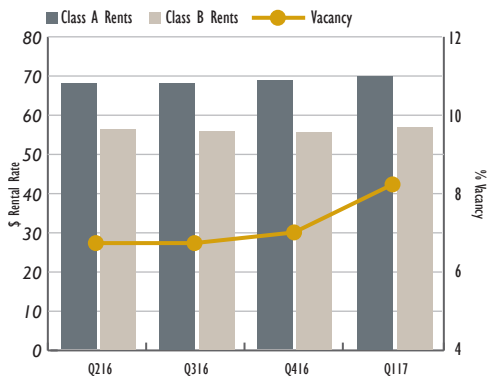


Leasing activity in the first quarter increased slightly. Net absorption continued to be negative increasing from the 4th quarter, resulting in higher vacancy rates. Despite the increase in vacancy, rental rates continued to move upward.

Rents and Vacancy increase in First Quarter

First quarter leasing activity in San Francisco's financial core was stable, increasing slightly from 4th quarter 2016. Vacancy rates increased from an adjusted 7.2% in the 4th quarter to 8.0% in the 1st quarter. Gross leasing activity increased from 623,479 square feet in the 4th quarter to 735,331 square feet in the 1st quarter. Net absorption was negative and increased in the 1st quarter to -349,942 compared to the 4th quarter absorption at -165,000.

SAN FRANCISCO FINANCIAL CORE



Average asking rental rates for Class A space increased from \$68.50 in the 4th quarter to \$69.80 in the 1st quarter. Average rental rates for Class B financial core space increased from \$55.43 in the 4th quarter to \$56.78 in the 1st quarter 2017.

Class B absorption was negative at -109,688 square feet. This was an increase from the 4th quarter, which had -16,699 square feet negative absorption.

Oakland Moves Forward on Two Developments

Two major high rise office projects are moving forward in Oakland: 601 City Center and 1100 Broadway. Owners of 601 City Center, also known as 601 12th Street, announced that they were starting site construction almost immediately, with the goal of 1st quarter 2019 tenant occupancy. Once complete, the 24-story building will total 602,000 square feet, with each floor spanning 25,000 s.f. Blue Shield has leased the top nine floors of the building, agreeing to take 230,000 square feet.

They will sublet their San Francisco headquarters facility at 50 Beale Street. The Shorenstein Company is the developer for the building and has been trying to secure an anchor tenant since 2000.

Over at 1100 Broadway, developers are incorporating the historic Key Train System headquarters building into the new development. Situated behind the 8-story structure built in 1911 will be a new and modern 310,000 square-foot high-rise. The project had been held by SKS development since 2007 but, they could not find an anchor tenant in order to move forward with construction. Early in the development process no one could rationalize paying a rental rate which would allow construction—roughly \$60+ per rentable square foot—which was far above market. However as the market tightened, the building became competitive. At the beginning of the year, Ellis Partners committed to purchasing the project, and not surprisingly they brought a tenant with them. They were able to obtain a commitment from the University of California office of the President (UCOP). The UCOP filed a notice of determination to lease space in the project in January. They plan to occupy 100,000 square feet.



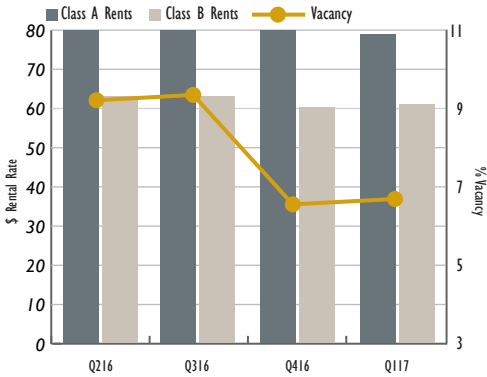
1100 Broadway project to preserve a piece of Oakland history

