

RealNews

the silicon valley quarterly on commercial real estate

***Second Quarter 2004
Quarterly Study***



Q204 R&D Highlights

Supply

After 15 consecutive quarters of increasing available space, the second quarter experienced a decrease in available space of 1,846,108 square feet. The resulting 43,806,254 square feet of available space equates to a vacancy rate of 25.99%, a decrease from the first quarter's 27.08%. At the end of the second quarter, there were 1,165 listings, with sublease listings accounting for 27.31% of the available square footage down from 29.52% at the end of the first quarter. After peaking at 45.38%, sublease space as a percentage of total available space has fallen for 12 consecutive quarters. At the end of the second quarter the average time on the market for available space was 1.06 years down from 1.24 years at the end of the first quarter.

Demand

In the second quarter, gross absorption was 3,668,517 square feet, a slight increase from the first quarter and a continuation of a healthy four quarter trend of normal gross absorption. After 13 consecutive quarters of negative net absorption, the market experienced a significant 1,861,933 square feet of positive net absorption in the second quarter. In the second quarter, 115 leases and 21 user sale transactions were completed and the average time on the market for absorbed space was a little over one year.

Rent/Price

Second quarter average effective rents for transactions completed in the quarter dropped significantly to \$.795 per square foot per month triple net down from \$.932 per square foot per month triple net in the first quarter. This is the lowest average rent since the first quarter of 1995. Average rents for completed transactions have fluctuated below \$1.00 the last six quarters. Average tenant improvement allowances declined to \$8.70 per square foot down from a 13 year high of \$13.54 per square foot at the end of the first quarter.

The two weakest submarkets in the second quarter were Mountain View, with an average rent of \$.68 per square foot triple net and the West Valley – comprised of Los Gatos, Campbell and Cupertino – with an average rent of \$.65 per square foot triple net. The three strongest submarkets were Milpitas with an average rent of \$.89 per square foot triple net, Santa Clara with an average rent of \$.90 per square foot triple net, and the typical high rent district of Menlo Park and Palo Alto with an average rent of \$1.37 per square foot triple net.

There were 21 user sales in the second quarter totaling 725,795 square feet. The average asking price was \$120.43 per square foot, while the average sale price was \$87.70 per square foot. Smart long term money is taking advantage of the bottom of this cycle.

Construction

In the second quarter, there were two projects totaling 211,843 square feet under construction. Borelli Investment's condominium project of 73,343 square feet broke ground during the quarter and Venture Corp.'s condominium project of 138,500 square feet should be shell complete by next quarter.

Forecast for Q304

Supply

Available inventory will continue to decrease.

Forecast for Q304 (continued)

Demand

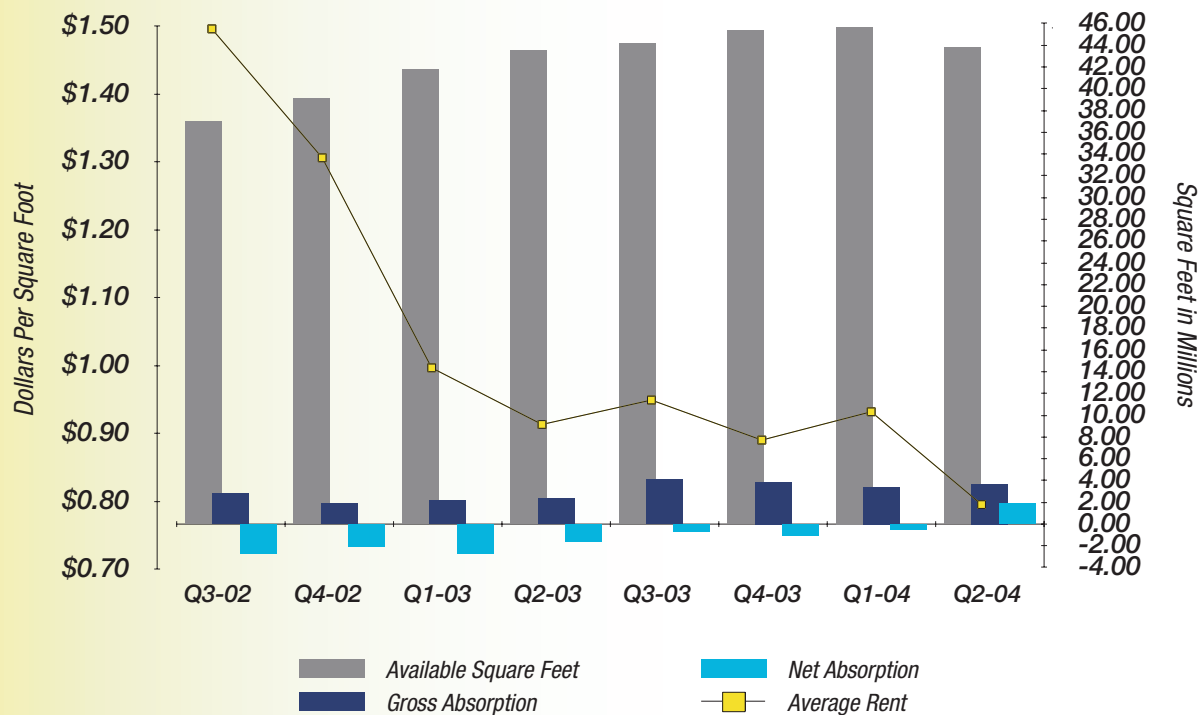
Gross absorption will continue to be healthy and positive net absorption will continue.

Rents

Average rents will continue to fluctuate under \$1.00 per square foot triple net and rent stabilization should occur by year-end 2004.

Construction

New construction will continue to be minimal with condominium projects the product of choice.



Q204

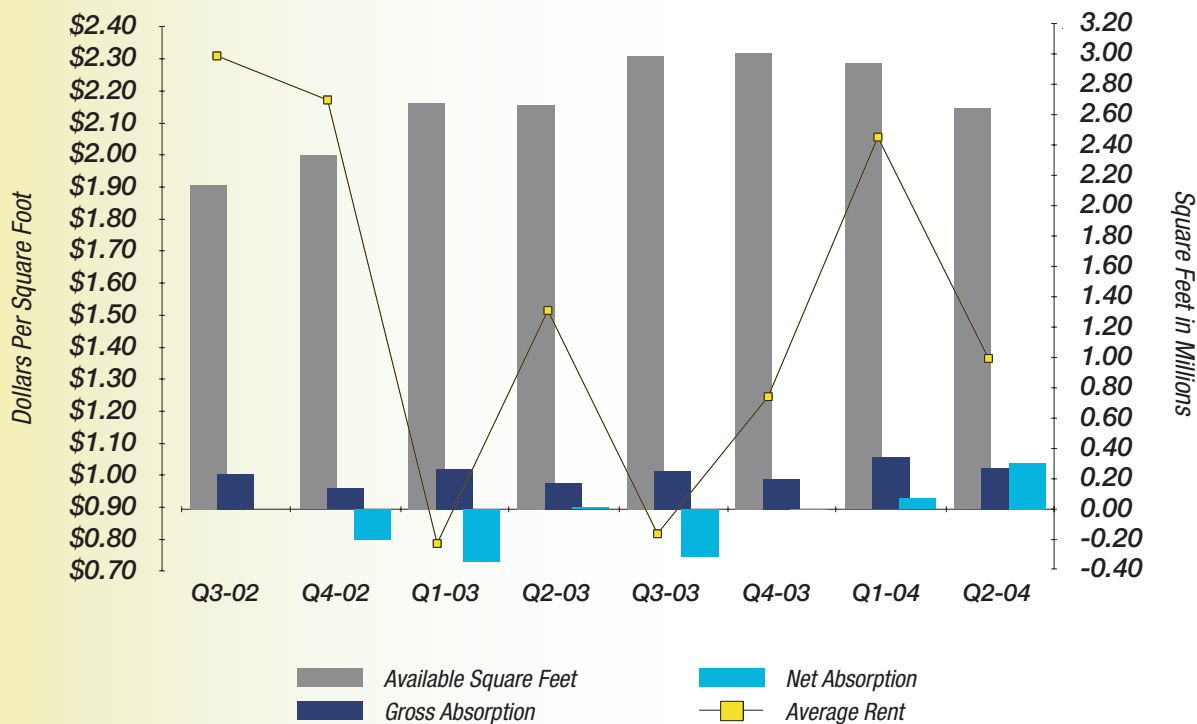
43.81M sf ▼ Available
 3.67M sf ▲ Gross
 1.86M sf ▲ Net
 \$.80/sf ▼ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	43,806,254	\$0.80	3,668,517	1,861,933
Q104	45,652,362	\$0.93	3,389,933	-505,139
Q403	45,348,749	\$0.89	3,884,077	-1,114,264
Q303	44,183,763	\$0.95	4,100,631	-694,429
Q203	43,495,992	\$0.91	2,311,495	-1,588,680
Q103	41,720,282	\$1.00	2,105,111	-2,692,772
Q402	39,087,855	\$1.31	1,902,071	-2,104,325
Q302	36,956,299	\$1.50	2,742,097	-2,724,718

