MARKET TRENDS

SILICON VALLEY *OFFICE*

MARKET DRIVERS

OFFICE AVAILABILITY RATE climbed 150 basis points from 19.7% in 3Q23 to 21.2% in 4Q23.

VACANCY RATE also saw an uptick, rising from 14.5% in 3Q23 to 16.1% in 4Q23. Mass layoffs in the technology sector and continued work from home policies have greatly contributed to rises in both vacancy and availability in the marketplace.

AVERAGE ASKING LEASE RATE saw a slight decline, dropping from $4.48/SF full service to $4.46/SF in 4Q23 over the past quarter. This is also lower than the $4.94/SF recorded in 4Q22. The slight decline can be attributed to a surplus of office space, landlords lowering rental rates to remain competitive, and tenants pursuing more favorable terms during lease negotiations.

COMBINED SALES VOLUME this year reached 962.8k SF, marking a decrease of 1.3M SF from the previous year's total of 2.3M SF. On top of the economic downturn and increasing interest rates, Silicon Valley Bank's closure led to a disruption in financing and uncertainty in the market which made obtaining financing difficult and stunted sales over the course of 2023.

CUMULATIVE NET ABSORPTION for 2023 equaled -1.6M SF, which was a significant departure from the 2.1M SF total net absorption viewed in 2022. This past year was a perfect storm for this to happen; Silicon Valley Bank's collapse, loan maturation during interest rate hikes, companies re-assessing space needs with continued work from home policies, and tech layoffs led to companies vacating and downsizing across the market.

ECONOMIC OVERVIEW

Unemployment in the San Jose-Sunnyvale-Santa Clara MSA saw a slight increase of 10 basis points from 3.7% to 3.8% quarter-over-quarter. There was a much larger year-over-year change of 130 basis points from 2.5% to 3.8% which can be attributed to layoffs in the tech sector. California's unemployment rate also rose to 4.9%, a jump from the previous quarter and year which posted a 4.6% and 4.1% unemployment rate respectively.

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Market Summary

	4Q23	3Q23	4Q22	Annual Change
Direct Vacancy Rate	16.07%	14.50%	12.30%	**30.69%**
Total Availability Rate	21.18%	19.70%	16.80%	**26.06%**
Direct Asking Lease Rate	$4.46	$4.48	$4.94	**-9.72%**
Total SF Leased	1,301,511	551,945	995,467	**30.74%**
Total SF Sold	320,660	163,591	665,233	**-51.80%**
Direct Net Absorption	-433,268	-376,848	337,419	**N/A**

4Q 2023

↑ *1.3M SF*
LEASING ACTIVITY

↓ *-433K SF*
NET ABSORPTION

↑ *16.1%*
VACANCY RATE

↓ *$4.46*
ASKING RENT (AVG)

