



FIRST
QUARTER 2020

A large, dark green triangular graphic on the right side of the page contains a faded image of the San Francisco skyline, including the Transamerica Pyramid, and the Golden Gate Bridge with cars driving on it.

SAN FRANCISCO OFFICE REPORT

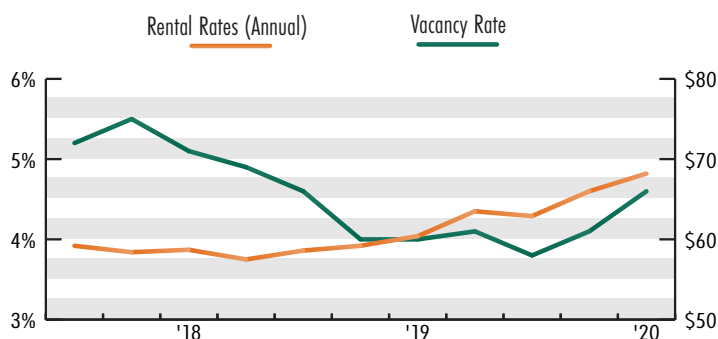


Tenants Begin to Shed Space Ahead of Looming Pandemic

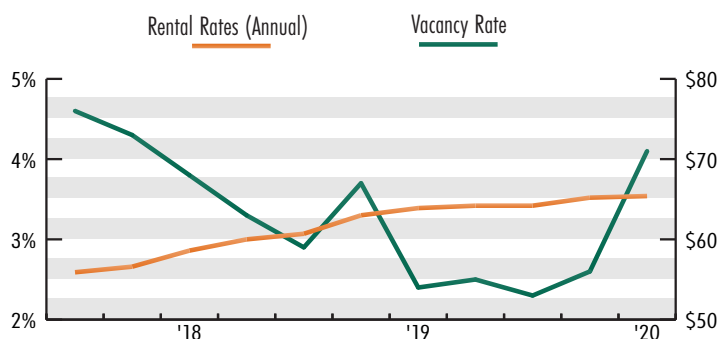
The San Francisco market has enjoyed an amazing 11-year record-setting market of high rents, investment trades, low vacancy rates, and tech leasing expansions. While office fundamentals noted a few signals at the end of 2019 of a market softening with increased sublease availability, at the beginning of March 2020, we officially witnessed those fundamentals swing in the reverse direction. The Coronavirus Pandemic created an entire global shift to abruptly halt the economy, as tour activity came to a complete standstill. As the State of California led the nation in mandating 'shelter-in-place' orders, tenants quickly began to shed space, resulting in an increase of overall available space by 2.4 million square feet. As a result, net absorption fell into negative territory, reporting -1,451,627 square feet, and the vacant available rate increased to 3.5% from 2.9%, the single most quarter-over-quarter increase since the Dot-Com era.

While the overall market is still in healthy territory, San Francisco has yet to experience the giveback of space from larger tech companies; although in the coming months, we expect a further softening as city and government leaders navigate these uncharted waters. Some landlords are already dropping asking rents by as much as 10%, hoping to be ahead of the curve to complete lease transactions now, before more sublease space potentially hits the market. It is estimated that layoffs in the Greater Bay Area could affect 800,000 people in total by the end of May. This tell-tale sign will undoubtedly create more available sublease space hitting the market in the coming months.

NORTH OF MARKET | Vacancy & Rental Rates



SOUTH OF MARKET | Vacancy & Rental Rates



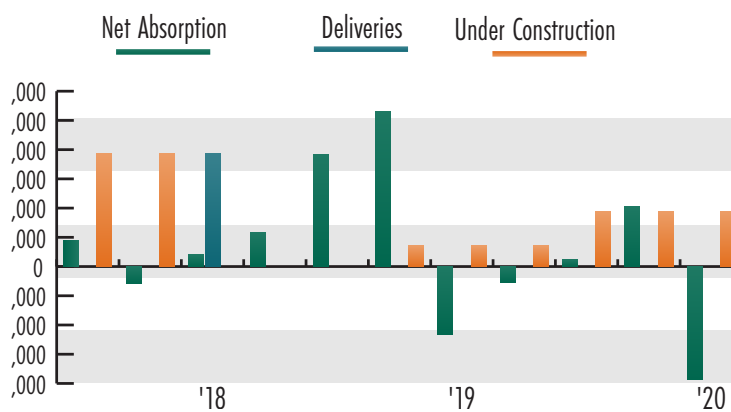
In Summary

- ✓ Office leasing activity officially halted as year-to-date net absorption reported -1,451,627 square feet.
- Rents remained strong with North of Market average direct asking rates for Class A ranging mid-\$90s to the mid-\$100s; 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 4.6%
 - South of Market at 2.7%
 - Citywide at 3.5%



