

MARKET TRENDS

SILICON VALLEY OFFICE

MARKET DRIVERS

Since the last quarter, the office availability rate increased by 150-bps (basis points) to 21.6% in 3Q24. Likewise, the vacancy rate increased 90-bps to 17.1% in this timeframe. The increase in both areas highlight the continuing problems faced in the market where tenants continue to downsize and exercise work from home policies

Net absorption was -851.3K SF this quarter, a steep departure from the 714.4K SF last quarter. Overall, this year has been far less rough than last year, which had 1.9M SF less net absorption to this point.

Average asking lease rates increased from \$3.92/SF FS (Full Service) to \$3.94/SF in the past quarter. Since the start of the pandemic, rates have stagnated, falling between \$4.11 in 2Q20 and \$3.92 at the lowest end last quarter.

Despite the high interest rates, sales volume has reached 1.9M SF sold this year, more than all of 2023 combined. The price per SF these properties are selling for are significantly lower than the past, which opens these properties up for leases at lower rates to meet investment requirements. This coupled with lowering interest rates could open up the possibility for vacancy and availability numbers to being trending down, but there are still hurdles such as work from home policies to overcome before the market takes a full turn.

ECONOMIC REVIEW

Unemployment in the San Jose-Sunnyvale-Santa Clara MSA jumped 60-bps to 4.5% quarter-over quarter. Conversely, California's unemployment rate dropped 10-bps to 5.2%.

The Professional Business Sector in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) saw an increase both yearly and quarterly, reaching 249.1K this quarter.

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Market Summary

	3Q24	2Q24	3Q23	YOY Change
Vacancy Rate	17.1%	16.2%	14.4%	270-bps
Availability Rate	21.6%	20.1%	20.1%	150-bps
Asking Lease Rate	\$3.94	\$3.92	\$3.95	-0.3%
Under Construction (SF)	4,319,649	4,331,697	7,118,418	-39.3%
	3Q24	2024 YTD	2023 YTD	YOY Change
Lease Volume (SF)	1,156,108	2,595,524	3,044,284	-14.7%
Sales Volume (SF)	846,424	1,946,590	1,263,395	54.1%
Deliveries (SF)	12,048	561,875	3,139,917	-99.6%
Net Absorption (SF)	-851,262	-403,887	-2,287,751	N/A

↓ **1.2MK SF**
LEASING ACTIVITY

↓ **-851K SF**
NET ABSORPTION

↑ **17.1%**
VACANCY RATE

↓ **\$3.94 FS**
ASKING RENT (AVG)

