

	YoY Chg	12-Mo. Forecast
16.1% Vacancy Rate	▲	▲
-641K Net Absorption, SF	▲	▼
\$5.37 Asking Rent, PSF FS	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
1.15M San Jose MSA Employment	▲	▲
2.8% San Jose MSA Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2022Q2 data are based on latest available data.

ECONOMY: Unemployment Continues to Drop

The Bay Area economy, like its domestic counterparts, was pummeled at the onset of the COVID-19 pandemic. Many white-collar members of the labor force took the opportunity to move away from urban areas, at least temporarily. Despite fears of growing headwinds, the local employment picture has thus far continued its post-lockdown recovery. Year-over-year, the San Jose metropolitan statistical area (MSA) has logged an increase of 57,500 jobs. Similarly, the unemployment rate has declined from its 2020 peak, with the quarterly figure now standing at 2.8%, slightly above the pre-pandemic rate of 2.5% during the fourth quarter of 2019. San Jose MSA's 2.8% unemployment rate is also tracking significantly below the US unemployment rate of 3.6%.

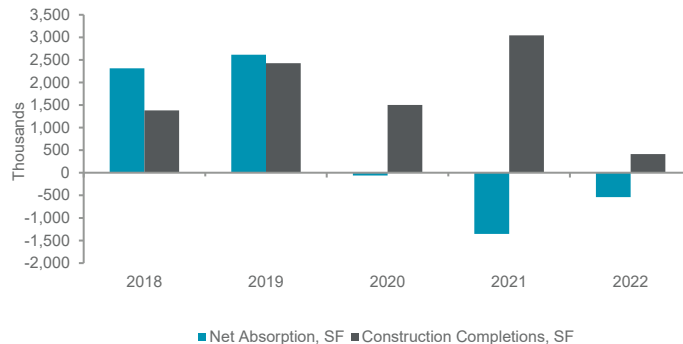
SUPPLY: Vacancy Increases

After three largely flat quarters, Silicon Valley's office vacancy increased during the second quarter, finishing the period at 16.1%, up from the 15.2% rate seen in the first quarter. The current rate translates to 14.5 million square feet (msf) of vacancy. Subleases increased slightly in the second quarter and now stand at 25.2% of all vacant space, up from 24.6% in the first quarter but below the 31.0% seen in the most recent peak during the second quarter of 2019. Large sublease blocks on the market include Yahoo/Verizon (603,000 sf) in the San Jose Airport submarket, Citrix (452,000 sf) in Santa Clara, and Tibco (292,000 sf) in Palo Alto.

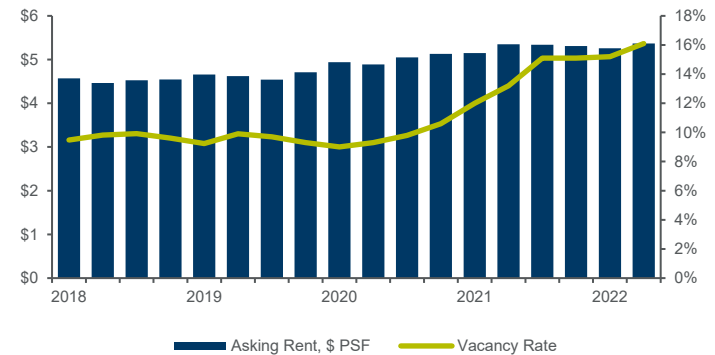
PRICING: Asking Rents Remain Flat

The average asking rent for office space remained largely stable in the second quarter, finishing the period at \$5.37 per square foot on a monthly full-service basis (psf) vs. \$5.30 psf in the first quarter. Rents continue to skew higher in the Menlo Park and Palo Alto submarkets due to their proximity to Stanford University and the adjacent headquarters of many leading venture capital firms. The neighboring Mountain View and Sunnyvale submarkets, home to many of the large tech companies driving demand in Silicon Valley, also continue to demand rent premiums compared to the Valley as a whole.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

