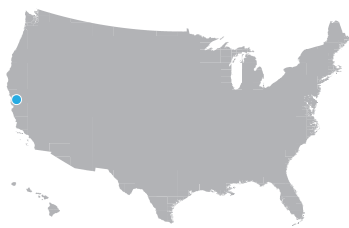




SAN FRANCISCO RESEARCH & FORECAST REPORT



Technology boosts Tenant Occupancy

2011 net absorption surpasses 2 million square feet, a level unseen since 2000

OVERVIEW

The San Francisco Bay Area remains a bright spot in an otherwise cautious national office market outlook. Even three years after the economy hit bottom, recovery on a national level has largely stalled. Chronic economic malaise, anemic job growth and increased productivity due to technology enhancements have hindered growth in most office markets across the country. However, benefitting from its proximity to Silicon Valley's innovation engine, the San Francisco office market continues to be fueled by the accelerated growth of its tech sector.

Perhaps the most significant change for San Francisco office space in the last 30 years, since the departure of the big 'back offices' of the Fortune 100 banks and other companies, has been its power to attract technology employees who would rather live and work in the 24-hour city than the suburbs of the south and the east bays.

Leasing activity in 2011 was robust, registering 1,672,554 square feet of lease transactions for the fourth quarter, and 6,411,428 for the year, on par with the city's historical average.

Despite a cautious economic environment, universally, unemployment rates stabilized. During the quarter, the US unemployment rate dipped to 8.5 percent from 9.1 percent. Similarly, San Francisco's unemployment rate dipped 50 basis points to 8.7 percent from 9.2 percent.

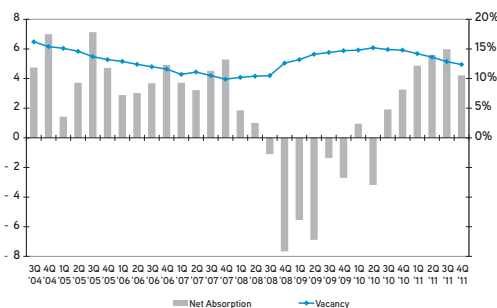
Optimistic companies, planning on increasing their workforce, expanded their footprint. Tenant occupancies absorbed 425,000 square feet during the fourth quarter, which pressed the annual total to a record-high of 2.1 million square feet, a number unseen since the dot com era of 2000. The occupancy gains shed 50 basis points from the city's vacancy to 12.4 percent from 12.9 percent, the lowest rate since 2008.

MARKET INDICATORS

	Q4 2011	2012
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↑
WEIGHTED RENTAL RATE	↑	↑
NON WEIGHTED RENTAL RATE	↑	↑
SALES VOLUME	↑	↑
SALE PRICES	↑	↑

UPDATE

Absorption and Vacancy Rates



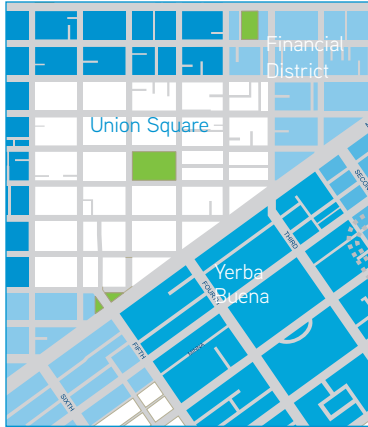
EFFECTIVE RENTAL RATE QUARTERLY COMPARISON

	3Q '11 Overall	4Q '11 Direct	4Q '11 Sublease	4Q '11 Overall	% Change
Financial District: Class A	\$38.74	\$44.00	\$32.41	\$40.72	5.1%
	\$38.20	\$41.21	\$35.13	\$43.56	14.0%
All Markets: Class A	\$37.61	\$44.96	\$32.41	\$44.56	18.5%
	\$38.38	\$41.57	\$35.13	\$41.12	7.1%
All Markets: Class B	\$36.36	\$38.92	\$26.21	\$38.18	5.0%
	\$32.93	\$36.40	\$29.77	\$35.59	8.1%
All Markets: Class C	\$30.00	\$31.65	\$18.10	\$31.02	3.4%
	\$29.69	\$32.01	\$18.10	\$30.62	3.1%

*weighted average rents

RENT INCREASES

During the fourth quarter, a series of large transactions, some topping \$60 per square foot, drove the average weighted Class A rent to \$44.56 per square foot, an 18.5 percent increase over \$37.61.



