

Office supply constraints lead to rising rents and declining availability

Demand continues to outpace supply in San Francisco, resulting in a 30-basis-point decrease in overall availability, quarter-over-quarter, to 7.9%. This marks a 240-basis-point decline over the year. Declining availability is putting upward pressure on asking rents which ended Q1 at \$74.67 per square foot (psf) for all classes. Class A rents climbed to an average of \$77.41 psf, increasing by 2.1% from the end of last year alone. New supply is limited with only a handful of projects underway, and all new product completing this year has already been pre-leased to-date. The technology, advertising, media and information (TAMI) and coworking sectors continue to dominate the war for space.

Rapid rise of coworking offers flexible options

WeWork, HQ by WeWork, and Knotel accounted for five of the ten largest leases in San Francisco during Q1. These leases alone added 260,000 sf to an already robust coworking inventory. The rapid growth of coworking provides a variety of options for all types of users seeking flexibility. It provides smaller companies and start-ups with the ability to have office space in a price-restrictive market. It also allows larger, more established companies the flexibility to maneuver employees into offices while waiting for bigger blocks of space to open up in such a tight market.

Tech seeks creative opportunities in tighter market

Even with the rapid pace of coworking expansion, tech companies and the TAMI sector still account for the bulk of leasing activity in the market. This quarter, Google took an additional 189,000 sf at One Maritime Plaza, mere weeks after taking 300,000 sf at One Market, backfilling Salesforce's prior headquarters. Asana snapped up the last significant block of space in the construction pipeline, taking all 272,000 sf available at 633 Folsom Street. The supply demand imbalance is pushing tenants to look well into the future to stake their claim on new space. Both Salesforce and Pinterest have recently secured buildings that have not even received entitlements to begin construction yet, with Pinterest committing to 490,000 sf at 88 Bluxome Street this quarter.

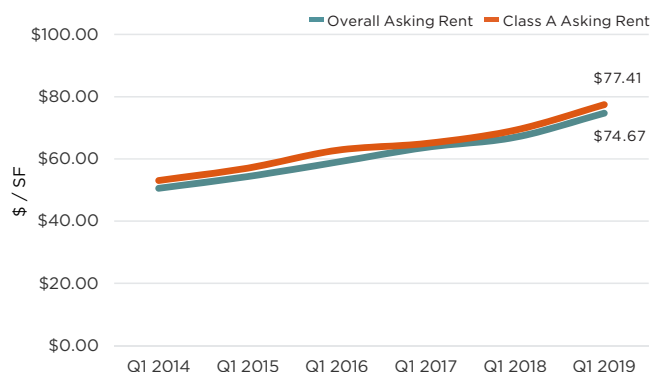
Outlook

- Given the lack of new supply on market, tenants looking for high-quality space will explore more creative options including development opportunities that are still at the earliest stages of planning
- Coworking companies have enjoyed a meteoric rise, acquiring multiple large blocks of space throughout the city
- Strong demand will continue to drive asking rents up as availability tightens, although tenants are seeing an increase in concessions to offset the impact

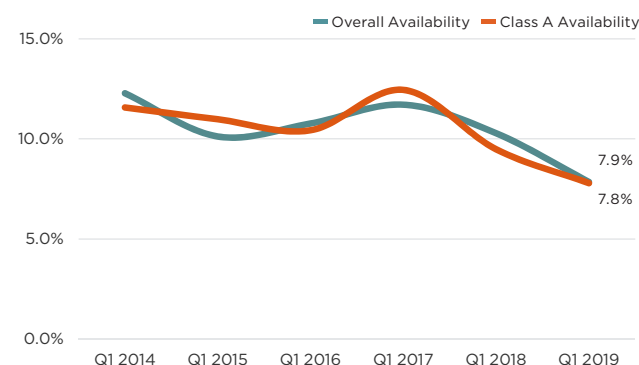
KEY STATISTICS

	Q1 2018	Q1 2019	y-o-y Change
Inventory	77.3 MSF	78.8 MSF	▲
Availability Rate	10.3%	7.9%	▼
Asking Rental Rate	\$66.95	\$74.67	▲
Class A Asking Rental Rate	\$69.21	\$77.41	▲
Quarterly Leasing Activity	1.8 MSF	2.7 MSF	▲

