Peninsula Report

MARKET OVERVIEW | THIRD QUARTER | 2008

MARKET INDICATORS

	2Q 2008	3Q 2008
VACANCY RATE	12.1%	12.6%
GROSS ABSORPTION	846,917 SF	928,595 SF
NET ABSORPTION	(695,793 SF)	(186,956 SF)
WEIGHTED AVG ASKING RENT	$3.60 FS	$3.59 FS

Office Overview

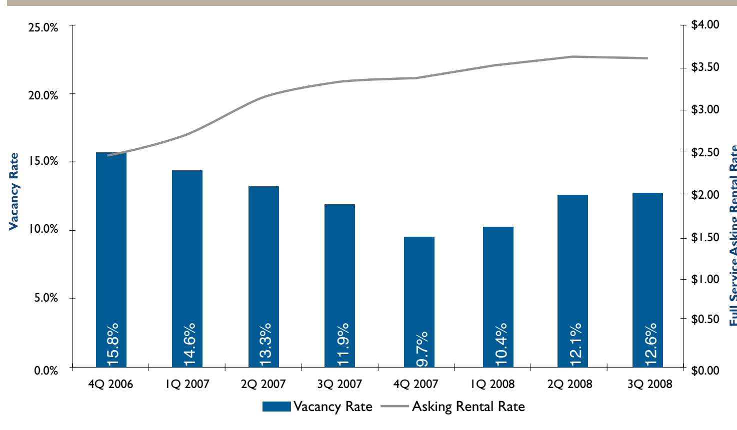
"Tough times" has become as much a mantra as a description of the rapidly changing state of the US economy. The real estate industry has been hit significantly by a much tighter credit market and an economy in decline.

The third quarter of 2008 was the first quarter since 2003 that showed a real pull-back in the local market[1], with a negative net absorption of 186,956 square feet. Despite a street-level sense of a market in decline over the course of 2008, to date the market has been essentially flat. With the exception of the PDL BioPharma campus, there has yet to be a significant influx of new space returning to the market. The recent demise of the law firm of Heller Ehrman LLP adds substantial inventory as well, but this high-end Menlo Park campus is expected to be absorbed with little difficulty.

While vacancy rates appear to be generally in check for the time being, the lower levels of leasing activity are noteworthy. Gross absorption, a broad measure of activity within the market, is running at approximately 60% of last year. Additionally, a snapshot of the current market shows a less than robust inventory of larger requirements in play, suggesting that absorption numbers will remain anemic for at least a few quarters.

Even though there has been a drop in activity levels, the market has remained surprisingly flat during this broad slowdown. There are the first rumblings of softness in asking prices for office space (particularly for class A space), and some already announced reductions will certainly impact fourth quarter statistics. Lease rates for completed transactions remain relatively consistent with those seen at this time last year, and much of the reduction in asking rates was an unsuccessful attempt to find an even higher plateau while the market was still ratcheting upwards.

PENINSULA OFFICE MARKET - VACANCY VS. RENT



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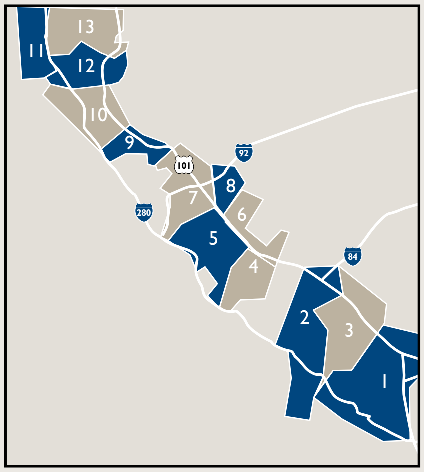

SUBMARKET MAP KEY

ID	SUBMARKET
1	Mtn.View/Los Altos
2	Palo Alto
3	Menlo Park
4	Redwood City
5	Belmont/San Carlos
6	Redwood Shores
7	San Mateo
8	Foster City
9	Burlingame
10	San Bruno/Millbrae
11	Daly City
12	South San Francisco
13	Brisbane

High profile transactions in the Stanford Research Park in Palo Alto—Facebook's commitment to a ±137,000 square foot sublease as well as Lockheed's ±40,000 square foot sublease—show the strength in core markets. Rents remain strong within many of the tightest markets and most prestigious individual buildings, and lease rates seen in such locations as 950 Tower Lane in Foster City and the Palo Alto Square complex have even increased.

