

Silicon Valley

Class A Office / R&D Insight

Q4 2009

Economy

The pace of high-tech job losses slowed considerably in the second half of 2009, providing much needed relief for the Silicon Valley. Unemployment in Santa Clara County remains elevated at 11.2 percent, although it is beginning to trend downward. Clean technology and social networking are one of few growth industries, as exemplified by Solyndra (500,000 s.f.), Tesla motors (350,000 s.f.) and Facebook (250,000 s.f.) all signing large-block, long-term deals in the fourth quarter.

The Valley's lifeline (venture capital) has been severely affected by the recession. Fundraising efforts in 2009 declined to lows last seen in 1993 for the number of placements and 2003 for total dollars committed. However, the public markets pipeline is beginning to reopen with eight Valley start-ups preparing for 2010 IPO's, with more speculated to join the foray including Facebook, Linked-In and Zynga.

Market Conditions

Leasing velocity picked up significantly in the fourth quarter, although this was perceived to be more cyclical in nature than indicative of a broad trend expected to persist into 2010. The feel-good story of quarter stemmed from two leasing transactions that finally reduced the 3.4 million square feet of unoccupied new supply that started coming online in 2007. Chip maker Rambus leased 120,000 s.f. in the seven-building, 1.5 million square foot Moffett Towers development in Sunnyvale, while Cortina Systems leased 63,000 square feet down the street in the two-building, 120,000 square foot Bordeaux Center. It is important to note that the Bordeaux Center was foreclosed upon earlier in the year and is now being operated by its lender, Wrightwood Capital. Distress levels in the Valley remain subdued in comparison to other major CBD and suburban markets across the US, although there is unease about the possibility of a spike in troubled assets hitting the market in 2010.

Another positive note in the quarter came from Harmonic, who leased a 188,000 square foot Cisco Systems developed building that remained a vacant cold shell since its completion in 2004. This transaction nearly completes the absorption of the remaining shell space from the last development cycle. These transactions along with completed leases by Juniper Networks (renewal), Facebook (expansion), Deloitte (renewal), WilmerHale (relocation) and Trend Micro (renewal) have provided positive momentum moving into 2010 where more Class A leasing activity is anticipated. The challenge is making net gains in overall occupied space in the Valley, which would start to bring market fundamentals closer to the recovery cycle.

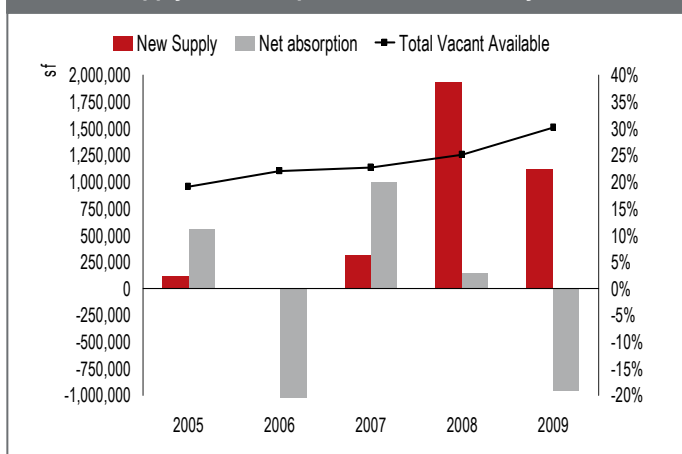
Outlook

Conditions are expected to remain tenant favorable throughout the course of 2010. Headcount growth will dictate the pace of the recovery and will need to absorb a significant percentage of the market's unoccupied supply to shift to fundamentals into the recovery stage of the real estate cycle.

Key market indicators*			12-month forecast
Supply	Supply (Office)	29,106,029 sf	▲
	Supply (R&D)	4,943,942 sf	▲
	Total available rate (Office)	33.0%	▼
	Total available rate (R&D)	47.9%	▼
	Under construction (% preleased)	20,578 (0%)	▼
Demand	Q-O-Q leasing activity % change (Office & R&D)	338%	▼
	4Q09 net absorption (Office)	118,014 sf	▲
	4Q09 net absorption (R&D)	25,664 sf	▲
Pricing	Direct office asking rent (FSG)	\$3.06 FSG	▼
	Direct R&D asking rent (NNN)	\$1.41 NNN	▼
	Sublease office asking rent (FSG)	\$2.60 FSG	▼
	Sublease R&D asking rent (NNN)	\$1.57 NNN	▼

