

Market Research

MARKET OVERVIEW | FIRST QUARTER | 2010



MARKET INDICATORS

	4Q 2009	1Q 2010	
VACANCY RATE	19.0%	18.8%	↓
TOTAL VACANCY	6,351,039 SF	6,300,044 SF	↓
GROSS ABSORPTION	375,346 SF	688,829 SF	↑
NET ABSORPTION	(94,546) SF	(77,755) SF	↔
WTD AVG ASKING RENT	\$2.73 FS	\$2.68 FS	↓

“...market activity has now extended to larger footprint spaces, with a high percentage of significant transactions this quarter landing in higher-end properties.”

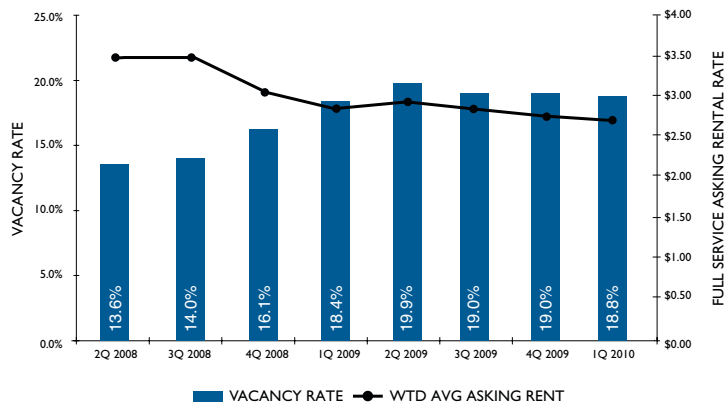
Office Overview

As the region continues its deliberate recovery from a turbulent economic period, many observers are turning their attention to trailing indicators such as the commercial real estate market. From a purely statistical view, the San Francisco Peninsula market continues to exhibit much of the same weakness that has characterized the past two years. By applying a more precise filter to current conditions, however, we are presented with a more positive set of circumstances.

The vacancy rate for office space in San Mateo County decreased slightly from 19.0% to 18.8%, and remained stable at 17.6% for the entire Peninsula, the facts on the ground remain pointed towards gradually improving conditions within the local market. A careful reading of these statistics reveals hard evidence of an improving market. To date in 2010, the vacancy rate for Class A office space has decreased by a half percentage point, dropping from 18.7% to 18.2% in San Mateo County. The past several quarters worth of market activity have been heavily weighted towards smaller high end office space in core locations. This trend has, to a degree, now extended to larger footprint spaces, with a high percentage of significant transactions this quarter landing in higher-end properties.

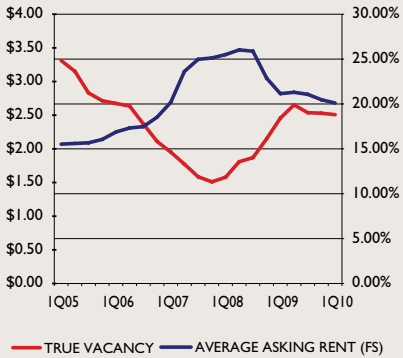
Gross absorption for San Mateo County totaled 688,829 square feet for the first quarter. This represents a 50% increase over the second quarter in 2009, when leasing activity came nearly to a standstill. While this represents noteworthy improvement, gross absorption in a more balanced market will tend to clock in at around one million square feet per quarter. The quarter's gross absorption is the strongest recorded since the second quarter of 2008, at the tail end of the last heady market cycle. Net absorption for the quarter was essentially flat at a negative 77,735 square feet for San Mateo County, and a negative 138,268 square feet for the greater Peninsula.

PENINSULA OFFICE MARKET - VACANCY VS. RENT



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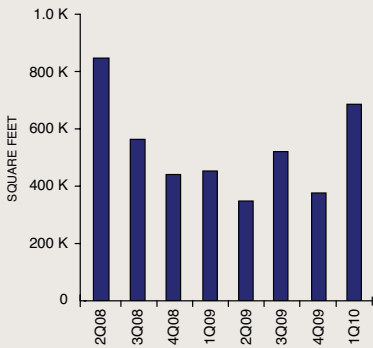
SAN MATEO COUNTY OFFICE HISTORICAL RENT VS VACANCY



While average asking rates did continue to slide during the most recent quarter, it is clear that the market is reaching equilibrium, and rents should continue to stabilize over the course of 2010. Based on recent market activity, at least a portion of the modest decrease seen in average asking rates this quarter can be attributed to a lower percentage of available Class A space as a function of the total market of vacant property. The current average asking rate of \$2.68 full service for San Mateo County represents a slide of 5% from the same period a year ago.

