City of Santa Clara
The Center of What's Possible

AGENDA ITEM #: 11A

AGENDA REPORT

Date: June 7, 2016

To: City Manager for Council Action

From: Director of Parks & Recreation

Subject: Adopt Supplemental Instructions for the Appraisal of the Fair Market Value of land used in the Parkland Dedication In Lieu Fee Formula and process for setting the Fee Schedule

EXECUTIVE SUMMARY

On January 26, 2016, after considering the 2015 fair market value land appraisal report and concerns raised by the Building Industry Association (BIA) regarding the appraisal methodology, Council created a "task force to recommend, by consensus, the process for setting the Fee Schedule and recommending the fees for 2016 noting that the fees should not be decreased." The task force members included: two City Council members, two Parks & Recreation Commissioners, two representatives of parks & open space (Committee for Green Foothills, Ulistac Natural Area Restoration and Education Project), and two representatives of the housing development community (BIA, and California Apartment Association). The eight-member task force met in February, April and May 2016. The task force meetings were publicly noticed and information was available on the City's website. Staff and subject matter experts were also present at the meetings. Most of the task force discussion focused on understanding the appraisal approach, use of comparable sales data, the definitions of "fair market value" and "average value", and the weight property types should have in arriving at an average value for each Zip Code area.

At the May 5, 2016 meeting, a majority of the task force recommended that Council approve the Supplemental Instructions (see Attachment A) for use by a professional appraiser in determining the "fair market value" for an average acre of land (hypothetical, rectangular, useable) in the City of Santa Clara in each of the City's Zip Code areas. The valuation opinion should conform to the Uniform Standards of Professional Appraisal Practice. The valuation date of the report should be December 31 of each year, and use sales data from January 1 to December 31. All property types should be included in the data set: single family (low and very low density), medium and high density residential, commercial, industrial, lots and land. A "weighted average" of each property type should be based on the percentage of land area sold. If there are insufficient, credible data points (sales), then the appraiser should use comparable sales from the local competitive market area, preferring closer, more recent data. Sales transactions with clouded title, non-arms-length transactions, environmentally impaired sites or more than 3 years old should not be used. Comparable data of 1 to 3 years old should have an inflation factor applied at the professional discretion of the appraiser to reconcile value differences. While the instructions provide a reasonable interpretation of the ordinance language and provide a standardized approach to minimize potential bias and increase confidence in the fair market value results, the Building Industry Association was not in support of the proposed Attachment A—Supplemental Instructions for appraisal, Guideline "a" (found in Attachment A, page 2 of 3).

The proposed process for the annual implementation schedule is:

January to February 15	Collect prior year's sales data, research comparable information
February 16 to March 15	Develop a draft appraisal report
March 16 to 30	Provide draft report for public review /comment
April	Use valuations to compute proposed fees due in lieu of dedication
May-June	Council consideration and adoption of annual Fee Schedule

July Implement new Quimby and Mitigation Fees

However, for the fiscal year 2016-17, if Council approves the Supplemental Instructions, staff will proceed to complete the valuation task by approximately July 5, 2016. Following a two-week public review of the draft report from July 6-19, 2016, and a public notice for the proposed fee resolution incorporating the updated land valuation, fee calculations and necessary findings, Council could consider a fee resolution on August 23, 2016. If approved, new Quimby Act fees would become effective immediately, and the Mitigation Fee Act fees 60 days after adoption for projects whose applications are not yet "deemed complete." Completed housing development project applications would not be affected and remain subject to the prior fee amounts.

ADVANTAGES AND DISADVANTAGES OF ISSUE

City Code 17.35 calls for the fair market valuation of land to be reviewed by Council on an annual basis and for use in calculating fees due in lieu of parkland dedication. Developers may have an independent appraisal done on a per project basis. Adoption of the Supplemental Instructions will provide the City with a standard set of instructions for appraiser use on an annual basis. The alignment of the valuation process with the City's annual Fee Schedule calendar will provide predictability and transparency. There are no known disadvantages.

ECONOMIC/FISCAL IMPACT

If approved, the Supplemental Instructions will be used to provide a valuation with an effective date of December 31, 2015 for fiscal year 2016-17, at an estimated contract cost of $25,000. The contract cost is allocated in Capital Improvement Project 3181.

The 2015 valuation report will reflect more current market conditions. Changes in valuation do not increase or decrease the City's parkland dedication standards per 1000 residents of 2.53 acres for the Mitigation Fee Act, and 3 acres for the Quimby Act. There is no change in fee amounts for projects already "deemed complete." Projects that meet the parkland dedication requirement, or provide a combination of necessary parkland and private recreational space/amenities do not pay in lieu fees. Projects with 50 or less units and those not providing sufficient parkland pay in lieu fees. The proposed fees and the amounts projected to be collected are unknown at this time.

RECOMMENDATION

That the Council adopt Supplemental Instructions for the Appraisal of the Fair Market Value of land used in the Parkland Dedication In Lieu Fee Formula and process for setting the Fee Schedule.

James Teixeira

James Teixeira
Director of Parks & Recreation

APPROVED:

Rajeev Batra

Rajeev Batra
Acting City Manager

Documents Related to this Report:
1) Supplemental Instructions for the Appraisal of the Fair Market Value of Land

Attachment A
Supplemental Instructions
for the Appraisal of the Fair Market Value of Land

The following information and instructions will be used by the City when setting the land value used in the formula for determining the impact fees due in lieu of park and recreational land dedication pursuant to Santa Clara City Code 17.35.

Background.
On July 15, 2014, Council added Chapter 17.35 "Park and Recreational Land" to the Santa Clara City Code to ensure that new residential development provides adequate community and neighborhood park land for active recreational uses and/or pays a fee in-lieu of parkland dedication to mitigate the impacts of the new growth pursuant to the California Quimby Act and/or Mitigation Fee Act.

17.35.040 Formula for calculation of fee in lieu of land dedication.

(a) When a fee is required to be paid in lieu of parkland dedication, the maximum amount of such fee shall be determined by the fair market value of the amount of land that would otherwise be required to be dedicated pursuant to SCCC 17.35.030, as set forth below. The date of valuation of the property for in-lieu fee purposes shall be the date that the City determines that the developer's application for a parcel map or tentative subdivision map, or application for projects not involving a subdivision, is complete.

(b) Fair Market Value.

(1) The City shall determine the fair market value of the property by using the average per acre land value for property in the City of Santa Clara, based upon a survey of land values and sale records in the City. The City Council shall set a minimum of three such average values, one for each of the three existing Zip Codes in the City (95050, 95051, 95054). The City Council may, at its discretion, set average values for additional subregions of the City. The City Council shall review the fair market values not less than annually and set the values in a Council resolution.

(2) If the developer objects to this determination of fair market value, the developer may elect to have the value established by appraisal. If the developer chooses this option, the developer shall deposit with the City an amount sufficient to cover the cost of an appraisal, which the City shall conduct. The appraisal shall be completed prior to approval of the tentative or parcel map or, for developments not involving a subdivision, prior to the issuance of a building permit.

(c) Based on the determination of fair market value set forth in subsection (b)(1) of this section, for each of the dwelling unit categories, the City Council shall set the amount of fees to be paid in lieu of parkland dedication in a Council resolution, which the Council shall review annually. (Ord. 1928 § 3, 7-15-14).

Guidelines for Appraiser:
(As recommended by Park In Lieu Fee Task Force—May 5, 2016)

a. *Appraiser is to provide a "Fair Market Value" for an average acre of land (hypothetical, rectangular, useable site) for property in each of the three existing City of Santa Clara Zip Codes 95050, 95051, 95054. The opinion will conform to Uniform Standards of Professional Appraisal Practice.*

b. **Valuation Date:** *December 31 of each year.*

c. **Location & Property Sales Data Set Boundaries:** *Data set will begin with sales data from within Santa Clara City limits.*

d. **Data Set Date Range:** *Use data from January 1st to December 31st of each year. Example: January 1, 2015 to December 31, 2015 for "December 31, 2015 Valuation Date." See contingencies below.*

e. **Property Types:** *Use all of the following property types: Single Family (low and very low density), High Density Residential, Medium Density Residential, Commercial, Industrial, Lots and Land.*

f. **Contingencies for Limited Data Set of each Property Type:** *If there are insufficient, credible data points or sales of a particular property type, then appraiser will explore and use comparable sales from the local competitive market area, adjacent to City of Santa Clara. A fixed distance from City of Santa Clara city limit is not given, however a compelling, rational basis for the selection of the competitive market area must be given by the appraiser in the report. Preference is for closer, more recent, and comparable; discretion is given to the appraiser.*

g. **Sales Transactions Data not to be used:** *Do not use transactions if they are not an arms-length transaction, have encumbered/clouded title, are environmentally impaired site, or are more than three (3) years old.*

h. **Inflation factors for Comparable between 1 and 3 years:** *An inflation factor will be computed and applied to comparable sales over one year based on reasonable and rational considerations such as sales and rental trends or other appropriate methods.*

i. **Sales Transactions Data that may be included:** *May use real estate sales transactions by the City of Santa Clara for additional neighborhood or community parkland.*

j. **Data Values excluded:** *No values or set of values at the high or low end of the data set are to be excluded from consideration in the average values on the sole basis of being relatively high or low; however, a check for consistency among comparable values will be done, and a rational basis should be provided for credible comparable transactions if not used.*

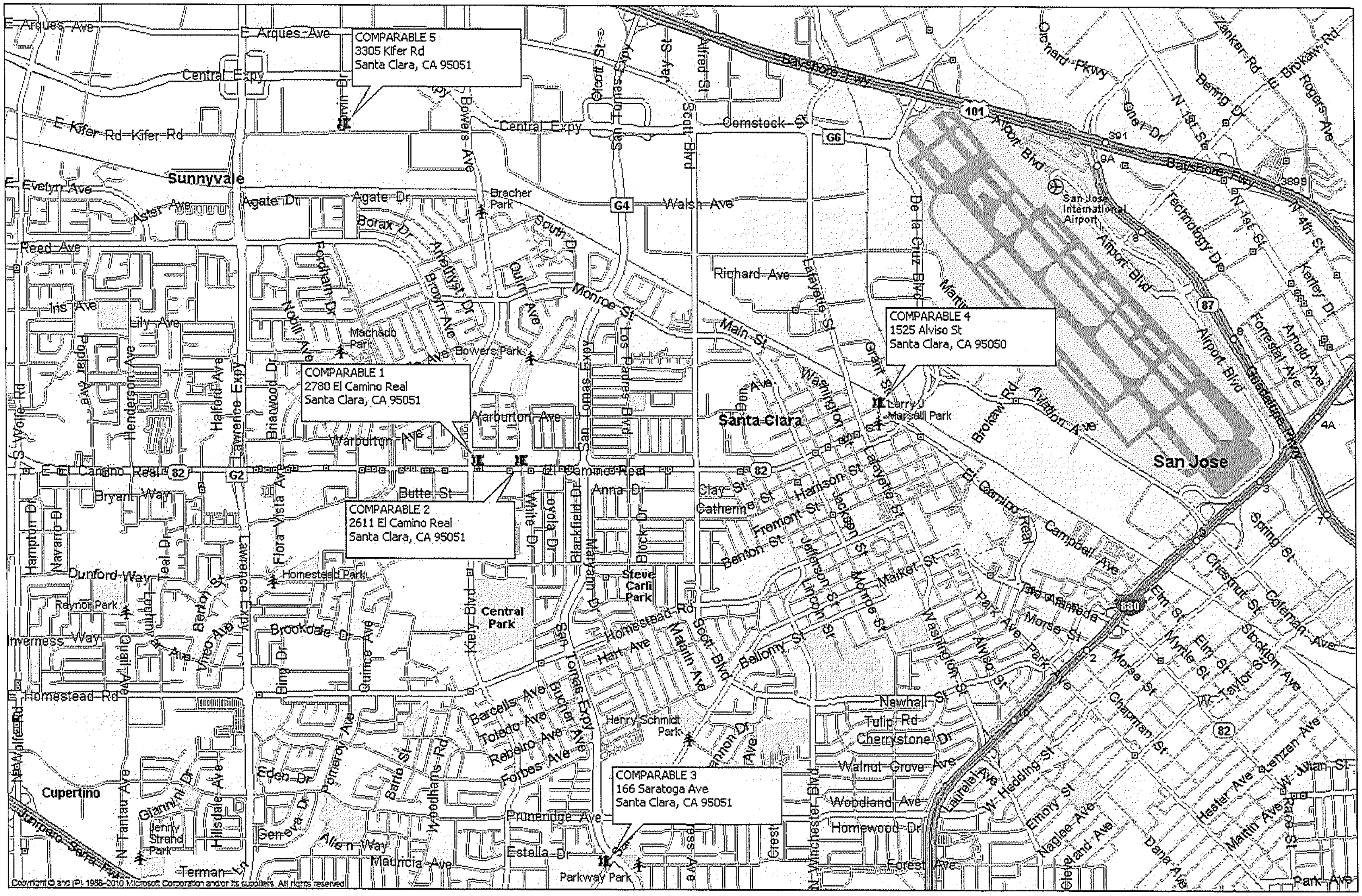
k. **Research Factors to be considered for Comparable sales:** *The factors to be used to compare property values include, but are not limited to physical factors, economic factors, market conditions verification to parcel maps, public records, CoStar data bank. Additional factors may be used provided there is a rational basis for doing so.*

l. **Reconciliation of value differences**: *The approach will be comparative, iterative, qualitative and quantitative, and will be made at the appraiser's discretion.*

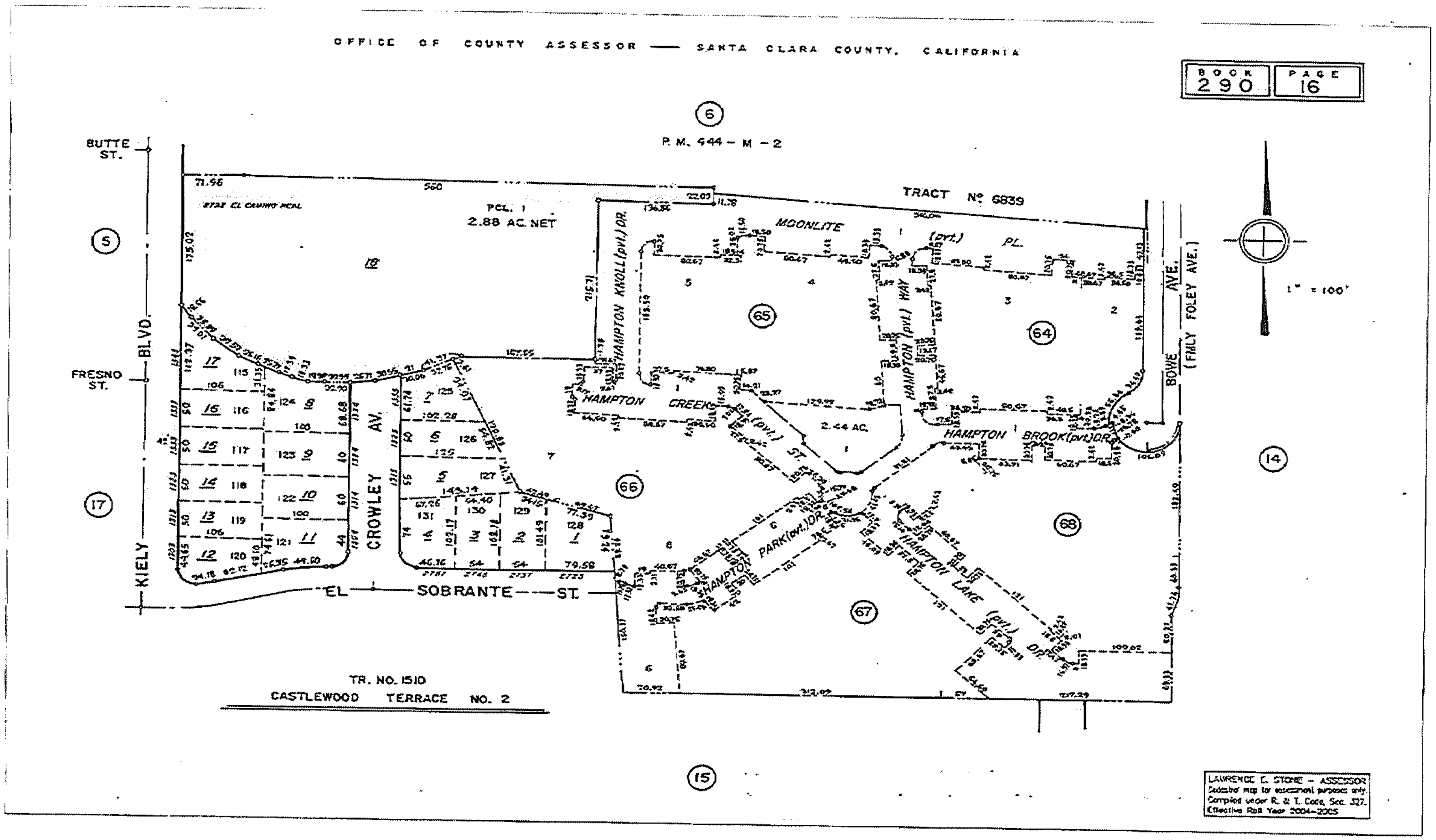
m. **Weight to be applied to Property Types:** *The weighted average of each property type will be based on the percentage of land area in the sales transactions, for example, if 25% of total acreage is high density residential, then the relative weight of that property type will be 25%. (The weight will not be done by the quantity of sales of each type or the percent of value of sales of each type).*

n. **Reporting:** *A draft valuation report will be generated by March 15. City will provide for a two week circulation and comment period. The valuations included the final valuation report will be used in the calculation formula for fees prepared by staff to be reviewed by Council as part of the annual City budget process and Municipal Fee Schedule adoption by June 30. Fees will be implemented on or after July 1 depending upon Quimby Act or Mitigation Fee Act provisions of the Council resolution.*

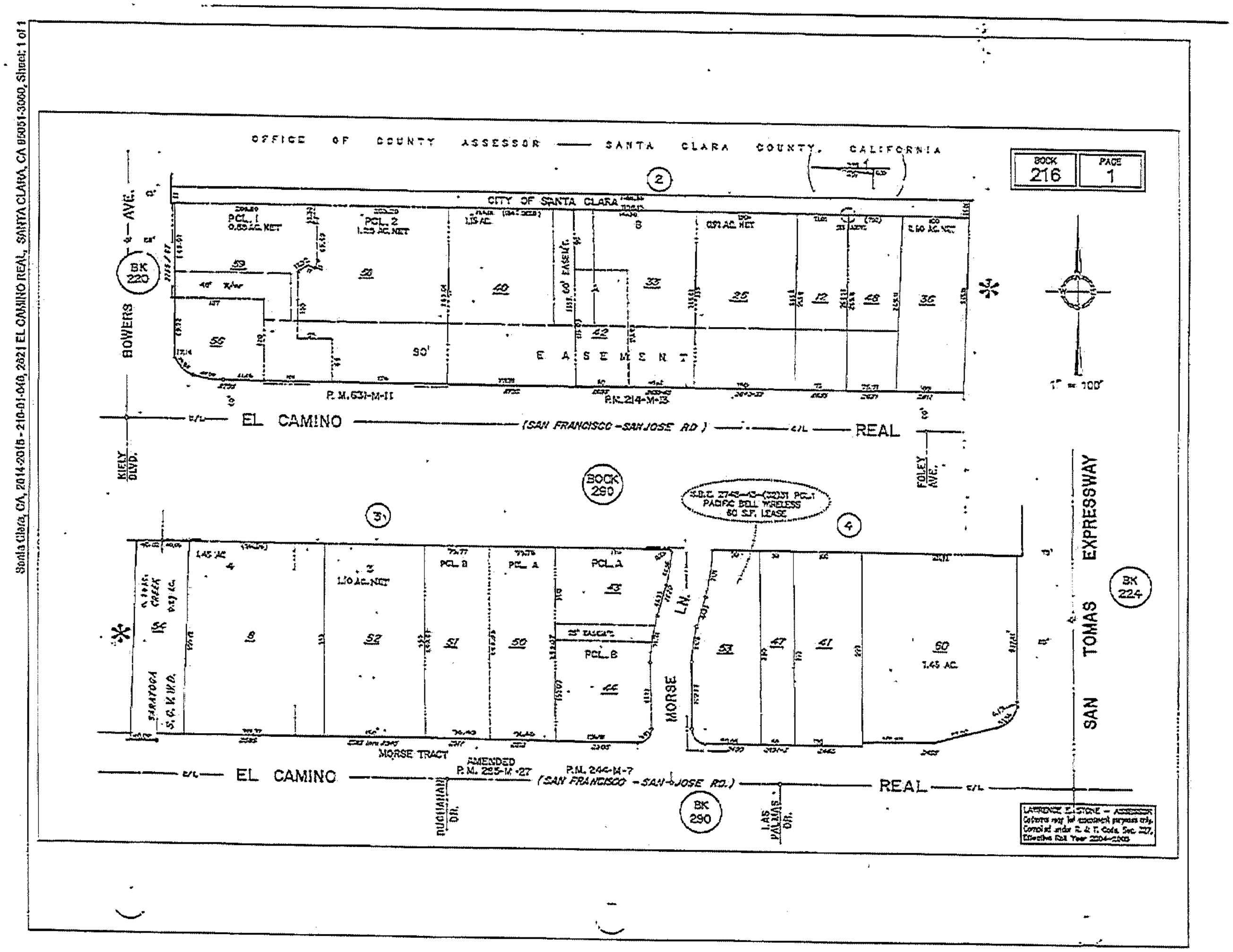
HIGH DENSITY SALES COMPARABLE LOCATION MAP



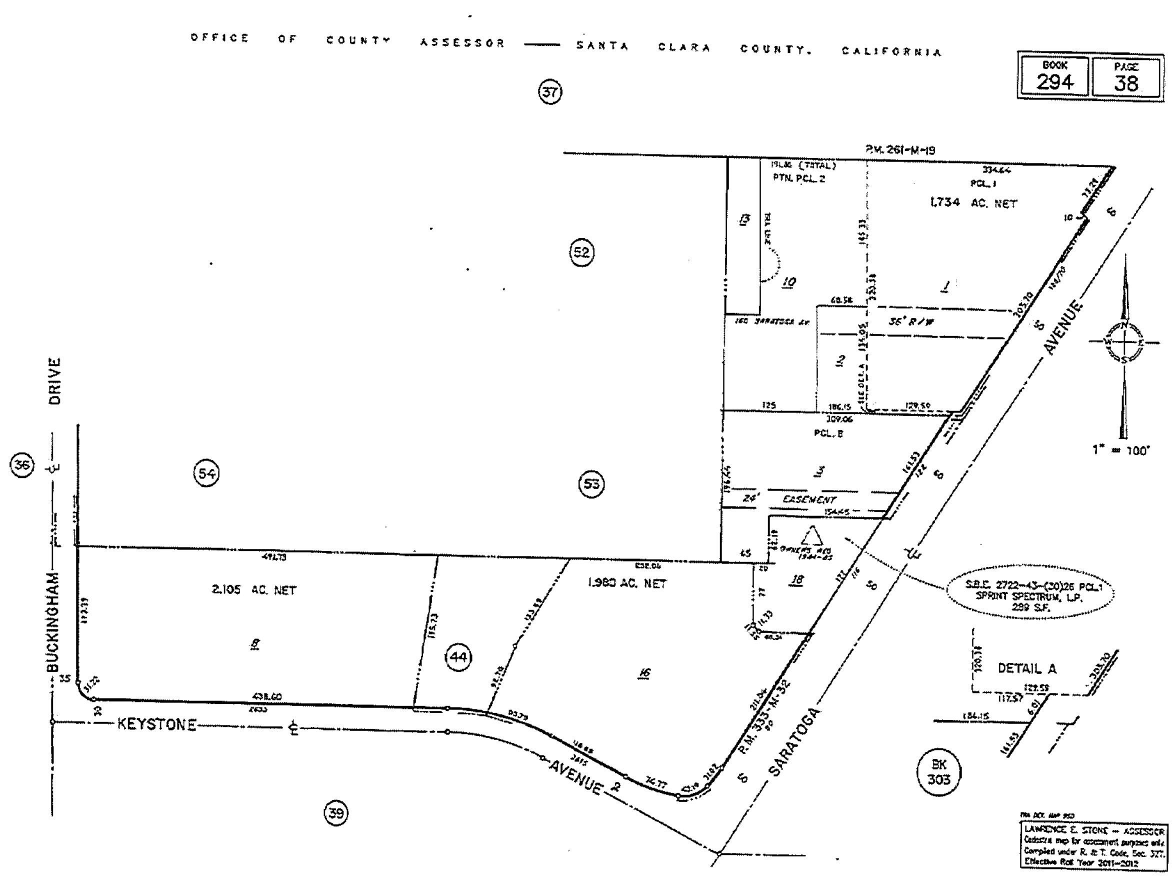
PARCEL MAP – HIGH DENSIITY - COMPARABEL 1



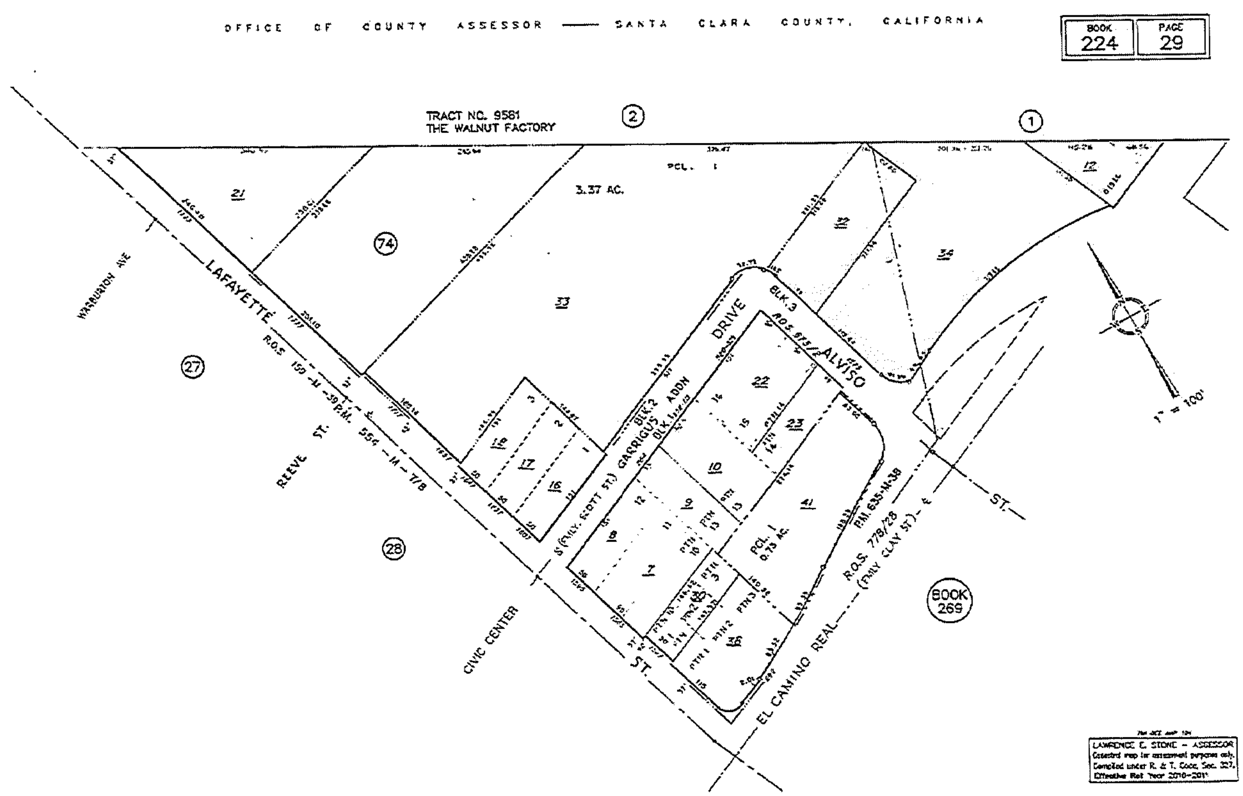
PARCEL MAP – HIGH DENSITY - COMPARABLE 2



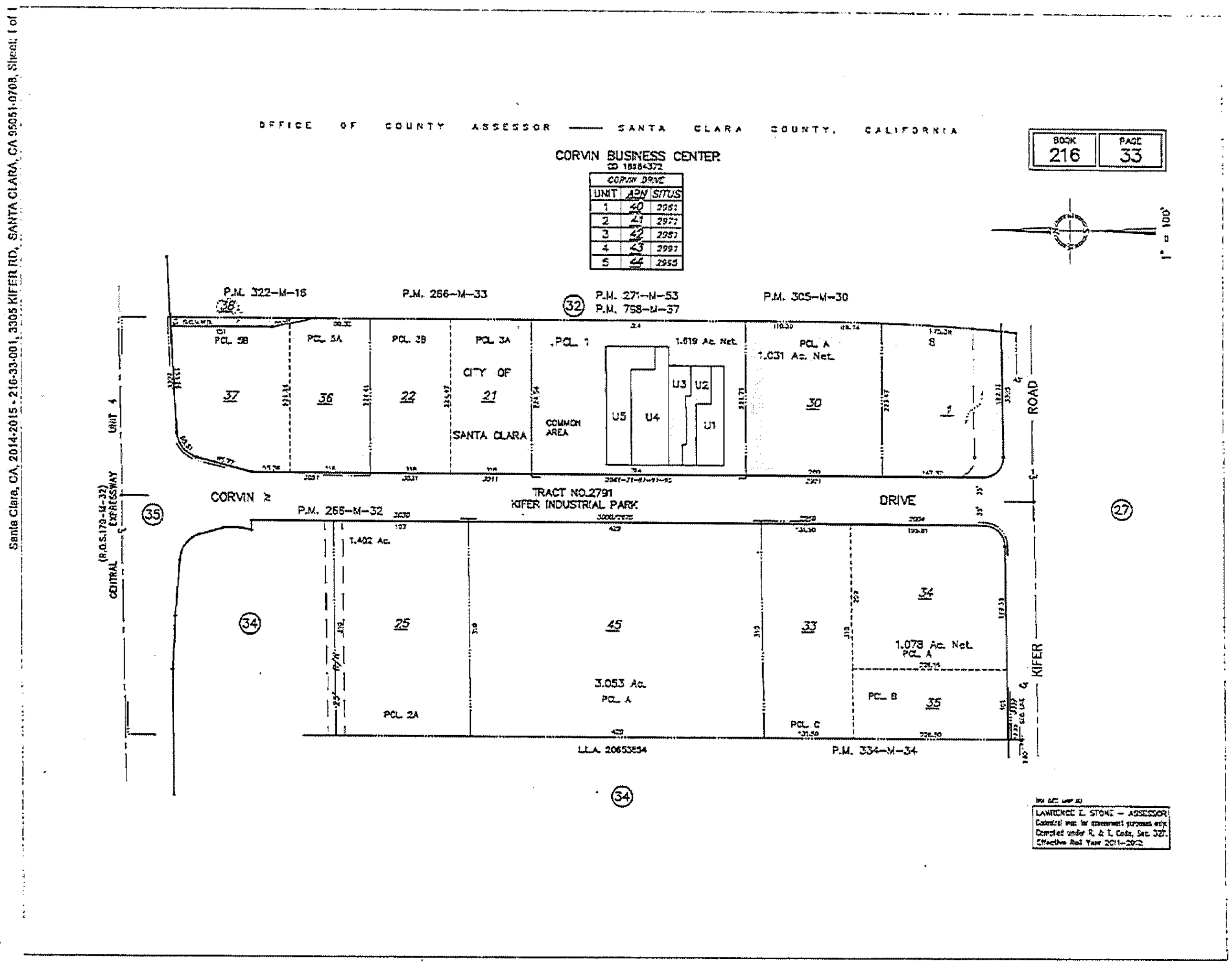
PARCEL MAP – HIGH DENSITY - COMPARABLE 3



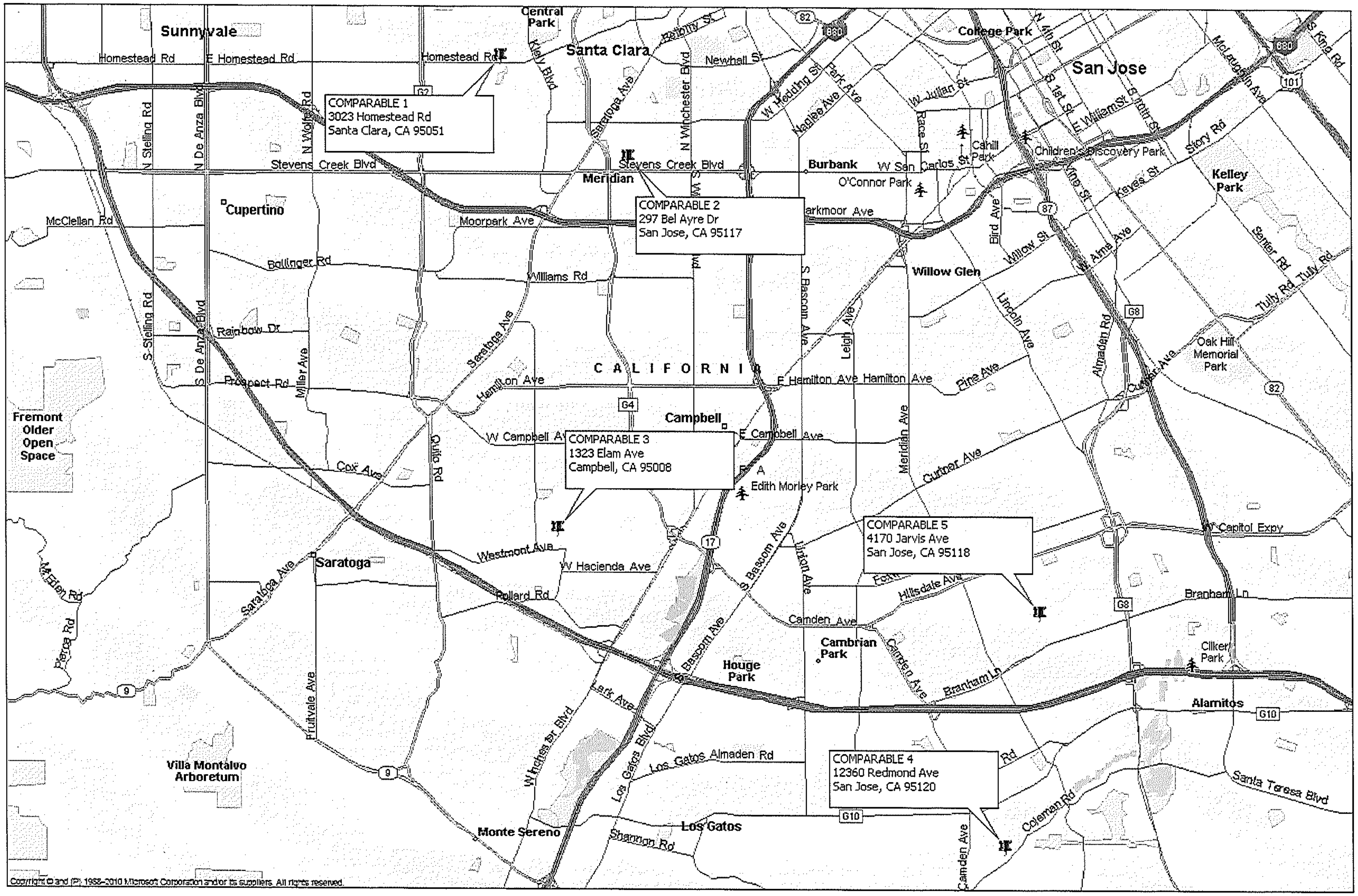
PARCEL MAP – HIGH DENSITY - COMPARABLE 4



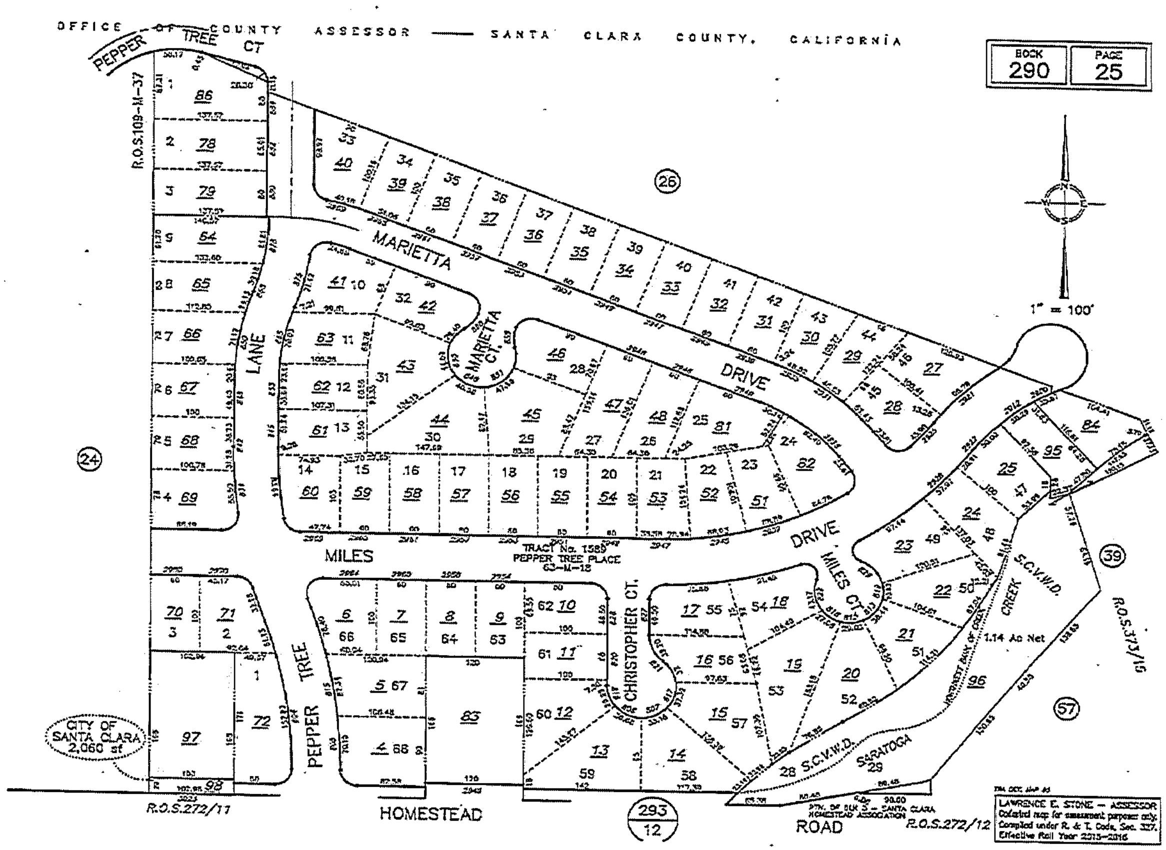
PARCEL MAP – HIGH DENSITY - COMPARABLE 5



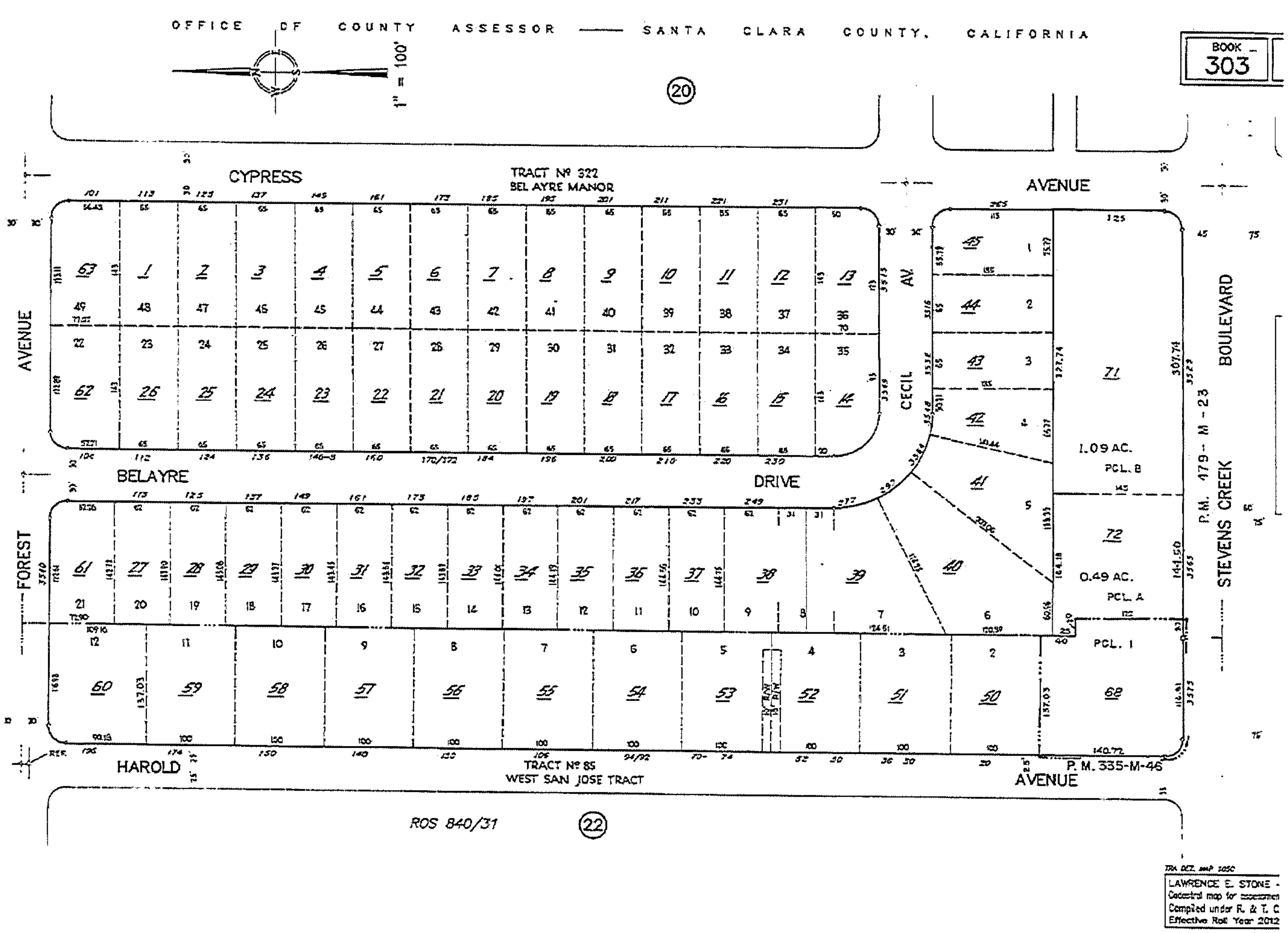
VERY LOW DENSITY SALES COMPARABLE LOCATION MAP



