

MARKET TRENDS

SILICON VALLEY
R&D

MARKET DRIVERS

Asking lease rates climbed 0.8% quarter-over-quarter (QOQ) and year-over-year (YOY) to \$2.68 NNN.

The direct vacancy rate increased 10 basis points (bps) to 9.2% QOQ, with the highest increase occurring in Milpitas, climbing 140-bps to 11.7%.

Leasing activity fell from 1.2M SF in 4Q23 to 654.3K SF in 4Q24. Cumulative activity was also 26.3% lower this year than in 2023.

Despite the sharp decline in leasing activity, net absorption was marginally higher in 2024 than in 2023. With that said, cumulative net absorption was -595.6K SF, reflecting the struggles faced in the R&D market this past year.

Sales volume decreased 48.1% to 503.1K SF QOQ and cumulative sales volume ended 4.7% lower than it did in 2023.

The R&D availability rate saw a 40-bps increase to 11.9% QOQ, and a 140-bps YOY. This is the ninth straight quarter of availability increases but is still shy of the post pandemic high of 13.3% in 2021.

ECONOMIC REVIEW

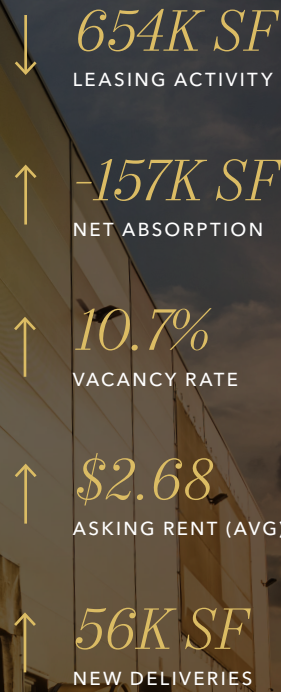
Santa Clara county has outpaced the state of California in unemployment rate this past quarter. California's unemployment rate increased 60-bps to 5.4% while Santa Clara County declined 50-bps to 4.0%.

San Jose-Sunnyvale-Santa Clara's manufacturing sector reported 173.1K jobs, marking a 3.0% decrease since 4Q23 and a 0.5% dip since last quarter.

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Market Summary

	4Q24	3Q24	4Q23	YOY Change
Direct Vacancy Rate	10.7%	10.5%	9.5%	120-bps
Availability Rate	11.9%	11.5%	10.5%	140-bps
Asking Lease Rate	\$2.68	\$2.66	\$2.66	0.8%
	4Q24	2024	2023	YOY Change
Gross Absorption (SF)	654,327	2,974,342	4,033,934	-26.3%
Sales Volume (SF)	503,092	2,914,599	3,059,770	-4.7%
Net Absorption (SF)	(157,281)	(595,606)	(752,632)	N/A



