



FOURTH
QUARTER 2019

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 a highway. The skyline includes the Transamerica Pyramid and other skyscrapers. Below the skyline is a view of a highway with several cars, and further down, a body of water and more greenery. The text 'SAN FRANCISCO OFFICE REPORT' is overlaid on this image in white, bold, sans-serif font.

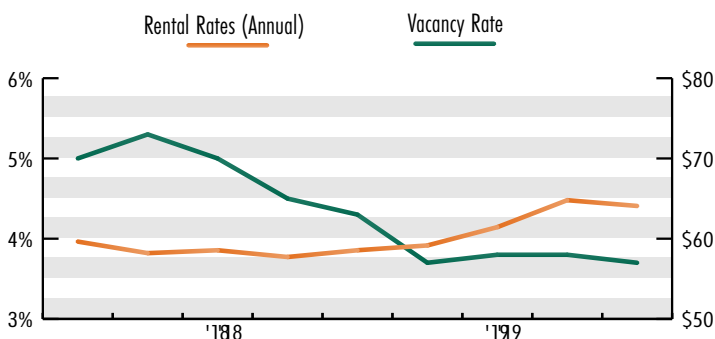
SAN FRANCISCO
OFFICE REPORT

60 New Sublease Space Provides Wiggle Room for Tenant Demand

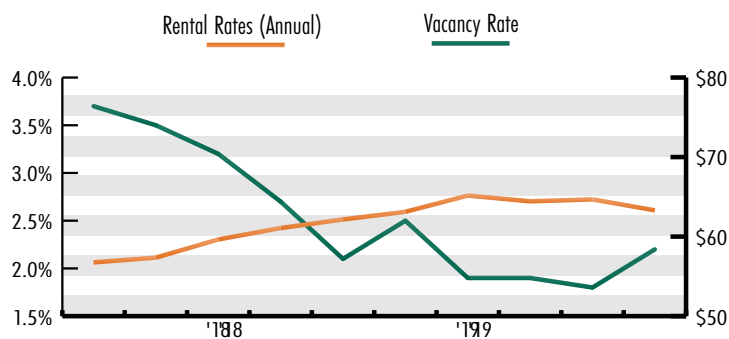
San Francisco leasing activity slowed year-end as tenants began to shed space increasing the overall sublease availability rate. Net absorption fell into negative territory reporting -311,642 square feet, bringing the year-to-date total to 825,856 square feet. Despite the lull, there remains a consistent demand of tenant requirements looking to plant a flag in San Francisco market amidst its record-low vacancies and rents. Technology juggernaut Google was rumored to have its sights set on the Pier 70 mega project and Zendesk is also rumored to be a potential suitor, according to a recent article in the San Francisco Business Times.

With consistent leasing demand coupled with the constraints of Proposition M (a law that limits the amount of new office construction that can be built in San Francisco) a new initiative, Proposition E, has been introduced as an amendment to the existing law to provide incentives for economic growth and affordable housing, which could allow some planned projects to move into the construction phase. More than 1.7 million square feet of office product was delivered in 2019 with another 3 million remaining in the construction pipeline. Technology companies have undeniably changed the landscape of the City over the last several years and show no signs of tempering expansions. Most tech firms sit with ample capital for these expansions and the Bay Area persists as a major job creation engine; finding the talent to fill the space is the key to occupancy. Overall, vacant available space saw an uptick from last quarter primarily due to the increase in sublease supply, albeit this could provide some wiggle room for pent-up demand.

NORTH OF MARKET | Vacancy & Rental Rates



SOUTH OF MARKET | Vacancy & Rental Rates



In Summary

- Office leasing activity in 2019 ended strong with positive year-to-date net absorption of 825,856 square feet.
- North of Market average direct asking rates for Class A ranged from the mid-\$90s to the mid-\$100s; while Class B sits in the mid-\$60s to high-\$80s.
- South of Market average direct asking rates for Class A ranged from the low-\$80s to the high-\$90s with Class B hovering in the high-\$70s.
- Direct vacant available space:
 - North of Market at 3.9%
 - South of Market at 2.2%
 - Citywide at 3.0%

MARKET ACTIVITY | LEASE TRANSACTIONS

LEASES (TENANT)	Property Address	Size	Type	Submarket
NEXTDOR	420 Taylor Street	115,000	Direct	Union Square
SENTRY IO	45 Fremont Street	73,584	Direct	South Financial District
HULT BUSINESS SCHOOL	1355 Sansome Street	61,662	Renewal	Mid-Market
AIRBNB	808 Brannan Street	60,860	Direct	Showplace Square

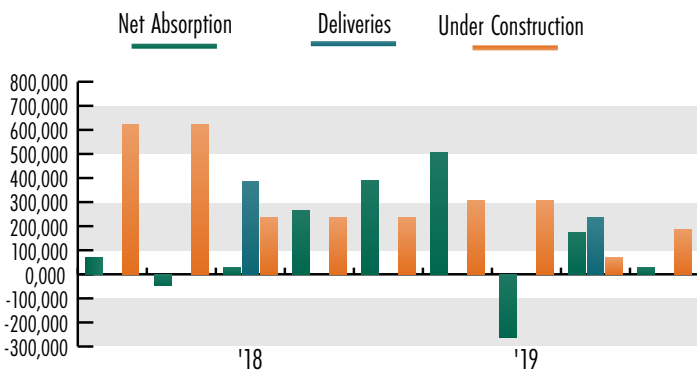
The Information in this document was obtained from sources we deem reliable; however, no warranty or representation, expressed or implied, is made as to the accuracy of the information contained herein. The market statistics represent properties that are 10,000 square feet or larger. This quarterly market report is a research document of TRI Commercial and may be found on our website at www.tricommercial.com. CoStar was the main source of information used in this report.



