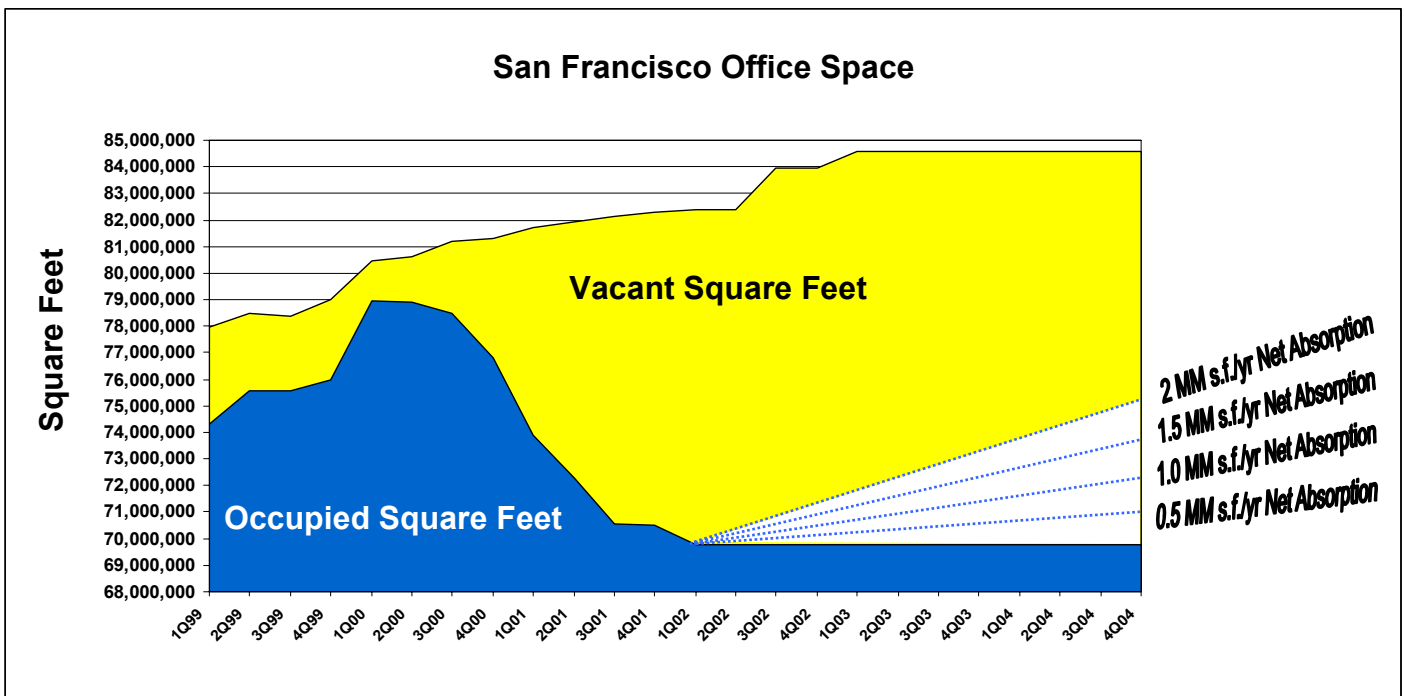


"Economists make predictions because they're asked, not because they know."
 John Kenneth Galbraith

Q1 2002 was the seventh consecutive quarter of "negative absorption": a decline in the amount of office space occupied in San Francisco. Nevertheless, we are starting to see some indications of economic growth. The San Francisco economy could be close to bottoming out. What happens to the office space market when job growth resumes? In the "old days" - pre 1999, before the Internet bubble - San Francisco typically absorbed about one million to 1.5 million square feet per year. The following model postulates what would happen to the San Francisco office market if positive absorption resumes during the second quarter of this year. Occupancy is shown increased each year by ½ Million; 1 Million; 1.5 Million and 2 Million Square Feet per year.

If San Francisco office occupancy were to increase by an average of:	San Francisco Office Vacancy Rate would be:				
	12/31/02	6/30/03	12/31/03	6/30/04	12/31/04
0.5 Million Square Feet Per Year:	16.5%	16.8%	16.5%	16.2%	15.9%
1 Million Square Feet Per Year:	16.0%	16.1%	15.5%	14.9%	14.3%
1.5 Million Square Feet Per Year:	15.6%	15.3%	14.4%	13.5%	12.7%
2 Million Square Feet Per Year:	15.1%	14.6%	13.4%	12.2%	11.0%



Conclusion: Even if job growth resumes in the coming quarter, conditions should remain tenant-favorable at least through 2003 and probably 2004. Even in the unlikely event of 2 Million Feet annual absorption, city-wide vacancy rates would not return to single digits until 2005.



San Francisco

1st Quarter 2002

Vacancy Rates and Asking Rental Rates

Submarkets	Vacancy Rates			Asking Rental Rates*		
	1Q 2002	last 90 days	last 12 months	1Q 2002	last 90 days	last 12 months
North Financial						
<u>Direct</u>	8.3%	up 0.8%	up 4.4%			
<u>Sublease</u>	6.3%	down 1.0%	up 3.1%			
<u>Subtotal</u>	14.6%	up 1.8%	up 7.5%	\$29.25	down \$3.24	down \$27.93
South Financial						
<u>Direct</u>	9.5%	up 1.8%	up 5.1%			
<u>Sublease</u>	4.8%	down 0.7%	up 1.3%			
<u>Subtotal</u>	14.3%	down 2.5%	up 6.4%	\$26.74	down \$4.92	down \$26.22
Jackson Sq./ N. Waterfront						
<u>Direct</u>	10.5%	up 4.1%	up 5.1%			
<u>Sublease</u>	6.2%	up 0.4%	up 2.7%			
<u>Subtotal</u>	16.7%	up 4.5%	up 7.8	\$26.47	down \$3.14	down \$29.03
S. Beach/Rincon/SOMA						
<u>Direct</u>	11.8%	down 2.2%	up 6.2%			
<u>Sublease</u>	6.8%	down 0.9%	up 3.2%			
<u>Subtotal</u>	18.6%	up 1.3%	up 9.3%	\$19.29	down \$0.81	down \$18.62
Union Square						
<u>Direct</u>	8.8%	up 0.8%	up 1.1%			
<u>Sublease</u>	1.7%	down 0.3%	down 1.7%			
<u>Subtotal</u>	10.5%	up 0.5%	down 0.6%	\$23.47	down \$2.26	down \$23.84
Yerba Buena						
<u>Direct</u>	14.1%	up 1.9%	up 6.7%			
<u>Sublease</u>	5.8%	up 1.5%	up 3.2%			
<u>Subtotal</u>	19.9%	up 2.4%	up 9.9%	\$19.43	down \$2.62	down \$23.49
San Francisco CBD Totals						
<u>Direct</u>	9.7%	up 0.7%	up 3.7%			
<u>Sublease</u>	5.6%	up 0.3%	up 2.3%			
<u>Total</u>	15.3%	up 1.0%	up 6.0%	\$25.24	down \$1.94	down \$22.25

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 by real estate expertise.

BT Commercial Real Estate is the largest brokerage focusing exclusively on Northern California: BT Commercial has 130 agents in seven offices serving San Francisco, the Peninsula 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 Bay Area or San Francisco commercial real estate please call, write or email:

Frank Fudem
Senior Vice President
BT Commercial Real Estate
201 California Street, Suite 100
San Francisco, CA 94111
415/677-0455
ffudem@btcommercial.com

* "Asking Rental Rates" are an imperfect indicator as many of San Francisco's leading landlords do not post Asking Rates, so the most expensive buildings are not represented.