

Q4
2008

TRI Commercial SAN FRANCISCO TRENDS

OFFICE MARKET REPORT

4th Quarter 2008

San Francisco Market Overview

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MARKET OVERVIEW

Focus on Opportunity

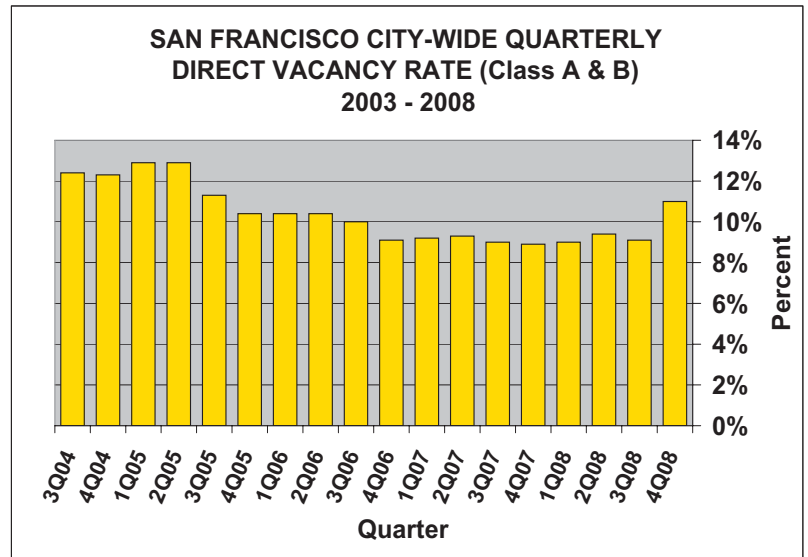
Our economy is at a historical crossroads, one that many of us have not seen in this lifetime. All across the country, the effect of the financial crisis is apparent from Wall Street to Main Street. As our government injects billions of dollars to resuscitate our economy and stimulate business, few, if any, are attempting to predict the direction in which we are headed. As businesses dig deep and cut expenses through layoffs and space consolidation, more sublease opportunities are becoming available. In San Francisco's central business district, the heart of the West Coast's financial market, there is over 850,000 square feet of vacant sublease office space this quarter, a 33% increase from the 660,000 square feet at the beginning of 2008.

With all of this uncertainty, landlords are anxious to invite long term, credit tenants into their buildings. We are seeing office space marketed to brokers and prospective tenants in novel, creative ways, including open houses with attractive grand prize raffles, double brokerage commission for leases signed by a certain date, significant tenant improvement packages, touring incentives in the form of gift cards and cash, and several months of abated rent. All of this translates to great news for businesses seeking to modify their office space, with possible bargain deals in well located, high profile downtown office buildings.

The direct asking rate for Class A office space, citywide, is down from \$43.83 per square foot to \$41.88 per square foot, with one Class A deal closing as low as \$33.29. Class B direct asking rates are also down slightly from \$32.93 per square foot to \$32.12 per square foot. The current direct 4Q citywide vacancy rate is at 11.0 percent, and a substantial gain in vacancy is expected in the New Year.

SF Citywide Quarterly Direct Vacancy Rate

Quarter	Vacancy Rate	Quarter	Vacancy Rate
4Q08	11.0%	3Q06	10.0%
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%



Major Lease Transactions

Tenant	Address	Class	Submarket	Sq. ft.
San Francisco Art Institute	10 United Nations Plaza	A	Civic Center	52,893
Visa USA	595 Market Street	A	South Financial District	43,842
Capsilon^	153 Townsend Street	A	Rincon/South Beach	35,701
Hogan and Hartason LLP^	4 Embarcadero Center	A	Financial District	22,134
Jefferies & Company, Inc.^	120 Kearny Street	A	Financial District	19,620
Del Monte^	50 California Street	A	Financial District	19,200
Vector Capital^	1 Market Street	A	Financial District	16,264
Meta Interfaces^	22 4th Street	A	Yerba Buena	15,995
DPIO	150 Spear Street	A	South Financial District	15,562
Hi 5 Networks, Inc.^	55 2nd Street	A	South Financial District	15,460
ClimateWorks	235 Montgomery Street	B	Financial District	14,800
Smarturn	181 Fremont Street	B	South Financial District	13,702
Miller Law Group^	111 Sutter Street	B	Financial District	12,579
Lafayette & Kumagai	100 Spear Street	A	South Financial District	10,603
Next Light Renewable Power	353 Sacramento Street	A	Financial District	10,104
Steelcase Inc."	660 3rd Street	B	Lower South of Market	6,097

