

2012 Market Outlook

SAN FRANCISCO BAY AREA



MESSAGE FROM BAY AREA MANAGEMENT

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CBRE's Bay Area Region is pleased to present you with our Market Outlook for 2012. This annual report provides a market-specific analysis of trends for all major commercial property types and services in the Bay Area, as well as insight into what we expect to see in 2012.

After nearly two years of gradual market recovery, 2011 proved to be a turning point for the Bay Area economy. Employment gains were recorded across the region, and several counties ended the year with some of the lowest unemployment in the state. The technology sector has been the most significant driver of growth throughout the area, and continues to play a large role in the recovery of the San Francisco and Silicon Valley markets. Across the Bay Area, CBRE took the opportunity to expand, and further develop, our already extensive services platform in order to meet our clients' evolving real estate needs.

Our Bay Area Region includes 750 employees across seven offices. Together, our industry leading professionals offer a full range of real estate services including brokerage, asset services, debt and equity financing, valuation services, project management, global corporate services, facilities management and lease administration. Our growing focus on the government, higher education and healthcare sectors has helped further solidify CBRE's market leadership in the highly competitive outsourcing environment. Today, CBRE manages 46 MSF of R&D, industrial and life science, office, and retail space in more than 260 properties throughout the Bay Area.

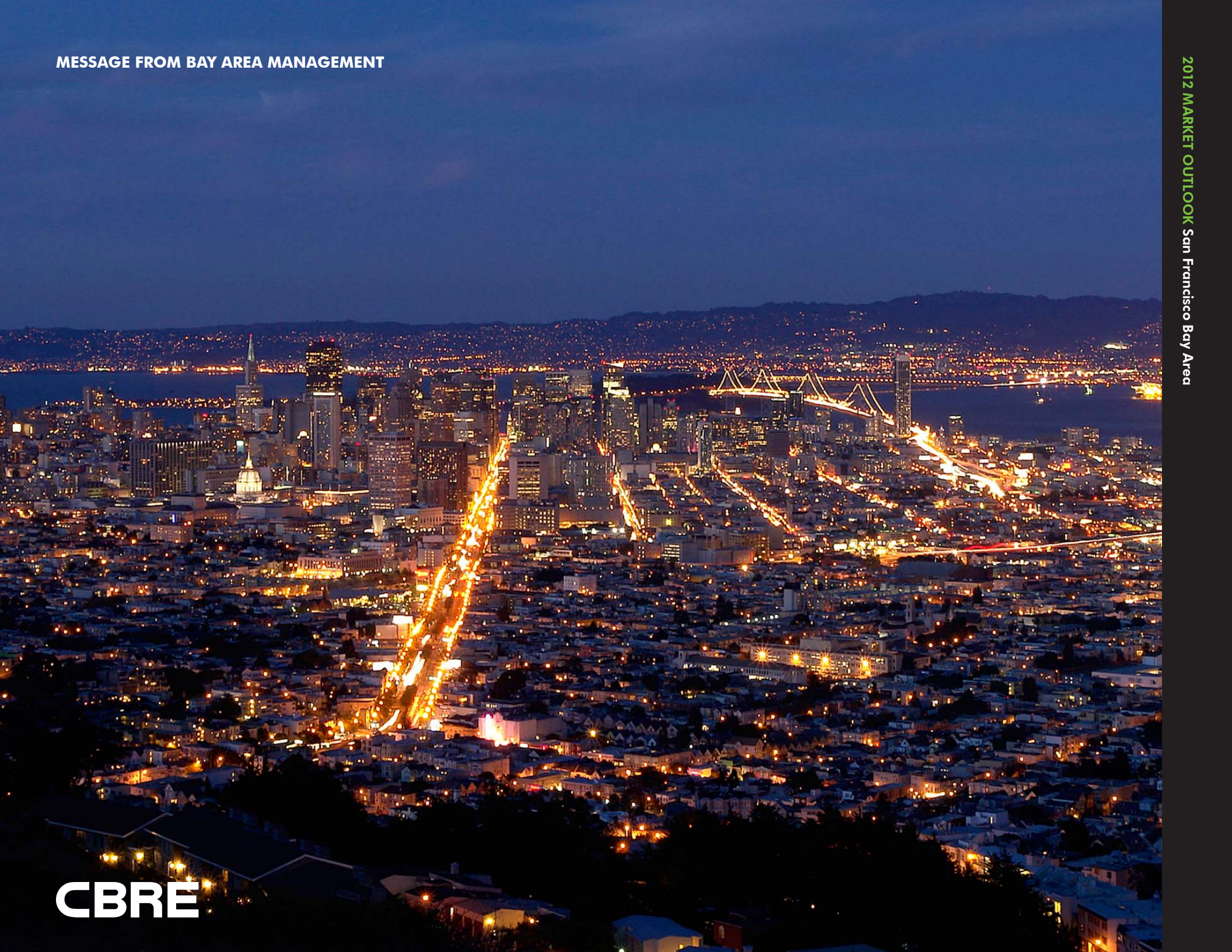
In addition, our Global Corporate Services outsourcing business continues to deliver strong results as corporate occupiers continued to seek innovative, cost-saving solutions as part of the strategic management of their real estate portfolios. During 2011, CBRE secured 144 new and renewed contracts with clients across a broad spectrum of industries.

Another area that continued to be a strong focus in 2011 was sustainability. In addition to helping out clients achieve their own sustainability goals, CBRE became the first company in our sector to fulfill a pledge to become carbon neutral. Our company-wide Environmental Stewardship policy, adopted in 2007, was recognized by the U.S. Environmental Protection Agency, which has named CBRE an ENERGY STAR Partner of the Year for the past four years, including recognition for Sustained Excellence. Additionally, Newsweek ranked CBRE as the greenest real estate company in its 2011 Green Rankings, marking our third year as the highest ranked real estate company on this prestigious list.

Looking ahead, we expect another positive year for the commercial real estate market following 2011's strong economic rebound in the Bay Area. Given the significant occupancy gains in several markets, which were largely driven by the technology sector, new construction will again play a role in the region's growth in 2012. As the globally-recognized leader in innovation and new technology, the Bay Area economy is poised to continue to benefit from its highly-skilled labor force and positive momentum.

At CBRE, we remain focused on incorporating our core values—respect, integrity, service and excellence—into everything we do, especially where our clients are concerned. No other firm in the Bay Area is better equipped to deliver a full scope of integrated services locally, regionally, or globally. We look forward to the opportunity to help you meet your business objectives in 2012 through smart, strategic real estate analysis and execution. We hope you find this publication to be both interesting and informative as you contemplate your current and future real estate requirements.

MESSAGE FROM BAY AREA MANAGEMENT



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ECONOMICS

Regional Summary

The United States economy is expected to experience modest growth through 2012. In the past year, the U.S. economy has been characterized by a disparate recovery, driven by policy conflict in Washington, DC, friction in global markets, and both national and European sovereign debt concerns. While these concerns will persist into 2012, decreasing unemployment and private sector deleveraging have created a firmer foundation for improving real estate fundamentals.

There continues to be a recovery amidst uncertainty. Investors, owners and occupiers will experience uncertainty as the risks of a recession in Europe and the implications of a U.S. presidential election become apparent in 2012. This uncertainty will result in continued bifurcation of markets. Those markets with exposure to growth sectors are leading the recovery, particularly those in supply-constrained infill markets. The most relevant determinant when judging the momentum towards recovery and growth continues to be employment. To this extent, the Bay Area's strong technology sector has driven employment growth in most of the region's markets.

The Bay Area's large share of technology jobs proved to be one of the area's biggest strengths in 2011. Nearly one out of every five jobs in the Bay Area is classified as being part of the technology sector, and over half of the Bay Area office workforce is considered part of the technology sector. While office jobs are down 4.1% in the Bay Area during the last three years, employment in the technology sector has increased by 0.4%. Technology plays an unquestionably large role in the Bay Area economy. Additionally, in 2012, the professional services and legal sectors will likely grow.

Bay Area unemployment was at 8.5% at year-end 2011, while the San Francisco MSA had the lowest unemployment in the region at 7.3%, 140 basis points below 2010. The Bay Area economy was aided by national, state, and local hiring tax credit programs, including the Federal Work Opportunity Tax Credit, Federal Renewal Community Tax Credit, California Enterprise Zone (EZ) Program, and the San Francisco EZ Payroll Tax Credit.

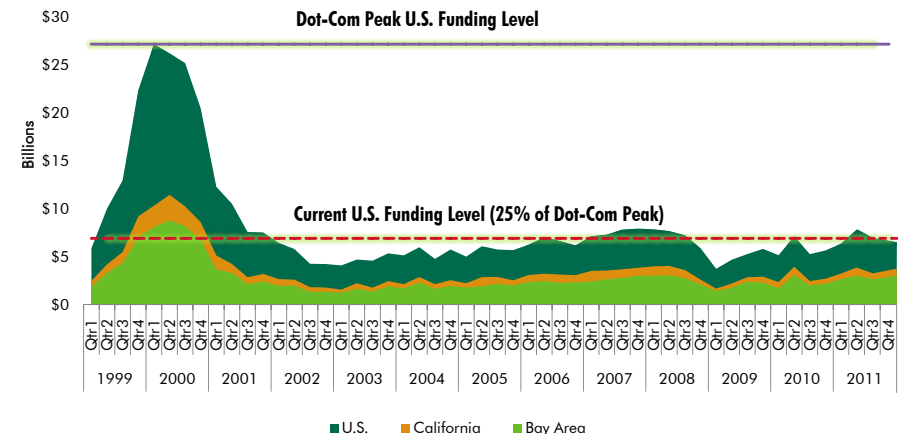
According to the PricewaterhouseCoopers MoneyTree Report, based on data from Thomas Reuters, venture capitalists (VCs) invested \$28.4 billion in 3,673

deals in 2011; the highest level of investment in ten years. Silicon Valley, which encompasses the Bay Area, accounted for 41% of all VC funding in 2011, totaling \$11.6 billion in 1,158 deals. In addition, Dow Jones reported 45 new initial public offerings (IPOs) of venture-backed companies in 2011 that totaled \$5.4 billion, a 63% increase over the \$3.3 billion raised by 46 IPOs in 2010. The largest IPO of 2011 was Zynga (ZNGA), a gaming company from San Francisco, which raised \$1 billion. According to Thomas Reuters and the National Venture Capital Association, there were 429 mergers and acquisitions (M&A) in 2011. While the deal count was lower than in 2010, the Total Disclosed M&A Value actually increased by 23%.

Financial markets around the globe saw spikes in volatility in 2011, but the year ended with unsubstantial changes. The Standard & Poor's 500 ended the year with almost no change from where it began, while the Dow Jones Industrial Average gained 5.5% and the NASDAQ Composite slipped 1.8%. Increasing corporate profits and compressing PE ratios suggest a more encouraging outlook for market activity in 2012.

As uncertainty persists into 2012, nationally it is expected that corporate occupiers will continue to exercise caution in their decisions, and demand will remain moderate. In the Bay Area, demand is anticipated to be above average as the technology sector will drive growth.

Venture Capital Funding



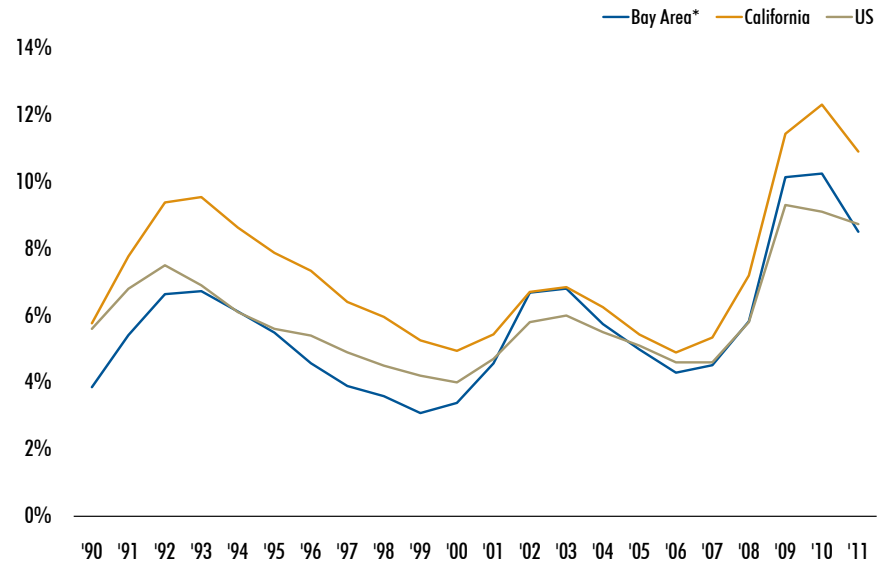
ECONOMICS

Unemployment Rates

	Dec '10	Dec '11	% Change
United States	9.1%	8.5%	↓ 6.6%
California	12.3%	10.9%	↓ 11.4%
San Francisco MSA	8.7%	7.3%	↓ 16.1%
San Jose MSA	10.7%	8.9%	↓ 16.8%
Oakland MSA	10.9%	9.3%	↓ 14.7%
Vallejo - Fairfield MSA	12.1%	10.5%	↓ 13.2%
Santa Rosa MSA	10.0%	8.9%	↓ 11.0%

Source: EDD/BLS

Unemployment Rates*



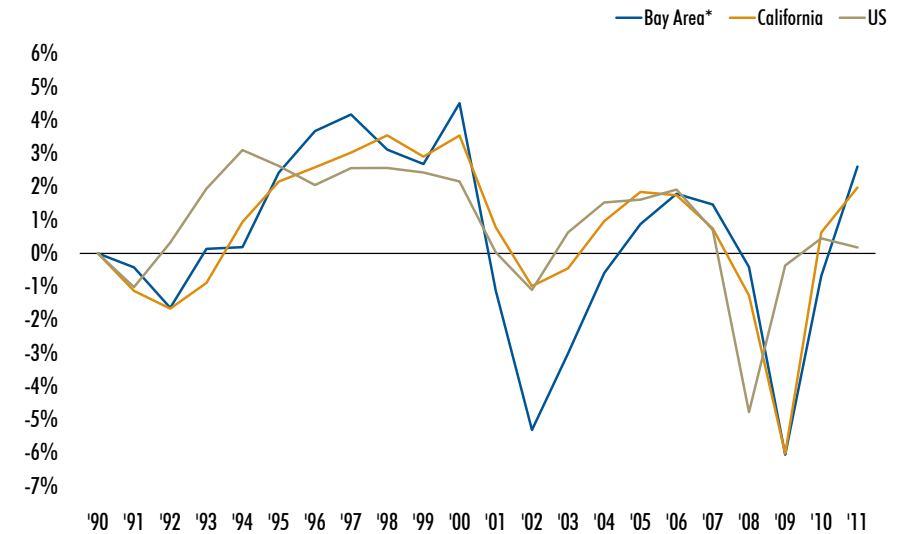
Source: EDD/BLS
*Includes all 9 Bay Area counties

Total Non-Farm Job Growth (in Thousands)

	Dec '10	Dec '11	% Change
United States	153,613	153,887	↑ 0.2%
California	15,871	16,185	↑ 2.0%
San Francisco PMSA	875	903	↑ 3.2%
San Jose PMSA	802	834	↑ 4.0%
Oakland PMSA	1,131	1,151	↑ 1.8%
Vallejo - Fairfield PMSA	187	191	↑ 2.1%
Santa Rosa PMSA	228	228	↔ 0.0%

Source: EDD/BLS

Total Non-Farm Job Growth*



Source: EDD/BLS
*Includes all 9 Bay Area counties

OFFICE

Regional Summary

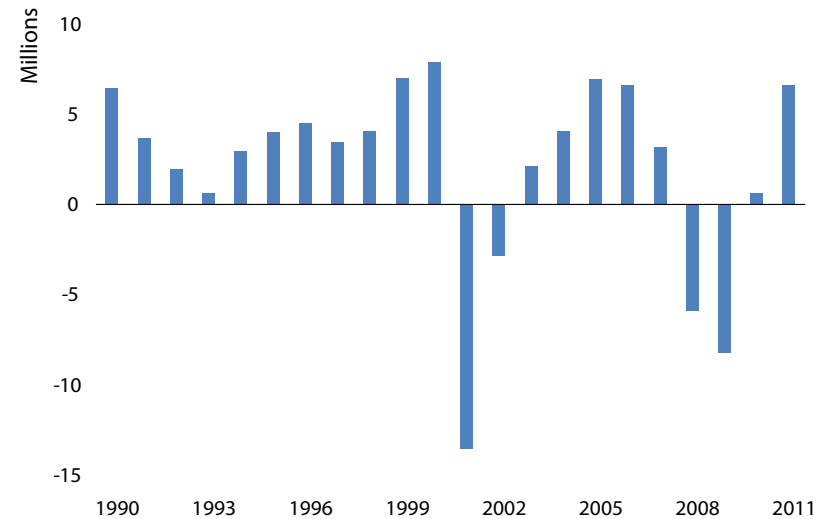
Since the technology sector's rebound in 2010, the Bay Area office market has continued to build momentum in its recovery. Coming off a strong finish to the end of last year, the regional office market witnessed one of its best years historically in 2011. Annual net absorption in the overall market ended the year at over 6.6 MSF, with three of the five Bay Area markets posting numbers over 1.5 MSF. The positive fundamentals witnessed in the region over the year are largely due to favorable economic conditions led by the steady growth of local industries.

Venture capital investments, an effective indicator of the activity in the Bay Area, showed strong growth over the past year, up 22% in number of dollars invested and 4% in number of deals completed. This funding helped fuel cash flow through the technology industry, which accounted for the majority of the large occupancy gains on the year. Employment in the region showed a steady incline through 2011 as the number of office jobs increased by over 22K, driving unemployment down over 100 basis points annually. A majority of this growth came from the technology sector, as it currently represents 52% of the total office jobs in the area.

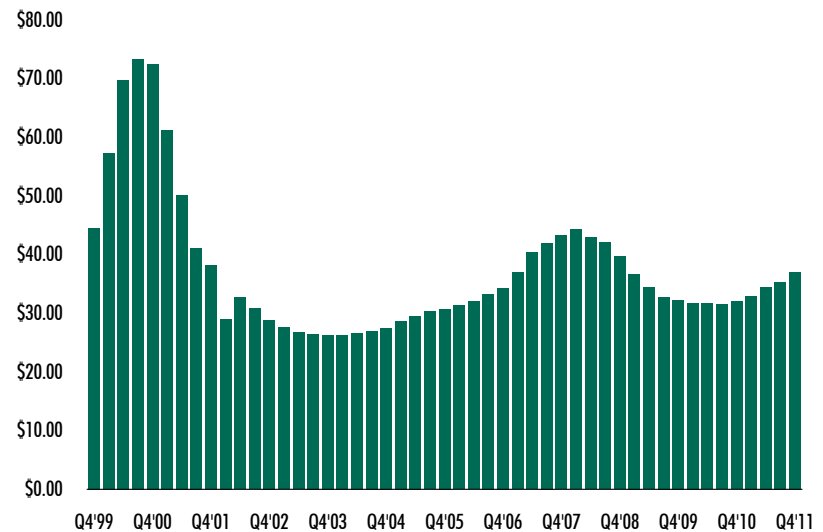
Regional vacancy decreased 330 basis points annually to 13.4%, while availability dropped 250 basis points to 16.6%. Since their last peak in the third quarter of 2009, vacancy rates have decreased by nearly 400 basis points. The San Francisco Peninsula maintained the lowest vacancy in the Bay Area at 10.9%, while the I-680 Corridor posted the highest rate at 18.6%. This was the only market to witness an increase in its overall vacancy, jumping 110 basis points annually.

