RESEARCH 4Q 2020

Silicon Valley R&D Market

Vacancy Continues to Rise Despite Increased Leasing Activity

Silicon Valley's R&D market saw another quarter in which many large availabilities hit the market, which kept net absorption negative for the eighth consecutive quarter. These availabilities also pushed the overall vacancy rate up by 0.35 percentage points to 12.57%, the highest it has been since 2014. While net absorption stayed below zero at negative 733,661 square feet, this number is the most positive it has been since the first quarter of the year. Gross absorption showed improvement as well, posting its highest number since the fourth quarter of 2019, with 1,742,914 square feet. This shows that the negative absorption this quarter is due to a large increase in new availability and not a decrease in overall leasing activity. The overall asking rate decreased very slightly to $2.37/SF but is still much higher than historical asking rates.

Submarket Breakdown

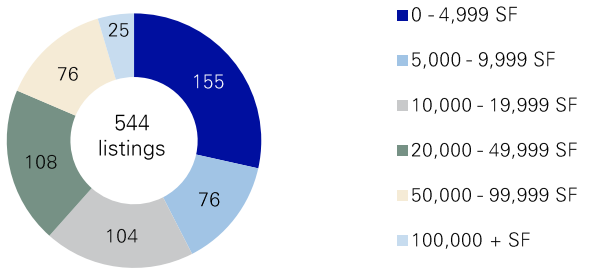
Of the 10 cities tracked in Silicon Valley's R&D market, only three cities posted positive net absorption. On the other hand, a few cities still showed encouraging signs and strong leasing activity. Sunnyvale and San Jose saw the most leasing activity, with 480,296 square feet and 475,053 square feet of gross absorption, respectively.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Vacancy Rate	12.6%	12.2%	10.1%	↓
Qtr Net Absorption	-734K SF	-2.0M SF	-127K SF	↑
Qtr Gross Absorption	1.7M SF	1.5M SF	2.6M SF	↑
Avg NNN Asking Rent	$2.37	$2.39	$2.16	↓
Under Construction	8.4M SF	8.4M SF	0 SF	←→

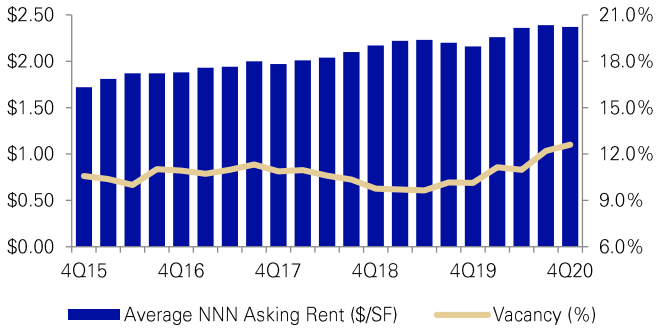
Market Analysis

LEASE VACANCY BREAKDOWN

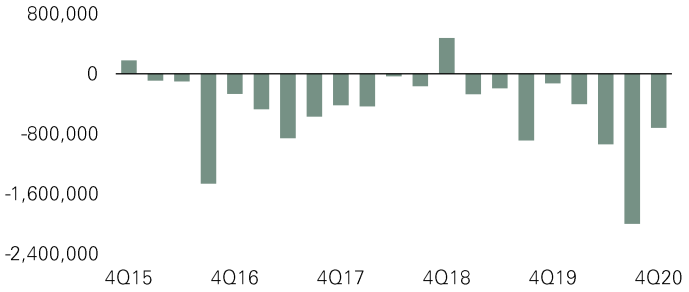


Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



While this wasn't enough to keep either city's net absorption positive, it's a positive sign that these two major cities are still seeing a high leasing velocity. Santa Clara saw the most negative net absorption, posting negative 287,668 square feet. This primarily came from the Marriott Park and Central Expressway North submarkets, where a few large availabilities hit the market. Newark had a strong quarter, with 47,002 square feet of net absorption, the highest of any submarket. Newark also saw the largest decrease in vacancy rate, which dropped 1.53 percentage points to 7.92%.

Significant Transactions

The R&D leasing market saw an increased number of large deals this quarter, with three deals over 100,000 square feet. The largest of these deals was a 185,097-square-foot renewal/expansion signed by Cepheid across three buildings on Chesapeake Terrace in Sunnyvale.

