



SAN JOSE/SILICON VALLEY

2008-2009 Market Report & Forecast

TRUST HONESTY INTEGRITY RESPECT FAMILY GENEROSITY PROFESSIONALISM

# TABLE OF CONTENTS



## About the Newsletter

This newsletter represents the eightieth 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 more 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. In addition you may send your e-mail inquiry to [jdizon@colliersparrish.com](mailto:jdizon@colliersparrish.com). We look forward to supporting your specific needs.

Colliers International - Introduction	1
The Year in Review	2
Observations & Forecasts	4
Silicon Valley Space Summary	9
Silicon Valley Research & Development	11
Silicon Valley Office	15
Silicon Valley Industrial	19
Silicon Valley Warehouse	23
Silicon Valley Investment	26
Silicon Valley Retail	28
Silicon Valley Market Statistics	30
Selected Office Market Statistics	37
Brokerage Profile	38

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# The Bottom Line

With the dust starting to settle, it's important to note that commercial real estate firms were not left out of the latest frenzied effort to leverage prosperity. Some firms undertook wild growth plans and made acquisitions at record multiples of inflated earnings. We witnessed huge accumulations of debt, enormous cash incentives for broker recruits and equity stakes to pioneer new offices. The intentions were good-bigger infrastructures with wider service platforms, overnight growth through acquisitions and new dots on the map via regional growth into smaller markets-all for the sake of a bigger bottom line.

We are now seeing the fruit of these aggressive efforts to leverage prosperity. The debt is due; the stock is trading near its all-time low; acquisitions that happened are being met with a culture clash and those that didn't happen left a bad aftertaste; cash and equity incentives are a slap in the face to loyal veterans and new sales offices are struggling for market share. It has been a wild ride for our industry and every firm is impacted at some level.

Commercial real estate firms are all going to be managing their 2009 budgets with significantly leaner income streams than in the last two years. In that regard, we are all in the same boat and trying to do it with the financial and personnel burdens noted above is not something to

be envied. I am pleased to report that those are not challenges facing us in 2009.

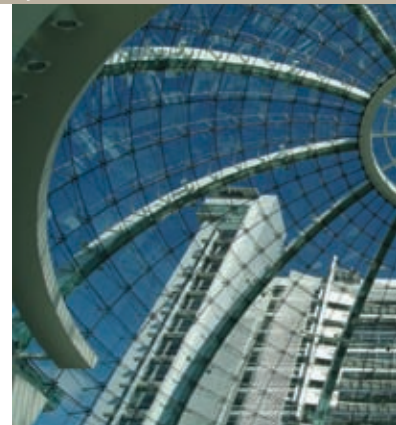
With our completed 2009 budgets, Colliers has the luxury of focusing on our client needs and not on how to stop the bleeding. Fortunately, we are debt free, our organization is relatively flat and our bottom line is not dictated by Wall Street, by a financial partner or a single owner for that matter. Our 11-office company is owned by 86 of our brokers and is led by a management team and a Board of Directors who understand the business and just want Colliers Parrish to be a great place to work for elite, entrepreneurial brokers. Our Colliers global platform is not perfect, but it is the best delivery vehicle to service most any market around the World.

As much as 2009 can possibly be, it will be "business as usual" for us and that is a great feeling. We continue to build upon our resources and we invest in our brokers so that they can get their jobs done under difficult circumstances. Our client events are all on the calendar and we continue to give back to our communities through our Links for Life Foundation that has raised nearly \$500,000.00 for children's causes since its formation in 2007. The bottom line is, Colliers continues to be a great place to bring your business in 2009.

*We look forward to competing in what is sure to be an exciting and challenging year!*



Jeff Fredericks, SIOR  
Senior Managing Partner



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# THE YEAR 2008 IN REVIEW

## January 2008

- Shorenstein Properties, LLC acquires 601 California Avenue in Palo Alto, an office building leased fully from Stanford University. The 112,000 square foot building was leased by Wilson Sonsini Goodrich & Rosati at the time of sale.
- The largest mortgage lender in the U.S., Countrywide, that pioneered sub-prime mortgages, is bought by Bank of America for \$4 billion after its shares plunge 48%.
- Oracle Corporation agrees to buy BEA Systems Inc. after a months-long dispute over the value of the company. Oracle agrees to pay \$19.375 per share for BEA, higher than the previous \$17 a share bid, but lower than the demanded price of \$21 per share by BEA's board.
- Meg Whitman, eBay Inc.'s CEO for nearly ten years, announces plans to resign March 31. John Donahoe, who oversees eBay's auction business is named as her replacement.

## February 2008

- Microsoft publicly announces an unsolicited \$44.6 billion cash-and-stock bid to acquire Yahoo!
- Legacy Partners purchases 900-910 East Hamilton Avenue in Campbell for \$126 million. The two-building office project totaling 350,000 square feet is acquired from the Ohio State Teachers Retirement System.
- In an effort to boost the economy, President Bush signs a \$168 billion economic stimulus package. The measure will extend rebates to taxpayers, tax breaks to businesses and allow Fannie Mae and Freddie Mac to buy loans up to \$729,750.
- The European Union (EU) fines Microsoft a record 899 million Euros (\$1.4 billion) for failure to comply with the 2004 antitrust ruling. The fine is the largest ever handed to a single company in an EU antitrust case.

## March 2008

- The Federal Reserve approves a \$30 billion loan to JPMorgan Chase so it can take over Bear Stearns, which is on the verge of collapse. The Fed had hoped the acquisition would avert a financial panic. Bear Stearns sells for one-tenth of its market price.
- Global stock market falls after hearing of weakening U.S. economy – Tokyo's Nikkei down 4.5% and India's Sensex Index down at least 5%.
- The San Francisco Building Inspection Commission unanimously votes to adopt a green building code. The sustainability ordinance includes requirements of all new commercial buildings and major renovations over 25,000 square feet to be certified LEED Gold and high-rise residential buildings to be certified LEED Silver.

- Hewlett-Packard announces plans to vacate nine buildings in Palo Alto and Cupertino. All nine buildings are owned by the company and Hewlett-Packard reports no job losses are associated with the transitions.

## April 2008

- Federal Reserve chairman Ben Bernanke announces that a recession in the economy is now a real possibility. The Federal funds rate has dropped more than 50 basis points since 8/07 to 2.25%.
- Centex Corporation sells Plant 51, a 265-unit condominium project near downtown San Jose, to a joint venture of buyers that includes Farallon Capital Management of San Francisco. Plant 51, the former Del Monte cannery, was 70% complete at the time of sale and Centex failed to sell a single unit after spending more than \$100 million over four years.
- San Mateo City Council approves the site plan for the Bay Meadows site, the former 84-acre racetrack. The plan includes 93,000 square feet of retail space, 75,000 square feet of office space, 400 residential units and a 12-acre park.

## May 2008

- Brocade Communication Systems, Inc. purchases approximately 6.9 acres off North 1st Street in San Jose from Hunter Storm Development/MacFarlane Partners for construction of 562,000 square feet in three buildings. Brocade also has a 4-year option to purchase an additional four acres.
- The Fed cuts its growth forecast to a new range of 0.3%-1.2%, down from the 1.3%-2.0% predicted in February and also announces that the unemployment rate could reach 5.7%.
- San Jose City Council unanimously approves the sale of 66 acres located near the San Jose Airport, to a group of investors led by Lew Wolff and John Fisher, owners of the San Jose Earthquakes. They are proposing to develop 1.5 million square feet of office/R&D space, 300 hotel rooms and close to 100,000 square feet of retail space. Eighteen acres will be reserved for an 18,000-seat soccer stadium.

## June 2008

- City of Palo Alto adopts mandatory green building requirements for both residential and commercial developments, becoming the first city in Silicon Valley to have this type of mandate.
- Yahoo! and Google enter a non-exclusive agreement to allow Google to run advertisements on Yahoo's web properties. The agreement is estimated to generate approximately \$800 million a year to Yahoo!
- Google leases 42.2 acres of unimproved land at NASA Ames Research Center to construct up to 1.2 million square feet of

office and R&D facilities in a campus-style setting. Construction will proceed in three phases beginning in 2013.

- VeriSign, Inc. sells 675 & 685 East Middlefield Road in Mountain View, approximately half of the headquarters campus they acquired from Sobrato Development Companies in 2001. VeriSign will lease back 159,000 square feet from the buyer, Prudential Realty Investors.

### July 2008

- Hayward-based Mervyn's files for Chapter 11 bankruptcy, announcing that it will close about a dozen stores.
- Brocade Communications announces a definitive agreement to acquire Foundry Networks. The acquisition will create a stronger data center competitor to Cisco Systems.

### August 2008

- Lehman Brothers, the fourth-largest investment bank in the U.S., is in talks for potential sale of its \$40 billion portfolio of commercial real estate and securities. The portfolio includes roughly \$10.4 billion in real estate assets with the balance made up of mortgages and mortgage-backed securities.
- U.S. unemployment rate hits a four-year high at 5.7%.
- The U.S. deficit is estimated to hit \$400 billion by end-of-year, the largest since 2004.
- Snell & Co. and RREEF purchases an office building from Symantec Corporation. The vacant 90,000 square foot building is located on Torre Avenue in Cupertino.

### September 2008

- San Carlos-based Tesla Motors signs a 40-year lease for 90 acres of land in North San Jose. Tesla is proposing to build a 600,000 square foot plant and move its headquarters to San Jose.
- The U.S. government agrees to take over Freddie Mac and Fannie Mae via the purchase of MBS (an estimated cost of \$25 billion). Freddie and Fannie will be administered by the Federal Housing Finance Agency until a suitable decision is reached for their long-term future.
- Merrill Lynch & Company agrees to sell itself to Bank of America for approximately \$50 billion, a move to avoid financial crisis. On the same day, Lehman Brothers files for Chapter 11 bankruptcy protection, the largest bankruptcy in U.S. history.
- The U.S. government seizes control of American International Group, Inc. (AIG) to prevent the insurer from failing into bankruptcy. The Fed will lend up to \$85 billion to AIG while the U.S. government gets 79.9% equity stake in the insurer.

- On Monday, September 29, the Dow Jones industrial average fell 777.68 points, the largest one-day point drop, eclipsing the record point drop after the September 11, 2001 terrorist attacks.

### October 2008

- Mervyn's files for Chapter 7 bankruptcy, closing all of its stores and affecting more than 3,000 employees in Northern California.
- Yahoo! announces it will lay off 10% of its workforce, or about 1,500 people, as sales decline for the third consecutive quarter.
- Tesla Motors announces layoffs and is putting its plans for the North San Jose factory on hold, and closing some of its other offices.

### November 2008

- Barack Obama is elected the 44th President of the United States.
- Measure B passes and will authorize a one-eighth-cent sales tax in Santa Clara County to fund the maintenance and operating cost of the 16-mile BART extension to San Jose.
- San Jose-based Cisco Systems announces that it intends to trim \$1 billion from its expenditures and also freezes hiring. The cost cuts will come from limiting travel, events and relocations. Cisco is the largest employer in Santa Clara county.
- Jerry Yang, co-founder of Yahoo!, steps down as Yahoo! CEO. He will return to his former role as "Chief Yahoo!" and continue to serve on the Board of Directors. He assumed the role in June 2007 by the request of the Board.

- Circuit City, the Nation's second-largest electronics retailer, declares Chapter 11 bankruptcy, announcing that it will close 155 of its more than 700 stores. The closures will affect about 17% of its workforce.

### December 2008

- Santa Clara-based NVIDIA receives city council approval for the construction of a nearly 2 million square-foot campus on the site of the current San Tomas Business Park. NVIDIA acquired the 35.6-acre property earlier this year from Harvest Properties and Black Rock for nearly \$150 million.
- The Federal Reserve cuts interest rates to a record-low 0.25%. The Fed expects to keep interest rates at "exceptionally low levels for some time".
- President Bush unveils rescue of the U.S. auto industry, lending General Motors and Chrysler \$17.4 billion to survive the next three months.



OBSERVATIONS  
& FORECAST

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## Press the Reset Button

What can be said about 2008 that hasn't already been said, rehashed and analyzed ad nauseam? The experts continue to hypothecate about "how bad it's going to get" and "how long is it going to last", while the rest of us are trying to weather a storm that is made worse by the fear that accompanies it. Our entire Nation has been awakened to the reality of our excesses and has started to move prudently to rein-in our seemingly-insatiable consumption - all necessary actions that have the unintended consequence of deepening the hole that we eventually need to climb out of.

The good news is that we are a rich and growing Nation that has seen hard times before. We know that our economy is cyclical and we all knew-at least intuitively-that our wealth could not climb at that rate forever. Frankly, our hope now is that like a roller coaster, the drop will be much faster than the climb so that we can begin looking ahead again and planning for the next period of growth. Nowhere is that more evident than in Silicon Valley, the epicenter of technological innovation. Silicon Valley companies will eventually be a big part of the solution-the jobs, business spending, new ideas, new companies...that will be counted on during the Nation's recovery.

### The Economy

The financial crisis that started with the residential meltdown has grown and spread into a global economic crisis. Global credit markets remain largely frozen and the private sector has been squeezed as spending and demand is squashed. The loss of wealth has resulted in a self-feeding downward spiral that impacts nearly everyone. The signs were there even before we kicked off 2008 and indeed we have since discovered that according to the National Bureau of Economic Research, the U.S. has been in a recession since December of 2007.

Forecasts for real gross domestic product in 2009 range from a 2.8% decline to 0.2% growth, with the consensus that real GDP will fall 1.6%, according to the Blue Chip Economic Indicators poll of 52 economists. Sharp declines in trade, investment spending and consumer consumption are expected to last at least through mid-year before any possibility of growth can return and begin to unwind the declines posted over the first half of the year.

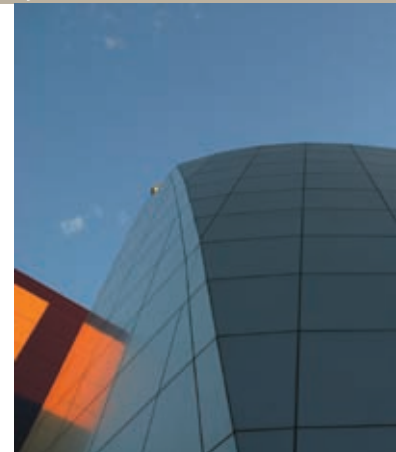
Credit Suisse reported in November that more than 8 million homes will go into foreclosure by 2013, representing 16% of all U.S. households with mortgages. Home prices are now back to their levels of March 2004 nationally and could go lower. A 40% decline may seem extraordinary, but it would only drop prices back to early-2002 levels.

The collective amount of wealth that has been sucked out of U.S. households in the form of falling asset prices is estimated to be \$7 trillion since the third quarter of 2007. A drop in consumer spending was the "other shoe" that we talked about a year ago and that shoe has indeed dropped with a resounding *thud*. Consumer spending dropped in each of the last five months of 2008, although it was somewhat encouraging that consumer spending dropped less in Q4 2008 than in Q3. According to Beacon Economics, "We are at the end of a twelve-year consumer spending party. We need to deal with the hangover and move forward."

Business is retrenching across all sectors. Business orders dropped to all-time lows in the fourth quarter. Capital investment plans have decreased and are expected to decline some 13% in 2009. On the upside, contraction in business investment is not expected to be a free-fall in 2009. Many companies got a big head start when they began shedding overhead aggressively more than a year ago.

Global economies, which were counted on to be the savior for the U.S. economy, have become an anchor in their own right and are now contributing to a growing trade deficit. Most European economies are now in a recession. All of Asia has been hurt by reduced trade flows compounded by the credit crunch. According to Economy.com, 670,000 companies closed their doors in China alone in 2008, eliminating more than 10 million jobs. This impact is being felt around the globe, as many companies are major trading partners with China. The impacts are self-evident in Silicon Valley where weaker global investment is particularly hard on the high-tech industry.

