

YoY Chg      12-Mo. Forecast

**11.1%**  
Vacancy Rate



**1.4M**  
Net Absorption, SF



**\$3.00**  
Asking Rent, PSF



Overall, Net Asking Rent

## 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: Employment Picture Continues to Improve

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%, a level slightly above the pre-pandemic low of 2.5%. San Jose MSA's 2.8% unemployment rate is also tracking significantly below the US unemployment rate of 3.6%.

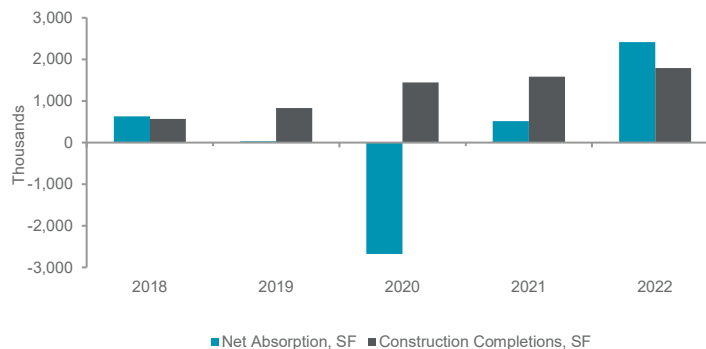
## SUPPLY: Vacancy Drops for Fourth Quarter in a Row

Silicon Valley's R&D vacancy rate decreased for the fourth quarter in a row after climbing for seven consecutive quarters. As of the end of the second quarter, vacancy stood at 11.1%, down from 11.7% in the first quarter. This translates to 19.1 million square feet (msf) of vacancy, the lowest level since the fourth quarter of 2020. However, the percentage of vacant space comprised of subleases finished the period at 24.2% of all available space, up from 21.8% in the first quarter. Large blocks of R&D sublease availability include eBay (250,000 sf) in North San Jose, Marvel (224,000 sf) in North San Jose, FireEye (189,000 sf) in Milpitas, and Extreme Networks (184,000 sf) in South San Jose.

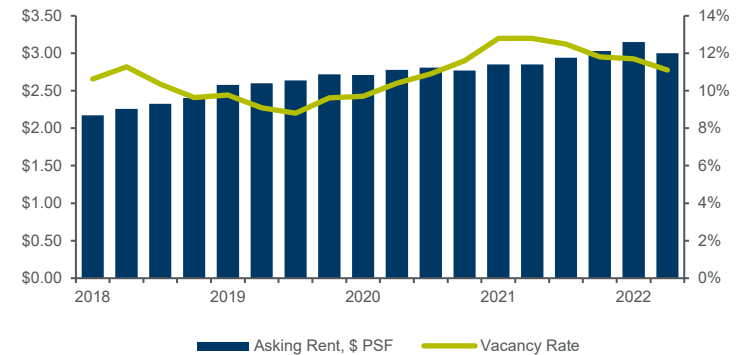
## PRICING: Asking Rents Decrease

For the last two years, asking rents have remained fairly consistent. That changed in the second quarter when R&D asking rates slid from \$3.14 per square foot (psf) on a monthly triple net basis to \$3.00 psf. With the exception of Palo Alto and Mountain View, all major submarkets witnessed slight decreases in asking rents during the second quarter.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# Silicon Valley

R&D Q2 2022



## Deal Velocity and Occupancy Up

For the second quarter in a row, leasing activity (gross absorption) topped 4 msf, recording 4.1 msf in the second quarter. The last time quarterly leasing activity was at this level was four years ago. The healthy level of quarterly gross absorption was due in part to Alphabet's (Google's) build-to-suit activity. This quarter, Alphabet occupied 595,000 sf of newly completed facilities in Mountain View. Last quarter they occupied 1.2 msf of owned projects, also in Mountain View. With Alphabet and other users activity, the total gross absorption of R&D space in the Valley year-to-date stood at 9.0 msf, a significant increase over the 5.8 msf during the same period one year ago and roughly on track to match the 12.3 msf seen during 2021 as a whole.

Apple also continued to expand during the second quarter, leasing several newly constructed buildings from Jay Paul Company (382,000 sf) in Sunnyvale. Applied Materials also continued its growth, subleasing 245,000 sf in Santa Clara from Aruba/HPE. A life science company, BD Biosciences, relocated from San Jose and leased two buildings (239,000 sf) in Milpitas. Rounding out the largest deals of the quarter were Nvidia, which subleased three buildings totaling 171,000 sf from Huawei in Santa Clara and Toyota, which took 154,000 sf on a sublease basis from VMware in Palo Alto.

Net absorption was positive for the fourth quarter in a row, recording 1.4 msf of R&D occupancy growth in the second quarter. This follows the annual 2021 number of positive 515,000 sf.

