



The Axiant Group
COMMERCIAL REAL ESTATE SERVICES

Market Overview

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

4th Quarter 2020

Mayor's preemptive shutdown order brought San Francisco to a standstill

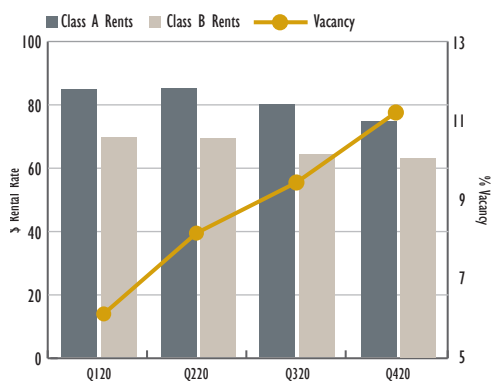
Mayor London Breed's December 6th order reversed any increases in activity seen at the beginning of the fourth quarter; sublease space in San Francisco has continued to increase, with almost three million square feet added in the 4th quarter.

Sublease Space Continues To Increase

Fourth quarter vacancy rates continued to soar upward, increasing from an adjusted 9.7% in the 3rd quarter to 11.4% in the 4th quarter. Gross leasing dropped dramatically from the previous quarter going from 807,970 square feet in the 3rd quarter to 318,606 square feet in the 4th quarter. Net absorption was negative in the 4th quarter at 1,007,570 square feet, compared to the 3rd quarter negative absorption of 807,970 square feet.

Average asking rental rates for Class A space were \$74.46 square foot in the 4th quarter compared to \$79.79 in the 3rd quarter, a decrease of 7.2%. The average rental rates for Class B financial core space were \$62.91 in the 4th quarter compared to \$63.92 in the 3rd quarter,

SAN FRANCISCO FINANCIAL CORE



-466,024 square feet. South of Market (SOMA) vacancy rates continued to increase, moving from 9.9% in the 3rd quarter to 12.5% in the 4th quarter.

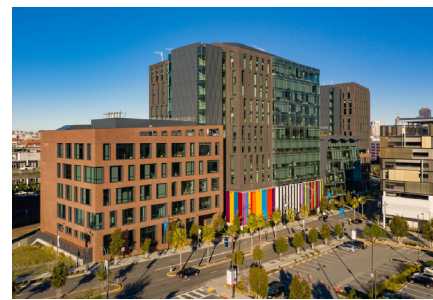
Sublease Space Saturates the Market

Record amounts of sublease space came on the market in the 3rd quarter at just over two million square feet, an amount not seen since 2003. The fourth quarter surpassed those

numbers by a substantial margin adding almost 1.8 million square feet of sublease space in the downtown financial core and just under 3 million square feet citywide. Sublease asking rates continue to decline. This would typically put more pressure on direct rental rates to be competitive; however, rental rates have not decreased compared to subleasing rates. Leasing in the direct markets has not seen enough activity to show a commensurate drop in rates. When the market opens up again, we will see a significant rental rate adjustment.

Life Science, Lab Space In Demand

The only commercial space that has not been upset by the pandemic is the life science market. Life science demand for space has intensified, as companies race to find a cure for Covid-19. This quarter's only significant transaction in the market was a life sciences sublease completed by Vir Biotechnology at 1800 Owens Street.

