



Real News

the silicon valley quarterly on commercial real estate

Q309 Market Study

Silicon Valley Economic Overview

During the 12 months ending June 30, 2009 the US economy contracted at an annualized rate of 3.2 percent - the worst performance in 70 years. However, it appears the recovery may have started during the third quarter of the year. According to the advanced estimate of the Bureau of Economic Analysis, real gross domestic product expanded at an annual rate of 3.5 percent during the third quarter of 2009. While consumers remained spendthrift during this period, economic growth was driven by government spending and tax credits. The Council on Economic Advisers estimates that the AARA (economic stimulus package) added two to three percentage points to real GDP growth in the second quarter and three to four points in the third quarter. Given the expected wind-down of the AARA's programs in mid 2010, and an unemployment rate that is predicted to rise above 10% before starting to decline, a number of economic experts have expressed concerns about a "new normal" where

unemployment rates remain elevated for years to come.

California's economy seems to be in an even deeper hole than the greater US economy, compounded by a state budget mess due in part to a heavy reliance on volatile income tax revenue. Unemployment stands at 12.2 percent, the third highest in the nation. Fortunately, however, the Golden State – and the Bay Area specifically - continue to attract the lion's share of US VC investment. Although investment activity was substantially lower during Q309 compared to the previous year, total dollars invested increased for the third consecutive quarter. Leading this growth during the third quarter was a 46% increase in funding to clean-tech companies compared to the prior period. Noteworthy venture investments in Q3 included Solyndra (Fremont - \$198M), Tesla (San Carlos - \$100M), Facebook (Palo Alto - \$100M), Pacific BioSciences (Menlo Park - \$68M) and Serious Materials (Sunnyvale - \$60M).

Economic Indicators

	Q309	Q209	Q308
Unemployment Rate - Silicon Valley MSA*	11.8%	11.9%	6.4%
Unemployment Rate - Santa Clara County*	11.8%	11.8%	6.3%
Unemployment Rate - California*	12.0%	11.6%	7.6%
Unemployment Rate - National	9.8%	9.5%	6.1%
Inflation (CPI-U)*	-1.3%	3.3%	2.6%
US GDP	3.5%	-0.7%	-2.7%
VC Investment National**	\$4.8B	\$4.1B	\$7.2B
VC Investment Silicon Valley**	\$2.2B	\$1.2B	\$2.8B
VC Confidence Index***	3.37/5	3.37/5	2.89/5
Job Growth - Santa Clara County	-5,500	-12,800	5,800
Job Growth - Silicon Valley MSA*	-5,700	-13,200	6,100

*Not seasonally adjusted

**Source: PriceWaterhouseCoopers Money Tree

***Source: USF Bloomberg ticker USFSVVIC

Significant Large R&D Transactions in Q309

Landlord/Sublessor	Tenant	Address	City	Size
Stanford University	Tesla Motors	3500 Deer Creek	Palo Alto	350,000 SF
ProLogis Trust	Quanta Computer	44320 Nobel Drive	Fremont	105,821 SF
Granum Partners	Apple Computer	10201 N De Anza	Cupertino	104,990 SF
Therma Wave, Inc.	KLA Tencor	1250 Reliance Way	Fremont	101,882 SF
SAP America Inc	Fairchild Semi	3030 Orchard Pky	San Jose	75,354 SF
IStar Financial	Xyratex International	46831 Lakeview Blvd	Fremont	74,674 SF
RREEF Funds, The	Toshiba	2825 N First Street	San Jose	51,758 SF
Legacy Partners	Crossing Automation	46897 Bayside Pky	Fremont	47,214 SF
Belle Haven Realty	O'Sullivan Vending	1525 Atteberry Lane	San Jose	43,250 SF

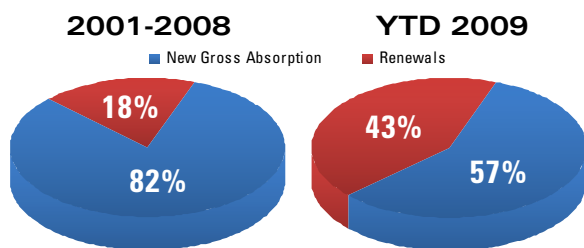
Q309 R&D Highlights

Absorption

During the three month period ending September 30th, the Silicon Valley R&D market experienced 2 million square feet of negative net absorption. This marks the fourth consecutive quarter of negative net absorption. Since October 2008, negative net absorption has totaled 7.3 million square feet. With the exception of the West Valley (Cupertino, Campbell, and Los Gatos), every major sub-market tracked by CPS experienced negative net absorption during the third quarter.

The most significant R&D lease transaction completed during the quarter was Tesla Motors' lease of a 350,000 sq. ft. building at 3500 Deer Creek Road in Palo Alto. Hewlett-Packard and Agilent Technologies formerly occupied the property.

Gross absorption remained low during the period. At 1.9 million square feet, Q3 gross absorption of R&D space totaled roughly 60% of the trailing five-year quarterly average of 3.0 million square feet. On a more positive note, however, gross absorption increased by 10.4% compared to the prior period.



