



San Francisco Office 22Q1

Key Takeaways

- Vacancy was up at 18.3 percent and net absorption was significantly in the red at negative 1,508,710 square feet in the first quarter of 2022.
- Asking rents increased slightly due to “flight to quality” and a general shift in the distribution of vacancy from sublease to direct. Increases were concentrated in trophy assets while commodity class A and B were flat or down. Net effective rents decreased due, in part, to increasing landlord concessions.
- The overall sublease availability rate was flat and has remained near 8.0 percent for the past two quarters, below the pandemic peak of 9.2 percent in the first quarter 2021.



Recovery Stalled As Return To Office Delayed

The San Francisco office market took a step backward in the first quarter of 2022 after showing signs of improvement in the second half of 2021, likely due to the winter surge in Omicron that delayed many companies’ return-to-office plans until Spring along with some companies rightsizing and occupying less space. Market vacancy increased to 18.3 percent this quarter, up 210 basis points quarter-over-quarter which coincided with negative 1,508,710 square feet of net absorption. That said, there are green shoots of optimism in record high office using jobs, fairly robust tenant touring activity, and recent record levels of venture capital funding in San Francisco, all of which drive office demand.

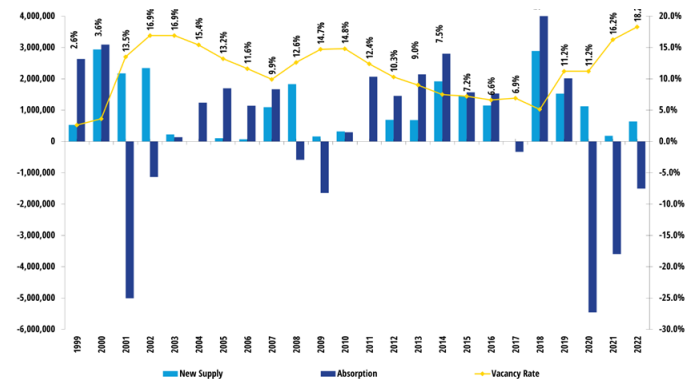
Market Indicators



Historic Comparison

	22Q1	21Q4	21Q3
Total Inventory (in Millions of SF)	97,888,430	97,588,268	97,163,754
New Supply Current Quarter (in Thousands of SF)	640,000	181,869	81,316
Net Absorption YTD (in Thousands of SF)	(1,508,710)	(3,600,832)	(3,510,506)
Overall Vacancy	18.3%	16.2%	16.1%
Under Construction (in Thousands of SF)	625,000	1,495,887	1,567,719
Overall Asking Lease Rates (FSG)	\$75.49	\$72.73	\$66.22

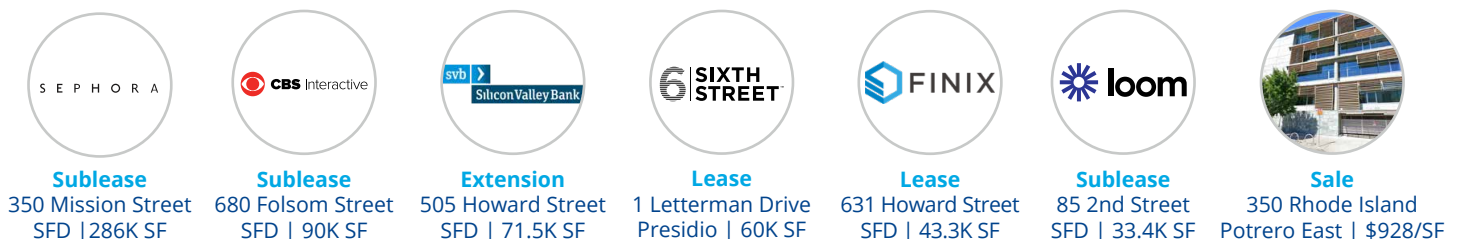
Market Graph



Source: Colliers Research

San Francisco office vacancy increased to a record high in the first quarter of 2022 as many companies delayed return to office plans or right-sized. Additionally, a total of 640,000 square feet of new supply was added to the inventory, nearly 100% available and vacant, with the delivery of 5M in Central SOMA. Net absorption is expected to improve in the next 2-3 quarters as companies implement a more sustained return to office.

Recent Transactions



Rents

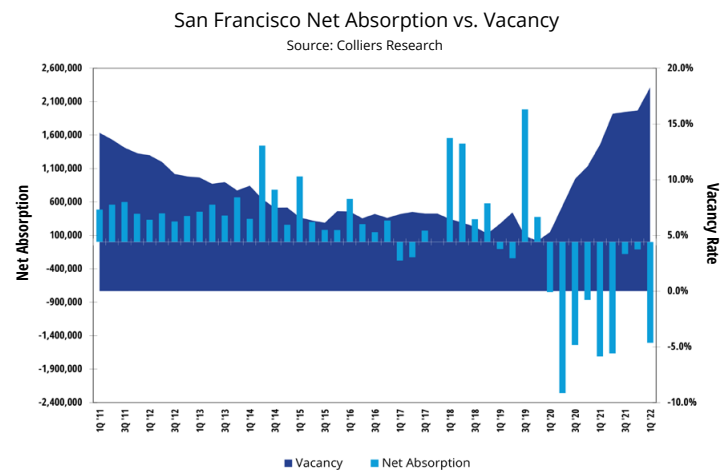
Effective rents increased slightly and were up 2.5 percent to \$80.40 per square foot continuing the trend of “flight to quality” as a greater share of new leasing shifted to trophy and top tier assets. Commodity A and B rents were flat or down due to increased competition among landlords/sublandlords, increased concessions in free rent and tenant improvements, and in the case of class B, a higher relative proportion of sublease activity, which pulled the average down. Overall class B effective rents averaged \$63.47 per square foot, were down 15 percent quarter-over-quarter, and down 12 percent year-over-year. Class B effective rents varied widely depending on the submarket, quality of space, and lease term.

Market	Q1 '22 Overall	Q1 '22 Direct	Q1 '22 Sublease	Q4 '21 Overall	% Quarterly Change
All Markets	\$80.40	\$84.58	\$69.23	\$78.46	2%
All Markets Class A	\$83.03	\$87.47	\$71.40	\$82.97	0%
All Markets Class B	\$63.47	\$67.46	\$52.86	\$74.30	-15%
Financial District Class A	\$84.96	\$92.45	\$71.62	\$84.97	0%
Financial District Class B	\$64.65	\$64.65	-	\$70.34	-8%
SOMA Overall	\$61.34	\$61.12	\$61.72	-	-

Note: Rents based on weighted average of total leased area

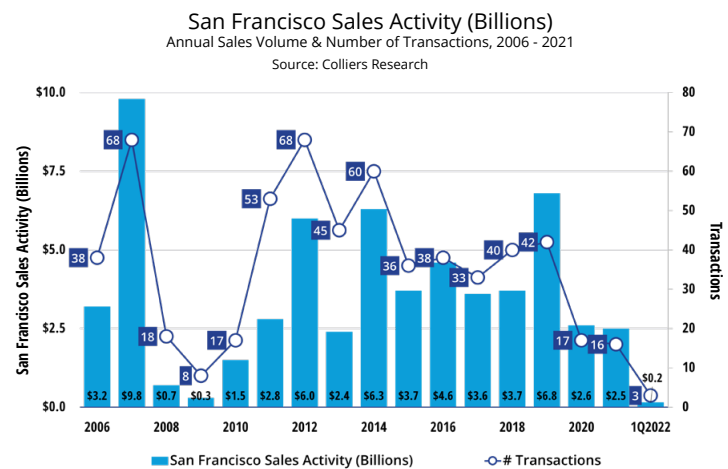
Absorption and Vacancy

San Francisco net absorption was deep “in the red” at negative 1,508,710 square feet in the first quarter of 2022 after showing signs of recovery in the second half of 2021. Negative absorption was seen in nearly all submarkets, but the most significant contributors were the class A segments of the North and South Financial Districts along with class A in SOMA East, while the two outlier submarkets with positive absorption were Jackson Square and Potrero West. Significant sources of negative absorption included Slack listing space for sublease at 45 Fremont and Stubhub vacating 199 Fremont to relocate and downsize into a short-term sublease at 360 Third Street. Significant contributors to positive absorption included Retool moving into a large block of space at 1550 Bryant Street in Potrero West and Waymo occupying a portion of the Uber sublease at 555 Market Street.



Investment

The San Francisco office investment sale market was largely muted during the first quarter of 2022 as investors continued to navigate the uncertainties of the future of return to office, a high office vacancy environment, and the large gap between Class A and Class B office rents as the “flight-to-quality” trend continued. Looking forward, Investor demand for class A & B assets with credit/quality tenants, on long-term leases, in core location will continue to be very strong; however, pricing for value add/multi-tenant class B buildings with vacancy will continue to be challenged until demand for this space increases and market rents settle. That said, there is cautious optimism for the future of the San Francisco investment market with many San Francisco based companies starting to implement their return-to-office plans in the second quarter of 2022.



Major Office Lease Transactions

Q1 2022

Property/Address	Size	Tenant	Type	Class	Submarket
350 Mission Street	286,000	Sephora	Sublease	A	South Financial District
680 Folsom Street	90,000	CBS	Sublease	A	South Financial District
505 Howard Street	71,515	Silicon Valley Bank	Extension	A	South Financial District
1 Letterman Drive	60,000	Sixth Street Partners	New	B	Presidio
631 Howard Street	43,349	Finix	New	B	South Financial District
85 2nd Street	33,426	Loom	Sublease	C	South Financial District

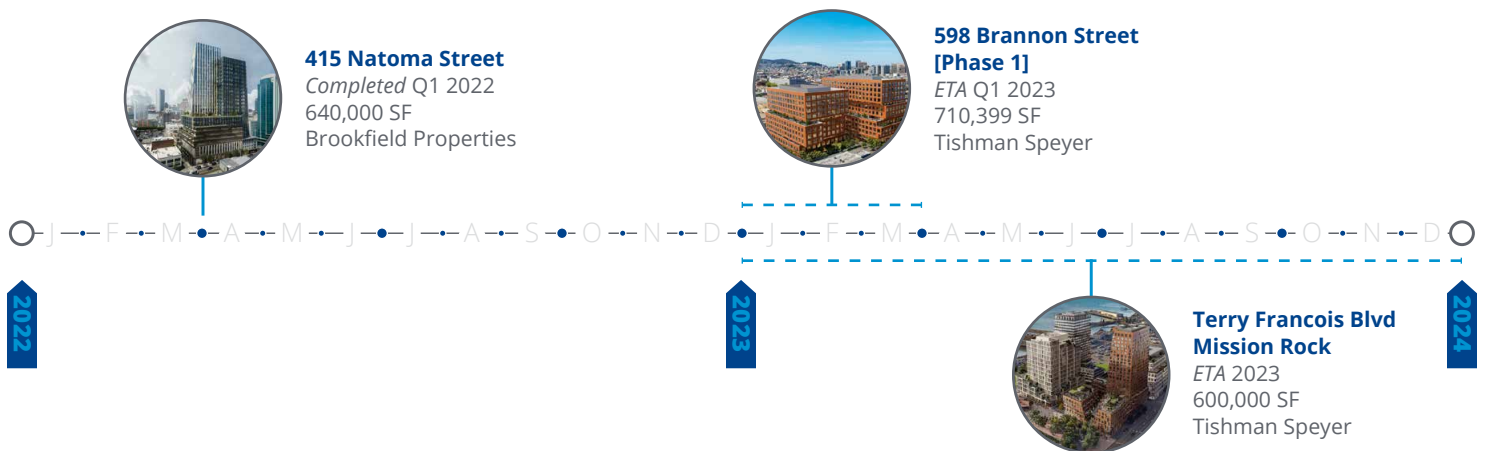
Major Office Sale Transactions

Q1 2022

Property/Address	Size	Buyer	Price	Class	Submarket
350 Rhode Island - Bldg A (North)	127,100	Lincoln Property Company	\$118M / \$928 PSF	A	Potrero East