2nd Quarter 2004 R&D Silicon Valley



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	4,095,136	4,476,092	4,684,277	3,714,194	4,042,331
Shell Sublease	516,818	504,614	553,546	602,207	851,375
Previously Occupied Direct	27,745,771	27,669,366	26,564,753	25,340,728	23,949,629
Previously Occupied Sublease	11,448,529	12,972,290	13,546,173	14,526,634	14,652,657
Total Available	43,806,254	45,652,362	45,348,749	44,183,763	43,495,992
Available Time on Market (In Months)	19.17	17.39	16.31	15.39	14.04
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	153,500	172,464	109,685	602,117	102,138
Shell Sublease	0	0	21,000	0	0
Previously Occupied Direct	2,745,369	2,663,122	3,410,448	3,186,789	1,767,868
Previously Occupied Sublease	769,648	554,347	342,944	311,725	441,489
Total Absorption	3,668,517	3,389,933	3,884,077	4,100,631	2,311,495
Absorption Time on Market (In Months)	12.76	14.93	12.82	12.43	11.84
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	25.99%	27.07%	26.90%	26.23%	25.83%
Vacancy Rate	25.83%	26.88%	26.69%	26.09%	25.71%
Sublease Factor	27.31%	29.52%	31.09%	34.24%	35.64%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	469	510	519	502	503
20,001 to 40,000	320	344	325	316	296
40,001 to 60,000	174	170	174	163	163
60,001 to 80,000	85	95	98	93	91
80,001 to 100,000	58	52	52	49	48
100,001 to 120,000	24	25	26	30	30
120,001 to 140,000	8	10	12	15	18
140,001 and Over	27	28	26	26	26
Total Buildings Available	1,165	1,233	1,232	1,194	1,175
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	150,000	0	75,000
Spec Construction	0	0	5,840	25,579	0
Total Completed	0	0	155,840	25,579	75,000
In-Process Construction					
Build-To-Suit	0	0	0	150,000	150,000
Spec Construction	211,842	138,400	138,400	5,840	31,419
Total in Progress	211,842	138,400	138,400	155,840	181,419



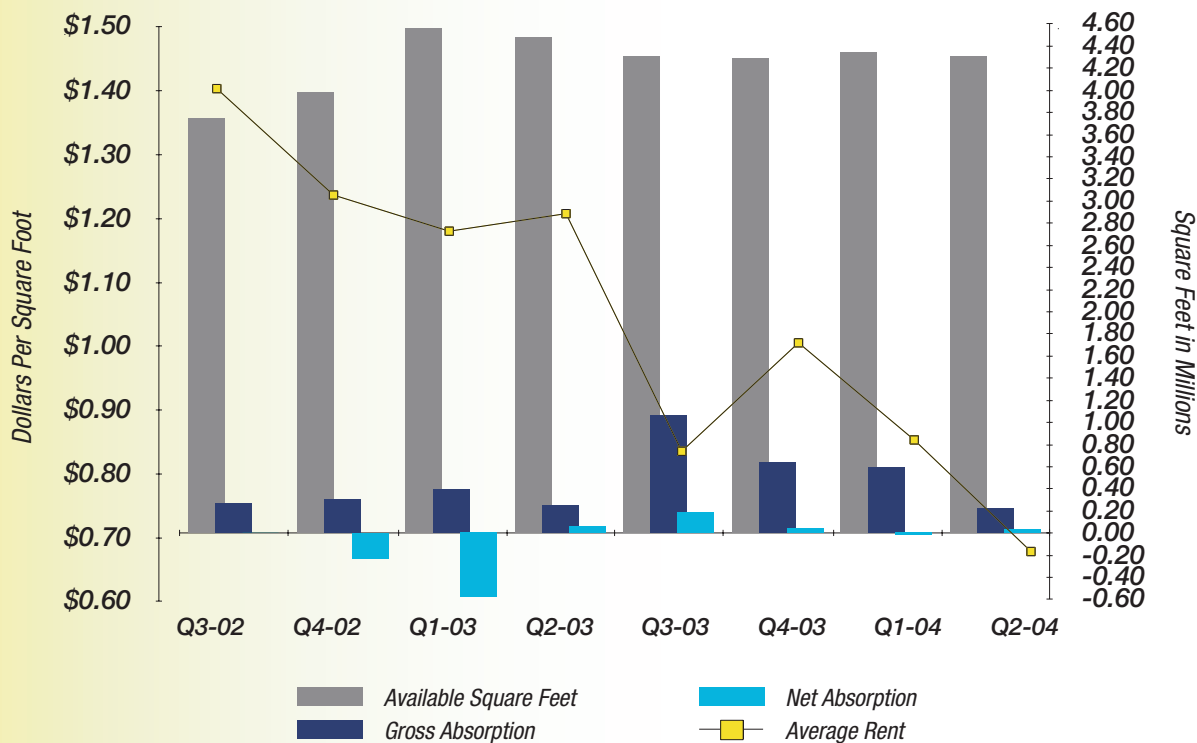
Q204

2.64M sf ▼ Available
 .27M sf ▼ Gross
 .30M sf ▲ Net
 \$1.37/sf ▼ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	2,640,602	\$1.37	265,773	299,481
Q104	2,940,083	\$2.06	343,725	65,465
Q403	3,005,548	\$1.25	203,072	-12,269
Q303	2,993,279	\$0.82	252,442	-321,341
Q203	2,671,938	\$1.51	174,349	12,073
Q103	2,684,011	\$0.79	260,744	-352,669
Q402	2,331,342	\$2.17	127,308	-195,118
Q302	2,136,224	\$2.31	233,363	-2,252

Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	71,869	71,869	91,315	81,315	81,315
Shell Sublease	40,883	41,652	34,652	55,286	55,286
Previously Occupied Direct	2,016,977	2,123,561	1,889,906	1,680,708	1,309,633
Previously Occupied Sublease	510,873	703,001	989,675	1,175,970	1,225,704
Total Available	2,640,602	2,940,083	3,005,548	2,993,279	2,671,938
Available Time on Market (In Months)	19.82	18.31	17.59	16.34	15.16
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	0	9,446	0	0	16,000
Shell Sublease	0	0	21,000	0	0
Previously Occupied Direct	173,837	303,585	118,356	216,541	153,349
Previously Occupied Sublease	91,936	30,694	63,716	35,901	5,000
Total Absorption	265,773	343,725	203,072	252,442	174,349
Absorption Time on Market (In Months)	5.16	17.13	13.22	14.73	10.03
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	17.49%	19.47%	19.90%	19.82%	17.69%
Vacancy Rate	17.49%	19.47%	19.75%	19.82%	17.69%
Sublease Factor	20.90%	25.33%	34.08%	41.13%	47.94%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	41	47	51	53	48
20,001 to 40,000	23	24	27	25	31
40,001 to 60,000	14	16	15	20	13
60,001 to 80,000	6	6	4	13	5
80,001 to 100,000	1	2	2	2	1
100,001 to 120,000	0	0	0	4	0
120,001 to 140,000	1	1	2	0	2
140,001 and Over	1	1	1	1	0
Total Buildings Available	87	97	102	118	100
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	0	0

2nd Quarter 2004 R&D Mountain View Summary



Q204

4.31M sf ▼ Available
 .23M sf ▼ Gross
 .03M sf ▲ Net
 \$.68/sf ▼ Rent

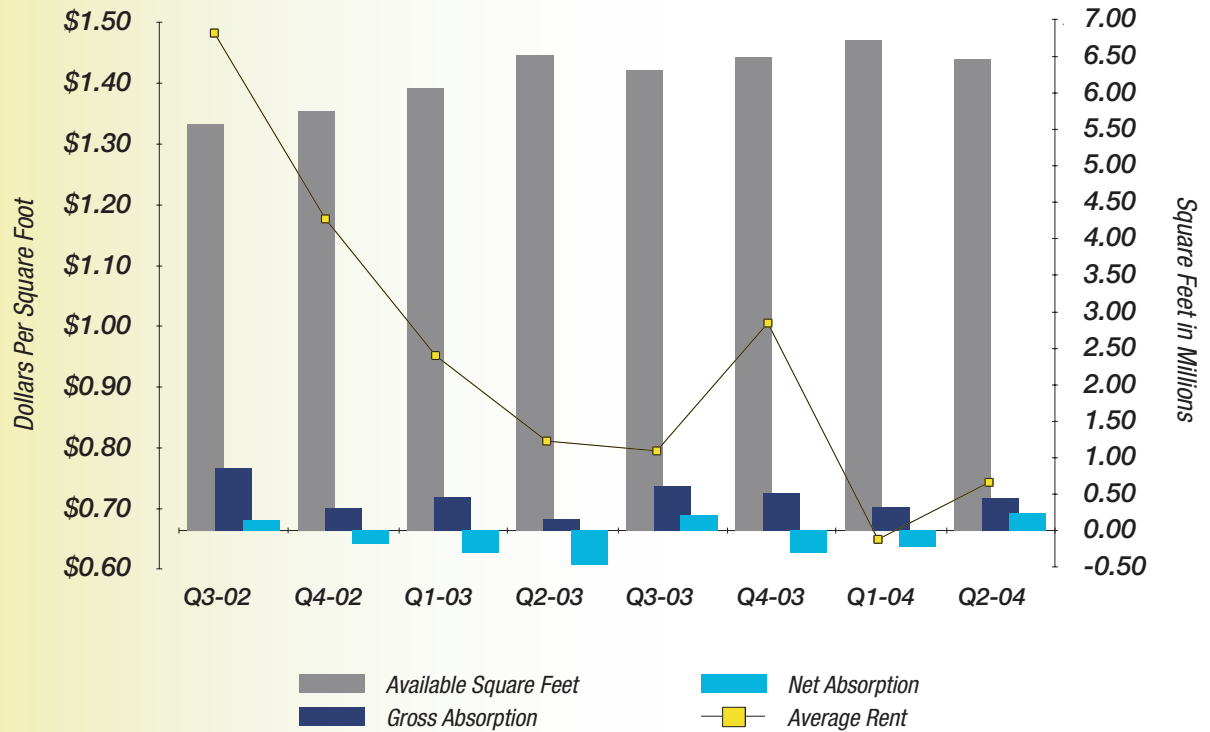
Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	4,312,894	\$0.68	226,363	26,065
Q104	4,339,673	\$0.85	586,670	-18,343
Q403	4,286,213	\$1.01	635,102	43,696
Q303	4,306,437	\$0.84	1,065,828	189,578
Q203	4,476,863	\$1.21	246,119	58,876
Q103	4,562,194	\$1.18	388,301	-584,498
Q402	3,984,098	\$1.24	302,808	-229,481
Q302	3,748,289	\$1.40	265,501	-524

