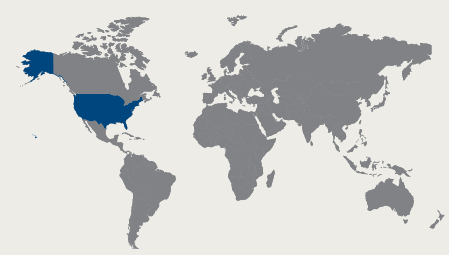


Market Research

MARKET OVERVIEW | SECOND QUARTER | 2009



MARKET INDICATORS

	1Q 2009	2Q 2009	
VACANCY RATE	18.4%	19.9%	↑
DIRECT VACANCY	4,415,651 SF	4,780,620 SF	↑
SUBLEASE VACANCY	1,722,232 SF	1,881,905 SF	↑
GROSS ABSORPTION	453,213 SF	347,989 SF	↓
NET ABSORPTION	(762,108) SF	(407,750) SF	↑
WTD AVG ASKING RENT	\$2.82 FS	\$2.84 FS	↔

Office Overview

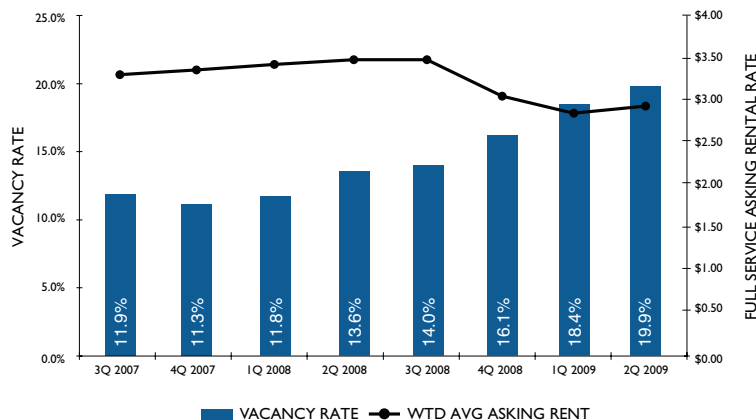
The operative word within the commercial real estate industry today is ‘uncertainty’. The volatility seen at every level of the economy continues to take its toll on the local commercial real estate markets, which have exhibited steadily increasing vacancies, lower rents, and a drastic slowdown in leasing activity. As a result, the office vacancy rate on the Peninsula has increased to 19.9%, up from 13.6% at this time a year ago and the highest level seen locally since the second quarter of 2006.

As the recession of 2009 has progressed, much attention has been called to various economic indicators that have been tagged as “less bad” than those seen in a previous reporting period—an indicator, perhaps, of a potential end to the negative news. Some of the data coming out of the local commercial real estate market may also warrant that same “less bad” tag. Second quarter net absorption for office space in San Mateo County came in at (407,750)—a distinct improvement over the prior quarter’s startling (762,108). While a continued increasing supply of space is certainly inevitable given the erosion of the job market, more troubling news can be found in the gross absorption statistics. The second quarter of 2009 saw a mere 347,989 square feet of total office leasing activity, dipping below the 453,213 square feet logged in the prior quarter.

Asking rates for benchmark class A office space on the Peninsula have dipped dramatically from their peak reached in the second quarter of 2008. Since that time, we have witnessed a 21% drop in asking prices for class A product on the Peninsula. It bears noting, however, that the peak asking rates came at the very end of the market cycle with few deals done to justify these rates. Asking rents are now comparable to those last seen in the second quarter of 2007.

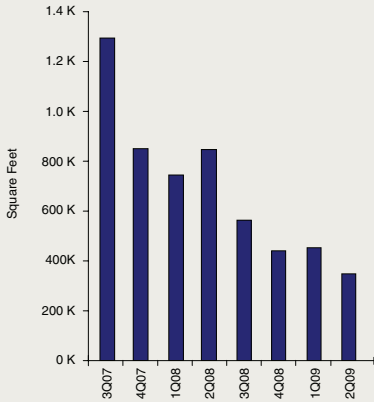
“The volatility seen at every level of the economy continues to take its toll on the local commercial real estate markets...”

