

MARKET TRENDS | **SAN FRANCISCO**

OFFICE

**4TH QUARTER
2019**

▼ **ABSORPTION** | ▼ **VACANCY** | ▲ **RENTAL RATE** | ▼ **CONSTRUCTION DELIVERIES**

The San Francisco office market continues to reach new heights, as strong tenant demand remains active in one of the nation’s strongest markets. Just over 3.3 million s.f. of office space is currently under construction, of which 46% is pre-leased, demonstrating the tight status of the market. Rental rates remain on an upward trajectory, averaging \$65.87/s.f. full service across all office building classes and submarkets, up 6% from the prior year. Sale activity soared to \$10.1 billion this year, as institutional capital continues to pour into San Francisco.

s.f. office tower located in the South Financial District. Developer Oceanwide Holdings halted construction in late 2019 on the residential portion of their project, however work will continue on the office tower. Several projects are expected to wrap up in 2020, such as Uber’s new headquarters in the Mission Bay submarket. The ride-hailing company is set to move into over 1 million s.f. of high-quality Class A space in Q2 2020. Meanwhile, 633 Folsom Street, pre-leased entirely to Asana, Inc., will add 268,000 s.f. to the Rincon/South Beach office inventory in Q3 of next year.

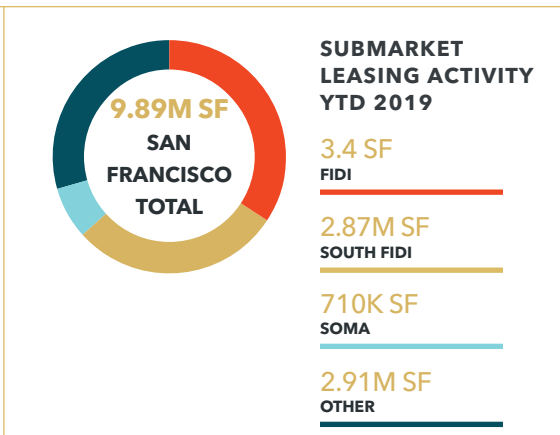
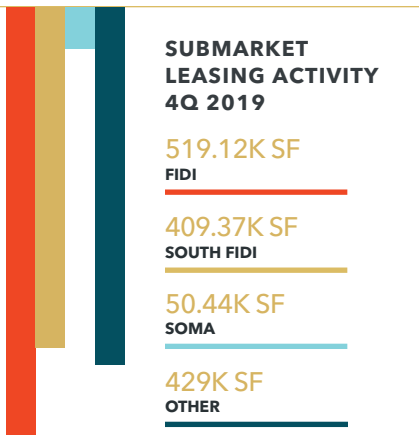
NEW CONSTRUCTION

Four office properties were delivered in San Francisco within the past year, adding roughly 1.8 million s.f. to the office inventory. The largest project completed was Park Tower at Transbay, a 765,000 s.f. building located at 250 Howard Street. Social media giant Facebook is the sole office tenant at the property. Next, Kilroy Realty delivered The Exchange, a 750,370 s.f. Class A office building leased to Dropbox in the Mission Bay submarket. Pacific Medical Buildings finished construction on their medical office building at 1100 Van Ness Avenue, with Sutter Health occupying around 117,000 s.f. across five floors. Lastly, 735 Bryant Street completed its full renovation and currently has 19,540 s.f. available for lease.

ASKING RENTAL RATES

Persistent and steady tenant demand have caused rental rates to remain on an upward climb, averaging \$65.87/s.f. full service at the end of 2019. This represents a 6% increase from the prior year. The Financial District holds the highest direct asking rate, averaging \$74.20/s.f. full service, followed closely behind by the Rincon/South Beach submarket at \$73.25/s.f. full service. In particular, Class A direct rates in all submarkets averaged

Approximately 3.3 million s.f. remains under construction, of which 46% is fully pre-leased. Among the projects in the development pipeline, the largest is Oceanwide’s First Street Tower, a massive 1.2 million



2019 MARKET HIGHLIGHTS

DIRECT VACANCY fell 50 basis points YOY to 3.9%

RENTAL RATES average \$65.87/s.f. full service

SALES ACTIVITY ended 2019 at a high \$10.1 billion

\$80.92/s.f. full service, up 14% year-over-year (YOY). Class B and C rates are also steadily rising.

