Market Research

MARKET OVERVIEW | FIRST QUARTER | 2009

MARKET INDICATORS

	4Q 2008	1Q 2009	
VACANCY RATE	16.1%	18.4%	↑
DIRECT VACANCY	3,790,155 SF	4,415,651 SF	↑
SUBLEASE VACANCY	1,552,019 SF	1,722,232 SF	↑
GROSS ABSORPTION	440,857 SF	453,213 SF	↔
NET ABSORPTION	(419,636) SF	(762,108) SF	↓
WTD AVG ASKING RENT	$3.05 FS	$2.82 FS	↓

"Available sublease space as a percentage of the broad market has remained relatively flat, keeping a source of potential volatility out of the market."

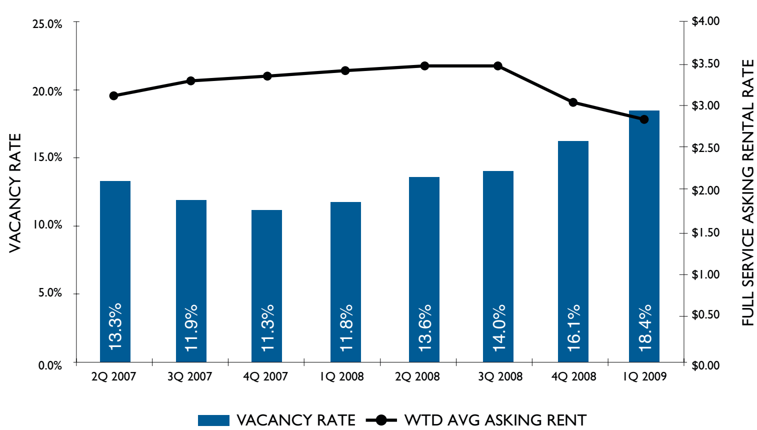
Office Overview

Given the continued economic turbulence playing out on the world stage, one might expect to see our local commercial real estate market in freefall; perhaps a repeat of the 2001 crash which saw rents tumble at breakneck speed. Instead, the local market appears to have taken a "wait and see" stance, with leasing activity slowing to a virtual halt.

The first quarter of 2009 was by all measures the worst for the local commercial real estate market in eight years. ±762,108 square feet of negative net absorption in the office sector sent the broader vacancy rate on the Peninsula to 18.4%. With few exceptions (most notably the Redwood Shores submarket, which has seen ±226,818 square feet of new inventory added this quarter), the high negative absorption rate impacted all local submarkets universally with few noteworthy large blocks of space coming available and artificially impacting the vacancy rate. This is in stark contrast to recent underperforming quarters, where negative absorption has been largely driven by the addition to market of a significant campus or single-tenant building.

Particularly noteworthy in this climate is the shockingly low gross absorption figure. Gross absorption, a measure of all leasing activity within the market, was an anemic ±453,213 square feet in the first quarter of 2009, representing a 41% dip from the same period last year. What is particularly disconcerting about such stifled leasing activity, particularly when coupled with declining rents, is that the true weakness of the market may be concealed from view. With fewer opportunities for the market to essentially show its hand, there may still be further downside pressure coming to bear upon lease rates.

PENINSULA OFFICE MARKET - VACANCY VS. RENT



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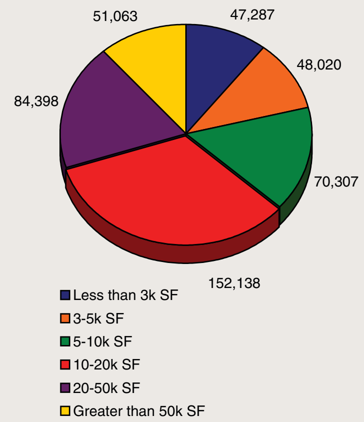
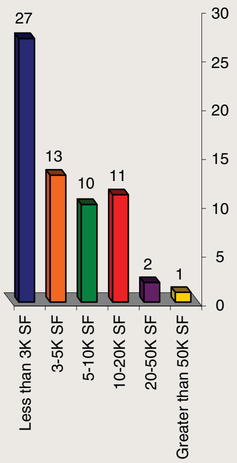
1Q 2009 SAN MATEO COUNTY OFFICE DEAL VELOCITY

SIZE RANGE	TOTAL SF	#OF DEALS
LESS THAN 3K SF	47,287 SF	27
3–5K SF	48,020 SF	13
5–10K SF	70,307 SF	10
10–20K SF	152,138 SF	11
20–50K SF	84,398 SF	2
GREATER THAN 50K SF	51,063 SF	1
TOTAL	453,213 SF	64

TOTAL SQUARE FEET



NUMBER OF DEALS



Still, there are reasons for optimism towards the mid and long term prospects for this market. Available sublease space as a percentage of the broad market has remained relatively flat, keeping a source of potential volatility out of the market. The office market on the Peninsula is largely driven by smaller users—a market segment that is much more likely to show a quick response to any change in conditions. Based on the high vacancy rates and depressed levels of activity, there is little chance of lease rate growth in the near term; however, fundamental strength remains in the Peninsula market which experienced a landlord favorable market only 6 quarters ago.

