

# Real Estate Market Pulse

## San Francisco

Colliers

Occupier Services Bay Area  
April 2021

### Overview

Colliers Occupier Services Bay Area (OSBA) is tracking the quickly shifting market conditions, categorizing critical data and evaluating trends through a unique lens for occupiers. The Market Pulse will be a valuable resource over the coming weeks and months as occupiers evaluate their real estate needs and strategies.

### San Francisco Market Update

#### 2021 Market Forecast

	Q4 2019	Q4 2020	Q1 2021	2021 forecast
Rents (overall weighted)	\$100.02	\$74.63	\$71.11	↓
Leasing Volume (SF)	2,235,000	295,000	614,050	↓
Net Absorption (SF)	375,000	-867,000	-1,711,000	↓
Direct Vacancy (%)	3.4%	7.1%	8.5%	↑
Tenant Demand (SF)	8.5 M	3.2 M	5.2 M	↑

#### Space Tracker

	Q4 2019	Q4 2020	Q1 2021	2021 forecast
Direct Availability (SF)	4.8 M	9.0 M	11.5 M	↑
Sublease Availability (SF)	2.6 M	8.1 M	8.8 M	↑
Total Availability (SF)	7.4 M	17.1 M	20.2 M	↑

\* Q1 2021 Rent (overall weighted) average does not include two outlier transactions that significantly skewed the average

#### Key Takeaways

- Overall rents are anticipated to continue to decline through 2021 as landlords are forced to compete with 8.8 million square feet of subleases being offered at significant discounts. Landlord incentives including free rent and allowances will continue to increase to incent tenants to their buildings and off-set costs
- Trophy buildings including new developments and premier buildings such as 555 California, 101 California and One Market have maintained high-water asking rents (greater than \$100/SF) as they renew leases with high-credit tenants that aren't willing to relocate to inferior buildings
- Market demand and activity has realized a healthy up-tick as companies begin to execute on plans to return to office in Q2 and later this year compared to 2020. Leasing volume is expected to bounce back this quarter as a result but will remain well below the historic average of 1.8 million square feet of lease transactions per quarter

### Impact to Asking Rents – Pre/Post-Covid

Class A - Trophy Buildings	Mar-20	Mar-21	% Change
555 California	\$115	\$110	-4%
101 California	\$110	\$108	-2%
4 Embarcadero	\$120	\$120	0%

Class A - Financial District	Mar-20	Mar-21	% Change
100 Montgomery	\$95	\$78	-18%
221 Main	\$85	\$75	-12%
650 California	\$95	\$82	-14%

Class B - Financial District	Mar-20	Mar-21	% Change
225 Bush	\$92	\$75	-18%
351 California	\$88	\$80	-9%
85 2nd	\$88	\$68	-23%

Class B - SOMA	Mar-20	Mar-21	% Change
501 2nd	\$100	\$85	-15%
475 Brannan	\$95	\$80	-16%
539 Bryant	\$84	\$74	-12%

#### Key Takeaways

- Trophy Buildings have been reluctant to reduce asking rents because vacancy remains very low in premier buildings. Professional and financial service firms make up most tenants in these buildings
- Class A Buildings in the Financial District have adjusted asking rents and increased incentives including free rent and allowances that reflects the significant decline in demand and vacancy that continues to climb in less premier buildings
- Class B Buildings have significantly adjusted asking rents to compete with the sublease market and minimize vacancy. Flight to quality is a serious concern for landlords and their goal is to maintain cash flow as the market continues to correct over the next 18-24 months
- Buildings in SOMA have adjusted asking rents as vacancy begins to rise. Technology and start-up companies make up most tenants in these buildings, which have been the most inclined to allow leases to expire and work remotely

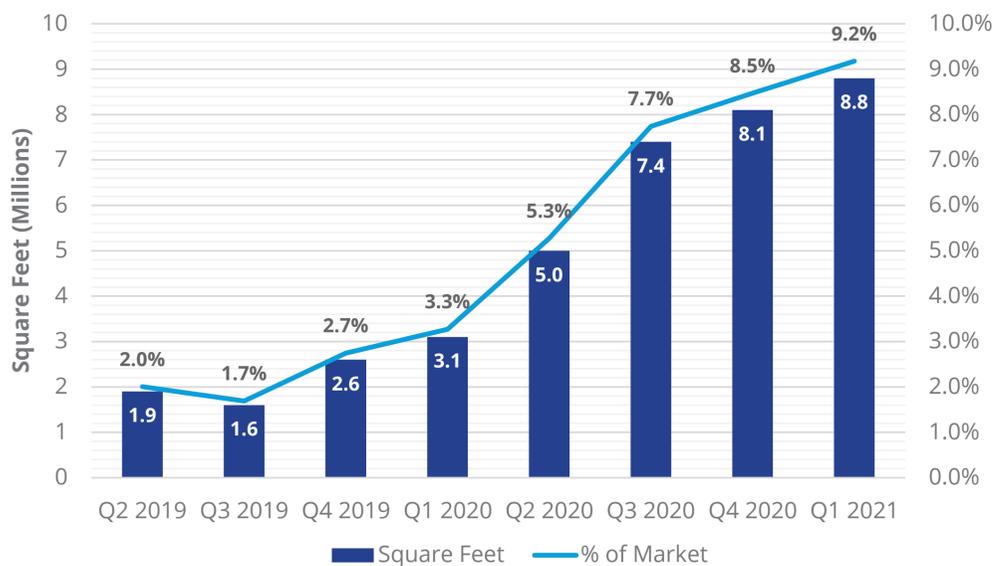
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## Sublease Watch