2nd Quarter 2004 R&D Mountain View



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	136,541	154,995	109,793	88,341	340,004
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	2,830,614	2,634,031	2,622,245	2,503,102	2,361,095
Previously Occupied Sublease	1,345,739	1,550,647	1,554,175	1,714,994	1,775,764
Total Available	4,312,894	4,339,673	4,286,213	4,306,437	4,476,863
Available Time on Market (In Months)	18.97	16.96	16.41	16.18	15.12
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	17,740	0	2,020	298,605	20,816
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	178,823	363,190	588,502	744,423	196,506
Previously Occupied Sublease	29,800	223,480	44,580	22,800	28,797
Total Absorption	226,363	586,670	635,102	1,065,828	246,119
Absorption Time on Market (In Months)	19.30	19.30	15.95	11.01	13.84
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	27.72%	27.89%	27.55%	27.68%	28.82%
Vacancy Rate	27.72%	27.66%	27.55%	27.12%	27.95%
Sublease Factor	31.20%	35.73%	36.26%	39.82%	39.67%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	49	57	51	53	48
20,001 to 40,000	38	38	29	25	22
40,001 to 60,000	17	15	18	20	20
60,001 to 80,000	9	12	14	13	13
80,001 to 100,000	2	2	2	2	3
100,001 to 120,000	2	2	3	4	4
120,001 to 140,000	1	1	0	0	2
140,001 and Over	2	1	1	1	1
Total Buildings Available	120	128	118	118	113
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	25,579	0
Total Completed	0	0	0	25,579	0
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	25,579
Total in Progress	0	0	0	0	25,579

2nd Quarter 2004 R&D Sunnyvale Summary



Q204

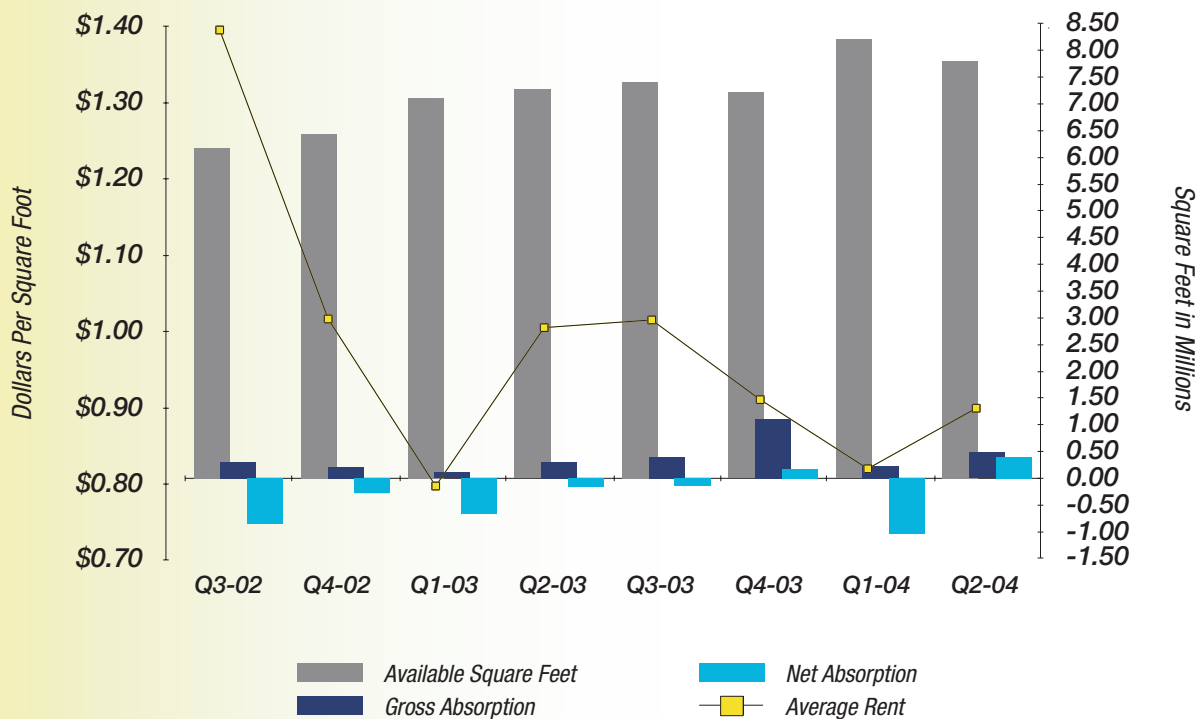
6.47M sf ▼ Available
 .45M sf ▲ Gross
 .25M sf ▲ Net
 \$.74/sf ▲ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	6,471,607	\$0.74	453,378	252,866
Q104	6,724,473	\$0.65	329,234	-234,922
Q403	6,496,179	\$1.01	511,716	-298,595
Q303	6,297,956	\$0.80	607,655	220,190
Q203	6,518,146	\$0.81	167,631	-462,979
Q103	6,055,167	\$0.95	464,913	-308,530
Q402	5,746,637	\$1.18	308,201	-181,853
Q302	5,564,784	\$1.48	862,768	148,464

2nd Quarter 2004 R&D Sunnyvale



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	448,271	525,964	435,086	456,802	549,077
Shell Sublease	147,973	135,000	135,000	190,470	190,470
Previously Occupied Direct	4,305,089	4,350,852	4,120,066	3,956,639	4,177,368
Previously Occupied Sublease	1,570,274	1,712,657	1,806,027	1,694,045	1,601,231
Total Available	6,471,607	6,724,473	6,496,179	6,297,956	6,518,146
Available Time on Market (In Months)	19.76	17.79	17.23	15.91	14.17
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	42,670	27,794	22,858	107,643	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	375,498	231,170	404,179	340,370	93,800
Previously Occupied Sublease	35,210	70,270	84,679	159,642	73,831
Total Absorption	453,378	329,234	511,716	607,655	167,631
Absorption Time on Market (In Months)	17.42	9.60	15.19	11.44	6.12
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	23.62%	24.54%	23.71%	23.11%	23.92%
Vacancy Rate	23.52%	24.50%	23.71%	22.73%	23.68%
Sublease Factor	26.55%	27.48%	29.88%	29.92%	27.49%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	84	88	79	77	86
20,001 to 40,000	61	71	69	67	64
40,001 to 60,000	27	26	26	22	25
60,001 to 80,000	8	8	8	8	8
80,001 to 100,000	3	2	2	2	3
100,001 to 120,000	3	4	3	5	5
120,001 to 140,000	2	2	2	3	3
140,001 and Over	5	5	5	4	4
Total Buildings Available	193	206	194	188	198
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	150,000	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	150,000	0	0
In-Process Construction					
Build-To-Suit	0	0	0	150,000	150,000
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	150,000	150,000

