

San Francisco



Market Facts

2.8%

Class A Vacancy

5.1%

Class B Vacancy

\$84.78 FS

**Class A
Average Asking Rate**

\$75.32 FS

**Class B
Average Asking Rate**

Market Overview

San Francisco's office market kicked off 2019 with large lease transactions, soaring rental rates and development plans facing future litigation issues. San Francisco continues to make headlines as high-growth tech companies such as Pinterest, Slack, and Google take down some of the last, large blocks of space in an already constrained market. The booming economic activity and innovation of companies based out of San Francisco shows no end in sight despite a bit of background noise of a downturn. The unemployment rate in San Francisco dipped 20 basis points from the month prior to 2.4% as of February 2019, according to the US Bureau of Labor Statistics. Young professionals are drawn to the city's live-work play culture which continues to drive an increase in the city's workforce and space demands of tenants.

Even with the delivery of Transit Center's iconic fully leased 750,000 sf Park Tower, supply is exhausted trying to keep up with the ever-increasing tech demand. The first quarter closed with a total of 3.8 million square feet (msf) of available space on the market; however, with total tenant demand of 8.8 msf and new construction deliveries 67% preleased, this amount of space will not satisfy the overall appetite. 5.3 msf of the current tenants in the market have requirements greater than 100,000 square feet (sf). With minor changes in the overall vacancy rate, in particular the North Financial District, the first quarter recorded positive absorption of 1,191,535 sf. Most of this can be attributed to significant move-ins such as Covington & Burling, Knotel, and DoorDash's new headquarters.

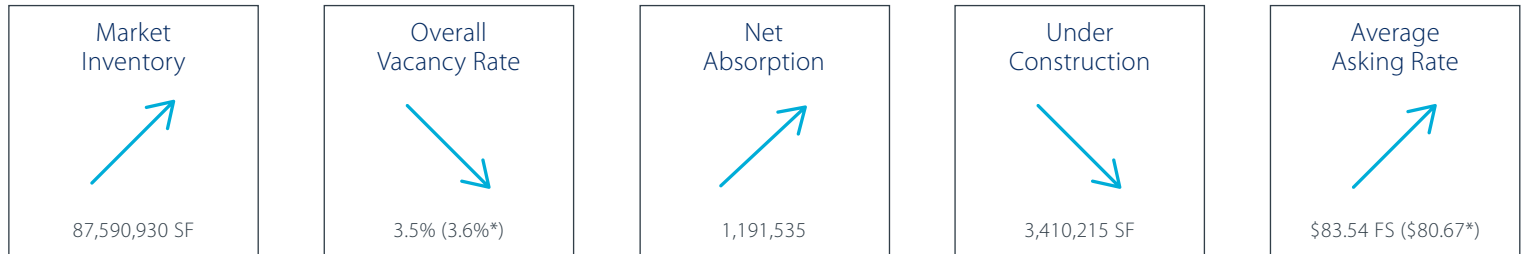
Demand for large blocks of space continued from the tech sector which accounted for 52% of all transactions over 25,000 sf. The five largest transactions signed during the first quarter were completed by all high-growth tech companies each committing to over 100,000 sf. Notably, Pinterest preleased 490,000 sf at 88 Bluxome, a development of the Central SOMA Plan that is undergoing pending litigation. In addition, Asana preleased 271,640 sf at 633 Folsom, Slack settled into 205,566 sf at 45 Fremont, Samsara leased 154,000 sf at 2 Hendry Adams, and Google signed on 140,079 sf at 215 Fremont.

Overall rents climbed to \$83.43 FS, with class A and class B standing at \$84.69 FS and \$75.32 FS, respectively. The submarkets that commanded the highest overall asking rates were South Financial District with \$84.07 FS psf, a 0.77% increase from last quarter's \$83.43. North Financial District began the year with overall rates of \$81.83 FS psf, versus \$78.55 FS last quarter, a 4.2% increase.

