

Colton Commercial & Partners, Inc.

San Francisco Office Market - 2007 Year End Summary

COLTON COMMERCIAL & PARTNER'S TOP OFFICE LEASES 2007

Property: Office Building
Location: One Thorndale, San Rafael
Tenant: ImageMakers, LLC
Size: 54,000 sq. ft.
Associate: B. Colton

Property: Office Building
Location: 50 First Street, San Francisco
Tenant: EzRez
Size: 12,000 sq. ft.
Associate: B. Colton, J. Shaffer, T. Cademartori

Property: Office Building
Location: 825 W. Francisco Blvd., San Rafael
Tenant: New Home, Inc.
Size: 11,620 sq. ft.
Associate: J. Shaffer

Property: Office Building
Location: 221 Pine Street, San Francisco
Tenant: Rainforest Action
Size: 11,610 sq. ft.
Associate: M. Liu

Property: Office Building
Location: 575 Market Street, San Francisco
Tenant: Hooper, Lundy, Bookman, Inc.
Size: 11,567 sq. ft.
Associate: B. Colton, J. Shaffer

Property: Office Building
Location: 612 Howard Street, San Francisco
Tenant: Handheld Entertainment
Size: 8,400 sq. ft.
Associate: B. Colton, J. Shaffer

Property: Office Building
Location: 611 Mission Street, San Francisco
Tenant: Mochi Media
Size: 5,734 sq. ft.
Associate: J. Shaffer

Property: Office Building
Location: 66 Mint Street, San Francisco
Tenant: Etsy, Inc.
Size: 4,000 sq. ft.
Associate: B. Colton, T. Cademartori

COLTON COMMERCIAL & PARTNER'S TOP RETAIL LEASES 2007

Property: Retail
Location: Parkside Plaza, San Mateo
Tenant: Specialty's
Size: 4,725 sq. ft.
Associate: B. Colton, J. Shaffer, T. Cademartori

Property: Retail
Location: 123 Second Street, San Francisco
Tenant: Tara Restaurant
Size: 3,722 sq. ft.
Associate: B. Colton, J. Shaffer

State of the Market

The overall, city-wide vacancy rate reached a single digit level, dropping to 9.4%. This is the first time since the fall of the dot-com era that the San Francisco Office Market has had such low vacancies. At the end of 2006, city-wide vacancy levels were measured at 11%. The lower vacancy rates of 2007 represent a 1.6% decrease in the overall vacancy rate for the past year.

Average asking rents from 2007 vs 2006:

Class A Properties:	Class B Properties:
2007 - \$38.98	2007 - \$32.54
2006 - \$32.14	2006 - \$25.57
One year increase of 21.28%	One year increase of 27.26%

Increase in Rents over the Past Five Years:

Class A Properties:	Class B Properties:
2007 - \$38.98	2007 - \$32.54
2002 - \$30.41	2002 - \$24.58
Five year increase of 28.18%	Five year increase of 32.38%

The one year increase established in the 2007 asking rents was almost equal to the increase in rents achieved by Landlords over the past five years. Given the single digit vacancy factor, combined with near record high asking rents, what is the impact on the San Francisco office tenant? In other words, can the inverse relationships between low vacancies and high rents continue in 2008 and into the future?

The answer to where rent trends are moving may be derived by looking at the net absorption trends over the past two years. Net absorption is the net change in occupied space over a given period of time.

In San Francisco for both Class A & B buildings (direct space only), the net absorption rates were as follows:

2007	1,200,000 square feet;
2006	1,710,000 square feet.

The above net absorption rates represent over a half million square foot reduction in calendar year 2007. We believe the decrease in sales activities combined with the decrease in net absorption will correspond in decreased rents. This is particularly true in the Class A office market. The demand for Class B office space, fueled by newly formed technology companies will remain strong. We further believe that the velocity in the market has decreased both on the leasing and sales side and activity levels will reflect our sentiments by the end of First Quarter 2008.



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TOP TEN SAN FRANCISCO OFFICE LEASE TRANSACTIONS



TENANT	ADDRESS	LEASE TYPE	SQUARE FEET
Bank of America Securities	600 Montgomery St	Renewal	182,665
Google, Inc.	2 Harrison Street	Sublease	170,000
Babcock & Brown	Letterman Bldg D	Sublease	155,009
United Behavioral Health	425 Market Street	Renewal	127,900
Marsh & McLennan	345 California Street	Direct	127,108
Barclays Global Investors Intl.	45 Fremont Street	Renewal	113,404
O'Melveny & Myers LLP	Two Embarcadero	Direct	95,191
Mellon Capital Management	50 Fremont Street	Direct	78,512
Microsoft Corporation	835 Market Street	Direct	71,000
Google, Inc.	2 Harrison Street	Sublease	70,000

TOP FIVE SAN FRANCISCO SALES TRANSACTIONS



ADDRESS	PRICE	PRICE perSF	RBA	BUYER
650 California Street	\$300,000,000	\$609.59	492,131	AEW Capital Management LP
333 Bush Street	\$281,000,000	\$517.74	542,743	Sterling American Property & Hines
405 Howard Street	\$247,000,000	\$490.49	503,576	Ashforth Pacific, Inc.
600 California Street	\$158,100,000	\$490.44	322,362	DekaBank Deutsche Girozentrale
180 Montgomery Street	\$128,000,000	\$427.59	299,351	The Swig Company & Mitsui Fudosan America, Inc.



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