

Bay Area Market Update

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REAL ESTATE

Tishman Speyer Properties sold an office building in Mountain View for \$71.5 million in cash, or \$510 per s.f. The 140,000 s.f. building, located at 2440 W El Camino Real, was purchased by Boston Properties Inc. According to brokers, the price per s.f. was near the high end of the current range, though Tishman did invest significantly in tenant improvements and the Class A building is in a prime location. In addition, it was 100% leased at the time of sale. In 2007, Tishman paid \$55 million for the seven-story building, which was developed in 1987.

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ECONOMICS

Three major counties in California rank among the country's four largest wage gainers over the last 20 years. Pay levels in Santa Clara, San Mateo and San Francisco counties have grown by more than 4.6% per year since 1990, according to an On Numbers analysis from the U.S. Bureau of Economic Analysis. The average worker in Santa Clara County made \$90,208 in 2010, reflecting a compound annual growth rate of 5.25% since 1990, when the average worker made \$32,437. Santa Clara County's 20-year growth rate is the highest in any of the country's 64 major counties. Fairfax County, VA had the second highest average annual wage increase of 4.84% since 1990. San Mateo average compensation grew at 4.78% per year and San Francisco County was up 4.64%.

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SAN FRANCISCO OFFICE

Technology office leases are being signed in the first quarter at a pace not experienced at any time in the last decade. Leasing activity for the quarter will likely total 1.5 to 2 million s.f. in San Francisco alone.

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Real Estate

Note: Boston Properties is a publicly traded REIT and owned 18 properties in the Bay Area totaling over 5.1 million s.f. at the end of 2011. The company owns One, Two, Three and Four Embarcadero Centers in San Francisco, Gateway Commons in South San Francisco, and 303 Almaden and 3200 Zanker in San Jose. Boston Properties has a significant presence in four core markets: Boston, Washington, D.C., Midtown Manhattan and San Francisco. The portfolio consists primarily of first-class office space. ■

Kilroy Realty Corp, based in Los Angeles, has acquired the Menlo Corporate Center in Menlo Park for \$162.2 million, or about \$434 per s.f. The 374,000 s.f., seven-building complex, located at 4100-4700 Bohannon Dr, with freeway frontage

on Highway 101, was 79% occupied at the time of sale. Mike Sanford, Senior Vice President of Operations, said in a statement, "Menlo Corporate Center, located in one of Silicon Valley's most desirable and tightly supply-constrained submarkets, provides us with a great opportunity to capture additional value as we release the remainder of the vacant space at rents that are well above the current in-place rates".

Note: Including this acquisition, Kilroy has acquired eight office projects totaling approximately 2.6 million s.f. in the San Francisco Bay area since 2010. Significant acquisitions in San Francisco include 370 Third St, 201 Third St, 100 First Plaza and 303 Second St. ■

Economics

Recently, the first Halo Report was released and the research highlights angel investment activity and trends in North America. In 2011, California led in deals and dollars among individual states: 21% of angel group investments were in companies in California, and 30% of total funding was invested in California. The median angel group round size

grew to \$700,000, an increase of 40% over the comparable 2010 figure. Healthcare and internet companies accounted for 58% of angel group investments. In addition, 60% of healthcare investments were in medical device and equipment companies.

San Francisco Office

For example, Macys.com has signed a lease for 250,000 s.f. for the top seven floors of 680 Folsom. The building will also be the headquarters for Riverbed Technology Inc, which recently signed an agreement for 160,000 s.f. Yammer, the workplace social media company, has agreed to lease 133,000 s.f. at 370 Third St, a building that was acquired by Kilroy in 2011. Several technology companies are still actively looking for between 50,000 s.f. and 100,000 s.f. These larger entities could lease an additional 400,000 to 500,000 s.f. in the near term.

The demand for space from the technology companies is driving up rents across San Francisco. Brokers estimate that SoMa rents have increased over \$5.00 per s.f. since early January.

Note: The technology companies' rush for office space may bring back memories from the dot.com era, but there are significant differences. A recent study found that the number of technology jobs in San Francisco today is similar to the number just before the crash in 2000. However, these technology workers in 2012 take up about half the commercial space that their dot.com counterparts did. Also, many of the current startups, such as Twitter and Zynga, are already making money and have clearly defined business plans. ■

Zynga has agreed to buy its corporate headquarters, located at 699 Eighth St in the SoMa district. The company will pay \$228 million, or about \$340 per s.f., for the 670,000 s.f. building. Zynga currently leases about 65% of the building and expects to close the deal in the second quarter.