MEMORANDUM

October 8, 2024

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Gail Gilman, Vice President
Hon. Willie Adams
Hon. Stephen Engblom
Hon. Steven Lee

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational presentation to consider and possible action to approve Lease No. L-17224 with JPPF Waterfront Plaza, L.P. for the Waterfront Plaza Office Complex located on Seawall Lots 315, 316, and 317 between Chestnut and Bay Streets at The Embarcadero (the "Lease") for a term of 57 years and forward the Lease to the Board of Supervisors for its approval.

Director's Recommendation: Approve the Attached Resolution No. 24-50

EXECUTIVE SUMMARY

In 1974, the Port Commission approved a 66-year lease (the "Existing Lease") for Francisco Bay Office Park, L. P. ("FBOP") to lease and develop three Seawall Lots, ("SWL") 315, SWL 316, and SWL 317 (collectively, the "Site"). The Site is shown on the attached **Exhibit A**, the **Site Map**. Thereafter, FBOP improved the Site with (i) two four-story office buildings with approximately 279,194 square feet floor area, (ii) a stand-alone restaurant building, and along with (iii) a 5-story parking garage structure on the adjacent land parcel named the Santa Fe parcel, which FBOP owned. This development is named the Waterfront Plaza Office Complex and is located between Chestnut and Bay Streets at The Embarcadero.

In 2014, JPPF Waterfront Plaza, L. P., a Delaware limited partnership ("Jamestown" or the "Tenant") bought the Lease leasehold interest (the "Asset"), as well as the adjacent fee land parcel, and it is the current Tenant under the Existing Lease. Tenant is current in rent payments to Port and is a tenant in "good standing" with the Port.

In July 2023, the Tenant apprised the Port of the COVID-19 pandemic-induced challenges it was facing, including high vacancy, reduced revenues, and cashflows that were insufficient to sustain payment at the current level of its operating expenses, debt service, and base rent to Port. On the verge of default, and unable to restructure the loan or invest further in the assets to support leasing without a ground lease term to establish underlying value, the Tenant has requested changes to the current Ground Lease terms. These changes include a reduction in base rent to a level that is sustainable and reflects a "market reset" in line with value and an extension of the lease term to aid refinancing and allow significant re-investment to stabilize and sustain the asset as a Class A office offering.

Port staff has reviewed Tenant's request, considered evidence of office market deterioration from real estate office market reports, and engaged Century Urban, a real estate economic consultant ("CU"), to assist with the review. Port staff and CU reviewed Tenant's current portfolio of properties in San Francisco, its office management capabilities, and the likelihood of refinancing and concluded that this extension and modification is necessary and appropriate to allow Tenant to maintain control of the asset and a path to stabilization over the near-term.

The terms of the old and new leases are summarized and compared in the table below:

Ground Lease Term Comparison
Waterfront Plaza

	Lease Key Financial Terms	Current Port- Jamestown Lease Terms	Summary of Proposed Terms
1.	**Lease Term**	June 28, 1974 to June 27, 2040 16 years remaining in Lease Term	(41 + 16) or 57 Years
2.	**Initial Base Rent**	Current Annual Rent: $2,895M	**Lease years 1 to 5**: $1M/year. **Lease years 6 to 10:** The <u>great of</u>: (a) $1.25M/year or (b) 6.5% of the annual gross revenue.
3.	**Percentage Rent**	None	6.5% of the annual gross revenue, pay whichever is greater.
4.	**Base Rent Resets -**	Base Rent Resets every 10 years; the greater of 6.987% of gross revenue or 9% of appraised land value	Base Rent every 10th Year: Greater of: (a) **85%** of average annual Total Rent paid or payable during the preceding 3 years or (b) the previous year Total Rent escalated by CPI
5.	**Escalation after 10th year Base Reset**	None	Escalate Base Rent every 5-year at a cumulative CPI after each 10th rent reset.
6.	Participate in Upside	None	Participate at 0.5% of gross sale or transfer proceeds, and net refinancing proceeds, excluding the first refinance.
7.	**Use of Forgone Future Rent**	Not Applicable	Invest within 10 years of the new lease the forgone future rent estimated at $9.45M for physical improvements to this Asset or pay Port the unspent balance of the forgone future rent at the end of this 10-year period.
8.	**Improvements**	None	Invest to sustain the asset at a Class A standard, reflected in 5-year capital plan.
9.	**Public Benefits**	None	Collaborate on resources/strategies to aid Port's economic recovery efforts for the Northern Waterfront.

