



The Axiant Group

COMMERCIAL REAL ESTATE SERVICES



Market Overview

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

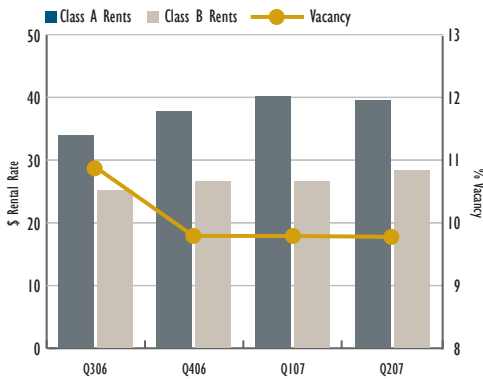
2nd Quarter 2007

Office Leasing Activity Remains Flat in 2nd Quarter; Negative Actual Absorption in Downtown Financial Core

Vacancy Rate Shows Negative Absorption

Office vacancy in San Francisco's Financial Core increased from 9.7% in the first quarter to 9.8% in the 2nd quarter. Gross absorption was 1,439,744 square feet. However, overall net absorption was a negative number and 33,892 square feet for the 2nd quarter.

SAN FRANCISCO FINANCIAL CORE



Even with the negative space absorption in the Class A Financial Core, asking rental rates continued to climb. Rates increased from \$40.10 in the 1st quarter to \$41.25 in the 2nd quarter.

Class B Financial Core rental rates also moved upward, with asking rates increasing from \$27.91 to \$29.68.

Market Continues To Be Segmented With Dramatic Inconsistencies in Asking Rates

The market continues to be divided into two areas. The first, which we have talked about in the past, is the view space vs. non-view space premium. Many Landlords are asking as much as 100.00 per square foot for Class A view space at the top of their buildings. In addition, we are seeing another consistent trend in the market. Buildings which have been recently purchased tend to have rates which are significantly higher than buildings with long term ownership. The reason for the differential in pricing for view space is logical. It follows the supply and demand principle. The amount of view space is limited; therefore, Landlords can charge more due to increased competition for limited view

space. We are also seeing variations, building to building, for pricing of space. Buildings with relatively new ownership, 1-2 years old, have asking rates that are significantly higher than those buildings which have been held long term. The variation

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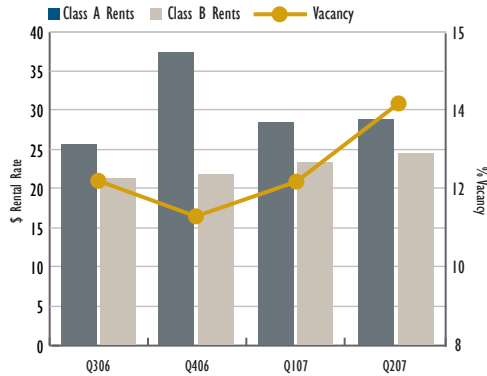
The variation in asking rates is largely due to recent transition in the market condition. Commercial real estate over the past four years has become the darling of large institutional investors. The competition to acquire commercial real estate by these investors has been extremely fierce. Their access

to available capital has never been easier and cheaper, thus increasing their buying power. Many buildings have been selling at astronomical prices. These prices bear no relationship to actual value, which is traditionally based on a capitalization rate and rental income. After sales of this nature, the new ownership is under substantial pressure to show its investors the high purchase price was justified. Unfortunately, the Landlord cannot remove the existing tenancy, which is paying below market rents with long term leases that are passed through to the new ownership with the sale. Therefore the Landlord is forced to demand rents as high as possible on available space. Although, this is an understandable position for the Landlord to take, typically pricing is based on tenant demand, not Landlord need. In addition, when a building sells, the Landlord faces a new high tax burden, which is an added expense affecting rental profit.

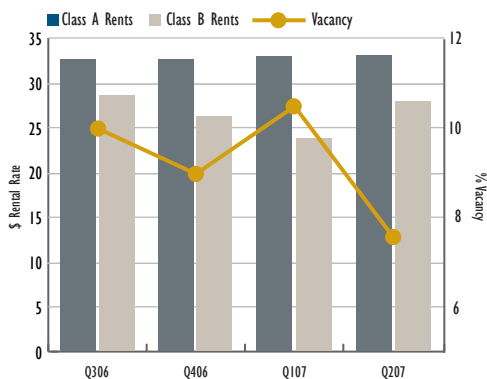


Boston Properties, owner of the Embarcadero Center, has a competitive advantage over new landlords due to their long term ownership.

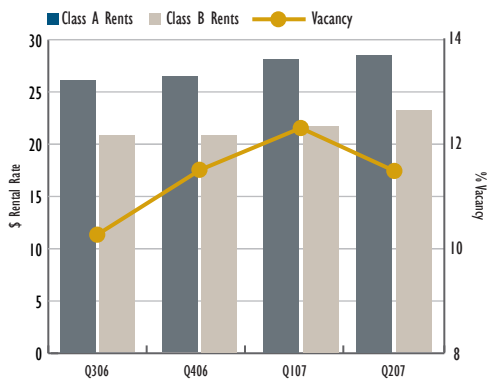
SAN FRANCISCO SOMA



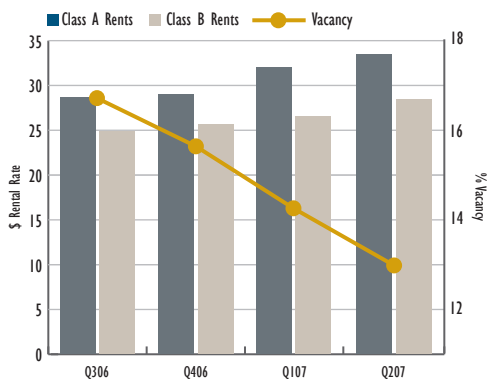
SAN FRANCISCO NORTH WATERFRONT



OAKLAND



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	713,462	7.60%	211,367	2.30%	924,829	9.90%
Fin. Dist. A	3,097,391	8.10%	629,710	1.70%	3,727,101	9.80%
Fin. Dist. B	1,319,359	8.80%	149,023	1.00%	1,468,382	9.80%
SOMA A	332,194	8.30%	18,851	0.50%	351,045	8.80%
SOMA B	1,668,507	14.10%	217,308	1.80%	1,885,815	15.90%

Large Tenants in the Market

Tenant	Sq. Ft.
Google	210,000
The Art Institute of California	100,000
DLA Piper	100,000
Wells Fargo Bank	75,000
Visa*	60,000

*Represented by the Axiant Group

Significant Leases Completed Second Quarter 2007

Tenant	Sq. Ft.	Address
Google	210,000	345 Spear Street
AIG	140,000	121 Spear Street
United Behavioral Health	125,000	425 Market Street
Telephia, Inc.	38,300	101 Green Street
Wells Fargo Bank	30,000	303 Second 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.