As the entire nation braces for an economic downturn, it is a virtual certainty that a slowdown in the local real estate market is imminent. Any correction is starting from a fairly healthy market, however, which gives reason for optimism that we should not see as deep a decline as was seen in the last cycle.

Footnote: 1) as discussed in last quarter's report, the increased vacancy seen in the prior quarter can be attributed almost entirely to a single campus coming available (PDL BioPharma), an event that has little to do with broader conditions

Industrial Overview

Prior to the tumult of the global financial sector in the latter half of the quarter, two large sales closed earlier in the quarter. The first being Shorenstein Properties and SKS Investments $85 million purchase of the Oyster Point Business Park in South San Francisco, a six building industrial/R&D flex business park with ±400,000 square feet spread over ±34 acres of prime waterfront property. The long term strategy of the new owners is to redevelop the property for Class A office and/or life science use. The property could be rezoned for up to 1 million square feet by the city, putting the Oyster Point Business Park in a better position to compete with the developing Mission Bay biotech cluster in nearby San Francisco.

In another large sale, Centrum Properties and Angelo, Gordon & Co. purchased the SFO Logistics Center at 1070 San Mateo Ave. in South San Francisco for $35.6 million. The new owners plan to upgrade the ±572,000 square foot industrial distribution space with more loading docks, better ingress and egress, and additional parking (the owners also purchased the adjacent 5.23 acres of industrial land at 1080 San Mateo Ave. to increase the parking ratio to 1.7 per 1,000 square feet). Considering its proximity to the airport and highways 101, 280, 380, and lack of large contiguous industrial space in the market, the property's outlook appears favorable.

MARKET ACTIVITY

SIGNIFICANT THIRD QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	DATE	SQUARE FEET	TENANT	TYPE
1601 California Avenue, Palo Alto	9/08	±137,000	Facebook	R&D/Office
650 Castro Street, Mtn.View	8/08	±36,202	Mozilla	Office
2027 Stierlin Court, Mtn.View	7/08	±35,390	LinkedIn	R&D/Office
2100 Seaport Boulevard, Redwood City	8/08	±31,934	Seven Networks	Office
870 Mahler Road, Burlingame	8/08	±27,192	Blue Water Party Rentals	Warehouse

SIGNIFICANT SALES

PROPERTY ADDRESS	DATE	SQUARE FEET	BUYER	TYPE
1080 S.Amphlett Boulevard, San Mateo	7/08	±3.5 Acres	Intracorp	Land
1070 San Mateo Avenue, S. San Francisco	7/08	±572,000	Centrum Properties and Angelo, Gordon & Co.	Industrial/Distribution
375-389 Oyster Point Business Park	7/08	±400,000	Shorenstein Properties and SKS Investments	Industrial/R&D
2235 Old Middlefield Way, Mtn.View	7/08	±34,900	Middlefield Investments	Multi-Tenant Industrial

