

YoY Chg      12-Mo. Forecast

**15.3%**  
Vacancy Rate      ▲      ▲

**-949K**  
Net Absorption, SF      ▼      ▼

**\$5.38**  
Asking Rent, PSF FS      ▲      ▼

(Overall, All Property Classes)

**ECONOMIC INDICATORS Q3 2021**

YoY Chg      12-Mo. Forecast

**1.10M**  
San Jose MSA Employment      ▲      ▲

**4.6%**  
San Jose MSA Unemployment Rate      ▼      ▼

**5.2%**  
U.S. Unemployment Rate      ▼      ▼

Source: BLS, Moody's Analytics  
2021Q3 data are based on latest available data.

**ECONOMY: Unemployment Ratcheting Up**

Eighteen months 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. There have been gains in the San Jose metropolitan statistical area (MSA), with an increase of 37,600 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 4.6%, below the figure of 8.3% one year ago. This is slightly below the US unemployment rate of 5.2%. As businesses fully reopen, these employment numbers are expected to improve further.

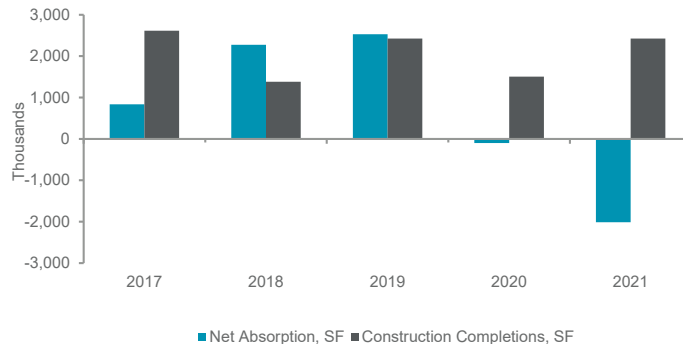
**SUPPLY: Vacancy Increases Again**

Silicon Valley's office vacancy rate continued to increase, jumping to 15.3% during the third quarter, an increase of 190 basis points (bps) from the 13.4% rate in the second quarter. The current rate translates to 13.6 million square feet (msf) of vacancy. Subleases increased slightly, finishing the third quarter at 25.1% of all vacant space, up from 24.3% in the second quarter. Large sublease blocks on the market include Yahoo/Verizon (603,000 sf) in the Airport submarket, Citrix (311,000 sf) in Santa Clara, and Tibco (292,000 sf) in Palo Alto.

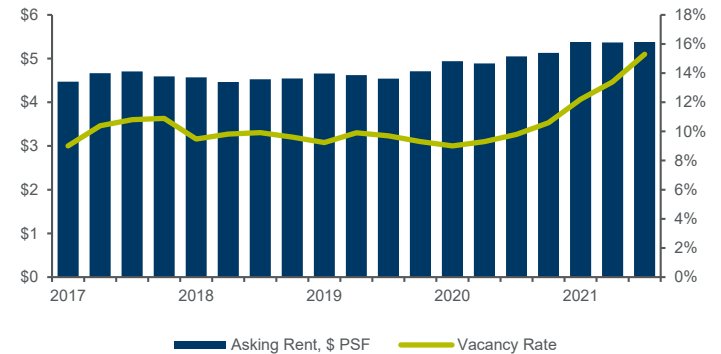
**PRICING: Asking Rents Remain Flat**

The average asking rent held relatively flat in the third quarter finishing at \$5.38 per square foot on a monthly full-service basis (psf) from \$5.37 psf in the second quarter. The southern submarkets experienced a slight decline during the second quarter, however the northern submarkets of Palo Alto, 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 which have continued their appetite for more space, resulting in ever higher rents in recent years.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**





# Silicon Valley

Office Q3 2021

## Deal Velocity Below Average

The top deals of the quarter were confined to the cities of Santa Clara and Menlo Park. The largest deal was Ampere’s expansion/renewal of 116,000 sf in Santa Clara. Other top deals include Grail, Inc. (34,000 sf), Sheppard Mullin (31,000 sf) and Genesys Cloud Services (23,000 sf), all in Menlo Park. Rounding out the top 5 deals was a sublease to Quotient (31,000 sf) in Santa Clara.