Office Q2 2022



Deal Velocity Increasing

The leasing activity during the second quarter climbed to 1.9 msf, following the 1.3 msf recorded in the first quarter. This brings the mid-year 2022 gross absorption to 3.2 msf which compares 1.6 msf during the same period one year ago and 4.3 msf during 2021 as a whole. The largest deal of the quarter was Pure Storage’s sublease of 330,000 sf in Santa Clara. Waymo’s sublease of 170,000 sf in Mountain View was another noteworthy second quarter transaction. Waymo had leased the adjacent 170,000 sf building during in the fourth quarter of 2020. Other top leases during the second quarter included Wilson Sonsini renewal on 184,000 sf in Palo Alto and Regus Business renewal on 45,000 sf in the San Jose Airport.

Occupancy Drops

After two quarters of positive growth, net absorption was back in the red for the second quarter, recording a negative 641,000 sf. This compares to negative 882,000 during the same period one year ago and the annual 2021 total of negative 1.4 msf.

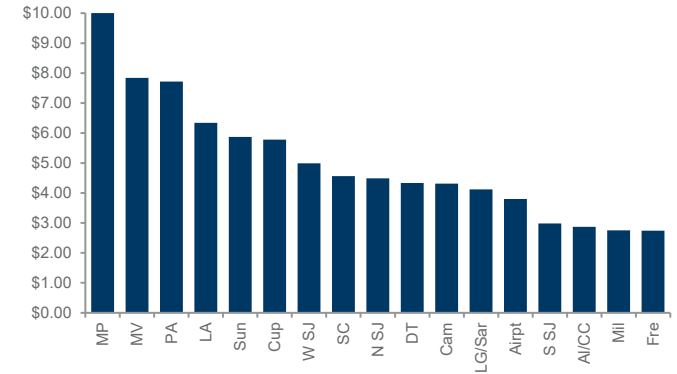
Office Deliveries Continue

New product under construction across the region currently stands at approximately 3.5 msf. This is comprised of 2.6 msf of speculative (spec) product and 872,000 sf of build-to-suits. One building started construction this quarter. Dollinger Properties broke ground on a 4-story 165,000 sf building in Campbell. There were just two completions this quarter – Google completed its first mass timber office building of 182,500 sf in Sunnyvale and the Middle Plaza project in Menlo Park was also completed (127,000 sf).

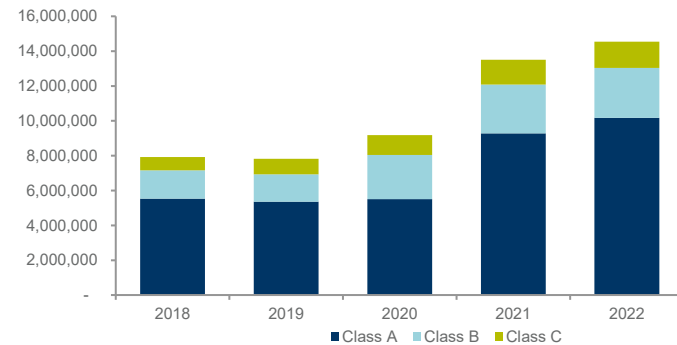
Outlook

- Silicon Valley tech and life science companies are adjusting to some economic headwinds but will continue to serve as the bellwethers of the U.S. economy. There are now 6.9 msf of active office/R&D tenant requirements in the Silicon Valley.
- Rents will likely remain flat through the remainder of 2022. 2022 and 2023 will see a bifurcated market where trophy space will lease quickly while the supply of commodity product will necessitate creative positioning and leasing strategies, particularly in light of high construction costs.
- Large blocks of quality, contiguous space will remain scarce thanks to a combination of leasing activity and near-term limited new deliveries.

