SAN JOSE/SILICON VALLEY

2007-2008 Market Report & Forecast

COLLIERS INTERNATIONAL

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About the Newsletter

This newsletter represents the seventy-sixth in a series published by Colliers International. The information basis for this newsletter is the Parrish Absorption Tracking System (PATS) from which the absorption-related statistics are developed and derived. PATS maintains monthly statistics within Silicon Valley for 14 cities, 31 geographical areas and 4 commercial/industrial building types.

If you desire further data in order to analyze sub-markets not specified in this newsletter, please submit your request through your Colliers International sales representative at (408) 282-3800 or write to Colliers International at 450 West Santa Clara Street, San Jose, California 95113 or you may send your e-mail inquiry to jdizon@colliersparrish.com. We look forward to supporting your specific needs.

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COLLIERS INTERNATIONAL

The Last Best Place Just Got Better

Colliers International is coming off yet another outstanding year, punctuated by record sales volume and some great new hires in San Jose. Our Investment team grew considerably, with one of our agents taking top salesperson honors for GE Capital's inventory of nationwide NNN properties. Our Silicon Valley R&D and Office teams were once again market leaders, as evidenced by premier listing opportunities that were awarded to Colliers by Equity Office Properties and Walton Street Partners, totaling nearly 7.8 million square feet. Throughout the organization, it was once again a banner year for Colliers and its tremendous roster of agents and staff.

Not resting on our laurels, we have plans underway to enhance our client offerings in several areas in 2008. Tenant service and landlord services will both be improved as a result of new additions to the teams and new services available to our brokers. Companywide, we are investigating improved GIS services, including geocoding of properties in our inventory, GIS enabled property search screens and 3D modeling of select submarkets.

On the marketing side, Colliers will be adding a new position in 2008 to investigate new advances and improve upon our marketing and packaging capabilities. We see this as being crucial to our clients, particularly as we head into a more competitive market environment.

On the heels of Trends2008, we will once again host our popular Bocce Tournament at Campo de Bocce later in the Spring. We plan to follow that up with our annual Octoberfest, as well as with a client appreciation golf tournament that will benefit our new charitable foundation, Links for Life California.

Links for Life California is patterned after our hugely successful Links for Life Foundation in Nevada, which has already raised over $1.75 million for children's charities. Links for Life California started in 2007 with a bang, raising over $200,000 that was donated to such worthy causes as juvenile arthritis, juvenile diabetes, Children's Hospital Oakland, Camp Arroyo (Taylor Foundation) and the March of Dimes. Colliers and its agents take considerable pride in commitments to our communities, both collectively and individually, and you will begin to see and hear more about Links for Life California in 2008.

None of this would be possible without our customers, our agents, and all the other people who we work with day in and day out. We all know that 2008 is going to be challenging, but high caliber people working together are sure to make it yet another successful year for us all.

Thank you for helping to make 2007 the most successful year in Colliers' history yet again!

Jeff Fredericks, SIOR
Senior Managing Partner

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THE YEAR 2007 IN REVIEW

January 2007

Representative Nancy Pelosi of California becomes the first female speaker of the House of Representatives; Democrats take control of both houses of Congress for the first time since 1994.

Harriet Miers, who is one of President Bush's closest advisers, resigns after six years. Bush nominated her to the Supreme Court in 2005, but she withdrew her name amid criticism that she lacked the credentials for the job.

Apple CEO Steve Jobs unveils the highly-anticipated iPhone at the Macworld conference. The iPhone combines the iPod, cell phone and internet handheld into one slim, portable device.

Bixby Land purchases University Station consisting of four R&D buildings and two retail buildings at 451-495 El Camino Real in Santa Clara from Hunter/Storm. The project is across the street from Santa Clara University.

February 2007

Blackstone Group, the Manhattan based-investment and advisory firm, completes $39 billion purchase of Equity Office Properties, the nation's largest owner of office buildings.

The Dow Jones Industrial Average drops 416 points, or 3.2%, after a global sell off in China, India, and Great Britain. The decline is the biggest point loss since September 20, 2001, the day markets re-opened after 9/11.

Former White House aid I. Lewis "Scooter" Libby is found guilty on four out of five charges including perjury and obstruction of justice into a CIA operative's identity leak. Libby is the only person charged in the case.

March 2007

Viacom files a lawsuit against YouTube for $1 billion for copyright infringement for showing its videos without permission. Google purchased YouTube in October 2006 for $1.65 billion.

Network maker Cisco Systems, Inc. acquires WebEx in a cash tender offer to purchase WebEx stock. WebEx is a market leader in network collaboration applications for business-to-business in the small to medium business segment.

Enterprise software company, Oracle Corporation acquires Hyperion Solutions Corporation, a global provider of performance management software solutions, through a cash tender offer for $52.00 per share, or approximately $3.3 billion.

BEA Systems Inc. pays $135 million to acquire an office tower in downtown San Jose from Sobrato Development. The 381,000 square foot office tower has been vacant since it was completed in 2002, and BEA, a provider of business software and services, plans to move nearly 1,000 employees there next year.

Tishman Speyer Properties acquires 43 acres of land fronting North First Street, San Jose from BEA Systems Inc. for $108 million. The land is entitled for up to 2.8 million square feet of offices and 100,000 square feet of shop space.

April 2007

Cisco Systems, Inc. leases a five-building campus in Milpitas from Peery/Arrillaga. The 410,000 square foot property has been vacant since it was built in 2000.

San Jose City Council approves a revised plan that would put housing and commercial development on the San Jose Flea Market property. The proposal for the 120-acre site is to build about 2,800 homes and up to 365,000 square feet of commercial space.

Legacy Partners acquires Almaden Financial Plaza, a three-building 414,705 square foot downtown San Jose office project. DiNapoli Capital Partners and Rockpoint Group, who acquired the project roughly two years ago, are the sellers.

May 2007

The garage where Hewlett-Packard was founded becomes a U.S. historic landmark. The Palo Alto property where co-founders Bill Hewlett and Dave Packard worked and lived is listed on the National Register of Historic Places by the National Park Service.

Oracle Corporation agrees to acquire product lifecycle management leader Agile Software Corporation through a cash merger for $8.10 per share, or approximately $495 million.

Walton Street Capital pays an estimated $2.8 billion to purchase the portfolio of CalWest Industrial Holdings LLC, which comprises almost 100 industrial properties on the West Coast. CalWest is a partnership between the California Public Employees' Retirement System and real estate investment manager, RREEF.

Paul Wolfowitz, president of World Bank, is found guilty of conflict of interest for setting up a lucrative pay raise for his girlfriend, Shaha Ali Riza.

June 2007

Yahoo co-founder, Jerry Yang, replaces Terry Semel as CEO. Semel steps down after failing to keep up with industry leader, Google.

Contract electronics manufacturer, Flextronics, announces acquisition of rival manufacturer, Solectron Corporation, in a cash-and-stock deal worth about $3.6 billion. Solectron will become a subsidiary of Flextronics.

Hewlett-Packard agrees to buy Web application security specialist SPI Dynamics, just two weeks after IBM announces plans to buy SPI's rival Watchfire.

Blackstone Group LP, manager of the world's second-largest buyout fund, goes public selling 12.3% of the company at $4.1 billion, making it the biggest IPO in the USA since 2002, and the sixth-largest ever.

July 2007

The International Olympic Committee announces that Sochi, Russia, a Black Sea resort, will host the Winter Games in 2014. It will be the first time Russia or the former Soviet Union hosts the Winter Games.

Google announces plans to buy Postini, a San Carlos company that provides e-mail security software over the internet. Analysts say the deal, which is expected to close this fall, could bolster Google's efforts to sell a suite of online software tools known as Google Apps.

The Bancroft family, owner of Dow Jones & Company, which publishes the Wall Street Journal, agrees to sell the company to media magnate Rupert Murdoch, who owns the News Corporation. The purchase values Murdoch's media holdings at $28 billion.

Bill Walsh, the Hall of Fame coach and general manager of three Super Bowl winners with the San Francisco 49ers, dies of leukemia. Following his death, Monster Park is renamed "Bill Walsh Field".

August 2007

In a stunning victory for government prosecutors, Gregory Reyes, the former hard-charging chief executive of Brocade Communications Systems, is found guilty in the nation's first criminal trial related to stock-option backdating.

Mattel apologizes as the company is forced to recall millions of toys made in China for the second time in two weeks. It is the largest recall in recent months involving Chinese products, which have come under scrutiny worldwide for containing potentially dangerous high levels of chemicals and toxins.

Karl Rove, highly influential and controversial advisor to President Bush, announces he will leave his position as deputy chief of staff at the end of August.

The White House announces that Alberto Gonzales, the beleaguered attorney general, has submitted his resignation to President Bush. Gonzales has been under fire for the firing of nine federal prosecutors in 2006.

September 2007

United Auto Workers strike against General Motors. Some 73,000 workers take to the picket lines when contract negotiations over wages and benefits reach a stalemate. Days later, the UAW and GM reach a deal that has the auto maker creating a $38.5 billion trust, called a voluntary employee benefit association (VEBA), that will administer health benefits for retirees.

The Federal Reserve cuts interest rate in an attempt to bring stability to the economy, which has been rocked by turbulence in the housing and financial markets. The Federal Reserve cuts benchmark interest rate to 4.75% from 5.25%.

A Labor Department report that shows that 4,000 jobs were lost in August, the first such decline since 2003, leading some economists to say a recession may follow.

October 2007

Former U.S. Vice President Al Gore and the U.N. Intergovernmental Panel on Climate Change are awarded the 2007 Nobel Peace Prize for their work to raise awareness about global warming.

Nearly two dozen wildfires sweep across southern California, forcing nearly a million people from homes near Los Angeles, San Diego and San Bernardino and leaving 14 people dead. More than a thousand homes are destroyed.

BPG Properties purchases Park Center Plaza, the 9-building office and retail project in downtown San Jose from Divco West Properties for $169.5 Million.

November 2007

A container ship collides with a tower on the center span of the Bay Bridge between Treasure Island and San Francisco, resulting in spill of over 58,000 gallons of oil into the bay.

Lew Wolff and the Oakland Athletics formally submit plans for the new "Cisco Field" ballpark project in Fremont. The project encompasses 226 acres of land off Auto Mall Parkway and is slated to include roughly 3,000 housing units, an elementary school, 500,000 square feet of retail, and a 32,000 seat ballpark.

Mozart Development sells Mathilda Place, a 3-building class-A office project, to JP Morgan Asset Management. The sales price is reported to be $272 million dollars ($575 psf) and represents a 4.5% cap rate.

Former U.S. Vice President Al Gore announces he is joining one of Silicon Valley's most prestigious venture capital firms, Kleiner Perkins Caufield & Byers. He will join the Menlo Park firm as a partner focused on alternative energy investments.

December 2007

Legacy Partners acquires a fully entitled, 16.35-acre, office development site on Orchard Parkway in San Jose for $38 million. Currently the site is entitled for 500,000 square feet, which Legacy intends to develop, but is also seeking to increase the allowed development size.

The report on steroids in professional baseball is released, led by former U.S. senator George Mitchell, and accuses 89 current and former Major League Baseball players of using illegal performance-enhancing drugs.

Former Pakistani Prime Minister Benazir Bhutto is killed at a campaign rally in Rawalpindi by a suicide bomber. Al-Qaeda claims responsibility for the attack. Bhutto's supporters, however, accuse President Pervez Musharraf's government of orchestrating the bombing.

The Energy Independence and Security Act of 2007 is signed into law. The energy legislation focuses on automobile fuel economy, development of biofuels, and energy efficiency in public buildings and lighting, including fuel economy standards to increase to 35 mpg by 2020.

The prime threat to the six-year old expansion is the ongoing fallout from the subprime financial shock. Conservative estimates suggest that more than $275 billion will be lost on mortgage-related investments. An estimated $2.5 trillion in housing wealth is expected to vaporize in the current downturn. Homes sales and new home construction have taken a hit and employment is on the decline in the construction and finance industries. These impacts alone are expected to cut nearly 1.5 percentage points from real GDP growth in 2008 according to Economy.com.

Commercial Crunch Ahead?

While we may not see much of a direct correlation between the residential real estate sector and the commercial real estate market, it's impossible to ignore in the wake of the credit crunch and its impact on the broader economy. In Silicon Valley, we have been somewhat insulated on the commercial real estate side so far. With a technology sector that now dominates occupancy of office space, activity and absorption levels have remained relatively strong. Rents have risen and sales activity continues at a robust clip.

Nevertheless, there is a sense of unease in the air. Silicon Valley may only be just beginning to feel the impacts of things like reduced consumer spending, slower employment growth, earnings fears, and more cautionary business investment. At the very least, companies are unlikely to have much of an appetite for excess capacity space, particularly with rents up and the menu of choices in the marketplace down. Some companies are going to choose to play the waiting game in 2008, and that does not bode well for significant occupancy growth in the coming year.

The Economy

Say what you want, the national economy performed at a level that was pretty much as expected in 2007. Gross Domestic Product (GDP) expanded by 2.7%, aided by a strong third-quarter performance. Despite all the bumps in the road, this is right in line or slightly better than the 2007 forecasts put forth by the Wall Street Journal's panel of sixty leading economists. Interestingly enough, this 2.7% expansion is also exactly the same rate as the U.S. Commerce Department has forecasted for 2008. Others are more cautious and most economists are in agreement that at the very least, there will be a very slow start for the U.S. economy in 2008.

Despite considerable recession risks and struggles that are anticipated in the first half of the year, most economists are falling in line with the Commerce Department's 2.7% GDP growth forecast for 2008. The consensus of 52 economists polled each month by Blue Chip Economic Indicators suggests that the economy will kick off 2008 at the sluggish pace of 2% or so in the first quarter. Then it will gradually pick up steam, closing out the year at just under 3%.

Certainly, the prime threat to the six-year old expansion is the ongoing fallout from the subprime financial shock. Conservative estimates suggest that more than $275 billion will be lost on mortgage-related investments. An estimated $2.5 trillion in housing wealth is expected to vaporize in the current downturn. Homes sales and new home construction have taken a hit and employment is on the decline in the construction and finance industries. These impacts alone are expected to cut nearly 1.5 percentage points from real GDP growth in 2008 according to Economy.com.

Consumer and Business confidence are both slumping and while that measurement is not necessarily indicative of the economy's performance, it does reflect the state of consumer psyche. According to the Conference Board's survey of CEO's, business confidence is at its lowest level since 9/11. The Business Roundtable's CEO survey has shown similar pessimistic results. In California, 52% characterized the state's economy as being in "bad times" and only 25% see improvement forthcoming in 2008.

Business fears include worries that margins may have peaked and that earnings may actually fall in coming quarters. Labor costs have begun to increase in response to the tight labor market and productivity gains have finally slowed. Materials and space cost have also risen sharply. Business is responding to these concerns by slowing their rate of hiring and investment spending. As a result, some experts such as Morgan Stanley are forecasting corporate earning to contract by 5-10% over the next year.

Fundamentally however, business is doing well on most fronts. Balance sheets are sturdy and profit margins are healthy. Measured by the ratio of profits to GDP, economic profit margins stand at 12%, which compares to 7% during the 2001 recession. Profits have been buoyed by lower interest expense, relatively tame labor costs and, more recently, a falling dollar. Technology had a particularly robust 2007. According to Morningstar, mutual funds that specialize in technology increased by 16.9% in 2007, better than any other category except for utilities and natural resources.

There is no doubt that consumer spending was fueled by households cashing out a portion of their home equity gains by refinancing their loans. This financial reservoir is estimated to decline by almost $60 billion in 2007 and another $130 billion in 2008 according to the Chapman Economic Forecast. The resulting hit on consumer spending will be considerable and bears close watch in 2008. Consumer spending accounts for nearly two-thirds of the U.S. economic activity.