## Occupancy Down

Total gross absorption finished the third quarter at 1.0 msf, a decrease from the 1.2 msf recorded in the second quarter. This brings the year-to-date figure to 2.8 msf. For comparison, the annual 2020 gross absorption was 5.3 msf, whereas the 2019 annual number was 10.5 msf. For the fourth quarter in a row, net absorption finished in the red, coming in at negative 949,000 sf in the third quarter, which brings the year-to-date figure to negative 2.0 msf. This follows the annual 2020 net absorption at negative 100,000 sf. This decline comes after the significantly higher than average full-year occupancy numbers in 2018 and 2019 of 2.3 msf and 2.5 msf, respectively.

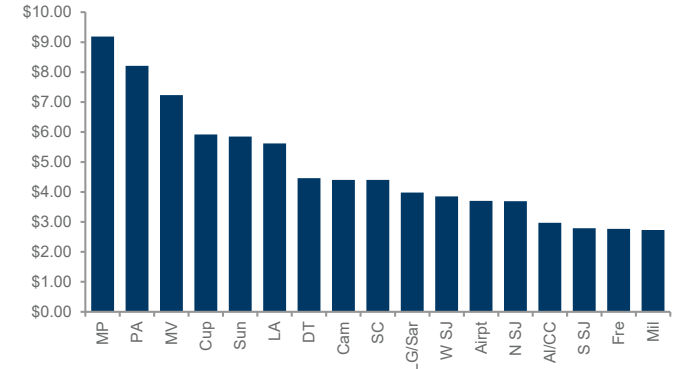
## Office Deliveries Continue

New product under construction across the region currently stands at approximately 3.3 msf. This is comprised of 1.7 msf of speculative (spec) product and 1.6 msf of build-to-suits. It’s important to note that only 92,000 sf of the spec space is preleased which leaves 1.6 msf that will enter the vacancy if not leased prior to completion. There were two significant completions in the third quarter. First, was a spec building totaling 259,000 sf in Santa Clara with one deal of 85,000 sf completed thus far. Second, was the preleased 657,000 sf building in the Airport submarket that had been preleased to Verizon in 2019. However, Verizon, now Yahoo, just put this building on the market for sublease.

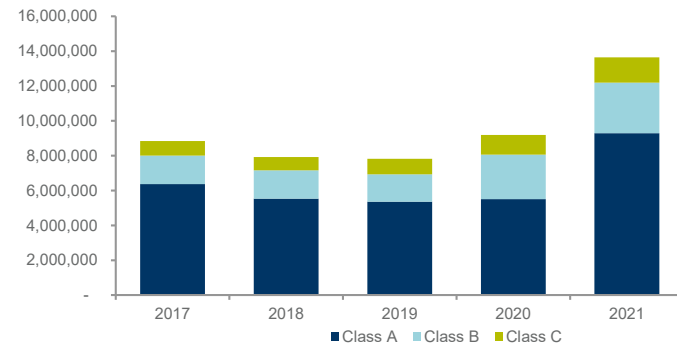
## Outlook

- 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 7.9 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.
- Rents will hold flat and deal velocity will remain below average until early next year when most tech companies plan a more robust return to the office.

