2010-2011

MARKET REPORT & FORECAST

COLLIERS INTERNATIONAL
SAN JOSE/SILICON VALLEY

Accelerating success.

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SAN JOSE CITY HALL

About the Newsletter

This newsletter represents the eighty-eighth in a series published by Colliers International. The information basis for this newsletter is the Parrish Absorption Tracking System (PATS) from which the absorption-related statistics are developed and derived. PATS maintains monthly statistics within Silicon Valley for 14 cities, 31 geographical areas and 4 commercial/industrial building types.

If you desire more data in order to analyze sub-markets not specified in this newsletter; please submit your request through your Colliers International sales representative at +1 408 282-3800 or write to Colliers International at 450 West Santa Clara Street, San Jose, California 95113. In addition you may send your e-mail inquiry to terry.wang@colliers.com. We look forward to supporting your specific needs.

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INTRODUCTION

What Next?

For Colliers Silicon Valley, every month of 2010 was better than the same month in 2009. We finished large, with a November and December to remember. Those were our best two months in more than two years and they happened back-to-back. Unlike the spike in activity to close out 2009, this spike has grown legs as evidenced by more than eight million square feet of legitimate large-user activity that Colliers is currently tracking.

Frankly, the Silicon Valley commercial real estate market is a little bipolar right now. A mood of mania or depression can be separated by two miles on the freeway, two weeks on the calendar or any two people you meet on the street. Still, that's a huge improvement from one year ago and it is movement in the right direction. The market is getting better and Colliers is ready. But is Silicon Valley positioned to meet the needs of the market?

The overall make-up of Silicon Valley's building base has not changed much since Colliers began tracking absorption in 1988. At that time, 48% (111 MSF) of our building base was R&D. As you might expect, a similar amount of the Valley's total absorption, 51%, was from R&D transactions. Today, 50% of our building base (158 MSF) is R&D and while much of the older inventory has been upgraded, they remain R&D buildings at their core.

At the same time, Silicon Valley's user base shifted in the dot-com boom and it never changed back after the dot-com crash. In 2000, 58% of our absorption came from R&D deals and in 2001 that percentage plummeted to 44%. Here we are ten years later and R&D absorption has dropped further, to 42% of the total. Meanwhile, office absorption has grown from 17% of total activity in 1988 to 31% in 2010.

The bricks & mortar numbers tell the story but this is really about people and not just about 2011; it's about the next ten years and beyond. Our bricks & mortar building base may have changed a little in the last ten years but the demographic of Silicon Valley companies and people working at those companies has changed a lot. What next? In the short term, the market will get better but owners of obsolete R&D product will be competing for a smaller piece of a smaller pie. In the longer term, I'm betting on bulldozers.

Best wishes for a great year in 2011 and thank you for your business in 2010!

Jeff Fredericks, SIOR
Managing Partner

Colliers has 480 offices in 61 countries on 6 continents.

Colliers has combined revenue of US $1.9 billion worldwide.

Colliers has over 2.4 billion square feet under management.

Colliers employs 15,000 professionals.

Ranked as the top U.S. real estate company by Commercial Property Executive Magazine.

Colliers INTERNATIONAL

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THE YEAR 2010 IN REVIEW

January 2010

- President Obama proposes $30 billion in Troubled Asset Relief Program (TARP) for small businesses in the State of the Union speech.
- After an aggressive hiring spree, Google restarts expansion plans that were on hold for 18 months. The cost of the renovations is $11 million, according to permits filed with the City of Mountain View.
- The number of Twitter accounts is reported to have hit 75 million users, according to a report released by RJMetrics Inc.
- Gartner forecasts that mobile application purchases will reach $6.2 billion worldwide in 2010 and associated advertising to hit $600 million.
- Silicon Valley venture capitalists report a modest increase in confidence, registering a 3.48 out of 5 on the Silicon Valley Venture Capitalist Confidence Index™.
- San Jose Mercury News files for Chapter 11 bankruptcy.
- Safeway takes over the former 75,000-square-foot Mervyn's site in Campbell.

February 2010

- Google buys San Francisco based social search engine Aardvark for $50 million.
- The Obama Administration unveils a $3.8 trillion budget and announces that this will cut the federal deficit in half.
- CalPERS' chief investment officer Joe Dear announces that it will be cutting the number of its real estate investment managers by one half.
- The Semiconductor Industry Association reports that 2009 semiconductor sales worldwide have beaten expectations, totaling $226.3 billion.
- Facebook is reported to have surpassed Yahoo Inc. as the second most visited site on the web.
- Google expands into four buildings in the North Bayshore Area of Mountain View at a cost of $11 million.
- The Labor Department reports that the national unemployment rate dropped to 9.7% in January 2010, down from 10% in December 2009.

March 2010

- Senate approves a jobs bill that provides incentives to hire people out of work for 60 days or more.
- McAfee signs a $53.5 million, 10-year lease with the Sobrato Organization on 241,000 square feet of office space on Mission College Boulevard in Santa Clara.
- Santa Clara County votes to suspend four projects in San Jose which include $2.5 million for a Santa Clara Valley Medical Center therapy building, $1 million for a parcel purchase at First and St. James streets, $1.7 million for the Sheriff's Department record storage and $730,000 for jail upgrades.
- In March, the United States Department of Labor reports that the unemployment rate fell in Santa Clara County from 12.4 to 12.1 percent in February.
- NetLogic Microsystems, Inc. signs an 8-year lease for 105,930 square feet and moves its headquarters to Mission Towers in Santa Clara.

April 2010

- An explosion kills 11 workers on the Deep Water Horizon drilling rig used by BP and sends crude oil gushing into the Gulf of Mexico. The spill devastates the fishing and tourism industries along the Gulf Coast and causes environmental damage that may last for decades.
- SAP acquires Sybase for $5.8 billion. John Chen, CEO of Sybase, expects the acquisition to significantly increase its mobile platform presence.
- Greece and Ireland require emergency bailouts, raising fears that debt problems will spread and destabilize global markets. European governments and the International Monetary Fund agree to a $145 billion rescue of Greece in May and a $90 billion bailout of Ireland in November.
- Apple's iPad is brought to market.
- Venture Capitalists invest $4.7 billion in 681 deals in Q1 2010 according to the PricewaterhouseCoopers Moneytree Report. Cleantech rises 87% in dollars invested over Q4 2009.

May 2010

- Tesla announces plans to purchase the former New United Motor Manufacturing Inc. (NUMMI) plant in Fremont.
- President Obama visits solar industry darling Solyndra Inc.'s, Fremont headquarters and a new $735 million Fab that is under construction to promote green tech jobs. Solyndra was the recipient of half a billion dollars in government stimulus money.
- Carl Berg inducted into the 2010 Developer Hall of Fame by the National Association of Industrial and Office Properties (NAIOP).
- Atheros Communications moves its headquarters into 160,000 square feet at 1700 Technology Drive in San Jose.
- Apple tops Microsoft as the world's most valuable technology company.
- Apple leases 230,789 square feet of Class A office space at 20300 and 20330 Stevens Creek Boulevard in Cupertino, formerly occupied by Symantec Corporation.

June 2010

- Tesla Motors launches its IPO on June 28th. The 13.3 million shares of common stock is set at $17.00 per share and brings a first day return of 40.5%.
- HP finalizes its $1.2 billion acquisition of Palm.
- Embarcadero Capital Partners doubles occupancy at St. James Plaza since it purchased the San Jose office complex in 2006. Since renovations were completed in 2008, occupancy has doubled to 70%.
- iPad hits 3 million units sold in 80 days.
- Santa Clara voters overwhelmingly approve a plan for a $937 million, 68,500-seat stadium for the San Francisco 49ers to be built near Great America, north of Highway 101. The project will rely on $114 million in public contributions, as well as hundreds of millions from stadium revenues like luxury boxes and naming rights.
- Google Inc. has increased its workforce by about 10 percent in the first six months of the year and says it plans to keep up the hiring pace.

July 2010

- Facebook tops the 500-million-users mark. It expands its dominance of social media and further transforms how the world communicates. If it were a country, Facebook would be the world's third-largest.
- Google is reported to have increased its global workforce by 2000 in the first half of 2010.
- Congress passes the biggest rewrite of financial rules since the 1930s. The law targets the risky banking practices and lax oversight that lead to the 2008 financial crisis. The law creates an agency to protect consumers from predatory loans and other abuses, empowers regulators to shut down big firms that threaten the entire system and shines more light onto markets that have eluded oversight.
- New terminal opens at Mineta San Jose International Airport.
- AOL Inc. signs lease with Google Inc. to occupy one of Silicon Valley's premier addresses at 395 Page Mill Road, the former headquarters of Agilent Technologies.
- 167 acres next to Tesla Motors Inc.'s new venture have hit the market for sale.
- Google invests between $100 and $200 million in gaming company Zynga.

August 2010

- Facebook overtakes Google as top online destination.
- Social networking firms are estimated to spend $3.3 billion in advertising in 2010, a 31% increase from 2009, according to the research firm eMarketer.
- China surpasses Japan and officially becomes the world's second-largest economy with an estimated value of $1.33 trillion.
- Symantec reports that botnets produce 95% of all email spam.
- Mark Hurd leaves HP amid a scandal. One month later, he is hired by Oracle Corporation as co-president to replace Charles Phillips.
- Justice department approves merger between Continental and United, creating the world's largest airline.
- Sunnyvale-based Spansion Inc. files three patent infringement suits against Samsung regarding Flash memory technology.

September 2010

- HP announces they have entered into a definitive agreement to purchase 3PAR, a leading global provider of utility storage for $2.35 billion through a chase tender offer of $33 per share. The deal is reached after a heated bidding war between HP and Dell.
- AT&T is reported to have invested $1.1 billion in its wired and wireless networks in the first half of the year.
- Senate approves multi-billion dollar small business aid bill that includes tax breaks and government loans.
- The poverty rate in America hits a 15-year high according to the U.S. Census Bureau, which translates into 14.3% of the U.S. population.
- The UCLA Anderson Forecast predicts double-digit unemployment rates until the end of 2010.

October 2010

- Tesla Motors officially takes ownership of the NUMMI Plant in Fremont with plans to build its Model S electric luxury sedan as well as other future designs.
- Starbucks partners with Yahoo to create new digital network in all of its U.S. stores.
- San Francisco Giants win the World Series!
- Media tablet sales are predicted to total 19.5 million units, according to Gartner Inc.
- Telegent Systems Inc. of Sunnyvale is honored as the fastest growing Silicon Valley company by the Silicon Valley Business Journal.
- The Sobrato Organization and Santa Clara University begin construction of a three-story $51 million campus housing project at former 5-acre office site.
- U.S. economy is reported to have grown at a rate of 2% in the 3rd quarter of 2010.

November 2010

- Solyndra announces it will close its first factory seven weeks after the opening of its second production facility. The closure is to save the Company $60 million in expenses.
- Oracle to acquire e-commerce software maker ATG for $1 billion.
- Fed to boost T-bond purchases by $600 billion in bid to keep rates low (QE2).
- Stocks hit highest level since September 8, 2008 (Lehman bust).
- Apple buys 98 acres of land in Cupertino from HP, which sits between Wolfe Road, Homestead Road, Tantau Avenue and Pruneridge Avenue.
- Housing remains depressed despite low, 30-year fixed mortgage rates that dip to 4.17%. Nearly one in four homeowners owes more on their mortgages than their homes are worth.
- General Motors pulls off the biggest initial public offering in U.S. history raising $20.1 billion. GM sells 478 million common share at $33 each, raising $15.77 billion, as well as $4.35 billion in preferred shares.

December 2010

- Facebook Founder, Mark Zuckerberg is named Time's "Person of the Year". The number of Facebook users grows 145% in 2010.
- The year ends with the Dow up 11%, the S&P 500 up 13% and the Nasdaq up 17%.
- Yahoo cuts 600 jobs; 4% of the workforce.
- Apple sells more than 13 million iPads in 2010 after its initial unveiling in January and releasing the iPad for sale in April. The iPad brings "tablet" computing into the mainstream, eroding laptop sales. The price of Apple stock rockets more than 50 percent in 2010.
- The World Bank says China's economy could surpass the United States by 2020. China's thirst for raw materials and other products helps the rest of the world recover from the recession.
- The 2001 Bush tax cuts are extended by the Senate in a compromise which included $801 billion in tax cuts and $57 billion in new stimulus spending.

OBSERVATIONS & FORECAST

Déjà vu or Not?

A strong fourth quarter surge leads to growing optimism for the year ahead - that sounds an awful lot like the story we heard at the end of 2009 about 2010, both for the economy and for the Silicon Valley commercial real estate market. Once again, we have witnessed a fourth quarter surge that is fueling cautious optimism for the year ahead. Economic reports are on the upswing and consumers opened up their wallets and purses more than anticipated during the Holidays. The Government's late-2010 decisions to cut taxes and purchase an additional $600 billion of U.S. Treasury bonds have given the economy a tremendous lift. On the commercial real estate side, activity improved throughout 2010 and was its strongest in the fourth quarter.

Still, there is plenty to be concerned about, particularly on the employment front. Job growth is happening but at an excruciating slow pace. Depending on how you cut the numbers, those reports can give one hope for the year ahead or cause one to speculate whether the job market will rebound before the decade is half over. With Silicon Valley's commercial vacancy rate so closely tied to employment growth, similar concerns are echoed when it comes to speculating how long before the Valley is able to carve an appreciable bite out of more than 55 million square feet of available office, industrial, warehouse and research & development space.

The Economy

Not much has changed since our last forecast when it comes to the driving factor for the year ahead. Last year we said it was job, jobs, jobs - and in 2011, jobs are once again at the heart of everyone's forecasts. Unfortunately, most forecasts are not overly optimistic when it comes to 2011 employment growth, and therein lies the rub. People need to get back to work in order for the consumer to have any appreciable impact on GDP growth and a robust economy. Until that happens, the consumer will continue to be a drag on the economy and growth projections will be reserved. Fortunately, business is picking up the slack and record profits will eventually find their way into the jobs market and that will in turn give the U.S. economy the boost it so desperately needs.

The $858 billion tax deal passed by Congress in December is leaving the majority of economists nearly giddy. On the heels of the announcement, Moody's immediately revised its GDP forecast for 2011 from 3% growth to 3.9%. Aside from household tax provisions designed to further stimulate the economy, the compromise between the Administration and Congress extended the R&D tax credit for businesses and provides for expensing of all business-related investment during the year. Moody's forecast for 3.9% GDP growth in 2011 is consistent with other experts who weighed in after the tax deal. Some, however, expect the U.S. to lag at a rate closer to 3%. 2009 GDP growth measured 2.9%, the largest calendar-year gain since 2005.

Eight million U.S. jobs were lost in the recession and it will take much, much longer to get that many people working again. While the private sector added more than 1.1 million jobs in 2010, the nation's unemployment rate finished 2010 not far removed from where it began the year, at 9.4%. Some estimates suggest that the rate is closer to 17% when factoring in "discouraged workers" (those not included in the unemployment rate who have not looked for a job in the most recent four weeks) and those who are working part-time because part-time work is all they can find. According to the Labor Department, 6.4 million Americans have been unemployed for more than 27 weeks, compared to 1.3 million people who were in that category when the recession started, in December 2007.

During 2010, private employment increased an average of 112,000 jobs per month, about 50,000 jobs per month less than what is needed to bring down the unemployment rate. In part, employment growth is lagging because tight-fisted companies have discovered they can be more profitable with fewer employees and with minimal loss in productivity. In addition, much of the hiring focus is abroad. The Economic Policy Institute reports that American companies created 1.4 million jobs overseas in 2010 compared to less than 1 million at home. Those jobs are becoming increasingly technical and that contributes to the larger employment problem here in Silicon Valley. At roughly 850,000, there are about the same number of jobs in the Valley today as there were in 1995.

Most experts do not foresee much employment growth before the second half of 2011. In fact, many expect the national unemployment rate to creep closer to 10% before it starts to works its way back to approximately 9% by year end.

Most experts do not foresee much employment growth before the second half of 2011. In fact, many expect the national unemployment rate to creep closer to 10% before it starts to works its way back to approximately 9% by year end. Meanwhile, California's unemployment rate is the 2nd highest in the nation, at 12.5%.

