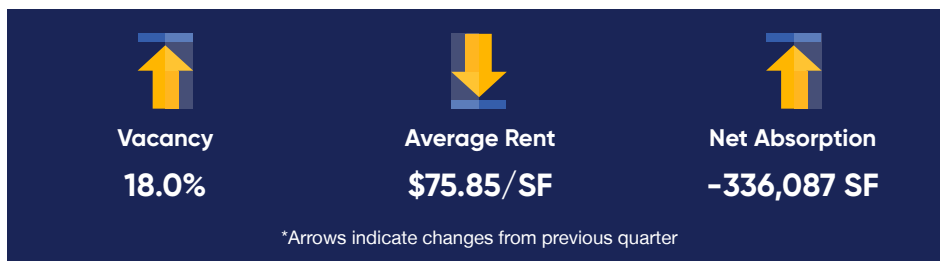


# Occupier's Guide

As San Francisco officially reopened on June 15, asking rates in the office market have continued to decrease 3.2% quarter-over-quarter, whereas vacancy rates have continued to increase from 7.5% in Q2 2020 to 18.0% in Q2 2021. Net absorption remains negative with an additional 336.1 KSF of negative absorption in the quarter.

The largest office tenant in the country joined the list of tenants implementing the hybrid work model, the US Government. Other notable tenants implementing the hybrid work model include Uber, Google, Salesforce, and Facebook. We expect herd mentality to follow suit as the largest tenants in the market start returning to the office place on a part-time basis.

Notably, AirBnB listed their HQ (295.0 KSF) in Showplace Square for sublease despite having a record year in 2020. According to the company's first quarter earnings report, they recorded \$113 million in losses specifically due to leases no longer deemed necessary as they look to reorganize the business and its priorities as it relates to its office needs.



## Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Sublease Asking Rent (\$/SF)	Total Vacancy Rate	Q/Q Change
\$82.58	\$66.32	No. Financial   Class A 16.0%	▲ 0.8%
\$74.41	\$58.62	No. Financial   Class B 23.9%	▲ 2.3%
\$80.94	\$59.34	So. Financial   Class A 14.4%	▲ 1.7%
\$75.70	\$56.84	So. Financial   Class B 14.5%	▼ -0.9%
\$76.82	\$73.29	SOMA   Class A 12.6%	▼ -10.3%
\$68.38	\$77.64	SOMA   Class B 28.4%	▲ 4.9%

## Recent Transactions

Tenant	Size	Submarket	Type	Sector
1 Benchling	106,155	So. Financial District	Sublease	Technology
2 Figma	97,606	Union Square	Sublease	Technology
3 Amplitude	57,530	So. Financial District	Sublease	Technology
4 Aurora Innovation	56,845	South of Market	Sublease	Technology

## Occupier's Perspective

Tenants are rethinking the future of office; and flexibility has become a focal point in the negotiation process (especially in expansion and contraction clauses).

Sublease supply has shrunk from 9.3M SF to 8.4M SF, a 6.8% decrease in the quarter. With the help of companies such as Benchling (106,155 SF), Figma (97,606 SF), and Amplitude (57,530 SF) all signing notable sized subleases in Q2. The decrease in supply can also be attributed to tenants looking to reoccupy their spaces and removing them from the sublease market.

Hines is in the process of purchasing PG&E's former San Francisco headquarters and has plans to overhaul the buildings with complete renovations ready for office use. The purchase price and renovation costs are estimated to total over \$1,000 per square foot. This is a strong indication of their confidence in the San Francisco office market.

