

Silicon Valley R&D

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Cutera
6530 Paseo Padre Parkway, Fremont
100,103 s.f.

Lumentum Operations
1764 Automation Parkway, San Jose
92,608 s.f.

Amazon's Lab 126
10201 Torre Avenue, Cupertino
88,580 s.f.

Future Mobility
4201 - 4255 Burton Drive, Santa Clara
77,671 s.f.

Notable Sale Transactions

Shanda Group
3403 Yerba Buena Road, San Jose
416,008 s.f.

Bridge Investment Group
Alviso Tech Park, San Jose
188,825 s.f.

TH Real Estate
Bridgeway Technology Center, Newark
187,268 s.f.

Brookfield Asset Management
2300 Orchard Parkway, San Jose
117,739 s.f.

The Silicon Valley R&D market continued to show steady, positive growth during the second quarter. Demand for R&D product remains robust, and the product's versatility and placement in key submarkets continues to attract a variety of users. Net absorption for the quarter ended up at positive 310,366 s.f., while the vacancy rate dropped from 8.16% to 7.95%. Average asking rates were stable at \$2.18 per s.f. per month on a triple-net basis. 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 leasing remained active in the second quarter, picking up where it left off in the first quarter. Cutera snapped up 100,103 s.f. at 6530 Paseo Padre Parkway in Fremont. Lumentum Operations had the largest sublease, with their 92,608 s.f. deal at 1764 Automation Parkway in San Jose. Amazon's Lab 126 came to the tech city of Cupertino with their 88,580 s.f. deal at 10201 Torre Avenue. Future Mobility inked a two-building deal totaling 77,671 s.f. at 4201-4255 Burton Drive in Santa Clara. This quarter realized a healthy mix of renewals and new leases, signaling that demand for R&D space remains strong. R&D product continues to perform very well across many submarkets in Silicon Valley, and supply and demand appears to be in a harmonious state.

The vacancy rate for R&D space in Silicon Valley dropped to 7.95% this quarter, down from 8.16% in the first quarter. Cupertino came in with the lowest vacancy rate once again, at just 0.58%. Fremont is now the only city to report double digit vacancy rates, showing 10.72%, slightly up from the first quarter's 10.46%. Steady supply and demand helps explain why the market's average rental rate held constant during the quarter. Nonetheless, the robust leasing activity portends lower vacancy rates in the near future.

Second quarter gross absorption came in at 1,567,466 s.f., which is lower than last quarter's 2,354,842 s.f. San Jose once again posted the most positive net absorption this quarter, at 210,581 s.f., accounting for roughly 70% of the 310,366 s.f. of positive absorption in the entire Valley. Mountain View experienced the biggest loss of occupied space, posting negative 126,520 s.f. of net absorption. The supply of sublease space

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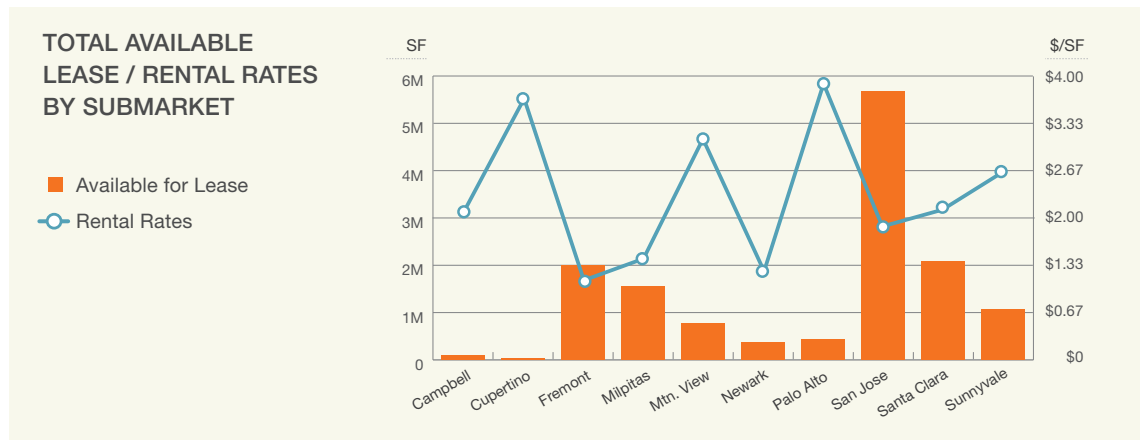
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decreased slightly this quarter, the first decrease since 2016's first quarter. The second quarter ended with 2,524,501 s.f. of sublease space available, which is down from last quarter's 2,873,671 s.f. The Lumentum sublease helped take a big chunk of sublease space off of the market.

R&D investments kept the sales market strong this quarter. Shanda Group closed the largest deal of the quarter with their 416,008 s.f. purchase at 3403 Yerba Buena Road in San Jose. Bridge Investment Group completed the second largest transaction, snapping up the four-building Alviso Tech Park (110, 120, 130, 140 Baytech Drive) in San Jose, which has four buildings comprising 188,825 s.f. TH Real Estate invested in two buildings totaling 187,268 s.f. at 7007-7151

Gateway Boulevard in Newark. Brookfield Asset Management purchased 117,739 s.f. at 2300 Orchard Parkway in San Jose. Second quarter sales were active across most of the Valley, and the transaction volume was bolstered by investors, who are attracted to the R&D product's flexibility.

The amount of R&D product under construction held steady at 149,917 s.f. 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 over 10 million s.f. of R&D and Office tenants in the market, which signals ample demand and suggests that the 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	95,302	90,855	-	4,447	-	5.52%	78,969	81,600
Cupertino	25,771	25,771	-	-	-	0.58%	(14,000)	(14,000)
Fremont	2,240,235	1,988,387	170,918	251,848	-	10.72%	(52,462)	(164,537)
Milpitas	2,106,677	1,547,607	127,288	559,070	-	3.94%	81,323	130,961
Mountain View	815,226	768,875	207,483	46,351	-	1.62%	(126,520)	(48,108)
Newark	389,972	376,136	47,631	13,836	-	6.55%	920	18,823
Palo Alto	438,777	438,777	245,264	-	47,917	5.51%	3,075	(5,589)
San Jose	7,913,591	5,683,618	1,058,389	2,229,973	102,000	8.09%	210,581	481,259
Santa Clara	2,388,922	2,073,105	241,061	315,817	-	7.71%	121,420	46,703
Sunnyvale	1,226,516	1,065,756	426,467	160,760	-	6.89%	7,060	83,626
Total	17,640,989	14,058,887	2,524,501	3,582,102	149,971	7.95%	310,366	610,738

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