

MARKET TRENDS

SILICON VALLEY

R&D

MARKET DRIVERS

Asking lease rates rose both year-over-year (YOY) and quarter-over-quarter (QOQ). Asking rates climbed QOQ from \$2.56 to \$2.65 in 2Q24, up from \$2.61 in 2Q23.

The direct vacancy rate increased from 9.8% to 10.3% QOQ, with the most significant shift occurring in Milpitas, climbing from 9.5% to 10.8%.

Gross absorption declined from 1.1M SF in 2Q23 to 827.9K SF in 2Q24. Additionally, total leasing activity is down 13.1% from this time last year.

Despite the decline in gross absorption, cumulatively, net absorption has seen a YOY improvement from negative 685.1K to 80.6K SF. A reason for the improvement is sublet space, which has accounted for 26.6% of total activity this year.

Sales volume saw a QOQ increase from 430.2K SF to 625.9K SF. Despite this increase, sales are still down 6.7% from this time last year.

The R&D availability rate saw a small increase from 10.9% to 11.6%, both higher than the 10.5% recorded in 2Q23. This is the highest recorded availability rate since 2021.

ECONOMIC REVIEW

The unemployment rate in Santa Clara County and California both fell this quarter; from 4.3% to 3.8% in Santa Clara County, and 5.3% to 5.2% for the state.

San Jose-Sunnyvale-Santa Clara's manufacturing sector reported 173.7K jobs, marking a 1.1% decrease compared to 175.6K 1Q24, and a 3.2% decrease since 2Q23.

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Market Summary

	2Q24	1Q24	2Q23	YOY Change
Direct Vacancy Rate	10.3%	9.8%	8.9%	140-bps
Availability Rate	11.6%	10.9%	10.5%	110-bps
Asking Lease Rate	\$2.65	\$2.56	\$2.61	1.5%
	2Q24	2024 YTD	2023 YTD	YOY Change
Gross Absorption (SF)	827,865	1,494,758	1,720,499	-13.1%
Sales Volume (SF)	625,896	1,056,141	1,132,323	-6.7%
Net Absorption (SF)	(471,774)	80,606	(685,092)	N/A

↓ 733K SF
LEASING ACTIVITY

↓ -471K SF
NET ABSORPTION

↑ 10.3%
VACANCY RATE

↑ \$2.65
ASKING RENT (AVG)

↑ 127K SF
NEW DELIVERIES

Year-Over-Year Trend

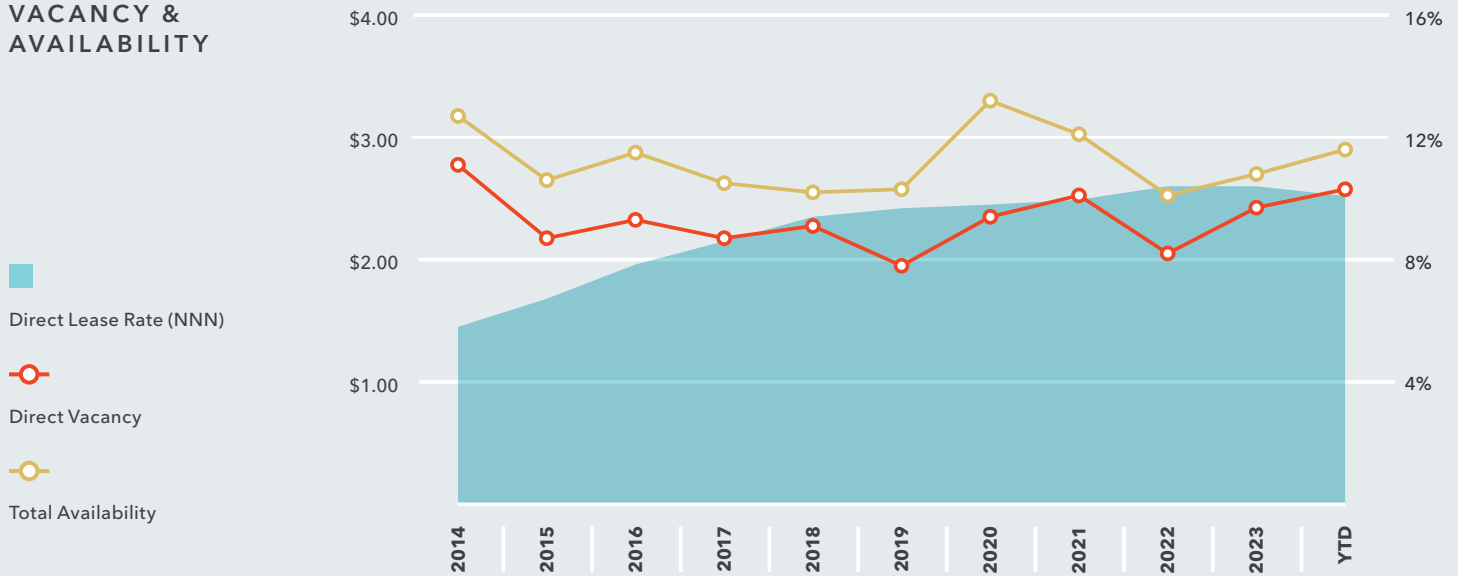
Market Highlights

ASKING LEASE RATES increased 3.65% quarter-over-quarter to \$2.65/SF NNN.

