

An aerial photograph of San Francisco, showing the city's dense urban landscape. The skyline is dominated by several tall skyscrapers, including the Transamerica Pyramid and the Salesforce Tower. The city is built on a hillside, with numerous colorful residential buildings. In the background, the Golden Gate Bridge spans across the water, and the bay is visible under a sunset sky.

AVISON
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San Francisco Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the San Francisco unemployment rate to rebound from a high of 13.0 percent to **5.4 percent**.
- Office-using jobs have declined by **2.7 percent**, underscoring limited office leasing demand.



Recovery rate

- The overall U.S. post-COVID rate of recovery based on extrapolated cell phone data is **49.1 percent**.
- The overall rate of recovery in the Bay Area is comparatively higher at **65.7 percent**.
- However, the return of Bay Area office occupiers has lagged other primary markets given the concentration of tech and a lack across the sector of requiring workers back in the office. The rate of recovery across the Bay Area office market is **10.2 percent** compared to the U.S. average of 19.2 percent.



Office supply & demand

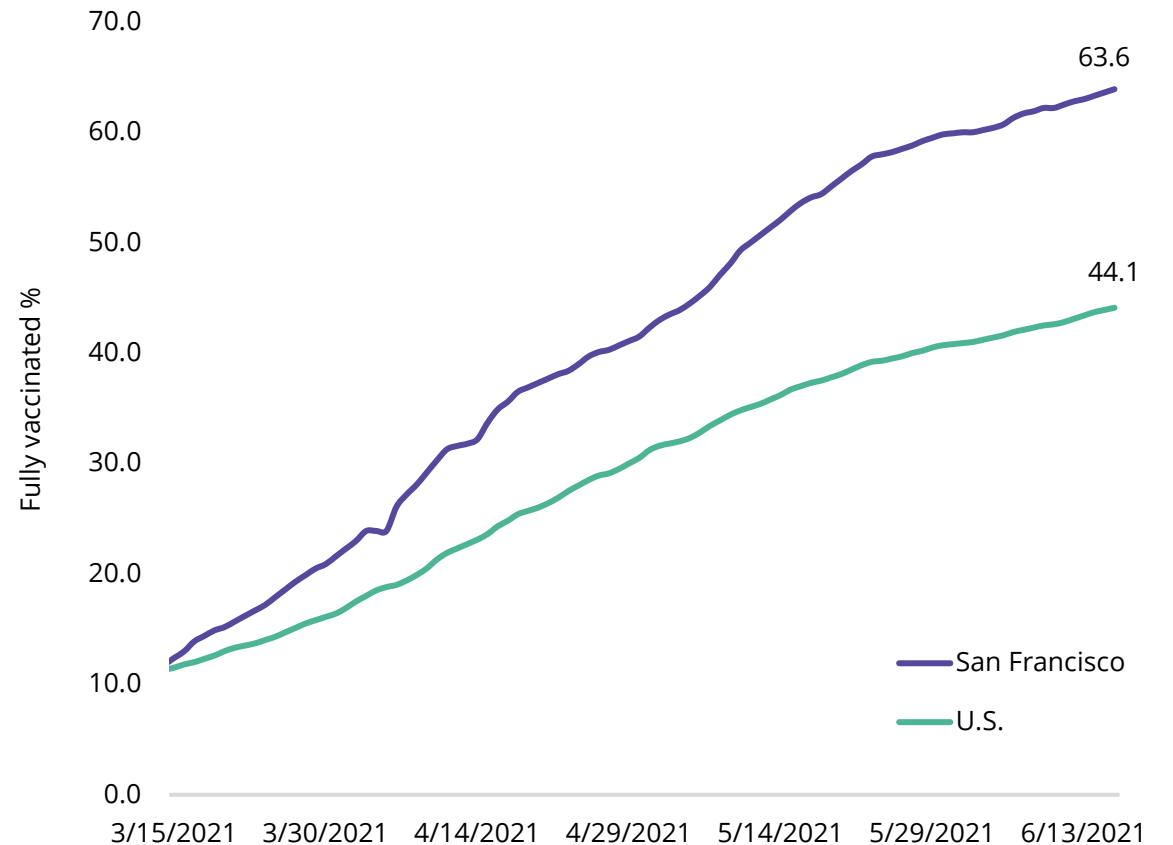
- Leasing activity has paused, decreasing by **65-75 percent** compared with recent historical averages.
- Occupancy losses have totaled almost **6 million sf** over the past 18 months as vacancy has risen to **15.4 percent**.
- Available sublease space has increased to **9.2 million sf**, almost 3x 2019 levels.
- Base rents have declined by **4.3 percent** since the beginning of 2021 and as concession have increased, net effective rents have dropped by **5.4 percent**.

Vaccination rates

63.6%

Share of total San Francisco population that is fully vaccinated

San Francisco proportionate vaccination rates have far surpassed U.S. averages, an important metric that has allowed the city to loosen restrictions.