### Available Subleases



### Key Takeaways

- Salesforce, the largest occupier in San Francisco, has listed approximately two-thirds of 350 Mission on the sublease market. Salesforce originally leased 100% of the 450,000 SF building owned by Kilroy in 2012, has occupied the building since 2015, and leases the building with rolling expirations from 2029 through 2032
- Salesforce also announced in March that they terminated their letter of intent to lease 100% of the office space at Hines' future development Parcel F in the Transbay redevelopment district
- Wish has listed 100% of their space at One Sansome with intent to either relocate in San Francisco to a smaller footprint or reoccupy a portion of their space at One Sansome depending on their ability to effectively sublease space
- Cruise has relisted 301 Brannan for sublease as they previously subleased the building to Knotel, who subsequently defaulted and terminated the sublease in 2020. Cruise maintains 300,000 SF at 333-345 Brannan and 140,000 SF at 1201 Bryant
- Cloudflare has listed one of their three buildings for sublease at 634 2nd. Cloudflare previously sublease one of the three floors to a third party that expires May 2021, so the new listing represents an additional 30,000 SF of available sublease space. They also lease 58,000 SF at 101-111 Townsend.
- Scribd has placed two additional floors on the market for sublease. Scribd originally leased 100% of the SOMA building and subleased two floors. They now intend to sublease all of the building and will relocate into a smaller footprint depending on their ability to effectively sublease space

