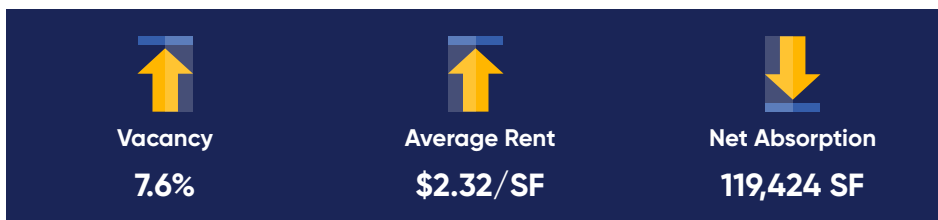
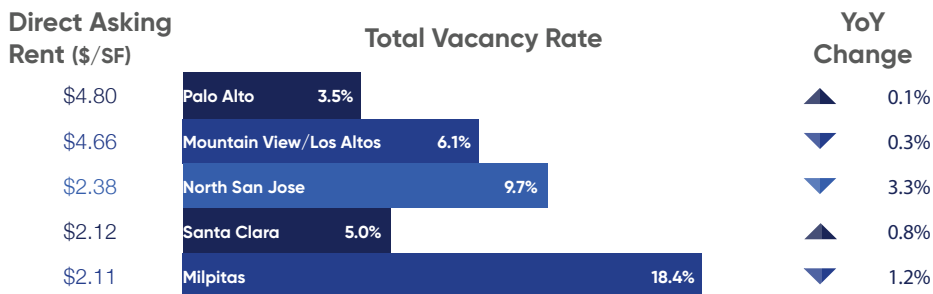


Occupier's Guide - R&D

Continuing with Q3's trend of R&D slowdown, Q4 had 119,424 square feet of negative net absorption. Although many large deals brought the gross absorption rate up substantially, Inphi's 110,562 square feet and Stryker's 122,092 square feet transactions, to name a few, it wasn't enough to offset the amount of vacancy and subleasing spaces. Asking rates increased from \$2.26 to \$2.32/SF from the previous quarter due to the higher demand from premium R&D space. Throughout 2019, there has been minimal activity in regards to new product being developed. With companies competing for R&D space that meets their financial needs, we see no sign of any slow down in leasing in 2020.




Select Submarket Rental and Vacancy Rates




Recent Transactions

| Tenant | Submarket | Type | Size (SF) | Sector |
|-------------------|-----------|--------------|-----------|------------------------|
| Stryker | Fremont | Renewal | 122,092 | Medical Technology |
| INPHI Corporation | San Jose | Direct Lease | 110,562 | Semiconductor |
| Rivian | Palo Alto | Direct Lease | 110,000 | Automaker |
| Ultratech | San Jose | Renewal | 97,910 | Cement |
| Nanosys | Milpitas | Renewal | 60,482 | Nanotechnology |
| Prime Electric | San Jose | Direct Lease | 58,200 | Electrical Contractors |

Occupier's Perspective

 Continuing the Q3 trend, the R&D asking rate is continuing to rise. Mountain View and Cupertino submarkets are leading the trend and increasing the average asking rates. Demand for new premium space is needed, yet developers having no new plans of constructed R&D space.

 Jay Paul Company completed the only speculation R&D project of late. With no other R&D projects under construction, and companies correctly sizing their spaces, vacancy rates are increasing, along with a growing R&D subleasing market.

 51% of all leasing activities were renewals in existing spaces. This is due to no newly developed R&D spaces entering the market, further straining companies to either renew existing leases or to choose from an aging selection of properties in need of updates.

