

Silicon Valley Industrial

Market Forecast

| | Industrial | Warehouse |
|------------------|------------|-----------|
| Absorption | ↑ | ↑ |
| Vacancy | ↓ | ↓ |
| Rental Rate | ↑ | ↑ |
| New Construction | ↑ | ↑ |

Notable Lease Transactions

RK Logistics Group, Inc.
41707 Christy Street, Fremont
190,080 s.f.

Quanta Computer
41652-41660 Boscell Road, Fremont
102,626 s.f.

Relectric Supply Company
2390 Zanker Road, San Jose
76,972 s.f.

Three Way Logistics
42505 Christy Street, Fremont
75,963 s.f.

Notable Sale Transactions

Trammell Crow
587 Cinnabar Street, San Jose
201,940 s.f.

Realty Associates Fund
5695 Stewart Avenue, Fremont
192,397 s.f.

Habib Zakerani
2220 - 2296 Quimby Road, San Jose
187,689 s.f.

Angelo, Gordon & Co.
5901 Optical Court, San Jose
185,000 s.f.

The industrial and warehouse market trended positively this quarter, as large users absorbed big chunks of available space. Net absorption was positive for both industrial and warehouse product, at 84,441 s.f. and 53,208 s.f., respectively. Industrial vacancy dropped from 4.95% to 4.77% while warehouse vacancies realized a larger decrease, going from 2.46% to 2.08%. The average asking rate was \$1.14 per s.f. per month for industrial spaces and \$0.93 for warehouses, both on a triple-net basis. Demand for industrial and warehouse product remains strong in the eastern and southern parts of the Valley. Supply in the western part of Silicon Valley continues to dwindle as product is repurposed for other uses. The decreasing 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 4.77%, while warehouse properties showed 2.08% vacancy. These waning rates come as no surprise, as the industrial and warehouse markets continue to tighten. Steady and strong demand in the market should continue to put downward pressure on vacancy rates. Continued constrained supply for both product types keeps forcing tenants to yield on either price or location in order to find suitable spaces. Fremont had the largest net absorption performance for the industrial product type this quarter, adding 177,570 s.f. of occupied space. Newark had the largest net absorption gain for the warehouse product type this quarter, posting a positive 72,449 s.f. Milpitas endured the largest industrial loss with 130,997 s.f. of negative net absorption. Sunnyvale experienced the largest warehouse loss with 44,676 s.f. of negative net absorption. Losses in these cities are most likely attributable to redevelopment activity that shows no signs of slowing down.

Notable renewals continued to bolster industrial and warehouse leasing activity this quarter, but new direct leases also played a large role in the market over the past three months. RK Logistics Group Inc. inked the largest transaction, renewing their 190,080 s.f. warehouse at 41707 Christy Street in Fremont. Quanta Computer had the largest new lease, taking a 102,626 s.f. warehouse at 41652-41660 Boscell Road in Fremont. Relectric Supply Company completed the third largest transaction this quarter, renewing their 76,972 s.f. warehouse space at 2390 Zanker Road in San Jose. Finally, Three Way Logistics renewed their 75,963 s.f. warehouse at 42505 Christy Street in Fremont. Large warehouse leasing is still proceeding at healthy levels, while large industrial leases are few and far between, most likely due to tenants hanging onto their spaces and reaping the benefits of signing leases at lower rates.

The supply constraints and high demand continue to bolster rental rates. The average asking rates for industrial and warehouse are holding strong at \$1.14 and \$0.93, respectively, and figure to trend upward. Newark still has the best deals in the Valley with their industrial \$0.92 and warehouse \$0.88

