

Silicon Valley

Office Q4 2022



	YoY Chg	12-Mo. Forecast
19.0% Vacancy Rate	▲	▲
-360K Net Absorption, SF	▼	▼
\$5.36 Asking Rent, PSF FS	▬	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
1.18M San Jose MSA Employment	▲	▲
2.2% San Jose MSA Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2022Q4 data are based on latest available data.

ECONOMY: Layoffs Shock Commercial Markets

Though historically more resilient than other markets nationally, the Bay Area has begun to show signs of an economic downturn. Mass layoffs from tech companies throughout the Bay Area have caused tenants and landlords to pause and reassess. The San Jose MSA has had fewer layoffs compared to the San Francisco MSA, and despite pessimism throughout 2022, there was an increase of 51,000 jobs year over year. The San Jose MSA is outperforming the United States nationally with a 2.2% unemployment rate compared to 3.7% nationally, though both figures are likely to increase going into 2023.

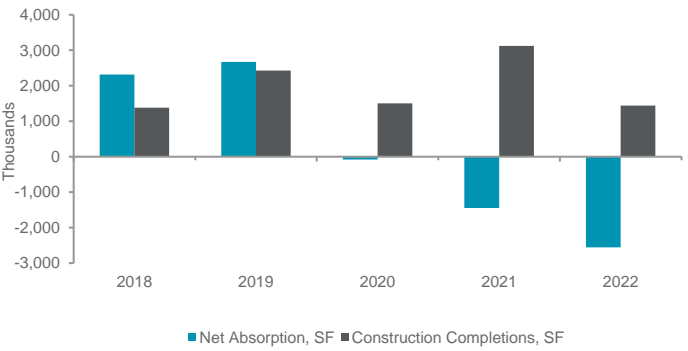
SUPPLY: Sublease Space, Vacancy Increases

Silicon Valley's office vacancy rate increased again in the fourth quarter of 2022 to 19.0%, up from 18.6% in the third quarter. The current rate translates to 17.2 million square feet (msf) of vacant space. The end of 2022 marks the 12th consecutive quarter where the overall vacancy rate has risen, increasing 1,030 basis points (bps) from its most recent trough of 8.7% in the first quarter of 2020. Despite strong fundamentals, remote work policies popularized during the COVID-19 pandemic as well as fears of an upcoming economic downturn have left a significant amount of office space in the Valley vacant. The top vacancies this quarter include Splunk putting 84,000 square feet (sf) of space on the market for sublease in West San Jose, and Confluent putting 75,000 sf on the market for sublease in Mountain View. Sublease space now constitutes 29.6% of total available space in the Valley, up slightly from 29.0% last quarter and up from 22.4% at the end of 2021.

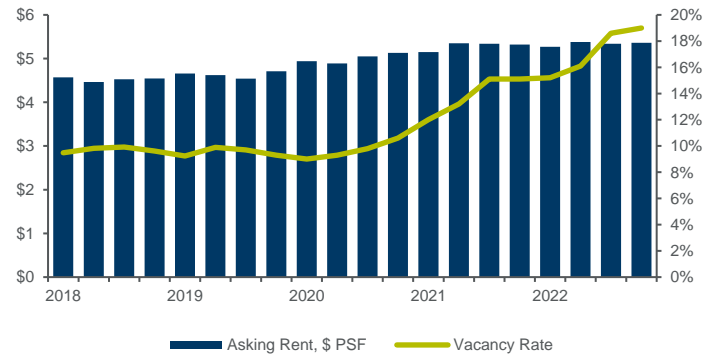
PRICING: Asking Rents at a Standstill

The average asking rent increased slightly in the fourth quarter of 2022, rising to \$5.36 per square foot on a monthly full-service basis, a \$0.02 increase from the previous quarter and a \$0.04 increase year-over-year. The average asking rent recorded over the past four quarters was \$5.34 psf/month, indicating that rents remained flat for most of 2022. Given the current lack of demand for office space as well as upcoming economic uncertainty, there is little expectation that significant rent increases would occur in the near term.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

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Deal Velocity Slows Significantly

Transaction volume fell sharply in the fourth quarter of 2022, posting just 778,712 sf of gross absorption, a 76% decrease compared to the previous quarter. Demand for new office space fell on the news of large-scale tech-sector layoffs this quarter that will likely persist through 2023. Of the 16 deals over 10,000 sf in the Valley, half of them were renewals, indicating that tenants are simply not looking to expand or sign large new leases at the current time. Sales volume was also down, with just one sale over 10,000 sf this quarter compared to 10 in the fourth quarter of 2021, however this drop can be attributed to rising national interest rates which has depressed sale activity throughout the country, not just in Silicon Valley.

Net Occupancy Losses for the Third Year

The last quarter of 2022 saw another loss of occupancy with 360,441 sf of negative net absorption in the Valley. Unlike the third quarter, which saw 1.7 msf of occupancy losses due to large spaces coming onto the market, the net overall loss of occupancy this quarter is due to a lack of deal volume, as there were not many new spaces coming onto the market. On the year, the Valley measured 2.6 msf of net occupancy losses, the largest amount since 2001 (negative 4.9 msf) and marks the third year of negative net absorption. While the office sector has languished in prior years as a result of ongoing remote work policies, its impact seems to have been fully realized this year.

