

MARKET FUNDAMENTALS

	YOY Chg	Outlook
12.0% Vacancy Rate	▼	▼
-204K YTD Net Absorption, SF	▲	▲
\$2.99 Asking Rent, PSF (Overall, Net Asking Rent)	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.18M San Jose MSA Employment*	▲	■
3.8% San Jose MSA Unemployment Rate*	▼	▲
4.2% U.S. Unemployment Rate	▼	▲

Source: BLS
*Q3 2026 figures are based on latest available data

VENTURE CAPITAL FUNDING DROPS, THOUGH STILL IMPRESSIVE

For the San Jose MSA, the unemployment rate dropped 60 basis points (bps) year-over-year (YOY) closing at 3.8%, while nonfarm employment increased by 18,300 jobs over the same period. Despite these positive numbers, office jobs, particularly within the tech sector, continued to record layoffs in the third quarter, totaling just over 2,200 lost positions.

Venture capital funding into Santa Clara County-based companies closed the third quarter at \$14.1 billion (B) in 199 deals, down in both dollars and deals from \$21.2B in 217 deals in the second quarter. That said, funding remains significantly elevated, with the year-to-date figure closing at \$43.1B. The largest deals in the third quarter were Tenstorrent (Santa Clara) with a \$1.3B funding round, followed by River AI (Palo Alto) with a \$1.1B funding round.

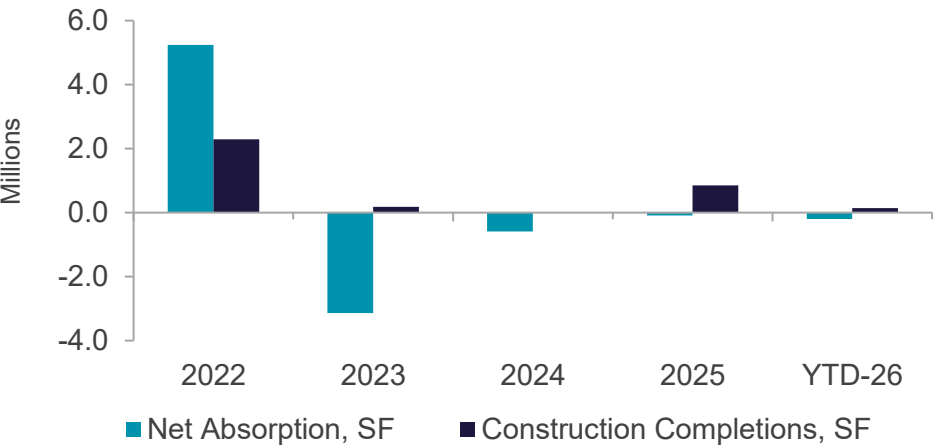
VACANCY HITS 3-YEAR LOW AS SUBLEASE SPACE SHRINKS

The Silicon Valley (the Valley) R&D market closed the third quarter with a significant decline in vacancy, as the overall rate fell to 12.0%, the lowest level since the fourth quarter of 2023, down 80 bps quarter-over-quarter (QOQ) from 12.8% and 100 bps YOY from 13.0%. This equates to approximately 19.2 million square feet (msf) of vacant space, of which 3.5 msf (18.0%) was sublease space. Notably, sublease vacancy declined by 781,000 square feet (sf) (18.4%) QOQ and 1.7 msf (32.7%) YOY. By contrast, sublease space accounted for approximately 13.5% of all vacant space in the Valley’s office sector during the third quarter.

