

San Francisco, Office MarketView

Q4 2012

CBRE Global Research and Consulting

VACANCY RATE
9.5%, down 20 basis points

LEASE RATE
\$48.83, up 5.9%

NET ABSORPTION
142K SF, up 116K SF

UNDER CONSTRUCTION
2.1M SF, up 400K SF

*Change from last quarter

LARGE LEASE AND SALE DEALS, CONSTRUCTION STARTS HIGHLIGHT ACTIVE YEAR

Top Transactions

Lease	
Salesforce 350 Mission St	444,271 SF
Square 1455 Market St	250,000 SF
Salesforce 101 Spear St	230,000 SF
City and County of S.F. 1155 Market St	110,717 SF

Sale	
101 California St Government of Singapore	1,237,631 SF
1 Montgomery St Prudential Real Estate Investors	676,192 SF
100 Montgomery St Blackstone	424,255 SF
475 Sansome St Bentall Kennedy	353,269 SF

Hot Topics

Market accelerates in fourth quarter, 2012 proves to be strong year.

- Pace of rent growth accelerates, lack of creative building space causes sharp rise in Class C product
- Investment sales volume totaled \$6.1B in 2012, highest sale price per square foot exceeded replacement cost
- Net absorption gains slowed in second half of year
- Vacancy decreased by 20 basis points during quarter and 170 basis points for year to 9.5%
- 1.7 MSF of office space expected to deliver in 2013

Strong demand driven by heady high-tech industry growth has propelled the market in 2012. In the fourth quarter alone, a surge in large leases signed and decrease in vacancy lead to accelerated rental rate increase. Recognizing that near term supply-demand dynamics favor landlords, building trades and new development reached a heightened pace. This fast paced growth will likely downshift in 2013, which will still be a year characterized by high levels of demand, reduced supply and further rent growth.

Leasing activity during the fourth quarter jumped on six large transactions, defined as being 100,000 SF or greater. That brought the large transaction total to 12 for the year and kept overall leasing activity on par with a stellar 2011. There was 11.1 MSF (36% high-tech) leased in 2011 and 10.9 MSF (55% high-tech) leased in 2012. Despite the increase in large leases executed, there were a number of significant move outs from non-high-tech firms, resulting in a modest 141,777 SF of positive net absorption for the quarter. Net absorption for 2012 was a healthy 1.3 MSF, but only 13% came during the second half of the year.

San Francisco's 36.4% cost increase for prime office space during 2012 ranked #1 globally, according to CBRE's Prime Office Occupancy Cost report. While asking rents for prime view space surged, demand remains somewhat tepid as landlords set the bar high and await uplift from further commodity space

tightening. Market-wide average asking rents during the fourth quarter increased 5.9% to \$48.83 on diminished supply of desirable space. The gap in asking rents between Class B and C product closed sharply as occupiers seeking creative space and down product rent relief compete for the limited supply.

Investment sale volume totaled \$6.1B in 2012, the highest grossing year since 2007. The largest sale was \$910M for 101 California St and the highest price per square foot was above replacement cost at \$802 PSF for 555 Mission St. These high sale prices and underlying market fundamentals have encouraged developers to move forward with construction projects. The development pipeline is filling rapidly with 31 projects representing over 17.1 MSF of buildings either under construction, pending construction, or planned and proposed. 1.7 MSF of office space is expected to deliver in 2013, of which 1 MSF has been pre-leased.

The 2013 outlook is quite positive despite the presence of politically-driven global and national economic risk factors. Demand and rental rate growth is expected, although matching market performance in 2011 and 2012 will prove challenging. Leasing activity and large transactions will cool, along with sales volume as lack of supply and higher pricing grips the market.

