

YoY Chg 12-Mo. Forecast

10.3%
Vacancy Rate



75K
Net Absorption, SF



\$3.13
Asking Rent, PSF



Overall, Net Asking Rent

**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
2022 Q3 data are based on latest available data

ECONOMY: Economic Picture Continues to Improve

Despite growing pessimism in the U.S. economy, Silicon Valley continues to attract workers to one of the strongest and stable job markets in the country. 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% in Q1 2020, and even slightly below the pre-pandemic rate of 2.5% during the fourth quarter of 2019. While the United States has also recovered somewhat from the pandemic, with a 3.5% national unemployment rate, it remains behind Silicon Valley's strong rebound.

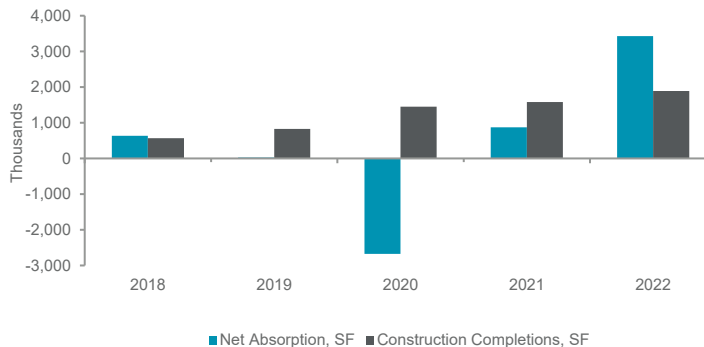
SUPPLY: Vacancy Continues to Fall

Silicon Valley's R&D vacancy rate decreased for the fifth quarter in a row after its peak of 12.8% in Q2 2019, now settling at 10.3% at the end of the third quarter of 2022. This decline has been gradual, averaging a change of 50 basis points per quarter, indicating persistent demand for R&D space following the pandemic. This translates to 17.7 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 23.2% 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, FireEye (189,000 sf) in Milpitas, Extreme Networks (184,000 sf) in South San Jose, and Silicon Valley Bank (157,000 sf) in Santa Clara.

PRICING: Asking Rents Decrease

After a slight dip in the second quarter of 2022, asking rents continued their upward momentum. Asking rents now sit at \$3.13 per square foot (psf) on a monthly triple net basis, an increase of 3.3% quarter over quarter and a 5.7% increase year over year. This upward trend is expected to continue if vacancy rates keep falling in step.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

R&D Q3 2022



Deal Velocity Down but Still Positive

The third quarter of 2022 saw a decline in leasing activity, with gross absorption totaling just 1.6 msf compared to 4.2 msf last quarter, however, the 754,000 sf of positive net absorption indicates continued growth in the R&D sector. Top occupiers this quarter include NIO occupying 201,500 sf at 3151 Zanker Road in the North San Jose submarket, as well as DPR Construction, who purchased 150,000 square feet to occupy at 5201 Patrick Henry Drive in Santa Clara. The completion of the final preleased building in Sunnyvale's Pathline project also contributed to the growth this quarter, adding 95,000 sf in occupancy gains. Top movers on the opposite side include Maxar, who leaves behind 259,000 sf at 3825 Fabian Way in Palo Alto, as well as Abbott Labs, who vacated their 258,100 sf building at 755 Jarvis Dr in Morgan Hill. Despite these large block space vacancies, there has been significant growth in the R&D sector year to date as well as most of 2021; this quarter marks the fifth consecutive quarter with positive absorption, totaling 6.0 msf in that period.

Capital Markets was also active in the R&D sector this quarter, with Hines purchasing 5 buildings in the Fremont Business Center totaling 148,410 sf for \$54.6M, or \$367/sf, and Diversified Healthcare Trust purchasing the 88,957 sf Fremont Labs for \$82.0M, or \$922/sf. These properties were both 100% leased at the time of sale, with Fremont Labs having a long term life science tenant, Alamar Biosciences, to justify the cost. Although the office sector has taken a beating in the COVID-19 era, it's clear that investors see R&D space as a more attractive as well as a more stable option for investors looking for returns.

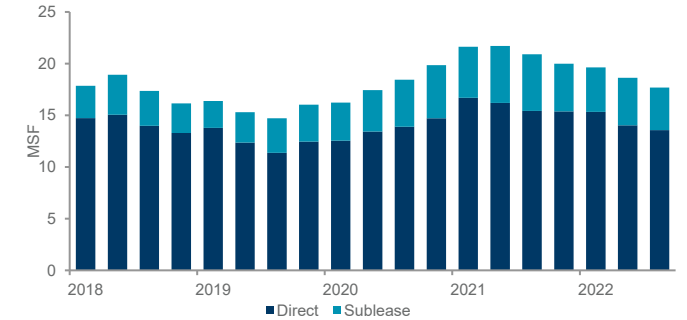
Construction

With the completion of the final building in Sunnyvale's Pathline Park, only one project remains under construction: the 400,199 sf Google Gibraltar campus in Sunnyvale. Despite an apparent recent uptick in demand for R&D space, no new projects have broken ground this year.

