

MARKET TRENDS

SILICON VALLEY OFFICE

MARKET DRIVERS

THE OFFICE AVAILABILITY RATE climbed from 19.3% in 2Q23 to 21% in 3Q23. As many tenants approach upcoming lease expirations, most are proactively reviewing their space needs in anticipation of mounting economic challenges.

THE VACANCY RATE saw an uptick, rising from 14.1% last quarter to 14.6% in 3Q23. Due to decreased occupancy, landlords are prioritizing high-quality spaces as tenants emphasize amenities to attract employees back to the office.

THE AVERAGE ASKING LEASE RATE experienced a decrease, falling to \$4.48/SF in 3Q23 compared to \$5.07/SF in 3Q22 and \$4.50/SF last quarter. Overall, asking lease rates have been declining as a result of decreased demand for office space, higher vacancy, and increased tenant negotiation leverage.

LAST YEAR'S SALES VOLUME reached 1.6M SF by 3Q22, while this year's sales volume has amounted to 697.8k SF by 3Q23, marking a year-over-year decrease of 890.5k SF. These declines can be linked to the impending loan maturity and a heightened level of lender caution.

YEAR-TO-DATE net absorption equaled - 1.5M SF at the end of 3Q23 indicating a general decline in net absorption associated with businesses exercising greater caution in evaluating their space needs. Additionally, net absorption totaled -243.2k SF at the end of 3Q23, marking a notable improvement from -1.9M SF in 2Q23.

ECONOMIC OVERVIEW

CALIFORNIA'S UNEMPLOYMENT rate saw a minor rise, inching up from 4.5% in the previous quarter to 4.6% in the current one. Likewise, Santa Clara County observed an uptick in unemployment, progressing from 2.7% in the previous year and 3.4% in the previous quarter to the current quarter's rate of 3.6%.

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Market Summary

	3Q23	2Q23	3Q22	Annual Change
Direct Vacancy Rate	14.64%	14.10%	12.50%	17.12%
Total Availability Rate	21.03%	19.30%	16.60%	26.70%
Direct Asking Lease Rate	\$4.48	\$4.50	\$5.07	-11.64%
Total SF Leased	528,107	662,174	2,575,842	-79.50%
Total SF Sold	85,120	405,743	313,249	-72.83%
Direct Net Absorption	-243,169	-1,896,776	393,138	N/A

↓ **528K SF**
LEASING ACTIVITY

↓ **-243K SF**
NET ABSORPTION

↑ **14.64%**
VACANCY RATE

↓ **\$4.48**
ASKING RENT (AVG)

