



2018 outlook

New Year!

San Francisco continues to be attractive to nationally-recognized companies. The proximity and concentration of tech firms and an intellectual workforce keep drawing more tenants to seek space in the Bay Area's robust environment. This demand and the limited inventory continues to keep the rents high. In addition, with the new pro-business tax policies that Congress just passed, we may see these high rents sustained for 2018.

With such high rents, companies are downsizing their space utilization via smaller individual working areas, allowing for more communal, open work spaces, while moving away from traditionally-enclosed office designs. This compacted space demand may increase sublet and available spaces. In turn, we may see the beginning of an easing of rental rates.

In Summary:

- ❑ **Negative net absorption of (449,050) square feet at year-end 2017**
- **North of Market average direct asking rates for Class A in the mid \$80's; Class B in the high \$50's**
- **South of Market average direct asking rates for Class A from \$70's to over \$110's; Class B in the high \$60's**
- **Direct vacant available space: North of Market at 5.8%; South of Market at 3.3%; Citywide at 4.5%**

MARKET OVERVIEW

The San Francisco office market had a positive 259,545 square feet absorption during the 4th Quarter; but ended 2017 with a total negative absorption of (449,050) square feet. Overall asking rents for office space stayed high, albeit landlords are providing increased concessions in free rent and tenant improvements. There continues to be significant demand for large blocks of space, but smaller space occupancies are noticeably slowing down.

4th QUARTER ACTIVITY

North of Market ended the 4th Quarter with a positive 59,899 square feet of absorption; but negative (158,923) square feet for the year. Average asking rents ranged from Class B rates in the high \$50's, to mid \$80's for Class A space. Direct vacant available space also rose slightly to 5.8% in this submarket. South of Market ended with a negative net absorption of (13,488) square feet; and a total negative (27,774) square feet for the year. Rents held at the high \$60's for creative space Class B buildings, to new completions commanding Class A rents over \$110. Direct vacant available space was up slightly to 4.4%.

The 4th Quarter yielded several full-building leases: Dropbox leased 736,550 square feet at 1800 Owen, with expected delivery in Mid-2018; SF District Attorney and Police Investigations took the entire 125,122 square feet at 350 Rhode Island; Airbnb leased 82,862 square feet at 650 7th; and SF Adult Probation leased 41,744 square feet at 945 Bryant. Other sizable transactions included: Citicorp renewed its lease of 104,368 square feet at 1 Sansome; Symantec leased 40,039 square feet at 100 California; and Snap, Inc. leased 33,291 square feet at 875 Howard.

Large 4th Quarter office building sales included: Boston-based Beacon Capital purchased 201 California for \$179 million, or \$725 per square foot. The Swig Company sold 555 De Haro to Bridgeton Holdings for \$27 million, or \$539 per square foot; and Bridgeton also purchased 945 Bryant for \$27 million, or \$713 per square foot.

North of Market: North Financial, Jackson Square, North Waterfront, Union Square, Civic Center, Van Ness

South of Market: South Financial, Rincon/South Beach, Yerba Buena, MidMarket, South Of Market, ShowplaceSq, Mission Bay, Potrero East & West

ABSORPTION - SAN FRANCISCO OFFICE MARKET (YTD)



The information in this document was obtained from sources we deem reliable; however, no warranty or representation, expressed or implied, is made as to the accuracy of the information contained herein.



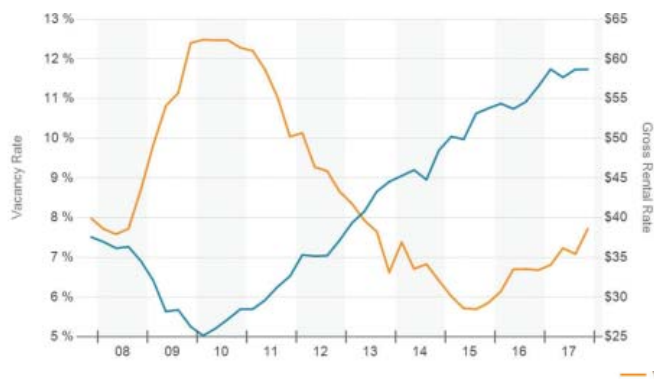
Q4 MAJOR LEASE TRANSACTIONS

Tenant	Address	Sq.Ft.
Dropbox	1800 Owen	736,550
San Francisco DA & Police	350 Rhode Island	125,122
CitiCorp	1 Sansome	104,368
Airbnb	650 7th	82,852
Postmates, Inc.	201 Third	57,530
First Republic Bank	1 Front	43,364
SF Adult Probation	945 Bryant	41,744
Symantec	100 California	40,039
Snap, Inc.	875 Howard	33,291
Granular, Inc.	731 Market	27,261

