

Sublease State of the Market

Quick Facts

# of Subleases	317
Total Sqft	9,264,299
Largest Sublandlord	Uber
Class A %	59.7%
Class B %	40.3%
Average Days on Market	283
Average Remaining Term	36.4 Months
Current Sublease Rate	\$60.12

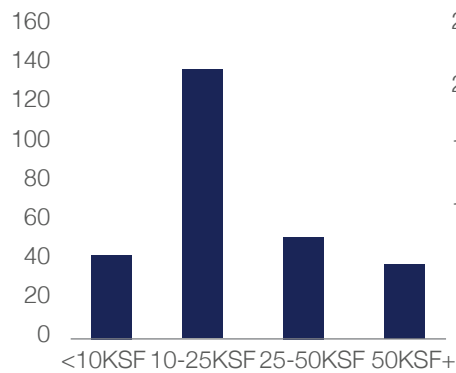
Recent / Notable Subleases

BridgeBio	51,157 SF
Varo Money	24,793 SF
Wedbush Securities	14,547 SF
Augmedix	12,936 SF
SiSense	10,000 SF

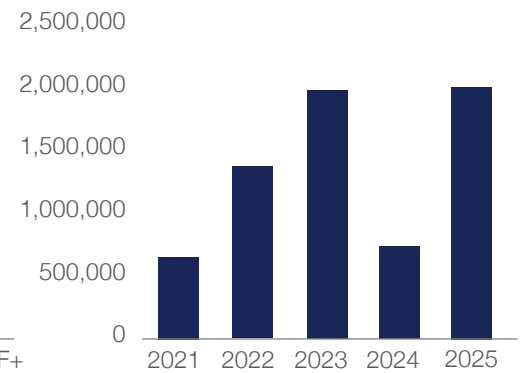
Key Takeways

- 1.6M SF of sublease space was added in the quarter with new large blocks marketed by Salesforce, Stripe, and Twilio.
- Subleasing transaction activity remained slow, while touring activity saw an increase in Q1 2021.
- Significant increases in supply continued to put downward pressure on sublease rents (31.0% decrease year-over-year).

of Spaces on the Market



Sublease RSF Expiring by Year



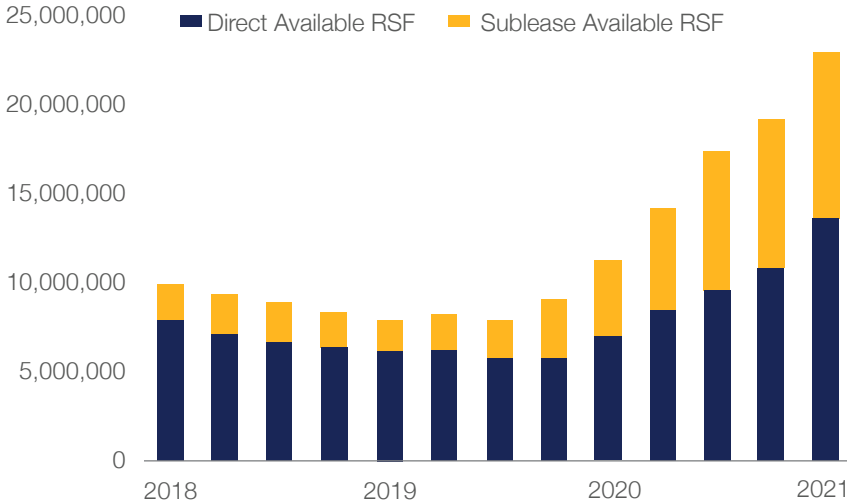
Submarket Stats

Submarket	Inventory	Total Available %	Sublease Available %	Net Absorption	Sublease Avg. Rent
CBD	52,372,446	24.1%	9.3%	(1,540,978)	\$63.03
Financial District	27,311,936	24.1%	10.7%	(938,749)	\$62.86
South Financial District	25,060,510	24.2%	7.7%	(602,229)	\$63.20
Rest of Market	33,959,958	29.8%	12.0%	(1,324,901)	\$54.00
N. Waterfront / Jackson Square	5,239,849	30.2%	9.5%	(165,319)	\$59.08
Yerba Buena / Mid Market	7,447,464	40.1%	18.5%	(169,645)	\$55.07
Lower SOMA / Rincon	6,922,840	26.2%	17.1%	(421,873)	\$60.85
Mission Bay / China Basin	2,736,457	23.5%	19.6%	(538,802)	\$60.00
Potrero Hill / Showplace Square	5,031,908	24.3%	9.2%	(30,938)	\$61.24
Civic Center / Van Ness	1,996,890	18.7%	1.5%	1,676	\$-
Western SOMA	1,187,326	34.2%	6.7%	14,301	\$44.00
Union Square	3,397,224	32.2%	13.3%	(28,946)	\$49.58

