

# Silicon Valley R&D

## Market Forecast

Trends

Absorption	↑
Vacancy	↔
Rental Rate	↔
New Construction	↔

## Notable Lease Transactions

**Huawei**  
2330 Central and 2890 Scott, Santa Clara  
246,897 s.f.

**Quanta Computer**  
44320 Nobel Drive, Fremont  
105,830 s.f.

**Johnson & Johnson Services**  
6500-6530 Paseo Padre Pkwy, Fremont  
100,103 s.f.

**Skype**  
3210 Porter Drive, Palo Alto  
92,500 s.f.

## Notable Sale Transactions

**Westbrook Partners**  
Rio Robles, San Jose  
368,178 s.f.

**Thor Equities**  
19000 Homestead Avenue, Cupertino  
151,400 s.f.

**Undisclosed Party**  
928-930 E Arques, Sunnyvale  
82,602 s.f.

**Sand Hill Properties**  
950 Page Mill Road, Palo Alto  
71,409 s.f.

The Silicon Valley R&D real estate market finished off the year strongly, as the local economy continues to thrive with job growth, income, innovation, and venture capital investment. Large-scale users were active throughout the entire Silicon Valley, which demonstrates the high versatility and demand for R&D product. The market posted 436,944 square feet of net absorption, while the vacancy rate remained stable at 8.36%. Average asking rents for R&D product also held steady at \$2.18 per square foot per month on a triple-net basis, which does not represent an increase from the previous quarter, but is up \$.06 from the end of last year. The local economy remains strong and should serve to support the market in 2017; however, demand appears to have tapered off some when compared to the aggressive, near historic expansion experienced during the past few years.

The most notable R&D leases in the fourth quarter of 2016 were renewals. Many of the recently renovated R&D buildings in North San Jose and Santa Clara are still available as users have become slightly more conservative and reluctant to sign longer term leases in an election year, electing to stay in their current digs instead under more favorable terms. Huawei signed two lease renewals at 2330 Central Expressway and 2890 Scott Boulevard in Santa Clara for a total of 246,897 square feet. Quanta Computer also renewed their lease, a 105,830 sf building in Fremont at 44320 Nobel Drive. Skype also elected to extend their 92,500 sf lease at 3210 Porter Drive in Palo Alto. These large renewals offer some insight into the mindset of many users who aren't in expansion mode and prefer to stay in their older facilities under favorable terms rather than move to renovated product where longer commitments and higher rates are required. Johnson and Johnson Services inked the largest new lease of the quarter, with their 100,103 sf deal at 6500-6530 Paseo Padre Parkway in Fremont.

The vacancy rate for R&D product in Silicon Valley did not change much from Q3, closing at 8.36% in Q4. However, vacancy is down from 9.23% at the end of last year. Among the mainstream Silicon Valley submarkets, Cupertino had the lowest vacancy rate at 0.27%. Campbell is now the only submarket to report double-digit vacancies this quarter, at 10.73%, but still experienced reasonable leasing activity as the rate is down from 11.93% last quarter.

Gross absorption in the fourth quarter ended up at 1,388,123 square feet, bringing 2016's annual total to an impressive 9,523,839 sf. This is a substantial increase from last year's 8,358,481 square feet of gross absorption. San Jose posted the largest positive net absorption this quarter with 229,916 square feet. The biggest loss in net absorption this quarter occurred in Palo Alto, posting

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**Contact**

**Reed Payne**  
Executive VP, Brokerage  
Northern California  
415.229.8888  
[rpayne@kiddermathews.com](mailto:rpayne@kiddermathews.com)