↑ **503K SF**
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

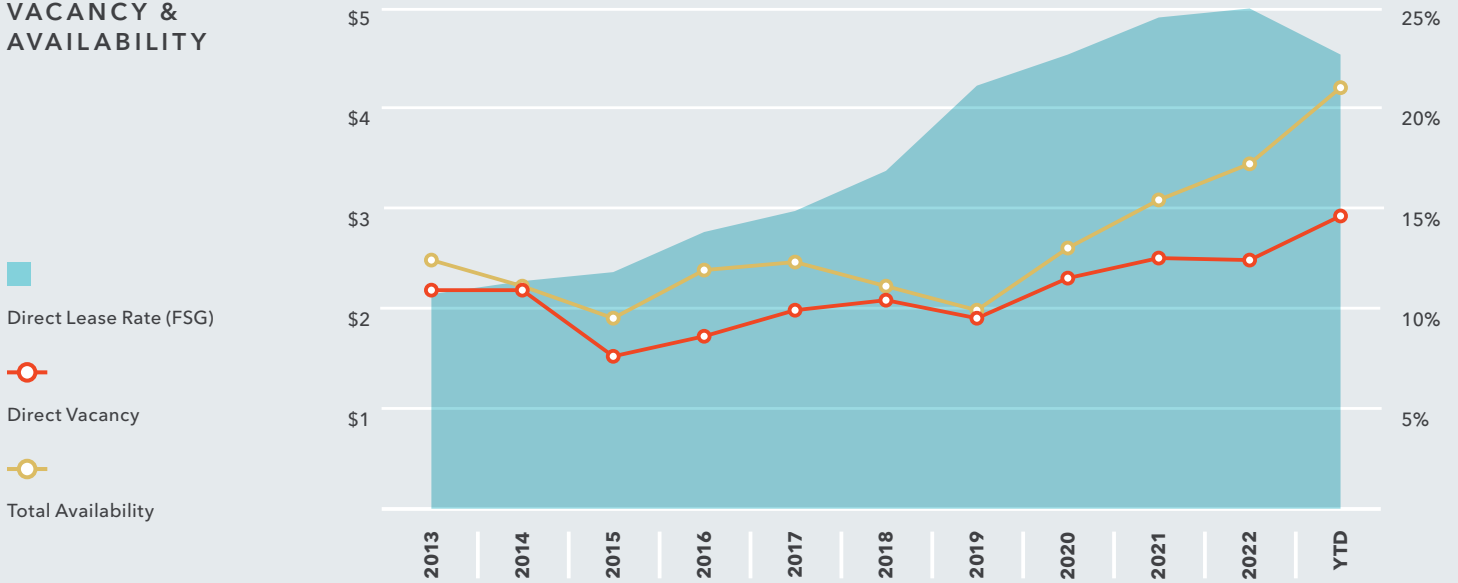
THE AVAILABILITY RATE increased to 21%

ASKING LEASE RATES decreased to 4.48/SF FS

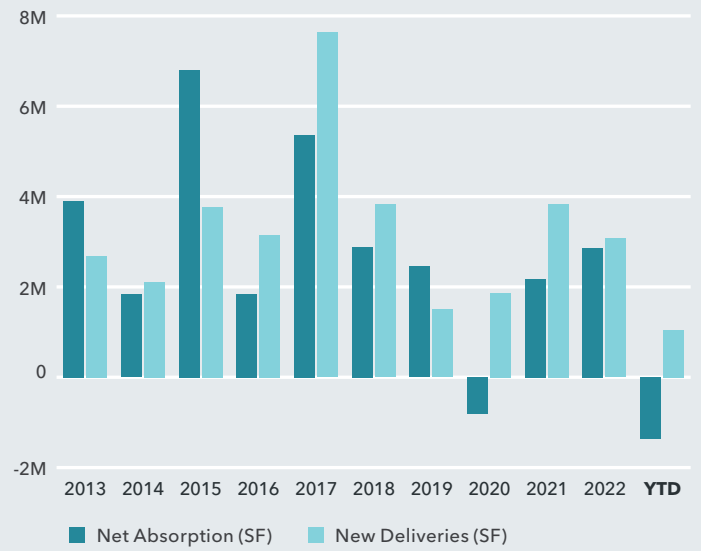
SALE VOLUME dropped to 85,120 SF

TOTAL NET ABSORPTION rose to negative 243,169 SF

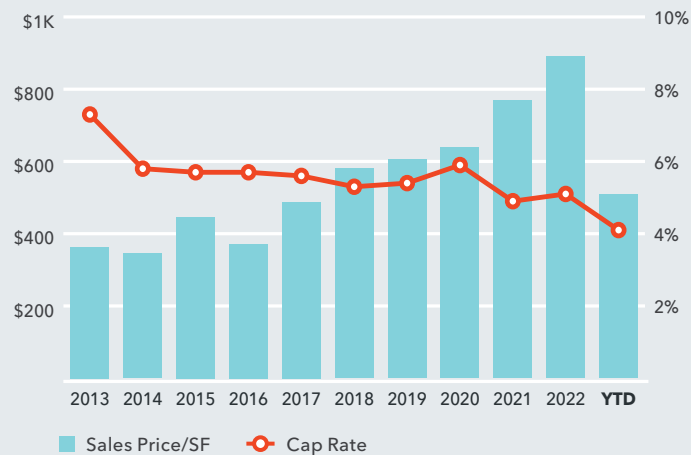
LEASE RATE, VACANCY & AVAILABILITY



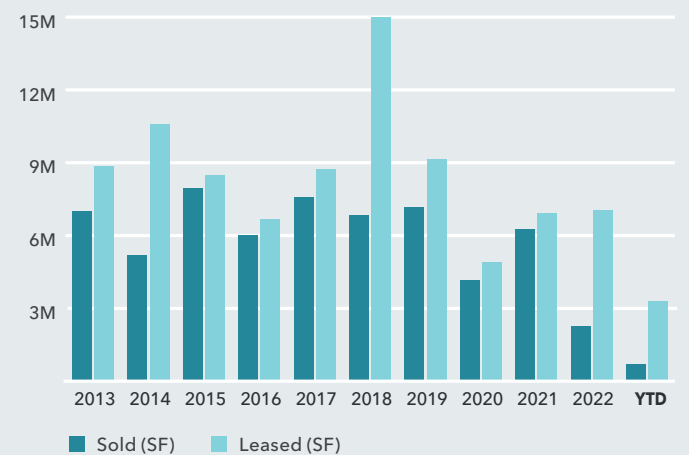
NET ABSORPTION & NEW DELIVERIES



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 Availability Rate	3Q23 Direct Net Absorption	3Q23 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	3Q23 Gross Absorption	YTD Gross Absorption	3Q23 Rental Rate KM CoStar
Campbell	2,532,349	165,984	16.5%	24.5%	40.3%	-8,932	-18,638	14,520	12,893	20,060	64,164	\$4.11
Cupertino	7,481,572	-	2.3%	2.5%	3.2%	130,323	142,880	140,551	150,010	1,926	152,404	\$4.92
Fremont	5,028,755	677,160	4.9%	10.9%	11.8%	-884	-884	10,786	-96,020	12,774	49,523	\$2.49
Milpitas	4,703,810	-	11.0%	11.7%	10.7%	-102,222	-35,835	-135,476	-69,089	88,335	313,016	\$2.55
Mountain View	13,591,221	233,543	9.5%	16.5%	23.4%	-34,117	-331,880	-305,527	-1,001,175	22,780	144,023	\$6.70
Newark	473,719	-	15.2%	15.2%	15.2%	-547	-547	205	205	695	13,806	\$2.56
Palo Alto	12,948,931	-	10.9%	15.1%	21.2%	110,739	33,855	-254,101	-276,055	31,878	473,624	\$7.82
San Jose	40,870,231	303,814	13.5%	15.9%	21.7%	-141,971	-333,152	197,875	14,223	168,490	951,436	\$3.93
Santa Clara	20,805,664	-	12.8%	17.0%	27.0%	421,254	463,733	882,609	780,597	169,097	734,314	\$4.07
Sunnyvale	21,753,267	2,337,847	8.8%	13.3%	20.8%	71,767	-162,701	-397,936	-1,062,360	12,072	399,197	\$5.69
Total	130,189,519	3,718,348	10.9%	14.6%	21.0%	445,410	-243,169	153,506	-1,546,771	528,107	3,295,507	\$4.48
Class A	51,430,682	3,718,348	9.7%	14.9%	26.1%	537,812	-19,304	890,813	-682,894	70,564	1,146,234	5.55
Class B	65,996,702	-	12.9%	16.1%	19.3%	-38,290	-171,015	-553,144	-736,098	433,906	1,878,733	3.98
Class C	12,762,135	-	5.8%	6.1%	9.6%	-54,112	-52,850	-184,163	-127,779	23,637	270,540	2.94

ECONOMIC OVERVIEW (CONTINUED)

IN THE SAN JOSE-SUNNYVALE-SANTA CLARA MSA, the Professional Business Sector is exhibiting mixed trends in job growth. On a quarterly basis, the sector has seen positive gains, with a 0.5% increase compared to 2Q23, resulting in a quarter-over-quarter gain of 1.2k jobs. Looking at the year-over-year comparison, there has been a 0.6% decrease in the sector. Specifically, in 3Q22, there were 258.9k jobs, but in 3Q23, the number dropped to 257.4k jobs, resulting in a year-over-year loss of 1.5k jobs.

NEAR-TERM OUTLOOK

LANDLORDS ARE GRAPPLING with office vacancies in an economic environment characterized by increasing interest rates, selective investors, and loans worth \$3.4 billion scheduled to mature by the end of 2024. These economic hurdles have intensified the costs and intricacies linked to refinancing. Conservative banking practices have resulted in a reduction in property sales and a decrease in purchase offers. Nevertheless, there are ample opportunities in the office market for individuals involved in equity solutions and secondary financing, as well as those contemplating investments in distressed properties. Additionally, individuals holding Class A office properties are also well-positioned to explore favorable prospects in both leasing and sales.

