SAN FRANCISCO HISTORICAL RECESSION ANALYSIS

PERSPECTIVE ON THE COVID-19 CRISIS

Kidder Mathews

PROVIDED BY

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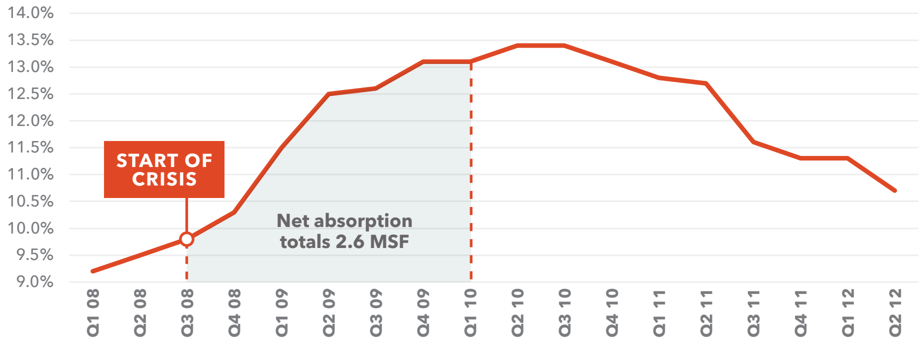
2008 FINANCIAL CRISIS

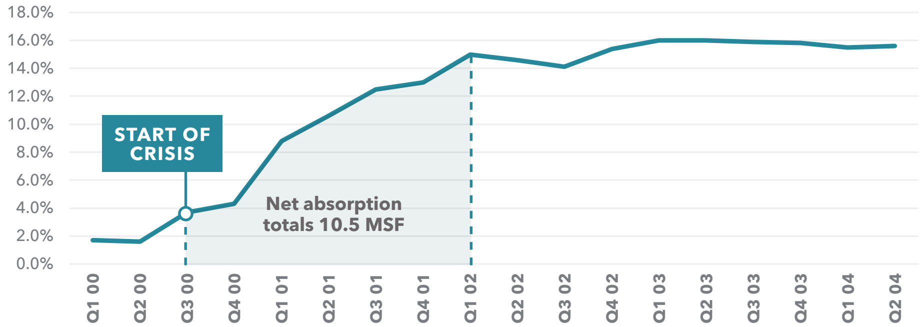
OVERALL VACANCY



The 9.8% vacancy at the 2008 Financial Crisis onset represented a healthy balance between owners and tenants. A lot of the negative absorption occurred in financial services, beginning a trend of downsizing and/or relocations out of San Francisco.

DOT-COM BUST

OVERALL VACANCY



The office market in early 2000 was propped up by excessive speculation of internet related companies, stockpiling space for future expansion that inflated occupancy and created shadow space risk.

COVID-19 CRISIS

OVERALL vacancy at 4Q 2019 was 5.0%

TECH has been leasing excess space for future growth but not at dot com levels and there is an overabundance of coworking inventory

EARLY Costar projections for Q1 indicate approximately 1.8 msf of negative absorption, suggesting the city could potentially experience 5.0+ msf negative absorption for the year – effectively doubling vacancy

WHILE all sectors will suffer losses, tech and coworking space could account for much of the impending negative absorption

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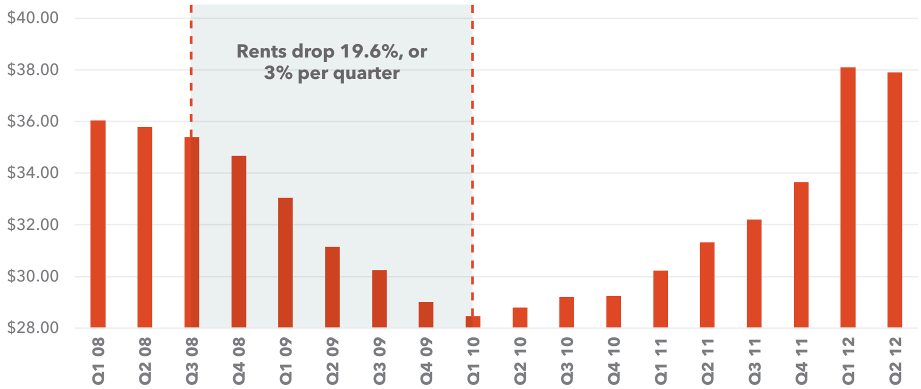
Data Source: CoStar & Kidder Mathews Market Research Group

