

Market Research

MARKET OVERVIEW | THIRD QUARTER | 2009



MARKET INDICATORS

2Q 2009 3Q 2009

	2Q 2009	3Q 2009	
VACANCY RATE	19.9%	19.9%	↔
DIRECT VACANCY	4,780,620 SF	4,699,987 SF	↓
SUBLEASE VACANCY	1,881,905 SF	1,969,540 SF	↑
GROSS ABSORPTION	347,989 SF	507,292 SF	↑
NET ABSORPTION	(407,750) SF	866 SF	↑
WTD AVG ASKING RENT	\$2.84 FS	\$2.81 FS	↓

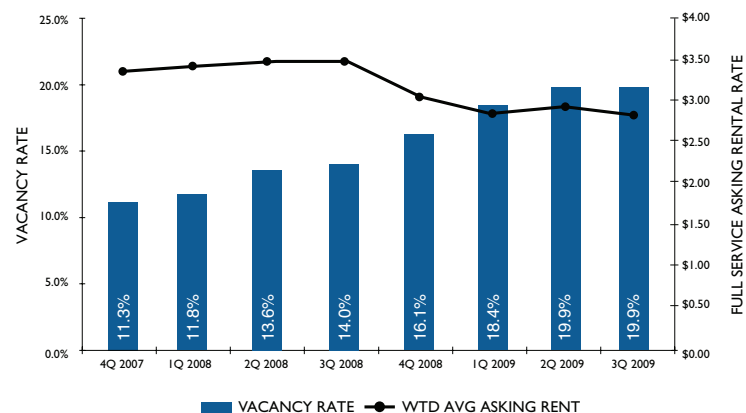
Office Overview

As we enter the final lap of what will certainly go down as one of the worst years on record for the local commercial real estate markets, we may be seeing some early signs of a market looking for a stabilization point. With many pundits declaring the current recessionary cycle either at or near a close, fear of worsening economic conditions is slowly being replaced with talk of what looks to be a slow and highly challenging recovery. Inexorably tied to the lagging indicator of job growth, the commercial real estate markets are in no danger of anything resembling an immediate return to growth or even normalcy. Still, while the overall market remains in a deep funk, the stagnation of the first half of the year has been replaced with spot activity and small but encouraging signs pointing toward eventual improvement.

The office vacancy rate for San Mateo County now stands at 19.9%, unchanged from the previous quarter. The broader Peninsula (including North Santa Clara County) saw the office vacancy rate increase by a mere 0.4% to 18.8%, representing a substantially smaller degradation than has been seen in the past several quarters. Virtually all of the increased vacancy came in the form of an increase in available sublease space. While an increase in sublease space may certainly be cause for concern, at 5.9% of the overall market, this potentially volatile market component remains in check for the time being. While net absorption was essentially zero in San Mateo County for the quarter, this does compare quite favorably to the past three quarters, where negative net absorption has averaged negative 461,433 square feet. Additionally, the broader Peninsula's net absorption of negative 197,552 square feet is largely due to a limited number of large blocks of available space in the otherwise strong Palo Alto submarket.

“In perhaps the first positive sign seen in the local market in some time, there were some pockets of positive net absorption in the recently closed quarter.”

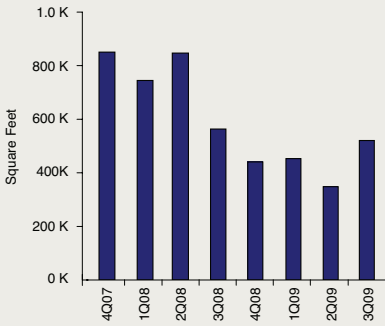
PENINSULA OFFICE MARKET - VACANCY VS. RENT



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PENINSULA OFFICE GROSS ABSORPTION



3Q 2009 SAN MATEO COUNTY OFFICE DEAL VELOCITY

SIZE RANGE	TOTAL SF	#OF DEALS
LESS THAN 3K SF	65,954 SF	35
3-5K SF	27,177 SF	7
5-10K SF	98,421 SF	14
10-20K SF	113,935 SF	8
20-50K SF	44,929 SF	2
GREATER THAN 50K SF	156,876 SF	2
TOTAL	507,292 SF	68

In perhaps the first positive sign seen in the local market in some time, there were some pockets of positive net absorption in the recently closed quarter. Redwood Shores checked in with 52,942 square feet, the City of San Mateo with 66,129 square feet, and Mountain View showed nominal positive absorption for its Class A office space inventory as well. Previous down market cycles have seen a similar pattern, with the first area to show any signs of life being the multi-tenant office market. It is quite reasonable to expect a similar pattern going forward.

