

The Corporate Real Estate Letter

By Frank Fudem | August 2007

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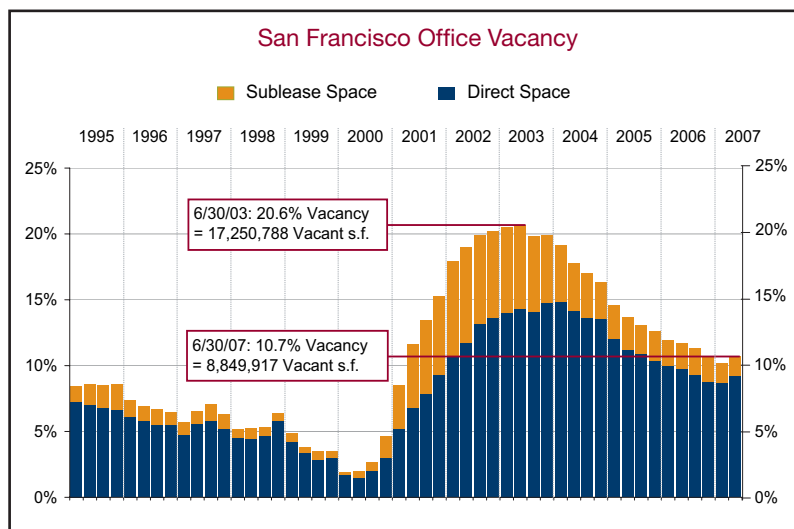
Vacancies: San Francisco's office vacancy rate increased to 10.7% in Q2 2007 (up from 10.1% at the end of Q1).

The increase in vacancy was due almost entirely to the conversion of the former Furniture Mart to about 700,000 sf of office space at 1355 Market/875 Stevenson Street, between 9th and 10th Streets. Vacancy rates in the downtown submarkets stayed flat or declined.

Net Absorption: San Francisco office occupancy increased 103,165 sf in Q2. Year-to-date total is 394,874 sf.

Rental Rates: *Asking* rates continued to spike, as has been widely reported in this newsletter and elsewhere. More than half the buildings in the Central Business District have sold within the last few years, at very high prices. Buyers who paid high prices for buildings must try to raise rents to realize a return on their investments, and real estate taxes jump reflecting higher tax assessments.

Taking rates are another story, and here the jury is still out. Some very pricey leases have been completed in 2007. However, most of the very expensive deals, \$60 - \$100/sf, were made by tenants who either renewed or expanded an existing lease. Many spaces have asking rents from \$60/sf to over \$100/sf, but very few *relocation* transactions have been consummated at those lofty prices. The question of whether most San Francisco tenants will accept the dramatically higher rents some landlords are trying to impose remains unanswered.



This is an unusual time in the market: in some cases tenants may find that one building could be \$10 or even \$20 per sf cheaper than a comparable building. The difference in proposed rent between two comparable buildings could total several million dollars over a 10-year term.

Quality representation is more important than ever. **Please allow me to demonstrate how your organization can obtain the best possible real estate transaction.**

Frank Fudem:

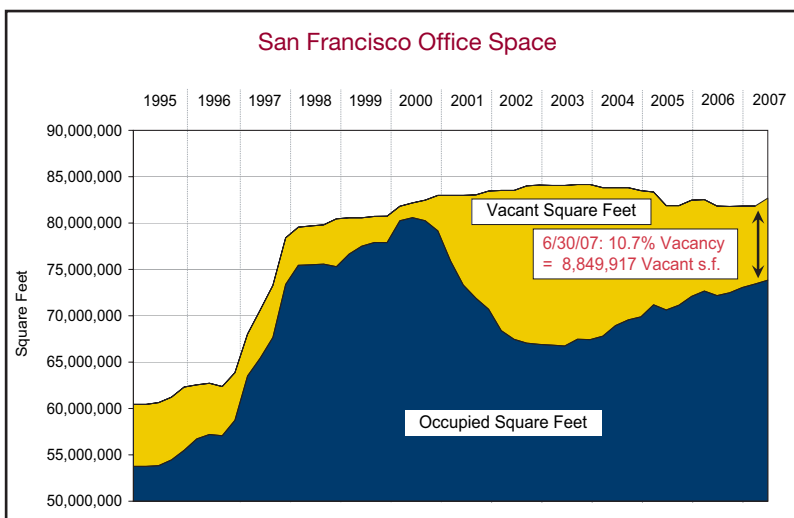
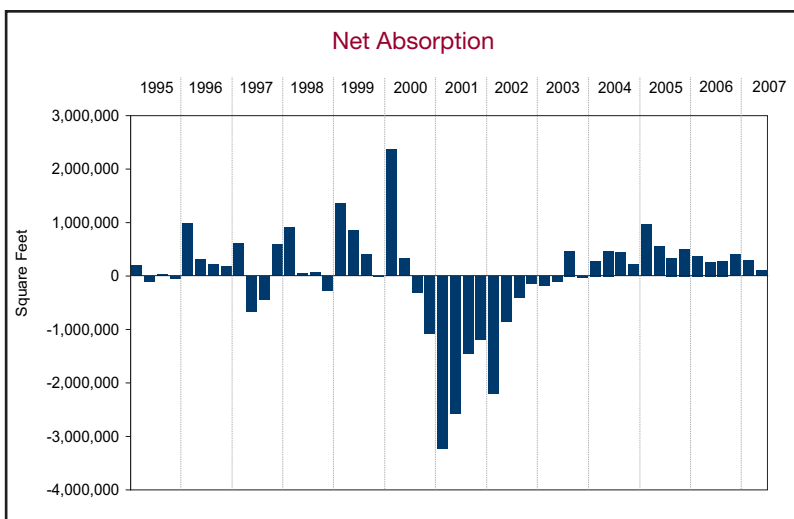
- Represents office tenants exclusively. He does not accept listings from landlords.
- Emphasizes long-term commercial relationships. Repeat clients and referrals comprise 70% of his practice.
- Has represented office tenants in millions of square feet of successful transactions. He has probably represented 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.

