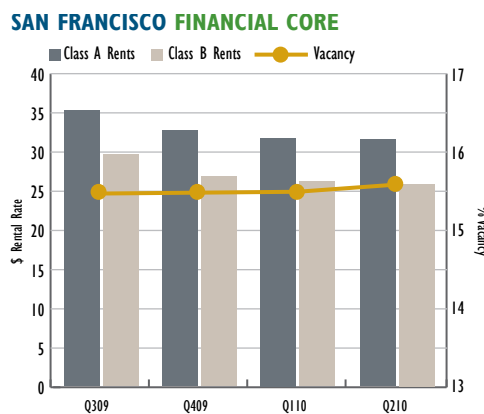


The San Francisco office market saw more negative absorption in the 2nd quarter, due to a large amount of subleases coming on the market. Net result, slightly higher vacancy rates. The only area where we saw significant positive absorption was South of Market.

Activity Flat Negative Absorption Continues

Office vacancy in San Francisco's financial core barely moved in the 2nd quarter of 2010, from 15.5% to 15.6%. The market has been static for four quarters. Gross leasing activity was up slightly from 909,833 square feet in the 1st quarter 2010 to 1,000,620 square feet in the 2nd quarter 2010. Net absorption was negative at 310,203 square feet.

Class A asking rental rates moved downward slightly. Rental rates decreased from \$32.16 in the 1st quarter to \$31.49 in the 2nd quarter, a difference of 2%. Although the rental rate technically shows a decline, it is important to note, the rate of decline has decreased each quarter over the past year. Class B financial core rental rates moved down slightly. Asking rates decreased from \$26.10 in the 1st quarter to \$25.80 in the 2nd quarter, a decline of roughly 1%. These slowing trends may indicate we are close to the bottom of the market cycle.



Subleases Continue Negative Absorption Trend

Primary responsible for the increase in negative absorption this quarter were the large blocks of sublease space being put on the market. The largest block came from Barclays Global Investors, who sold a division of their company to BlackRock. This created a sublease block of over 120,000 square feet at 45 Fremont Street.

Other blocks have been forthcoming from the following:

Bank of America	600 Montgomery Street	56,000 sq. ft.
McCann Erickson	600 Battery Street	48,000 sq. ft.
Bank of America	315 Montgomery Street	26,346 sq. ft.
Howard Rice	3 Embarcadero Center	25,000 sq. ft.

There are two opposing views on large blocks of sublease space coming back on the market. One side looks at it as the market vacancy did not move up much, even with all these large blocks of subleases back on the market. Perhaps this will eventually lead to positive absorption of space in the market this year. The other side takes the position this is the beginning of major corporations putting additional space up for sublease and a continuing trend of higher vacancy rates and negative absorption.



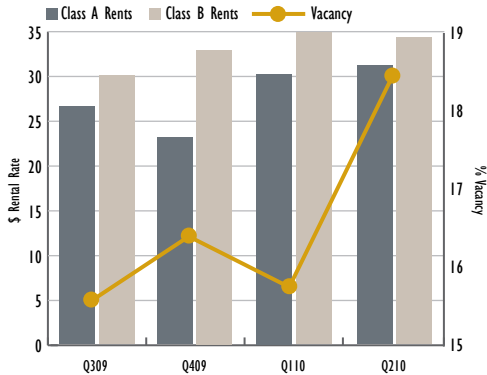
One of the largest sublease blocks recently created is located at 45 Fremont Street

Where Is The Market Activity?

Last quarter we saw significant activity South of Market from Technology Groups. This quarter is no different. Two large requirements, each over 200,000 square feet are active in the market place. Dolby Labs of audio fame and Zynga a social gaming company.

We reported on Zynga three quarters ago trying to take about 135,000 square feet of space in a Mission Bay project. Zynga now has its sights set on over 200,000 square feet of space at 650 Townsend Street. Since the end of last year, Cisco has been very active at their China Basin location, much of it due to their acquisition of Pure Digital who makes the Flip Camera. Cisco renewed and expanded their facility last year to 55,000 square feet. Now, just a few quarters later, they have committed to take an additional 31,891 square feet for a total of over 85,000 square feet at China Basin complex. They are now one of the largest tenants in the complex. The South of Market area has seen rental rates increase as much as 10% on a year to year basis. The only other areas with demand are small view space and small, short term plug and play sublease space. There is little if any available and what comes on the market is leased almost instantaneously. The overall San Francisco market for office space continues to remain static or in decline.

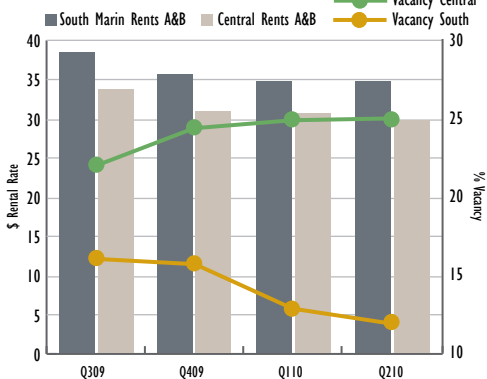
SAN FRANCISCO SOMA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	741,870	8.20%	128,087	1.40%	869,957	9.60%
Fin. Dist. A	4,902,499	12.60%	1,167,261	0.30%	6,069,759	15.60%
Fin. Dist. B	2,131,487	16.60%	51,361	0.40%	2,182,848	17.00%
SOMA A	955,193	17.40%	155,674	2.80%	1,110,867	20.20%
SOMA B	1,940,021	17.20%	55,741	0.50%	1,995,762	17.70%

MARIN



Large Tenants in the Market

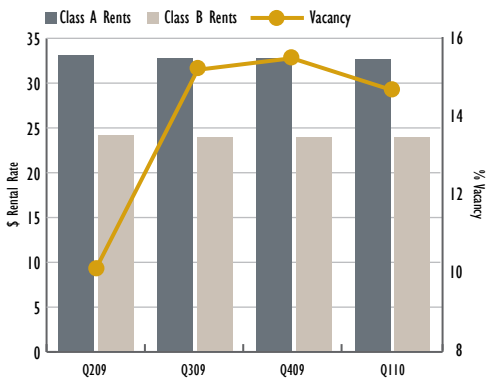
Tenant	Sq. Ft.
EPA	290,000
Dolby Labs	200,000
Zynga	200,000
Deloitte	175,000
Sephora	175,000
Farella, Braun & Martel LLP	113,000
Citicorp	100,000

Significant Leases Completed in the Second Quarter

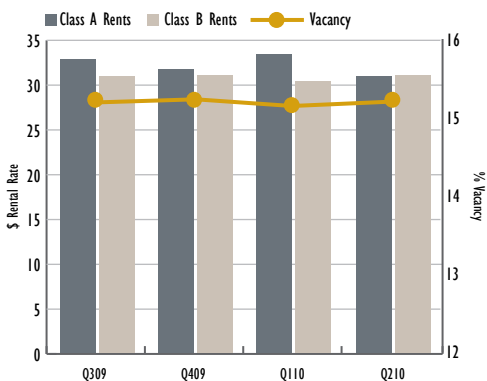
Tenant	Sq. Ft.	Address
Latham Watkins**	118,000	505 Montgomery Street
Internal Revenue Service	72,000	100 First Street
Woodruff-Sawyer	48,000	50 California Street
EVEO**	42,659	303 Second Street
Ubisoft	42,429	625 Third Street
Trulia	32,000	116 N. Montgomery St.

** Renewal at existing location

OAKLAND



PENINSULA



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.