



2010 : Opportune Year for Tenants & Well-Funded Investors

MARKET OVERVIEW

Rental rates lowered but stabilized while vacancies gained a few percentage points. Citywide, asking rental rates for all classes averaged \$31.15, down from \$41.88 in 2008. Vacancy rose from 10% in 2008 to 13% at year-end 2009. With tenants struggling to survive in a difficult business climate, many transactions were short-term direct leases, renewals and subleases. The year ended with a negative absorption of 3.1 million square feet citywide.

4th QUARTER ACTIVITY

The Financial District's Direct Class A available space rose from 3.3 million square feet in 2008 to 4.1 million square feet by year-end 2009 or 19.7%. Class A Direct rates for this sector dropped from \$42.57 to \$32.67. Sublease space increased slightly from 949,894 square feet to 990,345 square feet at year-end 2009. Leasing activity escalated as tenants realized a window of opportunity to lock in historically low rental rates. In addition, we saw an increase in leasing concessions, rent relief and turnkey tenant improvements. With the narrowing spread of direct asking rates between Class A Downtown Core at \$32.65 and Class B at \$26.70, we continued to see a migration of traditional Class B tenants moving up to Class A buildings. Although absorption turned positive in the 4th quarter, the Downtown Core ended the year with a negative absorption of 765,621 square feet with 17.3% available space or 9.6 million square feet. All these factors indicate uncertainty as to any rent and occupancy growth for landlords in

2010. Tenants will continue to enjoy affordable rental rates, generous concessions, and a wide selection of direct lease and sublease opportunities.

Deleveraging continued to wipe out equity positions and erode building values, pointing to the possibility of further building foreclosures. Morgan Stanley gave back to their lenders the following properties: 201 California, 60 Spear, 188 Embarcadero, 1 Post and 400 Howard Street. The 333 Bush Street building, with the loss of Heller Ehrman, could not escape the same fate. With banks taking back and disposing properties, building sale prices dropped below the \$200/sf range from the peak prices of over \$500/sf. (Shorenstein Company acquired 188 Spear at the bargain price of \$170/sf). Sales of discounted mezzanine debt are also becoming popular as they provide investors the ability to acquire the underlying property for below-market prices in the event of a default. At the time of this report, the CIM Group is in contract to purchase 211 Main Street (Charles Schwab's HQ lease expires in 2018) for \$300/sf.

Some economic analysts predict the commercial real estate market slowly worsening over the next several years. Landlords who purchased Class A buildings at high prices and low cap rates may be unable to refinance as values drop and lending practices tighten. These same landlords may have to sink more cash into the property with a smaller loan or risk losing the property to the lender. Adequate debt-service coverage requirements also prevent these

distressed owners easy disposition, as would-be investors cannot obtain loans to buy properties with insufficient cash flows. Deutsche Bank estimates that more than 65% of the loans that have been packaged into commercial mortgage-backed securities will not qualify for refinancing when they come due. The good news: As asking prices fall to levels where it makes financial sense, buyers will buy and lenders will lend.

OUTLOOK 2010

The U.S. Bureau of Labor Statistics showed a real unemployment rate of 17.3% in 2009 (12.4% for California). While the increase in business activity during the 4th quarter should provide eventual job growth, time is clearly needed before an improved economy begins to reduce overall unemployment; companies typically wait for clear signs of recovery before hiring to meet higher business demand. Surveys indicate that business models will be considerably altered after the economic recovery. With companies downsizing, outsourcing will be a viable option (sometimes indefinitely to lower-cost countries), as are shorter workweeks and shared-services. In addition, there have been some sizeable business failures of tenants in San Francisco. These factors all point to a declining demand for office space. In effect, vacancies will likely rise and rental rates will fall in the short term. However, absorption should improve as business and employment pick up towards the end of 2010.

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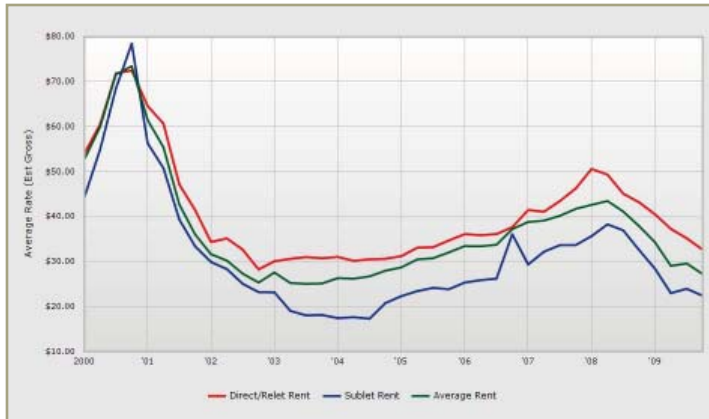
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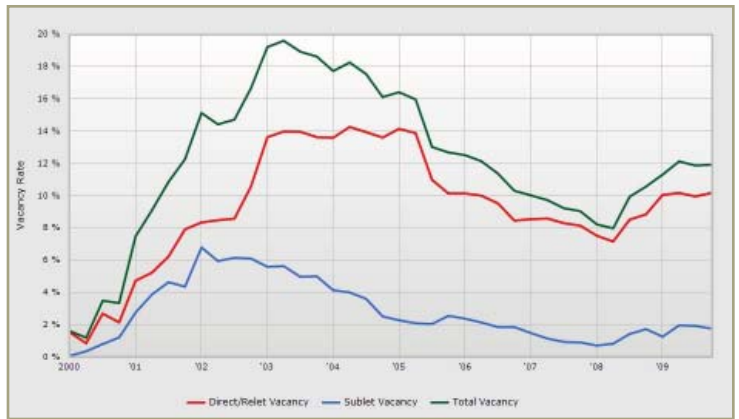
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YEAR-END 2009 SAN FRANCISCO TRENDS

