Market Research

MARKET OVERVIEW | FOURTH QUARTER | 2009

MARKET INDICATORS

	3Q 2009	4Q 2009	
VACANCY RATE	19.0%	19.3 %	↑
TOTAL VACANCY	6,369,669 SF	6,464,215 SF	↑
GROSS ABSORPTION	507,292 SF	375,346 SF	↓
NET ABSORPTION	866 SF	(94,546) SF	↓
WTD AVG ASKING RENT	$2.81 FS	$2.73 FS	↓

"...tenants may see current low lease rates as an opportunity to expand, and perhaps even lease space in anticipation of future growth."

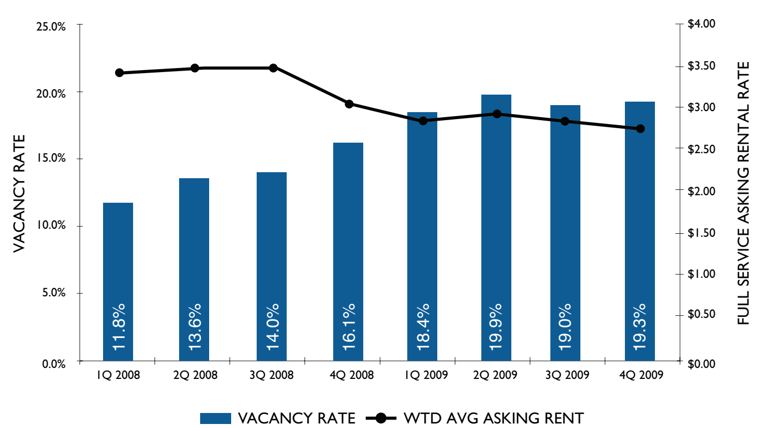
Office Overview

The end of 2009 brings to a close what will be remembered as the most difficult year in recent memory for the Peninsula commercial real estate market, perhaps even eclipsing the memorable 'dot-com' downfall. A near perfect storm of a weakened national economy, a virtual freeze in corporate technology spending and a retrenching from an overheated market in 2007 left local building owners with shockingly low levels of leasing activity, plunging lease rates and a pronounced jump in vacancies.

Despite the difficulties seen in the market over the course of the year, the fourth quarter of 2009 brought signs of a stabilization and some measurable improvements. The San Mateo County vacancy rate stayed essentially flat over the past quarter, moving from 19.0% to its current 19.3%. More telling is the significant change in the year-over-year statistics, which further quantify the pronounced market degradation, with vacancy rising from the 16.1% seen at the close of 2008. Office space net absorption for 2009 registered a negative 1,271,406 square feet, a substantial increase to the negative from the prior years' negative 1,064,885 square feet. Gross absorption for San Mateo County registered 1,734,240 square feet for the year, a significant decline from 2008's 2,596,125 square feet final tally. The greater Peninsula (including Mountain View, Los Altos, and Palo Alto) vacancy rate currently stands at 17.5%, a comparable increase over last year's rate of 14.4%.

An important indicator that the current market has begun to stabilize is the pronounced increase in gross absorption, a measure of all leasing activity within the market. San Mateo County gross absorption decreased slightly, however it is important to note that gross absorption increased when including Mountain View, Los Altos, and Palo Alto, which makes up the greater Peninsula. Gross absorption for the third and fourth quarter showed total office leasing activity of 1,545,422 square feet for the greater Peninsula. Compare this with 1,109,288 square feet over the first half of the year and the improvement is quite clear.

