



San Jose, California

Tenant's Guide ▪ North American Markets ▪ Fourth Quarter 2011

Overview

Leasing and sale activity slowed somewhat in Q4 2011; however, vacancy rates declined, and lease rates continued to rise. The pace in Q4 did not match that of Q2-Q3, and with the debt crisis heating up again in Europe, 2012 may be flat compared to 2011 overall, providing tenants a breather from this area's predominately landlord's market. The Lower Peninsula continues to drive rates and for tech titans remains the most desirable location, with average lease rates up 30% this year in that submarket. We expect upward rate pressure to push south. Santa Clara County's unemployment rate sits at 9.2%, down from 10% a year ago. As predicated, several class A "spec" developments are breaking ground now and over within the next two quarters to meet demand in this highly sought-after product type.

Market Trends

- Class A office and R&D facilities continue to drive the market, and rates are climbing to support new developments in the Lower Peninsula (Palo Alto through Sunnyvale).
- Demand for campus-type projects are acquisition targets for successful tech companies, driving up rates and values for that product type.
- Developers seek enhancements or increases in entitlements and FAR coverage for class A developments, especially in well-located high-tech corridors, advancing the trickle-down effect to other segments of the market and upward pressure on property values.

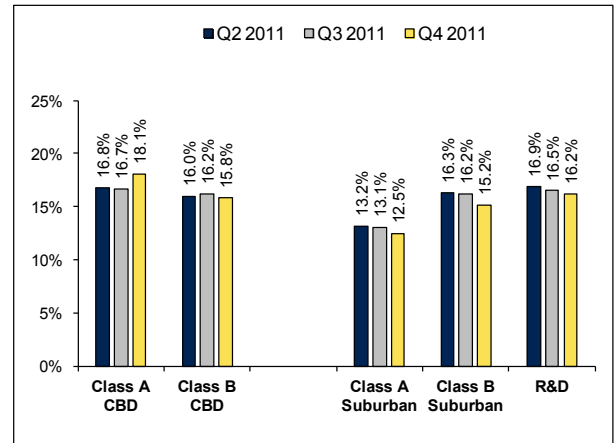
Tenant's Perspective

While market conditions have generally favored the landlord, we believe that the market may be showing signs of a slowdown from the torrid pace in Q2 and Q3. That said, landlords still have lofty expectations of a run-up recovery materializing, so as always, we suggest that tenants be proactive and develop schedules and project budgets early on in the process. Flexibility will be necessary in this current market cycle, as it remains difficult to locate affordable space in the most desirable areas of the Valley in the short term.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
LinkedIn	373,000	Office/R&D	Lease
Synopsis	340,000	Office/R&D	Lease
Apple	325,000	Office/R&D	Lease
Avaya	275,000	Office/R&D	Renewal
Micro-Semi	179,000	Office/R&D	Lease
Flextronics	150,000	Office	Lease
Financial Engines	81,000	Office/R&D	Lease

Vacancy Rate



Average Rental Rates

CBD	Q2 2011	Q3 2011	Q4 2011
Class A Office	\$32.15	\$32.15	\$33.10
Class B Office	\$24.45	\$24.45	\$25.45
Suburban	Q2 2011	Q3 2011	Q4 2011
Class A Office	\$27.35	\$27.40	\$31.40
Class B Office	\$21.60	\$21.75	\$24.75
R&D	\$15.05	\$15.25	\$15.25