PARCEL MAP – VERY LOW DENSITY – COMPARABLE 1



PARCEL MAP – VERY LOW DENSITY – COMPARABLE 2



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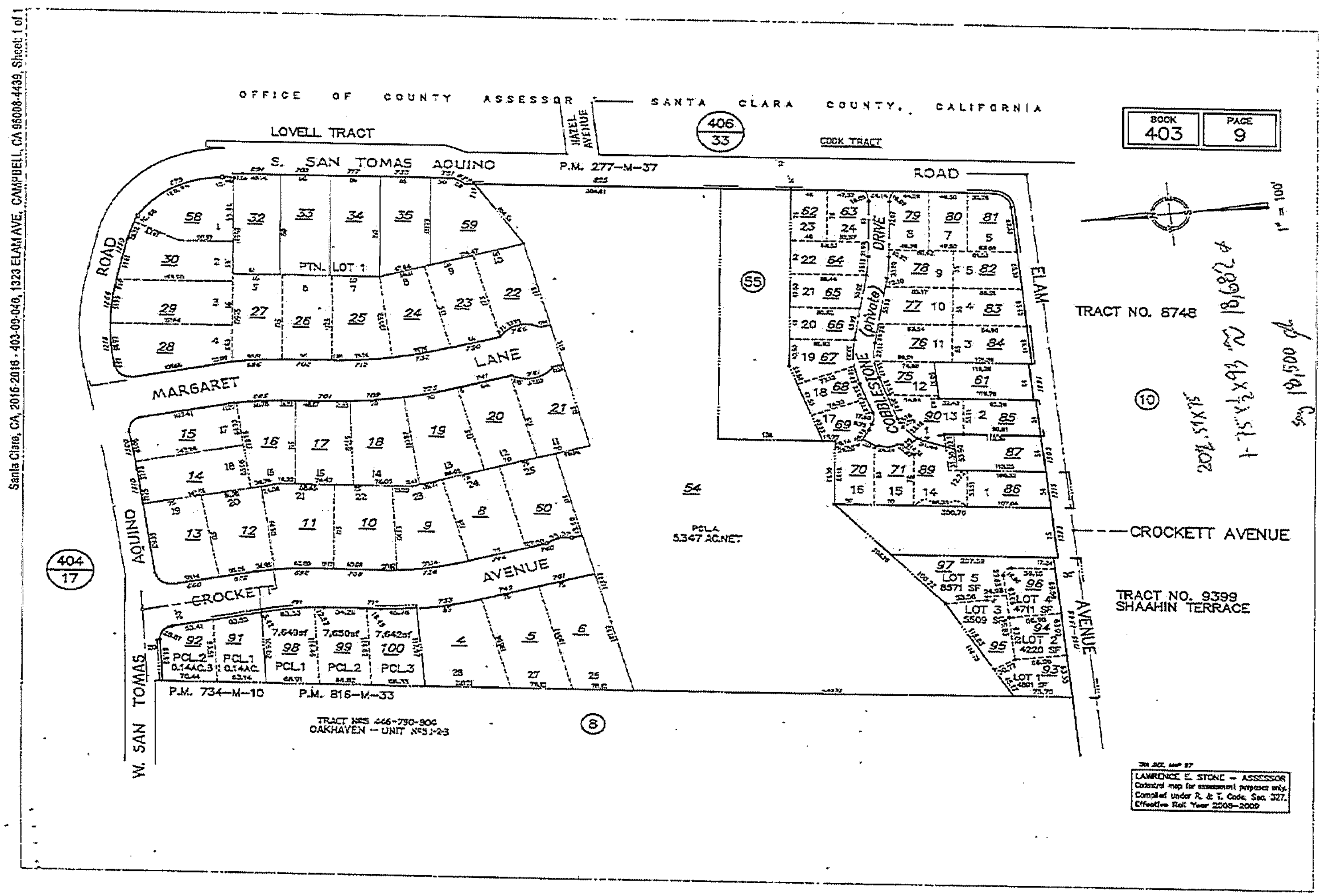
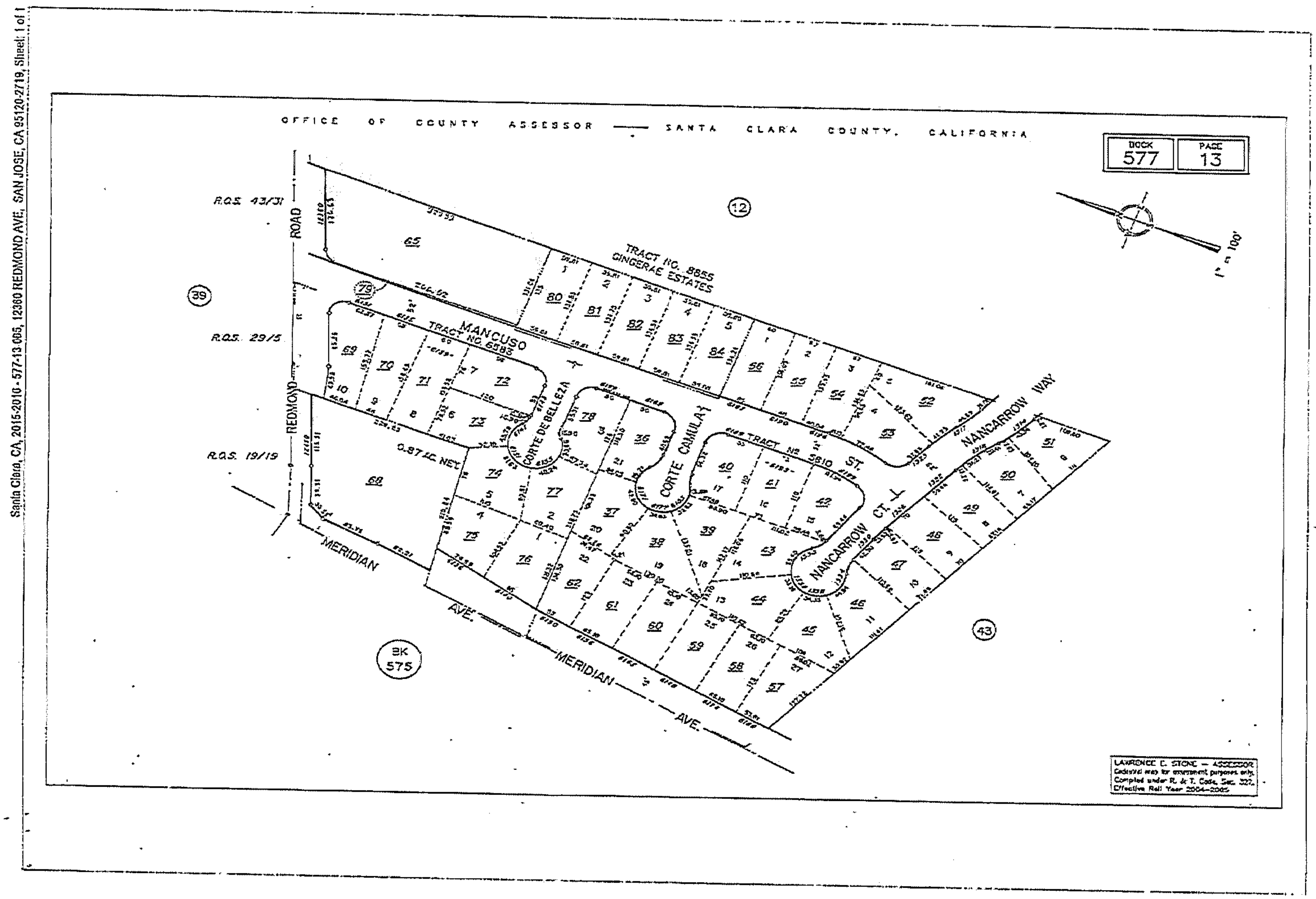


PARCEL MAP – VERY LOW DENSITY – COMPARABLE 4



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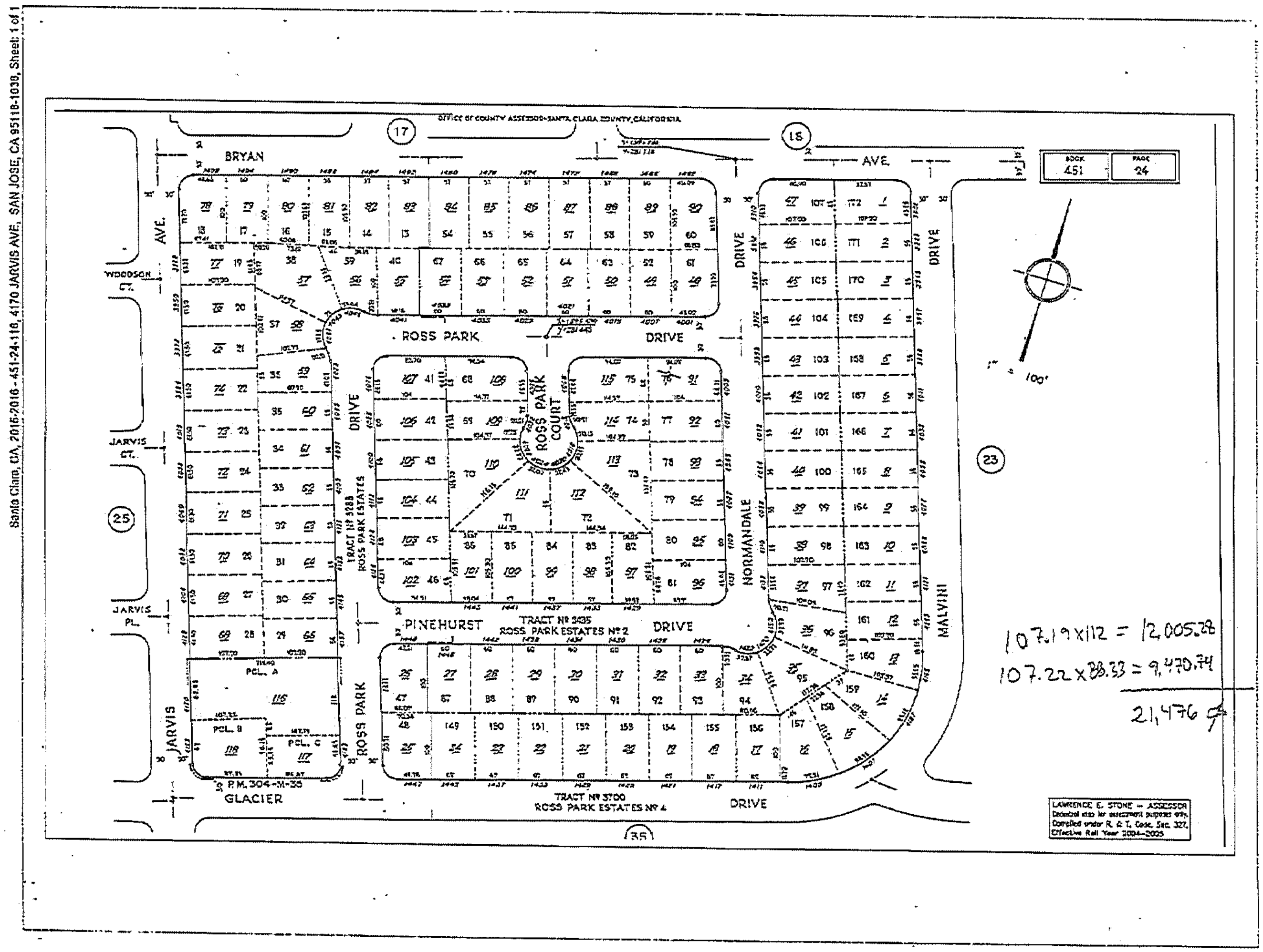
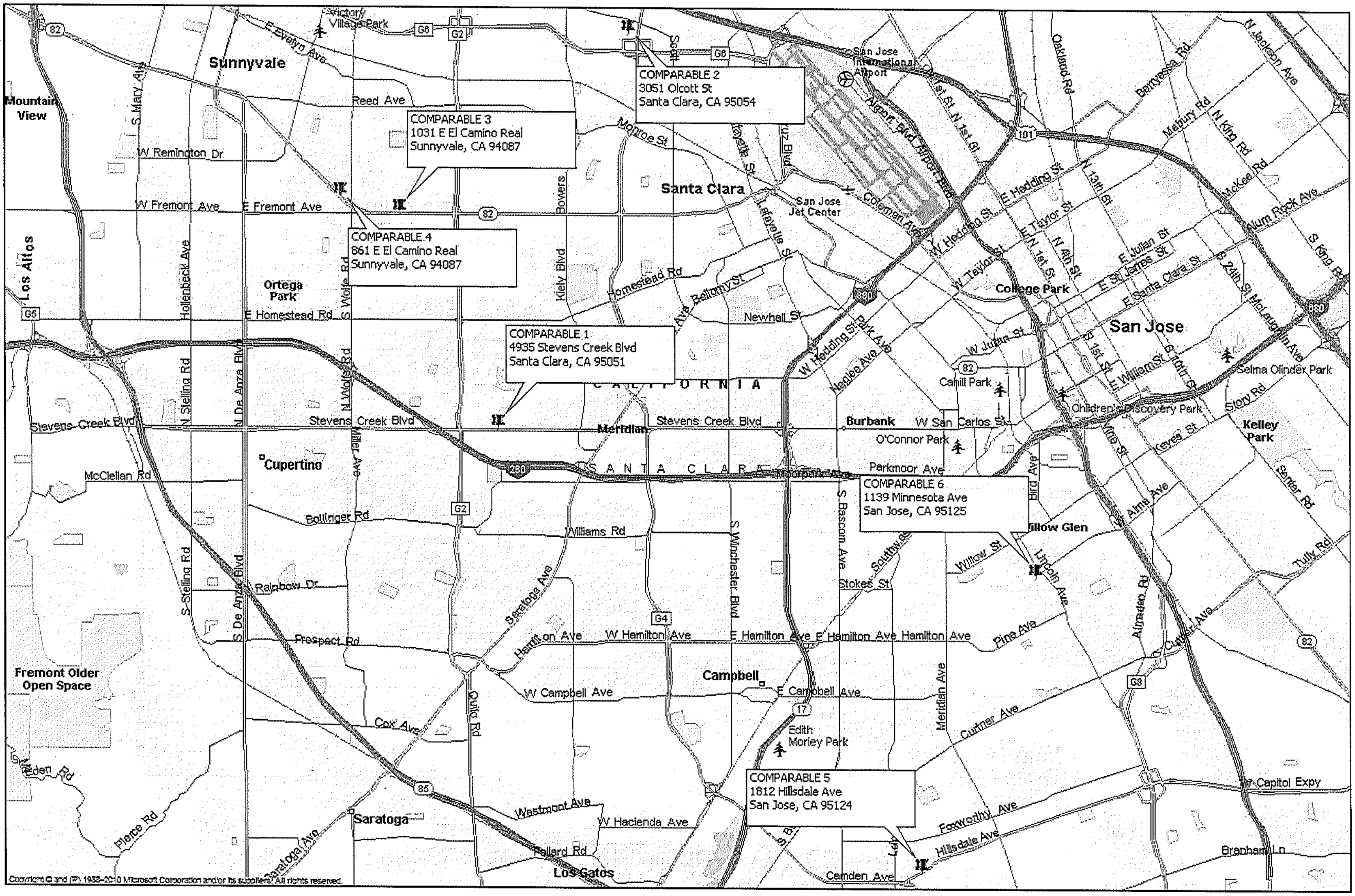
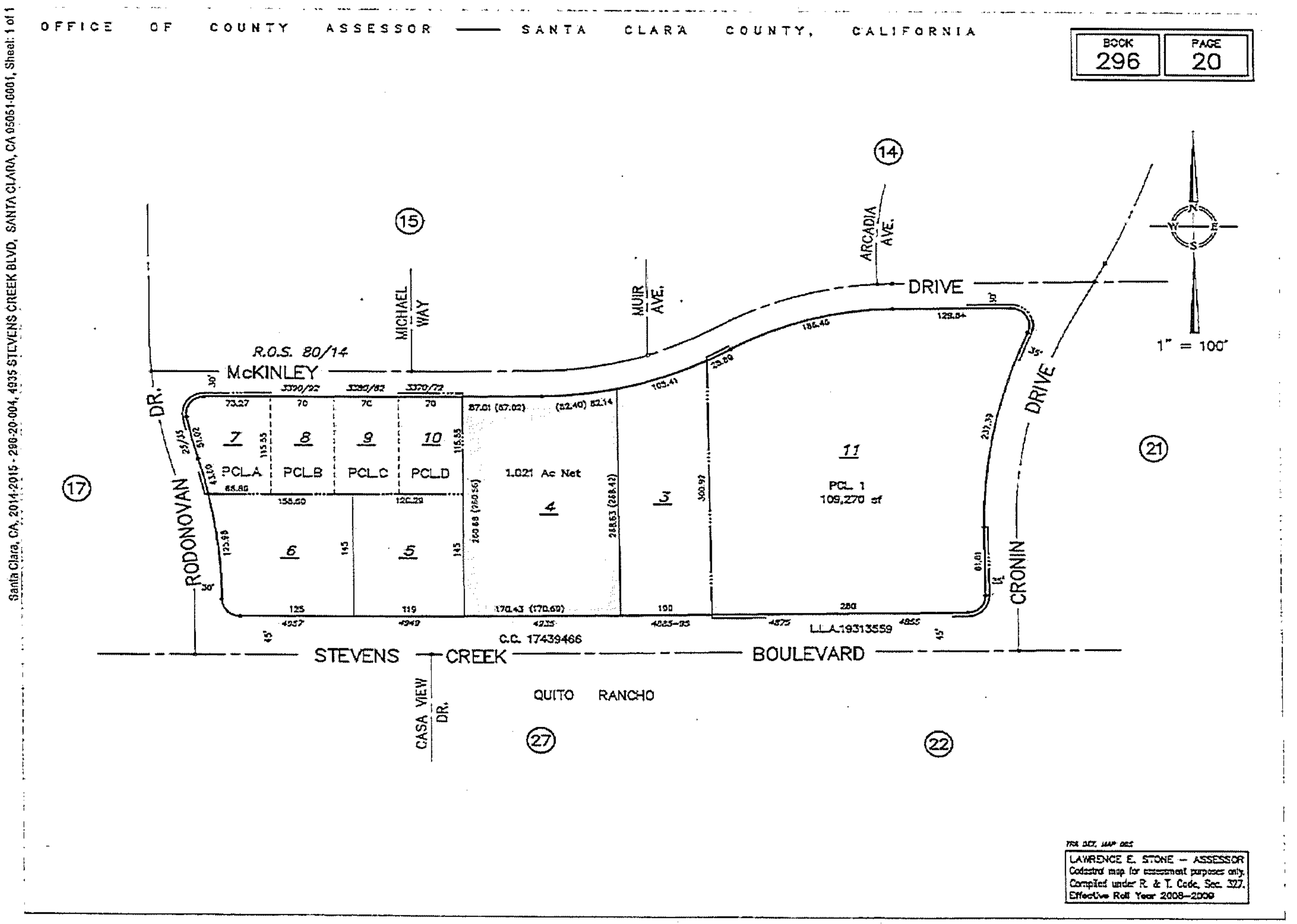


COMMERCIAL SALES COMPARABLE LOCATION MAP



PARCEL MAP – COMMERCIAL – COMPARABLE 1



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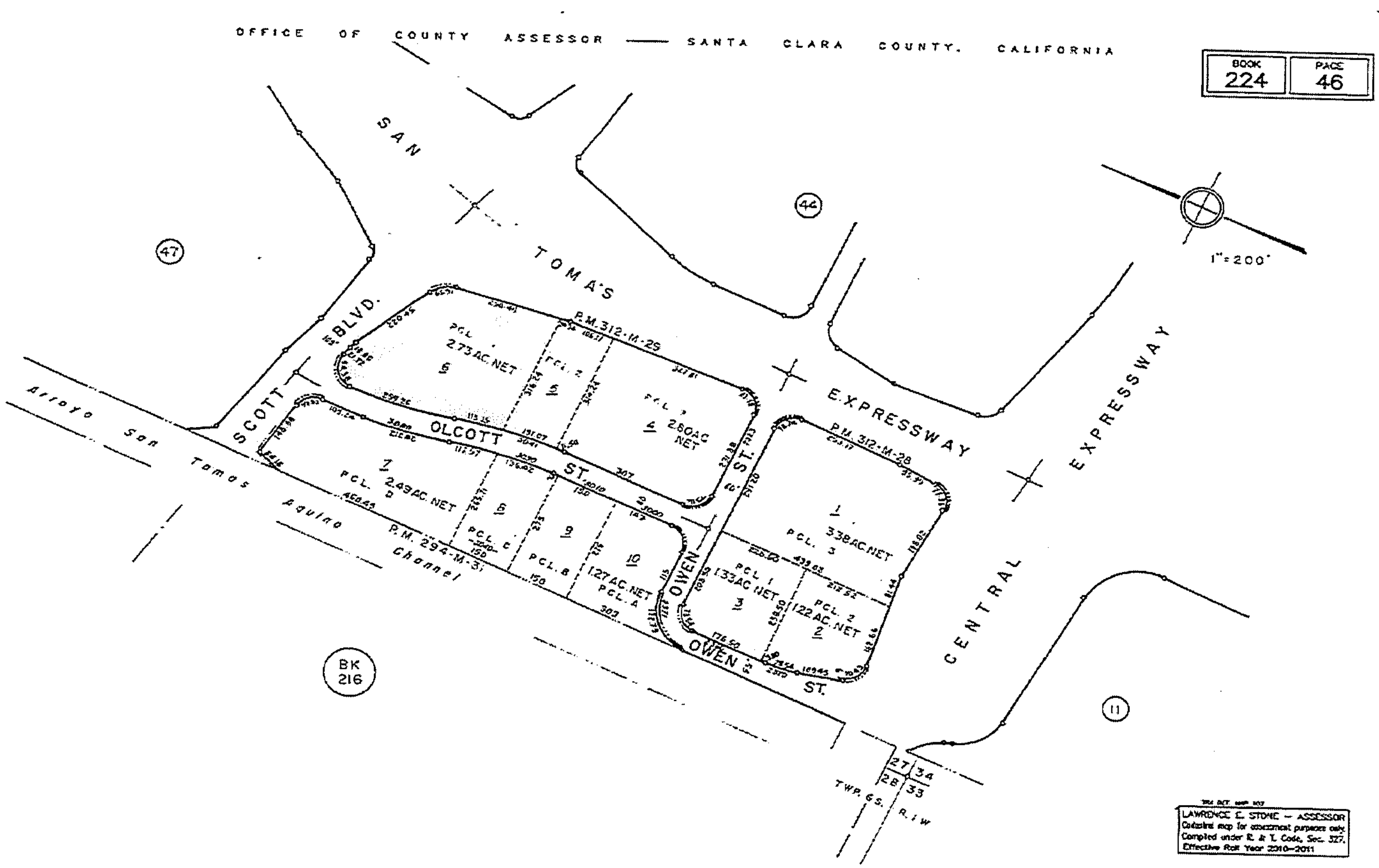
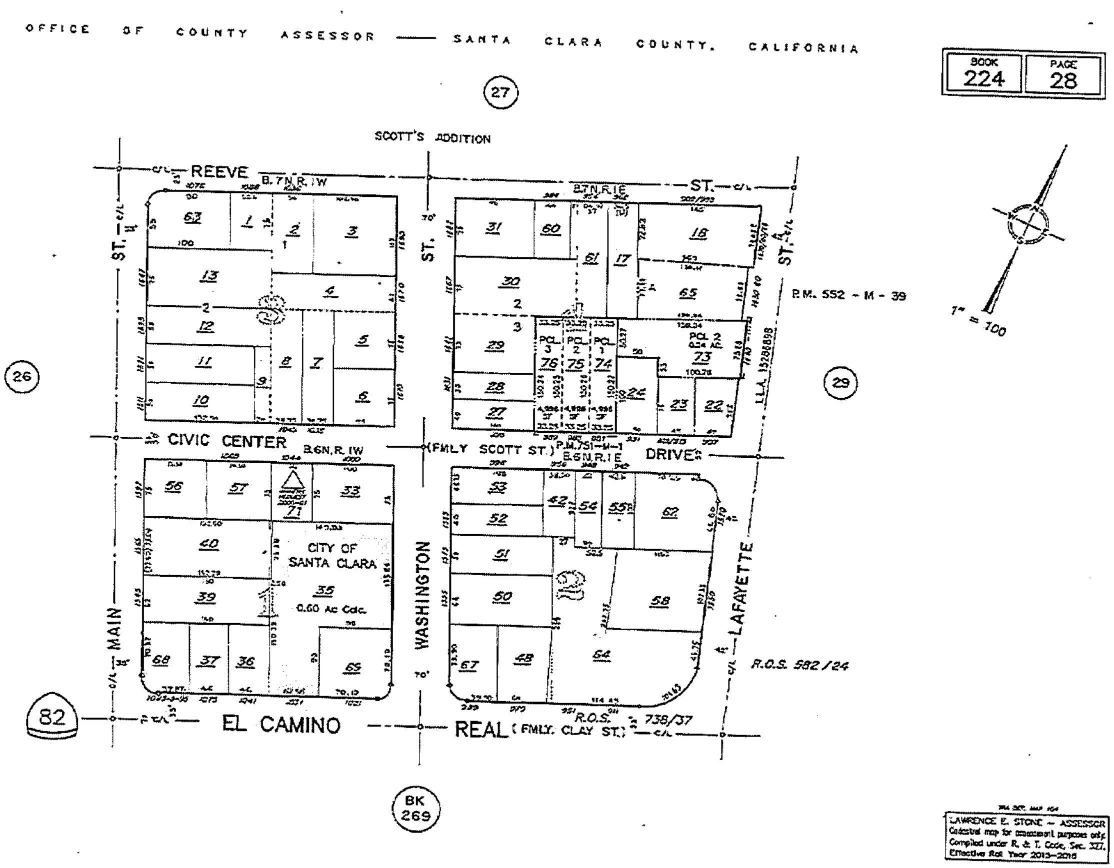


PARCEL MAP – COMMERCIAL – COMPARABLE 3



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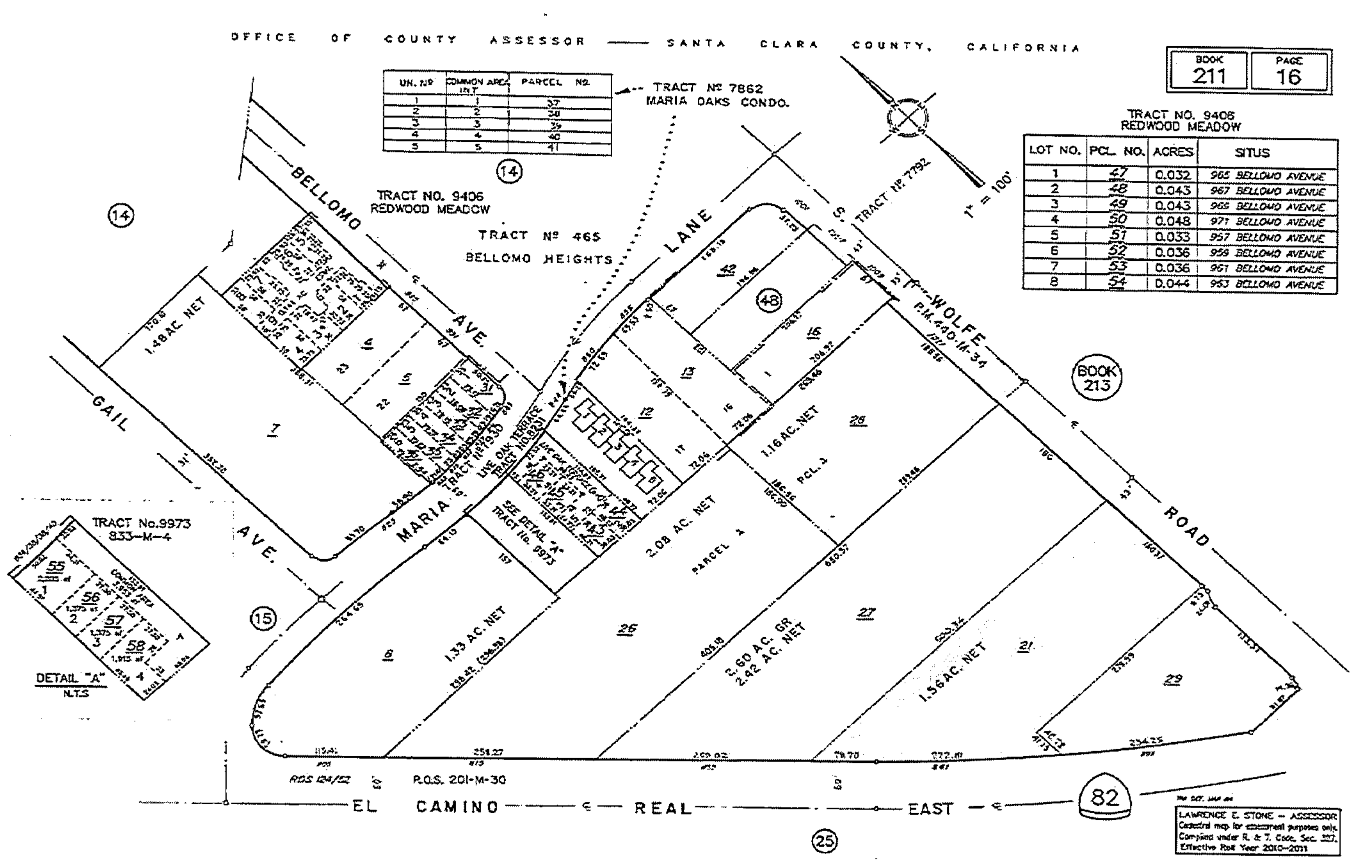
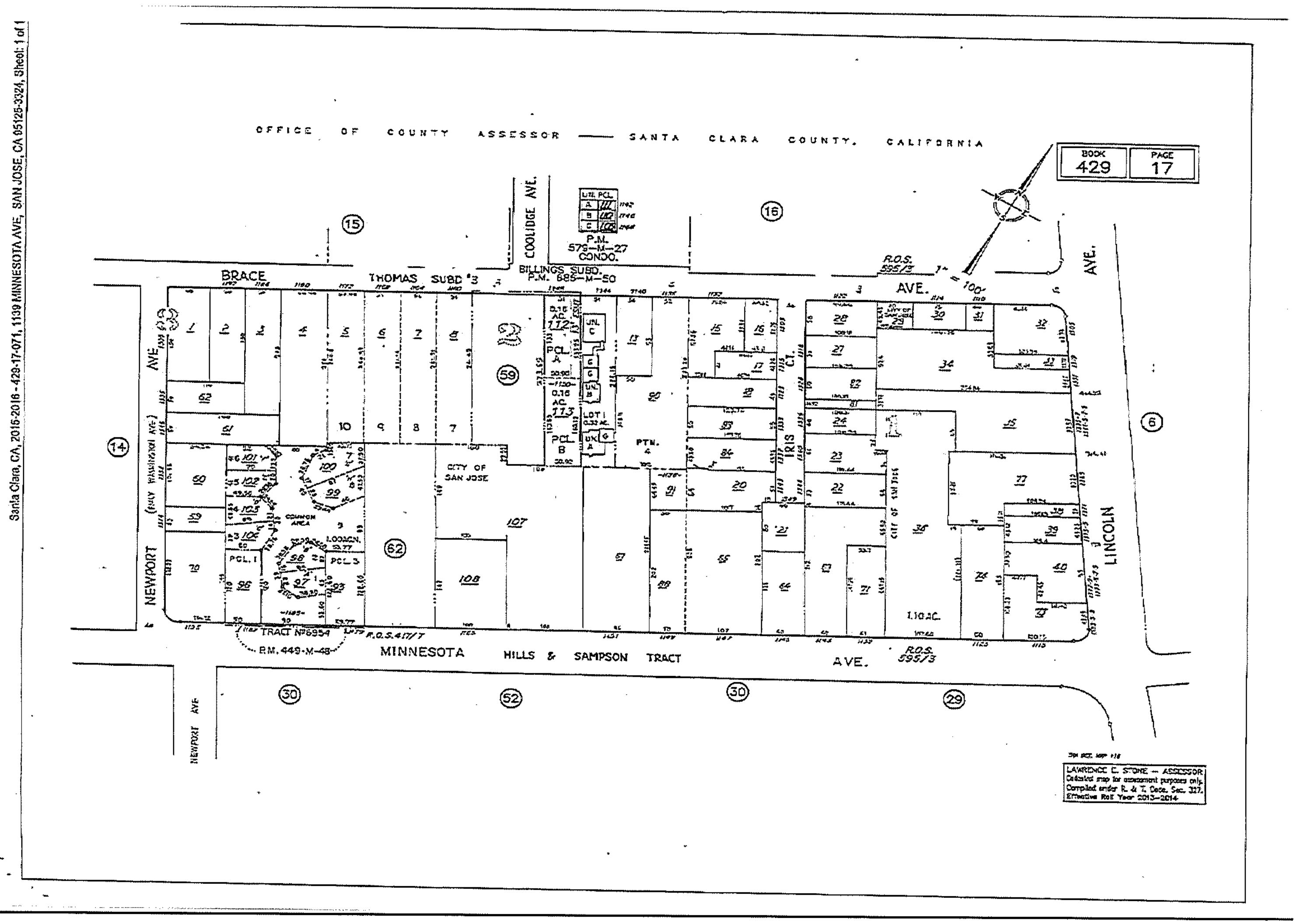
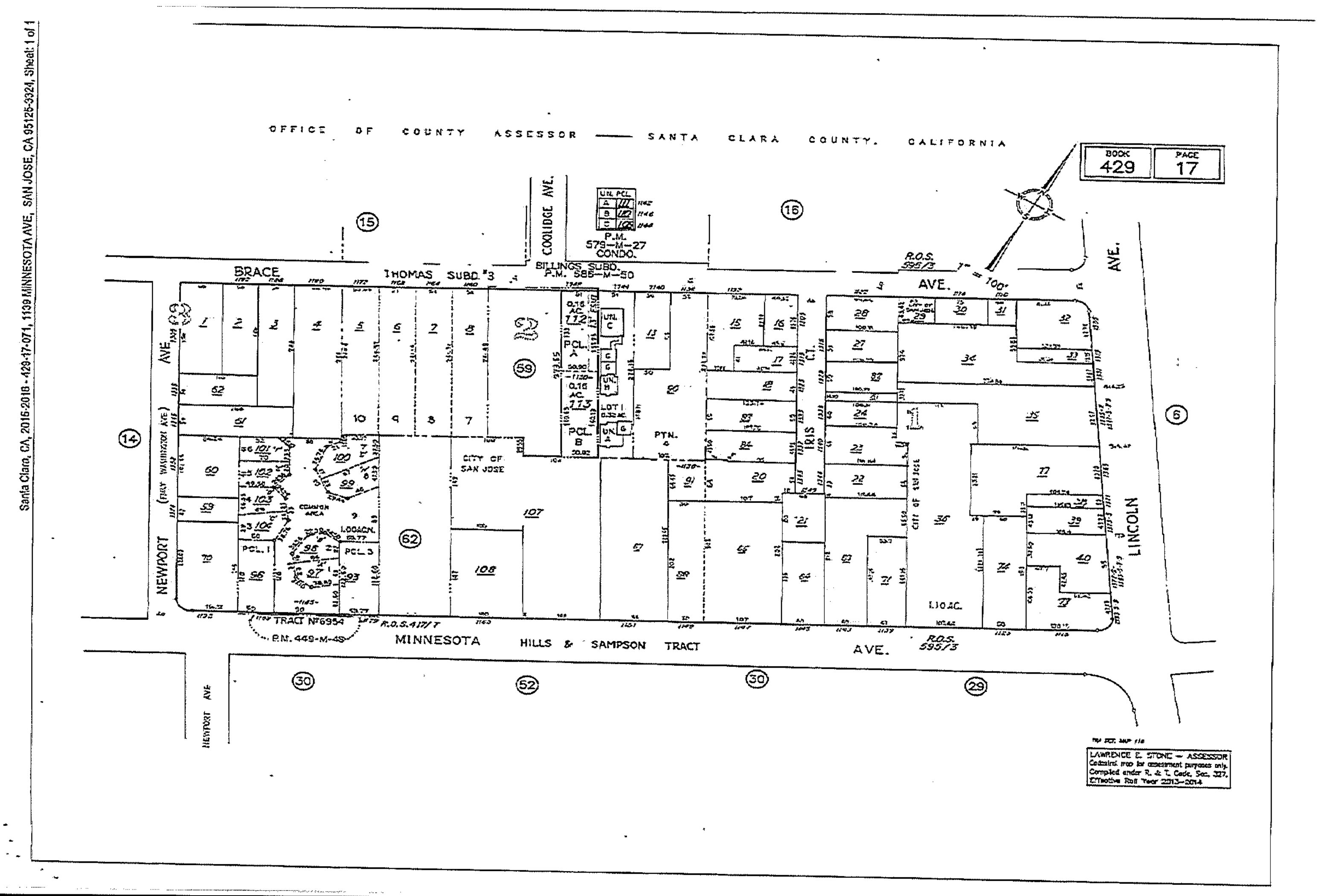


