

2020 Year-End Report

Significant shifts in office demand are shaping the future of the workplace and for the second time in a decade, how office space will be used is undergoing dramatic changes. Though working from home is currently the only choice for most knowledge workers, it cannot be the only choice for companies in the future to successfully innovate, create, ideate, collaborate, grow, and shape their culture. The office of the future must be a combination of flexible schedules, remote options for focus work, in-person meeting space for radical collaboration, and not dependent on outdated norms such as necessary facetime for career growth.



RAISE

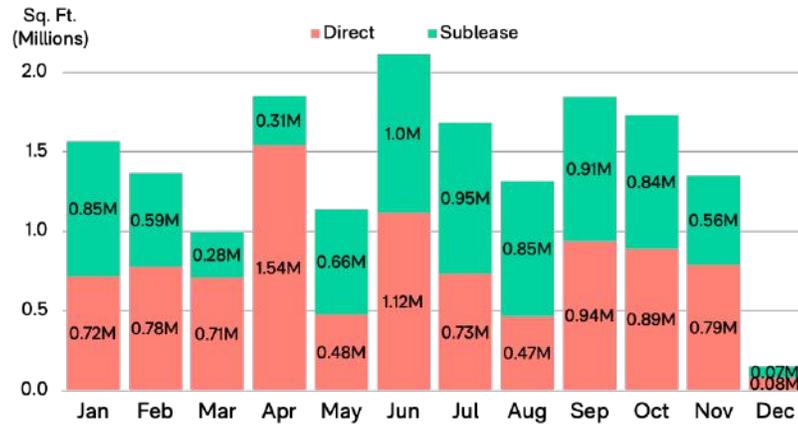
December 16, 2020

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Availability

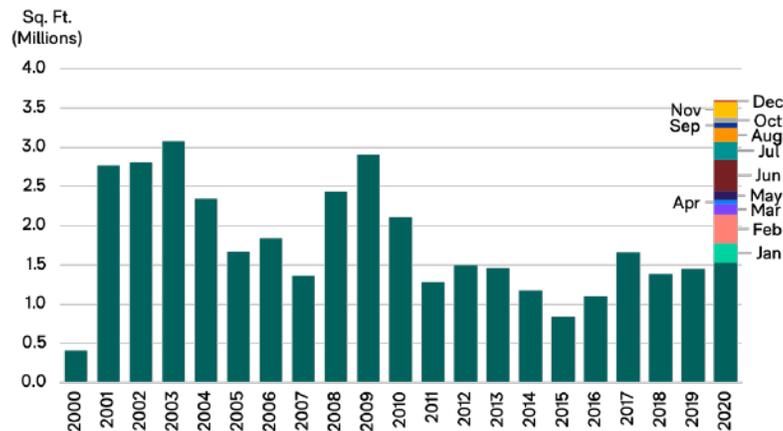
The large amount of sublease space that flooded the market in 2020 represented a collective knee-jerk reaction to the prospect of long-term remote work. For companies that were previously unable to lease space in tight submarkets, this abundance of sublease space offers a broader spectrum of opportunity than has been available in the past several years. Companies now have access to high-quality space, at a discounted price or with meaningful economic concessions, and proof-of-concept solutions to test fit for new office dynamics and layout.