A recent Wall Street Journal article cast an interesting spotlight on the struggles of our local market. Storied Sand Hill Road, well known as one of the priciest office addresses in the world, has seen an unusually pronounced spike in vacancy, with rates now clocking in at 6.6%. This submarket is the hub of venture capital activity in Silicon Valley and still draws envy from any conventional submarket. Currently there is ±94,345 square feet available, and monthly rents have dipped to a mere $12.48 psf Full Service.

The historically strong markets on the Peninsula retain a better position compared to the broader picture. While available space in Palo Alto has risen 31% over the past year to their current level of 18.7%, rental rates remain comparatively strong, and many of the most noteworthy transactions of the first quarter happened within this submarket. Of particular note were leases in the Stanford Research Park by Acuitus (±10,802 sf) and Map Royalty (±13,040 sf). Substantial transactions were also seen in the San Mateo/Foster City market, including Navigenics ±15,766 sf lease at Parkside Towers, Foster City, and Gazillion's (formerly NR2B Research) ±49,800 sf commitment in San Mateo.

Sale activity remains sparse due to limited sources of funding and general concern over the current state of the market. The recent transaction in Foster City, with Electronics for Imaging selling a 35 acre site to biotech company Gilead Sciences is a noteworthy standout. Included in this $137.5M sale was a ±163,000 square foot building.

The near-term fate of our market is to be determined by factors for which there is still only limited visibility. While we do not anticipate any bounce associated with pent-up excess demand in the short term, further lowering of lease rates may act as a catalyst to increased activity which could provide market participants an indication of a stabilizing market. Any decrease in vacancy would, of course, be looked on as a good sign, but an earlier indicator of a change in direction will be found in increased gross absorption and a decline in the ratio of available sublease space.

MARKET ACTIVITY

SIGNIFICANT FIRST QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
525 Broadway Street, Redwood City	64,727	Silver Spring Networks	R&D
475 Concar Drive, San Mateo	49,800	NR2B Research, Inc. (Gazillion Ent.)	Office
1000 Marina Boulevard, Brisbane	34,598	Hitachi America, Ltd	Office
1330 W. Middlefield Road, Mountain View	25,000	Euphonix, Inc.	R&D
1605 Adams Drive, Menlo Park	22,012	Acclarent Inc.	R&D
959 Skyway Road, San Carlos	18,497	Aster Data Systems	Office
1400 Fashion Island Boulevard, San Mateo	18,102	Redbana US	Office

SIGNIFICANT SALES

PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
301 Velocity Way, Foster City	163,000	Gilead Sciences, Inc.	Office
1661 Page Mill Rd, Palo Alto	61,205	Gordon & Betty Moore Foundation	Office

OFFICE MARKET STATISTICS
FIRST QUARTER 2009

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 Q1-2009	Rate Q4-2008	Q1-2009	YTD	Wtd Avg Asking Rate
SUB MARKETS													
SOUTH PENINSULA													
MOUNTAIN VIEW/LOS ALTOS													
A	31	2,427,929	138,577	5.7%	40,378	1.7%	178,955	2,248,974	7.4%	6.1%	(44,577)	(44,577)	$3.74
B/C	147	2,447,535	268,477	11.0%	36,519	1.5%	304,996	2,142,539	12.5%	10.5%	(68,272)	(68,272)	$2.97
Total	178	4,875,464	407,054	8.3%	76,897	1.6%	483,951	4391513	9.9%	8.3%	(112,849)	(112,849)	$3.23
PALO ALTO													
A	63	2,806,466	118,232	4.2%	57,482	2.0%	175,714	2,630,752	6.3%	6.2%	(2,305)	(2,305)	$4.01
B/C	187	3,330,171	223,094	6.7%	177,595	5.3%	400,689	2,929,482	12.0%	8.5%	(117,466)	(117,466)	$3.72
Total	250	6,136,637	341,326	5.6%	235,077	3.8%	576,403	5,560, 234	9.4%	7.5%	(119,771)	(119,771)	$3.80

*THE SOUTH PENINSULA CITIES OF MOUNTAIN VIEW, LOS ALTOS AND PALO ALTO ARE FOR REFERENCE PURPOSES AS THEY ARE NOT INCLUDED IN THE SAN MATEO COUNTY MARKET TOTALS BELOW.

