

Silicon Valley Industrial

Market Forecast

	Industrial
Absorption	↑
Vacancy	↓
Rental Rate	↑
New Construction	↔
	Warehouse
Absorption	↑
Vacancy	↓
Rental Rate	↑
New Construction	↓

Notable Lease Transactions

UPS
2055 S 7th Street, San Jose
259,479 s.f.

PODS
1001-1075 Montague Expressway, Milpitas
153,173 s.f.

Notable Sales Transactions

LBA Realty
5555 Automall Parkway, Fremont
177,041 s.f.

Summerhill Homes LLC
2960 & 3060 Copper Road, Santa Clara
104,289 s.f.

Golden Cajun LLC
1500 Duane Avenue, Santa Clara
71,296 s.f.

The Silicon Valley industrial and warehouse market gained momentum in the second quarter of 2016, reporting 646,319 s.f. of positive net absorption. Average blended industrial and warehouse asking rental rates market-wide jumped to around \$1.16 per s.f. per month on a triple-net basis, a big increase from \$.88 a year ago. Most submarkets are currently reporting very tight vacancy rates, with the market-wide rate creeping downward slightly to 4.80% from 4.90%. Competition for space remains strong, as speculative developments are getting leased before completion, while industrial product continues to get demolished for residential development, reducing the existing supply.

Although the decrease in vacancy from the previous quarter was light, the Silicon Valley industrial market remains tight. The sub-5.0% vacancy rate is near historically low levels and tenants are struggling to find viable spaces. The industrial vacancy rate shrank slightly from 4.90% to 4.80% this quarter, but warehouse vacancies tumbled from 3.76% to 2.22%, as the Silicon Valley warehouse market saw 584,573 s.f. of positive net absorption. San Jose is an increasingly desirable home for the Valley's large-scale industrial users; it reported 445,500 s.f. of positive net absorption in the second quarter, the most of any submarket. Vacancy rates will most likely continue their downward trend and produce stable absorption numbers in the coming quarters.

UPS turned in the quarter's largest lease deal, snagging 259,479 s.f. at 2055 S 7th Street in San Jose. PODS was the runner-up this quarter, leasing 153,173 s.f. of space at 1001-1075 Montague Expressway in Milpitas. That represents a roughly 70,000 s.f. expansion for the portable storage firm. Flextronics renewed 100,103 s.f. at 901 Wrigley Way in Milpitas. Finally, National Construction Rentals, inked a deal for 67,800 s.f. at 2040 S 7th Street in San Jose.

Historically high volumes of user requirements paired with decreasing industrial supply kept rental rates at \$1.16 per s.f. per month on a triple-net basis this quarter. New developments continue to boost asking rents, driving price tags higher on choice

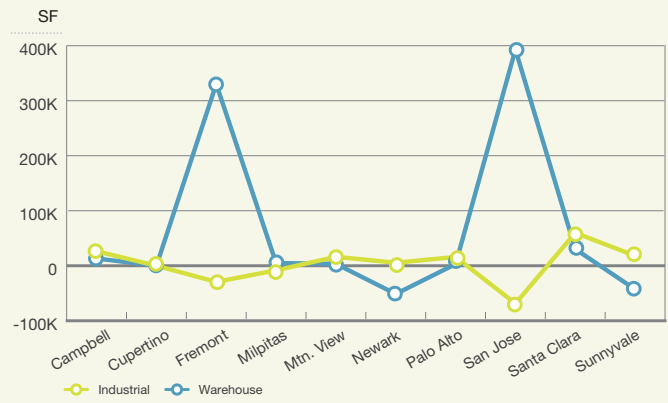
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product market-wide. At \$1.67 per s.f., Palo Alto had the highest industrial asking rent in the Silicon Valley market at quarter's end, while Newark, at \$0.93 per s.f., had the lowest. About 4.43 million s.f. of industrial space was available for lease at quarter's end, with San Jose accounting for 48% of the availabilities and Fremont contributing another 26%.

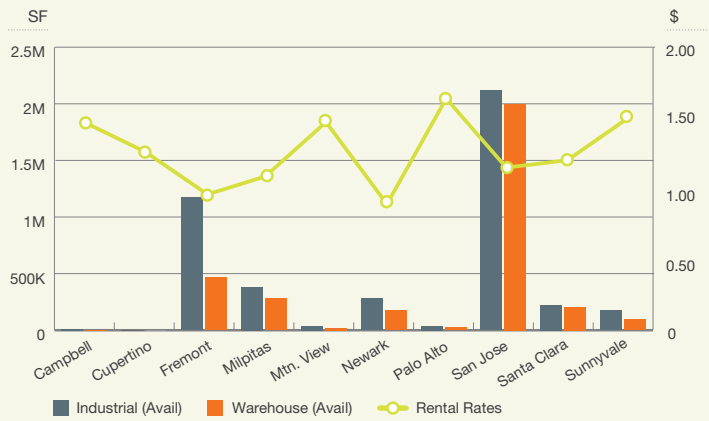
Industrial sales activity remained robust this quarter, especially for well-located projects with long-term tenants. The quarter's largest sale transaction goes to the 177,041 s.f. purchase of 5555 Auto Mall Parkway in Fremont by LBA Realty. The next biggest sale was Summerhill Homes' purchase of two industrial buildings at 2960 and 3060 Copper Road in Santa Clara totaling 104,289 s.f. The total lot size is 3.22 acres, and will most likely be a residential redevelopment. The largest purchase in San Jose was 61,237 s.f. by Vierira Enterprises and occurred at 1240-1260 Yard Court. The "Brexit" has impacted interest rates in the short term, but only time will tell the magnitude of the impact it will have on our market in the coming quarters.

New construction did not have much activity during the second quarter. Industrial construction remained constant at just above 600,000 s.f. with delivery expected in the next 6-24 months. Warehouse construction dropped this quarter as two large buildings were completed.

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	9,036	0	9,036	25,600	2.58%	45,087	26,385	3,000	0	3,000	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	1,172,901	32,440	1,140,461	149,994	6.59%	1,108,388	-29,340	463,899	32,440	431,459	197,719	2.14%	780,341	330,423
Milpitas	383,014	22,466	360,548	0	22.19%	116,840	-8,258	277,781	12,666	265,115	70,288	10.82%	480,845	4,865
Mountain View	35,453	0	35,453	0	1.96%	38,730	16,256	18,903	0	18,903	0	2.27%	14,336	3,418
Newark	277,928	22,700	255,228	0	4.88%	61,834	5,498	173,844	2,700	171,144	19,400	9.57%	178,588	-51,276
Palo Alto	35,633	3,250	32,383	0	1.04%	80,529	15,923	25,550	3,250	22,300	0	0.20%	11,804	3,050
San Jose	2,119,618	73,158	2,046,460	416,300	6.82%	488,321	-68,600	2,000,221	2,540	1,409,681	234,084	3.44%	1,612,874	392,837
Santa Clara	223,562	6,000	217,562	28,669	4.33%	392,789	59,760	205,543	6,000	172,062	21,000	2.10%	166,512	30,352
Sunnyvale	173,210	7,592	165,618	144,127	4.25%	87,782	18,154	94,966	0	94,966	29,620	6.07%	155,722	-42,846
Total	4,430,355	167,606	4,262,749	764,690	4.80%	2,420,300	35,778	3,263,707	59,596	2,588,630	580,911	2.22%	3,415,820	684,023

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