



TRI SAN FRANCISCO TRENDS



TRI OFFICE MARKET REPORT San Francisco - 3rd Quarter 2005

San Francisco Market Overview

The trend of shrinking vacancies, positive absorption, and increasing rental rates continued through the 3rd quarter of 2005. San Francisco's overall vacancy rate dropped to 13.7% from 14.6% the previous quarter, while the overall average rate for office space in San Francisco increased to \$29.55 from \$28.45. San Francisco experienced a positive absorption of 786,432 square feet, causing net absorption to jump to 1,230,715 square feet for the year.

San Francisco's unemployment rate currently stands at 5.1%, a decrease from 5.6% at the beginning of the year. However, considering San Francisco averaged 4% annual job growth in the mid-90s and the previously lost 50,000 jobs in the dot-com bust, the unemployment rate must decrease at a greater rate in order to sustain our economic recovery. New office space acquisitions and the resultant employee capacity have outpaced new hires; therefore, the office market recovery is in part the product of anticipated, rather than actual growth.

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Vacancy, Absorption, and Rental Rates in the CBD

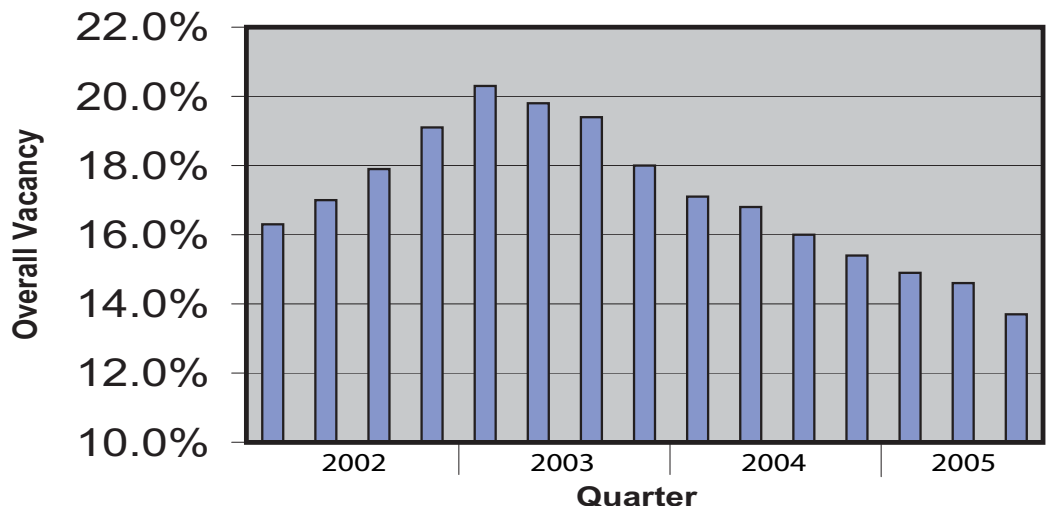
Class A vacancy in the CBD decreased .75% to 14.6% while the average Class A rent increased to \$32.99. In addition, average CBD asking rents have increased 7 - 10% within the last month alone. Having paid record-setting prices per square foot for Class A office buildings (compared to current rental averages) new investors/ landlords are hoping to recoup on their investments now, while also taking advantage of the nine consecutive quarters of declining vacancy rates. Landlords are also benefiting from a 68% reduction in sublease space from a high of 6.8 million available square feet three years ago, which consequently eliminates a direct source of landlord competition.

Though the numbers correctly indicate that space is becoming more limited and that tenants should no longer expect the generous TI and free rent packages seen in previous years, the statistics are deceiving because they do not show the large discrepancy between prime view space and commodity space. Commodity space is still readily available, and strong tenants can still expect to negotiate good deals for space below the 15th floor. Most notably, SBC recently acquired 63,278 square feet of commodity space on the 5th and 6th floors at 795 Folsom Street, while H5 Technologies signed a sublease for 38,827 square feet at 55 2nd Street on the 2nd and 4th floors. Both deals were signed at rates in the low-to-mid \$20s.

About Us

TRI is a full-service brokerage operation. We specialize in office and industrial leasing, investments, and owner-user sales. In addition, we also provide commercial property management services.