OBSERVATIONS & FORECAST

"The good news is that emerging and developing countries weathered the recent financial storm and are providing the basis for strong global growth in 2008," according to IMF Chief Economist Simon Johnson. "For the first time, China and India are making the largest country-level contributions to world growth". The IMF raised its forecast for China's sizzling economy to 11.5%. Emerging Asia is forecast to expand 9.2% in 2007 and 8.3% in 2008.

Slower top-line growth and a downturn in operating profits seem likely to produce a 1.7% contraction in real business capital outlays in 2008 according to Morgan Stanley. Managers will tend to extrapolate a slowdown in business activity into dimmer expectations for future growth, lower perceived returns from investing, and a reduced need to invest. Until the economy re-accelerates, therefore, capital spending is likely at risk.

A strong global economy may be the best thing going for the U.S. economy. Many point to strong global growth as the linchpin to avoiding a recession in 2008. Import growth has slowed, but there has been a robust, double-digit surge in exports led by the aerospace, technology and agriculture sectors. Export growth is forecasted to hit 10.2% in 2008. In addition, the U.S. dollar is down some 20% from its peak, which has also served to boost trade gains as the dollar's sharp decline has made U.S. goods and services more competitive in global markets.

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Inflation fears should be kept at bay again in 2008. After having topped 4% in 2007, most economists are calling for consumer price inflation on the order of 2.0% by the end of 2008, with core CPI inflation to remain between 2.0% and 2.5%.

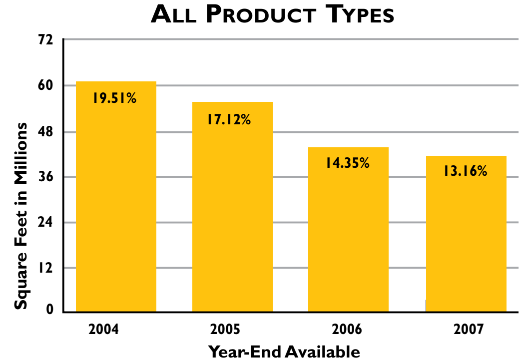
Oil prices bear close watch in 2008 and could tip the scales in favor of a recession if oil prices breach $100 per barrel. While oil prices have been pushed upward by world-wide speculation and increases in demand (especially from China), most experts are forecasting softer global demand, more conservation and increased supplies, which will help keep prices in check.

The Federal Reserve lowered key interest rates three times in 2007 to a two-year low of 4.25%. Then, acting on an emergency basis for the first time since 9-11, the Fed slashed rates from 4.25% to 3.5% on January 22, the largest single rate cut since 1982. Some experts are now predicting interest rates will reach 2.75% by year-end.

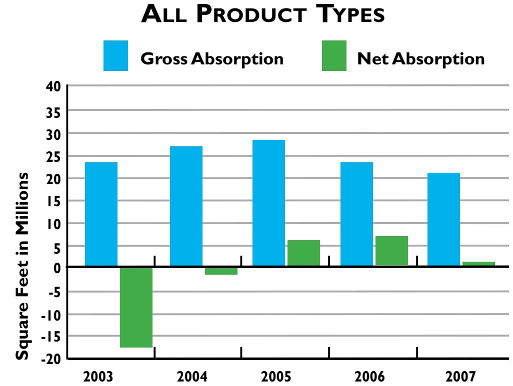
In its November 2007 forecast, the Semiconductor Industry Association (SIA) projected that 2008 global semiconductor sales would top $276.9 billion in 2008, $296.2 billion in 2009 and $321.5 billion in 2010. Strong consumer demand for personal electronics devices continues to fuel demand for semiconductors.

The biggest venture capital news of 2007 was Al Gore's announcement that he was joining Kleiner Perkins Caufield and Byers as a partner. Gore's relationship with the venture capital firm underscores the role that green technology will play in Silicon Valley's future. Nationwide, clean technology investments totaled $2.2 billion in 2007, compared to $1.5 billion invested in all of 2006 according to the Money Tree Report. The category is now the third-largest source of venture capital, trailing only software and biotechnology. Overall, venture capital spending was up 11% in 2007 to $29.4 billion.

SILICON VALLEY AVAILABILITY
ALL PRODUCT TYPES



SILICON VALLEY ABSORPTION
ALL PRODUCT TYPES



Unemployment is expected to rise to 5.25% in 2008 according to Moody's.com. Job growth, which averaged 120,000 per month for most of 2007, is expected to be closer to 75,000 per month in the first half of 2008. This will be the net result of job losses in housing-related industries of approximately 50,000 per month and gains in other industries measuring 125,000 per month. According to the UCLA Anderson Forecast, California will be impacted to the tune of 74,000 construction jobs lost and 25,000 financial jobs lost. California's unemployment rate will rise to 6.1% by the second half of 2008 and remain at that level for most of 2009, according to UCLA.

Both the Chapman report and the UCLA report cite threats to California's economy resulting from the state's growing budget deficit. UCLA cites an estimate by the state Legislative Analyst's Office in Sacramento that the budget gap could reach $8.0 billion in the next fiscal year. Chapman calculates that the California government could face an operating deficit of $10.6 billion. Either way, a budget shortfall of this magnitude will strain the system and possibly lead to cutbacks in state and local spending.

The Commercial Real Estate Market

In a nutshell, both gross and net absorption of commercial space were below our expectations in 2007. It was an interesting year for Silicon Valley, noteworthy for the continued frenzy of investment in commercial real estate coupled with marching orders for private-equity asset managers to deliver strong and rapid payback. Particularly in the class-A office sector, that created a push to drive rents that was met with some degree of success in the face of less-than overwhelming demand for office space overall, particularly in the second half of the year.

Net absorption began 2007 on a solid pace, peaking at 1.84 million square feet at mid-year. But net absorption faltered toward the end of the year when Colliers measured negative net absorption in three of the last five months of 2007. Overall, 843,264 million square feet of positive net absorption was enough to reduce Silicon Valley's overall availability rate for office, R&D, industrial and warehouse space from 14.3% to 13.2% during 2007. This 8.2% drop in available space fell well short of the 16.5% reduction in 2006 but it did mark the third consecutive year of occupancy gains for Silicon Valley.

After dropping off by 13.7% to 24.99 million square feet in 2006, gross absorption slid even further in 2007, to 22.6 million square feet. This figure was well below Colliers' forecast for 25.0 million square feet of leasing and user-sale activity and the lowest gross absorption total since 2002. Gross absorption has now fallen 22.1% in the last two years, from a current-cycle peak of 28.95 million square feet in 2005.

With a near-term economic outlook that is a mixed-bag at best, we have witnessed some easing up of demand as we move into 2008. In addition, rents are being pushed to their limits and that means that more tenants will renew existing leases if at all possible and wait out what even pessimistic pundits believe will be only a mild recession. Whether that will spur more heated activity in the second half of the year remains to be seen.

Silicon Valley's employment outlook may actually be brighter than in other parts of the nation because technology-sector jobs that were lost earlier in the decade were not added back in the recent expansion. Also, technology-related businesses remain on solid footing, so we do not anticipate businesses to be giving back space and adding to the pipeline in the way they did in the 2000's. Nevertheless, the pipeline of rollover space did begin increasing in 2007 and contributed to year's modest net absorption results.

On the other hand, employment growth forecasts for 2008 , even in Silicon Valley, are not particularly impressive. Service sector employment has dropped and while those sorts of companies typically do not occupy large blocks of space, they are generating occupancy losses in the office sector that will offset most of the gains generated in technology and other sectors.

Finally, new construction coming on line is going to add more available inventory than in any year since 2002. This new inventory does not generate a net occupancy gain in and of itself, but new, class-A choices in the marketplace do create opportunities for robust companies in the Valley to expand right here at home.

"Somewhat ironically, job losses may not be great enough to trigger a recession, in part because the manufacturing sector has never recovered the jobs lost from the last recession and as a result, do not have enough jobs to lose". UCLA Anderson Forecast Director Edward Leamer makes this claim, acknowledging that this is an unusual set of circumstances, as manufacturing has traditionally added jobs during a recession. Morgan Stanley echoes the sentiment, stating that "corporate capital and hiring discipline in this expansion mean that there are no business-investment or labor-market excesses to unwind".

OBSERVATIONS & FORECAST

Net absorption is going to be a byproduct of economic-driven results, particularly on the regional employment front. In some years, Silicon Valley gets at net absorption "boost" from real estate market conditions that favor tenants. That is not going to be the case in 2008, so occupancy gains are going to have to come from businesses that require more space or new space and that need is driven largely by employment gains.

The good news is that even in a down market, there is demand for commercial real estate in Silicon Valley. Companies come out of the ground, they grow, they move, they merge and they lease or buy commercial real estate. Even in 2002, gross absorption in Silicon Valley totaled 22.4 million square feet, and the Valley is in much better shape today than it was coming out of the dot.com bust. With that in mind, Colliers anticipates that total gross absorption in Silicon Valley should again approach 23.0 million square feet in 2008.

With these mixed signals in mind, Colliers expects relatively flat net absorption in 2008. The R&D market stands the best chance of posting a seven-digit net absorption gain, as it is not impacted as much by service sector companies that may still be in for a rough road ahead. In addition, if businesses are not willing to pay the fright for high-rent, class-A office space in the face of economic uncertainty, then a "back-to-B" trend could arise that shifts occupancy gains away from the class-A office sector and towards more economical class-B and R&D space alternatives. We are forecasting R&D gross absorption on the order of 13.0 million square feet with net absorption of 1.0 million square feet in 2008.

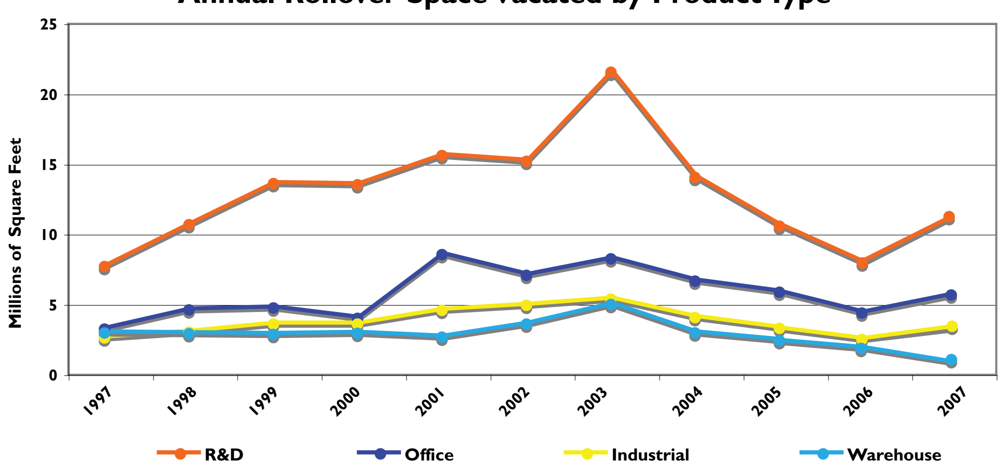
Office gross absorption could fall off to 5.0 million square feet in 2008 as a result of reduced activity from professional service firms, economic pressures, and a flight to affordability that can be better met in highly-improved buildings that are still classified as R&D. Net occupancy of office space was down 234,559 square feet in 2007 and 2008 does not look much better. Current trends suggest that negative net absorption will continue in this sector at least in the first half of 2008, with an outside chance of an occupancy loss of 1.0 million square feet for the year. With nearly 1.0 million square feet of new office construction coming on line, the Valley's office availability rate is likely to be higher at the end of the year and perhaps as high as 15.5%.

Market conditions remain tight in the industrial sector and while vacancy rates are actually slightly higher than one year ago, space alternatives are at a premium as evidenced by this sector's 7.6% availability rate. Industrial gross absorption should be in the 2.75 million square foot range with net absorption expected to be flat.

The warehouse sector is even more impacted with an availability rate hovering around 6.3%. Limited alternatives and nominal rollover is likely to keep warehouse gross absorption below 2.0 million square feet with net absorption likely to close out the year at about a wash.

Rental rates were up across the board in 2007, attributable to both market dynamics and a proforma push from landlords. The tightest markets were able to achieve the greatest rent growth and with fewer alternatives available for tenants, high-rent submarkets were finally able to generate some significant market rent separation. But with the economy looking to recapture its sizzle and tenants somewhat reticent to a rent push that is not totally supported by the market, Colliers is forecasting rent growth to flatten out overall in 2008.

Annual Rollover Space Vacated by Product Type

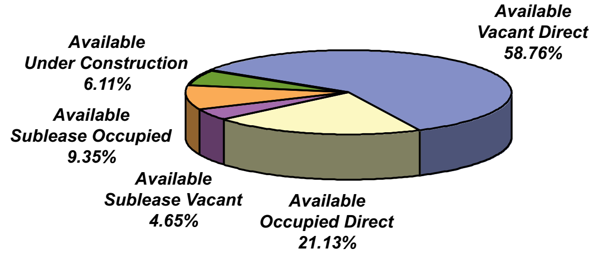


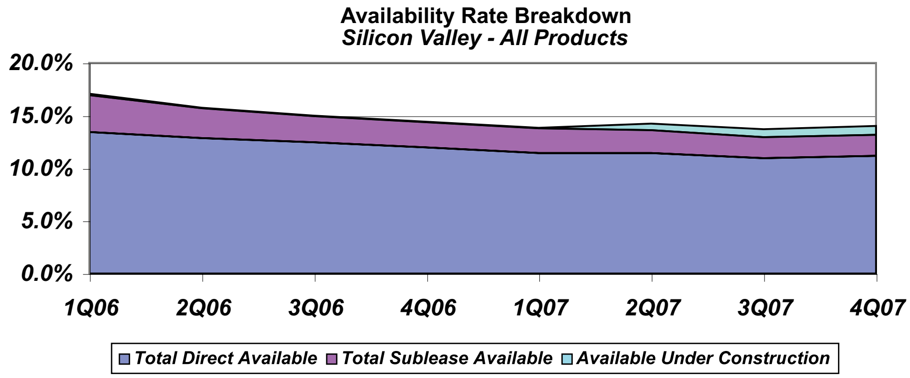
SILICON VALLEY - ALL PRODUCTS

Date	Available Vacant Direct	Available Occupied Direct	Available Sublease	Total Current Available	Vacancy Rate	Availability Rate	Available Under Construction	Current and Pending Availability
4Q 2007	25,592,101	9,200,579	6,097,912	40,890,592	8.88%	13.16%	2,662,211	43,552,803
3Q 2007	25,640,998	8,333,023	6,203,401	40,177,422	8.91%	12.94%	2,447,854	42,625,276
2Q 2007	26,444,952	9,044,330	6,810,156	42,299,438	9.18%	13.62%	1,962,396	44,261,834
1Q 2007	27,417,305	8,102,417	7,259,705	42,779,427	9.60%	13.77%	172,298	42,951,725
4Q 2006	28,937,825	8,199,629	7,427,206	44,564,660	10.23%	14.35%	166,125	44,730,785
3Q 2006	30,102,832	8,623,224	7,775,563	46,501,619	10.68%	14.97%	95,899	46,597,518
2Q 2006	31,950,937	7,939,980	8,888,264	48,779,181	11.57%	15.70%	151,284	48,930,465
1Q 2006	33,722,857	8,178,618	10,911,156	52,812,631	12.46%	16.95%	338,180	53,150,811

Breakdown of Available Space

Silicon Valley All Products





	1Q 2006	2Q 2006	3Q 2006	4Q 2006	1Q 2007	2Q 2007	3Q 2007	4Q 2007
Building Inventory:	311,545,135	310,717,038	310,717,038	310,591,758	310,591,758	310,591,758	310,591,758	310,821,023
Availability:	52,812,631	48,779,181	46,501,619	44,564,660	42,779,427	42,299,438	40,177,422	40,890,592
Absorption:								
Gross	6,268,523	6,291,635	5,671,291	6,757,143	5,707,425	4,945,973	6,230,925	5,672,778
Net	3,009,046	1,140,236	1,276,266	2,545,078	1,156,236	687,462	(169,923)	(830,511)
Effective Net	201,076	(188,642)	(234,665)	346,353	612,743	(732,575)	(508,182)	(903,751)
Completed Construction:	80,000	211,077	0	0	0	0	0	168,500
# of Avails. by Size								
< 10K SF	1474	1620	1517	1672	1646	1711	1733	1834
10K to 29K SF	512	621	563	542	520	489	520	496
30K to 59 K SF	222	295	292	275	261	247	227	243
60K to 99K SF	116	145	136	126	123	125	116	124
100K SF +	44	59	58	57	56	67	60	60

R&D

Colliers hit the bull's eye with its 12.0 million square foot forecast of R&D gross absorption in 2007. This marks the fifth consecutive year the R&D sector experienced R&D gross absorption greater than ten million square feet. Net occupancy gains were realized for third consecutive year, but fell short of our 3.0 million square foot forecast. R&D net absorption measured 1.23 million square feet, less than half of what was realized in 2006.

