



AVISON
YOUNG

San Francisco Peninsula Office Insight Report

Q3 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the San Francisco Peninsula unemployment rate to rebound from a high of 11.8 percent to **4.6 percent**.



Recovery rate

- The overall U.S. post-COVID rate of recovery based on extrapolated cell phone data is **55.3 percent**.
- The overall rate of recovery in the Bay Area is comparatively higher at **64.5 percent**.
- The return of Bay Area office occupiers has passed that of other primary markets. Even while battling the Delta Variant, because of high vaccination and low case rates, the rate of recovery across the Bay Area office market is **26.7 percent** compared to the U.S. average of 25.1 percent.



Office demand

- Leasing activity has increased **71.6 percent** when compared to 2020.
- Net Absorption has recovered from the lows of the pandemic, seeing positive absorption of **680,000 sf** since the beginning of 2021

Key takeaways



Office supply

- Direct and sublease vacancy have fallen to **9.2 percent** after reaching decade-long highs in Q2.
- The sublease market has shown signs of improvement, with sublease space accounting for **1.3M sf** of available space. However, some prospective sublandlords have pulled their space from the market after unsuccessfully capturing demand by subtenants.



Pricing trends

- Net effective rents decreased by **3.8 percent** over the first half of 2021 as landlords induced tenant commitments through increasing concessions packages and favorable lease provisions while keeping rents relatively steady.
- Demand is continuing to increase as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market.



Capital markets

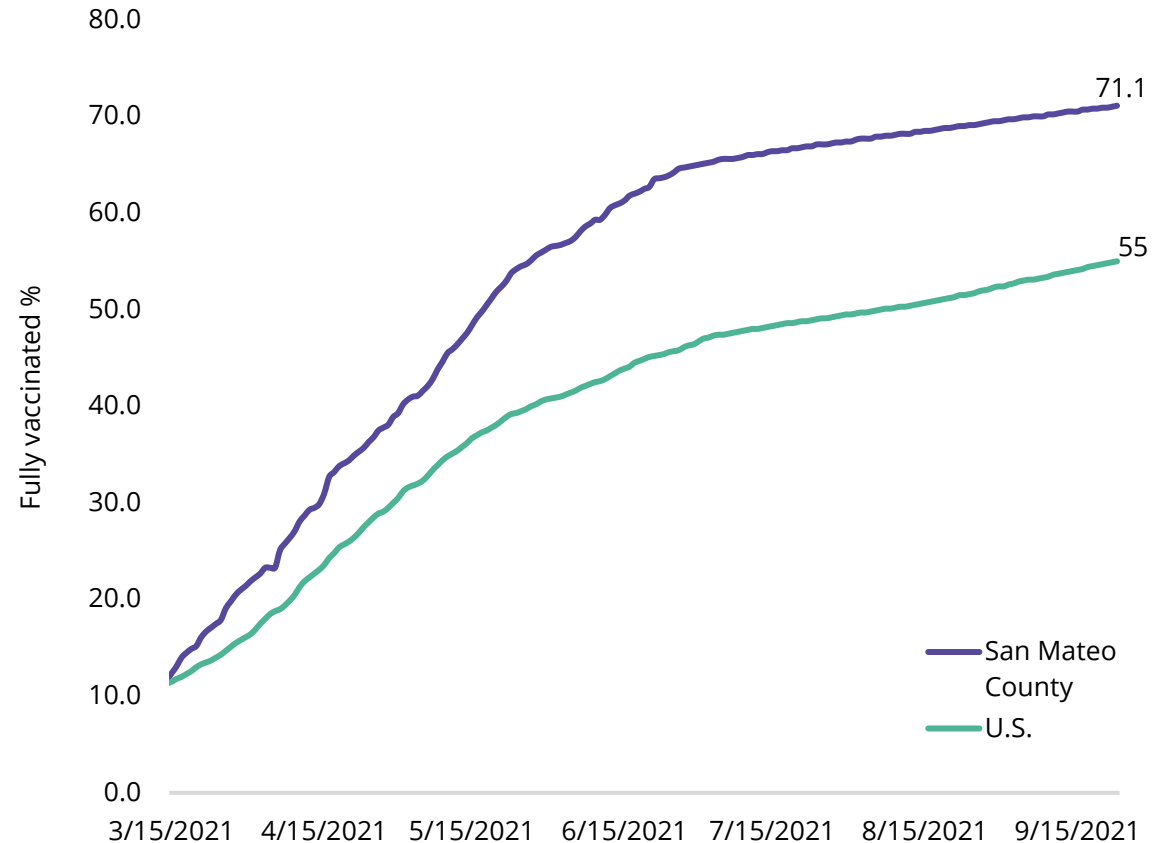
- Confidence in the region is returning as we begin to see the light at the end of the tunnel of the pandemic. As a result, **\$1.9B** of Peninsula offices have been sold since 2020.
- Asset pricing has increased **44.1 percent** over the last 24 months, reach an all-time high of **\$722 psf**.

Vaccination rates

71.1%

Share of total San Mateo County population that is fully vaccinated

San Mateo County 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

4.6%

San Mateo County unemployment rate as of September 2021, marking a staggering recovery from the peak of the pandemic

Historically tightened labor market conditions were halted by the pandemic with nearly 72,000 job losses between February and May 2020. However, reopening efforts enabled the economy to add 10.7% jobs since May 2020.



