

MARKETBEAT



SAN FRANCISCO PENINSULA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

4Q10

ECONOMY

The San Francisco Peninsula's unemployment rate was 8.7% at the end of 2009 and ended 2010 at 9.3%. With demand for products and services still down, employers have not had the need to increase their headcount.

Redwood City based Pear Therapeutics, a life sciences company that focuses on developing treatments for chronic respiratory diseases, led venture capital (vc) funding for the quarter with \$69 million. In all, life science companies generated \$191.0 million in vc funding compared to \$96.3 million received by software companies and \$89.0 million received by cloud computing companies.

OVERVIEW

The 15.5% regional overall office vacancy rate is down from 17.0% at year-end 2009. The San Francisco Peninsula's north and south counties overall vacancy rates of 15.6% and 14.9% respectively, are down from the 19.0% and 15.8%, respectively, at year-end 2009. This decline in vacancy is due to continued strong leasing activity in the San Francisco Peninsula office market during the year which ended at 3.8 million square feet (msf) compared to the 2.2 msf recorded during 2009.

The Downtown Palo Alto submarket appeared to be immune to the sluggish economic recovery ending the year with 4.0% overall vacancy compared to the Non-Stanford Research Park market of 8.1%. Leasing highlights for this submarket include Sheppard Mullin's lease of 30,255 square feet (sf), Palantir Technologies' lease of 28,219 sf and Jive Software's lease of 18,541 sf.

Fourth quarter 2010 new leasing activity included Nextag leasing 49,000 sf in San Mateo, Volkswagen Group of America leasing 39,762 sf in Belmont and Terarecon leasing 30,073 sf in Foster City.

Lease renewal activity for the quarter was 15.4% of the total leasing activity and included TSA's (Transportation Security Administration) renewal of 27,049 sf in South San Francisco and Shopping.com's renewal of 25,028 sf in Brisbane. One investment sale was recorded for the quarter: BioMed Realty Trust purchased a 108,000-sf class A biotechnology building in South San Francisco. No speculative office building projects are currently under construction or currently scheduled to break ground in 2011.

FORECAST

New mergers, acquisitions, and the inherent consolidation associated with both have left the demand for expansion space non-existent. This has resulted in 71.8% of the newly-constructed office buildings remaining vacant. This new shell inventory will have to be significantly reduced before any significant reduction in vacancy and increase in absorption can occur.

BEAT ON THE STREET

"The Bay Area Council announced that business confidence increased from 56% to 58% during the past three months. The results indicate that more companies in the Bay Area will be hiring employees in the next six months. We've already sent some excellent office tenant activity during 2010 and expect even better for 2011. Office rent on the SF Peninsula will increase in the Central and South Peninsula during 2011."

-Scott Ennis, Senior Director

ECONOMIC INDICATORS

	2009	2010	2011F
National			
GDP Growth	-2.6%	2.8%	2.8%
CPI Growth	-0.3%	1.6%	1.5%
Regional			
Unemployment	8.7%	9.3%	8.9%
Employment Growth	-5.4%	-2.8%	-0.1%

Source: Moody's | Economy.com

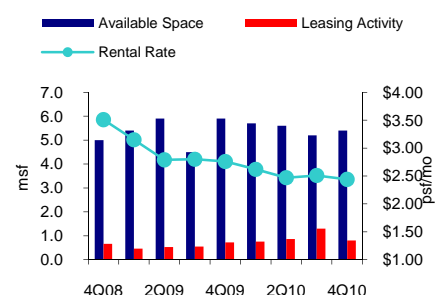
MARKET FORECAST

LEASING ACTIVITY for the year was 66.2% higher than in 2009 and is expected level off during the first half of 2011.

DIRECT ABSORPTION for the year was a positive 172,046 sf for the year and is expected to remain stable the first half of 2011.

CONSTRUCTION: There are no speculative projects under construction or scheduled to break ground this year.

OVERALL MARKET TRENDS



MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
South San Francisco	4,048,651	42	23.3%	15.9%	190,221	0	0	(5,558)	21,993	\$2.19
San Bruno	1,589,458	15	11.2%	10.4%	384,757	0	0	(10,924)	40,945	\$2.07
Daly City	887,297	12	5.7%	5.7%	32,033	0	0	(3,144)	(3,144)	\$2.66
Millbrae	180,068	7	7.9%	7.9%	0	0	0	(13,000)	(13,000)	\$0.00
Burlingame	2,500,074	55	13.6%	13.3%	173,590	0	0	60,964	75,380	\$2.08
Brisbane	798,934	10	8.9%	7.8%	96,732	0	0	42,946	42,946	\$2.35
San Mateo	6,553,246	87	18.1%	15.8%	835,441	0	0	77,295	86,372	\$2.35
Foster City	2,053,603	22	11.6%	10.1%	260,954	0	0	(50,770)	(21,033)	\$2.76
Belmont	577,946	7	36.4%	34.0%	83,151	0	0	16,362	2,667	\$2.25
San Carlos	636,540	9	51.0%	47.7%	105,566	0	0	(113,014)	(89,887)	\$2.30
Redwood City	3,610,279	64	18.0%	8.1%	220,492	0	0	77,676	(159,568)	\$3.09
Menlo Park	2,649,048	67	13.0%	8.0%	156,281	0	23,011	(62,172)	(98,184)	\$5.12
Palo Alto (Non-SRP)	4,231,763	102	8.1%	4.9%	633,852	0	0	90,047	227,389	\$3.97
Palo Alto (SRP)	1,464,876	21	3.2%	3.2%	92,210	0	0	(18,044)	43,984	\$4.69
Redwood Shores	3,101,362	42	16.6%	15.4%	504,563	0	0	83,382	86,845	\$2.54
Total	34,883,145	562	15.5%	12.2%	3,769,843	0	23,011	172,046	243,705	\$2.62

* RENTAL RATES REFLECT \$PSF/MONTH

MARKET HIGHLIGHTS

SIGNIFICANT 2010 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
850 Cherry Avenue	San Bruno	Walmart.com	266,000	A
395 Page Mill Road	Palo Alto	AOL (America on Line)	224,850	A
1 Lagoon Drive	Redwood City	Equinix, Inc.	78,976	A
3055 Clearview Way	San Mateo	Solar City	68,025	B
950 Tower Lane	Foster City	Quinn Street	63,998	A
SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
8000 Marina Boulevard	Brisbane	Diamond Associates	192,000	\$30,000,000
180 Oyster Point Boulevard	South San Francisco	BioMed Realty Trust, Inc.	108,000	Part of a Portfolio Sale
1730 South El Camino Real	San Mateo	JKL Corporation	43,378	\$5,300,000
SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

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