



SECOND
QUARTER 2020

The background of the right side of the cover is a large, dark green triangle containing a semi-transparent image of the San Francisco skyline and the Golden Gate Bridge. The skyline includes prominent buildings like the Transamerica Pyramid. The bridge is visible in the lower half of the triangle, with cars on it. The text 'SAN FRANCISCO OFFICE REPORT' is overlaid on the right side of this triangle in white, bold, sans-serif font.

SAN FRANCISCO
OFFICE REPORT

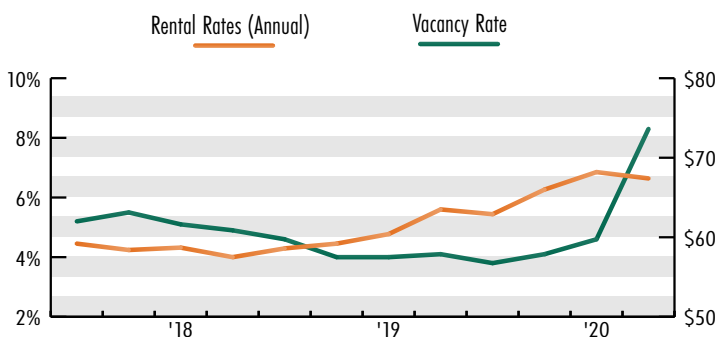
Health Crisis Push Sublease Space to New Highs

As the domino effect of the pandemic takes shape, the San Francisco office market which had enjoyed an 11-year positive run has officially turned course. The federal, state, and county-level regulations on opening businesses still wane as health officials work to curtail the number of COVID-19 cases. As a result, the symptomatic effect of the regulations has left most office buildings with little to no staff operating onsite and forced some tenants to shed the unused space or plan for future savings in operating costs by subletting. In Q2 2020, the total available sublease space has increased by 1,721,029 square feet from last quarter and 3,888,452 from Q2 2019.

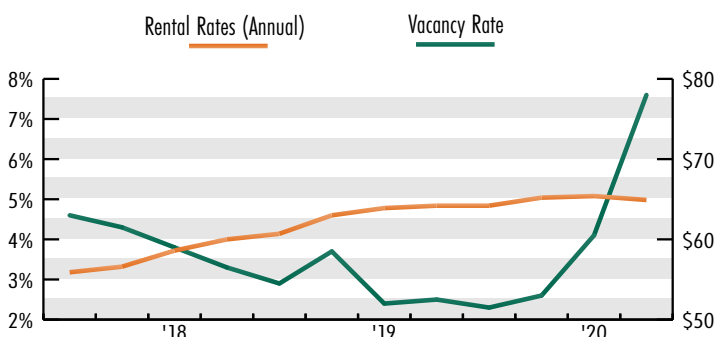
Net absorption remained in negative territory—reporting -262,380 square feet—bringing the total year-to-date figure to more than 1.3 million square feet, a number not witnessed in over two decades.

Investment trades for Q2 2020 sit at an all-time low as some transactions were canceled due to the uncertainty of the economy. Investors with dry powder patiently wait for building values to decrease, and with fundamentals on shaky ground there is a looming concern of potentially troubled assets. The most significant transaction this quarter was the sale of the 137,624 square foot Townsend Building in San Francisco, a historic six-story brick-and-timber building that was built in 1903 and underwent a full renovation in 2000. The asset was sold for approximately \$140 million, or around \$1,017 per square foot.

NORTH OF MARKET | Vacancy & Rental Rates



SOUTH OF MARKET | Vacancy & Rental Rates



In Summary

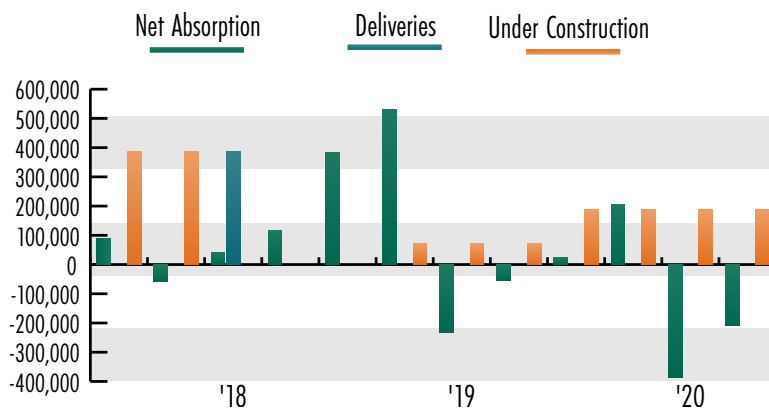
- ✓ Office leasing activity officially halted as year-to-date net absorption sits at (-1,379,888) square feet
- Rents have plateaued with North of Market average direct asking rates for Class A ranging mid-\$80s to the mid-\$90; Class B sits in the mid-\$50s to high-\$70s
- ⋈ Direct vacant available space. North of Market at 7.8%; South of Market at 6.2%; Citywide at 6.9%



