



Real News

the silicon valley quarterly on commercial real estate

Q109 Market Study

Silicon Valley Economic Overview

The U.S. economy continued its horrific contraction in the first quarter of the year. Real gross domestic product decreased at a 6.1% annualized rate during the period, slightly less than the 6.3% annualized rate witnessed during the final quarter of 2008. On February 17th, mid-way through the quarter, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA), a \$787 billion package of federal tax cuts, unemployment benefits, and domestic spending initiatives intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. Significant disagreement persists among economists about the effectiveness of the AARA, with some skeptical of any significant effects while others expecting very substantial effects. Meanwhile, businesses across the country continued to shed workers, reduce inventories, and postpone new investments – the latter contracting at a record 37.9 percent rate during the period - to keep pace with drastically lower domestic and global demand.

Similarly, the Bay Area economy continued its deterioration during the first quarter. The unemployment rate in San Mateo County rose to 8.3 percent by the end of March, while the

unemployment rate in Santa Clara County finished the quarter at 11 percent – more than twice the county’s year-ago estimate of 5.3 percent. Santa Clara County’s unemployment rate remains slightly lower than the state of California as a whole (11.5 percent) but stands substantially higher than the 9 percent national unemployment rate.

Meanwhile, indications have begun to emerge that the technology sector - the greater Silicon Valley’s economic lifeblood – may be poised for a modest recovery later in the year. Intel announced PC sales had “bottomed out” in the first quarter and the worst was behind the industry. Google and Apple also reported strong first quarter revenue and earnings growth, beating Wall Street estimates.

Venture Capital activity, however, plummeted to the lowest level in at least a decade across every major industry sector measured both by dollars invested and the number of investments made. The decrease in investments in the clean tech sector was particularly noteworthy. PwC/NVCA reported an 84 percent decline in clean tech venture investment dollars and approximately a 50 percent decrease in the number of clean tech deals during the first quarter of 2009 compared to

Economic Indicators

	Q108	Q408	Q109
Unemployment Rate - Silicon Valley MSA*	5.3%	7.8%	11%
Unemployment Rate - Santa Clara County*	5.2%	7.8%	10.8%
Unemployment Rate - California*	6.5%	9.1%	11.5%
Unemployment Rate - National	5.1%	7.2%	8.5%
Inflation (CPI-U)*	3.1%	-12.7%	2.2%
US GDP	1.0%	-6.3%	-6.1%
VC Investment National**	\$7.7B	\$5.7B	\$3.3B
VC Investment Silicon Valley**	\$3.0B	\$2.0B	\$1.2B
VC Confidence Index***	3.22/5	2.77/5	3.03/5
Job Growth - Santa Clara County	+3,900	-7,000	-23,500
Job Growth - Silicon Valley MSA*	+4,000	-7,300	-24,100

*Not seasonally adjusted

**Source: PriceWaterhouseCoopers Money Tree

***Source: USF Bloomberg ticker USFSVVC1

Silicon Valley Economic Overview, cont.

Significant Large R&D Transactions in Q109

Landlord/Sublessor	Tenant	Address	City	Size
Irvine Company, The	Calisolar, Inc.	985 Almanor Ave	Sunnyvale	138,689
Legacy Partners	Asteelflash	4211 Starboard Drive	Fremont	129,808
Toeniskoetter & Breeding Inc.	BMC Software	91 E Tasman Drive	San Jose	62,163
Paulson Investments	GlobalStar	461 S Milpitas Blvd	Milpitas	59,370
Stonewood Properties	Shidi Sai Parivar	1221 California Circle	Milpitas	40,308
ProLogis Trust	Quanta	3353 Gateway Blvd	Fremont	36,353
AMB	MIPS	955 E Arques Ave	Sunnyvale	36,013

the fourth quarter of 2008 (the clean tech sector spans multiple industries and includes companies involved in alternative energy, pollution & recycling, power supplies and conservation). Both measures for the sector were also down compared to the year-ago period. Venture investors continue to nurture their strongest existing portfolio companies with more modest equity investments while avoiding seed and first-round investments. Given the persistent lack of IPO/M&A exits, significantly extended hold periods, and the growing number of “tapped-out” funds, many analysts are predicting the VC model is about to undergo dramatic change – with some predicting a contraction of up to 50 percent for the industry.

Q109 R&D Highlights

Absorption

First quarter 2009 R&D gross absorption in Silicon Valley totaled 1.1 million square feet, the lowest quarterly gross absorption measured by CPS in the past 23 years. Q109 R&D gross absorption was also 30 percent – or approximately 500,000 square feet - less than the previous record low of 1.6 million square feet, which came during the fourth quarter of 1991. During the past 92 quarters, the only other three-month period where R&D gross absorption totaled less than 1.7 million square feet was the first quarter of 1986 (three cycles ago). A number of sub-markets, including Mountain View (87,000 sq. ft.), Santa Clara (66,000 sq. ft.), San Jose (200,000 sq.ft.) and the West Valley (17,000 sq. ft.) experienced exceptionally low deal volume. Each of these submarkets’ first quarter gross absorption totals were less than 30 percent of their trailing 16 quarter averages.

