

THE POLETTI PERSPECTIVE

Northern San Mateo County Industrial Lease Market

Throughout the first half of 2006, the decreasing vacancy trend has continued and landlords have begun experiencing increased pricing power. This is certainly a welcome change for many landlords, who experienced long periods of vacancy and low rental rates over the past couple of years. As the negotiating power in the market has shifted during the past year, tenants and landlords are currently on relatively even ground with neither party typically holding a distinct advantage in lease negotiations. This can be seen as a sign of a healthy, well-balanced market.

As vacancy rates have dropped to approximately 6%, many tenants are finding it difficult to locate suitable facilities and are forced to be creative in solving space needs. This real estate issue can be complicated by expansion or contraction requirements, which may not necessarily coincide with a lease expiration. Fortunately, the decreasing vacancy has made it easier for tenants to sublease unwanted facilities and therefore move on to better real estate situations. The decreasing vacancy rate makes it imperative for tenants interested in relocating to begin searching for new locations earlier than previously necessary. Tenants may need to monitor the market for months before finding a suitable location and jump on the right opportunity when it presents itself, even if the timing isn't perfect in regards to a lease expiration.

Landlords will no longer find it necessary to exercise maximum flexibility to attract new or keep existing tenants. An increasingly common trend involves tenants renewing because of the inability to locate a superior warehouse to the one currently occupied. However, landlords should be cautious not to get overconfident with the increasingly favorable market. Depending on the many aspects of an available building and competing buildings, some properties continue to sit vacant for months before attracting a tenant. With rental rates increasing gradually but slowly, it remains difficult to recapture lost revenue due to vacancy.

Northern San Mateo County Industrial Sale Market

The sales market has remained strong despite the persistent threat of increasing interest rates. Industrial buildings continue to sell to both industrial owner/users and biotech developers. Small stand-alone buildings and industrial condos between 1,500 and 10,000 square feet remain is the hottest segment of the market. These buildings typically sell quickly, with multiple offers and at terms favorable to the sellers. The price these properties generate varies widely depending on size, location, functionality, building quality and numerous other factors. Small industrial condos have generated a price as high as \$300 per square foot numerous times over the past year. However, slightly larger properties between 7,000 and 10,000 square feet many times generate less than \$200 per square foot. With this wide disparity in sales prices, appraising these properties is difficult and the only way to determine the true value is by selling the building on the open market.

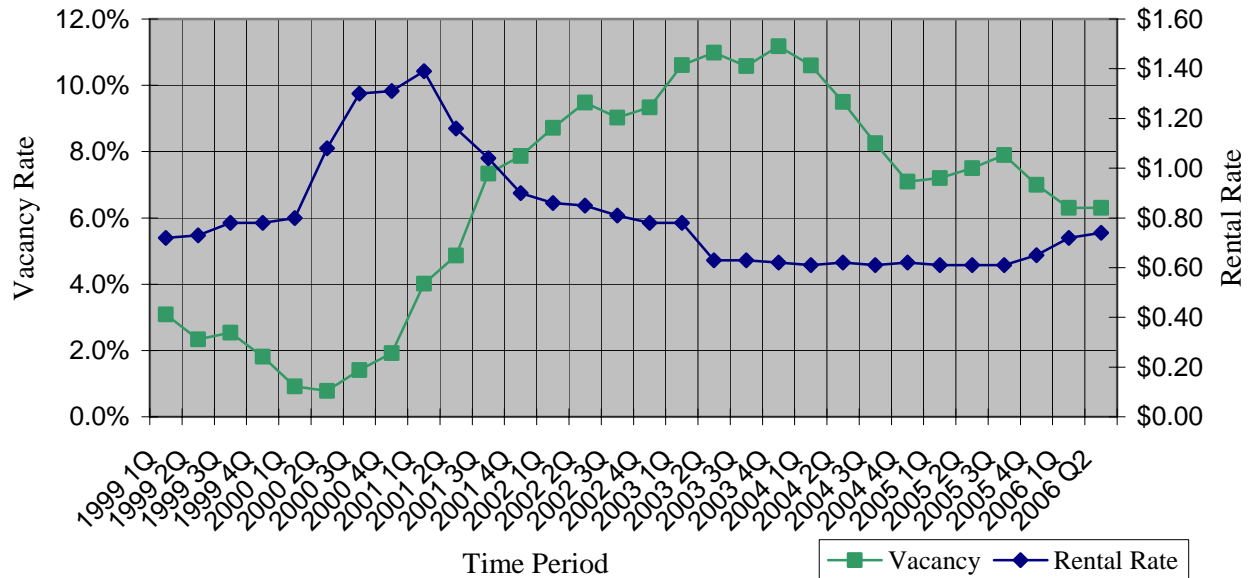
Demand for purchases of larger owner-user industrial buildings has remained strong throughout the first half of the year. The limiting factor to the number of building sales is not determined by demand, which remains strong despite rising interest rates, but rather the limited supply of quality buildings on the market for sale at reasonable prices. There have been a few properties sold in South San Francisco between 15,000 and 20,000 square feet for approximately \$150 per square foot during the first half of 2006. These transactions have set a new standard for higher sales prices being generated by medium sized industrial buildings.