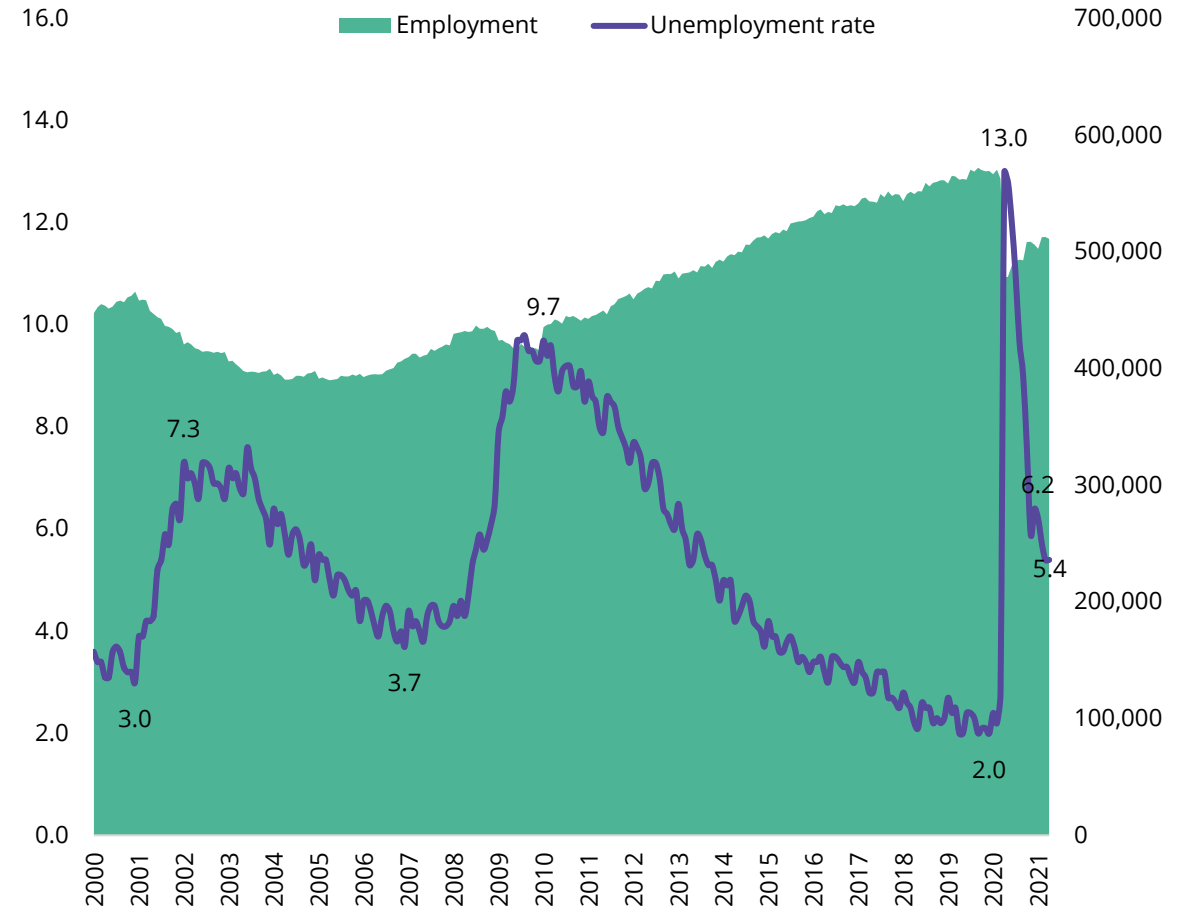
Source: CDC

Employment and unemployment rate

5.4%

San Francisco unemployment rate as of April 2021, dipping below the height of the financial crisis

Historically tightened labor market conditions were halted by the pandemic with nearly 92,000 job losses between February and April 2020. However, reopening efforts enabled the economy to add 6.9% jobs since April 2020.



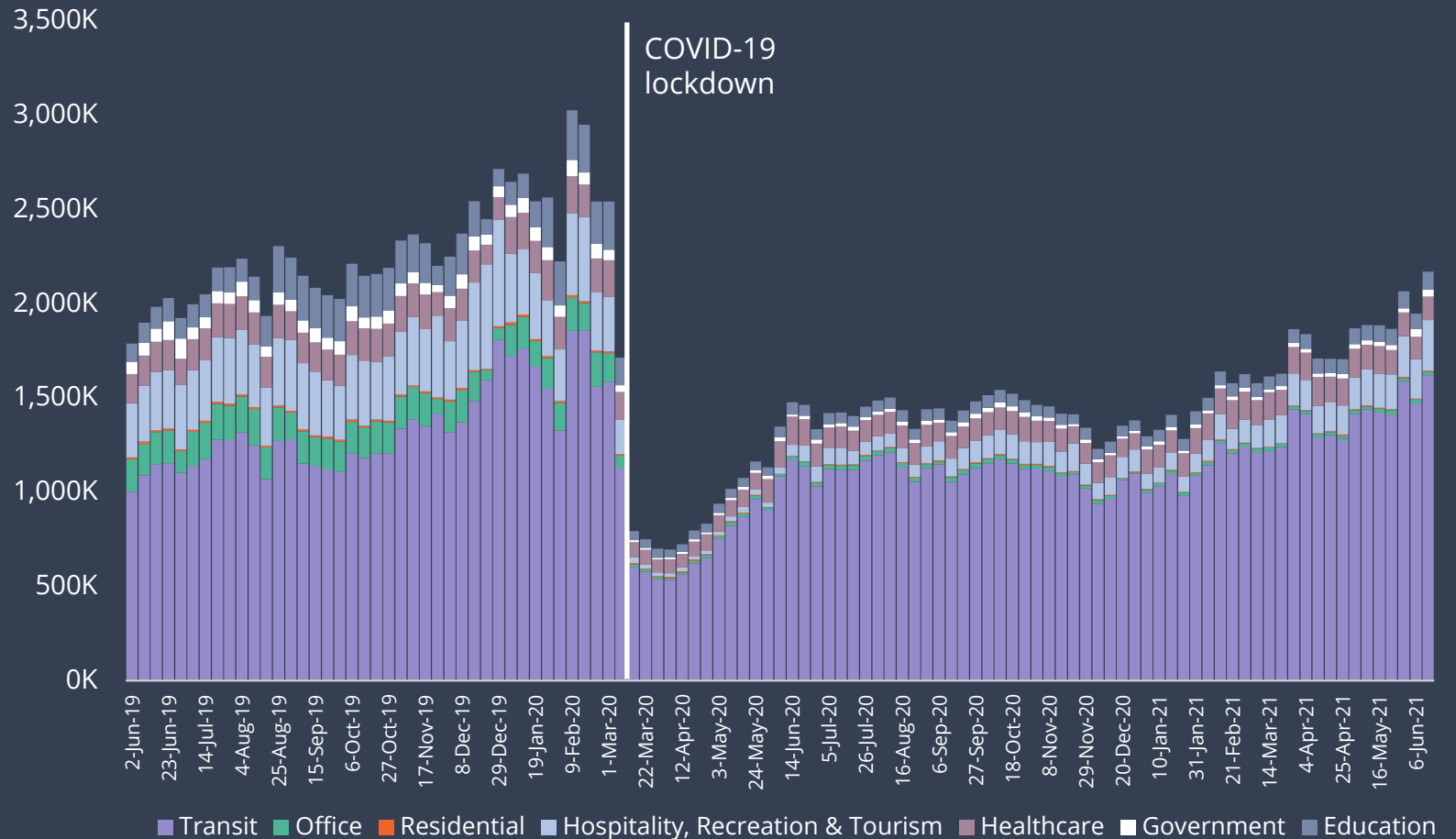
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Bay Area recovery index

65.7%

Post-COVID rate of recovery based on representative locations through 6/20/2021

Activity levels have escalated in recent months and continue to trend upward. Activity has increased by 47% year-over-year, underpinned by strong growth in hospitality (+353%) and government (+239%).



