CPS CORFAC International

Real News

the silicon valley quarterly on commercial real estate

2009 Market Study

Silicon Valley Economic Overview

According to the advanced estimate released by the Bureau of Economic Analysis, the U.S. economy grew at a 5.7% annual rate during the 4th quarter of 2009. This represents the greatest rate of economic expansion since 2003 and comes on the heels of a 2.2% growth rate during the third quarter of '09. Yet despite the economy's apparent year-end turn-around, the -6.4% and -0.7% GDP performance experienced during the 1st and 2nd quarters of 2009 contributed to an overall economic contraction of -2.4 percent for the year as a whole.

A number of economists, including two leading independent (non-sell-side) consultancies, Macroeconomic Advisers and Economic Cycles Research Institute, have concluded the recession ended in mid-2009. The official determination by the National Bureau of Economic Research has not yet been made (the 2001 recession, for example, ended in November 2001 but the NBER did not announce its official determination until July 2003). However, forecasts for 2010, from sources as varied as the International Monetary Fund (IMF), UCLA Anderson School of Business, and Goldman Sachs, predict modest GDP growth accompanied by continued rates of high unemployment. Concerns center on sustained high rates of residential foreclosures, enormous federal budget and trade deficits, and worries about the economy's dependence on public sector spending given the expected wind-down of "stimulus" related programs later this year. Many other economists predict hiring will start to pick up slightly during the 2nd quarter of the year but job growth will climb very slowly due to a lack of small business credit, continued improvements in productivity, and contraction of state and local government payrolls as a result of budgetary pressures.

2009 was an especially tough year for the California economy, with unemployment rising from 9.1% at year-end 2008 to 12.1% in December 2009. Unemployment in the Silicon Valley MSA stood at 11.5% percent at year end, compared to 7.8% percent one year earlier, although it's worth noting that the unemployment rate did not increase during the 4th quarter. On a positive note, indicators are emerging that the state economy has begun to stabilize, at least in some areas. It appears likely that progress will occur unevenly across the state, with costal regions (including the San Francisco Bay Area and Silicon Valley) already demonstrating signs of improvement – including a rise in home prices

Economic Indicators

	Q409	Q309	Q408
Unemployment Rate - Silicon Valley MSA*	11.5%	11.8%	7.8%
Unemployment Rate - Santa Clara County*	11.2%	11.8%	7.7%
Unemployment Rate - California*	12.1%	12.0%	9.1%
Unemployment Rate - National	10.0%	9.8%	7.2%
Inflation (CPI-U)*	3.2%	2.4%	-12.8%
VC Investment National**	$5.0B	$5.1B	$5.9B
VC Investment Silicon Valley**	$1.9B	$2.3B	$2.0B
VC Confidence Index***	3.48/5	3.37/5	2.77/5
Job Growth - Santa Clara County	-5,900	-4,800	-7,000
Job Growth - Silicon Valley MSA*	-6,000	-4,900	-7,300

*Not seasonally adjusted
**Source: PriceWaterhouseCoopers Money Tree
***Source: USF Bloomberg ticker USFSVVCI

2009 R&D Highlights, cont.

Significant New 2009 R&D / Office Availabilities

Building	City	Size	Availability	Type
160 Rio Robles Drive	San Jose	434,653 SF	1/1/10	Lease/Sale
2685 Augustine Drive	Santa Clara	265,850 SF	3/3/09	Lease
3635 Peterson Way	Santa Clara	218,366 SF	1/30/09	Sublease
1033 Mccarthy Blvd Bldgs 1 & 2	Milpitas	139,344 SF	1/6/09	Sublease
2525 N First Street	San Jose	137,712 SF	1/13/09	Sublease
6411 Guadalupe Mines Road	San Jose	123,000 SF	4/23/09	Lease
2695 Augustine Drive	Santa Clara	120,000 SF	3/3/09	Lease
545 Oakmead Pky	Sunnyvale	115,000 SF	4/1/09	Lease
45757 Northport Loop W.	Fremont	103,000 SF	8/1/09	Lease
401 Ellis Street	Mountain View	100,842 SF	4/7/09	Sublease
6530 Paseo Padre Pky	Fremont	100,103 SF	11/12/09	Lease

and sales in December 2009 – while inland areas continue to see an erosion of jobs and high foreclosure rates.

Exports are also helping drive the Valley's recovery. Since December 31, 2002, the value of the dollar has fallen by approximately 30% relative to the Euro. This has greatly improved the competitiveness of U.S. technology exports (with the exception being currency-pegged China) in overseas markets. And confidence is rising - according to accounting firm BDO's annual survey, over two thirds of chief financial officers at leading U.S. technology businesses anticipate increased sales revenues in 2010, up from 30% in 2008.

2009 was another challenging year for venture capital investors and venture-funded enterprises. Total venture funding in 2009 was the lowest since 2003, dropping to $7B in 2009. By comparison, the average annual venture funding from 2006 – 2008 was $10B. Venture investors will likely continue along a cautious path in 2010, although the IPO market appears to be heating up. As of this writing, biotech firm Codexis (Redwood City) and electric car manufacturer Tesla Motors (Menlo Park) had both filed S-1 registration statements for proposed offerings of common stock. Other emerging clean-tech leaders, including Silver Spring Networks (Redwood City), Solyndra (Fremont), as well as social networking giants Facebook (Palo Alto), LinkedIn (Mountain View) and Twitter (San Francisco), social gaming company Zynga (San Francisco), ad network and media firm Glam Media (Brisbane), semiconductor company Telegent Systems (Sunnyvale), and online marketing firm Quinstreet (Foster City) are all rumored candidates for 2010 IPOs. Some, including Paul Kredrosky from the Kaufmann Foundation, have gone so far as to predict a "technology IPO tsunami" where the successful IPO of one firm (say, Twitter), will trigger a "Netscape moment", followed by an avalanche of similar public offerings (to the collective glee of legions of investment bankers). We'll see…

