

MARKET TRENDS

SILICON VALLEY OFFICE

MARKET DRIVERS

WIDESPREAD LAYOFFS by major tech companies and smaller businesses led to increases in office sublease space coming to market and were also a contributing factor to low demand. Consequently, an office availability rate of 19.5% was seen in 1Q23 which was both an increase quarter-over-quarter and year-over-year.

THERE WAS A STABLE INCLINE in vacancy rates from 12.4% in 4Q22 to 12.9% in 1Q23. Many tenants have decreased their office requirements, making renewal activity the primary driver of market activity.

ASKING LEASE RATES REDUCED year-over-year and quarter-over-quarter to \$4.60/SF in 1Q23 from \$4.88/SF in 1Q22 and \$4.94/SF in 4Q22. While some lessors remain steadfast in their rental rates, others are adapting to the current economic conditions by dropping rates and including deal incentives.

INVESTORS HAVE GROWN increasingly cautious with the purchase of office property as post-pandemic, economic fallout has put great strain on business operations including those of the banks. Sales Volume fell year-over-year from 460.5k SF in 1Q22 and quarter-over-quarter from 691.1k SF in 4Q22 to 227.9k SF in 1Q23.

LARGE LEASES from businesses such as Tesla and Texas Instruments have positively skewed net absorption to 402k SF in 1Q23, a quarter-over-quarter increase from 350.8k SF in 4Q22 and a year-over-year decrease from 585.1k SF in 1Q22. However, these deals have been made with the intent to vacate similarly sized sites.

ECONOMIC REVIEW

THE UNEMPLOYMENT RATE in Santa Clara County rose to 3.0% this quarter from 2.2% in the previous quarter. Similarly, California's unemployment rate had a slight increase from 4.1% in the previous quarter to 4.3% this quarter.

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Market Summary

	1Q23	4Q22	1Q22	Annual Change
Vacancy Rate	12.89%	12.40%	12.30%	4.81%
Availability Rate	19.52%	17.70%	16.00%	22.03%
Asking Lease Rate	\$4.60	\$4.94	\$4.88	-5.74%
Gross Absorption (SF)	1,247,210	913,854	1,024,031	21.79%
Sale Volume(SF)	227,890	691,073	460,524	-50.52%
Net Absorption	401,999	350,764	585,096	N/A

↑ 1.3M SF
LEASING ACTIVITY

↓ 402K SF
NET ABSORPTION

↑ 12.9%
VACANCY RATE

↓ \$4.60
ASKING RENT (AVG)

