



YoY  
Chg

12-Mo.  
Forecast

10.1%

Vacancy Rate



84k

Net Absorption, SF



\$5.05

Asking Rent, PSF FS



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q3 2020

YoY  
Chg

12-Mo.  
Forecast

1.05M

San Jose MSA  
Employment

8.4%

San Jose MSA  
Unemployment Rate

8.8%

U.S.  
Unemployment Rate

Source: BLS, Moody's Analytics  
2020Q3 data are based on latest available data.

## ECONOMY: Unemployment Turning the Corner

Beginning in March 2020, U.S. job losses reached levels unseen since the Great Depression. In May and June, as lockdowns begun to ease, signs of economic life began to reappear as people and businesses began to acclimate to the rules of our new reality. By August, employment begun to recover in the San Jose metropolitan statistical area (MSA) however it remains down on a year-over-year (YOY) basis by 96,400 jobs. The unemployment rate has declined from its high earlier this year, with the quarterly figure now at 8.4%, still well above the figure of 2.5% one year ago. According to Beacon Economics & UC Riverside, tech companies added 4,000 jobs, retailers gained 1,400 positions, and health care employers added 1,300 jobs during the month in the county. However, absent a public health resolution to the pandemic, the broader Silicon Valley economy is likely to remain unsteady. Cushman and Wakefield's team of economic researchers recently completed a comprehensive study on the pandemic's global office impact and recovery timing. The study and an accompanying presentation can be found [here](#).

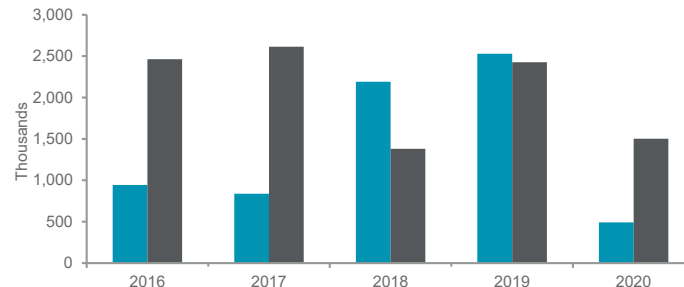
## SUPPLY: Vacancy On The Rise

Silicon Valley's office vacancy rate increased to 10.1% during the third quarter of 2020, an increase of 60 basis points (bps) from the 9.5% rate in the second quarter. This marks the first time vacancy has exceeded 10.0% since the fourth quarter of 2017. The current rate translates to 8.8 million square feet (msf) of vacancy. It's interesting to note, however, that the percentage of vacant space comprised of subleases has stayed relatively consistent, finishing the third quarter at 27.5% of all vacant space, up only slightly from 27.3% in the second quarter. Large subleases on the market include Citrix in Santa Clara, Tibco in Palo Alto, and Avaya in Santa Clara.

## PRICING: Asking Rents Remain Relatively Flat

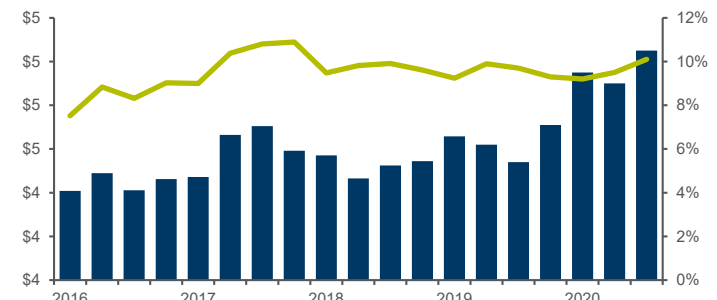
The average asking rent increased slightly in the third quarter to \$5.05 per square foot (psf) on a monthly full-service basis (psf) from \$4.91 psf in the second quarter. Asking rents across submarkets remained mostly flat during the third quarter, though the northern submarkets of Menlo Park and Mountain View experienced slight increases. These northern submarkets have historically attained higher rents due to their proximity to Stanford University and the concentration of prestigious venture capital firms along Sand Hill Road.

