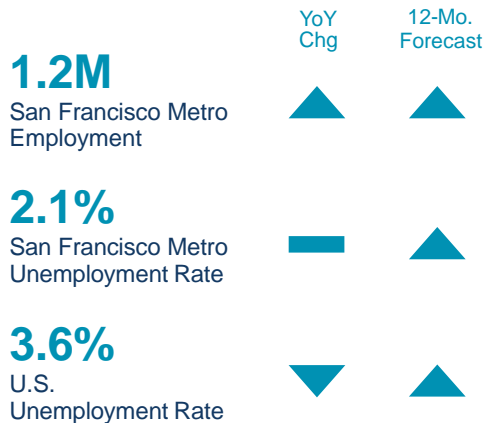


(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019



Source: BLS, Moody's Analytics
2019Q4 data are based on the latest available data

San Francisco Economy at Full Employment

The San Francisco metropolitan division (San Francisco and San Mateo counties) closed the fourth quarter with an unemployment rate of just 2.1%, and was flat year-over-year. Office-using positions grew by 4.8% while all nonfarm jobs increased by 3.0%. San Francisco metro employment grew to just under 1.2 million.

Vacancy Remains Minimal

Citywide overall vacancy was just 5.4% at the end of the fourth quarter, increasing 10 basis points (bps) from the third quarter though down 100 bps from one year ago. Fully leased new construction deliveries over the past two years along with a dwindling supply of vacant large block space have put downward pressure on the vacancy rate in both the CBD and non-CBD markets. CBD Class A direct vacancy was just 4.4% at year-end, 100 bps below the year-end 2018 figure and the lowest this economic cycle.

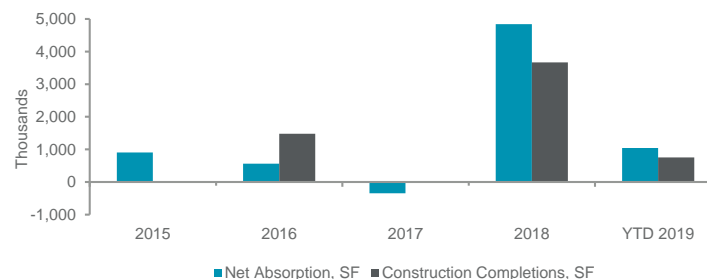
Asking Rents on the Rise

Asking Rents (Citywide comparison) remain the highest in the U.S. The Citywide overall asking rent closed at a record \$82.39 per square foot (psf), up 9.0% YOY. The CBD Class A direct asking rent was a record \$91.14 psf, up 11.0% YOY. The South Financial District has recorded a surge in its Class A direct asking rent over the past year, increasing 17.1% to \$95.06 psf. Citywide Class B asking rents closed the year at \$77.58 psf, up 17.3% since the fourth quarter of 2018.

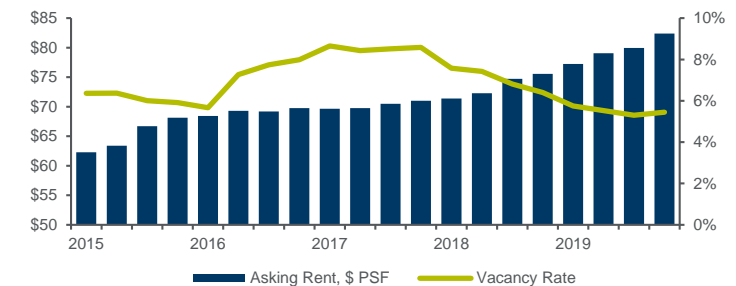
Development Activity Shifting to Waterfront Sites and Central SoMa

A total of 2.4 million square feet (msf) was under construction at the end of the fourth quarter with 1.4 msf delivering in 2020, 100% pre-leased. The remainder is scheduled to complete in 2023 and will potentially pre-lease prior to delivery. Upcoming deliveries in 2020 include 680 Folsom Street (Asana), 1 De Haro Street (Samsara), and 1515 Third Street (Uber). At quarter end, the Prop M allocation pool totaled just under 392,000 square feet (sf) as Phase 1 of Boston Properties' 4th & Harrison development gained approval for 505,000 sf of future office space in Central SoMa. Public/private waterfront projects in Mission Rock and Pier 70 will likely move forward in 2020 and can take the remaining allocation negative.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Demand Continues to be Robust

New leasing totaled 1.3 msf in the fourth quarter, down from a revised 1.8 msf in the third quarter. There was a shortage of “mega deals” signed, with only two transactions totaling 100,000 sf or more. The number of deals signed in the fourth quarter was down compared to the third quarter but up 44% over the same period last year.