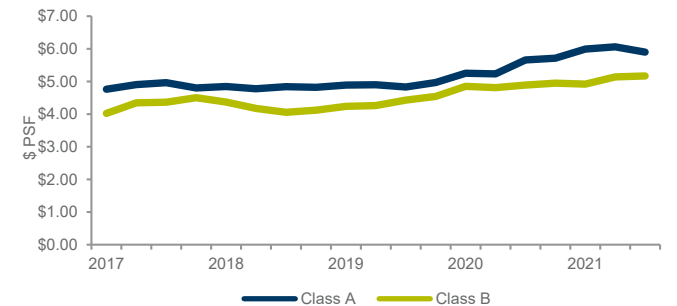
AVERAGE ASKING RATE BY SUBMARKET



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	6,214,790	154,953	732,886	14.3%	19,089	(42,263)	258,710	154,000	\$9.19	\$9.71
Palo Alto	10,731,328	646,835	1,128,096	16.5%	(96,035)	(635,592)	209,605	0	\$8.21	\$9.38
Los Altos	1,178,824	26,245	199,343	19.1%	(55,269)	(82,809)	43,718	0	\$5.62	\$5.61
Mountain View	5,673,153	363,700	335,185	12.3%	56,106	24,783	187,572	478,331	\$7.23	\$7.65
Cupertino	4,402,132	61,218	360,829	9.6%	(4,819)	(66,732)	139,531	0	\$5.92	\$6.43
Campbell	2,549,794	90,214	456,714	21.4%	(57,204)	(71,794)	141,177	11,494	\$4.40	\$4.74
Los Gatos/Saratoga	2,565,607	15,630	121,704	5.4%	1,044	2,695	40,954	0	\$3.98	\$4.35
West San Jose	4,701,670	23,422	399,213	9.0%	(27,518)	(138,720)	390,938	375,000	\$3.85	\$5.29
Sunnyvale	13,121,650	93,188	1,249,464	10.2%	(595,361)	(834,651)	78,130	182,500	\$5.85	\$6.38
Santa Clara	10,481,984	711,479	2,107,054	26.9%	(102,559)	(135,169)	428,928	378,944	\$4.40	\$4.71
San Jose Airport	5,255,056	722,981	490,309	23.1%	10,402	(89,320)	150,856	0	\$3.70	\$4.14
North San Jose	6,354,822	201,925	663,278	13.6%	(58,894)	498,843	341,265	0	\$3.69	\$4.31
Alameda/Civic Center	2,001,033	9,449	150,585	8.0%	(13,236)	(33,867)	101,906	0	\$2.97	\$4.18
South San Jose	1,782,214	3,700	85,302	5.0%	6,042	(16,151)	23,226	0	\$2.79	\$3.24
Downtown San Jose	9,001,797	286,243	1,470,004	19.5%	(32,873)	(342,877)	197,239	1,690,342	\$4.46	\$5.12
Milpitas	908,872	0	126,285	13.9%	(13,882)	(31,906)	13,427	0	\$2.73	\$2.40
Fremont	2,038,924	13,901	147,045	7.9%	15,572	(17,538)	41,492	0	\$2.77	\$2.51
<b>CLASS BREAKDOWN</b>										
Class A	54,533,120	2,918,729	6,373,436	17.0%	(878,658)	(1,372,112)	25,990	3,270,611	\$5.90	
Class B	20,387,700	373,470	2,527,488	14.2%	(10,709)	(271,272)	2,762,684	0	\$5.17	
<b>TOTALS</b>	<b>88,963,650</b>	<b>3,425,083</b>	<b>10,223,296</b>	<b>15.3%</b>	<b>(949,395)</b>	<b>(2,013,068)</b>	<b>2,788,674</b>	<b>3,270,611</b>	<b>\$5.38</b>	<b>\$5.90</b>

\*Rental rates reflect full service asking

\*Market indicators are not reflective of US MarketBeat tables

## KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
4655 Great America	Santa Clara	Ampere	116,103	Renew/Expan
1020 Marsh Rd	Menlo Park	Grail, Inc.	34,464	New Lease
2755 Augustine Dr	Santa Clara	Quotient	31,250	Sublease
1540 El Camino Real Flrs 1-2	Menlo Park	Sheppard Mullin	31,216	New Lease
1300 El Camino Real #300	Menlo Park	Genesys Cloud Services	23,165	New Lease

