

## MARKET TRENDS

# SILICON VALLEY R&D

### MARKET DRIVERS

**IN 4Q23, ASKING LEASE RATES** saw a small bump of 3.0%, from \$3.13/SF to \$3.22/SF in 4Q23, but remained 0.8% lower than the 4Q22 rate of \$3.25/SF. When looking at properties above 5k SF, the rental rate for this quarter is \$2.67/SF NNN, indicating that smaller properties have asking rates high enough to skew the market average.

**THE DIRECT VACANCY RATE** increased from 9.4% to 9.5% quarter-over-quarter, with the most significant shift occurring in Campbell, falling from 11.7% to 2.2% since last quarter. Although this is a significant drop, Campbell makes up less than 50k of the 118M SF total and didn't change much in the Silicon Valley landscape.

**GROSS ABSORPTION** declined from 1.7M SF in 4Q22 to 650.2k SF in 4Q23, illustrating that tenants and landlords aren't seeing eye to eye on asking rates.

**LIKEWISE, NET ABSORPTION** saw a decrease, falling from 7.9k SF in 3Q23 to -94.1k SF in 4Q23, a considerable departure from the 439.4k SF net absorption seen in 4Q22.

**SALES VOLUME** saw a quarter-over-quarter decrease from 1.4M SF to 417.9k, this doesn't present the whole story as more than half of the SF attributed to last quarter was a sale lease-back and didn't mean much in terms of the market at large. It is still lower than the 852.7k SF recorded this time last year and is a sign of slowed sales.

**THE R&D AVAILABILITY RATE** saw a small decline from 10.9% to 10.8%, both higher than the 10.0% recorded in 4Q22.

### ECONOMIC REVIEW

**THE UNEMPLOYMENT RATE** in Santa Clara County slightly increased from 3.6% to 3.8% in 4Q23. California's unemployment rate also rose from 4.6% to 4.8% since the beginning of last quarter.

**FROM OCTOBER 2022 TO OCTOBER 2023**, San Jose-Sunnyvale-Santa Clara's Manufacturing sector fell 2.7%, from 183.5k to 178.5k jobs.

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## Market Summary

	4Q23	3Q23	4Q22	Annual Change
Vacancy Rate	9.50%	9.40%	7.90%	<b>20.25%</b>
Availability Rate	10.80%	10.90%	10.00%	<b>8.00%</b>
Asking Lease Rate	\$3.22	\$3.13	\$3.25	<b>-0.80%</b>
Gross Absorption (SF)	650,165	1,093,793	1,654,554	<b>-60.70%</b>
Sale Volume (SF)	417,956	1,435,331	852,774	<b>-50.99%</b>
Net Absorption	(94,117)	7,920	439,431	<b>N/A</b>

↓ **650K SF**  
LEASING ACTIVITY

↓ **-94K SF**  
NET ABSORPTION

↑ **9.50%**  
VACANCY RATE

↓ **\$3.22**  
ASKING RENT (AVG)