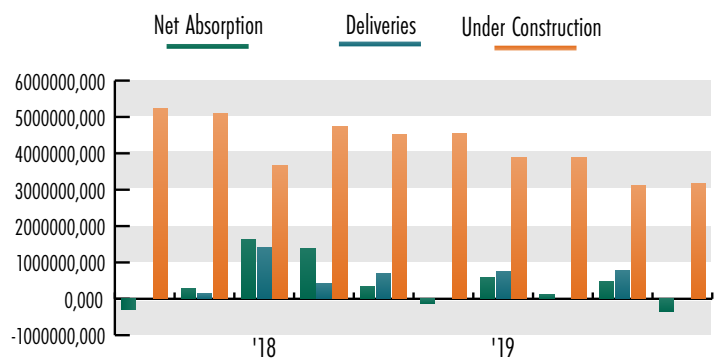
North of Market ended the quarter with 50,040 square feet of positive absorption, a slight slowdown in activity from last quarter at 120,981 square feet. The total vacant availability rate (4.7% in Q4 2019) has been on a steady decline over the past several quarters. Despite a slowing in leasing activity, most of North of Market stayed in positive territory with rents at all-time highs. In one of the most significant transactions this quarter, Nextdoor took the former Reddit space in Union Square, securing approximately 115,000 square feet of creative space at 420 Taylor Street in the quasi-Tenderloin District.

South of Market witnessed softening in fundamentals as Uber, Dropbox and Square all placed blocks of sublease space online. This caused a reversal in net absorption reporting -361,682 square feet and the vacant available rate saw an uptick to 2.2% in Q4 2019. While this phenomenon is counter-intuitive in the humming San Francisco market, the overall sense in the market is that the give-back in space is positive and a good opportunity for tenants looking to plant their flag in the city.

NORTH OF MARKET | Absorption & Activity



SOUTH OF MARKET | Absorption & Activity



MARKET ACTIVITY | SALE TRANSACTIONS

	Size	Sale Price PSF	Buyer	Submarket
525 MARKET STREET	1,086,700	\$1,104	DWS Group Americas	Financial District
555 MARKET STREET	770,000	\$938	Paramount Group	South Financial District
199 FREMONT STREET	401,043	\$982	Divco West	South Financial District
400 SANSOME STREET	185,851	\$807	RFP Holding	Financial District

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MARKET STATISTICS | By Submarket

SUBMARKET	Net Rentable Area	Under Construction	Vacant Avail Direct %	Vacant Avail Sublease %	Total Vacant Avail %	NetAbsorption (QTR)	Average Asking Rent
Chinatown/Nob Hill	891,990	-	4.3%	0.5%	4.8%	-874	\$74.00
Civic Center	4,353,650	-	1.8%	0.2%	2.0%	-7,607	\$49.60
Financial District	30,383,229	-	3.6%	0.9%	4.5%	27,790	\$80.22
Jackson Square	3,301,168	-	2.1%	0.6%	2.7%	-1,576	\$58.10
Union Square	5,565,614	187,598	6.6%	1.3%	7.9%	-3,398	\$80.54
Van Ness Corridor	2,418,654	-	9.3%	0.8%	10.0%	7,938	\$59.24
Waterfront/North Beach	4,416,156	-	4.4%	0.3%	4.7%	10,619	\$75.64
West of Van Ness	5,354,514	-	3.1%	0.3%	3.3%	17,148	\$51.21
NORTH OF MARKET TOTAL	56,684,975	187,598	3.9%	0.8%	4.7%	50,040	\$65.91
Bayview/Hunters Point	593,650	-	1.3%	1.9%	3.2%	0	\$39.00
India Basin	36,379	-	0.0%	0.0%	0.0%	0	N/A
Lower South of Market	2,263,411	-	3.8%	0.7%	4.5%	-1,611	\$80.76
Mid-Market	6,997,513	466,000	3.3%	0.8%	4.2%	-108,868	\$52.58
Mission Bay/China Basin	4,153,681	1,016,745	0.1%	0.3%	0.4%	0	N/A
Potrero East of 101	357,477	-	6.7%	0.0%	6.7%	974	\$59.33
Potrero West of 101	1,824,606	-	1.3%	0.1%	1.4%	6,000	\$75.50
Rincon/South Beach	6,883,254	268,000	2.0%	2.5%	4.6%	-95,678	\$71.32
Showplace Square	3,770,062	126,537	2.1%	0.3%	2.5%	-9,255	\$67.50
South Financial District	30,440,362	1,250,000	2.2%	0.6%	2.8%	-164,775	\$71.81
South of Market	2,354,635	-	2.8%	0.8%	3.6%	15,599	\$55.40
Yerba Buena	3,608,792	50,000	2.2%	1.9%	4.1%	-4,068	\$61.07
SOUTH OF MARKET TOTAL	63,283,822	3,177,282	2.2%	0.9%	3.1%	-361,682	\$63.31
Class A	60,064,742	3,364,880	2.4%	0.5%	2.9%	-226,494	\$73.05
Class B	45,432,740	-	3.8%	1.3%	5.0%	-154,993	\$67.96
Class C	14,471,315	-	3.5%	0.7%	4.2%	69,845	\$59.78
CITYWIDE TOTAL	119,968,797	3,364,880	3.0%	0.8%	3.9%	-311,642	\$64.61

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