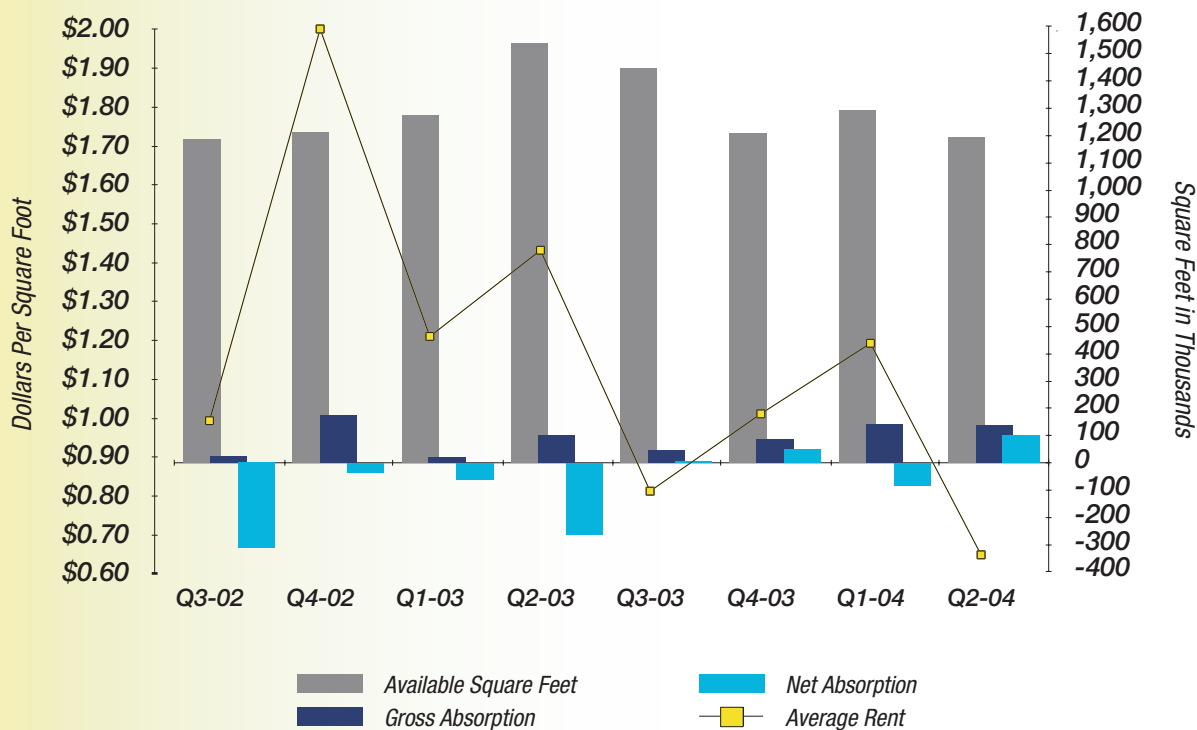


Q204

7.81M sf ▼ Available
 .49M sf ▲ Gross
 .39M sf ▲ Net
 \$.90/sf ▲ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	7,809,250	\$0.90	494,228	388,928
Q104	8,198,178	\$0.82	239,632	-1,043,510
Q403	7,219,179	\$0.91	1,112,799	175,018
Q303	7,408,816	\$1.02	388,986	-136,458
Q203	7,272,358	\$1.01	306,516	-158,532
Q103	7,113,826	\$0.80	106,042	-673,964
Q402	6,443,243	\$1.02	215,693	-269,451
Q302	6,170,411	\$1.40	314,484	-851,190

Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	167,683	167,683	165,533	162,152	162,152
Shell Sublease	43,333	43,333	99,265	99,265	99,265
Previously Occupied Direct	4,682,018	4,979,123	4,383,807	4,582,576	4,504,444
Previously Occupied Sublease	2,916,216	3,008,039	2,570,574	2,564,823	2,506,497
Total Available	7,809,250	8,198,178	7,219,179	7,408,816	7,272,358
Available Time on Market (In Months)	19.23	17.26	15.85	14.93	13.51
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	0	0	0	0	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	453,076	170,802	1,094,799	382,986	267,645
Previously Occupied Sublease	41,152	68,830	18,000	6,000	38,871
Total Absorption	494,228	239,632	1,112,799	388,986	306,516
Absorption Time on Market (In Months)	17.23	14.96	10.22	12.46	16.44
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	31.44%	32.77%	29.06%	29.82%	29.28%
Vacancy Rate	31.44%	32.77%	29.06%	29.82%	29.28%
Sublease Factor	37.90%	36.22%	36.98%	35.96%	35.83%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	68	74	76	67	68
20,001 to 40,000	39	44	40	39	37
40,001 to 60,000	28	27	29	30	31
60,001 to 80,000	10	13	13	14	13
80,001 to 100,000	13	10	9	7	7
100,001 to 120,000	8	8	8	8	8
120,001 to 140,000	2	2	2	5	5
140,001 and Over	7	8	5	5	5
Total Buildings Available	175	186	182	175	174
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	0	0

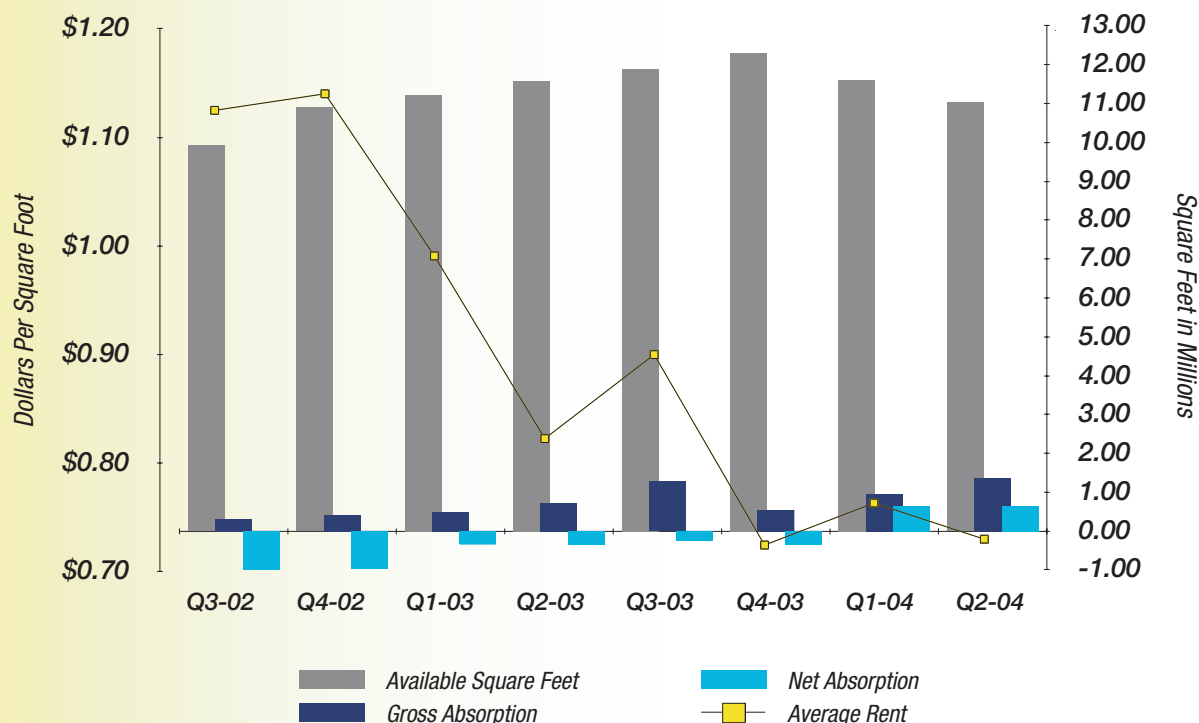


Q204

1.19M sf ▼ Available
 .14M sf ▼ Gross
 .99M sf ▲ Net
 \$.65/sf ▼ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	1,192,558	\$0.65	138,501	99,312
Q104	1,291,870	\$1.19	139,569	-82,678
Q403	1,209,282	\$1.01	86,930	50,950
Q303	1,447,739	\$0.81	45,315	8,128
Q203	1,535,867	\$1.43	102,438	-260,984
Q103	1,274,883	\$1.21	23,227	-60,667
Q402	1,214,216	\$2.00	176,703	-35,994
Q302	1,184,445	\$0.99	25,469	-310,413

Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	10,800	10,800	10,890	198,397	198,397
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	692,146	752,531	739,667	739,602	777,915
Previously Occupied Sublease	489,612	528,539	458,725	509,740	559,555
Total Available	1,192,558	1,291,870	1,209,282	1,447,739	1,535,867
Available Time on Market (In Months)	18.81	16.37	15.98	13.28	12.53
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	0	0	0	26,701	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	94,031	119,469	71,030	18,614	102,438
Previously Occupied Sublease	44,470	20,100	15,900	0	0
Total Absorption	138,501	139,569	86,930	45,315	102,438
Absorption Time on Market (In Months)	17.88	12.69	12.23	23.15	17.03
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	29.74%	32.22%	30.16%	36.11%	38.31%
Vacancy Rate	29.74%	31.78%	29.71%	35.66%	37.81%
Sublease Factor	41.06%	40.91%	37.93%	35.21%	36.43%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	29	29	25	29	24
20,001 to 40,000	10	12	15	12	12
40,001 to 60,000	5	5	4	6	6
60,001 to 80,000	1	2	1	1	1
80,001 to 100,000	0	0	0	0	0
100,001 to 120,000	1	1	1	1	1
120,001 to 140,000	1	1	1	1	1
140,001 and Over	0	0	0	1	2
Total Buildings Available	47	50	47	51	47
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	0	0