↓ **12K SF**
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

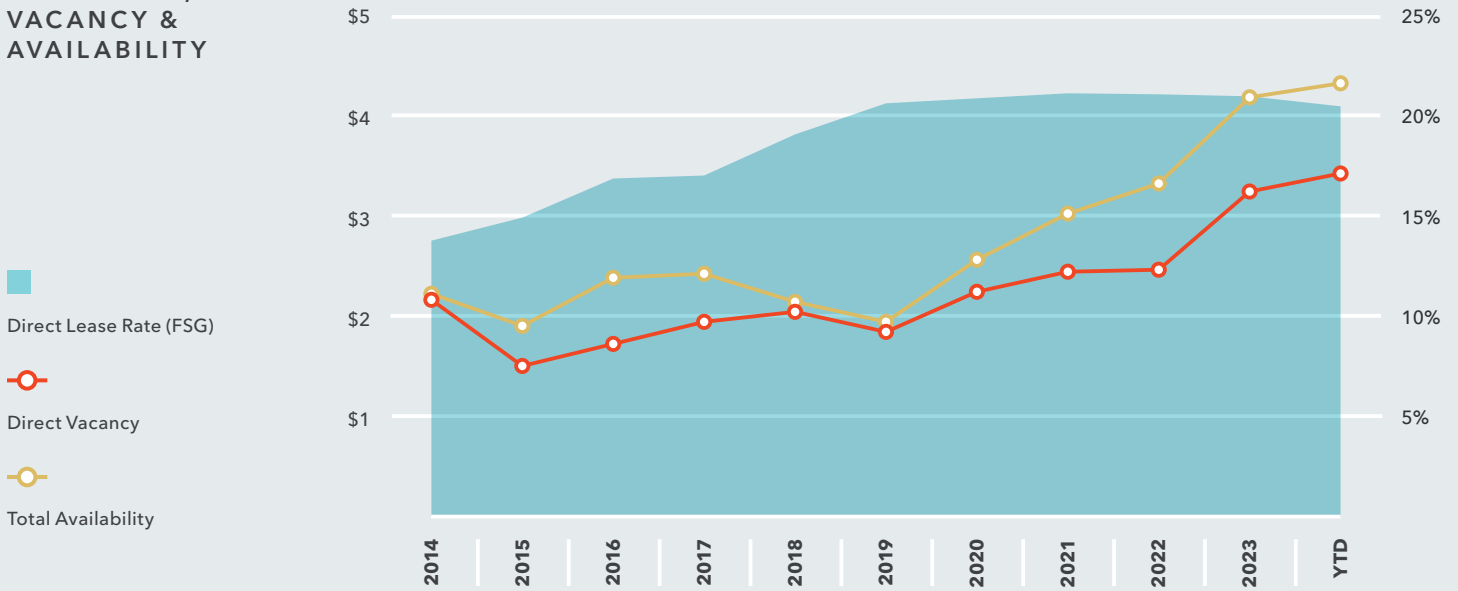
THE AVAILABILITY RATE rose YOY to 21.46%.

ASKING LEASE RATES decreased YOY to \$3.94/SF FS.

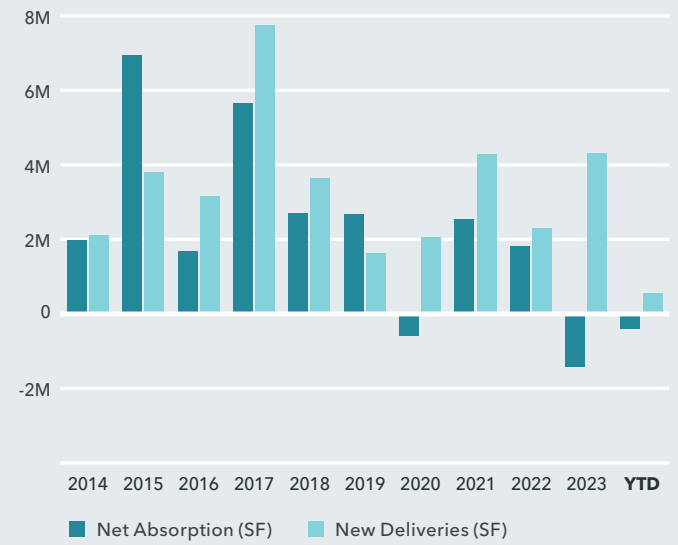
SALE VOLUME grew to YOY 872.3K SF.

TOTAL NET ABSORPTION increased YOY to -851.3K SF.

