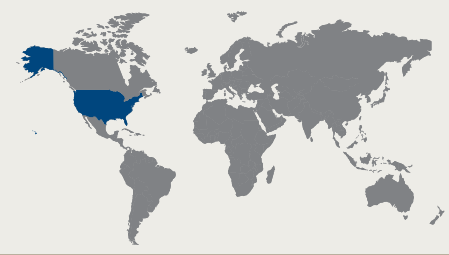




Market Research

OFFICE | FIRST QUARTER | 2010



MARKET INDICATORS

	1Q 2010	2Q 2010*
VACANCY	↓	↔
NET ABSORPTION	↑	↔
CONSTRUCTION	↔	↔
LEASE RATES	↓	↓
CAP RATES	↔	↔
LAND PRICES	↓	↓

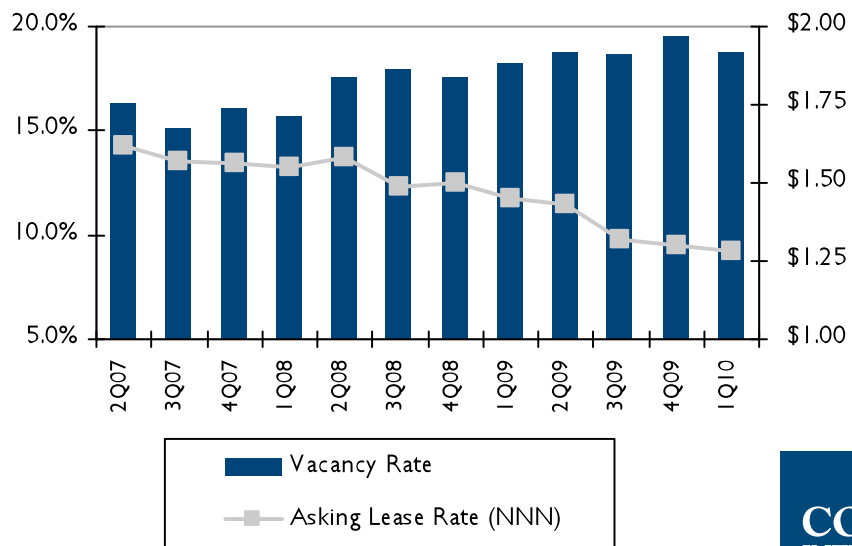
*PROJECTED

Landlords and Investors - Bridging the Gap?

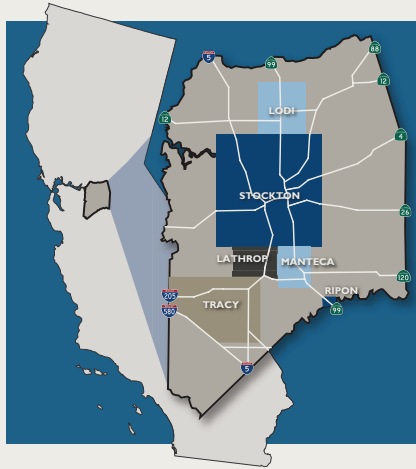
Ongoing market conditions have been challenging from both a tenant and a landlord point of view, however new activity not present in the fourth quarter has brought some positive news to the market. Distressed owners and tenants have been the norm for the last 18-24 months and the weight of the depressed economy came to light in the first quarter as three significant office buildings were sold.

The sales highlight the stress the market is placing on landlords and the values of their assets. Two of the sales were completed by Meridian Property Company which sold two Class A office assets they had constructed within the past five years. One of the buildings is located in Stockton and the other is an office condominium complex in Manteca. Both projects were challenged by low occupancy and minimal activity. While the sales were categorized as “distressed sales,” the transactions offer the market a sketch of Class A building values with low occupancy. Offices offered for sale with significant vacancy will take price discounting below the replacement cost to entice investors to purchase. Landlords with well-occupied offices are hanging on to their properties and not purchasing additional assets as vacancy remains at upper teen levels.

AVAILABLE SPACE VS. ASKING RATE



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“Offices offered for sale with significant vacancy will take price discounting below the replacement cost to entice investors to purchase.”