Industrial production declined at an annualized rate of 8.8% in the third quarter of 2008 and 11.5% in the fourth quarter, the deepest contractions in output since WWII and twice as fast as at any time



*In California, the statewide unemployment rate rose by nearly 1% in December to 9.4%. According to Jon Haveman of Beacon Economics, "We are very close to 10% and the likelihood of exceeding 10% is almost 100% in the next two to three months". Santa Clara-San Benito Counties gave up 6,100 jobs in December and the unemployment rate increased from 7.2% to 7.8%; the highest rate in six years.*



*Semiconductor demand, always watched closely in Silicon Valley, is on the slide as well. Sales of semiconductors dropped 9.8% globally in November. According to SEMI, chip-equipment sales are expected to drop 21% in 2009 on the heels of a 28% decline in 2008.*

during the 2001 recession. Manufacturing output was down 10% overall in 2008 and has declined in five consecutive quarters. While the auto industry's slide is driving the downturn, weakness in high-tech production has also intensified in recent months. All indicators point to further reductions in production at least through the first half of 2009.

Earnings estimates for the S&P 500 have been cut by 50% from early 2007 levels with projections for 2009 suggesting another 12% drop. Hopes that the market will begin to rebound in the second quarter of 2009 could be undermined by disappointing Q1 earnings reports that spearhead further retrenching. Should that happen, it will make a second-half rally less likely and increase the probability of a longer and deeper recession.

Unemployment is now expected to grow to 10% in 2009 when forecasts were typically below 7% as recently as last summer. Payroll employment declined by 524,000 jobs in December alone with the total number of jobs lost in 2008 totaling 2.59 million; the most since nearly 2.0 million defense jobs were cut in a single month at the end of WWII. According to Economy.com estimates, another 2.7 million jobs are expected to be lost in 2009 and nearly 5.9 million U.S. jobs will be lost in total by that time.

Viewpoints on the stock market are mixed. Many believe that all the bad news has already been priced into the market. Others suggest that the market has not done a good job of pricing bad news, in part because people are jumping back in prematurely so as to not miss out on the next bull run. Recessions produce a 43% drop in the U.S. stock market historically.

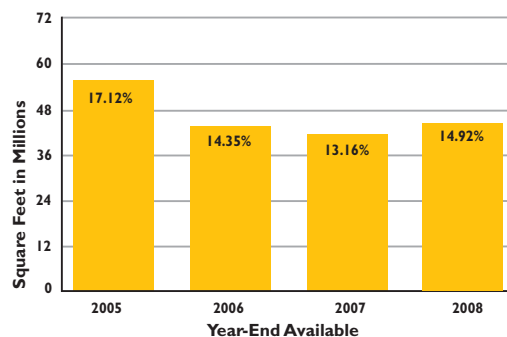
Venture capital spending took a big hit in 2008 as investors tightened their belts and focused on keeping existing venture-backed companies afloat. National Venture Capital Association reported that total U.S. fund-raising dropped by 21.4% in 2008 to \$27.9 billion. According to Dow Jones VentureSource, total liquidity through initial public offerings, mergers and acquisitions was down 58% from 2007 to \$24.1 billion. IPO's were down from 76 to 6 in that same period, with only one of those being a Silicon Valley company. This was the fewest venture-backed IPO's since 1977 and 2009 may not be any better. According to Mark Heesen, president of the NVCA, who

represents about 460 venture firms, "We have a responsibility to continue working with those [existing] companies, so there is less time and less money to invest in new companies."

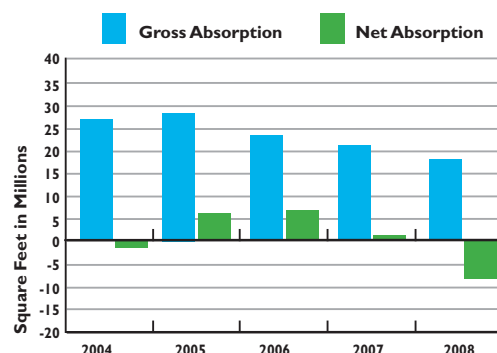
While job losses have been mounting in the Valley, we are not expected to lose the 230,000 jobs we lost in the dot-com crash. Of course, the Valley never recovered a lot of those lost jobs either, in large part because many of them were with companies that had relatively short life spans. Global Insight is calling for 26,000 jobs to be shed in the Valley in 2009. The more fundamental concern for Silicon Valley's economy in 2009 may be capital spending, which persevered through our last recession, but could go on life support this time around.

So, what's the good news? Eventually, more affordable housing and financing rates will get home buyers off the sidelines and will help fuel the recovery. Speaking of fuel, consumers are likely to spend \$200 billion less on energy in 2008 than they did in 2007. That represents a real gain to the consumer's bottom line. Except for most financial institutions, corporations have better

**SILICON VALLEY AVAILABILITY  
ALL PRODUCT TYPES**



**SILICON VALLEY ABSORPTION  
ALL PRODUCT TYPES**



balance sheets going into this recession than the last. Inflation concerns have evaporated in six months time and there is now a growing concern of deflation. Consumer prices dropped 0.7% in December and finished the year with a 0.1% increase, the smallest since 1954.

American workers continue to be productive and that's a positive signal. Productivity increased 3% in 2008 and is expected to grow another 2.5% in 2009. Biotech and Green tech are still in the spotlight and that should continue in 2009 and beyond. Currently, only one in 15,000 properties is LEED certified. Federal mandates, local policy and social initiatives of corporate America are likely to spur tremendous growth in this area. Fenwick & West partner Barry Kramer is optimistic stating, "Silicon Valley will come out of this healthy. What it does-developing new technologies, new ways of doing things-is not going out of style."

Not to be overlooked, the Obama administration will be center stage and in the spotlight, under tremendous pressure to do their part to build upon the government's \$8.6 trillion financial commitment to boost confidence and restore business investment and hiring. As of this writing, President Obama was pushing for an extra \$825 billion in his stimulus package, on top of the \$350 billion in TARP monies.

### **The Commercial Real Estate Market**

Silicon Valley was one of only three metropolitan areas in California not considered to be in a recession as recently as last October, according to Economy.com. Commercial real estate was already feeling the pinch by that time as a result of the financial-markets meltdown. Then in the year's fourth quarter, activity seemingly came to a standstill. That is when economic and commercial real estate concerns collided and it could be that we have a ways to go before we will see real evidence of a recovery for commercial real estate in the Valley.

Coming into 2008, Silicon Valley was already exhibiting declining rates of gross absorption and net absorption had turned negative in the last five months of 2007. Our hope, which was shared by many, was that a mild national recession would leave Silicon Valley largely unscathed and that a lackluster first half of the year would be offset by growth in the second half. The first six months

played out pretty much as we anticipated, but it was also becoming increasingly apparent that news on the economic front was getting worse, not better and that Silicon Valley was not going to be able to escape it.

This cycle is different and just like with the economy, we are in uncharted territory. User-sale activity is down considerably and limited largely to those who qualify for SBA financing. Rents have begun to come down, though stubbornly and there is no technology driving the Valley, although Green tech and Biotech have helped. With the financial crisis as the catalyst, we are witnessing a perfect storm blowing through the Valley. When the market turns, an enormous amount of wealth will once again arise from the Bay Area. Smart money is waiting patiently on the sidelines for the right time to jump back in, but that time may not come until late 2009 or 2010.

Overall gross absorption in Silicon Valley dropped to an all-time low of 18.5 million square feet in 2008. Net occupancy fell by 7.9 million square feet. Based on a six-month run-rate alone, Silicon Valley can expect about 16.5 million square feet of gross absorption in 2009 and about 9.0 million square feet of negative net absorption. Twenty years of history suggest that gross absorption will do better than a six-month run rate. Whether there is enough activity to prevent a 9.0 million square foot occupancy loss will depend on a host of other factors.

Demand will start to increase in earnest once there is a collective belief that our economy and our market has bottomed out. That could start to happen by the second half of the year but will probably not gain significant traction before 2010. Term leases are going to be expiring and even some of the short-term renewals done in the past year will be nearing a new decision point. At the same time, rents are likely to drop further and short term renewals may not be as good of a business decision as they were in 2008. All told, 2009 is not going to be a great year for gross absorption, but a sense of "the worst is behind us" should make the second half of the year better than the first, and will push overall gross absorption close to 19.0 million square feet.

Net occupancy is always more tricky to forecast. Companies have certainly been shedding space to reduce rental costs, to account for reduced

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# OBSERVATIONS & FORECAST



*Where will the opportunities be? Real Capital Analytics estimates that the volume of troubled commercial property could be greater than \$80.9 billion and that is over and above the \$25.7 billion that has already gone into default. Many of those trouble assets will ultimately be the same assets that end up in someone else's hands during the next run-up and the faster that happens, the better. Deals will be made, wealth will be built and just like in every other cycle, "it will be different next time," right?*

headcounts or because they have ceased operating in Silicon Valley. While some of these business decisions were made in 2008, it is certain that more consolidation, layoffs and closures lie ahead. Even when cost-cutting decisions are made, leases need to burn off before facilities-cost efficiencies can be realized. These factors all suggest to us that the supply of space coming back to market is going to accelerate in 2009. As a result, net absorption will very likely be negative in all four quarters of 2009 even if there is a turn for the better in the latter half of the year for the economy. We do not expect negative net absorption to reach an all-time high, but occupancy losses could certainly surpass 7.5 million square feet overall in 2009.

Looking at the four major product types Colliers tracks, no sector will be left unscathed. Office and R&D will be hit hardest, followed by industrial, with the warehouse sector weathering the storm slightly better. Silicon Valley's R&D market outperformed the office sector in 2008, but each of these product categories will be hit as Silicon Valley companies continue to shed space in 2009. R&D gross absorption, which totaled 8.4 million square feet in 2008, will struggle to top 8.5 million square feet in 2009. Available R&D supply is likely to grow by 2.5 million square feet as demand struggles to keep up with a growing supply of space returned to the market.

The office sector has already been hit hard and there may be a shorter distance to travel before this category bottoms out than in the R&D sector. Office gross absorption should rise nominally to 5.5 million square feet in 2009, but an additional occupancy loss of 2.0 million square feet seems likely.

The relative resiliency of the industrial market is

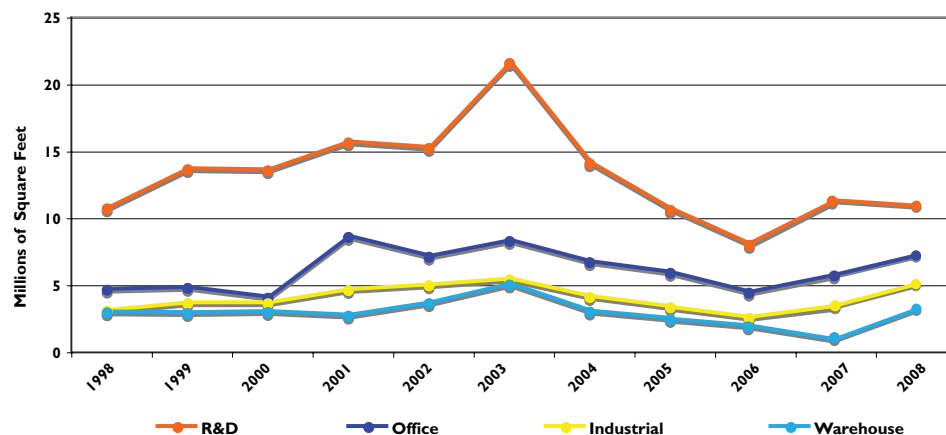
going to be tested in 2009. With every type of company looking to manage expenses, suppliers and manufacturers are going to feel the pinch. Even with another year of 3.0 million square feet of industrial gross absorption, available supply could increase by 2.0 million square feet and raise the industrial availability rate to nearly 13.0%.

A year ago, the warehouse availability rate had dropped to 6.3%. Warehouse availability grew to 7.3% to kick-off 2009 and this rate is likely to increase further in 2009. While it may be a stretch to generate another 2.0 million square feet of warehouse gross absorption in 2009, we do think there will be enough activity to limit occupancy losses to perhaps another 1.0 million square feet.

Rental rates have not yet come down as far as many would have expected by now. Landlords are reluctant to lower asking rates because of limited tenant demand, but landlords are getting more aggressive and that should continue through much of the year. Colliers anticipates that rents could drop by 15% or more in the office and R&D sectors and by 5-10% in the industrial and warehouse sectors.

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**Annual Rollover Space Vacated by Product Type**



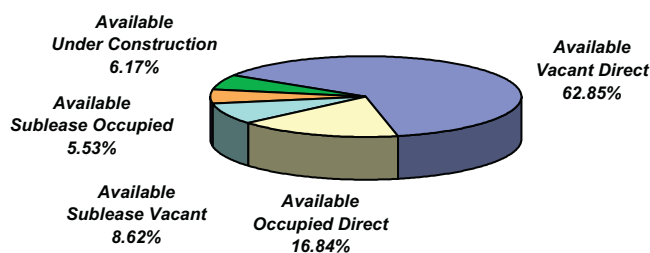
# SILICON VALLEY - ALL PRODUCTS

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MARKET REPORT & FORECAST  
JANUARY 2009

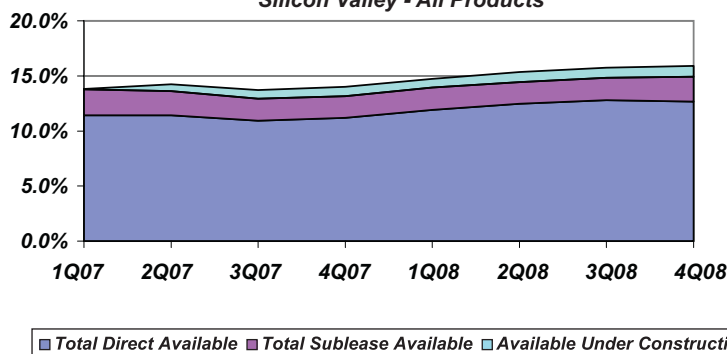
Date	Available Vacant Direct	Available Occupied Direct	Available Sublease	Total Current Available	Vacancy Rate	Availability Rate	Available Under Construction	Current and Pending Availability
4Q 2008	31,172,242	8,353,848	7,015,298	46,541,388	11.36%	14.92%	3,059,296	49,600,684
3Q 2008	30,192,740	9,759,523	6,298,901	46,251,164	10.79%	14.82%	2,920,161	49,171,325
2Q 2008	29,196,863	9,650,613	6,173,773	45,021,249	10.39%	14.44%	2,801,077	47,822,326
1Q 2008	27,225,774	9,942,263	6,287,662	43,455,699	9.73%	13.94%	2,486,105	45,941,804
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

## Breakdown of Available Space

Silicon Valley  
All Products



Availability Rate Breakdown  
Silicon Valley - All Products



	1Q 2007	2Q 2007	3Q 2007	4Q 2007	1Q 2008	2Q 2008	3Q 2008	4Q 2008
<b>Building Inventory:</b>	310,591,758	310,591,758	310,591,758	310,821,023	311,678,386	311,707,886	311,997,064	312,042,969
<b>Availability:</b>	42,779,427	42,299,438	40,177,422	40,890,592	43,455,699	45,021,249	46,251,164	46,541,388
<b>Absorption:</b>								
Gross	5,707,425	4,945,973	6,230,925	5,672,778	5,117,782	4,834,215	4,946,838	3,591,454
Net	1,156,236	687,462	(169,923)	(830,511)	(1,944,195)	(2,498,811)	(696,060)	(2,731,347)
Effective Net	612,743	(732,575)	(508,182)	(1,072,251)	(1,735,940)	(1,028,162)	(1,324,026)	(2,068,404)
<b>Completed Construction:</b>	0	0	0	168,500	600,400	0	440,142	0
<b># of Avails. by Size</b>								
< 10K SF	1646	1711	1733	1834	2062	2035	2277	2470
10K to 29K SF	520	489	520	496	521	528	601	597
30K to 59 K SF	261	247	227	243	240	250	266	256
60K to 99K SF	123	125	116	124	124	126	129	128
100K SF +	56	67	60	60	59	68	63	62

# R&D

*Gross absorption has decreased quarter-by-quarter for six consecutive quarters and in 2008, failed to surpass ten million square feet. In fact, in the past 20 years, gross activity has fallen below the ten million square foot mark only once before, in 2002.*

## R&D Faces Challenges

R&D demand in Silicon Valley continued to sputter in 2008. R&D gross absorption trickled in at a clip of 2.39 million square feet in the first half of the year and then scaled back from there to a 1.79-million square foot quarterly average over the final six months of the year. Gross absorption has decreased quarter-by-quarter for six consecutive quarters and in 2008, failed to surpass ten million square feet overall. In fact, in the past 20 years, gross activity has dropped below the ten million square foot mark only once before, in 2002. All told, the year generated 8.37 million square feet of R&D gross absorption, 31% lower than in 2007.