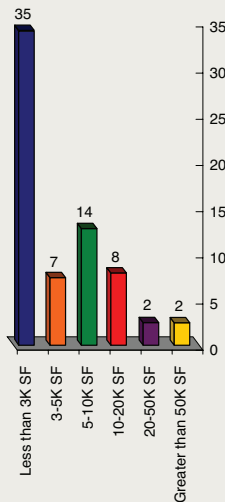
Given the pace of the market over the course of 2009, it may surprise observers to see only minor softening of average asking rents on the Peninsula year to date. To date in 2009, published asking rates for office space in San Mateo County have fallen a mere \$0.03 PSF. A closer look at these numbers, however, does reveal a bit more about the dynamics of the current market. The Redwood Shores submarket makes for an excellent example. As mentioned above, net absorption actually checked in at a slight positive in this small tenant oriented pocket of Class A office buildings. As a result of this somewhat healthier deal flow, asking rents have dipped ±7% in the submarket this year. While this may seem somewhat counterintuitive, it is merely a reflection of the fact that in a falling market, asking rates tend to trail the numbers seen in completed transactions.

While it is perhaps overly optimistic to declare these trends as definitive improvements within the market, they certainly represent at least mild improvement over the first half of the year. Some sectors of the market will, however, continue to degrade; asking rates, particularly in secondary markets, are likely to dip to better reflect current strike prices. It does seem likely, though, that overall levels of market activity will continue their rebound from the historic lows of the first half of the year.

R&D and Industrial Overview

The San Francisco Peninsula's R&D and industrial markets continued to slide in the third quarter of 2009. This marks the fourth and fifth consecutive quarters of negative net absorption for the R&D and industrial markets, respectively. Net absorption for R&D space in the third quarter was a negative 227,943 square feet as compared to a negative 337,281 square feet in the second quarter.

NUMBER OF OFFICE DEALS



MARKET ACTIVITY

SIGNIFICANT THIRD QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
3500 Deer Creek Road, Palo Alto	350,000	Tesla Motors, Inc	R&D
1 Franklin Pkwy, San Mateo	81,876	Demand Tec	Office
601 Gateway Blvd, South San Francisco	75,000	Genentech, Inc.	Office
900 Chesapeake Dr, Redwood City	22,000	Apnicure Inc.	R&D
285 Hamilton Avenue, Palo Alto	19,562	Ning	Office
1001 Hillsdale Blvd, Foster City	19,312	Activision, Inc.	Office

SIGNIFICANT SALES

PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
3373-3375 Hillview Ave, Palo Alto	119,983	BGR Associates	Office
220 Shaw Road, South San Francisco	70,328	AG/Centrum SSF, LLC	Warehouse

