

Savills Studley Report San Francisco office sector

Q4 2018



SUMMARY

Market Highlights

LEASING REMAINS STEADY

Leasing volume totaled 2.5 msf in the fourth quarter, on par with the third quarter, but down from the pace of 3.0 msf per quarter attained in the first half of the year. Tenants have leased just under 10 msf in 2018, up from 8.5 msf in 2017.

AVAILABILITY CONTINUES DECREASE

San Francisco's overall availability rate fell for the third consecutive quarter, dropping by 90 basis points to 8.1%. The availability rate has dropped to its lowest level in several years. The Class A rate inched up from 8.24% to 8.28%.

RENT JUMPS

The average overall and Class A asking rent both rose by more than 3.0% during the fourth quarter – increasing to \$72.29 and \$75.82, respectively.

SALES DROP

Office property sales during the first eleven months of 2018 totaled \$4.1 billion, a 17.9% decrease compared to the same period of 2017.

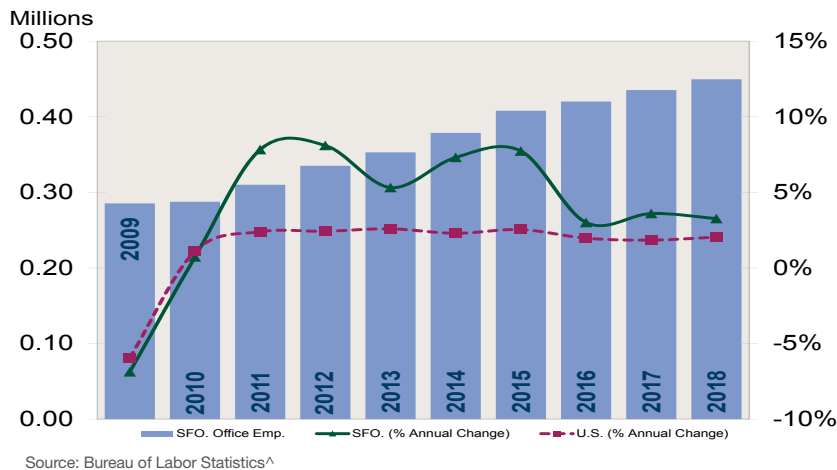
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"Approval of the Central SoMa development plan sets the stage for a dose of much-needed new development. In the short-term this will provide little relief. The largest tech firms continued to take down massive blocks, including some pre-emptive strikes on future properties that have yet to start construction."

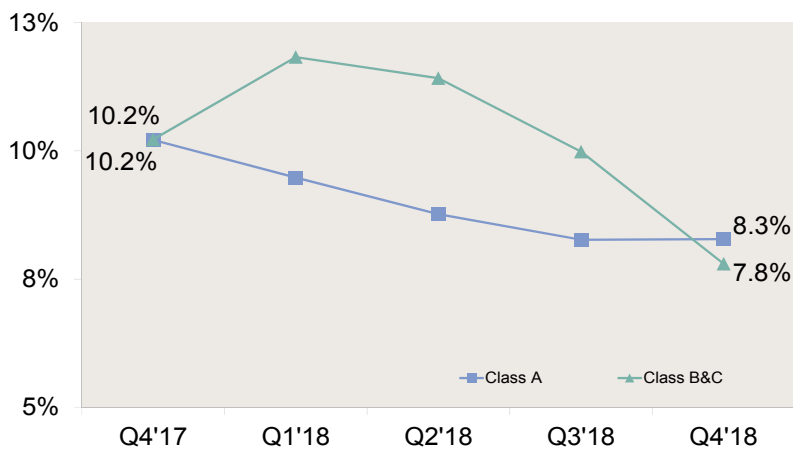
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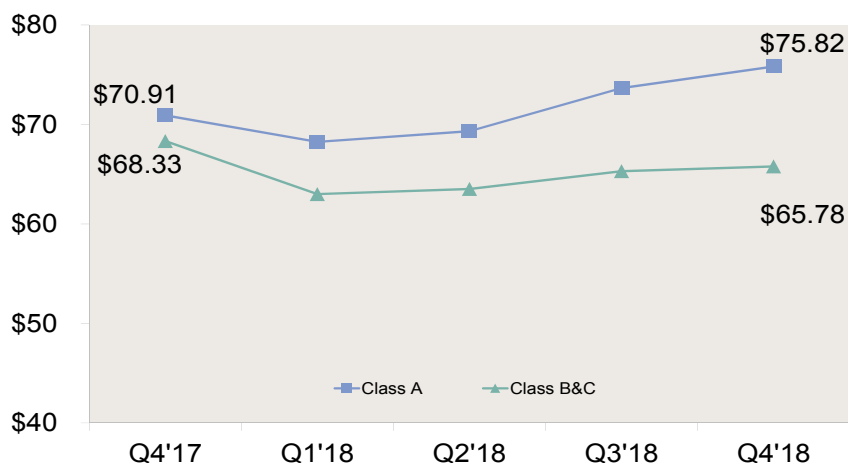
Office-Using Employment Trends



