

The Corporate Real Estate Letter

by Frank Fudem

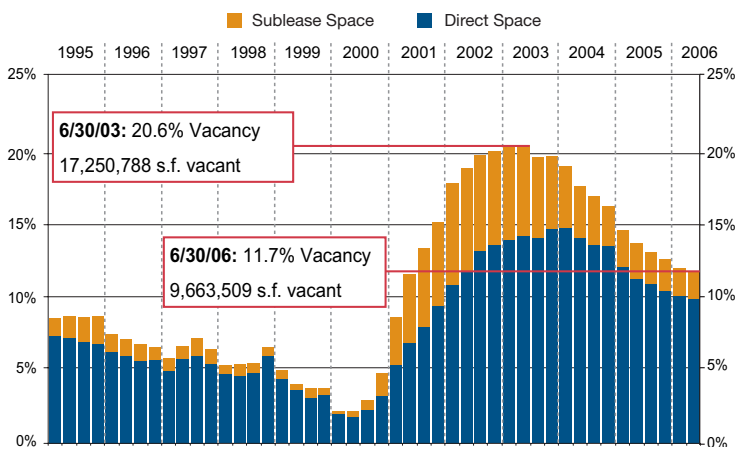
July 2006

Mid-Year 2006

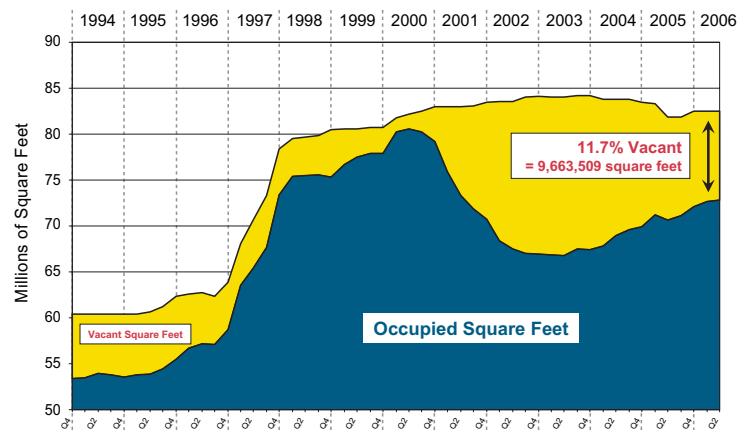
Vacancy: A combination of increased occupancy, and a reduction of supply caused by conversion of office space to other uses (primarily residential), lowered San Francisco's office vacancy rate to 11.7% in the second quarter of 2006. Vacancies could fall below 10% as early as next year if the current trend continues.

Rental Rates: Rents have continued to rise dramatically. The sub-\$30 deal is nearly extinct. Good, well-located spaces increasingly command rents in the \$40s, \$50s and even \$60s per square foot.

San Francisco Office Vacancy



San Francisco Office Space

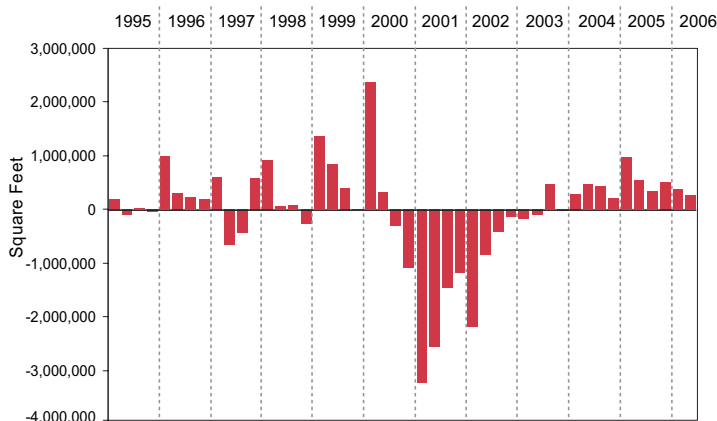


Net Absorption: San Francisco Office Occupancy increased by 262,419 square feet in the second quarter, bringing the year-to-date total to 636,440 square feet at the mid-year mark. While still robust, this was the least net absorption of any quarter since 2004.

Prognosis: There is great upward pressure on rents as a result of: declining vacancy; growing occupancy; and the phenomenon that fully 40% of San Francisco's office market is owned by recent purchasers who paid high prices that can only be justified by higher rents. Q2 2006's absorption was below the levels seen in the previous five quarters, but still robust. Rents are therefore likely to continue to increase unless a sustained economic slowdown occurs. Rents could also spike much higher if vacancies fall below 10%.

