

Real Estate Market Review

Silicon Valley R&D

The Silicon Valley R&D real estate market held fairly steady during the fourth quarter. Large-scale investors continued to gobble up as much product as possible throughout the entire Silicon Valley. The market posted negative 128,478 s.f. of net absorption, while the vacancy rate slightly bumped up to 8.55% from 7.85% quarter over quarter. Average asking rents for R&D product were \$1.99 per s.f. per month on a triple-net basis. The market continued its steady performance during 2017, and this pace should stretch into 2018.

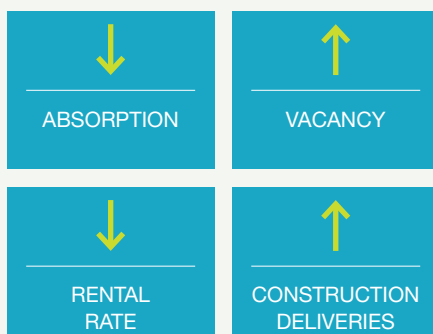
R&D leasing activity in the fourth quarter of 2017 saw a mix of renewals and new deals. Synopsys signed the largest deal with their prelease at 445 N Mary Avenue in Sunnyvale for a total of 360,100 s.f. Roche completed the next largest R&D deal at 2801-2881 Scott Boulevard in Santa Clara, with a pact totaling 312,167 s.f. The multinational healthcare firm renewed two R&D buildings totaling 109,532 s.f., and then also leased an additional 102,867 s.f., bringing their R&D total portion of the deal to 212,399 s.f. (the remaining 99,768 s.f. was a direct deal for an office building). Facebook decided to expand across the bridge in Fremont, inking a deal for 190,100 s.f. at 6422 Commerce Drive and 6500-6530 Paseo Padre Parkway. Finally, in San Jose, Extreme Networks renewed 102,139 s.f. at 6480 Via Del Oro, and also expanded into an additional 82,574 s.f. at 6377 San Ignacio Avenue for a total of 184,713 s.f. These large renewals and expansions indicate that lower prices and plentiful options continue to attract companies to the southern and eastern parts of the market.

The vacancy rate for R&D product in Silicon Valley crept up from 7.85% to 8.55% in Q4. Vacancy is slightly up from 8.36% at the end of 2016.

Cupertino continues to boast the lowest vacancy rate, coming in at 1.17%. San Jose is the only submarket to report double-digit vacancies this quarter, at 11.46%. Asking rental rates dipped slightly during the fourth quarter, a decrease primarily attributable to supply shifting from expensive submarkets like Palo Alto to more affordable submarkets such as Fremont. Redevelopment and user acquisitions continue to constrain supply in Mountain View and Sunnyvale. The rise in available sublease space also serves to reduce average asking rates, as sublandlords often price their availabilities below market to attract tenants. This results in more tenants looking at options in the southern and eastern parts of the Valley, where there is more supply at lower prices.

Gross absorption in the fourth quarter ended at 1,879,352 s.f., bringing 2017's annual total to 8,113,898 s.f., up 12% from last year's 7,234,297 s.f. Sunnyvale posted the largest positive net absorption this quarter with 136,790 s.f. The biggest loss in net absorption this quarter occurred in Santa Clara, which saw negative 235,613 s.f. Total net absorption for the year ended at negative 128,478 s.f. Further, there has been an increase in

Market Forecast Trends



Notable Lease Transactions

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|------------------------------------------------------------------------------------------------------------------|
| Synopsys 445 N Mary Ave, Sunnyvale 360,100 s.f. leased |
| Roche 2801-2881 Scott Blvd, Santa Clara 312,167 s.f. (212,399 s.f. R&D / 99,768 s.f. office) leased |
| Facebook 6422 Commerce Dr & 6500-6530 Paseo Padre Pkwy, Fremont 190,100 s.f. leased |
| Extreme Networks 6480 Via Del Oro & 6377 San Ignacio Ave, San Jose 184,713 s.f. leased |

Notable Sale Transactions

| |
|-----------------------------------------------------------------------------------------|
| Preylock RE Holdings San Tomas Technology Park 625,000 s.f. |
| Washington Holdings River Oaks Parkway, San Jose 268,364 s.f. |
| Applied Materials 1050-1090 E Arques Ave, Sunnyvale 219,341 s.f. |
| Peninsula Land & Capital Fremont Technology Park, Fremont 167,878 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**
775.301.1300
- Phoenix**
602.513.5200

