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4Q24

# Silicon Valley R&D Market Overview

**NEWMARK**

# Market Observations

## Economy

- The region’s unemployment rate showed a slight improvement, decreasing from 4.3% in May to 4.2% in November. In contrast, the national unemployment rate increased from 4.0% to 4.2% over the same period. This decline suggests that while the broader U.S. labor market softened, Silicon Valley’s job market remained relatively stable, reflecting the region’s strength in key industries like technology.
- Employment in the trade, transportation, and utilities sector marginally contracted through November 2024, with a 10-basis point decrease from the previous month, yet a 170-basis point increase from the previous year. The overall economy remains in a slump, with November metrics recording -3.0% over 12-month growth projections. Despite overall contractions in the economy, the trade, transportation, and utilities industry flipped from negative growth to recording four consecutive months of positive 12-month growth projections.

## Major Transactions

- The R&D sector experienced a subdued quarter, with gross absorption reaching 1,904,819 square feet. This figure fell short of the six-year average of 2,030,131 square feet but reflected a 25.0% rise in total 2024 leasing activity compared to 2023, showcasing resilience in a challenging market.
- Intuitive Surgical extended their 212,899 square foot lease for an additional 43-month term at 3410-3420 Central Expressway Park in Santa Clara.
- Nvidia leased 134,218 square feet at 350 Cobalt Way in Sunnyvale on a direct basis.
- The Sony and Honda electric vehicle joint venture, Afeela, transacted upon 116,780 square feet across three buildings in the Auto Mall North submarket of Fremont.

## Leasing Market Fundamentals

- Vacancy continued to tick up, recording 12.7% in the fourth quarter, and increasing 20 basis points from the previous quarter. Despite eight previous quarters of consecutive vacancy rate increases, overall vacancy remains below the long-term average vacancy of 13.9%.
- Asking rent growth in Sunnyvale, San Jose, and Milpitas was not enough to maintain marketwide positive rental growth in terms of year-over-year percent change. Overall, the average asking rent decreased -2.8% year-over-year to \$2.88/SF on a NNN basis. Sunnyvale led the South Bay with a 6.3% year-over-year gain to \$3.60/SF on a NNN basis, while San Jose and Milpitas also posted growth of 1.3% and 1.9%, respectively. Sunnyvale’s incremental year-over-year gain can be attributed to 24,000 square feet of availability added at 1320 Kifer Road in Sunnyvale.

## Outlook

- While a few tenants have expanded their footprints in the region, a soft economy and elevated lease transaction lead times have created a neutral outlook on demand. More supply is expected to come online, which will drive short-term vacancy up, but offer additional options for prospective tenants.
- Despite overall declining growth in the information and manufacturing fields for the U.S., technological advancements in the R&D sector has a genesis in Silicon Valley. This, in turn, will spur development and employment growth for the Silicon Valley region and will aid in reversing otherwise negative U.S. R&D employment trends.
- According to Pitchbook data, the fourth quarter recorded \$6.9B of artificial intelligence capital investment, with \$5.6B capital appearing from Waymo’s series C. Venture capital investments in artificial intelligence will continue to expand through 2025, becoming a catalyst for R&D stabilization.

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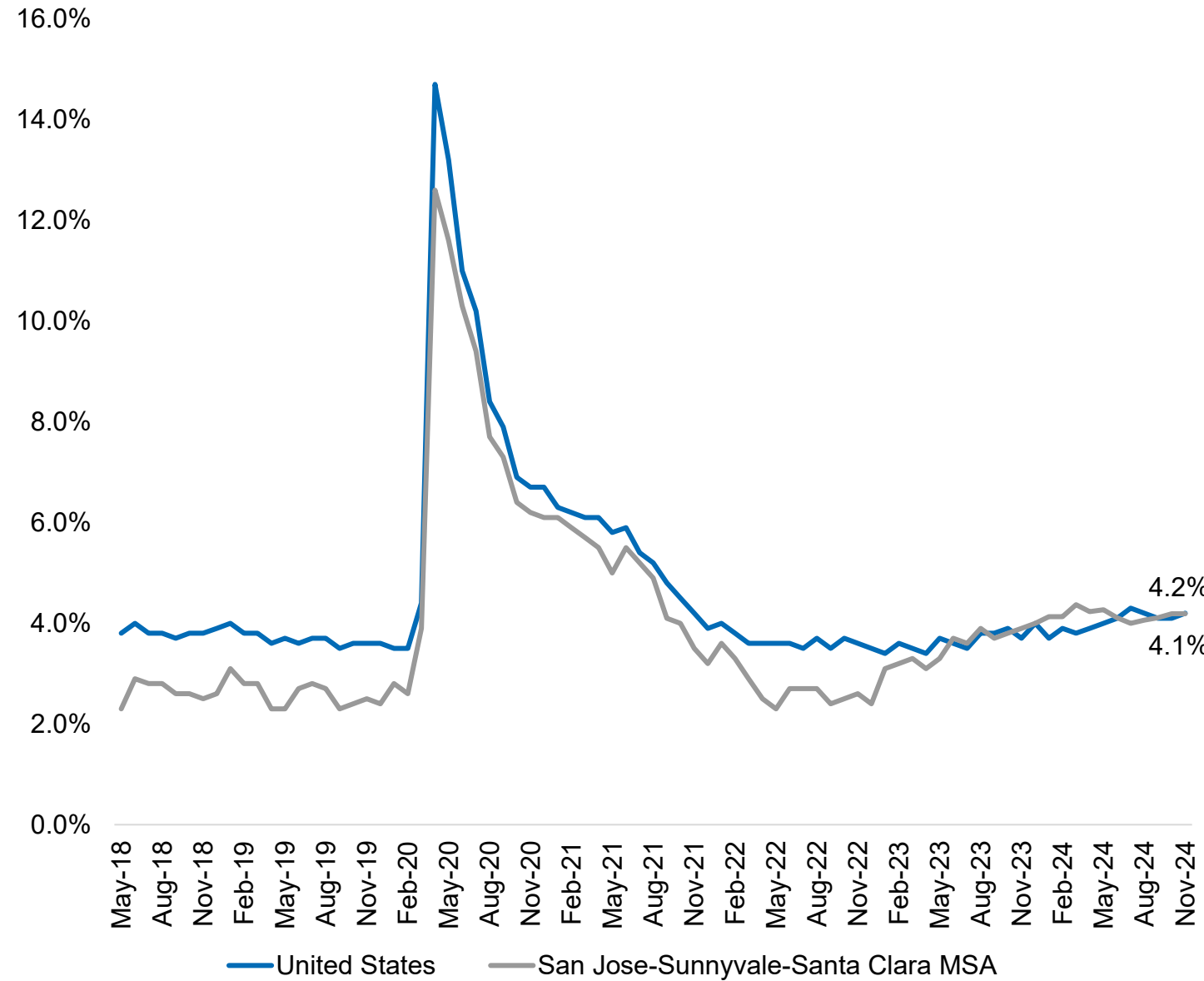
# Economy