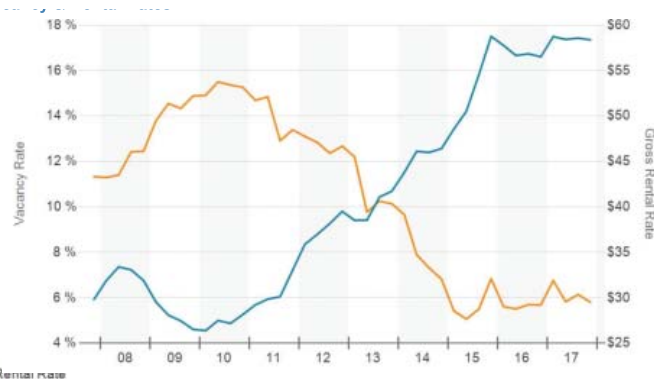
Q4 LARGE SALE TRANSACTIONS

Buyer	Address	Price	Per Sq.Ft.
Beacon Capital	201 California	\$179.0 Mil	\$ 725
Bridgeton Holdings	555 De Haro	\$ 27.0 Mil	\$ 539
Bridgeton Holdings	945 Bryant	\$ 27.0 Mil	\$ 713
WINGSKY, LLC	407 Sansome	\$ 12.9 Mil	\$ 726

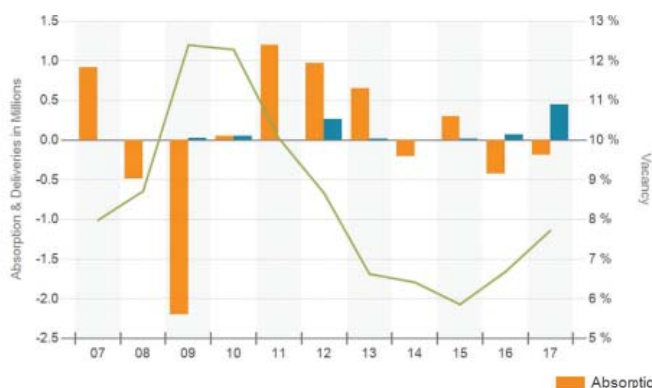
NORTH OF MARKET Vacancy & Rental Rates



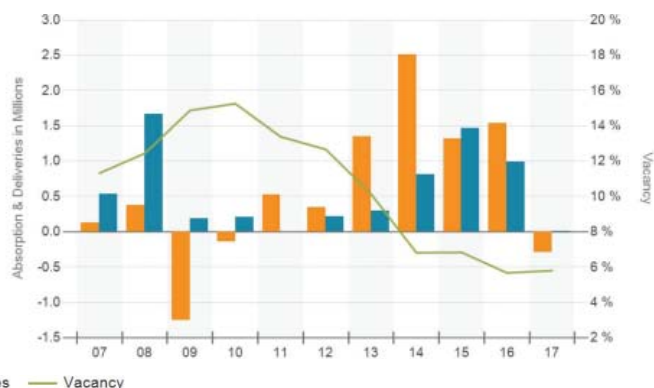
SOUTH OF MARKET Vacancy & Rental Rates



NORTH OF MARKET Absorption, Deliveries, Vacancy



SOUTH OF MARKET Absorption, Deliveries, Vacancy



Note: Rental rates based on COSTAR data on the above charts are lower than actual market rental rates due to averaging of undisclosed "negotiated rents." Graph is based on Vacant Direct space; Vacant Direct Available space is what is actually on the market for lease.

SUBMARKET STATISTICS

Submarket	Net Rentable Area SF	QTR Absorption SF	Total Avail %	Vacant Direct %	Vacant Dir Avail* %
(NORTH OF MARKET)					
Financial District	30,098,552	152,052	13.5	9.0	7.6
Jackson Square	3,160,318	(66,628)	9.5	4.3	3.5
Waterfront/North Beach	4,299,831	24,061	9.0	4.2	3.4
Union Square	5,420,981	(28,653)	10.8	7.1	6.3
Civic Center	4,309,411	8,785	1.6	1.7	1.6
Van Ness Corridor	2,172,268	5,126	14.1	8.5	8.5
(SOUTH OF MARKET)					
South Financial District	27,900,323	(186,217)	15.0	6.6	4.8
Yerba Buena	3,587,693	56,695	7.8	4.0	2.4
Rincon/South Beach	6,587,033	15,703	6.4	4.8	3.6
Mid-Market	7,009,704	66,169	4.3	1.9	1.6
South of Market	2,151,442	(26,695)	6.8	2.9	2.2
Showplace Square	3,212,641	(93,615)	9.7	2.7	2.3
Potrero East/West of 101 Fwy	2,285,394	(8,257)	3.2	0.7	0.6
Mission Bay/China Basin	3,463,465	17,312	6.7	3.6	1.6

*Total direct available is not necessarily all vacant, as some of the space may be occupied and available on a 30-to-120-day notice, or proposed space.

The information in this document was obtained from sources we deem reliable; however, no warranty or representation, expressed or implied, is made as to the accuracy of the information contained herein.