

**13.6%**

Vacancy Rate

YoY
Chg12-Mo.
Forecast**-882K**

Net Absorption, SF

**\$5.39**

Asking Rent, PSF FS



(Overall, All Property Classes)

**ECONOMIC INDICATORS
Q2 2021****1.08M**San Jose MSA
EmploymentYoY
Chg12-Mo.
Forecast**4.8%**San Jose MSA
Unemployment Rate**5.9%**U.S.
Unemployment RateSource: BLS, Moody's Analytics
2021Q2 data are based on latest available data.**ECONOMY: Unemployment Inching Downward**

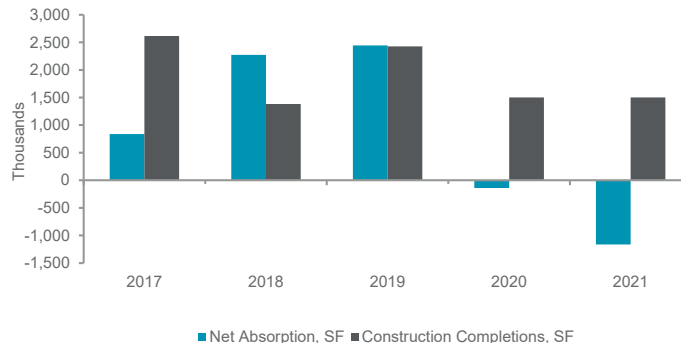
One year ago, U.S. job losses reached levels unseen since the Great Depression. As the COVID-19 vaccine was rolled out earlier this year and the economy began to open, improvement was initially slow. However, in the San Jose metropolitan statistical area (MSA), there have been strong gains with an increase of 52,900 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 4.8%, well below the figure of 11.4% one year ago. This is slightly below the US unemployment rate of 5.9%. As businesses fully reopen, these employment numbers are expected to improve further.

SUPPLY: Vacancy Continues to Increase

Silicon Valley's office vacancy rate jumped to 13.6% during the second quarter of 2021, an increase of 130 basis points (bps) from the 12.3% rate in the first quarter. The current rate translates to 12.0 million square feet (msf) of vacancy. It's interesting to note, however, that the percentage of vacant space comprised of subleases has decreased slightly, finishing the second quarter at 25.0% of all vacant space, down from 25.6% in the first quarter. Large subleases on the market include Citrix (311,000 sf) in Santa Clara, Tibco (292,000 sf) in Palo Alto, and F5 / Shape Security (93,000 sf), in Santa Clara.

PRICING: Asking Rents Flat in Q2

The average asking rent held relatively flat in the second quarter finishing at \$5.39 per square foot on a monthly full-service basis (psf) from \$5.38 psf in the first quarter. Asking rents across submarkets decreased slightly in the southern cities during the second quarter, however the northern submarkets of Menlo Park, Mountain View, Sunnyvale, and Santa Clara experienced slight increases. Menlo Park and Palo Alto 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. Mountain View and Sunnyvale are home to the largest tech companies in Silicon Valley that have continued their appetite for more space which has resulted in increasing rents in recent years.

SPACE DEMAND / DELIVERIES**OVERALL VACANCY & ASKING RENT**



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Office Q2 2021

Deal Velocity Picking Up

The largest deal of the quarter was NetApp's lease of 301,000 sf in Santana Row. This new building had been preleased to Splunk who had not yet occupied. They terminated their lease and NetApp then leased the space. NetApp will be vacating their 702,000-sf campus in Sunnyvale which was recently sold to Tishman Speyer. Other top deals include a confidential tenant in Santa Clara (85,000 sf) and Bloom Energy in North San Jose (48,000 sf). Two renewals were also among the top deals – Judicial Council of California (43,000 sf) in Downtown San Jose and Ooma, Inc. (33,000 sf) in Sunnyvale.