Vacancy

Vacancy rates came down slightly by three basis points to 18.8% in the first quarter. The major contributing factor was the purchase and occupancy of the 44,000 square foot Meridian Professional Center in Stockton. The submarkets outside of Stockton experienced little activity affecting vacancy. The lack of activity in the market is a result of the high unemployment for San Joaquin County. As last reported by the Bureau of Labor Statistics in February, unemployment stands at 18.4%. A year earlier the rate was at 15.7%. An early predictor of future positive news for vacancy will be an increase in the number of jobs. As businesses begin to hire they will fill current empty desk space at their office locations with expansion or upgrades into vacant office space to follow as their operations improve.

Construction

Construction activity remained absent throughout San Joaquin County as current demand has not warranted new construction. Looking forward, new office space is not expected until vacancy rates recede and rents increase. The availability of quality space, offered at reasonable rates provides options for businesses that may have put moving decisions on hold throughout last year.

Lease Rates

The overall average asking lease rates for all office product types was slightly reduced by \$0.02 to \$1.28 per square foot NNN, compared to the fourth quarter of 2009. Class A office space remained the same quarter to quarter at \$1.52 per square foot NNN, while Class B space was reduced by \$0.01 per square foot to \$1.09. Class A Full Service leases are being signed between \$1.45-1.85 per square foot.

MARKET ACTIVITY

SIGNIFICANT FIRST QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	DATE	SQUARE FEET	TENANT	TYPE
5151 Montauban Ave, Stockton	1/2010	8,000	CSD	Office
1776 W March Ln, Stockton	1/2010	7,000	UOP	Office
2800 W March Ln, Stockton	2/2010	5,100	Wells Fargo	Office
3203 W March Ln, Stockton	3/2010	4,287	First American	Office

SIGNIFICANT SALES

PROPERTY ADDRESS	DATE	SQUARE FEET	SELLER	BUYER
306 E Main St, Stockton	2/2010	70,000	Westamerica Bank NA	Tayman National LLC
3244 Brookside Rd, Stockton	3/2010	44,000	Meridian Property Company	William Michael Stemler
1600-1660 W Yosemite Ave, Manteca	3/2010	37,383	Meridian Property Company	Ascendancy Manteca, LLC