OBSERVATIONS & FORECAST

Americans, who were once spending more than they earned, have trimmed $1 trillion from household debt. The savings rate has hovered around 6% of late with the most recent trends suggesting that more consumer spending will take place in 2011 but that savings will remain close to 5%. In the fourth quarter of 2010, personal consumption grew by 4.4% annualized, after increasing 2.4% in the third quarter. Personal income was up 4.1% in 2010 compared to a decline of 2.1% in 2009.

Meanwhile, California's unemployment rate is the second highest in the nation, at 12.5%.

Business will need to lead the recovery and on that front the news is mostly positive. S&P 500 sales were up 10% in 2010 and even after increasing expenditures by 10%, the 500 are sitting on more than $480 billion in surplus free cash flow, according to BofA Merrill Lynch. Corporate profits in the third quarter of 2010 were up 26% from one year earlier. With strong balance sheets and a record-low cost of capital, more disposable cash could be steered towards hiring, research & development, capital improvements or mergers & acquisitions. In our world, that opens up sales and leasing opportunities for new or improved facilities.

For the stock market, it was the best December since 1987 and a strong 2010 finish overall after stocks leapt 20% in the final four months of the year and 11% overall. The S&P 500, Nasdaq, the Russell 2000 and the Dow Jones Industrial Average had all surged to pre-Lehman Brothers levels by Christmas. Collectively, the ten strategists polled by Baron's in their Outlook 2011 are anticipating a 10% rise in the S&P 500 in 2011. The big concern right now is that all the frothiness is perhaps overzealous and likely to trigger selling signals for investors.

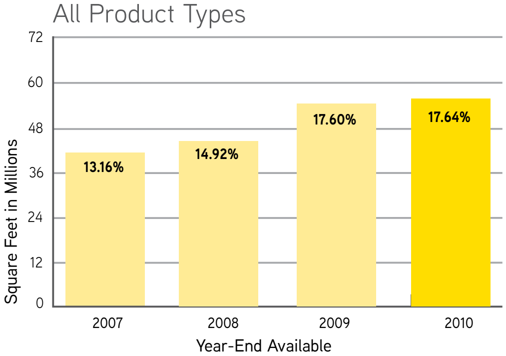
Inflation continues to be a guarded concern and a risk stemming from the Fed's aggressive efforts to stabilize the economy. Still, inflation expectations have only risen modestly in recent months and according to Donald Kohn, a Brookings Institute Scholar who recently retired from the Fed, "the Fed's key task is to convince the public that the Fed is willing and able to reverse the policy when needed." Most forecasters are calling for inflation of about 1% in 2011.

The holiday-shopping spree was better than most expected and has helped to bolster GDP expectations for 2011. The National Retail Federation had forecasted a 2.3% uptick in holiday retail sales, an estimate that they increased in mid-December to 3.3% growth. When the final numbers came out, SpendingPulse reported that total consumer spending, excluding autos, rose 5.5% from November 5 through December 4, versus the same period in 2009.

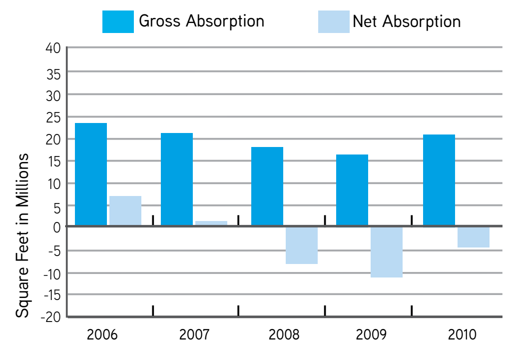
Silicon Valley relies heavily on venture capital investment to fund new and expanding companies and drive employment growth to fill its vacant buildings. VC investment grew by a modest 11% in 2009, according to Dow Jones VentureSource and those in the industry are showing renewed confidence for 2011. In a recent poll by the National Venture Capital Association, 51% of the CEOs and venture capitalists responding said they expect venture investments to increase in 2011, compared to 24% who think it will decrease and 24% who expect no change. Of particular significance for Silicon Valley, 82% predict a rise in "consumer internet and digital media" investments, 80% see increases in cloud computing and 77% are bullish on health IT. On the downside, only 28% foresee an increase in clean technology investment for 2011.

Global semiconductor sales rounded out 2010 at about $302 billion, a gain of 32% from $228 billion in 2009. For the past five years, semiconductors have been the top export industry for the U.S., which owns a little over 50% of the total global market. The industry is expected to grow by another 10% for at least the next couple of years, owing in large part to mobile technology chip sales. One threat to the U.S. market share is that venture funding for chipmakers was down 36% in 2010, close to a 12-year low. The cost of new chip plants is pushing the industry abroad and countries like China are playing a bigger role in design and manufacturing.

Silicon Valley Availability
All Product Types



Silicon Valley Absorption
All Product Types



With semiconductor sales as one of the catalysts, international trade should be a boost for America's 2011 outlook as well. The uncertain European economy is performing a little better than feared and that will help drive demand for technology goods and other business services. The developing world is growing at nearly 8% and those countries have a massive populace of new consumers.

The recession started with the crash of the housing market and the housing market will be one of the last sectors to recover. The Standard & Poor's/Case-Shiller home-price index reports that year-over-year sales are down more than 25% and that 50% more unsold homes are on the market than a year ago. Silicon Valley should fare better than most regions of the U.S. and the double-dip housing fears that plague much of the nation don't seem to be gaining much traction here.

The Administration's tax deal did little to reduce the budget deficit, which is expected to grow to $1.3 trillion in fiscal 2011. Likewise, State & Local Governments have big problems and nowhere is that more evident than in California, where public pension retirement programs have resulted in enormous obligations that far out-strip the revenue sources designed to meet those obligations. California's tax base has weakened substantially in the recession and the State's budget gap is now estimated at $25.4 billion.

The Commercial Real Estate Market

Our forecast for 2010 suggested that Silicon Valley leasing and user-sales activity would improve but that gross absorption would probably fall short of the 20.0 million-square-foot mark for the third year in a row. Thanks to ending the year with the best quarter of activity since the second quarter of 2005, we overshot our forecast and total gross absorption reached 21.8 million square feet in 2010. This represents a 35% gain from 2009, which is quite impressive given the Valley's limited employment growth. This was also the most activity in Silicon Valley since 2007 when 22.6 million square feet of activity was generated.

The lack of employment growth is more evident when looking at net absorption numbers and change in available supply. Colliers' numbers point to a 4.5-million-square-foot occupancy loss (net absorption) in 2010, 74% of which took place in the first half of the year. The actual change in available supply in 2010 was a more modest, yet still problematic, 295,410 square feet. Much of the difference had to do with space that was already available in late 2009 but was not vacated and recorded as negative net absorption until 2010. Either way you cut it, lack of new employment growth is evident when looking at the 2010 numbers. The good news is that the fourth quarter of 2010 produced 536,400 square feet of positive net absorption, which was enough to lower the Valley's total availability rate to 17.6%, the first time it has been below 18% in nearly a year.

Colliers takes pride in trying to deliver an honest forecast that our clients can use to help them with their planning. The robust fourth quarter of 2009 did not fool us into using that single quarter as a barometer for gauging 2010. Rather, our forecast suggested that total available space would balloon by another 3.0 million square feet before tapering off. In fact, total available space on a quarterly basis peaked at the end of Q3 at 58.5 million square feet, 3.2 million square feet more than we had to start the year, and right on the mark with Colliers' forecast, before reversing course in Q4.

Colliers' projections in all product categories were close to expectations with the biggest deviation coming in the office market. Our forecast did predict that larger tenants would come out of hibernation and that the office market would improve after a dismal 2008 and 2009. We hit the concept on the money but underestimated how much activity would pick up in this product category. Our forecast for 4.5 million square feet of office gross absorption was well short of the 6.9 million square feet realized. The better-than-expected results without appreciable employment gains demonstrate that Silicon Valley companies jumped at the opportunity to have it both ways. The "Flight to Quality" returned in part because companies were doing better but also because the deals got so good for tenants that they did not have to sacrifice their "Flight to Affordability" mantra.

The Silicon Valley R&D sector remains plagued by obsolete product in a changed environment. As Professor David Geltner, head of MIT's Center for Real Estate coins it; "the soft middle" of the commercial real estate market has barely budged. Class B research & development space is Silicon Valley's "soft middle". Still, much of this space is leasable under the right circumstances. Unfortunately for these property owners, those circumstances require low vacancy rates and a large rent gap between this type of product and Class A office/R&D — circumstances that don't exist today. The best hope for Class B R&D space in 2011 is that rents will continue to jump for Class

Looking ahead to 2011, we must once again temper the results of a stellar fourth quarter against the contrasting reality that sustainable occupancy growth is going to be hard to come by without employment growth. Still, December business activity grew at its fastest pace in two decades according to Bloomberg. With technology leading the way, Colliers is anticipating that occupancy growth will return to Silicon Valley for the first time since 2007.

OBSERVATIONS & FORECAST

Class A office space was the recession's ugly stepchild. For more than two years, no tenant came anywhere near a new shell building, both for financial reasons and because of the negative optics that would be associated with that kind of move in the face of layoffs and other corporate slashing. Now that this sort optics problem has subsided, companies are taking advantage of the tenant's market to upgrade facilities and lock in attractive lease rates for longer terms.

A space, thereby forcing some users in the market to consider Class B alternatives.

R&D gross absorption had consistently been in the 1.8-2.1 million-square-foot range per quarter before Q4 blew the doors off recent averages and absorption ballooned to 3.24 million square feet. We don't see the Q4 surge as the new norm but we anticipate that quarterly R&D gross absorption should be north of 2.0 million square feet, with perhaps another upward spike or two along the way. This suggests R&D gross absorption approaching 10.0 million square feet in 2011, which would be the most since 2007. After eight consecutive quarters of R&D negative net absorption, this sector produced a 614,710 square foot occupancy gain in the fourth quarter of 2010. With growing optimism and less space coming to market, Colliers anticipates positive net absorption in the R&D sector in 2011, to the tune of 1.5 million square feet.

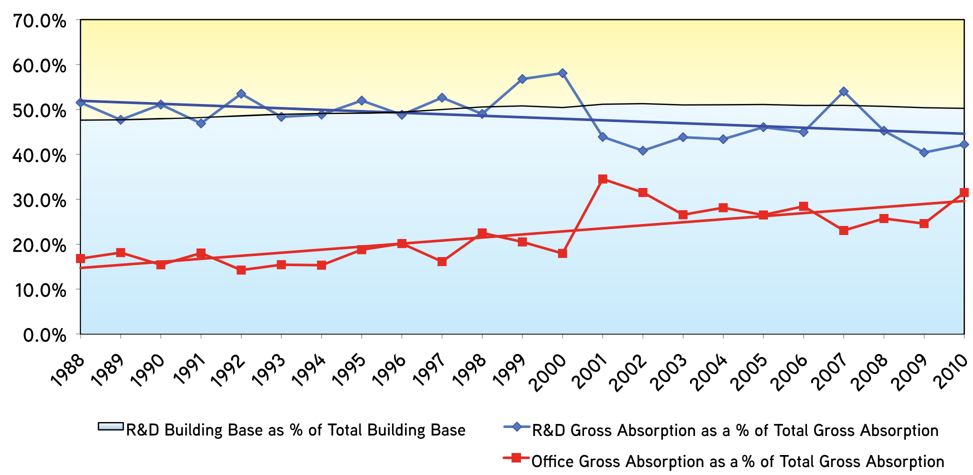
Class A office space was the recession's ugly stepchild during the recession. For more than two years, no tenant came anywhere near a new shell building, both for financial reasons and because of the negative optics that would be associated with that kind of move in the face of layoffs and other corporate slashing. Now that this sort of optics problem has subsided, companies are taking advantage of the tenant's market to upgrade facilities and lock in attractive lease rates for longer terms. With a little more consistency in 2011, office absorption should reach 7.0 million square feet for the first time since 2006. Net absorption will be nothing spectacular but an occupancy gain of 1.5–2.0 million square feet would also be the most since 2006.

Leasing activity in the industrial marketplace is also destined for improvement in 2011. While 2010 gross absorption figures were less than in 2009, manufacturers and assemblers to the technology industry should get a boost as overall business conditions continue to improve. In addition, the postponement of a capital-gains tax increase could spur more sellers to test the waters if values increase. Owner-user buying opportunities will be ripe, thanks to low interest rates and still-depressed values. With the occupancy of the 600,000 square foot Solyndra building in Fremont, look for 4.0 million square feet of industrial gross absorption and positive net absorption of up to 1.0 million square feet.

Activity in the warehouse segment showed improvement in 2010 and that trend should continue in 2011. As the stalwarts of Silicon Valley continue to demonstrate positive momentum, there will be slow but steady improvement for all support-related functions, including storage and distribution. The gain will probably be modest, with warehouse gross absorption exceeding 3.0 million square feet and net absorption approaching 500,000 square feet.

Looking at the market as a whole, rents should increase modestly in 2011. While Colliers measured a spike in starting rents for office and R&D deals in the second half of 2010, those increases were largely attributable to more leases happening at higher quality properties than in prior periods. It may be pushing it to expect a 10% increase using only Q4 2010 as a baseline. Much will depend on geographic locations where deals are happening and we could see the averages come down a bit before moving back upwards. With the growing spread between Class A rents and Class B rents, Colliers is urging its clients to do their homework on specific submarkets rather than relying on overall averages.

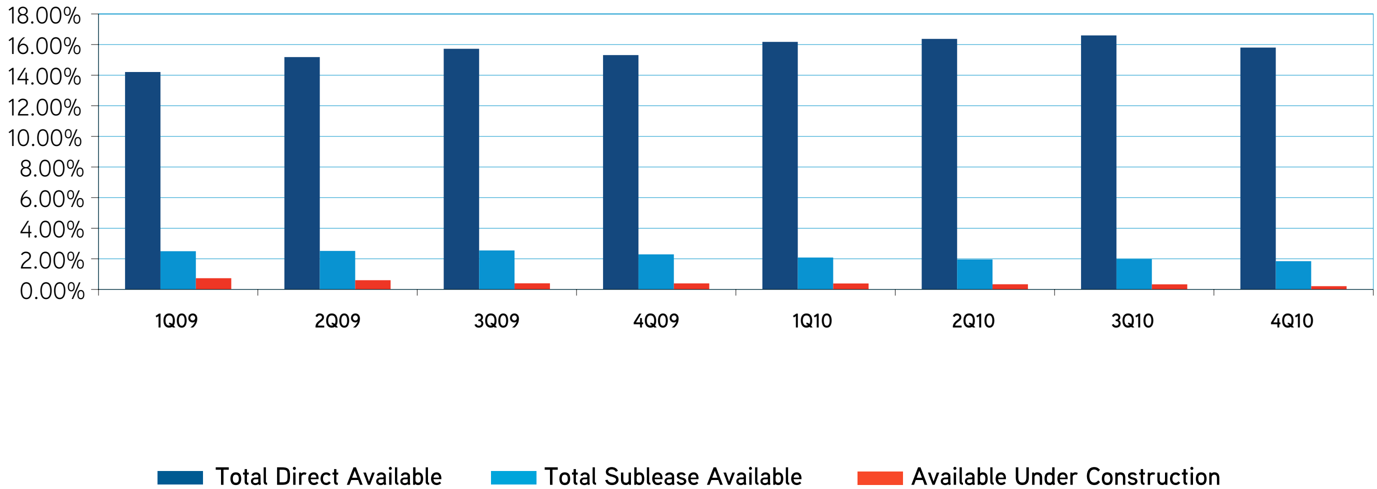
Office and R&D Absorption as a Percentage of Total



SILICON VALLEY - ALL PRODUCTS

Date	Available Vacant Direct	Available Occupied Direct	Available Sublease	Total Current Available	Vacancy Rate	Availability Rate	Available Under Construction	Current and Pending Availability
4Q 2010	41,033,126	8,723,359	5,805,022	55,561,507	14.40%	17.64%	658,073	56,219,580
3Q 2010	42,808,153	9,367,360	6,226,366	58,401,879	15.12%	18.58%	1,037,027	59,438,906
2Q 2010	42,749,477	8,657,605	6,137,494	57,544,576	14.99%	18.30%	1,049,873	58,594,449
1Q 2010	42,054,130	8,738,354	6,532,162	57,324,646	14.88%	18.25%	1,212,043	58,536,689
4Q 2009	41,026,305	7,053,763	7,186,029	55,266,097	14.63%	17.60%	1,230,474	56,496,571
3Q 2009	42,099,555	7,222,617	7,981,411	57,303,583	15.15%	18.27%	1,244,808	58,548,391
2Q 2009	39,311,862	8,234,211	7,870,527	55,416,600	14.19%	17.69%	1,876,100	57,292,700
1Q 2009	35,827,227	8,604,463	7,801,708	52,233,398	13.01%	16.70%	2,280,834	54,514,232

Availability Breakdown
Silicon Valley - All Products



	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010	3Q 2010	4Q 2010
Building Inventory:	312,819,482	313,240,192	314,060,286	314,060,286	314,060,286	314,403,635	314,403,635	314,913,129
Availability:	52,233,398	55,416,600	57,303,583	55,266,097	57,324,646	57,544,576	58,401,879	55,561,507
Absorption:								
Gross	3,567,781	2,903,067	3,825,568	5,805,898	4,420,270	5,488,064	4,846,483	7,061,675
Net	(4,223,713)	(4,123,503)	(3,349,405)	830,478	(2,036,914)	(1,321,902)	(1,724,603)	536,400
Effective Net	(5,855,304)	(3,933,139)	(2,083,808)	1,990,530	(2,369,284)	(556,651)	(904,834)	3,470,744
Completed Construction:	776,513	420,710	485,094	0	0	343,349	0	509,494
# of Avails. by Size								
< 10K SF	2655	2862	2886	2738	2733	2739	2857	2885
10K to 29K SF	678	704	719	699	731	707	713	682
30K to 59 K SF	278	287	291	293	292	300	299	265
60K to 99K SF	136	138	147	146	158	168	176	169
100K SF +	68	63	68	63	70	67	64	63

R&D

R&D's Slow Climb Back

The Silicon Valley's R&D market experienced some improvement in 2010, with total gross absorption hitting 9.21 million square feet, 41.5% greater than 2009's record low of 6.51 million square feet. The resulting figure is still the third-lowest gross absorption total since Colliers began tracking absorption in 1987. Still, it's an improvement and R&D leasing and user-sale activity did manage to break through the 2.0-million-square-foot mark in Q2 for the first time since the second quarter of 2008 and then for good measure, did so again in Q4.