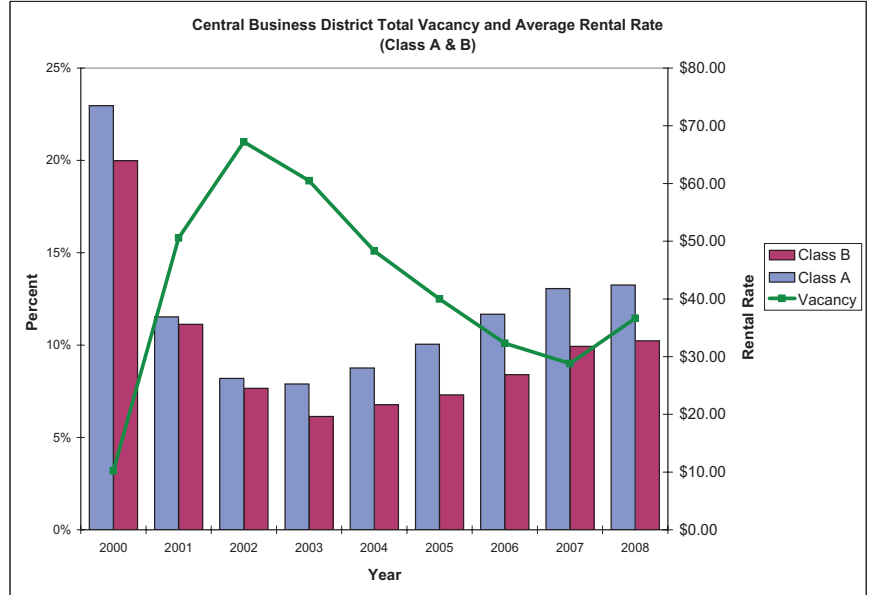
"Tenant Represented by TRI Commercial

^Sublease

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.

CBD Total Vacancy and Average Rental Rate

Year	Avg. Rental Rate Class A	Avg. Rental Rate Class B	Total Vacancy Class A & B
2008	\$42.40	\$32.73	11.5%
2007	\$41.79	\$31.77	9.0%
2006	\$37.35	\$26.86	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)	Absorption (Class A&B)	Asking Rent Class A	Asking Rent Class B
Financial District	28,322,483	11.5%	(409,655)	\$42.52	\$34.53
South Financial District	25,659,827	11.4%	17,348	\$42.27	\$30.93
Civic Center/ Van Ness	4,817,655	6.9%	(94,674)	\$34.87	\$20.18
Waterfront/North Beach	3,760,619	7.0%	(58,438)	\$39.56	\$29.60
South of Market	5,089,866	16.9%	(8,000)	\$34.33	\$33.92

CBD OFFICE LEASING MARKET

Activity in San Francisco CBD (Financial & South Financial District) office space remains relatively flat, with a negative 392,307 square feet of absorption this quarter. Total vacancy rates increased slightly from 10.0 percent to 11.5 percent, partly due to the new delivery of 555 Mission Street, a 33-story, 556,319 square feet office tower, which came on the market in the third quarter. The average CBD asking rental rates for Class A are now in the low \$40's psf, while Class B hovers in the low \$30's psf.

INVESTMENT MARKET ANALYSIS

Tighter lending standards have stalled the commercial real estate market, particularly affecting the investment sector. Properties that were for sale in the last several months have been since removed from the market or, if in escrow, have fallen out of contract. A widening gap continues to grow between buyers' and sellers' expectations. While sellers are still expecting a high value for their property based on older comparable sales figures from early 2008 and before, buyers are looking to secure bargains in wake of the current economic and financial situation. Investors are holding tight to their capital for the moment, waiting and watching for adjustments in the economy and for opportunities to present themselves. Banks will have to get back to the business of lending again, as we challenge ourselves to be more creative in order to get deals done, and prepare to see where the economic recession and financial crisis leads us.

Recent Major Sale Transactions

Address	Submarket	Square Feet	Sales Price	Price/ Sq.Ft	Class
235 Pine St	Financial District	149,000	56,500,000	379	A
1 Jones St	Civic Center	38,310	3,950,000	103	B

1Q 2009 COMMERCIAL REAL ESTATE FORECAST

Banks have always played a pivotal role in the health of the global economy, and the current credit crisis has slowed down, or in some cases, completely stopped growth for many businesses. Until the economy is more stable and banks have recovered to where they are lending again, real estate activity is expected to be slow for the beginning of the year in 2009. On the other hand, because of the current market situation, savvy investors and businesses with money in the bank and a desire to strike incredible bargains in either acquiring or leasing properties have their pick of numerous attractive options. Many high profile, top dollar, prime view office spaces are coming onto the sublease market from previous businesses such as law firms, hedge funds, mortgage brokers, and venture capitalists, offered at a fraction of the price they previously paid. For a well positioned investor or tenant, those buildings present an incredible opportunity to acquire affordable space for a significant discount from previous levels.

The information above is believed reliable. While we do not doubt its accuracy, we make no guarantee, warranty or representation about it.