Kidder Mathews

2Q 2026

MARKET TRENDS

SILICON VALLEY *R&D*

MARKET DRIVERS

Silicon Valley R&D market fundamentals remained mixed during the second quarter, as stronger leasing activity was offset by continued softness in occupancy. Asking direct lease rates increased 1.6% year-over-year (YOY) to $2.61 NNN, while the vacancy rate rose to 11.7%, up 50 basis points (bps) from the prior quarter and 10 bps YOY. The availability rate increased to 12.8% during the quarter, although it remains below last year's levels.

Tenant demand showed signs of improvement, with leasing activity rising 36.4% quarter-over-quarter (QOQ) to 1.1M SF. Through the first half of the year, leasing volume exceeded the same period in 2025 by 20.6%, suggesting that occupier activity has begun to stabilize despite elevated vacancy levels.

Net absorption reached negative 518.7K SF during the quarter, leading cumulative net absorption to fall to negative 232.8K SF. Although this is not ideal, compared with negative 1.2M SF through midyear 2025, it is still a step in the right direction as long as there aren't continued losses next quarter. Meanwhile, investment activity accelerated, with sales volume reaching 3.2M SF cumulatively, a 91.7% increase over last year. Average pricing also remained resilient at $365.18/SF, above the five-year average of $338.19/SF.

ECONOMIC REVIEW

California's unemployment rate held at 5.3% in May 2026, while Santa Clara County recorded a 3.4% rate. Santa Clara County remains below the statewide average despite a labor market that is still normalizing from prior tech-sector volatility.

San Jose-Sunnyvale-Santa Clara's manufacturing sector reported 128.3K jobs in May 2026, up 1.1% year-over-year. Trade, transportation, and utilities employment totaled 116.5K jobs, up 0.4% over the same period, reflecting modest but positive growth across several sectors that support R&D and advanced manufacturing demand.

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Market Summary

	2Q26	1Q26	2Q25	YOY Change
Direct Vacancy Rate	11.7%	11.2%	11.6%	**10 bps**
Availability Rate	12.8%	11.9%	13.3%	**-50 bps**
Asking Lease Rate/SF/Mo	$2.61	$2.61	$2.57	**1.6%**

	2Q26	2026 YTD	2025 YTD	YOY Change
Gross Absorption (SF)	1,109,564	1,923,113	1,594,262	**20.6%**
Sales Volume (SF)	1,403,676	3,246,475	1,693,719	**91.7%**
Net Absorption (SF)	-518,696	-232,765	-1,218,379	**N/A**

↑ *1.1M SF*
LEASING ACTIVITY

↓ *-518K SF*
NET ABSORPTION

↑ *11.7%*
VACANCY RATE

↑ *$2.61*
ASKING RENT (AVG)

↔ *0 SF*
NEW DELIVERIES

Year-Over-Year Trend

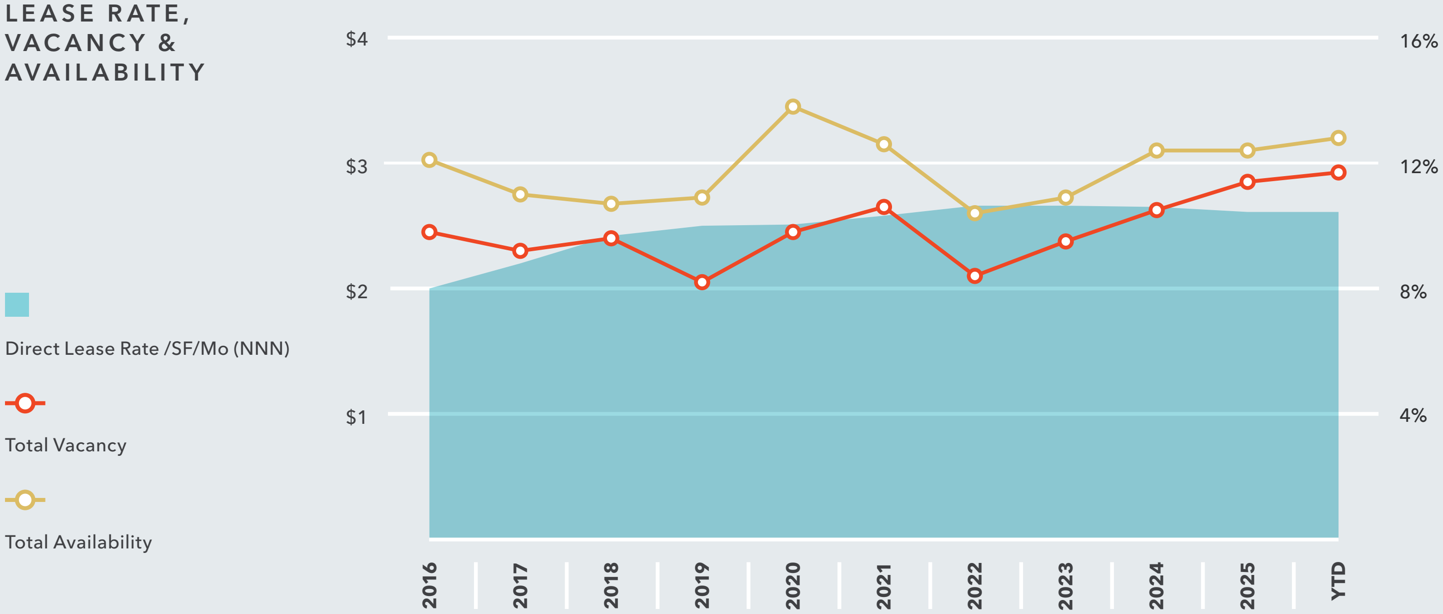
Market Highlights

ASKING LEASE RATES held at $2.61 PSF NNN quarter-over-quarter

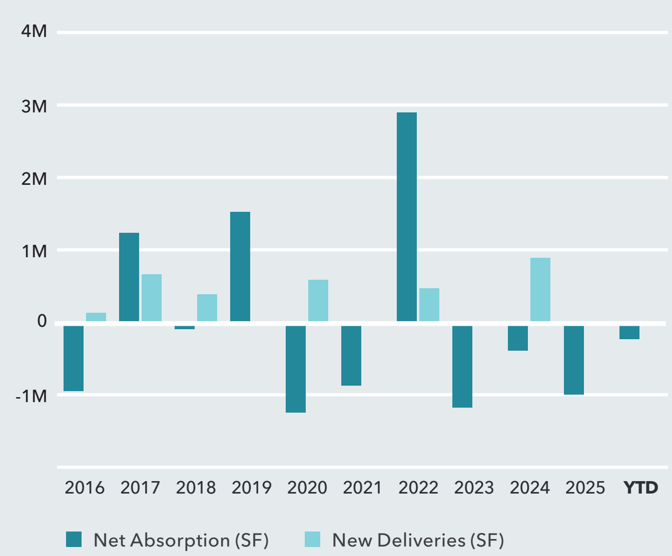
VACANCY RATES increased 50 bps quarter-over-quarter to 11.7%

SALES VOLUME decreased quarter-over-quarter from 1.8M SF to 1.4M SF

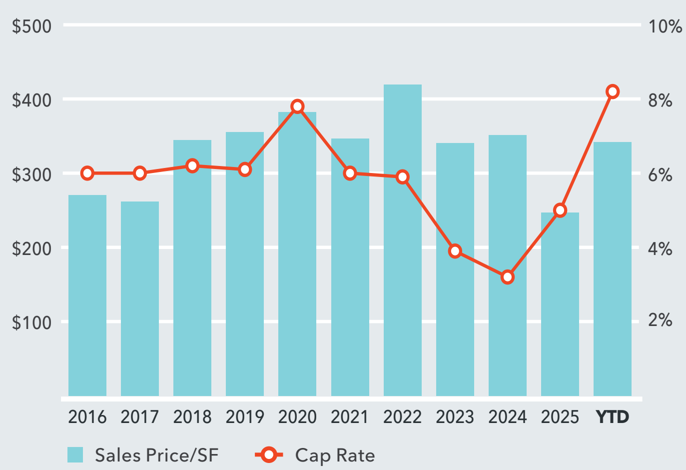
LEASE RATE, VACANCY & AVAILABILITY



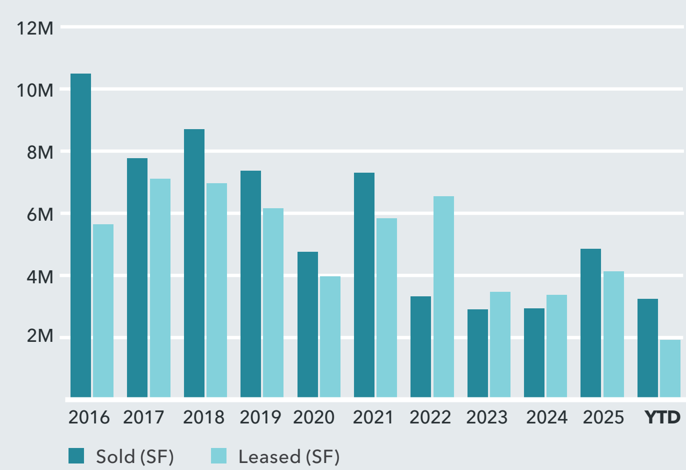
NET ABSORPTION & NEW DELIVERIES



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	2Q26 Direct Net Absorption	2Q26 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	2Q26 Gross Absorption	YTD Gross Absorption	Avg NNN Rental Rate
Campbell	1,447,550	-	3.7%	5.0%	5.0%	-19,322	-38,659	-4,765	-24,102	0	3,247	$2.60
Cupertino	2,067,505	-	3.1%	3.1%	2.9%	-30,000	-30,000	-41,850	-41,850	14,850	17,850	$2.89
Fremont	17,948,254	-	10.5%	11.9%	12.4%	50,633	57,290	132,396	204,264	192,000	340,220	$1.77
Milpitas	8,651,066	-	9.6%	11.0%	6.8%	16,501	47,666	190,211	158,759	166,063	173,598	$2.39
Mountain View	7,789,790	-	13.1%	14.4%	16.0%	-83,781	-41,610	-135,744	-109,407	91,427	161,733	$3.98
Newark	2,945,448	-	10.3%	13.6%	13.7%	130	-13,733	-8,381	-22,244	77,027	110,154	$1.94
Palo Alto	4,871,199	-	6.4%	8.8%	11.2%	17,623	33,738	-13,823	2,292	7,410	25,356	$5.02
San Jose	38,031,398	-	11.3%	13.6%	17.6%	-456,567	-696,134	-279,347	-465,514	328,831	682,943	$2.46
Santa Clara	12,968,351	200,000	8.5%	10.5%	10.5%	28,661	16,223	-63,134	-143,598	78,142	204,979	$2.65
Sunnyvale	13,330,257	1,027,000	7.4%	8.2%	8.2%	125,156	146,523	278,125	208,635	153,814	203,033	$2.80
Total	**110,050,818**	**1,227,000**	**9.9%**	**11.7%**	**12.8%**	**-350,966**	**-518,696**	**53,688**	**-232,765**	**1,109,564**	**1,923,113**	**$2.61**

NEAR-TERM OUTLOOK

Conditions in the Silicon Valley R&D market remain mixed. Vacancy and availability both moved higher during the second quarter, with total vacancy reaching 11.7% and total availability rising to 12.8%. The increase was driven by a weaker absorption reading, as the market recorded negative 518.7K SF in the quarter. However, the broader year-to-date picture is more constructive, with leasing activity up 20.6% from the same point last year and cumulative absorption materially improved from 2025 levels.

Recent leasing activity shows that demand is still present, but increasingly tied to specialized users and functional assets. Infinera Corporation leased 102.3K SF at 6375 San Ignacio Avenue in San Jose, while Etched AI took 100.0K SF at 195 S. Milpitas Boulevard. The latter building is a high-capacity R&D/manufacturing facility with significant power infrastructure, underscoring how AI hardware and advanced manufacturing users are shaping demand for space that can support technical production requirements.

Capital markets activity also points to renewed interest in well-located R&D assets, particularly when pricing reflects current market conditions. BGO's acquisition of the RioTech R&D Park in North San Jose for $164.3M was one of the quarter's largest transactions and reinforces investor demand for campuses tied to hardware innovation and research-oriented users. Earlier in the year, the sale of the Campus at Trimble in North San Jose provided a similar signal, with buyers targeting assets at a discount to replacement cost that can be improved or repositioned over time.

At the same time, elevated vacancy and rising availability will continue to create pressure on older or less specialized assets. Tenants still have leverage in many situations, especially where space lacks power, loading, lab capability, or flexible buildouts. With 1.2M SF under construction and limited new deliveries this quarter, future performance will depend less on broad market growth and more on whether specialized R&D, AI hardware, and advanced manufacturing users continue to convert requirements into signed deals.

Overall, the near-term outlook points to a market that is not fully recovered, but is showing signs of stabilization. Leasing and sales activity are healthier than last year, while negative absorption and higher vacancy show that the market remains uneven. High-quality, adaptable R&D facilities in core innovation corridors should continue to outperform, while older commodity product faces a longer path to recovery.

SIGNIFICANT SALE TRANSACTIONS 2Q 2026

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
RioTech R&D Park*	San Jose	386,308	$164,250,000	$425.18	BentallGreenOak	Washington Holdings
5303-5403 Betsy Ross Dr*	Santa Clara	201,078	$87,188,000	$433.60	Rubicon Point Partners	TG USA Development Corp
4211 Starboard Dr	Fremont	129,808	$61,000,000	$469.92	Wistron Corporation	JLL Income Property Trust
5981 Optical Ct	San Jose	110,542	$49,500,000	$447.79	SK Hynix	Peninsula Land & Capital, LLC
350 E Plumeria Dr	San Jose	142,700	$33,000,000	$231.25	Paceline Investors	Workspace Property Trust

*Portfolio Sale

SIGNIFICANT LEASE TRANSACTIONS 2Q 2026

Property	Submarket	SF	Transaction Date	Landlord	Tenant	Lease Type
6375 San Ignacio Ave	San Jose	102,280	May 2026	The Sobrato Organization	Infinera Corporation	New Lease
195 S Milpitas Blvd	Milpitas	100,000	May 2026	Peninsula Land & Capital, LLC	Etched AI	New Lease
2710 Lakeview Ct	Fremont	82,540	April 2026	Ares Management Corporation	Velo3D	New Lease
3500-3550 W Warren Ave	Fremont	81,394	April 2026	Graymark Capital	Alomar Biosystems	New Lease
331 E Evelyn Ave*	Mountain View	61,496	April 2026	PSAI Realty Partners, LLC	Glean Technologies, Inc.	New Lease

*Sublease

SIGNIFICANT UNDER CONSTRUCTION

Property	Submarket	SF	Delivery Date	Owner
Intuitive Surgical Campus	Sunnyvale	847,000	September 2026	Intuitive
Sutter East Santa Clara Campus	Santa Clara	200,000	September 2026	Klein Investments Family, LP
EPIC Center	Sunnyvale	180,000	August 2026	Applied Materials Inc.

Data Source: CoStar; EDD; BLS; FRED; Silicon Valley Business Journal; The Registry; The Real Deal

Kidder Mathews

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COMMERCIAL BROKERAGE	$9B AVERAGE ANNUAL TRANSACTION VOLUME	32.4M ANNUAL SALES SF	32.5M ANNUAL LEASING SF
ASSET SERVICES	54M SF MANAGEMENT PORTFOLIO SIZE	800+ ASSETS UNDER MANAGEMENT	250+ CLIENTS SERVED
VALUATION ADVISORY	2,700+ AVERAGE ANNUAL ASSIGNMENTS	42 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS