







2017
outlook

ONE QUARTER TO GO

Over the past three months, a majority of the office space supply that tenants had been counting on to counteract demand has largely been pre-leased or absorbed through the continued robust tech-tenant market. With only a handful of floors at Salesforce Tower available, the full building lease by Facebook at 181 Fremont Street, and rumors that 350 Bush is now 100% committed, the next few months will continue to represent decreased vacancy, continued tenant demand, and less down time on spaces that are available now. The counteracting trend is the perceived bubble in the housing market, which continues at current rents to drive millennials out of San Francisco and into suburban markets further and further from the downtown core. As a result, traffic on Bay Area freeways has climbed to ridiculous levels, as commute times have hit 20-year historic highs.

In Summary:

-  **Negative net absorption of (151,098) square feet in the 3rd Quarter**
-  **North of Market average direct asking rates for Class A in the mid \$80's; Class B in the high \$50's**
-  **South of Market average direct asking rates for Class A from \$70's to over \$110's; Class B in the high \$60's**
-  **Direct vacant available space: North of Market lowered to 5.2%; South of Market at 3.9%; Citywide at 4.5%**

MARKET OVERVIEW

The San Francisco Office market ended the 3rd Quarter with a negative absorption of (145,727) square feet, bringing the year-to-date tally to net negative (751,265) square feet. Overall asking rents for office space stayed high, albeit landlords are providing increased concessions in free rent and tenant improvements. There continues to be a significant demand for large blocks of space, but smaller space occupancies are noticeably slowing down.

3rd QUARTER ACTIVITY

North of Market ended the 3rd Quarter with negative (7,445) square feet absorption. Rents ranged from Class B rates in the high \$50's, to mid \$80's for Class A space. Direct vacant available space also lowered slightly to 5.2% in this submarket. South of Market ended with a negative net absorption of (143,653) square feet. Rents held at the high \$60's for creative space Class B buildings, to new completions commanding Class A rents over \$110. Direct vacant available space dipped down slightly to 3.9%.

Major lease transactions in the 3rd Quarter began with Facebook pre-leasing 432,000 square feet, i.e. the entire 181 Fremont, that is still under construction. The social media giant's Instagram division will be the first occupant. This deal was followed by Airbnb taking over most of Zynga's 287,000 square-foot space at 650 Townsend. Ancestry.com signed 160,000 square feet at the soon-to-be completed 350 Bush building. Market Street had a flurry of activity with Amazon signing 175,727 square feet at 525 Market; Zendesk took 51,810 square feet at 989 Market; DoorDash leased 50,821 square feet at 901 Market; and WestField Retail Solutions took 30,000 square feet at 845 Market.

Large 3rd Quarter office building sales included: Tishman Speyer's purchase of 222 Second for \$542.9 million, or a whopping \$1,200 per square foot; Allianz Real Estate bought 333 Market for \$112.5 million, or \$761 per square foot; PGIM purchased 150 Post for \$69.3 million, or \$655 per square foot; and Shorenstein purchased 901 Battery for \$55 million, or \$611 per square foot.

Demand for larger blocks remains high with behemoth technology companies such as Google requiring more space in the City regardless of the high rental rates. On the flip side, smaller startups are seeking subleases with shorter terms and lower rates as funding sources are taking more conservative stances.

North of Market: North Financial, Jackson Square, North Waterfront, Union Square, Civic Center, Van Ness

South of Market: South Financial, Rincon/South Beach, Yerba Buena, MidMarket, South Of Market, ShowplaceSq, Mission Bay, Potrero East & West

ABSORPTION - SAN FRANCISCO OFFICE MARKET (YTD)



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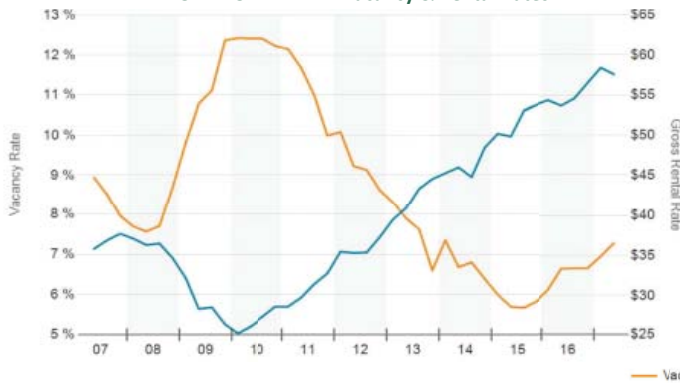
Q3 MAJOR LEASE TRANSACTIONS

Tenant	Address	Sq.Ft.
Facebook	181 Fremont	432,000
AirBnB	650 Townsend	287,000
Amazon	525 Market	175,727
Unknown Sublease	250 Brannan	62,015
Zendesk	989 Market	51,810
DoorDash	901 Market	50,821
Westfield Retail Solutions	845 Market	30,000
Segment	101 15th	20,270

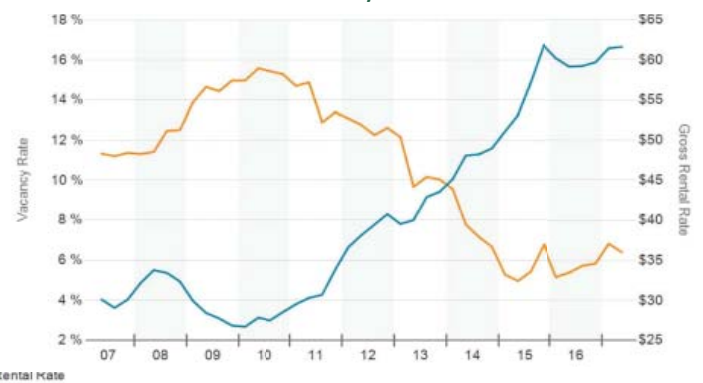
Q3 LARGE SALE TRANSACTIONS

Buyer	Address	Price	Per Sq.Ft.
Tishman Speyer	222 Second	\$ 542.9 Mil	\$1,200
Allianz Real Estate	333 Market	\$ 112.5 Mil	\$ 761
PGIM Real Estate	150 Post	\$ 69.3 Mil	\$ 655
Shorenstein Properties	901 Battery	\$ 55.0 Mil	\$ 611
American Realty Adv	3180 Eighteenth	\$ 34.0 Mil	\$ 916

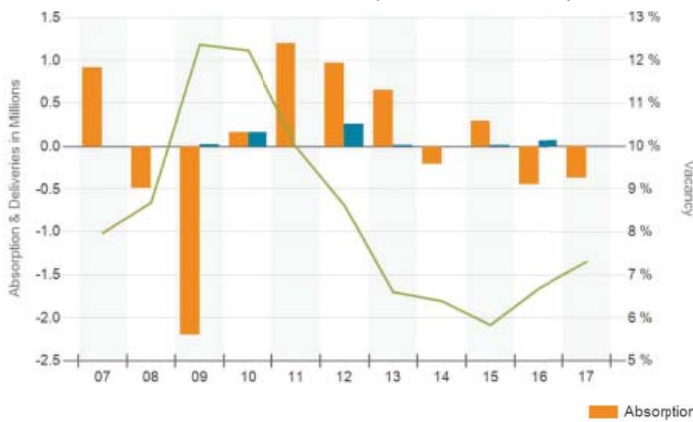
NORTH OF MARKET Vacancy & Rental Rates



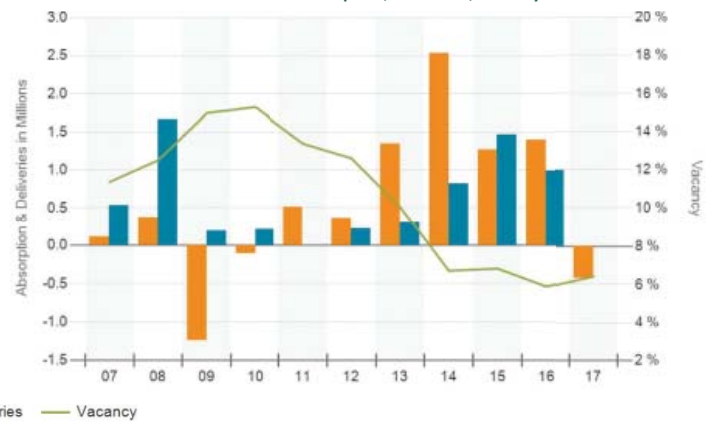
SOUTH OF MARKET Vacancy & Rental Rates



NORTH OF MARKET Absorption, Deliveries, Vacancy



SOUTH OF MARKET Absorption, Deliveries, Vacancy



Note: Rental rates based on COSTAR data on the above charts are lower than actual market rental rates due to averaging of undisclosed "negotiated rents." Graph is based on Vacant Direct space; Vacant Direct Available space is what is actually on the market for lease.

SUBMARKET STATISTICS

Submarket	Net Rentable Area SF	QTR Absorption SF	Total Avail %	Vacant Direct %	Vacant Dir Avail* %
(NORTH OF MARKET)					
Financial District	29,651,629	16,105	13.4	8.5	6.5
Jackson Square	3,160,319	26,864	8.6	3.3	3.1
Waterfront/North Beach	4,359,276	2,996	6.9	4.9	3.9
Union Square	5,417,903	(45,572)	10.5	7.0	6.5
Civic Center	4,309,411	(11,400)	1.9	1.9	1.7
Van Ness Corridor	2,172,268	17,815	15.3	8.7	8.7
(SOUTH OF MARKET)					
South Financial District	27,900,323	(186,217)	15.0	6.6	4.8
Yerba Buena	3,587,693	56,695	7.8	4.0	2.4
Rincon/South Beach	6,482,104	21,568	7.7	4.7	3.7
Mid-Market	7,009,704	24,394	5.1	2.6	2.4
South of Market	2,151,442	(26,695)	6.8	5.2	4.4
Showplace Square	3,212,641	(34,559)	14.4	2.7	2.3
Potrero East/West of 101 Fwy	2,147,668	(11,181)	5.4	0.3	0.2
Mission Bay/China Basin	3,459,085	39,526	17.5	3.9	3.2

*Total direct available is not necessarily all vacant, as some of the space may be occupied and available on a 30-to-120-day notice or proposed space.

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