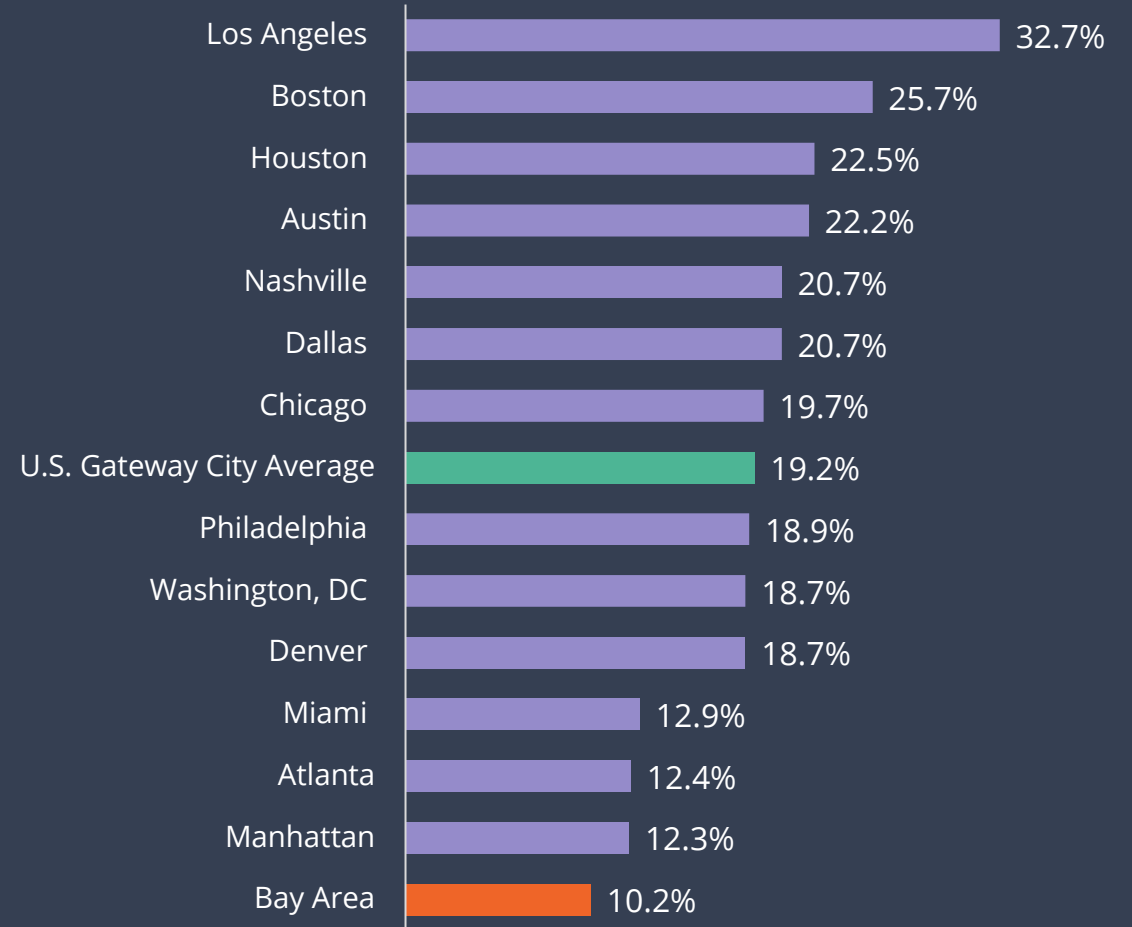
Note: Representative areas of interest.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Bay Area office recovery vs. U.S. gateway cities

10.2%

Post-COVID rate of recovery for Bay Area office employers

Bay Area office employers have been comparatively hesitant to return to the office, as measured by the lowest recovery rate among U.S. gateway cities.



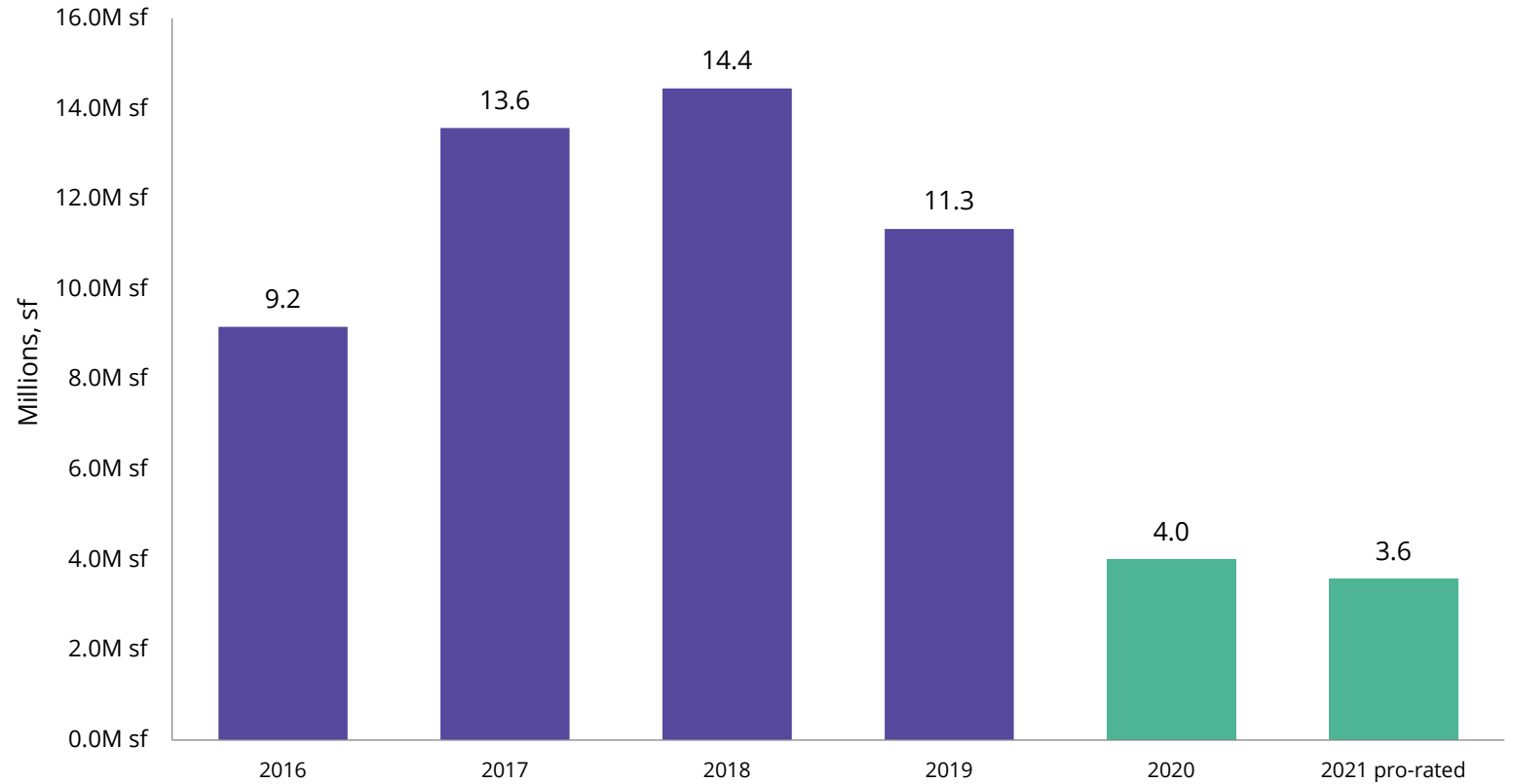
Note: Select, representative occupiers only. Weekdays only.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Office leasing activity

65-75%

Decline in leasing activity in 2020/2021 vs. recent historical averages

There is no modern precedent for the post-COVID slowdown in leasing activity—not 2001 nor 2008—due to the sudden change in office occupiers’ future workplace strategies and the 2020 recession.



