

Silicon Valley Industrial

Market Forecast

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

Notable Lease Transactions

Graebel Moving and Storage
2020 S Tenth St, San Jose
138,240 s.f.

DS Waters of America
485 Vista Way, Milpitas
48,000 s.f.

Legacy Transportation Service
938 Remillard Court, San Jose
47,000 s.f.

KNT Hotchkiss, LLC
45861-4573 Hotchkiss St, Fremont
40,830 s.f.

Notable Sale Transactions

LBA Realty
44901 Industrial Drive, Fremont
161,200 s.f.

The Moulton Company
39888 Eureka Drive, Newark
142,388 s.f.

Exeter
357 E Taylor Street, San Jose
129,646 s.f.

K&L Supply
2099 S Tenth Street, San Jose
91,534 s.f.

The industrial and warehouse market remained very tight to open the year, as users seeking small and medium-sized spaces found scarce supply to meet their requirements. Net absorption for industrial and warehouse products was essentially flat, posting negative 24,853 square feet and negative 90,319 square feet respectively. Industrial vacancy was also relatively flat going from 4.90% in Q1 of 2016 to 4.95% this quarter, a very modest year over year increase. Warehouse vacancies also increased year over year going from 2.22% to 2.46%. The average asking rates for industrial and warehouse were \$1.15 and \$0.95 per square foot per month on a triple-net basis respectively. Silicon Valley's industrial stock continues to decline, as investors buy older properties and repurpose them for other uses. Demand for well-placed product is still strong, but the lack of supply has forced users to look at the far edges of the Valley for suitable spaces. The limited supply paired with steady demand means rental rates figure to trend upward in the near future.

The vacancy rate for industrial properties came in at 4.95%, while the rate for warehouse properties came in at 2.46%. These modest increases are not surprising, as they come on the heels of historically low vacancy rates that were bound to trend back upward over time. Steady and strong demand in the market should limit the rise in vacancies. Owners continue to seek redevelopment opportunities for their assets, causing tenants to look elsewhere for space. Due to the constrained supply for both product types, these tenants are often forced to relent on either price or location in order to find new spaces that can accommodate their business needs. Fremont had the best net absorption performance for both product types this quarter, at positive 146,102 sf for industrial and positive 83,343 sf for warehouse. Milpitas endured the largest industrial loss with 85,668 sf of negative net absorption. San Jose experienced the largest warehouse loss at 227,965 sf, the result of redevelopment activity that shows no signs of slowing down.

New industrial and warehouse leases have become increasingly rare, and activity this quarter was once again buoyed by key renewals. Graebel Moving and Storage had the largest lease, keeping their 138,240 sf warehouse at 2020 S Tenth Street in San Jose. DS Waters of America Company completed the second largest transaction this quarter, renewing their 48,000 sf manufacturing space at 485 Vista Way in Milpitas. Next, Legacy Transportation Services renewed their 47,000 sf warehouse at 938 Remillard Court in San Jose. Finally, KNT Hotchkiss, LLC leased 40,830 square feet of manufacturing/warehouse space at 45861-4573 Hotchkiss Street. Users are hanging on to their spaces due to the lack of alternative options on the market, limiting vacancies for new users to fill.

The supply constraints and high demand kept rental rates at historical highs. The average asking rates for industrial and warehouse are holding strong at \$1.15 and \$0.95 respectively and will look

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Offices

- Seattle
206.296.9600
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- Portland
503.221.9900
- San Francisco
415.229.8888
- Redwood Shores
650.769.3600
- Silicon Valley
408.970.9400
- Sacramento
916.970.9700
- Roseville
916.751.3600
- Los Angeles
213.880.5250
- Long Beach
562.472.0071
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323.727.1144
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949.557.5000
- Inland Empire
909.764.6500
- San Diego
858.509.1200
- Carlsbad
760.430.1000
- Reno
775.301.1300
- Phoenix
602.513.5200

Contact

Mark Read
Executive VP, Brokerage
Northern California
858.509.1200
mread@kiddermathews.com

