

Q1
2009

TRI Commercial SAN FRANCISCO TRENDS

OFFICE MARKET REPORT

1st Quarter 2009

San Francisco Market Overview

OFFICES

MARKET OVERVIEW

San Francisco
415.268.2200

Oakland
510.622.8400

Walnut Creek
925.296.3300

Roseville
916.677.8000

2009 started with a resounding thud as a substantial amount of sublease office space opportunities came onto the market, another indicator of continued turbulent economic times. Businesses are digging deep and cutting expenses in order to survive. As of the first quarter of 2009, over 920,644 square feet of vacant sublease office space is on the market in San Francisco's Central Business District (CBD), a 43 percent increase from the 660,000 square feet at the beginning of 2008. The 1st Quarter total citywide* vacancy rate stands at 12.2 percent and "direct" citywide vacancy rate is at 11.1 percent. The "direct" asking rate for Class A office space is down 7 percent from \$42.57 per square foot to \$39.28 in the first quarter alone. Class B "direct" asking rates are also slightly down 4 percent, from an average \$32.12 per square foot to \$30.72 per square foot.

Our economy is trying to find its center and determine its direction, as the effect of the financial crisis touches the lives of those on Wall Street and Main Street. Many businesses are experiencing the domino effect of the crisis, which started with the subprime market failure and subsequent financial market turmoil. This also has affected several highly regarded national retailers such as the Virgin Megastore, Circuit City, and Linens 'n Things, all of which have closed their doors in the last year. In addition to store closures, many retailers have initiated significant budget cutbacks in order to stay open through 2009. Corporate offices of large national chains have also seen a reduction in space – Macy's West recently put 155,000 square feet of sublease space on the market for their corporate location at 22 Fourth Street.

The financial crisis has had a dramatic affect on the commercial real estate industry, as businesses either have gone into or are going into hibernation and survival mode. Building owners are well aware of market realities, and many landlords are working with their brokers to position their properties as attractive, value-added options for prospective tenants and investors. Landlords are starting to aggressively lower asking rental rates in order to secure tenants. For tenants who need to make a move, this is perhaps the greatest opportunity in the past several years to secure a financially beneficial deal, or obtain more space for similar or less cost. Landlords are responding proactively to fill up their buildings, which gives a potential tenant more room for negotiation in today's market.

*For citywide statistic tracking, TRI Commercial uses the following submarkets:

Chinatown/Nob Hill, Civic Center, Financial District, Jackson Square, Lower South of Market, Rincon/South Beach, Showplace Square, South Financial District, South of Market, Union Square, Van Ness Corridor, Waterfront/North Beach, Yerba Buena

Produced by:

Kitty Lam
Market Research

Tom Martindale, SIOR
Senior Vice President &
Regional Manager

Linda Mansberger
Marketing

TRI Commercial

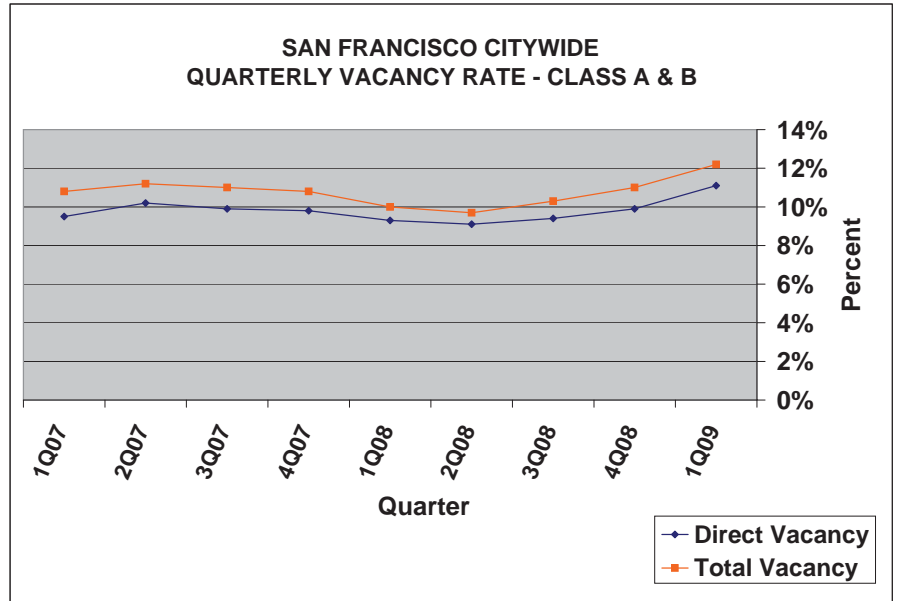
One California Street

Suite 200

San Francisco, CA 94111

SF Citywide Quarterly Vacancy Rate

Quarter	Direct Vacancy	Total Vacancy
1Q09	11.1%	12.2%
4Q08	9.9%	11.0%
3Q08	9.4%	10.3%
2Q08	9.1%	9.7%
1Q08	9.3%	10.0%
4Q07	9.8%	10.8%
3Q07	9.9%	11.0%
2Q07	10.2%	11.2%
1Q07	9.5%	10.8%



Major Lease Transactions

Tenant	Address	Class	Submarket	Sq. ft.
Marriott	45 Fremont Street	A	South Financial District	19,027
Phillips, Spallas & Angstadt LLP^	3 Embarcadero Center^	A	Financial District	15,396
Workshare	208 Utah Street	C	Showplace Square	15,000
Suntech America*	71 Stevenson Street*	A	South Financial District	14,096
Bank of the West	88 Kearny Street	A	Financial District	13,483
Cornerstone Research	353 Sacramento Street	A	Financial District	11,833
Inside Track	150 Spear Street	A	South Financial District	9,843
Colemont Insurance	100 California Street	A	Financial District	9,500
Enovity, Inc	100 Montgomery Street	B	Financial District	9,156
Evans, Latham, & Campisi	1 Post Street	A	Financial District	7,923
Snyder, Miller & Orton, LLP	180 Montgomery Street	A	Financial District	7,382

^Sublease

*Tenant Represented by TRI Commercial

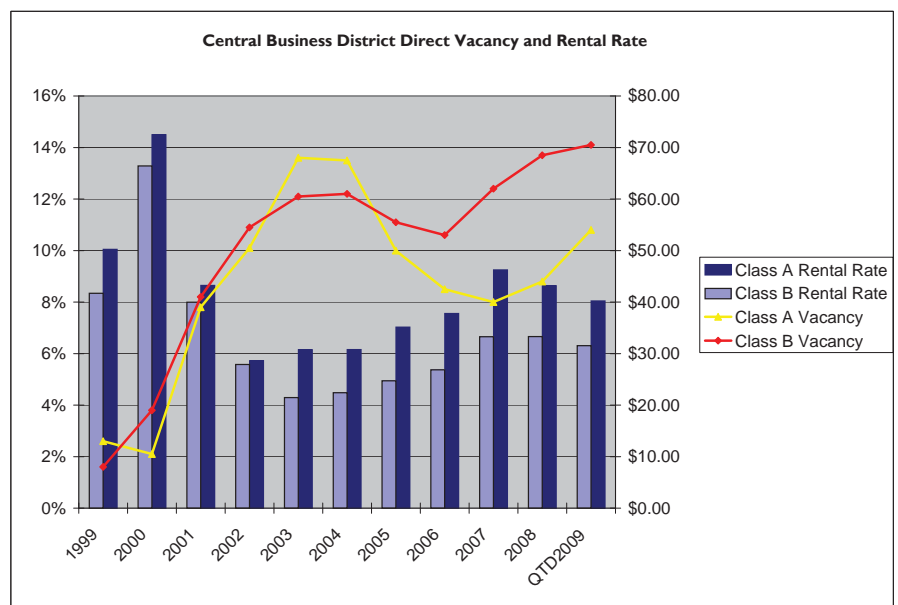
With offices in San Francisco, Roseville, Oakland and Walnut Creek, we have access to every major commercial market in Northern California. As a member of CORFAC International, we also provide our clients with national and international coverage.