A significant amount of absorption in 2011 was in large blocks of Class A space, as many companies looked to accommodate their growth by expanding their footprints in the Bay Area. This trend helped Class A properties post some of the strongest numbers on the year as they accounted for 73% of the total net absorption. The Silicon Valley led the Bay Area in terms of absorption with over

Historical Net Absorption



Class A Average Asking Rates*



*Regional Weighted Average by NRA

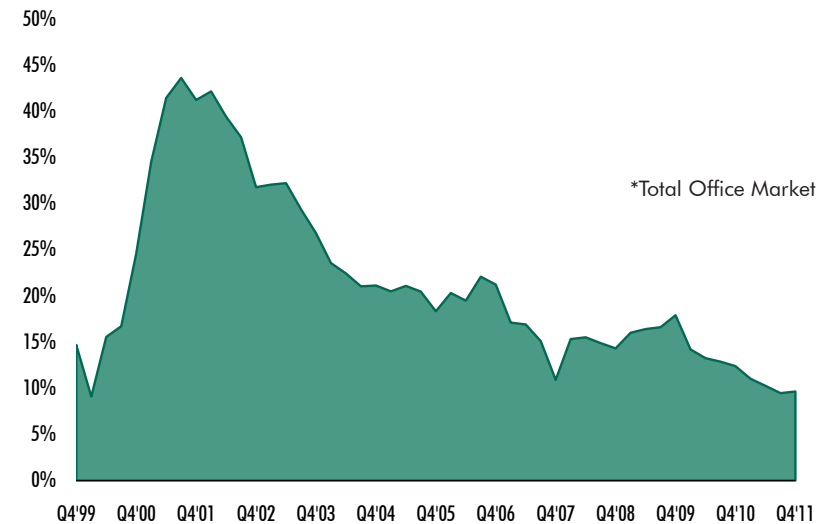
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3 MSF of occupancy gains, 2.7 MSF of which came from Class A properties. This surge in leasing activity over the year caused a spike in average asking rates as supply continues to decline across the region. Since the end of 2010, rates have increased 15.9% or \$4.49 annually to \$32.70 FSG. This represented the first time in four years that asking rates shifted upward, a trend that is likely to continue moving into 2012.

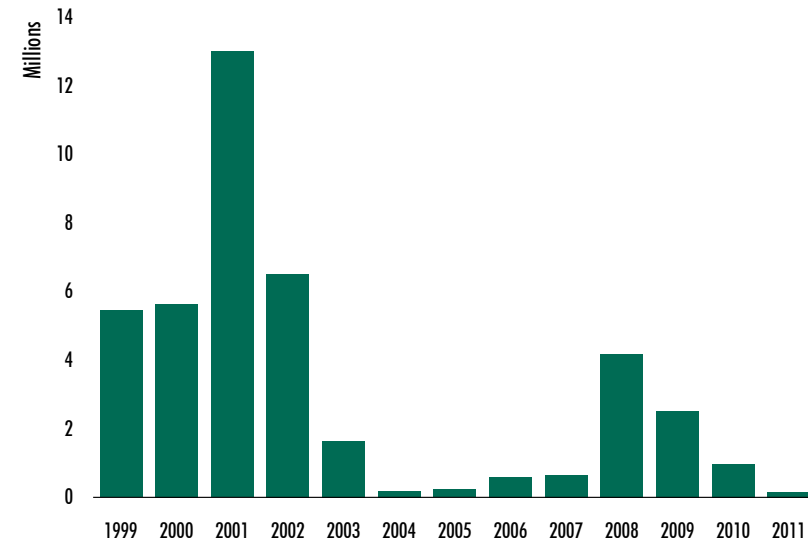
Sales activity in the Bay Area continued to rise through 2011, as many investors looked to take advantage of the positive market fundamentals. Two investor sales over 1 MSF were completed on the year, the largest of which was Shorenstein Properties' purchase of 1355 Market Street and 875 Stevenson Street in San Francisco for a total of 1.1 MSF. Construction activity also increased over the past four quarters as availability of large spaces became scarce in some of the more prominent locations. There is currently 1.6 MSF under construction in the Bay Area, the majority of which is located in the northern part of the Silicon Valley.

Although nationally many regions are still struggling to shake the effects of the recent recession, the Bay Area office market has continued to improve on its fundamentals through 2011. Elevated transaction activity on the year within large block spaces helped drive overall vacancy down and asking rates up for the first time since 2007, a trend that is likely to continue as the local technology sector continues to grow. With the majority of companies already committing on large spaces in 2011, it is expected that transaction activity will stabilize and growth will stem from midsize requirements.

Sublease as % of Availability*



Construction Completions



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2011 Overall Office Market

	NRA	Total Vacancy Rate	Total Availability Rate	Avg. Asking Rate	YTD Net Absorption	Current Sq. Ft. Under Construction
San Francisco	76,786,310	11.2%	15.5%	\$38.40	2,105,425	72,000
S.F. Peninsula ¹	39,772,581	10.9%	14.2%	\$44.16	1,524,945	39,551
Silicon Valley	53,347,120	13.8%	15.4%	\$33.96	3,049,821	1,494,250
I-80 & I-880 Corridor	27,653,893	14.1%	19.6%	\$24.72	190,999	0
I-680 Corridor	42,655,055	18.6%	20.2%	\$22.68	(241,756)	64,500
Total	240,214,959	13.4%	16.6%	\$32.70	6,629,434	1,670,301

2011 Class A Market

	NRA	Total Vacancy Rate	Total Availability Rate	Avg. Asking Rate	YTD Net Absorption
San Francisco	47,235,421	11.7%	15.3%	\$40.52	763,550
S.F. Peninsula ¹	21,697,761	11.1%	15.5%	\$49.08	1,033,881
Silicon Valley	28,351,677	13.9%	15.3%	\$33.63	2,732,246
I-80 & I-880 Corridor	11,180,436	12.6%	20.3%	\$30.96	223,566
I-680 Corridor	21,235,419	19.6%	21.3%	\$24.84	71,920
Total	129,700,714	13.4%	16.7%	\$37.05	4,825,163

¹ Includes Palo Alto

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Regional Summary

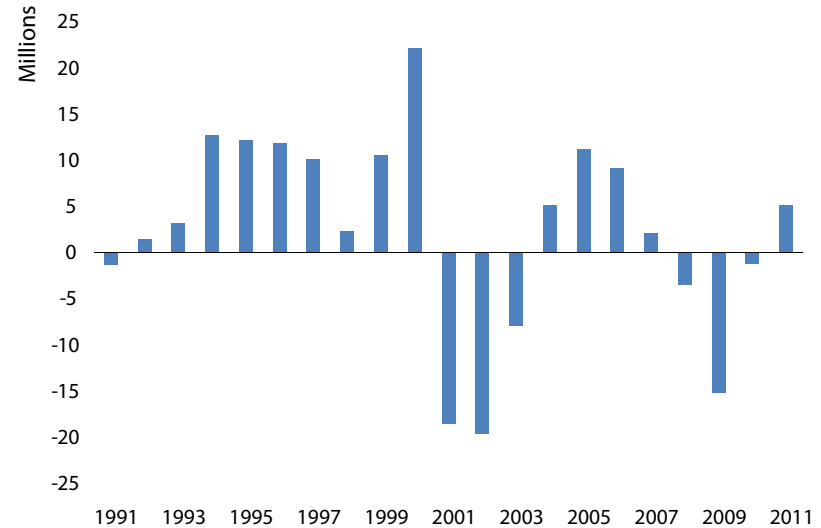
In 2011, the Bay Area industrial market, though hard hit by the economic downturn in recent years, continued the trend of stabilization established at the end of 2010. Market fundamentals were positive for the first time since the downturn began in 2007, with the Bay Area posting over 4.7 MSF of positive absorption in 2011. Improvements in the overall economy continue to drive much of the demand, as many tenants have taken advantage of the opportunities provided by a weak market to significantly upgrade their space. VMware was one of the most active industrial tenants last year, purchasing an R&D campus in Palo Alto and expanding its footprint in the city by just under 1 MSF. As more companies grow and jobs continue to return to the Bay Area, we expect demand to continue to increase.

Overall Bay Area vacancy experienced a significant reduction in 2011, down by 180 basis points over the year to 10.3%, showing that the market has stabilized and is primed for further recovery. All product types realized a reduction in vacancy throughout the year. The R&D market accounted for the majority of declining vacancy, down by 360 basis points to 14.5%. Both warehouse and manufacturing product experienced reduced vacancy as well, with both product types down by 60 basis points to 8.2% and 6.6%, respectively.

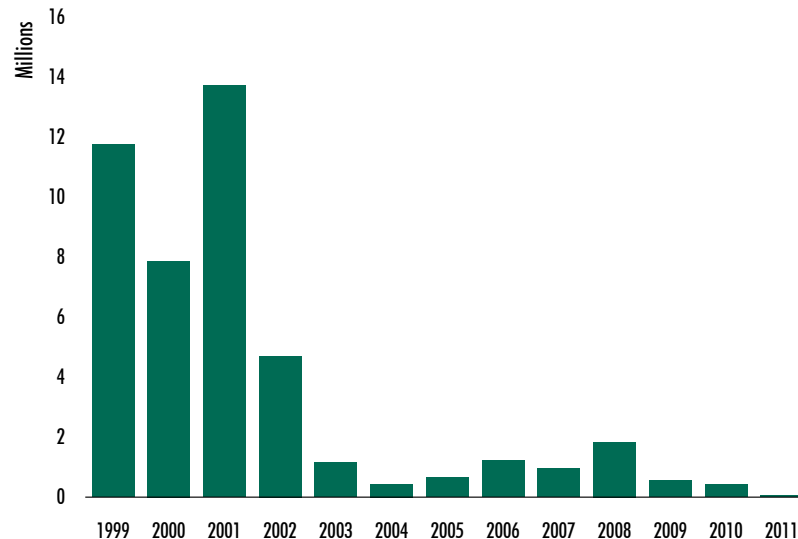
After three consecutive years with decreased occupancy, the Bay Area industrial market experienced positive net absorption in 2011, posting 4,753,411 SF of occupancy gains. The Silicon Valley market realized the largest increase in occupancy last year, posting a total increase of 4,184,625 SF. The San Francisco Peninsula and East Bay markets experienced positive absorption throughout the year as well, recording 802,622 SF and 128,303 SF, respectively.

With available space on the decline, overall asking rates have begun to increase in recent quarters. The R&D market saw the largest increase of any product type last year, rising by 24.6% to \$16.30 NNN PSF/yr. Both warehouse and manufacturing product experienced increases in asking rates, with the overall

Historical Net Absorption



Construction Completions



INDUSTRIAL

rate increasing by 2% in warehouse and 1.4% in manufacturing, to \$5.68 NNN PSF/yr and \$6.66 NNN PSF/yr, respectively.

During the year, activity began to increase in the investment and owner/user sales markets, especially in the second half of 2011. After a number of years which saw little to no sales activity in the Bay Area, this was definitely a welcome sight and illustrates that investors and users alike are feeling more comfortable with the outlook of the economy. With interest rates still near record low levels, we expect sales activity will continue to increase in 2012. New development projects have slowed in recent years and 2011 was no exception; overall construction completions were down from a year ago with only 46,840 SF of new projects completed in 2011.

2011 Overall Industrial/R&D Market

	NRA	Total Vacancy Rate	Total Availability Rate	YTD Net Absorption	Q4 Construction Completions
S.F. Peninsula ¹	71,502,249	8.2%	10.0%	802,622	26,840
Silicon Valley ²	243,859,222	12.4%	14.0%	4,184,625	0
I-80 & I-880 Corridor	143,147,983	6.9%	9.6%	383,161	0
I-680 Corridor	25,424,058	15.1%	17.5%	(616,997)	0
Total Industrial	483,933,512	10.3%	12.3%	4,753,411	26,840

2011 Warehouse Market

	NRA	Total Vacancy Rate	Total Availability Rate	Average Asking Rate ³	YTD Net Absorption
S.F. Peninsula ¹	38,331,240	9.1%	10.6%	\$9.00	45,095
Silicon Valley ²	42,615,797	9.4%	11.4%	\$4.95	(49,988)
I-80 & I-880 Corridor	88,906,487	6.1%	9.3%	\$4.68	279,490
I-680 Corridor	14,511,524	14.7%	18.0%	\$5.16	(562,984)
Total Warehouse	184,365,048	8.2%	10.7%	\$5.68	(288,387)

While the industrial market is still far from a full recovery, the Bay Area experienced a strong year in 2011, affirming the year-ago projections of market performance. As businesses grow and jobs continue to return to the area, we expect that continued steady demand will help return the region's vacancy back to healthy levels. The region is well positioned to follow a strong year with more positive growth, with the lack of new supply delivered over the last two years allowing the market to stabilize. The Bay Area remains one of the most attractive locations in the country to do business, as its labor force and infrastructure continue to attract and retain the most innovative and important companies in the world.

2011 R&D Market

	NRA	Total Vacancy Rate	Total Availability Rate	Average Asking Rate ³	YTD Net Absorption
S.F. Peninsula ¹	23,773,805	7.6%	10.4%	\$34.20	1,007,925
Silicon Valley ²	143,507,492	15.9%	17.3%	\$14.46	4,397,301
I-80 & I-880 Corridor	14,857,960	10.8%	12.7%	\$8.04	564,233
Tri Valley	7,783,341	17.2%	18.3%	\$11.28	(84,443)
Total R&D	189,922,598	14.5%	16.1%	\$16.30	5,885,016

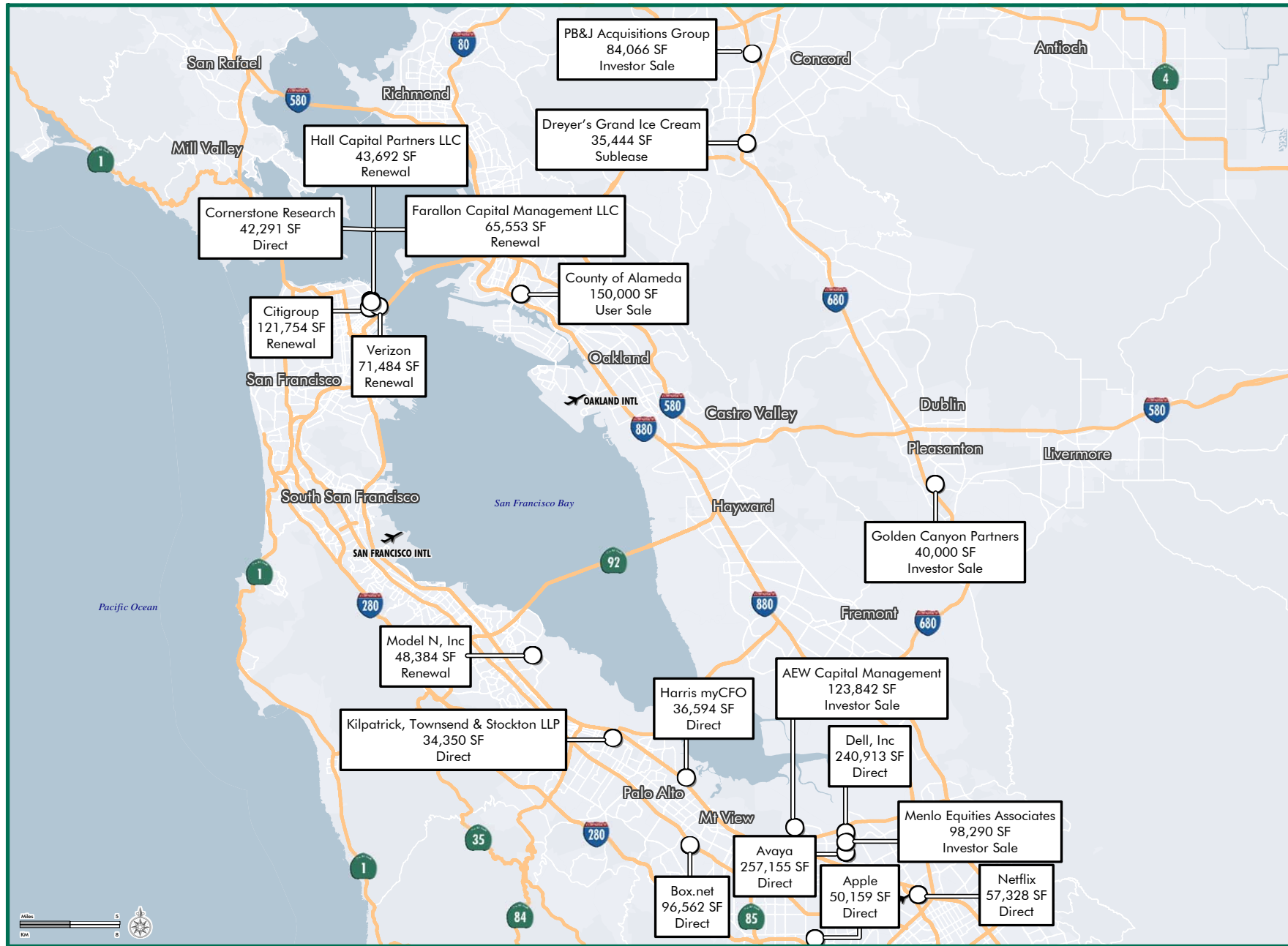
2011 Manufacturing Market

	NRA	Total Vacancy Rate	Total Availability Rate	Average Asking Rate ³	YTD Net Absorption
S.F. Peninsula ¹	9,397,204	5.8%	6.4%	\$12.24	(250,398)
Silicon Valley ²	57,735,933	6.0%	7.6%	\$6.56	(162,688)
I-80 & I-880 Corridor	39,653,536	7.3%	9.2%	\$5.52	(460,562)
I-680 Corridor	3,129,193	11.6%	13.1%	\$6.12	30,430
Total Manufacturing	109,915,866	6.6%	8.2%	\$6.66	(843,218)