Union Square experienced strong office absorption over 2011. The 3.8 million square foot submarket registered 18,788 square feet of absorption for the fourth quarter and 140,088 square feet for the year, which leaves 206,567 square feet of vacant available space, or just 5.5 percent.

Decreasing vacancy, particularly in San Francisco's South of Market District (SOMA), left few attractive options in the preferred address for savvy technology tenants. Opportunistic landlords made significant investments converting traditional offices into creative space to capitalize on the flood of technology firms seeking exposed ceilings and open floorplans. Rental rates surged across the board (18.5 percent for weighted Class A and 7.1 percent for non weighted).

2011 proved to be an incredible year for the San Francisco investment sales market. After a two- year recovery period following the global recession, the city's evident demand drivers in most submarkets attracted investor interest and continued to bolster investment sales volume and pricing throughout San Francisco. With leasing fundamentals still driven by the dynamic technology, interne and gaming sectors, San Francisco has been recognized by most investors as the top investment market in the country.

ABSORPTION

The San Francisco office market experienced positive net absorption of 421,260 square feet during the fourth quarter, and a total of 2,066,653 square feet of growth for the year—an all-time high since 2000 when there was 3 million square feet of tenant growth. Absorption continues to be fueled nearly exclusively by technology companies, which has raised some skepticism about the sustainability of the expansion period of the market cycle.

The SOMA East submarket, a location coveted by tech firms, experienced the largest increase in tenant occupancies. Expansions from notable high-tech groups such as Splunk, Inc, and the technology division of JP Morgan Chase, who increased by 23,362 square feet and 34,824 square feet, respectively, absorbed a total of 94,785 square feet in the submarket. As a result, vacancy dipped to 7.9 percent from 9.8 percent and left few options for large tenants.

UPDATE Lease and Investment Transactions

SIGNIFICANT LEASES Q4 2011

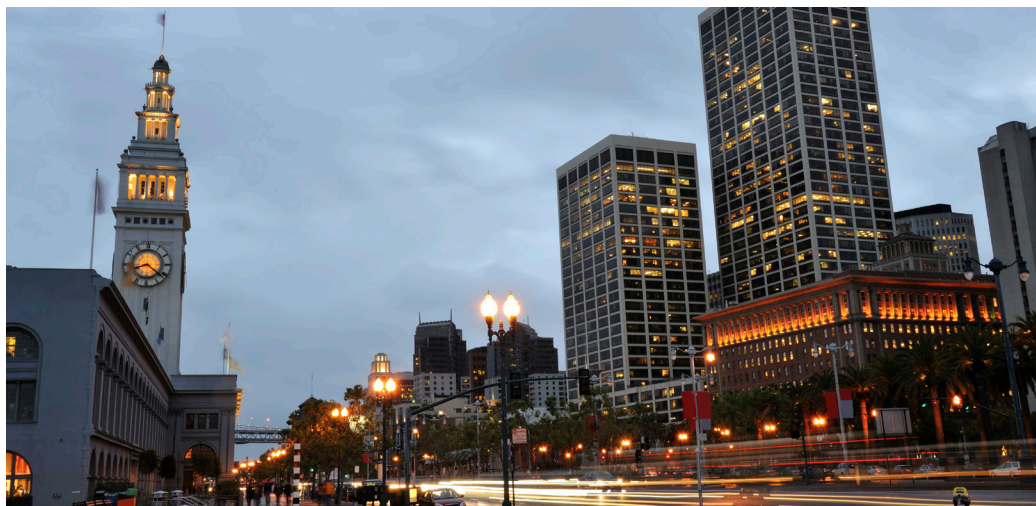
ADDRESS	TENANT	SIZE	TYPE	SIGNED DATE	CLASS
1 Sansome Street	Citigroup	121,754	Renewal	Nov-11	A
4 Embarcadero Center	Pillsbury Winthrop	105,000	Lease	Oct-11	A
1 Front Street	First Republic Bank	54,882	Lease	Nov-11	A
185 Berry Street (Wharfside)	Coverity	53,025	Lease	Oct-11	A
650 California Street	Goodby Silverstein & Partners	51,931	Lease	Oct-11	A
100 Montgomery Street	Solution Set	50,874	Lease	Oct-11	B
4 Embarcadero Center	Digital Realty	50,000	Lease	Oct-11	A
185 Berry Street (Berry)	Gree	41,430	Lease	Nov-11	A
123 Mission Street	McKesson	40,966	Lease	Nov-11	A

