Market Review & Outlook

Review: Rents Push Higher

Rental rates pushed even higher as tech tenants intensified their leasing in Financial District North. Class A leasing activity in San Francisco declined slightly in 2015 compared to 2014, but was still quite brisk in the first half of the year. Sublease space was on the increase late in the year, though, and more tenants were exploring options outside San Francisco.

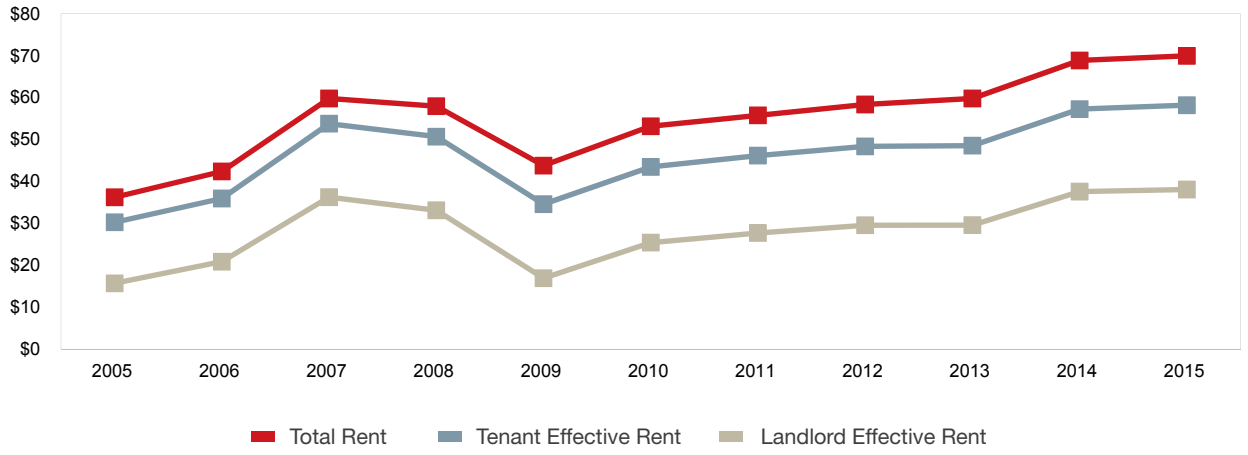
	2015	% Change
Net Rent	$48.15	1.4
Operating Expenses	12.75	2.4
Real Estate Taxes	5.60	2.8
Tenant Electricity	3.45	0.0
Total Rent	69.95	1.6
Amortized Concessions	-11.76	1.4
Tenant Effective Rent	**58.19**	**1.6**
Landlord Effective Rent	**38.07**	**1.3**

Outlook: Weaker Rental Rate Growth in 2016

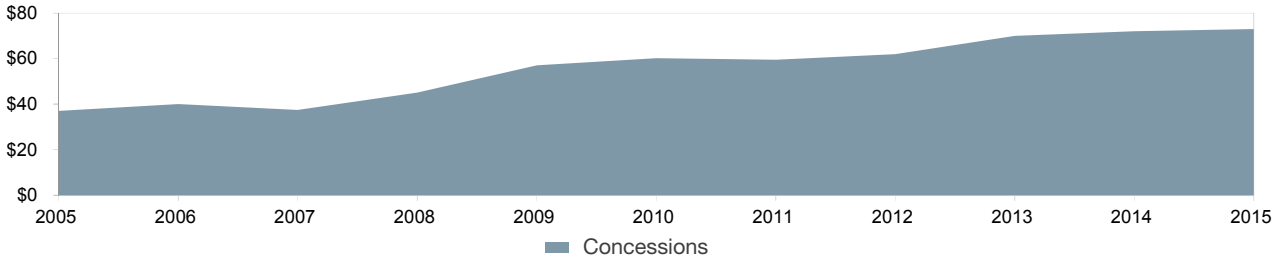
Continued space shortages (despite an increase in sublet supply), spiraling costs of doing business and growing concerns about weakness in the IPO markets will continue to curb some of the leasing frenzy and rental rate appreciation next year. San Francisco is encountering some crosscurrents. Employers are facing a shortage of space and talent, pushing some to take a closer look at alternate markets.

