

YoY Chg 12-Mo. Forecast

18.7%
Vacancy Rate ▲ ▲

-1.81M
Net Absorption, SF ▲ ▼

\$5.36
Asking Rent, PSF FS ▼ ▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

YoY Chg 12-Mo. Forecast

1.17M
San Jose MSA Employment ▲ ▲

2.3%
San Jose MSA Unemployment Rate ▼ ▲

3.5%
U.S. Unemployment Rate ▼ ▲

Source: BLS, Moody's Analytics
2022Q3 data are based on latest available data.

ECONOMY: Continued Growth

Despite headwinds, Silicon Valley's economic indicators continue to outperform the United States average. Year-over-year, the San Jose metropolitan statistical area (MSA) has logged an increase of 57,900 jobs, which has culminated in a current unemployment rate of 2.3%, a steep decline from the previous high of 12.2% witnessed at the end of Q1 2020. Moreover, an unemployment rate of 2.3% puts the San Jose MSA slightly below the pre-pandemic rate of 2.5% seen during the fourth quarter of 2019. By comparison, the unemployment rate for the United States nationally stands at 3.5%; still low by historic standards but lagging behind Silicon Valley.

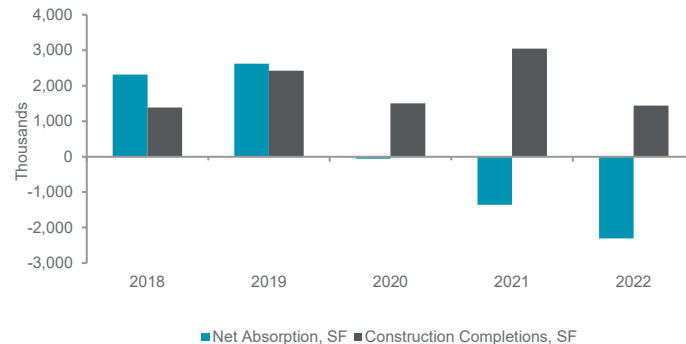
SUPPLY: Sublease Space, Vacancy Increases

A large influx of sublease space caused office vacancy to rise significantly in the third quarter of 2022, ending the period at a 18.7% vacancy rate. This rate translates to 16.9 million square feet (msf) of vacant space in the Valley, a 17.1% increase quarter over quarter (QoQ). Bytedance's lease of 603,000 sf of space in San Jose that had been previously occupied by Verizon was a noteworthy transaction completed during Q3. Cumulatively, however, it was overshadowed by large blocks of sublease space that came on the market during the period, including Wework's 400,000 sf sublease in Mountain View, AirBnB's 301,000 sf sublease in Santa Clara, and 8x8's 178,000 sf sublease in Campbell. All told, vacant sublease space rose 36.1% QoQ and currently totals 4.9 msf. This equates to 29.1% of total office availability compared to 25.1% in Q2.

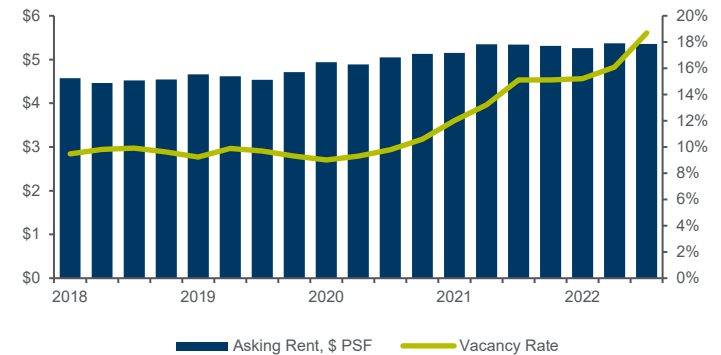
PRICING: Asking Rents Flatten

The average asking rent for office space fell slightly in the third quarter of 2022, ending the period at \$5.36 per square foot on a monthly full-service basis. This figure represents a nominal \$0.02 decrease from the previous quarter and is generally the same level seen in the third quarter of 2021. Rents in the 101 Tech Corridor and West Valley fell by less than 2%, while the Central Silicon Valley did not move in either direction this quarter. Despite a rising vacancy rate and growing pessimism in global financial markets, it seems that landlords, in aggregate, have not reacted by reducing asking rents.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Silicon Valley