At -2.9 million square feet, net absorption during the period was the fifth lowest quarterly total

since 1986. Every major sub-market also witnessed negative net absorption during the first quarter. Santa Clara was particularly hard-hit (-922,000 sq. ft.) due to several large blocks of sublease space that came available in January. Across nearly every industry and sub-market, users migrated from a “wait and see” to a “We’re doing nothing but give back space until prices correct” approach, as evidenced in the abysmal absorption statistics.

30.69M sf	▲	Available
1.15M sf	▼	Gross Abs.
-2.87M sf	▼	Net Abs.
\$1.29/sf	▼	Rent NNN

Vacancy Trends

The amount of available R&D space in Silicon Valley increased by approximately 8.4 percent compared to the year-end 2008 level. This translated into roughly a 140 basis point increase in the vacancy rate (to 18.2 percent) compared to the end of the fourth quarter of 2008. The contraction in employment levels resulting in companies vacating direct-leased space, combined with the increase in sublease availability, were the major drives of the increase in R&D vacancy during the quarter. Sub-markets witnessing the biggest vacancy increases during the quarter included Santa Clara (16.5 percent in Q109 vs. 12.9 percent in Q408), Milpitas (20.9 percent in Q109 vs. 18.9 percent in Q409) and Fremont (26.8 percent in Q109 vs. 25.1 percent in Q408). A chart of the largest R&D properties added to the available inventory is found top next page.

Q109 R&D Highlights, cont.

Significant New Q109 R&D / Office Availabilities

Building	City	Size	Availability	Type
2685 Augustine Drive	Santa Clara	265,850 SF	3/3/2009	Lease
3635 Peterson Way	Santa Clara	218,366 SF	1/30/2009	Sublease
1033 Mccarthy Blvd Bldgs 1 & 2	Milpitas	139,344 SF	1/6/2009	Sublease
2525 N First Street	San Jose	137,712 SF	1/13/2009	Sublease
545 Oakmead Pky	Sunnyvale	115,000 SF	4/1/2009	Lease
2901 Patrick Henry Drive	Santa Clara	82,278 SF	2/2/2009	Lease/Sale
46595 Landing Pky	Fremont	78,048 SF	3/20/2009	Lease
44235 Nobel Drive	Fremont	74,166 SF	1/30/2009	Lease/Sale
950 Page Mill Road	Palo Alto	71,409 SF	2/1/2010	Lease
500 E Middlefield Road	Mountain View	68,000 SF	3/30/2009	Lease
560 Cottonwood Drive	Milpitas	67,968 SF	3/1/2009	Lease
945 Stewart Ave	Sunnyvale	63,781 SF	9/1/2009	Lease
34750 Campus Drive	Fremont	62,000 SF	2/9/2009	Lease
2150 Commerce Drive	San Jose	61,940 SF	4/1/2009	Lease

Rent Trends

Average rent for R&D transactions completed during the first quarter of 2009 decreased by 3.2 percent during the quarter. Given the near-record low deal volume, however, the average rent figure during the quarter was not a highly effective gauge of the actual price-support for lease rents during the first three months of the year. Average asking rents dropped from \$1.34 per square foot during the fourth quarter of 2008 to \$1.22 per square foot during the first quarter of 2009.

Construction

No new R&D construction broke ground during the first quarter. No properties were added during the period.

R&D Forecast for Q209

Absorption

R&D gross absorption levels during the second quarter of 2009 will increase slightly from first quarter levels. However, deal volume will not accelerate substantially until business confidence improves and executives begin to perceive greater "value" in rents, which may not occur until late in the quarter or during the second half of the year. Absorption will be concentrated in market-ready Class B R&D properties that offer a reasonable price/quality balance and ownership structures permitting aggressive rental and other concession packages. Activity on Class A R&D properties will likely be limited to users presently occupying similar quality space, as executives will be wary

of investor and board-level pressure to conserve expenses in light of a highly challenging economy. Net absorption for most sub-markets and the Valley as a whole will likely remain in negative territory until at least the fourth quarter of the year.

Vacancy

R&D vacancy will increase moderately for R&D space in Silicon Valley throughout the remainder of the year, but not to the extent it will rise for office product (defined by CPS as product 5 or more stories tall). Hardest hit sub-markets will include Santa Clara, San Jose, Milpitas, and Fremont. Sublease availability will likely increase, although not to the extent witnessed during the 2001-2002 correction.

Rents

Average rents for completed R&D transactions will fall dramatically during the latter half of the 2nd quarter as landlords slash rents to compete for the deals. It has become increasingly commonplace for landlords to chase deals with "unsolicited" proposals at rates below their published asking rates. This trend is expected to continue. Increased sublease availability will provide further pressure on asking rents for direct space.