PENINSULA OFFICE MARKET - VACANCY VS. RENT



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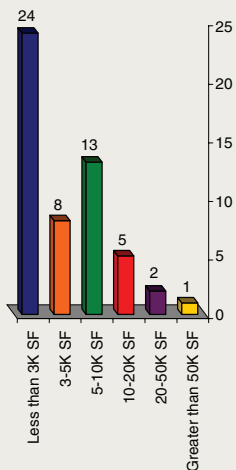
PENINSULA OFFICE GROSS ABSORPTION



2Q 2009 SAN MATEO COUNTY OFFICE DEAL VELOCITY

SIZE RANGE	TOTAL SF	#OF DEALS
LESS THAN 3K SF	40,129 SF	24
3-5K SF	31,309 SF	8
5-10K SF	91,842 SF	13
10-20K SF	67,575 SF	5
20-50K SF	47,209 SF	2
GREATER THAN 50K SF	69,925 SF	1
TOTAL	347,989 SF	53

NUMBER OF DEALS



The few bright spots in an otherwise distressed landscape can be found in the core, class A markets. Many of the downtown submarkets on the Peninsula continue to see at least modest leasing activity, and rents in these pockets remain only nominally impacted by current market conditions. Leases well in excess of \$4.00 Fully Served are still seen for high end product in the Palo Alto market, and activity within the 50,000 square foot Facebook sublease portfolio is reported to be strong. Asking rents in downtown Mountain View have fallen a mere 6% since the market peak. Elsewhere, recent leases by E2Open (24,700 sf) and Golub (15,000 sf) have assisted in establishing lower rent benchmarks in the San Mateo/Foster City submarket.

In a quarter with extremely low leasing activity, the lack of noteworthy large transactions is hardly surprising. The largest transaction of the quarter, Sony's 320,000 square foot renewal in Foster City, is most noteworthy for what did not happen—a block of class A space, that large, coming available in a market the size of Foster City would have lent an interesting dynamic to a very volatile market. Other large tenants, including Caritas Business Services in Redwood Shores, have eschewed expansion plans in favor of lease renewals. These lease renewals, many of them short in term and at aggressive lease rates, often represent a strategic move by property owners to weather the worst of the down cycle.

No sizable sale transactions were recorded on the Peninsula in the second quarter, as capital remains tight and the appetite for risk low. The small smattering of owner user sales to date this year, however, has highlighted surprising resilience within this sector. While activity has been rather finite, prices on closed transactions have remained within ranges established during a stronger cycle. Scarcity of quality product and the continuing availability of low cost SBA funds have no doubt contributed to this.

While it is certainly too early to speculate on when this market cycle will demonstrate any positive movement, it is appropriate to speculate on what indicators market participants should look for in anticipation of an upswing. Indicators worth monitoring would include increases in gross absorption, a firming up of deal rents, and an increase in venture capital activity.

MARKET ACTIVITY
SIGNIFICANT SECOND QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
323 Fairchild Drive, Mountain View	67,796	Nokia	R&D
470 Valley Drive, Brisbane	35,690	Jericho Project	Industrial
1200 Bridge Parkway, Redwood City	24,743	Check Point Software Technologies, LTD	Office
4100 East 3rd Avenue, Foster City	24,700	E2Open	Office
1390 Shorebird, Mountain View	22,235	23 and Me, Inc.	Office
400 Oyster Point Boulevard, South San Francisco	18,548	BiPar Sciences, Inc.	Office
1850 Gateway Drive, San Mateo	14,086	Golub Group	Office