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Rent Trends



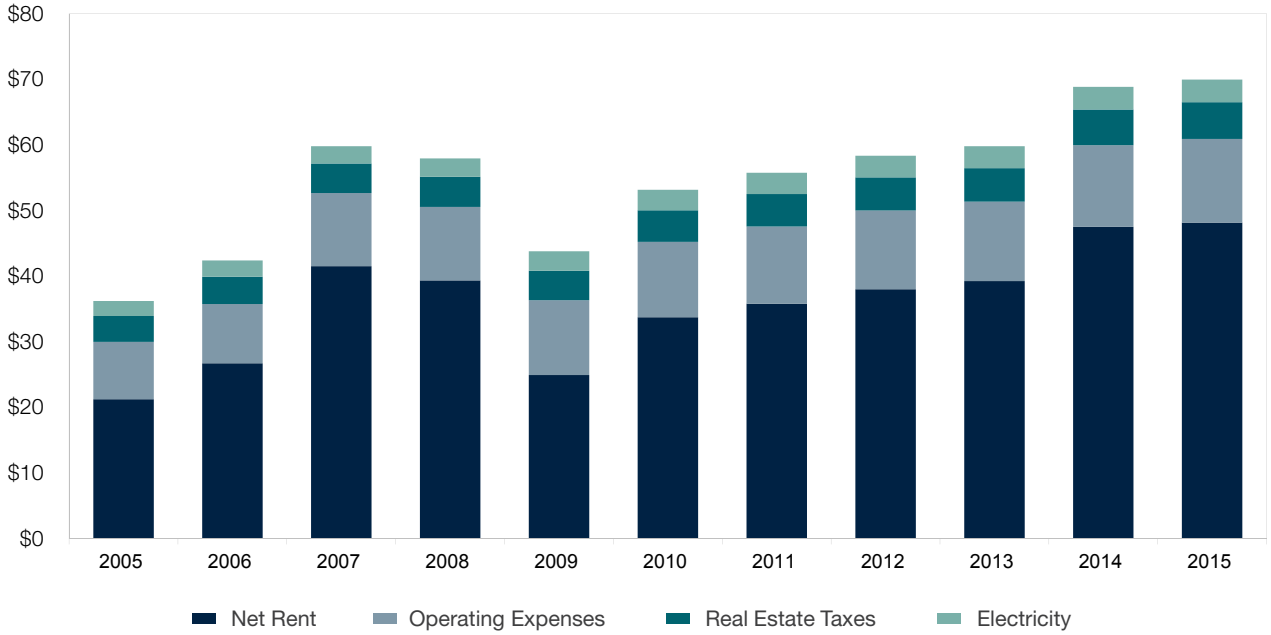
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$36.21	$42.38	$59.79	$57.93	$43.78	$53.15	$55.75	$58.35	$59.80	$68.85	$69.95	1.6%	5.6%	6.8%
Tenant Effective Rent	$30.24	$35.94	$53.76	$50.68	$34.59	$43.46	$46.16	$48.36	$48.53	$57.25	$58.19	1.6%	6.0%	6.8%
Landlord Effective Rent	$15.70	$20.86	$36.24	$33.11	$16.92	$25.40	$27.70	$29.55	$29.57	$37.58	$38.07	1.3%	8.4%	9.3%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$37.04	$40.00	$37.40	$45.00	$57.04	$60.14	$59.50	$62.00	$69.93	$72.00	$73.00	1.4%	4.0%	7.0%
Concessions/Rent Ratio*	16.5%	15.2%	10.1%	12.5%	21.0%	18.2%	17.2%	17.1%	18.8%	16.8%	16.8%	0.0		

* Equals amortized concessions as a percentage of total rent.