R&D Back in the Spotlight

Demand in R&D sector remained strong as leasing and user sale activity did not let up in 2007. Gross absorption of R&D space in Silicon Valley totaled 12.18 million square feet, 950,666 square feet more than the total generated the previous year. After taking a back seat to a sizzling office sector in recent years, the R&D market took center stage, generating the bulk of the Valley's gross and net absorption.

Colliers hit the bull's eye with its 12.0 million square foot forecast of R&D gross absorption in 2007. This marks the fifth consecutive year the R&D sector experienced gross absorption greater than ten million square feet. Net occupancy gains were realized for third consecutive year, but fell short of our 3.0 million square foot forecast. R&D net absorption measured 1.23 million square feet, less than half of what was realized in 2006.

While demand kept its end of the deal, we did not anticipate the large increase in space being added back onto the market. The amount of pre-existing R&D space added to the supply pipeline had been diminishing year-to-year since 2004, but that figure reversed course and increased by 3.1 million square feet to 11.0 million square feet added in 2007. The amount of space added in 2007 is still historically low, but it merits tracking in 2008.

Total available R&D space at the end of 2007 was 25.76 million square feet, the lowest amount of available supply since 2000. The R&D availability rate ended 2007 at 16.3%, an 11.8% decrease from one year prior. From the end of 2004 to 2006, available space has decreased by an average of 9.4% per year.

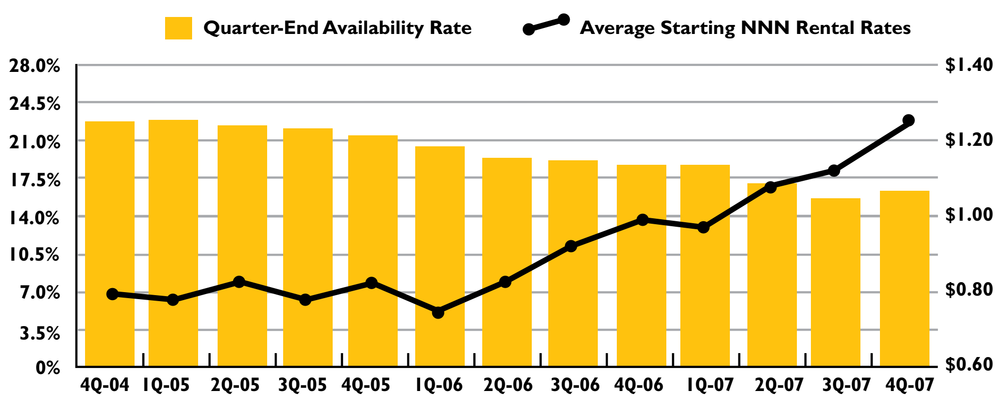
Average starting rents for R&D product increased steadily throughout the year, breaking the $1.00 per square foot (NNN) barrier after Q1 for the first time since 2002. Deals done in the fourth quarter of 2007 had an average start rate of $1.28 per square foot (NNN), a 21.9% increase from deals done during the same period of the previous year. Our prediction of another double-digit percentage increase was on the money.

R&D Hot Spots

Milpitas' R&D sector had a booming year in 2007, generating 2.13 million square feet of gross absorption, nearly doubling the 2006 total. In fact, it was the highest level of activity this submarket has seen since 2000. Net gains in occupancy were also realized as positive net absorption reached 828,663 square feet. Deals that fueled the charge in Milpitas included Cisco Systems, Inc.'s two large transactions, a 3-building lease of 471,607 square feet on McCarthy Boulevard and a

While demand kept its end of the deal, we did not anticipate the large increase in space being added back onto the market. The amount of pre-existing R&D space added to the supply pipeline had been diminishing year-to-year since 2004, but that figure reversed course and increased by 3.1 million square feet to 11.0 million square feet added in 2007.

Silicon Valley R&D Rent vs. Availability Rate Trends



SILICON VALLEY R&D MARKET

Fremont generated 1.96 million square feet of gross absorption in 2007, the largest amount of R&D activity this submarket has seen in three years. Notable deals include Solyndra occupying 183,050 square feet on Kato Road and Elite Computer Services' lease of 60,000 square feet on Nobel Drive.

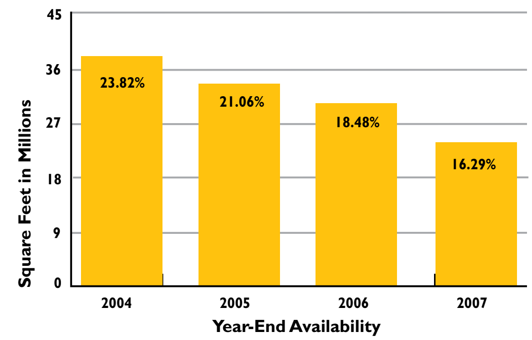
5-building lease of 410,000 square feet at Oak Creek Business Park.

San Jose's R&D activity increased in 2007 by 22.5%, with total gross absorption measuring 3.24 million square feet. Significant transactions contributing to San Jose's increased leasing activity include NetGear's 142,700 square foot lease on East Plumeria Drive, Nextest Systems occupying 125,000 square feet on Hellyer Avenue, and Cisco Systems' 116,000 square foot lease on North First Street. Notwithstanding decent gross absorption and three prior years of net occupancy gains, San Jose experienced negative net absorption of 240,170 square feet of R&D space in 2007. The culprit was a growing preimproved space added to supply. Nearly 3.6 million square feet of rollover space came to market in San Jose in 2007, 38.8% more than was added to R&D supply in 2006.

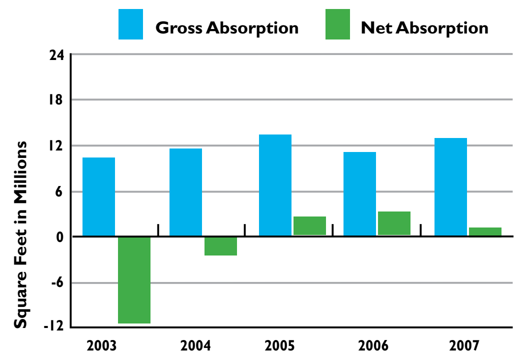
Fremont was another R&D submarket that generated more gross absorption and yet a net occupancy loss in 2007. Fremont generated 1.96 million square feet of gross absorption, the largest amount of R&D activity this submarket has seen in three years. Notable deals include Solyndra occupying 183,050 square feet on Kato Road and Elite Computer Services' lease of 60,000 square feet on Nobel Drive. R&D net absorption was slightly negative in Fremont however, to the tune of 46,037 square feet.

Santa Clara and Sunnyvale both posted strong R&D absorption figures. Santa Clara generated

Silicon Valley Availability
R&D Product

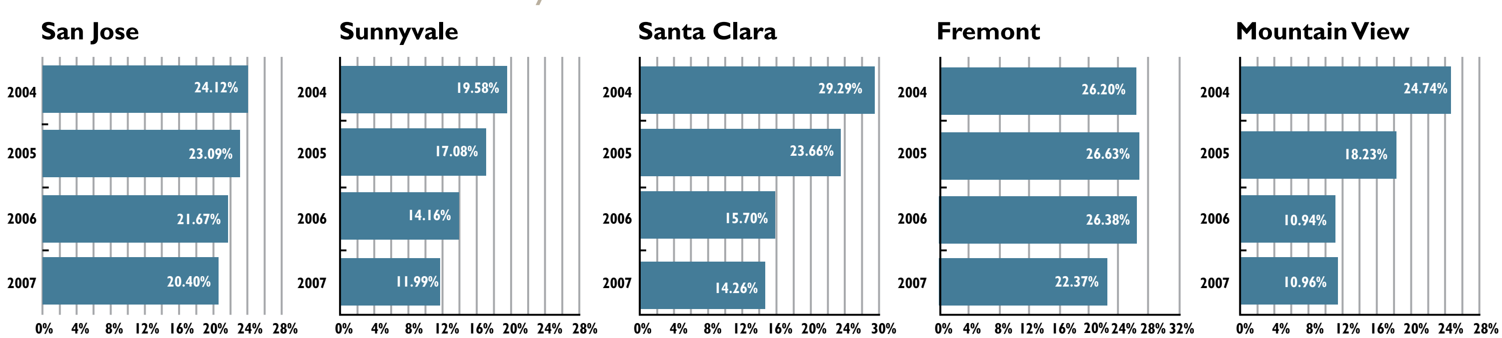


Silicon Valley Absorption
R&D Product



1.35 million square feet of gross absorption, the third consecutive year of activity greater than 1.0 million square feet. R&D net occupancy gains were also realized for the third consecutive year as Santa Clara posted 421,902 square feet of positive net absorption. Sunnyvale's R&D activity was down compared to the previous three years, but still respectable at 1.56 million square feet of

Selected Cities Historical Availability Rate Trends - R&D



gross absorption, with a net gain in occupancy for a fourth consecutive year.

Looking Forward

Colliers forecasted that 2007 would be a better year for the R&D market and on that count we hit the mark. R&D gross absorption hit our 12.0 million square foot forecast dead-on by finishing at 12.2 million square feet. Net absorption fell nearly 2.0 million square feet short of forecast, but still ended up the year with more occupancy growth than the other product categories combined. With a base of available supply that still exceeds 25.7 million square feet, R&D space remains the "softest" of all subcategories of space that Colliers tracks in Silicon Valley, with a current availability rate that measures 16.3%.

Owners have recognized that much of the older R&D space in Silicon Valley falls short of meeting the needs of today's users. For that reason, we have witnessed significant redevelopment and renovation of these properties in an effort to deliver the kind of product demanded by users. This was partially the reason Colliers forecasted a bit of a rebound in the R&D submarket in 2007 and we think this dynamic remains true today. The R&D market should be positioned to weather softer economic conditions ahead without a significant drop-off in absorption numbers.

R&D activity held fairly steady throughout each quarter of 2007 with a hiccup in Q2. Recent trends suggest that activity should be sustainable at a clip of about 3.25 million square feet per quarter in 2008, which translates to overall gross absorption on the order of 13.0 million square feet. Notably, R&D net absorption, which totaled 1.48 million square feet through Q3, turned negative in Q4. Significant net absorption is not likely to return without an employment boost and that is not poised to happen until later in the year at the earliest. However, pricing, landlord motivation and available inventory advantages in this sector should help to keep net absorption in the black, therefore Colliers is forecasting R&D occupancy growth for Silicon Valley to the tune of 1.0 million square feet in 2008.

Even with a seven-digit gain in net occupancy, year-over-year R&D vacancy rates probably will not change much in 2008. Thanks to new construction underway that will add to the R&D building base, Colliers is anticipating that the R&D availability rate will still be in the 16% range at the end of 2008.

Rents in the R&D sector increased by about 20% in 2007, wrapping up the year at an average start rate of $1.28 per square foot, triple net. Rent increases are likely to subside in 2008 but we expect that current R&D rental rates can hold if the economic engine continues to at least generate some positive momentum. Additional R&D growth is possible if the economic downturn is short-lived.

Even with a seven-digit gain in net occupancy, year-over-year R&D vacancy rates probably will not change much in 2008. Thanks to new construction underway that will add to the R&D building base, Colliers is anticipating that the R&D availability rate will still be in the 16% range at the end of 2008.

Selected Colliers R&D Transactions

iStar Financial completed a long-term, 180,086 square foot R&D lease at 510 Cottonwood Drive in Milpitas with tenant, **Advanced Medical Optics, Inc.**

Software AG sublet a 71,070 square foot R&D building to **Nuance Communications** at 1198 East Arques Avenue in Sunnyvale.

Coherent, Inc. inked a deal for 90,120 square feet of R&D space at 5200 Patrick Henry Drive in Santa Clara. South Bay Development Company is the landlord.

Rockpoint Group completed a lease on a 63,131 square foot R&D building at 800 East Middlefield Road in Mountain View. **Hansen Medical, Inc**. is the tenant.

Tatem Operations leased out 102,393 square feet of R&D space at 1215 Borregas Avenue in Sunnyvale. **Juniper Networks** is the tenant.

Selectica, Inc. sublet a 79,803 square foot R&D building at 3 Plumeria Drive in San Jose to **Nuova Systems**.

OFFICE

After posting near-record office gross and net absorption figures in the previous three years, high expectations for another solid year were in order, but along the way the office sector hit a bump in the road. Silicon Valley office activity totaled just 5.20 million square feet in 2007, a respectable sum, but the lowest annual gross absorption figure in the past 10 years. All the while rents continued their upward spiral, particularly in the class-A category.

Up and Down Year for Office

After posting near-record office gross and net absorption figures in the previous three years, high expectations for another solid year were in order, but along the way the office sector hit a bump in the road. Silicon Valley office activity totaled just 5.20 million square feet in 2007, a respectable sum, but the lowest annual gross absorption figure in the past 10 years. All the while rents continued their upward spiral, particularly in the class-A category.

The consistent occupancy growth that the office sector became accustomed to fell short of expectations in 2007. After 2006 recorded a net gain in office occupancy of 2.64 million square feet, 2007 followed with a net loss in occupancy of 234,559 square feet. This proved to be the largest year-to-year swing in net absorption since 2000-2001. Increasing amounts of space being vacated played a huge role in the net absorption swing of 2000-2001, while inconsistent demand was the primary culprit in 2006-2007. The amount of space added to the market in 2001 was 8.62 million square feet, an increase of 4.56 million square feet from the previous year. In 2007, the amount of rollover space added to the supply pipeline was 5.50 million square feet, an increase of 1.04 million square feet from the previous year.

The amount of available office space actually decreased slightly in 2007, from 8.51 million square feet available at the end of 2006 to 8.41 million square feet at year end. Although the change was minor, 2007 marked the fourth consecutive year that office availability has fallen in Silicon Valley. A change in the mix of vacant versus occupied office space for lease explains the delta between the modest negative net absorption and the fact that total available supply also declined slightly.

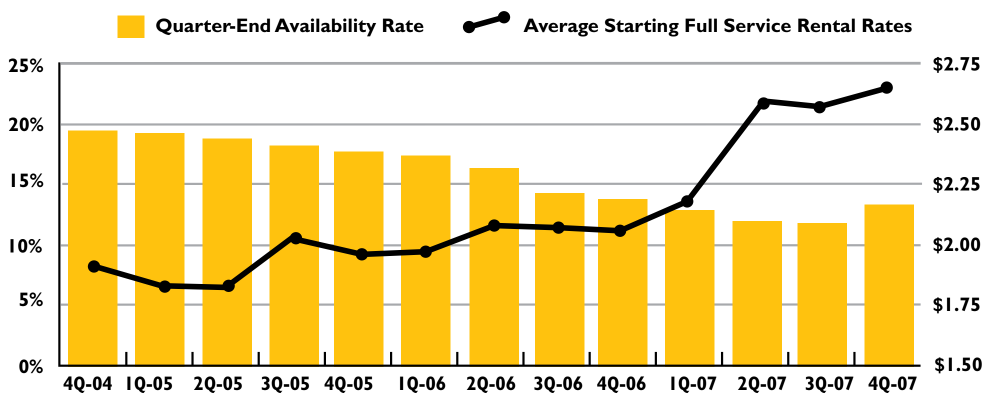
Office rental rates rose sharply during the year and went above and beyond Colliers' forecast for a 10% increase. The average starting rent for deals during the fourth quarter of 2007 was $2.70 per square foot, full service, an increase of 31.7% from deals done during the same period the previous year. A big boost in class-A rents, primarily in prime office submarkets, fueled the increase.