OFFICE MARKET STATISTICS
THIRD QUARTER 2009

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 Q3-2009	Rate Q2-2009	Current Occupied Sq Ft	Q3-2009	YTD	Wtd Avg Asking Rate
SUB MARKETS													
SOUTH PENINSULA													
MOUNTAIN VIEW/LOS ALTOS													
A	31	2,427,929	150,107	6.2%	49,144	2.0%	199,251	8.2%	9.3%	2,228,678	6,722	(92,234)	\$3.37
B/C	147	2,447,535	392,633	16.0%	21,208	0.9%	413,841	16.9%	15.4%	2,033,694	(48,031)	(196,862)	\$2.76
Total	178	4,875,464	542,740	11.1%	70,352	1.4%	613,092	12.6%	12.4%	4,262,372	(41,309)	(289,096)	\$3.00
PALO ALTO													
A	63	2,806,466	230,598	8.2%	364,708	13.0%	595,306	21.2%	20.3%	2,211,160	(29,042)	(420,099)	\$5.25
B/C	187	3,330,171	345,886	10.4%	123,166	3.7%	469,052	14.1%	10.9%	2,861,119	(128,067)	(351,110)	\$3.79
Total	250	6,136,637	576,484	9.4%	487,874	8.0%	1,064,358	17.3%	15.2%	5,072,279	(157,109)	(771,209)	\$4.71
*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	94,216	5.8%	30,060	1.8%	124,276	7.6%	7.5%	1,514,151	(2,131)	(23,353)	\$8.35
B	71	2,177,894	352,824	16.2%	90,334	4.1%	443,158	20.3%	17.8%	1,734,736	(56,485)	(157,694)	\$3.87
Total	104	3,816,321	447,040	11.7%	120,394	3.2%	567,434	14.9%	13.3%	3,248,887	(58,616)	(181,047)	\$4.85
REDWOOD CITY													
A	20	2,440,446	206,464	8.5%	570,461	23.4%	776,925	31.8%	29.1%	1,663,521	(67,468)	(58,275)	\$2.88
B	36	1,336,245	247,827	18.5%	18,917	1.4%	266,744	20.0%	21.6%	1,069,501	21,481	(6,440)	\$2.57
Total	56	3,776,691	454,291	12.0%	589,378	15.6%	1,043,669	27.6%	26.4%	2,733,022	(45,987)	(64,715)	\$2.80
BELMONT/SAN CARLOS													
A	9	881,679	355,161	40.3%	66,775	7.6%	421,936	47.9%	47.9%	459,743	0	(42,876)	\$2.53
B	13	673,289	122,844	18.2%	1,772	0.3%	124,616	18.5%	19.3%	548,673	5,019	(72,821)	\$2.49
Total	22	1,554,968	478,005	30.7%	68,547	4.4%	546,552	35.1%	35.5%	1,008,416	5,019	(115,697)	\$2.52
REDWOOD SHORES													
A	49	5,347,940	649,554	12.1%	134,706	2.5%	784,260	14.7%	15.7%	4,563,680	52,942	(280,924)	\$2.46
B	5	172,852	16,173	9.4%	-	0.0%	16,173	9.4%	9.4%	156,679	0	5,712	\$2.45
Total	54	5,520,792	665,727	12.1%	134,706	2.4%	800,433	14.5%	15.5%	4,720,359	52,942	(275,212)	\$2.46
SAN MATEO													
A	25	2,822,840	381,532	13.5%	175,720	6.2%	557,252	19.7%	22.1%	2,265,588	66,129	(29,697)	\$2.64
B	69	4,023,698	831,575	20.7%	151,499	3.8%	983,074	24.4%	23.9%	3,040,624	(21,063)	(224,587)	\$2.43
Total	94	6,846,538	1,213,107	17.7%	327,219	4.8%	1,540,326	22.5%	23.2%	5,306,212	45,066	(254,284)	\$2.51
FOSTER CITY													
A	14	2,686,494	135,490	5.0%	267,445	10.0%	402,935	15.0%	13.8%	2,283,559	(31,529)	(186,448)	\$2.81
B	14	576,068	32,047	5.6%	19,192	3.3%	51,239	8.9%	12.4%	524,829	20,186	41,127	\$2.46
Total	28	3,262,562	167,537	5.1%	286,637	8.8%	454,174	13.9%	13.6%	2,808,388	(11,343)	(145,321)	\$2.77
BURLINGAME													
A	6	758,931	211,244	27.8%	27,548	3.6%	238,792	31.5%	33.4%	520,139	14,477	1,929	\$2.24
B	24	1,047,180	132,612	12.7%	19,272	1.8%	151,884	14.5%	14.6%	895,296	861	(44,296)	\$1.86
Total	30	1,806,111	343,856	19.0%	46,820	2.6%	390,676	21.6%	22.4%	1,415,435	15,338	(42,367)	\$2.09
SAN BRUNO/MILLBRAE													
A	9	1,132,078	115,983	10.2%	72,802	6.4%	188,785	16.7%	17.1%	943,293	5,216	(21,574)	\$2.47
B	11	371,840	39,315	10.6%	-	0.0%	39,315	10.6%	8.6%	332,525	(7,424)	(13,477)	\$2.14
Total	20	1,503,918	155,298	10.3%	72,802	4.8%	228,100	15.2%	15.0%	1,275,818	(2,208)	(35,051)	\$2.41
DALY CITY													
A	4	668,291	32,832	4.9%	2,060	0.3%	34,892	5.2%	5.2%	633,399	0	(9,333)	\$2.27
B	10	285,853	42,208	14.8%	1,834	0.6%	44,042	15.4%	15.4%	241,811	0	(7,666)	\$2.02
Total	14	954,144	75,040	7.9%	3,894	0.4%	78,934	8.3%	8.3%	875,210	0	(16,999)	\$2.13
SOUTH SAN FRANCISCO													
A	16	2,704,488	495,495	18.3%	113,167	4.2%	608,662	22.5%	23.4%	2,095,826	25,357	(53,119)	\$3.41
B	13	880,060	54,398	6.2%	189,814	21.6%	244,212	27.7%	26.9%	635,848	(7,338)	10,762	\$2.40
Total	29	3,584,548	549,893	15.3%	302,981	8.5%	852,874	23.8%	24.3%	2,731,674	18,019	(42,357)	\$3.12
BRISBANE													
A	5	674,888	123,061	18.2%	16,162	2.4%	139,223	20.6%	18.1%	535,665	(17,364)	1,255	\$2.79
B	4	176,587	27,132	15.4%	-	0.0%	27,132	15.4%	15.4%	149,455	0	(5,065)	\$1.95
Total	9	851,475	150,193	17.6%	16,162	1.9%	166,355	19.5%	17.5%	685,120	(17,364)	(3,810)	\$2.65
SAN MATEO COUNTY MARKET TOTAL													
A	189	21,756,502	2,801,032	12.9%	1,476,906	6.8%	4,277,938	19.7%	19.9%	17,478,564	45,629	(702,415)	\$2.90
B	270	11,721,566	1,898,955	16.2%	492,634	4.2%	2,391,589	20.4%	20.0%	9,329,977	(44,763)	(474,445)	\$2.66
Total	459	33,478,068	4,699,987	14.0%	1,969,540	5.9%	6,669,527	19.9%	19.9%	26,808,541	866	(1,176,860)	\$2.81

