



SAN FRANCISCO PENINSULA RESEARCH & FORECAST REPORT



Positive Activity in 2010 - Encouraging Outlook for 2011

OFFICE OVERVIEW

After the most drastic downturn in recent memory, 2010 clearly marked the beginning of the recovery for the local commercial real estate market. This recovery can best be described as choppy and uneven. Leasing activity has shown a marked upturn, larger users have tentatively returned to the market and rents within the broader markets have stabilized. The nominal improvement to the vacancy rate still leaves us with a number well above historical averages. Bluntly put, any level of market activity compares favorably to the depths of the 2009 market. Still, the year closes with promising signs for a more robust recovery going forward.

The office vacancy rate for San Mateo County now stands at 17.6 percent, essentially flat from the prior quarter but a substantial improvement over the 19.0 percent rate of a year ago. The greater Peninsula rate ended the year at 16.2 percent compared to 17.5 percent to close 2009.

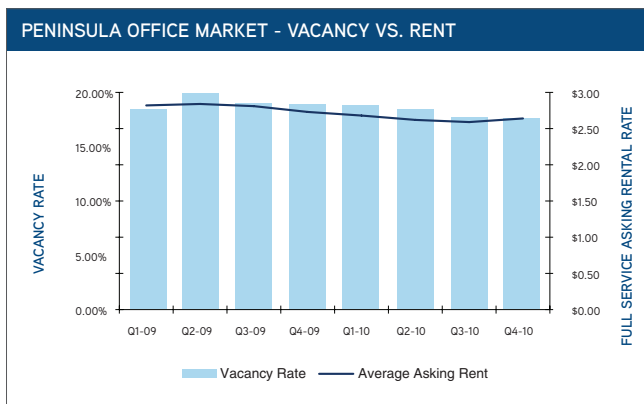
The most direct and perhaps relevant indicator of an improving market would be the substantial increase in gross absorption, a measure of all leasing activity with a market. Year over year comparisons between 2009 and 2010 show an impressive 29.3 percent gain in square footage leased on the Peninsula. In addition, net absorption in San Mateo County ended 2010 with a third consecutive positive quarterly reading. While total absorption for 2010 remains below long term averages, the gains over the previous year are encouraging. Equally encouraging is the noteworthy increase in the number of larger transactions. In 2010, Colliers tracked 27 lease transactions in San Mateo County in excess of 20,000 square feet—a 60 percent increase over the prior year.

Despite the high vacancy rates seen at the bottom of the market cycle, average lease rates held their ground surprisingly well. The average asking rate for San Mateo County did slip nominally over the course of 2010, logging a mere 3.5 percent decrease to \$2.64 fully serviced. This represents a 24 percent dip from the peak of the market, the second quarter of 2008. It is worth noting, however, that some significant local submarkets have actually experienced surprising growth in lease rates over the past year, which to some degree may mask degradation in secondary markets.

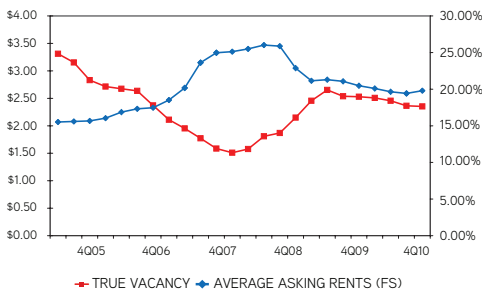
MARKET INDICATORS

	Q4 2010	Q3 2010	
VACANCY RATE	17.6%	17.7%	↓
TOTAL VACANCY	5,903,725	5,942,751	↓
GROSS ABSORPTION	430,227	848,053	↓
NET ABSORPTION	39,026	304,058	↓
WTD AVG ASKING RENT	\$2.64	\$2.59	↑

“...the return of the larger user to the market, many long term substantial vacancies are likely to see activity, potentially creating a surprising scarcity of options for these tenants.”



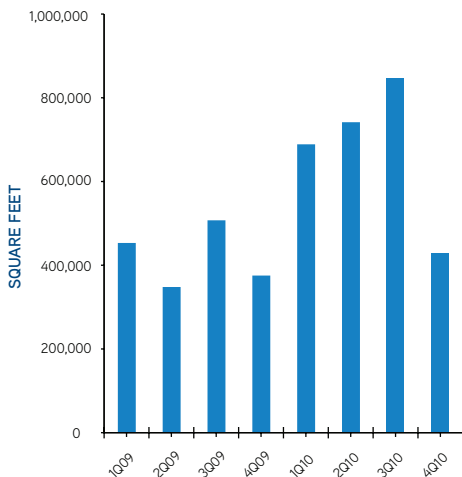
SAN MATEO COUNTY OFFICE HISTORICAL RENT VS VACANCY



