



YoY
Chg

12-Mo.
Forecast

12.4%

Vacancy Rate



-300K

Net Absorption, SF



\$5.38

Asking Rent, PSF FS



(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2021

YoY
Chg

12-Mo.
Forecast

1.06M

San Jose MSA
Employment

5.6%

San Jose MSA
Unemployment Rate

6.0%

U.S.
Unemployment Rate

Source: BLS, Moody's Analytics
2021Q1 data are based on latest available data.

ECONOMY: Unemployment Inching Downward

One year ago, U.S. job losses reached levels unseen since the Great Depression. In May 2020 signs of economic life reappeared as businesses started to open. However, in late December as COVID-19 cases spiked, Santa Clara County went back into lockdown. At this writing as the vaccine is rolled out, the economy is again beginning to open. Employment has started to recover, in the San Jose metropolitan statistical area (MSA), however, it remains down on a year-over-year (YOY) basis by 98,600 jobs. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 5.6%, still well above the figure of 2.7% one year ago. This is slightly below the US unemployment rate of 6.0%. As more businesses open, these employment numbers are expected to improve further.

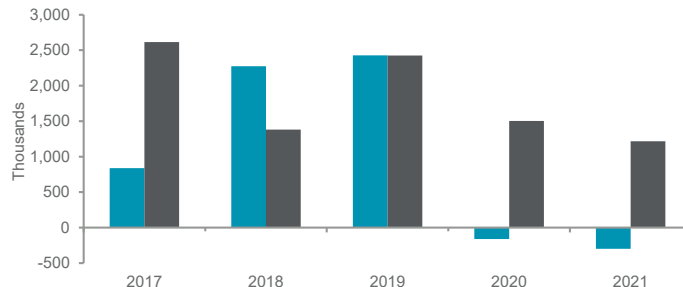
SUPPLY: Vacancy Jumps

Silicon Valley's office vacancy rate jumped to 12.4% during the first quarter of 2021, an increase of 160 basis points (bps) from the 10.8% rate in the fourth quarter. The current rate translates to 10.8 million square feet (msf) of vacancy. It's interesting to note, however, that the percentage of vacant space comprised of subleases has increased just slightly, finishing the first quarter at 25.6% of all vacant space, up from 25.0% in the fourth quarter. Large subleases on the market include Tibco (292,000 sf) in Palo Alto, Citrix (311,000 sf) in Santa Clara, and F5 / Avaya (93,000 sf), also in Santa Clara.

PRICING: Asking Rents Increase

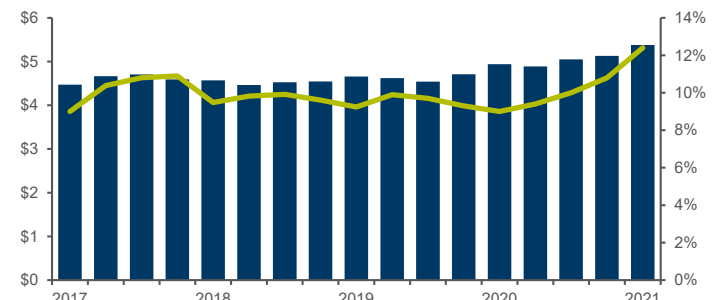
The average asking rent increased in the first quarter to \$5.38 per square foot on a monthly full-service basis (psf) from \$5.13 psf in the fourth quarter. Asking rents across submarkets remained mostly flat in the southern cities during the first quarter, however the northern submarkets of Menlo Park, Palo Alto, Mountain View, and Sunnyvale 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 Q1 2021



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Occupancy Down

Like essentially every other market in the country, new leasing activity is historically low since the pandemic began. Total gross absorption finished the first quarter at 455,000 sf, less than half of what was recorded in both the third and fourth quarters of 2020. For comparison, the annual 2020 gross absorption was 5.3 msf, whereas the 2019 annual number was 10.4 msf. Contributing to this decline is the fact that many companies continue to postpone all but the most essential real estate decisions. For the second quarter in a row, net absorption finished in the red, coming in at negative 300,000 sf in the first quarter. This follows the annual 2020 net absorption at negative 160,000 sf. This decline comes after the huge full-year occupancy growth numbers in 2018 and 2019 of 2.3 msf and 2.4 msf, respectively.

