



The Axiant Group

COMMERCIAL REAL ESTATE SERVICES



Market Overview

A quarterly publication of the San Francisco office market by The Axiant Group

1st Quarter 2007

Equity Office Properties Cashes Out To Blackstone Group at Record Price

In a bidding war, Equity Office sells entire United States building portfolio for \$39 billion.

Equity Office Properties Trust ("EOP"), the largest owner of commercial office buildings in the United States, sold their entire United States' portfolio for \$39 billion to the Blackstone Group. The Blackstone Group competed head to head in a bidding war with Vornado Realty Trust for the properties, forcing Blackstone to pay an additional three billion dollars! Blackstone originally was going to keep the portfolio together, but they received so much interest from other buyers they decided to break up the portfolio; in many cases double escrowing properties.

How Will San Francisco Be Affected By This Sale?

EOP was a major player in San Francisco. Their portfolio was the largest ever sold in San Francisco at four million square feet. Blackstone double escrowed the San Francisco portfolio, selling to Morgan Stanley Commercial Properties. The sale was remarkable. At over \$700 per square foot, it was the most expensive sale per square foot for a portfolio or individual building in San Francisco history!

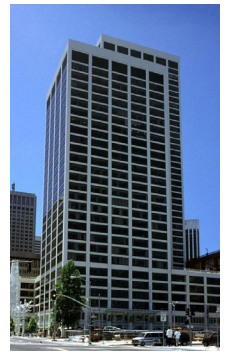
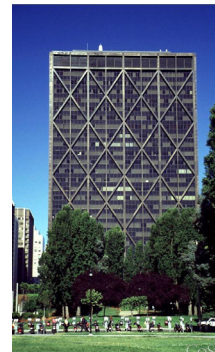
Usually when buildings are purchased as a group, there is a significant discount in the overall rate per square foot; however this was not the case. The buildings were all of high quality, but had different assigned values. Those with the highest value were: One Maritime Plaza and One Market Plaza, valued at nine-hundred dollars a foot.

In order to achieve a return of 6% on the purchase price, the new owners will need to see average deal rates for the entire building at \$76.00 per square foot fully serviced.

How did the sale compare to other recent sales? The Bank of America building, considered the most valuable office building in San Francisco, just sold for approximately \$575 per square foot. The difference in the price, per square foot, was \$325; a 57% premium. One Maritime's expenses were in the \$13 range but will escalate into the low \$20's. The new tax base by itself is \$11.25 per square foot per year.

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In order to achieve a return of 6% on the purchase price, the new owners will need to see average deal rates for the entire building at \$76.00 per square foot fully serviced. Unfortunately, the majority of the tenants in the building have long term leases at fixed rates, so it will be at least 3-5 years to achieve the above mentioned rents if possible.

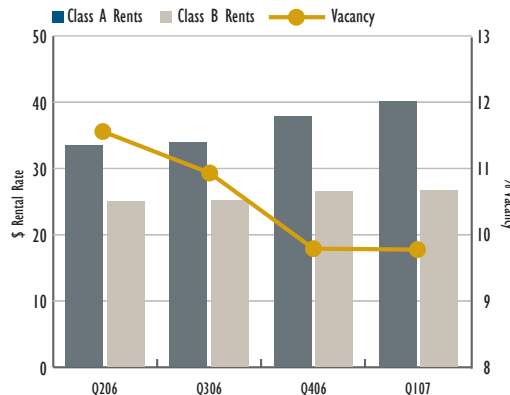


A few of EOP's former SF assets (L-R): Spear St Tower, 1 Maritime Plaza, Steuart St Tower

Office Leasing Activity Stabilizes in Q1 Vacancy Rate Levels Marginal Absorption

Office vacancy in San Francisco's Financial Core remained at 9.8%, the same percentage as 4th quarter 2006. Gross absorption was 1,454,115 square feet. However, overall net absorption was just 7,400 square feet for the 1st quarter. The absorption for direct space was a negative number (-164,051).

