

FINAL REPORT

**SAN JOSE REDEVELOPMENT AGENCY
ECONOMIC, REAL ESTATE, ASSESSED VALUE
AND REVENUE FORECAST
2009 UPDATE**

BY

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EXECUTIVE SUMMARY

The US economy is in what Warren Buffet has sagely described as “uncharted territory.”¹ What appeared to be a normal recession to nearly all observers in mid-2008 morphed into a monster in the late Fall of that year. The collapse of several major financial institutions brought the nation and much of the world to the brink of another Depression. The US economy has finally started to recover in mid-2009, as we forecast last year, but the hole we are climbing out of is far deeper than expected. The hi-tech sector is leading the way in the recovery and the initial culprit, housing, is finally recovering. The problem is that much of the recovery comes from massive, unsustainable, federal expenditures and financial bailouts. As of today, there is no clear federal exit strategy to sustainable growth.

Because of this national near collapse, Silicon Valley’s losses of jobs and assessed values proved far more severe than expected. Silicon Valley has outperformed the nation, as forecast, but better than disastrous is of limited comfort. The key problem is that the now panicked U.S. financial sector has reduced financing for even good loans, even to Silicon Valley’s relatively prosperous companies and their customers. This reduced access to capital by Silicon Valley and its customers has resulted in job losses of over 40,000, emptying over 6 million sq. ft. of space and lease rates dropping by over 7% so far. Even though job losses have stopped, and Silicon Valley has started to recover, the recovery will not be strong enough to produce growth in assessed values by the assessment date of January 1, 2010 for FY 2010-11 assessments. In 2010, the recovery will continue but since the commercial property sector lags the economy, FY 2011-12 assessed values should still be stagnant. Strong growth in assessed values, 7-9%, should resume in FY 2012-13.

In this second half of 2009, the nation is finally climbing out of its financial debacle and resuming growth. Vast infusions of public money have stabilized the financial sector and bailout funding is finally kicking-in. Energy prices have retreated to

¹ W. Buffett, New York Times, op.ed. August 18, 2009

tolerable levels and home values have stabilized in most locations. Asia, especially China and India, is continuing to grow and will lead the world out of this recession. This is the first time in living memory that the US has not led the world's economic recovery. However, unemployment, having already reached 9.8%, shows no signs of significant decline and will probably exceed 10% sometime in the next 12 months. The key remaining problems are threefold: banking, commercial real estate and Federal deficits. The banks that lost billions in high risk loans to shakey mortgage customers are now unwilling or unable to make good loans to good customers. These financing problems have impacted corporations and businesses in Silicon Valley and their customers, worldwide. Once banks stabilize and return to "normal" lending practices, Silicon Valley's growth will re-accelerate. While housing is stabilizing nationwide, commercial real estate is still declining with sales volume down by more than 80%.

The broader long-run problem is that Federal expenditures and bailouts cannot continue for much longer at current levels in the face of unprecedented Federal deficits now expected to hit 13% of GDP. Such much-loved programs as "Cash for Clunkers" felt good for a few months, but what happens now? Key "too big to fail" firms such as GMAC, AIG, GM and Chrysler are still bleeding money, but further bailouts are unlikely. The only long run answer to these problems is some politically uncomfortable combination of more taxes, fewer bailouts, less government expenditure, more inflation and a declining dollar. The choice among these bitter medicines will determine the long-run future of both the nation and Silicon Valley. For forecasting purposes, we assume that policymakers will create a workable package by doing some, but not too much of all the above.

Nationally, the current recession is much worse than 2001, but the opposite is true for Silicon Valley. Silicon Valley firms were far better prepared this time, and while cutbacks have been uncomfortable, the Valley's key companies are performing relatively well, as evidenced by their relatively robust stock performance.

The locally severe 2001 recession, the unusual recovery that followed and the impact on revenues of the San Jose Redevelopment Agency are the reason for this report. Faced with a substantial and unexpected drop in FY 2004-05 revenues, the Redevelopment Agency engaged Spectrum Economics to perform a detailed forecast of the Agency's revenues. That report and the ones that followed covered key factors that drive those revenues: Assessed Values, the local Real Estate Market, the Local Economy and the National Economy. The 2004 report was followed by updates in 2005, 2006, 2007 and 2008. This report updates those earlier forecasts and provides a new forecast through 2013.

This report provides a detailed independent economic analysis. It is based on economic indicators and other data. Spectrum Economics now anticipates SJRA revenue to stabilize in 2010-12 and resume significant growth thereafter. The reason for long-run optimism remains the same: the world's consumers are still falling in love with new versions of high tech products, and competitive pressures continue to force businesses to invest in new technology. These fundamental drivers of Silicon Valley growth remain strong. Even with Silicon Valley's slow-down, it continues to outperform the U.S. and California economies. The worldwide technology sector is already leading the world economy out of this recession.

This growth is substantially dependent on the construction of several major projects: Brocade, Equinix, eBay, Irvine, Hitachi GS, Adobe, North San Pedro, Block 3, the Wyse projects and Block 8. Without these projects, revenue growth would be significantly slower. The Assessed Value and Revenue forecast is summarized in Table 1, and Silicon Valley's history in these categories is shown in Table 2.

RESULTS OF PAST FORECASTS

Spectrum's forecasts continue their record of accuracy. The projected assessed value for FY 2009-2010 was only 2.0% above the actual. Compared to actual assessed values, the forecasts have consistently been in the range of +/- 2.5%. The difference between the forecast for 2009-10 and actual events was the result of a dramatic decline in national economic performance and a resulting significantly worse than expected growth in the local economy.

ECONOMY IN MID-2009

- U.S. economic growth slowed sharply in early 2009 but appears to have resumed at moderate rates at mid-year. The economic consensus is the recession ended in June but there are yet few signs of a strong recovery.
- Demand for computers, software, and communications equipment continues to grow faster than the overall economy.
- Silicon Valley is now more than fully sharing in the employment growth of the national recovery of the high-tech sector. After years of seeing other cities outpacing high tech employment in Silicon Valley, the region is once again the center of U.S. high-tech growth.
- As of September 2009, Silicon Valley is already showing signs of renewed growth.: employment is growing in manufacturing and in the key indicator area of temporary employment. The employment forecast is described further in Table 3.

COMMERCIAL REAL ESTATE

- Silicon Valley's Commercial real estate sector is far stronger than the nation's. Silicon Valley's owners of commercial real estate are relatively strong and unlikely to be forced into foreclosure. With relatively limited job loss, Silicon Valley's vacancy levels are tolerable and should soon start to decline.
- Silicon Valley Commercial Real Estate lease rates and prices have dropped due to high vacancies. Assessed Values and sales prices dropped even faster than lease rates, so most of the damage was already felt in the 2009-10 assessments.
- Local real estate markets are closely linked: lease rates are effectively set at the County level. San Jose and SJRA vacancy and lease rates follow the County averages. The current status and history of the Commercial Real Estate Market are shown in Tables 4-9.
- Space use per employee is stabilizing at current high levels.
- Pre-leasing has ended.
- The R&D/Industrial market now has 20% vacancies, but many of those vacant buildings must now be treated as obsolete and having little impact on the market.
- Based on our employment forecast, lease rates and assessed values are likely to be flat through calendar 2010 (FY 2011-12)
- Currently planned construction of new space and sales of existing space are likely to be large enough to make up for and further declines in values in 2010 (FY2011-12).
- Since the relationship between SJRA and County lease rates appears reasonably constant, we can use the more reliably projected County lease rate growth projections to estimate value change in the SJRA.

- The local economic recovery now expected for late 2010 will lead to later but substantial rates of increase in lease rates and values in both the Office and R&D market. The rent forecast is shown in Table 9.

RESIDENTIAL PROPERTY

- The primary new growth factor in the redevelopment project areas is residential.
- Eight residential projects, worth approximately \$1.3 billion, account for most of this residential growth. These projects are: Fairfield, Hitachi GS, Block 3, North San Pedro, Irvine, Wyse and Block 8.
- These seven projects account for nearly 30% of the SJRA's projected revenue growth between now and 2014.

PERSONAL PROPERTY

- The Assessed Value of equipment in the SJRA (about 20% of the total AV) dropped dramatically from 2001 through 2003, stabilized in 2004, increased steadily from 2005 through 2007 and then dropped by 7% in 2008 (FY 2009-10)
- We anticipate a sharp recovery in equipment values in 2011, followed by a return to slow growth thereafter.

ASSESSED VALUES

- Because of Prop. 13, the connection between Market Values and Assessed Values is extremely complex. Ideally, detailed data is necessary on past sales, construction, and market values by type of property to make a precise forecast. Each year's sales and new construction is a separate "cohort" or age group that must be tracked separately.

- Fortunately, the Assessor's Office provided us with age cohort data in 2008. We now have actual data on assessed values for each age cohort of properties for calendar 2007 (FY 2008-09).
- Forecasting Assessed Values also requires a forecast of future construction. We began with a list of current projects provided by the SJRA. Given market conditions and actual permit status, we now expect few further delays in these projects. The SJRA expected new project list is shown in Table 10.
- New residential construction has slowed significantly but should reaccelerate in 2011 and later.
- Given the confusing combination of continued national economic difficulties, signs of local recovery, and very few actual sales, the Assessor will face unusually high levels of controversy about Prop. 8 re-appraisals this coming year. It is impossible to precisely predict his actions and the results of appeals. With few actual sales, the Assessor and the Appeal Board will have more latitude for judgment than ever.
- Aggregate Office and Industrial Assessed Values are likely to stabilize this year and in 2010 and then resume growth
- The Assessed Value analysis is shown in Tables 11-13. The sum of these forecasts resulted in the Summary Forecast, Table 1.