Occupancy Down

Total gross absorption finished the second quarter at 1.1 msf, which was more than double the quarterly historical low of 496,000 sf recorded in the first three months of this year, bringing the year-to-date figure to 1.6 msf. 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 have yet to return to the office. For the third quarter in a row, net absorption finished in the red, coming in at negative 882,000 sf in the second quarter. This follows the annual 2020 net absorption at negative 139,000 sf. This decline comes after the significantly higher than average full-year occupancy numbers in 2018 and 2019 of 2.3 msf and 2.4 msf, respectively.

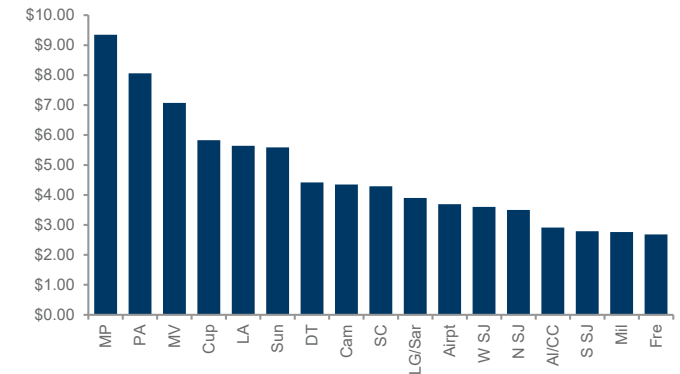
Construction

New product under construction across the region currently stands at approximately 4.0 msf. This is comprised of 1.8 msf of speculative product and 2.2 msf of build-to-suits. It's important to note that only 177,000 sf of the "spec" space is preleased which leaves 1.6 msf that will enter the vacancy if not leased prior to completion. The first building of ServiceNow's phase II (268,000 sf in Santa Clara) completed construction in the second quarter. Their second building of 231,000 sf is currently under construction and is expected to be completed in the second quarter of 2022.

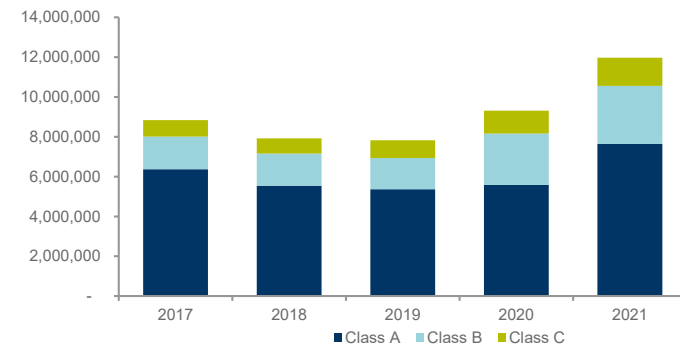
Outlook

- Silicon Valley tech and life science companies will build on their lead as the bellwethers of the U.S. economy. The active requirements have picked up since the thick of the pandemic when many requirements were placed on hold. There are now 7.1 msf of active office/R&D tenant requirements in the Silicon Valley.
- Office vacancy is forecast to increase further in the short-term as completed spec projects and additional sublease space are added to the market.
- While the premier submarkets in the northern submarkets are expected to recover at a faster pace, an uptick in activity in San Jose proper is projected as new office, retail, cultural and multi-family projects come online.

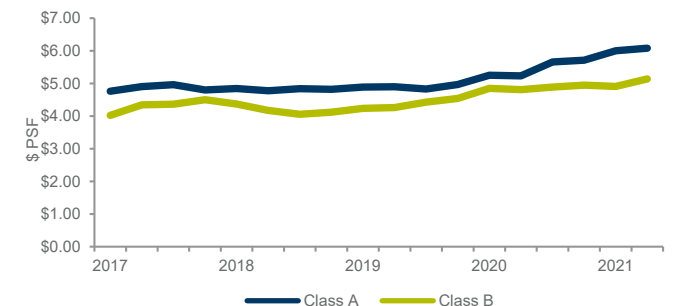
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE BY CLASS



