

YoY Chg      12-Mo. Forecast

**15.3%**  
Vacancy Rate      ▲      ▲

**499K**  
Net Absorption, SF      ▲      ▼

**\$5.35**  
Asking Rent, PSF FS      ▲      ▼

(Overall, All Property Classes)

**ECONOMIC INDICATORS Q4 2021**

YoY Chg      12-Mo. Forecast

**1.11M**  
San Jose MSA Employment      ▲      ▲

**4.5%**  
San Jose MSA Unemployment Rate      ▼      ▼

**4.2%**  
U.S. Unemployment Rate      ▼      ▼

Source: BLS, Moody's Analytics  
2021Q4 data are based on latest available data.

**ECONOMY: Employment Increases**

The Bay Area economy, like all markets around the globe, was pummeled at the onset of the COVID-19 pandemic. Parts of the labor force took the opportunity to move away from urban areas, at least temporarily. And though many workers within the office sector remain “remote” for a larger part of their duties, the economy itself has recovered strongly over the past three quarters. There have been gains in the San Jose metropolitan statistical area (MSA), with an increase of 50,500 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 4.5%, below the figure of 6.2% one year ago. This is slightly above the US unemployment rate of 4.2%. As businesses fully reopen, these employment numbers are expected to improve further.

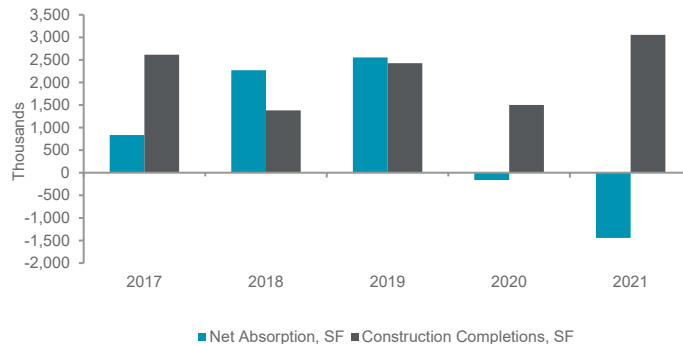
**SUPPLY: Vacancy Levels Off**

Silicon Valley’s office vacancy rate increased only slightly, finishing the fourth quarter at 15.3%, up from the 15.2% rate in the third quarter. The current rate translates to 13.7 million square feet (msf) of vacancy. Subleases decreased in the fourth quarter, coming in at 22.7% of all vacant space, down from 24.9% in the third quarter. Subleases had been trending upward since 2019, recording as much as 31.0% in the second quarter of 2019. 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 decreased slightly in the fourth quarter finishing at \$5.35 per square foot on a monthly full-service basis (psf) from \$5.37 psf in the third quarter. Rents continue to skew higher in the Menlo Park and Palo Alto submarkets due to their proximity to Stanford University and the concentration of prestigious venture capital firms along Sand Hill Road. Also remaining on the higher end are the Mountain View and Sunnyvale submarkets which are home to the largest tech companies in Silicon Valley that have continued their appetite for more space.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**



# Silicon Valley

Office Q4 2021



### Deal Velocity Bolstered by Large Deal

The top deals of the quarter were confined to the cities of Sunnyvale and San Jose. The largest deal of the quarter was Facebook’s lease of four buildings totaling 719,000 sf in Sunnyvale. This complex was just sold by NetApp to Tishman Speyer earlier in 2021. The other top deals were significantly smaller and included the renewal of Western Alliance Bank (51,000 sf) in Downtown San Jose, Bloom Energy’s expansion (32,000 sf) in North San Jose and Eargo (25,000 sf), also in North San Jose.

### Occupancy in Positive Territory

Thanks to the large Facebook deal, total gross absorption finished the fourth quarter at 1.7 msf, an increase from the 1.1 msf recorded in the third quarter. This brings the annual 2021 figure to 4.6 msf. For comparison, the annual 2020 gross absorption was 5.3 msf, whereas the 2019 annual number was 10.4 msf. After four quarters of negative net absorption, the occupancy in the fourth quarter was back in the black, recording 499,000 sf. However, the 2021 figure was still showing a negative 1.4 msf. This follows the annual 2020 net absorption at negative 159,000 sf.