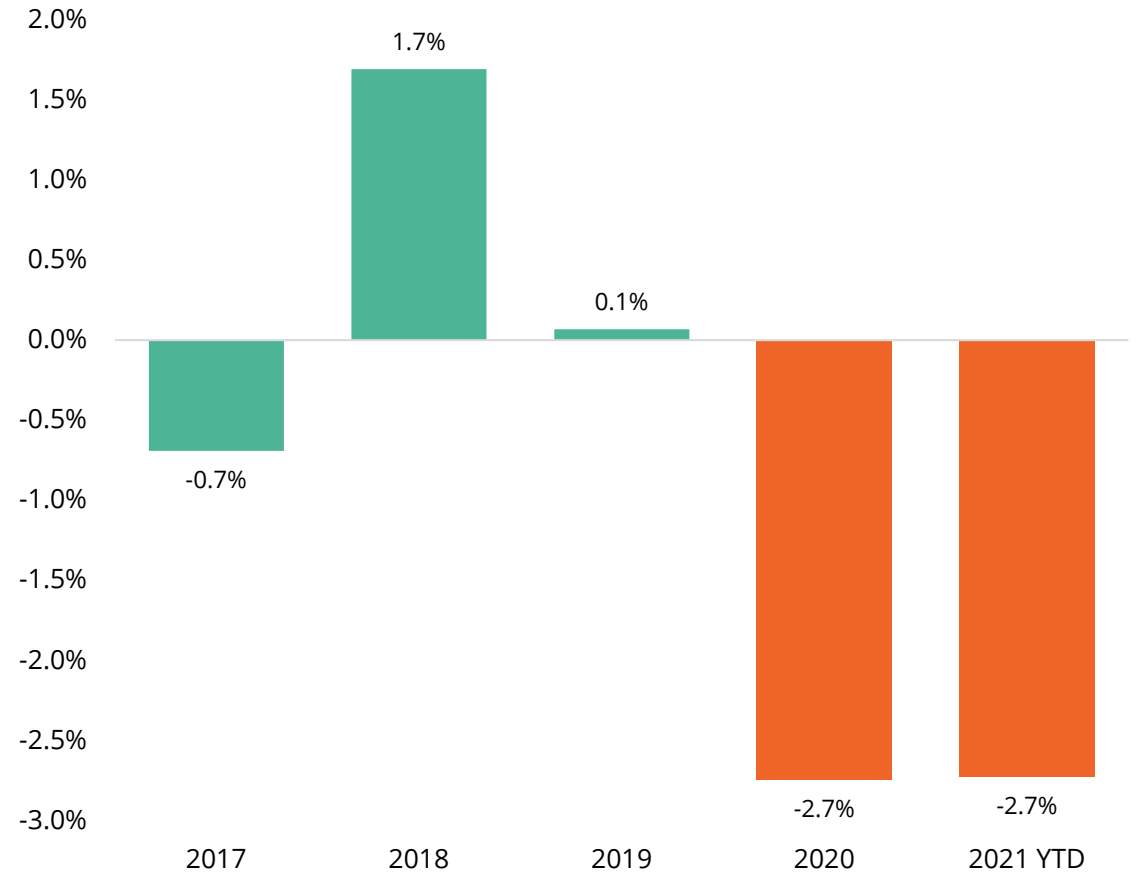
Source: AVANT by Avison Young

Absorption

-2.7%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Occupancy losses over the past 18 months have totaled almost 6 million sf



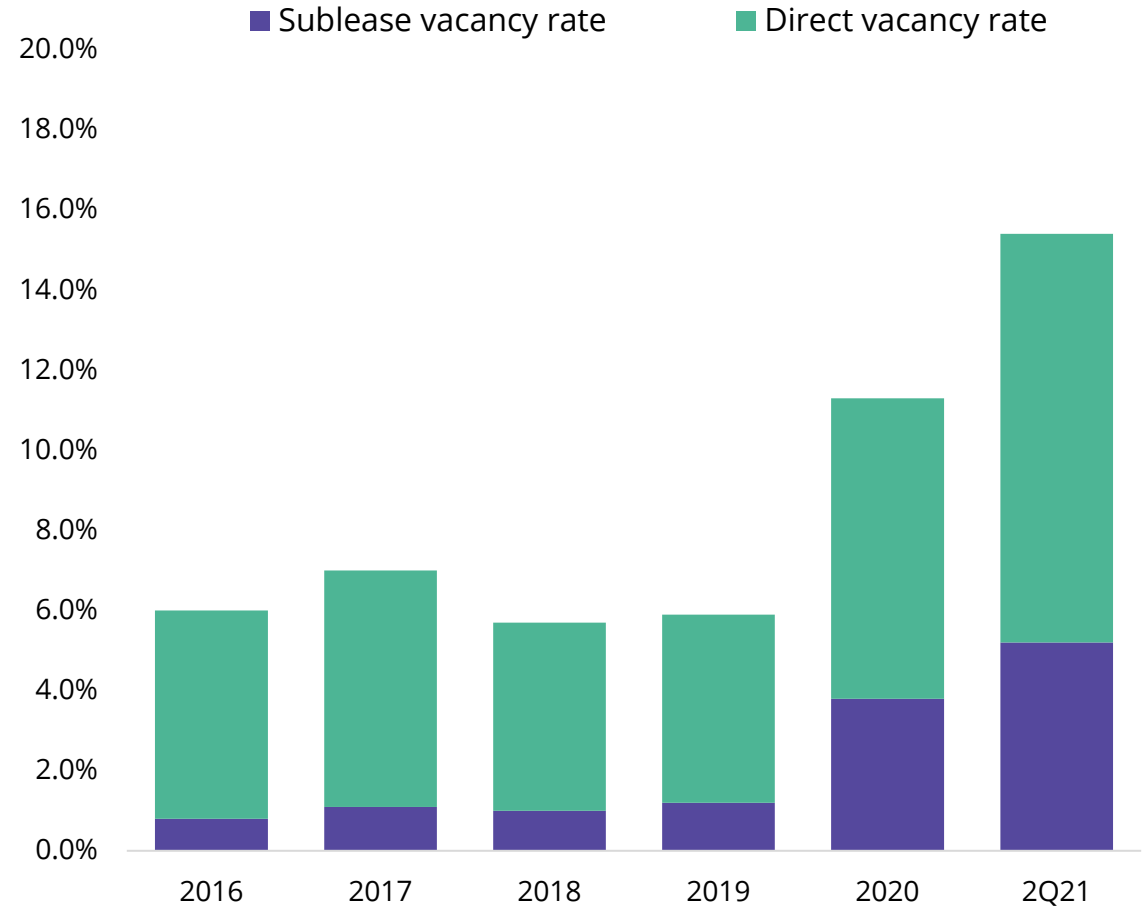
Source: AVANT by Avison Young

Vacancy rate

15.4%

**Recent high San Francisco
vacancy as of Q2 2021**

The Q2 2021 vacancy rate is a recent high in terms of sublease, direct and total percentages. The ratio of sublease-to-total vacancy is currently 34%.



