

# Silicon Valley R&D

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



## Notable Lease Transactions

Uber

900 Arastradero, Palo Alto  
140,000 s.f.

Morpho Detection

7151 Gateway Boulevard, Newark  
111,926 s.f.

LeEco

3553 North First Street, San Jose  
86,145 s.f.

Lifelock

321 E Evelyn, Mountain View  
58,500 s.f.

## Notable Sales Transactions

Google

NetApp Buildings, Sunnyvale  
600,000 s.f.

SKS Investments

North First Street, San Jose  
430,000 s.f.

Boston Properties

3635 Peterson Way, Santa Clara  
218,375 s.f.

The Silicon Valley R&D real estate market kept on rolling through the second quarter of 2016, as the local economy continues to lead the nation in 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 535,276 s.f. of positive net absorption reducing the vacancy rate to 8.39% at quarter's end, down over one-third of a percentage point from the first quarter. Average asking rents increased from \$2.41 to \$2.44 per s.f. per month on a triple-net basis, but market asking rates for well-located choice product in high-quality buildings are higher.

Leases in the second quarter of 2016 were not dominated by the usual suspects, Apple, Google, Facebook, and LinkedIn, but rather some new heavy-hitters. The biggest deal was a 140,000 s.f. sublease by Uber Technologies, Inc., which subleased the space located at 900 Arastradero in Stanford Research Park from VMware. Across the bay in Newark, Morpho Detection leased 111,926 s.f. at 7151 Gateway Boulevard. The biggest deal in San Jose came courtesy of the rapidly-expanding Chinese company, LeEco, who leased 86,145 s.f. at 3553 North First Street. LeEco is hoping to become a contender in the competitive Silicon Valley technology industry.

The vacancy rate for R&D product in Silicon Valley continued to decline, closing the second quarter at 8.39%, down from 10.00% one year ago. Among the mainstream Silicon Valley submarkets, Mountain View had the lowest vacancy rate at 0.93%, while Fremont and Campbell were the only submarkets to report double-digit vacancies this quarter, at 10.89% and 11.84%, respectively. A robust pool of tenants in the market paired with limited supply portends further market-wide declines in vacancy throughout the second half of 2016.

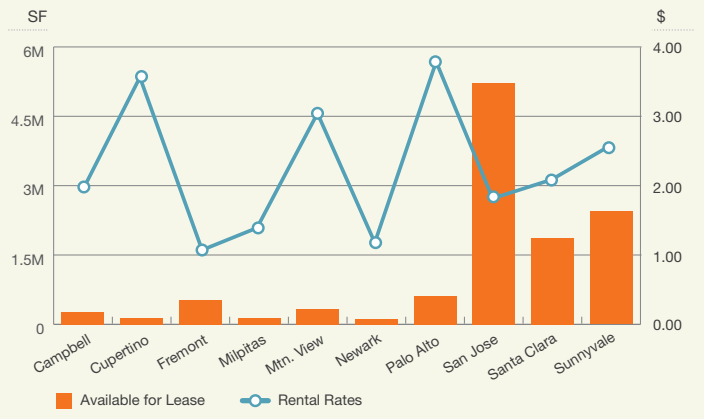
Gross absorption stood strong at 2.07 million s.f., even though it is down from 4.32 million s.f. at the close of last quarter. About 80% of the 535,276 s.f. of positive net

→ Continued, page 2

absorption reported this quarter occurred in San Jose. A large portion of the net absorption can be attributed to noteworthy tenants, Silver Spring Networks, General Dynamics, and Google, moving into buildings in San Jose which total 369,744 s.f. Currently, 339,892 s.f. of R&D product is under construction and scheduled to be completed in the next 9 -18 months. This is up from last quarter, which had just under 150,000 s.f. of product under construction. Kidder Mathews is tracking over 13.5 million s.f. of R&D and office tenants in the market, signaling abundant demand that figures to send vacancies downward and asking rents upward in future quarters.

R&D sales activity remains solid, 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. Google once again wins the prize for the largest transaction, gobbling up a cache of buildings from NetApp in Sunnyvale. The arrangement includes 600,000 s.f. of space, with the main acquisition on Crossman. Google is increasing its presence in Sunnyvale, and will most likely procure more space in the coming quarters. The largest transaction in San Jose occurred at North First Street and Headquarters Drive where SKS Investments acquired the seven-building Lam Research Campus. The acquisition totaled 430,000 s.f. Boston Properties acquired

Total Available for Lease vs. Rental Rates



218,375 s.f. at 3635 Peterson Way in Santa Clara. Lastly, Asus Computers purchased Exar Corporation’s 151,047 s.f. building at 48720 Kato Road in Fremont. Quarter two marked a number of many large R&D sales, and there are no indications of R&D building acquisitions slowing down. The “Brexit” has impacted interest rates in the short term, but only time will tell the effect it will have on our market in the coming quarters.

### 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	150,039	150,039	0	150,039	0	0	11.84%	13,753	13,753	92,861	68,271
Cupertino	69,226	40,386	0	40,386	28,840	109,130	0.00%	0	0	1,500	-10,939
Fremont	2,186,311	2,131,912	207,316	1,924,596	54,399	0	10.89%	159,652	-56,581	1,232,992	421,154
Milpitas	1,519,558	1,289,075	191,544	1,097,531	230,483	0	5.99%	33,670	15,559	264,195	133,817
Mountain View	465,189	455,189	161,234	293,955	10,000	0	0.93%	31,030	-19,415	297,812	155,107
Newark	294,107	294,107	46,346	247,761	0	0	7.04%	93,769	6,967	123,296	-4,973
Palo Alto	413,473	380,653	124,168	256,485	32,820	0	4.10%	136,667	122,126	202,284	46,821
San Jose	7,446,636	6,398,092	1,169,304	5,228,788	1,048,544	0	9.70%	1,107,136	425,353	1,886,062	694,197
Santa Clara	1,912,872	1,895,494	108,412	1,787,082	17,378	230,762	9.06%	345,166	145,363	1,283,462	229,565
Sunnyvale	2,229,185	2,153,423	250,797	1,902,626	75,762	0	6.63%	149,809	-117,849	1,009,031	-479,911
<b>Total</b>	<b>16,686,596</b>	<b>15,188,370</b>	<b>2,259,121</b>	<b>12,929,249</b>	<b>1,498,226</b>	<b>339,892</b>	<b>8.39%</b>	<b>2,070,652</b>	<b>535,276</b>	<b>6,393,495</b>	<b>1,253,109</b>

### Contact

**Reed Payne**  
Executive Vice President, Brokerage  
Northern California  
415.229.8888 | rpayne@kiddermathews.com

Designated Broker: Reed Payne | LIC #00818935

### Offices

San Francisco  
415.229.8888  
Peninsula  
650.769.3600

Silicon Valley  
408.970.9400  
Sacramento  
916.751.3600

Reno  
775.301.1300  
Orange County  
949.557.5000

San Diego  
858.509.1200  
Seattle  
206.296.9600

Portland  
503.221.9900  
Phoenix  
602.513.5200

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.