

Q3
2008

TRI Commercial SAN FRANCISCO TRENDS

OFFICE MARKET REPORT

3rd Quarter 2008

San Francisco Market Overview

OFFICES

San Francisco
415.268.2200

Oakland
510.622.8400

Walnut Creek
925.296.3300

Sacramento
916.669.4500

Roseville
916.677.8000

Produced by:

Kitty Lam
Market Research

Tom Martindale, SIOR
Senior Vice President &
Regional Manager

Linda Mansberger
Marketing

TRI Commercial
One California Street

Suite 200

San Francisco, CA 94111

MARKET OVERVIEW

The credit market has been struggling for some time under the weight of the sub-prime debacle and now many banking and financial institutions are finally suffering the negative effects. Bank shares have tumbled due to the staggering amount of bad debts from the residential housing market. San Francisco is one of the main hubs for many global financial institutions. As a result, the troubles of Lehman Brothers Holdings, AIG, Merrill Lynch, Wachovia and Washington Mutual will no doubt impact San Francisco office space in the near future as companies merge and financial sector employees are laid off. It is too early to know the full implications of the recently passed bailout legislation.

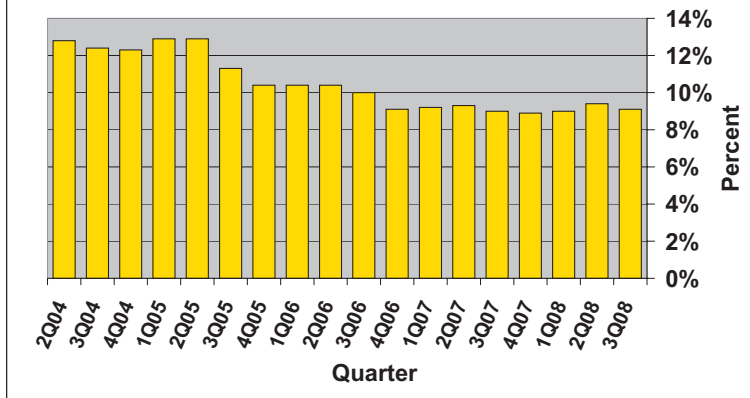
However, there is a silver lining to this economic cloud. Tenants seeking office space have been waiting on the sidelines to see how the struggling credit market will impact the economy and, by extension, the leasing market. More office space, especially driven by subleases, will become available. Today, landlords are feeling the additional pressures resulting from the financial turmoil as carrying costs and debt load hover around them, ultimately leading them to bring rental rates down to fill their buildings. The tide has finally turned to favor tenants, who will now have more leverage to negotiate for reasonable rental rates, larger tenant improvement packages, and other concessions such as moving costs or free rent.

Citywide, the asking rates for Class A office space are down slightly from \$45.76 per square foot to \$43.83 per square foot. Class B direct asking rates are also down slightly from \$33.47 per square foot to \$32.93 per square foot. Currently, the total 3Q citywide vacancy rate has been on a steady and healthy decline from 9.4 percent to 9.1 percent, but under the circumstances is expected to increase significantly in the upcoming quarters.

SF Citywide Quarterly Direct Vacancy Rate

Quarter	Vacancy Rate	Quarter	Vacancy Rate
3Q08	9.1%	2Q06	10.4%
2Q08	9.4%	1Q06	10.4%
1Q08	9.0%	4Q05	10.4%
4Q07	8.9%	3Q05	11.3%
3Q07	9.0%	2Q05	12.9%
2Q07	9.3%	1Q05	12.9%
1Q07	9.2%	4Q04	12.3%
4Q06	9.1%	3Q04	12.4%
3Q06	10.0%	2Q04	12.8%

SAN FRANCISCO CITY-WIDE QUARTERLY DIRECT VACANCY RATE (Class A & B) 2003 - 2008



Major Lease Transactions

Tenant	Address	Class	Submarket	Sq. ft.
Google ^o	345 Spear Street	A	Rincon/South Beach	200,000
Pfizer Inc.	455 Mission Bay Boulevard	A	Mission Bay/ China Basin	105,000
McCann Road Group ^o	600 Battery Street	B	Jackson Square	97,000
ARUP	560 Mission Street	A	South Financial District	49,726
Carroll, Burdick & Mcdonough ^o	44 Montgomery Street	A	Financial District	49,528
Deliverex Acquisition Corp.	1250 Tennessee Street	B	Mission Bay/ China Basin	43,530
Kennedy/Jenks Consultants	303 2nd Street	A	Rincon/South Beach	38,175
Navigant Consulting	1 Market Street	A	South Financial District	37,125
Slide	301 Brannan Street	B	Rincon/South Beach	36,000
WideOrbit Inc.^	2 Harrison Street	A	Rincon/South Beach	33,400
Comcast SportsNet	370 3rd Street	B	Yerba Buena	31,418
Nokia ^o	650 Townsend Center	B	Showplace Square	25,300
ServePath^	2 Harrison Street	A	Rincon/South Beach	22,811
Stupski Foundation	101 2nd Street	A	South Financial District	17,291
Symantec	303 2nd Street	A	Rincon/South Beach	16,966
Bella Pictures	114 Sansome Street	B	Financial District	15,715
Sequoia Capital	555 Mission Street	A	South Financial District	14,718
Federated Media^	2 Harrison Street	A	Rincon/South Beach	14,699