North of Market - North of Market ended the quarter with -209,088 square feet of negative absorption, which was primarily attributed to the shedding of space in the Financial District submarket. The total vacant availability rate (7.8% in Q2 2020) had been on a steady decline over the past several years.

Total vacant available space has increased more than 1.7 million square feet from the same period last year. In one of the most significant transactions this quarter, Woodruff-Sawyer renewed its lease at 50 California for 43,194 square feet, and User Testing inked a new lease of approximately 45,000 square feet at 50 California in the Rincon/North Beach submarket.

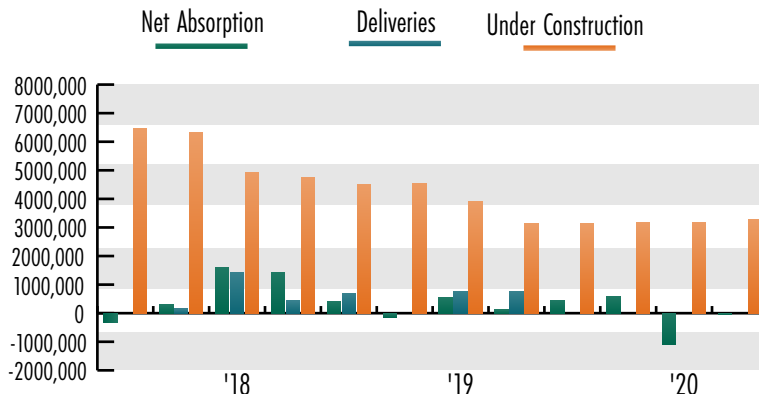
NORTH OF MARKET | Absorption & Activity



South of Market - With delays in reopening, the South of Market area also saw shaky fundamentals with -53,292 square feet of negative net absorption albeit less in Q1 2020. The vacant availability was

6.2% in Q2 2020, approximately 2.4 million square feet higher than Q2 2019 with one million of that in direct available and nearly 1.4 million of sublease space. Uber, Dropbox, and Square all have significant blocks of sublease of space on the market.

