

The Corporate Real Estate Letter

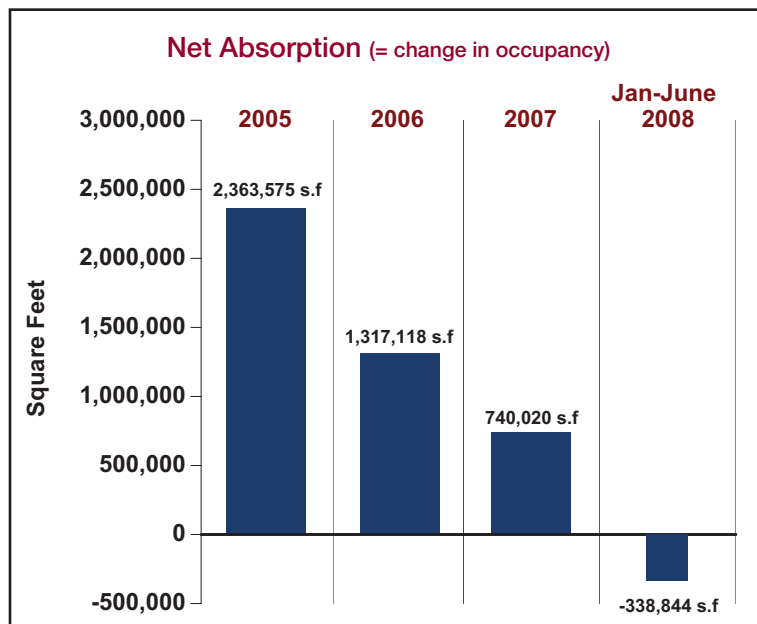
By Frank Fudem | July 2008

Frank Fudem

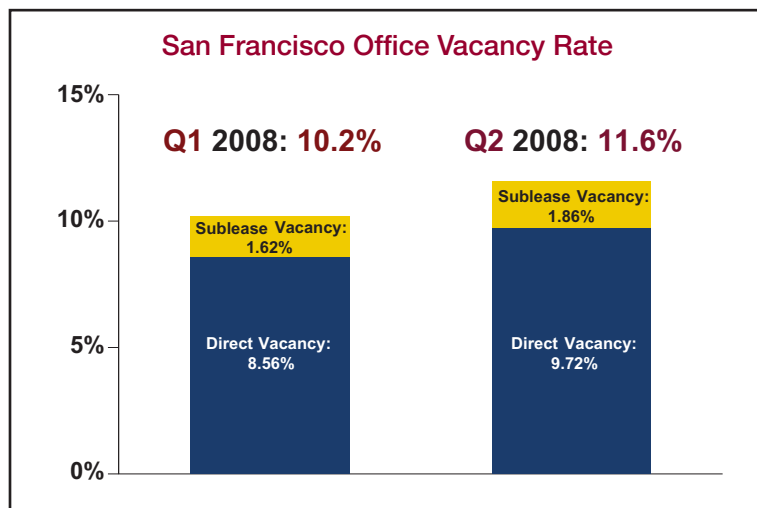
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Net Absorption: San Francisco's office market has been slowing down for the past few years. In the second quarter, it slammed into reverse: office occupancy *declined* 334,813 sf in Q2 2008. Some of this negative absorption was caused by tenants putting surplus space on the sublease market. There are rumors of more subleases to come.



Vacancies: San Francisco's office vacancy hovered around 10% from the end of 2006 through Q1 2008. That changed in Q2: vacancies jumped 140 basis points, from 10.2% to 11.6%, during the second quarter.



Rental Rates: declining. The pace of decline seems to be accelerating, on a case-by-case basis. Different landlords have different degrees of motivation, different cost bases, and different abilities to let space sit vacant. Some landlords may be concluding that since market conditions are unlikely to turn landlord-favorable in the near term, it is best to try to lease their vacant space as soon as possible: the alternative could be many more months of vacancy, followed by even lower rents.

Trends: More generous concession packages and lower rents. As noted in previous editions of this letter, a notable exception is Class B space, especially south of Market Street, which remains in demand and in limited supply. I attribute this partly to demographics: companies with young workforces, in their 20s and 30s, are drawn to brick-and-timber Class B space, and companies with somewhat older workforces are usually drawn to Class A. At present it is the companies with younger workers that are still coming to and expanding in San Francisco. As a result, some rents for Class B spaces now often equal or exceed rents for non-Bay view Class A space.