Source: AVANT by Avison Young

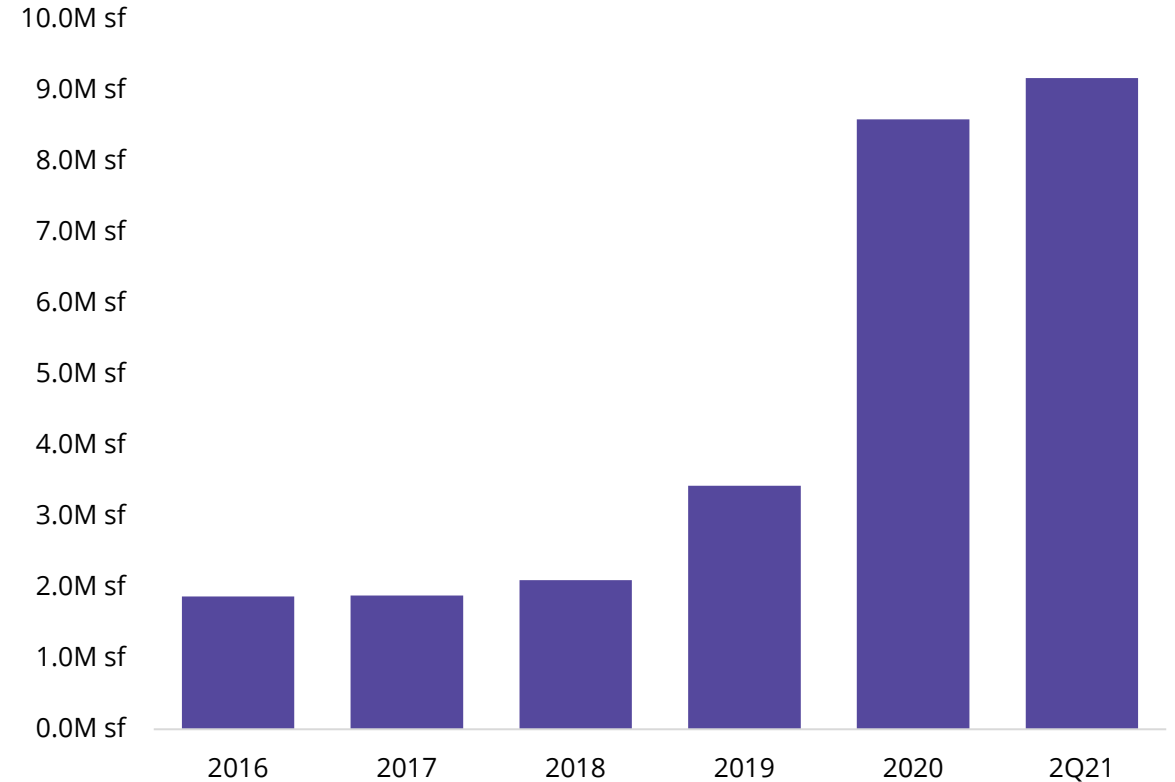
Available sublease space

9.2 msf

Record levels of sublease available space

Available sublease space in San Francisco has increased by 6.8% since the beginning of 2020 and 167% from the beginning of 2019.

