

MARKET TRENDS

SILICON VALLEY OFFICE

MARKET DRIVERS

WITH INFLATION, a declining economy, and employee desire to work from home, tenants are continuing to re-evaluate their space needs resulting in excess space being placed back on the market for lease. As a result, the market wide availability rate increased to 19.2% in 4Q22, a jump of nearly 25% YOY and 12% QOQ.

VACANCY RATES remained steady, hovering between 12% and 13% in 2022. The largest office submarket - San Jose - was a big factor in keeping the office market steady, dropping from 12.6 in 3Q22 to 12.4 in 4Q22, a 1.3% decrease QOQ.

ALTHOUGH ASKING LEASE RATES increased 2.1% YOY, from \$4.84 in 4Q21 to \$4.94 in 4Q22, they are down 2.6% QOQ from \$5.07.

WITH MANY COMPANIES continuing to implement the hybrid and work-from-home models and investors being wary of current economic conditions, sales volume decreased 50.4% YOY from 1.5 million SF in 4Q21 to 720,863 SF in 4Q22. Additionally, the total sales volume declined by 62.3% from 6.1 million in 2021 to 2.3 million in 2022.

NET ABSORPTION decreased 83.7% YOY from 1.8 million SF in 4Q21 to 296k SF in 4Q22 and fell 23.8% QOQ from 388k.

ECONOMIC REVIEW

SANTA CLARA COUNTY'S unemployment rate increased slightly this quarter to 2.3% but has consistently remained lower than the state of California's rate of 4.0%.

THE PROFESSIONAL BUSINESS SERVICES sector of the San Jose-Sunnyvale-Santa Clara MSA reached a total of 266,200 jobs by 4Q22, a 14,000-job improvement from 4Q21 and a 3,800 job increase QOQ. Despite the growth, the job gains appear to be slowing. For example, there were 6,200 jobs added in 3Q22 and 4Q22 had the least growth for the year.

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Market Summary

	4Q22	3Q22	4Q21	Annual Change
Vacancy Rate	12.44%	12.50%	12.60%	-1.29%
Availability Rate	19.23%	17.20%	15.40%	24.86%
Asking Lease Rate	\$4.94	\$5.07	\$4.84	2.07%
Gross Absorption (SF)	479,938	2,403,738	2,147,791	-77.65%
Sale Volume(SF)	720,863	312,255	1,451,855	-50.35%
Net Absorption	295,665	387,892	1,818,101	N/A

↑ **479K SF**
LEASING ACTIVITY

↑ **295K SF**
NET ABSORPTION

↑ **12.44%**
VACANCY RATE

↑ **\$4.94**
ASKING RENT (AVG)

