



The Axiant Group
COMMERCIAL REAL ESTATE SERVICES

Market Overview

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

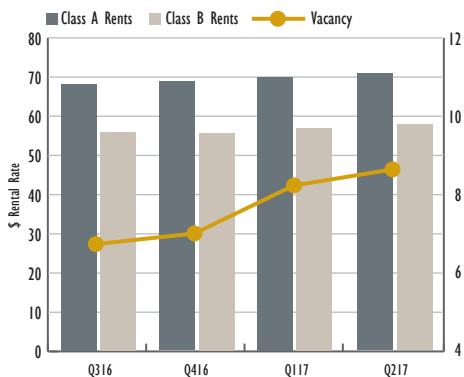
2nd Quarter 2017

Leasing activity decreased slightly in the 2nd quarter. Net absorption was still negative but not as high as the numbers we saw in the 1st quarter. Both vacancy rates and rental rates increased marginally.

Vacancy Increases Slightly in 2nd Quarter

Second quarter leasing activity in San Francisco's financial core was stable, decreasing slightly from the 1st quarter. Vacancy rates increased from an adjusted 8.0% in the 1st quarter to 8.3% in the 2nd quarter. Gross leasing activity was stable moving from 735,331 square feet in the 1st quarter to 734,324 square feet in the 2nd quarter. Net absorption was still negative but, decreased in the 2nd quarter to -113,742 compared to the 1st quarter absorption at -579,897.

SAN FRANCISCO FINANCIAL CORE



Average asking rental rates for Class A space increased from \$69.80 in the 1st quarter to \$70.63 in the 2nd quarter. Average rental rates for Class B financial core space increased from \$56.78 in the 1st quarter to \$57.62 in the 2nd quarter.

Class B absorption was negative at -72,082 square feet. This was a decrease from the 1st quarter, which had -109,688 square feet negative absorption.

Facebook Rumored To Be Looking at 181 Fremont Street

Rumors have been circulating that Facebook is committing to 181 Fremont Street. The building is close to completion and is a mixed-use complex, with residential condos occupying the top portion and commercial office space on the lower portion. The office space totals 430,000 square feet. The building was built on spec (meaning no anchor tenant was in place before construction began). The pre-leasing efforts to date have been less than successful, with no tenants in place, likely

due to the building's small floor plates (12,000-13,000 square feet). Small floor plates are not as efficient for a larger tenant, who typically prefer floor plates of 20,000+ square feet. By contrast, a neighboring building, Salesforce Tower, has much larger floorplates and is currently 90% leased. Both buildings are projected for occupancy in the 4th quarter of this year. If rumors prove to be true, Face-



Soon to be completed 181 Fremont Street

book will take the entire office portion of the building. The owner of the project, Jay Paul, has a number of buildings in the South Bay – one in Palo Alto has been coveted by the owner of Facebook, Mark Zuckerberg, for some time. Jay Paul supposedly agreed, in concept, to sell the building to Zuckerberg if Facebook commits to all the space at 181 Fremont Street. Facebook would relocate its non-core groups (Real Estate, Charity, Finance, etc.) to San Francisco and sublease any excess space.

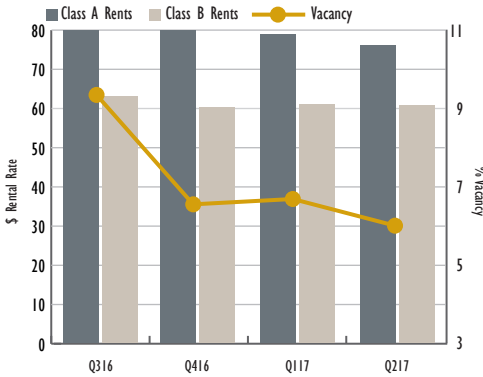
Zymergen Takes Huge Block in Emeryville

The largest lease completed this quarter was not in San Francisco, but across the bay in Emeryville. Zymergen leased almost 300,000 square feet in three different buildings. They took roughly 160,000 square feet of space in 6475 and 6455 Christie Street. They also leased the entire building at "The Atrium" located at 1650 65th Street, comprised of 127,000 square feet. Zymergen also looked at San Francisco and was interested in Kilroy's new project "The Exchange", but returned sights to Emeryville due to location and cost being significantly less than San Francisco. Zymergen is a technology company focusing on unlocking biological technology by creating improved economics for existing products, allowing delivery of new products to the market sooner, and developing new products. They have been successful in allowing biological engineering to be more predictable, reliable and perform at a higher level. The company recently received another round of venture capital funding in late 2016 for \$135 million.

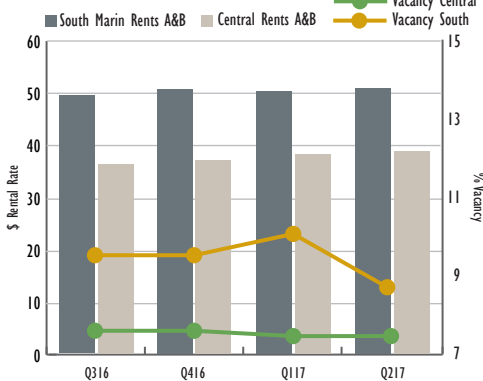


Christie Street

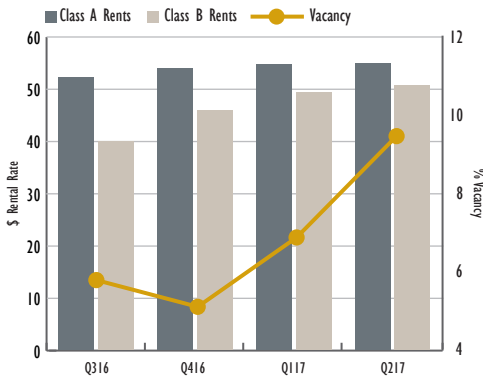
SAN FRANCISCO SOMA



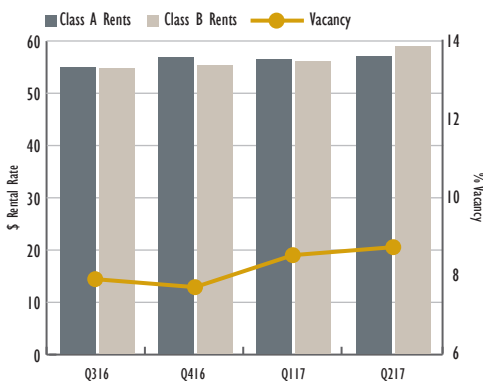
MARIN



OAKLAND CBD



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	622,596	6.6%	83,412	.90%	706,008	7.50%
Fin. Dist A	3,056,047	7.20%	356,215	.90%	3,420,262	8.00%
Fin Dist. B	1,106,459	8.5%	117,282	.90%	1,223,741	9.40%
SOMA A	163,607	5.50%	41,039	1.40%	204,646	6.90%
SOMA B	407,948	4.2%	210,636	2.1%	618,584	6.30%

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

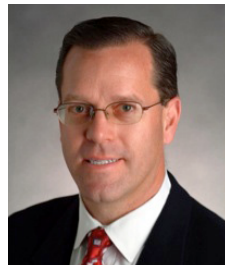
Significant Leases Completed in the First Quarter

Tenant	Sq. Ft.	Address
Zymergen	300,000	Emeryville (3 buildings)
Otto	131,000	Pier 70
Affirm	76,000	650 California Street
City & County of SF*	69,000	1390 Market
Cloudera	57,000	525 Market Street
Glu Mobile	57,000	875 Howard Street
WeWork	52,000	655 Montgomery Street
Door Dash	51,000	901 Market Street

*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?



John Abel – Principal
T 415.374.2103
jabel@axiantgroup.com
License #00884176

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.