On the supply side, the amount of pre-existing R&D space that rolled over and was added to the supply pipeline totaled 10.8 million square feet in 2008. This figure is slightly less than 2007, but the demand lag was greater than expected and that was the primary contributing factor to the resulting 2.48 million square feet of negative R&D net absorption. It was the first annual loss of occupancy in the R&D sector since the string of net occupancy losses that occurred from 2000-2004. Available R&D space grew to 26.86 million square feet by year-end 2008, representing a 17.0% R&D availability rate, up from 16.3% at the end of 2007.

In the first half of 2008, the amount of sublease space in the R&D sector dropped to a six-year low of 3.45 million square feet and in the second

half of the year, increased to 4.55 million square feet. That figure is just one-third of the largest R&D sublease total, recorded back in 2002, but with that said total, available sublease space increased by 18% from 2007 and this statistic bears close watch in 2009.

Average starting rents for R&D product increased in the middle of the year and then dropped back in Q4. R&D deals during Q1 2008 had an average starting rent of \$1.21 per square foot NNN and spiked to \$1.27 per square foot in the third quarter. Deals completed in the fourth quarter dropped back to the Q1 average starting rate of \$1.21 per square foot, a 5.5% decrease from the \$1.28 figure recorded in the fourth quarter of 2007.

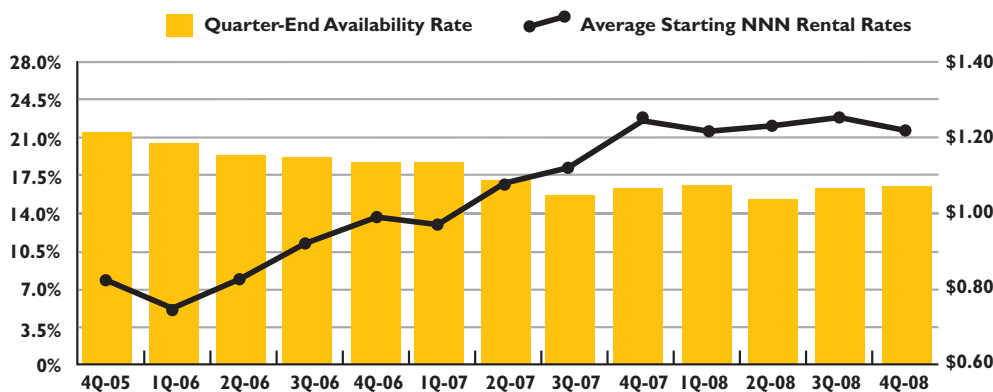
### R&D Hot Spots

While R&D activity slowed considerably in 2008, deals were still being done. R&D activity focused primarily in four submarkets: Fremont, Sunnyvale, Santa Clara and San Jose. These four submarkets accounted for 79% of the R&D gross absorption generated in 2008.

For the past five years, R&D activity in Santa Clara has averaged 1.44 million square feet per year. In 2008, 1.53 million square feet of R&D gross absorption was generated, a 13% increase from the previous year. A slight net loss in occupancy measuring 47,225 square feet was realized in this submarket. Notable deals contributing to Santa

*R&D gross absorption trickled in at a clip of 2.39 million square feet in the first half of the year and then scaled back from there to a 1.79 million square foot quarterly average over the final six months of the year. On the supply side, the R&D availability rate ended the year at 17.0%, a full percent higher than our forecast of 16.0%.*

Silicon Valley R&D Rent vs. Availability Rate Trends





*San Jose's R&D sector generated 2.18 million square feet of gross absorption for the year, the lowest level of activity since 2002, but enough to reduce the R&D availability rate in San Jose below 20% for the first time since 2002.*

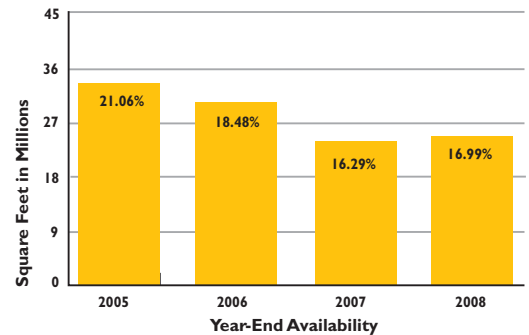
Clara's activity include Data Domain's lease of 100,272 square feet on Mission College Boulevard and Facebook, Inc. leasing 90,780 square feet on Lafayette Street.

San Jose's R&D sector generated 2.18 million square feet of gross absorption for the year, the lowest level of activity since 2002, but enough to reduce the R&D availability rate in San Jose below 20% for the first time since 2002. At the same time, more of this available R&D inventory was being vacated and that produced an occupancy loss for San Jose totaling 374,761 square feet.

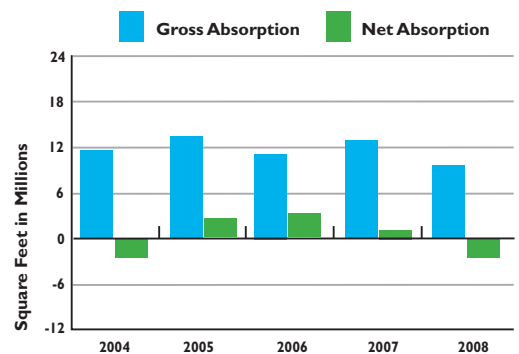
Although leasing activity was down in San Jose, over 1.0 million square feet of gross absorption resulted from deals greater than 50,000 square feet, the most of any R&D submarket in the Valley. These larger R&D deals included Philips Electronics North America Corporation moving into 107,500 square feet on North 1st Street and SVTC Technologies' 87,000 square foot lease on Hellyer Avenue.

Sunnyvale and Fremont both recorded decent R&D gross absorption totals, but year-to-year activity was down nonetheless in each city from 2007. Sunnyvale's R&D gross absorption fell by 6.0% to 1.46 million square feet. Net absorption in Sunnyvale was negative for the first time in six years as an occupancy loss of 124,675 square feet was realized. Fremont posted 1.42 million square feet of gross absorption, a decline of 27% from 2007. The drop-off in R&D activity resulted in a 665,694 square foot loss in occupancy in Fremont's R&D sector, the second consecutive year of negative net absorption and the largest annual loss since 2003.

## SILICON VALLEY AVAILABILITY R&D PRODUCT



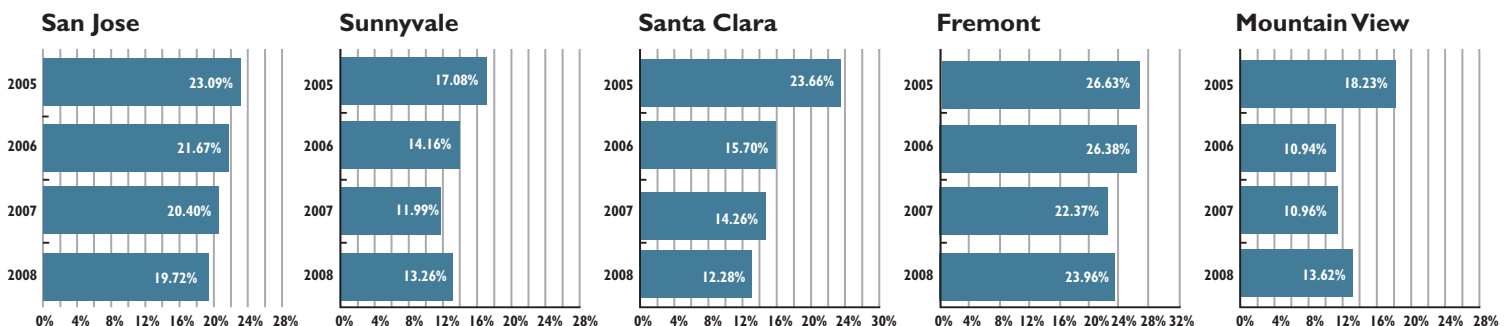
## SILICON VALLEY ABSORPTION R&D PRODUCT



### Looking Forward

In each of the last two years, Colliers forecasted that Silicon Valley's R&D building base would outperform the office sector in relative terms. Reasons were varied but included factors such as a) higher rents would cause a segment of the tenant base to look for more affordable alternatives b) the R&D market was soft and abundant with choices compared to class-A office

## Selected Cities Historical Availability Rate Trends - R&D



space and c) much of the R&D building base had undergone a redevelopment transformation to better accommodate Silicon Valley demand. Our expectations held true, though overall demand was lower in all product types than we forecasted in 2008. 2009 is likely to be a different story and the R&D market is in the crosshairs for a tough year.

Aside from normal demand problems that afflict Silicon Valley in general, the lack of funding for new ventures is going to hurt the R&D market that serves to incubate many of those new and growing companies. At the same time, many smaller companies are going to have a difficult time surviving the year and some will close their doors and pump rollover space back onto the R&D market. The office market will face similar concerns, but to a slightly lesser degree. Service firms that occupy smaller multi-tenant buildings were the first to get hit in the financial collapse and many have already folded their tents or reduced their occupancy needs. Bellwether technology tenants that occupy larger blocks of office space will be looking to reduce their space needs as well, but these firms have the capital and the staying power to get through the coming year and most want to be prepared for the better times that are certain to follow.

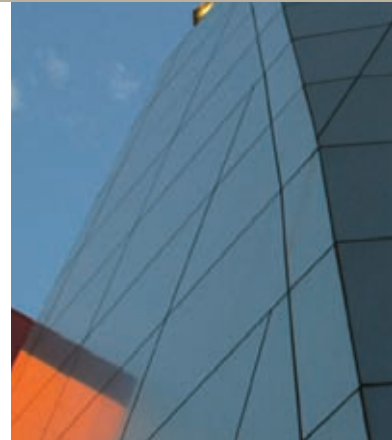
Significant hits to both the supply and demand sides of the R&D sector could result in a tough year for net occupancy. R&D gross absorption will be hard-pressed to exceed 8.5 million square feet without a significant uptick in the second half of the year. The total pipeline of preimproved R&D space that is getting added to supply was about the same in 2008 at 2007, a reassuring sign on the surface, but that is likely to change in 2009.

In part, rollover space did not increase in 2008 because of the *wait & see* mentality that prevailed, causing companies to do short-term renewals rather than move. That supply channel is bound to grow as companies that hunkered down in 2008 start to hunker out in 2009.

The supply pipeline is also growing in the form of sublease offerings. Available R&D sublease space increased in each of the last two quarters of 2008 and was up by 1.0 million square feet, or 32%, from mid-year. Sublease offerings are always a sign of scaling back and typically a precursor to business failures and they are on the rise.

These polarizing supply/demand implications could lead to an increase of R&D available supply by 2.5 million square feet or more in 2009. That represents increased supply of 625,000 square feet per quarter, up from the 478,000-square feet quarterly increase in R&D available space over the last half of 2008. Fortunately, there is very little R&D space under construction to make the supply problem even worse. If our forecast holds true, R&D availability will grow to over 29,000,000 in 2009, representing an availability rate of 18.3%.

With R&D landlords competing for a shrinking piece of the pie, rents are expected to fall. Average starting rents will be impacted by growing competition from sublease offerings as well and could drop by 15% or more in 2009. R&D rents had been holding up pretty well, but average start rates fell 14% from May 2008 through the end of last year. R&D rents could experience another 15% drop to \$1.03 per square foot, NNN in 2009.



*In part, rollover space did not increase in 2008 because of the “wait & see” mentality that prevailed, causing companies to do short-term renewals rather than move. That supply channel is bound to grow as companies that hunkered down in 2008 start to hunker out in 2009.*

## Selected Colliers R&D Transactions

- **Data Domain** signed a long term 100,272 square foot R&D lease at 2441 Mission College Boulevard in Santa Clara. **Sobrato Development Company** is the landlord.
- **SVTC Technologies, LLC** signed an 87,000 square foot R&D lease at 5215 Hellyer Avenue in San Jose. **GRE Hellyer Oaks** is the landlord.
- **Kovio, Inc.** subleased a 95,690 square feet of R&D space at 233 South Hillview Drive in Milpitas. **Exar Corporation** is the sublessor.
- **Philips Electronics** inked a long term 101,582 square foot office/R&D lease at 3860 North 1st Street in San Jose. **Sobrato Development Company** is the landlord.
- **Xenoport, Inc.** renewed on 102,759 square feet of R&D space at 3410 Central Expressway in Santa Clara and leased another 58,744 square feet of R&D space at 3400 Central Expressway in Santa Clara. **Sobrato Interests** is the landlord.
- **TMG Partners** leased 60,318 square feet of R&D space at 625/645 Clyde Avenue in Mountain View. **Access Closure, Inc.** is the tenant.

# OFFICE



# SILICON VALLEY OFFICE MARKET

## Worst May Be Over for Office

As anticipated, the Silicon Valley's office sector experienced a rough 2008. For the year, Silicon Valley generated 4.75 million square feet of office gross absorption, the lowest level of activity in over ten years and below 5.0 million square feet for the first time since 1997. Quarterly office gross absorption kept its head above 1.0 million square feet for the first three quarters, but then dipped in Q4, posting only 789,437 square feet of new office leasing and sales activity to close out the year.

As office demand shrank, the amount of office space being vacated in Silicon Valley grew in 2008. The amount of pre-improved space added to office supply increased by 32% to 7.29 million square feet. Not since 2003 has the annual amount of pre-improved, rollover space grown by more than 7.0 million square feet. From 2001 to 2003, annual pre-improved space added averaged over 8.0 million square feet and in each of those years, office net absorption was negative.

Silicon Valley posted a net loss in office occupancy for the second straight year. Negative net absorption of 2.59 million square feet was realized in 2008, an eleven-fold increase over the 234,559 square foot occupancy loss in 2007. Low demand combined with new construction and a growing supply of available preimproved space served to push the office availability rate from 14.5% to 19.8% over the course of the year.

With respect to net absorption, 2008 shows similarities to the results posted between 2001 and 2003; however, average gross absorption numbers are significantly less today. Office activity averaged 7.14 million square feet per year from 2001-2003, while gross absorption in 2008 was less than 5.0 million square feet. The occupancy loss in 2001-2003 was largely attributable to large amounts of space being vacated after the dot-com crash, while the occupancy loss happening today is more a function of lack of demand, but as noted earlier, the growing pipeline of rollover supply is contributing to the mounting occupancy loss in the office sector.

As forecasted, office rental rates softened in 2008 after they spiked in 2007. The average starting rent for deals during the fourth quarter was \$2.52 per square foot, full service, which was a 6.7% decrease from deals done during the same period of 2007.