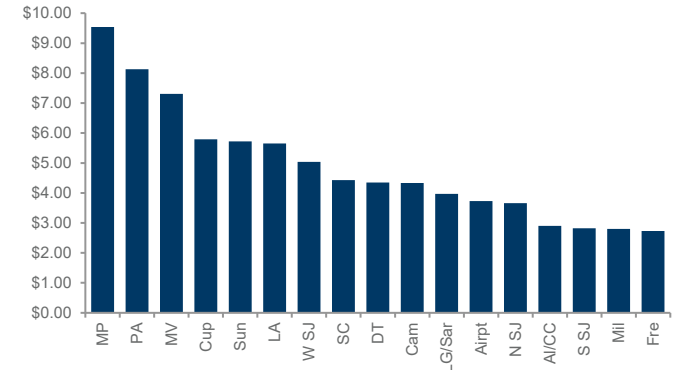
### Office Deliveries Continue

New product under construction across the region currently stands at approximately 2.8 msf. This is comprised of 1.5 msf of speculative (spec) product and 1.3 msf of build-to-suits. It’s important to note that only 92,000 sf of the spec space is preleased which leaves 1.4 msf that will, of course, enter statistics as vacancy if not leased prior to completion in mid-2023. There were two significant completions in the fourth quarter. First, was phase I of Santana West, a spec building totaling 375,000 sf in West San Jose. Second, was LinkedIn’s build-to-suit of 244,000 sf in Mountain View. LinkedIn plans an additional two buildings totaling 488,000 sf on the site.

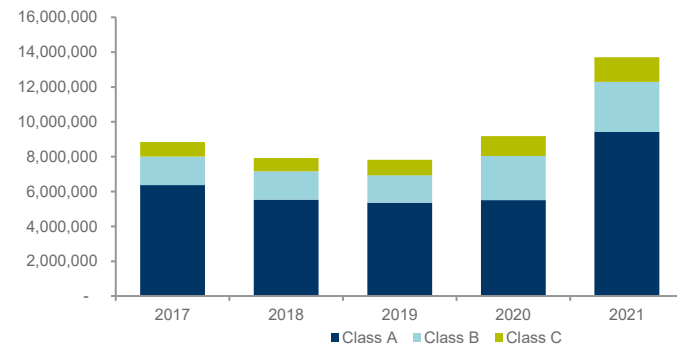
### Outlook

- 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 were placed on hold. There are now 8.9 msf of active office/R&D tenant requirements in the Silicon Valley.
- Rents will be reasonably flat, the result of more of a tenant’s market offset by rising construction costs; 2022 and 2023 will see a bifurcated market where trophy space will lease quickly while commodity product will struggle.
- Large block space will be scarce as space is taken off the market with limited new large block spec construction.