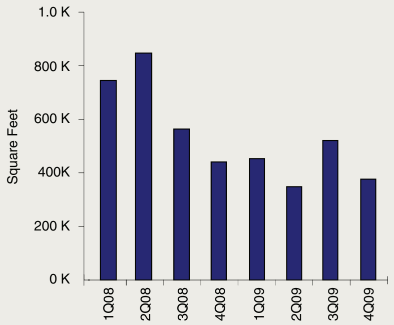
PENINSULA OFFICE MARKET - VACANCY VS. RENT



COLLIERS INTERNATIONAL

www.colliersparrish.com

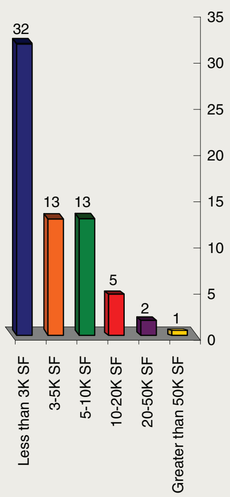
PENINSULA OFFICE GROSS ABSORPTION



4Q 2009 SAN MATEO COUNTY OFFICE DEAL VELOCITY

SIZE RANGE	TOTAL SF	#OF DEALS
LESS THAN 3K SF	56,072 SF	32
3–5K SF	45,944 SF	13
5–10K SF	81,470 SF	13
10–20K SF	72,890 SF	5
20–50K SF	68,570 SF	2
GREATER THAN 50K SF	50,400 SF	1
TOTAL	375,346 SF	66

NUMBER OF OFFICE DEALS



A look back paints an even more favorable picture, with gross absorption for the fourth quarter totaling 818,836 square feet, a 31% increase over the same period last year. Still, despite difficult conditions, fourth quarter average asking rents for office space in San Mateo County dropped a mere 11%, from \$3.05 a square foot in the fourth quarter of 2008 to the current \$2.73 a square foot.

While harder to quantify, perhaps the best indicator for future conditions is a tangible change in the "mood of the market". Most brokers and property owners report a noticeable uptick in activity with tenants beginning late last year. One could speculate that tenants may see current low lease rates as an opportunity to expand, and perhaps even lease space in anticipation of future growth.

As challenging as 2009 was for the industry, it was not without highlights. Standing out among local submarkets is Palo Alto's Stanford Research Park, which was the site of several of the largest transactions of the past year. Facebook's 265,000 square feet lease, Tesla's 350,000 square feet commitment and the largest Class A office transaction of the year, WilmerHale's 71,409 square feet transaction, all took place within the Park. While all of these transactions (particularly Tesla's) had some fairly unique characteristics that made them gravitate to Palo Alto, this activity is an excellent indicator of the 'flight to quality' we can expect to see more of in the coming year as the local market continues its recovery.

Other significant office transactions for 2009 included Demand Tech's 81,876 square feet commitment and NR 2B Research lease of 49,800 square feet, both in San Mateo. While low-cost sublease transactions such as NR 2B's generally typify a down market, such transactions have been relatively scarce in 2009, as normally volatile sublease space remains a relatively minor factor in the local market, accounting for only 27% of available office space. This fact has played a significant role in the fairly tight range within which rents have remained in this challenging market.

Going forward, it seems certain that 2010 will remain a 'tenants market'. Tenants may, however, be surprised by the relative strength in some office submarkets, including Palo Alto, which currently shows a vacancy rate of 11.9%, and Mountain View, where vacancy in the downtown core closed the year in single-digits. Even during the recovery, most of the regional submarkets that will outperform the broader markets can be found on the Peninsula, which bodes well for the future.

MARKET ACTIVITY
SIGNIFICANT FOURTH QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
1050 Page Mill Road, Palo Alto	265,000	Facebook, Inc.	Office
950 Page Mill Road, Palo Alto	71,409	WilmerHale	Office
600 Gateway Blvd, South San Francisco	50,400	LS9 Inc.	Office
1001 East Hillsdale Avenue, Foster City	44,103	Adchemy, Inc.	Office
1050 East Meadow Circle, Palo Alto	43,985	Loral	Office
1555 Plymouth Street, Mountain View	43,655	Layer 42 Networks	R&D
2800 Campus Drive, San Mateo	24,467	American Institutes for Research	Office
1050 Hamilton Court, Menlo Park	20,686	3-V Bioscience, Inc.	R&D
577 Airport Boulevard, Burlingame	18,061	Third Pillar Systems	Office

OFFICE MARKET STATISTICS
FOURTH 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 Q4-2009	Rate Q3-2009	Current Occupied Sq Ft	Q4-2009	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	21960	(62391)	$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.

