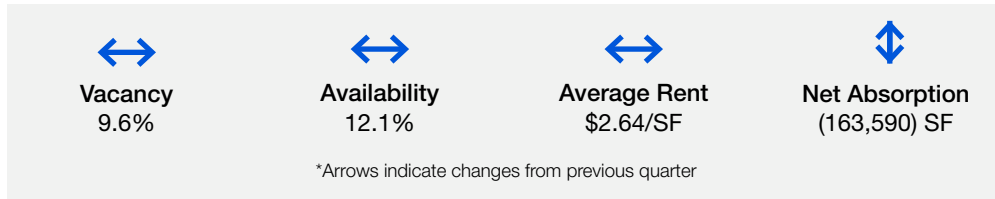


The Silicon Valley R&D market entered Q1 2026 with mixed fundamentals, however, performance continues to vary widely by asset quality. Vacancy declined for the second consecutive quarter to 9.6%, a modest 0.1% decrease quarter-over-quarter (QoQ), while remaining flat year-over-year (YoY). Availability fell to 12.1%, a 0.4% QoQ decline and 0.7% below the Q2 2025 peak of 12.8%. Average asking rates continue to trend downward, falling 3.6% QoQ and 7.2% YoY, with pricing largely driven by asset quality and power capacity. Net absorption remained negative during the quarter as R&D tenants take longer to physically move into their spaces, delaying when occupancy gains show up as positive absorption.

Despite elevated vacancy and overall negative absorption, the pace of decline has slowed and demand is becoming more targeted. Growth is increasingly concentrated among AI, semiconductor, and advanced manufacturing users, who are reshaping requirements around power and existing infrastructure. As a result, the market is seeing competition among highly specialized assets. Even with rising competition in select segments of the market, the Bay Area's concentration of specialized space and talent positions Silicon Valley to remain a leading hub for AI innovation in the U.S.

Quarterly Snapshot



Occupier's Perspective

Tenants are increasingly backfilling second-generation biotech space to avoid high buildout costs. With fit-out expenses still rising, existing lab infrastructure lowers capital needs and speeds occupancy. Elevated vacancy is opening opportunities for non-traditional users like robotics and AI hardware companies.

Sublease activity, consolidations, and tenant downsizing are creating cost-saving opportunities, particularly in older R&D assets. However, those savings often come with tradeoffs in functionality or infrastructure, requiring careful evaluation of total occupancy cost versus retrofit needs.

Municipalities are actively competing for tenants by accelerating approvals and expanding power capacity to support AI, data centers, and advanced manufacturing. Site selection is no longer just about rent. Tenants must evaluate jurisdictions based on infrastructure delivery timelines and entitlement efficiency.

Submarket Movement

QOQ Change	Direct Asking Rent (NNN)	Submarket	Total Vacancy Rate
-1.0% ▼	\$2.53	North San Jose/Airport Area	8.2%
-0.2% ◀	\$1.53	South San Jose	14.6%
0.3% ◀	\$2.24	Fremont/Newark	11.4%
-0.1% ◀	\$2.35	Milpitas	9.0%
-0.1% ◀	\$2.74	Santa Clara	9.0%
0.4% ◀	\$3.04	Sunnyvale	8.4%

Recent Transactions

Tenant	Size (SF)	Submarket	Type	Sector
Credo Semiconductor	189,983	North San Jose/Airport Area	New Lease	Technology
Jabil Circuits	181,656	South San Jose	Renewal	Technology
Kaiser Foundation Hospitals & Health Plan	92,692	West Valley (West San Jose, Campbell, Los Gatos, Saratoga)	Renewal	Healthcare
Teradyne	86,243	North San Jose/Airport Area	New Lease	Technology
Astera Labs	69,821	North San Jose/Airport Area	New Lease	Technology
Google	67,000	Mountain View	Renewal	Technology

Market Trends

Leasing and investment activity is increasingly tied to AI infrastructure, robotics, semiconductors, and advanced hardware. Companies are moving from research to production, driving demand for hybrid R&D/manufacturing product.

Net absorption has been negative for nine consecutive quarters, but the decline is slowing compared to a year ago. Trailing four-quarter absorption through Q1 2026 totaled -482K SF, a notable improvement from -1.2M SF the prior year.

Santa Clara R&D has remained relatively stable with rents down just 3.7% and vacancy up only 0.7%, while North San Jose rents have declined 8.9% alongside a 2.0% rise in vacancy. North San Jose and Santa Clara continue to drive activity, accounting for 52.3% of leased SF and 48.3% of completed deals.

R&D Submarket Statistics | Q4 2025

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DEFINITIONS

Vacancy: Space that is physically unoccupied, including both direct and sublease space.

Availability: Space being marketed for lease, including vacant space and space offered for future occupancy, across both direct and sublease.