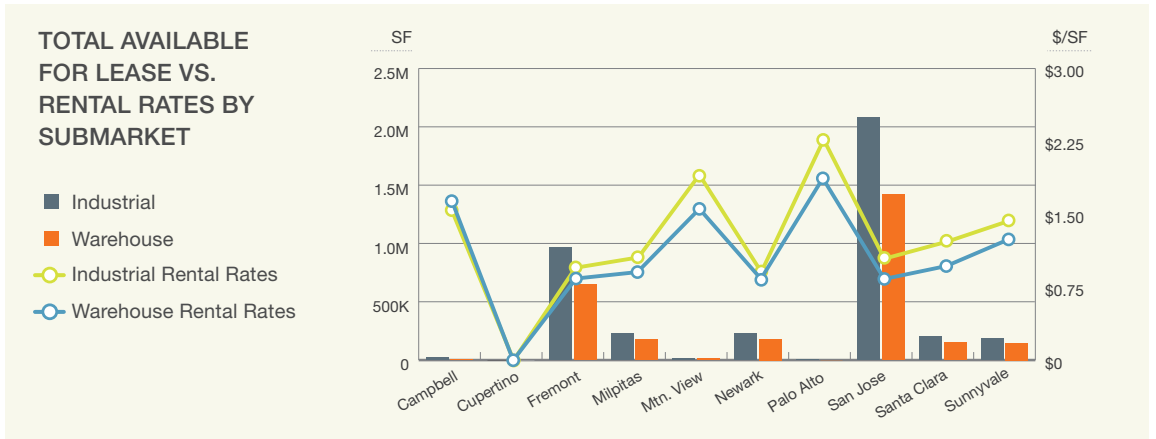
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to trend upward. Palo Alto had the highest asking rate for industrial product at \$2.31 and warehouse product at \$1.92 per square foot. Newark still has the best deals in the Valley with their industrial \$0.95 and warehouse \$0.88 per square foot asking rate. The quarter ended up with 3.93 million square feet of available industrial space for lease. Available warehouse space for lease ended up at 2,742,738 sf. San Jose accounts for roughly 53% of the industrial availabilities and 52% of the warehouse availabilities. Much of the supply on the market is for large blocks of space, while a majority of the demand is for the medium sized spaces. Users will need to be flexible with their criteria to find spaces.

The industrial and warehouse sales market was bolstered by notable warehouse transactions. The supply of available investment and owner/user opportunities is diminishing, forcing buyers to look at the eastern regions of the Valley, where more buildings are on the market. LBA Realty was active among different product types and had the most significant warehouse investment, purchasing the 161,200 sf building at 44901 Industrial Drive in Fremont. The Moulton Company completed the second largest transaction with their 142,388 sf investment purchase at 39888 Eureka Drive

in Newark. Exeter comes in third with their 129,646 sf investment at 357 E Taylor Street in San Jose, which is the Gordon Biersch Brewing Factory. K&L Supply struck the largest owner/user purchase, buying 2099 S 10th Street in San Jose, a 91,534 sf warehouse. Multiple offers for well-priced properties remain common, since there is a lot of money on the sideline and a limited amount of product on the market. Investors are leery of the future but still seek value-add opportunities, while the core long term product has seen an uptick in demand as well in order to minimize risk moving forward. Industrial and warehouse product demand still remains high.

Construction starts increased during the first quarter to meet the market demands. There is currently 1,175,608 sf of industrial construction underway, an increase from last quarter's 1,090,960 sf. Warehouse construction is now at 84,648 sf, after being entirely dormant last quarter. These projects are a starting point for easing the market's supply constraints and satisfying users' needs, but significantly more industrial product will need to come on line to accommodate the tenant demand for space in Silicon Valley.



Submarket Statistics

Submarket	INDUSTRIAL					WAREHOUSE				
	Total Available for Lease	Sublease	Total Available for Sale	Vacancy %	Net Absorption YTD	Total Available for Lease	Sublease	Total Available for Sale	Vacancy %	Net Absorption YTD
Campbell	20,382	-	25,600	3.38%	(3,363)	3,000	-	-	0.05%	2,695
Cupertino	-	-	-	0.00%	-	-	-	-	0.00%	-
Fremont	962,965	87,307	79,522	5.77%	146,102	646,291	11,296	61,458	1.94%	83,343
Milpitas	225,458	8,020	52,952	24.15%	(85,668)	179,082	-	193,862	4.95%	66,217
Mountain View	16,977	-	-	2.99%	(15,278)	16,977	-	-	1.98%	6,570
Newark	229,259	20,000	-	4.85%	(8,277)	180,284	-	45,158	7.77%	13,035
Palo Alto	4,070	-	-	0.63%	-	-	-	-	0.00%	-
San Jose	2,083,407	144,797	321,282	7.45%	17,009	1,418,141	97,909	281,369	4.29%	(227,965)
Santa Clara	201,916	73,000	25,240	5.51%	(60,206)	152,176	73,000	14,060	2.14%	(26,578)
Sunnyvale	187,343	48,143	-	5.06%	(15,172)	146,787	40,551	-	6.66%	(7,636)
Total	3,931,777	381,267	504,596	4.95%	(24,853)	2,742,738	222,756	595,907	2.46%	(90,319)

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