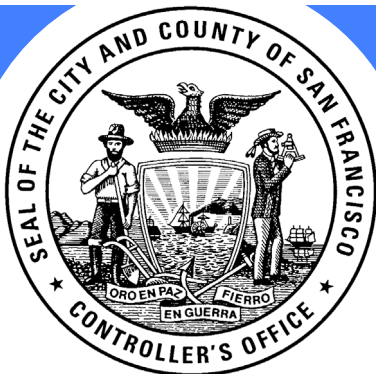


The Office Market and the City's Economic Recovery



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

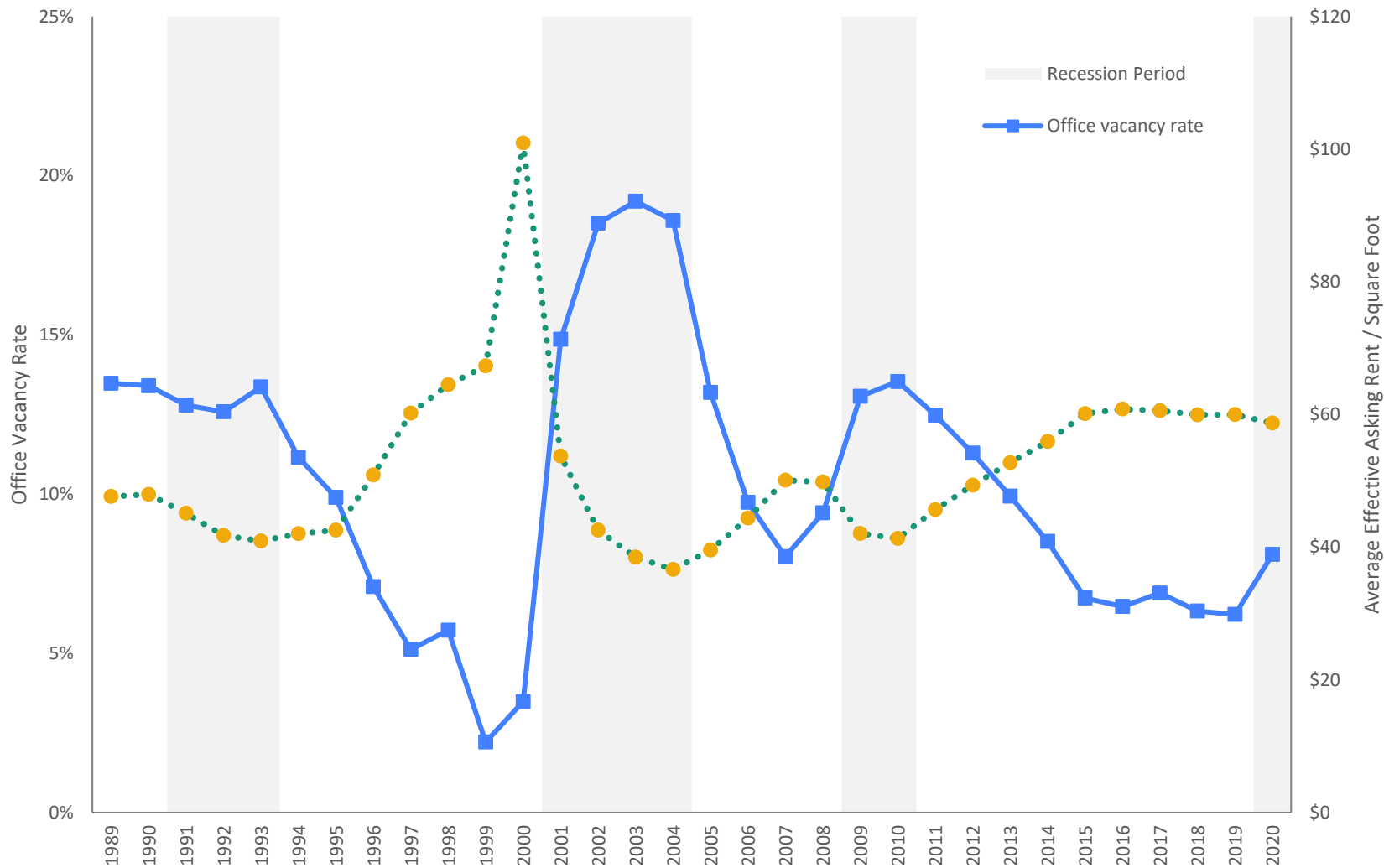
Ted Egan, Ph.D, Chief Economist