When you foresee a real estate need please contact:

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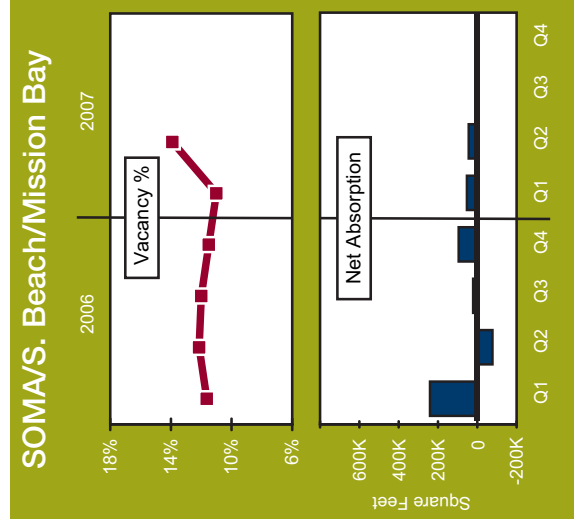
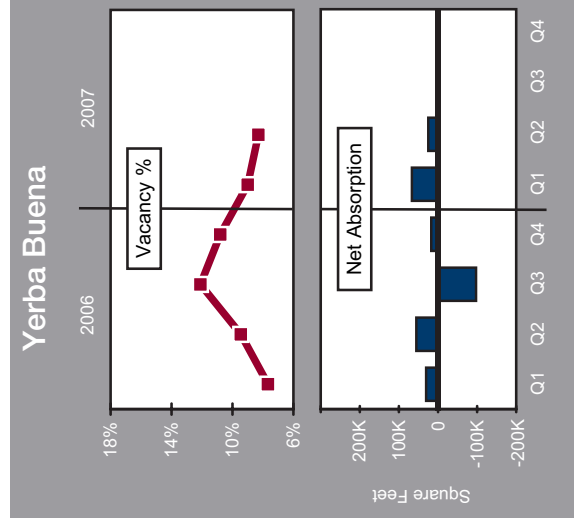
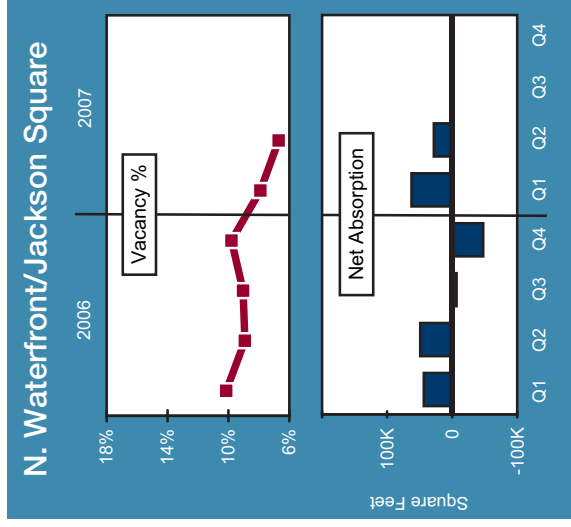
