



The Axiant Group

COMMERCIAL REAL ESTATE SERVICES

Market Overview

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

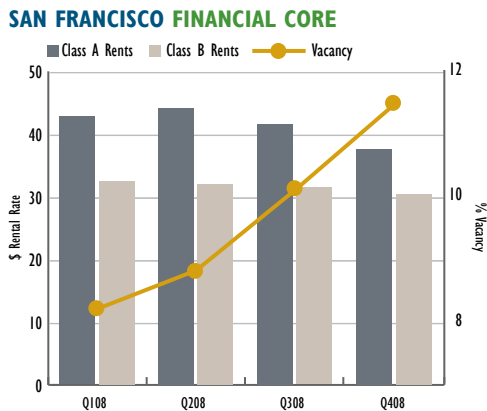
4th Quarter 2008

Space Floods the Market

The amount of space put on the market in the 4th quarter increased another fifty percent over the 3rd quarter. In addition net absorption of space dropped dramatically. Many tenants are on the sidelines waiting for the markets to adjust downward. The real question is, "How quickly will the Landlords' respond with rental rate reductions to make deals?"

Negative Absorption Doubles From 3rd Quarter

Office vacancy in San Francisco's Financial Core increased from 10.1% in the 3rd quarter 2008 to 11.6 % in the 4th quarter 2008. Gross leasing activity was down to 695,212 square feet in the 4th quarter from 1,001,674 square feet in the 3rd quarter. Net absorption was negative, increasing to over 400,293 square feet, compared to 145,533 square feet of negative absorption in the 3rd quarter.



Class A asking rental rates declined significantly. Rates decreased from \$45.57 in the 3rd quarter to \$42.37 in the 4th quarter, a drop in excess of eight percent. Class B financial core rental rates also moved downward, with asking rates decreasing from \$33.69 to \$32.41.

High End Space Rates Drop Dramatically

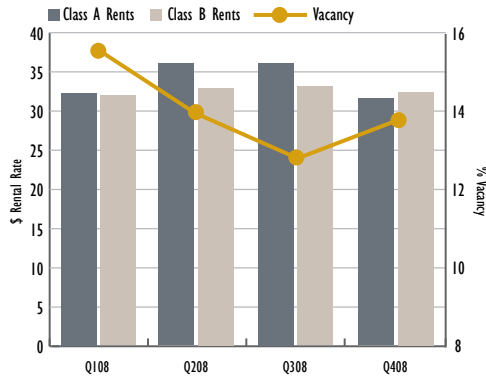
"What goes up must come down" may be the best description when comparing 2008 rental rates to what we will be seeing in 2009. These changes started to become visible in the 4th quarter of 2008. One striking example was the Embarcadero Center, the largest office complex in San Francisco, owned by Boston Properties. Boston Properties is marketing the 35th

floor of Four Embarcadero. This space is one of the best in San Francisco, based on its outstanding views, location, quality of the building and management. Pricing for the space a few months ago was quoted in the mid ninties per square foot with annual increases. The quoted price for this space has now dipped to the high sixties. Higher end space tends to have the most rapid decline in real estate cycles. Companies are no longer willing to pay a premium for a view. The premium, for view space, sometimes as high as fifty percent, is starting and will continue to diminish. This trend will be even more apparent in San Francisco because of the large percentage of high end space occupied by financial service firms.

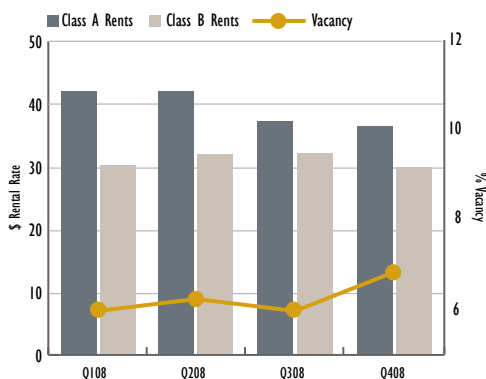
Will Credit Issues Effect Building Landlords?

The majority of buildings in San Francisco have been sold, some two or three times, over the past five years. The news media has been constantly reporting on the sub prime loan crisis in the residential markets. These loans required little or no money down for home purchases. Purchasers had little risk and even less commitment, if prices increased they won if they decreased they walked away. Banks which would loan to anyone now have reversed, not loaning money to anyone. Commercial lending differs from the residential lending market, as large commercial purchases usually have greater equity requirements when purchased. However, the remainder of the building is typically secured by a short term loan of three to seven years. These loans will be coming due now and in the near future. The more recent building sales were more speculative in nature and were not based on the income they produced, but on prospects of a future sale. Buyers felt the values would only escalate, but the exact opposite has occurred. Properties that are not substantially leased with credit tenants might be unable to refinance their loans, forcing the holder of the note to foreclosure on the property. In addition, the demand for space has dropped significantly with the vacancy rates climbing upward and rental rates moving downward, making a loan even more difficult to obtain as potential rental income plummets.

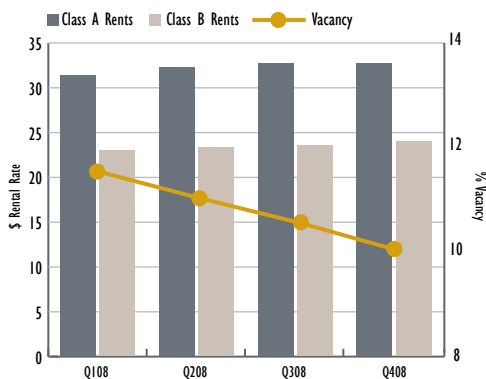
SAN FRANCISCO SOMA



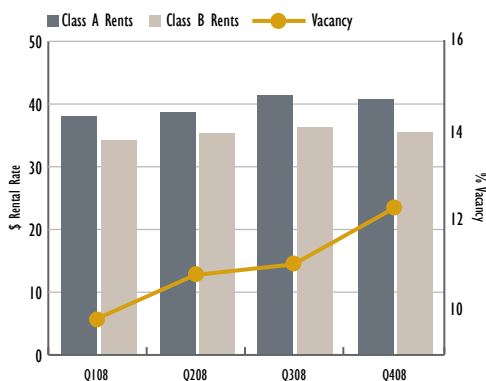
SAN FRANCISCO NORTH WATERFRONT



OAKLAND



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	675,598	7.40%	199,321	2.20%	874,919	9.60%
Fin. Dist. A	3,742,239	9.50%	803,187	2.00%	4,545,426	11.50%
Fin. Dist. B	1,588,876	11.20%	82,676	60.00%	1,671,552	11.70%
SOMA A	161,759	3.30%	19,123	0.40%	180,882	3.70%
SOMA B	2,137,352	17.50%	46,579	0.40%	2,183,931	17.90%

Large Tenants in the Market

Tenant	Sq. Ft.
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
Squire, Sanders & Dempsey	66,495	275 Battery Street
The Art Institute of California	52,000	1130 Market Street
Lieff, Cabraser, etal. LLC	45,102	275 Battery Street
Visa International	43,800	595 Market Street
State of California – Dept. of Health	36,234	575 Market Street
Hogan & Hartson LLP	22,134	Four Embarcadero Center



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.