Port staff briefed the Port Commission in a closed session on February 27, 2024, about Tenant's request and received directions to negotiate the necessary revisions to lease terms. Current terms are aligned with the original outline of business terms presented in that discussion. Port staff recommends Port Commission approval of the proposed lease to aid in refinancing this Asset and to authorize Port staff to seek the Board of Supervisors' approval of the lease. The remainder of this staff report provides additional background information, and discusses, and analyzes the proposed lease terms.

STRATEGIC PLAN ALIGNMENT

The Asset, under the new lease, is expected to help to achieve the following goals of the Port's Strategic Plan.

<u>Economic Growth:</u>
Enable new capital investment in this office complex to increase its marketability and attract and retain high-credit tenants enabling this Asset to increase its contribution to the economic vitality of its location and the greater Northern Waterfront area.

<u>Resilience:</u>
Help advance the waterfront resilience program as it would provide an opportunity to explore a public-private partnership to address resilience-related issues that apply to this commercial real estate complex.

<u>Engagement:</u>
Promote Port-co-sponsored events to engage the broader community by working with Tenant who plans to utilize its multiple social media channels to aid Port's community engagement efforts.

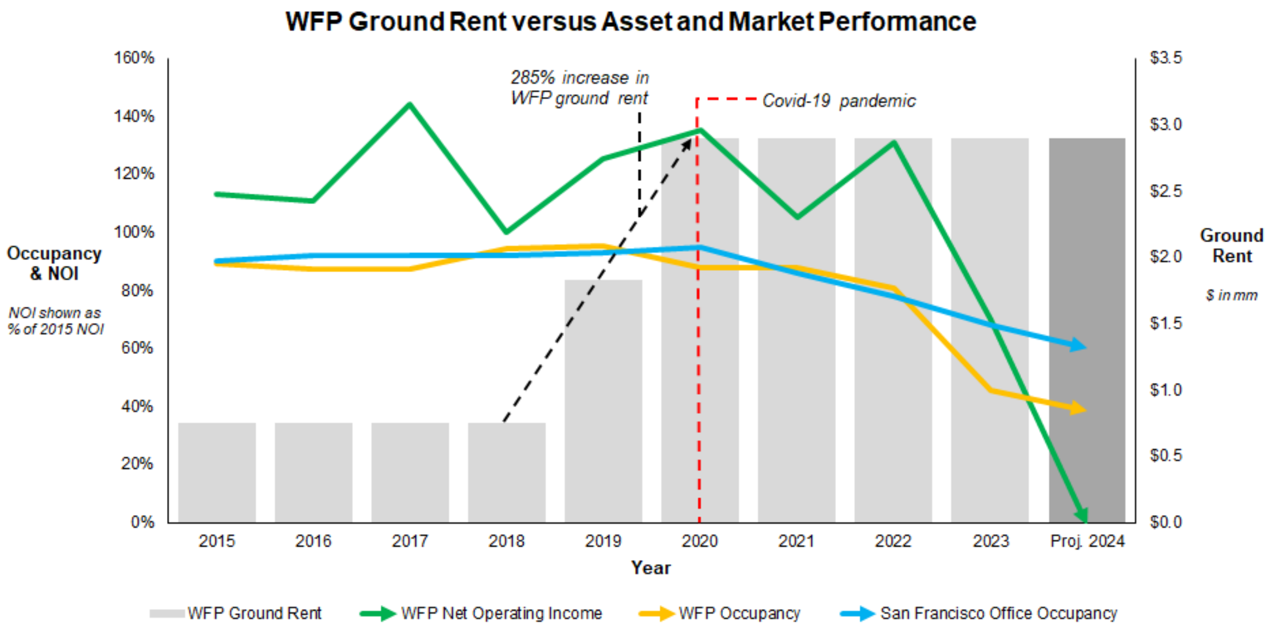
BACKGROUND

On June 26, 1974, the Port Commission approved the Existing Lease for FBOP to lease and develop the Site. In 1976, the FBOP completed the construction of the Waterfront Plaza on the Site.

<u>Current Master Tenant and Leasehold Interest Ownership:</u>
In 1998, FBOP and its investment partners transferred their leasehold ownership interest to another entity and the leasehold ownership interest has since been transferred multiple times. Tenant bought the leasehold interest in August 2014. Thereafter, it initiated strategic investments that modernized this Asset which have resulted in elevating its status and appeal in the marketplace as evidenced by increased occupancy through 2019. Tenant has been and continues to be current and perform in its obligations to Port under the Existing Lease.

