

The Corporate Real Estate Letter

by Frank Fudem | July 2009

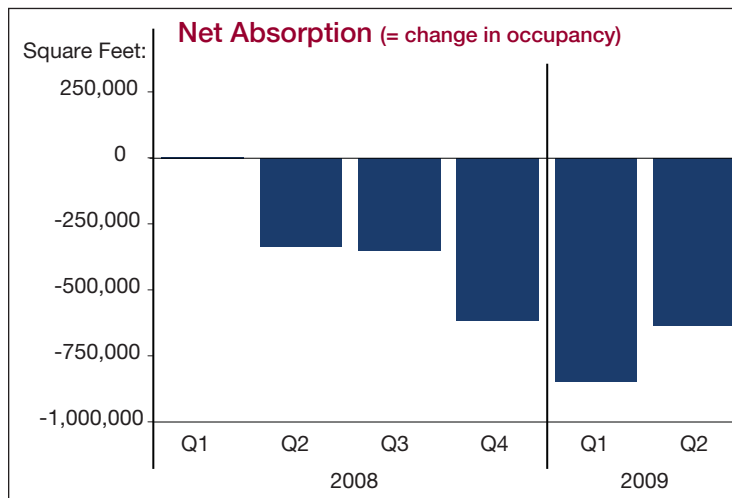
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5 1/2 Pyramids:

Recap: 2.8 Million square feet of San Francisco office space have been vacated since January 2008, equivalent to 5 1/2 Transamerica Pyramids. San Francisco sustained 635,494 square feet of negative absorption in the 2nd quarter of 2009, on the heels of 846,283 sf negative absorption in Q1, which followed 1.3 Million sf negative absorption in 2008.



This decline in occupancy was the major cause of vacancies increasing 50% in 18 months: from 8mm to 12mm vacant sq. ft.

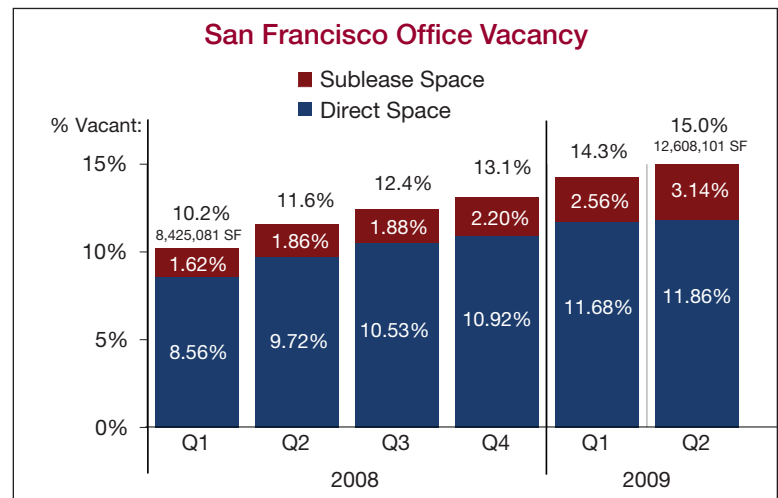
Forecast: I expect occupancy to continue to shrink even more during the next few quarters, albeit at a slower rate.

Recommendation: The market is extremely soft and should remain so for the foreseeable future. This is the window of opportunity to obtain tenant-favorable deals. Whereas past editions of this newsletter recommended postponing a deal in anticipation of lower rates to come (back issues are posted on my web page at naibt.com), I am changing that recommendation: A transaction struck between now and mid-2010 will look very favorable in the future, even if you don't catch the very bottom. I recommend locking in today's rents for the longest term you can.

Great Time to Buy: Present conditions offer an unusual opportunity for tenants to purchase a building. Prices have plummeted, some owners are under pressure to sell, and traditional real estate investors may be locked out of the market due to difficulty in obtaining financing for investment (as distinct from owner/user financing, which is available). A tenant willing to purchase as an owner/user may be able to take advantage of both low prices and attractive financing.

Landlord Forfeitures: Lenders recently took back two San Francisco office buildings, and five or six additional buildings will probably have gone back to their lenders by the time you read this.

Caveat: It is very important for tenants to have a "Non-Disturbance Agreement:" an agreement between a lender (not landlord) and tenant, stipulating that if the lender forecloses on the landlord, the lender agrees not to disturb the tenant's lease.