Total rent increased for the fifth straight year, rising by 1.6% to $69.95. Net rent rose by 1.4% to $48.15. Operating expenses (+2.4%) and real estate taxes (+2.8%) continued their ascent but tenant electric was flat. Tenant effective rent rose by 1.6% to $58.19, pushing 8.2% above its most recent peak in 2007. Landlord effective rent jumped by 1.3% to $38.07.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$21.24	$26.71	$41.51	$39.34	$24.92	$33.72	$35.80	$38.00	$39.25	$47.50	$48.15	1.4%	7.4%	8.5%
Operating Expenses	$8.74	$9.04	$11.15	$11.20	$11.40	$11.50	$11.75	$12.00	$12.10	$12.45	$12.75	2.4%	2.1%	3.8%
Real Estate Taxes	$3.93	$4.16	$4.50	$4.60	$4.50	$4.80	$4.95	$5.05	$5.10	$5.45	$5.60	2.8%	3.1%	3.6%
Electricity	$2.30	$2.47	$2.63	$2.79	$2.96	$3.13	$3.25	$3.30	$3.35	$3.45	$3.45	0.0%	2.0%	4.1%
Total Rent	**$36.21**	**$42.38**	**$59.79**	**$57.93**	**$43.78**	**$53.15**	**$55.75**	**$58.35**	**$59.80**	**$68.85**	**$69.95**	**1.6%**	**5.6%**	**6.8%**

Lease Terms/Concessions

Review: Concessions Fall

Landlords pulled back a bit further on concessions as demand from tech tenants in Financial District North further depleted space options. Concerns about the longevity of the rally mounted late in the year, though, and landlords have become more concerned about securing leases with stable tenants.

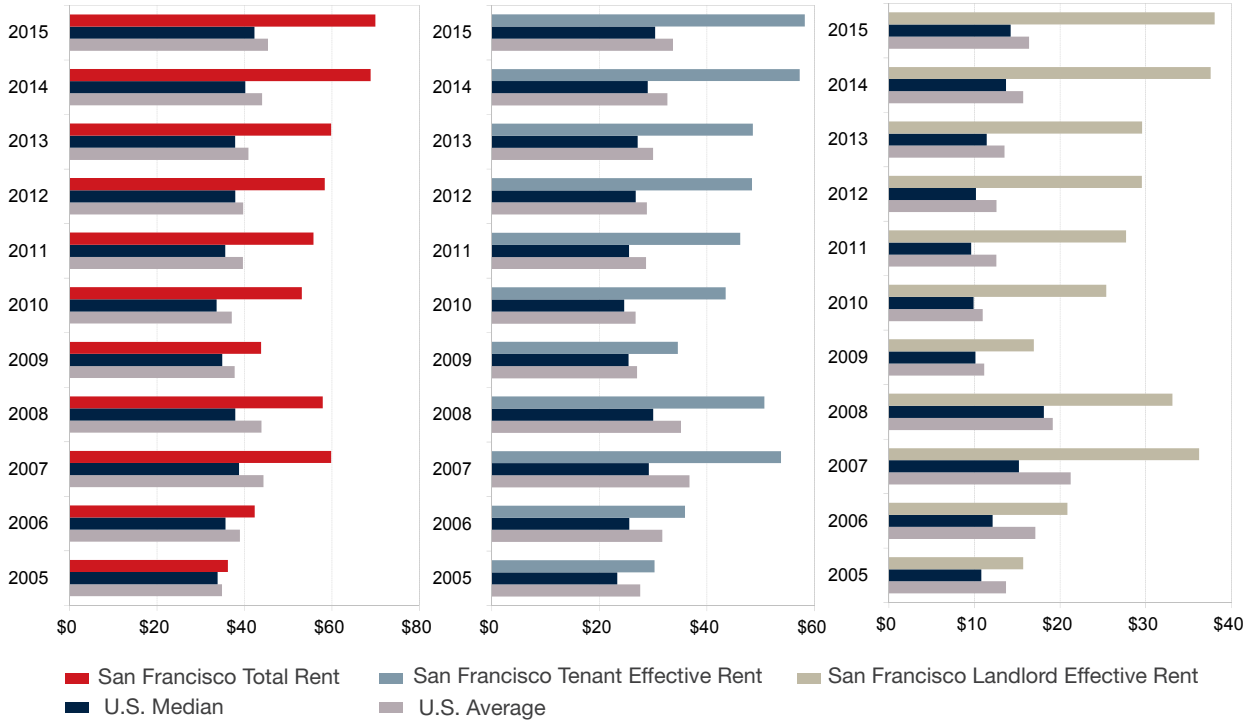
Leases Under 50,000 sf	
Average Term:	6 years
Free Rent:	2 months
Tenant Improvements:	$35.00/sf
Other:	None