33.05M sf	∧	Available
6.94M sf	∨	Gross Abs.
-6.22M sf	∨	Net Abs.
$1.09/sf	∨	Rent NNN

2009 R&D Highlights

Absorption

During 2009, extremely low gross absorption continued to be the major weakness of the Silicon Valley R&D market. During the year, CPS tracked a mere 6.9M square feet of gross absorption, the lowest total in 25 years. Record low gross absorption was experienced in Sunnyvale, Santa Clara, San Jose and Milpitas submarkets. Gross absorption levels were near their historic lows in most other Silicon Valley submarkets.

Not withstanding macroeconomic considerations, one of the major drivers of low gross absorption totals in 2009 was the relatively high volume of renewal transactions. As previously noted, CPS market research does not include renewal transactions in its gross absorption totals. However, if one includes renewals, total market activity increases to 12.9M sq. ft. for 2009, compared to 13.4M sq. ft. in 2008 and higher than the 11.3M sq. ft total of 2001 and 12.4M sq. ft. total of 2002. Moreover, a whopping 46.4% of total

2009 R&D Highlights, cont.

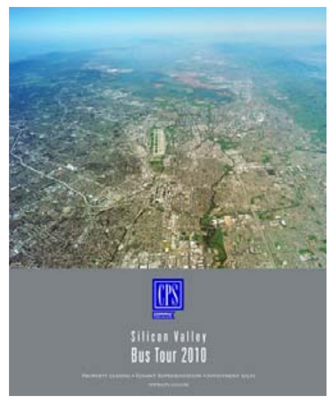
Significant Large R&D Transactions in 2009

Landlord/Sublessor	*Tenant*	*Address*	*City*	*Size*
Stanford University	Tesla Motors	3500 Deer Creek	Palo Alto	350,000 SF
Beckman Coulter	Facebook	1050 Page Mill	Palo Alto	265,294 SF
Carlyle Group, The	Harmonic, Inc.	4300 N First Street	San Jose	188,332 SF
Abbott Labs	Newport	3635 Peterson Way	Santa Clara	140,000 SF
Irvine Company, The	Calisolar, Inc.	985 Almanor Ave	Sunnyvale	138,689 SF
Legacy Partners	Asteelflash	4211 Starboard Drive	Fremont	129,808 SF
DJM Capital Partners, LLC	Harris Stratex	5200 Great America	Santa Clara	128,540 SF
LaSalle Partners	Accuray	1310 Chesapeake	Sunnyvale	113,616 SF
Mission West Properties	Huawei Technologies	2300 Central Expy	Santa Clara	108,860 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

market activity were renewals in 2009. The average going back to 1998 is 19.0%.

Fortunately, despite the record low gross absorption in 2009, deal volume increased every quarter of the year. Starting with 1.1M square feet of gross absorption during the 1st quarter, gross absorption increased to 2.36M square feet by the final quarter of the year.

Net absorption of R&D space was also near historic lows during 2009, but the fourth quarter may have marked a turning point. By year-end, 6.2M fewer square feet were occupied by users than were at the close of 2008 - the third lowest annual total since 1996. As of the end of the third quarter, the four-quarter trailing average for R&D net absorption stood at -1.8M sq. ft. While still in negative territory, net absorption totaled -623,000 sq. ft. during the 4th quarter. Deal volume for transactions larger than 100,000 sq. ft. increased on a year-to-year basis, with 13 deals inked in 2009 vs. 11 in 2008. The largest deals of the year included Tesla Motor's lease of 350,000 sq. ft. on Deer Creek Road in Palo Alto, Facebook's sub-lease of 265,000 sq. ft. on Page Mill Road in Palo Alto, Harmonic Inc.'s lease of 188,000 sq. ft. in N. San Jose, and Newport (formerly Spectra Physics) Inc's sub-lease of 140,000 sq. ft. on Peterson Way in Santa Clara. These, and other significant 2009 transactions, are highlights of the upcoming 2010 CPS Silicon Valley Bus Tour, held on February 25 in conjunction with our new partner, Cassidy Turley BT Commercial. Contact your CPS agent for more information.



Vacancy Trends

Silicon Valley R&D vacancy increased from approximately 16.8% in 2008 to 19.6% in 2009. By year-end, 33M square feet R&D space was available in Silicon Valley. Every major submarket tracked by CPS, with the exception of Mountain View and the West Valley, experienced at least a 150 basis point increase in vacancy during 2009. Submarkets with the greatest vacancy increase included Milpitas (22.8% in 2010 vs. 18.9% in 2009) and Fremont (29.1% in 2010 vs. 25.0% in 2009). Notably, R&D vacancy rates decreased in the 4th quarter of 2009 in the Mountain View, Palo Alto/Menlo Park and Fremont submarkets.

Rent Trends

Average rents for completed transactions declined in Silicon Valley by 19.5% in 2009, reflecting the soft demand and the rising supply. Milpitas experienced the greatest drop, with average rents declining by 44.4%, followed by Palo Alto/Menlo Park at 33.9%, and San Jose with 28.1%. The smallest decline was in the West Valley where rents only dropped 7.3%.

2009 R&D Highlights, cont.

Construction

As could be expected, construction is also at its historic low. In 2009 only two buildings were completed, both of which were started in 2008. In Cupertino, a 102,360 square foot building was completed on Tantau Boulevard.