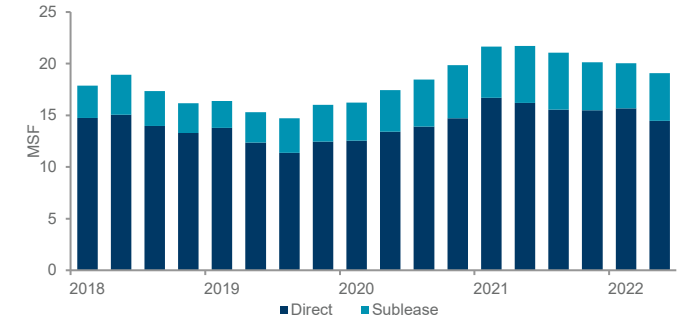
## Construction

No new projects broke ground this quarter. There are currently only two spec R&D projects under construction totaling 176,000 sf. Completing construction in the second quarter was Google's Charleston East campus (595,000 sf) in Mountain View and one Pacific Commons South building in Fremont (24,000 sf).

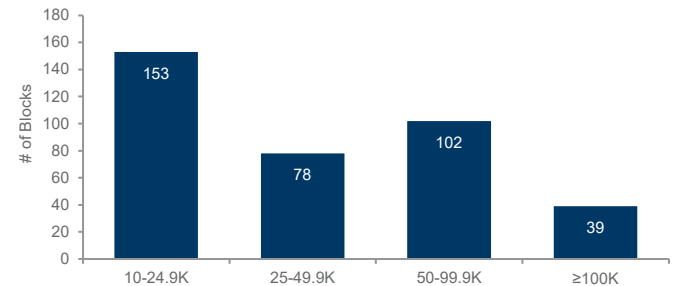
## Outlook

- 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.

## 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	8,752	82,694	2.3%	(7,138)	4,190	35,587	0	\$4.34
Palo Alto	10,642,995	268,986	852,317	10.5%	304,511	304,364	337,226	0	\$7.18
Mountain View	16,856,102	221,657	1,196,128	8.4%	722,612	1,806,600	2,207,145	0	\$4.92
Cupertino	5,710,505	0	6,622	0.1%	0	0	20,286	0	\$3.50
Westside	2,256,749	12,152	155,919	7.4%	(33,123)	27,808	86,556	0	\$2.38
Sunnyvale	24,492,127	784,337	1,878,611	10.9%	176,882	(146,977)	1,185,438	141,375	\$3.83
Santa Clara	22,041,452	1,207,092	2,777,964	18.1%	(326,286)	(167,375)	1,206,937	0	\$2.42
North San Jose	35,672,326	1,219,231	3,690,689	13.8%	180,007	235,130	1,911,211	0	\$2.46
South San Jose	10,349,944	184,713	1,231,210	13.7%	17,447	(167,656)	329,675	0	\$1.61
Milpitas	12,643,221	439,711	1,584,527	16.0%	121,941	208,588	832,596	0	\$2.18
Fremont	20,699,882	212,017	825,487	5.0%	240,844	309,415	702,193	35,109	\$2.04
Newark	2,880,223	58,458	133,257	6.7%	(60,178)	(61,690)	141,862	0	\$2.90
Morgan Hill/Gilroy	3,604,178	6,000	41,203	1.3%	86,722	103,185	29,000	0	\$1.29
<b>TOTALS</b>	<b>171,758,025</b>	<b>4,623,106</b>	<b>14,456,628</b>	<b>11.1%</b>	<b>1,396,486</b>	<b>2,411,750</b>	<b>9,025,712</b>	<b>176,484</b>	<b>\$3.00</b>

\*Rental rates reflect triple net asking

## KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
Mathilda Commons	Sunnyvale	Apple	Jay Paul Company	382,488	New Lease
3333 Scott Blvd	Santa Clara	Applied Materials	Aruba / HPE	245,830	Sublease
135 & 155 McCarthy Blvd	Milpitas	BD Biosciences	Embarcadero / PCCP, LLC	239,529	New Lease
2220, 2300 & 2330 Central Epwy	Santa Clara	Nvidia	Huawei Technologies	171,382	Sublease
900 Arastradero Rd	Palo Alto	Toyota	Vmware	154,649	Sublease

## KEY SALES TRANSACTIONS Q2 2022

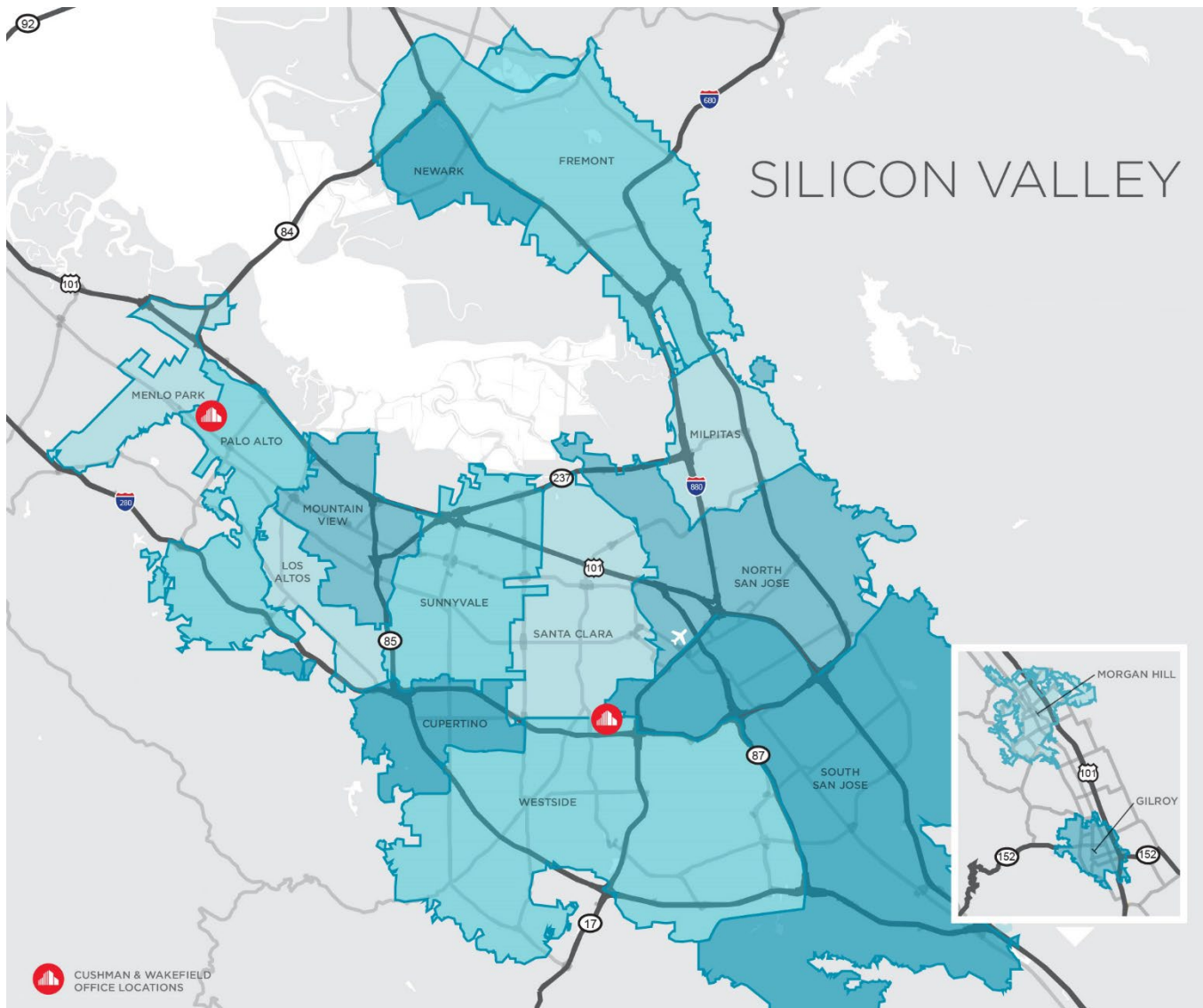
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
755 Jarvis Dr	Morgan Hill	Shoe Palace Corp. / Ridge Capital Investors	258,122	\$45.0M / \$174
45401 Research, 48668 Millmont & 34325 Ardenwood	Fremont	Angelo, Gordon & Co. / Barings	228,116	Not Disclosed
1710 Automation Pkwy	North San Jose	Exeter Property Group / Cortese Properties	196,647	\$103.8M / \$528
275 Hillview Dr, S.	Milpitas	Analog Devices / GEM Realty Capital	127,574	\$32.8M / \$257
1140-1150 Ringwood Ct	North San Jose	South Bay Development / EQT Exeter	80,472	\$26.1M / \$323

# Silicon Valley

R&D Q2 2022



## R&D SUBMARKETS



### JULIE LEIKER

Market Director, Silicon Valley

Tel: +1 408 615 3400

[Julie.leiker@cushwake.com](mailto:Julie.leiker@cushwake.com)

### CUSHMAN & WAKEFIELD

300 Santana Row  
Fifth Floor  
San Jose, CA 95128

525 University Ave  
Suite 220  
Palo Alto, CA 94301

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