

Silicon Valley Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Comerica Bank
333 W Santa Clara, San Jose
81,213 s.f.

LG Electronics
5150 Old Ironsides / 2952 Bunker Hill,
Santa Clara
60,493 s.f.

Palantir
100 Hamilton Avenue, Palo Alto
59,914 s.f.

MACOM Technology Solutions
4555 Great America Parkway, Santa Clara
55,393 s.f.

Notable Sale Transactions

King Asset Management
14600 Winchester Boulevard, Los Gatos
260,889 s.f.

CalSTRS
3333 Scott Boulevard, Santa Clara
245,830 s.f.

AEW Capital
303 Almaden Boulevard, San Jose
166,361 s.f.

RMA Real Estate
2851 Junction Avenue, San Jose
155,613 s.f.

The Silicon Valley Office market realized positive, but small growth during the second quarter of 2017. Demand for office space remains robust as economic performance in the region still leads the nation. Santa Clara County’s unemployment rate dropped significantly from 3.5% in February to 2.9% in May, per the California Employment Development Department, and Silicon Valley will likely keep this positive job growth trend going. Overall, the market for office product remained steady during the second quarter and indicators point to similar trends in the coming quarters.

The market posted 59,087 s.f. of positive net absorption this quarter, which is down markedly from the 798,182 s.f. of positive net absorption in Q1. This quarter’s vacancy came in at 9.24%. Sublease availability remains high, at 3,082,159 s.f., which is up from Q1’s 2,689,376 s.f. A rise in sublease space may be attributed to companies growing and leaving their current spaces before their lease expirations, as well as some companies leasing more space than needed. Rental rates are up year over year, coming in at \$3.91 fully serviced. Steady demand and ample supply should keep rates relatively level in the near future.

Notable lease transactions were once again strengthened by renewals this quarter. Comerica Bank renewed their 81,213 s.f. space at 333 W Santa Clara in San Jose. LG Electronics also renewed 50,946 s.f. at 5150 Old Ironsides in Santa Clara, and also added 9,547 s.f. at the building next door, 2952 Bunker Hill Lane, for a total of 60,493 s.f. Palantir inked the largest deal in Palo Alto, taking 59,914 s.f. at 100 Hamilton Avenue. MACOM Technology Solutions leased 55,393 s.f. at 4555 Great America Parkway in Santa Clara. Many tenants remain in the market for Silicon Valley office space; however, activity has leveled off year over year.

Investment acquisitions made up a majority of the key sales transactions this quarter. King Asset Management had the largest transaction with their 260,889 s.f. purchase of the Netflix Headquarters Campus at 14600 Winchester Boulevard in Los Gatos. CalSTRS

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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

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916.970.9700

Roseville
916.751.3600

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213.880.5250

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562.472.0071

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323.727.1144

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949.557.5000

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760.430.1000

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775.301.1300

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Contact

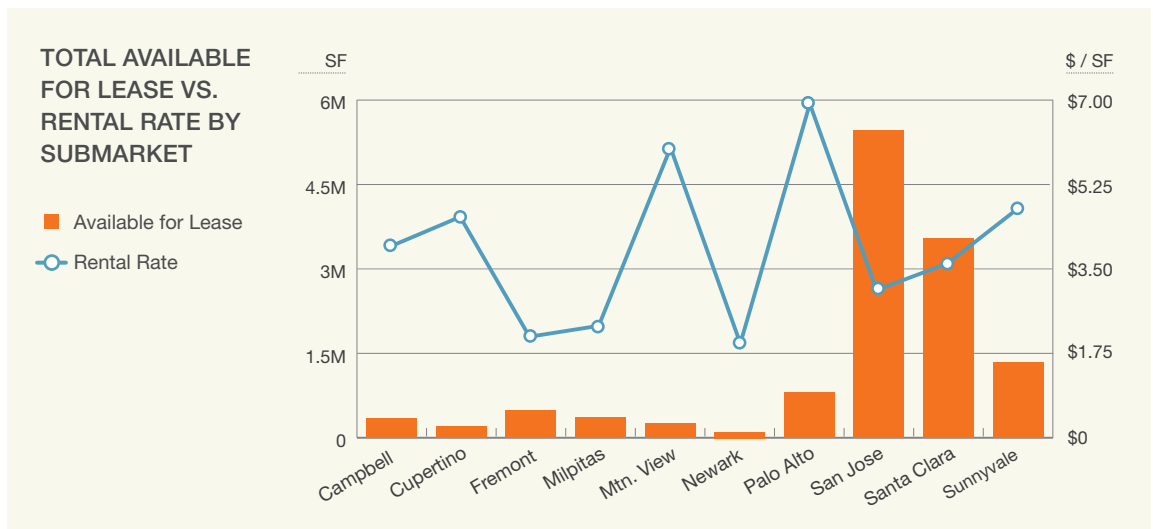
Mark Read
Executive VP, Brokerage
Northern California
415.229.8888
mread@kiddermathews.com

Designated Broker
Mark Read | LIC #00572743

invested in the 245,830 HP Campus at 3333 Scott Boulevard in Santa Clara. The largest transaction in San Jose was AEW Capital’s purchase of 166,361 s.f. at 303 Almaden Boulevard. Finally, RMA Real Estate snapped up 155,613 s.f. at 2851 Junction Avenue in San Jose. Investors buoyed the office sales market this quarter, and may look to renovate their purchases in order to yield higher rents from tenants.

New construction continues to push forward throughout the region with approximately 7 million

s.f. of new and preleased space in the works. Absorption numbers will likely stay positive as many projects under construction have been pre-leased with occupancy slated to occur once they are completed. It is worth noting that the City of San Jose and Google commenced talks for the tech giant to up to 8 million s.f. of office space in the city’s downtown area. Kidder Mathews is currently tracking over 10 million s.f. of Office and R&D tenants looking for space in the market, which portends steady growth in the coming quarters.



Submarket Statistics

Submarket	Available	Total Available for Lease	Sublease	Total Available for Sale	Under Construction	Vacancy %	Current Net Absorbed	Net Absorption YTD
Campbell	367,210	341,765	62,994	25,445	177,815	5.63%	13,845	(6,924)
Cupertino	222,128	203,610	94,816	18,518	2,820,000	3.81%	(16,360)	(6,434)
Fremont	494,833	485,356	68,201	9,477	10,931	6.86%	(24,125)	66,590
Milpitas	361,645	361,645	7,309	0	0	13.35%	169,163	264,713
Mountain View	267,357	266,257	62,250	1,100	422,800	1.96%	(29,063)	(38,899)
Newark	116,592	116,592	5,000	0	0	12.96%	(11,232)	(20,244)
Palo Alto	820,695	805,068	400,897	15,627	187,032	1.07%	92,729	210,536
San Jose	6,372,869	5,464,000	532,786	908,869	1,256,740	12.26%	(185,077)	(63,608)
Santa Clara	3,695,469	3,542,943	1,628,754	152,526	584,094	4.93%	94,798	(136,151)
Sunnyvale	1,793,519	1,337,153	219,152	456,366	1,528,169	1.94%	(45,591)	587,690
Total	14,512,317	12,924,389	3,082,159	1,587,928	6,987,581	9.24%	59,087	857,269

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