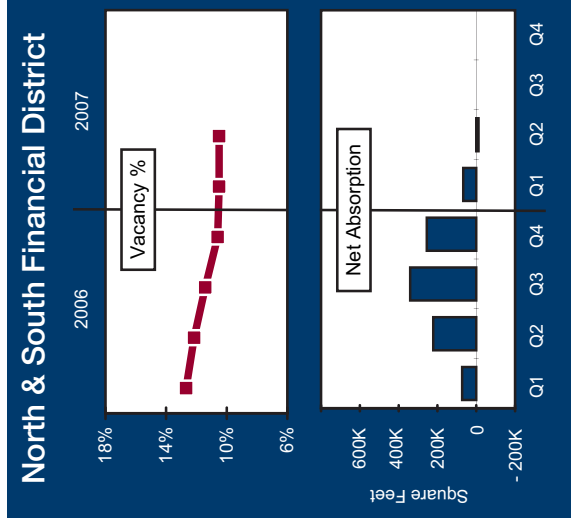
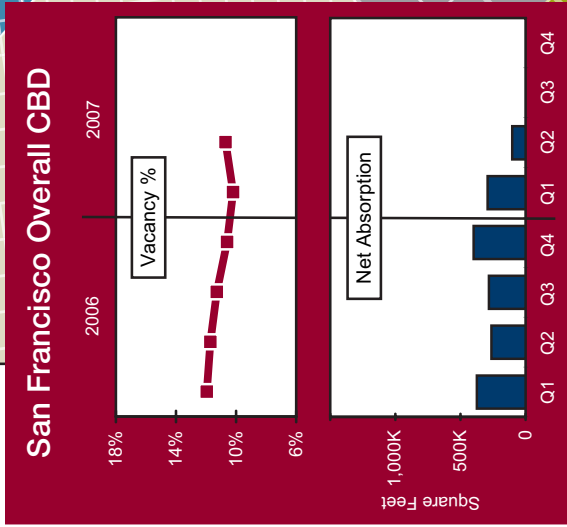
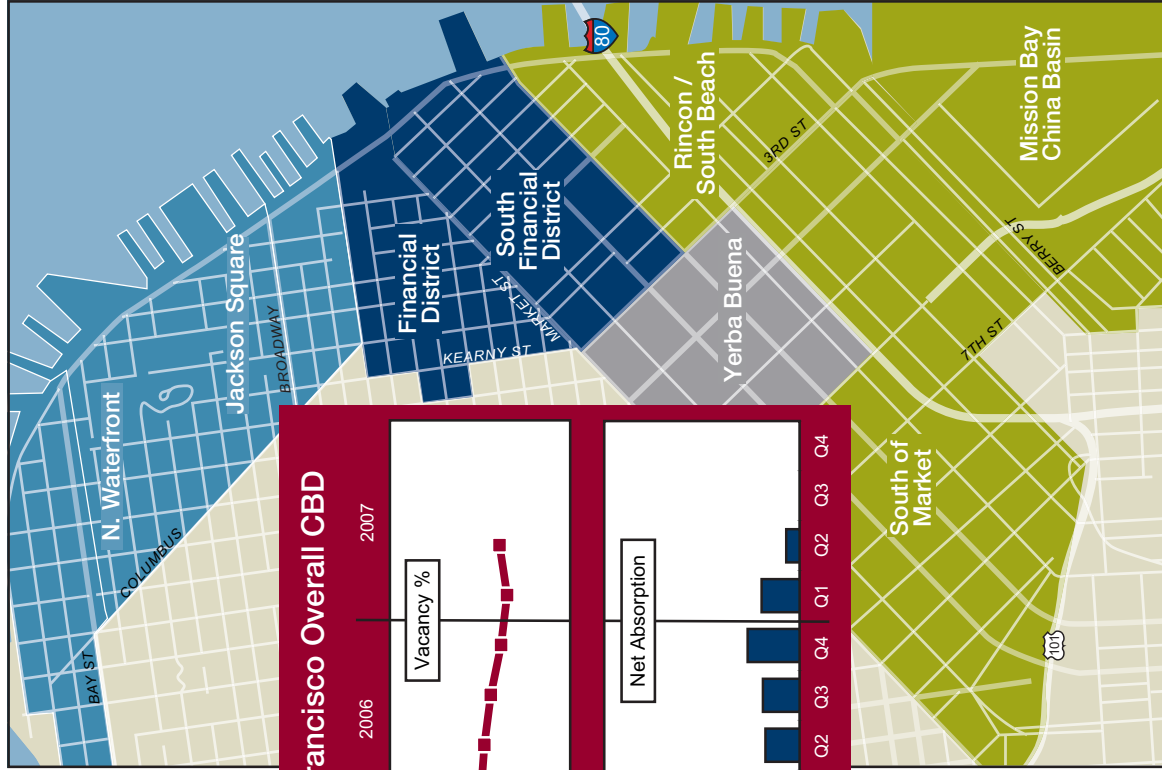
Vacancy and Net Absorption by Submarket

Net Absorption = Change in Occupancy

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