



Q4
2007

TRI Commercial SAN FRANCISCO TRENDS

OFFICE MARKET REPORT

4th Quarter 2007

San Francisco Market Overview

OFFICES

MARKET OVERVIEW

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The San Francisco office leasing market is finally settling as rates are beginning to plateau. Asking rents are still high, but many deals are being completed well below the advertised rates. Many new landlords are offering concessions in order to keep the face value of their rents. (Mid \$50's face value rents, with 6 months of free rent, equal an effective rent in the high \$40's on a 5 year term.) The face values of these rents are important to those landlords in order to meet the rent pro-forma's which formed the basis for the buildings' purchase price. Lenders aren't happy when the landlords strike deals below the pro-forma numbers, as the loan for the building is predicated on the building receiving those pro-forma rents.

The 4th Quarter numbers show an increase in overall rates and a decrease in vacancy, both creating the appearance of a landlord's market which is, in reality, mis-leading. Although these transactions were completed in the 4th Quarter, the terms and rates for many of those deals were agreed to as far back as the 3rd Quarter. Because letters of intent are usually signed 2 to 3 months in advance of lease commencement dates, the economics of those transactions do not necessarily reflect the current state of the market as we enter the New Year. The 1st Quarter numbers should reflect a lowering in rents and an almost static vacancy change, as uncertainty continues to grow about overall economic conditions.

Current rental figures illustrate two distinct markets for space: those with "premium" views, and "commodity" spaces. Premium view spaces in Class A buildings are still commanding rents north of \$60 to \$70 per square foot. However, commodity non-view spaces are in the mid \$40's. The Class B market is much the same with a number of high priced view spaces commanding rents north of \$50, while the commodity spaces are priced in the mid \$30's. The San Francisco vacancy rate continues to be in the single digits, hovering around 9%. This 9% includes the high priced spaces, which are not being offered at rates which most businesses can afford. Therefore, the vacancy rate is closer to 5% for those spaces priced where tenants realistically will pursue deals.

Recent Sale Transactions

Address	Submarket	Square Feet	Sales Price	Price/ Sq.Ft	Class
150 Spear Street	South Financial District	256,827	\$14,250,000	\$555	A
274 Brannan Street	Rincon/South Beach	105,225	\$51,000,000	\$485	B
182-184 Second Street	South Financial District	36,135	\$12,000,000	\$332	B
447 Battery Street	Financial District	27,000	\$7,650,000	\$283	B
28 Second Street**	South Financial District	22,584	\$6,500,000	\$232	C
354 Pine Street	Financial District	21,420	\$8,850,000	\$413	C
219-225 Kearny Street**	Financial District	7,533	\$2,700,000	\$350	B

**Landlord and Seller Represented by TRI Commercial

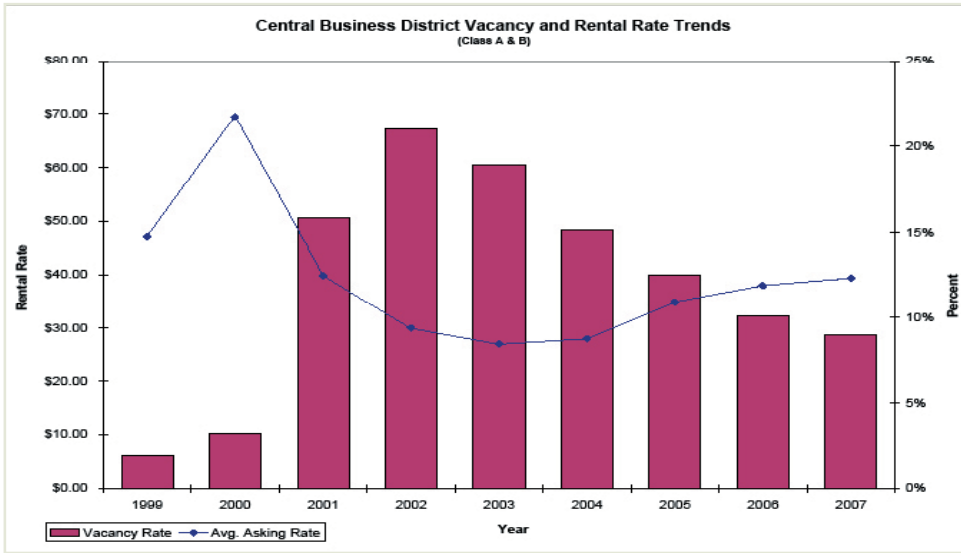
“Substantial growth will continue to occur in the technology and biotechnology sector.”

