The Axiant Group
COMMERCIAL REAL ESTATE SERVICES

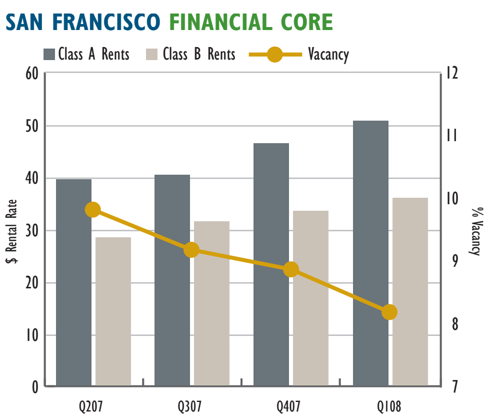
Market Overview

A quarterly publication of the San Francisco office market by The Axiant Group **1st Quarter 2008**

Office leasing activity in the 1st quarter increased over the previous quarter, although activity levels on higher end space has stalled noticeably.

San Francisco, at least for the short term, is testing the US economy's downward trend.

Vacancy Rate Shows Additional Absorption



Office vacancy in San Francisco's financial Core decreased from 8.7% in the 4th quarter 2007 to 8.2% in the 1st quarter 2008. Gross leasing activity was down to 753,641 square feet in the 1st quarter from 920,946 square feet in the 4th quarter. Overall net absorption was up to 241,459 square feet from 216,487 square feet.

Asking rental rates continued to climb. Rates increased from $46.26 in the 4th quarter to $50.64 in the 1st quarter. Class B financial core rental rates also moved upward, with asking rates increasing from $33.36 to $35.86.

Economic Confidence Continues To Erode with Bear Stearns Meltdown

The recent collapse of Bear Sterns and subsequent purchase by JP Morgan was a substantial blow to the financial markets. There is no question the financial markets, with many of its issues directly associated with real estate and it's sub-prime problems, will continue to hamper the commercial real estate markets across the country. The only unanswered question is, how severely? Most commercial markets across the United States have already seen a slow down in activity and in many cases, negative absorption. The San Francisco Market has shown more resilience than most markets with positive absorption and rental rates that continue to move upward. However, San Francisco is not completely unaffected. The majority of market activity is occurring on less expensive space. Leasing activity at the upper end of the market has slowed dramatically. This is logical because many of the large users of higher quality/view space are financial service firms. Interest from these groups has all but disappeared in the last two of quarters.

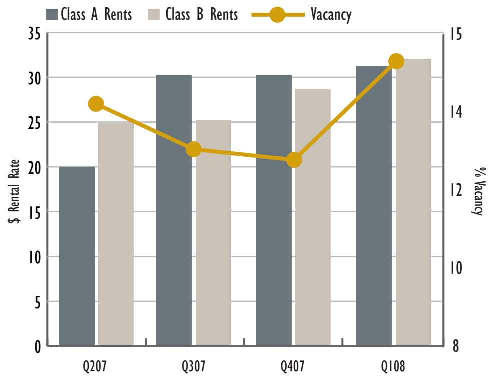
Landlord Reverses Trend and Becomes Deal Maker

The San Francisco market over the last four years has a record amount of building sales as well as consolidation of building ownerships. These new Landlords have tried to push rental rates up as quickly and aggressively as possible, not based solely on market demand, but to validate the record purchase price they have paid. Tenants have accepted some of these rate increases; in part due to lower vacancy rates and real demand. This has pushed some Landlords to asking rental rates in the $60.00 range for average, class A, non-view space. One Landlord, Legacy Partners at 160 Spear Street is running contrary to this trend. A lease was recently signed for 25,000 square feet for $39.59 fully serviced for five years. The Landlord also contributed over $30.00 per square foot in tenant improvements. This is the best economic deal that has been made for Class A space in almost two quarters and reverses a trend for rental rates which have been moving upward. This may force other Landlords to "get off the fence", adjust rates, and make deals versus waiting for leases to occur based on the unrealistic pro-forma by which they purchased the building.