Hot Spots

Office activity took a hit in 2007, and when you break down the submarkets, it is apparent that lackluster demand affected occupancy growth in all areas. Of the five major office markets, San Jose was the only one to have positive net absorption. Net absorption for San Jose measured 232,986 square feet, the second consecutive year of positive net absorption, but only one-fourth of the total that was realized the previous year.

San Jose's activity was solid, at 2.05 million square feet of gross absorption. Headlining the deals in San Jose was BEA Systems' purchase

Silicon Valley Office Rent vs. Availability Rate Trends



Rental rates rose sharply during the year and went above and beyond Colliers' forecast for a 10% increase. The average starting rent for deals during the fourth quarter of 2007 was $2.70 per square foot, full service, an increase of 31.7% from deals done during the same period the previous year. A big boost in class-A rents, primarily in prime office submarkets, fueled the increase.

SILICON VALLEY OFFICE MARKET

Headlining the deals in San Jose was BEA Systems' purchase of a 381,000 square foot building downtown on Almaden Boulevard. However, BEA has not yet begun tenant improvements on this building and it remains to be seen whether BEA's new owner, Oracle Corporation, will occupy this landmark property or not.

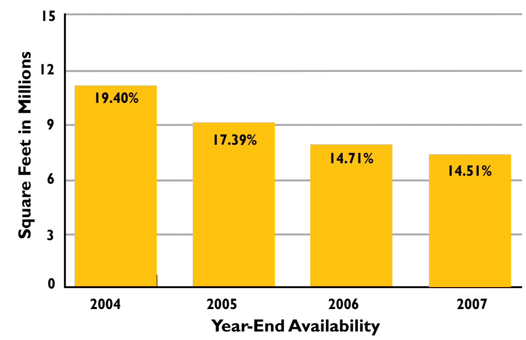
of a 381,000 square foot building downtown on Almaden Boulevard. However, BEA has not yet begun tenant improvements on this building and it remains to be seen whether BEA's new owner, Oracle Corporation, will occupy this landmark property or not. Should this building come back to market, there will be a considerable net absorption loss in 2008.

While office leasing activity dropped off in San Jose compared to the previous year, it was consistent with the 2.17 million square feet of gross absorption averaged from 2004-2006. San Jose's office availability rate decreased from 15.6% in 2006 to 14.7% in 2007, and is below 15% for the first time since 2000.

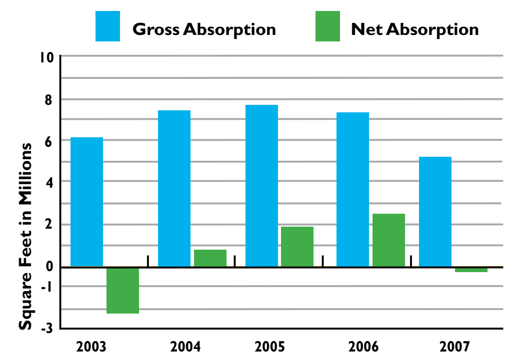
In recent years, it was automatic that Santa Clara would experience office gross absorption over 1.0 million square feet. However, 2007's gross absorption total fell to nearly half of what was generated in 2006. Office activity totaled 712,202 square feet, and contributed to a net loss in occupancy of 220,137 square feet in Santa Clara. This comes after Santa Clara's office sector posted three consecutive years of positive net absorption with gross absorption greater than 1.0 million square feet each year.

Cupertino is the only one of five major office markets in Silicon Valley to report a gain in gross absorption from the previous year. Significant 2007 deals included the TPL Group subleasing 61,291 square feet and LiveOps occupying 59,384 square feet, both on Stevens Creek Boulevard. Cupertino's office market continues to tighten as its availability rate fell to 7.45%, the lowest since 2000.

Silicon Valley Availability
Office Product

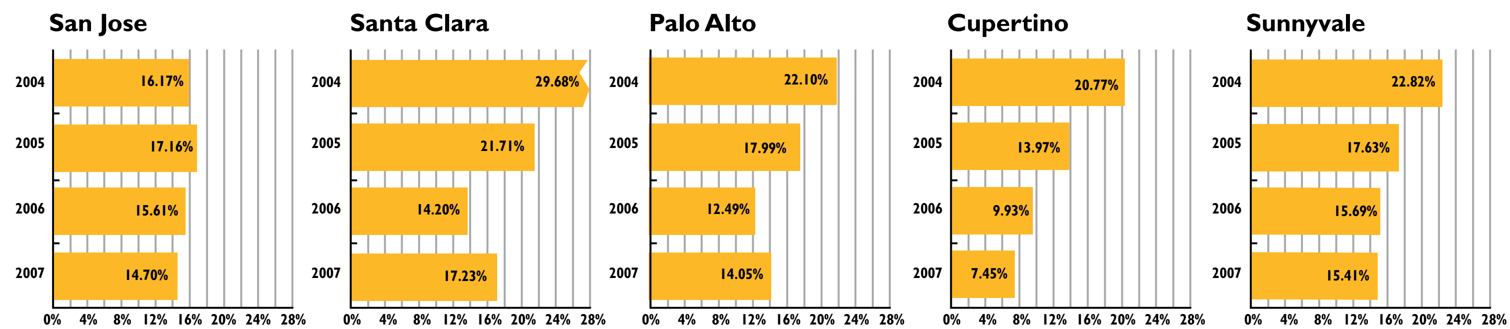


Silicon Valley Absorption
Office Product



After generating over a million square feet in gross absorption per year in 2005 and 2006, Palo Alto's office activity took a hit in 2007. The amount office gross absorption in Palo Alto totaled to 651,319 square feet, 36.5% lower than was generated in 2006. Palo Alto also witnessed a slight net loss in office occupancy of 13,882 square feet.

Selected Cities Historical Availability Rate Trends - Office



Sunnyvale's office sector experienced an historically slow year. Gross absorption totaled 194,618 square feet, a 61.4% drop from 2006 office results. Negative net absorption was also realized for only the second time in 10 years. Sunnyvale experienced a net occupancy loss of 87,648 square feet of office space in 2007.

Looking Forward

Silicon Valley's office market has experienced great change over the last ten years with new development brought forth during the dot.com boom and changes in the dynamics of how technology companies use space in Silicon Valley. Technology companies now occupy far more office space in Silicon Valley, with most of their manufacturing done elsewhere. These market characteristics have resulted in significant shifts in absorption trends for the office sector. What might be considered an "off-year" for office absorption today would have been a record high in the 1990's. For this reason, we see a wider range of results in the office market from year to year, making it trickier to forecast.

Trends and market conditions in late 2006 suggested that 2007 was going to be another banner year for office leasing and net absorption. Colliers forecasted that office gross absorption would approach 7.0 million square feet but activity was well off the 2006 pace throughout 2007, finishing at just 5.98 million square feet. After solid occupancy gains in Q1, activity slowed and negative net absorption resulted over the balance of the year.

Net absorption gains are going to be tough to come by in the office sector again in 2008. Employment forecasts do not support the growth necessary to generate significant new demand for space and the supply side is adding inventory in greater doses as service firms reduce payrolls. With that in mind, Colliers anticipates that office net absorption will be negative overall in 2008, with occupancy losses that could reach as high as 1.0 million square feet.

Nearly 1.0 million square feet of new office construction is underway as well, which means that office vacancy rates are almost certain to increase in 2008 even if the Valley manages to post positive net absorption. Total square footage of available office space could surpass 10.0 million square feet in 2008 and if it does, the office availability rate would increase to more than 17%.

Office rents posted sharp gains in 2007, increasing 31% to an average start rate of $2.70 per square foot, full service. While the trend was up, up, up throughout the year, Colliers' agents began to encounter more resistance on the part of tenants, particularly as news about the economy turned even more pessimistic after the turn of the year. A strong effort continues on the part of landlords and landlord brokers to hold firm on rents particularly in the class-A sector. But if activity levels do not pick up and economic conditions worsen, landlords are going to get more motivated fast and that could result in a reversal of current rent rends in 2008. We would not be surprised to see office rents remain flat or even drop off 10% by year-end.

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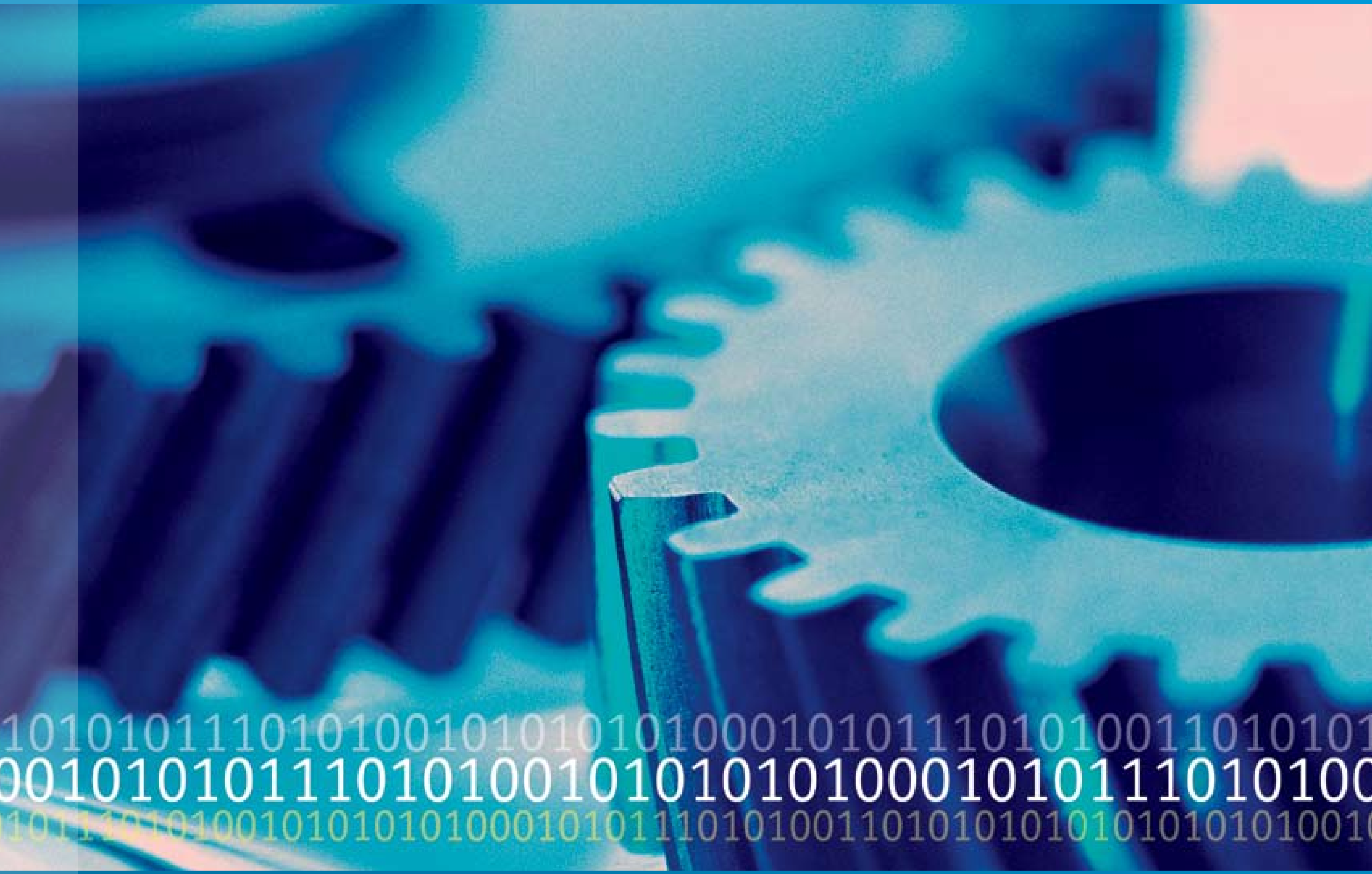
Selected Colliers Office Transactions

- **ArcSight, Inc.** inked a long term, 79,629 square foot office lease at 4 & 5 Results Way in Cupertino with landlord, **Embarcadero Capital Partners**.
- **Tabula, Inc.** leased 34,840 square feet of office space at 3250 Olcott Street in Santa Clara from landlord, **American National Insurance Company**.
- **Digeo, Inc.** sublet 16,699 square feet of office space at 151 University Avenue in Palo Alto. **Facebook, Inc**. is the sublessee.
- **Akeena Solar, Inc.** leased a 26,691 square foot office building 16005 Los Gatos Boulevard in Los Gatos with landlord, **CHL Ventures, LP**.
- **LBA Realty** completed a lease renewal of 29,179 square feet of office space at 2560 North 1st Street in San Jose. **MCI Communications Services** is the tenant.

INDUSTRIAL



After back-to-back years of net occupancy gains of over 1.0 million square feet and three consecutive years of positive net absorption, the industrial sector realized a net loss in occupancy, with negative net absorption of 623,845 square feet in 2007. Available industrial space increased to 4.29 million square feet, with an overall availability rate of 7.65%, up from the 6.76% availability rate recorded the previous year.

Industrial Footings Remain Firm

For five years prior to 2007, the industrial sector was averaging slightly over one million square feet of gross absorption per quarter. In 2006, activity dropped off slightly with average gross absorption hovering around 945,000 square feet per quarter. In 2007, industrial gross absorption totaled 2.98 million square feet, an average of 746,221 square feet per quarter. By all accounts, it was a below average absorption year for the industrial sector.

After back-to-back years of net occupancy gains of over 1.0 million square feet and three consecutive years of positive net absorption, the industrial sector realized a net loss in occupancy, with negative net absorption of 623,845 square feet in 2007. Available industrial space increased to 4.29 million square feet, with an overall availability rate of 7.65%, up from the 6.76% availability rate recorded the previous year.

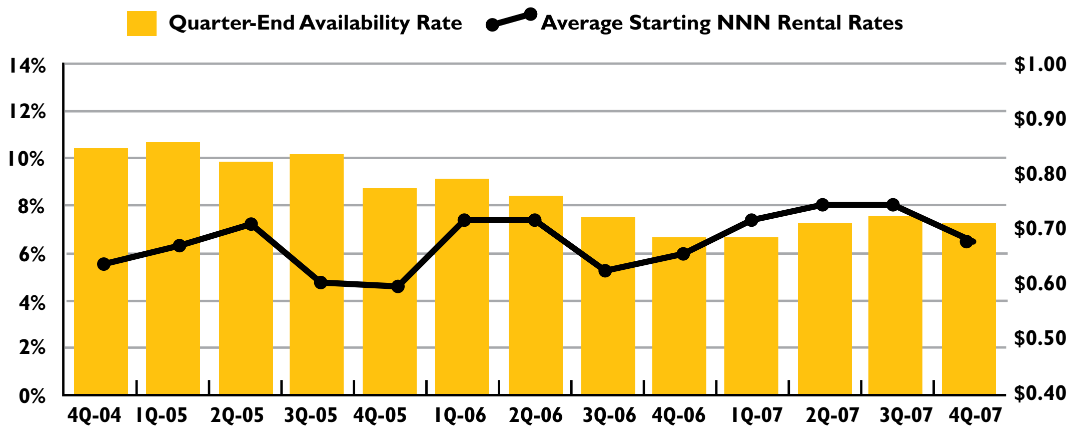
While an historically low level of gross absorption contributed to the industrial net occupancy loss in 2007, the amount of industrial space added back onto the market played a big part as well. Since 2004, the industrial sector has experienced a diminishing total of space coming back into the supply pipeline, but the trend changed in 2007. Colliers recorded 3.61 million square feet of rollover industrial space added to supply in 2007, and while still historically a low figure, the difference from 2006 to 2007 stood out. There was only 2.6 million square feet of rollover space added to available supply in 2006. In the past 20 years, Colliers only tracked a year-to-year change that topped 1.0 million square feet three times, and the difference Colliers recorded from 2006 to 2007 was 1.01 million square feet.

