
2Q24

Silicon Valley R&D Market Overview

NEWMARK

Market Observations

Economy

- The area's economy showed signs of stabilizing, adding a modest 0.2% job growth year-over-year. This is the third month in a row with year-over-year growth, a welcome change from eight months of declines.
- After peaking in the summer of 2022 as demand for AI hardware exploded, employment in the manufacturing sector shed jobs. Employment in this sector contracted by 3.2% year-over-year through May 2024. Meanwhile, the trade/transportation/utilities sector posted two months of subdued job growth after shedding jobs.
- The unemployment rate ticked down to 3.5% from 4.5% one year ago.

Major Transactions

- After a surge of leasing activity in the first quarter of 2024, even surpassing the average level over the past five years, activity subsided in the second quarter. In fact, the first quarter leasing activity of 3.1 million square feet was the highest level it has been in at least five years. In the second quarter, 1.8 million square feet of space was leased with health care companies and tech firms leading the charge.
- Sutter Health committed to the largest lease in the second quarter, taking three buildings totaling 327,929 SF in Santa Clara. Applied Materials, the market stalwart, renewed space in Sunnyvale, close to its headquarters in Santa Clara. The other three notable leases were from AI companies both expanding and re-committing to the market.

Leasing Market Fundamentals

- An increase in both new construction as well as sublease space caused supply to outpace demand during the first half of the year. While the total vacancy rate tick up to 12.5% in the second half of 2024, an increase of 120 basis points from year-end 2023, it is still below its 20-year average of 14.3%.
- Asking rent gains in four of the area's top R&D markets was just enough to keep overall marketwide gains positive. Overall, the asking rent rose 11.2% across all submarkets in Silicon Valley with Mountain View posted the largest gain of 6.2% to \$4.61/SF NNN, the highest rate in the area. Sunnyvale also recorded healthy growth of 4.3% to \$3.61/SF NNN. However, asking rents declined in Fremont and San Jose as tech tenants vacate large blocks of space in those submarket.

Outlook

- Current weakness in the Manufacturing and Information sectors is weighing heavily on the R&D market, causing continued contraction. But small gains in other sectors might be a sign that the economy is at a turning point, or least bottoming out.
- As activity from AI companies continue to expand, the outlook for the Professional & Business Services sector is positive as these firms ramp up their staff and space needs in order to cluster near these AI companies. This bodes well for the office market, especially Class A buildings.
- While some tenants are expanding their footprints in this market, given the weak economy and reluctant tenants, we expect more supply will likely come online, driving the vacancy rate up in the short term. The medium to longer term outlook is positive.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