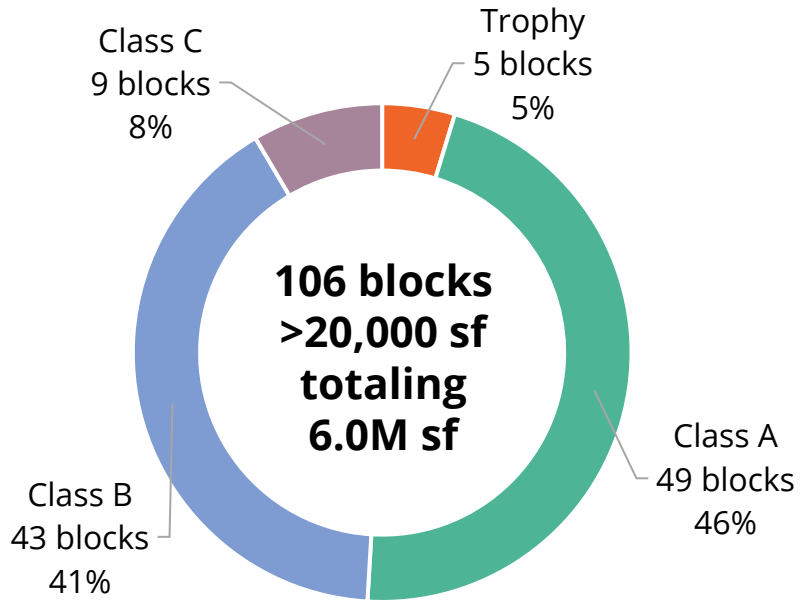
■ Available sublease space



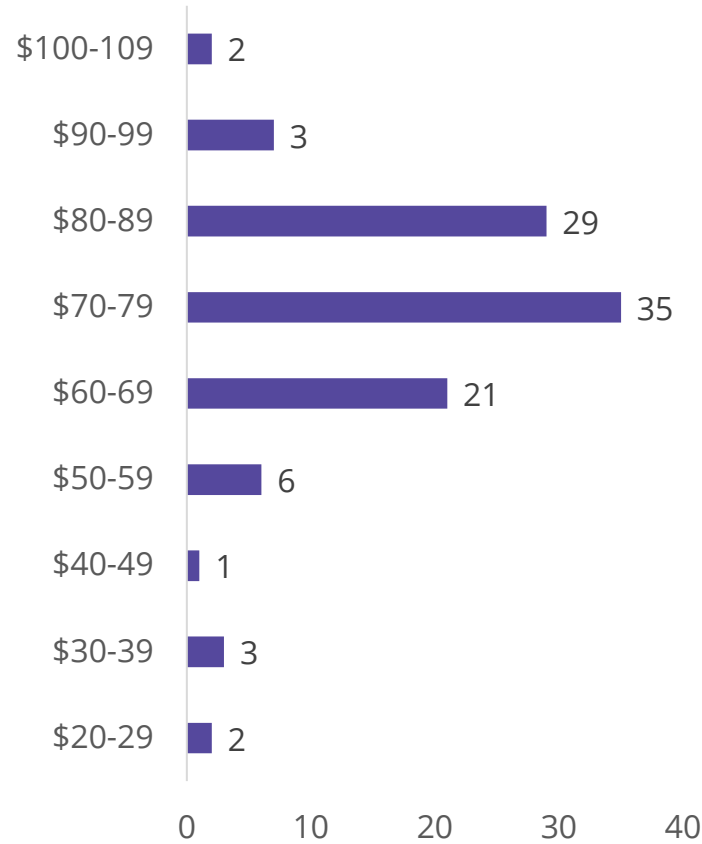
Source: AVANT by Avison Young

Sublease supply pipeline

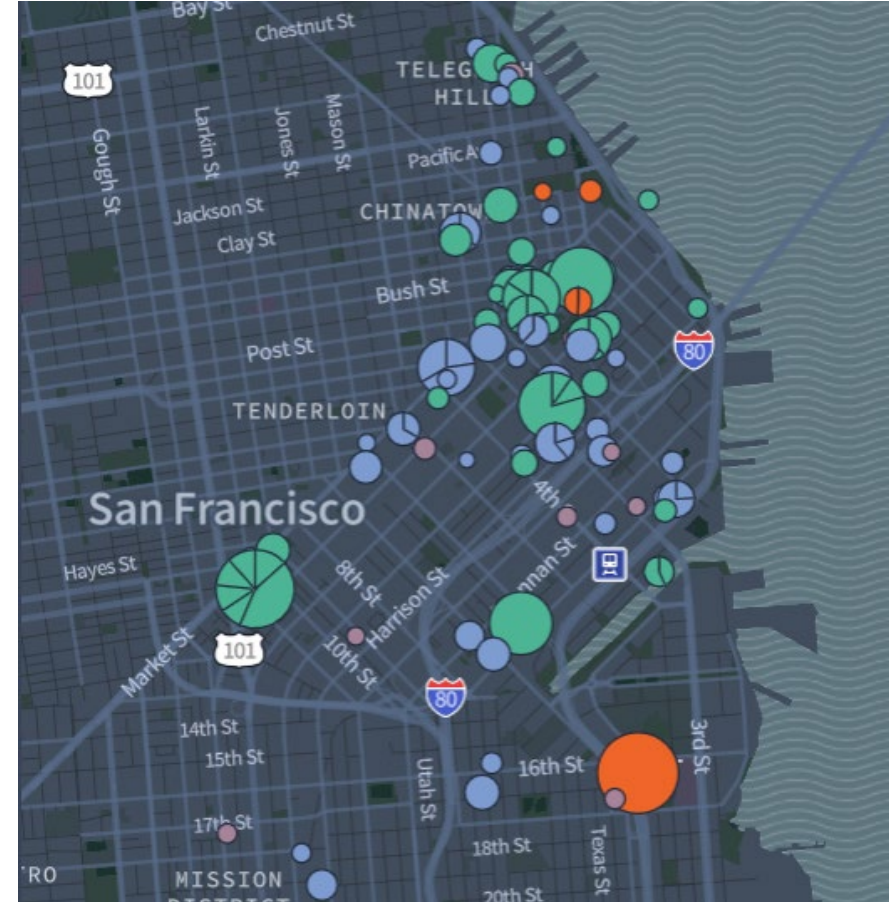
Building classification



Asking rent FS per square foot



Source: AVANT by Avison Young

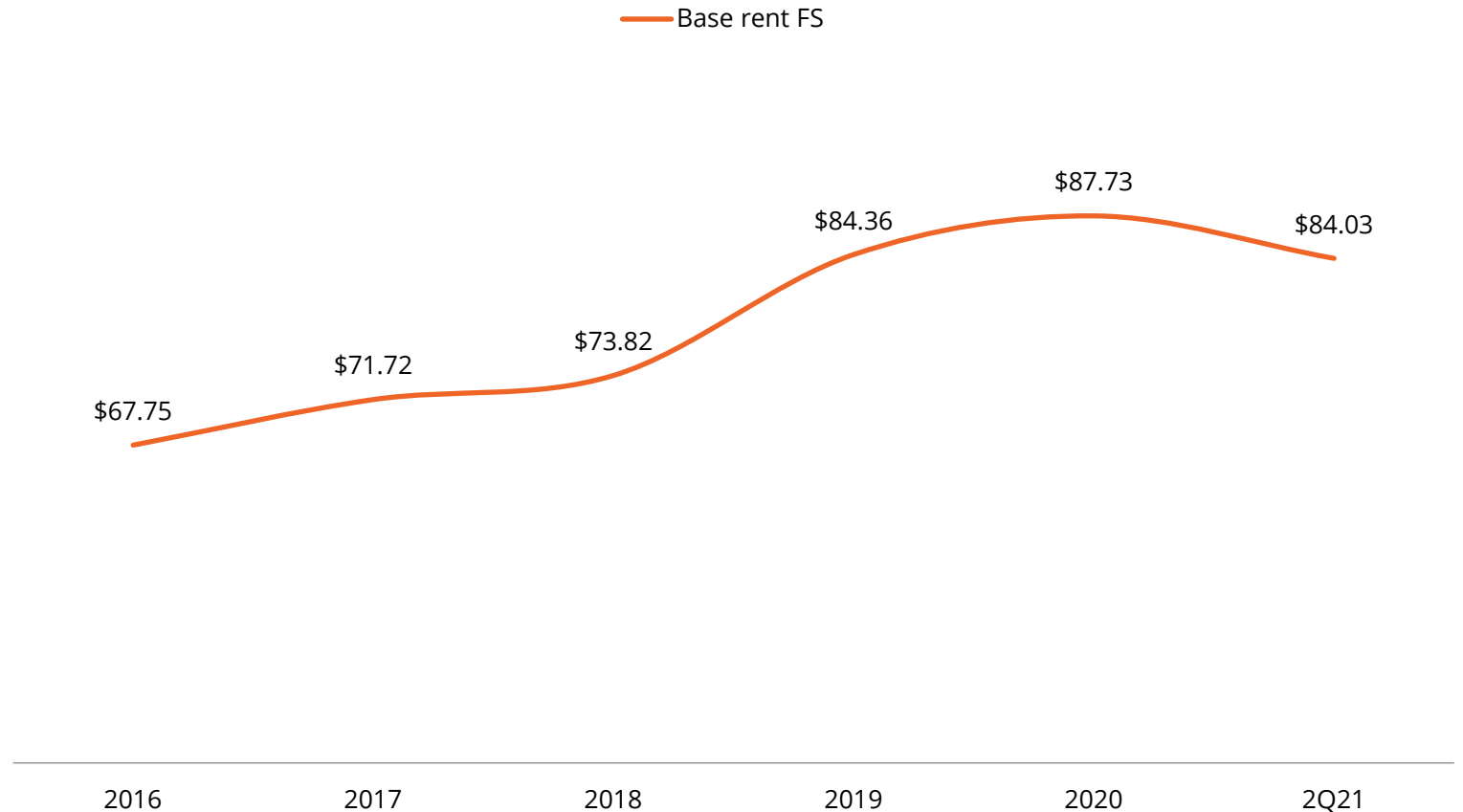


Base rents

4.2%

Decline in rents since the beginning of 2021

Base rents have significantly softened following the pandemic and the resultant recession.