Major Lease Transactions

Tenant	Address	Class	Submarket	Sq. ft.
O'Melveny & Myers	Embarcadero Two	A	Financial District	170,000
Barclays Global Investors	45 Fremont Street	A	South Financial District	113,404
Sega of America	350 Rhode Island Street	A	Showplace Square	69,546
H5 Technologies*	71 Stevenson Street	A	Financial District	53,400
Service Source Inc.	634 Second Street	C	Rincon/South Beach	45,881
Hotwire	655 Montgomery Street	A	Financial District	44,356
Fox Interactive Media	625 Second Street	B	Rincon/South Beach	34,595
TPG Capital LP	345 California Street	A	Financial District	34,003
Ikon Office Solutions, Inc.	225 Bush Street	B	Financial District	31,473
HQ Global Workplaces	795 Folsom Street	B	Yerba Buena	27,803
Credit Suisse	201 Spear Street	A	South Financial District	22,907
The Energy Foundation	400 Sansome Street	B	Financial District	20,192
Hood & Strong LLP	100 First Street	A	South Financial District	19,000
iStar Financial	1 Sansome Street	A	Financial District	16,674

*Landlord Represented by TRI Commercial

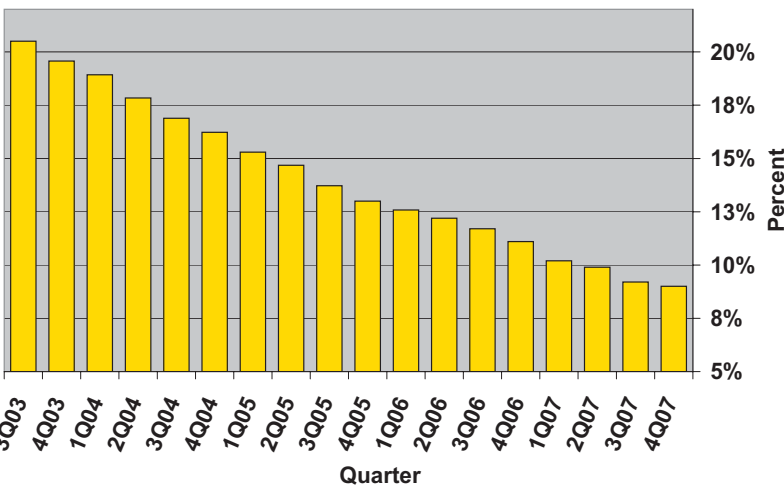
With offices in San Francisco, Sacramento, Roseville, Oakland, Walnut Creek, and Santa Rosa, we have access to every major commercial market in Northern California. As a member of CORFAC International, we also provide our clients with national and international coverage.



CBD Vacancy & Rental Rate Trends

Year	Vacancy	Rental Rate
2007	9.00%	\$39.36
2006	10.10%	\$38.00
2005	12.50%	\$34.97
2004	15.10%	\$28.00
2003	18.90%	\$27.00
2002	21.00%	\$29.99
2001	15.80%	\$39.89
2000	3.20%	\$69.50
1999	1.90%	\$47.14

SAN FRANCISCO CITY-WIDE QUARTERLY VACANCY RATE 2003 - 2007



SF Citywide Quarterly Vacancy Rate 2003 - 2007

Quarter	Vacancy Rate	Quarter	Vacancy Rate
4Q07	9.00%	3Q05	13.72%
3Q07	9.20%	2Q05	14.68%
2Q07	9.90%	1Q05	15.30%
1Q07	10.20%	4Q04	16.23%
4Q06	11.10%	3Q04	16.89%
3Q06	11.70%	2Q04	17.84%
2Q06	12.20%	1Q04	18.93%
1Q06	12.58%	4Q03	19.57%
4Q05	13.00%	3Q03	20.50%

