

MARKET TRENDS

SILICON VALLEY OFFICE

MARKET DRIVERS

The office availability rate fell by 30-bps (basis points) from 20.5% in 4Q23 to 20.2% in 1Q24.

The vacancy rate rose from 16.2% in 4Q23 to 16.6% in 1Q24. The contrast between availability and vacancy can be explained by tenants and landlords coming to terms on renewals, taking the properties off the market, while the market continues to be affected by work from home policies.

Average asking lease rates dropped from \$4.03/SF FS to \$3.96/SF in the past quarter. An oversupply of office spaces, landlords reducing rental rates to stay competitive, and tenants seeking more advantageous terms in lease negotiations are all factors attributed to this decline.

After a rough close to 2023, sales saw a massive increase, from 72.8K SF to 952.8K SF this quarter. This is also higher than the 690.5K SF recorded in 1Q23, and is already nearing the total sales for last year. A reason for this is that these properties are dropping tremendously in price, below where they were 8 years ago in the case of 111 Market St, and investors who bought at these properties' heights are cutting losses after coming to terms with being unable to get stronger returns on their investments.

Net absorption was -64.9K SF this quarter, which is disappointing when compared to the 854.5K SF viewed in 1Q23, but better than the -518.0K SF last quarter. Although sale transactions are picking up, the persisting work from home policies are keeping lease volume low. As properties change hands for lower prices, these new owners and landlords can be more flexible with asking rates, which would certainly alleviate some of the office vacancy issues.

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Market Summary

	1Q24	4Q23	1Q23	YOY Change
Vacancy Rate	16.6%	16.2%	12.5%	410-bps
Availability Rate	20.2%	20.5%	16.7%	350-bps
Asking Lease Rate	\$3.96	\$4.03	\$4.03	-1.7%
Gross Absorption (SF)	626,337	5,034,861	1,963,819	-68.1%
Sale Volume(SF)	952,760	1,332,601	72,767	-28.5%
Net Absorption	-64,858	-1,468,971	854,529	N/A

	1Q24	2023 Total	1Q23	YOY Change
Deliveries (SF)	348,938	4,306,917	1,167,000	-70.1%
Lease Volume (SF)	626,337	5,034,861	1,963,819	-68.1%
Under Construction (SF)	3,429,612	3,778,550	6,603,182	-48.1%

↓ **626K SF**
LEASING ACTIVITY

↓ **-64.9K SF**
NET ABSORPTION

↑ **16.6%**
VACANCY RATE

↓ **\$3.96 FS**
ASKING RENT (AVG)