By Gregory M. Davies - Vice President



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Q109 Office Highlights

Vacancy Trends

The amount of office space available in Silicon Valley increased by 806,000 square feet during the first quarter of 2009. At quarter end, the available inventory of office space stood at 11.9 million square feet. Since bottoming at 14.5% at the end of the second quarter of 2007, office availability has increased by a cumulative 5.1 million square feet, resulting in a first quarter 2009 availability rate of 25.02%. Approximately 1.4 million square feet, or 25%, of the 5.6 million square feet of office space added to the available inventory since Q207 is new speculative construction that has remained un-leased as of the first quarter 2009.

Two of the larger office sub-markets tracked by CPS, the San Jose Airport and Downtown San Jose, also experienced increased vacancy during the first quarter. Vacancy downtown increased from 33.2% during the fourth quarter of 2008 to 38.2% during the first quarter of this year. Legacy Partners' 319,000 square foot River Park II tower was added to the available inventory during the period, contributing heavily to the increased vacancy rate. 488 Almaden, a 17-story, 380,000 square foot tower, also continues to impact the vacancy statistics of the Downtown San Jose Class A office market.

Absorption Trends

Office absorption during the first quarter of 2009 reflected a retrenching leasing market. Gross absorption totaled 704,000 square feet, the lowest quarterly total since the 2nd quarter of 2001 and approximately 41.0 percent less than the twenty-quarter (five year) trailing average of 1.2 million square feet. Negative net absorption totaled approximately 1.1 million square feet – the sixth consecutive quarterly period of negative net absorption and the seventh of the most recent eight quarters in which this key measure of the

market's condition finished in negative territory. It's worth highlighting that CPS' net absorption statistics are not affected by the addition of newly constructed space to the base or available inventory.

During the first quarter, the Downtown San Jose and the Airport Office sub-markets both experienced substantial negative net absorption, contributing to the overall increase in availability Valley-wide. At -174,000 square feet, net absorption in the San Jose Airport submarket was the lowest since the first quarter of 2002 (-181,000 square feet) and the third lowest quarterly total in ten years. The bulk of the sub-market's negative net absorption resulted from Siemens terminating its lease with Equity Office for the 194,500 square foot building it previously occupied at 1700 Technology Drive.

Downtown, negative net absorption totaled 146,000 square feet, the lowest total since the first quarter of 2005. While substantial, first quarter's negative net absorption remains substantially less than the level witnessed during the market's last severe contraction, Q201-Q401, when negative net absorption averaged 251,000 square feet per quarter.

Rent Trends

Until the first quarter of 2009, office rents bucked the generally negative trends of rising availability, below-average gross absorption and negative net absorption. Average rents for office transactions completed during the fourth quarter of 2008 were \$3.97 per square foot full service. However, reality set in during the first quarter of 2009 with average



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Construction

CPS market research tracked 2 million square feet of office space under construction during the first quarter of 2009. Most of these projects are or will soon be within six months of shell completion and have been added to the available inventory.

Submarkets

San Jose Airport

The total availability factor in the Airport office submarket rose to 26.3% at the end of the first quarter, up from 21.9% at the end of the fourth quarter of 2008. The average rents decreased in the first quarter of 2009, ending at \$2.04 per square foot full service, a decrease of \$0.30. Sublease space in the Airport market was decreased to 14.1% of the total vacancy, compared to 21.9% at the end of the fourth quarter of 2008. There was relatively low deal volume (59,990 square feet during the quarter) with a negative net absorption of -17,463 square feet.

Downtown Class A

The total vacancy factor in the Downtown Class A office market was 35.8% at the end of the first quarter of 2009, an increase of 9.2%. The Class A sublease space declined minimally to 1.5% of the total vacancy at the end of the fourth quarter, a reduction of 1%. The Class A average rent at the end of the first quarter of 2009 remained stable at \$2.90 full service.

Forecast for Q209

Availability

Supply should continue to increase as more companies shed jobs, albeit at a reduced rate during the second half of the year. There are a couple of large airport users planning to put their space on the market which will negatively impact the San Jose Airport and the Santa Clara office submarket over the next couple quarters. The sublease percentage will likely increase slightly, but the vacant supply will remain primarily remain direct vacancy given the more conservative absorption patterns witnessed during the most recent recovery cycle.

Absorption

Gross absorption will likely remain low as most of Silicon Valley remains "on hold," unable to make any strategic business decisions because of the poor state of the economy. Much of the activity in the market will likely renew or relocate to smaller facilities in light of negative job growth. Net absorption will likely continue to be negative, but should become less extreme during the second half of the year as the pace of economic contraction slows.