THE VACANCY RATE saw a slight uptick from 9.8% to 10.3% quarter-over-quarter.

SALES VOLUME saw a decrease from 900.9K SF in 2Q23 to 625.9K in 2Q24.

LEASE RATE, VACANCY & AVAILABILITY

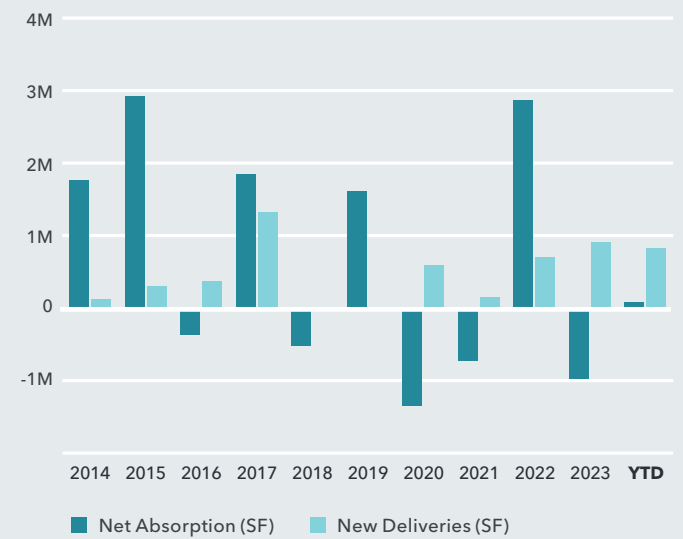


BIGGEST SALE OF THE QUARTER

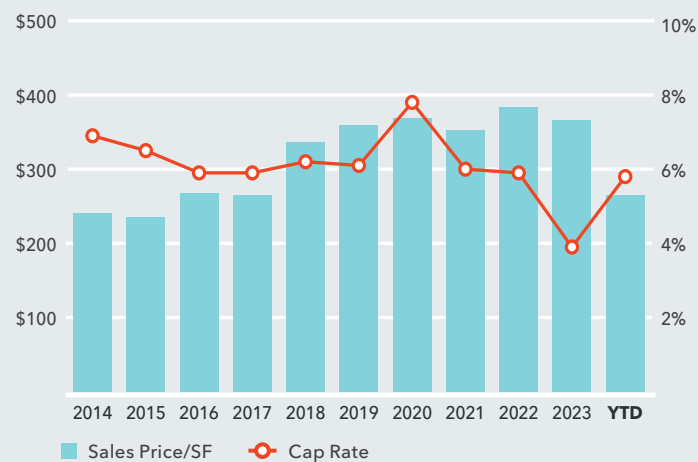
Sunnyvale Park Place & Oakmead West, Sunnyvale