↑ *2M SF*
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

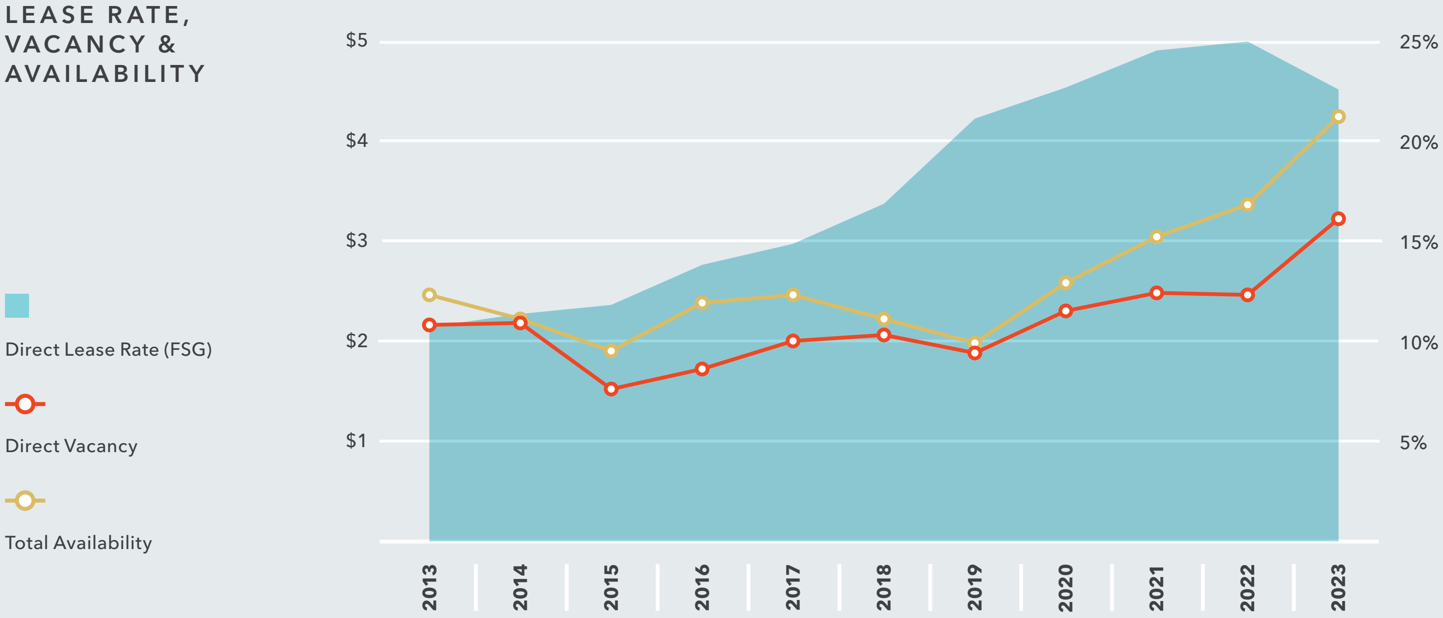
THE AVAILABILITY RATE rose to 21.2%

ASKING LEASE RATES decreased to 4.47/SF FS

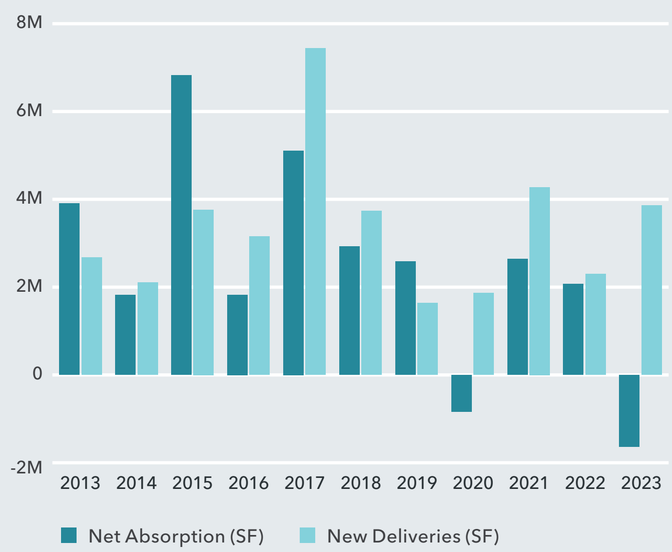
SALE VOLUME fell to 320,660 SF

TOTAL NET ABSORPTION dropped to -433,268 SF

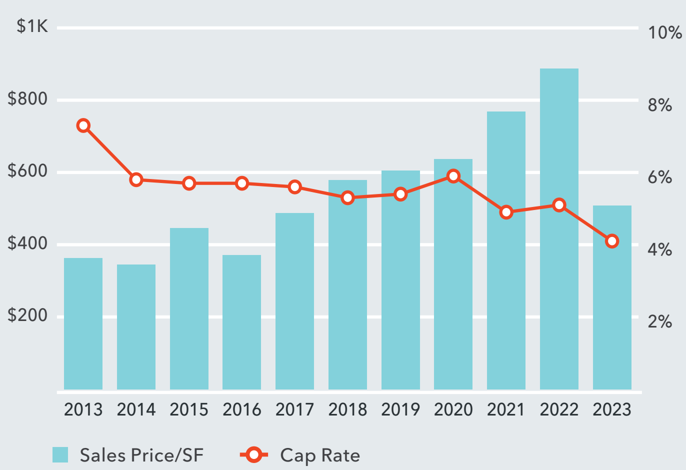
LEASE RATE, VACANCY & AVAILABILITY



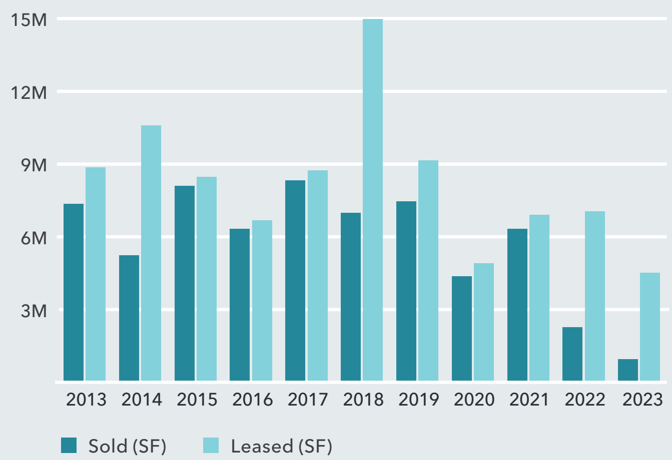
NET ABSORPTION & NEW DELIVERIES



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	4Q23 Direct Net Absorption	4Q23 Total Net Absorption	2023 Direct Net Absorption	2023 Total Net Absorption	4Q23 Gross Absorption	2023 Gross Absorption	4Q23 Rental Rate KM CoStar
Campbell	2,531,060	165,987	17.8%	25.6%	41.4%	-27,808	-23,481	-17,977	-15,277	30,096	94,260	$4.10
Cupertino	7,481,572	-	2.2%	2.4%	3.3%	6,258	8,118	147,635	158,954	10,827	163,663	$4.90
Fremont	5,024,065	-	5.4%	11.9%	13.6%	-34,205	-58,465	-6,945	-138,011	66,290	140,519	$2.48
Milpitas	4,702,921	-	10.5%	10.8%	11.2%	-20,610	-8,952	-111,863	-29,770	9,926	322,942	$2.54
Mountain View	14,420,129	-	9.5%	19.2%	25.2%	486,039	85,681	198,230	-937,776	21,827	195,252	$6.67
Newark	473,719	-	18.6%	18.6%	18.6%	-16,370	-16,370	-16,165	-16,165	-	13,806	$2.52
Palo Alto	13,008,239	-	10.9%	14.8%	22.5%	-19,271	-24,216	-260,972	-257,235	35,822	544,358	$7.80