OFFICE MARKET STATISTICS
SECOND 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 Q2-2009	Rate Q1-2009	Q2-2009	YTD	Wtd Avg Asking Rate
SUB MARKETS													
SOUTH PENINSULA													
MOUNTAIN VIEW/LOS ALTOS													
A	31	2,427,929	159,891	6.6%	65,406	2.7%	225,297	2,202,632	9.3%	7.4%	(54,379)	(98,956)	\$3.48
B/C	147	2,447,535	360,734	14.7%	16,623	0.7%	377,357	2,070,178	15.4%	12.5%	(80,559)	(148,831)	\$2.84
Total	178	4,875,464	520,625	10.7%	82,029	1.7%	602,654	4,272,810	12.4%	9.9%	(134,938)	(247,787)	\$3.10
PALO ALTO													
A	63	2,806,466	205,187	7.3%	364,471	13.0%	569,658	2,236,808	20.3%	6.3%	(388,752)	(391,057)	\$4.22
B/C	187	3,330,171	265,980	8.0%	96,521	2.9%	362,501	2,967,670	10.9%	12.0%	(105,577)	(223,043)	\$3.91
Total	250	6,136,637	471,167	7.7%	460,992	7.5%	932,159	5,204,478	15.2%	9.4%	(494,329)	(614,100)	\$3.92
*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	97,785	6.0%	24,360	1.5%	122,145	1,516,282	7.5%	7.2%	(4,036)	(21,222)	\$6.49
B	71	2,177,894	296,339	13.6%	90,334	4.1%	386,673	1,791,221	17.8%	18.8%	21,683	(101,209)	\$4.18
Total	104	3,816,321	394,124	10.3%	114,694	3.0%	508,818	3,307,503	13.3%	13.8%	17,647	(122,431)	\$4.73
REDWOOD CITY													
A	20	2,440,446	161,204	6.6%	548,253	22.5%	709,457	1,730,989	29.1%	29.7%	15,759	9,193	\$2.81
B	36	1,336,245	266,043	19.9%	22,182	1.7%	288,225	1,048,020	21.6%	21.6%	0	(27,921)	\$2.65
Total	56	3,776,691	427,247	11.3%	570,435	15.1%	997,682	2,779,009	26.4%	26.8%	15,759	(18,728)	\$2.76
BELMONT/SAN CARLOS													
A	9	881,679	355,161	40.3%	66,775	7.6%	421,936	459,743	47.9%	47.4%	(4,378)	(42,876)	\$2.76
B	13	673,289	127,863	19.0%	1,772	0.3%	129,635	543,654	19.3%	17.8%	(9,740)	(77,840)	\$2.51
Total	22	1,554,968	483,024	31.1%	68,547	4.4%	551,571	1,003,397	35.5%	34.6%	(14,118)	(120,716)	\$2.70
REDWOOD SHORES													
A	49	5,347,940	713,351	13.3%	123,851	2.3%	837,202	4,510,738	15.7%	13.6%	(111,863)	(333,866)	\$2.64
B	5	172,852	16,173	9.4%	0	0.0%	16,173	156,679	9.4%	15.4%	10,527	5,712	\$2.45
Total	54	5,520,792	729,524	13.2%	123,851	2.2%	853,375	4,667,417	15.5%	13.6%	(101,336)	(328,154)	\$2.64
SAN MATEO													
A	25	2,822,840	473,694	16.8%	149,687	5.3%	623,381	2,199,459	22.1%	16.5%	(62,672)	(95,826)	\$2.70
B	69	4,023,698	838,458	20.8%	123,553	3.1%	962,011	3,061,687	23.9%	22.1%	(101,762)	(203,524)	\$2.49
Total	94	6,846,538	1,312,152	19.2%	273,240	4.0%	1,585,392	5,261,146	23.2%	19.9%	(164,434)	(299,350)	\$2.57
FOSTER CITY													
A	14	2,686,494	136,908	5.1%	234,498	8.7%	371,406	2,315,088	13.8%	10.4%	(91,753)	(154,919)	\$2.73
B	14	576,068	52,233	9.1%	19,192	3.3%	71,425	504,643	12.4%	12.4%	0	20,941	\$2.48
Total	28	3,262,562	189,141	5.8%	253,690	7.8%	442,831	2,819,731	13.6%	10.8%	(91,753)	(133,978)	\$2.69
BURLINGAME													
A	6	758,931	225,721	29.7%	27,548	3.6%	253,269	505,662	33.4%	30.1%	(24,497)	(12,548)	\$2.13
B	24	1,047,180	133,473	12.7%	11,404	1.1%	144,877	834,303	14.8%	13.5%	(3,084)	(37,289)	\$1.85
Total	30	1,806,111	359,194	19.9%	38,952	2.2%	398,146	1,339,965	22.9%	20.5%	(25,581)	(49,837)	\$2.03
SAN BRUNO/MILLBRAE													
A	9	1,132,078	121,199	10.7%	72,802	6.4%	194,001	938,077	17.1%	16.2%	(11,038)	(26,790)	\$2.63
B	11	371,840	31,891	8.6%	0	0.0%	31,891	339,949	8.6%	6.9%	(6,053)	(6,053)	\$2.15
Total	20	1,503,918	153,090	10.2%	72,802	4.8%	225,892	1,278,026	15.0%	13.9%	(17,091)	(32,843)	\$2.56
DALY CITY													
A	4	668,291	32,832	4.9%	2,060	0.3%	34,892	633,399	5.2%	5.2%	0	(9,333)	\$2.37
B	10	285,853	42,208	14.8%	1,834	0.6%	44,042	241,811	15.4%	13.9%	(4,430)	(7,666)	\$2.02
Total	14	954,144	75,040	7.9%	3,894	0.4%	78,934	875,210	8.3%	7.8%	(4,430)	(16,999)	\$2.17
SOUTH SAN FRANCISCO													
A	16	2,704,488	478,195	17.7%	155,824	5.8%	634,019	2,070,469	23.4%	21.1%	(39,791)	(78,476)	\$3.48
B	13	880,060	47,060	5.3%	189,814	21.6%	236,874	643,186	26.9%	28.2%	11,300	18,100	\$2.47
Total	29	3,584,548	525,255	14.7%	345,638	9.6%	870,893	2,713,655	24.3%	22.9%	(28,491)	(60,376)	\$3.21
BRISBANE													
A	5	674,888	105,697	15.7%	16,162	2.4%	121,859	553,029	18.1%	20.3%	15,334	18,619	\$2.85
B	4	176,587	27,132	15.4%	0	0.0%	27,132	149,455	15.5%	11.3%	(7,256)	(5,065)	\$1.95
Total	9	851,475	132,829	15.6%	16,162	1.9%	148,991	702,484	17.5%	18.4%	8,078	13,554	\$2.69
SAN MATEO COUNTY MARKET TOTALS													
A	189	21,756,502	2,901,747	13.3%	1,421,820	6.5%	4,323,567	17,432,935	19.9%	17.9%	(318,935)	(748,044)	\$2.90
B	270	11,721,566	1,878,873	16.0%	460,085	3.9%	2,338,958	9,382,608	20.0%	19.5%	(88,815)	(421,814)	\$2.73
Total	459	33,478,068	4,780,620	14.3%	1,881,905	5.6%	6,662,525	26,815,543	19.9%	18.4%	(407,750)	(1,169,858)	\$2.84