As one would expect, after such a challenging cycle, the early stages of recovery in the local market has been quite uneven. While some secondary locations dominated by Class B space continue to show weakness, higher-end markets continue their improvement. Foster City, a small submarket comprised largely of higher-image Class A buildings, has seen its local vacancy rate plunge to 8.4%. Available space, particularly smaller multi-tenant office space, has become exceptionally scarce in many downtown markets, particularly in the most sought-out locations such as Redwood City, Mountain View and Palo Alto.

PENINSULA OFFICE GROSS ABSORPTION



One of the fastest and most dramatic developments in the opening quarter of 2010 has been the significant increase in volume of larger transactions. 2009 saw only 11 office leases in excess of 20,000 square feet for the entire year. To date, the same number of transactions have already closed in 2010. Most have landed in higher end buildings, a fairly typical and expected dynamic at this point in a market cycle as tenants capitalize on favorable lease rates and terms. Noteworthy transactions in the first quarter include QuinStreet's 64,000 square foot lease at Metro Tower in Foster City, WebRoot's 46,000 square foot relocation to The Crossroads in San Mateo, and Perfect World Entertainment's 28,000 square foot commitment in Foster City.

The Peninsula office leasing market in 2010 will almost certainly continue to broadly favor tenants. With clearly identifiable pockets of strength developing in some submarkets, and with leasing activity on the rise, it is reasonable to expect continued improvement to broad conditions over the course of the year.

1Q 2010 SAN MATEO COUNTY OFFICE DEAL VELOCITY

SIZE RANGE	TOTAL SF	#OF DEALS
LESS THAN 3K SF	54,429 SF	23
3-5K SF	57,298 SF	15
5-10K SF	76,358 SF	11
10-20K SF	146,273 SF	10
20-50K SF	290,473 SF	10
GREATER THAN 50K SF	63,998 SF	1
TOTAL	688,829 SF	70

MARKET ACTIVITY SIGNIFICANT FIRST QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
330-350 Twin Dolphin Dr, Redwood City	121,194	Sobrato Family Foundation	R&D
950 Tower Lane, Foster City	63,998	QuinStreet, Inc.	Office
1380-1394 Willow Road, Menlo Park	63,163	Pacific Biosciences, Inc.	R&D
1855 Grant Street, San Mateo	46,519	Webroot Software, Inc.	Office
490 Middlefield Rd, Mountain View	43,463	VeriSign, Inc.	R&D
1001 Hillsdale Boulevard, Foster City	28,031	Perfect World Entertainment	Office
1800 Gateway Boulevard, San Mateo	25,690	California CPA	Office
1800 Gateway Boulevard, San Mateo	24,445	Camico Mutual Insurance Co.	Office
1400 Fashion Island Boulevard, Redwood City	21,504	GuardianEdge Technologies, Inc.	Office

