

MARKETBEAT

San Francisco

Office Q3 2019



SAN FRANCISCO OFFICE

Economic Indicators*

	Q3 18	Q3 19*	12-Month Forecast
San Francisco Metro Employment	1.15M	1.19M	▼
San Francisco Metro Unemployment	2.4%	2.2%	▲
U.S. Unemployment	3.8%	3.7%	▲

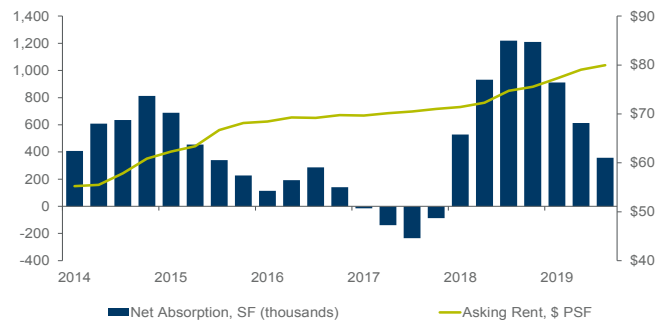
*2019 Q3 data are based on latest available data
Source: BLS, Moody's Analytics, C&W Research

Market Indicators (Overall, All Classes)

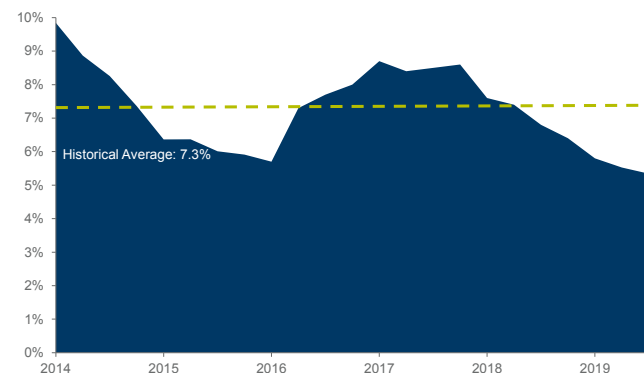
	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	6.8%	5.3%	▲
Net Absorption (sf)	1.0M	7k	▲
Under Construction (sf)	2.8M	2.4M	▲
Average Asking Rent*	\$74.72	\$79.95	▲

*Rental rates reflect full service asking \$psf/year

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Next Wave of Development Gets Approval

The San Francisco metropolitan division (San Francisco and San Mateo counties) closed August with an unemployment rate of just 2.2%, down from a revised 2.4% in July and below the year ago figure of 2.4%. Office using positions grew by 4.6% year-over-year (YOY). Total private sector jobs increased by 3.2% to 1,056,800.

- Central SoMa gets the “green light”. Pending lawsuits have settled clearing the way for development to move forward in Central SoMa. The first wave of projects to begin development total 2.9 million square feet (msf): Phase I of the Flower Mart, Phase I of 598 Brannan Street, and 88 Bluxome Street. These projects are likely to deliver in 2023 at the earliest.
- Asking Rents (Citywide comparison) remain the highest in U.S. The Citywide overall asking rent closed at a record \$79.95 per square foot (psf), up 7.0% YOY. The Central Business District (CBD) Class A direct asking rent was a record \$87.62 psf, up 7.8% YOY. The South Financial District has recorded a surge in its Class A direct asking rent over the past year, increasing 14.9% to \$92.65.
- Vacancy continued to fall to the lowest point in this economic cycle. The Citywide overall figure was just 5.3% at the end of the third quarter, falling 20 basis points (bps) from the second quarter and down 150 bps from one year ago.
- There was a dip in tenant activity but, that said, the demand for space remained robust. The total square footage was down 2.0 msf over the quarter (although still up 2.5 msf since the end of 2018). The dip in space requirements was due to tenants fulfilling their current space needs along with a small number of larger tenants putting expansions on hold for the time being. Demand totaled 7.8 msf, well above the 10-year average of 5.2 msf.