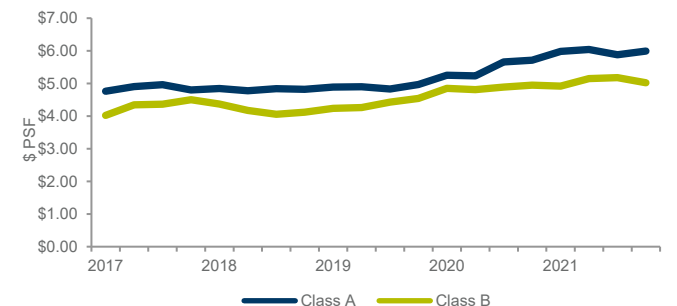
AVERAGE ASKING RATE BY SUBMARKET



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	105,354	679,237	12.6%	46,879	58,585	317,292	154,000	\$9.54	\$10.03
Palo Alto	10,741,776	662,942	1,106,248	16.5%	(12,282)	(635,796)	431,375	0	\$8.13	\$9.37
Los Altos	1,178,824	18,012	192,844	17.9%	12,237	(68,077)	47,619	0	\$5.65	\$5.61
Mountain View	5,919,737	176,927	409,184	9.9%	358,202	384,141	501,039	233,543	\$7.31	\$8.13
Cupertino	4,418,632	30,885	367,429	9.0%	40,233	(26,499)	141,801	0	\$5.79	\$6.43
Campbell	2,562,817	80,022	454,727	20.9%	22,001	(48,121)	164,224	0	\$4.33	\$4.74
Los Gatos/Saratoga	2,571,384	24,879	132,910	6.1%	(20,455)	(17,760)	46,942	0	\$3.97	\$4.35
West San Jose	5,085,176	22,839	778,374	15.8%	(6,278)	(142,298)	458,619	0	\$5.04	\$5.82
Sunnyvale	13,121,650	89,733	1,226,138	10.0%	26,781	(807,870)	690,618	361,778	\$5.72	\$7.12
Santa Clara	10,481,985	701,552	2,162,564	27.3%	(42,609)	(180,751)	640,644	378,944	\$4.43	\$4.73
San Jose Airport	5,255,056	728,346	559,408	24.5%	(74,464)	(163,784)	210,186	0	\$3.73	\$4.14
North San Jose	6,354,822	218,863	548,395	12.1%	97,945	596,788	415,293	0	\$3.66	\$4.44
Alameda/Civic Center	2,001,033	9,449	150,220	8.0%	365	(33,502)	114,737	0	\$2.90	\$4.18
South San Jose	1,782,214	3,700	87,773	5.1%	(2,471)	(18,622)	29,246	0	\$2.82	\$3.23
Downtown San Jose	8,999,576	227,017	1,481,200	19.0%	48,030	(294,847)	317,789	1,690,342	\$4.35	\$5.12
Milpitas	908,872	0	110,327	12.1%	15,958	(15,948)	31,654	0	\$2.80	\$2.40
Fremont	2,038,924	17,870	147,371	8.1%	(11,054)	(28,592)	53,050	0	\$2.73	\$2.51
<b>CLASS BREAKDOWN</b>										
Class A	55,182,432	2,715,888	6,706,999	17.1%	446,489	(860,396)	36,694	2,818,607	\$5.99	
Class B	20,391,200	305,973	2,567,945	14.1%	12,627	(252,195)	4,575,434	0	\$5.02	
<b>TOTALS</b>	<b>89,637,268</b>	<b>3,118,390</b>	<b>10,594,349</b>	<b>15.3%</b>	<b>499,018</b>	<b>(1,442,953)</b>	<b>4,612,128</b>	<b>2,818,607</b>	<b>\$5.35</b>	<b>\$5.99</b>

\*Rental rates reflect full service asking

\*Market indicators are not reflective of US MarketBeat tables

## KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Moffett Green	Sunnyvale	Meta / Facebook	719,027	New Lease
55 Almaden Blvd	Downtown SJ	Western Alliance Bank	51,974	Renewal
4353 N. First St.	No. San Jose	Bloom Energy	32,799	Expansion
2665 N. First St.	No. San Jose	Eargo	25,417	New Lease
333 W. San Carlos St.	Downtown SJ	Plantronics	20,061	Sublease