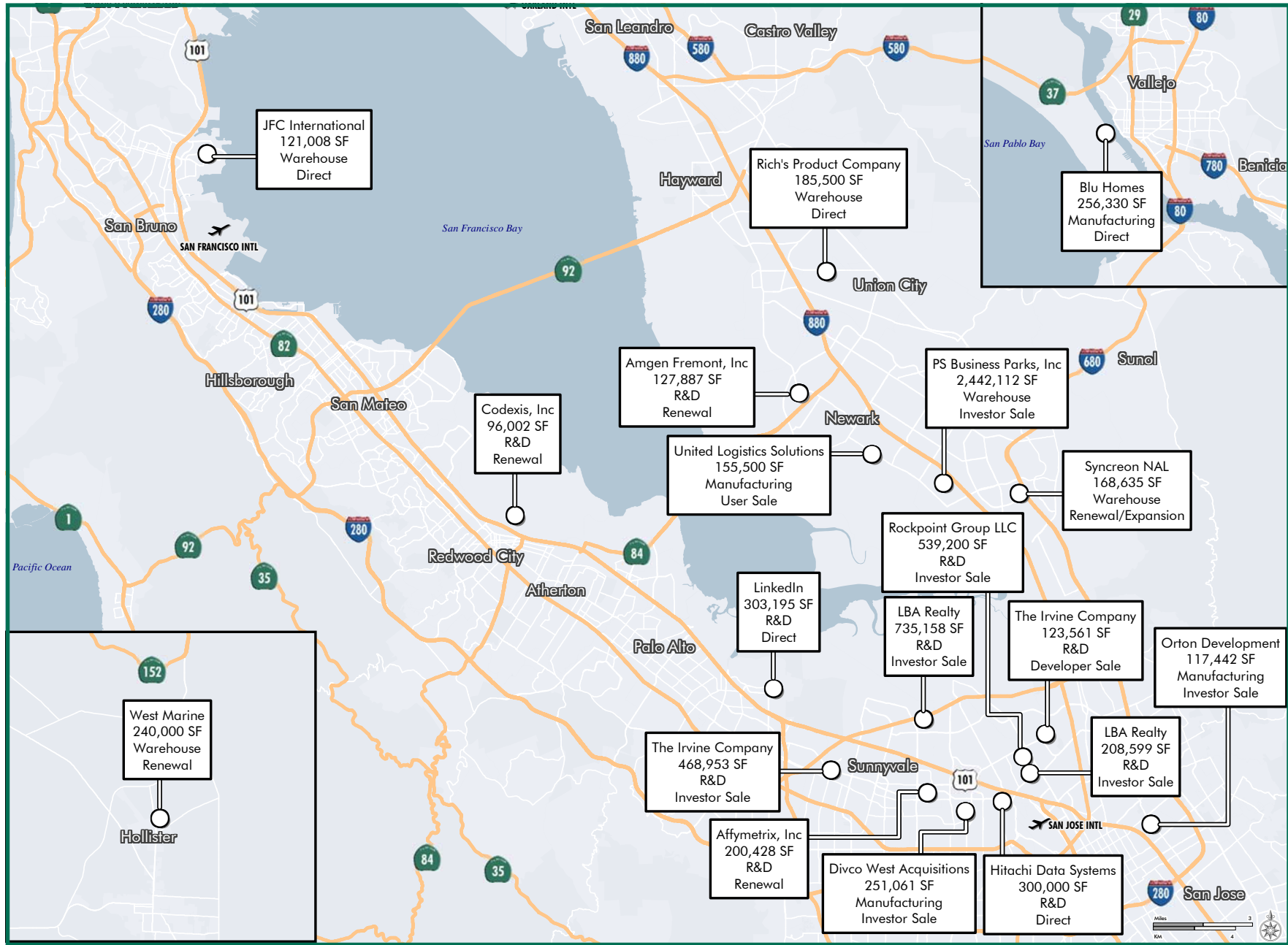
¹ Includes Palo Alto

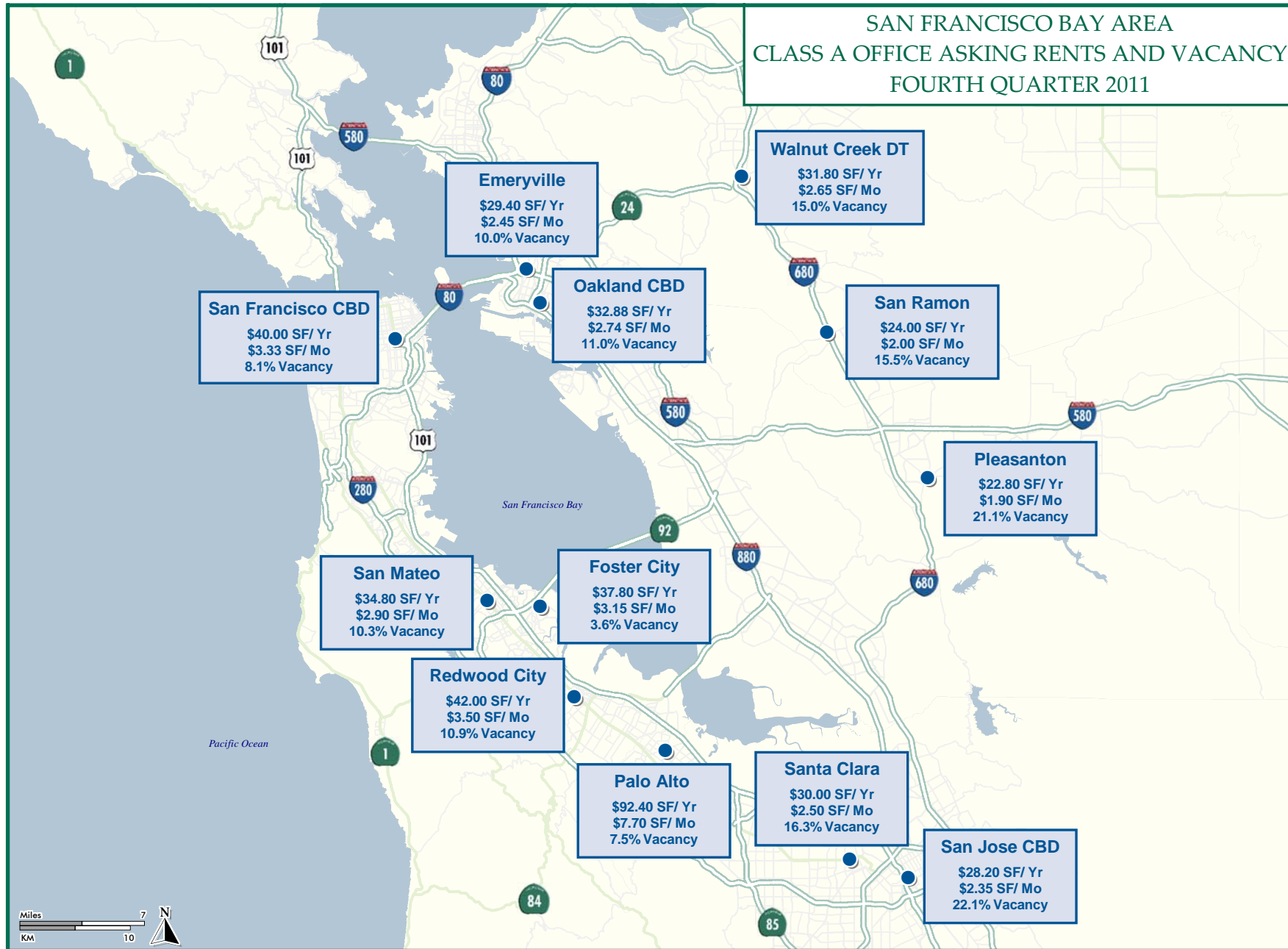
² Includes Fremont/Newark

SAN FRANCISCO BAY AREA | Top CBRE Office Transactions – 2011



SAN FRANCISCO BAY AREA | Top CBRE Industrial/R&D Transactions – 2011





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San Francisco Office Market

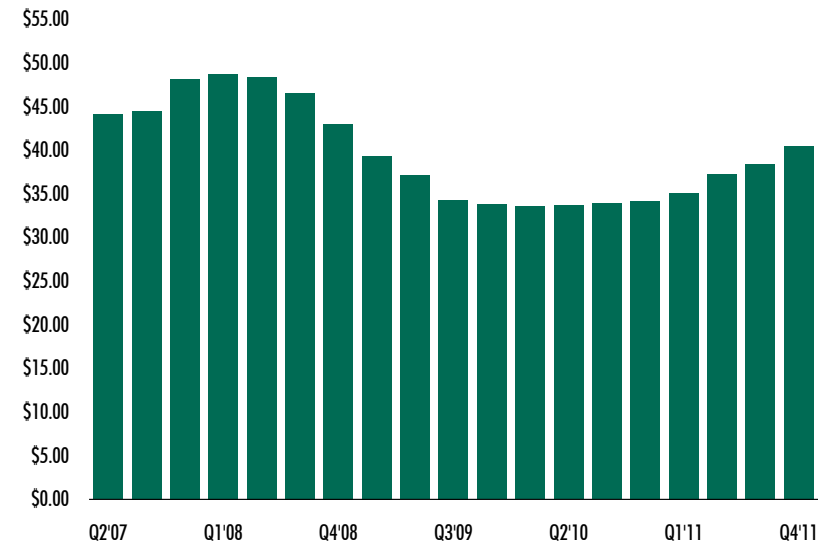
Jak Churton, Managing Director | Meade N. Boutwell, Senior Vice President | Darin Bosch, Senior Vice President | Timothy Kazul, Senior Vice President
Phillip Tippett, Senior Vice President | Brian Talbot, Associate

In 2011, the San Francisco office market experienced a robust recovery after three years of little to no growth. The sense of optimism in the marketplace at the end of 2010 translated to more than 2 MSF of occupancy gains in 2011. Vacancy decreased to 11.2% and overall asking lease rates rose to \$38.40, a significant 22.6% YOY increase. As we head into 2012, limited supply and above average demand are expected to drive strong market fundamentals.

San Francisco gained jobs in 2011, with much of the office job growth coming from the technology industry. Job growth is expected to continue in 2012. San Francisco's labor force of 463K workers has been growing while unemployment has been decreasing. The unemployment rate of 7.6% is the third lowest rate in the state. The Bay Area continues to attract educated workers and the highest level of venture capital funding in the U.S. While technology companies have been driving growth, it is anticipated that legal and financial companies will look to grow in 2012.

A significant benchmark was reached towards the end of 2011 when technology tenants made up half of the potential demand for space. This prominent demand has uniquely affected the market. Technology tenants have gravitated towards "creative" spaces, which tend to be characterized by high ceilings, exposed brick, large floor plates and open floor plans. These spaces have traditionally been found south of Market Street, but availability has become more limited. This lack of supply has two major implications; technology tenants have begun to gravitate towards the Central Business District (CBD), and landlords with traditional office space are looking to position their space to fit the "creative" mold when possible. The demand for creative space resulted in a narrowing spread between Class A and Class B rents in 2011. This trend is set to continue into 2012 as some Class B rates are currently comparable to, or higher than, that of Class A space in the CBD.

Class A Average Asking Rates*



*Average asking rates are FSG PSF/yr

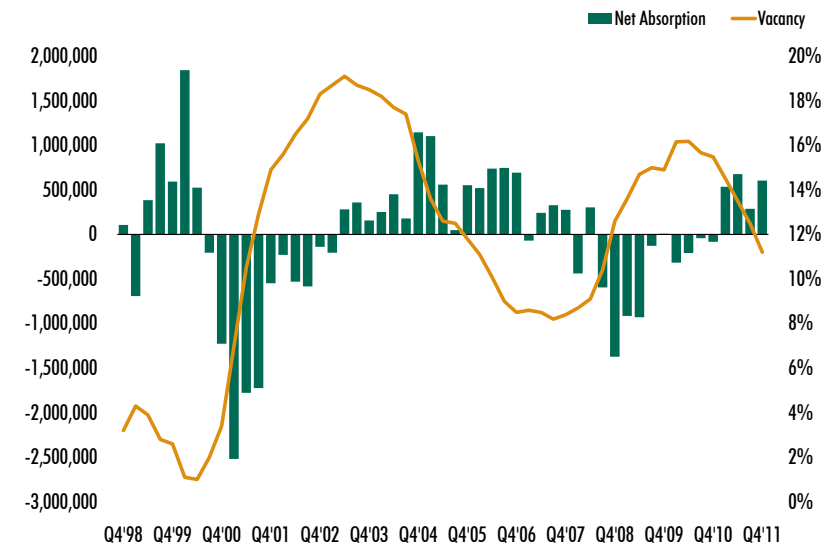
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One of the most noteworthy trends for 2012 will be the limited availability of large blocks of space. In the first week of January 2012, Salesforce signed a 400K SF lease at 50 Fremont Street in the South Financial District. Available contiguous space in the market greater than 75,000 SF will continue to be scarce. With little construction forecasted for the next two years, availability will continue to tighten for larger users.

Tenant demand is expected to remain strong, in part due to the limited inventory. In 2010, demand for space grew to over 6 MSF. That demand remained high into mid-2011 and then decreased as large tenants began executing leases. This trend is expected to continue into 2012. Regardless, activity is expected to remain robust in 2012 as limited inventory and strong business growth is expected to keep demand well above its ten year average of 4.9 MSF.

Last year's rental rate increase was the largest since 2007. With the market's tightening supply, asking rents are expected to increase again in 2012. Historical analysis of asking rates in San Francisco showed that when asking rates have increased by more than 5% YOY, rates continue to increase for at least one to four more years. The commercial real estate cycles may be shortening in San Francisco which could suggest that increases are likely for a time frame of one to two years.

Net Absorption/Vacancy



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San Francisco Peninsula Office Market

John Held, First Vice President | Brian Beswick, First Vice President | David Wright, Vice President

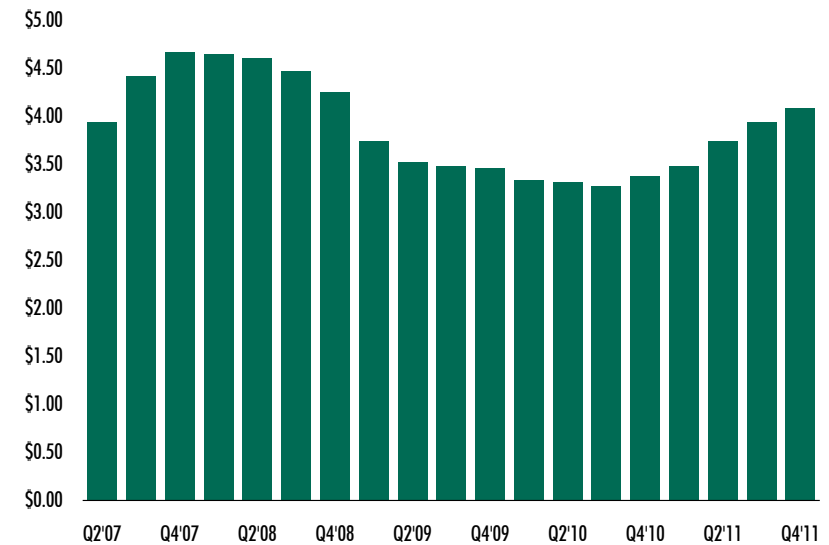
The San Francisco Peninsula office market recovery accelerated and gained strength in 2011. Leasing activity produced significant positive absorption (1.5 MSF), vacancy decreased by 380 basis points ending at 10.9%, and asking rates rebounded with a double-digit increase (+19.8%). In the third quarter, Sony Entertainment signed a new three building, 450,000 SF lease in San Mateo, forcing several tenants to relocate. Over 150,000 SF of relocations have been signed as a result, and several deals are in lease negotiations.

As vacancy in the Silicon Valley market continues to tighten, technology companies are migrating north into the Peninsula. The Redwood Shores submarket was the beneficiary of this migration in 2011, experiencing a decrease in vacancy of 490 basis points. As Redwood Shores tightens further, tech companies will continue moving north into an already tight Highway 92 Corridor in San Mateo. North San Mateo County, with overall vacancy currently at 14.5%, still has significant blocks of vacant space and will benefit from this northbound migration.

With a recovering venture capital market and improving employment rates, landlords will continue to benefit from increased demand across the Peninsula through 2012. Asking rates should increase by upwards of 20% while landlord concessions will decrease as vacancy declines into single-digits.

During the fourth quarter of 2011 and into the first quarter of 2012, a few large multinational corporations announced acquisitions of several local technology firms. IBM announced its acquisition of DemandTec, Siemens purchased eMeter, and SAP will be acquiring Success Factors. The effect on market demand is yet to be seen, but may include either increasing local investment or one-off exits from the market.

Class A Average Asking Rates*

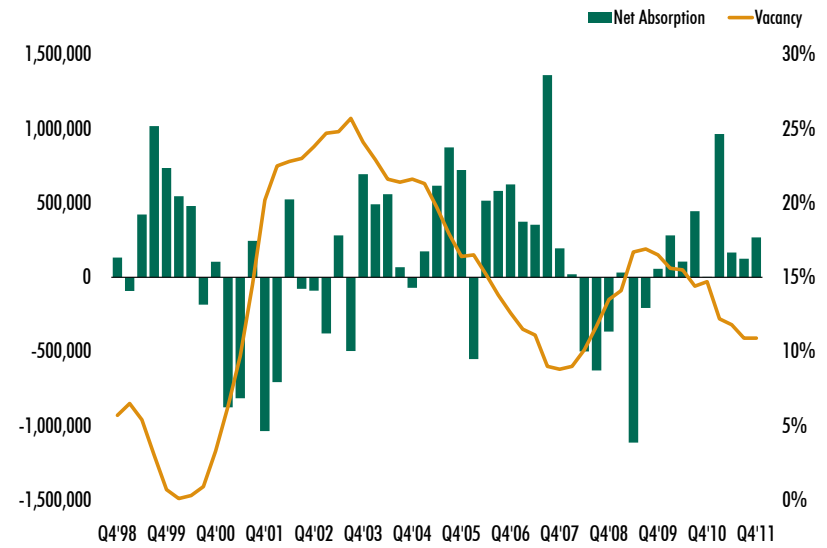


*Average asking rates are FSG PSF/month

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Investment sales lagged in the office market in 2011. Only two significant sales transactions occurred: the County of San Mateo purchased two Class A office buildings in San Carlos, and TA Associates closed a 110,000 SF office building in Foster City. Investment sales activity should increase in the next two years, as institutional owners look to lock in investment profits deep into the recovering market.

Net Absorption/Vacancy



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San Francisco Peninsula Industrial Market

Bob McSweeney, Senior Vice President | Karl Hansen, First Vice President

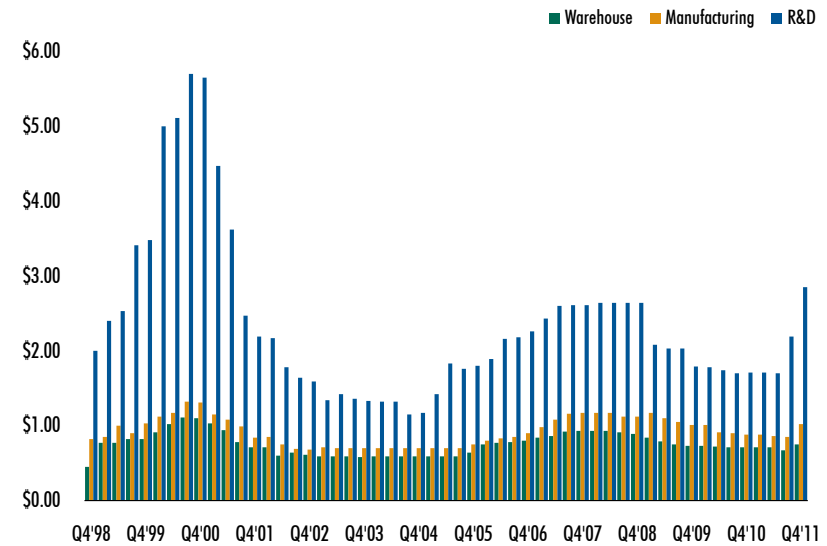
The San Francisco Peninsula industrial market showed consistent improvement in 2011, with vacancy decreasing slightly and asking rents seeing a slight uptick in the fourth quarter. There is a general consensus that the market will continue to trend in this same direction in 2012. Leasing activity improved in 2011, as evidenced by more completed transactions compared to 2010, when most companies were on hold due to the uncertain economic outlook. A strong fourth quarter and improving overall business environment should carry this momentum into the 2012 leasing and sales market.

The last twelve months have seen fewer short terms and stop gap lease renewals. Companies are now motivated to secure longer term solutions to their real estate needs. Companies appear more confident with their business prospects and are willing to expand existing business operations and start new ones.

Leasing activity for 2012 should remain steady, although landlord pricing power is limited, especially with larger blocks of space. Availability for 80,000+ SF properties remains abundant in the North County market. It will be telling to see how this product type will perform long term as it competes more directly with newer similar sized East Bay product, which is available at significantly lower rates. In the Central Peninsula, a 4.7% vacancy rate shows the scarcity of availability to meet new requirements and the opportunity for landlords to push rental rates as leases expire. Large blocks of space remain very difficult to come by with many of these requirements being pushed to North County or the East Bay.

A noteworthy change in 2011 was increased sales activity. In the fourth quarter, major institutional owners were active in the marketplace and acquired more properties than the cumulative total for the three previous years. Overall, for buildings over 5,000 SF, there was a 35% increase in the number of transactions that took place in 2011 as compared with 2010. Prices remain significantly below where properties traded three and four years ago and interest rates remain at all time lows. This trend of increased sales velocity is expected to continue. Leading

Average Asking Rates*



*Average asking rates are NNN PSF/month

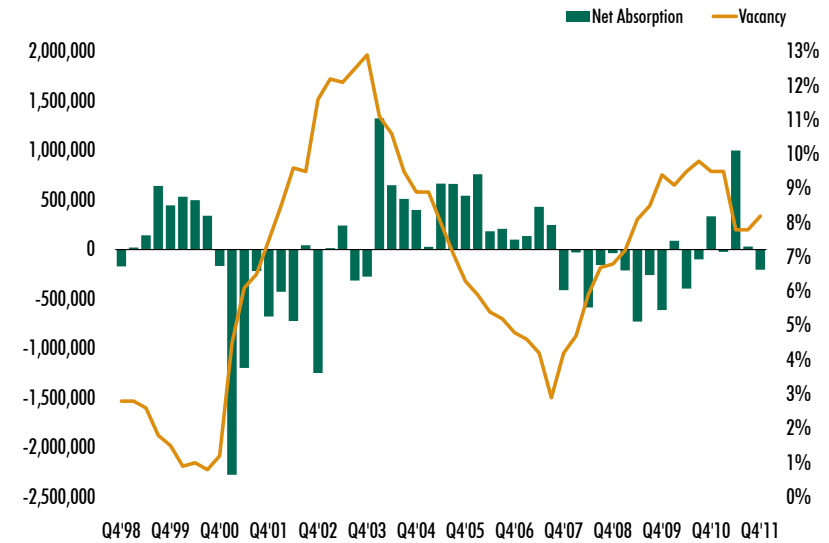
SAN FRANCISCO PENINSULA

the market into 2012, owner/user sales activity has picked up. A number of properties that have been available for some time are now in escrow. Many of these sales should close in the first quarter of 2012. Additionally, there will be numerous new purchase requirements active in the market.

