

YoY Chg 12-Mo. Forecast

15.4%
Vacancy Rate



-49K
Net Absorption, SF



\$5.30
Asking Rent, PSF FS



(Overall, All Property Classes)

**ECONOMIC INDICATORS
Q1 2022**

YoY Chg 12-Mo. Forecast

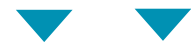
1.14M
San Jose MSA
Employment



3.7%
San Jose MSA
Unemployment Rate



3.6%
U.S.
Unemployment Rate



Source: BLS, Moody's Analytics
2022Q1 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 as many workers within the office sector start to return to their offices, 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 59,700 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 3.7%, below the figure of 5.7% one year ago. This is just slightly above the US unemployment rate of 3.6%.

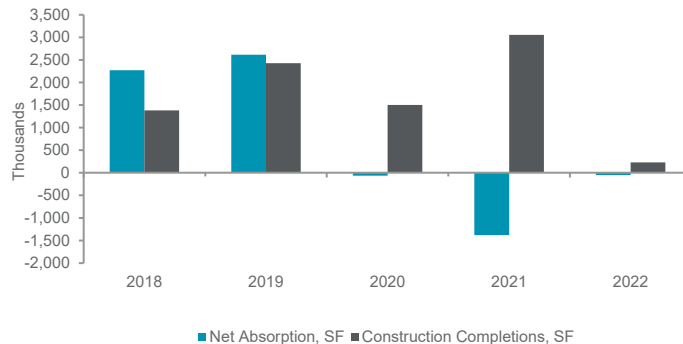
SUPPLY: Vacancy Increases Slightly

After a flat fourth quarter, Silicon Valley's office vacancy rate increased slightly, finishing the first quarter at 15.4%, up from the 15.1% rate in the fourth quarter. The current rate translates to 13.8 million square feet (msf) of vacancy. Subleases increased in the first quarter, coming in at 24.7% of all vacant space, up from 22.7% in the fourth quarter with the figure 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 (452,000 sf) in Santa Clara, and Tibco (292,000 sf) in Palo Alto.

PRICING: Asking Rents Remain Flat

The average asking rent was essentially stable in the first quarter finishing at \$5.30 per square foot on a monthly full-service basis (psf) from \$5.32 psf in the fourth 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 which continue with their seemingly unending appetite for more space.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

Office Q1 2022



Deal Velocity Back to Q3 21 Level

After the high leasing activity in the fourth quarter due in part to one large deal, deal velocity is back to third quarter level, coming in at 1.1 msf. The largest deal of the quarter was a confidential tenant's expansion of 160,000 sf in Santa Clara. This tenant now occupies the newly constructed full building of 259,000 sf. The other top deals were significantly smaller and included FireEye Security (44,000 sf) in North San Jose, Wayfair (35,000 sf) in Downtown Mountain View and Okcoin (34,000 sf) in Downtown San Jose. A sublease for DataStax was the last deal in the top five (31,000 sf) in Santa Clara.

Occupancy in Slightly Negative Territory

Total gross absorption finished the first quarter at 1.1 msf, a decrease from the 1.8 msf recorded in the fourth quarter. This follows the annual 2021 number of 4.7 msf. As mentioned above, last quarter's stats were impacted by one large deal over 700,000 sf. Net absorption is back in the red for the first quarter, recording a negative 49,000 sf. This compares to the annual 2021 total of negative 1.4 msf and the 2020 number of negative 65,000 sf.

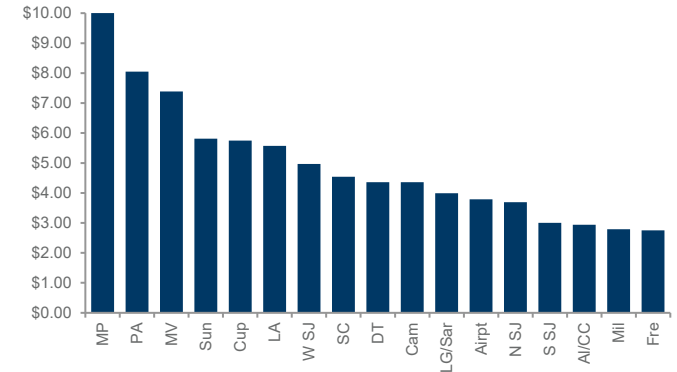
Office Deliveries Continue

New product under construction across the region currently stands at approximately 3.6 msf. This is comprised of 2.6 msf of speculative (spec) product and 1.0 msf of build-to-suits. It's important to note that only 92,000 sf of the spec space is preleased which leaves 2.5 msf that will, of course, enter statistics as vacancy if not leased prior to completion in mid-2023 through 2024. Two projects started construction this quarter. Boston Properties restarted its Platform16 project in Downtown San Jose (390,000 sf). And two buildings in Downtown Sunnyvale at Cityline broke ground (654,000 sf). There was just one completion this quarter with ServiceNow wrapping up the second building of phase II in Santa Clara (231,000 sf).