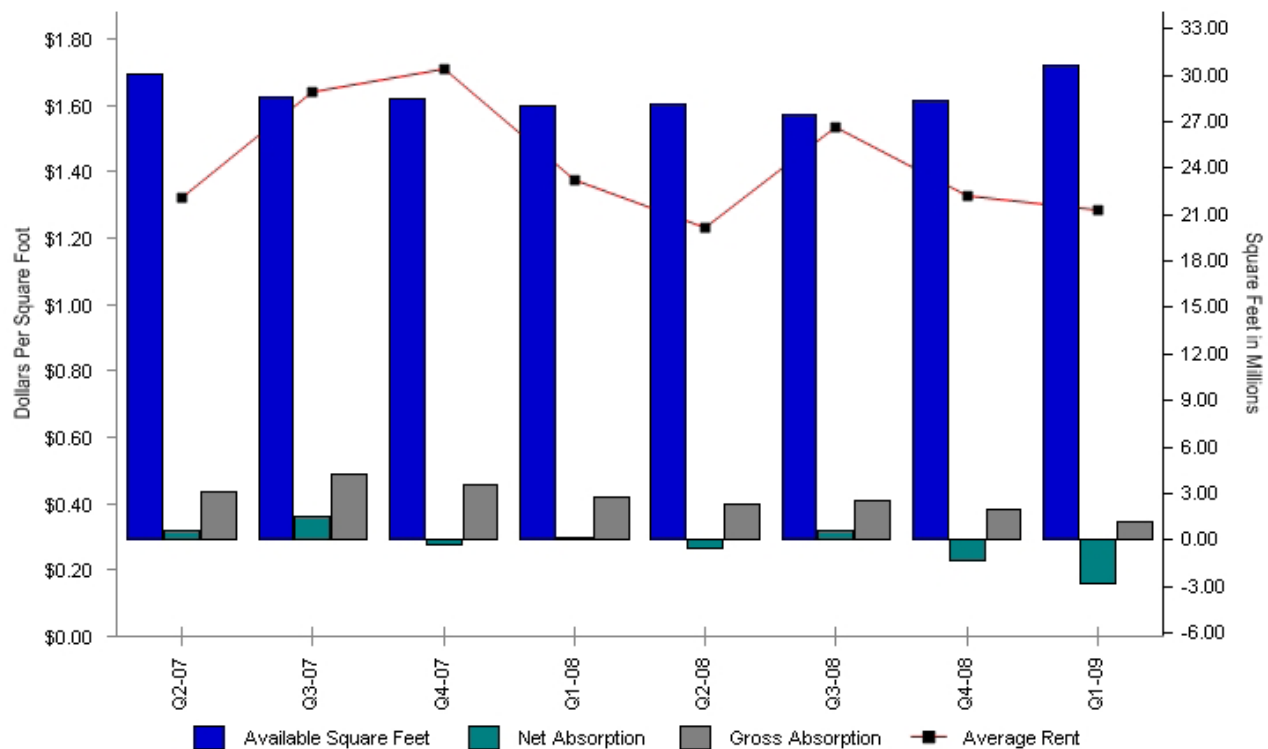
Rents

Rents will likely decline in the second quarter, a result of increasing vacancy and a poor performing economy. The spread between asking and "strike" rates will remain large. Landlords will become increasingly competitive in chasing deals.

