

Silicon Valley R&D

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

FireEye
601 McCarthy Blvd, Milpitas
190,000 s.f.

Abbott Laboratories
510 Cottonwood Drive, Milpitas
180,000 s.f.

TiVo
2100-2190 Gold Street, San Jose
165,000 s.f.

Think Surgical
47201 Lakeview Boulevard
75,387 s.f.

Notable Sales Transactions

Westport Capital Partners & Canae Partners
Oak Creek Business Park, Milpitas
466,422 s.f.

The Irvine Company
1 AMD Place, Sunnyvale
319,000 s.f.

TCSP, LLC
190, 210, 230 W Tasman, San Jose
287,000 s.f.

The Silicon Valley R&D real estate market demonstrated slow, but steady growth during the third quarter of 2016, as the local economy continues to show strength in job growth, income, innovation, and venture capital investment. Large-scale users are moving away from the less traditional “Silicon Valley” cities, and gravitating towards different submarkets in the Valley. The market continues to tighten, with 44,666 square feet of net absorption and the vacancy rate reducing to 8.36% at quarter’s end, down slightly from the second quarter. Average asking rents for R&D products decreased from \$2.44 to \$2.18 per square foot per month on a triple-net basis.

Notable R&D leases in the third quarter of 2016 were quite robust and took place in various submarkets. R&D product demands remain strong and looks to continue that trend. FireEye signed the largest lease this quarter in Milpitas for roughly 190,000 square feet at 601 McCarthy Boulevard. The second largest lease also took place in Milpitas at 510 Cottonwood Drive. This deal was a nearly 180,000 square feet renewal by Abbott Laboratories. The biggest deal in San Jose was also a renewal; TiVo renewed almost 165,000 square feet in multiple buildings on Gold Street. The largest lease in Fremont went to Think Surgical’s 75,378 square feet at 47201 Lakeview Boulevard.

The vacancy rate for R&D product in Silicon Valley continued to decline, closing the second quarter at 8.36%, down from 9.44% one year ago. Among the mainstream Silicon Valley submarkets, Cupertino had the lowest vacancy rate at 0.35%, while Fremont and Campbell continue to be the only submarkets to report double-digit vacancies this quarter, at 10.60% and 11.93%, respectively. Although there was an overall slight decline, the market remained steady, indicating there may be a cooling off period in the fourth quarter.

Gross absorption in the third quarter ended up at 1,742,221 square feet, which is down from 2.07 million square feet at the close of the second quarter. Santa Clara posted the largest positive net absorption with 292,793 square feet. The biggest loss in net absorption was in Sunnyvale, posting negative 157,281 square feet. Currently, 149,917 square feet of R&D product is under construction and scheduled to be completed in the next 9-18 months. This is down from last quarter. There is nearly 14 million square feet of R&D and office tenants in the market, signaling

→ Continued, page 2

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

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

Reed Payne
Executive VP, Brokerage
Northern California
415.229.8888
rpayne@kiddermathews.com

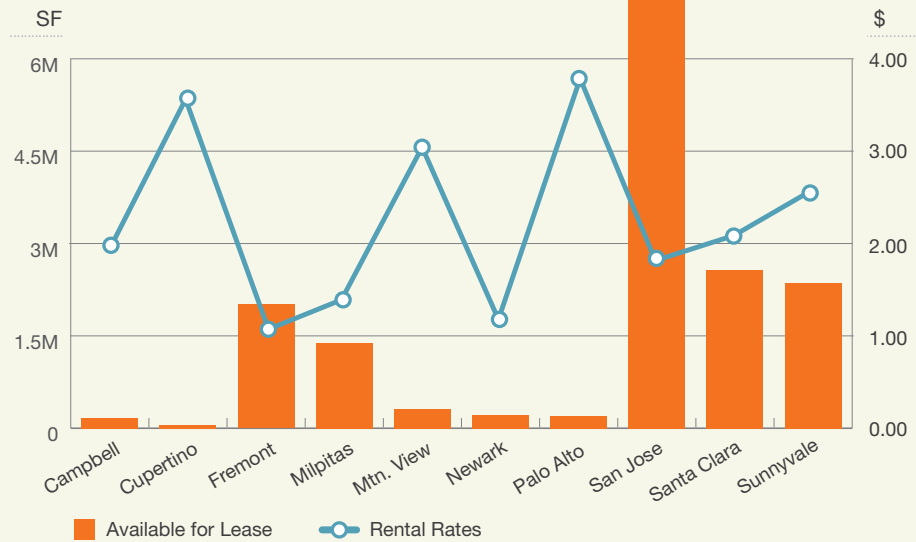
Designated Broker
Reed Payne | LIC #00818935

abundant demand that figures to send vacancies downward and asking rents upward in future quarters.

R&D sales activity continued a strong run during the third quarter. The demand from institutional investors looking to place funds in core commercial real estate assets is driving sales activity, keeping prices near all-time highs throughout Silicon Valley. The largest transaction was a seven building, 466,422 square foot acquisition by a joint venture between Westport Capital Partners and Cannae Partners. The joint venture purchased the Milpitas buildings from iStar

Financial. The largest purchase in Sunnyvale was by The Irvine Company, who purchased 319,000 square feet located at 1 AMD Place. TCSP, LLC acquired three buildings in San Jose located at 190, 210, and 230 W Tasman Drive. The three buildings total roughly 287,000 square feet. Lastly, Intelli, LLC purchased four buildings totaling just over 100,000 square feet located on Fortune Drive and Ringwood in San Jose. Quarter three marked a number of many large R&D sales, and there is no indication of R&D building acquisitions slowing down.

Total Available for Lease vs. Rental Rates



Submarket Statistics

Submarket	Available	Total Available for Lease	Sublease	Total Available for Sale	Under Construction	Vacancy %	Current Net Absorbed	Net Absorption YTD
Campbell	164,509	164,509	0	0	0	11.93%	(14,470)	53,801
Cupertino	53,606	53,606	0	0	0	0.35%	15,620	4,681
Fremont	2,127,857	2,009,468	228,624	118,389	0	10.60%	58,454	479,608
Milpitas	1,797,779	1,384,891	191,544	412,888	0	5.60%	58,521	192,338
Mountain View	326,241	316,241	145,659	10,000	0	0.93%	(11,704)	143,403
Newark	216,019	214,631	28,968	1,388	0	9.68%	(139,242)	(144,215)
Palo Alto	197,859	197,859	56,408	0	47,917	4.22%	(9,957)	36,864
San Jose	8,821,533	7,118,122	1,245,999	1,703,411	102,000	9.82%	(48,068)	646,129
Santa Clara	2,677,833	2,568,293	108,472	109,540	0	7.55%	292,793	522,358
Sunnyvale	2,386,466	2,355,654	428,969	30,812	0	7.25%	(157,281)	(637,192)
Total	18,769,702	16,383,274	2,434,643	2,386,428	149,917	8.36%	44,666	1,297,775