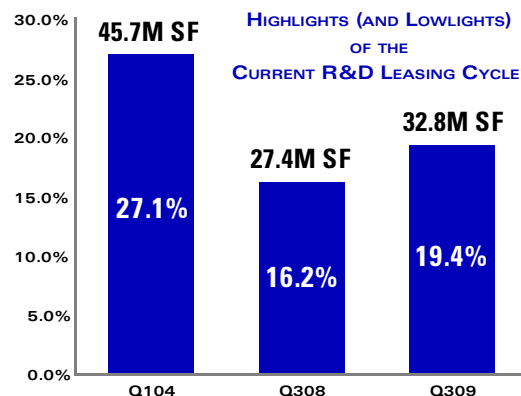
Year-to-date, nearly one-third of all R&D and office transactions tracked by CPS have been renewals. On a square footage basis, renewals translate to 42.8% of the total. Since CPS does not include renewal transactions in the calculation of gross absorption, the high level of renewal activity has

been a substantial factor in the low gross absorption totals of the past several quarters.

A trend towards smaller lease transactions is also emerging. From Q204 to Q308 – roughly the “recovery” period of the last leasing cycle – the average R&D lease transaction was 22,058 sq. ft. However, since Q408, this average has shrunk to 13,344 sq. ft. During the most recent period the average R&D lease transaction was a mere 10,861 sq. ft.

Vacancy Trends

During Q309, R&D vacancy increased for the fourth consecutive period, finishing the quarter at 19.4 percent. At the end of September, R&D availability stood at 32.8 million square feet, an increase of approximately 1.5 million square feet over the previous quarter. At the peak of the previous market cycle, Q308 R&D availability bottomed out at 27.4 million square feet, representing a 16.2 percent vacancy factor. At the bottom of the last downturn (Q104), vacancy reached 27.1 percent at 45.7 million sq. ft.



As of the quarter's end, 3 cities have vacancy rates greater than 20%: San Jose (21.3%), Milpitas (22.5%), and Fremont (29.9%).

Significant New Q309 R&D Availabilities

Building	City	Size	Availability	Type
3210 Porter Drive	Palo Alto	95,500 SF	7/13/2009	Sublease
3475 Deer Creek Road	Palo Alto	92,740 SF	7/8/2009	Sublease
40949 Encyclopedia Circle	Fremont	91,197 SF	7/20/2009	Lease
18920 Forge Drive	Cupertino	91,195 SF	4/1/2010	Lease
47071 Bayside Pky	Fremont	87,549 SF	9/16/2009	Lease
3885 Bohannon Drive	Menlo Park	84,643 SF	10/1/2009	Lease
5729 Fontanoso Way	San Jose	80,000 SF	12/1/2009	Lease
2880 Junction Ave	San Jose	79,143 SF	8/8/2009	Lease
1310 Chesapeake Terrace	Sunnyvale	74,050 SF	1/1/2010	Lease
1680 Mccandless Drive	Milpitas	73,245 SF	8/19/2009	Lease
1331 California Circle	Milpitas	100,041 SF	8/25/2009	Lease

Palo Alto & Menlo Park, which experienced a combined negative net absorption of 533,000 sq. ft., joined Mountain View (15.1%) and Sunnyvale (17.0%) in having double-digit vacancy. Every major R&D sub-market in the greater Silicon Valley now has a vacancy rate above 10%.

Rent Trends

Average rent for completed R&D transactions decreased by 13.0 percent between the second and third quarters of 2009 from \$1.11 to \$0.97 per sq. ft. Average R&D rents are back to mid-2005 levels and are roughly 43.0 percent off the highest average quarterly rent during the most recent cycle (\$1.71 during Q407). Average R&D rents have now decreased for four consecutive quarters as a result of the supply/demand imbalance.

Average rents in Mountain View (\$1.39/sq. ft.) and Sunnyvale (\$0.98/sq.ft.) remained relatively flat compared with the previous quarter, while R&D rents in Santa Clara decreased by 26.3% to \$0.97/sq. ft. The last time quarterly average rents in Santa Clara were less than \$1.00 was Q406.

Construction

Only one new project commenced in the third quarter. In September, Solyndra broke ground on a \$733 million, 609,000 sq. ft. manufacturing facility for cylindrical solar modules in Fremont (dubbed Fab 2). Solyndra raised equity equal to 27% of Fab 2's estimated costs, freeing up a \$535 million loan guarantee from the US Department of Energy. Construction is expected to be ongoing through late 2010. When complete, Fab 2 will produce 500 MW per year of solar panels, and the company estimates the facility's operation will create 1,000 jobs. Solyndra also signed a lease on a 506,000 square foot facility next door to its construction site which will be reflected in the fourth quarter manufacturing statistics.

