
3Q24

Silicon Valley R&D Market Overview

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Market Observations

Economy

- The region’s labor market showed signs of stabilizing. After two months of declines in the beginning of 2024, we have now tracked five months of modest growth, a welcome sign. While employment growth has been slower in this market relative to the U.S., the unemployment rate has remained steady indicating an equilibrium between labor supply and demand.
- Layoffs in the large tech companies outpaced employment gains in the AI space, something that we are closely monitoring. Professional and business services, such as law and consulting firms, are staffing up in anticipation of an increase in work which bodes well for the office market, especially Class A buildings.
- Following along with the overall employment showing signs of stabilizing, office-using employment remains in line with the first few months 2024 after sharp declines in the previous few months. However, the level of office-using employment is still below the peak from one year ago. Small job growth in the AI sector was not enough to counter the overall decline in the information services sector.

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 continued to subside in the third 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 third quarter, 1.9 million square feet of space was leased with tech firms leading the charge.
- PsiQuantum Corp. committed to the largest lease in the third quarter, taking a new lease totaling 127,574 SF in Milpitas. Netgear signed a new lease to move in October 2025 to a new location in San Jose. The other three notable leases were from companies both expanding and re-committing to the market.

Leasing Market Fundamentals

- An increase in overall vacancy caused supply to outpace demand during the initial three quarters of the year. While the total vacancy rate tick up to 13.2% in the third quarter of 2024, an increase of 190 basis points from year-end 2023, it is still below its 20-year average of 14.5%.
- Asking rent gains in San Jose, Sunnyvale, and Morgan Hill R&D markets were not enough to keep overall marketwide gains positive for the quarter. Overall, the asking rent declined 0.77% across all submarkets in Silicon Valley with Fremont posting the largest loss of 6.0% to \$2.35/SF NNN. San Jose recorded healthy growth of 3.2% to \$2.57/SF NNN and Morgan Hill saw the largest gain for the quarter, achieving a growth of 21.1% to \$1.61/SF NNN.

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

3Q24

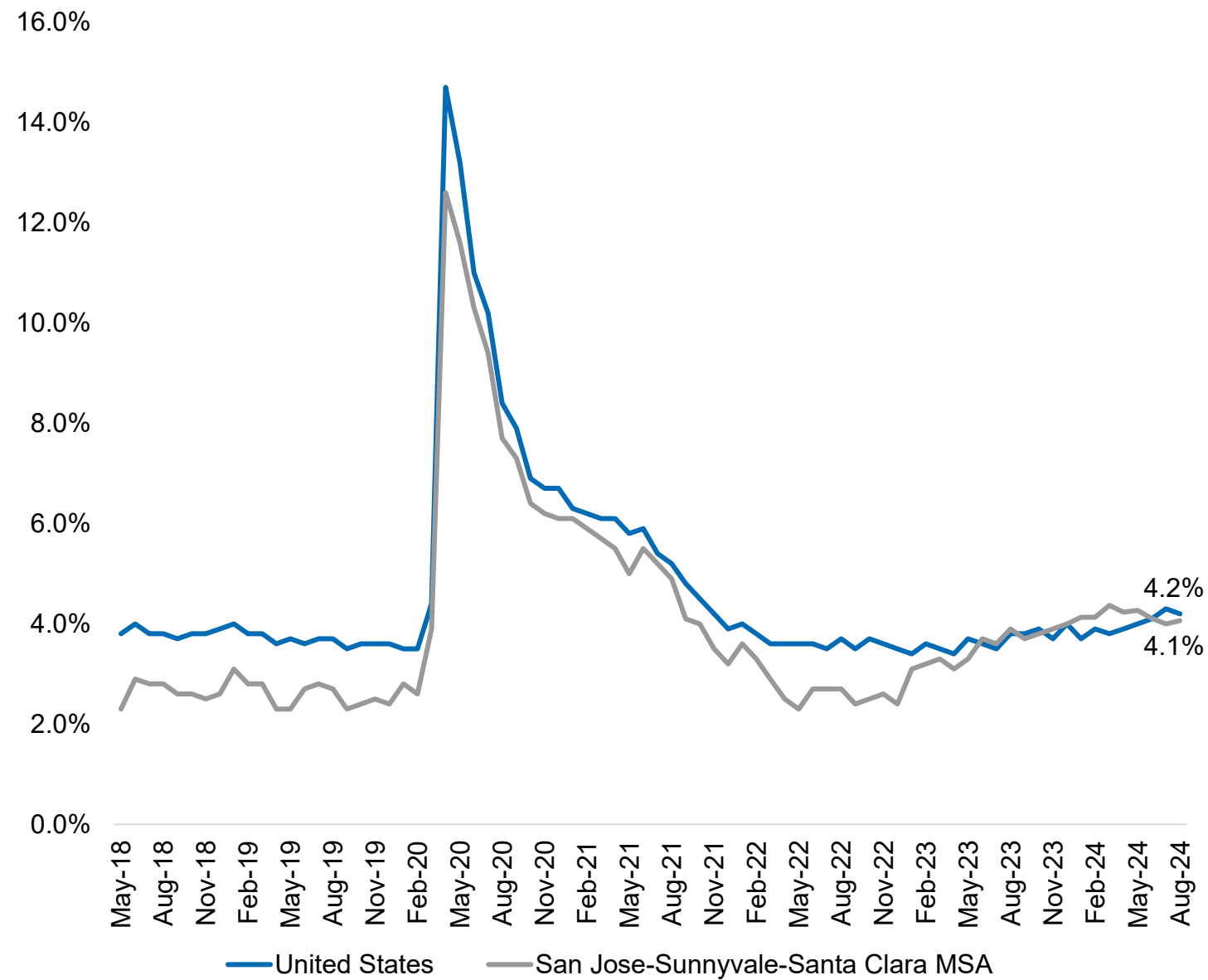
Economy



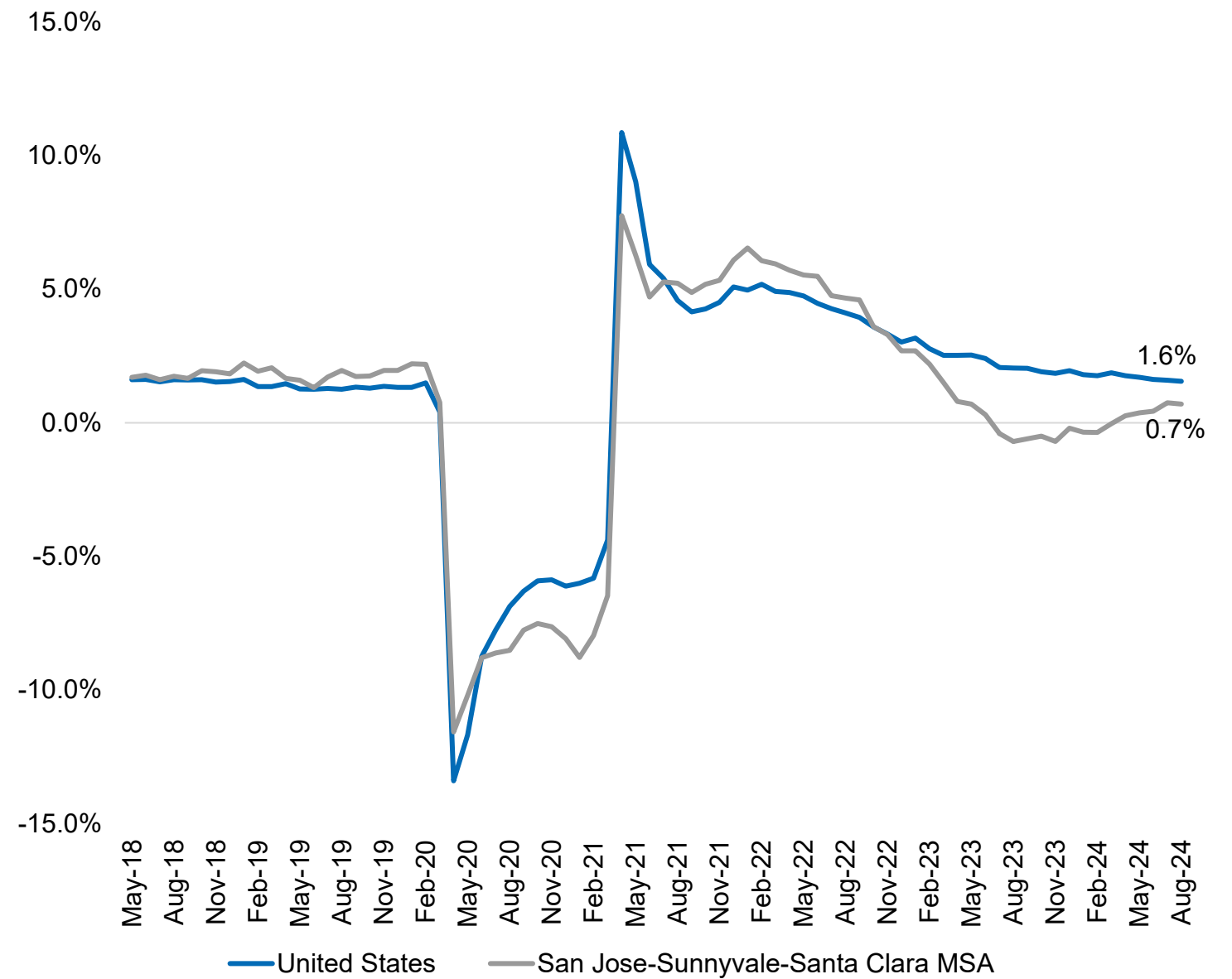
Job Growth Turned Positive, Indicating a Possible Turning Point in the Economy

Modest job growth returned to the San Jose-Sunnyvale-Santa Clara's economy through August 2024 with employment inching up 0.7% year-over-year. This marks the fifth straight month in a row of employment gains after eight months of losses. The overall unemployment rate held relatively steady through August, dropping below the U.S. average within the past two months. Professional & Business and Educational services recorded the largest gains whereas Information Technology, Construction, and Manufacturing shed jobs.