Examining the deal flow more closely, Colliers tracked only nine industrial transactions (other than renewals and investment sales) greater than 30,000 square feet in 2007. Of those nine deals, four were greater than 50,000 square feet, but none were greater than 100,000 square feet. In 2006, Colliers tracked twenty new industrial deals greater than 30,000 square feet. Of those twenty deals, ten were in excess of 50,000 square feet, and one was over 100,000 square feet. Compared to 2006, the number of larger transactions in 2007 was less than half of what Colliers recognized the year before. The same can be said when comparing 2007 to 2005, when we tracked twenty-three new industrial deals greater than 30,000 square feet.

Average starting rents of industrial leases were between $0.72-$0.75 per square foot (NNN) during the first three quarters of 2007, an increase from the $0.66 (NNN) per square foot rate recorded in Q4 2006. Average industrial

Focusing on the five major Silicon Valley industrial markets, not much stands out as a "hot spot." Two of the five markets saw an increase in gross absorption (Santa Clara & Sunnyvale), one of the five markets had positive net absorption (San Jose), and one other city besides San Jose experienced a decrease in availability (Fremont).

Silicon Valley Industrial Rent vs. Availability Rate Trends



SILICON VALLEY INDUSTRIAL MARKET

Though negative net absorption in the industrial sector was unanticipated in 2007, we do not see it as a sign of weakness in that submarket overall. With vacancy rates low and no new industrial space getting built, it simply becomes more and more difficult to generate significant positive net absorption in this sector. That seems to have been operative in 2007.

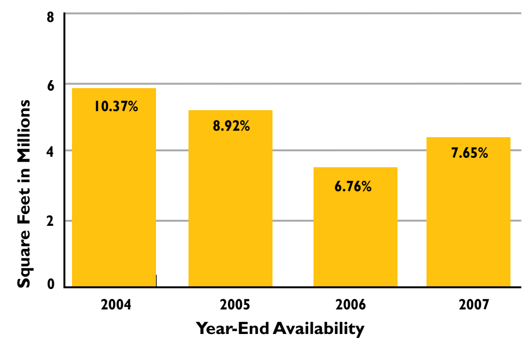
rents slipped a bit in Q4, but that may have been a statistical anomaly and not the start of a downward trend. Looking at the big picture, industrial rents have fluctuated from $0.60-$0.75 per square foot (NNN) per quarter over the last three years. The annualized average shows average starting rents for 2005, 2006 and 2007 to be $0.65, $0.69, and $0.72 per square foot (NNN), respectively.

Hot Spots

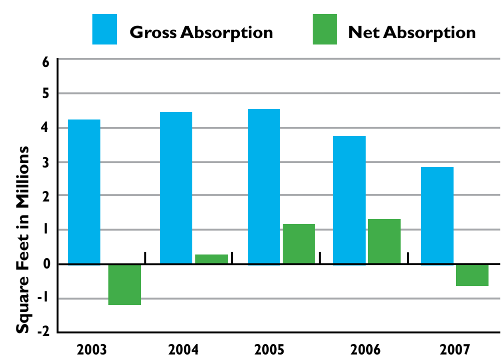
Focusing on the five major Silicon Valley industrial markets, not much stands out as a "hot spot." Two of the five markets saw an increase in gross absorption (Santa Clara & Sunnyvale), one of the five markets had positive net absorption (San Jose), and one other city besides San Jose experienced a decrease in availability (Fremont).

San Jose's industrial market tapered off slightly in 2007 with 1.15 million square feet of gross absorption, still the seventh consecutive year above 1.0 million square feet for that city. Notably, large industrial transactions were few and far between. Some of the more significant industrial transactions in San Jose included Infortrend's lease of 21,825 square feet on Zanker Road and M.E. Fox & Company's purchase of a 21,254 square foot building on Dado Street. The largest industrial market in the Valley also realized a net occupancy gain of 114,276 square feet, the fourth consecutive year with positive industrial net absorption. San Jose's industrial availability rate stood at 6.13% (1.40 million square feet) at the end of 2007, down from 6.84% the previous year.

Silicon Valley Availability
Industrial Product

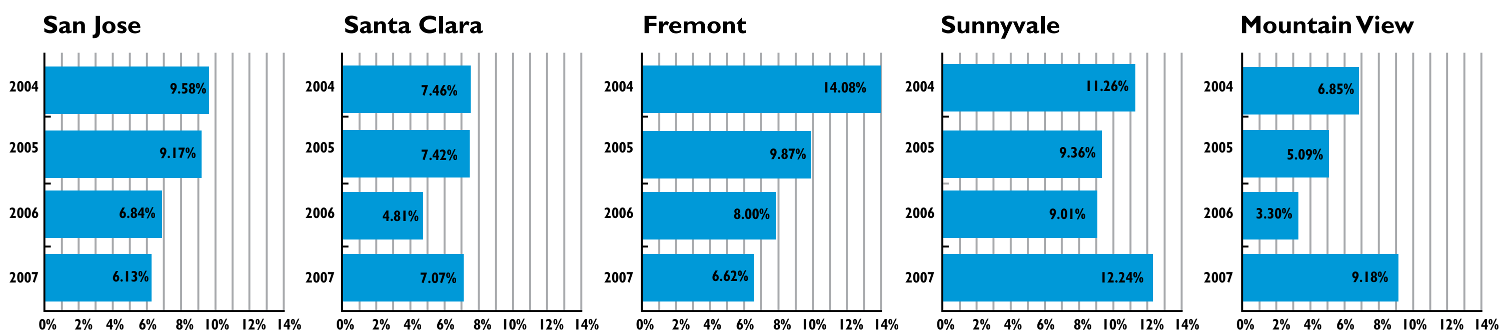


Silicon Valley Absorption
Industrial Product



Santa Clara's industrial leasing and user sale activity increased slightly from 730,120 square feet recorded in 2006 to 796,171 square feet posted in 2007. Deals such as Intevac Corporation's 50,212

Selected Cities Historical Availability Rate Trends - Industrial



square feet lease on Bassett Street and Ronald James Ebel & Bobby Ray Sutton's purchase of a 65,335 square foot building on Martin Avenue fueled Santa Clara's activity. With that said, Santa Clara had a modest industrial occupancy loss of 21,842 square feet in 2007 after posting net occupancy gains the previous three years.

Fremont's industrial activity totaled 398,118 square feet in 2007, with notable deals such as Master Kraft Machining's 41,046 square foot lease on Corporate Way and Alcan Roofing's purchase of a 55,700 square foot building on Osgood Road. Fremont's industrial availability rate fell to 6.62% with 552,604 square feet available at the end of 2007. Not since 2000 has the industrial availability rate been under 7.0% in Fremont. While net absorption of industrial space was negative for the year, Fremont finished strongly, posting positive net absorption in each of the final two quarters of 2007.

Looking Forward

Though negative net absorption in the industrial sector was unanticipated in 2007, we do not see it as a sign of weakness in that submarket overall. With vacancy rates low and no new industrial space getting built, it simply becomes more and more difficult to generate significant positive net absorption in this sector. That seems to have been operative in 2007. Enough of the industrial tenant base moved around to produce 2.98 million square feet of gross absorption but with good quality industrial space in short supply, tenants were just as like to stay put as they were to settle for making any kind of lateral move. Large blocks of available industrial space are increasingly hard to find and that too is creating an absorption bottleneck of sorts for this market sector.

2008 is likely to deliver similar results. Gross and net absorption of industrial space will be curtailed not only by economic conditions but by a constricted building base and by the limited supply of pre-existing vacant product. In addition, the housing market fallout may have an impact on suppliers of materials that provide goods and services for the construction industry. We do believe that industrial net absorption could return to the black, albeit nominally. Vacant supply is low, but it has been even lower in the past which leads us to believe that there are still viable options in the marketplace for industrial users and a potential for positive net absorption.

Colliers is anticipating that industrial gross absorption will again fall into the 2.75 million square foot range in 2008 with no significant change in occupancy overall. With very little new product on the horizon this would mean that the industrial availability rates are likely to remain in the 7% - 8% range over the course of the year.

Industrial rents were up for much of 2007 but then slipped a bit in Q4. The blip is likely to correct itself and industrial rents are not in danger of dropping in the near term. Colliers anticipates that industrial rents will be flat to slightly higher in 2008, due to the relatively limited supply in this sector and the growing gap between industrial and R&D rents.

Colliers is anticipating that industrial gross absorption will again fall into the 2.75 million square foot range in 2008 with no significant change in occupancy overall. With very little new product on the horizon this would mean that the industrial availability rates is likely to remain in the 7-8% range over the course of the year.

Selected Colliers Industrial Transactions

- **Ozuna Enterprises** sold a 65,335 square foot industrial building at 510-540 Martin Avenue in Santa Clara. **Ronald Ebel and Bobby Sutton** is the buyer.
- **Cavallini Living Trust** leased a 21,000 square foot industrial building at 2185 Old Oakland Road in San Jose to tenant, **TTI, Inc**.
- **Mass Precision Sheetmetal, Inc**. renewed their lease of 80,000 square feet of industrial space at 2960 Copper Road in Santa Clara. **Copper Industrials** is the landlord.
- **J & R Investments** sold a 77,025 square foot industrial building at 625 Wool Creek Drive and a 132,722 square foot industrial building at 1970-1984 Senter Road, both in San Jose, to **Intelli, LLC**.
- **Master Kraft Machining, Inc**. signed a 41,046 square foot industrial lease at 850 Corporate Way in Fremont with landlord, **Sobrato Interests.**
- **Julia C. Emerson Trustee** completed an industrial lease renewal of 20,550 square feet at 540 Dado Street in San Jose. **Iron Systems, Inc**. is the tenant.

WAREHOUSE

The warehouse sector began with just 3.06 million square feet available coming into 2007, representing an availability rate just under 8%. To no surprise, with such a small inventory of available space, warehouse activity slowed in 2007. Our forecast of gross absorption dropping off to the 2.5 million square foot range was spot-on as warehouse gross absorption totaled to 2.19 million square feet in 2007, lower than the 2.84 million square feet witnessed in 2006.

SILICON VALLEY WAREHOUSE MARKET

Warehouse Space at a Premium

The warehouse sector began the year with just 3.06 million square feet available coming into 2007, representing an availability rate just under 8%. To no surprise, with such a small inventory of available space to choose from, warehouse activity slowed in 2007. Our forecast of gross absorption dropping to the 2.5 million square foot range was spot-on as warehouse gross absorption totaled 2.19 million square feet in 2007, lower than the 2.84 million square feet witnessed in 2006.

Warehouse activity in 2007 was slow out of the gates, with Q1 gross absorption totaling just 361,137 square feet. Quarter-by-quarter, activity picked up, with Q4 (913,744 square feet) accounting for 41.65% of the year's total warehouse gross absorption. The net result of 2007's activity was an occupancy gain of 468,177 square feet, the fourth consecutive year of positive net absorption in the warehouse market.

Silicon Valley's year-end warehouse availability rate fell to 6.3%, or 2.43 million square feet, the lowest since 2000. Availability actually dipped below 5.0%, but then inched back up during the final months of the year. Available sublease space also fell during 2007, at one point accounting for less than 1% of total available warehouse space on the market. However, that figure also increased with new sublease offerings that came to market towards the end of the year. Now sublease space accounts for 9.2% of the available space on the warehouse market, a far cry from the 20% it represented just two years ago.

By all accounts, it was a good year and a tight market. Some of the warehouse market's success can be attributed to the limited amount of space added back to the supply. Of the four sectors we track at Colliers, warehouse was the only one that saw an annual decrease in rollover space added to the supply pipeline in 2007. Silicon Valley added 1.73 million square feet of preimproved warehouse space back to the market in 2007, which was 277,098 square feet less than the 2006 total. This also represented the least annual amount of pre-existing warehouse space added to available supply in the past 20 years.

As available warehouse inventory shrinks, the number and size of deals become impacted. New warehouse users have fewer choices, and current warehouse users lean towards staying in the space they already occupy. The breakdown of new deals (not including renewals or investment transactions) completed in the past few years shows that there has not been much change from year-to-year until one begins to examine the larger deals. In 2005, 37 warehouse deals greater than 30,000 square feet were completed. In the same size range, 32 and 33 deals were completed in 2006 and 2007, respectively. What stands out is the number of deals larger than 100,000

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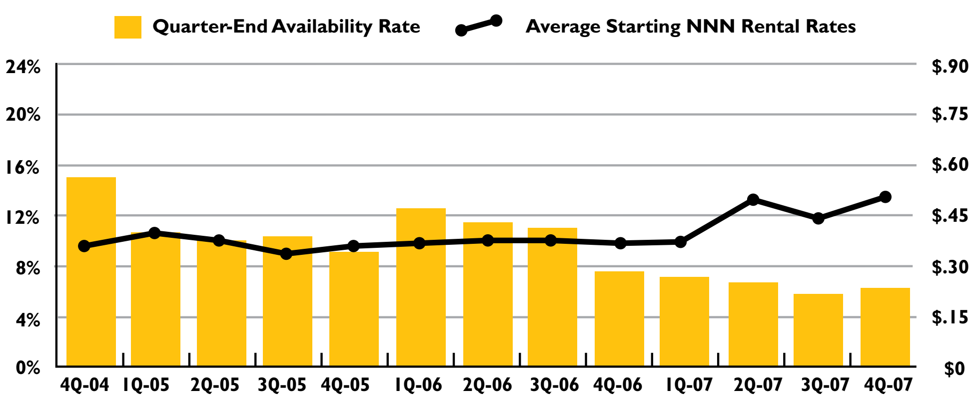
Silicon Valley Warehouse Rent vs. Availability Rate Trends



SILICON VALLEY WAREHOUSE MARKET

Rents for warehouse space in Silicon Valley increased dramatically in 2007. Average starting rents for warehouse space was $0.49 per square foot (NNN) in the fourth quarter, up 28.9% from deals record during the same period the previous year.

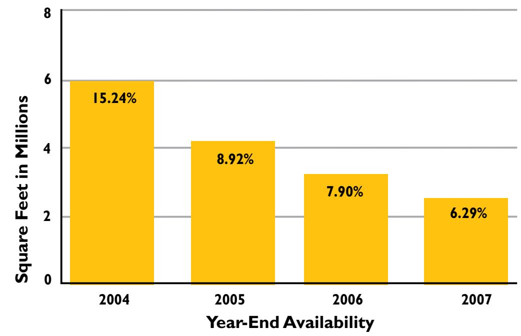
square feet. In 2005 and 2006, six deals greater than 100,000 square feet were completed in each year. In 2007, that figure dropped, as only two deals greater than 100,000 square feet were completed. As available options dwindle, both net and gross absorption will continue to be constricted.

Rents for warehouse space in Silicon Valley increased dramatically in 2007. Average starting rents for warehouse space was $0.49 per square foot (NNN) in the fourth quarter, up 28.9% from deals recorded during the same period the previous year. The first quarter of 2007 saw deals with an average start rate of $0.38 per square foot, within the $0.32 to $0.39 per square foot range seen the previous 14 quarters. The last three quarters of 2007 produced average starting rents of $0.45-$0.49 per square foot. The spike in rents is attributed to a tight warehouse market overall and low sublease availability to offset higher market-rate deals.