10900 N. TANTAU AVENUE

A year-end rumor suggests Panasonic will be taking approximately half of the building. Additionally, Linear Technologies completed a 94,653 square foot re-development of a 1980's R&D building adjacent to their existing facilities. At year's end, no R&D product is under construction, although a few buildings classified as office are being built - a subject that will be taken up later in this newsletter.

R&D Forecast for 2010

Absorption

Owing to the roughly 20% drop in rents during 2009, companies with leases expiring in 2010 will see greater value in the market. We believe this will lead to greater demand for longer-term real estate solutions and a reduction in renewal activity. This will also result in improving gross absorption levels through at least the first half of 2010, even if overall net absorption stays flat. Net absorption will be impacted by companies back-filling space they currently lease but do not occupy (i.e., "shadow space") and by the trend towards increased occupancy density. For years, Cisco Systems, IBM, and the big consulting firms have been leaders in the "hotelling" concept, where some workers are assigned temporary or semi-permanent workspaces rather than fixed offices or cubicle workstations. Rapidly growing Facebook has a slightly different model, but one which nonetheless leads to significantly higher densities than the typical R&D user. Everyone at Facebook, from CEO Mark Zuckerberg to the administrative assistants, work in 30-in. by 60-in. spaces with no partitions in a totally open office environment. Inevitably this leads to complications with the neighbors, as evidenced by the parking situation at the buildings within walking distance of Facebook's 1601 S. California Drive facility in Stanford Research Park (to say nothing of the neighboring residential streets). However, it also reduces a company like Facebook's overall space requirements.

FACEBOOK'S EMPLOYEE DENSITY AT 1601 S. CALIFORNIA HAS IMPACTED NEIGHBORING USERS

An increase in initial public offerings could further fuel demand for space in 2010 as additional capital is infused into newly public companies. The release of federal funds and loan guarantees related to various green-energy initiatives will also stimulate demand, as will an improving job market. According to a recent survey by Sunnyvale-based West Valley Staffing Group, 75 percent more companies are reporting their hiring will either remain flat or increase during the first quarter of 2010, and only 9% expect their hiring will decrease.

Silicon Valley has traditionally been a single-story or low-rise, 30-50,000 sq.ft. floorplate R&D market. In 2010, users' acceptance of mid-rise, 5-8 story product should continue to grow, particularly for fabless semiconductor and software companies. Given lab, power, and loading demands of certain R&D industry users, however, we expect affordable low-rise buildings divisible to less than 30,000 sq. ft. to remain the product of choice for most of the area's tenants.

Demand for medium-sized blocks of low-rise product (40-60k sq. ft.) will remain stagnant in 2010, with activity in this size range being concentrated in pockets, mostly adjacent to or near by existing facilities of large users requiring expansion space or seeking greater efficiencies. In certain submarkets, including Milpitas, Fremont, and North San Jose, we expect to see a low but sustained demand for larger floor-plate facilities (75,000 sq. ft. and up) with infrastructure suitable for green-tech users, which can include heavy power, 18'-22' ceilings, and clean rooms.

Vacancy

We expect the supply of R&D space to stabilize in 2010. Since no R&D construction is on the books, and improvement in the economy is expected, there should be a modest reduction in available inventory in the R&D market by the end of the new year. In those markets where vacancy rates are approaching 20%, competition for tenants will be intense. For certain submarkets it may be 4-5 years before vacancy levels return to equilibrium. These areas include Milpitas, Fremont, and possibly North San Jose.

In Palo Alto, Roche will be vacating a 1M sq. ft. facility at the corner of Foothill Expressway and San Antonio Road and relocating its virology division to South San Francisco as part of its $46.8B acquisition of Genentech. This will undoubtedly impact vacancy in the approximately 10M sq. ft. Stanford Research Park, but the re-usability of Roche's facility with its 760,000 sq. ft. of labs and roughly 1/1000 parking ratio is in question. A rumored expansion by VMWare, combined with the expected sublease of a vacant 225,000 sq. ft. building at 395 Page Mill Road will help offset some of the new vacancy.

Mountain View R&D vacancy is expected to decrease, possibly substantially, in 2010. Google is not expected to resume its acquisition binge of 2005-2008, but it is likely they will begin to re-occupy some of the space they put on the market for sublease in early 2009. The anticipated relocation of Symantec's corporate headquarters from Cupertino to Mountain View will also help drive down R&D vacancy in the submarket. Vacancy rates in the Cupertino and West Valley submarkets are also expected to hold steady or decrease during 2010.

Rent

Tenants are always looking for discounts, but by the second half of 2009 they smelled blood in the water, as evidenced by the nearly 20% decline in average rents for completed R&D transactions. In many submarkets, tenants are pushing rents to levels where landlords are often not breaking even until years 3, 4, or 5 of a lease after including tenant improvement and marketing costs. This is often the case even for owners with low cost bases and/or good loans. We see this trend continuing in 2010. That said, indications at year end suggest that some of the traditional R&D users in the marketplace, such as Rambus, Cortina, NetLogic, Nokia, and Symantec, are gravitating towards higher end and/or new product (both office and R&D), which should help provide some price support. Furthermore, companies seeking larger blocks of decent quality space in Palo Alto, Cupertino, Mountain View, and Sunnyvale are left with a relatively limited number of options, most of which are on the higher-end (Class B+ or better), which should also help average rents in 2010 for both R&D and office product.

For the Valley as a whole, however, we expect average R&D rents to drop another 10-15 percent during 2010 given the continued imbalance between supply and demand.

