

## MARKET TRENDS

# SILICON VALLEY

## R&D

### MARKET DRIVERS

Asking lease rates dropped both year-over-year (YOY) and quarter-over-quarter (QOQ). Asking rates climbed from \$2.70 to \$2.72 through 2023, and then fell to \$2.65 in 1Q24. This is an indication that landlords are beginning to have their hands forced and come down on rates to get spaces filled.

The direct vacancy rate increased from 9.4% to 9.7% QOQ, with the most significant shift occurring in Palo Alto, climbing from 6.1% to 8.3%.

Gross absorption declined from 648.7k SF in 1Q23 to 496.1k SF in 1Q24, the lowest quarterly amount recorded to date.

Despite the decline in gross absorption, net absorption saw a YOY improvement from -691.1k to -317.4k SF. A reason for the improvement is sublet space, which netted 222.8k SF of absorbed space.

Sales volume saw a QOQ decrease from 544.0k SF to 281.7k SF. This is still 22.7% higher than this time last year.

The R&D availability rate saw an increase from 10.7% to 11.1%, both higher than the 10.5% recorded in 1Q23. This increase is still lower than the 10 year average of 11.3% for the market.

### ECONOMIC REVIEW

The unemployment rate in Santa Clara County rose to 4.3% in 1Q24, the highest measured since August 2021. California's unemployment rate also rose to 5.3%, the highest since December 2021.

From February 2023 to February 2024, San Jose-Sunnyvale-Santa Clara's Manufacturing sector fell 2.1%, from 179.4k to 175.7k jobs.

continued on page 3

## Market Summary

	1Q24	4Q23	1Q23	YOY Change
Direct Vacancy Rate	9.7%	9.4%	8.4%	<b>130-bps</b>
Availability Rate	11.1%	10.7%	10.5%	<b>60-bps</b>
Asking Lease Rate	\$2.65	\$2.72	\$2.70	<b>-1.9%</b>
	1Q24	2023 Total	1Q23	YOY Change
Gross Absorption (SF)	496,099	4,436,066	648,661	<b>-23.5%</b>
Sales Volume (SF)	281,657	3,106,113	231,433	<b>21.7%</b>
Net Absorption (SF)	(317,422)	-1,030,175	-691,062	<b>54.1%</b>

↓ **496K SF**  
LEASING ACTIVITY

↑ **317K SF**  
NET ABSORPTION

↑ **9.7%**  
VACANCY RATE

↓ **\$2.65**  
ASKING RENT (AVG)