Chart 1: Total Vacancy vs. Absorption

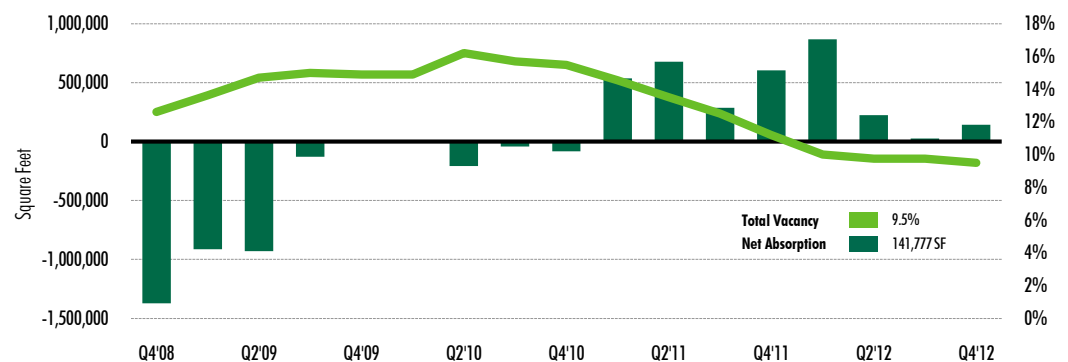
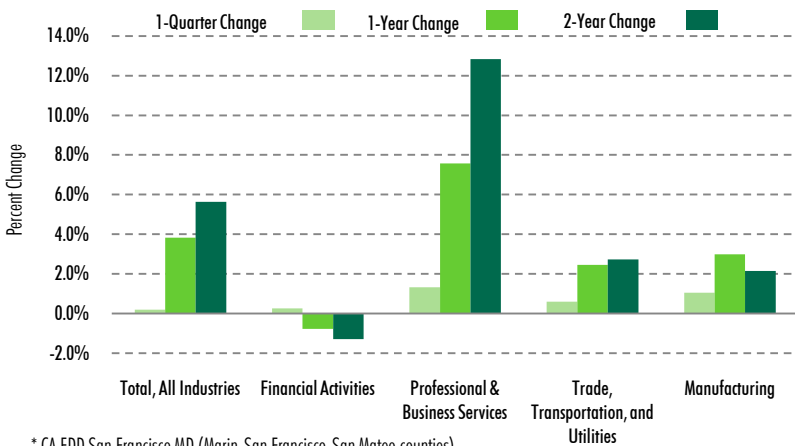


Table 1: Total Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy %	Total Availability %	Average Asking Rate*	Q3 Net Absorption	YTD Net Absorption
Financial District	26,238,955	8.3%	12.4%	\$49.83	14,090	389,064
Class A	19,654,154	7.8%	12.1%	\$51.89	(18,129)	375,280
South Financial District	20,507,521	8.2%	14.3%	\$51.12	(116,152)	102,864
Class A	17,114,067	7.7%	14.1%	\$52.27	(105,034)	202,688
N. Waterfront & Jackson Sq.	4,963,144	9.7%	14.5%	\$41.23	(45,061)	43,507
Class A	1,574,219	8.0%	11.5%	\$43.46	3,278	84,691
South of Market	6,331,150	3.8%	8.4%	\$53.00	23,460	50,978
Class A	2,582,326	3.5%	8.1%	\$57.29	(2,419)	72,990
Yerba Buena	3,277,522	9.5%	22.7%	\$47.91	106,915	206,667
Class A	928,001	21.2%	43.4%	\$52.67	101,472	223,060
South of Market West	3,346,803	14.7%	26.1%	\$42.49	37,008	367,787
Class A	1,296,043	7.8%	29.3%	\$45.13	37,766	158,574
Mission Bay / China Basin	2,510,383	18.0%	20.2%	\$59.88	100,337	208,841
Class A	2,510,383	18.0%	20.2%	\$59.88	100,337	208,841
Potrero Hill	1,946,002	18.2%	19.6%	\$42.85	4,893	(147,209)
Class A	257,109	22.0%	22.0%	\$45.92	(21,275)	(14,621)
Civic Center & Van Ness	2,392,993	30.5%	32.2%	\$34.16	8,467	52,361
Class A	979,369	44.4%	45.9%	\$38.50	6,521	25,057
Union Square	3,695,849	6.2%	11.2%	\$43.86	7,820	(16,052)
Class A	335,200	2.3%	2.6%	\$47.50	9,533	28,032
San Francisco Office Market	75,210,322	9.5%	14.8%	\$48.83	141,777	1,258,808
Class A	47,230,871	9.1%	14.8%	\$51.96	112,050	1,364,592

