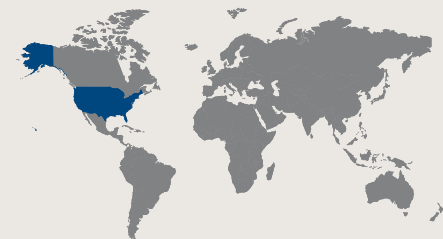


Peninsula Report

MARKET OVERVIEW | SECOND QUARTER | 2008



MARKET INDICATORS

	1Q 2008	2Q 2008	
VACANCY RATE	10.4%	12.1%	▲
GROSS ABSORPTION	758,190 SF	846,917 SF	▲
NET ABSORPTION	50,723 SF	(695,793 SF)	▼
WEIGHTED AVG ASKING RENT	\$3.52 FS	\$3.60 FS	▲

Office Overview

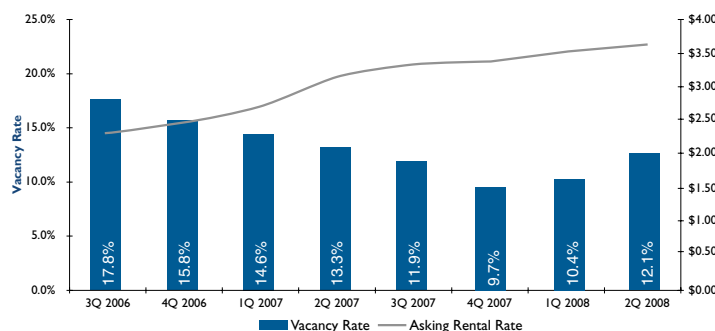
The midpoint of 2008 presents many open questions for the local commercial real estate market. It is taken as a given that we are either in the midst of, or will shortly face, a correction from the noteworthy run-up of the past few years. Any street-level view of the market will show a slow-down in activity from quarters past, and in some sectors and product types, rents have certainly softened to some degree.

The increased vacancy rate on the Peninsula has been widely reported as a sign of a weakening market. While this is certainly a reasonable conclusion, a proper assessment of market conditions requires a bit more scrutiny. A finite market such as the Peninsula will more readily show the effect of a single event, such as we have seen this quarter with the newly available PDL BioPharma sublease portfolio. This ±447,000 sf portfolio represents a significant percentage of the total available space in the local market, and is of a type that will not lend itself to quick lease up, regardless of the larger market picture. Without this one addition to inventory, we see a market with only nominal changes to the broader vacancy rate, as opposed to one with the first consequential negative absorption in 8 quarters—still a noteworthy change from 2007, but perhaps not as significant a sign of trouble.

Lease rates in most submarkets appear to have ceased their upward spiral witnessed over the past 4 years. Most core markets have leveled off, at least for the short term, and the small changes seen in either direction in any given submarket may be more a reflection of the specific mix of available buildings as opposed to a real trend in rents. Not surprisingly, it is the small-tenant oriented markets (Palo Alto, Mountain View and Redwood Shores) where Class A space shows the most strength. In the past quarter we have seen some high-profile buildings ease off from record-high asking prices; however, the rates seen at completed transactions compare favorably to deals done in the latter part of 2007.

Despite the slower pace of the local market, large transactions continue, most notably in higher image projects. Leases by Gunderson Dettmer (±100,000 sf) and Sony Ericsson

PENINSULA OFFICE MARKET - VACANCY VS. RENT


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(±62,000 sf) in Redwood Shores, and Akamai's ±64,000 sf commitment in San Mateo helped to keep the Class A markets stable locally, and transactions by the likes of Caridica (±30,000 sf in Redwood City) and Map Pharmaceuticals (±22,000 sf in Mtn View) show the continued breadth within the influence of biotech/pharma companies locally.

The balance of 2008 will be particularly telling about the direction of the market. There are signs of weakness in some peripheral markets and activity levels have decreased. What remains to be seen is how national trends will impact the local markets. Tightening credit and a softer economy have already left a mark on the commercial real estate industry at the macro level. The local effect on the leasing market may be mitigated or perhaps entirely trumped by years of limited development and a stronger, more diverse local economy.

Industrial Overview

The San Francisco Peninsula Industrial market was flat during the 2nd Quarter of 2008, with rents remaining stable and vacancy decreasing to 5.1% from 5.3% last quarter. While market fundamentals remained strong, the velocity of deals in the market was slow. Increasing interest rates have affected the sale market, illustrated by the relatively small number, and size of transactions. That said, values appear to be holding steady and available inventory for sale remains tight.

A number of factors contributed to the state of malaise throughout the Peninsula Industrial market during the 2nd Quarter of 2008. The uncertainty of the local, national, as well as global, economy has made it increasingly difficult for organizations to project performance. This has led to longer decision making processes, and many companies choosing to wait until there are clearer indications as to the economy's direction. Additionally, the election of a new President and potential policy changes are creating angst. Case in point was the faltering of the Millbrae BART Station redevelopment in which the exclusive developer, Fancher Partners, walked away from the project due to potential changes in eminent domain legislation. Instability in the capital markets continued to play a role as there were no institutional level deals transacted during the 2nd Quarter.

