

A JEWEL IN SAN FRANCISCO

MEPT acquires a Class A gem in one of the most attractive office markets in the United States.

SAN FRANCISCO'S DOWNTOWN OFFICE MARKET made history in 2005 with one of its best performing years in a decade. Accelerated leasing activity, positive absorption of 1.4 million square feet and vacancy declining to 14.3 percent all contributed to the market's turnaround. The 41 million square foot San Francisco downtown office market was hit particularly hard by the adverse effects of the dot-com and tech busts of 1999 and 2000, and the economic recession of 2001 that followed; all of which caused a ripple effect in San Francisco and resulted in corporate downsizing and decreased demand for office space. Presently, a number of signs indicate that the worst is over and recovery is well underway: strong leasing activity, increasing rents, fewer tenant concessions, and overall economic improvement.

In November 2005, MEPT expanded its presence in the improving San Francisco office market with the acquisition of 303 Second Street, a Class A property consisting of two highly visible office towers, totaling 700,945 square feet of office space with a 358-stall secured parking garage. The buildings are located in the high-growth South Financial District, between Folsom and Harrison streets. **The property was acquired for \$237.8 million, approximately 25 percent below replacement cost.**

There are high barriers to entry in the San Francisco office market; only four downtown sites are currently available for large-scale office development. Moreover, new projects are subject to prohibitive restrictions, including a restriction that limits the office development to a maximum of 950,000 square feet per year within the city of San Francisco. Economic barriers to entry are also extremely high: the current cost of construction would require rents far in excess of current asking rents in order to make a project viable.

303 Second Street is 92 percent leased and 80 percent of the rent roll is comprised of credit tenants. The property's location near major transportation thoroughfares and services, and its high visibility—the property commands more land and parking capacity than any other project in the submarket—makes space in the complex highly desirable. Further, MEPT's



property is surrounded by nearby attractions and world-renowned institutions such as: SBC Park, the San Francisco Giants' baseball stadium; the San Francisco Museum of Modern Art; Sony's Metreon; the Mission Bay Project, a bioscience and life sciences research project; and the recently approved California Institute for Regenerative Medicine's stem cell institute.

The San Francisco Bay Area office market recovery has occurred on a submarket-by-submarket basis, and the South Financial District where 303 Second Street is located accounted for a large share of the positive net absorption in 2005. According to market reports, the overall vacancy rate for San Francisco's Central Business District at the end of 2005 was the lowest in four years and is down 200 basis points from the end of 2004. The decline came both from increased leasing demand and a reduction in office supply due to the conversion of secondary office space to residential units. In the Financial District, vacancy at the end of the year stood at 12.7 percent, down from 13.8 percent at the end of September, and from 15.4 percent at the end of 2004. The average effective Class A rent jumped \$3.16 per square foot during the fourth quarter.

MEPT's acquisition of 303 Second Street not only adds an asset with stable operating income to the Fund's portfolio, but positions MEPT to benefit from the improving market conditions in San Francisco and to capture rising rents. Robust leasing activity, acceleration in absorption rates, growth of the biotech market, and improving economic performance have combined to make the economic recovery in the South Financial District sustainable. By acquiring 303 Second Street, MEPT has secured a long-term gateway to one of the country's most desirable office markets.