The most noteworthy feature of the recovery to date has been the drastic dichotomy between the strongest core markets and broader conditions. While a ‘flight to quality’ is an expected phenomenon at the early stages of a market rebound, rents in many submarkets now actually exceed those seen at the top of the market in 2008. This trend has been most pronounced in the desirable South Peninsula cities of Mountain View and Palo Alto. In Palo Alto, the downtown vacancy rate currently stands at 3.6 percent, and average asking rents are an extraordinary \$5.74 fully serviced. Colliers major building vacancy index for downtown Mountain View reached as low as 4.4 percent in 2010, and rents in many major buildings are seeing dramatic upward pressure. This trend appears to be driven by access to rail transportation, and a similar effect can be observed in downtown Redwood City and San Mateo as well. The upward pressure on rents in these submarkets may cause tenants to seek lower cost options elsewhere, but a drastically bifurcated market will likely remain prevalent for some time.

At the close of 2009, Colliers accurately forecasted an uneven recovery and the dramatic tightening seen in the core downtown markets. While a continued bumpy road to a full market recovery is likely over the course of 2011, the success of these rail-oriented markets will certainly spill over into secondary locations. With the return of the larger user to the market, many long term substantial vacancies are likely to see activity, potentially creating a surprising scarcity of options for these tenants.

PENINSULA OFFICE GROSS ABSORPTION



The recovering market in 2010 did bring a wave of larger transactions, with established local entities taking advantage of favorable conditions. Noteworthy transactions included the 225,000 square foot office lease by AOL in Palo Alto, Research in Motion’s 90,000 square foot commitment in Redwood Shores and Lucille Packard Hospitals 110,000 square foot office lease in Menlo Park.

R&D/INDUSTRIAL OVERVIEW

The fourth quarter of 2010 ended very closely to how the year started off. R&D and industrial markets did show signs of positive activity in 2010, especially when compared to the previous year. We experienced two positive net absorption quarters in 2010, the first seen in San Mateo County in over two years for both the R&D and industrial markets. However, year to date net absorption numbers remained idle for most of 2010. San Mateo County R&D net absorption was a negative 137,877 square feet in 2010. The industrial net absorption merely broke even for the year, finishing with a positive 27,115 square feet.

The R&D vacancy currently stands at 19.5 percent, a one percent increase from the start of 2010’s 18.5 percent. For the past seven quarters vacancy rates have been relatively flat, ranging between 17 percent and 19 percent, showing few signs of returning to 2008’s vacancy rate of 8

4Q 2010 SAN MATEO COUNTY OFFICE DEAL VELOCITY

SIZE RANGE	TOTAL SF	# OF DEALS
LESS THAN 3K SF	104,907	61
3-5K SF	77,955	21
5-10K SF	112,598	18
10-20K SF	65,705	5
20-50K SF	69,062	2
GREATER THAN 50K SF	0	0
TOTAL	430,227	107

MARKET ACTIVITY SIGNIFICANT FOURTH QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
245 S. Spruce Avenue, South San Francisco	90,000	Freeman Decorating Services	Warehouse
2955 Campus Drive, San Mateo	49,000	NexTag	Office
4005 Miranda Avenue, Palo Alto	30,057	Robert Bosch, LLC	Office
211 S. Hill Drive, Brisbane	30,220	Preferred Meals Systems	Industrial
555 Ellis Street, Mountain View	28,137	Diamond Systems Corporation	R&D
1301 Shoreway Road, Belmont	20,062	UC Berkeley Extension	Office

SIGNIFICANT SALES

BUYER

Oyster Point Boulevard, South San Francisco (Eight Properties)	488,900	BioMed Realty Trust, Inc.	Office/R&D
2465 Latham Street, Mountain View	43,500	Seagate Properties	Office

OFFICE MARKET STATISTICS

FOURTH 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 Q4-2010	Rate Q3-2010	Current Occupied Sq. Ft.	Q4-2010	YTD	Wtd Avg Asking Rate

SOUTH PENINSULA

MOUNTAIN VIEW/LOS ALTOS

A	31	2,427,929	216,906	8.9%	46,635	1.9%	263,541	10.9%	9.7%	2,164,388	(116,228)	(160,016)	\$3.58
B/C	147	2,447,535	365,383	14.9%	22,047	0.9%	387,430	15.8%	13.0%	2,060,105	(64,846)	(77,134)	\$2.70
Total	178	4,875,464	582,289	11.9%	68,682	1.4%	650,971	13.4%	11.4%	4,224,493	(181,074)	(237,150)	\$3.08