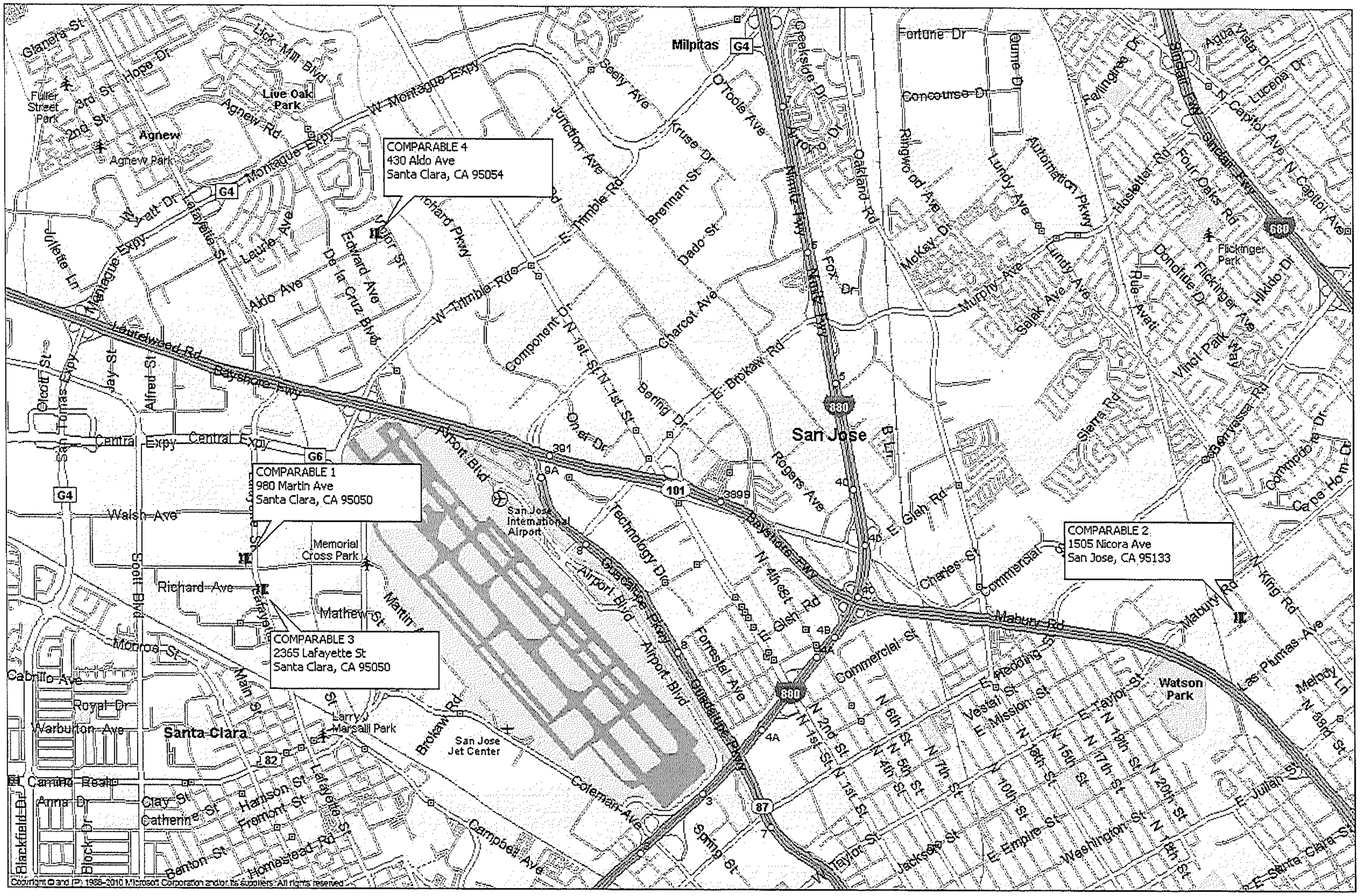
PARCEL MAP – COMMERCIAL – COMPARABLE 5



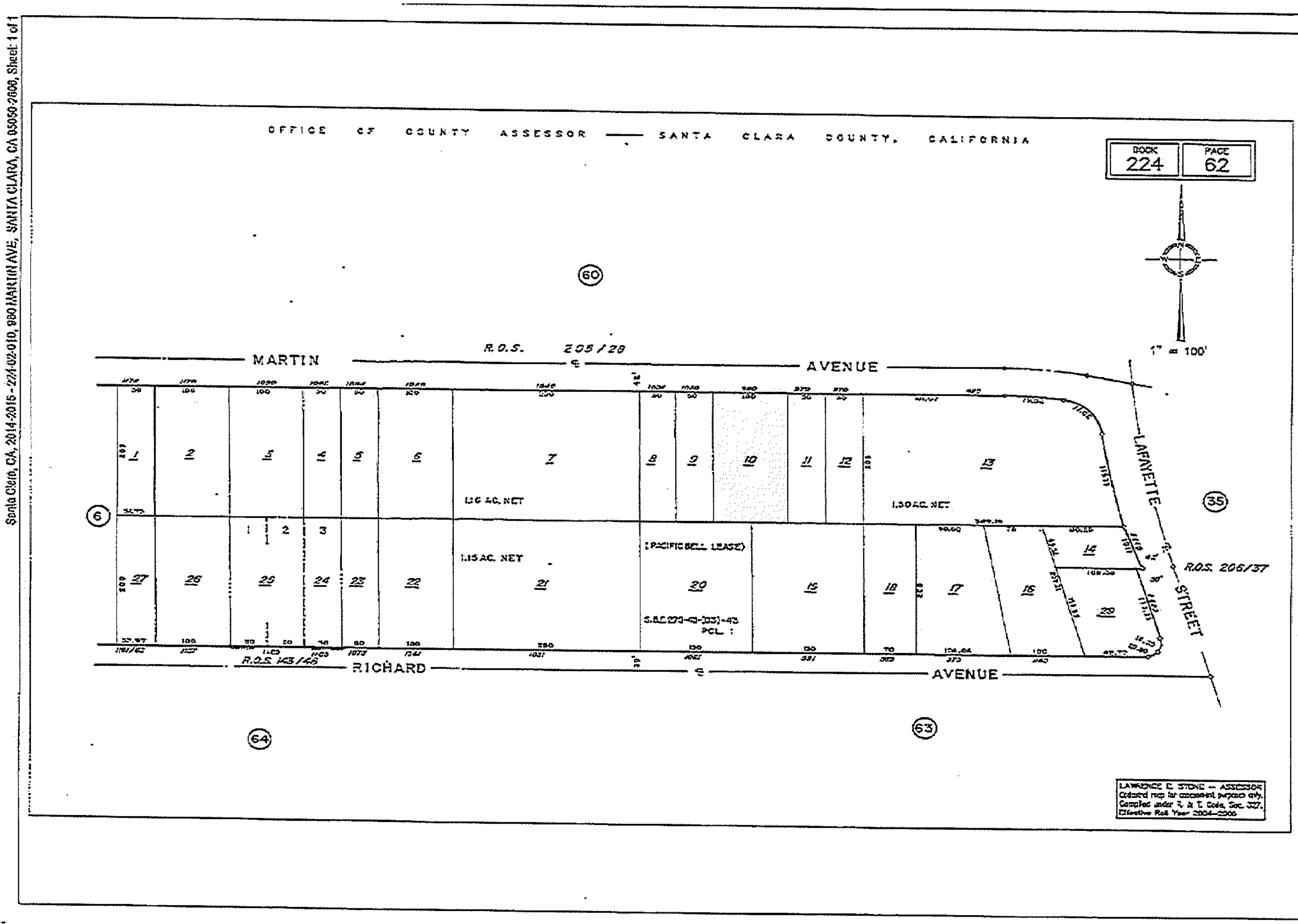
PARCEL MAP – COMMERCIAL – COMPARABLE 6



INDUSTRIAL SALES COMPARABLE LOCATION MAP



PARCEL MAP – INDUSTRIAL – COMPARABLE 1



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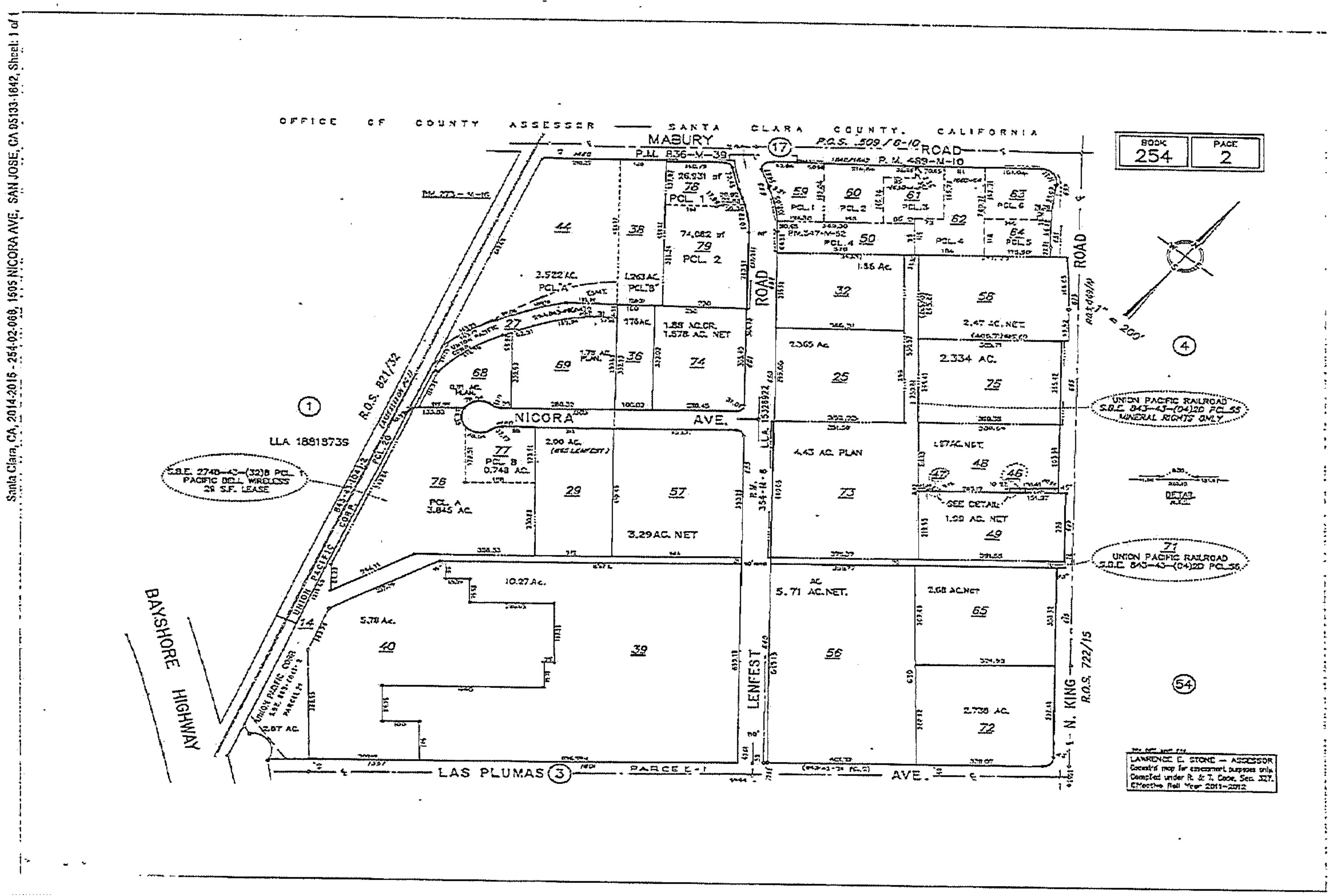

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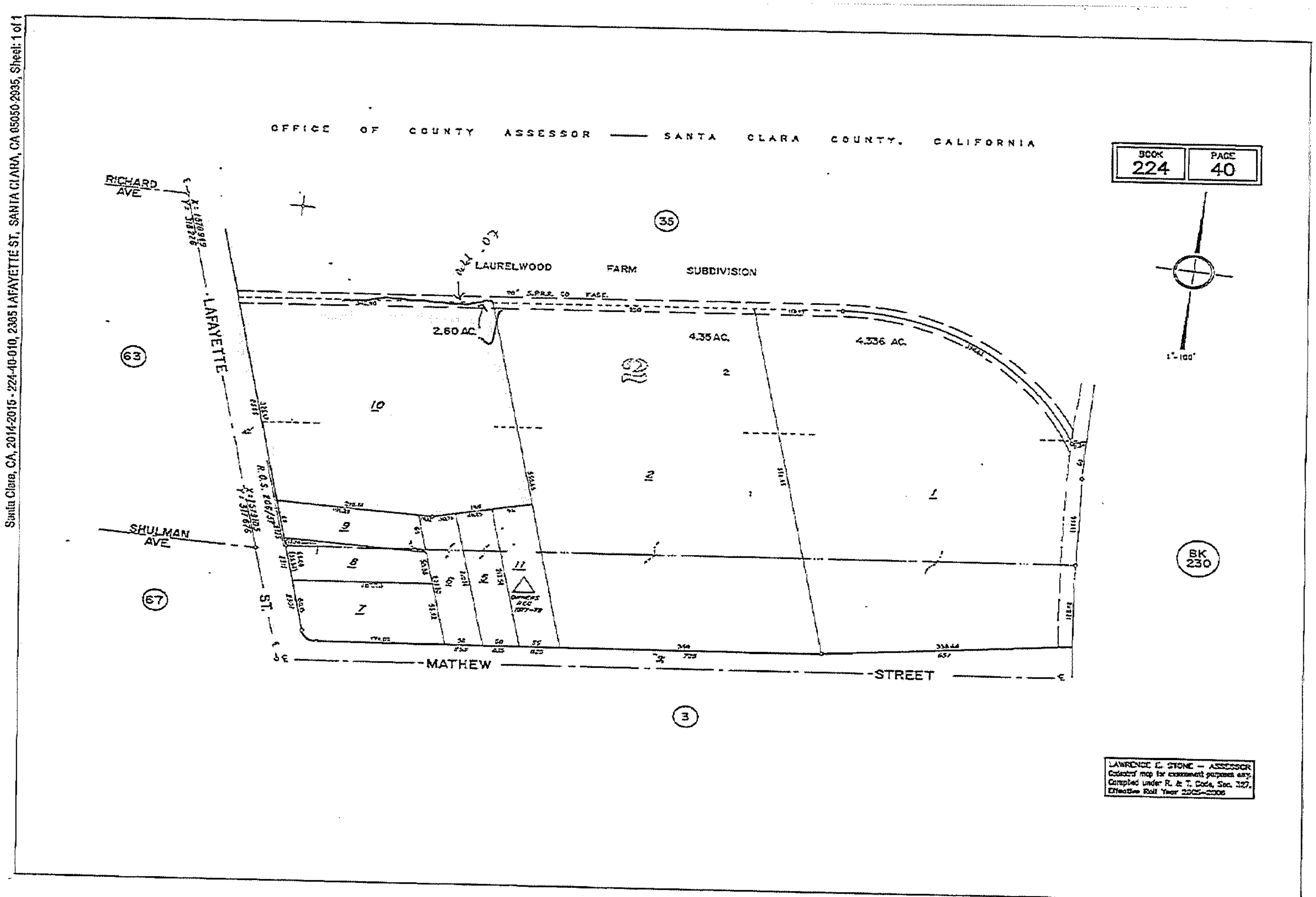

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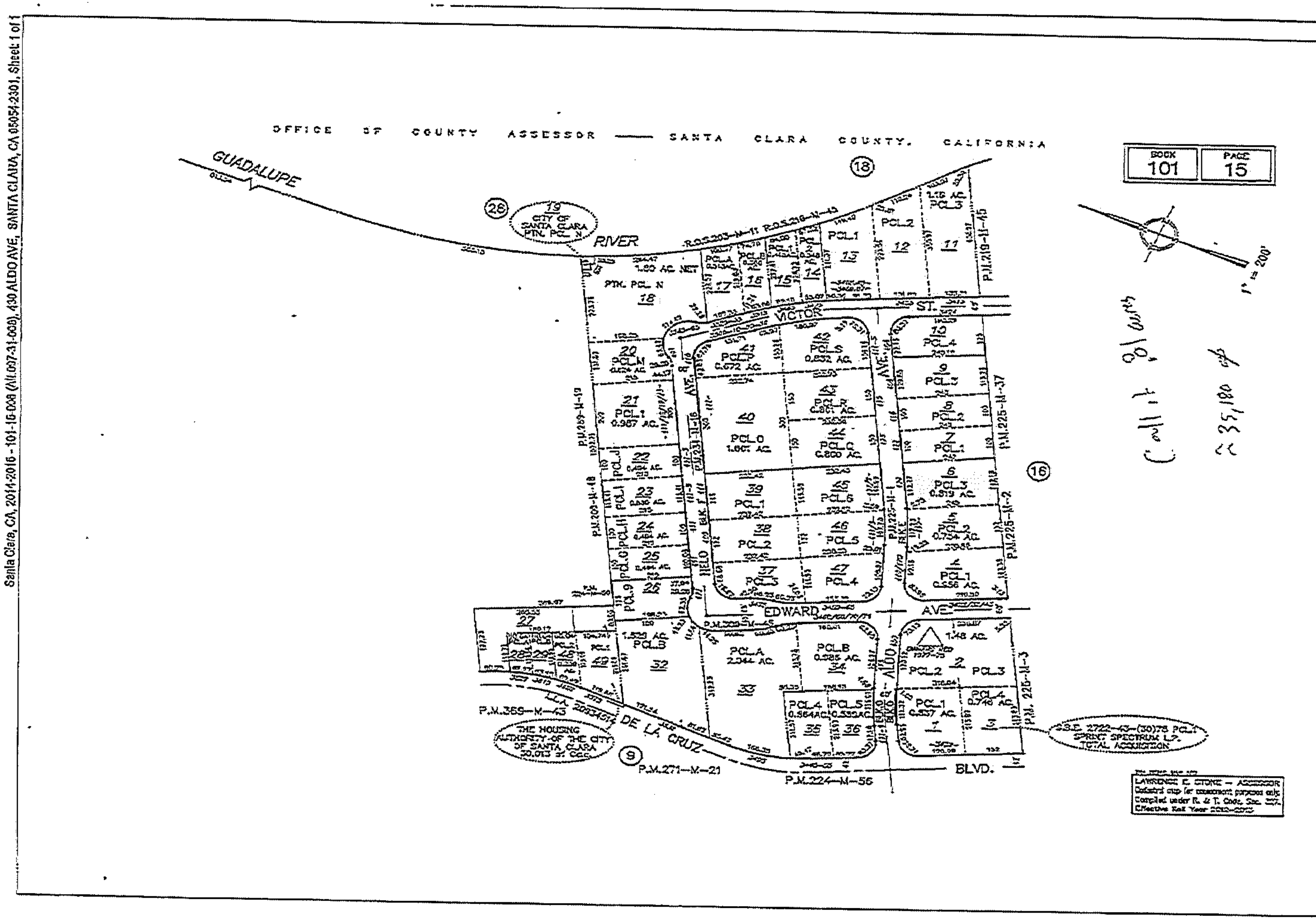


Santa Clara, CA, 2014-2015 - 101-15-008 (APN 097-31-008), 430 ALDO AVE, SANTA CLARA, CA 95054-2301, Sheet 1 of 1

Marcus & Millichap

Office Research Market Report

Second Half 2016

San Jose Metro Area

Historic Supply Growth Earmarked for Large Corporations

Soaring supply growth being leased by large corporations, supporting office-using employment. Powered by the growth of some of the largest technology firms in the world, the San Jose office market has experienced tremendous vacancy tightening and asking rent advancement over the current cycle. As these companies have expanded, demand for labor and larger floor plates has ascended alongside them, creating one of the most vibrant office markets in the nation. In order to meet this demand, developers have responded with one of the largest injections of office space in metro history, yet the supply growth is more than three-quarters pre-leased by corporations such as Apple, Palo Alto Networks and Nvidia. Although the new deliveries are likely to trigger modest increases in vacancy over the medium term, the vast number of companies operating in the metro, combined with the longer term structural deficiencies due to a lack of developable land and the need to build more housing, will foster stronger operations in the years ahead. However, the significant amount of office properties slated for delivery will weigh on vacancy rates as the development pipeline remains robust through 2017. While vacancy will be subjected to mild upswings, the elevation of asking rents for available spaces will continue unabated, with the market set to record a sixth straight year of growth.

Well-located buildings with corporate tenants in high demand. A historically low interest rate environment is sponsoring a search for higher returns through office properties in the San Jose metro. As investors have sought to position themselves in one of the strongest office markets in the nation, capital has flooded into the market, with dollar volume reaching a cycle high above $900 million over the past year. Even as the development pipeline has expanded, buyers have been more focused on selecting well-located properties leased by a large corporation. However, the robust valuations associated with these assets has led to more speculative endeavors such as purchasing buildings that are likely to be leased as corporate needs emerge in the future. As a result, cap rates have sunk to the mid- to high-5 percent range, although closed deals can range up to a 100 basis points on either side of that band.

2016 Annual Office Forecast

3.8% increase in total employment

Employment:

San Jose organizations will hire 40,000 workers this year, driven by a robust 18,100 position gain in office-using employment sectors. Last year, 42,500 jobs were created, a 4.2 percent rise year over year.

3.1 million sq. ft. will be completed

Construction:

Developers will complete 3.1 million square feet of office space this year, a slight slowdown from the previous year when 3.9 million square feet came to market.

80 basis point increase in vacancy

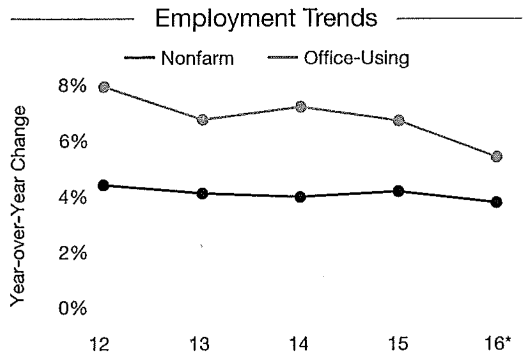
Vacancy:

Robust development, combined with meager net absorption, will trigger an 80-basis-point increase in the metro vacancy rate to 10.6 percent this year. In the prior four quarters, vacancy declined 140 basis points.

9.6% increase in asking rents

Rents:

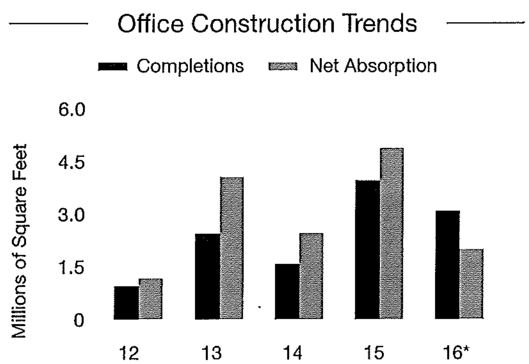
The average asking rent for marketed spaces will climb 9.6 percent this year to $44.08 per square foot, building on the previous year's 11.5 percent rise.



Economy

- Over the past 12 months, San Jose firms hired 41,600 new workers, a 4 percent growth rate. In the prior four quarters, 39,900 jobs were created, a 4 percent expansion.
- Office-using companies tacked on 21,800 positions during the last year, a 6.7 percent growth rate, far outpacing broader hiring trends in the metro. Headcount expansion was driven primarily by the professional and business services sector, accounting for 17,300 job additions over the past year. Information technology firms also contributed, raising payrolls by 4,300 places.
- Broader hiring trends in the metro remain extremely robust, with all sectors expanding except manufacturing. Headcount growth outside of the professional and business services sector was led by the education and health services sector, where nearly 9,000 workers found employment.

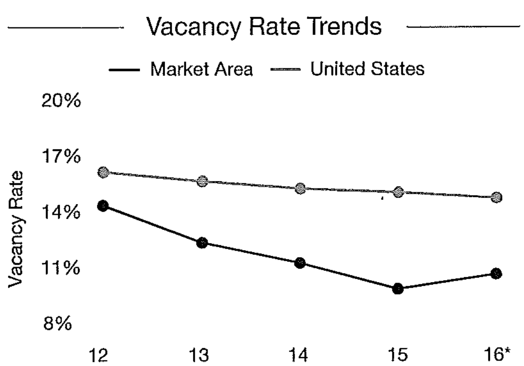
Outlook: Employers will create 40,000 jobs this year, expanding metro payrolls by 3.8 percent. Last year, 42,500 people were hired.



Construction

- During the last four quarters, more than 4.3 million square feet of office was completed, with the largest concentrations in the Sunnyvale/Cupertino and Santa Clara submarkets. More than 2.7 million square feet of office space was delivered in these two submarkets.
- There is more than 9.1 million square feet of office projects underway in the metro with completion dates scheduled through the end of 2017. The Sunnyvale/Cupertino and Santa Clara submarkets will receive the bulk of the new supply, accounting for nearly 6.5 million square feet of space.
- Apple's new headquarters in Cupertino is the largest project currently underway at 2.8 million square feet. Other notable developments include two large expansions in Oakmead Park: chipmaker Nvidia's new campus, which will include more than 480,000 square feet of space, and cybersecurity firm Palo Alto Networks' 630,000 square feet at 3335 Scott Boulevard.

Outlook: Nearly 3.1 million square feet of office space will come online this year, representing one of the highest completion schedules of the current cycle. Last year, more than 3.9 million square feet of space was delivered.



* Forecast

Vacancy

- Over the past year, the metro vacancy rate has risen 20 basis points to 10.4 percent, driven by a broad dispersion of results across submarkets. Six submarkets recorded vacancy declines over the past year, while five submarkets registered an increase in vacancy during the same period.
- Deliveries of Class A office buildings surpassed net absorption of space over the last year, leading vacancy to rise 90 basis points to 12.9 percent. Supply injections reached 3.28 million square feet, while tenants absorbed roughly 2.63 million square feet of space.
- Vacancy is tightening in the Sunnyvale/Cupertino submarket. Class A vacancy fell 130 basis points to 7.7 percent, while Class B/C spaces slipped 310 basis points to 5.0 percent. Downtown San Jose registered similar advancement, with vacancy falling 130 basis points to 13.1 percent in Class A buildings and 100 basis points to 12.8 percent in Class B/C spaces, respectively.

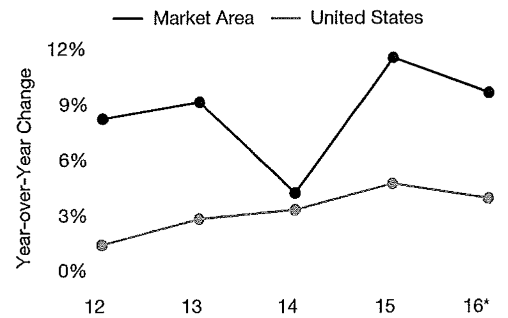
Outlook: A cycle high of supply will push vacancy up 80 basis points to 10.6 percent this year. Last year, vacancy fell 140 basis points.

Rents

- During the last 12 months, the average asking rent for marketed spaces vaulted 14.5 percent to $43.13 per square foot, nearly doubling the 7.1 percent rise recorded in the previous yearlong period. The advancement was largely driven by a 19.6 percent surge in the average asking rent at Class B and C buildings.
- Asking rent growth in the metro was extremely broad based over the past year, led by robust gains in South San Jose and Palo Alto. The submarkets registered appreciation of 23.6 percent to $32.65 per square foot and 60.1 percent to $80.76 per square foot, respectively. The Morgan Hill/Gilroy area was the only submarket to record declining average asking rent over the last year; the average price fell 5.2 percent to $17.27 per square foot.
- Soaring development in the Sunnyvale/Cupertino submarket limited the pace of average asking rent growth, which rose 2.2 percent over the past year to $45.67 per square foot. In the previous year, asking rent rose 10.6 percent.

Outlook: A robust completion schedule will do little to slow the pace of improvement in average asking rents, which will climb 9.6 percent this year to $44.08 per square foot metrowide. In the prior four quarters, average asking rents rose 11.5 percent.

Rent Trends

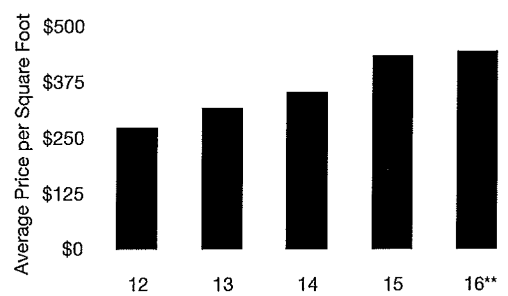


Sales Trends**

- Widespread activity prompted a 15 percent rise in transactions over the past year. As a result, dollar volume rose to more than $900 million, the highest level of the current cycle.
- During the last 12 months, the average price per square foot rose to the high-$300 to low-$400 per square foot range, driven by several high-priced deals in Palo Alto and Mountain View in excess of $750 per square foot. More affordable properties traded in the San Jose and Santa Clara city limits.
- Average first-year returns fell moderately to the mid- to high-5 percent range, boosted by buyer willingness to deploy capital. Closed transactions carried cap rates from the high-4 to mid-6 percent band.

Outlook: Buyers will prize office properties near major transportation routes that are leased by large corporate tenants, seeking to benefit from this stability. Value-add investors will bid for buildings near existing campuses in order to appeal to an expanding corporation.

Sales Trends

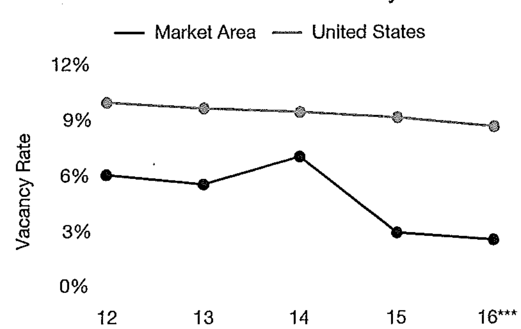


Medical Office***

- During the past year, developers delivered 135,000 square feet of medical office space, following a year in which no new space was delivered.
- The medical office vacancy rate fell 340 basis points to 2.5 percent over the past year as a slow pace of completions and accelerating demand dramatically tightened the market. In the previous year, vacancy fell 130 basis points.
- Plummeting vacancy had a significant effect on the average asking rent for marketed spaces, which vaulted 16.8 percent higher over the past year to $31.87 to square foot. Average asking rents were essentially unchanged in the prior yearlong period.

Outlook: Tighter vacancy and soaring rent growth prompted additional investors to enter the market over the past year, pushing closed transactions up more than 50 percent as dollar volume exceeded $15 million.

Medical Office Vacancy



* Forecast
** Trailing 12-month period through 2Q16
*** 2Q16
Sources: CoStar Group, Inc.; Real Capital Analytics

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- The 10-year U.S. Treasury has been trading lower, closing below 1.7 percent, since the Federal Reserve decided to leave the federal funds rate unchanged in September. Policymakers left the door open for a rate increase before the end of December and proposed how interest rates could rise over the coming years. The S&P 500 Index and other U.S. equity indexes continue to hover around all-time highs.
- The Federal Open Market Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities and rolling over maturing Treasury securities at auction. It anticipates doing this until normalization of the level of the federal funds rate is well underway. The committee anticipates holding longer-term securities at sizable levels should help maintain accommodative financial conditions.
- Interest rate volatility has moved over to the commercial loan markets and 10-year fixed-rate loans are now pricing between 3.9 and 4.4 percent. Loan to values range from 60 to 75 percent for commercial properties depending on location, as underwriters remain competitive in an effort to do business. Floating-rate bridge loans for stabilized assets will require LTVs of 70 percent and price with a spread between 275 and 425 basis points over Libor, while repositioning will be underwritten at 80 percent LTV with a 375- to 475-basis-point spread.
- A Federal Reserve survey of lenders indicates that commercial real estate loan standards tightened in the second quarter. Debt providers are likely seeking to balance risk exposure to commercial real estate and take a more conservative lending approach while the current cycle matures, rather than expressing a bearish outlook on commercial property. Some of the greatest tightening occurred for construction loans, a trend that may potentially prevent some early-stage developments from advancing and ultimately minimize the upward pressure of new supply on vacancy rates.

Local Highlights

- Chipmaker Advanced Micro Devices (AMD) is planning to relocate its headquarters to Irvine Co.'s Santa Clara Square mixed-use project, marking the end of a 47-year stay in Sunnyvale. AMD will move following the December completion of the 1.7 million-square-foot project.
- A local developer has proposed plans for the demolition of the existing Marina Food shopping center at 10118 Bandley Drive in Cupertino in order to build a three-building project composed of 22,600 square feet of commercial space, a 122-room hotel and 188 residential units. The city council still has to approve the initial plans before groundbreaking can commence.
- An HOK-designed office complex at 222 N. Wolfe Road will deliver more than 770,000 square feet of office space in a campus-like setting. The LEED Platinum certified offering is on an 18-acre site, with roughly 53 percent of the plot designated as open space.

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Price: $250

MARKETBEAT
Silicon Valley
Office Q3 2016

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SILICON VALLEY OFFICE

Economics Indicators

	Q3 15	Q3 16	12-Month Forecast
Santa Clara Co. Employment	965K	1.0M	▲
Santa Clara Co. Unemployment	4.7%	4.1%	▼
U.S. Unemployment	5.2%	4.9%	▬

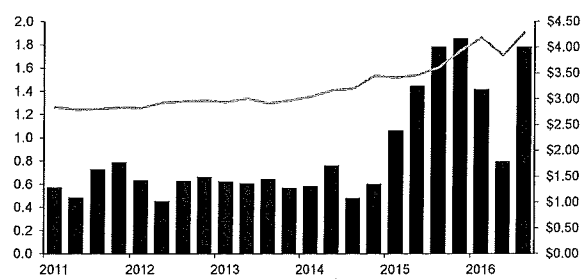
*Q3 data based on the average of July and August values.

Market Indicators (Overall, All Classes)

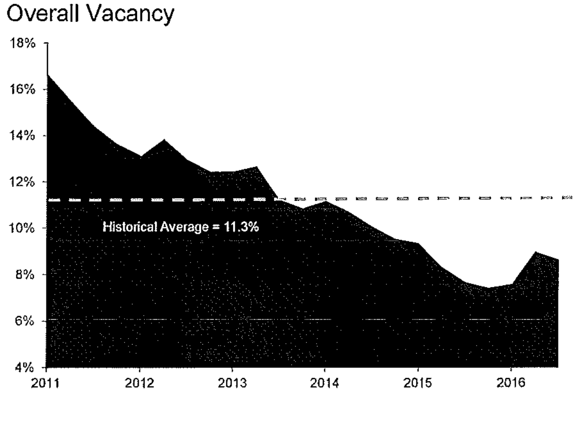
	Q3 15	Q3 16	12-Month Forecast
Overall Vacancy	7.7%	8.6%	▲
Net Absorption SF	1.8M	655K	▲
Under Construction SF	4.7M	5.3M	▬
Average Asking Rent *	$3.62	$4.29	▲

* Rental Rates reflect FS asking $psf/month

Overall Net Absorption/Overall Asking Rent (FS)
4-QTR TRAILING AVERAGE



Overall Vacancy



Office Market Gains Momentum in Q3

Job growth in the Bay Area has picked up in the third quarter of 2016, increasing by over 15,000 job since mid-year. This metric remains at a historical high for both the Greater Bay Area and Santa Clara County specifically. Despite employment gains, the unemployment rate for Santa Clara County ticked up a modest 40 basis points (BPS) across the same time period to 4.1% from 3.7%, well below the national figure of 4.9%.

Silicon Valley's office vacancy rate decreased slightly in the third quarter of 2016 to 8.6%, down from 9.0% last quarter. That latest figure translates to 6.7 million square feet (MSF) of availabilities, a decline from the 7.0 MSF in the second quarter. Sublease vacancy, however, was on the rise over the same time period. After being fairly consistent for the last few years, sublease space rose to 21.3% of the total availability from 18.4% in the second quarter. This represents a moderately higher level than the ten year average of 12.3%.

After a record high net absorption figure of 7.4 MSF last year, 2016 has slowed significantly. That said, after an occupancy loss of 152,000 square feet (SF) in the second quarter, the region came bounding back with an occupancy gain of 654,000 SF in the third quarter. Deal activity was 2.8 MSF, surpassing both the first two quarters of 2016 by one million square feet. A major factor in the increased leasing activity, not surprisingly, was the uptick in large block deals. For instance, Google continued its expansion, taking the newly completed Moffett Gateway in Sunnyvale (612,000 SF). Other large deals in the third quarter included AMD, which took 220,000 SF at Santa Clara Square, Nutanix's renewal on 210,000 SF at the San Jose Airport, Ford's expansion in Stanford Research Park (Palo Alto) of 150,000 SF and Pure Storage's expansion/renewal in Downtown Mountain View on 67,000 SF. Facebook expanded this quarter as well, taking 135,000 SF in a newly constructed building in Menlo Park.

The average asking rent continued its ascent in the third quarter to $4.29 per square foot (PSF) on a monthly full service basis. This is up from $3.85 PSF in the second quarter and $3.62 PSF one year ago. The last time asking rents were over $4.00 PSF was in the third quarter of 2001. A closer look at the submarkets reveals 101 Tech Corridor cities commanding the highest rents (currently averaging $7.58 PSF). West Valley submarkets are averaging $3.87 PSF while the Central Silicon Valley trade areas are averaging $3.49 PSF.

Investor demand for Silicon Valley product remains strong, particularly for well-located, modern buildings with long-term tenancy in place. Top transactions in the third quarter included the sale of 60 S. Market (232,000 SF) in Downtown San Jose. Another notable sale this quarter

MARKETBEAT
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Office Q3 2016

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was the purchase by TMG Partners of 2460-2480 N. First Street in North San Jose (144,000 SF). Significant investments were also recorded this quarter in the R&D sector.

Construction across the region currently stands at 5.3 MSF. This breaks down to 3.0 MSF of build-to-suit product and 2.3 MSF of speculative product. Of the speculative construction, only about 200,000 SF will complete construction in 2016 with the balance in 2017.

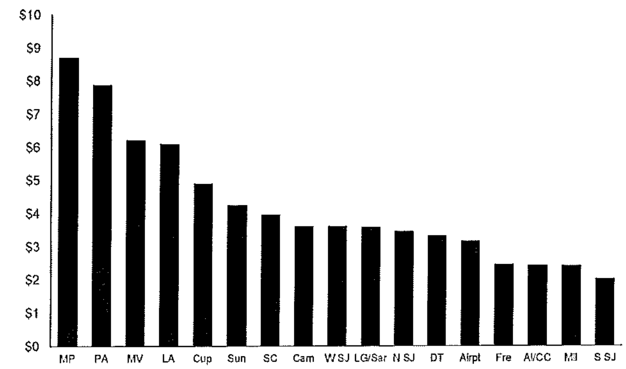
ASKING RENTS INCREASE, FINISHING THE QUARTER AT $4.29 PSF FULL SERVICE; VACANCY DECREASED SLIGHTLY TO 8.6%.

Although 2016 has not kept pace with the record year of 2015, we see it as an expected market correction. After a slow start in the first half of the year momentum has picked up. Demand is still strong for Class A product and there remains a deep pool of companies with expansion plans for this year and into next. We are currently tracking 9.8 MSF of tenants looking to relocate or expand. As such, we would anticipate that this velocity will continue into the fourth quarter and we will end 2016 with positive gains.

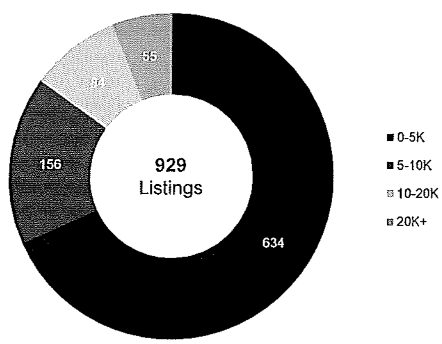
Outlook

- The current average asking rent of $4.29 PSF (full service) is up 18% from one year ago and 50% from the Q2 2011 post-recession low-water mark of $2.87 PSF.
- Net absorption in Q3 was 654,000 SF, an increase from the loss of 152,000 SF in Q2. This follows the record breaking year in 2015 of 7.4 MSF.
- We anticipate that for a desirable, economic powerhouse like Silicon Valley, the market will regain momentum after this brief pause albeit not at 2014-2015 levels.

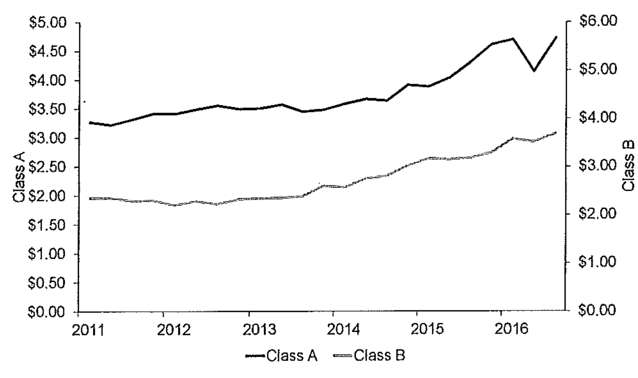
Average Asking Rate by Submarket (FS)
NORTHERN CITIES COMMANDING HIGHEST RENTS



Availabilities by Size Segment
LACK OF SUPPLY FOR QUALITY LARGE BLOCK SPACE



Average Asking Rate by Class (Full Service)
CLASS A RENTS INCREASED 44% SINCE 2011



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	VACANCY RATE	CURRENT NET ABSORP (SF)	YTD NET ABSORPTION (SF)	UNDER CONST (SF)	OVERALL AVERAGE ASKING RENT (ALL Classes)	OVERALL AVERAGE ASKING RENT (CLASS A)
Menlo Park	4,285,020	168,431	200,840	8.6%	180,248	54,461	205,222	$8.70	$8.83
Palo Alto	9,621,078	189,802	324,785	5.3%	-4,411	-66,474	339,916	$7.87	$8.68
Los Altos	1,101,613	115,894	54,620	15.5%	-1,333	-5,257	0	$6.10	$6.26
Mountain View	4,851,488	72,345	152,615	4.6%	4,443	-42,873	0	$6.19	$7.86
Cupertino	4,446,215	57,607	91,138	3.3%	-16,011	5,381	2,820,000	$4.90	$5.10
Campbell	2,389,337	62,891	158,837	9.3%	12,613	-29,560	177,815	$3.61	$4.16
Los Gatos/Saratoga	2,299,382	69,868	80,546	6.5%	-3,533	-25,736	0	$3.59	$0.00
West San Jose	4,046,027	12,624	198,145	5.2%	-15,932	42,604	0	$3.61	$4.68
Sunnyvale	10,194,307	33,258	280,958	3.1%	586,088	619,986	0	$4.27	$4.48
Santa Clara	9,211,691	326,989	968,024	14.1%	101,378	203,189	810,468	$3.95	$4.18
San Jose Airport	4,380,407	80,426	726,873	18.4%	-277,922	-375,287	357,106	$3.16	$3.36
North San Jose	4,878,392	96,441	596,889	14.2%	-32,445	13,229	446,429	$3.45	$3.73
Alameda/Civic Center	2,245,455	3,969	86,006	4.0%	10,104	35,206	0	$2.42	$0.00
South San Jose	1,620,886	15,696	156,181	10.6%	-6,951	53,663	185,000	$2.02	$2.21
Downtown San Jose	8,542,003	116,621	1,031,947	13.4%	133,726	290,784	0	$3.31	$3.64
Milpitas	955,137	0	57,192	6.0%	758	10,063	0	$2.41	$2.09
Fremont	2,621,768	7,609	107,266	4.4%	-15,911	37,943	0	$2.45	$2.38
CLASS BREAKDOWN									
Class A	43,895,067	1,157,080	3,294,508	10.1%	504,501	557,446	5,341,956	N/A	$4.73
Class B	19,095,950	201,321	1,145,253	7.1%	-40,115	98,003	N/A	N/A	N/A
TOTAL	77,690,206	1,430,471	5,272,862	8.6%	654,909	821,322	5,341,956	$4.29	$4.73

Asking rates converted to FS

Key Lease Transactions Q3 2016

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Moffett Gateway	612,796	Google, Inc.	Jay Paul Company	Expansion	Sunnyvale
2485 Augustine Dr	220,156	AMD	Irvine Company	Relocation	Santa Clara
1740 Technology Dr & 181 Metro	210,000	Nutanix	Hudson Pacific Properties	Renewal	San Jose Airport
3201 Hillview Ave	150,344	Ford	US Realty Advisors	Expansion	Palo Alto
162 Jefferson Dr	135,307	Facebook, Inc.	Sobrato Development	Expansion	Menlo Park
650 Castro St	67,045	Pure Storage	Eagle Square Partners	Expansion/Renewal	Mountain View

Key Sales Transactions Q3 2016

PROPERTY	SF	BUYER	SELLER	PRICE	SUBMARKET
60 Market St, S.	232,500	Intercontinental/Harvest Prop.	Harvest Prop/LaSalle Invest	$86,025,000 / $370	Downtown SJ
2460-2480 First St, N.	144,262	TMG Partners	TA Associates Realty	Confidential	North San Jose
1 First St, N.	82,303	Westbrook Partners/Lift Partners	Saratoga Capital, Inc.	$16,000,000 / $194	Downtown SJ
325 First St, N.	29,436	Westbrook Partners/Lift Partners	Sofa LLC	$7,800,000 / $265	Downtown SJ
52 Santa Clara St, E.	28,730	Westbrook Partners/Lift Partners	Office Associates	$9,750,000 / $339	Downtown SJ
852 First St, N.	19,550	County of Santa Clara	SCC Federal Credit Union	Confidential	North San Jose

MARKETBEAT
Silicon Valley
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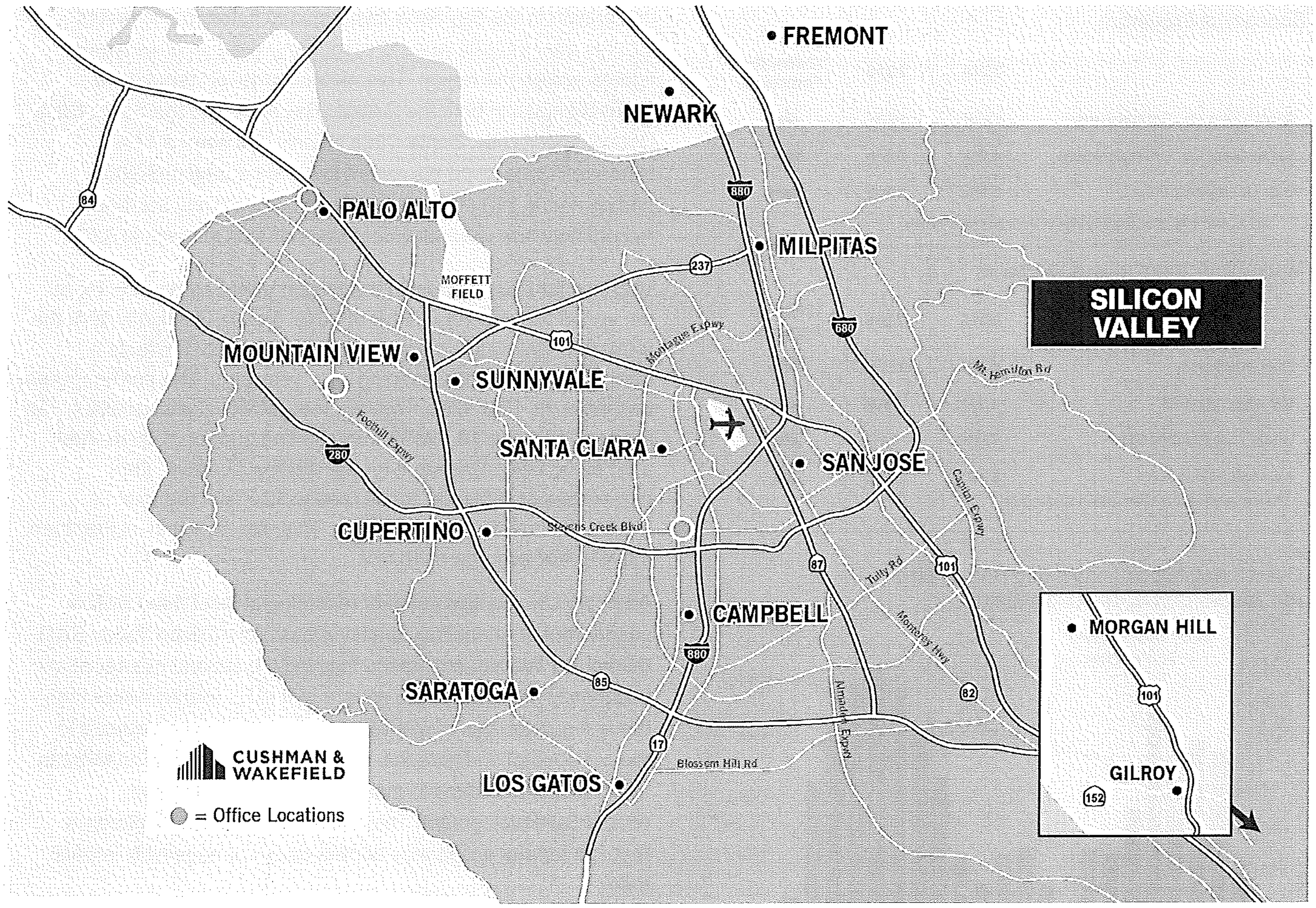
Office Submarkets
Silicon Valley



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MARKETBEAT
R&D Snapshot 2Q 2016
Silicon Valley

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SILICON VALLEY R&D

Economics Indicators

	2Q15	2Q16	12-Month Forecast
Santa Clara Co. Employment	992K	993K	▲
Santa Clara Co. Unemployment	4.0%	3.5%	▼
U.S. Unemployment	5.4%	4.9%	▬

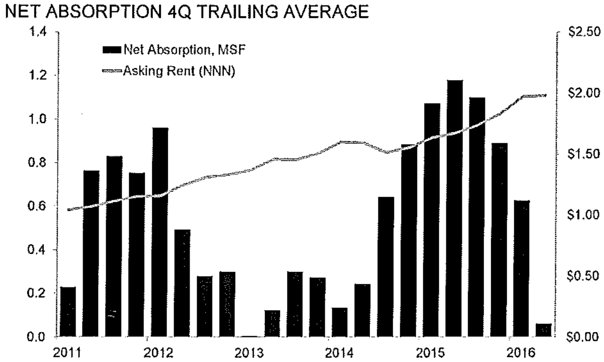
*2Q16 data based on the average of April and May values.

