

YoY Chg 12-Mo. Forecast

11.9%

Vacancy Rate



2.2M

Net Absorption, SF



\$3.05

Asking Rent, PSF



Overall, Net Asking Rent

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.

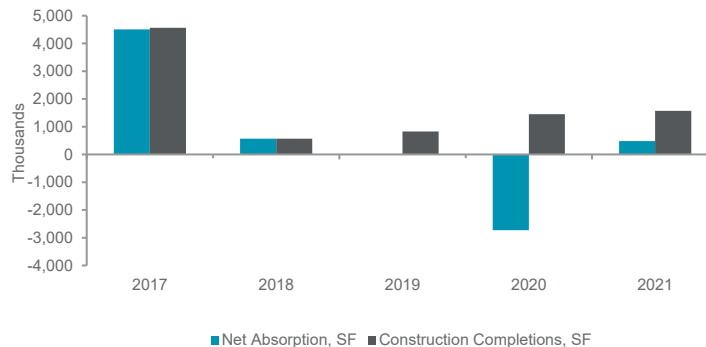
SUPPLY: Vacancy Drops for Second Quarter in a Row

Silicon Valley’s R&D vacancy rate decreased for the second quarter in a row after climbing for seven consecutive quarters. The vacancy rate in the fourth quarter decreased by 60 basis points (bps), finishing at 11.9%, down from 12.5% in the third quarter. This rate translates to 20.2 million square feet (msf) of vacancy. The percentage of vacant space comprised of subleases decreased to 23.2% of all available space, down from 26.3% in the third quarter. Large sublease blocks on the market include eBay (250,000 sf) in North San Jose, Aruba (245,000 sf) in Santa Clara, Marvel (224,000 sf) in North San Jose, FireEye (189,000 sf) in Milpitas, and 23andMe (154,000 sf) in Sunnyvale.

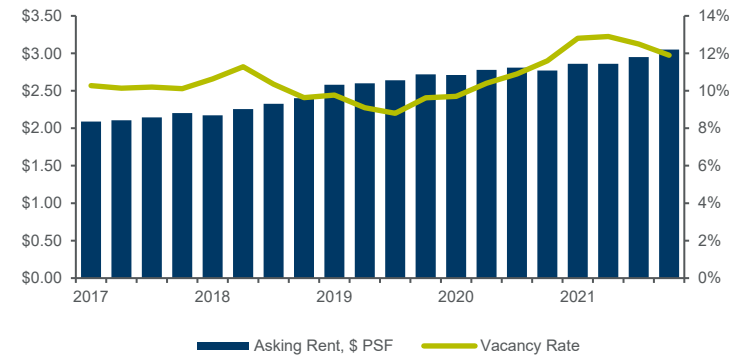
PRICING: Asking Rents Increase Slightly

For the last two years, asking rents have stayed fairly consistent. That said, the average asking rent increased slightly in the fourth quarter to \$3.05 per square foot on a monthly triple net basis (psf) from \$2.95 psf in the third quarter. Across almost all submarkets, asking rents stayed flat during the fourth quarter, with the exception of upticks in Palo Alto, Mountain View, Sunnyvale, and Santa Clara.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

R&D Q4 2021



Deal Velocity and Occupancy Bounce Back Big

Leasing activity (gross absorption) increased in the fourth quarter with 3.8 msf recorded, following the 2.7 msf in the third quarter. This brings the annual 2021 number to 12.2 msf and surpasses both the 2020 and 2019 figures of 9.7 and 11.6 msf, respectively.

All of the top five leases were new deals in the fourth quarter, no renewals in the bunch. Two of the largest deals were to Tesla - 325,000 sf in Palo Alto and 105,000 sf in Fremont. After leasing 196,000 sf in the second quarter, QuantumScape Battery continued its leasing spree by taking an additional three buildings totaling 222,000 sf in North San Jose. Another notable lease was LinkedIn's deal on a newly completed 194,000 sf building in Sunnyvale. Included in the deal was the purchase of 6.9 adjacent acres for \$122.8M. This site can accommodate two additional buildings totaling 377,000 sf.

Net absorption came bounding back in the fourth quarter, recording 2.2 msf of occupancy. This follows the positive 398,000 sf from the third quarter and more than offsets the losses of the first half of the year. After the negative 2.7 msf from 2020, the full year 2021 came in at a positive 481,000 sf. Net absorption was bolstered in part due to the occupancy of several build-to-suit's – Nvidia (750,000 sf) in Santa Clara, Fortinet (172,000 sf) and LinkedIn (194,000 sf), both in Sunnyvale.