By Maryanna McSwain - Senior Vice President / Principal

By Erik Hallgrimson - Senior Vice President / Principal

By Gregory M. Davies - Vice President of Marketing



Q109

30.69M sf ▲ **Available**

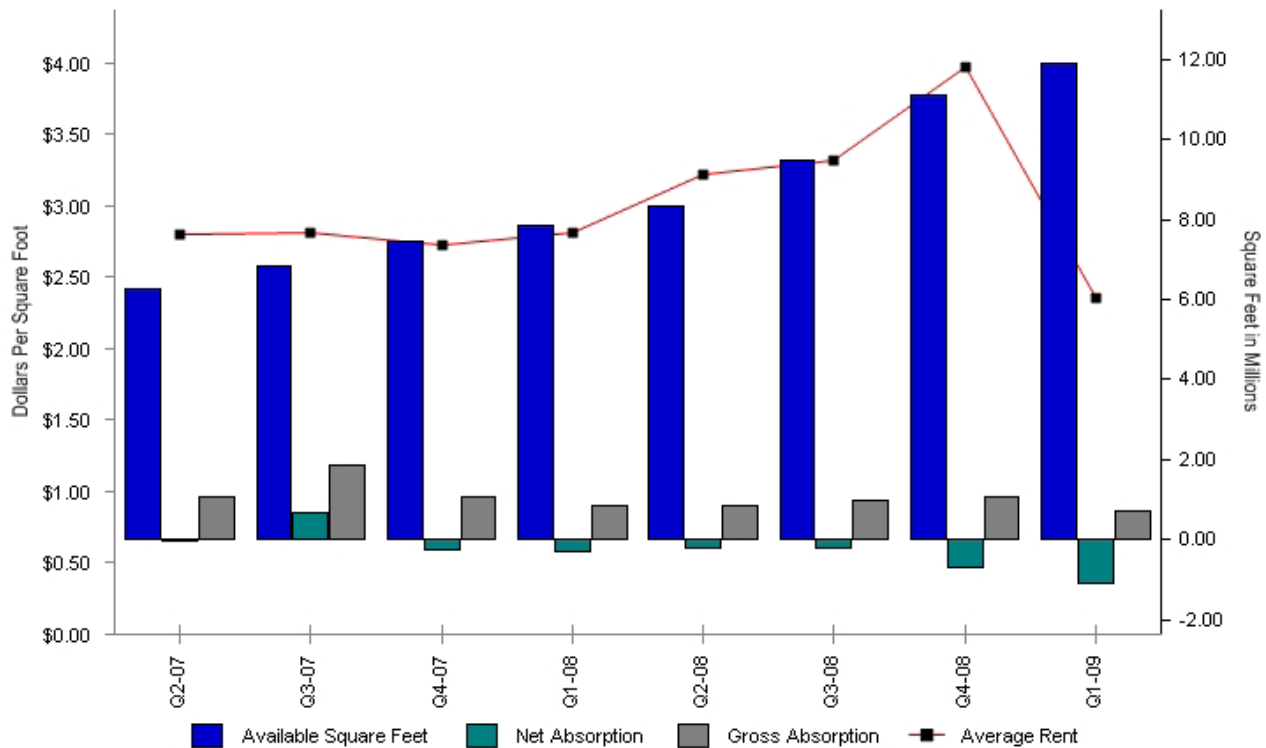
1.15M sf ▼ **Gross**

-2.87M sf ▼ **Net**

\$1.29/sf ▼ **Rent**

<i>Period</i>	<i>Available sf</i>	<i>Average Rent</i>	<i>Gross Absorption</i>	<i>Net Absorption</i>
Q109	30,688,088	\$1.29	1,146,022	-2,872,149
Q408	28,320,910	\$1.33	1,937,312	-1,378,052
Q308	27,402,891	\$1.53	2,504,993	566,411
Q208	28,165,084	\$1.23	2,343,122	-501,143
Q108	28,062,819	\$1.37	2,750,430	102,252
Q407	28,445,203	\$1.71	3,528,372	-284,303
Q307	28,598,681	\$1.64	4,200,892	1,477,475
Q207	30,090,527	\$1.32	3,125,857	653,150

<i>Available Supply</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Shell Direct</i>	2,487,505	2,686,042	2,755,293	2,569,471	2,500,089
<i>Shell Sublease</i>	33,558	33,558	44,482	44,482	80,272
<i>Previously Occupied Direct</i>	22,445,007	20,410,413	20,008,504	21,065,020	21,098,987
<i>Previously Occupied Sublease</i>	5,722,018	5,190,897	4,594,612	4,486,111	4,383,471
Total Available	30,688,088	28,320,910	27,402,891	28,165,084	28,062,819
<i>Available Time on Market (In Months)</i>	26.17	27.12	27.45	27.09	27.29
<i>Gross Absorption</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Shell Direct</i>	88,339	80,357	60,508	81,430	327,907
<i>Shell Sublease</i>	0	0	0	47,261	0
<i>Previously Occupied Direct</i>	1,035,343	1,674,052	2,126,770	1,999,131	2,182,076
<i>Previously Occupied Sublease</i>	22,340	182,903	317,715	215,300	240,447
Total Absorption	1,146,022	1,937,312	2,504,993	2,343,122	2,750,430
<i>Absorption Time on Market (In Months)</i>	7.69	15.22	19.50	20.19	28.44
<i>Supply Rates</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Availability Rate</i>	18.16%	16.78%	16.25%	16.71%	16.66%
<i>Vacancy Rate</i>	17.94%	16.64%	15.81%	16.22%	16.44%
<i>Sublease Factor</i>	18.76%	18.45%	16.93%	16.09%	15.91%
<i>Size Ranges</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>0 to 20,000</i>	386	332	303	287	295
<i>20,001 to 40,000</i>	221	203	195	200	191
<i>40,001 to 60,000</i>	115	111	109	117	116
<i>60,001 to 80,000</i>	67	60	61	64	61
<i>80,001 to 100,000</i>	36	37	33	35	37
<i>100,001 to 120,000</i>	24	21	20	21	17
<i>120,001 to 140,000</i>	9	8	7	9	11
<i>140,001 and Over</i>	13	12	12	10	11
Total Buildings Available	871	784	740	743	739
<i>Construction Types</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
Completed Construction:					
<i>Build-To-Suit</i>	0	0	0	0	161,500
<i>Spec Construction</i>	116,603	100,000	118,535	123,842	235,230
Total Completed	116,603	100,000	118,535	123,842	396,730
In-Process Construction:					
<i>Build-To-Suit</i>	0	0	0	0	0
<i>Spec Construction</i>	23,523	143,424	237,540	321,075	301,932
Total in Progress	23,523	143,424	237,540	321,075	301,932