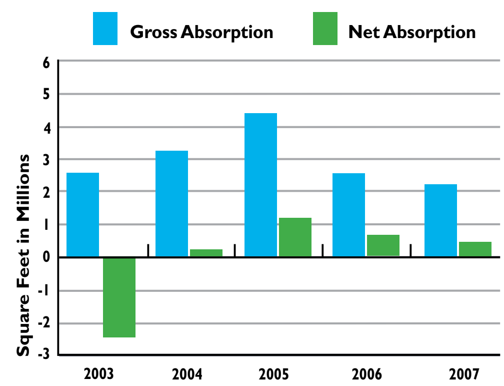
Hot Spots

San Jose, Fremont, and Milpitas are the three major submarkets of the warehouse sector, accounting for nearly 75% of warehouse inventory in Silicon Valley. At the beginning of 2007, San Jose, Fremont, and Milpitas housed 81% of the total available warehouse space in the Valley. At year-end, their combined share was down to 73%, but these three submarkets still accounted for 84% of warehouse gross absorption in Silicon Valley in 2007.

Silicon Valley Availability
Warehouse Product

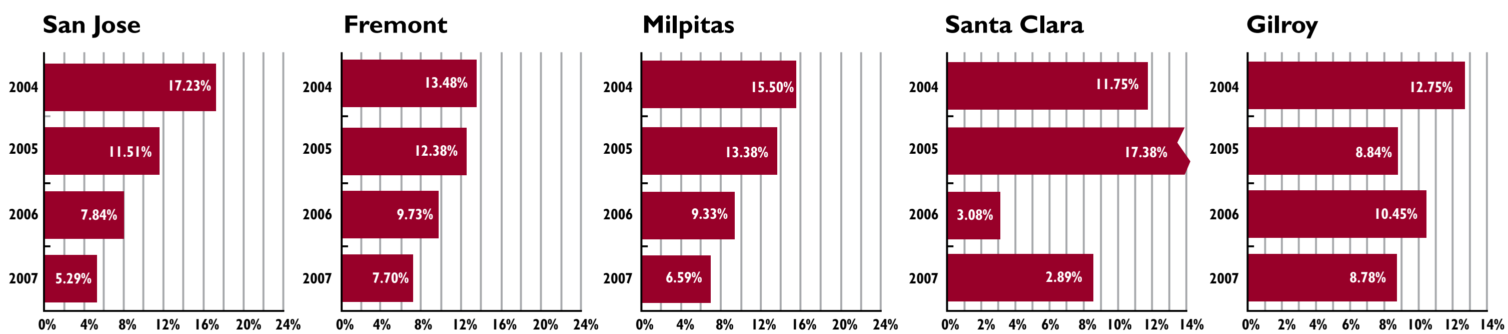


Silicon Valley Absorption
Warehouse Product



San Jose's warehouse activity eclipsed 1.0 million square feet for a fifth consecutive year, checking in at 1.06 million square feet of gross absorption. Notable deals include Air Systems, Inc. leasing 119,560 square feet on Remilard Court, Critchfield Mechanical, Inc. occupying 167,000

Selected Cities Historical Availability Rate Trends - Warehouse



square feet on Junction Avenue, and Papco, Inc moving into 64,800 square feet on South 10th Street. With activity topping 1.0 million square feet, total available warehouse space in San Jose also dropped below 1.0 million square feet in 2007, a level of availability not seen since 2000. In similar fashion, Milpitas' warehouse availability dropped to 313,786 square feet, a level of supply also not witnessed since 2000.

Fremont's warehouse activity dropped significantly in 2007 compared to the last three years. The warehouse gross absorption total of 260,673 square feet recorded in 2007 was about half of what was measured in the previous year and only 30% of what was recorded in 2004. Despite the falling trend in activity, Fremont still managed a warehouse occupancy gain of 166,609 square feet, bouncing back from the net loss realized a year prior. In fact, Fremont's net absorption total is the largest warehouse net gain measured in 2007 amongst the Silicon Valley submarkets. Transactions fueling that gain include Fremont Furniture Solutions occupying 58,608 square feet on Industrial Drive, Alphaville Design leasing 67,275 square feet on Christy Street, and Just in Time Messenger taking 22,938 square feet on Albrae Street.

Looking Forward

The warehouse submarket is facing very similar market dynamics as the industrial sector. No new inventory is coming on line to act as a catalyst for occupancy growth and vacancy rates are extremely low, suggesting that there are not many existing opportunities from which occupancy growth can occur. That being the case, we could easily experience negative net absorption in the warehouse sector in 2008 even if the economy performs beyond all expectations and market conditions remain tight. In fact, with less than 1.2 million square feet of vacant warehouse space currently available, it seems highly unlikely that 2008 net absorption will approach 2007's total of 468,177 square feet.

There will be some movement in the warehouse sector, but we do not foresee more than 2.0 million square feet of gross absorption in store for 2008. Net occupancy growth is unlikely and even if some occurs, it won't be much. In fact, if rents increase much more in this sector, we may see some movement out of the area and a resultant net occupancy loss. More likely will be the case that any movement out of the Valley will open up opportunities for some lateral movement, therefore sparking increased warehouse gross absorption as other tenants backfill what gets left behind.

After holding tight in the $0.40 per square foot NNN range for over a year, warehouse rents took a jump in Q2 and those higher rents were sustained over the balance of the year. This market sector is so tight that we may some further upward momentum in 2008. However, the economy could take its toll here too and therefore we are not anticipating more than another 10% increase in warehouse rents at year-end.

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Selected Colliers Warehouse Transactions

- **Antonio Zertuche** sold a 120,000 square foot warehouse on 4.92 acres at 1875 Dobbin Drive in San Jose. **SCS Development Company** is the buyer.
- **Lockheed Martin Corporation** leased 68,502 square feet of warehouse space at 587 Charcot Avenue in San Jose. **AMB Property Corporation** is the landlord.
- **KZ Kitchen Cabinet & Marble Supply** signed a 36,750 square foot warehouse lease at 1558 Montague Expressway in San Jose. **RREEF** is the landlord.
- **RREEF** completed a 58,608 square foot warehouse lease at 45101 Industrial Drive in Fremont with tenant, **Fremont Furniture Solutions, Inc.**
- **Papco, Inc.** leased 64,800 square feet of warehouse space at 1855 S. Tenth Street, San Jose from **DiNapoli Trust**.
- **AMB Property Corporation** inked a lease renewal of 40,320 square feet of warehouse space at 48368 Milmont Drive in Fremont. **Holman Plastics** is the tenant.

INVESTMENT

Capital invested in Silicon Valley institutional quality office and industrial real estate during 2007 reached another record level volume at over $6 billion. This level of investment was due to a number of large portfolio transactions. The total investments for 2006 and 2007 were well up from prior years, but reflect a leveling off from the prior trend of big increases. While the level was high for 2007, uncertainties exist going forward, given sub-prime loan and recession concerns. Nonetheless, available capital remains extensive going into 2008.

Values are clearly facing downward pressures. Underwriting standards are becoming more conservative. Buyers have been aggressive in their underwriting, willing to reach to secure a deal, but are less willing to do so now. Lenders are more conservative as well. High leverage, interest-only loans are the most affected. Loans with low loan-to-value ratios on class-A properties are the least affected.

During the second half of 2007 a number of deals were re-traded as a result of the

SILICON VALLEY INVESTMENT MARKET

sub-prime loan concerns. Some, including one mammoth one with Mission West, were dropped. We do see some sellers coming back to the market after waiting out the last quarter of 2007.

The Bay Area remains a favored location for many buyers coming into 2008. Many expect the Bay Area to be less adversely affected by an economic slowdown. The fundamentals for the long term also are quite good. Consistently attracting 35% of venture capital investment to a region with less than 2% of the population is a good indication of long term strength. Further, Wall Street analysts following major Silicon Valley firms expect better profits during the next several years compared to 2007.

Average prices per square foot are down a bit for both office and R&D; however, that trend is a result of more properties being sold with higher vacancies. Values increased overall, as did the median prices per square foot.

Similar to the institutional level properties, private capital markets for smaller properties were also very active. California properties have a significantly lower capitalization rate compared to similar properties out of state. A Walgreen's, for example, would typically have a cap rate above 6% outside of the state and below 6% in California. Lending remains active for quality properties having tenants with good credit. For lesser properties, terms are more restricted. While it is never easy to find exactly what one wants, there are a number choices to review.

Capital continues to be abundant for both debt and equity as we move into the new year, yet given the record transaction volume during 2007 and more uncertainties in the market, the pace for 2008 will likely be lower.

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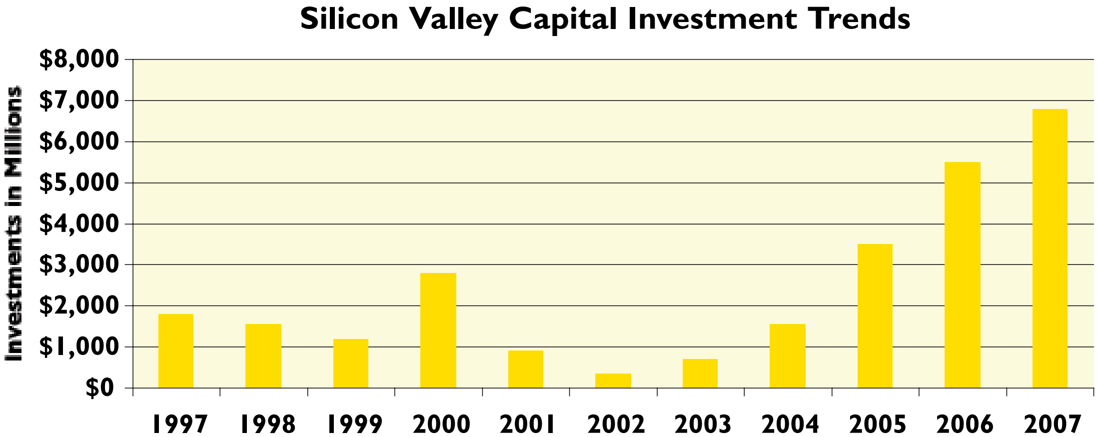


Selected Colliers Investment Transactions

- **Standard Industries, LLC** purchased Mission Falls Business Park in Fremont, a four-building, 292,063 square foot R&D project plus 5.23 additional acres of land. **TIAA Realty** was the seller.
- **Lincoln Property Company Commercial Inc**. purchased a 241,296 square foot R&D project at 1215-1272 Borregas Avenue in Sunnyvale, from **Tatem Operations**.
- **TA Associates Realty** acquired a 62,000 square foot office building at 20370-20410 Town Center Lane in Cupertino. **Hunter/Storm** was the seller.
- **Joe and Nicky Parisi** sold a 240,000 square foot industrial building at 1551 & 1601 Las Plumas Avenue in San Jose. **Stephens & Stephens, LLC** is the buyer.

RETAIL

Silicon Valley's retail real estate boom finally began to level off in 2007 after six years of solid growth, which saw increases in property inventory, rents, and sale prices. The uncertainty of the greater economy and fear of recession caused by the housing slowdown and subsequent shock on capital markets caused by sub prime loan defaults have finally given the American consumer reason to pause, as well as developers and tenants of retail properties. However, the consistent fundamentals of the Valley's dynamic economy, for the most part, continue to insulate local real estate markets. The ripple effects are slowly being felt as retail tenants curtail expansion and push back on rents and operating expenses, while lease-up time is also increasing.

A survey by Colliers Retail Services of the Valley's major trade areas and commercial business districts (defined as having a concentration of national and regional retailers, high foot and vehicle traffic, and destination entertainment and eating establishments in "A" grade properties) has estimated an increase in vacancies to about 3.5%, while secondary trade areas (defined as being more neighborhood service oriented with "B" grade properties and "mom & pop" tenancy) vacancies have increased to about 8.5%. Demand for top tier space remains active.

Average rents in the major trade areas have, as predicted last year, leveled off from the double-digit increases of the year before. End cap space ranges from $3.50 to $4.00 per square foot triple net (tenant pays all expenses which include property taxes, insurance, and operations), while in-line space ranges from $3.00 to $3.50 per square foot triple net. Rental increases in secondary markets have also peaked and in some cases decreased by as much as 5%. Average rents for end cap and free standing space ranges from $2.50 to $2.75 per square foot triple net, while in-line space ranges from $2.00 to $2.50 per square foot.

Retailers, from nationals to family-owned businesses, have felt the sting of weak store sales and declining margins, which became most apparent during the 2007 Christmas shopping season. Thus, for the nationals and regional tenants, there has been more concern about over saturation in the market and the effect this has had on sales from store to store, while family stores downsize or close shop.

Notable new developments that came to market in 2007 are The Plant, a Target-anchored power center in Central San Jose on Curtner Avenue and Monterey Highway, by Westrust Development; the Target-anchored power center on Cochrane Road in Morgan Hill by

Broman Development and Di Napoli Partners; the Tractor Supply Store anchored McCarthy Retail center in Gilroy; and the Target and Kohl's anchored center at the former Ft. Ord Army Base in Monterey County.

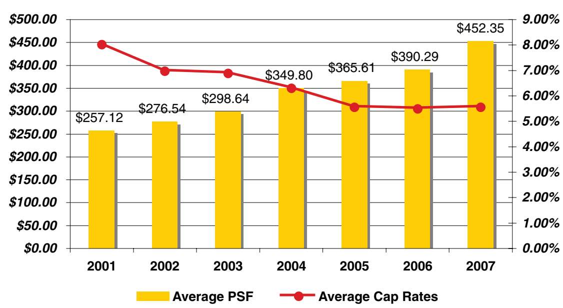
Notable retail happenings of 2007 that have or will continue to bring about change in the Valley were the entrance of Tesco's "Fresh & Easy" stores to the market which have created a lot of buzz, as they have helped filled the void left by the Albertson's store closings. Also, Starbucks Coffee, due to weakening same store sales, has slowed its pace of expansion and plans to close poor performing stores.

The investment sales sector led by both private and institutional investors for Silicon Valley properties followed the same leveling trend as leasing did in 2007. There was a significant decrease in leveraged investments as financing and lending criteria became more constrained. However, sellers of prime retail assets, thus far, have not felt the need to deeply discount prices, as well financed cash buyers were still attracted to quality Silicon Valley assets. There has been an approximately 50 basis point increase in cap rates in a range between 5.5%-6.5%, with sale prices between $550 and $650 per square foot.

This has been less the case with older non-credit tenanted properties, which have seen a wider swing in cap rates between 6%-7% ($350-$450 per square foot) to reflect the greater inherent risk. Notable sales in 2007 were the 138,00 square foot Rivermark Village in Santa Clara from the partnership of Shea Homes and LNR Property Group to ING Clarion Partners for $90.5 million; and the 61,797 square foot Plaza de San Jose from Blake Hunt Ventures and Partners to Los Angeles-based Faris Lee Investments for $34 million.

Colliers International Retail Services predicts the mild softening in the Silicon Valley's retail real estate sector to continue, but not to the greater extent expected for national retail real estate markets. We believe that there will continue to be some downward pressure on rents and rental concessions (i.e. tenant improvements and free rent) as competition to attract and retain tenants, as well as lease up times, increase across all property classes. Additionally, we expect this timidity in the rental market to carry over to the investment sector as there will be more scrutiny of asset fundamentals by buyers and lenders. However, as past experience has shown in the Valley, this hesitation may create an "opportunity market" for non-leveraged buyers to acquire quality assets or position themselves for the future.

SILICON VALLEY
AVERAGE RETAIL CAP RATE



All tenants have been greatly affected by property operating expenses, or triple-nets, which have skyrocketed due mostly to increased property taxes on newly built or purchased properties, as well as insurance and maintenance costs. On average, triple-net expenses account for almost 25% of a tenant's monthly occupancy costs, which have already been burdened by higher costs of goods and labor due to inflation.

