

Q1
2018

TRI Commercial Real Estate Services SAN FRANCISCO TRENDS

Healthy Absorption to start the year !

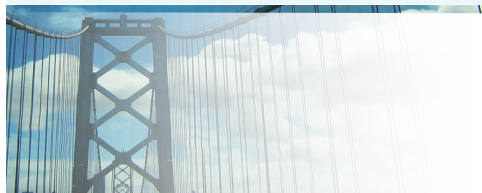


2018 outlook







Clouds on the Horizon?

High asking rents continue to pressure traditional companies to “right-size” their space utilization or explore the option of leaving the City altogether. Now that most large office users have settled in, space demand may be slowing down. We are also noticing a slight increase in sublet spaces from completed buildings being occupied over the past quarter. If this subleasing trend continues into the 2nd Quarter, an easing of rental rates seems like a distinct possibility for 2018.



In Summary:

-  *Positive net absorption of 2,082,110 square feet at the end of the 1st Quarter*
-  *North of Market average direct asking rates for Class A in the high \$70's; Class B in the low \$60's*
-  *South of Market average direct asking rates for Class A around high \$80's; Class B in the high \$60's*
-  *Direct vacant available space: North of Market at 5.6%; South of Market at 2.9%; Citywide at 4.2%*

MARKET OVERVIEW

The San Francisco office market had a healthy positive absorption of over two million square feet during the 1st Quarter of the year. This was due in large part to the nearly-full occupancy of the 1,400,000-square-foot Salesforce Tower at 415 Mission, among other buildings which, included 350 Bush, 525 Market and 121 Spear. Rents, albeit high, remained relatively flat.

1st QUARTER ACTIVITY

North of Market ended the 1st Quarter with a positive 128,084 square feet of absorption. Average asking rents ranged from Class B rates in the low \$60's, to high \$70's for Class A space. Direct vacant available space held steady at 5.6%. South of Market ended with a huge positive net absorption of 1,954,026 square feet, largely attributed to the new Salesforce Tower. Average asking rents held in the high \$60's for creative-space Class B buildings, while Class A building rents hovered in the high \$80's. Direct vacant available space lowered to 2.9%.

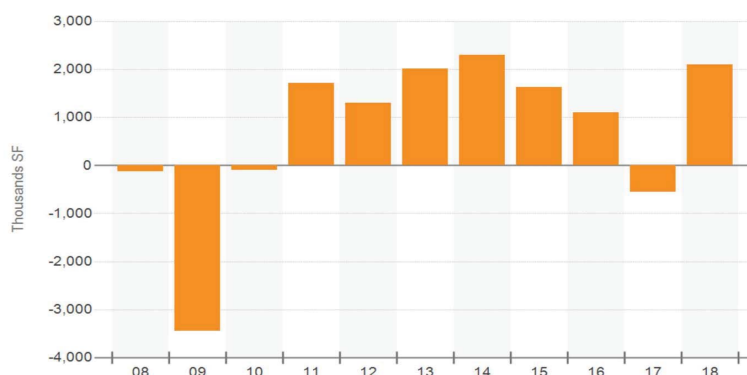
Some large leases inked this past quarter included: Covington & Burling's 78,414-square-foot lease at the newly-completed 415 Mission Salesforce Tower; South of Market's 57,259-square-foot Google expansion deal at 2 Harrison; Databricks' 31,718-square-foot lease at 160 Spear; Navar's 28,354-square-foot lease at 50 Beale; and On24's 28,000 square-foot-lease at 795 Folsom. For North of Market, Pattern Energy Group led the pack with 62,500 square feet at 1088 Sansome; followed by StitchFix at 1 Montgomery with 38,701 square feet; Synchronis took 25,475 square feet at 2 Embarcadero; WideOrbit landed at 1160 Battery with 24,790 square feet; and Square nabbed 26,011 square feet on Mid-Market.

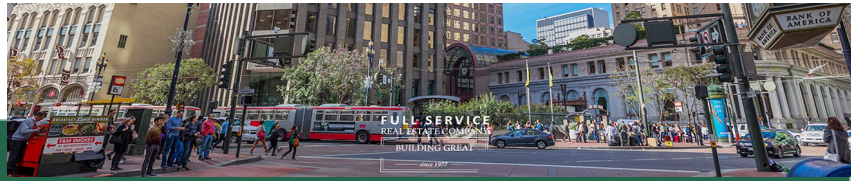
There were only two considerable office building sales in the 1st Quarter: Allianz Real Estate purchased 333 Market for \$152.3 million, or \$1,030 per square foot; and Divco West purchased 180 Townsend for \$28 million, or \$680 per square foot.