R&D Forecast for Q409

Absorption

Leasing activity will pick up until the holiday season as tenants see greater value in the marketplace via discounted rates. As is customary, activity will slow during the holiday season, rebounding again at the start of 2010. Renewal activity should begin to be supplemented with leases of new property, although it is unlikely that an expected up-tick in gross absorption will be complemented by positive net absorption. Until a meaningful recovery of the local employment base occurs, R&D net absorption will likely remain flat or negative for the near term.

Vacancy

Vacancy will continue to increase moderately for the Silicon Valley as tenants renew and/or relocate into more efficient facilities. Certain submarkets will see some improvement. Cupertino and Mountain View are best poised to see decreases in their vacancy rates during the next few quarters, as both Apple and Google are expected to ramp-up their local hiring activities.

Rent Trends

Rents will continue on a downward trend, particularly in Santa Clara, North San Jose, and Milpitas. Should one or more of the pending leases of Class A space occur during the fourth quarter, average rents for completed transactions may surge in the affected sub-market, but the rumored lease rates – if true – will likely contribute additional downward pricing pressure on owners of near-by Class-B properties.

Construction

Outside of Downtown Palo Alto, where a handful of office/R&D projects are underway, it is unlikely that new R&D construction will commence through at least 2010.

By Gregory M. Davies - Vice President Lic. 01362233



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Q309 Office Highlights

Absorption Trends

Office absorption during the third quarter of 2009 continued to reflect a retrenching leasing market. Gross absorption totaled 863,706 square feet, a 45% increase over the prior quarter. However, even at this increased level, gross absorption remains approximately 28 percent lower than the 20-quarter (five-year) trailing average of 1.2 million square feet. Negative net absorption totaled 441,564 square feet, a 14.5% improvement over the prior quarter, but Q3 marked the eighth consecutive quarterly period of negative net absorption. It is worth highlighting that CPS' net absorption statistics are not affected by the addition of newly constructed space to the base or available inventory.

Vacancy Trends

At the end of the third quarter of 2009, 12.6 million square feet of office space was available in Silicon Valley, an increase of 256,110 square feet compared to the prior period. Since bottoming at 14.5% at the end of the second quarter of 2007, office availability has increased by a cumulative 6.2 million square feet. As of the most recent quarter, office availability stood at 26.3%. Approximately 3.6 million square feet, or 58.0%, of the 6.2 million square feet of office space added to the available inventory since Q207 is new speculative construction that remained unleased as of the third quarter of 2009.

Downtown San Jose, one of the larger office sub markets tracked by CPS, experienced a negligible increase in vacancy during the third quarter. Vacancy Downtown increased from 38.6% during the second quarter of 2009 to 38.7% during the most recent quarter. Legacy Partners' 319,000 square foot RiverPark II tower and 488 Almaden, a 17-story, 380,000 square foot tower both remain 100% vacant, substantially impacting the vacancy statistics of the Downtown Class A office market.

On a more positive note, after nine consecutive periods of vacancy increases, the San Jose Airport office submarket reversed course in the second quarter and recorded a decrease in vacancy during the second and third quarters of 2009. As of September 30th, vacancy at the Airport stood at 25.1%, a decrease of approximately 1.2% from the first quarter's 26.3%.

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 at the start of 2009 with average rents falling to \$2.58 per square foot year-to-date. The third quarter of 2009 witnessed a continuation of this trend, with average office rents dropping to \$2.41 per square foot. Please note that CPS's aggregate rent statistics are based on verified completed transactions – not asking rents – and exclude data on renewal transactions. For a custom study that includes renewal transaction data, please feel free to contact your CPS agent.

Construction

CPS market research tracked 1.2 million square feet of office space under construction during the third quarter of 2009, which includes the Brocade build-to-suit of 562,000 square feet on North First Street. Construction is on hold for both the Sobrato project on Lawson Lane and the Sand Hill Properties/RREEF Offices at Downtown Sunnyvale - a total of 490,000 square feet.



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Submarkets

San Jose Airport

Total office availability in the Airport sub-market declined by approximately 40 basis points to 25.1% at the end of the third quarter. Average rents in the third quarter of 2009 remained stable at \$1.95 per square foot full service. Sublease space in the Airport market remained stable at 10.1% of the total vacancy. Deal volume - measured by gross absorption - also remained low at 52,356 square feet during Q3, although the airport office sub-market experienced positive net absorption of 8,272 square feet.

Downtown Class A

Vacancy in the Downtown Class A office sub-market reached 36.9% at the end of the third quarter of 2009, a slight increase of roughly 0.5%. Average Class A rents declined to \$1.85 full service, a decrease of \$0.51, during the quarter. The activity level in Downtown Class A office was very low with only 46,761 square feet of gross absorption during the period.

Forecast for Q409

Absorption

As reflected by the up-tick in gross absorption, office tenants have begun to emerge from their paralytic state and are increasingly seeking to take advantage of perceived value in the leasing market. As prices have fallen, more companies are likely to sign leases on new space – although these deals may be for similar or slightly less square footage than the spaces they previously occupied. With most of the fat trimmed from Silicon Valley companies, however, we do not expect net absorption of office space to continue to accelerate on a negative trend. It is more likely that net absorption will flatten out as the year heads to a close, and possibly even return to positive territory late in the fourth quarter of 2009 or early 2010.

