

**Rapidly increasing rental rates South of Market for the first two quarters of the year have finally started to flatten. The Downtown financial district vacancy rate continues to drop with the majority of demand still coming from technology firms.**

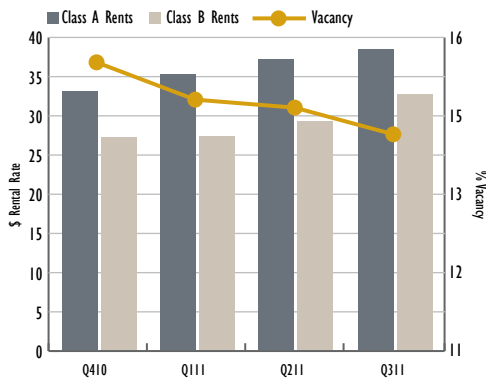
## Vacancy Drops, Downtown Activity Increasing

Office vacancy in San Francisco's financial core shifted downward in the 3rd quarter of 2011, from 15.1% to 14.6%. Gross leasing activity was up substantially from 998,898 square feet in the 2nd quarter to 1,701,851 square feet in the 3rd quarter. Net absorption was positive at 288,075 square feet.

Class A asking rental rates changed. Rates increased from \$37.01 in the 2nd quarter to \$38.30 in the 3rd quarter. Landlords continue to

attempt to increase rental rates in the financial district. Class B financial core rental rates also increased, from \$29.17 in the 2nd quarter to \$32.58 in the 3rd quarter. Absorption was positive at 148,719 square feet.

### SAN FRANCISCO FINANCIAL CORE



## Four Embarcadero Center Extremely Active

Four Embarcadero is considered one of the top five buildings in the financial district. The building has had nine full floors available for over 18 months. Floors 7-10 and 28 – 32 have been leased, but not occupied (tenants are still paying rent for the space, but have moved to an alternate location).

Seven of the nine floors have been pulled off the market. The rumor is floors 30 and 31 are being leased by Digital Realty Trust. This tenant is moving north from 560 Mission Street. Digital is a publicly traded REIT that specializes in developing data centers. There is an additional tenant in the market for 120,000 and is considering Four

Embarcadero. The requirement would be split, taking floors 7-10 in the low rise and floors 22 & 23 in the midrise. This tenant is relocating from South of Market Street.

## Building Sales Picking up Dramatically

As rental rates South of Market move upward, the speculation is building values will increase as well. Not surprisingly, there has been a recent increase in building sales. We are seeing this demand from two different segments. The first is institution money. With returns from treasuries at all-time lows and a volatile stock market, there are limited options offering good values available in the markets. Many institutional buyers are purchasing apartments on cap rates as low as 4%, historically this is an unheard of number. The second group is owner-users trying to stabilize long term costs and take advantage of historically low interest rates. Some examples are below:



**101 Howard St./Folger Coffee Building**  
The University of San Francisco purchased the 100,000 square foot Folger Coffee Building for \$365 a square foot (Owner-User).



**625 Second St. & 275 Brannan St.**  
Hudson Pacific Properties purchased both properties for \$412 per rentable square foot and \$235 per rentable square foot respectively. (275 Brannan not shown)



**1275 Market Street**  
DivcoWest purchased the former State Compensation Fund headquarters, the building is over 385,000 and sold for \$109 per rentable square foot.

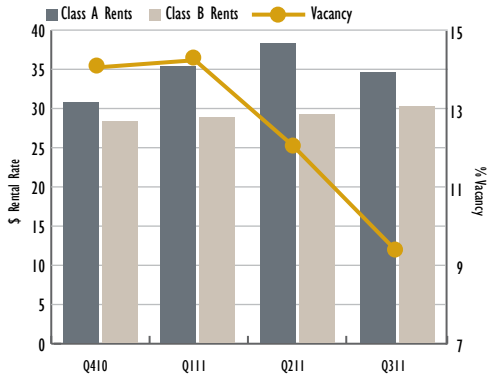


**155 Fifth St./Wells Fargo Data Center**  
University of the Pacific's Dugoni School of Dentistry will relocate Downtown from Pacific Heights (Owner/ User).



