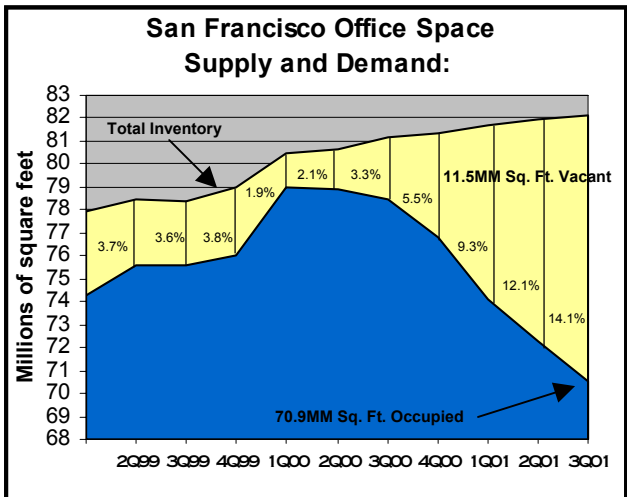


Office Occupancy still Shrinking:

- Third quarter 2001 was the 5th consecutive quarter of "negative absorption": a net decline in the amount of office space occupied in San Francisco.
- Since the market peaked in early 2000, approximately 8.4 million square feet of once-occupied space have been vacated and placed back on the market.

San Francisco Office Supply and Demand:

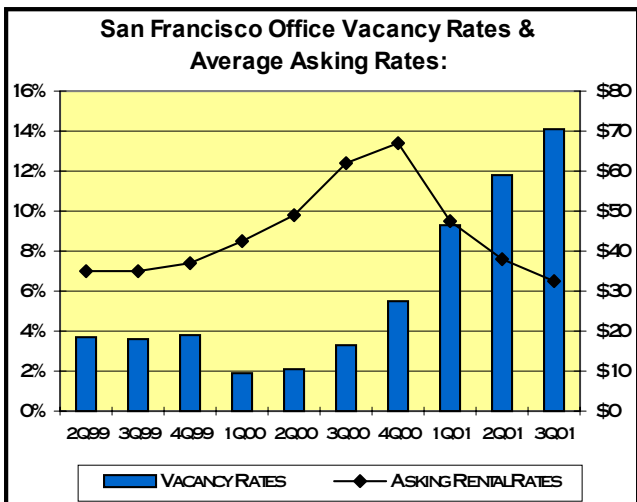
- Sharp decline in amount of space occupied caused vacancies to jump to 14%.
- San Francisco now has 11.5 million square feet available in the Central Business District.



San Francisco Asking Rates: Have declined to early 1999 levels and are still dropping, although not as precipitously as earlier this year.

Impact of September 11 tragedy on Real Estate Market: Greater uncertainty about future economic conditions. Please see separate paper enclosed.

Prognosis: Prior to the 1999/2000 real estate bubble, San Francisco typically experienced One Million to 1.5 Million square feet per year of positive absorption (net increase in amount of space occupied). Occupancy has declined sharply in the last 15 months; when growth resumes and absorption turns from negative to positive, the 11.5 million feet now available means San Francisco could have a 7-to-10 year supply of space based on historic (pre-1999) levels of demand. I therefore expect rents to continue to decline.



In addition to lowering rents, landlords are increasingly willing to provide more generous tenant improvement allowances and other concessions. Some landlords have volunteered to delay rent commencement to entice tenants to relocate. We are beginning to hear occasional rumors of "free" rent and moving allowances.

Recommendation: Rents are still dropping and I believe have not yet reached bottom. On the other hand, business considerations should drive real estate decisions. Real estate should not drive business decisions. You may not catch the very bottom: like the stock market, the real estate market cannot be perfectly timed. The good news: tenants have considerable leverage and are able to negotiate very favorable terms. Please let me know if I can help you take maximum advantage of these favorable market conditions.



San Francisco

3rd Quarter 2001

Vacancy Rates and Asking Rental Rates

Submarkets	Vacancy Rates			Asking Rental Rates*		
	3Q 2001	last 90 days	last 12 months	3Q 2001	last 90 days	last 12 months
North Financial						
<i>Direct</i>	6.7%	up 1.4%	up 4%			
<i>Sublease</i>	5.4%	up 1%	up 4.5%			
<i>Subtotal</i>	12.1%	up 2.4%	up 8.5%	\$38.20	down \$7.23	down \$2.63
South Financial						
<i>Direct</i>	6.1%	up 0.8%	up 5.1%			
<i>Sublease</i>	6.0%	up 0.7%	up 4.8%			
<i>Subtotal</i>	12.1%	up 1.5%	up 9.9%	\$37.67	down \$5.55	down \$1.92
Jackson Sq./ N. Waterfront						
<i>Direct</i>	6.2%	up 0.3%	up 4.8%			
<i>Sublease</i>	5.0%	up 0.7%	up 4.8%			
<i>Subtotal</i>	11.2%	up 1%	up 9.7%	\$35.48	down \$5.3	down \$2.65
S.Beach/Rincon/SOMA						
<i>Direct</i>	10.6%	up 2.2%	up 5.5%			
<i>Sublease</i>	5.5%	up 0.8%	up 4.8%			
<i>Subtotal</i>	16.1%	up 3%	up 10.3%	\$23.80	down \$5.19	down \$0.85
Union Square						
<i>Direct</i>	8.6%	down 1.2%	up 5.5%			
<i>Sublease</i>	2.4%	up 0.1%	up 1.9%			
<i>Subtotal</i>	11.0%	down 1.1%	up 7.4%	\$33.22	down \$2.65	down \$3.48
Yerba Buena						
<i>Direct</i>	11.9%	up 2%	up 6.2%			
<i>Sublease</i>	7.3%	up 1.9%	up 7%			
<i>Subtotal</i>	19.2%	up 3.9%	up 13.2%	\$25.40	down \$3.88	down \$2.06
San Francisco CBD Totals						
<i>Direct</i>	8.3%	up 0.9%	up 5.5%			
<i>Sublease</i>	5.8%	up 1.1%	up 5%			
Total	14.1%	up 2%	up 10.5%	\$32.51	down \$5.36	down \$2.08

* "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.

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 eight offices serving San Francisco, the Peninsula and the East Bay. BT has consummated more than \$18 Billion of real estate transactions.

Frank Fudem's Corporate Real Estate Letter is a complimentary periodic commentary on the San Francisco office market. If you foresee a real estate need, or if you would like more information on Bay Area or San Francisco commercial real estate, or if anyone else in your organization would like to receive future editions, please call write or email:

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