

Real Estate Market Review

Silicon Valley Industrial

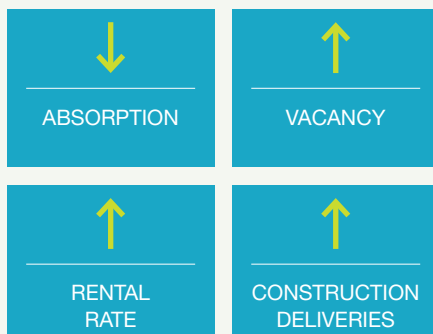
The Silicon Valley industrial and warehouse markets both reported absorption gains in the fourth quarter, and appear poised to remain stable in the near future. Industrial net absorption came in at positive 239,545 s.f., recovering some of the year’s earlier losses, with the annual total finishing at negative 396,302 s.f. Warehouse net absorption came in at positive 368,416 s.f., which brought the annual net absorption to negative 101,581 s.f. Demand for warehouse product is very strong, but diminishing supply of that product type has driven rental rates to historic highs, and multiple offers are common, especially for smaller spaces. The industrial market remains tight, and users have limited choices in the current environment.

The industrial and warehouse vacancy rates came in at 2.78% and 2.76%, respectively, this quarter. Vacancy rates have been at or near historically low levels for several quarters, so there isn’t a lot of room for them to decrease even with robust demand. Vacancies this low can render net absorption statistics a less meaningful indicator of the market’s strength. Many industrial and warehouse tenants continue to move, as their old facilities are slated for redevelopment into residential or higher density office projects. This compresses the market further, as near-term supply decreases while demand remains vigorous. Santa Clara experienced the biggest industrial net absorption gain in Silicon Valley for the quarter, adding 98,807 s.f. Fremont had the largest warehouse net absorption gain this quarter with 162,328 s.f. Newark posted the largest industrial loss with negative 24,489 s.f. of negative net absorption. Campbell endured the largest warehouse loss with negative 9,058 s.f. of net absorption. Companies continue to flock to the southern and eastern

parts of the market where the product is more affordable and there are more size options.

A healthy mix of renewals and new leases for industrial and warehouse space occurred during the quarter. CEVA Logistics signed the largest new lease with their deal for a 212,840 s.f. warehouse at 1710 Little Orchard Street in San Jose. Sanmina decided to renew their 201,939 s.f. warehouse at 42701-42735 Christy Street in Fremont. Custom Spaces completed the largest deal in Santa Clara with their new direct lease of a 130,381 s.f. warehouse at 1185 Campbell Avenue. Finally, Legacy Transportation Services also decided to renew their 129,629 s.f. industrial space at 2011 Senter Road in San Jose. New warehouse leasing bounced back this quarter, as large blocks comprised a majority of the available warehouse space, jiving poorly with a market that has strong demand for small and midsize offerings. New industrial leasing

Market Forecast Trends



Notable Lease Transactions

CEVA Logistics
1710 Little Orchard Street, San Jose
212,840 s.f. leased

Sanmina
42701-42735 Christy Street, Fremont
201,939 s.f. leased

Custom Spaces
1185 Campbell Ave, Santa Clara
130,381 s.f. leased

Legacy Transportation Services
2011 Senter Road, San Jose
129,269 s.f. leased

Notable Sale Transactions

Canyon Partners, BKM Capital
Bayside Business Park, Fremont
294,305 s.f.

Pecten LP
1096 Pecten Court, Milpitas
93,962 s.f.

UPS
1853 S 7th Street, San Jose
39,378 s.f.

RagingWire Data Center
1150 Walsh Avenue, Santa Clara
37,500 s.f.