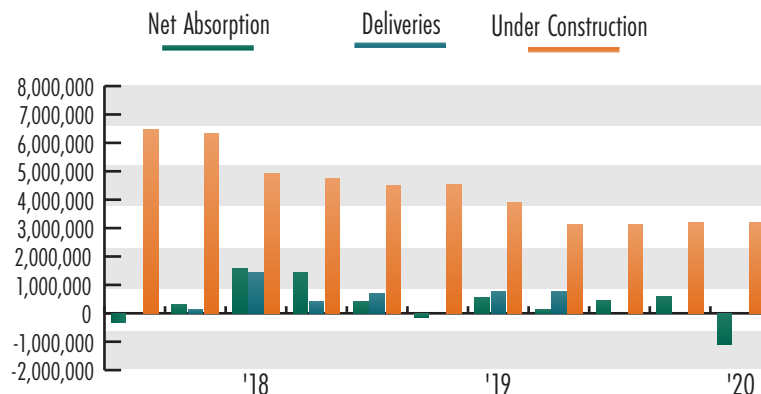
North of Market - North of Market ended the quarter with -385,345 square feet of negative absorption, a slowdown in activity from last quarter at 206,920 square feet. The total vacant availability rate (4.1% in Q4 2019) had been on a steady decline over the past several quarters. The reversal in leasing activity increased the vacancy rate to 4.6%. In one of the most significant transactions this quarter, Hult Business School renewed its lease at 1355 Sansome for 61,622 square feet and Lightstep took approximately 40,238 square feet at 945 Battery in the Waterfront/North Beach submarket.

NORTH OF MARKET | Absorption & Activity



South of Market - Amid the San Francisco shelter-in-place order, the South of Market area felt the greatest impact with over -1,089,192 square feet of negative net absorption. However, the vacant availability rate is lower compared to North of Market at 2.7%, up from 1.9% last quarter. 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 Q1 2020.

SOUTH OF MARKET | Absorption & Activity



SUBMARKET 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	3,286,594	-	8.0%	0.3%	8.3%	10,551	\$57.86
Civic Center	4,827,476	-	0.9%	0.2%	1.1%	(9,663)	\$37.14
Financial District	30,482,260	-	4.8%	1.3%	6.1%	(316,999)	\$82.00
Jackson Square	3,301,168	-	2.9%	1.9%	4.8%	(70,521)	\$60.12
Union Square	5,048,196	187,598	7.8%	0.7%	8.4%	8,219	\$86.55
Waterfront/North Beach	4,416,224	-	5.1%	1.3%	6.4%	(30,097)	\$52.89
West of Van Ness	5,365,839	-	2.3%	0.3%	2.6%	46,165	\$55.86
NORTH OF MARKET TOTAL	56,727,757	187,598	4.6%	1.0%	5.6%	(362,345)	\$68.17
Bayview/Hunters Point	637,030	-	1.3%	1.8%	3.0%	0	\$39.00
Mid-Market	7,040,078	466,000	3.4%	1.5%	4.9%	(133,422)	\$45.84
Mission Bay/China Basin	4,153,681	1,016,745	0.6%	0.8%	1.4%	(42,834)	\$ -
Mission/Potrero	6,946,906	-	3.7%	0.6%	4.3%	(86,689)	\$68.07
Southern City	1,340,433	-	2.5%	0.9%	3.4%	(7,417)	\$56.27
Rincon/South Beach	6,916,433	268,000	1.9%	1.2%	3.2%	(109,858)	\$79.73
Showplace Square	3,770,062	126,537	1.9%	0.0%	1.9%	99,084	\$46.55
South Financial District	30,471,651	1,250,000	1.9%	1.2%	3.0%	(389,446)	\$80.17
South of Market	4,691,846	-	4.6%	0.7%	5.3%	(84,333)	\$62.83
Yerba Buena	68,784,252	56,715	0.3%	0.4%	0.7%	(334,367)	\$72.10
SOUTH OF MARKET TOTAL	65,195,408	3,183,997	2.7%	1.4%	4.1%	(1,089,282)	\$65.36
Class A	60,188,139	3,371,595	2.9%	0.9%	3.8%	(872,228)	\$74.74
Class B	46,803,306	-	4.3%	1.8%	6.1%	(612,586)	\$58.06
Class C	14,931,720	-	3.9%	1.1%	5.0%	33,187	\$57.92
CITYWIDE TOTAL	121,923,165	3,371,595	3.6%	1.2%	4.8%	(1,451,627)	\$66.77

