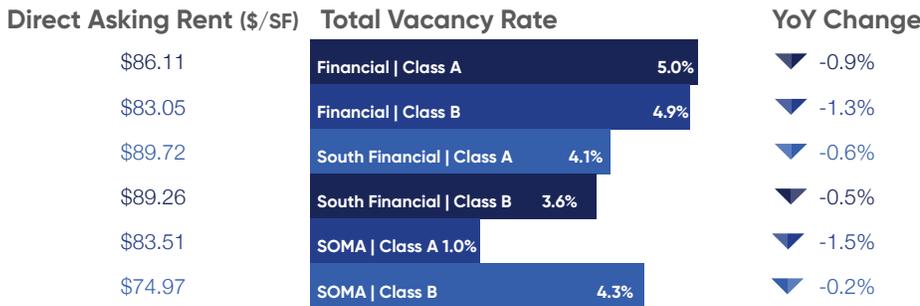


Occupier's Guide

The Bay Area real estate market's crystal ball has spoken – and not to the good fortunes of San Francisco occupiers. Average rental rates are up 13% year-over-year and are anticipated to continue their climb through the 3rd and 4th quarters of 2019. The greater Bay Area's unemployment rate remains steady – at 'full-employment', housing prices continue to soar, and the need to attract talent has pushed companies into new leases, across all space types, at rates not seen since 'dot-com 1.0' in the late '90s early '00s. Only time will tell if the crystal ball gets cloudy, but all indicators point to a clear rise through the end of the year.



Rental and Vacancy Rates



Recent Transactions

Tenant	Submarket	Type	Size	Sector
1 First Republic Bank	North FiDi	New Lease	202,000 RSF	Financial
2 Autodesk	South FiDi	New Lease	118,000 RSF	Technology
3 Glassdoor	South FiDi	New Lease	117,000 RSF	Technology
4 PlayStation	Rincon/So. Beach	New Lease	131,000 RSF	Technology
5 Samsara	Showplace Sq	New Lease	86,000 RSF	Technology
6 DLA Piper	South FiDi	Renewal	67,000 RSF	Legal
7 Hanson Bridgett LLP	South FiDi	Renewal	54,000 RSF	Legal

Occupier's Perspective

- Large blocks of space (50,000 SF and greater) are largely unavailable. Lack of supply has forced traditionally large block occupiers to settle for smaller spaces to accommodate their continued growth in San Francisco.
- Average rent in the second quarter of 2019 grew by over 3%, compared to a growth of 1.5% during the first quarter of the year. Rental rates are anticipated to continue on this path through the end of the year.
- The five largest tenant requirements currently active in the market account for almost 1.5 MM square feet of space alone, with users of all sizes competing for dwindling supply that will not see any new available construction deliveries until 2020 at the earliest.

Market Trends

For the first time since Q1 2018, the largest lease of the quarter was signed by a non-technology firm. This also marks a shift from the previous quarter in which technology firms accounted for the five largest leases. A notable addition to this finding is that local financial services have been, in part, driven by growth in the local technology sector.

The Federal Reserve is expected with 100% market certainty to cut the federal funds rate by 0.25% or 0.5%, with a 75% chance of the former, and a 25% chance of the latter. Lower costs of capital historically drive further economic growth, translating into higher rental markets.

A new ballot proposal would reduce San Francisco's permitted office space in direct proportion to the city's deficit in state-mandated affordable housing approvals. With a projected deficit of 33% for 2015 – 2022, adoption of the measure would likely restrict office supply and increase rates. A March 2019 poll found over 60% of voters would be supportive. The measure may be on the March 2020 California primary ballot.