Despite the low rent environment, Landlords who will find success attracting tenants in 2010 will be those with market-ready space. For true market ready space this means open office interiors, 10' suspended ceilings, upgraded indirect or parabolic lighting, recessed sprinkler heads, new carpet & paint, and cosmetic exterior upgrades. These improvements obviously require capital, which for many is not available. But consider that as of this writing, there are 202 properties available in the 30-55,000 sq. foot range between Sunnyvale and Milpitas. Landlords whose buildings offer market-ready improvements can expect to have their buildings toured. Getting leased will require competitive pricing. But those that don't do this work may not have a shot at the deal.

Construction

Developers are no longer in the development business. The new name for a developer is an operator. There is no R&D construction underway at this time, and with vacancy rates hovering around 20%, we see no new speculative R&D construction commencing in 2010. If any R&D construction does break ground, it will be on a build-to-own or build-to-suit basis.

By Gregory M. Davies - Vice President

By S. Gregory Davies - Chairman

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Q409 Office Highlights

Absorption Trends

Office absorption during 2009 continued to reflect a retrenching leasing market, although the slide appears to have begun to level out at the end of the year. Gross absorption of office space totaled 2.9M sq. ft. in 2009, roughly the level experienced in 1993 and 1994. During the fourth quarter, gross absorption totaled 869,464 square feet, the third consecutive quarterly increase. However, even at this increased level, gross absorption remains approximately 28 percent less than the 20-quarter (five-year) trailing average of 1.2 million square feet. Negative net absorption during 2009 was -2.0M sq. ft., the lowest it's been since 2001. During the fourth quarter of the year, negative net absorption totaled 75,678 square feet, a dramatic improvement over the prior quarter's negative 441,564 square feet and a far cry from the first quarter's -1.1M sq. ft. 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.

One of the highlights of Silicon Valley's office market in 2009 was Rambus' 125,210 sq. ft. lease at 1040 Enterprise Way in Sunnyvale on December 15th. This was the first deal done at Jay Paul's Moffett towers and the first significant lease of office space constructed during the most recent cycle.

Vacancy Trends

As of the end of the fourth quarter of 2009, the Silicon Valley office supply appears to have stabilized somewhat. At year end, office availability stood at 12.6 million square feet, a decrease of 18,428 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 un-leased as of the fourth quarter of 2009.

Downtown San Jose, one of the larger office submarkets tracked by CPS, experienced a marked increase in vacancy during the fourth quarter. Vacancy Downtown increased from 38.7% during the third quarter of 2009 to 40.4% 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.

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. However, the fourth quarter of 2009 again showed an increase in vacancy, going up by 2.2%, to end the year with a 27.3% vacancy rate.

Rent Trends

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 2009 with average rents falling to $2.62 per square foot by the end of the year – a 34.0 percent one-year decrease. The fourth quarter of 2009 saw average rents rebound from $2.41 per square foot in the third quarter to $2.62 per square foot at the end of the fourth quarter. 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 fourth quarter of 2009, which includes the Brocade build-to-suit of 562,000 square feet on North First Street which is nearing completion. 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.

Submarkets

San Jose Airport

The total availability factor in the Airport office submarket increased to 27.30% at the end of the fourth quarter. Average rents in the fourth quarter of 2009 remained stable at $1.92 per square foot full service. Sublease space in the Airport submarket was stable at 10.8% of the total vacancy. Deal volume - measured by gross absorption - also remained low at 78,517 square feet during Q4, and the Airport office submarket reverted again to a negative net absorption of 82,014 square feet.

Downtown Class A

Vacancy in the Downtown Class A office submarket was 38.8% at the end of the fourth quarter of 2009, an increase of roughly 1.9% from the prior period and 24.0% compared to the same period one year ago. The activity level in Downtown Class A office was exceptionally low, with only 13,142 square feet of gross absorption during the fourth quarter and 358,000 sq. ft. for 2009 as a whole. Other noteworthy activity downtown in 2009 was Deloitte & Touche LLP's renewal of their 147,000 square foot lease at 225 West Santa Clara. However, as a renewal, this transaction did not count towards gross absorption.

Forecast for 2010

Absorption

Many companies are now starting to identify that in the current Silicon Valley market, everything is on sale. As prices have fallen, more companies are comfortable with signing deals than they have been in recent quarters. With this trend, and with most of the fat trimmed from Silicon Valley companies, we expect office absorption to be fairly flat and possibly even slightly positive in the first half of 2010, particularly along Great America Parkway, where several large requirements are rumored to be focused.