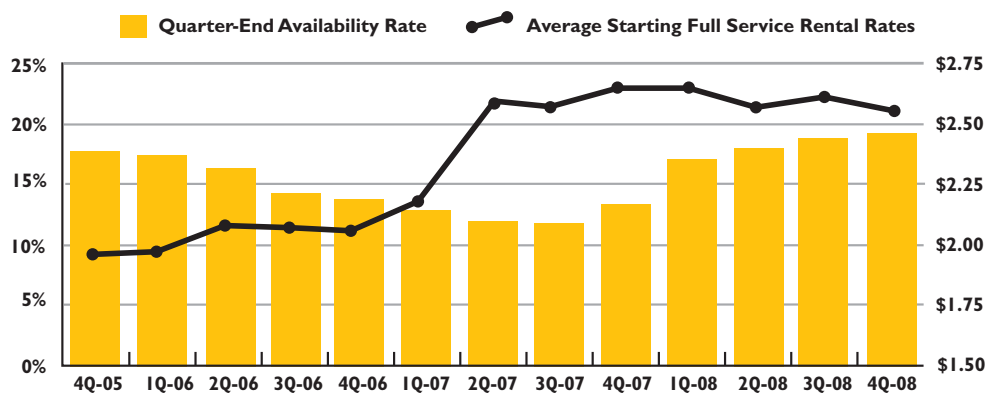
### Hot Spots

Lackluster office demand impacted the Silicon Valley as a whole, but it was most evident in the Valley's largest office market, San Jose. San Jose generated 1.32 million square feet of office gross absorption in 2008, a decrease of 35% from the previous year and the lowest level of activity in over ten years. Deals less than 20,000 square feet made up 92% of San Jose's office gross absorption, compared to 64% in 2007. While all



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Silicon Valley Office Rent vs. Availability Rate Trends



# SILICON VALLEY OFFICE MARKET



*Colliers forecasted that Silicon Valley's office market would be saddled with negative net absorption in 2008 and that availability rates would increase by 2.5 percentage points or more, to 17%. As it turned out, our bearish forecast was realized by the end of the first quarter. All told, office negative net absorption measured 2.6 million square feet for the year and the availability rate swelled to 19.8%.*

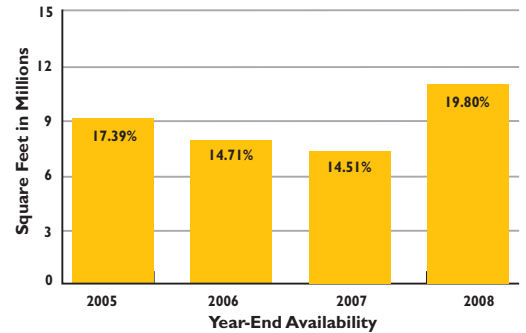
deal flow is a factor in the drop in office activity, the decrease in large deals played a significant role in San Jose's gross absorption results.

In Santa Clara, office gross absorption was up 32% from 2007, to 937,169 square feet. Net absorption was negative for the second straight year, at a 239,469 square-foot occupancy loss. Office deals that contributed to Santa Clara's results include NVIDIA leasing 75,000 square feet on Scott Boulevard, Silver Peak Systems taking 39,500 square feet on Great America Parkway, and Packet Design, Inc. moving into 23,008 square feet on Augustine Drive.

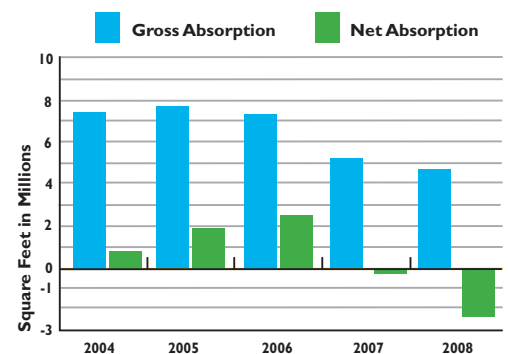
Cupertino's office activity totaled 506,052 square feet in 2008, a 57% increase from the previous year. On the flip side, the supply pipeline also increased and as a result, Cupertino recorded 295,009 square feet of negative net office absorption, the largest annual loss since 2003. Cupertino's office availability rate increased from 7.45% to 13.21% during the year, mostly as a result of some significant blocks of space that became available on Stevens Creek Boulevard and Torre Avenue. Significant 2008 office transactions in Cupertino include Trend Micro subleasing 104,990 square feet on De Anza Boulevard and Apple striking deals for 58,670 square feet and 102,588 square feet on De Anza Boulevard and Homestead Road, respectively.

Sunnyvale and Palo Alto both experienced an increase in office gross absorption from the previous year, but activity remains at historically-low levels. Sunnyvale's office activity increased by 53% to 297,709 square feet in 2008, but still fell well below the prior 10-year average of

## SILICON VALLEY AVAILABILITY OFFICE PRODUCT



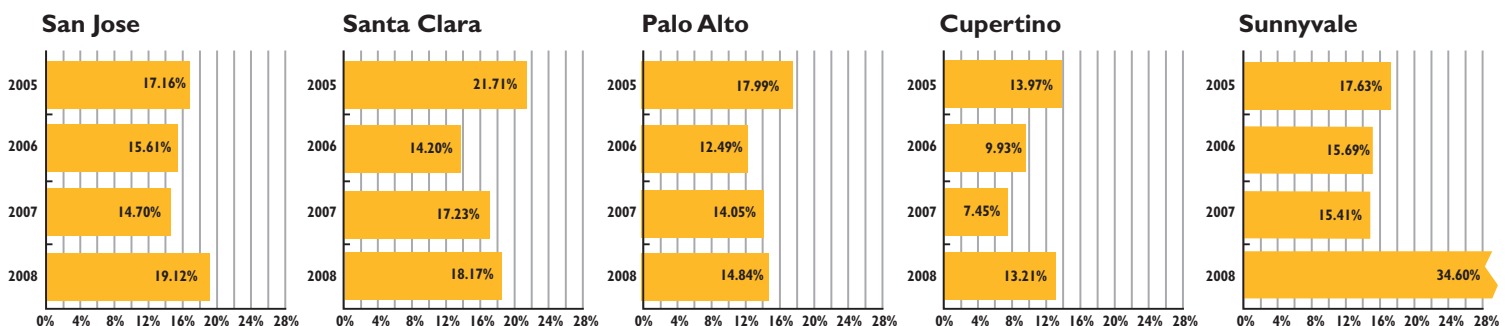
## SILICON VALLEY ABSORPTION OFFICE PRODUCT



648,362 square feet. Total available office space in Sunnyvale more than doubled in 2008, largely due to the addition of almost 1.0 million square feet of new construction to an office building base that totals only 6.4 million square feet. As a result, Sunnyvale's office availability rate stood at 34.60% at the end of 2008.

Palo Alto's office activity increased from 651,319 square feet generated in 2007 to 779,048 square

## Selected Cities Historical Availability Rate Trends - Office



feet generated in 2008; however, negative net absorption of 123,740 square feet was realized in 2008, the third consecutive year of negative net absorption in Palo Alto, where the office availability rate now stands at 14.84%.

### Looking Forward

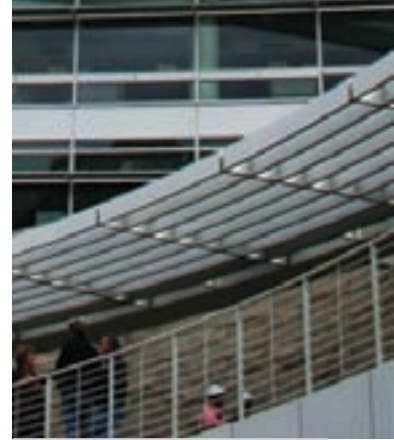
On the heels of a disappointing 2008, the worst is hopefully behind the office market, but there is no near-term signal that fortunes will improve much either. In fact, the supply side still has a pipeline of new construction coming on line to contend with that will increase the building base and vacancy rates even if demand otherwise keeps up with supply, which is not likely to happen. Preimproved, rollover space added to office supply during 2008 was up by 1.8 million square feet from 2007. Demand is slipping as well, as evidenced by the fourth quarter of 2008, which produced just 789,437 square feet of office gross absorption, the lowest single-quarter tally since 791,739 square feet in 1Q01.

On the positive side, sublease inventories have remained relatively flat in the office sector and some of the slowdown in demand may be a temporary hunkering down precipitated by short-term lease renewals. Certainly, sublease offerings will increase in 2009, but for 2008, they only increased by 89,568 square feet over the 1.65 million square feet that was available for sublease to begin the year. On the broader supply front, there are a number of excellent quality properties on the market and downward pressures on rents should result in some significant transactions in 2009 from companies that have shed their excesses and are looking longer term, for good deals.

Colliers estimates that gross absorption of office space will remain lackluster in 2009, but should exceed 5.5 million square feet. Gross absorption totals may hinge on a few large transactions that have been rumored for months. The office sector could get a boost in both gross and net absorption in the event long-anticipated major takedowns of space take place at ripe projects like 488 Almaden Boulevard in San Jose and Jay Paul's Moffett Towers in Sunnyvale. If these deals get done, total activity could easily surpass 6.0 million square feet.

Office net absorption is likely to be negative on the order of 2.0 million square feet or more, with total office space availability expanding to approximately 16.0 million square feet. New construction is compounding the supply problem and as a result, the office availability rate stands a good chance of surpassing the dot-com bust high of 24.4%. Whether that happens or not is going to be largely dependent upon some renewed velocity of large office transactions. Moreover, those deals will need to happen without the offset of an equally large wake of office space that the new occupants leave behind.

Office rents have proved somewhat resilient to market forces that would suggest a greater drop by now, but a downward trend is finally underway and by year-end 2009, average start rates for office leases could fall by 15% or more. While that certainly seems high, it would still leave average starting rents for office space at \$2.15 per square foot, fully serviced, the same figure recorded in the first quarter of 2007.



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## Selected Colliers Office Transactions

- **Trend Micro Incorporated** subleased 104,990 square foot office building at 10201 North De Anza Boulevard in Cupertino. **Blue Coat Systems** is the sublessor.
- **iStar Financial** completed a long term, 102,588 square foot office lease at 18880 Homestead Road in Cupertino. **Apple, Inc.** is the tenant.
- **RREEF** inked a long term, 45,000 square foot office lease at 2710 Walsh Avenue in Santa Clara. **Nano Integrated Technologies** is the tenant.
- **LBA Realty** leased out a 31,388 square feet of office space at 2560 North 1st Street in San Jose. **Emulex Design & Manufacturing Corporation** is the tenant.
- **John Roeder** purchased a 51,500 square foot office building at 20 Great Oaks Boulevard in San Jose. **M&I Bank** was the seller.
- **Citrix Systems, Inc.** pre-leased 140,935 square feet of office space at 4980 Great America Parkway in Santa Clara. **Sobrato Development Company** is the landlord.

# INDUSTRIAL



## Industrial in for a Grinder

Over the long haul, Silicon Valley typically produces industrial leasing and user-sale activity on the order of 4.0 million square feet per year. In the past three years, however, industrial gross absorption has slipped to an average clip of 3.33 million square feet per year. The slowdown in industrial activity has been attributable partially to the limited supply of alternatives.

With more space alternatives for users, industrial gross absorption increased 8.2% in 2008, to 3.23 million square feet. The supply pipeline grew at the same time and a net loss in occupancy was realized for the second consecutive year, this time measuring 1.91 million square feet, the greatest occupancy loss in the industrial sector since 2001. The industrial availability rate increased to 9.18% at the end of 2008, representing a total supply of 5.15 million square feet of available industrial space. Nonetheless, the industrial availability rate remained below 10% for the fourth consecutive year.

The delta in gross absorption from 2007 to 2008 was less than 10%; however, the amount of pre-improved space added to industrial supply increased by 42% during this same period. That is the largest annual increase both in terms of square footage and percentage in the past 20 years and it bears mentioning that 2006 to 2007 was the second largest increase. The past

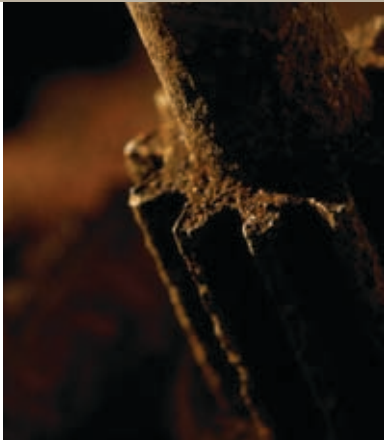
two years have seen 8.75 million square feet of pre-improved space rolled back into the industrial supply pipeline, competing for 6.21 million square feet of gross absorption.

Average starting rents in the industrial sector increased mid-year, then remained flat through the end of 2008. The average starting rent for deals in 2008 was \$0.78 per square foot NNN, an 8.3% increase from deals in 2007. For the past five years, industrial rents have been climbing steadily on an annualized basis and have increased 27.9% in total during that time, from \$0.61 per square foot in 2004. That ride is likely to end in 2009.

### Industrial Hot Spots

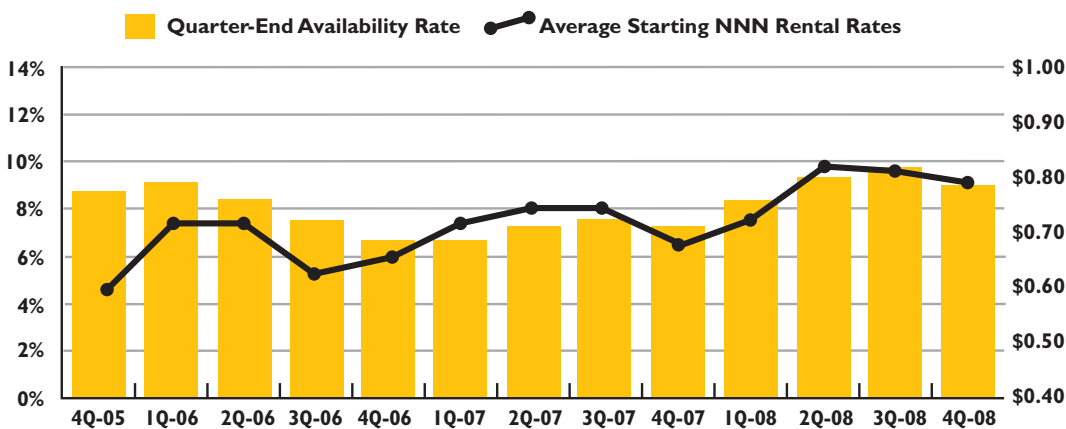
San Jose houses 40% of the Silicon Valley's industrial building base, which makes it the largest industrial submarket. In 2008, San Jose generated 1.17 million square feet of gross absorption, a slight increase of 1.7% from the previous year and in-line with previous years. San Jose realized a loss in industrial occupancy of 814,684 square feet for the year. It was the first time since 2003 that industrial net absorption was negative in San Jose.

Fremont's industrial activity improved in 2008 by 41% from the previous year to 560,245 square feet. Four deals in 2008 represented more than 50% of



*At the end of 2006, the industrial availability rate stood at 6.76%, a 6-year low at the time. In 2007, gross absorption dropped to just under 3.0 million square feet and the industrial availability rate increased to 7.65%. Demand picked back up in 2008, but a growing supply pipeline of rollover space served to increase the industrial availability rate to 9.2%.*

Silicon Valley Industrial Rent vs. Availability Rate Trends





*In 2007, 15% of San Jose's industrial gross absorption was in deals over 20,000 square feet. Larger deals played a bigger role in 2008 when one-third of San Jose's total activity was measured in deals over 20,000 square feet. The largest industrial deal in San Jose proved to be ASB Fortune Data Center's acquisition of a three building industrial campus totaling 140,749 square feet on Fortune Drive.*

Fremont's industrial activity, which included ASUS Computer Inc.'s lease of 152,675 square feet on Corporate Way. While industrial net absorption was negative for the second consecutive year, it was positive through the first three quarters, until a handful of buildings came onto the market toward the end of the year. Fremont finished the year with nominal increase in available industrial space and a still-low industrial availability rate of 6.42%.

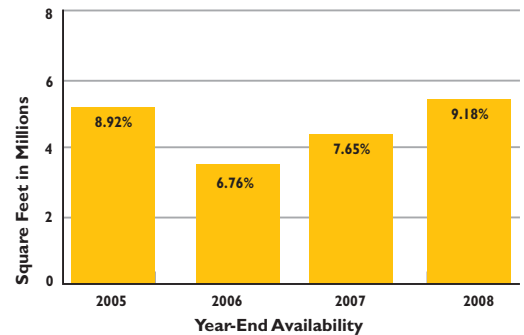
Santa Clara's industrial availability rate has increased to 8.23% with close to 1.0 million square feet on the market. Gross absorption decreased to 599,587 square feet in 2008, the lowest level of industrial activity in that city since 2001. Net absorption was negative, as Santa Clara experienced a net occupancy loss of 287,629 square feet for the year.

Sunnyvale and Mountain View each produced greater industrial activity in 2008, but also realized net losses in occupancy. Sunnyvale's industrial gross absorption totaled 149,350 square feet, the highest annual activity recorded in the past three years. At the same time, total industrial occupancy was 175,413 square feet less than one year prior. Mountain View's industrial sector netted similar results, with a four-year high of 180,218 square feet of gross absorption and the second consecutive year of negative net absorption; this time measuring 91,614 square feet.

