

**MARKET FUNDAMENTALS**

	YOY Chg	12-Month Forecast
<b>13.1%</b> Vacancy Rate	▲	▲
<b>-1.6M</b> YTD Net Absorption, SF	▲	▲
<b>\$2.95</b> Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▼	▼

**ECONOMIC INDICATORS**

	YOY Chg	12-Month Forecast
<b>1.2M</b> San Jose MSA Employment	▲	▲
<b>4.0%</b> San Jose MSA Unemployment Rate	▲	▼
<b>4.1%</b> U.S. Unemployment Rate	▲	▼

Source: BLS

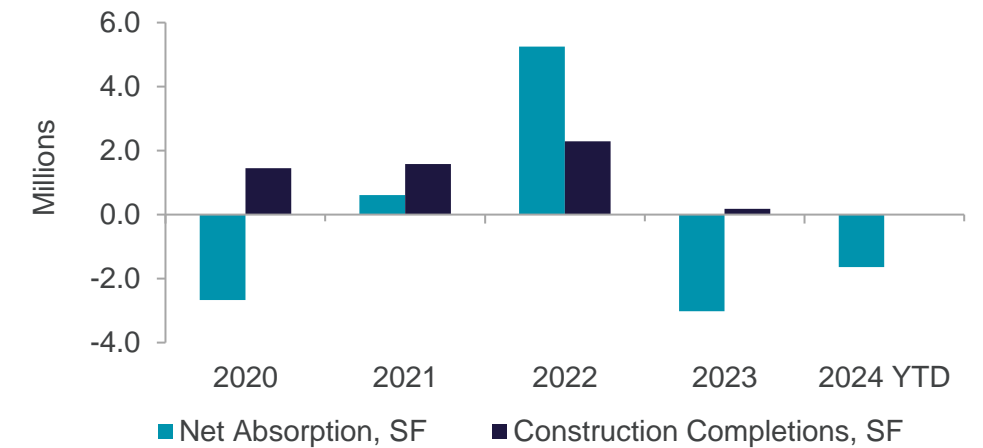
**BOTH JOB COUNT AND VC FUNDING CLIMB**

Size optimization for technology companies, both Big Tech and startups, continued in the third quarter of 2024 with regard to both headcount and footprint in Silicon Valley. For the San Jose MSA, the unemployment rate climbed 20 basis points (bps) year-over-year (YOY) closing at 4.0% in the third quarter. Despite the increase in unemployment, jobs expanded by 7,400 positions or 0.6% YOY. Venture capital funding into Santa Clara County-based companies topped \$3.9 billion (B) in 141 deals for the third quarter, up from \$3.1B in 221 deals in the second quarter. The largest deals of the quarter were a \$1.0B-early-stage round to artificial intelligence (AI) / software development application company Safe Superintelligence of Palo Alto followed by a \$640 million later-stage round to AI/ Semiconductor company Groq of Mountain View.

