

The Corporate Real Estate Letter

By Frank Fudem | October 2007

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Vacancies: San Francisco's office vacancy rate dropped slightly to 10.4% in Q3 2007 (down from 10.7% in Q2).

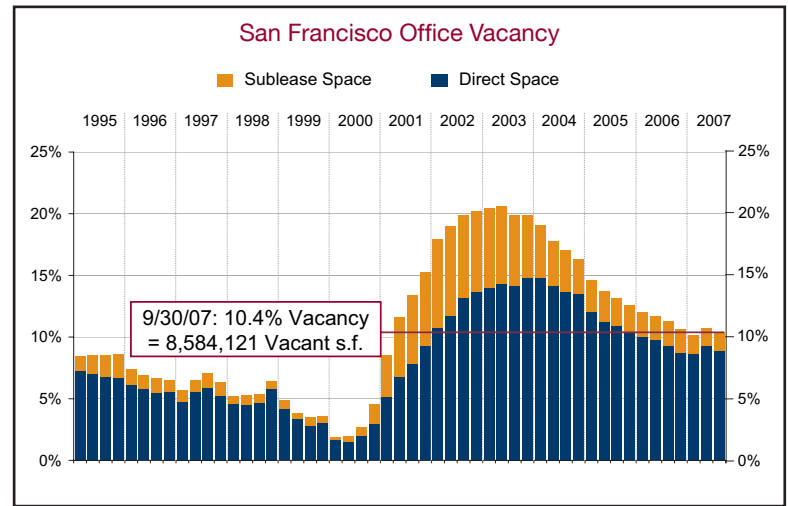
Net Absorption: San Francisco office occupancy increased 182,075 sf in Q3. Absorption year-to-date totals 576,949 sf.

Rental Rates: After skyrocketing in recent years, asking rates leveled off in the third quarter.

Rates may have hit their high-water mark for this cycle and may start to decline (unless there is major uptick in demand, which is not apparent at this time), due to the following three reasons:

Tepid demand: 576,949 sf net absorption through three quarters of 2007 reflects below-average demand. San Francisco is on track to absorb less than 1 Million sf per year for the first time in several years.

Economic weakness: turmoil in the financial markets has caused both tenants and landlords to become newly cautious about the economy. The possibility of an economic slowdown may cause some tenants to take less space, and may induce some landlords to consider deals they would have rejected a few months ago.



New supply: A considerable amount of new supply is in the pipeline. It is not all new construction, and it is not all in the traditional business district — much of it is in rehabs, and a lot of the new supply is outside the CBD. A partial list is below. Not shown are millions of square feet of projects farther down the pipeline. Please call if you would like a copy of the expanded list.

TYPE	SUB-MARKET	BUILDING	TOTAL OFFICE SQ. FT.	AVAILABLE SQ. FT.	Estimated Delivery Date					
					2007	2008				2009
					Q4	Q1	Q2	Q3	Q4	
Under Construction:										
New	South Financial District	400 Howard - Foundry Square I	335,000	0	■					
Expansion	China Basin / Mission Bay	China Basin Expansion	175,000	175,000		■				
New	China Basin / Mission Bay	500 Terry Francois	268,245	268,245			■			
Renovation	South of Market	370 Third	390,000	390,000				■		
Renovation	South of Market	633 Folsom	175,000	175,000					■	
Renovation	South of Market	680 Folsom/50 Hawthorne	400,000	400,000					■	
New	South Financial District	555 Mission	555,000	555,000						■
Approved, Not Yet Under Construction:										
Renovation	South of Market	1355 Market	650,000	650,000				■		
Renovation	South of Market	875 Stevenson	140,000	140,000				■		
New	North Financial District	350 Bush	344,500	344,500						■
New	North Financial District	500 Pine	50,000	50,000						■
New	South Financial District	535 Mission	266,000	266,000						■
Relet	South Financial District	75 Hawthorne	235,000	235,000						■
Expansion	South Financial District	120 Howard Expansion	71,324	71,324						■
Renovation	Yerba Buena	155 Fifth	300,000	300,000						■
New	China Basin / Mission Bay	1455 Third, 1515 Third, 1500 Owens, 1600 Owens	962,500	962,500						■

What does this mean for office tenants?

The market may be starting to shift. If a tenant is able to do so, we recommend taking a "wait and see" approach before making a real estate commitment, while monitoring the market very carefully.

