

Real Estate Market Review

Silicon Valley Industrial

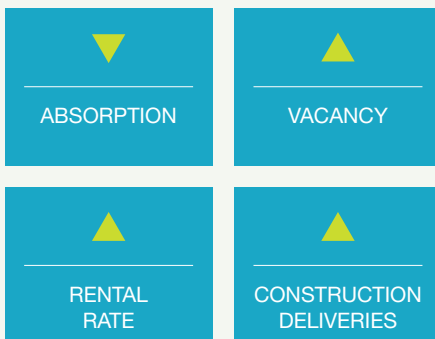
The Industrial and Warehouse markets had a very strong start to the year, but self-adjusted during the second quarter. Net absorption for Industrial and Warehouse products was less than the first quarter, posting negative 29,871 square feet and negative 245,208 square feet respectively. Despite the negative absorption, vacancy rates still remain at historic lows with 1.70% for industrial and 2.90% for warehouse. The average asking rate for Industrial space came in at \$1.18 and Warehouse is now at \$1.06 per square foot per month on a triple-net basis. The market for Silicon Valley's Industrial and Warehouse properties remains tight, and the current construction projects cannot be finished soon enough.

The vacancy rate for Industrial properties remained at 1.70%, while the rate for Warehouse properties rose to 2.90%. The Industrial rate is virtually unchanged from last quarter's rate. The Warehouse rate went from 1.80% last quarter to 2.90% this quarter. This variance is not surprising to see when rates are this low. Industrial rates do not have much room for improvement, so it would not be surprising to see them remain static or even trend slowly upward.

Fremont realized the largest Industrial net absorption gain, adding 50,587 sf, while Mountain View posted the largest warehouse gain with 11,686 SF. The largest losses of the quarter came from Milpitas with a negative 77,697 SF of net absorption for Industrial, and Fremont with a negative 163,476 SF of net absorption for Warehouse. Despite the negative net absorption, overall leasing activity is healthy with 260,859 SF and 768,073 SF for Industrial

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Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Lease Transactions

Alom Technology 48021-48105 Warm Springs Blvd, Fremont 226,533 s.f.
CEVA Logistics 1710 Little Orchard Street, San Jose 212,840 s.f.
Air Systems, Inc 938 Remillard Court, San Jose 119,560 s.f.
Raxium 1250 Reliance Way, Fremont 101,882 s.f.