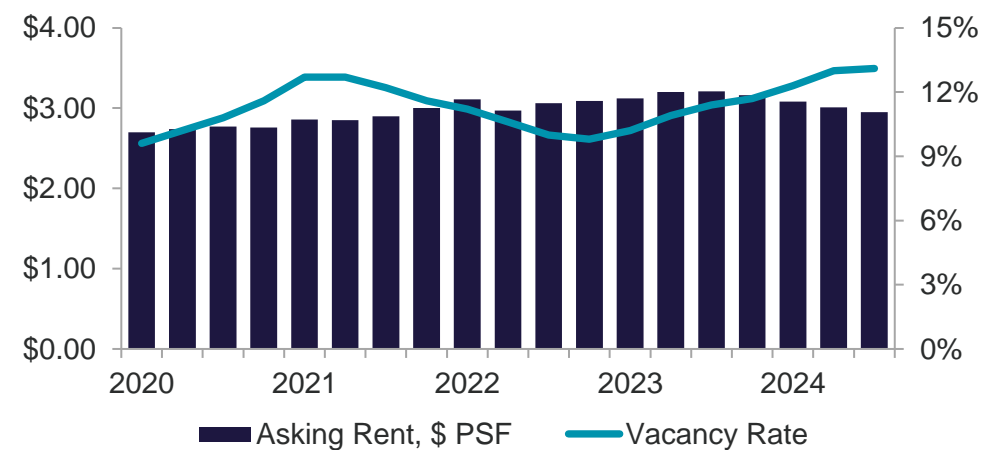
**VACANCY TICKS HIGHER**

For the seventh consecutive quarter, Silicon Valley's (the Valley) R&D vacancy rate increased, closing at 13.1% in the third quarter. This was the highest vacancy level recorded since the first quarter of 2014. Despite this, vacancy levels remained relatively stable quarter-over-quarter (QOQ), with a slight increase of 10 bps. The current vacancy rate translated to 21.5 million square feet (msf) of space throughout the Valley, of which 28.6% (6.2 msf) was sublease space, an increase from 26.8% reported in the second quarter. The most notable sublease addition in the third quarter was a 130,000-sf R&D building coming online at 3111 Coronado Drive in Santa Clara.

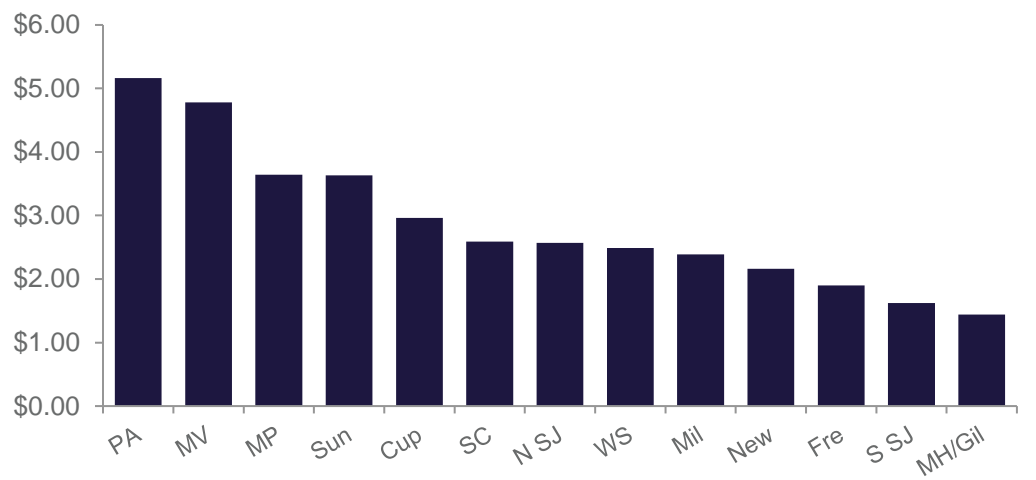
**SPACE DEMAND / DELIVERIES**



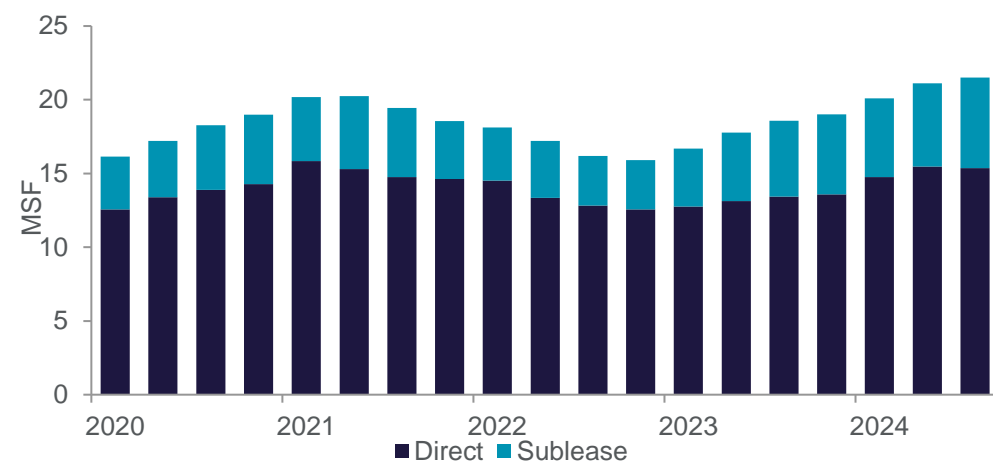
**OVERALL VACANCY & ASKING RENT**



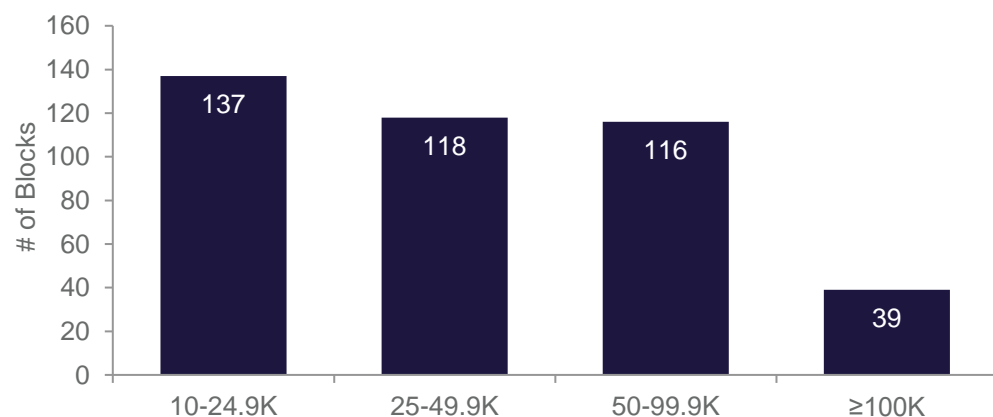
**AVERAGE ASKING RATE BY SUBMARKET**



**VACANT SPACE DIRECT & SUBLEASE**



**BLOCKS OF CONTIGUOUS SPACE**



**ASKING RATES CONTINUE TO DROP**

The overall average asking rate for R&D product across the Valley was reported \$2.95 per square foot (psf), on a monthly triple net basis in the third quarter, declining by \$0.06 psf QOQ and \$0.26 psf year-over-year (YOY). This was the lowest asking rate recorded since the third quarter of 2021. The Southern Peninsula cities of Palo Alto, Mountain View, and Menlo Park continued to hold the highest asking rates with third quarter numbers at \$5.16 psf, \$4.78 psf, and \$3.64 psf, respectively.

**GROSS ABSORPTION DECLINES**

Deal activity declined in the third quarter, recording 1.5 msf of gross absorption (the total amount of combined leasing and user-sale activity), dropping by 28.0% (582,000 sf) QOQ and 32.5% (720,000 sf) YOY. There were 19 total deals over 20,000 sf in the Valley (10 of those renewals), compared with a total of 24 deals last quarter. Sunnyvale recorded the highest gross absorption in the third quarter. Sale activity held strong in the third quarter, with 13 transactions over \$10 million. Mountain View recorded the largest R&D sale, with Microsoft purchasing four buildings totaling 644,000 sf that they have been occupying at 1045-1085 La Avenida Avenue.

**NET OCCUPANCY TURNS POSITIVE**

After six consecutive quarters of reported losses, the third quarter recorded net occupancy gains. The third quarter reported 468,000 sf of net occupancy gains, a notable change from second quarter's loss of 1.0 msf. Santa Clara led all submarkets in the third quarter with net occupancy gains of 960,000 sf while Fremont experienced the lowest levels of net occupancy, reporting 531,000 sf of losses.

**LOW CONSTRUCTION ACTIVITY**

Proposed R&D projects in the Valley's development pipeline totaled 5.6 msf in the third quarter. Meanwhile, the only recorded project in the third quarter that was under construction was 950 Kifer Road, a 1.2-msf expansion for Intuitive Surgical with completion expected in the fourth quarter. One project was completed in the third quarter: a 12,000-sf R&D building located at 2019 Leghorn Street in Mountain View. Due to high construction costs throughout the Valley, proposed projects continued to stall.

**OUTLOOK**

- Tenant requirements ticked higher by 1.2% from 6.8 msf in the second quarter to 6.9 msf in the third quarter, proving the deal pipeline will remain healthy. Despite mass layoffs over the past two years, technology companies, which will always be prominent in the Valley, represent 75.8% of those requirements.
- To take advantage of lower pricing and to woo employees back to the office, companies will seek out for the best quality space. Lower-tier buildings will still record leasing activity, though it will be less than that in trophy buildings.
- With vacancy rates on the rise, landlords will still need to compete with their asking rents when possible and offer concessions to attract tenants.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT*
Menlo Park	2,495,510	68,377	50,219	4.8%	12,048	-8,116	49,906	0	\$3.64
Palo Alto	8,764,238	552,133	437,701	11.3%	81,501	239,182	150,769	0	\$5.16
Mountain View	16,338,307	777,544	1,819,400	15.9%	24,266	-190,892	328,628	0	\$4.78
Cupertino	5,723,435	0	35,850	0.6%	0	-18,000	0	0	\$2.96
Westside	2,243,488	73,409	168,371	10.8%	-5,440	-29,947	99,072	0	\$2.49
Sunnyvale	24,191,790	744,890	2,434,470	13.1%	-118,547	-996,369	1,167,775	1,211,000	\$3.63
Santa Clara	22,414,597	424,218	3,231,721	16.3%	959,970	667,853	1,890,501	0	\$2.59
North San Jose	35,206,514	1,575,011	3,126,749	13.4%	277,959	123,675	865,147	0	\$2.57
South San Jose	9,450,758	499,163	1,081,294	16.7%	-64,303	-352,678	209,161	0	\$1.62
Milpitas	12,160,295	393,272	1,314,651	14.0%	-82,944	-154,561	227,535	0	\$2.39
Fremont	18,813,336	989,109	887,387	10.0%	-531,322	-760,191	848,690	0	\$1.90
Newark	2,331,550	53,300	384,287	18.8%	-18,034	-47,763	73,699	0	\$2.16
Morgan Hill/Gilroy	3,631,516	0	379,702	10.5%	-67,551	-107,234	46,293	0	\$1.44
<b>TOTALS</b>	<b>163,765,334</b>	<b>6,150,426</b>	<b>15,351,802</b>	<b>13.1%</b>	<b>467,603</b>	<b>-1,635,041</b>	<b>5,957,176</b>	<b>1,211,000</b>	<b>\$2.95</b>

