

The Corporate Real Estate Letter

By Frank Fudem | May 2008

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Vacancies: San Francisco's office vacancy rate remained 10.2% during the first quarter of 2008, unchanged from Q4 2007. But that does not tell the whole story...

Net Absorption: South of Market is growing; the rest of downtown is flat or shrinking: Overall office occupancy declined by 4,031 square feet throughout the broader Central Business District during the first quarter of 2008, San Francisco's first negative absorption since 2002. The accompanying graph says it all: the traditional Financial District sustained a quarter million feet of negative absorption. Occupancy in the rest of the city stayed basically flat, except South of Market ("SOMA") which enjoyed robust positive absorption largely on the strength of a single deal: California Pacific Medical Center's lease for the entire building at 633 Folsom Street. Without CPMC's 171,000 sf deal, San Francisco would have sustained almost 180,000 sf of negative absorption.

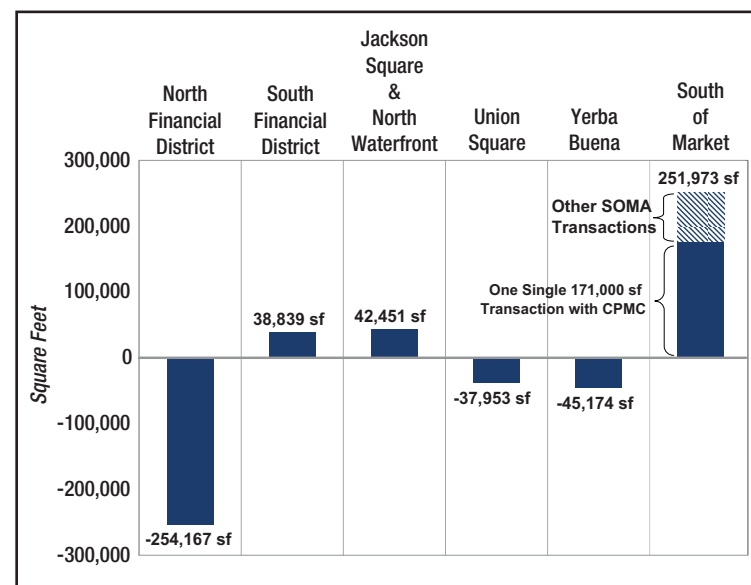
Rental Rates: Flat or drifting lower. Given the current weakness of demand, rents are likely to decline further, with the possible exception of SOMA.

Trends: "Tech" companies continue to move to and expand in San Francisco and account for much of the positive absorption in SOMA. These companies tend to be attracted to Class B space with high, exposed ceilings. Such space remains in short supply and high demand and is often the target of multiple offers from competing tenants, keeping rents high for that type of product.

For the rest of the market, including the Financial District and much Class A space, conditions are fairly soft and likely to get softer. The market has by no means "tanked," but conditions are slowly becoming more tenant-favorable. Historically rents go up quickly but come down slowly.

One indication of a softening market is when landlords cling to high rental rates, but start improving concession packages by offering higher Tenant Improvement Allowances, or adding more "free" rent, etc. Such concessions may be harbingers of lower rents to come if demand remains weak.

San Francisco Q1 2008 Net Absorption



Frank Fudem is San Francisco's top tenant broker. He:

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

When you foresee a real estate need please contact:

Frank Fudem

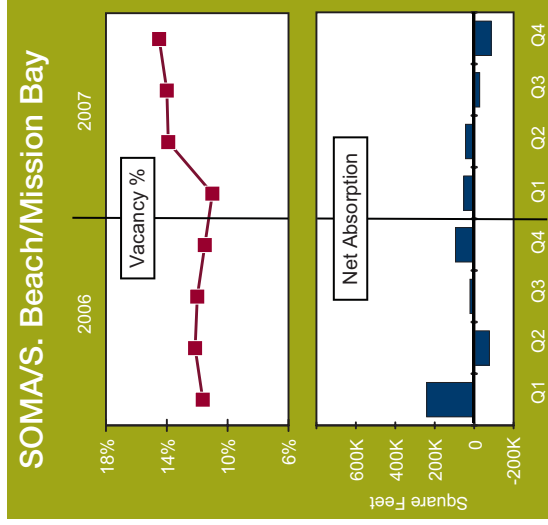
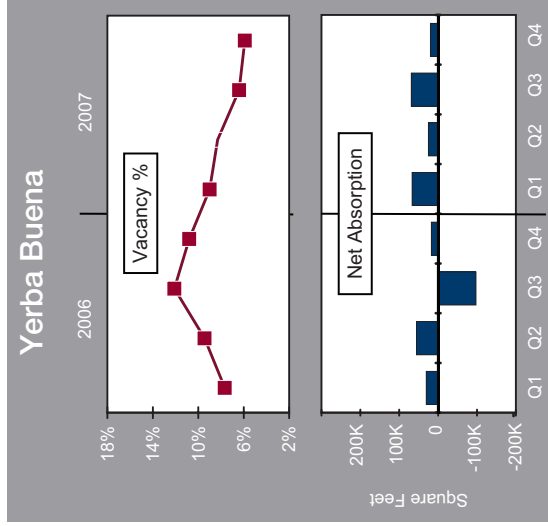
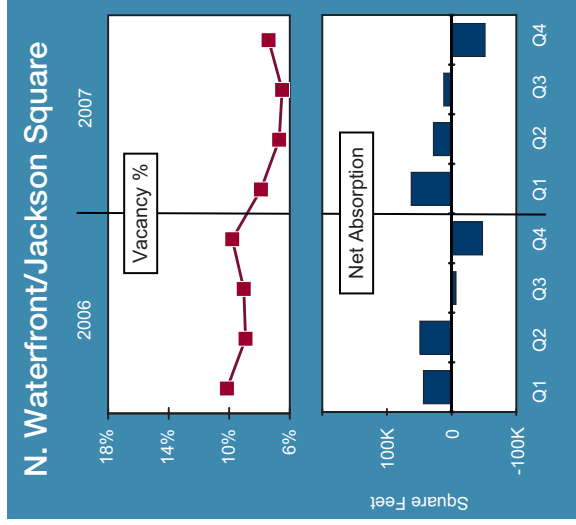
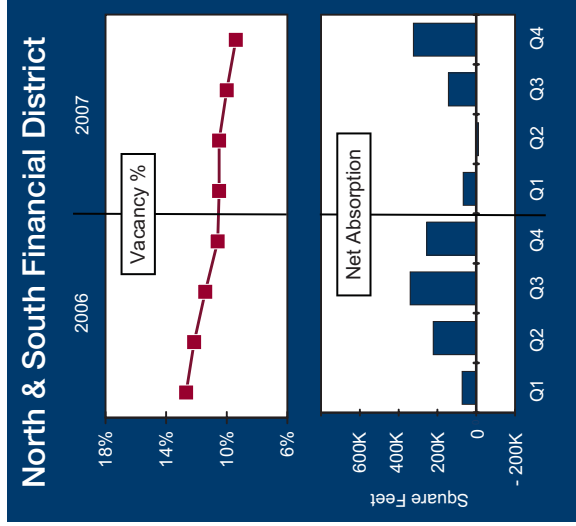
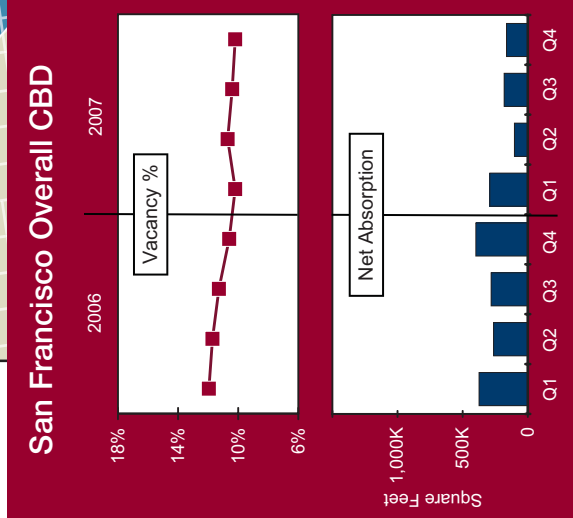
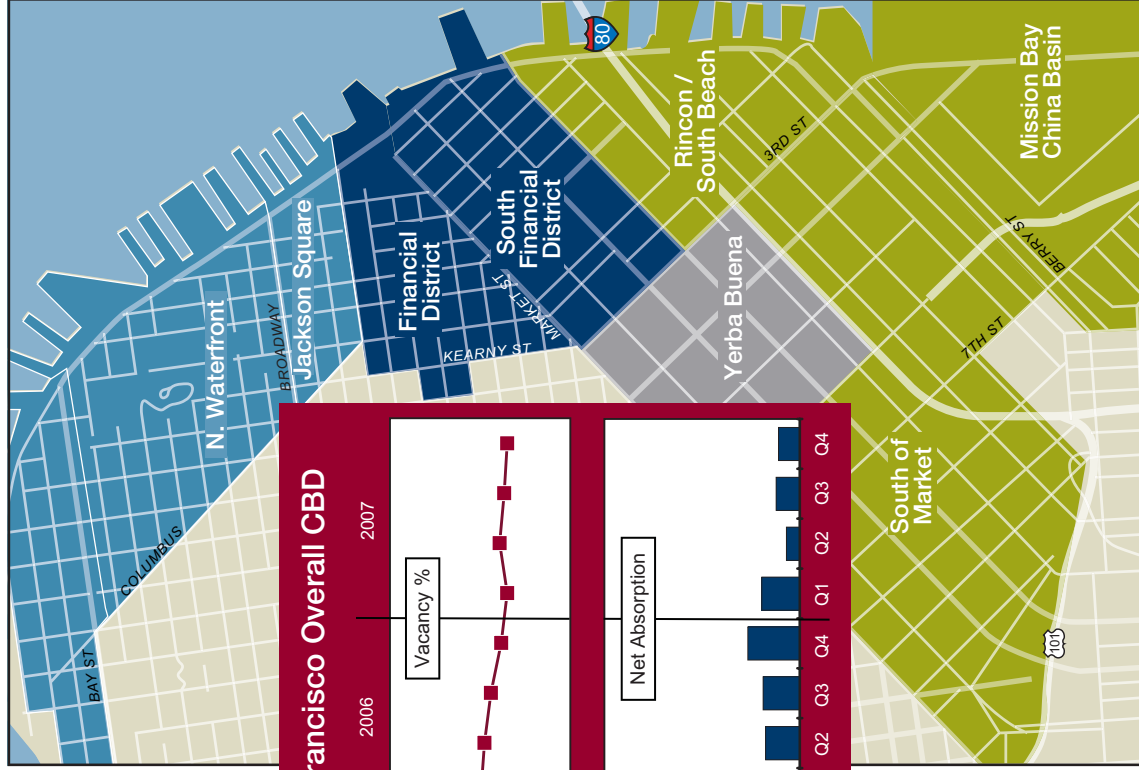
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Vacancy and Net Absorption by Submarket

Net Absorption = Change in Occupancy

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