SELECT PENINSULA TRANSACTIONS, Q2 2008

LEASES:

- Gunderson Dettmer LLP leased 98,022 square feet of office space at 1200 Seaport Boulevard in Redwood City
- Akamai Technologies leased 64,000 square feet of office space at 3125 Clearview Way in San Mateo
- Sony Ericsson leased 62,721 square feet of office space at 100 Redwood Shores Parkway in Redwood Shores
- Bay Bread Company leased 39,600 square feet of warehouse space at 320 Shaw Road in South San Francisco
- First DataBank leased 34,860 square feet of office space at 701 Gateway Boulevard in South San Francisco
- King & Spalding LLP leased 27,773 square feet of office space at 333 Twin Dolphin Drive in Redwood Shores
- Tiny Prints leased 25,430 square feet of R&D space at 415 E. Middlefield Road in Mountain View
- Space Systems/Loral leased 25,000 square feet R&D space at 1340 W. Middlefield Road in Mountain View

SALES:

- Prudential Realty Investors purchased 675-685 E. Middlefield Road in Mountain View in a sale/leaseback agreement with VeriSign Inc. (165,000 square feet of R&D)
- Johnson Lam purchased 1564 Rollins Road in Burlingame (21,275 square feet of industrial)

OFFICE MARKET STATISTICS

SECOND QUARTER 2008

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY				NET ABSORPTION		RENT
Class	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Current Occupied Sq Ft	Rate Q2-2008	Rate Q1-2008	Q2-2008	YTD	Wtd Avg Asking Rate
SUB MARKETS													
MOUNTAIN VIEW/LOS ALTOS													
A	31	2,427,929	150,768	6.2%	0	0.0%	150,768	2,277,161	6.2%	6.0%	(19,195)	(40,357)	\$3.97
B	63	1,466,642	150,961	10.3%	1,687	0.1%	152,648	1,313,994	10.4%	9.0%	(22,764)	(54,279)	\$3.26
Total	94	3,894,571	301,729	7.7%	1,687	0.0%	303,416	3,591,155	7.8%	7.2%	(41,959)	(94,636)	\$3.54
PALO ALTO													
A	66	2,806,466	108,703	3.9%	33,666	1.2%	142,369	2,664,097	5.1%	5.1%	(25,267)	9,646	\$6.05
B	105	2,400,401	139,406	5.8%	24,333	1.0%	163,739	2,236,662	6.8%	3.0%	(59,477)	(63,414)	\$4.22
Total	171	5,206,867	248,109	4.8%	57,999	1.1%	306,108	4,900,759	5.9%	4.2%	(84,744)	(53,768)	\$5.26
MENLO PARK													
A	31	1,496,965	18,274	1.2%	750	0.1%	19,024	1,477,941	1.3%	1.2%	(695)	72,445	\$8.45
B	69	2,125,648	199,636	9.4%	74,128	3.5%	273,764	1,851,884	12.9%	10.4%	(52,881)	(88,328)	\$3.91
Total	100	3,622,613	217,910	6.0%	74,878	2.1%	292,788	3,329,825	8.1%	6.6%	(53,576)	(15,883)	\$4.29
REDWOOD CITY													
A	20	2,440,446	130,133	5.3%	577,100	23.6%	707,233	1,733,213	29.0%	14.5%	(353,843)	(284,464)	\$3.36
B	36	1,336,245	260,079	19.5%	0	0.0%	260,079	1,076,166	19.5%	19.2%	(3,532)	6,742	\$2.86
Total	56	3,776,691	390,212	10.3%	577,100	15.3%	967,312	2,809,379	25.6%	16.2%	(357,375)	(277,722)	\$3.03
BELMONT/SAN CARLOS													
A	9	881,679	320,563	36.4%	58,497	6.6%	379,060	502,619	43.0%	46.0%	26,775	(52,497)	\$3.62
B	12	660,789	48,418	7.3%	0	0.0%	48,418	612,371	7.3%	10.1%	18,101	17,070	\$3.30
Total	21	1,542,468	368,981	23.9%	58,497	3.8%	427,478	1,114,990	27.7%	30.6%	44,876	(35,427)	\$3.58
REDWOOD SHORES													
A	49	5,347,940	375,856	7.0%	62,820	1.2%	438,676	4,909,264	8.2%	9.4%	65,589	208,062	\$3.94
B	5	172,852	32,379	18.7%	6,564	3.8%	38,943	133,909	22.5%	25.2%	4,676	1,425	\$3.11
Total	54	5,520,792	408,235	7.4%	69,384	1.3%	477,619	5,043,173	8.7%	9.9%	70,265	209,487	\$3.87
SAN MATEO													
A	24	2,709,117	237,505	8.8%	98,605	3.6%	336,110	2,373,007	12.4%	10.1%	(62,494)	(57,737)	\$3.78
B	68	3,956,698	614,383	15.5%	69,733	1.8%	684,116	3,272,582	17.3%	19.1%	70,272	(31,685)	\$3.58
Total	92	6,665,815	851,888	12.8%	168,338	2.5%	1,020,226	5,645,589	15.3%	15.4%	7,778	(89,422)	\$3.64
FOSTER CITY													