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

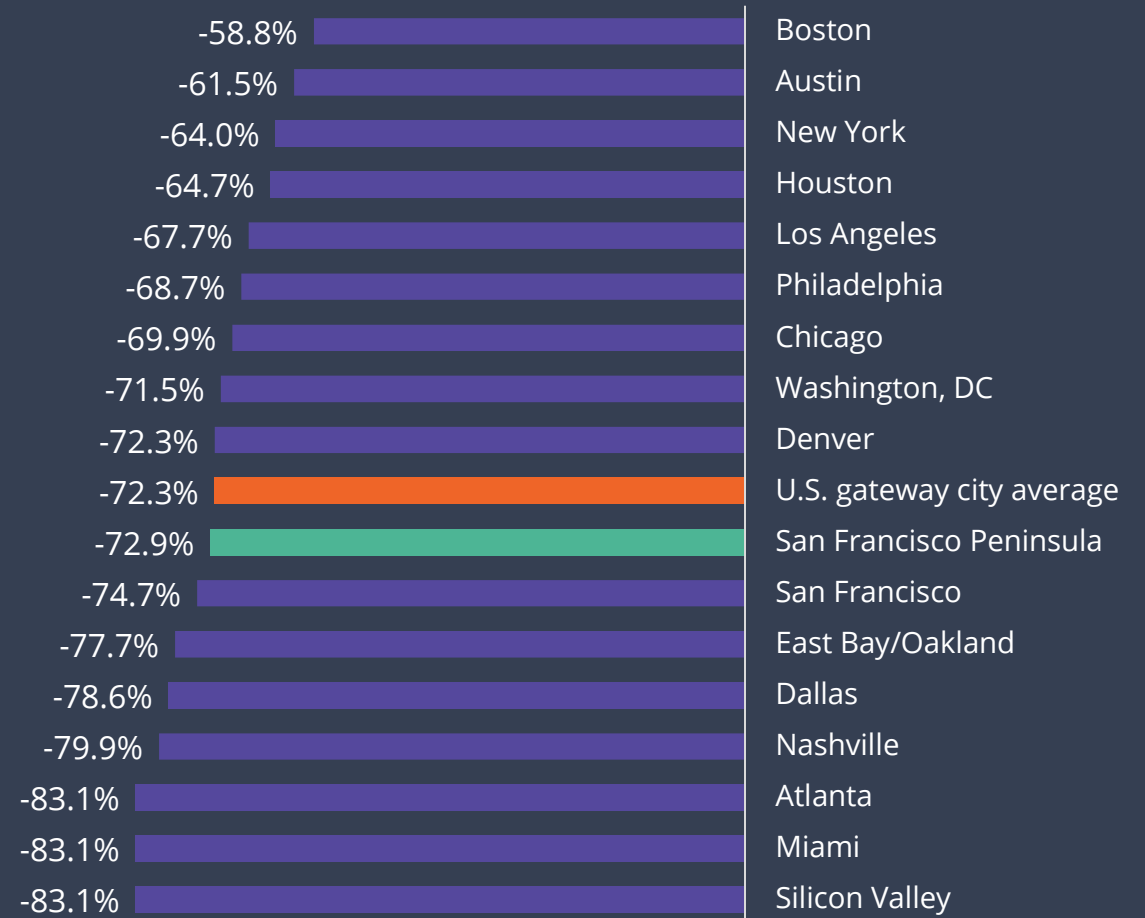
U.S. return-to-work rates since start of COVID

-72.3%

Average office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Return-to-work efforts across cities have been influenced by governmental regulations (informed by infection and vaccination rates), office-using industry composition and employees' reliance on mass transit.

[VIEW VITALITY INDEX](#)



Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

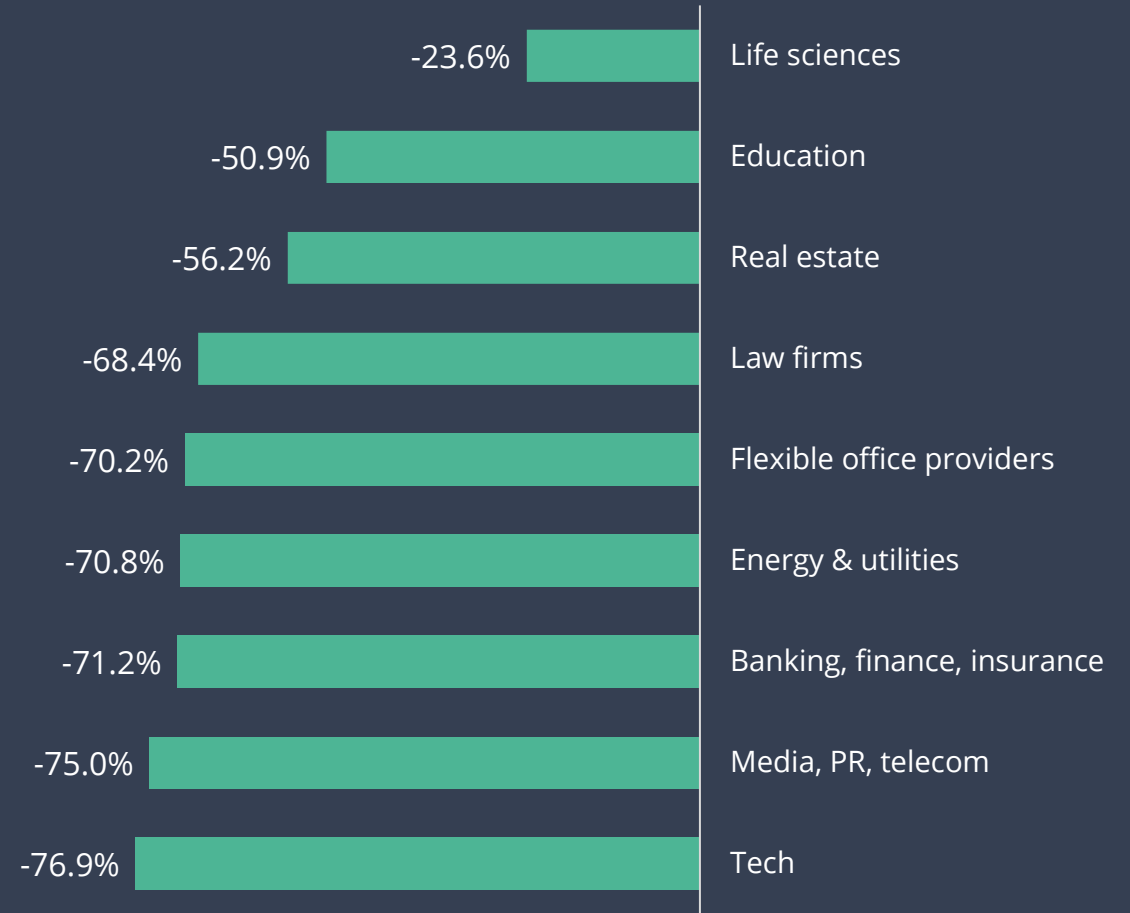
U.S. return-to-work rates since start of COVID