Offices

- Seattle
206.296.9600
 - Bellevue
425.454.7040
 - South Seattle
206.248.7300
 - Tacoma
253.722.1400
 - Olympia
360.705.2800
 - 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
 - Commerce
323.727.1144
 - Long Beach
562.472.0071
 - Orange County
949.557.5000
 - Inland Empire
909.764.6500
 - San Diego
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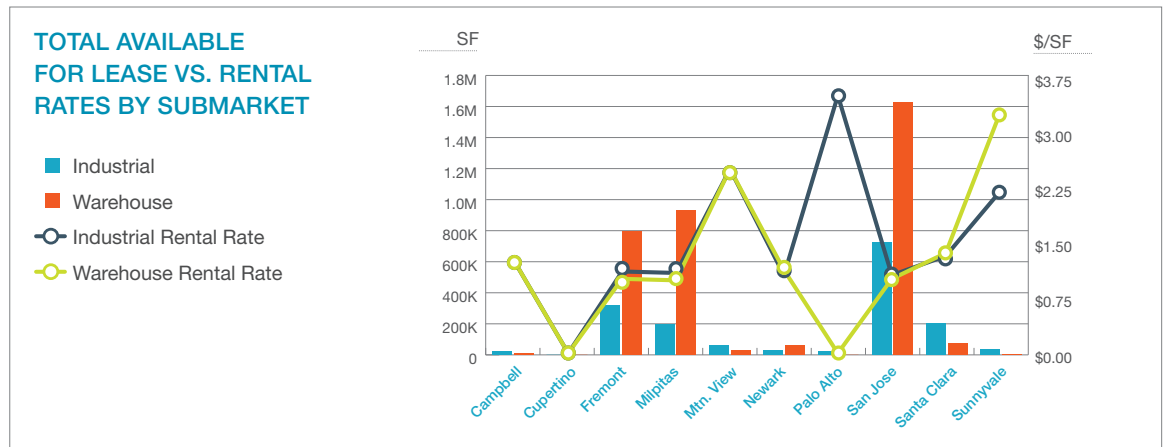
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was not as robust this quarter, likely because tenants are hanging on to their spaces, or moving out of Silicon Valley for more suitable and affordable product.

The slowly diminishing supply, paired with the steady demand, kept rental rates virtually unchanged this quarter. The average asking rates for industrial and warehouse are at \$1.17 and \$1.02, respectively. Tenants looking for bargains would do well to consider Newark, which had the lowest asking rate for industrial at \$1.06/s.f. or Milpitas, where the average asking rate for warehouses was \$0.99/s.f. The quarter ended with 1.62 million s.f. of available industrial space for lease and 3.53 million s.f. of warehouse product. San Jose accounts for roughly 45% of the industrial availabilities and 46% of the warehouse availabilities. Supply remains primarily concentrated in large blocks of space, while demand is chiefly for small to midsize spaces. Users are trying to be flexible on price, location, and features in order to stay in the Valley, but dwindling supply and rising prices are forcing them to explore alternatives outside the market.

Both users and investors were active on the sale front this quarter. Canyon Partners and BKM Capital completed the largest warehouse investment transaction with their 294,305 s.f. purchase of the Bayside Business Park in Fremont. Next, Pecten LP purchased the largest industrial investment with their 93,962 s.f. deal at 1096 Pecten Court in Milpitas. UPS completed the largest user warehouse purchase, inking a deal for 39,378 s.f. at 1853 S 7th Street in San Jose. Finally, RagingWire Data Center purchased 37,500 s.f. of industrial space at 1150 Walsh in Santa Clara. Investors continue to snap up the few remaining large warehouse and industrial spaces. The trend of investors buying large properties should continue as they buy these properties for repurposing or redevelopment, which ultimately yields higher profits.

Currently, there is one industrial project under construction totaling 450,763 s.f. There is also one warehouse project under construction totaling 155,909 s.f. Due to high demand, these projects will most likely be leased before completion.



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	25,600	-	25,600	0.25%	-	10,858	-	-	1.53%	29,737
Cupertino	-	-	-	0.00%	-	-	-	-	0.00%	-
Fremont	318,424	40,000	-	2.23%	25,789	797,347	15,660	33,684	3.00%	180,215
Milpitas	194,861	-	49,845	3.53%	(75,213)	933,709	161,655	177,820	2.18%	(40,313)
Mountain View	62,183	3,600	5,000	4.06%	(25,237)	26,000	-	-	2.58%	9,151
Newark	28,034	-	-	0.87%	(16,034)	60,600	-	-	2.09%	68,152
Palo Alto	24,725	-	48,889	1.03%	(3,019)	-	-	-	3.75%	(21,279)
San Jose	726,468	4,349	327,623	4.83%	(122,228)	1,626,131	116,216	376,727	3.60%	(276,643)
Santa Clara	204,687	6,180	36,398	2.12%	(16,770)	72,131	6,500	45,200	1.08%	(47,201)
Sunnyvale	36,537	-	127,877	0.68%	(163,590)	6,110	-	13,433	0.22%	(3,400)
Total	1,621,519	54,129	621,232	2.78%	(396,302)	3,532,886	300,031	646,864	2.76%	(101,581)

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