Vacancy

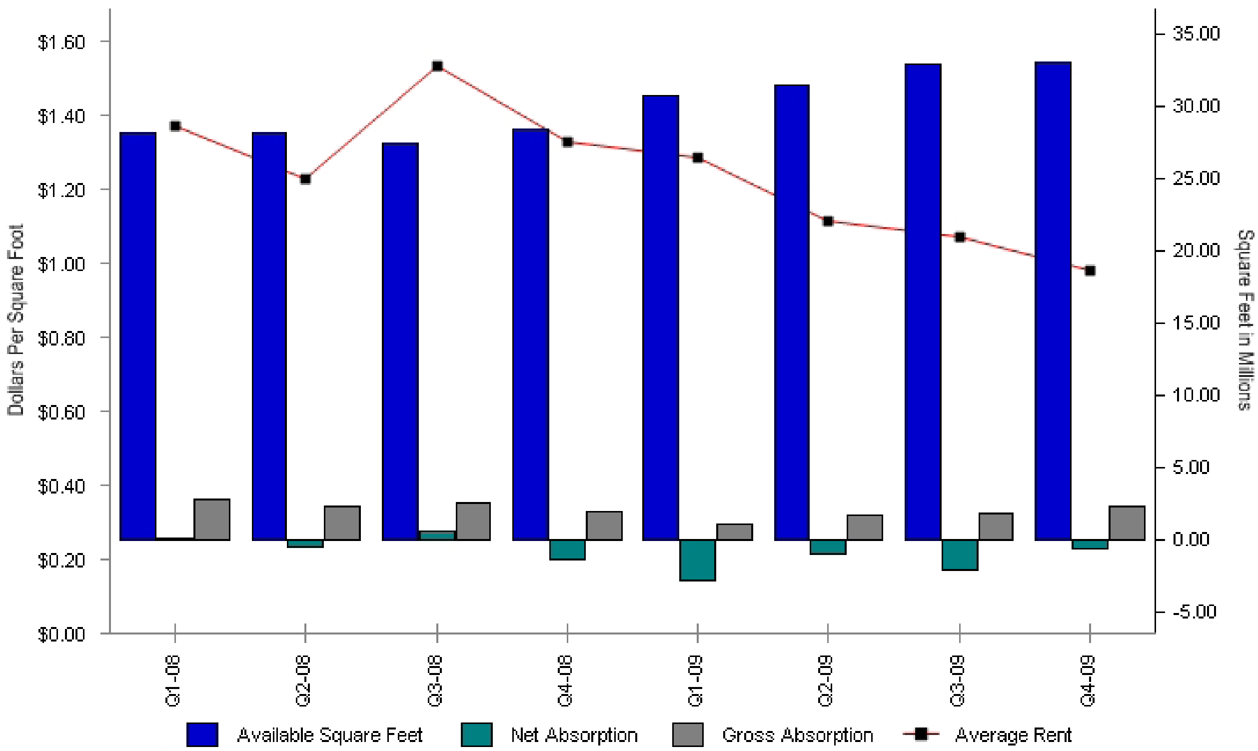
We expect supply to stabilize in the fourth quarter, as most Silicon Valley companies have shed as many employees as possible already and are now "lean and mean." Market availability will likely remain primarily a landlord problem. An investor-buyer's rumored acquisition 1700 Technology Drive from Brocade should not impact vacancy in Airport Office submarket as the deal is reportedly subject to at least a 2-year lease back by the seller.

Rents

Rents today are driven by tenant improvement packages. T.I. packages requested by many tenants today result in deals that have a net present value of zero after contemplating T.I. and commission costs. As such, it is hard for rents to drop any further without a reduction of landlord concessions. Nevertheless, heavy competition will result in rents declining slightly for similar product classes (i.e. rents might decline in class B bldgs., etc.). With the market "on sale", more companies will be looking to upgrade their image, potentially causing rents to rise slightly due to more tenants leasing class A product.

By Maryanna McSwain - Senior Vice President / Principal
By Erik Hallgrimson - Senior Vice President / Principal
By Gregory M. Davies - Vice President

4th Quarter 2009 R&D Silicon Valley Summary



Q409

33.05M sf ↑ Available

2.36M sf ↑ Gross

-.62M sf ↑ Net

$.98/sf ↓ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q409	33,053,439	$0.98	2,356,665	-622,606
Q309	32,827,365	$1.07	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

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Available Supply	Q409	Q309	Q209	Q109	Q408
Shell Direct	2,062,218	2,342,074	2,480,351	2,487,505	2,686,042
Shell Sublease	26,028	26,028	26,028	33,558	33,558
Previously Occupied Direct	25,437,512	24,891,967	22,879,268	22,445,007	20,410,413
Previously Occupied Sublease	5,527,681	5,567,296	5,969,562	5,722,018	5,190,897
Total Available	33,053,439	32,827,365	31,355,209	30,688,088	28,320,910
Available Time on Market (In Months)	28.70	27.39	26.86	26.17	27.12

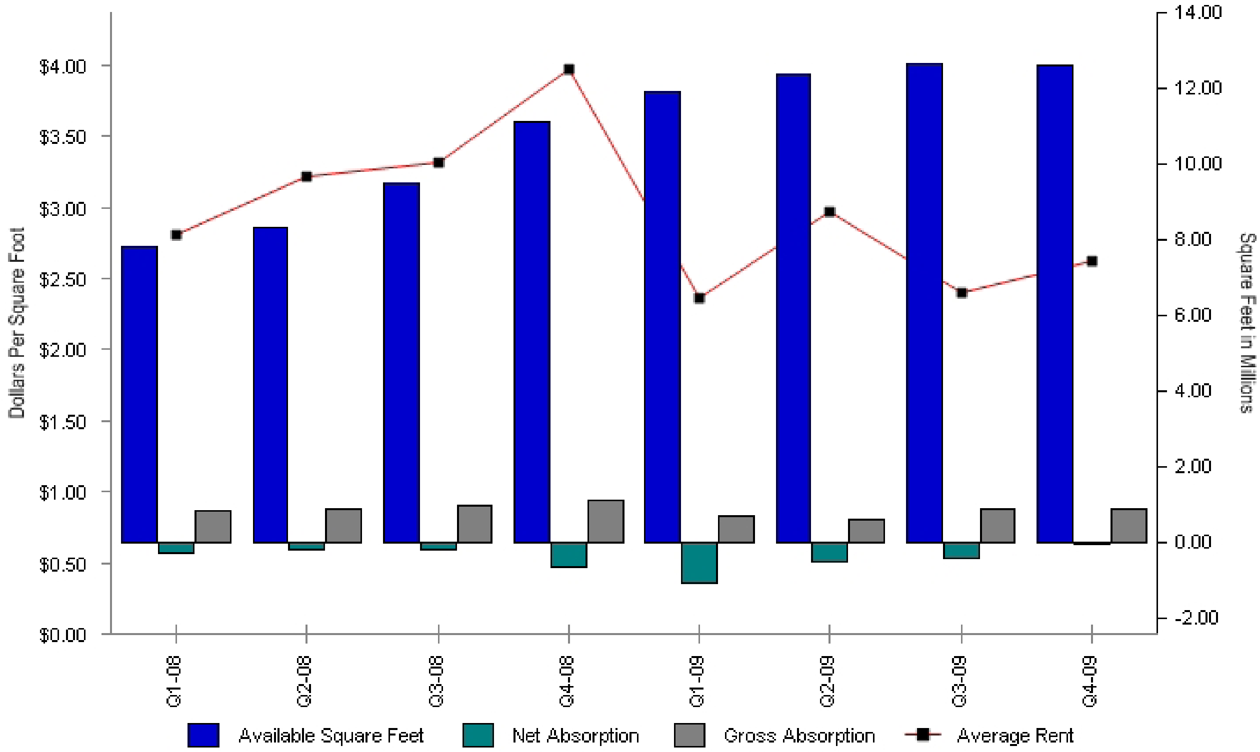
Gross Absorption	Q409	Q309	Q209	Q109	Q408
Shell Direct	295,042	4,067	9,861	88,339	80,357
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	1,723,693	1,605,600	1,401,042	1,035,343	1,674,052
Previously Occupied Sublease	337,930	257,416	279,446	22,340	182,903
Total Absorption	2,356,665	1,867,083	1,690,349	1,146,022	1,937,312
Absorption Time on Market (In Months)	11.47	9.11	12.82	7.69	15.22

