



The Axiant Group

COMMERCIAL REAL ESTATE SERVICES



Market Overview

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

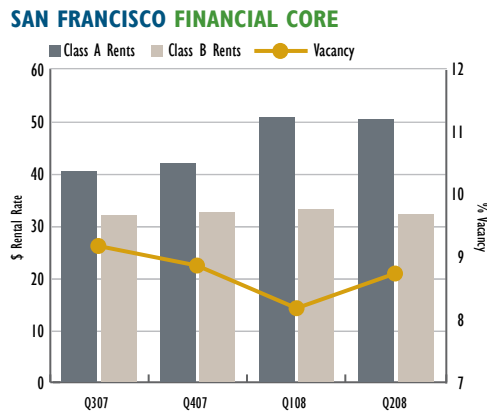
2nd Quarter 2008

Economic Downturn Experienced by Most of the U.S. Now Felt in San Francisco—Second Quarter Office Leasing Activity Slows

Available space is increasing with rental rates remaining static or declining.

Vacancy Rate Shows Negative Absorption

Office vacancy in San Francisco's Financial Core increased from 8.2% in the 1st quarter 2008 to 8.8 % in the 2nd quarter 2008. Gross leasing activity was up to 1,001,674 square feet in



the 2nd quarter from 783,333 square feet in the 1st quarter. However, overall net absorption was negative 23,195 square feet, down from 241,459 square feet of positive absorption in the 1st quarter. Asking rental rates declined slightly. Class A rates decreased from \$50.64 in the 1st quarter to \$50.23 in the 2nd quarter. Class B financial core rental rates also moved downward, with asking rates decreasing from \$35.86 to \$35.24.

Available Sublease Space Increases Dramatically

The amount of sublease space being offered in the office leasing market has always been a good indicator of the leasing market's direction and strength.

Subleases can be better economic indicators than a direct Lease, because a sublease is not offered to create profit, but is

usually a disposition of a distressed or underutilized leasehold by the Sublessor, before the contracted term expiration. It can also be a gage of the overall economy. Based on this criteria, the San Francisco Economy over the last four quarters has been holding up surprisingly well when compared to the rest of the country. San Francisco's avoidance of the nations downward cycle most probably has ended in this past quarter. The Axiant Group recently surveyed the Downtown Financial Core comparing 1st quarter to 2nd quarter 2008. We looked at the amount of Subleases in both A & B class space.

The internal consensus was a lot of new subleases were coming available, but the results were startling. In the 1st quarter 217,270 square feet of new Sublease space became available, in the 2nd quarter the amount of new sublease space on the market increased to 440,375 square feet. This represents an increase of over **one-hundred percent!** Pricing on subleases has dropped as well. Only unique view space in top tier buildings seem unaffected, especially if the space has a desirable build out which can avoid costly tenant improvements.

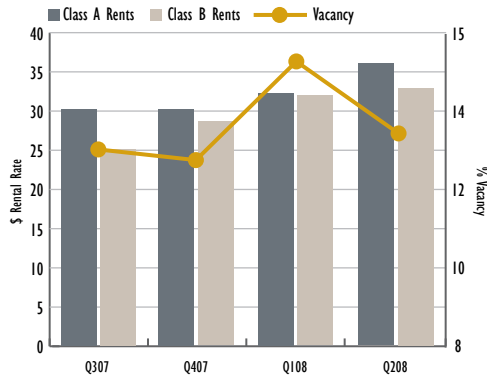
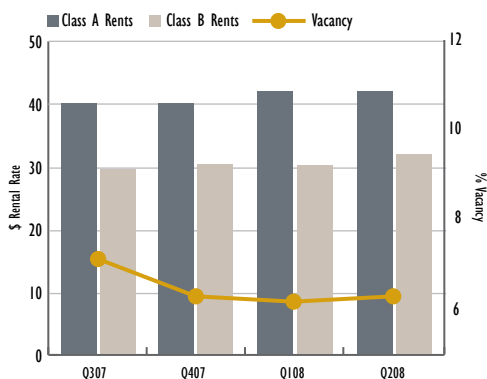
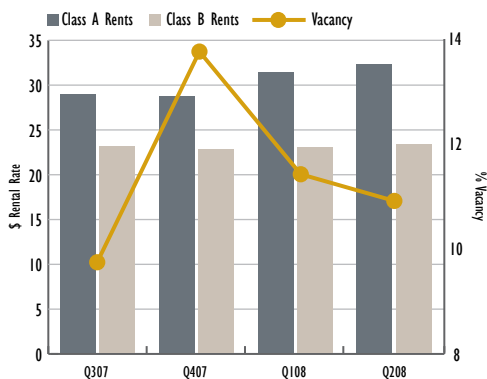
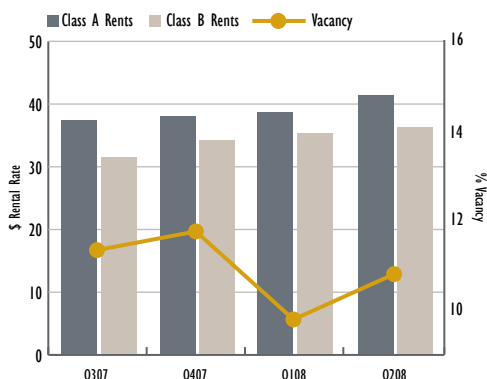
Axiant Completes Major Lease

The Axiant group is pleased to have represented Chevron Energy Services which was the 2nd largest lease transaction completed in the 2nd quarter of 2008. Chevron Energy Services was represented by Jeff Tremolada.



The Axiant Group represented Chevron Energy Services in their expansion and extension at 345 California Street.

This lease was for over 51,000 square feet. The new lease involved trading space for a contiguous floor and blending, extension and expansion of the existing lease. 345 California Street is one of the highest quality high-rise buildings in Downtown San Francisco.

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	638,894	7.00%	37,534	0.40%	676,428	7.40%
Fin. Dist. A	2,777,427	7.20%	281,024	0.70%	3,058,451	8.00%
Fin. Dist. B	1,526,044	10.60%	93,458	0.60%	1,619,502	11.20%
SOMA A	264,198	5.70%	44,870	1.00%	309,068	6.60%
SOMA B	1,785,068	14.80%	138,570	1.20%	1,923,638	16.00%

Large Tenants in the Market

Tenant	Sq. Ft.
Google – new requirement (Lease pending)	200,000
Reed Smith LLP	100,000
Duane Morris LLP	50,000
Dorsey Whitney LLP	50,000

Significant Leases Completed Second Quarter 2008

Tenant	Sq. Ft.	Address
Public Utilities Commision	140,000	1155 Market Street
Chevron Energy Services	51,000	345 California Street
LoopNet	46,176	185 Berry Street
AKQA, Inc.	27,200	118 King Street
McMorgan & Co.	25,000	425 Market Street

 Represented by The Axiant Group


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.