

FIGURES | SILICON VALLEY | Q2 2023

Silicon Valley R&D Figures

▲ 10.0%

Vacancy Rate

▼ (681K)

SF Net Absorption

► N/A

SF Under Construction

▲ \$2.92

NNN / Lease Rate
Existing Properties

▼ 397K

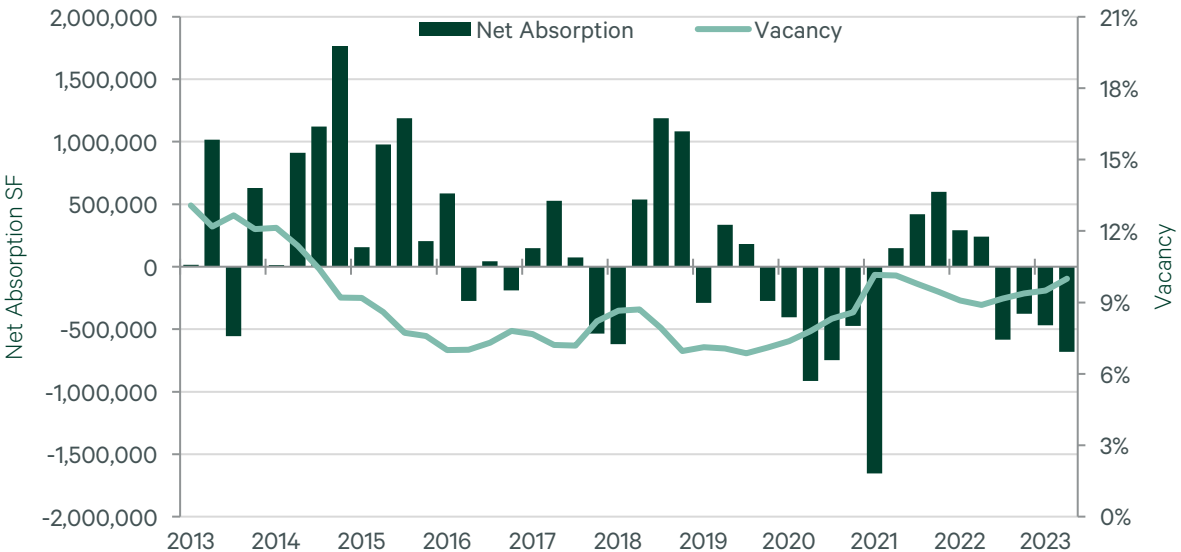
Projected Office/R&D Using
Employment Santa Clara County

Note: Arrows indicate change from previous quarter.

MARKET HIGHLIGHTS

- Santa Clara County's labor force stood at 1.06 million with 1.03 million employed residents at the close of Q2 2023. The unemployment rate closed the quarter at 2.5%, a 10-basis-point (bps) reduction year-over-year (YoY), but 35 bps higher than the previous quarter.
- The overall net absorption for the Silicon Valley R&D market closed Q2 2023 at -680,914 square feet (sq. ft.) compared to -468,842 sq. ft. in Q1 2023. Since the onset of the Covid-19 pandemic in Q1 2020, the market has lost roughly 4.7 million sq. ft. (or 3.3%) of its occupancy.
- The average direct asking rate in Silicon Valley increased nominally to \$2.92 per sq. ft. on a monthly, triple-net (NNN) basis.
- At the close of Q2 2023, tenant demand for office and R&D stood at 5.5 million sq. ft., a 120% increase over Q1 2023.
- No new R&D projects have delivered within Silicon Valley since 2021. Currently no projects are under construction, and none are slated to break ground in the near future.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

R&D OVERVIEW

The Silicon Valley R&D market is comprised of approximately 144 million sq. ft. The overall vacancy rate increased from 9.5% to 10.0% quarter-over-quarter. The availability rate increased as well, up 60 bps to 12.3% since the previous quarter. Mountain View/Los Altos was the largest contributor to negative net absorption due to two spaces totaling roughly 118,000 sq. ft. becoming vacant; whereas South San Jose was the largest contributor to positive net absorption; the result of an owner-user purchase.

The overall average asking rate for R&D space in Silicon Valley slightly increased quarter-over-quarter from \$2.90 NNN in Q1 2023 to \$2.92 NNN. Palo Alto continued to ask the highest average rent at \$7.09 NNN, while South San Jose recorded the most economical average rent at \$1.68 NNN.

Tenant demand for office and R&D space ended Q2 2023 at 5.5 million sq. ft. of combined active requirements. This is up from 2.5 million sq. ft. at the end of Q1 2023, but still below the ten-year quarterly average of 8.0 million sq. ft. Automotive (autonomous and EV), medical device, and semiconductor companies make up the bulk of R&D requirements.

Leasing activity in the R&D market decreased during Q2 2023 totaling 1.2 million sq. ft. during the quarter, a 52.2% decrease from the 2.3 million sq. ft. reported last quarter. Renewal activity accounted for roughly 32% of the current quarter total. Net absorption totaled -680,914 sq. ft. at the end of Q2 2023, comparatively, Q1 2023 ended at -468,842 sq. ft.

Despite the Silicon Valley R&D market performing below pre-pandemic levels, an increased interest in single-story R&D buildings portends potential future growth. Single-story R&D buildings tend to have more desirable attributes such as greater clear heights and heavy power. However, any of the available buildings lack in-demand market-ready improvements such as lab space or clean rooms. Similar to industrial product types, power demand within the R&D sector is outpacing supply, and some tenants have experienced extended waiting periods getting the correct power into their buildings.

FIGURE 2: Submarket Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Asking Lease Rate (\$)	Q2 Net Absorption	YTD Net Absorption
Palo Alto	10,943,748	11.5	14.0	7.09	(91,073)	180,541
Mountain View/Los Altos	10,984,390	9.5	10.8	4.95	(181,115)	(225,947)
Sunnyvale	18,939,049	9.4	10.8	3.62	(28,045)	(235,550)
Santa Clara	20,456,025	12.2	17.2	2.64	(132,915)	(147,119)
West Valley	4,432,943	5.3	6.4	2.52	(21,524)	(6,412)
San Jose – IBP/Downtown	10,264,603	4.3	4.8	1.81	(17,513)	(85,982)
San Jose – North	23,583,407	13.1	17.1	2.63	(110,400)	(274,136)
San Jose – South	9,370,529	10.2	11.4	1.68	51,327	57,073
Milpitas	11,944,477	13.8	14.8	1.99	(93,324)	(28,545)
Fremont/Newark	23,247,094	6.1	7.5	1.94	(56,332)	(383,679)
Silicon Valley	144,166,265	10.0	12.3	2.92	(680,914)	(1,149,756)

Source: CBRE Research

FIGURE 3: Notable Lease Transactions Q2 2023

Tenant	Location	Leased Sq. Ft.	Type
Fetch Robotics	2811 Orchard Pkwy San Jose	84,560	Renewal
Celestica	40737 Encyclopedia Cir Fremont	81,485	Renewal
CommScope	2500 Walsh Ave Santa Clara	65,840	Renewal
Accuray	1310 Orleans Dr Sunnyvale	50,000	Renewal
SpaceX	388 W Java Sunnyvale	48,480	New Lease

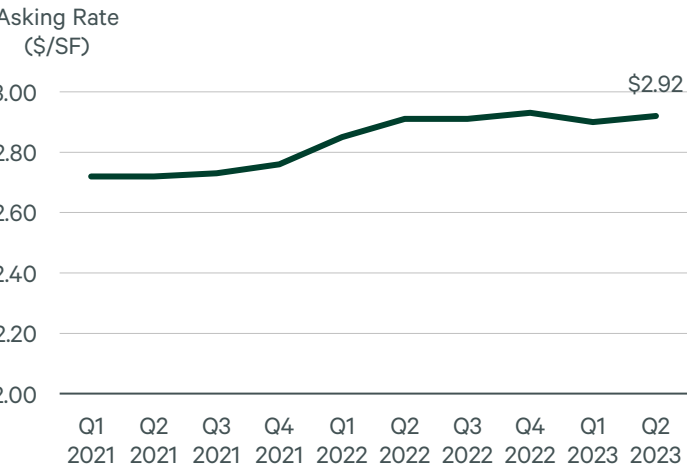
Source: CBRE Research

FIGURE 4: Notable Sale Transactions Q2 2023

Buyer	Location	Sold Sq. Ft.	Sale Price \$/SF
The Fox Real Estate and Development Company	2060 2118 Walsh Ave Santa Clara	79,000	\$15.2M \$192
First Pentecostal Church of San Jose	5891 5895 Rue Ferrari St San Jose	76,500	\$21.0M \$275
IHealth Labs, Inc.	888 W Maude Ave Sunnyvale	41,000	\$23.0M \$561
Dollinger Properties	150 Nortech Pkwy San Jose	39,950	\$9.1M \$227
MMA Enterprises	2085 2095 Ringwood Ave San Jose	27,000	\$7.6M \$281

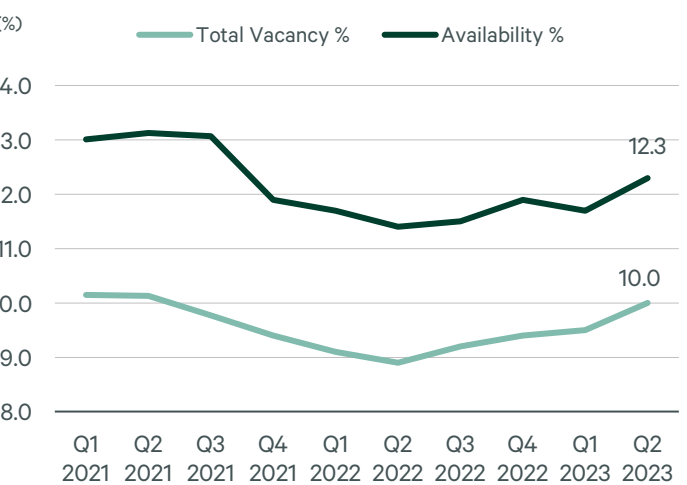
Source: CBRE Research

FIGURE 5: Lease Rates



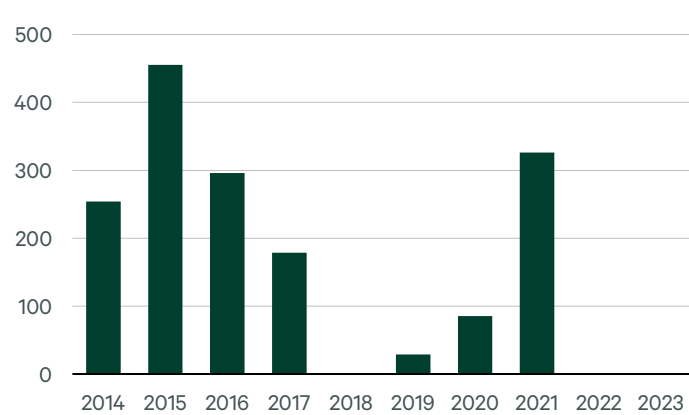
Source: CBRE Research

FIGURE 6: Vacancy & Availability



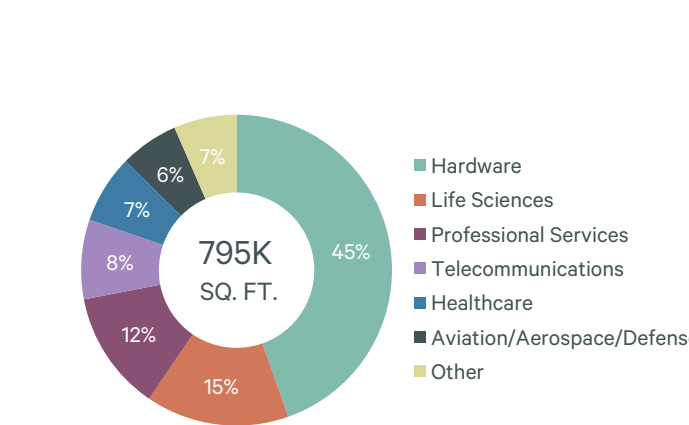
Source: CBRE Research

FIGURE 7: Construction Completions
Sq. Ft. (000's)



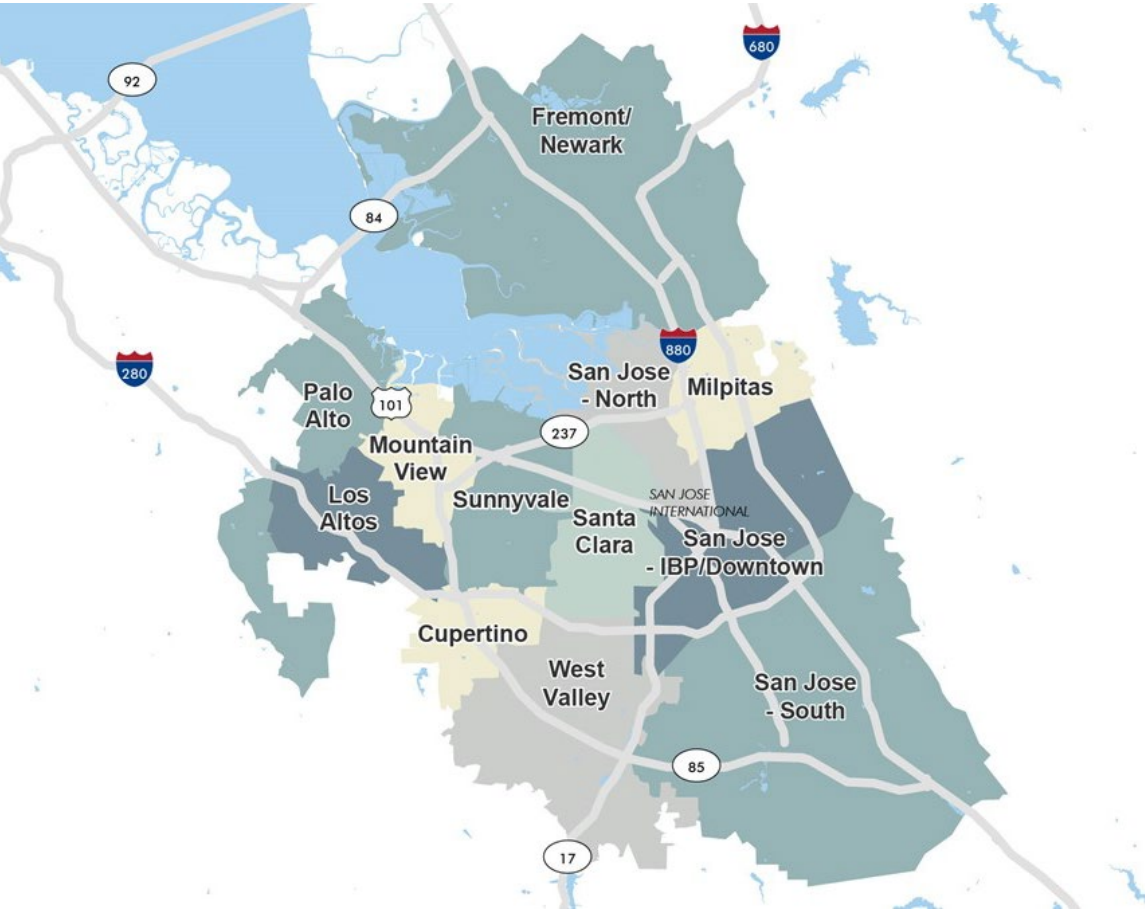
Source: CBRE Research

FIGURE 8: Top 25 Leases of the Quarter by Industry



Source: CBRE Research

Submarket Map



Source: CBRE Research, Location Intelligence

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Definitions

Average Asking Rate Direct Monthly Lease Rates, Triple Net (NNN). Availability All existing space being marketed for lease. Total Vacancy Rate Direct Vacancy + Sublease Vacancy.

CBRE's market report analyzes existing single- and multi-tenant R&D buildings that total 7,500+ sq. ft. within defined submarkets, including owner-occupied buildings. CBRE assembles all information through telephone canvassing, third-party vendors, and listings received from owners, tenants and members of the commercial real estate brokerage community.

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