LEASING ACTIVITY & ABSORPTION

Leasing activity slowed down in 2019, posting just over 9.89 million s.f. Compared to 2018, activity fell by 33%. The Financial and South Financial District were the dominant submarkets of this year, with a combined leasing activity of 6.27 million s.f. Pinterest completed the largest lease of the year by agreeing to 490,000 s.f. at Alexandria Real Estate Equities' approved 88 Bluxome Street project in SoMa. Also of note was Visa's lease for the entire 13-story, 300,000 s.f. office property at Mission Rock, a new development in the Mission Bay submarket that is scheduled to break ground in 2020. Lastly, Asana, Inc. signed a 268,000 s.f. lease at the under construction development at 633 Folsom Street and is set to move in by mid-2020.

The San Francisco office market ended the past year with a gain of 2.3 million s.f. of direct net absorption, down from 2018's net absorption high of 4.4 million s.f. The South Financial District welcomed 1.2 million s.f. of absorption gains in 2019, largely due to Facebook moving into 765,000 s.f. at Park Tower and Google entering into their 310,000 s.f. space at 1 Market Street. The Mission Bay/China Basin submarket reported nearly 750,000 s.f. of positive net absorption this year, brought on by Dropbox moving into The Exchange at 1800 Owens Street.

Direct vacancy rates arrived at 3.9%, falling 50 basis points from 2018. The Van Ness Corridor posted the highest vacancy at 10%. Class A spaces in all submarkets ended 2019 with a low 3.4% vacancy rate. Meanwhile, market-wide availability climbed up to 9.6%, up 90 basis points YOY. This is partially due to Uber placing up to 730,000 s.f. of office space for sublease at their multiple locations spread out between the South Financial District and MidMarket areas. Union Square recorded the highest availability rate at 14.1% by year-end.

INVESTMENT

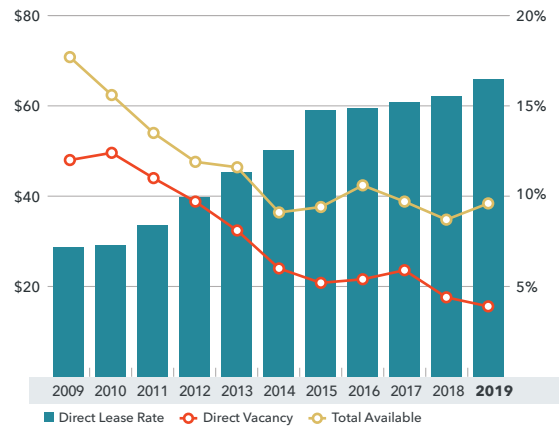
Sale volume reached a record high in 2019, ending the past year at \$10.1 billion. The average price per square foot was \$830, while cap rates averaged 4.4%. The largest sale of the year, and one of the largest in San Francisco history, was Jamestown's purchase of Levi's Plaza for \$826 million, or \$888/s.f. The office portfolio totals close to 930,000 s.f., with anchor tenant Levi Strauss & Co. occupying the space until 2022. Next, Paramount Group purchased from The Blackstone Group two adjacent office towers at 555 & 575 Market Street for \$722 million, or \$959/s.f. Lastly, Beacon Capital Partners agreed to acquire 650 Townsend Street for \$602 million, or \$899/s.f. The seller, social game developer Zynga, agreed to leaseback 185,000 s.f. of office space for the next 12 years.

