

## San Francisco overview

Basking in the growth of the dynamic high-tech industry, San Francisco has earned its status among high-tech companies as the most coveted office location in the country. During 2011, citywide high-tech jobs surpassed the lofty peak reached during dot-com boom. Ascent continued in 2012 with more than 1.3 million square feet of first quarter leases to 40 high-tech firms. There's even more growth ahead with a pipeline of 2.6 million square feet of demand from 66 firms. It's safe to say, "high-tech industry roots are firmly planted in the city."

Tenant demand for creative space in popular submarkets south of Market Street has led to a shortage of options that's now driving high-tech tenants to look elsewhere in San Francisco. Market conditions and demand for creative space has established a new sub-set within the office inventory that's outperforming traditional space with faster rent growth and scarce vacancies. Owners and landlords are enthusiastically responding to the opportunity to reposition and renovate existing buildings to appeal to high-tech tenants, creating a much needed supply relief in a quickly tightening marketplace.

## United States scorecard

Annual employment growth (Q1 2012 vs. Q1 2011)



**5.2%**

High-tech services

**2.1%**

Office-Using

High-tech IPO activity



2011 Volume

**\$8.6B**

38 deals

2010 Volume

**\$3.6B**

27 deals

High-tech venture capital funding



2011

**\$15.3B**

2010

**\$11.3B**

## Market highlights – United States and Canada

### Seattle

Amazon buys land; plans to build 3.0 million sf campus

### Vancouver

Hollywood north: Sony, Pixar, Technicolor expand

### Toronto

Google, Facebook, AJB Software grab more space

### Montréal

Gaming grows; Eidos expands, adds to cluster w/Ubisoft, EA, A2M

### Boston

Tech firms squeezed out of Cambridge into Seaport

### Portland

eBay, Dotster, Monsoon expand; Adobe, NetApp plan datacenters

### San Francisco

Salesforce.com, Macys.com and Riverbed lease over 800,000 sf

### Silicon Valley

Apple expands again with 157,000 sf lease in Sunnyvale

### Los Angeles

YouTube going to 'Spruce Goose' Hercules Campus in Playa Vista

### Orange County

Amazon's a2z expanded into 82,000 sf at Irvine Spectrum

### San Diego

San Diego Tech Center leases 70,000 sf to high-tech tenants

### Denver

Micron expands in Longmont; will open engineering/design center

### Austin

Apple plans \$304 million campus, 3,600 new hires in Northwest

### Houston

Software developers flock to Texas Medical Center

### South Florida

Citrix Systems expands in Cypress Creek by 40,000 sf

### New York

Cornell will build Roosevelt Island campus to feed high-tech industry

### Chicago

'1871 Chicago' digital innovation center opens in Merchandise Mart

### Pittsburgh

More incubator offices open to attract start-ups

### Philadelphia

Tech growth focused on software for 'eds and meds'

### Baltimore

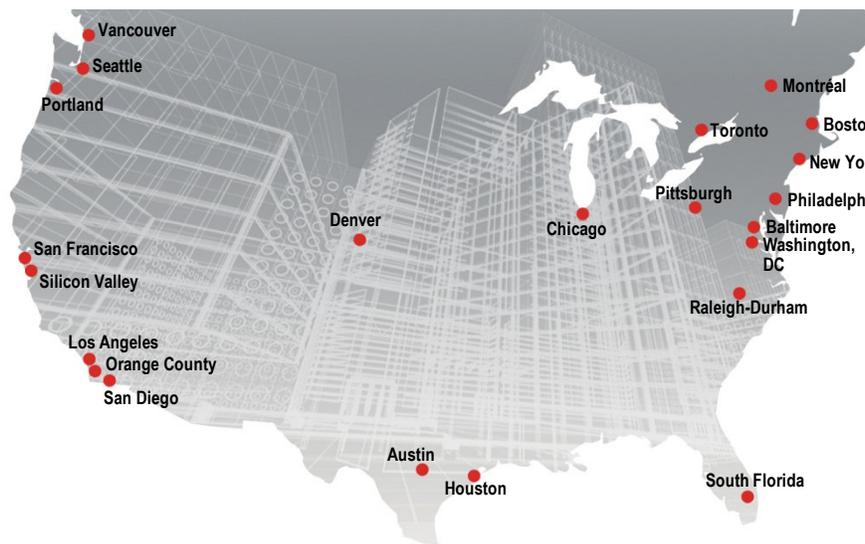
Millennial Media's stock price doubles in IPO debut

