

## MARKET TRENDS

# SILICON VALLEY

## R&D

### MARKET DRIVERS

**R&D PROPERTY** needs continued to decrease as tenants are approaching their investments with caution, but Landlord reluctance to lower pricing was shown by the 2.8% QOQ increase in asking lease rates to \$3.25/SF NNN.

**GROSS ABSORPTION** dropped 38.5% YOY from 1.5 million SF in 4Q21 to 900k SF in 4Q22, illustrating continued tenant decreases for SF requirements.

**THERE HAS BEEN A** substantial QOQ reduction in total net absorption with over 1 million SF in 3Q22 and 474k in 4Q22 coupled with a smaller YOY reduction of 109k SF.

**THE MARKET WIDE** vacancy rate decreased, for the fourth consecutive quarter, by 22.6% YOY to 7.8% in 4Q22. Cupertino, Mountain View, Palo Alto, and Fremont had the lowest rates, all with a rate below 5%. Campbell continued to have the highest vacancy rate at 14.4%, a 20% increase from 3Q22.

**SALES VOLUME FELL** 84% YOY from 2.2 million SF in 4Q21 to 347k in 4Q22 and 49.8% QOQ from 692k SF in 3Q22.

**RD AVAILABILITY** decreased both YOY and QOQ by 13.2% and 9.2%, respectively.

### ECONOMIC REVIEW

**SANTA CLARA COUNTY'S** unemployment rate slightly increased to 2.3% but remained notably lower than California's total, which climbed to 4%.

**SAN JOSE-SUNNYVALE-SANTA CLARA** manufacturing sector increased from 171,600 jobs in November 2021 to 176,200 jobs in November 2022, a 2.7% YOY increase.

continued on page 3

## Market Summary

	4Q22	3Q22	4Q21	Annual Change
Vacancy Rate	7.82%	8.20%	10.10%	-22.59%
Availability Rate	10.59%	9.70%	12.20%	-13.19%
Asking Lease Rate	\$3.25	\$3.16	\$2.84	14.44%
Gross Absorption (SF)	899,717	800,876	1,463,492	-38.52%
Sale Volume(SF)	347,478	692,465	2,174,435	-84.02%
Net Absorption	473,826	1,020,379	582,845	N/A

↑ 899K SF  
LEASING ACTIVITY

↑ 473K SF  
NET ABSORPTION

↓ 7.82%  
VACANCY RATE

↑ \$3.25  
ASKING RENT (AVG)

