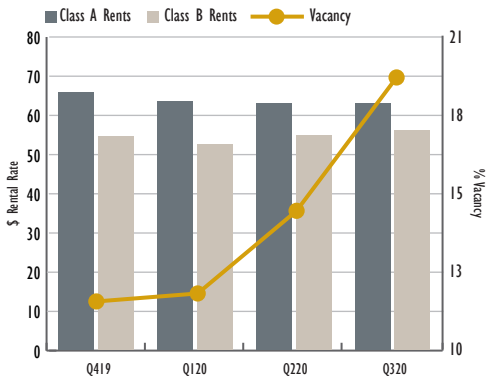
Most large tenants have postponed major decisions on leasing space at this time.

Major Leases Completed in the Third Quarter

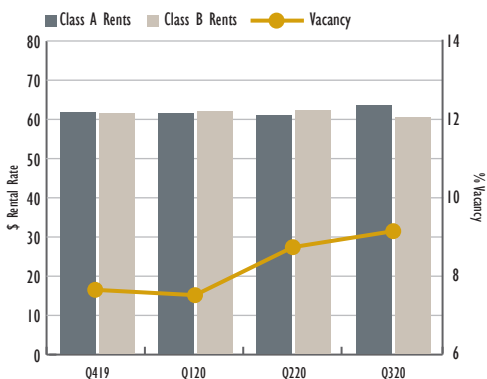
Tenant	Sq. Ft.	Address
OpenAI	96,960	575 Florida Street
IBM*	53,323	425 Market Street
S.F. Department of Health	52,000	333 Valencia Street
Castle Global	24,218	575 Market Street
Chubb Insurance	23,532	One Post Street
Etsy, Inc.*	15,870	20 California Street

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

OAKLAND CBD



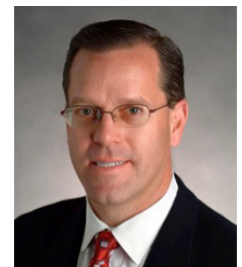
PENINSULA



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.



John Abel – Principal
T 415.374.2103
jabel@axiantgroup.com
License #00884176