

# San Francisco, California

Tenant's Guide ■ North American Markets ■ Second Quarter 2010

## Overview

Leasing activity in the second quarter was stagnant at best. Absorption was flat and more big blocks of sublease space were put on the market (e.g. BlackRock at 113,000 RSF, BofA at 56,000 RSF, and McCann Erickson at 48,000 RSF). The strength of demand continued to be in the technology sector with computer gaming, social networking, and new internet ventures continuing to underpin the market.

The demand from the financial services sector was negative as downsizing and shedding of excess space resulting from mergers continued. Law firm growth was positive but consisted mostly of expansion created by consolidation and mergers coupled with the ability of surviving firms to occupy readymade premises left vacant by last year's major shrinkage.

The bio-tech driven Mission Bay neighborhood continued to attract new tenants moving into the city from the Peninsula.

The high-end downtown class A market continues to slowly recover and has regained some value, but top tier rents are still 40% to 50% off the peak. Low end commodity space continues to be a drag on the market with limited demand due to lack of employment growth in more labor intensive service firms.

## Market Trends

- Tenants continue to look at ways to conservatively manage growth.
- Alternative workplace solutions which can accommodate an increasingly mobile workforce mitigate the risk of overreaching with respect to expansion.
- Sublease space, while once considered in a class by itself, continues to drive the market downward as landlords realize that these are viable solutions for tenants against which they must compete.
- Tenants push for rights of offset and self-help to protect themselves from landlord default, which is an increasing risk in the marketplace as loans for troubled assets continue to mature.

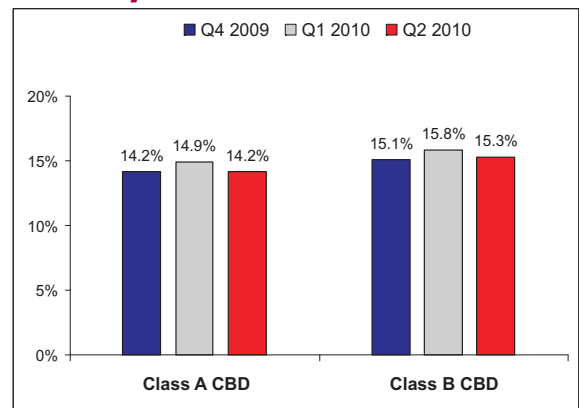
## Tenant's Perspective

Our current opinion is less positive than during the last two quarters as the end of last year and the beginning of this year saw a rebound in activity. This rebound was caused by tenants who could no longer put off business move/consolidation decisions and finally acted. In addition there were some excellent opportunities seized by forward thinking tenants to fix costs and acquire highly improved premises at historically favorable rates.

## Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Kilroy Realty	731,972	Office	Sale
Korean Federation	657,115	Office	Sale
Highridge Partners	170,000	Office	Sale
Polidev Credit	163,791	Office	Sale
Blue Shield	75,000	Office	Lease
Forever 21	54,000	Retail	Lease
SelectQuote	33,562	Office	Lease
Trulia	31,748	Office	Lease
Atom Entertainment	26,000	Office	Lease

## Vacancy Rate



## Average Rental Rates

CBD	Q4 2009	Q1 2010	Q2 2010
Class A Office	\$32.64	\$31.66	\$33.15
Class B Office	\$23.91	\$23.17	\$24.73

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