The R&D sector saw more companies preparing for better times ahead while still pursuing value. This trend of companies upgrading facilities and seeking value is perhaps best exemplified in the better-than-expected results shown in the office sector. The Valley's demand pattern continues to transition away from its older, R&D-dominated building base and towards fully improved office space and this helps explain the 2010 results in both product categories.

Although net absorption was negative in the R&D sector for 2010, it was far less painful than the occupancy loss racked up in 2009. Colliers recorded 2.55 million square feet of R&D negative net absorption in 2010 compared to a 5.94-million-square-foot R&D occupancy loss in 2009. The year ended on a bright note, with 614,710 square feet of positive net absorption in Q4, ending an eight-quarter run of R&D occupancy loss, which began in Q4 2008.

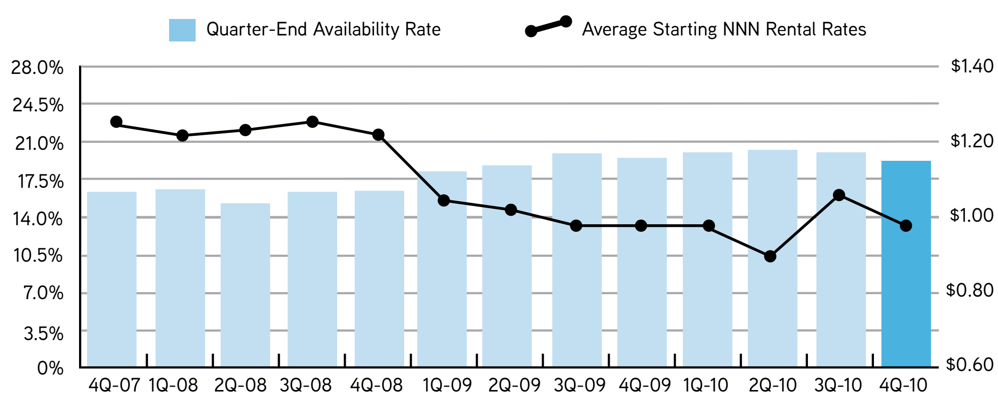
A closer look at the R&D numbers reveals that available supply increased in every month of 2010 until peaking at 32.7 million square feet at the end of August. At that time, the R&D availability rate stood at 20.7%. Since then, R&D supply has been reduced in four consecutive months to end the year at 30.6 million square feet available. The year-end R&D availability rate of 19.3% is just a tad less than Colliers' 20% projection. For those looking ahead, the four straight months of declining availability is a consistent and good indicator of things to come in 2011.

Although the Valley's demand for R&D space remained elusive for the majority of 2010, the pipeline of preimproved space added to available supply was down and that helped matters somewhat. The pipeline shrank from 12.4 million square feet of preimproved R&D space that came available in 2009 to 11.8 million square feet in 2010. In comparison, this figure is well below the high of 15.7 million square feet recorded in 2001. The trend generally followed a declining pattern with 5.15 million square feet added in the second half of the year, which was 1.46 million square feet less than what was added in the first half. That final two-quarter tally also represents the least amount of preimproved R&D space that has come on the market since last two quarters of 2008. The smaller pipeline of rollover space coming to market bodes well for the supply side and for R&D occupancy growth in 2011.

Colliers accurately predicted that average starting rents for R&D space would fall below \$0.90 per square foot, which they did in Q2, before increasing in the second half of the year. A closer look at the numbers reveals that the third-quarter spike to \$1.14 per square foot is somewhat of a statistical anomaly owing to a

A closer look at the R&D numbers reveals that available supply increased in every month of 2010 until peaking at 32.7 million square feet at the end of August. At that time, the R&D availability rate stood at 20.7%. Since then, R&D supply has been reduced in four consecutive months to end the year at 31.2 million square feet available. The year-end R&D availability rate of 19.3% is just a tad less than Colliers' 20% projection.

Silicon Valley R&D Rent vs. Availability Rate Trends



SILICON VALLEY R&D MARKET

San Jose generated more than 3.1 million square feet of R&D gross absorption in 2010, a 95% increase from 2009. Occupancy losses slowed considerably in San Jose, where there was enough activity to generate positive net absorption in Q3 and Q4. This was the first time in two years that San Jose's R&D net absorption was positive.

user base that was making deals in higher quality space in higher-rent neighborhoods. The average starting rent dropped back down to $0.91 NNN in Q4 and in a year-over-year comparison, R&D rents are down 8.1% from a year ago. R&D rents remain flat in secondary markets, with upward momentum evident in favored locations such as Cupertino, Sunnyvale, Palo Alto and Mountain View.

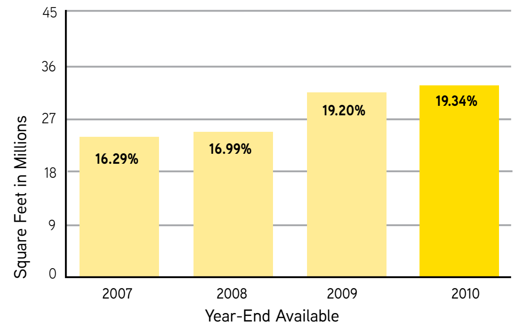
R&D Hot Spots

The major Silicon Valley R&D submarkets experienced improvements in activity in 2010. The Valley seemed to have nowhere to go but up after following in the footsteps of 2008 and 2009, back-to-back worst years on record for R&D gross absorption. San Jose and Sunnyvale took the lion's share of the Valley's R&D gross absorption, contributing over one-third of the total R&D activity for the year.

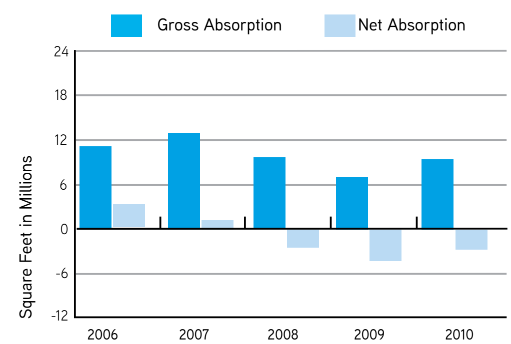
Thanks to a big fourth quarter, San Jose generated more than 3.1 million square feet of R&D gross absorption in 2010, a 95% increase from 2009. Occupancy losses slowed considerably in San Jose, where there was enough activity to generate positive net absorption in Q3 and Q4. This was the first time in two years that San Jose's R&D net absorption was positive. Notable R&D deals included Lane Partners/Walton Street Capital's 185,704-square-foot lease to Sunpower, Novellus Systems' 146,882-square-foot lease to Intermolecular, Inc. and Menlo Equities' 99,424-square-foot lease to Broadcom.

R&D activity increased by 48% in Sunnyvale to 1.45 million square feet in 2010. It was enough to produce three consecutive quarters of positive net absorption from Q2 to Q4. Significant transactions that occurred in this submarket included Equity Office's 63,781-square-foot lease to Trimble Navigation, Wrightwood Capital's 61,921-square-foot lease to PMC-Sierra, Inc., and Allegis Realty Investors Services' 57,649-square-foot lease to Trident Microsystems Inc.

Silicon Valley Availability
R&D Product

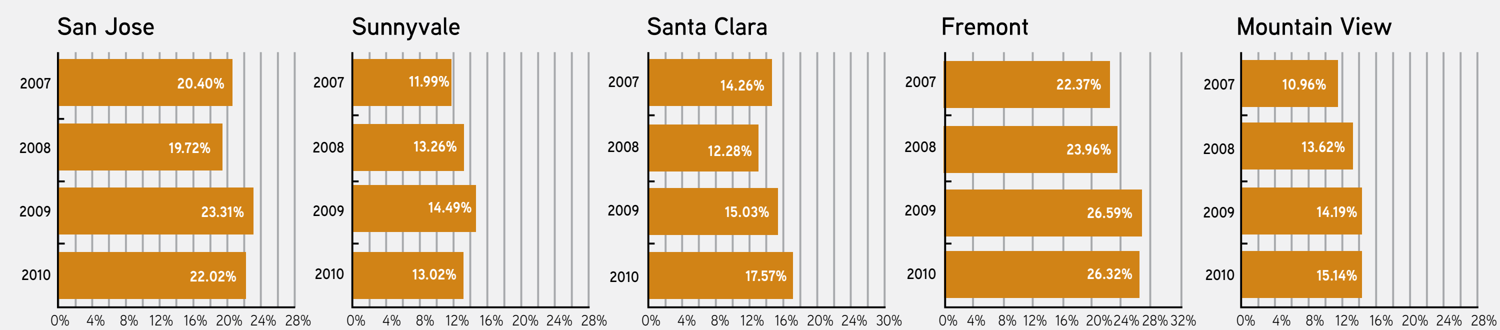


Silicon Valley Absorption
R&D Product



Santa Clara's R&D market fared slightly better than in the prior year, bringing in 969,505 square feet of gross absorption, up 18.2% from 2009. But net absorption was negative for the third consecutive year. Notable transactions included The Sobrato Organization's 218,972-square-foot lease to Broadcom, Menlo Equities' 105,664-square-foot lease to Palo Alto Networks, and Pac Trust's 73,000-square-foot lease to Internap Network Services Corporation.

Selected Cities Historical Availability Rate Trends - R&D



Mountain View R&D activity weighed in at 606,118 square feet, up 40.7% from 2009's year-end total of 430,829 square feet. Significant new lease transactions included two Equity Office deals, a 100,842-square-foot lease to Symantec Corporation and a 48,400-square-foot lease to OpenTV.

Looking Forward

Things are looking a little better in the near term for Silicon Valley's research & development market, which constitutes nearly one-half of our building base and 55% of the available space in the Valley. Quarterly gross absorption exceeded 2.0 million square feet in two separate quarters of 2010 and fell short of 2.0 million square feet by less than 50,000 square feet in the other two quarters. The last time R&D gross absorption was above 2.0 million square feet in four consecutive quarters was from mid-2007 through mid-2008. That 2.0-million-square-foot pace and then some should be sustainable through 2011.

The biggest challenge facing Silicon Valley's R&D market is that much of the inventory is homogenous and there is not a lot that distinguishes one 20,000-square-foot vacant space from the next. Colliers statistics show that there are 35 R&D spaces available just in San Jose and Santa Clara between 20,000 and 30,000 square feet. Meanwhile, the sweet spot for leasing activity is for larger deals in higher quality space. That's not to say that there are more 50,000-square-foot users in the market than 20,000-square-foot users. However, Colliers' brokers are finding that the world is not yet much better for bread & butter, smaller companies at the bottom of the food chain.

As economic conditions continue to improve, it will have a trickle-down effect that will boost suppliers and servicers and help fuel more start-ups and those are the types of companies needed to backfill the burgeoning supply of available R&D space. In addition, as Class A rents continue to escalate, more low-rent, tertiary space will come into play. This is going to take some time however and for that reason we are not forecasting a quantitative leap for R&D activity in 2011. Rather, we expect that gross absorption will continue to clip along above 2.0 million square feet per quarter, with a bump or two along the way that should push overall R&D gross absorption to 10.0 million square feet for the year.

Market conditions and the last four months of 2010 suggest that R&D positive net absorption is in the cards for 2011. Nearly all of the excess has been wrung out of the system in terms of companies shedding space. In 2010, 11.8 million square feet of improved R&D space came available during the year and that was a 5.5% drop from the 12.4 million square feet of improved space added in 2009. It will take at least another 1.0 million square feet of activity in 2011 and a supply pipeline that shrinks by more than 1.0 million square feet in order for R&D net absorption to hit the 1.5 million square feet we are forecasting. We are mindful not be too ambitious with our forecast in light of modest projections for both employment and start-up growth.

With so much homogenous inventory to shed, it is difficult to project much in the way of rental increases for the R&D sector. One thing we discovered in the last half of 2010 however is that average starting rents can move upward simply as demand shifts to higher-quality space. That dynamic is likely to continue in 2011 and while Colliers does not expect any significant upward momentum for Class B R&D rents, a push is likely to take place for better space in favored locations. Colliers expects a 10% upward adjustment from R&D starting rents in 2009, with the average starting rents for R&D overall moving back above $1.00 per square foot NNN in 2011.

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Selected Colliers R&D Transactions

- **Westcore Mission Falls, LLC** sold three R&D/office buildings totaling 128,286 square feet at 47065 Warm Springs Boulevard, 121-181 Mission Falls Lane & 47092-47132 Mission Falls Court in Fremont. **Northwestern Polytechnic University** is the buyer.
- **Coherent** renewed their 90,120-square-foot lease at 5200 Patrick Henry Drive in Santa Clara. **5200 Patrick Henry Associates** is the landlord.
- **SuperMicro** purchased three buildings totaling 166,834 square feet at 801-821 Fox Lane, 1781 and 1797 Fox Drive in San Jose. **The Irvine Company LLC** and **California Diversified LLC** were the sellers.
- **Palo Alto Networks** leased 105,664 square feet at 3300 Olcott Street in Santa Clara. **Menlo Equities** is the landlord.
- **Broadcom** leased 99,424 square feet at 3100 North First Street in San Jose. **Menlo Equities** is the landlord.
- **Stryker Corporation** renewed their 165,000-square-foot lease at 5900 Optical Court in San Jose. **Mission West Properties LP** is the landlord.

OFFICE

Office Fattens Up

The Silicon Valley office market showed signs of improvement in 2010, on the heels of dismal results in 2008 and 2009. Despite these marked improvements, there is still a significant glut of vacant office space remaining and the sector's availability rate is a sky-high, 24.7%, nearly unchanged from a year ago.

Gross absorption in the office sector totaled 6.87 million square feet in 2010, a 74% improvement from 2009's anemic figure of 3.96 million square feet. However, this was not enough to make much of a dent in the inventory of available office space. Colliers accurately forecasted that increased activity would primarily be a shell game of companies shifting from one building to another and that fact is evidenced by the 677,687 square foot occupancy loss during the year and by the up and down net absorption results over the last five quarters. Still, this was better than Colliers' projection for a 1.0-million-square-foot office occupancy loss for the year.

