TRI Commercial Real Estate Services

SAN FRANCISCO TRENDS

Q2 2011

2011 Second Quarter: Office "Squeeze" felt by higher asking rents

MARKET OVERVIEW

The strength in the SoMa tech sector is reflected by owners increasing asking rental rates by 25% in those submarkets. This is creating conditions favoring landlords in the North Financial District and Union Square as tenants search for less expensive space.

Asking rents are also rising in the Waterfront/North Beach submarkets as preparation for the America's Cup gathers momentum. Citywide vacant space stayed at 12.9% or 14.2 million square feet, down slightly from 13.0% in the 1st Quarter.

2nd QUARTER ACTIVITY

North and South Financial Districts ended the 2nd quarter with a direct vacancy rate of 12.1%, or roughly 6.7 million square feet, up slightly from 12% or 6.6 million square feet as of the end of the 1st quarter. For the 2nd quarter, North Financial absorbed 123,331 square feet while South Financial had a negative absorption of 20,462 square feet. Landlords are asking higher average asking rates for Class A buildings from mid $30's to low $40's per square foot, and Class B from high $20's to mid $30's per square foot.

In major lease transactions, Twitter finally executed its lease at 1355 Market for 215,000 square feet, triggering the revitalization of the Mid-Market area and providing the impetus for future infusion of residential and retail tenants. Other major transactions include Farallon Capital Management renewing 56,963 square feet at One Maritime Plaza. Ancestry.com leased 42,291 square feet at 153 Townsend. Tech firms Idle Games and Pivotal leased spaces at 875 Howard, 33,252 square feet and 33,000 square feet respectively. ModCloth occupied 31,571 square feet at 651 Brannan.

San Francisco is experiencing a resurgence of investor interest in purchasing both Class A and Class B properties - not seen since 2007. This may impact tenants if the owners decide to raise asking rents to justify their purchases. Furthermore, the new building valuations may cause higher operating expense pass-throughs to tenants. Recent sales include: 499 Illinois in Mission Bay for $293 million at $648 per square foot, 1355 Market bought by Shorenstein for the Twitter occupancy at $110 million, or $102 per square foot, the former CSAA properties (150 Hayes, 100 Van Ness & 150 Van Ness) closed by NREA at $91 million, or $152 per square foot and 250 Montgomery sold by Argonaut for $37 million or $319 per square foot, previously purchased in 2009 at $180 per square foot.

OUTLOOK for 2nd half of 2011

The North and South Financial Districts, with their abundant total available space at 15.8% and 14.2% respectively, would normally have their rental rates lowered, or at least stabilized.

However, two factors are giving the Downtown Core landlords reason to raise their asking rates. Primarily, growing tech companies are spilling over to the Downtown Core as the SoMa submarket reaches capacity and asking rates jump into the $40's. Secondly, the plans for the America's Cup are driving rents up in the North Waterfront submarket. The Downtown Core of North and South Financial Districts are "sandwiched" between these high-demand submarkets, giving landlords credence to ask for higher rents.

That said, the tech growth is localized and does not reflect the overall market reality. We are not seeing higher asking rates in the other submarkets west of the Downtown Core. Our national and regional economies are recovering very slowly. The traditional financial and legal sectors are either neutral or right-sizing their space usage. Until we solve both state and national employment issues, it is unlikely that we will see increased absorption for the overall San Francisco office market.

If employment fails to improve in the second half of 2011, we may see downward pressure on rental rates as landlords try to fill their vacancies.

TRI COMMERCIAL

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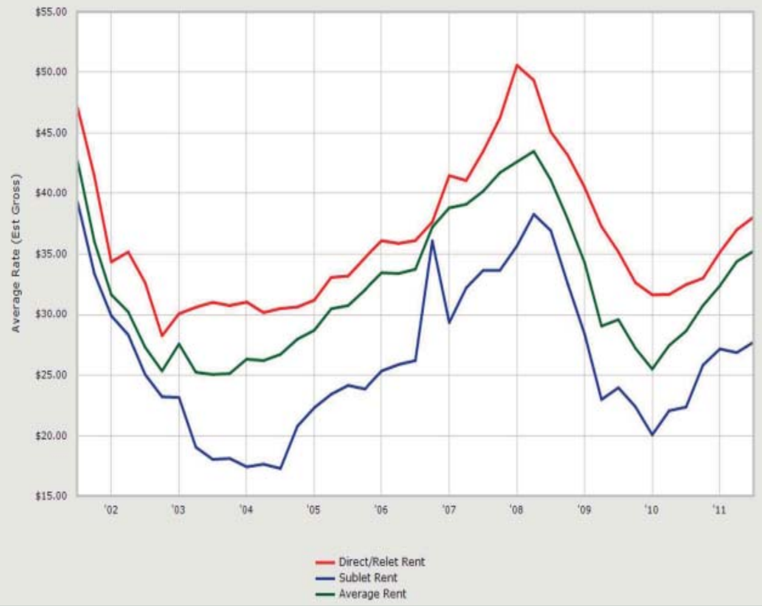
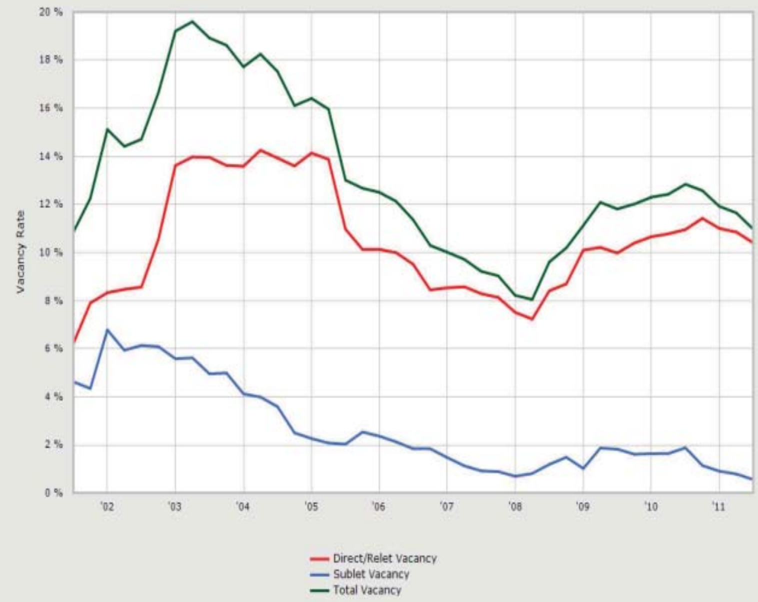
2011 Q2 SAN FRANCISCO TRENDS