Year-Over-Year Trend

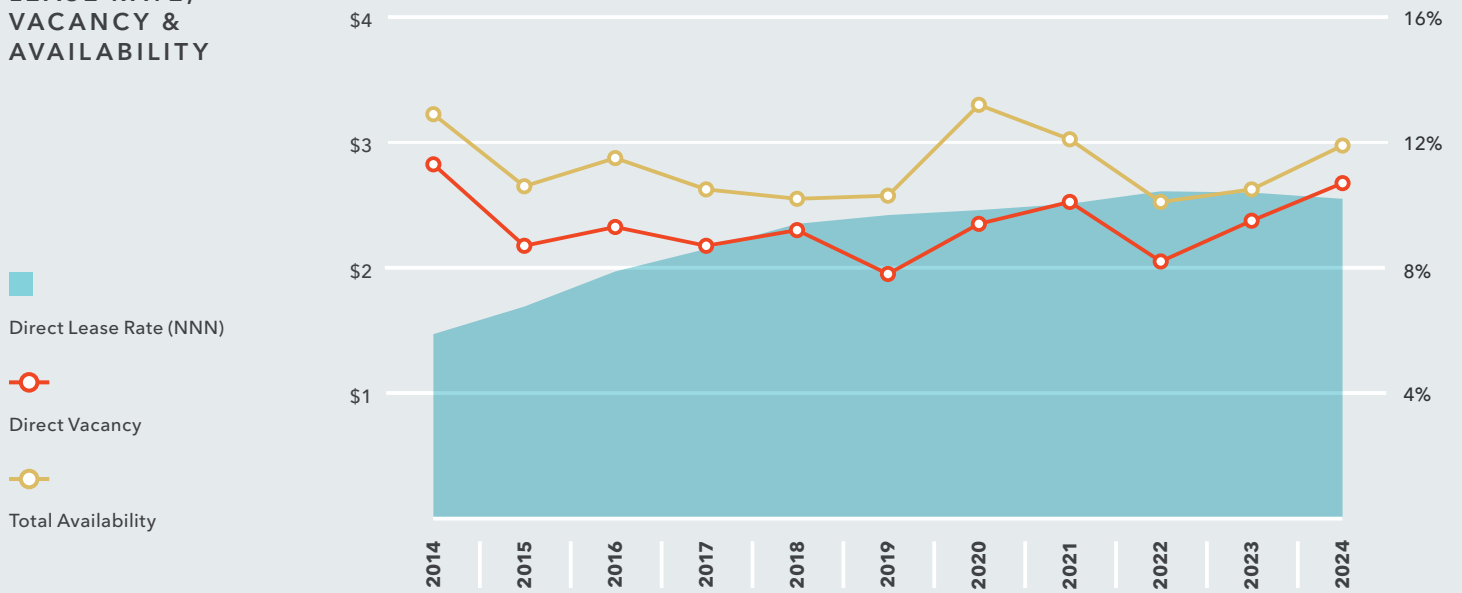
Market
Highlights

ASKING LEASE RATES rose 0.8% quarter-over-quarter to \$2.68/SF NNN.

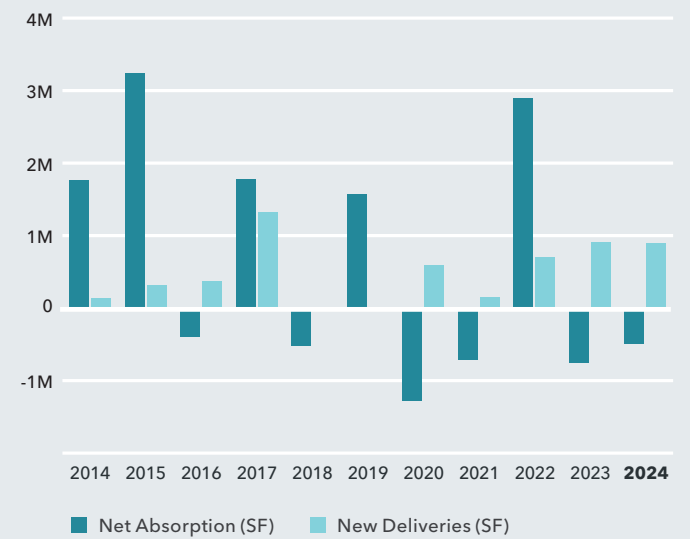
THE VACANCY RATE saw a 20-bps uptick to 10.7% quarter-over-quarter.

SALES VOLUME decreased quarter-over-quarter from 969.6K SF to 503.1K SF.