↓ **348K SF**
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

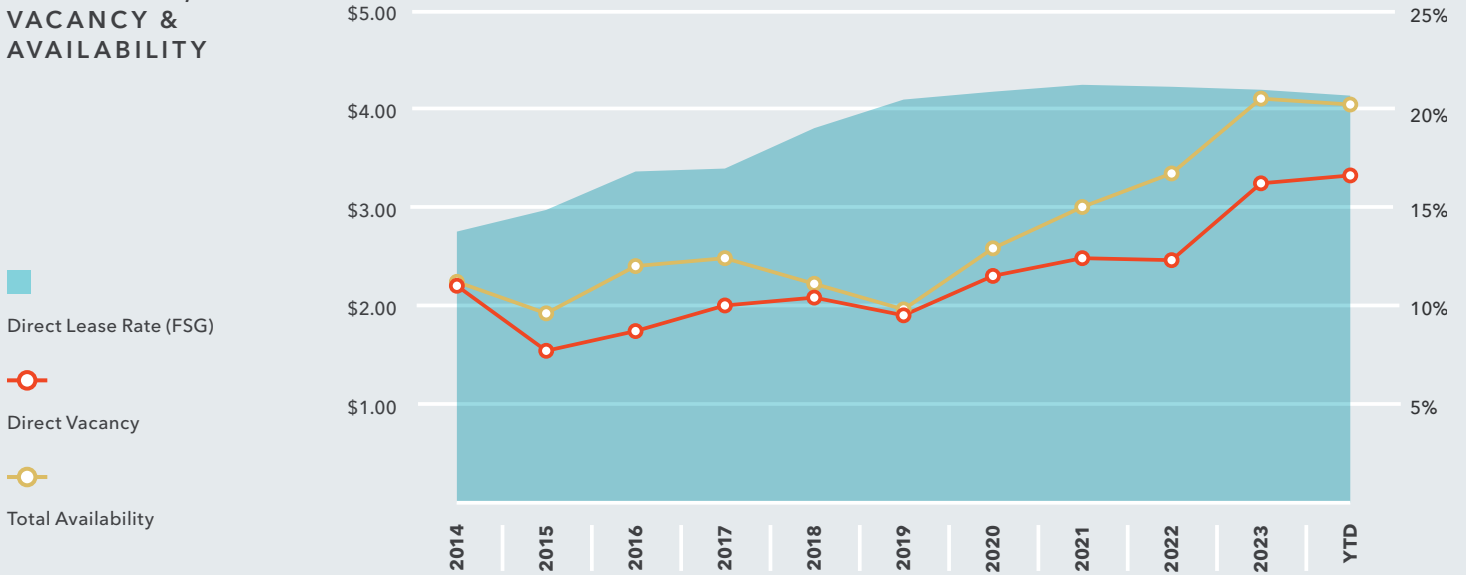
THE AVAILABILITY RATE rose to 20.2%

ASKING LEASE RATES decreased to \$3.96/SF Full Service

SALE VOLUME grew to 952.8K SF

TOTAL NET ABSORPTION dropped to -64.9K SF

LEASE RATE, VACANCY & AVAILABILITY

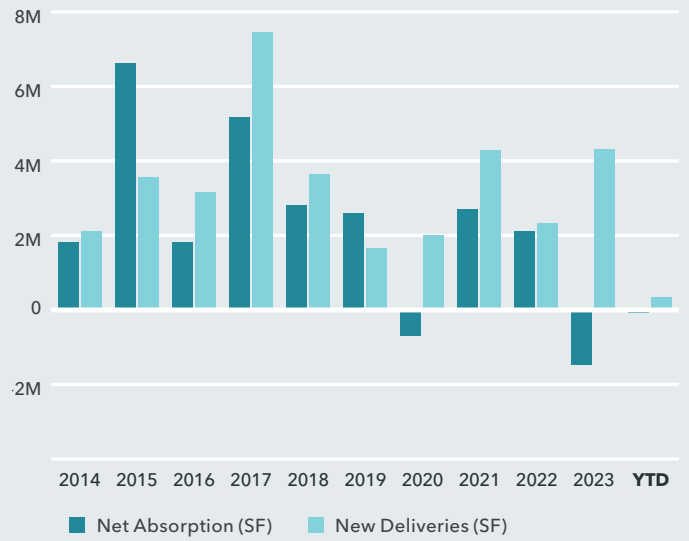


BIGGEST SALE OF THE QUARTER

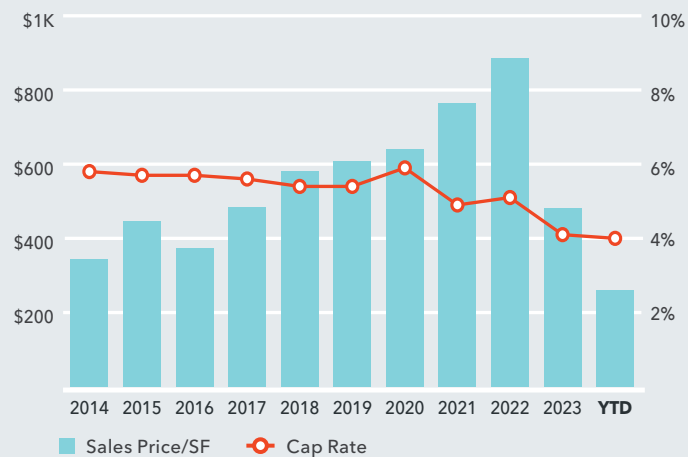
111 N Market Square, San Jose, CA



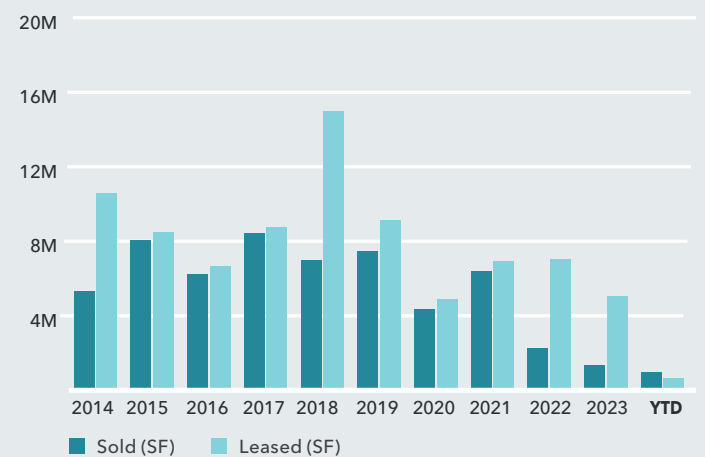
NET ABSORPTION & NEW DELIVERIES



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	1Q24 Direct Net Absorption	1Q24 Total Net Absorption	YTD Direct Net Absorption	2023 Total Net Absorption	1Q24 Gross Absorption	YTD Gross Absorption	1Q24 Rental Rate KM CoStar
Campbell	2,508,807		17.4%	24.8%	42.0%	19,064	25,396	19,064	25,396	17,039	17,039	\$4.07
Cupertino	7,417,086	-	2.3%	2.5%	3.4%	243	-231	243	-231	5,664	5,664	\$4.41
Fremont	5,024,873	-	5.6%	12.1%	13.0%	1,700	590	1,700	590	50,557	50,557	\$2.24
Milpitas	4,706,001	-	10.9%	11.2%	11.9%	-18,824	-17,651	-18,824	-17,651	17,342	17,342	\$2.74
Mountain View	14,829,962	799,482	11.1%	20.2%	24.8%	-19,467	31,363	-19,467	31,363	2,318	2,318	\$5.04
Newark	463,426	-	19.4%	19.4%	19.4%	705	705	705	705	5,494	5,494	\$2.77