* Direct Annual Lease Rates, Full Service Gross

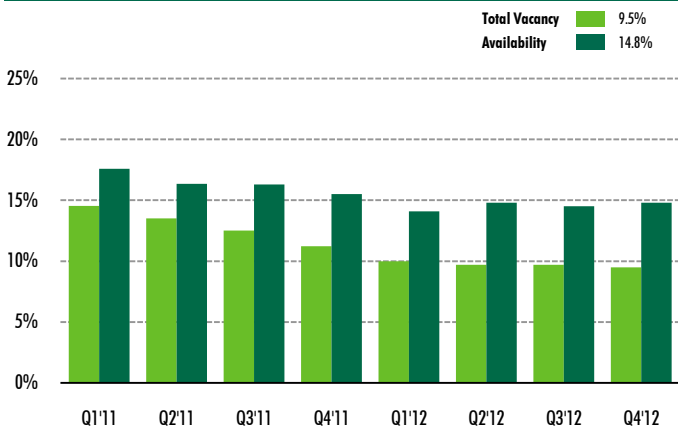
Chart 2: San Francisco Employment



* CA EDD San Francisco MD (Marin-San Francisco-San Mateo counties)

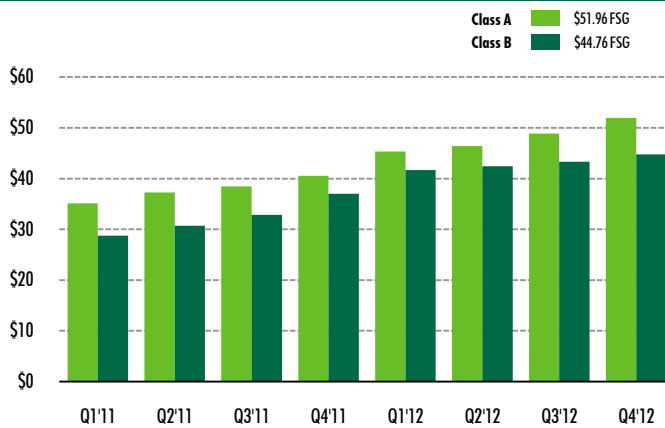
San Francisco County's unemployment rate declined by 140 basis points over the past year to 6.8% as of October, the third lowest county rate in California and well below the State's overall figure of 9.8%. The San Francisco Metropolitan Division (MD) experienced an increase of 13,100 jobs across all industries during the quarter. Trade, transportation, and utilities experienced strong growth of 2.6%. Jobs classified as legal services had no growth while financial activities saw a slight increase of 1%. The strongest growth during 2012 came from the professional, scientific, and technical services sectors, which contains much of the high-tech industry and added more than 8,000 jobs to the region.

Chart #3: Vacancy & Availability



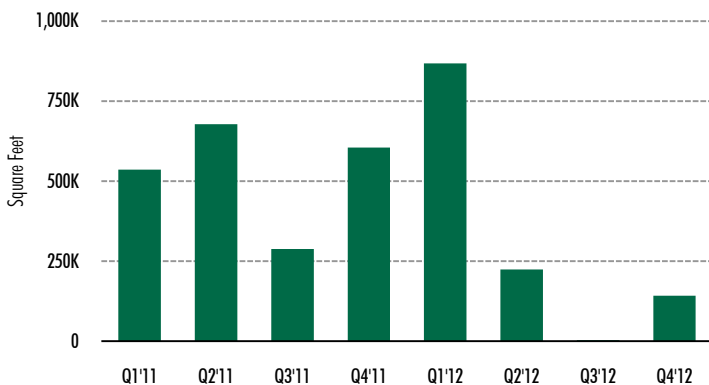
The market-wide vacancy rate dropped 20 basis points to 9.5% during the fourth quarter, maintaining the downward trend from 2010's peak. Vacancy decreased by 1.4 MSF in 2012, representing a decrease of 170 basis points. The Mission Bay/China Basin submarket experienced the greatest reduction in vacancy dropping 400 basis points to 18%, while the North Waterfront/Jackson Square submarket experienced the largest increase in vacancy that rose by 80 basis points to 9.7%. The largest availability to come to market was 102,340 SF at 199 Fremont St due to Riverbed Technology's decision to vacate the building in August of 2014. Total availability increased to 14.8% during the quarter, sublease space accounted for 25% of new space availabilities.