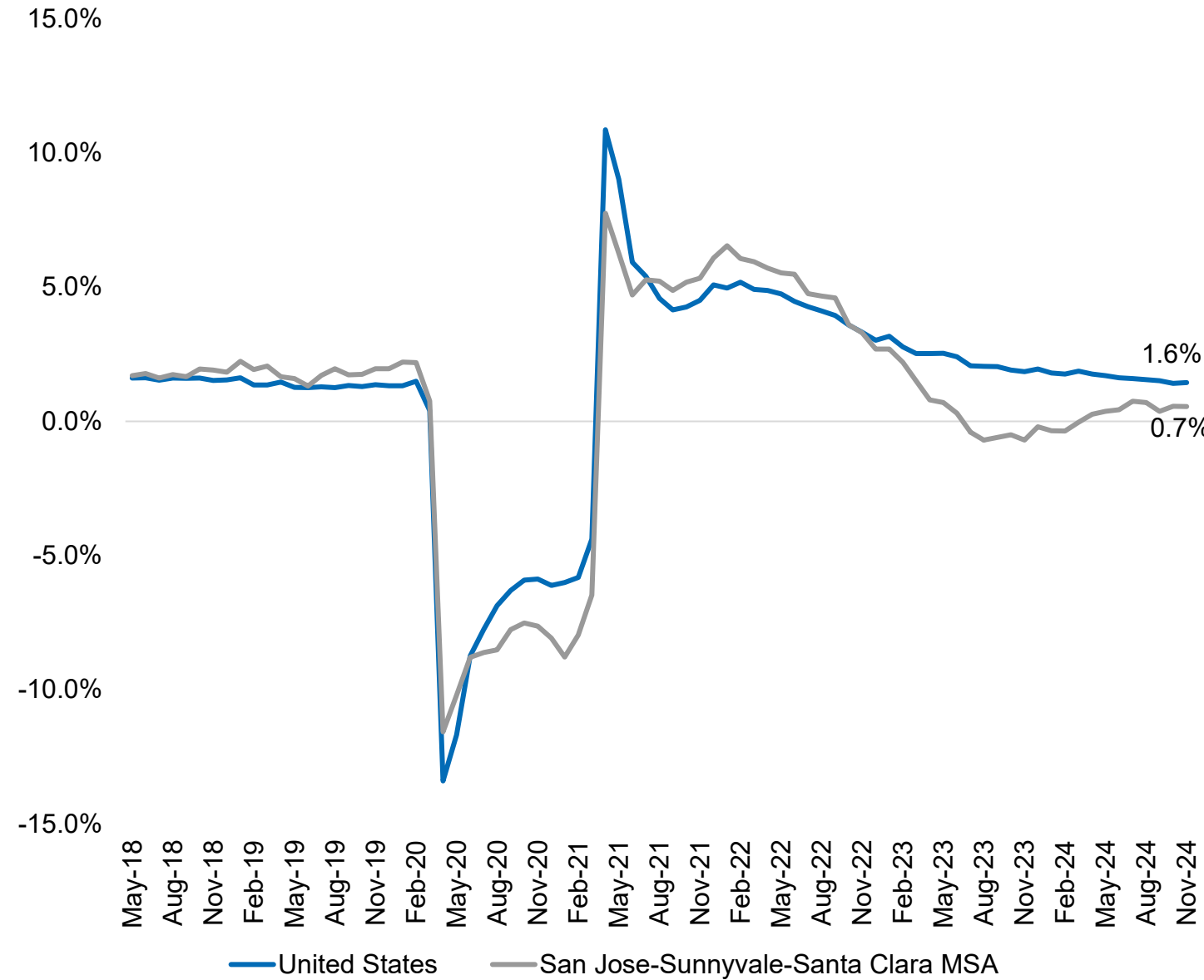
# Silicon Valley Labor Market Remains Stable Amid National Softening

In 2024, the San Jose-Sunnyvale-Santa Clara MSA unemployment rate showed improvement, which decreased from 4.3% in May to 4.2% in November. In contrast, the national unemployment rate increased from 4.0% to 4.2% over the same period. This suggests that while the broader U.S. labor market softened, Silicon Valley's job market remained relatively stable, reflecting the region's strength in key industries such as technology.