CHARTS

CHART 1 SILICON VALLEY EMPLOYMENT

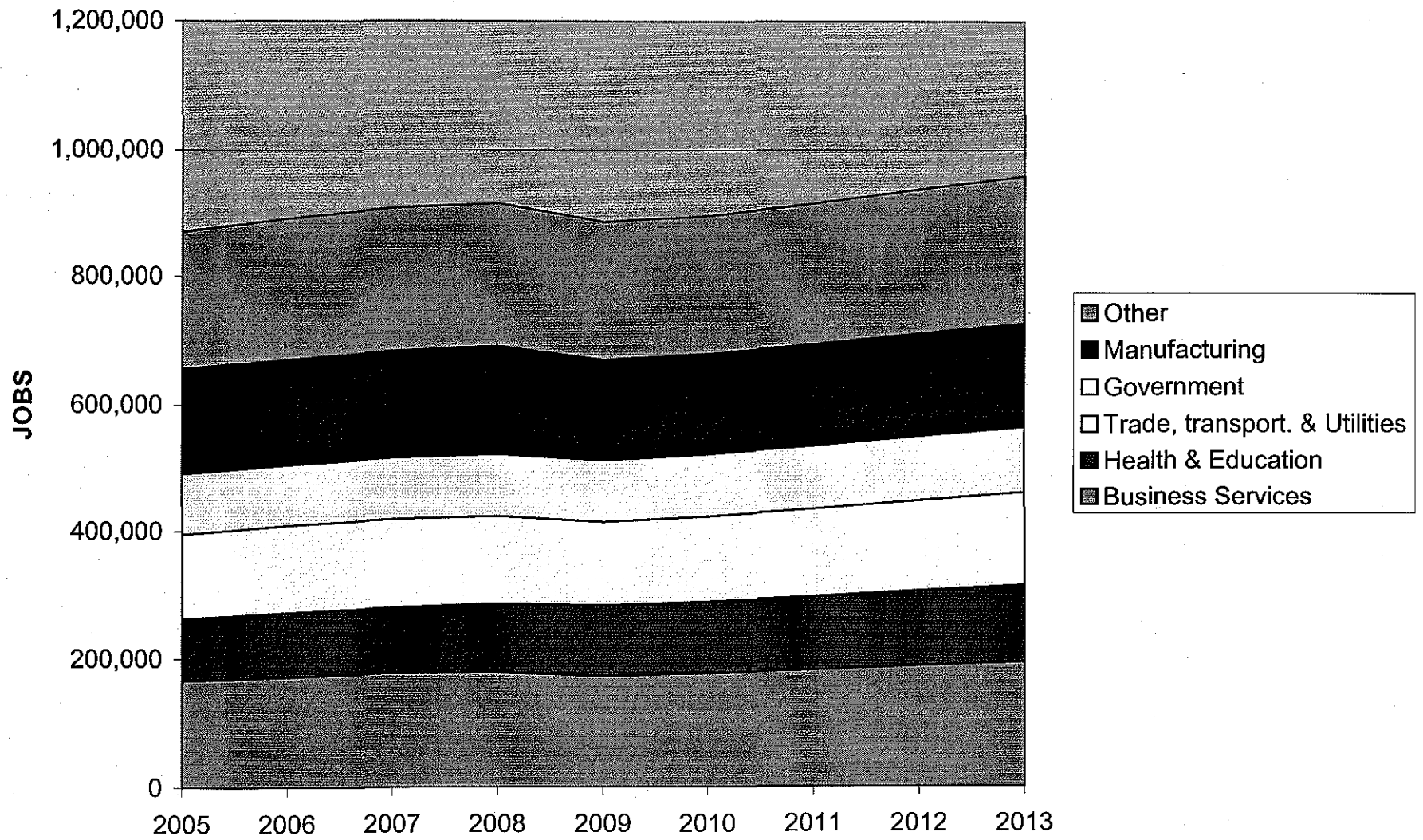


CHART 2 SAN JOSE REDEVELOPMENT ASSESSED VALUES

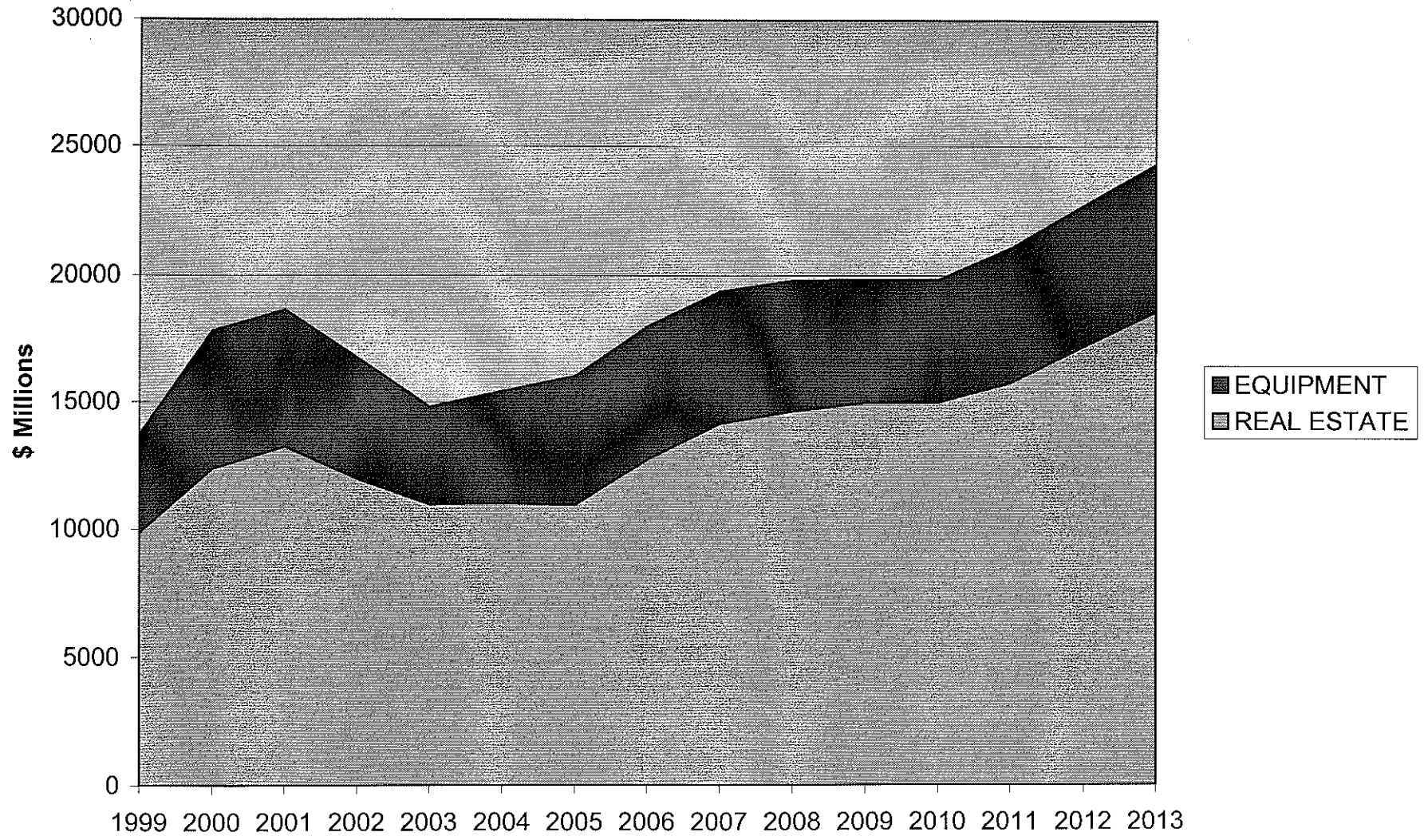


CHART 3 SAN JOSE REDEVELOPMENT REAL ESTATE ASSESSED VALUE

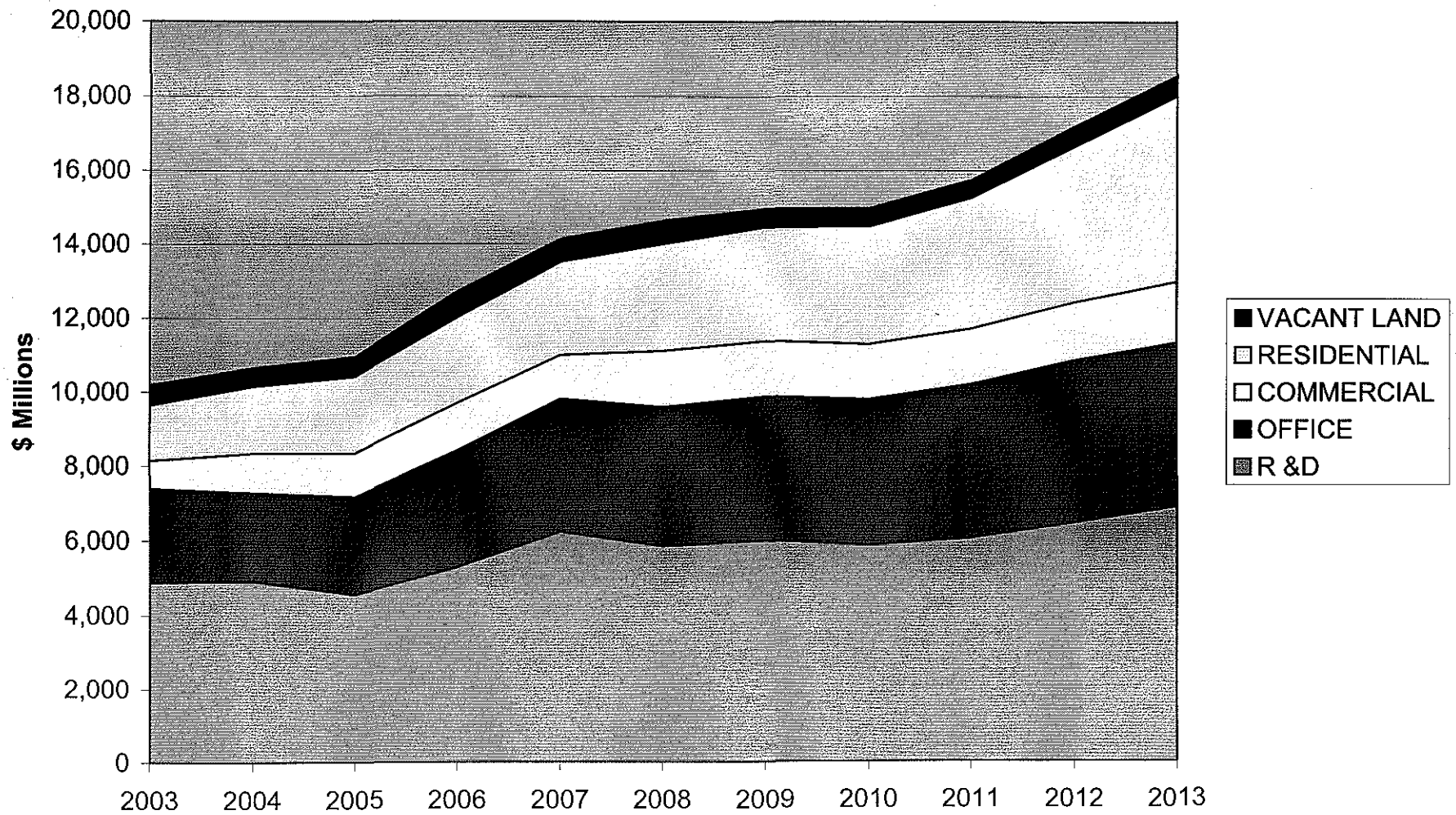


CHART 4 SILICON VALLEY VACANCIES ACTUAL AND PROJECTED

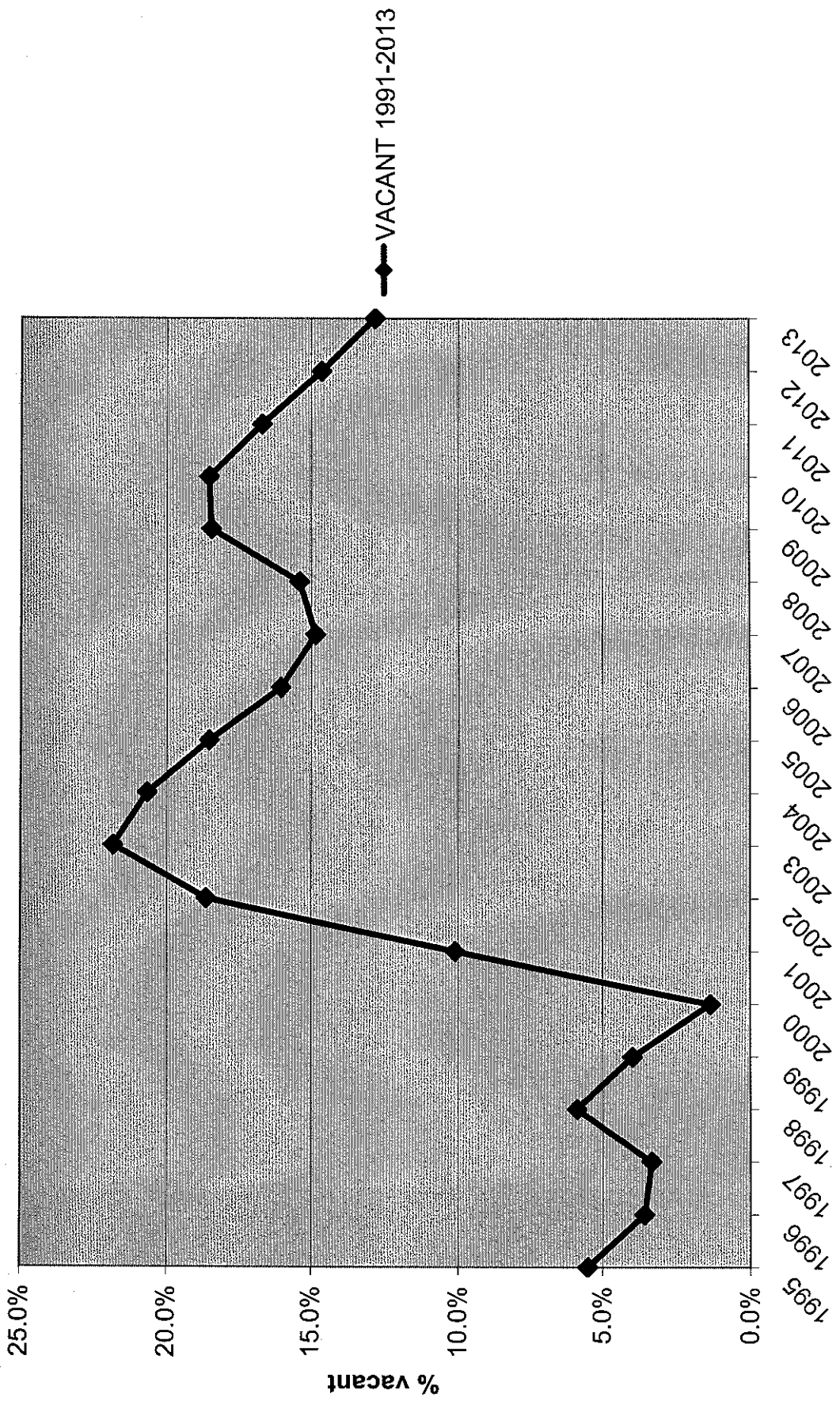


CHART 5 SILICON VALLEY LEASE RATES

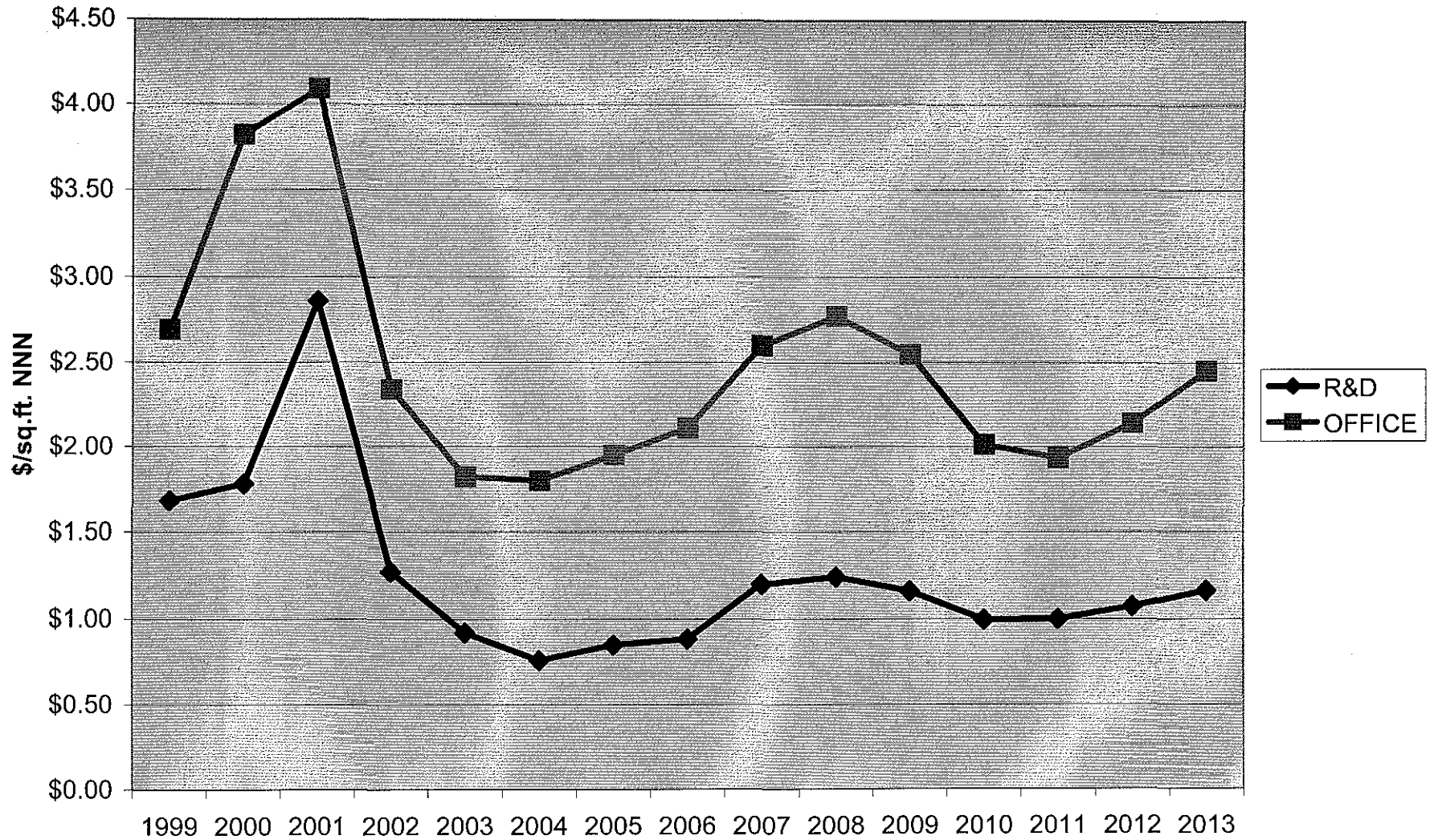


Chart data

EMPLOYMENT

	2005	2006	2007	2008	2009	2010	2011	2012
Business Services	165,800	172,000	177,700	178,700	173,000	177,000	182,331	188,188
Health & Education	96,800	100,400	102,200	107,500	110,000	112,000	114,820	117,941
Trade, transport. & UI	132,800	137,100	139,900	138,500	132,000	135,000	139,013	143,424
Government	95,900	96,400	97,200	97,800	98,000	98,500	99,692	101,098
Manufacturing	164,900	163,700	166,000	168,000	156,000	156,000	157,130	158,621
Other	213,700	221,600	225,100	224,600	216,600	216,600	221,955	227,905

