



The Axiant Group

COMMERCIAL REAL ESTATE SERVICES



Market Overview

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

3rd Quarter 2008

Stock market meltdown will directly affect commercial real estate

While many predicted the real estate market would continue to soften through the end of the year, no one foresaw the extent of the stock market meltdown. This will directly affect commercial real estate as financial service firms and related industries downsize, disposing of excess space, increasing vacancy and lowering rental rates.

Negative Absorption Continues

Office vacancy in San Francisco's Financial Core increased from 8.8% in the 2nd quarter 2008 to 10.1% in the 3rd quarter 2008.

Gross leasing activity was up to 1,055,308 square feet in the 3rd quarter from 1,001,674 square feet in the 2nd quarter. Net absorption was down again with negative absorption increased to over 145,533 square feet, compared to 23,195 square feet of negative absorption in the 2nd quarter.

Class A asking rental rates declined severely. Rates decreased from \$50.23 in the 2nd quarter to \$45.57 in the 3rd quarter, a drop of over 10 percent. Class B financial core rental rates also moved downward, with asking rates decreasing from \$35.24 to \$33.69.

Tenants Give Back Major Blocks of Space

Recent bankruptcies, financial collapse and forced mergers represent only the beginning of a flood of subleases which will come to the market. The amount of sublease space put

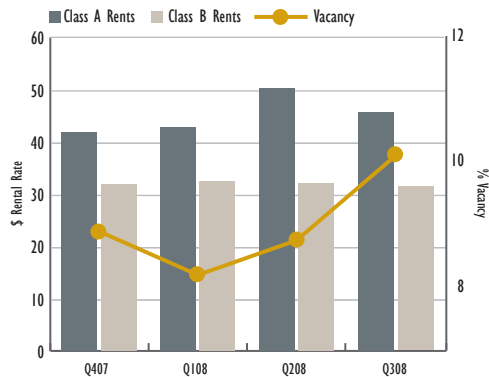
on the market in the 3rd quarter was even higher than the record amount we saw in the 2nd quarter. Ironically, most of the large blocks of space created by the above mentioned events are not even reflected in the 3rd quarter numbers, because the subleases have not gone on the market yet.

Some examples upcoming subleases are as follows: Heller Erhman LLP 230,000 square feet, the over 100 year San Francisco based firm made the decision to dissolve. Many other law firms are not far behind. Lehman Brothers declared bankruptcy, they will give back over 60,000 square feet at 555 California Street, the Bank of America building. Wachovia will be acquired by Wells Fargo, has roughly 120,000 square feet of office space; 90,000 square feet at Four Embarcadero and 30,000 at the Bank of America building. In addition, they have numerous retail locations throughout the City.

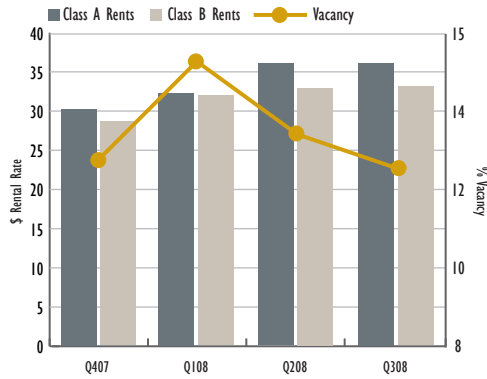
Merrill Lynch and B of A recently merged, Merrill Lynch's space could become available for sublease. They have over 140,000 square feet in two buildings; 100,000 square feet at 101 California Street and 40,000 square feet at 600 California Street. First Republic Bank, a Merrill subsidiary, is also affected in the B of A / Merrill merger. Merrill has allowed First Republic to operate as a stand alone company, Bank of America has made a habit of completely integrating all companies it has purchased. This would put an additional 110,000 square feet on the market at 111 Pine Street and 55,000 at 388 Market Street.

The totals for the above are in excess of 715,000 square feet and represent over 3,000 jobs. Being a Landlord under these conditions is not ideal, as additional sublease space coming on the market is the key element in determining the cost of direct space. There are many more companies who will be affected, both directly and indirectly by current financial conditions, the ones mentioned above are only the tip of the iceberg. There is no doubt the real estate market is rapidly moving toward being a buyers or tenants market.

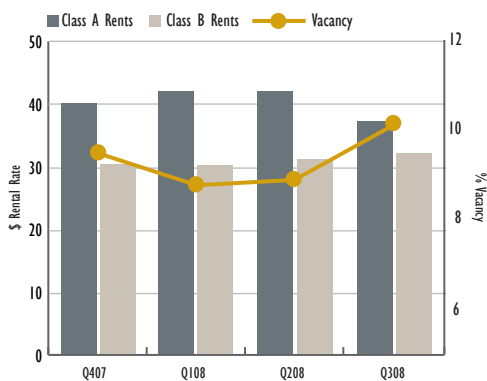
SAN FRANCISCO FINANCIAL CORE



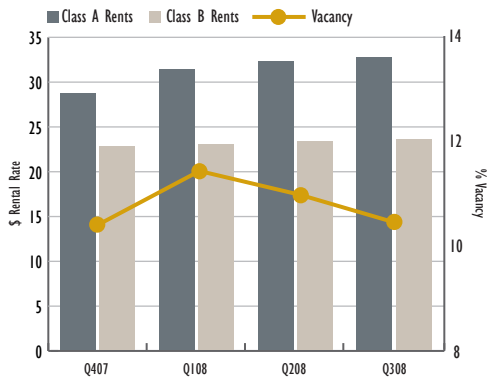
SAN FRANCISCO SOMA



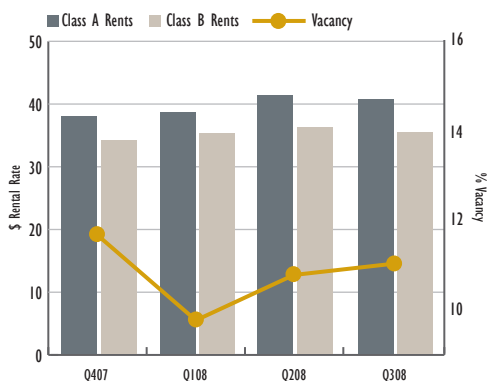
SAN FRANCISCO NORTH WATERFRONT



OAKLAND



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	603,196	6.60%	132,572	1.40%	735,768	8.00%
Fin. Dist. A	3,304,591	8.40%	536,039	1.40%	3,840,630	9.80%
Fin. Dist. B	1,486,170	10.40%	61,641	0.40%	1,547,811	10.80%
SOMA A	170,788	3.50%	13,570	0.30%	184,358	3.80%
SOMA B	1,569,772	13.30%	96,070	0.80%	1,665,842	14.10%

Large Tenants in the Market

Tenant	Sq. Ft.
Adobe	100,000
Microsoft	100,000
Reed Smith LLP	100,000
Duane Morris LLP	50,000
Dorsey Whiney LLP	50,000

Significant Leases Completed Second Quarter 2008

Tenant	Sq. Ft.	Address
Google	200,000	345 Spear Street
Carroll Burdick McDonough LLP	48,000	44 Montgomery Street
NYSE Euronext	42,923	220 Montgomery Street
Kennedy/Jenks Consultants	38,175	303 Second Street
Slide, Inc.	35,373	301 Brannan Street
Comcast Sportsnet	27,310	425 Market 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.