### Washington DC

Tech industry growth mitigating federal workforce contraction

### Raleigh-Durham

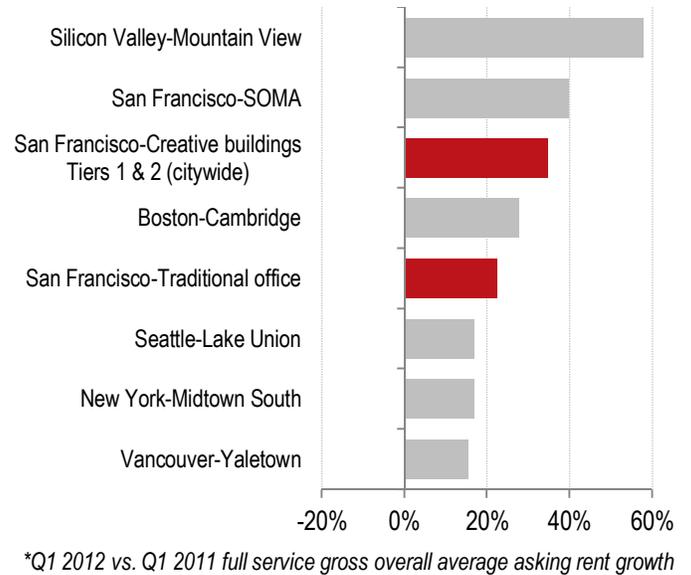
Red Hat and Cree Inc. post double digit Q1 stock price growth



## San Francisco market activity

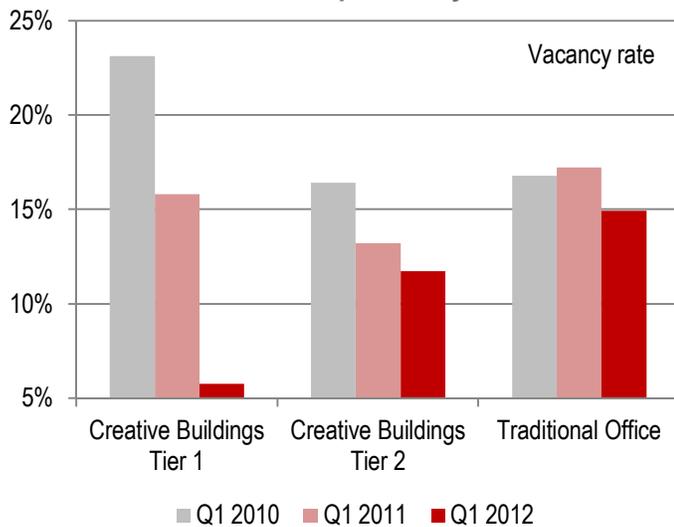
Tenants in the market	Salesforce.com 400,000-600,000 sf	Advent Software 200,000 sf
	Square 150,000-200,000 sf	Lithium 40,000-60,000 sf
Lease Transactions	Salesforce.com 50 Fremont Street 401,786 sf	Macys.com 680 Folsom Street 242,753 sf
	Riverbed Technologies 680 Folsom Street 167,788 sf	Kabam 795 Folsom Street 63,222 sf

## Annual rent growth by high-tech submarket



## San Francisco creative office building analysis

### Supply of creative space declined sharply over the past two years



Demand for creative building space has surged over the past two years, sending Tier 1 vacancy plummeting from 23.1 to 5.8 percent. Traditional office building space is also experiencing higher demand, but not to the same extent and vacancy has only edged downward to 14.9 percent. Creative Tier 2 buildings are more plentiful and have provided additional options to high-tech tenants. With a significant pipeline of high-tech tenant demand through 2012 and 2013, these firms are quickly working to lease space that meets their creative esthetic needs and future growth plans.

High demand for creative buildings has resulted in premium rental rates that sometimes exceed view space in the Financial District. Rents increased 1.6 times faster for creative buildings (+35%) over the past year compared to traditional office space (+22%). The implication is clear— high-tech leasing is leading the market and driving pricing trends that will affect all businesses. Faced with a quickly diminishing creative space supply, competition among tenants will elevate and cause further rental rate increases. Developers have seen this trend build and are responding with both new and renovated supply that should relieve pressure, but time lags will keep it from making a significant impact for several years.

**Creative buildings defined:** The inventory of creative building space is comprised of two main categories: Tier 1 and Tier 2. These buildings generally have open floorplans, high ceilings, exposed brick, operable windows, natural light, and reside in older buildings outside of the Financial District. Tier 1 buildings contain the highest quality creative space, while Tier 2 buildings generally lack restored finishes and more modern building systems. Creative buildings (Tiers 1 and 2) comprise about 20 percent of the 74 million-square-foot office inventory; traditional office buildings make up 70 percent, and other buildings the remaining 10 percent.

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