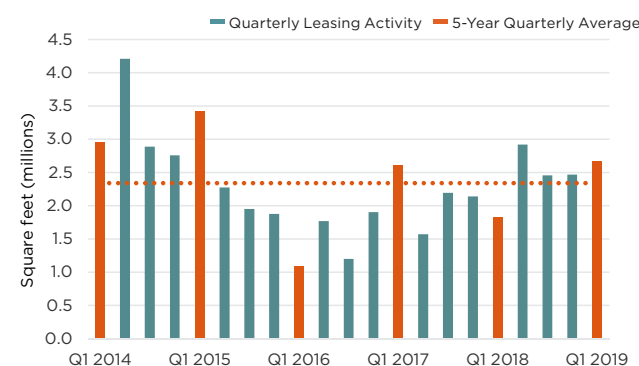
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

100.0%

all major transactions were **new market entrants or relocations**

74.0%

TAMI represented 74.0% of the largest transactions

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Coworking accounted for five out of 10 top transactions (17.5% of total sf)

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Pinterest	490,000	88 Bluxome Street	New Location	SOMA	TAMI
Asana	271,640	633 Folsom Street	Relocation	Rincon/South Beach	TAMI
Google	188,677	1 Maritime Plaza	New Location	Financial District North	TAMI
Samsara	154,000	2 Henry Adams Street	Relocation	Mission Bay/Showplace Square	TAMI
Cooley LLP	127,640	Three Embarcadero Center	Relocation	Financial District North	Legal Services
WeWork	67,000	1455 Market Street	New Location	SOMA	Coworking
Knotel	56,271	625 2nd Street	New Location	Rincon/South Beach	Coworking
HQ by WeWork	54,564	755 Sansome Street	New Location	Jackson Square	Coworking
WeWork	47,673	340 Bryant Street	New Location	Rincon/South Beach	Coworking
Knotel	35,643	555 Montgomery Street	New Location	Financial District North	Coworking

Source Savills Research

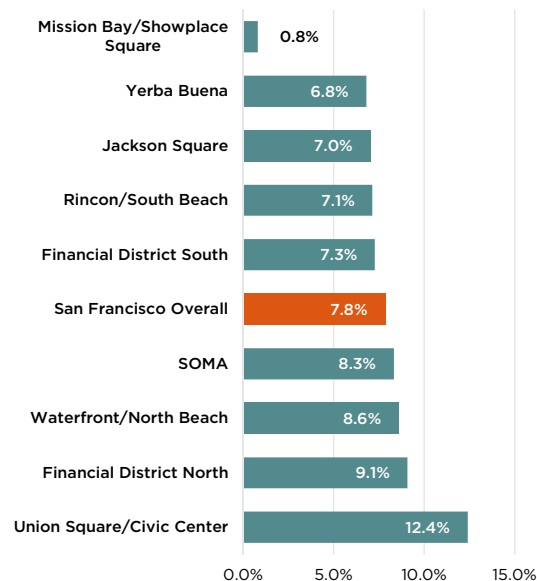
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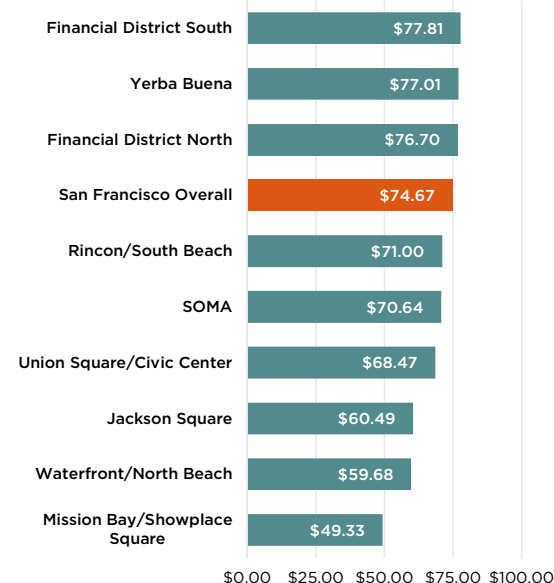
AVAILABILITY RATE COMPARISON

San Francisco Submarkets



RENTAL RATE COMPARISON (\$/SF)

San Francisco Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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