

# Silicon Valley Office

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



## Notable Lease Transactions

**Qualcomm Atheros**  
1700 Technology Dr, San Jose  
185,338 s.f.

**Magic Leap**  
1376 Bordeaux Dr, Sunnyvale  
61,921 s.f.

**BlackBerry**  
331 Fairchild Dr, Mountain View  
35,703 s.f.

**Adobe Systems, Inc**  
150 Almaden Blvd, San Jose  
28,824 s.f.

## Notable Sales Transactions

**LeEco**  
Marriott Park Area, Santa Clara  
48 Acres

**Angelo, Gordon & Co.**  
900-910 E Hamilton Ave, Campbell  
349,550 s.f.

**FortBay LLC**  
4300-4340 Stevens Creek Blvd, San Jose  
167,000 s.f.

**KBS**  
2105 Bascom Ave, Campbell  
123,529 s.f.

The Silicon Valley office real estate market built on gains from the first quarter during the second quarter of 2016, continuing one of the strongest runs in the market's history. Technology companies continue to be the market's driving force, adding more jobs and increasing their requirements for space in the Valley. The Silicon Valley economy continues to lead the nation in the areas of income, innovation, and venture capital investment. Santa Clara County's unemployment rate dropped from 3.8% to 3.3% in June 2016, according to data released by the California Employment Development Department.

The office market continued to tighten during the second quarter, posting a robust 894,090 square feet of positive net absorption, while the vacancy rate dropped to a paltry 6.4% across the Valley. Limited supply and high rental rates in the northern cities of Palo Alto, Mountain View, and Sunnyvale continues to drive tenants to look south towards Santa Clara and San Jose, where there are more options at affordable rates. The market should continue to tighten in the coming quarters, as demand, most notably from large users, is still strong. Developers continue to build new Class A office projects to meet the demand from technology companies, forcing the current occupants to relocate as their older properties are slated for redevelopment. Average asking full service rental rates experienced a modest increase, moving from \$3.76FS in the first quarter to \$3.78FS this quarter.

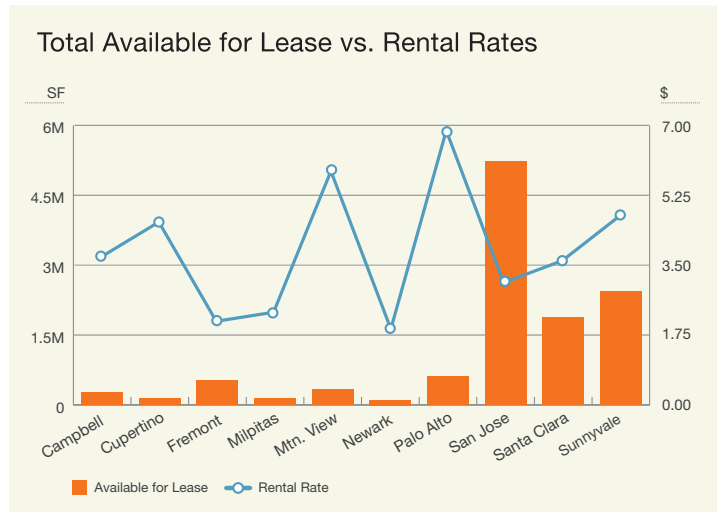
Several notable lease transactions were completed this quarter. Qualcomm Atheros renewed 185,338 square feet at 1700 Technology Drive in San Jose. Magic Leap came in second, grabbing nearly 62,000 square feet at 1376 Bordeaux Drive in Sunnyvale. BlackBerry inked a 35,703 square feet sublease at 331 Fairchild Drive in Mountain View, while Adobe Systems, Inc. secured two floors totaling 28,824 square feet at 150 Almaden Boulevard in San Jose.

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The investment market for local office product had a strong second quarter and continues to be one of the country's best, benefiting from a range of positive factors, including vigorous leasing volume, rising rents, impressive employment growth, and an influx of capital from overseas investors. The volume of product for sale is not enough to meet investors' current demands in the market, so institutional grade properties that become available receive multiple offers and trade at or near record prices. In the quarter's largest transaction, LeEco continued to assert their presence by purchasing roughly 48 acres of land from Yahoo, located in the Marriott Park area of Santa Clara. This site is entitled for approximately three million square feet of office product. LeEco's aggressive push for space in Silicon Valley indicates the company intends to stay here for quite some time. Campbell was the site of two very large transactions this quarter. Angelo, Gordon & Co. purchased 349,550 square feet at 900-910 E Hamilton, while KBS purchased 123,529 square feet at 2105 Bascom Avenue. The largest purchase in San Jose was a multi-building purchase by FortBay of 167,000 square feet at 4300-4340 Stevens Creek Boulevard. The surprising news about "Brexit" is affecting interest rates in the short term, but only time will tell the meaningful impact it will have on our market in the coming quarters.

New office space under construction in Silicon Valley totaled approximately seven million square feet at the end of the second

quarter. Developers are racing to get product completed in an effort to meet robust demand from technology companies. Construction costs are at an all-time high, and contractors have heavy backlogs. Many of these new projects have been pre-leased before completion. Kidder Mathews is tracking over 13.5 million square feet of office/ R&D tenants currently in the market, which indicates that activity will continue through the remainder of the year.



## 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	302,569	271,941	65,451	206,490	30,628	177,815	3.14%	41,753	39	241,797	69,080
Cupertino	145,322	139,013	95,262	43,751	6,309	2,820,000	3.80%	20,695	-38,538	115,210	-29,849
Fremont	569,894	532,349	53,603	478,746	37,545	10,931	8.13%	59,652	33,080	559,562	261,027
Milpitas	160,058	135,166	6,647	128,519	24,892	0	29.97%	72,217	32,630	296,819	-53,316
Mountain View	341,262	333,518	117,410	216,108	7,744	422,800	2.05%	75,138	-1,041	552,847	86,374
Newark	113,574	113,574	5,000	108,574	0	0	17.54%	14,245	-20219	34,022	-8,144
Palo Alto	668,274	615,841	208,930	406,911	52,433	187,032	0.45%	102,156	37,039	196,841	112,507
San Jose	5,959,690	5,227,222	623,044	4,604,178	732,468	1,256,740	11.84%	685,925	365,859	1,306,429	436,459
Santa Clara	1,976,195	1,867,550	743,775	1,123,775	108,645	584,094	3.50%	273,593	18,983	545,964	43,895
Sunnyvale	2,515,960	2,441,060	61,899	2,379,161	74,900	1,528,169	2.16%	525,439	466,258	838,897	597,943
<b>Total</b>	<b>12,752,798</b>	<b>11,677,234</b>	<b>1,981,021</b>	<b>9,696,213</b>	<b>1,075,564</b>	<b>6,987,581</b>	<b>6.40%</b>	<b>1,870,813</b>	<b>894,090</b>	<b>4,688,388</b>	<b>1,515,976</b>

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