AV TOTAL

	1999	2000	2001	2002	2003	2004	2005	2006
REAL ESTATE	9865	12381	13252	11980	10979	11030	10956	12734
EQUIPMENT	3853	5448	5406	4769	3828	4404	5065	5264

RE AV

	2003	2004	2005	2006	2007	2008	2009	2010
R & D	4,890	4,917	4,564	5,293	6,242	5,856	6,022	5,887
OFFICE	2,501	2,364	2,605	3,115	3,574	3,739	3,865	3,911
COMMERCIAL	748	1,057	1,168	1,292	1,188	1,527	1,500	1,500
RESIDENTIAL	1,500	1,815	2,084	2,321	2,528	2,889	3,080	3,180
VACANT LAND	552	508	535	712	616	630	500	500
UTILITY	0	0	12,046	13,893	15,117	15,809		0

VACANCY

	1995	1996	1997	1998	1999	2000	2001	2002
VACANT 1991-2013	5.5%	3.6%	3.3%	5.9%	4.0%	1.3%	10.1%	18.6%

LEASE RATES

	1999	2000	2001	2002	2003	2004	2005	2006
R&D	\$1.68	\$1.78	\$2.86	\$1.27	\$0.92	\$0.76	\$0.85	\$0.88
OFFICE	\$2.69	\$3.82	\$4.09	\$2.34	\$1.82	\$1.80	\$1.95	\$2.11

Chart data

2013
 193,857
 120,911
 147,687
 102,321
 159,845
 233,787

2007	2008	2009	2010	2011	2012	2013	2014
14148	14642	14967	14978	15749	17200	18575	0
5223	5168	4850	4850	5303	5505	5715	0

2011	2012	2013
6,073	6,489	6,926
4,138	4,370	4,419
1,500	1,575	1,654
3,539	4,216	5,027
500	550	550
0	0	0

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
21.8%	20.7%	18.5%	16.0%	14.8%	15.4%	18.5%	18.5%	16.7%	14.6%	12.8%

2007	2008	2009	2010	2011	2012	2013
\$1.20	\$1.24	\$1.16	\$1.00	\$1.00	\$1.07	\$1.16
\$2.60	\$2.77	\$2.55	\$2.01	\$1.94	\$2.14	\$2.45

METHODOLOGY

Five years of successful forecasts confirm, the validity and reliability of the data used in this analysis as well as the inherent uncertainty. After the 2007 forecast came very close to hitting the actual, the 2008 forecast proved overly optimistic. In contrast to our 2008 overestimate, the unexpected 2006 boom in lease rates, employment, and property values demonstrated how powerful psychology can be. The most challenging questions for 2009 and beyond are: 1) Will the national financial crisis freeze financing for commercial real estate and, 2) will the national economic recovery stall and stop the recovery in Silicon Valley. Spectrum Economics can provide the best possible forecast, but these are unprecedented times for the economies of both the nation and Silicon Valley.

The final methodology used was as follows:

- Spectrum Economics updated its forecasts of the IT industry. Demand declined but not nearly as much as the national slowdown that was concentrated in housing, other construction and autos.
- These industry demand forecasts were used to forecast local employment growth. The lengthy national recession has resulted in modest job loss in Silicon Valley, but strong local job growth should resume by 2011. Strong job growth should then continue for the next several years.
- This employment change translates into R&D and Office space use. However, a key factor, space use per employee, is more uncertain. Normally space use per employee rises modestly early in a recovery then falls. Space per employee has now stabilized at this new high level. The space forecast reflects a continued high level of space use per employee.

- Lease rates are a function of vacancies and how fast space is being leased. Using regression analysis, Spectrum forecasts future lease rates based on estimates of future vacancies and net leasing of space.
- With actual and forecast lease rates, Spectrum created updated estimates of trends in property values. Property value is the key factor in the Assessed Value forecast. We also used actual data on the value of each age cohort of commercial property in 2007.
- Local equipment purchases outpaced employment in 2004 and 2005 but did not grow with employment in 2006-08. We expect a further decline in equipment in 2009-10 followed by recovery thereafter. We estimate future equipment growth at 3.5% per year.
- Finally, Spectrum totaled all the assessed value forecasts, subtracted the Base Year AV, and estimated Tax Increment Revenues.

THE ECONOMY

Silicon Valley's economy continues to outpace the nation the rest of California and the rest of the Bay Area. From 2007 through mid-2009, Silicon Valley's economy grew faster than the nation, California and other parts of the Bay Area. In most high tech sectors, Silicon Valley continues to gain market share compared to the rest of the nation. In mid-2009, U.S. sales of computers, software, and communications equipment have declined from the historic highs reached in 2008, but are already growing once again. During the period of job loss, Silicon Valley continued to gain market share in computers and other electronic equipment, compared to the rest of the nation.

Silicon Valley has still not recovered to its previous peak employment. During Silicon Valley's boom, employment rose sharply. From 1996 to 2000 the area added 230,000 jobs. During the economic downturn of 2000 through 2004, Santa Clara County lost over 200,000 jobs, dropping to roughly 1995 levels. This dramatic job loss took place in spite of the fact that the nation's recession was statistically mild. Silicon Valley had a deeper recession because problems were more severe in Silicon Valley's key industries: computers, software and communications equipment. The reverse is true of this recession: we are suffering less, not more.

Silicon Valley's growth is often so strong that California's statisticians at the Employment Development Department (EDD) frequently underestimate actual job growth. This is because EDD's employer survey sample excludes fast growing new and small firms. The full data set is only checked and corrected once a year, in March. This initial underestimate of job growth turned out to be 7,600 jobs in Silicon Valley in 2005, 14,000 in 2006, 1,000 in 2007 and 4,500 in 2008. We estimate that this problem will continue and average 5,000 jobs per year.

In late 2008, Silicon Valley's economy finally succumbed to the problems plaguing the nation. Silicon Valley's economy has now stabilized and the national economy is turning around, but there will be more difficult months. The key problems are the housing bubble, corporate finance, and commercial real estate, with energy problems feared to reappear. A once feared problem, the trade deficit, is solving itself and will actually help Silicon Valley. Each of these problems continues to present different challenges for the nation and Silicon Valley:

- **HOUSING BUBBLE:** The housing picture is not pretty, but that market is stabilizing in most locations. Both the volatile Case-Shiller index and the broader Federal Housing Finance Agency price indices show housing prices stabilized starting in March 2009. Overall the total price drop has been about 15%, (not the incredible 32% decline shown by the volatile and negatively biased Case-Shiller

index) and the major losses are overwhelmingly concentrated in interior California, Nevada, Arizona and Florida. Housing prices are the key factor affecting the financial sector since borrowers only default if they think they have nothing to lose. Delinquencies appear to have peaked in the same time period at about 6%. Sales of new and existing homes have been increasing with a 7% increase in July alone. With prices, sales and construction growing again, the housing sector's disastrous drag on the rest of the economy is finally ending.

The bursting of the housing bubble had few direct impacts on Silicon Valley's economy. The problem was and is mostly financial: desperate lenders, having lost hundreds of billions in home mortgages, cut off normal industrial and commercial lending to even their best customers. As a result, these capital short firms bought less new high tech equipment.

- **FINANCE** The US is finally recovering from its largest financial crisis since the 1930's. Stock market losses at their peak exceeded \$8 trillion and mortgage losses so far exceed \$1 trillion. The victims include both Fannie Mae & Freddie Mac, Lehman Brothers and Bear Stearns, once top investment banks, Countrywide Financial, once the nation's largest mortgage lender and the nation's top insurer, AIG. Hundreds of other banks and other financial institutions have suffered similar fates.

Faced with the potential for a true world-wide financial melt-down the Federal Reserve and the US Treasury intervened massively with trillion of dollars of asset purchases and direct bailouts. Bailout went beyond normal bank bailouts to unprecedented aid for such firms as AIG, once the nation's largest insurer and GM, once the nation's largest industrial company. These bailouts were followed by nearly a trillion dollars of new federal expenditures for everything from highways to health research. These expenditures are expected to balloon the federal deficit to an unprecedented peacetime level of 13% of GDP.

These deficit levels are clearly unsustainable. Tax increases and expenditure reductions are inevitable, but from the perspective of Silicon Valley, what matters is where to increase taxes and reduce expenditures. The Valley

needs two things: normal commercial and consumer lending and continued flow of new venture capital. The key factor here is maintaining a tax mix that encourages long-term investments in new business and capital equipment. That means avoiding punitive capital gains taxes or taxes on investors. Weaning the economy and voters from the artificial prosperity engineered by trillion dollar bail-outs and Federal largesse will be devilishly difficult. We can only assume that some workable compromises are found to these problems.

- **COMMERCIAL REAL ESTATE** Commercial real estate is the potential last shoe to drop in the 2007-09 recession. Office vacancies have reached 13.7% and sales volumes are down by about 80% nationwide. Office markets in such financial centers as New York are particularly weak as crippled banks cut staffing. Potential defaults on commercial mortgages threaten another round of collapses at regional banks around the nation. It will probably be the end of the year before this market stabilizes. This problem has little direct impact on high tech markets, but it does affect SJRA assessed values.
- **ENERGY** The 2007-08 spike in energy prices was a speculative bubble that had surprisingly little impact on national economic growth outside of autos and airlines. Oil prices collapsed in 2009 and are now returning to the "New Normal" range of \$50 to \$100 a barrel. Silicon Valley benefits from high energy prices as new investments to save energy and create new supplies use ever more electronics. Even as oil prices decline, the energy problem is not about to disappear. Enormous quantities of oil are concentrated in such unstable nations as Kazakhstan, Venezuela, Iraq, Nigeria and Iran. Oil is still abundant, but companies are reluctant to invest the billions of dollars necessary to extract oil, due to the instability and volatility of the regions.