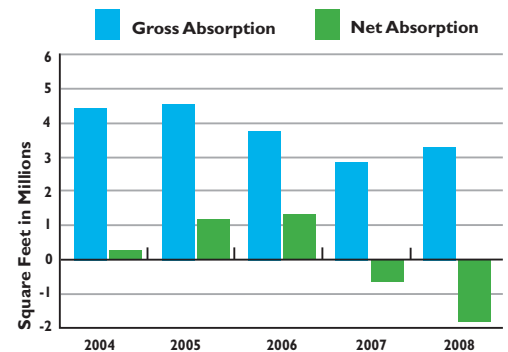
#### Looking Forward

Silicon Valley's Industrial market is also feeling the effects of the current economic climate, as witnessed by an inventory of available space

### SILICON VALLEY AVAILABILITY INDUSTRIAL PRODUCT

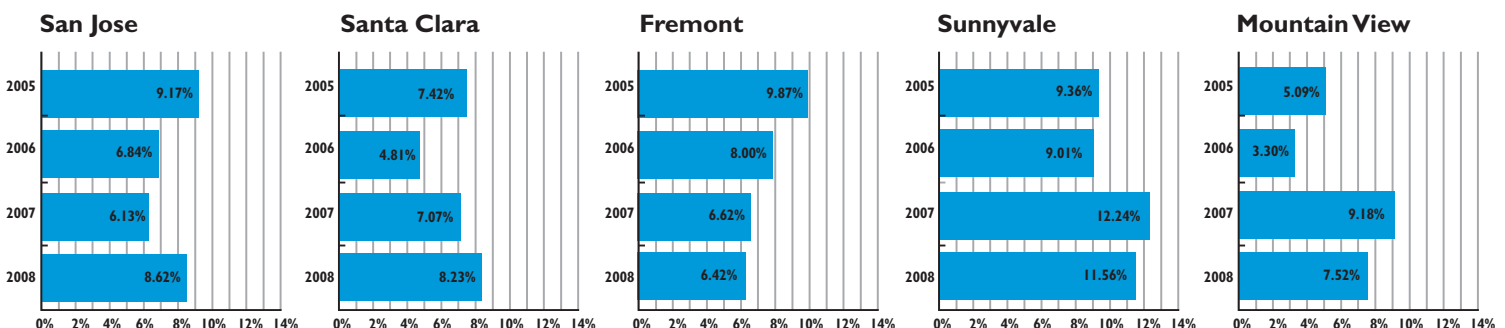


### SILICON VALLEY ABSORPTION INDUSTRIAL PRODUCT



that is growing at its fastest rate since 2001. As 2008 kicked off, there was 4,294,092 square feet of industrial space available throughout Silicon Valley. That figure grew to 5,149,944 square feet by year end, an increase of 855,852 square feet. As a result, the industrial availability rate climbed from 7.65% to 9.18%. Fortunately, this growing

### Selected Cities Historical Availability Rate Trends - Industrial



inventory of available space in a sector heretofore in short supply, sparked a decent amount of gross absorption, but as the economy continues to deteriorate, we fear that the rollover pipeline will remain wide open while demand tapers off.

The industrial submarket has a foundation of good things going for it in Silicon Valley and as a result it tends not to experience wildly high vacancy rates even in a down cycle. There has been virtually no new construction of this product type in recent years. In fact, the industrial building base has declined in the 2000's as homebuilders rushed to replace aging industrial business parks with new residential housing developments. While much talk has been made about offshoring of manufacturing, in truth it has not had much of an impact on demand for industrial space in this area; therefore, the fundamentals of the market have been strong or at least stronger than with other product types, for years. This resiliency has its limits however and for a number of reasons we see a softer market ahead for industrial real estate in 2009.

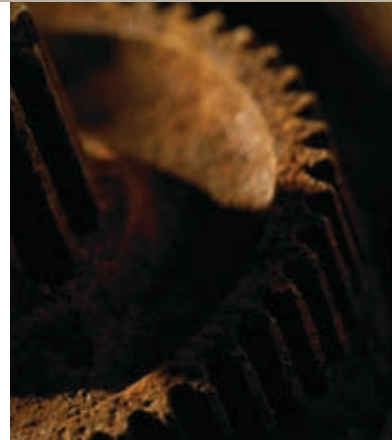
Industrial buildings are attractive purchase opportunities and people who own their own small businesses often like to own their real estate as well, thereby controlling their occupancy costs. With financing being so hard to come by, we saw industrial building sales grind to a halt in the second half of 2008. This is going to continue for at least the first half of 2009 and probably longer. In addition, we expect to see more fallout from small manufacturers and suppliers that do not have enough market penetration to be sustainable through the recession. Finally, there is a segment of the industrial building base that is occupied

by retailers for showrooms and retailers are the hardest hit of all businesses.

With some uptick in the second half of the year, Colliers is forecasting 3.0 million square feet of gross absorption in the industrial sector for 2009. We do believe that after the market bottoms out, clearly there will be a surge of demand, particularly on the user sales side if the conventional financing markets open up; however, this may not happen until very late in the year, if at all in 2009. The longer term prospects in the sector remain fundamentally solid and we expect good things in 2010.

The pipeline of preimproved industrial rollover space that came available in 2008 increased by 1.5 million square feet over 2007 and was its highest since 2003. We expect similar results in 2009 and the impact could be 2.0 million square feet of negative net absorption of Silicon Valley industrial space. This would serve to increase the industrial availability rate to 12.7% by year end. On a positive note, if that is as bad as it gets, there will once again be a healthy supply of options available for industrial users as Silicon Valley begins its recovery.

Industrial rents have held up, and while they dropped from mid-2007 levels, they also closed out the year higher than where they started. As available space continues to grow and demand wanes, we expect to see some falloff in industrial rents, on the magnitude of 10%. This will be helpful for small businesses that struggle to afford Silicon Valley industrial rents, and will help spur activity once we manage to put our current troubles behind us.



*With some uptick in the second half of the year, Colliers is forecasting 3.0 million square feet of gross absorption in the industrial sector for 2009. We do believe that after the market bottoms out, clearly there will be a surge of demand, particularly on the user sales side if the conventional financing markets open up. The longer term prospects in the sector remain fundamentally solid and we expect good things in 2010.*

## Selected Colliers Industrial Transactions

- **ASUS Computer Inc.** signed a long term 152,675 square foot industrial lease at 800 Corporate Way in Fremont. **Sobrato Interests** is the landlord.
- **WCV Commercial Properties** leased 60,312 square feet of industrial space to Johnson Controls, Inc. at 843 Auburn Court in Fremont.
- **Fortune First, LLC** sold a 140,749 square foot industrial building at 2001 Fortune Drive in San Jose to user, **ASB Fortune Data Center, LLC**.
- **The Thomas Kinkade Company** completed a long term, 155,520 square foot industrial sublease at 925 Lightpost Way in Morgan Hill. **Flextronics International, USA** is the sublessee.
- **Center for Training and Careers, Inc.** purchased a 32,083 square foot industrial building at 749 Story Road in San Jose. **East Community Resource Center** is the seller.
- **GreenWaste Recovery, Inc.** leased 42,450 square feet of industrial space at 2755-2765 Lafayette Street in Santa Clara. **Geraldynne and Jonathan Witkin** is the landlord.

# WAREHOUSE



## Warehouse to Defy Odds?

At the beginning of 2008, available warehouse supply totaled 2.43 million square feet. Limited warehouse offerings in Silicon Valley led us to forecast that gross absorption in this sector would top out at about 2.0 million square feet. Colliers hit the bulls-eye as Silicon Valley's warehouse sector generated 2.14 million square feet in gross absorption in 2008, the lowest level of activity since 2002. Compared to 2007, warehouse activity was down slightly, falling just 2.4%. While the drop-off in activity was modest, warehouse gross absorption has now slipped in each of the last four years.

Paired with our forecast of slower warehouse activity, we anticipated that warehouse net absorption would likely be negative overall in 2008. That forecast was also on the money, as the Valley posted negative warehouse net absorption totaling 884,036 square feet for the year. The net loss in occupancy trailed four consecutive years of positive net absorption in the warehouse sector.

At year-end, the warehouse availability rate stood at 7.3%, with 2.83 million square feet of available space. In fact, available warehouse supply grew to 3.32 million square feet at mid-year, and then tapered off in the second half of the year. Available warehouse supply remains low overall and the trajectory over the second half of 2008 bodes well heading into 2009. Sublease options

remain in check as well, constituting only 10.1% of total available warehouse space.

In recent years, the pipeline of pre-improved space added to warehouse supply has been slowing to a trickle. In 2008, the amount of rollover space increased considerably, albeit from a historically-low base. After four straight years of decline, the pipeline opened up and 3.0 million square feet of rollover warehouse space became available during the year, a 75% increase from 2007. This was the largest one-year gain in the warehouse sector since 1990, when the amount of rollover space more than doubled the previous year's total.

Average starting rents for warehouse deals increased through 2007 to end the year at \$0.49 per square foot NNN. In 2008, warehouse rents remained flat through the first three quarters, averaging \$0.49-\$0.50 per square foot. Deals in the fourth quarter of 2008 averaged \$0.55 per square foot, up 12% from deals earlier in the year. This Q4 increase is weighted by a few higher-rent deals that may not be representative of the warehouse market overall and is not seen as a trend.

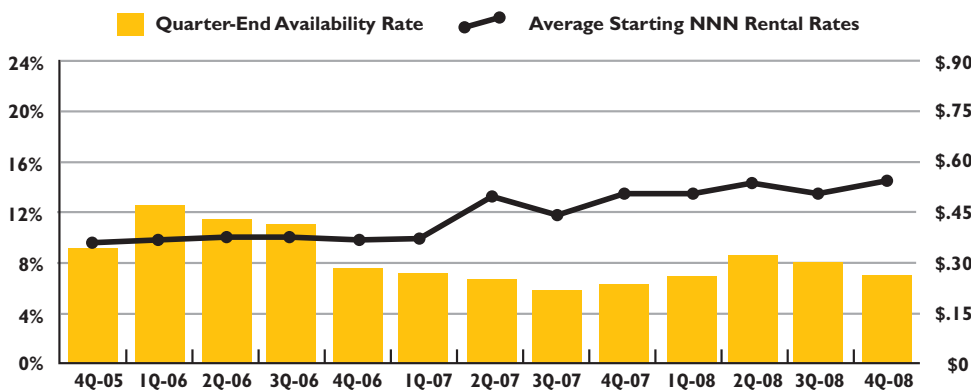
## Warehouse Hot Spots

Warehouse activity in Fremont increased from a 2007 gross absorption total of 260,673 square feet to 457,770 square feet generated in 2008.



*At year-end, the warehouse availability rate stood at 7.3%, with 2.83 million square feet of available space. In fact, available warehouse supply grew to 3.32 million square feet at mid-year and then tapered off in the second half of the year. Available warehouse supply remains low overall and the trajectory over the second half of the year bodes well heading into 2009.*

Silicon Valley Warehouse Rent vs. Availability Rate Trends





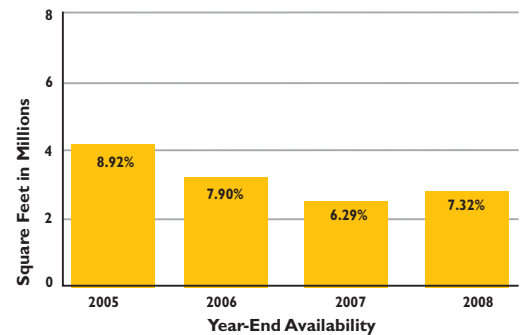
*San Jose's dip in warehouse gross absorption was coupled with a net loss in occupancy for the first time in four years. All told, San Jose now has an inventory of available warehouse space measuring 1.28 million square feet, representing a 7.38% availability rate. The warehouse availability rate at the end of 2007 was just under 5.0%.*

More than half of Fremont's warehouse activity is represented in one deal; Super Micro Computer's lease of a 246,450 square foot warehouse building on Fremont Boulevard. While the Super Micro deal helped Fremont post decent warehouse activity in 2008, it was not enough to produce a net occupancy gain for that city. A net loss of 237,235 square feet was realized in Fremont's warehouse sector for the year and net absorption was negative in all four quarters for the first time since 2003.

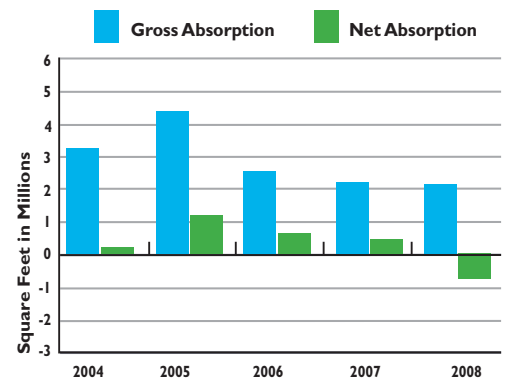
San Jose, the Valley's largest warehouse market, snapped a five-year streak of annual warehouse gross absorption exceeding 1.0 million square feet. Warehouse activity was still decent, measuring 977,366 square feet in 2008 and just missing the 1.0 million square-foot mark. Notable deals include Aeronet's 47,067 square foot lease on Junction Avenue and Galleher Corporation's lease of 39,815 square feet on McLaughlin Avenue. San Jose's dip in warehouse gross absorption was coupled with a net loss in occupancy for the first time in four years. Warehouse negative net absorption totaled 409,979 square feet in 2008. All told, San Jose now has an inventory of available warehouse space measuring 1.28 million square feet, representing a 7.38% availability rate. The warehouse availability rate at the end of 2007 was just under 5.0%.

It was an off year for warehouse leasing activity in Milpitas, where total activity measured 232,677 square feet, down considerably from the five-year average of 490,348 square feet. It was the least

## SILICON VALLEY AVAILABILITY WAREHOUSE PRODUCT

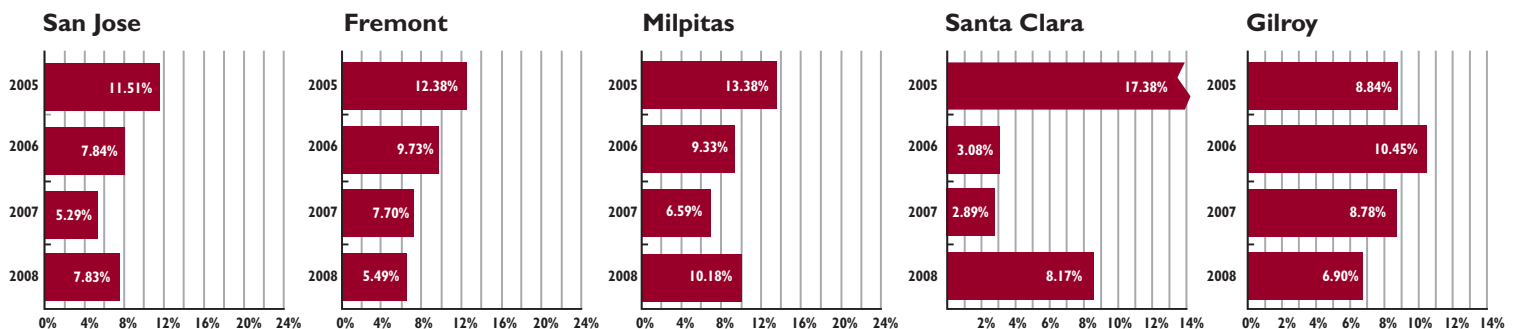


## SILICON VALLEY ABSORPTION WAREHOUSE PRODUCT



amount of warehouse gross absorption recorded in that city since 2002. Despite activity falling in 2008, significant deals were still completed: they include CTS Advantage Logistics' 31,500 square foot lease on South Milpitas Boulevard and RK Logistics Group Inc. moving into 30,000

## Selected Cities Historical Availability Rate Trends - Warehouse



square feet on Gladding Court. Net absorption was negative for the first time in five years as Milpitas realized a net occupancy loss of 167,404 square feet. Milpitas' warehouse availability rate finished the year at 10.18%, up from 6.59% at the beginning of 2008.

### Looking Forward

If there is a bright side looming for Silicon Valley's commercial real estate market in 2009, it might be found in the warehouse sector. Unfortunately, warehousing is not what drives Silicon Valley, but then if it was, that product segment would probably be in the same boat as the others.

Relatively low inventories of available space may help this sector get through 2009 without a serious setback. Companies will continue to need storage for their unsold inventories and while those inventories may go down, they usually do not go away. The need for warehouse space remains and when the economy regains its footing, the surplus warehouse space will once again be utilized.

While the warehouse sector may be outperforming the other product categories on a relative basis, it is not without its own concerns coming into 2009. For one, as with the industrial sector, there are showroom retailers who occupy warehouse buildings for things like furniture stores and those sorts of businesses are in a world of hurt. Fortunately, there are few of those types of users in number and the larger warehouse showrooms tend to be occupied by better

capitalized companies. Another downside risk is that warehouse buildings are large in size and if demand remains sluggish, which is likely, a few big, vacant warehouse buildings could suddenly become a glut.

Speaking of demand, we do not foresee any significant factors that will increase warehouse gross absorption in 2009. Rather, our guarded optimism is largely attributable to what we believe will be a more manageable pipeline of warehouse space coming to market. While the warehouse pipeline produced 1.3 million square feet more rollover space in 2008 than in 2007, it is still not high by historical standards. Likewise, warehouse sublease space is not trending upward in any significant fashion nor do we expect it to in 2009.

All told, warehouse gross absorption is expected to be less in 2009 and probably below 2.0 million square feet. Warehouse net absorption will be negative and higher than 2008, but Colliers expects that it will top out at an occupancy loss of about 1.0 million square feet.

Warehouse rents were unchanged largely through all of 2008. Added inventory could have a limited impact on warehouse rents, but we believe that it will be nominal, producing a warehouse rent drop of no more than about 5%. Colliers is not expecting average starting rents for warehouse space to fall below the \$0.50 per square foot, NNN barrier in 2009.



*Speaking of demand, we do not foresee any significant factors that will increase warehouse gross absorption in 2009. Rather, our guarded optimism is largely attributable to what we believe will be a more manageable pipeline of warehouse space coming to market. While the warehouse pipeline produced 1.3 million square feet more rollover space in 2008 than in 2007, it is still not high by historical standards.*

## Selected Colliers Warehouse Transactions

- **Super Micro Computer, Inc.** signed a 246,450 square foot warehouse lease at 48350 Fremont Boulevard in Fremont from landlord, **Pinole Point Properties**.
- **Toyota Tsusho America** signed a 46,933 square foot warehouse lease at 41320 Boyce Road in Fremont. **Prologis** is the landlord.
- **RK Logistics Group, Inc.** leased a 30,000 square feet of warehouse space at 1535 Gladding Court in Milpitas. **Herzstein Family Trust** is the landlord.
- **Medtronic Spine, LLC** signed a 25,719 square foot warehouse lease at 1071 Yosemite Drive in Milpitas. **AMB Property Corporation** is the landlord.
- **Exel Logistics** renewed their 190,080 square foot warehouse lease with **PNC Realty Advisors** at 41707 Christy Street in Fremont.
- **Nearon Enterprises** inked a 79,588 square foot warehouse lease at 18675 Madrone Parkway in Morgan Hill. **Del Monaco Specialty Foods, Inc.** is the tenant.

# INVESTMENT

What started out as a year of trepidation, sprinkled with cautious optimism in hopes of stabilization, derailed abruptly mid-September as the American International Group (AIG) nearly collapsed. This breach, along with other shocks to the system, sent the global financial markets into a tailspin and marked a dramatic shift in commercial real estate investor sentiment. Prior to September, roughly 50% of the market was on the sidelines, not willing to catch the dropping knife. The balance of the investment community waded extremely cautiously and conservatively, some looking to place newly-raised fund equity or cash still pouring in through the private REIT markets, for example.

## **Pre Mid-September**

Underwriting shifted dramatically in 2008. Aggressive market rent growth became a thing of the past, as many investors underwrote CPI growth at best and many underwrote zero to negative market rent growth (depending on the market). Exit caps also experienced a re-calibration to the higher side and as lenders became more conservative and quoted loans in the high 6's with LTV ratios in the 60% range, investors adjusted their hurdles accordingly, demanding higher cap rates at and above 7%. Rumblings of the dirty "R" word (recourse) were making their way into the picture as well.

As unprecedented liquidity and aggressiveness within the credit markets fueled yesteryear's investment markets, that same credit machine led the charge on the way down. The CMBS lenders were out-point blank. Banks and Life Companies were concentrating with select, existing clientele, seldom originating new business. Lenders, if even considering a loan, placed a high degree of emphasis on sponsorship and quality of the asset and at times looked toward achieving premium pricing as well as setting floors in the 6's.

## **Post Mid-September**

All bets are off. Investors, both private and institutional, local and national, were dropping deals unilaterally. Underwriting became increasingly difficult. How to exit? Where are the tenants? Where are rents going? Who is going to refi the notes coming due in 2009 and beyond? Which lenders are even still in existence? Is equity on the sideline even there really? Is a capital call even an option? Clearly, more questions than answers, commonplace when any market experiences a dramatic inflection in the cycle.

Sales came to screeching halt, as *doing nothing* became the *thing to do*. To make things even more challenging, lenders, regardless of the abysmally low LIBOR and Treasury yields, were quoting from the mid 7's to low 8's, LTVs now in the 50% range and yes, recourse was back.



## What's in Store for 2009?

Great question. We don't see many deals clearing the first half of the 2009, regardless of whether they are distressed or not. Investors anticipate better opportunities and better yields toward the latter half of the year. Further, investors are waiting for a possible influx of distressed assets that may hit the market.

At present, we are witnessing a stare down between lenders who are looking to exit and investors that would buy the paper. Not surprisingly, lenders are generally looking to transact at par value of the note, at times willing to hold the note if such pricing does not meet the market. Notes backed by commercial property that do clear, do so in the neighborhood of \$0.80 on the dollar. This market will evolve and will be dictated by the plethora of loan resets this year and beyond.

Sales velocity for stabilized (i.e., non-distressed) assets in the second half of the year will depend on liquidity within the credit markets and the ability and a willingness of lenders to fund

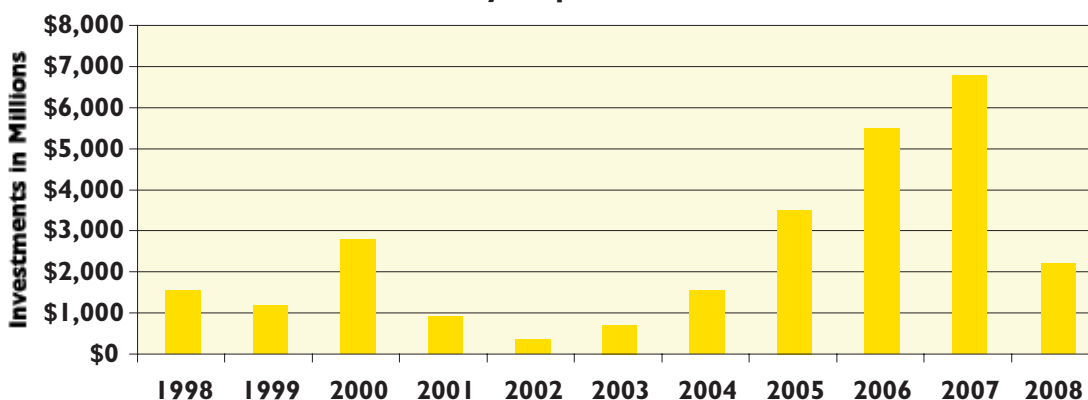
projects. In this current environment, it is quite difficult to forecast what the credit markets will look like the second half of the year; however, we anticipate sale velocity among distressed assets to increase or perhaps, accelerate over time.

We will look to the lenders to see how they handle the refs in 2009, totaling \$50B on a national basis. Currently, we estimate that \$390 million were originated in 2004, \$1.1 billion in 2005, \$1.3 billion in 2006 and \$1.5 billion in 2007 for commercial real estate within Santa Clara County. Resets of three, five, seven, and 10-year loans will commence in earnest in 2009. With the grave lack of liquidity within the current credit markets, all are concerned with how these notes will be refinanced. Investors will pay close attention to how lenders solve the dilemma-whether they refinance, extend, sell the note or foreclose. From assessing the lenders invested locally, we feel that lenders initially, (not all) will look to work with borrowers and come to a temporary solution, while the markets stabilize.



*Sales velocity for stabilized assets in the second half of the year will depend on liquidity within the credit markets and the ability and willingness of lenders to fund projects. In this current environment, it is quite difficult to forecast what the credit markets will look like the second half of the year; however, we anticipate sale velocity among distressed assets to increase or perhaps, accelerate over time.*

## Silicon Valley Capital Investment Trends



## Selected Colliers Investment Transactions

- **South Bay Development** sold two R&D buildings totaling 140,240 square feet at 2219-2221 Oakland Road in San Jose. **Cawley Partners** is the buyer.
- **Guggenheim Realty Group I** acquired a 22,010 square foot office building at 190 Park Center Plaza in San Jose. **Next Media Operating** is the seller.
- **Middlefield Investments L.P.** purchased a 34,900 square foot industrial building at 2235-2239 Old Middlefield Way in Mountain View from **Sharp Middlefield, LLC**.
- **Regency Centers** completed a 92,307 square foot retail purchase at 1751 East Bayshore Road in East Palo Alto. **Home Depot USA** is the seller.
- **Vossoughi Trust** acquired a 28,956 square foot industrial leased investment at 1585 North 4th Street in San Jose. **1585 N. 4th St., LLC** is the seller.
- **Dollinger Properties** acquired a 31,500 square foot R&D building at 445 Indio Way in Sunnyvale from **South Bay Development**.

# RETAIL

What Colliers Retail Services Group characterized as being a “leveling-off” trend in 2007 for Silicon Valley retail and investment real estate became a downward trend in 2008, as the sub-prime induced economic turmoil officially became a recession that strained the market for much of the year.

Leasing and sales activity stagnated as retailers stopped opening new stores or just shut the doors and gave the keys back, while investors sat on the sidelines waiting for distressed opportunities to materialize. In spite of being one of the strongest real estate markets in the country, the Valley could no longer insulate itself completely from the realities pressuring the national markets: weak economic growth, capital constraints, anemic store sales and polarized consumers. This perfect storm of depressed conditions is paving the way for increasing vacancies, decreasing rents and opportunistic sales activity.

Colliers International Retail Services Group surveyed the Valley’s major trade areas and commercial business districts and estimated an approximate increase in retail vacancies from 3.5% to about 5.6%, while secondary trade area vacancies increased slightly from 8.5% to about 9.0%. The

steeper increase in the major trade areas can be attributed largely to larger box and chain store closings bringing more square footage back to the market, while the gradual increase in the secondary trade areas could indicate *mom and pop* businesses have adjusted already to a more cautious market environment in 2007. Top tier space still attracts interest with stronger tenants looking to gain market share or improve upon current locations. Vacancy rates in the periphery markets of southern Santa Clara County (Morgan Hill and Gilroy) have reached into the double-digits, as more supply came to the market than could be absorbed and rents could not sustain the lower sales volume attributed to a smaller and slower growth population base.

Average rents in the major trade areas have retreated from their historic highs of the previous years, as retailers, like their customers, are not leasing space unless landlords provide deep discounts or concessions. Landlords, who can, have been willing to comply when faced with the prospect of losing a tenant or carrying vacancies in an uncertain market. Rents for prime end-cap space on average have fallen between 10-15%, to a range between \$3.25 and \$3.50 per square foot NNN, while in-line space ranges between \$2.25 and



# SILICON VALLEY RETAIL MARKET

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2008 - 2009 SILICON VALLEY  
MARKET REPORT & FORECAST

JANUARY 2009

\$3.00 per square foot, NNN. Rents in secondary markets have already been adjusting downwards in the later part of 2007 and this continued in 2008 as price sensitive retailers took advantage of the tenant market conditions.

Average rents for end-cap space in secondary trade areas ranged between \$2.25 and \$2.50, while in-line space hovered between \$2.00 and \$2.25 per square foot NNN. Landlords have been more willing to incentivize creditworthy tenants with longer free rent or (when able) greater improvement allowances, but the same capital constraints affecting tenants are impeding the ability of some landlords to provide tenant improvement allowances.

While most retailers reported a 20-30% decrease in their previous year's sales, all was not complete doom and gloom for 2008. Yes, there were major store closings with companies like Circuit City, Linen's N' Things, and Mervyn's, but much of this space was or will be reabsorbed back into the market place by other retailers such as Sports Authority, Kohl's, Forever 21, Pacific Sales and discount chains looking to take advantage of rare vacancies in prime trade areas.

The retail investment sales market followed the same downward trend as the leasing sector. As leveraged acquisitions became a thing of the past in the fourth quarter of 2007, cash became king in 2008. It is widely anticipated that many distressed properties will come to market as financing will not be available to refinance maturing loan obligations and borrowers default. Basically, like the housing market, many properties bought or developed within the last five years have decreased in value and are not sustaining the cash flow and occupancy expectations.

Even though cap rates on average contracted by as much as 150 basis points in 2008, in a range

from 6.25% to 7.50% (\$350 to \$450 per square foot), investor yield requirements increased as well. Value-add investors are looking for cap rates that reflect the inherent risk of buying a property that could go vacant. It could be that cap rates reach double-digits (10-12%) for the first time in almost ten years. In the single-tenant net leased market, tighter financing has reduced the number of buyers in the market; therefore, the national inventory has increased and sellers have to compete with a smaller pool of buyers.

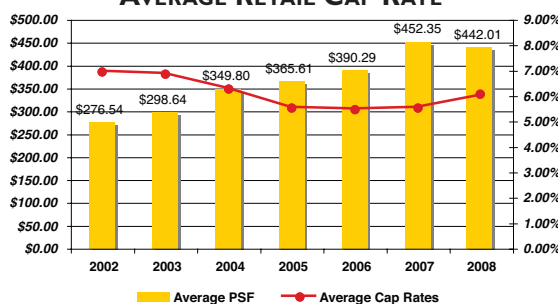
For 2009, Colliers International Retail and Investment Services predicts that rents and values will continue to shake out for much of the year. Rents will continue to retreat, but we are hesitant to speculate by how much. Competition will be fierce for tenants, as many have already decided to wait until 2010 before opening new stores.

Investment activity should increase by mid-year as it is anticipated that more properties will become available due to inability to pay or refinance debt and cash-heavy buyers will take advantage of this. All in all, we are fortunate, because the Silicon Valley is in a much better position than many other markets. The effects of the recession came later and should end sooner. For those who can survive 2009, 2010 should be a great year.



*Notable 2008 lease deals were the signing of Sports Authority and Nordstrom Rack who together leased the 91,000 square foot former Expo Store in East Palo Alto from Regency Centers, as well as the Sports Authority taking the 42,500 square foot former Linen's N' Things on Stevens Creek Boulevard in San Jose. It should also be noted that the Long's Drugs chain sold to CVS Pharmacies in October and that the CVS name will start appearing on store fronts in March.*

**SILICON VALLEY  
AVERAGE RETAIL CAP RATE**



## Selected Colliers Retail Transactions

- **Sonic Burger - Cinos, Inc.** signed a long term, 32,950 square foot retail ground lease at Highway 152 & Cameron Boulevard in Gilroy. **The McCarthy Ranch** is the landlord.
- **Home Depot USA** sold an 80,704 square foot retail building at 1535 Landess Avenue in Milpitas. **Ayalafil USA** is the buyer.
- **Thrifty Payless, Inc.** signed a long term, 17,340 square foot retail lease at 20580 Homestead Road in Cupertino. **FBJ Homestead** is the landlord.
- **Regency Centers** leased 41,680 square feet of retail space at 1751 East Bayshore Road in East Palo Alto. **Nordstrom, Inc.** is the tenant.
- **Regency Centers** inked a long term, 50,227 square foot retail lease at 1751 East Bayshore Road in East Palo Alto. **The Sports Authority** is the tenant.