Market Indicators (Overall, All Classes)

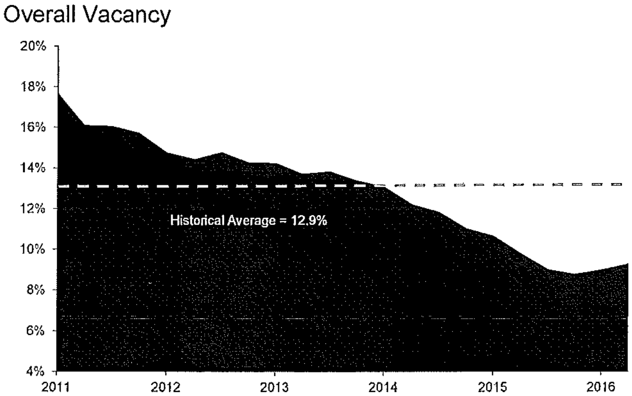
	2Q15	2Q16	12-Month Forecast
Overall Vacancy	9.8%	9.3%	▼
Net Absorption SF	1.7M	-590K	▲
Under Construction SF	721K	1.1M	▲
Average Asking Rent *	$1.63	$1.96	▲

* Rental rates reflect NNN asking $psf/month

Overall Net Absorption/Asking Rent (NNN)
NET ABSORPTION 4Q TRAILING AVERAGE



Overall Vacancy



Sedate R&D Market in the Second Quarter

Job growth in the Bay Area has begun to flatten out in recent months after several years of staggering gains to employment figures across the region. This metric, however, remains at historical highs in both the Greater Bay Area and the Santa Clara County specifically. Santa Clara County has seen a 17% increase in jobs since the recent low point during mid-2009 adding nearly 210,000 new positions across many sectors. Accordingly, the unemployment rate remains minimal at 3.5%.

Vacancy for R&D product in the Silicon Valley stood at 9.3% at the end of the second quarter of 2016. This is up slightly from the 9.0% rate that was in place three months ago but reflects a decline from the 9.8% reading of a year ago. The current figure translates to 15.6 million square feet (MSF) of availabilities, an increase from the 14.8 MSF from the first quarter of 2016. And after being fairly consistent for the last few quarters, the percentage of sublease space rose to 12.7% of the total availability from 9.7% last quarter. This rate is slightly higher than the ten year average of 10.6%.

After two consecutive years of recording at least three million square feet of annual occupancy growth, the Silicon Valley R&D market fell flat. Net absorption finished the second quarter at an occupancy loss of 590,000 square feet (SF), slightly better than the first quarter loss of 654,000 SF. Demolitions contributed to the net absorption figure this quarter with 123,000 SF in Milpitas and Santa Clara razed to make way for new office and residential development. The good news for local landlords is that this form of occupancy decline does not negatively impact them.

The average asking rent for R&D space in Silicon Valley currently stands at $1.98 per square foot (PSF) on a monthly triple net basis. This is up 16% from the $1.67 PSF posted a year ago. Cupertino, Palo Alto and Mountain View lead the Valley's asking rents at $4.06 PSF, $3.91 PSF and $3.79 PSF, respectively. The largest increase over the past year was the 28% jump recorded in Mountain View.

Deal activity was also down with 2.7 MSF of leased transactions compared to 3.9 MSF in the first quarter and 16.0 MSF recorded in all of 2015. A major factor in the slowing activity this quarter was the fact that the two largest occupiers of space, Apple and Google, were quiet. After several quarters of voracious activity both tech giants laid low. The top deals for the second quarter

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R&D Snapshot 2Q 2016

Silicon Valley

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included Uber in its first push into the Silicon Valley (140,000 SF in Palo Alto) and Aerohive Networks (72,000 SF in Milpitas). Additionally, there were two renewals and a leaseback. Morpho Detection renewed (111,000 SF) in Newark and Cordis Corp renewed on two buildings (83,000 SF) in Milpitas. Exar Corp sold two buildings to Asus Computer and negotiated a short-term leaseback on 95,000 SF.

Investor demand for Silicon Valley product remained strong, particularly for well-located, modern buildings with long-term tenancy in place. Although Google did not transact any new leases this quarter, they did close on a seven-building portfolio for future development purchasing the NetApp campus (595,000 SF) located in Sunnyvale. Other notable investments include Boston Properties' purchase (218,000 SF) and Crown Realty & Development's purchase (117,000 SF), both in Santa Clara.

R&D VACANCY IN THE REGION IS UP SLIGHTLY TO 9.3% BUT IS DOWN FROM 9.8% JUST ONE YEAR AGO.

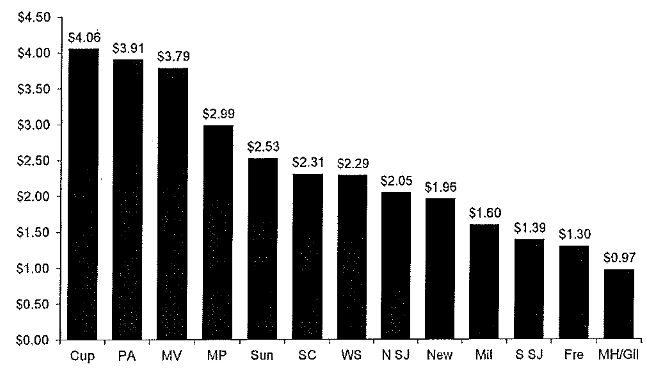
Although the first half of 2016 has been lackluster, we see it as an expected market correction given the record performance of 2015. Demand is still strong for Class A product and there remains a deep pool of companies with expansion plans for this year and into next. We are currently tracking 11.3 MSF of tenants looking to relocate or expand. As such, we would anticipate that for a desirable, economic powerhouse like Silicon Valley the market will regain momentum after this brief pause albeit not at 2014-2015 levels.

Outlook

- R&D vacancy now stands at 9.3% down from 9.8% just one year ago.
- The current average asking rent for R&D space in Silicon Valley is $1.98 per square foot (on a monthly triple net basis), up from $1.67 PSF one year ago.
- We anticipate that for a desirable, economic powerhouse like Silicon Valley, the market will regain momentum after this brief pause albeit not at 2014-2015 levels.

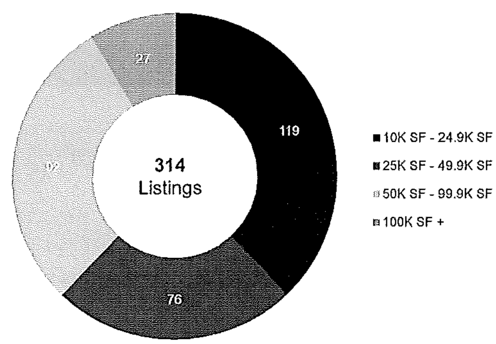
Average Asking Rate by Submarket (NNN)

NORTHERN CITIES COMMANDING HIGHEST RENTS



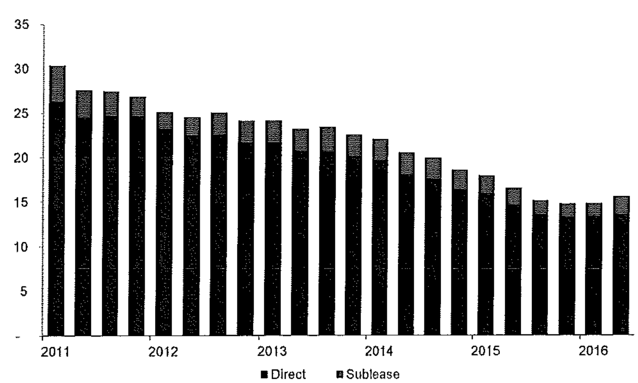
Availabilities by Size Segment

LACK OF SUPPLY FOR QUALITY LARGE BLOCK SPACE



Direct & Sublease Available Space

SUBLEASE SPACE INCREASES IN 2Q



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R&D Snapshot 2Q 2016

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONST (SF)	OVERALL AVERAGE ASKING RATE
Menlo Park	3,980,997	14,000	93,639	2.7%	69,581	87,177	0	$2.99
Palo Alto	10,324,695	67,926	98,508	1.6%	52,339	94,383	0	$3.91
Mountain View	14,420,880	186,178	428,665	4.3%	63,558	(60,519)	185,644	$3.79
Cupertino	4,738,801	0	34,747	0.7%	(28,125)	(34,747)	0	$4.06
Westside	2,286,126	0	91,598	4.0%	(9,791)	22,682	0	$2.29
Sunnyvale	22,538,458	243,352	1,675,031	8.5%	(307,681)	(740,951)	266,316	$2.53
Santa Clara	21,790,640	83,431	2,164,032	10.3%	167,396	(425,564)	500,000	$2.31
North San Jose	36,143,240	993,652	2,779,000	10.4%	(509,346)	(193,605)	0	$2.05
South San Jose	10,695,710	0	1,844,165	17.2%	(65,623)	146,991	150,000	$1.39
Milpitas	12,897,353	91,458	1,623,659	13.3%	(8,221)	(178,346)	0	$1.60
Fremont	21,056,479	233,594	2,330,749	12.2%	61,134	92,121	0	$1.30
Newark	3,092,521	61,109	226,760	9.3%	(42,405)	(31,530)	0	$1.96
Morgan Hill/Gilroy	3,544,528	0	203,772	5.7%	(32,915)	(22,778)	0	$0.97
TOTAL	167,510,428	1,974,700	13,594,325	9.3%	(590,099)	(1,244,686)	1,101,960	$1.98

Asking rents converted to NNN

Key Lease Transactions 2Q 2016

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
900 Arastradero Rd	140,000	Uber	Stanford Board of Trustees	Relocation	Palo Alto
7151 Gateway Blvd	111,926	Morpho Detection	KBS Real Estate	Renewal	Newark
48710 Kato Rd	95,962	Exar Corp.	Asus Computer	Leaseback	Fremont
1820-1840 McCarthy Blvd	83,912	Cordis Corp.	Rialto Capital Advisors	Renewal	Milpitas
1011 McCarthy Blvd	72,580	Aerohive Networks	CBRE Global Investors	Relocation	Milpitas

Key Investment Sale Transactions 2Q 2016 (check again once qtr closes)

PROPERTY	SF	BUYER	SELLER	SALE PRICE	SUBMARKET
NetApp Portfolio	595,130	Google, Inc.	NetApp	$250,000,000 / $420	Sunnyvale
Lam Research campus	416,448	Lam Research	North First SJ LP	$82,000,000 / $197	North San Jose
3625 Peterson Way	218,366	Boston Properties	Eaton Vance Management	$78,000,000 / $357	Santa Clara
5301 Patrick Henry Dr	117,500	Crown Realty & Devel.	Kinship Capital	$60,500,000 / $515	Santa Clara
1290 Terra Bella Ave	113,050	Kilroy Realty	Embarcadero Capital Partners	$55,415,000 / $490	Mountain View
350 Plumeria Dr, E.	142,700	Griffin Capital	KBS Realty Advisors	$44,000,000 / $308	North San Jose
Peery Park Portfolio	74,000	Irvine Company	Lane Partners	$40,000,000 / $540	Sunnyvale
825 Stewart Dr	75,350	GI Partners	Hines Development	$34,750,000 / $461	Sunnyvale

MARKETBEAT
R&D Snapshot 2Q 2016
Silicon Valley

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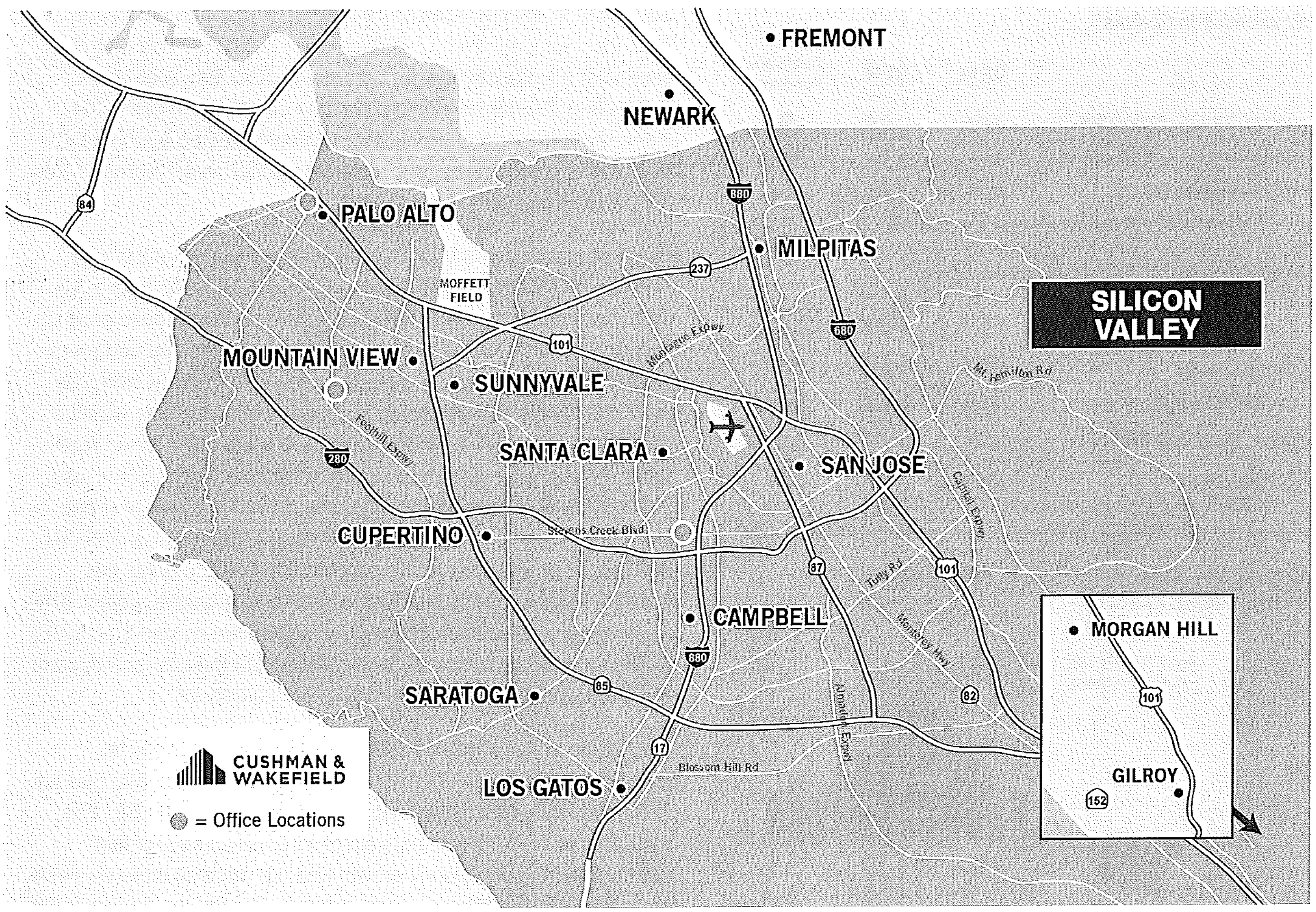
R&D Submarkets
Silicon Valley



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Julie Leiker
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MARKETBEAT

Silicon Valley

Industrial Q3 2016

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New Development Continues in the 3rd Qtr

Economics Indicators*

	Q3 15	Q3 16	12-Month Forecast
Santa Clara Co. Employment	965K	1.0M	▲
Santa Clara Co. Unemployment	4.7%	4.1%	▼
U.S. Unemployment	5.2%	4.9%	▬

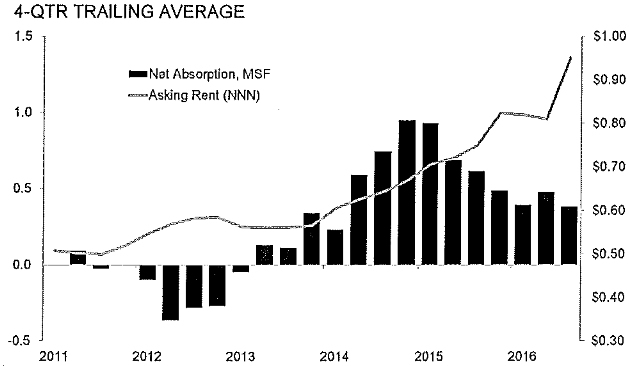
*Q3 16 data based on the average of July and August values.

Market Indicators (Overall, All Property Types)

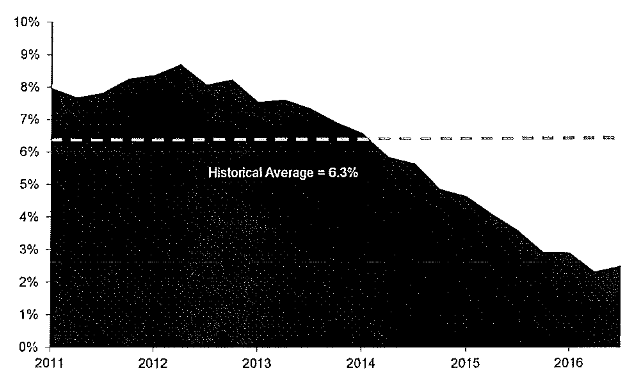
	Q3 15	Q3 16	12-Month Forecast
Overall Vacancy	3.6%	2.5%	▼
Net Absorption SF	542K	147K	▲
Under Construction SF	624K	563K	▲
Average Asking Rent *	$0.75	$0.95	▲

* Rental rates reflect NNN asking $psf/month

Overall Net Absorption / Overall Asking Rent (NNN)
4-QTR TRAILING AVERAGE



Overall Vacancy



Job growth in the Bay Area has picked up in the third quarter of 2016, increasing by over 15,000 job since mid-year. This metric remains at a historical high for both the Greater Bay Area and Santa Clara County specifically. Despite employment gains, the unemployment rate for Santa Clara County ticked up a modest 40 basis points (BPS) across the same time period to 4.1% from 3.7%, well below the national figure of 4.9%.

Industrial vacancy in Silicon Valley increased slightly in the third quarter of 2016. It currently stands at a scant 2.5%, up from 2.3% just three months ago and 3.6% one year ago. Warehouse product closed the quarter with a vacancy of 2.6% and manufacturing was just 2.4%. One year ago, this metric stood at 4.7% for warehouse and 2.9% for the manufacturing sector. Of particular note was the warehouse vacancy rate in Milpitas which fell to 0.0%, down from 9.5% one year ago while that submarket's industrial sector is also historically low coming in at 0.9%, down from 7.6% one year ago. The last time vacancy was at these levels in Milpitas was in 2000-2001. Interestingly speculative construction is set to begin this month in Milpitas on the McCarthy Creekside industrial project. This 44-acre project had been planned for one million square feet (MSF) of office but the developer recently redesigned the site for industrial and will now break ground on phase I of 450,000 SF.

The Silicon Valley industrial market recorded an increase in occupancy growth of +147,000 square feet (SF) in the third quarter. This brings the year-to-date net absorption to +752,000 SF. This compares to the 2015 annual gain of +1.9 million square feet (MSF). Affecting occupancy growth was the fact that there was little left in the way of available quality product. Though the current 2.5% vacancy rate translates into nearly 2.8 MSF of available space, more than 75% of this product is 25 years or older and much of it suffers from varying degrees of functional obsolescence. This is impacting growth levels as well as deal activity.

Deal activity decreased in the third quarter of 2016 with 1.9 MSF of lease transactions compared to 2.8 MSF completed in the second quarter. Gross absorption for 2016 year-to-date is 6.6 MSF, on pace to mirror the 2015 level of 9.3 MSF. The largest transaction in the third quarter was Apple's 269,000 SF lease of a newly completed warehouse in Fremont. SAS Automotive's pre-lease of 143,000 SF in Newark was another key transaction. Of particular note is the fact that SAS will manufacture cockpits for Tesla Motors. Another significant deal was Javelin Logistics Corp's lease in Newark (97,000 SF).

MARKETBEAT
Silicon Valley
Industrial Q3 2016

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Even before completion, much of the recent speculative construction has been leased. There is one project now under construction totaling 563,000 SF - Trammell Crow's three building project in North San Jose underway. Starting construction in the fourth quarter is the aforementioned McCarthy Creekside project in Milpitas (850,000 SF in five buildings). With the lack of quality space on the market along with deep tenant demand, we don't expect these new projects to be vacant for long. In Silicon Valley we are seeing a perfect storm of spiking demand from both local and regional users as well as national and global e-commerce players. Today's tenants are willing to pay for modern Class A warehouse facilities. The problem is that these properties are simply not available. Occupancy growth will be driven by speculative development in 2016 and 2017. Activity will pick up as more projects enter the construction pipeline.

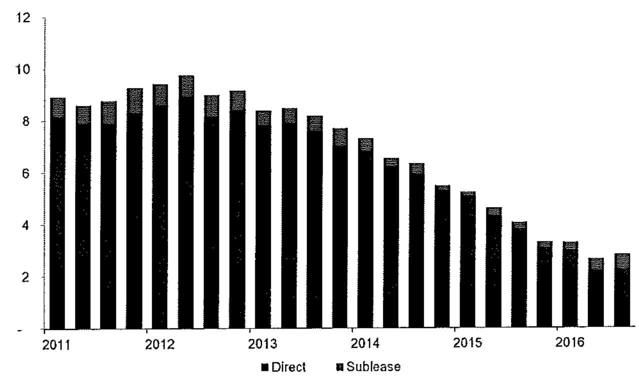
WITH VACANCY AT THE 2.5% MARK, THE LIMITED AVAILABILITY OF MODERN SPACE HAS BEEN A FACTOR INHIBITING GROWTH.

The average asking rent for industrial space in Silicon Valley is now $0.95 per square foot (PSF) on a triple net basis. This metric has increased 26.7% over the past year from $0.75 PSF. The average asking rent for warehouse space is now $0.74 PSF, up 23.3% from $0.60 PSF one year ago. As aggressive as this increase in pricing has been, three items will only accelerate that pace - declining vacancy, increasing demand levels and new high quality speculative construction. But deal activity and net absorption tallies are likely to be paltry until the development pipeline begins to provide some much needed supply.

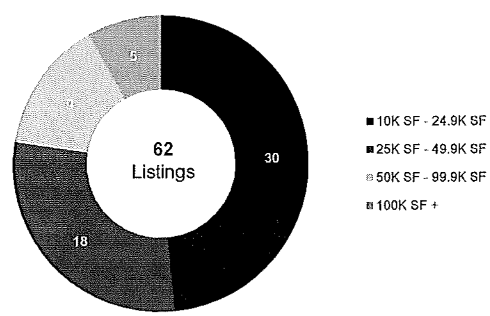
Outlook

- Vacancy is a scant 2.5% in Q3 down from 3.6% one year ago. We foresee that vacancy will continue to decrease unless more development projects are forthcoming.
- One project totaling 563,000 SF is currently under construction and another project is scheduled to start soon. With the lack of quality space and the deep tenant demand we don't expect these new projects to be vacant for long.
- The current average asking rate of $0.95 PSF has increased nearly 26% over the past year. Even with the lack of quality space available we anticipate that rents will continue to climb.

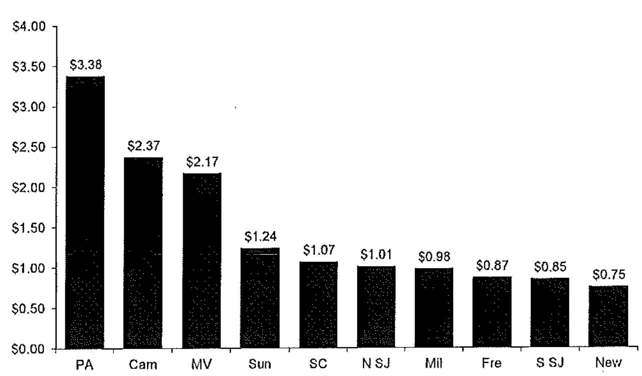
Direct & Sublease Available Space
SUBLEASE SPACE INCREASES IN Q3



Availabilities by Size Segment
LARGE CONTIGUOUS SPACE A SCARCITY



Average Asking Rate by Submarket (NNN)
STEADY RENT GROWTH ACROS THE 880 CORRIDOR



MARKETBEAT

Silicon Valley

Industrial Q3 2016

CUSHMAN & WAKEFIELD

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONST (SF)	OVERALL AVERAGE ASKING (NNN)*
Palo Alto	642,295	0	12,962	2.0%	-1,200	4,994	0	$3.38
Mountain View	2,579,224	6,000	82,073	3.4%	-23,279	-38,143	0	$2.17
101 Technology	3,221,519	6,000	95,035	3.1%	-24,479	-33,149	0	$2.32
Campbell	1,567,921	0	55,828	3.6%	-24,141	47,299	0	$2.37
Sunnyvale	5,779,655	32,590	92,200	2.2%	-11,222	-113,555	0	$1.24
Santa Clara	15,331,716	70,843	198,340	1.8%	-8,454	-154,000	0	$1.07
North San Jose	18,708,989	14,263	419,328	2.3%	-105,086	-56,759	563,760	$1.01
South San Jose	23,872,712	65,615	802,672	3.6%	-2,203	55,602		$0.85
Central Silicon Valley	65,260,993	183,311	1,568,368	2.7%	-151,106	-221,413	563,760	$1.00
Morgan Hill/Gilroy	7,234,231	58,579	250,757	4.3%	-71,233	-20,802	0	$0.47
Milpitas	7,929,655	0	25,666	0.3%	-131,406	431,927	0	$0.98
Fremont	20,447,470	216,758	272,179	2.4%	334,228	444,103		$0.87
Newark	8,680,058	120,592	16,309	1.6%	191,051	152,198		$0.75
South I-880 Corridor	37,057,183	337,350	314,154	1.8%	393,873	1,028,228	0	$0.85
TOTAL	112,773,926	585,240	2,228,314	2.5%	147,055	752,864	563,760	$0.95

*Industrial asking rates converted to NNN

Key Lease Transactions Q3 2016

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
41100 Boyce Rd, Bldg 2	269,270	Apple, Inc.	Prologis	Expansion	Fremont
39888 Eureka Dr	142,388	SAS Automotive	Overton Moore Properties	Relocation	Newark
2070 Seventh St, S.	120,000	Golden State T's	Chaboya Ranch	Renewal	San Jose
7025 Central Ave	97,034	Javelin Logistics Corp.	Gateway Cleveland Inc.	Relocation	Newark
746 Milpitas Blvd, S.	72,576	Andrews Air Corp.	Prologis	Renewal	Milpitas
2070 Seventh St, S.	54,000	Splash Events	Chaboya Ranch	Renewal	San Jose

Key Sales Transactions Q3 2016

PROPERTY	SF	BUYER	SELLER	PRICE	SUBMARKET
48490 Milmont Dr	173,296	Milmont Industrial, LLC	CSHV Fremont, LLC	$29,600,000 / $171	Fremont
Baypointe Centre	193,648	JCC Central Avenue, LLC	Prologis	$22,350,000 / $115	Newark
Hannover Warehouse portfolio	163,313	TA Realty Associates	Conti Warehouse of Calif.	$22,155,000 / $135	Fremont
1250 Elko Dr	90,544	LBA Realty	Eugene Rocky Trust	$16,750,000 / $185	Sunnyvale

MARKETBEAT
Silicon Valley
Industrial Q3 2016

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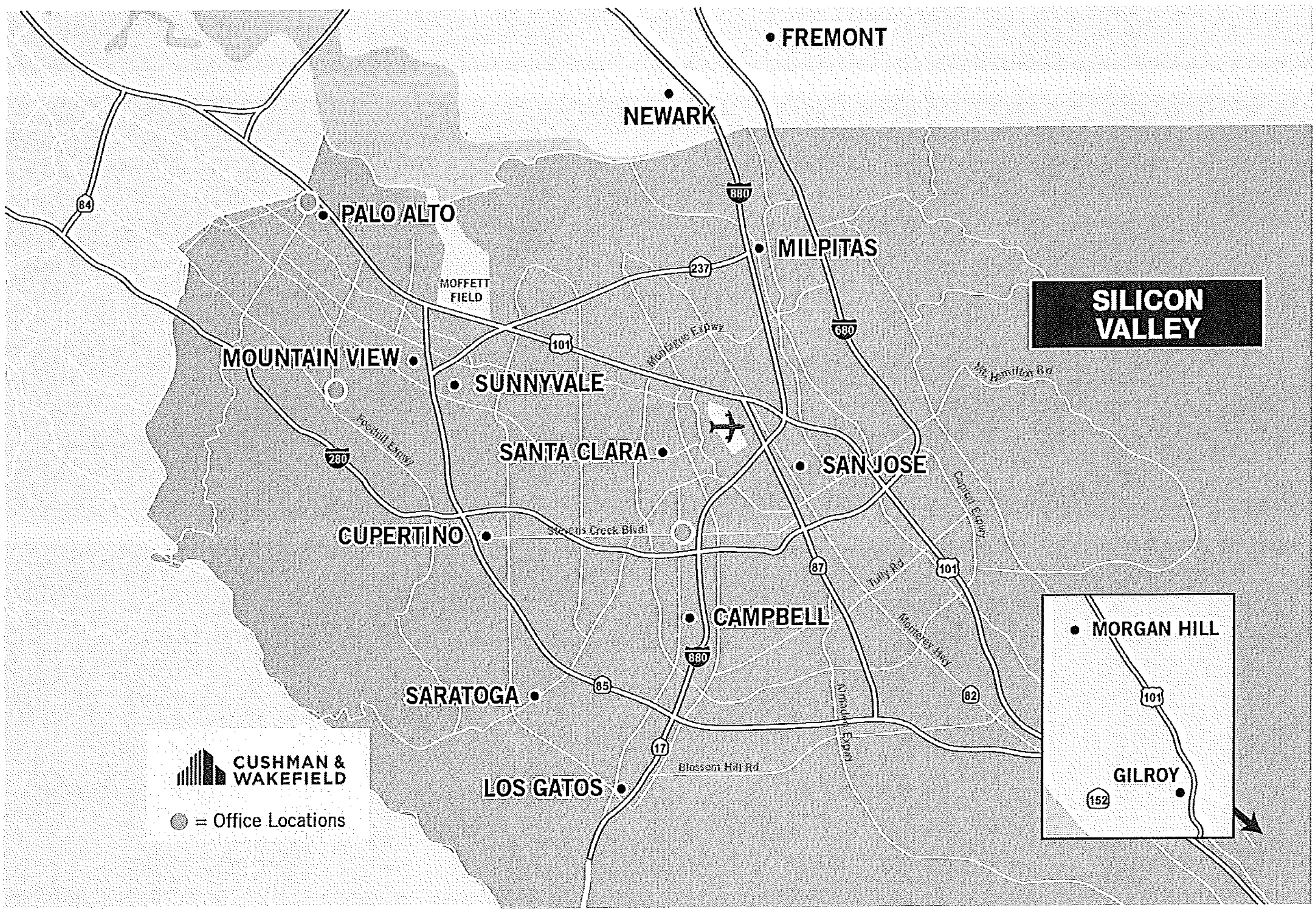
Industrial Submarkets
Silicon Valley



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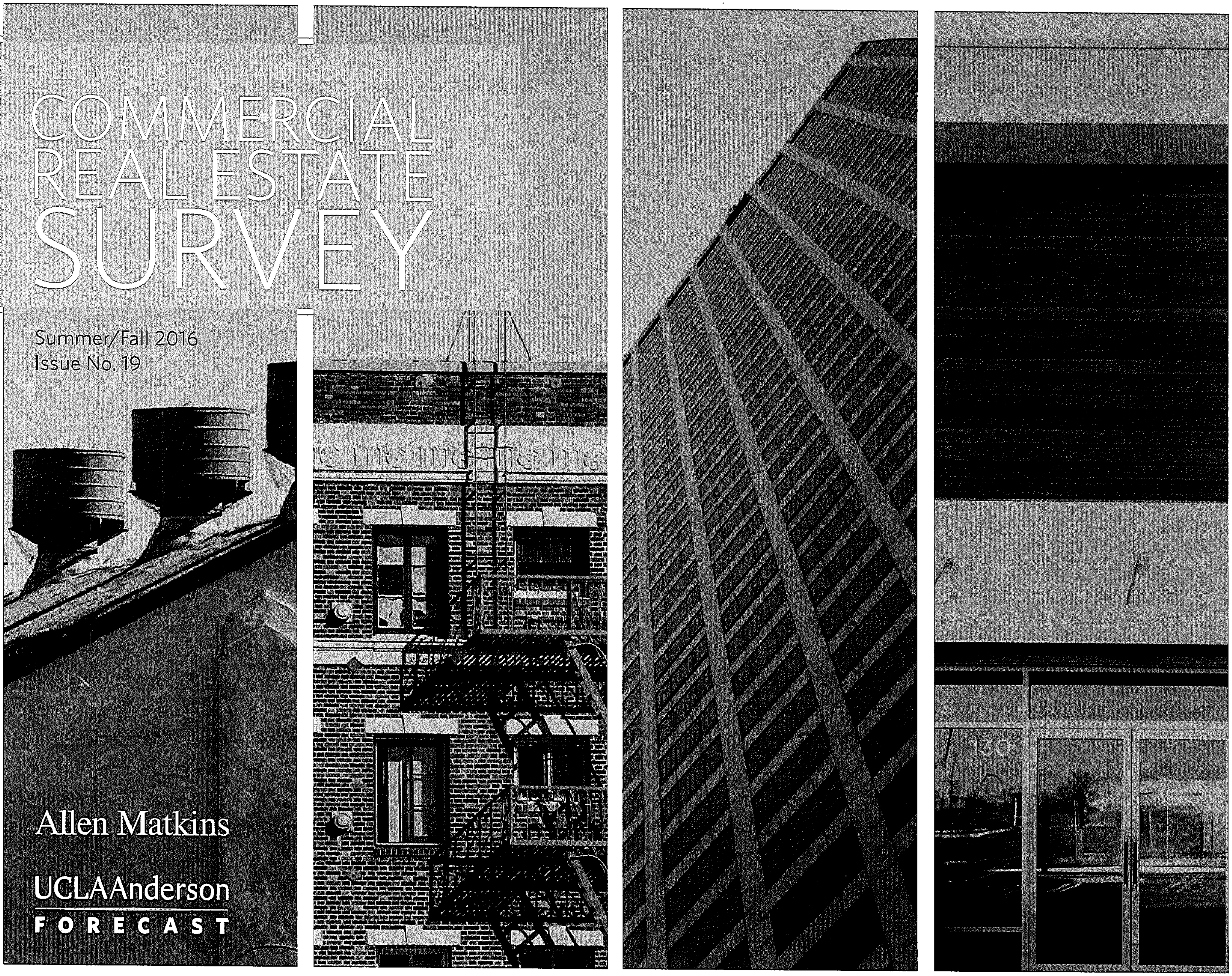
ALLEN MATKINS | UCLA ANDERSON FORECAST

COMMERCIAL REAL ESTATE SURVEY

Summer/Fall 2016
Issue No. 19



Allen Matkins

UCLA Anderson
FORECAST

Welcome to the latest edition of the Allen Matkins/UCLA Anderson Forecast California Commercial Real Estate Survey and Index

Allen Matkins and UCLA Anderson Forecast have partnered to create a Commercial Real Estate Survey and Index to better predict future California commercial rental and vacancy rates. This tool surveys supply-side participants – commercial developers and financiers of commercial development – for insights into their markets. The Survey and the resulting Index provide a measure of the commercial real estate supply-side participants' view of current and future conditions. Since participants make investment actions based upon these views, it provides a leading indicator of changing supply conditions.

Through an analysis of the Index and the incorporation of the Index into other economic forecasting models, the Survey is designed to provide more accurate information on future office, industrial, retail and multi-family space in major California geographical markets. This nineteenth survey covers the major Southern California and Bay Area markets for office, industrial, retail and multi-family space.

The Allen Matkins and UCLA Anderson Forecast Partnership

At Allen Matkins, the top-ranked California-based law firm servicing the real estate industry according to *Chambers & Partners USA*, we have been fortunate to work with and assist leading institutions, developers and lenders in the real estate industry. We have prospered, along with our clients, in this vital sector of the California economy. We sponsor this Survey to provide value to the industry. We have partnered with UCLA Anderson Forecast, the leading independent economic forecast of both the U.S. and California economies for over 65 years, and have tapped the knowledge of the leading developers and financiers of real estate development in California to provide what we believe is the best, clear-sighted forecast of the California commercial real estate industry.

We hope you will find this Survey and Index to be helpful.

John M. Tipton

John M. Tipton
Partner, Real Estate Department
Allen Matkins Leck Gamble Mallory & Natsis, LLP

California commercial real estate continues its boom, but as U.S. economic growth slows, the obvious question is will the boom in CRE construction continue? Commercial real estate fundamentals improve with increases in employment and income and a slowing of the growth of these is potentially of concern. The consensus forecast for California is that both jobs and income will continue to outperform the U.S., however, absorption of new commercial real estate is both a demand and a supply phenomenon. The Allen Matkins/UCLA Anderson Forecast Survey was designed not only to take the pulse of the market, but also to anticipate peaks and troughs. The June 2016 survey, reported here, provides the first indication of a topping out in office and retail markets. In the two other markets surveyed, industrial and multi-family housing, the optimism of the past few years continued through the June survey period.

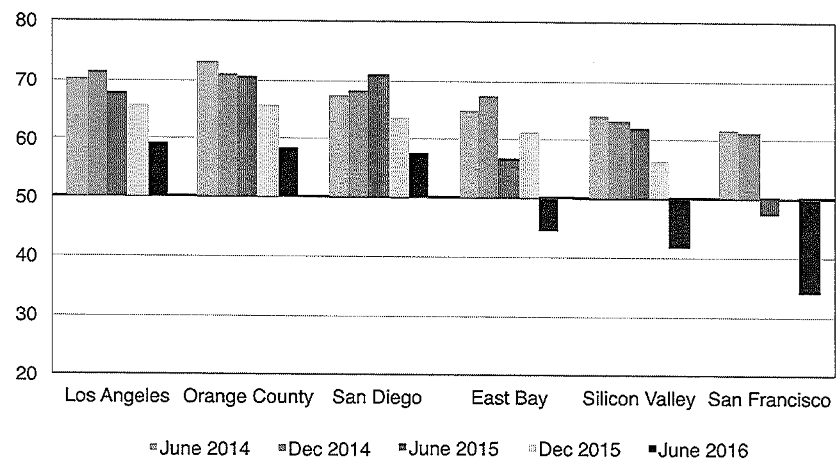
The Allen Matkins/UCLA Anderson Forecast Survey project compiles the views of commercial real estate developers with respect to markets three years hence. The three-year time horizon was chosen to approximate the average time a new commercial project requires for completion (though projects with significant environmental issues often take much longer). The panelists' views on vacancy and rental rates are key ingredients to their own business plans for new projects, and as such, the Survey provides insights into new, not yet on the radar, building projects and it is a leading indicator of future commercial construction. For example, if a developer were optimistic about economic conditions in the industrial market of Silicon Valley in 2019, then initial work for a new project with an expected ready for occupancy date of 2019--a business plan, preliminary architecture, and a search for financial backing--would have to begin no later than 2016. Although optimism does not always translate into new construction projects, this sentiment is a prerequisite for it.