ASKING RENT COMPARISON



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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	6,166,787	236,282	701,014	15.2%	(68,528)	(95,594)	69,012	202,003	\$9.35	\$10.08
Palo Alto	10,726,615	636,968	1,048,188	15.7%	(200,427)	(545,817)	75,954	0	\$8.06	\$9.21
Los Altos	1,161,219	23,881	146,581	14.7%	(2,557)	(27,683)	19,803	0	\$5.64	\$5.60
Mountain View	5,671,344	360,344	394,873	13.3%	(59,500)	(31,549)	98,237	244,000	\$7.07	\$7.62
Cupertino	4,415,435	61,218	356,010	9.4%	(19,710)	(61,913)	93,473	0	\$5.83	\$6.43
Campbell	2,549,034	106,789	382,935	19.2%	(18,952)	(14,590)	80,947	12,200	\$4.35	\$4.79
Los Gatos/Saratoga	2,545,161	19,621	119,922	5.5%	2,328	486	17,088	0	\$3.90	\$4.33
West San Jose	4,683,864	31,549	365,657	8.5%	(107,941)	(111,202)	366,965	375,000	\$3.60	\$4.15
Sunnyvale	13,109,931	132,889	654,103	6.0%	(257,085)	(278,991)	50,488	182,500	\$5.59	\$7.05
Santa Clara	10,211,171	803,708	1,667,610	24.2%	153,297	(43,752)	214,156	638,178	\$4.29	\$4.68
San Jose Airport	4,651,693	143,638	476,691	13.3%	(51,272)	(99,722)	80,024	643,990	\$3.69	\$4.14
North San Jose	6,354,822	123,975	716,815	13.2%	(3,293)	557,737	142,561	0	\$3.50	\$4.10
Alameda/Civic Center	2,001,033	9,449	137,349	7.3%	(1,494)	(20,631)	63,633	0	\$2.91	\$4.18
South San Jose	1,782,214	3,700	91,344	5.3%	(20,908)	(22,193)	20,952	0	\$2.79	\$3.33
Downtown San Jose	9,003,742	276,473	1,446,901	19.1%	(215,488)	(310,004)	161,899	1,661,985	\$4.42	\$5.11
Milpitas	908,872	0	112,403	12.4%	(10,615)	(18,024)	10,016	0	\$2.76	\$2.36
Fremont	2,038,924	16,524	165,602	8.9%	462	(38,718)	23,048	0	\$2.68	\$2.51
CLASS BREAKDOWN										
Class A	53,595,362	2,463,432	5,178,353	14.3%	(484,412)	(573,215)	14,365	3,959,856	\$6.08	
Class B	20,390,704	387,164	2,530,747	14.3%	(183,430)	(273,300)	1,573,891	0	\$5.14	
TOTALS	87,981,861	2,987,008	8,983,998	13.6%	(881,683)	(1,162,160)	1,588,256	3,959,856	\$5.39	\$6.08