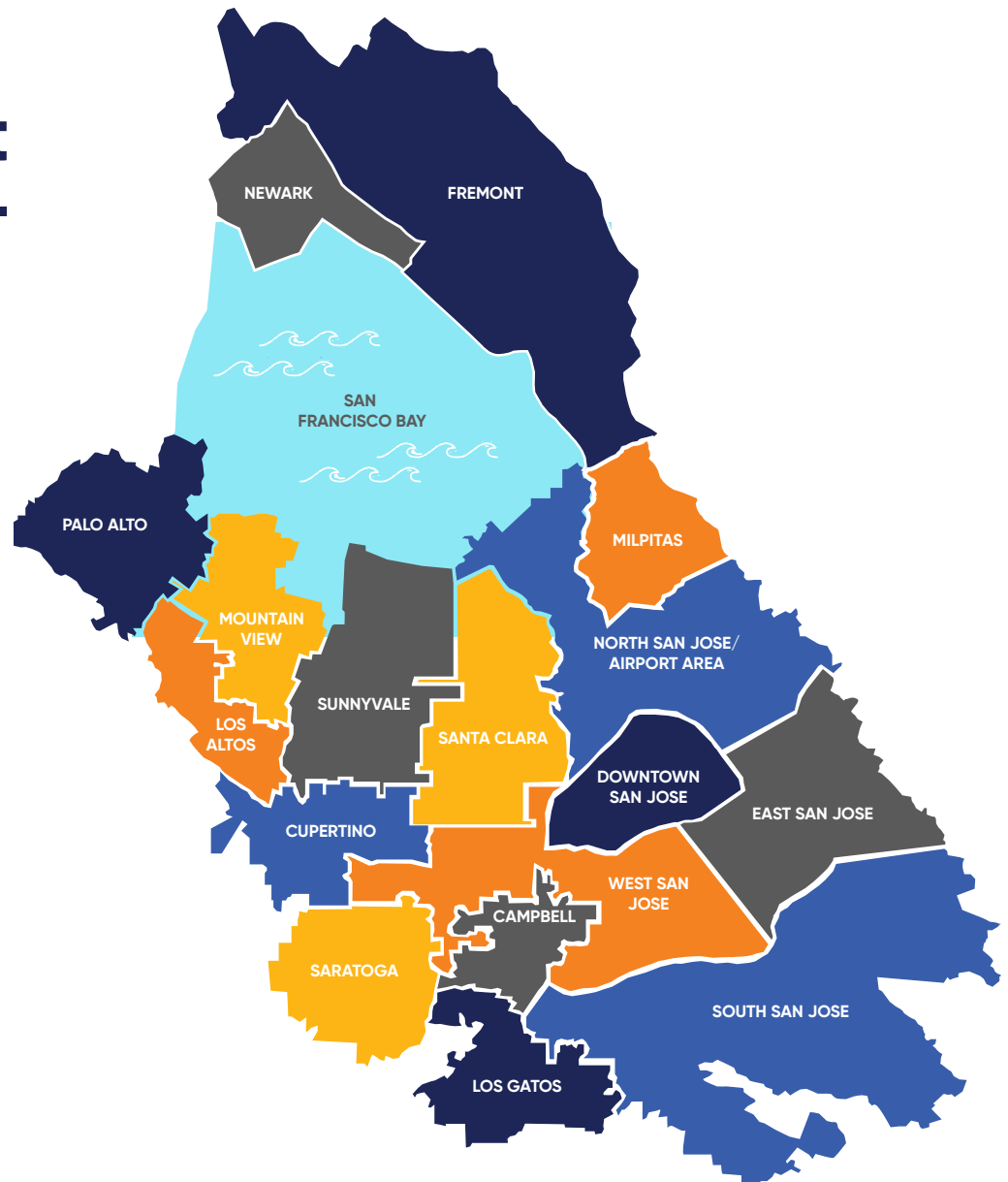
Market Trends

According to Schroders, trade uncertainties fade as the US and China begin the first phase trade deal announcement, scheduled to be completed for mid-January. The US tariffs beginning in September 2019 of \$120B on Chinese goods were reduced by half. With the US China trade war seeming to slow down, causing large gains in US Q4 equities.

According to Baird Private Wealth Management, S&P 500 rose 9% during the quarter, with 31.5% annual increase, marking the best performance for the index since 2013.

Silicon Valley VC funding investing fell to its lowest point since 2013, but most of all investing is still done in Silicon Valley. Investors are branching out from SV to other close by areas, and out of state, but SV still has the majority share worth of capital investments. This is due to all the talent, entrepreneurs, customers, and IPOs that spring out from SV.

Submarket Statistics - R&D



| Submarket | Inventory | Overall Rent | YoY Trend | Vacancy | YoY Trend | Net Absorption |
|--------------------------|------------|--------------|-----------|---------|-----------|----------------|
| Palo Alto | 4,361,230 | \$4.72 | ▼ | 3.5% | ▲ | (2,327) |
| Mountain View/ Los Altos | 8,132,841 | \$4.66 | ▲ | 6.1% | ▼ | (47,405) |
| Sunnyvale | 15,793,083 | \$3.10 | ▲ | 5.7% | ↔ | (153,988) |
| Cupertino | 2,222,861 | \$4.25 | ▲ | 1.3% | ▲ | 1,585 |
| West Valley | 2,440,310 | \$2.92 | ▲ | 4.0% | ▲ | (28,271) |
| North San Jose | 29,200,633 | \$2.24 | ▲ | 9.7% | ▼ | 474,534 |
| Santa Clara | 17,950,337 | \$2.08 | ▼ | 5.0% | ▼ | (27,673) |
| Milpitas | 9,344,467 | \$2.08 | ▲ | 18.4% | ▲ | (71,401) |
| South San Jose | 8,103,883 | \$1.48 | ▲ | 7.6% | ▼ | (8,678) |
| Fremont/Newark | 20,000,204 | \$1.54 | ▼ | 6.2% | ▲ | (116,952) |