Palo Alto	12,934,637	-	9.5%	12.1%	18.9%	106,427	275,565	106,427	275,565	170,436	170,436	\$5.28
San Jose	42,890,020	231,579	16.7%	19.1%	21.7%	63,089	139,362	63,089	139,362	177,049	177,049	\$3.82
Santa Clara	21,451,192	-	11.6%	15.1%	20.8%	401,080	482,949	401,080	482,949	157,634	157,634	\$3.35
Sunnyvale	22,069,106	1,952,237	14.4%	18.7%	20.5%	-1,013,459	-1,002,906	-1,013,459	-1,002,906	22,804	22,804	\$4.58
Total	133,335,522	2,983,298	12.9%	16.6%	20.2%	-459,442	-64,858	-459,442	-64,858	626,337	626,337	\$3.96
Class A	55,412,800	2,983,298	14.4%	19.6%	24.5%	-777,515	-627,269	-777,515	-627,269	279,200	279,200	\$4.34
Class B	65,659,795		12.9%	15.9%	18.6%	332,999	594,454	332,999	594,454	330,397	330,397	\$3.66
Class C	13,222,515		6.0%	6.4%	9.4%	-14,926	-32,043	-14,926	-32,043	16,740	16,740	\$2.93

ECONOMIC REVIEW

Unemployment in the San Jose-Sunnyvale-Santa Clara MSA rose 40-bps from 4.0% to 4.4% quarter-over quarter. Likewise, California's unemployment rate climbed 50-bps, up to 5.6%.

The Professional Business Sector in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) saw a small decrease both yearly and quarterly; from 249.4K jobs in 1Q23, to 245.7K last quarter, to 244.4K this quarter.