Net Absorption

(= Change in Occupancy)



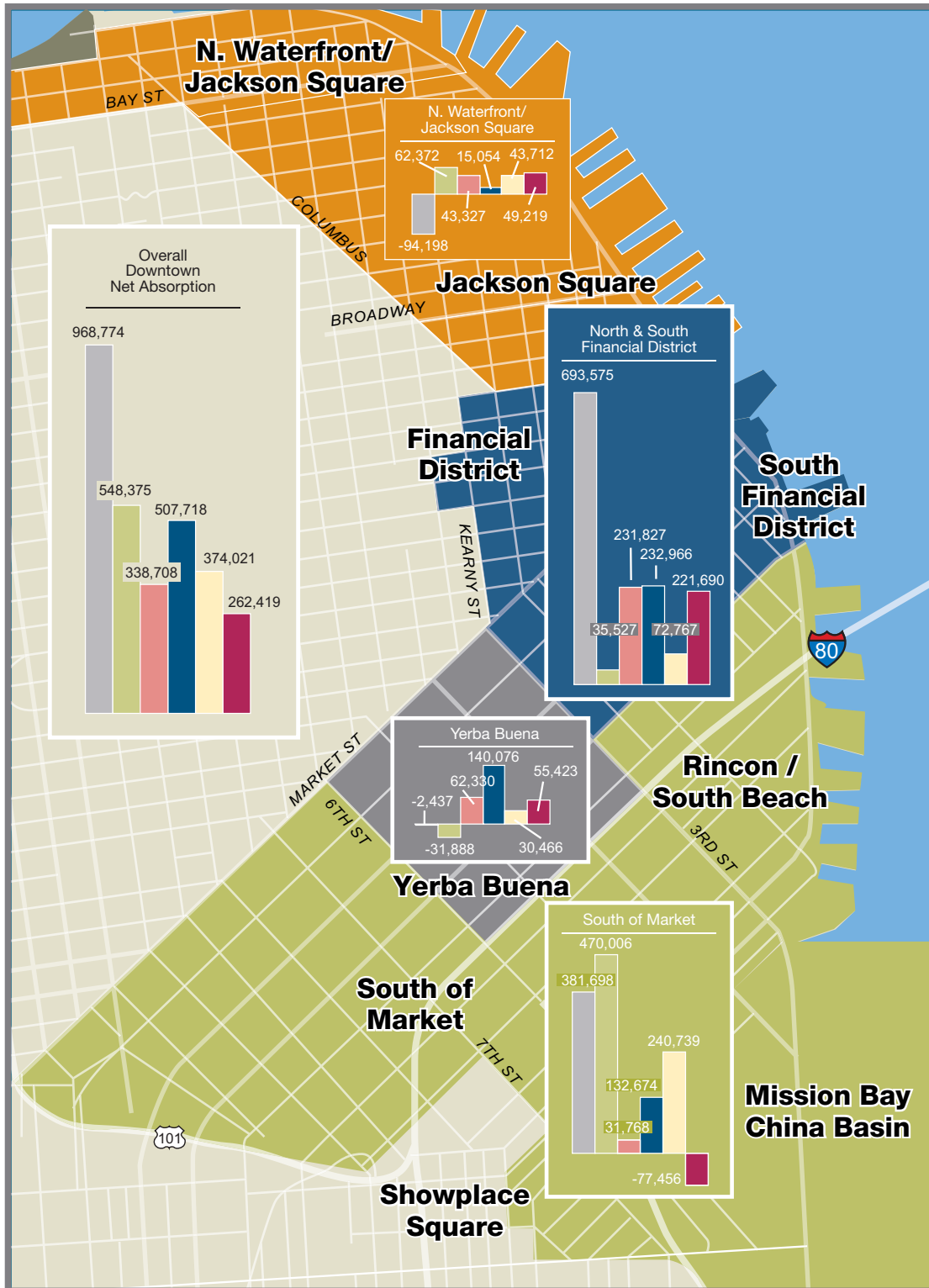
Recommendation: In a rising rental market, The Corporate Real Estate Letter continues to advise: Activate your office space requirement as soon as your business plans allow, and negotiate the longest term you prudently can. We can work with you to evaluate your real estate requirements and create a plan to secure the most advantageous transaction for your business.

Frank Fudem represents corporate tenants in office space transactions. When you foresee a real estate need please call, write or e-mail:

2005-2006 Net Absorption

Net Absorption = Change in Occupancy

Q105
 Q205
 Q305
 Q405
 Q106
 Q206



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