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

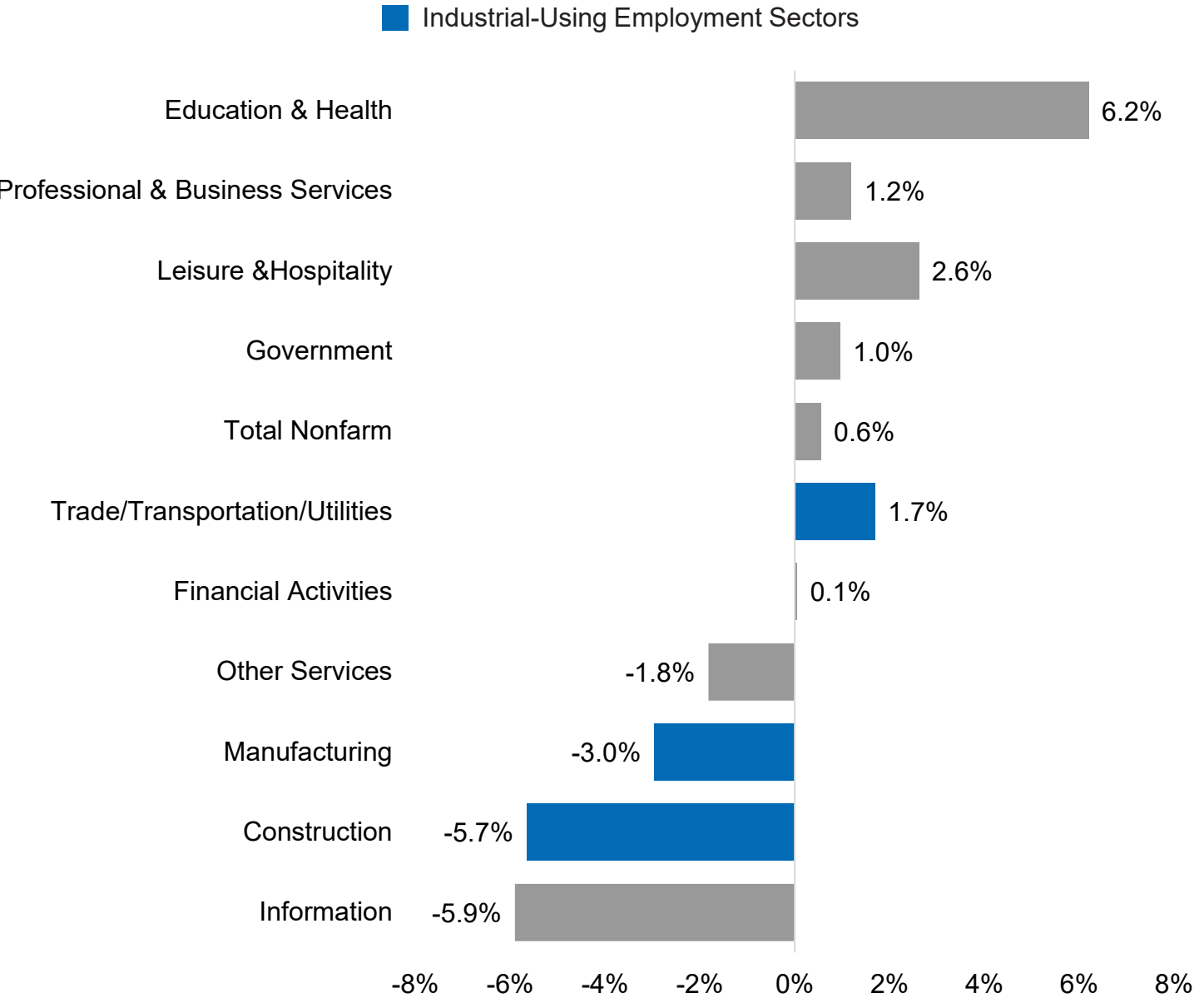
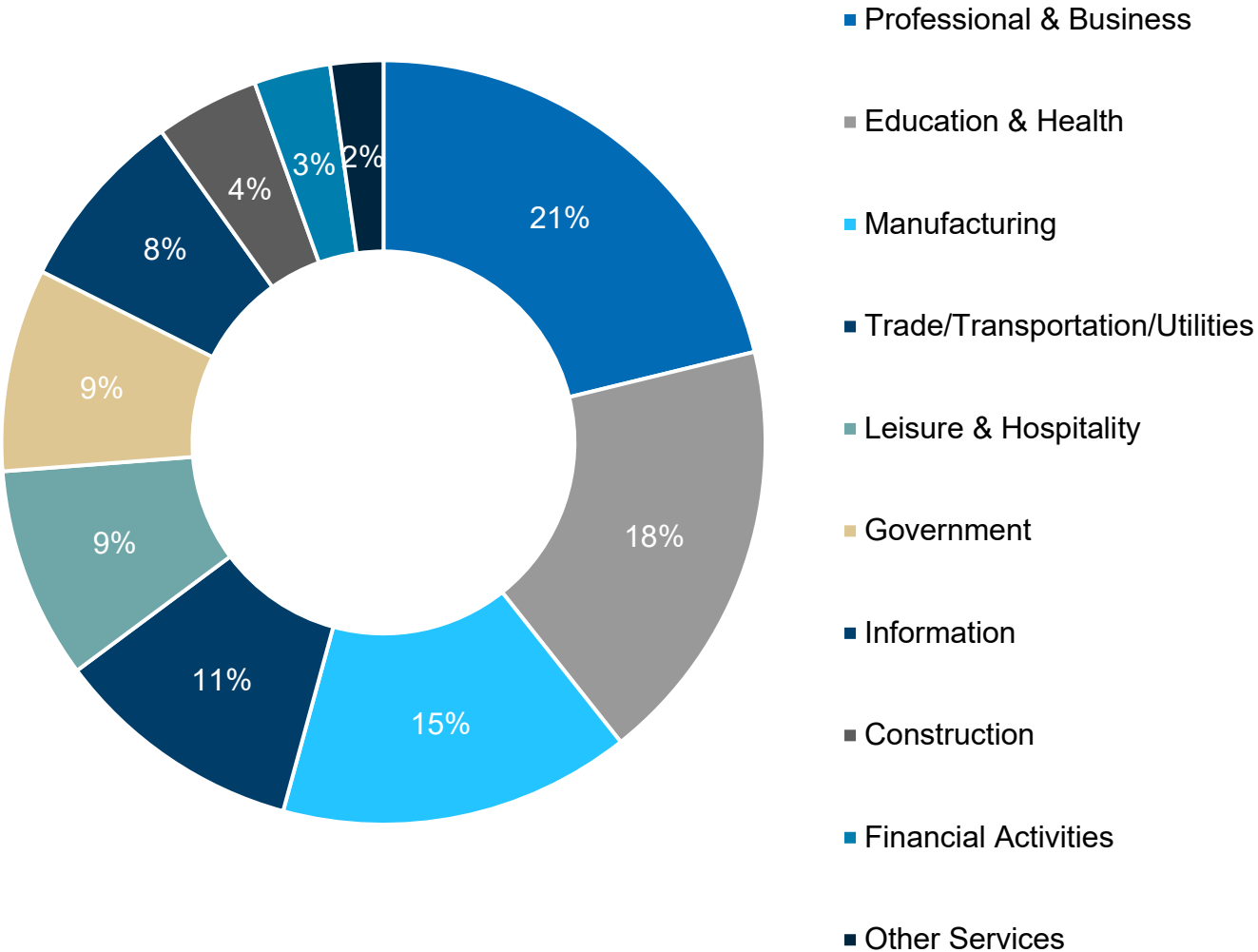


# Trade/Transportation/Utilities Added Jobs While the Manufacturing Sector Declined

Within the Industrial-Using employment sectors, Trade/Transportation/Utilities was the only sector to record year-over-year employment gains, increasing by 1.7%. Both Manufacturing and Construction recorded declines by -3.0% and -5.7% respectively. This indicates a shift in demand within industrial sectors, with Trade/Transportation/Utilities showing strength, while Manufacturing and Construction face challenges likely tied to broader economic factors or sector-specific headwinds.