Class	Bldgs	Total Inventory Sq Ft	Direct Sq Ft	Direct Rate	Sublease Sq Ft	Sublease Rate	Total Vacancy Sq Ft	Rate Q4-2009	Rate Q3-2009	Current Occupied Sq Ft	Net Absorption Q4-2009	Net Absorption YTD	Wtd Avg Asking Rate
SAN MATEO COUNTY													
MENLO PARK													
A	33	1,638,427	67,439	4.1%	55,060	3.4%	122,499	7.5%	7.6%	1,515,928	1,777	(21,576)	$7.46
B	71	2,177,894	359,668	16.5%	107,401	4.9%	467,069	21.4%	20.3%	1,710,825	(23,911)	(181,605)	$3.99
Total	104	3,816,321	427,107	11.2%	162,461	4.3%	589,568	15.4%	14.9%	3,226,753	(22,134)	(203,181)	$4.71
REDWOOD CITY													
A	20	2,440,446	215,464	8.8%	555,788	22.8%	771,252	31.6%	31.8%	1,669,194	5,673	(52,602)	$2.75
B	36	1,336,245	249,476	18.7%	18,917	1.4%	268,393	20.1%	20.0%	1,067,852	(1,649)	(8,089)	$2.60
Total	56	3,776,691	464,940	12.3%	574,705	15.2%	1,039,645	27.5%	27.6%	2,737,046	4,024	(60,691)	$2.71
BELMONT/SAN CARLOS													
A	9	881,679	459,109	52.1%	53,851	6.1%	512,960	58.2%	47.9%	368,719	(91,024)	(133,900)	$2.58
B	13	673,289	133,125	19.8%	3,741	0.6%	136,866	20.3%	18.5%	536,423	(12,250)	(85,071)	$2.33
Total	22	1,554,968	592,234	38.1%	57,592	3.7%	649,826	41.8%	35.1%	905,142	(103,274)	(218,971)	$2.53
REDWOOD SHORES													
A	49	5,347,940	673,181	12.6%	129,107	2.4%	802,288	15.0%	14.7%	4,545,652	(18,028)	(298,952)	$2.47
B	5	172,852	18,899	10.9%	-	0.0%	18,899	10.9%	9.4%	153,953	(2,726)	2,986	$2.46
Total	54	5,520,792	692,080	12.5%	129,107	2.3%	821,187	14.9%	14.5%	4,699,605	(20,754)	(295,966)	$2.47
SAN MATEO													
A	25	2,822,840	360,648	12.8%	151,383	5.4%	512,031	18.1%	19.7%	2,310,809	45,221	15,524	$2.45
B	69	4,023,698	702,880	17.5%	181,146	4.5%	884,026	22.0%	21.2%	3,139,672	(30,240)	(254,827)	$2.29
Total	94	6,846,538	1,063,528	15.5%	332,529	4.9%	1,396,057	20.4%	20.6%	5,450,481	14,981	(239,303)	$2.35
FOSTER CITY													
A	14	2,686,494	161,223	6.0%	154,023	5.7%	315,246	11.7%	12.2%	2,371,248	12,119	(174,329)	$2.84
B	14	576,068	32,047	5.6%	19,192	3.3%	51,239	8.9%	8.9%	524,829	0	41,127	$2.29
Total	28	3,262,562	193,270	5.9%	173,215	5.3%	366,485	11.2%	11.6%	2,896,077	12,119	(133,202)	$2.76
BURLINGAME													
A	6	758,931	190,057	25.0%	30,057	4.0%	220,114	29.0%	31.5%	538,817	18,678	20,607	$2.21
B	24	1,047,180	162,317	15.5%	21,419	2.0%	183,736	17.5%	14.5%	863,444	(31,852)	(76,148)	$1.77
Total	30	1,806,111	352,374	19.5%	51,476	2.9%	403,850	22.4%	21.6%	1,402,261	(13,174)	(55,541)	$2.01
SAN BRUNO/MILLBRAE													
A	9	1,132,078	115,721	10.2%	72,802	6.4%	188,523	16.7%	16.7%	943,555	262	(21,312)	$2.18
B	11	371,840	34,108	9.2%	-	0.0%	34,108	9.2%	10.6%	337,732	5,207	(8,270)	$2.06
Total	20	1,503,918	149,829	10.0%	72,802	4.8%	222,631	14.8%	15.2%	1,281,287	5,469	(29,582)	$2.16
DALY CITY													
A	4	668,291	31,971	4.8%	1,400	0.2%	33,371	5.0%	5.2%	634,920	1,521	(7,812)	$2.23
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	74,179	7.8%	3,234	0.3%	77,413	8.1%	8.3%	876,731	1,521	(15,478)	$2.11
SOUTH SAN FRANCISCO													
A	16	2,704,488	486,578	18.0%	59,040	2.2%	545,618	20.2%	19.0%	2,158,870	(31,956)	(85,075)	$3.21
B	13	880,060	54,398	6.2%	127,946	14.5%	182,344	20.7%	27.7%	697,716	61,868	72,630	$2.42
Total	29	3,584,548	540,976	15.1%	186,986	5.2%	727,962	20.3%	21.1%	2,856,586	29,912	(12,445)	$2.97
BRISBANE													
A	5	674,888	128,722	19.1%	16,162	2.4%	144,884	21.5%	20.6%	530,004	(5,661)	(4,406)	$2.84
B	4	176,587	24,707	14.0%	-	0.0%	24,707	14.0%	15.4%	151,880	2,425	(2,640)	$1.95
Total	9	851,475	153,429	18.0%	16,162	1.9%	169,591	19.9%	19.5%	681,884	(3,236)	(7,046)	$2.71
SAN MATEO COUNTY MARKET TOTAL													
A	189	21,756,502	2,890,113	13.3%	1,278,673	5.9%	4,168,786	19.2%	18.9%	17,587,716	(61,418)	(763,833)	$2.79
B	270	11,721,566	1,813,833	15.5%	481,596	4.1%	2,295,429	19.6%	19.3%	9,426,137	(33,128)	(507,573)	$2.63
Total	459	33,478,068	4,703,946	14.1%	1,760,269	5.3%	6,464,215	19.3%	19.0%	27,013,853	(94,546)	(1,271,406)	$2.73