↑ **8M SF**
NEW DELIVERIES

Year-Over-Year Trend

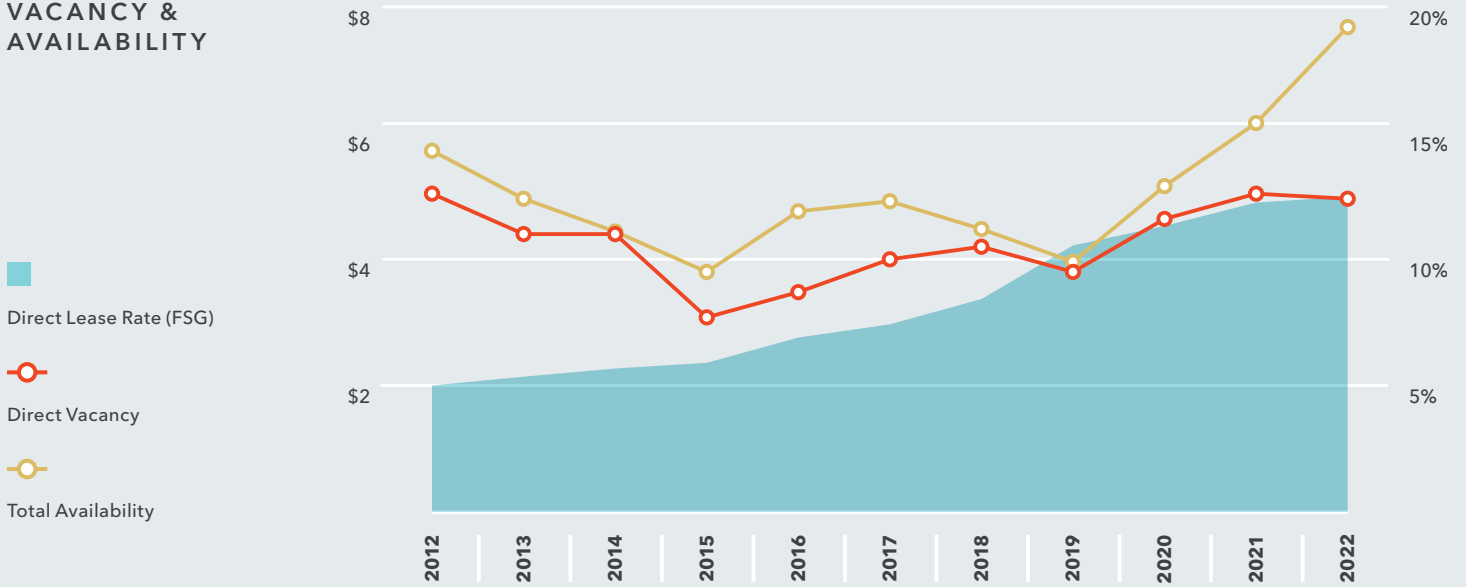
Market Highlights

ASKING LEASE RATES decreased QOQ to 4.94/SF FS

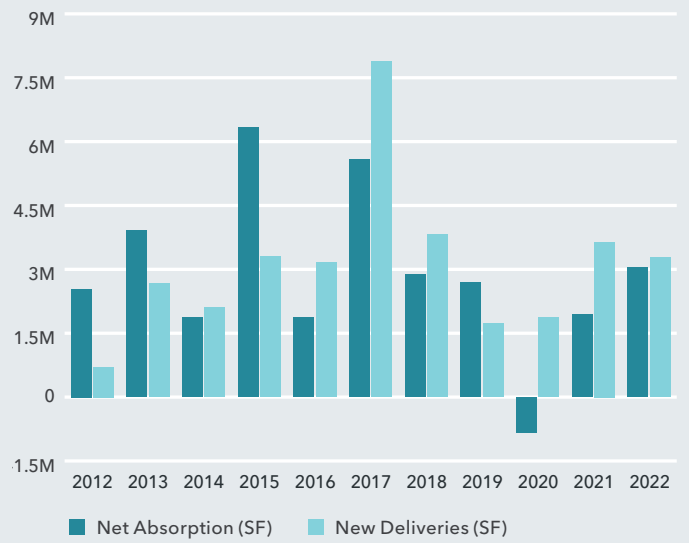
AVAILABILITY RATES rose to 19.3%

TOTAL NET ABSORPTION decreased YOY and QOQ to 295,665 SF

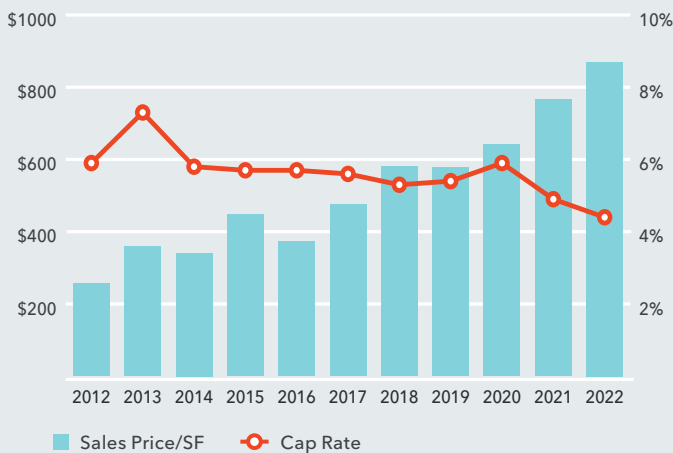
LEASE RATE, VACANCY & AVAILABILITY



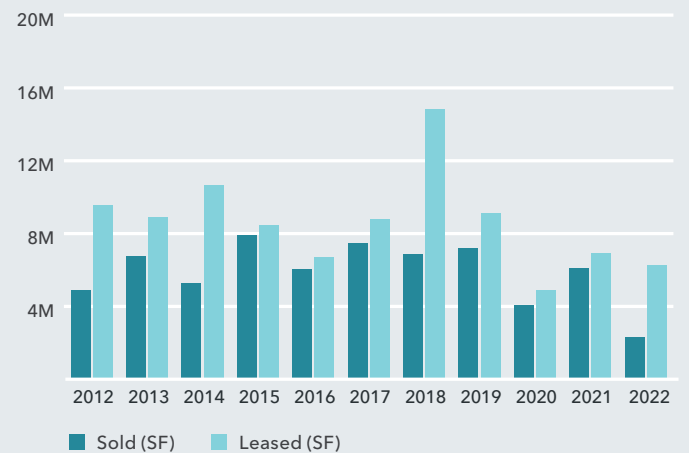
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	SF Under Const.	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q22 Direct Net Absorption	4Q22 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	4Q22 Gross Absorption	YTD Gross Absorption	4Q22 Rental Rate KM CoStar
Campbell	2,516,849	165,987	17.14%	25.11%	41.42%	-39,981	-37,424	262	-149,971	48,398	193,741	4.86
Cupertino	7,481,572	-	4.17%	4.48%	5.65%	-23,346	-22,866	-5,713	5,764	12,128	75,422	5.04
Fremont	5,083,728	-	6.12%	9.92%	10.91%	-47,055	-222,962	-68,499	-200,930	28,938	149,475	2.52
Milpitas	4,756,409	-	8.05%	10.10%	16.41%	22,407	14,646	72,635	-1,113	34,509	212,223	2.62
Mountain View	13,658,997	1,864,687	7.18%	9.06%	17.18%	-53,202	-36,820	1,252,195	1,147,588	23,768	496,212	6.99
Newark	473,719	-	15.23%	15.23%	16.24%	-6,581	-6,581	-15,619	-15,619	883	28,243	2.63
Palo Alto	12,906,046	-	9.15%	13.11%	21.24%	35,550	132,118	106,604	267,192	43,348	487,657	8.08
San Jose	39,898,127	1,355,342	12.44%	14.40%	22.50%	151,565	79,684	-643,630	-454,970	176,382	1,892,932	4.00
Santa Clara	20,401,109	-	14.92%	18.70%	25.88%	-31,745	9,071	447,072	741,503	100,642	1,541,253	4.30
Sunnyvale	21,527,579	2,207,563	5.60%	7.06%	11.91%	404,004	386,799	1,772,636	1,700,761	10,942	1,163,417	5.73
Total	128,906,198	5,593,579	10.00%	12.44%	19.23%	411,616	295,665	2,917,943	3,040,205	479,938	6,240,575	4.80
Class A	49,200,984	5,593,579	8.62%	10.89%	21.87%	518,390	486,174	3,127,151	3,197,180	75,503	2,585,596	5.67
Class B	66,588,772	-	12.05%	14.94%	19.29%	-90,719	-267,551	-179,383	-170,639	339,250	3,444,640	4.22
Class C	12,914,379	-	4.80%	5.60%	9.11%	-16,055	77,042	-29,825	13,664	65,185	210,339	3.26

NEAR-TERM OUTLOOK

OVERALL, SALES VOLUME has been significantly lower than pre-pandemic averages, this is especially true in downtown cores. There is some good news in that there were 64 total investment grade sales in the metro area, but this is less than half of the 137 sales recorded in 2019.

DESPITE RECENT OFFICE MARKET SETBACKS, over 600k SF of new development has been approved this quarter for downtown San Jose. Additionally, Google and Meta have also received approvals for a combined 2.5 million SF of new office projects.

WITH MORE THAN HALF of the Silicon Valley sublease market coming from the tech sector, looming layoffs, the recession, and corporate downsizing is anticipated for much of 2023.

TOP SALE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
684 W Maude Ave	Sunnyvale	194,624	\$222,000,000	\$1,140.66	Union Investment	Invesco Real Estate
200 S Mathilda Ave	Sunnyvale	156,960	\$193,250,000	\$1,231.21	Drawbridge Realty	J.P. Morgan Asset Management
3303 Scott Blvd	Santa Clara	83,590	\$85,000,000	\$1,016.87	Deere & Company	Toeniskoetter Development
350 Holger Way	San Jose	96,502	\$54,000,000	\$559.57	The Wonderful Company	Thor Equities
2030 Fortune Dr	San Jose	72,249	\$18,100,000	\$250.52	2030 Fortune Drive LLC	Simms Development Co.

TOP LEASE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
2221-2223 Oakland Rd	San Jose	42,365	December 2022	100% Pure Cosmetics	CC Integration
391-401 San Antonio Rd	Mountain View	40,000	October 2022	Brookfield Property Group	Lacework
50 W San Fernando St	San Jose	21,254	October 2022	Jay Paul Company	Armanino LLP
470 Lakeside Dr	Sunnyvale	15,225	December 2022	Tiros Investors LLC	Undisclosed
240 S Whisman Rd	Mountain View	14,668	October 2022	Jack Dymond Associates, LLC	Archer Aviation

TOP UNDER CONSTRUCTION

Property	Submarket	SF	Delivery Date	Owner
200 Park	San Jose	936,985	June 2023	Jay Paul Company
The Landings	Mountain View	800,000	April 2024	Google
100 Caribbean Dr	Sunnyvale	537,000	May 2023	Google
200 Caribbean Dr	Sunnyvale	505,075	August 2024	Google
325 Autumn Pkwy	San Jose	390,000	February 2025	Boston Properties, Inc.

Data Source: Costar; ycharts.com, labormarketinfo.edd.ca.gov, bls.gov, bizjournals



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COMMERCIAL BROKERAGE	\$10.9B TRANSACTION VOLUME ANNUALLY	49.7M ANNUAL SALES SF	43.7M ANNUAL LEASING SF
ASSET SERVICES	52M MANAGEMENT PORTFOLIO SF	875+ ASSETS UNDER MANAGEMENT	270+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,600+ ASSIGNMENTS ANNUALLY	48 TOTAL APPRAISERS	25 WITH MAI DESIGNATIONS

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