

San Francisco



Market Facts

6.9%**Class A Vacancy****6.8%****Class B Vacancy****\$70.29 FS****Class A
Average Asking Rate****\$66.35 FS****Class B
Average Asking Rate**

Market Overview

Despite a slight uptick in class B vacancy, rent growth across asset classes and increased tenant demand from last quarter demonstrate a healthy San Francisco market. While overall leasing was down 13% relative to last quarter, a closer look at certain submarkets shows positive market fundamentals. Both SOMA and the South Financial District saw a decrease in class A vacancy rates by 10 and 20 basis points respectively.

Overall asking rates were up just slightly (0.9%) from Q1, but class B asking rates rose 2.6% to just over \$66 per square foot. Citywide, class A rents rose 0.7% to \$72.62 per square foot. These rents, well above national averages, have forced tenants to become more efficient. We are seeing tenants take slightly smaller spaces than in previous years and within their offices, the density of workers is continuing to increase.

Demand for larger blocks of space from tech tenants continued in the second quarter. 52% of all deals over 25,000 SF were done by tenants in the tech sector. While significant deals with Facebook, Salesforce, and Ancestry.com are pending, the largest confirmed tech deal this quarter was Affirm's 86,000 SF lease at 650 California. Furthermore both DoorDash and Glu Mobile both signed large deals this quarter with DoorDash taking 58,812 square

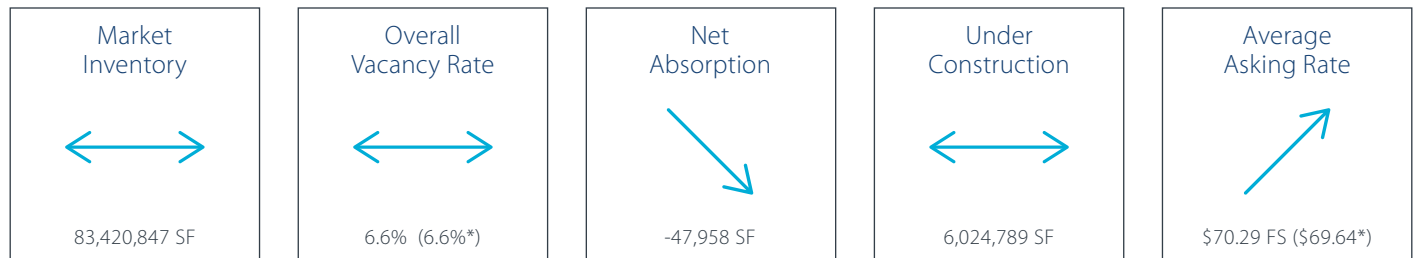
feet at 901 Market and Glu Mobile taking 57,024 square feet at 875 Howard.

Outside of the tech sector, First Republic Bank signed the largest renewal of Q2 at 1 Front Street. They renewed 90,000 SF and expanded by an additional 88,000 SF within the same building. Co-working spaces also continued to expand their presence in San Francisco this quarter as WeWork finalized leases at both 655 Montgomery and 2 Embarcadero, while Regus owned Spaces signed 35,313 SF at 1160 Battery. These means that co-working space now accounts for approximately 1.5 million square feet of office space across San Francisco.

As Salesforce Tower nears completion, leasing activity this quarter is pushing it towards delivering almost entirely pre-leased. At the end of June, the building is 85% preleased after Q2 expansions by Salesforce and Accenture. Furthermore, it is rumored that WeWork could be taking a significant amount of the remaining space. Pre-leased delivery of large new class A developments (Salesforce Tower, 350 Bush, and 181 Fremont) could likely bring the first quarter of overall positive absorption since the end of 2016.

Market Snapshot

Despite a slight uptick in vacancy, rent growth across asset classes and increased tenant demand from last quarter demonstrate a healthy San Francisco market.

