



## Press Release

For Immediate News Release  
October 15, 2008

### MISSION WEST PROPERTIES ANNOUNCES THIRD QUARTER 2008 OPERATING RESULTS

*“We build the buildings for the high tech companies that build the internet”*

**Cupertino, CA – Mission West Properties, Inc. (NASDAQ: MSW)** reported today that Funds From Operations (“FFO”) for the quarter ended September 30, 2008 was approximately \$14,199,000, or \$0.13 per diluted common share, (considering the potential effect of all O.P. units being exchanged for shares of the Company’s common stock) as compared to approximately \$61,016,000, or \$0.58 per diluted common share, for the same period in 2007. Net termination fee income relating to lease terminations for the third quarter ended September 30, 2007 accounted for approximately \$46,340,000, or \$0.44 per diluted common share. On a sequential quarter basis, FFO for the quarter ended June 30, 2008 was approximately \$0.12 per diluted common share. For the nine months ended September 30, 2008, FFO decreased to \$42,471,000, or \$0.40 per diluted common share, from FFO of \$100,875,000, or \$0.96 per diluted common share, for the same period in 2007. Net termination fees and security deposit forfeitures income relating to lease terminations accounted for approximately \$1,921,000, or \$0.02 per diluted common share, and \$51,721,000 (including \$198,000 of security deposit forfeitures), or \$0.49 per diluted common share, for the nine months ended September 30, 2008 and 2007, respectively. Write-off of an above market lease intangible asset against income relating to one lease termination accounted for approximately \$3,619,000, or (\$0.03) per diluted common share, for the nine months ended September 30, 2007.

Net income per diluted share to common stockholders was \$0.08 for the quarter ended September 30, 2008 compared to \$0.60 for the quarter ended September 30, 2007, a per share decrease of approximately 87%. Net termination fee income relating to lease terminations accounted for approximately \$0.47 per diluted common share for the three months ended September 30, 2007. For the nine months ended September 30, 2008, net income per diluted share to common stockholders was \$0.25, down from \$0.87 a year ago, a per share decrease of approximately 71%. Net termination fees and security deposit forfeitures income relating to lease terminations accounted for approximately \$0.02 and \$0.52 per diluted common share for the nine months ended September 30, 2008 and 2007, respectively. Write-off of in-place lease intangible assets against income relating to two lease terminations accounted for approximately (\$0.04) per diluted common share for the nine months ended September 30, 2007.

#### **Financing Activity**

On October 1, 2008, the Company entered into a fixed rate term agreement and related contracts and instruments for a secured mortgage loan totaling \$115 million from Hartford Life Insurance Company, Hartford Life and Accident Insurance Company and Hartford Life and Annuity Insurance Company (the “Hartford Loan”). The Hartford Loan bears a fixed interest rate of 6.21%, with a 20 year amortization, and matures October 1, 2018. The Hartford Loan is secured by twenty properties consisting of approximately 1.6 million rentable square feet.

The Company paid approximately \$1.0 million in loan fees and costs, which will be amortized over the ten year loan period. The proceeds were used primarily to repay the remaining balance of an existing mortgage loan with Prudential Mortgage Capital Company and other short-term debt.

#### **Company Profile**

Mission West Properties, Inc. operates as a self-managed, self-administered and fully integrated REIT engaged in the management, leasing, marketing, development and acquisition of commercial R&D properties, primarily located in the Silicon Valley portion of the San Francisco Bay Area. Currently, the Company manages 111 properties totaling approximately 8.0 million rentable square feet, which includes approximately 854,000 rentable square feet (or 16 buildings) that are in the process of being rezoned for residential development. For additional information, please contact Investor Relations at 408-725-0700.