Q204

11.02M sf ▼ Available
 1.38M sf ▲ Gross
 .64M sf ▼ Net
 \$.73/sf ▼ Rent

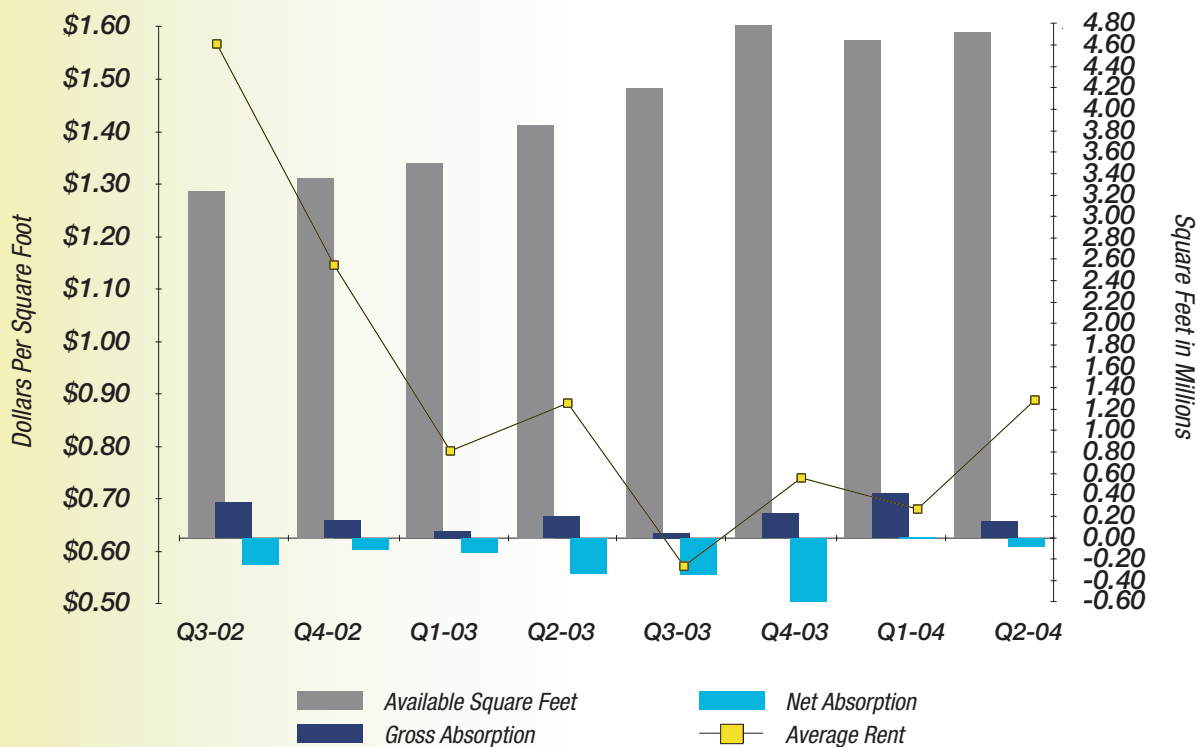
Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	11,023,400	\$0.73	1,384,968	635,738
Q104	11,611,081	\$0.76	935,821	645,324
Q403	12,317,935	\$0.73	548,497	-366,116
Q303	11,866,579	\$0.90	1,276,260	-265,911
Q203	11,580,468	\$0.82	710,111	-352,787
Q103	11,221,841	\$0.99	492,615	-336,273
Q402	10,891,408	\$1.14	410,243	-972,145
Q302	9,919,263	\$1.13	320,585	-975,534

2nd Quarter 2004 R&D San Jose



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	1,264,949	1,379,777	1,432,912	1,197,872	1,307,672
Shell Sublease	150,000	150,000	150,000	121,640	121,640
Previously Occupied Direct	6,833,758	6,691,681	6,791,793	6,193,546	5,852,771
Previously Occupied Sublease	2,774,693	3,389,623	3,943,230	4,353,521	4,298,385
Total Available	11,023,400	11,611,081	12,317,935	11,866,579	11,580,468
Available Time on Market (In Months)	19.59	17.72	16.31	15.45	13.91
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	64,205	37,500	5,840	151,026	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	905,213	782,193	542,657	1,109,602	514,452
Previously Occupied Sublease	415,550	116,128	0	15,632	195,659
Total Absorption	1,384,968	935,821	548,497	1,276,260	710,111
Absorption Time on Market (In Months)	11.11	16.83	9.96	11.87	10.59
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	22.78%	24.00%	25.46%	24.53%	23.94%
Vacancy Rate	22.59%	23.90%	25.11%	24.23%	23.63%
Sublease Factor	26.53%	30.48%	33.23%	37.71%	38.17%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	90	100	104	99	97
20,001 to 40,000	73	73	69	63	58
40,001 to 60,000	33	31	31	30	29
60,001 to 80,000	29	34	36	36	35
80,001 to 100,000	28	26	29	30	30
100,001 to 120,000	6	7	7	7	7
120,001 to 140,000	1	2	3	1	1
140,001 and Over	6	6	7	7	7
Total Buildings Available	266	279	286	273	264
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	75,000
Spec Construction	0	0	5,840	0	0
Total Completed	0	0	5,840	0	75,000
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	211,842	138,400	138,400	5,840	5,840
Total in Progress	211,842	138,400	138,400	5,840	5,840

2nd Quarter 2004 R&D Milpitas Summary



Q204

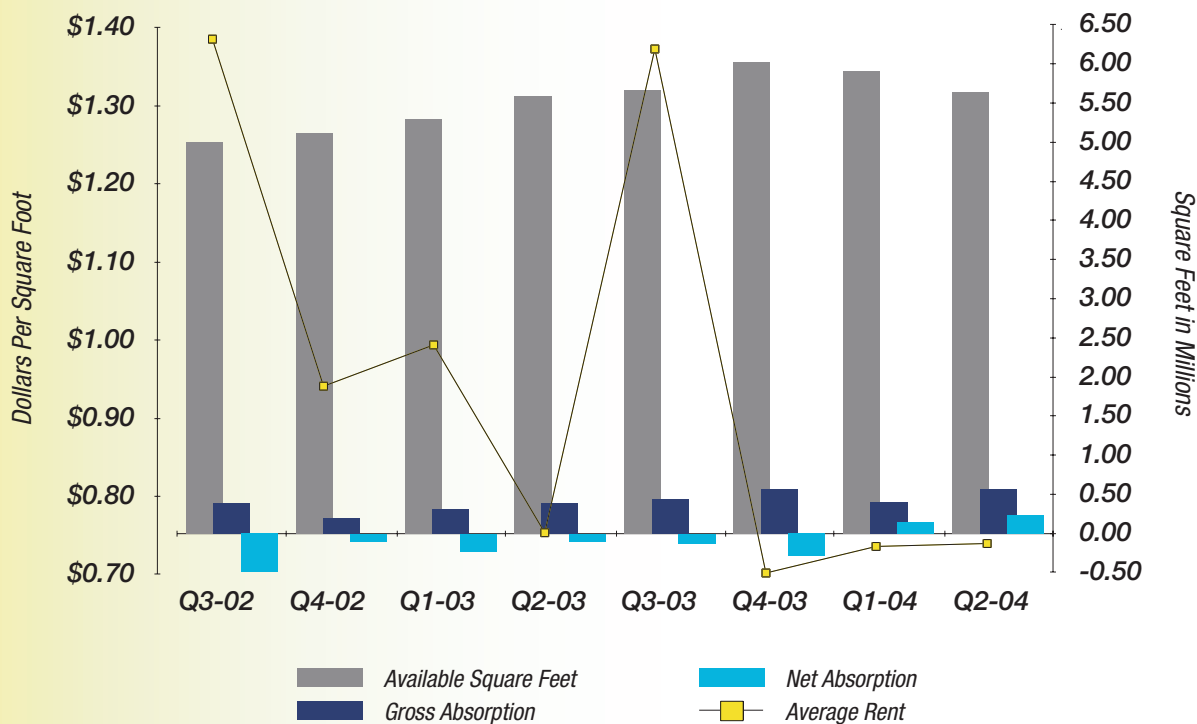
4.72M sf ▲ Available
 .15M sf ▼ Gross
 -.08M sf ▼ Net
 \$.89/sf ▲ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	4,719,371	\$0.89	147,891	-75,564
Q104	4,643,783	\$0.68	414,288	10,002
Q403	4,789,211	\$0.74	229,812	-600,380
Q303	4,188,831	\$0.57	35,467	-340,549
Q203	3,848,282	\$0.88	198,376	-327,553
Q103	3,504,129	\$0.79	63,904	-141,535
Q402	3,362,594	\$1.15	159,911	-106,335
Q302	3,233,194	\$1.57	331,551	-264,083

2nd Quarter 2004 R&D Milpitas



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	1,254,115	1,325,512	1,578,088	794,255	625,670
Shell Sublease	0	0	0	135,546	363,546
Previously Occupied Direct	2,316,814	2,114,512	1,957,511	1,831,227	1,484,787
Previously Occupied Sublease	1,148,442	1,203,759	1,253,612	1,427,803	1,374,279
Total Available	4,719,371	4,643,783	4,789,211	4,188,831	3,848,282
Available Time on Market (In Months)	17.00	14.76	13.45	13.81	12.69
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	0	76,556	0	0	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	147,891	312,887	190,384	14,405	185,158
Previously Occupied Sublease	0	24,845	39,428	21,062	13,218
Total Absorption	147,891	414,288	229,812	35,467	198,376
Absorption Time on Market (In Months)	6.84	12.69	11.21	7.63	9.99
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	30.63%	30.14%	31.08%	27.18%	24.97%
Vacancy Rate	30.63%	30.14%	30.81%	26.82%	24.76%
Sublease Factor	24.33%	25.92%	26.18%	37.32%	45.16%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	34	38	39	37	35
20,001 to 40,000	25	26	23	25	24
40,001 to 60,000	26	27	25	16	15
60,001 to 80,000	8	7	8	5	4
80,001 to 100,000	6	6	5	4	2
100,001 to 120,000	3	2	2	2	2
120,001 to 140,000	0	0	1	2	2
140,001 and Over	4	4	5	5	5
Total Buildings Available	106	110	108	96	89
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	0	0