Average rent: Weighted average asking rent for direct space. Sublease rents are calculated separately using weighted-average sublease asking rents (page 1 only).

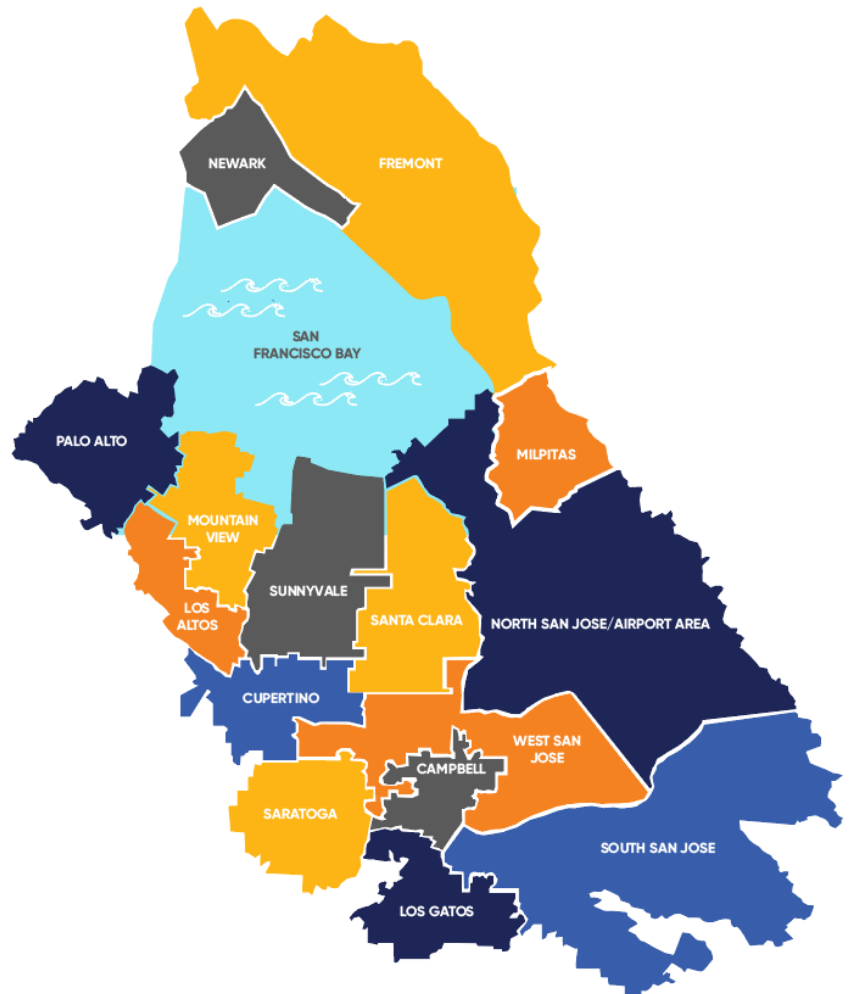
Net absorption: The net change in occupied space, calculated as move-ins minus move-outs, including both direct and sublease space.

Demand: Amount of space (square footage) that tenants are actively seeking.

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Submarket	Inventory	Direct Asking Rent (NNN)	Direct Vacancy	Sublease Vacancy	Total Vacancy	Total Availability	Total Net Absorption
Fremont/Newark	20,688,862	\$2.24 ↑	9.7%	1.7%	11.4% ↔	12.6%	151,502
Milpitas	8,518,760	\$2.35 ↑	7.3%	1.7%	9.0% ↔	10.4%	17,131
North San Jose/Airport Area	27,354,749	\$2.53 ↑	7.1%	1.0%	8.2% ↓	11.1%	(919)
South San Jose	7,398,975	\$1.53 ↔	14.6%	0.0%	14.6% ↔	22.4%	(12,319)
West Valley (West San Jose, Campbell, Los Gatos, Saratoga)	2,316,566	\$2.24 ↔	3.5%	0.5%	4.0% ↔	7.6%	3,021
Cupertino	2,077,906	\$3.08 ↔	2.5%	0.0%	2.5% ↔	1.7%	(11,850)
Santa Clara	11,975,862	\$2.74 ↔	7.1%	2.0%	9.0% ↔	11.3%	(187,690)
Sunnyvale	12,347,700	\$3.04 ↔	7.3%	1.0%	8.4% ↔	9.0%	(74,660)
Mountain View	6,965,804	\$4.45 ↔	12.3%	1.2%	13.4% ↑	16.6%	(33,760)
Palo Alto	4,526,594	\$6.13 ↔	5.6%	2.9%	8.5% ↔	11.1%	(14,046)
Total	104,171,778	\$2.64 ↔	8.3%	1.3%	9.6% ↔	12.1%	(163,590)

*Arrows indicate changes from previous quarter.