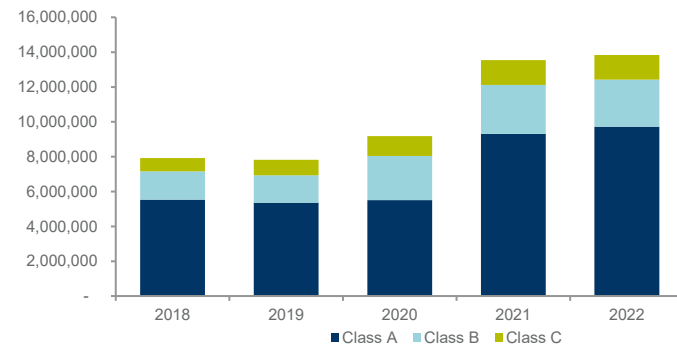
Outlook

- 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 8.2 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 blocks will be scarce thanks to a combination of leasing activity and near-term limited new deliveries.

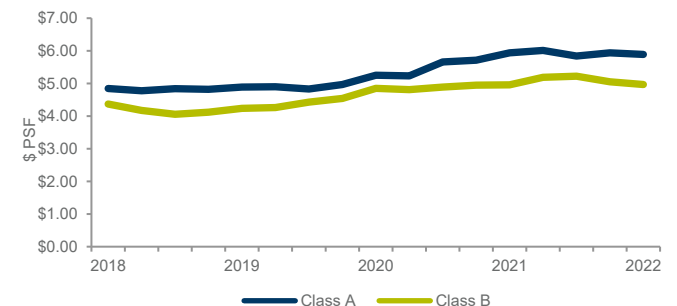
AVERAGE ASKING RATE BY SUBMARKET



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	90,913	530,367	10.0%	14,089	14,089	68,274	154,000	\$10.02	\$10.07
Palo Alto	10,766,893	639,330	988,332	15.1%	148,778	148,778	121,786	0	\$8.05	\$9.31
Los Altos	1,178,824	14,137	194,766	17.7%	(254)	(254)	7,176	0	\$5.57	\$5.42
Mountain View	5,928,847	174,455	405,847	9.8%	2,195	2,195	86,556	233,543	\$7.39	\$8.14
Cupertino	4,418,632	40,092	369,731	9.3%	(9,126)	(9,126)	14,837	0	\$5.75	\$6.44
Campbell	2,562,017	99,906	439,886	21.1%	(5,043)	(5,043)	24,925	0	\$4.36	\$4.75
Los Gatos/Saratoga	2,571,384	23,081	129,375	5.9%	4,089	4,089	15,152	0	\$3.99	\$4.37
West San Jose	5,085,176	7,055	761,243	15.1%	32,915	32,915	79,569	0	\$4.97	\$5.77
Sunnyvale	13,121,650	80,238	1,250,680	10.1%	(15,047)	(15,047)	22,883	1,018,161	\$5.81	\$7.15
Santa Clara	10,717,837	1,062,627	2,139,966	29.9%	(107,033)	(107,033)	358,134	147,500	\$4.54	\$4.71
San Jose Airport	5,255,056	709,791	656,568	26.0%	(78,605)	(78,605)	70,332	0	\$3.79	\$4.16
North San Jose	6,354,822	215,360	577,058	12.5%	(25,160)	(25,160)	110,358	0	\$3.69	\$4.49
Alameda/Civic Center	2,001,033	9,449	150,787	8.0%	(567)	(567)	14,056	0	\$2.94	\$4.25
South San Jose	1,788,356	3,700	76,360	4.5%	11,413	11,413	2,713	0	\$3.00	\$3.23
Downtown San Jose	8,999,576	227,903	1,518,057	19.4%	(40,278)	(40,278)	99,161	2,080,342	\$4.36	\$5.13
Milpitas	908,872	0	102,723	11.3%	7,604	7,604	3,113	0	\$2.79	\$2.40
Fremont	2,038,924	13,753	136,394	7.4%	10,977	10,977	9,770	0	\$2.75	\$2.51
CLASS BREAKDOWN										
Class A	55,415,214	3,049,413	6,669,662	17.5%	(184,849)	(184,849)	76,798	3,633,546	\$5.89	
Class B	20,393,697	251,047	2,451,917	13.3%	104,524	104,524	1,031,997	0	\$4.97	
TOTALS	89,912,689	3,411,790	10,428,140	15.4%	(49,053)	(49,053)	1,108,795	3,633,546	\$5.30	\$5.89

