Market Review & Outlook

Review: Demand Spreads Across Region

With demand still outstripping supply in most of Silicon Valley, effective rents for office space in San Jose continued their ascent in 2015. The Valley's largest employers continued to aggressively absorb much of the region's talent, available office space and development sites. In the second half of the year, they focused their attention on North San Jose. Start-ups and mid-sized tenants faced spiraling occupancy costs. Some companies priced out of Palo Alto, Menlo Park and Cupertino have relocated to Santa Clara, San Jose and Peninsula markets.

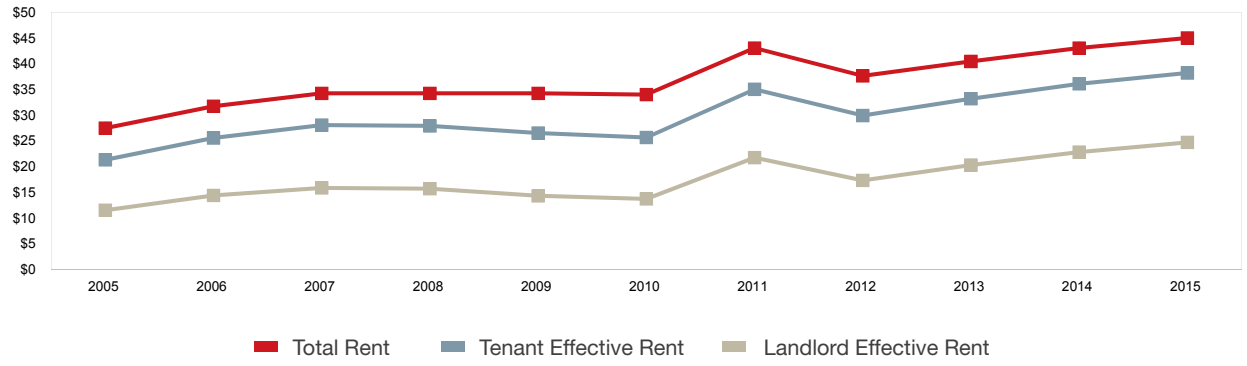
	2015	% Change
Net Rent	$29.00	6.4
Operating Expenses	8.75	1.2
Real Estate Taxes	4.15	2.5
Tenant Electricity	3.10	0.0
Total Rent	45.00	4.5
Amortized Concessions	-6.79	-2.2
Tenant Effective Rent	**38.21**	**5.8**
Landlord Effective Rent	**24.72**	**8.2**

Outlook: Growth May Moderate in 2016

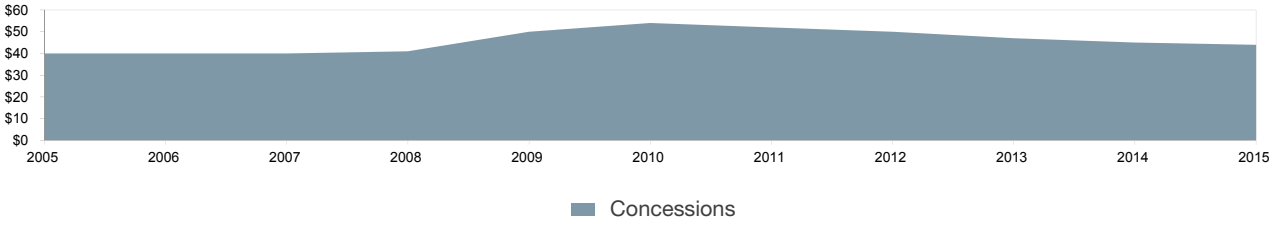
Tech firms have not shown signs of pulling back but turbulence in equity markets and tougher asset valuations are starting to curb IPO issuance. More tenants are likely to look for alternatives to space outside of core Silicon Valley submarkets.