OFFICE MARKET STATISTICS
FIRST QUARTER 2010

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			TOTAL OCCUPANCY	NET ABSORPTION		RENT
Class	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Rate Q1-2010	Rate Q4-2009	Current Occupied Sq Ft	Q1-2010	YTD	Wtd Avg Asking Rate
SUB MARKETS													
SOUTH PENINSULA													
MOUNTAIN VIEW/LOS ALTOS													
A	31	2,427,929	133,011	5.5%	44,280	1.8%	177,291	7.3%	8.2%	2,250,638	21,960	(62,391)	\$3.34
B/C	147	2,447,535	374,511	15.3%	25,800	1.1%	400,311	16.4%	16.9%	2,047,224	11,496	(182,923)	\$2.66
Total	178	4,875,464	507,522	10.4%	70,080	1.4%	577,602	11.8%	12.6%	4,297,862	33,456	(245,314)	\$2.91
PALO ALTO													
A	63	2,806,466	160,883	5.7%	120,234	4.3%	281,117	10.0%	21.2%	2,525,349	338,186	(81,913)	\$4.89
B/C	187	3,330,171	338,410	10.2%	109,818	3.3%	448,228	13.5%	14.1%	2,881,943	15,339	(219,872)	\$3.50
Total	250	6,136,637	499,293	8.1%	230,052	3.7%	729,345	11.9%	17.3%	5,407,292	353,525	(301,785)	\$4.24
*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.													
SAN MATEO COUNTY													
MENLO PARK													
A	33	1,638,427	57,592	3.5%	57,213	3.5%	114,805	7.0%	7.5%	1,523,622	7,694	7,694	\$8.14
B	71	2,177,894	359,668	16.5%	106,009	4.9%	465,677	21.4%	21.4%	1,712,217	1,392	1,392	\$4.06
Total	104	3,816,321	417,260	10.9%	163,222	4.3%	580,482	15.2%	15.4%	3,235,839	9,086	9,086	\$4.87
REDWOOD CITY													
A	20	2,440,446	215,464	8.8%	555,788	22.8%	771,252	31.6%	31.6%	1,669,194	-	-	\$2.60
B	36	1,336,245	247,199	18.5%	33,605	2.5%	280,804	21.0%	20.1%	1,055,441	(12,411)	(12,411)	\$2.25
Total	56	3,776,691	462,663	12.3%	589,393	15.6%	1,052,056	27.9%	27.5%	2,724,635	(12,411)	(12,411)	\$2.51
BELMONT/SAN CARLOS													
A	9	882,682	444,336	50.3%	13,851	1.6%	458,187	51.9%	54.3%	424,495	(16,197)	(16,197)	\$2.32
B	13	673,289	126,362	18.8%	3,741	0.6%	130,103	19.3%	20.3%	543,186	6,763	6,763	\$2.24
Total	22	1,555,971	570,698	36.7%	17,592	1.1%	588,290	37.8%	39.6%	967,681	(9,434)	(9,434)	\$2.30
REDWOOD SHORES													
A	49	5,350,533	577,638	10.8%	151,509	2.8%	729,147	13.6%	14.0%	4,621,386	(30,266)	(30,266)	\$2.41
B	5	172,852	18,899	10.9%	-	0.0%	18,899	10.9%	10.9%	153,953	-	-	\$2.25
Total	54	5,523,385	596,537	10.8%	151,509	2.7%	748,046	13.5%	13.9%	4,775,339	(30,266)	(30,266)	\$2.41
SAN MATEO													
A	25	2,822,840	310,865	11.0%	153,338	5.4%	464,203	16.4%	18.1%	2,358,637	47,828	47,828	\$2.37
B	69	4,029,566	762,381	18.9%	208,289	5.2%	970,670	24.1%	22.0%	3,058,896	(80,776)	(80,776)	\$2.30
Total	94	6,852,406	1,073,246	15.7%	361,627	5.3%	1,434,873	20.9%	20.4%	5,417,533	(32,948)	(32,948)	\$2.32
FOSTER CITY													
A	14	2,686,494	198,898	7.4%	47,358	1.8%	246,256	9.2%	11.7%	2,440,238	68,990	68,990	\$2.84
B	14	576,068	27,261	4.7%	-	0.0%	27,261	4.7%	8.9%	548,807	23,978	23,978	\$2.69
Total	28	3,262,562	226,159	6.9%	47,358	1.5%	273,517	8.4%	11.2%	2,989,045	92,968	92,968	\$2.83
BURLINGAME													
A	6	758,931	180,182	23.7%	15,688	2.1%	195,870	25.8%	29.0%	563,061	16,152	16,152	\$2.12
B	24	1,053,558	118,128	11.2%	19,584	1.9%	137,712	13.1%	17.5%	915,846	(19,281)	(19,281)	\$1.93
Total	30	1,812,489	298,310	16.5%	35,272	1.9%	333,582	18.4%	22.4%	1,478,907	(3,129)	(3,129)	\$2.04
SAN BRUNO/MILLBRAE													
A	9	1,132,078	108,208	9.6%	66,776	5.9%	174,984	15.5%	16.7%	957,094	13,539	13,539	\$2.18
B	11	371,840	34,108	9.2%	-	0.0%	34,108	9.2%	9.2%	337,732	-	-	\$2.02
Total	20	1,503,918	142,316	9.5%	66,776	4.4%	209,092	13.9%	14.8%	1,294,826	13,539	13,539	\$2.15
DALY CITY													
A	4	668,291	31,382	4.7%	1,400	0.2%	32,782	4.9%	5.0%	635,509	589	589	\$2.03
B	10	285,853	42,644	14.9%	1,834	0.6%	44,478	15.6%	15.4%	241,375	(436)	(436)	\$1.96
Total	14	954,144	74,026	7.8%	3,234	0.3%	77,260	8.1%	8.1%	876,884	153	153	\$1.99
SOUTH SAN FRANCISCO													
A	16	2,704,488	503,866	18.6%	125,167	4.6%	629,033	23.3%	20.2%	2,075,455	(83,415)	(83,415)	\$3.15
B	13	880,060	78,425	8.9%	127,946	14.5%	206,371	23.4%	20.7%	673,689	(24,027)	(24,027)	\$2.19
Total	29	3,584,548	582,291	16.2%	253,113	7.1%	835,404	23.3%	20.3%	2,749,144	(107,442)	(107,442)	\$2.91
BRISBANE													
A	5	674,888	140,342	20.8%	-	0.0%	140,342	20.8%	21.5%	534,546	4,542	4,542	\$2.77
B	4	176,587	27,100	15.3%	-	0.0%	27,100	15.3%	14.0%	149,487	(2,393)	(2,393)	\$1.95
Total	9	851,475	167,442	19.7%	-	0.0%	167,442	19.7%	19.9%	684,033	2,149	2,149	\$2.64
SAN MATEO COUNTY MARKET TOTAL													
A	189	21,760,098	2,768,773	12.7%	1,188,088	5.5%	3,956,861	18.2%	18.8%	17,803,237	29,456	29,456	\$2.73
B	270	11,733,812	1,842,175	15.7%	501,008	4.3%	2,343,183	20.0%	19.4%	9,390,629	(107,191)	(107,191)	\$2.60
Total	459	33,493,910	4,610,948	13.8%	1,689,096	5.0%	6,300,044	18.8%	19.0%	27,193,866	(77,735)	(77,735)	\$2.68

