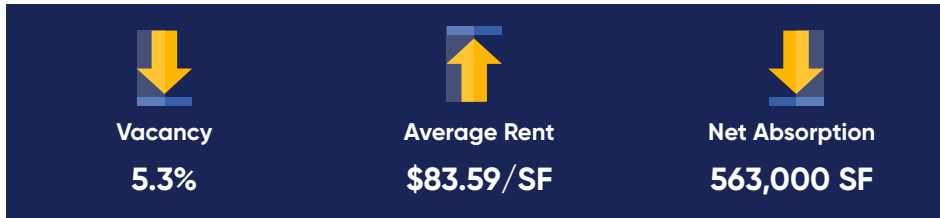


Occupier's Guide

The first quarter of 2019 has continued a trend that began at the end of last year – large users committing to unentitled developments. Per usual, Salesforce led the market last quarter by leasing Parcel F. Not to be left behind, Pinterest joined the party by committing to 490,000 square feet at 88 Bluxome Street, current home to the San Francisco Tennis Club, and years away from delivery. With over 15 requirements in the market for blocks of space greater than 100,000 square feet, and all 2+ million square feet of office space to be delivered this year pre-leased, tenants are looking well into the future to satisfy their growth.



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	YoY Change
\$84.42	Financial Class A 5.9%	▼ -0.4%
\$80.93	Financial Class B 6.2%	▼ -0.4%
\$87.63	South Financial Class A 4.7%	▼ -0.02%
\$86.30	South Financial Class B 4.0%	▲ +0.2%
\$84.03	SOMA Class A 2.5%	▼ -0.2%
\$77.20	SOMA Class B 4.4%	▲ +0.2%

Recent Transactions

Tenant	Submarket	Type	Size	Sector
1 Pinterest*	SOMA	New Lease	490,000 RSF	Technology
2 Asana	SOMA	New Lease	265,000 RSF	Technology
3 Slack	South FiDi	New Lease	205,000 RSF	Technology
4 Google	North FiDi	New Lease	190,000 RSF	Technology
5 Google	South FiDi	New Lease	140,000 RSF	Technology
6 Cooley LLP	North FiDi	New Lease	128,000 RSF	Legal
7 Marsh Insurance	North FiDi	New Lease	85,000 RSF	Insurance

*Unentitled development. Premises to be delivered in 2022.

Occupier's Perspective

- Tenant requirements for large blocks of space (100,000 square feet or more) are hit with the dreaded deadly whammy – scarcity of supply and premium on rents. Spaces that leased in the \$80-\$89 range two quarters ago have blasted into the \$90-\$99 range and beyond.
- Co-working options in the city continue to grow. Projects that were committed to last year begin to open for business, and 2019 has seen an influx of companies other than the market leader, WeWork, for locations. Knotel, Convene and CIC have all expanded their footprints in San Francisco and across the Bay Area.
- The need to attract talent remains critical to tenant leasing decisions – Where to grow? How fast to grow? And can they afford to stay? San Francisco still leads as a destination city for companies that need talent now, but other more established companies with stable headcount projections have begun their expansion search outside of San Francisco, and outside of California.

Market Trends

It's IPO season across the United States, and with over a dozen companies whose headquarters are located in San Francisco filing, or expressing their intent to file, the 2019 market is abuzz.

Brookfield's 5M project at 5th and Mission Streets, in partnership with the Hearst Corporation, may be the only new development project to break ground by the end of the year. The 1 million square feet mixed use development will deliver 650,000 square feet of office space in 2022 and beyond.

Market signals remain strong locally; job growth year-over-year is strong and though it has slowed that is only due to reaching levels of full employment not seen in the Bay Area for years.