



The Axiant Group
COMMERCIAL REAL ESTATE SERVICES



Market Overview

A quarterly publication of the San Francisco office market by The Axiant Group

1st Quarter 2018

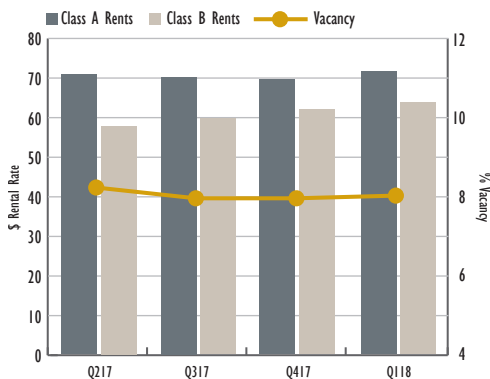
1st quarter leasing activity increased. Rental rates for both A and B class space increased across the board. Two new buildings officially open 100% leased, causing expected record net absorption.

Vacancy Decreases Rents Increase

First quarter leasing activity hit historical highs in San Francisco as two new buildings were added to the office space inventory. Sales Force Tower 415 Mission (1,400,000 sq. ft.) and 350 Bush Street (447,000 sq.ft.) both buildings opened 100% leased. Vacancy rates dropped from an adjusted 8.3% in the 4th quarter to 8.0% in the 1st quarter. Gross leasing increased from 1,254,103 square feet

in the 4th quarter to 2,417,051 square feet in the 1st quarter. Net absorption was at 1,880,794 square feet, substantially greater than 4th quarter absorption number of -18,766 square feet, for the reasons mentioned above.

SAN FRANCISCO FINANCIAL CORE



Average asking rental rates for Class A space increased to \$71.37 in the 1st quarter from \$69.34 in the 4th quarter. Average rental rates for Class B financial core space increased from \$61.84 in the 4th quarter to \$63.57 in the 1st quarter. Class B absorption was positive at 135,997 square feet. This was an increase from the 4th quarter absorption of 14,405 square feet.

WeWork Leases 400 California Street and Continues on Expansion Path

WeWork is a company that provides shared workspaces primarily for technology startups. Their massive expansion continues in San Francisco as they commit to leasing 400 California Street, by an excess of 250,000 square feet. The building was formerly owned and occupied by Union Bank, who recently sold the build-

ing to Kennedy Wilson and JV partner Takenaka. The building has 21 floors, with each floor comprising 12,586 square feet. There is also a 10,000 square foot outdoor roof deck on the adjacent historical retail banking hall. With this new commitment, WeWork will have leases totaling over one million square feet of space in San Francisco; their Bay Area lease total will exceed 1,750,000 square feet. They are also rumored to be looking at additional space at the Embarcadero Center where they already occupy over 100,000 square feet. WeWork also has substantial commitments in other markets: they are the second largest user of space in New York City, leasing over 2.9 million square feet of space (only JP Morgan leases more for now). Not surprisingly, WeWork now ranks as the fourth most valuable US-based startup (only Uber, Airbnb and SpaceX have higher valuations). A recent comparison was made between WeWork and Boston Properties. Both companies are valued at roughly \$20 billion. Boston Properties' net income is \$450 million and they own what is estimated to be approximately 50 million square feet of office space. WeWork owns no real estate, has millions of dollars in lease obligations and was not profitable in 2017. It is difficult to understand how both companies have the same valuation. Coincidentally, Boston Properties Chairman Mortimer Zuckerman was an early private investor in WeWork.

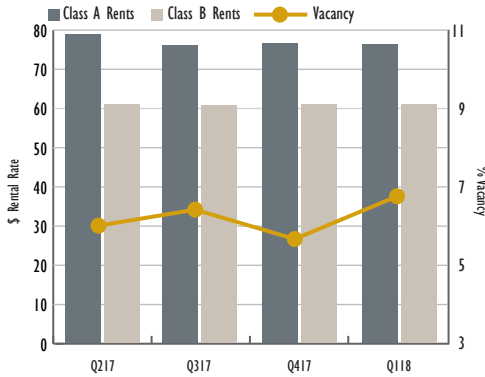
Is Facebook Eyeing Park Tower?

Several large tech tenants have been competing for the yet to be completed Park Tower complex at 250 Howard Street. Park Tower is a 43 Story, 772,960 square foot building due for completion in the 4th quarter of 2018. It represents the only large block of space available in the market. Park Tower is located on Howard Street between Beale and Main. Facebook, Google and Amazon were all looking at space in the building. Facebook was rumored to be committing to 200,000 square feet in the building but decided to lease the entire building. This decision was made just weeks before news stories surfaced about Facebook compromising member information to third parties, significantly impacting their stock value and image. Facebook's timing could have been better. We will wait and see if a lease with Facebook moves forward.

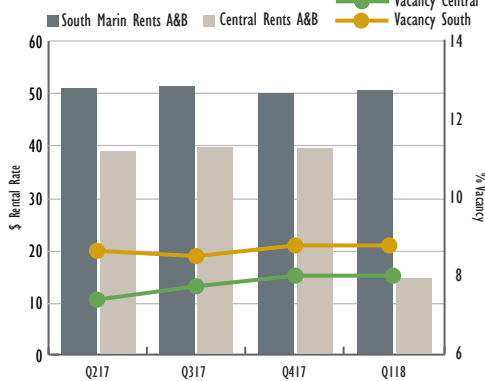


A rendering of Park Tower

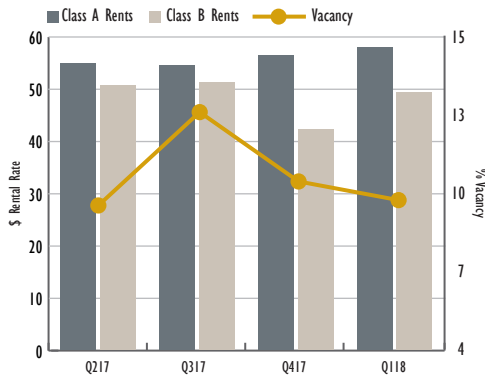
SAN FRANCISCO SOMA



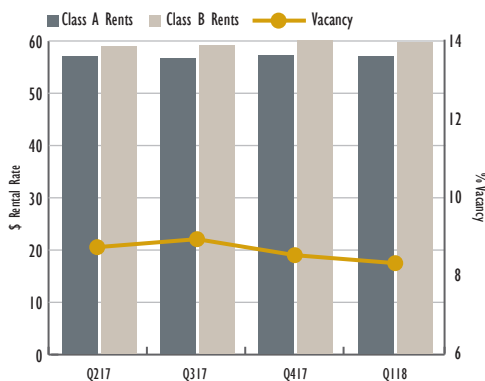
MARIN



OAKLAND CBD



PENINSULA



Where's the Space?

| Submarket | Direct SF | Vacancy (direct) | Sublet SF | Vacancy (sublet) | Total SF | Vacancy (Total) |
|---------------|-----------|------------------|-----------|------------------|-----------|-----------------|
| Top 10 Build. | 758,175 | 6.8% | 115,960 | 1.00% | 874,135 | 7.90% |
| Fin. Dist A | 3,282,045 | 7.30% | 283,476 | .60% | 3,565,523 | 7.90% |
| Fin Dist. | 855,838 | 6.80% | 177,382 | 1.40% | 1,033,220 | 8.20% |
| SOMA A | 120,181 | 4.40% | 82,867 | 3.10% | 203,048 | 7.50% |
| SOMA B | 592,409 | 5.9% | 90,220 | .90% | 682,629 | 6.80% |

Large Tenants in the Market

| Tenant | Sq. Ft. |
|---------------|---------|
| Facebook | 750,000 |
| Google | 400,000 |
| Amazon | 200,000 |
| Pivotal Labs | 125,000 |
| Nixon Peabody | 100,000 |
| Asana | 100,000 |
| Mulesoft | 80,000 |

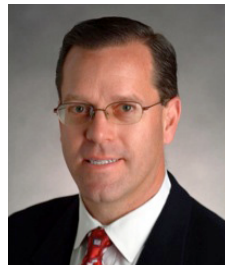
Significant Leases Completed in the First Quarter

| Tenant | Sq. Ft. | Address |
|---------------------------|---------|-----------------------|
| WeWork | 251,722 | 400 California Street |
| Twitter* | 214,950 | 1355 Market Street |
| New Relic | 74,000 | 188 Spear Street |
| Samsara | 71,000 | 350 Rhode Island |
| Pattern Energy Group | 63,000 | 1088 Sansome Street |
| Google | 57,000 | 2 Harrison Street |
| Scribd, Inc. | 48,800 | 333 Bush Street |
| Hall Capital Partners LLC | 43,692 | One Maritime Plaza |

*Renewal **Sublease

The Axiant Group Can Help You

Do you want information about rents and space available in your building? Are you interested in subleasing or terminating your lease? Is your lease expiring in the next three years?



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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.