

SILICON VALLEY MARKET REPORT



FIRST QUARTER 2004

MARKET OVERVIEW

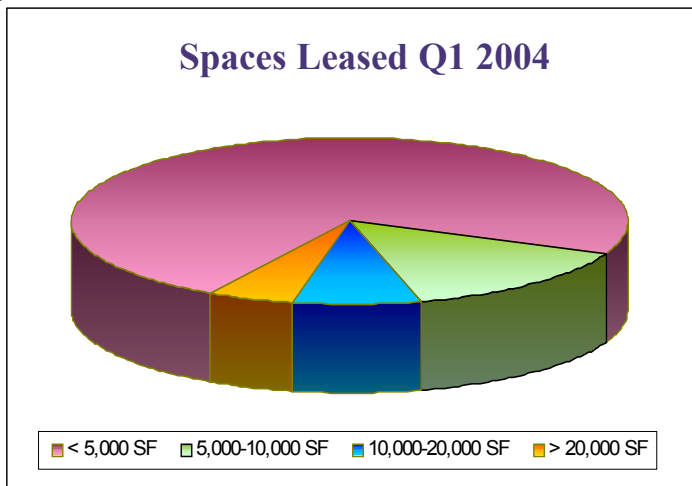
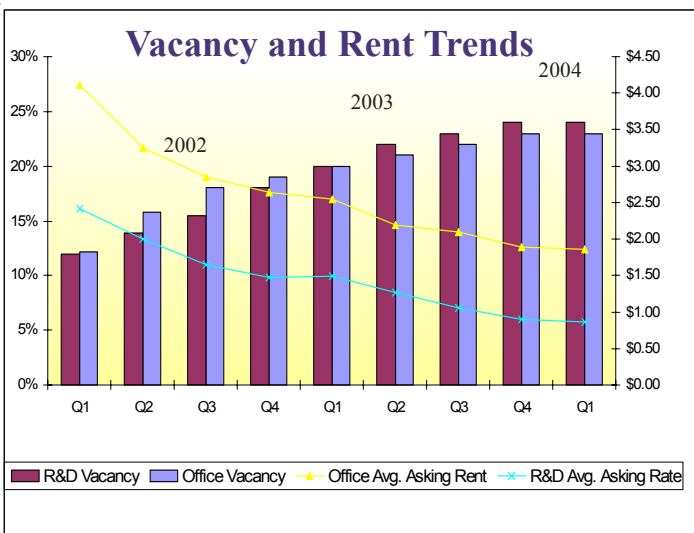
THE BAY AREA is finally beginning to see the recovery that has been touted in the media for more than a year now. Companies are more optimistic and have an interest in discussing real estate and how to capitalize on this tenants' market. Venture capitalists are also more positive. Investments are increasing which has helped put young companies in the market for new office space. This is in stark contrast to just six months ago when companies and VC's sat idle.

Office and R&D space is no longer flooding onto the market. Over the last quarter, the market experienced slight upward pressure on rents for smaller suites in quality product. However, a bleak future remains for large single-user buildings as outsourcing continues to gain popularity. Although our concerns used to lie primarily with manufacturing buildings, we foresee the continued outsourcing of human capital posing leasing problems, even for single-user office/flex product.

OFFICE MARKET

	Class A	Class B	Class C
Avg. Asking Rate (F\$)	\$1.92	\$1.83	\$1.53
Vacancy	22%	23%	12%
Direct Space (SF)	4,611,108	2,703,470	416,586
Sublease Space (SF)	1,638,459	1,140,887	174,221
Avg. Days on Mkt	209	240	269

TENANTS UNDER 5,000 SF made up the bulk of activity in the office sector. However, the first quarter of 2004 saw an up-tick in large deals as well. While the larger moves were mostly lateral, meaning no additional square footage was leased, it showed that there is a desire to upgrade space and often achieve a



lower rental rate. The downside of these lateral moves, or "flight to quality" as they are known in real estate circles, is that the space left behind is usually undesirable, and in some cases, not leasable. The market is awash in class C space that most companies do not want. As the market tightens up for quality space, it will be interesting to see how landlords and financial institutions deal with the remaining product.

