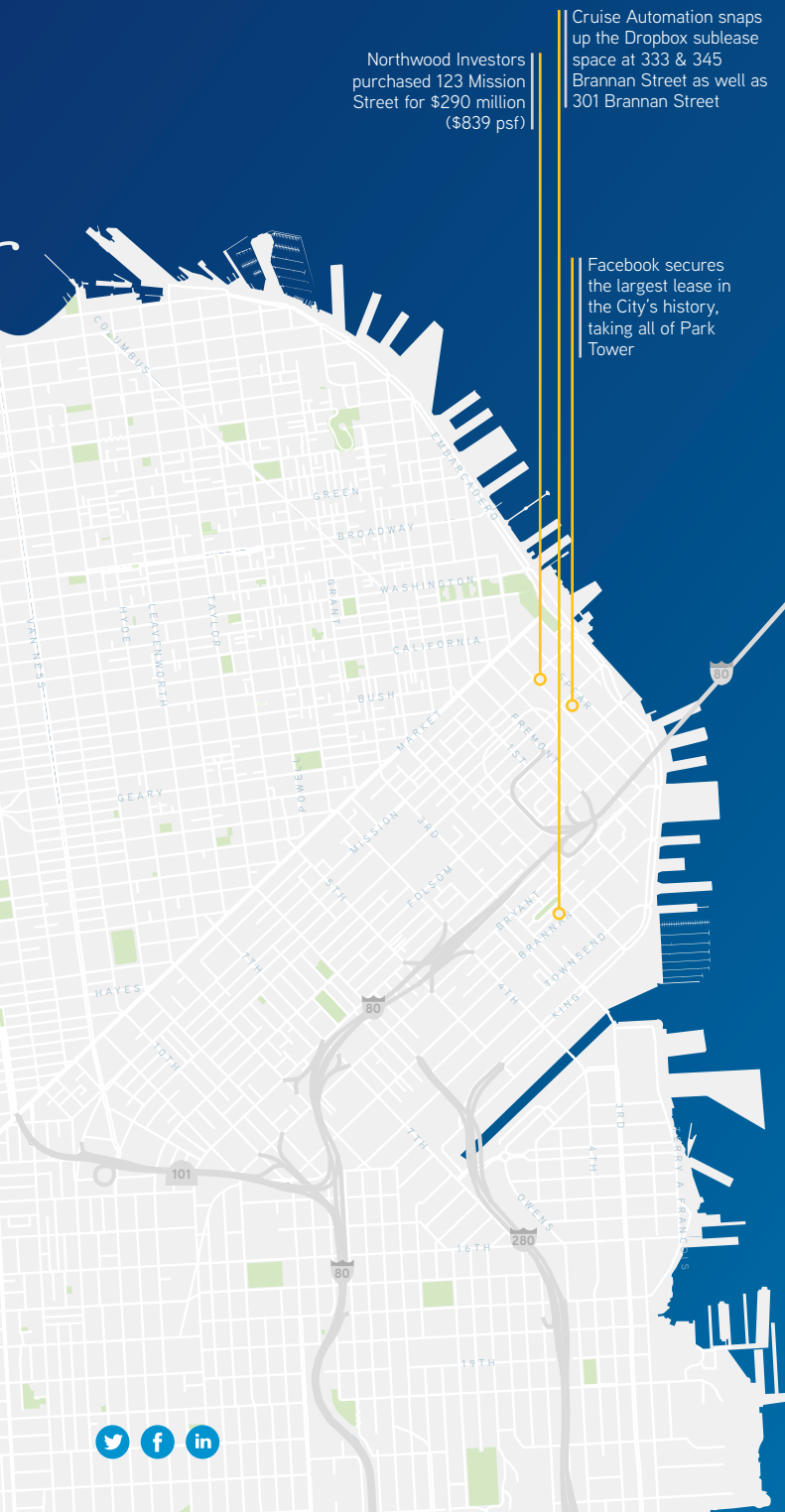


SAN FRANCISCO | OFFICE MARKET

Q2 | 2018

Accelerating success.

