



WHERE IS THE BOTTOM OF THE MARKET?

MARKET OVERVIEW



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Rents continue to soften moderately. Citywide vacancy rates remained more stable in the third quarter, as the Class A total vacancy rate decreased slightly from 12.7 percent to 12.6 percent, while the Class B total vacancy rate rose from 12.8 percent to 13.4 percent.

Building owners are more attuned to the reality of the current economic climate. Many landlords are now willing to offer lower rental rates and sign shorter-term leases in order to fill vacant space. As a result, this scenario has created a perfect window of opportunity for tenants seeking quality, long-term office space at affordable rates.

Office space activity increased slightly in San Francisco's Central

Business District (CBD - Financial and South Financial Districts) this quarter. The South Financial District had a positive absorption of 106,244 square feet, while the Financial District had a negative absorption of 45,386 square feet. This is significant because for the first time in three quarters we have finally seen positive absorption, albeit small. Listing brokers are becoming more optimistic as lease transactions and tours continue to increase. Despite this boost in activity, CBD Class A direct asking rents dropped by 21% compared to rents a year ago, down to \$35.18/sf from \$37.27/sf the previous quarter. Class B direct asking rents fell to roughly \$29.51/sf, down from \$30.44/sf.

Class A "done deal" direct rates are averaging mid to high \$20's; view space mid to high \$30's, depending upon term and tenant improvements. Trophy buildings still command a premium rate in the low-high \$40's for exceptional space. Class A subleases can be as low as \$18.00-22.00/sf.

There is real concern that the larger institutional office buildings purchased during the 2006-2007 peaks could be facing serious debt issues in the near future. While it is uncer-

tain whether the potential problems with these buildings will significantly impact rental rates, we can speculate that asking rental rates in those troubled properties will have to be adjusted downward from their original pro formas to retain existing tenants and generate new leases. With the Financial District Class A available space at 19.7% (4.2 million sf) and available sublease space at close to 5%, most landlords are aggressively competing to entice tenants through generous lease concessions. These favorable market conditions create excellent opportunities for serious and financially stable tenants to lock in bargain long-term leases. Despite some positive signs in the economy, many companies struggling with an unstable business climate have opted for one-to-three year renewals or direct leases, or taken advantage of below market "plug & play" subleases offering high-end improvements, furniture and/or cabling.

With approximately 5 million square feet of leases rolling over in 2010, landlords will be faced with difficult challenges as they compete for existing and new tenants, while firms will benefit from plenty of attractive options.

FORECAST HIGHLIGHT:

- . Slightly higher Citywide vacancy rate in Class A and Class B.
- . Increased activity by larger size tenants seeking longer term leases.
- . Continued incentives, with more generous tenant improvement packages, free rent and moving allowances.
- . Asking rents declining, but at a much smaller increment.

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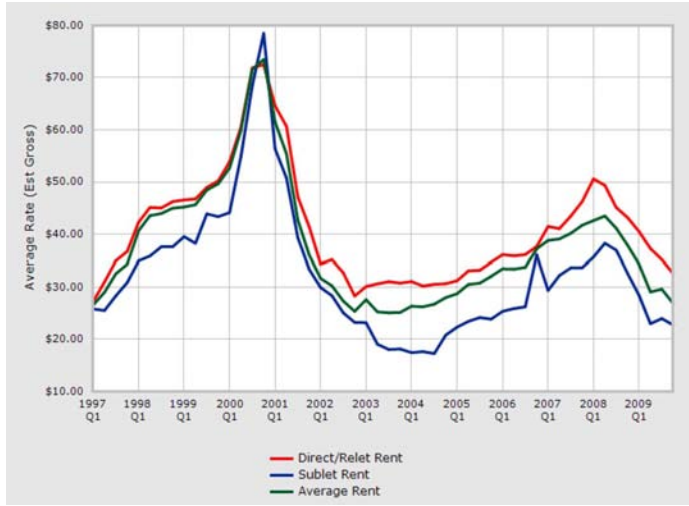
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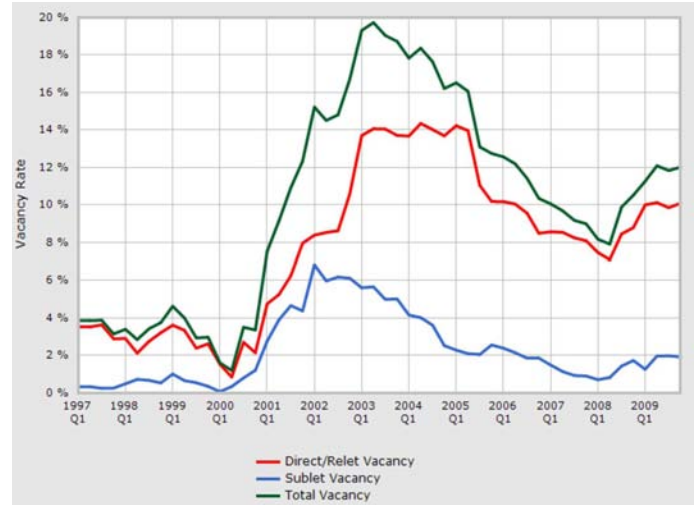
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THIRD QUARTER 2009 SAN FRANCISCO TRENDS