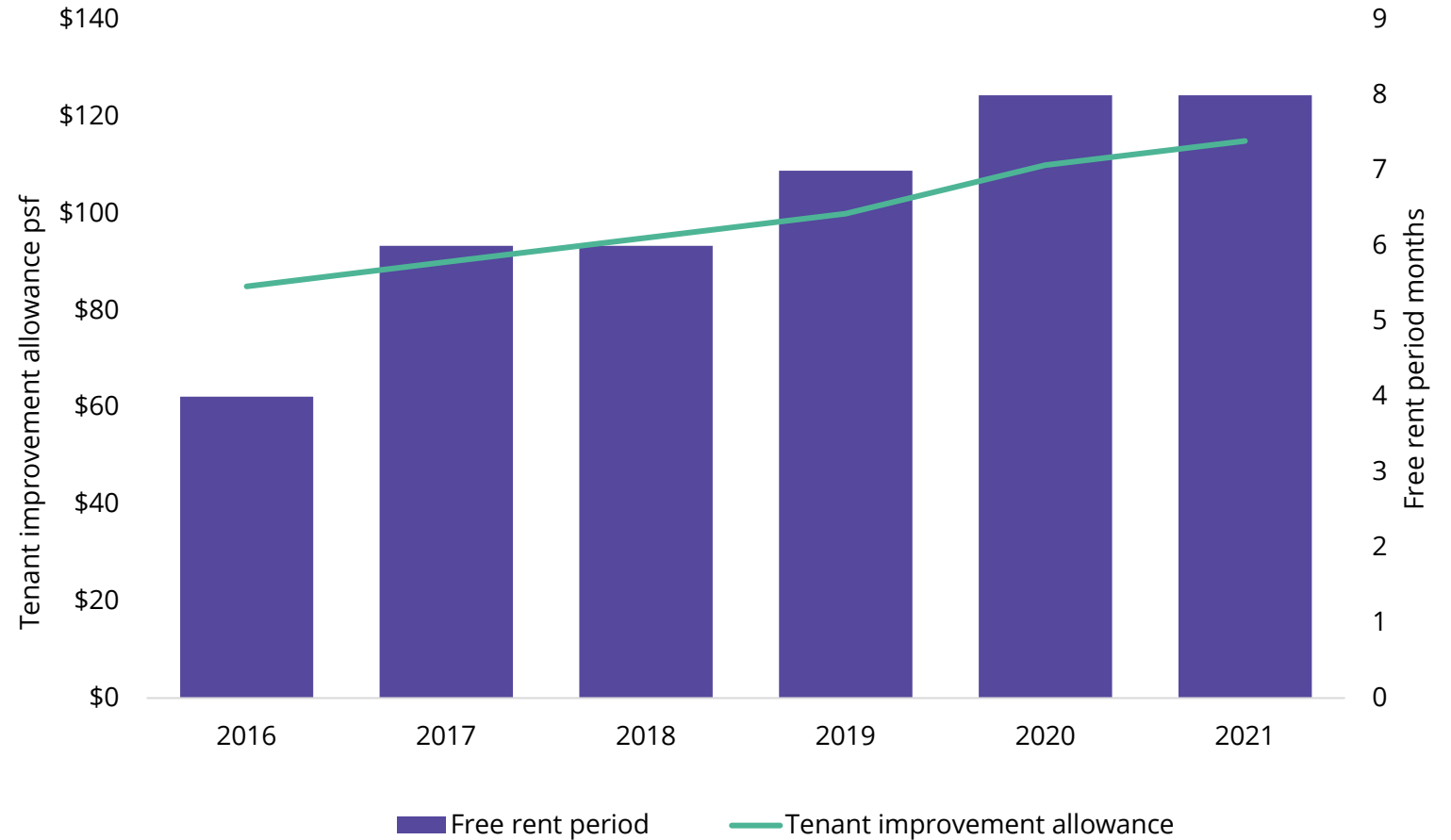
Note: Class A office properties
Source: AVANT by Avison Young

Concessions

4.5%

**Year-over-year increase
in tenant improvement
allowance amounts**

Tenant improvement allowances and free rent periods have increased as activity levels remain subdued.



Note: Class A office properties, new 10-year lease
Source: AVANT by Avison Young

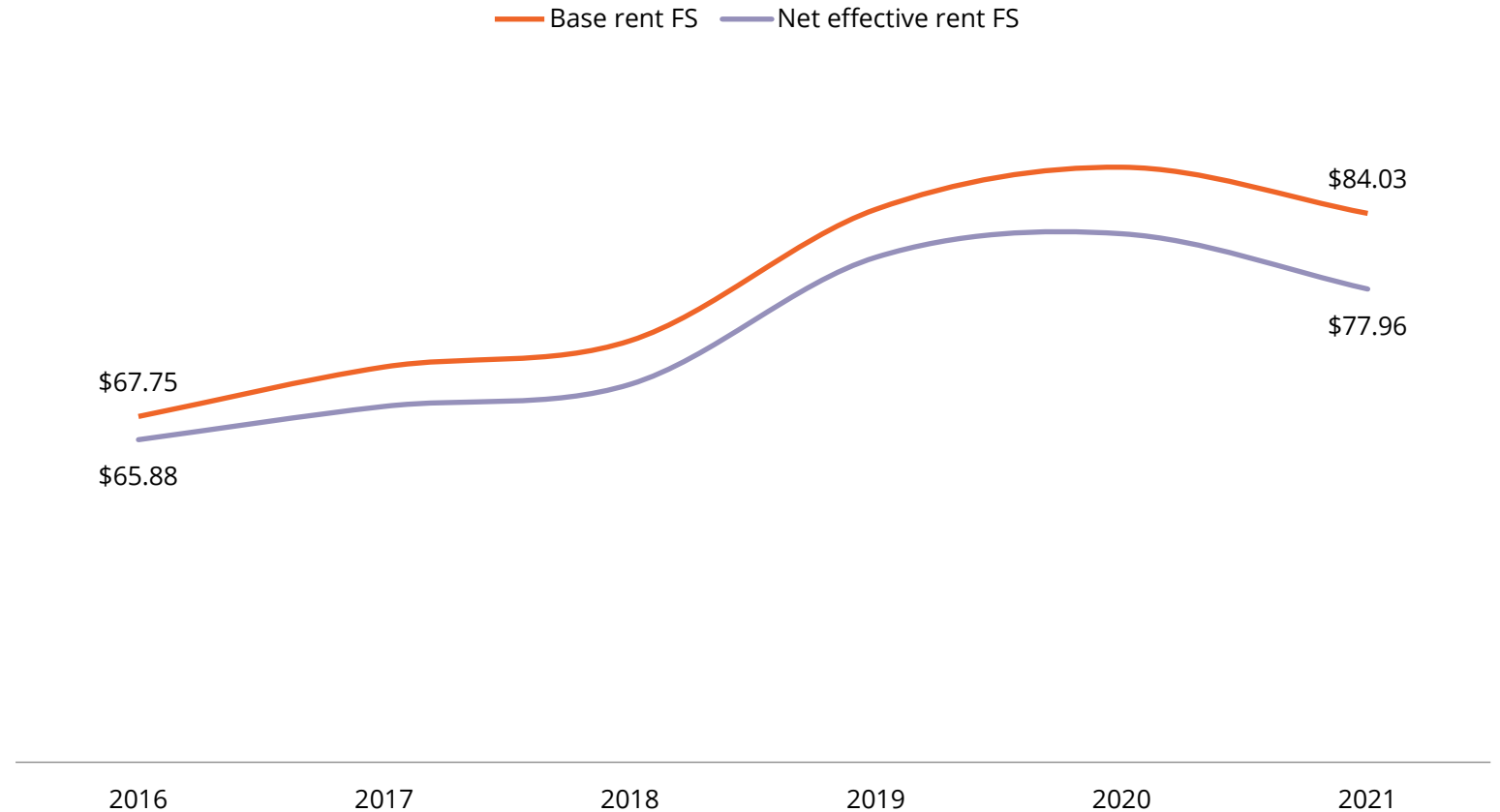
Base rent and net effective rent

13%

**Increase in delta
between base rents and
NERs as concessions
have increased**

Net effective rents decreased by

5.4% since the beginning of 2021 as leverage has shifted toward favor of tenants.