In June 2019, the annual base rent under the Existing Lease was increased from $751,500 to $2,890,000 – ***a 285% increase -*** based on the updated appraised market value of the Site in 2019. 2019 is considered the very peak of the recent commercial real estate market cycle. This cycle is currently in the downturn phase precipitated by the COVID pandemic, inflation, and high interest rates. The current office market conditions, low occupancy, and lower rental rates make the recently increased base rent out of phase and unsustainable. At this Asset, change in NOI from peak is minus 90%, change in occupancy from peak is minus 53%, and the change in average contract rent is minus 17%.

The diagram below shows the trend in occupancy, NOI, and ground rent for this Asset over the past nine years.



A summary of challenges facing the office market and impacting the viability of this asset are included in “Exhibit “B” to this Staff Report.

STAFF ANALYSIS

Port staff analysis covers the current Asset status, alternative paths forward considered for the Port, the preferred path forward to stabilize this Asset, and its benefits to Port and Tenant.

<u>Current Asset Status:</u>
The current lease will expire in June 2040; thus, Tenant has about 16 years remaining. A ground lease that is about to expire is unfinanceable. The short-term lease status, reduced revenue from low occupancy, the high base rent, and diminished net operating income or “NOI,” have limited the ability to refinance this Asset. Currently, Tenant is working with its lender to refinance the loan. It has also indicated, and Port staff has verified, that it has a short-term loan extension negotiated to avoid a loan default, pending Port’s approval of a new lease.

Alternative Paths Considered:
Port staff and CU considered and analyzed three different paths forward for Port regarding this Asset: (A) maintain status quo or (B) lender takes over in foreclosure, or (C) grant a new lease with the proposed terms as follows:

(A) Maintain Statue Quo:
Tenant may start deferring maintenance and repairs to conserve available cashflow and seek other options prior to the lender taking over the Asset. With limited access to capital, funding TI for new leases and occupancy is challenged, which exacerbates the issues. Tenant most likely will be unable to refinance the existing loan and may stop paying its lender. The Asset being a leasehold with limited terms, a sale or transfer of the interest to another capable and well-capitalized operator is unlikely. Ultimately, it is likely the Asset goes into foreclosure.

(B) Lender Forecloses:
The lender or receiver steps in and takes over. Rent payments to Port may be impacted while the Asset is transitioning to the lender or its trustee. The lender would charge the trustee to either manage this Asset, find a buyer, or sell the loan. Maintenance and repair of this Asset may be impacted with no means of investment during this period. Whoever is in control will most likely request a new lease extension with rent reduction given that the office market is still in recovery and the asset is non-viable. Ultimately reaching the same conclusion of a “reset” of the lease.

If the lender/receiver defaults for failure to make rent payments to Port, Port may initiate legal action to take the property back. If the current lease is terminated, Port may have to exercise the option to purchase the Santa Fe Parcel at fair market value or demolish the portion of the building on SWL 315 that Port will now own that is encroaching on the Santa Fe Parcel. Without further investment in this Asset, occupancy and revenue flow to Port may be impacted.

(C) Port Grants a Lease Extension:
Port staff and CU have reviewed the office market conditions, the profile of the Asset, and Tenant’s wherewithal. Tenant is a significant property owner and a critical Port partner in the economic recovery and success of the North Waterfront, owning over 1.3MSF of office and retail space in the area (35% of the submarket), including Levi’s Plaza. The best path forward is for Port to work with Tenant as it is ready to stabilize this Asset with its 5-year action plan that includes the following (as shared by Tenant):

. *Potential Investments:*

- Improvement to durability/cost impact of core infrastructure as current useful life expires (roof, windows, HVAC, electrical, fire/life/safety, low-water landscaping).
- Operating expense reduction through sustainability improvements (as done via solar/EV charging/DDC at the Tenant’s other properties.
- Modernizing lighting and design of interior corridors, common areas/restrooms.

- Proactively building out “spec suites” to meet market in tenant demand for “plug and play” space. The Tenant will stage these suites from its furniture library and add a ground-floor tenant lounge.

- Dedication of indoor and outdoor space to community organizations, artists, arts/culture groups, etc.

- Add additional services beyond daycare to WFP ground floor, such as dog daycare, concierge medical and dental, etc.

Potential Leasing Tactics:

- Multi-pronged leasing strategy focused on a variety of tenant sizes, including sub-5,000 SF to address FIRE and smaller private equity/venture capital firms (Letterman spillover), and larger than 20,000 SF to capture tech, especially AI.