SIGNIFICANT SALES Q4 2011

ADDRESS	SELLER	BUYER	SQ. FT.	SALE DATE	CLASS	SALE PRICE	PRICE/SF
370 3rd Street	Cerberus Capital/Lincoln	Kilroy Realty Corporation	400,000	Nov-11	B	\$92,000,000 *	\$230.00
390 Main Street	Angelo Gordon/Amerimar	Bay Area Headquarters Authority	497,204	Oct-11	C	\$93,000,000	\$187.05
631 Howard/55 Hawthorne	RREEF	Divco West	237,123	Nov-11	B/A	\$77,700,000	\$327.68
155 5th Street	Continental Development	UOP-Dugoni School of Dentistry	375,000	Nov-11	A	\$47,000,000	\$125.33
1275 Market Street	State Comp Insurance Fund	Divco/TMG	385,000	Oct-11	A	\$44,000,000	\$114.29
301 Brannan Street	Breevast US	Kilroy Realty Corporation	70,904	Nov-11	B	\$30,000,000	\$423.11
625 Market Street	New Urban Properties	Sun Life Assurance	71,345	Nov-11	B	\$29,250,000	\$409.98

* Purchase price is for leasehold interest. Owner has one-time option to purchase fee simple interest for \$27,000,000 in 2012

