



YoY
Chg

12-Mo.
Forecast

9.2%

Vacancy Rate

**2.2M**

Net Absorption, SF

**\$4.93**

Asking Rent, PSF FS



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

YoY
Chg

12-Mo.
Forecast

1.16MSan Jose MSA
Employment**2.5%**San Jose MSA
Unemployment Rate**3.6%**U.S.
Unemployment Rate

Source: BLS, Moody's Analytics
2019Q4 data are based on latest available data.

ECONOMY: Job Growth Continues

Job growth in the San Jose metropolitan statistical area (MSA) continued on with an increase of 32,400 jobs (2.8%) added year-over-year (YOY). This brings regional employment to 1.2 million. Though that increase is impressive, particularly considering the market is at full employment, it has slowed from just a few years ago. The strongest driver to job growth, directly or indirectly, remains the tech sector. The San Jose MSA unemployment rate remained consistent during the year, closing at 2.5% which compares to the higher national figure of 3.6%.

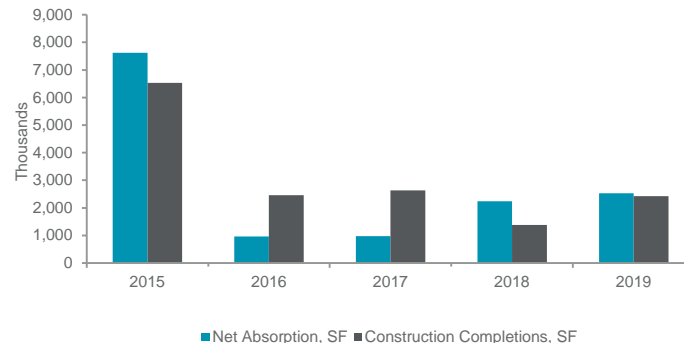
SUPPLY: Vacancy Hovering Around 10% for 7 Quarters, Declines Again

Silicon Valley's office vacancy rate fell to 9.2% during the fourth quarter of 2019, a drop of 60 basis points (bps) from 9.8% in the third quarter. For the last seven quarters vacancy has stayed pretty consistent hovering near 10.0%. The current rate translates to 7.8 million square feet (msf) of vacancy. With this figure in decline, the percentage of vacant sublease space also edged lower to 27.8% of all vacant space, down from a figure of 31.2% in the third quarter. Large subleases on the market include Citrix and Avaya, both located in Santa Clara.

PRICING: Asking Rents Remain Relatively Flat with Slight Upticks in Select Markets

The average asking rent increased in the fourth quarter to \$4.93 per square foot on a monthly full service basis (psf) from \$4.81 psf in the third quarter. Rents have remained relatively flat with slight upticks in select markets. This is largely due to the fact that sublease space has continued to represent such a significant portion of the total availability which forces direct space to compete with those lower priced aggressive rents. The end result is a high volume of leasing at more modest rents. With interest and activity on the rise, the Downtown San Jose submarket has seen the most significant change recently with a 10% YOY increase closing the fourth quarter with an average asking rent of \$4.47 psf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

Office Q4 2019



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Occupancy Surges in Q4

Occupancy surged in the fourth quarter as net absorption was recorded at a positive 2.2 msf. This brings the annual 2019 number to 2.5 msf which outperformed the yearly totals of 2016, 2017 and 2018. However gross absorption (leasing) decreased in the fourth quarter coming in at 1.4 msf. This follows the record leasing – 3.1 msf and 3.4 msf - in the second and third quarters respectively. Part of the reason for the record deal velocity in the third quarter was large user sales to both Google and Apple which accounted for 1.3 msf. This brings the year-end totals to 9.6 msf, a drop in gross absorption from last year but still equal to the ten-year average.