2008 FINANCIAL CRISIS

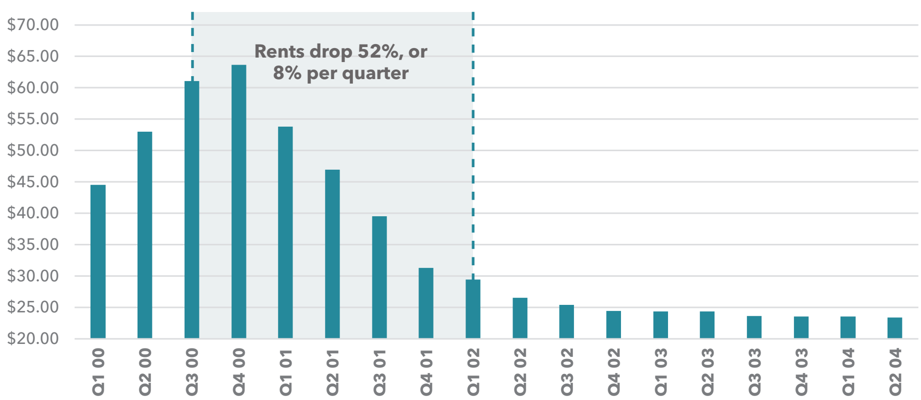
DIRECT ASKING RENT



The prolonged recovery following the dot com bust through the rise and fall of the 2008 Financial Crisis kept rents in the $20s and $30s for 10 years. Thus, the subsequent fallout in asking rates from the financial crisis wasn't as pronounced.

DOT-COM BUST

DIRECT ASKING RENT



With sub-2% vacancy rates in early 2000, there were gaps in asking rent data as spaces were leased before being marketed. It's possible that true rent figures would generate rates $20 higher than exhibited. "Blend & extend" was a popular vehicle for owners and tenants alike to compromise during this time.

COVID-19 CRISIS

The Q4 2019 average rate of $65.87 could probably be increased by $10-15 psf to account for the majority of Class A buildings withholding asking rates, theoretically putting today's rates on par with the dot com peak. However, fundamentals are superior today due to the city's strong mature tech tenants that may insulate severe depression in rents. Increasing leasing incentives will be a key rent stabilization strategy.

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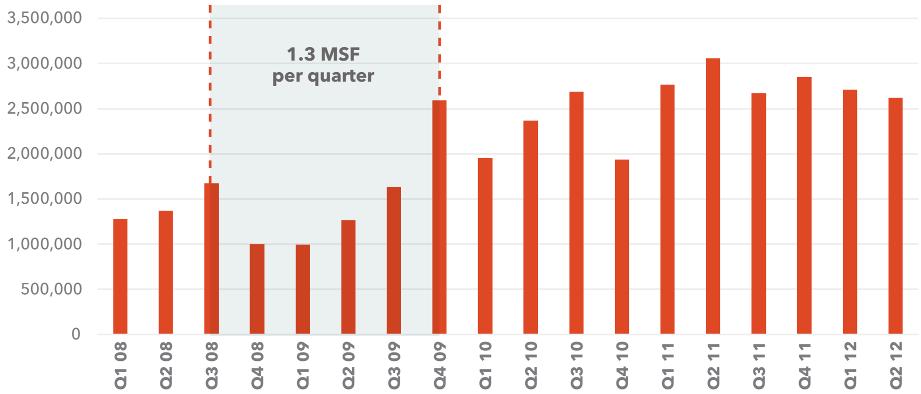
Data Source: CoStar & Kidder Mathews Market Research Group

2008 FINANCIAL CRISIS

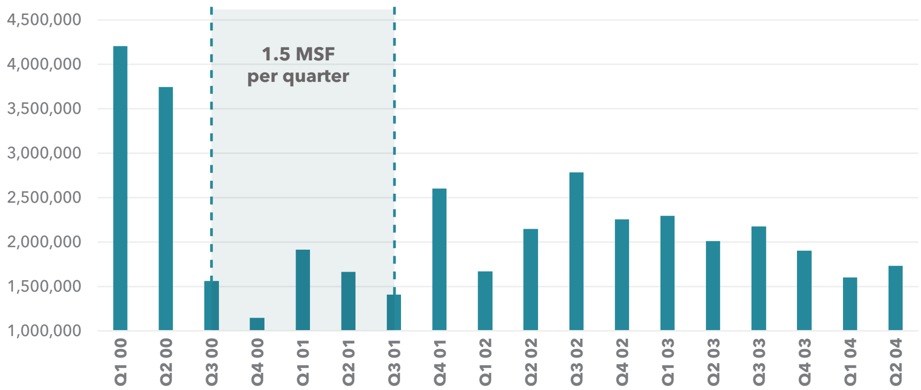
LEASING ACTIVITY



The decrease in activity was short-lived as the city soon embarked on its longest growth trajectory, averaging 2.8 msf/qtr from 2010 to present. Technology led the way as noteworthy tenants established their headquarters (Salesforce, Twitter, Uber, Dropbox) while others expanded their presence to the city (Google, Amazon, Facebook).