R&D MARKET STATISTICS
FOURTH 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 Q4-2009	Rate Q3-2009	Current Occupied Sq Ft	Q4-2009	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
SAN MATEO COUNTY													
MENLO PARK	58	2,308,198	177,471	7.7%	103,498	4.5%	280,969	12.2%	10.0%	2,027,229	(49,597)	(53,178)	$1.38
REDWOOD CITY	64	2,377,304	364,458	15.3%	103,610	4.4%	468,068	19.7%	19.8%	1,909,236	2,412	(94,920)	$1.23
BELMONT/SAN CARLOS	49	1,746,770	188,696	10.8%	23,399	1.3%	212,095	12.1%	14.0%	1,534,675	9,859	(104,933)	$1.70
SAN MATEO/FOSTER CITY	58	1,676,101	166,008	9.9%	0	0.0%	166,008	9.9%	9.1%	1,510,093	(12,710)	(49,662)	$1.02
SAN BRUNO/BURLINGAME	29	705,312	80,241	11.4%	6,240	0.9%	86,481	12.3%	12.9%	618,831	4,351	(68,506)	$1.01
SOUTH SAN FRANCISCO/ BRISBANE	97	5,923,908	712,023	12.0%	906,642	15.3%	1,618,665	27.3%	27.3%	4,305,243	600	(546,874)	$2.09
SAN MATEO COUNTY MARKET TOTAL													
TOTAL	355	14,737,593	1,688,897	11.5%	1,143,389	7.8%	2,832,286	19.2%	19.1%	11,905,307	(45,085)	(918,073)	$1.75

*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.