Deal Velocity at Record Lows

The largest deal of the quarter was the only renewal in the top five lease transactions of the first quarter. But, that said, the largest new deal was only 25,000 sf. The largest transaction was Apple's renewal on 57,000 sf in Cupertino. Other top deals were the Silicon Valley Medical Development (25,000 sf in North San Jose) and CreaTV San Jose (18,000 sf in Downtown San Jose). There were two life science tenants in the notable deals this quarter. Vaxcyte leased 22,500 sf in Palo Alto and Canopy took 20,000 sf in Menlo Park.

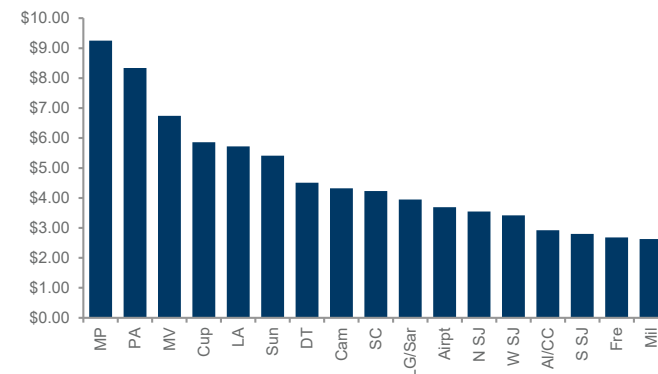
Construction

New product under construction across the region currently stands at approximately 3.9 msf. This is comprised of 2.1 msf of speculative product and 1.8 msf of build-to-suits. It's important to note that only 360,000 sf of the "spec" space is preleased leaving 1.7 msf that will enter the vacancy if not leased prior to completion. Six projects totaling 1.2 msf completed construction in the first quarter. One project, three buildings totaling 611,000 sf in North San Jose, had been pre-leased to Google in 2019. Other completions included Lawrence Station (173,000 sf) in Santa Clara and 285 Sobrante Way (125,000 sf) in Sunnyvale. In Menlo Park, the Springline project also completed with that two-building 212,000 sf project about 20% leased.

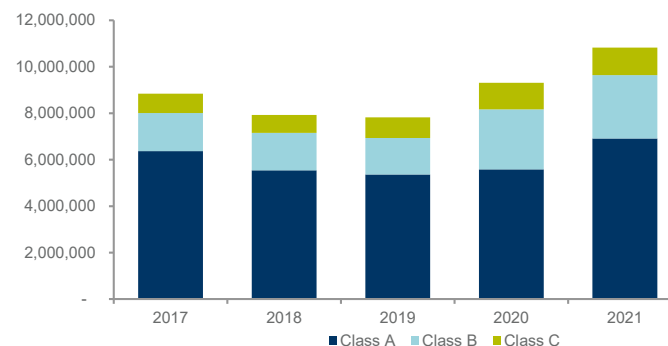
Outlook

- Silicon Valley tech and life science companies will build on their lead as the bellwethers of the U.S. economy. Although some of the large tech tenants have been on hold since the start of the pandemic, there are still 5.6 msf of active office/R&D tenant requirements.
- Office vacancy will likely continue to increase into 2021 as additional sublease space and completed spec projects are added to the market.
- Deal velocity will likely continue to be down until the vaccine is completely rolled out and businesses have returned to the office.

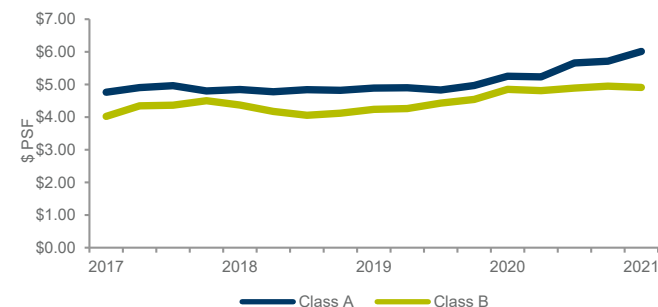
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE BY CLASS



