

## MARKET TRENDS

# SILICON VALLEY R&D

### MARKET DRIVERS

**IN 3Q23, ASKING LEASE RATES** were nearly flat, only seeing a 1.3% increase compared to the previous quarter, but remained 1.0% lower than the 3Q22 rate of \$3.16/SF.

**THE DIRECT VACANCY RATE** increased from 8.8% to 9.2% quarter-over-quarter, with the most significant shift occurring in Mountain View, climbing from 5.9% to 8.9% since last quarter. The asking lease rate is higher than the market average, at \$3.87/SF, so it is likely the increase in the supply of these properties contributed to the rising asking rates this quarter.

**GROSS ABSORPTION** declined from 847.0k SF in 3Q22 to 458.0k SF in 3Q23, illustrating that tenants and landlords aren't seeing eye to eye on asking rates.

**LIKewise, NET ABSORPTION** saw a significant decrease, falling from -144.6k SF in 2Q23 to -429.7k SF in 3Q23, a considerable departure from the 972.1k SF net absorption seen in 3Q22.

**SALES VOLUME** showed substantial growth, increasing from 332.7k SF in 2Q23 to 1.4M SF in 3Q23, surpassing the 692.5k SF sold in 3Q22. Although this appears to be significant growth, over 580k SF of the sales can be attributed to a sale-leaseback performed by Western Digital/Sandisk and is not indicative of market improvement.

**THE R&D AVAILABILITY RATE** stayed flat at 10.6% in 3Q23, which was higher than the 9.8% recorded in 3Q22.

### ECONOMIC REVIEW

**THE UNEMPLOYMENT RATE** in Santa Clara County increased from 3.7% to 3.9% in 3Q23. Conversely, California's unemployment rate has remained steady at 4.6%.

**FROM AUGUST 2022 TO AUGUST 2023,** San Jose-Sunnyvale-Santa Clara's Manufacturing sector fell 1.1%, from 183k to 181k jobs.

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### Market Summary

	3Q23	2Q23	3Q22	Annual Change
Vacancy Rate	9.20%	8.80%	8.30%	<b>10.84%</b>
Availability Rate	10.60%	10.60%	9.80%	<b>8.16%</b>
Asking Lease Rate	\$3.13	\$3.09	\$3.16	<b>-0.95%</b>
Gross Absorption (SF)	457,972	1,215,564	847,047	<b>-45.93%</b>
Sale Volume (SF)	1,363,880	332,735	692,465	<b>96.96%</b>
Net Absorption	(429,747)	-144,593	972,101	<b>N/A</b>

↓ **457K SF**  
LEASING ACTIVITY

↓ **-429K SF**  
NET ABSORPTION

↑ **9.20%**  
VACANCY RATE

↓ **\$3.13**  
ASKING RENT (AVG)