OFFICE SPACE MARKETS

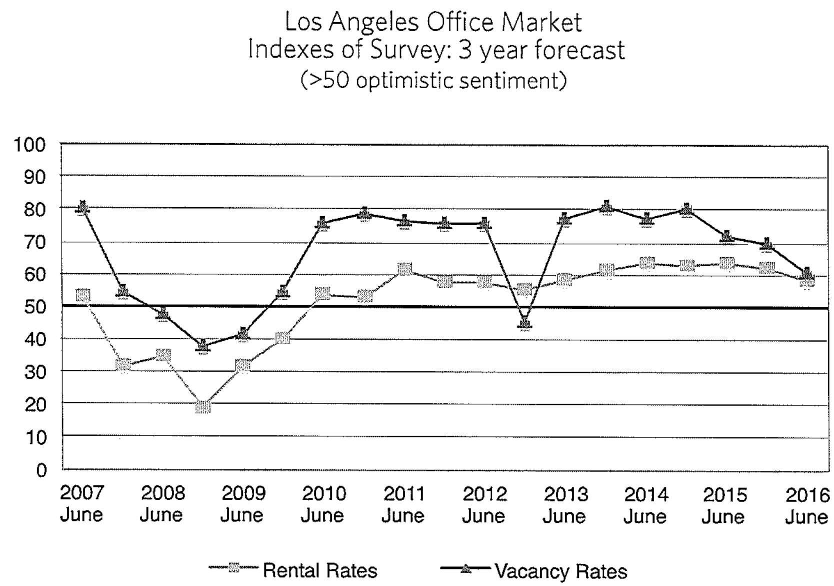
From the second half of 2009 to the middle of 2016 the panels for each of the six markets surveyed responded that vacancy rates would be declining in the proximate three years. In the San Francisco and Silicon Valley markets the panels responded that rental rates would increase faster than inflation as well. In the East Bay and in Southern California the panels came to the same conclusion in early 2010. The official end of the recession, July 2009, was not declared until September 20, 2010, as there were continued reports of a declining economy in the fall of 2009 and into early 2010. Thus the National Bureau of Economic Research (NBER) hesitated in April of that year to state that the 2008/2009 recession had ended.[1] But these official proclamations for the commercial real estate world were predicted by the forward looking Allen Matkins/UCLA Anderson Forecast index of developer sentiment.

The sole exceptions to the post 2009 optimism about the years following each survey were in the fall of 2012 when there was an impending "fiscal cliff"[2] and in the spring of 2013 when there was a very real threat of an extended government shutdown.[3] Although the first was avoided and the second was short-lived, they both caused our panels to be pessimistic, with regard to vacancy rates; a sensible shading of the business plans to a more conservative stance in the face of increased uncertainty. However, overall sentiment, as shown in Chart 1 for 2014 to 2016, remained positive. Moreover, this sentiment turned into action as developers began new projects and cranes began to rise above California cities. Looking further back, the only time developer sentiment was negative during the life of the survey (2007 to 2016) was in 2007, anticipating the downturn in office space demand associated with the impending (but not yet declared) recession of 2008.

Office Space Developer Sentiment
(>50 optimistic sentiment)



1. http://www.nber.org/cycles/recessions_faq.html
2. See http://www.nytimes.com/2012/11/16/us/politics/the-fiscal-cliff-explained.html?_r=0 for a discussion of the "fiscal cliff."
3. See http://www.nytimes.com/2013/10/01/us/politics/congress-shutdown-debate.html for a discussion of the government shutdown of 2013.


Los Angeles Office Market
Indexes of Survey: 3 year forecast
(>50 optimistic sentiment)
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2007 June
2008 June
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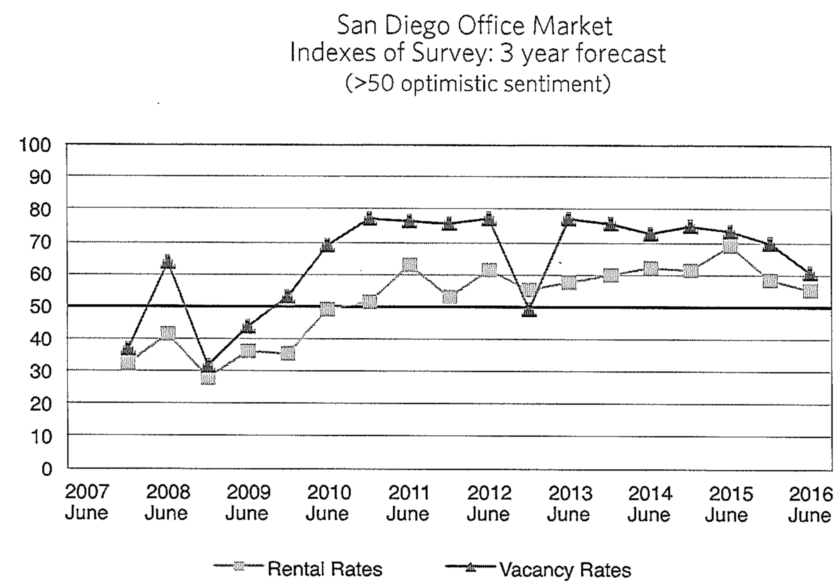
2016 June
Rental Rates
Vacancy Rates


San Diego Office Market
Indexes of Survey: 3 year forecast
(>50 optimistic sentiment)
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2007 June
2008 June
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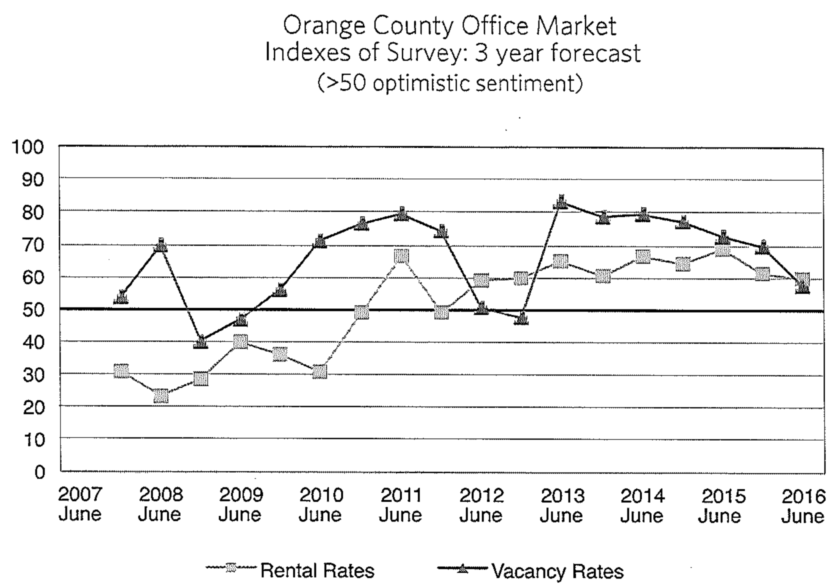
Rental Rates
Vacancy Rates


Orange County Office Market
Indexes of Survey: 3 year forecast
(>50 optimistic sentiment)
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2008 June
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2010 June
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2014 June
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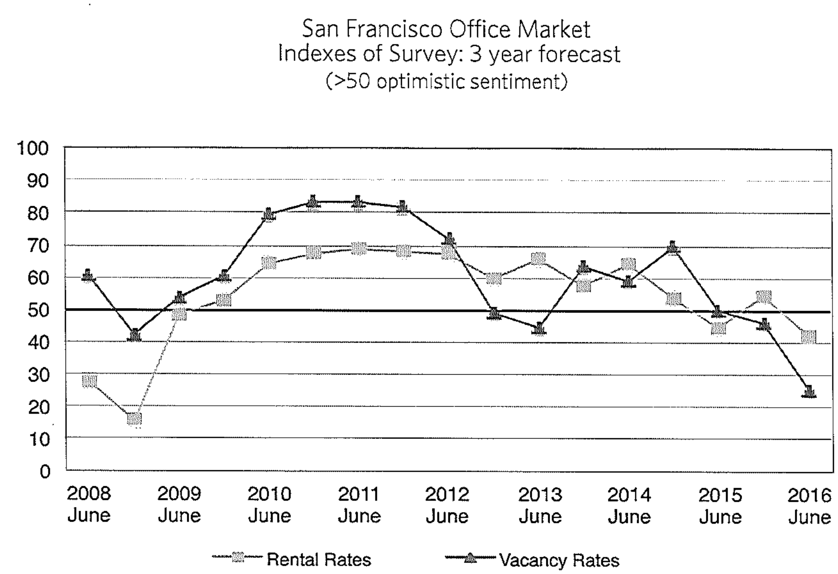
Rental Rates
Vacancy Rates


San Francisco Office Market
Indexes of Survey: 3 year forecast
(>50 optimistic sentiment)
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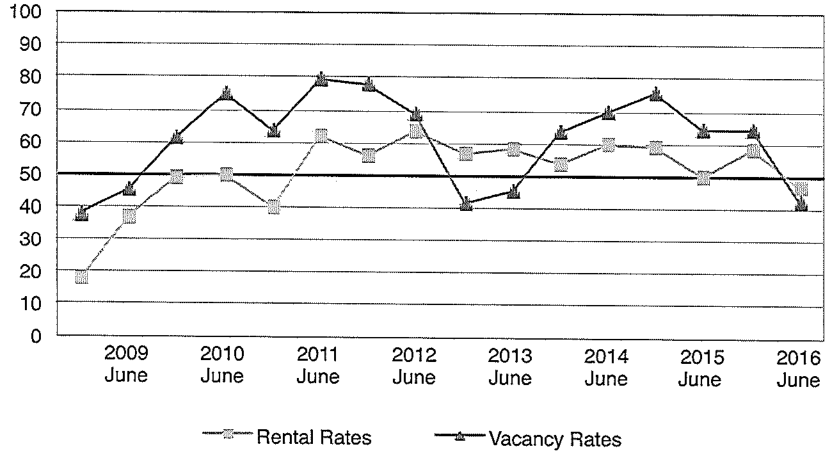
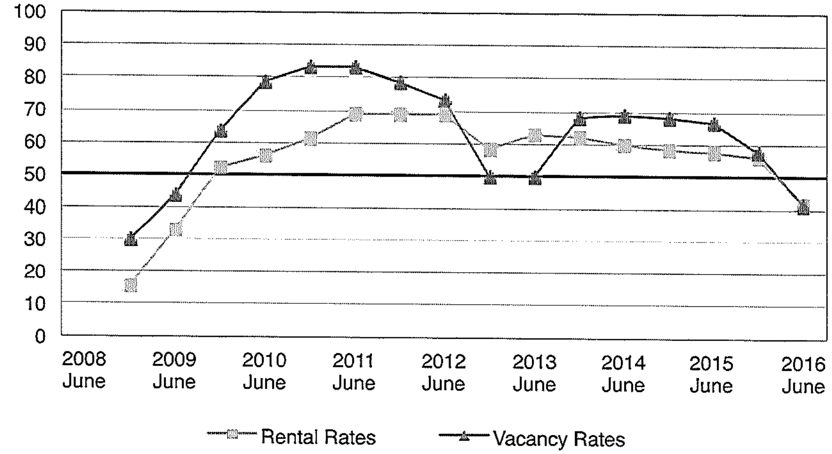
2014 June
2015 June
2016 June
Rental Rates
Vacancy Rates

East Bay Office Market
Indexes of Survey: 3 year forecast
(<50 market weakening, >50 market tightening)



Silicon Valley Office Market
Indexes of Survey: 3 year forecast
(<50 market weakening, >50 market tightening)



The latest survey presages a new topping out of the market for office space. For each of the six markets surveyed, the trend in developer sentiment since the peak in the middle of 2014 has been downward. This occurs as developers become either more pessimistic about real rental rate growth, about vacancy rates or both. In this case it is both.

For the Southern California panels, sentiment slowly diminishes to levels between 50 and 60. A level of 50 indicates the panel believes markets will be no better, but no worse than today three years hence. Thus, one can say that the panels are still optimistic, but clearly that is abating. Nevertheless, the interest of the panelists in building new office space has held steady and the panelists' expectation is for more building to occur in the 2016/2017 time frame than in the past 12 months.

In the Bay Area the story is a bit different. The downward trend has moved across the 50 indicator and the San Francisco, Silicon Valley and East Bay panels all think that by 2019 real rental rates and vacancy rates will be worse than today. Panelists were most pessimistic about the San Francisco market in spite of Propositions M and C, which limit both new building and the conversion of existing B and C office space in the city.[4] While 41 percent of the panelists stated that they would begin a new project in the next 12 months, there has clearly been a shift to fewer projects.

To put this in perspective, the survey does not say construction of office space is imploding. Rather it says that one ought not expect it to be more robust in 2019 than it is today. When developers become more pessimistic, marginal projects cease to pencil out and are therefore not funded. That results in fewer new projects. The index is a leading indicator of that dynamic.

4. *http://sf-planning.org/office-development-annual-limitation-program*

Office | Multi-Family | Industrial | Retail

>50 INDICATES POSITIVE OUTLOOK

Arrow denotes change from last survey

Los Angeles

▼	59.46	Office
▲	62.93	Multi-Family
▼	59.12	Industrial
▼	54.26	Retail

Inland Empire

▼	59.33	Industrial

Orange County

▼	58.73	Office
▲	60.58	Multi-Family
▼	60.45	Industrial
▼	51.15	Retail

San Diego

▼	57.96	Office
▲	59.93	Multi-Family
▼	60.96	Industrial
▼	53.25	Retail

East Bay

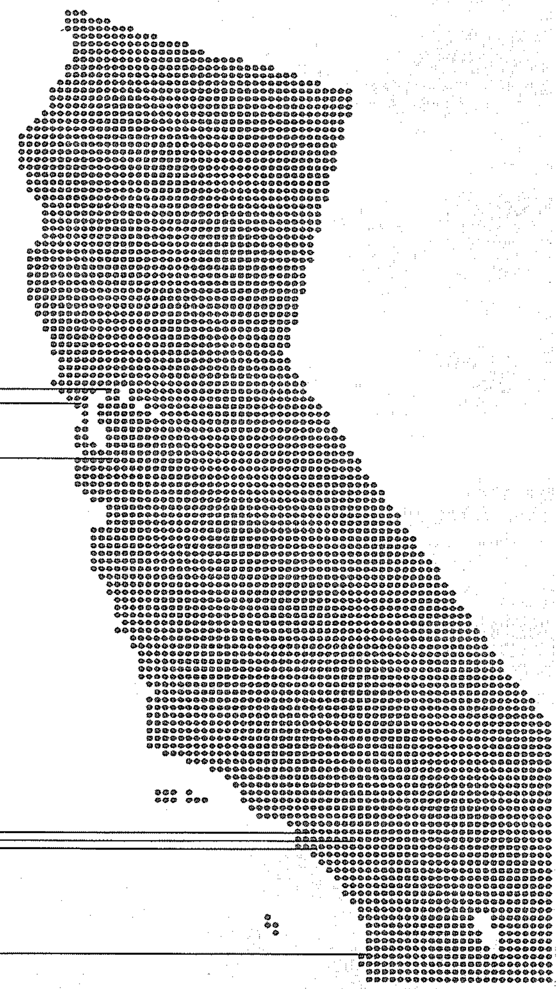
▼	44.47	Office
▼	56.52	Multi-Family
▼	54.44	Industrial
▼	53.33	Retail

San Francisco

▼	33.97	Office
▼	53.33	Multi-Family
▼	57.78	Industrial
▼	52.50	Retail

Silicon Valley

▼	41.67	Office
▼	56.11	Multi-Family
▼	59.33	Industrial
■	52.00	Retail



* Index weights have been updated

MULTI-FAMILY MARKET

Multi-Family Residential Markets

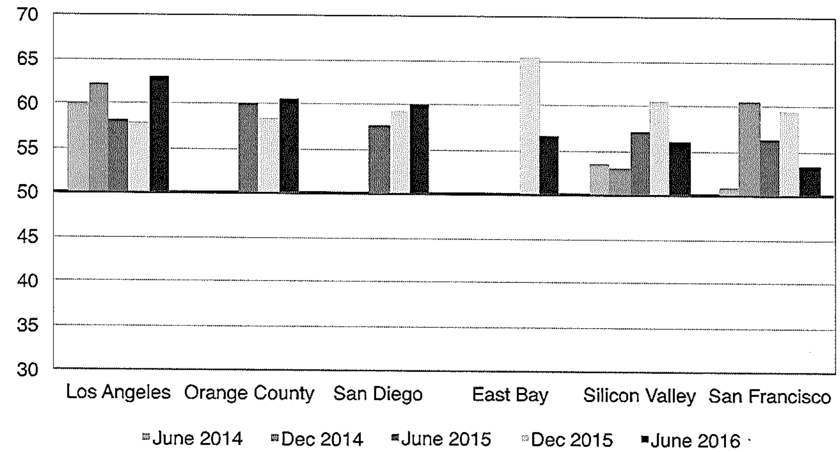
Multi-family developer optimism has remained strong and consistent over the four years the survey has been conducted in this industry sector. The demand for multi-family housing tends to follow job growth in the more densely populated regions of California. Hence, one would expect the Silicon Valley, San Diego and San Francisco markets to tighten over the coming three years relative to Orange County. One market that is different is Los Angeles. Our Los Angeles panel expects the vacancy rate to increase over the next three years even as real rental rates continue to rise. The building of new apartments in Los Angeles is therefore expected to ease some of the shortfall in housing units, even while higher rental rates permit lessees to tolerate somewhat higher vacancies.

The East Bay market was added to the survey coverage in December. The composite index for this market is surprisingly strong given the weaker job growth in the East Bay. However, job growth in San Francisco and Silicon Valley, growth that is outstripping available housing, drives East Bay housing demand as well.

The panels continue to echo an observation made recently by the Legislative Analysts Office[5] that California housing is seriously underbuilt and that household formation is happening faster than new building. This positive view of the future of multi-family housing market fundamentals for investors is expected to continue as employment in California is forecast to grow at a 1.8 percent rate through 2017. Such growth will be skewed towards the six major coastal communities. Increased employment translates directly into new household formation and additional demands for housing.

The story of the current economic expansion has been a shift in tastes from single-family housing with concommitant commuting into the employment centers to a balanced mix between single-family and multi-family housing. Though overall residential construction has remained at depressed levels in the State, multi-family construction has rebounded sharply. Two years ago the number of multi-family permits issued in the state per month rose to pre-recession levels. The forecast for higher rents and continued low vacancy rates should induce a further increase in multi-family construction. Consistent with this, the UCLA Anderson Forecast indicators for multi-family construction is for a 25-year high to be reached during the next three years. Unlike office space, there is no evidence of a cooling in the construction of multi-family housing.

Multi-Family Housing Developer Sentiment Index For 2018
(>50 optimistic sentiment)



5. "California's High Housing Costs: Causes and Consequences," March 2015. http://lao.ca.gov

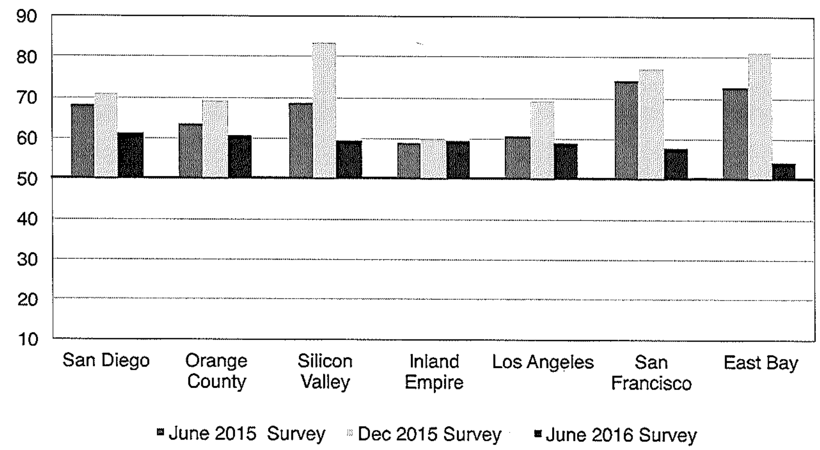
INDUSTRIAL MARKET

Industrial Space Markets

Industrial Space is comprised of two distinct markets: manufacturing and warehousing. Although each geography surveyed has a mixture of both, Silicon Valley, Orange County and San Diego County can be broadly characterized as being more heavily manufacturing, Los Angeles and the East Bay a mix of the two, and San Francisco and the Inland Empire by warehousing. The basic underlying economic forces driving the demand for industrial space in California are manufacturing, the export of goods to Asia and Mexico, U.S. importation of consumer goods from the manufacturing centers of Asia transiting through California's ports, and of increasing importance, e-commerce.

The current Survey of industrial space developers indicates little change in sentiment compared to last year. Industrial markets, particularly the warehouse segment, remain on fire. The latest retail sales numbers are consistent with our panels' views. In short, retail's bane is industrial's gain. This optimism, expressed in each of the markets surveyed, continues to be manifested in new building. With extremely low vacancy rates at present and an optimistic view by developers the building boom should continue through at least 2019.

Industrial Space Developer Sentiment Index For 2018
(>50 optimistic)



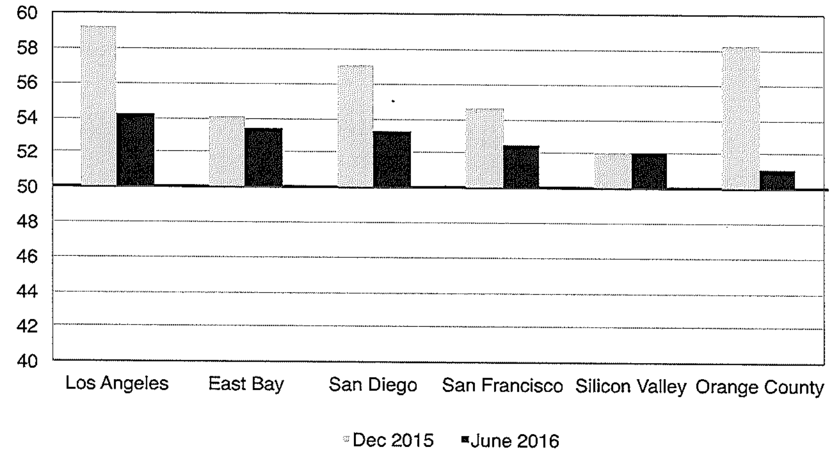
RETAIL SPACE MARKETS

As of last December the Retail Market Developer Sentiment Survey included all six major California markets. Although there are few observations, some reflections on the data can be made. Part of the difficulty associated with inferences in the retail sector is the fact that retail is undergoing a profound change from distribution conduits to experience-shopping venues.

Though there are no reference points from which to judge these early survey results, in each of the six markets polled sentiment with respect to retail space was positive. Nevertheless, there has been a falloff between the December and June surveys. That sentiment is weakening is an indication that at least some of the panel is now taking a more pessimistic view of retail markets going forward. Though new construction of retail space to support the booming multi-family market and renovations of existing high quality malls to change them from existing brick-and-mortar stores to experience venues appears to be driving retail, there are significant headwinds as consumers shift to online purchases.

However, in Southern California about half of the panelists, and in the Bay Area nearly two-thirds of the panelists, stated that they were planning new retail construction in the coming 12 months and half stated that they had begun at least one new project in the past 12 months. This suggests although the retail space maybe struggling in general there remain significant opportunities, at least in the realm of retail space construction. The trends pointed out in Dr. Shulman's article[6] and reflected in the latest UCLA Anderson Forecast[7] suggest this is a short-lived transitional boost to construction and future survey results ought to predict a topping out in retail construction.

Retail Space Developer Sentiment for 2018
(>50 = optimistic)

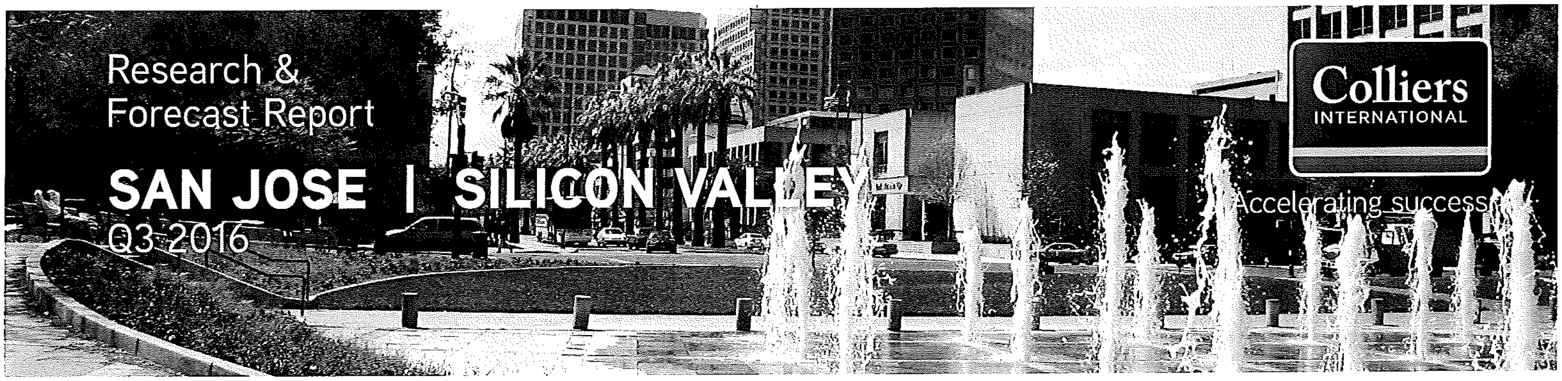


A Broad-Based Recovery

The Allen Matkins/UCLA Anderson Forecast Survey was designed in 2006 as a vehicle for improving forecasts of the evolution of commercial real estate markets. Although the Survey still remains quite new, there is now enough data for inferences with regard to turning points in office and industrial spaces and interpretations of all four types of commercial real estate of the snapshots provided by each new Survey. Importantly, the Survey indices are providing an early warning of significant changes in non-residential construction activity.

The optimism about 2019 in the Surveys with respect to multi-family housing and industrial space, broad based across all markets, is an important indicator of both the probability of new additions to stock being started over the next three years and of opportunities for new investment. This optimism, supported by job and income growth on the demand side and a lack of sufficient building on the supply side reflects what we expect, a continuation of the growth of these types of non-residential construction at or above previous peak levels. The less optimistic and pessimistic signals in office space and retail markets, while indicators of topping out, do not spell doom and gloom for the markets per-se. Absent a recession, the pull back in office and retail construction ought not correspond to a collapse in values. The risks to this outlook are contagion in financial from the nascent re-valuation of tech start-up companies and a downturn in consumer attitudes engendered by an increasingly volatile world. Nevertheless the UCLA Anderson Forecast sees the most likely outlook for the economy, and therefore for commercial real estate to be consistent with the developer sentiment reported herein.

6. *David Shulman, "Letting the Air out of the Commercial Real Estate Balloon," Ziman Economic Letters, (forthcoming) 2016.*
7. *UCLA Anderson Forecast, June, 2016.*



Steady Demand

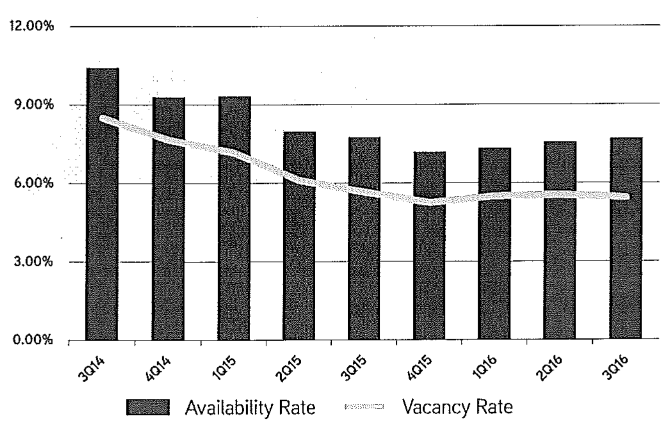
- Leasing activity topped out at 5.23 million square feet during the third quarter of 2016
- Total available space has increased 1.6% year-over-year for all product types combined
- The Silicon Valley has measured an occupancy gain to the tune of 1.8 million square feet year to date
- 4.7 million square feet of improved space came onto the market in Q3

The third quarter of the year came to a close and Silicon Valley's economy continues to thrive. With job reports still topping the charts, The Silicon Valley has added more than 26,000 jobs since the beginning of 2016, bringing the unemployment rate to 4.1%. During the third quarter Silicon Valley start-ups raked in more than $4.6 billion from VC investment across 264 deals, software again claiming the number one spot with $1.7 billion invested in 126 deals according to data from PricewaterhouseCoopers.

Measuring stable leasing and user activity, gross absorption for all product types in the Silicon Valley tallied in at 5.23 million square feet. Measuring a 2.9% decrease in activity quarter over quarter, this is now the fourth consecutive quarter that an overall decrease has been measured for all product types combined. Despite the decrease in total user activity, the Silicon Valley measured an increase in occupancy, to the tune of 1.53 million square feet.

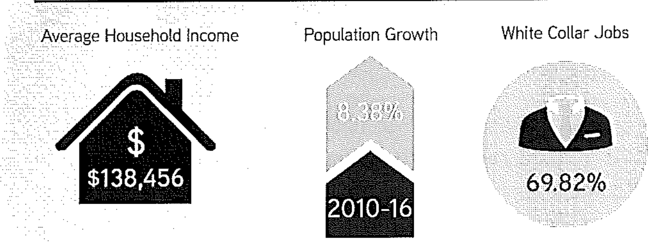
Vacancy Vs. Availability Rates

Silicon Valley | All Products



Overall availability increased 13 basis points to 7.7% during the second quarter, while vacancy decreased 10 basis points to 5.4%

Market Indicators - Santa Clara County



Market Trends

Relative to prior quarter	Q3 2016	Q4 2016*
Vacancy	↓	↓
Net Absorption	↓	↑
Construction	↑	↑
Rental Rate	↔	↓

*Projected

Summary Statistics

Q3 2016 Silicon Valley All Products	Previous Quarter	Current Quarter
Overall Vacancy Rate	5.55%	5.45%
Net Absorption	1,537,624	494,423
Construction Completed	2,237,420	405,694
Under Construction	9,262,540	9,932,212
Office Asking Rents*	$4.14 FS	$4.08 FS
R&D Asking Rents*	$1.91 NNN	$1.93 NNN
Industrial Asking Rents*	$1.15 NNN	$1.09 NNN
Warehouse Asking Rents*	$0.84 NNN	$0.89 NNN

**Asking Rents Reported Monthly*

Economic Indicators	Previous Quarter	Current Quarter
Total VC Funding	$8.3 Billion	$4.6 Billion
Total Number of Deals	321	264
Unemployment Rate	3.3%	4.1%

Office

- Leasing activity measured 2.3 million square feet during the third quarter of 2016.
- The Silicon Valley's office market recorded its seventeenth consecutive occupancy gain.
- Total vacant space has increased 12.6% year-over-year to an overall vacancy rate of 7.0%.

The third quarter gained some momentum in the Silicon Valley's office sector. Activity was strong during the quarter, measuring 2.3 million square feet of gross absorption. This amount of activity represents a 90.6% increase from the prior quarter's tally of 1.2 million square feet of new user activity.

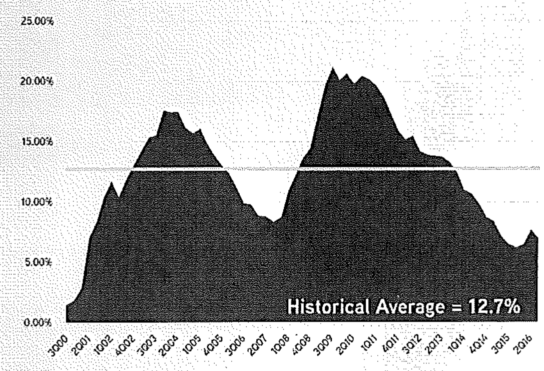
The office market measured an occupancy gain of 610,155 square feet during the third quarter of 2016, bringing the year to date tally to 1.1 million square feet of positive occupancy gain. This is the seventeenth straight quarter that the office market has recorded positive net absorption, bringing the total occupancy increase measured during this seventeen quarter period to 10.9 million square feet.

Total available space in the Silicon Valley office market measured 7.9 million square feet at the close of the third quarter. This amount of space translates to an overall availability rate of 9.6%, up 74 basis points from the same period one year earlier. The percentage of sublease space vs. overall office availability sits at over twenty percent at 22.2%. The amount of sublease on the market totals 1.7 million square feet and is up nearly 80% from the 979,664 square feet that was available during the third quarter of 2015.

Currently more than 9.0 million square feet of office space is under construction, with total potential development reaching more than an astounding 60 million square feet in the form of proposed developments. The total square feet of speculative office space currently under construction or shell complete tops out at 4.2 million square feet. Only 20% of this space is already spoken for in the form of a lease, leaving the total availability rate for speculative office construction at just over 79%, or 3.3 million square feet of new supply that will come to the market.

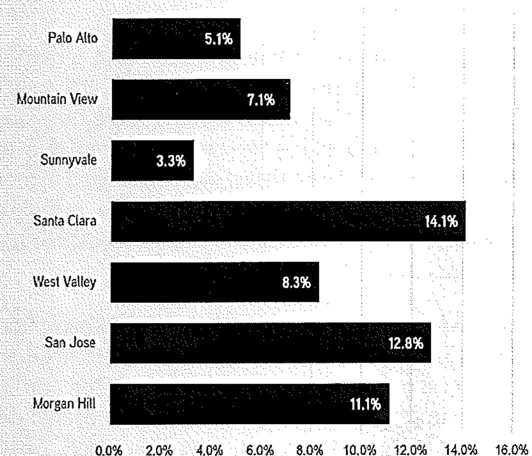
Weighted average starting rates in the office market measured an increase at the end of the third quarter, climbing to $4.59 per square foot. Average asking rents in the office sector followed a different trend line and are down 1.2% from averages measured during the prior quarter. Office space in the Silicon Valley is now being marketed at an average rental rate of $4.08 per square-foot, full service, with Class A space asking an average of $4.32 per square-foot, full service.

Historical Office Vacancy



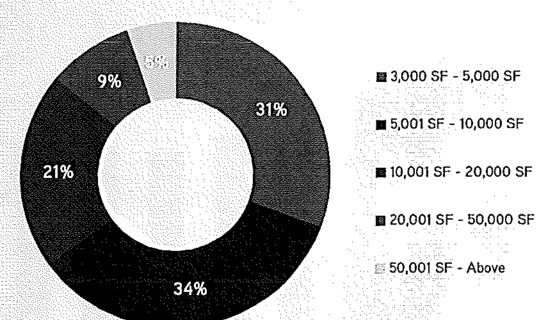
Source: Colliers International Research

Office Availability Rates Select Silicon Valley Cities



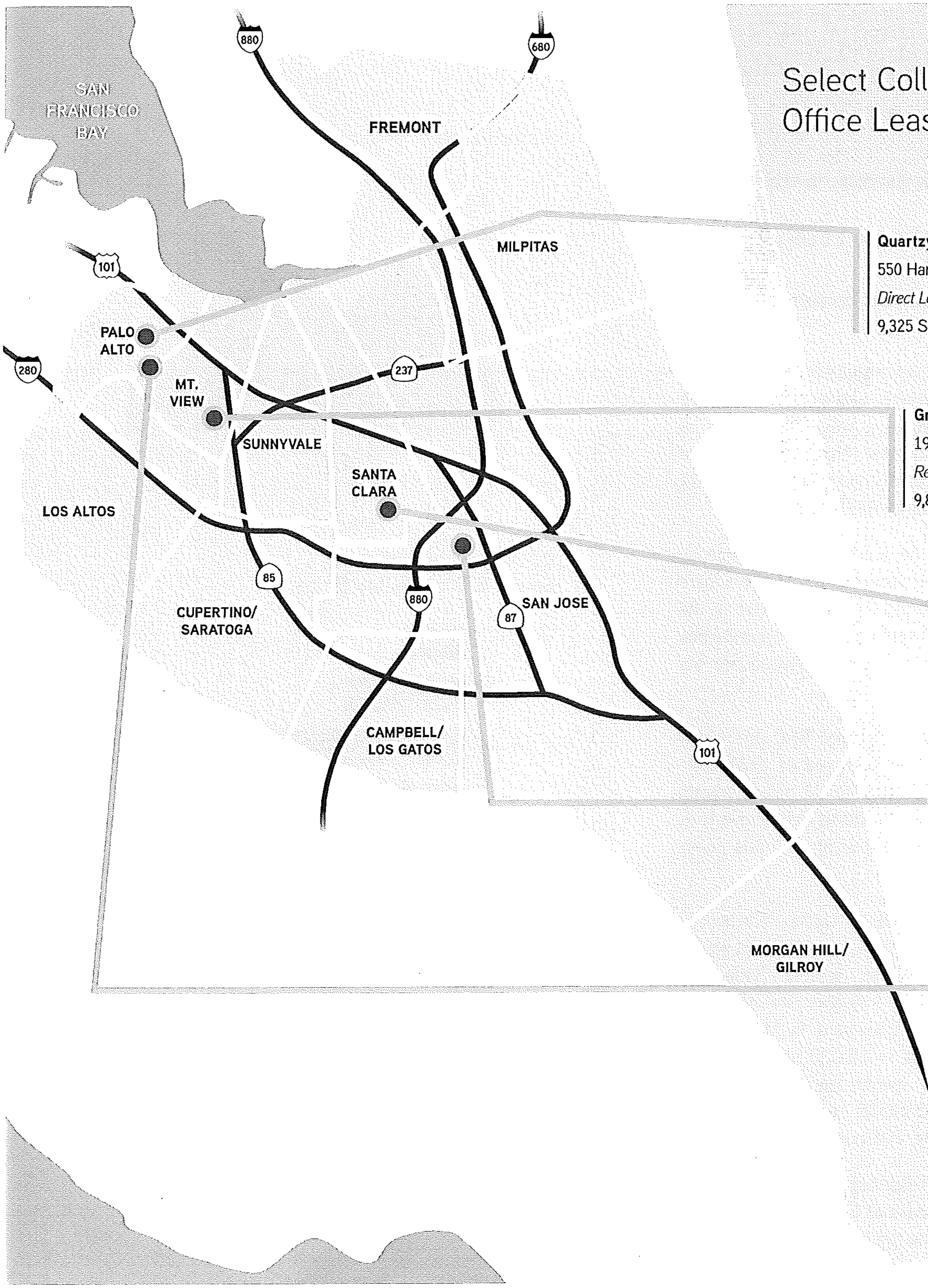
Source: Colliers International Research

Office Availability Breakdown by Size Range



Source: Colliers International Research

Select Colliers' Transactions Office Lease Activity



Quartzy
550 Hamilton Avenue, Palo Alto
Direct Lease
9,325 SF

Gridstore
1975 West El Camino Real, Mountain View
Renewal
9,800 SF

Hewlett Packard
3335 Scott Boulevard, Santa Clara
Expansion
41,892 SF

Verity Health Foundation
400 Race Street, San Jose
Direct Lease
10,538 SF

Hopkins & Carley
200 Page Mill Road, Palo Alto
Renewal
13,707 SF

Select Colliers' Transactions - Office Sale Activity

PROPERTY ADDRESS	SIZE	SELLER	BUYER
100 Century Center Court, San Jose	107,107	Sleepy Hollow Investment Company	Briggs Development
1602 The Alameda, San Jose	14,548	Ray Silva	Meridian Orchard Properties LLC

R&D

> Total leasing activity decreased 11.1% during the third quarter of the year.
> The R&D availability rate sits at 9.8%, down 12 basis points from one year earlier.
> The Silicon Valley R&D sector measured an occupancy loss during the third quarter.

The Silicon Valley R&D sector maintained moderate levels of activity during the third quarter. Leasing and user-sale activity measured 1.7 million square feet, an 11.1% decrease from the amount of activity measured during the second quarter. This is now the third consecutive quarter that new leasing activity has measured less than 2.0 million square feet in the Silicon Valley R&D market.

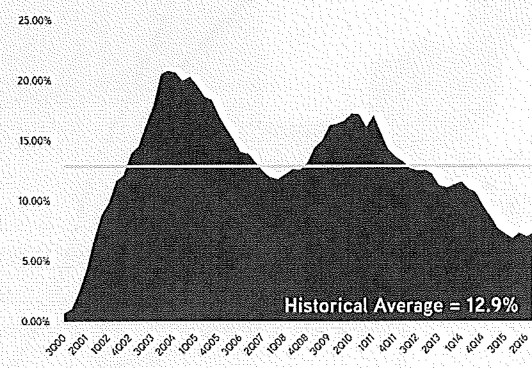
As tenant demand decreased during the quarter, so did occupancy levels. The Silicon Valley R&D market measured a 433,456 square foot decrease in occupancy levels during the third quarter of the year. As Colliers forecasted, the R&D sector is likely to experience the most volatility in 2016 as evidenced by the 1.2 million square foot occupancy loss measured year to date.

On the supply side, the pipeline of pre-improved R&D space that came on the market during the third quarter increased 19.8% from totals measured during the second quarter, to 2.1 million square feet. Overall availability in the R&D market remains tight at sub 10%, measuring 9.8% at the close of the third quarter, 12 basis points more than one year earlier.

The largest new deal signed for R&D space during the third quarter was inked by Cloudera, the company leased a 224,852 square foot building on Page Mill Road in Palo Alto, Jay Paul Company is the landlord. Other notable transactions included FireEye's lease of 189,481 square feet on McCarthy Boulevard in Milpitas and Continental Automotive Systems lease of 65,000 square feet on North First Street in San Jose. In an owner-user purchase, Mass Precision Sheetmetal, Inc. purchased 46555 Landings Parkway in Fremont, a 117,504 square foot building, TMG partners was the seller.

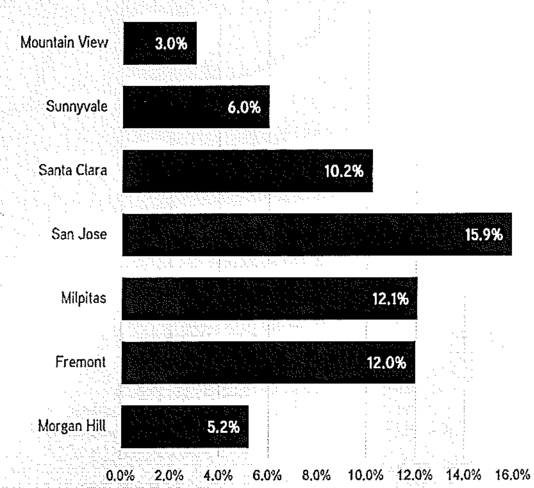
Starting rates for deals completed measured an uptick during the third quarter of 2016, for a total increase of 1.1% during the period. Average starting rates recorded during the third quarter topped out at $2.00 per square foot, NNN, the highest on record since the third quarter of 2001. The weighted-average asking rent for R&D space is now $1.93 per square foot NNN, up 11.5% from the same period one year earlier and 37.1% from the same period in 2014.