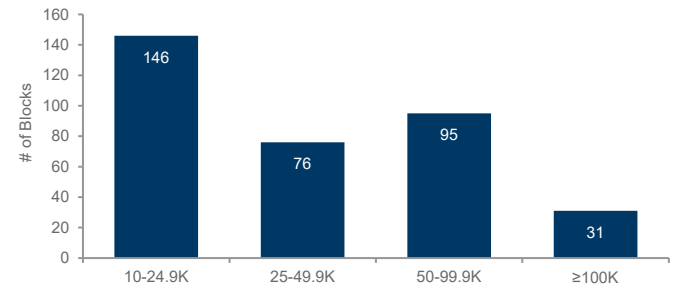
Outlook

- A continued demand for tech and life science space will benefit the Valley as companies look for alternatives to office space that can better suit their needs. Cushman & Wakefield is currently tracking approximately 5.2 msf of active office/R&D tenant requirements in the Silicon Valley – a low amount by pre-pandemic standards.
- Rents will likely increase throughout the remainder of 2022 as vacant space continues to decrease. This growth may be blunted by pessimism about upcoming economic landscapes.
- Large blocks of quality space will remain scarce thanks to a combination of leasing activity and limited new deliveries. Conversions will likely change this, however, due to high construction costs, any deliveries stemming from this method will likely only be available to credit tenants.

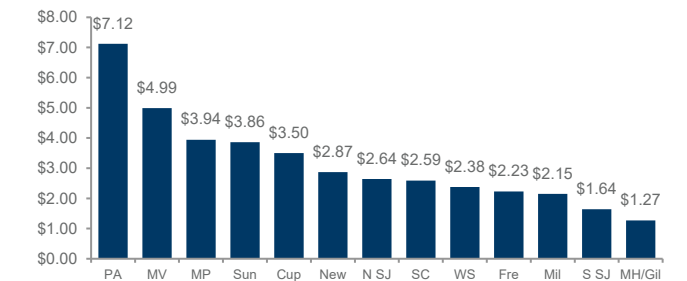
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



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	29,659	49,248	2.3%	(14,156)	(51,298)	62,897	0	\$3.94
Palo Alto	10,922,995	313,276	902,124	11.1%	(42,120)	240,283	495,833	0	\$7.12
Mountain View	16,856,102	159,490	1,290,716	8.6%	(85,288)	1,754,565	2,249,501	0	\$4.99
Cupertino	5,710,505	0	3,000	0.1%	3,622	3,622	44,194	0	\$3.50
Westside	2,251,444	78,552	155,919	10.4%	(66,400)	(38,592)	97,472	0	\$2.38
Sunnyvale	24,587,178	707,520	1,610,050	9.4%	438,018	293,401	1,359,488	400,199	\$3.86
Santa Clara	22,044,737	793,910	2,830,962	16.4%	329,136	173,140	1,787,319	0	\$2.59
North San Jose	35,676,948	1,023,956	3,167,061	11.7%	639,796	954,033	2,372,067	0	\$2.64
South San Jose	10,062,054	184,713	927,349	11.1%	(271,919)	(151,685)	380,384	0	\$1.64
Milpitas	12,643,221	464,279	1,453,117	15.2%	90,203	302,511	904,856	0	\$2.15
Fremont	20,588,688	244,317	747,623	4.8%	42,102	235,014	847,846	0	\$2.23
Newark	2,880,223	103,798	133,257	8.2%	(45,340)	(107,030)	141,862	0	\$2.87
Morgan Hill/Gilroy	3,604,178	6,000	304,343	8.6%	(263,140)	(177,677)	35,000	0	\$1.27
TOTALS	171,736,594	4,109,470	13,574,769	10.3%	754,514	3,430,287	10,778,719	400,199	\$3.13

*Rental rates reflect triple net asking. Market indicators are not reflective of US MarketBeat tables.