Despite the recent improvements, it is not unusual for properties to languish on the market for long periods of time. With a number of quality buildings available, less attractive buildings, with deferred maintenance and in secondary locations, take longer to sell or lease. Available inventory remains well above where it was three to four years ago, but that is expected to decrease.

In 2012, we remain cautiously optimistic that these positive trends will continue. However, these trends in the market remain highly contingent on continued global economic recovery which is no sure thing, though a strong local market could help withstand these outside factors.

Net Absorption/Vacancy



SAN FRANCISCO PENINSULA

San Francisco Peninsula, Life Sciences

Dino Perazzo, Senior Vice President, Director, CBRE Life Sciences Group

Each January, the life science community gathers in San Francisco for the biggest healthcare investing event of the year. Pharmas and biotechs gain perspective, while investors refine their thinking towards near-term funding parameters—each walking away with greater insight into the state of the industry.

The resulting take-away from the conference is widely considered to be a harbinger of what is to come. This year, tangible milestones, pharma partnering and genomic sequencing were trendy topics. The overall atmosphere was positive and productive and as such, attendees sensed cautious enthusiasm looking forward to 2012.

The momentum has already materialized with several local biotech companies; specifically, LifeTech's groundbreaking genomic sequencing technology that is expected to play a large role within personalized healthcare, and Onyx's guarded optimism towards a promising oncology drug.

As Big Pharma/Big Biotech continue to transform future business strategies, maturing biotech and customized medicine space is hot. Size and sophistication of this anticipated activity requires the foresight unique to life science developers. Timing is an issue however, as development of new research facilities must coincide with scientific inflection points to enable continued development productivity.

While the high end of the market absorbs this near-term activity, we expect sustained activity within the existing research base by way of pharma partnerships, collaborations, and consortiums driven by continued industry desire for science and technology.

Though the loss of patents and exclusivity continues to carve away at global portfolios, large pharmas and biotechs will continue to invest in primary research clusters in an effort to bolster their deficient drug development pipelines. The Bay Area remains a global leader in this regard, and while initial activity has begun

in Eastern U.S. markets, there is little doubt that the Bay Area cluster will soon draw the industry's bounty.



SAN FRANCISCO MID-PENINSULA

San Francisco Mid-Peninsula Greater Palo Alto Office Market

Michael Frost, Vice President

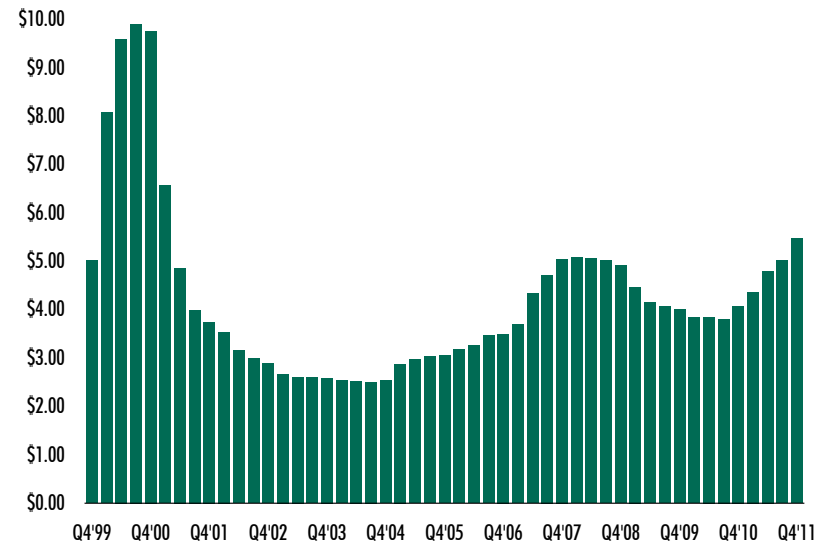
The Greater Palo Alto office market experienced a radical shift in 2011. The market rapidly transitioned from equilibrium in 2010 to a landlord's market in early 2011. Rental rates increased by 33% over the year and nearly 1 MSF of positive net absorption demonstrated the appeal of the Greater Palo Alto marketplace. The intellectual capital flowing from Stanford University is the fuel that drives the Silicon Valley and tenants continue to pay a premium to be in Palo Alto, or close by. Access to public transit (Caltrain) and the downtown core amenities in Redwood City, Menlo Park, Palo Alto, and Mountain View have proven to be a significant factor in recruiting the top talent in the region. Landlords in the Greater Palo Alto office market were the chief beneficiaries of these trends, enjoying single digit vacancy for the first time since 2008.

As we come into 2012, the market outlook continues to be positive for landlords. Large blocks of contiguous space (150,000 SF and larger) and core downtown Class A or B office buildings are in short supply. With a number of new development projects planned to be delivered to the market in 2013 and 2014, tenants are actively looking to accommodate their growth in the meantime.

Technology firms continue to account for the majority of area demand. Several companies have experienced exponential growth (Box.net, Groupon, Palantir) while the largest users in the Greater Palo Alto office market continue to expand. Current asking rental rates are at or near the peak of 2007/2008 and the constrained supply conditions will put upward pressure on rental rates through 2012. However the increases are not expected to be as dramatic as in 2011, as limited supply will result in less transaction activity. A similar trend will be witnessed with absorption, as we foresee positive net absorption for 2012; however, with a lack of large spaces available in the market the figure will be less than in 2011. In coming years, as developers deliver more new office buildings to meet demand, net absorption is expected to increase.

Palo Alto will remain the epicenter of Silicon Valley, with that position strengthening over time. Twenty-first century technology firms are less sensitive to high rental

Average Asking Rates*

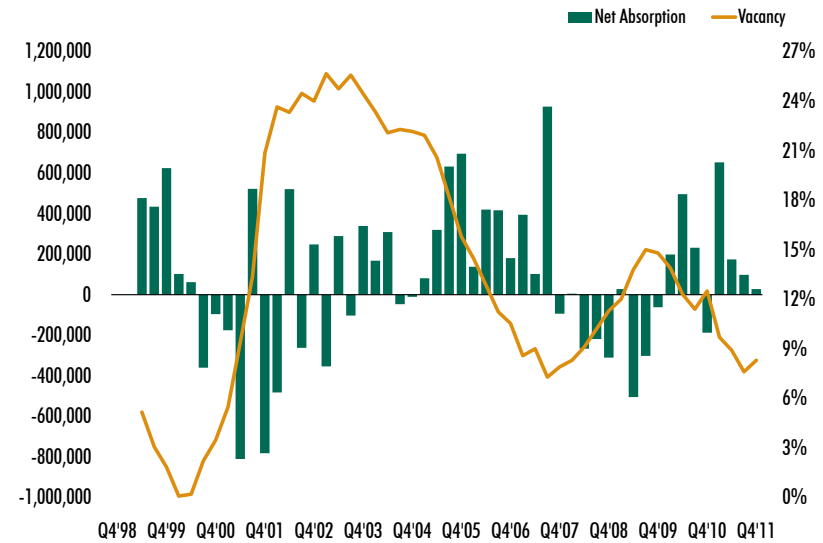


*Average asking rates are FSG PSF/month

SAN FRANCISCO MID-PENINSULA

rates and more focused on recruiting and retaining top talent. A Palo Alto address, specifically within the Downtown Palo Alto submarket, has provided a recruiting advantage for companies such as Facebook, Palantir Technologies, Amazon, and Barnes & Noble (E-Reader Division). The new "Millennial" generation of professionals is willing to occupy buildings at higher densities, utilize public transit, and pay premium rental rates to occupy buildings in downtown core locations. We foresee strong tenant demand for the Greater Palo Alto office market, with the downtown core submarkets leading the way.

Net Absorption/Vacancy



SAN FRANCISCO MID-PENINSULA

San Francisco Mid-Peninsula Greater Palo Alto Industrial Market

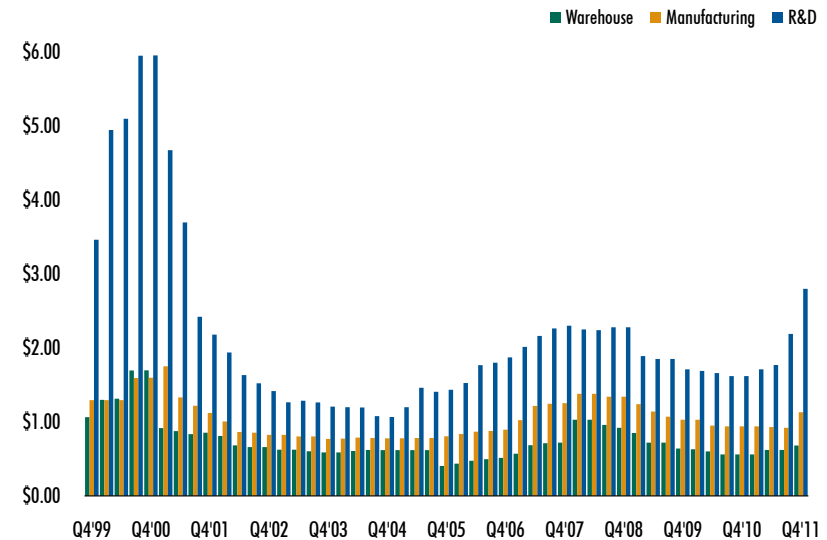
Greg DeLong, First Vice President

In 2011, the Greater Palo Alto industrial market (consisting of Mountain View, Palo Alto, Menlo Park and Redwood City) continued to exhibit signs of a robust recovery throughout the year. There was a huge upswing in net absorption of 2,026,620 SF in 2011 compared to a negative absorption of 691,374 SF in 2010. The year's strong occupancy gains were characterized by the expansion demands of larger institutional-quality companies in the Internet-related, Software, and Life Science sectors. In 2011, average asking lease rates rose by 72.8% for R&D, 20.2% for manufacturing, and 21.4% for warehouse. The combined industrial vacancy rate dropped 590 basis points from 12.5% at year-end 2010 to 6.6% at the end of 2011. As we start 2012, 65.5% of the total industrial availability in the Greater Palo Alto Market is R&D space. The highest concentrations of available R&D space can be found in Mountain View and Palo Alto with 42.9% and 34.3% of this market's total R&D supply, respectively.

Even with large blocks of space hitting the market throughout 2011, the Greater Palo Alto market, led by strong R&D leasing activity, experienced positive net absorption in three of four quarters during the year. Sublease availability dropped 56.7% from the previous year, putting significant upward pressure on lease rates. Tenant industrial demand remains high, especially at the large tenant and small start-up ends of the spectrum. Several Fortune 500-sized firms lead other technology companies in the surging demand for space in Greater Palo Alto. With the robust growth in the technology sector, their acquisition of large blocks of space will vigorously continue here into 2012. Stabilized supply and increasing demand will increase R&D asking rates in 2012 for the most desirable locations.

Warehouse/Manufacturing users will experience increasing scarcity of available space as vacancy rates (currently 6%-8%) for these building types drop lower into the low single digits. With reduced supply and improving demand, rents should increase significantly through 2012. Price-sensitive users in Greater Palo Alto will increasingly look to the East Bay and further south for less expensive industrial and warehouse space.

Average Asking Rates*



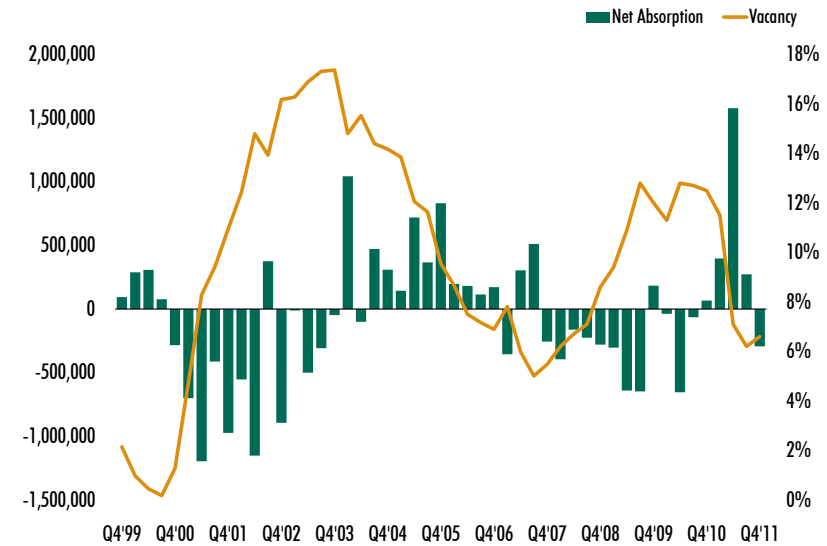
*Average asking rates are NNN PSF/month

SAN FRANCISCO MID-PENINSULA

Overall, industrial building sale prices are rebounding from a two-year slide through 2011. Increasing tenant/user demand, reduction in bank foreclosures, more financing for acquisitions, and improving business conditions are making sellers more confident. This upward trend will continue into 2012, as the available inventory shrinks. Qualified buyers continue to get attractive SBA financing. Opportunity buyers continue to hotly pursue distressed industrial properties to reposition for the current economic upswing. The mainstream institutional investors, requiring leverage, are encouraged by the thawing of the debt and equity markets.

2012 will see the increasing demand for life science lab space that is within 30 minutes of Stanford University. Start-up company activity in this sector is very strong as multiple new businesses seek incubator space. Stanford University continues the approval process for 1.5 MSF of R&D, lab, and office space on adjacent city blocks in Redwood City, which requires the demolition of approximately 550,000 SF of older industrial buildings. Several other older industrial properties in Menlo Park, Palo Alto and Redwood City are targeted for R&D, biotech and office redevelopment.

Net Absorption/Vacancy



SILICON VALLEY

Silicon Valley Office Market

Mark Christerson, Senior Vice President | Deborah Dizon, Senior Associate

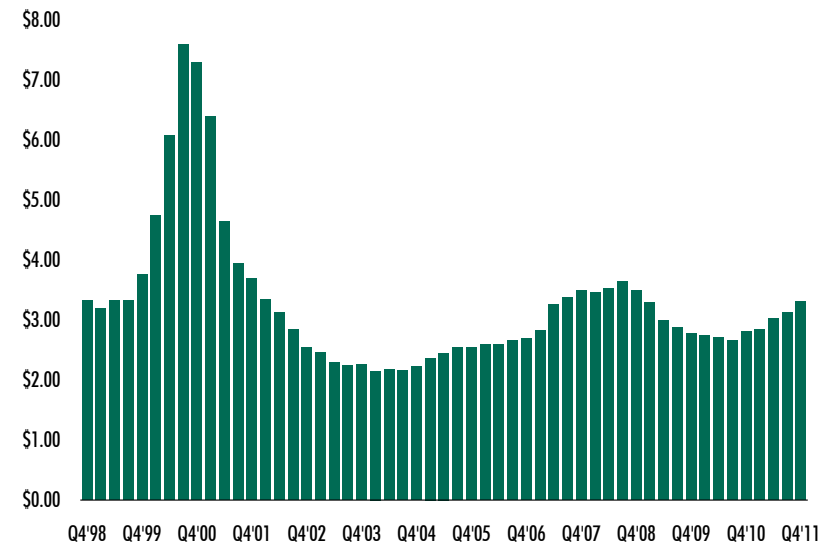
The Silicon Valley office market has a strong tailwind going into 2012, stemming from robust activity in 2011. The sentiment is that 2012 will bring another year of solid results, albeit at a slightly slower pace as compared to the previous year.

The industries that have been the driving force behind the Valley's latest surge have been numerous, including; cloud computing, social networking, web based companies, consumer electronics, as well as medical device, biotech and life science. Traditionally, the IPO market has been a good barometer of the Valley's health and although there were a number of tech companies (including LinkedIn, Groupon, Zynga, and Freescale Semiconductor) that went public over the past year, the results have been mixed. The much anticipated Facebook IPO in 2012 is expected to buck this recent trend and possibly lead others to reflect a successful year of IPOs in 2012. Venture capital investment also seems to be rebounding, as investors capitalize on higher valuations via M&As and possibly the brighter spots in the IPO market going forward.

The strongest multi-tenant office markets, including Palo Alto, Menlo Park and Mountain View, are all experiencing single digit vacancy levels with rents comparable to 1999-2000 levels in some cases. These markets are expected to continue their dominance due to their proximity to the Caltrain artery connecting the San Francisco labor pool to the Valley's hottest startups, along with bellwether companies. These submarkets also afford employers/employees all the amenities a traditional downtown area affords, along with proximity to Sand Hill Road, executive housing along the 280/85 corridors and Stanford University. Due to the lack of available space in these submarkets, it is expected that the Sunnyvale, Santa Clara, and to some extent the San Jose submarkets, will see increased demand and rising rental rates over the next year.

The largest blocks of Class A space have been snapped up over the past 12 to 18 months, which has resulted in a lack of supply for companies searching for a campus solution. As a result, development of new spec product is anticipated to occur in 2012, with projects coming on-line by mid 2013. The likely spec

Class A Average Asking Rates*



*Average asking rates are FSG PSF/month

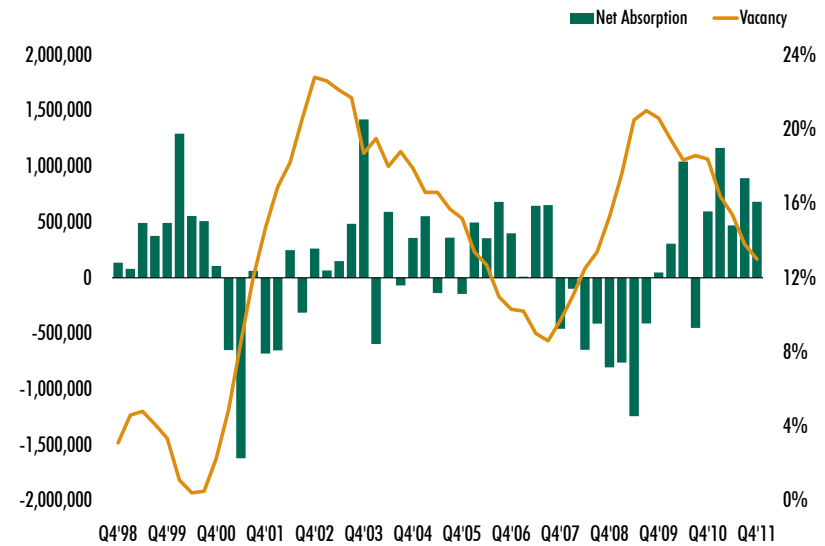
SILICON VALLEY

projects to break ground will have the ability to scale, occur in the most desirable submarkets (as noted above) and afford the amenities that employers need to attract and retain key personnel. Look for rents for new product to eclipse \$3.00 NNN PSF/mo.

The robust leasing activity over the past 12 to 18 months has drawn a steady flow of both local and institutional investors back into the market. Well located office product that affords the downtown characteristics noted above will continue to attract the most interest from investors. Suburban office product that may not benefit from downtown amenities will likely benefit as well, albeit at lower price points, as investors displaced from the prime opportunities look to take advantage of less desirable product. Expect a continued steady flow of investment capital into the Valley through 2012.

2012 is positioned well for another year of solid activity, both on the leasing and sales fronts. This said, the Silicon Valley is not bullet proof to all economics factors, so local economic climate may be negatively impacted by the results of the European debt issues, as well as the economic health of China and India.