# SILICON VALLEY MARKET STATISTICS

JANUARY 2009

SILICON VALLEY	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
<b>4Q08</b>										
Total Available	11,693,479	19.80%	26,864,072	16.99%	5,149,944	9.18%	2,833,893	7.32%	46,541,388	14.92%
New Construction	0		0		0		0		0	
Net Absorption	-630,813		-1,231,378		-635,184		-233,972		-2,731,347	
Gross Absorption	789,437		1,611,524		603,836		586,657		3,591,454	
<b>3Q08</b>										
Total Available	11,224,561	19.00%	26,406,660	16.70%	5,521,961	9.84%	3,097,982	8.01%	46,251,164	14.82%
New Construction	316,300		123,842		0		0		440,142	
Net Absorption	-695,213		432,953		-435,271		1,471		-696,060	
Gross Absorption	1,377,109		1,968,357		1,031,545		569,827		4,946,838	
<b>2Q08</b>										
Total Available	10,409,084	17.72%	25,907,644	16.38%	5,380,368	9.58%	3,324,153	8.59%	45,021,249	14.44%
New Construction	0		0		0		0		0	
Net Absorption	-566,591		-1,075,867		-700,672		-155,681		-2,498,811	
Gross Absorption	1,430,463		2,197,798		655,973		549,981		4,834,215	
<b>1Q08</b>										
Total Available	10,012,978	17.07%	26,100,849	16.50%	4,563,860	8.13%	2,778,012	7.18%	43,455,699	13.94%
New Construction	600,400		0		0		0		600,400	
Net Absorption	-702,075		-609,813		-136,453		-495,854		-1,944,195	
Gross Absorption	1,156,086		2,587,752		939,477		434,467		5,117,782	
<b>TOTALS</b>										
New Construction	916,700		123,842		0		0		1,040,542	
Net Absorption	-2,594,692		-2,484,105		-1,907,580		-884,036		-7,870,413	
Gross Absorption	4,753,095		8,365,431		3,230,831		2,140,932		18,490,289	

CAMPBELL	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
<b>4Q08</b>										
Total Available	643,836	30.54%	356,219	24.36%	125,777	27.00%	0	0.00%	1,125,832	26.82%
New Construction	0		0		0		0		0	
Net Absorption	-12,186		-36,954		-48,357		0		-97,497	
Gross Absorption	36,558		4,170		0		0		40,728	
<b>3Q08</b>										
Total Available	525,010	24.91%	295,309	20.24%	111,182	23.87%	0	0.00%	931,501	22.20%
New Construction	0		0		0		0		0	
Net Absorption	-9,664		-19,830		-31,550		0		-61,044	
Gross Absorption	85,194		12,170		22,071		0		119,435	
<b>2Q08</b>										
Total Available	515,672	24.46%	286,256	19.62%	116,747	25.06%	0	0.00%	918,675	21.90%
New Construction	0		0		0		0		0	
Net Absorption	-13,830		-92,562		-4,852		0		-111,244	
Gross Absorption	44,022		14,636		13,847		0		72,505	
<b>1Q08</b>										
Total Available	543,219	26.46%	316,276	21.19%	57,333	13.89%	0	0.00%	916,828	22.25%
New Construction	0		0		0		0		0	
Net Absorption	-178,165		-21,596		-550		0		-200,311	
Gross Absorption	48,276		18,729		4,414		0		71,419	

DISCLAIMER: Colliers International is pleased to be able to provide the market information contained herein, and in so doing believes its validity. However, we cannot guarantee its accuracy or take responsibility for its use.

# SELECTED OFFICE MARKET STATISTICS

COLLIERS INTERNATIONAL  
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MARKET REPORT & FORECAST

JANUARY 2009

CUPERTINO	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
<b>4Q08</b>										
Total Available	422,776	13.21%	233,688	6.79%	0	0.00%	0	0.00%	656,464	9.88%
New Construction	0		0		0		0		0	
Net Absorption	-49,988		-23,823		6,100		0		-67,711	
Gross Absorption	44,267		0		6,100		0		50,367	
<b>3Q08</b>										
Total Available	371,374	11.60%	209,865	6.10%	6,100	162.67%	0	0.00%	587,339	8.84%
New Construction	0		0		0		0		0	
Net Absorption	-67,649		3,748		0		0		-63,901	
Gross Absorption	323,544		53,144		0		0		376,688	
<b>2Q08</b>										
Total Available	471,114	14.72%	233,411	6.79%	6,100	162.67%	0	0.00%	710,625	10.70%
New Construction	0		0		0		0		0	
Net Absorption	-34,594		24,559		-6,100		0		-16,135	
Gross Absorption	119,062		26,943		0		0		146,005	
<b>1Q08</b>										
Total Available	280,419	8.76%	325,147	9.45%	0	0.00%	0	0.00%	605,566	9.11%
New Construction	0		0		0		0		0	
Net Absorption	-142,778		-73,768		0		0		-216,546	
Gross Absorption	19,179		0		0		0		19,179	

FREMONT	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
<b>4Q08</b>										
Total Available	445,799	27.17%	4,468,487	23.96%	536,053	6.42%	418,985	5.49%	5,869,324	16.18%
New Construction	0		0		0		0		0	
Net Absorption	-32,178		-134,666		-107,734		-27,638		-302,216	
Gross Absorption	9,831		460,340		75,877		20,812		566,860	
<b>3Q08</b>										
Total Available	443,146	27.01%	4,919,169	26.38%	445,166	5.33%	515,316	6.75%	6,322,797	17.43%
New Construction	0		0		0		0		0	
Net Absorption	-81,414		-41,147		14,922		-44,712		-152,351	
Gross Absorption	10,829		369,124		115,883		70,000		565,836	
<b>2Q08</b>										
Total Available	368,229	22.44%	4,441,015	23.81%	482,336	5.78%	660,684	8.65%	5,952,264	16.41%
New Construction	0		0		0		0		0	
Net Absorption	-72,828		-278,882		-211,897		-119,981		-683,588	
Gross Absorption	46,986		257,652		47,708		120,508		472,854	
<b>1Q08</b>										
Total Available	369,271	22.51%	4,278,250	22.94%	310,823	3.72%	588,703	7.71%	5,547,047	15.29%
New Construction	0		0		0		0		0	
Net Absorption	-34,498		-210,999		257,654		-44,904		-32,747	
Gross Absorption	5,686		339,393		320,777		246,450		912,306	

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# SILICON VALLEY MARKET STATISTICS

JANUARY 2009

<b>GILROY</b>	<b>OFC</b>	<b>% Avail.</b>	<b>R&amp;D</b>	<b>% Avail.</b>	<b>IND</b>	<b>% Avail.</b>	<b>WHSE</b>	<b>% Avail.</b>	<b>Total</b>	<b>% Avail.</b>
<b>4Q08</b>										
Total Available	41,539	21.79%	209,136	55.96%	247,994	18.47%	222,541	6.90%	721,210	14.06%
New Construction	0		0		0		0		0	
Net Absorption	-13,826		0		-10,804		0		-24,630	
Gross Absorption	0		0		19,846		0		19,846	
<b>3Q08</b>										
Total Available	27,713	14.54%	209,136	55.96%	291,333	21.69%	222,541	6.90%	750,723	14.63%
New Construction	0		0		0		0		0	
Net Absorption	-7,960		0		-47,521		60,600		5,119	
Gross Absorption	4,421		0		2,400		60,600		67,421	
<b>2Q08</b>										
Total Available	19,753	10.36%	209,136	55.96%	224,108	16.69%	283,141	8.78%	736,138	14.35%
New Construction	0		0		0		0		0	
Net Absorption	987		0		-10,515		0		-9,528	
Gross Absorption	3,949		0		14,793		0		18,742	
<b>1Q08</b>										
Total Available	20,663	10.84%	209,136	55.96%	217,847	16.22%	283,141	8.78%	730,787	14.24%
New Construction	0		0		0		0		0	
Net Absorption	-2,120		0		-12,504		0		-14,624	
Gross Absorption	0		0		7,538		0		7,538	

<b>LOS ALTOS</b>	<b>OFC</b>	<b>% Avail.</b>	<b>R&amp;D</b>	<b>% Avail.</b>	<b>IND</b>	<b>% Avail.</b>	<b>WHSE</b>	<b>% Avail.</b>	<b>Total</b>	<b>% Avail.</b>
<b>4Q08</b>										
Total Available	92,418	8.32%	0	0.00%	0	0.00%	0	0.00%	92,418	8.32%
New Construction	0		0		0		0		0	
Net Absorption	6,329		0		0		0		6,329	
Gross Absorption	14,702		0		0		0		14,702	
<b>3Q08</b>										
Total Available	104,462	9.40%	0	0.00%	0	0.00%	0	0.00%	104,462	9.40%
New Construction	0		0		0		0		0	
Net Absorption	-14,063		0		0		0		-14,063	
Gross Absorption	38,041		0		0		0		38,041	
<b>2Q08</b>										
Total Available	95,591	8.61%	0	0.00%	0	0.00%	0	0.00%	95,591	8.61%
New Construction	0		0		0		0		0	
Net Absorption	-3,354		0		0		0		-3,354	
Gross Absorption	14,052		0		0		0		14,052	
<b>1Q08</b>										
Total Available	101,507	9.14%	0	0.00%	0	0.00%	0	0.00%	101,507	9.14%
New Construction	0		0		0		0		0	
Net Absorption	-11,297		0		0		0		-11,297	
Gross Absorption	5,923		0		0		0		5,923	

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# SELECTED OFFICE MARKET STATISTICS

COLLIERS INTERNATIONAL  
2008 - 2009 SILICON VALLEY  
MARKET REPORT & FORECAST

JANUARY 2009

LOS GATOS	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
<b>4Q08</b>										
Total Available	211,458	23.69%	106,808	22.48%	0	0.00%	0	0.00%	318,266	22.89%
New Construction	0		0		0		0		0	
Net Absorption	-24,690		-43,964		0		0		-68,654	
Gross Absorption	13,989		0		0		0		13,989	
<b>3Q08</b>										
Total Available	221,168	24.77%	62,844	13.80%	0	0.00%	0	0.00%	284,012	20.72%
New Construction	0		0		0		0		0	
Net Absorption	2,141		8,162		0		0		10,303	
Gross Absorption	19,048		21,124		0		0		40,172	
<b>2Q08</b>										
Total Available	298,852	33.47%	71,006	15.59%	0	0.00%	0	0.00%	369,858	26.98%
New Construction	0		0		0		0		0	
Net Absorption	-11,901		-16,975		3,415		0		-25,461	
Gross Absorption	12,473		27,833		3,415		0		43,721	
<b>1Q08</b>										
Total Available	181,361	20.31%	93,336	20.49%	3,415	52.54%	0	0.00%	278,112	20.29%
New Construction	0		0		0		0		0	
Net Absorption	-8,217		4,025		0		0		-4,192	
Gross Absorption	21,021		34,767		0		0		55,788	

MILPITAS	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
<b>4Q08</b>										
Total Available	125,194	12.28%	3,049,995	21.78%	395,484	13.77%	484,792	10.18%	4,055,465	17.90%
New Construction	0		0		0		0		0	
Net Absorption	-9,279		-124,152		-108,169		-31,540		-273,140	
Gross Absorption	19,202		31,783		28,692		94,475		174,152	
<b>3Q08</b>										
Total Available	123,623	12.13%	2,874,474	20.52%	353,975	12.32%	535,817	11.25%	3,887,889	17.16%
New Construction	0		0		0		0		0	
Net Absorption	-26,326		-126,443		5,945		-83,367		-230,191	
Gross Absorption	11,917		40,559		55,912		42,500		150,888	
<b>2Q08</b>										
Total Available	100,579	9.87%	2,829,384	20.20%	523,433	18.22%	431,593	9.06%	3,884,989	17.15%
New Construction	0		0		0		0		0	
Net Absorption	8,276		131,817		-106,854		7,527		40,766	
Gross Absorption	31,050		405,624		120,468		64,202		621,344	
<b>1Q08</b>										
Total Available	143,157	14.05%	3,047,835	21.76%	429,728	14.96%	439,120	9.22%	4,059,840	17.92%
New Construction	0		0		0		0		0	
Net Absorption	-37,894		-1,972		-46,882		-60,024		-146,772	
Gross Absorption	3,964		282,727		14,574		31,500		332,765	

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JANUARY 2009

<b>MORGAN HILL</b>	<b>OFC</b>	<b>% Avail.</b>	<b>R&amp;D</b>	<b>% Avail.</b>	<b>IND</b>	<b>% Avail.</b>	<b>WHSE</b>	<b>% Avail.</b>	<b>Total</b>	<b>% Avail.</b>
<b>4Q08</b>										
Total Available	163,154	31.00%	579,448	21.55%	252,745	12.37%	93,970	24.42%	1,089,317	19.31%
New Construction	0		0		0		0		0	
Net Absorption	5,457		-51,263		-1,687		0		-47,493	
Gross Absorption	5,457		10,500		11,902		0		27,859	
<b>3Q08</b>										
Total Available	171,585	32.61%	683,679	25.43%	339,656	16.63%	46,970	12.65%	1,241,890	22.06%
New Construction	0		0		0		0		0	
Net Absorption	-4,250		33,255		-21,560		79,588		87,033	
Gross Absorption	858		34,566		155,520		79,588		270,532	
<b>2Q08</b>										
Total Available	140,180	26.64%	693,137	25.78%	458,612	22.45%	173,348	46.68%	1,465,277	26.03%
New Construction	0		0		0		0		0	
Net Absorption	-19,010		-78,018		-14,880		32,618		-79,290	
Gross Absorption	940		9,764		28,466		79,588		118,758	
<b>1Q08</b>										
Total Available	121,169	23.09%	543,722	20.22%	459,758	22.49%	205,966	55.46%	1,330,615	23.64%
New Construction	0		0		0		0		0	
Net Absorption	-50,807		-86,040		13,441		0		-123,406	
Gross Absorption	0		0		13,441		0		13,441	

<b>MOUNTAIN VIEW</b>	<b>OFC</b>	<b>% Avail.</b>	<b>R&amp;D</b>	<b>% Avail.</b>	<b>IND</b>	<b>% Avail.</b>	<b>WHSE</b>	<b>% Avail.</b>	<b>Total</b>	<b>% Avail.</b>
<b>4Q08</b>										
Total Available	387,742	10.30%	1,903,187	13.62%	202,803	7.52%	0	0.00%	2,493,732	12.20%
New Construction	0		0		0		0		0	
Net Absorption	-52,713		-72,299		-3,473		0		-128,485	
Gross Absorption	46,829		171,589		16,392		0		234,810	
<b>3Q08</b>										
Total Available	368,591	9.79%	1,661,745	11.89%	225,286	8.35%	0	0.00%	2,255,622	11.04%
New Construction	0		0		0		0		0	
Net Absorption	41,794		-152,949		-4,778		0		-115,933	
Gross Absorption	129,267		60,819		62,170		0		252,256	
<b>2Q08</b>										
Total Available	369,615	9.82%	1,482,979	10.61%	226,876	8.41%	0	0.00%	2,079,470	10.18%
New Construction	0		0		0		0		0	
Net Absorption	-19,195		-128,446		-53,112		0		-200,753	
Gross Absorption	108,998		164,655		62,378		0		336,031	
<b>1Q08</b>										
Total Available	334,297	8.88%	1,396,827	9.99%	269,342	10.16%	0	0.00%	2,000,466	9.81%
New Construction	0		0		0		0		0	
Net Absorption	-35,914		-16,404		-30,331		0		-82,649	
Gross Absorption	82,592		135,403		39,278		0		257,273	

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COLLIERS INTERNATIONAL  
2008 - 2009 SILICON VALLEY  
MARKET REPORT & FORECAST

JANUARY 2009

<b>PALO ALTO</b>	<b>OFC</b>	<b>% Avail.</b>	<b>R&amp;D</b>	<b>% Avail.</b>	<b>IND</b>	<b>% Avail.</b>	<b>WHSE</b>	<b>% Avail.</b>	<b>Total</b>	<b>% Avail.</b>
<b>4Q08</b>										
Total Available	910,871	14.84%	806,791	7.84%	138,713	10.87%	12,620	4.10%	1,868,995	10.38%
New Construction	70,000		0		0		0		70,000	
Net Absorption	-14,318		-293,177		6,621		0		-300,874	
Gross Absorption	164,399		23,397		6,621		0		194,417	
<b>3Q08</b>										
Total Available	919,820	14.99%	133,340	1.30%	149,734	11.83%	12,620	4.10%	1,215,514	6.75%
New Construction	70,000		0		0		0		70,000	
Net Absorption	-54,707		129,831		-22,510		-12,620		39,994	
Gross Absorption	238,495		159,102		25,750		27,443		450,790	
<b>2Q08</b>										
Total Available	912,235	14.87%	287,503	2.79%	126,904	10.03%	27,443	8.91%	1,354,085	7.52%
New Construction	70,000		0		0		0		70,000	
Net Absorption	-63,972		5,000		-30,321		0		-89,293	
Gross Absorption	192,052		8,654		3,579		0		204,285	
<b>1Q08</b>										
Total Available	843,190	13.74%	526,432	5.11%	128,530	10.15%	27,443	8.91%	1,525,595	8.47%
New Construction	70,000		0		0		0		70,000	
Net Absorption	9,257		-151,512		-1,011		0		-143,266	
Gross Absorption	184,102		21,500		9,568		0		215,170	