OFFICE MARKET STATISTICS

FIRST QUARTER 2010

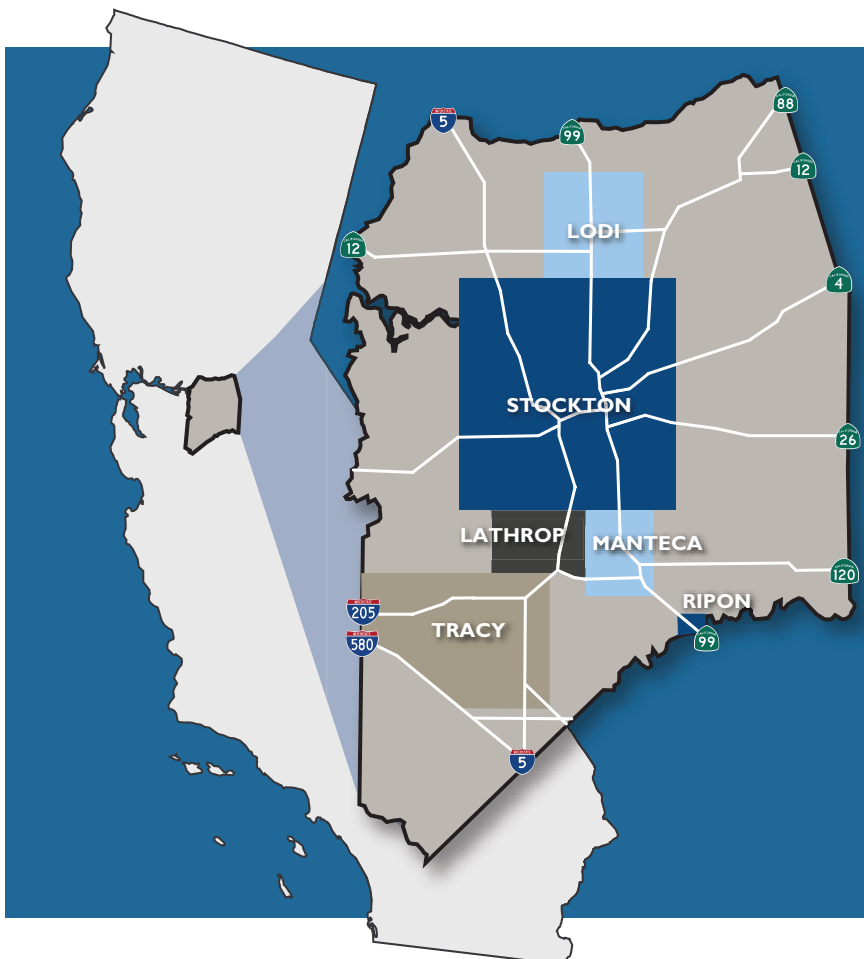
EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY					ABSORPTION		CONSTRUCTION		RENT
Market	Bldgs	Total Inventory SF	Vacant SF	Vacancy Rate	Vacant SF	Vacancy Rate	SF	Rate	Prior Qtr Vac.	Current Occupied Space SF	Previous Occupied Space SF	Net absorption Current Quarter	Net Absorption YTD SF	Under Const. SF	Completed SF YTD	Avg Asking Rate
SUB MARKETS																
LATHROP																
A	3	72,208	24,104	33.4%	-	0.0%	24,104	33.4%	44.5%	48,104	40,104	8,000	8,000	-	-	\$1.55
B	2	137,288	26,221	19.1%	-	0.0%	26,221	19.1%	14.5%	111,067	117,388	(6,321)	(6,321)	-	-	\$1.42
C	2	16,084	-	0.0%	-	0.0%	-	0.0%	0.0%	16,084	16,084	-	-	-	-	-
Total	7	225,580	50,325	22.3%	-	0.0%	50,325	22.3%	23.1%	175,255	173,576	1,679	1,679	-	-	\$1.48
LODI																
A	15	503,278	98,844	19.6%	6,136	1.2%	104,980	20.9%	22.2%	398,298	391,431	6,867	6,867	-	-	\$1.40
B	32	499,418	41,198	8.2%	-	0.0%	41,198	8.2%	6.5%	458,220	467,144	(8,924)	(8,924)	-	-	\$0.91
C	13	137,661	-	0.0%	-	0.0%	-	0%	0%	137,661	137,661	-	-	-	-	-
Total	60	1,140,357	140,042	12.3%	6,136	0.5%	146,178	12.8%	12.2%	994,179	996,236	(2,057)	(2,057)	-	-	\$1.26
MANTECA																
A	10	98,844	50,578	51.2%	-	0.0%	50,578	51.2%	55.6%	48,266	48,266	0	-	-	-	\$1.49
B	21	194,653	19,900	10.2%	-	0.0%	19,900	10.2%	10.7%	174,753	158,153	16,600	16,600	-	-	\$1.02
C	16	150,644	6,223	4.1%	1,720	1.1%	7,943	5%	3%	142,701	162,550	(19,849)	(19,849)	-	-	\$0.83
Total	47	444,141	76,701	17.3%	1,720	0.4%	78,421	17.7%	18.7%	365,720	368,969	(3,249)	(3,249)	-	-	\$1.30
RIPON																
A	5	52,844	9,215	17.4%	-	0.0%	9,215	17.4%	29.3%	43,629	37,340	6,289	6,289	-	-	\$1.45
B	3	16,980	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-	-
C	1	5,052	-	0.0%	-	0.0%	-	0.0%	0.0%	5,052	5,052	-	-	-	-	-
Total	9	74,876	9,215	12.3%	-	0.0%	9,215	12.3%	20.7%	65,661	59,372	6,289	6,289	-	-	\$1.45
STOCKTON																
A	44	1,735,569	521,319	30.0%	14,224	0.8%	535,543	30.9%	34.8%	1,200,026	1,128,940	71,086	71,086	-	-	\$1.54
B	173	3,488,966	515,314	14.8%	1,729	0.0%	517,043	14.8%	13.1%	2,971,923	3,029,895	(57,972)	(57,972)	-	-	\$1.07
C	60	866,856	150,269	17.3%	-	0.0%	150,269	17.3%	19.0%	716,587	699,380	17,207	17,207	-	-	\$0.83
Total	277	6,091,391	1,186,902	19.5%	15,953	0.3%	1,202,855	19.7%	20.1%	4,888,536	4,858,215	30,321	30,321	-	-	\$1.25
TRACY																
A	12	259,188	73,845	28.5%	-	0.0%	73,845	28.5%	30.1%	185,343	181,267	4,076	4,076	-	-	\$1.54
B	14	143,317	22,771	15.9%	1,607	1.1%	24,378	17.0%	13.6%	118,939	124,539	(5,600)	(5,600)	-	-	\$1.58
C	17	133,277	11,595	8.7%	-	0.0%	11,595	8.7%	8.7%	121,682	121,682	0	-	-	-	\$0.97
Total	43	535,782	108,211	20.2%	1,607	0.3%	109,818	20.5%	20.3%	425,964	427,488	(1,524)	(1,524)	-	-	\$1.49