Facebook signed the second-largest lease deal this quarter, expanding on its large footprint in Fremont with a 115,000-square-foot deal at 6750 Dumbarton Circle. The next-largest deal was signed by GAF Energy, who took 110,542 square feet at 5981 Optical Court in South San Jose. Cytek Biosciences rounded out the top deals list this quarter, signing 95,000 square feet at 47211 Lakeview Boulevard in Fremont.

The R&D investment market was highly active this quarter, with three massive deals over 300,000 square feet closing. The largest investment deal this quarter was signed by Swift Real Estate Partners, who acquired a seven-building, 383,747-square-foot project on Results Way in Cupertino. The project is fully leased by Apple and sold for $346 million, or about $901/SF. The next-largest investment deal was a three-building sale at Tasman Drive and Rio Robles in San Jose, totaling 317,612 square feet. The trio of buildings sold for $160 million, which comes out to approximately $503/SF. The third-largest deal was a 313,740-square-foot project at 1230-1280 E Arques Avenue in Sunnyvale.

Select Lease/User Transactions

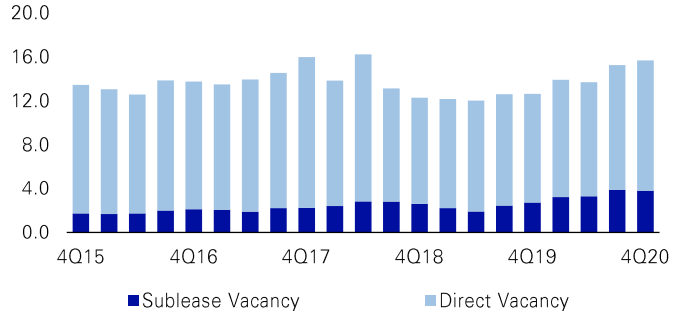
Tenant	Building(s)	Submarket	Type	Square Feet
Cepheid	1315-1327 Chesapeake Terrace	Sunnyvale - Moffett Park	Renewal/Expansion	185,097
Facebook	6750 Dumbarton Circle	Fremont - Ardenwood	Direct Lease	115,000
GAF Energy	5981 Optical Court	San Jose - South	Direct Lease	110,542
Cytek Biosciences, Inc.	47211 Lakeview Blvd	Fremont - Bayside	Direct Lease	95,000
Smart Modular Technologies	39870 Eureka Drive	Newark	Lease Renewal	79,480

Select Investment Sale Transactions

Building(s)	Submarket	Reported Sale Price	Approx. $/SF	Square Feet
Results Way (Portfolio)	Cupertino	$346,000,000	$901.64	383,747
Rio Robles/Tasman Drive (Portfolio)	San Jose - North	$160,000,000	$503.76	317,612
1230-1280 E Arques Avenue	Sunnyvale - Oakmead	$104,000,000	$332.32	313,740
1710 Automation Parkway	San Jose - IBP	$36,175,000	$183.96	196,647
5941-5945 Optical Court	San Jose - South	$51,500,000	$381.00	135,000

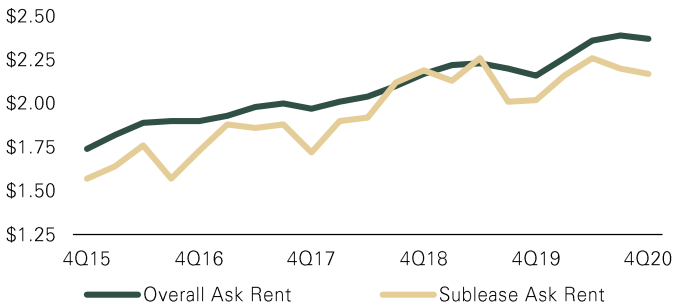
Vacancy Breakdown

SQUARE FEET, MILLIONS



Asking Rents

WEIGHTED, NNN, MONTHLY



Overall Submarket Statistics

	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Sublease Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
Campbell	**1,711,964**	**111,724**	**12,175**	**6.53%**	**0.71%**	**25,682**	**1,033**	**$2.54**
Cupertino	**2,662,186**	**13,200**	**13,200**	**0.50%**	**0.50%**	**0**	**0**	**$4.50**
Fremont	**19,751,872**	**1,761,540**	**351,374**	**8.92%**	**1.78%**	**393,045**	**-180,797**	**$1.39**
Mission South	5,612,271	574,149	72,061	10.23%	1.28%	34,620	-125,787	$1.16
Warm Springs	879,979	115,528	8,528	13.13%	0.97%	0	0	$0.12
Mission North	1,306,007	198,165	0	15.17%	0.00%	56,500	0	$1.27
Bayside	7,897,518	650,825	91,337	8.24%	1.16%	186,925	20,017	$1.58
Auto Mall North	1,426,795	48,846	5,421	3.42%	0.38%	0	0	$1.06
Ardenwood	2,629,302	174,027	174,027	6.62%	6.62%	115,000	-75,027	$2.46
Los Gatos	**424,711**	**73,856**	**0**	**17.39%**	**0.00%**	**46,871**	**-73,856**	**$2.95**
Milpitas	**13,578,303**	**2,511,440**	**345,068**	**18.50%**	**2.54%**	**90,323**	**-5,151**	**$2.14**
East 880	6,215,759	593,096	7,300	9.54%	0.12%	33,033	-11,532	$1.92
Oak Creek	7,362,544	1,918,344	337,768	26.06%	4.59%	57,290	6,381	$2.22
Mountain View	**10,546,361**	**819,857**	**288,009**	**7.77%**	**2.73%**	**30,362**	**2,382**	**$4.41**
Downtown	0	0	0	0.00%	0.00%	0	0	$0.00
Central	1,728,265	111,147	50,214	6.43%	2.91%	1,500	-19,080	$3.86
Shoreline	4,371,110	63,910	44,210	1.46%	1.01%	21,862	21,862	$5.17
Middlefield	4,446,986	644,800	193,585	14.50%	4.35%	7,000	-400	$4.41
Newark	**3,088,407**	**244,709**	**151,929**	**7.92%**	**4.92%**	**129,661**	**47,002**	**$1.69**
San Jose	**36,540,260**	**6,627,808**	**2,006,288**	**18.14%**	**5.49%**	**475,053**	**-195,562**	**$2.26**
North	16,611,174	3,837,092	1,225,152	23.10%	7.38%	174,010	-10,543	$2.44
Trimble South	4,054,511	1,000,856	414,523	24.68%	10.22%	58,683	-184,521	$2.18
Int'l Business Park	7,578,308	829,530	30,819	10.95%	0.41%	36,124	-103,817	$1.74
Brokaw South	712,259	72,043	21,733	10.11%	3.05%	0	-41,943	$1.83
Central	488,652	0	0	0.00%	0.00%	0	0	$0.00
South	7,095,356	888,287	314,061	12.52%	4.43%	206,236	145,262	$2.11
Santa Clara	**16,993,665**	**2,234,226**	**365,870**	**13.15%**	**2.15%**	**71,621**	**-287,668**	**$2.53**
Central Expy N	3,121,299	285,478	42,180	9.15%	1.35%	16,475	-82,119	$3.35
Marriott Park	4,619,150	1,353,902	225,515	29.31%	4.88%	50,138	-120,042	$2.61
101 North	1,379,121	131,214	46,064	9.51%	3.34%	0	-44,926	$1.35
101 South	4,361,063	307,772	52,111	7.06%	1.19%	5,008	-40,581	$2.00
Central Expy S	3,513,032	155,860	0	4.44%	0.00%	0	0	$2.47
Sunnyvale	**19,526,101**	**1,288,384**	**279,075**	**6.60%**	**1.43%**	**480,296**	**-41,044**	**$2.91**
Peery Park	4,333,321	275,448	135,911	6.36%	3.14%	0	-20,358	$3.92
Moffett Park	5,223,167	233,630	46,901	4.47%	0.90%	267,217	-35,923	$2.45
The Woods	1,804,972	134,044	32,450	7.43%	1.80%	47,228	-3,354	$2.55
Oakmead	5,691,429	607,074	63,813	10.67%	1.12%	107,796	9,444	$2.67
South Central	2,473,212	38,188	0	1.54%	0.00%	58,055	9,147	$3.30
Silicon Valley	**124,823,830**	**15,686,744**	**3,812,988**	**12.57%**	**3.05%**	**1,742,914**	**-733,661**	**$2.37**

