

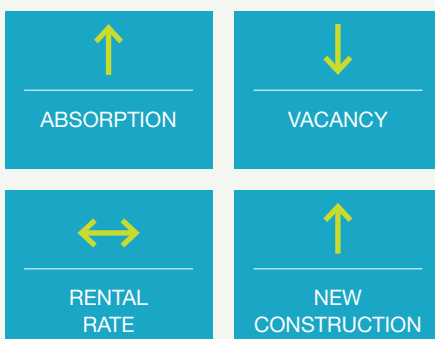
Real Estate Market Review

Silicon Valley Industrial

The industrial and warehouse market held relatively steady during the third quarter. Supply increased over the previous quarter, which should help satisfy some of the demand. Net absorption was negative for industrial coming in at negative 107,507 sf, and warehouse posted a positive 65,101 sf. Industrial and warehouse vacancies remain very low coming in at 4.94% and 1.91% respectively. The average asking rate was \$1.11 per square foot per month for industrial spaces and \$0.95 for warehouse spaces, both on a triple-net basis. Demand for small to medium sized industrial and warehouse product remains strong. The increase in supply paired with steady demand means rental rates figure to remain unchanged, if not soften a bit, in the near future.

The vacancy rate for industrial properties came in at 4.94%, while warehouse properties showed 1.91% vacancy. These rates have barely changed from the previous quarter. Increased supply for both product types should help the appetite of some larger users currently looking for space. Newark had the largest industrial net absorption gain during the third quarter, adding 85,254 sf of occupied space. San Jose had the largest net absorption gain for the warehouse product type this quarter, posting a positive 198,000 sf. Santa Clara endured the largest industrial loss with 63,318 sf of negative net absorption. Fremont realized the largest warehouse loss at 49,058 sf. Although supply has increased, the demand for space remains in the small to medium size ranges, and those available spaces are few and far between.

Renewals once again bolstered notable industrial and warehouse leasing activity this quarter, which may be attributed to the lack of viable alternatives for current tenants. Office Depot had the largest transaction, renewing their 476,177 sf warehouse at 6700 Auto Mall Parkway in Fremont. Applied Materials inked the second largest transaction, renewing their 150,480 sf warehouse 1285 Walsh Avenue in Santa Clara. Apple had the largest sublease, taking a 149,758 sf warehouse at 49088 Fremont Road in Fremont. DGA Services signed the largest new, direct lease with their deal for 120,835 sf at 44380-44540 Osgood Road in Fremont. Large warehouse leasing is still proceeding at healthy levels, while large industrial leases are waning, most likely due to large industrial tenants hanging onto their spaces instead of risking searching for new spaces.

Market Forecast Trends

Notable Lease Transactions

Office Depot
6700 Auto Mall Parkway, Fremont
476,177 s.f. leased

Applied Material
1285 Walsh Avenue, Santa Clara
150,480 s.f. leased

Apple
49088 Fremont Road, Fremont
149,758 s.f. leased

Notable Sale Transactions

SM Swartz
696 E Trimble Road, San Jose
206,642 s.f.

Summerhill Homes
1606-1666 Centre Pointe Drive, Milpitas
133,672 s.f.

Fortune Realty
2400-2424 Walsh Ave, Santa Clara
89,561 s.f.