R&D MARKET STATISTICS SECOND 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 Q2-2009	Rate Q1-2009	Q2-2009	YTD	Wtd Avg Asking Rate
SUB MARKETS													
SOUTH PENINSULA													
MOUNTAIN VIEW	274	13,971,801	882,358	6.3%	632,621	4.5%	1,514,979	12,456,822	10.8%	9.5%	(148,218)	(301,936)	\$1.71
PALO ALTO	59	10,292,315	50,457	0.5%	424,949	4.1%	475,406	9,816,909	4.6%	3.8%	(104,719)	(84,771)	\$3.06
*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	154,417	6.7%	29,391	1.3%	183,808	2,124,390	8.0%	8.3%	6,803	43,983	\$1.78
REDWOOD CITY	64	2,377,304	284,075	11.9%	179,192	7.5%	463,267	1,914,037	19.5%	17.8%	(39,220)	(90,119)	\$1.66
BELMONT/SAN CARLOS	49	1,746,770	141,823	8.1%	79,339	4.5%	221,162	1,525,608	12.7%	12.2%	(11,050)	(91,400)	\$1.83
SAN MATEO/FOSTER CITY	58	1,676,101	144,858	8.6%	0	0.0%	144,858	1,531,243	8.6%	0.0%	(17,934)	(28,512)	\$1.23
SAN BRUNO/BURLINGAME	29	705,312	69,041	9.8%	10,591	1.5%	79,632	625,680	11.3%	4.3%	(49,508)	(61,657)	\$1.00
SOUTH SAN FRANCISCO/ BRISBANE	97	5,923,908	895,262	15.1%	593,869	10.0%	1,489,131	4,434,777	25.1%	20.9%	(226,372)	(417,340)	\$2.00
SAN MATEO COUNTY MARKET TOTAL													
Total	355	14,737,593	1,689,476	11.5%	892,382	6.1%	2,581,858	12,155,735	17.5%	15.1%	(337,281)	(645,045)	\$1.83

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 Q2-2009	Rate Q1-2009	Q2-2009	YTD	Wtd Avg Asking Rate
SUB MARKETS													
SOUTH PENINSULA													
MOUNTAIN VIEW	148	2,698,054	151,236	5.6%	7,600	0.3%	158,836	2,539,218	5.9%	5.7%	(17,128)	(7,110)	\$1.29
*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	261,883	9.0%	11,904	0.4%	273,787	2,646,737	9.4%	8.7%	(19,145)	(138,389)	\$0.76
REDWOOD CITY	178	4,152,952	141,456	3.4%	101,633	2.4%	243,089	3,909,863	5.9%	6.1%	9,600	6,918	\$0.73
BELMONT/SAN CARLOS	219	5,442,444	135,637	2.5%	4,000	0.1%	139,637	5,302,807	2.6%	2.4%	(14,724)	(20,055)	\$1.10
SAN MATEO/FOSTER CITY	70	1,272,630	105,671	8.3%	0	0.0%	105,671	1,166,959	8.3%	4.3%	(41,560)	(47,560)	\$1.02
BURLINGAME	161	4,718,030	354,551	7.5%	32,952	0.7%	387,503	4,330,527	8.2%	7.9%	(12,590)	(34,632)	\$0.84
SAN BRUNO/MILLBRAE	24	753,808	0	0.0%	0	0.0%	0	753,808	0.0%	0.0%	0	10,466	N/A
BRISBANE/DALY CITY	100	4,918,049	310,807	6.3%	106,755	2.2%	417,562	4,500,487	8.5%	7.9%	(104,000)	(125,375)	\$0.80
SOUTH SAN FRANCISCO	411	16,629,073	1,824,581	11.0%	84,008	0.5%	1,908,589	14,720,484	11.5%	10.6%	(133,582)	(609,355)	\$0.83
SAN MATEO COUNTY MARKET TOTAL													
Total	1,255	40,807,510	3,134,586	7.7%	341,252	0.8%	3,475,838	37,331,672	8.5%	7.9%	(316,001)	(957,982)	\$0.83

