

MARKET TRENDS

SILICON VALLEY

R&D

MARKET DRIVERS

ASKING RATES stayed largely flat demonstrating that the prices are remaining strong despite economic uncertainty.

GROSS ABSORPTION dropped from 1.7M SF in 1Q22 to 251.9K SF in 1Q23, illustrating a continued decrease in tenant demand amid economic uncertainty and layoffs in the tech industry.

THERE HAS BEEN a substantial quarter-over-quarter decline in total net absorption with 433.8K SF in 4Q22 and negative 905K in 1Q23 coupled with a larger year-over-year reduction of 1.8M SF.

FOR THE FIRST TIME SINCE 2021, the market vacancy rate increased from 7.9% in 4Q22 to 8.7% this quarter. Cupertino, Mountain View, Palo Alto, and Fremont had the lowest rates, but they all increased since last quarter. Campbell continued to have the highest vacancy rate at 14.2%, which is slightly lower than the 14.4% it boasted in 4Q22.

SALES VOLUME fell year-over-year from 1.8M SF in 1Q22, to 795.7K SF in 4Q22, and down to 68.6K in 1Q23.

R&D AVAILABILITY increased to 11.3% in 1Q23, up from 10% in 4Q22 and 10.6% in 1Q22.

ECONOMIC REVIEW

SANTA CLARA COUNTY'S unemployment rate increased from 2% to 3% since December of last year, due in large part to worsening economic conditions and tech layoffs. This remains lower than California's total unemployment rate, which climbed to 4.3%.

SAN JOSE-SUNNYVALE-SANTA CLARA Manufacturing sector increased from 173.7K jobs in February 2022 to 180.8K jobs in February 2023.

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Market Summary

	1Q23	4Q22	1Q22	Annual Change
Vacancy Rate	8.65%	7.90%	9.30%	-7.03%
Availability Rate	11.34%	10.00%	10.60%	7.00%
Asking Lease Rate	\$2.64	\$2.60	\$2.52	4.76%
Gross Absorption (SF)	251,899	1,538,547	1,772,712	-85.79%
Sale Volume(SF)	68,648	795,725	999,691	-93.13%
Net Absorption	(905,058)	433,827	867,765	N/A

↓ 252K SF
LEASING ACTIVITY

↓ -905K SF
NET ABSORPTION

↓ 8.65%
VACANCY RATE

↑ \$2.64
ASKING RENT (AVG)