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Rent Trends



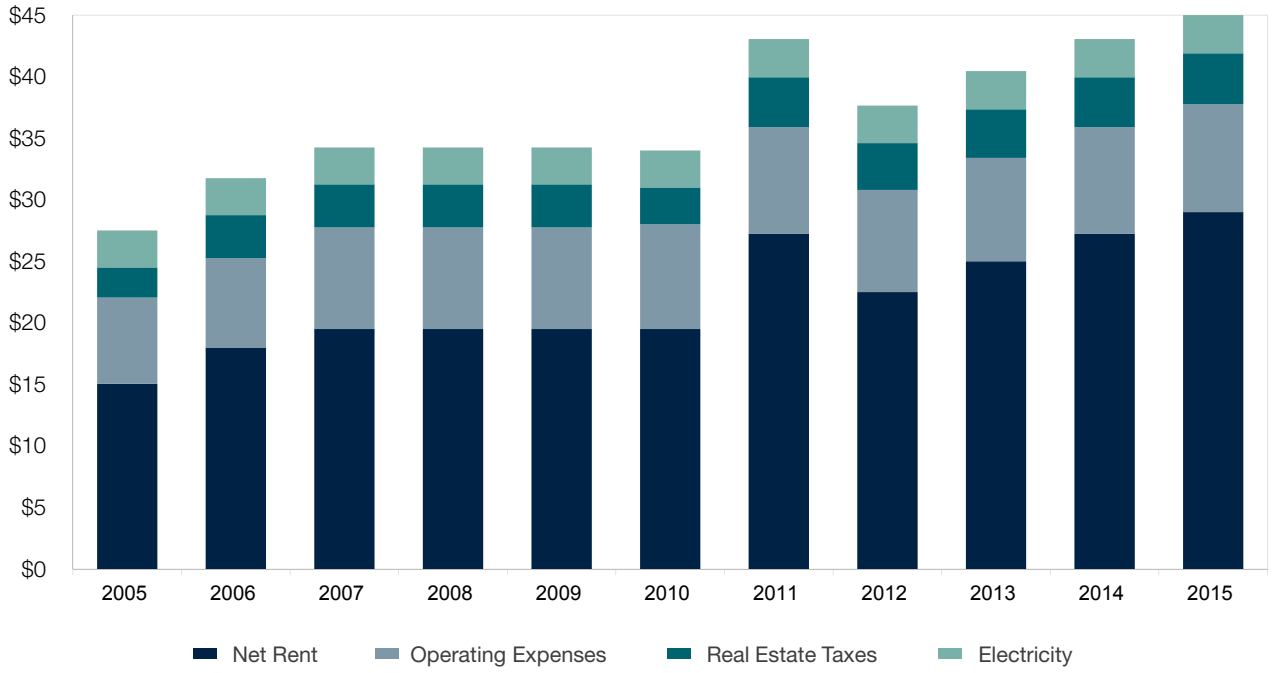
												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Total Rent	$27.50	$31.75	$34.25	$34.25	$34.25	$34.00	$43.05	$37.65	$40.45	$43.05	$45.00	4.5%	5.8%	5.0%
Tenant Effective Rent	$21.33	$25.58	$28.08	$27.92	$26.54	$25.67	$35.03	$29.94	$33.20	$36.11	$38.21	5.8%	8.3%	6.0%
Landlord Effective Rent	$11.53	$14.42	$15.89	$15.73	$14.34	$13.73	$21.76	$17.35	$20.32	$22.84	$24.72	8.2%	12.5%	7.9%



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Concessions	$40.00	$40.00	$40.00	$41.00	$50.00	$54.00	$52.00	$50.00	$47.00	$45.00	$44.00	-2.2%	-4.0%	1.0%
Concessions/Rent Ratio*	22.4%	19.4%	18.0%	18.5%	22.5%	24.5%	18.6%	20.5%	17.9%	16.1%	15.1%	-1.0		

* Equals amortized concessions as a percentage of total rent.

