

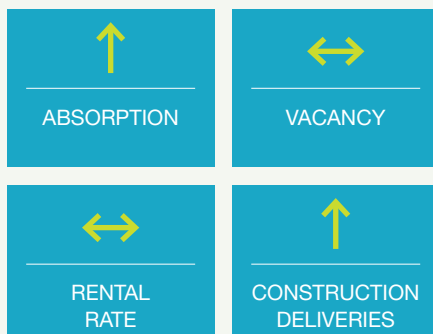
Real Estate Market Review

Silicon Valley Office

The Silicon Valley office market was very active during the opening months of 2018. The market posted a positive 1,094,713 s.f. of net absorption. Demand for office space remains robust as the region's economy sets the pace for the nation. Santa Clara County's unemployment rate increased slightly from an almost two-decade low 2.6% in November to 2.9% in February, per the California Employment Development Department. There is uncertainty about how the new tariffs between the United States and China will affect the Silicon Valley. Large blocks of new construction were delivered to the market this quarter, causing a temporary uptick in vacancies, while also increasing the price per square foot. Overall, office product realized an active leasing and investment quarter.

The first quarter started the year with 1,094,713 s.f. of positive net absorption. This is not surprising as many companies opt to move into their new spaces at the beginning of the year. Gross absorption came in at 4,385,585 s.f. Despite large positive net absorption, vacancy ticked up slightly to 10.30% across the Valley. The rise in vacancy can be attributed to the large blocks of vacant new construction space that hit the market. New construction may have also impacted the average asking rate, bringing it to a fully serviced \$4.46 for direct spaces. New construction sets the bar for pricing, and when large amounts are delivered, it can boost the average asking price per square foot. Further, many owners increased their pricing across the board, especially in the up and coming submarkets, such as San Jose and Fremont. These submarkets offer relatively cheaper alternatives

than the submarkets in Palo Alto and Mountain View. A recent trend in the market has been large tenants moving out of Palo Alto and into the more affordable cities such as San Jose. The biggest evidence of this trend is Hewlett Packard Enterprises, who signed a lease to move from Palo Alto to Santa Clara, but then retracted that lease and decided to move to North San Jose. Sublease space remains high at 3,301,524 s.f., which is up from Q4's 3,209,107 s.f. The continued large amount of sublease space can be attributed to companies outgrowing their spaces, as well as making their spaces more efficient. The City of Santa Clara continues to lead the valley in available sublease space, accounting for about 45% of the availabilities. Overall, robust demand and this newly available construction portend lower vacancy rates and higher absorption numbers in the near future.

Market Trends

Notable Lease Transactions

Facebook Moffett Towers II, Sunnyvale 1,402,652 s.f. leased
NVIDIA 2701 San Tomas Expressway, Santa Clara 500,000 s.f. leased (renewal)
Analog Devices 2555-2585 Augustine Drive, Santa Clara 440,312 s.f. leased
HPE 6280 America Center Drive, San Jose 228,725 s.f. leased