April 26, 2021

A Long-Term View of Office Vacancy and Rents

2

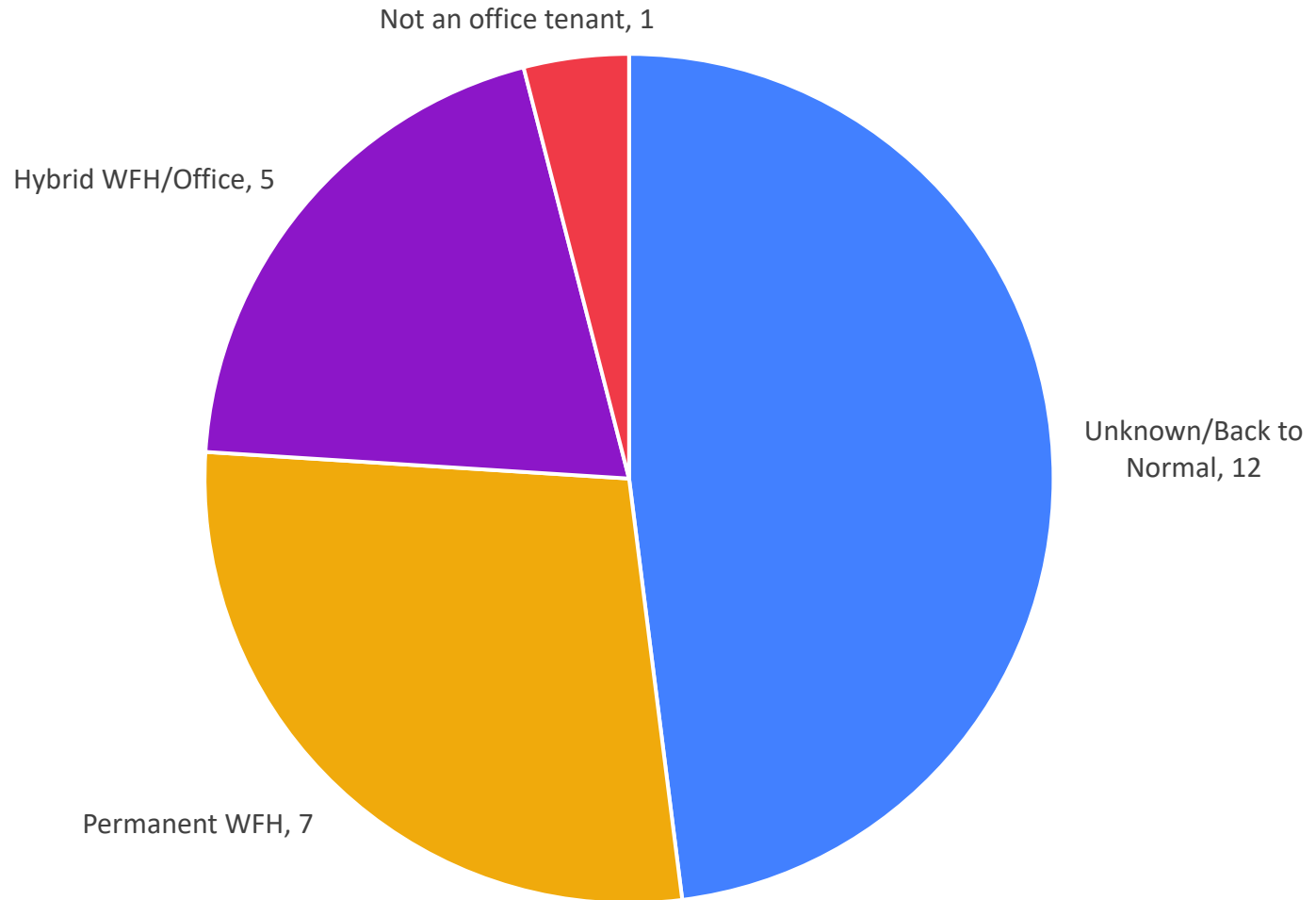
Historical Trends in San Francisco Office Vacancy and Effective Office Rent: 1989-2020