-76.9%

Average tech office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

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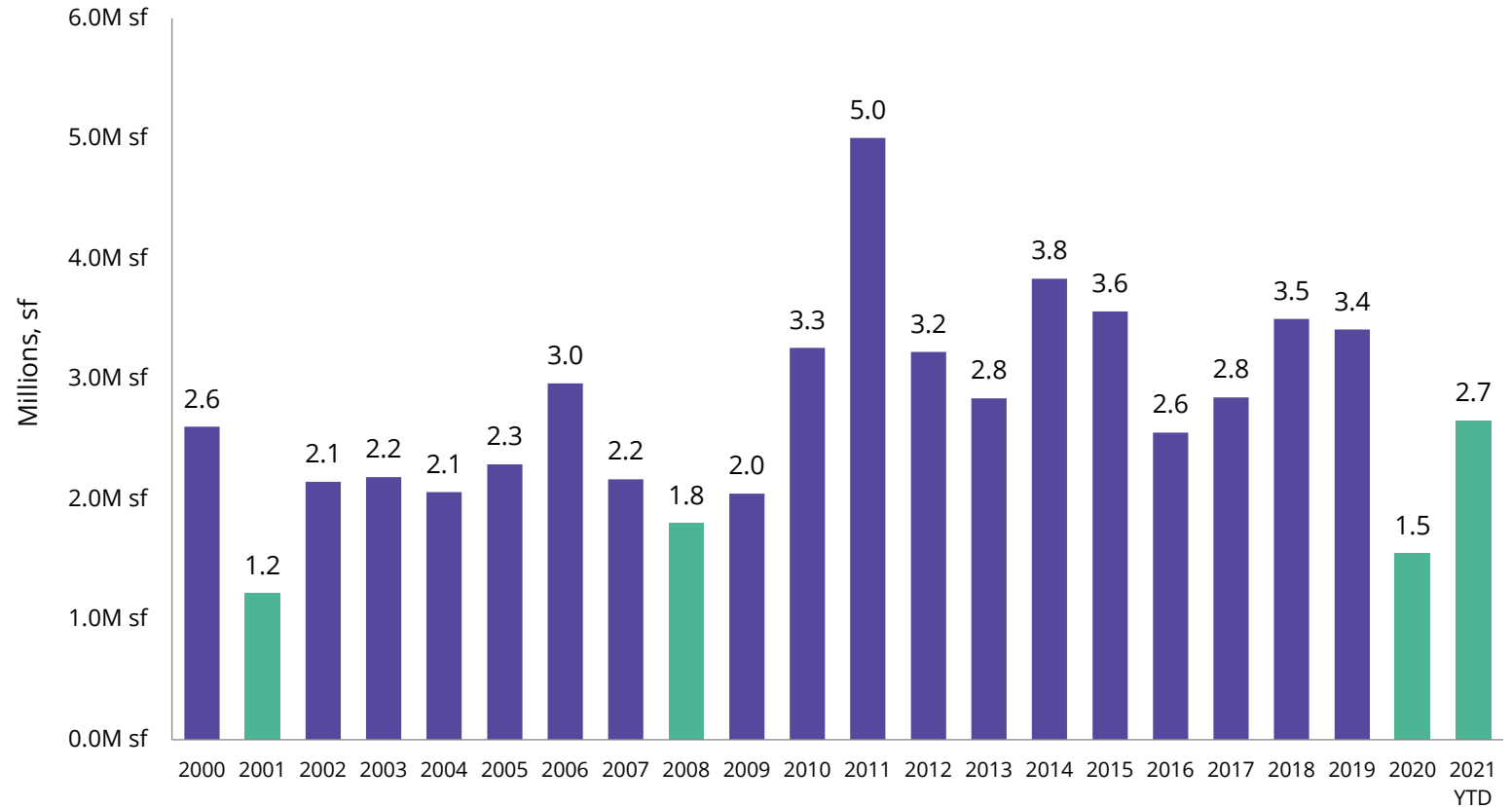
Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

Office leasing activity

71.6%

Increase in leasing activity from 2020 through 2021 YTD

2021 has shown large signs of improvement when compared to 2020. Through Q3 2021, leasing activity has increased over 70% compared to 2020.



Source: AVANT by Avison Young

Absorption

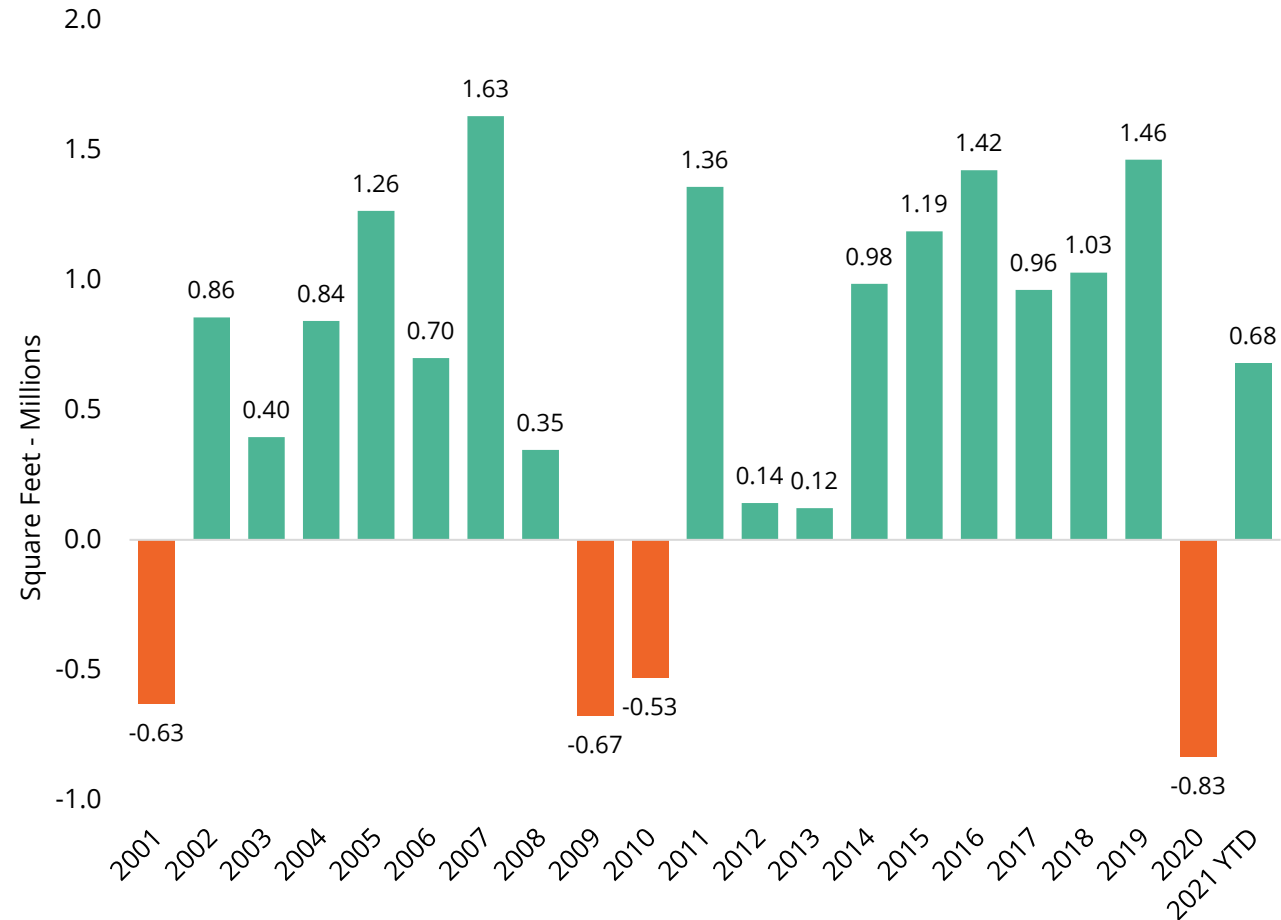
680,000 sq

ft

After an all-time low in 2020, absorption rebounded drastically. Led by a 283,000 sf lease by C3.ai, the region

has returned to the trend of positive absorption.