<b>SAN JOSE</b>	<b>OFC</b>	<b>% Avail.</b>	<b>R&amp;D</b>	<b>% Avail.</b>	<b>IND</b>	<b>% Avail.</b>	<b>WHSE</b>	<b>% Avail.</b>	<b>Total</b>	<b>% Avail.</b>
<b>4Q08</b>										
Total Available	4,339,135	19.12%	9,340,931	19.72%	1,957,346	8.62%	1,282,235	7.83%	16,919,647	15.50%
New Construction	0		98,500		0		0		98,500	
Net Absorption	-181,799		-443,548		-210,424		-85,171		-920,942	
Gross Absorption	261,171		387,513		259,988		348,510		1,257,182	
<b>3Q08</b>										
Total Available	4,430,062	19.53%	9,431,212	19.91%	2,131,317	9.38%	1,338,551	8.18%	17,331,142	15.88%
New Construction	0		98,500		0		0		98,500	
Net Absorption	-279,965		370,515		-270,690		93,642		-86,498	
Gross Absorption	282,194		476,681		350,633		239,696		1,349,204	
<b>2Q08</b>										
Total Available	3,976,859	17.53%	9,450,837	19.95%	1,793,704	7.89%	1,469,689	8.98%	16,691,089	15.29%
New Construction	0		98,500		0		0		98,500	
Net Absorption	-474,342		-231,772		-264,452		-65,345		-1,035,911	
Gross Absorption	393,892		597,220		205,445		232,643		1,429,200	
<b>1Q08</b>										
Total Available	3,798,942	16.74%	9,486,684	20.02%	1,339,558	5.87%	1,053,644	6.44%	15,678,828	14.35%
New Construction	0		98,500		0		0		98,500	
Net Absorption	-131,675		-69,956		-69,118		-353,105		-623,854	
Gross Absorption	383,902		719,412		356,448		156,517		1,616,279	

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JANUARY 2009

<b>SANTA CLARA</b>	<b>OFC</b>	<b>% Avail.</b>	<b>R&amp;D</b>	<b>% Avail.</b>	<b>IND</b>	<b>% Avail.</b>	<b>WHSE</b>	<b>% Avail.</b>	<b>Total</b>	<b>% Avail.</b>
<b>4Q08</b>										
Total Available	1,661,187	18.17%	2,674,613	12.28%	905,832	8.23%	263,816	8.17%	5,505,448	12.19%
New Construction	0		0		0		0		0	
Net Absorption	-112,611		26,906		-89,648		-89,623		-264,976	
Gross Absorption	146,393		132,186		141,071		50,860		470,510	
<b>3Q08</b>										
Total Available	1,619,275	17.71%	2,842,823	13.05%	1,009,749	9.18%	355,233	11.00%	5,827,080	12.90%
New Construction	0		0		0		0		0	
Net Absorption	-180,903		285,020		-60,681		-91,660		-48,224	
Gross Absorption	193,160		408,696		182,193		0		784,049	
<b>2Q08</b>										
Total Available	1,582,531	17.31%	3,080,614	14.14%	948,005	8.62%	223,321	6.91%	5,834,471	12.92%
New Construction	0		0		0		0		0	
Net Absorption	-4,268		-277,142		56,842		-10,500		-235,068	
Gross Absorption	235,164		341,506		129,179		53,040		758,889	
<b>1Q08</b>										
Total Available	1,599,262	17.49%	3,146,574	14.42%	922,429	8.39%	125,061	3.87%	5,793,326	12.82%
New Construction	0		0		0		0		0	
Net Absorption	58,313		-82,009		-194,142		-37,821		-255,659	
Gross Absorption	362,452		642,771		147,144		0		1,152,367	

<b>SUNNYVALE</b>	<b>OFC</b>	<b>% Avail.</b>	<b>R&amp;D</b>	<b>% Avail.</b>	<b>IND</b>	<b>% Avail.</b>	<b>WHSE</b>	<b>% Avail.</b>	<b>Total</b>	<b>% Avail.</b>
<b>4Q08</b>										
Total Available	2,211,933	34.60%	54,934	13.26%	387,197	11.56%	54,934	2.11%	2,708,998	16.09%
New Construction	0		0		0		0		0	
Net Absorption	-134,011		-34,438		-67,609		0		-236,058	
Gross Absorption	23,670		390,046		37,347		72,000		523,063	
<b>3Q08</b>										
Total Available	1,862,295	29.13%	70,934	13.05%	458,463	13.69%	70,934	2.72%	2,462,626	15.22%
New Construction	316,300		123,842		0		0		440,142	
Net Absorption	-36,562		-57,209		3,152		0		-90,619	
Gross Absorption	15,826		332,372		59,013		50,000		457,211	
<b>2Q08</b>										
Total Available	1,499,346	24.68%	54,934	12.03%	473,543	14.14%	54,934	2.11%	2,082,757	13.66%
New Construction	0		0		0		0		0	
Net Absorption	141,440		-133,446		-57,946		0		-49,952	
Gross Absorption	227,823		343,311		26,695		0		597,829	
<b>1Q08</b>										
Total Available	1,618,210	26.78%	54,934	11.56%	425,097	12.69%	54,934	2.11%	2,153,175	13.55%
New Construction	600,400		0		0		0		600,400	
Net Absorption	-137,358		100,418		-53,010		0		-89,950	
Gross Absorption	30,390		393,050		26,295		0		449,735	

DISCLAIMER: Colliers International is pleased to be able to provide the market information contained herein, and in so doing believes its validity. However, we cannot guarantee its accuracy or take responsibility for its use.

# SELECTED OFFICE MARKET STATISTICS

COLLIERS INTERNATIONAL  
2008 - 2009 SILICON VALLEY  
MARKET REPORT & FORECAST

JANUARY 2009

EXISTING PROPERTIES			VACANT AVAILABLE		OCCUPIED AVAILABLE		TOTAL AVAILABILITY			NET ABSORPTION		CONSTRUCTION		RENT
Type	Bldgs	Total Inventory Sq Ft	Direct Vacant	Sublease Vacant	Direct Occupied	Sublease Occupied	Sq Ft	Rate Q4-2008	Rate Q3-2008	Q4-2008	YTD	Completed Q4-2008	Under Constr	FS Wtd Avg Asking
<b>SUB MARKETS</b>														
<b>CAMPBELL / LOS GATOS</b>														
A	19	1,123,609	137,137	28,324	197,407	28,324	391,192	34.8%	23.3%	2,693	(110,106)	-	4,670	\$3.11
B	89	1,705,002	277,685	3,536	116,355	18,800	416,376	24.4%	26.2%	(23,375)	(143,167)	-	-	\$2.31
C	13	172,155	24,324	5,400	18,002	-	47,726	27.7%	21.4%	(16,194)	(28,700)	-	-	\$2.17
Total	121	3,000,766	439,146	37,260	331,764	47,124	855,294	28.5%	24.9%	(36,876)	(281,973)	-	4,670	\$2.75
<b>CUPERTINO / SARATOGA</b>														
A	7	632,165	9,844	63,138	5,795	-	78,777	12.5%	10.9%	(6,885)	(171,125)	-	102,540	\$3.76
B	83	2,530,294	275,570	40,165	51,765	-	367,500	14.5%	12.9%	(52,106)	(121,040)	-	-	\$3.42
C	22	290,394	5,000	-	7,936	-	12,936	4.5%	4.5%	(5,000)	(10,036)	-	-	\$2.65
Total	112	3,452,853	290,414	103,303	65,496	-	459,213	13.3%	11.8%	(54,988)	(293,198)	-	102,540	\$3.51
<b>FREMONT / MILPITAS</b>														
A	15	805,847	163,628	26,665	30,620	5,178	226,091	28.1%	27.3%	(8,823)	(100,212)	-	18,066	\$2.14
B	38	1,179,040	189,630	15,113	8,218	2,447	215,408	18.3%	19.3%	(12,815)	(146,444)	-	-	\$2.12
C	35	675,178	68,336	-	59,343	1,815	129,494	19.2%	17.8%	(19,819)	(54,500)	-	-	\$1.98
Total	88	2,660,065	421,594	41,778	98,181	9,440	570,993	21.5%	21.3%	(41,457)	(301,156)	-	18,066	\$2.10
<b>GILROY / MORGAN HILL</b>														
A	16	311,036	33,421	33,725	25,000	-	92,146	29.6%	28.1%	(4,639)	(16,505)	-	-	\$2.68
B	7	120,088	60,226	1,967	-	-	62,193	51.8%	51.2%	(3,730)	(47,609)	-	-	\$2.29
C	29	285,730	47,054	-	3,300	-	50,354	17.6%	17.6%	-	(27,415)	-	-	\$2.21
Total	52	716,854	140,701	35,692	28,300	-	204,693	28.6%	27.8%	(8,369)	(91,529)	-	-	\$2.30
<b>LOS ALTOS</b>														
A	9	231,534	21,241	-	7,537	-	28,778	12.4%	22.2%	2,367	1,201	-	-	\$4.11
B	18	380,906	92,958	-	64,372	5,648	162,978	42.8%	39.6%	5,262	(22,248)	-	-	\$3.46
C	39	498,356	1,700	-	18,002	-	19,702	4.0%	3.8%	(1,300)	(1,338)	-	-	\$3.39
Total	66	1,110,796	115,899	-	89,911	5,648	211,458	19.0%	19.9%	6,329	(22,385)	-	-	\$3.37
<b>MOUNTAIN VIEW</b>														
A	22	2,196,395	119,680	7,069	48,343	-	175,092	8.0%	8.1%	(19,065)	(17,507)	-	-	\$3.90
B	45	1,085,736	109,595	9,740	22,353	11,782	153,470	14.1%	14.2%	(10,220)	(52,227)	-	-	\$3.17
C	45	482,537	32,720	9,750	16,710	-	59,180	12.3%	7.8%	(23,428)	3,706	-	-	\$2.52
Total	112	3,764,668	261,995	26,559	87,406	11,782	387,742	10.3%	9.8%	(52,713)	(66,028)	-	-	\$3.41
<b>PALO ALTO</b>														
A	63	2,806,466	138,978	34,431	51,679	334,917	560,005	20.0%	19.4%	(1,297)	(13,831)	-	225,586	\$4.24
B	104	2,400,415	186,308	30,112	32,843	28,190	277,453	11.6%	12.4%	(14,258)	(118,191)	-	-	\$4.17
C	83	929,756	50,050	18,053	2,250	3,060	73,413	7.9%	8.3%	1,237	(3,835)	-	-	\$4.03
Total	250	6,136,637	375,336	82,596	86,772	366,167	910,871	14.8%	15.0%	(14,318)	(135,857)	-	225,586	\$4.18
<b>SAN JOSE</b>														
A	77	9,909,250	1,383,910	41,058	394,490	128,961	1,948,419	19.7%	19.0%	(55,061)	(614,931)	-	957,101	\$3.13
B	239	8,586,576	1,036,981	80,975	211,933	62,761	1,392,650	16.2%	17.7%	(79,337)	(375,901)	-	-	\$2.17
C	187	4,193,337	675,072	19,073	299,421	4,500	998,066	23.8%	24.5%	(47,401)	(168,480)	-	-	\$1.80
Total	503	22,689,163	3,095,963	141,106	905,844	196,222	4,339,135	19.1%	19.5%	(181,799)	(1,159,312)	-	957,101	\$2.66
<b>SANTA CLARA</b>														
A	31	4,431,204	371,886	42,646	18,616	100,207	533,355	12.0%	11.7%	(34,529)	15,473	-	365,000	\$3.45
B	130	4,050,125	856,881	44,464	99,645	10,710	1,011,700	25.0%	24.9%	(64,061)	(257,964)	-	-	\$2.13
C	40	660,949	87,732	-	28,400	-	116,132	17.6%	14.3%	(14,021)	(22,683)	-	-	\$1.90
Total	201	9,142,278	1,316,499	87,110	146,661	110,917	1,661,187	18.2%	17.7%	(112,611)	(265,174)	-	365,000	\$2.78
<b>SUNNYVALE</b>														
A	29	4,548,817	1,155,442	122,499	327,391	266,082	1,871,414	41.1%	33.6%	(21,338)	9,037	-	1,214,212	\$3.50
B	57	1,372,356	147,348	15,604	30,543	31,266	224,761	16.4%	16.2%	(12,678)	(72,761)	-	-	\$2.46
C	24	471,440	115,758	-	-	-	115,758	24.6%	23.5%	(99,995)	(112,767)	-	-	\$2.37
Total	110	6,392,613	1,418,548	138,103	357,934	297,348	2,211,933	34.6%	29.1%	(134,011)	(176,491)	-	1,214,212	\$3.50
<b>SILICON VALLEY TOTALS</b>														
A	288	26,996,323	3,535,167	399,555	1,106,878	863,669	5,905,269	21.9%	19.8%	(146,577)	(952,369)	-	2,887,175	\$3.45
B	810	23,410,538	3,233,182	241,676	638,027	171,604	4,284,489	18.3%	18.9%	(258,315)	(1,282,412)	-	-	\$2.53
C	517	8,659,832	1,107,746	52,276	453,364	9,375	1,622,761	18.7%	18.3%	(225,921)	(359,911)	-	-	\$2.06
Total	1,615	59,066,693	7,876,095	693,507	2,198,269	1,044,648	11,812,519	20.0%	19.2%	(630,813)	(2,594,692)	-	2,887,175	\$3.09
<b>QUARTERLY COMPARISON AND TOTALS</b>														
4Q-08	1,615	59,066,693	7,876,095	693,507	2,198,269	1,044,648	11,812,519	20.0%	19.2%	(630,813)	(2,594,692)	-	2,887,175	\$3.09
3Q-08	1,615	59,066,693	7,380,653	644,116	2,121,639	1,194,859	11,341,267	19.2%	17.7%	(695,213)	(1,963,879)	316,300	1,671,672	\$3.14
2Q-08	1,614	58,750,393	6,072,562	461,694	2,337,400	1,381,176	10,252,832	17.7%	14.5%	(566,591)	(1,268,666)	-	2,082,825	\$3.08
1Q-08	1,614	58,661,306	6,072,562	461,694	2,337,400	1,381,176	10,252,832	17.5%	14.5%	(702,075)	(702,075)	600,400	1,671,672	\$2.92
4Q-07	1,612	57,926,348	4,838,205	232,563	1,922,793	1,413,355	8,406,916	14.5%	13.8%	(323,684)	(234,559)	70,000	860,075	\$2.90
3Q-07	1,611	57,837,196	4,623,899	219,683	1,740,795	1,413,055	7,997,432	13.8%	13.9%	(37,395)	89,125	-	611,921	\$2.79

JANUARY 2009

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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 footages 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 third 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 from 2008, 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 increased by 5.6 million square feet in 2008. 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 2007	40,890,592
Plus: Vacant & occupied space that came available in 2008	27,440,620
Plus: New Shell added in 2008	1,040,542
2007 Available + Newly Available in 2008 =	68,331,212
Less: 2008 Gross Absorption	-18,490,289
Less: 2008 Taken off the Market	-3,299,535
Total Available end of 2008	46,541,388

**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 2008	-16,804,723
Previously available space that was vacated in 2008	-9,555,979
2008 Total Vacant Added (occupancy loss)	-26,360,702

2008 Gross Absorption (occupancy gain)	18,490,289
2008 Net Absorption (change in occupancy)	-7,870,413

**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 is not advised and Colliers is not presently recording it or reporting on it in any annualized fashion.





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