↔ **0 SF**  
NEW DELIVERIES

Year-Over-Year Trend

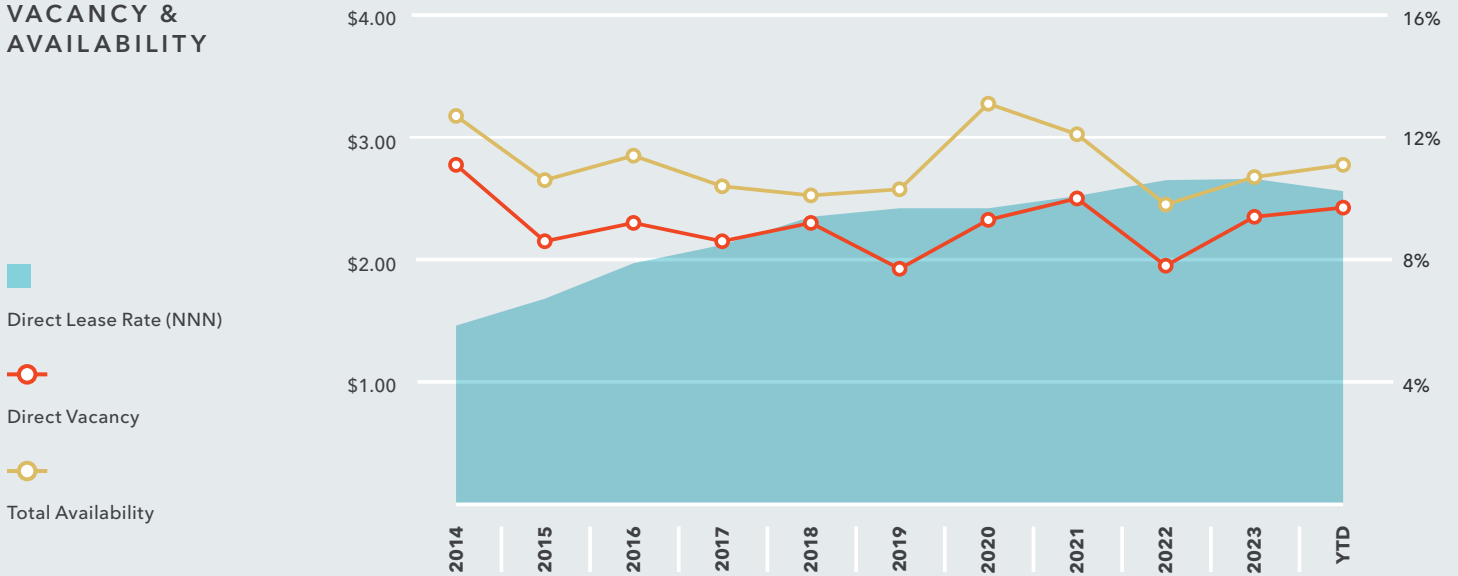
## Market Highlights

**ASKING LEASE RATES** market wide concluded the quarter at 13.7%

**THE VACANCY RATE** saw a slight uptick from 9.4% to 9.7% quarter-over-quarter

**SALES VOLUME** saw a decrease from 544.0k SF in 1Q23 to 281.7k in 1Q24

## LEASE RATE, VACANCY & AVAILABILITY

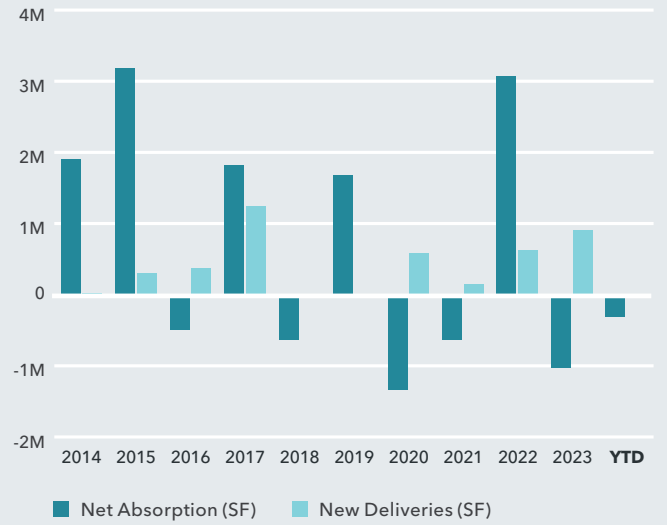


## BIGGEST SALE OF THE QUARTER

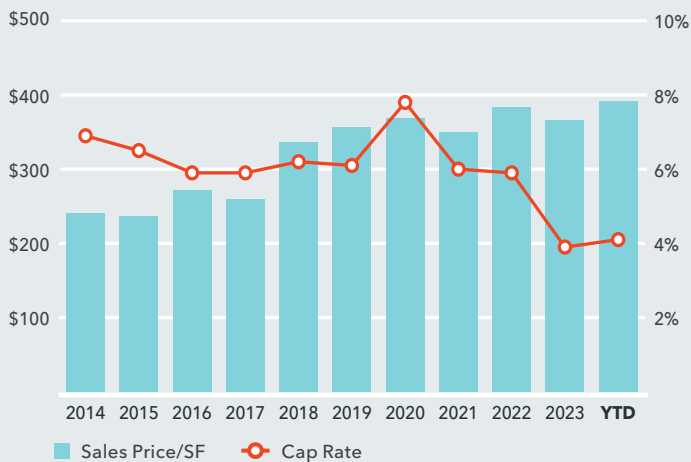
*3833 Kifer Rd, Santa Clara, CA*



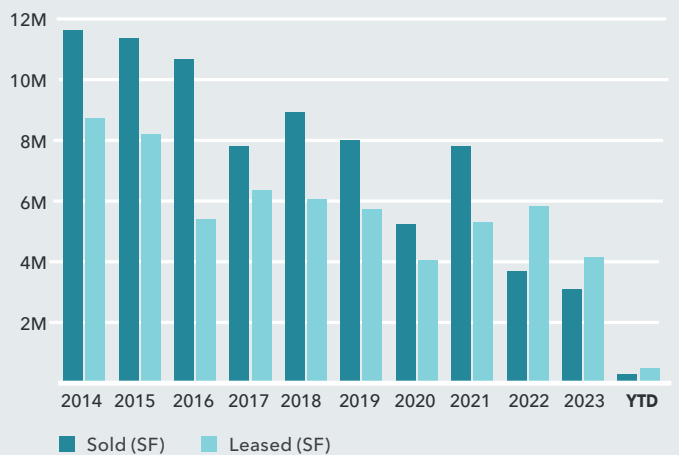
## NET ABSORPTION & NEW DELIVERIES



## 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	1Q24 Direct Net Absorption	1Q24 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	1Q24 Gross Absorption	YTD Gross Absorption	Avg NNN Rental Rate
Campbell	1,431,334	-	2.1%	2.1%	4.0%	2,000	2,000	2,000	2,000	-	-	\$2.76
Cupertino	2,227,219	-	1.7%	1.7%	2.5%	(20,100)	(20,100)	(20,100)	(20,100)	-	-	\$2.50
Fremont	17,385,152	750,109	5.6%	7.8%	9.5%	(125,806)	6,974	(125,806)	6,974	148,663	148,663	\$1.97
Milpitas	9,211,898	-	9.5%	11.0%	7.1%	(55,494)	(50,018)	(55,494)	(50,018)	58,714	58,714	\$2.30
Mountain View	7,949,244	-	8.8%	11.7%	12.9%	525	97,616	525	97,616	15,295	15,295	\$4.04
Newark	3,535,457	-	14.0%	15.4%	21.9%	(25,000)	(25,000)	(25,000)	(25,000)	855	855	\$2.45
Palo Alto	5,195,811	-	8.3%	11.7%	13.3%	(42,403)	(78,676)	(42,403)	(78,676)	10,000	10,000	\$5.34
San Jose	39,765,065	126,700	7.9%	9.3%	14.7%	(166,122)	(142,763)	(166,122)	(142,763)	64,389	64,389	\$2.20
Santa Clara	18,143,794	250,000	9.7%	10.0%	8.6%	(156,649)	(141,549)	(156,649)	(141,549)	114,699	114,699	\$2.50
Sunnyvale	14,162,450	847,000	9.1%	10.6%	12.4%	48,805	34,094	48,805	34,094	83,484	83,484	\$3.43
<b>Total</b>	<b>119,007,424</b>	<b>1,973,809</b>	<b>8.2%</b>	<b>8.2%</b>	<b>11.8%</b>	<b>(540,244)</b>	<b>(317,422)</b>	<b>(540,244)</b>	<b>(317,422)</b>	<b>496,099</b>	<b>496,099</b>	<b>\$2.65</b>

## NEAR-TERM OUTLOOK

Despite challenges such as tech job purges, stagnant population growth, and a downturn in venture capital investment, Silicon Valley is still growing and adapting. Silicon Valley's resilience is evident in its ability to rebound from the pandemic-induced economic setbacks, with its workforce not only recovering to pre-pandemic levels but also gaining thousands of jobs. Employment figures show a 1% increase compared to pre-pandemic levels, despite major tech companies downsizing their workforces for efficiency, and the region outperforming the state average in terms of unemployment rates. Additionally, the market cap for publicly traded companies in the area has reached an all-time high, indicating continued innovation and economic activity. Lastly, venture capital is still the highest in the nation, with green energy, clean technology and artificial intelligence driving the change. While challenges persist, Silicon Valley's capacity for adaptation and growth remains robust, showcasing its enduring position as a global innovation hub amidst changing economic landscapes.