INDUSTRIAL MARKET STATISTICS
FOURTH 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 Q4-2009	Rate Q3-2009	Current Occupied Sq Ft	Q4-2009	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
SAN MATEO COUNTY													
MENLO PARK	92	2,920,524	272,105	9.3%	11,904	0.4%	284,009	9.7%	9.4%	2,636,515	(10,222)	(148,611)	$0.90
REDWOOD CITY	178	4,152,952	260,949	6.3%	147,667	3.6%	408,616	9.8%	8.2%	3,744,336	(69,244)	(158,609)	$0.62
BELMONT/SAN CARLOS	219	5,442,444	125,019	2.3%	0	0.0%	125,019	2.3%	2.5%	5,317,425	8,726	(5,437)	$1.29
SAN MATEO/FOSTER CITY	70	1,272,630	130,171	10.2%	0	0.0%	130,171	10.2%	8.8%	1,142,459	(18,500)	(72,060)	$1.03
BURLINGAME	161	4,718,030	514,932	10.9%	52,921	1.1%	567,853	12.0%	10.2%	4,150,177	(86,711)	(214,982)	$0.90
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	387,172	7.9%	97,470	2.0%	484,642	9.9%	9.0%	4,433,407	(43,795)	(192,455)	$0.78
SOUTH SAN FRANCISCO	411	16,629,073	1,924,913	11.6%	158,324	1.0%	2,083,237	12.5%	12.6%	14,545,836	8,488	(784,003)	$0.82
SAN MATEO COUNTY MARKET TOTALS													
TOTAL	1,255	40,807,510	3,615,261	8.9%	468,286	1.1%	4,083,547	10.0%	9.5%	36,723,963	(211,258)	(1,565,691)	$0.83

*THE SOUTH PENINSULA CITY OF MOUNTAIN VIEW ARE FOR REFERENCE PURPOSES AS THEY ARE NOT INCLUDED IN THE SAN MATEO COUNTY MARKET TOTALS BELOW.

R&D and Industrial Overview

The trends for San Mateo County's R&D and industrial sectors throughout 2009 are increased vacancy rates and continued negative net absorption. The industrial market's vacancy increased from 6.4% in the fourth quarter of 2008 to 10.0% in the fourth quarter of 2009. The R&D markets have seen a more dramatic increase in vacancy; it rose 10.2% over the same period and currently stands at 19.2%. This marks the fifth consecutive quarter that both R&D and industrial vacancy rates have increased. In looking for a bright spot, the R&D vacancy rate only increased a tenth of a percent in the fourth quarter, showing us we are nearing the bottom at a 19.2% vacancy.

The asking rents have been directly affected by increased vacancy rates. R&D average asking rent slightly decreased to $1.75 NNN a square foot. Industrial average asking rents have leveled off at $0.83 NNN per square foot. The average industrial asking rent at the end of 2008 was $0.94 NNN a square foot.

Each quarter of 2009 registered a negative net absorption for both R&D and industrial markets. Net absorption for R&D space in the fourth quarter was a negative 45,085 square feet as compared to a negative 227,943 square feet in the third quarter. While R&D net absorption continued to be negative for the fifth consecutive quarter, the fourth quarter only represented 5% of 2009's total negative net absorption. Negative net absorption for the industrial market continued in the fourth quarter at a negative 211,258 square feet and totaled a negative 1,565,691 square feet for all of 2009.

In the R&D and industrial markets, we may have reached bottom. We anticipate an increase in activity in the first half of 2010 on the San Francisco Peninsula. It is clear that the unemployment rate will need to decrease before we will see any significant improvement in vacancy and net absorption on the Peninsula.

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

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.co

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

PENINSULA LOCATION

Towers @ Shores Center
203 Redwood Shores Parkway, Suite125
Redwood City, CA 94065
Tel: (650) 486-2200
Fax: (650) 486-2201
CA License No. 00490878

Rick Knauf
Managing Partner
rknauf@colliersparrish.com
CA License No. 00823386
650.486.2244

Michael DePuy
Research Analyst
mdepuy@colliersparrish.com
650.486.2206

Contributing Author
Mike Cobb
Senior Vice President
mcobb@colliersparrish.com
CA License No. 00979399
650.486.2251

COLLIERS INTERNATIONAL
www.colliersparrish.com