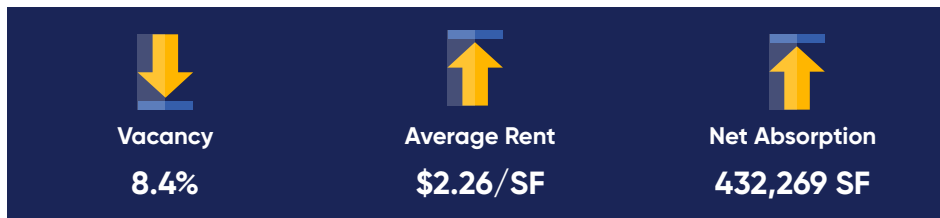
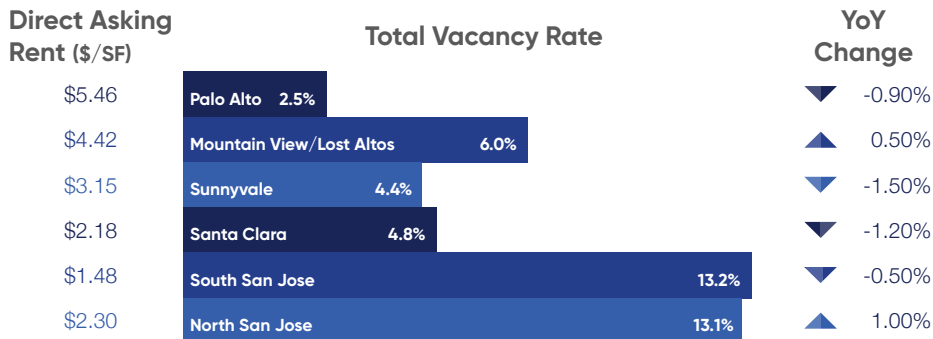


# Occupier's Guide - R&D

After a robust finish to 2018, the Silicon Valley R&D market started off a bit slowly in 2019, with 271,841 square feet of negative net absorption for Q1. Although a significant number of mid-sized deals brought the quarter's gross absorption to almost 2.5 million square feet, they could not offset a number of large listings that came onto the market. The average asking rate rose from \$2.18 to \$2.54/sf in the span of 12 months which is not surprising due to the lack of R&D product coming online throughout the Bay Area. The 16.5% rental rate increase is substantial and reflects a 9.8% vacancy rate which is expected to remain consistent over the next few quarters.



## Select Submarket Rental and Vacancy Rates



## Recent Transactions

Buyer	Submarket	Type	Size	Sector
Roche	Santa Clara	Owner/User Lease	312,167 SF	Healthcare
Cobham Advanced Electronics Solutions	San Jose	Renewal	160,000 SF	Manufacturing
CDK Global	San Jose	New Lease	76,410 SF	Software
ThoughtSpot, Inc.	Sunnyvale	Sublease	74,652 SF	Technology
WeRide	N. San Jose	Sublease	61,723 SF	Technology
Microsoft	Sunnyvale	Renewal	52,500 SF	Technology

## Occupier's Perspective



With only a handful of new R&D developments, the demand for space is expected to remain strong throughout 2019. Minimal new construction over the current cycle has led to limited supply, which in turn has caused record high rents for R&D properties.



The largest deal of the quarter was an owner-user sale to Roche, which purchased the 312,167 sf Central Campus office park in Santa Clara for \$140.5 million, or \$450/sf.



The second largest deal of the quarter was the lease of three buildings by Microsoft. The lease consisted of R&D/office space and totaled 181,000 sf on Mathilda avenue in Sunnyvale.