Q204

5.64M sf ▼ Available
 .56M sf ▲ Gross
 .24M sf ▲ Net
 \$.74/sf ➤ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	5,636,572	\$0.74	557,415	235,107
Q104	5,903,221	\$0.74	400,994	153,523
Q403	6,025,202	\$0.70	556,149	-294,165
Q303	5,674,126	\$1.37	428,678	-128,066
Q203	5,592,070	\$0.75	377,011	-96,794
Q103	5,304,231	\$0.99	305,365	-234,636
Q402	5,114,317	\$0.94	201,204	-113,948
Q302	4,999,689	\$1.39	388,376	-500,186

2nd Quarter 2004 R&D Fremont



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	740,908	839,492	860,660	735,060	778,044
Shell Sublease	134,629	134,629	134,629	0	21,168
Previously Occupied Direct	4,068,355	4,053,075	4,059,758	3,853,328	3,481,616
Previously Occupied Sublease	692,680	876,025	970,155	1,085,738	1,311,242
Total Available	5,636,572	5,903,221	6,025,202	5,674,126	5,592,070
Available Time on Market (In Months)	19.10	18.21	16.83	15.65	14.33

Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	20,135	21,168	0	18,142	65,322
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	425,750	379,826	479,508	359,848	225,576
Previously Occupied Sublease	111,530	0	76,641	50,688	86,113
Total Absorption	557,415	400,994	556,149	428,678	377,011
Absorption Time on Market (In Months)	9.67	12.46	12.46	13.35	10.55

Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	31.53%	33.03%	33.71%	31.74%	31.29%
Vacancy Rate	30.70%	32.12%	33.11%	31.74%	31.29%
Sublease Factor	14.68%	17.12%	18.34%	19.13%	23.83%

Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	74	76	94	90	97
20,001 to 40,000	51	56	53	54	48
40,001 to 60,000	24	23	26	26	24
60,001 to 80,000	14	13	14	12	12
80,001 to 100,000	5	4	3	2	2
100,001 to 120,000	1	1	2	3	3
120,001 to 140,000	0	1	1	1	2
140,001 and Over	2	3	2	2	2
Total Buildings Available	171	176	195	190	190

Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	0	0

Q204 Warehouse Highlights

Supply

Supply was virtually unchanged from the first quarter to the second quarter of 2004. As of June 30th, the availability factor was just slightly above 20% or 6,752,626 square feet. As has been the case for the past ten quarters, Fremont continues to have the highest availability factor in the Silicon Valley at just under 25%. Sunnyvale remains the tightest market in the Valley with an availability factor of 10%.

Demand

Gross absorption was also relatively unchanged from the first quarter, finishing at 864,188 square feet, which is about 10% higher than the average for the previous eight quarters. Net absorption was slightly negative at 50,729 square feet and deal volume was consistent with Q2-03 at 24 transactions. Of note was that 80 percent of the transactions were new transactions; there were four renewals, one sublease and one space taken off the market as the existing tenant opted to stay in the space. Also of note were two large transactions in spaces that had been on the market for several quarters: 143,000 square feet in central San Jose and 246,000 square feet in Fremont. Average time on the market jumped by 50% to 1.47 years, the highest number in the last several years.

Rents

Average rents continued to show volatility as they dropped 20% from the previous quarter to \$.288 per square foot triple net. This rate and Q4-03's rate of \$.283 represent the lowest rates in the Silicon Valley since the early '90's. It should be noted that this number reflects some short term deals as well as deals made in Class C buildings. Class A spaces in good locations were able to achieve rates in the mid to high \$.30's triple net. Average tenant improvements increased to \$2.85 per square foot, which is much higher than the historical average of \$.68 per square foot, especially considering the lack of shell space on the market. The average lease term of 3.71 years was slightly below average as landlords continued to be aggressive in their rental rates but only for shorter terms.

Forecast for Q304

Supply

The supply of warehouse space should continue a slow decline through 2004. With most tenants having already trimmed their operation or gone under altogether, we do not foresee significant blocks of Class A space coming on the market during the next quarter. The availability of Class B and C spaces, on the other hand, will become more prevalent as those tenants continue to upgrade the locations and/or functionality of their warehouses. Having no new construction planned and some projects being considered for residential or retail redevelopment should also aid in the reduction of supply.

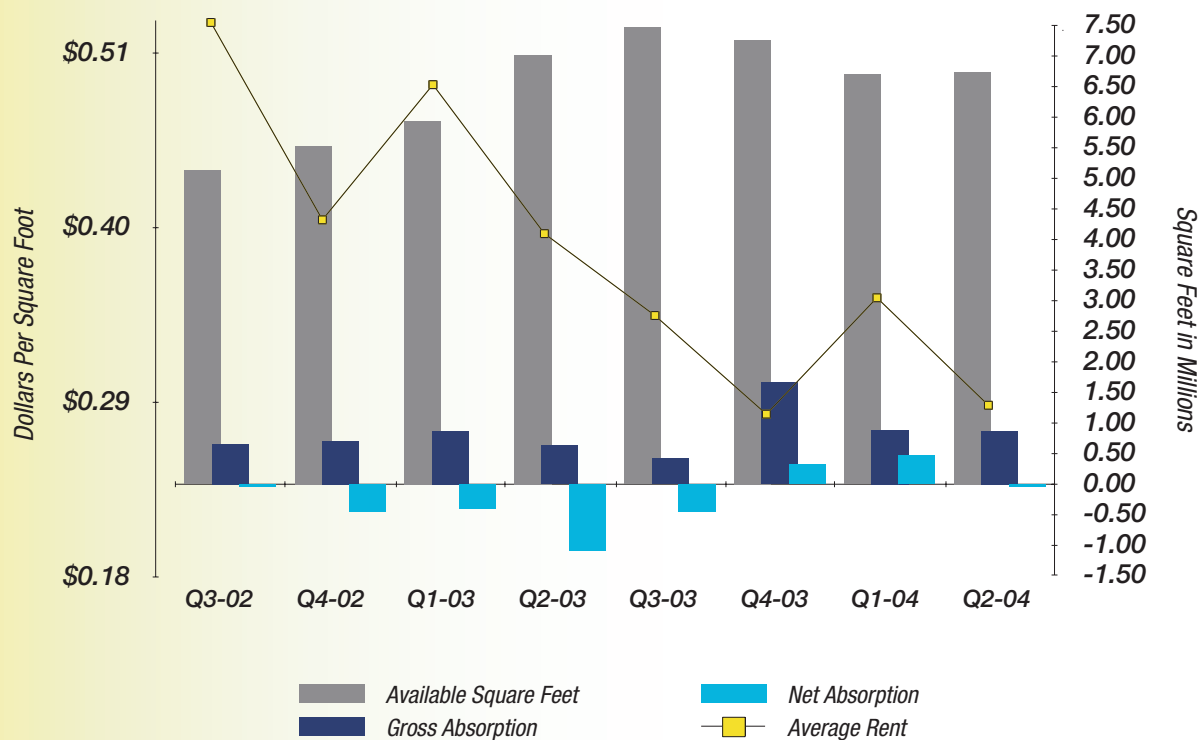
Demand

While we expect the number of transactions to be less in Q3-04 than the first two quarters of the year, we still anticipate some solid activity as some of the Valley's stronger tenants return to good health. The majority of the demand will continue to be for smaller (20,000-30,000 square feet) spaces and for quality properties. However, we expect a few more 100,000+ square foot deals to happen in 2004.

Rents

While rents won't rise significantly during the next quarter or two, landlords of Class A properties will likely stand firm during negotiations. Landlords will still be aggressive, especially for lesser quality properties that have been on the market over a year, but will be less inclined to give away quality properties to marginal tenants.