Deal Velocity Slows

In the fourth quarter, only two deals were over 100,000 sf with the largest being Airbnb in its first lease in the Silicon Valley. The online travel company signed a direct lease on two buildings totaling 301,000 sf in Santa Clara that had initially been offered as a sublease by Palo Alto Networks. The other large deal of the quarter was Bill.com which leased 131,000 sf at America Center in North San Jose. Other notable deals include WilmerHale (46,000 sf) in Palo Alto and Twitter (33,500 sf) in West San Jose. There was one large renewal as well - Global Foundries (65,000 sf) in Santa Clara.

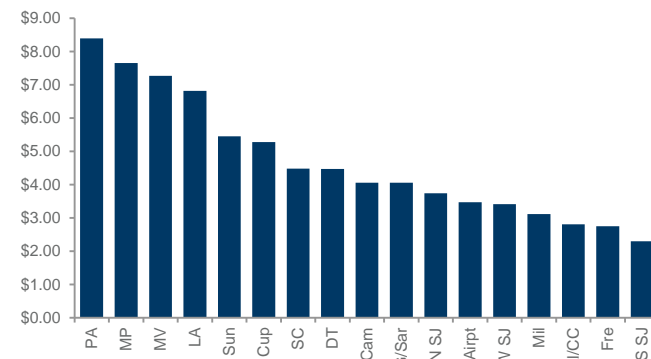
Construction

New product under construction across the region currently stands at approximately 4.8 msf. This is comprised of 3.8 msf of speculative product and 1.0 msf of build-to-suits. It's important to note that 1.4 msf of the "spec" space is preleased leaving 2.4 msf that will enter the vacancy if not leased prior to completion. For the first time in over 10 years, spec construction has begun in Downtown San Jose with a 840,000 sf building at 200 Park breaking ground. Several preleased projects totaling 1.9 msf were completed this quarter – Moffett Towers II which leased to Facebook and Amazon, Menlo Gateway which leased to Facebook and Santana Row which leased to Splunk. We are currently tracking 9.4 msf of active office/R&D tenant requirements and believe much of this demand will transition to activity in the next few quarters.

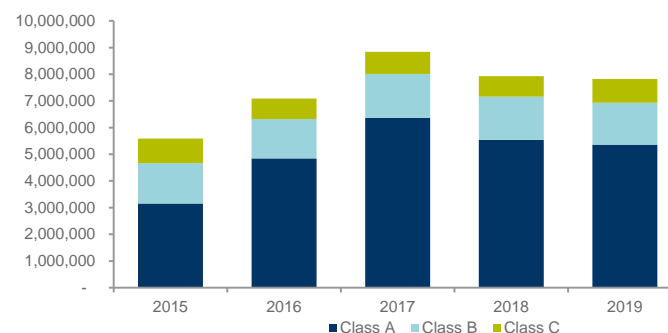
Outlook

- The first half of 2019 could be described as cautious though the second half was marked by a surge thanks to the highest net absorption in four years. Preleasing on new construction that was signed in 2018 was largely responsible for that bump. Although deal velocity slowed in the second half of the year, gross absorption still met the ten-year average of 9.6 msf.
- Rents continue to rise in select markets and vacancy is tightening. The demand pipeline is still active with tenants looking to expand and grow, however deals are taking longer to consummate.
- Spec construction is occurring in select markets and shows no sign of slowing down. This is consistent with past trends where demand for new construction increases when vacancy drops to single digits as in the current 9.2%. The strong finish in 2019, combined with several large block transactions in the pipeline, fuels great expectations for the new year.