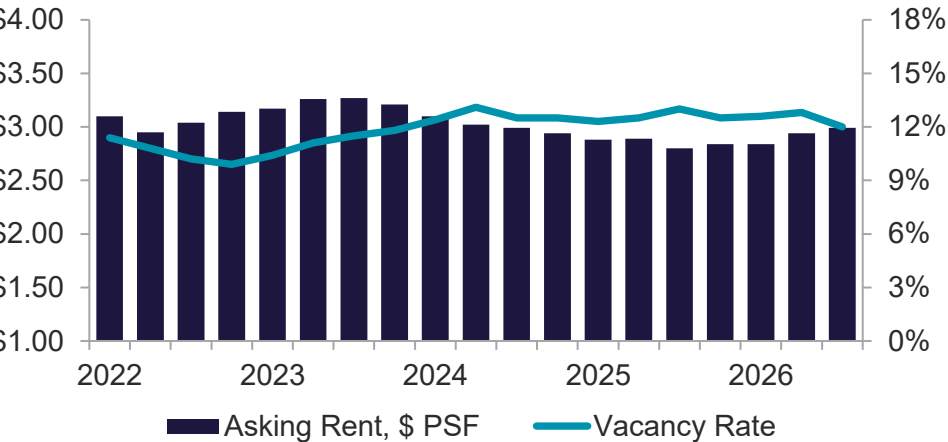
ASKING RATES RISE

The overall average asking rate for R&D product across the Valley was reported at \$2.99 per square foot (psf) on a monthly triple net (NNN) basis in the third quarter, marking a two-year high, up \$0.05 psf QOQ and \$0.19 psf YOY. Among all submarkets in the Valley, Palo Alto, Mountain View, and Sunnyvale continued to yield the highest asking rates, with third quarter numbers at \$6.08 psf, \$4.21 psf, and \$3.81 psf, respectively.