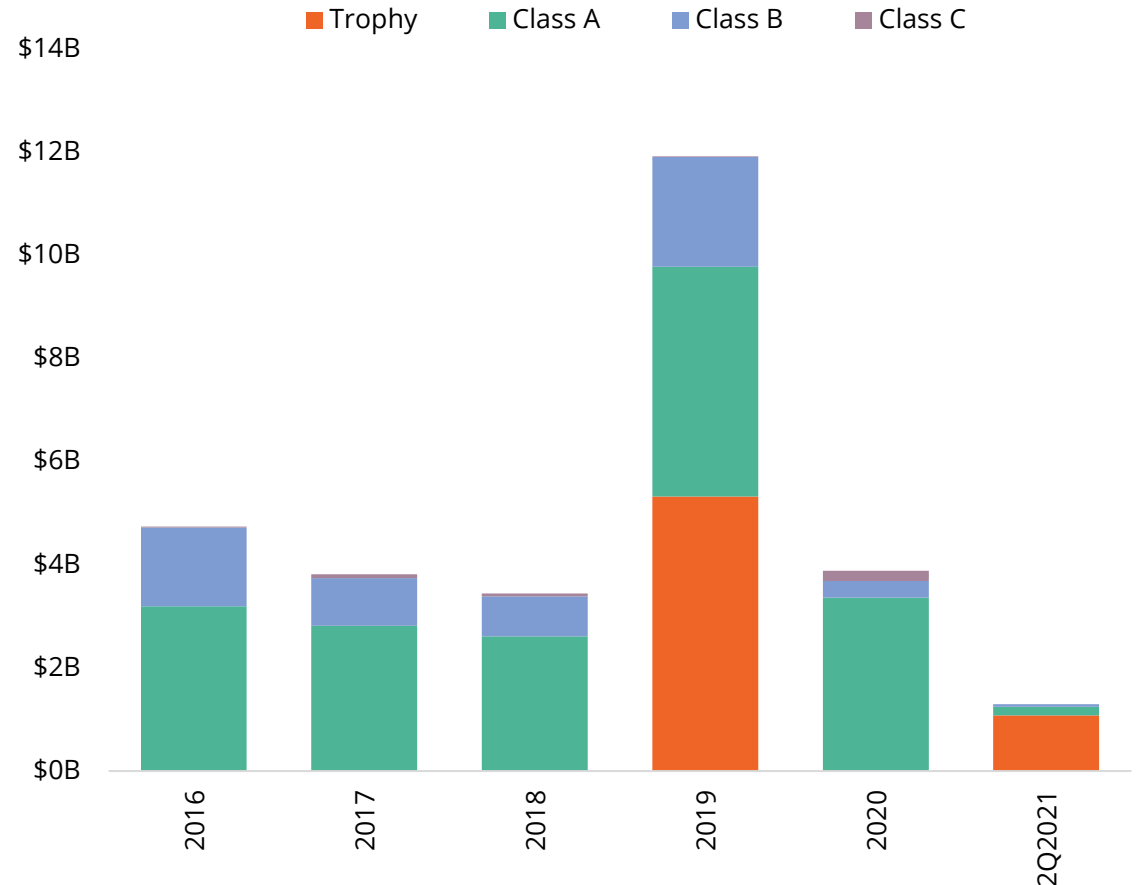
Note: Class A office properties, new 10-year lease
Source: AVANT by Avison Young

Office investment dollar volume

\$5.2B

San Francisco office sales dollar volume over the past 18 months

Office sales activity is significantly down from 2019 levels as markets face a risk-pricing crisis.



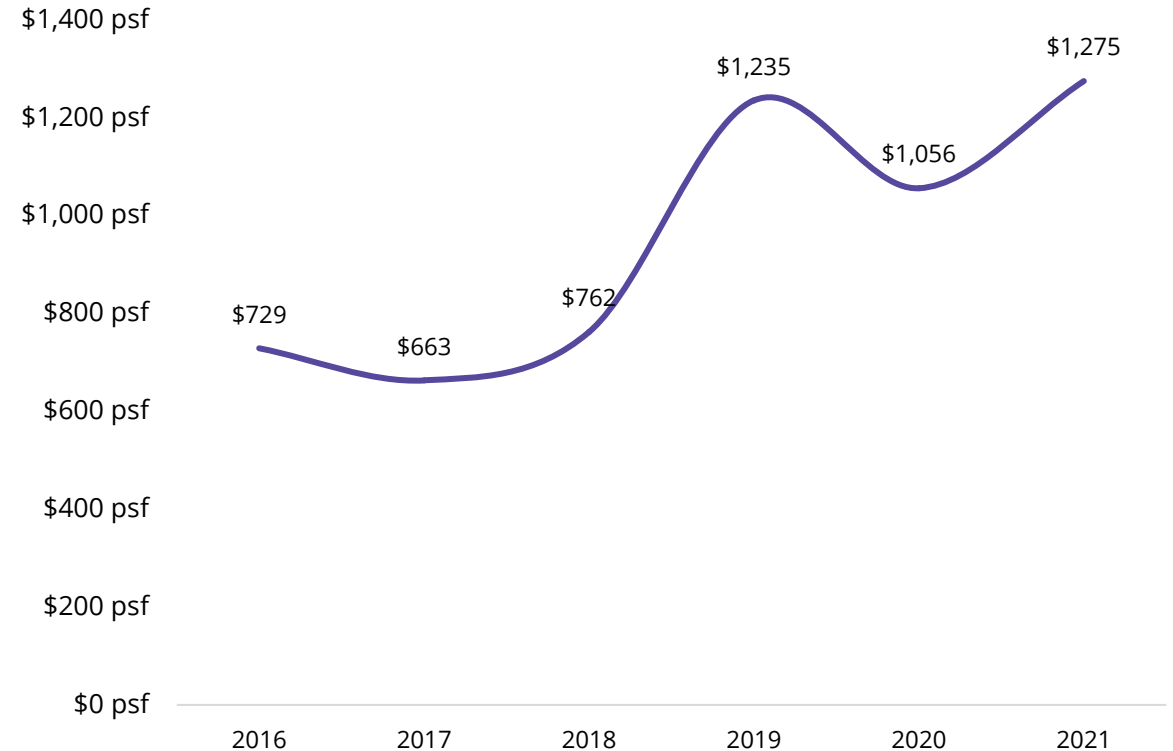
Source: AVANT by Avison Young

Office asset pricing

\$1,275 psf

San Francisco average office sales pricing in 2021

Office sales were limited over the first half of 2021 with the largest sale, The Exchange, for over \$1,400 psf driving a weighted average sale price that surpassed the 2019 average.



Source: AVANT by Avison Young

Get in touch



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Let's talk

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