## SPACE DEMAND / DELIVERIES



■ Net Absorption, SF ■ Construction Completions, SF

## OVERALL VACANCY & ASKING RENT



■ Asking Rent, \$ PSF — Vacancy Rate



# Silicon Valley

Office Q3 2020

## Occupancy Increases Slightly Due to Preleased Buildings

Due to the pandemic, companies continue to postpone all but the most essential real estate decisions. Accordingly, gross absorption (leasing activity) decreased from 1.1 msf in the second quarter to 702,000 square feet (sf) in the third quarter. By comparison, gross absorption recently peaked at 3.1 msf and 3.9 msf during the second and third quarters of 2019, respectively. Net absorption managed to finish the third quarter in the black at 84,000 sf, although this was largely the result of several preleased buildings that were completed during the period and reflected in the statistics. Year-to-date, annual absorption stands at positive 490,000 sf. This follows the huge full-year occupancy numbers in 2018 and 2019 of 2.2 msf and 2.5 msf, respectively.

## Deal Velocity Slows

Three of the five top office deals of the quarter were renewals. The largest lease of the quarter was the County of Santa Clara's renewal of 70,000 sf in West San Jose. The next largest deal, also a renewal, was the KPMG lease of 59,000 sf in Santa Clara. The two largest new transactions were Plume (25,000 sf in Downtown Palo Alto) and Fandango (20,000 sf in Downtown Mountain View). The last deal of the top five was the renewal of Signifyd, Inc. for 20,000 sf in North San Jose.

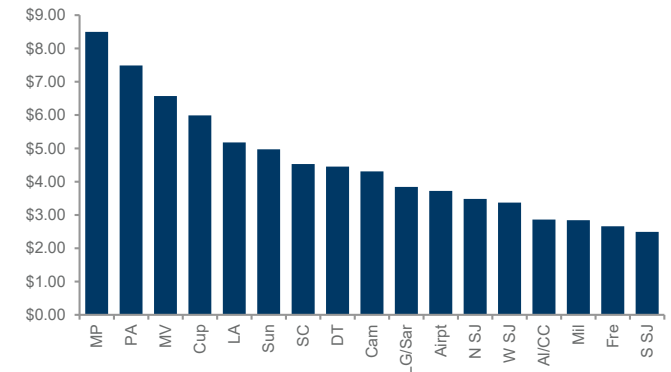
## Construction

New product under construction across the region currently stands at approximately 4.8 msf. This is comprised of 3.3 msf of speculative product and 1.5 msf of build-to-suits. It's important to note that 1.1 msf of the "spec" space is preleased leaving 2.2 msf that will enter the vacancy if not leased prior to completion. With the future Google presence in Downtown San Jose as well as the BART extension, office development activity remains robust downtown. Jay Paul Company continues to make headway on an 840,000 sf spec building at 200 Park Avenue and has recently received approvals for the redevelopment of CityView of up to 3.8 msf, and Boston Properties continues shoring work on its up to 1.1 msf Platform 16 development. Given the pandemic, the timing remains unclear, for the time being, for other projects in the development pipeline.

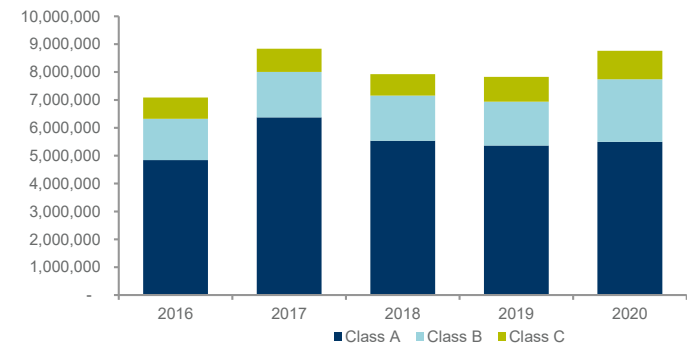
## Outlook

- Silicon Valley tech and life science companies will build on their lead as the bellwethers of the U.S. economy.
- Office vacancy will likely increase during the fourth quarter as additional sublease space and completed spec projects are added to the market.
- The availability and efficacy of COVID-19 vaccinations and therapeutics will serve as leading indicators of a return to office occupancy growth.
- In the interim, R&D is likely to out-perform office product as companies with lab/assembly/production infrastructure find it impossible to support these functions via remote work.