ASKING RENT COMPARISON



Silicon Valley

Office Q1 2021



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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	6,166,317	237,954	641,386	14.3%	(37,638)	(37,638)	41,414	202,003	\$9.25	\$10.03
Palo Alto	10,713,612	641,417	842,632	13.9%	(345,390)	(345,390)	47,247	0	\$8.34	\$9.60
Los Altos	1,161,219	30,928	136,758	14.4%	(24,907)	(24,907)	2,367	0	\$5.72	\$5.64
Mountain View	5,669,868	357,749	337,618	12.3%	28,301	28,301	19,728	244,000	\$6.74	\$7.24
Cupertino	4,425,357	64,606	342,912	9.2%	(42,203)	(42,203)	85,102	0	\$5.86	\$6.43
Campbell	2,548,500	100,699	370,073	18.5%	4,362	4,362	16,518	10,400	\$4.32	\$4.77
Los Gatos/Saratoga	2,531,902	12,265	117,794	5.1%	(1,842)	(1,842)	6,109	0	\$3.95	\$4.33
West San Jose	4,665,300	18,933	253,804	5.8%	(3,261)	(3,261)	15,655	396,754	\$3.42	\$3.50
Sunnyvale	13,115,512	64,799	467,978	4.1%	(21,776)	(21,776)	0	0	\$5.41	\$7.00
Santa Clara	9,941,653	721,561	1,640,704	23.8%	(203,255)	(203,255)	41,210	675,290	\$4.23	\$4.55
San Jose Airport	4,651,693	129,010	445,474	12.3%	(53,877)	(53,877)	20,776	643,990	\$3.69	\$4.17
North San Jose	6,353,946	136,145	699,177	13.1%	563,205	563,205	40,874	0	\$3.55	\$4.17
Alameda/Civic Center	1,986,153	9,449	120,975	6.6%	(19,137)	(19,137)	56,042	26,000	\$2.92	\$4.18
South San Jose	1,782,214	3,700	70,436	4.2%	(1,285)	(1,285)	4,215	0	\$2.80	\$3.83
Downtown San Jose	8,992,572	226,089	1,299,334	17.0%	(94,516)	(94,516)	44,687	1,670,833	\$4.51	\$4.97
Milpitas	908,872	0	101,788	11.2%	(7,409)	(7,409)	2,928	0	\$2.63	\$2.36
Fremont	2,038,924	16,524	166,064	9.0%	(39,180)	(39,180)	10,049	0	\$2.68	\$2.51
CLASS BREAKDOWN										
Class A	53,329,638	2,264,209	4,646,813	13.0%	(110,878)	(110,878)	67,118	3,869,270	\$6.01	
Class B	20,349,380	374,534	2,348,940	13.4%	(87,476)	(87,476)	387,803	0	\$4.91	
TOTALS	87,653,614	2,771,828	8,054,907	12.4%	(299,808)	(299,808)	454,921	3,869,270	\$5.38	\$6.01

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
19925 Stevens Creek	Cupertino	Apple, Inc.	57,407	Renewal
227 Jackson Ave, N.	North San Jose	Silicon Valley Medical Devel.	25,632	New Lease
3350 Bayshore Rd, W.	Palo Alto	Vaxcyte	22,500	New Lease
1300 El Camino Real	Menlo Park	Canopy	20,000	New Lease
38 Second St, S.	Downtown SJ	CreaTV San Jose	18,040	New Lease

