

Silicon Valley R&D

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Applied Materials

1140 E Arques, Sunnyvale
128,154 s.f.

Cavium Networks

2300 Orchard Parkway, San Jose
116,381 s.f.

Gigamon

3300 Olcott, Santa Clara
105,664 s.f.

Quantenna Communication

1704 Automation Parkway, San Jose
84,208 s.f.

Notable Sale Transactions

Liberty Mutual

7 Building Portfolio, San Jose & Sunnyvale
586,000 s.f.

LBA Realty

350-370 Trimble Road, San Jose
514,389 s.f.

Vertical Ventures

5215-5225 Hellyer Avenue, San Jose
354,000 s.f.

Align Technology

The Yard, San Jose
128,026 s.f.

The Silicon Valley R&D market got off to a steady start in 2017. Demand for R&D product remains robust, and the product's versatility and placement in key submarkets continues to attract various users. Net absorption for the quarter ended up at positive 300,372 square feet, while the vacancy rate dropped to 8.16%. Average asking rates were stable at \$2.18 per square foot per month on a triple-net basis, which is down from \$2.41 at this time last year. This may be attributable to high leasing volume of higher priced repositioned assets, and an increase in supply in less expensive submarkets. Demand has been strong, despite notable tech giants continuing to digest their newly held space from the acquisition frenzy over the past few years.

R&D product in the Valley continued to enjoy robust leasing activity during the first quarter. Applied Materials snapped up 128,154 sf at 1140 E Arques Avenue in Sunnyvale, while Cavium Networks completed the largest transaction in San Jose with their 116,381 sf acquisition at 2300 Orchard Parkway. Gigamon inked the largest renewal of the quarter for 105,664 sf in Santa Clara at 3300 Olcott Street. Quantenna Communications rounds out the list with their 84,208 sf deal at 1704 Automation Parkway in San Jose. Last quarter's leasing volume was driven primarily by key renewals, but this quarter saw an increase in new leases, signaling that demand for R&D space is still strong. R&D product continues to perform very well in Silicon Valley, and the demand from emerging medium- to large-size companies should continue to drive the market in the near term.

The vacancy rate for R&D space in Silicon Valley decreased from 8.36% last quarter to 8.16% this quarter, down nearly 60 basis points year over year from 8.75% in the first quarter of 2016. Cupertino came in with the lowest vacancy rate once again, at just 0.27%. Campbell and Fremont were the only cities to report double digit vacancy rates, showing 10.56% and 10.46%, respectively. Campbell experienced a decrease from last quarter's 10.73%, while Fremont experienced an increase from last quarter's 9.90%. An increase in available supply in Fremont, an area with low rental rates on average, helps explain why the market's average rental rate dropped during the quarter. Overall, steady leasing activity points to lower vacancy rates over the course of this year.

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Offices

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206.296.9600

Bellevue
425.454.7040

South Seattle
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Tacoma
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Olympia
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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

Long Beach
562.472.0071

Commerce
323.727.1144

Orange County
949.557.5000

Inland Empire
909.764.6500

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

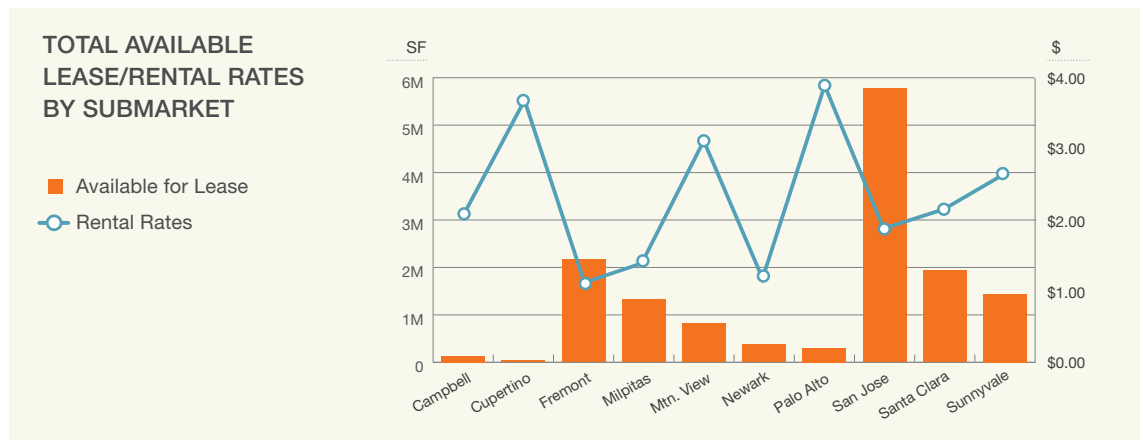
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First quarter gross absorption came in at 2,354,842 square feet, which is significantly higher than last quarter's 1,388,123 square feet. San Jose once again posted the most positive net absorption this quarter, at 270,678 square feet, accounting for roughly 90% of the 300,372 square feet of positive absorption in the entire Valley. Fremont experienced the biggest loss of occupied office space, posting negative 112,075 square feet. The supply of sublease space continues to increase across the region. The first quarter ended with 2,873,671 sf of sublease space available, which is up from last quarter's 2,649,755 square feet.

R&D sales had a robust first quarter, amid solid demand from buyers in the market. Transactions during Q1 were substantially larger than recent quarters. Liberty Mutual completed a seven-building portfolio purchase from DivCo West at multiple properties in San Jose and Sunnyvale. The investment transaction totaled roughly 586,000 square feet. LBA Realty invested in a

514,389 sf property at 350-370 Trimble Road in San Jose. Vertical Ventures completed the next largest transaction with their 354,000 sf partially crowd-funded investment at 5215-5225 Hellyer Avenue in San Jose. The largest user sale was Align Technology's purchase of The Yard. The Yard is a 2 building complex totaling 128,026 square feet located at 2820 Orchard Parkway and 75 W Plumeria Drive in San Jose. The first quarter realized one of the strongest quarters for sales in recent years, especially for investments, and the R&D product type will look to build on this momentum through the year.

The amount of R&D product under construction held steady at 149,917 sf this quarter. However, multiple R&D buildings are still under renovation as owners look to reposition their assets and add value to them. Kidder Mathews is tracking nearly 10 million square feet of R&D and Office tenants in the market, which signals ample demand and suggests that Silicon Valley's market should continue to be active in the coming quarters.



Submarket Statistics

Submarket	Available	Total Available for Lease	Sublease	Total Available for Sale	Under Construction	Vacancy %	Current Net Absorbed	Net Absorption YTD
Campbell	143,131	138,684	7,034	4,447	-	10.56%	2,631	2,631
Cupertino	128,966	40,386	-	88,580	-	0.27%	-	-
Fremont	2,419,798	2,167,950	84,149	251,848	-	10.46%	(112,075)	(112,075)
Milpitas	1,883,044	1,320,972	188,226	562,072	-	4.48%	49,638	49,638
Mountain View	853,065	821,214	316,408	31,851	-	0.64%	78,412	78,412
Newark	390,892	375,668	36,999	15,224	-	6.58%	17,903	17,903
Palo Alto	305,901	305,901	107,066	-	47,917	5.55%	(8,664)	(8,664)
San Jose	8,062,697	5,772,770	1,380,118	2,289,927	102,000	8.60%	270,678	270,678
Santa Clara	2,124,156	1,938,738	207,425	185,418	-	8.34%	(74,717)	(74,717)
Sunnyvale	1,594,936	1,434,176	546,246	160,760	-	6.92%	76,566	76,566
Total	17,906,586	14,316,459	2,873,671	3,590,127	149,917	8.16%	300,372	300,372

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