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)





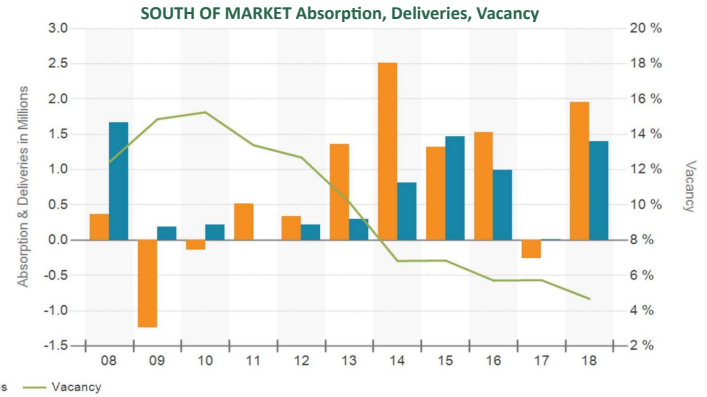
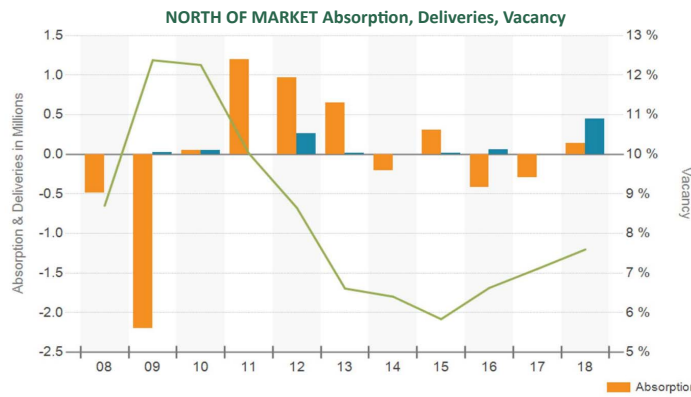
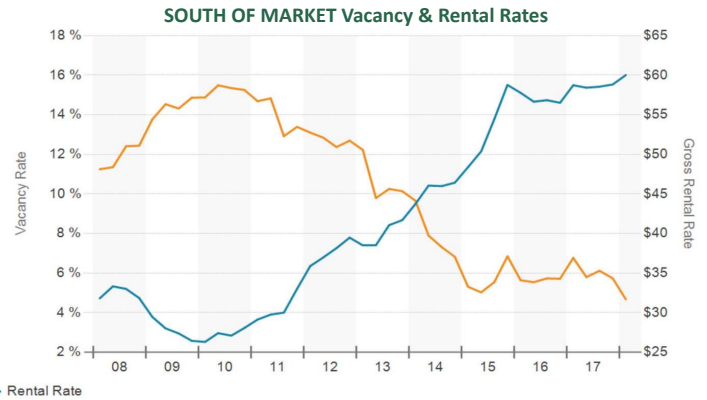
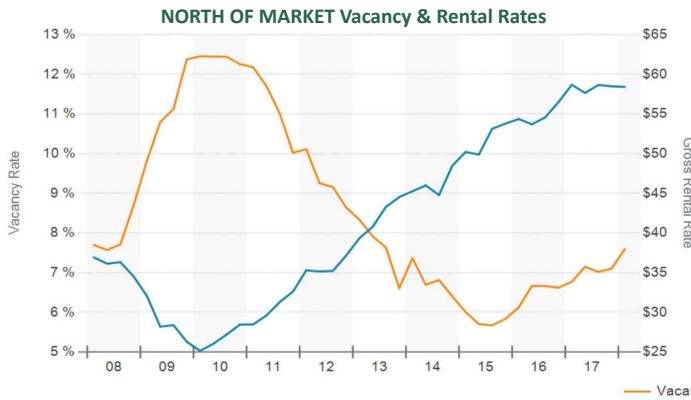
Q1 2018

Q1 MAJOR LEASE TRANSACTIONS

Tenant	Address	Sq.Ft.
Covington & Burling LLP	415 Mission	78,414
Pattern Energy Group	1088 Sansome	62,500
Google	2 Harrison	57,259
StitchFix	1 Montgomery	38,701
Databricks Inc.	160 Spear	31,718
Navar	50 Beale	28,354
On24	795 Folsom	28,000
Square	1455 Market	26,011
Synchronis	2 Embarcadero	25,475
WideOrbit	1160 Battery	24,790

Q1 LARGE SALE TRANSACTIONS

Buyer	Address	Price	Per Sq.Ft.
Allianz Real Estate	333 Market	\$152.3 Mil	\$1,030
Divco West	180 Townsend	\$ 28.0 Mil	\$ 680



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	30,005,543	255,368	12.6	8.8	6.8
Jackson Square	3,161,758	(58,845)	11.9	4.9	3.8
Waterfront/North Beach	4,358,401	(61,417)	12.1	4.0	4.0
Union Square	5,426,595	(14,433)	9.5	7.6	7.1
Civic Center	4,542,555	77,625	1.6	2.1	1.5
Van Ness Corridor	2,172,745	(79,015)	16.8	12.2	11.9
(SOUTH OF MARKET)					
South Financial District	29,174,980	1,654,849	13.3	5.0	3.5
Yerba Buena	3,353,547	44,923	6.0	1.3	1.1
Rincon/South Beach	6,711,335	59,469	14.2	4.3	3.8
Mid-Market	6,969,704	30,429	4.9	1.1	1.1
South of Market	2,169,495	2,321	9.3	5.0	4.2
Showplace Square	3,271,197	97,129	8.5	2.9	2.4
Potrero East/West of 101 Fwy	2,285,394	24,718	2.7	0.5	0.5
Mission Bay/China Basin	3,469,465	52,025	0.7	0.5	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.

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