Historical R&D Vacancy



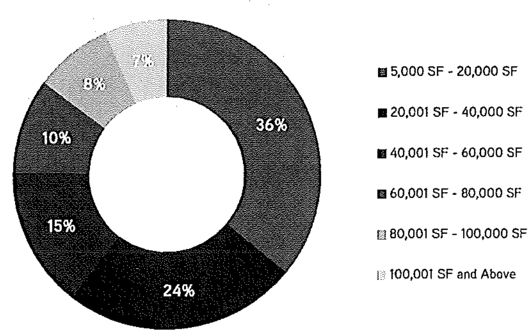
Source: Colliers International Research

R&D Availability Rates Select Silicon Valley Cities



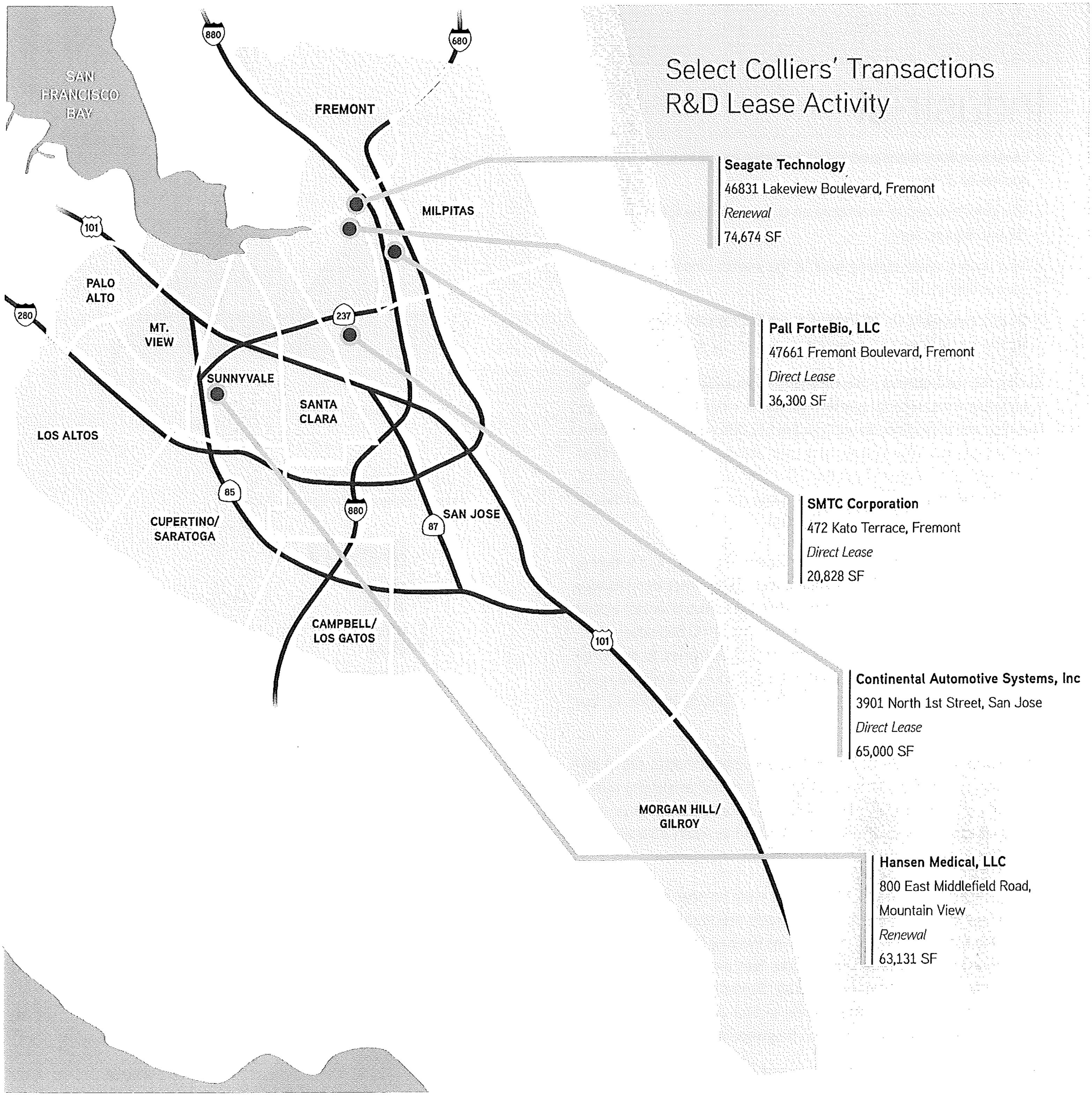
Source: Colliers International Research

R&D Availability Breakdown by Size Range



Source: Colliers International Research

Select Colliers' Transactions R&D Lease Activity



Seagate Technology
46831 Lakeview Boulevard, Fremont
Renewal
74,674 SF

Pall ForteBio, LLC
47661 Fremont Boulevard, Fremont
Direct Lease
36,300 SF

SMTC Corporation
472 Kato Terrace, Fremont
Direct Lease
20,828 SF

Continental Automotive Systems, Inc
3901 North 1st Street, San Jose
Direct Lease
65,000 SF

Hansen Medical, LLC
800 East Middlefield Road, Mountain View
Renewal
63,131 SF

Select Colliers' Transactions - R&D Sale Activity

PROPERTY ADDRESS	SIZE	SELLER	BUYER
190-250 Tasman Drive, San Jose	287,371	TMG Partners	Confidential
2355,2365,2371 Paragon Drive, San Jose	93,734	TA Associates	Goble Properties
336 Los Coches Street, Milpitas	41,184	Cavallini Trust	GDK Enterprise LLC
301 North Whisman Road, Mountain View	17,100	Lane Partners, LLC	Robert Wheatley Properties

Industrial

- Leasing activity measured 418,179 square feet during the third quarter of 2016.
- The industrial sector measured an occupancy loss totaling 112,545 square feet.
- New vacant space coming back to the market measured 530,724 square feet in Q3.
- Overall availability in the industrial market remained below 5% for the sixth consecutive quarter.

During the third quarter, Silicon Valley's industrial sector measured a decrease from second quarter results, to measure 418,179 square feet of gross absorption, down from the 612,826 square feet recorded the prior quarter. Year to date, new user activity measures 1.9 million square feet. This is down from the 3.0 million square feet of industrial gross absorption measured during the same period of 2015 and the 2.5 million square feet measured during 2014.

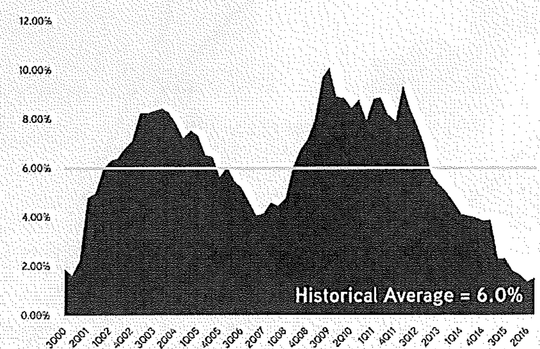
The pipeline of pre-improved rollover space increased 12.8% during the quarter to measure 530,724 square feet of space that found its way back to the market. As a result of this shift, the industrial sector closed the third quarter with a modest occupancy loss of 112,545 square feet. As anticipated, it will be tough for the industrial market to see large occupancy gains quarter-over-quarter if the amount of available space on the market and newly vacated space remains at historically low levels.

Total available space in the Silicon Valley industrial market sits at just 1.8 million square feet. This translates to an overall availability rate of just 3.0%, the lowest availability has dipped since 1998. Year-over-year, total available supply in the industrial market has fallen 3.3% dropping the overall availability rate by 14 basis points.

During the third quarter of the year there were no new industrial deals signed over 30,000 square feet. The largest new transaction recorded during the second quarter of the year was inked by Dynamic Operations who signed on to lease 25,850 square feet on Tenth Street in San Jose. Other transactions of note include Sunrun Inc.'s long term lease of 21,936 square feet on Dado Street in San Jose and Central Tech Inc.'s lease of 21,202 square feet on Ringwood Avenue in San Jose.

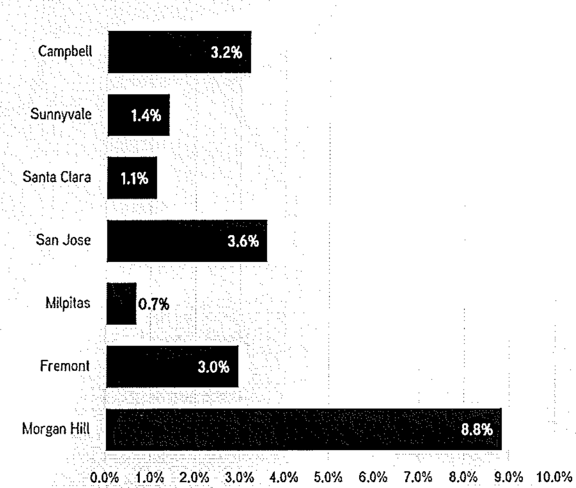
Weighted average asking rates measured a decrease during the third quarter of 2016 in the industrial sector. At the close of the quarter, average asking rates for industrial space tallied $1.09 per square-foot, NNN. However, despite the quarterly decrease, average asking rates have increased 19.5% year-over-year in the Silicon Valley's industrial market. When comparing average starting rates for deals closed, the weighted average remained flat throughout the third quarter at $0.95 per square foot, NNN. This is up 17.2% year over year from the $0.81 per square foot average measured at the end of the third quarter of 2015.

Historical Industrial Vacancy



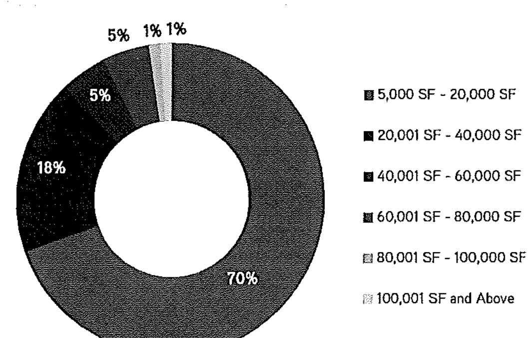
Source: Colliers International Research

Industrial Availability Rates Select Silicon Valley Cities



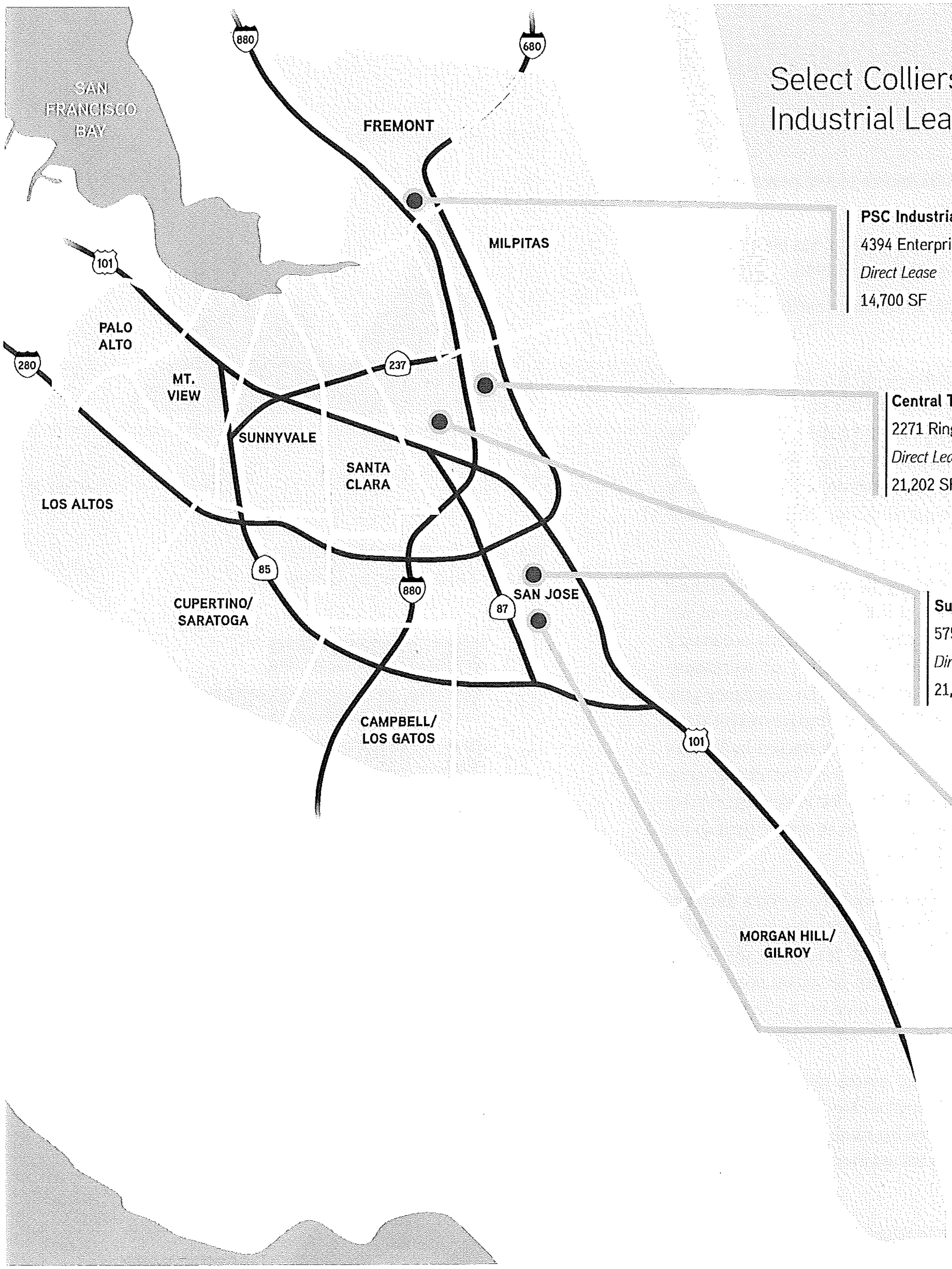
Source: Colliers International Research

Industrial Availability Breakdown by Size Range



Source: Colliers International Research

Select Colliers' Transactions Industrial Lease Activity



PSC Industrial Coating
4394 Enterprise Place, Fremont
Direct Lease
14,700 SF

Central Tech, Inc.
2271 Ringwood Avenue, San Jose
Direct Lease
21,202 SF

Sunrun Inc.
575-581 Dado Street, San Jose
Direct Lease
21,936 SF

Dynamex Operations
1800 South 10th Street, San Jose
Direct Lease
25,850 SF

Compass Group Holdings LLC
3870 Charter Park Drive,
San Jose
Renewal
15,000 SF

Select Colliers' Transactions - Industrial Sale Activity

PROPERTY ADDRESS	SIZE	SELLER	BUYER
Hannover Logistics Park, Fremont	163,317	CRP Industries	TA Realty Associates
8425 Monterey Street, Gilroy	41,100	Currier	8425, LLC
650 Martin Avenue, Santa Clara	21,920	Recology Properties, Inc	Peninsula Building Materials Company
1276 Reamwood Avenue, Sunnyvale	17,690	Nearon Enterprises	United Parcel Service, Inc

Warehouse

- Leasing activity measured 687,185 square feet of new tenant demand during the third quarter.
- The warehouse availability rate is the lowest it has been since Colliers began tracking warehouse statistics in 1988.
- Net absorption in the warehouse sector was positive for the seventh consecutive quarter.

Activity in the Silicon Valley warehouse sector was stable during the third quarter of the year, recording 687,185 square feet of gross absorption. Activity measured during the third quarter of the year was less than half the total activity measured during the prior quarter. Total demand measured year to date totals 2.8 million square feet. This is 7.6% more demand than was measured during the same period of 2015.

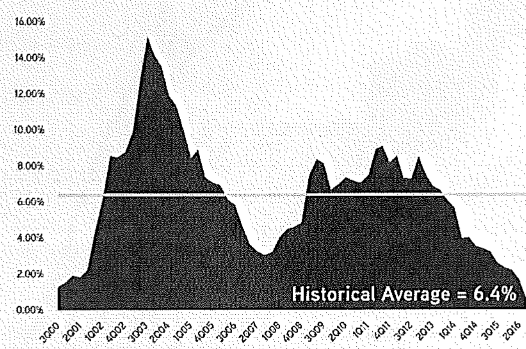
As a result of the modest demand during the quarter, the warehouse sector recorded an occupancy gain of 430,269 square feet of net absorption. This is now the seventh consecutive quarterly occupancy gain, in which more than 3.1 million square feet of warehouse space has been absorbed in the Silicon Valley. The occupancy gain measured year to date in the Silicon Valley's warehouse market is the highest measured across the four product types tracked by Colliers International. If occupancy trends continue during the final quarter of the year, this would mark the first time that the warehouse market measured the largest increase in occupancy on an annual basis in the Silicon Valley, according to Colliers' statistics.

During the third quarter the warehouse market measured a decrease in the levels of pre-improved space coming onto the market. Down 28.3% from the second quarter, warehouse tenants in the Silicon Valley only kicked back 256,916 square feet of vacant space to the market. This level of roll-over space measured on a quarterly basis remains extremely low in a historically tight warehouse market.

With limited supply, weighted average asking rates for warehouse space are beginning to increase throughout the Silicon Valley. At the close of the third quarter, average asking rates for warehouse were $0.89 per square-foot, NNN, up 6.5% quarter over quarter and up 30.1% year over year.

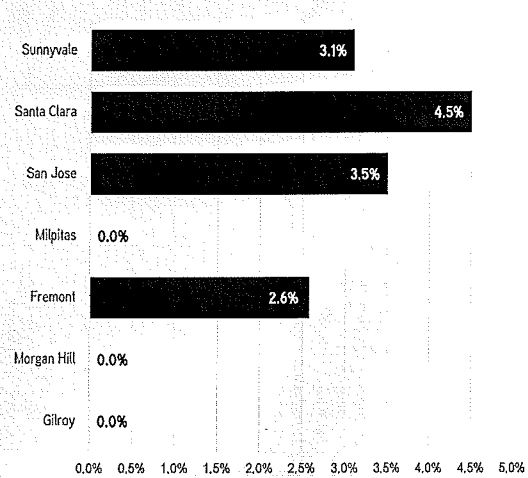
There were only ten new deals inked for warehouse space during the third quarter, which is down from just fourteen deals inked during the second quarter of the year. The average deal size during the third quarter measured 68,718 square feet, up from an average deal size of 56,500 square feet the prior quarter. The largest new deal signed during the quarter was Apple's lease of 269,270 square feet on Boyce Road in Fremont at Prologis' 623,586 square foot logistics park, completed during the second quarter of this year. Other notable transactions included Olalm West Coast, Inc.'s lease of 162,830 square feet on Chestnut Street in Gilroy and K&L Supply who committed to 45,869 square feet on Tenth Street in San Jose.

Historical Warehouse Vacancy



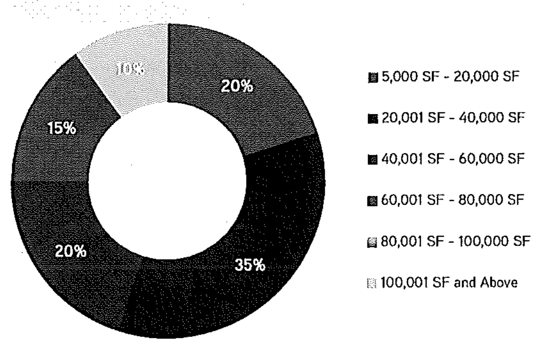
Source: Colliers International Research

Warehouse Availability Rates Select Silicon Valley Cities



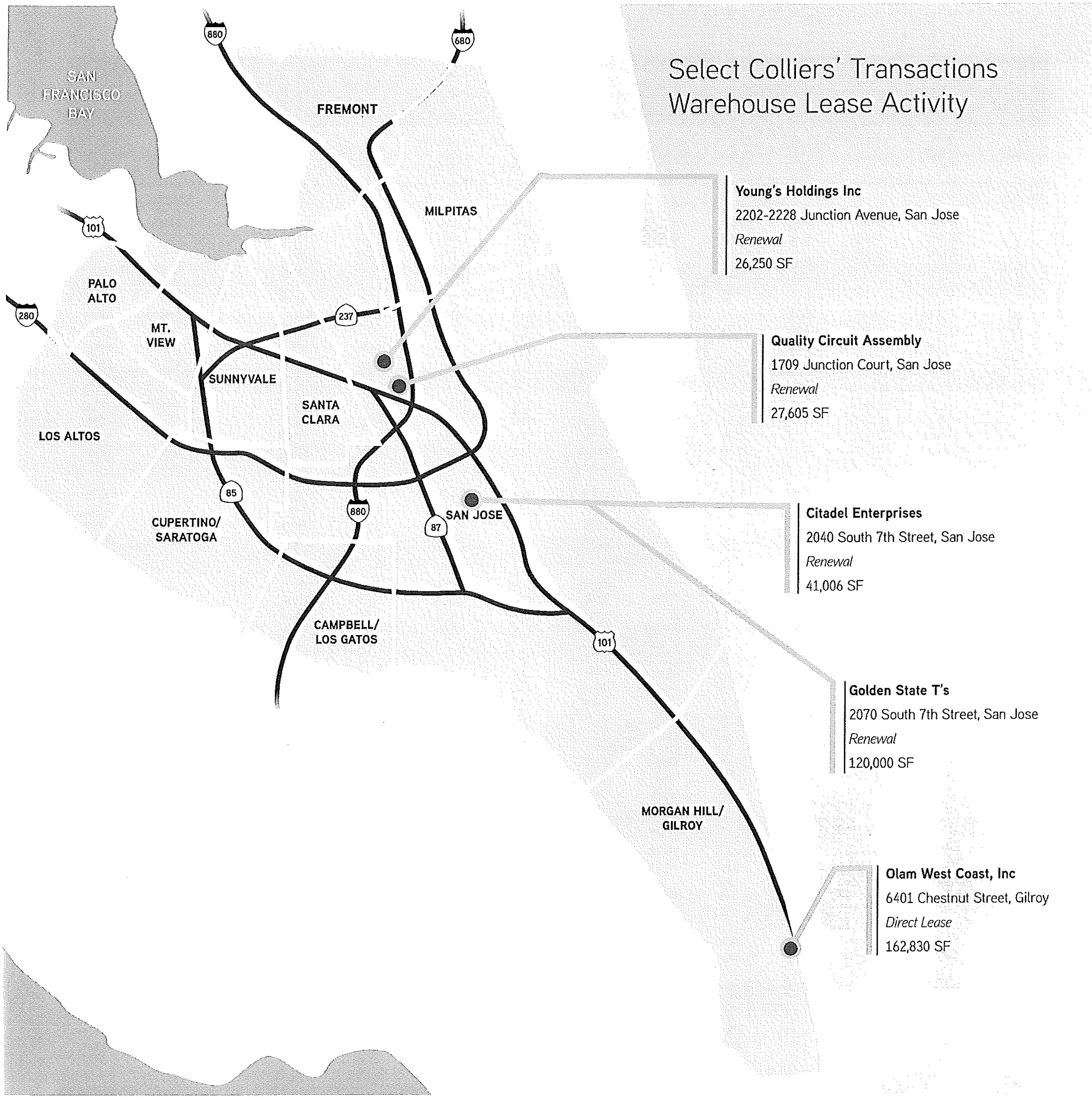
Source: Colliers International Research

Warehouse Availability Breakdown by Size Range



Source: Colliers International Research

Select Colliers' Transactions Warehouse Lease Activity



Select Colliers' Transactions - Warehouse Sale Activity

PROPERTY ADDRESS	SIZE	SELLER	BUYER
198 E. 9th Street & 165 E. 10th Street, Gilroy	70,255	9th St. Gilroy Associates, LLC	Randy Singley

Market Comparisons – Silicon Valley

OFFICE MARKET

CLASS	TOTAL INVENTORY SF	DIRECT VACANT SF	SUBLEASE VACANT SF	DIRECT OCCUPIED SF	SUBLEASE OCCUPIED SF	TOTAL AVAILABLE SF	AVAILABILITY RATE CURR QTR	AVAILABILITY RATE PREV QTR	NET ABSORPTION CURR QTR	NET ABSORPTION YTD	COMPLETED CURR QTR	UNDER CONST. SF	FS WTD AVG ASKING
CAMPBELL / LOS GATOS													
A	1,490,525	59,859	40,055	13,052	45,688	158,654	10.6%	9.4%	(33,534)	(49,311)	-	436,565	$4.43
B	2,239,987	67,652	7,237	30,090	24,072	129,051	5.8%	6.6%	(3,552)	(1,872)	-	-	$3.23
C	235,572	13,296	-	-	-	13,296	5.6%	6.1%	(3,878)	(4,162)	-	-	$3.71
Total	3,966,084	140,807	47,292	43,142	69,760	301,001	7.6%	7.6%	(40,964)	(55,345)	-	436,565	$4.11
CUPERTINO / SARATOGA													
A	1,201,794	50,162	50,150	-	21,034	121,346	10.1%	10.7%	5,775	(85,147)	-	3,100,000	$4.81
B	2,930,769	75,883	22,631	15,001	46,089	159,604	5.4%	4.8%	(17,291)	(76,656)	-	-	$4.13
C	156,752	1,070	2,969	-	-	4,039	2.6%	4.5%	(4,039)	(1,862)	-	-	$3.07
Total	4,289,315	127,115	75,750	15,001	67,123	284,989	6.6%	6.5%	(15,555)	(163,665)	-	3,100,000	$4.49
FREMONT / MILPITAS													
A	865,789	138,471	9,343	4,330	-	152,144	17.6%	16.6%	(3,684)	(28,045)	-	9,656	$2.38
B	1,748,740	134,997	-	32,019	22,559	189,575	10.8%	11.6%	42,306	23,663	-	-	$2.30
C	591,508	21,821	-	7,553	-	29,374	5.0%	5.0%	-	(13,796)	-	-	$2.30
Total	3,206,037	295,289	9,343	43,902	22,559	371,093	11.6%	11.8%	38,622	(18,178)	-	9,656	$2.33
GILROY / MORGAN HILL													
A	418,491	36,345	2,212	2,308	-	40,865	9.8%	9.4%	-	(21,653)	-	-	$2.10
B	236,594	7,757	-	-	-	7,757	3.3%	5.2%	1,592	1,592	-	-	$1.82
C	300,645	33,852	-	-	-	33,852	11.3%	12.0%	2,088	1,157	-	-	$2.14
Total	955,730	77,954	2,212	2,308	-	82,474	8.6%	9.2%	3,680	(18,904)	-	-	$2.08
LOS ALTOS													
A	295,515	20,137	96,562	-	14,196	130,895	44.3%	39.1%	(1,837)	(479)	18,300	-	$6.86
B	510,397	38,874	583	1,214	2,780	43,451	8.5%	10.0%	6,379	(27,223)	-	-	$4.99
C	377,594	3,595	-	15,893	-	19,488	5.2%	5.0%	155	2,704	-	-	$5.39
Total	1,183,506	62,606	97,145	17,107	16,976	193,834	16.4%	15.3%	4,697	(24,998)	18,300	-	$6.32
MOUNTAIN VIEW													
A	3,708,656	169,377	21,084	10,120	26,630	227,211	6.1%	7.2%	21,406	(4,424)	-	413,278	$6.75
B	1,318,264	58,978	7,996	47,995	23,455	138,424	10.5%	10.5%	(541)	(35,350)	-	-	$5.84
C	509,605	18,950	-	7,629	3,300	29,879	5.9%	5.1%	-	3,987	-	-	$5.16
Total	5,536,525	247,305	29,080	65,744	53,385	395,514	7.1%	7.8%	20,865	(35,787)	-	413,278	$6.34
PALO ALTO													
A	4,639,412	86,211	14,524	37,094	135,872	273,701	5.9%	5.8%	(22,823)	2,320	-	437,228	$7.35
B	4,293,470	74,950	25,549	46,973	30,437	177,909	4.1%	5.1%	(33,444)	5,337	-	-	$6.84
C	1,273,228	19,720	1,580	30,708	18,900	70,908	5.6%	4.0%	16,586	3,550	-	-	$6.48
Total	10,206,110	180,881	41,653	114,775	185,209	522,518	5.1%	5.3%	(39,681)	11,207	-	437,228	$7.16
SAN JOSE													
A	14,031,026	1,509,623	173,274	241,647	365,029	2,289,573	16.3%	14.6%	73,323	338,982	185,000	1,049,756	$3.64
B	9,755,523	519,257	16,456	291,960	90,537	918,210	9.4%	8.6%	31,878	174,735	-	-	$2.87
C	4,011,675	307,128	-	40,827	-	347,955	8.7%	9.7%	(43,103)	(92,878)	-	-	$2.26
Total	27,798,224	2,336,008	189,730	574,434	455,566	3,555,738	12.8%	11.7%	62,098	420,839	185,000	1,049,756	$3.39
SANTA CLARA													
A	7,873,344	802,158	170,689	150,388	131,656	1,254,891	15.9%	17.3%	60,537	61,531	-	2,533,176	$4.27
B	4,180,886	422,642	7,157	25,156	8,355	463,310	11.1%	12.0%	19,230	(123,308)	-	-	$3.14
C	632,494	75,355	-	-	-	75,355	11.9%	12.8%	(26,469)	(39,528)	-	-	$1.96
Total	12,686,724	1,300,155	177,846	175,544	140,011	1,793,556	14.1%	15.3%	53,298	(101,305)	-	2,533,176	$4.03
SUNNYVALE													
A	10,648,223	253,955	21,305	39,894	41,915	357,069	3.4%	9.2%	517,815	1,179,657	52,394	1,043,486	$4.79
B	1,436,725	34,717	6,283	8,709	5,573	55,282	3.8%	6.1%	6,000	(16,093)	-	-	$3.61
C	490,595	1,800	-	-	-	1,800	0.4%	1.4%	(720)	3,480	-	-	$2.60
Total	12,575,543	290,472	27,588	48,603	47,488	414,151	3.3%	8.5%	523,095	1,167,044	52,394	1,043,486	$4.70
SILICON VALLEY TOTALS													
A	45,172,775	3,126,298	599,198	498,833	782,020	5,006,349	11.1%	12.1%	616,978	1,393,431	255,694	9,023,145	$4.32
B	28,651,355	1,435,707	93,892	499,117	253,857	2,282,573	8.0%	8.2%	52,557	(75,175)	-	-	$3.49
C	8,579,668	496,587	4,549	102,610	22,200	625,946	7.3%	7.7%	(59,380)	(137,348)	-	-	$3.00
Total	82,403,798	5,058,592	697,639	1,100,560	1,058,077	7,914,868	9.6%	10.3%	610,155	1,180,908	255,694	9,023,145	$4.08
QUARTERLY COMPARISON AND TOTALS													
3Q-16	82,403,798	5,058,592	697,639	1,100,560	1,058,077	7,914,868	9.6%	10.3%	610,155	1,180,908	255,694	9,023,145	$4.08
2Q-16	81,622,131	5,606,836	669,552	1,318,233	783,509	8,378,130	10.3%	8.7%	38,528	570,753	1,144,432	8,203,116	$4.14
1Q-16	80,860,687	4,310,000	627,151	1,095,155	641,057	6,673,363	8.7%	8.4%	532,225	532,225	964,086	6,597,257	$3.99
4Q-15	79,022,818	4,310,000	627,151	1,095,155	641,057	6,673,363	8.4%	8.9%	847,079	4,567,927	866,697	7,094,608	$4.08
3Q-15	78,167,872	4,743,378	367,228	1,255,364	612,436	6,978,406	8.9%	9.6%	1,719,296	3,720,848	1,477,768	6,741,352	$3.75

Market Comparisons – Silicon Valley

R&D, INDUSTRIAL & WAREHOUSE MARKETS

TYPE	TOTAL INVENTORY SF	DIRECT VACANT SF	SUBLEASE VACANT SF	DIRECT OCCUPIED SF	SUBLEASE OCCUPIED SF	TOTAL AVAILABLE SF	AVAILABILITY RATE CURR QTR	AVAILABILITY RATE PREV QTR	NET ABSORPTION CURR QTR	NET ABSORPTION YTD	COMPLETED Q3-2016	UNDER CONSTR. SF	NNN WTD AVG ASKING
CAMPBELL													
R&D	1,371,053	128,926	-	40,000	-	168,926	12.3%	12.0%	(55,179)	(55,691)	-	-	$2.29
IND	995,329	8,037	-	24,141	-	32,178	3.2%	0.8%	-	24,167	-	-	$2.31
TOTAL	2,366,382	136,963	-	64,141	-	201,104	8.5%	7.3%	(55,179)	(31,524)	-	-	$2.30
CUPERTINO													
R&D	2,856,433	6,622	-	13,220	-	19,842	0.7%	0.7%	-	(6,622)	-	225,000	$2.92
TOTAL	2,856,433	6,622	-	13,220	-	19,842	0.7%	0.7%	-	(6,622)	-	225,000	$2.92
FREMONT													
R&D	20,195,169	1,729,250	141,425	424,657	124,587	2,419,919	12.0%	12.3%	(36,649)	(107,145)	-	-	$1.49
IND	9,824,447	169,936	-	120,901	-	290,837	3.0%	2.5%	(66,393)	(117,815)	-	-	$0.88
WSE	8,442,029	41,000	-	-	176,758	217,758	2.6%	5.8%	269,270	884,810	-	-	$0.74
TOTAL	38,461,645	1,940,186	141,425	545,558	301,345	2,928,514	7.6%	8.4%	166,228	659,850	-	-	$1.40
GILROY													
R&D	372,087	29,710	-	-	-	29,710	8.0%	8.0%	-	(20,921)	-	-	$0.78
IND	1,601,197	46,846	-	12,051	-	58,897	3.7%	2.8%	(7,350)	11,331	-	-	$0.66
WSE	3,837,953	-	-	-	-	-	0.0%	4.2%	162,830	588,430	-	-	-
TOTAL	5,811,237	76,556	-	12,051	-	88,607	1.5%	4.1%	155,480	578,840	-	-	$0.72
LOS GATOS													
R&D	337,324	1,400	-	-	-	1,400	0.4%	1.8%	4,822	4,822	-	-	$3.00
TOTAL	337,324	1,400	-	-	-	1,400	0.4%	1.8%	4,822	4,822	-	-	$3.00
MILPITAS													
R&D	13,659,964	1,265,152	78,602	207,916	95,304	1,646,974	12.1%	12.7%	129,954	(163,539)	-	-	$1.70
IND	2,939,092	17,994	-	1,872	-	19,866	0.7%	0.8%	5,960	80,451	-	-	$1.15
WSE	4,705,691	-	-	-	-	-	0.0%	2.1%	100,103	223,052	-	-	-
TOTAL	21,304,747	1,283,146	78,602	209,788	95,304	1,666,840	7.8%	8.7%	236,017	139,964	-	-	$1.69
MORGAN HILL													
R&D	2,874,930	78,504	5,625	65,908	-	150,037	5.2%	3.6%	5,018	20,192	-	-	$1.00
IND	2,365,493	116,365	-	50,422	42,284	209,071	8.8%	6.1%	(25,000)	(13,342)	-	-	$0.87
WSE	482,538	-	-	-	-	-	0.0%	0.0%	-	-	-	-	-
TOTAL	5,722,961	194,869	5,625	116,330	42,284	359,108	6.3%	4.3%	(19,982)	6,850	-	-	$0.93
MOUNTAIN VIEW													
R&D	13,911,698	149,695	151,475	43,711	77,032	421,913	3.0%	3.3%	36,499	(9,375)	-	-	$3.29
IND	1,697,758	51,889	-	6,272	-	58,161	3.4%	3.3%	(28,814)	(30,038)	-	-	$2.02
TOTAL	15,609,456	201,584	151,475	49,983	77,032	480,074	3.1%	3.3%	7,685	(39,413)	-	-	$3.18
PALO ALTO													
R&D	13,653,065	20,833	37,666	125,109	26,721	210,329	1.5%	0.8%	750	25,177	-	-	$5.01
TOTAL	13,653,065	20,833	37,666	125,109	26,721	210,329	1.5%	0.8%	750	25,177	-	-	$5.01
SAN JOSE													
R&D	42,396,207	4,341,347	546,152	1,031,753	822,725	6,741,977	15.9%	14.2%	(338,986)	(355,553)	150,000	-	$1.78
IND	23,829,811	243,302	41,200	481,869	88,676	855,047	3.6%	2.1%	32,217	(34,797)	-	684,067	$1.05
WSE	17,153,363	115,404	12,048	444,560	24,415	596,427	3.5%	2.6%	(101,934)	307,701	-	-	$0.79
TOTAL	83,379,381	4,700,053	599,400	1,958,182	935,816	8,193,451	9.8%	8.4%	(408,703)	(82,649)	150,000	684,067	$1.58
SANTA CLARA													
R&D	19,412,022	1,694,281	80,920	141,005	67,037	1,983,243	10.2%	9.8%	(39,428)	(405,171)	-	-	$2.22
IND	11,553,880	67,179	-	54,441	7,426	129,046	1.1%	1.0%	(9,782)	(3,408)	-	-	$1.02
WSE	3,359,215	33,210	-	65,154	54,000	152,364	4.5%	2.6%	-	(15,210)	-	-	$1.08
TOTAL	34,325,117	1,794,670	80,920	260,600	128,463	2,264,653	6.6%	6.1%	(49,210)	(423,789)	-	-	$2.10
SUNNYVALE													
R&D	23,133,880	778,832	188,714	256,918	166,927	1,391,391	6.0%	6.2%	(140,257)	(179,300)	-	-	$2.49
IND	6,081,465	54,562	10,060	20,317	-	84,939	1.4%	2.0%	34,884	104,581	-	-	$1.56
WSE	1,792,771	56,358	-	-	-	56,358	3.1%	3.2%	-	-	-	-	$1.95
TOTAL	31,008,116	889,752	198,774	277,235	166,927	1,532,688	4.9%	5.2%	(105,373)	(74,719)	-	-	$2.42
SILICON VALLEY TOTALS													
R&D	154,173,832	10,224,552	1,230,579	2,350,197	1,380,333	15,185,661	9.8%	9.4%	(433,456)	(1,253,126)	150,000	225,000	$1.93
IND	62,093,351	907,164	51,260	772,286	150,386	1,881,096	3.0%	2.3%	(112,545)	(26,837)	-	684,067	$1.09
WSE	40,203,879	245,972	12,048	509,714	255,173	1,022,907	2.5%	3.3%	430,269	1,988,783	-	-	$0.89
TOTAL	256,471,062	11,377,688	1,293,887	3,632,197	1,785,892	18,089,664	7.1%	6.7%	(115,732)	708,820	150,000	909,067	$1.77
QUARTERLY COMPARISON AND TOTALS													
3Q-16	256,471,062	11,377,688	1,293,887	3,632,197	1,785,892	18,089,664	7.1%	6.7%	(115,732)	708,820	150,000	909,067	$1.77
2Q-16	256,252,645	11,353,715	1,129,372	3,121,314	1,591,499	17,195,900	6.7%	6.9%	1,499,096	824,552	1,092,988	1,059,424	$1.76
1Q-16	254,499,838	12,226,365	989,590	3,082,075	1,215,645	17,513,675	6.9%	6.8%	(674,544)	(674,544)	302,400	1,616,981	$1.65
4Q-15	252,668,395	11,468,403	1,141,265	3,678,599	884,756	17,173,023	6.8%	7.4%	832,108	4,973,346	-	1,694,381	$1.60
3Q-15	252,324,418	12,323,595	1,265,458	4,039,599	994,817	18,623,469	7.4%	7.5%	701,127	4,141,238	173,296	1,574,237	$1.58

Marcus & Millichap

Retail Research Market Report

Third Quarter 2016

San Jose Metro Area

Historically Low Interest Rates Drive Buyer Acquisitions

Labor market continues to grow as retail operations cool; longer-term prospects remain in place. Major economic trends in technology have fostered an incredible expansion in the San Jose labor market as local organizations of all sizes compete for engineering and other business-related talent. This trend has resulted in the formation of thousands of households in the metro, boosting demand for retail establishments. However, weak net absorption and escalating rents have fostered modest upswings in vacancy as retailers migrate to the most modern spaces, particularly those near the marquee corporate office tenants in the metro. This has had a tremendous impact on the average asking rent in the area, which has escalated nearly $4 per square foot since the beginning of 2014. Looking forward to the years ahead, a continued slowdown in retail deliveries, which are set to remain near the lowest levels of the current cycle in 2016, will keep demand for existing spaces high amid a lack of alternatives. However, the next few months are likely to be turbulent until net absorption stabilizes further. While this will do little to stop a fifth straight year of rent growth, investors will need to remain vigilant over the coming months.

Structural impediments to development pique buyer interest; capital continues to flow to corporate strongholds. As historically low interest rates continue to proliferate, high-net-worth individuals and institutions of all sizes have been incentivized to deploy capital at greater rates of return. As a result dollar volume continues to accelerate, particularly in the corporate strongholds of Palo Alto, Los Gatos, Mountain View and Sunnyvale. Although operations have stumbled somewhat recently as net absorption has weakened, buyers have remained active, pushing cap rates toward the low-5 percent range, with prime properties sometimes closing in the high-4 percent band. While net-leased product transactions have skewed overwhelmingly toward marquee tenants with corporate credit, multi-tenant center trading has been primarily value-add in nature. Typical strategies include redevelopment and re-tenanting spaces with higher-quality leases. Transactions will hinged on the number of willing sellers this year, possibly limiting deal flow.

2016 Retail Forecast

4.1% increase in total employment

Employment:

Local organizations will create 44,000 jobs this year, expanding the labor market by 4.1 percent as office-using firms drive payroll growth. Last year, firms hired 42,500 additional staffers, a 4.2 percent rate of advancement.

740,000 sq. ft. will be completed

Construction:

Developers will complete 740,000 square feet of retail space in 2016, more than doubling deliveries from the prior year when nearly 300,000 square feet was brought to market. The majority of this year's projects will come online in Palo Alto and South San Jose.

140 basis point increase in vacancy

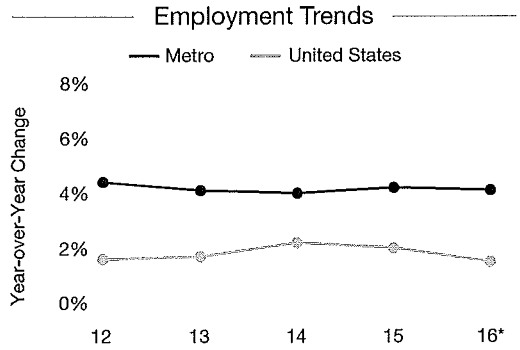
Vacancy:

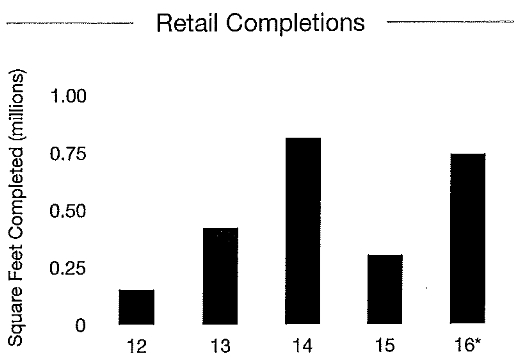
Tenant outflows will sponsor a 140-basis-point rise in the metro vacancy rate for 2016 to 5.8 percent, removing all of last year's 90-basis-point tightening. The Sunnyvale/Cupertino and Palo Alto submarkets will see the greatest increases.