↑ 1.1M SF
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

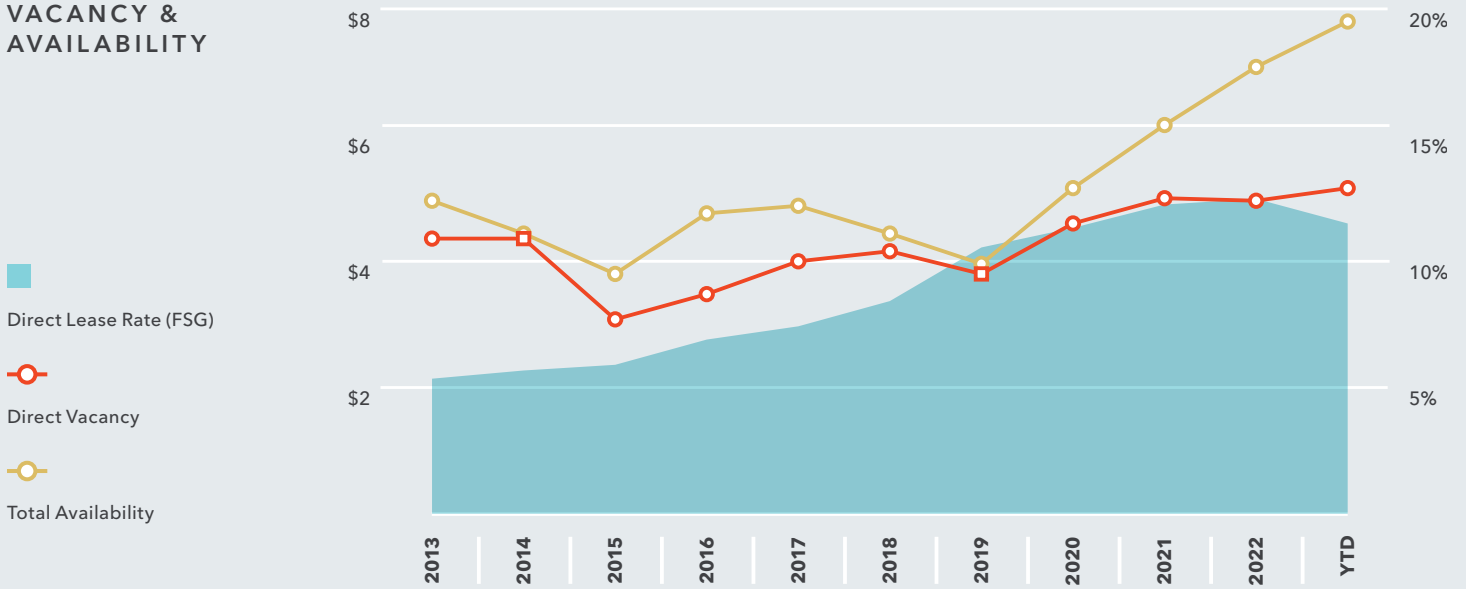
ASKING LEASE RATES decreased to 4.60/SF FS

