

Occupier's Guide

Rents continue their rise, vacancy remains low, national and local economic metrics remain healthy, and demand remains high. Average San Francisco CBD Q/Q office rates increased by 1.1%, now registering at \$91.01/RSF/year. Vacancy declined to 4.4%. Q/Q US GDP growth for Q4 is projected to be 1.9%, down from 2.1% in Q3. San Francisco's unemployment rate remains low, at 1.9%. Overall economic conditions remain healthy. Meanwhile, office development in the City may undergo additional approval hurdles if a new San Francisco proposition is passed; the measure will be on the ballot in March 2020. Phase 1 of Boston Properties' Harrison Gardens project now has Prop M approval, totaling 505k SF. The City's Prop M allocation pool is at nearly 400k SF, with all 2020-delivery developments 100% pre-leased.



Vacancy
4.4%



Average Rent
\$91.01/SF



Net Absorption
1,344,000 SF

Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	Q/Q Change
\$90.34	Financial Class A 4.4%	▼ -0.4%
\$87.49	Financial Class B 4.6%	◀ -0.0%
\$95.62	South Financial Class A 4.4%	▲ 0.2%
\$94.54	South Financial Class B 3.9%	▼ -0.4%
\$93.08	SOMA Class A 2.5%	▲ 0.6%
\$83.94	SOMA Class B 5.6%	▲ 0.9%

Recent Transactions

	Tenant	Submarket	Type	Size	Sector
1	Visa	Mission Bay	New Lease	303,000 RSF	Financial Services
2	Latham & Watkins	Financial District	Renewal	120,000 RSF	Legal
3	Nextdoor	Union Square	New Lease	116,000 RSF	Technology
4	Airbnb	Showplace Square	New Lease	61,000 RSF	Technology
5	Easypost	Financial District	New Lease	51,000 RSF	Technology
6	Databricks	So. Financial District	Renewal/Expansion	50,000 RSF	Technology
7	WeWork	North Waterfront	New Lease	44,000 RSF	Real Estate

Occupier's Perspective



Large blocks of space continue to be largely unavailable, with no scheduled deliveries until 2022. Phase 1 of Boston Properties' Harrison Gardens project now has Prop M approval. The City's Prop M allocation pool now sits at nearly 400k SF.



Of the largest leases signed this quarter, three of them were over 100k SF. The largest lease of the quarter was for office space in Mission Bay which has yet to deliver. Although 57% of the seven largest leases were signed by technology companies, the top spot goes to financial services firm Visa.



Year-over-year rates have increased by nearly 10.5%: from \$82.38 in Q4 2018, to \$91.01 in Q4 2019.

Market Trends



A new San Francisco proposition, Proposition E, will be on the ballot in March 2020. If passed, the measure would tie the approval of office development to the development of affordable housing.

Q/Q rental growth rates have exhibited cyclical behavior since Q2 2017. The Q4 growth rate continues to behave in this way, registering at 1.1%, compared to Q2 2019 and Q3 2019 Q/Q growth rates registering at 3.05% and 4.50%, respectively.

Vacancy remains low at 4.4%, down 30bps from Q3. Demand remains high, growing Q/Q by 10%.