Selected Colliers Retail Transactions

- **Allison Motors, Inc.** sold a 45,000 square foot retail building on 5.55 acres at 4202 Stevens Creek Boulevard in San Jose to **Halrec, Inc.**
- **Dorsa Trust** sold a 13,857 square foot retail building at 1915 West San Carlos Street in San Jose to **99 Cent Only Store.**
- **Walnut Park Investments, LLC** leased 11,000 square feet of retail space at 16195 Condit Road in Morgan Hill. **Patio World** is the tenant.
- **Argonaut Holdings Inc.** acquired 9.13 acres of land located on Auto Mall Parkway, between Boyce Road and Boscell Road, for future development **6000 S Corporation** is the seller.
- **Allison--Malizia, LLC** sold a 68,663 square foot retail building at 150 East El Camino Real in Mountain View. **The Sabatino Family Partnership** is the buyer.
- **Ken, Carol & Mike Kerley** completed a 65,340 square foot retail ground lease at 3566 Stevens Creek Boulevard in San Jose. **Audi of Stevens Creek** is the tenant.

SILICON VALLEY MARKET STATISTICS

SILICON VALLEY	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	8,406,916	14.51%	25,764,188	16.29%	4,294,092	7.65%	2,425,396	6.29%	40,890,592	13.16%
New Construction	70,000		98,500		0		0		168,500	
Net Absorption	-323,684		-250,967		-229,383		-26,477		-830,511	
Gross Absorption	1,094,954		2,823,249		840,831		913,744		5,672,778	
3Q07										
Total Available	7,997,432	13.83%	25,576,000	16.18%	4,326,021	7.71%	2,277,969	5.91%	40,177,422	12.94%
New Construction	0		0		0		0		0	
Net Absorption	-37,395		107,288		-317,065		77,249		-169,923	
Gross Absorption	1,426,816		3,744,800		547,377		511,932		6,230,925	
2Q07										
Total Available	8,024,340	13.87%	27,590,961	17.46%	4,008,856	7.16%	2,675,281	6.91%	42,299,438	13.62%
New Construction	0		0		0		0		0	
Net Absorption	-195,148		832,947		-94,543		144,206		687,462	
Gross Absorption	1,232,125		2,484,451		822,512		406,885		4,945,973	
1Q07										
Total Available	8,110,276	14.02%	28,219,671	17.85%	3,710,569	6.63%	2,738,911	7.07%	42,779,427	13.77%
New Construction	0		0		0		0		0	
Net Absorption	321,668		544,223		17,146		273,199		1,156,236	
Gross Absorption	1,444,238		3,127,888		774,162		361,137		5,707,425	
TOTALS										
New Construction	70,000		98,500		0		0		168,500	
Net Absorption	-234,559		1,233,491		-623,845		468,177		843,264	
Gross Absorption	5,198,133		12,180,388		2,984,882		2,193,698		22,557,101	

CAMPBELL	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	374,706	18.25%	299,604	20.07%	55,583	13.46%	0	0.00%	729,893	17.71%
New Construction	0		0		0		0		0	
Net Absorption	-49,958		-2,197		13,320		0		-38,835	
Gross Absorption	56,222		17,150		41,585		0		114,957	
3Q07										
Total Available	296,618	14.45%	305,227	20.45%	50,414	12.21%	0	0.00%	652,259	15.83%
New Construction	0		0		0		0		0	
Net Absorption	-36,018		-89		-3,290		23,482		-15,915	
Gross Absorption	93,139		30,385		16,761		23,482		163,767	
2Q07										
Total Available	317,636	15.47%	273,893	18.35%	59,530	14.42%	23,482	14.48%	674,541	16.37%
New Construction	0		0		0		0		0	
Net Absorption	47,648		83,485		-12,858		0		118,275	
Gross Absorption	82,274		83,485		13,358		0		179,117	
1Q07										
Total Available	308,446	15.02%	263,187	17.63%	57,815	14.00%	24,142	14.89%	653,590	15.86%
New Construction	0		0		0		0		0	
Net Absorption	-238		-12,100		-7,441		0		-19,779	
Gross Absorption	61,422		61,424		1,748		0		124,594	

CUPERTINO	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	238,359	7.45%	282,529	8.24%	0	0.00%	0	0.00%	520,888	7.85%
New Construction	0		0		0		0		0	
Net Absorption	7,744		-108,945		0		0		-101,201	
Gross Absorption	31,359		7,392		0		0		38,751	
3Q07										
Total Available	177,635	5.55%	147,886	4.36%	0	0.00%	0	0.00%	325,521	4.94%
New Construction	0		0		0		0		0	
Net Absorption	8,153		-25,850		0		0		-17,697	
Gross Absorption	150,316		0		0		0		150,316	
2Q07										
Total Available	314,462	9.83%	147,886	4.36%	0	0.00%	0	0.00%	462,348	7.01%
New Construction	0		0		0		0		0	
Net Absorption	-91,778		27,917		0		0		-63,861	
Gross Absorption	81,245		70,618		0		0		151,863	
1Q07										
Total Available	291,255	9.10%	122,036	3.60%	0	0.00%	0	0.00%	413,291	6.27%
New Construction	0		0		0		0		0	
Net Absorption	7,756		61,592		0		0		69,348	
Gross Absorption	60,134		207,842		0		0		267,976	

FREMONT	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	333,155	20.30%	4,172,372	22.37%	552,604	6.62%	587,605	7.70%	5,645,736	15.57%
New Construction	0		0		0		0		0	
Net Absorption	15,792		-384,326		60,958		0		-307,576	
Gross Absorption	27,860		331,897		123,459		70,226		553,442	
3Q07										
Total Available	342,734	20.89%	4,002,996	21.46%	556,337	6.66%	594,321	7.79%	5,496,388	15.16%
New Construction	0		0		0		0		0	
Net Absorption	-71,176		135,027		15,128		22,848		101,827	
Gross Absorption	29,545		648,111		75,573		22,848		776,077	
2Q07										
Total Available	304,116	18.53%	4,303,389	23.08%	561,703	6.73%	598,485	7.85%	5,767,693	15.90%
New Construction	0		0		0		0		0	
Net Absorption	-5,148		109,114		-66,871		76,486		113,581	
Gross Absorption	73,174		367,322		134,128		100,324		674,948	
1Q07										
Total Available	386,075	23.53%	4,432,083	23.77%	600,182	7.19%	674,971	8.85%	6,093,311	16.80%
New Construction	0		0		0		0		0	
Net Absorption	-9,821		94,148		-136,303		67,275		15,299	
Gross Absorption	12,600		609,791		64,958		67,275		754,624	

SILICON VALLEY MARKET STATISTICS

GILROY	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	24,198	12.70%	209,136	55.96%	136,267	10.36%	283,141	8.78%	652,742	12.79%
New Construction	0		0		0		0		0	
Net Absorption	-845		0		-24,871		0		-25,716	
Gross Absorption	0		0		10,707		0		10,707	
3Q07										
Total Available	25,748	13.51%	137,786	36.87%	95,646	7.27%	283,141	8.78%	542,321	10.63%
New Construction	0		0		0		0		0	
Net Absorption	0		0		4,425		0		4,425	
Gross Absorption	0		0		7,625		0		7,625	
2Q07										
Total Available	25,748	13.51%	137,786	36.87%	100,071	7.61%	283,141	8.78%	546,746	10.71%
New Construction	0		0		0		0		0	
Net Absorption	-1,459		0		-5,225		0		-6,684	
Gross Absorption	0		0		34,334		0		34,334	
1Q07										
Total Available	16,239	8.52%	137,786	36.87%	94,846	7.21%	293,901	9.12%	542,772	10.64%
New Construction	0		0		0		0		0	
Net Absorption	423		0		30,504		43,064		73,991	
Gross Absorption	3,762		0		48,734		43,064		95,560	

LOS ALTOS	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	93,710	9.09%	0	0.00%	0	0.00%	0	0.00%	93,710	9.09%
New Construction	0		0		0		0		0	
Net Absorption	-6,654		0		0		0		-6,654	
Gross Absorption	17,051		0		0		0		17,051	
3Q07										
Total Available	85,849	8.33%	0	0.00%	0	0.00%	0	0.00%	85,849	8.33%
New Construction	0		0		0		0		0	
Net Absorption	-8,959		0		0		0		-8,959	
Gross Absorption	16,970		0		0		0		16,970	
2Q07										
Total Available	72,546	7.04%	0	0.00%	0	0.00%	0	0.00%	72,546	7.04%
New Construction	0		0		0		0		0	
Net Absorption	18,418		0		0		0		18,418	
Gross Absorption	29,031		0		0		0		29,031	
1Q07										
Total Available	96,424	9.35%	0	0.00%	0	0.00%	0	0.00%	96,424	9.35%
New Construction	0		0		0		0		0	
Net Absorption	-962		0		0		0		-962	
Gross Absorption	9,462		0		0		0		9,462	

LOS GATOS	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	127,980	14.50%	61,229	13.44%	3,415	52.54%	0	0.00%	192,624	14.15%
New Construction	0		0		0		0		0	
Net Absorption	2,106		6,134		0		0		8,240	
Gross Absorption	28,984		6,134		0		0		35,118	
3Q07										
Total Available	124,061	14.05%	67,363	14.79%	7,735	119.00%	0	0.00%	199,159	14.63%
New Construction	0		0		0		0		0	
Net Absorption	-20,651		10,443		0		0		-10,208	
Gross Absorption	35,983		10,443		0		0		46,426	
2Q07										
Total Available	116,805	13.23%	66,334	14.56%	3,415	52.54%	0	0.00%	186,554	13.71%
New Construction	0		0		0		0		0	
Net Absorption	-20,828		-35,520		-3,415		0		-59,763	
Gross Absorption	55,380		8,378		0		0		63,758	
1Q07										
Total Available	157,106	17.79%	35,059	7.70%	0	0.00%	0	0.00%	192,165	14.12%
New Construction	0		0		0		0		0	
Net Absorption	10,912		0		0		0		10,912	
Gross Absorption	21,514		0		0		0		21,514	

MILPITAS	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	102,748	10.08%	3,077,250	21.97%	189,726	6.60%	313,786	6.59%	3,683,510	16.26%
New Construction	0		0		0		0		0	
Net Absorption	-14,838		440,999		-45,851		50,673		430,983	
Gross Absorption	18,498		683,445		32,698		258,486		993,127	
3Q07										
Total Available	84,941	8.33%	3,413,651	24.37%	321,587	11.19%	407,725	8.56%	4,227,904	18.66%
New Construction	0		0		0		0		0	
Net Absorption	-16,786		-197,870		-187,189		-27,525		-429,370	
Gross Absorption	6,596		303,103		21,650		104,418		435,767	
2Q07										
Total Available	95,751	9.39%	3,698,432	26.41%	284,469	10.52%	621,259	12.60%	4,699,911	20.74%
New Construction	0		0		0		0		0	
Net Absorption	-4,865		449,755		-56,002		55,871		444,759	
Gross Absorption	16,661		639,642		10,343		145,324		811,970	
1Q07										
Total Available	96,318	9.45%	4,214,666	30.09%	190,566	7.05%	449,574	9.12%	4,951,124	21.85%
New Construction	0		0		0		0		0	
Net Absorption	20,360		135,779		1,800		-1,746		156,193	
Gross Absorption	33,454		498,942		21,384		16,324		570,104	

SILICON VALLEY MARKET STATISTICS

MORGAN HILL	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	72,915	13.89%	402,255	14.96%	385,199	18.84%	205,966	55.46%	1,066,335	18.94%
New Construction	0		0		0		0		0	
Net Absorption	26,793		9,638		10,507		0		46,938	
Gross Absorption	51,848		37,562		57,156		45,260		191,826	
3Q07										
Total Available	98,242	18.72%	459,068	17.07%	440,446	21.54%	124,848	33.62%	1,122,604	19.94%
New Construction	0		0		0		0		0	
Net Absorption	-5,971		-20,797		-17,794		-79,588		-124,150	
Gross Absorption	2,042		0		0		0		2,042	
2Q07										
Total Available	93,055	17.73%	440,007	16.36%	409,266	20.02%	45,260	12.19%	987,588	17.54%
New Construction	0		0		0		0		0	
Net Absorption	-16,040		-6,618		-3,060		79,588		53,870	
Gross Absorption	3,532		9,446		3,060		79,588		95,626	
1Q07										
Total Available	101,927	19.42%	429,101	15.96%	409,266	20.02%	124,848	33.62%	1,065,142	18.92%
New Construction	0		0		0		0		0	
Net Absorption	-49,691		-8,400		-2,239		0		-60,330	
Gross Absorption	2,336		3,000		33,794		0		39,130	

MOUNTAIN VIEW	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	380,538	10.11%	1,533,419	10.96%	243,402	9.18%	0	0.00%	2,157,359	10.57%
New Construction	0		0		0		0		0	
Net Absorption	-21,156		46,756		-2		0		25,598	
Gross Absorption	75,438		206,440		24,087		0		305,965	
3Q07										
Total Available	366,930	9.80%	1,526,844	10.92%	216,643	8.17%	0	0.00%	2,110,417	10.35%
New Construction	0		0		0		0		0	
Net Absorption	67,055		-245,873		-7,248		0		-186,066	
Gross Absorption	143,096		277,354		40,146		0		460,596	
2Q07										
Total Available	427,219	11.41%	1,703,699	12.18%	212,393	8.01%	0	0.00%	2,343,311	11.50%
New Construction	0		0		0		0		0	
Net Absorption	90,674		4,313		-26,094		0		68,893	
Gross Absorption	141,229		219,856		19,220		0		380,305	
1Q07										
Total Available	500,353	13.36%	1,973,104	14.11%	143,926	5.43%	0	0.00%	2,617,383	12.84%
New Construction	0		0		0		0		0	
Net Absorption	-16,154		95,006		-18,813		0		60,039	
Gross Absorption	105,811		158,891		5,660		0		270,362	

PALO ALTO	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	857,074	14.05%	118,317	1.15%	137,509	10.86%	27,443	8.91%	1,140,343	6.35%
New Construction	70,000		0		0		0		70,000	
Net Absorption	-41,179		25,540		0		0		-15,639	
Gross Absorption	137,243		167,467		10,500		0		315,210	
3Q07										
Total Available	761,579	12.63%	227,221	2.21%	132,609	10.48%	27,443	8.91%	1,148,852	6.42%
New Construction	0		0		0		0		0	
Net Absorption	11,741		-19,549		-21,851		0		-29,659	
Gross Absorption	177,364		230,852		32,000		0		440,216	
2Q07										
Total Available	796,568	13.21%	402,812	3.91%	122,248	9.66%	27,443	8.91%	1,349,071	7.54%
New Construction	0		0		0		0		0	
Net Absorption	51,417		30,331		11,278		0		93,026	
Gross Absorption	209,045		33,435		31,350		0		273,830	
1Q07										
Total Available	816,187	13.53%	460,807	4.48%	144,630	11.43%	27,443	8.91%	1,449,067	8.10%
New Construction	0		0		0		0		0	
Net Absorption	-35,861		101,432		-27,488		0		38,083	
Gross Absorption	127,667		108,282		2,200		0		238,149	