↓ 0K SF  
NEW DELIVERIES

Year-Over-Year Trend

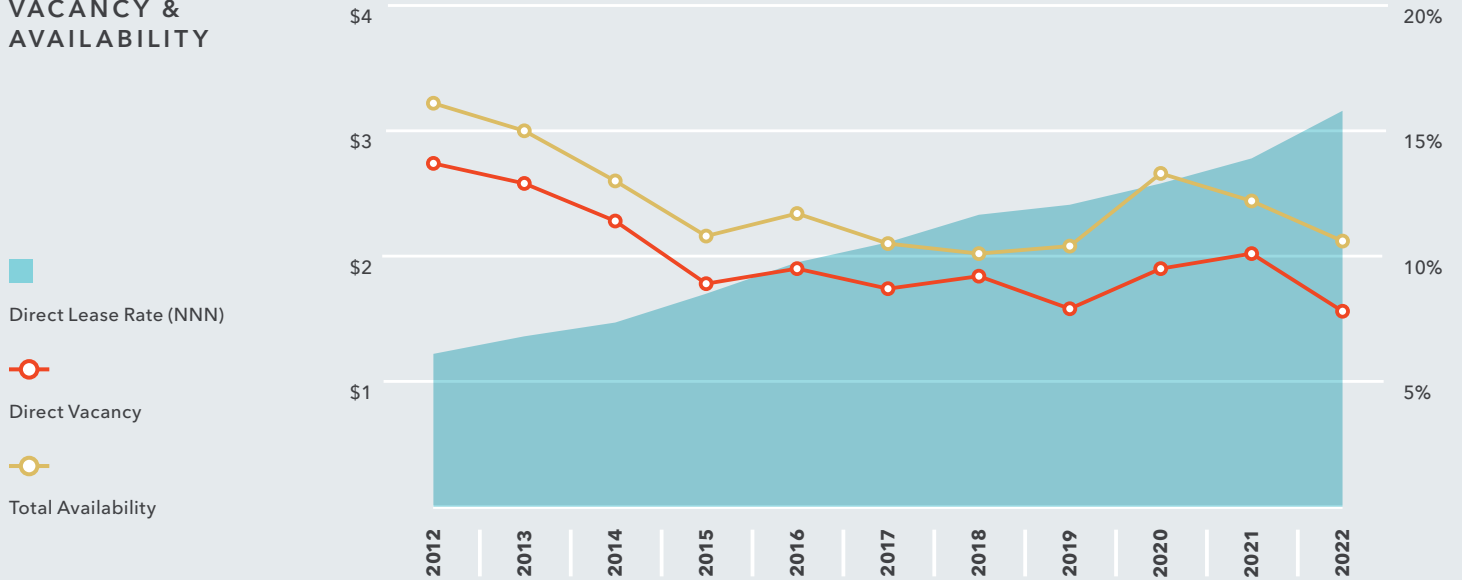
## Market Highlights

**ASKING LEASE RATES** increased QOQ to \$3.25/SF NNN

**VACANCY RATES** dropped from 10.1% to 7.8% YOY

**SALES VOLUME** fell 84% YOY, from 2.2M to 348k

## LEASE RATE, VACANCY & AVAILABILITY

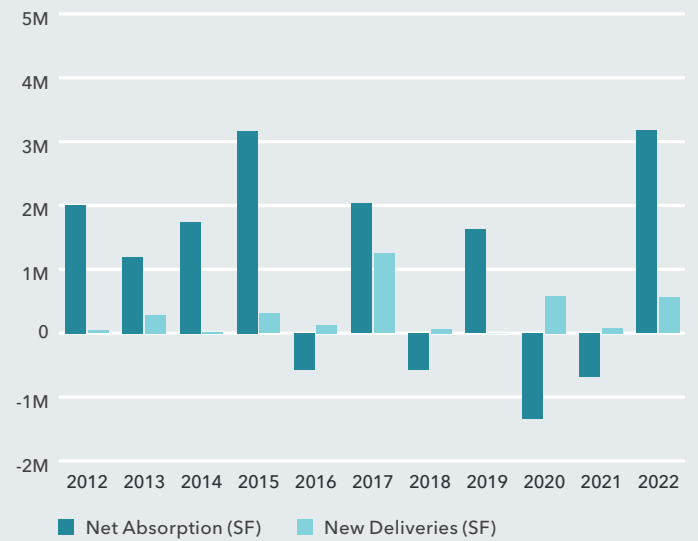


## BIGGEST SALE OF THE QUARTER

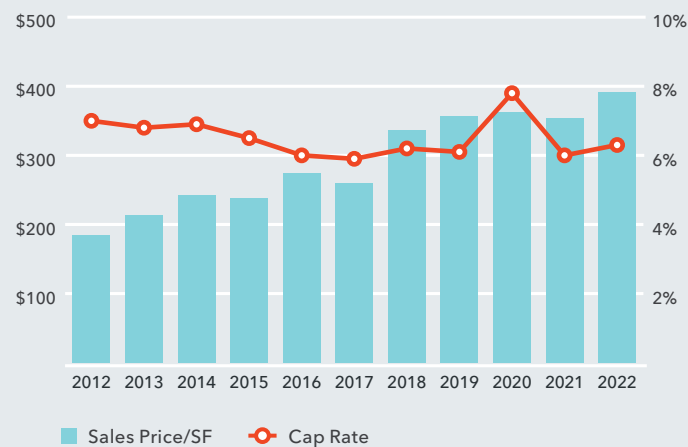
*2850-2860 W Bayshore*



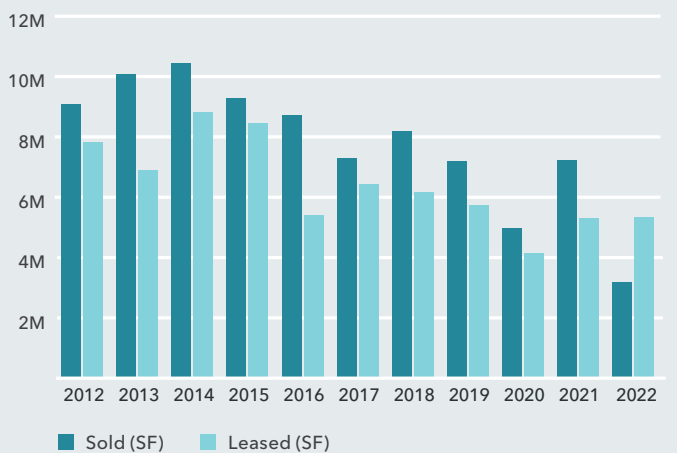
## NET ABSORPTION & NEW DELIVERIES



## 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	4Q Direct Net Absorption	4Q Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	4Q Gross Absorption	YTD Gross Absorption	Avg NNN Rental Rate
Campbell	1,422,824	-	14.41%	14.41%	14.38%	(32,694)	(32,694)	(11,674)	(11,674)	5,750	93,115	\$2.45
Cupertino	2,248,069	-	0.00%	0.00%	0.00%	6,622	6,622	6,622	6,622	-	-	\$3.50
Fremont	16,969,592	703,270	4.89%	5.64%	7.11%	(4,138)	(47,233)	146,655	162,563	231,734	698,704	\$2.31
Milpitas	9,118,444	-	8.83%	8.88%	14.19%	66,449	73,749	313,456	376,803	11,768	366,111	\$2.13
Mountain View	7,980,089	-	3.53%	5.97%	8.54%	73,931	76,407	233,999	253,585	37,550	395,976	\$4.59
Newark	3,538,524	-	7.09%	8.37%	9.93%	(26,748)	(26,748)	(75,835)	(121,175)	1,320	125,883	\$1.75
Palo Alto	4,763,298	-	3.69%	4.58%	5.23%	177,469	169,809	221,076	191,455	33,157	250,880	\$7.28
San Jose	39,896,304	-	7.28%	8.00%	12.58%	153,509	131,109	1,882,462	2,124,636	424,933	2,293,808	\$2.08
Santa Clara	17,358,600	1,037,679	9.20%	9.64%	10.23%	26,013	88,535	60,726	261,783	85,059	760,007	\$2.58
Sunnyvale	14,601,689	847,000	8.81%	9.51%	11.67%	47,857	34,270	(77,163)	(67,559)	68,446	336,385	\$3.85
<b>Total</b>	<b>117,897,433</b>	<b>2,587,949</b>	<b>7.07%</b>	<b>7.82%</b>	<b>10.59%</b>	<b>488,270</b>	<b>473,826</b>	<b>2,700,324</b>	<b>3,177,039</b>	<b>899,717</b>	<b>5,320,869</b>	<b>\$3.25</b>

## NEAR-TERM OUTLOOK

**WHILE THE R&D SECTOR** has shown more resilience than other product types during recent downturns, recent tech layoffs are having a significant impact during this cycle. For example, Seagate recently laid off 8% of their global staff in late 2022 and is now looking to sell their 575,000 SF campus in Fremont.

**AMID AN ECONOMIC SLOW-DOWN,** the R&D market is showing the effects of companies right-sizing and reducing requirements with decreased vacancy rates, availability rates, absorption, and sales volume in 4Q22 despite its steadiness during the pandemic.