Notable Sale Transactions

Vista Investment Group Vasona Technology Park, Campbell 311,882 s.f.
Apple 2503 Orchard Parkway, San Jose 199,175 s.f.
Alexandria Real Estate Embarcadero Place, Palo Alto 197,498 s.f.
Stockbridge 1001 N. Shoreline Blvd, Mountain View 132,960 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
- El Segundo
310.807.0880
- 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
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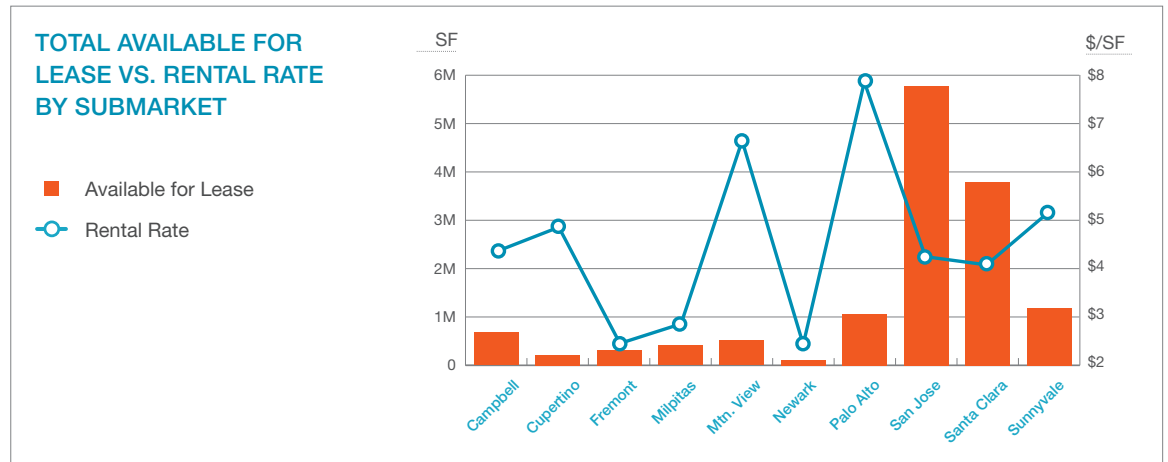
There were several large lease transactions signed by notable tech giants during the first quarter. Facebook expanded into the South Bay with their 1,402,652 s.f. lease at the Moffett Towers II site in Sunnyvale. While this project is still currently under construction, Facebook plans to move in once it is complete. NVIDIA completed the largest renewal, opting to stay in 500,000 s.f. at 2701 San Tomas Expressway in Santa Clara. Also in Santa Clara, Analog Devices inked a deal for the remaining large blocks of space at Santa Clara Square with their 440,312 s.f. lease. Finally, Hewlett Packard Enterprises decided to move to North San Jose instead of Santa Clara with their 228,725 s.f. deal at 6280 America Center Drive. Large tech companies continue to bolster the Silicon Valley Office Market, and as these companies continue to grow, so will their demand for space.

Large office sales transactions were completed mainly by investors during the first quarter. Vista Investment Group had the largest transaction with their mixed office and R&D purchase of Vasona Technology Park in Campbell.

The park has seven buildings totaling 311,882 s.f. Apple closed on the largest owner-user purchase with their 199,175 s.f. deal at 2503 Orchard Parkway in San Jose. Alexandria Real Estate had the largest deal in Palo Alto with their four building 197,498 s.f. purchase at 2100-2400 Geng Road. Stockbridge purchased a 132,960 s.f. Google leased building in Mountain View at 1001 N Shoreline Boulevard. Investors and users continue to value Silicon Valley office real estate despite the high price tags.

New construction continues to push forward throughout the region roughly 2,730,104 s.f. in the works. Absorption numbers should stay positive as many projects under construction have been pre-leased with occupancy slated to occur once they are completed. This should also help curb vacancy rates. Kidder Mathews is currently tracking over 12 million s.f. of office and R&D tenants looking for space in the market, which signals steady growth in the coming quarters.

Data Source: Kidder Mathews Research & CoStar



Submarket Statistics

Submarket	Vacancy %	Total Available	Total Available for Sale	Total Available for Lease	Sublease	Under Construction	Current Gross Absorbed	Current Net Absorbed
Campbell	17.70%	694,576	19,357	675,219	68,394	0	59,506	(53,041)
Cupertino	1.60%	208,909	0	208,909	55,551	0	10,244	34,914
Fremont	9.40%	414,021	94,992	319,029	81,953	0	13,040	2,002
Milpitas	9.90%	417,651	9,094	408,557	9,872	0	13,215	(37,953)
Mountain View	5.40%	513,056	2,100	510,956	122,384	102,918	95,820	90,541
Newark	12.10%	103,813	0	103,813	24,670	0	7,540	2,787
Palo Alto	7.00%	1,150,885	92,540	1,058,345	522,835	204,527	216,613	(149,408)
San Jose	7.39%	5,994,621	213,008	5,781,613	614,758	870,007	1,324,437	(51,593)
Santa Clara	18.50%	3,851,482	59,045	3,792,437	1,497,975	150,000	1,169,615	168,261
Sunnyvale	6.30%	1,253,999	66,254	1,187,745	303,132	1,402,652	1,475,555	1,088,203
Total	10.30%	14,603,013	556,390	14,046,623	3,301,524	2,730,104	4,385,585	1,094,713

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