Future Office Plans of Largest Business Taxpayers

3

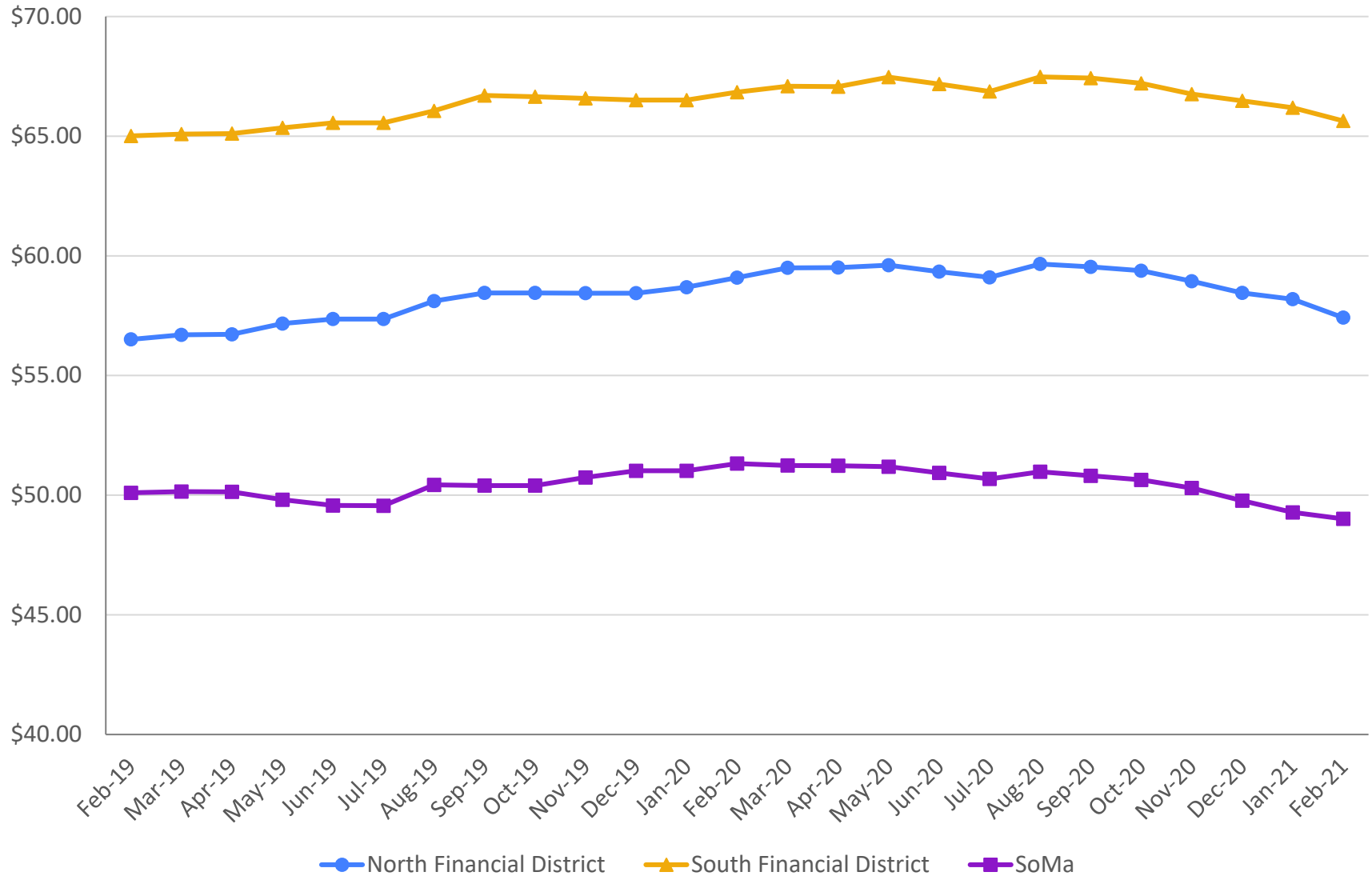
Post-Pandemic Work-at-Home Plans of San Francisco's 25 Largest Business Tax Payers