Chart #4: Lease Rates



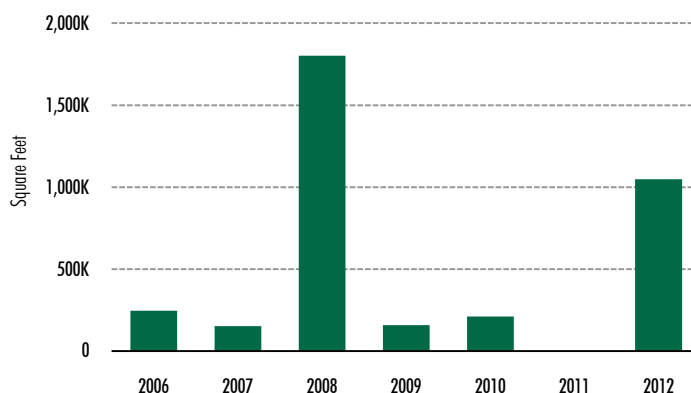
The upward trend in lease rates gained velocity during the fourth quarter. The market-wide asking rate increased by 5.9% to \$48.83 quarter-over-quarter and a whopping 27.2% year-over-year increase. Low vacancy rates and high demand from the high-tech sector have pressured lease rates higher market-wide. The gap between Class B and C asking rates has contracted dramatically, particularly in the South of Market West, Yerba Buena, and Civic Center/Van Ness submarkets due to a lack of available space. South of Market continued to out price the Central Business District, while Union Square experienced the strongest gains in lease rates. Clearly, tenants are chasing space availabilities to find suitable and cost effective locations for their businesses.

Chart #5: Net Absorption



Net absorption increased by 141,777 SF during the quarter, an improvement from 25,493 SF in the third quarter. This slower rate of net absorption during the second half of the year still resulted in a robust 1.3 MSF for 2012. Despite slower net absorption, total leasing activity this quarter jumped 22% to 2.3 MSF over the previous quarter, indicating further occupancy growth ahead. Yerba Buena experienced the highest positive net absorption, 106,915 SF, while Mission Bay/China Basin was close behind with 100,337 SF. The largest contributor to positive net absorption was Meraki's lease at 500 Terry Francois Blvd, accounting for 109,508 SF. The South Financial District contributed the highest negative net absorption during the fourth quarter primarily due to the Visa sublease space at 595 Market St becoming vacant. Absorption for 2012 was 38% below the 2.1 MSF gained in 2011.

Chart #6: Construction Completions



No New construction completions were made this quarter, total construction completions during 2012 were 1 MSF. There are currently six full building renovations and one ground up project underway totaling 2 MSF, 1.7 MSF of which is expected to be delivered in 2013. Eight projects totaling 3.6 MSF are currently pending construction, including 350 Mission St, a 444,000 SF future high-rise recently leased to Salesforce as its sole office tenant. An additional 16 planned and proposed projects comprising 11.5 MSF are currently being tracked.

San Francisco Office Submarkets



	Size (SF)
Financial District	26,238,955
South Financial District	20,507,521
North Waterfront & Jackson Square	4,963,144
South of Market	6,331,150
Yerba Buena	3,277,522
South of Market West	3,346,803
Mission Bay / China Basin	2,510,383
Potrero Hill	1,946,002
Civic Center & Van Ness Corridor	2,392,993
Union Square	3,695,849
San Francisco	75,210,322

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San Francisco, Office Statistics & Transactions

