

THE CoSTAR OFFICE REPORT

MID-YEAR 2011

San Francisco Office Market



SAN FRANCISCO OFFICE MARKET



OVERVIEW

SAN FRANCISCO'S VACANCY DECREASES TO 13.2%

Net Absorption Positive 809,306 SF in the Quarter

The San Francisco Office market ended the second quarter 2011 with a vacancy rate of 13.2%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 809,306 square feet in the second quarter. Vacant sublease space decreased in the quarter, ending the quarter at 1,526,849 square feet. Rental rates ended the second quarter at \$31.75, an increase over the previous quarter. A total of two buildings delivered to the market in the quarter totaling 189,650 square feet, with 327,581 square feet still under construction at the end of the quarter.

Absorption

Net absorption for the overall San Francisco office market was positive 809,306 square feet in the second quarter 2011. That compares to positive 311,436 square feet in the first quarter 2011, positive 531,592 square feet in the fourth quarter 2010, and negative (289,047) square feet in the third quarter 2010.

Tenants moving out of large blocks of space in 2011 include: Sedgwick, Detert, Moran & Arnold LLP moving out of 195,805 square feet at One Market; Bank of America moving out of 172,815 square feet at 1455 Market St; and O'Melveny & Myers LLP moving out of 113,536 square feet at Two Embarcadero Center.

Tenants moving into large blocks of space in 2011 include: Salesforce.com, Inc. moving into 260,519 square feet at The Landmark @ One Market; Del Monte Foods moving into 152,917 square feet at One Maritime Plaza; and Sephora USA, Inc. moving into 110,588 square feet at First Market Tower.

The Class-A office market recorded net absorption of positive 690,830 square feet in the second quarter 2011, compared

to positive 284,041 square feet in the first quarter 2011, positive 550,550 in the fourth quarter 2010, and positive 189,188 in the third quarter 2010.

The Class-B office market recorded net absorption of positive 122,533 square feet in the second quarter 2011, compared to negative (5,716) square feet in the first quarter 2011, negative (91,333) in the fourth quarter 2010, and negative (502,166) in the third quarter 2010.

The Class-C office market recorded net absorption of negative (4,057) square feet in the second quarter 2011 compared to positive 33,111 square feet in the first quarter 2011, positive 72,375 in the fourth quarter 2010, and positive 23,931 in the third quarter 2010.

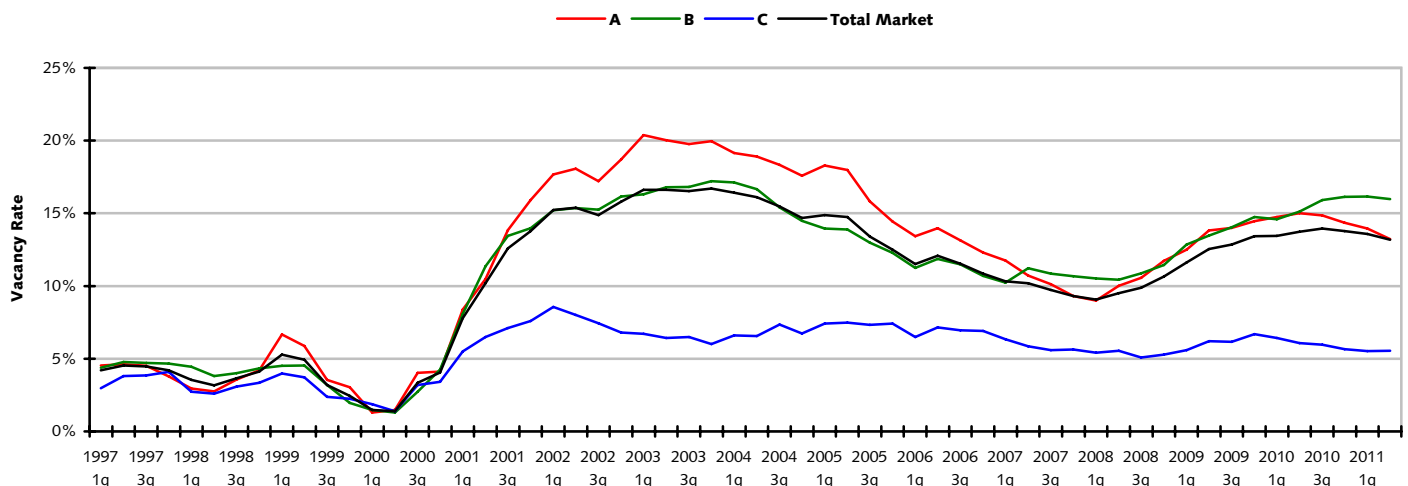
Net absorption for San Francisco's central business district was positive 175,570 square feet in the second quarter 2011. That compares to positive 321,662 square feet in the first quarter 2011, positive 293,796 in the fourth quarter 2010, and positive 69,355 in the third quarter 2010.