DOT-COM BUST

LEASING ACTIVITY



The quarterly leasing average during the first year of the crisis posted similar reduced results to the financial crisis recession. A return to healthy leasing returned in subsequent quarters but not at the post-2008 levels.

COVID-19 CRISIS

IF LEASING activity experiences a similar downturn, landlords may need to be more proactive - offering more free rent, tenant improvements and shorter terms to secure their share.

COWORKING outfits will be important to monitor. The offering of flexible short-term leases will be attractive to tenants, however rents will need to be decreased to compete with direct and sublease space. This could be an opportunity for Landlords to bolster leasing activity.

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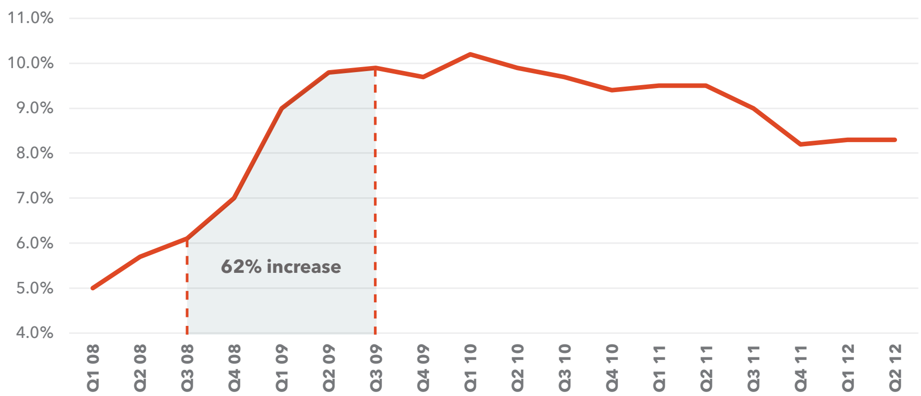
Data Source: CoStar & Kidder Mathews Market Research Group

2008 FINANCIAL CRISIS

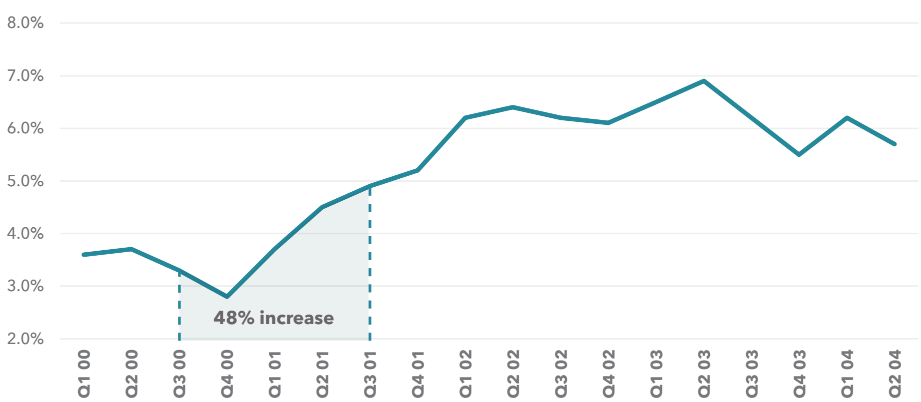
UNEMPLOYMENT - SAN FRANCISCO MSA



The steep increase in unemployment marked the highest annual national drop total since WWII. Locally, it took 3 years to regain the losses (starting Q1 2008) compared to 6 years it took the nation to recover. The national employment recovery was strongest in areas most heavily invested in tech and that boded well for S.F.

DOT-COM BUST

UNEMPLOYMENT - SAN FRANCISCO MSA



Though initially severe, the employment loss never approached the levels of 2008 recession. Technology was emerging and employment shifted to other parts of the industry, from consumer web companies to wireless, internet and business-to-business companies. The tech industry was moving at breakneck speed and companies had difficulty finding enough skilled workers to meet demand.

COVID-19 CRISIS

IN JUST the first few days of the local Covid-19 crisis, California's unemployment daily filings have averaged 106,000, up from the daily average of 2,000.

THE FILINGS may continue to grow but the city's importance to the tech industry may provide a quicker path to recovery than the nation as witnessed in the past two recessions.

Data Source: CoStar & Kidder Mathews Market Research Group