Q109

11.92M sf ▲ Available
 .70M sf ▼ Gross
 -1.06M sf ▼ Net
 \$2.36/sf ▼ Rent

<i>Period</i>	<i>Available sf</i>	<i>Average Rent</i>	<i>Gross Absorption</i>	<i>Net Absorption</i>
Q109	11,920,199	\$2.36	703,862	-1,060,575
Q408	11,114,203	\$3.97	1,089,793	-670,519
Q308	9,473,913	\$3.32	983,469	-214,186
Q208	8,345,611	\$3.22	862,179	-187,192
Q108	7,840,841	\$2.81	847,091	-293,341
Q407	7,454,933	\$2.73	1,094,799	-225,596
Q307	6,855,349	\$2.82	1,865,566	657,998
Q207	6,287,503	\$2.80	1,085,368	-46,995

<i>Available Supply</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Shell Direct</i>	3,801,712	3,717,671	2,837,256	1,994,099	1,587,638
<i>Shell Sublease</i>	3,200	10,200	14,864	14,864	7,864
<i>Previously Occupied Direct</i>	6,788,759	6,452,116	5,779,439	5,657,525	5,424,712
<i>Previously Occupied Sublease</i>	1,326,528	934,216	842,354	679,123	820,627
<i>Total Available</i>	11,920,199	11,114,203	9,473,913	8,345,611	7,840,841
<i>Gross Absorption</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Shell Direct</i>	18,969	6,234	94,915	35,400	42,734
<i>Shell Sublease</i>	0	0	0	0	0
<i>Previously Occupied Direct</i>	528,050	976,902	794,080	696,825	725,261
<i>Previously Occupied Sublease</i>	156,843	106,657	94,474	129,954	79,096
<i>Total Absorption</i>	703,862	1,089,793	983,469	862,179	847,091
<i>Supply Rates</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Availability Rate</i>	25.02%	24.36%	20.86%	18.53%	17.43%
<i>Vacancy Rate</i>	22.72%	22.53%	18.71%	15.94%	16.72%
<i>Sublease Factor</i>	11.16%	8.50%	9.05%	8.32%	10.57%
<i>Size Ranges</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>0 to 20,000</i>	485	473	433	416	400
<i>20,001 to 40,000</i>	75	62	67	61	57
<i>40,001 to 60,000</i>	20	22	19	18	16
<i>60,001 to 80,000</i>	8	9	5	7	8
<i>80,001 to 100,000</i>	5	4	5	3	4
<i>100,001 to 120,000</i>	1	2	1	1	1
<i>120,001 to 140,000</i>	1	0	0	0	0
<i>140,001 and Over</i>	12	9	7	6	5
<i>Total Buildings Available</i>	607	581	537	512	491
<i>Construction Types</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Completed Construction:</i>					
<i>Build-To-Suit</i>	0	208,000	0	0	80,000
<i>Spec Construction</i>	725,340	0	378,289	369,527	692,878
<i>Total Completed</i>	725,340	208,000	378,289	369,527	772,878
<i>In-Process Construction:</i>					
<i>Build-To-Suit</i>	752,000	752,000	960,000	770,000	208,000
<i>Spec Construction</i>	1,312,583	2,019,998	2,013,699	2,218,549	2,082,081
<i>Total in Progress</i>	2,064,583	2,771,998	2,973,699	2,988,549	2,290,081



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Q109 Warehouse Highlights

Supply

The slumping economy has continued to show its effect on the Silicon Valley warehouse market. Negative net absorption not only continued but the 980,000 square feet of increased supply represented the largest decline in absorption since the second quarter of 2003. The last two quarters combined to add 1.09 million square feet to the availability factor, the largest two quarter supply increase since the slump of 2003. Vacancy Valley-wide now stands at 13.55%, which is not terrible considering the state of the economy; however, as discussed below, what is most concerning is the lack of activity in the market. Currently, there is about 4.5 million square feet available Silicon Valley-wide, but many submarkets (such as Sunnyvale and Mountain View) continue to present very few, if any, choices for tenants.

Demand

Demand for the quarter was dismal with only 306,283 square feet of gross absorption. That amount is the lowest since Q1-01's 290,000 square feet – 8 years ago! While there has been some touring by warehouse tenants, very few deals are being signed. Total transactions for the quarter numbered only 17 – 11 new leases, one small user sale and five renewals. And the deals that are being done are also relatively small. The average deal size of 26,909 square feet was almost 28% smaller than the previous eight quarter average. Not surprisingly, average term also fell to a little over 3 years – an 18% drop over the same previous eight quarter average as tenants were very cautious going forward, despite the attractive lease rates.

