



# San Francisco, California

Tenant's Guide ▪ North American Markets ▪ First Quarter 2012

## Overview

The San Francisco market continued to show signs of recovery, particularly within class A assets. While class A vacancy declined, class B vacancy stayed fairly flat. Class A and B rents rose roughly 11% and 9% respectively last quarter, with no meaningful vacancy change in class B—meaning class B building owners are recognizing the dwindling class A supply and don't have to reach as hard to attract tenants. Landlords continue to try and capture healthy coupon rates, offering aggressive concession packages for well-positioned negotiators. Landlords willing to divide floors to accommodate multiple tenants are keeping premium blocks together, trying to capture pent-up demand for expansion space within healthy industries like gaming and technology. Investors still view San Francisco as a healthy long-term market. To tenants, these trends suggest a “wait and see” approach will likely put them at a disadvantage for long-term planning. Some larger tenants have taken bold and surprising positions in the market. Zynga decided to protect its future by purchasing its building rather than falling victim to long-term rents. Other tenants such as Salesforce.com have “done a 180” at the idea of owning facilities, abandoning Mission Bay plans and choosing to expand in existing blocks of space around the city. Both strategies have impacted the market by creating a perceived sense of competition and ripple effect in adjacent parts of the Bay Area.

## Market Trends

- Space with sub-\$40 rental rates is becoming more difficult to find, especially if tenants expect meaningful improvement allowances.
- Responding to the lack of SoMa creative space, more traditional class A high-rises are offering a “Creative Building Standard” with exposed ceilings and an open office plan.
- While investment sales activity continues to slow, certain buyers remain bullish on San Francisco (and Bay Area) and are identifying targets promising long-term value.
- Due to rising office rents, more companies are casting a wider net in search of large blocks of space, including Oakland/Emeryville.
- Companies asking “has the market reached the bottom?” for the past 24 months may regret their indecision to renegotiate leases.

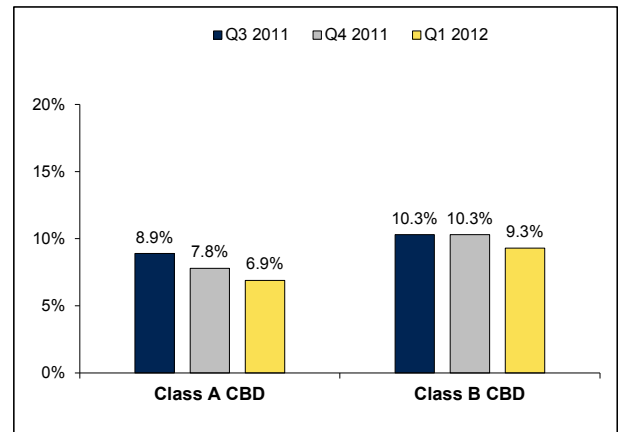
## Tenant's Perspective

Despite slow job growth nationally, the local market continues to be active and poses challenges for companies that don't plan ahead. Well-capitalized investors still see San Francisco as a healthy long-term player.

## Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Zynga	670,000	Office	Sale
Salesforce	401,786	Office	Lease
Macys.com	242,573	Office	Lease
Riverbed Technology	160,000	Office	Lease
BoA Merrill Lynch	121,986	Office	Lease
REIT American Assets	97,614	Office	Lease
Pac-12 Studios	70,000	Office	Lease
Kabam Inc.	64,000	Office	Lease
140 Partners LP	58,679	Office	Sale
Medivation	57,172	Office	Lease

## Vacancy Rate



## Average Rental Rates

CBD	Q3 2011	Q4 2011	Q1 2012
Class A Office	\$38.61	\$40.77	\$45.66
Class B Office	\$29.74	\$30.65	\$33.51