↓ **0 SF**  
NEW DELIVERIES

Year-Over-Year Trend

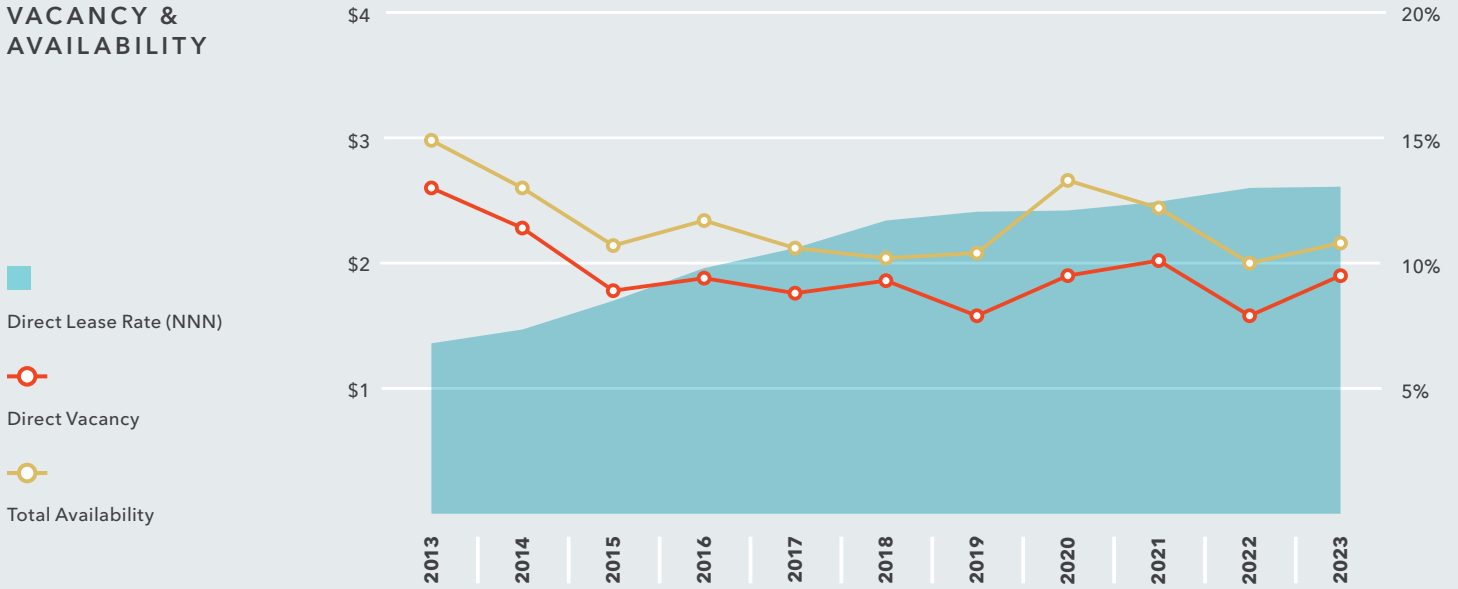
## Market Highlights

**ASKING LEASE RATES** experienced a marginal 3.0% increase quarter-over-quarter to \$3.22/SF NNN

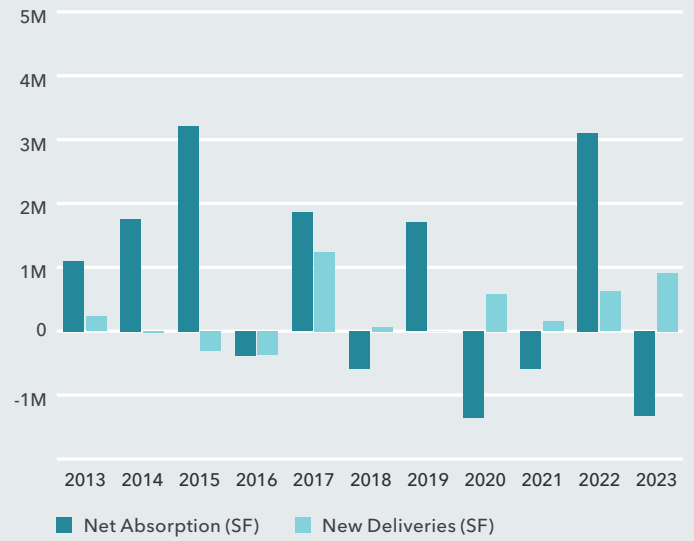
**VACANCY RATES INCREASED** from 9.4% to 9.5% quarter-over-quarter