Recent Rent Trends in 3 SF Submarkets

4

Recent Trends in Office Effective Asking Rent / SqFt, Feb 2019-Feb 2021

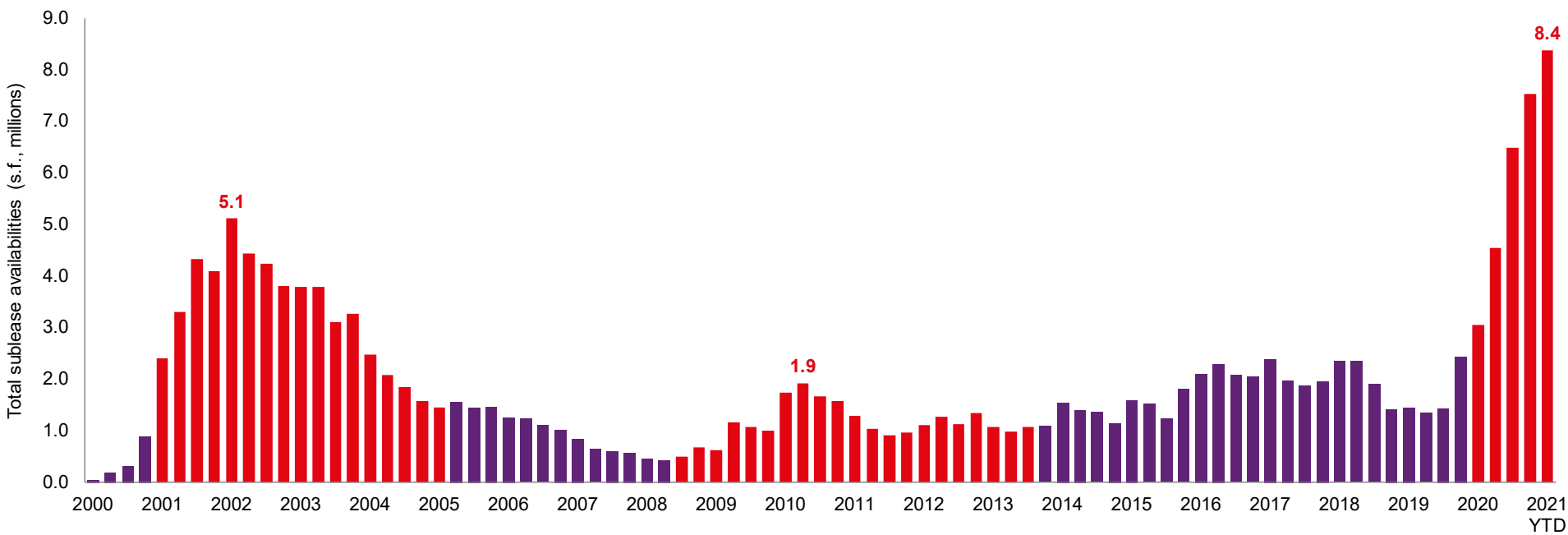


“At \$54.09 per square foot, San Francisco’s effective rent declined 1.5% in the quarter (2020Q4) but declined 0.6% over the year (2020).

“The current Moody’s Analytics REIS forecast, however, shows San Francisco’s average effective office rent declining 15% in 2021 and 1.8% in 2022.”