Vacancy

Vacancy rates will likely begin to stabilize in the fourth quarter, as most Silicon Valley companies are expected to have worked through the bulk of their layoffs. One looming x-factor, however, is the fate of Oracle's acquisition of Santa Clara based Sun Microsystems. As of this writing, the acquisition remains on hold pending the approval of European Commission Regulators. Sun has already announced 3,000 world-wide layoffs, and should the deal with Oracle acquisition receive regulatory approval, further headcount reductions are anticipated.

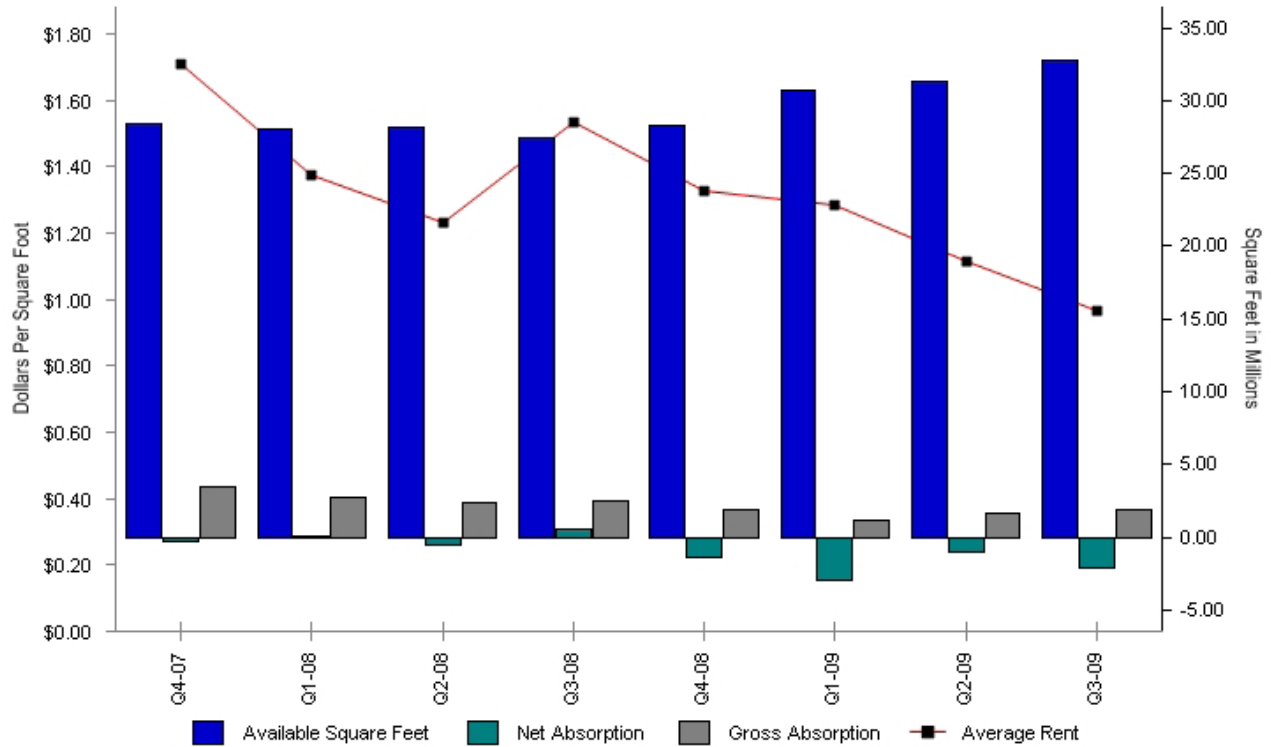
Rents

Generous tenant improvement allowances provided by landlords in recent lease transactions have had an ancillary effect of providing price support for average office rents. Factoring in T.I. and commission costs, many of these recent deals have resulted in near-zero NPVs for landlords. As such, it is difficult to foresee rent decreases continuing at their present pace without a corresponding reduction in landlords' T.I. concessions. Nevertheless, the environment for attracting tenants will remain highly competitive and rents will likely remain very low for "as-is" deals or those not requiring significant capital investment for the foreseeable future. The overall effect of these two trends will result in a modest reduction of average rents in the fourth quarter.

