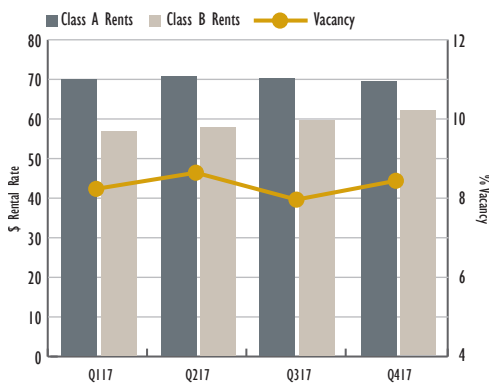


Leasing activity in the 4th quarter was high, but overall vacancy rates remained stable with rental rates dropping slightly. Many large tech tenants committed to buildings still under construction.

Vacancy Rates Stable But Strong Demand

Fourth quarter leasing activity in San Francisco's financial core looked flat, with just a slight increase from the 3rd quarter. The actual activity level was high. Vacancy rates do not reflect buildings under construction or not ready for occupancy. A number of tech tenants have pre-leased space in buildings not yet completed. Dropbox's recent lease in Mission Bay is a good example.

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Vacancy rates rose from an adjusted 8.3% in the 3rd quarter to 8.4% in the 4th quarter. Gross leasing increased moving from 873,490 square feet in the 3rd quarter to 1,254,103 square feet in the 4th

quarter. Net absorption remained negative at -18,766 square feet, but less than 3rd quarter absorption numbers of -119,934 square feet.

Average asking rental rates for Class A space decreased from \$70.00 in the 3rd quarter to \$69.34 in the 4th quarter. Average rental rates for Class B financial core space increased from \$59.42 in the 3rd quarter to \$61.84 in the 4th quarter. Class B absorption was positive at 14,405 square feet. This was an increase from the 3rd quarter negative absorption of -66,809 square feet.

Dropbox Absorbs New PDR Space

At the start of the 4th quarter, Dropbox signed a lease at 1800 Owen Street, one of the largest leases (736,000 s.f.) completed in the history of San Francisco. This new construction project features a combination of office/production, distribution and repair

(PDR) space, and is ideal for technology groups who represent a majority of the tenants currently in the market. Most of the available space on the market today however, is traditional office which historically has been occupied by non-tech users (e.g. attorneys, financial services, and general service providers), many of whom have left or are leaving San Francisco (an example of this is discussed in the next article).

Okta Commits as Delta Dental Heads East

Technology firm Okta committed to 207,000 square feet at 100 First Street, representing the second largest lease in the fourth quarter. Okta offers a cloud-based, enterprise grade identity management service, and enables IT management of access across any application, person or device. Okta will displace Delta Dental, the original occupant and an anchor tenant at 100 First Street.

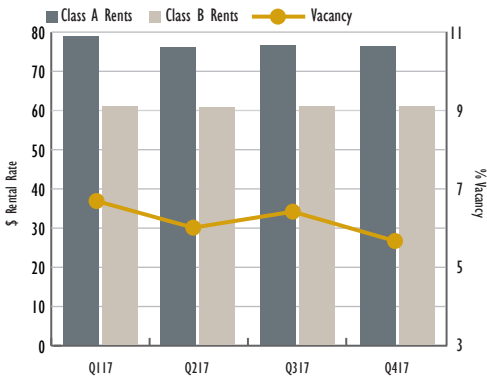
Delta Dental will move a portion of their facilities to Oakland and then spread the rest of their requirement throughout the state. This is a trend taking place amongst non-technology companies as rates in the City increase due to demand from tech users. Unfortunately moving to Oakland or an alternate suburban market is not always a solution as pricing in those markets is on the rise due to the flight from San Francisco. There are two additional constraints on markets outside of San Francisco. First: Much smaller market sizes. New tenants from outside the area are able to rapidly absorb the limited available space, causing the vacancy rate to drop, thereby pushing rental rates upward. Second: The transportation systems are not as robust as those in San Francisco, restricting an employer's ability to attract a broader section of the labor pool.



100 First Street

From a historical perspective, we have never seen any industry represent more than 12% of the office market. Today the technology sector represents over 45% of the lease commitments in the San Francisco market.

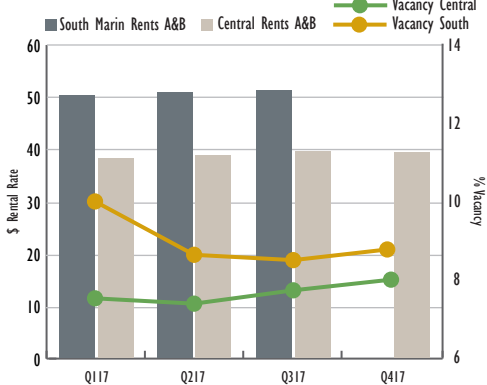
SAN FRANCISCO SOMA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	500,519	5.2%	162,803	1.70%	700,507	6.80%
Fin. Dist A	3,126,741	7.30%	353,562	.80%	3,480,303	8.10%
Fin Dist. B	987,048	7.90%	183,110	1.50%	1,170,158	9.40%
SOMA A	169,262	5.70%	113,189	3.80%	197,151	9.60%
SOMA B	281,245	2.8%	169,985	1.70%	451,230	4.50%

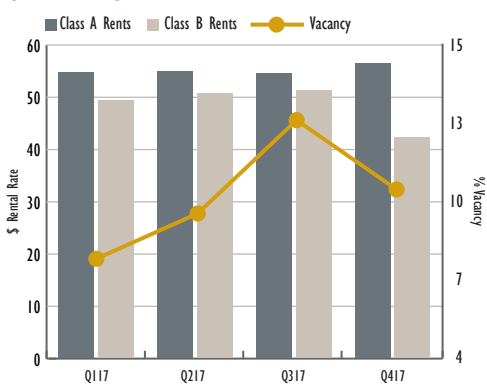
MARIN



Large Tenants in the Market

Tenant	Sq. Ft.
Google	400,000
Instacart	125,000
Pivotal Labs	125,000
Nixon Peabody	100,000
Asana	100,000
Mulesoft	80,000

OAKLAND CBD

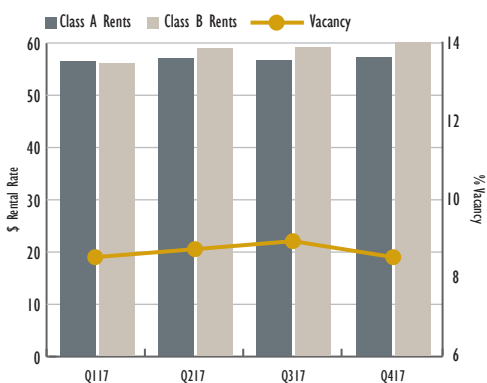


Significant Leases Completed in the Fourth Quarter

Tenant	Sq. Ft.	Address
Dropbox	736,550	1800 Owens Street
OKTA	207,000	100 First Street
Atlassian	127,000	350 Bush Street
San Francisco DA & Police	125,122	350 Rhode Island
Airbnb	82,852	600 Townsend Street
Postmates	57,530	201 Third Street
Anaplan	55,756	50 Hawthorne Street
Gensler	54,000	989 Market Street

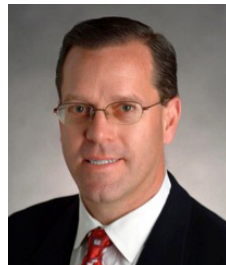
*Renewal **Sublease

PENINSULA



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.