

OVERVIEW

The mid peninsula market continues on a slow yet steady course of stabilized vacancy rates and gently rising rental rates. The wild upswing and subsequent crash of the late 1990's and early 2000's has morphed into a substantially less exciting but considerably more stable and dare we say, mature market. While the technology sector continues to wait for the next big thing (due around 2008 if the historical 10 year cycles continue) the area's real estate market sputters forward in deliberate fashion.

The market is marked by emerging technology tenants in the 3,000 – 25,000 square foot range seeking primarily open office space with some perimeter private offices and a 3-5 year term. Some anomalies exist of course, but that is what they are, anomalies. Large deals, those characterized as 50,000 square feet and up are few and far between. Buildings designed to accommodate large users of 100,000 square feet and more will consistently stay on the market until the owner decides to divide the building to accommodate smaller tenants.

Property owners hoped that biotechnology would continue to emerge as the exception to this rule. As this sector continues to mature, expand and diversify, space users of 75,000 – 125,000 square feet will increasingly dot the horizon. Once centered almost exclusively in South San Francisco, lab users are now found scattered down the length of the peninsula and into Mountain View. The effects of the acquisition of young biotechnology firms by established drug companies remain to be seen, however, a potential dampening of the appetite for larger regional facilities is a cause for concern.

MARKET TRENDS

- Biotech remains robust. Existing inventory of lab space remains tight.
- Landlord leasing concessions have been substantially reduced.
- Inventory levels and vacancy rates have solidified.
- Landlord's with strategic goals conducive to biotech and medical device users will flourish.
- New institutional property owners enter the market through portfolio acquisitions.

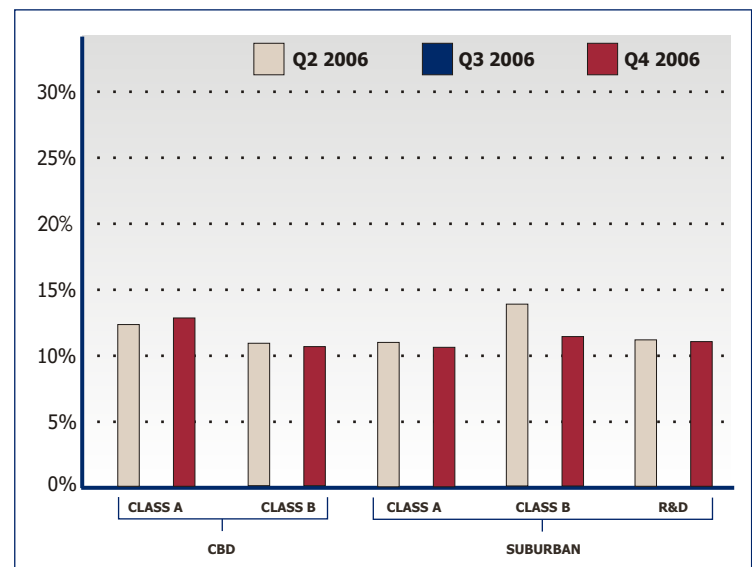
TENANT'S PERSPECTIVE

Landlords continue their hopeful anticipation of significant upward pressure on rental rates, however, the underlying market refuses to cooperate. Rental rates are relatively flat with nothing on the horizon to indicate a coming change. New institutional owners of property portfolios will scratch and claw to push rates upward in order to justify the optimistic projections of their purchase proformas. Tenants would be wise to test the market widely with determined efforts to create as much competition for their tenancy as possible.

Major Transactions Fourth Quarter 2006

Tenant	Size	Type	Lease/Sale
Affymax	80,000	R&D	Lease
Cordis	19,483	R&D	Lease
VM Ware	19,631	R&D	Lease

Vacancy Rate



Average Rental Rates

	Q2 2006	Q3 2006	Q4 2006
CBD			
Class A Office	\$1.45	\$1.40	\$1.45
Class B Office	\$.95	\$.90	\$.95
Suburban			
Class A Office	\$1.30	\$1.35	\$1.35
Class B Office	\$.95	\$.95	\$.95
R&D	\$1.30	\$1.35	\$1.40

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