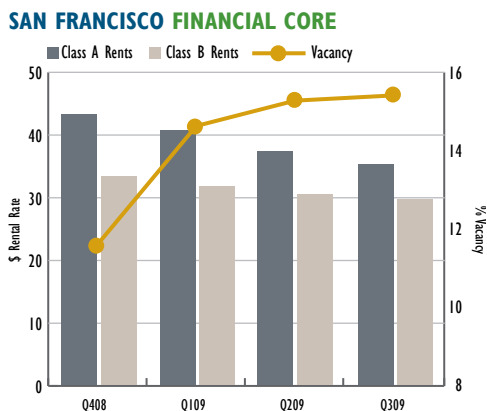


The 3rd quarter saw some signs of stabilization. Although the market still had slight negative absorption, when compared to the 1st and 2nd quarters. The demand for space is still weak and it is believed this trend will continue through 2010.

## Negative Absorption Stabilizes

Office vacancy in San Francisco's Financial Core increased from 15.3% in the 2nd quarter 2009 to 15.5% in the 3rd quarter 2009. Gross leasing activity was down slightly to 948,601 square feet in the 3rd quarter from 983,175 square feet in the 2nd quarter. Net absorption was slightly negative, at 19,626 square feet. This was no where near the levels we saw in the 2nd quarter which was over 350,000 square feet and certainly not comparable to the 1st quarter which had negative absorption of over 900,000 square feet.

Class A asking rental rates continued moving downward. Rates decreased from \$37.28 in the 2nd quarter to \$35.19 in the 3rd quarter, a drop of 6%. This was very similar to the decline we saw in the previous quarter. Class B financial core rental rates also moved downward, with asking rates decreasing from \$30.54 to \$29.54.



## Large Users Surface in Mission Bay

The Mission Bay submarket has been in the news frequently as of late. Mission Bay is a name most San Franciscans know, but few have actual visited this rapidly developing area. This is one of the most dynamic redevelopments San Francisco has been a part of. The neighborhood on the south central bayside of San Francisco, just south of the San Francisco Giants

Ballpark. It is over 300 acres in size. The area was earmarked in 1998 by the city of San Francisco as a redevelopment project. Originally, it had been a railroad yard for Southern Pacific. It has become and continues to be a hotbed for biotechnology. Catullus, original developer of the property, was instrumental in this process when they gave UCSF land in the project, at no cost, for its new research campus. Bargain hunters are starting to emerge in the



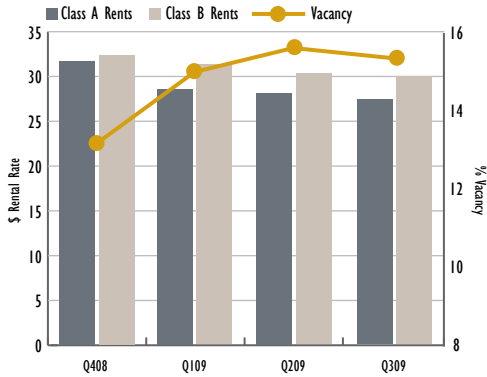
455 Mission Bay Boulevard is located in the current hotbed of the biotechnology industry.

market place. A number of large users are starting to become active, taking advantage of lower pricing and new availabilities created by tenant consolidations. Many are looking hard at Mission Bay, which offers new construction, large blocks of space and idyllic campus settings. Nektar Therapeutics Inc. recently decided to relocate from San Carlos to Mission Bay. They are a biopharmaceutical company and will be taking over 100,000 square feet of space at 455 Mission Bay Blvd., employing in excess of 150 people. Mission Bay will also procure the largest deal of the year, Zynga a social gaming company will be combining multiple San Francisco locations and relocating to 500 Terry Francois Blvd. Zynga will be taking over 137,000 square feet of space and is projected to have more than 500 employees with another 150 contract workers.

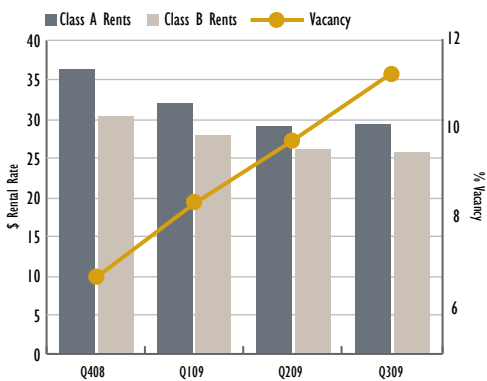
## Loans Come Due – Who Wants It? Owners or Lenders?

With loans coming due Owners and Lenders continue to play a game of cat and mouse. Neither party wants the building or the property, which used to be considered “the prize”. Lenders do not want to take back a building because they do not want the loss on their books, nor do they want to have to take the charge against assets. Finally, they are not in the real estate business, so operating a building is the last thing they want to do. Owners are hesitating to put any money into a project that is not producing income and would rather walk away. The result of this stalemate is called “Pretend and Extend”, the bank extends the loan and the Owner continues with the building, both hoping for the market to improve.

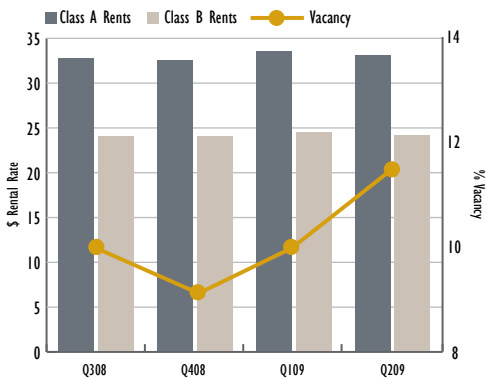
**SAN FRANCISCO SOMA**



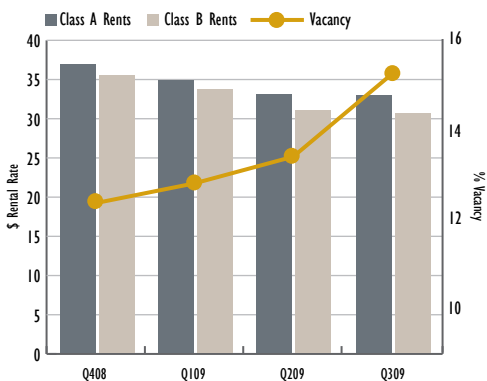
**SAN FRANCISCO NORTH WATERFRONT**



**OAKLAND**



**PENINSULA**



**Where's the Space?**

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	733,120	8.00%	128,689	1.40%	861,809	9.40%
Fin. Dist. A	4,732,111	11.72%	1,242,777	3.08%	5,974,888	14.80%
Fin. Dist. B	2,161,084	17.21%	111,555	0.49%	2,272,635	17.70%
SOMA A	195,222	4.00%	231,031	4.80%	426,253	8.80%
SOMA B	2,214,680	17.8%	33,277	0.30%	2,247,957	18.10%

**Large Tenants in the Market**

Tenant	Sq. Ft.
EPA	290,000
Latham Watkins	150,000
Zynga	139,000
Del Monte	100,000
Bay Area Air Quality Mgmt District	70,000
Ubisoft	60,000

**Significant Leases Completed Second Quarter 2009**

Tenant	Sq. Ft.	Address
Nektar Therapeutics, Inc.	102,283	455 Mission Bay
Brown & Toland Medical Group (R)	53,000	153 Townsend
Silicon Valley Bank	35,300	555 Mission Street
RCM	35,154	555 Mission Street
Exigen	34,506	345 California 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.