Class	Existing Properties										Absorption		New Supply		U/C & Proposed	
	# of Buildings	Total Inventory (square feet)	Direct Vacant (square feet)	Direct Vacancy Rate	Sublease Vacant (square feet)	Sublease Vacancy Rate	Total Vacant (square feet)	Occupied Space (square feet)	Vacancy Rate Current Period	Vacancy Rate Prior Period	Current Net Absorption	YTD Net Absorption	Net New Supply Current (square feet)	Net New Supply YTD	Under Construction (square feet)	Proposed (square feet)
DOWNTOWN MARKET:																
A	171	52,333,099	6,107,111	11.7%	189,131	0.4%	6,296,242	46,036,857	12.0%	12.7%	329,947	1,645,026	-	-	288,000	5,938,520
B	293	25,524,886	3,616,862	14.2%	57,648	0.2%	3,674,510	21,850,376	14.4%	15.0%	152,070	483,285	-	-	-	-
C	143	7,778,573	621,371	8.0%	4,390	0.1%	625,761	7,152,812	8.0%	7.3%	(60,757)	(61,620)	-	-	-	-
Total	607	85,636,558	10,345,344	12.1%	251,169	0.3%	10,596,513	75,040,045	12.4%	12.9%	421,260	2,066,691	-	-	288,000	5,938,520
FINANCIAL DISTRICT:																
A	105	40,236,610	3,953,707	9.8%	147,790	0.4%	4,101,497	36,135,113	10.2%	10.7%	198,571	1,181,349	-	-	67,000	4,198,000
B	79	8,060,719	1,004,525	12.5%	4,125	0.1%	1,008,650	7,052,069	12.5%	13.5%	75,791	73,488	-	-	-	-
C	43	1,896,299	152,729	8.1%	1,940	0.1%	154,669	1,741,630	8.2%	7.3%	(16,888)	(6,420)	-	-	-	-
Total	227	50,193,628	5,110,961	10.2%	153,855	0.3%	5,264,816	44,928,812	10.5%	11.0%	257,474	1,248,417	-	-	67,000	4,198,000
SUBMARKETS:																
North Financial	118	26,783,376	3,100,084	11.6%	136,245	0.5%	3,236,329	23,547,047	12.1%	12.5%	122,727	772,251	-	-	-	469,000
South Financial	109	23,410,252	2,010,877	8.6%	17,610	0.1%	2,028,487	21,381,765	8.7%	9.2%	134,747	476,166	-	-	67,000	3,729,000
Total	227	50,193,628	5,110,961	10.2%	153,855	0.3%	5,264,816	44,928,812	10.5%	11.0%	257,474	1,248,417	-	-	67,000	4,198,000
Union Square	56	3,789,327	204,784	5.4%	1,783	0.0%	206,567	3,582,760	5.5%	5.9%	18,788	140,088	-	-	-	-
Yerba Buena	33	4,122,299	879,806	21.3%	15,557	0.4%	895,363	3,226,936	21.7%	23.2%	60,616	86,618	-	-	-	140,000
SOMA West	30	2,748,771	456,731	16.6%	-	0.0%	456,731	2,292,040	16.6%	16.6%	(391)	381,251	-	-	-	-
SOMA East	53	5,125,653	406,707	7.9%	-	0.0%	406,707	4,718,946	7.9%	9.8%	94,785	195,996	-	-	-	870,000
Civic Center/Mid-Market	49	6,433,923	1,671,817	26.0%	4,468	0.1%	1,676,285	4,757,638	26.1%	26.1%	1,321	(53,475)	-	-	221,000	-
Jackson Square	41	2,429,895	169,765	7.0%	3,777	0.2%	173,542	2,256,353	7.1%	8.2%	25,313	72,360	-	-	-	-
North Waterfront	51	3,957,245	378,908	9.6%	10,710	0.3%	389,618	3,567,627	9.8%	9.7%	(4,526)	54,439	-	-	-	-
Van Ness Corridor	26	1,609,791	243,676	15.1%	43,940	2.7%	287,616	1,322,175	17.9%	17.8%	(1,183)	(1,418)	-	-	-	-
Potrero West	16	1,410,391	96,865	6.9%	2,829	0.2%	99,694	1,310,697	7.1%	4.7%	(33,257)	25,992	-	-	-	-
Potrero East	11	1,040,544	178,150	17.1%	14,250	1.4%	192,400	848,144	18.5%	18.5%	358	(89,416)	-	-	-	-
Mission Bay	14	2,775,091	547,174	19.7%	-	0.0%	547,174	2,227,917	19.7%	19.8%	1,963	5,801	-	-	-	730,520
Total	607	85,636,558	10,345,344	12.1%	251,169	0.3%	10,596,513	75,040,045	12.4%	12.9%	421,260	2,066,653	-	-	288,000	5,938,520
QUARTERLY COMPARISON AND TOTALS																
Q3 -11	607	85,636,558	10,798,070	12.6%	219,665	0.3%	11,017,735	74,618,823	12.9%	13.6%	598,280	1,645,431	-	-	288,000	5,938,520
Q2 -11	605	85,635,358	11,218,132	13.1%	403,025	0.5%	11,621,157	74,014,201	13.6%	14.2%	560,121	1,047,151	-	-	288,000	5,938,520
Q1 -11	605	85,540,175	11,577,224	13.5%	598,912	0.7%	12,176,136	73,364,039	14.2%	14.7%	487,030	487,030	-	-	288,000	5,938,520
Q4 -10	605	85,442,720	11,702,139	13.7%	877,621	1.0%	12,579,760	72,862,960	14.7%	14.8%	245,229	240,287	210,000	320,000	288,000	5,938,520
Q3 -10	605	85,442,720	11,540,647	13.5%	1,074,342	1.3%	12,614,989	72,827,731	14.8%	15.0%	200,072	(4,942)	-	182,073	277,000	6,383,520



New Center of Tech?