NEAR-TERM OUTLOOK

Amidst uncertainties in the Silicon Valley office market, there are signs that office sales may soon rise. Real estate investors, though cautious, are showing heightened interest in commercial real estate purchases compared to previous years. Despite the current challenges, such as the retreat of institutional investors from office property purchases, there is a potential for a shift as private capital and occupiers step in to fill the gap. However, challenges persist, such as KBS Real Estate Investment Trust III's struggle to raise funds to avoid defaulting on a loan tied to a Silicon Valley office portfolio. Nonetheless, amidst these challenges lie opportunities for savvy investors to navigate and potentially capitalize on emerging trends in the market.

The Silicon Valley office market is experiencing notable trends amidst broader shifts in office leasing activity. While there's a traditional preference for "trophy" office spaces, location is increasingly crucial, with vibrant neighborhoods gaining importance. Silicon Valley stands out as a hot spot for AI companies, driving significant office space demand. The region boasts the highest concentration of AI companies nationally, with San Francisco and Silicon Valley competing for tenants. Despite challenges posed by the pandemic, such as remote work trends, Silicon Valley's office market remains resilient. Companies in the region tend to lease larger spaces compared to San Francisco, reflecting the area's appeal for tech and AI firms. This demand contributes to the region's economic vitality and underscores its status as a leading hub for innovation.

SIGNIFICANT SALE TRANSACTIONS 1Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
111 Market Square	San Jose	325,200	\$34,200,000	\$105.17	Bridge Group Investments, LLC	Rubicon Point Partners
929-935 E Arques Ave*	Sunnyvale	93,400	\$32,700,000	\$350.11	Applied Materials	CLPF ARQUES LLC
2901-2929 Patrick Henry Dr	Santa Clara	82,278	\$26,394,500	\$320.80	Mathew Property I LLC	CLPF - 2901 PATRICK HENRY, L.P.
614 Tully Rd	San Jose	25,632	\$13,200,000	\$514.98	Thi Mai Tram Trinh	Net Lease Alliance LLC
5340 Thornwood Dr	San Jose	4,274	\$4,000,000	\$935.89	Neale Dan W & Gwen Neale	Neale Family Trust

*Portfolio Sale

SIGNIFICANT LEASE TRANSACTIONS 1Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant	Tenant
1143 Coleman Ave	San Jose	162,557	February 2024	Blackstone Inc.	TikTok	Sublease
4655 Great America Pky	Santa Clara	52,050	January 2024	PGIM, Inc.	49er	Direct
2755 Augustine Dr	Santa Clara	51,314	February 2024	The Irvine Company	KPMG	Direct
391 San Antonio Rd*	Mountain View	40,000	March 2024	Brookfield Property Group	Coinbase	Sublease
1730 N 1st St*	San Jose	36,821	February 2024	RNM First Street Partners, LP	ALPHAWAVE IP CORP	Direct

*Portfolio Sale

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Delivery
100 - 200 W Caribbean Dr	Sunnyvale	1,042,075	August 2024	Google, Inc.
2003 Landings Dr	Mountain View	799,482	May 2025	Google, Inc.
200 - 250 Washington Ave	Sunnyvale	595,162	November 2024	The Sobrato Organization
399 Java Dr	Sunnyvale	315,000	June 2024	Google, Inc.
1410 S Bascom Ave	San Jose	231,579	February 2025	PMB Real Estate

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



Kidder Mathews is the largest independent commercial real estate firm on the West Coast, with over 900 real estate professionals and staff in 19 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, 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	\$10B 3-YEAR AVERAGE TRANSACTION VOLUME	31.7M ANNUAL SALES SF	42.4M ANNUAL LEASING SF
ASSET SERVICES	51M SF MANAGEMENT PORTFOLIO SIZE	750+ ASSETS UNDER MANAGEMENT	250+ CLIENTS SERVED
VALUATION ADVISORY	2,600+ 3-YEAR AVERAGE ASSIGNMENTS	43 TOTAL APPRAISERS	25 WITH MAI DESIGNATIONS

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