OFFICE MARKET STATISTICS
THIRD QUARTER 2008

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY				NET ABSORPTION		RENT
Class	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Current Occupied Sq Ft	Rate Q3-2008	Rate Q2-2008	Q3-2008	YTD	Wtd Avg Asking Rate
SUB MARKETS													
MOUNTAIN VIEW/LOS ALTOS													
A	31	2,427,929	129,575	5.3%	0	0.0%	129,575	2,298,354	5.3%	6.2%	40,749	392	$3.86
B	63	1,466,642	181,010	12.3%	9,740	0.7%	190,750	1,275,892	13.0%	10.4%	(16,423)	(69,517)	$3.26
Total	94	3,894,571	310,585	8.0%	9,740	0.3%	320,325	3,574,246	8.2%	7.8%	24,326	(69,125)	$3.52
PALO ALTO													
A	63	2,806,466	117,301	4.2%	53,248	1.9%	170,549	2,635,917	6.1%	5.1%	(22,180)	(12,534)	$6.06
B	104	2,400,415	159,201	6.6%	41,251	1.7%	200,452	2,199,963	8.4%	6.8%	(40,519)	(103,933)	$4.45
Total	171	5,206,881	276,502	5.3%	94,499	1.8%	371,001	4,835,880	7.1%	5.9%	(62,699)	(116,467)	$5.21
MENLO PARK													
A	31	1,496,965	20,776	1.4%	1,400	0.1%	22,176	1,474,789	1.5%	1.3%	(3,152)	69,293	$8.57
B	69	2,125,648	200,707	9.4%	65,566	3.1%	266,273	1,859,375	12.5%	12.9%	7,491	(80,837)	$3.86
Total	100	3,622,613	221,483	6.1%	66,966	1.8%	288,449	3,334,164	8.0%	8.1%	4,339	(11,544)	$4.30
REDWOOD CITY													
A	20	2,440,446	130,130	5.3%	536,698	22.0%	666,828	1,773,618	27.3%	29.0%	40,405	(244,059)	$3.39
B	36	1,336,245	259,242	19.4%	0	0.0%	259,242	1,077,003	19.4%	19.5%	837	7,579	$2.88
Total	56	3,776,691	389,372	10.3%	536,698	14.2%	926,070	2,850,621	24.5%	25.6%	41,242	(236,480)	$3.16
BELMONT/SAN CARLOS													
A	9	881,679	320,563	36.4%	58,497	6.6%	379,060	502,619	43.0%	43.0%	0	(52,497)	$3.56
B	12	660,789	51,795	7.8%	0	0.0%	51,795	608,994	7.8%	7.3%	(3,377)	13,693	$3.30
Total	21	1,542,468	372,358	24.1%	58,497	3.8%	430,855	1,111,613	27.9%	27.7%	(3,377)	(38,804)	$3.52
REDWOOD SHORES													
A	49	5,347,940	389,596	7.3%	54,849	1.0%	444,445	4,903,495	8.3%	8.2%	(5,769)	202,293	$3.96
B	5	172,852	17,259	10.0%	11,190	6.5%	28,449	144,403	16.5%	22.5%	10,494	11,919	$3.22
Total	54	5,520,792	406,855	7.4%	66,039	1.2%	472,894	5,047,898	8.6%	8.7%	4,725	214,212	$3.93
SAN MATEO													
A	24	2,709,117	250,440	9.2%	109,304	4.0%	359,744	2,349,373	13.3%	12.4%	(23,634)	(81,371)	$3.68
B	68	3,956,698	616,095	15.6%	70,913	1.8%	687,008	3,269,690	17.4%	17.3%	(2,892)	(34,577)	$3.58
Total	92	6,665,815	866,535	13.0%	180,217	2.7%	1,046,752	5,619,063	15.7%	15.3%	(26,526)	(115,948)	$3.61
FOSTER CITY													
A	14	2,686,494	58,393	2.2%	107,917	4.0%	166,310	2,520,184	6.2%	4.9%	(34,684)	(133,471)	$3.96
B	14	576,068	65,070	11.3%	4,981	0.9%	70,051	506,017	12.2%	11.6%	(3,142)	(5,410)	$3.34
Total	28	3,262,562	123,463	3.8%	112,898	3.5%	236,361	3,026,201	7.2%	6.1%	(37,826)	(138,881)	$2.96
BURLINGAME													
A	6	758,931	210,259	27.7%	10,761	1.4%	221,020	537,911	29.1%	28.8%	(2,624)	(64,576)	$2.90
B	24	1,047,180	87,378	8.3%	1,835	0.2%	89,213	957,967	8.5%	7.9%	(6,735)	(29,304)	$2.15