- Aggressive, market-leading tenant improvement allowances, leasing commissions, and broker engagements to attract larger opportunities (such as at Levi’s Plaza).

- Manage existing tenant roll to stagger expirations, retain cash flow, and refresh older occupied spaces while providing a diverse offering of suite types/sizes for new customers.

- Increased WFP tenant access to amenities and programs at JT-owned Levi’s Plaza and Ghirardelli Square, including free concert series, free Bay Club classes, free commuter shuttle, discounts from partner vendors, access to Levi’s Plaza roof deck and JT-hosted parties, etc.

The Path Recommended and Benefits:

The path recommended is expected to protect Port’s economic interest, including maintaining revenue generation and aiding its economic recovery efforts. Considering the current circumstances, the proposed deal terms will enable refinance and thus places the Port in the best possible position and are supported by the following rationales:

- 57-year term: Port’s economic consultant advises that current lenders’ requirements indicate that a term less than what is proposed would not be financeable under the current economic conditions.

- The rent reduction is justifiable given the reduced revenue the subject asset is experiencing, not for lack of Tenant’s ability, but for the COVID-19-induced challenge stated earlier. The rent will still be 25% higher than the 2017 level.

- The lease terms will provide steady, ongoing, uninterrupted rental revenues to Port, essentially, a secured income stream, no longer subject to surprises from market re-appraisals. There is too much uncertainty about rental payments to Port under a foreclosure scenario.

- Base Rent Reset, percentage rent, and participation in the Asset's upsides are intended to help the Port receive increased rent while also allowing the Tenant to obtain refinancing to help stabilize this Asset.

- The public benefits provisions in the lease will aid the Port's economic recovery efforts for the Northern Waterfront by providing an opportunity where the Tenant can make its creative/marketing team available to collaborate with Port in the activation of prioritized nodes in the Northern Waterfront as the Tenant's portfolio includes the Levi's Plaza, Fog City restaurant, the Ghirardelli Square, and the Waterfront Plaza.

- The Tenant's 5-year capital investment plan for this Asset includes an investment of some $34M for TIs, building infrastructure improvements, sustainability upgrades, and common area and amenity upgrades – all are physical improvements.

- In addition to the $34M, to facilitate a loan extension, the Tenant is expected to provide additional funding for a loan paydown and the operating reserves. The ground lease security deposit will be increased from $7,500 to $166,890, and costs associated with the negotiation of the transaction, possible transfer tax, leasing commissions, legal fees, etc. will be funded by Tenant.

BENEFIT TO THE PUBLIC TRUST

The proposed New Lease furthers and supports the public trust and the Burton Act because it provides numerous public benefits to the public trust:

- When the Port Commission passed Resolution 74-6 approving the Prior Lease, it also found that: (a) the Site was no longer in use for commerce, navigation, and fisheries and would not be required for such uses; and (b) general commercial office space and related uses would be in the public interest. The 1974 Findings still apply today.

- Waterfront Plaza, as constructed and as it exists today, provides public trust benefits to the Port in addition to the commercial office and retail uses which generate revenues for the Port's Harbor Fund. Public trust uses occupy approximately 63% of the Site's footprint, including an approximately 100,000 square foot publicly accessible landscaped plaza and a popular 7,400 square foot restaurant serving the public. These public trust uses are located directly across from the Alcatraz ferry landing, activate the western/land side of The Embarcadero, and provide public views of the Port's historic maritime resources on the waterside of The Embarcadero.

- The New Lease will continue to provide the foregoing public trust benefits. Additionally, Tenant is responsible under the New Lease to maintain the Site and its improvements and is liable for claims arising from the Site, thus reducing Port's liabilities and freeing up Harbor Fund revenues to advance other public trust purposes.

NEXT STEPS

If the Port Commission takes the actions requested in this Staff Report, Port staff will proceed to seek approval of the termination of the Existing Lease and the approval of the New Lease by the Board of Supervisors.

CONCLUSION

Port staff recommends that the Port Commission adopt the attached Resolution approving Lease No. L -17224 and authorize the Executive Director and Port staff to seek approval of termination of the Existing Lease and the approval of the New Lease from the Board of Supervisors.

Prepared by:	Ricky Tijani, Development Project Manager
For:	Scott Landsittel, Deputy Director Real Estate and Development

Attachments: Exhibit A - Site Map
Exhibit B - Office Market Summary and Statistics

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 24-50

WHEREAS, Chapter 1333 of the Statutes of 1968, as amended (the "**Burton Act**") and Charter Section B3.581 empower the Port Commission with the authority and duty to use, conduct, operate, maintain, manage, regulate, and control the lands within Port jurisdiction; and

WHEREAS, Section 3(6) of the Burton Act provides that the Port Commission may enter into leases for up to 66 years for lands not required for commerce and navigation if it finds that such lease "to be in the public interest, with monies derived therefrom to be used by the commission" in the furtherance of commerce and navigation, and the purposes specified by the Burton Act (collectively, the "**Public Trust**"); and

WHEREAS, Seawall lots 315, 316, and 317 (collectively, the "**Site**") are within Port's jurisdiction and are generally located between Chestnut and Bay Streets, on the "landside", or west of, The Embarcadero; and

WHEREAS, In 1974, the Port Commission passed Resolution 74-6 in which it found that: (a) the Site was no longer in use for commerce, navigation, and fisheries and would not be required for such uses; and (b) general commercial office space and related uses would be in the public interest (the "**1974 Findings**"), and in reliance on the 1974 Findings, the Port approved and entered into a 66-year Lease No. L. 8618 (the "**Existing Lease**") with Francisco Bay Office Park, a Limited Partnership ("**FBOP**"), which Existing Lease required the tenant thereunder to develop the Site as a general commercial office project consistent with the office park plans attached to the Prior Lease; and

WHEREAS, In 1976, FBOP improved the Site with two (2) office buildings, a single-story restaurant building, and landscaped open spaces around the buildings, which together are commonly known as the "**Waterfront Plaza**"; and

WHEREAS, Waterfront Plaza, as constructed and as it exists today, provides Public Trust benefits to the Port in addition to the commercial office and retail uses which generate revenues for the Port's Harbor Fund, through Public Trust uses that occupy approximately 63% of the Site, including an approximately 100,000 square foot publicly-accessible landscaped plaza and a popular 7,400 square foot restaurant serving the public, and these Public Trust uses, which are located directly across from the Alcatraz ferry landing, activate the western/land side of the Embarcadero and provide public views to the Port's historic maritime resources on the waterside of the Embarcadero; and

WHEREAS, The existing uses on the Site are consistent with the Port of San Francisco Waterfront Plan (the "**WLUP**") that determined that the northeastern seawall lots, including the Site, are not best suited for maritime and water-dependent uses but can generate significant revenue and public financing capacity for Port improvements, including waterfront parks and public access, and rehabilitation of historic piers and as such, acceptable uses under the WLUP for the Site include general office, public access, retail (including food and beverage), which uses are present at Waterfront Plaza, with the majority of the Site's footprint being devoted to public access and retail (food and beverage) uses; and

WHEREAS, In August 2014, JPPF Waterfront Plaza, L. P. (the "**Tenant**") purchased the leasehold interest in the Existing Lease along with the fee interest in the adjacent Santa Fe Parcel which parcel includes a parking garage; and

WHEREAS, In 2019, in accordance with the terms of the Existing Lease, annual base rent was increased from $750,000 to $2,890,000, a 289% increase; and

WHEREAS, In July 2023, the Tenant (i) notified the Port that it was continuing to grapple with COVID-19-induced challenges such as high vacancy resulting in reduced revenues and cashflows insufficient to pay the current level of its operating expenses, debt service, and base rent to Port on an ongoing basis and (ii) proposed addressing these challenges by refinancing its existing loan, recapitalizing and repositioning Waterfront Plaza by upgrading its amenities, infrastructure and sustainability systems; and funding marketing/tenant incentives to boost occupancy, and (iii) requested changes to the Existing Lease terms such as reducing the base rent to a level that is sustainable under its reduced cashflows while the office market recovers and extending the lease term to aid refinancing; and

WHEREAS, Port staff and its real estate economic consultant Century Urban, have (i) reviewed (1) Tenant's request, (2) evidence of office market deterioration from real estate office market reports, (3) Tenant's current portfolio of properties in San Francisco, (4) Tenant's financial and office management capabilities, and (5) the likelihood of refinancing Tenant's leasehold estate and repositioning Waterfront Plaza and (ii) concluded that Tenant is likely to succeed in stabilizing Waterfront Plaza based on the assumptions discussed in the Memorandum to the Port Commission accompanying this Resolution; and

WHEREAS, Port staff and Tenant have negotiated terms of a new 57-year lease (the "**New Lease**") for the Site that includes, among other terms: (1) an annual minimum base rent of $1 million for lease years 1 to 5, with base rent increases and adjustments as further described in the Memorandum to the Port Commission accompanying this Resolution, (2) Port participation in 0.5% of gross sale/transfer and 0.5% of refinancing proceeds, excluding the first refinancing, (3) an obligation by Tenant to invest rent savings and additional funds to improve Waterfront Plaza to attract new tenants, (4) a Port option to purchase/lease the Santa Fe Parcel at the expiration or termination of the lease term as set forth in the Existing Lease will be carried over into the New

Lease, and (5) such other terms described in the Memorandum to the Port Commission accompanying this Resolution; and

WHEREAS, In addition to its obligations under the New Lease, Tenant has further agreed to use its resources to aid the Port's economic recovery initiatives in the Northern Waterfront; and

WHEREAS, The New Lease will not change the existing site plan or uses on the Site, including the existing Public Trust uses, but reserves to the Port a right to approve material changes to the existing site plan for consistency with the WLUP and applicable laws and adverse impacts to the Public Trust; and

WHEREAS, Revenues to Port from the New Lease will be deposited into the Harbor Fund and used to further Public Trust purposes, and the New Lease will facilitate capital reinvestment by the Tenant into a Port asset and reduce Port's maintenance costs and liabilities related to the Site; and

WHEREAS, Pursuant to Charter Section 9.118(c), in order for the Port to terminate the Existing Lease and enter into the New Lease, Board of Supervisors approval is required, and

WHEREAS, For the reasons described in the Memorandum to the Port Commission accompanying this Resolution, Port staff recommends that the Port Commission approve terminating the Existing Lease and entering into the New Lease substantially in the form on file with the Port Commission Secretary; now, therefore, be it

RESOLVED, That the Port Commission reaffirms the 1974 Findings; and be it further

RESOLVED, That the Port Commission finds as follows:

1. Use of the Site for general commercial office use and other commercial uses consistent with the Waterfront Land Use Plan, as amended from time to time, and in accordance with the terms of the New Lease, will not interfere with any Public Trust use or purpose anticipated to occur over the term of the New Lease, and such portion of the Site occupied by such general commercial office uses and other non-trust commercial uses are not required for any Public Trust purposes;

2. Terminating the Prior Lease and entering into the New Lease with Tenant for the permitted uses, economic terms, and other material terms described in the Memorandum to the Port Commission accompanying this Resolution and substantially in the form of New Lease on file with the Port Commission Secretary, is in the public interest, and is therefore consistent with the requirements of, and within the authorization provided by, Section 3(6) of the Burton Act and San Francisco Charter Section B3.581; and

3. The monies derived from the New Lease shall be used by the Port Commission in furtherance of Public Trust purposes; and be it further

RESOLVED, That Port Commission supports Tenant’s use of its resources to aid the Port’s economic recovery initiatives in the Northern Waterfront; and be it further

RESOLVED, That the San Francisco Port Commission hereby authorizes the Executive Director, or her designee, to forward the termination of the Existing Lease and form of New Lease for Board of Supervisors' approval and, provided the Board of Supervisors approves the termination of the Existing Lease and the form of the New Lease, authorizes the Executive Director or her designee to terminate the Existing Lease and execute the New Lease with JPPF Waterfront Plaza, L. P., a Delaware limited partnership, on terms described in the Memorandum to the Port Commission accompanying this Resolution and substantially in the form on file with the Port Commission Secretary; and be it further

RESOLVED, That the Port Commission authorizes the Executive Director or her designee to take all actions delegated to the Executive Director in the New Lease and to enter into any additions, amendments, or other modifications to the New Lease that the Executive Director, in consultation with the City Attorney, determines are in the best interest of the Port, do not materially increase the obligations or liabilities of the City or Port or materially decrease the benefits to the City or Port, and are necessary or advisable to complete the actions which the New Lease contemplates and effectuate the purpose and intent of this Resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director or her designee of any such additions, amendments or modifications.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of October 8, 2024.

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Secretary

EXHIBIT A
Site Map

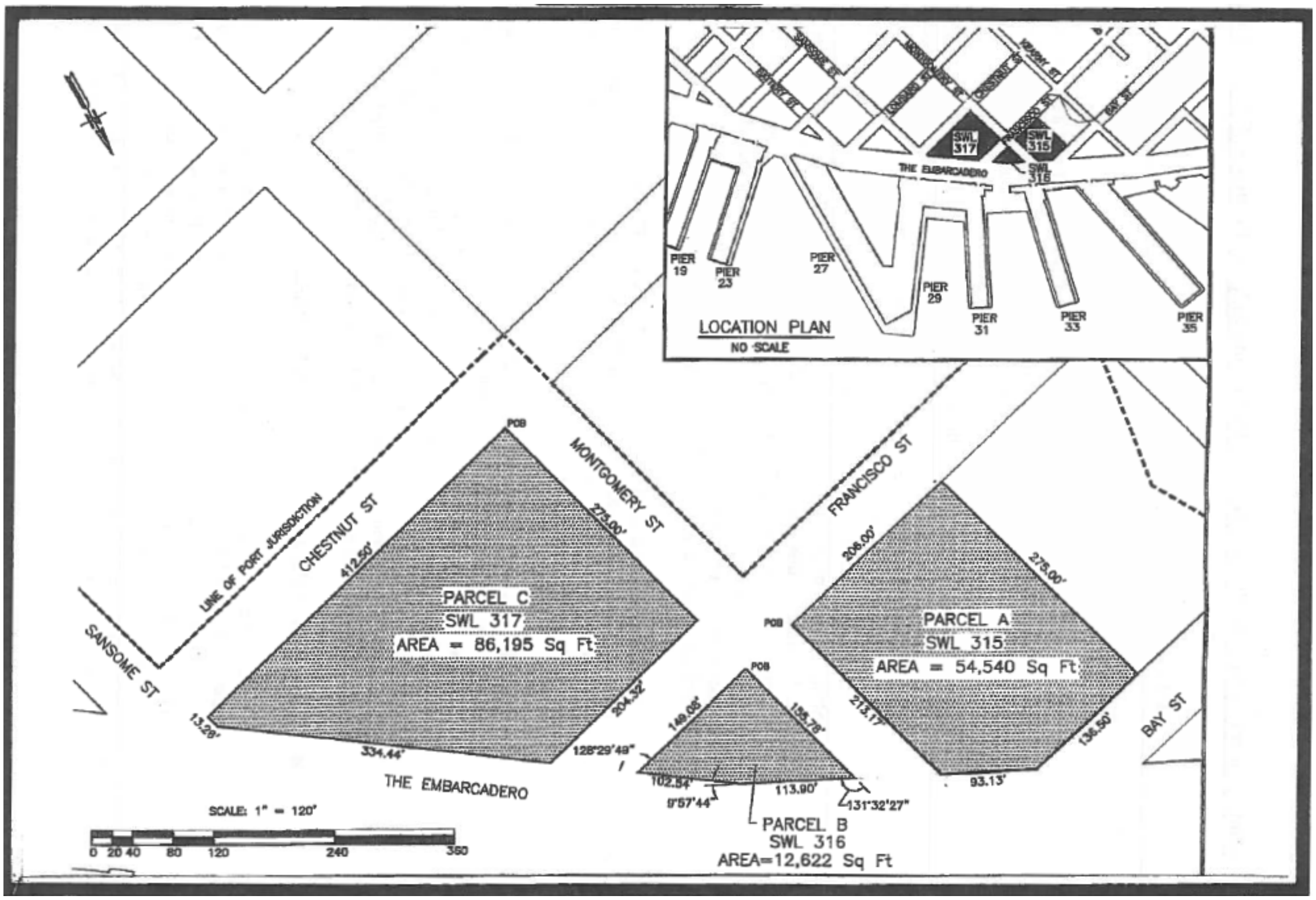


EXHIBIT B
Office Market Summary and Statistics

COVID-19 pandemic impacts have led to reduced office occupancy because many employers have reduced their need for larger office spaces given the reduced number of employees that are working in the office or under a hybrid office work plan.

Recent reports from commercial real estate brokers[1,2,3] and the Office of the City of San Francisco Controller's July *2024 Status of the San Francisco Economy*[4] indicate that San Francisco is continuing to face a high office vacancy rate now reported at about 34% as of June 2024. As such, office rents have declined leading to lower revenues, thus, some office landlords are having trouble servicing existing loans or finding refinancing. Compounding these challenges are pulled back by lenders to finance certain office properties, and the few that want to lend are demanding very high interest rates and loan stringent underwriting requirements, and thus some office properties have experienced reduced market value or have given back to lenders. On the next page are excerpts from Jones Land LaSalle's 2nd Quarter Report for 2024 on San Francisco Office leasing.