THE RECENT STAGNATION in office market sales volume can primarily be attributed to the impact of rising interest rates. As borrowing costs continue to climb, both buyers and sellers in the commercial real estate sector are grappling with a misalignment of their respective expectations. Sellers often maintain high price expectations for their properties, influenced by the historically lower-interest-rate environment in which they initially acquired these assets. Conversely, potential buyers are proceeding with caution, anticipating heightened financing expenses, which in turn leads them to approach offers more conservatively. This disparity in outlook has resulted in a market impasse, leading to a decline in transaction activity as both parties navigate the uncertainties stemming from fluctuating interest rates.

TOP SALE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
1323 Great Mall Dr	Milpitas	53,670	\$21,500,000	\$400.60	STORE Capital Corporation	JJP Industrial Enterprises LLC
314 Lytton Ave	Palo Alto	8,552	\$12,500,000	\$1,461.65	Apercen Partners LLC	Melissa Jane Pederson Trust/Deborah A. Cobb 2013 Trust
4850 Union Ave	San Jose	20,848	\$9,000,000	\$431.70	LGTC	Callahan Property Company

TOP LEASE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1730 N First Street	San Jose	79,874	July 2023	RNM First Street Center LP	Sony Electronics, Inc.
5425 Stevens Creek Blvd	Cupertino	59,384	July 2023	PGIM, Inc.	Apple, Inc.
5451 Great America Pkwy	Santa Clara	30,279	September 2023	Santa Clara Gateway I LLC	Workday
3240 Hillview Ave	Palo Alto	27,032	July 2023	Stanford University	Tacta Systems Technology
6280 America Center Dr	San Jose	21,187	August 2023	USAA Real Estate	View, Inc.

TOP UNDER CONSTRUCTION

Property	Submarket	SF	Delivery	Owner
100 - 200 W Caribbean Dr	Sunnyvale	1,041,890	December 2023	Google, Inc.
Corporate Way	Fremont	677,160	December 2023	The Sobrato Organization
300 W Washington Ave	Sunnyvale	330,448	October 2024	STC Venture 200WA LLC
399 Java Dr	Sunnyvale	315,000	December 2023	Google, Inc.
250 Washington Ave	Sunnyvale	314,623	October 2024	STC Venture 200WA LLC

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



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

GARY BARAGONA
 Director of Research
 415.229.8925
 gary.baragona@kidder.com

DAVID NELSON
 Regional President, Brokerage
 Northern California & Nevada
 408.970.9400
 david.nelson@kidder.com
 LIC N° 01716942

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>2,800+</i> ASSIGNMENTS ANNUALLY	<i>41</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

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