



The Axiant Group  
COMMERCIAL REAL ESTATE SERVICES

# Market Overview

A quarterly publication of the San Francisco office market by The Axiant Group

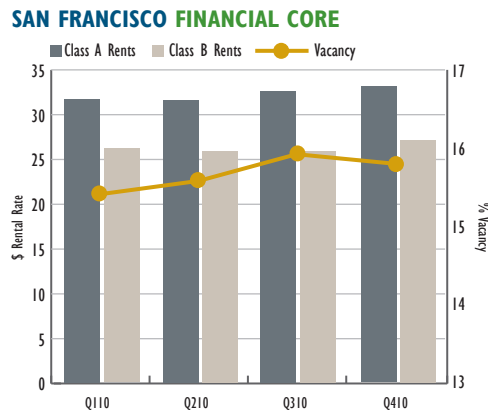
4th Quarter 2010

**South of Market continues to be in high demand as tech firms appetite for space persists. Accordingly, rental rates continue to surge in this area. However, the real news was the Salesforce huge land purchase in Mission Bay with potential expansion for up to 2 million square feet!**

## Financial District Remains Lackluster

Office vacancy in San Francisco's financial core moved down slightly in the 4th quarter of 2010, from 15.9% to 15.7%. Gross leasing activity was up from 966,734 square feet in the 3rd quarter to 1,073,023 square feet in the 4th quarter. Gross absorption was just positive at 76,531 square feet.

Class A asking rental rates moved up slightly. Rates increased from \$32.48 in the 3rd quarter to \$33.01 in the 4th quarter. Rental rates again moved up slightly even though transaction volume was down dramatically. Class B financial core rental rates jumped, going from \$25.79 in the 3rd quarter to \$27.07 in the 4th quarter.



## Salesforce Ties Up Two Million Square Feet

Salesforce made a surprise move in Mission Bay in the fourth quarter assembling and purchasing a mammoth 14 acre site in Mission Bay. The purchase price was two hundred and seventy-eight million dollars. This will allow Salesforce to build as much as two million square feet of space and house up to 10,000 employees in a dramatic campus environment. To give perspective to the size of the purchase, we can compare it to the land the San Francisco Giants purchased to build AT&T Park. That site was seventeen acres just three acres larger than the Salesforce site! This purchase allows them to control the majority of the remaining prime land in Mission Bay and limits opportunities for life science companies, which was the primary and original plan for the area. However, demand from the life science sector is currently weak, and no doubt benefited

Salesforce's ability to assemble this mega site. The city is hopeful that when the life science demand increases, any spillover will migrate toward the 3rd street corridor. The effect on the downtown market if and when Salesforce vacates their downtown facilities, will take 2-3 years as the planning and building process for their new campus happen time. Eventually, Salesforce will probably vacate over 400,000 square feet in four buildings; 1 California Street; 50 California Street; One Market Street; (The Landmark) and 123 Mission Street. Salesforce just committed to an additional 70,000 at 123 Mission Street in the third quarter. The following photo outlines the site Salesforce purchased in Mission Bay.

