

Silicon Valley Office

Market Forecast

Trends

Absorption	↑
Vacancy	↔
Rental Rate	↔
New Construction	↔

Notable Lease Transactions

- A9.com**
130 Lytton Ave., Palo Alto
47,234 s.f.

- RedHat**
100/150 Mathilda Pl., Sunnyvale
28,389 s.f.

- Addepar**
303 Bryant St., Mountain View
20,500 s.f.

- Okta**
300 Park Ave., San Jose
19,735 s.f.

Notable Sale Transactions

- Ridge Capital**
111 N Market St. & 111 W Saint John St.,
San Jose
326,749 s.f.

- Hudson Pacific Properties**
Page Mill Rd., Palo Alto
181,144 s.f.

- The Blackstone Group**
2851 Junction Ave., San Jose
155,613 s.f.

- Beijing Damei**
3689 Kifer Rd., Santa Clara
144,000 s.f.

The Silicon Valley office market remained strong during the closing quarter of 2016, and appears poised for slower, but steady growth moving forward. 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 dropped from 4.0% in August to 3.5% in November, according to data released by the California Employment Development Department. The election led to some uncertainty in the market, resulting in a more conservative approach regarding real estate decisions during fourth quarter. Overall strong economic fundamentals still prevail and should serve to provide a stable and solid platform for the market in the near term. However, the pace appears to be waning in comparison to the aggressive, near historic growth experienced during the past few years.

The office market saw 719,013 square feet of net absorption, adding to the year-end total of 1,962,132 square feet of net absorption. Vacancies stood at 5.79% at the end of the quarter, but this is an overall decrease from the end of last year’s 7.54%. Sublease office supply has shot up in the closing months of the year. There is currently 2,934,888 square feet of sublease office space available, which is the highest since the beginning of 2010. Sublease availability in the City of Santa Clara accounts for roughly 37% of total available office subleases. This is a result of users planning for more aggressive growth that has not materialized in recent years in addition to other companies moving out of smaller facilities as they expand. Average asking full service rental rates remained steady at \$3.54 from last quarter to this quarter, but are down from last year’s final \$3.66. Vacancies and rents will look to remain steady in the coming quarters.

The fourth quarter was relatively void of large lease transactions, unlike the previous three quarters. However, several mid to modest lease transactions served to bolster the market. A9.com renewed their lease in Palo Alto with their 47,234 square foot transaction at 130 Lytton. Redhat inked a deal for 28,389 square feet at 100/150 Mathilda Place in Sunnyvale. Addepar subleased 20,500 square feet from Quixey at 303 Bryant Street in Mountain View. Okta completed the largest lease in San Jose, locking down 19,735 square feet at 300

→ Continued, page 2

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
- Orange County
949.557.5000
- Inland Empire
909.764.6500
- San Diego
858.509.1200
- Carlsbad
760.430.1000
- Reno
775.301.1300
- Phoenix
602.513.5200

Contact

Reed Payne
Executive VP, Brokerage
Northern California
415.229.8888
rpayne@kiddermathews.com

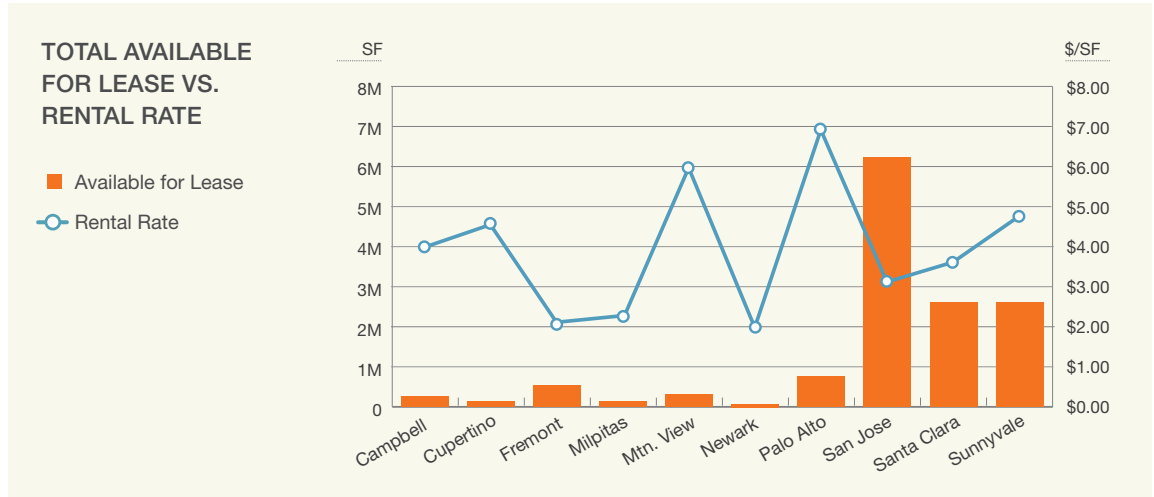
Designated Broker
Reed Payne | LIC #00818935

Park Avenue. Notable tech giants, who have been leading the market, seem to be digesting their large acquisitions from the past few years instead of expanding aggressively.

The investment market for local office product finished the year strong and continues to be dominated by powerhouse investors looking for opportunities in one of the country's strongest regions. Ridge Capital completed the largest transaction with their purchase of 326,749 square feet at 111 N Market Street and 111 W Saint John Street in San Jose. The next largest transaction was a five building, 181,144 square foot purchase by Hudson Pacific Properties at the 1800 block of Page Mill Road in Palo Alto. The Blackstone Group inked the next largest purchase with their 155,613 square foot transaction at 2851 Junction Avenue in San Jose. Beijing Damei completed the largest

purchase in Santa Clara with 144,000 square feet at 3689 Kifer Road. The Fed has raised interest rates for the first time in several years during the fourth quarter, and all signs point to future increases. While we do not expect the rate hikes to have a dramatic impact, the investment market could see lower prices and higher cap rates due to the higher cost of capital in the next few years.

New office space under construction in Silicon Valley remained steady at approximately 7 million square feet at the end of the fourth quarter. Absorption will remain strong as these projects are completed and tenants move in over the coming quarters. Kidder Mathews is tracking over 14 million square feet of office/R&D tenants currently in the market, which indicates that these construction projects cannot be completed soon enough.



Submarket Statistics

Submarket	Available	Total Available for Lease	Sublease	Total Available for Sale	Under Construction	Vacancy %	Current Net Absorbed	Net Absorption YTD
Campbell	282,051	271,868	63,827	10,183	177,815	5.32%	(24,876)	19,328
Cupertino	148,768	130,718	87,680	18,050	2,820,000	3.64%	7,262	(33,295)
Fremont	561,423	541,043	78,912	20,380	10,931	7.75%	11,193	269,498
Milpitas	152,140	127,248	7,309	24,892	0	18.24%	(21,563)	(45,398)
Mountain View	309,529	301,103	77,281	8,426	422,800	1.27%	196,627	307,334
Newark	96,348	96,348	5,000	0	0	11.50%	3,788	9,082
Palo Alto	877,977	758,787	381,144	119,190	187,032	1.19%	187,610	217,070
San Jose	6,658,012	6,236,994	962,531	421,018	1,256,740	11.93%	138,526	409,017
Santa Clara	2,714,028	2,612,883	1,077,046	101,145	584,094	4.58%	(182,764)	(288,051)
Sunnyvale	2,657,862	2,604,238	194,158	53,624	1,528,169	1.60%	403,210	1,097,547
Total	14,458,138	13,681,230	2,934,888	776,908	6,987,581	5.79%	719,013	1,962,132

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.