Historical Vacancy Rates

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Silicon Valley	**9.71%**	**9.65%**	**10.16%**	**10.13%**	**11.15%**	**10.98%**	**12.22%**	**12.57%**
Campbell	7.92%	7.46%	6.72%	5.92%	10.05%	7.29%	6.59%	6.53%
Cupertino	1.25%	1.12%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Fremont	7.22%	7.53%	8.02%	8.16%	9.38%	7.43%	8.06%	8.92%
Los Gatos	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	17.39%
Milpitas	18.24%	19.60%	18.19%	18.02%	17.99%	17.50%	18.46%	18.50%
Mountain View	6.86%	6.65%	5.71%	5.37%	6.22%	6.87%	8.28%	7.77%
Newark	7.01%	6.31%	8.62%	8.07%	9.63%	3.38%	9.45%	7.92%
San Jose	14.50%	13.90%	15.26%	15.29%	15.78%	16.21%	17.86%	18.14%
Santa Clara	5.27%	5.34%	7.65%	8.18%	11.08%	10.89%	11.77%	13.15%
Sunnyvale	4.77%	4.35%	3.79%	3.45%	4.27%	5.72%	6.85%	6.60%

Historical NNN Asking Rents

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Silicon Valley	**$2.22**	**$2.23**	**$2.20**	**$2.16**	**$2.26**	**$2.36**	**$2.39**	**$2.37**
Campbell	$2.35	$2.24	$2.29	$2.55	$2.81	$2.62	$2.36	$2.54
Cupertino	$2.88	$2.84	$2.45	$2.45	$2.45	-	$4.50	$4.50
Fremont	$1.47	$1.43	$1.40	$1.39	$1.42	$1.43	$1.48	$1.39
Los Gatos	-	-	-	-	-	-	-	$2.95
Milpitas	$1.94	$1.94	$1.94	$1.97	$2.08	$2.08	$2.17	$2.14
Mountain View	$4.57	$4.43	$4.20	$4.16	$4.57	$4.67	$4.34	$4.41
Newark	$2.26	$2.27	$2.12	$2.08	$1.96	$1.66	$1.77	$1.69
San Jose	$2.20	$2.26	$2.19	$2.09	$2.13	$2.17	$2.17	$2.26
Santa Clara	$1.96	$2.02	$2.44	$2.36	$2.55	$2.65	$2.58	$2.53
Sunnyvale	$2.65	$2.70	$2.50	$2.42	$2.87	$3.02	$2.97	$2.91

Historical Net Absorption

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Silicon Valley	**-271,841**	**-194,278**	**-888,988**	**-127,292**	**-405,834**	**-941,359**	**-2,003,509**	**-733,661**
Campbell	-386	7,736	12,368	-30,229	70,605	47,180	4,568	1,033
Cupertino	0	3,622	16,490	0	0	0	0	0
Fremont	62,826	-73,252	-262,339	-90,986	-22,923	214,381	-173,109	-180,797
Los Gatos	0	0	0	0	0	0	0	-73,856
Milpitas	-92,189	-241,662	181,381	20,191	39,023	-63,129	-290,782	-5,151
Mountain View	-49,780	-63,308	99,018	25,160	-104,918	-121,099	-211,460	2,382
Newark	43,517	21,367	-90,873	0	88,639	98,954	-156,369	47,002
San Jose	-73,587	207,976	-492,402	36,535	229,690	-859,379	-777,379	-195,562
Santa Clara	-55,248	-67,098	-373,590	-180,545	-497,957	-47,972	-191,609	-287,668
Sunnyvale	-106,994	10,341	20,959	92,582	-207,993	-210,295	-207,369	-41,044

Historical Gross Absorption

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Silicon Valley	**2,471,984**	**2,517,743**	**2,024,983**	**2,575,910**	**1,454,226**	**1,396,258**	**1,503,684**	**1,742,914**
Campbell	53,795	20,379	29,485	13,771	0	93,880	142,713	25,682
Cupertino	0	3,622	16,490	0	29,616	3,622	45,410	0
Fremont	276,900	409,189	284,677	668,847	331,755	465,274	267,466	393,045
Los Gatos	0	0	0	0	0	24,363	0	46,871
Milpitas	125,430	231,073	287,155	188,720	133,307	23,132	144,647	90,323
Mountain View	132,154	335,537	235,377	74,738	73,878	13,650	63,940	30,362
Newark	43,517	27,787	65,150	1,320	0	204,127	35,516	129,661
San Jose	936,426	1,024,143	611,191	904,003	616,607	432,103	618,196	475,053
Santa Clara	439,278	157,711	197,711	460,526	202,574	114,673	57,910	71,621
Sunnyvale	464,484	308,302	297,747	263,985	66,489	21,434	127,886	480,296