Total overall, direct, and sublet vacancy stood at 3.5%, 2.8%, and 0.7% respectively. The submarkets with the tightest vacancies were Mid-Market, South Financial District, and Jackson Square. All of this activity has caused soaring rents, naming San Francisco the most expensive office market in the country. Still, tech companies are willing to pay any premium to gain access to the abundance of talent, panache of San Francisco, and venture capital in the region. Looking forward, expect market fundamentals to remain solid, with increasing rates and diminishing supply. Until...

Market Snapshot

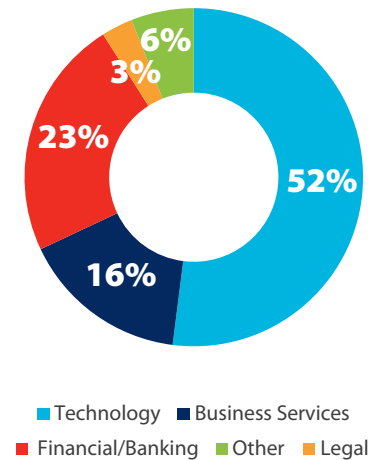
Demand for office space in San Francisco has escalated to levels not seen since the dot-com era. Q1's leasing activity portrayed this trend as the top five leases were all greater than 100,000 SF by high-growth tech companies. As vacancy continues to decline quarter-over-quarter and rental rates soar, companies looking for large blocks of space are finding themselves in panic mode.



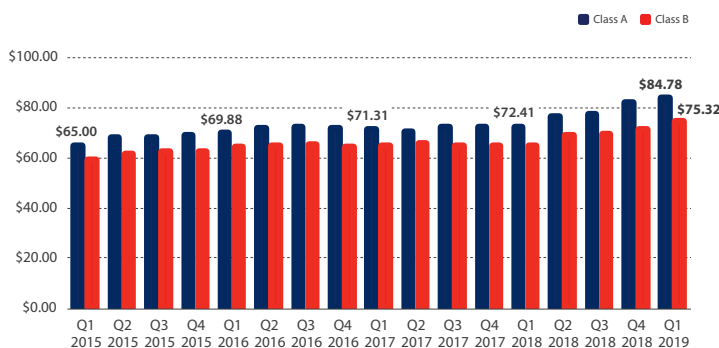
*Compared to previous quarter



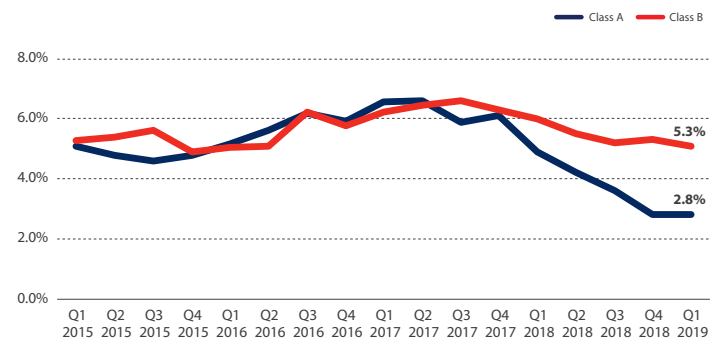
Leasing Activity By Sector (Deals over 25K)



Historical Asking Rental Rate (FSG)