By Maryanna McSwain - Senior Vice President / Principal Lic. 00696583

By Erik Hallgrimson - Senior Vice President / Principal Lic. 01274540

By Gregory M. Davies - Vice President Lic. 01362233

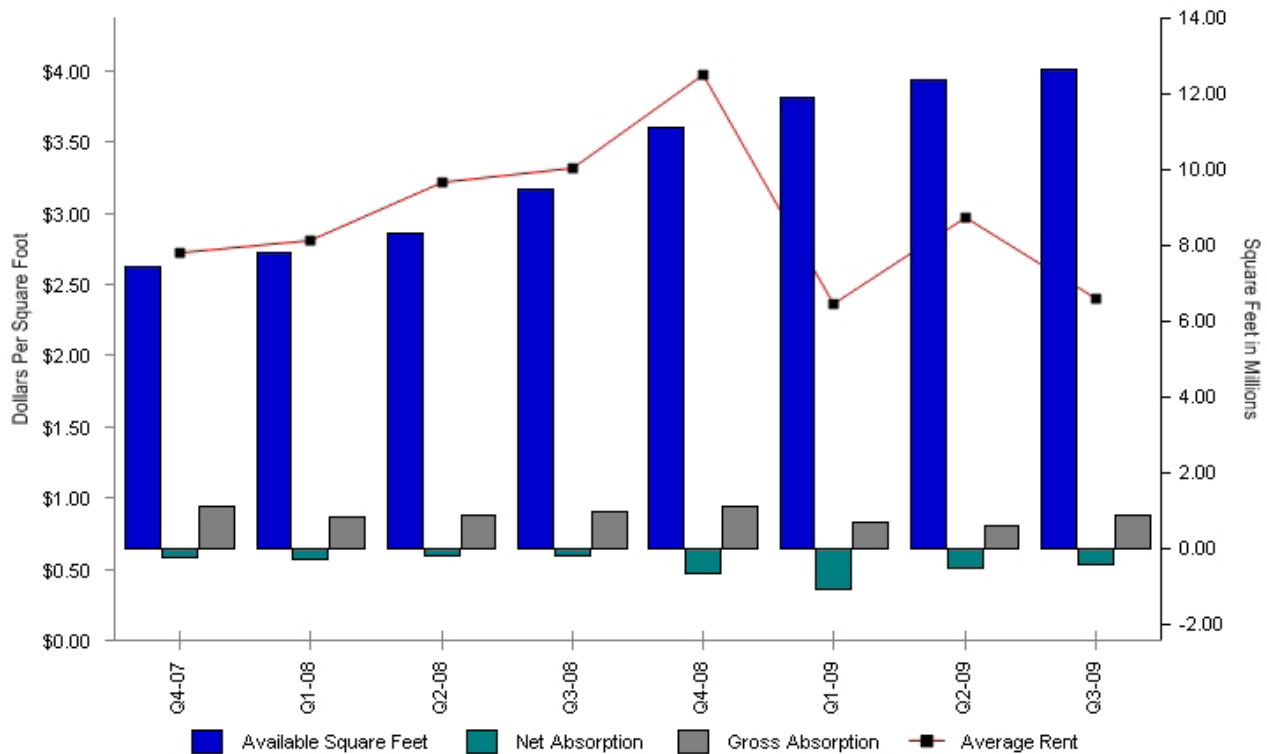


Q309

32.83M sf ▲ **Available**
1.87M sf ▲ **Gross**
-2.03M sf ▼ **Net**
\$.97/sf ▼ **Rent**

<i>Period</i>	<i>Available sf</i>	<i>Average Rent</i>	<i>Gross Absorption</i>	<i>Net Absorption</i>
Q309	32,827,365	\$0.97	1,867,083	-2,028,456
Q209	31,355,209	\$1.11	1,690,349	-1,030,864
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	28,062,820	\$1.37	2,750,430	102,252
Q407	28,445,202	\$1.71	3,528,372	-284,303

<i>Available Supply</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Shell Direct</i>	2,342,074	2,480,351	2,487,505	2,686,042	2,755,293
<i>Shell Sublease</i>	26,028	26,028	33,558	33,558	44,482
<i>Previously Occupied Direct</i>	24,891,967	22,879,268	22,445,007	20,410,413	20,008,504
<i>Previously Occupied Sublease</i>	5,567,296	5,969,562	5,722,018	5,190,897	4,594,612
<i>Total Available</i>	32,827,365	31,355,209	30,688,088	28,320,910	27,402,891
<i>Available Time on Market (In Months)</i>	27.39	26.86	26.17	27.12	27.45
<i>Gross Absorption</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Shell Direct</i>	4,067	9,861	88,339	80,357	60,508
<i>Shell Sublease</i>	0	0	0	0	0
<i>Previously Occupied Direct</i>	1,605,600	1,401,042	1,035,343	1,674,052	2,126,770
<i>Previously Occupied Sublease</i>	257,416	279,446	22,340	182,903	317,715
<i>Total Absorption</i>	1,867,083	1,690,349	1,146,022	1,937,312	2,504,993
<i>Absorption Time on Market (In Months)</i>	9.11	12.82	7.69	15.22	19.50
<i>Supply Rates</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Availability Rate</i>	19.43%	18.56%	18.16%	16.78%	16.25%
<i>Vacancy Rate</i>	19.07%	18.41%	17.94%	16.64%	15.81%
<i>Sublease Factor</i>	17.04%	19.12%	18.76%	18.45%	16.93%
<i>Size Ranges</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>0 to 20,000</i>	421	419	386	332	303
<i>20,001 to 40,000</i>	235	231	221	203	195
<i>40,001 to 60,000</i>	131	116	115	111	109
<i>60,001 to 80,000</i>	77	70	67	60	61
<i>80,001 to 100,000</i>	43	37	36	37	33
<i>100,001 to 120,000</i>	24	24	24	21	20
<i>120,001 to 140,000</i>	10	11	9	8	7
<i>140,001 and Over</i>	10	11	13	12	12
<i>Total Buildings Available</i>	951	919	871	784	740
<i>Construction Types</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Completed Construction:</i>					
<i>Build-To-Suit</i>	0	0	0	0	0
<i>Spec Construction</i>	0	0	116,603	100,000	118,535
<i>Total Completed</i>	0	0	116,603	100,000	118,535
<i>In-Process Construction:</i>					
<i>Build-To-Suit</i>	94,653	94,653	0	0	0
<i>Spec Construction</i>	0	0	0	116,603	237,540
<i>Total in Progress</i>	94,653	94,653	0	116,603	237,540