↓ **0 SF**  
NEW DELIVERIES

Year-Over-Year Trend

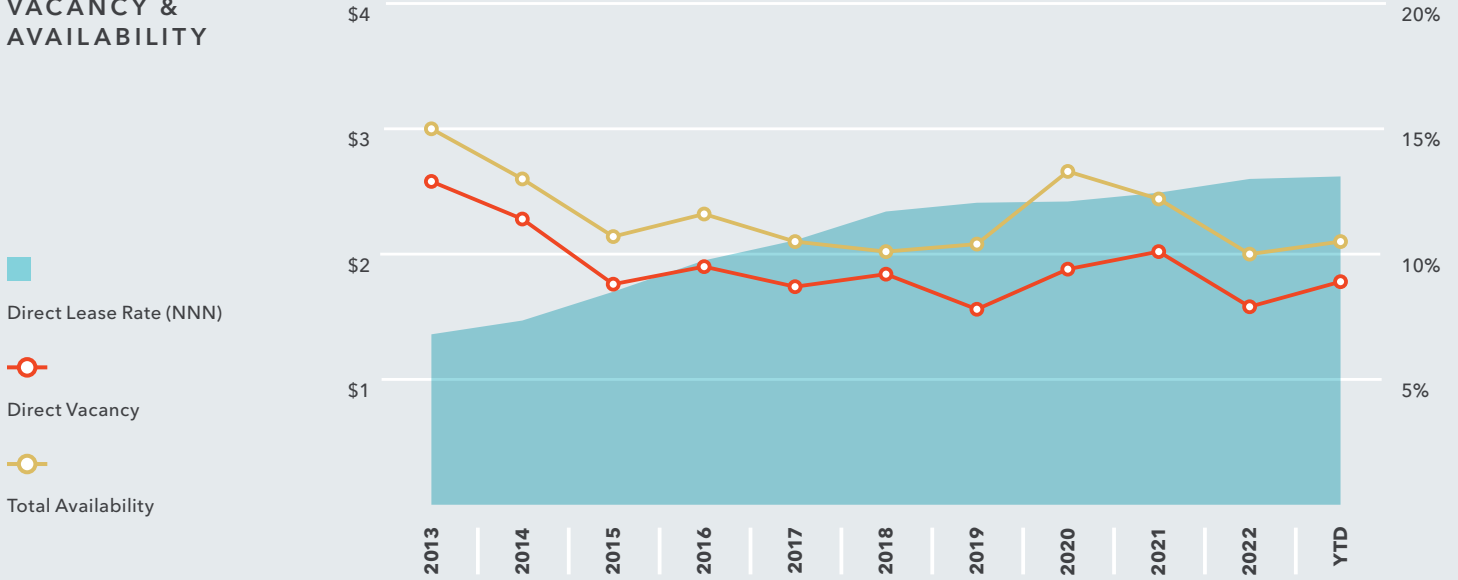
### Market Highlights

**ASKING LEASE RATES** saw a marginal 1.3% increase quarter-over-quarter to \$3.13/SF NNN

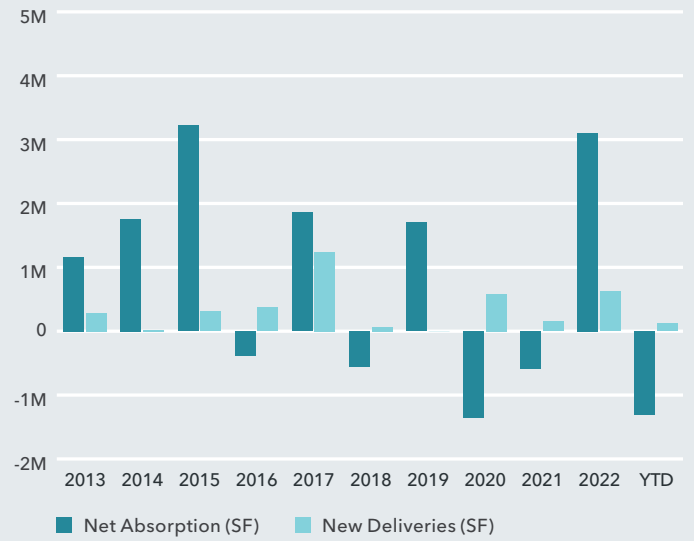
**VACANCY RATES INCREASED** increased from 8.8% to 9.2% quarter-over-quarter

**SALES VOLUME** saw an increase from 332.7k to 1.4M SF quarter-over-quarter. One-third of which can be attributed to the Western Digital sale