↔ OK SF
NEW DELIVERIES

Year-Over-Year Trend

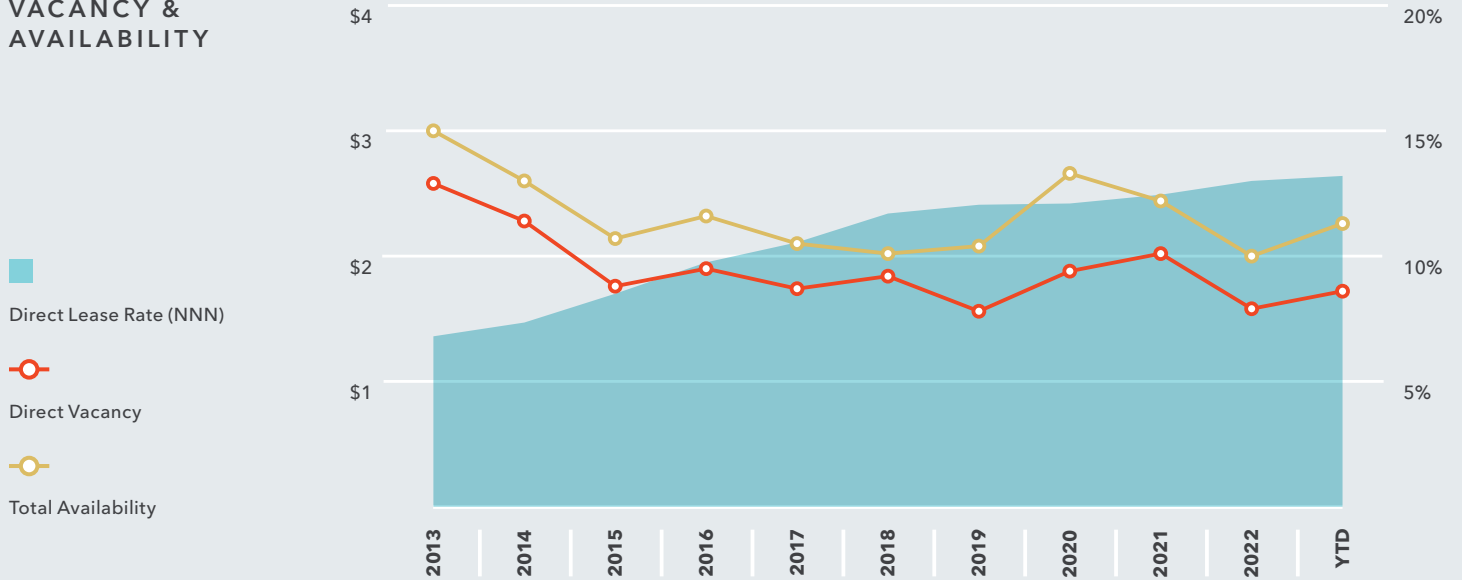
Market Highlights

ASKING LEASE RATES increased quarter-over-quarter to \$2.64/SF NNN

VACANCY RATES DROPPED from 10.6% to 8.7% year-over-year

SALES VOLUME fell year-over-year, from 999.7k to 68.7k

LEASE RATE, VACANCY & AVAILABILITY

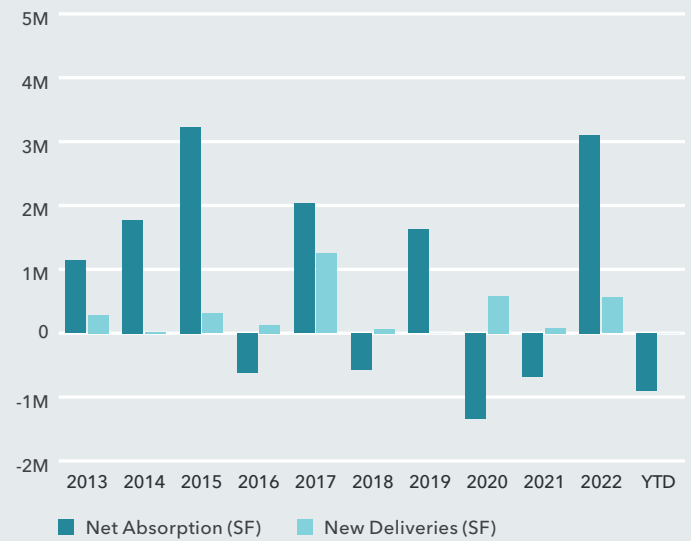


BIGGEST SALE OF THE QUARTER

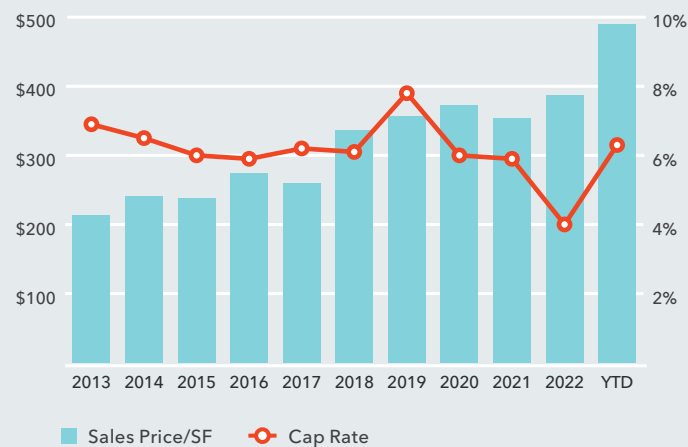
500 Mercury Dr, Sunnyvale



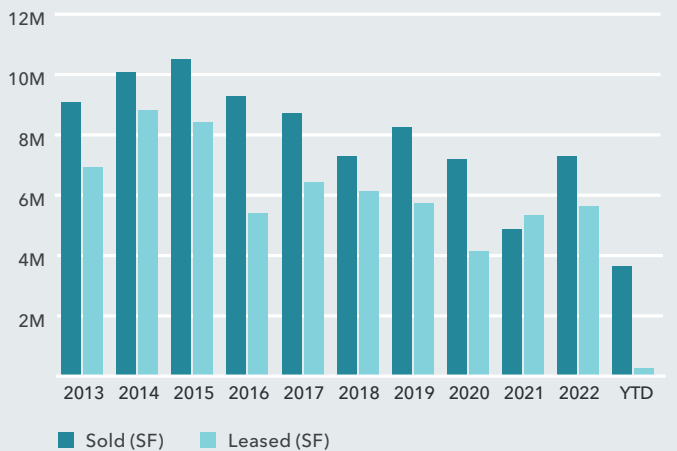
NET ABSORPTION & NEW DELIVERIES



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	1Q Direct Net Absorption	1Q Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	1Q Gross Absorption	YTD Gross Absorption	Avg NNN Rental Rate
Campbell	1,422,824		14.22%	14.22%	14.72%	2,691	2,691	2,691	2,691	-	-	\$2.46
Cupertino	2,248,069		0.00%	0.00%	0.00%	-	-	-	-	-	-	-
Fremont	17,052,000	762,316	5.38%	7.21%	8.62%	(15,001)	(199,333)	(15,001)	(199,333)	54,248	54,248	\$1.67
Milpitas	9,160,053		10.11%	10.90%	12.12%	(121,413)	(188,330)	(121,413)	(188,330)	4,094	4,094	\$2.43
Mountain View	8,008,571		4.44%	6.68%	8.80%	(73,202)	(58,259)	(73,202)	(58,259)	16,944	16,944	\$4.44
Newark	3,542,203		5.52%	8.26%	11.49%	55,355	3,355	55,355	3,355	-	-	\$2.19
Palo Alto	4,803,678		4.71%	6.06%	6.52%	(16,580)	(38,541)	(16,580)	(38,541)	6,000	6,000	\$5.62
San Jose	39,866,272		8.09%	9.11%	13.49%	(348,855)	(470,512)	(348,855)	(470,512)	93,267	93,267	\$2.34
Santa Clara	17,316,916	1,158,679	8.52%	8.98%	11.77%	128,322	124,687	128,322	124,687	44,874	44,874	\$2.55
Sunnyvale	14,605,689	847,000	9.24%	10.06%	12.01%	(63,163)	(80,816)	(63,163)	(80,816)	32,472	32,472	\$3.28
Total	118,026,275	2,767,995	7.52%	8.65%	11.34%	(451,846)	(905,058)	(451,846)	(905,058)	251,899	251,899	\$2.64

NEAR-TERM OUTLOOK

DURING THE FIRST QUARTER, there was a noticeable decrease in deal volume for companies operating in the medical device, hardware, networking, and biotech sectors in the region. Properties that feature clean rooms, heavy power, and other specialized laboratory improvements are still highly sought after, keeping demand higher than sectors like office. As a result, vacancy rates remain low and asking rates remain high despite the slowdown.