Submarket Statistics Table

Submarket	Net Rentable Area (sq.ft.)	Absorption (sq.ft.)	Total Vacancy (%)	Direct Vacancy (%)	Direct Asking Rent	Direct Asking Rent
					Class A	Class B
Financial District	28,281,036	(223,481)	12.8	12.6	\$40.92	\$32.40
South Financial District	25,423,740	(157,362)	12.6	12.4	\$39.47	\$30.68
Civic Center/Van Ness	6,365,514	(19,694)	9.0	7.4	\$33.53	\$22.90
Waterfront/North Beach	3,775,455	(62,239)	8.6	7.3	\$30.59	\$29.90
South of Market	6,417,297	(30,793)	15.5	15.0	\$30.92	\$26.34

CBD OFFICE LEASING MARKET

Activity in San Francisco CBD (Financial & South Financial District) office space continues to remain flat, driven by a negative 380,843 square feet of absorption this quarter. Direct vacancy rates for Class A increased from 8.8 percent to 10.8 percent, and Class B increased slightly from 13.7 percent to 14.1 percent. Companies are more conservative with expansion plans due to the uncertainty of company forecasts. The direct CBD asking rental rates for Class A continues to be in the low \$40's psf, while Class B hovers in the low \$30's psf. Actual lease deals, however, are being transacted at lower, and sometimes significantly lower rental rates than originally quoted by landlords. In addition, many tenants are committing short terms, sometimes just one year in the hope of negotiating even lower rents with in the next 12 months.



CBD Direct Vacancy and Rental Rate

Year	Direct Asking Rate Class A	Direct Asking Rate Class B	Direct Vacancy Class A	Direct Vacancy Class B
QTD2009	\$40.20	\$31.54	10.8%	14.1%
2008	\$43.17	\$33.29	8.8%	13.7%
2007	\$46.25	\$33.26	8.0%	12.4%
2006	\$37.78	\$26.86	8.5%	10.6%
2005	\$35.12	\$24.73	10.0%	11.1%
2004	\$30.77	\$22.39	13.5%	12.2%
2003	\$30.75	\$21.45	13.6%	12.1%
2002	\$28.63	\$27.89	10.1%	10.9%
2001	\$43.22	\$39.97	7.8%	8.2%
2000	\$72.48	\$66.41	2.1%	3.8%
1999	\$50.22	\$41.69	2.6%	1.6%

INVESTMENT MARKET UPDATE

The first quarter of 2009 reveals that market activity is fairly quiet on the investment side. There are no notable building investment transactions to report. The reduced-rent office leasing market and slow business growth have significantly impacted investors, especially new building owners who purchased their properties during the peak of the market. With today's market conditions, some property owners are struggling to meet the rent pro-forma budgets forecasted during the peak of the real estate market. As a result, these buildings face the risk of large unsustainable debt payments, and will be difficult to refinance today.

During 2003 and 2007, The Lembi Group was an aggressive apartment investor. The CIM Group recently purchased the notes on 23 San Francisco apartments at a discounted price from The Lembi Group, which accumulated an estimated \$121.3 million default on loan payments since February. Another 51 buildings were deeded back to UBS Bank in lieu of foreclosure. In Boston, another notable foreclosure transaction recently sold at auction with a bargain price about \$600 million: The John Hancock Tower. The building once belonged to Broadway Partners before it was taken back by the lender, due to a default on its loan payments in 2006. Broadway Partners also acquired several San Francisco properties in 2007; 1 Sansome Street, 50 Beale Street, 100 California Street and 120 Howard Street. An increase of commercial real estate foreclosures is expected this year as the uncertain timing of an economic rebound looms over us.

Recent Major Sale Transactions

Address	Submarket	Square Feet	Sales Price	Price/ Sq.Ft	Class
No Significant Sale Transaction					

2Q 2009 COMMERCIAL REAL ESTATE FORECAST

While the news is not positive, there are strong efforts being made to move the country from recession to stability. The American economy is battling its way out of the recession with the help of our government injecting billions of dollars into the system. Lending institutions will take sometime to rebound themselves before the flow of credit is back to normal. Until then, the real estate market is expected to remain slow and overall business activity to be modest, with no sign of any substantial growth. Activity is likely to resume sooner in office leasing, as tenants actively search for bargains in the sublease market. In the industrial sector, activity has been slow as well. Industrial rates have seen only a modest decline given vacancy rates in the single digits. Further industrial rate declines are forecasted to be modest.

The information above is believed reliable. While we do not doubt its accuracy, we make no guarantee, warranty or representation about it.