Historical Vacancy

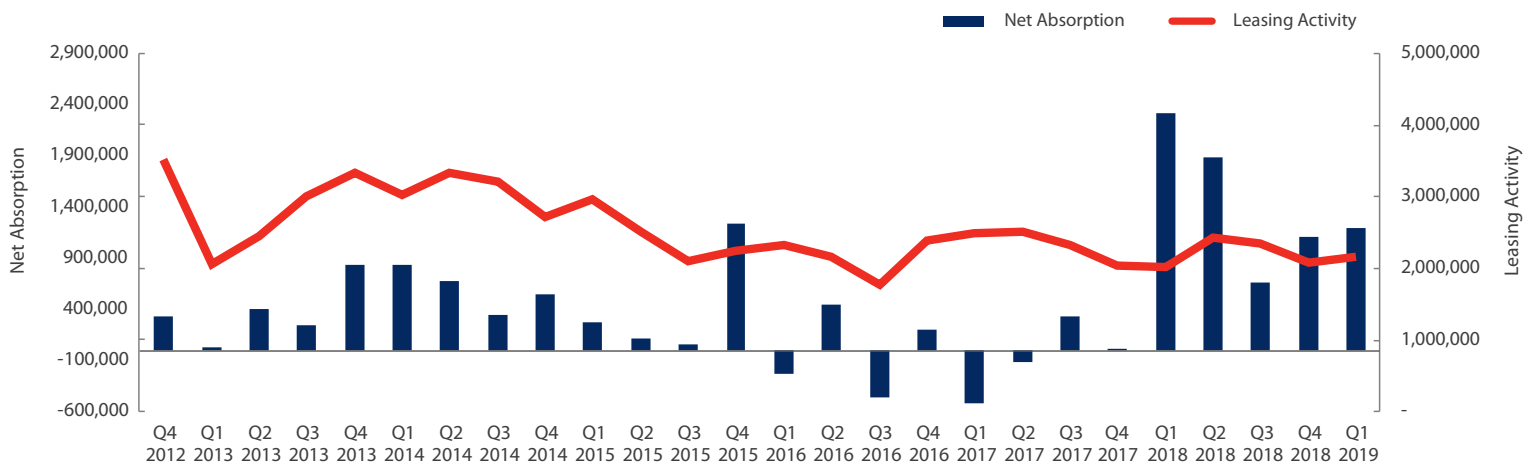


Market By The Numbers

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
North Financial	28,714,320	3.5%	7.4%	9.9%	12.8%	14,013	0	\$81.96	\$83.98	\$78.67	\$82.47	\$84.07	\$77.21
South Financial	27,479,993	2.1%	3.7%	8.0%	9.1%	1,171,946	1,250,000	\$84.07	\$87.40	\$81.70	\$83.56	\$84.17	\$79.99
CBD Average	56,194,313	2.9%	5.9%	9.0%	11.0%	1,185,959	1,250,000	\$82.80	\$85.42	\$79.30	\$82.87	\$84.11	\$77.60
SOMA*	13,838,504	4.8%	3.5%	8.9%	7.1%	-91,845	394,537	\$79.30	\$82.38	\$77.52	\$80.17	\$83.10	\$79.95
Union Square	4,040,014	6.3%	7.3%	26.2%	14.7%	919	0	\$71.83	\$76.00	\$71.17	\$71.83	\$76.00	\$71.39
Mid-Market	3,949,546	0.4%	3.0%	6.7%	7.9%	113,159	0	\$75.03	\$82.07	\$62.86	\$77.57	\$83.00	\$62.40
Jackson Square/North Waterfront	5,276,474	1.1%	4.6%	1.5%	8.3%	5,906	0	\$73.22	\$77.89	\$71.07	\$71.81	\$78.00	\$71.13
Civic Center/ Van Ness Corridor	2,026,907	5.1%	7.1%	15.1%	6.4%	-20,985	0	\$63.47	\$71.90	\$59.14	\$65.95	\$71.90	\$62.18
Mission Bay	2,265,172	0.0%	0.0%	-	-	-1,578	1,765,678	-	-	-	-	-	-
SF Total	87,590,930	2.8%	5.1%	11.2%	9.2%	1,191,535	3,410,215	\$83.54	\$84.78	\$75.32	\$81.33	\$83.46	\$76.42

*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
Pinterest	88 Bluxome	SOMA	490,000	Direct
Asana	633 Folsom	SOMA	271,640	Direct
Slack	45 Fremont	South Financial District	205,566	Direct
Samsara	2 Henry Adams	Showplace Square	154,000	Direct
Google	215 Fremont	South Financial District	140,079	Direct
Wework	1455 Market	MidMarket	66,056	Direct
Knotel	625 2nd	SOMA	56,271	Direct