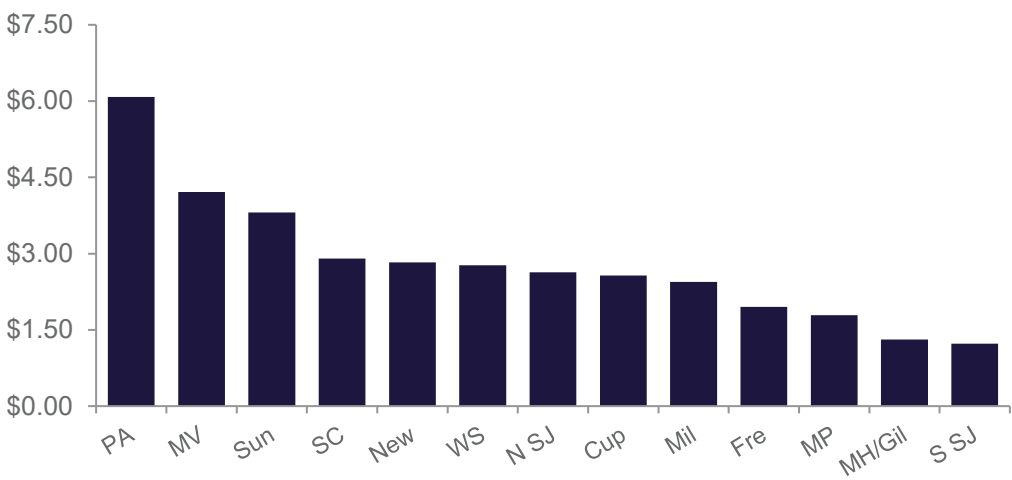
SPACE DEMAND / DELIVERIES



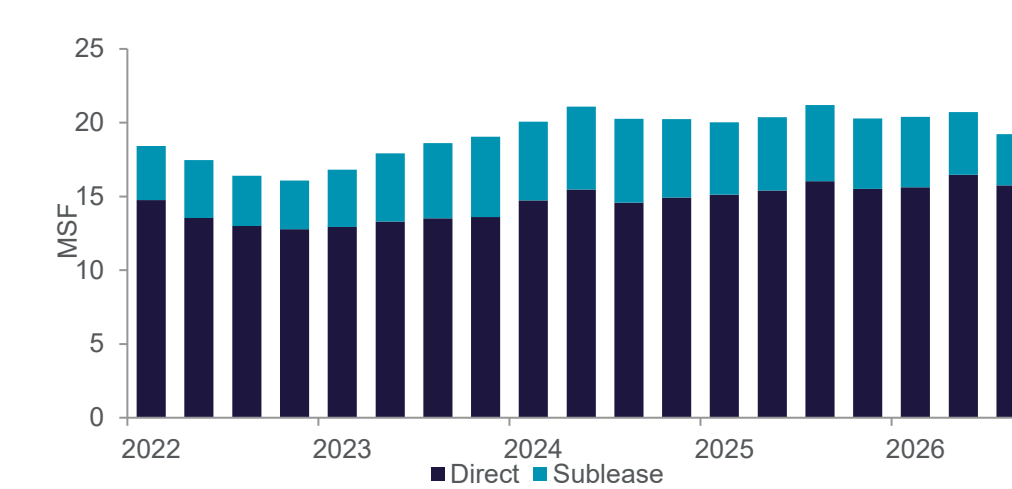
OVERALL VACANCY & ASKING RENT



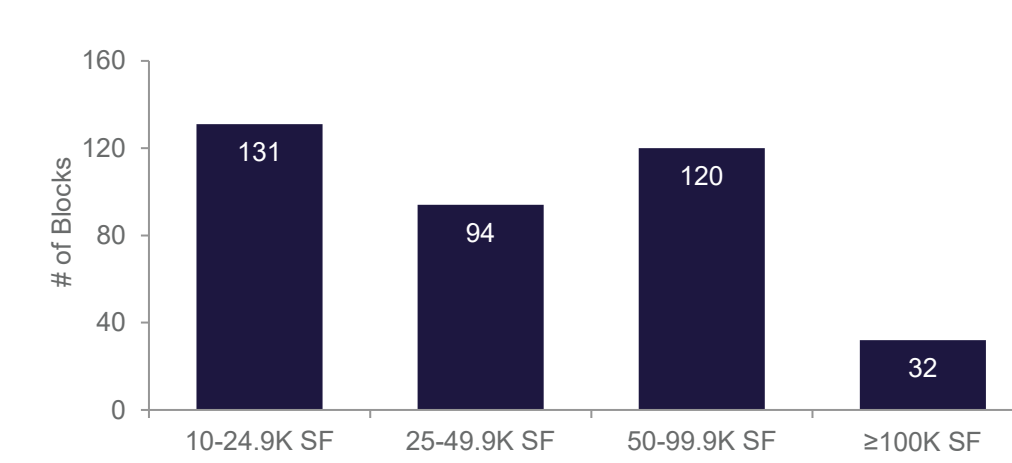
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE DIRECT & SUBLEASE



BLOCKS OF CONTIGUOUS SPACE



ASKING RATES (CONTINUED)

Palo Alto recorded the Valley's steepest QOQ increase in asking rate, rising by \$0.53 psf, driven largely by marketing adjustments at two properties to reflect current market conditions. The listing for 3419 Hillview Avenue (93,946 sf) was newly priced at \$6.75 psf, and the asking rate at 4009 Miranda Avenue (57,124 sf) increased from \$6.50 to \$8.60 psf. Both R&D buildings were available in full on a direct basis. By contrast, Menlo Park recorded the Valley's steepest QOQ decline, falling by \$0.10 psf. Updated marketing for the submarket's largest available space, the entire R&D building at 4045–4055 Campbell Avenue (66,000 sf) in Bohannon Industrial Park, lowered its asking rate from \$1.50 to \$1.25 psf, marking the second consecutive quarter of price reductions.

GROSS ABSORPTION DECLINES

Gross absorption totaled 2.6 msf in the third quarter (combined leasing and user-sale activity), down 18.2% (570,000 sf) QOQ but up 3.5% (86,000 sf) YOY. There were 34 leases over 20,000 sf signed in the Valley, 17 of which were renewals, compared with 35 leases in the previous quarter. Sales activity totaled \$1.7B in the third quarter, with approximately 4.3 msf of R&D space transacted. Seven user sales accounted for 7.2% (308,000 sf) of total sales volume, while 12 investor sales represented the remaining 92.8% (4.0 msf).

NET ABSORPTION IN THE BLACK

The third quarter recorded net absorption gains of 1.2 msf, a 1.8 msf improvement from the prior quarter's net absorption losses of 678,000 sf and a 2.0 msf improvement from the net absorption losses of 824,000 sf recorded a year ago. Net absorption reached its highest level in the last two years, following two consecutive quarters of losses. Palo Alto recorded the largest net absorption gains in the Valley at 285,000 sf, largely due to roughly 260,000 sf being taken off the market on Fabian Way. South San Jose closed with the steepest net absorption losses at 31,000 sf.