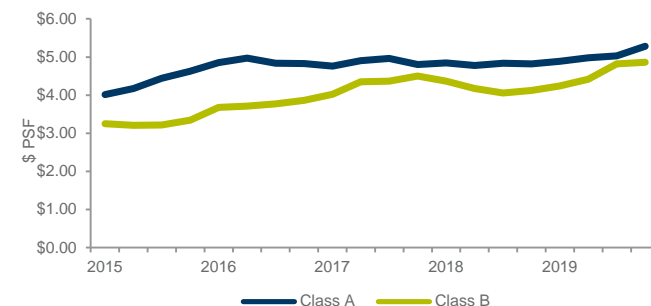
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE BY CLASS



ASKING RENT COMPARISON





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL ABSORPTION (SF)	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CONST (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Menlo Park	5,900,689	212,929	256,882	8.0%	364,882	298,591	393,208	432,664	\$7.65	\$8.50
Palo Alto	10,348,482	283,202	431,157	6.9%	21,425	-85,516	723,898	182,700	\$8.39	\$8.96
Los Altos	1,161,081	1,560	66,607	5.9%	14,719	-19,822	106,571	0	\$6.82	\$7.14
Mountain View	5,247,070	100,307	235,153	6.4%	110,519	-46,044	701,927	411,974	\$7.27	\$7.51
Cupertino	4,452,718	54,716	95,111	3.4%	22,895	1,883	247,034	0	\$5.28	\$6.21
Campbell	2,619,982	70,655	462,018	20.3%	101	23,491	426,710	10,400	\$4.06	\$4.50
Los Gatos/Saratoga	2,433,916	22,280	40,527	2.6%	-4,826	38,396	292,200	0	\$4.06	\$3.83
West San Jose	4,643,203	40,799	168,922	4.5%	266,386	249,883	321,050	375,000	\$3.41	\$4.90
Sunnyvale	12,701,136	61,893	263,234	2.6%	1,156,857	1,436,024	1,447,082	440,272	\$5.45	\$7.95
Santa Clara	9,878,354	812,281	1,146,030	19.8%	26,918	214,293	1,125,247	580,206	\$4.48	\$4.64
San Jose Airport	4,354,514	306,296	259,412	13.0%	-8,632	42,491	1,341,018	359,179	\$3.47	\$3.52
North San Jose	5,733,667	117,728	902,534	17.8%	172,270	174,343	1,442,736	242,320	\$3.74	\$3.95
Alameda/Civic Center	1,959,039	0	61,620	3.1%	21,738	31,754	102,968	32,307	\$2.81	\$4.25
South San Jose	1,724,370	5,796	48,254	3.1%	25,070	49,760	62,760	0	\$2.30	\$3.29
Downtown San Jose	8,763,129	54,500	1,079,189	12.9%	16,236	62,097	662,055	1,769,000	\$4.47	\$5.06
Milpitas	924,687	5,855	42,690	5.2%	-4,649	9,725	33,994	0	\$3.12	\$3.60
Fremont	2,038,924	24,727	81,631	5.2%	-9,844	47,476	154,494	0	\$2.74	\$2.17
CLASS BREAKDOWN										
Class A	50,431,575	1,859,241	3,501,993	10.6%	2,155,633	2,583,017	5,637,775	4,836,022	N/A	\$5.28
Class B	20,083,915	301,591	1,269,380	7.8%	10,065	99,426	3,947,177	N/A	N/A	\$4.86
TOTALS	84,884,961	2,175,524	5,644,297	9.2%	2,192,065	2,528,825	9,652,444	4,836,022	\$4.93	