DOWNTOWN CORE RENTAL RATES - CLASS A



DOWNTOWN CORE VACANCY RATES - CLASS A

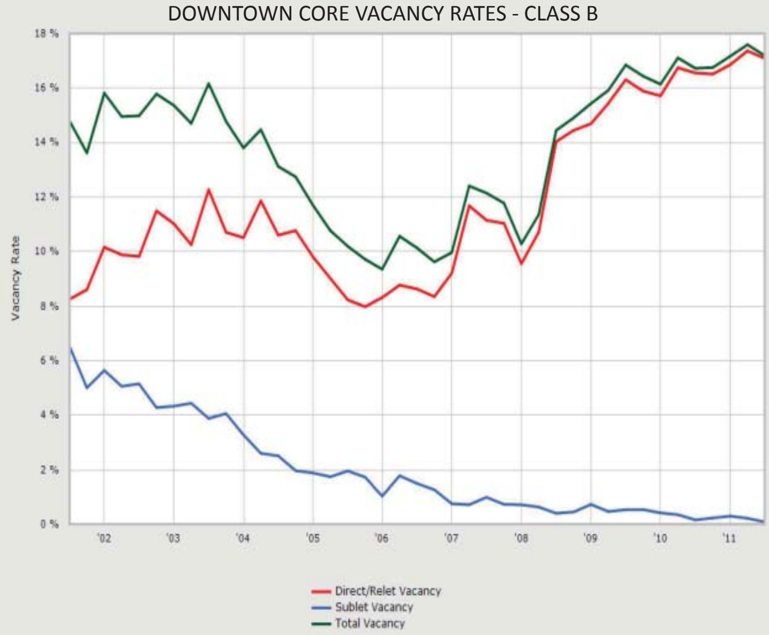


Q2 MAJOR LEASE TRANSACTIONS

Tenant	Address	Class	Submarket	Sq.Ft.
Twitter	1355 Market	B	South of Market	215,000
Farallon Capital Management LLC	1 Maritime Plaza	A	Financial District	56,963
Ancestry.com	153 Townsend	A	Mission Bay	42,291
Cornerstone Research	2 Embarcadero	A	Financial District	42,059
Hall Capital Partners LLC	1 Maritime Plaza	A	Financial District	42,059
Idle Games	875 Howard	B	South of Market	33,252
Pivotal	875 Howard	B	South of Market	33,000
Pisces Foundation	1 Maritime Plaza	A	Financial District	31,839
ModCloth	651 Brannan	B	South of Market	31,571
Moss Adams	101 Second	A	South Financial District	28,577
Vertical Response	50 Beale	A	South Financial District	28,121
WeWork	156 Second	B	South Financial District	25,998
The Miller Law Group	111 Sutter	B	Financial District	25,531
Splunk, Inc	250 Brannan	B	Rincon/South Beach	23,362
Clarium Capital Management LLC	1 Letterman, Bldg C	B	West of Van Ness	22,159
Zoosk	475 Sansome	A	Financial District	21,391

DOWNTOWN CORE RENTAL RATES - CLASS B

DOWNTOWN CORE VACANCY RATES - CLASS B



SUBMARKET STATISTICS TABLE

Submarket	Net Rentable Area (sqft)	QTR Absorption (sqft)	Total Vacant (%)	Direct Vacant (%)	Direct Asking Rent Class A	Direct Asking Rent Class B
Financial District	29,209,731	129,385	13.0	12.1	$34.25	$30.22
South Financial District	26,137,521	(20,462)	12.6	12.2	$40.06	$26.22
Rincon/South Beach	5,476,763	39,454	7.1	6.3	$46.20	$33.77
Jackson Square	2,986,217	(1,878)	9.5	9.3	$35.95	$27.63
Union Square	5,681,704	29,959	8.3	8.2	$39.50	$26.50
Civic Center	5,636,990	70	14.7	14.7	$30.98	$18.72
Van Ness Corridor	2,728,884	13,724	9.6	6.7	$27.94	$28.61
Waterfront/North Beach	4,492,593	45,491	9.5	9.5	$32.50	$26.30
South of Market	6,342,117	26,529	19.9	19.9	$33.19	$30.49
Mission Bay/China Basin	2,929,409	(29,804)	26.6	26.6	$58.74	n.a.

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