Investment Sales Activity on the Rise



> VACANCY The overall vacancy rate shed 40 basis points to 6.1 percent and continues to reflect historic lows for San Francisco. In the City Class A assets continue to drive market absorption with over 2.8 million square feet year-to-date. This has translated into the Class A vacancy rate dropping 40 basis points to 6.0 percent. Vacant sublease space remained flat during the past three months at 0.8 percent. The key driver for the vacancy shrinking during the first half of this year was the South Financial District which has posted 2.3 million square feet of net absorption which saw its vacancy rate drop 270 basis points since the beginning of the year to 4.6 percent.

> LEASING VOLUME San Francisco experienced a surge of leasing activity during the second quarter of the year which translated into nearly 2.8 million square feet of transactions closing. Technology companies continue to gobble up space in the City and their appetite for space doesn't seem to be quenched. Four deals closed over 100,000 square feet this quarter and all these deals were companies securing expansion space. The market experienced the largest lease ever signed in San Francisco when Facebook leased all 773,000 square feet at 250 Howard Street (Park Tower). Additionally, Cruise Automation leased nearly 375,000 square feet at three buildings: 301, 333 and 345 Brannan Street. The biopharmaceutical company Nektar Therapeutics expanded by 136,000 square feet at 360 3rd Street.

> ABSORPTION The City experienced another quarter of strong positive net absorption, nearly 1.5 million square feet was posted. The first half of 2018 has experienced over 3 million square feet of positive absorption. The Financial District accounted for approximately 79 percent of the positive net absorption in the market by posting nearly 1.2 million square feet. The key driver for much of this positive net absorption was Facebook moving into their brand-new space at 181 Fremont Street, in addition to companies such as Affirm occupying over 86,000 square feet at 650 California Street and Salesforce moving into an additional 149,000 square feet at their new trophy building at 415 Mission Street. Tenant demand is on the rise in the City, requirements have increased by 86 percent since the close of the first quarter. There's currently over 6.2 million square feet of office requirements from 180 tenants with 10 of those requirements being over 100,000 square feet. Again, the demand is being driven from the technology sector, which accounts for approximately 55 percent of the current requirements. The second largest tenant demand in the market comes from Coworking tenants and accounts for 8 percent of the market requirements.

> RENTS Overall weighted and non-weighted rents rose during the second quarter of 2018, most attributable to five large leases which all had effective rental rates of \$95 or higher, pushing the overall weighted rent average up 15.3 percent to \$91.25 per square foot and the overall non-weighted rents up 4.2 percent to \$73.95 per square foot. Some of the largest increases were with Class A rents in the Financial District. Weighted rents in this submarket grew 19.8 percent to \$97.65 per square foot. A major contributor to this rent growth was the lease signed by Facebook at 250 Howard Street. Non-weighted Class A average rents for the Financial District increased 4.6 percent to \$77.57 per square foot.

Market Indicators

Relative to prior period	Q2 2018	2018 Forecast
VACANCY	↓	↑
NET ABSORPTION	↑	↑
CONSTRUCTION	↑	↑
WEIGHTED RENTAL RATE	↑	↔
NON-WEIGHTED RENTAL RATE	↑	↔
SALES VOLUME	↑	↑
SALES PRICES	↑	↑