## KEY SALES TRANSACTIONS Q3 2021

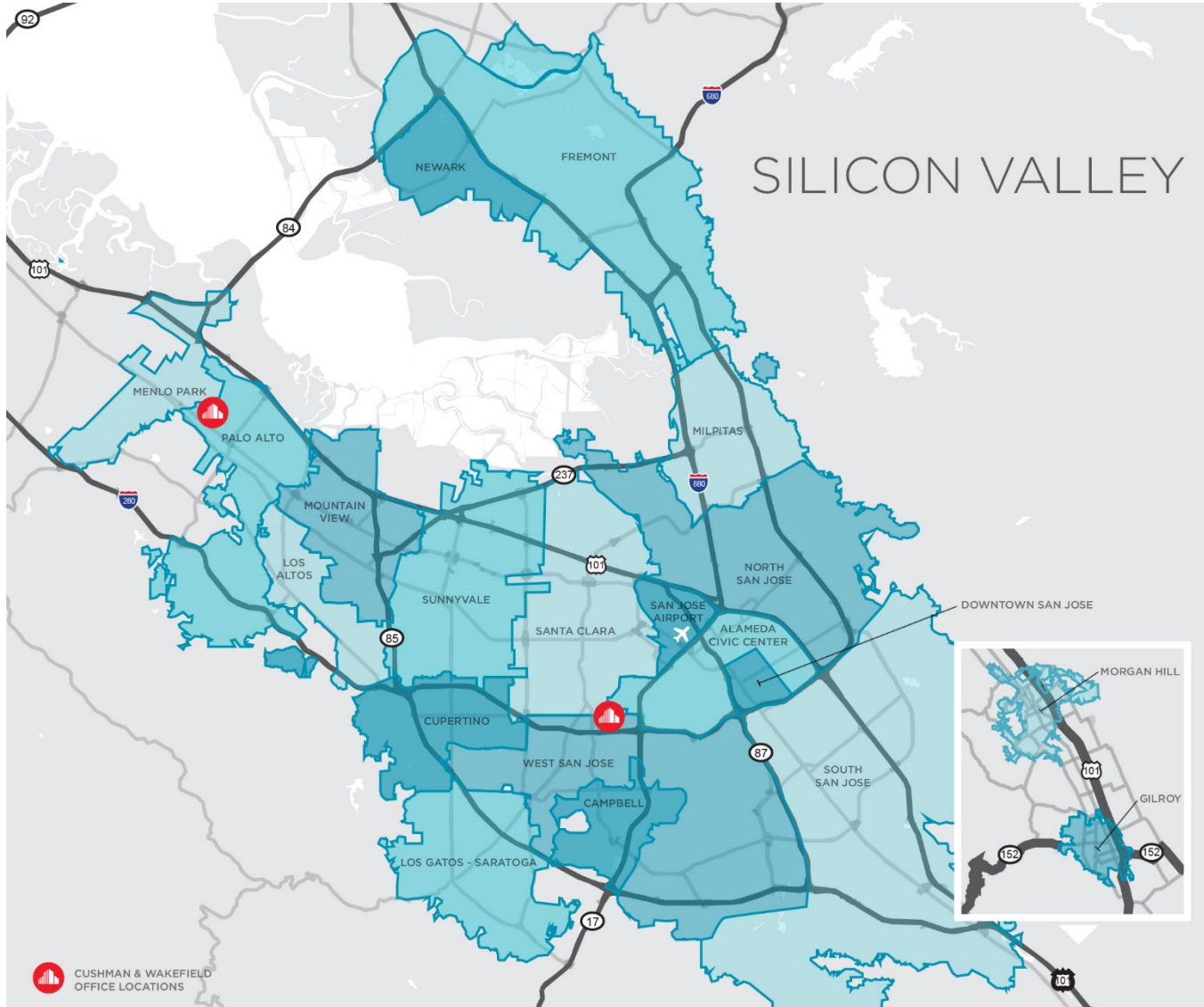
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
110-130 Holger Way	North San Jose	Mori Partners / KKR Real Estate Select Trust	603,666	\$535.0M / \$886
America Center Ph I	North San Jose	USAA Real Estate / Shorenstein	434,672	\$235.0M / \$540
750 Moffett Blvd	Mountain View	Broadreach Capital / JR Asset Management	222,000	\$282.6M / \$1,273
10001 & 10101 De Anza Blvd, N.	Cupertino	Madison Marquette / Cantor Fitzgerald & Co.	83,936	\$63.8M / \$760

# Silicon Valley

Office Q3 2021



## OFFICE SUBMARKETS



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