Net absorption for the suburban markets was positive 633,736 square feet in the second quarter 2011. That compares to negative (10,226) square feet in first quarter 2011, positive 237,796 in the fourth quarter 2010, and negative (358,402) in the third quarter 2010.

Vacancy

The office vacancy rate in the San Francisco market area decreased to 13.2% at the end of the second quarter 2011. The vacancy rate was 13.6% at the end of the first quarter 2011, 13.8% at the end of the fourth quarter 2010, and 14.0% at the end of the third quarter 2010.

VACANCY RATES BY CLASS 1997-2011



Source: CoStar Property®

Class-A projects reported a vacancy rate of 13.2% at the end of the second quarter 2011, 14.0% at the end of the first quarter 2011, 14.3% at the end of the fourth quarter 2010, and 14.9% at the end of the third quarter 2010.

Class-B projects reported a vacancy rate of 16.0% at the end of the second quarter 2011, 16.1% at the end of the first quarter 2011, 16.1% at the end of the fourth quarter 2010, and 15.9% at the end of the third quarter 2010.

Class-C projects reported a vacancy rate of 5.5% at the end of the second quarter 2011, 5.5% at the end of first quarter 2011, 5.7% at the end of the fourth quarter 2010, and 6.0% at the end of the third quarter 2010.

The overall vacancy rate in San Francisco's central business district at the end of the second quarter 2011 decreased to 12.8%. The vacancy rate was 13.0% at the end of the first quarter 2011, 13.4% at the end of the fourth quarter 2010, and 13.7% at the end of the third quarter 2010.

The vacancy rate in the suburban markets decreased to 13.7% in the second quarter 2011. The vacancy rate was 14.4% at the end of the first quarter 2011, 14.3% at the end of the fourth quarter 2010, and 14.3% at the end of the third quarter 2010.

Largest Lease Signings

The largest lease signings occurring in 2011 included: the 1,000,122-square-foot lease signed by Facebook at the new Facebook Campus in the San Mateo South County market; the 205,903-square-foot lease signed by Twitter at Market Square in the SF Downtown South market; and the 192,998-square-foot deal signed by Dream Works, Inc. at Pacific Shores Center - Bldg Nine in the San Mateo South County market.

Sublease Vacancy

The amount of vacant sublease space in the San Francisco market decreased to 1,526,849 square feet by the end of the second quarter 2011, from 1,643,117 square feet at the end of the first quarter 2011. There was 1,699,171 square feet vacant at the

end of the fourth quarter 2010 and 2,116,188 square feet at the end of the third quarter 2010.

San Francisco's Class-A projects reported vacant sublease space of 1,061,183 square feet at the end of second quarter 2011, down from the 1,107,371 square feet reported at the end of the first quarter 2011. There were 1,258,405 square feet of sublease space vacant at the end of the fourth quarter 2010, and 1,645,537 square feet at the end of the third quarter 2010.

Class-B projects reported vacant sublease space of 449,401 square feet at the end of the second quarter 2011, down from the 524,451 square feet reported at the end of the first quarter 2011. At the end of the fourth quarter 2010 there were 423,325 square feet, and at the end of the third quarter 2010 there were 456,540 square feet vacant.

Class-C projects reported increased vacant sublease space from the first quarter 2011 to the second quarter 2011. Sublease vacancy went from 11,295 square feet to 16,265 square feet during that time. There was 17,441 square feet at the end of the fourth quarter 2010, and 14,111 square feet at the end of the third quarter 2010.