Net absorption in 2021 YTD



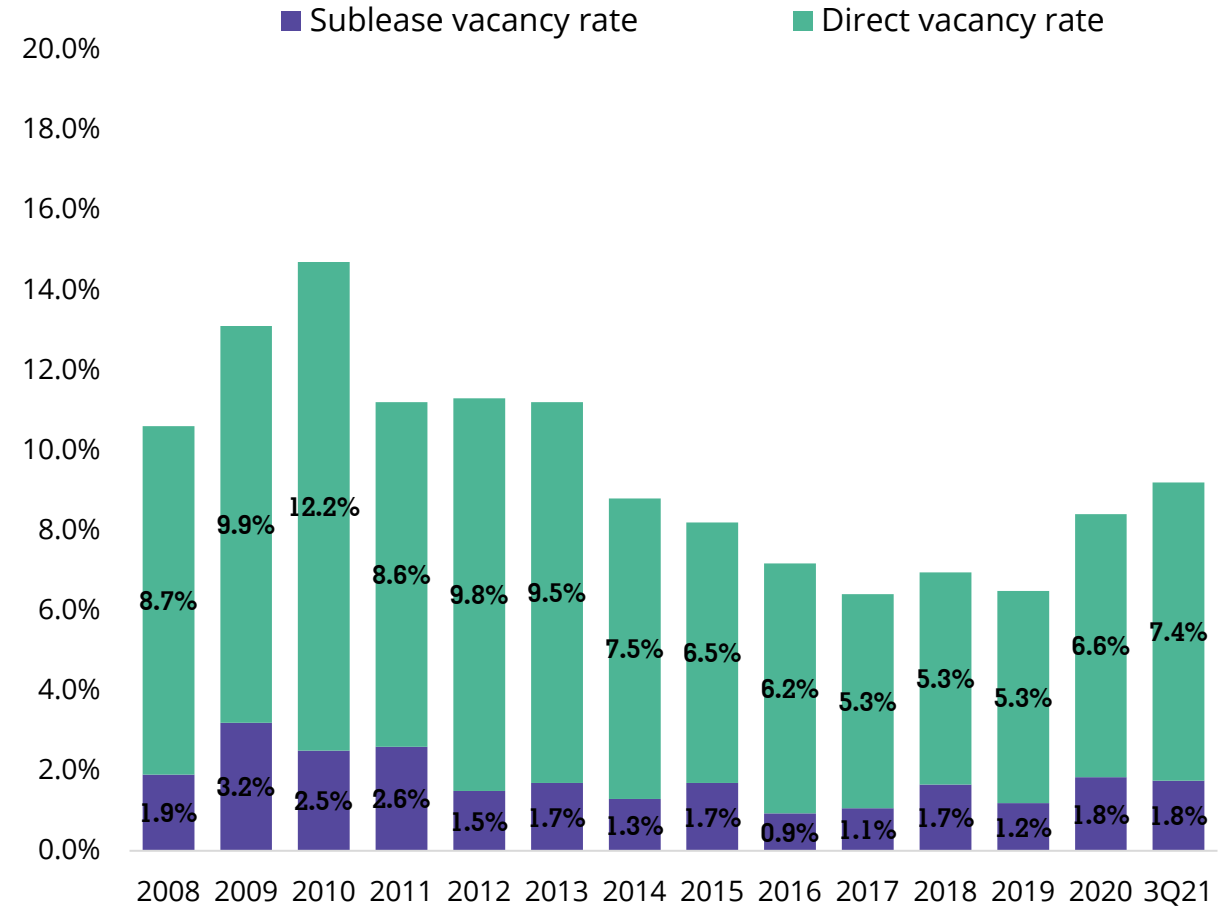
Source: AVANT by Avison Young

Vacancy rate

9.2%

Near-term high Peninsula vacancy as of Q3 2021

Vacancy continued to rise jumping to 9.2% in Q3 from 8.4% at YE 2020. The ratio of sublease-to-total vacancy is currently 24%.