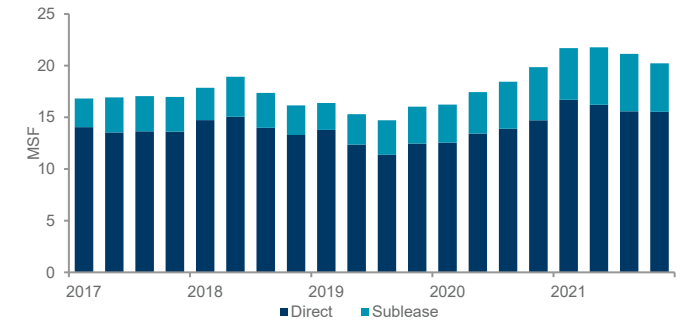
Construction

There are currently no speculative projects under construction. However, there are two build-to-suit projects under construction totaling 1.2 msf. Both of these projects are for Google and located in Mountain View. They are scheduled for completion in mid-2022. 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.

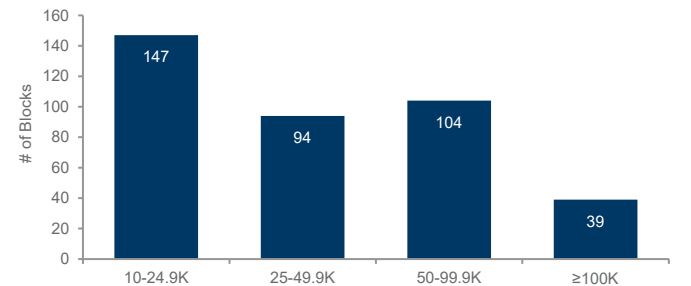
Outlook

- Silicon Valley tech and life science companies will build on their lead as the bellwethers of the U.S. economy. Tenants that had placed requirements on hold due to the pandemic have re-entered the space hunt; new space needs are surfacing as well.
- 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.

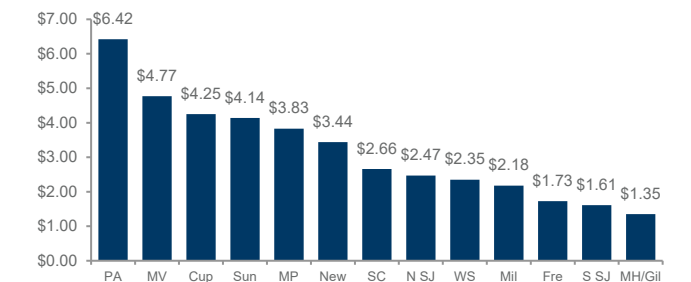
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



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	41,604	49,304	2.3%	(2,079)	63,840	121,203	0	\$3.83
Palo Alto	10,621,147	273,339	1,152,328	13.4%	63,403	(24,905)	1,192,799	0	\$6.42
Mountain View	15,086,111	166,656	1,364,586	10.2%	212,779	(604,473)	1,129,386	1,195,000	\$4.77
Cupertino	5,710,505	0	6,622	0.1%	0	14,378	6,920	0	\$4.25
Westside	2,256,749	12,152	183,727	8.7%	(17,538)	(6,367)	191,189	0	\$2.35
Sunnyvale	24,576,800	776,051	1,831,799	10.6%	376,926	318,477	2,584,712	0	\$4.14
Santa Clara	22,169,881	959,012	2,993,493	17.8%	434,772	5,293	2,036,028	0	\$2.66
North San Jose	35,886,583	1,487,221	3,906,176	15.0%	535,005	32,271	1,946,270	0	\$2.47
South San Jose	10,349,625	85,194	1,084,099	11.3%	21,226	(233,344)	434,659	0	\$1.61
Milpitas	12,641,924	523,273	1,595,332	16.8%	445,317	478,199	638,426	0	\$2.18
Fremont	20,687,814	261,829	1,174,572	6.9%	58,124	324,497	1,550,127	0	\$1.73
Newark	2,941,744	53,940	105,047	5.4%	30,504	(26,264)	310,416	0	\$3.44
Morgan Hill/Gilroy	3,586,456	46,000	86,666	3.7%	7,358	139,544	93,662	0	\$1.35
TOTALS	170,423,660	4,686,271	15,533,751	11.9%	2,165,797	481,146	12,235,797	1,195,000	\$3.05

*Rental rates reflect triple net asking

KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
1501 Page Mill Rd	Palo Alto	Tesla	Stanford Board of Trustees	325,000	New Lease
1750-1762 Automation Pkwy	North San Jose	Quantumscape Battery	Peninsula Land & Capital	222,381	New Lease
684 Maude Ave, W.	Sunnyvale	LinkedIn	Harvest / Invesco	194,624	New Lease
44320 Nobel Dr	Fremont	Tesla	Prologis	105,830	New Lease
2830 De La Cruz Blvd	Santa Clara	Santa Clara Valley Transportation	Swift Realty Partners	86,776	New Lease

KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Tasman Technology Park	Milpitas	Orchard Properties / Washington Holdings	609,228	\$170.0M / \$279
Metro Corporate Center*	Milpitas	Westport Capital Partners / Amazon	395,335	\$123.0M / \$311
Ardenwood Business Park	Fremont	Crown Realty & Devel. / Invesco Real Estate-Lincoln Property	185,790	\$85.0M / \$457
5300 & 5350 Hellyer Ave	South San Jose	Empire Square Group / Advanced Pain Medical Group	160,000	\$64.3M / \$401
120-140 Baytech Dr	North San Jose	Bridge Investments / Peninsula Land & Capital	131,725	\$42.4M / \$321

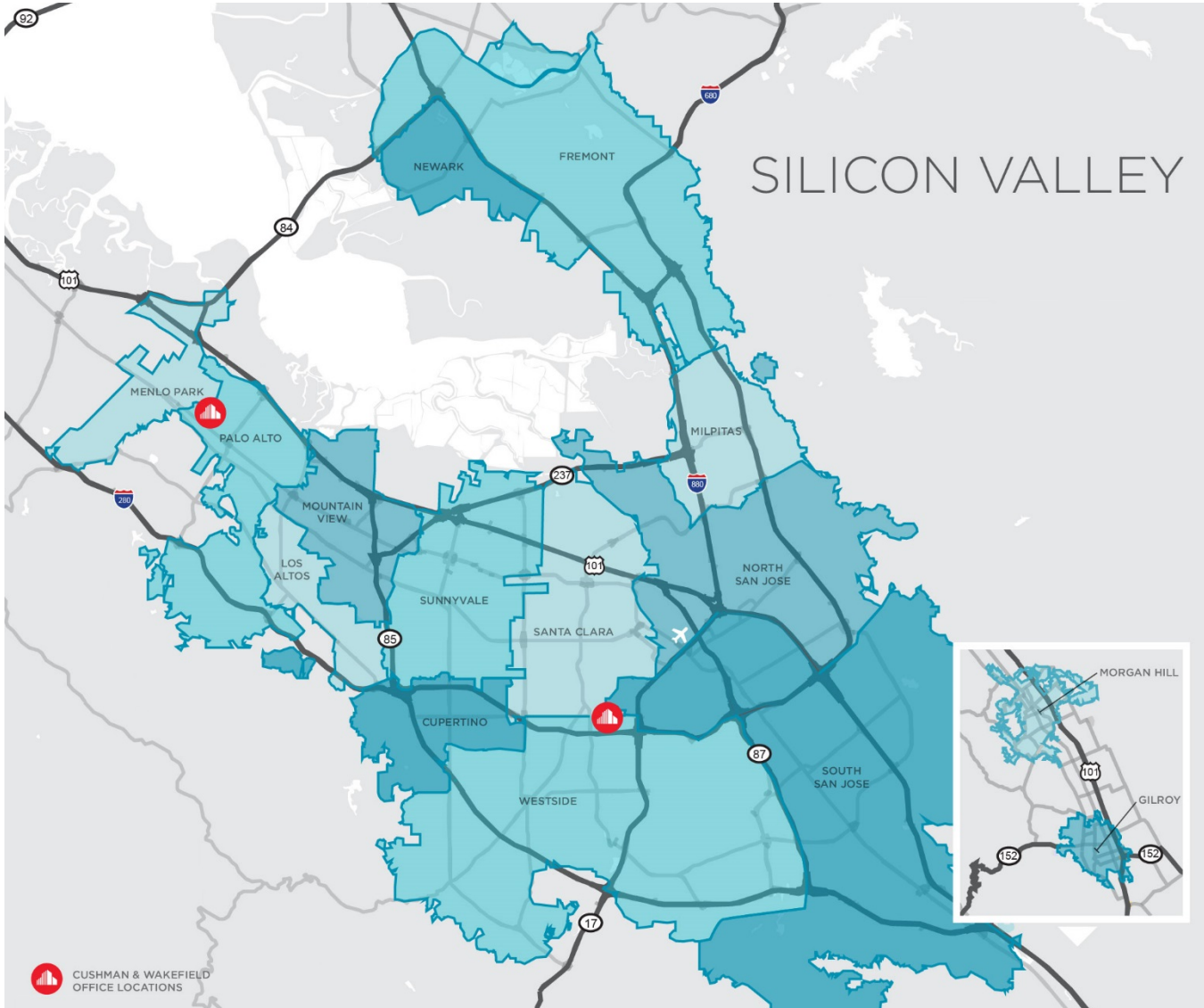
*Buyer plans new development on site.

Silicon Valley

R&D Q4 2021



R&D SUBMARKETS



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