Office gross absorption was greater than 1.0 million square feet in all four quarters of 2010 and cleared 2.0 million square feet in Q2 and Q4 with the help of some large blocks of space taken by an assortment of high profile companies. To compare, the first three quarters of 2009 never rose above 1.0 million square feet of gross absorption and the Q4 high of 1.37 million square feet was only marginally better than the worst quarter of 2010, Q3.

Promising signs for the Valley first cropped up in late 2009 with the Rambus lease in Sunnyvale and then gained steam in Q2 of 2010 when McAfee leased 240,910 square feet of office space from The Sobrato Organization in Santa Clara. This was the largest office lease for the year and helped unclog the logjam of inactivity in the Class A office sector. Economic conditions and confidence are now at a level where movement to top-tier space is an attractive and very real scenario for many companies looking to make the leap and take advantage of what is still considered a strong tenant's market overall.

Average starting rents for office deals moved back to $2.50 per square foot (full service) in Q3 for the first time since the fourth quarter of 2008. While this is a significant gain from the low point of $2.12 per square foot recorded in Q2 2009, these results must be tempered against the simple fact that Class A office never really left the hangar during the recession's flight to affordability. These new Class A deals are bringing up the averages but they are not indicative of an across-the-board increase in office rents. For the year, office rents were up 10.2% from the fourth quarter of 2009.

Office Hot Spots

San Jose fared best among the major office submarkets in Silicon Valley with gross absorption weighing in at 2.27 million square feet, surpassing 2009's figure by over 1.0 million square feet. In contrast to 2009's occupancy loss of 932,412 square feet, San Jose managed to finish in the black in 2010 with 133,154 square feet of positive net absorption. PricewaterhouseCoopers' 209,151-square-foot lease from Oracle in downtown has a lot to do with both the positive gross and net absorption totals recorded for San Jose in 2010. Specific to the net absorption side of the equation,

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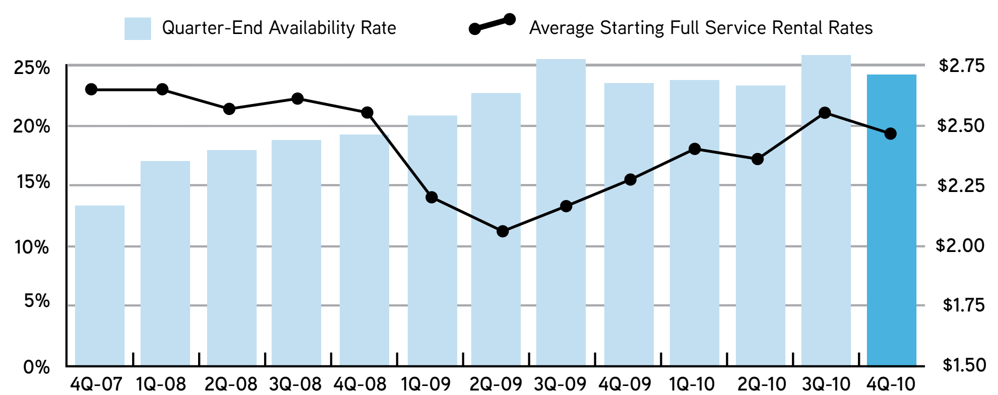
Silicon Valley Office Rent vs. Availability Rate Trends



SILICON VALLEY OFFICE MARKET

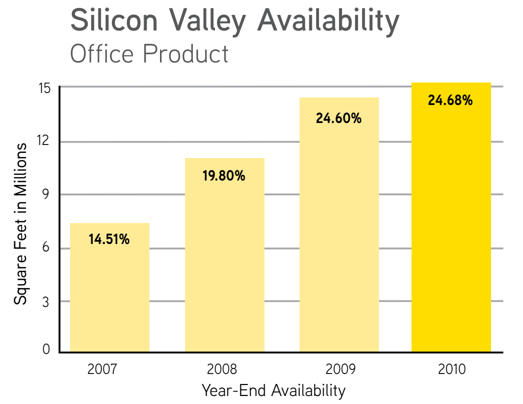
2010 marked the return of large transactions to the San Jose office market. In 2010, deals greater than 20,000 square feet accounted for 51% of gross absorption in this submarket. This is in contrast to the prior two years, 2008 and 2009, where deals greater than 20,000 square feet comprised only 8% of San José's office gross absorption.

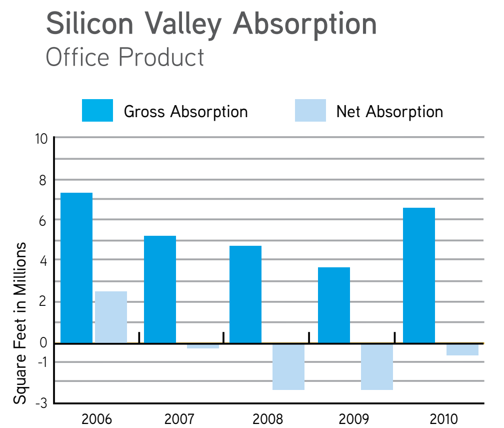
it should be pointed out that PwC's corresponding occupancy loss will not be posted until 2011 when they leave 170,000 square feet in their wake at 10 Almaden Boulevard.

Of other note, Atheros Communications signed a 185,338-square-foot lease in San José's airport submarket in Q2. Accordingly, 2010 marked the return of large transactions to the San Jose office market. In 2010, deals greater than 20,000 square feet accounted for 51% of gross absorption in this submarket. This is in contrast to the prior two years, 2008 and 2009, where deals greater than 20,000 square feet comprised only 8% of San Jose's office gross absorption. The amount of available office space now stands at 5.71 million square feet in San Jose, or 23.8% of its 24.1-million-square-foot building base.

Sunnyvale's office market showed promise in 2010. Although net absorption was negative for the fourth consecutive year, gross absorption climbed to 629,286 square feet in 2010, an 83.8% improvement over 2009. These gains were fueled by Innopath's 65,000-square-foot sublease on W. Fremont Avenue and Nokia's lease of 156,960 square feet of Class A space at Sunnyvale Town Center. Nokia was noteworthy for taking down the largest of a newly constructed three-building complex in the city's downtown area and tenant interest in Sunnyvale is clearly on the upswing. This growing buzz comes as welcome relief to Sunnyvale, which continues to feel the effects of almost two million square feet of new development added to that city's building base. Accordingly, Sunnyvale's availability rate has increased almost threefold since the end of 2007, to 41.7%.

Although Palo Alto has experienced a four-year trend of increasing amounts of preimproved space spilling back onto the market, it countered with some significant transactions in 2010. The largest lease was Skype's 90,000-square-foot deal at

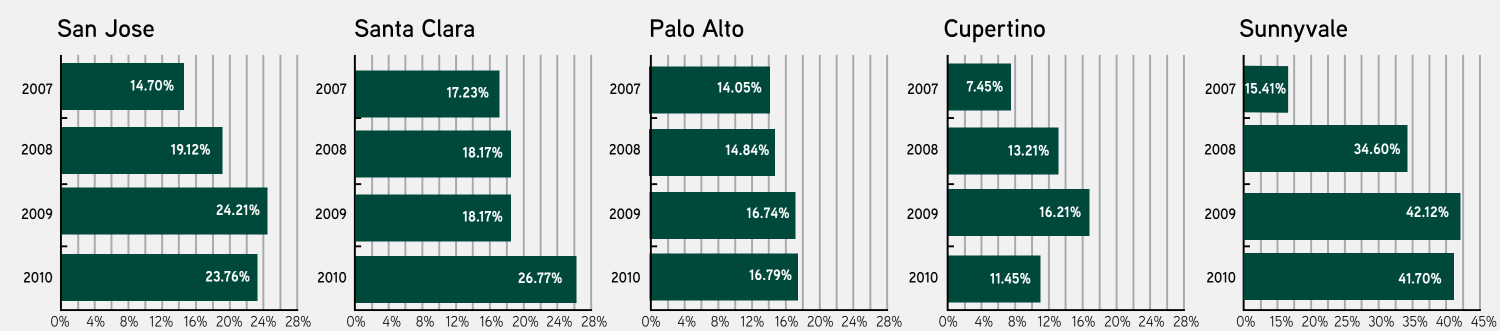




3210 Porter Drive. Although Palo Alto finished the year with an office occupancy loss of 75,656 square feet, prospects look excellent for 2011 thanks to an improved economy. The upper-end markets tend to recover first and Palo Alto is at the top of that list for Silicon Valley.

Santa Clara's office market generated 1.24 million square feet of gross absorption in 2010. This was a 112.4% increase from 2009. All told, there were a few large deals that contributed to the improved gross absorption picture, the largest being McAfee's lease of two buildings at 2811 and 2821 Mission

Selected Cities Historical Availability Rate Trends - Office



College Boulevard, totaling 240,910 square feet. NetLogic Microsystems also leased 105,930 square feet from Equity Office on Freedom Circle. In spite of these deals, Santa Clara ended the year with an overall office occupancy loss of 72,231 square feet demonstrating that there is more lateral movement taking place than net absorption.

Looking Forward

With a 74% improvement in office activity in the books for 2010, is that sort of increase possible again for 2011? After all, 6.87 million square feet of activity is more than decent and compares favorably to some pretty good past years. Certainly the office market seems poised for further improvement in 2011 but another quantum leap is probably not in the cards. There is still plenty of inconsistency in the office market as evidenced by the fact that the biggest quarter for activity in 2010 was Q4 and the least amount of activity was recorded in Q3. Also, professional office multi-tenant leasing remains very slow and while those deals may not be large, they add up over the course of a year.

Big deals and a flight back to quality drove 2010's office market resurgence and that will fuel 2011's improvement as well. Colliers continues to track several large office requirements in the market and companies like Facebook, Microsoft and Motorola were working on deals that were not done when 2010 came to a close. At first glance, it would seem like another 10% increase in office activity is achievable in 2011 and that would bring our forecast to 7.5 million square feet. Colliers adds a note of caution to that aggressive forecast however. A little help from the employment front may be necessary to hit this target and the jury could be out on that one until the fall.

With employment growth lagging, net absorption will not set any records in 2011, particularly in the office sector. In fact, a hiccup or two in the recovery could certainly spell the difference between occupancy gains and occupancy losses for office space in Silicon Valley. Thirteen out of the last fifteen quarters have produced office occupancy losses, so positive results in two out of the last five quarters does not necessarily mean that we're out of the woods. In fact, when most of the activity is lateral movement from one building to another, there is a tendency for inconsistent changes in vacant space from quarter to quarter and that's exactly what we witnessed in 2010.

At the same time, the Silicon Valley has transitioned from an R&D to an office building marketplace and with a rebounding economy and companies feeling healthy, it is the office sector that stands to benefit the most from net absorption gains in 2011. For those reasons, Colliers anticipates 2.0 million square feet of office net absorption in 2011 and that would be enough to lower the office availability rate to about 22%.

The office market is where we see the greatest bifurcation in demand and market conditions. Cupertino, Mt., View, Palo Alto and points north are all hot right now, driven by demand from either established, strong companies in the area like Apple and Facebook, or by emerging companies with young workforces that gravitate to these locations, in part because of their proximity to San Francisco, where many of them want to live or socialize. In fact, the San Jose Mercury News recently reported that San Francisco gained more computer workers between 2005 and 2009 than new computer workers added who live in Santa Clara County. This has put San Francisco on the map as a competitive alternative to Silicon Valley even though very few of these users are considering both markets when searching for space.

Multi-tenant demand for suburban office space remains slow and demand for office space in downtown San Jose is faring better than most suburban areas but not so well as to expect a significant demand or rent increase for 2011. Overall, Colliers is calling for a 10% bump in office rents in 2011 but like with the R&D segment, clients should research each submarket independently.

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Selected Colliers Office Transactions

- **PricewaterhouseCoopers leased** 209,151 square feet at 480 Almaden Boulevard in San Jose. **Oracle Corporation** is the landlord.
- **Sandforce, Inc.** leased 42,113 square feet at 691 South Milpitas Boulevard in Milpitas. **ADPT Corporation** is the landlord.
- **Equity Office Properties** completed a 105,930-square-foot office lease at 3975 Freedom Circle in Santa Clara. **NetLogic Microsystems, Inc.** is the tenant.
- **Seagate Technology, LLC** sold a 39,218-square-foot office building located at 155 South Milpitas Boulevard in Milpitas to **GDK Enterprises, LLC**.
- **Innopath Software, Inc.** subleased 65,000 square feet at 1195 West Fremont Avenue in Sunnyvale. **IBM** is the sublessor.
- **Kana Software, Inc.** leased 27,550 square feet at 840 West California Street in Sunnyvale. **Principal Global Investors** is the landlord.
- **Iron Key Real Estate** subleased 28,023 square feet at 600 West California Avenue in Sunnyvale. **Synopsys, Inc.** is the sublessor.
- **QuinStreet** leased 63,998 square feet at 950 Tower Lane in Foster City. **Equity Office Properties** is the landlord.

INDUSTRIAL

No Home Runs for Industrial

The Silicon Valley's industrial sector performed consistently in every quarter of 2010. The exception is that no quarter of 2010 was able to match the fourth quarter of 2009, which was buoyed by Solyndra's 506,490-square-foot lease in Fremont. Though consistent throughout the year, a dearth of large industrial deals served to keep the overall numbers down. As a result, the 3.1 million square feet of industrial gross absorption recorded in 2010 was 7.7% less than the 3.32 million square feet recorded in 2009.

coming to market. The amount of preimproved industrial space that was added to available supply during 2010 totals 3.78 million square feet, 960,433 square feet (20%) less than the 4.75 million square feet that was placed on the market during 2009. This was even less than the 4.0 million square feet that Colliers forecasted.

Industrial net absorption was negative for the fourth consecutive year, weighing in at 715,670 square feet. A good chunk of this loss was recorded early in the year as space was vacated

Industrial activity did improve over the year as 1.72 million square feet, or 56% of the industrial gross absorption, occurred between July and December. Colliers had forecasted that 2010 would be a better year for this sector with activity approaching 3.5 million square feet, but we were left wanting. In retrospect, the small guys are most impacted by the recession and their recovery is going to lag. All told, the industrial sector's 3.1 million square feet of gross absorption ranks as the second lowest amount of industrial activity in the last decade.

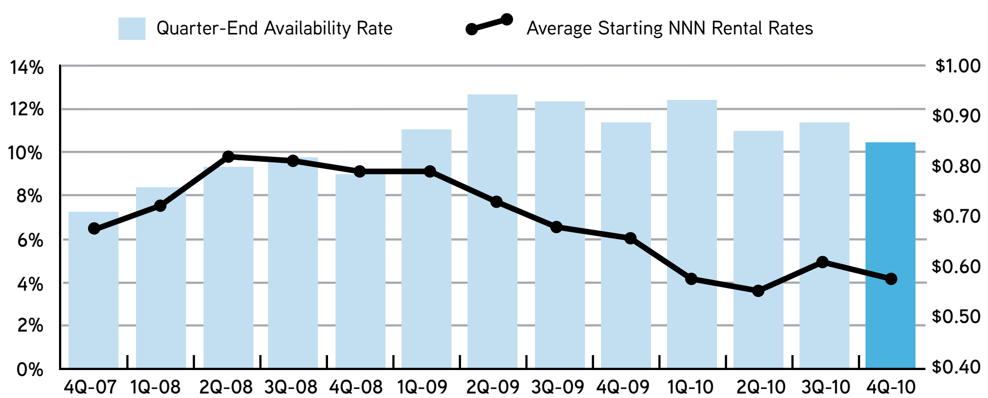
With demand running behind even 2009's pace, available supply figured to increase and it did early in the year. However, by the end of the year, available industrial supply had dropped below the inventory on the market to begin the year. The reduced availability rate is partially attributable to a more narrow pipeline of existing industrial space

that had initially come available in 2009. In the year's final quarter a 116,612-square-foot occupancy gain was recorded to take some of the sting out the annual figure. The Q4 occupancy gain was only the second time since Q2 2007 that industrial net absorption was in the black and we see it as a good sign for 2011. With activity on the upswing and a quiet supply channel, 2011 looks to be a good year for industrial.

