



YoY
Chg

12-Mo.
Forecast

11.3%

Vacancy Rate

**-1.2M**

Net Absorption, SF

**\$2.76**

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2020

YoY
Chg

12-Mo.
Forecast

1.05MSan 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 Grows

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](#).

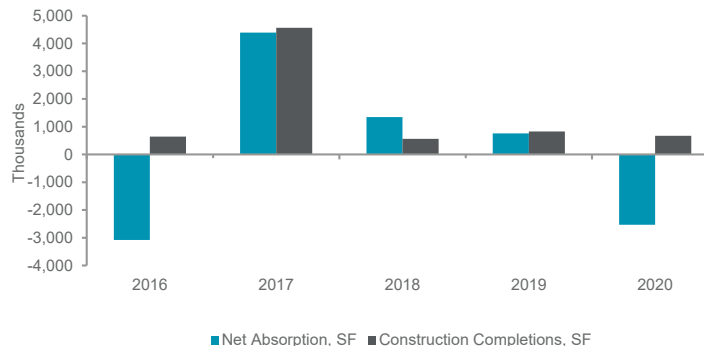
SUPPLY: Vacancy On The Rise

Silicon Valley's R&D vacancy rate climbed to 11.3% during the third quarter of 2020, an increase of 70 basis points (bps) from the 10.6% rate in the second quarter. This marks the first time vacancy has exceeded 11.0% since the second quarter of 2018. The current rate translates to 19.0 million square feet (msf) of vacancy. The percentage of vacant space comprised of subleases has also increased, finishing the third quarter at 25.0% of all available space, up from 22.8% in the second quarter. New subleases added to the market this quarter include EMC, 150,000 square feet (sf) in Santa Clara, Olympus (128,500 sf) in South San Jose, and A10 Networks (116,000 sf) in North San Jose.

PRICING: Asking Rents Increase Slightly

The average asking rent increased slightly in the third quarter to \$2.76 per square foot (psf) on a monthly triple net basis from \$2.75 psf in the second quarter. Asking rents across submarkets remained mostly flat during the third quarter, though Sunnyvale and Santa Clara experienced slight increases, due to a handful of speculative projects with premium asking rents that were added to the averages.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

R&D Q3 2020



CUSHMAN & WAKEFIELD

Occupancy Losses Continue

Due to the pandemic, companies continue to postpone all but the most essential real estate decisions. Accordingly, gross absorption (leasing activity) is down from the quarterly average of 2.9 msf, coming in at 2.1 msf in the third quarter. This brings the year-to-date (YTD) 2020 number to 7.0 msf vs the comparable 2019 period total of 9.0 msf. As another point of reference, the average annual gross absorption from 2009 to 2019 was 15.0 msf. Turning to net absorption, totals have been in the red for four consecutive quarters. The occupancy loss in the third quarter amounted to a negative 1.2 msf. Year-to-date, net absorption has totaled a negative 2.5 msf. This compares to the comparable 2019 period total of positive 1.2 msf.

Three of the five top R&D deals of the quarter were renewals and there were only three transactions over 100,000 sf. The largest lease of the quarter was Guardant Health's deal of 249,000 sf in Palo Alto. The second largest deal was Microchip Technology's renewal of 179,000 sf in North San Jose, followed by Facebook's lease of an 111,000-sf building in the Ardenwood submarket of Fremont. Notably, this lease brings its occupancy to 1.1 msf in the park. Rounding out the top five transactions of the quarter were two renewals – TripActions in Palo Alto (98,000 sf) and Olympus in North San Jose (80,000 sf).

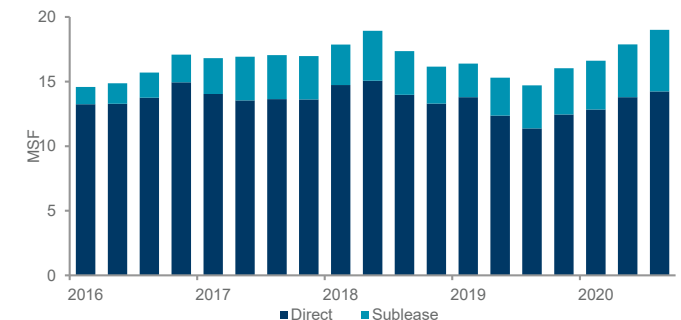
Construction

New product under construction across the region consists of 3.5 msf which is comprised of 2.1 msf of build-to-suits and 1.4 msf of speculative product. Of that 1.4 msf of 'spec', 52.4% has been preleased, leaving 681,000 sf that could enter vacancy once complete. The build-to-suits include Google, Nvidia, and Fortinet who are all building on their own land. Although the major tech companies have yet to return to the office, we are still tracking 5.3 msf of active office/R&D requirements. We anticipate this total increasing significantly as progress is made on vaccines and therapeutics, and a greater number of people return to the workplace. Although the work-from-home model has been successful for some, surveys are finding many employees miss the culture and collaboration of in-person work. Moreover, it is impossible for many users with lab or production components to work remotely.