R&D MARKET STATISTICS THIRD QUARTER 2009

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 Q3-2009	Rate Q2-2009	Current Occupied Sq Ft	Q3-2009	YTD	Wtd Avg Asking Rate

SUB MARKETS

SOUTH PENINSULA

MOUNTAIN VIEW	274	13,971,801	975,097	7.0%	620,630	4.4%	1,595,727	11.4%	10.8%	12,376,074	(96,043)	(397,979)	\$1.61
PALO ALTO	59	10,292,315	73,957	0.7%	424,949	4.1%	498,906	4.8%	4.6%	9,793,409	(23,500)	(108,271)	\$2.77

*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	178,281	7.7%	53,091	2.3%	231,372	10.0%	8.0%	2,076,826	(47,564)	(3,581)	\$1.42
REDWOOD CITY	64	2,377,304	305,885	12.9%	164,595	6.9%	470,480	19.8%	19.5%	1,906,824	(7,213)	(97,332)	\$1.34
BELMONT/SAN CARLOS	49	1,746,770	165,215	9.5%	79,339	4.5%	244,554	14.0%	12.7%	1,502,216	(23,392)	(114,792)	\$1.66
SAN MATEO/FOSTER CITY	58	1,676,101	153,298	9.1%	0	0.0%	153,298	9.1%	8.6%	1,522,803	(8,440)	(36,952)	\$1.23
SAN BRUNO/BURLINGAME	29	705,312	80,241	11.4%	10,591	1.5%	90,832	12.9%	11.3%	614,480	(11,200)	(72,857)	\$1.00
SOUTH SAN FRANCISCO/ BRISBANE	97	5,923,908	854,776	14.4%	764,489	12.9%	1,619,265	27.3%	25.1%	4,304,643	(130,134)	(547,474)	\$2.08