R&D and Industrial Overview

The San Francisco Peninsula's R&D and industrial markets have remained sluggish in the second quarter of 2009 as the availability within both markets has increased. R&D vacancy has risen to 17.5% in the second quarter from 15.1% in the first quarter, while industrial vacancy has increased to 8.5% in the second quarter from 7.9% in the first previous quarter.

San Mateo County's R&D market has mirrored the first quarter's performance. Net absorption during the second quarter was a negative 337,281 square feet as compared to a negative 307,764 square feet in the first quarter. The first half of 2009 has totaled a negative net absorption of 645,045 square feet, quite an adjustment from all of 2008, which registered a negative 16,010 square feet. This quarter has marked the third consecutive quarter of negative net absorption for the San Mateo County market.

R&D asking rents have increased from the 1st quarter to \$1.83 Triple Net (NNN) from \$1.74 NNN. The explanation behind this is that the life science industry is trying to shed space with higher than average asking rates.

Industrial asking rents have remained static from the first quarter, leveling off at \$0.83 NNN. Industrial market net absorption in the second quarter registered a negative 316,001 square feet compared to a negative 641,981 square feet in the first quarter.

Overall supply has kept growing as tenants continue to reduce their work force and increase efficiency. The latest unemployment rate for San Mateo County stands at 8.4%, up from 7.2% at the end of 2008. Stability in the marketplace will begin to improve when tenants' confidence returns and employment rates turn around.

Peninsula Brokerage Team

Philip Arnautou
(650) 486-2213
parnautou@colliersparrish.com

Peter C. Carlston
(650) 486-2288
pcarlston@colliersparrish.com

Mike Cobb
(650) 486-2251
mcobb@colliersparrish.com

Ed Del Beccaro Jr.
(650) 486-2221
ed@colliersparrish.com

Steve Divney
(650) 486-2224
sdivney@colliersparrish.com

Stephanie Elkins
(650) 486-2272
selkins@colliersparrish.com

Geoffrey Faulkner
(650) 486-2225
gfaulkner@colliersparrish.com

David Gray, IFMA-R.E.C.
(650) 486-2262
dgray@colliersparrish.com

Robert Grubb
(650) 486-2264
rgrubb@colliersparrish.com

Andrew Guglielmi
(650) 486-2215
aguglielmi@colliersparrish.com

Sean Heffran
(650) 486-2232
sheffran@colliersparrish.com

Dan Latini
(650) 486-2277
dlatini@colliersparrish.com

Wendy Leung, CCIM
(650) 486-2228
wleung@colliersparrish.com

Douglas Marks, MBA
(650) 486-2222
dmarks@colliersparrish.com

Malonie Maxwell
(650) 486-2234
mmaxwell@colliersparrish.com

Gary Nichols
(650) 486-2250
gnichols@colliersparrish.com

Tom Schmidt, CCIM
(650) 486-2226
tschmidt@colliersparrish.com

Robert Schwartz
(650) 486-2286
rschwartz@colliersparrish.com

Clint Van Ostrand
(650) 486-2220
cvanostrand@colliersparrish.com

Craig Walsh
(650) 486-2230
cwalsh@colliersparrish.com

Brett Weber
(650) 486-2233
bweber@colliersparrish.com

Luke Wilson
(650) 486-2212
lwilson@colliersparrish.com

MANAGING PARTNER

Rick Knauf
(650) 486-2244
rknauf@colliersparrish.com

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

CONTACT INFORMATION

NEW PENINSULA LOCATION

Towers @ Shores Center
203 Redwood Shores Parkway, Suite 125
Redwood City, CA 94065
Tel: (650) 486-2200
Fax: (650) 486-2201
CA License No. 00490878

Rick Knauf
Managing Partner
Tel: (650) 486-2244
rknauf@colliersparrish.com

Mike Cobb
Contributing Writer
Tel: (650) 486-2251
mcobb@colliersparrish.com

Michael DePuy
Research Analyst
Tel: (650) 486-2206
mdepuy@colliersparrish.com

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