Class	Bldgs	Total Inventory Sq Ft	Direct Sq Ft	Direct Rate	Sublease Sq Ft	Sublease Rate	Total Sq Ft	Current Occupied Sq Ft	Rate Q1-2009	Rate Q4-2008	Q1-2009	YTD	Wtd Avg Asking Rate
SAN MATEO COUNTY													
MENLO PARK													
A	33	1,638,427	97,177	5.9%	20,932	1.3%	118,109	1,520,318	7.2%	2.3%	(17,186)	(17,186)	$8.05
B	71	2,177,894	286,865	13.2%	121,491	5.6%	408,356	1,769,538	18.8%	12.4%	(122,892)	(122,892)	$3.07
Total	104	3,816,321	384,042	10.1%	142,423	3.7%	526,465	3,2 ,856	13.8%	8.2%	(140,078)	(140,078)	$4.33
REDWOOD CITY													
A	20	2,440,446	145,954	6.0%	579,262	23.7%	725,216	1,715,230	29.7%	29.4%	(6,566)	(6,566)	$3.05
B	36	1,336,245	266,043	19.9%	22,182	1.7%	288,225	1,048,020	21.6%	19.5%	(27,921)	(27,921)	$2.46
Total	56	3,776,691	411,997	10.9%	601,444	15.9%	1,013,441	2,763,250	26.8%	25.9%	(34,487)	(34,487)	$2.67
BELMONT/SAN CARLOS													
A	9	881,679	350,783	39.8%	66,775	7.6%	417,558	464,121	47.4%	43.0%	(38,498)	(38,498)	$3.14
B	13	673,289	119,895	17.8%	0	0.0%	119,895	553,394	17.8%	7.8%	(68,100)	(68,100)	$2.55
Total	22	1,554,968	470,678	30.3%	66,775	4.3%	537,453	1,017,515	34.6%	27.9%	(106,598)	(106,598)	$2.99
REDWOOD SHORES													
A	49	5,347,940	652,513	12.2%	72,826	1.4%	725,339	4,622,601	13.6%	9.4%	(222,003)	(222,003)	$2.82
B	5	172,852	22,074	12.8%	4,626	2.7%	26,700	146,152	15.4%	12.7%	(4,815)	(4,815)	$2.65
Total	54	5,520,792	674,587	12.2%	77,452	1.4%	752,039	4,768,753	13.6%	9.5%	(226,818)	(226,818)	$2.81
SAN MATEO													
A	24	2,709,117	326,679	12.1%	120,307	4.4%	446,986	2,262,131	16.5%	15.3%	(33,154)	(33,154)	$2.75
B	69	4,006,698	800,012	20.0%	87,056	2.2%	887,068	3,119,630	22.1%	19.8%	(101,762)	(101,762)	$2.58
Total	93	6,715,815	1,126,691	16.8%	207,363	3.1%	1,334,054	5,381,761	19.9%	18.0%	(134,916)	(134,916)	$2.63
FOSTER CITY													
A	14	2,686,494	131,250	4.9%	148,403	5.5%	279,653	2,406,841	10.4%	8.1%	(63,166)	(63,166)	$3.37
B	14	576,068	52,233	9.1%	19,192	3.3%	71,425	504,643	12.4%	16.0%	20,941	20,941	$2.33
Total	28	3,262,562	183,483	5.6%	167,595	5.1%	351,078	2,911,484	10.8%	9.5%	(42,225)	(42,225)	$3.07
BURLINGAME													
A	6	758,931	204,772	27.0%	24,000	3.2%	228,772	530,159	30.1%	31.7%	11,949	11,949	$2.16
B	24	1,047,180	122,521	11.7%	19,272	1.8%	141,793	905,387	13.5%	10.3%	(34,205)	(34,205)	$1.85
Total	30	1,806,111	327,293	18.1%	43,272	2.4%	370,565	1,435,546	20.5%	19.3%	(22,256)	(22,256)	$2.04
SAN BRUNO/MILLBRAE													
A	9	1,132,078	118,526	10.5%	64,437	5.7%	182,963	949,115	16.2%	14.8%	(15,752)	(15,752)	$2.79
B	11	371,840	25,838	6.9%	0	0.0%	25,838	346,002	6.9%	6.9%	0	0	$2.40
Total	20	1,503,918	144,364	9.6%	64,437	4.3%	208,801	1,295,117	13.9%	12.8%	(15,752)	(15,752)	$2.72
DALY CITY													
A	4	668,291	32,832	4.9%	2,060	0.3%	34,892	633,399	5.2%	3.8%	(9,333)	(9,333)	$2.31
B	10	285,853	37,778	13.2%	1,834	0.6%	39,612	246,241	13.9%	12.7%	(3,236)	(3,236)	$1.99
Total	14	954,144	70,610	7.4%	3,894	0.4%	74,504	879,640	7.8%	6.5%	(12,569)	(12,569)	$2.14
SOUTH SAN FRANCISCO													
A	16	2,674,500	433,939	16.2%	130,301	4.9%	564,240	2,110,260	21.1%	19.5%	(38,685)	(38,685)	$2.54
B	13	880,060	47,060	5.3%	201,114	22.9%	248,174	631,886	28.2%	32.4%	6,800	6,800	$2.45
Total	29	3,554,560	480,999	13.5%	331,415	9.3%	812,414	2,742,146	22.9%	22.9%	(31,885)	(31,885)	$2.53
BRISBANE													
A	5	674,888	121,031	17.9%	16,162	2.4%	137,193	537,695	20.3%	20.8%	3,285	3,285	$3.15
B	4	176,587	19,876	11.3%	0	0.0%	19,876	156,711	11.3%	12.5%	2,191	2,191	$1.95
Total	9	851,475	140,907	16.5%	16,162	1.9%	157,069	694,406	18.4%	19.1%	5,476	5,476	$2.98
SAN MATEO COUNTY MARKET TOTALS													
A	189	21,612,791	2,615,456	12.1%	1,245,465	5.8%	3,860,921	17,751,870	17.9%	15.7%	(429,109)	(429,109)	$3.00
B	270	11,704,566	1,800,195	15.4%	476,767	4.1%	2,276,962	9,427,604	19.5%	17.0%	(332,999)	(332,999)	$2.56
Total	459	33,317,357	4,415,651	13.3%	1,722,232	5.2%	6,137,883	27,179,474	18.4%	16.1%	(762,108)	(762,108)	$2.82