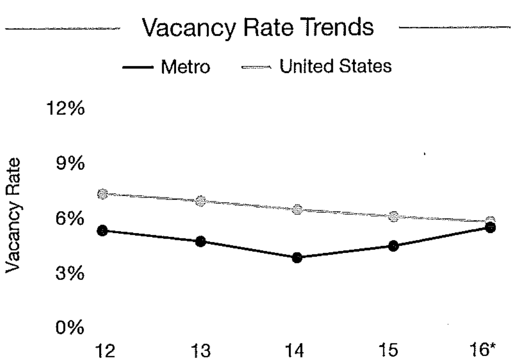
4.1% increase in asking rents

Rents:

The average asking rent will climb 4.1 percent to $33.92 per square foot as new, modern spaces command a premium to the median floor plate. Over the previous 12-month period, the average asking rent advanced 8.3 percent.







* Forecast
Source: CoStar Group, Inc.

Economy

- In the last 12 months ending in June, local organizations created 42,200 new positions, expanding the labor market by 4.1 percent. This represents a modest improvement from the 39,900 jobs added in the previous yearlong period.
- Metro employment growth has remained incredibly broad-based over the past year, with all local sectors recording an increase in headcounts. Office-using firms, particularly the professional and business services sector, accounted for the vast majority of payroll additions with 16,860 workers hired.
- Along with office-using firms, education and healthcare and construction workers were also in high demand, with firms in these sectors adding 9,600 and 3,300 jobs, respectively. As a result of the growing labor market, the unemployment rate has fallen 60 basis points over the past year to 3.6 percent.

Outlook: The workforce will advance 4.1 percent this year as 44,000 new workers are hired, with Fortune 500 firms accounting for the bulk of payroll additions.

Construction

- Over the past year, builders in the San Jose metro delivered roughly 500,000 square feet of retail and mixed-use space. The bulk of the new additions was mostly net-leased space. In the previous year, more than 635,000 square feet was delivered.
- One of the largest expected completions over the coming year is Sand Hill Property Company's Main Street Cupertino project. The 18.4-acre site will include retail, hotel, office and multifamily uses totaling over 500,000 square feet. More than 95,000 square feet of retail space will come online this year.
- An additional large delivery this year was the Stanford Shopping Center in the Downtown Palo Alto submarket. The project contains more than 170,000 square feet of retail space in an open-air mall format. The majority of the retailers are high-end boutiques and specialty stores.

Outlook: Construction firms will deliver more than 740,000 square feet of retail space this year, representing a sharp upswing from the 300,000 brought to market in 2015. Multi-tenant centers will make up the bulk of new supply.

Vacancy

- During the last four quarters, vacancy has risen 140 basis points to 5.6 percent as net absorption turned negative, even as supply growth has slowed considerably from earlier years in the cycle. In the previous yearlong period, vacancy was unchanged as supply and demand were roughly in balance.
- Assets in the Palo Alto and San Benito County submarkets vastly outperformed the broader metro as vacancy fell 20 basis points to 2.0 percent and 130 basis points to 1.8 percent, respectively. Net absorption remained robust as construction efforts were nearly nonexistent.
- Tenant outflows were propelled by the net-leased market, where vacancy advanced 240 basis points to 6.7 percent. Multi-tenant offerings fared much better, with occupancy down 60 basis points to 3.2 percent.

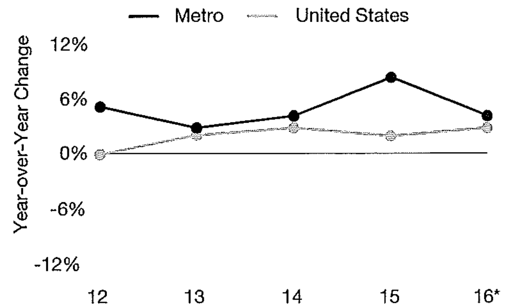
Outlook: The metro vacancy rate will move up 140 basis points to 5.8 percent this year as construction picks up while net absorption remains uninspiring.

Rents

- During the last four quarters, the average asking rent climbed 4.6 percent to $33.47 per square foot as the vast majority of submarkets continued to post robust advancement. In the previous 12-month period, the average asking rent soared 7.7 percent metrowide.
- The Santa Clara and North San Jose submarkets far outpaced the broader metro as the average asking rent surged 19.3 percent to $39 per square foot and 5.7 percent to $35.34 per square foot, respectively. While growth was primarily driven by net-leased product in North San Jose, Santa Clara performance was prompted by swelled demand at multi-tenant centers.
- Rent ascension has moderated somewhat in the Campbell/Los Gatos submarket. Over the past year, the average asking rent has climbed 0.9 percent to $39.03 per square foot, representing a fairly sharp slowdown from the 11.6 percent surge registered in the prior four-quarter period.

Outlook: The uptick in metro vacancy will trigger a slowdown in the pace of average asking rent advancement, which will record a 4.1 percent increase this year to $33.84 per square foot.

Asking Rent Trends

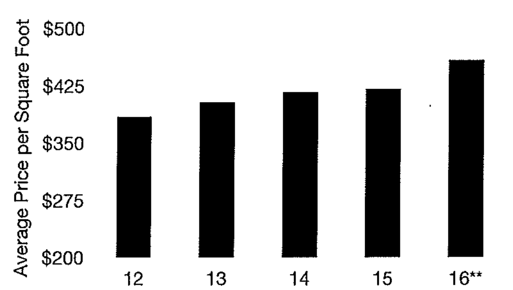


Single-Tenant Sales Trends**

- Net-leased deal flow increased marginally over the past year, rising roughly 5 percent as investors pursued metro assets. Dollar volume over this period slipped more than 25 percent, indicating a buyer preference toward lower price points.
- The average price per square foot has remained broadly in the mid-$400 to mid-$500 per square foot range, with tenancy and lease duration having the greatest impact on closing prices.
- Corporate credit tenant buildings will exchange ownership with cap rates in the low-5 to mid-5 percent range, while regional credit and lesser-known brands can trade into the mid-6 percent band. Drugstores and fast-food restaurants will close below 5 percent.

Outlook: Exchange-motivated buyers remain the most active participants in the market, creating stiff competition for well-located assets.

Single-Tenant Sales Trends

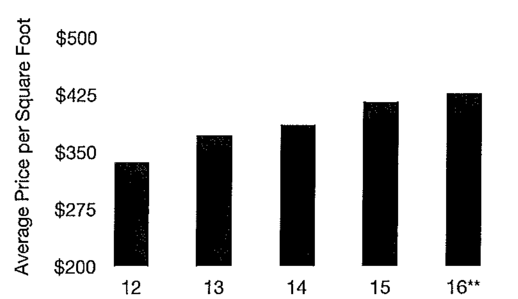


Multi-Tenant Sales Trends**

- Demand for multi-tenant centers fostered a 10 percent jump in closed transactions as dollar volume surged more than 30 percent to nearly $280 million. Assets inside San Jose and Santa Clara made up the bulk of trading.
- The average sale price per square foot was in the low-$400 range, up 8 percent over the past year as operations proved much more resilient than net-leased product. The highest prices were paid in Cupertino and Palo Alto.
- The average cap rate was down 30 basis points to the low-5 percent range, with corporate credit centers in Los Gatos and Mountain View extending down into the high-4 percent range. Higher-yielding product exchanged ownership in Santa Clara and Gilroy.

Outlook: Investors seeking higher initial yields will bid aggressively in an effort to deploy capital in the metro.

Multi-Tenant Sales Trends



* Forecast
** Trailing 12-month period through 2Q
Source: CoStar Group, Inc.

National Retail Group

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Price: $250

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President | Marcus & Millichap Capital Corporation

- Global capital markets have remained stable over the past few weeks, even as Brexit and the continued devaluation of the Chinese yuan have induced bouts of volatility into stock and bond markets. Meanwhile, U.S. economic data has proved resilient, with increases in retail sales and steady hiring supporting a measured pace of growth. Additionally, higher bond prices have lowered prospective yields, boosting the appeal of commercial real estate.
- As the current economic cycle has continued, retail vacancy descended to 5.8 percent by the end of the second quarter. A focus on net-leased construction for pre-leased tenants and mixed-use developments has limited development activity in relation to prior cycles, supporting robust increases in average asking rents. Builders will deliver 46 million square feet of retail space this year, with more than two-thirds of new supply slated as single-tenant structures. This environment will sponsor a fourth straight year of average asking rent growth, with advancement projected to exceed inflation over the same period.
- Capital markets remain highly competitive, with a broad assortment of fixed-rate products available through commercial banks, life-insurance companies and CMBS lenders. Loans are generally offered at terms up to 10 years at maximum leverage of 65 to 75 percent. For 10-year terms, rates will typically reside in the high-3 to mid-4 percent range, depending on leverage and underwriting criteria. Floating bridge loans and financing for repositionings are typically underwritten with LTVs above 80 percent, while pricing at 300 basis points above Libor for recourse deals and extending to 470 basis points above Libor for non-recourse transactions.

Local Highlights

- The Milpitas City Council has voted unanimously to approve a new industrial development site near state Route 237 and Interstate 880 on McCarthy Boulevard. The 44.7-acre site will house five single-story industrial buildings with square footages between 99,000 square feet and 314,000 square feet.
- New York City developer Related Cos. has received approval for a $6.5 billion project that will be known as City Place in Santa Clara. The 9.7 million-square-foot City Place is the largest private construction deal ever in Silicon Valley, with plans calling for 5.7 million square feet of offices, 1.1 million square feet of retail space, 700 hotel rooms and between 200 and 1,680 apartments surrounding a 35-acre park.
- The Irvine Company has acquired several buildings in the Peery Park area as it seeks to revamp the area into a mixed-use project. Filed plans would see the current industrial buildings razed to make room for roughly 2 million square feet of office space, 200,000 square feet of retail floorplates and 215 residential units.
- Robotic surgery pioneer Intuitive Surgical has recently leased up to 600,000 square feet in two buildings in Sunnyvale, marking the largest lease signing by the firm. The new lease would allow for staff additions and research spaces.

MARKETBEAT

San Jose Metro

Retail Q3 2016

CUSHMAN & WAKEFIELD

ECONOMIC INDICATORS

National

	Q3 15	Q3 16	12-Month Forecast
GDP Growth	2.0%	2.4%	▲
CPI Growth	1.4%	1.2%	▲
Consumer Spending Growth	3.1%	2.8%*	▲
Retail Sales Growth	2.0%	2.9%	▲

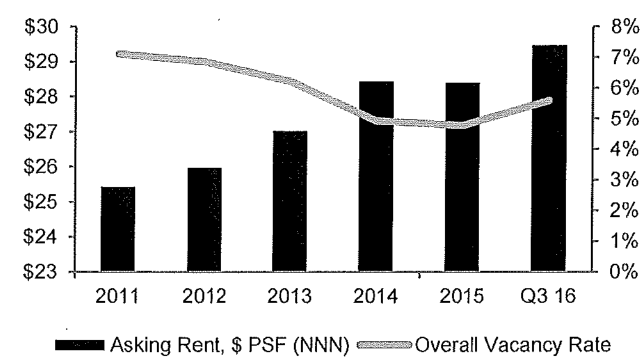
* Based on Moody's baseline estimates

Regional

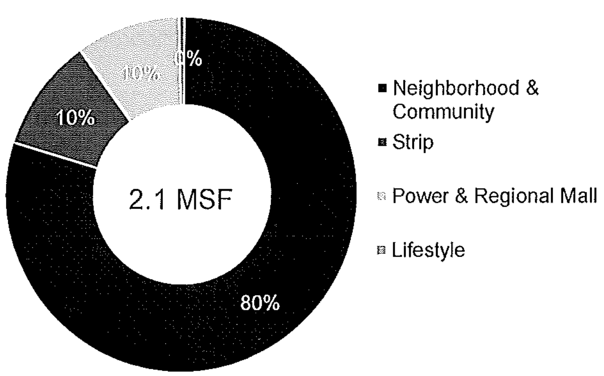
	Q3 15	Q3 16	12-Month Forecast
Household Income	$100,900	$105,400	▲
Population Growth	1.1%	1.0%	▼
Unemployment	4.7%	4.1%	▼

Source: Moody's Analytics

Rental Rate vs. Overall Vacancy



Availability by Type



Economy

Job growth in the Bay Area has picked up in the third quarter of 2016, increasing by over 15,000 jobs since mid-year. This metric remains at a historical high for both the Greater Bay Area and Santa Clara County specifically. Despite employment gains, the unemployment rate for Santa Clara County ticked up a modest 40 basis points (BPS) across the same period to 4.1% from 3.7%, well below the national figure of 4.9%. Total employment grew by 37,500 jobs or 3.6% year-over-year (YoY) to reach nearly 1.1 million jobs, the highest total on record going back to 1990. Private sector positions closed August at 1,000,000 jobs, up by 37,800 or 3.9% YoY. Professional and business services led job gains with 15,500 new jobs (+7.0% YoY), mostly in computer systems design and administrative and support.

Market Overview

As of the third quarter of 2016, shopping center vacancy throughout the San Jose Metro Area was 5.6%, remaining unchanged from last quarter's figure but up 50 BPS from the 4.9% rate one year ago. Sunnyvale/Cupertino had the lowest occupancy rate in the region at 2.8%, while Milpitas/North San Jose recorded the highest vacancy in the area at 7.5%.

By center type, the vacancy rates at the end of the third quarter were as follows: for neighborhood & community centers the figure was 6.5%; strip centers reported 3.8% vacancy; power & regional malls recorded a 3.7% figure; and finally, lifestyle centers came in at a 1.6% vacancy rate.

After experiencing negative absorption in the second quarter, occupancy gains in the region during the third quarter jumped up to ±189,100 square feet (SF). Much of the positive absorption in this quarter was in the newly completed retail projects. There was 188,100 SF of new retail space completed in San Jose Metro during the third quarter 2016, including the 120,000-SF Santa Clara Square, which is anchored by Whole Foods Market, and some additions to existing centers in Almaden Ranch and Main Street Cupertino.

Of the roughly 37.4 million square feet (MSF) of shopping center inventory that we track in the region, approximately 2.1 MSF of space was available as of the third quarter and most of that space was in Class B or C projects.

MARKETBEAT

San Jose Metro

Retail Q3 2016

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We are currently tracking 613,100 SF of retail space under construction. Three major projects under construction in San Jose metro are Brokaw Plaza (150,000 SF) in San Jose, the redevelopment of Sunnyvale Town Center (150,000 SF) in Sunnyvale and The Village at San Antonio Center (144,000 SF) in Mountain View.

MUCH OF THE ±189,100 SF OF ABSORPTION IN THE THIRD QUARTER TOOK PLACE IN NEWLY COMPLETED PROJECTS.

The average asking rent in the region as of the third quarter 2016 was $29.48 per square foot per year (PSF) on a triple net basis, up 6.1% from last year's figure of $27.78 PSF. The rental rates range from $18.17 PSF in Morgan Hill/Gilroy to $43.27 PSF in Santa Clara. These rates reflect what is currently available in the marketplace, most of which is currently Class B or C space. Asking rates for small shop space in Class A or newly completed projects are typically topping the $60.00 PSF mark with some projects exceeding $70.00 PSF.

One significant sales transaction in the third quarter was Westgate West Shopping Center, a 233,800-SF property in San Jose which traded for $91.0 million or $387 PSF. This shopping center at the corner of Lawrence Expressway and Prospect Road is anchored by Trader Joe's, Orchard Supply Hardware, CVS, Ethan Allen and Smart & Final, and was sold by Grosvenor Americas to Donahoe Schriber Realty Group.

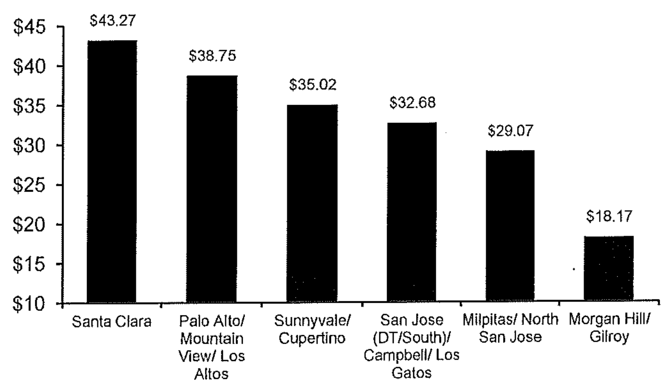
Outlook

- Despite this year's slight uptick in vacancy, tenant demand remains robust, particularly for new Class A/B+ space. Residential growth, low employment and top national income stats will continue to drive significant retailer interest in San Jose Metro Area.
- Rental rates will continue to grow for quality space while the leasing environment for older Class B-/C centers will remain competitive.
- Food related retail (grocery and restaurants) will continue to dominate retail leasing transactions.

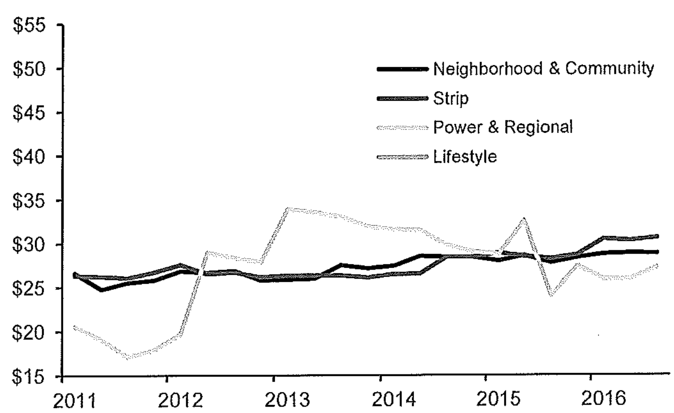
Market Indicators

	Q3 15	Q3 16	% Growth (1 Year)	12-Month Forecast
Overall Vacancy	4.9%	5.6%	70 BPS	▲
Net Absorption (SF)	85,000	189,000	122.3%	▲
Under Construction (SF)	729,000	613,000	-15.9%	▼
Average Asking Rent (NNN)	$27.78	$29.48	6.1%	▲

Average Asking Rent by Market (NNN)



Average Asking Rate by Type (NNN)



MARKETBEAT

San Jose Metro

Retail Q3 2016

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
San Jose (DT/South)/Campbell/Los Gatos	869	18,417,078	5.4%	94,400	-31,552	62,484	$32.68
Sunnyvale/Cupertino	221	4,783,142	2.8%	42,681	168,127	149,892	$35.02
Santa Clara	129	2,834,062	7.2%	64,627	-15,387	56,000	$43.27
Palo Alto/Mountain View/Los Altos	130	2,710,036	4.1%	-5,095	-24,031	194,700	$38.75
Milpitas/North San Jose	240	4,894,008	7.5%	5,502	-95,077	150,000	$29.07
Morgan Hill/Gilroy	165	3,931,108	7.3%	-13,032	29,957	0	$18.17

SHOPPING CENTER TYPE	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
Neighborhood & Community	988	25,633,347	6.5%	100,867	-148,526	350,000	$28.83
Strip	602	5,763,334	3.8%	7,691	56,997	8,984	$30.63
Power & Regional	150	5,412,295	3.7%	79,558	122,599	104,200	$27.23
Lifestyle	8	618,058	1.6%	967	967	149,892	$50.09
SAN JOSE METRO RETAIL TOTALS	1,748	37,427,034	5.6%	189,083	32,037	613,076	$29.48

*Rental rates reflect NNN asking $PSF/year

Key Lease Transactions Q3 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
749 E Calaveras Boulevard	47,400	24 HR Fitness	Lease	Milpitas
2450-2470 Charleston Road	30,000	Best Buy	Renewal	Palo Alto
2306 Almaden Road	28,800	Hope Services, Inc.	Lease	San Jose
580 N Rengstorff Avenue	28,200	Safeway	Lease	Mountain View

Key Sales Transactions Q3 2016

PROPERTY	SF	SELLER/BUYER	PRICE / $PSF	SUBMARKET
Westgate West Shopping Center	235,000	Grosvenor / Donahue Schriber	$91,000,000 / $387	San Jose
Saratoga Capital Building	31,500	Saratoga Capital Inc / Westbrook Partners	$9,800,000 / $310	San Jose
325 South 1st Street	29,400	Saratoga Capital Inc / Westbrook Partners	$7,800,000 / $265	San Jose
1290 Tully Road	23,800	Dollinger Properties / TLV Properties LLC	$7,500,000 / $316	San Jose

MARKETBEAT

San Jose Metro

Retail Q3 2016

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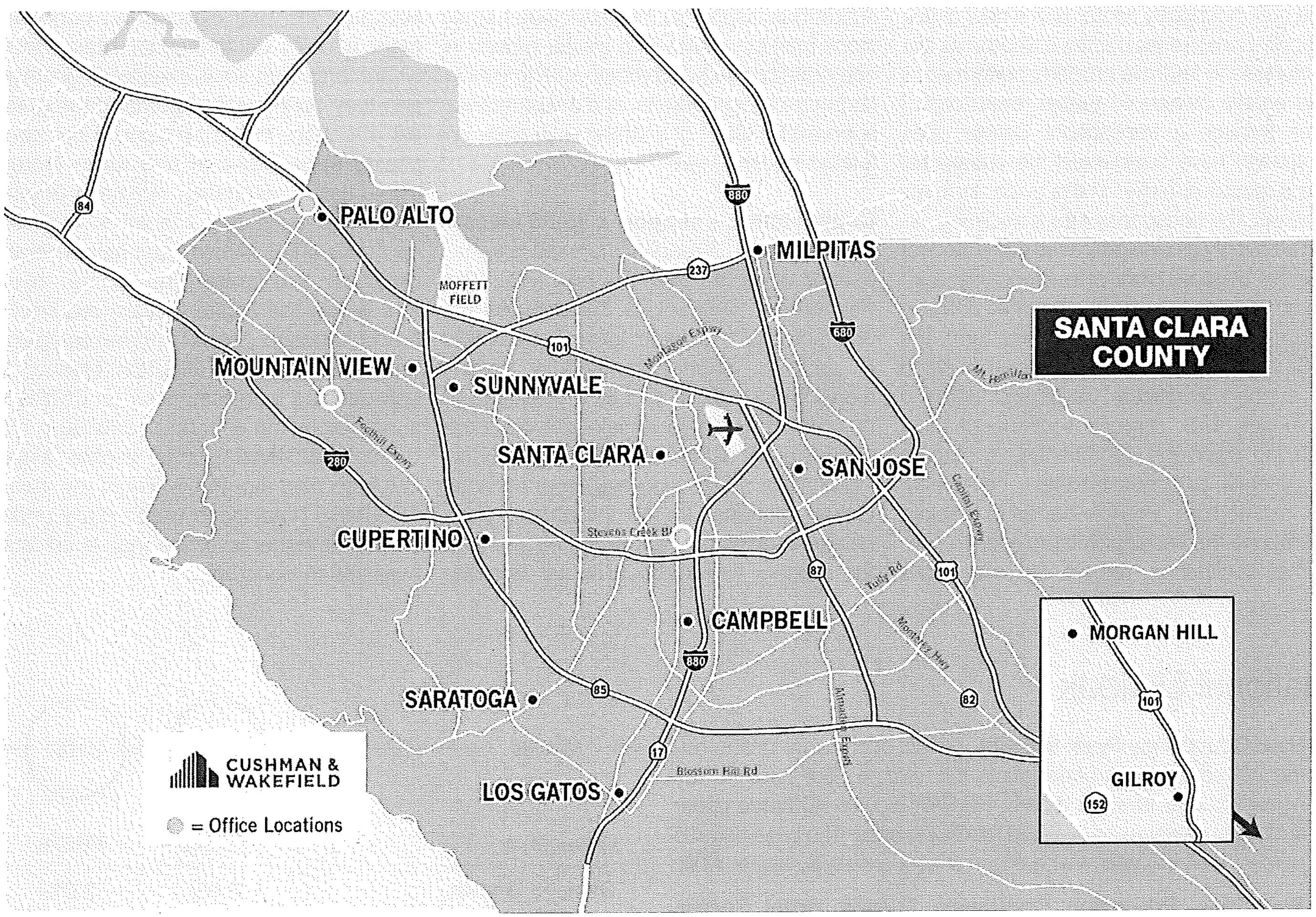
RETAIL SUBMARKETS

SAN JOSE METRO



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About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. Our 43,000 employees in more than 60 countries help investors and occupiers optimize the value of their real estate by combining our global perspective and deep local knowledge with an impressive platform of real estate solutions. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $5 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

Marcus & Millichap

Hospitality Research

Midyear 2016

Investors Intensify Efforts as Hotel Sector's Pace of Growth Eases

Outlook positive as cycle shifts gears. The U.S. hospitality sector is in a new phase that will nonetheless continue to provide opportunities to improve property performance and enable owners to realize return objectives through a transaction. Slower rates of growth have supplanted the substantial gains recorded earlier in the cycle. In many markets, the occupancy rate is declining, often as supply growth outpaces more modest gains in occupied rooms than one year ago. As an infusion of new stock comes online in a number of markets in the near term, the U.S. economy provides a sufficient tailwind to support additional travel and demand increases. U.S. payrolls continue to grow and job openings, representing a pipeline of potential business travelers, hover near an all-time high. Positive trends in employment, and the ensuing lift it provides to consumer confidence, remain vigorous forces supporting hotel performance, but potential headwinds also exist. These include further stock market volatility and slower growth in corporate profits, which could lead to cuts in corporate travel budgets, and the potentially suppressive effect of a strong U.S. dollar on foreign inbound travel.

Capital inflows support a liquid investment market. A modest increase in transactions occurred over the past year. The yield on the 10-year U.S. Treasury resides near some of the lowest levels in decades. In addition, short-term lending benchmarks most closely tied to the actions of the Federal Reserve remain low while the central bank defers its next move, marking another positive development for hotel capital markets. In the investment marketplace, sales of branded hotels account for roughly two-thirds of hotel transactions. Upper midscale inns, which include Hampton Inn and Holiday Inn concepts, mark a point on the chain scale ladder where large and small investors converge, and they continue to command the greatest attention. In the full-service tier comprising upper upscale and luxury hotels, single-asset purchases remain a primary target for investors. Interest in independent properties is also keen as soft-brand initiatives proliferate and some investors weigh the capital outlays required in brand-imposed property refreshes against the benefits of brand affiliation. Meanwhile, approaching loan maturities on CMBS issued before the economic downturn may prompt additional listings of older assets in the coming months. Many of the maturing CMBS hotel loans were initially underwritten at higher leverage than is currently available to borrowers.

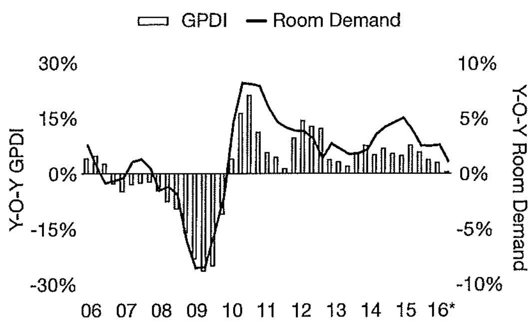
National Outlook

- **New Occupancy Peak in Sight.** Annual occupancy in U.S. hotels will advance 30 basis points this year to 65.8 percent, the highest annual level on record. RevPAR growth will come under additional pressure as available rooms increase. The projected 4.5 percent gain this year will be driven almost entirely by higher ADR.
- **Economic Expansion Continues, Fueling Hotel Sector.** Through the first half of the year, U.S. employers remain on pace to hire 2.1 million workers in 2016. The stable labor market and the emergence of the millennials as a potent economic force will drive consumption trends and support GDP growth in the 2 percent range this year.
- **Construction Pipeline Full.** Roughly 100,000 rooms are slated for completion this year, comprising primarily select-service hotels, but a topic of potentially greater interest may be the 210,000 rooms nationwide that are planned and in conceptual stages. As the hotel cycle matures and the performance of recently completed hotels becomes known, many construction lenders may hesitate to fund additional projects.

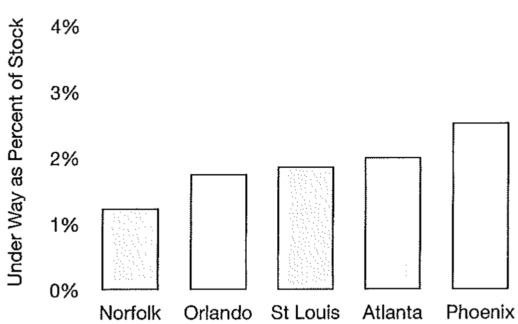
Metrics	2015	2016*
Occupancy	65.5%	65.8%
Demand Growth	2.9%	2.0%
Supply Growth	1.1%	1.6%
Average Daily Rate	$120.05	$124.97
Annual Change	4.5%	4.1%
RevPAR	$78.67	$82.24
Annual Change	6.3%	4.5%
Revenue Growth	7.4%	6.2%

* Forecast

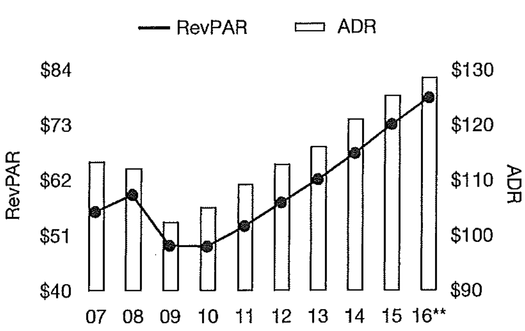
Business Spending Slows



Smallest Construction Pipelines



Annual ADR & RevPAR Rising



* First Quarter
** Forecast

National Economy

The steady growth of the U.S. economy is driving improvements in U.S. hotels. An average of nearly 200,000 jobs were added monthly over the past 12 months, increasing the pipeline of potential travelers for business and providing paid time off benefits for leisure trips. However, the increases in occupancy, ADR and RevPAR have moderated greatly from the high levels posted earlier in the cycle, leaving a smaller cushion to absorb any unanticipated disruptions to travel and room demand. While the consumers appear in sound shape to fuel economic growth due to consistent gains in spending, indicators of business travel remain challenging to read. Gauges of manufacturing and service sector activity are in expansion territory, an unequivocally positive sign. Gross private domestic investment, a proxy for business spending that tracks room demand, has lost momentum, however, adding an element of uncertainty to the outlook for business travel. The slower rate of growth primarily reflects a drop in purchases of equipment for oil-and-gas extraction, and hotels in energy-producing regions are indeed feeling the effects of a slowdown. Spending by expanding office-using establishments is rising modestly, but travel budgets appear to be flat. Recent earnings calls by hotel companies highlighted slowing growth in transient business travel.

Occupancy Trends

Travelers filled a record number of rooms in the first half of 2016, prompting a rise in the U.S. occupancy rate to 65.1 percent during the period. The 1.5 percent increase in available rooms in the first two quarters reflects mostly new property openings but also counts hotel expansions and re-openings. Nearly half of the 25 largest markets posted a decline in occupancy in the first half, primarily as a consequence of greater growth in available rooms. Large markets countering the trend and posting an increase in occupancy in the first two quarters include those with vibrant mixes of leisure and business demand drivers, including the robust Dallas market, Los Angeles, New York City and Washington, D.C. Significant pipelines of hotels under construction will continue to weigh down prospects of occupancy growth in several markets in the near term. However, other markets with comparatively subdued construction enjoy prospects of higher demand-driven occupancy. Markets with relatively light hotel development include Orlando and Atlanta, in addition to San Diego and San Francisco, where supply constraints, high land costs and tight housing markets often work against hotel development.

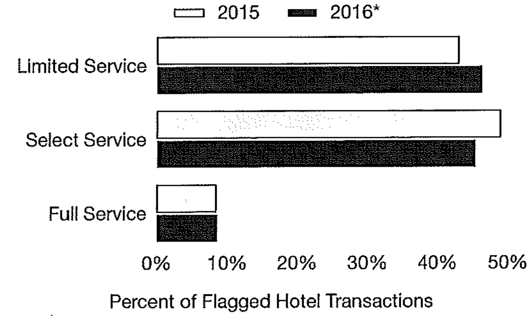
Revenue Trends

Revenue performance was mixed in the first half of 2016. Even as occupancy reached an all-time recorded high for the period, additional guests in rooms have not significantly translated into greater pricing power and substantially higher RevPAR. ADR and RevPAR each increased 3.1 percent during the first half of the year and the trailing-12-month growth rates for each metric continued to ease from peak levels registered earlier in the cycle. Markets outside the 25 largest outperformed their larger counterparts during the first half, partly reflecting lower negotiated rates for foreign tour groups in some of the large international gateways, including New York City. Other anomalies include the superior performance of independent hotels, where RevPAR rose 4.0 percent year to date to surpass the 2.7 percent bump in upscale and upper midscale inns, the top performance among affiliated hotels. Luxury hotels posted only nominal gains in revenue measures, perhaps reflecting a migration of travelers to the lower-priced accommodations that have become more prevalent in most markets.

Investment Trends

Ongoing flows of debt and equity and opportunities to enhance property performance are supporting a vibrant hotel investment market, driving a slight acceleration in transaction velocity over the past 12 months. Flagged limited-service properties, which comprise the economy and midscale chain scales, posted the most significant jump in deals over the past year, illustrating the presence of small private capital and their ability to access acquisition debt. Hotels at this end of the chain scale ladder could offer some operating advantages in the near term due to limited competition from new supply and an overall ADR that fits a wide range of travel budgets. In the next-highest tier, the share of flagged hotel deals attributable to select-service inns decreased modestly over the past year on a drop in upscale transactions. The upscale tier includes popular brands Courtyard by Marriott and Hilton Garden Inn and comprises the largest share of rooms under construction. Supply growth has slowed the pace of RevPAR gains and will continue to prompt longer due-diligence periods by prospective buyers to gauge the impact of new competition. Sales of upper midscale assets, meanwhile, rose over the past 12 months, with Holiday Inn concepts and Hampton Inn the brands closing most frequently.

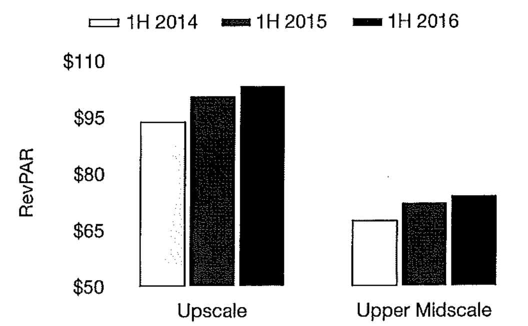
Branded Hotel Sales Distribution



Industry Segment Spotlight: Select Service

Select-service hotels, consisting of the upper midscale and upscale chains, retain immense appeal among investors and developers for their profitability, lean operations and flexible designs that can be fit into a range of markets and locations. These virtues by themselves could support a further expansion of the select-service construction pipeline, already the largest in the industry, over the coming months. As evidence of the steadfast popularity of the select-service model, the number of planned rooms climbed to more than 80,000 over the past year. The expansion occurred at a time when RevPAR growth clearly slowed, a development that may yet encourage construction lenders to re-evaluate proposals and deny funding for specific projects that offer diminished prospects of fulfilling performance projections. After rising more than 6 percent in the first half last year, upscale RevPAR grew in the high-2 percent range in 2016. In the upper midscale segment, where occupancy often accounts for a larger share of RevPAR growth, RevPAR year to date grew at an identical pace.

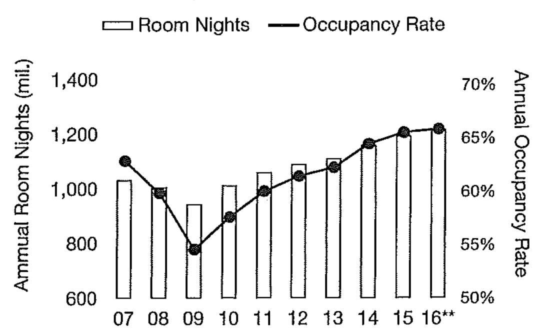
RevPAR by Chain Scale



2016 National Forecast

The U.S. economy has proved resilient throughout this cycle, hurdling numerous obstacles ranging from a federal government shutdown to financial markets' susceptibility to periodic bouts of volatility. Events abroad also periodically weigh on the outlooks of U.S. business and consumers, and the effects of the Brexit vote have clearly yet to entirely play out. However, a decline in travel from the U.K. and countries in the Euro zone could become more evident in bookings at U.S. hotels in the coming months. Against the backdrop of a choppy pattern of domestic economic growth and international uncertainty, the U.S. hotel sector will post modest gains in all key performance measures this year. Room demand will grow 2.0 percent in 2016 to offset an increase in construction, yielding a 30-basis-point rise in annual occupancy to 65.8 percent. Revenue measures will gain traction through the peak summer travel season and early fall, with ADR and RevPAR forecast to gain 4.1 percent and 4.5 percent, respectively. Over the near term, rising completions will slow occupancy growth and further compress gains in RevPAR.

Yearly Occupancy Trend



* Trailing 12 months to 1Q
** Forecast

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- The unanticipated outcome of the Brexit vote disrupted the Federal Reserve's campaign to normalize monetary policy. As expected, the central bank did not elect to raise its short-term lending benchmark at its July meeting, and prospects of a rate increase in September have also diminished. A flight-to-safety bid into the 10-year U.S. Treasury in the days following the outcome in the U.K. lowered the yield on the 10-year to the mid-1 percent range and reduced the 10-year Treasury swap rate.
- Spreads on CMBS widened in the wake of Brexit but retraced to near pre-vote levels in the ensuing days. CMBS lenders continue to compete with local, regional and large national banks in the hotel sector. The minimum loan threshold starts at $5 million, and rates begin at roughly 325 basis points above the 10-year U.S. Treasury swap rate for top brands in the largest markets, and select well-sponsored transactions in secondary markets. Terms are five or 10 years, and leverage is capped at 70 percent.
- Banks continue to monitor the concentration of hotel loans on their books as demand in some segments of the economy wanes. Local and regional banks will loan a maximum of $10 million for hotel transactions, while large national banks can provide up to $30 million. Leverage on senior debt can reach 65 percent for the best transactions. Loan terms vary from three to seven years at rates that typically range from 250 to 300 basis points above the corresponding U.S. Treasury yield or the U.S. prime rate. Non-recourse financing is also provided to qualified borrowers in select circumstances.

Recent Marcus & Millichap Transactions

Hotel Name	State	Rooms
Holiday Inn/Express Fargo Portfolio	ND	387
Holiday Inn	LA	334
Fairfield Inn & Suites Portfolio	CO	225
Hotel	WI	180
Red Roof Inn DFW Airport North	TX	156
Comfort Inn	UT	155
Hampton Inn Nashville Downtown	TN	154
Howard Johnson	IL	152
Aloft Cool Springs Nashville	TN	143
Quality Inn & Suites Pensacola	FL	142
Clarion Inn & Suites	FL	140
Courtyard Fairfield Napa Valley Area	CA	137
Oak Mountain Lodge	AL	130
Econo Lodge Six Flags Arlington	TX	130
Days Inn	LA	123
Best Western Savannah Gateway	GA	120
Hampton Inn Atlanta Airport West	GA	119
Holiday Inn & Suites Lima	OH	116
Whitten Inn	SC	107
Airport Inn & Suites	OK	100
Best Western Plus King's Inn & Suites	AZ	100
Quality Inn Bedford	IN	97
Holiday Inn Express & Suites	FL	95
Hampton Inn & Suites	FL	94

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Price: $250

Marcus & Millichap

Hospitality Research
State Report

Second Half 2016

California

Significant Growth Continues, Outpacing U.S. Performance

Key metrics rise. Record room revenue and occupied rooms pushed occupancy higher in California during the first half of the year. Additional growth in business and leisure travel in the second half will raise annual occupancy to a tick under 76 percent in 2016, the highest level this century. Growth rates are moderating and capacity for additional growth is shrinking, however. In Los Angeles, for example, even as daily occupancy frequently hits 85 percent or more, additional increases from similarly elevated levels of a year ago will prove challenging to achieve. New supply statewide also poses a potential impediment to further gains in main performance measures, but a supply-induced downturn in the hotel sector appears most likely only when joined by weaker demand. Roughly four of five rooms under construction are in the largest four markets of Los Angeles, Orange County, San Diego and San Francisco, comprising the set of markets with multiple demand drivers capable of absorbing new rooms. In addition, the state's booming apartment sector continues to impose limits on hotel building, potentially keeping the hotel market somewhat undersupplied. More than 28,000 apartments are slated for completion in the top four hotel markets this year, including many on sites suitable for hotels.

Combating Airbnb. Shortages of affordable housing in the state are prompting efforts by municipalities to regulate short-term accommodations services including Airbnb, providing hotel operators with incrementally greater power to set daily rates. Overall, the robust revenue generation of hotels continues to maintain a fluid investment market. Independents account for more than half of all hotels sold, a much higher proportion than elsewhere in the country. About two-thirds of non-branded properties are located outside of the four largest markets and deals generally price in the less-than-$10-million tranche, or the price equivalent of flagged limited-service inns. Within the chained hotel realm, additional economy hotels in the top four markets changed hands in the past year, reflecting the retirement of long-time owner-operators. Some of these sellers may consider redeploying capital into less-management-intensive assets, including single-tenant retail. Generally, an increase in sales among all chain segments in the largest markets over the past year provides valuable transparency on prices and signals that many owners can realize target returns in a transaction. However, older flagged hotels with impending PIPs or franchise renewals may take longer to trade.

2016 Forecast

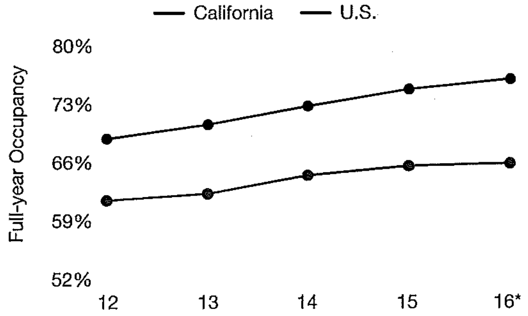
- **Performance Measures to Grow in 2016.** A vibrant economy continues to drive a high volume of travel within the state and will support a significant further improvement in hotel performance metrics this year. Annual occupancy will rise to 75.9 percent, while ADR growth of 5.8 percent will account for most of the increase in full-year RevPAR.
- **Modest Occupancy Gain in Orange County.** An uptick in attendance at Disneyland in the first quarter and a solid start to peak summer travel season nudged up occupancy 20 basis points in Orange County to 77.8 percent in the first half. RevPAR also grew 5.0 percent during the period. Business demand drivers are also strong in the market, with solid job growth and tight office vacancy persisting and contributing to higher weekday occupancy in the first half.
- **Results in San Diego Mixed.** Supply growth outpaced a modest rise in occupied rooms in the first half of this year, lowering the occupancy rate in San Diego to 76.8 percent. Subdued increases in ADR and RevPAR were also recorded. Properties completed include a 118-room Homewood Suites and the 135-room SpringHill Suites, each in Mission Valley.

