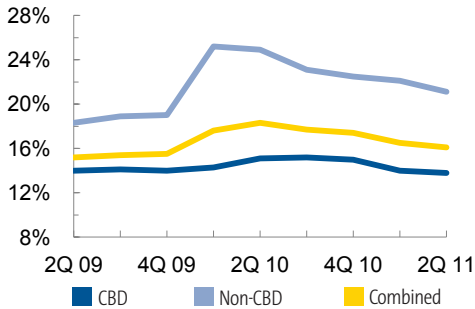
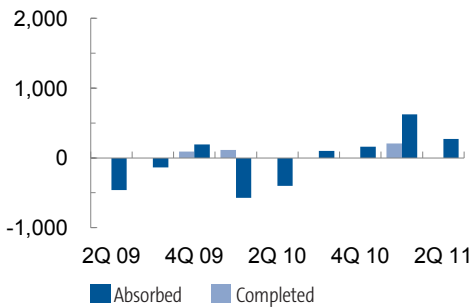


### Vacancy Rate



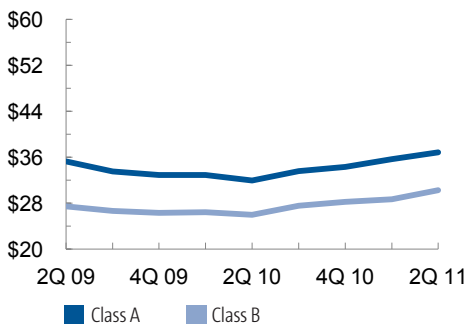
### Completions vs. Absorption

(in Thousands of SF)



### Asking Rental Rates

(\$/SF/Yr. Full Service)



## Tech Keeps Pushing Market Positive

The San Francisco office market posted a strong first half in 2011, resulting in almost one million square feet of net positive absorption. Technology companies dominated market activity as rapidly expanding tech tenants competed for creative space and pushed rents higher. Employment growth in San Francisco continues to outpace the rest of the U.S. San Francisco's unemployment rate dropped sharply to 8.4 percent, the lowest rate since April 2010. Although tech companies have fueled job growth and the resulting commercial real estate activity, market optimism has begun to spread to financial services and business sectors.

Overall market fundamentals are strong. Vacancy dropped 40 basis points to 16.1 percent, the lowest level in five quarters. Tenants have snatched up sublease space, pushing available sublease space down to pre-2001 levels. San Francisco experienced rent growth of almost 5 percent with average asking rents rising to \$36.89 and \$30.25 for Class A and Class B, respectively. Tenants have lost some negotiating leverage and must act quickly, particularly in the South of Market area. The market has begun a shift towards a landlord favored market as rents go up, but landlords continue to offer concessions in the sensitive economic environment.

Strong leasing demand and rising rents fueled an increase in investment sales activity. Investors are quickly trying to capitalize on the upward moving market with South of Market and Mid-Market particularly active. Two of the largest sales included: Alexandria Real Estate purchased 409 – 499 Illinois Street for \$295 million or about \$650 per square foot, and TMG Partners purchased 500 Terry Francois Street for \$91 million or about \$325 per square foot.

### FORECAST

- Expect positive absorption for the remainder of 2011 as the technology industry expands and unemployment trends down.
- As office demand increases and supply remains limited, rents will continue to trend up. Activity will remain healthy as many tenants look to secure current rents.

### KEY TRANSACTIONS

<p><b>Environmental Protection Agency</b> renewed 285,000 SF at 75 Hawthorne Street San Francisco, CA from RREEF</p>	<p><b>Farallon Capital Management</b> renewed 176,000 SF at One Maritime Plaza San Francisco, CA from Morgan Stanley</p>	<p><b>Farella, Braun, &amp; Martel</b> renewed 112,000 SF at 235 Montgomery Street San Francisco, CA from Shorenstein</p>	<p><b>Alexandria Real Estate Equities Inc.</b> purchased 409 – 499 Illinois Avenue San Francisco, CA from Shorenstein for \$293 Million</p>
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\* Indicates Transaction Represented by Grubb & Ellis

