

Silicon Valley R&D

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Toshiba
Orchard-Trimble Campus, San Jose
215,000 s.f.

Jabil Wolfe
5981 Optical Court, San Jose
110,000 s.f.

NVIDIA
2770 Scott Boulevard, Santa Clara
108,370 s.f.

Corium International
34781 Campus Drive, Fremont
48,240 s.f.

The Silicon Valley R&D real estate market kept on rolling through the first quarter of 2016, as the local economy continues to lead the nation in growth, income, innovation, and venture capital investment. Large-scale users continue to drive the market in choice submarkets, pushing smaller existing tenants to backfill spaces elsewhere in the valley. Together, these trends yield an increasingly tight R&D market, with 717,833 of positive net absorption trimming the vacancy rate to 8.75% at quarter's end, down half a percentage point from the end of 2015. Average asking rents held steady at around \$2.41 per square foot per month on a triple-net basis, but market asking rates for well located choice product in high-quality buildings are much higher.

Several noteworthy leases were executed in the first quarter of 2016. The U.S.-based division of Toshiba paced the market during the past three months, securing a 215,000 square foot deal for the three-building campus located at the corner of Orchard and Trimble, filling one of North San Jose's largest vacancies. Across the city in South San Jose, Jabil Wolfe—part of Jabil Circuits, which recently acquired Wolfe Engineering—took down 110,000 square feet at 5981 Optical Court to expand its manufacturing operations in the city. In the largest transaction outside of San Jose, NVIDIA renewed its 108,372 square foot lease at 2770 Scott Boulevard in Santa Clara. Finally, Corium International and Economic Packaging & Cleanroom Supply signed on for about 50,000 square foot each in Fremont, the former a new 10-year deal and the latter a renewal.

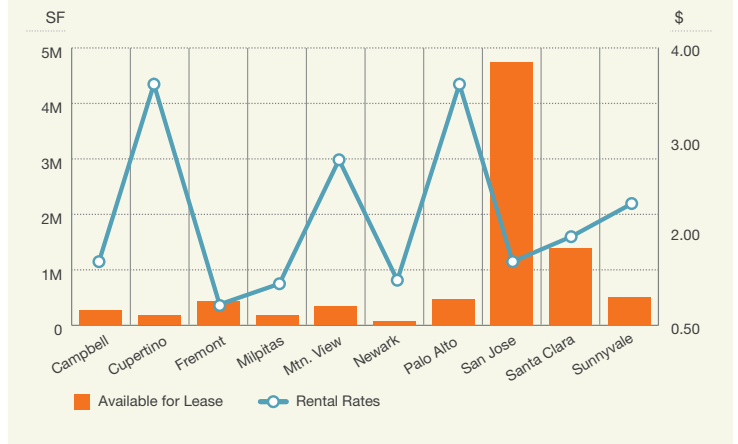
The vacancy rate for R&D product in Silicon Valley continued to decline, closing the first quarter at 8.75%, down 4.15 percentage points during the past 12 months. Among the mainstream Silicon Valley submarkets, Mountain View had the lowest vacancy rate at 0.78%. Fremont and San Jose were the only submarkets to report double-digit vacancies this quarter, at 10.61% and 10.74%, respectively. A robust pool of tenants in the market paired with limited supply portends further market-wide declines in vacancy throughout 2016.

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Near record-setting levels of gross absorption, which reached 4.32 million square feet this quarter, are evidence of abundant leasing activity and a robust market. About two-thirds of the 717,833 square feet of positive net absorption reported this quarter occurred in Fremont, as tenants explored options to the east and south to avoid the rapidly rising costs and scarcity of desirable spaces in the northern and western valley submarkets. There are only a handful of new or repositioned projects (totaling approximately 150,000 square feet) currently under construction, with completions scheduled for the next 6-24 months. Kidder Mathews is tracking over 13.1 million square feet of R&D and office tenants in the market, indicating ample demand that figures to keep vacancies down and asking rents up in the coming quarters.

R&D sales activity remains strong, especially for well-located product. The demand from institutional investors looking to place funds in core commercial real estate assets is driving sales activity, pushing prices to near all-time highs throughout Silicon Valley. In the quarter's largest transaction, Deutsche Asset & Wealth Management bought a 189,181 square foot facility at 5440 Patrick Henry Drive in Santa Clara—leased by Apple in 2015—from Foster Enterprises for \$80.15 million or \$423.67 per square foot. Over in Sunnyvale, Deerfield Realty Company

Total Available for Lease vs. Rental Rates



acquired the 65,055 square foot 690 East Arques Avenue, also occupied by Apple, from Trumark Companies for \$20.65 million or \$317.42 per square foot. The largest transaction in San Jose occurred at Concourse Technology Park, where Magna Investment took the 110,132 square foot 1965 Concourse Drive from New York Life for \$14.65 million or \$133.02 per square foot.

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	124,757	124,757	10,580	114,177	0	0	12.72%	79,108	54,518	79,108	54,518
Cupertino	41,101	12,261	0	12,261	28,840	0	0.00%	1,500	(10,939)	1,500	(10,939)
Fremont	2,129,730	2,118,530	147,953	1,970,577	11,200	0	10.61%	1,073,340	477,735	1,073,340	477,735
Milpitas	1,443,222	1,330,802	260,906	1,069,896	112,420	0	6.09%	230,525	118,258	230,525	118,258
Mountain View	445,774	422,634	110,394	312,240	23,140	0	0.78%	266,782	174,522	266,782	174,522
Newark	219,002	173,844	2,700	171,144	0	0	7.27%	29,527	(11,940)	29,527	(11,940)
Palo Alto	535,599	502,779	113,908	388,871	32,820	47,917	5.60%	65,617	(75,305)	65,617	(75,305)
San Jose	6,773,166	5,792,962	853,868	4,939,094	980,204	102,000	10.74%	778,926	268,844	778,926	268,844
Santa Clara	2,058,235	2,016,777	126,875	1,889,902	41,458	0	9.81%	938,296	84,202	938,296	84,202
Sunnyvale	2,111,336	1,954,966	207,091	1,747,875	156,370	0	6.16%	859,222	362,062	859,222	362,062
Total	15,928,485	14,542,033	1,849,379	12,692,654	1,386,452	149,917	8.75%	4,322,843	717,833	4,322,843	717,833

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