Total rent rose for the third consecutive year, jumping by 4.5% to $45.00 and hitting another new peak. Net rent grew by 6.4% from $27.25 to $29.00. Operating expenses (+1.2%) and real estate taxes (+2.5%) both increased but tenant electric was unchanged. Concessions dropped for the fifth consecutive year, declining by 2.2% to $44.00. In turn, tenant effective rent increased by 5.8% to $38.21. Landlord effective posted its third straight annual increase, rising by 8.2% to $24.72.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$15.05	$18.00	$19.50	$19.50	$19.50	$19.50	$27.25	$22.50	$25.00	$27.25	$29.00	6.4%	8.3%	6.8%
Operating Expenses	$7.00	$7.25	$8.25	$8.25	$8.25	$8.50	$8.65	$8.30	$8.40	$8.65	$8.75	1.2%	0.6%	2.3%
Real Estate Taxes	$2.45	$3.50	$3.50	$3.50	$3.50	$3.00	$4.05	$3.80	$3.95	$4.05	$4.15	2.5%	6.7%	5.4%
Electricity	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.10	$3.05	$3.10	$3.10	$3.10	0.0%	0.7%	0.3%
Total Rent	**$27.50**	**$31.75**	**$34.25**	**$34.25**	**$34.25**	**$34.00**	**$43.05**	**$37.65**	**$40.45**	**$43.05**	**$45.00**	**4.5%**	**5.8%**	**5.0%**

Lease Terms/Concessions

Review: Concessions Push Lower

Landlords curbed concessions a bit more as they were often able to pick and choose between multiple bidders for space.

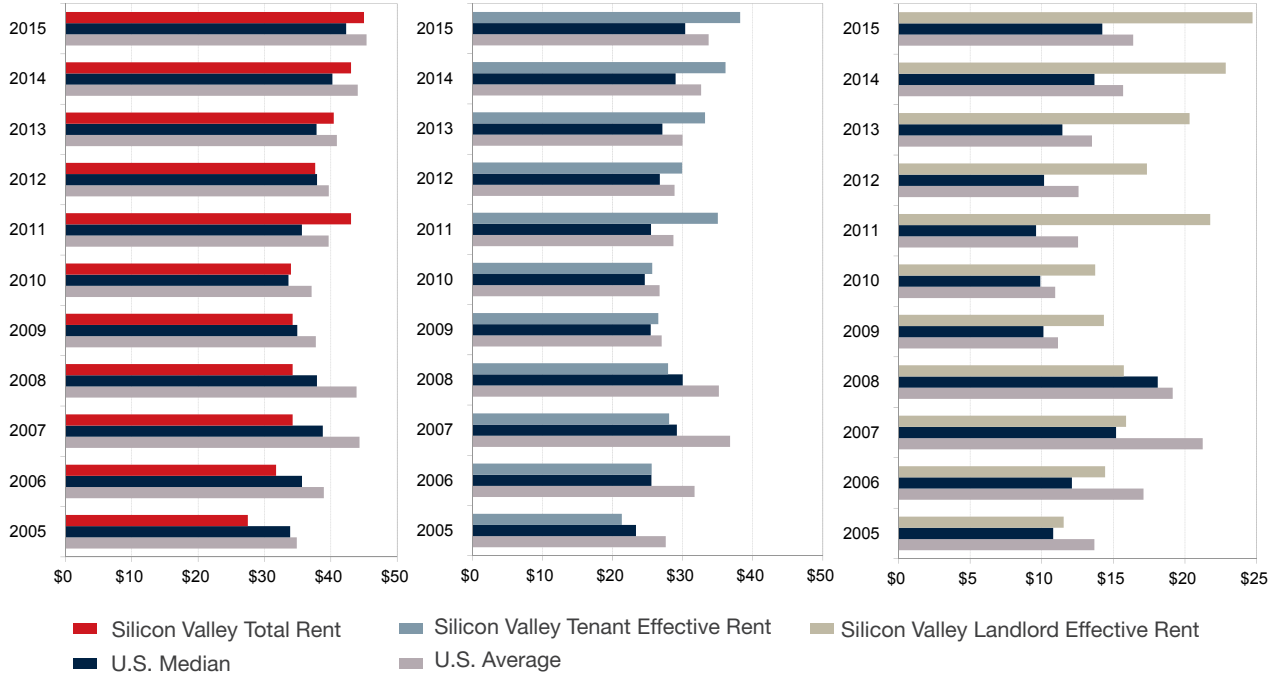
Leases Under 50,000 sf	
Average Term:	3-5 years
Free Rent:	3-4 months
Tenant Improvements:	$15.00/sf
Discretionary Allowance:	$10.00/sf