*The matters described herein contain forward-looking statements. Such statements can be identified by the use of forward-looking terminology such as “will,” “anticipate,” “estimate,” “expect,” “intends,” or similar words. Forward-looking statements involve a number of risks, uncertainties or other factors beyond the Company’s control, which may cause material differences in actual results, performance or other expectations. These factors include, but are not limited to, the ability to complete acquisitions under the Berg Land Holdings Option Agreement with the Berg Group and other factors detailed in the Company’s registration statements, and periodic filings with the Securities & Exchange Commission.*

**MISSION WEST PROPERTIES, INC.**  
**SELECTED FINANCIAL DATA**

(In thousands, except share, per share and property data amounts)

|   | Three Months<br>Ended<br>Sept 30, 2008 | Three Months<br>Ended<br>Sept 30, 2007 | Nine Months<br>Ended<br>Sept 30, 2008 | Nine Months<br>Ended<br>Sept 30, 2007 |
|---|--|--|---------------------------------------|---------------------------------------|
| <b>OPERATING REVENUES:</b>                                  |  |  |                                       |                                       |
| Rental revenue from real estate                             | \$20,256                               | \$19,000                               | \$58,612                              | \$61,350                              |
| Above market lease intangible asset amortization            | -                                      | -                                      | -                                     | (4,091) <sup>(1)</sup>                |
| Tenant reimbursements                                       | 4,607                                  | 3,454                                  | 11,900                                | 9,908                                 |
| Lease termination and settlement income                     | -                                      | 47,238                                 | 1,921                                 | 57,515                                |
| Other income  | 292                                    | 1,144                                  | 769                                   | 3,808                                 |
| Total operating revenues                                    | <u>25,155</u>                          | <u>70,836</u>                          | <u>73,202</u>                         | <u>128,490</u>                        |
| <b>OPERATING EXPENSES:</b>                                  |  |  |                                       |                                       |
| Operating and maintenance                                   | 2,951                                  | 3,382                                  | 7,993                                 | 7,160                                 |
| Real estate taxes   | 2,888                                  | 2,846                                  | 8,245                                 | 8,147                                 |
| General and administrative                                  | 605                                    | 982                                    | 1,951                                 | 2,369                                 |
| Depreciation and amortization of real estate                | 5,759 <sup>(2)</sup>                   | 5,533 <sup>(2)</sup>                   | 17,064 <sup>(2)</sup>                 | 17,084 <sup>(2)</sup>                 |
| Total operating expenses                                    | <u>12,203</u>                          | <u>12,743</u>                          | <u>35,253</u>                         | <u>34,760</u>                         |
| Operating income  | 12,952                                 | 58,093                                 | 37,949                                | 93,730                                |
| <b>OTHER INCOME (EXPENSES):</b>                             |  |  |                                       |                                       |
| Equity in earnings of unconsolidated joint venture          | 126                                    | 371                                    | 915                                   | 1,058                                 |
| Interest income   | 193                                    | 751                                    | 965                                   | 2,101                                 |
| Interest expense  | (5,023)                                | (5,061)                                | (14,907)                              | (15,175)                              |
| Interest expense – related parties                          | (309)                                  | (180)                                  | (1,025)                               | (546)                                 |
| Income from continuing operations before minority interests | 7,939                                  | 53,974                                 | 23,897                                | 81,168                                |
| Minority interests from continuing operations               | (6,304)                                | (43,153)                               | (19,021)                              | (64,980)                              |
| Income from continuing operations                           | <u>1,635</u>                           | <u>10,821</u>                          | <u>4,876</u>                          | <u>16,188</u>                         |
| Discontinued operations, net of minority interests:         |  |  |                                       |                                       |
| Gain from disposal of discontinued operations               | -                                      | 1,127                                  | -                                     | 1,127                                 |
| Income attributable to discontinued operations              | -                                      | (7)                                    | -                                     | 5                                     |
| Income from discontinued operations                         | <u>-</u>                               | <u>1,120</u>                           | <u>-</u>                              | <u>1,132</u>                          |
| Net income to common stockholders                           | <u>\$1,635</u>                         | <u>\$11,941</u>                        | <u>\$ 4,876</u>                       | <u>\$17,320</u>                       |
| Net income to minority interests                            | <u>\$6,304</u>                         | <u>\$48,550</u>                        | <u>\$19,021</u>                       | <u>\$70,469</u>                       |
| Income per share from continuing operations:                |  |  |                                       |                                       |
| Basic   | <u>\$0.08</u>                          | <u>\$0.55</u>                          | <u>\$0.25</u>                         | <u>\$0.82</u>                         |
| Diluted   | <u>\$0.08</u>                          | <u>\$0.54</u>                          | <u>\$0.25</u>                         | <u>\$0.81</u>                         |
| Income per share from discontinued operations:              |  |  |                                       |                                       |
| Basic   | <u>-</u>                               | <u>\$0.06</u>                          | <u>-</u>                              | <u>\$0.06</u>                         |
| Diluted   | <u>-</u>                               | <u>\$0.06</u>                          | <u>-</u>                              | <u>\$0.06</u>                         |
| Net income per share to common stockholders:                |  |  |                                       |                                       |
| Basic   | <u>\$0.08</u>                          | <u>\$0.61</u>                          | <u>\$0.25</u>                         | <u>\$0.88</u>                         |
| Diluted   | <u>\$0.08</u>                          | <u>\$0.60</u>                          | <u>\$0.25</u>                         | <u>\$0.87</u>                         |
| Weighted average shares of common stock (basic)             | <u>19,745,141</u>                      | <u>19,640,087</u>                      | <u>19,703,066</u>                     | <u>19,621,144</u>                     |
| Weighted average shares of common stock (diluted)           | <u>19,783,507</u>                      | <u>19,818,806</u>                      | <u>19,769,148</u>                     | <u>19,914,374</u>                     |
| Weighted average O.P. units outstanding                     | <u>85,527,739</u>                      | <u>85,015,658</u>                      | <u>85,528,787</u>                     | <u>85,030,650</u>                     |