Availability Rate Trends



Asking Rent Trends (\$/sf)



San Francisco Office Market Stays Red-Hot

There has been no let-up in the red-hot market conditions prevailing in the San Francisco office market. Tenants continue to make aggressive strikes on big blocks of space, pushing rent to record levels in 2018. San Francisco's availability rate dropped to 8.2% during the fourth quarter, the lowest it has been since the dot-com boom of the late 90s/early 2000s. The vacancy rate fell below 5%. During the dot-com boom, office rents in the city pushed above the \$80/sf mark for the first time in 2000. Rent for prime office space in San Francisco is well over this mark.

There is no mystery to the soaring rent -- the meteoric rise of the tech industry in the Bay Area has boosted rent. Vigorous competition among the likes of Facebook, Google, Salesforce, Apple, and Amazon for space is behind the sharp spike in rent in the last two years. These heavyweights and other rapidly growing tech startups continue to jockey for top talent and space to house future planned workforce growth.

Big Block Takedowns

Top tenants continue to take down entire buildings at a time. Salesforce signed a 325,000-sf lease to take all the office space for a currently proposed building called Parcel F at 550 Howard. The cloud-based software leader plans to relocate a portion of its workforce from One Market. Parcel F, which is in close proximity to Salesforce's other offices, is slated to become a 61-story, 800-foot tower made up of 17 floors of office, 165 condos, a 190-key hotel, 79,000 square feet of amenity space and over 9,000 square feet of retail. Salesforce plans to occupy the entire office component. The building, the last one allowed under current zoning in the Transbay district, has yet to secure approval to commence construction. The day after Salesforce committed to Parcel F, Google signed a 310,000-sf lease at One Market. This expansion increases Google's footprint in the city by 30% and will house more than 1,500 employees, solidifying their spot as San Francisco's third largest tenant -- behind Salesforce and Uber.

All of the space in buildings currently under construction and due to deliver in 2019 is fully leased. Facebook leased all 763,000 sf available at Park Tower at Transbay (250 Howard) delivering in the first quarter of 2019. Dropbox has committed to all 735,000 sf at The Exchange (1800 Owens St), delivering in the second quarter of 2019. The new office space at the Golden State

Warriors' new Event Center Complex (1655 3rd St and 1715-1725 3rd St), delivering next summer is also fully leased. The two buildings due to deliver in 2020 or later have some space available but it may not last much longer.

The new Oceanwide Center (50 1st St - due for delivery Q1 2022) and 633 Folsom (due to deliver Q3 2020) have a combined total of 1.1 msf remaining. With no new available buildings delivering to the market in the next year, office rents may continue to climb if the macro economy remains strong, as tenants fight for space until additional inventory is constructed.

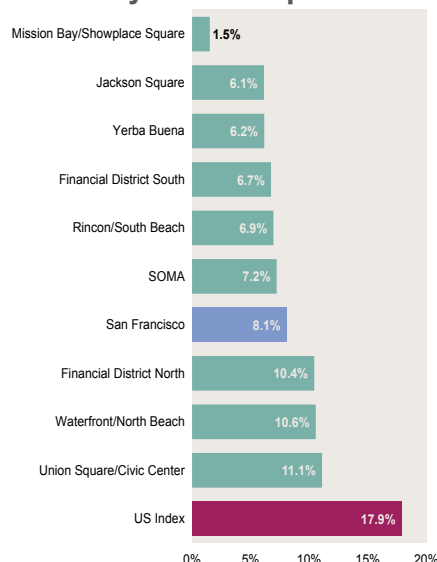
Central SoMa Plan

The market has been looking to Central SoMa to provide some relief to the space crunch. The San Francisco Board of Supervisors unanimously approved the Central SoMa plan after nearly a decade of negotiations and delays. The Central SoMa plan will transform the area located south of Market Street, north of Townsend, and between Second and Sixth Street. Plans call for additional office and residential space that would support roughly 33,000 new jobs and up to 8,300 new housing units. The influx of new commercial and residential space would change the mainly industrial area into a higher-density, mixed-use, transit oriented hub. The plan would also include major infrastructure enhancements and public amenities such as new parks, bike lanes, and pedestrian safety features.

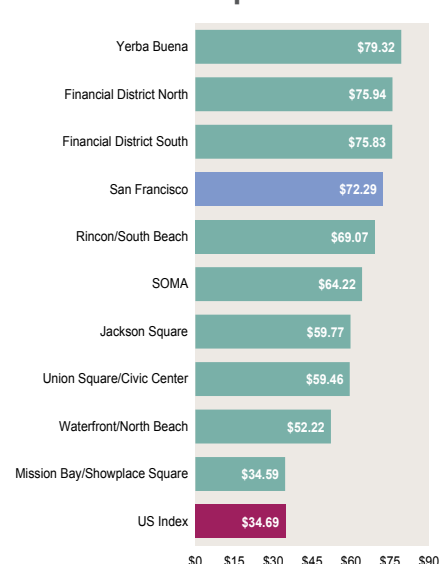
SoMa has become the heart of San Francisco's diverse tech ecosystem. It is home to a deep roster of companies ranging from fledgling startups to established incumbents. Although Central SoMa was approved and rezoned, real estate developers are jostling for position to be the first to secure approval. The pressure is on because of Prop M, which caps the amount of new office space that can be built and developed on an annual basis. Several larger Central SoMa office developments are in a holding pattern, waiting for approval, before they can begin construction. Prop M restrictions are the biggest hurdle facing developers in Central SoMa. Developers that receive their Prop M allocations first will have a massive advantage in signing deals with prospective tenants and lenders, as they will be the initial ones to market.

There is roughly 5.6 msf in space that is in the proposed pipeline for Central SoMa; however, only 2.0 msf in space is currently available for allotment. Aaron Peskin, a Board of Supervisors member, put forth

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Salesforce	324,999	550 Howard St	Financial District South
Google	309,457	1 Market St	Financial District North
DoorDash	175,261	303 2nd St	Rincon/South Beach
iRhythm Technologies, Inc	117,688	650 Townsend St	Mission Bay/Showplace Square
Cooley LLP	127,640	Three Embarcadero Ctr	Financial District
WeWork	102,634	1 Post St	Financial District North
Twitter	78,603	1301-1355 Market St	SOMA
HQ by WeWork	78,000	180 Sansome St	Financial District North
N/A	60,874	One Embarcadero Ctr	Financial District North
Getaround	54,399	55 Green St	Waterfront/North Beach
Sum of Leases	1,429,555		

a proposal that would add roughly an additional 1.6 msf to the Prop M queue by including office space that has already been converted to other uses such as hospitality or housing to be reallocated. The addition of this extra space would help boost supply a bit and stabilize rents in San Francisco's hot office market.

Co-Working Space Still Viable

WeWork continues to dramatically grow in the San Francisco market. In turn it is adding to the leasing velocity, particularly for larger blocks of space. The co-working company added two more locations in the quarter: 78,000 sf of space at 180 Sansome and 103,000 sf at 1 Post Street. HQ by WeWork, which targets mid-size companies that do not need or want private offices on a long-term lease, will occupy the 13 floors at 180 Sansome. This is the first HQ by WeWork outside of New York City. Knotel, another flexible office space provider, has also seen an aggressive growth rate

and have signed three leases throughout the city, totaling 45,000 sf. The additional leases brings Knotel's total footprint in San Francisco to roughly 200,000 sf spread across 20 locations.

Companies Moving to East Bay/Out of Area

San Francisco continues to have one of the most challenging office markets in the nation. The lack of current supply, high cost of living for employees, rising taxes, and the recently passed Prop C measure have increased the number of companies who have either moved out of San Francisco or are considering potential moves as an option. Oakland (Good Eggs), Walnut Creek, Concord, Dublin, San Ramon, and Pleasanton (10x Genomics) are East Bay cities that are seeing an increase in attention, as companies try to escape the high rents and low vacancy in San Francisco, but still want to be located near the Bay Area's work force.

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Financial District North	27,602	3,261	2,879	-0.4%	3,307	10.4%	0.0%	12.0%	\$75.94	6.2%	\$69.95
	Financial District North - Class A	20,509	1,936	2,105	0.0%	2,396	10.3%	0.0%	11.7%	\$76.92	4.6%	\$71.54
2	Financial District South	25,787	3,381	1,739	-12.0%	2,466	6.7%	-0.9%	10.0%	\$75.83	0.5%	\$71.62
	Financial District South - Class A	21,635	2,983	1,496	0.8%	1,980	6.9%	0.1%	9.6%	\$75.88	2.6%	\$71.04
3	Rincon/South Beach	4,729	1,198	329	-20.9%	270	6.9%	-1.8%	5.7%	\$69.07	-2.6%	\$73.56
	Rincon/South Beach - Class A	1,544	407	235	2.6%	158	15.2%	0.4%	10.3%	\$69.88	-6.6%	\$73.99
4	Yerba Buena	3,229	403	199	26.2%	209	6.2%	1.3%	6.5%	\$79.32	3.7%	\$71.43
	Yerba Buena - Class A	701	227	14	N/A	85	1.9%	0.0%	12.1%	N/A	N/A	N/A
5	SOMA	4,015	382	290	-23.9%	345	7.2%	-2.3%	8.6%	\$64.22	-1.7%	\$68.94
	SOMA - Class A	1,158	N/A	74	0.0%	103	6.4%	0.0%	8.9%	\$69.41	0.0%	\$66.99
6	Union Square/Civic Center	4,076	296	452	4.2%	443	11.1%	0.4%	10.9%	\$59.46	-2.2%	\$77.03
	Union Square/Civic Center - Class A	749	41	120	10.7%	58	16.0%	1.6%	7.7%	\$79.62	1.9%	\$52.37
7	Jackson Square	1,680	162	103	-33.2%	220	6.1%	-3.1%	13.1%	\$59.77	4.8%	\$62.14
	Jackson Square - Class A	151	28	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8	Waterfront/North Beach	2,454	186	259	-33.5%	331	10.6%	-5.3%	13.5%	\$52.22	-9.9%	\$59.95
	Waterfront/North Beach - Class A	503	24	51	-13.4%	31	10.2%	-1.6%	6.2%	\$56.84	-9.4%	\$63.30
9	Mission Bay/Showplace Square	4,387	404	67	-49.3%	262	1.5%	-1.5%	6.0%	\$34.59	-31.9%	\$58.09
	Mission Bay/Showplace Square - Class A	2,620	179	5	-8.9%	101	0.2%	0.0%	3.9%	N/A	N/A	\$66.71
1-9	San Francisco Total	77,959	9,673	6,317	-8.9%	7,852	8.1%	-0.8%	10.2%	\$72.29	3.3%	\$69.96
	San Francisco Total - Class A	49,570	5,956	4,104	0.2%	4,951	8.3%	0.0%	10.2%	\$75.82	3.0%	\$70.91

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(1) Percentage point change for availability rates.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.

Submarkets with limited inventory may be subject to larger changes in statistics.

Statistics are calculated using both direct and sublease information.

Short-term sublet spaces (terms under two years) were excluded.

^Unless otherwise noted, source for data is Savills Studley.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.

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