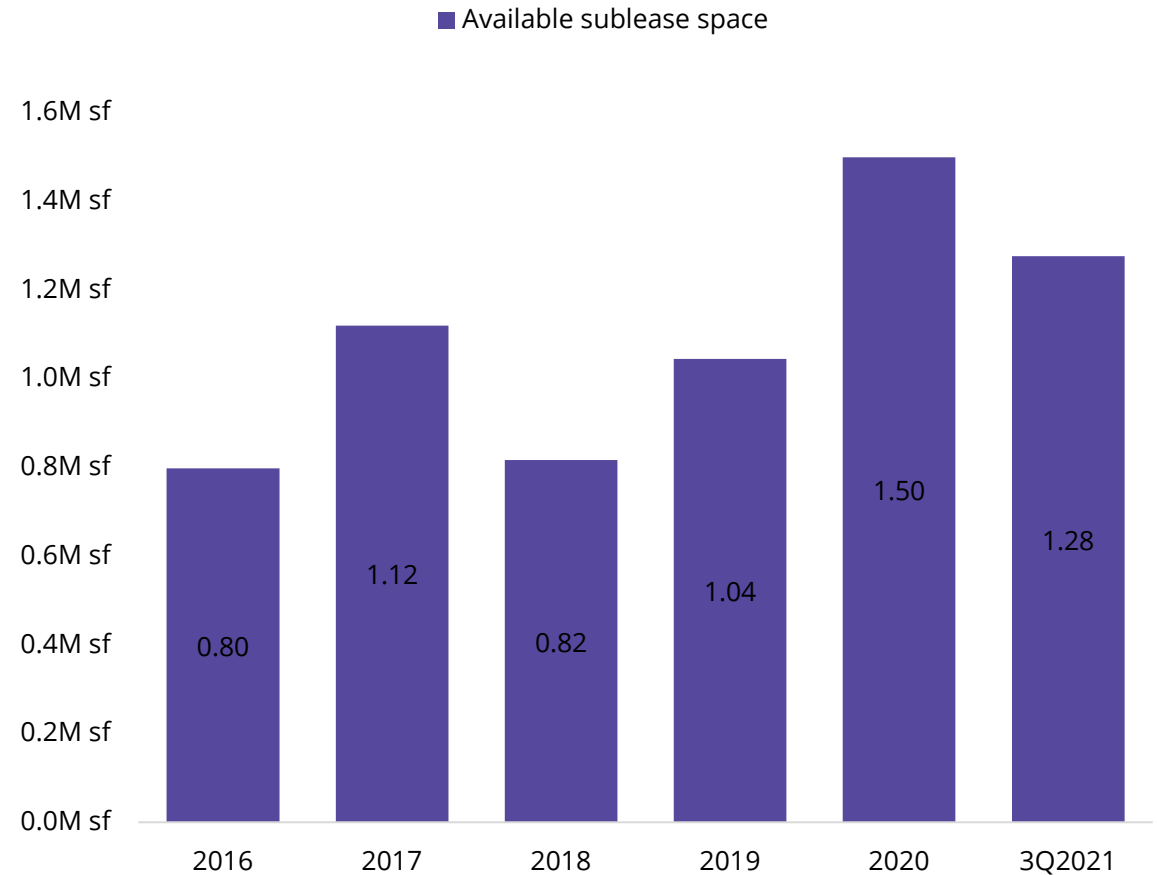
Source: AVANT by Avison Young

Available sublease space

1.3 msf

Of available sublease space

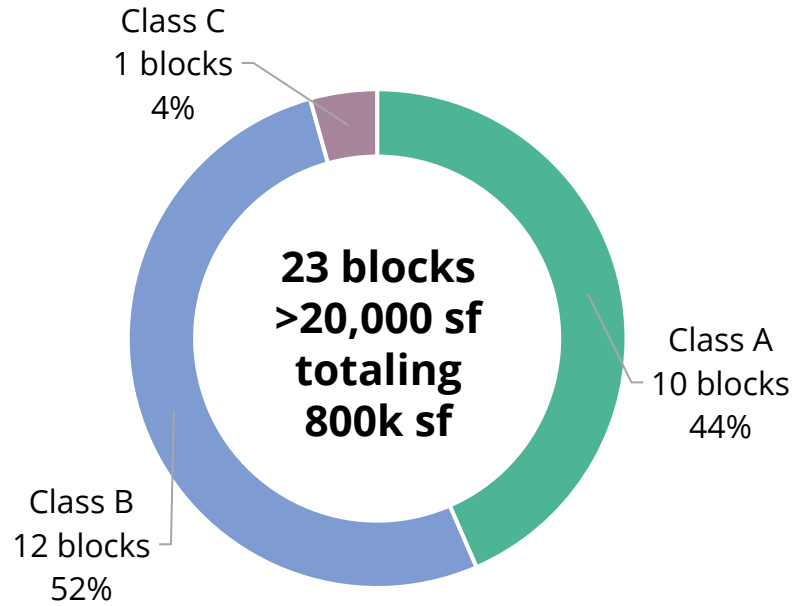
Available sublease space has decreased by 15% since 2020 as confidence in the market continues to rise.



