



Ongoing demand prompts more development

High-flying startup companies fueling demand for office

Although the IPO pipeline during 2014 was mediocre, several Valley companies made headlines, including Box.net and Alibaba. Pre-IPO tech companies continue to grow their operations through aggressive hiring, equating to a significant amount of office space demand in the Valley. In 2014, at least 500,000 square feet of leasing activity was generated by well-funded startups between Silicon Valley and the San Francisco Mid-Peninsula. As other VC-backed tech companies still look to grow or add headcount, the demand for space will grow, keeping market conditions heated and competitive over the next 12 months.

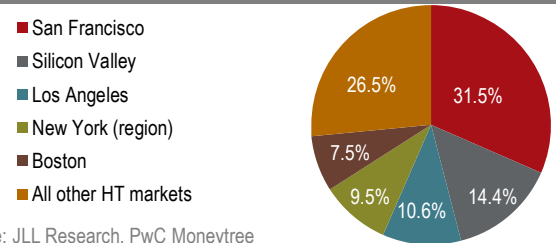
Class A rents continue to rise, pressured by demand and new supply

Demand for quality product has yet to subside and tenants continue to actively target prime locations. Santa Clara has been the focus of many space requirements given that there are multiple availabilities in newer Class A buildings. Hitachi recently leased approximately 41,000 square feet of new space on Scott Boulevard, while Hortonworks expanded into 27,000 square feet at Santa Clara Gateway. Additionally, the Valley saw strong occupancy gains thanks to Samsung and Synopsys moving into their new corporate campuses in Mountain View, accounting for 62.9 percent of the positive net absorption in the first quarter of 2015. With several large tenants still looking to land, upward pressure on rents is expected to stay the course.

San Jose developers prep for the next wave of tenant overspill

After a long absence of new construction since the last recession, development in San Jose has finally come to life. Both Legacy Partners and South Bay Development began phase 1 of their campus projects, 200,000 and 300,000 square feet, respectively, while Federal Realty's 225,000-square-foot office building at Santana Row is now well under way. Deke Hunter's Coleman Highline project in the Airport submarket also began with 357,000 square feet of office. Despite high vacancy rates in many San Jose submarkets, large available contiguous blocks in Class A buildings taller three stories have been in very short supply throughout the Valley. The demand for true high-image space over renovated R&D will prompt additional development in San Jose in 2015.

U.S. high-tech VC funding market share



Source: JLL Research, PwC Moneytree

Historical Class A asking rents



Source: JLL Research

Groundbreaks for North San Jose Development

1,082,106 s.f.

Total square feet of projects to break ground in the greater San Jose area in Q1 2015

Source: JLL Research

13.6%

Total vacancy

1,154,784

Q1 2015 net absorption (s.f.)

6.4%

12-month rent growth

4,811,393

Total under construction (s.f.)