Q4 2012

CBRE Global Research and Consulting

Submarket	NRA	Total Vacancy % ¹	Total Vacant SF	Total Availability %	Total Direct Available	Total Sublease Available	Average Asking Rate ²	Q4 Net Absorption	YTD Net Absorption
Financial District	26,238,955	8.3%	2,167,139	12.4%	2,787,648	477,287	\$49.83	14,090	389,064
Class A	19,654,154	7.8%	1,532,922	12.1%	1,955,309	414,334	\$51.89	(18,129)	375,280
Class B	5,863,531	10.4%	611,069	14.7%	796,513	62,953	\$44.60	32,219	17,701
Class C	721,270	3.2%	23,148	5.0%	35,826	0	\$36.04	0	(3,917)
South Financial District	20,507,521	8.2%	1,684,417	14.3%	2,481,865	453,759	\$51.13	(116,152)	102,864
Class A	17,114,067	7.7%	1,314,567	14.1%	1,993,145	417,283	\$52.27	(105,034)	202,688
Class B	2,562,756	10.7%	273,844	15.5%	365,232	31,880	\$46.31	(15,423)	(92,113)
Class C	830,698	11.6%	96,006	15.4%	123,488	4,596	\$42.41	4,305	(7,711)
CBD*	46,746,476	8.2%	3,851,556	13.3%	5,269,513	931,046	\$50.40	(102,062)	491,928
Class A	36,768,221	7.7%	2,847,489	13.0%	3,948,454	831,617	\$52.07	(123,163)	577,968
Class B	8,426,287	10.5%	884,913	14.9%	1,161,745	94,833	\$45.12	16,796	(74,412)
Class C	1,551,968	7.7%	119,154	10.6%	159,314	4,596	\$39.45	4,305	(11,628)
North Waterfront/Jackson Sq	4,963,144	9.7%	483,177	14.5%	585,714	134,681	\$41.23	(45,061)	43,507
Class A	1,574,219	8.0%	125,944	11.5%	125,595	55,485	\$43.46	3,278	84,691
Class B	2,750,874	11.3%	311,450	14.7%	327,119	76,721	\$40.34	(39,528)	(33,533)
Class C	638,051	7.2%	45,783	21.2%	133,000	2,475	\$39.54	(8,811)	(7,651)
South of Market	6,331,150	3.8%	241,604	8.4%	440,685	92,075	\$53.00	23,460	50,978
Class A	2,582,326	3.5%	91,374	8.1%	130,398	78,865	\$57.29	(2,419)	72,990
Class B	2,850,235	4.7%	133,472	10.8%	293,529	13,210	\$52.12	21,341	(6,450)
Class C	898,589	1.9%	16,758	1.9%	16,758	0	\$43.44	4,538	(15,562)
Yerba Buena	3,277,522	9.5%	309,915	22.7%	700,786	43,192	\$47.91	106,915	206,667
Class A	928,001	21.2%	196,403	43.4%	392,347	10,000	\$52.67	101,472	223,060
Class B	1,937,716	4.5%	88,133	15.5%	267,262	33,192	\$47.06	(2,460)	(2,022)
Class C	411,805	6.2%	25,379	10.0%	41,177	0	\$41.18	7,903	(14,371)
South of Market West	3,346,803	14.7%	491,652	26.1%	853,870	11,251	\$42.49	37,008	367,787
Class A	1,296,043	7.8%	101,538	29.3%	380,388	0	\$45.13	37,766	158,574
Class B	1,394,940	23.3%	325,619	28.0%	384,187	0	\$41.31	0	200,296
Class C	655,820	9.8%	64,495	15.3%	89,295	11,251	\$39.77	(758)	8,917
Mission Bay/China Basin	2,510,383	18.0%	451,909	20.2%	460,415	46,157	\$59.88	100,337	208,841
Class A	2,510,383	18.0%	451,909	20.2%	460,415	46,157	\$59.88	100,337	208,841
Potrero Hill	1,946,002	18.2%	354,857	19.6%	329,122	51,466	\$42.85	4,893	(147,209)
Class A	257,109	22.0%	56,621	22.0%	16,147	40,474	\$45.92	(21,275)	(14,621)
Class B	1,252,559	19.7%	246,215	20.1%	251,360	0	\$43.05	21,511	(108,273)
Class C	436,334	11.9%	52,021	16.6%	61,615	10,992	\$40.48	4,657	(24,315)
Civic Center/Van Ness	2,392,993	30.5%	730,719	32.2%	740,851	30,631	\$34.16	8,467	52,361
Class A	979,369	44.4%	435,317	45.9%	436,885	12,312	\$38.50	6,521	25,057
Class B	952,639	20.8%	198,543	23.7%	207,107	18,319	\$32.52	86	26,446
Class C	460,985	21.0%	96,859	21.0%	96,859	0	\$28.33	1,860	858
Union Square	3,695,849	6.2%	229,019	11.2%	395,406	16,871	\$43.86	7,820	(16,052)
Class A	335,200	2.3%	7,802	2.6%	6,819	1,783	\$47.50	9,533	28,032
Class B	2,317,085	4.8%	110,333	12.0%	269,593	8,645	\$45.72	(8,327)	(39,550)
Class C	1,043,564	10.6%	110,884	12.0%	118,994	6,443	\$38.55	6,614	(4,534)
San Francisco Office Market	75,210,322	9.5%	7,144,408	14.8%	9,776,362	1,357,370	\$48.83	141,777	1,258,808
Class A	47,230,871	9.1%	4,314,397	14.8%	5,897,448	1,076,693	\$51.96	112,050	1,364,592
Class B	21,882,335	10.5%	2,298,678	15.6%	3,161,902	244,920	\$44.76	9,419	(37,498)
Class C	6,097,116	8.7%	531,333	12.3%	717,012	35,757	\$39.28	20,308	(68,286)

