

San Francisco

Impact

Booming high-tech industry growth is creating strong demand for office space. Stiff competition between tenants for the best quality space is moving market rents toward pre-recession highs in some buildings. Companies involved in cloud computing, search, mobile, and social media ventures are the hottest players in the market today and landlords are chomping at the bit to get these firms in their buildings. The excitement has drifted into the capital markets space and investors are snapping up properties at rates last seen in 2007. The resurgence in tech is electrifying not only San Francisco, but the entire Bay Area.

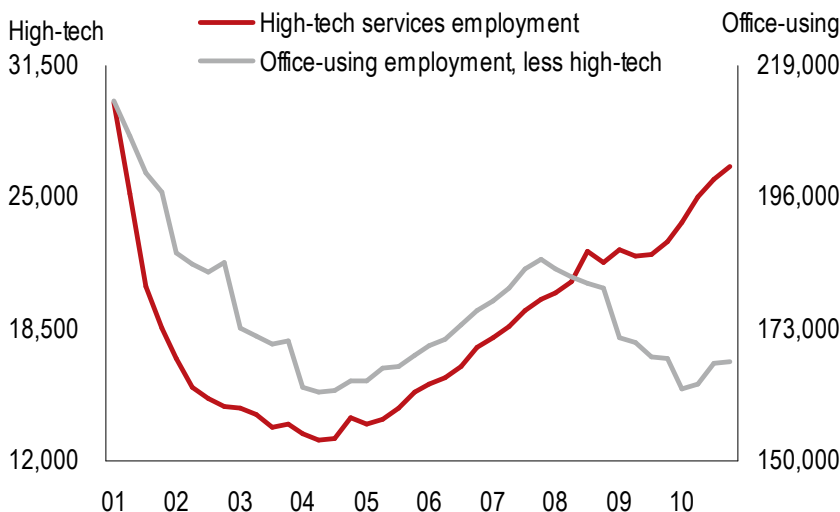
Overview

High-tech firms make up a disproportionate share of active requirements in the market, with roughly 90 firms seeking more than 2.5 million square feet combined. The South of Market (SOMA) submarket is the hottest high-tech office market and boasts the lowest vacancy rate citywide at just 6.9 percent. Few desirable spaces remain within SOMA and demand is overflowing to adjacent submarkets that typically cater to financial and legal firms. In those submarkets landlords are courting high-tech companies in a number of ways, including remodeling offices into “cool-creative” space that incorporates exposed-beam ceilings, original brick surfaces, and open work areas, as well as offering free rent and attractive tenant improvement packages now that rents are 25 percent above 2009 lows. A shift in market dynamics is resulting in landlords and tenants brokering deals more quickly, particularly start-ups. Mature high-tech firms continue to negotiate along traditional timelines, although market energy is creating a sense of urgency not prevalent 18 months ago. Because of stiff competition on both sides of the table, tenants and landlords are acting quickly to secure the best deals. High-tech is making a strong comeback, uplifting the local economy as well as the office market.

Outlook

As the high-tech industry matures and company growth stabilizes, SOMA should continue to serve as the premier tech cluster for the San Francisco office market, and contribute to growth in other submarkets. Sustained demand for office space could prompt speculative development in future quarters. Several redevelopment projects already underway will solidify SOMA's top position in the San Francisco office landscape.

San Francisco high-technology services employment



Players: top high-tech firms By real estate footprint



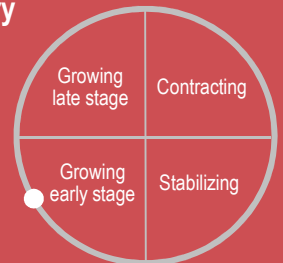
Salesforce.com
Dolby Laboratories
Zynga
Adobe
Google

Position



High-tech industry

Economic cycle clock



Office property

Market cycle clock



Scorecard







Economic		rank
High-tech jobs / annual growth	27,736 / 15.7%	16/1
Percent of total jobs	6.0%	8
Number of firms	1,503	16
Venture capital funding (past 4 quarters)	\$2,044.1 M	3
Share of U.S. total	8.3%	
College education	51.1%	2
Diversity (non-white / foreign born)	43.4% / 34.4%	4/4
Office		
Cost (average asking rent)	\$40.06	2
Annual growth	18.5%	1
Supply (vacancy rate)	16.2%	7
Demand (net absorption sf / %)	1,221,751 sf / 1.7%	7 / 7
High-tech concentration (high-tech services vs. office jobs)	13.7%	5

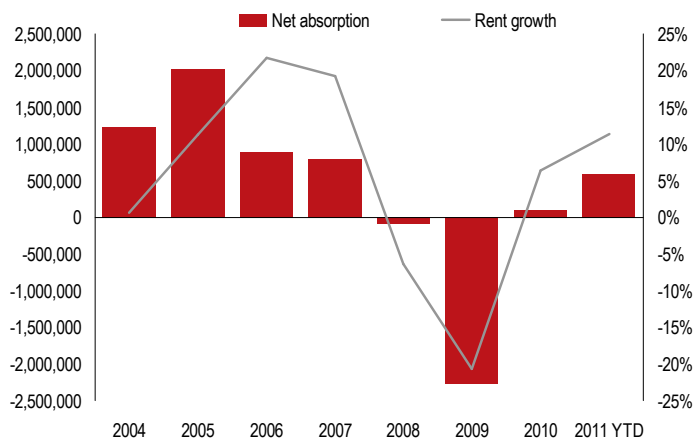
San Francisco



Recent lease activity

			
Zynga 650 Townsend Street 346,000 sf	Twitter 1355 Market Street 200,000 sf	DropBox 185 Berry Street 88,000 sf	Aliph 99 Rhode Island Street 60,000 sf

Net absorption vs. rent growth



Top headlines

San Francisco

City officials hopeful that tech companies will revitalize newly designated incentive areas in Central Market Corridor and the Tenderloin

Salesforce.com purchases 14 acres in Mission Bay with entitlements for 2 million square feet of buildable space

Tech activity not sign of tech boom, but a new direction in the economy

High-tech industry focused office incubators mushroom to meet start-up demand

Top San Francisco high-technology firms by real estate footprint

Alphabetical order:

1. Adobe
2. Advent Software
3. Aliph
4. Ancestry.com
5. Autodesk
6. CBS Interactive
7. Dolby
8. Dropbox
9. eBay
10. Expedia
11. Google
12. Hewlett Packard
13. Macys.com
14. Microsoft
15. Oracle
16. Riverbed
17. Salesforce.com
18. Sega
19. Symantec
20. Twitter
21. Ubisoft
22. Visa
23. Yahoo!
24. Yelp
25. Zynga