San Jose	42,236,843	231,579	16.1%	18.7%	21.1%	-330,095	-503,199	-100,385	-445,989	244,235	1,195,851	$3.91
Santa Clara	21,358,364	-	13.6%	17.4%	26.2%	196,032	233,372	905,199	854,986	146,865	855,972	$4.04
Sunnyvale	22,098,610	1,952,237	9.6%	14.0%	20.6%	-59,235	-125,756	-167,800	-811,988	735,623	1,000,602	$5.68
Total	**133,335,522**	**2,349,803**	**12.1%**	**16.1%**	**21.2%**	**180,735**	**-433,268**	**568,957**	**-1,638,271**	**1,301,511**	**4,527,225**	**$4.46**
Class A	54,414,321	2,349,803	11.8%	17.3%	25.7%	583,371	351,216	1,647,674	-181,033	781,351	1,894,597	5.53
Class B	66,028,380	-	13.5%	17.0%	19.7%	-413,620	-795,012	-911,311	-1,344,986	489,043	2,453,595	3.95
Class C	12,892,821	-	5.7%	6.1%	9.4%	10,984	10,528	-167,406	-112,252	31,117	179,033	2.92

ECONOMIC OVERVIEW CONTINUED

The Professional Business Sector in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) experienced marginal quarterly growth, with an increase of 0.1%, equivalent to approximately 200 jobs. However, a more significant shift was observed on a year-over-year basis, reflecting a decline of 4.6k jobs, representing a 1.8% reduction from 261.1k jobs in 4Q22 to 256.5k jobs in 4Q23. When examining the job numbers between 2022 and 2023, there was a modest annual growth of 2.5k jobs, from 253.3k in 2022 to 255.8k in 2023.