Poletti Realty And Karl Hansen

Karl Hansen specializes in the sale and leasing of warehouse and office buildings in Northern San Mateo County. In 2004 and 2005 he closed commercial real estate transactions worth over thirty million dollars in total consideration. Twenty-eight of the transactions involved office buildings while the other forty-nine were warehouse deals. Twelve of the transactions were sales, while the other sixty-five were leases. Some of his clients include Public Storage (AMEX: PSB), Super Shuttle, Orkin Pest Control (ROL), FleetCor Technologies Inc., Standard Fiber, Nancor Holdings, Panalpina, South San Francisco Classroom Teachers Association. Karl works closely with Richard Poletti, Ray Zapletal and Lou Poletti at Poletti Realty to form a dynamic team with over 100 years of commercial real estate experience in leasing, sales, property management and development.

Poletti Realty currently exclusively represents numerous landlords and tenants in Northern San Mateo County. Furthermore, we are in contact with dozens of landlords and tenants with upcoming real estate needs. Please contact Poletti Realty to discuss how we can help you best fulfill all future real estate requirements or for detailed information on current market conditions. Additionally, our firm can provide a free property valuation or analysis of a firm's real estate requirements. Further information on Poletti Realty and our current listings can be viewed on our website at www.polettirealty.com.

Historical Vacancy and Rental Rate



For Lease: 151 Mitchell Ave., SSF
24,474 SF Total 5,000 SF of Office
7 Grades, Dock, 3 Phase 2000 Amp



For Sale: 30 Tanforan Ave., SSF
7.3 Acres, 146,406 SF of Buildings
Industrial Use or Development Site



Lease: 1364 San Mateo Ave., SSF
5,000 SF of Office at \$1.35 per SF



For Lease: 317 Corey Way, SSF
4,000 SF Total, Dock High Door
800 SF of High End Office

Karl Hansen Recent Selected Deals

Leased: 231 S. Maple Ave., SSF
28,000 SF Dock/Grade Warehouse
Leased: 272 S. Maple Ave., SSF
28,000 SF Warehouse with Yard
Leased: 470 S. Airport Blvd., SSF
25,000 SF Retail/Warehouse Bldg
Leased: 114 S. Maple Ave., SSF
14,000 SF Bldg & 20,000 SF Yard
Sold: 1364 San Mateo Ave., SSF
55,000 SF Warehouse \$8,525,000
Sold: 841 W. San Bruno Ave., San
Bruno, 10,000 SF Office Building
Sold: 80 Tanforan Ave., #10, SSF
4,000 SF Warehouse Condo Unit
Sold: 70 14th Street, San Francisco
3,000 SF Industrial Building
Sold: 1405A Huntington Ave., SSF
3,000 SF Office/Warehouse Condo

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