Construction & Development

A total of 2.4 msf was under construction at the end of the third quarter with one project expected to deliver by year end; 600,000 square feet (sf) at the Chase Center in Mission Bay which is 100% pre-leased to Uber. In 2020, a total of 778,000 sf is expected to deliver at 633 Folsom Street, 1 De Haro Street, and 1515 Third Street, but then the pipeline will run dry until 2023. Prop M continues to have a tight grip on development; at quarter end, the Prop M allocation pool totaled just under 22,000 sf. The annual allocation of 875,000 sf will be added in October, only to be immediately wiped out by waterfront projects in Mission Rock and Pier 70 along with the last remaining site in the Transbay district, and anything left over going to Central SoMa projects.

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Leasing Activity & Absorption

New leasing totaled 1.7 msf in the third quarter, down from a revised 2.0 msf in the second quarter. Small to mid-sized transactions drove the market to what has been the historical quarterly average even with a lack of mega-deals. In fact, deal volume was up as the total number of lease transactions increased in the third quarter. There were only three transactions larger than 100,000 square feet and all were renewals or partial renewals with an expansion.

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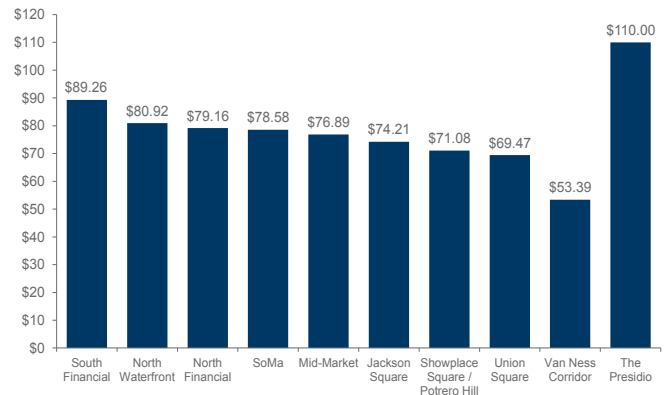
Investment Activity

San Francisco investment activity totaled \$4.9 billion year-to-date; well ahead of last year's figure of \$1.7 billion. There have been 18 transactions totaling 6 million square feet that have closed citywide with an average price of \$740 psf. The largest transaction of the third quarter was the sale of Levi's Plaza with Jamestown purchasing the complex for \$887 psf or \$826 million. Meanwhile, coworking giant WeWork acquired its first Class A office building in San Francisco, 600 California Street for approximately \$912 psf or \$331 million. Strong leasing fundamentals and buyer demand are expected to continue through the end of this year with a number of pending transactions likely to close above \$1,000 psf.

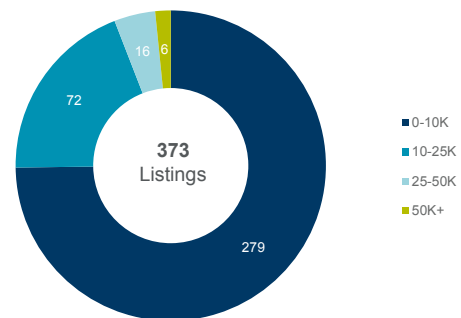
Outlook

- Central SoMa projects with entitlements will begin moving forward.
- Pending developments will deplete Prop M allocation.
- Potential for further pre-leasing at proposed sites including 5M, Mission Rock, and Pier 70 along with other Central SoMa developments.
- Additional rent increases, particularly for prime and view Class A space.

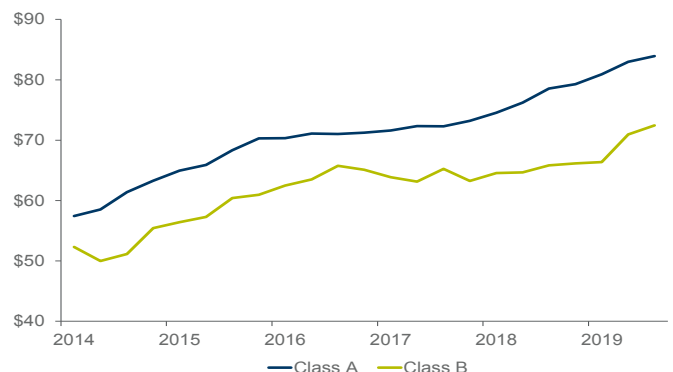
Average Asking Rate by Submarket (Full Service)
SOUTH FINANCIAL DISTRICT NEARS \$90 PSF