Note: All statistics above are a snapshot of the market from Q1 2021. Net absorption was calculated as physical move-ins/move-outs.

Sublease State of the Market

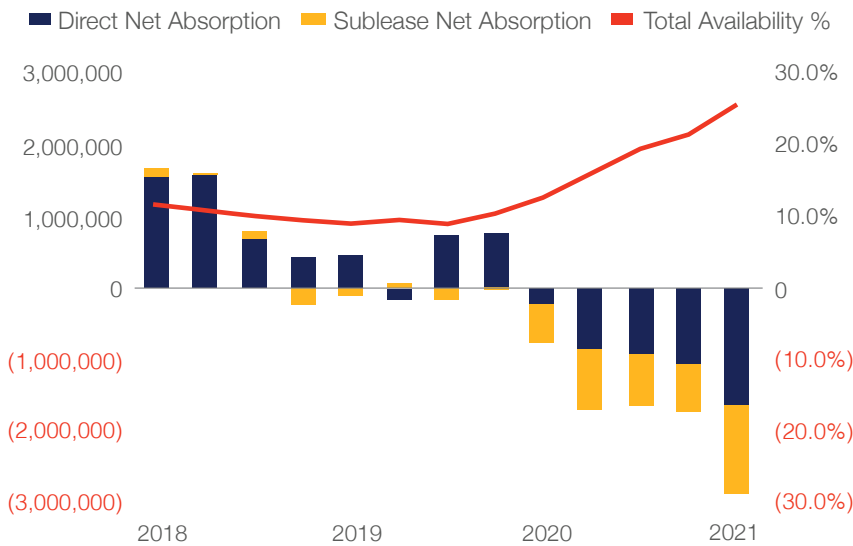
Direct vs. Sublet Availabilities



Availabilities

- Year-over-year, sublease availability increased 117.7% over Q1 2020.
- Sublease availability levels represented 41.6% of total availability in the market.
- For reference, the pre-pandemic 5-year historical average sublease percentage of total availability recorded 20.8%.
- Expect direct availabilities to increase as subleases continue to expire (1.9M SF expected to turn by the end of 2022).

Net Absorption vs. Availability %

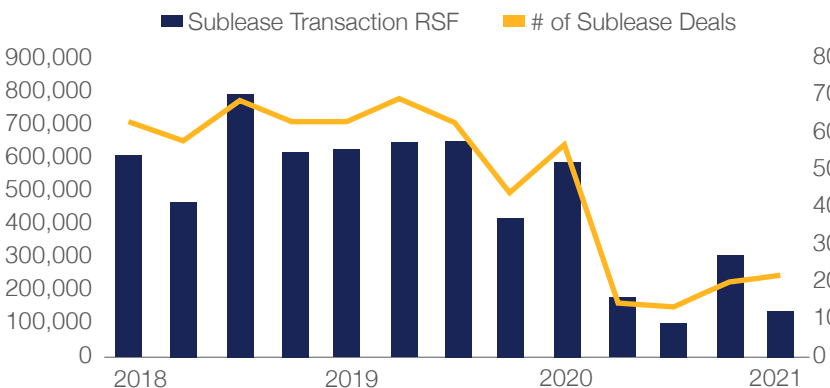


Note: Net absorption was calculated as physical move-ins/moveouts.

Net Absorption

- Negative net absorption in the San Francisco office market continues.
- RTO uncertainty and decisions to shed excess space contributes to negative absorption.

