

Quarterly Market Report



Marketing Trends

2.0 million square feet remain in San Francisco's Prop M allocation, while almost 9.0 million square feet of pending projects await the green light to proceed.

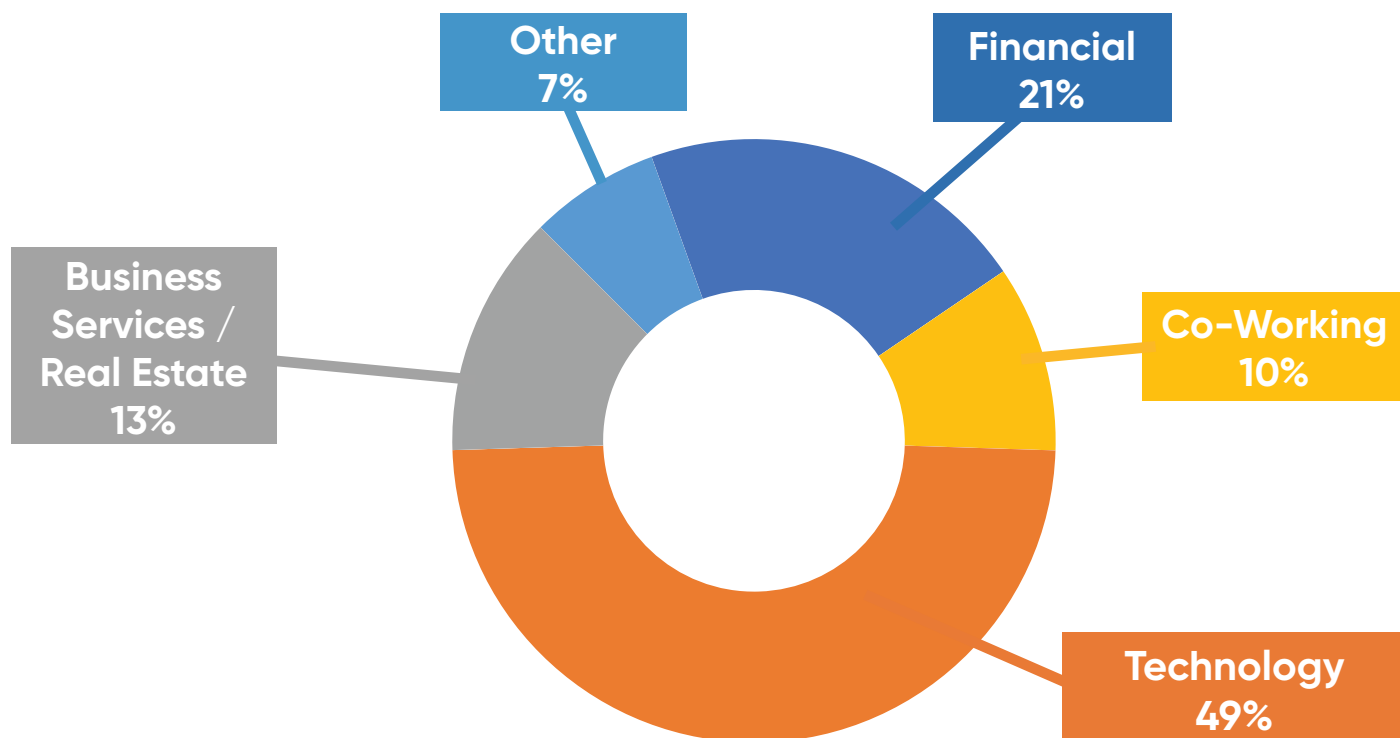
Developers are looking for help from City Hall, working to pass an amendment that would allow for residential and hotel projects to be converted back into office space (their original construction designations.)

East Bay markets boasting rent relief and more affordable housing continue to court San Francisco requirements. Look for increased deal activity to be announced through the 4th quarter and into 2019.

What's Happening in SF?