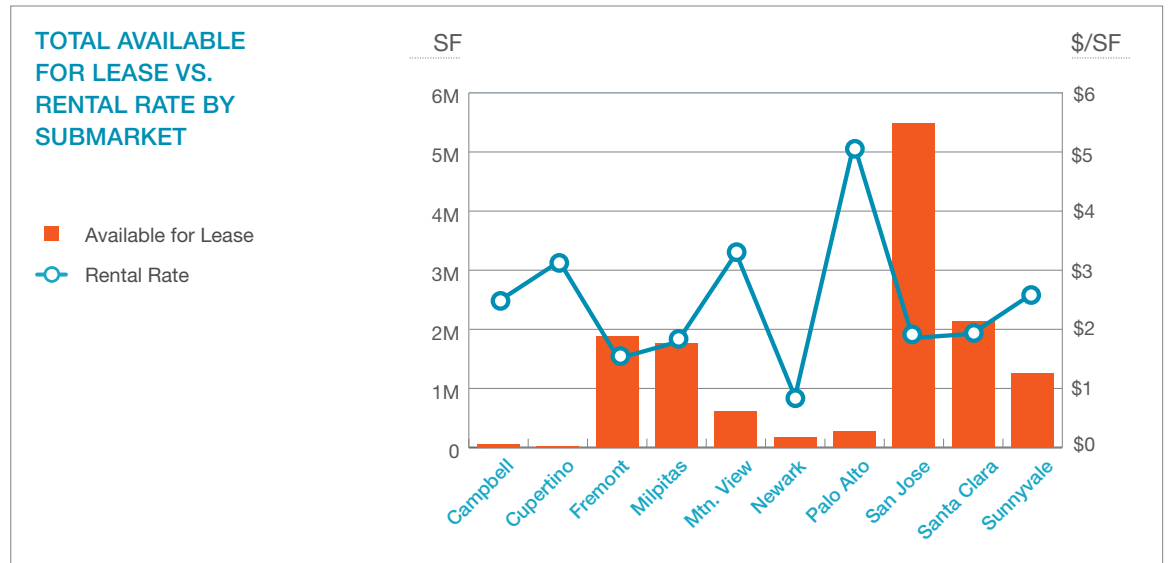
Contact
Mark Read
 Executive VP, Brokerage
 Northern California
 408.970.9400
 mread@kiddermathews.com

the amount of product hitting the market for sublease, as the total available now stands at 1,940,075 s.f., up year over year from 1,892,213 s.f. R&D leasing will look to continue a steady run during 2018, as the product's versatility is its main strength.

R&D sales activity remained very active during the fourth quarter, especially for investment properties. Institutional investors continue to place funds in core commercial real estate assets, contributing to near all-time high prices throughout Silicon Valley. Multi-building transactions made up the most notable deals during the final quarter of 2017. Preylock RE Holdings purchased the San Tomas Technology Park in Santa Clara, which totals seven buildings and 625,000 s.f. These buildings are currently occupied by Huawei and Nvidia. Next, Washington Holdings continued their R&D acquisition spree with

their purchase of the River Oaks Parkway complex in San Jose, which totals eight buildings and 268,364 s.f. Applied Materials inked the largest user acquisition with their four-building, 219,341 s.f. purchase at 1050, 1060, 1070, and 1090 E Arques Avenue in Sunnyvale. Finally, Peninsula Land & Capital acquired the 167,878 s.f. Fremont Technology Park located at 4209-4245 Technology Drive in Fremont.

Currently, one building totaling 99,415 s.f. of R&D space is under construction, but it has been pre-leased. Many older R&D buildings and projects continue undergoing renovation, as developers attempt to reposition these assets and modernize them. Kidder Mathews is tracking nearly 12 million s.f. of R&D and office tenants in the market, a noteworthy demand pool that portends robust activity in future quarters.



Submarket Statistics

| Submarket | Available | Total Available for Lease | Sublease | Total Available for Sale | Under Construction | Vacancy % | Current Net Absorbed | Net Absorption YTD |
|---------------|-------------------|---------------------------|------------------|--------------------------|--------------------|--------------|----------------------|--------------------|
| Campbell | 64,206 | 62,562 | - | 1,644 | - | 2.87% | 21,861 | 79,114 |
| Cupertino | 26,416 | 26,416 | 16,490 | - | - | 1.17% | - | 583,206 |
| Fremont | 2,387,865 | 1,880,492 | 330,323 | 507,373 | - | 9.86% | (95,744) | (346,302) |
| Milpitas | 2,209,021 | 1,759,880 | 37,119 | 449,141 | - | 9.82% | (57,956) | (188,525) |
| Mountain View | 629,079 | 614,579 | 161,839 | 14,500 | - | 1.18% | (44,361) | (126,356) |
| Newark | 183,611 | 169,775 | 23,828 | 13,836 | - | 8.00% | (12,746) | 78,408 |
| Palo Alto | 280,219 | 280,219 | 131,984 | - | 99,415 | 3.39% | 100,423 | 81,316 |
| San Jose | 7,096,635 | 5,486,410 | 602,974 | 1,610,225 | - | 11.46% | 58,868 | 709,069 |
| Santa Clara | 2,453,217 | 2,138,030 | 278,604 | 315,187 | - | 9.03% | (235,613) | (110,341) |
| Sunnyvale | 1,367,905 | 1,256,439 | 356,914 | 111,466 | - | 5.80% | 136,790 | 423,419 |
| Total | 16,698,174 | 13,674,802 | 1,940,075 | 3,023,372 | 99,415 | 8.55% | (128,478) | 1,183,008 |

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