Leases Over 50,000 sf	
Average Term:	8 years
Free Rent:	4 months
Tenant Improvements:	$60.00/sf
Other:	None

Outlook: Competition for Space May Slow

Building owners will scrutinize the creditworthiness of tenants, particularly if the turbulence seen in equity markets during late 2015 persists into 2016. The most creditworthy tenants may enjoy an advantage. Additionally, as more companies move some or all operations to the East Bay or Peninsula some of the competition for space in San Francisco will be reduced.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
San Francisco	$36.21	$42.38	$59.79	$57.93	$43.78	$53.15	$55.75	$58.35	$59.80	$68.85	$69.95
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S. Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

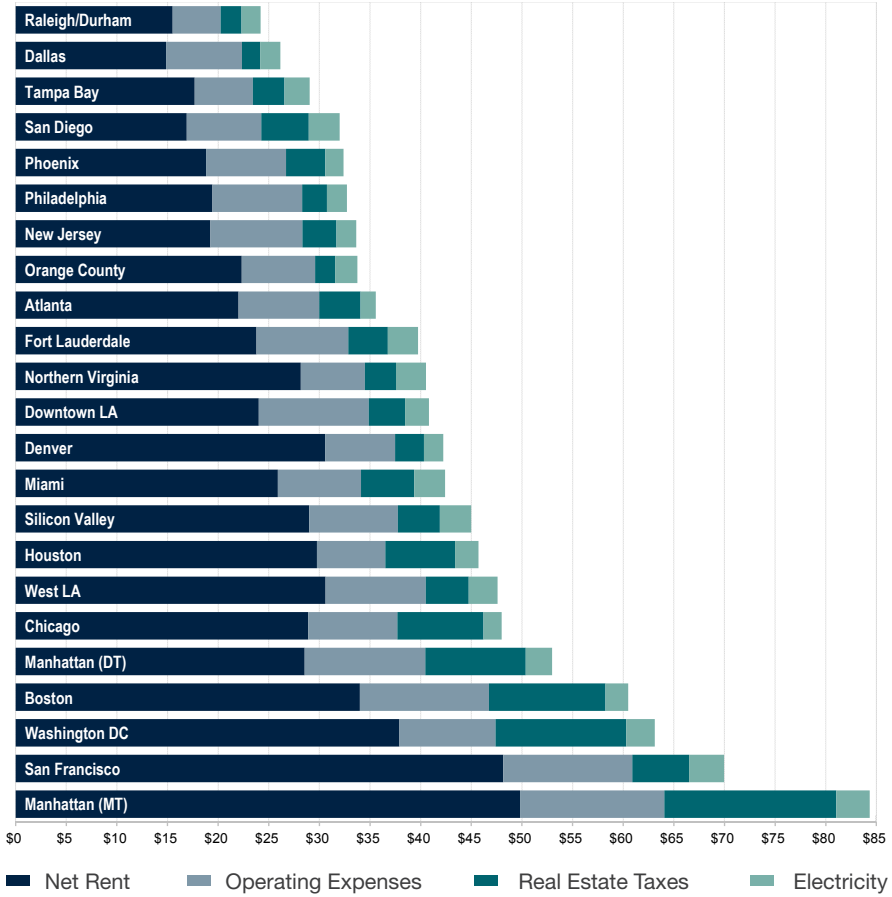
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
San Francisco	$30.24	$35.94	$53.76	$50.68	$34.59	$43.46	$46.16	$48.36	$48.53	$57.25	$58.19
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S. Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
San Francisco	$15.70	$20.86	$36.24	$33.11	$16.92	$25.40	$27.70	$29.55	$29.57	$37.58	$38.07
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S. Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. All numbers in this report are based on larger long-term direct leases signed in higher-caliber Class A properties located in Financial District North and South.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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