**STARTING IN 2023,** small businesses can use the Inflation Reduction Act's refundable research and development tax credit to reduce payroll taxes and other business expenses by up to \$500,000 annually. This is \$250,000 more than the previous credit and could provide a needed boost to R&D startups.

## TOP SALE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
2850-2860 W Bayshore Rd	Palo Alto	100,188	\$27,500,000	\$274.48	Summer Hill Housing Group	McCandless Simons Co
3500-3550 W Warren Ave & 47200 Bayside Pky	Fremont	61,824	\$21,020,303	\$340.00	Paceline Investors	Kennedy Wilson, Inc.
35451 Dumbarton Ct	Newark	55,193	\$16,947,000	\$307.05	Teledyne Technologies Inc.	ETM Electromatic Inc
445-447 Indio Way	Sunnyvale	31,515	\$15,100,000	\$479.14	Briggs Development Corp.	Sade Eleanor
3060 Raymond St	Santa Clara	29,058	\$13,500,000	\$464.59	Ellis Partners	Ooibodo LLC

## TOP LEASE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
455 E Trimble Rd*	San Jose	80,125	November 2022	Highlands REIT	XP Power
48767 Kato Rd*	Fremont	38,783	November 2022	Zdag LLC	Ball Screws & Actuators Co. Inc
2855-2895 Zanker Rd*	San Jose	31,396	October 2022	Boston Properties, Inc.	Northstar Photonics
3200 Hillview Ave*	Palo Alto	31,355	November 2022	Stanford University	Rhombus Power
47505-47517 Seabridge Dr*	Fremont	27,000	October 2022	Prologis, LP.	EOS IT Management Solutions

\* New Leases

## TOP UNDER CONSTRUCTION

Property	Submarket	SF	Delivery Date	Owner
932 Kifer Rd	Sunnyvale	847,000	February 2024	Intuitive
651 Walsh Ave	Santa Clara	435,000	March 2023	Digital Realty Trust, Inc.
2305 Mission College Blvd	Santa Clara	352,679	August 2023	Amazon
2905 Stender Way	Santa Clara	250,000	October 2023	Stonepeak Partners LP.
1111 Comstock St	Santa Clara	121,000	January 2023	Khosh Jim Living Trust

Data Source: CoStar; bizjournals.com, ycharts.com, data.bls.gov, svb.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

\$10.9B

TRANSACTION  
VOLUME ANNUALLY

49.7M

ANNUAL  
SALES SF

43.7M

ANNUAL  
LEASING SFASSET  
SERVICES

52M

MANAGEMENT  
PORTFOLIO SF

875+

ASSETS UNDER  
MANAGEMENT

270+

ASSET SERVICES  
CLIENTSVALUATION  
ADVISORY

2,600+

ASSIGNMENTS  
ANNUALLY

48

TOTAL  
APPRAISERS

25

WITH MAI  
DESIGNATIONS

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. Consult your attorney, accountant, or other professional advisor.

KIDDER.COM