

San Francisco, California

Tenant's Guide ■ North American Markets ■ Fourth Quarter 2009

Overview

In spite of a recent surge in leasing activity, rental rates continue their downward trend. There has been strong activity in the consolidation and expansion of major law firms and the immigration of technology firms from Silicon Valley. The renewal/relocation of major San Francisco landmark firms, such as Levi Strauss and Del Monte indicate the city still can retain and satisfy the headquarter needs of office users.

2010 will be an interesting year, as there are a number of large leases expiring that were negotiated in the boom market of 1999-2001. Much of this has become bargain basement sublease space and will soon revert to direct space. Sub lessees who have enjoyed below market rents will face some increases, but landlords will face reductions to the current market; market equilibrium will impact both parties. Consolidation in the financial services sector continues with Bank of America and Wells Fargo shrinking their semi-digested acquisitions including Wachovia, Merrill Lynch, etc.

Market Trends

- Rents continue to decline at a slower rate.
- Relocation alternatives increase.
- CBD space recovers first.
- Upgrading location and building quality continues.
- Marginal properties/owners become less attractive.
- Tenants become more selective.

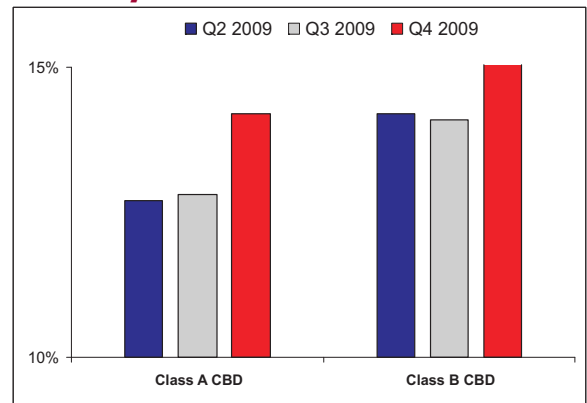
Tenant's Perspective

Increased opportunity to renegotiate or relocate offers a chance to lock in and stabilize occupancy costs before the market begins to turn in late 2010.

Major Transactions

| Tenant/Buyer | Size | Type | Lease/Sale |
|------------------------|---------|--------|------------|
| Levi Strauss & Co. | 354,000 | Office | Renewal |
| DelMonte | 153,000 | Office | Relocation |
| Morgan Lewis | 150,000 | Office | Renewal |
| Nektar | 102,283 | Office | Relocation |
| Credit Suisse | 62,139 | Office | Renewal |
| Benefit Cosmetics | 55,000 | Office | Relocation |
| Ropes and Gray | 50,000 | Office | Relocation |
| Cooper, White & Cooper | 44,202 | Office | Renewal |
| Wilson Sonsini | 38,000 | Office | Renewal |
| Foley & Lardner LLP | 30,462 | Office | Relocation |

Vacancy Rate



Average Rental Rates

| CBD | Q2 2009 | Q3 2009 | Q4 2009 |
|----------------|---------|---------|---------|
| Class A Office | \$37.19 | \$36.53 | \$36.53 |
| Class B Office | \$27.11 | \$26.87 | \$26.87 |

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