

# San Francisco



## Market Facts

**4.9%**

Class A Vacancy

**6.0%**

Class B Vacancy

**\$72.41 FS**

Class A  
Average Asking Rate

**\$64.89 FS**

Class B  
Average Asking Rate

## Market Overview

San Francisco kicked off 2018 with the completion of new market inventory and large occupancy gains, particularly in the South of Market district. Despite indications of a slowdown during the previous two quarters; San Francisco continues to lead as one of the country's most sought-after office markets. According to the Bureau of Labor Statistics, the city of San Francisco has been able to maintain one of the lowest unemployment rates in the country at just 2.5% as of March 2018.

With the recent deliveries of the Salesforce Tower and 350 Bush, it appears that supply has finally been able to balance tenant demand. During the first quarter, more than 2.3 million square feet of new office inventory was delivered to the market, versus last year in which less than 700,000 square feet of new inventory was completed. The first quarter of 2018 measured strong net absorption 2,318,004 square feet. Salesforce Tower significantly contributed to this quarter's absorption delivering 1,400,000 square feet 97% preleased.

With new market inventory and modest demand, rental rates appear to have stabilized. Compared to Q4 2017, citywide Class A rents were relatively flat measuring a

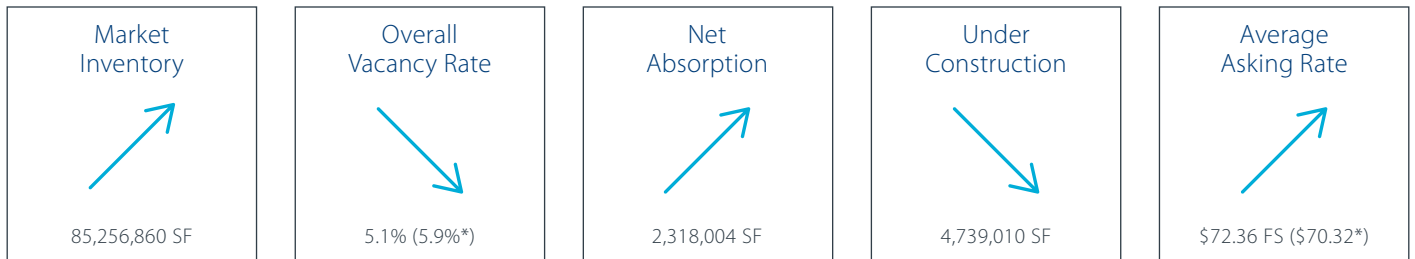
minor increase from \$72.37 per square foot full service to \$72.41 per square foot, while Class B rents rose from \$64.58 per square foot full service to \$64.89 per square foot.

The top performing submarkets of the quarter, both SOMA and South Financial District, measured an increase in Class A vacancy rates by 0.7% and 2.6%, respectively. Of the largest leases signed this quarter, 80% were located South of Market. Tech tenant's demand for large blocks of space continues as evidenced by Twitter's 214,950 square foot renewal at 1355 Market, Samsara Network's 71,482 square foot lease at 350 Rhode Island, and Google's 57,260 square foot expansion at 2 Harrison Street, all signed during the first quarter. The largest quarterly transaction recorded was WeWork expanding their footprint in the city by signing a 251,000-square foot lease at 400 California.