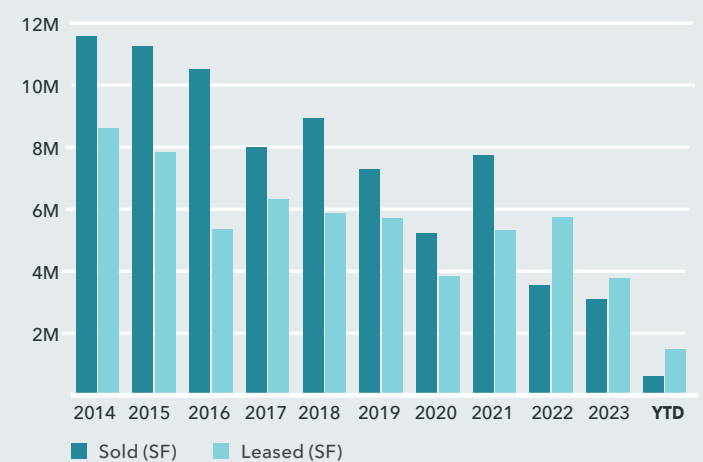
NET ABSORPTION & NEW DELIVERIES



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	2Q24 Direct Net Absorption	2Q24 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	2Q24 Gross Absorption	YTD Gross Absorption	Avg NNN Rental Rate
Campbell	1,431,334	-	2.1%	2.1%	4.4%	-	-	2,000	2,000	1,728	1,728	\$2.53
Cupertino	2,227,219	-	1.7%	1.7%	1.7%	-	-	(20,100)	(20,100)	-	-	\$2.50
Fremont	17,862,532	-	6.3%	8.6%	9.4%	(133,376)	(158,349)	438,606	529,738	255,128	406,291	\$1.98
Milpitas	9,198,643	-	10.8%	12.6%	9.0%	(82,438)	(115,849)	(137,932)	(165,867)	11,633	70,347	\$2.21
Mountain View	7,957,873	-	8.9%	11.9%	15.4%	22,570	19,495	28,850	135,916	30,980	52,530	\$3.64
Newark	3,495,610	-	15.7%	17.1%	18.8%	543	543	(78,454)	(78,454)	39,523	40,378	\$2.22
Palo Alto	5,268,065	-	9.3%	13.0%	15.1%	(34,954)	(50,105)	(103,903)	(78,327)	-	10,000	\$5.54
San Jose	39,391,163	-	8.9%	10.0%	15.1%	(140,684)	(109,917)	190,268	(136,142)	317,581	536,267	\$2.13
Santa Clara	17,970,543	250,000	9.8%	10.4%	9.6%	(43,395)	(94,179)	(165,373)	(201,057)	61,349	183,790	\$2.55
Sunnyvale	14,170,828	847,000	9.2%	10.3%	12.2%	(9,443)	36,587	61,580	92,899	109,943	193,427	\$3.37
Total	118,973,810	1,097,000	8.8%	8.8%	12.3%	(421,177)	(471,774)	(164,994)	80,606	827,865	1,494,758	\$2.65

NEAR-TERM OUTLOOK

Silicon Valley navigates a period of adjustment, facing challenges like tech industry streamlining, population shifts, and a more selective venture capital environment. However, the region's inherent dynamism persists. This is evident in its post-pandemic employment exceeding pre-pandemic levels by 1.5%, even amidst workforce reductions at major tech companies. Unemployment rates remain lower than the state average, and the market capitalization for publicly traded companies has reached an all-time high, indicating continued innovation and economic activity. Although venture capital investment has moderated, it still leads the nation, with a focus shifting towards green energy, clean technology, and artificial intelligence. Despite these adjustments, Silicon Valley's capacity for adaptation remains robust, solidifying its position as a global innovation hub amidst a changing economic landscape.

The Silicon Valley R&D market is experiencing a dynamic shift, with the average sales price per square foot has dropped to \$265.04, the lowest since 2017. This trend is evident in recent transactions: the Oakmead West office campus in Sunnyvale sold for \$100.8M, significantly less than its \$188M purchase price five years ago. Similarly, a fully leased San Jose office building sold for \$35.5M, nearly \$20M below its 2022 asking price. These lower sales prices create opportunities for landlords to offer more competitive rental rates. Despite high vacancy and availability rates, asking rents for direct rentals have reached all-time highs, reflecting robust demand in the R&D sector. Overall, the market is adjusting, with potential for increased activity in the near term.

SIGNIFICANT SALE TRANSACTIONS 2Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Sunnyvale Park Place & Oakmead W	Sunnyvale	431,000	\$100,800,000	\$233.87	Tidewater Capital	Hines
1010 Rincon Cir	San Jose	90,871	\$35,500,000	\$390.66	Blue Owl	Machine Inv. Group
1195-1213 Elko Dr	Sunnyvale	44,277	\$11,650,000	\$263.12	D.R. Stephens & Company	GSI Technology, Inc.
145-155 N Wolfe Rd	Sunnyvale	21,410	\$10,000,000	\$467.07	South County Community Health Center	Nancy Nita Macy Rev. Trust
935 Sierra Vista Ave	Mountain View	11,500	\$4,450,000	\$386.96	Chinese Church In Christ-Mountain View	LMN Partners Llc

SIGNIFICANT LEASE TRANSACTIONS 2Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
2431-2441 Mission College Blvd	Santa Clara	187,751	April 2024	The Sobrato Organization	Sutter Bay Medical Foundation
3960 N First St	San Jose	98,674	April 2024	EQT Exeter	Figure AI
3105 Patrick Henry Dr	Santa Clara	55,944	April 2024	Raintree Investment Corp	Picarro
632 Caribbean Dr (Full Bldg)	Sunnyvale	43,500	April 2024	Google Inc	Cepheid
2800 Bayview Dr	Fremont	59,736	June 2024	Peninsula Land & Capital LLC	Pebble Mobility Inc

SIGNIFICANT UNDER CONSTRUCTION

Property	Submarket	SF	Delivery Date	Owner
950 Kifer Rd	Sunnyvale	847,000	December 2024	Intuitive Surgical
2905 Stender Way	Santa Clara	250,000	August 2024	American Tower Corporation

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 over 900 real estate professionals and staff in 19 offices across Washington, Oregon, California, Idaho, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, 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	<i>\$10B</i> 3-YEAR AVERAGE TRANSACTION VOLUME	<i>31.7M</i> ANNUAL SALES SF	<i>42.4M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>55M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>800+</i> ASSETS UNDER MANAGEMENT	<i>260+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,600+</i> 3-YEAR AVERAGE ASSIGNMENTS	<i>43</i> TOTAL APPRAISERS	<i>27</i> WITH MAI DESIGNATIONS