In spite of negative net absorption, there is actually less industrial space available today than there was to begin the year. This is largely attributable to the timing of when space comes available and when it becomes vacant. In the case of the industrial market, available sublease space was reduced from 436,468 square feet to begin the year, to just 203,016 square feet now. As that space was subleased, it reduced availability but only created a net absorption "wash" as one

Industrial net absorption was negative for the fourth consecutive year, weighing in at 715,670 square feet. A good chunk of this loss was recorded early in the year as space was vacated that had initially come available in 2009. In the year's final quarter an 116,612-square-foot occupancy gain was recorded to take some of the sting out the annual figure.

Silicon Valley Industrial Rent vs. Availability Rate Trends



SILICON VALLEY INDUSTRIAL MARKET

Santa Clara's industrial activity increased 26.8% in 2010 to 706,960 square feet. In Q3, Santa Clara generated 242,797 square feet of industrial gross absorption, the first time since Q4 2007 that quarterly activity cleared 200,000 square feet. For the year, Santa Clara's industrial occupancy loss totaled only 93,543 square feet. Notable deals include A1 Trading's 29,040-square-foot lease on Martin Avenue.

user vacated in favor of another. As a result, the 5.8 million square feet of currently available industrial space is actually at its lowest since the fourth quarter of 2008. Hence, this product type has a pretty healthy balance between supply and demand, particularly when compared to the office and R&D sectors.

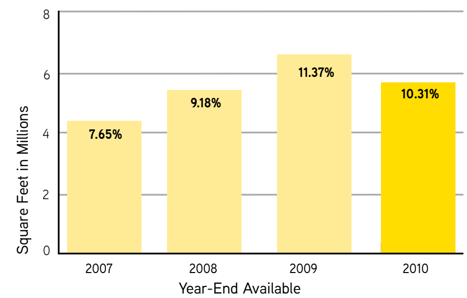
In Q2 2010, the average starting rent for industrial leases dropped to $0.55 per square foot NNN, their lowest point since Q3 2004. By the end of the year, the average had climbed back to $0.57 per square foot, the same figure recorded in the first quarter of 2010 and 13.6% below the average starting rent from one year ago.

Industrial Hot Spots

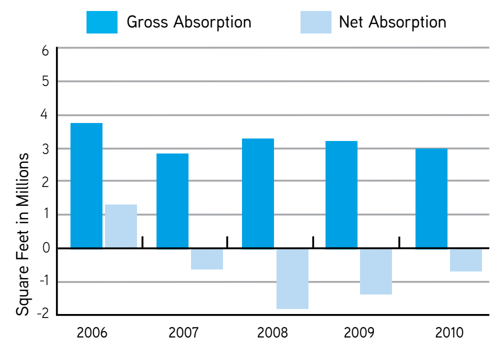
San Jose, which has the largest industrial building base of any Silicon Valley city, generated 1.2 million square feet of industrial gross absorption in 2010, 139,000 square feet more than in 2009. The San Jose industrial market produced its third straight year of negative net absorption. The total occupancy loss was 305,903 square feet. This figure was down from 2009's occupancy loss of 534,145 square feet. San Jose's industrial availability rate did manage to finish the year below 10.0%. Significant transactions included Carrier Sales & Distribution's 35,324-square-foot lease on Commercial Street.

Fremont's industrial activity for 2010 totaled 291,284 square feet, down 67.4% from 2009's year-end figure of 893,621. Fremont was destined for a fall thanks to Solyndra skewing the 2009 numbers with their 506,490-square-foot lease. This was the fourth straight year of occupancy loss for this submarket, though at 60,729 square feet, 2010's net absorption change was nominal. Notable industrial deals included RPO's 35,184-square-foot lease on Osgood Road and Mobile Mini's 27,518-square-foot lease on Old Warm Springs Boulevard. Despite the decrease in activity, Fremont's industrial availability rate remains at 4.92%, near its historic low.

Silicon Valley Availability
Industrial Product

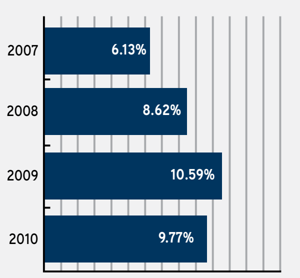


Silicon Valley Absorption
Industrial Product

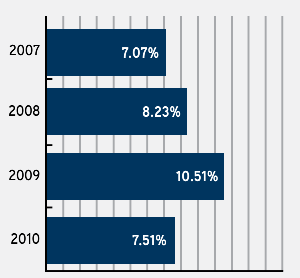


SELECTED CITIES HISTORICAL AVAILABILITY RATE TRENDS - INDUSTRIAL

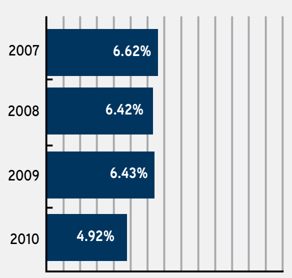
San Jose



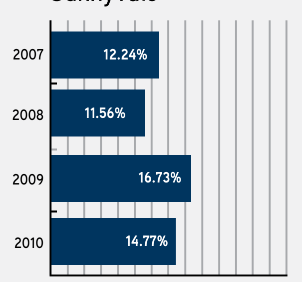
Santa Clara



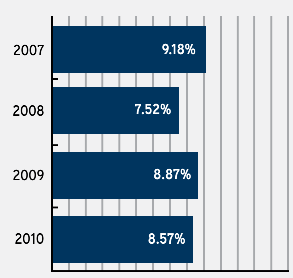
Fremont



Sunnyvale



Mountain View



Milpitas experienced increased industrial activity in 2010. The year got off to a slow start but bounced back with 243,492 square feet of gross absorption in Q3 and 388,045 square feet of gross absorption overall. This submarket ended 2010 with 97,847 square feet of industrial negative net absorption. Although this was Milpitas's fourth straight year of occupancy loss, activity has increased in each of the last three years. Significant transactions included Cisco Systems' lease of 107,350 square feet on Sycamore Drive and Harmonic's 25,716-square-foot lease on South Abbott Avenue.

Looking Forward

Activity in the industrial sector remains consistent, though not spectacular, and Colliers expects that some improvement for this product type is in store for 2011. For one, the overall increase in 2010 gross absorption did not trickle down to the industrial sector. Total activity was about the same in 2010 as it was in 2009. With a profitable technology sector primed to increase investment and production, industrial occupiers that support the technology industry are busier than they have been in years. As these users become more confident in their contracts and the sustainability of their businesses, there will be more reasons for relocations and even some net absorption growth.

Owner-user building sales can also contribute to absorption in this product category and building sales nearly came to a standstill before picking up in 2010. Using Colliers' own numbers as a gauge, our number of industrial building sales increased by nearly 68% in 2010 over 2009 but they remain well below the contributor to absorption that Colliers experiences in most years. That could change in 2011 with more incentives for buyers and sellers alike. For buyers, business prospects have improved and interest rates remain near their all-time low. Prices are also down but not so much as to start a feeding frenzy. In fact, finding a good industrial building to buy is still a problem more often than not.

Industrial building sellers may also find more motivation to test the waters in 2011. Some certainly feel snake-bit by the Great Recession and if demand surges, building prices will go up and some owners may take that opportunity to get out from under the risks and demands of building ownership. The recent extension of the Bush tax cuts gives these owners a two-year window to take advantage of a 15% capital gains tax rate and it is not a far-fetched conclusion to expect a significant tax hit thereafter.

Colliers is calling for an increase in industrial gross absorption to 4.0 million square feet in 2011. This is a 31% increase including the take-down of Solyndra's 600,000 square foot manufacturing building in Fremont and an 11% increase without Solyndra. With demand increasing and the supply side under control, the industrial sector could generate 1.0 million feet of occupancy growth overall, inclusive of the 600,000 square foot Solyndra gain that will go into the books in Q1 2011.

Average starting rents for industrial space dropped in the first two quarters of 2010 and then showed some upward momentum over the balance of the year. Colliers expects industrial rents to increase in 2011, on the order of 10%, or even more if the industrial market really starts to heat up.

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Selected Colliers Industrial Transactions

- **Zazzle, Inc.** leased 130,381 square feet at 1185 Campbell Avenue in Campbell. **Barry Swenson** is the landlord.
- **North Coast Medical** leased 49,080 square feet at 8100 Camino Arroyo in Gilroy. **Irwin J. Eskanos** is the landlord.
- **RPO, Inc.** leased 35,184 square feet at 43455 Osgood Road in Fremont. **Merced Peak Fork, LLC** is the landlord.
- **Carrier Sales & Distribution** leased 35,324 square feet at 1070 Commercial Street in San Jose. **CSBC, LLC** is the landlord.
- **Pulmuone Wildwood, Inc.** purchased a 120,665 square foot building located at 5755 Rossi Lane in Gilroy from **E.J. Rossi, LLC**.
- **Peacock - Paragon, LLC** purchased a 36,704 square foot building located at 2345 Paragon Drive in San Jose from **Brian Skipper**.
- **Uni-Fab Industries, Inc.** leased 41,082 square feet located at 1455-1473 N. Milpitas Boulevard in Milpitas from **Milpitas 10**.

WAREHOUSE

SILICON VALLEY WAREHOUSE MARKET

Warehouse Still on the Map

Colliers had anticipated that warehouse activity would improve enough to possibly push net absorption into the black in 2010. However, this was not to be. Although activity was up slightly from 2009, it could not keep pace with the pipeline of warehouse space coming onto the market, which totaled 3.29 million square feet in 2010 and led to a loss of occupancy of 604,746 square feet. This was the third consecutive year of negative net absorption for this product type, albeit 2010 was a better year than 2009, when 991,093 square feet of negative net absorption was recorded.

Silicon Valley's warehouse sector did experience an increase in activity in each of the first three quarters of 2010. Activity soared to 944,255 square feet in Q3, the highest amount of activity since Q4 2009's figure of 1.05 million square feet. All said, the warehouse sector was not able to get over the one-million-square-foot per quarter hump in 2010. The last time this was accomplished was Q4 2009 and the last time before that was the third quarter of 2005. Colliers accurately predicted that warehouse gross absorption would fall shy of 2.5 million square feet and we were not far off, with gross absorption weighing in at 2.7 million square feet for the year.

The pipeline of warehouse space coming available during the year did narrow in the second half of 2010 to 1.59 million square feet from the 1.70 million square feet added in the year's first two quarters. The pipeline narrowed the most in Q4, with only 595,946 square feet of warehouse space coming on line. Unfortunately, Q4 also generated the second-lowest gross absorption tally during the year, so fourth quarter net absorption was also in the red, albeit barley. Still, the Valley's warehouse market is headed in the right direction, even if it's at a snail's pace.

Current available warehouse supply stands at 3.94 million square feet, which is up from the 3.53 million square feet available one year ago. Still the 10.2% availability rate in this product category is a little lower than the 10.3% availability rate for industrial and much less than the 19.3% and 24.7% availability rates carried in the R&D and office sectors. Despite up and down demand, it certainly cannot be categorized as a tenant's market for warehouse users.

Colliers accurately predicted that average starting rents for warehouse space would drop beneath the $0.40 per square foot mark in 2010. In fact, warehouse starting rents dipped to $0.37 per square foot in Q1 2010, the lowest recorded since Q1 2006. Over the balance of the year, warehouse starting rents nudged back up to an average start rate of $0.44 per square foot and then settled back down to $0.37 per square foot in the year's final quarter.

Warehouse Hot Spots

Warehouse activity in Fremont cooled during 2010, dropping to 510,019 square feet from 2009's year-end figure of 974,886 square feet. This reduction in activity could not keep pace with the amount of preimproved space coming back on the market, and as a result, available supply bumped up to 890,001 square feet, coinciding

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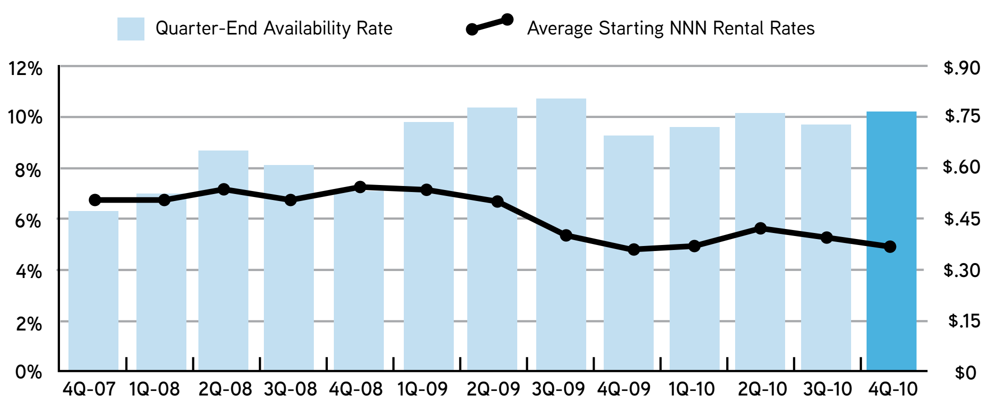
Silicon Valley Warehouse Rent vs. Availability Rate Trends



SILICON VALLEY WAREHOUSE MARKET

One of the largest warehouse deals of this past year took place in Santa Clara, with First Solar's 110,025-square-foot lease on Walsh Avenue. By the end of 2010, there was only 292,982 square feet of available warehouse space in this tight submarket, down 18% from the 356,487 square feet available at the end of 2009.

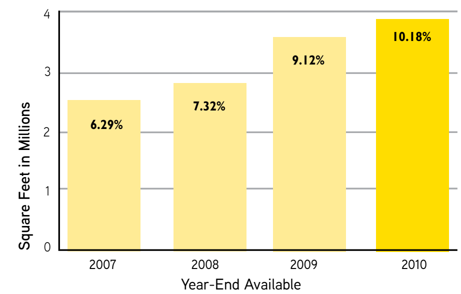
with a 186,419 square foot warehouse occupancy loss in the fourth quarter. Notable Fremont deals include Quanta Computer's 120,960-square-foot warehouse lease on Christy Street.

San Jose's warehouse activity improved to 1.11 million square feet in 2010, increasing from 690,335 square feet in 2009. In Q4, San Jose notched 175,996 square feet of warehouse net absorption, that city's second best quarterly total since Q4 2006. San Jose's warehouse availability now rate sits at 9.1%, nearly unchanged from the 9.0% rate at the beginning of the year. Significant San Jose warehouse transactions included San Jose Forest Products 90,000-square-foot lease on South 7th Street, Owens Corning Fiberglass leasing 75,556 square feet on Berryessa Road and Everest Trading's 68,502-square-foot lease on Charcot Avenue.

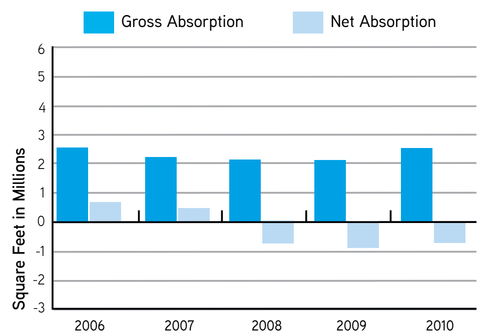
Santa Clara, which has a 3.23 million-square-foot warehouse building base, has historically experienced low availability rates. One of the largest warehouse deals of this past year took place in Santa Clara, with First Solar's 110,025-square-foot lease on Walsh Avenue. By the end of 2010, there was only 292,982 square feet of available warehouse space in this tight submarket, down 18% from the 356,487 square feet available at the end of 2009. Overall, Santa Clara finished the year with a net absorption wash.