2nd Quarter 2004 Warehouse Silicon Valley Summary



Q204

6.75M sf ▲ Available
 .86M sf ▼ Gross
 -.05M sf ▼ Net
 \$.29/sf ▼ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	6,752,626	\$0.29	864,188	-50,729
Q104	6,701,897	\$0.36	878,801	462,113
Q403	7,259,510	\$0.28	1,660,142	319,912
Q303	7,472,422	\$0.35	410,904	-445,609
Q203	7,026,813	\$0.40	620,477	-1,086,770
Q103	5,940,043	\$0.49	865,319	-406,006
Q402	5,534,037	\$0.41	699,630	-448,552
Q302	5,138,711	\$0.53	659,812	-47,866

2nd Quarter 2004 Warehouse Silicon Valley



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	0	0	0	0	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	5,831,515	5,686,375	5,967,284	5,843,164	5,528,529
Previously Occupied Sublease	921,111	1,015,522	1,292,226	1,629,258	1,498,284
Total Available	6,752,626	6,701,897	7,259,510	7,472,422	7,026,813
Available Time on Market (In Months)	14.07	14.01	13.91	12.43	11.18
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	0	0	0	0	50,435
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	851,188	867,641	1,569,897	410,904	556,402
Previously Occupied Sublease	13,000	11,160	90,245	0	13,640
Total Absorption	864,188	878,801	1,660,142	410,904	620,477
Absorption Time on Market (In Months)	17.69	11.80	8.42	12.89	13.32
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	20.13%	19.98%	21.64%	22.28%	20.95%
Vacancy Rate	19.95%	19.57%	21.64%	22.28%	20.17%
Sublease Factor	13.64%	15.15%	17.80%	21.80%	21.32%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	38	33	30	25	27
20,001 to 40,000	48	50	46	44	42
40,001 to 60,000	19	16	18	20	19
60,001 to 80,000	12	11	11	10	12
80,001 to 100,000	6	4	3	8	7
100,001 to 120,000	9	10	11	11	9
120,001 to 140,000	4	3	5	6	5
140,001 and Over	5	7	8	7	7
Total Buildings Available	141	134	132	131	128
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	0	0

Q204 Office Highlights

Supply

The available office space decreased slightly in the second quarter of 2004 ending the quarter with 10,199,642 square feet available. The availability rate decreased to 23.60%, a drop of .93%, at the end of the second quarter. The percent of available space that is sublease space dropped to 16.9% at the end of the quarter, down from 19.4% in the first quarter.

Demand

Office demand remained stable in the second quarter of 2004. Gross absorption for the second quarter was 1,414,633 square feet. The second quarter of 2004 saw positive net absorption of 422,063 square feet, a fourth consecutive quarter of positive net absorption.

Rent

The average effective rent at the end of the second quarter was \$1.786 per square foot full service, a drop of \$0.22 from the first quarter 2004.

Submarkets

San Jose Airport

The total availability factor in the Airport office market decreased from 22.10% at the end of the first quarter to 19.95% at the end of the second quarter. The average rents have shown a \$0.42 decrease in the second quarter, decreasing from \$2.15 per square foot full service to \$1.73 full service. Sublease space in the Airport market dropped to 13% of the total vacancy compared to 19.2% at the end of the first quarter.

Downtown Class A

The total vacancy factor in the Downtown Class A office market remained stable at 33.63% or 908,141 square feet in the second quarter 2004. The Class A sublease space is 4.7% of the total vacancy, consistent with the first quarter. The Class A average rent at the end of the first quarter has increased to \$2.47 per square foot full service from \$1.73 full service at the end of the first quarter.

Forecast for Q304

Supply

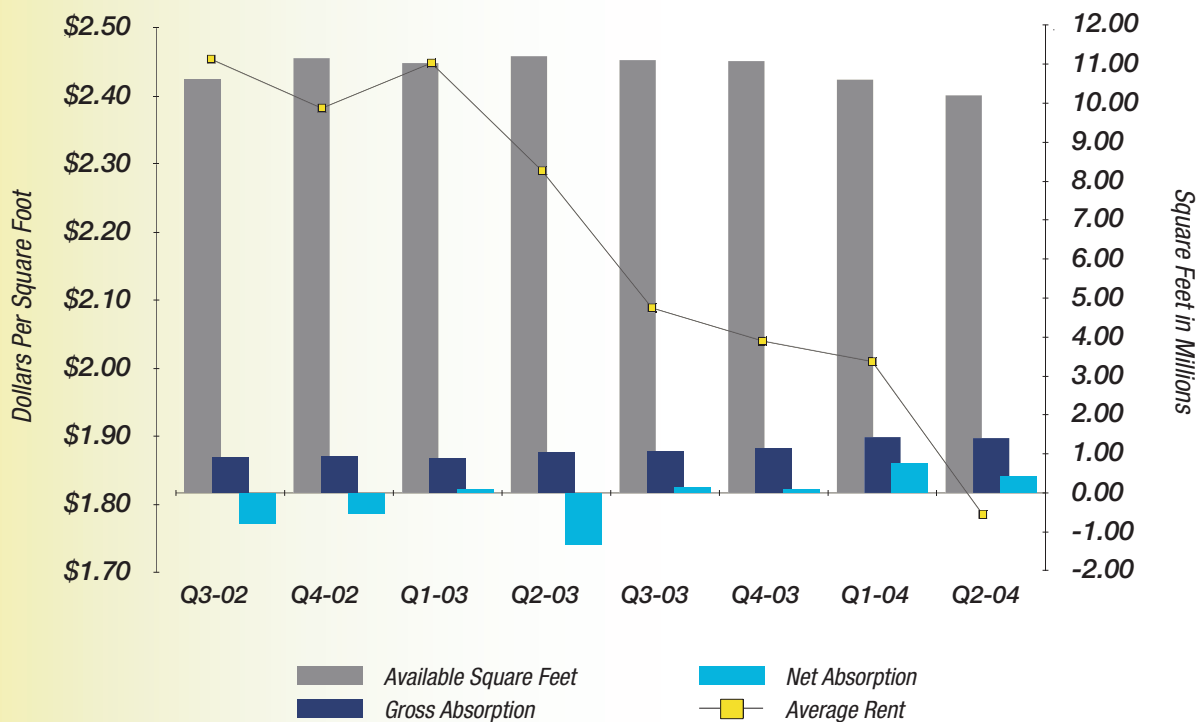
The supply of office space has stabilized. The amount of good quality space is limited given the high vacancy in the market because of aging product and the lack of speculative improvement dollars being spent by landlords. The percentage of sublease space continues to decline. There is very little "plug and play" space left in the market. There will be less money from landlords available to "buy" deals through extravagant tenant improvements and commissions.

Demand

Gross absorption will remain stable as the market improves. There will be less tenant improvement dollars available for tenants in the market. Net absorption should stay positive as we are seeing signs of stabilization.

Rent

Rents will continue to stabilize as we are at the bottom of the market with less and less sublease deals. Owners of high quality space will be able to garner a premium in the market if their space is market ready and we will see prices go up in certain markets.



Q204

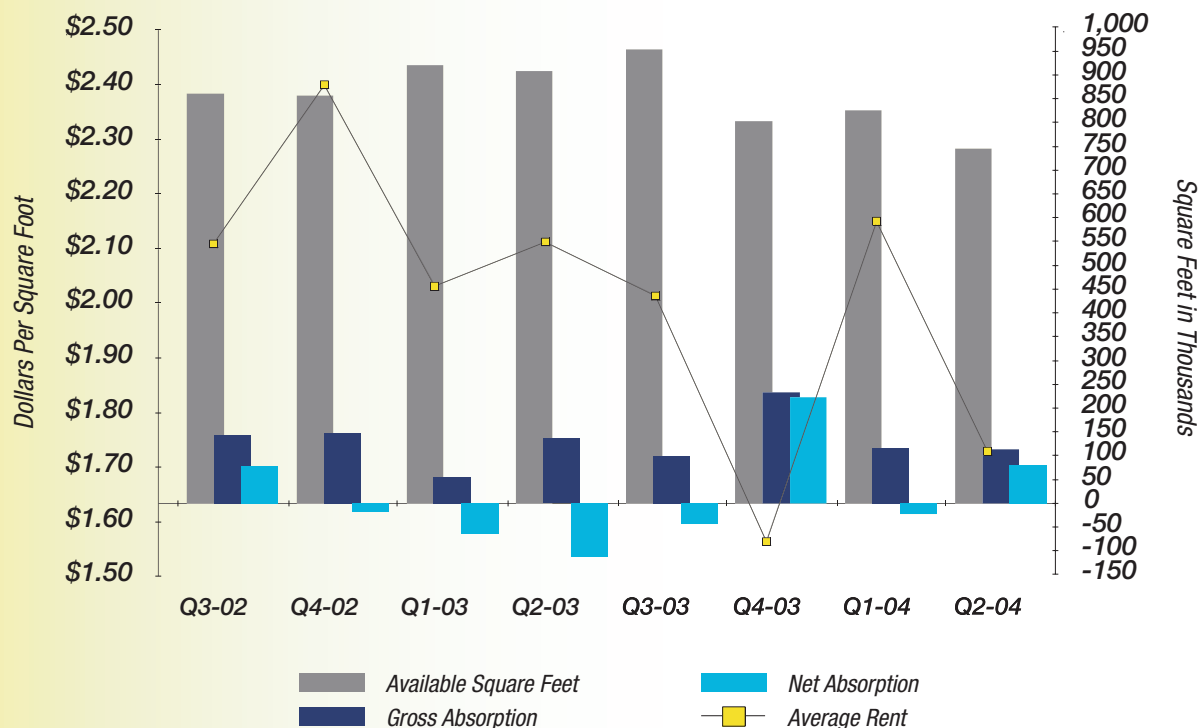
10.20M sf ▼ Available
 1.41M sf ▼ Gross
 .42M sf ▼ Net
 \$1.79/sf ▼ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	10,199,642	\$1.79	1,414,633	422,063
Q104	10,600,943	\$2.01	1,438,291	761,214
Q403	11,090,443	\$2.04	1,133,268	85,553
Q303	11,098,363	\$2.09	1,060,412	137,913
Q203	11,221,873	\$2.29	1,026,890	-1,332,371
Q103	11,033,341	\$2.45	867,140	105,887
Q402	11,161,242	\$2.38	939,256	-526,591
Q302	10,602,885	\$2.45	905,156	-781,383