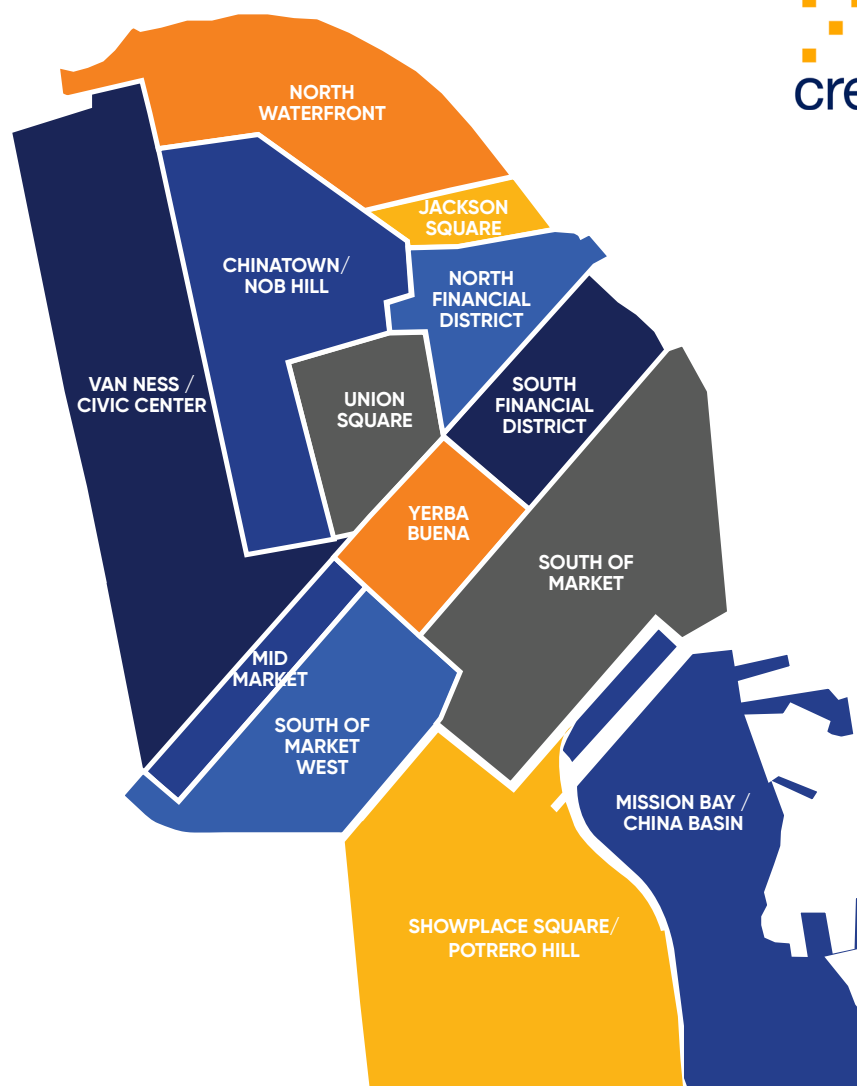
## Market Trends

**Vacancy is still on the rise**, albeit at a slower pace than pandemic levels. Vacancies with the greatest reductions are located in the CBD as the flight to quality continues.

**Rents remain down below pre-pandemic levels**, however, rents have seemingly plateaued as Return to Office "RTO" looms in H2 2021.

**Leasing activity has seen an uptick this quarter**, however, with a large allocation of leases being attributed to tenants who were in the market pre-pandemic and whom have a strong desire to focus on sublease and renewals. On the contrary, new leases and relocations have started to trail behind.

# Submarket Statistics - Office



Submarket	Inventory	Overall Rent	YoY Trend	Vacancy	YoY Trend	Net Absorption
North Financial District	27,311,936	\$79.61	▼	18.1%	▲	(392,654)
South Financial District	25,060,510	\$79.04	▼	14.6%	▲	(346,142)
N. Waterfront	3,251,578	\$74.87	▼	22.4%	▲	(37,780)
Jackson Square	1,988,271	\$75.91	▼	30.1%	▲	(129,901)
Mid Market	4,431,981	\$58.66	▼	13.1%	▲	29,831
Yerba Buena	3,015,483	\$74.96	▼	27.0%	▲	(131,727)
Union Square	3,397,224	\$70.39	▼	23.3%	▲	6,255
SoMa	6,922,840	\$73.75	▼	24.0%	▲	(301,910)
Western SoMa	1,187,326	\$64.80	▼	35.3%	▲	(53,203)
Mission Bay / China Basin	2,736,457	\$86.53	▼	21.6%	▲	1,025,684
Potrero Hill / Showplace Square	5,031,908	\$68.42	▼	9.3%	▲	19,095
Civic Center / Van Ness	1,996,890	\$52.67	▼	15.5%	▲	(23,635)
<b>Total</b>	<b>86,332,404</b>	<b>\$75.85</b>	<b>▼</b>	<b>18.0%</b>	<b>▲</b>	<b>(336,087)</b>

\*NOTE: The Uber HQ accounts for 1.0 MSF of the 2.3 MSF gross absorption recorded in Q2.