Milpitas' warehouse market fared better in 2010 than the previous year with increased activity as well as a smaller occupancy loss. This submarket ended the year with 352,244 square feet of warehouse gross absorption. Of note, Q3 produced 204,814 square feet of warehouse deals in Milpitas, which was the most

Silicon Valley Availability
Warehouse Product



Silicon Valley Absorption
Warehouse Product

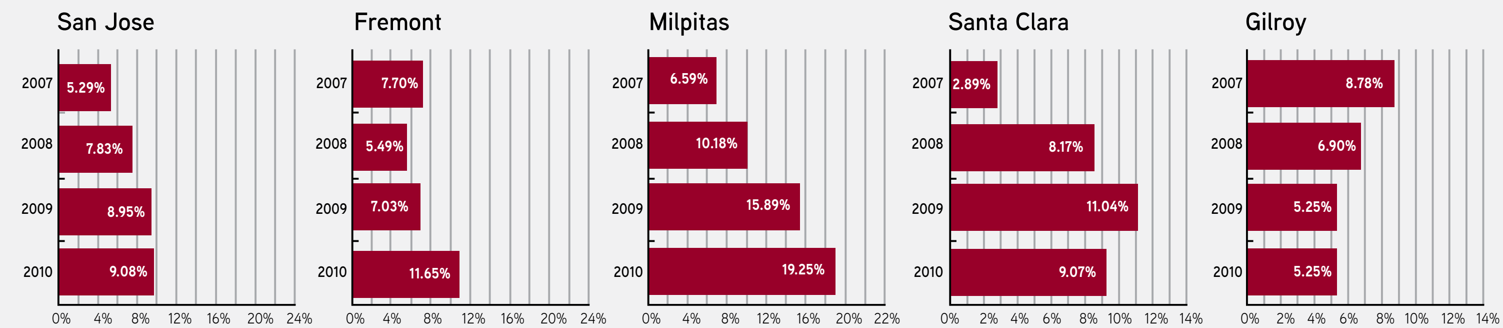


since Q4 2007. Milpitas' warehouse occupancy loss totaled 193,908 square feet and it was the city's third straight year of negative net absorption. Notable deals included Extron's 102,407 square foot lease on Abbott Avenue.

Looking Forward

Silicon Valley's warehouse availability rate continues to hover around 10%, with the year-end rate checking in at 10.2%. In spite of some up and

Selected Cities Historical Availability Rate Trends - Warehouse



down quarterly spikes in activity, the warehouse availability rate has hovered within a fairly narrow range of 9.1%-10.5% for seven consecutive quarters. No clear consistent trend emerged in 2010 that would suggest anything other than more of the same for 2011. Having said that, the warehouse sector stands to gain better footing as the business climate improves in 2011 and a more normalized overall demand pattern emerges.

Colliers anticipates that quarterly warehouse activity should be above 500,000 square feet in 2011, with a top end of 1.0 million square feet in any given quarter. The only 1.0-million-square-foot quarter since 2005 took place in the fourth quarter of 2009 and it took a 365,842-square-foot deal to make that happen. Currently, there are only four available warehouse spaces in all of Silicon Valley greater than 100,000 square feet, so activity is partially constricted by available inventory. With those figures as a basis, Colliers is anticipating 2011 warehouse gross absorption of around 3.0 million square feet, which would be an 12% increase over 2010 gross absorption totals.

While a few non-traditional warehouse users and manufacturers have taken down warehouse buildings, the big blocks of space continue to be utilized for traditional warehouse and distribution purposes. In 2010, the solar industry played a larger role in warehouse leasing and although these users came out of the gate quickly, we anticipate less activity from solar companies in 2011. Regardless, there is still a need for warehouse space in Silicon Valley as demonstrated by the fact that Colliers recorded 55 warehouse deals in Silicon Valley in 2010 greater than 20,000 square feet.

Something else to consider in this product category, there has been no new warehouse development in the area for a dozen years and meanwhile, warehouse buildings continue to get older. With properties deteriorating, code requirements increasing and users becoming more sophisticated, it will be interesting to see what owners of aging warehouse buildings elect to do when they are faced with significant improvement costs and minimal returns. Many owners may be banking on the next residential real estate boom.

All product categories demonstrated a more stabilized supply channel in 2011. In the case of the warehouse segment, 3.29 million square feet of preimproved space came available over the course of the year, nearly identical to the 3.31 million square feet added to availability in 2009. That figure might even drop a bit in 2011, unless more of a shell game emerges for warehouse users moving around. In that case, gross absorption could inch higher but regardless, Colliers is looking at an occupancy gain in this sector of no more than 500,000 square feet, a figure that would leave the warehouse availability rate near 9% at year-end.

The average starting rent for Silicon Valley warehouse leases was consistently between the high \$0.30's and the low \$0.40's (NNN) throughout 2010. Colliers anticipates very little change in 2011 unless net absorption pushes closer to 1.0 million square feet, in which case warehouse rents could inch closer to \$0.50 per square foot. A 10% increase is what we're calling for, which would drive warehouse rents into the mid-\$0.40's NNN.

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Selected Colliers Warehouse Transactions

- **RREEF** completed a 110,025-square-foot warehouse lease at 1025-1035 Walsh Avenue in Santa Clara. **First Solar, Inc.** is the tenant.
- **Southwest Offset Printing** leased 68,502 square feet at 587 Charcot Avenue in San Jose. **AMB Property Corporation** is the landlord.
- **Quanta Computer, Inc.** leased 120,960 square feet at 41929 Christy Street in Fremont. **BIT Investment** is the landlord.
- **Prism Electronics Corporation** leased 32,891 square feet at 1341 Oakland Road in San Jose. **Bottomley Property Management** is the landlord.
- **Leales Fleet RV, Inc.** leased 99,000 square feet at 2070 South 7th Street in San Jose. **Chaboya Ranch** is the landlord.
- **Akeena Solar, Inc.** leased 25,026 square feet at 2071 Ringwood Avenue in San Jose. **Lasecke Trust** is the landlord.
- **West Coast Office** leased 19,200 square feet at 765 Montague Expressway in Milpitas. **SCS Development** is the landlord.

A Look Back is a Look Ahead

2010 witnessed trends within the investment landscape that to some may have appeared premature and unexpected. The first half of 2010 was relatively docile with few investment offerings and fewer subsequent transactions. Toward the end of the second quarter however, a significant shift had occurred driven primarily by the equity and debt markets. Specifically, institutional equity and debt sources were seemingly “forced” to place capital into “core” product located in “core” markets including San Francisco, Palo Alto, Mountain View, Cupertino, and Sunnyvale. Frustrated by the lack of available product over the previous two years, equity players almost collectively decided to re-enter the market with a fervor not seen since the 2005-2008 market. These investors saw enough uncertainty within the macro environment mitigated to provide a renewed sense of confidence in the market.

A significant factor in this investment resurgence in the core markets was the exuberant debt markets, led primarily by the life insurance companies, quoting 5-year, 55%-65% loan-to-value, 4.5%-5% debt for stable assets. CMBS lenders were not far behind.

Though the Bay Area was experiencing a robust capital market, a significant supply (i.e., product) and demand (capital) imbalance still existed resulting in equity yields retracting back to 2006-2007 levels, causing some concern that the core investment segment of the market was overheating.

INVESTMENT

SILICON VALLEY INVESTMENT MARKET

While core markets throughout the Bay Area were experiencing a resurgence in pricing, markets outside of the classification were pricing more in-line with the risk inherent in the transactions. This was a departure from the underwriting in previous cycles whereby risk was priced uniformly almost regardless of asset profile. Underwriting remained conservative, with special attention to basis on a price-per-foot and downside risk mitigation. Transaction volume in the Silicon Valley trended upward from the previous anemic levels of 2009, reflected in the accompanying chart.

Our Crystal Ball: 2011

Though the investment markets are still not back to normalized levels, we are encouraged by this positive sale trend and have reason to believe that the trend will continue for the foreseeable future barring any significant exogenous shock to the economy.

The fourth quarter 2010 saw a dramatic increase in inquiries to the Colliers Investment Services Group from special servicers requesting opinions of values and strategies on how to stabilize assets that are probable REOs. The conversations were in stark contrast to those had in 2009, whereby the special servicers worked in earnest at the onset seeking to remedy distressed situations. Looking forward, the uptick in lender-owned investment offerings will be significant, particularly in secondary submarkets.

As it relates to the non-distress market, we will continue to see value "squeezed" from offerings in core locations in the Valley due to abundant and aggressive capital on both the debt and equity side. We predict that capital will begin to flow into secondary markets where higher risk-adjusted returns and significant discounts to replacement costs can be achieved.

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Transaction volume in the Silicon Valley

		2009	2010
Office	No. Properties sold*	8	25
	Total Volume	$190,102,522	$745,399,437
	Total SF	902,648	4,278,775
Industrial	No. Properties sold*	11	27
	Total Volume	$227,524,802	$387,463,616
	Total SF	1,124,216	2,203,621
Retail	No. Properties sold*	11	10
	Total Volume	$274,089,110	$465,249,530
	Total SF	1,553,379	2,194,390
Multi Family	No. Properties sold*	7	10
	Total Volume	$233,462,838	$416,050,000
	Total SF	1,344	2,051

*Properties of $5 million or greater

Selected Colliers Investment Transactions

- **Terreno Realty Corporation** purchased two industrial buildings totaling 141,440 square feet located at 48603-48663 Warm Springs Boulevard in Fremont from **PEN Associates**.
- **Terrence J. Rose and Don Pearlman** sold a 71,600-square-foot industrial building at 2190 Fortune Drive/2401-2407 Qume Drive in San Jose. **Terreno Realty Corporation** is the buyer.
- **Menlo Equities** sold a 89,000-square-foot warehouse building at 555 Charcot Avenue in San Jose to **AMB Property Corporation**.
- **DECRON Properties** sold a 95,800-square-foot building at 2435 Lafayette Street in Santa Clara to **Miracle Home Investment, LLC.**
- **Realty Associates Advisors, LLC** purchased three buildings totaling 100,368 square feet at 1453-1477 Milpitas Boulevard from **Don Pearlman Joint Ventures VII.**

RETAIL

Retail Shoppers Back

In the early part of 2010, Colliers International's Retail experts felt some positive momentum building in retail real estate that would carry over from the latter part of 2009. So, with cautious optimism, it was then forecasted that 2010 retail leasing and investment activity would increase moderately, as the fears of a "double-dip" recession subsided and economic and lending conditions gradually improved. Those predictions for the year held true and that there is finally some light at the end of the tunnel going in to 2011.

Though not at pre-2007 levels and still uneven throughout the various submarkets, retail leasing and sales activity in the region was steady throughout 2010. The decision makers were back, freed from two years of deal paralysis and they wanted to make deals, whether it was opening a store, filling a vacancy, or buying or selling a property. The exclamation point to the year was the strongest Holiday shopping season since 2005, surpassing 2009 by almost 3%.

Even with things headed in a positive direction, there still remained a wide disparity in retail vacancy rates between submarkets and trade areas within Silicon Valley. The overall average vacancy rate in the Valley held steady at about 7%, but it varied from mid-to-high single digits in the traditionally stronger markets to double digits in the secondary and periphery markets. In the elite locations of Silicon Valley's primary trade areas and commercial shopping districts, vacancy decreased to about 6.3%.

Demand was weighted towards well-located, quality properties and driven by national and regional companies, some new to the market. Additionally, better capitalized opportunistic local tenants moved up to the stronger regional shopping hubs. Conversely, as these tenants migrated, the ones left behind in the secondary locations were impacted by the shift in retail synergy as customers followed the herd.

Rental rates in most submarkets may have finally hit bottom in 2010. Again, this varied from market to market and location to location. Rents for prime end-cap space remained in an average range between $3.00 and $3.50 per square foot NNN, while in-line space hovered between $2.50 and $3.00 per square foot. However, there were certain prime submarkets, with little to no turnover, where rents actually increased by a small percentage but still not to their pre-recession levels. The secondary and periphery market rents were more erratic and most changed very little from 2009; end-cap rents ranged between $2.00 and $2.35 per square foot, and in-line space ranged between $1.75 and $2.00 per square foot. There were also a few submarkets where rates receded to 1990 levels and space could not be filled no matter the price because there just wasn't demand.

Which retailers were making moves in 2010? Well, Target continued their quest to be everywhere. The "frugal fashion" stalwarts like the Ross Stores, T.J. Maxx/Marshalls, and Nordstrom Rack made moves, as did specialty retailers Toys/Babies R' Us and Any Mountain; the discounters like Dollar Tree, $.99 Cent Only, and Big Lots kept pace; the fast-casual darlings like Panera Bread, Panda Express, and Chipotle further multiplied store counts, while Five Guys Burgers and Fries made a huge splash in the burger wars.

CVS and Walgreen's drug stores continued to multiply and Union and Chase Banks went head-to-head on prime locations, with a few other banks and credit unions making plays as well. However, the biggest players of the year were the grocery stores. While PW Markets closed shop, the void was quickly filled by grocers of all types: organic, ethnic, mainstream, and deep discount. Whole Foods, Sunflower Markets, Henry's Market, Sprouts Market, Mi Pueblo, Marina Foods, Safeway, Fresh and Easy, small format Wal Marts, Grocery Outlet, and Target all opened stores. It is mind-boggling to consider how they will all survive, but maybe that's next year's story?

SILICON VALLEY RETAIL MARKET

Retail Investments Hot

Retail sales and investment activity during the Great Recession had been practically non-existent because of extreme market volatility, lack of credit, and buyer-seller disconnect. Everyone was waiting for the other shoe to drop while war chests accumulated on the sidelines, ready for the banks to fire-sale their portfolios of distressed properties. However, it wasn't until the last quarter of 2009 that we were able to see a gradual increase in sales, as yield-seeking investors sought somewhere to place their long dormant cash. This progression followed into the new year and trended up throughout 2010, making it a solid year for the sales of retail properties.

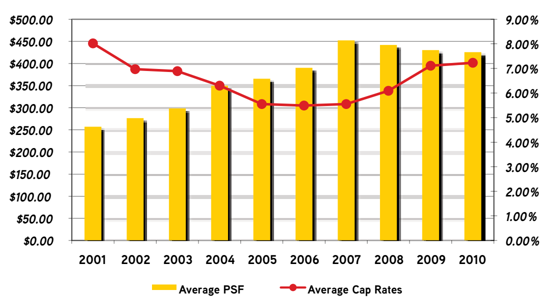
Quality, single-tenant net-leased properties, in a value range between $1-6 million dollars, were a hot commodity for both private and mid-tier institutional investors. With cap-rate yields from 7-8% and corporate-backed security, it made much more sense to put your money into these assets versus little-to-no yield in a bank CD or the stock market. By the end of the year, the amount of money flowing into these properties led to a return of cap-rate contraction to the sub-7% level, which translated to sales prices ranging from $325 to $375 per square foot.

It wasn't just little guys making plays in 2010, the big boys got in on the action as well. Large institutional investors finally deployed capital that had been gathering dust. Though not quite the steals they were hoping for, cash-heavy REITS were still able to acquire quality investment grade retail properties at relatively attractive prices. The San Jose Market Center, a 356,000-square-foot Target-anchored power center near downtown San Jose, sold to La Salle Investment Partners for a reported $400 per square foot; an approximate cap rate of 8.8%. Meanwhile, Vornado Realty Trust bought out the remainder of The Plant Shopping Center from its development partner, Westrust Properties. The rumored price was approximately $385 per square foot. Rounding out the year, The Sobrato Organization bought the 150,000-square-foot Homestead Square Shopping Center, which it plans to redevelop with a new line-up of regional and national tenants.

Looking Ahead

What will retail real estate in Silicon Valley look like in 2011? We are optimistic that retail leasing and sales activity will keep pace with the recovering national economy. Though it may still remain uneven and concentrated within the Valley's strongest trade areas and submarkets, we should see a greater rate of absorption and rental rate growth throughout the year. A lot will still depend on the Valley's ability to create jobs, which is now beginning to show some life. Already at a frenetic pace early in the year, we expect further contraction of cap rates in retail sales and investments, but not to a level that cannot be underwritten in the still-vigilant but awakening credit markets.

Silicon Valley Retail
Average Price and Cap Rate



Many box spaces left vacant during the recession by defunct retailers like Circuit City and Linens N' Things were (or are now) in the process of being filled by new tenants, mostly from the grocery and soft goods sector. Also, many of the vacant video stores were recycled by a number of different users, such as banks and restaurants.

Selected Colliers Retail Transactions

- **Pacific Capital Bank, NA** sold a 42,846-square-foot building at 7600 Monterey Street. The buyer was **Gilmont, LLC**.
- **Lion Market** leased 34,553 square feet at 2200 Tully Road in San Jose. **General Growth Properties, Inc.** is the landlord.
- **The Sobrato Organization** purchased the 151,000-square-foot Homestead Square shopping center at 20580-20680 Homestead Road in Cupertino. **FBJ Homestead Association, LLC** was the seller.
- **AutoZone, Inc.** leased 17,580 square feet at 2277 Alum Rock Avenue in San Jose. **FBJ Alum Rock, LLC** is the landlord.
- **William Chaddock, Trustee** sold a 40,044-square-foot retail building at 333-363 East 10th Street in Gilroy. **Ed Rossi** is the buyer.
- **Richard Bruhn** sold a 14,886-square-foot retail building to **Sil Vest, LLC** at 7533 Monterey Road in Gilroy.