Employment by Industry, November 2024

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

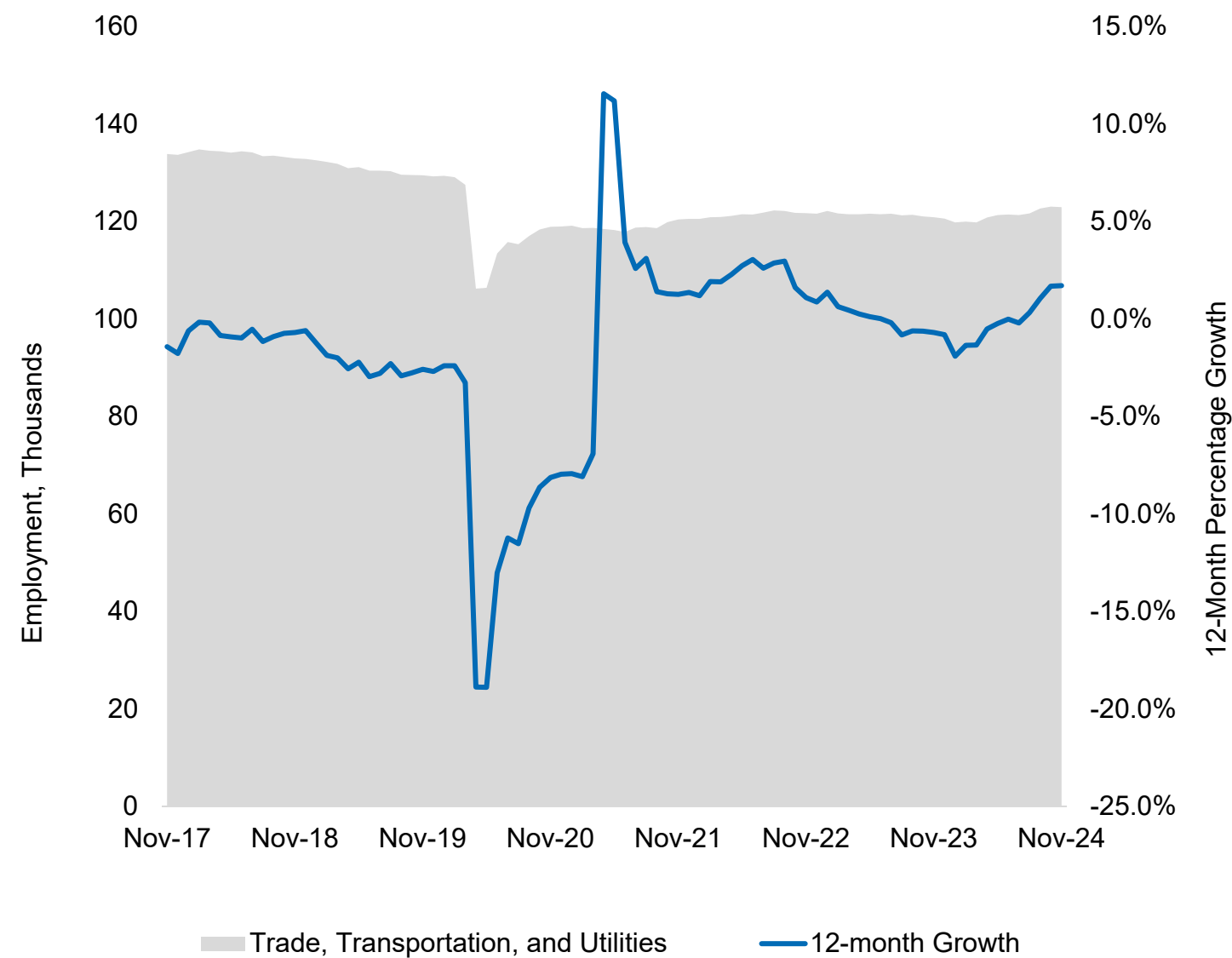


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

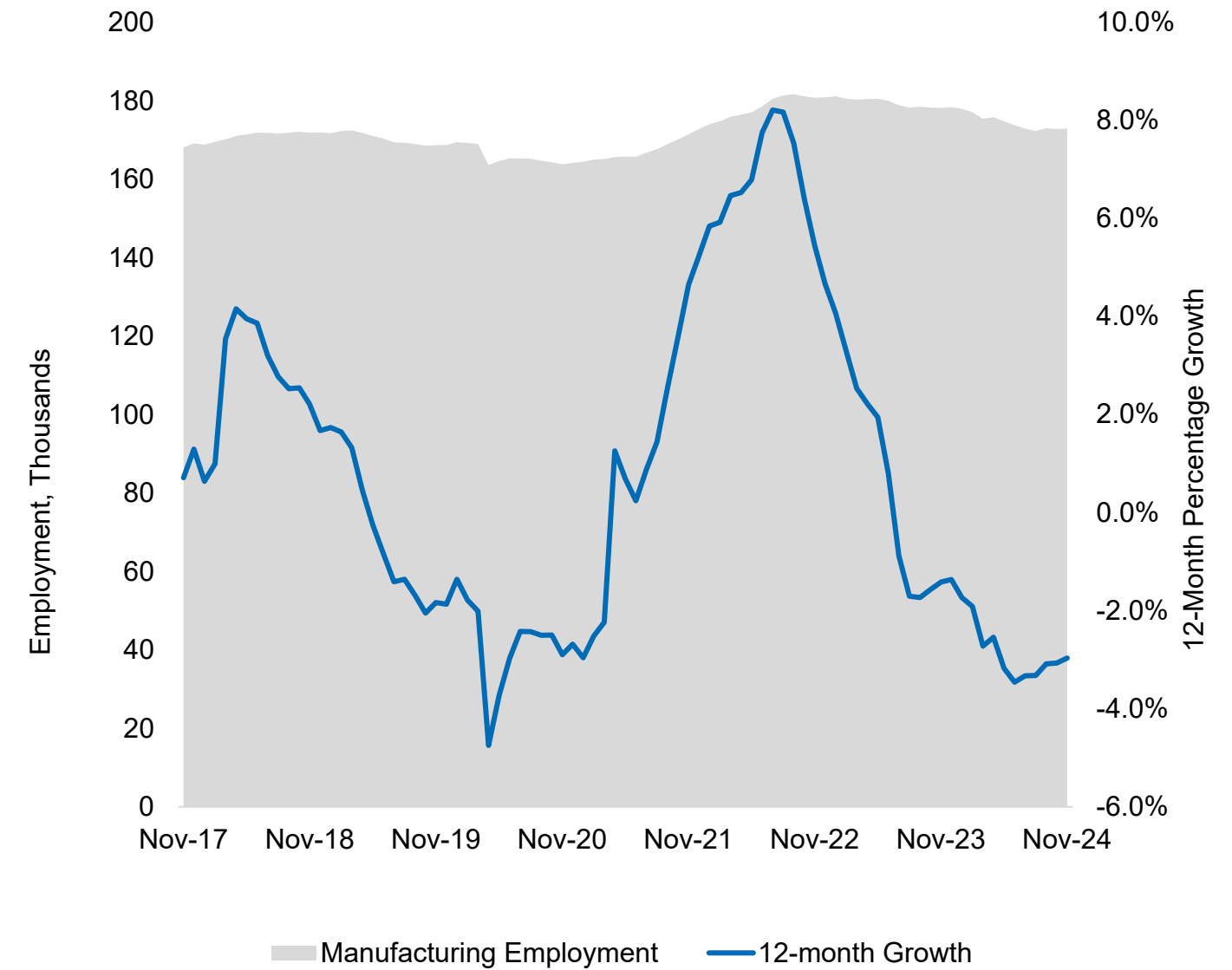
# Industrial/R&D Demand Drivers Show Improvement from Overall Economy

Employment in the Trade, Transportation, and Utilities sector marginally contracted through November 2024, with a 10-basis point decrease from the previous month, but represents a 170-basis point increase from the previous year. The overall economy remains in a slump, with November metrics recording -3.0% 12-month growth projections. Despite overall contractions in the economy, the trade, transportation, and utilities industry flipped from negative growth to recording four consecutive months of positive 12-month growth projections.