CBD OFFICE LEASING MARKET

As previously mentioned, non-view Class A rents in downtown are in the mid \$40's per square foot, while non-view Class B rents are in the mid \$30's. After the last 18 months of increasing rents, these asking rates represent the first "settling" of the market we have seen in awhile. Again, many recent rental increases were the result of landlords purchasing buildings on bullish pro-forma's, but these landlords are beginning to do deals at a more realistic rate than they are advertising given current market realities. Deals with tenant concessions at higher face rents, and deals with lower face rents, are surfacing. True supply and demand is usually what controls the leasing market. The San Francisco unemployment rate continues to be steady around 4.4%. Our market is not experiencing a significant increase in demand and the end result is a slowdown or plateauing of rapidly escalating rates.

INVESTMENT MARKET ANALYSIS

The near-collapse of the lending industry after the subprime mortgage debacle has contributed to a softening economy. For buyers of commercial real estate assets, there is greater difficulty in borrowing money at favorable rates. Both residential and commercial lenders have tightened standards and demand greater “buyer equity” in real estate acquisitions. After sizzling-hot office building sales throughout the first half of 2007, transaction volume fell sharply in the third quarter, and practically stopped in the fourth quarter. One sale at year-end sustained the average for the year when 150 Spear sold for \$555/square foot.

“Nearly Five Million

Square Feet of Positive Net

San Francisco remains a top-tier city for investments in the U.S., and with nearly five million square feet of positive net absorption since 2005. The City is still considered an attractive investment target. However, despite the expectation of San Francisco being isolated from the overall U.S. economy, problems still remain unresolved. These are: the uncertainty of the direction in rental rates; the reduced inventory of Class A buildings that haven’t recently sold; and the tightened credit market. These factors should reduce the pace of investment sales in 2008.

Absorption Since 2005.”

Submarket Statistics Table

Submarket	Net Rentable Area (Class A&B)	Total Vacancy (Class A&B)	Net Absorption (Class A&B)	Avg. Rent Class A	Avg. Rent Class B
Financial District	28,984,595	10.2%	461,777	\$42.79	\$35.24
South Financial District	24,463,894	9.7%	142,294	\$44.92	\$34.52
Civic Center/ Van Ness	4,669,074	8.6%	(44,238)	\$29.50	\$24.17
Waterfront/North Beach	3,744,087	6.7%	93,656	\$44.45	\$31.01
South of Market	5,089,827	11.9%	111,482	\$35.00	\$23.99
Union Square	4,590,967	2.1%	(37,465)	\$42.56	\$30.54
Total Office Market	71,542,444		727,506		

1Q 2008 COMMERCIAL REAL ESTATE FORECAST

Will newly constructed buildings help the rental rates to fall? Collectively, brokers don’t think so because 2 million square feet newly added to the existing 50 million plus square foot market only adds less than 4% of incremental space to the market. Additionally, newly constructed buildings, such as 555 Mission Street, will be priced at a premium, thus pricing themselves out of reach for many tenants. The San Francisco leasing market is “settling” and should continue this way for at least the next two quarters. The long range forecast is tough to predict, as always, especially with the potential increasing for a recession as hypothesized by many economic analysts. Tenants in the market, or soon to be in the market, should focus on acting quickly to secure those spaces they find that closely match their needs and, in the process, should be asking for more concessions than in recent times. The current high prices on premium view spaces truly limit half the options available to tenants. Those who can afford to pay the premium rents don’t look at office space expenses in the same light as most value oriented business owners and decision makers do. The good news for tenants is that the rapid rental increases we have experienced the last several quarters are now over and vacancy rates should be almost static. We are expecting a mildly tenant-favored market for the first couple of quarters in 2008.