SILICON VALLEY MARKET STATISTICS

SILICON VALLEY	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	15,203,866	24.68%	30,606,535	19.34%	5,811,736	10.31%	3,939,370	10.18%	55,561,507	17.64%
New Construction	509,494		0		0		0		509,494	
Net Absorption	-162,615		614,710		116,612		-32,307		536,400	
Gross Absorption	2,393,915		3,244,734		859,387		563,639		7,061,675	
3Q10										
Total Available	15,700,584	25.70%	32,463,129	20.52%	6,457,503	11.45%	3,780,663	9.77%	58,401,879	18.58%
New Construction	0		0		0		0		0	
Net Absorption	-690,105		-566,951		-422,226		-45,321		-1,724,603	
Gross Absorption	1,085,389		1,952,288		864,451		944,355		4,846,483	
2Q10										
Total Available	14,707,265	24.07%	32,534,052	20.56%	6,362,182	11.28%	3,941,077	10.18%	57,544,576	18.30%
New Construction	343,349		0		0		0		343,349	
Net Absorption	483,557		-1,637,503		-1,916		-166,040		-1,321,902	
Gross Absorption	2,072,850		2,030,474		673,936		710,804		5,488,064	
1Q10										
Total Available	14,980,935	24.66%	31,678,510	20.02%	6,971,066	12.36%	3,694,135	9.55%	57,324,646	18.25%
New Construction	0		0		0		0		0	
Net Absorption	-308,524		-959,172		-408,140		-361,078		-2,036,914	
Gross Absorption	1,315,560		1,977,576		662,715		464,419		4,420,270	
TOTALS										
New Construction	852,843		0		0		0		852,843	
Net Absorption	-677,687		-2,548,916		-715,670		-604,746		-4,547,019	
Gross Absorption	6,867,714		9,205,072		3,060,489		2,683,217		21,816,492	

CAMPBELL	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	479,022	22.72%	317,547	21.72%	82,537	17.72%	0	0.00%	879,106	20.94%
New Construction	0		0		0		0		0	
Net Absorption	17,000		-22,399		0		0		-5,399	
Gross Absorption	26,490		16,566		7,312		0		50,368	
3Q10										
Total Available	513,287	24.35%	340,776	23.31%	82,771	17.77%	0	0.00%	936,834	22.32%
New Construction	0		0		0		0		0	
Net Absorption	-45,276		-3,870		-28,177		0		-77,323	
Gross Absorption	81,132		72,117		11,364		0		164,613	
2Q10										
Total Available	498,050	23.63%	403,088	27.57%	56,194	12.06%	0	0.00%	957,332	22.80%
New Construction	0		0		0		0		0	
Net Absorption	-29,342		-19,468		16,296		0		-32,514	
Gross Absorption	57,408		18,805		18,740		0		94,953	
1Q10										
Total Available	491,009	23.29%	362,909	24.82%	72,490	15.56%	0	0.00%	926,408	22.07%
New Construction	0		0		0		0		0	
Net Absorption	50,094		-20,978		-9,857		0		19,259	
Gross Absorption	134,268		8,655		9,267		0		152,190	

CUPERTINO	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	378,224	11.45%	138,038	4.01%	0	0.00%	0	0.00%	516,262	7.65%
New Construction	0		0		0		0		0	
Net Absorption	166,142		130,899		4,000		0		301,041	
Gross Absorption	382,805		184,247		4,000		0		571,052	
3Q10										
Total Available	484,469	14.67%	308,535	8.97%	4,000	106.67%	0	0.00%	797,004	11.81%
New Construction	0		0		0		0		0	
Net Absorption	-52,442		-15,000		0		0		-67,442	
Gross Absorption	121,255		0		0		0		121,255	
2Q10										
Total Available	443,717	13.44%	302,896	8.81%	4,000	106.67%	0	0.00%	750,613	11.13%
New Construction	0		0		0		0		0	
Net Absorption	246,646		-136,942		0		0		109,704	
Gross Absorption	275,013		4,500		0		0		279,513	
1Q10										
Total Available	766,845	23.22%	316,794	9.21%	4,000	106.67%	0	0.00%	1,087,639	16.12%
New Construction	0		0		0		0		0	
Net Absorption	-231,620		0		-500		0		-232,120	
Gross Absorption	130,910		0		3,500		0		134,410	

FREMONT	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	505,139	30.79%	4,908,236	26.32%	427,242	4.92%	890,001	11.65%	6,730,618	18.38%
New Construction	0		0		0		0		0	
Net Absorption	7,222		-25,436		28,316		-186,414		-176,312	
Gross Absorption	35,799		454,167		108,607		150,661		749,234	
3Q10										
Total Available	506,336	30.86%	4,948,485	26.53%	537,674	6.19%	703,587	9.21%	6,696,082	18.29%
New Construction	0		0		0		0		0	
Net Absorption	-46,948		-208,341		-41,848		-19,492		-316,629	
Gross Absorption	28,180		171,105		38,571		180,018		417,874	
2Q10										
Total Available	467,232	28.48%	4,959,104	26.59%	509,108	5.86%	612,911	8.02%	6,548,355	17.89%
New Construction	0		0		0		0		0	
Net Absorption	-19,551		-182,093		-45,499		-126,888		-374,031	
Gross Absorption	14,032		335,547		60,090		37,060		446,729	
1Q10										
Total Available	430,154	26.22%	4,886,858	26.20%	495,144	5.70%	486,023	6.36%	6,298,179	17.20%
New Construction	0		0		0		0		0	
Net Absorption	3,500		-126,797		-1,698		57,748		-67,247	
Gross Absorption	42,747		617,897		84,016		142,280		886,940	

SILICON VALLEY MARKET STATISTICS

GILROY	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	43,604	22.88%	81,886	21.91%	358,929	26.73%	169,341	5.25%	653,760	12.74%
New Construction	0		0		0		0		0	
Net Absorption	1,775		0		-1,474		0		301	
Gross Absorption	1,775		0		1,755		0		3,530	
3Q10										
Total Available	45,379	23.81%	81,886	21.91%	357,463	26.62%	169,341	5.25%	654,069	12.75%
New Construction	0		0		0		0		0	
Net Absorption	95		0		9,016		0		9,111	
Gross Absorption	1,397		0		12,341		120,665		134,403	
2Q10										
Total Available	45,474	23.86%	81,886	21.91%	366,479	27.29%	169,341	5.25%	663,180	12.92%
New Construction	0		0		0		0		0	
Net Absorption	-2,640		50,000		-8,289		0		39,071	
Gross Absorption	0		99,080		15,809		127,514		242,403	
1Q10										
Total Available	42,834	22.47%	131,886	35.29%	358,190	26.67%	169,341	5.25%	702,251	13.69%
New Construction	0		0		0		0		0	
Net Absorption	1,997		0		-13,550		0		-11,553	
Gross Absorption	7,503		0		6,846		0		14,349	

LOS ALTOS	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	249,951	22.50%	0	0.00%	0	0.00%	0	0.00%	249,951	22.50%
New Construction	0		0		0		0		0	
Net Absorption	-130,833		0		0		0		-130,833	
Gross Absorption	13,599		0		0		0		13,599	
3Q10										
Total Available	215,311	19.38%	0	0.00%	0	0.00%	0	0.00%	215,311	19.38%
New Construction	0		0		0		0		0	
Net Absorption	-6,347		0		0		0		-6,347	
Gross Absorption	6,299		0		0		0		6,299	
2Q10										
Total Available	208,232	18.75%	0	0.00%	0	0.00%	0	0.00%	208,232	18.75%
New Construction	0		0		0		0		0	
Net Absorption	-101,001		0		0		0		-101,001	
Gross Absorption	108,951		0		0		0		108,951	
1Q10										
Total Available	109,064	9.82%	0	0.00%	0	0.00%	0	0.00%	109,064	9.82%
New Construction	0		0		0		0		0	
Net Absorption	20,454		0		0		0		20,454	
Gross Absorption	29,407		0		0		0		29,407	

LOS GATOS	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	215,890	24.18%	119,571	25.16%	10,295	158.38%	0	0.00%	345,756	24.87%
New Construction	0		0		0		0		0	
Net Absorption	-2,515		-10,173		0		0		-12,688	
Gross Absorption	13,034		20,599		0		0		33,633	
3Q10										
Total Available	238,697	26.74%	114,220	24.04%	10,295	158.38%	0	0.00%	363,212	26.12%
New Construction	0		0		0		0		0	
Net Absorption	-20,789		9,969		0		0		-10,820	
Gross Absorption	11,945		9,969		0		0		21,914	
2Q10										
Total Available	224,251	25.12%	130,721	27.51%	11,548	177.66%	0	0.00%	366,520	26.36%
New Construction	0		0		0		0		0	
Net Absorption	-6,005		10,443		-2,929		0		1,509	
Gross Absorption	37,542		26,043		0		0		63,585	
1Q10										
Total Available	221,842	24.85%	141,264	29.73%	8,619	132.60%	0	0.00%	371,725	26.73%
New Construction	0		0		0		0		0	
Net Absorption	-7,481		-4,805		1,500		0		-10,786	
Gross Absorption	25,063		0		1,500		0		26,563	

MILPITAS	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	272,088	26.70%	3,679,079	26.27%	447,395	15.57%	916,438	19.25%	5,315,000	23.46%
New Construction	0		0		0		0		0	
Net Absorption	8,444		-200,244		-60,366		66,868		-185,298	
Gross Absorption	59,206		55,983		97,923		66,868		279,980	
3Q10										
Total Available	261,216	25.63%	3,578,155	25.55%	483,094	16.82%	1,009,821	21.21%	5,332,286	23.53%
New Construction	0		0		0		0		0	
Net Absorption	-44,816		-168,770		2,962		-71,587		-282,211	
Gross Absorption	8,022		148,224		243,492		204,814		604,552	
2Q10										
Total Available	213,076	20.91%	3,509,976	25.06%	679,094	23.64%	1,084,302	22.77%	5,486,448	24.21%
New Construction	0		0		0		0		0	
Net Absorption	-3,775		39,594		-17,272		-153,133		-134,586	
Gross Absorption	5,269		169,943		42,257		50,562		268,031	
1Q10										
Total Available	212,625	20.86%	3,588,012	25.62%	867,269	30.19%	931,169	19.56%	5,599,075	24.71%
New Construction	0		0		0		0		0	
Net Absorption	-42,581		94,989		-23,171		-36,056		-6,819	
Gross Absorption	0		157,426		4,373		30,000		191,799	

SILICON VALLEY MARKET STATISTICS

MORGAN HILL	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	190,178	36.14%	384,293	14.29%	366,216	17.93%	47,000	12.21%	987,687	17.50%
New Construction	0		0		0		0		0	
Net Absorption	-62,936		47,367		-24,231		46,970		7,170	
Gross Absorption	1,511		47,367		0		92,003		140,881	
3Q10										
Total Available	138,212	26.26%	449,260	16.71%	364,445	17.84%	93,970	24.42%	1,045,887	18.54%
New Construction	0		0		0		0		0	
Net Absorption	636		0		4,870		0		5,506	
Gross Absorption	10,855		0		7,590		0		18,445	
2Q10										
Total Available	140,073	26.62%	463,755	17.25%	369,306	18.08%	93,970	24.42%	1,067,104	18.91%
New Construction	0		0		0		0		0	
Net Absorption	61		22,478		3,848		0		26,387	
Gross Absorption	1,286		49,343		3,848		35,000		89,477	
1Q10										
Total Available	140,134	26.63%	486,233	18.08%	373,154	18.27%	139,003	36.12%	1,138,524	20.18%
New Construction	0		0		0		0		0	
Net Absorption	-1,313		4,311		-15,500		-45,033		-57,535	
Gross Absorption	5,317		4,311		925		0		10,553	

MOUNTAIN VIEW	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	531,539	14.12%	2,115,909	15.14%	231,294	8.57%	0	0.00%	2,878,742	14.09%
New Construction	0		0		0		0		0	
Net Absorption	-50,241		-194,684		-288		0		-245,213	
Gross Absorption	95,218		94,835		67,519		0		257,572	
3Q10										
Total Available	455,833	12.11%	2,186,420	15.65%	245,106	9.08%	0	0.00%	2,887,359	14.13%
New Construction	0		0		0		0		0	
Net Absorption	-9,166		-136,558		-40,397		0		-186,121	
Gross Absorption	47,527		100,657		1,500		0		149,684	
2Q10										
Total Available	432,980	11.50%	1,952,310	13.97%	222,629	8.25%	0	0.00%	2,607,919	12.76%
New Construction	0		0		0		0		0	
Net Absorption	19,866		122,991		36,423		0		179,280	
Gross Absorption	137,387		310,255		67,959		0		515,601	
1Q10										
Total Available	447,143	11.88%	2,165,994	15.50%	290,944	10.78%	0	0.00%	2,904,081	14.21%
New Construction	0		0		0		0		0	
Net Absorption	20,118		-51,191		-57,844		0		-88,917	
Gross Absorption	116,557		100,371		26,559		0		243,487	

PALO ALTO	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	1,030,475	16.79%	1,509,807	14.67%	354,152	27.76%	0	0.00%	2,894,434	16.07%
New Construction	0		0		0		0		0	
Net Absorption	84,150		17,114		13,534		0		114,798	
Gross Absorption	263,792		34,710		32,651		0		331,153	
3Q10										
Total Available	1,172,996	19.11%	1,540,571	14.97%	345,706	27.10%	0	0.00%	3,059,273	16.98%
New Construction	0		0		0		0		0	
Net Absorption	23,766		122,473		16,700		0		162,939	
Gross Absorption	128,157		336,312		16,700		0		481,169	
2Q10										
Total Available	1,171,266	19.09%	1,836,197	17.84%	347,825	27.26%	0	0.00%	3,355,288	18.63%
New Construction	0		0		0		0		0	
Net Absorption	-82,467		-915,471		1,800		27,010		-969,128	
Gross Absorption	157,838		0		21,000		27,443		206,281	
1Q10										
Total Available	1,139,486	18.57%	687,534	6.68%	362,235	28.39%	27,000	8.77%	2,216,255	12.30%
New Construction	0		0		0		0		0	
Net Absorption	-101,105		-10,000		0		12,620		-98,485	
Gross Absorption	100,615		13,065		0		12,620		126,300	

SAN JOSE	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	5,714,347	23.76%	10,446,991	22.02%	2,213,024	9.77%	1,486,158	9.08%	19,860,520	17.97%
New Construction	218,349		0		0		0		218,349	
Net Absorption	-42,828		873,262		176,707		175,996		1,183,137	
Gross Absorption	801,817		1,482,573		367,386		235,047		2,886,823	
3Q10										
Total Available	5,870,787	24.63%	11,809,510	24.89%	2,473,442	10.92%	1,655,824	10.12%	21,809,563	19.77%
New Construction	0		0		0		0		0	
Net Absorption	-199,734		193,864		-337,006		-95,121		-437,997	
Gross Absorption	352,687		582,430		279,370		278,819		1,493,306	
2Q10										
Total Available	5,634,564	23.64%	12,127,704	25.56%	2,212,549	9.77%	1,661,559	10.15%	21,636,376	19.62%
New Construction	343,349		0		0		0		343,349	
Net Absorption	506,644		-599,770		919		91,046		-1,161	
Gross Absorption	869,342		684,707		229,278		422,425		2,205,752	
1Q10										
Total Available	5,692,953	24.23%	11,518,032	24.27%	2,423,712	10.70%	1,632,880	9.98%	21,267,577	19.34%
New Construction	0		0		0		0		0	
Net Absorption	-130,928		-300,564		-146,523		-334,855		-912,870	
Gross Absorption	246,475		373,859		324,569		169,494		1,114,397	

