



SILICON VALLEY MARKET REPORT



SECOND QUARTER 2004

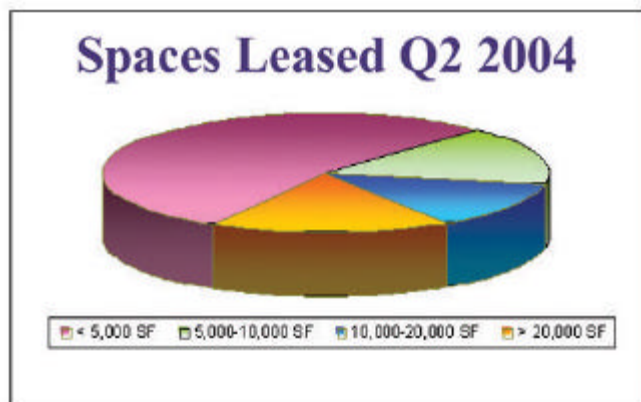
MARKET OVERVIEW

SILICON VALLEY IS BUZZING and the signs of growth and recovery in the Bay Area are now unmistakable. The manufacturing sector is rebounding, consumer spending is increasing and the housing market remains strong. Bay Area companies are watching their profits rise and are using some of their newfound money to finance much needed investments in technology & equipment upgrades. In fact, according to the Silicon Valley Business Journal, 76% of CEO's believe that overall economic conditions in the second quarter of 2004 improved over the past year. This is all good news for Silicon Valley.

capacity and are looking for space to either supplement their existing facilities or relocate the entire company. In addition, increased VC funding is spurring many start-ups to lease office space and many companies continue to upgrade their image while reducing their monthly rent.

OFFICE MARKET

	Class A	Class B	Class C
Avg. Asking Rate (FS)	\$1.99	\$1.82	\$1.50
Vacancy	26%	19%	14%
Direct Space (SF)	4,831,688	2,429,387	414,984
Sublease Space (SF)	1,321,317	698,101	273,288
Avg. Days on Mkt	300	267	311



Things on the commercial real estate front are looking up as well. According to an informal poll taken of brokers, landlords, lenders, and builders within the South Bay, activity is picking up across the board. Six months ago, the majority of the activity in the real estate market was based around small lateral moves which did not reduce vacancy. However, today small companies are growing and a handful of large companies are in the market for new space. While most companies are still trying to accommodate head count growth by using their existing space more efficiently, many have reached

QUALITY OFFICE PRODUCT has continued to experience healthy demand. For the first time in more than three years, a greater number of small Class A office spaces are being leased than comparable spaces are being vacated. Prices are firming, and as a result, tenants are signing longer term leases to lock in these historically low rates. The majority of Silicon Valley companies are looking beyond 12 months and planning for future growth.

Recently, we have noticed that when our clients have toured a space of interest and decided to submit a proposal, the space may already be leased or be too far along in negotiations. While this phenomenon is taking place, it should not be interpreted that options are limited. There are still opportunities for tenants to capitalize on the current market conditions. With public companies continuing to write-down space on their books, opportunities to sublease space for a tremendous discount are plentiful.



R&D MARKET

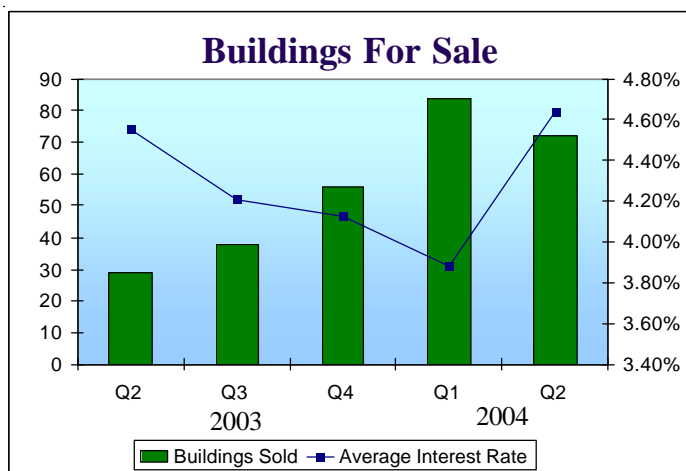
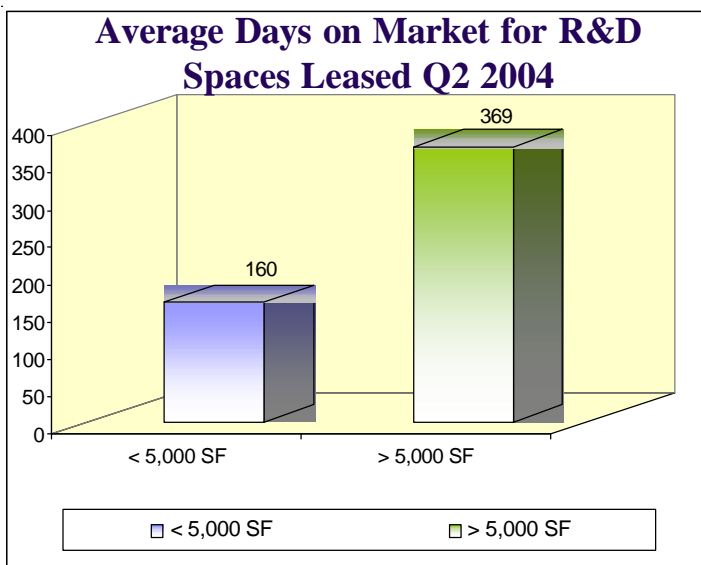
	Class A	Class B	Class C
Avg. Asking Rate (NNN)	\$0.93	\$0.80	\$0.73
Vacancy	21%	26%	16%
Direct Space (SF)	3,629,601	18,468,213	3,701,224
Sublease Space (SF)	2,014,005	6,439,749	843,783
Avg. Days on Mkt	417	377	344

Although we are still in a tenant's market, it appears the market is firming and will be healthier heading into the second half of 2004.

INVESTMENT MARKET

ACTIVITY INCREASED throughout the R&D sector this quarter. Although the majority of the activity centered around spaces under 5,000 square feet, there was increased demand for medium and larger sized spaces as well.

THE OWNER-USER MARKET continues to flourish as individuals and companies scramble to locate buildings they can own. As interest rates creep up, there is a rush to lock in the low rates.



Class A R&D product is leading the market with quality spaces moving off the market more quickly than older product. Landlords have noticed this trend and are often renovating their buildings on spec to improve marketability. In many cases, landlords realize that the risk of spending tenant improvement dollars on alterations that might be torn out without ever being utilized, is outweighed by the increased marketability and reduced downtime. Due to increased activity, we have encountered landlords who are requesting longer lease terms and higher asking rates.

NOTABLE TRANSACTIONS

- **San Jose** - Tessera renewed their lease for 51,000 SF at 3099 Orchard Drive
- **Fremont** - Cyberhome leased 246,000 SF at 48350 Fremont Boulevard
- **San Jose** - Agere Systems subleased 76,000 SF from Redback Networks at 250 Holger Way
- **Santa Clara** - Good Technology leased 69,000 SF at 4250 Burton Drive
- **Sunnyvale** - OKI Semiconductor leased 78,000 SF at 785 N. Mary Avenue
- **Santa Clara** - Webex leased 161,449 SF at 3985 Freedom Circle