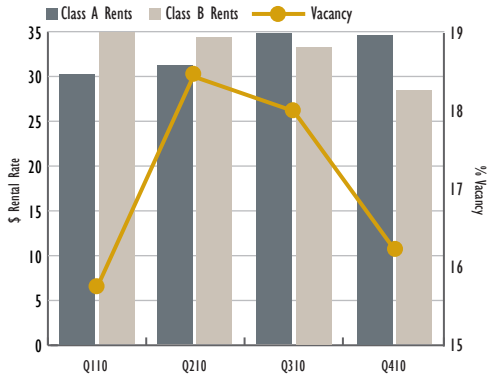


Salesforce's Mission Bay site

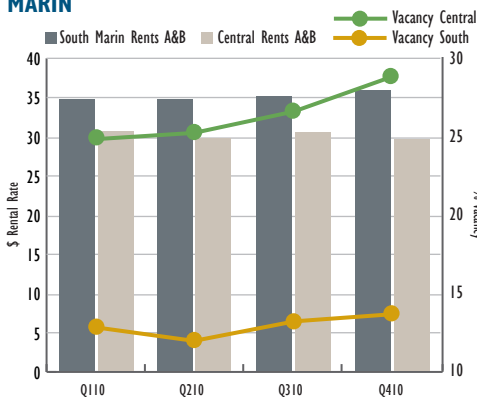
## South Of Market Hot For Sales & Leasing

Vacancy rates south of market dropped dramatically, falling from 19.3% in the 3rd quarter to 15.9% in the 4th quarter. This represents a drop of 3.4%. On a comparative basis this is a 21% drop. We also saw a sharp rise in rental rates with many reporting rent spikes of 10-15%. Building sales have been hitting record levels south of market, even surpassing prices seen during the 2007/2008 bubble. On the face of it, this seems a little strange as the overall market vacancy and rental rates have been flat for some time. However, the south of market area is a very desirable market due to demand from tech tenants. This represents only a small portion of the overall San Francisco market for office space.

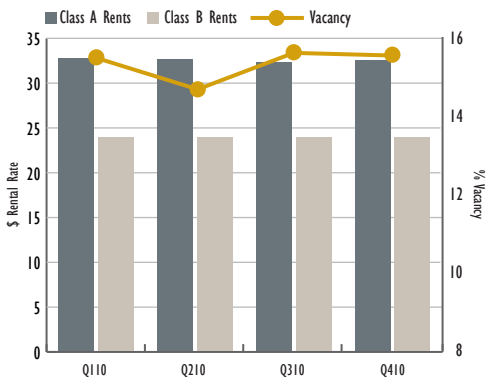
**SAN FRANCISCO SOMA**



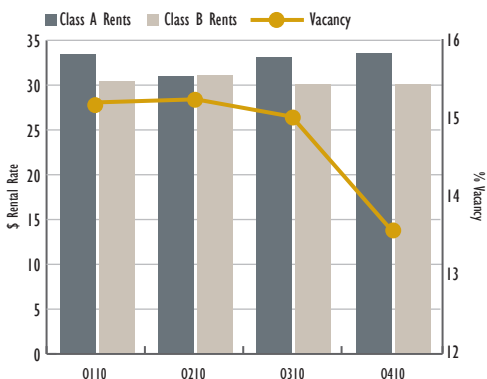
**MARIN**



**OAKLAND**



**PENINSULA**



**Where's the Space?**

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	657,905	7.30%	196,773	2.20%	877,923	9.50%
Fin. Dist. A	5,623,854	13.82%	724,346	1.78%	6,348,242	15.60%
Fin. Dist. B	2,076,414	16.30%	30,404	0.20%	2,106,818	16.50%
SOMA A	948,149	17.10%	57,916	1.00%	1,006,065	18.20%
SOMA B	2,024,729	18.50%	44,949	0.40%	2,069,678	15.90%

**Large Tenants in the Market**

Tenant	Sq. Ft.
EPA	290,000
Dolby Labs	250,000
Twitter	200,000
Sephora	175,000
Farella, Braun & Martel LLP	113,000
Modcloth	100,000

**Significant Leases Completed in the Second Quarter**

Tenant	Sq. Ft.	Address
Salesforce*	2,000,000	Mission Bay
Macy's.com**	37,737	685 Market Street
Knobbe Martens Olsen & Bear LLP	22,985	333 Bush Street
California Appellate Project	18,261	101 Second Street
ChemRisk	17,580	101 Second Street
Hult International Buisness School	16,532	1355 Sansome Street
San Francisco Legal Copy	16,234	100 California Street

\* Land purchase - 2,000,000 represents total potential square feet buildable

\*\* Expansion at existing location



**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.