Net Absorption/Vacancy



SILICON VALLEY

Silicon Valley R&D Market

Vincent Machado, First Vice President | Sherman Chan, Senior Vice President

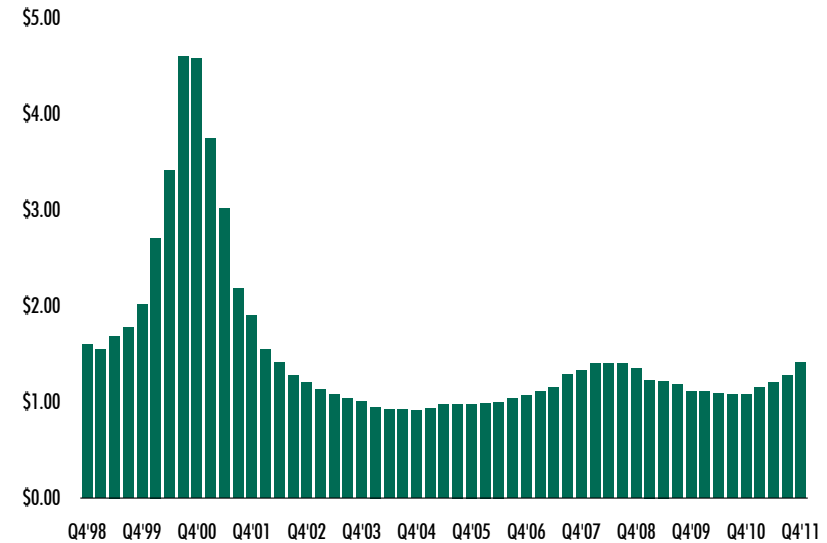
Silicon Valley's R&D market enters 2012 with the momentum of a record 2011 where increased tenant demand from technology companies, strong leasing activity and decreasing vacancy have provided optimism for every submarket.

While activity in the fourth quarter did not keep pace with the previous two quarters, rising rents and low vacancy rates in Palo Alto, Cupertino, Mountain View and Sunnyvale continue to push tenant demand south to Santa Clara and North San Jose. Large blocks of space and Class A product remain scarce and tenants must expand their location parameters to find high quality buildings. Fourth quarter net absorption for office (+682K SF) and R&D space (+422K SF) remained positive for a fifth consecutive quarter. The combined office and R&D year-end net absorption of 8.6 MSF was the highest one-year total since the 2000 dot-com years. As a result, fourth quarter vacancy dropped to 13.0% for office and 15.2% for R&D, a one-year reduction of over 29% in office and 23% in R&D.

Contrary to national indicators, local market fundamentals have stabilized and are optimistic for 2012 and beyond. Silicon Valley's year-end vacancy dropped to 15.2%, a decrease of 470 basis points from year end 2010. R&D average asking rates rose in 2011 to an average rate of \$1.41 NNN, a 30.5% rise from the previous year. Santa Clara County's unemployment rate dropped to 9.1% in the fourth quarter, a 50 basis point decrease from the previous quarter and a 120 basis point decrease from a year ago.

Moving into 2012, we expect a continued ascent from the stabilized market of 2011. Active requirements from multiple large users (in excess of 100,000 SF), demand for Class A product and tight supply options in the Palo Alto, Mountain View, Sunnyvale and Cupertino corridor have improved the market's fundamentals. Rental rates continue to rise along the west side of Silicon Valley while pressure builds in the surrounding submarkets. Tenant activity should continue its momentum and with limited availability in Class A options, vacancy rates should reach single digits in the primary submarkets. As the inventory of Class A facilities

Average Asking Rates*



*Average asking rates are NNN PSF/month

SILICON VALLEY

diminishes, Class B & C buildings should see more interest in the coming year. Significant activity in Public Offerings, combined with the growth in clean tech industries, mobile innovations, and internet and social networking companies, plus the increase of venture capital funding in Silicon Valley, are all positive signs that tenant demand will continue to rebound.

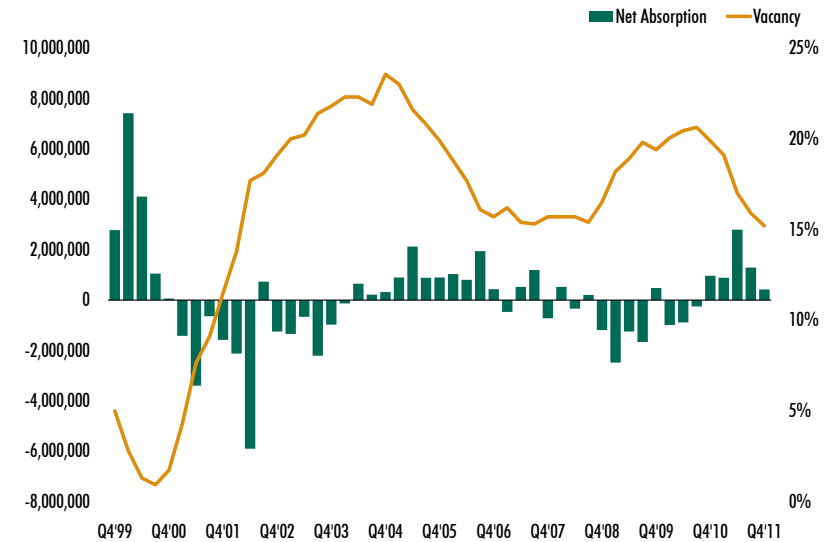
As a result, we will see new construction with speculative development occur in 2012 for Class A office projects to attract growing technology companies. Currently one project is under construction for a first phase of 300,000 SF in Santa Clara. Two additional developers have announced their plans to start phase one construction of their respective developments, both in excess of 400,000 SF in Santa Clara as well. Multiple other developers are working on their entitlements and marketing their projects with hopes of landing tenants on a build-to-suit basis.

The increased leasing activity and rising rates have sparked the interest of institutional owners looking for stabilized income. 2011 brought an influx of sale inventory to the market and provided the data points for continued growth in the market of sales and institutional dispositions.

A market recovery in 2012 is expected to be steady, as unemployment drops and market fundamentals become clearer. Landlords will continue the trend of increasing rents in primary submarkets along the west side, while in softer submarkets to the east, landlords will still need to attract tenants with their aggressive lease structures and concessions. Still a major hindrance in gaining market confidence is the turbulence in the domestic and international capital markets. Tenants are conscious of uncertainty in the stability of world trade and the overall strength of the economy.

The positive news for the market continues to lie in the creativity, vision and entrepreneurship within Silicon Valley as the region continues to be home to the world's dominant technology firms and industries. Silicon Valley's innovation and organic growth, along with the inflow of venture capital into the R&D sector, will be the catalyst to the market's sustained recovery.

Net Absorption/Vacancy



SILICON VALLEY

Silicon Valley Industrial Market

Brian Matteoni, SIOR, Senior Vice President | Chip Sutherland, Senior Vice President | Scott J. Prosser, SIOR, Senior Vice President

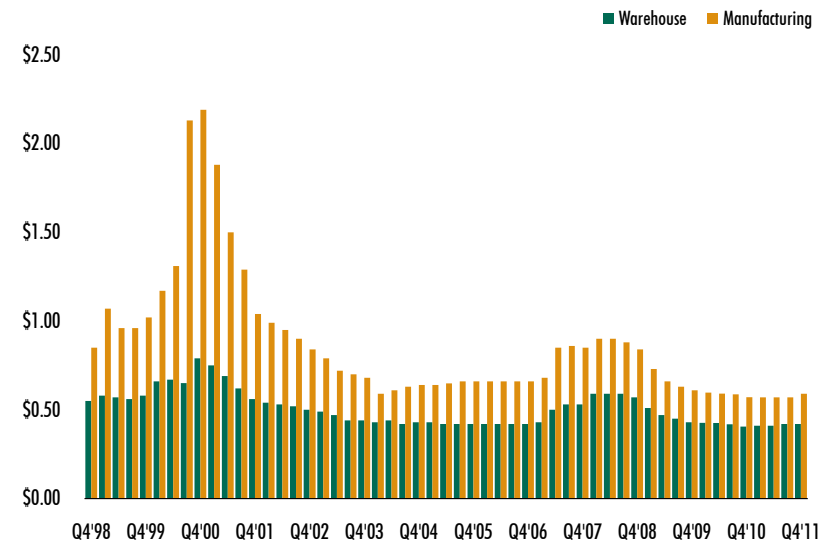
The Silicon Valley industrial market continued to move in a positive direction in 2011. The year-end availability rate of 9.2% remained steady from the previous twelve months. In 2011, the market experienced a small amount of negative net absorption with an occupancy loss of 208,721 SF. However, there was a positive absorption trend that emerged during the second half of the year which bodes well for 2012. The first half of 2011 saw a negative net absorption of 533,000 SF, but the second half of the year reflected positive absorption of 328,000 SF. This increase in demand depicts why rental rates have stabilized and marginal upticks in rents are predicted for the upcoming year.

The availability rate for the Silicon Valley warehouse market remained at 11.5% which was similar to the rate found at the end of 2010. Significant new warehouse transactions included J. Lohr Winery's lease of 172,000 SF in San Jose, Cor-O-Van's lease of 96,970 SF in San Jose, RE Electric Supply's lease of 76,972 SF in San Jose, and Apple's three separate lease transactions of 74,128 SF, 66,185 SF, and 59,934 SF, respectively. At the end of 2011, a user in the market for available spaces below 25,000 SF still had multiple options; however, the availability of quality warehouse space in the 60,000-120,000 SF range was minimal at the end of 2011, providing a platform for rising rental rates on these spaces in 2012.

Availability for Silicon Valley manufacturing product stood at 7.5%, up slightly from 6.7% at year-end 2010. Significant transactions in 2011 included DiNapoli Companies' purchase of the 127,170 SF Sanmina manufacturing facility in San Jose and Orton Development's purchase of a 117,642 SF building at 650 N King Road in San Jose.

In addition to these transactions, sales activity for the industrial market on the whole was strong through 2011. The sale transactions of note include LBA Realty's acquisition of multiple properties in San Jose, including a 450,000 SF warehouse on Seventh Street and a 79,911 SF warehouse on McLaughlin Avenue. The signature acquisition in 2011 involved PS Business Parks' purchase of the 5.3 MSF RREEF industrial portfolio.

Average Asking Rates*

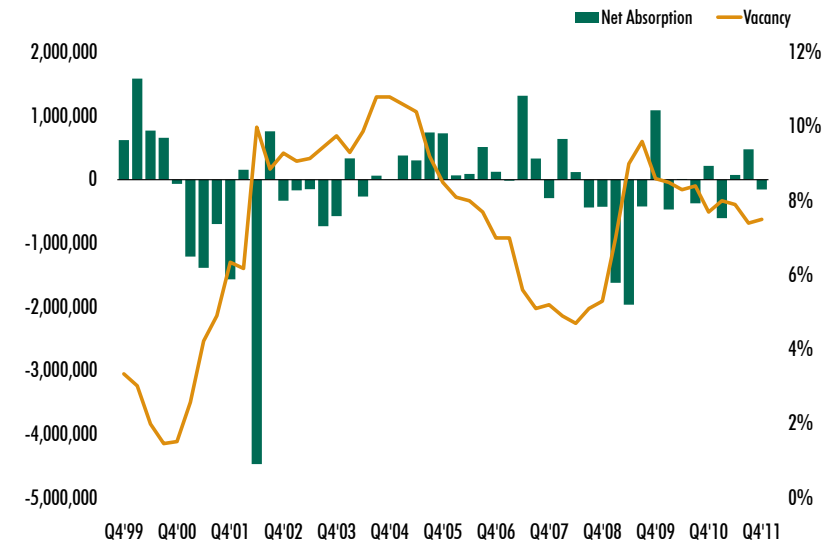


*Average asking rates are NNN PSF/month

SILICON VALLEY

The 2012 forecast is for an increase in lease rates combined with a marginal decrease in availability as users start to experience organic business growth for the first time in 36 months. In addition, the warehouse market continues to see increased requirements from technology companies that are seeking spaces above 35,000 SF which is creating a bump in lease rates. Those facilities located closest to the companies' headquarter operations are expected to have the largest uptick in lease rates. Warehouse lease rates seem to be moving into the low to mid \$0.40 PSF NNN range, while manufacturing rates continue to range between \$0.55 - \$0.65 PSF NNN. Construction in the industrial sector continues to be non-existent due to high replacement cost and lack of available land. Due to the scarcity of new warehouse supply, the Class A product in this sector will remain highly sought after by institutional investors.

Net Absorption/Vacancy



SILICON VALLEY

Silicon Valley Land

Greg Poncetta, Senior Vice President | Mark Russell, Senior Vice President

Office users like Apple, Facebook and LinkedIn will continue to absorb large blocks of existing space into 2012. Tenants looking for blocks of quality space in north/central Silicon Valley will find limited choices as 2012 unfolds. With office vacancies falling below 10% in some submarkets, there is strong pressure on Class A rents. As illustrated by a few pioneers, office development is beginning to make sense again in some Valley locations. The trend will continue spreading south through the Valley in 2012.

The median home price and sales absorption rate have decreased steadily from 2008, in addition, so has the number of "for sale" housing development projects. The local housing market, fueled by employment growth, is showing signs of strength. Since very few projects were processed over the past few years, the supply of future housing development sites is sparse. Accordingly, 2012 will reflect increased demand for well-located land suitable for "for sale" housing development. Demand is greatest from north to south within Silicon Valley.

Although many multi-family development projects were approved in 2007 and 2008, virtually none were built and many entitlements have lapsed. Fueled by the lack of apartment construction, local employment growth, and the flocking from home ownership, demand for well-located apartments is strong. Accordingly, rental rate growth in Silicon Valley leads the nation. Not surprisingly, quality apartment land is once again in very high demand.

While the local markets have not yet fully recovered, there are many signs pointing in a positive direction. Local veterans remember that when Silicon Valley recovers, it has a history of recovering quickly. Investors are circling the Valley wondering if this is the year, and early indications look intriguing.



EAST BAY

Oakland/I-880 Office Market

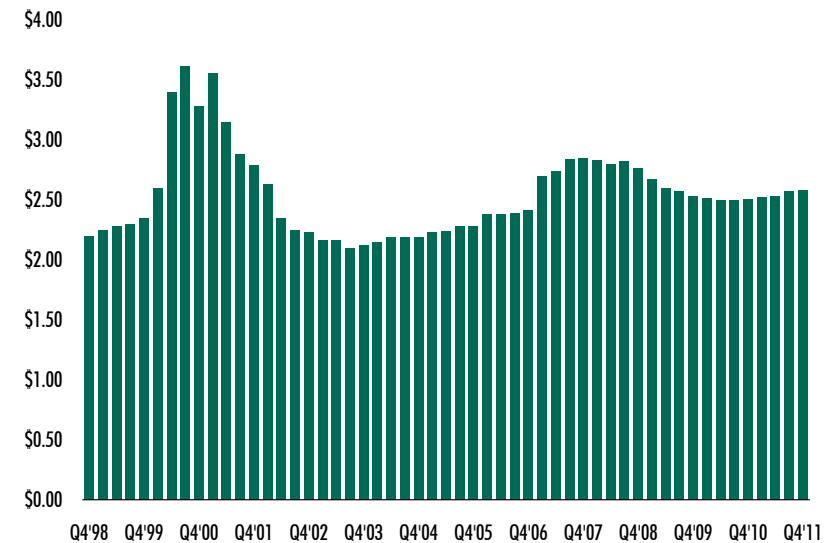
Grant A. Jones, Senior Associate | Alex Petalas, Senior Associate

In 2011, the Oakland/East Bay office market witnessed decreased vacancy, a modest increase in lease rates and positive absorption. The overall market posted 190,999 SF of positive absorption, which reversed three straight years of negative absorption. The Oakland MSA unemployment rate declined 1.3 percentage points in 2011, and the overall Bay Area economy continues to lead the state in job creation, led by its robust technology sector. As adjacent markets in the Silicon Valley and San Francisco continue to see dramatic job and rent growth, the East Bay is in a prime position to handle the spillover. The Bay Area has once again seen the technology sector be the driving force behind job creation, with juggernauts Salesforce.com, DropBox, Twitter and LinkedIn inking large lease transactions in San Francisco in 2011. This large volume of activity in San Francisco has reduced availability and raised asking rents to a point where occupiers are starting to consider the Oakland/East Bay market as a cost-effective alternative when reviewing their options for space needs.

Emeryville remained the most stable and strongest of the Oakland/East Bay office submarkets for the second consecutive year, with 7.9% vacancy and Class A asking lease rates of just under \$2.50 FSG. We expect this trend to continue, especially in the Class A market, as LBA Realty continues to successfully lease up the 818,000 SF Towers project which has rebounded from a foreclosure in 2009. The Oakland/East Bay's market wide average asking lease rate saw a \$0.06 increase last year, from \$2.00 in the fourth quarter of 2010 to \$2.06 at the end of 2011. Overall market vacancy, decreased slightly from 15.4% to 14.1% for the same period.

No new construction was delivered in the Oakland/East Bay office market in 2011. Two large office buildings, 1111 Jackson in Oakland and 2120 University in Berkeley, were removed from the office inventory in 2011 as the County of Alameda acquired the buildings for their own use. In 2011, the number of distressed properties was significantly less than the amount in 2009 or 2010. The Oakland/East Bay market did not have the significant distressed property events in 2011 that we saw in 2009 and 2010. In the past year, distressed sales in

Class A Average Asking Rates*



*Average asking rates are FSG PSF/month

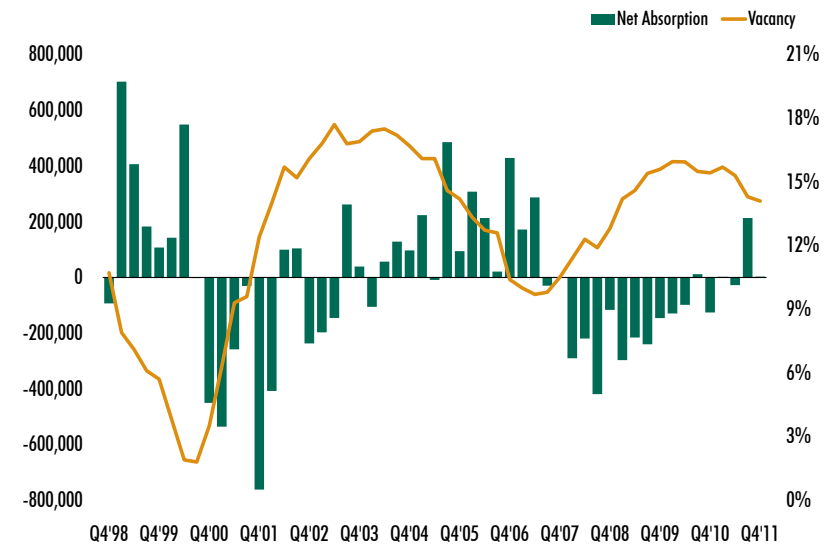
EAST BAY

Oakland CBD included 1700 Broadway and the Tribune Tower at 401-409 13th Street. The more prevalent trend was the stabilization of previously distressed assets like the Towers of Emeryville, benefiting from better capitalized ownership with aggressive leasing activity.

In 2012, landlords and tenants should anticipate a gradual increase in asking lease rates as vacancy rates decline in select submarkets. Following the credit crisis in 2008, tenants were reluctant to sign long term leases due to their own economic uncertainty. However in 2012, tenants are expected to secure more term in an effort to lock in attractive lease rates. Although occupancy rates have increased over the year, vacancy in Oakland CBD is expected to spike in the coming year. The additional vacancy is expected in the second half of 2012, when Clorox is anticipated to execute the relocation of 700 employees from 1221 Broadway in Oakland City Center to an office park in Pleasanton. Clorox, which owns the building, is currently offering seven floors of office space with approximately 140,000 SF for lease.

On the leasing side, we expect fewer tenants to downsize in 2012, encouraging stable occupancy trends. In terms of asking rents, we anticipate that asking lease rates for Class A view space in the Oakland CBD submarket will increase throughout the year as options continue to decline. Asking lease rates for Class A space in Emeryville will likely also increase as availability continues to tighten. Overall, we expect the amount of office space offered by way of sublease in the Oakland/East Bay office market will continue to decrease in 2012. As the office market depends upon job growth for demand, we anticipate that job growth in the service, healthcare and technology sectors will continue to help stabilize vacancies and further contribute to a healthy future outlook in the Oakland/East Bay office market.