NEAR-TERM OUTLOOK

The office sector is grappling with value reductions driven by higher interest rates, reduced demand, and the maturation of office loans. This trend has led some banks to halt lending in this specific domain. Acquiring capital in this challenging environment is further complicated by elevated vacancy rates and liquidity constraints, prompting traditional lenders to either reduce or suspend office loans. The tightening lending landscape has extended to difficulty in obtaining refinancing, with many companies either expressing hesitancy or outright closing the door to potential borrowers. Fueled by fickle conditions and concerns about increasing interest rates, borrowers are progressively opting for shorter-term loans in response to the shifting dynamics of the real estate market. This year was a difficult one for the Silicon Valley office market, but there is hope that interest rates will begin to normalize and ease some of the burden felt in 2023.

Persisting office market uncertainty and financing challenges are contributing to a surge in office conversion projects. Downtown Palo Alto, once renowned for its highly coveted Class A spaces, is now grappling with elevated vacancy rates, showcasing a notable instance of uncertainty in the real estate landscape. The demand for office space may shift as perspectives on physical and virtual workplaces evolve. CEOs predict a decline in hybrid work, anticipating increased office attendance for traditionally in-office roles. Remote work policies have also prompted small to mid-sized companies to downsize or seek short-term solutions. Despite CEOs aiming to boost office attendance, concerns linger regarding potential consequences like reduced employee engagement and diversity leading to hybrid and work from home policies staying for the meantime. The uncertain landscape, coupled with a looming California housing crisis, has prompted the presidential administration to issue guidelines for utilizing federal funding and programs for office-to-living-space conversions.

TOP SALE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
2555 Park Blvd	Palo Alto	29,989	$58,000,000	$1,934.04	The Douglas Living Trust	Kenson Ventures LLC
303 Almaden Blvd	San Jose	162,800	$23,750,000	$145.88	Bridge Group Investments LLC	AEW Capital Management
2450 Walsh Ave	Santa Clara	65,840	$16,049,000	$243.76	Joseph J. Albanese, Inc.	Office Properties Income Trust
5340 Thornwood Dr	San Jose	15,352	$7,250,000	$472.25	Primrose Schools	Planned Parenthood Mar Monte, Inc.
738 N 1st St	San Jose	20,847	$6,000,000	$287.81	738 N First Street LLC	Fia Office Building LLC

TOP LEASE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant	Sublease or Direct
1395 Crossman Ave	Sunnyvale	719,037	November 2023	Meta Platforms, Inc. (Facebook)	Walmart	Sublease
3315 Scott Blvd	Santa Clara	41,252	October 2023	Edelman Financial Engines	Rivos	Sublease
60 S Market St	San Jose	36,220	October 2023	60 Soma Fee Owner CA	GSA	Direct
2625 Augustine Drive	Santa Clara	32,492	November 2023	Upwork	Eightfold.AI	Sublease
285 Hamilton Ave	Palo Alto	30,636	October 2023	Houzz	Match	Sublease

TOP UNDER CONSTRUCTION

Property	Submarket	SF	Delivery	Owner
100 - 200 W Caribbean Dr	Sunnyvale	1,042,075	March 2024	Google, Inc.
200 - 250 Washington Ave	Sunnyvale	595,162	November 2024	The Sobrato Organization
399 Java Dr	Sunnyvale	315,000	February 2024	Google, Inc.
1410 S Bascom Ave	San Jose	231,579	February 2025	PMB Real Estate
1700 Dell Ave	Campbell	165,987	May 2024	Dollinger Properties

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

Kidder Mathews

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.

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COMMERCIAL BROKERAGE	$12B TRANSACTION VOLUME ANNUALLY	32.1M ANNUAL SALES SF	41.2M ANNUAL LEASING SF
ASSET SERVICES	53M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,800+ ASSIGNMENTS ANNUALLY	42 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS