

# The Corporate Real Estate Letter

## by Frank Fudem

May 2004

The San Francisco office vacancy rate is near an all-time high of 19.3%. More than 16 million square feet are available. Yet rents are rising for some properties. Why?

This apparent contradiction is due to a disconnect between supply and demand. The 16 million vacant feet are spread throughout the broader Central Business District (CBD), not just the Financial District, and include Class A, B, and C quality buildings available on both direct leases and subleases.

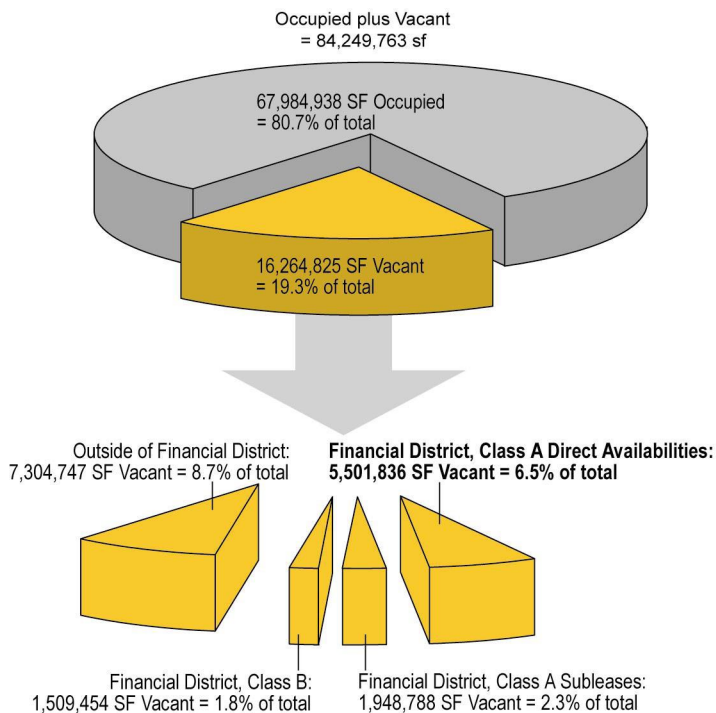
Space in Class A buildings is still relatively affordable, and most tenants prefer direct rather than sublease transactions.

Only 5.5 million feet of Class A non-sublease space are available in the Financial District, just 6.5% of the total office market. Current demand is primarily focused on just this segment. That is why rents are rising.

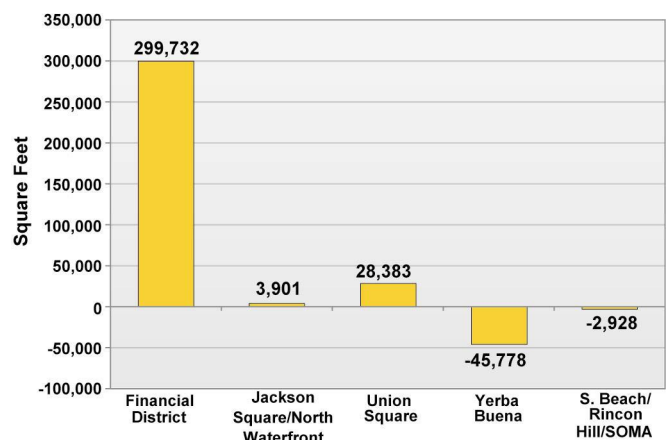
This flight to quality is understandable. San Francisco rents are now about where they were 10 years, in some cases 20 years ago and although rising, they are still attractive compared to other Bay Area locations.

Tenants that signed 5-year leases during the boom in 1999 and 2000 are coming off leases with very high rates, and are able to upgrade both their building and their location by leasing Class A space in the Financial District at rents that are no higher and may even be lower than their old rents.

### TOTAL SAN FRANCISCO OFFICE MARKET



### Q1 2004 NET ABSORPTION BY SUBMARKET



**Supply:** The broader CBD contains a *total* of about 84 million s.f., 59% of which (+/- 50 million s.f.) are in the Financial District. About 16 million s.f. are *vacant* in the broader CBD, 53% of which (+/- 9 million s.f.) are in the Financial District.

**Demand:** "Net Absorption" is the increase or decrease in occupancy from one time period to another. San Francisco office occupancy grew by a robust 300,000 s.f. in the first quarter of 2004. As shown on the following graph, virtually all of the positive absorption occurred in the Financial District.