Sublease vacancy in San Francisco's central business district stood at 566,765 square feet at the end of the second quarter 2011. It was 666,252 square feet at the end of the first quarter 2011, 743,428 square feet at the end of the fourth quarter 2010, and 1,103,403 square feet at the end of the third quarter 2010.

Sublease vacancy in the suburban markets ended the second quarter 2011 at 960,084 square feet. At the end of the first quarter 2011 sublease vacancy was 976,865 square feet, was 955,743 square feet at the end of the fourth quarter 2010, and was 1,012,785 square feet at the end of the third quarter 2010.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$31.75 per square foot per year at the end of the second quarter 2011 in the San Francisco market area. This represented a 4.4% increase in quoted rental rates from the end of the first quarter 2011, when rents were reported at \$30.42 per square foot.

The average quoted rate within the Class-A sector was \$35.43 at the end of the second quarter 2011, while Class-B rates stood at \$29.11, and Class-C rates at \$24.98. At the end of the first quarter 2011, Class-A rates were \$32.74 per square foot, Class-B rates were \$29.19, and Class-C rates were \$24.98.

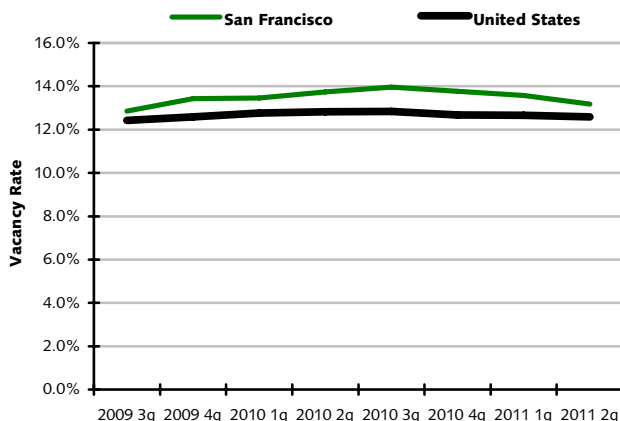
The average quoted asking rental rate in San Francisco's CBD was \$30.51 at the end of the second quarter 2011, and \$32.48 in the suburban markets. In the first quarter 2011, quoted rates were \$29.19 in the CBD and \$31.21 in the suburbs.

Deliveries and Construction

During the second quarter 2011, two buildings totaling 189,650 square feet were completed in the San Francisco market area. This compares to nothing completed in the first quarter

U.S. VACANCY COMPARISON

Past 8 Quarters



Source: CoStar Property

SAN FRANCISCO OFFICE MARKET



OVERVIEW

2011, three buildings totaling 269,855 square feet completed in the fourth quarter 2010, and 88,999 square feet in one building completed in the third quarter 2010.

There were 327,581 square feet of office space under construction at the end of the second quarter 2011.

Some of the notable 2011 deliveries include: 1501 Trousdale Dr, a 180,000-square-foot facility that delivered in second quarter 2011 and is now 100% occupied, and 100 Middlefield Rd, a 9,650-square-foot building that delivered in second quarter 2011 and is now 0% occupied.

The largest projects underway at the end of second quarter 2011 were SFPUC Headquarters, a 257,097-square-foot building with 100% of its space pre-leased, and 120 Howard St. (floors 9-12), a 70,484-square-foot facility that is 0% pre-leased.

Inventory

Total office inventory in the San Francisco market area amounted to 160,751,417 square feet in 3,715 buildings as of the end of the second quarter 2011. The Class-A office sector consisted of 73,677,335 square feet in 305 projects. There were 1,419 Class-B buildings totaling 63,451,481 square feet, and the Class-C sector consisted of 23,622,601 square feet in 1,991 buildings. Within the Office market there were 147 owner-occupied buildings accounting for 13,501,028 square feet of office space.