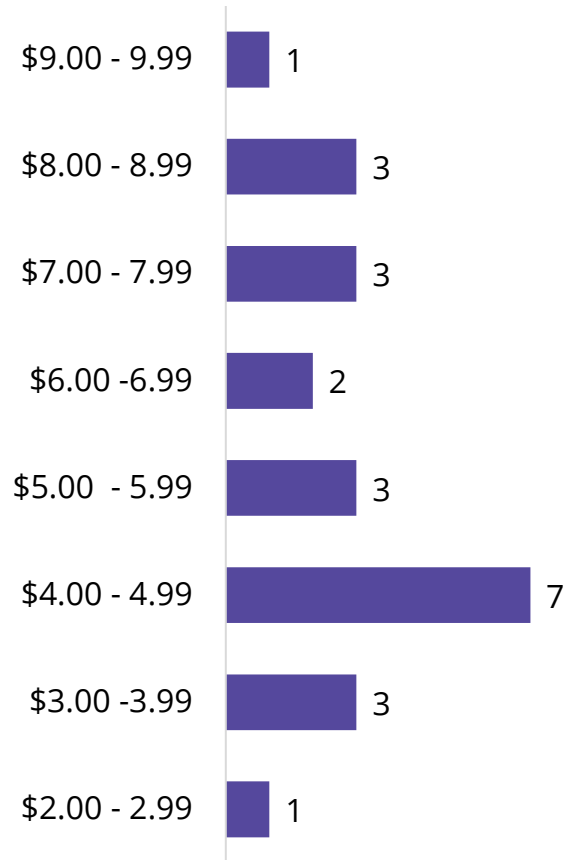
Source: AVANT by Avison Young

Sublease supply pipeline

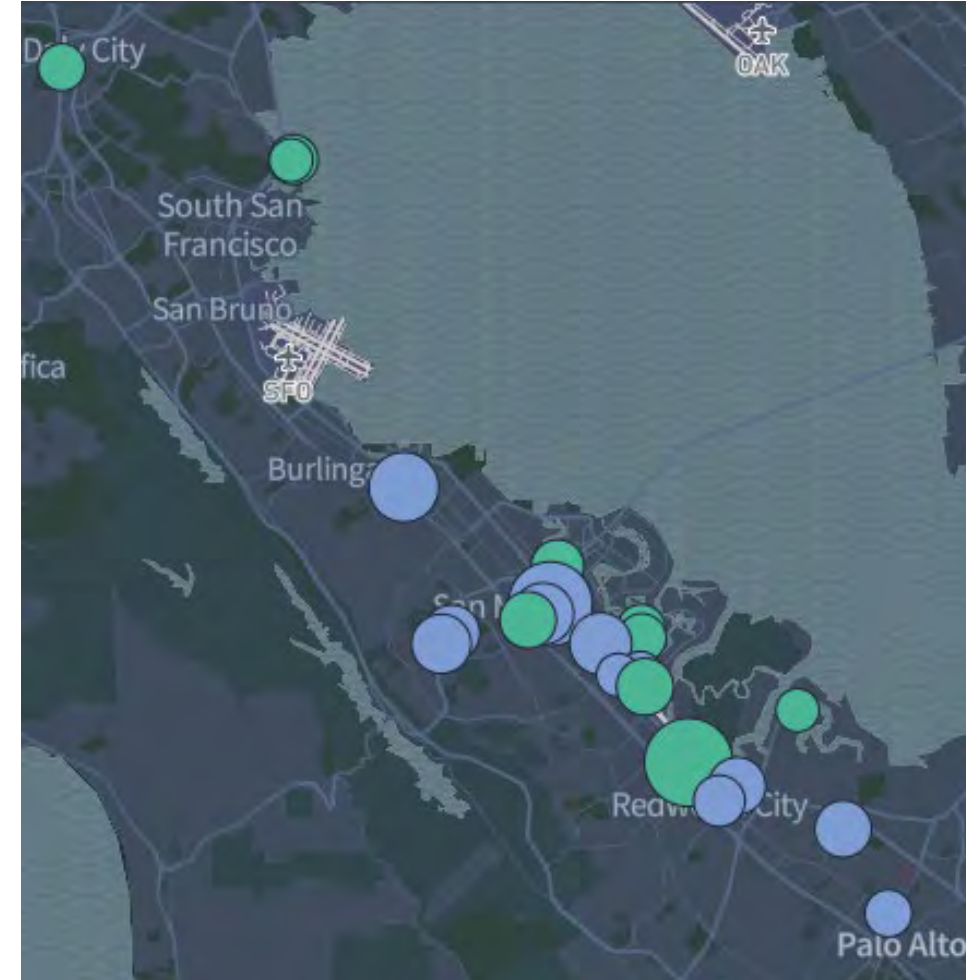
Building classification



Asking rent per square foot



Source: AVANT by Avison Young

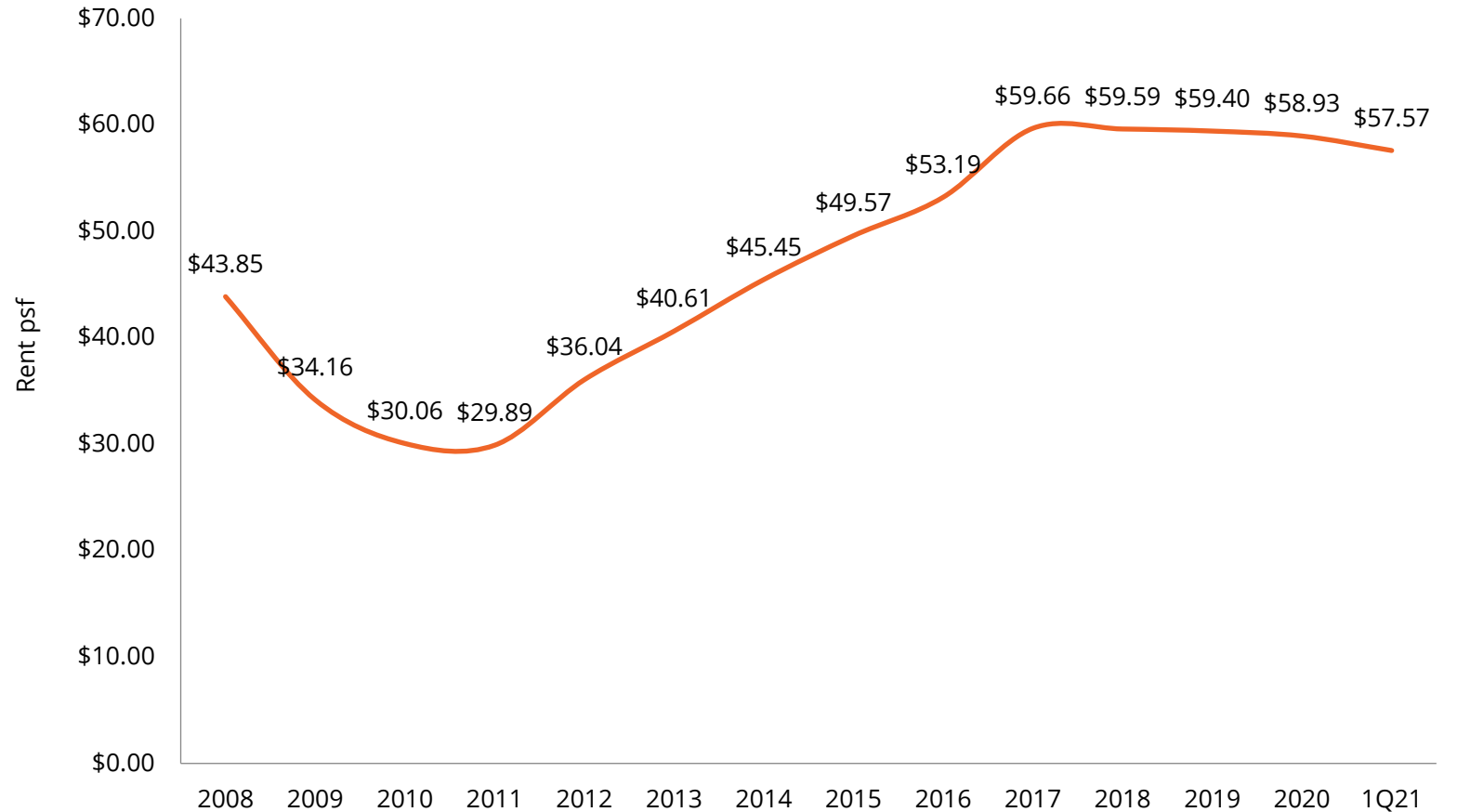


Class A Base rents

-2.3%

**Change in rents
since YE 2020**

Base rents have incrementally softened following the pandemic and the resultant recession, but have not dropped as drastically as the Great Recession in the late 2000s.