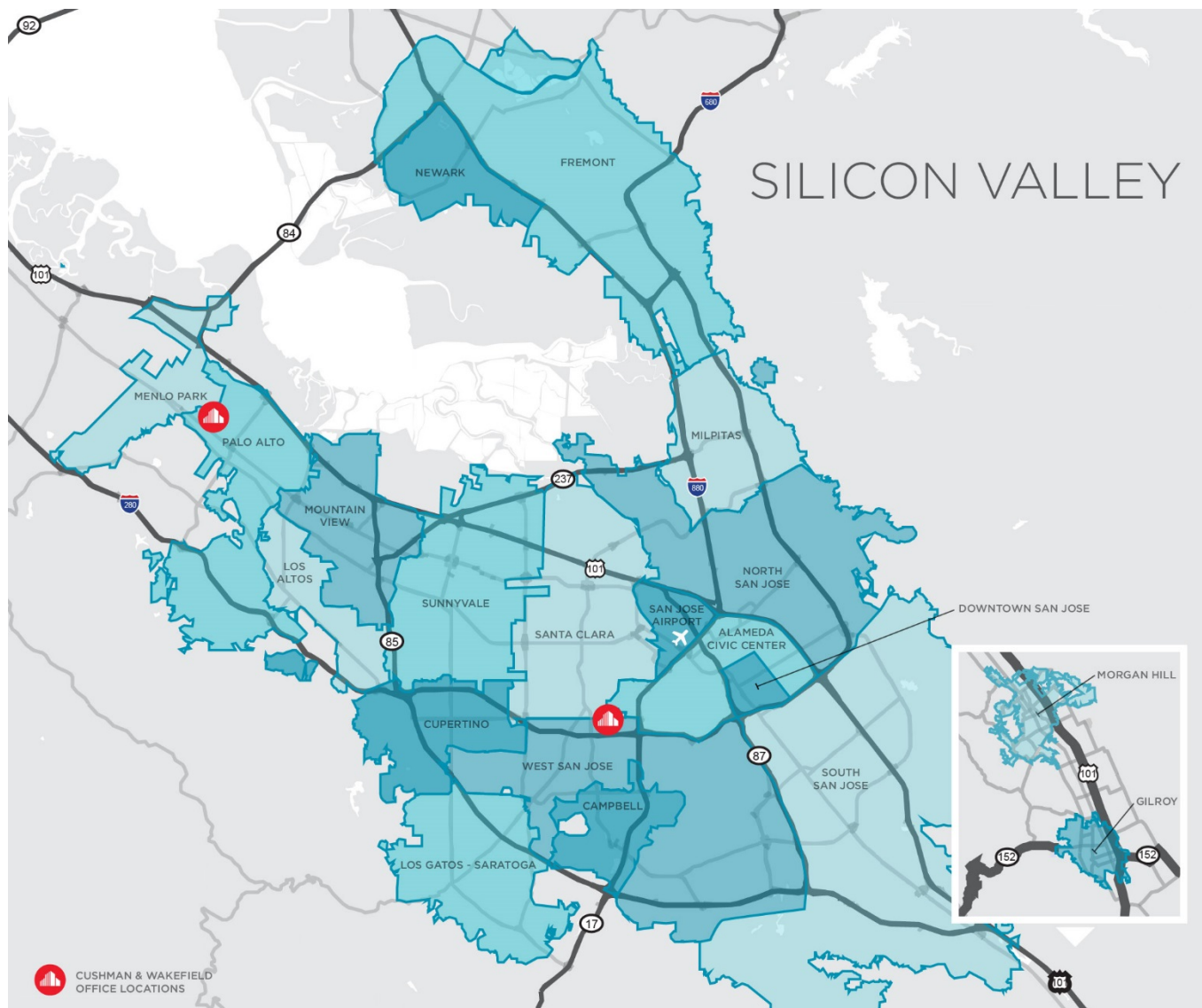
KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Village at San Antonio	Mountain View	Merlone Geier Mgmt / Brookfield Properties	457,806	\$595M* / \$1,300
475-485 Alberto Wy	Los Gatos	Nearon Enterprises / South Bay Development Co.	57,534	\$26.2M / \$455
1922 The Alameda	Alameda/Civic Center	Cooley Comm'l / Momentum for Mental Health	42,363	\$16.6M / \$390

*Allocated sales price.

Silicon Valley

Office Q1 2021

**CUSHMAN &
WAKEFIELD****OFFICE SUBMARKETS****JULIE LEIKER***Market Director, Silicon Valley*

Tel: +1 408 615 3400

Julie.leiker@cushwake.com**CUSHMAN & WAKEFIELD**

300 Santana Row

Fifth Floor

San Jose, CA 95128

525 University Ave

Suite 220

Palo Alto, CA 94301

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