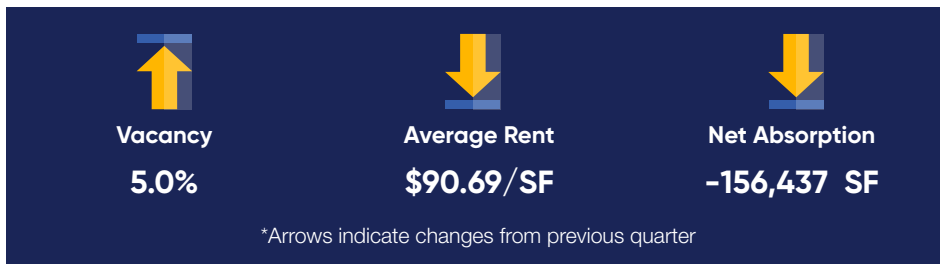


Occupier's Guide

COVID-19 is dominating the headlines in 2020, with the Greater Bay Area under shelter-in-place orders through May 2020. After 11 quarters of sustained rental rate growth, rental rates declined by 35bps in Q1 2020. According to research conducted by Cresa San Francisco, declines in San Francisco rental rates typically lag macroeconomic contractions by 0 to 3 quarters. Vacancy has slightly increased to 5%, net absorption clocks in at -156,437 SF, and year-over-year rents have increased by nearly 8.5%. The tech-heavy NASDAQ Composite Index remains largely unchanged on a year-to-date basis, but top Wall Street investment banks are forecasting double-digit U.S. GDP contractions for Q1 2020. The pre-COVID deceleration of CRE activity in San Francisco has been met with an unprecedented crisis, the likes of which the modern world has not experienced before now.



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	Q/Q Change
\$90.49	Financial Class A 5.2%	▲ +0.8%
\$87.91	Financial Class B 4.9%	▲ +0.4%
\$93.66	South Financial Class A 4.7%	▲ +0.4%
\$93.49	South Financial Class B 4.7%	▲ +0.8%
\$94.61	SOMA Class A 5.8%	▲ +3.3%
\$88.01	SOMA Class B 4.7%	▼ -0.9%

Recent Transactions

	Tenant	Submarket	Type	Size	Sector
1	Deloitte	So. Financial District	Renewal/Expansion	222,000 RSF	Professional Services
2	First Republic Bank	Financial District	Renewal	158,000 RSF	Financial Services
3	Autodesk	So. Financial District	Renewal	110,000 RSF	Technology
4	Knotel	South of Market	New Lease	83,000 RSF	Real Estate
5	Skillz	So. Financial District	Sublease	52,000 RSF	Technology

Occupier's Perspective

↑ More supply in the months to come? Morgan Stanley's CEO stated on Bloomberg Television that the firm may begin operating in a post-COVID environment with "much less real estate." The chief executive went on to say "we've proven we can operate with effectively no footprint," and that the majority of the bank's employees have been working from home with "almost no issues."

↓ WeWork CEO tells employees to brace for more lay-offs. The Financial Times is reporting people familiar with the matter say the lay-offs could affect more than 1,000 WeWork employees.

↓ San Francisco CBD rental rates effectively experienced no change from Q4 2019, experiencing a quarter-over-quarter 35bps decline, or less than half a percent decline.

Market Trends

The U.S. economy remains largely stalled due to shelter-in-place orders. San Francisco, along with the rest of the Bay Area, remains under shelter-in-place orders through May 2020.

The Potrero Power Station project is expected soon to receive final approval by the San Francisco Board of Supervisors. The developer expects Phase 1 construction to commence in the coming months. The project proposes 1.5 million SF of office and R&D space.

Cresa San Francisco conducted research to explore the extent to which San Francisco rental rates have been historically affected by recessions.

The Great Recession caused direct and sublease rental rates to shed a total of 18% and 34%, respectively. Across both the Great Recession, and the Dot-com Recession, it took an average of 9 quarters for rental rates to bottom-out from the beginning of each recession.