Unemployment Rate, Seasonally Adjusted



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



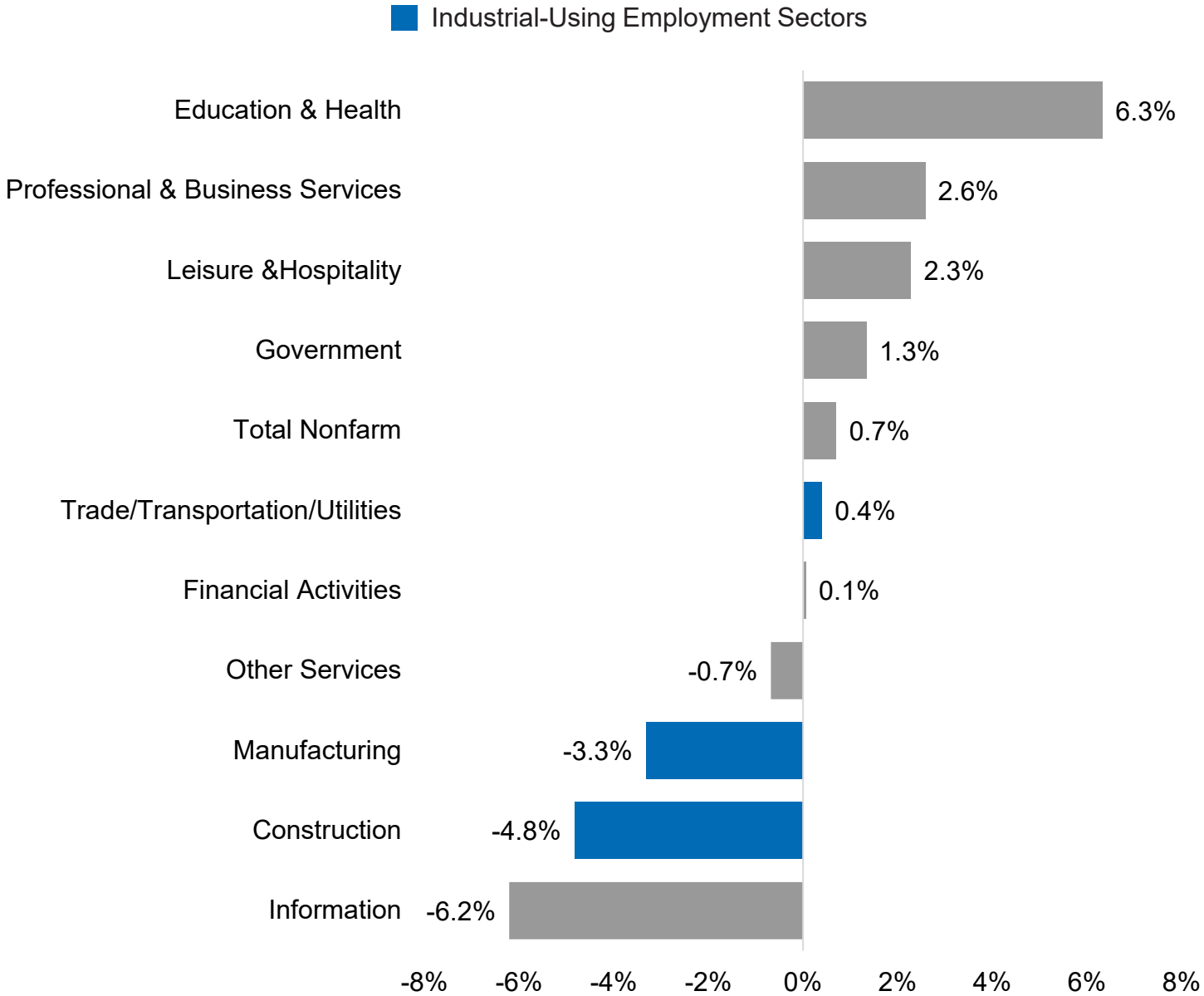
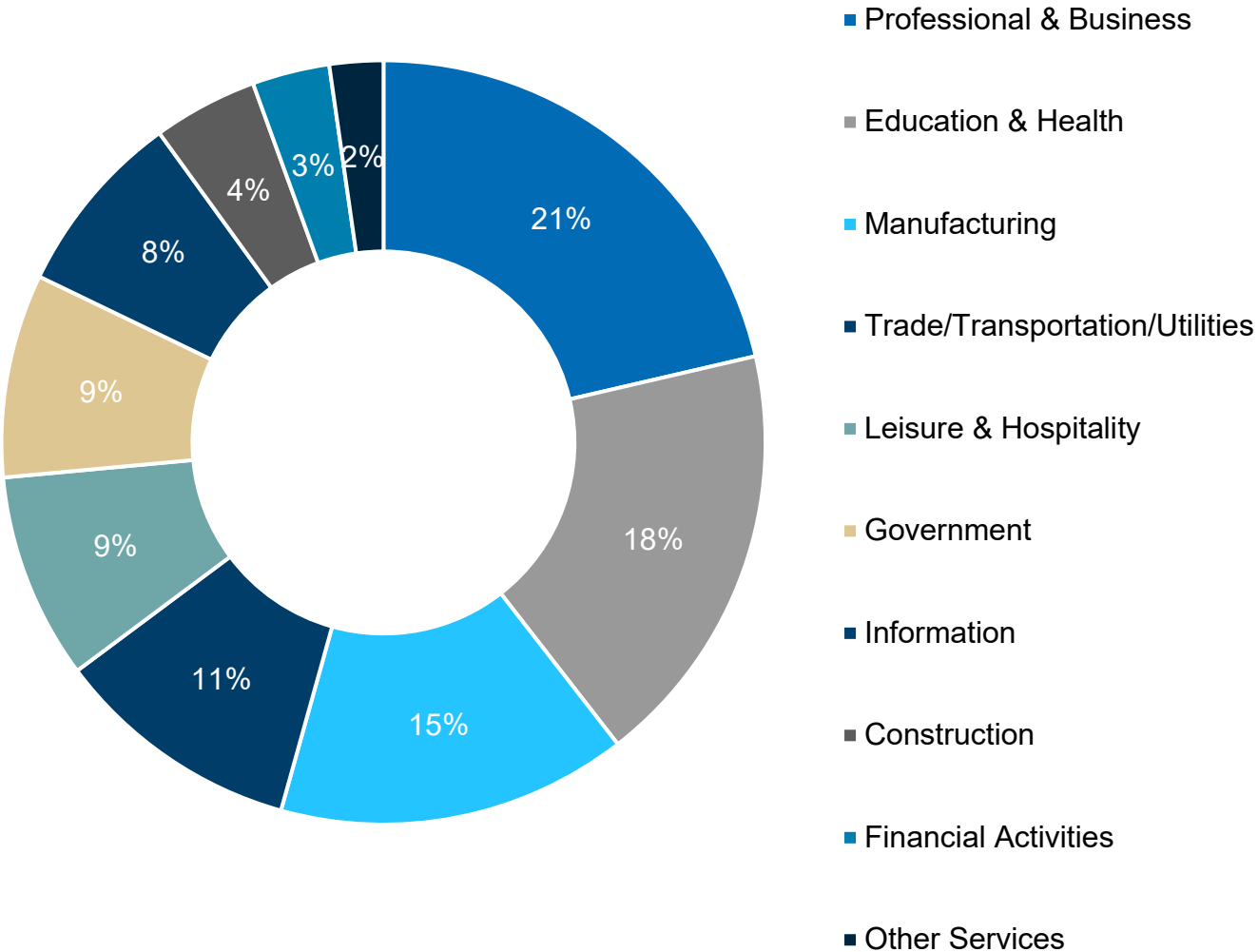
Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

Technology and Manufacturing Shed Jobs, but Overall Employment Grew

Job gains in the Professional & Business Services, Education & Health, and Leisure & Hospitality and Government outpaced losses in the Tech (Information Technology), Construction, and Manufacturing sectors. Fortunately, Professional & Business Services remains Silicon Valley's largest employment sector and is expanding once again, which bodes well for the office market, despite the Valley's reputation as a tech-only hub.

