

The Corporate Real Estate Letter

By Frank Fudem | January 2007

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Vacancies: San Francisco's office vacancy rate declined to 10.6% at the end of 2006 (down from 12.6% at the end of 2005). Moreover, the vacancy rate for space available directly from landlords — in other words, excluding subleases — is only 8.8%.

Net Absorption: San Francisco office occupancy increased by 358,000 square feet in Q4, bringing 2006's full-year positive net absorption total to 1,276,000 square feet.

Rental Rates: Rents rose substantially in 2006. Space that might have rented for high \$20s per square foot at the beginning of 2006 cost low to mid-\$30s by the end of the year. Quality spaces in good, well-located buildings increasingly command rents in the \$40s, \$50s and \$60s per square foot.

Trend: San Francisco's office market was in near-equilibrium for two years, during which vacancies ticked down quarter by quarter. That may be about to change now that vacancies have dropped as much as they have. The market is tilting toward landlords. If vacancies get much lower we could be on the verge of a tipping point of a rent spike.

What to watch for in 2007: The first part of 2007 will probably look a lot like 2006: lower vacancies, higher rents, and the possibility of a rent spike. However, some economists are predicting an economic slowdown (not necessarily a recession) in 2007. If that were to occur, the market could cool a bit in the second half of the year.

Rents have risen considerably in the past three years but still compare favorably to rents elsewhere in the Bay Area, so there has been relatively little resistance to price increases to date. If rents spike, expect heightened price resistance from tenants.

With all good wishes for a prosperous 2007,
Frank Fudem

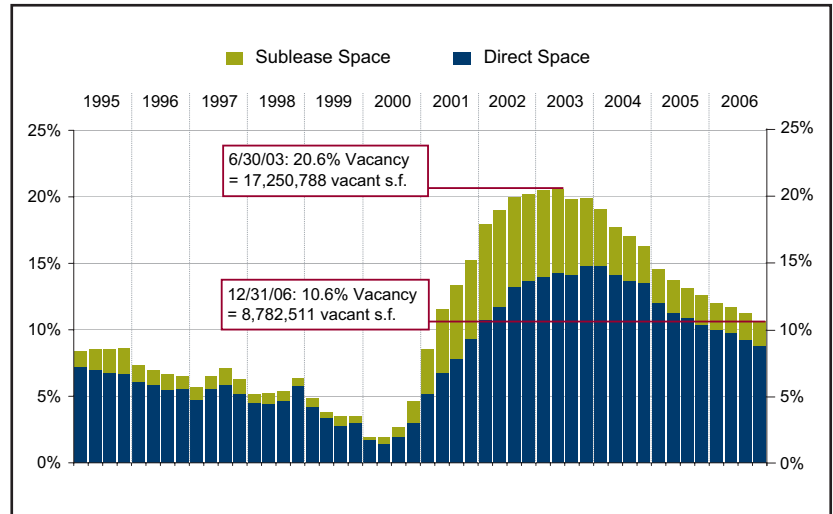
Frank Fudem represents corporate tenants in office space transactions. He has represented office tenants in millions of square feet of successful transactions since 1984. He plans and executes strategies that help his clients obtain the most advantageous transactions possible. When you foresee a real estate need please contact:

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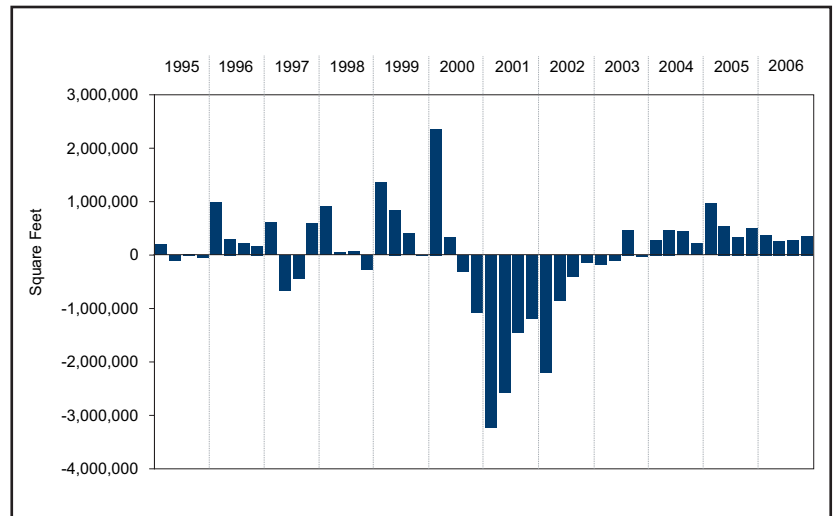
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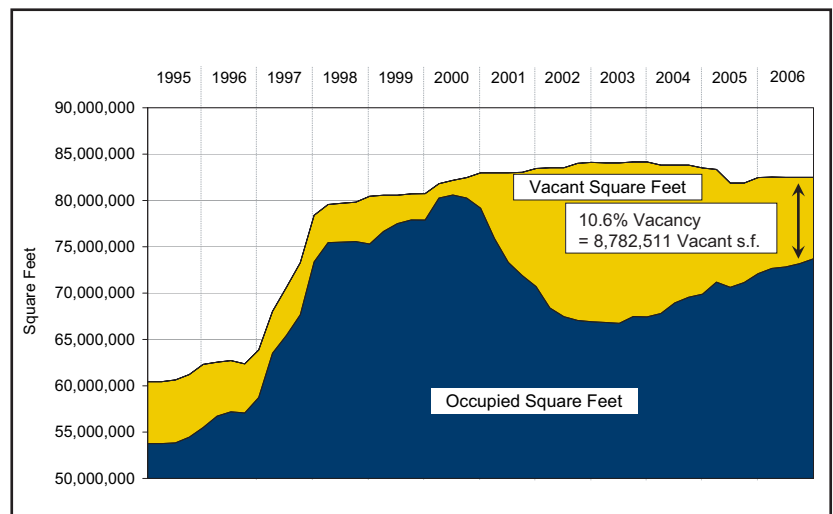
San Francisco Office Vacancy



Net Absorption



San Francisco Office Space



Vacancy and Net Absorption by Submarket

Net Absorption = Change in Occupancy

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