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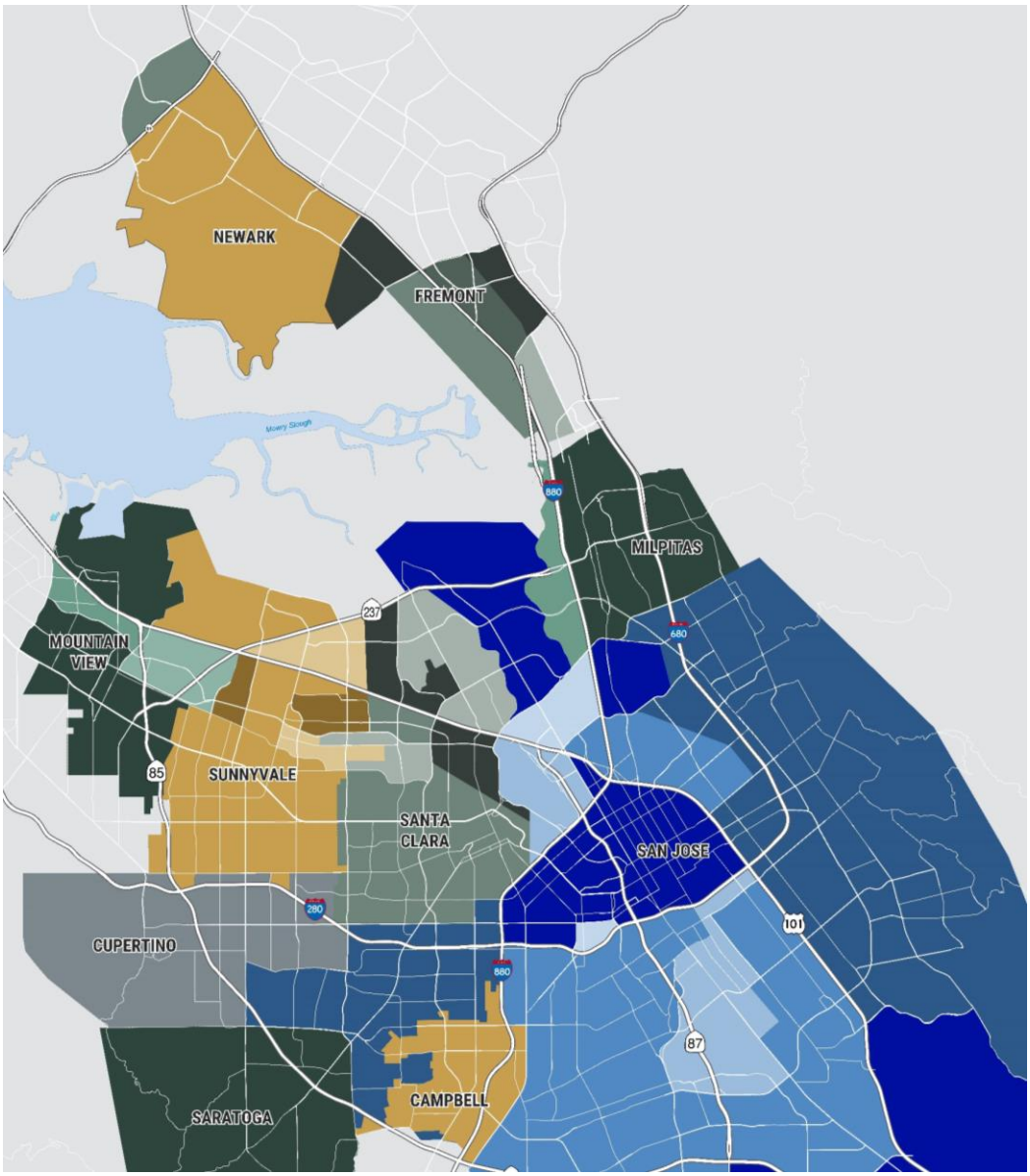

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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