SOUTH OF MARKET | Absorption & Activity

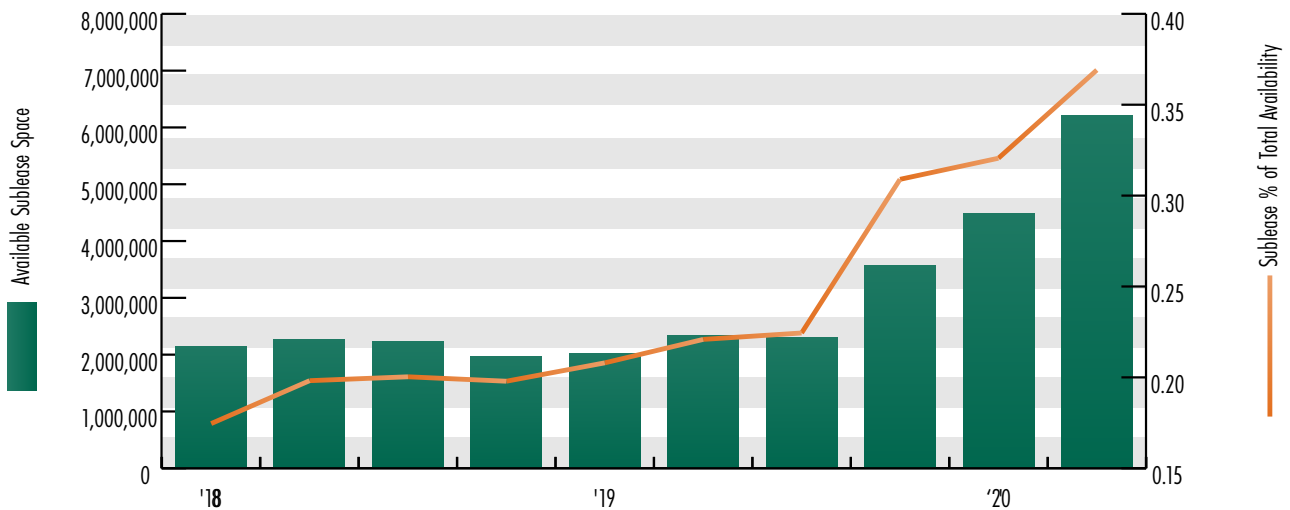


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STATISTICS | By Submarket

SUBMARKET	Net Rentable Area	Under Construction	Vacant Avail Direct %	Vacant Avail Sublease %	Total Vacant Avail %	Net Absorption (QTR)	Average Annual Rent
Van Ness/Chinatown	3,291,925	0	8.0%	0.5%	8.5%	(1,625)	\$55.10
Civic Center	4,413,320	0	2.8%	0.2%	3.0%	0	\$45.81
Financial District	30,504,383	0	6.2%	2.1%	8.3%	(214,996)	\$72.02
Jackson Square	3,298,813	0	3.1%	3.1%	6.2%	(4,599)	\$64.31
Union Square	5,462,352	0	8.5%	4.2%	12.7%	18,470	\$39.72
Waterfront/North Beach	4,438,309	0	7.2%	1.9%	9.2%	0	\$63.16
West of Van Ness	5,422,347	0	3.1%	0.3%	3.4%	(6,338)	\$63.33
NORTH OF MARKET TOTAL	56,831,449	0	5.9%	1.9%	7.8%	(209,088)	\$67.44
Bayview/Hunters Point	637,030	0	4.5%	0.0%	4.5%	(1,597)	\$39.00
Mid-Market	7,102,078	0	3.8%	1.8%	5.7%	(35,745)	\$43.96
Mission Bay/China Basin	4,153,451	0	0.7%	3.8%	4.5%	(135,107)	\$-
Mission/Potrero	3,438,140	0	4.0%	1.5%	5.5%	22,025	\$56.00
Southern City	1,341,516	0	2.5%	0.8%	3.3%	0	\$55.10
Rincon/South Beach	6,929,596	0	3.2%	3.8%	7.0%	(41,134)	\$81.28
Showplace Square	3,770,899	0	4.8%	0.0%	4.8%	0	\$50.88
South Financial District	30,647,938	0	2.7%	2.8%	5.5%	197,898	\$62.51
South of Market	4,672,240	0	7.0%	1.7%	8.6%	(25,850)	\$71.29
Yerba Buena	3,611,896	0	6.5%	7.0%	13.5%	(33,782)	\$60.10
SOUTH OF MARKET TOTAL	66,304,784	0	3.5%	2.7%	6.2%	(53,292)	\$64.11
Class A	60,386,506	0	3.8%	2.3%	6.2%	(67,325)	\$79.00
Class B	46,923,589	0	5.5%	2.7%	8.1%	(111,811)	\$64.32
Class C	15,826,138	0	4.7%	1.5%	6.2%	(83,244)	\$54.79
CITYWIDE TOTAL	123,136,233	0	4.6%	2.4%	6.9%	(262,380)	\$65.63

Historical Sublease Available Space & Sublease Percent of Total Availability



	2018-Q2	2018-Q3	2018-Q4	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2
Sublease Available	2,271,438	2,237,018	1,963,969	2,017,589	2,338,360	2,307,695	3,563,144	4,490,181	6,211,210
Direct Available	9,190,106	8,930,245	7,960,984	7,682,890	8,247,706	7,975,162	7,969,814	9,516,904	10,617,947
Total Available	11,461,544	11,167,263	9,924,953	9,700,479	10,586,066	10,282,857	11,532,958	14,007,085	16,829,157
Sublease % of Total	19.8%	20.0%	19.8%	20.8%	22.1%	22.4%	30.9%	32.1%	36.9%
Total Space	120,640,538	121,341,163	121,341,163	122,105,863	122,875,773	122,875,773	122,920,567	122,920,567	123,136,233

Largest Available Subleases

Address	Submarket	Bldg Contig	Term	Build Out	Notes
1455 Market Street	Mission Bay/China Basin	±375,831	Through Sept 2023	Shell Space/Partial Build Out	Former Uber, Dropbox, Square Space
685 Market Street	Yerba Buena	±207,000	Through Jan 2022	Fully Built Out	Former Uber
680 Folsom	South Financial District	± 272,401	Through Dec 2028	Fully Built Out	Former Macys.com

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