The market is still tenant-favorable and many good choices are still available. However, the market is changing and this window may be starting to close. This is a good time to lock in advantageous terms, while choices are still plentiful and before rents climb much higher. Please call, write or e-mail if we can answer questions or be of service in any way. We welcome the opportunity to demonstrate how to take maximum advantage of these currently favorable market conditions.

**The Corporate Real Estate Letter by Frank Fudem**  
**San Francisco Central Business District**  
**Office Market Conditions**  
**First Quarter 2004**

Submarket	Office Vacancy						Change in Total Vacancy				Net Absorption (Change in Occupancy)		
	Direct Vacancy		Sublease Vacancy		Total Vacancy		From Last Quarter		From One Year Ago		From Last Quarter	2004 YTD	
	Sq. Ft.	%	Sq. Ft.	%	Sq. Ft.	%	Sq. Ft.	%	Sq. Ft.	%	Sq.Ft.	Sq.Ft.	
<b>North Financial District</b>													
<b>Class A</b>	21,202,395 s.f.	2,812,354	13.3%	1,067,275	5.0%	3,879,629	18.3%	dn (318,563)	-1.5%	dn (573,773)	-2.7%	pos 194,061	pos 194,061
<b>Class B</b>	6,163,969 s.f.	718,844	11.7%	326,937	5.3%	1,045,781	17.0%	dn (112,391)	-1.8%	dn (190,720)	-3.1%	pos 99,891	pos 99,891
<b>Subtotal</b>	27,366,364 s.f.	3,531,198	12.9%	1,394,212	5.1%	4,925,410	18.0%	dn (430,954)	-1.6%	dn (764,493)	-2.8%	pos 293,952	pos 293,952
<b>South Financial District</b>													
<b>Class A</b>	18,822,816 s.f.	2,689,482	14.3%	881,513	4.7%	3,570,995	19.0%	dn (70,340)	-0.4%	dn (300,157)	-1.6%	pos 1,781	pos 1,781
<b>Class B</b>	3,504,579 s.f.	371,352	10.6%	92,321	2.6%	463,673	13.2%	dn (3,999)	-0.1%	dn (29,916)	-0.9%	pos 3,999	pos 3,999
<b>Subtotal</b>	22,327,395 s.f.	3,060,834	13.7%	973,834	4.4%	4,034,668	18.1%	dn (74,339)	-0.3%	dn (330,073)	-1.5%	pos 5,780	pos 5,780
<b>Jackson Square/No. Waterfront</b>													
<b>Subtotal</b>	6,736,609 s.f.	907,905	13.5%	271,377	4.0%	1,179,282	17.5%	dn (38,529)	-0.6%	dn (198,334)	-2.9%	pos 3,901	pos 3,901
<b>Union Square</b>													
<b>Subtotal</b>	4,917,807 s.f.	546,900	11.1%	75,794	1.5%	622,694	12.7%	dn (35,383)	-0.7%	up 54,102	1.1%	pos 28,383	pos 28,383
<b>Yerba Buena</b>													
<b>Subtotal</b>	3,794,953 s.f.	635,628	16.7%	163,371	4.3%	798,999	21.1%	up 45,778	1.2%	dn (165,721)	-4.4%	neg (45,778)	neg (45,778)
<b>South Beach/Rincon Hill/SOMA</b>													
<b>Subtotal</b>	19,106,635 s.f.	4,036,648	21.1%	667,124	3.5%	4,703,772	24.6%	dn (52,922)	-0.3%	up 306,823	1.5%	neg (2,928)	neg (2,928)
<b>All San Francisco CBD Markets</b>													
<b>Total</b>	84,249,763 s.f.	12,719,113	15.1%	3,545,712	4.2%	16,264,825	19.3%	dn (586,349)	-0.7%	dn (1,097,696)	-1.3%	pos 283,310	pos 283,310

**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 through real estate expertise.

**BT Commercial Real Estate** is the largest brokerage focusing exclusively on Northern California. BT Commercial has 130 agents in ten 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:  
 Frank Fudem, Senior Vice President, BT Commercial Real Estate, 201 California Street, Suite 100, San Francisco, CA 94111  
 (415) 677-0455 ■ [ffudem@btcommercial.com](mailto:ffudem@btcommercial.com)