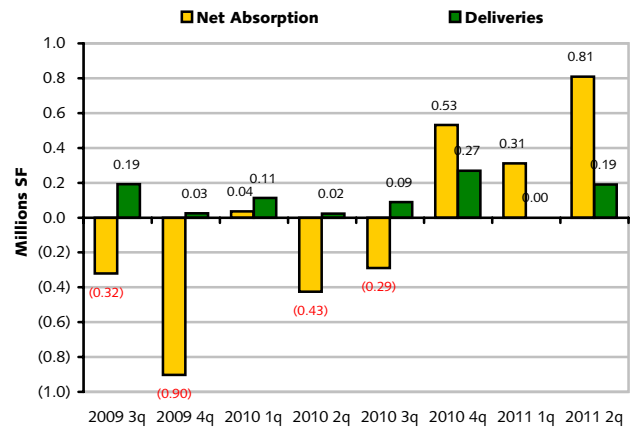
Sales Activity

Tallying office building sales of 15,000 square feet or larger, San Francisco office sales figures fell during the first quarter 2011 in terms of dollar volume compared to the fourth quarter of 2010.

In the first quarter, 12 office transactions closed with a total volume of \$395,427,487. The 12 buildings totaled 2,476,454 square feet and the average price per square foot equated to \$159.67 per square foot. That compares to 11 transactions totaling \$552,050,000 in the fourth quarter 2010. The total square footage in the fourth quarter was 3,089,122 square feet for an average price per square foot of \$178.71.

ABSORPTION & DELIVERIES

Past 8 Quarters



Source: CoStar Property*

Total office building sales activity in 2011 was up compared to 2010. In the first three months of 2011, the market saw 12 office sales transactions with a total volume of \$395,427,487. The price per square foot averaged \$159.67. In the same first three months of 2010, the market posted six transactions with a total volume of \$77,852,732. The price per square foot averaged \$145.96.

Cap rates have been higher in 2011, averaging 7.40% compared to the same period in 2010 when they averaged 6.00%.

One of the largest transactions that has occurred within the last four quarters in the San Francisco market is the sale of 499 Illinois St. in San Francisco. This 451,934-square-foot office building sold for \$293,000,000, or \$648.32 per square foot. The property sold on 4/28/2011, at a 4.0% cap rate.