SAN MATEO COUNTY MARKET TOTAL

Total	355	14,737,593	1,737,696	11.8%	1,072,105	7.3%	2,809,801	19.1%	17.5%	11,927,792	(227,943)	(872,988)	\$1.78
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INDUSTRIAL MARKET STATISTICS THIRD QUARTER 2009

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 Q3-2009	Rate Q2-2009	Current Occupied Sq Ft	Q3-2009	YTD	Wtd Avg Asking Rate

SUB MARKETS

SOUTH PENINSULA

MOUNTAIN VIEW	148	2,698,054	174,311	6.5%	7,600	0.3%	181,911	6.7%	5.9%	2,516,143	(35,400)	(42,510)	\$1.29
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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	261,883	9.0%	11,904	0.4%	273,787	9.4%	9.4%	2,646,737	0	(138,389)	\$0.82
REDWOOD CITY	178	4,152,952	234,955	5.7%	104,417	2.5%	339,372	8.2%	5.9%	3,813,580	(96,283)	(89,365)	\$0.74
BELMONT/SAN CARLOS	219	5,442,444	124,462	2.3%	9,283	0.2%	133,745	2.5%	2.6%	5,308,699	5,892	(14,163)	\$1.20
SAN MATEO/FOSTER CITY	70	1,272,630	111,671	8.8%	0	0.0%	111,671	8.8%	8.2%	1,160,959	(6,994)	(53,560)	\$1.06
BURLINGAME	161	4,718,030	409,821	8.7%	71,321	1.5%	481,142	10.2%	8.2%	4,236,888	(93,639)	(128,271)	\$0.88
SAN BRUNO/MILLBRAE	24	753,808	0	0.0%	0	0.0%	0	0.0%	0.0%	753,808	0	10,466	N/A
BRISBANE/DALY CITY	100	4,918,049	334,092	6.8%	106,755	2.2%	440,847	9.0%	8.5%	4,477,202	(23,285)	(148,660)	\$0.80
SOUTH SAN FRANCISCO	411	16,629,073	1,950,201	11.7%	141,524	0.9%	2,091,725	12.6%	11.5%	14,537,348	(183,136)	(792,491)	\$0.82

SAN MATEO COUNTY MARKET TOTALS

Total	1,255	40,807,510	3,427,085	8.4%	445,204	1.1%	3,872,289	9.5%	8.5%	36,935,221	(397,445)	(1,354,433)	\$0.84
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The industrial market's negative net absorption was 397,445 square feet during the third quarter up from 315,007 square feet of negative net absorption in the second quarter.

Accordingly, San Mateo County's vacancy continues to rise at a steady pace for both R&D and industrial markets. R&D vacancy has risen to 19.1% in the third quarter, up from 17.5% in the second quarter. Industrial vacancy increased to 9.5% in the third quarter from 8.5% in the second quarter. These rates have risen dramatically from only one year ago when the industrial vacancy rate in the third quarter of 2008 was 6.1%, while the R&D vacancy rate was 8.5%.

R&D asking rents have decreased slightly to \$1.78 NNN per square foot from \$1.83 NNN per square foot in the second quarter. Sublease space in the R&D sector continues to grow as 179,123 square feet was added to the market, bringing the total sublease space to 1,072,105 square feet, representing 38% of all available R&D space.

Surprisingly, industrial asking rents remained level at \$0.84 NNN per square foot during the third quarter. The South San Francisco industrial submarket accounts for 46% of the third quarter negative net absorption and has reached 2,091,725 square feet of vacant space, increasing from 1,208,702 square feet in the third quarter of 2008. It should be noted that South San Francisco accounts for over 40% of the total industrial inventory and 54% of total industrial vacancy, up from 49% vacant one year ago.

As unemployment rates continue to increase across the nation, San Mateo County is no different. The latest unemployment rate stands at 9.2% up 8.4% in the second quarter and 7.2% at the end of 2008. The marketplace represents an opportunity for tenants that have confidence in their business and long term vision.

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, CCIM
(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
cvanstrand@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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