San Francisco – Office Rents - Q2 2018

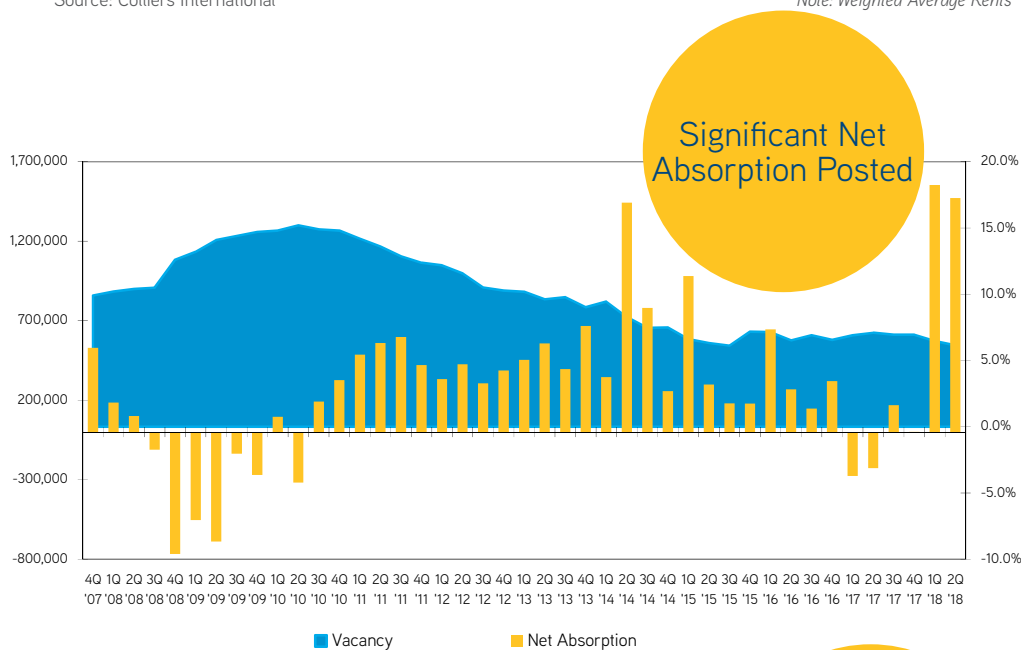
MARKET	2Q '18 OVERALL	2Q '18 DIRECT	2Q '18 SUBLEASE	1Q '18 OVERALL	% OVERALL QUARTERLY CHANGE
All Markets	\$91.25	\$92.22	\$70.61	\$79.17	15.3%
All Markets: Class A	\$97.07	\$98.10	\$68.80	\$82.19	18.1%
All Markets: Class B	\$77.80	\$78.27	\$72.25	\$75.39	3.2%
Financial District: Class A	\$97.65	\$98.42	\$67.14	\$81.50	19.8%
Financial District: Class B	\$84.77	\$85.06	\$76.56	\$83.86	1.1%
SOMA Overall	\$86.95	\$87.67	\$63.56	\$71.57	21.5%