¹Total Vacancy Rate = Direct Vacancy + Sublease Vacancy

²Annual Direct Lease Rates, Full Service Gross

*CBD Consists of Financial District and South Financial District submarkets

Chart #1: Lease Rates

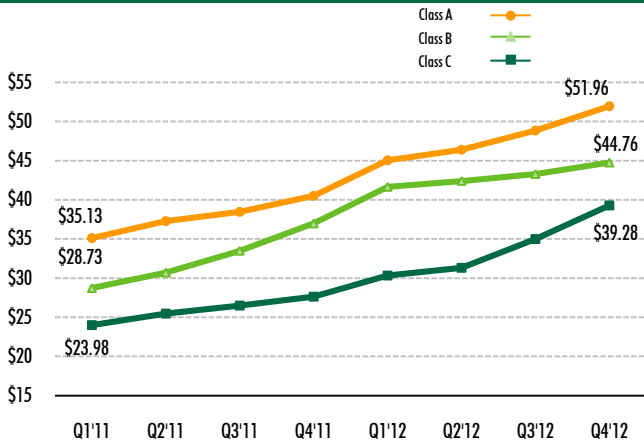


Chart #2: Net Absorption & Vacancy

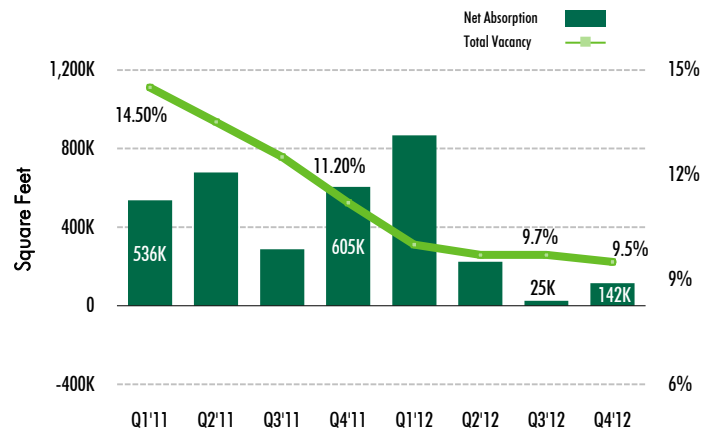


Table 1: Significant Lease Transactions of the Quarter

Lessee	Address	Total SF	Class	Type
Salesforce	350 Mission St	444,271	A	New Lease
Square	1455 Market St	250,000	A	New Lease
Salesforce	101 Spear St	225,000	B	New Lease
City and County of S.F.	1155 Market St	110,717	A	New Lease
Meraki	500 Terry Francois Blvd	109,508	A	New Lease
Salesforce	50 Fremont St	100,562	A	Expansion
Splunk	250 Brannan St	92,000	B	Renewal/Expansion
WPP-Landor	1001 Front St	70,938	B	Renewal
Square Trade	360 Third St	54,000	A	New Lease
Adobe	410 Townsend St	47,416	B	New Lease

Table 2: Significant Sale Transactions of the Quarter

Buyer	Address	Total SF	Class	Type
Government of Singapore	101 California St	1,237,631	A	Investor Sale
Prudential Real Estate Investors	1 Montgomery St	765,747	A	Investor Sale
Blackstone	100 Montgomery St	424,255	A	Investor Sale
Bentall Kennedy	475 Sansome St	353,269	A	Investor Sale

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