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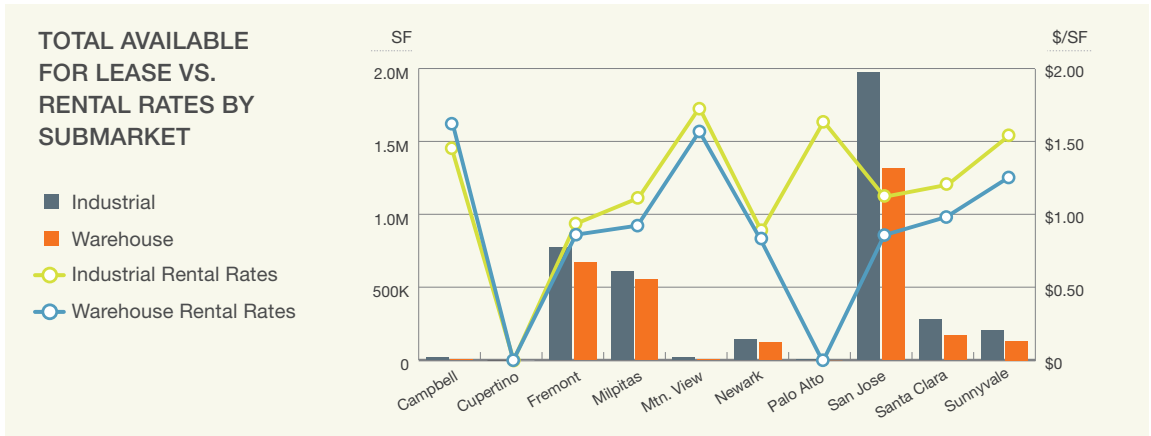
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per s.f. asking rate. The quarter ended with 4.01 million s.f. of available industrial space for lease. Available warehouse space for lease ended up at 2,966,634 s.f. San Jose accounts for roughly 49% of the industrial availabilities and 44% of the warehouse availabilities. Much of the supply on the market is for large blocks of space, while a majority of the demand is for medium sized spaces. Users continue to be flexible on price, location, and features in order to stay in the Valley.

The industrial and warehouse sales markets were once again sustained by investors. Large scale investors and users are still forced to place their money in the southern and eastern regions of the Valley, with limited opportunities elsewhere. Trammell Crow was very active, buying multiple industrial properties in San Jose. The company hopes these recent acquisitions will become Google developments in the near future. Trammell Crow's largest purchase was a 201,940 s.f. building at 587 Cinnabar Street. Realty Associates Fund completed the second largest transaction with

their 192,397 s.f. warehouse investment in the Fremont Business Center at 5695 Stewart Avenue in Fremont. Investor Habib Zakerani came in third with an 187,689 s.f., six-building purchase of the Lion Business Park at 2220-2296 Quimby Road in San Jose. Habib Zakerani also purchased a roughly 218,000 s.f. lot at 2240 Tully Road. Angelo, Gordon & Company rounded out the notable buyers, acquiring 5901 Optical Court in San Jose, a roughly 185,000 s.f. building. Industrial and warehouse investors continue to gobble up the few remaining properties with plans to redevelop into different product types that can yield higher returns. Industrial and warehouse demand still remains high, outpacing the constrained supply.

Construction stayed constant during the second quarter with 1,175,608 s.f. of industrial development underway. Warehouse construction remains at 84,648 s.f., after being entirely dormant last quarter. These projects can't be completed soon enough as tenant demand for space in Silicon Valley continues to rise.



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 | 18,885 | - | 25,600 | 3.75% | (6,419) | 3,000 | - | - | 4.89% | (34,345) |
| Cupertino | - | - | - | 0.00% | - | - | - | - | 0.00% | - |
| Fremont | 771,216 | 87,307 | 28,435 | 5.46% | 177,570 | 669,256 | 11,296 | 27,554 | 2.57% | 34,285 |
| Milpitas | 607,410 | 8,020 | 34,481 | 24.76% | (130,997) | 553,163 | - | 177,820 | 5.55% | 37,840 |
| Mountain View | 15,500 | - | - | 2.28% | 4,196 | 3,850 | - | - | 1.73% | 19,697 |
| Newark | 144,005 | 20,000 | - | 4.01% | 76,977 | 120,870 | - | 45,158 | 7.07% | 72,449 |
| Palo Alto | 4,070 | - | - | 0.61% | 19,145 | - | - | - | 0.00% | 1,200 |
| San Jose | 1,973,603 | 135,932 | 361,082 | 7.06% | 87,013 | 1,315,859 | 94,732 | 185,506 | 3.01% | (29,965) |
| Santa Clara | 275,555 | 73,000 | 61,188 | 6.16% | (123,524) | 169,962 | 73,000 | 2,520 | 1.42% | (3,277) |
| Sunnyvale | 204,502 | 15,553 | - | 5.16% | (19,520) | 130,674 | 7,961 | - | 6.71% | (44,676) |
| Total | 4,014,746 | 339,812 | 510,786 | 4.77% | 84,441 | 2,966,634 | 186,989 | 438,558 | 2.08% | 53,208 |

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