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
3075 Olcott St	Santa Clara	Confidential	160,611	Expansion
3099 N. First St	N. San Jose	FireEye Security	44,514	New Lease
150 Evelyn Ave	Mountain View	Wayfair LLC	35,133	New Lease
160 W. Santa Clara St	Downtown SJ	Okcoin	34,885	New Lease
2755 Augustine Dr	Santa Clara	DataStax	31,250	Sublease

KEY SALES TRANSACTIONS Q1 2022

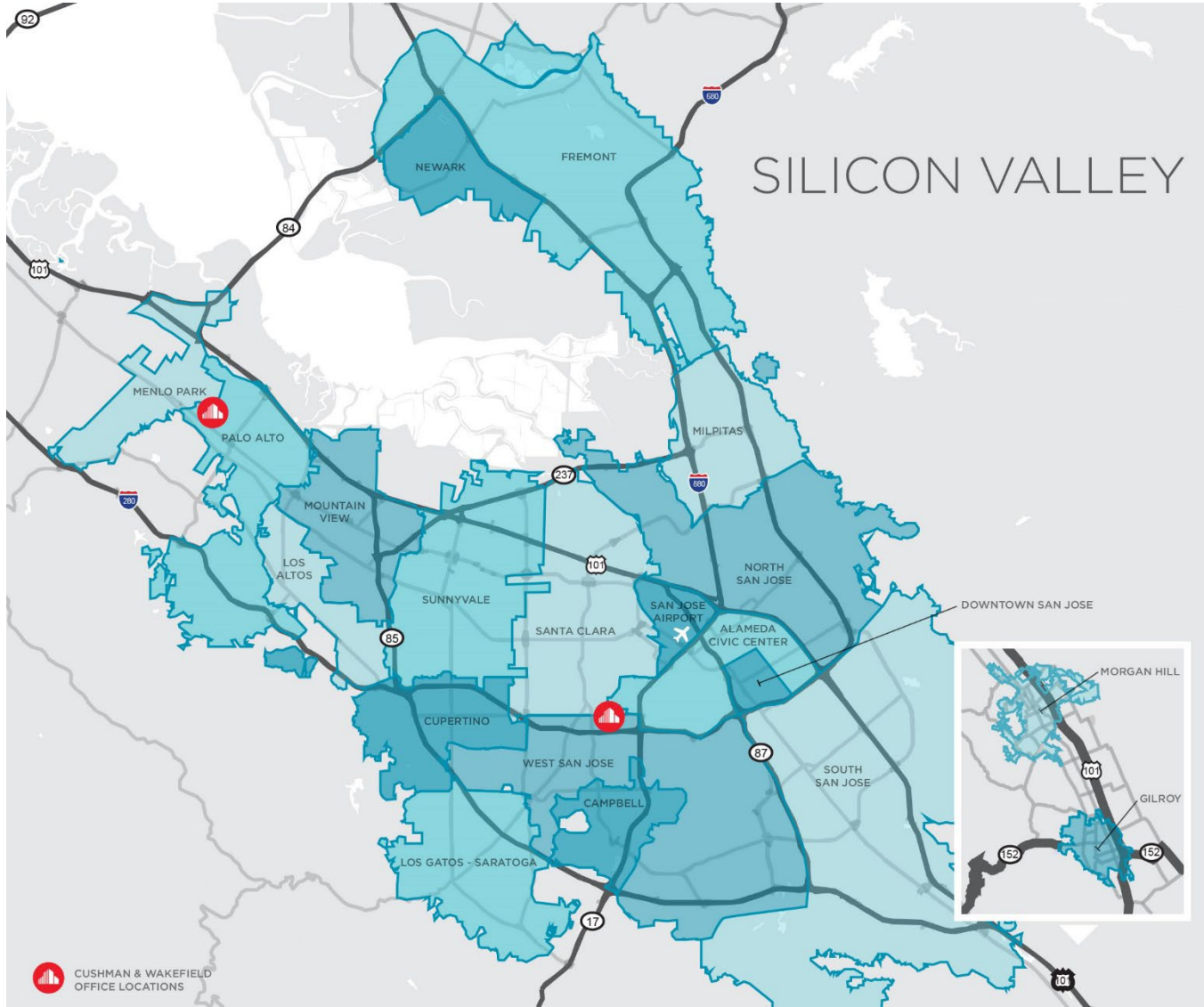
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
3301-3307 Hillview Ave	Palo Alto	Morgan Stanley / Alexandria Equities	292,013	\$446M / \$1,527
15400 Los Gatos Blvd	Los Gatos	Sand Hill Property / The Carlyle Group	40,000	\$52.7M / \$1,318
379 Lytton Ave	Palo Alto	Campbell Assoc. / Walnut Hill Capital LLC	34,619	\$54.0M / \$1,560

Silicon Valley

Office Q1 2022



OFFICE SUBMARKETS



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