PALO ALTO

A	63	2,806,466	232,909	8.3%	78,766	2.8%	311,675	11.1%	11.8%	2,494,791	9,745	(81,551)	\$4.48
B/C	187	3,330,171	250,247	7.5%	107,758	3.2%	358,005	10.8%	13.2%	2,972,166	74,405	5,895	\$3.66
Total	250	6,136,637	483,156	7.9%	186,524	3.0%	669,680	10.9%	12.5%	5,466,957	84,150	(75,656)	\$4.15

*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

A	34	1,662,927	66,267	4.0%	128,026	7.7%	194,293	11.7%	6.3%	1,468,634	(90,176)	(47,294)	\$4.51
B	71	2,177,894	388,293	17.8%	62,258	2.9%	450,551	20.7%	21.3%	1,727,343	14,390	16,518	\$4.05
Total	105	3,840,821	454,560	11.8%	190,284	5.0%	644,844	16.8%	14.8%	3,195,977	(75,786)	(30,776)	\$4.19

REDWOOD CITY

A	20	2,440,446	209,307	8.6%	522,015	21.4%	731,322	30.0%	32.5%	1,709,124	62,598	39,930	\$2.77
B	36	1,336,245	340,995	25.5%	21,374	1.6%	362,369	27.1%	28.2%	973,876	14,195	(93,976)	\$2.59
Total	56	3,776,691	550,302	14.6%	543,389	14.4%	1,093,691	29.0%	31.0%	2,683,000	76,793	(54,046)	\$2.71

BELMONT/SAN CARLOS

A	9	882,682	422,441	47.9%	13,851	1.6%	436,292	49.4%	45.2%	446,390	(37,244)	5,698	\$2.66
B	13	673,289	77,651	11.5%	-	0.0%	77,651	11.5%	21.6%	595,638	67,961	59,215	\$2.25
Total	22	1,555,971	500,092	32.1%	13,851	0.9%	513,943	33.0%	35.0%	1,042,028	30,717	64,913	\$2.60

REDWOOD SHORES

A	49	5,350,533	482,660	9.0%	93,423	1.7%	576,083	10.8%	11.5%	4,774,450	38,203	122,798	\$2.49
B	5	172,852	11,887	6.9%	2,206	1.3%	14,093	8.2%	8.1%	158,759	(50)	4,806	\$1.80
Total	54	5,523,385	494,547	9.0%	95,629	1.7%	590,176	10.7%	11.4%	4,933,209	38,153	127,604	\$2.47

SAN MATEO

A	25	2,822,840	275,230	9.8%	169,926	6.0%	445,156	15.8%	17.3%	2,377,684	43,049	66,875	\$2.26
B	69	4,029,566	734,346	18.2%	146,687	3.6%	881,033	21.9%	21.0%	3,148,533	(36,551)	8,861	\$2.14
Total	94	6,852,406	1,009,576	14.7%	316,613	4.6%	1,326,189	19.4%	19.4%	5,526,217	6,498	75,736	\$2.18

FOSTER CITY

A	14	2,686,494	209,821	7.8%	22,688	0.8%	232,509	8.7%	5.8%	2,453,985	(76,819)	82,737	\$2.80
B	14	576,068	101,017	17.5%	-	0.0%	101,017	17.5%	15.0%	475,051	(14,773)	(49,778)	\$2.14
Total	28	3,262,562	310,838	9.5%	22,688	0.7%	333,526	10.2%	7.4%	2,929,036	(91,592)	32,959	\$2.60

BURLINGAME

A	6	758,931	151,567	20.0%	10,195	1.3%	161,762	21.3%	23.6%	597,169	17,180	50,260	\$2.07
B	24	1,053,558	110,191	10.5%	-	0.0%	110,191	10.5%	11.7%	943,367	13,137	8,240	\$1.98
Total	30	1,812,489	261,758	14.4%	10,195	0.6%	271,953	15.0%	16.7%	1,540,536	30,317	58,500	\$2.03

SAN BRUNO/MILLBRAE

A	9	1,132,078	110,339	9.7%	24,201	2.1%	134,540	11.9%	15.9%	997,538	44,997	53,983	\$2.05
B	11	371,840	67,858	18.2%	2,544	0.7%	70,402	18.9%	18.3%	301,438	(2,418)	(36,294)	\$1.94
Total	20	1,503,918	178,197	11.8%	26,745	1.8%	204,942	13.6%	16.5%	1,298,976	42,579	17,689	\$2.01