Rents

Average rents for the quarter actually showed an increase to \$.447 NNN. This number is deceiving as it was pumped up by a couple of deals in which the tenant did not have the ability or desire to relocate, a “captive audience” deal with Lockheed in Sunnyvale, and a warehouse in Fremont that had some specialized improvements for manufacturing. Rents for an average Class A warehouse in the core areas of Silicon Valley's warehouse market are landing in the mid \$.40's NNN.

Forecast for Q209

Supply

As one might expect, the supply of warehouse space will likely continue to increase until the economy recovers; however, we don't expect a dramatic increase as many tenants' spaces are still filled close to capacity. We believe the supply of Class B and C spaces will increase more dramatically than Class A spaces, as they are often occupied by financially weaker tenants who may disappear, and by stronger tenants who will take advantage of opportunities to upgrade to Class A space. As has been the case for several years, no new speculative warehouse projects were constructed in the first quarter and there remains no new speculative construction planned for 2009

Demand

We expect another slow quarter for actual deal signings. Expansion is not typically on the mind of most Valley tenants, and landlords have been increasingly aggressive in their efforts to renew their existing tenants long before their current leases expire. Tenants will still go out and look at the alternatives available, but unless there is a compelling reason to move (significant change in space need, desired location, problematic



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Forecast for 2009, cont.

Demand

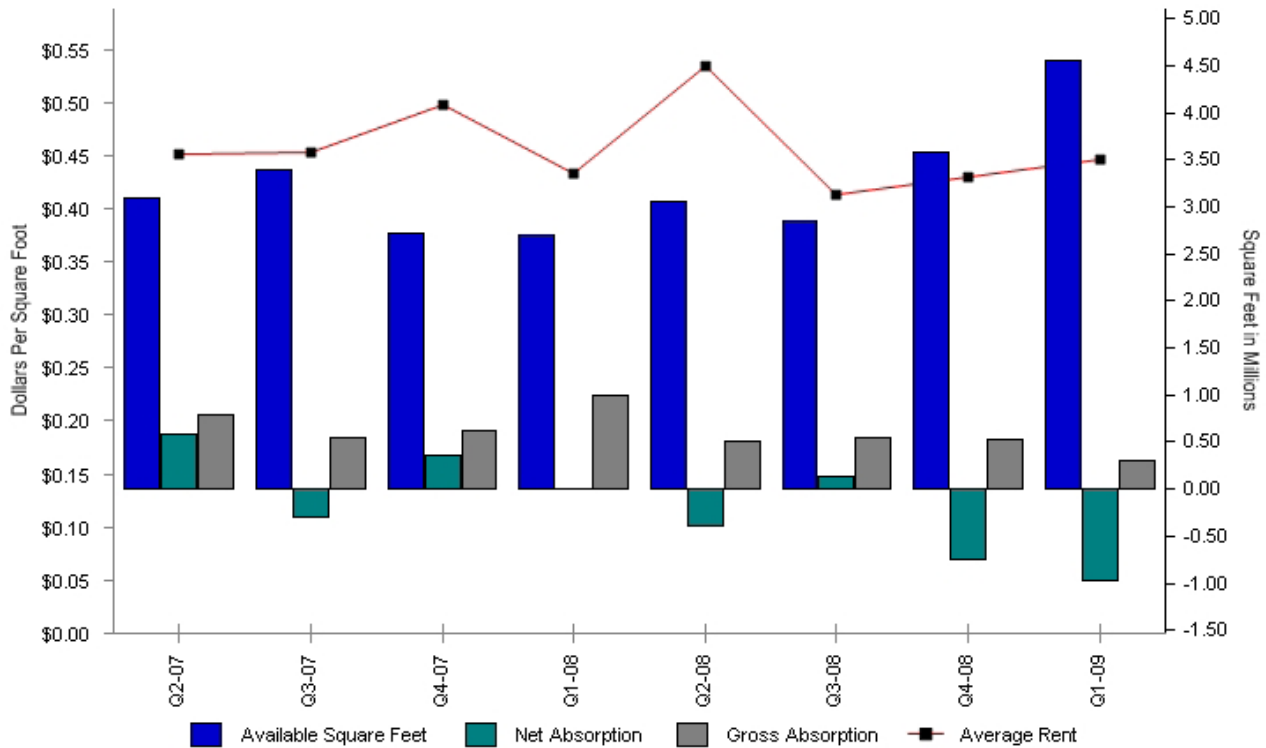
existing space) a large percentage of those tours will never materialize into an actual relocation. As such, we expect that 2009 will provide a record number of renewals as a percentage of total transactions.

