

Occupier's Guide

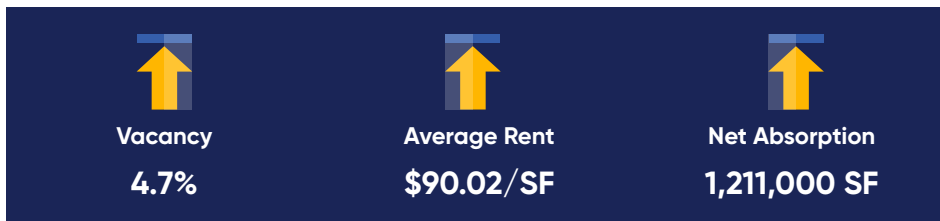
San Francisco's office market in Q3 2019 experienced sizeable increases in Q/Q average rents, a minute increase in vacancy rates, and continues to be an overall tight market. The median Q3 U.S. GDP growth forecast is 1.9%, slightly lower than Q2's 2.1%, but U.S. unemployment is down 20bps to 3.5% (the lowest in 50 years). Forecasts predict a GDP growth rate of 1.8% in 2021. The NASDAQ Composite Index experienced a Q/Q decrease of nearly 9bps. Absorption this quarter is positive, Q/Q rent has increased by nearly 5%, and YoY rent has increased by over 13%. Amid rising construction costs, Oceanwide Center experiences an indefinite partial suspension of construction. Lastly, the City released a document clarifying what are "gross receipts" in the context of the new Commercial Rents Tax.

Occupier's Perspective

The City of San Francisco released a document clarifying a question many tenants have: what are "gross receipts" in the context of the new Commercial Rents Tax? From the landlord's perspective, gross receipts in this context will be all amounts derived from the lease or sublease of the space, including passthroughs, and excluding state, local, and federal tax reimbursements. The landlord has the right to pass this tax onto you the tenant.

Vacancy this quarter increased by 10bps, primarily due to unmet outstanding requirements in the market.

50 Oceanwide Center experiences what it's like to build in the world's most expensive place to do just that. Although the indefinite suspension of construction applies only to the portion of the project housing the Waldorf Astoria, and 156 condos, the delay signals the apparent existence of a contagion effect stemming from the U.S.-China trade war's effect on the cost of raw materials used in construction.



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	Q/Q Change
\$88.37	Financial Class A 4.8%	▼ -0.3%
\$85.08	Financial Class B 4.6%	▼ -0.4%
\$96.06	South Financial Class A 4.6%	▲ 0.5%
\$94.98	South Financial Class B 4.3%	▲ 0.7%
\$89.04	SOMA Class A 1.9%	▲ 1.0%
\$80.05	SOMA Class B 4.7%	▲ 0.4%

Recent Transactions

Tenant	Submarket	Type	Size	Sector
1 Zynga	Showplace Square	Renewal	185,000 RSF	Technology
2 TPG	Financial District	Renewal/Expansion	158,000 RSF	Financial
3 WPP (AKQA)	Yerba Buena	Renewal/Expansion	115,000 RSF	Media
4 Confidential	South FiDi	Expansion	85,000 RSF	N/A
5 Uber	South FiDi	New Lease	80,000 RSF	Technology
6 Reddit	Mid-Market	New Lease	78,000 RSF	Technology
7 Pax Labs	Showplace Square	New Lease	70,000 RSF	Technology

Market Trends

Two of the top three largest leases this quarter were signed by non-technology firms. This is a reoccurring trend, with First Republic Bank signing the largest lease of Q2 2019.

The 10Y-3Y U.S. Treasury spread became negative, and has recently continued this behavior; something which has occurred before all U.S. recessions in modern history. With an already low Federal Funds Rate, many are concerned that quantitative easing will be insufficient in combating the next recession. This also lessens the accuracy of yield curve inversions as predictors of recessions, and therefore increases uncertainty about when the next recession will occur.

Mark Zuckerberg stated in an interview that Facebook will look to primarily expand outside of the Bay Area, due to the region's "tapped" infrastructure, among other things. This reinforces the trend among Bay Area companies to seek less costly options within the U.S.