

YoY Chg 12-Mo. Forecast

11.6%

Vacancy Rate



1.1M

Net Absorption, SF



\$3.14

Asking Rent, PSF



Overall, Net Asking Rent

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%.

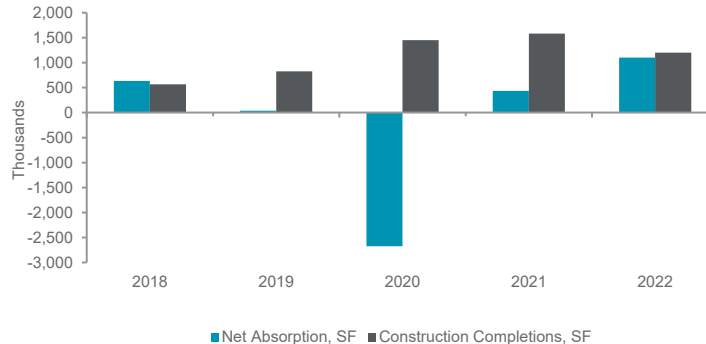
SUPPLY: Vacancy Drops for Third Quarter in a Row

Silicon Valley's R&D vacancy rate decreased for the third quarter in a row after climbing for seven consecutive quarters. The vacancy rate in the first quarter closed at 11.6%, down from 11.8% in the fourth quarter. This rate translates to 19.9 million square feet (msf) of vacancy and hasn't been down to this level since the fourth quarter of 2020. The percentage of vacant space comprised of subleases decreased to 21.9% of all available space, from 23.0% in the fourth 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 Huawei (171,000 sf) in Santa Clara.

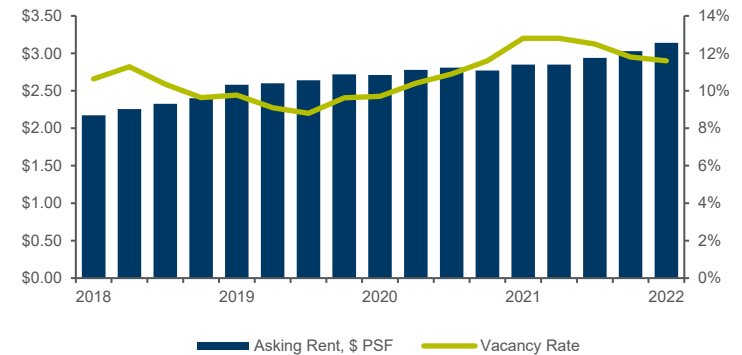
PRICING: Asking Rents Increase Slightly

For the last two years, asking rents have stayed fairly consistent. That said, the average asking rent increased in the first quarter to \$3.14 per square foot on a monthly triple net basis (psf) from \$3.03 psf in the fourth quarter. Across almost all submarkets, asking rents stayed flat during the first quarter, with the exception of upticks in Palo Alto, Mountain View, and Sunnyvale.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

R&D Q1 2022



Deal Velocity and Occupancy Up

Leasing activity (gross absorption) increased in the first quarter with 4.5 msf recorded, following the 3.8 msf in the fourth quarter. This is due in large part to a build-to-suit of 1.2 msf for Google in Mountain View. This follows the annual 2021 number of 12.3 msf.

There were four new leases and one renewal in the top five deals of the quarter. The largest deal of the quarter was NIO, a mobility company (201,000 sf) in North San Jose. Procept BioRobotics, a life science company, leased two buildings (158,000 sf) also in North San Jose. Other top deals include a confidential tenant (129,000 sf) in Santa Clara and Foxconn (118,000 sf) in North San Jose. The renewal in the top deals was Apple (116,000 sf) in Sunnyvale.

Net absorption was positive for the third quarter in a row, recording 1.1 msf of occupancy in the first quarter. Again, this is due to the large Google build-to-suit mentioned above. This follows the annual 2021 number of positive 434,000 sf.

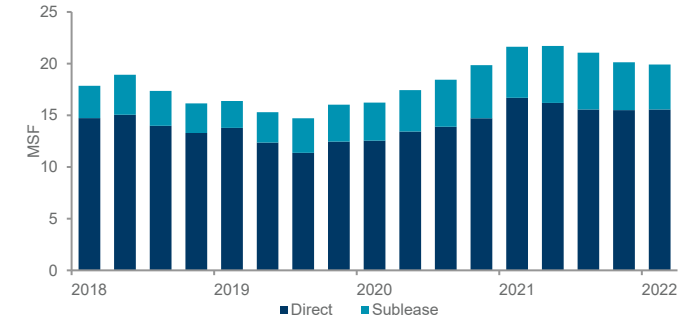
Construction

Speculative projects that broke ground this quarter were Moffett Point, a 141,000 sf building in Sunnyvale and two R&D buildings (59,000 sf) that are part of the industrial project, Pacific Commons South in Fremont. Completing construction in the first quarter was Google's Bay View campus (1.2 msf) in Mountain View. Google also has another build-to-suit of 595,000 sf under construction, also in Mountain View, which should complete next quarter.