Market	Deals	Economy
<p>Records are meant to be broken, but occupiers in San Francisco won't be pleased to learn that current average asking rents set a new all-time high in the third quarter, exceeding \$80 per rentable square foot for the first time in San Francisco history. Large tenant demand, a swell of blockbuster deals and little new supply on the horizon created the perfect storm to the delight of local landlords. The market continues to show full employment levels that will cause many companies to worry where they will find new talent to add to their workforces as housing costs have started to squeeze the already limited supply of qualified employees.</p>	<p>Market momentum remained at an all time high through the third quarter with five deals over 100,000 square feet and as many as 20 requirements in excess of 100,000 square feet remaining in the market. Twilio led the way, taking Salesforce sublease at 101 Spear Street for 259,000 square feet (term through May 2029). PwC followed with their lease at 405 Howard Street for 200,000 square feet. The investment sales market came back to life in the third quarter as well – CalSTRS / DivcoWest purchase of 301 Howard Street for \$918/ft has many experts suggesting that San Francisco could also see record breaking sale pricing in the fourth quarter as institutional buyers enter the market for stabilized buildings with strong credit tenancies.</p>	<p>The San Francisco Bay Area economy continues to lead the Nation in low unemployment rates and high wage growth, but the housing crisis has become critical across the region. Surrounding markets lead the way; Alameda, Contra Costa, Napa and Sonoma Counties are each producing vastly larger numbers of new housing units while San Francisco's growth remains stifled. Full employment levels in San Francisco have constrained the pool of qualified workers, leading some companies to relocate operations to less expensive markets including Dallas, Portland, Phoenix and Atlanta.</p>