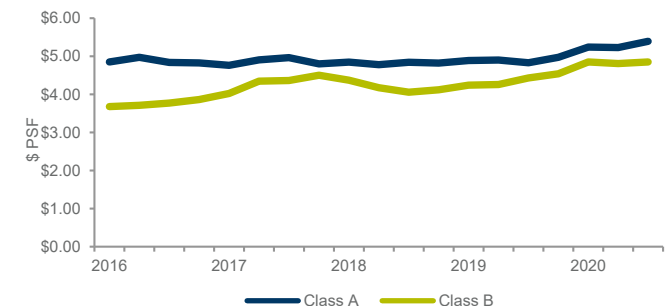
## AVERAGE ASKING RATE BY SUBMARKET



## 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	5,931,653	194,779	382,122	9.7%	(91,506)	(130,844)	107,302	436,667	\$8.50	\$9.44
Palo Alto	10,641,827	484,675	596,997	10.2%	46,205	(178,547)	189,397	72,662	\$7.49	\$7.86
Los Altos	1,161,219	8,908	104,155	9.7%	(26,553)	(46,740)	32,396	0	\$5.18	\$5.04
Mountain View	5,658,983	183,025	302,768	8.6%	361,785	274,358	160,440	0	\$6.57	\$7.06
Cupertino	4,463,843	70,685	265,155	7.5%	(178,474)	(200,604)	77,714	0	\$5.99	\$6.41
Campbell	2,548,500	79,833	350,995	16.9%	(86,173)	98,536	92,236	10,400	\$4.31	\$4.45
Los Gatos/Saratoga	2,472,834	3,924	105,121	4.4%	(38,782)	(33,114)	63,156	0	\$3.84	\$4.39
West San Jose	4,665,300	23,178	203,052	4.8%	(33,211)	(29,329)	262,078	396,754	\$3.37	\$3.50
Sunnyvale	12,981,405	54,902	276,562	2.6%	5,323	271,561	956,526	125,000	\$4.97	\$8.00
Santa Clara	9,835,169	728,879	1,193,364	19.5%	8,978	37,317	668,310	848,762	\$4.53	\$4.67
San Jose Airport	4,651,693	152,384	359,650	11.0%	(130,380)	350,853	152,485	643,990	\$3.72	\$3.87
North San Jose	5,742,411	160,064	742,849	15.7%	189,553	193,631	196,333	611,535	\$3.48	\$3.61
Alameda/Civic Center	1,978,381	9,449	89,713	5.0%	(1,825)	(17,462)	14,274	0	\$2.86	\$4.25
South San Jose	1,772,802	3,700	75,641	4.5%	(3,387)	(25,291)	36,758	0	\$2.49	\$3.59
Downtown San Jose	8,955,313	209,680	1,134,789	15.0%	94,879	(16,353)	463,519	1,661,985	\$4.45	\$4.95
Milpitas	908,872	0	73,272	8.1%	(30,373)	(20,604)	51,885	0	\$2.84	\$2.40
Fremont	2,038,924	46,153	94,240	6.9%	(1,990)	(36,833)	95,000	0	\$2.66	\$2.17
CLASS BREAKDOWN										
Class A	51,937,124	1,964,670	3,533,597	10.6%	392,240	1,350,124	2,206,010	4,807,755	\$5.39	
Class B	20,228,740	336,246	1,905,529	11.1%	(77,767)	(610,096)	1,413,799	0	\$4.85	
TOTALS	86,409,129	2,414,218	6,350,445	10.1%	84,069	490,535	3,619,809	4,807,755	\$5.05	\$5.39