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- Los Angeles
213.880.5250
- Commerce
323.727.1144
- Long Beach
562.472.0071
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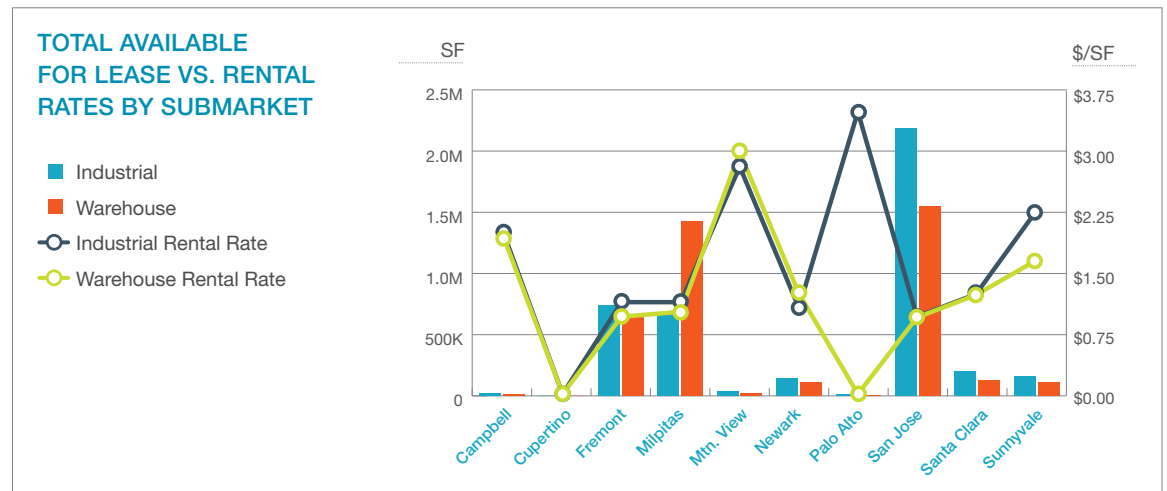
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The recent supply increase paired with the high demand is keeping rental rates relatively stable. The average asking rates for industrial and warehouse are hovering at \$1.11 and \$0.95, respectively, and figure to remain steady in the coming quarters. The quarter ended with 4.16 million sf of available industrial space for lease. Available warehouse space for lease ended up at 3.99 million sf. San Jose accounts for roughly 52% of the industrial availabilities and 39% 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 small to mid-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. SM Swartz completed the largest transaction with their 206,642

sf warehouse purchase at 696 E Trimble Road in San Jose. Summerhill Homes inked the second largest deal with their 133,672 sf warehouse redevelopment possibility at 1606-1666 Centre Pointe Drive in Milpitas. Fortune Realty came in third with an 89,561 sf purchase at 2400-2424 Walsh Avenue in Santa Clara. Finally, Fortinet purchased 32,120 sf at 183-193 Commercial Street in Sunnyvale. Large scale investors continue to snap up the remaining large industrial and warehouse properties with plans to redevelop those properties. This redevelopment removes supply from the market, driving up rents and sales prices.

Currently, only one project is under construction totaling 450,610 sf. This project will help the high tenant demand for space, and cannot be completed soon enough.



Submarket Statistics

Submarket	INDUSTRIAL					WAREHOUSE				
	Total Available for Lease	Sublease	Total Available for Sale	Vacancy %	YTD Net Absorption	Total Available for Lease	Sublease	Total Available for Sale	Vacancy %	YTD Net Absorption
Campbell	20,777	3,560	25,600	3.98%	(8,311)	10,392	0	0	6.83%	(41,737)
Cupertino	-	-	-	0.00%	-	0	0	0	0.00%	0
Fremont	739,222	87,307	-	4.86%	237,999	640,598	11,296	22,240	2.14%	68,257
Milpitas	670,313	-	34,481	27.00%	(193,900)	1,428,192	0	177,820	6.72%	(17,012)
Mountain View	33,319	-	-	2.28%	23,670	18,669	0	0	1.73%	32,824
Newark	144,906	20,000	-	4.02%	76,076	110,775	0	0	6.49%	127,702
Palo Alto	10,170	6,100	-	0.83%	13,045	6,100	6,100	0	0.00%	(4,900)
San Jose	2,182,591	219,634	380,283	7.99%	(78,699)	1,547,696	152,874	262,608	2.79%	4,527
Santa Clara	204,193	54,000	252,327	5.78%	(80,613)	125,125	54,000	59,900	1.81%	(15,820)
Sunnyvale	156,202	7,592	-	5.16%	(12,333)	108,097	0	13,433	6.24%	(35,532)
Total	4,161,693	398,193	692,691	4.94%	(23,066)	3,995,644	224,270	536,001	1.91%	118,309

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