SAN JOSE	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	3,334,315	14.70%	9,661,803	20.40%	1,399,960	6.13%	859,265	5.29%	15,255,343	13.98%
New Construction	0		98,500		0		0		98,500	
Net Absorption	-116,115		-216,875		-62,224		-130,830		-526,044	
Gross Absorption	340,737		711,498		261,840		415,032		1,729,107	
3Q07										
Total Available	3,051,370	13.45%	9,675,504	20.47%	1,430,436	6.27%	747,235	4.60%	14,904,545	13.67%
New Construction	0		0		0		0		0	
Net Absorption	7,187		-163,377		-26,587		110,232		-72,545	
Gross Absorption	453,627		1,059,941		238,959		333,384		2,085,911	
2Q07										
Total Available	2,878,920	12.69%	9,914,211	20.97%	1,373,103	6.02%	954,755	5.88%	15,120,989	13.87%
New Construction	0		0		0		0		0	
Net Absorption	-109,259		-20,586		19,979		-45,739		-155,605	
Gross Absorption	408,720		540,872		273,159		81,649		1,304,400	
1Q07										
Total Available	2,969,199	13.09%	9,505,677	20.11%	1,267,762	5.56%	1,044,576	6.43%	14,787,214	13.56%
New Construction	0		0		0		0		0	
Net Absorption	451,173		160,668		183,108		164,606		959,555	
Gross Absorption	842,836		923,612		378,081		234,474		2,379,003	

SILICON VALLEY MARKET STATISTICS

SANTA CLARA	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	1,575,659	17.23%	3,110,937	14.26%	780,357	7.07%	93,256	2.89%	5,560,209	12.29%
New Construction	0		0		0		0		0	
Net Absorption	-33,549		-126,356		-12,457		55,000		-117,362	
Gross Absorption	202,760		188,124		253,395		124,740		769,019	
3Q07										
Total Available	1,678,199	18.36%	2,835,236	13.00%	821,217	7.44%	93,256	2.89%	5,427,908	12.00%
New Construction	0		0		0		0		0	
Net Absorption	60,907		351,007		-51,702		27,800		388,012	
Gross Absorption	300,594		542,865		103,690		27,800		974,949	
2Q07										
Total Available	1,695,956	18.55%	3,307,077	15.16%	616,006	5.58%	121,456	3.76%	5,740,495	12.69%
New Construction	0		0		0		0		0	
Net Absorption	-169,554		40,706		39,903		-22,000		-110,945	
Gross Absorption	86,896		201,360		250,367		0		538,623	
1Q07										
Total Available	1,416,208	15.49%	3,155,420	14.46%	518,115	4.69%	99,456	3.08%	5,189,199	11.47%
New Construction	0		0		0		0		0	
Net Absorption	-77,941		156,545		2,414		0		81,018	
Gross Absorption	121,952		415,494		188,719		0		726,165	

SUNNYVALE	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q07										
Total Available	839,047	15.41%	54,934	11.99%	410,070	12.24%	54,934	2.11%	1,358,985	11.81%
New Construction	0		0		0		0		0	
Net Absorption	-95,109		58,665		-168,763		-1,320		-206,527	
Gross Absorption	101,635		466,140		25,404		0		593,179	
3Q07										
Total Available	855,434	15.72%	0	11.74%	252,951	7.55%	0	0.00%	1,108,385	11.09%
New Construction	0		0		0		0		0	
Net Absorption	-22,889		284,216		-20,957		0		240,370	
Gross Absorption	14,956		641,746		10,973		0		667,675	
2Q07										
Total Available	852,387	15.66%	0	13.51%	266,652	7.96%	0	0.00%	1,119,039	12.31%
New Construction	0		0		0		0		0	
Net Absorption	9,907		150,050		7,822		0		167,779	
Gross Absorption	38,008		310,037		53,193		0		401,238	
1Q07										
Total Available	927,464	17.04%	0	14.76%	283,461	8.46%	0	0.00%	1,210,925	13.41%
New Construction	0		0		0		0		0	
Net Absorption	20,443		-240,447		-8,396		0		-228,400	
Gross Absorption	40,019		140,610		28,884		0		209,513	

SELECTED OFFICE MARKET STATISTICS

	Existing Properties								Absorption	Rents
Class	Bldgs	Total Inventory Sq. Ft.	Available Direct Vacant Sq. Ft.	Available Sublease Vacant Sq. Ft.	Vacancy Rate	Available Direct Occupied Sq. Ft.	Available Sublease Occupied Sq. Ft.	Availability Rate	Net Absorption Current Qtr Sq. Ft.	Avg Asking Rate
DOWNTOWN SECTION										
Downtown San Jose										
A	52	3,046,777	285,870	3,113	9.48%	15,226	9,546	10.30%	-10,562	$2.98
B	45	1,897,617	274,930	0	14.49%	34,895	9,871	16.85%	-49,689	$2.31
C	97	2,330,179	381,319	0	16.36%	214,906	24,269	26.63%	-5,133	$1.87
Total	194	7,274,573	942,119	3,113	12.99%	265,027	43,686	17.24%	-65,384	$2.31
SUBURBAN SECTION										
San Jose										
A	131	6,862,473	472,645	20,004	7.18%	344,558	116,435	13.90%	2,612	$3.07
B	207	6,678,751	586,694	3,221	8.83%	212,665	69,697	13.06%	-62,036	$2.15
C	139	1,863,158	139,796	0	7.50%	112,710	1,945	13.66%	8,693	$1.92
Total	477	15,404,382	1,199,135	23,225	7.94%	669,933	188,077	13.51%	-50,731	$2.59
Santa Clara										
A	38	4,431,204	298,966	108,242	9.19%	50,422	145,644	13.61%	944	$2.99
B	97	4,050,125	671,509	22,500	17.14%	65,725	107,063	21.40%	-29,430	$2.20
C	32	660,949	72,439	0	10.96%	33,149	0	15.98%	-5,063	$1.93
Total	167	9,142,278	1,042,914	130,742	12.84%	149,296	252,707	17.23%	-33,549	$2.52
Palo Alto										
A	35	2,771,992	83,697	0	3.02%	203,242	355,909	23.19%	-25,965	$5.54
B	40	2,400,415	67,835	6,823	3.11%	67,502	11,290	6.39%	-20,341	$4.71
C	14	929,756	52,416	0	5.64%	5,300	3,060	6.54%	5,127	$4.16
Total	89	6,102,163	203,948	6,823	3.45%	276,044	370,259	14.05%	-41,179	$5.22
Cupertino										
A	7	632,165	0	0	0.00%	0	84,947	13.44%	0	$3.55
B	31	2,362,555	141,977	0	6.01%	8,797	0	6.38%	9,174	$3.19
C	3	205,495	2,638	0	1.28%	0	0	1.28%	-1,430	-
Total	41	3,200,215	144,615	0	4.52%	8,797	84,947	7.45%	7,744	$3.32
Sunnyvale										
A	6	3,599,309	315,045	0	8.75%	8,817	218,402	15.07%	-106,714	$3.39
B	24	1,372,356	116,048	0	8.46%	18,365	33,566	12.24%	3,437	$2.61
C	17	471,440	33,804	0	7.17%	0	95,000	27.32%	8,168	$2.52
Total	47	5,443,105	464,897	0	8.54%	27,182	346,968	15.41%	-95,109	$3.19

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General Terms

Availability: Vacant or occupied space that is offered for lease, sublease or sale (to an owner-occupant).

Build-to-Suit: A developable parcel that an owner will improve to suit the needs of a particular tenant. Construction does not begin until a tenant has committed to the property.

Building Base: Total square footage developed. Colliers tracks office buildings from 3,000 square feet, R&D from 5,000 square feet, industrial buildings from 7,500 square feet, and warehouse buildings from 10,000 square feet.

CBD: Central Business District, generally the downtown area of a major city.

Completed Construction: Construction which is completed during the period.

Direct Space: Space available through a landlord/owner.

Effective Net Absorption: Effective net absorption is a Colliers measurement of the net change in available space during a given period of time after adjustments for space taken off the market. Effective net absorption utilizes the same formula to measure change of occupancy as net absorption except that it treats any newly available space, whether available direct or for sublease, *as if it is coming onto the market vacant.*

Gross Absorption: The total square footage sold (to owner/occupants) or leased during a given time period.

Net Absorption: The net change in occupied space during a given period of time.

PSF: Per square foot.

PSF/MO: Per square foot per month.

SF: Square foot or square feet.

Silicon Valley: Colliers International defines Silicon Valley as all of Santa Clara County plus Fremont, for the purposes of its market reports.

Speculative Construction: Construction that will commence without any prior commitment from a tenant.

Sublease Space: Space available through a sublessor to a fourth party.

T.I.s: Tenant Improvements are a dollar amount offered by the lessor generally for the construction or modification of the premises.

Total Available: The sum of available direct and available sublease space.

Vacancy: Percentage of vacant inventory available including both vacant direct, and vacant sublease space.

Product Classification

Class "A" Office: Modern, steel-framed low, mid or high-rise structures used exclusively for office tenants.

Class "B" Office: Wood and steel mix framed low to mid-rise structures and older brick or concrete structures used predominately for office.

Industrial/Light Industrial: Buildings with drive-in and/or dock-high truck capabilities, clear heights of less than 20 feet and parking ratios of 2.0/1,000 or less.

Research and Development (R&D): One to three story structures with extensive glass, heavy office buildout and 3.5/1,000 parking ratio. Buildings may include high-end production facilities, laboratory space and grade level truck doors.

Warehouse/Distribution: Buildings with a minimum 20-foot clear height, dock-high truck loading and parking ratios of 2.0/1,000 or less.

Rental Terms

CAM: Common area maintenance charge. Generally used in Industrial Gross and NNN leases where the tenant pays a share of the costs associated with the maintenance of the common areas.

Full Service: Rental type generally used in office product where the landlord's rental rate contains all costs associated with occupying the premises inclusive of taxes, insurance, maintenance, janitorial, and utilities.

Industrial Gross: Rental type generally used in industrial product where the landlord's rental rate contains all costs associated with occupying the premises inclusive of taxes, insurance, and maintenance.

Rental Rates: All rental rates for office space are calculated on a Full Service basis unless otherwise noted. All rental rates for R&D, industrial and warehouse space are calculated on a NNN basis unless otherwise noted.

Triple Net (NNN): Rental type where the tenant pays rent to the landlord and additionally assumes all costs regarding the operation, taxes and maintenance of the premises and building.

UNDERSTANDING ABSORPTION

Colliers uses several measurements to track market conditions and deal flow. While related, the formulas to arrive at these measurements differ. Using the results of the most recent quarter, here is how Colliers measures change in availability, net absorption and effective net absorption.

Change in Availability: This measurement is simply the difference between the amounts of space available at the end of one period to the next. The table below shows that total available space was reduced by 3.67 million square feet in 2007. Note that "change in availability" includes adjustments for space that is "taken off the market". Space "taken off the market" is not a factor in net absorption measurements.

Total Available end of 2006	44,564,660
Plus: Vacant & occupied space that came available in 2007	24,257,366
2006 Available + Newly Available in 2007 =	68,822,026
Less: 2007 Gross Absorption	**-22,557,101**
Less: 2007 Taken off the Market	-5,374,333
Total Available end of 2007	**40,890,592**

Net Absorption: Net absorption measures the change in occupied space from one period to the next. In this measurement, it is important to distinguish that a building may be "available", but not vacant (often the case in a sublease situation, for example). Therefore, occupancy is not reduced (negative net absorption) until the space is vacated, and sometimes that does not happen until the space is leased, creating a net absorption "wash" for the deal and for that particular period.

Vacant space that came available 2007	-12,937,345
Previously available space that was vacated in 2007	-8,776,492
2007 Total Vacant Added (occupancy loss)	**-21,713,837**
2007 Gross Absorption (occupancy gain)	22,557,101
2007 Net Absorption (change in occupancy)	**843,264**

Effective Net Absorption: In 2003, Colliers created a measurement of "effective net absorption" to help account for large amounts of sublease space that had come on the market without adversely impacting net absorption (because much of this sublease space was technically still occupied). Effective net absorption uses the same formula as net absorption, except that it treats any space that comes available as if it is vacant, whether it is or isn't. The purpose of the measurement is to get a better "real time" gauge of space movement on and off of the market.

The use of effective net absorption is most relevant in quarterly snapshots and when sublease offerings are high. Effective net absorption does not reconcile at a later date when available space is taken off the market or when current occupants end up renewing. Neither of those events impact net absorption, but they will have already been recorded as negative effective net absorption. For that reason, its measurement over extended periods of time in not advised and Colliers is not presently recording it or reporting on it on it in any annualized fashion.

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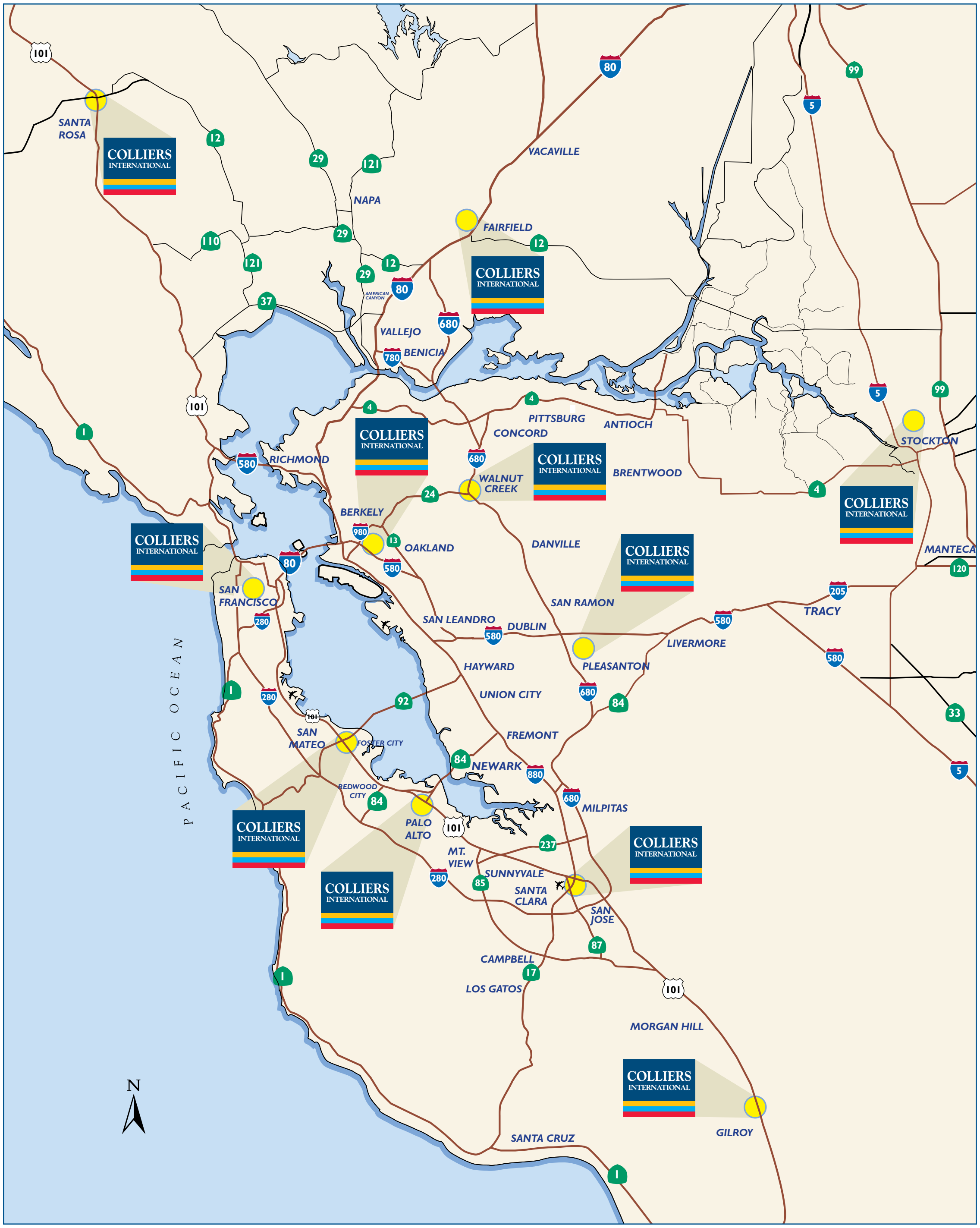

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