Net Absorption/Vacancy



EAST BAY

East Bay/I-880 Industrial Market

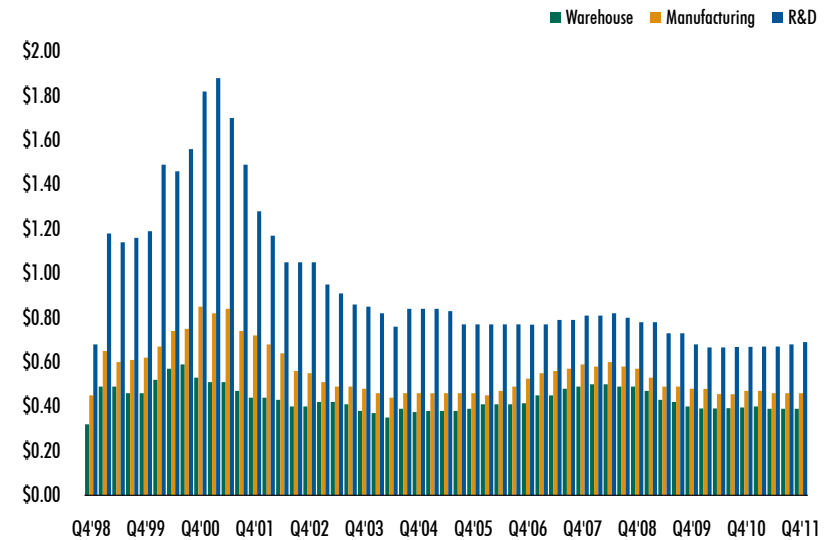
Michael J. Walker, Vice President | Robert Ferraro, Senior Vice President | Dan Dowd, Associate

While the 2011 outlook for the East Bay/I-880 Corridor industrial market was buoyed by a sense of renewed vigor within the market and an increase in transaction volume, our outlook for 2012 is more conservative and cautiously optimistic. Our optimism is founded in the improvement of several factors, including recapitalized assets and ownerships, improving capital markets with continued low interest rates, and growth in corporate America's CapEx budgets. Investor interest in the East Bay/I-880 Corridor industrial market remains particularly strong. While these positive factors continue to strengthen our optimism, we are still concerned about many persistent macro-economic challenges such as high unemployment, continued pressure in the housing market, international economic instability and foreign currency uncertainties. These issues continue to weigh on business' confidence and impact leasing decisions.

The improving occupancy trend in the East Bay/I-880 Corridor industrial market is underscored by what now appears to have been the peak of industrial vacancy in the second quarter of 2010 at 10.7%, which eased to 9.0% by the fourth quarter of 2011. Asking rental rates in most submarkets appear to have stabilized, though they remain far below their highs of several years ago. There is a clear bifurcation between market conditions for "big box" warehouse/distribution space and smaller multi-tenant industrial space. While "big box" warehouse/distribution space remains in high demand with very limited supply, smaller (less than 40,000 SF) multi-tenant industrial space continues to have elevated vacancy and ample supply. We will watch for private sector job growth and stabilization of the residential real estate market as the clearest indicator of positive market conditions for multi-tenant industrial space. Real progress in those economic metrics will provide a firm basis for further industrial market optimism and improvement.

Many tenants have made the most of the soft market conditions to improve lease terms at existing locations by renewal or blend and extend negotiations, or by improving the utility of their operation by relocation to newer, more functional properties. Additionally, many businesses with specialized improvements or

Average Asking Rates*



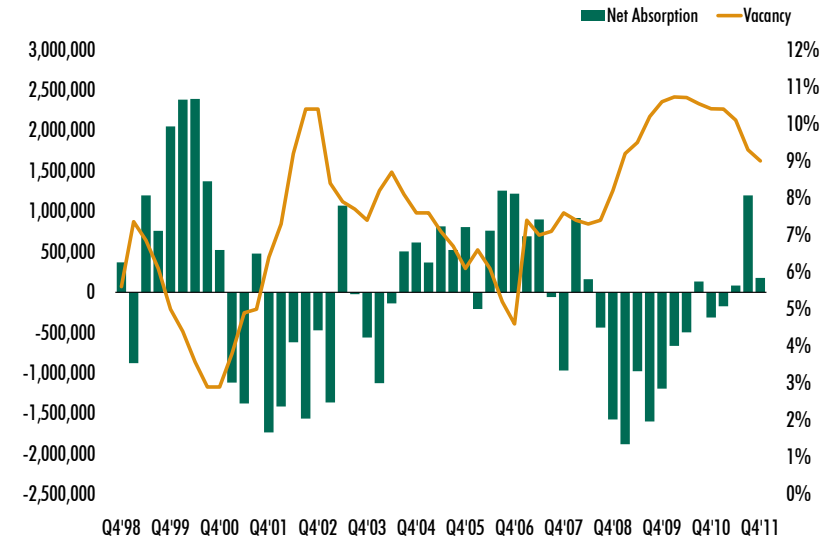
*Average asking rates are NNN PSF/month

EAST BAY

long-term needs for their space have taken advantage of the low-interest rate environment by purchasing their property utilizing favorable SBA-guaranteed debt programs.

As we look ahead at 2012, we anticipate continued tightening in the “big box” warehouse/distribution market that will lead to conditions ripe for increasing asking rental rates, and we expect continued slow improvement for multi-tenant industrial space along the I-880 Corridor. The fundamental attributes of this market as a technology and international transportation nexus will continue to figure prominently in this recovery. Limited new construction due to the scarcity of buildable land, outstanding global trade and distribution infrastructure, a highly educated workforce and an unrivaled standard of living will continue to nurture and support warehouse/distribution space in the East Bay market. Ultimately, improvement of the East Bay’s industrial market will likely be hinged upon proven employment growth in the region.

Net Absorption/Vacancy



I-680 CORRIDOR

Walnut Creek/North I-680 Corridor Office Market

Andrew Schmitt, First Vice President | Jeff Birnbaum, First Vice President

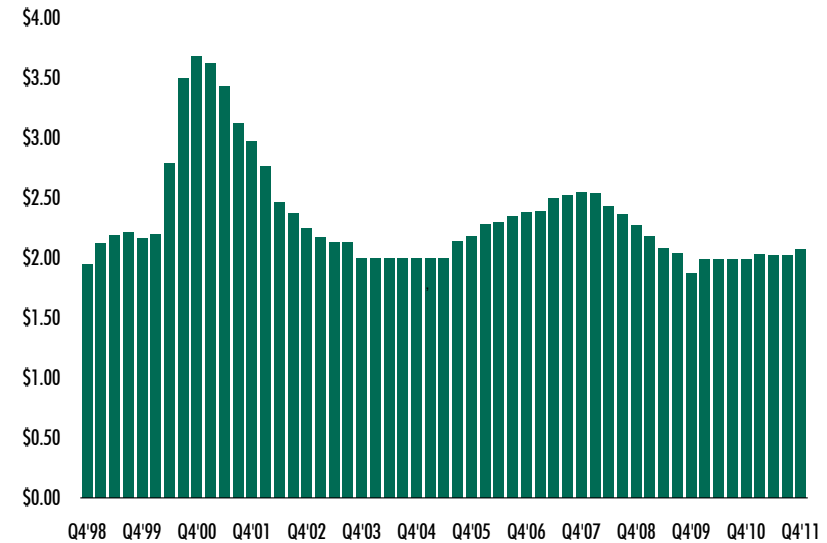
The North I-680 office market produced approximately 59,041 SF of positive absorption in 2011 and ended the year with a vacancy rate of 18.6%. The fourth quarter produced 41,397 SF of negative absorption. Against the statistics, the year ended with many signs of improving market conditions which will produce lower vacancy and availability statistics in 2012.

We expect 2012 to generate stronger tenant demand, resulting in increased transaction volume which will result in upward movement on rents. Building values increased through 2011 and we expect this trend to continue into 2012. Much of the leasing activity in 2011 came from users 10,000 SF and larger, including many right-size renewals and “flight-to-quality” moves for those tenants with leases expiring. In 2012 we expect to see increased smaller user demand and expansions from tenants who have delayed expanding in 2011. We believe the market will continue to stabilize in 2012 and reduce the strong supply of smaller available spaces. Many landlords will be optimistic about increasing rental rates during 2012.

Much of the awaited commercial foreclosure activity occurred in 2011, producing optimism for a healthy market in 2012. Both buyers and sellers are entering the marketplace looking for the right opportunity. Most owners who had debt maturities in 2011 worked feverishly to renegotiate loan terms, helping to re-stabilize their position and the overall market health. 2012 will likely see increased rents and building values.

Barring a negative shift in the economy, the North I-680 Corridor office market will experience stronger tenant demand with positive absorption during 2012.

Class A Average Asking Rates*



*Average asking rates are FSG PSF/month

*Statistics show North and South market combined

I-680 CORRIDOR

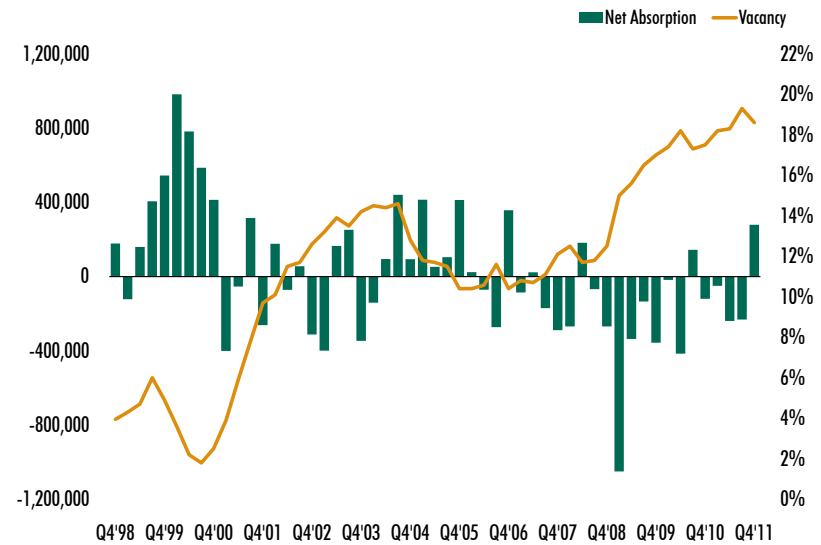
Tri-Valley/South I-680 Corridor Office Market

Kirk Beebe, Senior Vice President | Jeff Birnbaum, First Vice President

2011 saw the Tri-Valley office market experience a year of negative absorption totaling just below negative 300,000 SF, compared to 544,000 SF of positive absorption in 2010 and 1.4 MSF of negative absorption in 2009. It appears that the “giveback” and “right-sizing” of office space so predominant in 2010 and the first quarter of 2011 has subsided. The “flight to quality” experienced throughout 2011 as tenants with upcoming lease expirations desired to trade-up into Class A buildings, will subside as Class A effective rents have increased approximately 10% year-over-year. Class B rents have remained more or less flat, as a result, we anticipate more demand in 2012 for this product type.

We are predicting market fundamentals to continue to improve as the general economy moves from stabilization to expansion. Furthermore, given a historical trend that shows the Tri-Valley recovery trailing Silicon Valley and the Peninsula by 12-18 months, with guarded optimism, we are hopeful that 2012 will show positive fundamentals. First quarter 2012 should start out with a bang, as we are anticipating a few major transactions. Notably, Ross Stores has purchased the 408,000 SF Emerald Point office campus in Dublin for their headquarters. Additionally, Maddie’s Fund is purchasing a free-standing 140,000 SF building in Pleasanton for their Headquarters, and PG&E is actively searching for a large block of space in the Tri-Valley.

Net Absorption/Vacancy*



*Statistics show North and South market combined

I-680 CORRIDOR

Tri-Valley/South I-680 Corridor Industrial Market

Michael J. Walker, Vice President

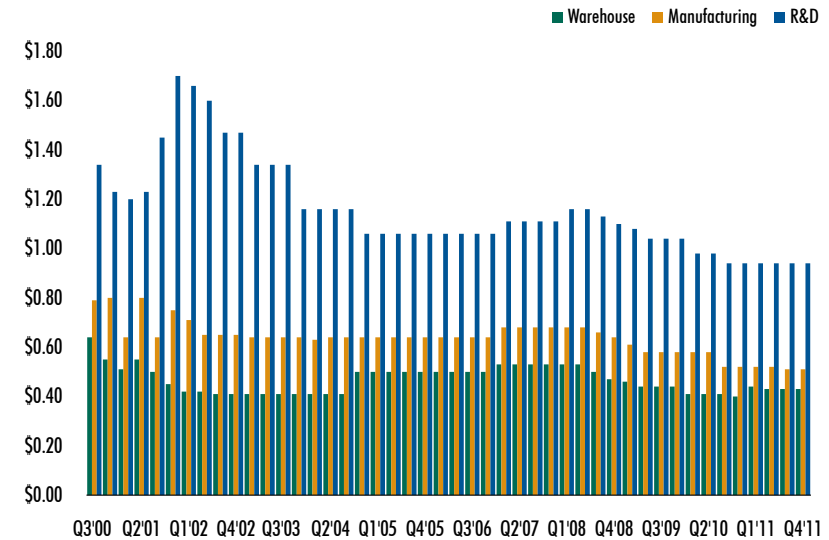
Entering 2012, the Tri-Valley industrial market carries forward the vacancy accrued after a period of softness dating back to 2008. Though conditions in several regional markets have begun to show signs of improvement, this market is still seeking equilibrium. The pace of the addition of new vacancy increased in 2011, canceling more recent improvement and reminding us of the volatility of current market conditions.

Overall industrial vacancy now totals 15.1%, a one year 260 basis point increase. The bulk of this new vacancy was added to the warehouse sector, which ended 2011 with 562,984 SF of negative absorption. Though a few larger industrial facilities accounted for a portion of this new vacancy, a large amount was also attributed to vacancies of approximately 50,000 SF. We can hope that leasing activity in the 50,000 SF and over range picks up in 2012, as only a few lease transactions in 2011 reached that size threshold. Though the regular addition of new vacancies in any market is to be expected, it has been this market's poor user demand that has had the greatest impact on this market's weak performance.

The Tri-Valley remains one of the only regions in the Bay Area with developable land available to construct a large (300,000+ SF) distribution building. It is significant that there is no new construction in the Tri-Valley pipeline. There are several possible reasons for this limited construction activity. In the City of Livermore, the location of much of that remaining land, high development fees raise projected construction costs and dampen development interest. The available pool of inexpensive vacant product also eases the pressure to build. However, the greatest cause of this soft user demand for new construction has to do with the prevailing macroeconomic challenges. We predict that the Tri-Valley land market will remain extremely soft until user demand increases.

As we look ahead, the combination of an unsettled local and national economic outlook and the associated caution of buyers and tenants would indicate another year of some uncertainty for the Tri-Valley market. We anticipate that Tri-Valley lease rates and sales prices will remain soft as owners aggressively seek to lease

Average Asking Rates*

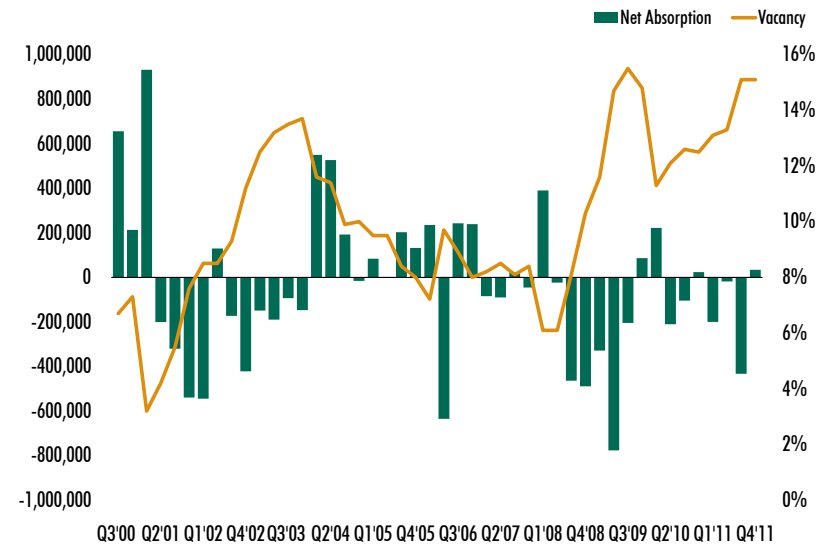


*Average asking rates are NNN PSF/month

I-680 CORRIDOR

and sell their properties to the still limited pool of occupiers seeking properties in the market. Improvement within the Tri-Valley market is most likely to be generated by occupiers seeking well priced and very functional occupancy solutions, who have had difficulty locating comparable value and suitable industrial alternatives in other Bay Area markets.

Net Absorption/Vacancy



SOLANO AND NAPA COUNTY

Solano and Napa County Industrial

Greg Smyth, First Vice President | Ryan Smyth, Associate | John Salamida, Associate

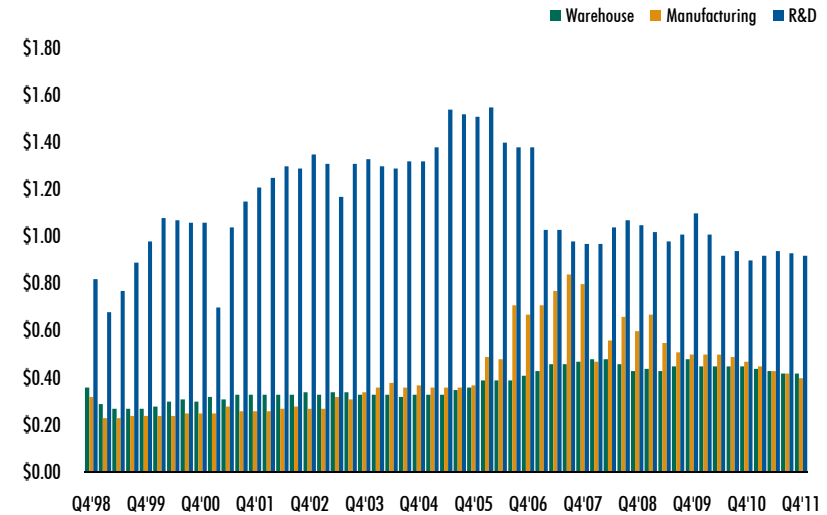
With the start of a new year, a sense of optimism emerges for the Solano County/ Napa industrial market. After a rough few years, 2012 should shape up as the year the recovery in the commercial real estate market took hold.

2012 will see improvement in fundamentals—demand for industrial space will continue to strengthen and vacancy rates will decline this year. Combined with an uptick in demand, the very low level of new construction over the past few years will continue to drive down vacancy rates. Rents will continue to remain low in the near term and occupiers will take advantage by upgrading to larger or higher quality space. Demand, although improving, will not be strong enough to generate rent growth until at least the third quarter of 2012.

Landlords will continue to offer leasing incentives, rent reductions, free rent, and tenant improvement allowances, etc., to stay competitive and attract new occupiers. Sellers will continue to become more realistic to the new realities of this market in 2012 but should enjoy a slight increase in values from the previous lows seen over the past few years. With that in mind, total industrial building sale activity should increase compared to 2011 levels, especially in the user marketplace.

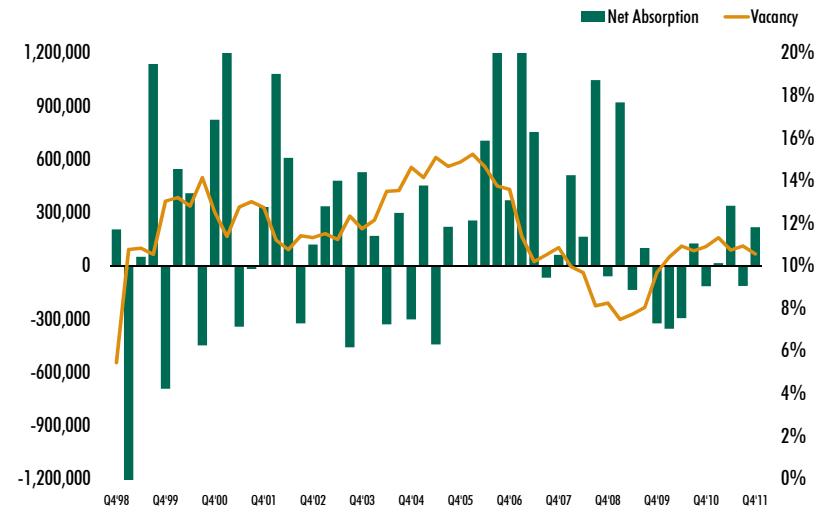
As employment recovers, the housing market stabilizes and business activity improves, Solano County and Napa should be in position to take advantage of this gradual recovery. Positive signs in 2011 were a new 256,330 SF lease with Blu Homes in Vallejo, a new 220,800 SF lease with North Bay Distribution in Vacaville, and a new 126,187 SF lease with TricorBraun Winepak in Fairfield. As for building sales, 5199 Fermi Road, a 607,208 SF single-tenant building sold to USAA Real Estate Company based on a 6.85% cap rate and Westcore Properties purchased a 7 building complex totaling 230,390 SF on an 8.3% cap rate in Napa.

