

Silicon Valley Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Google
1000 Enterprise Way, Sunnyvale
283,000 s.f.

Silver Peak Systems
2850-2860 De La Cruz Blvd, Santa Clara
73,968 s.f.

WeWork
75 Santa Clara Street East, San Jose
72,560 s.f.

Symphony Tech Group
1117 S California Avenue, Palo Alto
32,245 s.f.

The Silicon Valley office real estate market built on gains from the previous year during the first quarter of 2016, continuing one of the strongest runs in the market's history with 621,886 square feet of positive net absorption. Technology companies continue to be the market's driving force, adding more jobs and growing their requirements for space in the valley. The Silicon Valley economy continues to lead the nation in the areas of growth, income, innovation, and venture capital investment. Santa Clara County's unemployment rate was 3.8% in March 2016, according to data released by California Employment Development Department, the third-lowest in the state behind only San Francisco and San Mateo Counties.

The Silicon Valley office market began the year on a high note, posting 621,886 square feet of positive net absorption that decreased the vacancy rate to 6.7%. Limited supply in the northern cities of Palo Alto, Mountain View, and Sunnyvale is driving rents up and pushing tenants further south towards Santa Clara and San Jose. The markets should continue to tighten in the coming quarters due to high levels of demand, most notably from large users, some of which have begun to consider alternatives on the Peninsula, such as San Mateo and Redwood City. As these large companies take down space in new Class A office projects, smaller tenants are forced to relocate as their old digs are slated for repositioning. Average asking rental rates inched upward, from \$3.66 in the fourth quarter to \$3.76 this quarter, both fully serviced.

Several large lease transactions were completed this quarter, with market growth still led mostly by technology companies. Google set the high-water mark for the first quarter just before the end of the period, grabbing some 283,000 square feet in the Moffett Towers campus at 1000 Enterprise Way in Sunnyvale. It's the latest in a series of blockbuster moves by Google in the Moffett Park area, where it also controls

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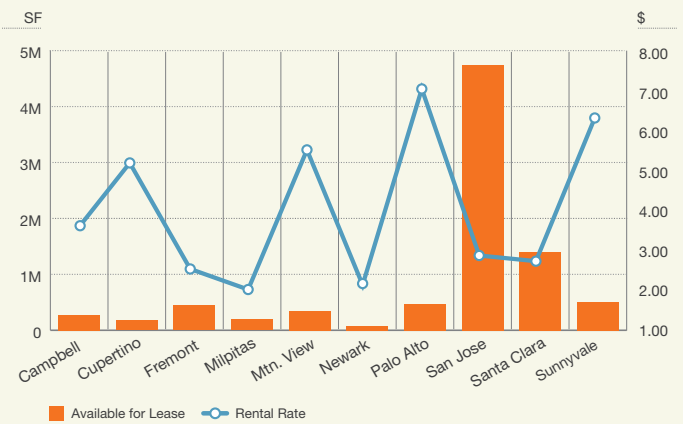
nearly 1 million square feet in the adjacent Technology Corners campus, an airfield lease at nearby Moffett Field, and some 3.9 million square feet at Moffett Industrial Park. WeWork accounted for the largest lease in downtown San Jose this quarter. The shared-office space provider will occupy 72,560 square feet at 75 Santa Clara Street East, part of a rapid nationwide space-grab that now includes its first foray into the South Bay market.

The Silicon Valley investment market slowed modestly in the first quarter but continues to be one of the country's strongest, benefiting from a confluence of positive factors, including robust leasing volume, impressive employment growth, and an influx of capital from overseas investors. The volume of product for sale is not nearly enough to satisfy investors' appetites in the current market, so institutional grade properties that become available draw an unprecedented volume of offers and ultimately trade at or near record prices. In the quarter's most significant investment transaction, Transwestern acquired the 301,009 square foot Central Park Plaza in San Jose from Stockbridge and Harvest Properties for approximately \$68.75 million (\$228 per square foot).

New office space under construction in Silicon Valley totaled approximately seven million square feet at the end of the first quarter. At current levels of demand, the new projects likely

will not remain vacant for long. The office market remains strongly influenced by the rapid expansion of the tech sector, which is pushing down vacancy rates, elevating asking rents, and spurring significant absorption gains as preleased office developments welcome their first tenants. Kidder Mathews is tracking over 13.1 million square feet of office/ R&D and office tenants in the market, which should continue to increase demand and tighten market conditions for quarters to come.

Total Available for Lease vs. Rental Rates



Submarket Statistics

Submarket	Available	Total Available for Lease	Sublease	Direct Lease	Total Available for Sale	Under Construction	Vacancy %	Current Gross Absorbed	Current Net Absorbed	Gross Absorption YTD	Net Absorption YTD
Campbell	302,608	271,980	61,719	210,261	30,628	177,815	3.14%	200,044	69,041	200,044	69,041
Cupertino	175,741	175,741	105,521	70,220	0	2,820,000	2.79%	94,515	8,689	94,515	8,689
Fremont	478,962	441,417	65,603	375,814	37,545	10,931	9.65%	499,910	227,947	499,910	227,947
Milpitas	192,688	192,688	6,647	186,041	0	0	33.00%	224,602	(85,946)	224,602	(85,946)
Mountain View	340,221	340,221	108,150	232,071	0	422,800	2.03%	477,709	87,415	477,709	87,415
Newark	93,355	76,265	0	76,265	17,090	0	15.47%	19,777	12,075	19,777	12,075
Palo Alto	524,813	472,380	192,546	279,834	52,433	187,032	0.88%	94,685	75,468	94,685	75,468
San Jose	5,518,095	4,740,419	463,061	4,277,358	777,676	1,256,740	13.15%	620,504	70,600	620,504	70,600
Santa Clara	1,504,655	1,396,010	180,093	1,215,917	108,645	584,094	3.69%	272,371	24,912	272,371	24,912
Sunnyvale	565,076	505,576	72,748	432,828	59,500	1,528,169	2.72%	313,458	131,685	313,458	131,685
Total	9,696,214	8,612,697	1,256,088	7,356,609	1,083,517	6,987,581	6.66%	2,817,575	621,886	2,817,575	621,886

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