### Notable New Subleases

#### 1. Salesforce

- 350 Mission St
- 286,539 SF

#### 2. Wish

- One Sansome St
- 106,169 SF

#### 3. Cruise

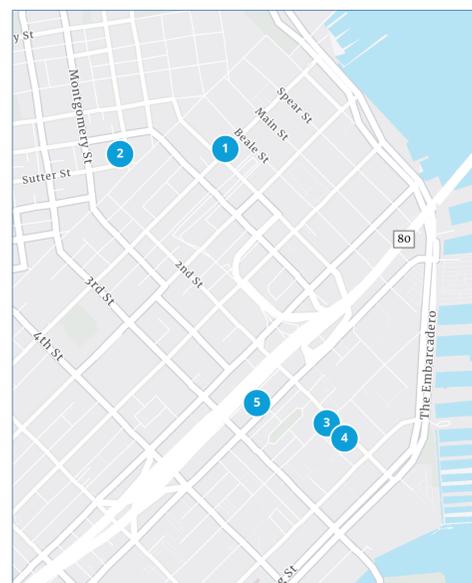
- 301 Brannan St
- 82,830 SF

#### 4. Cloudflare

- 634 2nd St
- 45,032 SF

#### 5. Scribd

- 460 Bryant St
- 41,976 SF

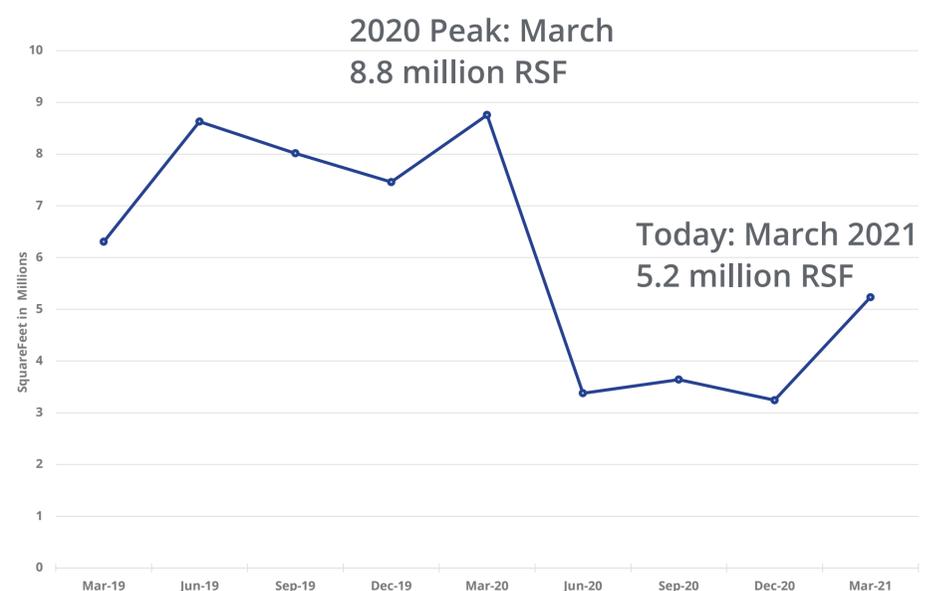


## 2021 Tenant Demand

### Key Takeaways

- Tenants actively in the market dropped to nearly 3 million square feet in 2020. Most requirements were by large tenants including BlackRock, Citibank, Levi's and Fluidigm with 2022 and 2023 lease expirations
- Tenant demand has nearly doubled since January 2021 as companies plan to reopen offices in the coming months. The uptick in tenant demand has resulted in a material increase in tours and negotiations
- We anticipate tenant demand to remain well below historic averages through 2021 as companies continue to adjust their long-term space needs and future of workplaces

### Tenant Demand – Last 2 Years



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## Return to Office

- Microsoft and Uber announced that they have partially reopened some of their offices beginning March 29th. Uber opened its new Mission Bay HQ at maximum 20% capacity.
- Google is opening offices around the US on a limited basis, depending on local Covid conditions. They are “strongly encouraging” employees to be vaccinated but it will not be required.
- Facebook is opening one office per week at 10% around Bay area, starting with Menlo Park HQ on May 1st, Fremont on May 17th, Sunnyvale on May 24th, then its downtown San Francisco towers on June 7th. Facebook will require employees to be tested for Covid on weekly basis “where possible”, but don’t have to be vaccinated. They will not provide food or shuttle services initially.
- Some companies that plan to re-open soon have also publicly stated that some or all employees can elect to work remotely indefinitely with various terms and conditions.
- Most companies planning for new “Remote First” work standards will reopen offices in current locations and others hubs for intentional collaboration and social events, likely impacting the amount of total space they need for operations.

### RTO March 29th

Company	Real Estate Impact
 Microsoft ~190,000 employees	Remote-Friendly
 UBER ~21,900 employees	Remote-Friendly Up to 20% capacity Sublease 30,000 SF (San Francisco-Mission Bay)

### RTO April 2021

Company	Real Estate Impact
 SAP ~102,430 employees	Remote-Friendly
 Google ~220,000 employees	Remote-Friendly

### RTO May 2021

Company	Real Estate Impact	Company	Real Estate Impact
 facebook ~44,900 employees	Remote-Friendly Up to 10% capacity	 pwc ~284,000 employees	Remote-Friendly
 Apple ~147,000 employees	Remote-Friendly	 salesforce ~49,000 employees	Remote-Friendly Up to 20% capacity, employees permitted to work remotely through end of year
 VISA ~19,500 employees	Remote-Friendly		

### RTO June 2021

Company	Real Estate Impact
 okta ~3,400 employees	Remote-Friendly
 twilio ~3,000 employees	Remote-Friendly Subleasing 120,000 SF Segment office (San Francisco)

### RTO July 2021

Company	Real Estate Impact
 amazon ~840,400 employees	Temporarily Remote
 box ~2,000 employees	Temporarily Remote
 slack ~2,800 employees	Remote-First

### RTO September 2021

Company	Real Estate Impact
 Adobe ~26,000 employees	Remote-Friendly
 airbnb ~13,100 employees	Remote-Friendly

### Indefinite

Company	Real Estate Impact
 coinbase ~1,100 employees	Remote-First
 Dropbox ~4,000 employees	Remote-First Subleasing 650,000 SF (San Francisco)
 Square ~3,800 employees	Remote-First Subleasing 150,000 SF (Oakland) Subleasing 50,000 SF (San Francisco)
 stripe ~2,600 employees	Remote-Friendly Relocating to South San Francisco (400,000 SF) in 2022, subleasing 295,000 SF (San Francisco)
 ~4,900 employees	Remote-First

#### Definitions

**Remote-First** - Remote-first companies design their processes (only virtual meetings, online social gatherings, etc.) around remote employees and often prefer to hire them.

**Remote-Friendly** - Remote-friendly companies hire for many remote positions while also allowing/requiring people to work together in-person.

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