Q309

12.65M sf ▲ Available
 .86M sf ▲ Gross
 -.44M sf ▲ Net
 \$2.41/sf ▼ Rent

<i>Period</i>	<i>Available sf</i>	<i>Average Rent</i>	<i>Gross Absorption</i>	<i>Net Absorption</i>
Q309	12,645,043	\$2.41	863,706	-441,564
Q209	12,388,942	\$2.98	596,514	-516,493
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

<i>Available Supply</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Shell Direct</i>	3,825,546	3,811,509	3,801,712	3,717,671	2,837,256
<i>Shell Sublease</i>	0	3,200	3,200	10,200	14,864
<i>Previously Occupied Direct</i>	7,493,342	7,074,015	6,788,759	6,452,116	5,779,439
<i>Previously Occupied Sublease</i>	1,326,155	1,500,218	1,326,528	934,216	842,354
<i>Total Available</i>	12,645,043	12,388,942	11,920,199	11,114,203	9,473,913
<i>Gross Absorption</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Shell Direct</i>	16,823	13,000	18,969	6,234	94,915
<i>Shell Sublease</i>	0	0	0	0	0
<i>Previously Occupied Direct</i>	684,619	504,638	528,050	976,902	794,080
<i>Previously Occupied Sublease</i>	162,264	78,876	156,843	106,657	94,474
<i>Total Absorption</i>	863,706	596,514	703,862	1,089,793	983,469
<i>Supply Rates</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Availability Rate</i>	26.32%	26.01%	25.02%	24.36%	20.86%
<i>Vacancy Rate</i>	24.87%	25.24%	22.72%	22.53%	18.71%
<i>Sublease Factor</i>	10.49%	12.14%	11.16%	8.50%	9.05%
<i>Size Ranges</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>0 to 20,000</i>	512	513	485	473	433
<i>20,001 to 40,000</i>	81	79	75	62	67
<i>40,001 to 60,000</i>	17	18	20	22	19
<i>60,001 to 80,000</i>	9	12	8	9	5
<i>80,001 to 100,000</i>	5	4	5	4	5
<i>100,001 to 120,000</i>	2	1	1	2	1
<i>120,001 to 140,000</i>	0	0	1	0	0
<i>140,001 and Over</i>	14	13	12	9	7
<i>Total Buildings Available</i>	640	640	607	581	537
<i>Construction Types</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Completed Construction:</i>					
<i>Build-To-Suit</i>	0	0	0	208,000	0
<i>Spec Construction</i>	65,000	745,950	725,340	0	378,289
<i>Total Completed</i>	65,000	745,950	725,340	208,000	378,289
<i>In-Process Construction:</i>					
<i>Build-To-Suit</i>	752,000	752,000	752,000	752,000	960,000
<i>Spec Construction</i>	486,345	515,195	1,312,583	2,019,998	2,013,699
<i>Total in Progress</i>	1,238,345	1,267,195	2,064,583	2,771,998	2,973,699



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Q309 Warehouse Highlights

Supply

While the overall economy has yet to show significant signs of improvement, the Silicon Valley warehouse market at least showed some stability in the third quarter. After incurring an increase in total supply in seven out of the last eight quarters, the warehouse market ended the third quarter of 2009 with essentially the same vacancy as that at the beginning of the quarter. With an availability factor of 15.35%, the market's supply is still exceeding the theoretical equilibrium point of ten percent, but it is still in better shape than the R&D and office markets which currently hover at around 20% available. While absorption was still negative at 154,029 square feet, it was far less negative than any of the previous three quarters. Year to date, tenants have given back over 1.7 million square feet more than has been absorbed.