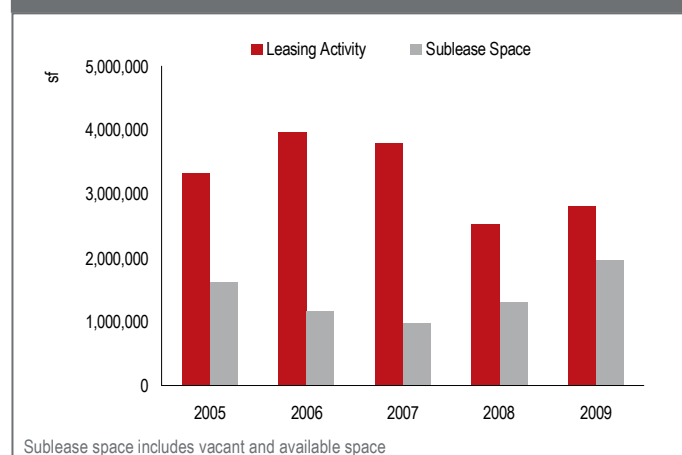
* Class A Office & R&D

Net new supply, net absorption and total vacancy*



* Class A Office & R&D

Leasing activity vs. sublease vacant available space



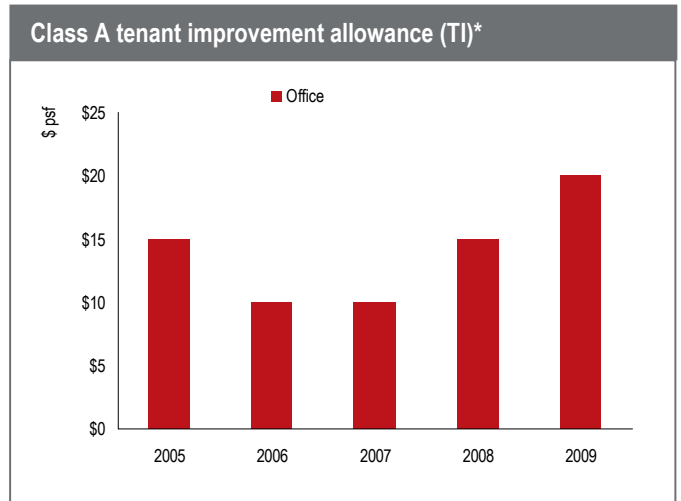
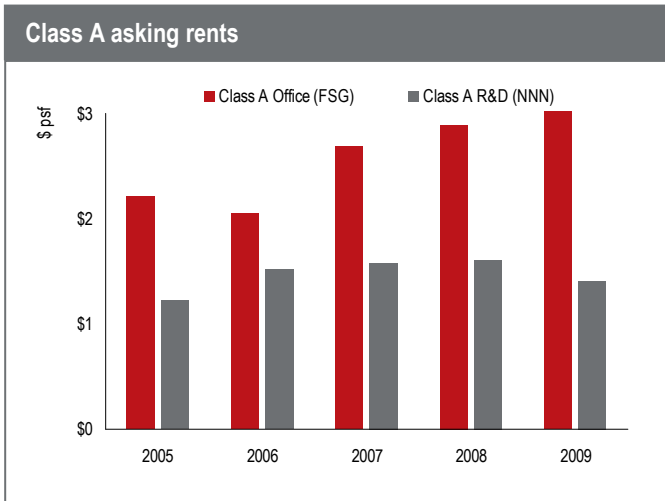
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Tenant perspective

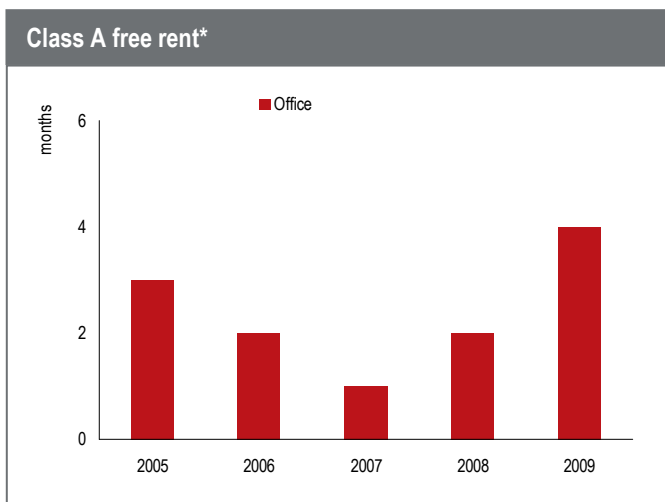
Negotiating leverage is expected to remain tenant favorable across the Silicon Valley in 2010. The only exceptions will be select micro markets including Downtown Palo Alto, Downtown Mountain View and Cupertino where neutral conditions exist. Tenants are presented with abundant high quality leasing availabilities at cyclical low rents that are complimented with significant tenant incentive packages. Uncertainty in the capital markets remains top of mind for tenants as they evaluate landlord profiles and their ability to perform. The varying cost basis of landlords and financial terms they are capable of offering has created major discrepancies between comparables, making a clear cut trend difficult to define. The only consensus is that tenants remain in a position of leverage and that the window of opportunity to will remain open well throughout 2010.