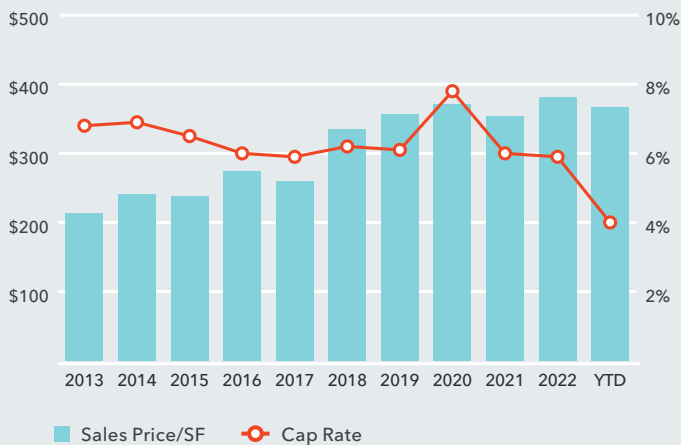
## LEASE RATE, VACANCY & AVAILABILITY



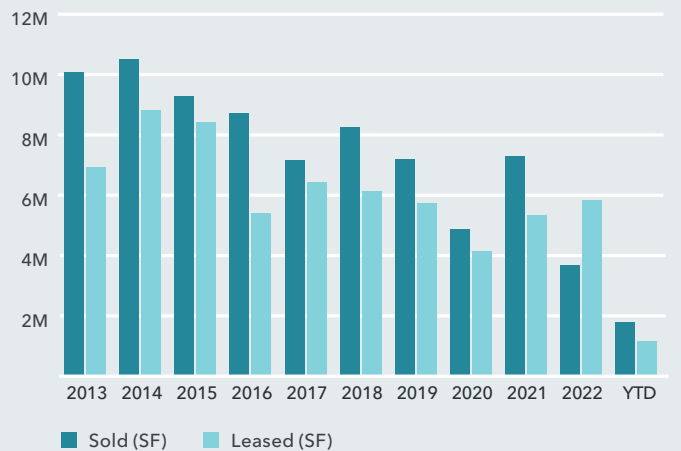
## NET ABSORPTION & NEW DELIVERIES



## 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 Available Rate	3Q Direct Net Absorption	3Q Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	3Q Gross Absorption	YTD Gross Absorption	Avg NNN Rental Rate
Campbell	1,422,824		11.7%	11.7%	12.8%	(274)	(274)	38,762	38,762	-	1,726	\$2.61
Cupertino	2,248,159		0.8%	0.8%	0.8%	(17,850)	(17,850)	(17,850)	(17,850)	-	-	\$3.25
Fremont	17,062,161	750,109	4.8%	6.4%	8.4%	3,610	22,572	144,888	(10,327)	151,826	347,207	\$2.18
Milpitas	9,237,365		10.0%	11.2%	8.4%	(8,626)	37,737	(119,040)	(229,184)	20,553	100,402	\$1.88
Mountain View	7,983,914		8.9%	11.5%	13.2%	(236,057)	(267,540)	(429,808)	(444,416)	45,478	119,512	\$3.87
Newark	3,542,203		11.9%	13.8%	17.5%	(91,431)	(91,431)	(172,057)	(192,580)	13,863	15,363	\$2.76
Palo Alto	4,809,444		6.1%	7.0%	11.6%	(72,983)	(51,022)	(83,563)	(83,563)	8,963	15,696	\$6.68
San Jose	40,042,657	126,700	7.9%	9.3%	13.8%	7,716	(94,109)	(305,068)	(576,520)	208,156	366,288	\$2.25
Santa Clara	17,437,916	602,679	8.3%	8.3%	10.6%	135,160	210,970	274,092	347,567	18,783	63,657	\$2.44
Sunnyvale	14,605,461	847,000	9.0%	10.4%	11.7%	10,509	(79,168)	(25,393)	(132,723)	19,373	120,050	\$3.36
<b>Total</b>	<b>118,353,648</b>	<b>2,326,488</b>	<b>7.6%</b>	<b>7.6%</b>	<b>11.3%</b>	<b>(270,226)</b>	<b>(330,115)</b>	<b>(695,037)</b>	<b>(1,300,834)</b>	<b>486,995</b>	<b>1,149,901</b>	<b>\$3.13</b>

## NEAR-TERM OUTLOOK

**LIFE SCIENCE LAB SPACES** have surged in availability due to new deliveries, 860,000 SF of office space being converted into labs in the greater bay area, and leasing activity slowing as investors encourage biotech firms to act conservatively. Now that there is a surplus, developers are hoping tech companies will begin to fill the unwanted lab space. A potential challenge to this idea is compatibility issues as well as the ongoing slowdown in the tech sector. Vacancy and absorption have been trending in an unfavorable direction for the R&D sector steadily, and the hopes to convert other products to R&D space would only exacerbate this problem.

