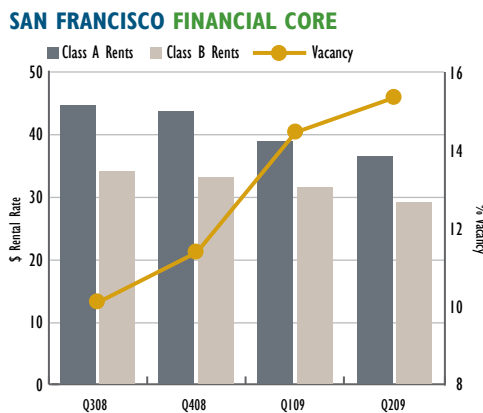


In the 2nd quarter, large amounts of space continued to be put on the market.

The overall amount of negative absorption was quite high, but actually slowed when compared to the 1st quarter record negative absorption. Many buildings values have been cut in half and their owners unable to make deals.

Negative Absorption Continues From 1st Quarter

Office vacancy in San Francisco's Financial Core increased from 14.6% in the 1st quarter 2009 to 15.3% in the 2nd quarter 2009. Gross leasing activity was up slightly to 846,523 square feet in the 2nd quarter from 629,697 square feet in the 1st quarter. Net absorption was negative, at over 380,843 square feet, but not as high as 1st quarter at 919,943 square feet of negative absorption.



Class A asking rental rates continued their decline. Rates decreased from \$39.38 in the 1st quarter to \$37.28 in the 2nd quarter, a drop of just less than 6%. Class B financial core rental rates also moved downward, with asking rates decreasing from \$31.57 to \$30.44.

Commercial Meltdown Just Beginning?

250 Montgomery Street is a 116,000 square foot class A office building located in the center of the Financial district, at the corner of Montgomery and Pine Streets. Built in 1986 by Tishman West no expense was spared in its construction. The Lincoln property group purchased the property from

the Lembi group in late 2006/early 2007. At the time no one thought the price of \$405.00 per square foot, total price \$47,000,000, was unreasonable, given the market conditions. Less than eighteen months later Lincoln handed the keys back to the lender and it was resold at \$170.00 per foot or \$19,740,000. The net loss on the deal was a staggering \$240.00 per square foot or \$27,260,000! An individual from the Midwest came in and paid all cash with a three day close.

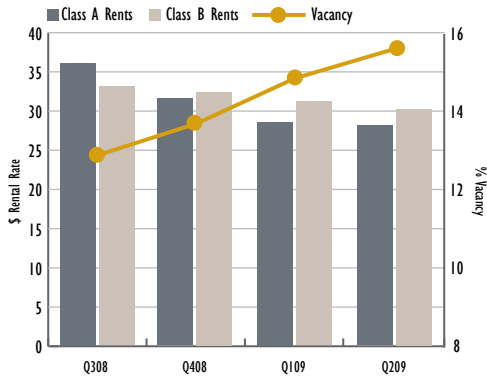
Typical close on a building of this size would be 90 to 120 days. Ironically, even at this dramatic price reduction, some felt the buyer had overpaid. We feel this is not a one time occurrence and signals the beginning of a major trend. Many of the buildings we are negotiating with for clients are having a difficult time. The current market rates are so far below their original pro-formas they cannot justify the transaction, to themselves or the lender. How much of the market will be affected? This is the question. Most likely, any building which has been sold over the last five to six years will be affected. The sale of buildings in San Francisco over this time period have been record breaking. Over 75% of downtown office buildings have sold at least one time and many twice. The vast majority of these buildings sold for prices far above the price Lincoln paid for 250 Montgomery, with valuations of anywhere from \$500- \$900 dollars per square foot. In addition, Most of these buildings were purchased with a high degree of leverage. The result is a less stable asset where in the buyer has little or no equity to fall back on.

Most lenders do not want the building back as they would have mark the property down to its true market, which lowers their asset value. Also, lenders are not in the business of managing real estate, a commercial office building is an real albatross. The resulting condition is a state of limbo with neither the owner or lender willing or able to do anything. Unfortunately, what the commercial market is starting to encounter all are warning signs of something recently experienced in the residential markets, Subprime.

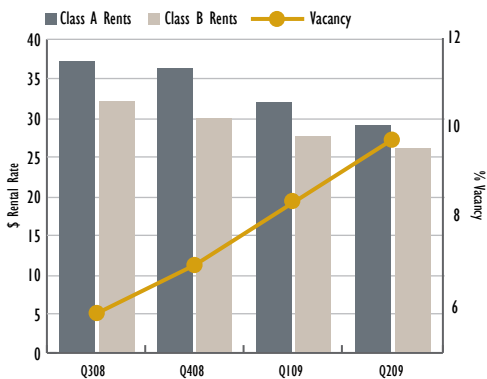


250 Montgomery Street: its recent, record-breaking sale was distinguished by an all-cash transaction and a three day close.

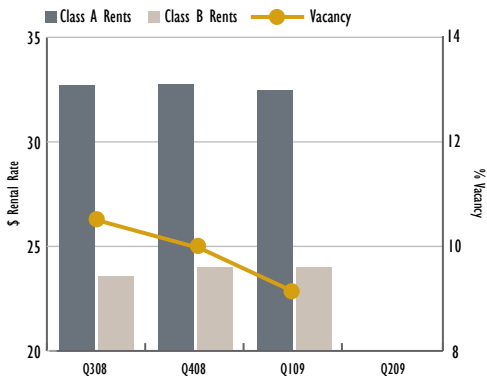
SAN FRANCISCO SOMA



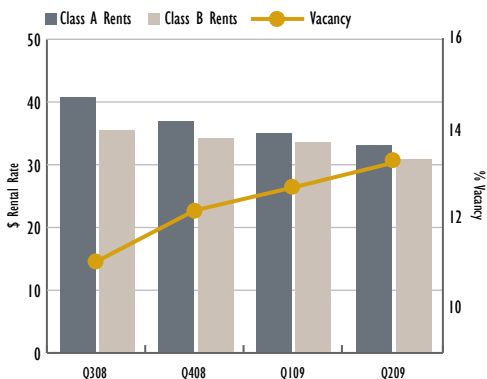
SAN FRANCISCO NORTH WATERFRONT



OAKLAND



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	694,527	7.60%	154,568	1.70%	849,095	9.30%
Fin. Dist. A	4,132,384	10.30%	845,012	2.10%	4,997,396	12.40%
Fin. Dist. B	1,908,777	14.00%	59,949	0.40%	1,968,726	14.50%
SOMA A	226,607	4.60%	164,812	3.40%	391,419	8.00%
SOMA B	2,200,284	18.00%	68,817	60.00%	2,269,101	18.60%

Large Tenants in the Market

Tenant	Sq. Ft.
EPA	290,000
Latham Watkins	150,000
Bay Area Air Quality Mgmt District	70,000
Foley & Lardner LLP	50,000

Significant Leases Completed Second Quarter 2009

Tenant	Sq. Ft.	Address
Reed Smith LLP	94,000	101 Second Street
Open TV	42,565 (R)	275 Sacramento Street
C N A Insurance	30,000 (R)	555 Mission Street
Brydon Hugo & Parker	23,257 (R)	135 Main Street
Embarcadero Technologies, Inc.	21,076 (R)	100 California Street
Manning & Marder	15,995 (R)	One 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.