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



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# Leasing Market Fundamentals

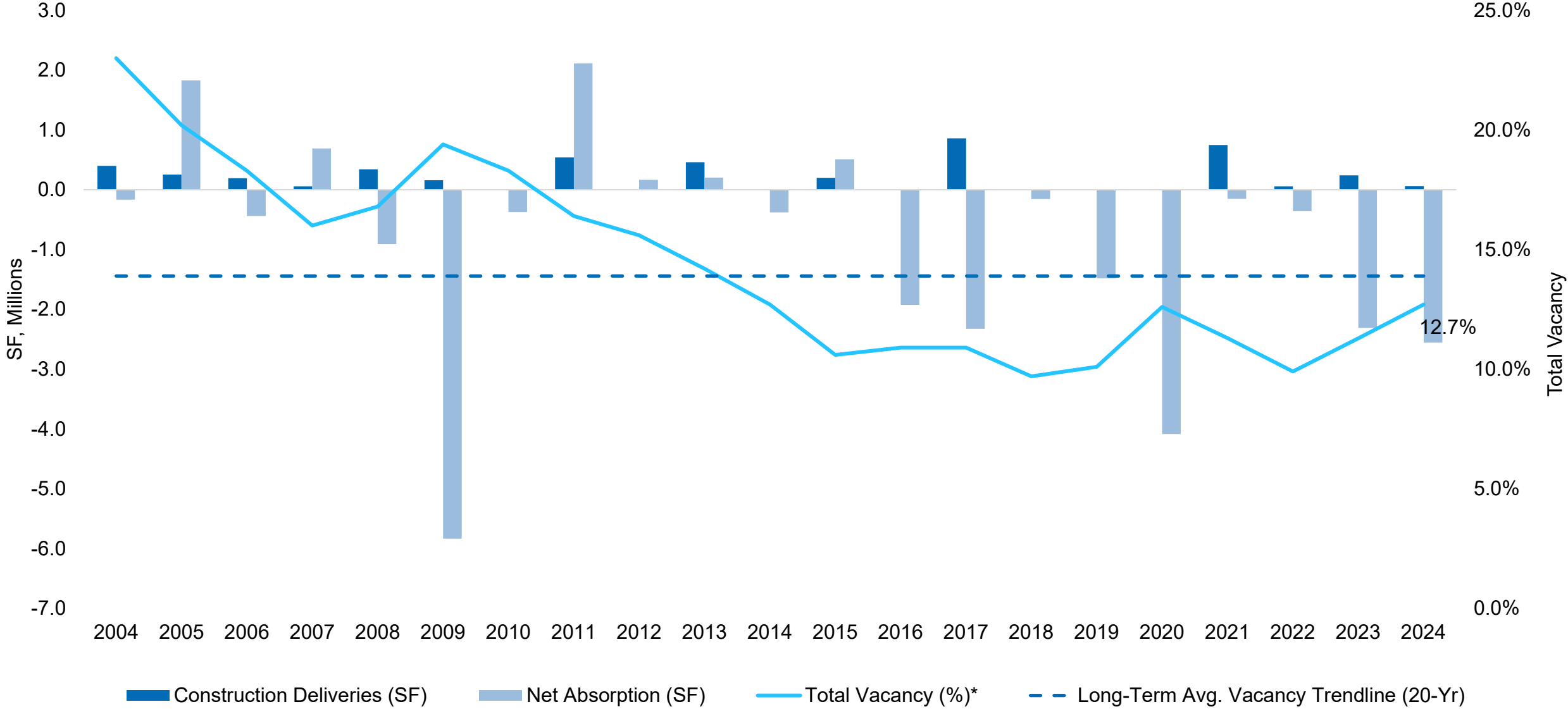




# Supply Continued to Outpace Demand

Although both direct and sublet space availability increased, sublet space increased by a marginal 10 basis points from the previous quarter, while direct space increased by 60 basis points during the same period. Vacancy continued to tick up, recording 12.7% in the fourth quarter, and increasing 20 basis points from the previous quarter. Despite the eight previous quarters of consecutive vacancy rate increases, overall vacancy still resides below the long-term average vacancy of 13.9%.

## Historical Construction Deliveries, Net Absorption, and Vacancy



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

# Underwhelming Quarterly Leasing Activity Closes a Strengthening Leasing Year

Although fourth-quarter leasing activity was 6.2% below the average, annual leasing for the year reached 8.8 msf, a sizable 25.0% increase from 2023. As technological advancements drive innovation, especially for companies based in Silicon Valley, demand for R&D space is expected to grow. Both specialized facilities and access to power remain critical factors for R&D tenants. For example, in Q4 Nvidia leased 350 Cobalt Way in Sunnyvale, a property offering an approximate 13,000 amps of power, a rare and desirable feature in Silicon Valley.



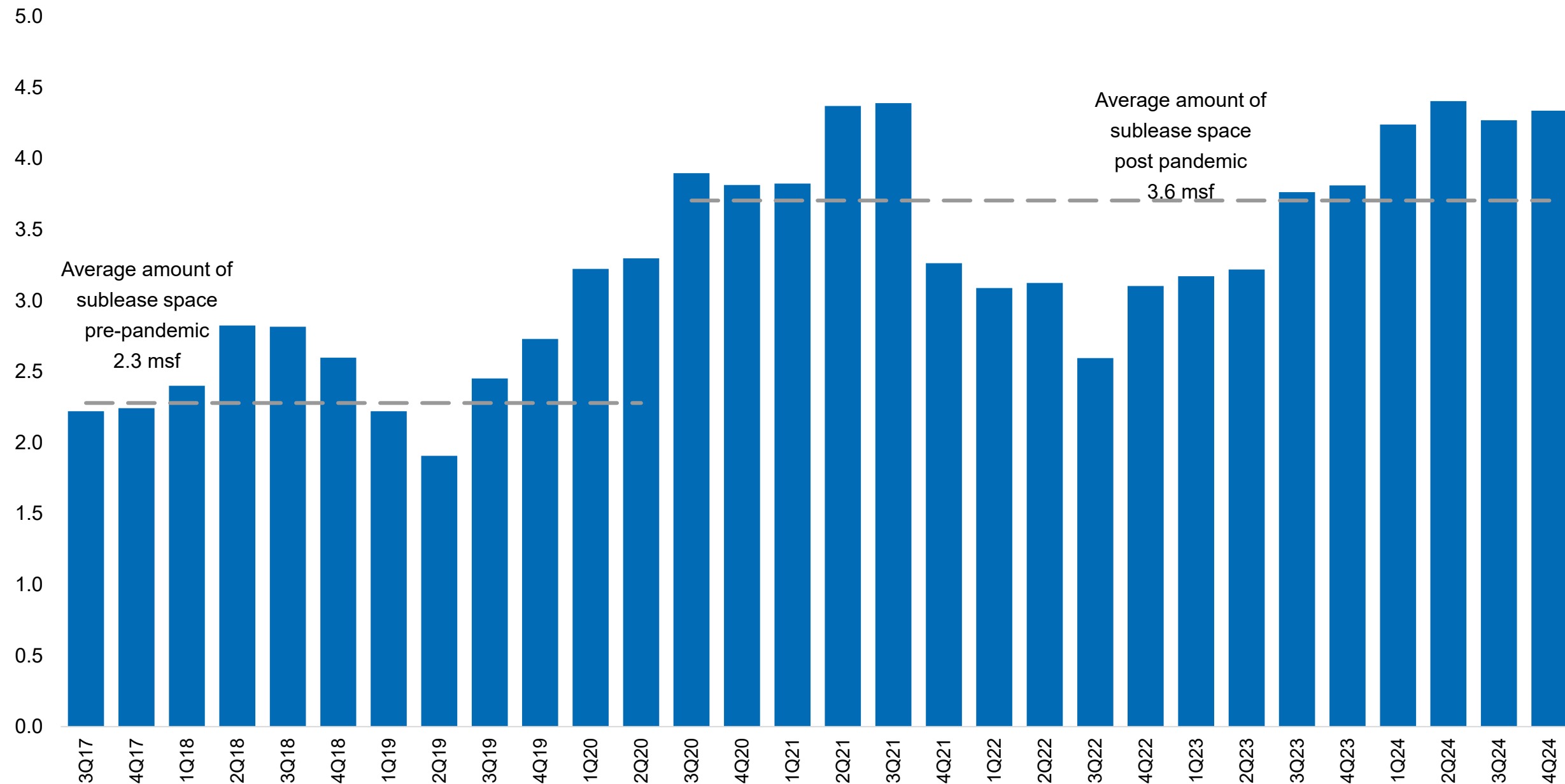
Source: Newmark Research, CoStar



# Elevated Sublease Availability Provides Opportunities to Tenants

As the fourth quarter closed, sublease availability remained persistent, outpacing post-pandemic average subleasing availability. Sublease availability is projected to remain elevated at 15.1% through 2025 as overall market availability remains above the average. Tenants who transact R&D spaces demand specialized features such as power and clean rooms and also desire long-term direct leasing. Short-term subleasing may prove challenging, which may cause a portion of current sublease availability to mature into direct space availability.

Available R&D Sublease Volume (msf)

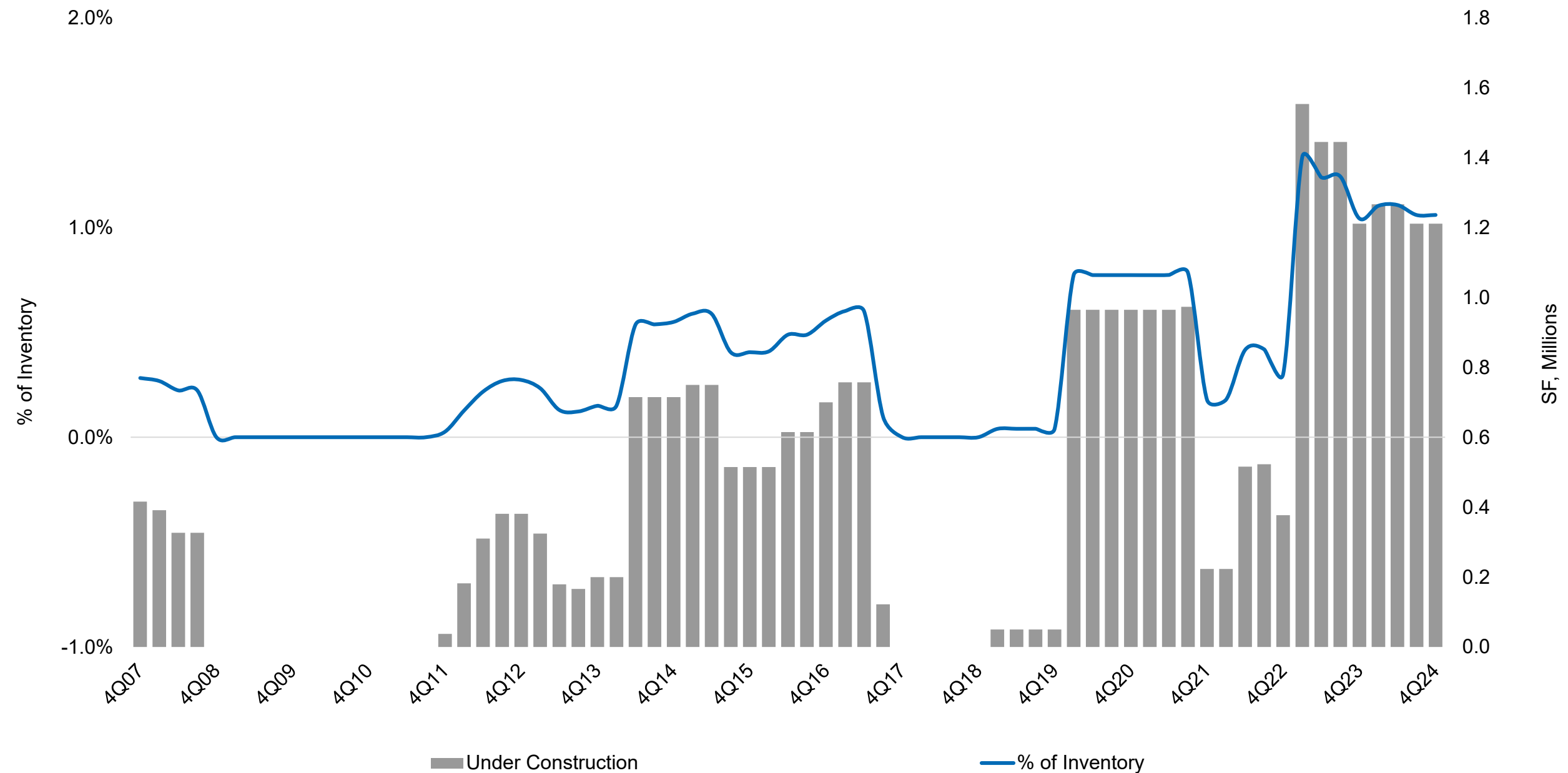


Source: Newmark Research, CoStar

# Intuitive Surgical Campus Delivery Delayed to Early 2025

An R&D campus is currently under construction in the South Bay and has experienced a delay to early 2025. The 1.2 million square foot Intuitive Surgical campus underway in Sunnyvale will consist of two three-story R&D buildings that will deliver in two phases. The first building, 950 Kifer Road, is slated to deliver in the first quarter of 2025 and will be 847,000 square feet. The delivery of the Intuitive Surgical campus will represent 1.1% of Silicon Valley's total R&D inventory.