Employment by Industry, August 2024

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

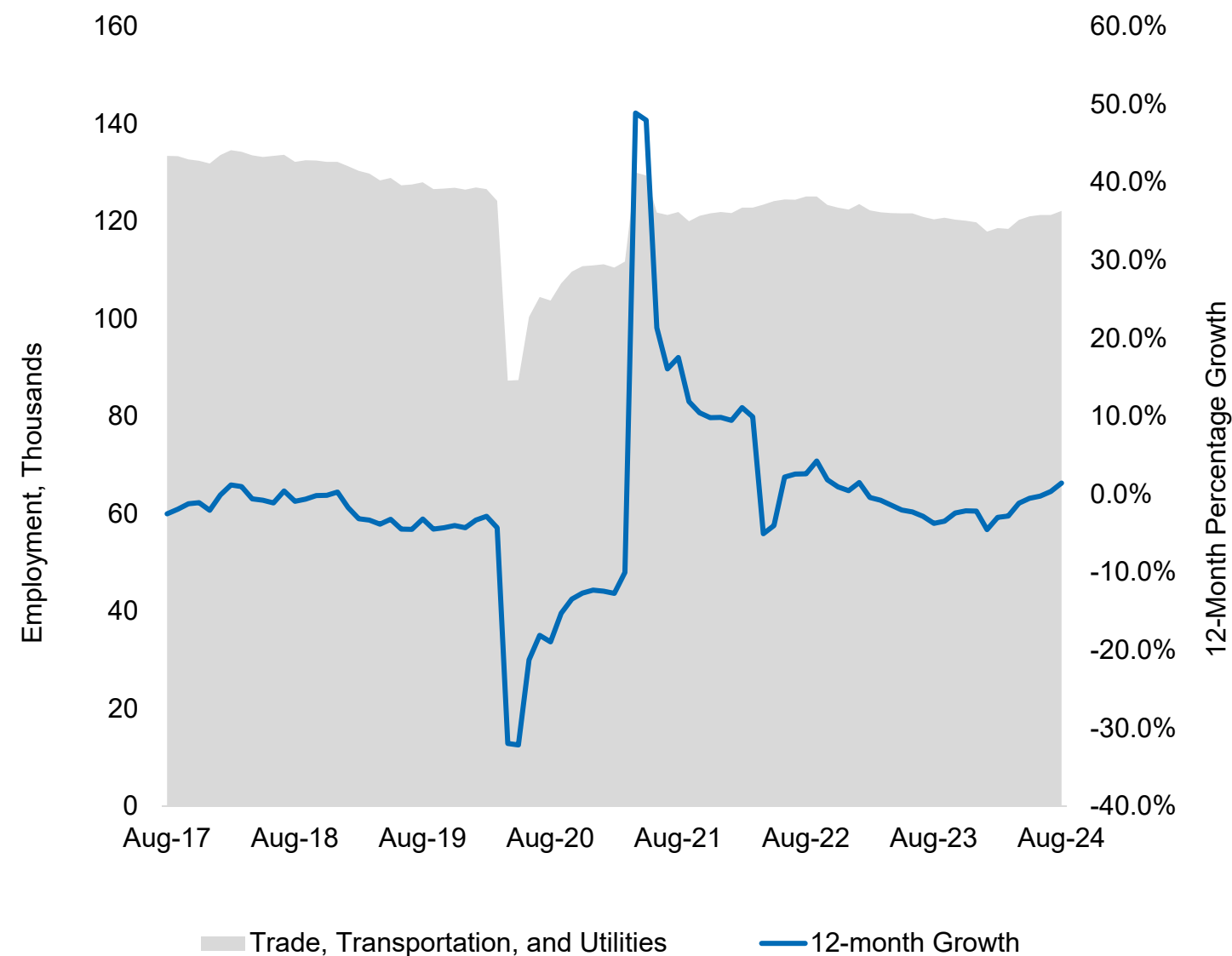


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

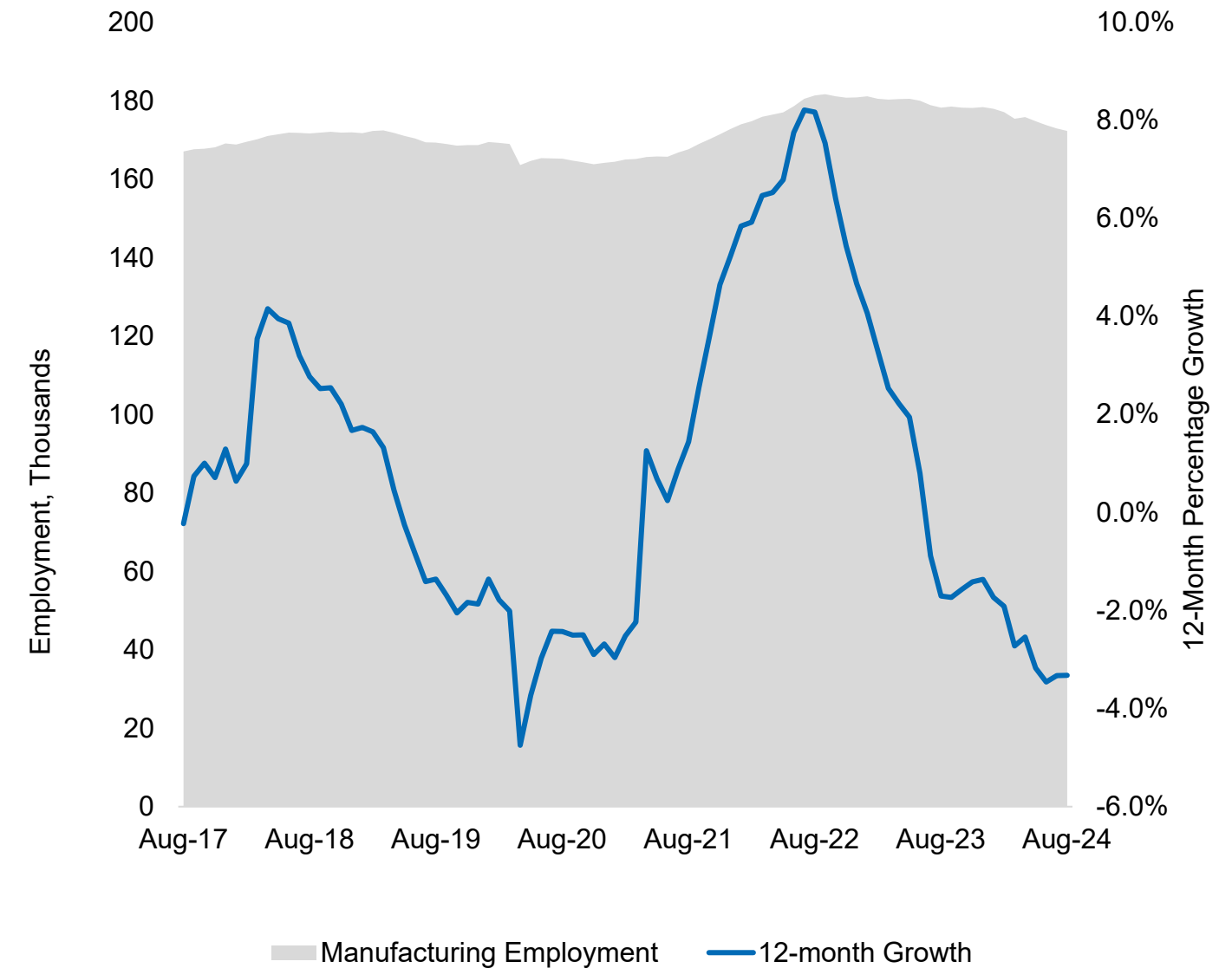
Mixed Signals for Industrial/R&D Demand Drivers

