

Silicon Valley Industrial

Market Forecast Industrial

Trends

Absorption



Vacancy



Rental Rate



New Construction



Market Forecast Warehouse

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Living Spaces

41066-41168 Boyce Road, Fremont
354,000 s.f.

R & R Vehicle Storage

930 Wrigley Way, Milpitas
118,013 s.f.

Sanmina

590 Brennan Avenue, San Jose
109,400 s.f.

Walmart

1980 Senter Road, San Jose
57,783 s.f.

The Silicon Valley industrial and warehouse market slowed modestly in the first quarter of 2016, reporting 25,968 s.f. of negative net absorption. Average asking rental rates market-wide held at around \$1.02 per s.f. per month on a triple-net basis, a two percent increase from a year ago. Most submarkets are currently reporting very tight vacancy rates, with the market-wide rate ticking upward slightly to 4.90%. Tenant competition for space remains strong, as speculative developments are getting leased before completion and industrial product continues to get demolished for residential development, reducing the existing supply.

Despite the small dip in occupied industrial space, the Silicon Valley industrial market remains tight, with the sub-5.0% vacancy rate near historically low levels and tenants struggling to find viable spaces. The industrial vacancy rate inched up from 4.86% to 4.90% this quarter, but warehouse vacancies tumbled from 4.02% to 3.76%, as the Silicon Valley warehouse market saw 99,450 s.f. of positive net absorption. Owing both to its greater supply of industrial space and its accessibility from Interstate 880, Fremont is an increasingly desirable home for the valley's large-scale industrial users; it reported 78,576 s.f. of positive net absorption in the first quarter, the most of any submarket. Market-wide, the amount of available space remains at near record-low levels, which portends a downward trend in vacancy rates and stable absorption numbers in the coming quarters.

Living Spaces turned in the quarter's largest lease deal, snagging 354,000 s.f. at the new Prologis facility, Silicon Valley Logistics Park, in Fremont. The furniture retailer had been seeking a distribution facility that would foster a greater presence in Northern California, and the Fremont lease follows commitments to open stores in San Leandro and Millbrae. R&R Vehicle Storage was the runner-up this quarter, renewing its 118,013 s.f. space at 930 Wrigley Way in Milpitas. Finally, the electronics manufacturer Sanmina had the largest transaction in its hometown of San Jose, grabbing 109,400 s.f. at 590 Brennan Avenue.

Historically high volumes of user requirements paired with decreasing industrial supply kept rental rates at \$1.02 per s.f. per month on a triple-net basis this quarter. New

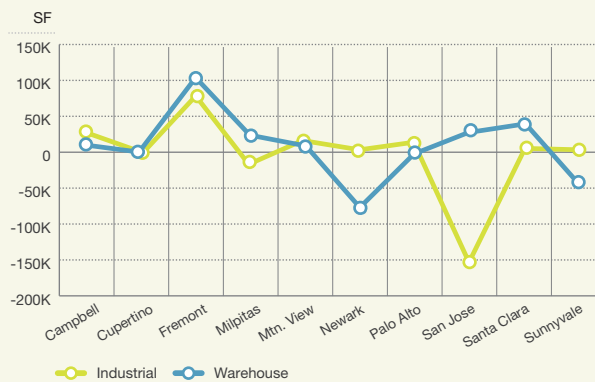
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developments continue to boost their asking rents, driving price tags higher on choice product market-wide. At \$1.82 per s.f., Mountain View had the highest industrial asking rent in the Silicon Valley market at quarter's end, while Fremont, at \$0.67 per s.f., had the lowest. About 4.67 million s.f. of industrial space was available for lease at quarter's end, with San Jose accounting for 44% of the availabilities and Fremont contributing another 26%.