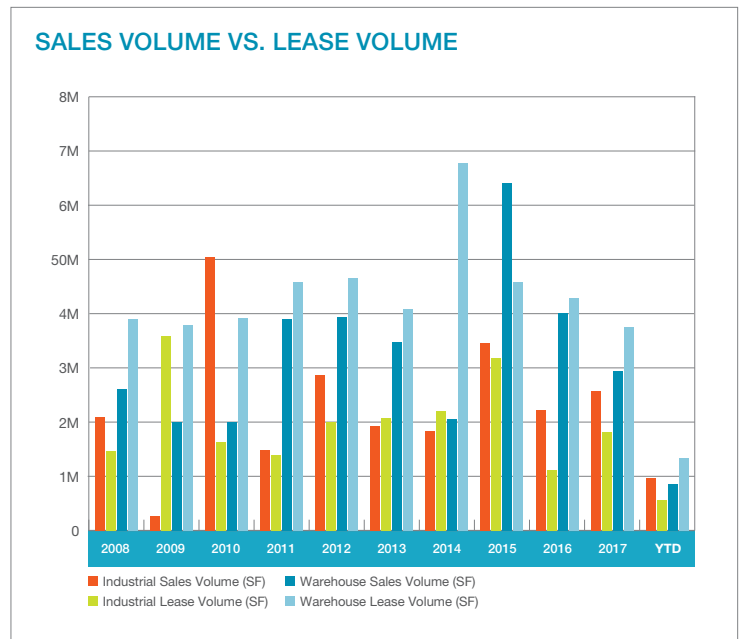
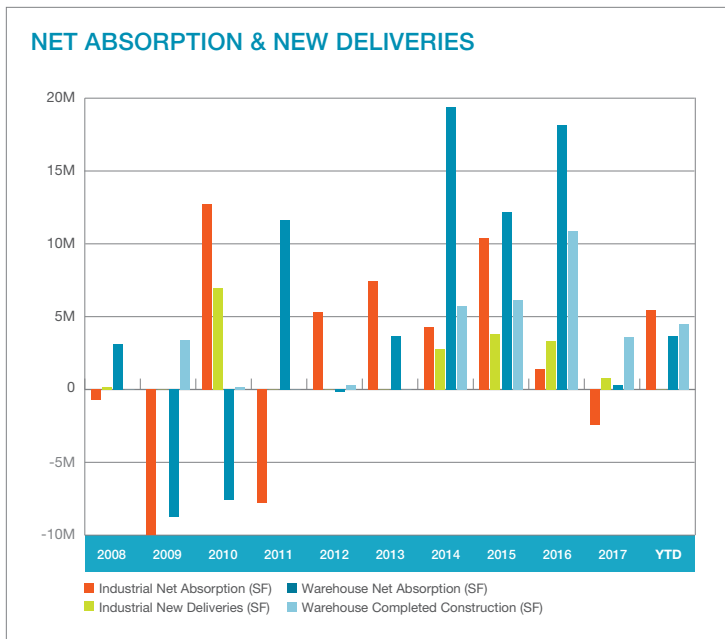
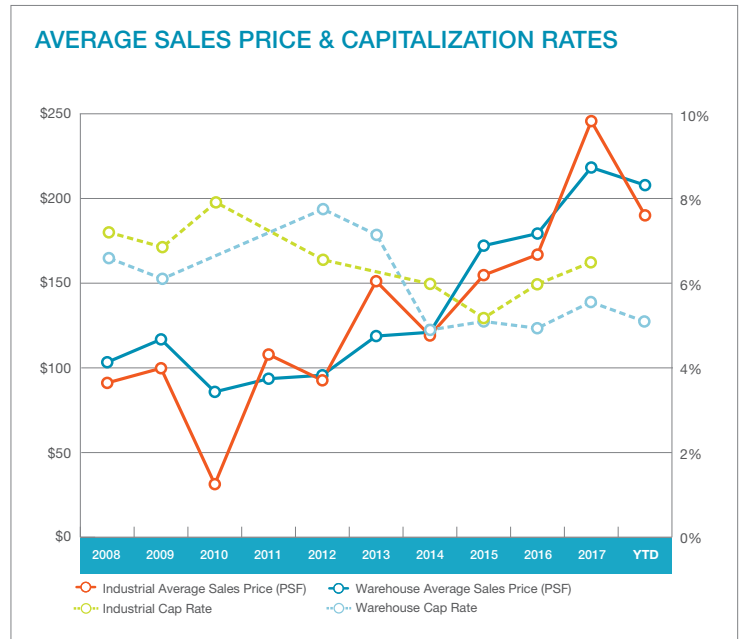
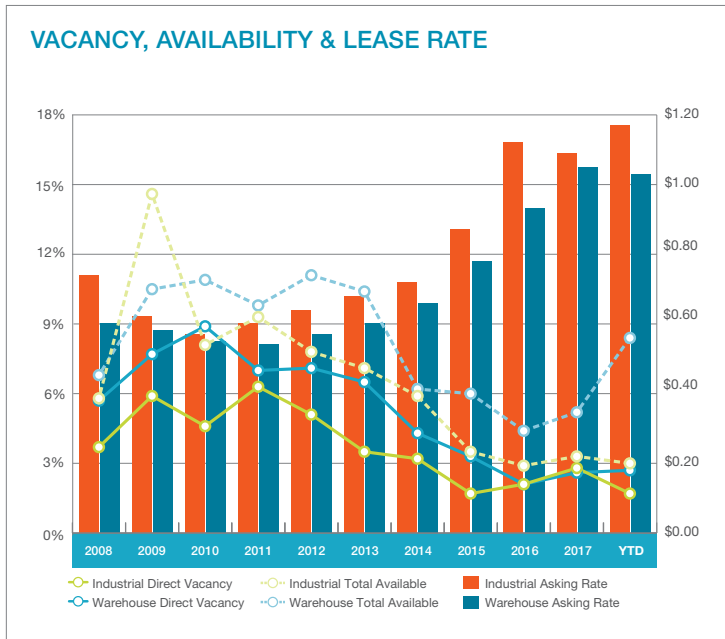
Notable Sale Transactions