Employment in the Trade, Transportation, and Utilities sector added jobs through August 2024, with a 0.7% increase from the previous month and 1.4% year-over-year increase. As the economy hits bottom and then starts improving, we expect these two sectors will quickly rebound. On the other hand, the manufacturing sector shed jobs through August 2024, following the same trend from the previous 13 quarters. Technology has also been shedding jobs in the local economy.

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

3Q24

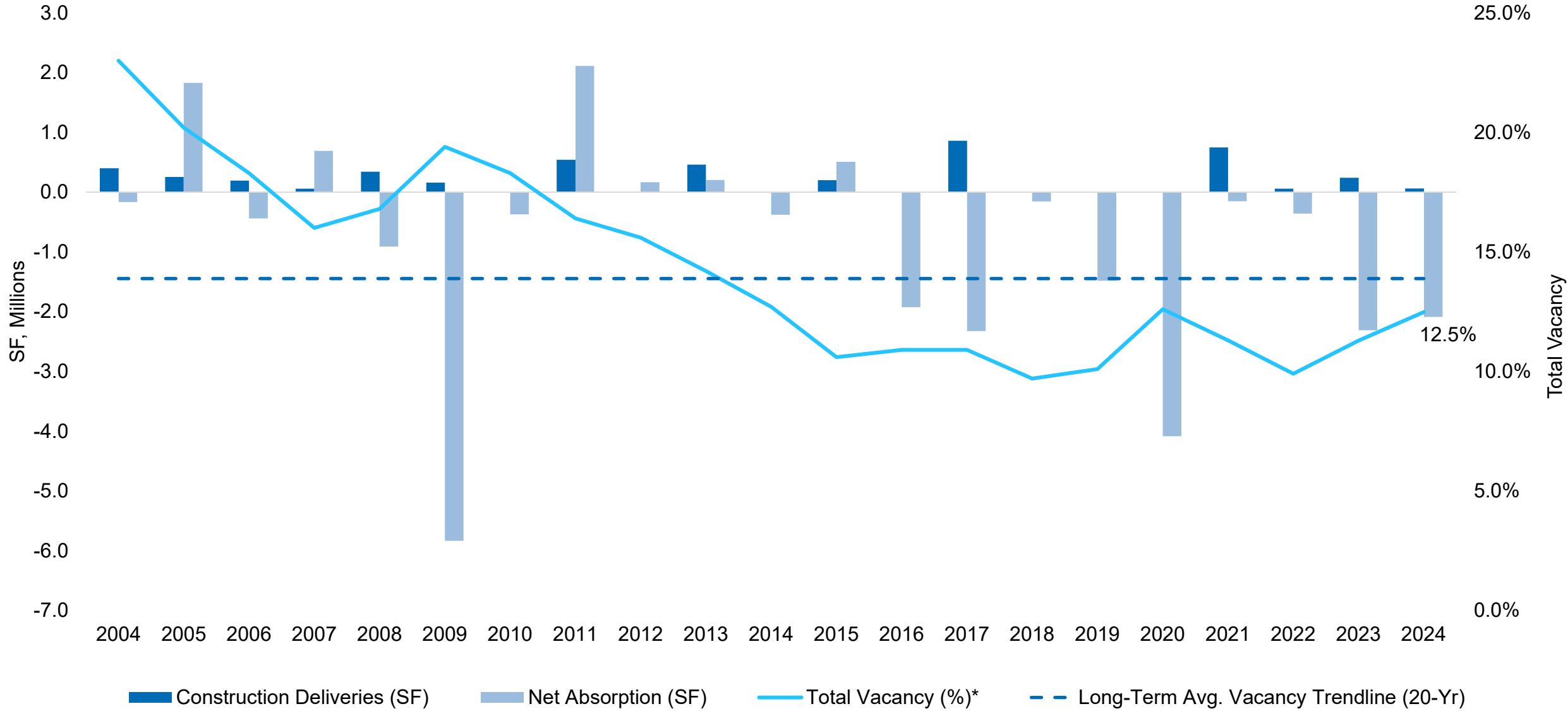
Leasing Market Fundamentals



Supply Outpaced Demand

An increase in both direct space and sublease space caused supply to outpace demand during the initial three quarters of the year. While the total vacancy rate ticked up to 12.5% for the initial three quarters of 2024, an increase of 120 basis points from year-end 2023, it was still below its 20-year average of 13.9%. 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.

A Slight Rise in R&D Leasing Activity Compared to 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 and rose slightly in the third 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 third quarter, 1.9 million square feet of space was leased with tech firms leading the charge. A large share of the leases were new leases with PsiQuantum Corp. representing the largest new lease signed for 127,574 sf.