**Overall San Francisco Vacancy
2002 Q1 - 2005 Q3**





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2005 Significant Lease Transactions

Building	Tenant	Sq. Ft.	Type
303 2nd Street	State Compensation Insurance Fund	95,128	Renewal
525 Market Street	Sonnenschein, Nath, & Rosenthal	69,477	New
345 California	Texas Pacific Group	69,000	Renewal/ Exp.
795 Folsom Street	SBC	63,278	New
1160 Battery Street	McCann Erickson	53,509	Renewal/ Exp.
500 Sansome Street	Plumtree Software	50,896	Renewal/ Exp.
1160 Battery Street	Mindjet Software	47,083	New
55 2nd Street	H5 Technologies	38,827	Sublease



Markets

Despite four consecutive quarters of the Federal Reserve Bank's short-term interest rate increases, Bay Area investment activity is still producing record prices for office, retail, and multi-family products. Aggressive institutional and local investors, coupled with a low supply of inventory, have resulted in historic levels in both the volume of transactions and price per square foot. The premium office buildings, despite high vacancy rates over the last few years, are on average selling for \$330 a square foot for 2005. With the Bank of America building currently in escrow at a whopping \$1.05 billion reported sales price, the average price per square foot is bound to increase further. With banks' long-term CD rates currently earning above 4% and average CAP rates in investment properties shrinking to 5% levels and less, some analysts predict that the investment market will soon slow down.

With offices in San Francisco, Sacramento, Roseville, Oakland, Walnut Creek, and Santa Rosa, we have access to every major commercial market in Northern California. As a member of CORFAC International, we also provide our clients with international commercial real estate coverage.

2005 Significant Sale Transactions

Property Address	Class	Sale Date	Sales Price	Price Per SF	SqFt
33 New Montgomery St	A	Aug-05	\$75,000,000	\$332	225,816
301 Howard St	A	Jul-05	\$70,000,000	\$228	307,396
100 Pine St	A	Jul-05	\$149,000,000	\$370	402,535
1 Market St	B	Jun-05	\$190,000,000	\$475	400,000
550 California St	B	Jun-05	\$110,000,000	\$324	340,000
160 King St	A	May-05	\$69,000,000	\$411	167,983
350 Sansome St	B	Apr-05	\$23,000,000	\$199	115,481
1 Sansome St	A	Apr-05	\$217,000,000	\$395	550,000
225 Bush St	B	Apr-05	\$178,500,000	\$312	572,041
30-50 Beale St	A	Feb-05	\$150,000,000	\$234	641,328
505 Montgomery St	A	Jan-05	\$118,500,000	\$332	356,596



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SAN FRANCISCO BUILDING AND SUBMARKET DATA

MARKET	Buildings	Vac. %	Prev. Qtr. Vac %	Avg. Rate/ sq. ft.	RBA	Avail. Space (sq. ft.)	3rd Qtr. Absorption	Absorption YTD
San Francisco - Overall	535	13.7%	14.6%	\$29.55	82,468,257	11,256,917	786,432	1,230,715
Class A	143	14.4%	15.6%	\$33.27	44,872,867	6,469,867	538,474	704,958
Class B	254	12.5%	13.3%	\$24.78	28,462,387	3,554,952	227,699	514,181
Class C	138	13.9%	13.9%	\$21.00	9,133,003	1,232,098	20,267	11,576
CBD - Class A Overall	93	14.9%	15.5%	\$32.99	37,960,937	5,656,180	522,411	667,854
North CBD - Class A	49	13.7%	15.1%	\$37.74	19,877,128	2,714,966	278,280	353,458
South CBD - Class A	44	14.8%	16.1%	\$27.35	18,083,809	2,941,213	244,131	314,396
CBD - OVERALL	219	14.6%	15.8%	\$29.99	47,514,683	6,937,144	565,797	867,164
Class A	93	14.9%	15.5%	\$32.99	37,960,937	5,656,179	522,411	667,854
Class B	73	14.4%	14.5%	\$23.62	7,814,490	1,555,472	38,864	189,456
Class C	53	12.8%	13.1%	\$19.70	1,739,256	223,320	4,522	9,854
SUBMARKETS								
Civic Center	34	6.5%	7.2%	n/a	2,855,647	184,760	21,988	19,865
Jackson Square	39	14.2%	14.6%	\$26.56	2,512,327	355,746	11,054	42,159
Potrero East & West	24	12.9%	12.7%	n/a	2,436,598	313,347	(2,924)	38,654
Rincon/ South Beach	27	8.7%	9.5%	\$28.67	4,853,873	422,287	40,773	97,572
SOMA East & West	52	14.7%	15.8%	\$19.71	7,348,177	1,083,121	78,468	131,924
Union Square	47	10.8%	11.5%	\$22.58	4,356,584	472,254	28,753	19,016
VanNess Corridor	25	8.4%	8.6%	n/a	2,135,764	179,404	4,912	(41,330)
Waterfront/ North Beach	33	9.8%	10.4%	\$29.33	4,560,283	446,908	25,538	46,325
Yerba Buena	35	9.4%	9.7%	\$24.21	3,894,321	364,119	12,072	9,366

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