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
3300 Olcott St	Santa Clara	Gigamon Systems	LBA Realty	105,664	Renewal
2800 Scott Blvd	Santa Clara	NVIDIA	Preylock Holdings	99,800	Renewal
2950 Zanker Rd	North San Jose	Electric Hydrogen Company	Peninsula Land & Capital	70,000	New Lease
2740 Zanker Rd	North San Jose	Skyworks Solutions	Blue Rise Ventures / PCCP	67,001	Expansion/Renewal
415 Oakmead Pkwy	Sunnyvale	Confidential	S&S Oakmead, LLC	60,517	New Lease

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	BUYER	SELLER	SF	PRICE \$/PSF
5201 Patrick Henry Dr	Santa Clara	DPR Construction	W.F. Batton	150,000	\$49.4M / \$329
Fremont Business Center	Fremont	Hines	CIP Real Estate	148,410	\$54.6M / \$368
3001 Orchard Pkwy *	North San Jose	GIC Real Estate	American Realty Capital	97,890	\$36.1M / \$368
47071 Bayside Pkwy	Fremont	Diversified Healthcare Trust	Jadian Capital-Graymark	88,957	\$82.0M / \$921
6500 Kaiser Dr	Fremont	LaSalle Investment	BioMed Realty Trust	87,953	\$42.5M / \$483

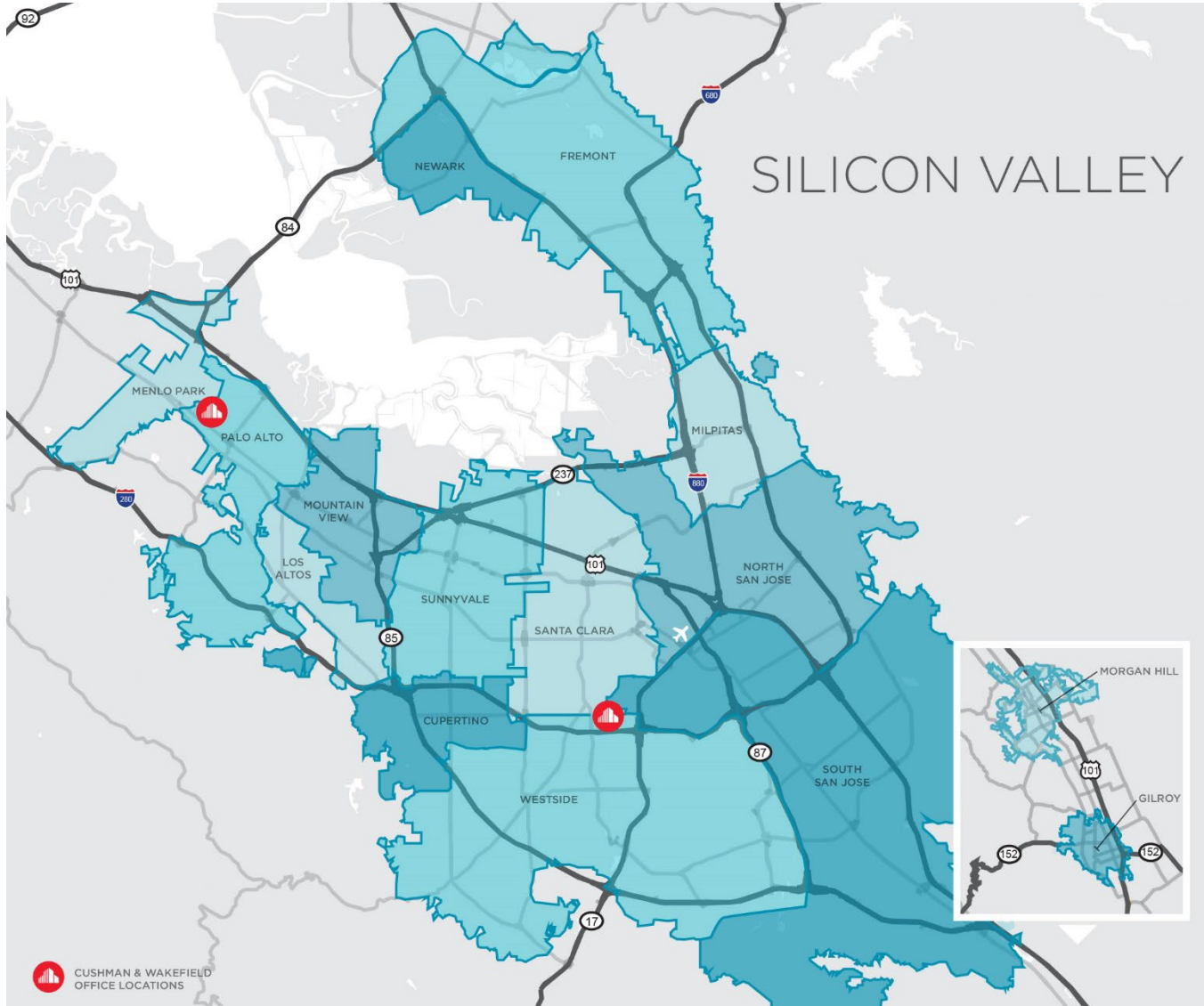
* Part of 54-building national portfolio totaling 7.9 MSF that sold for \$1.13B (\$144/sf).

Silicon Valley

R&D Q3 2022



R&D SUBMARKETS



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