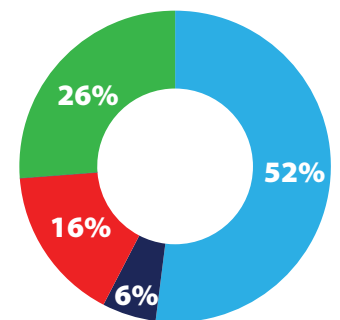


*Compared to previous quarter

Salesforce Tower continues to pre-lease more space as both Salesforce and Accenture expand their building footprints in Q2.

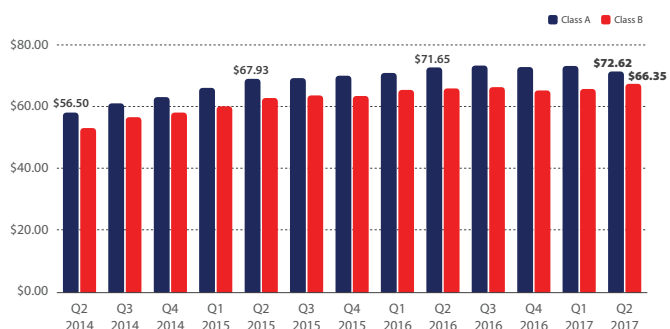


By Sector (Deals over 25K)

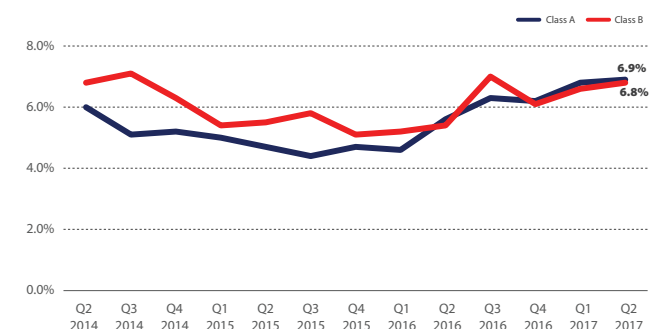


■ Technology ■ Business Services
■ Financial/Banking ■ Other

Historical Asking Rental Rate (FSG)



Historical Vacancy



Market By The Numbers

| SUBMARKET | Total RBA (SF) | Vacancy Rate A | Vacancy Rate B | Avail Rate A | Avail Rate B | Net Absorp (SF) | Under Construction (SF) | Avg Ask Total | Avg Ask A | Avg Ask B | Direct Avg Ask Total | Direct Avg Ask A | Direct Avg Ask B |
|--|-------------------|----------------|----------------|--------------|--------------|-----------------|-------------------------|----------------|----------------|----------------|----------------------|------------------|------------------|
| North Financial | 28,153,256 | 7.6% | 8.9% | 12.9% | 14.5% | -83,663 | 447,000 | \$72.81 | \$74.55 | \$67.45 | \$74.24 | \$77.70 | \$63.98 |
| South Financial | 24,847,640 | 6.9% | 5.7% | 14.1% | 7.7% | -18,400 | 3,834,357 | \$71.65 | \$71.81 | \$72.93 | \$71.83 | \$72.57 | \$72.86 |
| CBD Average | 53,000,896 | 7.3% | 7.6% | 13.4% | 11.6% | -102,063 | 4,281,357 | \$72.29 | \$73.28 | \$68.96 | \$73.13 | \$75.31 | \$66.52 |
| SOMA* | 13,543,325 | 7.0% | 7.0% | 14.1% | 12.7% | -25,141 | 547,117 | \$67.41 | \$69.84 | \$67.16 | \$71.51 | \$83.00 | \$67.85 |
| Union Square | 4,034,489 | 0.0% | 6.8% | 4.5% | 11.7% | 7,103 | 0 | \$67.16 | \$73.00 | \$67.53 | \$66.70 | \$73.00 | \$67.00 |
| Mid-Market | 3,944,222 | 5.4% | 3.0% | 9.2% | 8.0% | -1,340 | 0 | \$65.27 | \$67.23 | \$41.50 | \$65.00 | \$66.70 | \$68.44 |
| Jackson Square/North Waterfront | 5,161,106 | 7.5% | 5.8% | 19.8% | 8.2% | 5,069 | 0 | \$58.36 | \$67.04 | \$55.79 | \$60.83 | \$69.45 | \$58.81 |
| Civic Center/ Van Ness Corridor | 1,961,126 | 7.3% | 4.5% | 11.1% | 8.4% | 34,789 | 0 | \$56.63 | \$55.99 | \$62.01 | \$56.42 | \$55.99 | \$61.82 |
| Mission Bay | 1,775,683 | 0.6% | - | 3.6% | - | 33,625 | 750,000 | \$74.00 | \$74.00 | N/A | - | - | N/A |
| San Francisco Total | 83,420,847 | 6.9% | 6.8% | 13.0% | 11.3% | -47,958 | 5,578,474 | \$70.29 | \$72.62 | \$66.35 | \$71.70 | \$79.31 | \$66.41 |