# Office Trends Report—Second Quarter 2011

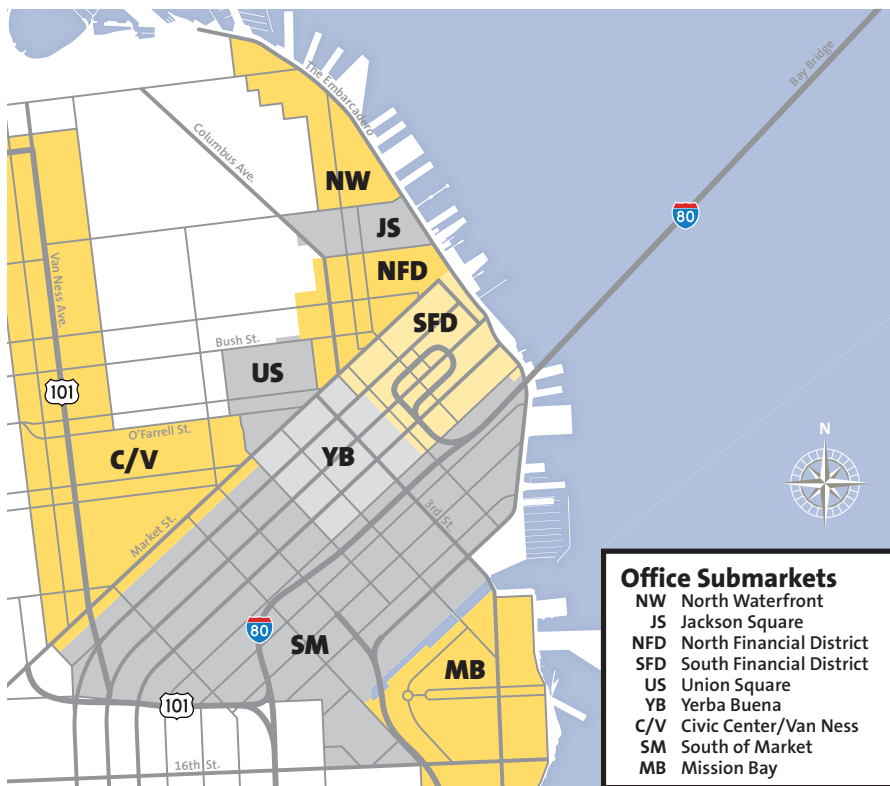
## San Francisco, CA



By Submarket	Total SF	Vacant SF	Vacant %	Available %	NET ABSORPTION		Under Construction SF	ASKING RENT	
					Current	Year-To-Date		Class A	Class B
North Financial District	24,989,011	3,576,686	14.3%	18.2%	81,649	253,469	-	\$35.09	\$28.13
South Financial District	20,587,661	2,706,303	13.1%	14.8%	(2,131)	250,142	70,484	\$38.81	\$28.40
<b>CBD Total</b>	<b>45,576,672</b>	<b>6,282,989</b>	<b>13.8%</b>	<b>16.7%</b>	<b>79,518</b>	<b>503,611</b>	<b>70,484</b>	<b>\$36.24</b>	<b>\$28.18</b>
Civic Center/Van Ness	3,832,644	1,573,571	41.1%	38.9%	16,939	(50,391)	-	\$31.03	\$29.41
Jackson Square	1,567,023	149,404	9.5%	12.9%	29,856	52,561	-	\$32.01	\$30.72
Mission Bay	1,376,700	549,487	39.9%	39.1%	-	179,500	-	\$47.42	-
North Waterfront	2,099,425	249,868	11.9%	13.4%	38,044	50,887	-	\$32.04	\$25.31
SOMA	5,902,909	1,009,548	17.1%	17.6%	110,129	99,084	-	\$47.23	\$34.85
Union Square	2,208,816	208,297	9.4%	18.8%	14,315	56,602	-	\$32.55	\$30.77
Yerba Buena	3,443,732	579,577	16.8%	20.2%	(17,011)	5,189	-	\$31.88	\$26.65
<b>Non-CBD Total</b>	<b>20,431,249</b>	<b>4,319,752</b>	<b>21.1%</b>	<b>22.8%</b>	<b>192,272</b>	<b>393,432</b>	<b>-</b>	<b>\$39.30</b>	<b>\$31.37</b>
<b>Totals</b>	<b>66,007,921</b>	<b>10,602,741</b>	<b>16.1%</b>	<b>18.6%</b>	<b>271,790</b>	<b>897,043</b>	<b>70,484</b>	<b>\$36.89</b>	<b>\$30.25</b>

### AVAILABLE FOR SUBLEASE

By Class	Total SF	Vacant SF	Vacant %	Available %	Current	Year-To-Date	Under Construction SF	AVAILABLE FOR SUBLEASE	
								CBD	Non-CBD
Class A	45,897,953	6,308,465	13.7%	16.6%	139,750	783,851	-	805,880	25,260
Class B	20,109,968	4,294,276	21.4%	23.2%	132,040	113,192	70,484	67,925	243,368
<b>Totals</b>	<b>66,007,921</b>	<b>10,602,741</b>	<b>16.1%</b>	<b>18.6%</b>	<b>271,790</b>	<b>897,043</b>	<b>70,484</b>	<b>873,805</b>	<b>268,628</b>



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## OFFICE TERMS AND DEFINITIONS

**Total SF:** Office inventory includes all multi-tenant and single tenant buildings at least 15,000 square feet. Owner-occupied, government and medical buildings are not included.

**Office Building Classifications:** Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

**Vacancy and Availability:** The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

**Net Absorption:** The net change in physically occupied space over a period of time.

**Asking Rent:** The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported full service where

all costs of operation are paid for by the landlord up to a base year or expense stop. The asking rent for each building in the market is weighted by the amount of available space in the building.

\* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

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