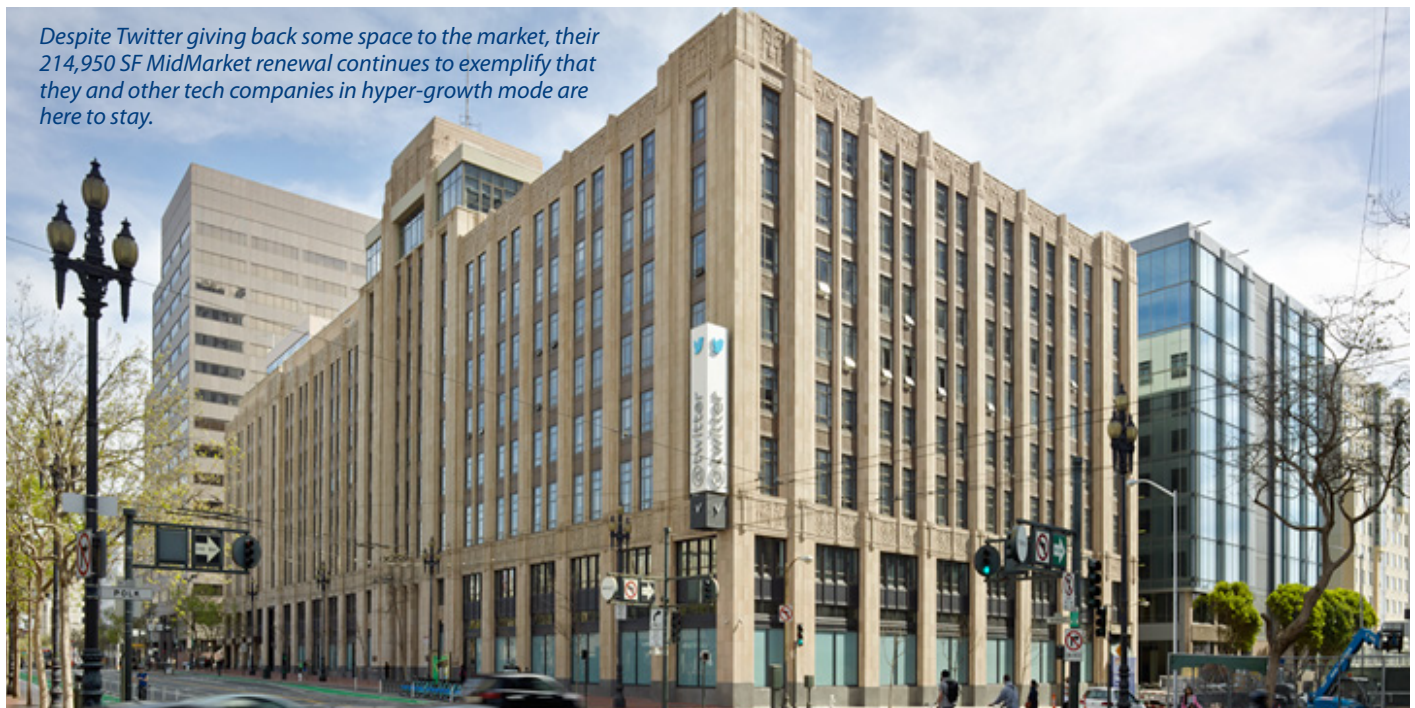
With few CBD development sites left to build and low vacancies, San Francisco continues to lead as an innovative tech hub. Looking forward, we should expect to see rental rates stabilize and more preleased buildings deliver this year. As tenant demand keeps up with construction, confidence in San Francisco's growing office market has no end in the quarters to come.

## Market Snapshot

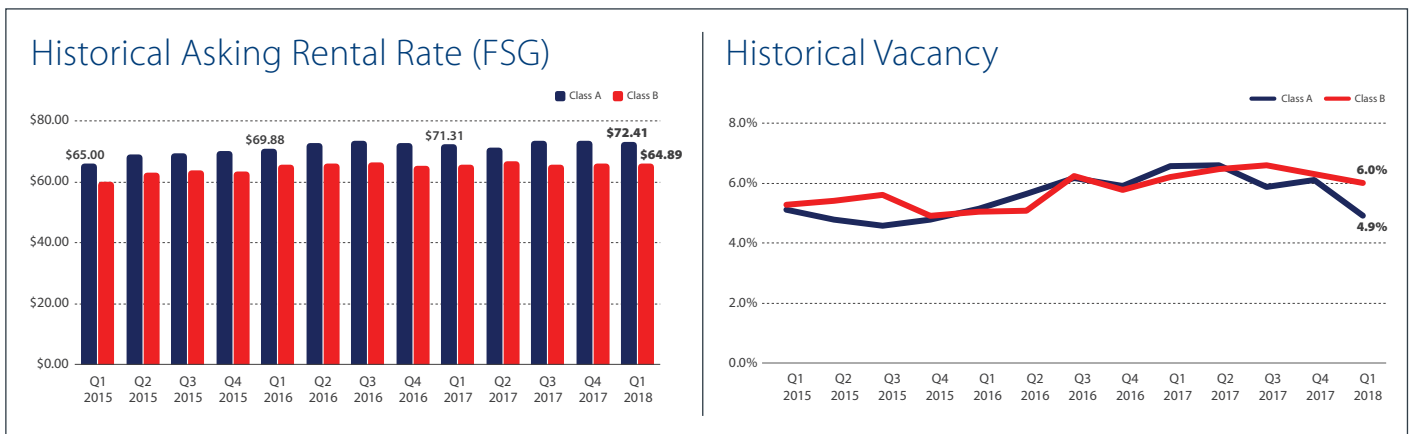
The first quarter of 2018 reassures that tenant demands for additional office space is nowhere near cooling down anytime soon. Major tech companies such as Twitter and Google show a continuous desire to remain in the South Financial district.



\*Compared to previous quarter



*Despite Twitter giving back some space to the market, their 214,950 SF MidMarket renewal continues to exemplify that they and other tech companies in hyper-growth mode are here to stay.*