A	14	2,686,494	75,121	2.8%	56,505	2.1%	131,626	2,554,868	4.9%	2.2%	(72,978)	(98,787)	\$3.94
B	14	576,068	65,070	11.3%	1,839	0.3%	66,909	509,159	11.6%	10.7%	(5,267)	(2,268)	\$3.26
Total	28	3,262,562	140,191	4.3%	58,344	1.8%	198,535	3,064,027	6.1%	3.7%	(78,245)	(101,055)	\$3.62
BURLINGAME													
A	6	758,931	192,646	25.4%	25,750	3.4%	218,396	540,535	28.8%	20.0%	(66,721)	(61,952)	\$3.22
B	24	1,047,180	82,478	7.9%	0	0.0%	82,478	964,702	7.9%	5.0%	(30,572)	(22,569)	\$2.05
Total	30	1,806,111	275,124	15.2%	25,750	1.4%	300,874	1,505,237	16.7%	11.3%	(97,293)	(84,521)	\$3.03
SAN BRUNO/MILLBRAE													
A	9	1,132,078	74,895	6.6%	78,695	7.0%	153,590	978,488	13.6%	8.0%	(63,363)	(65,970)	\$3.66
B	11	371,840	19,290	5.2%	0	0.0%	19,290	352,550	5.2%	5.2%	0	0	\$2.85
Total	20	1,503,918	94,185	6.3%	78,695	5.2%	172,880	1,331,038	11.5%	7.3%	(63,363)	(65,970)	\$3.49
DALY CITY													
A	4	668,291	18,903	2.8%	0	0.0%	18,903	649,388	2.8%	2.8%	(350)	22,172	\$2.69
B	10	285,853	38,307	13.4%	0	0.0%	38,307	247,546	13.4%	13.0%	(1,018)	(2,143)	\$2.00
Total	14	954,144	57,210	6.0%	0	0.0%	57,210	896,934	6.0%	5.9%	(1,368)	20,029	\$2.23
SOUTH SAN FRANCISCO													
A	15	2,370,888	83,292	3.5%	121,517	5.1%	204,809	2,166,079	8.6%	9.3%	16,451	10,621	\$3.24
B	14	952,918	63,152	6.6%	81,663	8.6%	144,815	808,103	15.2%	10.6%	(43,788)	(56,751)	\$2.97
Total	29	3,323,806	146,444	4.4%	203,180	6.1%	349,624	2,974,182	10.5%	9.7%	(27,337)	(46,130)	\$3.13
BRISBANE													
A	5	674,888	124,860	18.5%	37,155	5.5%	162,015	512,873	24.0%	22.5%	(10,318)	(6,918)	\$3.19
B	4	176,587	28,394	16.1%	0	0.0%	28,394	148,193	16.1%	14.3%	(3,134)	(3,134)	\$1.95
Total	9	851,475	153,254	18.0%	37,155	4.4%	190,409	661,066	22.4%	20.8%	(13,452)	(10,052)	\$2.96
MARKET TOTALS													
A	283	26,402,112	1,911,519	7.2%	1,151,060	4.4%	3,062,579	23,339,533	11.6%	9.6%	(566,409)	(345,736)	\$3.82
B	435	15,529,721	1,741,953	11.2%	259,947	1.7%	2,001,900	13,527,821	12.9%	11.9%	(129,384)	(299,334)	\$3.34
Total	718	41,931,833	3,653,472	8.7%	1,411,007	3.4%	5,064,479	36,867,354	12.1%	10.4%	(695,793)	(645,070)	\$3.60

North San Mateo County remained the epicenter of industrial deal flow, with the majority of transactions taking place between Burlingame and Brisbane. Bay Bread leased $\pm 40,000$ square feet in South San Francisco, while Landway International and Events Management Inc. both executed leases of $\pm 22,000$ square feet. Average rental rates had a small uptick, increasing from \$.90 to \$.93 per square foot during the 2nd Quarter while the market experienced net absorption of 82,476 square feet.

Owner-users continued to dominate the sale arena, as the bid-ask delta remains difficult to overcome on investment transactions. 1564 Rollins Road, in Burlingame, was sold for over \$200 per square foot, which represents an aggressive purchase price for a $\pm 21,000$ square foot warehouse. Industrial condominiums continued to trade, though this product type has experienced a drop in value. SBA Financing remains the key to elevated purchase prices as business owners continue to obtain high leverage at sub-7% interest rates. While there was not a flurry of activity, the market held its own and remained stable throughout the 2nd Quarter.

*Industrial and R&D statistics are available upon request.

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293 OFFICES IN 61 COUNTRIES
ON 6 CONTINENTS

USA 99
Canada 19
Latin America 18
Asia Pacific 62
EMEA 95

\$73 billion in annual transaction
volume

868 million square feet under
management

11,000 Professionals

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