

The 4th quarter mirrored what we saw in the 3rd quarter with little absorption.

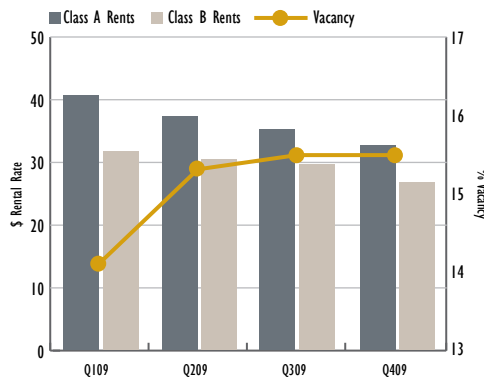
Most tenants in the market are playing a game of musical buildings. The supply of space continues to exceed demand with no sign of a quick recovery for Landlords.

Demand For Space Remains Flat

Office vacancy in San Francisco's financial core remained flat posting the same vacancy rate of 15.5% for both the 3rd and 4th quarters of 2009. Gross leasing activity was down slightly from 838,267 square feet in the 4th quarter to 948,601 square feet in the 3rd quarter. Net absorption was slightly positive, at 61,895 square feet.

Class A asking rental rates continued moving downward. Rental rates decreased from \$35.19 in the 3rd quarter to \$32.65 in the 4th quarter, a difference of 8%. This was a larger decline than the 6% decrease in the previous quarter. Comparing 4th quarter 2008 to 4th quarter 2009 the rates declined from \$43.17 to \$32.65. This represents a 32% decline in rents. Class B financial core rental rates also moved down rapidly, as asking rates decreased from \$29.54 in the 3rd quarter to \$26.70 in the 4th quarter, a decline of over 10.5%. For the year, rates dropped from \$33.29 to \$26.70 representing a decrease of almost 25%!

SAN FRANCISCO FINANCIAL CORE



Bank Goes Under— Major Lease Dies

Last quarter we reported on some major activity in Mission Bay. Potentially one of the largest office leases in the market

was almost consummated at 500 Terry Francois Blvd. Zynga, a social gaming group, was ready to relocate and commit to over 137,000 square feet of space. The deal did not happen due to inadequate funding for tenant improvements to build space. The bank who was going to fund the tenant improvements, Pacific National, was seized by federal regulators and subsequently taken over by U.S. Bank. Pacific National had aggressively lent in commercial real estate and had been weakened significantly by the recent downturn in those markets. Zynga, for the time being, has made the decision to stay at their current locations.



500 Terry Francois Boulevard loses significant lease deal with Zynga due to the landlord's lack of funding for tenant improvements.

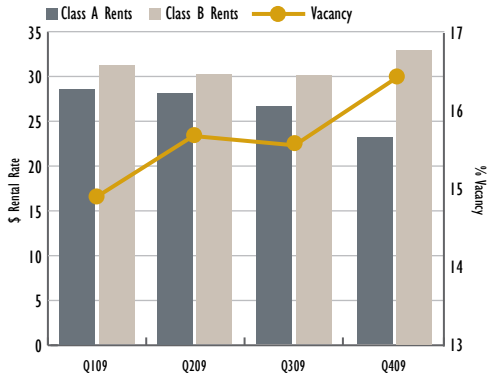
Should Landlords Submit Financials?

The example above is coming into play across the market. Anywhere funding is necessary for tenant improvements deals become more difficult. Buildings which have been purchased in the last five years, representing 75% of the buildings in the downtown core, are now worth a fraction of their sales price. When looking for space, tenants need to pay close attention to who the ownership is of any project they are considering. Although you can technically protect your occupancy in a building with a properly negotiated lease, residing in a building that is going through a forced ownership change due to insolvency is never easy and rarely ideal. When signing a lease, look for owners that have held onto their investments long term and have not leveraged the asset.

Axiant Completes Leases for 4th Quarter

The Axiant group is pleased to have represented **Louis Vuitton of North America ("LVNA")** for a lease of over 15,000 square feet in the 4th quarter. LVNA was represented by John Abel Principal of the Axiant Group. In addition, The Axiant Group represented **The Practising Law Institute** for over 17,000 square feet. The lease was for a renewal at 685 Market Street. The rental rate was 60% lower than their current rate and included a significant tenant improvement allowance. The Practising Law Institute was also represented by John Abel.

SAN FRANCISCO SOMA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Buildings	765,852	8.40%	103,999	1.10%	869,851	9.50%
Fin. Dist. A	4,842,053	11.9%	1,153,756	2.80%	5,995,809	14.80%
Fin. Dist. B	2,081,948	16.40%	107,875	0.90%	2,189,823	17.20%
SOMA A	154,715	3.30%	220,018	4.20%	353,850	7.50%
SOMA B	2,401,099	19.40%	53,297	0.40%	2,454,396	19.90%

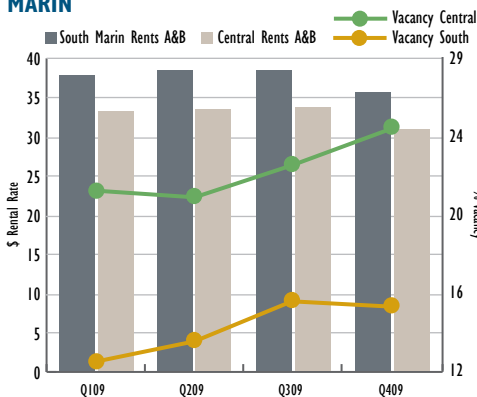
Large Tenants in the Market

Tenant	Sq. Ft.
EPA	290,000
Latham Watkins	150,000
Bay Area Air Quality Mgmt District	70,000

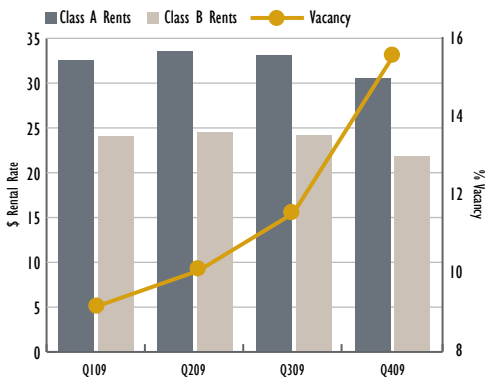
Significant Leases Completed Fourth Quarter 2009

Tenant	Sq. Ft.	Address
Levi Strauss & Co.	354,797	1155 Battery Street
Del Monte	150,000	One Maritime Plaza
Credit Suisse	62,000	650 California Street
Ropes & Gray	50,000	2 Embarcadero Center
Cooper, White & Cooper LLP	44,202	201 California Street
Foley & Lardner LLP	30,462	555 California Street

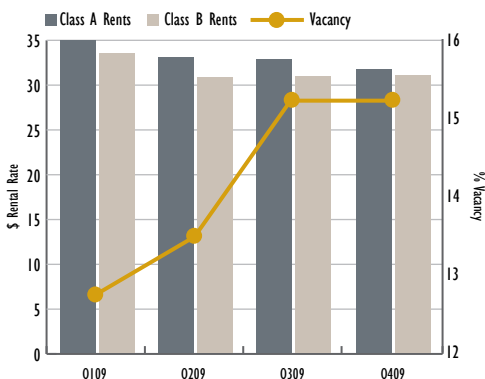
MARIN



OAKLAND



PENINSULA



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.