\*Rental rates reflect average triple net asking \$psf/month

\*Market indicators are not reflective of US MarketBeat tables

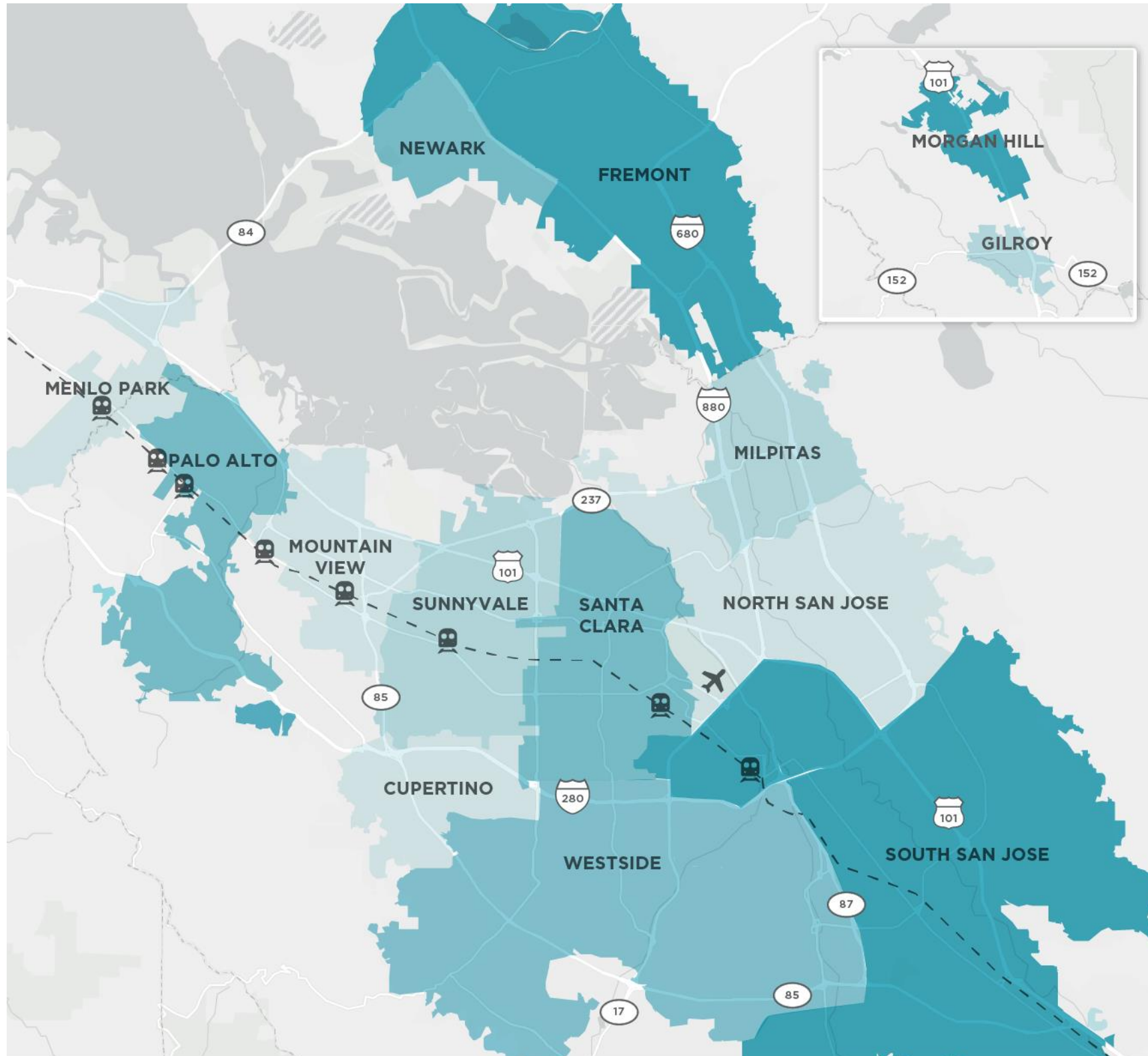
KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
300 Holger Way	North San Jose	Confidential	101,626	New Lease
47266 & 47173 Benicia St	Fremont	Underwriters Laboratories	78,575	Renewal
590 E Middlefield Rd	Mountain View	Omnissa	74,691	New Lease
2151 Mission College Blvd	Santa Clara	Evocative	73,000	Renewal
1801 McCarthy Blvd	Milpitas	Supermicro	63,188	New Lease

KEY SALE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
Shoreline Business Park	Mountain View	Mission West Properties / Microsoft	643,622	\$330.0M / \$513
The Quad at Tasman	Santa Clara	TMG Partners / South Bay Development	410,409	\$51.0M / \$124
Sunnyvale Tech Commons	Sunnyvale	Travelers Insurance / Tidewater & Lennar	175,000	\$65.0M / \$371
3939 N First St	North San Jose	RMR Group / Max Gahrahmat	65,360	\$10.8M / \$165
198 Stauffer Blvd	South San Jose	Constellation Aires / Mario Cornejo	20,049	\$6.5M / \$325

R&D SUBMARKETS



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