The price spike was also sufficient to finally induce some serious energy conservation. The good news for Silicon Valley is that energy prices are likely to settle into a range that is high enough to encourage investments in energy-saving

technology and new energy sources, but low enough to still protect the consumer. Investments in both energy-saving and new energy sources, from hybrid cars to photovoltaics, require more and better computers and software. Photovoltaics and other new energy technologies are an important new growth area for Silicon Valley.

- **TRADE DEFICITS** After a temporary run-up during the financial crisis, the US dollar is back down to pre-collapse levels, which is highly profitable for Silicon Valley. The decline of the dollar, due to high trade deficits, has been a bonanza for Silicon Valley exporters. The dollar now appears likely to decline even more. The U.S.'s huge trade deficit, which peaked at over \$600 billion in 2008, has already declined by about ½. The deficit was and is financed by Asian exporting nations' equally huge investments in Treasury bills and other U.S. assets. This investment flow maintains low U.S. interest rates, keeps the dollar over-valued, and also keeps jobs growing in Asia. Asian governments and investors are already shifting from the investments in Treasuries to investments in U.S. real estate and equity markets and moving out of dollars entirely. Arab petrodollars, the huge earnings of oil exporters, are also being invested in US companies and real estate. This shift showed up in surprisingly strong commercial real estate prices in places with high vacancies, such as Silicon Valley.

With a weaker dollar, U.S. exports are growing, combined with lower oil prices the trade deficit should slowly decline over the next several years. With the trade-weighted value of the dollar still down by 20%, U.S. exports, led by high tech manufacturing, are reviving. The economy is starting a slow and complex restructuring: shifting workers and other assets back to manufacturing and away from construction and consumption. Silicon Valley employment levels are the first clear beneficiaries of this restructuring.

U.S.-wide recession and near recession conditions will continue for the rest of 2009 and will extend into early 2010. Silicon Valley will continue to do better than other

regions and help lead the nation out of recession. Silicon Valley remains reliant on national corporate investment in high tech equipment whose growth rates should revive as the nation recovers from its financial crisis.

Based on all these complex trends, our forecast of Silicon Valley job growth is shown in Table 3. We expect Santa Clara County to add about 10,000 jobs in 2010 with this growth accelerating to about 20,000 more jobs per year from 2011 to 2013.

SJRA COMMERCIAL REAL ESTATE

Silicon Valley's commercial real estate market is still falling. Vacancies are rising and lease rates are in decline. Since the Assessor already reduced values sharply last year, these problems should lead to only a modest further decline in assessed values for existing properties. With the compensating factors of some new construction and some sales that add to assessed values, total Assessed Values should be flat for Fiscal 2010-12.

Current leasing is now following actual employment decline. Leasing for anticipated future employment growth is unlikely to resume until early 2010. The shift toward more space per worker to accommodate more equipment has ended. Table 4 shows how leasing preceded job growth and leased space per worker grew by over 30% from 2001 to 2007. Our current judgment is that most of the shift toward more space per worker is permanent, but will proceed no further. This is one of the most important estimates in this report.

As we forecast last year, Silicon Valley's commercial real estate markets overshot the local economy and are now correcting. As shown in Table 9, Net absorption turned negative in 2008, and lease rates will decline between now and 2011. Vacancies appear unusually high but much of the current R&D space is obsolete. We expect that little R&D space is both efficiently convertible into offices and well situated, making

most such conversions impossible. Additionally, many old R&D facilities are so obsolete that they are unusable.

The significant long-term job growth Spectrum now projects for Silicon Valley will ensure recovery for commercial real estate, and justify significant new construction. However, the current slowdown will delay many projects leading to higher rental cost in the future. The actual permitting and construction process is so slow that by 2012 demand could again overshoot supply and we could once again see sharp rent increases.

Based on our new employment forecast, the expected space per worker, and modest rates of new R&D and office construction, Spectrum forecast vacancy rates in Santa Clara County through 2013. Table 9 shows the vacancy forecast. It shows vacancies rising this year and next and then declining in both the Office and R&D area. Chart 4 tracks vacancy rates over the two economic cycles: 1991-2002 and 2003-2013. Vacancy rates are moving in parallel in the two time periods, but the current cycle is at a much higher level of vacancy.

Tables 6 and 7 show detailed space and lease rate trends in the R&D and office markets of Silicon Valley. It is important to point out that these two markets are not always clearly differentiated in Silicon Valley. The primary product is really "Office/R&D" - only the far ends of this continuum are clearly distinguishable. Keeping in mind this caveat, it is still notable that lease rates for R&D space declined to about 27% of where they were in 2001 and reached only 40% of the previous peak in 2007. Office rents, in contrast, bottomed out at 45% of the peak and are now back to 80% of the 2001 peak rate. Using the actual data from 1991 through 2009, we searched for predictors of lease rates. After several attempts, it was determined that the key predictors are vacancy rates, change in vacancies and percent of absorption. These factors explain about 65% of the variation in lease rates over the 15 years reviewed. Using regression analysis, Spectrum created an equation that forecast lease rates as a function of net absorption and vacancies. With employment and space per employee forecasts, the equation gives lease rates, which are the best predictors of market values. The resulting

rent and value forecasts are shown in Table 9. R&D and office rents will decline this year and next, but then should rise significantly.

Using the forecasts of vacancies and absorption, Spectrum created a forecast of rents by building type as shown in Table 9 and Chart 5. Assuming that property values largely follow rents, an assumption also used by the County Assessor, Spectrum then created a value index for R&D and office space. The value index actually used is shown in Tables 11 & 12. The Prop. 8 and Prop. 13 analyses need only relative values over time, so this index is all that is necessary. We used a three-year average of rents to create the market value indices. This estimated value index was later modified to fit apparent actual Assessor practices in assessment years 2002-2009. It should be noted that such items as lease rates and market values have a substantial psychological component. Any widely held belief that prices are going up, or down, can become self-fulfilling as the Internet stock boom demonstrated to all. We forecast that market values will recover somewhat faster than lease rates as investors anticipate the future.

Another factor in Assessed Values in the SJRA area has been commercial, non-office, non-industrial space. This category, mostly retail, has grown significantly in the last several years. It now totals over \$1.5 billion, and grew by over \$350 million last year as shown in Table 13.

The recently approved North San Jose plan will contribute to more stability in assessed values in the SJRA area, especially from redevelopment of existing properties. This plan allows both more residential development and denser office R&D development in North San Jose. The result will certainly be more development in that area, especially along key transportation corridors. The net impact on SJRA assessed values is clearly positive. The increase in residences will surely increase assessed values in total and contribute modestly to more long-term job growth. The denser Office and R&D development will be attractive and will help shift job growth from other parts of the county. The SJRA is probably a net gainer in Office/R&D assessed values, and our forecast now includes this impact.

SJRA RESIDENTIAL REAL ESTATE

Over the next five years, new residential construction will play a major role in Assessed Value growth in the SJRA area. This growth is concentrated in six huge projects: Hitachi GS, Block 3, Fairfield, North San Pedro, Irvine, and Wyse. These six projects account for nearly 30% of all growth in Assessed Values - \$1.3 billion. We have assumed that the projects will be built, based on information received from the RDA. Nonetheless, it is vital to realize how important these few projects are to the financial health of the SJRA. Because of a number of sales that result in increases in assessed values, we estimate that assessed values for residential properties will actually grow this year and next. The residential forecast is shown in Table 13.

SJRA PERSONAL PROPERTY

Trends in Unsecured Personal and Business Property follow the business cycle. Unsecured Personal and Business Property is about 25% of current assessed values, but its relative importance is likely to decline over time. Unsecured Personal and Business Property must be treated separately since they are mostly not subject to Prop. 13 limits, and have become highly volatile, dropping nearly 30% in assessment in 2003 (FY 2004-05) and recovering thereafter but at relatively slow rates. The 2004 decline was explained by a combination of high depreciation rates, employment loss and low new investment. The slow but steady growth since 2004 in Unsecured assessed value reversed in 2008 (FY 2009-10). We now forecast that Personal and Business Equipment values will decline this year and then grow roughly in line with employment and inflation at about 3.5% per year. The Personal and Business Property Assessed Value forecast is shown in Table 13 and Chart 6. It projects that Total Personal and Business Property AV should decline in 2009 (FY 2010-11) by about \$350 million and then resume growth thereafter.

ASSESED VALUE AND REVENUE

The final steps in the analysis are the Prop.8 and Prop.13 analyses and the resulting Revenue forecast. This starts with an estimate of major new construction in the SJRA area. Table 10 tabulates actual projects that are either under construction or have started the permit process. Office and R&D rents have dropped to levels that justify limited new construction. As a result, the SJRA has many delayed projects, but these projects will return as the economy revives.

Spectrum's analysis of historic real estate AV, industrial, office, commercial, residential, and vacant land, back to 2005, is shown in Tables 11-13. We obtained actual data on the size of each age-cohort of property in 2007 from the Assessor. We assumed that each age cohort would grow at 2% Prop. 13 rates unless market values dropped below this Prop. 13 ceiling. For these properties we used our value indices to calculate the fall and later rise of Assessed Values. For the earliest age cohort - projects built in 1995 or before which contain the oldest properties most likely to be sold - we assumed a 10% per year decline for re-sales.

The purpose of this massive exercise was to attempt to duplicate, in the aggregate, the Office of the Assessor's Prop.8 analysis for 2002-2007. Knowing the approximate size of each age cohort of buildings and the value index, it became apparent how far back in time the Prop. 8 reductions had to go. We then estimated the current value index the Assessor had to use to reach his total AV reduction for each year. Using these cohorts and our indices of property values, we were able to duplicate the Assessor's Prop.8 results for assessment years 2003 - 2008 (FY 2003-04 through 2008-09). Having fit the model to actual data, we added expected new construction and sales in 2007-2012 and forecast future assessed values. The result of this forecast is that neither R&D nor Office space return to their previous peak valuation until after 2013, leaving significant further room for growth until all these older properties return to their Prop.13 ceilings.