## Market Trends

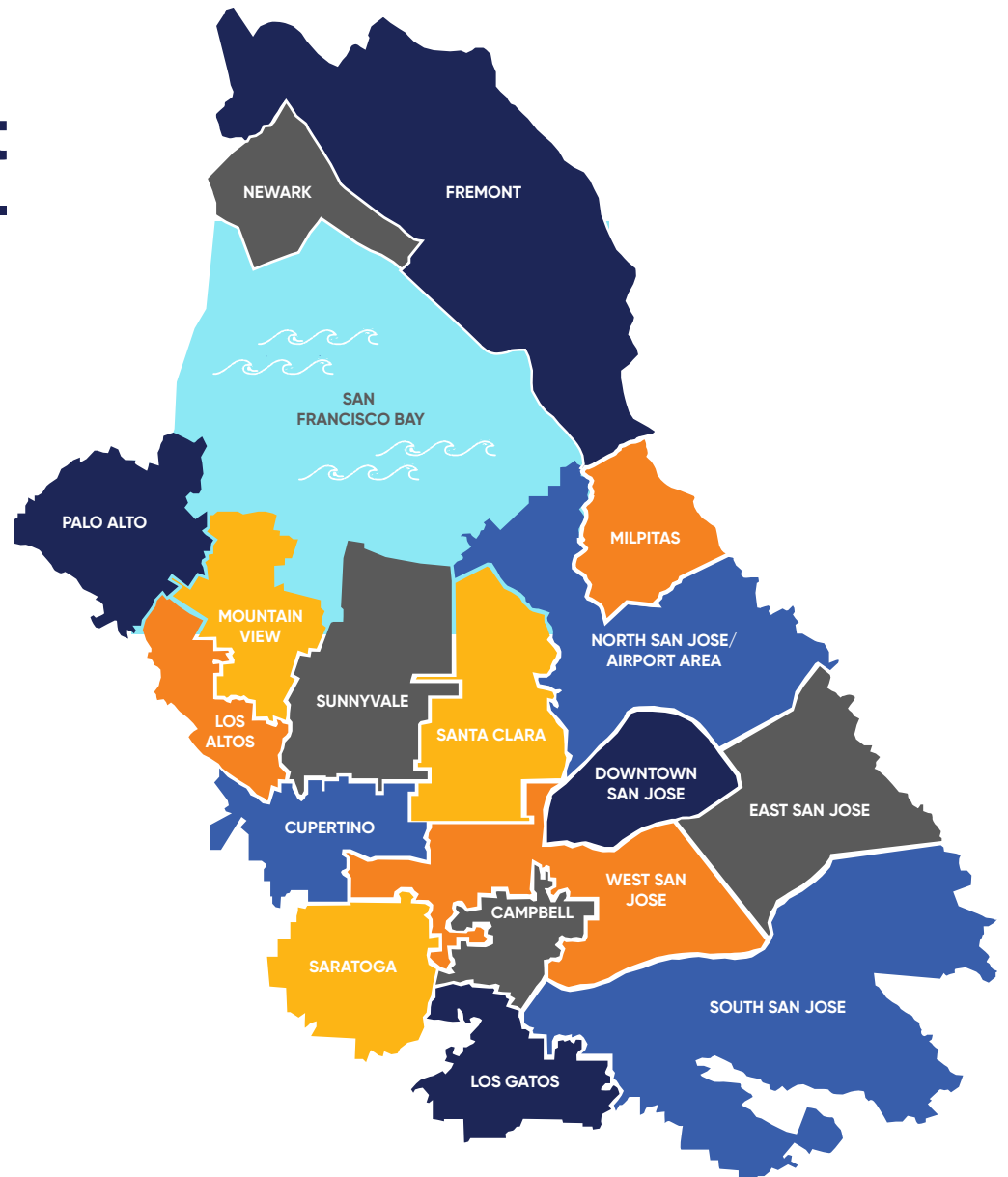


**The San Jose MSA's Employment Rate** for the end of Q1 2019 was 2.4%. This rate compares to California's rate which is 3.9%

**There were two significant R&D developments that were under construction towards the end of Q1 2019.** Intuitive Surgical with 326,000SF in Sunnyvale, along with 29,000 SF in Palo Alto that is being developed by Jay Paul. Due to the lack of supply, rents will continue move upwards and vacancy will keep decreasing.

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

# Submarket Statistics - R&D



Submarket	Inventory	Overall Rent	YoY Trend	Vacancy	YoY Trend	Net Absorption
Palo Alto	4,621,447	\$4.72	▼	2.5%	▼	30,916
Mountain View/ Los Altos	8,171,362	\$4.28	▲	6.0%	▲	62,660
Sunnyvale	16,374,899	\$2.68	▲	4.4%	▼	53,878
Santa Clara	18,085,281	\$2.18	▲	4.8%	▼	62,833
Cupertino	2,287,558	\$2.45	▼	0.9%	▼	3,270
West Valley	2,349,526	\$2.31	▲	2.5%	▼	14,821
S. San Jose	8,343,231	\$1.48	▲	13.2%	▼	616
N. San Jose	29,132,414	\$2.25	▲	13.1%	▲	(164,489)
Milpitas	9,418,743	\$1.95	▲	16.4%	▲	20,688
Fremont/Newark	20,532,830	\$1.61	▲	6.6%	▼	365,469