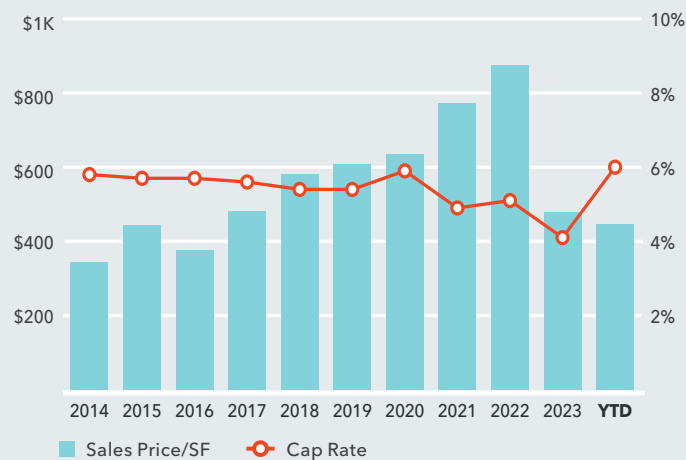
LEASE RATE, VACANCY & AVAILABILITY



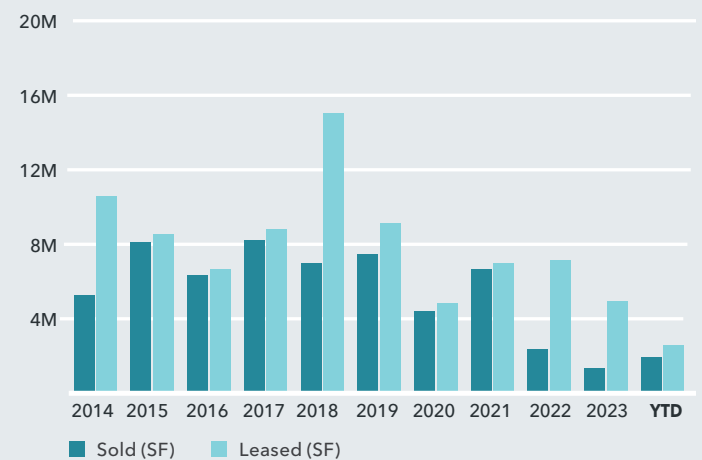
NET ABSORPTION & NEW DELIVERIES



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	3Q24 Direct Net Absorption	3Q24 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	3Q24 Gross Absorption	YTD Gross Absorption	3Q24 Rental Rate KM CoStar
Campbell	2,694,834		23.2%	30.1%	37.4%	-5,664	-5,664	-5,158	1,718	32,022	87,996	\$4.07
Cupertino	7,385,448	-	2.5%	2.7%	3.5%	-29,374	-36,224	-21,717	-29,041	14,045	27,227	\$4.63
Fremont	5,282,699	-	5.9%	16.5%	17.0%	-23,929	-266,968	4,107	-229,195	5,176	119,537	\$2.57
Milpitas	4,689,165	-	11.7%	13.5%	12.5%	-57,381	-142,497	-65,050	-148,993	16,806	86,743	\$2.61
Mountain View	14,913,007	1,087,626	13.2%	21.5%	27.2%	-65,710	-48,498	-329,032	-212,541	145,602	216,756	\$4.96
Newark	608,061	-	45.8%	46.0%	45.7%	-17,176	-18,476	-29,537	-30,837	2,101	19,587	\$2.80
Palo Alto	12,866,077	-	8.9%	12.3%	20.3%	-24,758	-38,851	152,002	148,712	85,027	257,994	\$4.16
San Jose	43,699,723	231,579	17.7%	19.8%	23.3%	-37,613	-47,707	-136,672	71,904	574,962	1,165,663	\$3.85
Santa Clara	21,650,603	-	11.6%	15.6%	21.2%	-88,011	-222,912	364,012	323,756	194,870	487,314	\$3.27
Sunnyvale	22,142,549	959,162	10.1%	14.7%	19.5%	208,178	-23,465	-83,305	-299,370	75,497	126,707	\$4.48
Total	133,335,522	2,278,367	13.2%	17.1%	21.6%	-141,438	-851,262	-150,350	-403,887	1,156,108	2,595,524	\$3.94
Class A	61,004,770	2,278,367	14.5%	19.4%	25.7%	96,736	-195,562	367,497	417,427	726,143	1,378,303	\$4.33
Class B	61,536,988	-	12.7%	16.3%	19.1%	-204,470	-621,996	-431,890	-718,240	359,324	1,066,998	\$3.58
Class C	13,390,408	-	6.9%	7.4%	9.7%	-33,704	-33,704	-85,957	-103,074	70,641	150,223	\$2.93