DOWNTOWN CORE RENTAL RATES - CLASS A



DOWNTOWN CORE VACANCY RATE - CLASS A

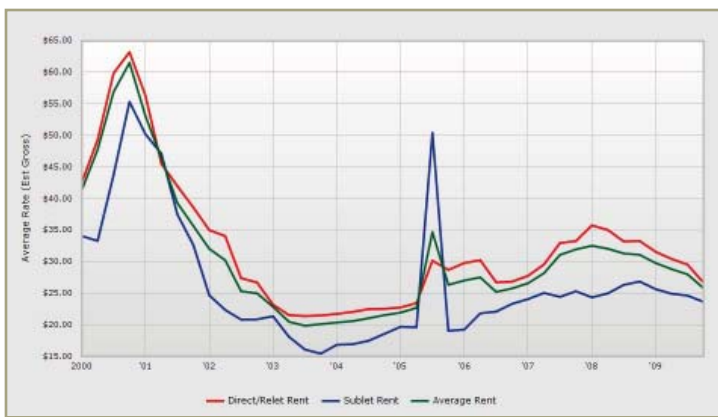


MAJOR LEASE TRANSACTIONS - 4th Qtr 2009

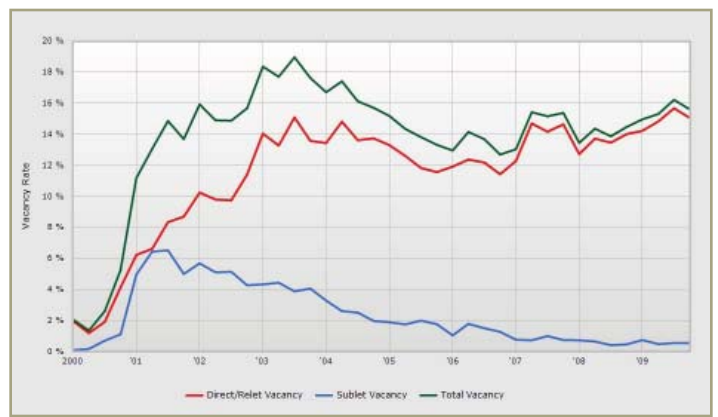
Tenant	Address	Class	Submarket	Sq.Ft.
Levi Strauss & Co.	1115 Battery Street	A	North Waterfront	354,797
Del Monte	1 Maritime Plaza	A	Financial District	152,917
Nektar Therapeutics	455 Mission Bay	A	Mission Bay	102,000
Credit Suisse	650 California Street	A	Financial District	62,139
H5 Technology *	71 Stevenson	A	Financial District	53,411
Credit Suisse	650 California Street	A	Financial District	62,139
Ropes & Gray	3 Embarcadero	A	Financial District	50,403
Cooper, White & Cooper	201 California Street	A	Financial District	44,202
Twitter	795 Folsom Street	B	Yerba Buena	31,611
Foley & Lardner LLP	555 California Street	A	Financial District	30,462
VM Systems *	71 Stevenson	A	South Financial District	26,628
Zoom Systems	22 Fourth Street	A	Yerba Buena	21,000

*Landlord represented by TRI

DOWNTOWN CORE RENTAL RATE - CLASS B



DOWNTOWN CORE VACANCY RATE - CLASS B



SUBMARKET STATISTICS TABLE (from 12/30/2009 vacancy report)

Submarket	Net Rentable Area (sqft.)	YTD Absorption (sqft)	Total Available (%)	Direct Available (%)	Direct Asking Rent Class A	Direct Asking Rent Class B
Financial District	29,373,468	(742,921)	19.1	15.4	\$32.67	\$27.83
South Financial District	26,128,463	(22,700)	15.3	13.9	\$32.79	\$24.43
Jackson Square	2,540,038	(108,961)	17.0	15.5	\$29.00	\$24.17
Union Square	5,745,702	(255,081)	18.8	17.7	n.a	\$26.34
Civic Center	5,954,919	(576,232)	13.9	13.9	\$33.50	\$21.23
Van Ness Corridor	2,871,108	(41,063)	11.1	8.3	\$29.00	\$26.07
Waterfront/North Beach	4,771,879	(129,722)	12.9	11.6	\$26.48	\$26.88
South of Market	6,312,602	(132,538)	21.4	20.8	\$23.87	\$33.08
Mission Bay/China Basin	2,704,258	53,287	29.8	29.7	\$42.00	n.a

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