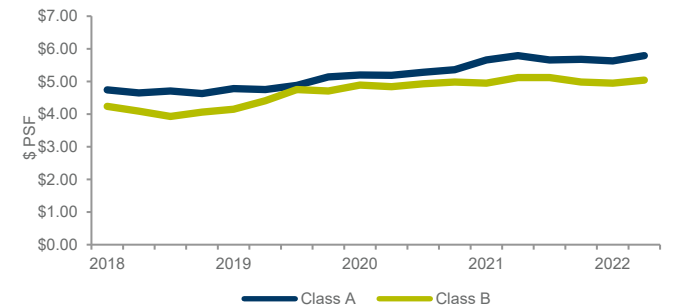
AVERAGE ASKING RATE BY SUBMARKET



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	6,346,900	223,327	549,896	12.2%	(83,411)	(21,454)	203,514	0	\$10.20	\$10.50
Palo Alto	10,766,631	655,273	930,801	14.7%	8,607	185,511	508,562	0	\$7.72	\$7.73
Los Altos	1,178,824	0	168,305	14.3%	40,598	40,344	112,385	0	\$6.34	\$8.09
Mountain View	5,928,937	263,863	413,757	11.4%	(143,497)	(106,914)	293,969	233,543	\$7.84	\$8.40
Cupertino	4,418,732	38,231	367,671	9.2%	(2,749)	(5,205)	52,745	0	\$5.78	\$6.46
Campbell	2,490,667	84,958	479,651	22.7%	(98,368)	(101,860)	100,277	165,987	\$4.31	\$4.75
Los Gatos/Saratoga	2,571,345	32,414	116,205	5.8%	4,838	7,926	61,685	0	\$4.12	\$4.37
West San Jose	5,085,176	13,568	720,758	14.4%	24,297	65,718	122,313	0	\$4.99	\$5.77
Sunnyvale	13,315,651	91,557	1,272,411	10.2%	145,121	134,403	226,776	835,661	\$5.87	\$6.93
Santa Clara	10,720,144	1,149,102	2,158,826	30.9%	(122,342)	(206,800)	853,956	147,500	\$4.56	\$4.72
San Jose Airport	5,255,056	725,805	707,996	27.3%	(68,597)	(146,047)	215,132	0	\$3.80	\$4.17
North San Jose	6,354,822	116,253	818,078	14.7%	(138,320)	(167,073)	211,215	0	\$4.49	\$5.04
Alameda/Civic Center	1,998,379	9,449	166,795	8.8%	(16,008)	(16,575)	38,741	0	\$2.87	\$4.25
South San Jose	1,788,356	0	73,163	4.1%	6,897	18,310	8,160	0	\$2.98	\$3.23
Downtown San Jose	9,002,944	251,921	1,689,740	21.6%	(195,701)	(235,979)	152,626	2,080,342	\$4.33	\$4.70
Milpitas	908,872	0	113,570	12.5%	(11,689)	(3,243)	9,699	0	\$2.75	\$2.40
Fremont	2,038,924	12,614	129,846	7.0%	8,831	19,808	10,974	0	\$2.74	\$2.51
CLASS BREAKDOWN										
Class A	55,727,422	3,255,918	6,914,617	18.3%	(266,713)	(358,884)	19,545	3,463,033	\$5.79	
Class B	20,399,264	286,108	2,579,562	14.0%	(205,964)	(61,260)	3,163,184	0	\$5.04	
TOTALS	90,170,360	3,668,335	10,877,469	16.1%	(641,493)	(539,130)	3,182,729	3,463,033	\$5.37	\$5.79

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2555 & 2565 Augustine	Santa Clara	Pure Storage	330,317	Sublease
650 Page Mill Rd	Palo Alto	Wilson, Sonsini	184,000	Renewal
690 E. Middlefield Rd	Mountain View	Waymo	170,090	Sublease
2033 Gateway Pl	SJ Airport	Regus Business	45,120	Renewal
550 Hamilton Ave	Palo Alto	Sullivan & Cromwell	43,475	New Lease

