

Q1 2018

Office Insight

Tech tenants fuel leasing momentum in San Francisco

- Leasing activity is strong, with just over 2.1 million square feet of office space leased in Q1 2018.
- Multiple large tenants are moving into preleased space, causing net absorption to rise.
- Despite being 96.4 percent preleased, Salesforce Tower is only partially occupied, causing total vacancy to tick up.

Leasing activity is maintaining momentum from last year, with three deals over 100,000 square feet signed in the first quarter. WeWork leased 251,000 square feet at 400 California, expanding their San Francisco presence to just over 1.0 million square feet of office space. Twitter renewed for 221,000 square feet at 1355 Market and StitchFix signed for 133,952 square feet at One Montgomery.

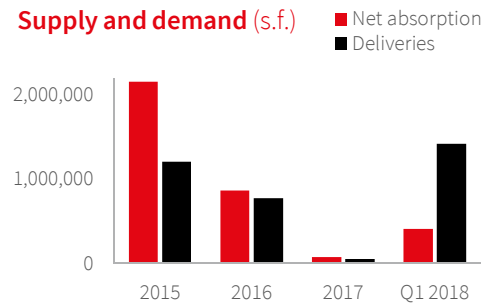
There was significant net absorption in the first quarter of 2018 as multiple large tenants occupied their preleased spaces, with Salesforce Tower being the largest contributor. Despite driving positive absorption, many of Salesforce Tower's tenants have yet to occupy, causing total vacancy to rise. The recently delivered development, which is 96.4-percent preleased, will drive absorption upward and allow vacancy to tighten up as its tenants begin to occupy their spaces throughout 2018 and early 2019.

San Francisco tenants value spaces with creative and flexible build-outs that are move-in ready, causing strong demand for both creative and plug-and-play spaces. Landlords are offering higher tenant improvement allowances for outdated spaces in an attempt to meet the needs of present-day tenants.

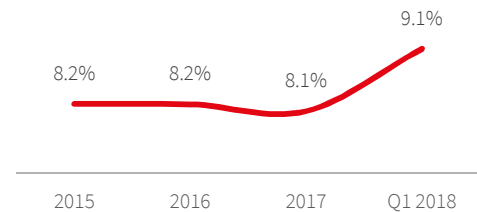
Outlook

There is currently 5.3 million square feet under construction in San Francisco. 3.2 million square feet is slated for delivery before year-end 2018, of which 76.5 percent is preleased. Absorption will rise and vacancy will tighten as new developments are occupied throughout 2018 and early 2019. Rents will increase as well as these availabilities possess some of the highest asking rates in San Francisco.

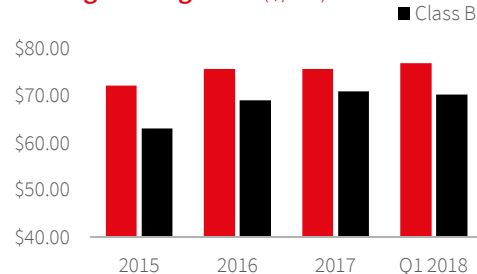
Fundamentals	Forecast
YTD net absorption	408,909 s.f. ▲
Under construction	5,263,942 s.f. ►
Total vacancy	9.1% ▼
Average asking rent (gross)	\$74.64 p.s.f. ▲
Concessions	Rising ▲



Total vacancy



Average asking rents (\$/s.f.)



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San Francisco

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Office Statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD Completions (s.f.)	Under Development (s.f.)
North Financial District	Totals	26,829,884	-214,142	-214,142	-0.8%	10.1%	11.9%	\$75.00	0	447,000
South Financial District	Totals	26,629,574	1,013,514	1,013,514	3.8%	8.5%	9.2%	\$77.43	1,420,081	2,233,500
CBD	Totals	53,459,458	799,372	799,372	1.5%	9.3%	10.6%	\$76.03	1,420,081	2,680,500
Jackson Square	Totals	1,285,705	-12,240	-12,240	-1.0%	5.8%	6.0%	\$64.18	0	0
Mid-Market	Totals	4,065,965	-73,604	-73,604	-1.8%	2.5%	3.5%	\$77.02	0	0
Mission Bay/China Basin	Totals	1,924,091	0	0	0.0%	2.5%	2.8%	\$84.11	0	1,765,678
North Waterfront	Totals	3,094,773	-49,221	-49,221	-1.6%	3.8%	5.3%	\$66.90	0	0
Showplace Square	Totals	2,727,360	8,190	8,190	0.3%	2.2%	4.5%	\$66.63	0	395,584
South of Market	Totals	5,884,234	-178,157	-178,157	-3.0%	5.7%	7.0%	\$75.49	0	422,180
Union Square	Totals	3,026,025	-13,664	-13,664	-0.5%	5.1%	5.9%	\$69.87	0	0
Van Ness Corridor	Totals	528,999	-71,767	-71,767	-13.6%	24.1%	24.5%	\$59.18	0	0
Non-CBD	Totals	22,537,152	-390,463	-390,463	-1.7%	4.5%	5.7%	\$69.81	0	2,583,442
San Francisco	Totals	75,996,610	408,909	408,909	0.5%	7.9%	9.1%	\$74.64	1,420,081	5,263,942
North Financial District	A	21,034,301	-44,968	-44,968	-0.2%	9.2%	10.9%	\$77.27	0	447,000
South Financial District	A	22,994,022	1,090,233	1,090,233	4.7%	8.0%	8.6%	\$77.35	1,420,081	2,233,500
CBD	A	44,028,323	1,045,265	1,045,265	2.4%	8.6%	9.7%	\$77.30	1,420,081	2,680,500
Jackson Square	A	382,055	-5,400	-5,400	-1.4%	5.9%	6.0%	\$64.27	0	0
Mid-Market	A	2,711,328	-60,425	-60,425	-2.2%	1.8%	3.1%	\$79.94	0	0
Mission Bay/China Basin	A	1,924,091	0	0	0.0%	2.5%	2.8%	\$84.11	0	1,765,678
North Waterfront	A	1,476,769	-19,512	-19,512	-1.3%	2.6%	3.7%	\$66.50	0	0
Showplace Square	A	1,375,357	15,159	15,159	1.1%	0.0%	0.0%	\$68.28	0	395,584
South of Market	A	1,809,364	-3,777	-3,777	-0.2%	5.5%	6.3%	\$75.63	0	422,180
Union Square	A	213,125	0	0	0.0%	4.5%	7.4%	\$76.00	0	0
Van Ness Corridor	A	120,000	-56,869	-56,869	-47.4%	4.8%	6.6%	\$60.91	0	0
Non-CBD	A	10,012,089	-130,824	-130,824	-1.3%	2.7%	3.5%	\$73.17	0	2,583,442
San Francisco	A	54,040,412	914,441	914,441	1.7%	7.5%	8.6%	\$76.91	1,420,081	5,263,942
North Financial District	B	5,470,348	-169,174	-169,174	-3.1%	14.2%	16.7%	\$69.00	0	0
South Financial District	B	3,378,917	-22,901	-22,901	-0.7%	10.9%	11.5%	\$77.34	0	0
CBD	B	8,849,265	-192,075	-192,075	-2.2%	12.9%	14.7%	\$71.53	0	0
Jackson Square	B	903,650	-6,840	-6,840	-0.8%	5.8%	6.0%	\$64.08	0	0
Mid-Market	B	1,159,866	-6,179	-6,179	-0.5%	2.7%	2.8%	\$72.28	0	0
North Waterfront	B	1,455,159	-29,709	-29,709	-2.0%	5.2%	7.2%	\$67.11	0	0
Showplace Square	B	1,242,550	-6,969	-6,969	-0.6%	4.9%	10.0%	\$66.93	0	0
South of Market	B	3,703,463	-168,075	-168,075	-4.5%	6.1%	7.4%	\$75.65	0	0
Union Square	B	2,452,741	-13,164	-13,164	-0.5%	5.9%	6.6%	\$69.55	0	0
Van Ness Corridor	B	408,999	-14,898	-14,898	-3.6%	29.7%	29.7%	\$59.10	0	0
Non-CBD	B	11,326,428	-245,834	-245,834	-2.2%	6.3%	7.7%	\$68.85	0	0
San Francisco	B	20,175,693	-437,909	-437,909	-2.2%	9.2%	10.8%	\$70.26	0	0
North Financial District	C	325,235	0	0	0.0%	2.3%	2.3%	\$53.46	0	0
South Financial District	C	256,635	-53,818	-53,818	-21.0%	23.2%	28.4%	\$80.09	0	0
CBD	C	581,870	-53,818	-53,818	-9.2%	11.5%	13.8%	\$76.50	0	0
Jackson Square	C	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
Mid-Market	C	194,771	-7,000	-7,000	-3.6%	11.6%	12.2%	\$62.01	0	0
North Waterfront	C	162,845	0	0	0.0%	2.0%	2.0%	\$55.00	0	0
Showplace Square	C	109,453	0	0	0.0%	0.0%	0.0%	\$54.00	0	0
South of Market	C	371,407	-6,305	-6,305	-1.7%	2.4%	5.3%	\$69.85	0	0
Union Square	C	360,159	-500	-500	-0.1%	0.6%	0.6%	\$64.00	0	0
Non-CBD	C	1,198,635	-13,805	-13,805	-1.2%	3.1%	4.1%	\$61.11	0	0
San Francisco	C	1,780,505	-67,623	-67,623	-3.8%	5.8%	7.3%	\$70.36	0	0