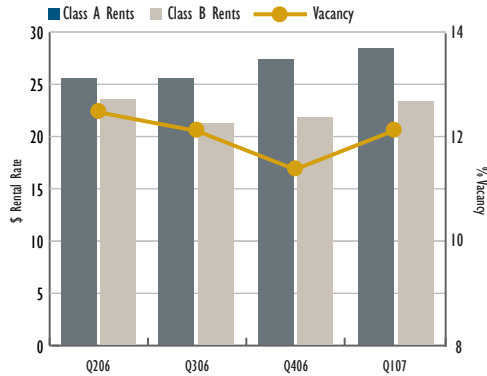
SAN FRANCISCO FINANCIAL CORE



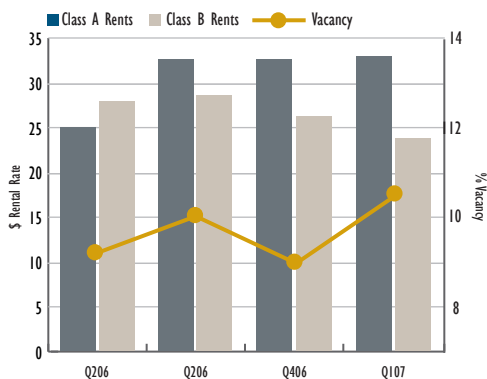
Even with the negative space absorption in the Class A financial core, asking rental rates continued to climb upward from \$38.33 in the 4th quarter to \$40.13 in the 1st quarter. Class B financial core rental rates

moved upward, with asking rates increasing from \$26.66 to \$27.60.

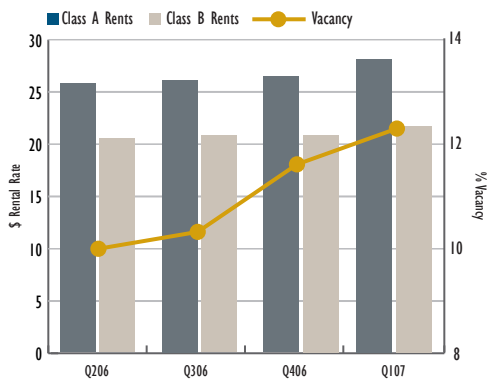
SAN FRANCISCO SOMA



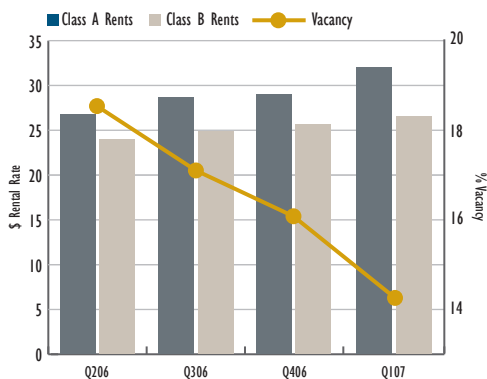
SAN FRANCISCO NORTH WATERFRONT



OAKLAND



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	602,523	6.70%	163,324	1.80%	765,847	8.50%
Fin. Dist. A	3,322,480	8.80%	561,601	1.50%	3,884,081	10.30%
Fin. Dist. B	1,130,262	7.70%	126,412	0.90%	1,256,674	8.60%
SOMA A	332,194	8.40%	24,853	0.60%	357,047	9.00%
SOMA B	1,243,511	11.10%	235,515	2.10%	1,479,026	13.20%

Large Tenants in the Market

Tenant	Sq. Ft.
Google	210,000
The Art Institute of California	100,000
DLA Piper	100,000
Visa*	60,000

*Represented by the Axiant Group

Significant Leases Completed Fourth Quarter 2006

Tenant	Sq. Ft.	Address
Bank of America	179,000	600 Montgomery Street
Babcock & Brown	155,000	The Presidio
Citigroup	109,478	One Sansome Street
Mellon Bank	93,000	50 Fremont Street
UBS Securities	33,000	555 California Street
Linden Lab	28,000	945 Battery 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., Coblenz, Patch, Duffy & Bass, Oracle Corporation, PG&E, Sutro & Company, Zurich Scudder Investments, Charles Schwab, Texas Pacific Group, Club One, Moss Adams, and many others.