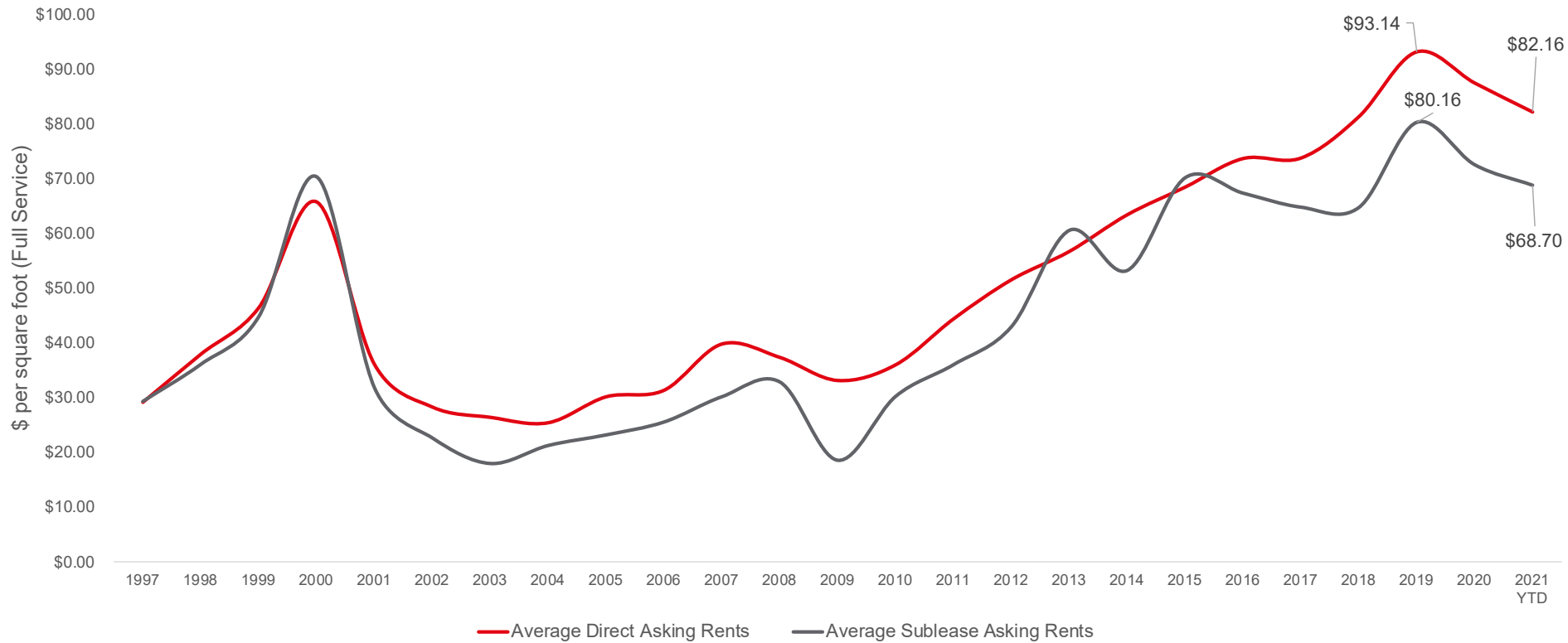
JLL: Office Sublease Space at Record High Levels