Frank Fudem:

- Represents office tenants exclusively. He does not accept listings from landlords.
- Emphasizes long-term commercial relationships. Repeat clients and referrals comprise 70% of his practice.
- Has represented office tenants in millions of square feet of successful transactions. He has represented more tenants in more transactions in San Francisco than any other broker.
- Would like to use his real estate expertise to help your enterprise be more successful.

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Vacancy and Net Absorption by Submarket

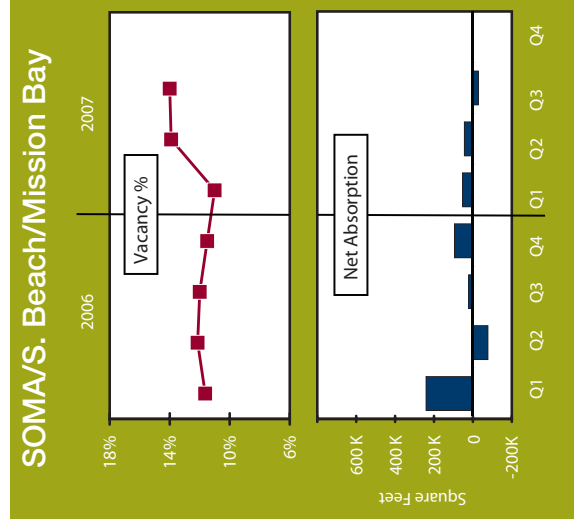
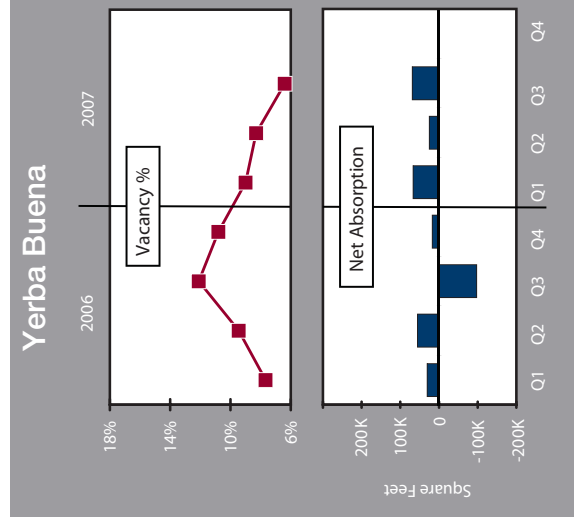
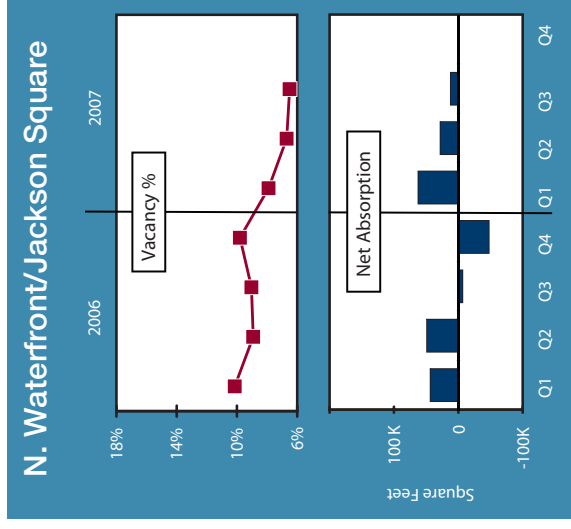
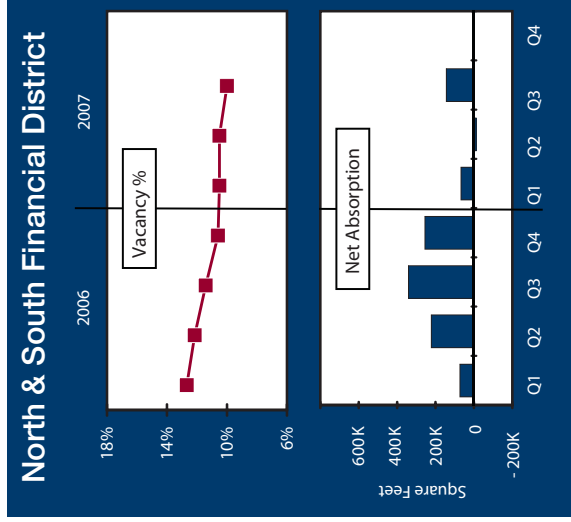
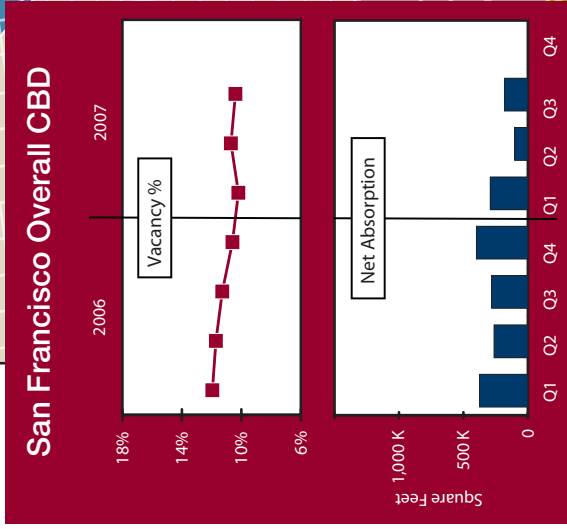
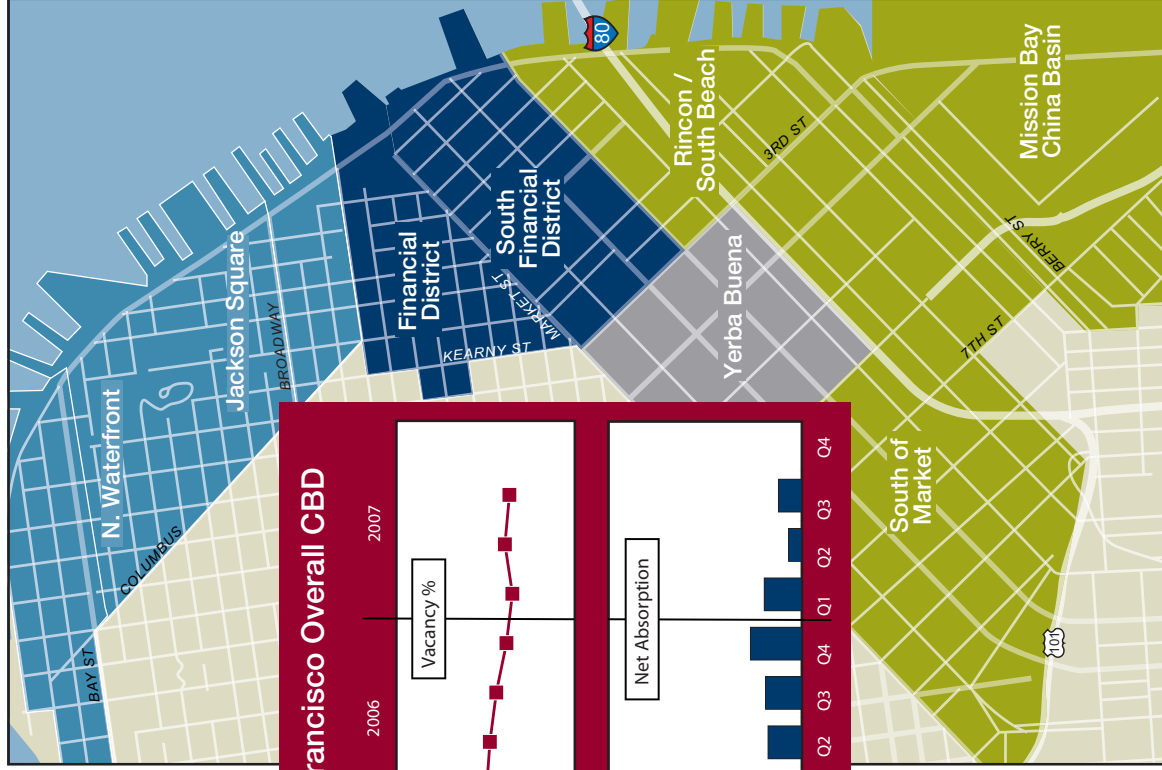
Net Absorption = Change in Occupancy

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Frank Fudem represents corporate tenants in office space transactions. When you foresee a real estate need please contact:

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