Source: Colliers International

Note: Weighted Average Rents

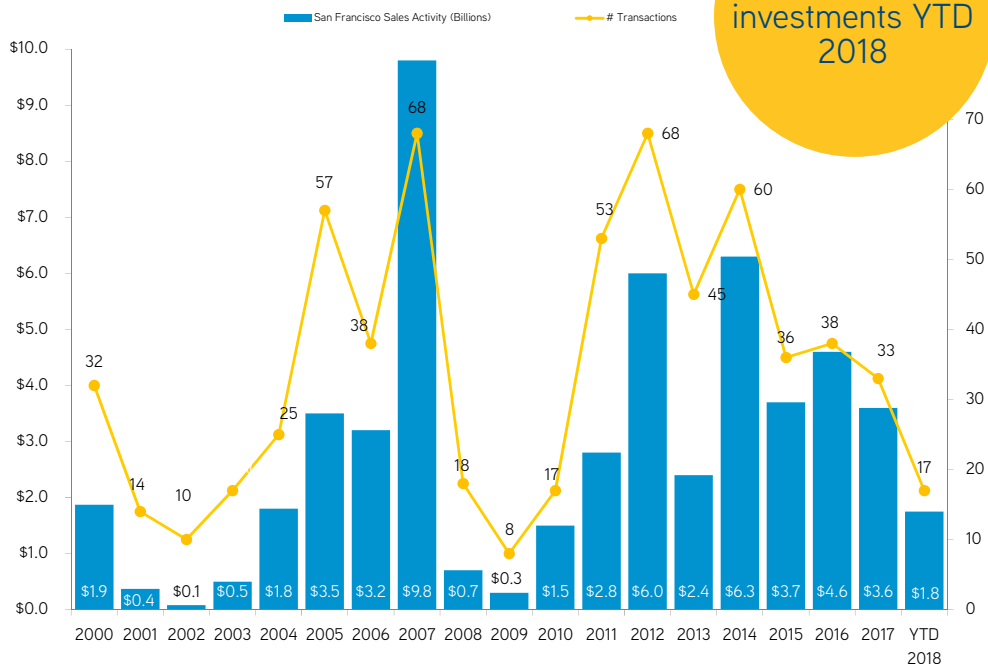
Rental Rates

The City experienced effective rent growth, both weighted and non-weighted rent, across the board during the second quarter. The SOMA submarket experienced a large increase in rents with weighted effective rents growing 21.5 percent to \$86.95 per square foot and non-weighted rents increasing 8.3 percent to \$76.00 per square foot. Deals such as Lyft's 86,000 square foot lease at 185 Berry Street, the Leanplum 45,000 square foot lease at 1098 Harrison Street and Envoy's 20,000 square foot deal at 410 Townsend help contribute to this quarterly rent growth.



Source: Colliers International

\$1.8B in office investments YTD 2018



Source: Colliers International

Absorption & Vacancy

The North Financial District and the South Financial District both experienced the largest occupancy growth realizing over 414,000 and 745,000 square feet of positive net absorption, respectively. Most of the positive absorption in the North Financial District was from the Twitch and Publicis occupancies at the new tower at 350 Bush Street. Additionally, Affirm moved into over 86,000 square feet at 650 California Street and Symantec occupied over 40,000 square feet at 100 California Street which helped lower the vacancy rate to 9 percent. The vacancy rate in the South Financial District fell 130 basis points to 4.6 percent. Key contributors for this positive net absorption were Facebook moving into 181 Fremont Street, On24 moving into nearly 30,000 square feet and Narvar occupying over 28,000 square feet at 50 Beale Street. Additionally, Werqwise occupied over 45,000 square feet at 149 New Montgomery Street.

Investment Volume

The San Francisco investment sales market experienced a surge in activity during the second quarter of 2018 posting more than \$850 million in transaction volume. Nearly half of the second quarter sales occurred in the Financial District – notable Class A transactions include the sale of 123 Mission Street for \$290 million (\$839 per square foot), 101 Mission Street for \$163million (\$791 per square foot), and 235 Pine Street for \$129 million (\$785 per square foot). 2018 year-to-date investment volume of \$1.8 billion is on par with that experienced through the same time last year. With 8 buildings currently under contract, third quarter sales activity is projected to be very strong. San Francisco's incredible leasing activity has hit historic levels and continues to fuel the investment market. There continues to be an incredible amount of demand in the market from both domestic and foreign buyers and capital partners searching for San Francisco investment opportunities.