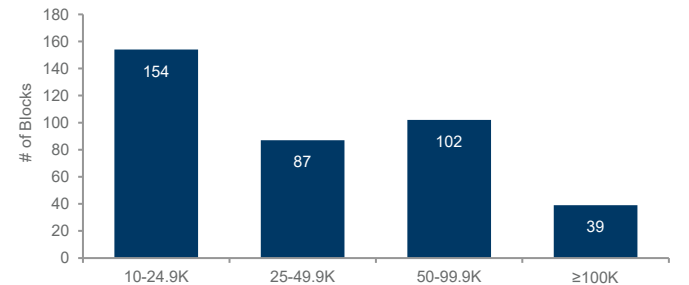
Outlook

- 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.

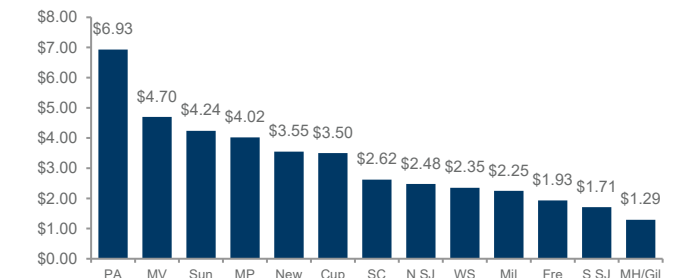
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



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	13,015	56,442	1.8%	(7,138)	(7,138)	10,026	0	\$4.02
Palo Alto	10,621,147	249,839	1,175,975	13.4%	(147)	(147)	26,636	0	\$6.93
Mountain View	16,287,657	214,690	1,351,635	9.6%	1,094,738	1,094,738	1,399,103	595,000	\$4.70
Cupertino	5,710,505	0	6,622	0.1%	0	0	0	0	\$3.50
Westside	2,256,749	12,152	122,796	6.0%	60,931	60,931	71,556	0	\$2.35
Sunnyvale	24,491,786	727,498	2,112,315	11.6%	(323,842)	(323,842)	436,166	141,375	\$4.24
Santa Clara	22,174,849	906,342	2,887,252	17.1%	158,911	158,911	194,064	0	\$2.62
North San Jose	35,668,580	1,272,936	3,823,775	14.3%	48,339	48,339	1,342,648	0	\$2.48
South San Jose	10,349,944	191,113	1,242,257	13.8%	(185,103)	(185,103)	78,974	0	\$1.71
Milpitas	12,641,924	510,762	1,548,835	16.3%	59,008	59,008	427,016	0	\$2.25
Fremont	20,687,413	192,460	1,053,626	6.0%	181,476	181,476	415,958	59,046	\$1.93
Newark	2,949,860	53,940	69,397	4.2%	(1,512)	(1,512)	79,480	0	\$3.55
Morgan Hill/Gilroy	3,586,456	6,000	110,203	3.2%	16,463	16,463	29,000	0	\$1.29
TOTALS	171,335,191	4,350,747	15,561,130	11.6%	1,102,124	1,102,124	4,510,627	795,421	\$3.14

*Rental rates reflect triple net asking

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
3151 Zanker Rd	North San Jose	NIO	Oakmont Corporation	201,500	New Lease
150-160 Baytech	North San Jose	Procept BioRobotics Corp.	Liberty Mutual Group	158,211	New Lease
3111 Coronado Dr	Santa Clara	Confidential	D.R. Stephens	129,594	New Lease
1768 Automation Pkwy	North San Jose	Foxconn	Peninsula Land & Capital	118,488	New Lease
410 N. Mary Ave.	Sunnyvale	Apple	Tristar Capital	116,586	Renewal