Tenant Demand and Significant Leases



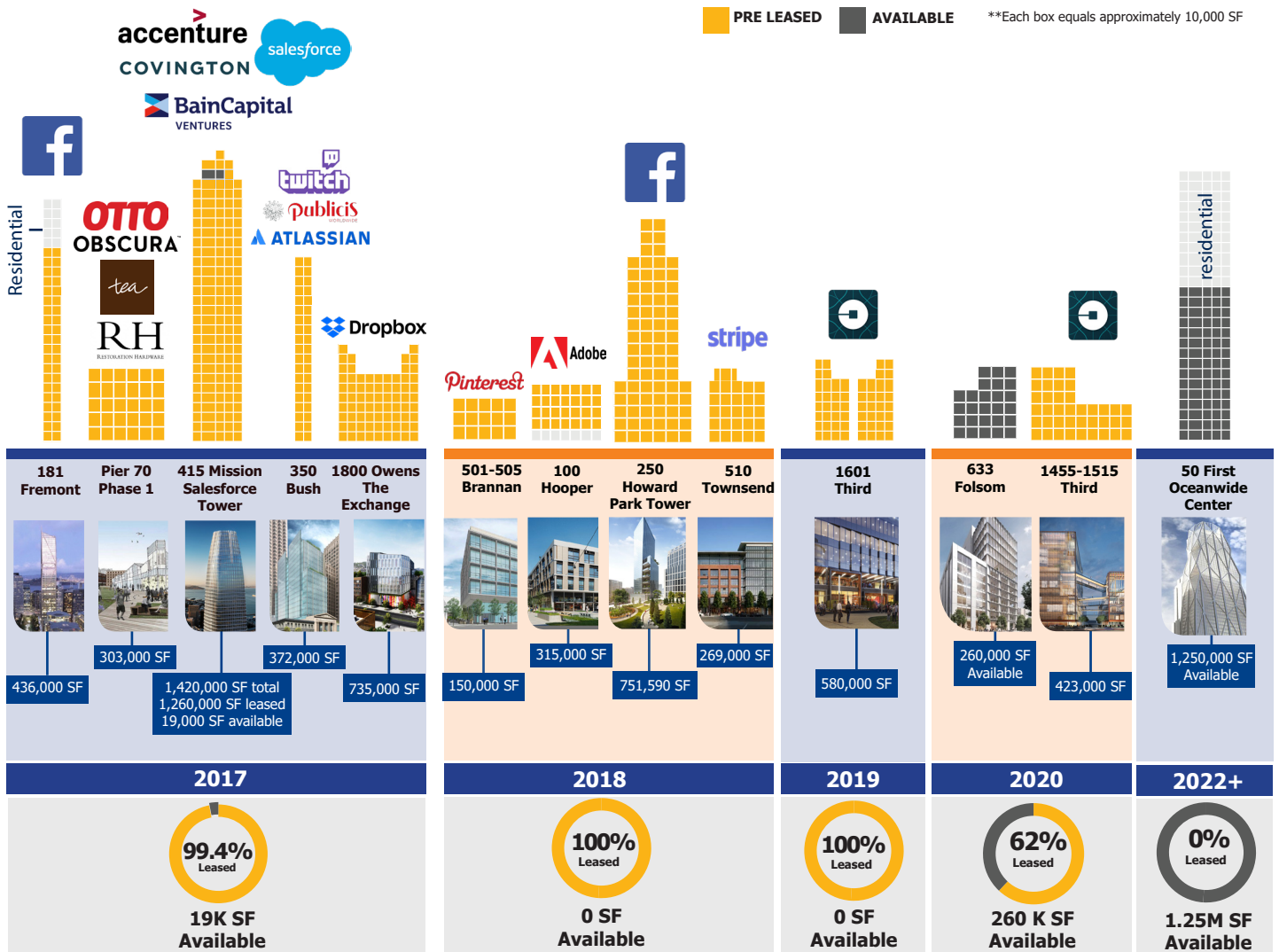
Tenant Demand in 2018

# of Active Tenant Requirements	131
SF of Active Requirements	3,046,700
SF of Average Requirement	24,021

Significant Leases Signed in Q3 2018

Tenant	Size	Submarket	Type	Sector
1 Twilio	259,000 SF	South Financial	Sublease	Technology
2 PwC	200,000 SF	South Financial	New Lease	Accounting
3 Unity Technologies	145,000 SF	South Financial	New Lease	Technology
4 Amazon	143,000 SF	South Financial	Expansion	Technology
5 SoFi	101,000 SF	South Financial	New Lease	Technology
6 Splunk	100,00 SF	South of Market	New Lease	Technology
7 One Medical	60,000 SF	North Financial	New Lease	Healthcare

San Francisco Development Pipeline



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	YoY Change
\$81.44	Financial District Class A 7.8%	▼ -1.0%
\$78.23	Financial District Class B 8.5%	▼ -1.2%
\$82.15	South Financial District Class A 5.3%	▼ -0.7%
\$81.05	South Financial District Class B 5.0%	▼ -0.8%
\$77.95	SOMA Class A 4.0%	▲ 4.0%
\$74.02	SOMA Class B 4.2%	▲ 0.2%

Who's Moving In?

Recent Investment Sales

	Buyer	Seller	Address	Size	Notes
1	CalSTRS/DivcoWest	Vanbarton Group	301 Howard St.	319,000 RSF	\$239,00,000/\$918/ft
2	Madison/ Prudential	Digital Realty Trust	360 Spear St.	154,950 RSF	\$95,000,000/\$590/ft
3	Rubicon Point Partners	The Kivelstadt Group	1130 Market St.	85,000 RSF	\$49,0000,000/\$576/ft
4	Jamestown	Sun Life Assurance	660 Market St.	40,100 RSF	\$40,000,000/\$998/ft
5	Lincoln Property/Rockwood Capital	Polidev Investments	332 Pine St.	45,000 RSF	\$38,000,000/\$844/ft

Tenant Perspective

Occupancy

Large users' appetite for large blocks of space continued through the third quarter, especially for spaces available in newer buildings. The vacancy rate for buildings delivered to the market since 2000 is less than 2%.

Construction

Just under 600,000 square feet of new development was delivered to the market in the third quarter – 100% preleased. Adobe occupied their new building at 100 Hooper while Stripe occupied their new HQ at 510 Townsend.

Regional

Tenants are casting wider nets in their search for office space across the entire Bay Area, due to a lack of large block opportunities for the big fish and the spike in office rents for the little fish.

