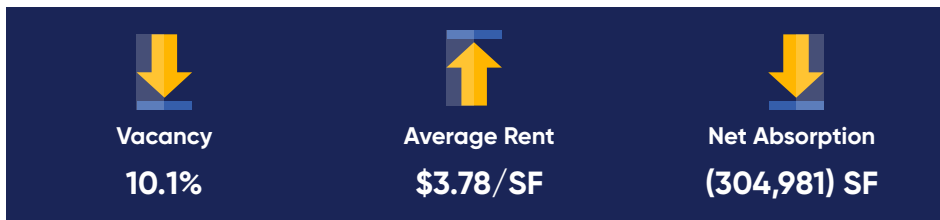
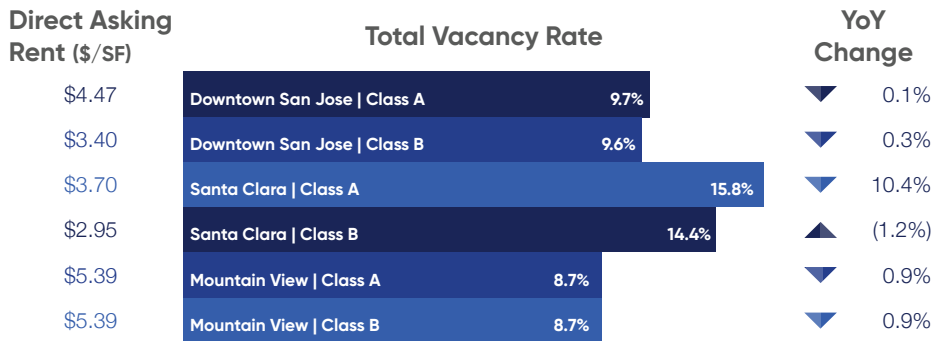


Occupier's Guide - Office

With 2018 representing one of Silicon Valley's strongest years in recent history, the office market experienced a more moderate start to 2019. The market essentially remained flat for the quarter with negative net absorption of 304,981 square feet, and a vacancy rate of 10.1%. Despite a level market, landlords remained bullish and average asking rates Valley-wide increased to \$3.78 Full Service/SF, continuing the upward trend from the 4th Quarter of 2018. Given the amount of tenant demand we are tracking in the market, we expect that vacancy rates will decrease throughout the remainder of 2019, and average asking rates will continue to increase as there is not enough space coming online to meet the tenant demand.



Select Submarket Rental and Vacancy Rates



Recent Transactions

Buyer	Submarket	Type	Size	Sector
Google*	Mountain View	New Lease	190,000 SF	Technology
Cohesity	San Jose	Renewal	158,858 SF	Technology
Flextronics	San Jose	Renewal	119,058 SF	Technology
Microsoft	Sunnyvale	Renewal	76,031 SF	Technology
Applied Materials	Sunnyvale	New Lease	70,070 SF	Manufacturing
WeWork	Palo Alto	New Lease	40,000 SF	Coworking

*Planned development

Occupier's Perspective

- Large spaces remain in demand throughout the Silicon Valley market. Google signed the largest deal 600 Clyde Avenue in Mountain View. The 190,000 SF project is projected to begin construction mid 2019.
- Despite the slowdown in leasing activity, the investment market was extremely hot. Mori Trust, a Japanese developer, bought Micron Technology's 603,666 SF campus at 110-130 Holger Way for \$429 million or \$710 PSF.
- No new office product came online during the first quarter of 2019, but there is currently 7.5 million SF under construction. Developers are facing many challenges as construction costs increase and entitlements are much more difficult to secure.