Source: AVANT by Avison Young

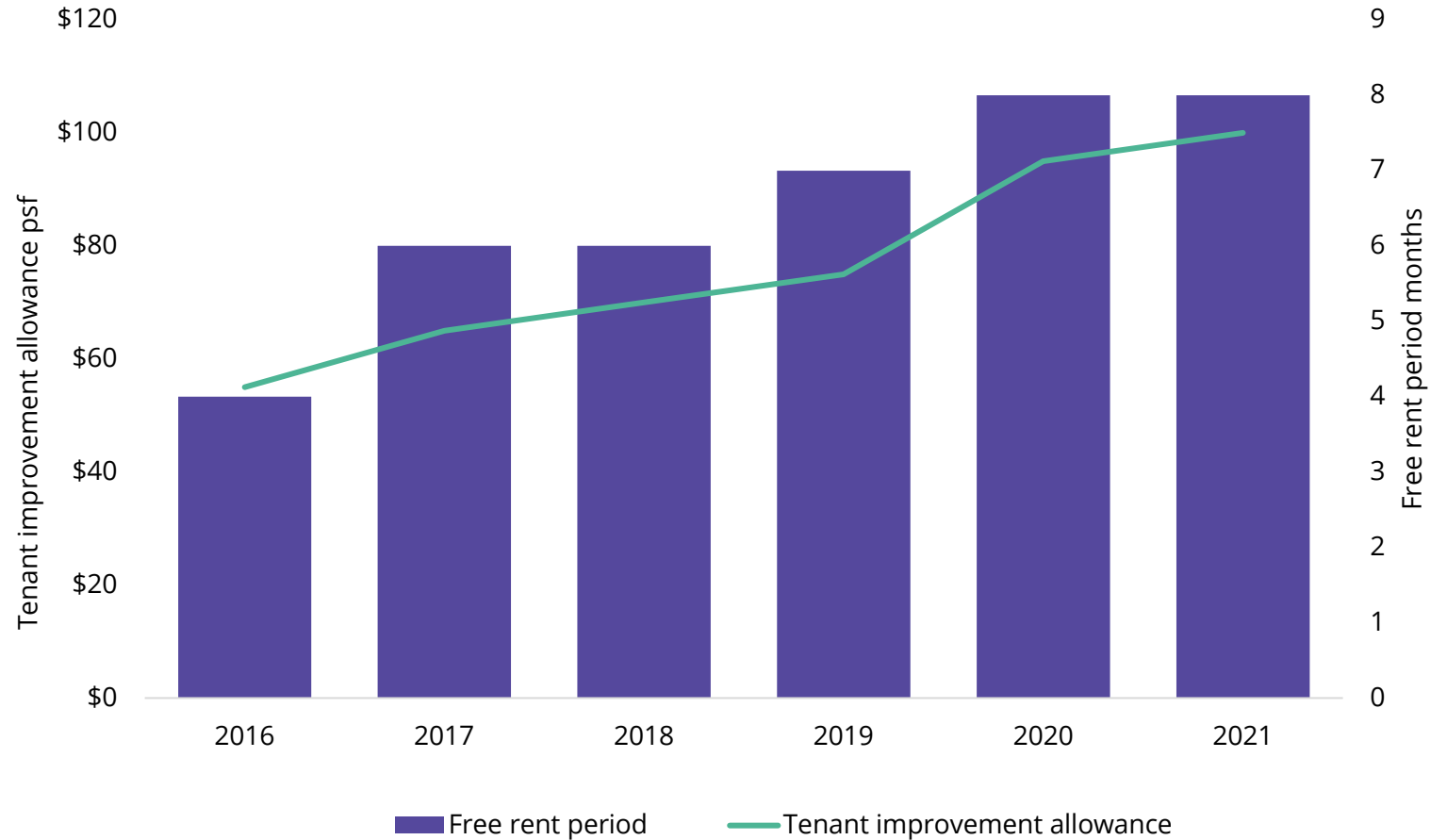
Concessions

5.2%

Increase in concessions over 2021 YTD

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

Landlords continue to be resistant to lower asking rents but are willing to concede increased free rent and TI allowances.



Note: Class A office properties.
Trailing 12-month unweighted averages. Excludes subleases, renewals and expansions.
Normalized to 10-year lease terms. Source: AVANT by Avison Young

SF Peninsula aging inventory

61 properties

proposed or under construction

20.9 msf

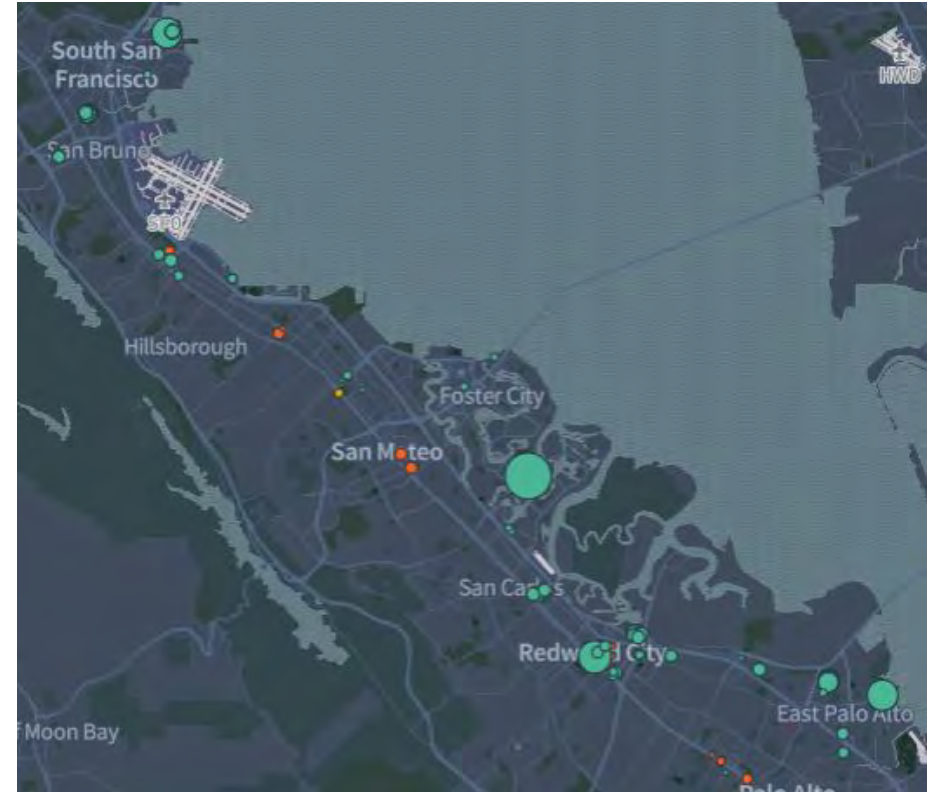
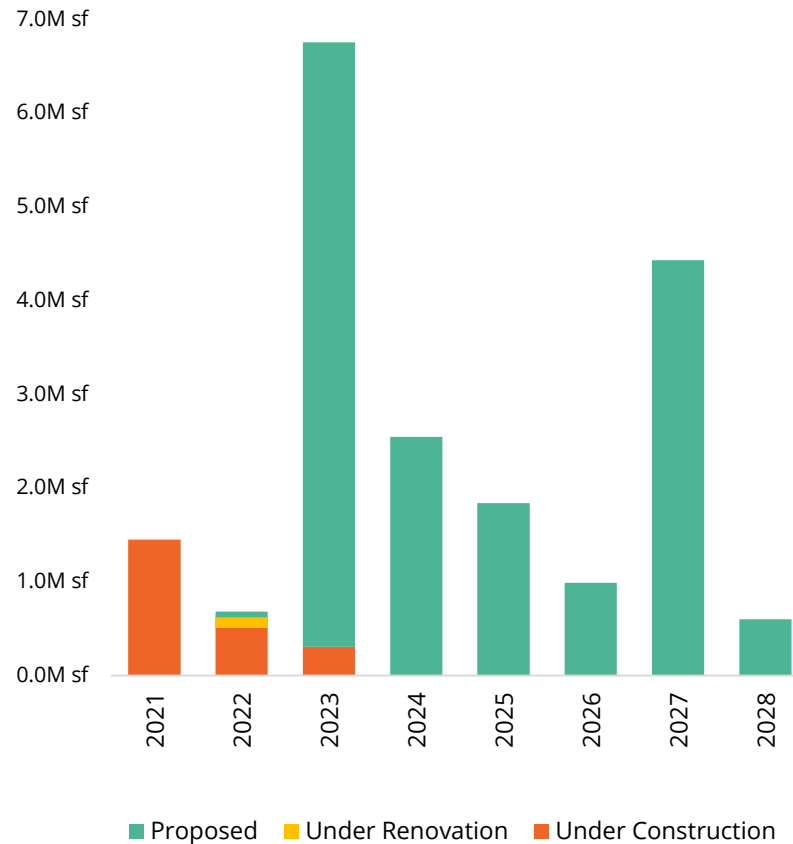
proposed or under construction

