

Real Estate Market Review

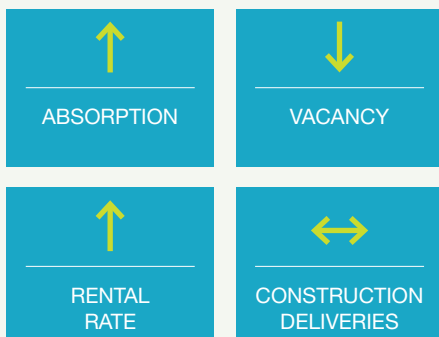
Silicon Valley R&D

The Silicon Valley R&D market continued to show slow growth during the third quarter. Demand for R&D product remains steady, 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 147,914 square feet, while the vacancy rate remained fairly constant at 7.85%, down from last quarter’s 7.95%. Average asking rates were relatively stable at \$2.12 per square foot per month on a triple-net basis. The market is moving along steadily, but fairly flat.

R&D leasing remained active during the third quarter. The largest transaction of the quarter was a renewal and consolidation, implemented by Renesas after their merger with Intersil. They renewed on 126,219 sf and took an additional 89,994 sf at Murphy Ranch in Milpitas; a combined transaction of 216,163 sf. However, in the process, they also put their existing 102,867 sf campus on Scott Blvd in Santa Clara on the market, so the transaction resulted in relatively neutral absorption overall. Lyft inked the largest sublease with their 92,000 sf sublease at 3210 Porter Drive in Palo Alto. Fetch Robotics locked down 84,560 sf at 2811 Orchard Parkway in San Jose. R&D product continues to realize a healthy mix of renewals, subleases, and new leases, signaling the demand for this product remains strong. R&D product continues to perform very well throughout Silicon Valley.

The vacancy rate for R&D space in Silicon Valley remained relatively the same posting a rate of 7.85% this quarter, down slightly from 7.95% in the second quarter. Cupertino came in with the lowest vacancy rate once again, at just 0.89%. Fremont remains the only city to report double digit vacancy rates, showing 10.40%, slightly down from the second quarter’s 10.72%. Asking rental rates held fairly steady during the third quarter. Although developers continue to upgrade and repartition R&D assets in an effort to obtain higher rental rates, increases to rates have been effectively offset by two primary factors; an increase over the past twelve months in the inventory of available space for sublease and a decrease in available supply in more expensive submarkets in the northern area of the region. Redevelopment and user acquisitions are constraining supply in Mountain View and Sunnyvale. The rise in available sublet space also serves to reduce average asking rates, as sublandlords often price

Market Forecast Trends



Notable Lease Transactions

- Renesas**
Murphy Ranch Tech Park, Milpitas
216,163 s.f. leased
- Lyft**
3210 Porter Drive, Palo Alto
92,000 s.f. leased
- Fetch Robotics**
2811 Orchard Parkway, San Jose
84,560 s.f.

Notable Sale Transactions

- DRA Advisors**
Optical Tech Park, San Jose
509,773 s.f.
- MetLife RE**
Orchard Commons, San Jose
323,182 s.f.
- Washington RE Holdings**
North First Corporate Center, San Jose
253,000 s.f.