ON TOP OF THE 2M+ SF under construction in Santa Clara and Sunnyvale, Milpitas has announced that they have approved the redevelopment of 75 acres of land for an "Innovation District" expected to add ~3.8M SF of modern office, research-and-development, and industrial buildings.

THE SILICON VALLEY BANK fallout will impact new construction, commercial mortgage loans that need refinancing, and new loan approvals. The SVB collapse is not indicative of further bank failures, especially the larger national ones. With that said this will make life for early-stage companies in industries like Biotech difficult in the coming months, and new strategies to secure financing will need to be revealed.

TOP SALE TRANSACTIONS 1Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
500 Mercury Dr	Sunnyvale	30,690	\$16,500,000	\$537.63	500 Mercury LLC	DMZ Group LLC
3205 Bassett St	Santa Clara	33,250	\$13,300,000	\$400.00	Basset California LLC	Spirit At 3205 Bassett CA LP
1150 W Evelyn Ave	Santa Clara	15,000	\$6,200,000	\$413.33	OOIBODO LLC	Infill Land Partners, LLC
974 Commercial St	Palo Alto	8,000	\$5,100,000	\$637.50	Vintage Properties LLC	Shak Properties LLC
10100 Bubb Rd	Cupertino	13,220	\$4,100,000	\$310.14	Peninsula Land & Capital	Verse Two Properties, LLC

TOP LEASE TRANSACTIONS 1Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
48021-48027 Warm Springs Blvd	Fremont	106,100	February 2023	The Blackstone Group LP (LBA)	Alom Technology Corporation
3410 Central Exp	Santa Clara	104,179	January 2023	Gemini Rosemont Commercial RE.	Intuitive Surgical, Inc.
3001 Orchard Pkwy	San Jose	97,890	January 2023	Workspace Property Trust	Protein Simple/Bio Techne
397 W Trimble Rd	San Jose	91,725	February 2023	MCP Trimble	Verizon Wireless (HQ)
6550 Dumbarton Cir	Fremont	62,523	January 2023	DivcoWest - San Francisco	Alexza Pharmaceuticals Inc.

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	June 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	June 2023	Khosh Jim Living Trust

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



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.

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COMMERCIAL
BROKERAGE

\$12B

TRANSACTION
VOLUME ANNUALLY

32.1M

ANNUAL
SALES SF

41.2M

ANNUAL
LEASING SFASSET
SERVICES

53M

MANAGEMENT
PORTFOLIO SF

771+

ASSETS UNDER
MANAGEMENT

250+

ASSET SERVICES
CLIENTSVALUATION
ADVISORY

2,600+

ASSIGNMENTS
ANNUALLY

46

TOTAL
APPRAISERS

23

WITH MAI
DESIGNATIONS