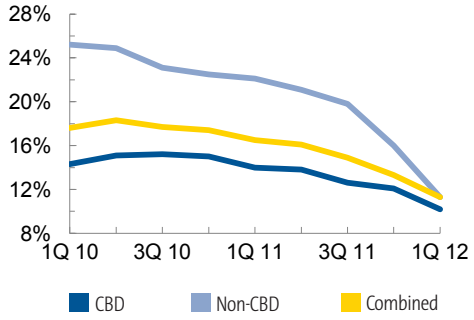
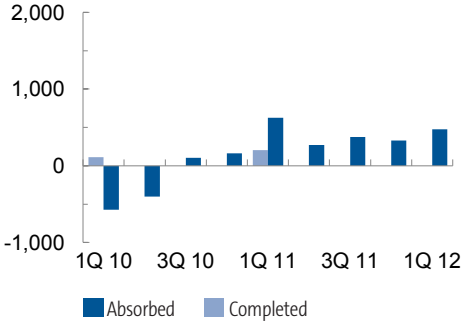
Office Trends Report—First Quarter 2012
San Francisco, CA

GRUBB & ELLIS
From Insight to Results

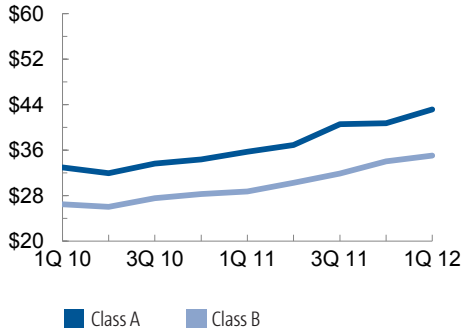
Vacancy Rate



Completions vs. Absorption
(in Thousands of SF)



Asking Rental Rates
($/SF/Yr. Full Service)



Tech Boom Launches City to the Top

In the first quarter of 2012, San Francisco continued to outpace other areas of the country and is now emerging as the country's highest performing office market, according to Bloomberg. The booming technology sector is largely responsible for San Francisco avoiding the recessionary pinch that many other markets face. Nearly 1.5 million square feet of office space was leased and 475,000 square feet absorbed during this first quarter, with no signs of a slowdown in leasing activity. Vacancy rates decreased to 11.3 percent –six percent lower than last year. The lower vacancy and strong tenant demand also continued to drive up average rents to over $40 a square foot full service, a five percent increase over last quarter.

Besides strong leasing activity, there are various signs that confidence in San Francisco's commercial real estate market is renewed. Plans are back on track for a 60 story tower next to the Transbay Terminal. Tishman Speyer also recently announced they will start construction on a new, 286,000 square foot Foundry Square building in the tech saturated SoMa neighborhood later this year. Additionally, two other Foundry Square buildings are set to sell at prices exceeding pre-recession levels.

Tech companies are gobbling up office space and driving up rents and sale prices to levels not seen since before the 2008 financial crisis. Some are wary that the tech boom, and consequently San Francisco's office market, could be a bubble waiting to pop. 6Waves, a young gaming company, recently put 26,400 square feet of office space up for sublease at 550 Kearny Street after underperforming the last few months. However, these cases appear to be atypical. Many young social media and cloud computer companies have an extensive and stable cash flow. Zynga, a 3 year young gaming company, bought its headquarters for a cool $228 million in cash, proving that these innovative tech companies can put the money where their mouth is. Even less recognizable names are proving their clout. Okta, a self described on-demand identity and access management service located in SoMa at 400 Second Street, recently doubled their customer base and gained $16.5 million in second round funding. Success stories like these help to explain the phenomenal leasing activity in San Francisco.

KEY TRANSACTIONS

*Macys.com	Zynga	STRS Ohio	One Kings Lane
leased 242,750 SF at 680 Folsom Street from TMG Partners/ Rockwood Capital	purchased 650 Townsend Street from TMG Partners for $228 Million	is in contract to buy Foundry Square I from AREA Property Partners for $241 Million	leased 52,000 SF at 1355 Market Street from Shorenstein Properties

** Indicates Transaction Represented by Grubb & Ellis*

Grubb & Ellis San Francisco
One Bush Street, Suite 800, San Francisco, CA 94104
www.grubb-ellis.com

Prepared by:
Amanda Whitney *Database Coordinator*
415.477.9272 • amanda.whitney@grubb-ellis.com

