

The Corporate Real Estate Letter

by Frank Fudem

February 2004

2003 RECAP

2003 was the year in which the real estate market began to recover from San Francisco's worst recession since the Great Depression. Office occupancy fell sharply for 12 consecutive quarters, from late 2000 through the first half of 2003. That changed around the middle of 2003 with the realization that the economy was growing again, and the perception that the real estate market had bottomed and the time had arrived to lock in favorable terms. Instead of cutting back further, some companies started adding personnel and/or providing for future head count growth in their real estate commitments.

Absorption turned solidly positive in the third quarter, strong enough to counteract the negative absorption sustained in the first two quarters. Office occupancy grew by 400,000 square feet in 2003, the first year with positive absorption since 2000.

LOOKING FORWARD TO 2004

The market will remain generally tenant-favorable through 2004. More than 16 million square feet of office space are still vacant. However, the bottom of the market is behind us.

Rents will not get any lower.

After spiking in the late 1990s and 2000, rents have fallen back to about where they were 20 years ago. Rents began to flatten in 2002 and early 2003, even before the economy and office occupancy resumed growing.

Some rents will increase.

Landlords reduce rates slowly and raise them quickly, and they are particularly anxious to raise rates now. Rents for Class A bay view space, and for certain small spaces, have already increased as demand has picked up.

Concessions are likely to diminish.

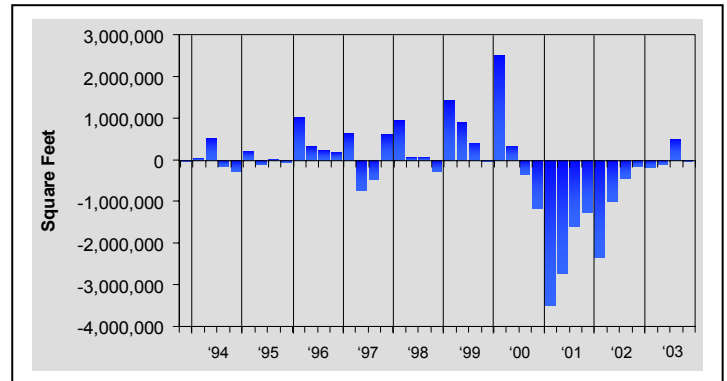
Tenant Improvement Allowances and other concessions are likely to become less generous as the market firms.

Increased bifurcation.

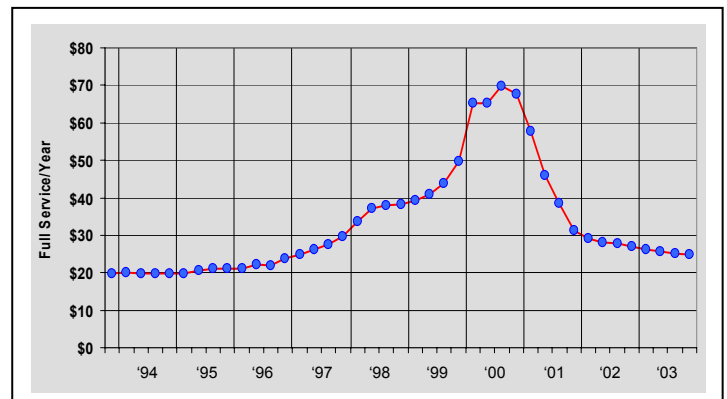
The spread between the cost of premium space and the cost of commodity space will get wider.

Recommendation: If you anticipate a real estate requirement within the next 18 to 24 months, activate your requirement as soon as practical. Let us show how you may be able to take maximum advantage of currently favorable market conditions.

Net Absorption / Change in Occupancy



Asking Rental Rate per Square Foot per Year



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San Francisco Central Business District
OFFICE MARKET CONDITIONS
Fourth Quarter 2003

Submarket:	Direct Vacancy		Sublease Vacancy		Total Vacancy		Change in Total Vacancy Since Last Quarter		Change in Total Vacancy Since One Year Ago		Net Absorption (Change in Occupancy) Since Last Quarter	Net Absorption (Change in Occupancy) YTD		
	Sq. Ft.	%	Sq. Ft.	%	Sq. Ft.	%	Sq. Ft.	%	Sq. Ft.	%	Sq.Ft.	Sq.Ft.		
North Financial District														
Class A	21,202,395 s.f.	2,896,832	13.7%	1,301,130	6.1%	4,197,962	19.8%	dn	(239,601.00)	-1.1%	(178,853.00)	-0.9%	pos 239,601.00	pos 255,453.00
Class B	6,163,969 s.f.	781,488	12.7%	378,650	6.1%	1,160,138	18.8%	dn	(24,347.00)	-0.4%	(83,860.00)	-1.4%	pos 24,347.00	pos 83,860.00
Subtotal	27,366,364 s.f.	3,678,320	13.4%	1,679,780	6.1%	5,358,100	19.6%	dn	(263,948.00)	-1.0%	(262,713.00)	-1.0%	pos 263,948.00	pos 339,313.00
South Financial District														
Class A	18,822,816 s.f.	2,509,392	13.3%	1,181,806	6.3%	3,691,198	19.6%	up	232,592.00	1.2%	(74,559.00)	-0.4%	neg (232,592.00)	pos 74,559.00
Class B	3,504,579 s.f.	386,219	11.0%	81,453	2.3%	467,672	13.3%	dn	(58,067.00)	-1.7%	(33,333.00)	-1.0%	pos 58,067.00	pos 33,333.00
Subtotal	22,327,395 s.f.	2,895,611	13.0%	1,263,259	5.7%	4,158,870	18.6%	up	174,525.00	0.8%	(107,892.00)	-0.5%	neg (174,525.00)	pos 107,892.00
Jackson Square/No. Waterfront														
Subtotal	6,736,609 s.f.	942,485	14.0%	272,045	4.0%	1,214,530	18.0%	up	14,401.00	0.2%	(47,407.00)	-0.7%	neg (14,401.00)	pos 47,407.00
Union Square														
Subtotal	4,917,807 s.f.	566,529	11.5%	91,548	1.9%	658,077	13.4%	dn	(8,969.00)	-0.2%	91,175.00	1.9%	pos 8,969.00	neg (91,175.00)
Yerba Buena														
Subtotal	3,794,953 s.f.	589,850	15.5%	163,371	4.3%	753,221	19.8%	dn	(11,695.00)	-0.3%	(201,749.00)	-5.3%	pos 11,695.00	pos 201,749.00
South Beach/Rincon Hill/SOMA														
Subtotal	19,106,635 s.f.	3,884,536	20.3%	857,988	4.5%	4,742,524	24.8%	up	119,381.00	0.6%	316,324.00	1.5%	neg (119,381.00)	neg (189,918.00)
All San Francisco CBD Markets														
Total	84,249,763 s.f.	12,557,331	14.9%	4,327,991	5.1%	16,885,322	20.0%	up	23,695.00	0.0%	dn (212,262.00)	-0.3%	neg (23,695.00)	pos 415,268.00

Frank Fudem specializes in representing corporate tenants in office space transactions including relocations, lease renewals, and consulting. One of San Francisco's top brokers since 1984, he has represented local and national tenants in millions of square feet of successful negotiations. Personal Mission Statement: Increase my clients' success via real estate expertise.

BT Commercial Real Estate is the largest brokerage focusing exclusively on Northern California. BT Commercial has 130 agents in nine offices serving San Francisco, the Peninsula, Marin, and the East Bay. BT has consummated more than \$18 Billion of real estate transactions.

If you foresee a real estate need, or if you would like more information on San Francisco or Bay Area commercial real estate, please call, write, or email:
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