Supply Rates	Q409	Q309	Q209	Q109	Q408
Availability Rate	19.56%	19.43%	18.56%	18.16%	16.78%
Vacancy Rate	19.38%	19.07%	18.41%	17.94%	16.64%
Sublease Factor	16.80%	17.04%	19.12%	18.76%	18.45%

Size Ranges	Q409	Q309	Q209	Q109	Q408
0 to 20,000	429	421	419	386	332
20,001 to 40,000	231	235	231	221	203
40,001 to 60,000	128	131	116	115	111
60,001 to 80,000	76	77	70	67	60
80,001 to 100,000	45	43	37	36	37
100,001 to 120,000	25	24	24	24	21
120,001 to 140,000	7	10	11	9	8
140,001 and Over	13	10	11	13	12
Total Buildings Available	954	951	919	871	784

Construction Types	Q409	Q309	Q209	Q109	Q408
Completed Construction:					
Build-To-Suit	94,653	0	0	0	0
Spec Construction	0	0	0	116,603	100,000
Total Completed	94,653	0	0	116,603	100,000
In-Process Construction:					
Build-To-Suit	0	94,653	94,653	0	0
Spec Construction	0	0	0	0	116,603
Total in Progress	0	94,653	94,653	0	116,603

4th Quarter 2009 Office Silicon Valley Summary



Q409

12.63M sf ⋎ Available

.87M sf ⋏ Gross

-.08M sf ⋏ Net

$2.62/sf ⋏ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q409	12,626,615	$2.62	869,464	-75,678
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

Available Supply	Q409	Q309	Q209	Q109	Q408
Shell Direct	3,645,947	3,825,546	3,811,509	3,801,712	3,717,671
Shell Sublease	0	0	3,200	3,200	10,200
Previously Occupied Direct	7,598,445	7,493,342	7,074,015	6,788,759	6,452,116
Previously Occupied Sublease	1,382,223	1,326,155	1,500,218	1,326,528	934,216
Total Available	12,626,615	12,645,043	12,388,942	11,920,199	11,114,203

Gross Absorption	Q409	Q309	Q209	Q109	Q408
Shell Direct	153,971	16,823	13,000	18,969	6,234
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	605,617	684,619	504,638	528,050	976,902
Previously Occupied Sublease	109,876	162,264	78,876	156,843	106,657
Total Absorption	869,464	863,706	596,514	703,862	1,089,793

Supply Rates	Q409	Q309	Q209	Q109	Q408
Availability Rate	26.29%	26.32%	26.01%	25.02%	24.36%
Vacancy Rate	25.91%	24.87%	25.24%	22.72%	22.53%
Sublease Factor	10.95%	10.49%	12.14%	11.16%	8.50%

Size Ranges	Q409	Q309	Q209	Q109	Q408
0 to 20,000	510	512	513	485	473
20,001 to 40,000	75	81	79	75	62
40,001 to 60,000	19	17	18	20	22
60,001 to 80,000	8	9	12	8	9
80,001 to 100,000	6	5	4	5	4
100,001 to 120,000	2	2	1	1	2
120,001 to 140,000	0	0	0	1	0
140,001 and Over	15	14	13	12	9
Total Buildings Available	635	640	640	607	581

Construction Types	Q409	Q309	Q209	Q109	Q408
Completed Construction:					
Build-To-Suit	0	0	0	0	208,000
Spec Construction	20,289	65,000	745,950	725,340	0
Total Completed	20,289	65,000	745,950	725,340	208,000
In-Process Construction:					
Build-To-Suit	752,000	752,000	752,000	752,000	752,000
Spec Construction	466,056	486,345	515,195	1,312,583	2,019,998
Total in Progress	1,218,056	1,238,345	1,267,195	2,064,583	2,771,998

2009 Warehouse Highlights

Supply

While the overall economy has shown little inclination to rebound, the Silicon Valley warehouse market saw significant improvement at the end of 2009. After an influx of 1.56 million square feet of space put on the market over the first three quarters, the fourth quarter yielded a decrease of 679,829 available square feet. For 2009 overall, the market posted a disappointing total of 1.163 million square feet of negative net absorption – the poorest number since 2003. However, the fourth quarter's 512,639 square feet of positive absorption prevented 2009 from being one of the three worst years on record for the Silicon Valley warehouse market While the availability factor of 13.32% represents a 25% increase from the end of 2008, it is still not far from the theoretical supply/demand equilibrium point of ten percent.

Demand

Demand during the third quarter of 2009 started to show improvement and the fourth quarter continued that trend in a large way, finishing with 1.19 million square feet of gross absorption – the largest single quarter since Q3-06 and almost double the previous eight quarter average of 588,300 square feet. As was the case in 2008, a substantial number (34%) of the transactions were renewals. The most significant non-renewal deals of the fourth quarter were a user purchase of the 365,842 square foot former Mervyn's warehouse in Fremont by Hayward-based Homelegance, and a 138,240 square foot lease in central San Jose by Graebel Erickson Movers, relocating from a 203,000 square foot facility in Milpitas. Despite these two large transactions, the average deal size for the year fell slightly to 32,624 square feet, which is about 10% lower than the average of the previous four years. The average term of 4.11 years was a nominal increase over the past four-year average of 3.73 years.

Rents

As expected, average rents for both the fourth quarter and the year were off roughly 10% from the previous quarter and year, respectively. The average rent for 2009 was $.404 per square foot, representing a 10% drop from 2008's average rents, with some of the lowest rents of the year occurring in the 4th quarter. Asking rents for the majority of Class A institutionally-owned buildings remained at $.39 NNN with most expenses running in the $.15- $.16 range. Landlords with lower expenses are still asking for 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 and averaged only $1.07 per square foot in 2009 as landlords were unwilling (or unable) to contribute any significant up-front capital.

Forecast for 2010

Supply

We expect the supply to maintain a 12% to15% vacancy rate for the coming year as the warehouse market, at least as far as supply is concerned, lacks the volatility of some other markets. The majority of the available supply should be in the Class B and C properties throughout the year as tenants up for renewal in those spaces take advantage of historically low rents and up front concessions to migrate to Class A spaces. Tenants we have spoken with seem to have stabilized in their use of space and are not, as a group, looking to significantly increase or decrease their required floor space. As has been the case for several years, no new speculative warehouse projects were constructed in 2009 and there remains no new speculative construction planned for 2010.

Forecast for 2010, cont.

Demand

While activity on listings has been vacillating between slow and decent, we don't expect a significant increase in demand for 2010 and are forecasting gross absorption in the 2.5 million square feet range. Despite the aforementioned expected activity from the occupants of Class B and C space, we believe renewals will once again account for a large percentage of the total transactions for 2010. Landlords are well aware of the total cost involved when a space goes vacant, and they will likely continue to be very aggressive in their efforts to renew their existing tenants long before the current leases expire.