Development Snapshot

Total to be Delivered	
2022	640,000 SF
2023+	1,310,399 SF



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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)
Downtown Market											
A	65,279,365	14.7%	8.4%	22.1%	17.1%	14.7%	(992,845)	(992,845)	600,000	640,000	\$81.26
B	26,198,580	20.5%	7.9%	28.5%	21.7%	20.3%	(419,266)	(419,266)	25,000	-	\$65.92
C	6,410,485	15.6%	4.1%	19.7%	16.5%	15.0%	(96,599)	(96,599)	-	-	\$54.33
TOTAL	97,888,430	16.3%	8.0%	23.7%	18.3%	16.2%	(1,508,710)	(1,508,710)	625,000	640,000	\$75.49

Financial District											
A	47,279,479	13.9%	6.1%	20.0%	14.7%	13.2%	(715,050)	(715,050)	-	-	\$83.52
B	8,140,598	24.4%	5.6%	30.0%	24.4%	22.4%	(157,586)	(157,586)	-	-	\$72.14
C	1,476,936	26.8%	0.9%	27.7%	24.2%	23.5%	(10,557)	(10,557)	-	-	\$58.87
TOTAL	56,897,013	15.7%	5.9%	21.6%	16.4%	14.8%	(883,193)	(883,193)	-	-	\$80.54

Submarkets											
North Financial	28,791,554	20.5%	5.5%	26.0%	19.4%	17.4%	(582,124)	(582,124)	-	-	\$79.24
South Financial	28,105,459	10.9%	6.3%	17.2%	13.2%	12.1%	(301,069)	(301,069)	-	-	\$82.90
Civic Center/ Mid-Market	6,845,741	7.9%	13.7%	21.7%	16.8%	15.7%	(74,391)	(74,391)	-	-	\$55.09
Jackson Square	2,330,330	22.3%	1.1%	23.4%	20.1%	22.0%	43,474	43,474	-	-	\$68.55
Mission Bay	4,991,017	11.2%	10.1%	21.4%	14.1%	13.6%	(15,014)	(15,014)	600,000	-	\$80.63
North Waterfront	3,515,792	16.9%	6.4%	24.3%	15.1%	13.9%	(100,809)	(100,809)	-	-	\$81.56
Potrero East	1,173,386	10.0%	10.3%	20.2%	17.6%	8.3%	(99,201)	(99,201)	-	-	\$64.33
Potrero West	1,258,348	16.9%	5.3%	22.1%	18.8%	25.2%	79,595	79,595	-	-	\$57.33
SOMA East	6,464,653	17.0%	14.4%	31.4%	24.2%	20.9%	(209,687)	(209,687)	-	-	\$69.26
SOMA West	3,774,330	8.4%	20.9%	29.3%	15.1%	14.7%	(14,197)	(14,197)	25,000	-	\$54.28
Union Square	4,249,788	19.8%	4.0%	23.8%	17.2%	15.2%	(83,822)	(83,822)	-	-	\$52.46
Van Ness Corridor	1,063,442	22.9%	0.3%	23.1%	17.3%	11.7%	(59,710)	(59,710)	-	-	\$48.67
Yerba Buena	5,324,590	36.7%	12.2%	37.4%	42.0%	32.8%	(91,755)	(91,755)	-	640,000	\$75.78
TOTAL	97,888,430	16.3%	8.0%	23.7%	18.3%	16.2%	(1,508,710)	(1,508,710)	625,000	640,000	\$75.49

San Francisco Quarterly Comparison and Totals											
Q1 2022	97,888,430	16.3%	8.0%	23.7%	18.3%	16.2%	(1,508,710)	(1,508,710)	625,000	640,000	\$75.49
Q4 2021	97,588,268	15.3%	8.1%	23.8%	16.2%	16.1%	(109,730)	(3,600,832)	1,265,000	1,507,076	\$72.73
Q3 2021	97,163,754	14.1%	7.2%	21.3%	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%	(1,618,859)	(3,329,646)	4,033,904	1,316,630	\$69.70
Q1 2021	95,961,890	12.0%	9.2%	21.1%	13.1%	11.3%	(1,710,787)	(1,710,787)	5,235,768	114,766	\$72.78

FOR MORE INFORMATION

Derek Daniels
Research Director | San Francisco
+1 415 288 7803
Derek.Daniels@colliers.com

Isabella Day
Research Analyst | San Francisco
+1 415 788 3100
Isabella.Day@colliers.com

Steffen Kammerer
Executive Managing Director | Northern CA | USA
+1 408 282 3801
Steffen.Kammerer@colliers.com