Office Q3 2022

Deal Velocity Increasing

Transaction volume continued to grow in the third quarter of 2022, posting 3.1 msf of gross absorption, a 135% increase compared to the first quarter of the year and a 56% increase compared to the second. Two drivers of this increase were the completion and occupancy of Adobe's new 750,000 sf headquarters expansion in Downtown San Jose, as well as Bytedance's previously mentioned 603,000 sf deal in the San Jose Airport submarket. Year to date gross absorption of office space now totals 6.4 msf, surpassing the annual totals of 2020 and 2021 in just three quarters. Additional noteworthy transactions include Nutanix renewing at 1740 Technology Drive in San Jose for an additional 3 years, as well as AMD expanding into an additional 62,500 sf in Santa Clara Square, increasing their footprint to 310,000 square feet in the complex.

Occupancy Drops

Despite the positive news on the gross absorption front, the third quarter saw one of the biggest losses in occupancy in recent history, posting 1.8 million sf of negative absorption, eclipsing total annual occupancy losses in 2021. While the largest single-building vacancies were those resulting from subleases coming to the market, several direct spaces have also come online, including 388,000 sf across two mid-rise buildings formerly leased by Qualcomm at Skyport Place in San Jose. Given that many companies have begun to implement more concrete return to work protocols, it remains to be seen whether these give backs are signaling a departure from the Valley or a consolidation of space as a result of hybrid work models.

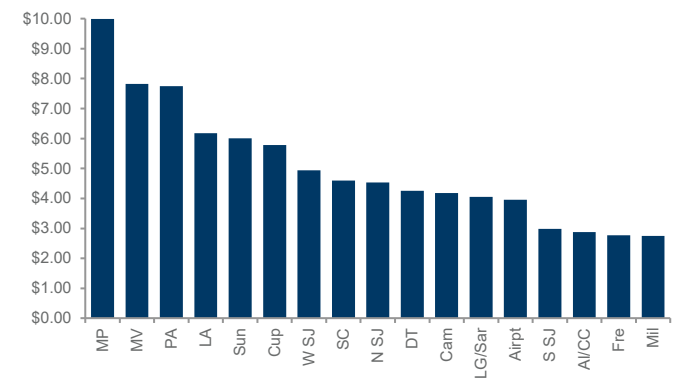
Office Deliveries Continue

New product under construction across the region currently stands at approximately 2.6 msf speculative product. The recent completion of Adobe's 750,000 sf headquarters drove absorption in the Downtown San Jose submarket while the remainder of the Valley generally saw occupancy losses. Downtown San Jose currently leads Silicon Valley in terms of new construction with two projects, 200 Park Ave and Platform 16, totaling 1.6 msf and completing in 2023 and 2025, respectively.

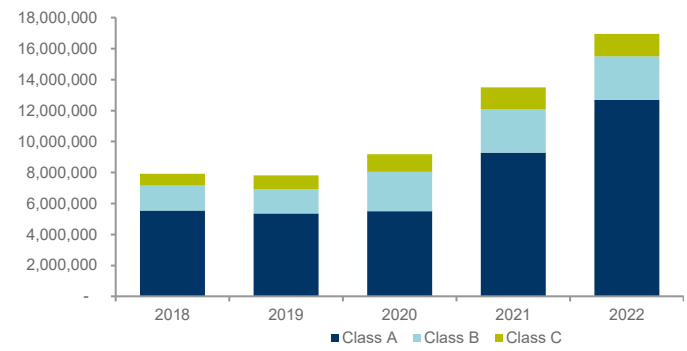
Outlook

- Despite an increase in employment in the region, Silicon Valley companies are adjusting how they utilize their office spaces. C&W is currently tracking approx. 5.2 msf of active office/R&D tenant requirements in the Silicon Valley, a low amount by pre-pandemic standards.
- Rents overall will remain flat through the remainder of 2022 while federal monetary policy remains in flux and concerns persist about the possibility of a "hard landing". Higher quality, space still will retain an advantage over older space, especially in non-premier markets.
- The increasing amount of office sublease space, while a concern, should be less of an impact to Silicon Valley compared to other markets like San Francisco due to the Valley's greater reliance on hardware, semiconductor, and critical IT infrastructure that are less suitable for a long-term shift to remote work

