

Real Estate Market Review

Silicon Valley R&D

The Silicon Valley R&D market has taken a slight breather to start 2018, but should pick up momentum in the coming quarters. Net absorption for the quarter ended up at negative 198,561 square feet, while the vacancy remained relatively stable at 9.20%. Average asking rates also increased to \$2.26 per square foot per month on a triple-net basis, which is up from \$2.18 at this time last year. This may be attributable to increased rates in traditionally cheaper markets in the eastern submarkets. The R&D market seems to have taken a temporary break, but the large 1,777,801 sf of gross absorption and relatively low vacancy rates bode well for future quarters.

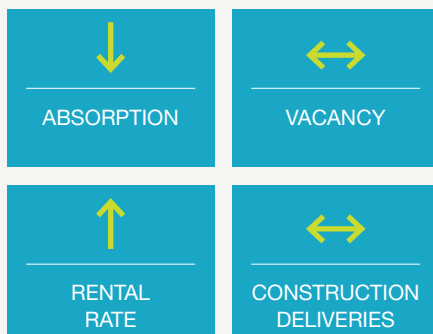
The vacancy rate for R&D space in Silicon Valley stayed fairly constant at 9.20% this quarter. This is only up 20 basis points quarter over quarter, and is an inconsequential change. Cupertino once again came in with the lowest vacancy rate at just 1.20%. Milpitas and San Jose were the only cities to report double digit vacancy rates, showing 15.20% and 11.60%, respectively. Asking rates crept up to \$2.26 on average per sf on a NNN basis market wide. Traditionally less expensive submarkets such as Newark and Fremont are increasing their prices due to recent demand from large companies. Newark and Fremont are respectively charging \$1.77 and \$1.52 psf on a triple net basis. The jump for these cities can possibly be attributed to the recent Facebook and Tesla leasing activity. Overall, strong demand should help boost net absorption over the next few quarters.

First quarter gross absorption came in at 1,777,801 square feet, which is slightly down from last quarter's 1,879,352 square feet. Fremont posted

the highest net absorption this quarter at 250,080 square feet. Newark also posted a positive net absorption of 66,490 sf. The supply of sublease space remains high throughout the region, with 2,727,920 sf. San Jose has the largest amount of sublease space with 725,591 sf. However, more than half of this sublease space is from five listings. Tenants are learning to do more with less, and companies are expanding, therefore forcing them to shed their smaller spaces. Further, large mergers and acquisitions continue in the Valley, which often results in property restructuring. Despite lower net absorption numbers this quarter, tenant demand remains high, and should help bolster future absorption.

Large subleases made up some of the notable transactions signed during the first quarter. Stanford Medical inked the largest deal with their 116,000 sf sublease at 1701 Page Mill Road in Palo Alto. Also in Palo Alto, Argo AI signed a sublease as well, with their 77,634 sf transaction at 1450 Page

Market Forecast



Notable Lease Transactions

- Stanford Medical**
1701 Page Mill Road, Palo Alto
116,000 s.f. leased
- Argo AI**
1450 Page Mill Road, Palo Alto
77,634 s.f. leased
- Genista Biosciences**
5500 Hellyer Avenue, San Jose
63,897 s.f. leased
- Byton North America**
1801 McCarthy Boulevard, Milpitas
61,880 s.f. leased

Notable Sale Transactions

- DivCo West**
125 Rio Robles, 10 & 80 W Tasman, San Jose
313,540 s.f.
- Vista Investment Group**
Vasona Technology Park, Campbell
311,882 s.f.
- Deutsche Assets & Wealth Management**
Ardenwood Corporate Center, Fremont
307,383 s.f.
- Washington Holdings**
Montague Square, San Jose
224,907 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

El Segundo
310.807.0880

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
408.970.9400
mread@kiddermathews.com