**FUNDS FROM OPERATIONS**

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Funds from operations  | \$14,199    | \$61,016    | \$42,471    | \$100,875   |
| Funds from operations per share <sup>(3)</sup>                     | \$0.13      | \$0.58      | \$0.40      | \$0.96      |
| Outstanding common stock   | 19,748,211  | 19,640,087  | 19,748,211  | 19,640,087  |
| Outstanding O.P. units   | 85,526,965  | 85,557,935  | 85,526,965  | 85,557,935  |
| Weighted average O.P. units and common stock outstanding (diluted) | 105,311,246 | 104,834,464 | 105,297,934 | 104,945,024 |

|   | Three Months Ended<br>Sept 30, 2008 | Three Months Ended<br>Sept 30, 2007 | Nine Months Ended<br>Sept 30, 2008 | Nine Months Ended<br>Sept 30, 2007 |
|---|-------------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| <b>FUNDS FROM OPERATIONS CALCULATION</b>  |                                     |                                     |                                    |                                    |
| Net income  | \$ 1,635                            | \$11,941                            | \$ 4,876                           | \$17,320                           |
| Add:  |                                     |                                     |                                    |                                    |
| Minority interests <sup>(4)</sup>   | 6,171                               | 48,420                              | 18,714                             | 70,098                             |
| Depreciation and amortization of real estate from continuing operations           | 6,204                               | 6,856                               | 18,313                             | 19,168                             |
| Depreciation and amortization of real estate from discontinued operations         | -                                   | 139                                 | -                                  | 250                                |
| Depreciation and amortization of real estate held in unconsolidated joint venture | 189                                 | 189                                 | 568                                | 568                                |
| Less:   |                                     |                                     |                                    |                                    |
| Gain on sale of real estate   | -                                   | (6,529)                             | -                                  | (6,529)                            |
| Funds from operations   | \$14,199                            | \$61,016                            | \$42,471                           | \$100,875                          |

Funds From Operations ("FFO") is a non-GAAP financial measurement used by real estate investment trusts ("REITs") to measure and compare operating performance. As defined by NAREIT, FFO represents net income (loss) before minority interest of unit holders (computed in accordance with GAAP, accounting principles generally accepted in the United States of America), excluding gains (or losses) from debt restructuring and sales of property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustments for unconsolidated partnerships and joint ventures. Management considers FFO to be an appropriate supplemental measure of the Company's operating and financial performance because when compared year over year, it reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. In addition, management believes that FFO provides useful information about the Company's financial performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs. FFO should neither be considered as an alternative for net income as a measure of profitability nor is it comparable to cash flows provided by operating activities determined in accordance with GAAP. FFO is not comparable to similarly entitled items reported by other REITs that do not define them exactly as we define FFO.