THE AVAILABILITY RATE increased to 19.5%

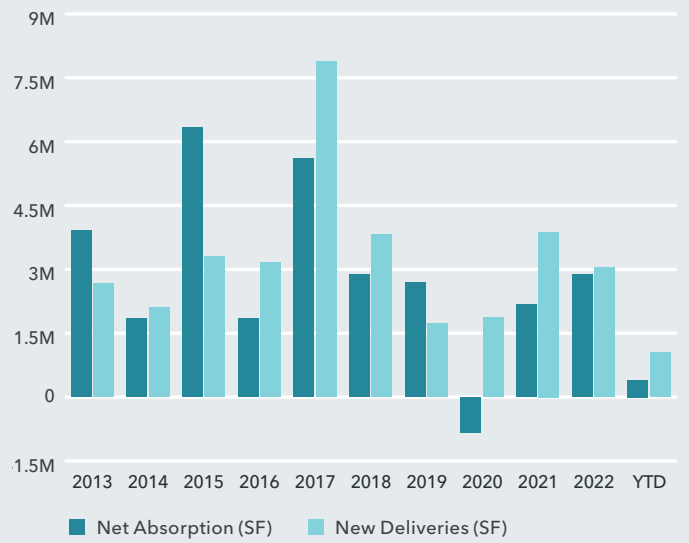
SALE VOLUME DROPPED to 227,890 SF

TOTAL NET ABSORPTION increased to 401,999 SF

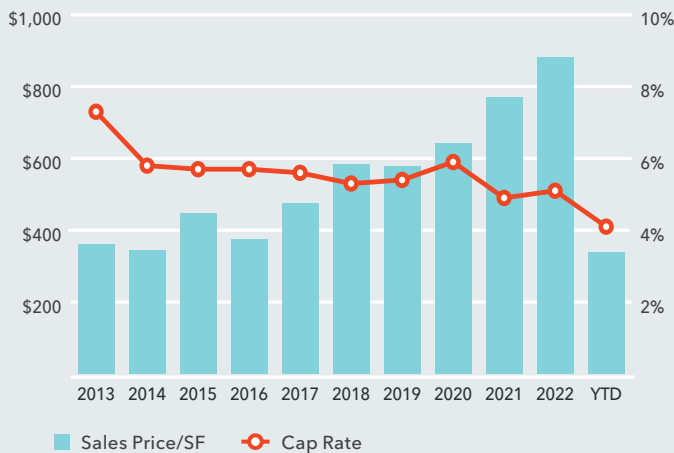
LEASE RATE, VACANCY & AVAILABILITY



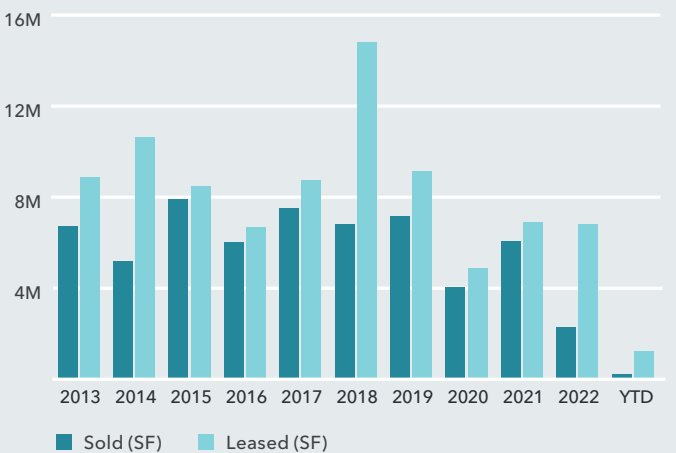
NET ABSORPTION & NEW DELIVERIES



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	1Q23 Direct Net Absorption	1Q23 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	1Q23 Gross Absorption	YTD Gross Absorption	1Q23 Rental Rate KM CoStar
Campbell	2,542,522	165,987	16.9%	24.5%	41.6%	789	10,673	789	10,673	7,067	7,067	\$4.16
Cupertino	7,481,572	-	4.2%	4.6%	5.5%	-510	-5,469	-510	-5,469	25,781	25,781	\$4.96
Fremont	5,030,015	-	5.2%	9.2%	8.9%	-5,154	-11,762	-5,154	-11,762	19,254	19,254	\$2.49
Milpitas	4,717,191	-	8.8%	10.8%	10.9%	-31,196	-31,196	-31,196	-31,196	12,365	12,365	\$2.58
Mountain View	13,634,539	1,212,543	8.3%	10.0%	16.9%	-155,102	-124,431	-155,102	-124,431	39,207	39,207	\$6.75
Newark	473,719	-	14.8%	14.8%	14.5%	2,245	2,245	2,245	2,245	8,218	8,218	\$2.58
Palo Alto	12,915,163	-	9.6%	13.1%	20.2%	-48,115	3,048	-48,115	3,048	354,922	354,922	\$7.86
San Jose	40,588,784	1,355,342	12.5%	14.3%	23.0%	648,656	669,799	648,656	669,799	435,158	435,158	\$3.98
Santa Clara	20,866,253	-	14.6%	19.2%	26.3%	-2,572	-189,430	-2,572	-189,430	44,348	44,348	\$4.07
Sunnyvale	21,866,060	3,383,423	5.7%	8.0%	13.3%	252,268	78,522	252,268	78,522	300,890	300,890	\$5.70
Total	128,906,198	6,117,295	10.2%	12.9%	19.5%	661,309	401,999	661,309	401,999	1,247,210	1,247,210	4.60
Class A	50,711,771	6,117,295	8.5%	11.1%	22.3%	991,618	784,960	991,618	784,960	466,986	466,986	5.56
Class B	66,586,271		12.4%	15.4%	18.8%	-272,249	-355,693	-272,249	-355,693	640,878	640,878	3.98
Class C	12,817,776		5.3%	5.8%	10.3%	-58,060	-27,268	-58,060	-27,268	139,346	139,346	3.01

ECONOMIC OVERVIEW CONTINUED

THE SAN JOSE-SUNNYVALE-SANTA CLARA MSA'S Professional Business Sector reached 253.8k jobs in 1Q23, increasing from 245.3k jobs in 1Q22, an 8.5k year-over-year job gain, and decreasing from 259.9k jobs in 4Q22, a 6.1k quarter-over-quarter job loss. The quarter-over-quarter job reduction can largely be attributed to the layoffs from established companies such as Google, Facebook, and Amazon.

NEAR-TERM OUTLOOK

COMPARED TO historical market conditions in the Silicon Valley, the overall demand for office space is low. This can be attributed to several factors including pandemic fall out, work from home policies, and layoffs in the tech sector which have most significantly impacted the downtown markets.

THE LARGEST BANK CRASH since the 2008 financial crisis occurred with the collapse of Silicon Valley Bank this quarter. Rigorous underwriting criteria is anticipated with this bank collapse, the negative economic outlook, and increased interest rates. This will likely impede the advancement of start-up companies that would otherwise thrive amidst an economic downturn and, thus, will add more obstacles to the recovery of the office market.

WHILE RENEWAL ACTIVITY has somewhat sustained the office market this quarter, large leases of 319,699 SF for Tesla in Stanford Research Park and 205,744 SF for Texas Instruments have helped cushion the Silicon Valley office market from the economic fallout. However, it is important to note that these larger leases are an initial step in these companies' greater plans to vacate other sites of comparable size.

THE SVB SHUT DOWN is rough in the near term, but Silicon Valley remains the hub for innovation, tech startups, and venture capital. There is no reason to believe that this won't remain true once new avenues of financing are discovered, and the market stabilizes. As this occurs, more startups will develop and breathe new life into the office market. It might take a couple of years for the economy to heal, but those who are patient with the office market could be rewarded greatly for it.

TOP SALE TRANSACTIONS 1Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
303 Bryant St	Mountain View	61,500	\$36,000,000	\$585.37	J.P. Morgan Chase & Co.	Wealth Capital Management, Inc.
350 Cobalt Way	Sunnyvale	134,218	\$31,005,000	\$231.00	PSAI Realty Partners	Fujitsu America, Inc.
792 Meridian Way	East San Jose-Willow Glen	7,811	\$3,850,000	\$492.89	Willow Glen Dental	Prime Meridian 040 LLC
3131 S Bascom Ave	San Jose	10,272	\$2,575,000	\$250.68	3131 Bascom Partners LLC	Winokur Financial Group LLC
929 E Duane Ave	Sunnyvale	2,956	\$2,300,000	\$778.08	E Duane Ave LLC	Janjigian Family Trust

TOP LEASE TRANSACTIONS 1Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3000 Hanover St	Palo Alto	319,699	February 2023	Sand Hill Property Company	Tesla Motors, Inc.
4555 Great America Pkwy	Santa Clara	205,744	January 2023	Prudential California Realty - Pleasanton	Texas Instruments
55 S Market St	San Jose	123,940	February 2023	CoreSite Realty Corp.	IRS
4551 Great America Pkwy	Santa Clara	118,320	February 2023	The Sobrato Organization	Abbott Laboratories
391 San Antonio Rd	Mountain View	77,000	January 2023	WeWork	Yahoo/Apollo

TOP UNDER CONSTRUCTION

Property	Submarket	SF	Delivery Date	Owner
932-950 Kifer Rd	Sunnyvale	1,211,000	April 2024	Intuitive Surgical, Inc.
200 Park	San Jose	965,342	July 2023	Jay Paul Company
1860-2159 Landings Dr	Mountain View	800,000	June 2024	Google
100 W Caribbean Dr	Sunnyvale	537,000	May 2023	Google
200 W Caribbean Dr	Sunnyvale	505,078	May 2023	Google

Data Source: Costar; ycharts.com, data.bls.gov, www.bizjournals.com



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COMMERCIAL BROKERAGE	<i>\$12B</i> TRANSACTION VOLUME ANNUALLY	<i>32.1M</i> ANNUAL SALES SF	<i>41.2M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>53M</i> MANAGEMENT PORTFOLIO SF	<i>771+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES CLIENTS
VALUATION ADVISORY	<i>2,600+</i> ASSIGNMENTS ANNUALLY	<i>46</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

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