A third of the 350 attendees polled at Colliers International and The Registry's first annual real estate trends event believe the center of tech gravity will shift to San Francisco from Silicon Valley over the next five years.

VACANCY

The overall vacancy rate within the city dropped from 12.9 percent in the third quarter to 12.4 percent this quarter, an 18.5 percent decrease from 14.7 percent at the end of last year.

Many tenants blocked from SOMA, either due to price or a lack of options, opted for similar creative space locations in the historic buildings of the Union Square and Jackson Square submarkets. The increased activity reduced vacancy levels to 5.5 percent and 7.1 percent, respectively, the lowest in the city.

An influx of tenant requirements will continue to increase the demand for space. There are a total of 117 tenants in the market with 4.06 million square feet of office space needs. While it is highly unlikely that 100 percent of these tenants will fulfill their stated space needs, it does provide an indicator that there will be healthy leasing activity in 2012.

RENTS

Influenced by tightening market conditions and a surge in demand, average rental rates increased across all asset classes.

Rental rates for all markets for Class A space increased 7.1 percent to \$41.12 per square foot (non-weighted) in the fourth quarter from \$38.38. Weighted averages for the same product type increased 18.5 percent to \$44.56 per square foot from \$37.61.

Drivers of the surge in weighted increases were largely from significant deals signed at high rates by Digital Realty and Pillsbury Winthrop in premium view space at Embarcadero Center 4 and by Gree and Coverity, Inc., who joined Drop Box at the newly built-out 185 Berry Street.

Weighted Class B rents inched up 5 percent to \$38.18 per square foot, from \$36.36. Non-weighted B averages increased 8.1 percent.

INVESTMENTS

Investment sales volume in San Francisco was robust in 2011, as approximately \$2.8 billion in downtown transactions occurred. While still far from the historic capital markets peak witnessed in 2004-2007, sales volume between \$2 to \$4 billion is consistent with historic averages in San Francisco.

Notable sales that closed during the fourth quarter include Kilroy Realty Corporation's acquisition of 370 Third Street in December for \$92 million, or \$230.50 per square foot. The Class A, 400,000 square foot Yerba Buena office was 10 percent occupied when it traded, however the sale was announced simultaneously with Pac-12 Enterprise's initial 70,000 square foot lease in the building and two must-take options that would increase the organization's occupancy by 45,000 square feet.

The Bay Area Headquarters Authority purchased 390 Main Street in October from Amerimar and Angelo Gordon. The 497,204 square foot Class C property sold for \$93 million, or \$187.05 per square foot. The buyer will use it as a joint headquarters for the Bay Area Air Quality Management District, Metropolitan Transportation Commission and San Francisco Bay Conservation and Development Commission.

With one year of consistent positive market trends realized, we expect the investment market in San Francisco to continue, with many buyers from the 2004-2007 years looking to capitalize on the strong current investment market.

While global economic uncertainty and political bickering in Washington disconcerted investors' nerves in 2011, the capital markets remained strong through year-end. In addition, proactive international response to the European debt crisis along with continued positive economic news domestically will bolster markets through 2012.

512 offices in 61 countries on 6 continents

United States: 125

Canada: 38

Latin America: 18

Asia Pacific: 214

EMEA*: 117

*(Europe, Middle East, and Africa)

- \$1.5 billion in annual revenue
- 979 million square feet under management
- Over 12,000 professionals

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