Designated Broker
Mark Read | LIC #00572743

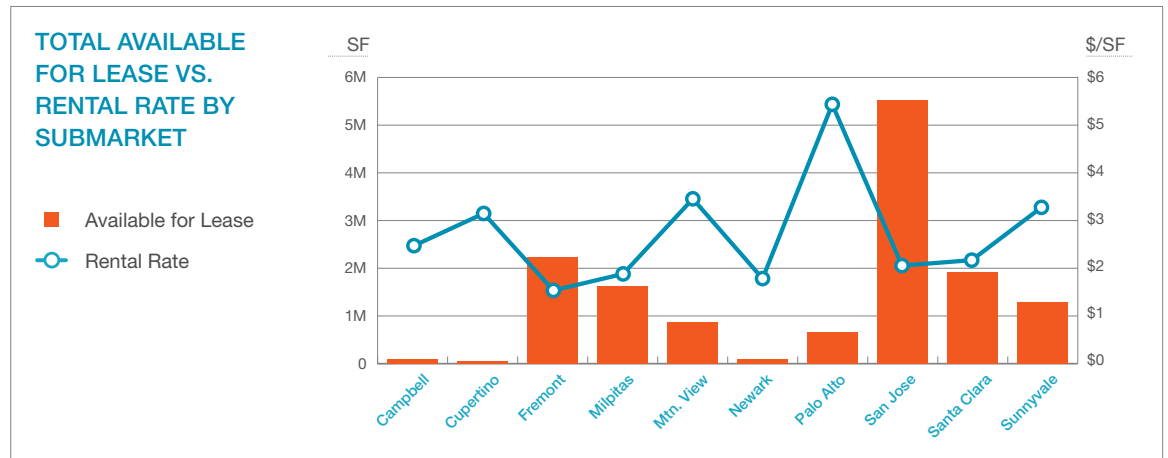
Mill Road. Genista Biosciences signed the largest direct deal with their 63,897 lease at 5500 Hellyer Avenue in San Jose. Byton North America completed the largest new lease in Milpitas, leasing 61,880 sf at 1801 McCarthy Boulevard. Last quarter's leasing volume was driven primarily by key renewals and expansions, but this quarter saw an increase in subleases and new leases, signaling that demand for R&D space is still strong. R&D product continues to do very well in Silicon Valley, and the demand from emerging and established companies should continue to bolster the market in the near term.

R&D investment sales had a hearty first quarter throughout the Valley. The largest investment purchase was DivCo West's three-building 313,540 sf purchase from Cisco at 10 and 80 W Tasman, and 125 Rio Robles in San Jose. Next, Vista Investment Group purchased the Vasona Technology Park in Campbell. The deal was for seven mixed R&D and Office buildings. Deutsche Assets and Wealth Management completed the next largest

transaction with their 307,383 sf four-building purchase of the Ardenwood Corporate Center in Fremont. Finally, Washington Holdings continued their R&D purchasing spree with their six building, 224,907 sf acquisition of Montague Square in San Jose. Investments continue to drive the sales market for the R&D product, and this trend will look to continue as the product's versatility is very attractive to investors.

Currently, there is one building under construction totaling 154,987 s.f. of R&D space, and it is available for lease. Many older R&D buildings and projects continue to undergo renovation, as developers attempt to reposition these assets and modernize them. Kidder Mathews is currently tracking nearly 12 million square feet of R&D and office tenants in the market, which is a noteworthy demand pool that portends robust activity in future quarters.

Data Source: Kidder Mathews Research & CoStar



Submarket Statistics

Submarket	Vacancy %	Total Available	Total Available for Sale	Total Available for Lease	Sublease	Under Construction	Current Gross Absorption	Current Net Absorption
Campbell	3.60%	102,772	1,644	101,128	1,950	0	0	(8,147)
Cupertino	1.20%	42,261	0	42,261	32,980	0	0	0
Fremont	8.40%	2,677,655	439,604	2,238,051	312,490	0	323,299	250,080
Milpitas	15.20%	2,100,856	467,344	1,633,512	179,720	0	268,536	(507,908)
Mountain View	5.50%	865,892	0	865,892	208,854	0	119,816	(30,560)
Newark	5.90%	102,028	13,836	88,192	40,358	0	34,038	66,490
Palo Alto	3.30%	660,909	0	660,909	451,915	0	193,634	4,888
San Jose	11.60%	6,956,237	1,441,175	5,515,062	725,591	0	464,652	(65,163)
Santa Clara	8.30%	2,151,527	234,939	1,916,588	290,541	0	151,908	115,800
Sunnyvale	5.90%	1,412,646	120,157	1,292,489	483,521	154,987	221,918	(24,041)
Total	9.20%	17,072,783	2,718,699	14,354,084	2,727,920	154,987	1,777,801	(198,561)