

Silicon Valley Office Highlights Q4 2009

Tenant requirements rise as market falls

Silicon Valley's marquee tenants were by no means sheltered from faltering domestic and global economic conditions in 2009. Corporate headcount attrition and mergers & acquisitions resulted in significant increases in vacancy and sublease offerings across the market. As a result, market fundamentals shifted in favor of tenants as landlords were aggressively competing to attract new and retain existing tenants.

Job losses have tapered off and reported financial results by many tech stalwarts are beating Wall Street expectations. This has provided positive momentum for the high-tech industry moving into 2010, which was evident by the increased lease transactions during the fourth quarter. Although renewals continue to dominate transaction types, several significant expansions/consolidations were signed. The 'flight to quality' period of the falling market phase is beginning as rental rates bottom out during 2010 and tenants take advantage of cyclical low rents.

Leasing activity

- Juniper Networks extended their three-building, 424,825 square foot, Class A lease with GE Capital and Tishman Speyer on N. Mathilda Drive in Sunnyvale. This represents the largest office transaction of the year.
- Nortel Networks renewed 318,000 square feet at 4555 Great America Parkway in Santa Clara with Prudential REIT and Harvest Properties for five years. Nortel had previously master leased both buildings in the complex, prior to filing for Chapter 11 earlier in 2009.
- Social networking company Facebook expanded again for the second time in the last 14 months subleasing 265,000 square feet from Beckman Coulter at 1050 Page Mill Road in Palo Alto's Stanford Research Park. Facebook leased the space for four years.
- Video transmission equipment manufacturer Harmonic leased 188,391 square feet for 10 years from The Carlyle Group at 4300 North First Street in San Jose. Harmonic will relocate and consolidate from a multi-building configuration in Sunnyvale.

- Accounting firm Deloitte renewed their 147,000 square foot lease with Equity Office at 225 West Santa Clara Street in Downtown San Jose for 10 years.
- Ultratech Stepper renewed their 97,910 square foot lease with LaSalle Investment Management at 3050 Zanker Road in North San Jose for seven years. Ultratech downsized and relinquished 79,143 square feet in the adjacent 2880 Junction Avenue building.
- Law firm WilmerHale leased 71,420 square feet at 950 Page Mill Road in Palo Alto for 10 years from Drawbridge Partners.
- Trend Micro renewed their 53,225 square foot lease at 10101 N. De Anza Boulevard in Cupertino with Four Corners Properties.
- Namco Networks expanded and extended their 30,652 square foot lease for six years with Equity Office at 1740 Technology Drive in San Jose.
- Investment firm Oppenheimer & Co subleased 7,200 square feet from Piper Jaffray at 1950 University Circle in Palo Alto for six years. Oppenheimer is relocating from Sand Hill Road in Menlo Park.

Tenants in the market

- Social networking company LinkedIn has been rumored to be looking at relocation alternatives as large as 200,000 square feet. The company expanded their Mountain View presence in 2008 and continues to grow after being valued at over \$1 billion.
- Chip maker Rambus is searching for up to 140,000 square feet, although they have test-fitted spaces as small as 100,000 square feet. They currently lease 95,400 square feet in Mountain View.

Sales activity

- Investment sales activity has remained dormant in spite of aggressive re-pricing. Several projects being marketed have been garnering significant interest including Symantec's former world HQ in Cupertino. An uptick in sales activity during 2010 is anticipated.
- Digital Realty Trust closed the only investment sale in the quarter, purchasing a Sprint datacenter at 1350 Duane Avenue in Santa Clara. The property traded for \$90.5 million (\$495 per square foot).

Construction Activity

- The Valley's development cycle is complete, delivering over three million square feet of Class A shell space since 2007. At year-end 2009, a mere 128,000 square feet of that total has been leased, with one project having gone back to the lender and two projects halted mid-construction. The only project still under construction is Brocade's 540,000 square foot, North San Jose headquarters.