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q4 2019

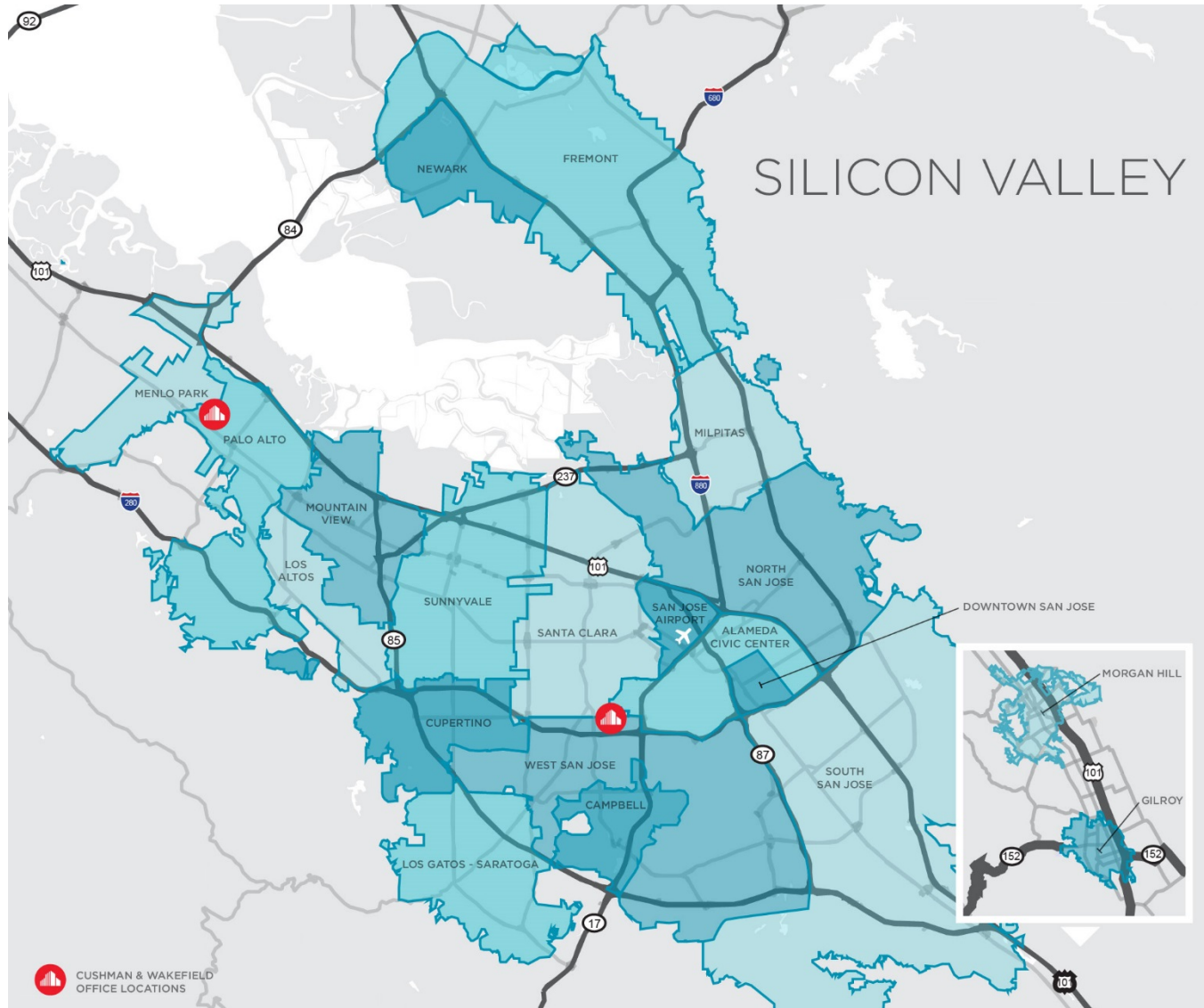
PROPERTY	SUBMARKET	TENANT	SF	TYPE
4301-4401 Great America	Santa Clara	Airbnb	301,163	New Lease
6220 America Center	North San Jose	Bill.com	131,801	New Lease
2600 Great America	Santa Clara	Global Foundries	65,000	Renewal
2600 El Camino Real	Palo Alto	WilmerHale	46,000	New Lease
3055 Olin Ave	West San Jose	Twitter	33,529	Sublease

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
634 Santa Cruz Ave	Los Gatos	Westcliff Northpoint / Grace L. & Vincent Chin	17,841	\$11.7M / \$657
3033 Moorpark Ave	West San Jose	Romel & Maha Nijmeh / GiaLico, Inc.	14,318	\$4.5M / \$317
2326 McKee Rd	South San Jose	McKee Rd Assoc / Son Tran	4,900	\$2.2M / \$449

Silicon Valley

Office Q4 2019

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