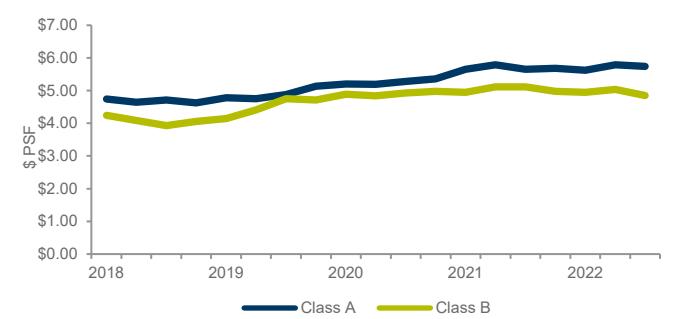
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE BY CLASS



ASKING RENT COMPARISON





Silicon Valley

Office Q3 2022

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	6,348,062	268,673	548,025	12.9%	-53,427	-69,333	384,841	0	\$9.99	\$10.30
Palo Alto	10,524,360	633,145	1,016,405	15.7%	-75,310	122,035	680,542	0	\$7.75	\$7.79
Los Altos	1,178,824	6,944	152,283	13.5%	1,522	48,645	146,313	0	\$6.18	\$8.13
Mountain View	5,680,027	718,713	467,026	20.9%	-765,510	-863,943	403,269	233,543	\$7.83	\$8.47
Cupertino	4,418,732	34,986	348,976	8.7%	21,940	16,735	69,962	0	\$5.78	\$6.46
Campbell	2,490,667	226,560	501,572	29.2%	-158,022	-257,807	187,940	165,987	\$4.19	\$4.74
Los Gatos/Saratoga	2,571,345	169,393	97,712	10.4%	-119,036	-110,560	119,379	0	\$4.06	\$4.43
West San Jose	5,085,176	11,958	721,778	14.4%	590	66,308	168,837	0	\$4.94	\$5.76
Sunnyvale	13,315,651	145,656	1,295,791	10.8%	-77,479	56,924	397,033	825,488	\$6.01	\$6.94
Santa Clara	10,872,162	1,557,054	2,496,653	37.3%	-607,400	-805,079	1,175,006	0	\$4.60	\$4.74
San Jose Airport	5,272,949	709,650	1,299,791	38.1%	-611,233	-757,280	1,234,073	0	\$3.96	\$4.16
North San Jose	6,354,822	150,124	786,905	14.7%	-2,698	-169,771	282,667	0	\$4.54	\$5.03
Alameda/Civic Center	2,033,651	15,434	164,897	8.9%	-8,431	-20,662	64,995	0	\$2.88	\$4.25
South San Jose	1,788,955	0	90,401	5.1%	-17,238	1,072	34,366	0	\$2.98	\$3.23
Downtown San Jose	9,768,007	269,823	1,712,102	20.3%	707,317	488,820	1,098,634	1,355,342	\$4.26	\$4.41
Milpitas	908,872	0	113,568	12.5%	2	-3,241	9,699	0	\$2.75	\$2.40
Fremont	2,038,924	18,912	198,334	10.7%	-50,375	-49,751	21,253	0	\$2.77	\$2.51
CLASS BREAKDOWN										
Class A	56,697,532	4,572,781	8,115,304	22.4%	-1,643,745	-1,981,245	4,906,057	2,580,360	\$5.74	
Class B	19,895,829	236,360	2,589,905	14.2%	-259,047	-295,648	1,572,752	0	\$4.85	
TOTALS	90,651,186	4,937,025	12,012,219	18.7%	-1,814,788	-2,306,888	6,478,809	2,580,360	\$5.36	\$5.74

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1199 Coleman Ave	SJ Airport	Bytedance	603,363	Sublease
1740 Technology Dr	SJ Airport	Nutanix	215,857	Renewal
605 Mathilda Ave	Sunnyvale	Apple, Inc.	156,785	Expansion
4500 Bohannon Dr	Menlo Park	E-Trade	63,078	Renewal
2755 Augustine Dr	Santa Clara	AMD	62,500	Expansion