NEAR-TERM OUTLOOK

The Federal Reserve’s recent interest rate cut has mixed implications for the office real estate market. While lower borrowing costs can unlock capital and spur refinancing, the office sector remains burdened by low demand and high vacancies, especially for Class B and C buildings in less desirable locations. Many office properties still face financial stress due to low occupancy and rising costs. While the rate cut may provide some relief, more substantial reductions and shifts in work from home policies are likely needed to stimulate significant office market recovery.

One proposed form of relief is converting office buildings into residential buildings. Though this would help availability and vacancy problems, the feasibility has come into question. A study conducted by Commercial Edge concluded that 25.8% of properties throughout the San Francisco Bay Area would be viable candidates, and only

6.2% would be ideal. Although conversions would be beneficial, there isn’t much space that qualifies for these projects so it should not be seen as a savior for the market.

The office market downturn has been costly for cities, and now some are turning to incentives to bring new deals and more people back to their downtown areas. One example is San Jose, which is currently voting on a plan that offers new downtown office tenants and owner-occupiers two years of free parking and no city-business tax. Although this doesn’t extend to current occupants, and the incentives go away after two years, it is a positive sign that cities are willing to work to help solve some of the market’s issues.

SIGNIFICANT SALE TRANSACTIONS 3Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
1045-1085 La Avenida St	Mountain View	643,000	\$330,000,000	\$513.22	Microsoft	Mission West Properties, Inc.
600 Clyde Ave	Mountain View	189,972	\$108,100,000	\$569.03	Divco West Services, LLC	Renault & Handley
540 University Ave	Palo Alto	15,452	\$12,800,000	\$828.37	Thoits Brothers, Inc.	William S Jarvis, LLC
4855 Atherton Ave	San Jose	13,452	\$4,450,000	\$330.81	Medical & Surgical Vision Care, Inc.	American Natl Insurance Co.
970 W Julian St*	San Jose	10,400	\$4,415,000	\$424.52	JEMCOR Development Partners	Tescom Co, Ltd

*Portfolio Sale

SIGNIFICANT LEASE TRANSACTIONS 3Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
5480-5490 Great America Pkwy*	Santa Clara	321,558	July 2024	DWS	Johnson & Johnson
5455 Great America Pkwy, Suite 4th and 5th Floor	Santa Clara	61,209	June 2024	Irvine Company	Siemens
100 Mathilda Pl, Suite 400	Sunnyvale	39,314	July 2024	Indeed, Inc.	Uber
2625 Augustine, 3rd Floor	Santa Clara	32,492	September 2024	Omnicell	First Citizen's Bank
3160 Olsen Dr	San Jose	23,684	August 2024	Federal Realty	Couchbase

*Renewalw

SIGNIFICANT UNDER CONSTRUCTION

Property	Submarket	Square Feet	Delivery Date	Owner
2003 Landings Dr	Mountain View	799,482	May 2025	Google, Inc.
200 - 250 Washington Ave	Sunnyvale	595,162	November 2024	The Sobrato Organization
950 Kifer	Sunnyvale	364,000	November 2024	Intuitive Surgical
600 Ellis St	Mountain View	288,144	October 2025	The Sobrato Organization
1410 S Bascom Ave	San Jose	231,579	February 2025	PMB Real Estate

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



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COMMERCIAL BROKERAGE	<i>\$10B</i> 3-YEAR AVERAGE TRANSACTION VOLUME	<i>31.7M</i> ANNUAL SALES SF	<i>42.4M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>55M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>800+</i> ASSETS UNDER MANAGEMENT	<i>260+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,600+</i> 3-YEAR AVERAGE ASSIGNMENTS	<i>43</i> TOTAL APPRAISERS	<i>27</i> WITH MAI DESIGNATIONS

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