2Q24

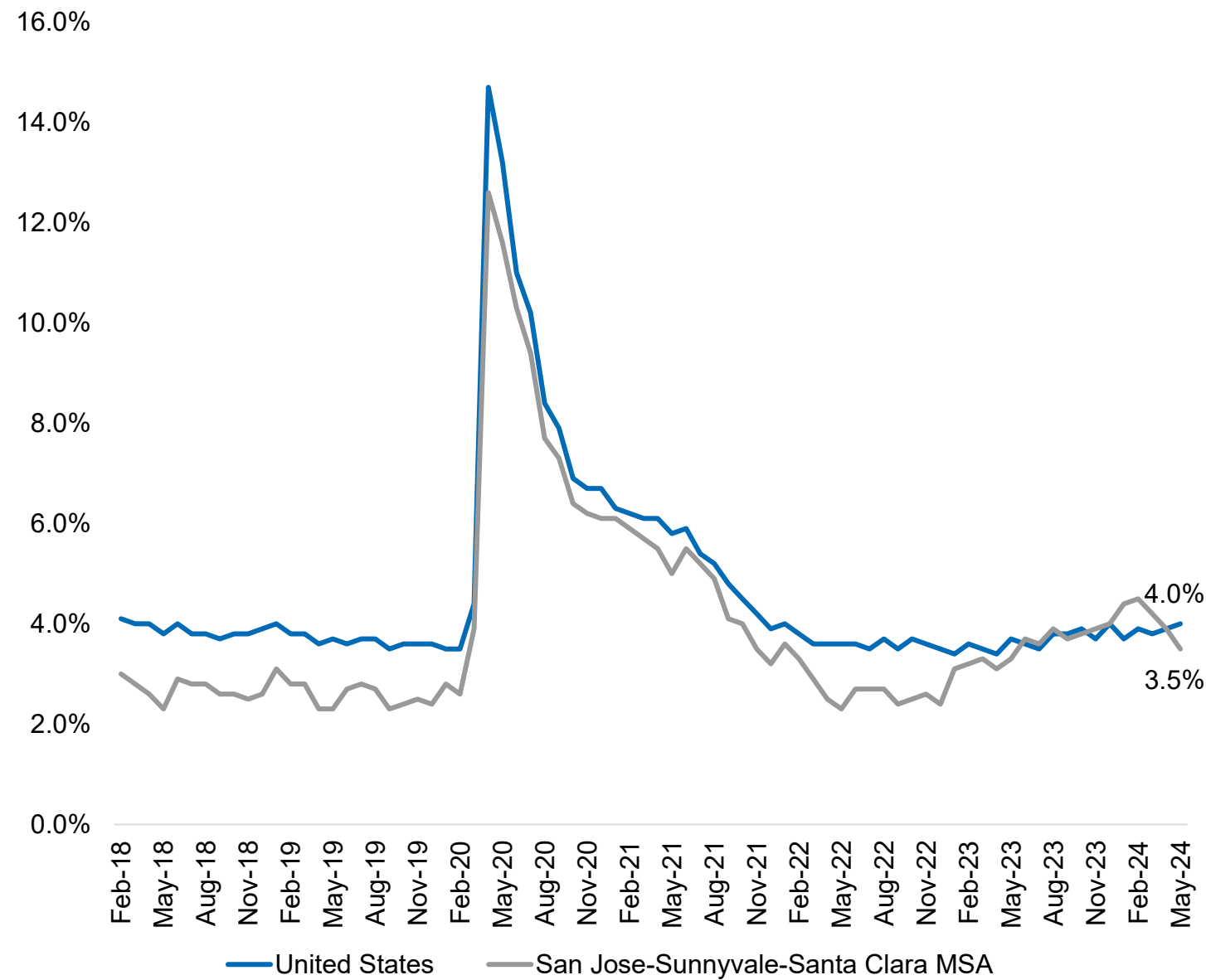
Economy



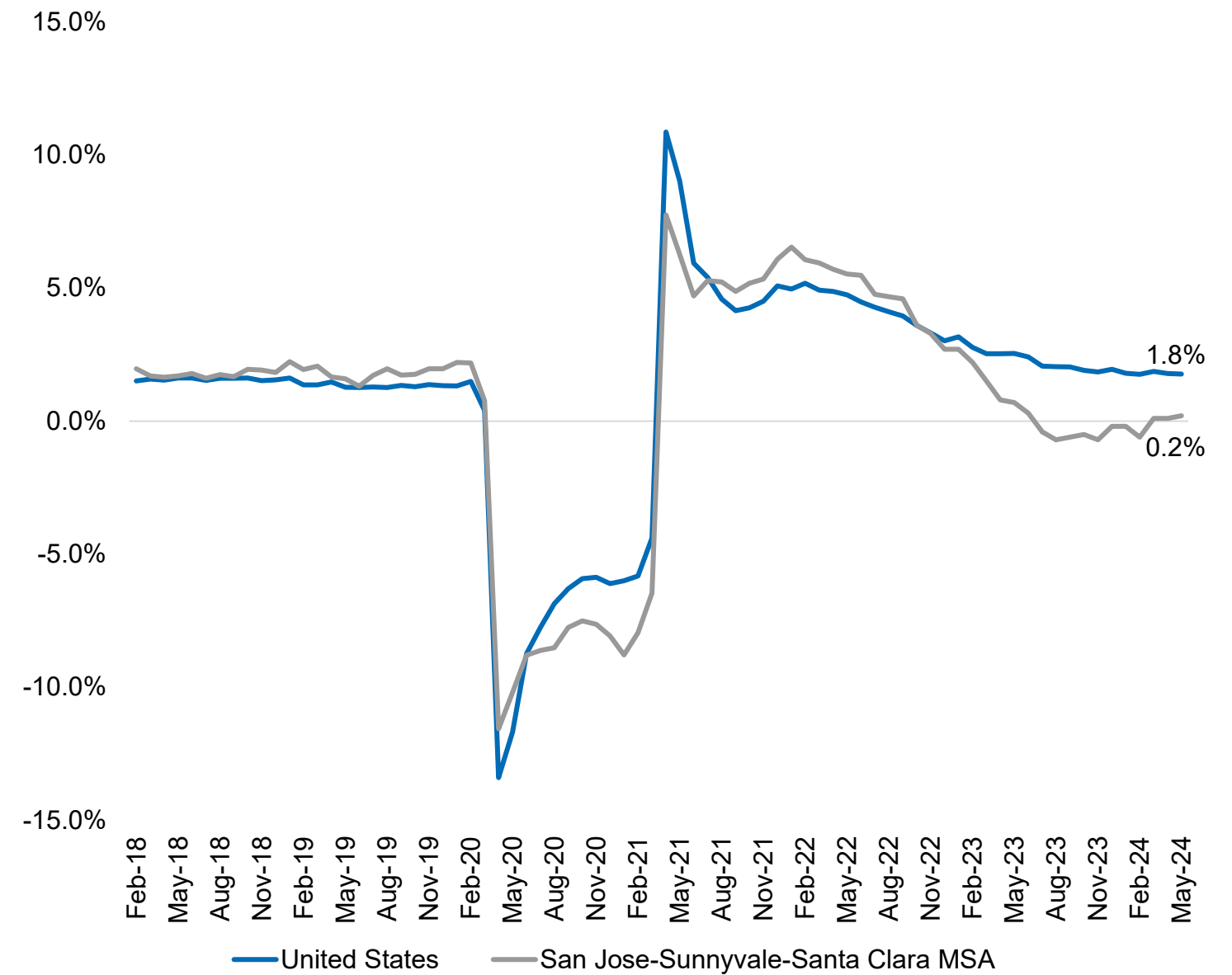
Job Growth Turned Positive, Indicating a Possible Turning Point in the Economy

Employment growth in the San Jose-Sunnyvale-Santa Clara MSA turned positive the past three months through May 2024 after eight months of decline. While still very low at only 0.2% year-over-year, it indicates that the local economy may be stabilizing. The unemployment rate ticked down to 3.5% from 4.5% one year ago, whereas the U.S.'s unemployment rate has stayed in the high -3.0% to 4.0% during this same period. The sharper rate of decline in the MSA indicates a tight labor market.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

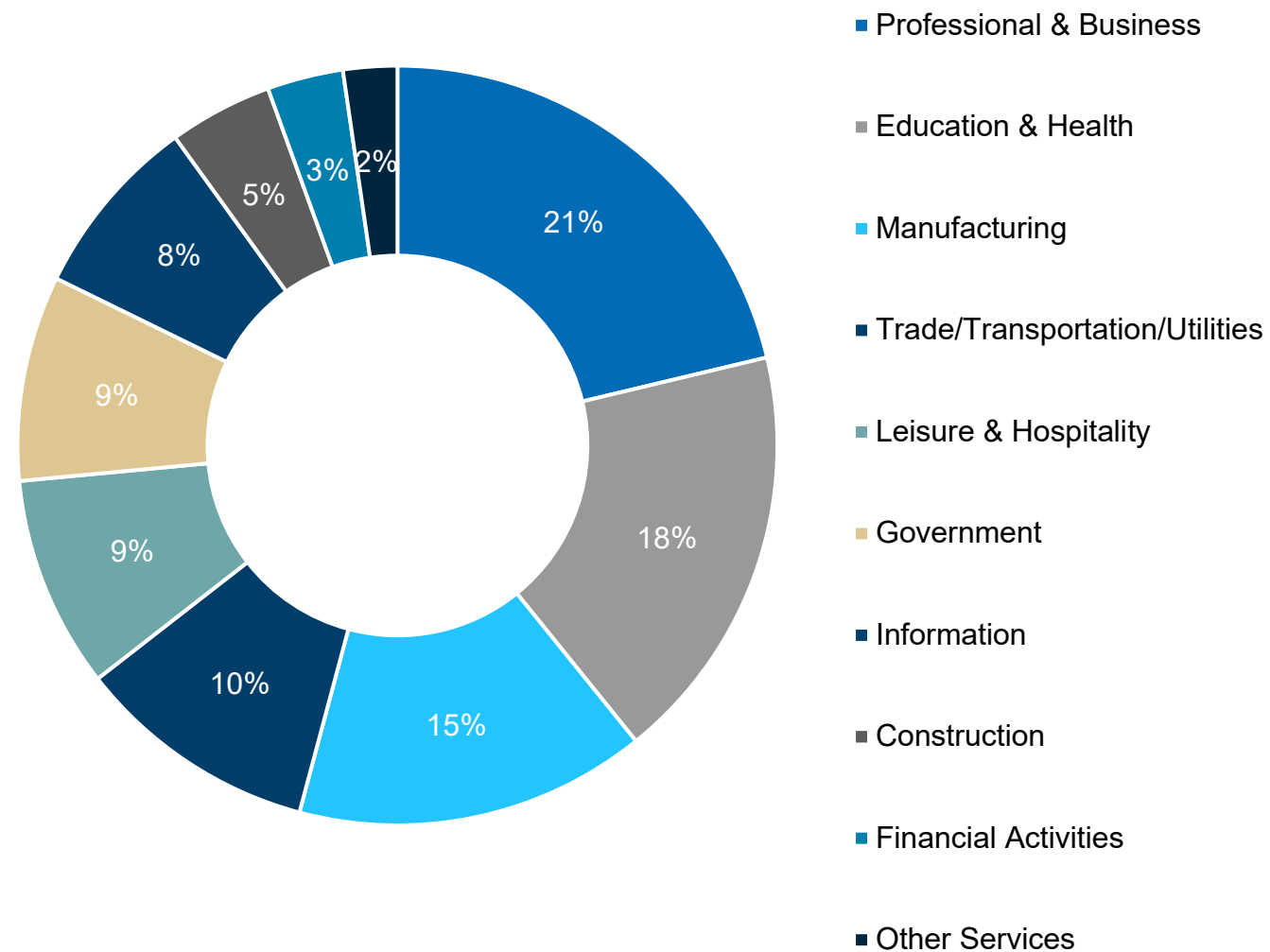


Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

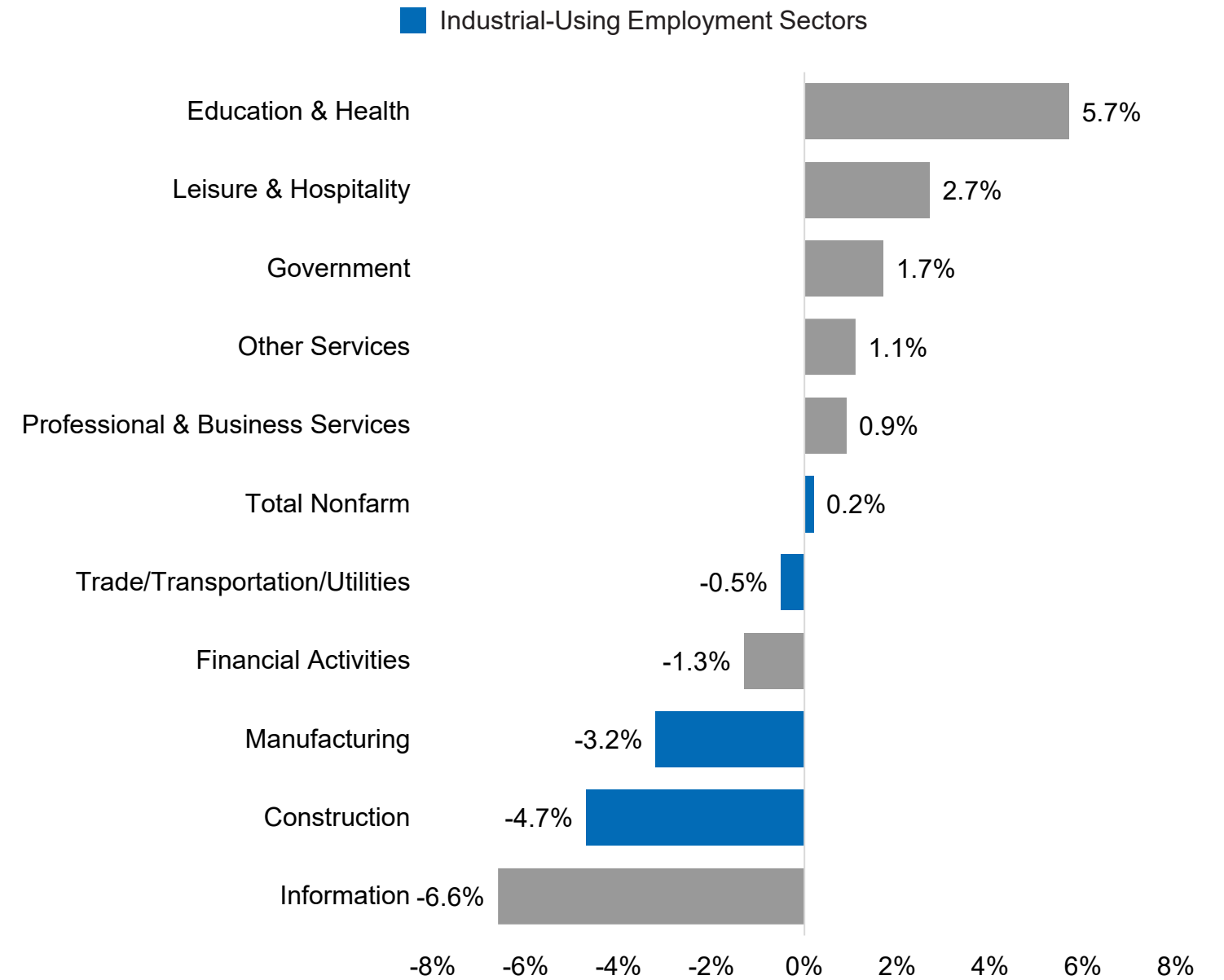
Job Losses in Tech and Manufacturing Stunted Overall Employment Growth

Despite strong employment growth in the Education & Health and Leisure & Hospitality sectors, job losses in the Information sector dragged down overall employment growth to a mere 0.2% from the same time last year. The Information sector, together with Manufacturing, is a big economic driver in the local economy. Weakness in these sectors is weighing heavily on the R&D market, causing continued contraction. But small gains in other sectors might be a sign that the economy is at a turning point, or least bottoming out.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

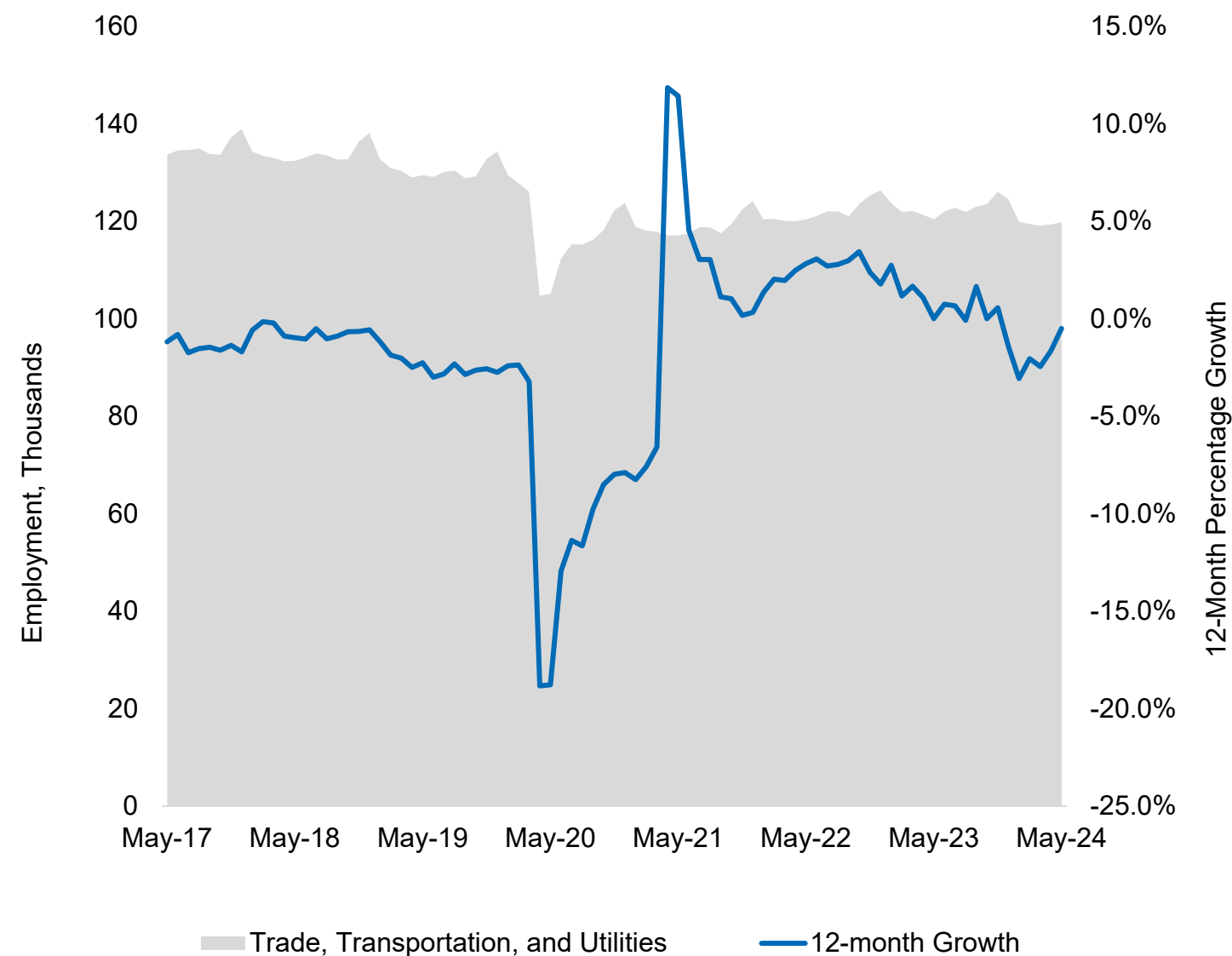


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
 Note: May 2024 data is preliminary.

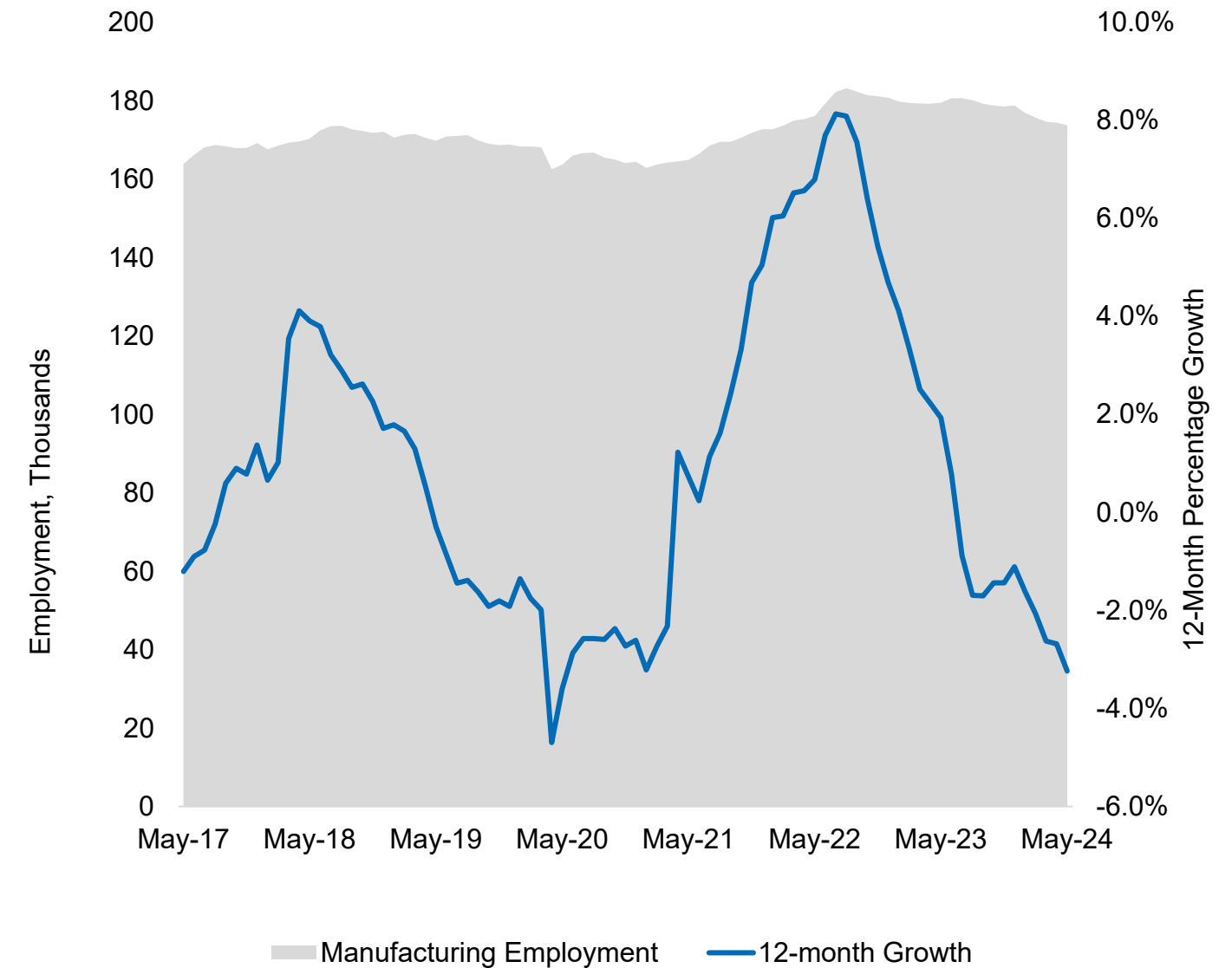
Mixed Signals for Industrial/R&D Demand Drivers

After peaking in the summer of 2022 as demand for AI hardware exploded, employment in the manufacturing sector shed jobs. Employment in this sector contracted by 3.2% year-over-year through May 2024. Meanwhile, the trade/transportation/utilities sector posted two months of subdued job growth after shedding jobs at the end of 2023 and into the first three months of 2024. As the economy hits bottom and then starts improving, we expect these two sectors will quickly rebound.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA
 Note: May 2024 data is preliminary.

2Q24

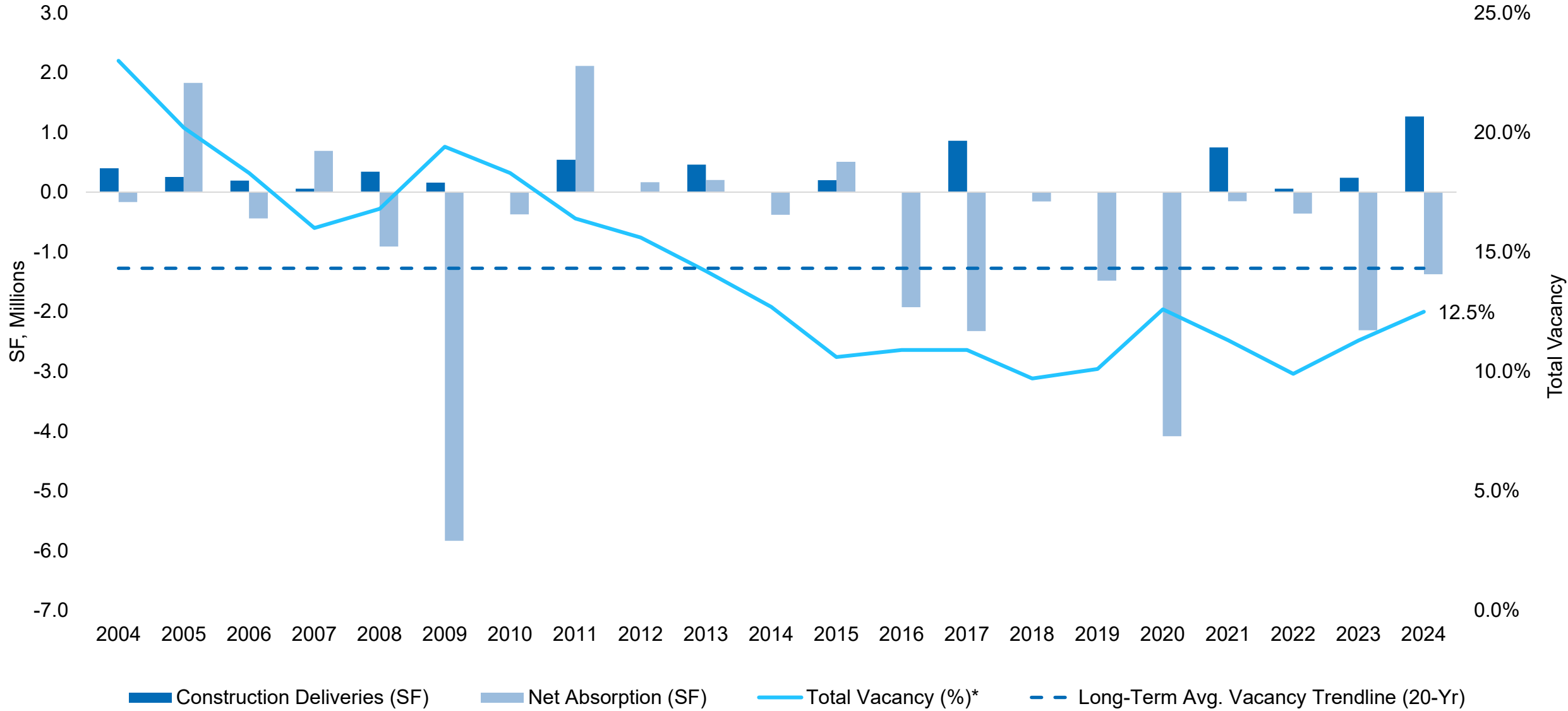
Leasing Market Fundamentals



Supply Outpaced Demand

An increase in both new construction as well as sublease space caused supply to outpace demand during the first half of the year. While the total vacancy rate ticked up to 12.5% in the second half of 2024, an increase of 120 basis points from year-end 2023, it was still below its 20-year average of 14.3%. While some tenants are expanding their footprints in this market, given the weak economy and reluctant tenants, we expect more supply will likely come online, driving the vacancy rate up in the short term.

Historical Construction Deliveries, Net Absorption, and Vacancy

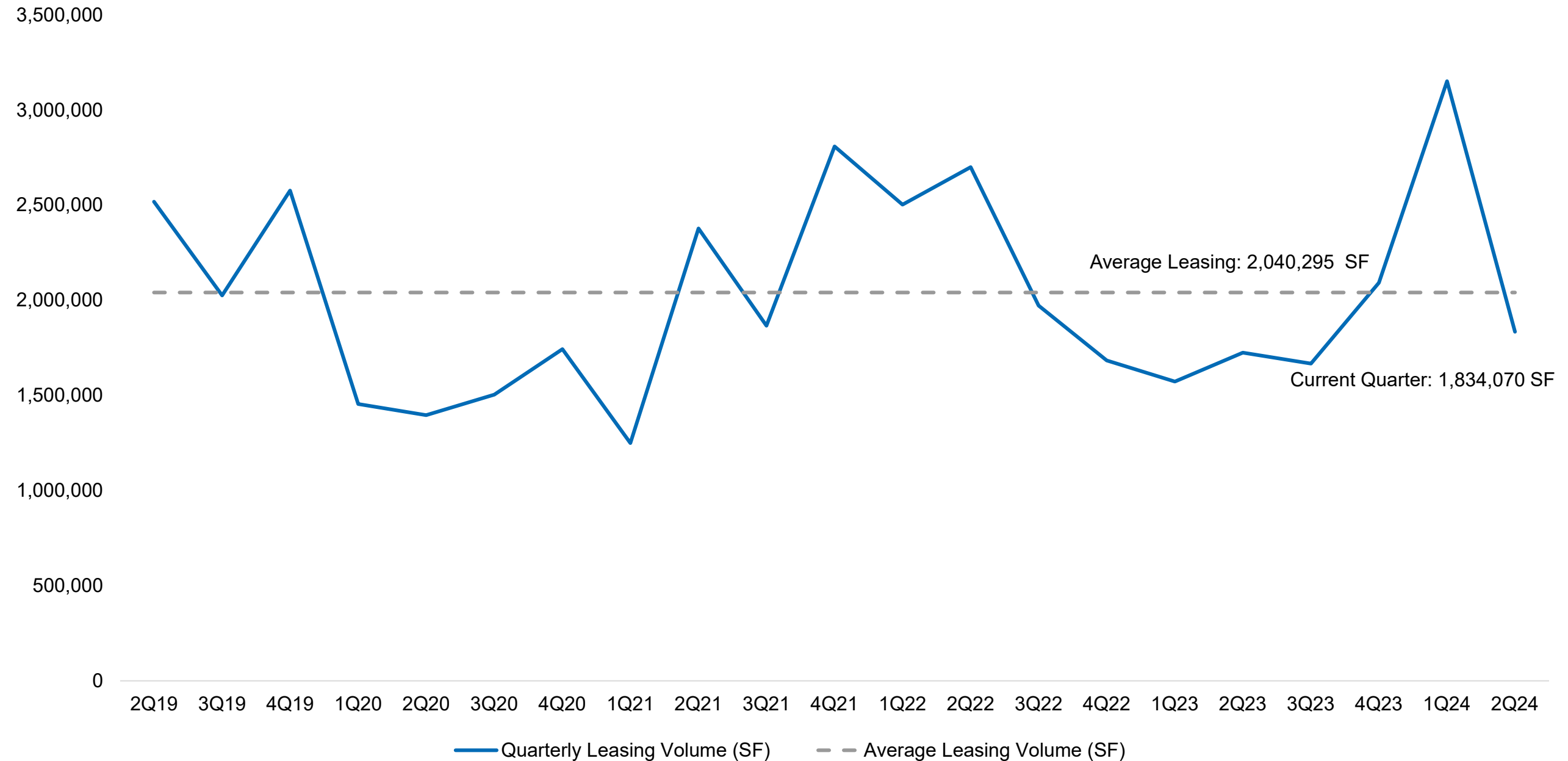


*Vacancy was only tracked starting in 2023; prior figures refer to availability.

Drop in R&D Leasing Activity After a Robust First Quarter

After a surge of leasing activity in the first quarter of 2024, even surpassing the average level over the past five years, activity subsided in the second quarter. In fact, the first quarter leasing activity of 3.1 million square feet was the highest level it has been in at least five years. In the second quarter, 1.8 million square feet of space was leased with health care companies and tech firms leading the charge. A large share of the leases were renewals with AI companies scaling up with lease extensions.

Total Leasing Activity (SF)

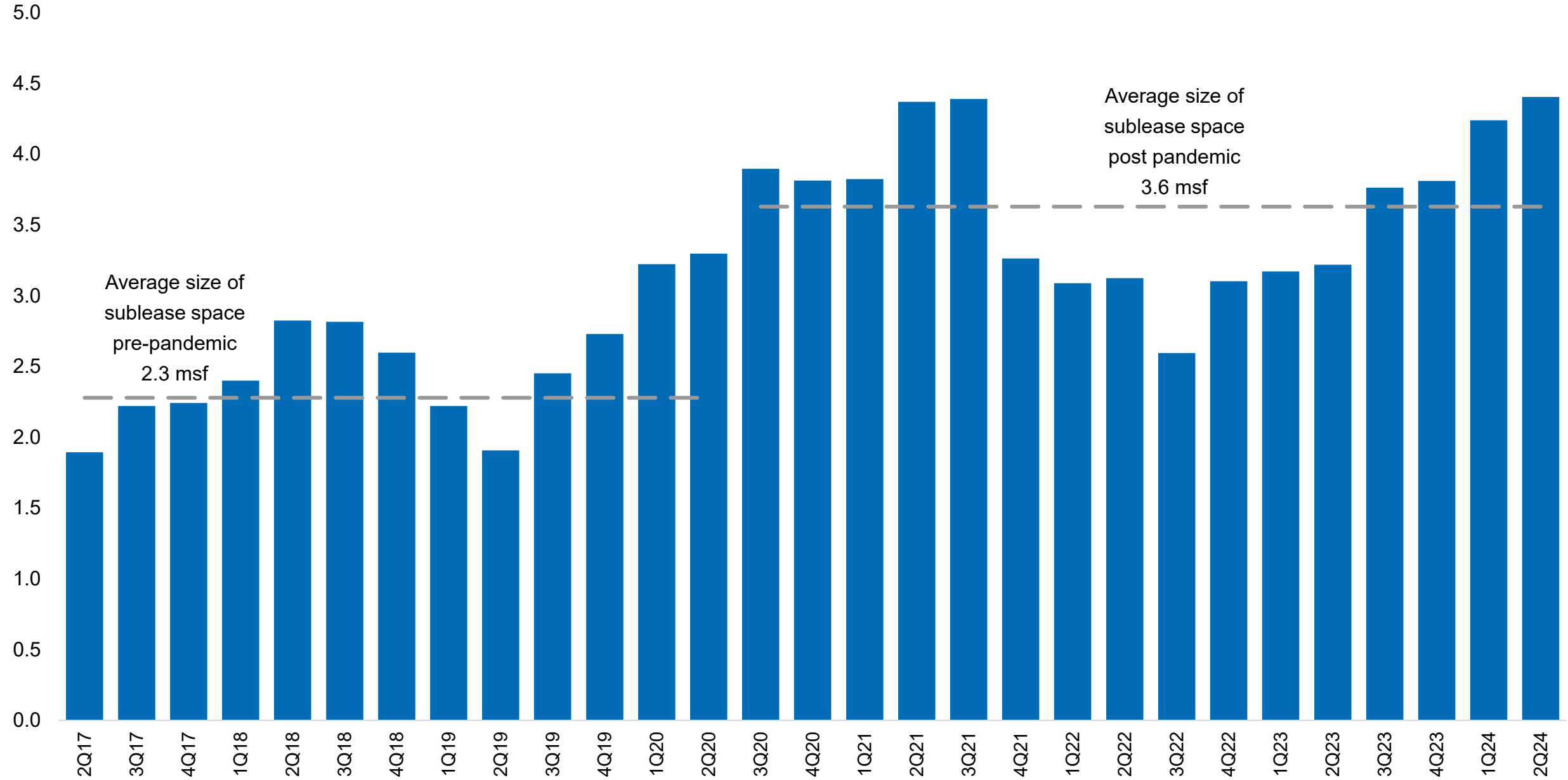


Source: Newmark Research, CoStar

Sublease Space Rises to a New Average

Prior to the pandemic, the average amount of sublease space on the market was 2.3 million square feet. Since the start of the pandemic, that figure rose to 3.6 million square feet as companies right-sized their footprint and addressed weak economic conditions both relative to their own balance sheets and also in the broader U.S. economy. After bottoming in the third quarter of 2022, the amount of sublease space rose to 4.4 million square feet available in the second quarter of 2024.

Available R&D Sublease Volume (msf)

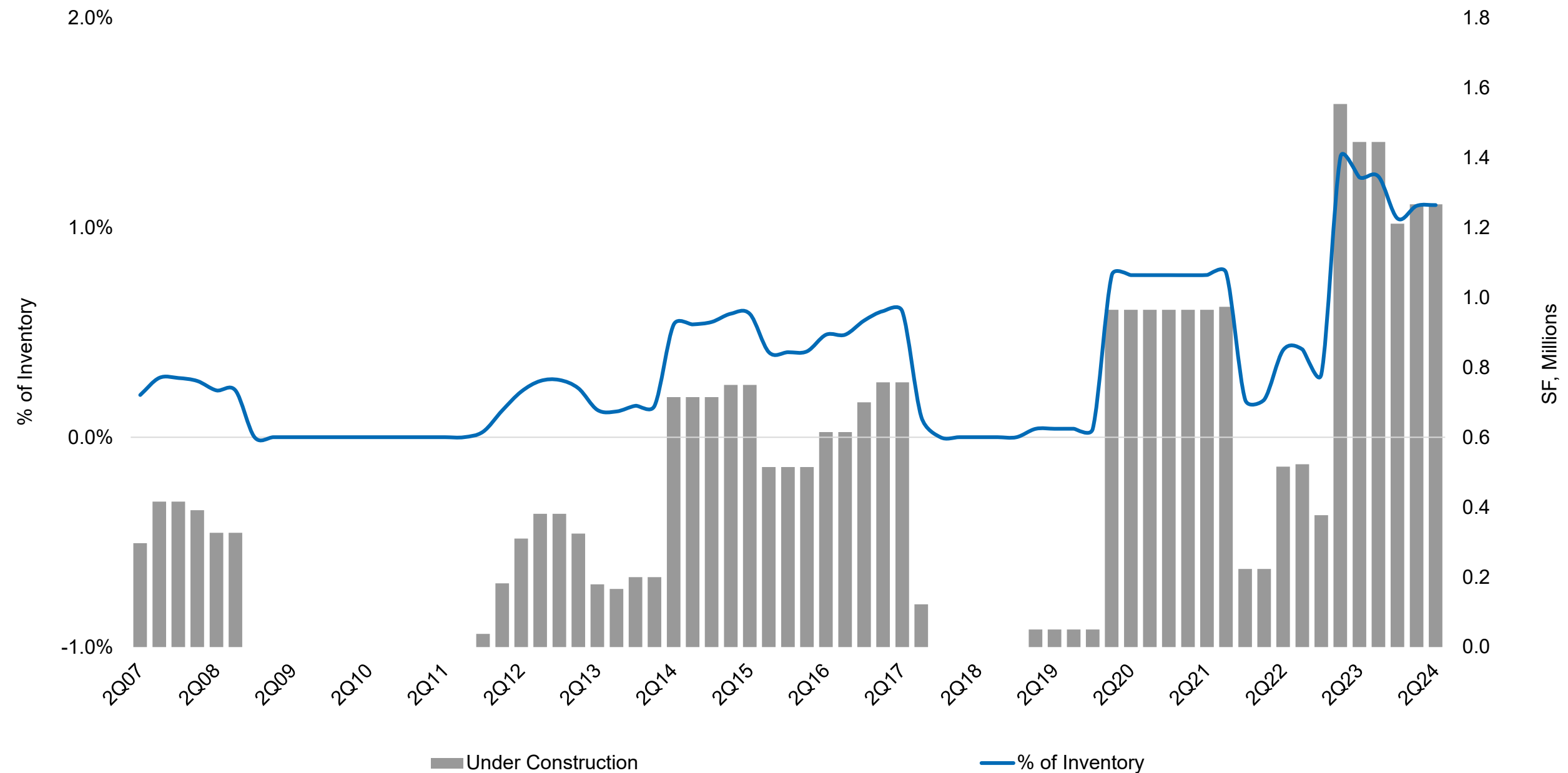


Source: Newmark Research, CoStar

Deliveries Expected in the Fall of 2024

Two R&D buildings are currently under construction in the Valley. “The Barn” in Morgan Hill is a 55,000 SF building with office, warehouse, manufacturing space, and a retail area on two adjacent parcels is being developed as the future headquarters of Techcon. The other project under construction in the market is the 1.2 million square foot Intuitive Surgical campus underway in Sunnyvale. These buildings will consist of two three-story R&D buildings and is expected to come online in the fall of 2024.

R&D Under Construction and % of Inventory

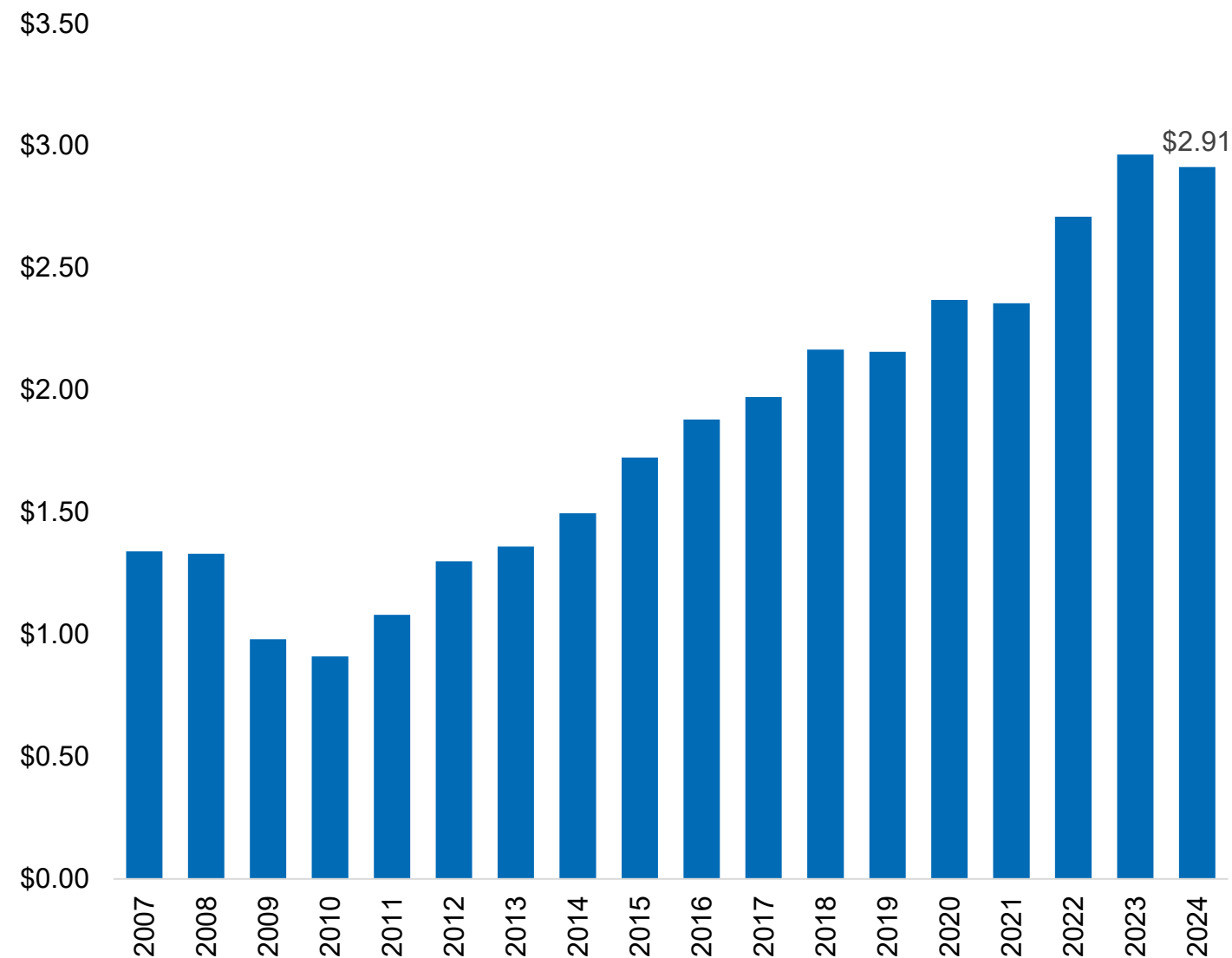


Source: Newmark Research, CoStar

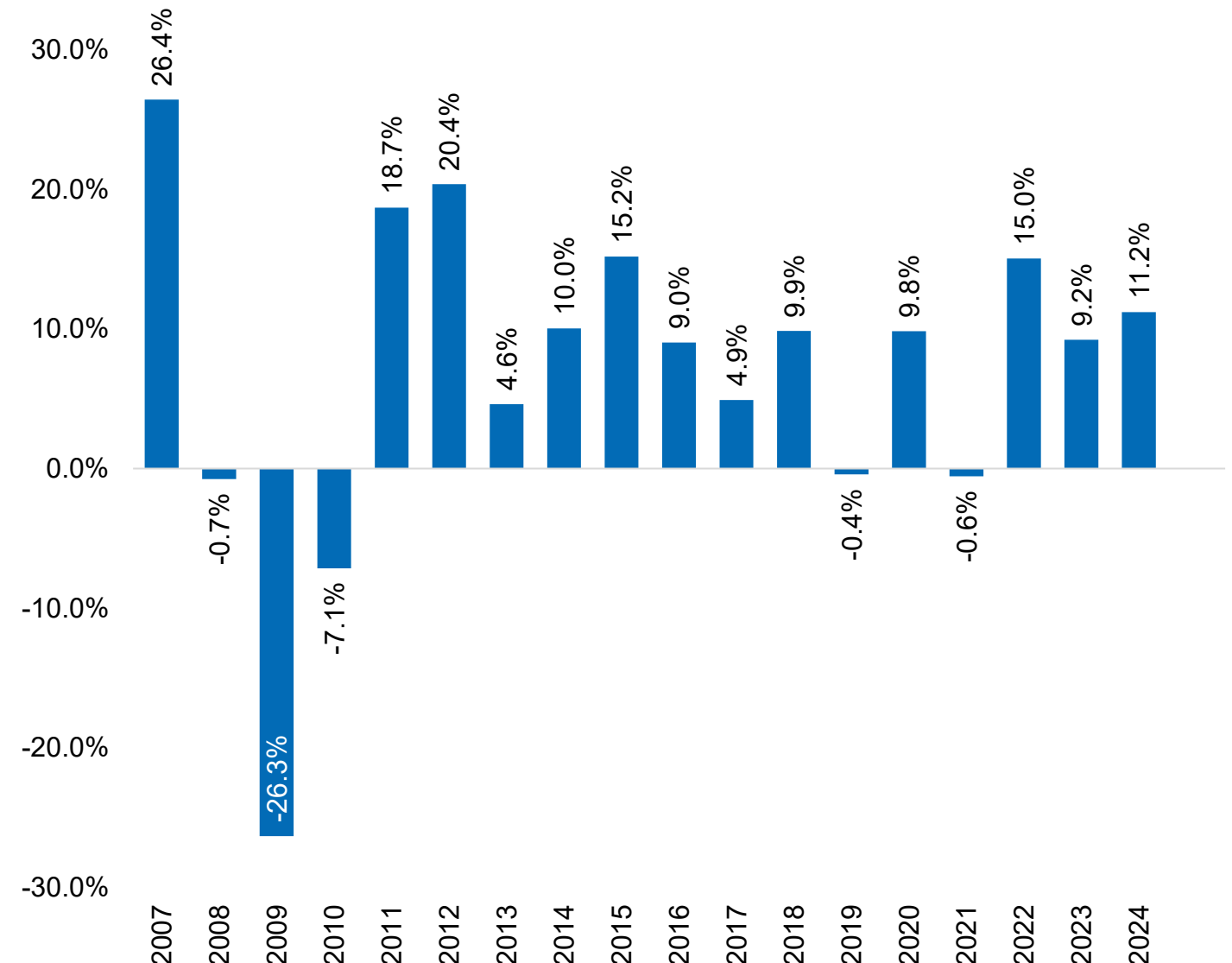
Asking Rents Showed Strong Rebound Between the Second Quarters of 2023 and 2024

While asking rents posted a healthy increase of 11.2% year-over-over, R&D asking rents ticked down slightly during the first half of the year to \$2.91/SF NNN, a 1.6% decline as available supply outpaced demand. Given the amount of available space on the market, it is possible that asking rents will remain subdued. Once the pace of available space increases, we expect to see asking rents increase as well.

R&D Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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Health Care and Tech Dominating Leasing Activity

Sutter Health committed to the largest lease in the second quarter, taking three buildings totaling 327,929 SF in Santa Clara with plans to build out internal and family medicine and imaging at the Mission Technology Park. Applied Materials, the market stalwart, renewed space in Sunnyvale, close to its headquarters in Santa Clara. The other three notable leases were from AI companies both expanding and re-committing to the market. Two of these leases were renewals and the largest AI lease was a new lease of nearly 100,000 SF.

2Q24 Top Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Sutter Health	2431, 2441, 2451 Mission College Boulevard	Santa Clara - Marriott Park	Direct Lease	327,929
<i>New lease. Total of ±327,929 SF signed by Sutter Bay Medical Foundation at 2431 Mission College (±84,652 SF), 2441 Mission College (±103,099 SF) and 2451 Mission College (±140,178 SF).</i>				
Applied Materials	1140 E Arques Avenue	Sunnyvale - Oakmead	Lease Renewal	128,154
<i>Lease Renewal. The local tech giant expanded their footprint in Sunnyvale and also purchased buildings close by to be near their HQ in Santa Clara.</i>				
Figure AI	3960 N First Street	San Jose - North	Direct Lease	98,674
<i>New lease. The AI Robotics company is broadening their presence in the market. Their HQ is currently located at 1247 Elko Drive in Sunnyvale.</i>				
Illumio, Inc	920 DeGuigne Drive	Sunnyvale - Oakmead	Lease Renewal	58,169
<i>Renewal. Illumio, Inc renewed and extended lease in their original space. The tech security company first signed their lease in 2018.</i>				
Poni.ai, Inc.	3501 Gateway Boulevard	Fremont - Bayside	Lease Renewal	42,797
<i>Renewal. Poni.ai, Inc, an AI company for autonomous vehicles has been occupying in this location since 2018.</i>				

2Q24

Appendix/Tables



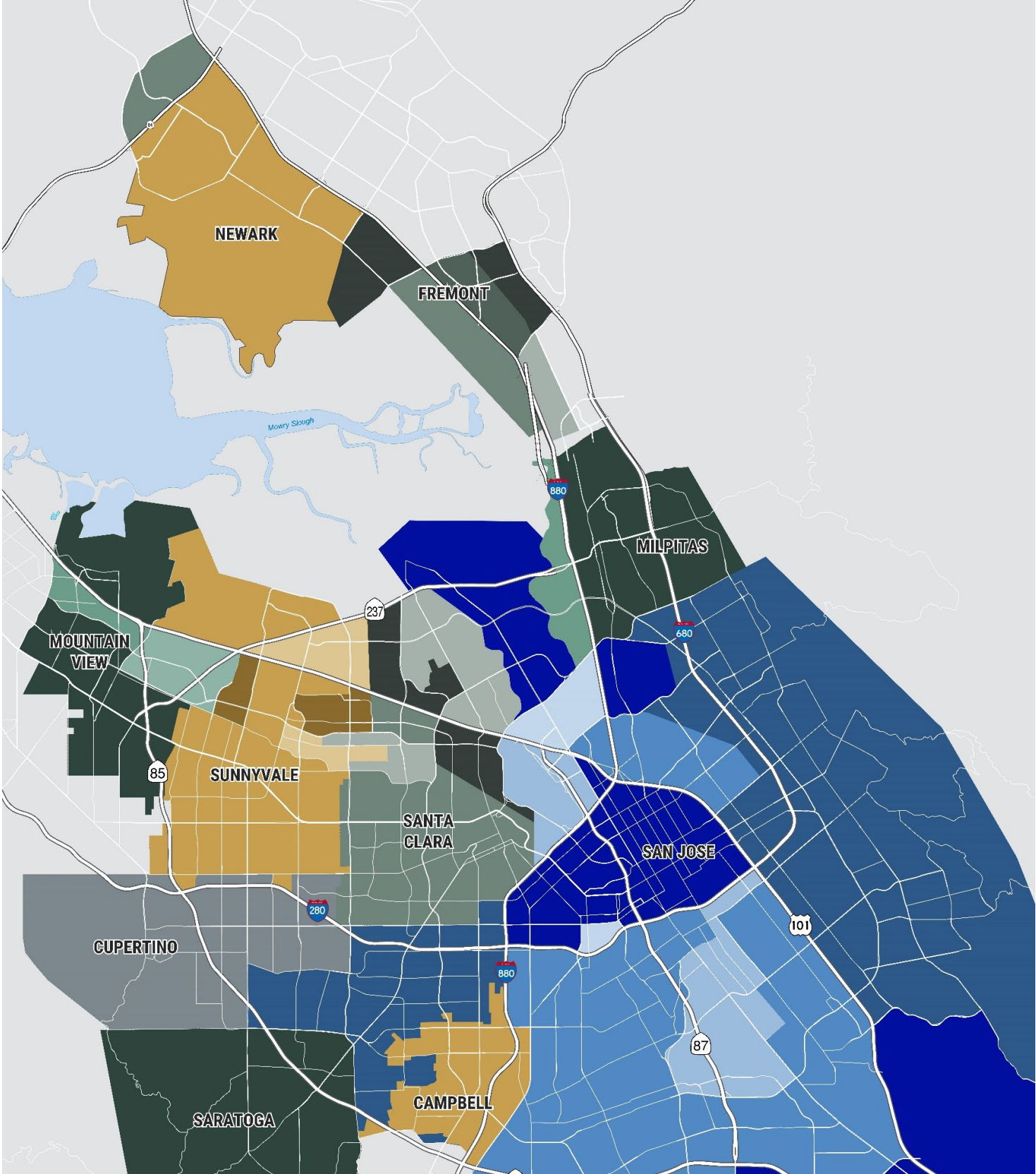


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Silicon Valley – Submarket Map



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