



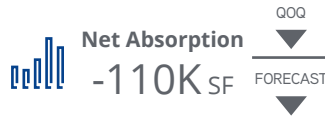
San Francisco

Office

21Q4

## Key Takeaways

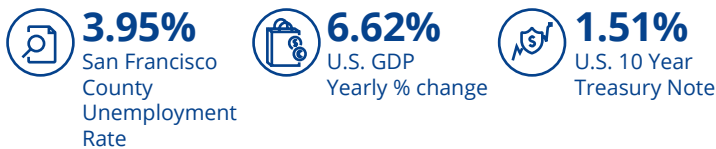
- Vacancy rate remains flat at 16.2 percent and net absorption registered slightly less than Q3 2021, with negative 109,730 square feet in Q4 2021.
- Rents continue to reflect a flight to quality, as high commodity Class A and B office space drives up overall market asking rents in downtown San Francisco, to \$72.73.
- The overall sublease availability rate, which decreased in Q3 2021 from 8.7 percent to 7.2 percent, is now back up to 8.1 percent this quarter.



## Flattening the Vacancy and Net Absorption Curves

The San Francisco office market's net absorption remains negative; however, an uptick for move-ins this past quarter led to net absorption moving in a positive direction from negative 180,860 square feet last quarter to negative 109,730 square feet in Q4 2021. There is optimism that absorption will continue to rise; tempered by market sentiment that vacancy and rents will remain flat in the first quarter of 2022. However, with the spread of the omicron variant, it is difficult to forecast how companies will respond. Those which have yet to reoccupy their space, may again push back their return to office date later into 2022.

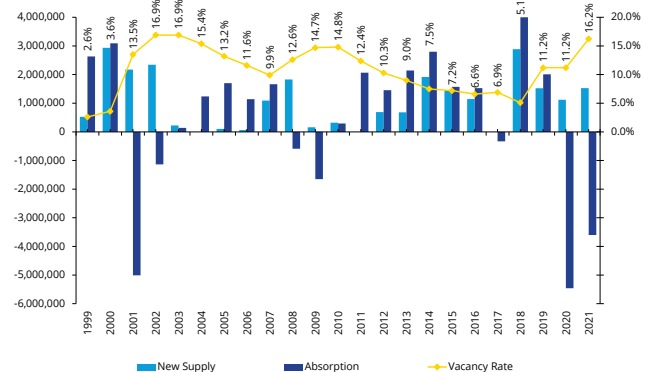
## Market Indicators



## Historic Comparison

	21Q4	21Q3	21Q2
Total Inventory (in Millions of SF)	97,588,268	97,346,359	97,346,359
New Supply Current Quarter (in Thousands)	181,869	81,316	1,201,864
Net Absorption YTD (in Thousands of SF)	(3,600,832)	(3,491,102)	(3,303,624)
Overall Vacancy	16.2%	16.0%	15.8%
Under Construction (in Thousands of SF)	1,495,887	1,567,719	4,033,904
Overall Asking Lease Rates (FSG)	\$72.73	\$66.22	\$69.70

## Market Graph



Source: Colliers Research

Though San Francisco has recorded eight consecutive quarters of occupancy losses, the fourth quarter's negative net absorption was modest in comparison to the beginning of 2021. As companies begin returning to the office and the city comes back to life, we expect net absorption to turn positive, but vacancy to remain flat, in the next three to twelve months.

## Recent Transactions



**Lease**  
1301-1355 Market Street  
Civic Center | 400K SF



**Lease**  
400 Howard Street  
SFD | 204K SF



**Lease**  
405 Howard Street  
SFD | 58K SF



**Lease**  
201 Mission Street  
SFD | 55K SF



**Lease**  
1 Market Street  
SFD | 76K SF



**Lease**  
140 New Montgomery  
Yerba Buena | 25K SF

## Rents

Effective rents increased across the board this quarter, including an increase for overall market weighted rents, up 10 percent to \$78.46 per square foot. The increase in overall weighted market effective rents is attributed to a recent “flight to quality,” as tenants are using this time to relocate to premium view higher quality spaces. Additionally, overall Class B rents have also increased 6.0 percent to \$74.30 per square foot. This increase follows recent leasing activity in high commodity Class B buildings, such as 140 New Montgomery Street, that has successfully backfilled a portion of Yelp’s upcoming vacancy with several companies, like Datarobot and Nike, at high-water rents equal to \$100 per square foot or higher. SOMA’s overall effective rents should be noted as uncertain due to a lack of Class A comparable leases this quarter.

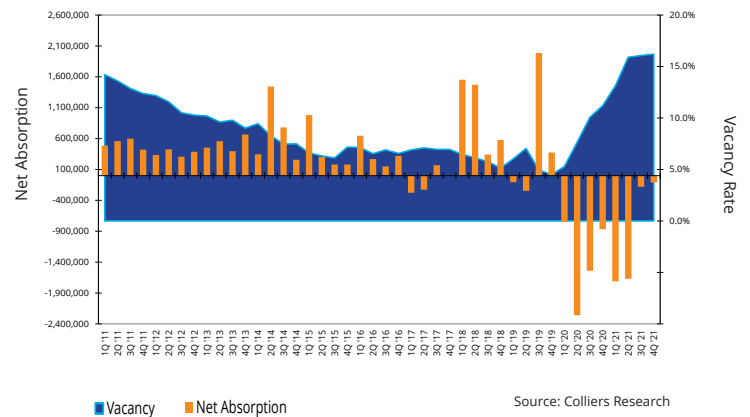
Market	4Q '21 Overall	4Q '21 Direct	4Q '21 Sublease	3Q '21 Overall	% Quarterly Change
All Markets	\$78.46	\$79.57	\$73.47	\$71.09	10%
All Markets Class A	\$82.97	\$85.47	\$73.76	\$73.17	13%
All Markets Class B	\$74.30	\$74.49	\$63.42	\$70.17	6%
Financial District Class A	\$84.97	\$86.15	\$81.18	\$79.70	7%
Financial District Class B	\$70.34	\$73.44	\$63.42	\$68.88	2%
SOMA Overall	N/A	N/A	N/A	\$75.55	

Note: Weighted Average Effective Rents

## Absorption and Vacancy

In San Francisco, there was just under 110,000 square feet of negative net absorption which translated to the 16.2 percent overall vacancy rate remaining relatively unchanged from last quarter. One contributor to this quarter’s negative absorption is Yelp’s departure at 140 New Montgomery Street, leaving 112,068 square feet of direct available/vacant space. Yelp relocated and downsized to Salesforce East, 350 Mission Street, occupying three floors, 53,596 square feet, of Salesforce sublease space this quarter. Though the market has posted eight straight quarters of negative net absorption, the third and fourth quarter’s occupancy losses were much less severe compared to prior quarters. Absorption is expected to increase as leases signed this quarter, like the Fremont Group at 405 Howard, will commence within the first three quarters of 2022.

San Francisco Net Absorption vs. Vacancy

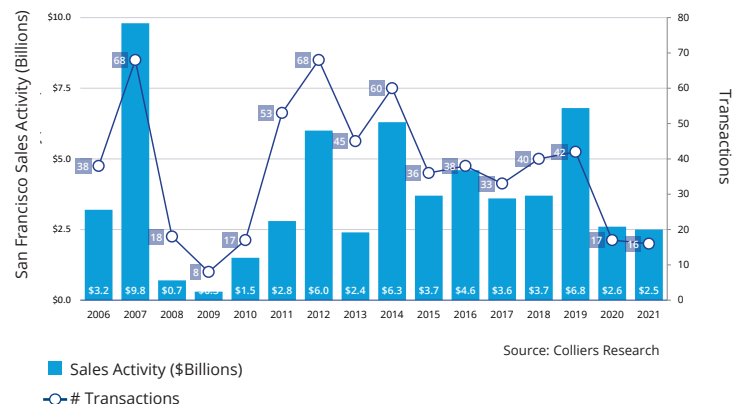


Source: Colliers Research

## Investment

The San Francisco investment sales market, during the fourth quarter of 2021, experienced a relatively low number of closed transactions compared to historical levels; including just three sales of Class B product in the Jackson Square and North Waterfront submarkets. Larger transactions include Alexandria’s majority-stake sale of life science buildings in Mission Bay totaling just over 1.0 million square feet to CBRE Investment Management; and Columbia Property Trust’s acquisition by PIMCO in a \$3.9 billion nationwide portfolio acquisition, including four properties in San Francisco. The office investment sales market experienced approximately \$2.5 billion in total investment volume with sixteen closed transactions in 2021. Looking forward to 2022, it is forecasted that investment volume and transaction volume will increase with a significant amount of capital in the market searching for core and core-plus investment opportunities. The “flight to quality” trend will continue into 2022 for investors and tenants within the market.

San Francisco Sales Activity (Billions)  
Annual Sales Volume & Number of Transactions, 2006 - 2021



Source: Colliers Research

## Major Office Lease Transactions

Q4 2021

Property/Address	Size	Tenant	Type	Class	Submarket
1301-1355 Market Street	400,000	Twitter	Renewal	A	Civic Center/Mid-Market
400 Howard Street	204,000	Blackrock	Renewal	A	South Financial District
405 Howard Street	58,000	Fremont Group	New	A	South Financial District
201 Mission Street	55,000	Indeed	Renewal	A	South Financial District
1 Market Street	76,000	Citigroup	New	A	South Financial District
140 New Montgomery	24,904	Datarobot	New	B	Yerba Buena

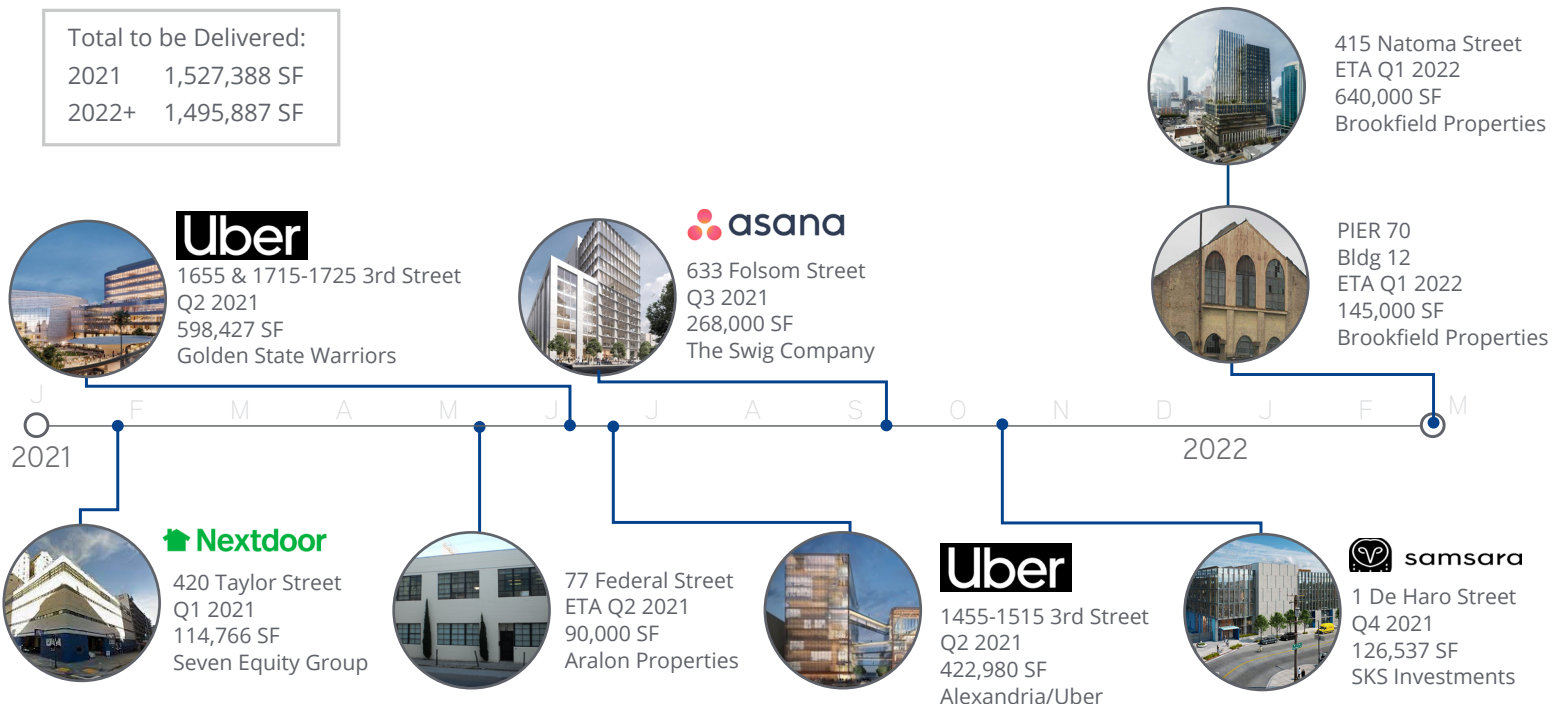
## Major Office Sale Transactions

Q4 2021

Property/Address	Size	Buyer	Price	Class	Submarket
221 Main Street	381,000	Columbia Property Trust and PIMCO Merger (23 Total Properties)*	\$3.9 B*	A	South Financial District
201 California Street	272,124			A	North Financial District
333 Market Street	656,363			A	South Financial District
650 California Street	478,392			A	North Financial District
455 Mission Bay Boulevard	210,398	Mission Bay Alexandria Center/Nuveen Sale to CBRE Investments	Unknown	A - Life Science	Mission Bay
1700 Owens Street	167,053			A - Life Science	Mission Bay
1500 Owens Street	164,464			A - Life Science	Mission Bay
499 Illinois Street	222,000			A - Life Science	Mission Bay
409 Illinois Street	233,069			A - Life Science	Mission Bay

## Development Snapshot

Total to be Delivered:	
2021	1,527,388 SF
2022+	1,495,887 SF



Submarket/ Subtype	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
<b>Downtown Market</b>											
A	64,848,042	13.1%	8.3%	22.1%	14.7%	14.8%	120,283	(2,292,938)	2,950,399	1,126,257	\$81.76
B	26,329,741	20.4%	8.3%	28.7%	20.3%	19.9%	(104,679)	(958,616)	25,000	380,819	\$65.83
C	6,410,485	16.2%	4.4%	20.7%	15.0%	13.1%	(125,334)	(349,278)	-	-	\$47.27
<b>TOTAL</b>	97,588,268	15.3%	8.1%	23.8%	16.2%	16.1%	(109,730)	(3,600,832)	2,975,399	1,507,076	\$72.73

<b>Financial District</b>											
A	47,281,065	13.0%	6.1%	19.1%	13.2%	13.6%	202,650	(1,757,468)	-	-	\$82.70
B	8,140,598	24.4%	6.0%	30.4%	22.4%	21.6%	(74,396)	(458,846)	-	-	\$66.47
C	1,476,936	28.5%	3.6%	32.1%	23.5%	22.6%	(12,328)	(107,795)	-	-	\$51.08
<b>TOTAL</b>	56,898,599	15.0%	6.0%	21.1%	14.8%	15.0%	115,926	(2,324,109)	-	-	\$76.04

<b>Submarkets</b>											
North Financial	28,793,140	19.0%	5.2%	24.2%	17.4%	17.3%	(34,610)	(1,321,663)	-	-	\$75.33
South Financial	28,105,459	11.0%	6.9%	17.8%	12.1%	12.7%	150,536	(1,002,446)	-	-	\$77.67
Civic Center/ Mid-Market	6,873,051	8.2%	14.9%	23.1%	15.6%	14.8%	(65,746)	(538,931)	-	-	\$56.43
Jackson Square	2,330,330	24.0%	1.6%	25.6%	22.0%	20.3%	(39,894)	(103,864)	-	-	\$61.02
Mission Bay	5,076,613	10.5%	9.0%	27.5%	13.6%	13.9%	2,212	574,822	1,600,000	935,811	\$74.77
North Waterfront	3,646,953	17.5%	5.8%	23.3%	13.9%	14.2%	11,090	(35,085)	-	-	\$61.78
Potrero East	1,289,643	10.7%	9.8%	20.5%	8.3%	9.6%	113,297	138,545	-	126,537	\$49.65
Potrero West	1,258,348	20.2%	4.6%	24.9%	25.2%	14.1%	(139,625)	(145,156)	-	-	\$54.30
SOMA East	6,490,953	14.8%	12.8%	27.6%	20.9%	20.5%	(43,358)	(315,953)	-	329,962	\$70.50
SOMA West	3,747,020	9.7%	19.2%	28.9%	14.8%	14.7%	-	(218,729)	735,399	-	\$53.77
Union Square	4,249,788	21.7%	5.3%	27.0%	15.2%	18.3%	136,113	(30,902)	-	114,766	\$54.37
Van Ness Corridor	1,063,442	28.3%	0.3%	28.6%	11.7%	11.7%	-	(4,953)	-	-	\$48.79
Yerba Buena	4,663,528	24.0%	16.3%	40.2%	32.8%	28.5%	(199,745)	(596,517)	640,000	-	\$83.98
<b>TOTAL</b>	97,588,268	15.3%	8.1%	23.8%	16.2%	16.1%	(109,730)	(3,600,832)	2,975,399	1,507,076	\$72.73

<b>San Francisco Quarterly Comparison and Totals</b>											
Q4 2021	97,588,268	15.3%	8.1%	23.8%	16.2%	16.1%	(109,730)	(3,600,832)	2,975,399	1,507,076	\$72.73
Q3 2021	97,163,754	14.1%	7.2%	22.0%	16.1%	15.9%	(180,860)	(3,510,506)	1,567,719	1,391,946	\$66.22
Q2 2021	97,163,754	13.3%	8.8%	22.0%	15.9%	13.1%	(1,668,503)	(3,379,290)	4,033,904	1,316,630	\$69.70
Q1 2021	95,961,890	12.0%	9.2%	21.2%	15.9%	13.1%	(1,710,787)	(1,710,787)	5,235,768	114,766	\$72.78
Q4 2020	95,847,124	9.5%	8.4%	17.8%	13.1%	11.2%	(866,908)	(5,458,831)	5,350,534	1,122,100	\$63.48

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