R&D MARKET STATISTICS FIRST QUARTER 2010

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			TOTAL OCCUPANCY	NET ABSORPTION		AVG. RENT
City	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Rate Q1-2010	Rate Q4-2009	Current Occupied Sq Ft	Q1-2010	YTD	Wtd Avg Asking Rate

SUB MARKETS

SOUTH PENINSULA

MOUNTAIN VIEW	274	13,971,801	953,658	6.8%	608,130	4.4%	1,561,788	11.2%	11.4%	12,410,013	(65,640)	(367,979)	\$1.54
PALO ALTO	59	10,292,315	82,597	0.8%	424,949	4.1%	507,546	4.9%	4.8%	9,784,769	(8,640)	(116,911)	\$2.59

*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	181,833	7.9%	103,498	4.5%	285,331	12.4%	12.2%	2,022,867	(4,362)	(4,362)	\$1.35
REDWOOD CITY	64	2,377,304	284,655	12.0%	83,710	3.5%	368,365	15.5%	19.7%	2,008,939	88,103	88,103	\$1.16
BELMONT/SAN CARLOS	49	1,746,770	259,855	14.9%	20,199	1.2%	280,054	16.0%	12.1%	1,466,716	(67,959)	(67,959)	\$1.37
SAN MATEO/FOSTER CITY	58	1,676,101	86,857	5.2%	-	0.0%	86,857	5.2%	9.9%	1,589,244	17,606	17,606	\$0.98
SAN BRUNO/BURLINGAME	29	705,312	41,008	5.8%	26,240	3.7%	67,248	9.5%	12.3%	638,064	8,000	8,000	\$1.15
SOUTH SAN FRANCISCO/ BRISBANE	97	5,923,908	738,335	12.5%	906,642	15.3%	1,644,977	27.8%	27.3%	4,278,931	(26,312)	(26,312)	\$2.09