## R&D Under Construction and % of Inventory



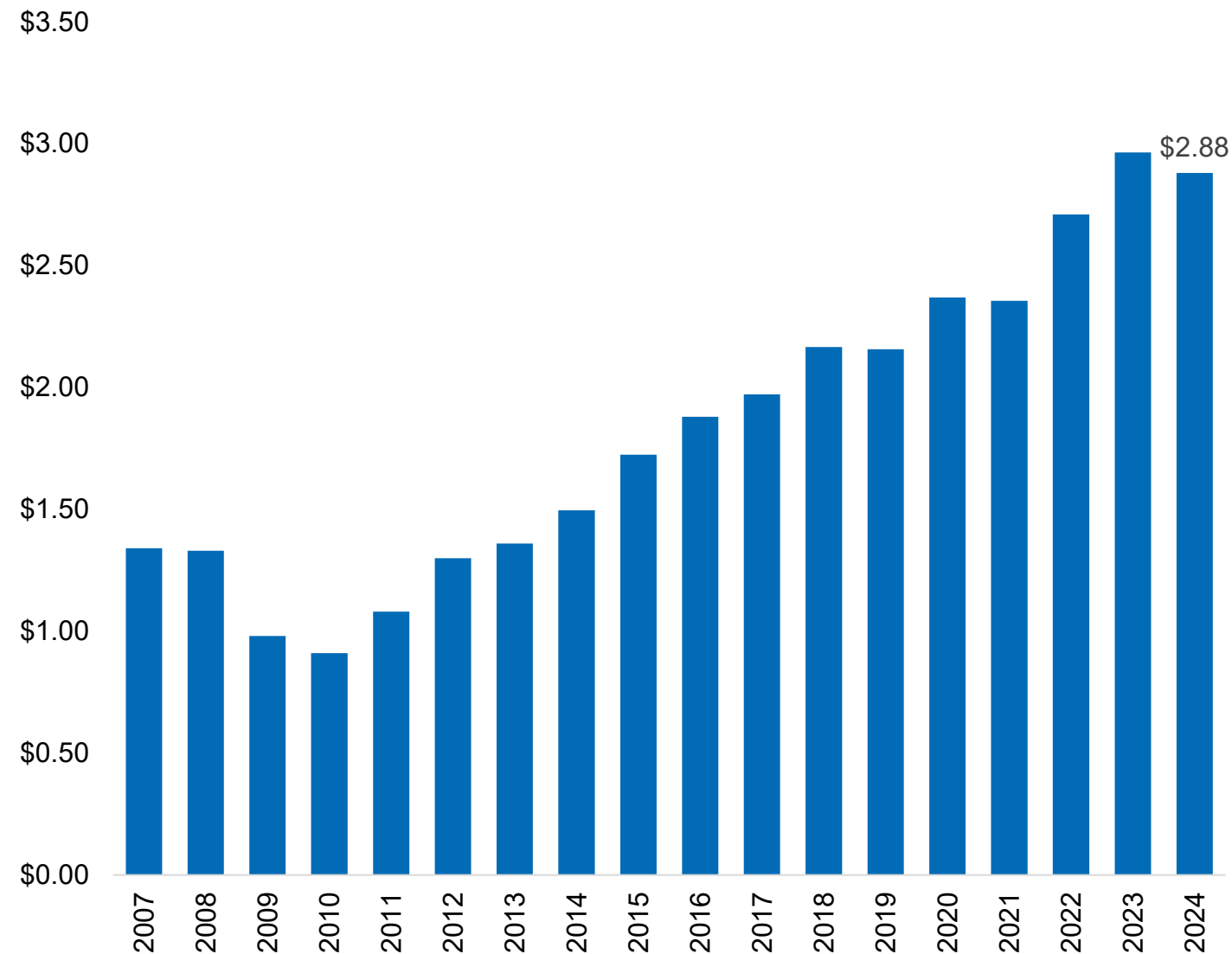
Source: Newmark Research, CoStar



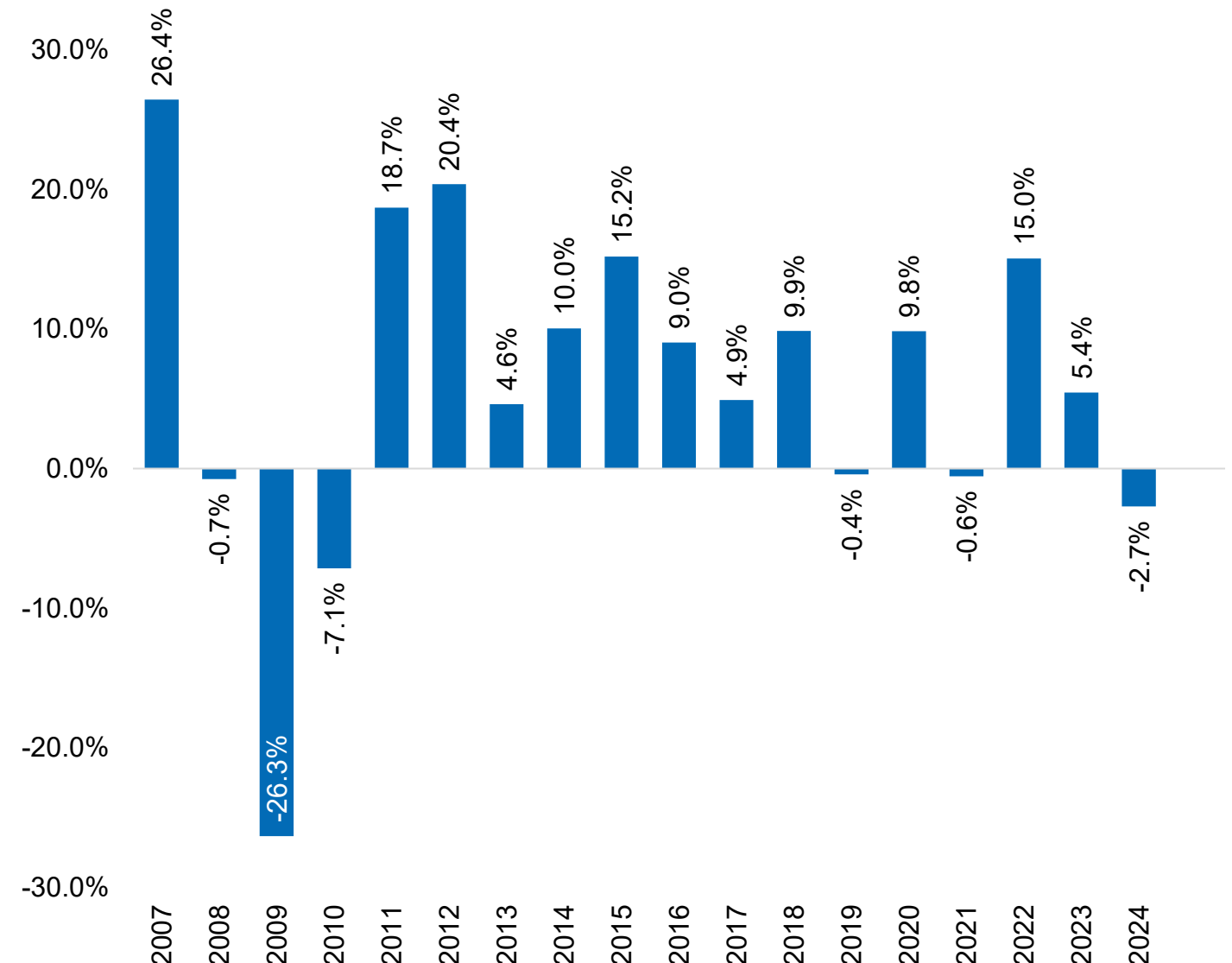
# Asking Rents Declined Both Quarter-Over-Quarter and Year-Over-Year

R&D asking rents posted a decrease of -2.7% year-over-over and ticked down in the fourth quarter of 2024 to \$2.88 psf NNN. This is a -0.4% decline in rents from the third quarter as available supply outpaced demand. Given the amount of available space on the market, it is possible that asking rents will remain flat to negative. The amount of available space saw a 4.2% quarter-over-quarter increase from 14.5% in the third quarter to 15.1% in the fourth quarter of 2024.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar





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# A Subdued Quarter to Complete an Otherwise Strong Leasing Year

The R&D sector experienced a subdued quarter, with gross absorption reaching just over 1.9 million square feet. This figure fell short of the six-year average of 2.0 million square feet but reflected a 25.0% rise in annual leasing activity compared to 2023, showcasing resilience in a challenging market. The fourth quarter had minimal subleases, recording a predominance of direct leases, renewals, and extensions. In Silicon Valley's R&D sector, direct leases are prevalent as highly specialized buildouts typically encourage tenants to pursue long-term direct leasing agreements, often including extensive tenant improvements and additional concessions to accommodate technological specializations.

