

Real Estate Market Review

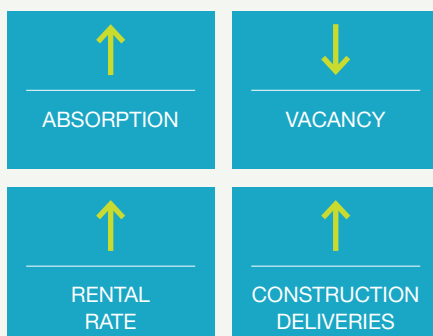
Silicon Valley Office

The Silicon Valley office market remained steady during the closing quarter of 2017, with 16,596 s.f. of positive net absorption bringing vacancies to 9.51%. Demand in the market is strong, as the Silicon Valley economy continues to lead the nation in growth, income, innovation, and venture capital investment. The unemployment rate stands at 2.6%, its lowest point since December 2000. This quarter was active on both the leasing and investment fronts, with recognizable tenants such as WeWork and Hitachi signing major deals. Rental rates for office product held firm to end 2017, and the nearly 4.6 million s.f. of space under construction has the potential to drive absorption gains in a well-balanced market in 2018.

The office market registered positive 16,596 s.f. of net absorption in the fourth quarter, bringing the year-end total to positive 332,590 s.f. Gross absorption for the quarter was 3,039,018 s.f., bringing the year-end total to 10,743,775 s.f. Many companies are making lateral moves, moving to buildings similar in size but located in less expensive areas or offering better quality facilities. Developers are also building new office space all over the Valley, resulting in a lot of leasing activity but only nominal absorption gains. Vacancies rose slightly to 9.51% at the end of the quarter, a minimal increase from last quarter's 8.86%. Not surprisingly, vacancies are lowest in the cities of Palo Alto, Mountain View, and Cupertino. Sublease office supply continues to increase, going from 3,082,159 s.f. to 3,209,107 s.f. quarter over quarter. Year over year, the available sublease supply has increased by 9.3%, from 2,934,888 s.f. to 3,209,107 s.f. The City of Santa Clara continues to lead the valley in

available sublease space, accounting for about 52% of the availabilities. The rise in sublease supply can be attributed to companies growing out of their current spaces, as well as some companies finding more efficient ways to utilize their space. Average asking rental rates slightly dipped to \$3.97 fully serviced during the quarter, but rates are up from last year's final \$3.54. Continued robust demand paired with healthy supply should keep rates relatively level in the near future.

This quarter saw several large lease transactions throughout the Valley. WeWork inked the largest deal, taking LinkedIn's 456,760 s.f. sublease at the Village at San Antonio Center in Mountain View. Tesla signed the largest deal in Fremont, taking 229,530 s.f. at 6800-6900 Dumbarton Circle. Hitachi completed the next largest deal, leasing 220,156 s.f. at 2535 Augustine Drive in the Santa Clara Square development. Veritas also

Market Forecast Trends

Notable Lease Transactions

| |
|--|
| WeWork The Village at San Antonio Center, Mountain View 456,760 s.f. leased |
| Tesla 6800-6900 Dumbarton Circle, Fremont 229,530 s.f. leased |
| Hitachi 2535 Augustine Drive, Santa Clara 220,156 s.f. leased |
| Veritas 2625 Augustine Drive, Santa Clara 147,000 s.f. leased |

Notable Sale Transactions

| |
|--|
| DivcoWest and Rockpoint Riverpark Towers, San Jose 602,794 s.f. |
| Lane Partners 110-130 Holger Way, San Jose 591,045 s.f. |
| Brookfield Towers @ 2nd, San Jose 410,023 s.f. |
| D.R. Stephens 3111 Coronado Drive, Santa Clara 126,594 s.f. |

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
- Los Angeles**
213.880.5250
- Commerce**
323.727.1144
- Long Beach**
562.472.0071
- 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

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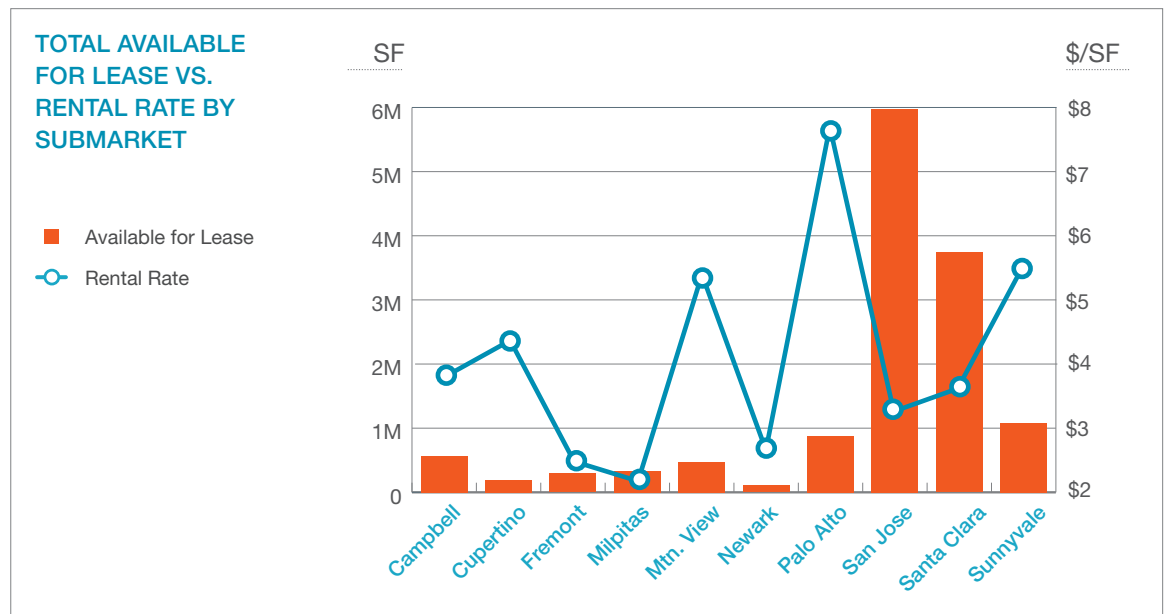
Designated Broker
Mark Read | LIC #00572743

decided to move to Santa Clara Square, taking 147,000 s.f. at 2625 Augustine Drive. This quarter had some of the largest leases of the year, and construction deliveries will enable more hefty deals in 2018.

The investment market for local office product remained active during the fourth quarter, with investors looking to capitalize on one of the country's strongest markets. 2017 was a historic year for sales, setting records for total dollar volume sold. DivcoWest and Rockpoint combined forces to complete the largest transaction, purchasing the 602,794 s.f. Riverpark Towers at 300 Park Avenue and 333 W San Carlos Street in San Jose. The next largest transaction, also in San Jose, was for three buildings totaling 591,045 s.f. purchased by Lane Partners at 110, 120, and 130 Holger Way. Brookfield inked the next

largest purchase with their 410,023 s.f. transaction of the Towers @ 2nd, located at 75 E Santa Clara and 4 N 2nd Street in San Jose. D.R. Stephens completed the largest purchase in Santa Clara, investing in 126,594 s.f. at 3111 Coronado Drive. San Jose saw quite a bit of investment activity in 2017 and investors will likely continue to flock to the Valley's largest city.

New office space under construction in Silicon Valley remained relatively steady at 4.58 million s.f. at the end of this quarter. These projects will add to absorption numbers in the coming quarters, as they are completed and tenants move in. Kidder Mathews is tracking over 12 million s.f. of Office/R&D tenants currently in the market, which indicates that these construction projects cannot be delivered 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 | 567,012 | 567,012 | 74,574 | 0 | 0 | 8.77% | (139,620) | (272,850) |
| Cupertino | 187,230 | 187,230 | 48,721 | 0 | 0 | 3.07% | 29,186 | 28,464 |
| Fremont | 385,951 | 290,959 | 66,468 | 94,992 | 0 | 2.26% | 33,064 | 144,027 |
| Milpitas | 350,210 | 335,486 | 9,872 | 14,724 | - | 15.74% | 21,819 | 160,621 |
| Mountain View | 472,347 | 470,247 | 84,867 | 2,100 | 308,754 | 3.23% | (154,841) | (222,803) |
| Newark | 104,738 | 104,738 | 22,675 | 0 | 0 | 12.82% | 28,892 | 4,564 |
| Palo Alto | 934,935 | 875,385 | 422,804 | 59,550 | 204,527 | 1.42% | (1,960) | 96,296 |
| San Jose | 6,086,419 | 5,976,082 | 635,907 | 110,337 | 1,612,900 | 13.51% | (314,970) | (406,668) |
| Santa Clara | 3,810,579 | 3,739,054 | 1,668,921 | 71,525 | 0 | 19.71% | 179,309 | (69,122) |
| Sunnyvale | 1,153,779 | 1,084,596 | 174,298 | 69,183 | 2,454,641 | 2.67% | 335,717 | 870,061 |
| Total | 4,053,200 | 13,630,789 | 3,209,107 | 422,411 | 4,580,822 | 9.51% | 16,596 | 332,590 |

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