Rents

After resisting reductions in the asking rents for most of 2008, most of the Valley's larger landlords have already significantly reduced their asking rents in 2009. Asking rents of \$.55 NNN have been replaced with new asking rents of \$.45 - \$.49 NNN as landlords seek to stimulate demand. Some of the best deals cut will be for renewing tenants who, if expertly represented, should be able to not only reduce their existing rate, but also secure the same concessions as a new tenant to the project, as landlords do whatever it takes to avoid any further vacancy. By the end of the summer, we expect some deals to have effective rates below \$.40 as the war escalates between landlords of vacant space and those working to renew their existing tenants. We again expect "Mom and Pop" landlords with no upcoming financing worries to be less likely to "give away the store", especially if they or their advisors think the economy will soon begin to turn. As always, tenants with a good track record and/or a strong balance sheet will be in the strongest negotiating position.

By Scott Borgia - Senior Vice President / Principal

1st Quarter 2009 Warehouse Silicon Valley Summary



Q109

4.55M sf ▲ **Available**
.31M sf ▼ **Gross**
-.98M sf ▼ **Net**
\$.45/sf ▲ **Rent**

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q109	4,545,773	\$0.45	306,283	-980,403
Q408	3,588,212	\$0.43	524,630	-754,084
Q308	2,845,664	\$0.41	552,446	139,361
Q208	3,064,733	\$0.53	501,395	-390,196
Q108	2,693,897	\$0.46	996,462	4,480
Q407	2,716,777	\$0.50	625,528	352,983
Q307	3,391,156	\$0.45	543,122	-303,451
Q207	3,087,705	\$0.45	796,130	579,795

<i>Available Supply</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Shell Direct</i>	0	0	0	0	6,400
<i>Shell Sublease</i>	0	0	0	0	0
<i>Previously Occupied Direct</i>	4,161,198	3,309,999	2,514,351	2,783,236	2,431,600
<i>Previously Occupied Sublease</i>	384,575	278,213	331,313	281,497	255,897
Total Available	4,545,773	3,588,212	2,845,664	3,064,733	2,693,897
<i>Available Time on Market (In Months)</i>	12.66	14.53	16.47	16.01	14.27
<i>Gross Absorption</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Shell Direct</i>	0	0	0	0	0
<i>Shell Sublease</i>	0	0	0	0	0
<i>Previously Occupied Direct</i>	306,283	395,431	526,477	501,395	922,898
<i>Previously Occupied Sublease</i>	0	129,199	25,969	0	73,564
Total Absorption	306,283	524,630	552,446	501,395	996,462
<i>Absorption Time on Market (In Months)</i>	4.70	5.49	4.41	9.11	10.59
<i>Supply Rates</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>Availability Rate</i>	13.55%	10.70%	8.48%	9.14%	8.03%
<i>Vacancy Rate</i>	13.36%	10.70%	8.06%	8.72%	7.80%
<i>Sublease Factor</i>	8.46%	7.75%	11.64%	9.19%	9.50%
<i>Size Ranges</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
<i>0 to 20,000</i>	28	22	19	19	23
<i>20,001 to 40,000</i>	44	31	29	25	19
<i>40,001 to 60,000</i>	12	9	10	12	15
<i>60,001 to 80,000</i>	7	8	3	3	2
<i>80,001 to 100,000</i>	3	4	4	3	3
<i>100,001 to 120,000</i>	3	2	0	1	1
<i>120,001 to 140,000</i>	3	3	2	2	2
<i>140,001 and Over</i>	4	3	3	4	2
Total Buildings Available	104	82	70	69	67
<i>Construction Types</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>	<i>Q208</i>	<i>Q108</i>
Completed Construction:					
<i>Build-To-Suit</i>	0	0	0	0	0
<i>Spec Construction</i>	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction:					
<i>Build-To-Suit</i>	0	0	0	0	0
<i>Spec Construction</i>	0	0	0	0	0
Total in Progress	0	0	0	0	0



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Real News

the silicon valley quarterly on commercial real estate

<p>Shell New, never occupied building</p>	<p>Direct Transaction with Owner</p>	<p>Previously Occupied New or old building that has been occupied at least once</p>	<p>Gross Absorption The total space sold or leased</p>
<p>Speculative Construction The amount of speculative space that commenced construction during period</p>	<p>Net Absorption The increase or decrease in occupied space</p>	<p>Build to Suit A building built specifically for a company, whether owned or leased</p>	<p>Vacancy Rate Total vacant space divided by total standing inventory</p>
<p>Sublease Factor Total available sublease space divided by total available space</p>	<p>Standing Inventory All space in market regardless of occupancy status</p>	<p>Sublease Transaction with existing tenant</p>	<p>Availability Rate Total square feet of space available divided by total standing inventory</p>

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The information contained herein has been provided by either the property owner or sources we deemed reliable. Although CPS has no reason to doubt its accuracy, we have not independently confirmed the information and do not guarantee it. All information (including square footage) should be verified and each property should be analyzed prior to purchase or lease based on individual needs.