Major Office Lease Transactions - Q2 2018

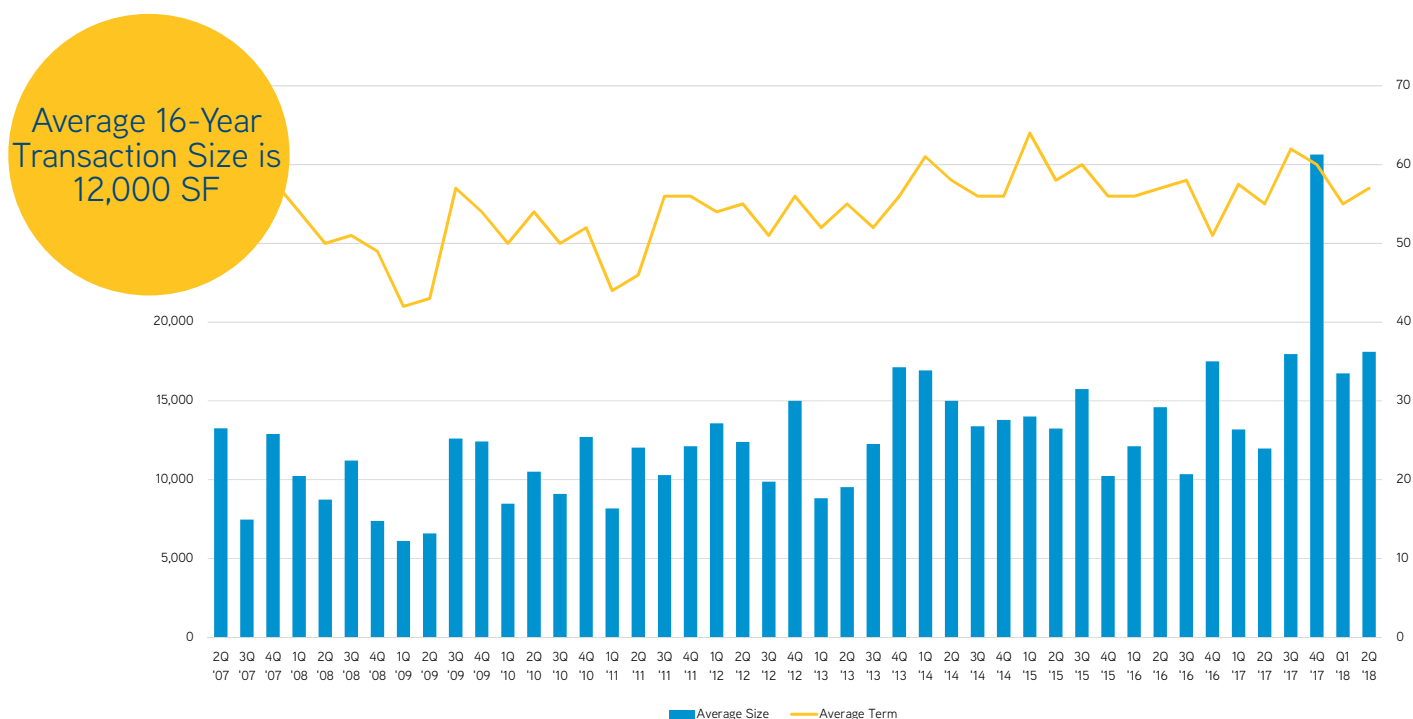
ADDRESS	TENANT	SIZE	TYPE	SIGNED DATE	CLASS
250 Howard Street - Park Tower	Facebook	763,102	New	May-18	A
301, 333, 345 Brannan Street	Cruise Automation	374,627	New	Jun-18	B
360 3rd Street	Nektar Therapeutics	136,000	New	Jun-18	B
405 Howard Street	PwC, LLP	176,389	New	Apr-18	A
1 Market Street - Landmark	Autodesk	87,991	Extension	Apr-18	A
185 Berry Street	Lyft	85,591	Expansion	Jun-18	A
353 Sacramento Street	WeWork	77,181	New	Apr-18	A
550 Kearny Street	Affirm	46,000	New	May-18	B
1098 Harrison Street	Leanplum	44,732	New	May-18	B

Major Office Sale Transactions - Q2 2018

ADDRESS	SELLER	BUYER	SQ. FT.	SALES DATE	CLASS	SALE PRICE	PRICE/SQ. FT.
123 Mission Street	HNA Group	Northwood Investors	345,595	May-18	A	\$290,000,000	\$839
101 Mission Street	PGIM	Vanbarton Group	206,455	Jun-18	A	\$163,250,000	\$791
235 Pine Street	CBRE Global Investors	Clinton Reilly Holdings	164,405	Jun-18	A	\$129,000,000	\$785
1390 Market Street	Broadreach Capital Partners	Swift Real Estate Partners	219,711	May-18	B	\$109,800,000	\$500
939 Ellis Street	"Columbia Pacific Advisors / Long Market Property Partners"	Seavest, Inc.	87,190	Jun-18	B	\$49,000,000	\$562
55 Green Street ⁽¹⁾	Triton Container International	Brick + Timber Collective	44,512	Apr-18	B	\$29,000,000	\$652
570 Market Street	Ng Wai J W Living Trust	229 Ellis Holdings LLC	16,195	Apr-18	B	\$14,500,000	\$895
122-132 9th Street	BLK Properties, Inc.	Sunhill Corporation	27,800	Apr-18	B	\$13,300,000	\$478

(1) Property included additional 10,902 SF of garage area which is excluded from Square Footage shown.