Top Sales

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
215 Fremont	LPC / Clarion Partners	South Financial District	373,500	±\$335,500,000	±\$898
111 Sutter	Paramount Group	North Financial District	292,997	±\$227,000,000	±\$775
550 Terry Francois Blvd	Gap	Mission Bay/China Basin	282,733	±\$342,500,000	±\$1,211
233 Geary (I. Magnin)	Sand Hill Property Co.	Union Square	250,000	±\$250,000,000	±\$1,000
350 Rhode Island	PCCP	Showplace Square	135,509	±\$120,000,000	±\$886
600 Battery	TMG Partners	Jackson Square	112,208	±\$117,500,000	±\$1,047
260 Townsend	Alexandria Real Estate Equities	SOMA	84,733	±\$66,000,000	±\$779
410 Townsend	Clarion Partners	SOMA	73,755	±\$85,700,000	±\$1,162

Under Construction

Building	Developer	Submarket	Square Feet	% Leased	Delivery
Oceanwide Center	Oceanwide Holdings	South Financial District	1,250,000	0%	Q4 2023
The Exchange	Kilroy Realty	Mission Bay/China Basin	751,242	100%	Q2 2019
Warriors Development	Warriors	Mission Bay/China Basin	579,436	100%	Q3 2019
1455-1515 3rd (Uber HQ)	Alexandria Real Estate Equities	Mission Bay/China Basin	435,000	100%	Q1 2020
633 Folsom	The Swig Company	Rincon/South Beach	268,000	100%	Q3 2020
1 De Haro	SKS Partners	Showplace Square	126,537	0%	Q1 2020

AY San Francisco Team

Office Group

Nick Slonek, Managing Director / Principal	415.322.5051
Kareem Barzegar, Senior Vice President	415.322.5064
John Cashin, Principal	415.322.5052
Phillip Fletcher, Associate	408.887.9304
Riccardo Gale, Vice President	415.322.5063
Johana Garcia, Administrator Coordinator	415.322.5050
Kelly Glass, Principal	415.322.5062
Erika Kim, Vice President, Marketing	415.349.3400
Raquel Ledesma, Graphic Designer	415.322.5057
David Linsmayer, Principal	415.322.5061
Jim Lucas, Vice President	415.322.5059
Patrick McKenzie, Research Analyst	415.322.5056
Melinda Miyagishima, Operations Manager	415.322.5058
Peter Setzer, Senior Vice President	415.349.3402

Retail Services Group

Cameron Baird, Senior Vice President	415.301.3175
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Capital Markets Group

Chris Abbott, Senior Vice President	415.322.5054
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Laef Barnes, Vice President	415.349.3391
Kevin Klink, Vice President	415.349.3393
Grant Sedgwick, Senior Vice President	415.322.5053

Hospitality Group

Chris Stark, Principal	503.621.8530
Chelsea Wang, Senior Hospitality Broker	415.322.5067

Property Management / Lease Administration

Lisa Blandford, General Manager	415.392.4114
Deanna Drake-Copelan, CCIM® RPA® / Director, Property Management	415.322.5060
Maryn Craig, Property Manager	415.322.4114
Lili Julian, Senior Property Accountant	415.392.4114
Kristoffer Perez, Assistant Property Manager	415.392.4114
Stan Yoshihara, Managing Director / Principal, Property Management	213.471.7019

Project / Construction Management

David Gonzales, Managing Director / Principal	415.322.5065
Shannon Dupler, Manager, Financial Reporting	415.349.3399
Clare Friel, Senior Project Manager	415.349.3406
Alyssia Dolata-Goodrich, Project Coordinator	415.349.3403
Nicole de la Rosa, Assistant Project Manager	510.254.4268



Platinum member

avisonyoung.com

Avison Young - Northern California, Ltd.
44 Montgomery Street, Suite 3300
San Francisco, CA 94104
T 415.322.5050