KEY SALES TRANSACTIONS Q2 2022

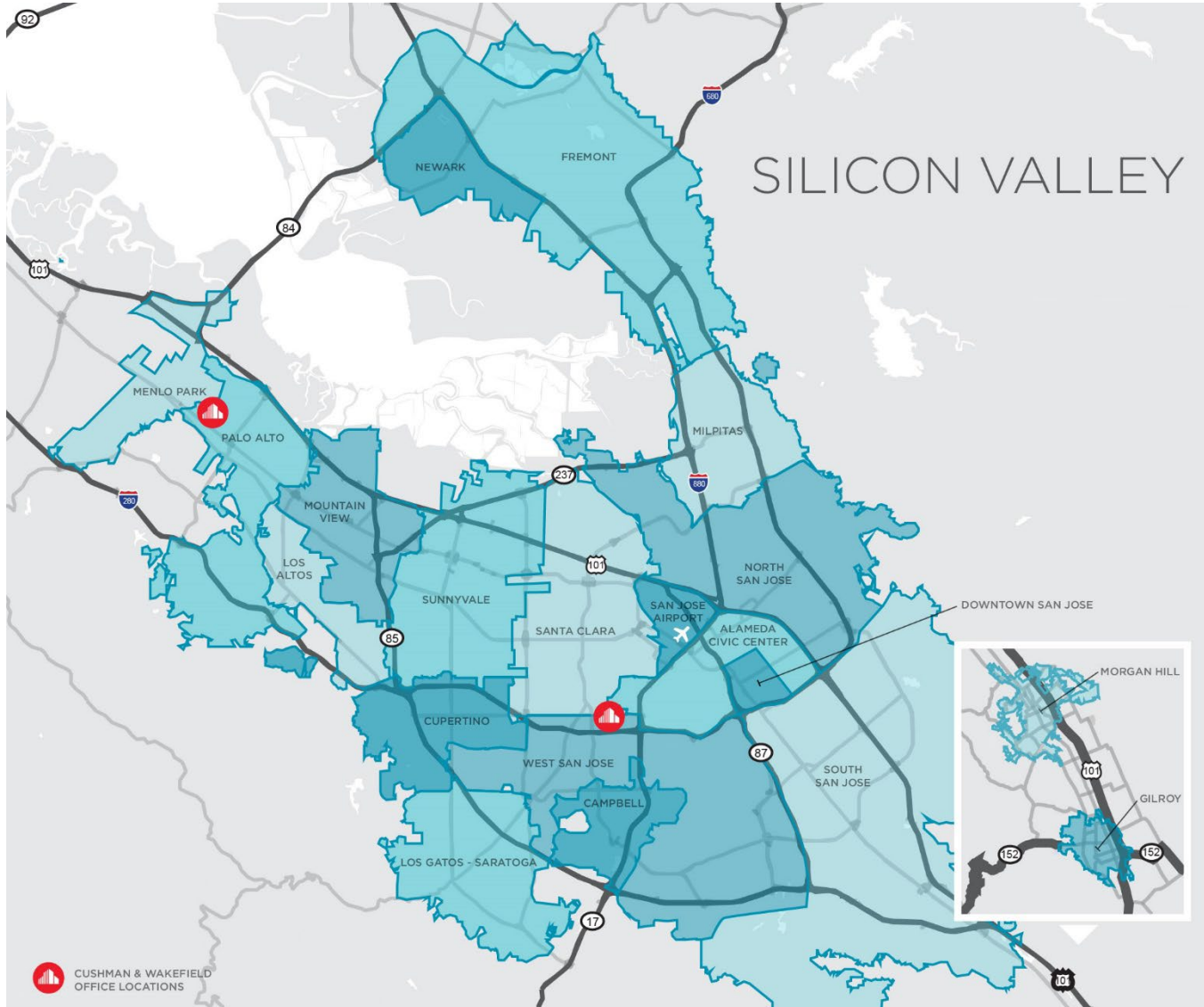
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1275-1395 Crossman Ave	Sunnyvale	Tishman Speyer / CommonWealth Partners	719,037	\$707.0M / \$983
200 Middlefield Rd	Menlo Park	Nuveen-TIAA CREF / Ellis Partners	41,260	\$62.7M / \$1,520
250 Cambridge Ave	Palo Alto	Tarlton Properties / Wheatley Properties	34,878	\$39.3M / \$1,127

Silicon Valley

Office Q2 2022



OFFICE SUBMARKETS



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