Tenant demand declined to 6.7 msf in the fourth quarter but was well above the 10-year quarterly average of 5.3 msf. The total square footage eased by 1.1 msf over the quarter though was up 1.5 msf from the year ago figure. The drop in total space required was due to two large tenants, VISA signing a pre-lease at Mission Rock and another large user placing its San Francisco expansion on hold. The total number of tenant requirements actually increased over the quarter by 12% and is up 46% YOY.

Investment Market Active

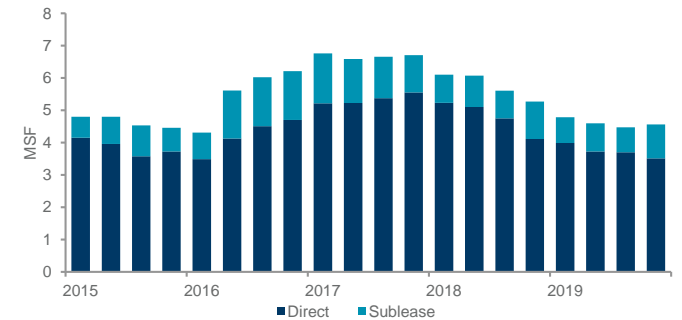
San Francisco investment activity totaled \$6.3 billion year-to-date; well ahead of last year’s figure of \$2.3 billion. There were 31 transactions totaling 6.4 msf that closed citywide with an average price of \$971 psf. The largest transaction of the fourth quarter was the sale of Market Center (555-575 Market Street) to Paramount Group and an undisclosed capital partner purchasing the duel high-rises for \$938 psf or \$722 million. DivcoWest, in a joint venture with CalSTRS acquired a 49% partial interest in 199 Fremont Street for approximately \$948 psf at a 100% valuation of \$380 million.

Office valuations have been on the rise throughout this market cycle with 2019 being the second biggest year behind 2014 when pricing averaged \$615 psf and totaled \$8.5 billion in deal volume. There has been a recent influx of East Coast investors entering the San Francisco market as strong leasing activity and rising rents added value across all office classes. San Francisco owners are becoming more diverse as 2019 saw a mix of West Coast, East Coast, foreign and new entrants.

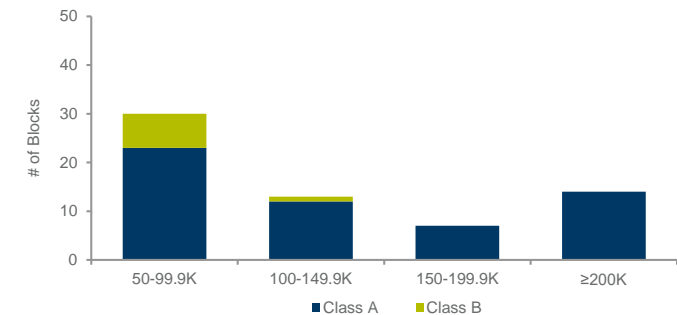
Outlook

- Office job growth is expected to continue through 2020 but at a slower pace than the 3.1% to 7.4% annual rates recorded over the past five years.
- With a still tight vacancy rate forecast for 2020, expect additional asking rent increases particularly for any prime and/or view Class A space.
- Some Waterfront and Central SoMa projects will break ground in 2020 thanks to previously announced and soon-to-be announced pre-leasing; that said, completions likely will not occur before 2023.
- The San Francisco Proposition M office allocation rules may be changed up in a new ballot initiative in March (Proposition E) which would tie new office projects directly to the development of affordable housing. Nevertheless, already approved developments along with other future projects would be allowed to move forward.