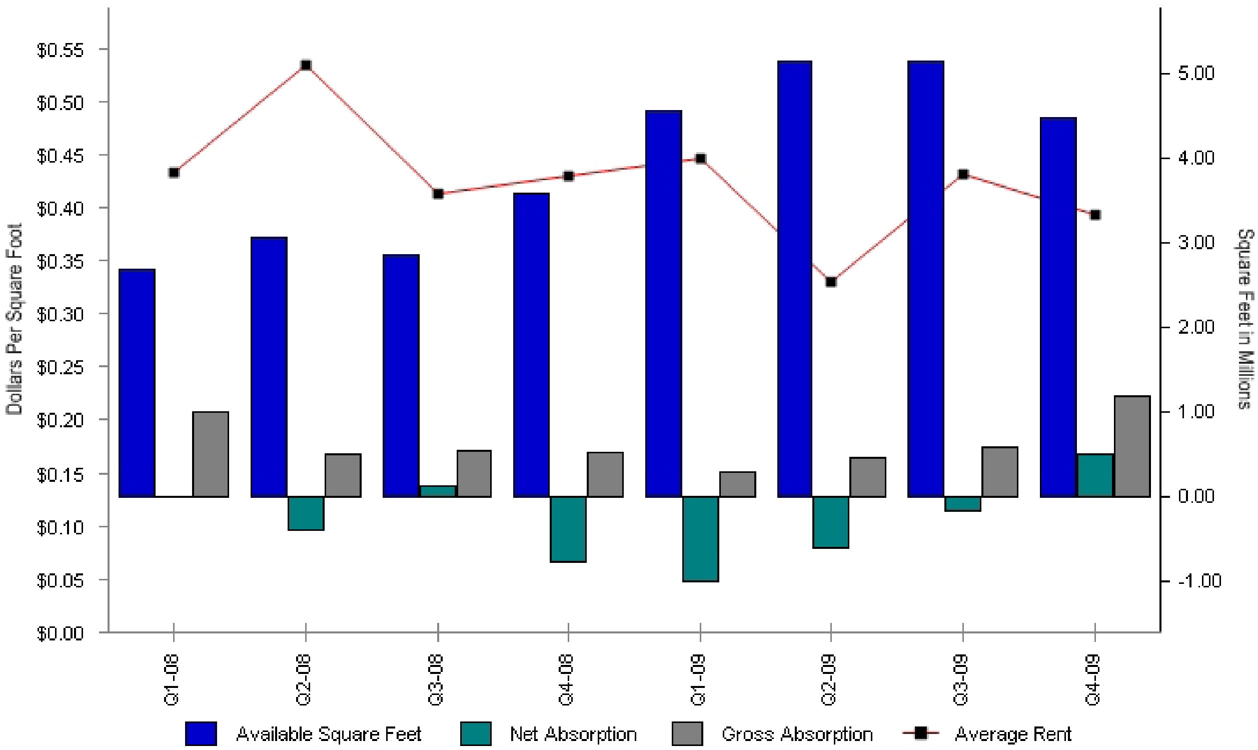
Rents

We think the market will find a bottom at the mid-$.30's NNN level for Class A warehouse as we move through 2010. Asking rates and deal rates have fallen 10 - 20% since the beginning of 2008 and, with the stabilizing of the vacancy rate, we believe landlords and tenants will find common ground at the low to mid- $.30's level. Look for landlords to continue including free rent as a concession, as opposed to starting the rent lower, as they would like to see rents into at least the $.40's when it comes time for renewals 3-5 years down the road. We still feel that the best deals made will be in sublease spaces – especially if the tenant is a national company with a space on the market in excess of 12 months – and for renewing tenants who demonstrate to their existing landlord that there are options for them out in the market with enough concessions to cover the moving costs.

However, if the local economy begins to see a noticeable recovery by mid-year (i.e., tech companies begin to hire in earnest), we might see a significant drop in the vacancy rate and a corresponding 5-10% increase in warehouse rents as the industrial companies that support the tech companies (movers, manufacturers, etc.) get pressed into service. Fingers are crossed…

By Scott Borgia - Senior Vice President / Principal

4th Quarter 2009 Warehouse Silicon Valley Summary



Q409

4.47M sf ↓ Available

1.19M sf ↑ Gross

.51M sf ↑ Net

$.39/sf ↓ Rent

Period	Available sf	Average Rent	Gross Absorption	Net Absorption
Q409	4,468,140	$0.39	1,186,387	512,639
Q309	5,147,969	$0.43	580,483	-154,029
Q209	5,140,531	$0.33	462,219	-594,758
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	$0.43	996,462	4,480

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Available Supply	Q409	Q309	Q209	Q109	Q408
Shell Direct	0	0	0	0	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	4,237,238	4,643,074	4,642,257	4,161,198	3,309,999
Previously Occupied Sublease	230,902	504,895	498,274	384,575	278,213
Total Available	4,468,140	5,147,969	5,140,531	4,545,773	3,588,212
Available Time on Market (In Months)	13.51	13.12	12.43	12.66	14.53

Gross Absorption	Q409	Q309	Q209	Q109	Q408
Shell Direct	0	0	0	0	0
Shell Sublease	0	0	0	0	0
Previously Occupied Direct	957,123	573,523	462,219	306,283	395,431
Previously Occupied Sublease	229,264	31,000	0	0	129,199
Total Absorption	1,186,387	604,523	462,219	306,283	524,630
Absorption Time on Market (In Months)	13.68	12.89	11.28	4.70	5.49

Supply Rates	Q409	Q309	Q209	Q109	Q408
Availability Rate	13.32%	15.35%	15.33%	13.55%	10.70%
Vacancy Rate	12.96%	14.89%	15.24%	13.36%	10.70%
Sublease Factor	5.17%	9.81%	9.69%	8.46%	7.75%

Size Ranges	Q409	Q309	Q209	Q109	Q408
0 to 20,000	33	29	28	28	22
20,001 to 40,000	40	47	48	44	31
40,001 to 60,000	15	14	12	12	9
60,001 to 80,000	10	8	8	7	8
80,001 to 100,000	5	6	6	3	4
100,001 to 120,000	3	3	4	3	2
120,001 to 140,000	1	3	3	3	3
140,001 and Over	3	4	4	4	3
Total Buildings Available	110	114	113	104	82

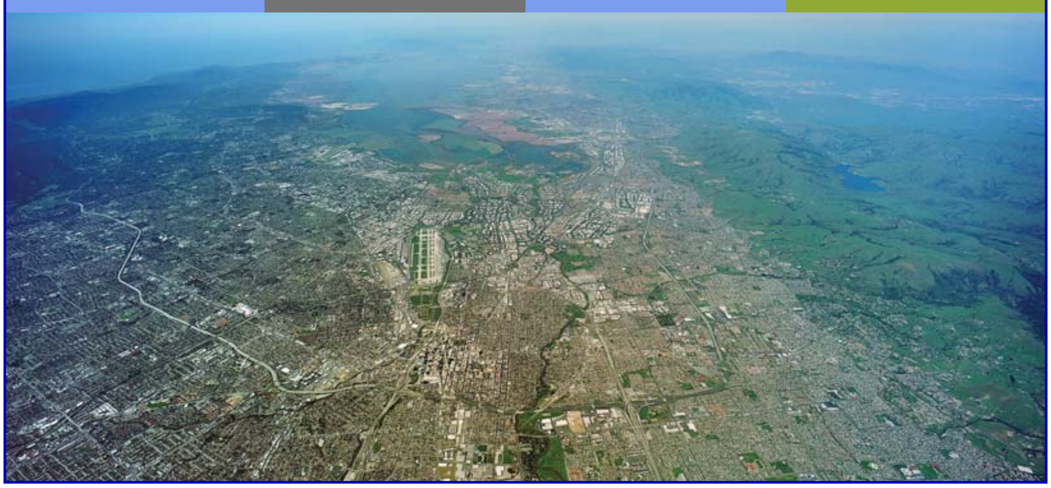
Construction Types	Q409	Q309	Q209	Q109	Q408
Completed Construction:					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total Completed	0	0	0	0	0
In-Process Construction:					
Build-To-Suit	0	0	0	0	0
Spec Construction	0	0	0	0	0
Total in Progress	0	0	0	0	0

CPS CORFAC International

RealNews

the silicon valley quarterly on commercial real estate

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



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