Metrics	2015	2016*
Occupancy	74.7%	75.9%
Demand Growth	3.3%	2.6%
Supply Growth	0.5%	1.0%
Average Daily Rate	$149.96	$158.66
Annual Change	7.0%	5.8%
RevPAR	$112.01	$120.42
Annual Change	10.0%	7.5%
Revenue Growth	10.5%	8.5%

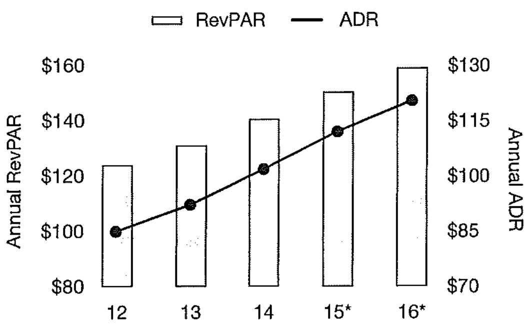
* Forecast
Sources: Marcus & Millichap Research Services; STR Inc.

Marcus & Millichap

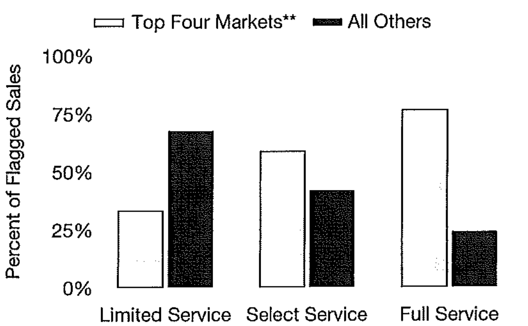
Annual Occupancy



Statewide ADR & RevPAR



Flagged Hotel Sales Distribution



* Forecast
** Los Angeles, Orange County, San Diego, San Francisco
Sources: Marcus & Millichap Research Services; STR Inc.

Occupancy Trends

- Guest volume in California remained strong in the first half of 2016. Statewide occupancy jumped 100 basis points during the period from the level attained one year ago, to 75.2 percent. Room nights rose 1.9 percent during the period to outpace the national rate of growth. Limited construction outside of most of the major markets yielded a scant 0.6 percent gain in available rooms during the first two quarters.
- Sacramento and Los Angeles registered net declines in available rooms so far this year that contributed to jumps in occupancy in excess of the statewide rate of growth. In Sacramento, occupancy soared 250 basis points to 68.1 percent. Improvements in the local economy continue to drive business travel. A 3.0 percent rise in room demand that surpassed the gain posted one year ago and a minor drop in supply raised first-half occupancy to 81.9 percent in Los Angeles.
- Occupancy in San Francisco hotels tightened from one year ago. First-half occupancy of 83.1 percent was attained on a gain in occupied rooms of 1.8 percent and marked a 60-basis-point rise from midyear 2015. Spring travel lifted occupancy in the Inland Empire 160 basis points in the first half to 68.8 percent. Several new hotels are planned in the region.

Revenue Trends

- Numerous days of high occupancy will continue to support vigorous pricing power and RevPAR growth in the state. Through midyear, ADR in the state advanced 7.0 percent, or more than two times the rate of growth nationally, and drove most of the 8.5 percent rise in RevPAR.
- The jump in occupancy and double-digit growth in ADR raised RevPAR in Los Angeles 13.7 percent in the first half after a gain of 7.6 percent was logged in the corresponding period last year. An increase in RevPAR of 10.0 percent in San Francisco means that a cumulative 39.0 percent bump has been recorded since 2013.
- Elsewhere, a double-digit increase in RevPAR was also recorded in Sacramento, while the Inland Empire logged a 7.4 percent rise. A more modest rate of growth in the 5 percent range will ensue in the off-peak summer months before the late fall travel season begins.

Sales Trends

- Debt and equity flows generated a slight increase in hotel transactions during the past 12 months. Velocity was virtually unchanged in the four largest markets and slightly higher in all other places.
- Investors executed more deals for flagged assets in the four largest markets than during the prior 12-month span. The share of branded properties sold in the top four markets rose from roughly one-third of all such deals statewide in the prior year to more than 40 percent during the most recent 12 months.
- Within the brand segments in the top markets, select-service assets posted the greatest increase in deal flow over the past year. Upscale hotels typically fetched more than $200,000 per room, while upper midscale hotels traded at roughly $150,000 per room, and more in San Francisco.

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Price: $250

Primary Market – Silicon Valley

Market	MARKET FUNDAMENTALS							
	Vacancy (%)	Vacancy Change	Absorption (MW)	Demand Outlook	Under Construction (MW)	Construction Pipeline	Wholesale Rental Rates (kW/mo)	Pricing Outlook
Silicon Valley	7.3%	▼	6.5	▲	43	▲	$145 - $165	▲

Source: CBRE Data Center Solutions, Q2 2016. *Arrows indicate change from Q4 2015.

As expected, market conditions in Silicon Valley continued to tighten in the first half of 2016. Existing vacancy rates declined to 7.3% at mid-year, representing a 440 basis point decline from second quarter 2015. While net absorption tallied only 6.5 MW during the first six months of the year that total is not indicative of the market's overall activity or performance. As of Q2 2016 there are currently 43.5 MW under construction in the Silicon Valley, all but 2 MW of that total construction volume have already been pre-leased. When these new projects are completed and commissioned later this year, absorption totals for 2016 are likely to surpass those of 2015.

As one of the most mature data center markets in the country, Silicon Valley is one of the first markets to have almost completed a full peak-to-trough market cycle in the multi-tenant data center space. After the spike in demand generated by the rapid ascension of social media, content and big data/analytics in the late-00s, Silicon Valley has fully recovered from the right-sizing and transition of those requirements to near record-low vacancy in this new cycle of prolific cloud demand. These low vacancies have severely limited providers' abilities to accommodate larger requirements. Currently only a small number of providers with first-generation space could immediately accommodate a requirement larger than 2 MW. However, as many legacy leases continue to expire and be re-evaluated, there may be a handful of larger-sized availabilities over the next several quarters in second-generation facilities that have historically been positioned as retail/colocation inventory.

Given the landlord favorable market conditions and prevailing imbalance of supply and demand, both new and existing data center operators have been scouring the Santa Clara area for expansion and growth opportunities. Despite increasing appetites for these opportunities, powered shell or development sites in Santa Clara's current data center cluster remain scarce which will only be exacerbated by pressures from the existing construction pipeline of office and mixed-use projects being developed in the area. City officials have also stated their preference to promote commercial and mixed-use projects which could result in re-zoning historical industrial areas, further limiting data center development. Regardless, opportunities are sparse throughout the Valley – industrial vacancy rates declined to a staggeringly low 1.4% in Q2 2016 and nearly 2 million square feet of industrial product is expected to be delivered this year. Considering these factors, it's likely that longer-term growth in the Silicon Valley data center market will be forced to migrate to new areas such as South San Jose or Fremont.

RECENT NOTABLE ACTIVITY

- Vantage Data Centers recently acquired a property adjacent to its existing campus in Santa Clara on which it plans to develop its new V6 facility. While detailed plans have yet to be announced, V6 will be developed in tandem with an additional facility (V5) on its existing campus that could add in upwards of 20 MW of capacity as early 3Q 2017.

Marcus & Millichap

Multifamily Research Market Report

Third Quarter 2016

San Jose Metro Area

Long-Term Investors Eye San Jose Apartments as Construction Surges

Job creation remains well above national average; housing prices support long-term rental story. Home to several of the largest corporations in the nation and a vibrant startup scene, the labor market in San Jose has been a beneficiary of continued hiring by multiple organizations of all sizes. As a result, demand for housing has soared, leading the vast majority of local residents toward rental housing due to the high cost of single-family homes. While new development was slow to catch up to plummeting vacancy rates in previous years of the cycle, builders have increased the pace of deliveries significantly, with planned completions set to reach the highest point since 2000. The quick pace of supply injections has had a significant impact on Class A operations, which have seen vacancy tick up in key urban submarkets as tenant optionality improved. However, Class C buildings have remained tremendously resilient, boosted by the lack of alternatives at lower price points. While vacancy will continue to trend higher throughout the year as supply comes online, the longer-term supply and demand picture remains incredibly supportive. The rise in vacancy will trim the pace of rent growth over the coming months but will be unable to halt a seventh year of robust appreciation.

Supply surge doing little to halt price appreciation as investors eye long-term market dynamics. As interest rates remain historically low, investors in the Bay Area continue to deploy capital for San Jose metro assets. While supply increases have prompted sharp vacancy upswings in Class A buildings, buyers have been overwhelmingly targeting Class C product, particularly in San Jose, Santa Clara and Sunnyvale. As a result, cap rates have been pushed into the low-4 percent range metrowide, while garnering prices per unit in excess of $275,000. Deal volume had remained subdued in earlier years of the cycle, yet surged meaningfully over the past year as more current owners opted to reduce exposure or shift capital into other asset classes, particularly net-leased retail. This pickup in activity will continue throughout the year as supply additions increase, providing opportunity for investors wishing to deploy capital in the metro.

2016 Multifamily Forecast

4.1% increase in total employment

Employment:

In 2016, San Jose organizations will hire 44,000 new workers, expanding the job market by 4.1 percent as office-using firms continue to add to headcounts. Last year, 42,500 people found work, a 4.2 percent rise.

5,900 units will be completed

Construction:

Builders will increase the pace of completions this year, finishing 5,900 apartments with a primary emphasis on the Central San Jose and North San Jose/Milpitas submarkets. Last year, construction firms placed 3,470 units in service.

30 basis point increase in vacancy

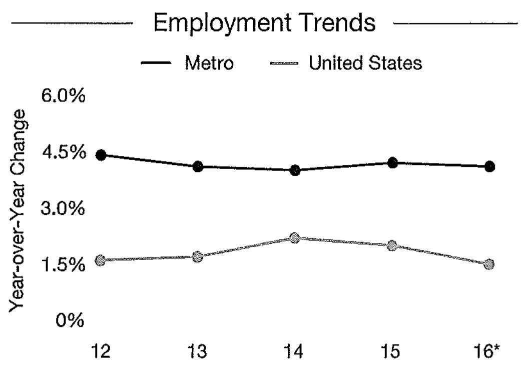
Vacancy:

The metrowide vacancy rate will rise 30 basis points in 2016 to 3.7 percent. The vacancy rate dipped 10 basis points in the prior year as supply and demand were roughly in balance.

3.5% increase in effective rents

Rents:

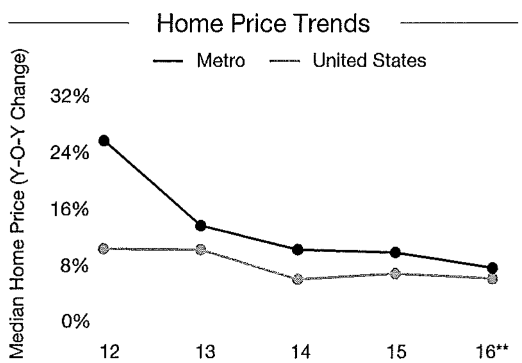
The average asking rent will advance 3.5 percent to $2,560 per unit by the end of the year as the vast amounts of new supply weigh on operations over the medium term. In the previous yearlong period, the average asking rent gained 7.9 percent.



Economy

- Over the past year, local San Jose employers created 42,200 new positions, a 4.1 percent expansion of the job market. This follows the 39,900 additional workers hired in the previous 12-month period.
- Although the pace of job creation is slowing, the composition of new staffers has remained excellent, with high-paying office-using companies making up the bulk of recent additions. The professional and business services sector provided the vast majority of metro payroll growth, with headcounts rising by 16,860 people.
- Tremendous improvement in the job market has had a substantial impact on the unemployment rate, which dropped to 3.8 percent during the second quarter of 2016. The rate peaked above 11.0 percent during the third quarter of 2009.

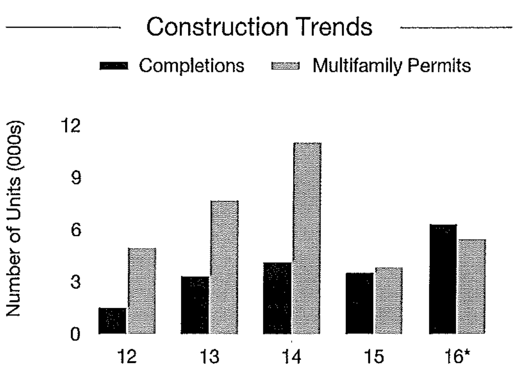
Outlook: The job market will remain resilient this year, supporting the creation of 44,000 new slots, a 4.1 percent advancement.



Housing and Demographics

- The planning pipeline is expanding as metro builders respond to a shortage of housing. Multifamily permitting has risen nearly 30 percent, while single-family permits pulled rose nearly 8 percent.
- During the last 12 months, the median household income rose 5.2 percent to more than $104,000 per year. Over the same period, single-family home prices surged 9.0 percent to more than $1.01 million on average.
- After accounting for a downpayment, taxes and insurance, the average mortgage payment is more than $5,400 per month. Meanwhile, the average apartment rent is $2,528 per month, indicating a substantial gap in affordability. The minimum qualifying income for a mortgage is above $223,000 per year, more than double the metro average.

Outlook: The high cost of single-family housing, particularly in desired neighborhoods, will encourage the vast amount of metro residents to continue renting apartments, even as rental rates move higher.



* Forecast
** Trailing 12 months through 2Q

Construction

- During the first six months of 2016, builders in the San Jose metro delivered more than 1,600 apartments, bringing completions over the past 12 months to more than 3,400 units. Nearly a third of new supply was brought to market in Central San Jose, with additional concentrations in the North San Jose/ Milpitas and South San Jose submarkets.
- While a handful of projects will target affordable housing, the vast majority of the planning pipeline remains market-rate stock, with completion sites widespread across the metro. The Irvine Company is constructing the largest upcoming offerings, with River View II in San Jose and Monticello in Santa Clara set to contain 958 units and 825 rentals, respectively.
- The North San Jose/Milpitas and Central San Jose submarkets will receive the bulk of new supply over the remainder of the year, with planned deliveries set to exceed 1,800 apartments.

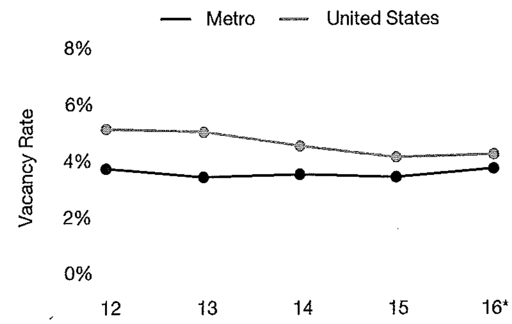
Outlook: Builders will complete 5,900 units in 2016, far exceeding the 3,500 brought to market over the previous year.

Vacancy

- During the last four quarters, the metro vacancy rate elevated 60 basis points to 3.1 percent as operations at Class A and B facilities were under strain. Class C product bucked the trend, with vacancy tightening 20 basis points to 1.1 percent.
- Significant injects of new supply in the North San Jose/Milpitas submarket pushed up the vacancy rate 190 basis points to 4.3 percent, led by a 360-basis-point decline in Class A buildings as renter optionality increased substantially. Class C operations were unaffected as vacancy remained unchanged.
- Despite receiving substantial new product, the Central San Jose submarket tightened 30 basis points to 3.1 percent as Class B assets outperformed, with vacancy falling 80 basis points to 4.1 percent. Class A stock was hampered by a robust completion schedule as vacancy soared 160 basis points to 4.3 percent.

Outlook: The construction pipeline will expand meaningfully this year, triggering a 30-basis-point increase in the metro vacancy rate to 3.7 percent. Class A product will be under the most pressure as new supply raises tenant optionality.

Vacancy Rate Trends

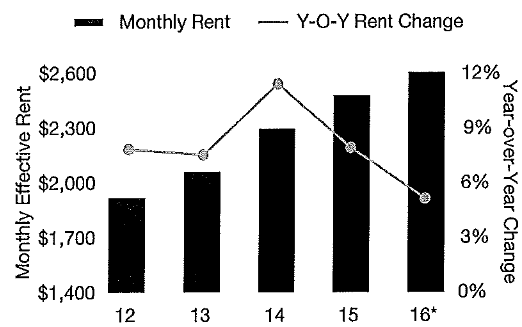


Rents

- Over the past year, the average asking rent advanced 3.2 percent to $2,528 per month, driven by robust growth in Sunnyvale and Cupertino submarkets. The previous yearlong period recorded an 11.6 percent surge in rent prices.
- The South Sunnyvale/Cupertino submarket vastly outperformed the broader metro, with the average asking rent climbing 5.5 percent to $2,968 per month. Although Class C properties recorded a small increase, both Class A and Class B assets rose substantially, contributing to the lift in prices.
- Supply injections weighed heavily on the Central San Jose submarket, with Class A product ticking up 1.1 percent to $2,840 per month. The entire submarket ticked up marginally, rising 0.8 percent to $2,323 per month, brought down by a 1.8 percent decline in Class B asking rent and a 1.9 percent drop in Class C product.

Outlook: The average asking rent for properties in the San Jose metro will swell 3.5 percent to $2,560 per month as tremendous supply growth weighs on market tightness, limiting pricing power.

Rent Trends

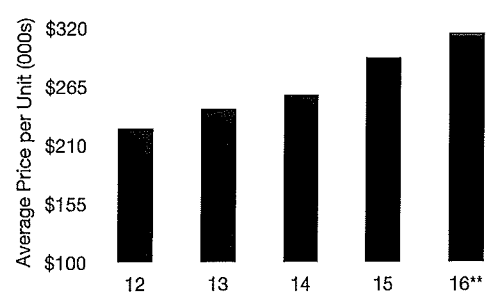


Sales Trends

- Over the last four quarters, transaction velocity picked up substantially, with closed transactions rising 10.8 percent as more willing sellers entered the market..Dollar volume also ascended. The vast majority of capital closed on Class C assets.
- The average price per unit rose 18 percent over the past year, with the majority of transactions closing in the mid-$270,000 per square foot range. Class C product exchanged ownership at an average price of $265,000 per door, while Class B assets typically traded above $300,000 per unit.
- The average first-year return is in the low- to mid-4 percent range, depending on asset quality and locations. Premier assets can extend into the high-3 percent band, while typical market product will trade with cap rates closer to 4.6 percent.

Outlook: While supply growth has been significant, longer-term factors such as the high cost of housing and robust employment market continue to propel investors to deploy capital in the metro.

Sales Trends



* Forecast
** Trailing 12 months through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Global capital markets have remained stable over the past few weeks, even as Brexit and the continued devaluation of the Chinese yuan have induced bouts of volatility into stock and bond markets. Meanwhile, U.S. economic data has proved resilient, with increases in retail sales and steady hiring supporting a measured pace of growth. Additionally, higher bond prices have lowered prospective yields, boosting the appeal of commercial real estate.
- As the homeownership rate continues to plumb new lows, investor interest in the multifamily sector remains upbeat. The U.S. vacancy rate reached 4.2 percent by the end of the first quarter, the lowest rate of the current cycle. As a result, builders have ramped up the planning pipeline, with completions forecast to rise to 285,000 units, the highest level in more than 20 years. However, new supply is heavily concentrated in a few large metros, reducing the national impact.
- Capital markets remain highly competitive, with a broad assortment of fixed-rate products available through commercial banks, life-insurance companies, CMBS and agency lenders. Fannie Mae and Freddie Mac are underwriting loans of 10 years at maximum leverage of 80 percent. Rates will typically reside in the high-3 to low-4 percent range, depending on underwriting criteria. Portfolio lenders will also price in this vicinity but will typically require loan-to-value ratios closer to 65 to 75 percent. Floating bridge loans and financing for repositionings are typically underwritten with LTVs above 80 percent, while pricing at 300 basis points above Libor for recourse deals and extending to 450 basis points above Libor for non-recourse transactions.

Local Highlights

- New York City developer Related Cos. has received approval for a $6.5 billion project that will be known as City Place in Santa Clara. The 9.7 million-square-foot City Place is the largest private construction deal ever in Silicon Valley, with plans calling for between 200 and 1,680 apartments, 5.7 million square feet of offices, 1.1 million square feet of retail space and 700 hotel rooms surrounding a 35-acre park.
- The Irvine Co. has acquired several buildings in the Peery Park neighborhood as it seeks to revamp the area into a mixed-use project. Filed plans would see the current industrial buildings razed to make room for roughly 2 million square feet of office space, 200,000 square feet of retail floor plates and 215 residential units.
- The Irvine Co. is also constructing the largest expected apartment completion for 2016, with River View II slated for a fourth quarter delivery of 958 units at 250 Brandon Street in San Jose. The site will contain a clubroom, five Junior Olympic-size pools, a wine room with kitchen and dining area, and two resort-style fitness centers.

MARKETBEAT

Bay Area

Multi-Family Q3 2016

CUSHMAN & WAKEFIELD

BAY AREA MULTI-FAMILY

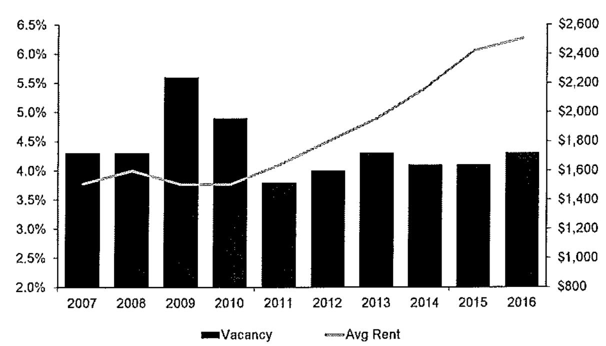
Economics Indicators

	Q3 15	Q3 16	12-Month Forecast
Bay Area Employment	3.905M	4.026M	▼
Bay Area Unemployment	4.0%	3.9%	▲
U.S. Unemployment	5.2%	4.9%	▼

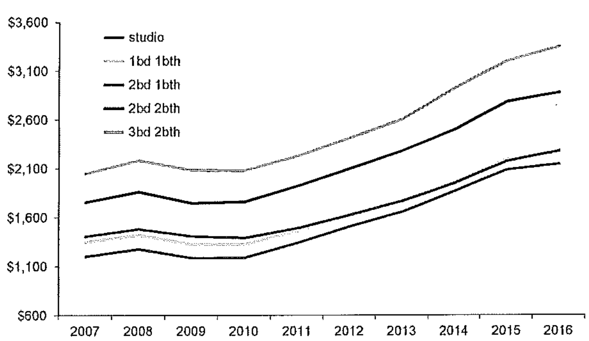
Market Indicators (Overall, All Classes)

	Q3 15	Q3 16	12-Month Forecast
Overall Vacancy	4.2%	4.2%	▲
Average Asking Rent	$2,482	$2,508	▲
Total Sales Volume	$1,832M	$1,929M	▼
Average Cap Rate	4.38%	4.49%	▼

Vacancy & Average Asking Rate*



Average Asking Rent by Unit Mix*



*Annual Average

Bay Area Undergoing Period of Softening

- Apartment communities in the Bay Area ended Q3 2016 with a total market vacancy of 4.2%, unchanged from the previous year. Increase in labor force and new construction has been the biggest contributors to keeping the vacancy rate flat.
- The average rental rate across all unit types was $2,508, an increase of +1.0% from a year ago and +39.2% since the beginning of the current real estate cycle in 2012.
- San Francisco County is the most expensive apartment market in the region and rivals Manhattan as the priciest market in the U.S. The average rent in San Francisco fell slightly during the quarter to $3,499 compared to $3,595 in the previous quarter.
- Properties with 16 units and greater in the Bay Area total 7,914 and supply 582,205 existing apartment units. The East Bay is the largest market with over 2,900 communities totaling 192,000 units.
- Currently in the Bay Area, approximately 21,000 units are under construction. Santa Clara accounts for nearly 7,400 units under construction followed by San Francisco County with roughly 5,600.
- We are tracking over 300 projects in the Bay Area at various stages in the planning and entitlement process that could potentially add another 82,500 units to the market.
- The Bay Area employed over 4.0 million residents at the close of Q3 2016, roughly +121,000 more than a year ago.
- The unemployment rate in the Bay Area is currently at 3.9%, roughly 10 basis points lower than the previous year, and has remained under 5.0% for eight consecutive quarters.

MARKETBEAT

Bay Area

Multi-Family Q3 2016

CUSHMAN & WAKEFIELD

Sales

- In the Bay Area, there were 186 apartment transactions totaling $1.9 billion in Q3 2016 compared to 187 transactions and $1.5 billion in the previous quarter.
- The Bay Area capitalization (cap) rate ended the quarter at 4.5%, slightly lower than the previous quarter at 4.7%. The gross rent multiplier or GRM ended the quarter at 14.19 compared to 13.81 the close of Q2 2016.

Q3 2016 Top Deal Profile

Indigo (463 Units) in San Mateo sold to **AIMCO** from Pauls Corporation for **$320,000,000**.

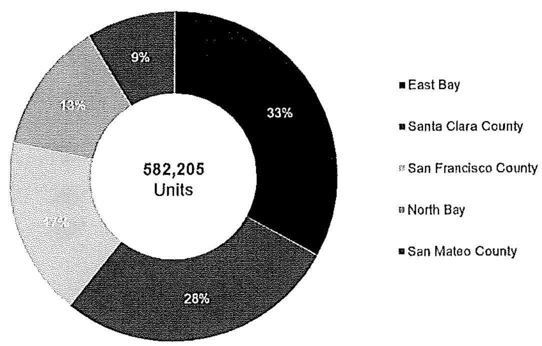
- San Francisco County held the lowest cap rate of all Bay Area markets at 3.4% while Solano County was at the other end of the spectrum at 6.2%.
- The East Bay accounted for the most sale transactions and the highest dollar volume in the Bay Area at 78 transactions and $729 million in sales.

Outlook

- Overall rental rates will continue to level off as the recent round of new construction hits the market driving a greater degree of competition with available units.
- Vacancy will inch close to 4.0% in response to new deliveries. Tenants will flock to recently built communities with better onsite and local amenities with the exception of tenants already enjoying the benefit of strong rent controlled markets (San Francisco, Oakland, Berkeley, and Richmond).
- Interest rates remain near historic lows but are expected to increase in early 2017. Interest rate increases will likely lead to an upward adjustment in capitalization rates.

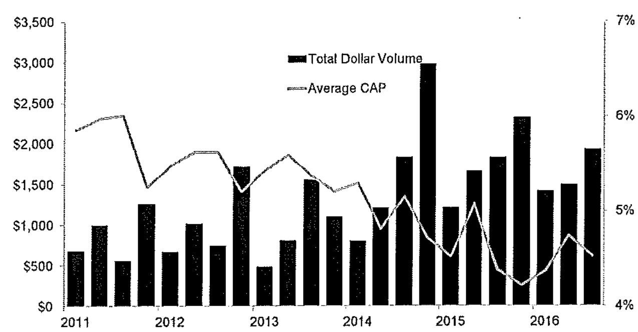
Total Existing Units by Region

EAST BAY & SANTA CLARA ACCOUNT FOR 61% OF THE BAY AREA



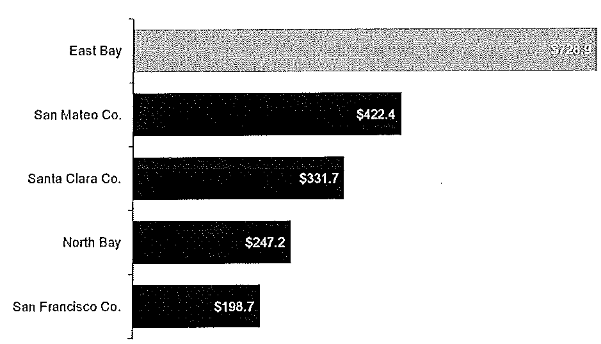
Historical Investment Dollar Volume & Cap Rate

CAP RATE COMPRESSION RESUMES



Investment by County in Q3 2016 (Millions)

INVESTMENTS SURGE IN SAN MATEO AND EAST BAY OFFERINGS



MARKETBEAT

Bay Area

Multi-Family Q3 2016

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RENTAL STATISTICS BY MARKET	TOTAL PROPERTIES	TOTAL UNITS	UNITS U/C	AVERAGE VACANCY	AVERAGE RENT	STUDIO	1BR / 1BA	2BR / 1BA	2BR / 2BA	3BR / 2BA
Alameda County	2,191	130,394	3,819	3.6%	$2,310	$1,820	$2,080	$2,278	$2,677	$3,148
Contra Costa County	730	61,621	494	3.9%	$1,946	$1,549	$1,777	$1,864	$2,239	$2,181
East Bay	**2,921**	**192,015**	**4,313**	**3.7%**	**$2,170**	**$1,713**	**$1,966**	**$2,133**	**$2,480**	**$2,839**
San Francisco County	**1,645**	**102,087**	**5,606**	**4.3%**	**$3,499**	**$2,809**	**$3,317**	**$3,459**	**$4,650**	**$4,556**
San Mateo County	**665**	**50,667**	**2,570**	**4.4%**	**$2,913**	**$2,076**	**$2,622**	**$2,980**	**$3,473**	**$4,454**
Santa Clara County	**1,617**	**162,242**	**7,368**	**4.6%**	**$2,619**	**$1,933**	**$2,369**	**$2,542**	**$2,958**	**$3,616**
Marin County	249	14,304	180	4.4%	$2,656	$1,762	$2,297	$2,393	$3,184	$4,138
Sonoma County	426	27,637	216	3.2%	$1,847	$1,115	$1,646	$1,728	$2,161	$2,605
Napa County	104	7,744	148	2.6%	$1,982	$1,000	$1,762	$1,814	$2,327	$2,585
Solano County	287	25,509	508	5.9%	$1,586	$1,263	$1,477	$1,482	$1,775	$1,838
North Bay	**1,066**	**75,194**	**1,052**	**4.4%**	**$1,916**	**$1,374**	**$1,722**	**$1,742**	**$2,185**	**$2,791**
TOTAL	7,914	582,205	20,909	4.2%	$2,508	$2,154	$2,275	$2,298	$2,877	$3,380

Property statistics for communities 16 units and greater, rental statistics for communities 50 units and greater

INVESTMENT STATISTICS BY MARKET	TOTAL PROPERTIES	SALES VOLUME	TOTAL UNITS	PRICE/ UNIT	PRICE/ SQ. FT.	CAP RATE	GRM
Alameda County	58	$486,281,860	1,696	$286,723	$282.82	4.7%	14.26
Contra Costa County	20	$242,660,474	711	$341,294	$349.78	5.3%	10.60
East Bay	**78**	**$728,942,334**	**2,407**	**$302,842**	**$302.07**	**4.7%**	**12.98**
San Francisco County	**39**	**$198,688,588**	**506**	**$392,664**	**$503.72**	**3.4%**	**18.43**
San Mateo County	**20**	**$422,435,560**	**754**	**$560,259**	**$633.83**	**3.8%**	**17.23**
Santa Clara County	**30**	**$331,747,409**	**1,075**	**$308,602**	**$368.28**	**4.6%**	**15.03**
Marin County	2	$6,960,258	27	$257,778	$407.03	4.3%	14.29
Sonoma County	8	$219,880,256	860	$255,674	$268.85	4.5%	14.22
Napa County	0	N/A	N/A	N/A	N/A	N/A	N/A
Solano County	9	$20,394,119	172	$118,570	$149.01	6.2%	10.08
North Bay	**19**	**$247,234,632**	**1,059**	**$233,460**	**$254.40**	**5.7%**	**12.01**
TOTAL	186	$1,929,048,522	5,801	$332,537	$360.79	4.5%	14.19

Property sales for communities 5 units and greater

Key Multi-Family Sale Transactions Q3 2016

PROPERTY	UNITS	BUYER	SELLER	SALE PRICE	COUNTY
Indigo	463	AIMCO	Pauls Corporation	$320,000,000	San Mateo
Enclave at Adobe Creek	492	JRK Property Holdings	Kennedy-Wilson Properties	$144,500,000	Sonoma
Avana Stoneridge	354	Greystar Real Estate Partners	Jackson Square Properties	$130,000,000	Alameda
Kensington Place	167	Welltower	Vintage Senior Housing	$111,484,533	Contra Costa
Creekwood	309	Bridge Investment Group Partners	Carmel Partners	$97,400,000	Alameda
Metro Six55 Apartments	188	Jackson Square Properties	Kennedy-Wilson Properties	$62,000,000	Alameda
Renaissance Square—Phase 1	134	Legacy Partners / SyRES Properties	Monogram Residential Trust	$59,500,000	Contra Costa
Monte Vista Gardens	144	Preservation Partners	Jamboree Housing Corporation	$53,000,000	Santa Clara
555 Apartments	137	Interstate Equities Corporation	Fowler Property Acquisitions	$46,000,000	Santa Clara
Campbell Plaza Apartments	121	Sasaki Investments	The Bascom Group	$45,050,000	Santa Clara

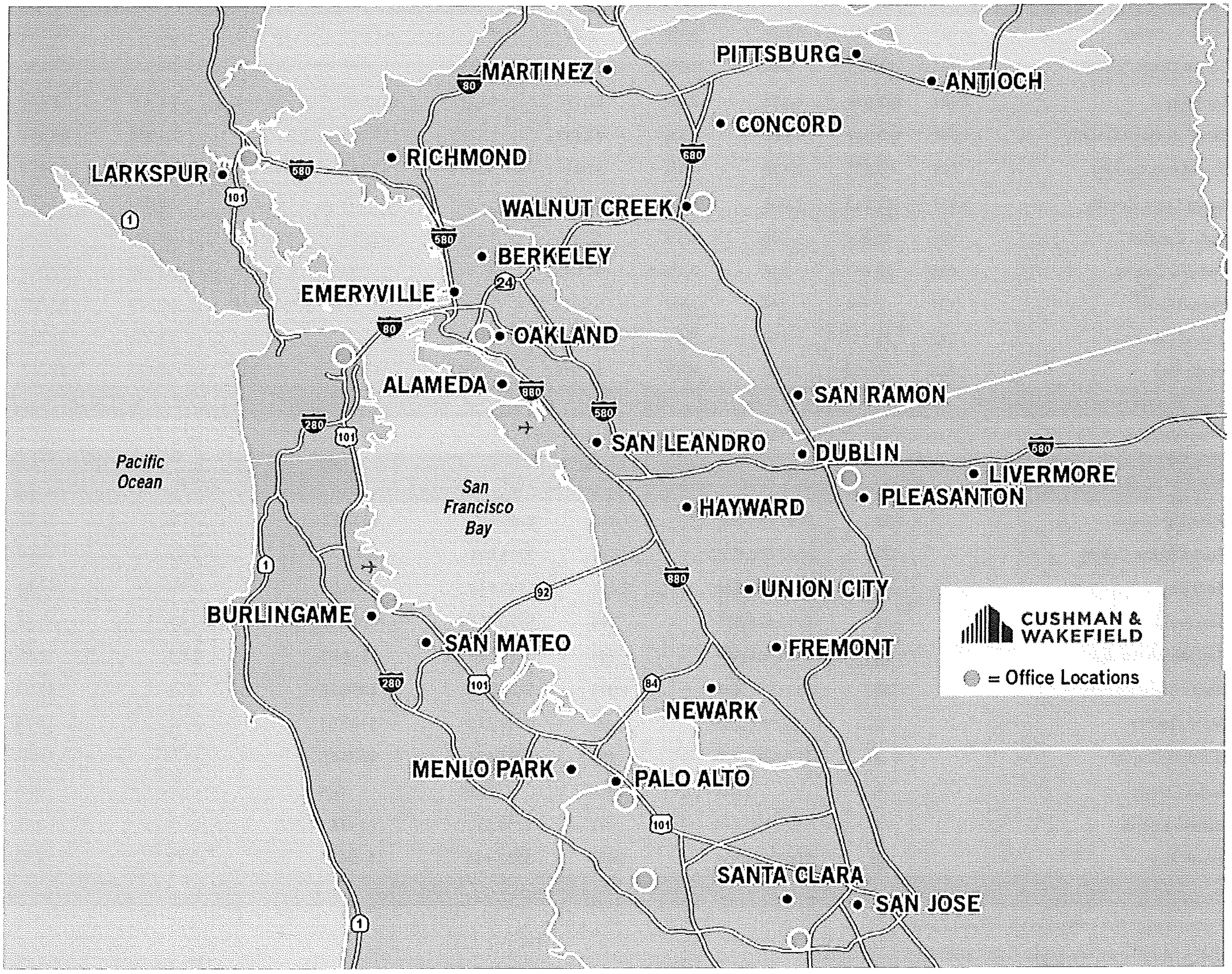
MARKETBEAT

Bay Area

Multi-Family Q3 2016

CUSHMAN & WAKEFIELD

Multi-Family Submarkets
Bay Area



Source: Cushman & Wakefield Research, CoStar Group, Real Answers

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About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $5 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

Understanding Absorption

Colliers uses several measurements to track market conditions and deal flow. While related, the formulas to arrive at these measurements differ. Using the results of the most recent quarter, here is how Colliers measures change in availability, net absorption and effective net absorption.

Change in Availability: This measurement is simply the difference between the amounts of space available at the end of one period to the next. The table below shows that total available space increased by 1,129,308 square feet in the year's second quarter. Note that "change in availability" includes adjustments for space that is "taken off the market". Space "taken off the market" is not a factor in net absorption measurements.

Total Available end of 2Q16	28,211,,761
Plus: Vacant & Occupied Space that came available in 3Q16	4,649,151
Plus: New Shell added in 3Q16	405,694
2Q16 Available + Newly Available in 3Q16	33,266,606
Less: 3Q16 Gross Absorption	-5,237,864
Less: 3Q16 Adjustments/Taken off Market	1,312,327
Total Available end of 3Q16	29,341,069

Net Absorption: Net absorption measures the change in *occupied* space from one period to the next. In this measurement, it is important to distinguish that a building may be "available", but not vacant (often the case in a sublease situation, for example). Therefore, occupancy is not reduced (negative net absorption) until the space is vacated, and sometimes that does not happen until the space is leased, creating a net absorption "wash" for the deal and for that particular period.

New Vacant Space that came available 3Q16	-808,461
Previously Available Space that was vacated in 3Q16	-3,934,980
3Q16 Total Vacant added (Occupancy Loss)	-4,743,441
3Q16 Gross Absorption (occupancy gain)	5,237,864
3Q16 Net Absorption (change in Occupancy)	494,423

Effective Net Absorption: In 2003, Colliers created a measurement of "effective net absorption". Effective net absorption uses the same formula as the net absorption formula, except that it treats any space that comes available as if it is vacant, whether it is or it is not. The purpose of the measurement is to get a better "real time" gauge of occupancy flow in and out of the market, acknowledging that space that is available for lease is likely to be vacated shortly and underutilized presently.

New Vacant Space that came available 3Q16	-808,713
Occupied Space that came available 3Q16	-3,840,690
2Q16 Total Available added	-4,649,151
3Q16 Gross Absorption	5,237,864
3Q16 Effective Net Absorption	588,713

554 offices in
66 countries on
6 continents

United States: **153**
Canada: **34**
Latin America: **24**
Asia Pacific: **231**
EMEA: **112**

$2.5
billion in annual revenue*

2.0
billion square feet under management

16,000
professionals and staff

* All statistics are for 2015 and include affiliates

FOR MORE INFORMATION

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FRANK E. SCHMIDT, MAI, SRA
CURRICULUM VITAE, July 2016

The Schmidt-Prescott Group, Inc.

Valuation Consulting, Forensic and General Appraisal, Expert Testimony
MAI and SRA MEMBER of the APPRAISAL INSTITUTE, No. 11933
California Certified General Appraiser, License No. AG005421 Certified until 11/30/2016

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Frank Schmidt is President of the Schmidt-Prescott Group. Frank has been appraising proposed and existing real estate since 1975. He has testified as an **expert witness** frequently during his career for both plaintiffs and defendants. Frank has served on **numerous professional committees and boards**, and in 2014 was reappointed to a 3-year term by County Supervisor to the Santa Clara County Assessment Appeals Board.

His practice includes the **appraisal for eminent domain and litigation support assignments, estate and trust** work and **right-of-way** assignments for public, semi-public and private entities. Notable recent assignments include the appraisal of fee and easement rights for a 350-acre dairy for a **proposed acquisition by a public agency**; a 2,773-acre ranch comprising a residential subdivision, a house on 81 acres, and agricultural ranchland for a proposed public agency acquisition; the appraisal of the 56-acre San Jose Flea Market for the **proposed Berryessa BART Station**; the appraisal of Seven Springs Ranch comprising a historical structure and 40 acres of undeveloped land; and **diminution in value** consultation on the San Bruno, CA PG&E gas line that ruptured and ignited in 2010 destroying 38 homes. In 2016 Mr. Schmidt was retained by the City of Santa Clara as an expert to assist the City Council appointed Task Force in recommending the process for setting Parkland Dedication In Lieu Fees.

Mr. Schmidt was raised on a dairy farm which he entitled and converted into a residential subdivision. His **land development** background brings added insight and credibility to his analysis.

Expert Witness Testimony

U.S. District Court, Santa Clara County Superior Court, San Joaquin County Superior Court, San Francisco County Superior Court, Public Utility Commission of the State of CA, American Arbitration Association, Standard of Care, Eminent Domain

Professional Affiliations

Membership in:	Appraisal Institute [MAI (2002) and SRA Member (1989)] – Continuing Education Program Completed through December 31, 2021; International Right of Way Association
Licensed as:	Certified General Real Estate Appraiser, State of California, AG005421 – Certified through November 30, 2016

Work Experience

2/95 to present:	The Schmidt-Prescott Group, President San Jose, California
4/78 - 2/95:	Schmidt & Associates, Inc., President San Jose and Fremont, CA
6/76 - 4/78:	Senior Supervising Appraiser, Mercury Savings & Loan Cupertino, CA
1/76 - 6/76:	Staff Appraiser, American Savings & Loan San Jose, CA
2/75 - 12/75:	Real Estate Appraiser and Consultant, B.A. Ericson Appraisal Co., San Jose, CA

Formal Education

B.S. Business Management, 1997 Graduated With Honors	University of Phoenix San Jose, CA