NEW DELIVERIES ON THE HORIZON

There was one R&D facility delivered in the third quarter: a 137,000-sf speculative building at 2000 Trade Zone Boulevard in North San Jose. The building is fully available for lease. Three projects totaling 867,000 sf remain under construction in the Valley's development pipeline, which also includes 3.7 msf of proposed projects. Of those under construction, Applied Materials' 180,000-sf Epic Center build-to-suit at 970 East Arques Avenue in Sunnyvale is expected to complete next quarter. The other two, both in Santa Clara and slated for owner occupancy, are expected to deliver in the first quarter of 2027: Arista Networks' 363,000-sf build-to-suit at 5200 Patrick Henry Drive and NVIDIA's 324,000-sf Phase III campus expansion at 2400 Condensa Street.

OUTLOOK

- Tenant requirements finished the third quarter at 11.3 msf, the highest figure since the second quarter of 2019. This proves activity is rebounding and will expectantly translate into transactions throughout the remainder of 2026. Technology companies represent 56.7% of requirements.
- R&D space will remain highly desirable among technology tenants across the Valley due to its versatile mix of office, manufacturing, and high-power infrastructure; it is expected to continue to outperform office product, which currently has a vacancy rate 540 bps above R&D.
- R&D tenants will seek larger block opportunities, which remain widely available, as 40.3% of all available space on the market is in blocks exceeding 50,000 sf.

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	2,520,551	0	175,577	7.0%	0	-19,350	36,594	0	\$1.79
Palo Alto	8,731,846	202,880	1,097,004	14.9%	284,800	-524,856	458,714	0	\$6.08
Mountain View	16,016,310	228,253	2,232,218	15.4%	126,088	140,523	1,023,126	0	\$4.21
Cupertino	5,728,096	30,000	29,460	1.0%	14,850	-6,510	32,850	0	\$2.57
Westside	2,248,162	26,346	89,894	5.2%	14,374	19,738	66,491	0	\$2.77
Sunnyvale	23,860,583	130,308	2,153,591	9.6%	145,451	191,452	1,102,299	180,000	\$3.81
Santa Clara	21,803,228	294,332	1,813,984	9.7%	283,821	124,815	1,102,446	686,660	\$2.90
North San Jose	34,613,525	767,445	3,382,958	12.0%	224,693	-602,215	2,495,088	0	\$2.63
South San Jose	9,123,391	467,494	1,078,818	16.9%	-30,640	39,290	585,180	0	\$1.23
Milpitas	12,059,631	260,434	1,512,391	14.7%	62,263	-32,862	385,019	0	\$2.44
Fremont	18,600,516	994,687	1,413,980	12.9%	59,128	207,578	991,399	0	\$1.95
Newark	2,331,550	65,863	354,364	18.0%	-27,673	54,330	115,135	0	\$2.83
Morgan Hill/Gilroy	3,276,808	0	427,306	13.0%	7,629	204,018	311,613	0	\$1.31
TOTALS	160,914,197	3,468,042	15,761,545	12.0%	1,164,784	-204,049	8,705,954	866,660	\$2.99

*Rental rates reflect average triple net asking \$psf/month
*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q3 2026