**FREMONT AND MILPITAS** have seen significant activity in the R&D market. The Campus in Milpitas was recently sold by Western Digital/Sandisk for \$193M, the Clipper Court Commerce Center in Fremont sold for \$104M, and Seagate's 30-acre Fremont campus, which was purchased for \$260M in May, is expected to be split into two separate parcels. The surge in sales volume was nice to see, but it was largely thanks to these larger projects. Even within these larger

sales, Western Digital was a sale/leaseback and although it counts towards sale and lease numbers, there was no impact on the market as a whole outside of surface level numbers. With lending remaining tight, it is difficult to project this quarter's growth can be built upon.

**THE PANDEMIC AND REMOTE** work policies haven't impacted R&D spaces as significantly as the office sector, but economic uncertainty has taken its toll on the market. Although these facilities remain desirable because they offer the flexibility needed to set up specialized labs, which are crucial for biotech, medical device, and other high-tech companies, these companies have felt their budgets tighten whether they receive funding from banks or VC firms. This quarter has seen increases in vacancy and availability, but asking rates also saw growth, showing that landlords and tenants aren't seeing eye to eye on value. Economic challenges have affected leases, but Silicon Valley is still the top tech hub in the United States. Despite bright spots like the sales volume from this quarter, the R&D market may be in for a bumpy future until lending picks back up.

## TOP SALE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
901-1101 Sandisk Dr	Milpitas	580,322	\$192,450,000	\$331.63	Blue Owl	Western Digital
825 Stewart Dr	Sunnyvale	75,350	\$41,000,000	\$544.13	BentallGreenOak	GI Partners
3101-3151 Jay St	Santa Clara	133,685	\$32,500,000	\$243.11	Alvarez & Marsal Holdings, LLC	TA Realty
2201 Qume Dr	San Jose	63,958	\$24,000,000	\$375.25	ISE Labs Inc	IPG Photonics Corp
37955 Central Ct	Newark	43,557	\$13,000,000	\$298.46	Trive Real Estate Equity Management LLC	Mandel Management, LLC

## TOP LEASE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
901 - 1101 Sandisk Dr	Milpitas	580,322	September 2023	Blue Owl	Sandisk/Western Digital
91 E Tasman Drive (New lease)	San Jose	84,049	July 2023	Century Urban Tasman LLC	Institute for Business & Technology
510 DeGuigne Drive- Bldg A	Sunnyvale	76,564	August 2023	Hines	Trimble Navigation, Ltd
1237 E Arques Ave	Sunnyvale	68,608	July 2023	Fumao Holding Corporation	Cerebras Systems
2630 Orchard	San Jose	61,723	August 2023	Toshiba	WeRide

## TOP UNDER CONSTRUCTION

Property	Submarket	SF	Delivery Date	Owner
932 Kifer Rd	Sunnyvale	847,000	February 2024	Intuitive
45500 Fremont Blvd	Fremont	703,270	December 2023	Lennar
641 Walsh Ave	Santa Clara	435,000	October 2023	Digital Realty Trust, Inc.
2305 Mission College Blvd	Santa Clara	352,679	October 2023	Amazon
2905 Stender Way	Santa Clara	250,000	October 2023	American Tower Corporation

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



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The information in this report was composed by the Kidder Mathews Research Group.

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<b>COMMERCIAL BROKERAGE</b>	<b>\$12B</b> TRANSACTION VOLUME ANNUALLY	<b>32.1M</b> ANNUAL SALES SF	<b>41.2M</b> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<b>53M</b> MANAGEMENT PORTFOLIO SF	<b>771+</b> ASSETS UNDER MANAGEMENT	<b>250+</b> ASSET SERVICES CLIENTS
<b>VALUATION ADVISORY</b>	<b>2,800+</b> ASSIGNMENTS ANNUALLY	<b>41</b> TOTAL APPRAISERS	<b>23</b> WITH MAI DESIGNATIONS

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