Availabilities by Size Segment
DECREASING SUPPLY ACROSS ALL SIZE SEGMENTS



Average Asking Rate by Class (Full Service)
GAP BETWEEN CLASS A AND B OFFICE BUILDINGS IS \$11.48 PSF



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	**YTD LEASING ACTIVITY (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
North Financial District	26,517,916	206,252	1,634,250	6.9%	60,314	202,280	1,897,789	0	\$79.16	\$84.06
South Financial District	28,229,252	355,469	1,205,139	5.5%	86,130	1,050,664	2,598,683	1,320,000	\$89.26	\$90.45
CBD	54,747,168	561,721	2,839,389	6.2%	146,444	1,252,944	4,496,472	1,320,000	\$82.73	\$86.63
Jackson Square	1,868,102	17,050	66,934	4.5%	-43,397	-1,768	30,029	0	\$74.21	\$67.40
North Waterfront	3,376,068	18,904	89,029	3.2%	-31,833	78,093	103,313	0	\$80.92	\$76.91
SoMa	8,211,439	19,780	191,781	2.6%	-48,700	-1,339	929,508	0	\$78.58	\$85.41
The Presidio	1,030,627	0	23,120	2.2%	-5,140	-23,120	0	0	\$110.00	\$110.00
Union Square	3,173,989	38,094	142,776	5.7%	22,617	48,723	137,400	0	\$69.47	\$71.40
Van Ness Corridor	833,356	10,865	75,368	10.3%	-2,449	-19,504	13,866	0	\$53.39	\$53.98
Showplace Square / Potrero Hill	3,976,623	25,802	25,834	1.3%	-31,925	19,638	275,017	85,333	\$71.08	\$69.00
Mission Bay	1,771,735	0	0	0.0%	0	0	0	1,023,000	N/A	N/A
Mid-Market	4,367,051	78,031	247,079	7.4%	1,139	-140,924	179,462	0	\$76.89	\$73.81
Third Street Corridor	349,465	0	0	0.0%	0	0	38,000	0	N/A	N/A
TOTAL	83,705,623	770,247	3,701,310	5.3%	6,756	1,212,743	6,203,067	2,428,333	\$79.95	\$83.93

*Rental rates reflect full service asking \$psf/year

** Does not include renewals

OFFICE CLASS BREAKDOWN										
Class A	59,558,009	652,553	2,599,707	5.5%	63,121	939,621	4,991,121	2,428,333	\$83.93	
Class B	16,400,803	66,412	874,268	5.7%	-22,473	298,182	1,002,325	0	\$72.45	
Class C	7,746,811	51,282	227,335	3.6%	-33,892	-25,060	209,621	0	\$74.42	

Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
650 Townsend Street	185,000	Zynga	Beacon Capital Partners	Renewal	Showplace Square
345 California Street	153,000	TPG	Metropolis Investment Holdings	Renewal / Expansion	North Financial
360 Third Street	115,000	WPP (AKQA)	Kilroy Realty Corporation	Renewal / Expansion	South Financial
525 Market Street	85,000	Confidential	Invesco	Expansion	South Financial
71 Stevenson Street	80,000	Uber	Forward One	New Lease	South Financial
1455 Market Street	78,000	Reddit	Hudson Pacific Properties	New Lease	Mid-Market
405 Howard Street	61,000	Knotel	Norges Bank / Nuveen Real Estate	New Lease	South Financial
99 Rhode Island Street	60,000	Pax Labs	Cresco Properties	New Lease	Potrero Hill
275 Brannan Street	55,000	Github	Hudson Pacific Properties	Renewal	SoMa

Key Sale Transactions Q3 2019

PROPERTY	SF	BUYER	SELLER	PRICE / \$PSF	SUBMARKET
Levi's Plaza	931,000	Jamestown	Gerson Bakar & Associates	\$826,000,000 / \$887	North Waterfront
600 California Street	363,000	The We Company	Bentall Kennedy	\$331,000,000 / \$912	North Financial
351 California Street	137,000	Tidewater Capital, Goldman Sachs	Polidev International	\$108,000,000 / \$788	North Financial