R&D MARKET STATISTICS
FIRST QUARTER 2009

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY				NET ABSORPTION		AVG. RENT
City	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Current Occupied Sq Ft	Rate Q1-2009	Rate Q4-2008	Q1-2009	YTD	Wtd Avg Asking Rate
SUB MARKETS													
SOUTH PENINSULA													
MOUNTAIN VIEW	274	13,971,801	794,354	5.7%	655,512	4.7%	1,449,866	12,521,935	10.4%	9.5%	(153,718)	(153,718)	$1.81
PALO ALTO	59	10,292,315	47,442	0.5%	323,245	3.1%	370,687	9,921,628	3.6%	3.8%	19,948	19,948	$3.28
*THE SOUTH PENINSULA CITIES OF MOUNTAIN VIEW AND PALO ALTO ARE FOR REFERENCE PURPOSES AS THEY ARE NOT INCLUDED IN THE SAN MATEO COUNTY MARKET TOTALS BELOW.													
SAN MATEO COUNTY													
MENLO PARK	58	2,308,198	161,275	7.0%	29,336	1.3%	190,611	2,117,587	8.3%	9.7%	37,180	37,180	$1.83
REDWOOD CITY	64	2,377,304	244,855	10.3%	179,192	7.5%	424,047	1,953,257	17.8%	15.9%	(50,899)	(50,899)	$1.75
BELMONT/SAN CARLOS	49	1,749,542	133,045	7.6%	79,839	4.6%	212,884	1,536,658	12.2%	7.7%	(80,350)	(80,350)	$1.20
SAN MATEO/FOSTER CITY	58	1,676,101	126,924	7.6%	0	0.0%	126,924	1,549,177	7.6%	7.2%	(10,578)	(10,578)	$1.27
SAN BRUNO/BURLINGAME	29	705,312	19,533	2.8%	10,591	1.5%	30,124	675,188	4.3%	2.5%	(12,149)	(12,149)	$0.98
SOUTH SAN FRANCISCO/ BRISBANE	97	5,809,954	645,936	11.0%	583,869	9.9%	1,229,805	4,661,149	20.9%	7.4%	(190,968)	(190,968)	$1.94
SAN MATEO COUNTY MARKET TOTAL													
Total	355	14,707,411	1,331,568	9.1%	882,827	6.0%	2,214,395	12,493,016	15.1%	9.0%	(307,764)	(307,764)	$1.74