Growth in the next several years will be dominated by the residential sector. Residential assessed values in the SJRA grew by over \$300 million in 2004 but slowed to \$270 million in 2005, \$240 million in 2006, \$200 million in 2007 and reaccelerated to \$360 million in 2008 (FY 2009-10). Assessed values for the coming two years will be affected by declines in the Condo and single-family markets. Unsold properties in these two markets, about 40% of the SJRA total, are likely to decline by about 15% in value. With over a billion dollars worth of new residential construction in the pipeline, growth should soon increase to over \$600 million per year by 2012 (FY 2013-14).

Finally, we totaled all the Assessed Value forecasts, subtracted the Base Year AV, and estimated Tax Increment Revenues. Both projected and historic AV and Revenues are shown in Tables 1 and 2 and Charts 1 and 2. With employment rising slowly and non-residential values declining, Assessed Values and SJRA revenues will be stagnant next year and the year after before resuming growth. By 2011 (FY 2012-13) with residential, R&D and Office values recovering, total Assessed Values will rise at over 9% per year.

SUMMARY OF ASSESSOR'S PRACTICES

GENERAL PROCEDURES

Assessment and appraisal of property is part art and part science. This is particularly true for large industrial properties in times of fast changing markets. Academic studies have found that the average difference between appraisal and sales price of non-residential property is 10% to 20%. The Office of the County Assessor is directed by State Law and guided by the Board of Equalization in their appraisal procedures but ultimate decisions rely on a significant amount of judgement. Because of this judgement factor, and the threat of appeals, California Assessors generally provide only limited information on their exact procedures. Spectrum's observations are based

on a combination of limited direct information, review of the relevant regulations, and review of outcomes, i.e., if X is the result, Y must have been the procedure.

In normal times, assessment of "secured property," (mainly real estate - land and structures) is fairly simple. Most of the effort is concentrated on determining fair market value at time of sale or construction. Once this value is determined, Prop. 13 limits the increase to 2% or the rate of inflation, whichever is less. Values change significantly only on sale or if there are improvements, which the Office of the Assessor monitors through building permits.

Unsecured property, mainly business equipment, is mostly not subject to Prop. 13, but neither does it follow the trends of real estate values. Equipment only depreciates in value; it does not appreciate. These values are assessed based on initial costs reported to the Office of the Assessor by every business on April 1 of every year and on depreciation factors established by the State Board of Equalization. (The Office of the Assessor is not required to follow these guidelines, but staff has stated that they do follow them.) The depreciation factors are large, over 20% per year, but that is legitimate for the fast moving high technology sector where equipment becomes out-of-date so quickly. The result is that when business investment in new equipment slows, assessed values of equipment drop quickly.

PROP. 8 ANALYSIS

If real estate values are dropping, which is happening again today for non-residential property in Santa Clara County, the assessment process becomes more complex. As prices drop, more age cohorts of building must be reassessed under Prop.8, since their market values drop below the Prop. 13 ceiling. For FY 2009-10, (Calendar 2008) the Office of the Assessor was forced to reassess most non-residential property that was built or sold since about 1997. Since thousands of buildings were involved, individual reassessments were impossible – the Office of the Assessor did not have the staff, budget or time to reassess each individual structure in detail. As a result, a mass appraisal

technique was used: the Office of the Assessor decided on a reduction factor for each age cohort of building by type in each major area.

The Prop. 8 calculation is made more difficult by the lack of data. When real estate values decline, the market tends to “freeze” -- very few transactions take place. Sales that do take place are often complicated by such factors as below market owner financing, above market leases or forced sales in bankruptcy. With prices dropping monthly, and few good comparable sales, all prices must be further adjusted to what they would have been at the beginning of the year – the official date of assessment. Faced with such limited data, the Office of the Assessor often must rely on estimating values from lease rates.

The Prop. 8 re-assessment process mixes with the appeals process. Appeals always rise when values are declining, and the Assessor has a significant incentive to re-assess on the low side in order to limit the number of time-consuming appeals. Many large property owners appeal every year in both rising and declining markets – the potential gain exceeds the cost of the appeal.

As previously discussed, assessed values are so uncertain, the data is so bad and the process is so complex that the Office of the Assessor had a huge incentive to re-assess low enough to discourage appeals. As a result, the Office of the Assessor has been clearly cautious in their Prop. 8 re-appraisals. In most years properties are appraised below the level that would be expected based on such key indicators as lease rates and vacancies. In 2009, the appraisals were about 10% below the level that lease rates and vacancies would lead one to expect.

When values rise, the process now reverses. Upward reappraisal across the board started in 2006 (FY 06-07), accelerated in 2007 (FY07-08) and continued in 2008 (FY 08-09). In 2007 the assessor increased average values by over 15%, followed by another 10% increase in 2008. That process reversed in 2009 (FY 2009-10) and it will be about 2013 before values are likely to return to the 2007 peak.

CONCLUSIONS

With local job and real estate markets now stabilizing and just starting to recover, after the lengthy national slowdown, the SJRA will now experience two years of stagnant revenue growth followed by a return to growth in the 7-9% range. This revenue cycle is due to cyclical job markets, resulting cyclical R&D and Office markets, and continued residential growth. This cyclical pattern of revenues should swing from about a flat FY 2010-11 to over 8% growth in 2012-13, as shown in Table 1 and Charts 1 and 2.

These are still uncertain economic times for Silicon Valley and for the San Jose Redevelopment Agency. Our relatively optimistic forecast rests on several key assumptions:

- The nation's economic recovery that began in mid-2009 will continue.
- Corporate investment in Silicon Valley's key products: computers, communication equipment and software will recover faster than the overall US economy.
- Normal commercial real estate financing will return in 2010.
- Currently planned major projects in the SJRA area will be built approximately as scheduled.

TABLES

TABLE 1
SUMMARY FORECAST
SAN JOSE REDEVELOPMENT AGENCY
(\$ in Millions)

FY Economic Year	2006-07 2005	2007-08 2006	2008-09 2007	2009-10 2008	2010-11 2009	2011-12 2010	2012-13 2011	2013-14 2012	2014-15 2013
ASSESSED VALUES									
GRAND TOTAL	16,060	18,034	19,407	19,844	19,851	19,862	21,086	22,739	24,324
Change	6.8%	12.3%	7.6%	2.3%	0.0%	0.1%	6.2%	7.8%	7.0%
Secured	12,085	13,929	15,153	15,844	16,051	16,062	16,886	18,392	19,825
Unsecured	3,975	4,105	4,254	4,000	3,800	3,800	4,200	4,347	4,499
Base AV	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097
Increment AV	14,963	16,937	18,310	18,747	18,754	18,765	19,989	21,642	23,227
TAX INCREMENT REVENUES									
On Total	158	178	192	197	197	197	210	227	244
Unitary	2	2	2	2	2	2	2	2	2
Total	160	180	194	199	199	199	212	229	246
Growth rate	8.0%	12.2%	8.0%	2.4%	0.0%	0.1%	7.0%	8.2%	7.2%

TABLE 2
ASSESSED VALUE AND REVENUE HISTORY
SAN JOSE REDEVELOPMENT AGENCY
(\$ in Millions)

FY Economic Year Assessed	01-02 2000	02-03 2001	03-04 2002	04-05 2003	05-06 2004	06-07 2005
ASSESSED VALUES						
Total Secured with Mobile	12,297	13,254	11,686	11,197	11,211	12,085
Total Unsecured	5,583	5,467	5,277	3,843	3,820	3,975
GRAND TOTAL	17,880	18,721	16,963	15,040	15,031	16,060
Growth	29.8%	4.7%	-9.4%	-11.3%	-0.1%	6.8%
Base AV	1,097	1,097	1,097	1,097	1,097	1,097
Increment AV	16,783	17,624	15,866	13,943	13,934	14,963
TAX INCREMENT REVENUE						
On Total	176	185	166	146	146	158
Unitary	2	2	2	2	2	2
Total	178	187	168	148	148	160

**TABLE 3
SAN JOSE MSA EMPLOYMENT**

	Actual	Actual	Actual	Actual	Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nonfarm W&S Employment	869,900	891,200	908,100	915,100	885,600	895,100	914,943	937,177	958,409
Natural resources and mining	200	300	300	300	300	300	300	200	200
Construction	44,500	46,800	47,000	44,200	39,000	37,000	39,000	41,186	43,412
Manufacturing	164,900	163,700	166,000	168,000	156,000	156,000	157,130	158,621	159,845
Non-tech	36,500	37,400	37,500	36,900	33,000	32,000	31,254	30,588	29,876
High technology	128,400	126,300	128,500	131,100	123,000	124,000	125,876	128,032	129,970
Trade, transportation, & utilities	132,800	137,100	139,900	138,500	132,000	135,000	139,013	143,424	147,687
Information	35,300	37,500	39,500	41,700	40,000	42,000	44,394	47,013	49,693
Financial activities	36,300	37,100	37,100	34,800	33,000	33,000	33,231	33,530	33,765
Professional and business services	165,800	172,000	177,700	178,700	173,000	177,000	182,331	188,188	193,857
Educational and health services	96,800	100,400	102,200	107,500	110,000	112,000	114,820	117,941	120,911
Leisure and hospitality	72,800	75,200	76,100	78,200	79,000	79,000	79,553	80,269	80,831
Other services	24,600	24,800	25,100	25,300	25,300	25,300	25,477	25,706	25,886
Government	95,900	96,400	97,200	97,800	98,000	98,500	99,692	101,098	102,321
Growth Rate									
San Jose	0.9%	2.4%	2.7%	0.6%	-4.2%	1.1%	2.2%	2.4%	2.3%
California	1.8%	1.9%	0.7%	-0.8%	-5.1%				
San Francisco MSA	0.5%	2.8%	2.1%	1.3%	-4.9%				
Oakland MSA	0.8%	1.4%	0.7%	-1.4%	-4.5%				

Forecast based on data available as of August 2009.