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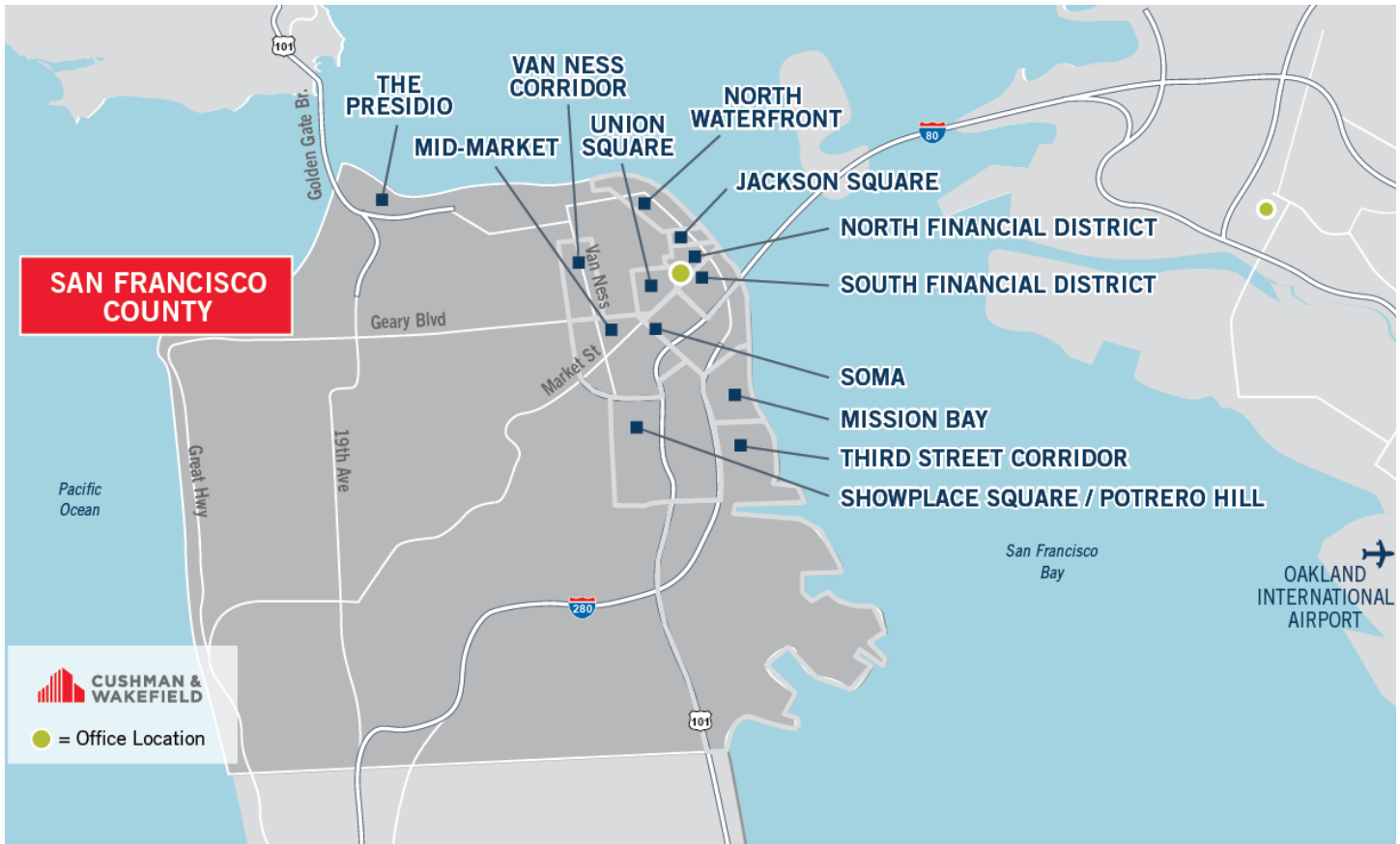
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Office Submarkets

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