43.4%

share of office inventory

1987

average delivery date of existing Silicon Valley offices



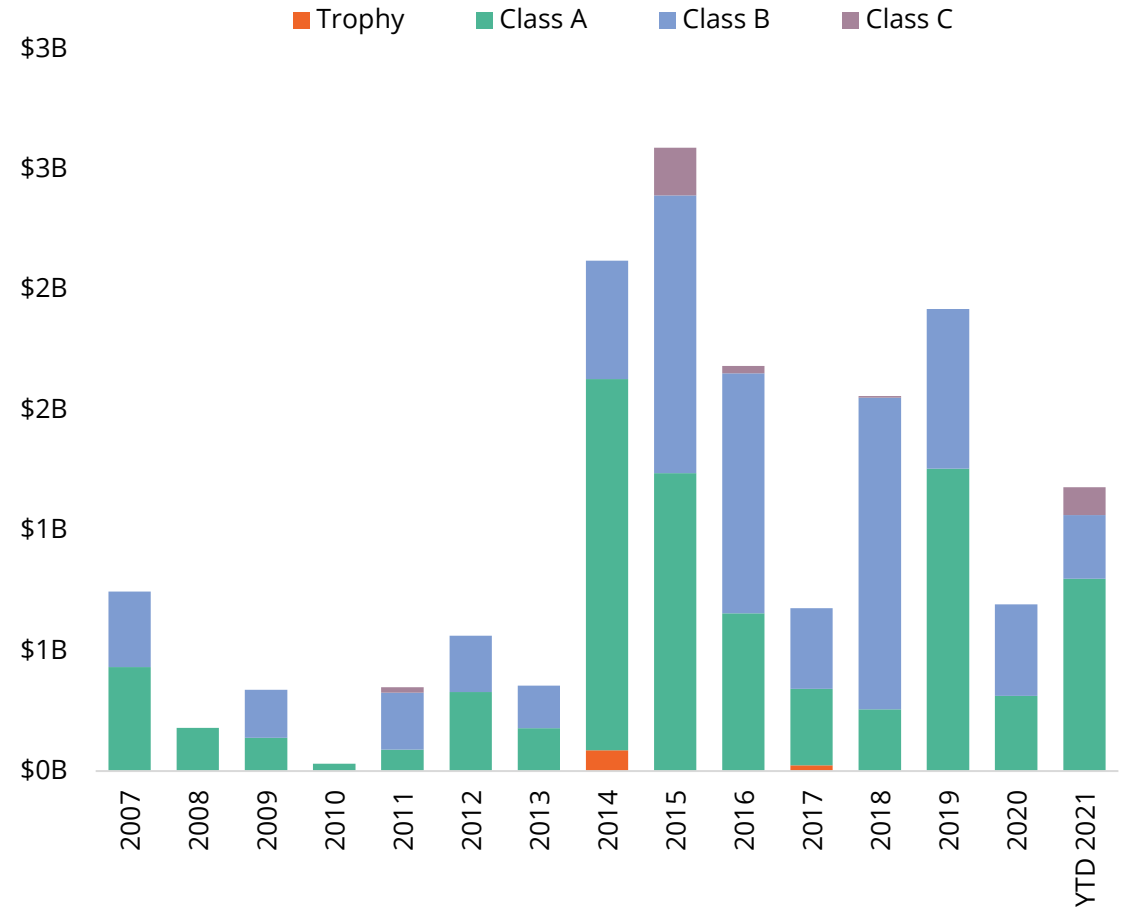
Source: AVANT by Avison Young

Office investment dollar volume

\$1.9B

Peninsula office dollar volume 2020 to present

Office sales activity has rebounded in 2021 after a slight decrease in 2020 due to the uncertainty around the Corona Virus pandemic. Since the beginning of 2021, office investment volume has increased by over 70% when compared to 2020.



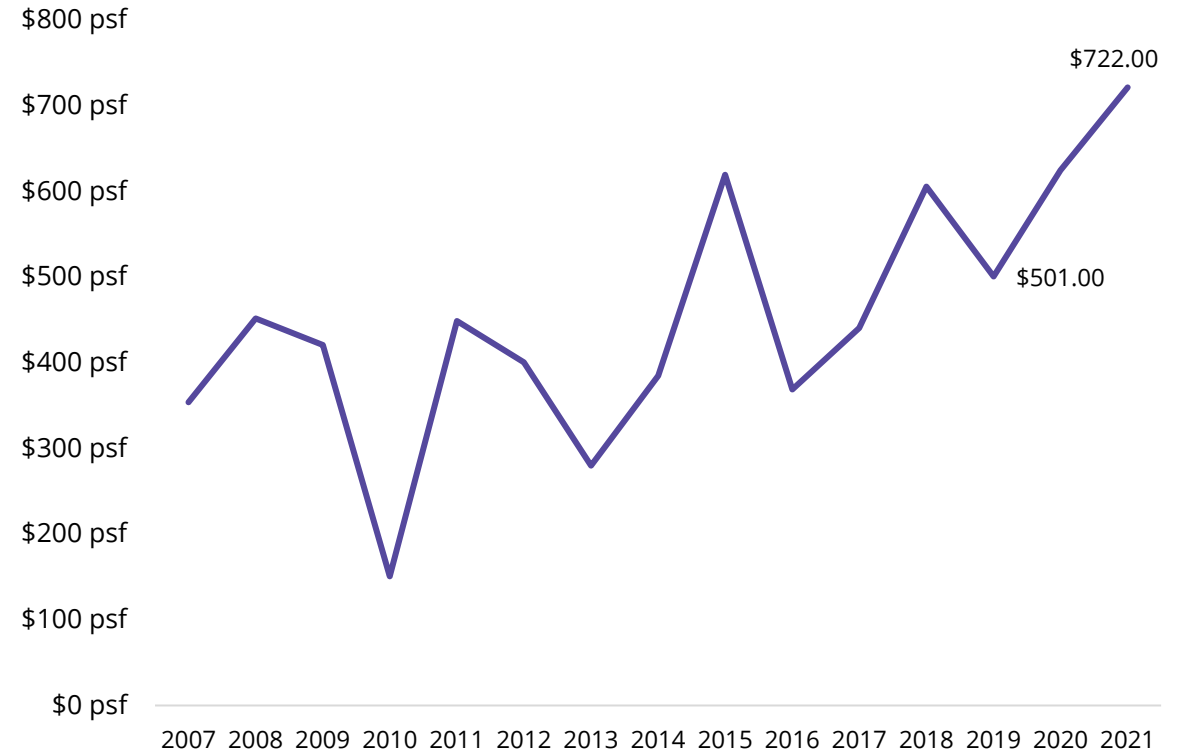
Source: AVANT by Avison Young,
California Department of Finance, RCA

Office asset pricing

44.10%

Peninsula office pricing from November 2019 to present

Pricing has continued to rise to all-time highs, with pricing up over 44% since 2019. This can be attributed to confidence in market fundamentals, the eventual return-to-office, and consistent demand from the traditional tech giants.



Source: AVANT by Avison Young
New York City Department of Finance, RCA

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Let's talk

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