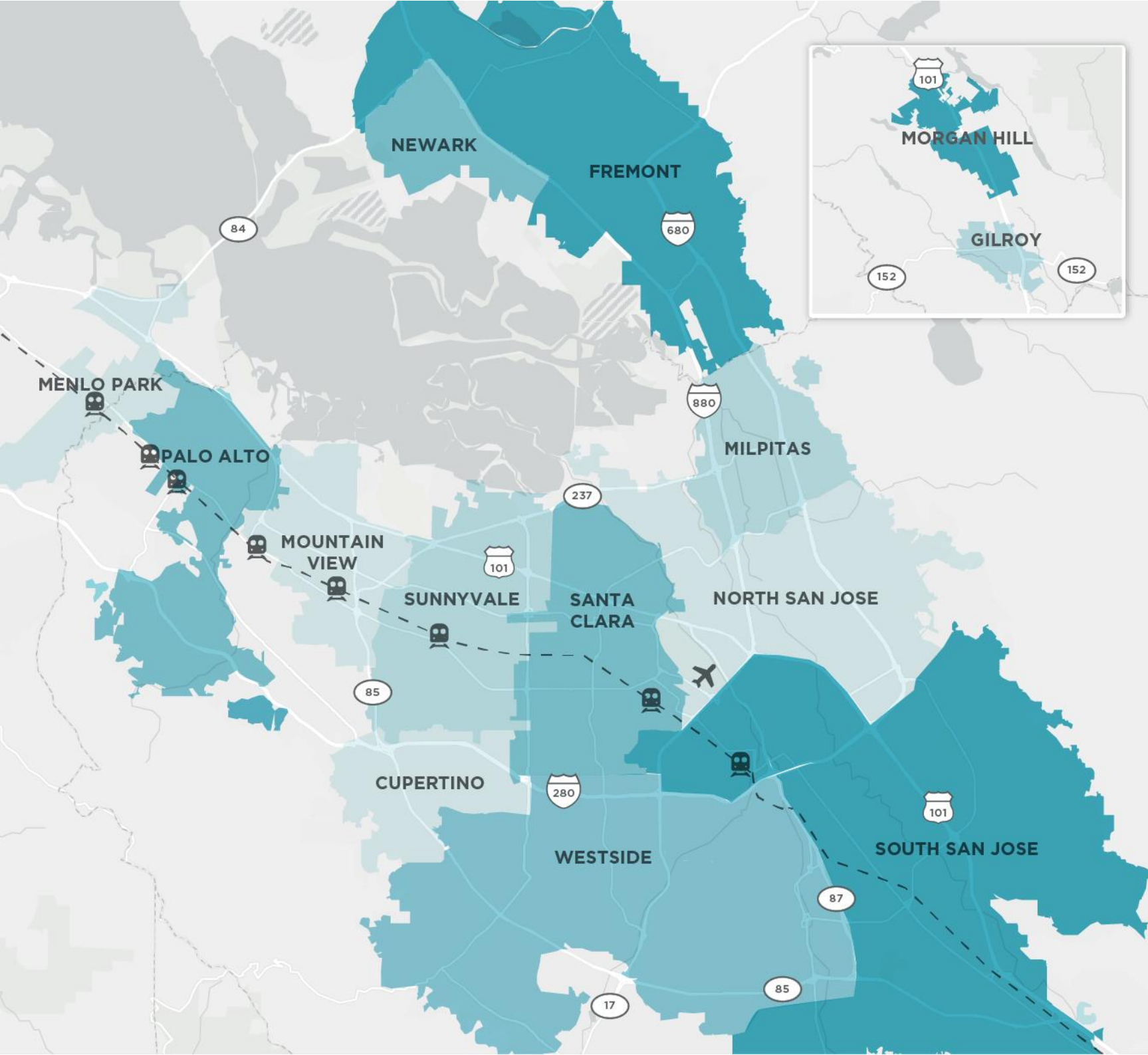
PROPERTY	SUBMARKET	TENANT	SF	TYPE
3475 Deer Creek Rd	Palo Alto	Tesla	108,588	Renewal
904 Caribbean Dr & 1339 Moffett Park Dr*	Sunnyvale	Cepheid	101,080	Renewal
2581 Junction Ave	North San Jose	Sanmina	102,772	New Lease
350 Holger Wy	North San Jose	NXP Semiconductors	96,502	Renewal
2700 & 2720 Zanker Rd	North San Jose	Ayar Labs	92,763	New Lease

*Part of larger 172k sf lease, which includes one warehouse building

KEY SALE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Portfolio (49 Properties)	Milpitas / North San Jose / Santa Clara	Washington Holdings / TMG Partners	2,024,543	\$635.0M / \$314
Assembly at North First	North San Jose	Exeter Property Group / Preylock Holdings	494,226	\$264.9M / \$536
3825-3875 Fabian Way	Palo Alto	Alexandria Real Estate Equities / Harvest Properties, Inc.	419,164	\$163.0M / \$389
Vasona Technology Park	Westside	Kennedy Wilson Fund VI / Strada Investment Group	258,508	\$115.0M / \$445
Great America Place	Santa Clara	GA Parkway Property LLC / Fabrinet	223,842	\$76.9M / \$344

R&D SUBMARKETS



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