Uber Reverses Oakland Move, Partners with Warriors

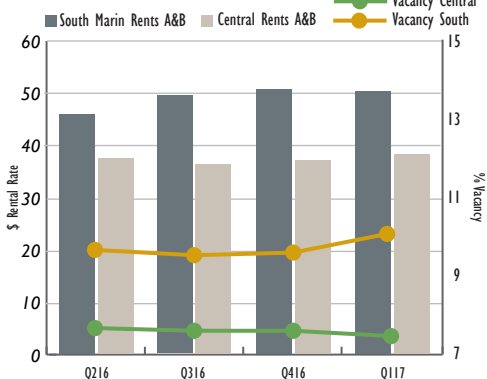
Although Oakland recently announced two high-rise office projects were moving forward. They also took a significant hit when Uber announced it was no longer moving forward with the expansion, they had planned in Oakland. Uber originally projected 3,000 employees would occupy the Oakland site they had purchased, now the number will be closer to 300. Uber's change of plans was due to its new partnership with the Warriors. Uber and the Warriors will be co-owners of the office towers at the future site of the Warriors Arena in Mission Bay. The arena is next door to two buildings Uber purchased last year for their headquarters.

Although many see Uber backing out of its commitment to Oakland as a negative, others have pointed out that the space Uber will not be occupying will be rapidly filled by other users, as the demand for space is significant.

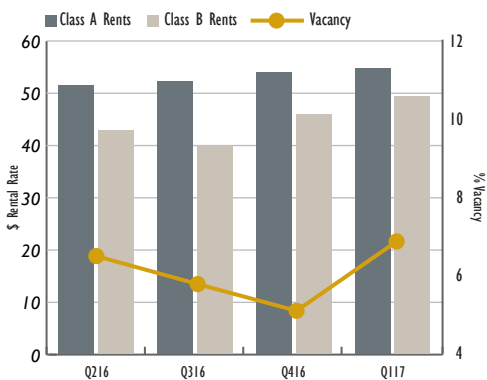
SAN FRANCISCO SOMA



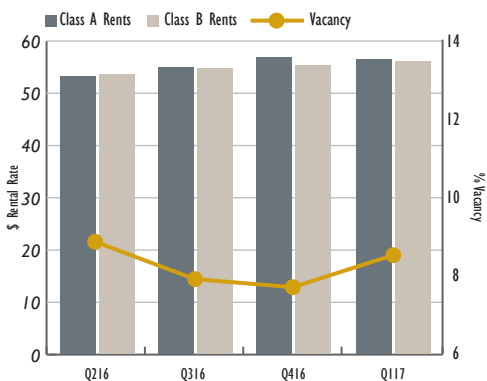
MARIN



OAKLAND CBD



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	582,372	6.2%	59,015	.60%	641,387	6.80%
Fin. Dist. A	2,892,864	6.80%	512,572	1.2%	3,405,436	8.00%
Fin. Dist. B	1,105,312	8.5%	65,667	.50%	1,170,979	9.00%
SOMA A	200,243	6.80%	86,934	3.00%	287,177	9.80%
SOMA B	456,099	4.6%	112,948	1.1%	569,047	5.80%

Large Tenants in the Market

Tenant	Sq. Ft.
Amazon	200,000
Airbnb	200,000
Instacart	125,000
Pivotal Labs	125,000
OKTA	120,000
Nixon Peabody	100,000
Asana	100,000
Zymergen	100,000

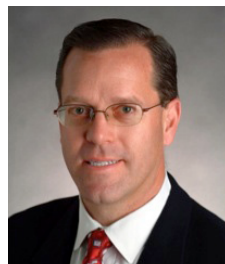
Significant Leases Completed in the First Quarter

Tenant	Sq. Ft.	Address
Slack	225,490	500 Howard Street
Google	166,460	121 Spear Street
Adobe	104,667	100 Hooper
Accenture	100,630	415 Mission
WeWork	64,858	201 Spear Street
WeWork	60,576	650 California Street

*Renewal **Sublease

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Contact The Axiant Group. We have handled transactions from 1,000 to 1,000,000 sq.ft. in the Bay Area and throughout the U.S. The average tenure of our brokers is over 20 years. We have handled assignments for clients including Chevron U.S.A., Coblenz, Patch, Duffy & Bass, Oracle Corporation, PG&E, Sutro & Company, Zurich Scudder Investments, Charles Schwab, Texas Pacific Group, Club One, Moss Adams, and many others.