**777 Davis Street**  
William Sonoma purchased the building for \$350 rentable square foot. They occupied the building on a lease basis and rumor has it there were no others to purchase the building (Owner/ User).

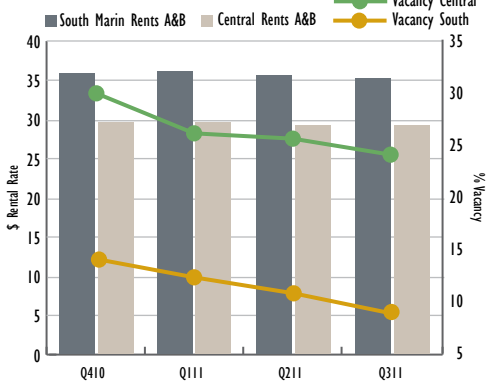
**SAN FRANCISCO SOMA**



**Where's the Space?**

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	680,178	7.40%	117,575	1.30%	797,753	8.70%
Fin. Dist. A	4,871,468	12.10%	294,806	0.73%	5,166,275	12.8%
Fin. Dist. B	2,465,756	19.37%	117,382	0.90%	2,583,138	20.20%
SOMA A	242,931	5.10%	45,364	1.0%	366,787	6.00%
SOMA B	1,398,722	13.50%	21,879	0.20%	1,420,601	13.7%

**MARIN**



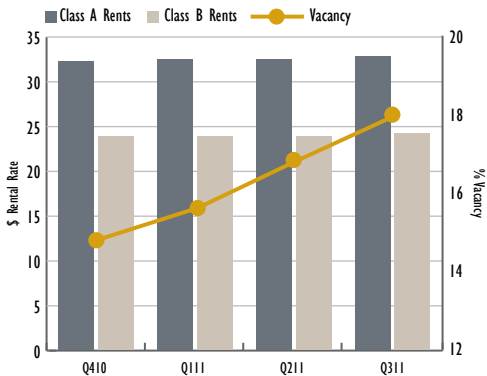
**Large Tenants in the Market**

Tenant	Sq. Ft.
Dolby Labs	250,000
Pillsbury Madison & Sutro	120,000
Pacific-12 Enterprises	100,000
Modcloth	100,000
Digital Realty Inc.	45,000

**Significant Leases Completed in the First Quarter**

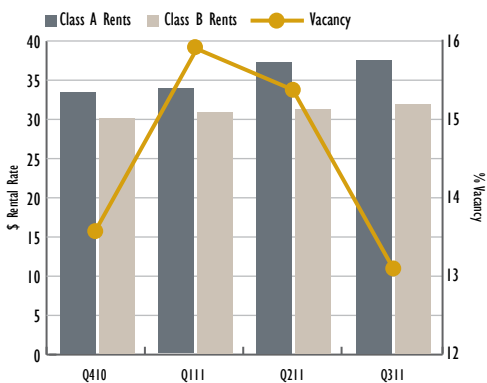
Tenant	Sq. Ft.	Address
AECOM	54,266	300 California Street
Practice Fusion	46,024	420 Taylor Street
Zynga*	45,000	650 Townsend Street
Clyde & Co**	30,211	101 Second Street
VerticalResponse	28,121	50 Beale Street
Black Rock City	20,000	995 Market Street
TRUSTe	19,665	835 Market Street

**OAKLAND CBD**



- \* Expansion at existing location
- \*\* Renewal at existing location
- \*\*\* Sublease

**PENINSULA**



**The Axiant Group Can Help You**

Do you want information about rents and space available in your building? Are you interested in subleasing or terminating your lease? Is your lease expiring in the next three years?

Contact The Axiant Group. We have handled transactions from 1,000 to 1,000,000 sq.ft. in the Bay Area and throughout the U.S. The average tenure of our brokers is over 20 years. We have handled assignments for clients including Chevron U.S.A., Coblenz, Patch, Duffy & Bass, Oracle Corporation, PG&E, Sutro & Company, Zurich Scudder Investments, Charles Schwab, Texas Pacific Group, Club One, Moss Adams, and many others.