Applied Materials Inc. is set to undergo a permit hearing for its proposed \$4 billion research-and-development center with the Sunnyvale Planning Commission on April 22nd. This hearing will determine the approval of the 600,000-square-foot research facility, dubbed the Equipment and Process Innovation and Commercialization (EPIC) Center, which is a key component of Applied's extensive 10-year investment and innovation strategy. If approved, the project aims to generate significant economic benefits, including the creation of 1,500 construction jobs, 2,000 engineering positions, and 11,000 jobs in various industries by the year 2026. Moreover, Applied anticipates that the facility will serve as a catalyst for over \$25 billion in research and development investment. The successful completion of this project will greatly improve the R&D market throughout Silicon Valley.

**SIGNIFICANT SALE TRANSACTIONS 1Q 2024**

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
3833 Kifer Road*	Sunnyvale	169,827	\$192,000,000	\$1,130.56	Fortinet	Texas Instrument
1355 California Cr	Milpitas	90,068	\$32,000,000	\$355.29	AG EHC II	Mathew Property I LLC
2901 Patrick Henry Dr	Santa Clara	82,278	\$26,394,500	\$320.80	Mathew Property I LLC	CLPF - 2901 PATRICK HENRY, L.P
185 E Dana St	Mountain View	14,078	\$9,200,000	\$653.50	Citrogene Inc	Ashley and Calvin Benson
3350 Scott Blvd	Santa Clara	4,980	\$2,100,000	\$421.69	Cair California Title Holding Corp.	Renaissance Design Group Of CA LLC

\* Portfolio Sale

**SIGNIFICANT LEASE TRANSACTIONS 1Q 2024**

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3011 N. 1st St.	North San Jose	146,159	March 2024	Blue Vista Capital Management	Intermolecular
4211 Starboard Dr	Fremont	129,808	January 2024	LaSalle Investment Management	AlphaEMS
321 & 351 E Evelyn Ave*	Mountain View	106,125	February 2024	Rockwood Capital	Databricks
787 N Mary Ave	Sunnyvale	78,623	March 2024	Graymark Capital	Unknown
2890 Scott Blvd	Santa Clara	75,000	January 2024	Preylock Reitman Santa Clara 2890 LLC	NVIDIA

**SIGNIFICANT UNDER CONSTRUCTION**

Property	Submarket	SF	Delivery Date	Owner
950 Kifer Rd	Sunnyvale	847,000	April 2024	Intuitive
45500 Fremont Blvd	Fremont	703,270	April 2024	Lennar
2905 Stender Way	Santa Clara	250,000	May 2024	American Tower Corporation
1953 Concourse Dr	San Jose	126,700	May 2024	1953 Concourse Drive Llc
40445 Albrae St	Fremont	46,839	December 2024	Scannell Properties 483 Llc

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>\$10B</b> 3-YEAR AVERAGE TRANSACTION VOLUME	<b>31.7M</b> ANNUAL SALES SF	<b>42.4M</b> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<b>51M SF</b> MANAGEMENT PORTFOLIO SIZE	<b>750+</b> ASSETS UNDER MANAGEMENT	<b>250+</b> CLIENTS SERVED
<b>VALUATION ADVISORY</b>	<b>2,600+</b> 3-YEAR AVERAGE ASSIGNMENTS	<b>43</b> TOTAL APPRAISERS	<b>25</b> WITH MAI DESIGNATIONS

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