CBD RENTAL RATES - CLASS A



CBD VACANCY RATE - CLASS A

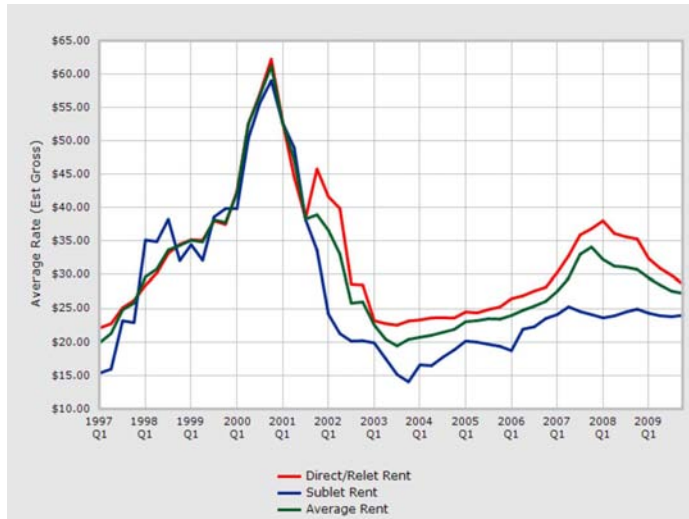


MAJOR LEASE TRANSACTIONS

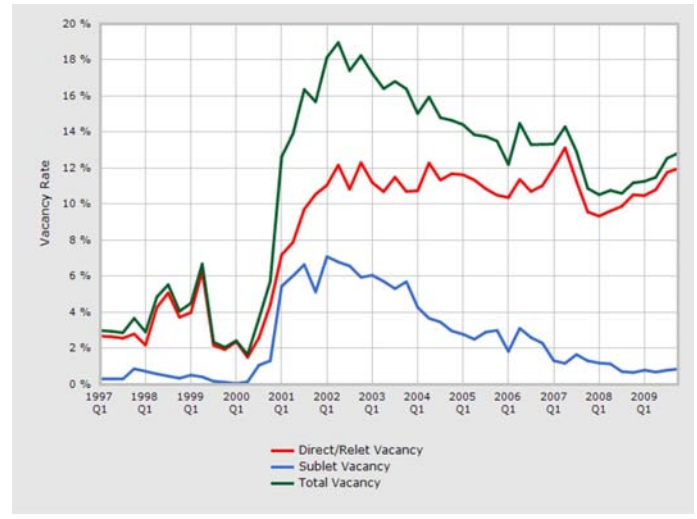
Tenant	Address	Class	Submarket	Sq.ft.
Brown & Toland	160 King Street	A	Rincon/South Beach	55,000
Wilson, Sonsini, Goodrich & Rosati	1 Market Street	A	South Financial District	42,044
Pure Digital Technologies	185 Berry Street	A	Mission Bay/China Basin	37,000
Silicon Valley Bank	555 Mission Street	A	South Financial District	35,500
Exigen	345 California Street	A	Financial District	34,000
MarkMonitor	303 Second Street	A	Rincon/South Beach	19,300
The San Francisco Examiner*	71 Stevenson Street	A	South Financial District	16,942
Kaplan Education	149 New Montgomery	B	South Financial District	16,913
Krieg Keller Sloan & Reilley*	555 Montgomery Street	A	Financial District	15,702
iWin	150 Spear Street	A	South Financial District	15,091
Novak Druce & Quigg	555 Mission Street	A	South Financial District	14,718
Engine Yard	500 3rd Street	B	Lower South of Market	14,465
LOL Apps	116 New Montgomery	B	South Financial District	14,340

*Landlord represented by TRI

FINANCIAL DISTRICT RENTAL RATE - CLASS B



FINANCIAL DISTRICT VACANCY RATE - CLASS B



SUBMARKET STATISTICS TABLE* (from 9/30/2009 vacancy report)

Submarket	Net Rentable Area (sq.ft.)	Absorption (sq.ft.)	Total Available (%)	Direct Available (%)	Direct Asking Rent Class A	Direct Asking Rent Class B
Financial District	29,355,896	(45,386)	19.2	15.3	\$34.86	\$29.89
South Financial District	26,664,955	106,244	15.3	13.5	\$36.20	\$29.14
Jackson Square	2,556,057	(57,790)	19.9	17.9	\$35.84	\$26.87
Union Square	5,789,721	(128,608)	17.9	16.6	n.a.	\$27.21
Civic Center	3,736,806	(1,616)	21.9	21.9	\$33.50	\$21.12
Van Ness Corridor	2,861,695	(11,278)	10.0	7.2	\$29.00	\$27.22
Waterfront/North Beach	4,780,071	(59,798)	13.0	11.0	\$27.00	\$28.96
South of Market	5,967,016	(37,579)	22.2	21.9	\$29.24	\$33.91
Mission Bay/China Basin	2,703,926	55,595	26.7	26.6	\$41.50	\$24.00

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