

San Francisco

Market Overview

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Mass layoffs, empty grocery shelves, rising infection rate. In any given year, just one of these triggers would create unstable office market conditions. With all three, and many more occurring simultaneously, we are facing unprecedented times.

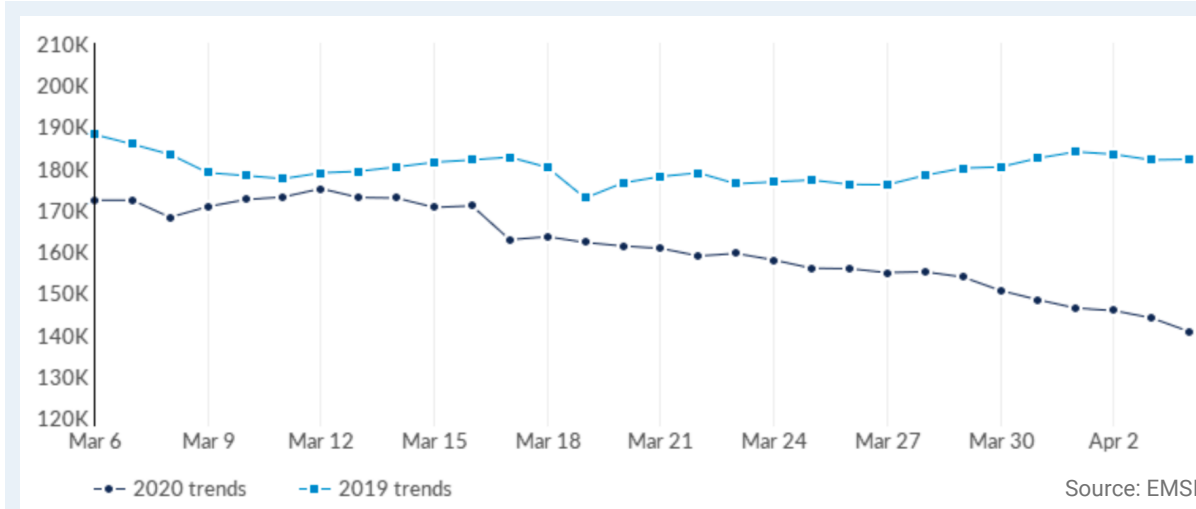
The most recent unprecedented times -- the Great Depression, World War II, 9/11, the Great Recession -- also shook the market but from it came a new normal, technological advances and growth. The Great Recession exposed deep vulnerabilities in the financial systems and though this recession might not be the result of a specific economic weakness, it is still exposing fragility that extends into the supply chain, services and businesses that rely on our social ecosystem.

Yes, there will be new highs in the unemployment rate, a likely surge in sublease space, and anticipated weak tenant demand for the balance of the year. Asking rents may not soften as much as expected (depending on one's vantage point), but it will become a tenant market over the course of only one quarter as opposed to the typical year-long shift during a typical recession.

Though economic fundamentals were strong before this pandemic, small businesses will be impacted the most in this downturn and government assistance will take some time to reach those most affected. Office market fundamentals are expected to begin a sharp downward trajectory. Rather than a deep "V" profile, the recovery could be slow, creating a long, stretched out "W" as retail struggles to recover, companies eventually begin hiring again, and growth slowly returns.

As with any downturn, the pain points also create opportunities. There are industry sectors that are contracting and growing at the same time, though massive layoffs are tilting the scales. Job postings in engineering, health/wellness, medical, and food are balanced by layoffs in those same sectors. In this compressed timeline, a decade of change is taking place over just a few months and only the most adaptive will thrive.

This pandemic and resulting contraction period will drive new ideas, specifically in the health, wellness and medical sectors, but also property tech and wearable personal safety tech.



San Francisco Job Postings as of April 4, 2020

In the Bay Area, job postings as of April 4, 2020 are 23% below the same time last year, according to EMSI, with the strongest demand for software developers, nurses, and truck drivers.

As for office space, we will have to once again adjust our idea of what tenants need for workspace for the second time in a decade. The work-from-home model is functional at the moment because mostly everyone is doing it, but once companies open their doors again and the dust settles, office needs will evolve.

During the recent open office space movement, the lesson learned was that one size does not fit all. Companies are not going to abruptly switch to a full remote work model. Some teams need face time to function efficiently, and be productive, some teams will move off site, but some will discover that working from home reminds them of how much they love being in an office.

San Francisco is heavily dependent on public transit; 17% of workers commute via public transit and 10% ride in carpools. In 2017, San Francisco-Oakland area commuters spent an average of 103 hours stuck in traffic. If public transit users opt for driving alone to work, traffic will exponentially worsen an already poorly ranked traffic region.

Service industry giants are some of San Francisco's largest office occupiers and with COVID-19 halting their cash flow, these companies may turn to significant downsizing. Agile workspace providers quadrupled their footprint during the past 5 years and occupied over 4% of office space in San Francisco at the close of 2019.

With the spaces now inaccessible, many startups and small business clients are heavily impacted.

The extent and severity of the downturn will unfold in the coming weeks. Society is being tested, and though COVID-19 might have the upper hand at the moment, we will emerge from this struggle forever changed and stronger.

We're being forced to evolve and progress at a quicker pace than we were hoping or prepared for, but by working together, new technologies will emerge, new vaccines will be tested, and new ways of life will be adopted. The world is changing, but it's up to us to make sure it changes for the better.