KEY SALES TRANSACTIONS Q1 2022

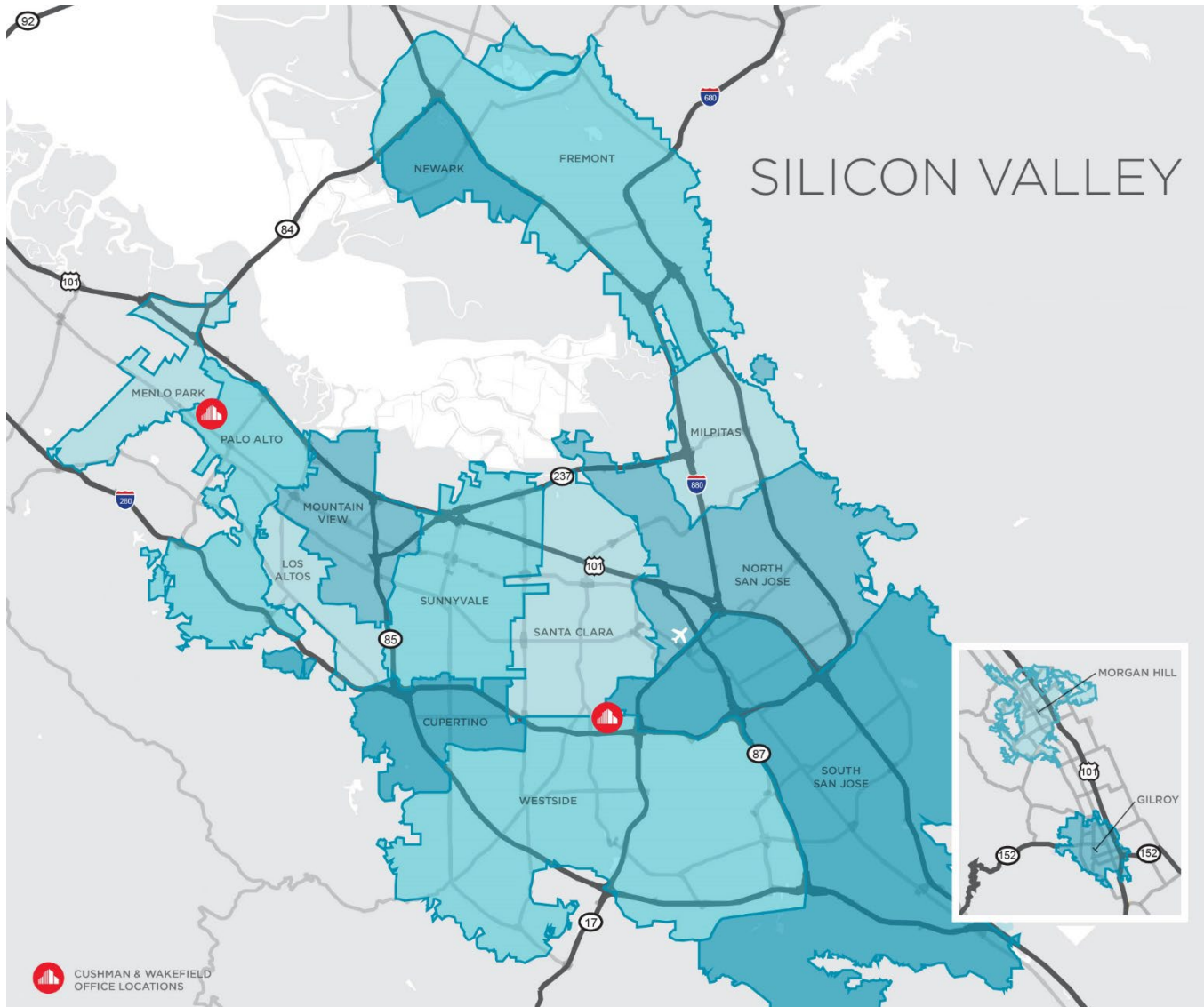
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
McKay Dr & Ringwood	North San Jose	Synaptics, Inc. / South Bay Development	231,719	\$58.0M / \$250
475, 501 & 525 Sycamore Dr	Milpitas	Vertical Ventures / Duke Realty Limited Partnership	215,170	\$60.5M / \$281
888-894 Ross Dr	Sunnyvale	Miramar Capital Advisors / Menlo Equities	139,482	\$88.5M / \$634
2975 & 3001 Stender Wy	Santa Clara	ON Semiconductor / Lincoln Property Company	110,084	Confidential
5883 Rue Ferrari	South San Jose	Parinehs Exchange / Peninsula Land & Capital	95,761	\$23.5M / \$245

Silicon Valley

R&D Q1 2022



R&D SUBMARKETS



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