6



JLL: SF Asking Rent Trends: Direct vs. Sublease

7



Bright Spots? Office Touring Data

8

San Francisco has rebounded by 95 percent

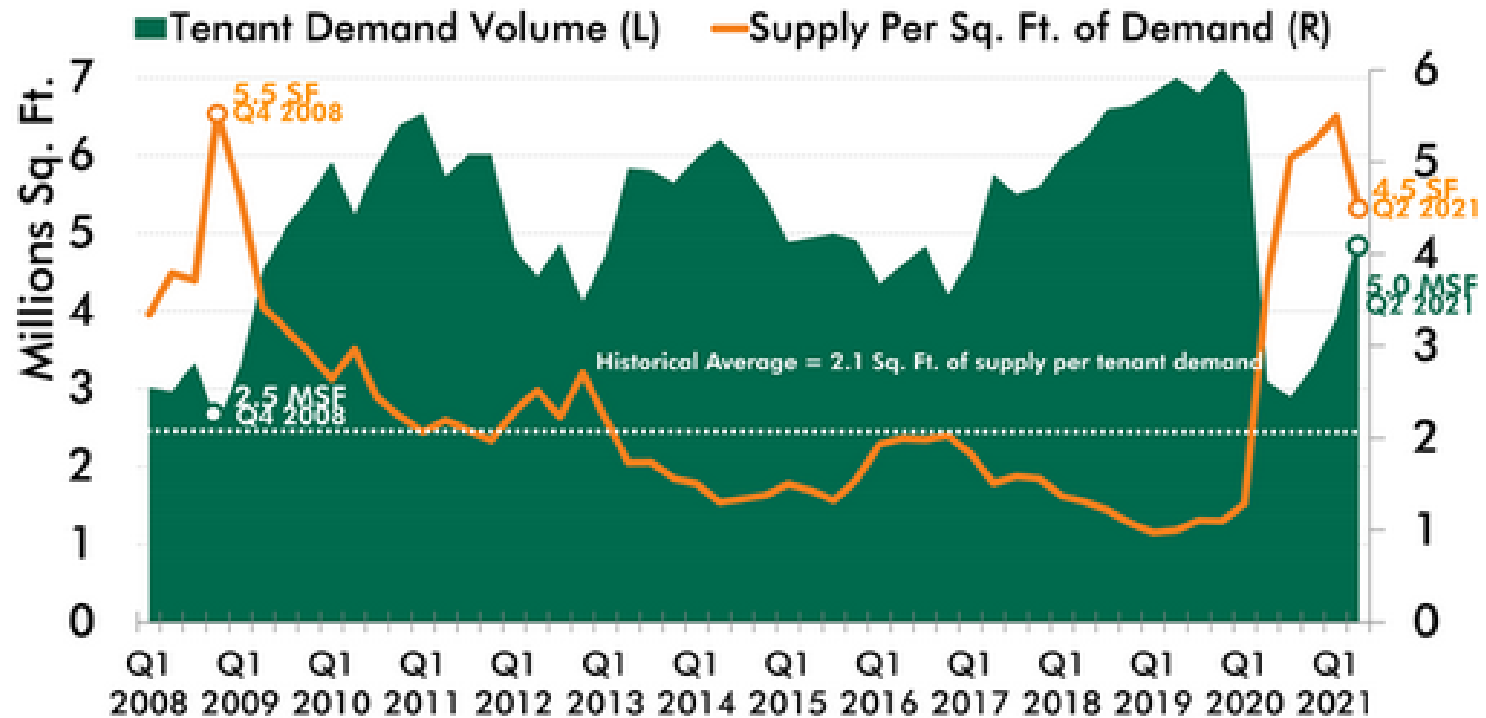
After experiencing the lowest bottom of all markets with virtually no office tenant demand in mid-2020, the San Francisco VODI saw strong growth over each of the last three months, increasing 38 VODI points from 15 in November to 53 in February - only three index points (5%) from pre-crisis February 2020 levels (56). As of February 2021, almost all (94%) of the demand lost in the early pandemic days has been recovered in San Francisco, the highest of all gateway markets.

VTS Office Demand Index by Market

■ Pre-crisis to current ■ Growth from last month



San Francisco Tenants in the Market (demand) vs. Available Space (supply)



- Many large office tenants in San Francisco are rethinking their work-from-home policies, and in some cases reducing the amount of office space they lease in the city.
- This reduction in office demand seems to be more pronounced in San Francisco than in most other cities. It will contribute to a higher office vacancy rate, fewer employees returning to the office after the pandemic, and perhaps a slower economic recovery for the city.
- However, it is highly unlikely that this will be a permanent change. Based on past experience, office rents are likely to decline until new tenants are secured, although this adjustment process may take some time.
- Signs of rising tenant interest, and office touring, are part of this market adjustment process. It may result in San Francisco becoming affordable to office tenants that have been priced out of the city in the past.
- Additionally, are macroeconomic factors that should favor the city, including low interest rates, a strong national recovery, and a favorable environment for venture capital funding.