^oTenant Represented by TRI Commercial

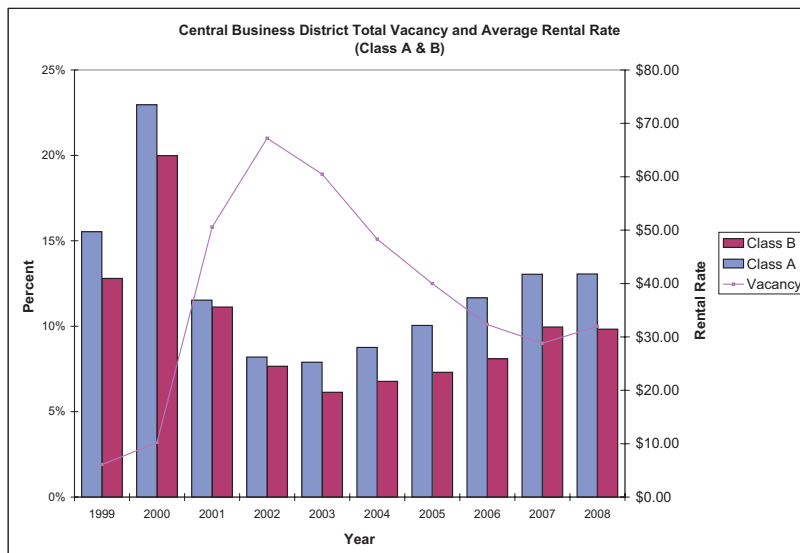
*Landlord Represented by TRI Commercial

^Sublease

^oRenewal

CBD Total Vacancy and Average Rental Rate

Year	Total Avg. Class A	Total Avg. Class B	Total Vacancy Class A & B
2008	\$41.80	\$31.44	10.0%
2007	\$41.74	\$31.86	9.0%
2006	\$37.33	\$25.91	10.1%
2005	\$32.14	\$23.38	12.5%
2004	\$28.02	\$21.68	15.1%
2003	\$25.27	\$19.64	18.9%
2002	\$26.22	\$24.51	21.0%
2001	\$36.89	\$35.59	15.8%
2000	\$73.49	\$63.95	3.2%
1999	\$49.71	\$40.96	1.9%



Submarket Statistics Table

Submarket	Net Rentable Area (Class A&B)	Total Vacancy (Class A&B)	Net Absorption (Class A&B)	Asking Rent* Class A	Asking Rent* Class B
Financial District	28,090,709	10.2%	(177,713)	\$44.30	\$36.34
South Financial District	25,028,009	9.7%	29,305	\$41.31	\$31.33
Civic Center/ Van Ness	4,700,868	4.9%	21,379	\$34.06	\$20.80
Waterfront/North Beach	3,821,406	5.4%	18,470	\$39.56	\$31.31
South of Market	5,089,827	16.7%	23,600	\$34.33	\$33.92
Union Square	4,458,568	5.5%	12,703	\$42.40	\$33.33

*Direct Asking Rate

CBD OFFICE LEASING MARKET

In the coming quarters, we will see an increase in vacancy rates driven by significant amount of sublease space expected to be dumped on the market due to the troubles of Lehman Brothers Holdings, AIG, Merrill Lynch, First Republic Bank (Division of Bank of America/Merrill Lynch), Wachovia and Washington Mutual. Activity in San Francisco CBD Class A office space remained relatively flat with a negative (147,408) square feet of absorption this quarter. Total vacancy rates increased slightly from 8.0 percent to 8.8 percent this quarter, and the average CBD asking rental rate for Class A remains in the mid \$40's psf while Class B continues in the mid \$30's psf.

INVESTMENT MARKET ANALYSIS

The investment market continues to be fairly quiet throughout the year, with a notable decrease in office building investments. Investors are clearly more conservative today because of a slower economy and the turmoil in the banking and financial sector and, as a result, are less willing to take on high risk. Credit tightness has put the brakes on many transactions, dramatically slowing transaction velocity. Investors in the market during this period are more likely to be experienced, well funded, and sophisticated in the purchase. Most of the completed transactions were probably due to urgent needs. As a result of this difficult lending environment, buyers are more likely to sit on the sideline waiting for a better opportunity in the future.

Recent Major Sale Transactions

Address	Submarket	Square Feet	Sales Price	Price/ Sq.Ft	Class
760 Market Street	Union Square	267,446	Non-Disclosure	Non-Disclosure	B
601 California Street	Financial District	246,456	\$104,000,000	\$422	A
1 Jones Street	Civic Center	38,000	\$3,950,000	\$104	B
712-714 Sansome Street	Jackson Square	12,600	\$4,325,000	\$343	C
3043 Mission Street [^]	Southern City	10,000	\$1,650,000	\$165	B
490 Post Street (12 Office Condo Units)	Union Square	8,333	\$4,800,000	\$567	B
260-298 King Street* (Office Condo Unit)	Lower South of Market	3,455	\$1,425,000	\$412	B

*Buyer Represented by TRI Commercial

[^]Seller Represented by TRI Commercial

4Q 2008 COMMERCIAL REAL ESTATE FORECAST

More sublease space will continue to become available on the market due to the struggling banking and financial market. The recent bankruptcy filed by Lehman Brothers, the sale of Merrill Lynch to Bank of America and the restructuring of AIG Insurance will bring additional space to the market. Together, banking and financial firms occupied over 600,000 square feet in downtown San Francisco. We will see a significant amount of space re-introduced to the market in the next 3-6 months. Expect a notable decrease in asking rental rates and office investment sales over the next two quarters as banks continue to tighten their belts and the economy re-orient itself. The good news is that San Francisco has solid long term growth in the technology, biotechnology, and green sectors to offset the struggling banking and financial sectors. Tenants will enjoy more leverage as we head towards 2009.

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