Total Leasing Activity (SF)

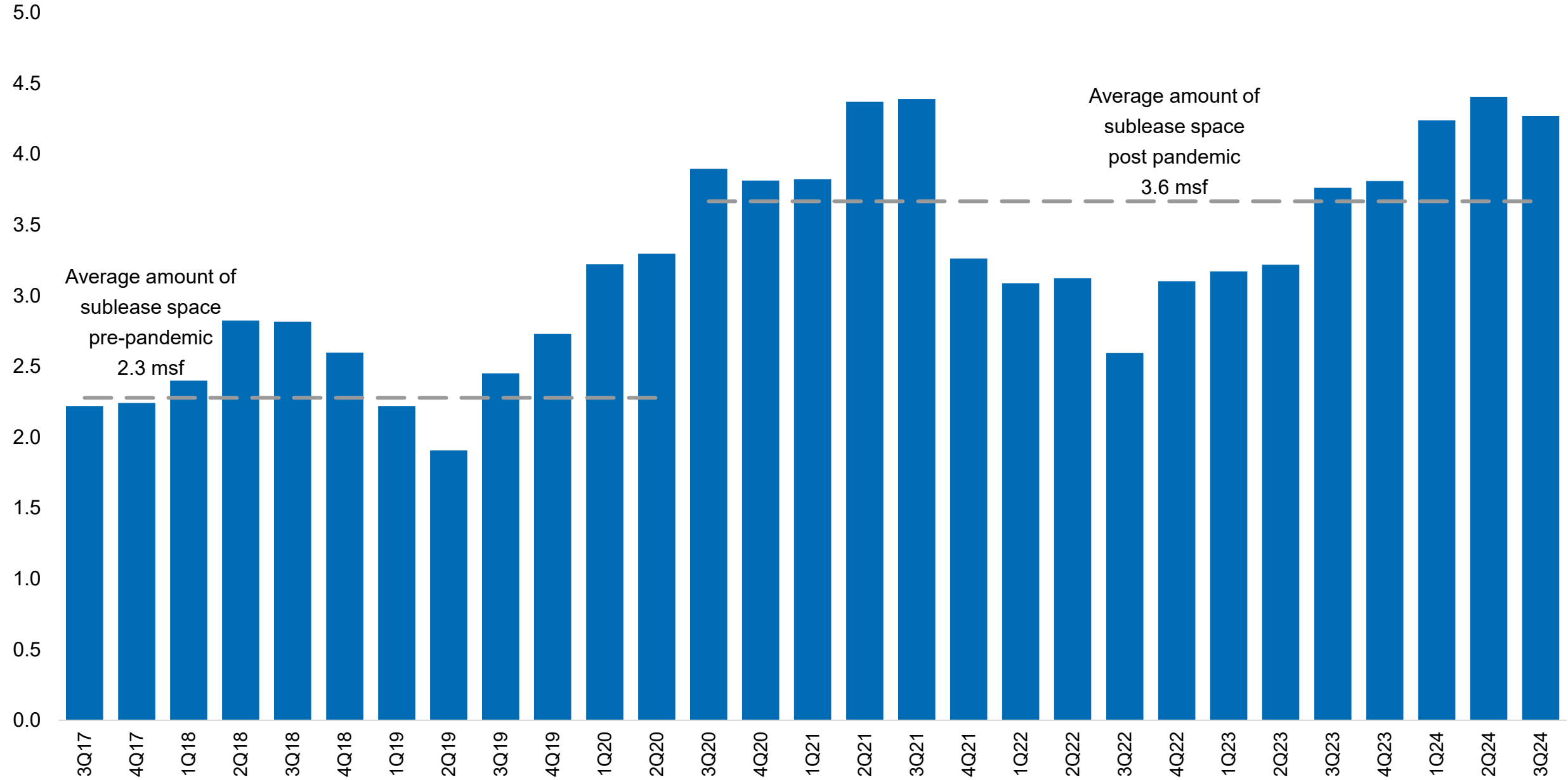


Source: Newmark Research, CoStar

Sublease Space Continues to Outpace 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 in the broader U.S. economy. After bottoming in the third quarter of 2022, the amount of sublease space has risen to 4.3 million square feet available in the third quarter of 2024; a slight decrease from the second quarter of 2024.

Available R&D Sublease Volume (msf)

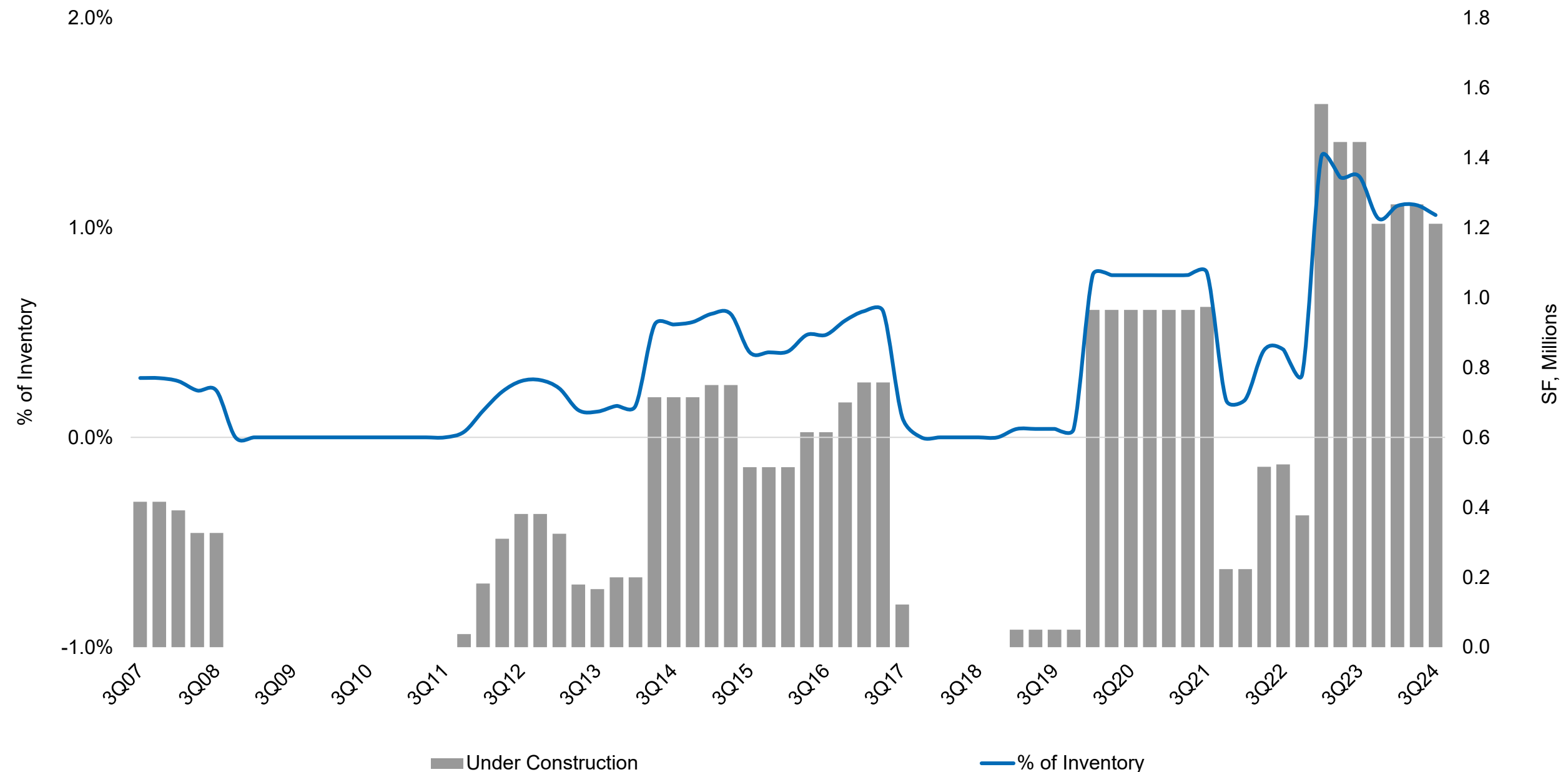


Source: Newmark Research, CoStar

Delivery Expected in the Winter of 2024

One R&D property is currently under construction in the Valley with an expected delivery in the winter of 2024. This project is the 1.2 million square foot Intuitive Surgical campus underway in Sunnyvale and will consist of two three-story R&D buildings. "The Barn" in Morgan Hill was delivered in August as a 60,000 SF building with office, warehouse, manufacturing space, and a retail area on two adjacent parcels to be the headquarters of Techcon.

R&D Under Construction and % of Inventory

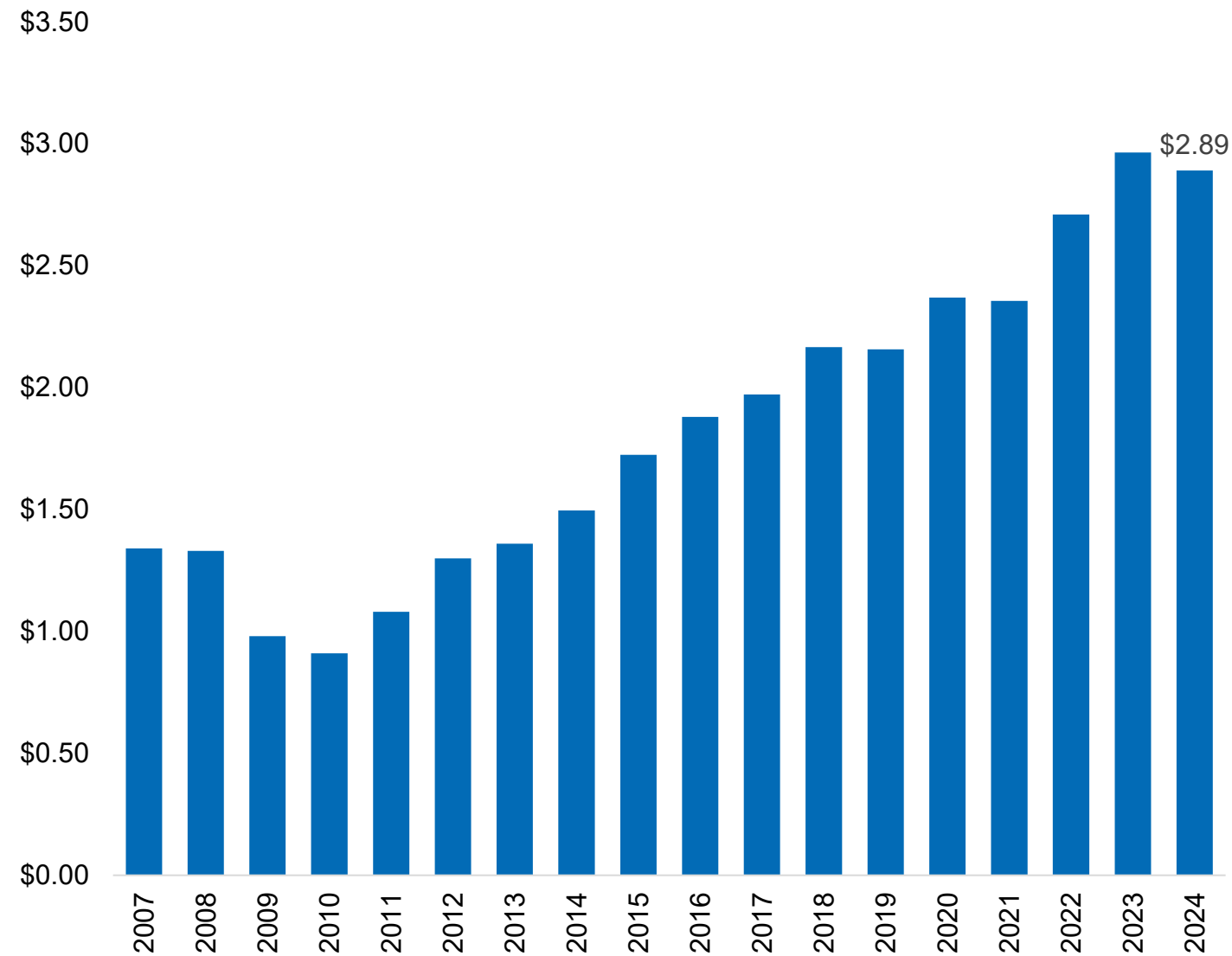


Source: Newmark Research, CoStar

Asking Rents Remained in Line Between the Third Quarters of 2023 and 2024

R&D asking rents posted a minor increase of 1.1% year-over-year but have ticked down slightly in the third quarter of the year to \$2.89/SF NNN. This is a 0.77% decline from the second quarter 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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R&D Sector Booms with New Tech Leases

The R&D sector saw a bump in activity this quarter, posting 1,931,831 square feet of gross absorption, with several new deals transacting instead of the typical mix of renewals – these new deals came from tech tenants, such as PsiQuantum Corp. which expanded into an additional 127,574 square feet in Milpitas. Netgear signed a new lease for 89,409 square feet in San Jose, planning to move in by October 2025. Super Micro Computer LLC expanded its Bay Area presence with a direct lease of 63,117 square feet in Milpitas.

3Q24 Top Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
PsiQuantum Corp. <i>New lease. The local quantum computing company expanded their footprint in the Bay Area with their HQ in Palo Alto.</i>	275 S Hillview Drive	Milpitas - East 880	Direct Lease	127,574
Netgear <i>New lease. The global networking and internet connectivity provider will move in October 2025 after their lease at 350 E Plumeria Drive in San Jose expires.</i>	3553 N First Street	San Jose - North	Direct Lease	89,409
Super Micro Computer LLC <i>New lease. The IT infrastructure solution company is broadening their presence in the market and have operated in the Bay Area since inception in 1993.</i>	1801 McCarthy Boulevard	Milpitas - Oak Creek	Direct Lease	63,117
Beckman Coulter, Inc. <i>Renewal. Beckman Coulter, Inc., a diagnostic and laboratory instrument developer, renewed their lease in their original space. The life science company first signed their lease in 2016.</i>	170 Rose Orchard Way	San Jose - North	Lease Renewal	60,002
Moss Adams LLC <i>Renewal. Moss Adams LLC, an accounting and consulting firm, has been occupying in this location since 2011. The company's headquarters is in Seattle, Washington.</i>	635 Campbell Technology Parkway	Campbell	Lease Renewal	39,770

3Q24

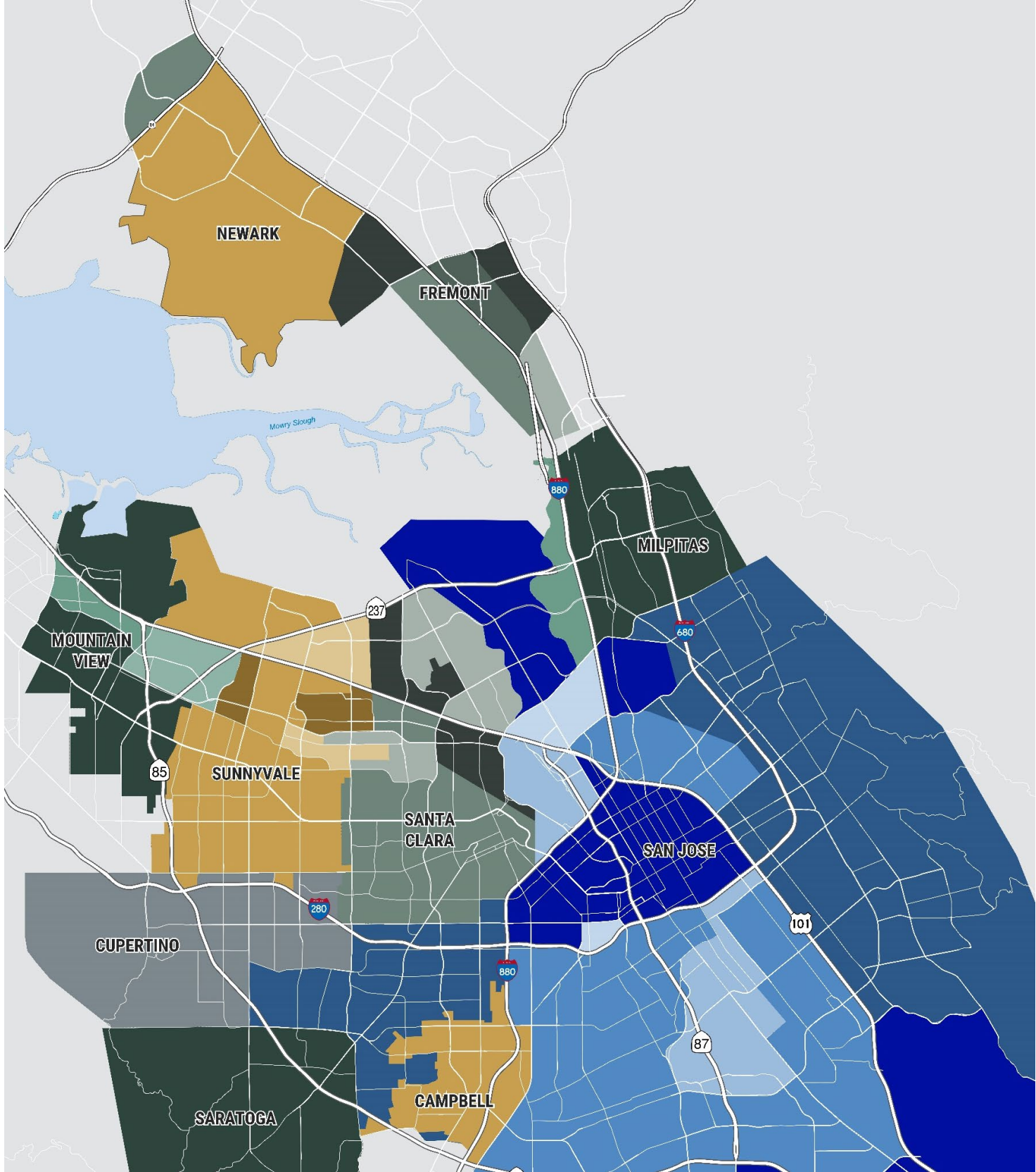
Appendix/Tables





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Silicon Valley – Submarket Map



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