DALY CITY

A	4	668,291	54,741	8.2%	1,400	0.2%	56,141	8.4%	7.9%	612,150	(3,364)	(22,770)	\$2.26
B	10	285,853	27,418	9.6%	9,336	3.3%	36,754	12.9%	10.3%	249,099	(7,435)	7,288	\$1.90
Total	14	954,144	82,159	8.6%	10,736	1.1%	92,895	9.7%	8.6%	861,249	(10,799)	(15,482)	\$2.12

SOUTH SAN FRANCISCO

A	16	2,704,488	444,870	16.4%	124,381	4.6%	569,251	21.0%	21.6%	2,135,237	15,905	(23,633)	\$2.86
B	13	880,060	52,520	6.0%	68,421	7.8%	120,941	13.7%	11.7%	759,119	(18,154)	61,403	\$2.02
Total	29	3,584,548	497,390	13.9%	192,802	5.4%	690,192	19.3%	19.2%	2,894,356	(2,249)	37,770	\$2.71

BRISBANE

A	5	674,888	105,697	15.7%	8,574	1.3%	114,271	16.9%	16.1%	560,617	(5,602)	30,613	\$2.49
B	4	176,587	27,103	15.3%	-	0.0%	27,103	15.3%	15.3%	149,484	(3)	(2,396)	\$1.95
Total	9	851,475	132,800	15.6%	8,574	1.0%	141,374	16.6%	15.9%	710,101	(5,605)	28,217	\$2.39

SAN MATEO COUNTY MARKET TOTAL

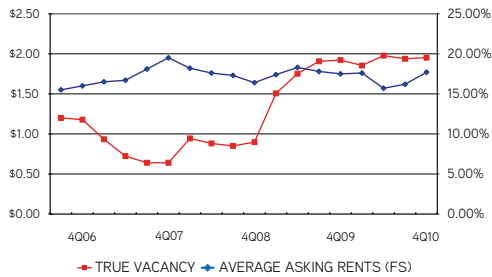
A	191	21,784,598	2,532,940	11.6%	1,118,680	5.1%	3,651,620	16.8%	16.8%	18,132,978	8,727	359,197	\$2.68
B	270	11,733,812	1,939,279	16.5%	312,826	2.7%	2,252,105	19.2%	19.5%	9,481,707	30,299	(16,113)	\$2.57
Total	461	33,518,410	4,472,219	13.3%	1,431,506	4.3%	5,903,725	17.6%	17.7%	27,614,685	39,026	343,084	\$2.64

R&D MARKET STATISTICS													
FOURTH QUARTER 2010													
Existing Properties			Direct Vacancy		Sublease Vacancy		Total Vacancy			Total Occupancy	Net Absorption		Rent
City	Bldgs	Total Inventory Sq. Ft.	Sq. Ft.	Rate	Sq. Ft.	Rate	Sq. Ft.	Rate Q4-2010	Rate Q3-2010	Current Occupied Sq. Ft.	Q4-2010	YTD	Wtd Avg Asking Rate
SOUTH PENINSULA													
MOUNTAIN VIEW	274	13,971,801	1,135,991	8.1%	479,224	3.4%	1,615,215	11.6%	10.6%	12,356,586	(194,684)	(259,442)	\$1.49
PALO ALTO	59	10,292,315	1,009,684	9.8%	273,475	2.7%	1,283,159	12.5%	12.6%	9,009,156	17,114	(785,884)	\$2.57
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SAN MATEO COUNTY													
MENLO PARK	58	2,308,198	524,662	22.7%	93,983	4.1%	618,645	26.8%	27.5%	1,689,553	16,536	(337,676)	\$1.44
REDWOOD CITY	64	2,377,304	335,475	14.1%	47,497	2.0%	382,972	16.1%	19.2%	1,994,332	73,170	73,496	\$1.51
BELMONT/SAN CARLOS	49	1,746,770	271,396	15.5%	104,040	6.0%	375,436	21.5%	22.4%	1,371,334	15,182	(163,341)	\$1.75
SAN MATEO/FOSTER CITY	58	1,676,101	69,446	4.1%	0	0.0%	69,446	4.1%	5.1%	1,606,655	15,594	35,017	\$0.87
SAN BRUNO/BURLINGAME	29	705,312	74,788	10.6%	11,768	1.7%	86,556	12.3%	15.9%	618,756	25,325	(11,308)	\$0.85
SOUTH SAN FRANCISCO/BRISBANE	97	5,923,908	723,048	12.2%	620,682	10.5%	1,343,730	22.7%	19.9%	4,580,178	(166,053)	274,935	\$2.10
SAN MATEO COUNTY MARKET TOTAL													
TOTAL	355	14,737,593	1,998,815	13.6%	877,970	6.0%	2,876,785	19.5%	19.4%	11,860,808	(20,246)	(137,877)	\$1.77