INDUSTRIAL MARKET STATISTICS
FIRST QUARTER 2009

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY				NET ABSORPTION		AVG. RENT
City	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Current Occupied Sq Ft	Rate Q1-2009	Rate Q4-2008	Q1-2009	YTD	Wtd Avg Asking Rate
SUB MARKETS													
SOUTH PENINSULA													
MOUNTAIN VIEW	148	2,698,054	142,358	5.3%	1,600	0.1%	143,958	2,554,096	5.3%	5.7%	10,018	10,018	$1.33
*THE SOUTH PENINSULA CITY OF MOUNTAIN VIEW ARE FOR REFERENCE PURPOSES AS THEY ARE NOT INCLUDED IN THE SAN MATEO COUNTY MARKET TOTALS BELOW.													
SAN MATEO COUNTY													
MENLO PARK	92	2,920,524	242,738	8.3%	11,904	0.4%	254,642	2,665,882	8.7%	4.8%	(119,244)	(119,244)	$0.75
REDWOOD CITY	178	4,152,952	151,056	3.6%	101,633	2.4%	252,689	3,900,263	6.1%	6.0%	(2,682)	(2,682)	$0.84
BELMONT/SAN CARLOS	219	5,446,068	124,537	2.3%	4,000	0.1%	128,537	5,317,531	2.4%	2.3%	(5,331)	(5,331)	$1.09
SAN MATEO/FOSTER CITY	70	1,262,321	53,802	4.3%	0	0.0%	53,802	1,208,519	4.3%	7.7%	(6,000)	(6,000)	$1.10
BURLINGAME	161	4,718,030	327,461	6.9%	47,452	1.0%	374,913	4,343,117	7.9%	7.6%	(22,042)	(22,042)	$0.85
SAN BRUNO/MILLBRAE	24	753,808	0	0.0%	0	0.0%	0	753,808	0.0%	1.3%	10,466	10,466	N/A
BRISBANE/DALY CITY	100	5,002,049	290,807	5.8%	106,755	2.1%	397,562	4,604,487	7.9%	7.8%	(21,375)	(21,375)	$0.86
SOUTH SAN FRANCISCO	411	16,606,941	1,675,367	10.1%	77,508	0.5%	1,752,875	14,854,066	10.6%	7.6%	(475,773)	(475,773)	$0.84
SAN MATEO COUNTY MARKET TOTAL													
Total	1,255	40,862,693	2,865,768	7.0%	349,252	0.9%	3,215,020	37,647,673	7.9%	6.4%	(641,981)	(641,981)	$0.83

R&D and Industrial Overview

After several quarters of absorbing the current climate's challenges, the effects of the economy have finally caught up to the R&D and Industrial markets. Significant changes occurred in the first quarter of 2009 to the vacancy rate, net absorption and asking rents.

To draw a comparison, R&D net absorption for all of 2008 totaled negative ±16,010 square feet which is a different picture from Q1 2009 which registered a negative ±307,764 square feet. The vacancy rate jumped to 15.1% in Q1 2009 compared to 9% at the end of 2008.

However, R&D average monthly asking rents did rise from $1.64 NNN at the end of 2008, to $1.74 NNN at the end of Q1 2009. The explanation behind this anomaly is the fact that large blocks of newly built R&D/Life Science space came to market in addition to several Life Science firms shedding space in the form of sublease availabilities.

Industrial net absorption had a similar result in the first quarter with negative ±641,981 square feet compared to ±496,316 square feet for all of 2008. The vacancy rate also jumped from 6.4% at the end of 2008, to 7.9% in Q1 2009. Monthly industrial average asking rents decreased to $0.83 NNN in Q1 2009 from $.094 NNN at the end of 2008.

The outlook for R&D appears murky in the short term, with more space likely to come to market over the next several quarters and new Life Science construction adding to overall supply. The short term outlook for Industrial appears tied to the overall economy, with a slowdown in economic activity affecting tenants relying on distribution in and around San Francisco International Airport area. The long term outlook appears more favorable due to the diversity of the local market and lack of buildable land.

Looking forward, the most important metric to keep an eye on will be employment. San Mateo County's unemployment is currently at 8.3%, up from 6% at the end of 2008 and changes in this indicator will be indicative of the direction of the real estate market.

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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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