San Francisco 2020 Space Additions



Source: Raise

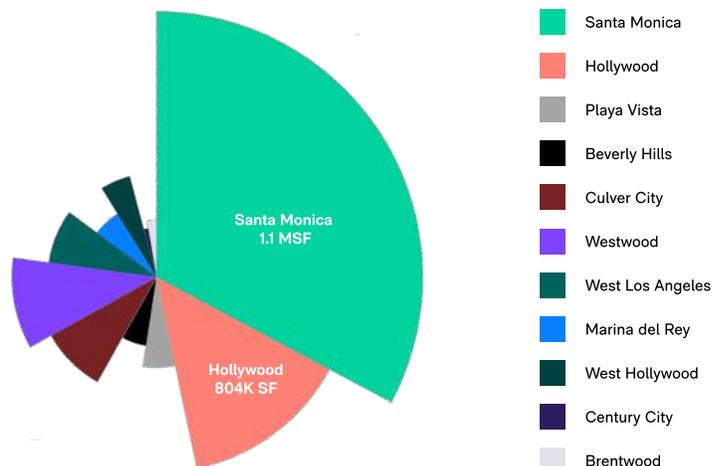
SV Peninsula Sublease Availability*



*Office/Flex
Source: Raise

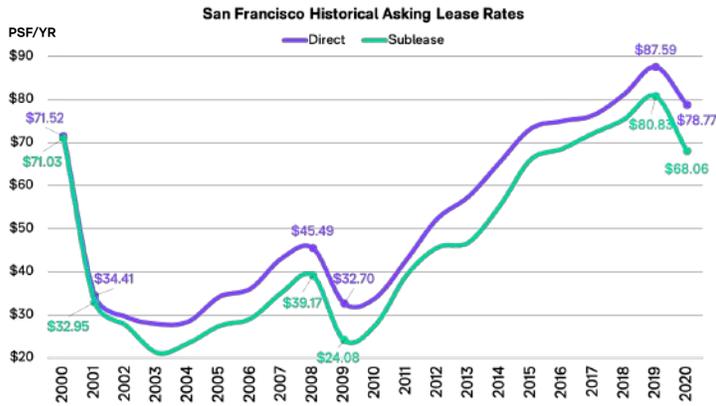
LA West Submarket Availability

As of Dec. 11, 2020



Source: Raise

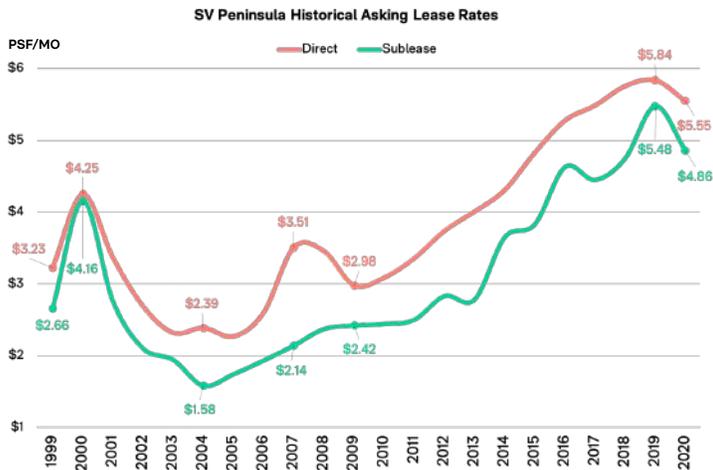
Direct vs. Sublease Asking Rents



San Francisco

Since the peak in 2019, direct asking rents decreased by 10% in 2020 and sublease asking rents decreased by 16% as a result of the increase in available space.

Source: Raise



Silicon Valley Peninsula

Since the peak in 2019, office/flex direct asking rents decreased by 5.0% in 2020 and sublease asking rents decreased by 11.3% in response to the abundant space on the market.

Source: Raise



Los Angeles West

In LA West, asking rents have not decreased in 2020, but now with 4.5 msf of sublease space available on the market, concession packages are increasing.

Source: Raise

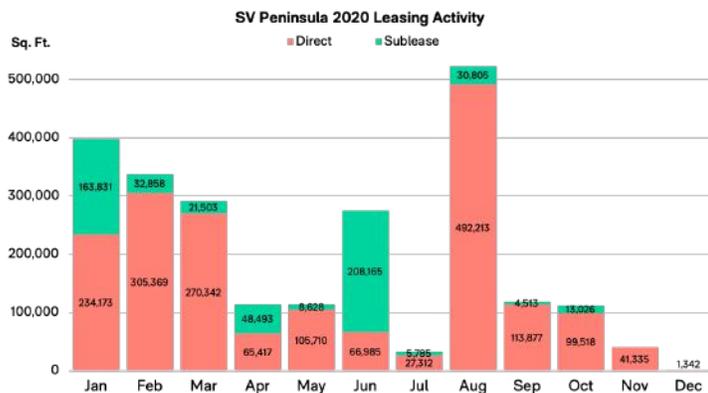
Leasing Activity



Source: Raise

San Francisco

Of the 3.5 msf of total 2020 leasing volume, 62% occurred during the first three months of the year. Seven of the year's 10 largest lease transactions were renewals, the largest of which were 222,000 sf by Deloitte at 555 Mission, 158,000 sf at 111 Pine St. and 117,000 sf at 388 Market St. by First Republic Bank, and 153,000 sf by Morgan Lewis & Bockius at 1 Market St.



Source: Raise

Silicon Valley Peninsula

August leasing activity exceeded 500,000 sf with Guardant Health leasing 250,000 sf at Stanford Research Park, RingCentral renewing 85,000 sf in Belmont, and Bolt Biotherapeutics leasing 70,000 sf in Redwood City.