SAN MATEO COUNTY MARKET TOTAL

Total	355	14,737,593	1,592,543	10.8%	1,140,289	7.7%	2,732,832	18.5%	19.2%	12,004,761	6,076	6,076	\$1.76
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INDUSTRIAL MARKET STATISTICS FIRST QUARTER 2010

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			TOTAL OCCUPANCY	NET ABSORPTION		AVG. RENT
City	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Rate Q1-2010	Rate Q4-2009	Current Occupied Sq Ft	Q1-2010	YTD	Wtd Avg Asking Rate

SUB MARKETS

SOUTH PENINSULA

MOUNTAIN VIEW	148	2,698,054	180,466	6.7%	-	0.0%	180,466	6.7%	6.7%	2,517,588	(4,063)	(44,773)	\$1.03
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*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	334,489	11.5%	-	0.0%	334,489	11.5%	9.7%	2,586,035	(50,480)	(50,480)	\$0.95
REDWOOD CITY	178	4,152,952	253,571	6.1%	155,465	3.7%	409,036	9.8%	9.8%	3,743,916	(420)	(420)	\$0.62
BELMONT/SAN CARLOS	219	5,442,444	122,819	2.3%	20,900	0.4%	143,719	2.6%	2.3%	5,298,725	(18,700)	(18,700)	\$1.46
SAN MATEO/FOSTER CITY	70	1,272,630	114,960	9.0%	20,000	1.6%	134,960	10.6%	10.2%	1,137,670	(4,789)	(4,789)	\$1.03
BURLINGAME	161	4,718,030	490,338	10.4%	53,650	1.1%	543,988	11.5%	12.0%	4,174,042	23,865	23,865	\$0.92
SAN BRUNO/MILLBRAE	24	753,808	-	0.0%	-	0.0%	-	0.0%	0.0%	753,808	-	-	N/A
BRISBANE/DALY CITY	100	4,918,049	443,172	9.0%	97,470	2.0%	540,642	11.0%	10.2%	4,377,407	(38,125)	(38,125)	\$0.71
SOUTH SAN FRANCISCO	411	16,629,073	1,822,060	11.0%	81,130	0.5%	1,903,190	11.4%	11.7%	14,725,883	50,279	50,279	\$0.78

SAN MATEO COUNTY MARKET TOTALS

Total	1,255	40,807,510	3,581,409	8.8%	428,615	1.1%	4,010,024	9.8%	9.7%	36,797,486	(38,370)	(38,370)	\$0.82
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R&D and Industrial Overview

San Mateo County's R&D and industrial markets revealed signs of life in the first quarter of 2010. No longer are vacancy rates rising rapidly nor is net absorption sinking as fast as in 2009. R&D and industrial leasing activity in the first quarter was equivalent to the leasing activity of 2009 and our expectation is that the stabilizing market will continue.

San Mateo County's R&D net absorption was 6,076 square feet; the first time it has been positive since the third quarter of 2008. Gross absorption for the County's R&D markets was 192,761 square feet. Standing out among local submarkets is Redwood City, which was the site of the largest R&D transaction of the year. The Sobrato Family Foundation's 121,194 square foot lease in Redwood Shores will be the future site for local non-profit organizations.

The industrial net absorption for the first quarter was a negative 38,370 square feet. While the industrial market's net absorption remained negative for the seventh consecutive quarter, the first quarter represented only 2.5% of the total negative net absorption of 2009. Gross absorption for the first quarter showed total leasing activity of 223,841 square feet, a significant improvement over the 107,614 square feet in the fourth quarter of 2009.

The R&D vacancy rate currently stands at 18.5%, down from fourth quarter's 19.2% rate. It marked the first decreased rate of vacancy since the fourth quarter of 2008. San Mateo County's industrial vacancy rate increased a mere tenth of a percent in the first quarter of 2010 to 9.8%.

The asking rents for both R&D and industrial markets in San Mateo County have had little change over the last several quarters. Industrial asking rates are currently at \$0.82 NNN, while R&D market rates are hovering in the mid \$1.70's NNN. Stability in market rents is another indicator the market will continue improve in 2010.

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294 OFFICES IN 61 COUNTRIES
ON 6 CONTINENTS

USA 94
Canada 22
Latin America 17
Asia Pacific 64
EMEA 97

\$48.1 billion in annual
transaction volume
1.1 billion square feet
under management
12,749 Professionals

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