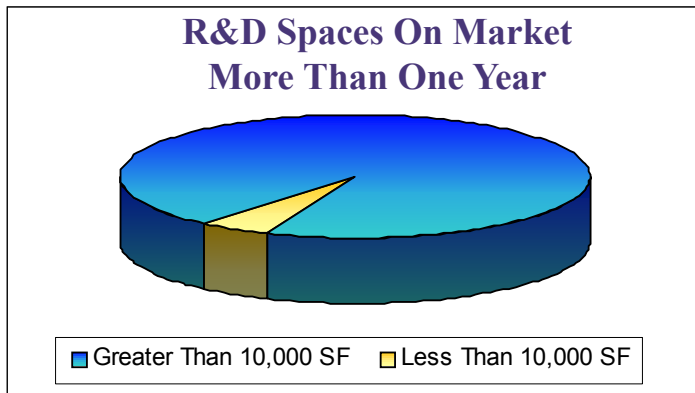


R&D MARKET

	Class A	Class B	Class C
Avg. Asking Rate (NNN)	\$0.97	\$0.81	\$0.73
Vacancy	23%	27%	12%
Direct Space (SF)	4,259,025	18,202,705	3,851,239
Sublease Space (SF)	2,076,110	7,317,214	938,170
Avg. Days on Mkt	325	334	276

DEVELOPMENTS IN THE R&D SECTOR are similar to those seen in the office sector. Activity in the market for smaller space was heavy as companies upgraded their image. We continue to see an increase in larger deals each quarter, a notable improvement from a few years ago.

The major challenge the R&D market faces is the abundance of buildings 50,000 SF and larger, designed to accommodate one or two users. These buildings make up a high percentage of Silicon Valley's inventory as well as a large percentage of the vacancy. Improved information technology has allowed not just the multinationals, but many local companies, to outsource manufacturing and customer service jobs to India,

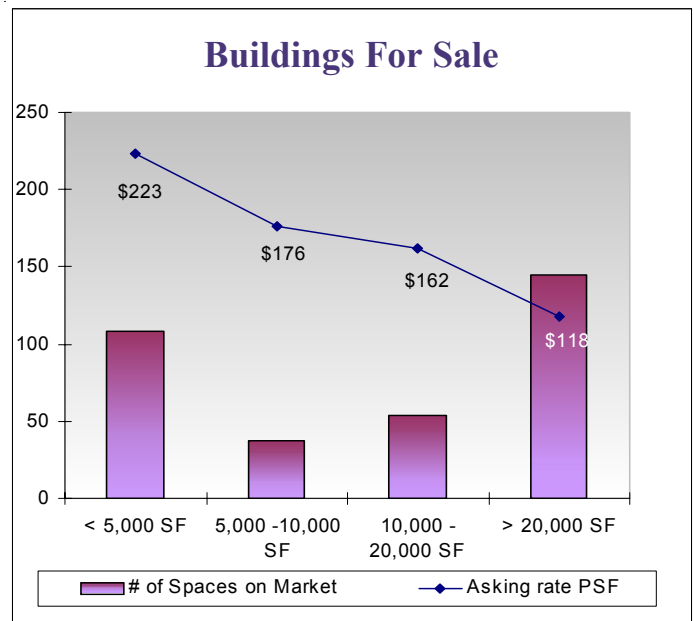


China and Mexico. This is driving companies to give up significant amounts of square footage in the more expensive Silicon Valley market. Nothing we have seen to date, short of potential protectionist policies, appears likely to stem this tide.

We see this as an evolution of the market itself, not simply a temporary market downturn. Many of these buildings are now functionally obsolete and will either have to be torn down or drastically reconfigured in order to meet the demands of today's market.

INVESTMENT MARKET

THE OWNER-USER MARKET remains, by far, the hottest real estate niche. Many tenants are taking advantage of low interest rates to purchase buildings and eliminate vulnerability in high rental markets. For buildings less than 20,000 SF, sale prices are well above replacement cost. In the larger square footage range (20,000 SF and higher) buildings can be purchased at more competitive prices, although it is still challenging to purchase an investment property



which delivers a competitive return. Nonetheless, large companies are still opting to invest in real estate. Last year, eBay and Marvell both purchased large campuses. This year, the City of Santa Clara and Telemundo have invested in large real estate assets in Silicon Valley as well.