2nd Quarter 2004 Office Silicon Valley



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	1,644,897	1,797,667	1,808,685	1,817,015	1,614,740
Shell Sublease	81,016	81,016	77,075	169,816	491,900
Previously Occupied Direct	6,826,669	6,745,207	6,860,850	6,703,755	6,446,761
Previously Occupied Sublease	1,647,060	1,977,053	2,343,833	2,407,777	2,668,472
Total Available	10,199,642	10,600,943	11,090,443	11,098,363	11,221,873
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	172,332	292,561	23,882	106,804	57,285
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	892,606	876,264	864,150	750,400	711,820
Previously Occupied Sublease	349,695	269,466	245,236	203,208	257,785
Total Absorption	1,414,633	1,438,291	1,133,268	1,060,412	1,026,890
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	23.60%	24.53%	25.83%	25.84%	26.13%
Vacancy Rate	23.49%	24.52%	25.77%	25.78%	26.10%
Sublease Factor	16.94%	19.41%	21.83%	23.22%	28.16%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	398	417	447	452	466
20,001 to 40,000	89	94	98	96	85
40,001 to 60,000	21	18	28	25	30
60,001 to 80,000	12	13	12	12	12
80,001 to 100,000	5	7	3	4	5
100,001 to 120,000	5	3	4	4	2
120,001 to 140,000	1	0	0	1	2
140,001 and Over	8	9	9	8	8
Total Buildings Available	539	561	601	602	610
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	266,867	0	0	0
Spec Construction	7,061	0	0	0	38,285
Total Completed	7,061	266,867	0	0	38,285
In-Process Construction					
Build-To-Suit	0	0	266,867	266,867	266,867
Spec Construction	21,920	7,061	7,061	0	0
Total in Progress	21,920	7,061	273,928	266,867	266,867



Q204

.75M sf ▼ Available
 .11M sf ▼ Gross
 .08M sf ▲ Net
 \$1.73/sf ▼ Rent

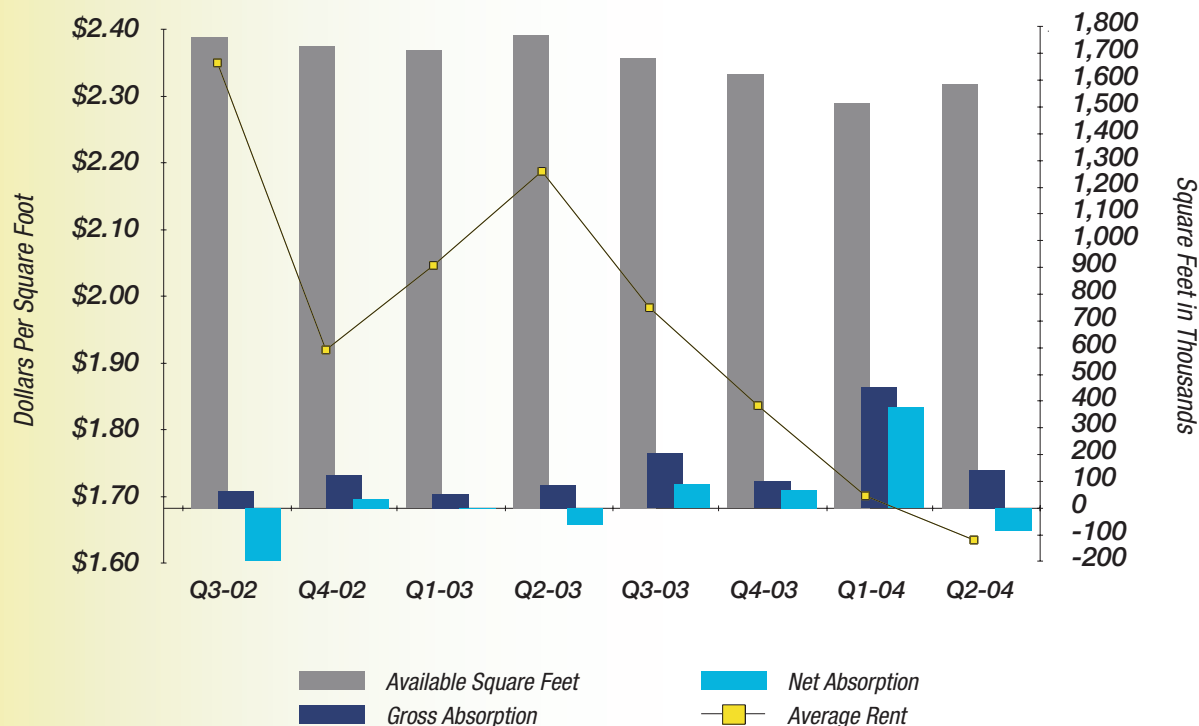
Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	745,681	\$1.73	113,049	80,153
Q104	825,834	\$2.15	115,061	-22,211
Q403	803,623	\$1.56	233,595	222,066
Q303	952,948	\$2.01	98,588	-44,497
Q203	908,451	\$2.11	135,456	-111,043
Q103	919,593	\$2.03	55,768	-63,873
Q402	855,720	\$2.40	148,330	-19,869
Q302	860,098	\$2.11	144,353	78,138

2nd Quarter 2004 Office San Jose Airport



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	35,360	34,305	49,444	0	0
Shell Sublease	24,042	24,042	24,042	120,825	120,825
Previously Occupied Direct	613,366	632,978	584,859	628,959	523,834
Previously Occupied Sublease	72,913	134,509	145,278	203,164	263,792
Total Available	745,681	825,834	803,623	952,948	908,451
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	0	12,085	0	0	48,084
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	50,784	88,960	151,009	83,222	79,069
Previously Occupied Sublease	62,265	14,016	82,586	15,366	8,303
Total Absorption	113,049	115,061	233,595	98,588	135,456
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	19.95%	22.10%	21.50%	25.50%	24.31%
Vacancy Rate	19.95%	22.10%	21.50%	25.50%	24.31%
Sublease Factor	13.00%	19.20%	21.07%	34.00%	42.34%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	15	15	18	22	23
20,001 to 40,000	9	13	10	11	9
40,001 to 60,000	3	2	3	3	5
60,001 to 80,000	3	3	3	3	3
80,001 to 100,000	0	0	0	1	0
100,001 to 120,000	0	0	0	0	0
120,001 to 140,000	0	0	0	0	0
140,001 and Over	0	0	0	0	0
Total Buildings Available	30	33	34	40	40
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	0	0

2nd Quarter 2004 Office Downtown San Jose Summary



Q204

1.59M sf ▲ Available
 .14M sf ▼ Gross
 -.08M sf ▼ Net
 \$1.64/sf ▼ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q204	1,586,983	\$1.64	143,642	-81,572
Q104	1,515,240	\$1.70	452,447	377,304
Q403	1,620,830	\$1.84	101,078	65,881
Q303	1,682,275	\$1.98	202,326	89,749
Q203	1,769,981	\$2.19	85,249	-60,644
Q103	1,710,957	\$2.05	51,582	-5,303
Q402	1,727,973	\$1.92	125,612	34,067
Q302	1,762,040	\$2.35	65,324	-198,878

2nd Quarter 2004 Office Downtown San Jose



Available Supply	Q204	Q104	Q403	Q303	Q203
Shell Direct	455,162	464,991	464,991	464,961	511,218
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	1,015,704	919,402	959,279	1,046,541	986,387
Previously Occupied Sublease	116,117	130,847	196,560	170,773	272,376
Total Available	1,586,983	1,515,240	1,620,830	1,682,275	1,769,981
Gross Absorption	Q204	Q104	Q403	Q303	Q203
Shell Direct	0	271,714	4,406	48,300	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	126,912	154,733	80,875	98,240	77,149
Previously Occupied Sublease	16,730	26,000	15,797	55,786	8,100
Total Absorption	143,642	452,447	101,078	202,326	85,249
Supply Rates	Q204	Q104	Q403	Q303	Q203
Availability Rate	26.56%	25.36%	28.40%	29.47%	31.01%
Vacancy Rate	26.56%	25.36%	28.19%	29.47%	31.01%
Sublease Factor	7.32%	8.64%	12.13%	10.15%	15.39%
Size Ranges	Q204	Q104	Q403	Q303	Q203
0 to 20,000	34	41	45	45	51
20,001 to 40,000	7	7	10	11	12
40,001 to 60,000	5	2	3	3	3
60,001 to 80,000	2	2	1	1	1
80,001 to 100,000	2	2	1	1	1
100,001 to 120,000	0	0	1	1	0
120,001 to 140,000	0	0	0	0	1
140,001 and Over	2	2	2	2	2
Total Buildings Available	52	56	63	64	71
Construction Types	Q204	Q104	Q403	Q303	Q203
Completed Construction					
Build-To-Suit	0	266,867	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	266,867	0	0	0
In-Process Construction					
Build-To-Suit	0	0	266,867	266,867	266,867
Spec Construction	0	0	0	0	0
Total in Progress	0	0	266,867	266,867	266,867

<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>



475 El Camino Real, Suite 100
Santa Clara, California 95050-4300
Tel: (408) 615-3400 Fax: (408) 615-3444
www.cps-co.com