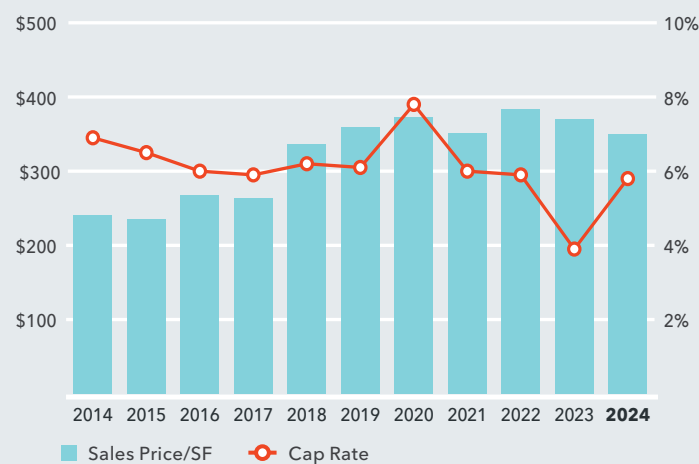
LEASE RATE, VACANCY & AVAILABILITY



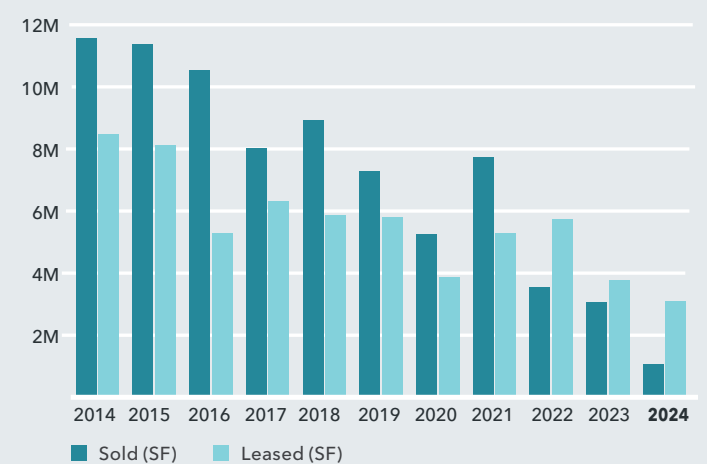
NET ABSORPTION & NEW DELIVERIES



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	2024 Direct Net Absorption	2024 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	2024 Gross Absorption	YTD Gross Absorption	Avg NNN Rental Rate
Campbell	1,428,288	-	3.3%	3.3%	4.6%	(17,210)	(17,210)	(15,210)	(15,210)	2,306	43,804	\$2.50
Cupertino	2,227,219	-	1.7%	1.7%	1.7%	-	-	(20,100)	(20,100)	-	-	\$2.50
Fremont	17,897,047	-	8.4%	10.3%	11.9%	(161,783)	(62,184)	54,814	215,653	156,817	674,716	\$1.98
Milpitas	9,261,424	-	11.7%	14.0%	11.1%	(124,591)	(176,326)	(230,581)	(296,233)	-	158,684	\$2.21
Mountain View	7,897,998	-	8.5%	10.9%	13.0%	(12,089)	(12,089)	13,288	174,489	44,325	158,401	\$3.71
Newark	3,177,967	-	12.6%	14.2%	16.0%	5,916	5,916	(88,172)	(88,172)	18,186	90,205	\$2.21
Palo Alto	5,325,000	-	7.9%	11.7%	11.1%	74,139	74,139	(30,662)	(11,912)	114,684	241,795	\$4.96
San Jose	39,673,024	-	9.4%	10.6%	14.5%	(266,233)	(312,793)	(396,777)	(396,485)	189,223	1,112,864	\$2.06
Santa Clara	17,998,680	250,000	8.3%	9.2%	10.3%	276,097	237,255	149,581	52,333	63,453	273,600	\$2.67
Sunnyvale	14,175,499	847,000	10.7%	11.6%	13.8%	86,103	106,011	(171,304)	(102,077)	65,333	328,165	\$3.43
Total	119,062,146	1,097,000	9.1%	10.6%	12.5%	(139,651)	(157,281)	(735,123)	(487,714)	654,327	3,082,234	\$2.68

NEAR-TERM OUTLOOK

The recent election and rate cuts could have a large impact on the Silicon Valley R&D market in 2025. Although this round of cuts has yet to lead to increased activity, as rates continue to fall, it will only incentivize further investment to occur while rates are at their best. On top of increased sale transactions, the falling interest rates could open the ability for start ups to acquire capital that they can turn around and use to lease spaces. On top of rate decreases, the new Trump administration is expected to implement tariffs and limit immigration, which will make construction more expensive. R&D already has a short pipeline of new construction, and these policies will likely keep it that way in the short term. Even with vacancy and availability as high as they currently are, asking rates continue to rise. With new deliveries further slowing and rates dropping, there is a chance to see a limit in supply and an increase in demand that could help the market rebound in 2025.

The largest lease recorded in the marketplace tells a story of the importance of R&D space, what is in demand, and why. PsiQuantum's lease at 275 S. Hillview Dr. in Milpitas totaled 127,574 SF, yet the space sat vacant for 2 years prior to this transaction. Cannae Partners, the property's landlord, purchased it for \$32.8M from Analog Devices this year and then spent millions on upgrading the and modernizing the site which was built in 1988. The results clearly worked, as it enticed PsiQuantum to sign the deal in hopes to use the facility to build quantum computers. Other prospective tenants liked the site for its power capabilities, something that has become increasingly rare over the years as the United States has outsourced advanced manufacturing to other countries and R&D sites have been retooled into office and housing sites. Some expect that this policy is beginning to switch back in favor of producing specialized goods in the US, which would lead to a large increase in demand for these spaces.

SIGNIFICANT SALE TRANSACTIONS 4Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Shoreline Business Ctr*	Fremont	133,699	\$37,892,875	\$283.42	Kayne Anderson Real Estate	BKM Capital Partners
3176 Porter Dr	Palo Alto	42,899	\$24,800,000	\$578.10	CGA Capital	Hudson Pacific Properties, Inc.
2400 Walsh Ave	Santa Clara	59,430	\$16,000,000	\$269.22	Nanez Manufacturing, Inc.	Fortune Realty
2255-2285 Martin Ave*	Santa Clara	36,981	\$10,764,920	\$291.09	Dollinger Properties	CIM Group, LP
639 N Pastoria Ave	Sunnyvale	10,856	\$7,800,000	\$718.50	Material Science Service	FCMC

* Portfolio Sale

SIGNIFICANT LEASE TRANSACTIONS 4Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
275 S. Hillview Dr	Milpitas	127,574	December 2024	Cannae Partners	PsiQuantum
Stevenson Business Ctr	Fremont	116,780	October 2024	Dollinger Properties	Honda Mobility
3210 Porter Dr	Palo Alto	95,737	October 2024	Stanford University	Ford/LatitudeAI
3553 First St, N	North San Jose	89,409	October 2024	Alvarez & Marsal Holdings, LLC	NETGEAR
3545 First St, N	North San Jose	79,838	October 2024	Washington Holdings	F5 Networks, Inc.

SIGNIFICANT UNDER CONSTRUCTION

Property	Submarket	SF	Delivery Date	Owner
945-955 Kifer Rd	Sunnyvale	1,211,000	May 2025	Intuitive Surgical
2905 Stender Way	Santa Clara	250,000	January 2025	American Tower Corporation

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



Kidder Mathews is the largest fully independent commercial real estate firm in the Western U.S., with over 900 real estate professionals and staff in 19 offices in 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.

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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>57M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>850+</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

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