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
- Los Angeles
213.880.5250
- Commerce
323.727.1144
- Long Beach
562.472.0071
- Orange County
949.557.5000
- Inland Empire
909.764.6500
- San Diego
858.509.1200
- Carlsbad
760.430.1000
- Reno
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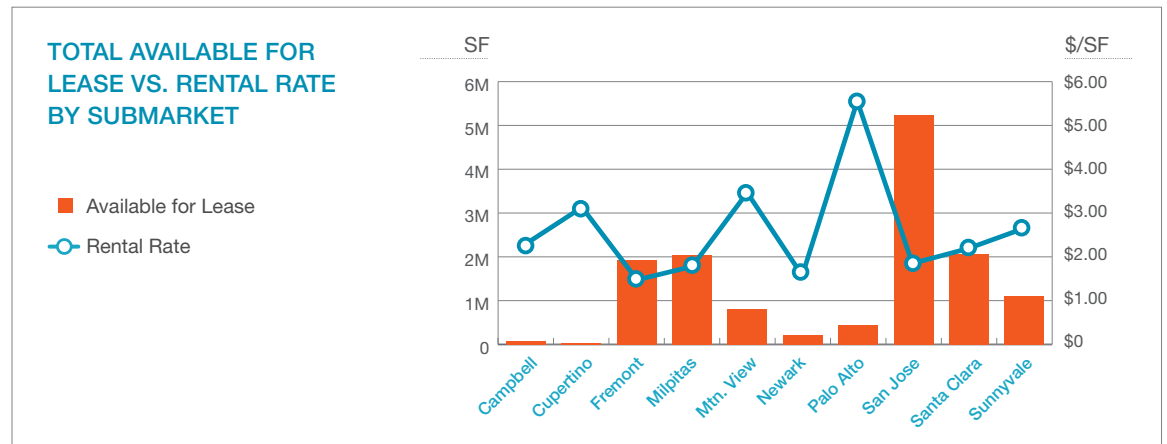
their availabilities below market to attract tenants. The result is more tenants looking at options in the southern and eastern parts of the Valley, where there is more product and lower rates.

Third quarter realized 1,663,719 square feet of gross absorption, a relatively similar pace to the previous quarter's 1,567,466 square feet. Sunnyvale posted the most positive net absorption this quarter, at 125,020 square feet, accounting for roughly 85% of the 147,914 square feet of positive absorption in the entire Valley. Mountain View experienced the biggest loss of occupied space, posting negative 126,520 square feet of net absorption. The supply of sublease availability decreased marginally this quarter. The third quarter ended with 2,354,651 sf of sublease space available, which is down from last quarter's 2,524,501 square feet, primarily attributed to the Lyft deal, which removed a large chunk from the market.

Large investment deals, especially in San Jose, kept the R&D sales market strong this quarter. DRA

Advisors inked the largest deal of the quarter with their six-building, 509,773 sf purchase of Optical Tech Park in South San Jose. MetLife completed the second largest transaction, snapping up Orchard Commons in San Jose, which has six buildings comprising 323,182 sf. Washington Holdings also invested in six buildings totaling 253,000 sf at the North First Corporate Center in San Jose. Finally, Nazareth Enterprises purchased 180,086 sf at 510 Cottonwood Drive in Milpitas. R&D product continues to be attractive to investors, and we expect that trend to continue in the near term.

The current amount of now R&D product under construction is 401,083 sf. However, many existing R&D buildings and projects are still under renovation as owners look to reposition their assets and add value to them. Kidder Mathews is tracking over 12 million square feet 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	78,392	76,748	0	1,644	0	4.44%	16,910	98,510
Cupertino	25,771	25,771	16,490	0	0	0.89%	0	(14,000)
Fremont	2,176,173	1,934,779	202,338	241,394	0	10.40%	64,062	(100,475)
Milpitas	2,636,211	2,045,976	123,798	590,235	0	3.84%	13,360	144,321
Mountain View	816,798	802,298	113,429	14,500	0	1.12%	(126,520)	(174,628)
Newark	224,011	210,175	24,495	13,836	0	6.14%	42,275	61,098
Palo Alto	444,386	444,386	230,898	0	101,083	5.58%	(5,609)	(11,198)
San Jose	6,729,333	5,231,739	827,826	1,497,594	0	8.05%	18,328	499,587
Santa Clara	2,388,834	2,073,017	426,508	315,817	0	7.71%	88	46,791
Sunnyvale	1,367,812	1,115,902	388,869	251,910	300,000	6.39%	125,020	208,646
Total	16,887,721	13,960,791	2,354,651	2,926,930	401,083	7.85%	147,914	758,652

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