Leases Over 50,000 sf	
Average Term:	7-10 years
Free Rent:	4-5 months
Tenant Improvements:	$25.00-$40.00/sf
Discretionary Allowance:	$15.00/sf

Outlook: Demand May Moderate in 2016

So far, evidence of a cooling in the tech rally seems largely anecdotal. However, the growing tendency of more investors to proceed cautiously, coupled with tenants who are considering options outside Silicon Valley, may alleviate some of the fierce competition for space in 2016 and 2017.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Silicon Valley	$27.50	$31.75	$34.25	$34.25	$34.25	$34.00	$43.05	$37.65	$40.45	$43.05	$45.00
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

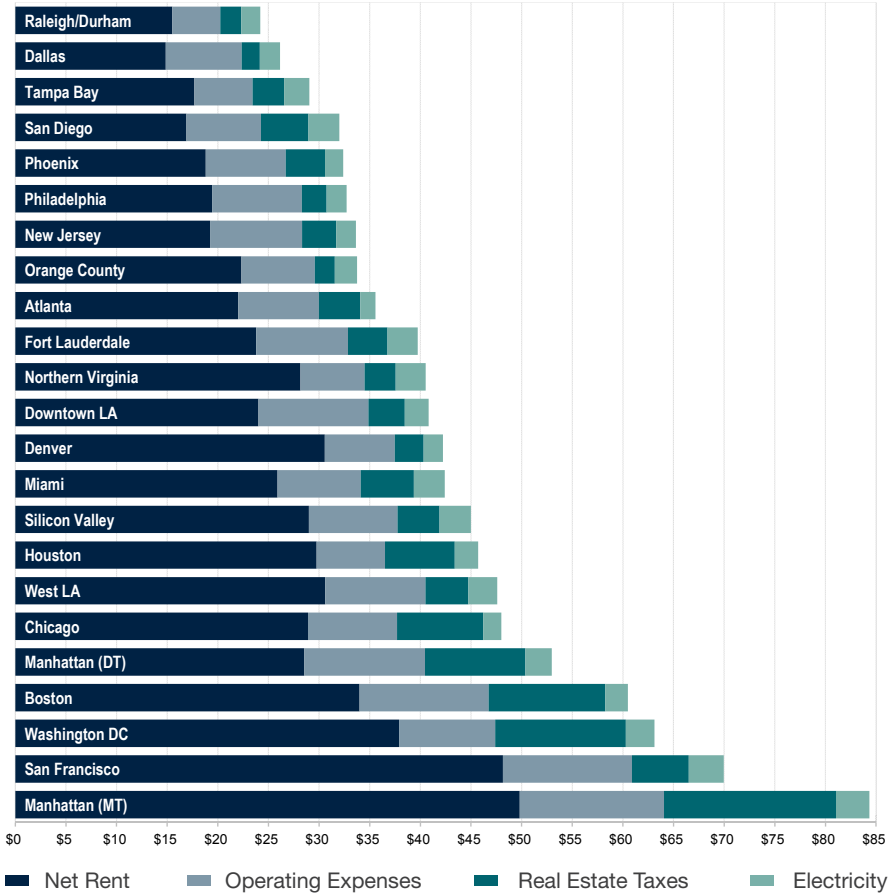
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Silicon Valley	$21.33	$25.58	$28.08	$27.92	$26.54	$25.67	$35.03	$29.94	$33.20	$36.11	$38.21
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Silicon Valley	$11.53	$14.42	$15.89	$15.73	$14.34	$13.73	$21.76	$17.35	$20.32	$22.84	$24.72
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. All numbers in this report are based on larger long-term direct leases signed in higher-caliber Class A office properties in Downtown San Jose during 2015.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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