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q2 2021

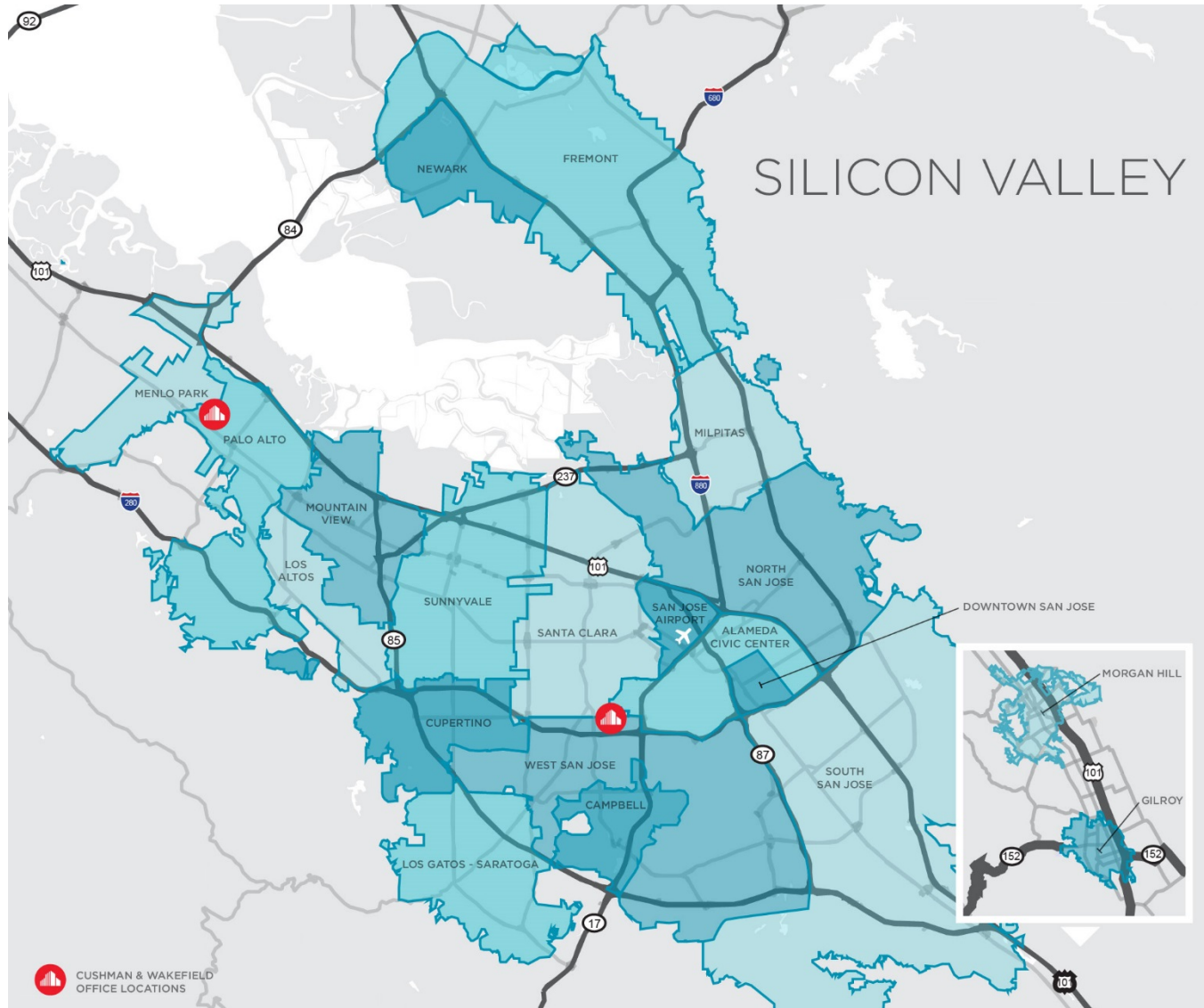
PROPERTY	SUBMARKET	TENANT	SF	TYPE
700 Santana Row	West San Jose	NetApp	301,000	New Lease
3075 Olcott	Santa Clara	Confidential	85,995	New Lease
4353 First St. N.	North San Jose	Bloom Energy	48,655	Expansion
333 Santa Clara St. W.	Downtown SJ	Judicial Council of California	43,758	Renewal
525 Almanor Ave	Sunnyvale	Ooma, Inc.	33,407	Renewal

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1275-1395 Crossman	Sunnyvale	Network Appliance / Tishman Speyer	702,193	\$365M / \$520
488 Almaden Blvd	Downtown SJ	Oracle / Lane Partners	381,000	\$155M / \$402
2 First St. N.	Downtown SJ	KSP Holdings / Florian Barth	49,440	\$14.6M / \$295
20 Santa Cruz, Ave. S.	Los Gatos	MTC Property Mgmt / Sridhar Equities, Inc.	42,936	\$20.8M / \$484

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