Total	30	1,806,111	297,637	16.5%	12,596	0.7%	310,233	1,495,878	17.2%	16.7%	(9,359)	(93,880)	$3.03
SAN BRUNO/MILLBRAE													
A	9	1,132,078	134,785	11.9%	56,739	5.0%	191,524	940,554	16.9%	13.6%	(37,934)	(103,904)	$3.01
B	11	371,840	21,413	5.8%	0	0.0%	21,413	350,427	5.8%	5.2%	(2,123)	(2,123)	$2.95
Total	20	1,503,918	156,198	10.4%	56,739	3.8%	212,937	1,290,981	14.2%	11.5%	(40,057)	(106,027)	$3.00
DALY CITY													
A	4	668,291	18,775	2.8%	1,028	0.2%	19,803	648,488	3.0%	2.8%	(900)	21,272	$2.96
B	10	285,853	34,641	12.1%	0	0.0%	34,641	251,212	12.1%	13.4%	3,666	1,523	$2.25
Total	14	954,144	53,416	5.6%	1,028	0.1%	54,444	899,700	5.7%	6.0%	2,766	22,795	$2.50
SOUTH SAN FRANCISCO													
A	15	2,370,888	93,474	3.9%	121,517	5.1%	214,991	2,155,897	9.1%	8.6%	(10,182)	439	$3.63
B	14	952,918	47,060	4.9%	214,089	22.5%	261,149	691,769	27.4%	15.2%	(116,334)	(173,085)	$3.16
Total	29	3,323,806	140,534	4.2%	335,606	10.1%	476,140	2,847,666	14.3%	10.5%	(126,516)	(172,646)	$3.47
BRISBANE													
A	5	674,888	105,261	15.6%	17,466	2.6%	122,727	552,161	18.2%	24.0%	39,288	32,370	$3.20
B	4	176,587	25,676	14.5%	0	0.0%	25,676	150,911	14.5%	16.1%	2,718	(416)	$1.95
Total	9	851,475	130,937	15.4%	17,466	2.1%	148,403	703,072	17.4%	22.4%	42,006	31,954	$2.95
MARKET TOTALS													
A	280	26,402,112	1,979,328	7.5%	1,129,424	4.3%	3,108,752	23,293,360	11.8%	11.6%	(20,617)	(366,353)	$3.75
B	434	15,529,735	1,766,547	11.4%	419,565	2.7%	2,186,112	13,343,623	14.1%	12.9%	(166,339)	(464,488)	$3.39
Total	714	41,931,847	3,745,875	8.9%	1,548,989	3.7%	5,294,864	36,636,983	12.6%	12.1%	(186,956)	(830,841)	$3.59

Leasing activity in the R&D sector was flat, registering 12,906 square feet of negative net absorption, and leaving overall vacancy at 6.8%. Weighted average asking rents dropped slightly from $1.95 to $1.89 NNN.

The activity in the Industrial sector slowed as negative net absorption reached 408,474 square feet, with overall vacancy rising from 5.2% to 6.1%. A majority of the negative absorption was concentrated in direct availability from a handful of buildings in Brisbane and South San Francisco bringing ±285,000 square feet to market.

Despite thh global economic volatility, the outlook for the Peninsula Industrial and R&D sectors appears to be stable and favorable when taking into consideration the set-in-place factors, such as the San Francisco International Airport, lack of buildable space, location between Silicon Valley and San Francisco, and the growing life sciences field.

**Industrial and R&D statistics are available upon request.*

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293 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA 99
Canada 19
Latin America 18
Asia Pacific 62
EMEA 95

$73 billion in annual transaction volume
868 million square feet under management
11,000 Professionals

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