Other Considerations: In today's climate some landlords may not be able to fund tenant improvements or other expenditures. For deals currently under negotiation it may be appropriate to have the landlord place funds into an escrow account or post a letter of credit to guarantee performance of its lease obligations. It may also make sense to give the tenant the right to offset rent if it chooses to pay for things that would otherwise be paid for by the landlord.

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:

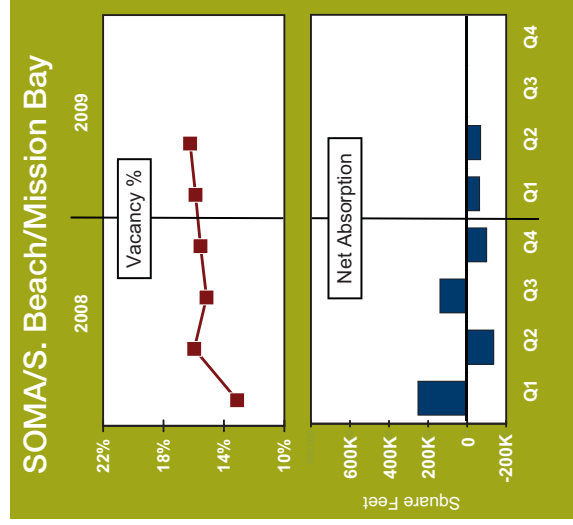
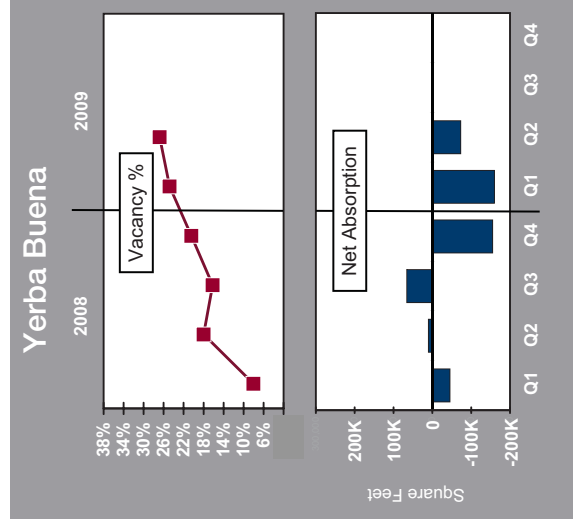
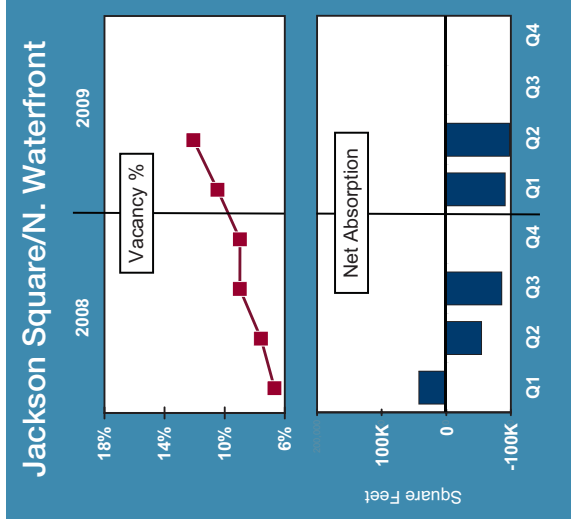
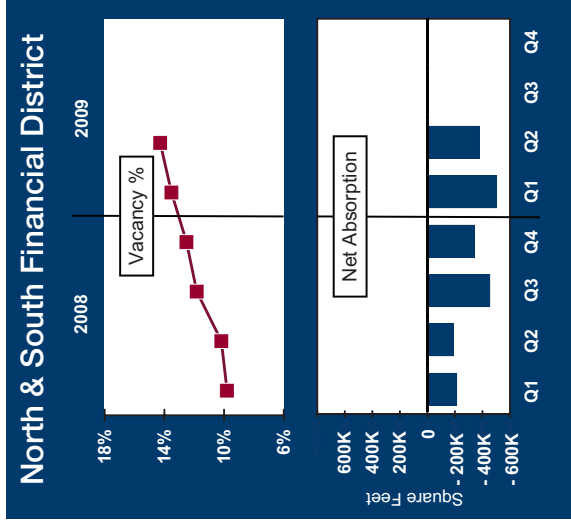
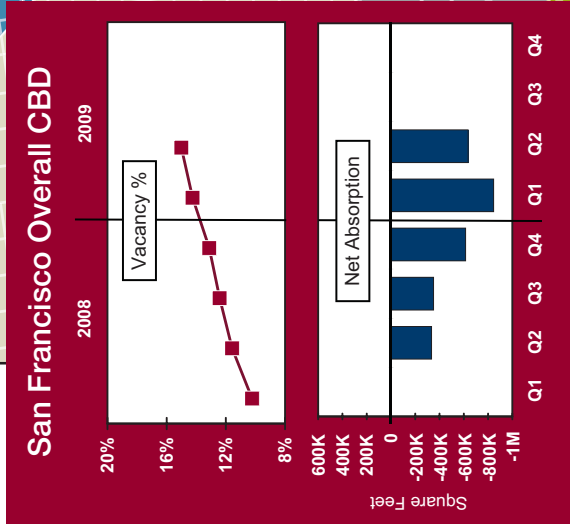
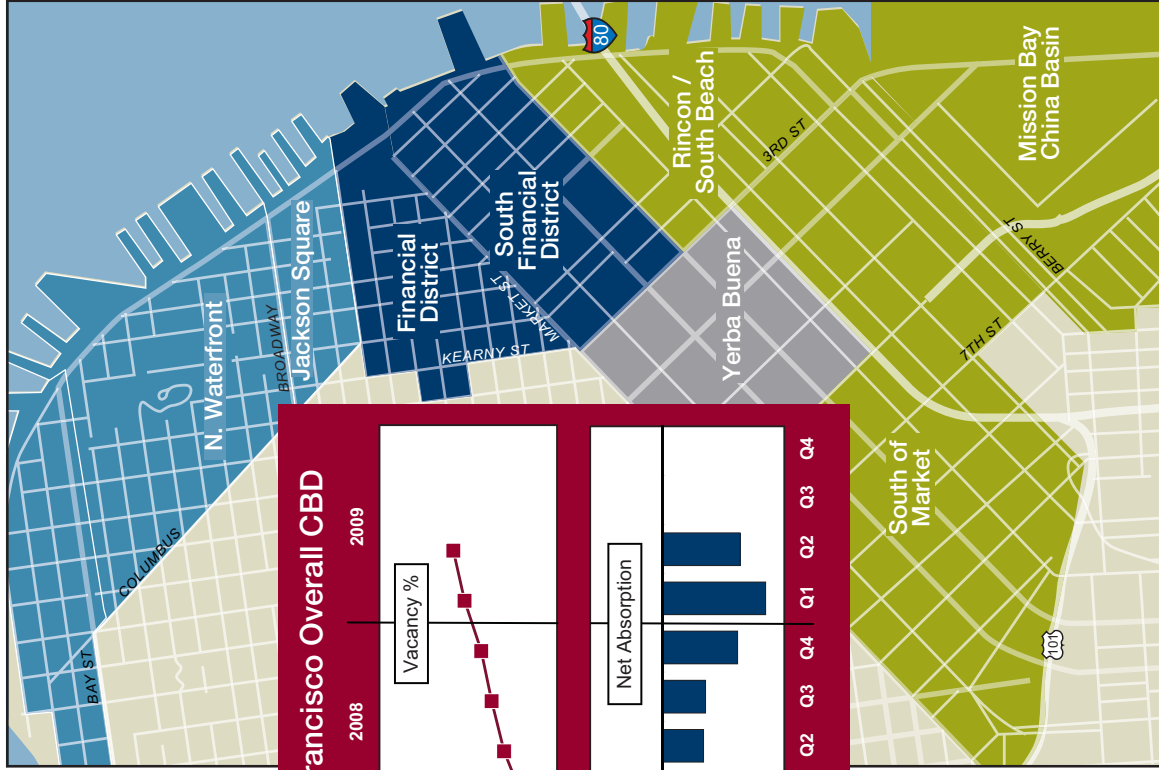
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Vacancy and Net Absorption by Submarket

Net Absorption = Change in Occupancy

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