

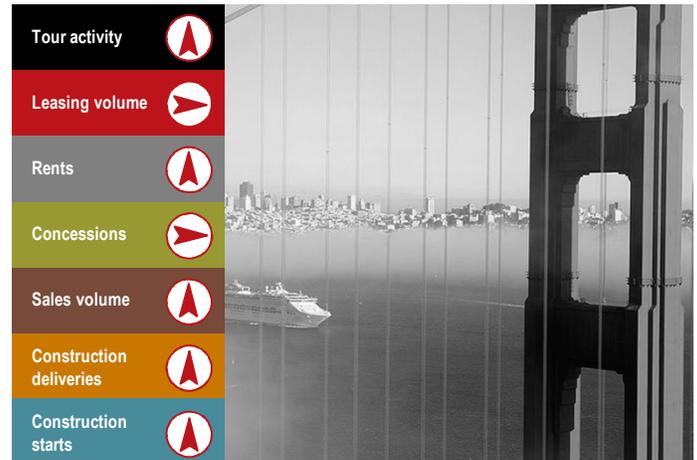
## NorCal claims three of the top five rent growth markets in Q3

High-technology and health care are driving demand in Northern California, helping to generate more than 4.0 million square feet of net absorption year-to-date and a decline in total vacancy of 80 basis points to 14.9 percent. Despite making up just 6.9 percent of U.S. inventory, Northern California accounted for 15.1 percent of total U.S. net absorption in the first three quarters of 2013. Strong employment fundamentals in Northern California markets—which includes San Francisco, the San Francisco Peninsula, Silicon Valley, the East Bay and Sacramento—will drive continued tenant expansions. Large blocks are diminishing throughout the region, resulting in higher premiums for such space, but commodity space remains plentiful.

Landlords in San Francisco, the San Francisco Peninsula and Silicon Valley continue to push rents, placing all three of those markets in the top five rent growth markets in the nation for the third quarter. Sacramento and the East Bay are beginning to see more rapid rent increases as well, in line with vacancy declines and strong gains in net absorption since the beginning of this year. Construction activity has yet to begin in markets to the east of the Bay, but a robust construction pipeline in San Francisco and Silicon Valley will provide large tenants with more options in 2014 and 2015 as projects are completed.

### Top leasing activity

- Delta Dental gave back two full floors at 100 First Street in the South Financial District in San Francisco and renewed its remaining premises for 188,546 square feet. The short-term, early renewal will commence in January of 2015.
- Abbott leased 118,320 square feet of Class A space at 4551 Great America Parkway in Santa Clara in Silicon Valley. The building was formerly occupied by Yahoo!.
- Softbank expanded by 103,948 square feet at Circle Star Way in San Carlos in the San Francisco Peninsula. Rumor has it that another tenant was looking to take space before Softbank exercised its expansion right.
- Oakland Unified School district relocated to the Transpacific Center at 1000 Broadway in Oakland. The new, 52,323-square-foot lease commenced July 15 for a four-year term.
- Genworth Financial Wealth Management signed a new, seven-year, eight month lease at 1655 Grant Street in Concord in the East Bay suburbs. The organization will occupy 48,128 square feet in September when its lease commences.
- Meridian Systems renewed its 17,000 square foot lease at 1720 Prairie City Road in Folsom in Sacramento.



Arrows represent change from prior quarter

### Top tenants in the market

- UCSF is in the San Francisco market for 100,000 to 300,000 square feet.
- Law Firm Fenwick & West is rumored to be in the market for 160,000 square feet in Palo Alto and Menlo Park.
- John Muir Health is out in the East Bay's Tri-Valley market for two requirements totaling 160,000 square feet.
- Walmart.com is rumored to be looking for 100,000 square feet in San Bruno in the Mid-Peninsula and has been eyeing 900 Cherry Avenue for some time.
- The California Health Benefit Exchange is in the Sacramento market for an additional 90,000 square feet and has focused its search on options in South Natomas.

### Top sales activity

- In July, J.P. Morgan Chase & Co. purchased Dublin Corporate Center at 4120-4160 Dublin Boulevard in the East Bay suburbs from Tishman Speyer. The three-building, Class A, 444,000-square-foot business park was purchased for \$102.8 million, or \$247 per square foot. It was 87.0 percent occupied at the time of sale, with Travelers Insurance and the IRS occupying nearly 60.0 percent of the total net rentable area.
- In July, Orix sold Galaxy Office Park II at 1000 Burnett Avenue to the Unified Food and Commercial Workers. The Class A, 97,000-square-foot-building is located in the Concord submarket in the East Bay and was sold for \$11.1 million, or \$117 per square foot.
- In September, Strada Investment Group with Angelo Gordon & Co. purchased 1300 Clay Street and 505 14th Street from CBRE Global Investors for an estimated \$65 million, or \$178 per square foot. Both Class A buildings are located in the Oakland-CBD market and together total 367,357 square feet.

**Top sales activity, cont.**

- In September, Harvest Properties with Prudential purchased 555 12th Street from CBRE Global Investors for an estimated \$129 million, or \$275 per square foot. The Class A, 487,000 square-foot building is located in the Oakland-CBD market.
- AMP Capital purchased 770 L Street in Sacramento, a Class A building in the downtown submarket, from Alaska Permanent Fund for \$174 per square foot.
- Sheppard Land Company acquired a 52,000-square-foot Class A office building in Downtown Menlo Park in the San Francisco Peninsula from Pauline Blech Trust for \$6.2 million or \$119 per square foot.
- 1265 & 1272 Borregas Avenue in Silicon Valley were sold to GEM Realty from Rockwood Capital for \$30.5 million, or \$187 per square foot. The 163,000-square-foot Class B complex is currently vacant.
- The Wescliff Group acquired 2665 N 1st Street in North San Jose for \$20.1 million, or \$164 per square foot. The Class B, 122,619-square-foot building is fully leased to multiple tenants including Samsung and the State of California.
- Grosvenor Americas acquired a 99,126-square-foot building located in San Jose from Deka Immobilien Investment at 560 S Winchester Boulevard for \$47.1 million, or \$475 per square foot.

**Top construction activity**

- Tishman Speyer continued construction of its ground-up development at 505 Howard Street in the South Financial District in San Francisco. The new development will consist of 286,000 square feet and will be delivered to the market as LEED-Gold-certified later this year.
- Kilroy Realty Corporation continued construction at 350 Mission Street in the South Financial District in San Francisco. The new development will be a Class A, 451,000-square-foot office tower, which has been 100.0 percent pre-leased to Salesforce.com. The 27-story building will be designated LEED Platinum and is expected to be delivered by early 2015.
- Boston Properties continued construction of its ground-up development at 535 Mission Street in San Francisco. The Class A, 307,000-square-foot office tower, located in the South Financial District, will be one of the first LEED Core & Shell Gold pre-certified buildings in the city. The project has an expected completion date of April 2014.
- Tishman Speyer began construction of its speculative development at 222 Second Street in the South Financial District in San Francisco. The Class A, 456,000 square-foot office tower is LEED-registered and is expected to contain retail space, parking, and an area for public space. The building is expected to be delivered in October of 2015.
- Jay Paul Company initiated construction at 181 Fremont Street in the South Financial District in San Francisco by beginning demolition of the site's existing three-story building, formerly tenanted by RocketSpace. The new speculative development will be a Class A, 54-story, 420,000-square-foot office and residential tower. The building will be LEED certified Gold and is expected to be delivered in the second half of 2015.