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SAN FRANCISCO OFFICE MARKET

LEASING ACTIVITY

SELECT TOP OFFICE LEASES Based on Leased Square Footage For Deals Signed in 2011

Building	Submarket	SF	Qtr	Tenant Name	Tenant Rep Company	Landlord Rep Company	
1	Facebook Campus	Menlo Park-East/EPA	1,000,122	1st	Facebook	Cornish & Carey Commercial NKF	Colliers International
2	Market Square	South of Market	215,000	2nd	Twitter	Jones Lang LaSalle	Shorenstein Company, LLC
3	1400 Seaport Blvd - Bldg 9	Redwood City-Port	193,000	1st	Dream Works, Inc.	CresaPartners	Cornish & Carey Commercial NKF
4	700 Bay Rd - Building 1	Redwood City-N of 84 Fwy	132,726	1st	Medarex, Inc.	N/A	Cornish & Carey Commercial NKF
5	500 Clipper Dr	Belmont	118,740	2nd	Sun Edison	Cushman & Wakefield, Inc.	Cornish & Carey Commercial NKF
6	525 Market St	South Financial District	110,588	1st	Sephora USA, Inc.	Jones Lang LaSalle	Cushman & Wakefield of California
7	333 Bush St	Financial District	89,076	1st	Sedgwick LLP	Jones Lang LaSalle	The CAC Group
8	950 Elm Ave*	San Bruno/Millbrae	88,000	1st	Cisco Systems, Inc.	Jones Lang LaSalle	Equity Office Management LLC
9	One Maritime Plaza*	Financial District	63,177	2nd	Farallon Capital Management LLC	The CAC Group	CB Richard Ellis
10	100 North Point St	Waterfront/North Beach	60,000	1st	Williams-Sonoma	Cushman & Wakefield of California	The CAC Group
11	45 Fremont St	South Financial District	57,081	1st	Wells Fargo Insurance Services	Cushman & Wakefield of California	Shorenstein Company, LLC
12	153 Townsend St	Rincon/South Beach	56,963	2nd	N/A	N/A	American Assets, Inc.
13	123 Mission St	South Financial District	55,977	1st	Salesforce.com	Cushman & Wakefield, Inc.	Cornish & Carey Commercial NKF
14	185 Berry St*	Mission Bay/China Basin	51,810	1st	Catholic Healthcare West	Jones Lang LaSalle	McCarthy Cook & Co.
15	One Maritime Plaza*	Financial District	42,059	2nd	Hall Capital Partners LLC	The CAC Group	CB Richard Ellis
16	800 Saginaw Dr	Redwood City-Port	41,414	2nd	N/A	N/A	CB Richard Ellis
17	1100 Park Pl - Bldg 2*	SanMateo-DowntownSouth	38,249	2nd	WageWorks, Inc.	Cushman & Wakefield	Colliers International
18	575 Market St	South Financial District	36,324	1st	California Department Of Health Care Services	CB Richard Ellis	The CAC Group
19	1080 Marsh Rd	Redwood City-S of 84 Fwy	34,350	1st	Kilpatrick Townsend & Stockton LLP	CB Richard Ellis	Cornish & Carey Commercial NKF
20	1600 Seaport Blvd - Bldg 6	Redwood City-Port	34,210	2nd	Wildfire Interactive	Cassidy Turley BT Commercial	Cassidy Turley BT Commercial
21	Transamerica Pyramid	Financial District	33,986	1st	Diamond Foods, Inc.	UGL Services	Cushman & Wakefield of California
22	875 Howard Ave	Yerba Buena	33,252	1st	Idle Games	Cassidy Turley BT Commercial	Colliers International
23	One Maritime Plaza*	Financial District	31,839	2nd	Pisces Foundation	The CAC Group	CB Richard Ellis
24	651 Brannan St*	Lower South of Market	31,571	2nd	ModCloth	Cornish & Carey Commercial NKF	Grubb & Ellis
25	600 Harrison St	Rincon/South Beach	31,179	1st	ABM Industries	Grubb & Ellis	Cushman & Wakefield of California
26	300 California St*	Financial District	30,762	1st	Recurrent Energy	Studley	Cornish & Carey Commercial NKF
27	500 Howard St	South Financial District	29,000	1st	Bigpoint, Inc.	Cushman & Wakefield of California	Colliers International
28	1011 Sneath Ln*	San Bruno/Millbrae	28,562	1st	Kaiser Foundation	Kidder Mathews	Cassidy Turley BT Commercial
29	50 Beale St	South Financial District	28,121	2nd	Vertical Response	Rosen Realty Group	The CAC Group
30	156-160 2nd St	South Financial District	25,998	2nd	WeWork	CB Richard Ellis	Sansome Street Advisors
31	405 Howard St	South Financial District	25,897	1st	Kabam	Cornish & Carey Commercial NKF	Leamy Realty Group
32	One Eleven Sutter*	Financial District	25,531	2nd	The Miller Law Group	CB Richard Ellis	Jones Lang LaSalle
33	One Rincon	South Financial District	23,683	1st	Intrax	The CAC Group	The CAC Group
34	Four Embarcadero Center	Financial District	22,313	2nd	N/A	N/A	Boston Properties Limited Partnersh
35	2600 Bridge Pky - Bldg 7	Foster City/Redwood Shrs	22,159	2nd	Axway	N/A	Cassidy Turley BT Commercial
36	One Letterman Dr - Bldg C*	West of Van Ness	22,051	2nd	Clarium Capital Management LLC	CB Richard Ellis	Jones Lang LaSalle
37	Transamerica Pyramid	Financial District	22,031	1st	BTIG	Cornish & Carey Commercial NKF	Cushman & Wakefield of California
38	One Market Plaza	South Financial District	21,547	1st	Fortress Investment Group LLC	Grubb & Ellis	Jones Lang LaSalle
39	475 Sansome St	Financial District	21,391	2nd	Zoosk	Cornish & Carey Commercial NKF	Cushman & Wakefield of California
40	1900 S Norfolk St	SanMateo-Corridor/Hwy92	21,174	1st	Greenplum	N/A	Cassidy Turley BT Commercial

Source: CoStar Property®

* Renewal