\*Rental rates reflect full service asking

\*Market indicators are not reflective of US MarketBeat tables

## KEY LEASE TRANSACTIONS Q3 2020

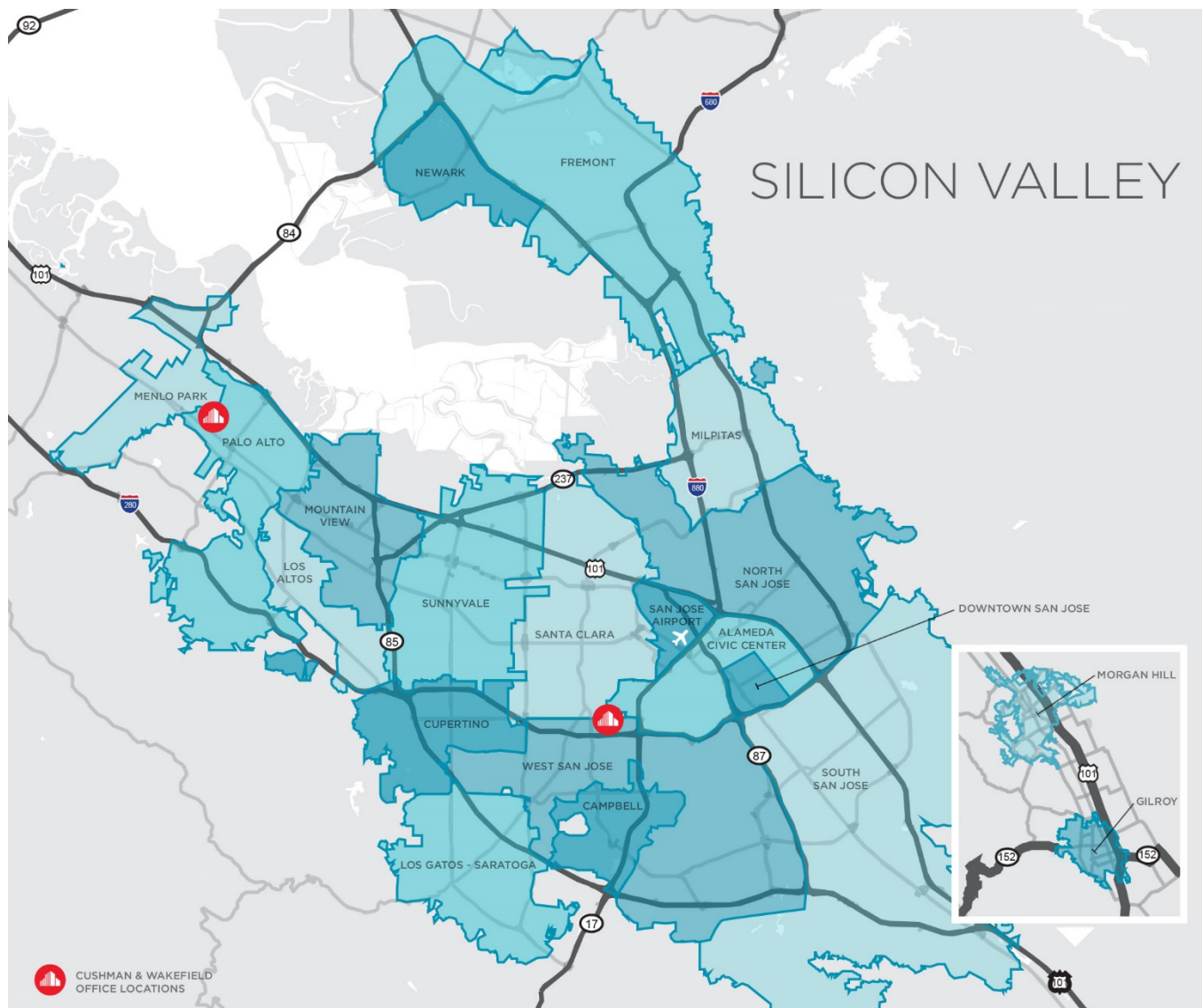
PROPERTY	SUBMARKET	TENANT	SF	TYPE
2400 Moorpark	West San Jose	County of Santa Clara	70,376	Renewal
3975 Freedom Circle	Santa Clara	KPMG	59,078	Renewal
325 Lytton Ave.	Palo Alto	Plume	25,759	New Lease
2440 El Camino Real	Mountain View	Fandango Media	20,344	Sublease
2540 First St, N.	North San Jose	Signifyd, Inc.	20,163	Renewal

## KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Stevens Creek Executive Center	West San Jose	Fortbay / Miramar Capital	163,625	\$54.5M / \$333
3803 Bascom Ave, S.	Campbell	Fortune Realty / William C. Hopkins, DDS	31,465	\$16.3M / \$518
960 San Antonio Rd	Palo Alto	Greenheart Land Co. / 960 San Antonio LLC	12,000	\$13.9M / \$1,158
2222 Lafayette St	Santa Clara	Huy Nguyen Trust / Javad Zolfaghari	10,440	\$5.5M / \$526

# Silicon Valley

Office Q3 2020

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