## 4Q24 Top Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Intuitive Surgical	3410-3420 Central Expressway Park	Santa Clara – Central Expy. South	Lease Extension	212,899
<i>Lease Extension. Intuitive Surgical expanded their lease term, remaining in the same square footage, but extending the expiration out an additional 43 months to October 2030.</i>				
Nvidia	350 Cobalt Way	Sunnyvale – Oakmead	Direct Lease	134,218
<i>New Lease. Nvidia, the AI and GPU computing powerhouse, leased 350 Cobalt Way on a direct basis.</i>				
Afeela	40440-40971 Encyclopedia Circle & 6120 Stevenson Blvd.	Fremont – Auto Mall North	Direct Lease	116,780
<i>New lease. The Sony and Honda electric vehicle joint venture, Afeela, took a combined 116,780 square feet across three buildings in the Auto Mall North submarket of Fremont.</i>				
F5 Networks Inc.	3545 N. First Street & 30 Rio Robles	San Jose – North	Lease Renewal	112,719
<i>Renewal. F5 Networks, a cloud security company, did a long-term renewal across two buildings, pushing out their expiration into the fourth quarter of 2035.</i>				
Confidential	3940-3950 N. First Street	San Jose - North	Direct Lease	107,892
<i>Direct Lease. A confidential client leased two buildings for a combined 107,892 square feet at the Assembly at North First on a direct basis.</i>				



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# Appendix/Tables



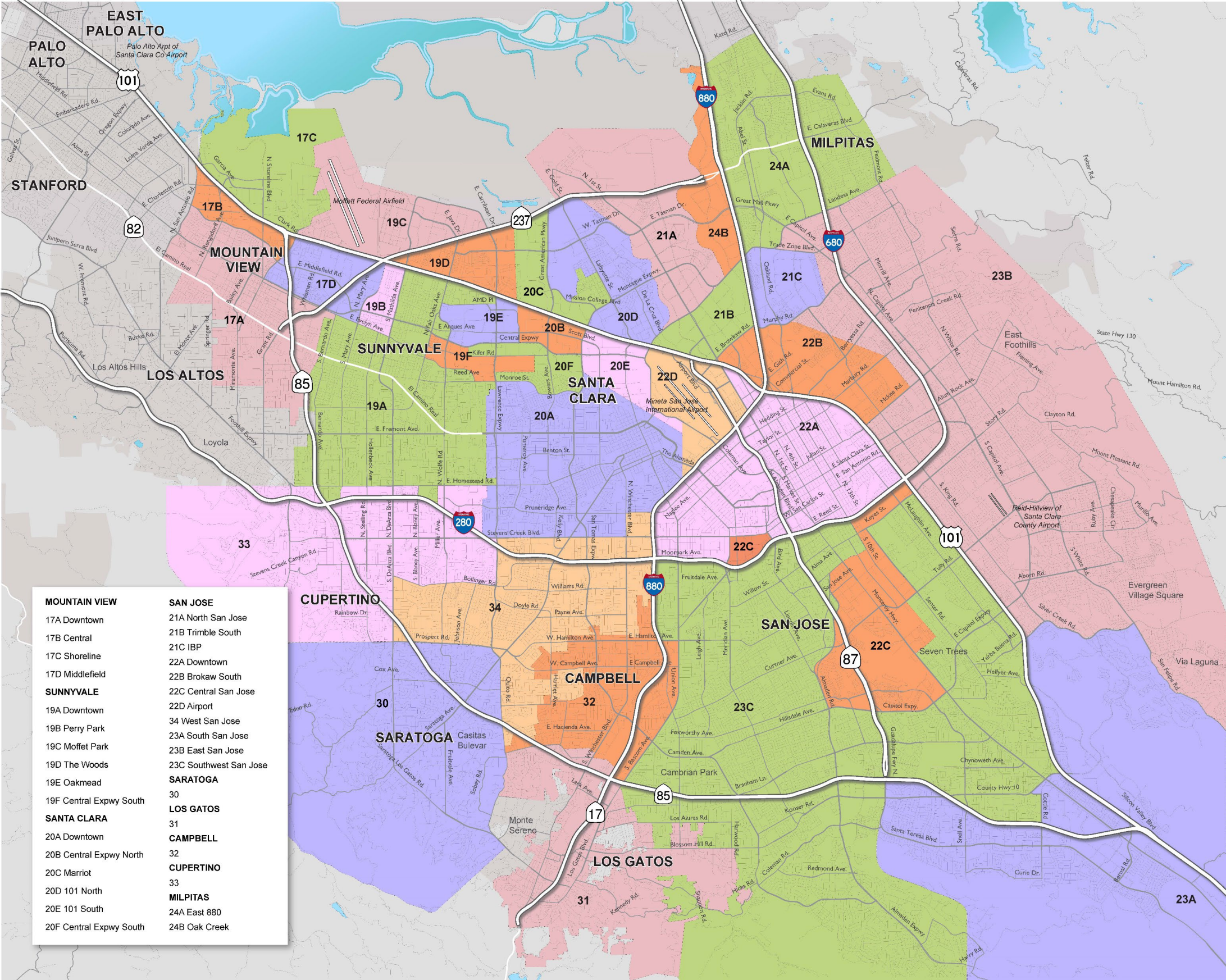




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# Silicon Valley – Submarket Map



<b>MOUNTAIN VIEW</b>	<b>SAN JOSE</b>
17A Downtown	21A North San Jose
17B Central	21B Trimble South
17C Shoreline	21C IBP
17D Middlefield	22A Downtown
<b>SUNNYVALE</b>	22B Brokaw South
19A Downtown	22C Central San Jose
19B Perry Park	22D Airport
19C Moffet Park	34 West San Jose
19D The Woods	23A South San Jose
19E Oakmead	23B East San Jose
19F Central Expy South	23C Southwest San Jose
<b>SANTA CLARA</b>	<b>SARATOGA</b>
20A Downtown	30
20B Central Expy North	<b>LOS GATOS</b>
20C Marriot	31
20D 101 North	<b>CAMPBELL</b>
20E 101 South	32
20F Central Expy South	<b>CUPERTINO</b>
	33
	<b>MILPITAS</b>
	24A East 880
	24B Oak Creek



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