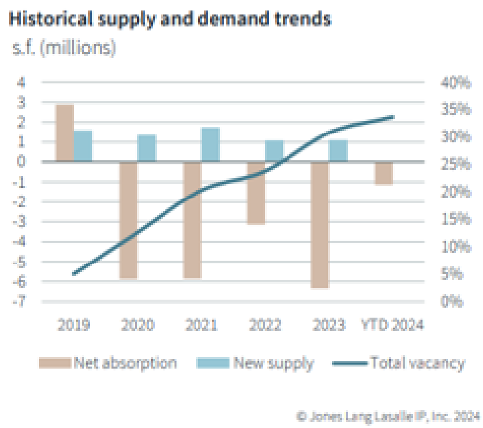
[1] https://www.avisonyoung.us/documents/d/us/q2-2024-us-office-report

[2] https://mktgdocs.cbre.com/2299/82412fe5-c8da-4f87-adf1-258c8c3fadd7-130085025/v032024/san-francisco-office-figures-q2-2024.pdf

[3] https://www.us.jll.com/content/dam/jll-com/documents/pdf/research/americas/us/q2-2024-office-market-dynamics/jll-us-office-market-dynamics-q2-2024-san-francisco.pdf

[4] https://www.sf.gov/sites/default/files/2024-08/Status%20of%20the%20San%20Francisco%20Economy%20July%202024.final_.pdf

Fundamentals		Forecast
YTD net absorption	-1,414,203 s.f.	↓
Total vacancy	33.7%	↑
Class A direct asking rent	$77.09 p.s.f.	↓
Overall direct asking rent	$73.40 p.s.f.	↓
Concessions	Flat	→
Under construction	0 s.f.	→
Preleased	0%	→

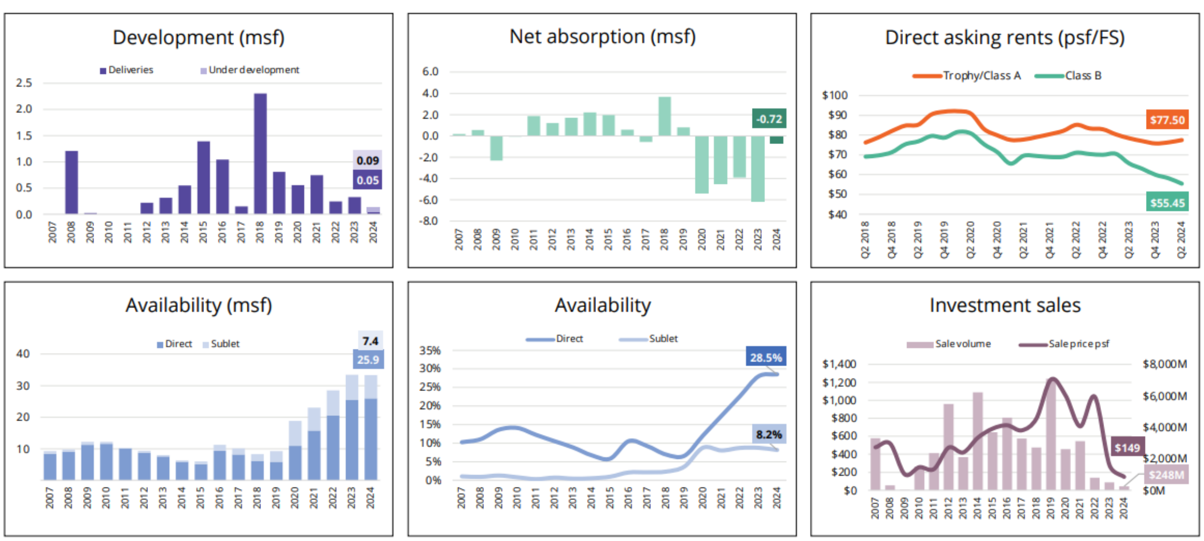


Jones Lang LaSalle, IP, (JLL) latest quarterly SF office report for March-June 2024 indicated the following:

- Vacancy continued to trend up, now at 33.7%
- Leasing activities are picking up, but demand remains weak
- Average effective rent for Trophy assets at $90/sf
- Average effective rent for Clase B and C at $50/sf
- Office employment exceeds 2019 level,

Below is an excerpt from the San Francisco Market Report, Q2 2024, by Avison Young. This excerpt provides a snapshot of the key SF office supply and demand variables – Supply: Development and Availability; and Demand, represented by Net Absorption, Vacancy, Direct Asking Rents, and Investment Sales.

San Francisco office market indicators



page 20 San Francisco office insights | Q2 2024 Source: AVANT by Avison Young, CoStar

AVANT by AVISON YOUNG