Demand

Demand during the third quarter of 2009 continued to show improvement over the previous two quarters, finishing at 580,000 square feet of gross absorption. That number is almost dead on the previous eight quarter average of 591,300 square feet. As is typical during the summer months, activity increased and there were a total of 30 transactions. A substantial amount (37%) of the transactions were renewals, as seen in previous quarters. The most significant deal of the third quarter was an 113,952 square foot deal by Mannington Mills in North San Jose. A new tenant to Silicon Valley, Mannington was able to negotiate a deal with a starting rate in the mid \$.30's NNN. Expenses for the building were estimated at \$.16. Depending on one's perspective, a positive note to the total transactions was that only 15% of the deals were in Class "C" space. Average deal size fell slightly to 32,224 square feet and remained below the previous eight-quarter average of 36,300 square feet. The average term remained steady at 4.21 years.

Rents

Rents recovered somewhat from the incredibly low number of \$.33 posted in the second quarter to a somewhat surprising \$.43 per square foot. However, when we remove one 60,000 square foot deal that skewed the numbers - a retail user in some freeway frontage warehouse - the average rent more accurately shows as \$.39 NNN. Not so coincidentally, asking rents for the majority of Class A institutionally owned buildings now stand at \$.39 NNN with most expenses running in the \$.15- \$.16 per square foot range. Landlords with lower expenses are still in the low to mid \$.40's, but on a gross basis the majority is asking in the \$.55 neighborhood. Free rent is readily available for qualified tenants, but tenant improvement allowances remain more difficult to secure, as landlords are unwilling (or unable) to contribute any significant up-front capital.

Forecast for Q409

Supply

We expect the supply to remain consistent over the next few quarters as activity both coming and going remains slow. Tenants seem to have stabilized with their use of space and are not as a group looking to significantly up- or down-size. The combination of some failing companies and low lease rates may cause some new tenants to enter the market or expand their scope of products or services, but we don't foresee any large expansions. We do expect the phones to be busy with inquiries from the non-traditional users that always surface when rents are so low (start-up indoor sports uses, gym, etc.), but given the "not so bad" vacancy rate, we don't believe there will be many institutional landlords willing to "go there" and assume the higher than usual risk.. As has been the case for several years, no new speculative warehouse projects were constructed in the second quarter and there remains no new speculative construction planned.



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Forecast for Q409, cont.

Demand

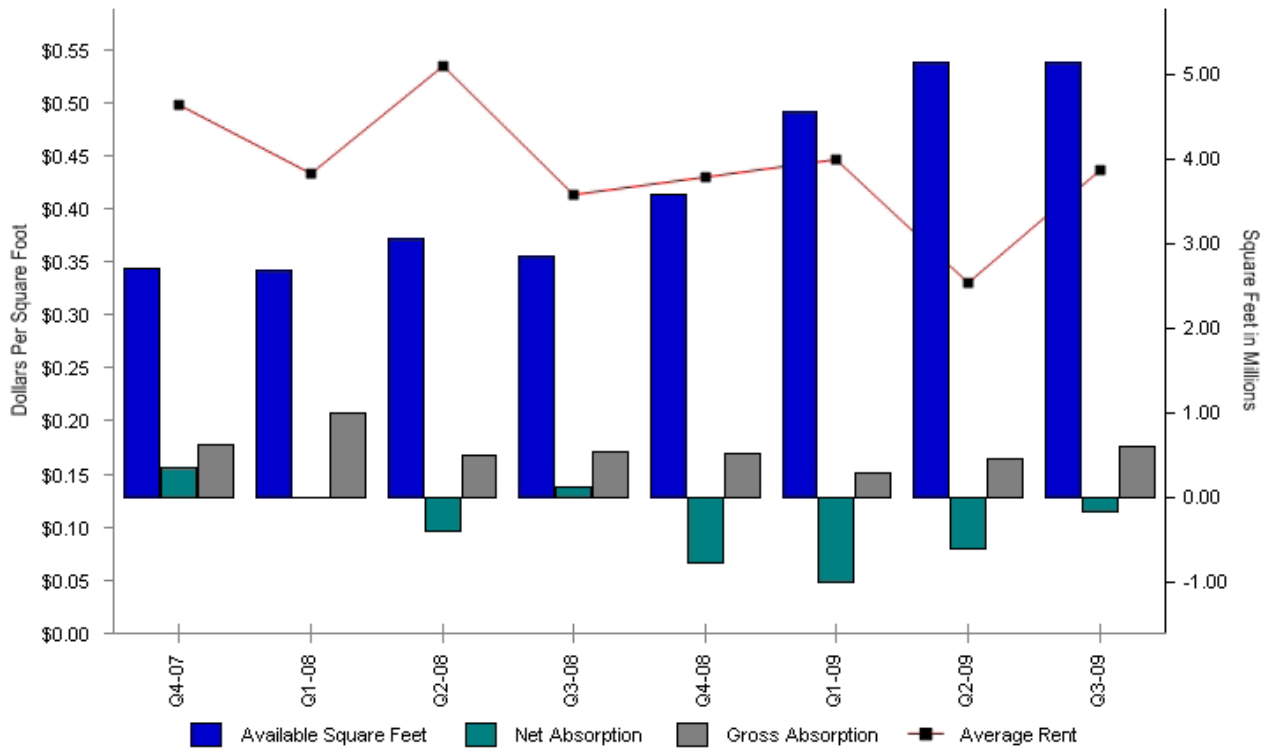
While we hear of several significant deals currently in the market, in the end, we expect another mediocre quarter for new leases. Renewals have been at an all time high, and we don't expect that trend to change much over the next several quarters. Expansion is not often on the mind of most Valley tenants, and landlords continue to be very aggressive in their efforts to renew their existing tenants long before their current leases expire. Tenants have been out in the market touring but unless there is a compelling reason to move (significant change in space need, desired location, problematic existing space) a large percentage of those tours will never materialize into an actual relocation.