Market Trends

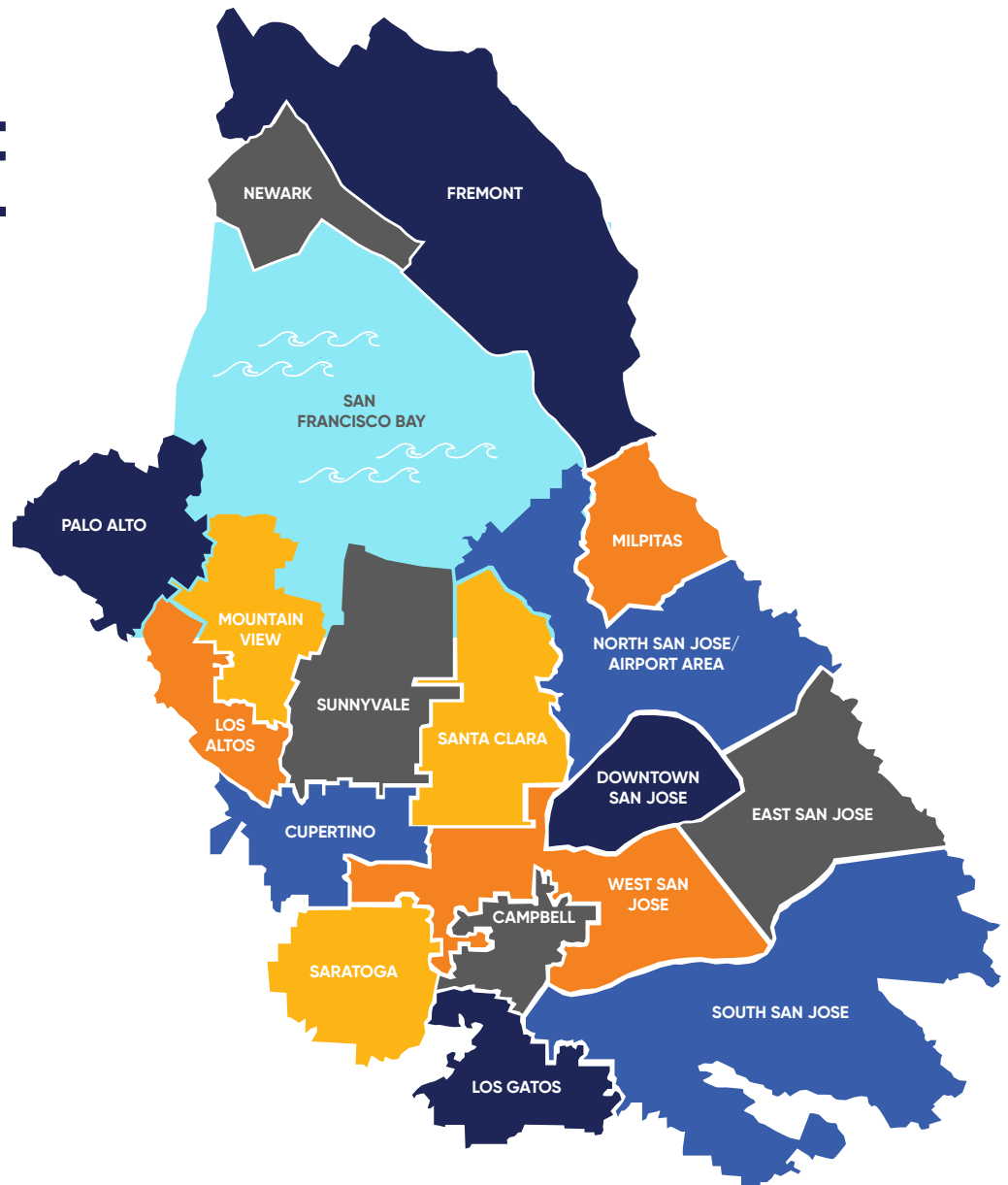


According to PitchBook data, venture capital funding remained resilient in Q1 2019 with \$11.9 billion invested in VC backed companies. VC funding is an extremely important metric to indicate the health of the economy and is often a forerunner to commercial real estate activity.

The San Jose MSA's Employment Rate for the end of Q1 2019 was 2.4%. This rate compares to California's rate which is 3.9%

In the first month of Q1, the S&P 500 was up 7.9% That would be the best January performance since 1987, when it rose 13.2%. This is a major indication that 2019 could be a strong year for the stock market.

Submarket Statistics - Office



Submarket	Inventory	Overall Rent	YoY Trend	Vacancy	YoY Trend	Net Absorption
Palo Alto	9,817,287	\$6.92	▲	11.6%	▲	(469,376)
Mountain View	11,562,908	\$5.66	▲	4.4%	▼	23,169
Sunnyvale	16,461,471	\$5.42	▲	6.2%	▲	116,526
Santa Clara	19,336,916	\$3.32	▼	15.2%	▼	(59,921)
Cupertino	7,247,714	\$4.05	▲	1.5%	▶	(14,498)
West Valley	8,408,836	\$3.59	▲	10.4%	▲	(40,374)
S. San Jose	2,788,017	\$2.25	▲	2.5%	▲	(14,597)
Downtown San Jose	11,113,543	\$3.88	▲	9.6%	▼	(40,819)
N. San Jose/Airport Area	16,115,944	\$3.09	▲	19.1%	▼	405,176
Milpitas	4,060,619	\$1.99	▲	7.9%	▼	(16,201)
Fremont/Newark	4,221,387	\$2.14	▼	6.0%	▼	28,001