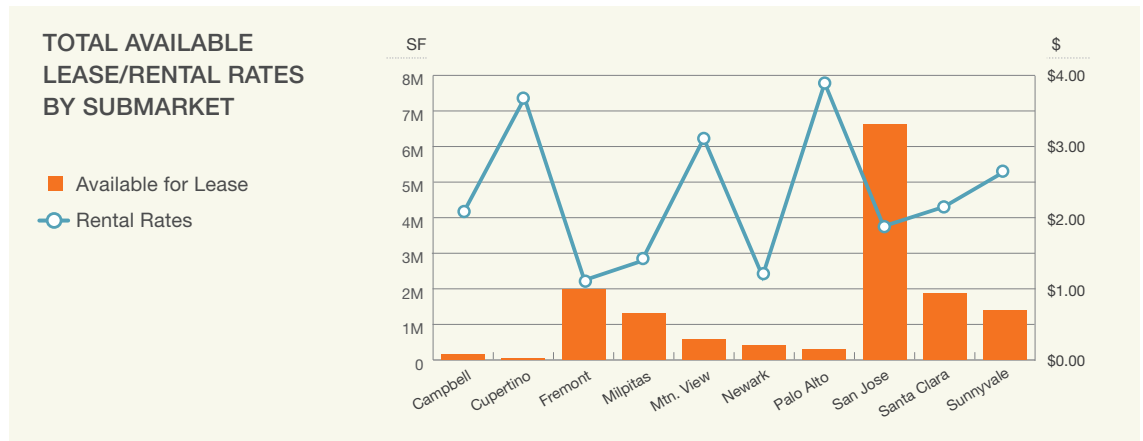
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negative (99,378) square feet. Total net absorption for the year ended up at 1,734,719 square feet. Additionally, there has been a noteworthy increase in the amount of product hitting the market for sublease, as the total available now stands at 2,649,755 square feet. Notable tech giants, who have been on an acquisition spree, appear to be more focused on digesting the square footage in their large portfolios, taking some pressure off of demand.

Currently, 149,917 square feet of R&D product is still under construction and scheduled to be completed in the next 9-18 months. However, many older R&D buildings and projects are also undergoing renovation, as developers attempt to reposition these assets and modernize them to contemporary standards. Absorption numbers should remain positive as projects are completed and users move in. Kidder Mathews is tracking nearly 14 million square feet of R&D and office tenants in the market, a noteworthy demand pool that bodes well for activity to remain robust in future quarters.

R&D sales activity continued a solid run during the fourth quarter. 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. Transactions this quarter were not as large as previous quarters. Westbrook Partners inked the largest deal this quarter for 368,178 square feet at multiple buildings on Rio Robles in San Jose. Thor Equities had the second largest transaction with their purchase of 151,400 sf at 19000 Homestead Avenue in Cupertino, which is located across the street from the new Apple Campus. Swift Realty sold their 82,602 sf building at 928-930 E Arques Avenue in Sunnyvale to an undisclosed party. The building is currently occupied by Apple. Finally, Sand Hill properties purchased the 71,409 sf building located at 950 Page Mill Road in Palo Alto. The Fed recently raised interest rates, and appears to be of a mindset to continue slowly increasing the rate in the near future. The market is still bolstered by strong demand from a large pool of institutional players as well as owner users, with little supply to go around. Prices may have hit their peak, for now, and the market appears to be moving forward with less velocity.



**Submarket Statistics**

Submarket	Available	Total Available for Lease	Sublease	Total Available for Sale	Under Construction	Vacancy %	Current Net Absorbed	Net Absorption YTD
Campbell	145,762	141,315	0	4,447	0	10.73%	18,747	72,548
Cupertino	40,386	40,386	0	0	0	0.27%	3,622	8,303
Fremont	2,307,723	1,982,027	111,939	325,696	0	9.90%	138,967	618,575
Milpitas	1,932,682	1,315,331	222,213	617,351	0	4.81%	118,441	310,779
Mountain View	607,571	565,720	278,999	41,851	0	0.75%	23,318	166,721
Newark	408,795	393,571	28,968	15,224	0	7.18%	74,900	(69,315)
Palo Alto	297,237	297,237	142,704	0	47,917	5.44%	(99,378)	(62,514)
San Jose	8,524,517	6,616,325	1,283,172	1,908,192	102,000	9.26%	229,916	876,045
Santa Clara	1,968,561	1,864,021	115,112	104,540	0	7.96%	(79,950)	442,408
Sunnyvale	1,405,186	1,382,200	466,648	22,986	0	7.22%	8,361	(628,831)
<b>Total</b>	<b>17,638,420</b>	<b>14,598,133</b>	<b>2,649,755</b>	<b>3,040,287</b>	<b>149,917</b>	<b>8.36%</b>	<b>436,944</b>	<b>1,734,719</b>

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