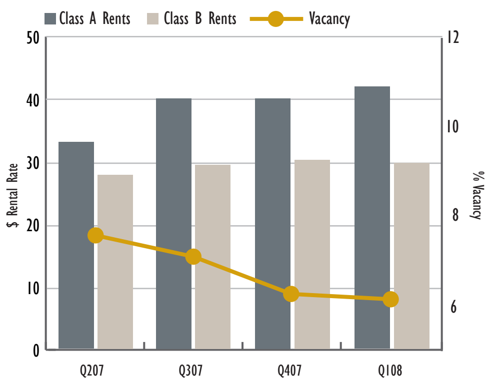
> *This may force other Landlords to "get off the fence", adjust rates, and make deals...*

The Axiant Group
COMMERCIAL REAL ESTATE SERVICES
Two Embarcadero Center, Suite 430 | San Francisco, CA 94111
errolt@axiantgroup.com | T 415.374.2106 F 415.374.2110 | axiantgroup.com

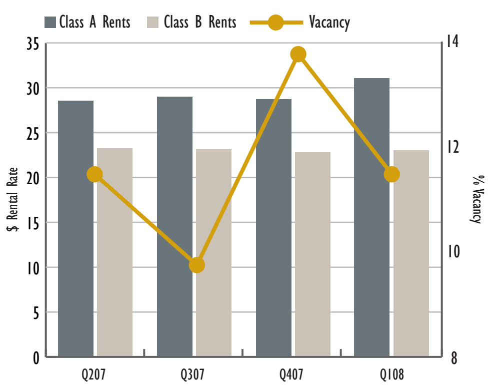
SAN FRANCISCO SOMA



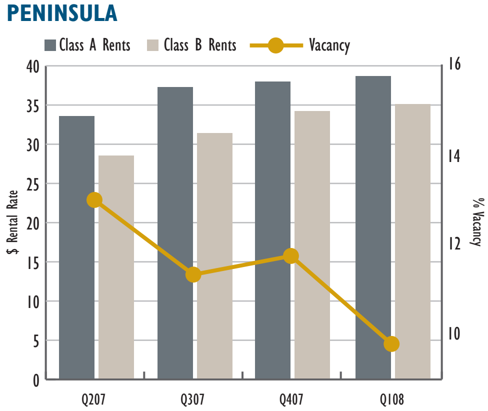
SAN FRANCISCO NORTH WATERFRONT



OAKLAND



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	649,174	7.10%	47,733	0.50%	696,907	7.60%
Fin. Dist. A	2,881,623	7.60%	273,225	0.70%	3,154,848	8.30%
Fin. Dist. B	1,083,142	7.40%	110,435	0.80%	1,193,577	8.10%
SOMA A	257,898	5.50%	45,779	1.00%	303,677	6.50%
SOMA B	1,972,978	16.40%	175,339	1.50%	2,148,317	17.90%

Large Tenants in the Market

Tenant	Sq. Ft.
Google – new requirement (Lease pending)	200,000
The Art Institute of California	100,000
Facebook	100,000
Latham & Watkins	85,000

Significant Leases Completed First Quarter 2008

Tenant	Sq. Ft.	Address
California Pacific Medical Center	171,632	633 Folsom Street
DLA Piper	83,000	555 Mission Street
Gibson Dunn & Cruther	75,000	555 Mission Street
Landor & Associates	60,000	1001 Front Street
Parsons Brinkerhoff, et al.	41,215	303 Second Street
WTAS (Wealth & Tax Advisory Services)	38,866	100 First Street

The Axiant Group Can Help You

Do you want information about rents and space available in your building? Are you interested in subleasing or terminating your lease? Is your lease expiring in the next three years?

Contact The Axiant Group. We have handled transactions from 1,000 to 1,000,000 sq.ft. in the Bay Area and throughout the U.S. The average tenure of our brokers is over 20 years. We have handled assignments for clients including Chevron U.S.A., Coblentz, Patch, Duffy & Bass, Oracle Corporation, PG&E, Sutro & Company, Zurich Scudder Investments, Charles Schwab, Texas Pacific Group, Club One, Moss Adams, and many others.