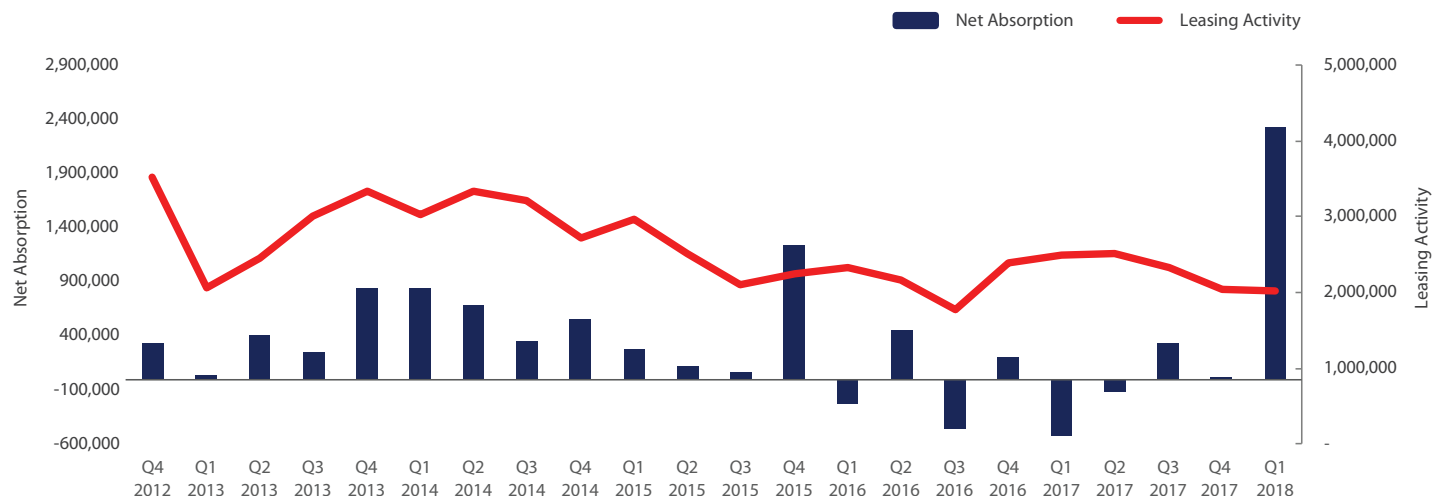


## Market By The Numbers

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
<b>North Financial</b>	28,519,309	6.7%	9.9%	12.4%	15.2%	667,236	447,000	\$70.73	\$73.87	\$62.20	\$74.14	\$77.12	\$64.42
<b>South Financial</b>	26,014,422	4.1%	3.1%	9.2%	7.9%	1,630,441	3,834,357	\$72.30	\$69.81	\$71.76	\$72.27	\$70.02	\$69.74
<b>CBD Average</b>	54,533,731	5.5%	7.2%	10.9%	12.3%	2,297,677	4,281,357	\$71.36	\$72.18	\$64.86	\$73.36	\$74.05	\$65.80
<b>SOMA*</b>	13,690,276	6.3%	7.4%	9.2%	11.3%	89,639	547,117	\$67.88	\$72.84	\$65.64	\$72.94	\$86.07	\$67.78
<b>Union Square</b>	4,084,964	7.4%	6.6%	0.0%	11.9%	9,593	0	\$66.62	\$73.00	\$68.30	\$73.25	\$73.00	\$66.79
<b>Mid-Market</b>	3,936,791	3.1%	2.8%	8.8%	3.5%	-8,137	0	\$73.97	\$78.39	\$66.32	\$73.97	\$78.39	\$66.32
<b>Jackson Square/North Waterfront</b>	5,192,177	6.0%	6.0%	9.8%	16.4%	-13,505	0	\$63.66	\$70.59	\$61.01	\$65.49	\$69.00	\$64.43
<b>Civic Center/ Van Ness Corridor</b>	1,961,126	5.6%	9.4%	8.1%	10.3%	-67,241	0	\$53.62	\$54.41	\$61.06	\$53.68	\$54.95	\$61.06
<b>Mission Bay</b>	1,857,795	2.8%	-	0.1%	-	9,978	750,000	\$74.00	\$74.00	-	-	-	-
<b>SF Total</b>	<b>85,256,860</b>	<b>4.9%</b>	<b>6.0%</b>	<b>9.6%</b>	<b>11.9%</b>	<b>2,318,004</b>	<b>5,578,474</b>	<b>\$70.32</b>	<b>\$72.49</b>	<b>\$64.91</b>	<b>\$72.38</b>	<b>\$78.45</b>	<b>\$65.65</b>

\*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
WeWork	400 California	North Financial District	251,000	Direct
Twitter	1355 Market	Mid-Market	214,950	Renewal
StitchFix	1 Montgomery	North Financial District	133,951	Direct
New Relic	188 Spear	South Financial District	73,631	Direct
Samsara Networks	350 Rhode Island	SOMA	71,482	Direct
Pattern Energy Group	1088-1090 Sansome	Jackson Square	62,500	Direct
Google	2 Harrison	South Financial District	57,260	Expansion
Intercom	55 2nd	South Financial District	51,048	Direct
Shack15	Ferry Building	North Financial District	46,095	Direct

## Top Sales

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
333 Market	Allianz Real Estate Of America	South Financial District	657,115	±\$333,000,000	±\$507
180 Townsend	DivcoWest	Rincon/South Beach	41,125	±\$28,000,000	±\$681
101 Mission Street	Vanbarton Group	South Financial District	207,000	In Contract	±\$773

## Under Construction

Building	Developer	Submarket	Square Feet	% Leased	Delivery
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/China Basin	740,000	100%	Q4 2018
Warriors Development	Warriors	Mission Bay/China Basin	579,436	100%	Q3 2019

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