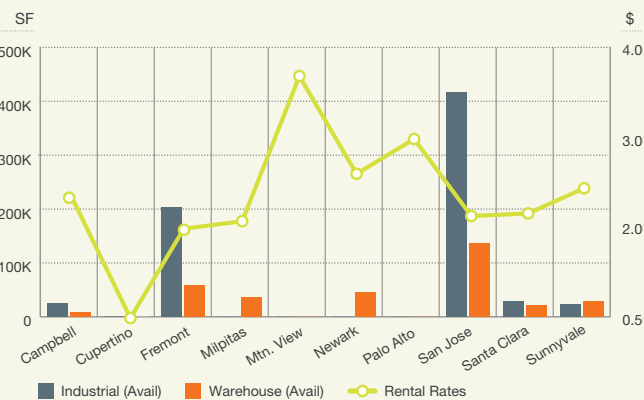
Industrial investment sales activity remained robust this quarter, especially in well-located buildings with long-term tenants. The quarter's largest sale transaction, however, was a redevelopment play in which Pulte Homes acquired 1401 S Milpitas Boulevard—a 7.41 acre parcel—for \$41.78 million or \$129.44 per s.f. of dirt. The largest industrial investment involved 1623 Rogers Avenue in San Jose, with tenants including Brinks Armored Car Inc. and Westco Iron Works, which went to Peninsula Land & Capital for \$11.3 million or \$144 per s.f. Lastly, Morgan Stanley picked up a 33% interest in the 80,192 s.f. building at 905 McLaughlin Avenue in San Jose, part of a 12 property portfolio purchased from LBA Realty that totals 3,349,918 s.f. in California, Texas, and Washington.

New developments and renovations remain active in the industrial and warehouse market, as few existing alternatives over 50,000 s.f. are available. Additionally, developers have moved to capitalize on the supply-constrained market by breaking ground on a number of speculative development projects. Over 600,000 s.f. of industrial space is currently under construction and expected to be delivered over the next 6-24 months.

YTD Net Absorption by Submarket



Total Available For Lease/Rental Rates by Submarket



Submarket Statistics

Submarket	INDUSTRIAL							WAREHOUSE						
	Total Available for Lease	Sublease	Direct Lease	Total Available for Sale	Vacancy %	Gross Absorption YTD	Net Absorption YTD	Total Available for Lease	Sublease	Direct Lease	Total Available for Sale	Vacancy %	Gross Absorption YTD	Net Absorption YTD
Campbell	20,556	0	20,556	25,600	2.60%	41,942	25,410	3,000	0	3000	8,800	1.20%	14,798	13,200
Cupertino	0	0	0	0	0.00%	0	0	0	0	0	0	0.00%	0	0
Fremont	1,187,625	5,440	1,182,185	203,194	5.52%	1,100,504	78,576	830,561	5,440	785,875	58,674	2.78%	169,925	102,806
Milpitas	623,831	12,666	611,165	0	22.43%	94,320	-15,101	600,216	12,666	587,550	36,288	10.47%	420,987	21,098
Mountain View	18,565	0	18,565	0	1.97%	35,930	15,856	10,865	0	10,865	0	0.00%	11,456	11,456
Newark	280,728	22,700	258,028	0	4.91%	57,634	2,698	173,844	2,000	171,144	45,158	10.31%	147,188	-77,034
Palo Alto	39,133	3,250	35,883	0	1.45%	77,029	12,423	29,050	3,250	25,800	0	0.25%	5,902	-450
San Jose	2,047,841	106,509	1,941,332	417,282	7.28%	380,567	-151,584	2,099,166	35,891	1,475,275	137,153	5.78%	1,121,622	30,321
Santa Clara	302,655	0	302,655	28,669	4.82%	327,419	3,850	197,512	0	170,031	21,000	1.85%	153,792	38,383
Sunnyvale	128,426	7,592	120,834	23,511	4.62%	71,532	1,904	92,450	0	92,450	29,620	5.94%	147,373	-40,330
Total	4,649,360	158,157	4,491,203	698,256	4.90%	2,186,877	-25,968	4,036,664	59,947	3,321,990	336,693	3.76%	2,193,043	99,450

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