## KEY SALES TRANSACTIONS Q4 2021

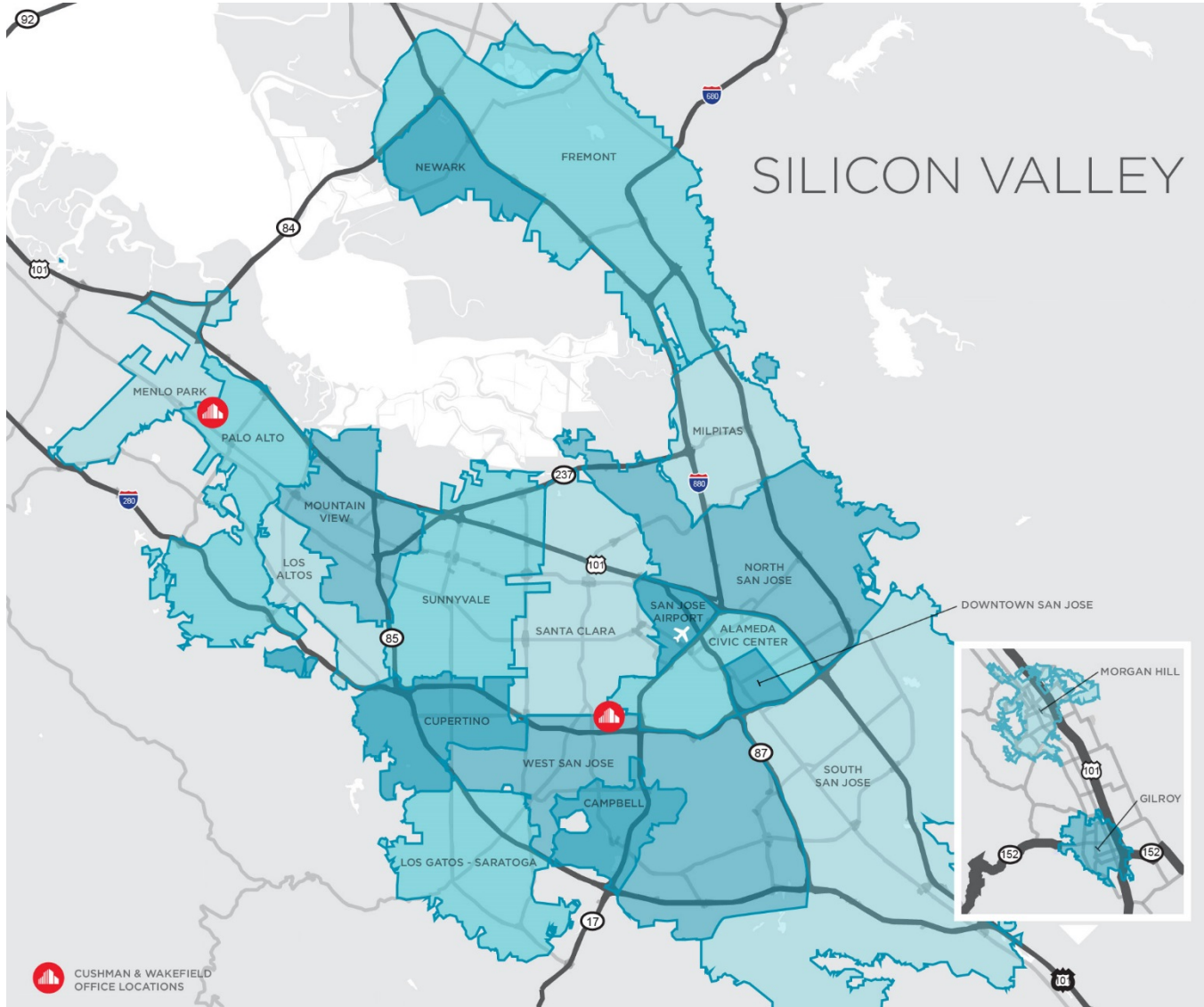
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Coleman Highline	SJ Airport	Hunter Properties / AGC Equity Partners	657,934	\$780.0M / \$1,185
5300 Stevens Creek Blvd	W. San Jose	Stockbridge Capital / LBA Realty	86,244	\$76.5M / \$887
5150 El Camino Real	Los Altos	5150 ECR Group / Prometheus Real Estate	79,150	\$48.0M / \$606
1995 El Camino Real	Santa Clara	2232 Calle Del Mundo LLC / Itra Investment Prop.	31,756	\$12.0M / \$378

# Silicon Valley

Office Q4 2021



## OFFICE SUBMARKETS



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