*Includes China Basin, South of Market, Rincon/South Beach, Yerba Buena, Showplace Square, and Potrero Neighborhoods

Historical Net Absorption & Leasing Activity



Top Leases

| Tenant | Building | Submarket | Square Feet | Type |
|-----------------------|-----------------------|--------------------------|-------------|----------|
| First Republic Bank | 1 Front Street | North Financial District | 179,002 | Direct |
| Salesforce | 415 Mission Street | South Financial District | 148,910 | Direct |
| Affirm | 650 California Street | North Financial District | 86,000 | Direct |
| City Of San Francisco | 1390 Market Street | Mid Market | 69,400 | Direct |
| DoorDash | 901 Market Street | Mid Market | 58,812 | Sublease |

Top Sales

| Building | Buyer | Submarket | Square Feet | Sale Price | PSF |
|--------------------------|--------------------------------|--------------------------|-------------|----------------|--------|
| 44 Montgomery St | Beacon Capital Partners | North Financial District | 691,229 | ±\$475,400,000 | ±\$688 |
| 45 Fremont St (49% Sale) | The Blackstone Group | South Financial District | 596,059 | ±\$203,350,000 | ±\$696 |
| 550 Kearny St | Green Oak Real Estate Advisors | North Financial District | 193,628 | ±\$107,350,000 | ±\$554 |
| 30 Van Ness Ave | Lend Lease US Services | Mid Market | 180,363 | ±\$70,000,000 | ±\$388 |
| 1161 Mission St | Sino-Ocean Land | SOMA | 65,600 | ±\$42,000,000 | ±\$640 |

Under Construction

| Building | Developer | Submarket | Square Feet | % Leased | Delivery |
|------------------|-----------------------------------|--------------------------|-------------|----------|----------|
| Salesforce Tower | Boston Properties | South Financial District | 1,420,081 | 85% | Q4 2017 |
| Oceanwide Center | Oceanwide Holdings | South Financial District | 1,250,000 | 0% | Q4 2021 |
| Park Tower | John Buck / Golub & Co. / Metlife | South Financial District | 751,500 | 0% | Q4 2018 |
| The Exchange | Kilroy Realty | Mission Bay | 740,000 | 0% | Q1 2018 |
| 350 Bush | Lincoln Property / Gemdale USA | North Financial District | 447,000 | 43% | Q3 2017 |

AY San Francisco Team

Office Group

| | |
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| Nick Slonek, Managing Director / Principal | 415.322.5051 |
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| Kelly Glass, Principal | 415.322.5062 |
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| David Linsmayer, Principal | 415.322.5061 |
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Capital Markets Group

| | |
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Property Management / Lease Administration

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|--|--------------|
| Gloria Rojas, Property Administrator | 415.392.4114 |
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| Linda Yang, Senior Property Accountant | 415.392.4114 |
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Project / Construction Management

| | |
|---|--------------|
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