Historical Size and Term



Development Pipeline

San Francisco currently has nearly 4.9 million square feet under construction and in addition the City has 2.8 million square feet proposed with Prop M allocations and another 8.3 million square feet proposed projects in the pipeline without Prop M allocations. This quarter four projects were delivered, for nearly 1.3 million square feet, and all these projects have been completely preleased. The largest delivery was 181 Fremont Street adding over 412,000 square feet to the South Financial District. Another significant new delivery was 100 Hooper Street and the office portion of this project has been completely leased by Adobe with expected fall occupancy. The two additional projects that delivered this quarter were 501-505 Brannan Street for 150,000 square feet and 350 Bush Street, which added 372,000 square feet to the North Financial District.

Leasing Activity

San Francisco continues to be one of the strongest office markets in the U.S. as can be seen by the robust leasing activity during the second quarter. Year-to-date gross leasing activity hit 4.9 million square feet. The City experienced the largest lease in its history, which was signed this May when Facebook took all of Park Tower at 250 Howard Street. San Francisco has seen a flurry of large deals closed during the first half of the year as companies try to secure space in a market that has increasingly limited large blocks of space. This may become more challenging as requirements of over 100,000 square feet or more are on the rise.

Class	Existing Properties										Absorption		New Supply		U/C & Proposed	
	# of Buildings	Total Inventory (square feet)	Direct Vacant (square feet)	Direct Vacancy Rate	Sublease Vacant (square feet)	Sublease Vacancy Rate	Total Vacant (square feet)	Occupied Space (square feet)	Vacancy Rate Current Period	Vacancy Rate Prior Period	Current Net Absorption	YTD Net Absorption	Net New Supply Current (Square Feet)	Net New Supply YTD	Under Construction (Square Feet)	Proposed (Square Feet)
DOWNTOWN MARKET:																
A	187	61,666,259	3,218,663	5.2%	493,097	0.8%	3,711,760	57,954,499	6.0%	6.4%	1,240,581	2,842,067	1,098,681	2,469,258	3,888,181	10,697,526
B	291	25,174,324	1,447,605	5.8%	216,306	0.9%	1,663,911	23,510,413	6.6%	7.1%	251,763	188,098	150,000	150,000	995,116	367,071
C	124	6,396,485	279,201	4.4%	66,600	1.0%	345,801	6,050,684	5.4%	5.1%	(21,315)	(6,027)	-	-	-	-
Total	602	93,237,068	4,945,469	5.3%	776,003	0.8%	5,721,472	87,515,596	6.14%	6.5%	1,471,029	3,024,138	1,248,681	2,619,258	4,883,297	11,064,597
FINANCIAL DISTRICT:																
A	111	46,506,518	2,529,118	5.4%	374,125	0.8%	2,903,243	43,603,275	6.2%	7.1%	1,142,668	2,708,458	784,234	2,154,811	1,809,049	341,080
B	73	8,126,568	727,735	9.0%	80,768	1.0%	808,503	7,318,065	9.9%	10.2%	23,430	(19,586)	-	-	-	-
C	34	1,476,936	127,314	8.6%	9,466	0.6%	136,780	1,340,156	9.3%	8.8%	(6,364)	402	-	-	-	-