Abe Bingham *Graphics Specialist*
415.439.5055 • abe.bingham@grubb-ellis.com

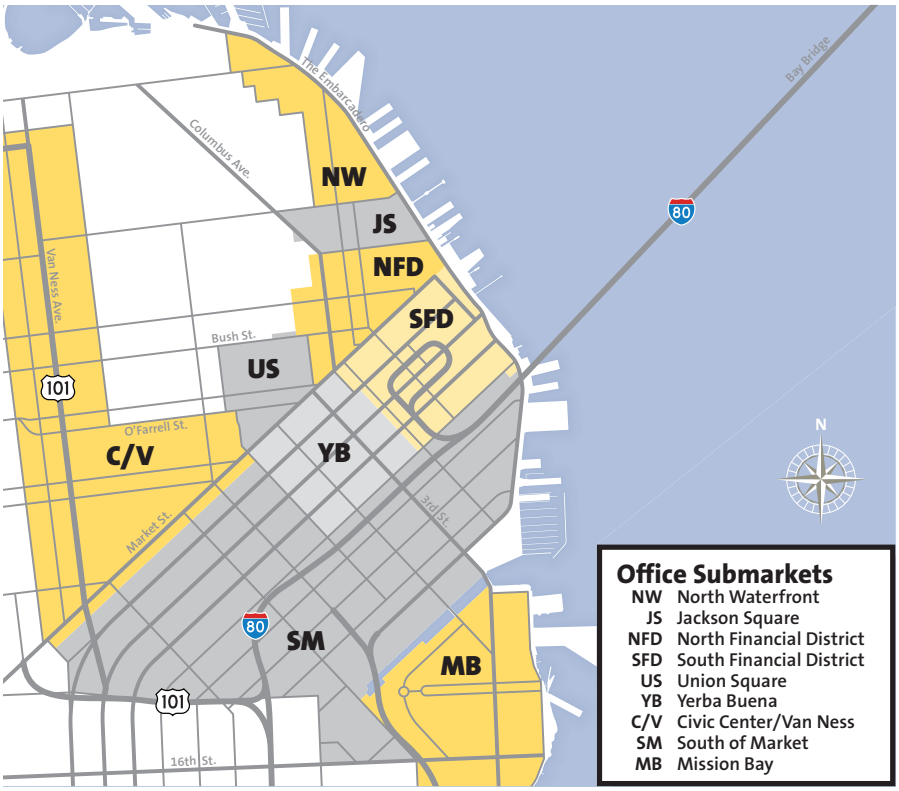
©2012 Grubb & Ellis Company

Office Trends Report—First Quarter 2012
San Francisco, CA

GRUBB & ELLIS
From Insight to Results

By Submarket	Total SF	Vacant SF	Vacant %	Available %	NET ABSORPTION Current	NET ABSORPTION Year-To-Date	Under Construction SF	ASKING RENT Class A	ASKING RENT Class B
North Financial District	25,240,133	2,959,693	11.7%	13.9%	217,079	217,079	-	$42.28	$34.25
South Financial District	20,276,436	1,685,328	8.3%	12.4%	190,182	190,182	70,484	$42.79	$36.65
CBD Total	**45,516,569**	**4,645,021**	**10.2%**	**13.2%**	**407,261**	**407,261**	**70,484**	**$42.51**	**$34.69**
Civic Center/Van Ness	3,099,981	897,923	29.0%	34.3%	(140,687)	(140,687)	-	$31.88	$30.58
Jackson Square	1,567,023	189,334	12.1%	16.3%	(8,367)	(8,637)	-	$35.97	$33.81
Mission Bay	1,376,700	498,862	36.2%	34.5%	9,910	9,910	-	$59.90	-
North Waterfront	2,099,425	194,449	9.3%	34.5%	15,650	15,650	-	$32.46	$26.62
SOMA	5,969,694	379,645	6.4%	11.9%	99,137	99,137	-	$56.96	$43.40
Union Square	2,208,816	134,541	6.1%	15.2%	2,062	2,062	-	$33.09	$30.11
Yerba Buena	65,214,945	7,343,218	11.3%	15.0%	475,486	475,486	-	$48.29	$41.19
Non-CBD Total	**19,698,376**	**2,698,197**	**13.7%**	**19.0%**	**68,225**	**68,225**	**-**	**$44.82**	**$35.26**
Totals	**65,214,945**	**7,343,218**	**11.3%**	**15.0%**	**475,486**	**475,486**	**70,484**	**$43.14**	**$35.05**

By Class								AVAILABLE FOR SUBLEASE CBD	AVAILABLE FOR SUBLEASE Non-CBD
Class A	46,341,556	4,748,122	10.2%	13.7%	561,750	561,750	-	616,923	206,136
Class B	18,873,389	2,595,096	13.8%	18.0%	(86,264)	(86,264)	70,484	115,210	98,467
Totals	**65,214,945**	**7,343,218**	**11.3%**	**15.0%**	**475,486**	**475,486**	**70,484**	**732,133**	**304,603**



Grubb & Ellis—San Francisco Real Estate Advisors

Shaun Bloomquist
CA Lic #01501651

Robert Comartin
CA Lic #00303456

Peter Conte, LEED® AP
CA Lic #01840209

Daniel Cressman
CA Lic #00849877

Curtis Davies
CA Lic #00801482

Jerry Igra, LEED® AP
CA Lic #00888370

John Jensen
CA Lic #01102014

Stephen Jones
NY Lic #10401210361

Kevin Klink
CA Lic #01840238

Kyle Kovac
CA Lic #01731229

Peter Mikacich
CA Lic #01133104

Carol Miles

John Mix
CA Lic #01893717

Jeff Moeller
CA Lic #01229252

Zach Monsees
CA Lic #01903840

Mike Taquino
CA Lic #01431337

Andrew Thompson
CA Lic #00987186

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.*

Reproduction in whole or part is permitted only with the written consent of Grubb & Ellis Company. Some of the data in this report has been gathered from third party sources and has not been independently verified by Grubb & Ellis. Grubb & Ellis makes no warranties or representations as to the completeness or accuracy thereof.

©2012 Grubb & Ellis Company