Average Asking Rates*



*CoStar Data

Net Absorption/Vacancy*



*CoStar Data

INVESTMENT PROPERTIES

Joe Moriarty, Senior Vice President | Tyler Meyerdirk, Director

The recovery in the commercial real estate investment market continues to build on the momentum it has experienced over the last 24 months. U.S. office market activity jumped to \$63B in 2011, a 37% increase over the volume experienced in 2010, representing an amount not seen since 2004. This is still a far cry from the levels experienced in 2007 (\$206B), but it is approaching the average volume recorded between 2001 and 2006 (\$73B). The second half of 2011 saw a considerable pause in activity as macro-economic news out of Europe, combined with continued weak domestic employment growth had investors tapping the brakes.

2012 will benefit from this restraint and allow the recovery in fundamentals to start catching up to the aggressive underwriting employed by investors. The polarization of demand for investment properties continues as investors seek buttoned-up “core” assets in top performing markets or “train-wreck” opportunities with solid fundamentals that need fresh capital or repositioning. Commodity product in secondary markets seems to be the third rail for both debt and equity sources. That being said, in 2012, as pricing for sure bet product intensifies, there’s an expectation that investors will look down the yield spectrum in search of mispriced product that has been overlooked. The commercial real estate recovery continues to benefit from the unprecedentedly low interest rates achievable in the debt market; going-in yields have compressed once again as the available debt, albeit at much lower leverage, continues to drive pricing.

The tech-oriented San Francisco Bay Area remains one of the strongest investment markets in the country, ranked #1 on ULI’s Emerging Trends 2012 list for office investment—with 65% of respondents recommending “buy” in San Francisco, a full 10% more than in New York City. The Bay Area commercial real estate market benefits from many favorable market fundamentals: a global gateway region, proximity to world class universities and talent, strong high-tech, biotech, clean-tech and finance industries and geographic and political barriers-to-entry. These factors will continue to enhance the region’s surging recovery in fundamentals. In 2011, net absorption levels were the highest they have been since the dot-com

bubble, and rent growth in some submarkets approached 100%. Investors will continue to favor the Bay Area for its ability to generate above average risk adjusted returns.

The recent economic downturn fostered a flight to quality and growth-oriented markets. The Bay Area’s growth is fueled in large part by the continual supply of highly talented workers being educated by some of the world’s leading universities including Stanford, UC Berkeley and UCSF. The region attracts over one-third of all venture capital invested nationally, not counting the seed funding and venture backing provided by the billion dollar balance sheets of some of the world’s largest and most successful technology firms, all eager to fund the next big thing. The prospects for employment growth in the Bay Area are unparalleled, with the next Apple, Facebook, Salesforce or Twitter always on the horizon and having the potential to generate thousands of new jobs and absorb millions of square feet. The recovery in the commercial real estate investment market will continue to accelerate in 2012, led by further improvement in fundamentals and demand from a combination of traditional market players and new equity sources focused on entering top performing markets.

RETAIL

San Francisco Bay Area

San Francisco | East Bay | Silicon Valley | Retail Investments

San Francisco Retail

Ben Lazzareschi, Vice President | Robert Jensen, Senior Associate
Laura Sagues, Associate

Union Square retail leasing continues to gain velocity in 2012. Average annual ground floor shop space rents in and around Union Square range from \$310.00 PSF on Geary, Post and Grant streets to over \$500.00 PSF for retail spaces fronting directly on the Square. Average rates in the entire Union Square submarket are approximately \$282.00 PSF on an annual basis. Several high profile deals consummated in the fourth quarter of 2011 are expected to open in the first quarter of 2012 including DSW shoes, Chase Bank and Nespresso. DSW moved two blocks north from the 100 block of Powell Street to 400 Post Street, backfilling the vacant 42,000 SF Borders space on the hard corner of Post and Powell; Nespresso took over 90 Grant Street for its San Francisco flagship, planning to occupy a vacant 12,000 SF location that was previously occupied by clothing retailer Guess.

Other San Francisco submarkets continue to see strong signs of retail space absorption. The Financial District had several newly executed leases from banks in the fourth quarter of 2011; Chase recently signed at the intersection of Montgomery and Sutter, and Bank of the West signed a lease at Market Street and Sansome Street. In addition, restaurants continue to eye the Financial District for locations leveraging the dense base of daytime workers in the Financial District. While rents range widely in the greater Financial District, prime space is leasing for over \$70.00 PSF on an annual basis. The central Market Street corridor is seeing renewed activity with Shorenstein's redevelopment of the Furniture Mart between 9th and 10th. The newly branded Market Square will be home to the new Twitter headquarters and over 3,500 employees beginning this summer.

San Francisco's neighborhood commercial districts are fairing strongly as well; Fillmore Street in Pacific Heights, Union Street and Chestnut Street in the Marina and 24th Street in Noe Valley have some of the lowest vacancy rates in the city, with space frequently being leased before coming to market. The upper section

of Fillmore Street is particularly tight with only one vacant ground floor space in the prime blocks that run from Bush Street north to Jackson Street

Tourist traffic is up with hotel occupancy rates increasing as a result. These signs, in conjunction with a growing economy point to an expected decrease in vacancy rates and increase in asking rents in 2012.

East Bay Retail

Eric Stokes, Associate | Brian Mirkovich, Vice President

The East Bay market rebounded in a big way in 2011. The I-680 and I-880 Corridors saw a tremendous amount of big box absorption as well as the groundbreaking of two new Target-anchored power centers, one in Dublin and one in Fremont. Rent growth appeared throughout each quarter as demand increased and available product decreased. The most desirable submarkets and centers saw rents eclipse pre-recessionary levels. It was a year where expanding tenants saw the pendulum of negotiating power shift back in the landlord's direction. Multiple institutional landlords even put an end to tenant rent reductions and blend and extends.

Almost all category types were active, from in-line shops to restaurants to big box anchors. The tenants involved in significant deals in the East Bay market in 2011 include Safeway, Foods Co, Nordstrom Rack, 24 Hour Fitness, Guitar Center, BevMo, REI, Petco, Golfsmith, buybuy Baby, Walmart Grocery, Big 5, Fresh & Easy, Walgreens, Party City, HomeGoods and TJ Maxx.

In 2012, most of the East Bay sub-markets are going to look to build upon the momentum created last year. A majority of the big box vacancy available

RETAIL

last year that was created by the bankruptcies of Mervyn's, Linens 'n Things, Borders and Circuit City was absorbed through new tenancies. Expansion of big box stores is going to be forced to grow by way of new development or redevelopment. East Bay cities with bona fide developable land such as Dublin, Livermore, Fremont and Hercules could end up being the beneficiaries of this potential new development. Dublin saw a new Target open late last year and will most likely see the remaining 200,000 SF of the power center built out in 2012. Fremont will see Pacific Commons expand by as much as 300,000 SF with Target and Century Theatres scheduled to open in the second quarter of 2012 and supported by more than 100,000 SF of additional junior anchor and shop space. The most exciting retail project coming out of the ground in 2012, not only in the East Bay, but in the entire Bay Area, is in Livermore. Paragon Outlets, a 450,000 SF outlet mall, is under construction and is scheduled to open just before the holiday season. It is already seventy-five percent leased and headlined by Neiman Marcus Last Call, Saks Fifth Avenue Off 5th, Barney's New York Outlet, Banana Republic, J.Crew and Michael Kors.

Silicon Valley Retail

Rick Shaffer, Senior Vice President

Vacancy continued to decrease in 2011 as tenants entered or re-entered the market due to the strength of Silicon Valley relative to other markets in the country. Well located anchored centers were the primary beneficiary of this influx of tenants and the result has been increased upward pressure on rents in the most desirable centers.

Looking forward to 2012, we see continued improvement in the retail sector and increased new construction starts. Like 2011, most of the new construction starts will be tenant generated with substantial preleasing, although there are a few smaller spec projects in the works.

Active tenants include Target, Walmart, LA Fitness, Sprouts, Fresh & Easy, Sunflower Market, and Petco, amongst others.

Landlords are rethinking their position on co-tenancy clauses after the fallout over the closure of Mervyn's, Circuit City and Linens 'n Things. Expect landlords to further limit co-tenancy on new projects in 2012. In general, Silicon Valley retail should experience continued growth and upward pricing on rents in 2012 as the employment rate and the economy in general continue to improve.

Retail Investments

Don LeBuhn, Vice President | Elaine Richards, Sales Analyst

The San Francisco Bay Area retail investment market improved significantly in 2011 as compared to 2010. Sales dollar volume almost tripled, increasing from \$475 million to \$1.2 billion, with the largest gain in the East Bay, where sales dollar volume increased from \$30.8 million to \$627.3 million. This was in large part due to several large sales, including the sale of Centro Properties Group to Blackstone, which included Rose Pavilion and Metro 580, both in Pleasanton, as well as Gateway Plaza in Vallejo, for a total of \$139.9 million. Another notable East Bay sale was Alameda Towne Centre which Harsch Investments sold to Jamestown Properties for \$181.0 million. Year over year, Bay Area cap rates have decreased 70 basis points, ending 2011 at 7.0%.

During 2011, new inflows of distress properties decreased, however, workouts slowed and there continued to be strong demand for "distress, defaulted and REO" assets, with limited supply.

Strong capital flows from the majority of debt providers are expected in 2012, primarily for stabilized and core projects. Interest rates should remain low with treasury yields at historic lows. Leverage will continue to be moderate in the 55%-65% "loan-to-value" range.

RETAIL

Improvements in San Francisco Bay Area market fundamentals over the course of 2011 are encouraging signs for the year ahead. The Bay Area unemployment rate decreased, GDP growth continued and consumer confidence rose to an eight month high in December. Overall, the lack of quality product and large amount of available capital for investment has generated a supply/demand imbalance that has pushed cap rates down, especially for core retail assets. In 2012, we expect this trend to continue and are expecting several significant transactions to close in the first quarter of 2012, including ParkTown Plaza in Milpitas (6.5%-7.0% cap) and Rossmoor Shopping Center in Walnut Creek (5.75%-6.0% cap). The year 2012 will be an opportune time to take advantage of low interest rates and a bolstering economy that will drive retail rents, continue to reduce vacancy rates, and provide long-term appreciation in retail assets.



MULTI-HOUSING

William Huberty, Senior Vice President | Clint Sholl, Associate | Simon J. Herrmann, Vice President | Jeremy Cline, Vice President
Todd Vitzthum, Vice President

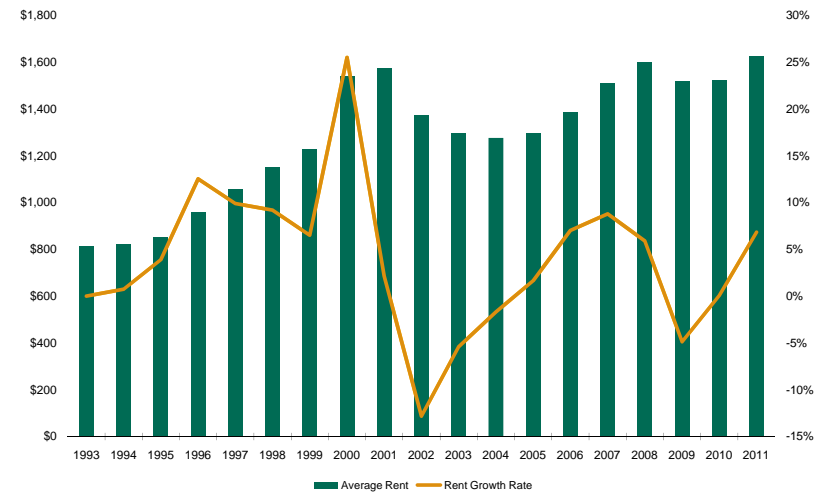
The Bay Area multi-housing market exhibited improvement in both fundamentals and transaction volume in 2011. Building on the modest upturn of 2010, the first half of 2011 saw increased marketing campaigns throughout core markets and even in some tertiary areas. Despite a slight slowing in transaction activity during the fourth quarter, the market is well positioned for sustained, healthy trading activity in 2012.

Cap rates in the area will remain highly sensitive to the quality of location and less sensitive to the age of the asset. As is typical of the Bay Area, opportunities to acquire new, core, stabilized multi-family assets will remain extremely limited, putting additional downward pressure on yields for acquisition opportunities of this profile.

Home foreclosures are expected to remain an issue throughout the coming year, which, along with a general change of attitude regarding the benefits of home ownership, should continue to increase apartment demand.

Favorable financing options should continue to enhance transaction pricing. Given the market's comparatively thin trading volume, ample capital will be at the table for all offerings in 2012.

Multi-Family Rental Growth Trends



Source: RealFacts, Inc.

MULTI-HOUSING

Multi-Family Financing

Andrew M. Behrens, Vice Chariman, Debt and Equity Finance

Multi-family has proven to be a structurally advantaged asset type within commercial real estate. Throughout the downturn, apartments have enjoyed relative success due to their fundamentals. This success continued through 2011, as the year proved to be strong for multi-family investment sales and lending activity.

While Fannie Mae and Freddie Mac remained the chief source of financing in the multi-family marketplace, their market share fell in 2011 as life companies and banks aggressively competed for assets. However, the GSE's strength, and the reason their respective loan volumes are increasing year over year, is due to their ability to finance different quality assets, while the life companies and banks are only able to chase core multi-family assets. We expect this movement towards bifurcated lending to continue through 2012.

2012 will witness some turmoil in the capital markets due to the unresolved European debt crisis and the policy challenges facing Washington. However, lending rates in the multi-family space will once again be tempered by the significant presence of the GSEs. The key challenge facing the multi-family market in the next year will be the lack of debt available for non-core assets in secondary and tertiary markets. While the GSEs will play a role in alleviating the pressure facing borrowers with non-core assets, their underwriting standards will be a limiting factor.

Another trend that will be seen in 2012 is the rise in demand for construction debt and joint venture equity. Since the mid-2000s, multi-housing has not seen much in the way of completions, and the little product that has been delivered is now absorbed. Many multi-family developers are anxious to get back into the market and are looking to source debt and equity for their projects. It is an advantageous time to do so as the prices for Class A apartments are quickly approaching replacement cost levels. As noted in the US Capital Trends: 2012 Predictions published by Real Capital Analytics, this trend is "tempering appreciation and diverting capital towards development." However, developers are expected to be

more conservative in their underwriting and will only move forward if the project will work in today's rental environment, with little projected rental growth in the next five years.



HOTELS AND RESORTS

Henry E. Bose, Jr., Senior Vice President | Mark H. McDermott, Senior Vice President

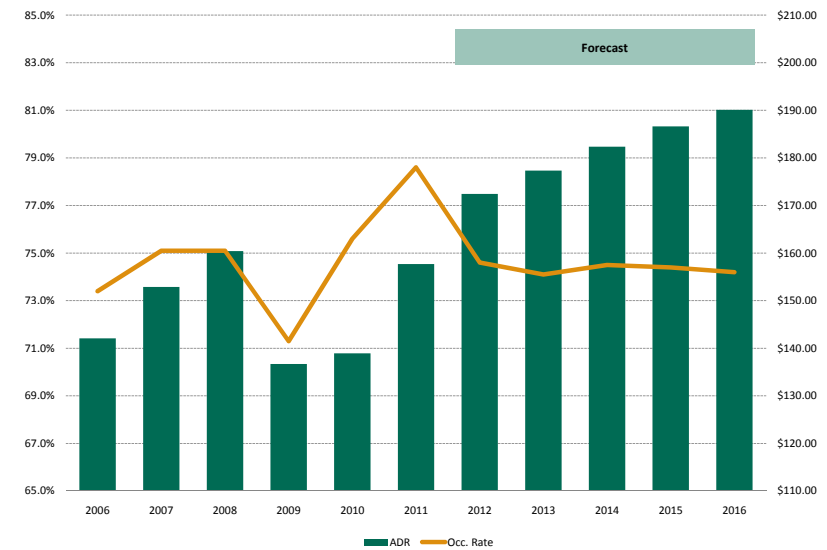
The Bay Area lodging market experienced exceptional improvement in operating metrics and strong transaction volume in 2011. In particular, San Francisco/San Mateo achieved the largest RevPAR (Revenue Per Available Room) increase in the nation last year, rising 19.7%, nearly 500 basis points more than the next fastest growing market in the country.

The strong operating performance of regional hotels was particularly impressive during the second half of 2011, as the market continued to achieve high occupancy and strong growth in ADR (Average Daily Rate) in spite of the global economic uncertainty that occurred due to the European debt crisis. San Francisco remains the premier market in the Bay Area region, but impressive submarket growth was also seen in SFO (San Francisco International Airport), Silicon Valley and the Wine Country.

As shown in the accompanying graph, we expect 2012 to be another strong year in terms of industry performance, and the continued growth of these operating metrics will further drive transaction volume. For 2012, specific considerations for Bay Area hotel owners and investors include:

- San Francisco Will Drive the Region – San Francisco remains top of mind for institutional investors, along with NYC, DC and gateway cities around the globe.
- Notable Demand Growth – Convention demand, corporate demand—especially derived from the tech sector—and leisure demand are all expected to stay strong. Special events such as the US Open Golf Championship this year and the America's Cup in 2012/2013 should further boost regional demand.

San Francisco MSA Occupancy and Average Daily Room Rate



Source: CBRE Econometric Advisors

HOTELS AND RESORTS

- Lack of New Supply & High Barriers-to-Entry – The impact of minimal supply additions in recent years, and a negligible development pipeline, will become more and more evident. This is positive for existing owners, and will afford them greater control in pricing when it comes to both hotel guests and prospective buyers.
- Scarcity of Product – Related to the point above, many assets have traded in the last few years, and the availability of investment opportunities is relatively scarce.
- REITs vs. Private Equity – As of this writing, public hospitality REITs have staged an impressive comeback in their stock prices, which will keep them at the forefront among active buyers. Many private equity groups have raised significant funds for deployment in the next 12-24 months, and we expect these groups—especially if they have a captive or related operating company—to be competitive bidders as well.
- Values to Hold Up – As the region continues to recover and grow, the improving income levels will necessarily push up capitalization rates for stable assets. Buyers will also still aggressively pursue value-added opportunities. Based on all of the foregoing considerations, we expect per room value to remain strong and in line with 2011 metrics.

Our 2012 outlook assumes a continued stabilization of the global financial markets, and to be sure, we expect investors to keep a very watchful eye on political and economic developments around the world throughout the course of the year. But barring a global capital crisis, we believe that 2012 will be a very active year for Bay Area hotel real estate, as investors position themselves for continued positive industry fundamentals in 2013 and beyond.