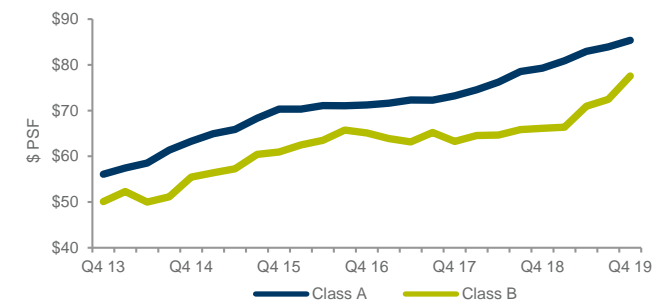
Direct vs. Sublease Space Available Comparison



Blocks of Contiguous Space



Asking Rent Comparison





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North Financial District	26,232,718	236,206	1,255,131	5.7%	237,260	518,792	2,336,120	0	\$83.93	\$87.66
South Financial District	28,229,252	381,761	1,288,601	5.9%	-35,375	940,910	2,951,154	1,320,000	\$88.32	\$89.64
CBD TOTALS	54,461,970	617,967	2,543,732	5.8%	201,885	1,459,702	5,287,274	1,320,000	\$85.68	\$88.51
Jackson Square	1,996,420	56,475	90,357	7.4%	-52,065	-64,616	63,937	0	\$75.15	\$67.40
North Waterfront	3,376,068	9,744	154,923	4.9%	-56,734	21,359	147,511	0	\$84.00	\$73.76
SoMa	8,268,349	107,059	134,112	2.9%	-82,578	-30,949	1,025,474	0	\$81.04	\$88.41
The Presidio	1,030,627	0	60,782	5.9%	-37,662	-60,782	0	0	\$107.94	\$107.94
Union Square	3,337,478	45,786	198,384	7.3%	-38,655	-11,877	299,303	0	\$72.83	\$72.05
Van Ness Corridor	833,356	10,865	88,751	12.0%	8,374	-39,495	21,063	0	\$60.03	\$64.51
Showplace Square/Potrero Hill	3,976,623	114,435	62,341	4.4%	-115,835	-105,502	341,014	83,333	\$71.61	\$65.32
Mission Bay	1,771,735	0	0	0.0%	0	0	300,000	1,023,000	N/A	N/A
Mid-Market	4,322,041	89,423	177,246	6.2%	34,347	-123,094	201,488	0	\$79.78	\$76.94
Third Street Corridor	349,465	0	0	0.0%	0	0	38,000	0	N/A	N/A
NON-CBD TOTALS	29,265,162	433,787	966,896	4.8%	-340,808	-414,956	2,437,790	1,108,333	\$77.16	\$77.09
SAN FRANCISCO TOTALS	83,727,132	1,051,754	3,510,628	5.4%	-138,923	1,044,746	7,725,064	2,428,333	\$82.39	\$85.36

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Mission Rock	Mission Bay	Visa	300,000	New Lease
420 Taylor Street	Union Square	Nextdoor	115,766	New Lease
808 Brannan Street	Showplace Square	Airbnb	60,860	New Lease
345 California Street	North Financial	Easypost	51,156	New Lease
160 Spear Street	South Financial	Databricks	49,648	Renewal* / Expansion
475 Sansome Street	North Financial	WeWork	44,341	New Lease
945 Battery Street	North Waterfront	Lightstep	40,238	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
555-575 Market Street	South Financial	Equity Office / Paramount Group	770,000	\$722.3M/\$938
199 Fremont Street*	South Financial	GLL RE Partners / DivcoWest JV CalSTRS	401,043	\$186.2M/\$948
350 Rhode Island Street	Potrero Hill	Clarion Partners / PRP LLC	127,074	\$134.2M/\$1,056

*199 Fremont Street (49% partial interest)