Prognosis: There are no indications that the market has reached bottom. I expect conditions to become increasingly tenant-favorable in the coming months.

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:

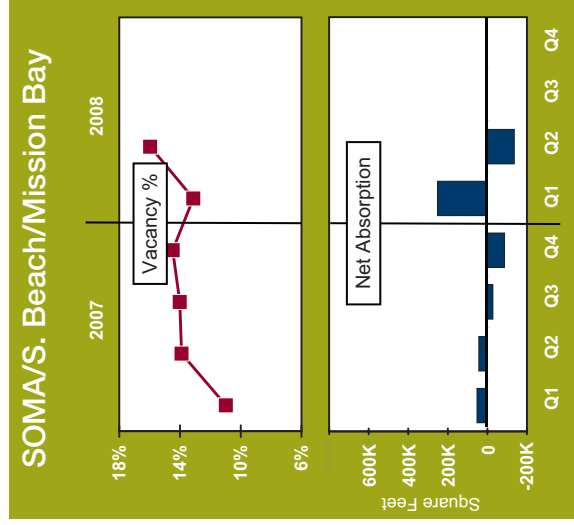
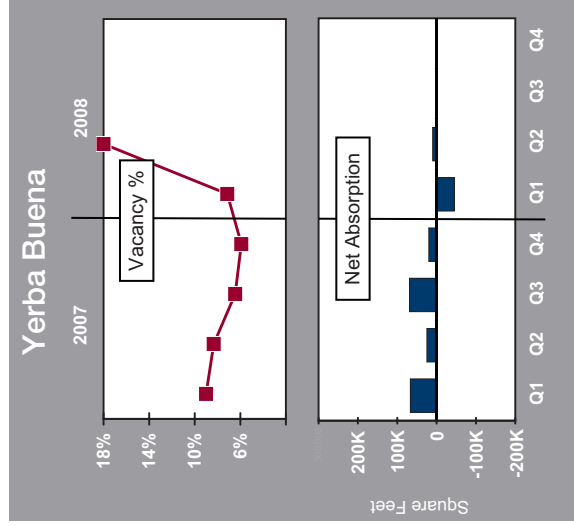
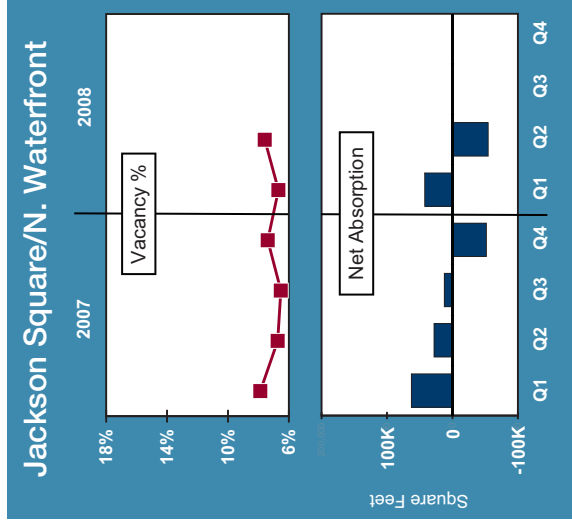
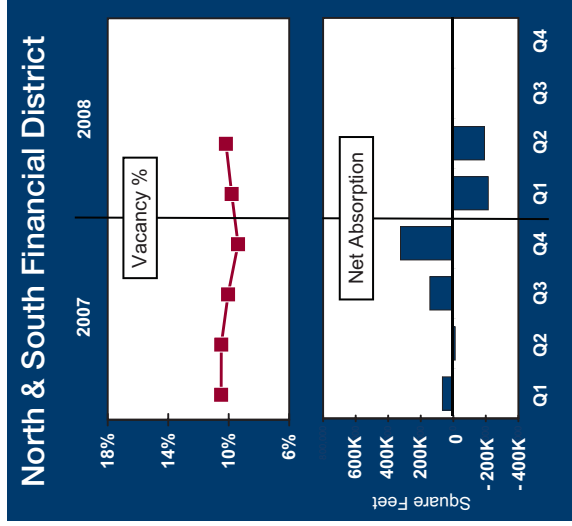
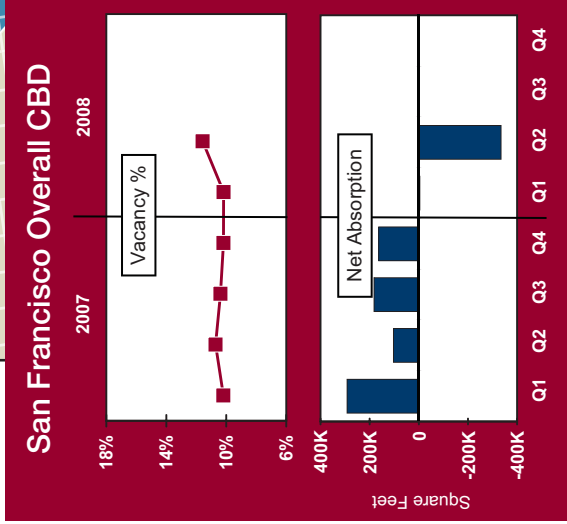
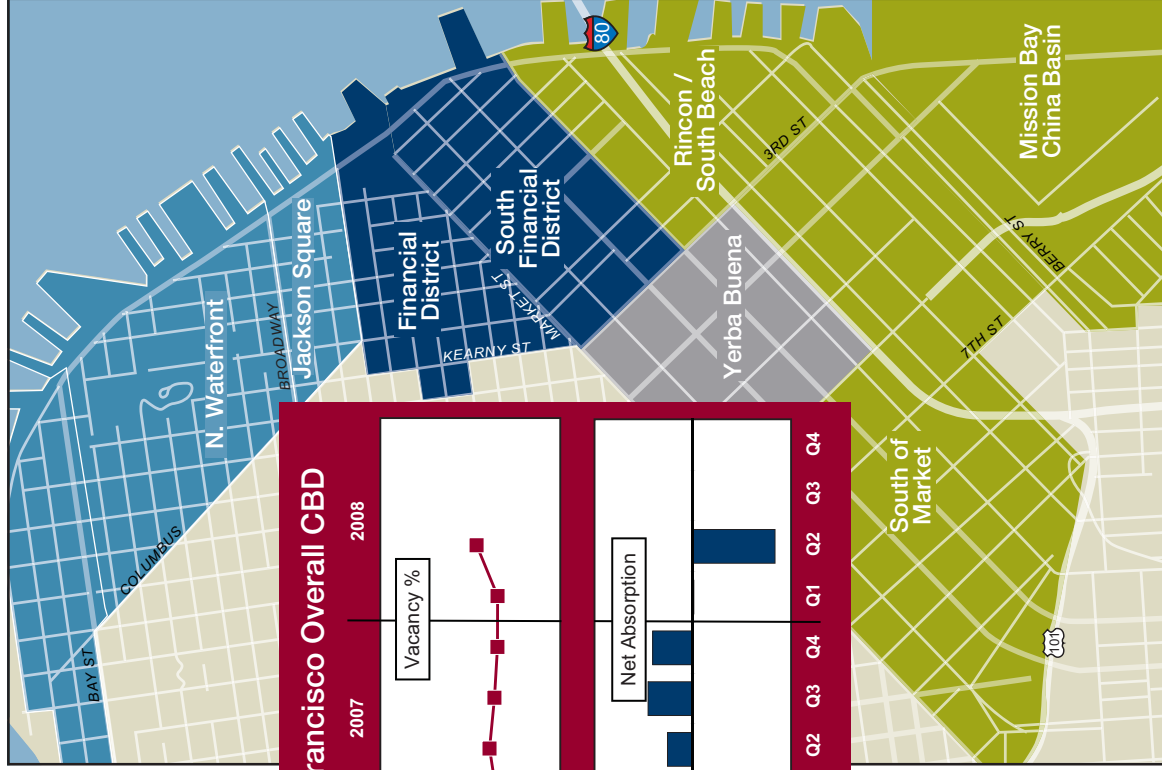
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Vacancy and Net Absorption by Submarket

Net Absorption = Change in Occupancy

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