SILICON VALLEY MARKET STATISTICS

SANTA CLARA	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	2,447,495	26.77%	3,827,002	17.57%	826,122	7.51%	292,982	9.07%	7,393,601	16.37%
New Construction	0		0		0		0		0	
Net Absorption	-31,513		-17,855		-3,214		-107,087		-159,669	
Gross Absorption	242,456		402,910		152,630		0		797,996	
3Q10										
Total Available	2,505,397	27.40%	4,075,717	18.71%	1,057,596	9.61%	57,060	1.77%	7,695,770	17.04%
New Construction	0		0		0		0		0	
Net Absorption	-196,209		-365,744		9,348		72,689		-479,916	
Gross Absorption	244,087		179,077		242,797		72,789		738,750	
2Q10										
Total Available	2,115,641	23.14%	3,656,970	16.79%	1,092,873	9.93%	159,744	4.95%	7,025,228	15.56%
New Construction	0		0		0		0		0	
Net Absorption	-30,169		-40,276		-29,912		-4,075		-104,432	
Gross Absorption	287,281		124,654		127,657		10,800		550,392	
1Q10										
Total Available	2,172,872	23.77%	4,069,352	18.68%	1,092,729	9.93%	149,469	4.63%	7,484,422	16.57%
New Construction	0		0		0		0		0	
Net Absorption	185,660		-382,331		-69,765		32,198		-234,238	
Gross Absorption	468,049		262,864		183,876		110,025		1,024,814	

SUNNYVALE	OFC	% Avail.	R&D	% Avail.	IND	% Avail.	WHSE	% Avail.	Total	% Avail.
4Q10										
Total Available	3,110,927	41.70%	3,078,176	13.02%	494,530	14.77%	137,450	5.27%	3,880,357	18.41%
New Construction	291,145		0		0		0		291,145	
Net Absorption	-126,482		16,859		-16,372		-28,640		-154,635	
Gross Absorption	456,413		450,777		19,604		19,060		945,854	
3Q10										
Total Available	3,257,597	45.44%	3,029,594	12.82%	495,911	14.81%	91,060	3.49%	3,935,628	18.70%
New Construction	0		0		0		0		0	
Net Absorption	-88,238		5,026		-17,694		68,190		-32,716	
Gross Absorption	42,723		352,397		10,726		87,250		493,096	
2Q10										
Total Available	3,082,359	42.99%	3,109,445	13.16%	490,577	14.65%	159,250	6.11%	3,891,436	18.61%
New Construction	0		0		0		0		0	
Net Absorption	-3,745		11,011		42,699		0		49,965	
Gross Absorption	121,501		207,597		87,298		0		416,396	
1Q10										
Total Available	3,094,589	43.17%	3,323,642	14.06%	622,580	18.59%	159,250	6.11%	4,035,669	19.59%
New Construction	0		0		0		0		0	
Net Absorption	-75,319		-161,806		-71,232		-47,700		-356,057	
Gross Absorption	8,649		439,128		17,284		0		465,061	

SELECTED OFFICE MARKET STATISTICS

EXISTING PROPERTIES			VACANT AVAILABLE		OCCUPIED AVAILABLE		TOTAL AVAILABILITY			NET ABSORPTION		CONSTRUCTION		RENT
Type	Bldgs	Total Inventory Sq Ft	Direct Vacant	Sublease Vacant	Direct Occupied	Sublease Occupied	Sq Ft	Rate Q4-2010	Rate Q3-2010	Q4-2010	YTD	Completed Q4-2010	Under Constr	FS Wtd Avg Asking
SUB MARKETS														
CAMPBELL / LOS GATOS														
A	19	1,123,609	209,021	17,818	38,776	-	265,615	23.6%	27.9%	7,083	(16,067)	-	895	$2.42
B	89	1,705,002	276,269	3,171	102,566	-	382,006	22.4%	22.9%	4,587	(18,427)	-	-	$2.01
C	13	172,155	43,641	-	3,650	-	47,291	27.5%	27.7%	2,815	(9,819)	-	-	$1.63
Total	121	3,000,766	528,931	20,989	144,992	-	694,912	23.2%	25.1%	14,485	(44,313)	-	895	$2.18
CUPERTINO / SARATOGA														
A	8	734,525	68,579	64,801	-	-	133,380	18.2%	19.4%	739	56,733		-	$2.95
B	83	2,530,294	101,577	42,866	24,034	14,321	182,798	7.2%	14.3%	165,403	63,353	-	-	$2.53
C	22	290,394	14,122	-	-	-	14,122	4.9%	4.9%	-	(6,962)	-	-	$2.19
Total	112	3,555,213	184,278	107,667	24,034	14,321	330,300	9.3%	14.6%	166,142	113,124	-	-	$2.64
FREMONT / MILPITAS														
A	15	805,847	271,401	3,478	99,503	-	374,382	46.5%	45.5%	14,247	(79,785)	-	-	$1.82
B	38	1,218,040	257,178	14,139	57,301	2,750	331,368	27.2%	27.2%	7,565	(40,882)	-	-	$1.68
C	35	636,178	71,477	-	-	-	71,477	11.2%	10.9%	(6,146)	(17,838)	-	-	$1.70
Total	88	2,660,065	600,056	17,617	156,804	2,750	777,227	29.2%	28.9%	15,666	(138,505)	-	-	$1.76
GILROY / MORGAN HILL														
A	16	311,036	97,351	-	30,044	-	127,395	41.0%	22.4%	(59,962)	(61,170)	-	-	$2.29
B	7	120,088	53,479	-	-	-	53,479	44.5%	43.5%	(1,199)	(3,839)	-	-	$1.97
C	29	285,730	49,608	-	3,300	-	52,908	18.5%	21.6%	-	2,684	-	-	$1.35
Total	52	716,854	200,438	-	33,344	-	233,782	32.6%	25.6%	(61,161)	(62,325)	-	-	$2.19
LOS ALTOS														
A	9	231,534	106,064	-	-	-	106,064	45.8%	44.7%	(99,650)	(193,026)	-	-	$3.61
B	18	380,906	97,074	3,740	14,921	-	115,735	30.4%	22.8%	(28,186)	72,841	-	-	$2.88
C	39	498,356	27,938	214	-	-	28,152	5.6%	5.0%	(2,997)	(97,542)	-	-	$2.86
Total	66	1,110,796	231,076	3,954	14,921	-	249,951	22.5%	19.4%	(130,833)	(217,727)	-	-	$3.19
MOUNTAIN VIEW														
A	22	2,196,395	110,842	46,635	65,390	13,908	236,775	10.8%	9.7%	(16,578)	33,010	-	-	$3.57
B	45	1,085,736	201,068	18,093	22,114	3,913	245,188	22.6%	19.3%	(23,676)	(48,303)	-	-	$2.59
C	45	482,537	39,303	-	10,273	-	49,576	10.3%	7.1%	(9,987)	(4,130)	-	-	$2.73
Total	112	3,764,668	351,213	64,728	97,777	17,821	531,539	14.1%	12.1%	(50,241)	(19,423)	-	-	$3.02
PALO ALTO														
A	63	2,806,466	232,909	78,766	266,716	12,068	590,459	21.0%	23.4%	9,745	(81,551)	-	-	$4.48
B	104	2,400,415	192,585	100,730	61,508	1,500	356,323	14.8%	17.8%	76,179	7,732	-	-	$3.74
C	83	929,756	57,662	7,028	17,993	1,010	83,693	9.0%	9.5%	(1,774)	(1,837)	-	-	$3.21
Total	250	6,136,637	483,156	186,524	346,217	14,578	1,030,475	16.8%	19.1%	84,150	(75,656)	-	-	$4.15
SAN JOSE														
A	83	11,274,392	2,349,391	85,622	801,645	162,823	3,399,481	30.2%	32.8%	51,426	393,472	218,349	172,007	$2.52
B	239	8,586,576	1,238,059	15,100	233,030	1,412	1,487,601	17.3%	16.7%	(50,757)	(261,721)	-	-	$1.87
C	187	4,193,337	709,998	2,562	97,585	17,120	827,265	19.7%	19.4%	(43,497)	1,403	-	-	$1.66
Total	509	24,054,305	4,297,448	103,284	1,132,260	181,355	5,714,347	23.8%	24.6%	(42,828)	133,154	218,349	172,007	$2.25
SANTA CLARA														
A	31	4,431,204	530,291	259,051	123,969	166,000	1,079,311	24.4%	26.2%	1,830	146,803	-	365,000	$2.61
B	130	4,050,125	1,087,202	19,689	85,832	10,282	1,203,005	29.7%	29.5%	(23,640)	(178,333)	-	-	$1.73
C	40	660,949	155,335	-	9,844	-	165,179	25.0%	23.1%	(9,703)	(40,701)	-	-	$1.54
Total	201	9,142,278	1,772,828	278,740	219,645	176,282	2,447,495	26.8%	27.4%	(31,513)	(72,231)	-	365,000	$2.20
SUNNYVALE														
A	37	5,616,475	2,411,424	146,518	3,163	175,082	2,736,187	48.7%	53.3%	(86,762)	(225,068)	336,699	-	$3.27
B	57	1,372,356	225,700	7,198	12,391	-	245,289	17.9%	20.8%	(42,692)	(51,844)	-	-	$2.12
C	24	471,440	129,451	-	-	-	129,451	27.5%	28.1%	2,972	(16,872)	-	-	$2.00
Total	118	7,460,271	2,766,575	153,716	15,554	175,082	3,110,927	41.7%	45.4%	(126,482)	(293,784)	336,699	-	$3.14
SILICON VALLEY TOTALS														
A	303	29,531,483	6,387,273	702,689	1,429,206	529,881	9,049,049	30.6%	32.7%	(177,882)	(26,649)	509,494	537,902	$2.88
B	810	23,449,538	3,730,191	224,726	613,697	34,178	4,602,792	19.6%	20.3%	83,584	(459,423)	-	-	$2.11
C	517	8,620,832	1,298,535	9,804	142,645	18,130	1,469,114	17.0%	16.7%	(68,317)	(191,614)	-	-	$1.82
Total	1,630	61,601,853	11,415,999	937,219	2,185,548	582,189	15,120,955	24.5%	25.7%	(162,615)	(677,686)	509,494	537,902	$2.58
QUARTERLY COMPARISON AND TOTALS														
4Q-10	1630	61,601,853	11,415,999	937,219	2,185,548	582,189	15,120,955	24.5%	25.7%	(162,615)	(677,686)	509,494	537,902	$2.58
3Q-10	1627	61,092,359	11,324,887	1,181,239	2,442,748	751,710	15,700,584	25.7%	24.3%	(690,104)	(515,071)	-	916,856	$2.63
2Q-10	1627	61,092,359	11,156,073	968,025	2,120,150	617,067	14,861,315	24.3%	24.7%	483,557	175,033	343,349	914,494	$2.65
1Q-10	1625	60,749,010	11,391,293	1,163,064	1,798,898	627,680	14,980,935	24.7%	24.6%	(308,524)	(308,524)	-	1,059,908	$2.67
4Q-09	1625	60,749,010	11,190,686	1,058,841	1,774,345	919,023	14,942,895	24.6%	25.1%	379,539	(2,518,890)	-	1,076,398	$2.66

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General Terms

Availability: Vacant or occupied space that is offered for lease, sublease or sale (to an owner-occupant).

Build-to-Suit: A developable parcel that an owner will improve to suit the needs of a particular tenant. Construction does not begin until a tenant has committed to the property.

Building Base: Total square footage developed. Colliers tracks office buildings from 3,000 square feet, R&D from 5,000 square feet, industrial buildings from 7,500 square feet, and warehouse buildings from 10,000 square feet.

CBD: Central Business District, generally the downtown area of a major city.

Completed Construction: Construction which is completed during the period.

Direct Space: Space available through a landlord/owner.

Effective Net Absorption: Effective net absorption is a Colliers measurement of the net change in available space during a given period of time after adjustments for space taken off the market. Effective net absorption utilizes the same formula to measure change of occupancy as net absorption except that it treats any newly available space, whether available direct or for sublease, *as if it is coming onto the market vacant.*

Gross Absorption: The total square footage sold (to owner/occupants) or leased during a given time period.

Net Absorption: The net change in occupied space during a given period of time.

PSF: Per square foot.

PSF/MO: Per square foot per month.

SF: Square foot or square feet.

Silicon Valley: Colliers International defines Silicon Valley as all of Santa Clara County plus Fremont, for the purposes of its market reports.

Speculative Construction: Construction that will commence without any prior commitment from a tenant.

Sublease Space: Space available through a sublessor to a third party.

T.I.s: Tenant Improvements are a dollar amount offered by the lessor generally for the construction or modification of the premises.

Total Available: The sum of available direct and available sublease space.

Vacancy: Percentage of vacant inventory available including both vacant direct, and vacant sublease space.

Product Classification

Class "A" Office: Modern, steel-framed low, mid or high-rise structures used exclusively for office tenants.

Class "B" Office: Wood and steel mix framed low to mid-rise structures and older brick or concrete structures used predominately for office.

Industrial/Light Industrial: Buildings with drive-in and/or dock-high truck capabilities, clear heights of less than 20 feet and parking ratios of 2.0/1,000 or less.

Research and Development (R&D): One to three story structures with extensive glass, heavy office buildout and 3.5/1,000 parking ratio. Buildings may include high-end production facilities, laboratory space and grade level truck doors.

Warehouse/Distribution: Buildings with a minimum 20-foot clear height, dock-high truck loading and parking ratios of 2.0/1,000 or less.

Rental Terms

CAM: Common area maintenance charge. Generally used in Industrial Gross and NNN leases where the tenant pays a share of the costs associated with the maintenance of the common areas.

Full Service: Rental type generally used in office product where the landlord's rental rate contains all costs associated with occupying the premises inclusive of taxes, insurance, maintenance, janitorial, and utilities.

Industrial Gross: Rental type generally used in industrial product where the landlord's rental rate contains all costs associated with occupying the premises inclusive of taxes, insurance, and maintenance.

Rental Rates: All rental rates for office space are calculated on a Full Service basis unless otherwise noted. All rental rates for R&D, industrial and warehouse space are calculated on a NNN basis unless otherwise noted.

Triple Net (NNN): Rental type where the tenant pays rent to the landlord and additionally assumes all costs regarding the operation, taxes and maintenance of the premises and building.

UNDERSTANDING ABSORPTION

Colliers uses several measurements to track market conditions and deal flow. While related, the formulas to arrive at these measurements differ. Using the results from 2010, here is how Colliers measures change in availability, net absorption and effective net absorption.

Change in Availability: This measurement is simply the difference between the amounts of space available at the end of one period to the next. The table below shows that total available space was increased by 295,410 square feet in 2010. Note that "change in availability" includes adjustments for space that is "taken off the market". Space "taken off the market" is not a factor in net absorption measurements.

Total Available end of 2009	55,266,097
Plus: Vacant & occupied space that came available in 2010	22,176,517
Plus: New Shell added in 2010	852,843
2009 Available + Newly Available in 2010 =	78,295,457
Less: 2010 Gross Absorption	-21,816,492
Less: 2010 Adjustments/Taken off the Market	-917,458
Total Available end of 2010	55,561,507

Net Absorption: Net absorption measures the change in occupied space from one period to the next. In this measurement, it is important to distinguish that a building may be "available", but not vacant (often the case in a sublease situation, for example). Therefore, occupancy is not reduced (negative net absorption) until the space is vacated, and sometimes that does not happen until the space is leased, creating a net absorption "wash" for the deal and for that particular period.

Vacant space that came available 2010	-14,796,189
Previously available space that was vacated in 2010	-11,567,322
2010 Total Vacant Added (occupancy loss)	-26,363,511
2010 Gross Absorption (occupancy gain)	21,816,492
2010 Net Absorption (change in occupancy)	-4,547,019

Effective Net Absorption: In 2003, Colliers created a measurement of "effective net absorption" to help account for large amounts of sublease space that had come on the market without adversely impacting net absorption (because much of this sublease space was technically still occupied). Effective net absorption uses the same formula as net absorption, except that it treats any space that comes available as if it is vacant, whether it is or isn't. The purpose of the measurement is to get a better "real time" gauge of space movement on and off of the market.

The use of effective net absorption is most relevant in quarterly snapshots and when sublease offerings are high. Effective net absorption does not reconcile at a later date when available space is taken off the market or when current occupants end up renewing. Neither of those events impact net absorption, but they will have already been recorded as negative effective net absorption. For that reason, its measurement over extended periods of time in not advised and Colliers is not presently recording it or reporting on it in any annualized fashion.

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