**TABLE 4
TOTAL R&D, INDUSTRIAL AND OFFICE SPACE TRENDS
SANTA CLARA COUNTY**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
SANTA CLARA COUNTY										
Total Employment	1,030,000	1,003,500	909,300	861,700	862,000	869,900	891,200	908,100	915,100	877,600
Less Trade	150,400	146,000	133,700	128,600	130,900	132,800	137,100	139,900	138,500	129,500
Less Gov't.	94,500	94,600	97,900	96,200	96,300	95,900	96,400	97,200	97,800	99,100
Less Health & Educat	85,200	90,000	92,000	93,000	95,000	96,800	100,400	102,200	107,500	109,900
Less Leisure	71,400	75,200	69,800	69,500	70,900	72,800	75,200	76,100	78,200	78,900
Net Jobs	628,500	597,700	515,900	474,400	468,900	471,600	482,100	492,700	493,100	460,200
TOTAL MARKET (Except Warehous)										
	Q2	Q2	Q2	Q2	Q2	Q2	Q2	Q2	Q2	Q2
Total Available	2,981,883	22,940,031	45,167,988	53,569,624	51,051,159	45,568,929	39,310,348	36,356,015	37,875,713	45,696,802
Net Absorption	8,926,632	(15,088,501)	(6,944,816)	(5,267,975)	4,070,722	1,568,865	7,135,000	4,413,000	(1,575,339)	(6,639,227)
Building Base	222,087,164	226,956,812	242,239,953	245,373,614	246,925,871	245,886,665	244,995,394	244,870,014	246,008,388	247,547,118
Vacancy Ratio	1.3%	10.1%	18.6%	21.8%	20.7%	18.5%	16.0%	14.8%	15.4%	18.5%
New Space Added	3,205,404	4,869,648	15,283,141	3,133,661	1,552,257	-1,039,206	(891,271)	(125,380)	1,138,374	1,538,730
Occupied	219,105,282	204,016,781	197,071,965	191,803,990	195,874,712	200,317,736	221,181,412	224,013,206	222,437,867	215,798,640
Sq.Ft./worker	349	341	382	404	418	425	459	455	451	469

Source for Space Data: Colliers International

TABLE 5
R&D, INDUSTRIAL AND OFFICE VACANCY FORECAST
SANTA CLARA COUNTY

	2006	2007	2008	2009	2010	2011	2012	2013
SANTA CLARA COUNTY								
Total Employment	891,200	908,100	915,100	877,600	895,100	914,943	937,177	958,409
Less Trade	137,100	139,900	138,500	129,500	135,000	139,013	143,424	147,687
Less Gov't.	96,400	97,200	97,800	99,100	98,500	99,692	101,098	102,321
Less Health & Education	100,400	102,200	107,500	109,900	112,000	114,820	117,941	120,911
Less Leisure	75,200	76,100	78,200	78,900	79,000	79,553	80,269	80,831
Net Jobs	482,100	492,700	493,100	460,200	470,600	481,864	494,445	506,658

TOTAL MARKET (Except Warehouse)

Total Available	39,310,348	36,356,015	37,875,713	45,696,802	46,069,442	41,637,993	36,600,768	32,232,552
Gross Absorption	23,813,982	20,856,808	23,570,521	31,748,478	32,121,118	27,689,669	22,652,444	18,284,228
Net Absorption	7,135,000	4,413,000	(1,575,339)	(6,639,227)	677,360	5,181,449	5,787,225	5,618,216
Building Base	244,995,394	244,870,014	246,008,388	247,547,118	248,597,118	249,347,118	250,097,118	251,347,118
Vacancy Ratio	16.0%	14.8%	15.4%	18.5%	18.5%	16.7%	14.6%	12.8%
New Space Added	(891,271)	(125,380)	1,138,374	1,538,730	1,050,000	750,000	750,000	1,250,000
Occupied	221,181,412	224,013,206	222,437,867	215,798,640	216,476,000	221,657,449	227,444,674	233,062,890
Sq.Ft./worker	459	455	451	469	460	460	460	460

Source for 2004-2009 Space Data: Colliers International

**TABLE 6
R&D SPACE TRENDS
SANTA CLARA COUNTY**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
R&D MARKET											
Total Available	sq.ft.	1,407,457	13,749,593	27,726,516	33,976,393	33,900,768	30,437,000	24,693,195	24,673,194	21,466,629	25,082,670
Net Absorption	sq.ft.	4,971,226	-4,340,808	-10,927,300	-5,690,380	335,094	3,463,768	3,259,000	2,403,000	(1,240,000)	(3,616,041)
Absorption Rate		3.8%	-3.2%	-7.8%	-4.0%	0.2%	2.5%	2.3%	1.7%	-0.9%	-2.6%
Building Base	sq.ft.	129,533,711	137,535,039	140,584,662	141,144,159	141,403,628	140,558,231	139,510,370	139,417,744	139,481,850	139,507,267
Vacancy Ratio		1.1%	10.0%	19.7%	24.1%	23.97%	21.7%	17.7%	17.7%	15.4%	18.0%
New Space Add	sq.ft.	817,353	8,001,329	3,049,623	559,497	259,469	(845,397)	(1,047,861)	(92,626)	64,106	25,417
Lease Rates	\$/sq.ft./mo	\$1.78	\$2.86	\$1.27	\$0.92	\$0.76	\$ 0.85	\$ 0.88	\$ 1.20	\$ 1.24	\$ 1.16
Change in Rates		6.0%	60.7%	-55.6%	-27.6%	-17.4%	11.8%	4.0%	35.6%	3.4%	-6.5%
3 year Average Rates		\$ 2.11	\$ 1.97	\$ 1.68	\$ 0.98	\$ 0.80	\$0.83	\$0.98	\$1.11	\$1.20	\$1.13
Lease Index		312.9	292.6	250.0	146.0	118	123	145	165	178	168

Source for Space Data: Colliers International

**TABLE 7
OFFICE SPACE TRENDS
SANTA CLARA COUNTY**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	
OFFICE MARKET										
Total Available	sq. ft.	6,858,356	12,667,585	13,869,341	12,374,503	10,640,000	9,305,872	8,177,799	10,409,084	14,545,909
Net Absorption	sq. ft.	(1,635,418)	(2,829,477)	(459,527)	2,485,904	1,540,694	2,565,836	1,412,833	(1,740,000)	(2,546,094)
Absorption Rate		-3.1%	-5.1%	-0.8%	4.3%	2.7%	4.4%	2.4%	-3.0%	-4.2%
Building Base	sq. ft.	53,035,364	56,015,116	56,757,345	57,748,411	57,668,926	57,837,196	57,837,196	58,750,393	60,263,706
Vacancy Ratio		12.93%	22.61%	24.44%	21.4%	18.5%	16.1%	14.1%	17.7%	24.1%
New Shell Added	sq. ft.	4,355,659	2,979,752	742,229	991,066	(193,809)	156,590	0	913,197	1,513,313
Lease Rates	\$/sq.ft./mo	\$4.09	\$2.34	\$1.82	\$1.80	\$ 1.95	\$ 2.11	\$ 2.60	\$ 2.77	\$ 2.55
Change		7.1%	-42.8%	-22.2%	-1.1%	8.3%	8.2%	23.2%	6.6%	-8.1%
3 year Average Rates		\$ 3.42	\$ 2.75	\$ 1.99	\$ 1.78	\$ 1.95	\$ 2.22	\$ 2.49	\$ 2.64	\$ 2.44
Lease Index		258.2	207.8	150.1	134.4	147.6	167.8	188.5	199.5	184.7

Source for Space Data: Colliers International

**TABLE 8
R&D AND OFFICE SPACE TRENDS
SAN JOSE**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
R&D MARKET									
Total Available	3,509,062	10,451,859	11,738,494	10,891,886	10,885,224	10,092,640	10,012,711	9,450,837	10,885,250
Net Absorption		-3,867,789	-1,240,787	835,241	192,329	716,162	66,428	-440,000	-1,434,413
Absorption rate		-8.2%	-2.6%	1.8%	0.4%	1.5%	0.1%	-0.9%	-3.0%
Building Base	43,931,818	47,006,826	47,052,674	47,041,307	47,226,974	47,268,376	47,268,376	47,377,063	47,377,063
Vacancy Ratio		22.2%	24.9%	23.2%	23.0%	21.4%	21.2%	19.9%	23.0%
New Shell Added		3,075,008	45,848	-11,367	-	41,402	0	0	0
Lease Rates	\$2.60	\$1.13	\$0.85	\$0.61	\$0.77	\$ 0.83	\$ 0.88	\$ 1.13	\$ 0.97
Difference from Avg. Sil. Val Rates	(\$0.26) -9%	(\$0.14) -11%	(\$0.07) -8%	(\$0.15) -20%	(\$0.08) -10%	(\$0.05) -7%	(\$0.32) -36%	(\$0.11) -9%	(\$0.19) -19%
OFFICE MARKET									
Total Available	2,118,025	4,143,177	4,397,701	3,813,916	3,840,364	3,899,009	2,899,500	3,976,859	4,953,226
Net Absorption		-700,598	440,553	1,161,940	-13,862	594,867	900,803	-778,311	-658,017
Absorption Rate		-3.3%	2.0%	5.1%	-0.1%	2.6%	4.0%	-3.4%	-2.9%
Building Base	19,981,299	21,305,853	22,000,930	22,579,085	22,591,671	22,678,955	22,678,953	22,689,163	23,007,513
Vacancy Ratio	10.6%	19.4%	20.0%	16.9%	17.0%	17.2%	12.8%	17.5%	21.5%
New Shell Added		1,324,554	695,077	578,155	12,586	87,284	0	0	0
Lease Rates	\$ 3.83	\$2.23	\$1.84	\$1.70	\$1.64	\$1.84	\$2.23	\$2.51	\$2.55
Difference from Avg. Sil. Val Rates	\$ (0.26) -6%	\$ (0.11) -5%	\$ 0.02 1%	\$ (0.10) -6%	\$ (0.31) -19%	\$ (0.27) -15%	\$ (0.37) -17%	\$ (0.26) -10%	\$ 0.00 0%