Bay West Group 37887-37975 Shinn Street, Fremont 1,980,000 s.f.
ProLogis 2030 Concourse Drive, San Jose 71,100 s.f.
Industrial Metals Recycling 260 Phelan Ave, San Jose 27,000 s.f.
Golden Sand Investment 45719-45755 W. Northport Loop, Fremont 22,022 s.f.

Market Breakdown

	INDUSTRIAL				WAREHOUSE			
	2Q 2018	1Q 2018	2Q 2017	Annual % Change	2Q 2018	1Q 2018	2Q 2017	Annual % Change
Direct Vacancy Rate	1.70%	1.70%	2.50%	-32.00%	2.90%	1.80%	3.00%	-3.33%
Availability Rate	3.00%	2.80%	3.30%	-9.09%	8.60%	4.90%	5.30%	62.26%
Asking Lease Rate	\$1.18	\$1.09	\$1.09	8.26%	\$1.06	\$1.02	\$1.02	3.92%
Leased SF	260,859	293,716	143,070	82.33%	768,073	460,555	724,594	6.00%
Sold SF	226,594	749,661	657,628	-65.54%	356,469	498,070	1,185,369	-69.93%
Net Absorption	-29,871	525,120	-152,589	N/A	-245,208	507,179	-236,460	N/A

Silicon Valley Industrial & Warehouse Charts



Industrial Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Avg NNN Rental Rate
Campbell	963,181	0	0%	0%	0%	2,454	0	924	4,134	\$2.40
Cupertino	537,376	0	0%	0%	0%	0	0	0	0	\$0
Fremont	10,932,176	609,790	1.4%	1.5%	2.6%	50,587	97,969	135,890	145,167	\$1.25
Milpitas	2,990,883	0	4.2%	4.2%	5.3%	-77,697	-20,608	7,871	22,045	\$0.89
Mountain View	775,547	0	7.7%	8.2%	8.2%	7,000	-26,400	2,000	9,400	\$3.24
Newark	3,186,810	409,782	2.1%	2.1%	1.6%	-14,143	-40,302	18,386	34,386	\$0.82
Palo Alto	2,020,030	0	1.0%	1.0%	2.0%	0	0	0	0	\$0
San Jose	14,324,156	0	1.7%	1.7%	3.6%	10,760	459,400	58,371	257,197	\$1.27
Santa Clara	8,850,508	0	1.3%	1.4%	1.7%	1,168	49,744	37,417	77,246	\$0.99
Sunnyvale	3,047,905	0	0.8%	0.8%	5.9%	-10,000	2,450	0	5,000	\$1.89
Total	47,628,572	1,019,572	1.7%	1.7%	3.0%	-29,871	522,253	260,859	554,575	\$1.18