KEY CONSTRUCTION COMPLETIONS YTD 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
250 Howard Street	South Financial	Facebook	752,000	The John Buck Company, Hines, HK Monetary Authority

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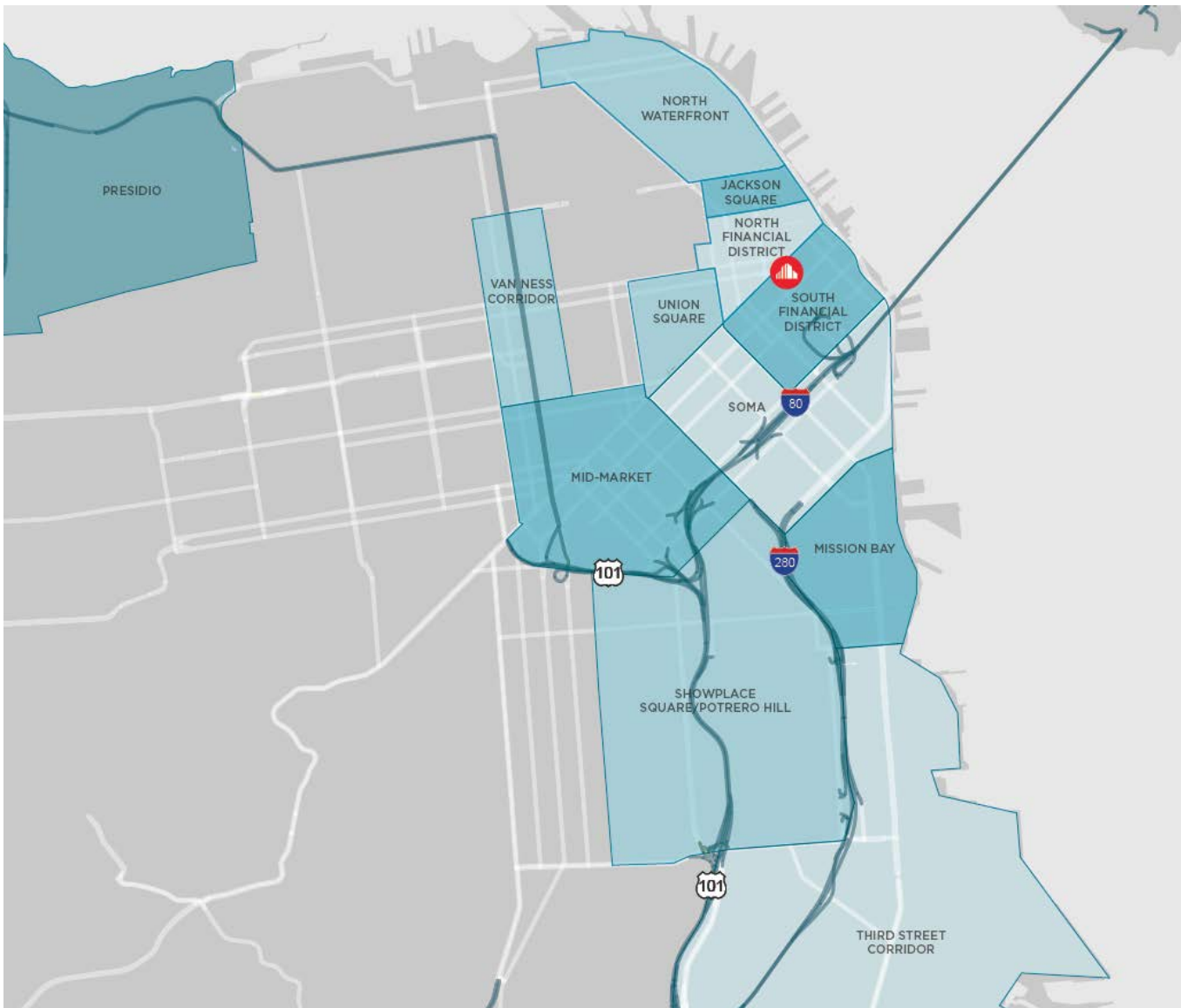
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SAN FRANCISCO



Office Q4 2019

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