Landlord perspective

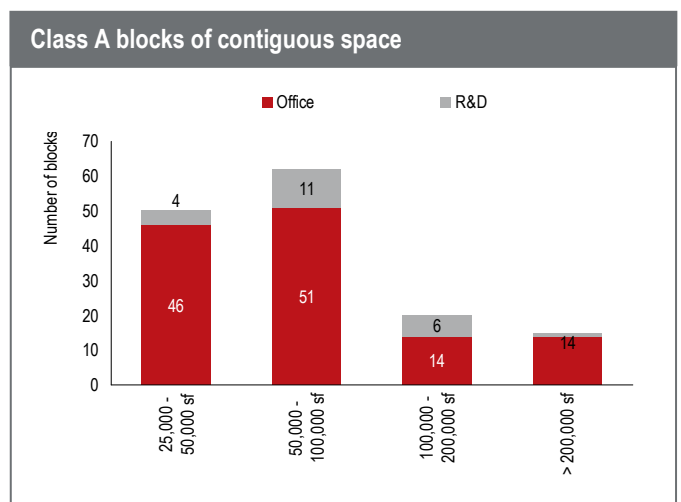
A string of large-block leasing transactions by some of the Valley's strongest credit tenants towards year-end provided landlords confidence heading into 2010. The largest leasing deals of the year were primarily renewals, although several high profile relocations/expansions were signed, suggesting that the "flight to quality" movement is underway. Still, 2009 was characterized by corporate downsizing that led to significant occupancy losses and reduced property income. Headcount growth is the key to the markets' recovery and rehiring looks to be at least one year out with unemployment only beginning to show signs of stabilizing. Landlords continue to aggressively compete for active tenant requirements, and will remain challenged in this environment by ample low-cost sublease availabilities with significant remaining term. This combined with low tenant demand will keep asking rents under downward pressure over the course of 2010.



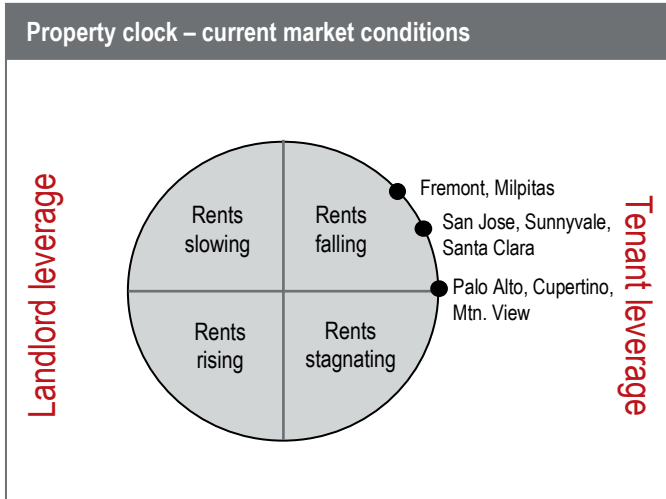
* Based on 5-year direct term in 2nd generation space



* Based on 5-year direct term in 2nd generation space



Based on available space per building. Existing buildings only.



Submarket leverage – market history and forecast

Submarket	2007	2008	2009	2010	2011
Palo Alto	Landlord-favorable	Balanced	Tenant-favorable	Balanced	Landlord-favorable
Mountain View	Balanced	Balanced	Tenant-favorable	Balanced	Balanced
Sunnyvale	Balanced	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable
Santa Clara	Balanced	Tenant-favorable	Tenant-favorable	Tenant-favorable	Balanced
San Jose	Balanced	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable
Cupertino/West Valley	Landlord-favorable	Balanced	Balanced	Balanced	Landlord-favorable
Milpitas	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable
Fremont/Newark	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable

Landlord-favorable conditions
 Balanced conditions
 Tenant-favorable conditions

Completed Class A lease transactions

Tenant	Address	Submarket	sf	Type
Juniper Networks	1884-1220 N Mathilda Ave	Sunnyvale	424,825	Renewal (Office)
Harmonic	4300 N 1 st Street	San Jose (Alviso)	188,331	Direct (Office)
Deloitte	225 W. Santa Clara Street	Downtown San Jose	147,000	Renewal (Office)
Rambus	1040 Enterprise Way	Sunnyvale	120,000	Direct (Office)
WilmerHale LLP	950 Page Mill Road	Palo Alto	71,410	Direct (Office)
StemCells, Inc.	3155 Porter Drive	Palo Alto	68,162	Renewal (R&D)
Cortina Systems	1380 Bordeaux Drive	Sunnyvale	63,000	Direct (Office)
Trend Micro	10101 N De Anza Blvd.	Cupertino	53,225	Renewal (Office)

Completed Class A sale transactions

Address	Submarket	Buyer/Seller	SF	\$PSF
20300 Stevens Creek Blvd	Cupertino	Walton Street Capital / Symantec	300,041	\$147

Class A under construction

Address	Submarket	Developer / Anchor Tenant	SF	Delivery Date
49 Wells Avenue	Downtown San Jose	Federal Investment Realty Trust	20,578	Q2-10

Silicon Valley methodology: Inventory includes all Class A office properties > 10,000 square feet, excluding all condo, medical and government owned buildings, and owner occupied buildings (unless owner occupant is listing space for lease). South San Jose is no longer counted for statistical purposes.



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