INDUSTRIAL STATISTICS													
FOURTH QUARTER 2010													
Existing Properties			Direct Vacancy		Sublease Vacancy		Total Vacancy			Total Occupancy	Net Absorption		Rent
City	Bldgs	Total Inventory Sq. Ft.	Sq. Ft.	Rate	Sq. Ft.	Rate	Sq. Ft.	Rate Q4-2010	Rate Q3-2010	Current Occupied Sq. Ft.	Q4-2010	YTD	Wtd Avg Asking Rate
SOUTH PENINSULA													
MOUNTAIN VIEW	148	2,698,054	177,671	6.6%	-	0.0%	177,671	6.6%	7.1%	2,520,383	(288)	(62,106)	\$0.81
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SAN MATEO COUNTY													
MENLO PARK	92	2,920,524	153,700	5.3%	0	0.0%	153,700	5.3%	12.4%	2,766,824	209,326	130,309	\$0.85
REDWOOD CITY	178	4,152,952	251,611	6.1%	191,837	4.6%	443,448	10.7%	12.1%	3,709,504	59,568	(34,832)	\$0.71
BELMONT/SAN CARLOS	219	5,442,444	102,981	1.9%	18,130	0.3%	121,111	2.2%	3.4%	5,321,333	63,345	3,908	\$0.76
SAN MATEO/FOSTER CITY	70	1,272,630	81,796	6.4%	20,000	1.6%	101,796	8.0%	10.1%	1,170,834	27,164	28,375	\$0.80
BURLINGAME	161	4,718,030	327,706	6.9%	36,762	0.8%	364,468	7.7%	8.5%	4,353,562	36,693	203,385	\$0.86
SAN BRUNO/MILLBRAE	24	753,808	0	0.0%	18,000	2.4%	18,000	2.4%	2.4%	735,808	0	(18,000)	\$1.28
BRISBANE/DALY CITY	100	4,918,049	415,859	8.5%	91,300	1.9%	507,159	10.3%	11.6%	4,410,890	62,964	(4,642)	\$0.74
SOUTH SAN FRANCISCO	411	16,629,073	2,156,798	13.0%	78,059	0.5%	2,234,857	13.4%	12.9%	14,394,216	(85,522)	(281,388)	\$0.76
SAN MATEO COUNTY MARKET TOTAL													
TOTAL	1,255	40,807,510	3,490,451	8.6%	454,088	1.1%	3,944,539	9.7%	10.6%	36,862,971	373,538	27,115	\$0.77

percent. Average asking rates in the second and third quarter dipped to \$1.57 NNN, but closed 2010 at \$1.77 NNN, which is consistent with rates over the past five years. Rates returning to historical averages may be a sign of the R&D markets hitting bottom and beginning an upswing in activity.

**SAN MATEO COUNTY R&D
HISTORICAL RENT VS VACANCY**



R&D activity in San Mateo County showed signs of recovery in 2010. The County's R&D gross absorption in the fourth quarter was 197,731 square feet, the third highest quarter seen in three years. Redwood City and Menlo Park stood out as the most active markets, combining for 124,398 square feet of gross absorption in the fourth quarter. Gross absorption in 2010 totaled 641,848 square feet, an increase of 6 percent over 2009.

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After a high of 10.6 percent for the industrial market was reached in the third quarter, vacancy dropped back down below double digits and ended 2010 at 9.7 percent. At the beginning of the year, industrial average asking rates were \$0.82 NNN and they ended the fourth quarter at \$0.77 NNN, dropping a couple cents per quarter in 2010.

The San Mateo County industrial market had 360,795 square feet of gross absorption in the final quarter of 2010, the most activity seen in the last eighteen months. South San Francisco led all industrial submarkets in terms of activity in the fourth quarter, with 197,330 square feet of gross absorption. South San Francisco was also the sight of the largest industrial transaction of the quarter; Freeman Decorating Services leased 90,000 square feet on Spruce Avenue.

2011 will show vacancy rates consistent with the 2010 rates, perhaps decreasing towards the end of 2011. Net absorption will continue to fluctuate between positive and negative throughout 2011, however, should remain flat for the year. Activity in 2011 should continue its upward trend as the Peninsula R&D and industrial markets continue to recover.

480 offices in 61 countries on 6 continents

United States: 135
Canada: 39
Latin America: 17
Asia Pacific: 194
EMEA: 95

- > \$1.9 billion in annual revenue
- > 2.4 billion square feet under management
- > Over 15,000 professionals

UNITED STATES:

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