**SALES VOLUME SAW** a quarter-over-quarter contraction from 1.4M SF to 417.9k in 4Q23

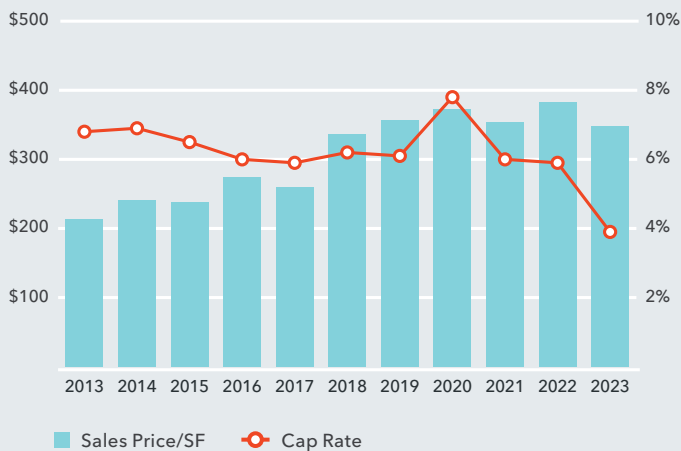
## LEASE RATE, VACANCY & AVAILABILITY



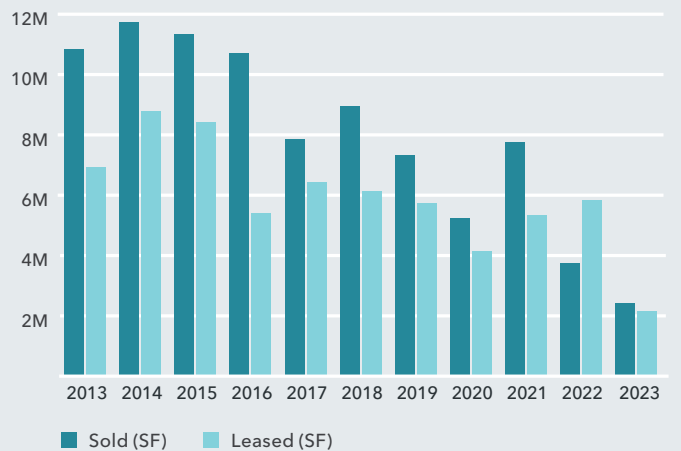
## NET ABSORPTION & NEW DELIVERIES



## 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	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	1,414,124		2.2%	2.2%	3.4%	134,844	134,844	173,606	173,606	4,050	65,947	\$2.55
Cupertino	2,264,927		0.8%	0.8%	2.4%	-	-	(17,850)	(17,850)	-	1,050	\$3.25
Fremont	17,067,952	703,270	4.7%	6.7%	9.4%	(3,209)	(82,674)	165,914	(59,489)	211,051	579,895	\$2.24
Milpitas	9,237,365		9.6%	10.8%	7.6%	40,086	40,086	(78,954)	(189,098)	46,158	779,761	\$2.29
Mountain View	7,985,749		9.2%	13.0%	14.5%	(37,272)	(130,952)	(458,050)	(560,187)	29,733	139,085	\$3.99
Newark	3,548,857		13.3%	14.7%	21.3%	(47,509)	(33,646)	(219,566)	(226,226)	4,379	19,742	\$2.84
Palo Alto	4,809,444		6.1%	7.0%	11.6%	(72,983)	(51,022)	(83,563)	(83,563)	8,963	15,696	\$6.98
San Jose	40,042,657		7.9%	9.3%	13.8%	7,716	(94,109)	(305,068)	(576,520)	208,156	366,288	\$2.41
Santa Clara	17,437,916	250,000	8.3%	8.3%	10.6%	135,160	210,970	274,092	347,567	18,783	63,657	\$2.52
Sunnyvale	14,605,461	847,000	9.0%	10.4%	11.7%	10,509	(79,168)	(25,393)	(132,723)	19,373	120,050	\$3.46
<b>Total</b>	<b>118,353,648</b>	<b>1,800,270</b>	<b>7.6%</b>	<b>7.6%</b>	<b>11.3%</b>	<b>167,342</b>	<b>(85,671)</b>	<b>(574,832)</b>	<b>(1,324,483)</b>	<b>550,646</b>	<b>2,151,171</b>	<b>\$3.22</b>

## NEAR-TERM OUTLOOK

**JUNO REALTY PARTNERS LLC, A SOUTHERN CALIFORNIA R.E. FIRM**, has resubmitted a preliminary proposal for a housing development in Palo Alto. The firm is invoking California's builder's remedy law, streamlining the approval process for residential developments that include affordable housing. The proposal aims to replace two older R&D buildings with either 292 or 350 residences. The six-parcel site, owned by Far Western Land & Investment Company, currently features buildings dating back to 1959. The project does however face the challenge of exceeding existing height limits for the area. With that said, Palo Alto is currently out of compliance with state housing law, making it subject to the builder's remedy. These kinds of proposals aren't uncommon to the struggling office marketplace and are now beginning to creep up in the oversaturated R&D market while California continues to go through its housing crisis.

**RANI THERAPEUTICS, A SILICON VALLEY-BASED BIOTECH COMPANY**, has signed a five-year lease for 33,340 square feet of manufacturing, research & development, and administrative space at 47709 Fremont Blvd. This move nearly doubles the company's footprint as it expands across the Bay Area. The strategic location along the I-880 corridor

close to Rani's existing facilities is meant to support scale for late-stage development and partnerships. The space is part of Bayside Tech Park, owned by BKM Capital Partners. This move highlights that Fremont is quietly becoming a stronger market for R&D space and could see more moves like this since the asking rent is lower than the rest of the Silicon Valley.

**APPLIED MATERIALS INC.** has revealed plans for a \$4 billion research-and-development center in Sunnyvale, California. The semiconductor toolmaker's proposed design includes a 600,000-square-foot research facility. Named the Equipment and Process Innovation and Commercialization (EPIC) Center, the facility is part of Applied's larger 10-year investment and innovation push. The company aims to complete the project, which could create up to 1,500 construction jobs and 2,000 engineering jobs, by 2026. With the commission being supportive of the project, the next step is for a formal public hearing. If this project is completed it would provide a much-needed spark to the R&D market at large.

## TOP SALE TRANSACTIONS 4Q 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 4Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3475 Deer Creek Rd	Palo Alto	108,588	December 2023	Stanford Board of Trustees	Tesla
3301 3311 Leonard Ct	Santa Clara	90,095	November 2023	LINK LOGISTICS	Finesse Solutions
3560 Bassett St	Santa Clara	75,376	November 2023	HGIT Bassett Campus LP	Intevac, Inc.
3025 Orchard Pkwy	San Jose	61,926	November 2023	3025 Orchard Parkway	ADEIA HOLDINGS
217 Humboldt Ct	Sunnyvale	60,448	October 2023	Kurdex Corp.	Infinera Corp.

## 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
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>42</b> TOTAL APPRAISERS	<b>23</b> WITH MAI DESIGNATIONS

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