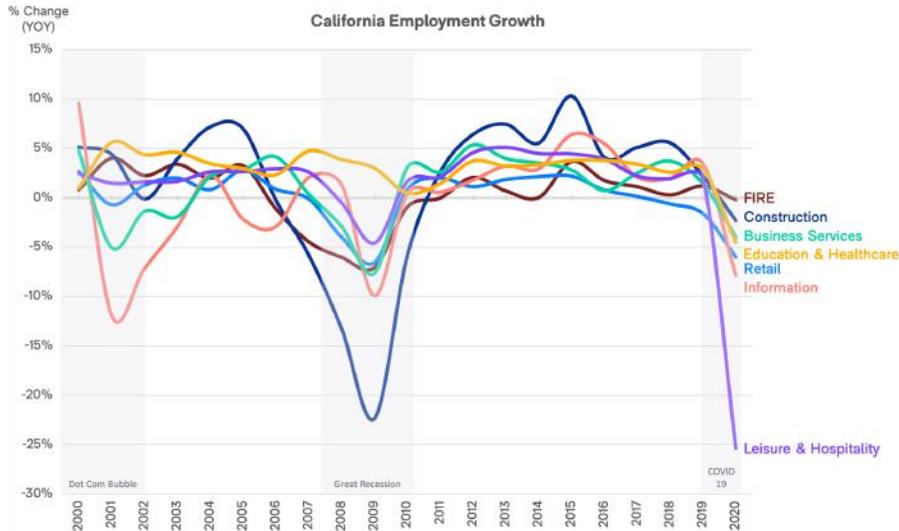
Source: Raise

Los Angeles

In LA, the ratio of new to renewal leasing activity shifted in 2020, indicating that companies are hesitant to make long-term commitments and opting for short-term strategies. In the previous cycle, the ratio shifted in the second half of the recession. By 2012, growing confidence in the economic recovery took hold and in 2014, new leases dominated total leasing activity. In 2020, some of the top leases in Los Angeles include:

- Netflix (150,000 sf in Burbank)
- Facebook (85,000 sf in Playa Vista)
- LADWP (132,000 sf in Downtown)
- PMC (75,000 sf in Westwood)
- LA North Studios (113,000 sf in Santa Clarita)
- Kayne Anderson Fund Advisors (75,000 sf in Century City)
- Titmous, Inc (95,000 sf in Burbank)

California Employment Growth



- From 2008 to 2010, massive layoffs spurred growth in the Education sector as people sought opportunities in new fields of work or additional training.
- In 2020, the Leisure and Hospitality sector suffered the most job losses, plunging to a record low and surpassing the previous historical low set by the Construction sector in 2009.

Source: EDD.gov

U.S. VC Investment

Despite the current circumstances, the venture capital and startup ecosystem was quite resilient in 2020. There were 10,150 VC deals and 8,881 companies funded in the U.S. in 2020. Capital invested totaled nearly \$144B in 2020, which is \$9B more invested than 2019. The startups and entrepreneurs aggressively addressing the current major challenges—COVID, climate change, healthcare—are attracting the most interest and funding.

Pharma, biotech, fintech, edtech, and telemedicine innovation startups have fared the best and these new technologies will likely result in long-term changes in our work and personal lives.

VC investment has focused on pharma and biotech in recent years and life science investment increased in 2020 with the concentration on vaccines related to COVID-19. A side benefit from working from home was the increase in Business and Productivity software, which attracted the most capital in 2020 totaling \$39.69B for 3,117 deals. Biotechnology investment totaled \$20.12B for 831 deals.

The pipeline for new tenants in the market could grow along with the expansion of many of California's VC-backed companies. There are currently 13,000 VC-backed companies in the state, 4,600 of which have a positive growth rate. As these companies expand, so will their office space needs.

	Q1	Q2	Q3	Q4
2019	\$30.76B	\$37.80B	\$37.43B	\$29.52B
2020	\$35.42B	\$42.30B	\$45.13B	\$22.93B

Source: Pitchbook

Demand in 2021

The widespread distribution of vaccines in the second half of 2021 means that companies that address office strategies sooner will have less competition for quality space and more options. Below is the square foot volume of leases expiring in 2021 correlated with the vaccine timeline as reported by the Center for Disease Control.



Conclusions/Outlook

The health of the office market in 2021 relies heavily on the vaccine timeline. This long-awaited moment is now within reach, but once it's safe to return to the office, who will be there and what will it look like?

The biggest difference between current office market conditions and every other event or recession is that there is no going “back to normal.” On the largest scale ever, employees tackled working from home and discovered being in an office every day isn't necessary for productivity or success. More than ever, employees have an opinion about how and when they want to utilize office time.

Companies are faced with choosing between hybrid, fully in-office, or fully remote options, but the 100% office-centric or fully remote options are edge cases. Bridging the two extremes is the hybrid workplace with multiple combinations and nuances.

The hybrid workplace isn't just time split between office and home. It reflects the changing function of an office to a purposeful need rather than an obligation. Its customizable framework encompasses a mix of collaborative work, focused work, on-site, off-site, meeting places, event spaces, decentralized main offices, and satellite locations.

Two relative newcomers to the office paradigm—coworking and live/work/play—could spur a second wave of popularity. Both options offer flexibility as companies strategize about workspace, employee preferences, and location.

Everything is in play now for the office of the future and companies must adapt and test multiple options to address employees' diverse needs and concerns.