Tenant Spotlight: BitTorrent



301 Howard St.

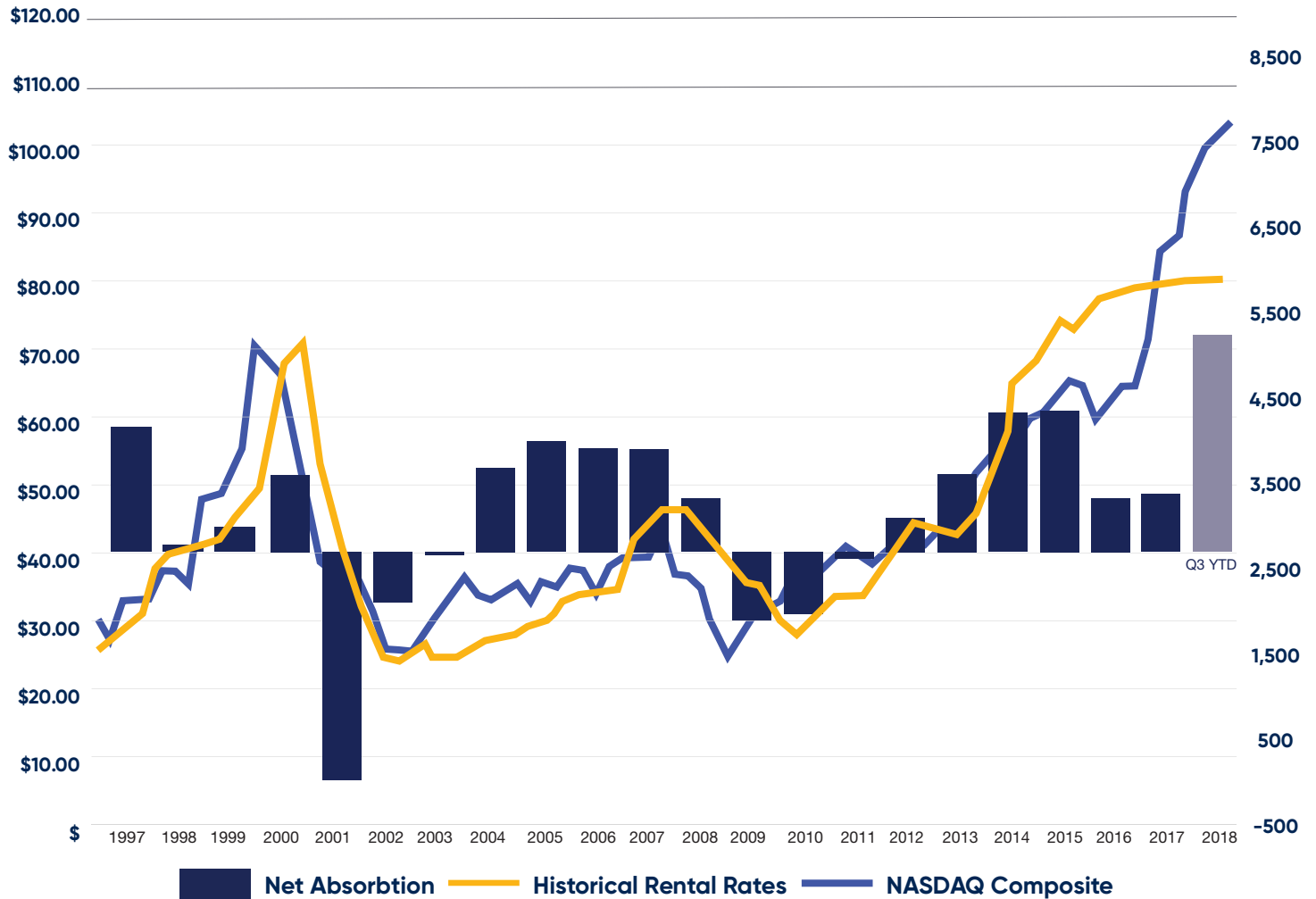
BitTorrent Sublease Space




BitTorrent Inc., founded in 2004, is an Internet technology company based in San Francisco that designs distributed technologies that scale efficiently, keep intelligence at the edge, and keep creators and consumers in control of their content and data.

In 2017 BitTorrent moved in to a sublease (9,125 RSF) at 340 Bryant Street. With more than 170 million people using their products every month, BitTorrent was in growth mode and wanted to focus on space opportunities that offered ultimate flexibility.

301 Howard Street was identified as the ideal relocation solution, as it allowed BitTorrent to accommodate future headcount growth, provided flexibility with the 19,500 SF for an 18 month sublease term and significantly reduced initial upfront capital costs as the space was delivered fully furnished.

Historical Rental Rates, Net Absorption and NASDAQ Composite



 Vacancy 6.5%	 Average Rent \$80.70/SF	 Net Absorption 2.5 mm SF
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Correlation to the NASDAQ composite?

Office market rents have historically lagged the NASDAQ composite (largely comprised of technology companies) by approximately 6-9 months. In 2017 the NASDAQ increased 27.5%.