47.9%

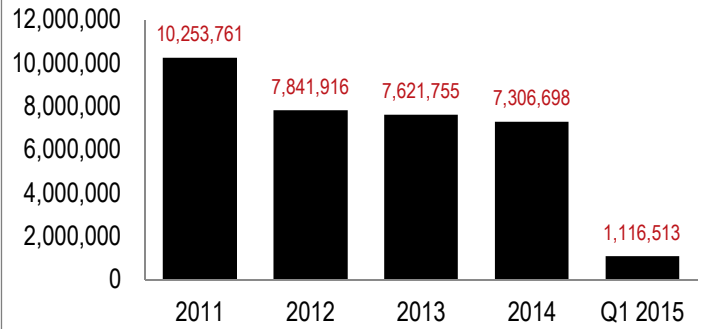
Total preleased

Current conditions – market and submarket



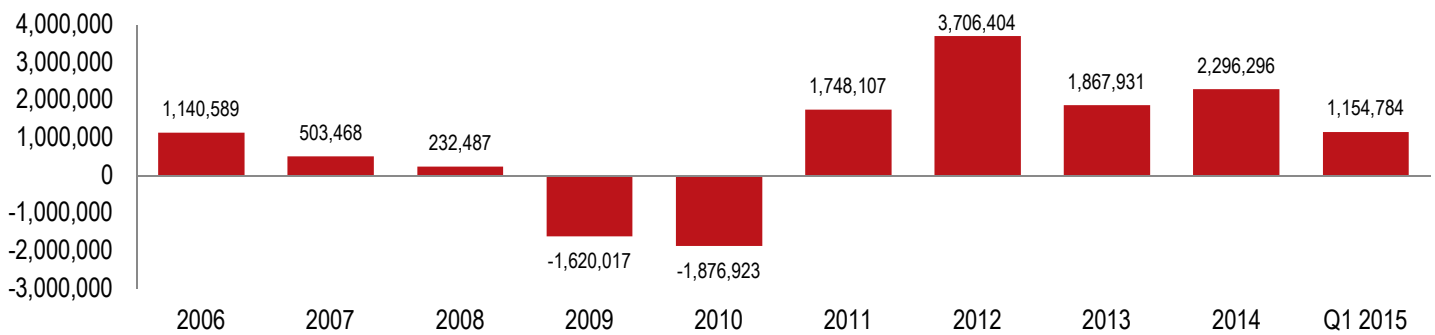
Source: JLL Research

Historical leasing activity



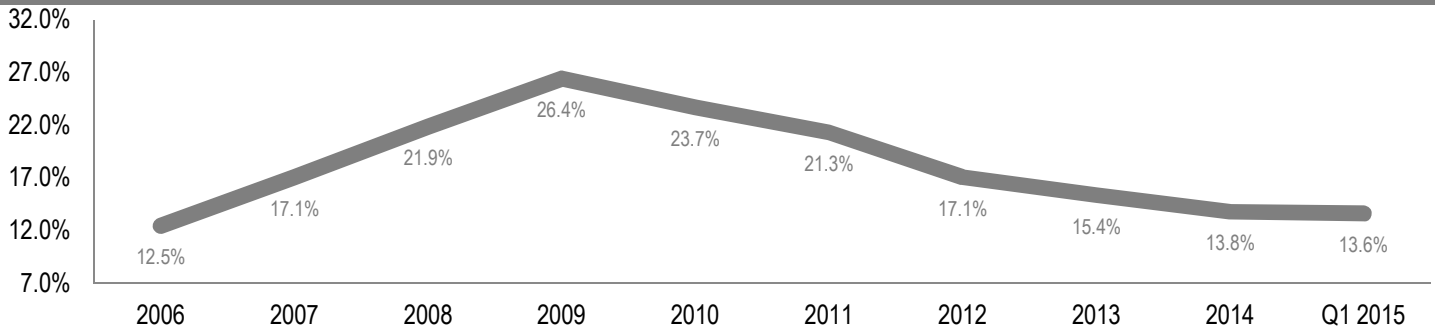
Source: JLL Research

Total net absorption (s.f.)



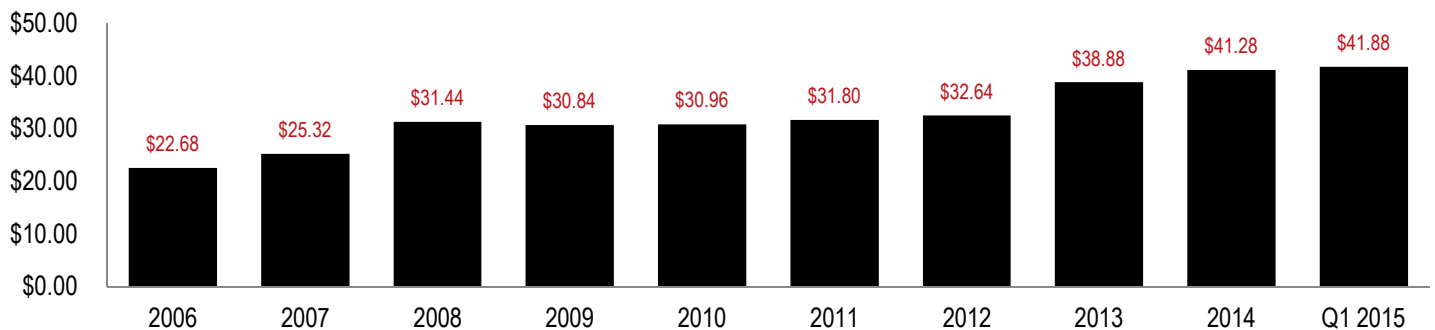
Source: JLL Research

Total vacancy rate



Source: JLL Research

Direct average asking rent (\$ p.s.f.)



Source: JLL Research