|   | Three Months Ended<br>Sept 30, 2008 | Three Months Ended<br>Sept 30, 2007 | Nine Months Ended<br>Sept 30, 2008 | Nine Months Ended<br>Sept 30, 2007 |
|---|-------------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| <b>PROPERTY AND OTHER DATA:</b>                               |                                     |                                     |                                    |                                    |
| Total properties, end of period                               | 111                                 | 109                                 | 111                                | 109                                |
| Total square feet, end of period                              | 8,047,569                           | 7,861,692                           | 8,047,569                          | 7,861,692                          |
| Average monthly rental revenue per square foot <sup>(5)</sup> | \$1.25                              | \$1.47                              | \$1.24                             | \$1.47                             |
| Occupancy for leased properties                               | 66.7%                               | 62.6%                               | 66.7%                              | 62.6%                              |
| Straight-line rent  | \$ 857                              | (\$2,265)                           | \$2,444                            | (\$3,966)                          |
| Leasing commissions   | \$ 606                              | \$ 746                              | \$1,241                            | \$2,647                            |
| Capital expenditures  | \$3,827                             | \$2,212                             | \$6,164                            | \$4,621                            |

**BALANCE SHEET****September 30, 2008****December 31, 2007**

## Assets

## Real estate:

|  |                    |                    |
|--|--------------------|--------------------|
| Land   | \$ 320,911         | \$ 312,152         |
| Buildings and improvements                     | 796,638            | 764,665            |
| Real estate related intangible assets          | 3,240              | 2,119              |
| Total investments in real estate, net          | <u>1,120,789</u>   | <u>1,078,936</u>   |
| Less accumulated depreciation and amortization | (173,883)          | (156,819)          |
| Net investments in properties                  | <u>946,906</u>     | <u>922,117</u>     |
| Cash and cash equivalents                      | -                  | 23,691             |
| Restricted cash                                | 43,275             | 65,509             |
| Deferred rent receivable, net                  | 17,277             | 14,833             |
| Investment in unconsolidated joint venture     | 2,301              | 2,735              |
| Other assets, net                              | 29,245             | 25,000             |
| Total assets                                   | <u>\$1,039,004</u> | <u>\$1,053,885</u> |

## Liabilities and Stockholders' Equity

## Liabilities:

|   |                |                |
|---|----------------|----------------|
| Mortgage notes payable                  | \$ 329,188     | \$ 337,520     |
| Note payable – related parties          | 7,821          | -              |
| Mortgage note payable – related parties | 8,880          | 9,224          |
| Revolving line of credit                | 11,911         | -              |
| Interest payable                        | 1,336          | 1,331          |
| Security deposits                       | 5,627          | 4,754          |
| Deferred rental income                  | 6,026          | 3,302          |
| Dividends and distributions payable     | 21,055         | 16,832         |
| Accounts payable and accrued expenses   | 20,607         | 15,618         |
| Total liabilities                       | <u>412,451</u> | <u>388,581</u> |

## Commitments and contingencies.

|                    |                |                |
|--------------------|----------------|----------------|
| Minority interests | <u>493,632</u> | <u>526,626</u> |
|--------------------|----------------|----------------|

## Stockholders' equity:

|   |                    |                    |
|---|--------------------|--------------------|
| Common stock, \$.001 par value                  | 20                 | 20                 |
| Additional paid-in capital                      | 154,223            | 153,024            |
| Distributions in excess of accumulated earnings | (21,322)           | (14,366)           |
| Total stockholders' equity                      | <u>132,921</u>     | <u>138,678</u>     |
| Total liabilities and stockholders' equity      | <u>\$1,039,004</u> | <u>\$1,053,885</u> |

- (1) Amortization of an above-market lease intangible asset pursuant to Statement of Financial Accounting Standard No. 141, "Business Combinations."
- (2) Includes approximately \$159 and \$347 in amortization expense for the three months ended September 30, 2008 and 2007, respectively, and \$441 and \$1,886 in amortization expense for the nine months ended September 30, 2008 and 2007, respectively, for the amortization of in-place lease value intangible asset pursuant to Statement of Financial Accounting Standard No. 141, "Business Combinations."
- (3) Calculated on a fully diluted basis. Assumes conversion of O.P. units outstanding into the Company's common stock.
- (4) The minority interest for third parties has been deducted from total minority interest in calculating FFO.
- (5) Average monthly rental revenue per square foot has been determined by taking the cash base rent for the period divided by the number of months in the period, and then divided by the average occupied square feet in the period.