Source for Space Data: Colliers International

TABLE 9
RENT FORECAST

		2007	2008	2009	2010	2011	2012	2013
R&D MARKET								
Total Available	sq.ft.	24,673,194	21,466,629	25,082,670	24,861,726	22,839,147	20,574,257	18,376,970
Net Absorption	sq.ft.	2,403,000	-1,240,000	-3,616,041	270,944	2,072,579	2,314,890	2,247,286
Absorption Rate		1.7%	-0.9%	-2.6%	0.2%	1.5%	1.7%	1.6%
Building Base	sq.ft.	139,417,744	139,481,850	139,507,267	139,557,267	139,607,267	139,657,267	139,707,267
Vacancy Ratio		17.7%	15.4%	18.0%	17.8%	16.4%	14.7%	13.2%
New Space Added	sq.ft.	-92,626	64,106	25,417	50,000	50,000	50,000	50,000
Lease Rates		\$1.20	\$1.24	\$1.16	\$1.00	\$1.00	\$1.07	\$1.16
Change in Rates		35.6%	3.4%	-6.5%	-14.2%	0.4%	7.3%	8.4%
3 year Average Rates		\$ 1.11	\$ 1.20	\$ 1.13	\$ 1.08	\$ 1.00	\$ 1.04	\$ 1.12
Lease Index		165	178	168	160	148	154	166
OFFICE MARKET								
Total Available		8,177,799	10,409,084	14,545,909	15,207,229	13,316,505	11,122,892	9,513,784
Net Absorption		1,412,833	(1,740,000)	(2,546,094)	338,680	2,590,724	2,893,613	2,809,108
Absorption Rate		2.4%	-3.0%	-4.2%	0.6%	4.2%	4.6%	4.4%
Building Base		57,837,196	58,750,393	60,263,706	61,263,706	61,963,706	62,663,706	63,863,706
Vacancy Ratio		14.1%	17.7%	24.1%	24.8%	21.5%	17.8%	14.9%
New Shell Added		0	913,197	1,513,313	1,000,000	700,000	700,000	1,200,000
Lease Rates		\$ 2.60	\$ 2.77	\$ 2.55	\$ 2.01	\$ 1.94	\$ 2.14	\$ 2.45
Change		23.2%	6.6%	-8.1%	-21.0%	-3.9%	10.7%	14.5%
3 year Average Rates		\$ 2.49	\$ 2.64	\$ 2.44	\$ 2.28	\$ 1.97	\$ 2.04	\$ 2.30
Lease Index		188.5	199.5	184.7	172.3	149.2	154.0	173.6

**TABLE 10
MAJOR PROJECTS
PROJECTS EXPECTED TO BE ASSESSED FOR 2010-11 TO 2014-15**

Project Name/ Owner	Building Type	Year Assessed	Square Ft/ Rms/Units	Incremental Value
Oak Crest MHC/Charles Sylvia	Residential	2010-11	2.6 acres	13,033,183
Cisco	R&D/Off	2010-11	116,000	16,945,000
1st & Rosemary Family Hsg	Res-Rental	2010-11	2.79 acres	6,083,059
FRG Fountains LLC	Res-Rental	2010-11	226 units	7,975,000
Pacific Properties	Resid	2010-11	36	11,338,000
Brocade Mixed Use I	R&D/Off	2010-11	565,000	166,516,800
360 Residences LLC	Res.-For Sale	2010-11	213	69,446,156
Equinix Data Center	Data Center	2010-11	170,000	30,000,000
Solopower	Mfg.	2010-11	109,000	40,000,000
Stryker Endoscopy	R&D/Off	2010-11	185,600	20,860,560
			Total	392,398,794
Oracle	pers prop	2011-12	380,000	38,000,000
Target Store	Retail	2011-12	138,000	20,700,000
Hunter/Storm Hotel 1	Hotel	2011-12	162	16,200,000
Equinix Data Center	Data Center	2011-12	170,000	115,000,000
River Park Towers II	pers prop	2011-12	320,000	32,000,000
			Total	221,900,000
N. San Pedro Hsg.	Res.-For Sale	2012-13	30	12,000,000
Essex	Res - Rental	2012-13	42	18,750,000
Cadence Essex	Res - Rental	2012-13	250	62,500,000
Brocade Mixed Use 2	R&D/Off	2012-13	320,000	168,000,000
			Total	261,250,000

Hunter/Storm Hotel 2	Hotel	2013-14	160	16,000,000
Vista Montana 2	Res-Rental	2013-14	244	30,356,000
Vista Montana 1	Res-Rental	2013-14	200	33,680,000
Trammel Crow Residential	Res-Rental	2013-14	182	37,666,000
Hyundai Riverview	Res - Rental	2013-14	200	37,902,534
N. San Pedro Hsg.	Resid	2013-14	125	50,000,000
Fairfield Northpointe	Res - Rental	2013-14	250	58,654,324
Cadence Essex	Res - Rental	2013-14	250	62,500,000
Irvine	Res. - Rental	2013-14	350	69,900,000
Wyse	Res - Rental	2013-14	400	100,000,000
CIM -- Phase 2	Resid	2013-14	209	104,500,000
Block 8	Office	2013-14	300	120,000,000
2315 North First	R&D/Office	2013-14	600,000	120,000,000

Total 841,158,858

Riding Group/Markovits	Commercial	2014-15	56,000	5,478,626
Vista Montana 4	Res-Rental	2014-15	254	19,779,525
Fairfield Northpointe	Res - Rental	2014-15	150	33,654,324
N. San Pedro Hsg.	Resid	2014-15	90	36,000,000
Ebay	R&D/Off	2014-15	500,000	43,582,675
Cadence Essex	Res - Rental	2014-15	250	62,500,000
Vista Montana 3	Res-Rental	2014-15	300	63,270,000
Irvine	Res. - Rental	2014-15	350	69,900,000
Wyse	Res - Rental	2014-15	400	100,000,000
150 Brokaw	Office	2014-15	300,000	120,000,000
2315 North First	R&D/Office	2014-15	600,000	120,000,000
Adobe Systems	Office	2014-15	300,000	125,000,000
Hitachi GS	Residential	2014-15	500	191,666,667

Total 990,831,816

GRAND TOTAL 2,446,289,468

TABLE 11
R&D/INDUSTRIAL ASSESSED VALUE ANALYSIS
SAN JOSE REDEVELOPMENT AGENCY
(\$ in Millions)

FY Economic Year Assessec	2006-07 2005	2007-08 2006	2008-09 2007	2009-10 2008	2010-11 2009	2011-12 2010	2012-13 2011	2013-14 2012	2014-15 2013
Year Built or Sold									
1995 & Earlier	1,406	1,176	1,056	1,016	1,000	950	903	857	815
1996	176	179	210	180	180	180	185	195	205
1997	212	215	253	216	217	217	223	235	247
1998	139	141	166	142	142	142	146	154	162
1999	224	227	266	228	229	229	235	248	260
2000	156	158	185	159	159	159	163	172	181
2001	163	165	193	166	166	166	171	180	189
2002	1,355	1,374	1,611	1,381	1,384	1,384	1,422	1,498	1,573
2003	136	139	141	144	147	121	125	131	138
2004	274	280	285	291	297	245	252	265	279
2005	322	328	335	328	329	288	296	311	327
2006	-	911	929	915	917	798	820	863	907
2007	-	-	611	524	525	525	539	568	597
2008	-	-	-	165	165	165	170	179	182
2009	-	-	-	-	165	168	172	175	179
2010	-	-	-	-	-	150	153	156	159
2011	-	-	-	-	-	-	100	102	104
2012	-	-	-	-	-	-	-	200	204
2013	-	-	-	-	-	-	-	-	220
Total	4,564	5,293	6,242	5,856	6,022	5,887	6,073	6,489	6,926
Industrial Value Index	143	145	170	146	146	146	150	158	166

TABLE 12
OFFICE ASSESSED VALUE ANALYSIS
SAN JOSE REDEVELOPMENT AGENCY
(\$ in Millions)

FY Economic Year Assessed	2006-07 2005	2007-08 2006	2008-09 2007	2009-10 2008	2010-11 2009	2011-12 2010	2012-13 2011	2013-14 2012	2014-15 2013
Year Built or Sold									
1995	573	502	341	324	320	304	289	274	261
1996	392	399	407	416	424	432	441	450	459
1997	47	48	49	50	51	52	53	54	55
1998	178	247	247	259	241	228	228	228	228
1999	93	129	129	135	126	119	119	119	119
2000	83	116	116	122	113	107	107	107	107
2001	52	72	72	76	70	67	67	67	67
2002	87	122	124	127	121	115	115	115	115
2003	420	429	437	446	455	464	473	483	492
2004	213	217	222	226	231	235	240	245	250
2005	467	476	486	495	505	516	526	536	547
2006	-	357	357	374	382	390	397	405	413
2007	-	-	586	614	571	541	541	541	552
2008	-	-	-	75	70	66	66	66	66
2009	-	-	-	-	185	175	175	175	175
2010	-	-	-	-	-	100	100	100	100
2011	-	-	-	-	-	-	200	204	208
2012	-	-	-	-	-	-	-	200	204
2013	-	-	-	-	-	-	-	-	300
Total	2,605	3,115	3,574	3,739	3,865	3,911	4,138	4,370	4,419
Office Value Index	140	195	195	204	190	180	180	180	180

TABLE 13
OTHER ASSESSED VALUE ANALYSIS
SAN JOSE REDEVELOPMENT AGENCY
(\$ in Millions)

FY Economic Year Assessec	2006-07 2005	2007-08 2006	2008-09 2007	2009-10 2008	2010-11 2009	2011-12 2010	2012-13 2011	2013-14 2012	2014-15 2013
Commercial	1,168	1,292	1,188	1,527	1,500	1,500	1,500	1,575	1,654
Residential	2,084	2,321	2,528	2,889	3,080	3,180	3,539	4,216	5,027
Vacant land	535	712	616	630	500	500	500	550	550