Rents

We think the market will find some resistance at the mid \$.30's NNN level for Class A buildings as we move into 2010. Asking rates and deal rates have fallen 10 - 20% since the beginning of 2008 and with the stabilizing of the vacancy rate, we think landlords and tenants will find common ground at the mid- \$.30's level. Look for landlords to continue to include free rent as a concession as opposed to starting the rent lower, as they would all like to see rents at least into the \$.40's when it comes time for renewals. We still feel that 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. It has not been uncommon for landlords to approach existing tenants well in advance of the contracted lease expiration and offer to reduce the current rent in exchange for an extended term. Landlords have chosen this strategy as a hedge against tenants heading out into the market and finding a landlord that will

offer even more aggressive terms, thereby "stealing" the tenant or causing the existing landlord to further reduce existing and future rents. We expect rents to remain in the mid \$.30's range for at least the next few quarters.

By Scott Borgia - Senior Vice President / Principal Lic. 00903600



Q309

5.15M sf ▲ Available
 .58M sf ▲ Gross
 -.15M sf ▼ Net
 \$.43/sf ▲ Rent

<i>Period</i>	<i>Available sf</i>	<i>Average Rent</i>	<i>Gross Absorption</i>	<i>Net Absorption</i>
<i>Q309</i>	5,147,969	\$0.43	580,483	-154,029
<i>Q209</i>	5,140,531	\$0.33	462,219	-594,758
<i>Q109</i>	4,545,773	\$0.45	306,283	-980,403
<i>Q408</i>	3,588,212	\$0.43	524,630	-754,084
<i>Q308</i>	2,845,664	\$0.41	552,446	139,361
<i>Q208</i>	3,064,733	\$0.53	501,395	-390,196
<i>Q108</i>	2,693,897	\$0.43	996,462	4,480
<i>Q407</i>	2,716,777	\$0.50	625,528	352,983

<i>Available Supply</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Shell Direct</i>	0	0	0	0	0
<i>Shell Sublease</i>	0	0	0	0	0
<i>Previously Occupied Direct</i>	4,643,074	4,642,257	4,161,198	3,309,999	2,514,351
<i>Previously Occupied Sublease</i>	504,895	498,274	384,575	278,213	331,313
<i>Total Available</i>	5,147,969	5,140,531	4,545,773	3,588,212	2,845,664
<i>Available Time on Market (In Months)</i>	13.12	12.43	12.66	14.53	16.47
<i>Gross Absorption</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Shell Direct</i>	0	0	0	0	0
<i>Shell Sublease</i>	0	0	0	0	0
<i>Previously Occupied Direct</i>	549,483	462,219	306,283	395,431	526,477
<i>Previously Occupied Sublease</i>	31,000	0	0	129,199	25,969
<i>Total Absorption</i>	580,483	462,219	306,283	524,630	552,446
<i>Absorption Time on Market (In Months)</i>	12.89	11.28	4.70	5.49	4.41
<i>Supply Rates</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Availability Rate</i>	15.35%	15.33%	13.55%	10.70%	8.48%
<i>Vacancy Rate</i>	14.89%	15.24%	13.36%	10.70%	8.06%
<i>Sublease Factor</i>	9.81%	9.69%	8.46%	7.75%	11.64%
<i>Size Ranges</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>0 to 20,000</i>	29	28	28	22	19
<i>20,001 to 40,000</i>	47	48	44	31	29
<i>40,001 to 60,000</i>	14	12	12	9	10
<i>60,001 to 80,000</i>	8	8	7	8	3
<i>80,001 to 100,000</i>	6	6	3	4	4
<i>100,001 to 120,000</i>	3	4	3	2	0
<i>120,001 to 140,000</i>	3	3	3	3	2
<i>140,001 and Over</i>	4	4	4	3	3
<i>Total Buildings Available</i>	114	113	104	82	70
<i>Construction Types</i>	<i>Q309</i>	<i>Q209</i>	<i>Q109</i>	<i>Q408</i>	<i>Q308</i>
<i>Completed Construction:</i>					
<i>Build-To-Suit</i>	0	0	0	0	0
<i>Spec Construction</i>	0	0	0	0	0
<i>Total Completed</i>	0	0	0	0	0
<i>In-Process Construction:</i>					
<i>Build-To-Suit</i>	0	0	0	0	0
<i>Spec Construction</i>	0	0	0	0	0
<i>Total in Progress</i>	0	0	0	0	0



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<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
 Lic. 00707261