

San Jose, California

Tenant's Guide ■ North American Markets ■ Fourth Quarter 2009

Overview

The bad news is that Silicon Valley had one of the highest year over year unemployment rate increases in the country rising 4.7% to end at 11.8% in November of 2009. The good news is that the unemployment rate in October was 12%, and perhaps that small dip is an indication that the worst of the job losses are behind us. We had predicted higher unemployment for the 4th quarter, but instead we are now optimistic that the Valley may experience slow to moderate hiring in the months ahead especially in some high tech sectors. As for real estate, there is some more good news since the tenant's market is continuing for the foreseeable future. There is an availability of over 38,000,000 square feet of office and R&D space within the greater Silicon Valley, so we do not anticipate lease rates climbing until more space is absorbed. Though lease rates have fallen for ten straight quarters, it is possible for rates to stabilize toward the middle of the year for high quality, well located properties, as evidenced by Cortina Software signing the first lease for new class A Office (shell) product in three years, perhaps establishing a new floor value for that specific asset class.

Market Trends

- Still no real demand in the market for class A office space.
- High percentage of active transactions resulting in lease renewals.
- Established companies take advantage of market values and will purchase real estate when possible.
- Tenant's market to continue throughout 2010.
- Existing new class A shell office product may begin to lease as rates fall to meet competitive market demands.

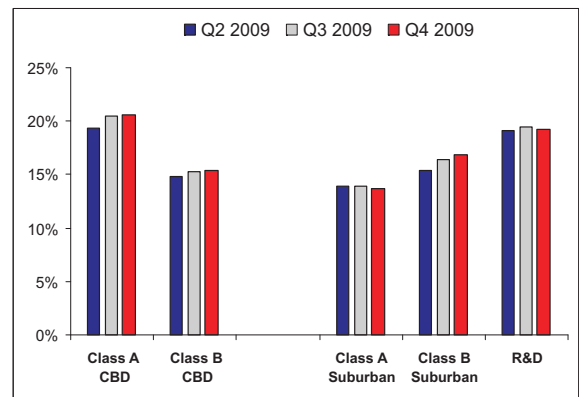
Tenant's Perspective

The 4th quarter resulted in an unexpected amount of larger transactions as R&D and office transaction demand and volume picked up, and many companies that had been in the market finally pulled the trigger. Still, the opportunities for tenants remain plentiful in all sectors of the Valley. This market is ideal for tenants to plan and leverage their requirements against market conditions in order to obtain and achieve maximum concessions and lease flexibility. In order to take advantage of this continued "down market", tenants should seek to lock in longer lease terms and purchase real estate whenever possible.

Major Transactions

| Tenant/Buyer | Size | Type | Lease/Sale |
|-----------------------|---------|------------|------------|
| Solyndra | 506,000 | R&D/Mfg | Lease |
| Juniper Networks | 424,000 | Office/R&D | Renewal |
| Harmonic | 188,000 | Office/R&D | Lease |
| Aruba Networks | 151,000 | R&D | Renewal |
| Harris Stratex | 128,500 | Office/R&D | Lease |
| Synnex Corp | 101,000 | R&D/Mfg | Purchase |
| UltraTech Stepper | 97,000 | Office/R&D | Renewal |
| County of Santa Clara | 90,000 | Office/WH | Lease |
| Cortina Software | 62,000 | Office | Lease |
| GSI Technology | 45,000 | Office R&D | Purchase |

Vacancy Rate



Average Rental Rates

| | Q2 2009 | Q3 2009 | Q4 2009 |
|-----------------|---------|---------|---------|
| CBD | | | |
| Class A Office | \$31.23 | \$31.12 | \$30.22 |
| Class B Office | \$24.95 | \$23.18 | \$23.10 |
| Suburban | | | |
| Class A Office | \$27.55 | \$25.07 | \$25.00 |
| Class B Office | \$22.78 | \$21.36 | \$20.40 |
| R&D | \$13.64 | \$12.60 | \$12.20 |

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