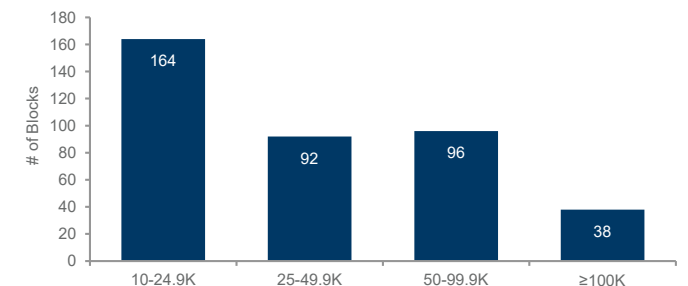
Outlook

- The overall R&D performance to-date in 2020 has been lackluster at best. But even with the increasing vacancy and negative net absorption, rents have so far held up. As the economy recovers, we expect the Silicon Valley R&D market to recover faster than many other markets due to its concentration of companies in critical tech sectors.
- Although the demand pipeline has decreased, there are still 5.3 msf of tenants actively looking for office/R&D space in the Silicon Valley.
- Another sign of a strengthening market is the return of NNN leased investments. Several portfolios closed this quarter are located in Milpitas, Santa Clara and Cupertino.

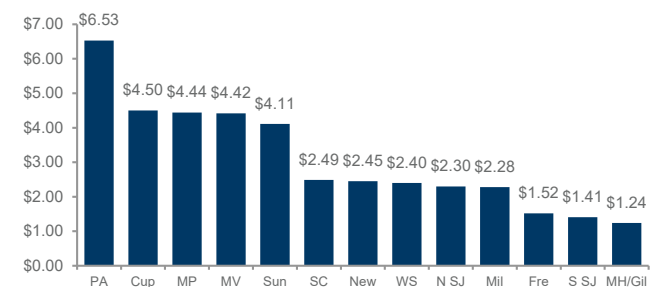
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



BLOCKS OF CONTIGUOUS SPACE



ASKING RENT COMPARISON





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CONST (SF)	OVERALL AVG ASKING RENT*
Menlo Park	3,908,321	25,300	147,890	4.4%	(75,827)	(103,158)	107,405	0	\$4.44
Palo Alto	10,451,160	422,415	883,864	12.5%	(5,932)	(260,616)	806,956	85,420	\$6.53
Mountain View	14,645,471	344,442	505,610	5.8%	(60,775)	(255,713)	321,776	1,218,372	\$4.42
Cupertino	5,699,475	0	21,000	0.4%	0	23,490	523,161	0	\$4.50
Westside	2,277,324	12,615	113,996	5.6%	17,050	32,768	257,289	0	\$2.40
Sunnyvale	23,314,085	349,140	1,338,916	7.2%	(342,095)	(379,592)	685,872	1,495,211	\$4.11
Santa Clara	21,621,680	866,543	2,279,625	14.6%	(394,961)	(849,519)	800,578	750,000	\$2.49
North San Jose	36,048,400	1,624,986	4,082,431	15.8%	(338,981)	(261,561)	1,631,308	0	\$2.30
South San Jose	10,351,111	383,002	693,244	10.4%	(42,429)	(163,516)	206,627	0	\$1.41
Milpitas	12,681,426	202,265	2,181,345	18.8%	(24,282)	14,602	336,947	0	\$2.28
Fremont	20,685,146	292,140	1,702,011	9.6%	70,742	(260,357)	1,073,360	0	\$1.52
Newark	3,047,685	194,196	117,195	10.2%	13,800	(31,557)	164,667	0	\$2.45
Morgan Hill/Gilroy	3,583,090	40,000	172,631	5.9%	(8,662)	(34,481)	43,917	0	\$1.24
TOTALS	168,314,374	4,757,044	14,239,758	11.3%	(1,192,352)	(2,529,210)	6,959,863	3,549,003	\$2.76

*Rental rates reflect triple net asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
3000 Hanover St	Palo Alto	Guardant Health	Sand Hill Property Company	249,549	New Lease
3850 & 3870 First St, N.	North San Jose	Microchip Technology	Sobrato Development Company	179,232	Renewal
6700 Dumbarton Cir	Fremont	Facebook	Peery Arrillaga	111,465	New Lease
1501 Page Mill Rd	Palo Alto	TripActions	Stanford	98,690	Renewal
2400 Ringwood Ave	North San Jose	Olympus	L.A. Royal Vista Golf Courses	80,000	Renewal

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Triangle Technology Park	Santa Clara	Local Capital Group & DRA Advisors / Hines Global Income	416,924	\$107.1M / \$256
475, 501 & 525 Sycamore Dr	Milpitas	Westport Capital / Vertical Ventures	216,670	\$45.5M / \$210
461-471 Milpitas Blvd *	Milpitas	Orinda Equity Partners / TDK Headway Technologies	160,568	\$31.2M / \$194
10300-10460 Bubb Rd	Cupertino	Graymark Capital & PIMCO / Bubb R&D Owner I, LLC	109,779	\$73.8M / \$672
3181 Porter Dr	Palo Alto	Stanford University / Alexandria Real Estate	99,415	\$115.2M / \$1,158

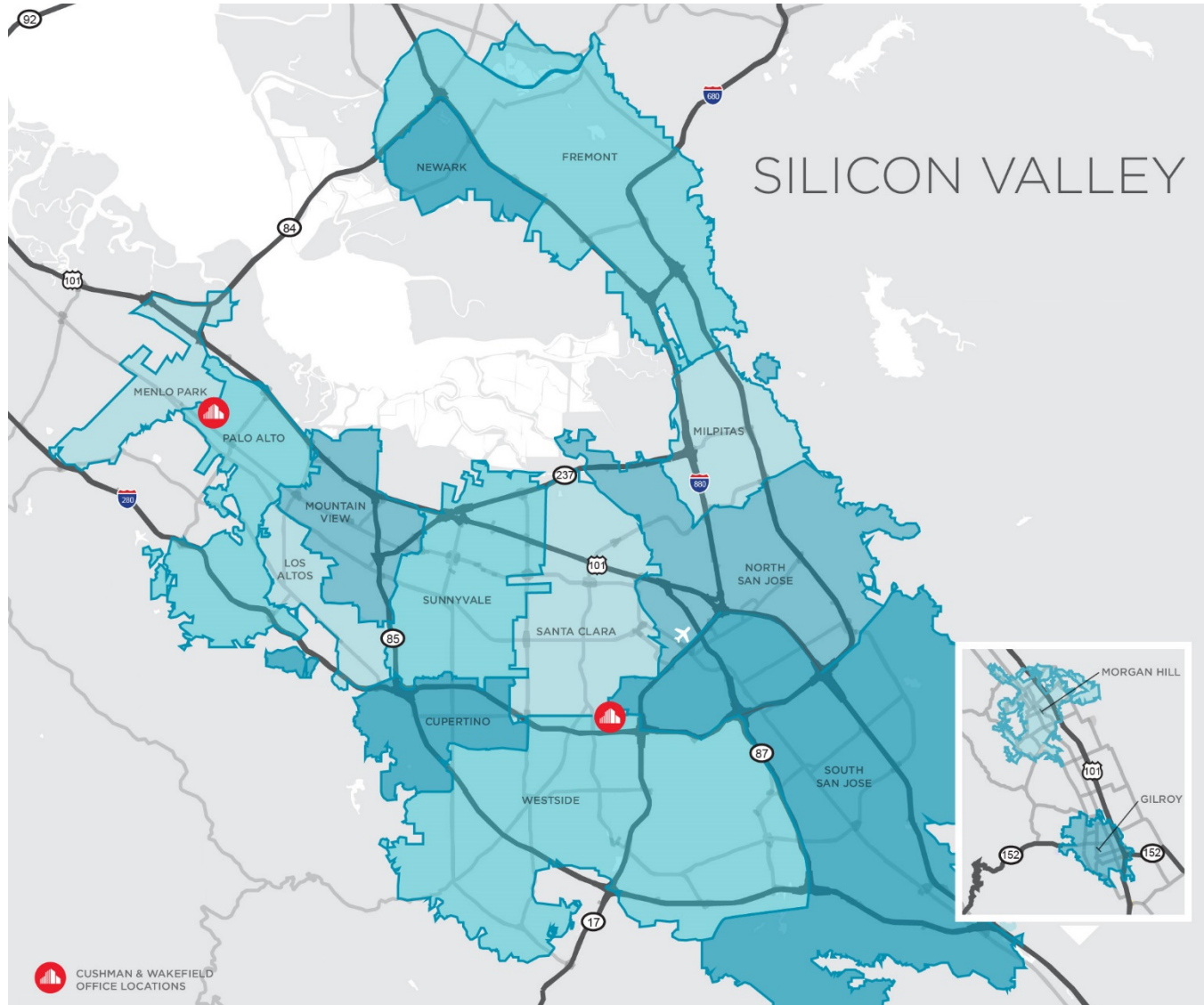
* Owner/user purchase

Silicon Valley

R&D Q3 2020

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R&D SUBMARKETS



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