Subleasing Activity



Demand

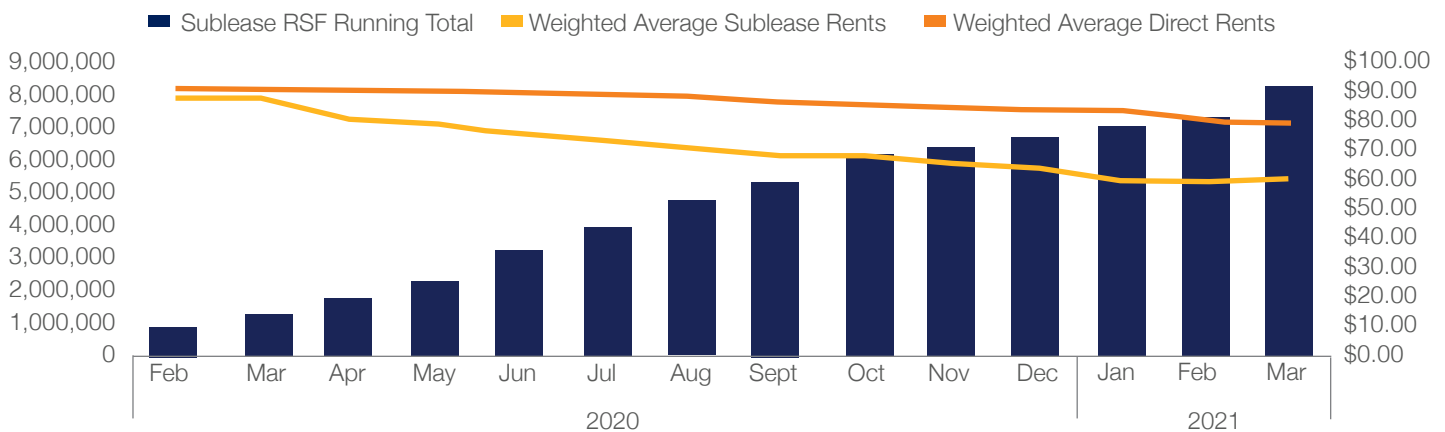
- Sublease (and direct) deal activity remains down market-wide.
- Year-over-year, total completed sublease deals recorded a 62.5% decrease while RSF associated with completed deals recorded a 55.1% decrease.
- To achieve pre-pandemic sublease availability levels, sublease activity would need to exceed 6M SF of completed deals. Based on pre-pandemic sublease transaction volume, it would take nearly 11 quarters to reduce available RSF to its prior level.

Sublease State of the Market

Rents

- Sublease rents continued to fall, recording a 31.0% decrease year-over-year.
- Tenants taking advantage of high-quality subleases vs direct lease space put downward pressure on direct asking rents in Q1 2021 (13.6% decrease).
- Competitive sublease offerings caused landlords to offer generous concession packages as landlords try to minimize face rent reductions.

Running Total of Sublease Inventory vs. Sublease Asking Rates



Methodology: Running total is defined as the aggregate amount of available sublease RSF added to market since February 2020. This does not depict total sublease inventory on the market at any given point in time.

Supply

- 1.6M SF of total sublease inventory was added to market in Q1 2021, bringing total sublease inventory to 9.2M SF.
- Notably, Salesforce added 286.5K SF in the South Financial District, Stripe added 269.0K SF in SOMA as they look to relocate to SSF, and Twilio added 111.9K SF in the North Financial District.
- Sublease supply continues to offer a competitive advantage over the direct market, with move-in ready, quality spaces listed at a 10-20% discount.

2021 Projections

- 1 RTO initiatives will decrease sublease supply in the short-term but overall inventory will remain above the 5-year average.
- 2 June 15: planned statewide reopening. Expect demand to pick up in Q2-Q3.
- 3 Sublease rates will decrease as even the most aggressive demand scenarios will not justify pre-pandemic rates.
- 4 Direct rents will continue to decline as landlords look to compete with sublease inventory.
- 5 Tenants will remain attracted to short term subleases and direct lease extensions as they navigate through how best to use the office moving forward.

Methodology: The information in this report is focused on office properties located in the San Francisco CBD. The report evaluates all Class A & B office properties 7,500 square feet and above, excluding owner-occupied buildings. All sublease spaces evaluated were also 7,500 square feet and above. Source data comes from CoStar along with a variety of other resources. All analytics were done by the Cresa Research Department in the San Francisco office.