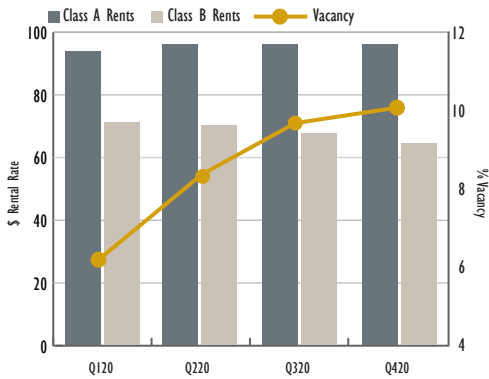


1800 OWENS STREET

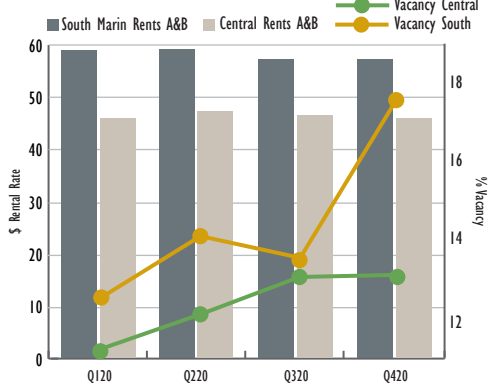
The company is testing an antibody drug, which could be used on patients who have already contracted Covid-19. They subleased 133,000 square feet from Dropbox. The building is uniquely constructed to accommodate both lab and office space use. The space has high ceilings and reinforced floors to allow significantly higher load than standard office space. In addition, electrical power has been upgraded, essential for lab use. The starting rent is \$47.44 with 3% annual increases. There are also rent abatements throughout the lease term to allow for tenant improvements, as the space is unoccupied and in shell condition. Vir Biotechnology will have access to Dropbox's initial \$10+ million tenant improvement allowance. Dropbox signed their original deal in the 4th quarter of 2017, leasing the entire project, totaling 750,000 square feet. At the time, this was the largest lease ever to occur in San Francisco. Dropbox takes a significant economic hit on the sublease as their current rental rate is probably somewhere in the \$80 per square foot range.

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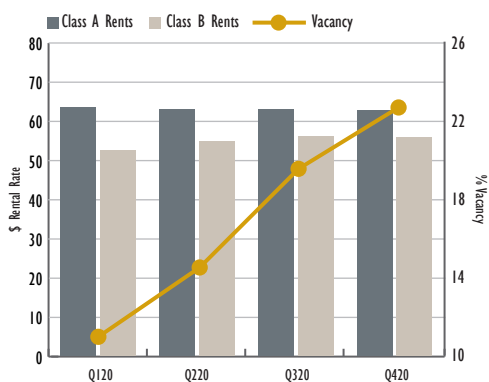
SAN FRANCISCO SOMA



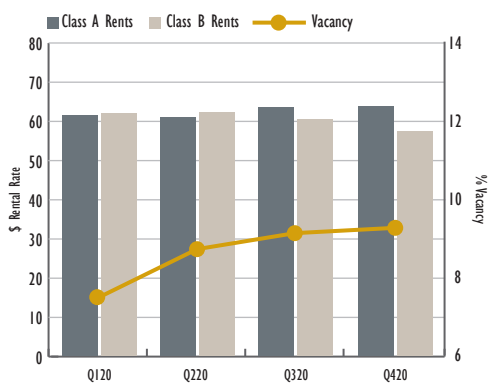
MARIN



OAKLAND CBD



PENINSULA



What Can We Expect?

On a more favorable note, many feel that the majority of available sublease space has already been put on the market and the numbers have stabilized. If the vaccines are distributed rapidly and prove effective, most are expecting the market to regain some normalcy by the end of the second quarter. Could this mean going back to work in the office? Stay safe and be well!

Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	461,739	3.80%	427,947	3.50%	889,686	7.20%
Fin. Dist A	3,341,994	6.30%	1,673,130	3.60%	5,171,274	10.70%
Fin Dist. B	1,205,897	9.40%	574,170	4.50%	1,780,067	13.90%
SOMA A	262,008	5.70%	247,556	5.40%	509,564	11.20%
SOMA B	865,861	7.70%	606,018	5.40%	1,471,879	13.00%

Large Tenants in the Market

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

Major Leases Completed in the Fourth Quarter

Tenant	Sq. Ft.	Address
Vir Biotechnology**	133,896	1800 Owens Street
Goldman Sachs*	90,000	555 California Street
Lattice	39,786	360 Spear Street
On Lok**	17,898	45 Fremont Street
Clark Hill	15,104	505 Montgomery Street
Augmedix**	12,936	111 Sutter Street
Clearview Health Partners**	12,109	575 Market Street

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

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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