Sources: CoStar, San Francisco Business Times, San Francisco Planning

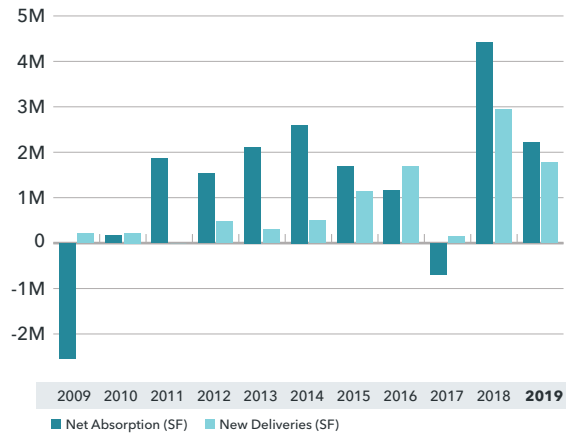
SPOTLIGHT

The Central SoMa plan is a monumental development plan in the growing SoMa neighborhood, focused on the area between 2nd and 6th Street and from Howard to Townsend Street. Approved in late 2018, the plan allows up to 8,800 residential units, of which 33% is affordable housing, and office space to supply nearly 32,000 jobs. In addition, over \$600 million will go towards improving transportation services, including updated pedestrian, bicycle, and transit areas. Several large development projects are within the Central SoMa plan, including Kilroy Realty's Flower Mart site, a 2.2 million s.f. mixed-use project scheduled to arrive in 2024 and Tishman Speyer's 960-unit mixed-use development on the former Gilt Edge Creamery site across from the main Caltrain station at 4th & Townsend.

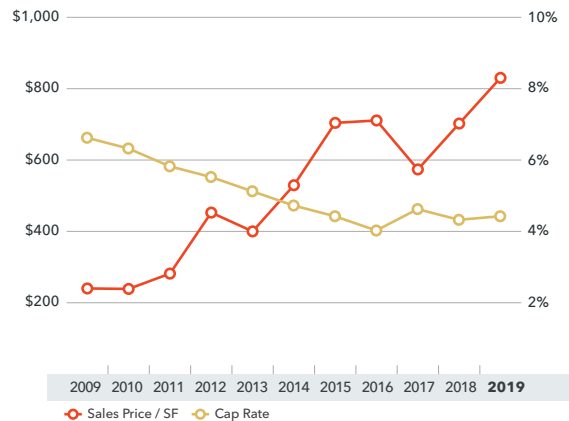
LEASE RATE, VACANCY & AVAILABILITY



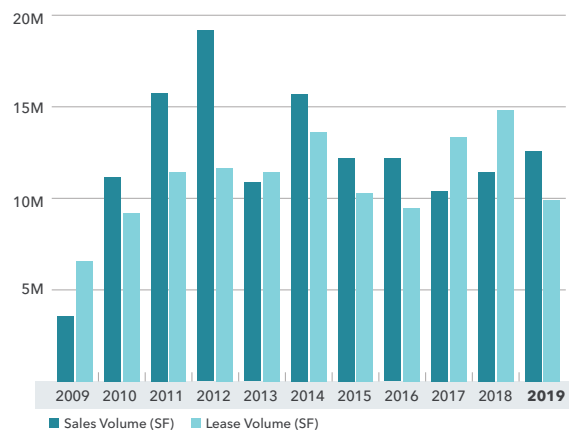
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES



SALES VOLUME VS. LEASE VOLUME

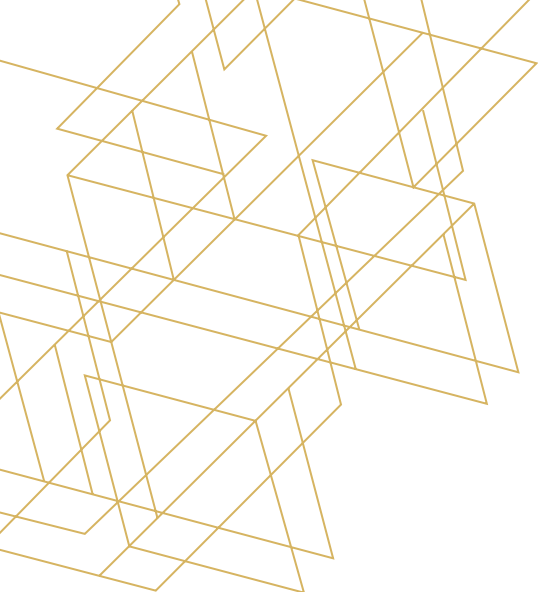


SAN FRANCISCO SUBMARKET STATISTICS

Submarkets	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q4 Direct Net Absorption	YTD Direct Net Absorption	Q4 Total Leasing Activity	YTD Total Leasing Activity	Direct Rental Rate
Financial District	30,329,961	0	4.6%	5.7%	10.0%	329,568	357,423	519,120	3,399,466	\$74.20
South Financial District	30,427,012	1,250,000	3.5%	5.0%	10.1%	395,436	1,163,212	409,373	2,868,963	\$72.92
Jackson Square	3,212,295	0	2.3%	2.7%	13.0%	(14,746)	(8,725)	33,684	238,056	\$54.71
Waterfront/North Beach	4,375,656	0	5.4%	5.9%	9.2%	(98,876)	48,406	58,851	188,643	\$55.82
Mid-Market	6,985,983	466,000	2.6%	3.8%	13.0%	74,535	(22,134)	12,690	335,672	\$43.35
SOMA	7,986,192	0	3.1%	4.3%	11.0%	68,059	(73,335)	50,438	709,555	\$67.95
Rincon/South Beach	6,811,030	268,000	3.6%	4.9%	6.7%	33,706	(52,967)	44,493	806,110	\$73.25
Showplace Square	3,759,086	126,537	4.6%	4.9%	6.9%	(36,089)	(40,551)	44,965	565,581	\$52.42
Civic Center	4,323,972	0	1.8%	1.8%	2.4%	(8,910)	(12,919)	0	19,924	\$28.77
Union Square	5,569,338	187,598	6.7%	8.2%	14.1%	26,951	46,725	218,694	586,854	\$62.18
Van Ness Corridor	2,326,156	0	10.0%	10.8%	13.7%	14,880	129,262	15,319	47,317	\$60.76
Mission Bay/China Basin	4,144,155	1,016,745	0.1%	0.4%	3.7%	13,508	748,246	0	7,520	\$55.27
Potrero	2,124,042	0	3.1%	3.4%	4.1%	(3,737)	(25,271)	300	116,567	\$61.33
San Francisco Totals	112,374,878	3,314,880	3.9%	5.0%	9.6%	794,285	2,257,372	1,407,927	9,890,228	\$65.87
Class A	58,947,738	2,393,282	3.4%	4.4%	8.7%	636,425	1,808,701	805,288	5,396,385	\$80.92
Class B	42,444,746	921,598	4.4%	5.7%	11.7%	110,008	450,436	494,899	3,941,481	\$63.32
Class C	10,982,394	0	4.6%	5.4%	6.9%	47,852	(1,765)	107,740	552,362	\$58.67

Market Breakdown

	2019	2018	2017	Annual % Change
New Construction	1,768,610	2,940,908	148,146	-39.86%
Under Construction	3,314,880	4,841,187	5,706,723	-31.53%
Direct Vacancy Rate	3.9%	4.4%	5.9%	-11.36%
Total Availability Rate	9.6%	8.7%	9.7%	10.34%
FIDI Direct Asking Lease Rate (A&B)	\$73.74	\$68.02	\$65.19	8.41%
Leased SF	9,890,228	14,806,357	13,354,134	-33.20%
Sold SF	12,583,524	11,430,489	10,386,828	10.09%
Direct Net Absorption	2,257,372	4,438,637	(459,143)	-49.14%



Notable Sale Transactions

LEVI'S PLAZA Waterfront/North Beach, Jamestown, L.P.
930,000 s.f. | \$826M or \$888.17/s.f.

555 & 575 MARKET ST South Financial District, Paramount Group, Inc.
752,738 s.f. | \$722M or \$959.17/s.f.

650 TOWNSEND ST Showplace Square, Beacon Capital Partners
670,000 s.f. | \$603M or \$899.52/s.f.

Notable Lease Transactions

88 BLUXOME ST Lower South of Market, Pinterest, Inc.
490,000 s.f.

1051 3RD ST Mission Bay/China Basin, Visa
300,000 s.f.

633 FOLSOM ST Rincon/South Beach, Asana, Inc.
268,000 s.f.



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COMMERCIAL BROKERAGE

20M	ANNUAL SALES SF	420+	NO. OF BROKERS
\$9B	ANNUAL TRANSACTION VOLUME	40M	ANNUAL LEASING SF

VALUATION ADVISORY

1,600+	APPRAISALS ANNUALLY	39/24	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

70M+	MANAGEMENT PORTFOLIO SF
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