CAPITAL MARKETS

John Nelson, Executive Vice President | Jim Korinek, Executive Vice President | Michael Walker, Analyst

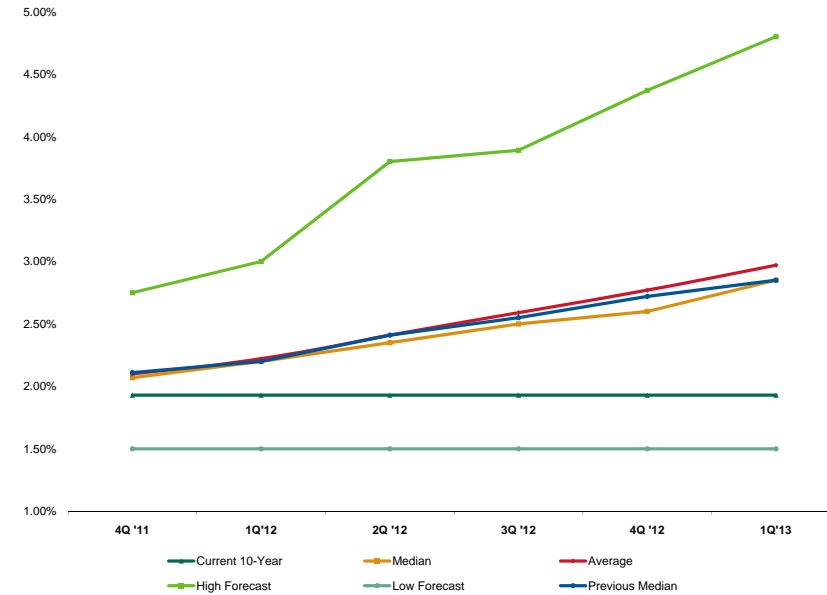
In 2012, the Capital Markets will offer San Francisco Bay Area investors improved access to debt capital and more favorable borrowing conditions than were available in 2011. The San Francisco region stands out amongst the Nation's major real estate markets, with employment gains led by the high-tech sector, and a stabilized knowledge based economy with a heavy presence of tech, financial and biotech firms. San Francisco is a global gateway city and a hotbed for some of the world's most innovative and dynamic companies, attracting a highly educated and very skilled workforce. The Urban Land Institute and PriceWaterhouseCoopers recently ranked San Francisco the top investment prospect in 2012, with regard to buy/hold/sell recommendations. This is consistent with evidence in the market of very strong interest from institutional, offshore, and private investors across the risk spectrum from core to opportunistic assets. Commercial real estate lenders recognize the Bay Area's strong economic structure and property level fundamentals, which we believe will lead them to target the San Francisco Bay Area as one of their most preferred investment regions.

Where will commercial real estate capital come from in 2012?

We expect the life insurance companies and money center banks to increase their origination volume in 2012 as their access to low-cost capital will allow them to aggressively compete for core assets and "trophy" quality real estate owned by very experienced and well capitalized institutional clients. These buckets of capital will win opportunities to finance Class A property at underwritten values below historical levels, limiting their downside risk.

Non-prime property in secondary markets may face difficulty in obtaining senior debt financing at proceeds levels adequate to refinance the property's existing debt basis. We expect bridge lenders and mezzanine/preferred equity providers, to capitalize on these opportunities. Bridge lenders, primarily private debt funds, are structured to finance real estate that is less than stabilized from an occupancy or cash flow point of view. Mezzanine and preferred equity investors will likely

Capital Markets Forecast – 10 year Treasury



Source: Bloomberg News Monthly Survey

CAPITAL MARKETS

recapitalize borrowers who cannot refinance due to a drop in property value and/or cash flow.

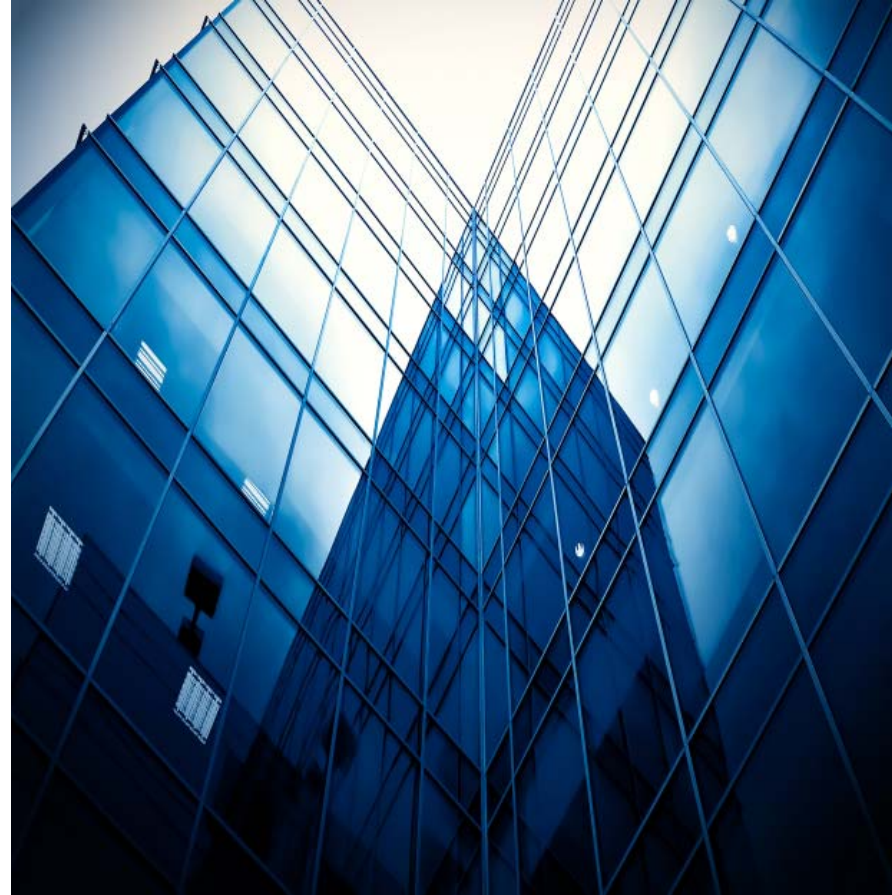
2012 CMBS origination, which is the most difficult to predict due to exogenous risks in the global economic landscape, is also an important type of capital relative to the broader commercial real estate finance recovery. ULI stated in their 2012 emerging trends report, "CMBS is viewed as the salvation for the middle market, particularly secondary cities and suburban properties". For now, we expect a modest origination volume in 2012, similar to that of 2011 (\$35-\$40 billion). The origination volume could increase or decrease depending on how pending CMBS risk retention rules play out, how the Eurozone crisis unfolds and the general go forward health of the credit markets.

What will happen with distressed and underwater loans?

Generally speaking, we expect lenders to continue to either dispose of distressed loans via note sales, or perform extensions for properties that can't be refinanced, rather than foreclose. Lenders will "amend and extend" existing loans through various forms of modification (interest rate reduction, term extension, etc.) to borrowers that are willing to provide some form of new capital injection to the lender, likely to include a principal pay-down and extension fees.

Conclusion

With debt providers focusing on markets with the strongest fundamentals, the "City by the Bay" should prove to be one of the best performing markets in the country in terms of obtaining debt capital for commercial real estate.



CAPITAL MARKETS

Loan Sales Advisory Group

Kurt Altvater, Senior Vice President

The loan sale marketplace in 2011 continued to build on the sales of 2010. The loan sales started in the first quarter of 2011 at high levels and continued at elevated levels until mid-summer when the CMBS started to stumble and the debt crisis began to loom. After the debt crisis and concerns about the European banks in the third quarter, the fourth quarter was filled with loan sales to clean up balance sheets by year-end. Despite the reported leveling-off of sub-performing and non-performing loans, the sales of these loans tend to lag the statistics and continue to occur on a selective basis, both nationally and in the Bay Area.

The most significant loan sellers in 2011 were the banks and special servicers, while investment banks, CDO issuers, insurance companies and credit companies were less significant sellers. The improving real estate market helped lenders gain higher recoveries on loan sales, including above their loan balances after reserves in some cases, and was a catalyst for increased loan sales. Another factor for the increasing levels of loan sales is that “extending and pretending,” or additional rounds of loan modifications, appears to be ending for some borrowers as lenders have lost patience with certain problem assets that are not improving sufficiently.

The loan sale profile continued to be diverse from small to large loans and comprised of virtually every property type. Given the unique characteristics for each loan sale, it is difficult to generalize, but some common loan sale strategies included sales of sub-performing and non-performing loans. The sale of performing loans gained traction as lenders looked to rebalance their portfolios, and this was most notable with foreign banks as they sought to repatriate capital late in the year.

Based on the expectation of further improving lender balance sheets and an increasing amount of loan maturities, including loans issued in 2007 when underwriting standards were considered weak, an increase in the amount of loan sales is anticipated in 2012. Meanwhile, many lenders remain confident

in the Bay Area’s commercial real estate markets and as a result, loan sales will continue to occur selectively in our region.

The National Loan Sale Advisory Group, an extension of CBRE’s Capital Markets Group, provides mortgage loan sale advisory services for individual, portfolio and structured loan transactions. The marketing team possesses the industry’s most highly experienced professionals in commercial mortgage dispositions for all product types as well as unmatched local and national market coverage and expertise. The key principals of the group have been responsible for over \$40 billion in wholesale loans and strategic advisory engagements. Transactions have been executed in all U.S. states, Mexico and Canada.

ASSET SERVICES

Tim J. Ballas, CCIM, CPM, Managing Director, San Francisco Bay Area

The year 2012 promises to be full of opportunity from changes in local market conditions, as well as the anticipated economic activity stemming from the America's Cup planning and construction activity during the year. On the heels of the 2010 World Series, San Francisco will once again be on the world stage with a widely promoted event. Leveraging the popularity of the Bay Area, property owners will seek to capture their share of the improving market by positioning their buildings to attract technology-led tenant demand in San Francisco, offering creative space options and flexible lease terms to stable, proven companies as well as ones early in their life cycle, with demonstrated earnings on their balance sheet.

Among their broad set of duties, CBRE's Asset Services professionals serve their clients by assessing tenant risk, in concert with our teams of agency leasing brokers, to advise and guide property owners to make the best real estate decisions for their investments. Risk assessments that take into account current and future credit worthiness and ability to pay are compiled by CBRE real estate managers and provided to our clients on a regular basis. 2012 will be an important year for owners who recently acquired property with expectations to capture surging tenant demand in San Francisco and the associated increases in rental rates that are presently occurring.

With the local market stabilizing and improving, owners want as much time as possible to focus on their core strengths and not lose momentum in the marketplace to create value. The year ahead will provide change and opportunity for all Bay Area Asset Services professionals to help these clients meet their goals. Our primary focus will be on managing the pace of change and assisting our clients with their properties to perform at a higher level. The outsourcing of day to day management will continue.

CBRE's Asset Services Group has developed an operating platform geared towards our clients who own "Premier Properties" in major markets around the globe. "Premier" buildings define skylines and shape markets. They deserve

and demand a level of service and talent to operate them correctly. This higher standard of care and attention we have developed, and the specific programs that cater to this particular owner group, are in increasing demand.

Investment sale activity has prompted demand for professional management services on the part of traditional owners as well as lenders and special servicers, and will continue in the year ahead. Flexibility and skillful management are required with properties in receivership or foreclosure and understanding client goals and objectives will continue to be a high priority. Asset Services personnel are experienced at transitioning property and people, and our clients appreciate our ability to complete this detailed process seamlessly and without interruption.

Sustainability programs and LEED certification efforts continue to move apace as owners seek to responsibly position their properties. In concert with our industry leading Sustainability Group, CBRE assists owners and occupiers on the advantages of green practices as they design and build space. Our professionals have increasingly gained LEED accreditations to enhance their education and ability to advise their clients in this key area.

CBRE's Asset Services Group is responsible for 46 MSF of R&D, industrial and life science (50%), office (45%) and retail (5%) space in more than 260 properties in the Bay Area. Our platform provides services for institutional and private market clients, including the coordination of due diligence efforts on behalf of buyers and sellers, maximizing cash flow and providing property branding and positioning services. We are also able to serve as a court-appointed receiver on distressed properties that may be subject to a foreclosure action by secured lenders.

VALUATION AND ADVISORY SERVICES

Elizabeth Champagne, MAI, MRICS, Senior Managing Director

The ongoing turbulence in the financial markets during 2011, combined with the sustained economic recession and slow recovery have had a significant impact on Valuation and Advisory Services. The debt crisis and lack of financing for both residential and commercial product have negatively impacted a large component of the business base which traditionally has been geared to assist in mortgage financing. In response to the situation, CBRE has been successful in radically increasing and diversifying our client base and services. We anticipate that the need for both appraisal and the wide array of consultative services that we provide, including property tax appeal, litigation support, expert witness, rent arbitration, feasibility studies, highest and best use analyses, market studies and partial interest valuation, will be in greater demand moving into 2012.

The past year saw an unprecedented number of bankruptcies, foreclosures and bank failures, creating additional demand for CBRE Valuation & Advisory Services from lenders/FDIC with troubled assets. We expect this trend to continue through the first two quarters of 2012, and to return to more normal levels starting in the latter part of the year. By this time, we anticipate the markets will have stabilized somewhat, with greater agreement between buyers and sellers on the value of assets, and renewed lender confidence with more financing opportunities. In turn, this will increase the need for appraisal services. Requests for collateral evaluation for existing notes by lenders are also expected to escalate throughout the year as they begin the process of normalizing their balance sheets. Consumer confidence is expected to increase throughout the year as well as a greater availability of conventional mortgage financing and resurgence of the CMBS conduit lenders which, in turn, will help the market to regain momentum, bringing with it more buy/sell opportunities and a “meeting of the minds” between market participants.

Demand for Valuation & Advisory Services will continue to be strong to assist and guide participants and nervous lenders re-entering the market after a three year hiatus. More clients will require in-depth studies of their assets in light of the changing parameters following the national recession. We anticipate continued

divergence of assumptions and value opinions in the marketplace for most of 2012, with a gradual movement to normal market conditions by year’s end. Owners of sites that were previously earmarked or entitled for development with for-sale residential uses are scrambling to regroup. Many of these sites will eventually be redeveloped with alternative uses, such as office, retail, for-rent apartments, or even biotech; however, we do not anticipate many construction starts until at least the latter part of 2012. Large portfolio acquisitions will continue to prevail, particularly for all-cash investors. Continued infusion of Asian capital into the market is expected over the next year and California-based Asian banks are extremely active in the commercial real estate arena, as many of the Asian markets are rebounding and real estate investors are excited by the multiple U.S. “bargains”.

Discerning and quality appraisal analysis has never been more important given the challenges facing appraisers in this unstable economy. We anticipate continued gradual capitalization rate and vacancy rate decreases for the first two quarters for the best properties in the primary markets before there are more robust value increases later in the year, approaching the peaks last experienced in 2006-2007. Modest value increases are anticipated for secondary and tertiary properties which may take several more years before they approach the highs seen during the peak year pre-recession.

The Northern California Region is one of nine CBRE Regions servicing the United States. With four offices in the region, including San Francisco, San Jose, Walnut Creek and Sacramento, our 40 staff appraisers are highly qualified and include state certified and many MAI designated professionals. Due to our locations in the major metropolitan markets, we are well positioned to provide a timely response to requests for a wide array of valuation and consulting services. Our local expertise and presence in these markets enables us to provide the most up-to-date information necessary for quality analysis and products.

CBRE SERVICE LINES

With the industry's most complete global service delivery platform, CBRE delivers the people, services, velocity, reach and knowledge today's business world demands.

Asset Services

Our Asset Services group transforms assets into opportunities by providing measurable results in property management, leasing, tenant relations, project and construction management, technical services, risk management, purchasing, energy management and financial reporting.

Brokerage Services (Tenant and Landlord)

CBRE executes strategic, integrated and comprehensive commercial real estate brokerage services for tenants/occupiers, property owners and narrowly focused vertical industries in the office, industrial and retail sectors. Clients make informed real estate decisions underwritten by world-class and industry leading proprietary market research, analytical and consultative services. The Brokerage division draws frequently and seamlessly from other CBRE services to provide clients what they need functionally anywhere in the world.

Capital Markets

Our Capital Markets group combines the company's investment sales and mortgage banking businesses into a single, complementary global service offering. CBRE is the worldwide leader in the acquisition and disposition of income-producing properties for third-party owners, and our mortgage banking group is a leader in debt and equity placement for all property types.

Client Strategies

Our Global Client Strategies organization drives superior business performance for our clients by maximizing value from their real estate assets and management practices. The group delivers consulting solutions that integrate business intelligence with portfolio optimization, location analysis and organizational strategies. We also serve our clients by driving innovation, researching emerging trends, and sharing leading practices.

Corporate Services

Our Global Corporate Services group delivers customized, innovative workplace solutions in multiple markets worldwide. Strategically positioned to answer our corporate, healthcare, government and institutional clients' real estate needs, this group combines unrivaled expertise in transaction services, facilities and project management and consulting with industry-specific expertise and global service delivery to provide clients with long-term, quality account management.

Development & Investment Services

Our wholly owned, independently operated subsidiary, Trammell Crow Company, offers a broad range of products and services for both user and investor customers. These products and services include development of build-to-suit facilities, buy-to-suit opportunities, development services on a fee basis, specialized development of healthcare facilities, strategic joint ventures and capital programs, and opportunity funds and traditional multi-tenant speculative development.

Facilities Management

Our management of more than one billion square feet for corporate, institutional, not-for-profit and government space users around the world delivers the highest level of customer service and value, which enables clients to focus on their core business. By partnering with our clients our approach to facilities management goes well beyond traditional service models. Our people, by applying our knowledge, technology, procurement leverage and processes, are able to customize our delivery of services to any client's culture and create a competitive advantage for the client.

CBRE SERVICE LINES

Healthcare Services

Healthcare Services provides a uniquely comprehensive range of real estate and facilities management services to healthcare providers across the country. Our specialized staff focuses on hospital and medical office development, clinical facilities management inclusive of energy management, medical office building leasing and management, brokerage services, and monetization of non-core real estate assets.

Industrial Services

Our Industrial Services group addresses the needs of owners and occupiers at every stage of the supply chain with a special emphasis on ports, intermodals and air cargo. The group also works closely with research and development, manufacturing, assembly and warehouse and distribution, as well as land acquisition and disposition. These services are founded on a deep understanding of the assignment and/or project, and our strong belief in specialization, including professionals focused specifically on logistics, life sciences, food solutions and special properties, as well as our global occupier practice.

Investment Management

CBRE Investors, LLC is a wholly owned but independently operated investment management company with \$37.8 billion of assets under management as of December 31, 2007. Its mission is to provide real estate investors with exceptional performance, globally. Its investment funds and programs are executed by dedicated investment teams which are focused on a specific geography and style of investing.

Office Services

Office Services represents the largest segment of CBRE's brokerage activity. We have more professionals specializing in the office sector than any other firm. Our professionals specialize in either occupier/tenant or owner/investors needs. CBRE professionals, unsurpassed in their local market knowledge, are supported by unique, unequalled and industry leading econometric forecasting and market research tools to ensure our clients make strategic and informed decisions.

Project Management

As one of the world's largest providers of professional real estate project management services, we offer a full menu of solutions to address the challenges that our clients—users of and investors in real estate—face across the globe. Our solutions include project management outsourcing strategies, program management services, interior build-outs, project management for critical environments, moves/adds/changes, capital improvements and building renovations, and tenant improvements.

Retail Services

Our Retail Services group addresses the unique needs of retail properties and retailers. Our expertise includes both urban and suburban real estate, and all types of retail centers. Representing retailers and property owners, buyers and sellers, our integrated retail real estate services include strategic planning, retailer site acquisition, disposition, investment sales, leasing, finance, asset services, mall and urban expertise.

CBRE SERVICE LINES

CBRE Global Research and Consulting

CBRE Global Research and Consulting is an integrated community of preeminent researchers and consultants who provide real estate market research, econometric forecasting, and corporate and public sector strategies to investors and occupiers around the globe. As a distinctive group within the world's largest full-service real estate company, CBRE GRC focuses on the development of strategic platforms and processes through the use of preeminent, in-depth market research, strategic analysis and leading-edge implementation programs—enabling clients to make highly informed real estate decisions, reduce costs, create value and improve performance. Our goal is to ensure that these analyses and strategies are pertinent and fully aligned with an organization's overall objectives. The skills and experience of the GRC team are augmented by CBRE's extensive global resources and capabilities in the areas of econometric forecasting and market research, and a wide array of consulting specializations, including workplace transformation, labor analytics, portfolio strategic planning, location analysis, economic incentives, CRE organizational modeling, and other areas. CBRE clients using this group gain exclusive access to the largest, unparalleled network of top industry professionals, the most current best-in-class approaches, and the most timely and relevant market research and analysis of business practices within the industry today.

Valuation & Advisory Services

The Valuation and Advisory Services group provides independent, accurate, reliable and timely valuations critical to the success of every real estate transaction or financing. This is accomplished through the accumulation and dissemination of comprehensive data on commercial real estate throughout the world.



LOCAL OFFICE LOCATIONS

Market Outlook is an annual publication of CBRE produced by Bay Area Research. For more information about this market contact the local CBRE office or visit our website at www.cbre.com. This report is also available on our website at www.cbre.com/bayareaoutlook.

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