KEY SALES TRANSACTIONS Q3 2022

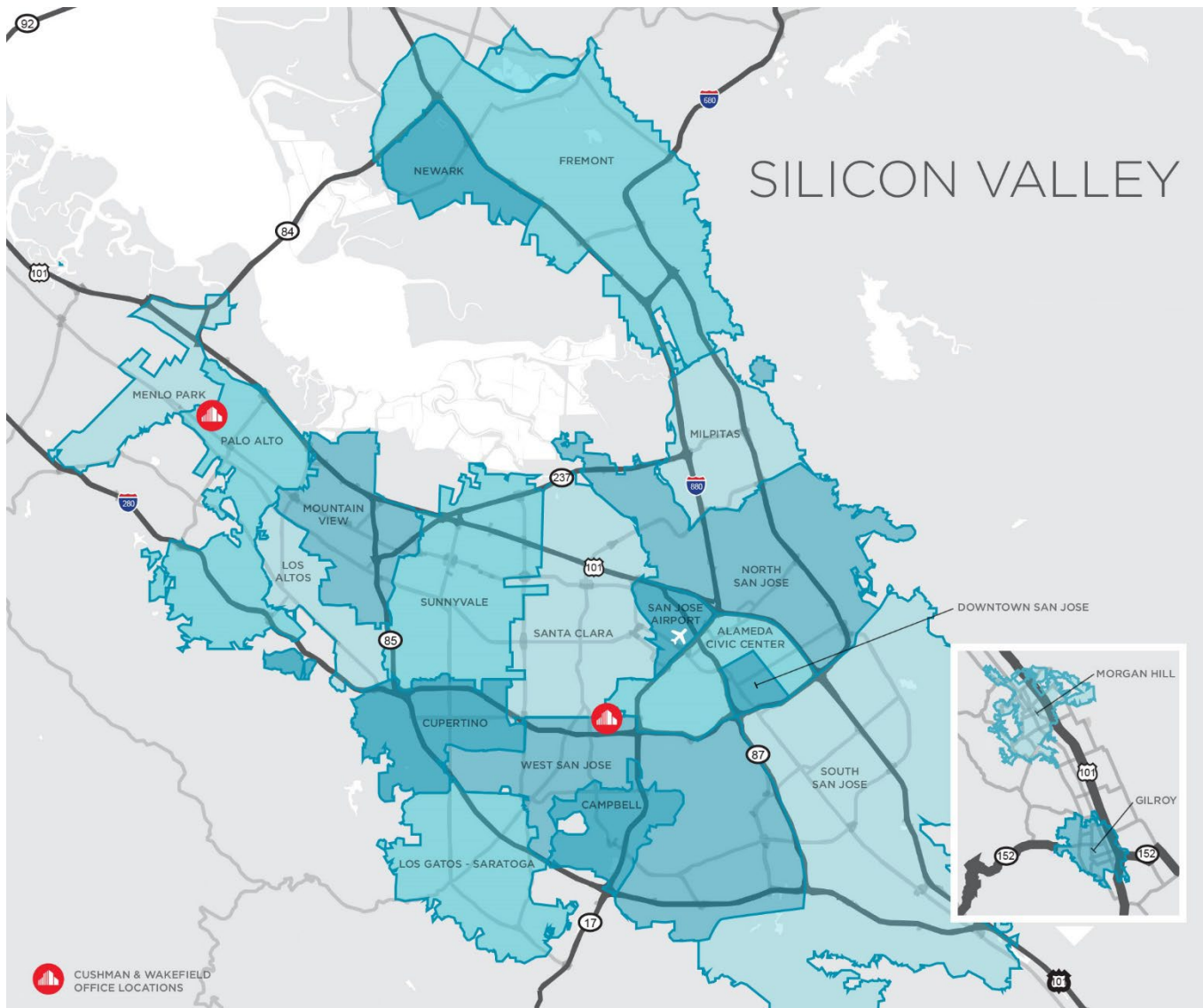
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
333-385 Moffett Park Dr	Sunnyvale	William & Leila Cilker/ Ellis Partners	88,710	\$28.0M / \$315
625 Lincoln Ave	San Jose	The Sobrato Organization/ El Camino Hospital	35,272	\$19.5M / \$553

Silicon Valley

Office Q3 2022



OFFICE SUBMARKETS



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