Warehouse Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Avg NNN Rental Rate
Campbell	736,989	0	1.1%	1.1%	1.6%	1,666	1,666	0	2,916	\$2.06
Cupertino	166,229	0	0%	0%	0%	0	0	0	0	\$0
Fremont	15,419,485	369,180	3.9%	3.9%	20.3%	-163,476	-142,958	228,492	370,717	\$1.74
Milpitas	5,461,907	0	9.4%	10.5%	14.8%	0	32,007	25,396	205,733	\$1.00
Mountain View	1,235,549	0	2.2%	2.2%	2.7%	11,686	-957	6,151	6,151	\$2.36
Newark	5,091,348	0	1.0%	1.0%	1.1%	5,243	55,128	20,802	28,212	\$1.04
Palo Alto	998,192	0	0.9%	0.9%	0.9%	0	0	0	0	\$0
San Jose	26,660,680	155,909	2.1%	2.1%	3.9%	-84,353	308,115	468,152	577,177	\$0.94
Santa Clara	6,821,947	0	0.7%	0.7%	3.1%	1,596	21,584	19,080	34,352	\$1.06
Sunnyvale	2,814,286	0	0.6%	0.6%	1.1%	-17,570	-11,460	0	3,370	\$1.93
Total	65,406,612	525,089	2.8%	2.9%	8.6%	-245,208	263,125	768,073	1,228,628	\$1.06

and Warehouse respectively. Supply will increase in the coming quarters as construction projects are delivered, which will alleviate the demand pressure from tenants.

The competition for space continued in the second quarter, which led to many tenants deciding to renew at their current locations. Fremont had the largest total transaction, where Alom Technology renewed 120,433 SF at 48105 Warm Springs, and then expanded into an additional 106,100 SF at 48021 Warm Springs. The total transaction came in at 226,533 SF. CEVA Logistics signed the largest renewal with their deal for 212,840 SF at 1710 Little Orchard Street in San Jose. Air Systems, Inc. decided to stay put in their 119,560 SF space at 938 Remillard Court in San Jose. Raxium inked the largest sublease of the quarter, taking Western Digital's 101,882 SF space at 1250 Reliance Way in Fremont. New leases for large blocks of space remain few and far between, as tenants with large spaces opt to stay in their current spots instead of rolling the dice in the market.

Users and investors remained active during the second quarter. Bay West Group purchased two adjacent properties totaling roughly 198,000 SF at 37887-37975 Shinn Street in Fremont. ProLogis closed on the largest purchase in San Jose with their 71,100 SF acquisition at 2030 Concourse Drive in San Jose. Industrial Metals Recycling completed the largest user purchase, taking a 27,000 SF warehouse at 260 Phelan Avenue in San Jose.

Finally, Golden San Investment bought a 22,022 SF warehouse located at 45719-45755 W. Northport Loop in Fremont. Industrial and Warehouse properties are relatively affordable purchases compared to other product types, and this should help bolster the sales market in the near future.

The average asking rental rates on a triple net basis for Industrial remained stable, while Warehouse rates saw a slight decrease. Industrial and Warehouse rates came in at \$1.18 and \$1.06 respectively. Last quarter's rates were \$1.18 and \$1.14 for Industrial and Warehouse respectively. This decrease in Warehouse asking rates could be attributable to high end Class A properties being leased quickly and without a published asking rate. Newark now has the most affordable Industrial space at \$0.82 per SF. San Jose has the best deal for Warehouse space coming in at \$0.94 per SF. Supply remains primarily concentrated in large blocks of space, while demand is mainly for small to midsize spaces. Construction deliveries of new space in the coming quarters portend upward ticks in rents.

Construction starts picked up during the second quarter. There is currently 1,019,572 SF of Industrial under construction. Warehouse construction bumped up to 525,089 SF. The increase in projects under construction come at a great time, as demand continues to grow.

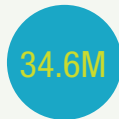
Source: CoStar

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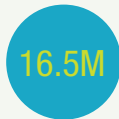
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ANNUAL TRANSACTION VOLUME



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ANNUAL SALES SF



BROKERS

PROPERTY MANAGEMENT

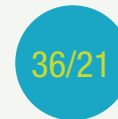


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