MARKET TOTAL																
A	89	2,721,931	777,905	28.6%	20,360	0.7%	798,265	29.3%	33.0%	1,923,666	1,827,348	96,318	96,318	-	-	\$1.52
B	245	4,480,622	625,404	14.0%	3,336	0.1%	628,740	14.0%	12.2%	3,834,902	3,897,119	(62,217)	(62,217)	-	-	\$1.09
C	109	1,309,574	168,087	12.8%	1,720	0.1%	169,807	13.0%	13.7%	1,139,767	1,142,409	(2,642)	(2,642)	-	-	\$0.84
Total	443	8,512,127	1,571,396	18.5%	25,416	0.3%	1,596,812	18.8%	19.1%	6,898,335	6,866,876	31,459	31,459	-	-	\$1.28
Q4-2010	443	8,510,999	1,619,762	19.0%	40,381	0.5%	1,660,143	19.5%	18.7%	6,833,876	6,865,676	(31,800)	(86,484)	-	24,000	\$1.30
Q3-2009	443	8,509,683	1,552,100	18.2%	40,381	0.5%	1,592,481	18.7%	18.8%	6,900,222	6,865,676	34,546	(20,138)	-	24,000	\$1.32
Q2-2009	440	8,475,771	1,533,655	18.1%	59,460	0.7%	1,593,115	18.8%	18.2%	6,865,676	6,889,208	(23,532)	(78,216)	24,000	-	\$1.43
Q1-2009	437	8,445,139	1,478,212	17.5%	60,739	0.7%	1,538,951	18.2%	17.6%	6,889,208	6,943,892	(54,684)	(54,684)	24,000	-	\$1.45
Q4-2008	437	8,443,260	1,450,459	17.2%	31,929	0.4%	1,482,388	17.6%	17.9%	6,943,892	6,727,627	216,265	229,503	-	418,256	\$1.50

Forward Looking

As we enter the second quarter of 2010 there is a degree of optimism and level of activity not seen since 2008. Although the activity is just beginning to pick up, it has been a welcome sight for the county. Rents have begun to slow their downward trend and there may be some asking rate reductions to bear even for Class A properties, which are the properties that have received the bulk of activity. The market should begin to see an increase in distressed properties that come to market, though not to the degree previously expected.

San Joaquin County Geographical Overview:

San Joaquin County is located directly to the east of the San Francisco/Oakland Bay Area. It covers more than 1,400 square miles and bridges northern and central California. It's geographical position within the Country's third largest state places the county within a dynamic growth corridor ideally situated for business and industry. There are five (5) submarkets in San Joaquin County comprised of Tracy, Lathrop, Manteca, Stockton and Lodi. Due to the centralized location of San Joaquin County, it has cultivated extensive transportation facilities. These facilities include The Port of Stockton, Interstate 5 and Highway 99, Union Pacific Railroad and Burlington Northern Santa Fe Railroad, and The Stockton Metropolitan Airport. With these transportation systems in place, San Joaquin County is a central staging area and meeting place in California.



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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