Total	218	56,110,022	3,384,167	6.0%	464,359	0.8%	3,848,526	52,261,496	6.9%	7.6%	1,159,734	2,689,274	784,234	2,154,811	1,809,049	341,080
SUBMARKETS:																
North Financial	117	28,777,524	2,278,000	7.9%	310,035	1.1%	2,588,035	26,189,489	9.0%	9.3%	414,433	401,560	372,000	372,000	-	-
South Financial	101	27,332,498	1,106,167	4.0%	154,324	0.6%	1,260,491	26,072,007	4.6%	5.9%	745,301	2,287,714	412,234	1,782,811	1,809,049	341,080
Total	218	56,110,022	3,384,167	6.0%	464,359	0.8%	3,848,526	52,261,496	6.9%	7.6%	1,159,734	2,689,274	784,234	2,154,811	1,809,049	341,080
Union Square	58	4,063,190	239,385	5.9%	14,106	0.3%	253,491	3,809,699	6.2%	5.3%	(38,119)	6,665	-	-	-	-
Yerba Buena	31	4,663,528	58,727	1.3%	114,126	2.4%	172,853	4,490,675	3.7%	4.7%	44,783	(12,514)	-	-	-	1,801,066
SOMA West	39	3,505,267	67,993	1.9%	23,584	0.7%	91,577	3,413,690	2.6%	2.5%	141,047	158,778	150,000	150,000	269,063	3,933,151
SOMA East	61	6,337,586	222,250	3.5%	40,308	0.6%	262,558	6,075,028	4.1%	5.8%	102,974	159,049	-	-	266,053	932,765
Civic Center/Mid-Market	45	6,385,741	147,475	2.3%	11,000	0.2%	158,475	6,227,266	2.5%	2.8%	18,090	33,142	-	-	460,000	-
Jackson Square	40	2,330,330	85,966	3.7%	19,529	0.8%	105,495	2,224,835	4.5%	5.4%	20,677	19,866	-	-	-	-
North Waterfront	48	3,633,826	192,166	5.3%	43,409	1.2%	235,575	3,398,251	6.5%	4.4%	(70,889)	(65,947)	-	-	-	-
Van Ness Corridor	18	1,063,442	159,672	15.0%	-	0.0%	159,672	903,770	15.0%	17.7%	28,159	(23,239)	-	-	-	-
Potrero West	17	1,258,348	69,502	5.5%	10,000	0.8%	79,502	1,178,846	6.3%	7.3%	12,011	40,986	-	-	-	119,599
Potrero East	11	1,088,053	318,166	29.2%	35,582	3.3%	353,748	734,305	32.5%	6.1%	7,962	(22,412)	314,447	314,447	-	-
Mission Bay	16	2,797,735	-	0.0%	-	0.0%	-	2,797,735	0.0%	1.6%	44,600	40,490	-	-	2,079,132	3,936,936
Total	602	93,237,068	4,945,469	5.3%	776,003	0.8%	5,721,472	87,515,596	6.1%	6.5%	1,471,029	3,024,138	1,248,681	2,619,258	4,883,297	11,064,597
QUARTERLY COMPARISON/TOTALS																
Q1-18	598	91,988,387	5,212,864	5.7%	730,956	0.8%	5,943,820	86,044,567	6.5%	6.9%	1,553,109	1,553,109	1,370,577	1,370,577	5,065,925	10,463,551
Q4-17	599	90,727,315	5,480,724	6.0%	823,116	0.9%	6,303,840	84,423,475	6.9%	6.9%	1,504	(333,149)	-	-	2,472,642	10,544,444
Q3-17	599	90,727,315	5,487,833	6.0%	817,511	0.9%	6,305,344	84,421,971	6.9%	7.1%	168,981	(334,653)	-	-	6,446,900	10,501,944
Q2-17	599	90,727,315	5,778,994	6.4%	695,331	0.8%	6,474,325	84,252,990	7.1%	6.9%	(226,774)	(503,634)	-	-	6,462,104	10,023,944

FOR MORE INFORMATION

Alan D. Collenette, MRICS
Executive Regional Managing Director
San Francisco
+1 415 288 7850
alan.collenette@colliers.com

Erin Proto
Senior Research Manager
San Francisco
+1 415 288 7827
erin.proto@colliers.com

Colliers International | San Francisco
101 Second Street, 11th Floor
San Francisco, CA 94105
+1 415 788 3100
colliers.com



Copyright © 2018 Colliers International.
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.