Sublease Trends

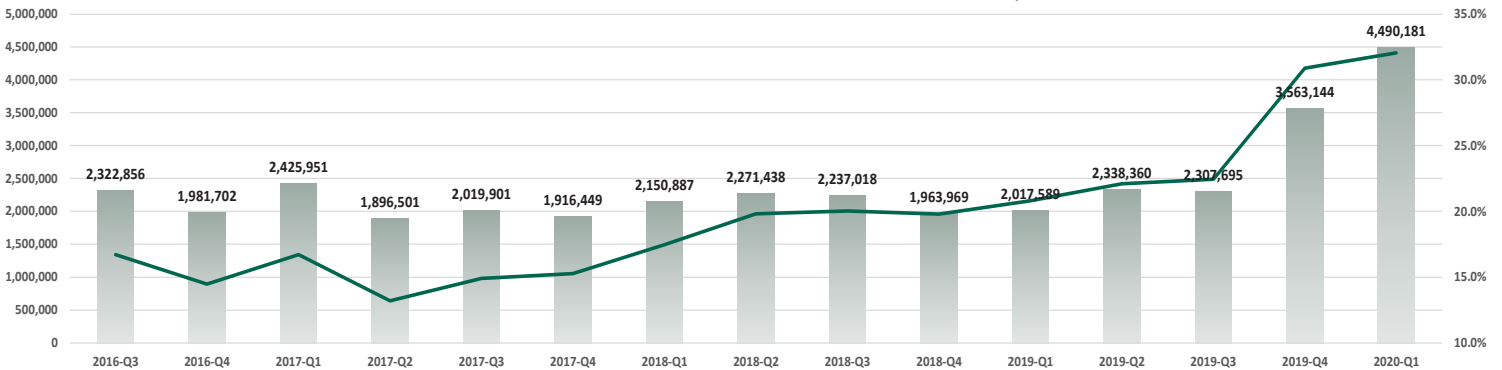
San Francisco - Citywide (sq.ft.)

1st Quarter 2020

	2016-Q3	2016-Q4	2017-Q1	2017-Q2	2017-Q3	2017-Q4	2018-Q1	2018-Q2	2018-Q3	2018-Q4	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1
Sublease Available	2,322,856	1,981,702	2,425,951	1,896,501	2,019,901	1,916,449	2,150,887	2,271,438	2,237,018	1,963,969	2,017,589	2,338,360	2,307,695	3,563,144	4,490,181
Direct available	11,569,992	11,701,465	12,080,579	12,462,152	11,528,805	10,639,788	10,169,280	9,190,106	8,930,245	7,960,984	7,682,890	8,247,706	7,975,162	7,969,814	9,516,904
Total available	13,892,848	13,683,167	14,506,530	14,358,653	13,548,706	12,556,237	12,320,167	11,461,544	11,167,263	9,924,953	9,700,479	10,586,066	10,282,857	11,532,958	14,007,085
Sublease % of Total Availability	16.7%	14.5%	16.7%	13.2%	14.9%	15.3%	17.5%	19.8%	20.0%	19.8%	20.8%	22.1%	22.4%	30.9%	32.1%
Total Space	118,250,109	118,250,109	118,250,109	118,250,109	118,250,109	118,400,255	120,208,538	120,640,538	121,341,163	121,341,163	122,105,863	122,875,773	122,875,773	122,920,567	122,923,165

Citywide Sublease Trends (Available Sublet Sqft.)

Sublease Available Sublease % of Total Availability



Largest Available Sublease Spaces

Address	Submarket	Bldg Contig	Term	Build Out	Notes
1455 Market Street	Mission Bay/China Basin	323,405	Through Feb 2025	Shell Space/Built Out	Former Uber, Dropbox and Square Space
680 Folsom Street	South Financial District	242,753	Through Dec 2028	Fully Built Out	Macy's.com
555 Market Street	South Financial District	235,238	Through July 2023	Fully Built Out	Former Uber

Source: COSTAR Property Data. Methodology: All building sizes, all classes, existing and under construction.

SAN FRANCISCO

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