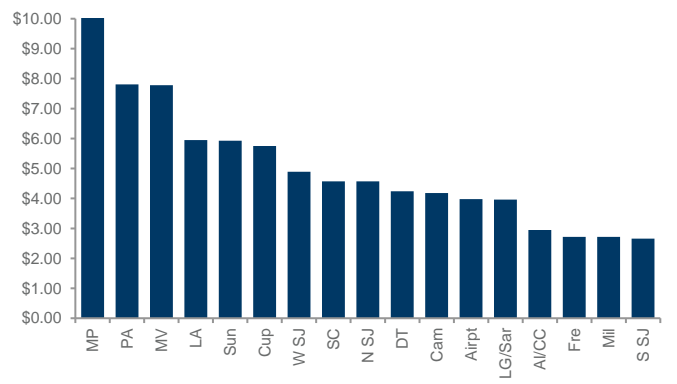
Build-to-Suits on the Rise

New product under construction across the region currently stands at approximately 4.8 msf, a figure bolstered by 1.8 msf of build-to-suit office projects breaking ground this quarter in Mountain View and Sunnyvale for a single technology tenant. The size of these projects indicates that established tenant interest in the region remains strong and will recover following the downturn. Additionally, there is currently 2.9 msf of speculative projects currently under construction, suggesting that developers foresee a continued need for ultra-modern, Class A office space in the Valley.

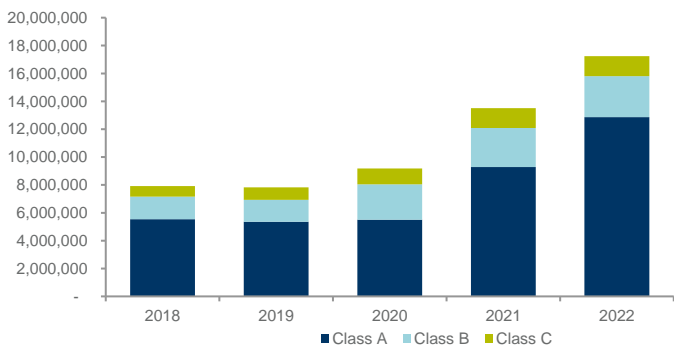
Outlook

- Layoffs among tech companies have caused uncertainty regarding how much new space is needed going forward. C&W is currently tracking approximately 2.8 msf of active office/R&D tenant requirements in the Silicon Valley, the lowest level recorded since Q4 2001.
- Though it is unclear how much space will be needed, there will continue to be a bifurcation of the market with tenants searching for the best quality space in order to woo employees back to the office; commodity space is expected to linger on the market.
- Although the wave of mass layoffs in the software field and the upcoming economic downturn will affect all sectors, the impact of the cycle is likely to be diminished in the Valley due to its focus on critical industries such hardware, semiconductor, and IT infrastructure.

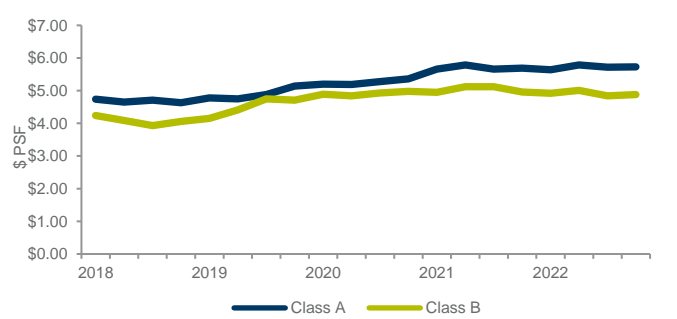
AVERAGE ASKING RATE BY SUBMARKET



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	6,375,062	293,720	536,957	13.0%	-4,176	-46,509	417,268	0	\$10.10	\$10.39
Palo Alto	10,524,560	575,436	1,116,694	16.1%	-54,180	79,455	757,556	0	\$7.81	\$7.78
Los Altos	1,178,824	25,711	156,506	15.5%	-23,020	25,655	159,742	0	\$5.95	\$7.88
Mountain View	5,683,263	828,771	430,222	22.2%	-94,623	-937,197	441,789	1,033,543	\$7.78	\$8.36
Cupertino	4,419,821	37,020	380,079	9.4%	-35,520	-16,402	122,294	0	\$5.75	\$6.45
Campbell	2,493,459	229,477	519,015	30.0%	-23,635	-278,167	240,050	165,987	\$4.18	\$4.73
Los Gatos/Saratoga	2,596,308	168,040	97,909	10.2%	1,156	-109,404	139,800	0	\$3.96	\$4.43
West San Jose	5,084,686	98,681	731,978	16.3%	-98,660	-32,352	205,849	0	\$4.89	\$5.79
Sunnyvale	13,317,266	195,677	1,262,229	10.9%	-55,772	40,465	420,986	2,207,563	\$5.93	\$6.80
Santa Clara	10,883,533	1,521,244	2,474,407	36.7%	55,111	-747,023	1,294,385	0	\$4.57	\$4.73
San Jose Airport	5,327,520	731,818	1,290,049	38.0%	-12,426	-769,706	1,362,552	0	\$3.98	\$4.16
North San Jose	6,354,822	150,124	745,101	14.1%	41,804	-127,967	349,037	0	\$4.57	\$5.03
Alameda/Civic Center	2,056,816	15,434	186,439	9.8%	-21,542	-42,204	99,128	0	\$2.95	\$4.25
South San Jose	1,788,749	0	95,550	5.3%	-5,149	-4,077	42,788	0	\$2.66	\$3.23
Downtown San Jose	9,769,007	215,501	1,786,697	20.5%	-21,999	468,547	1,244,958	1,355,342	\$4.24	\$4.33
Milpitas	908,872	0	117,784	13.0%	-4,216	-7,457	25,832	0	\$2.72	\$2.40
Fremont	2,053,160	20,522	210,975	11.3%	-3,594	-54,855	46,545	0	\$2.72	\$2.51
CLASS BREAKDOWN										
Class A	56,811,281	4,720,601	8,151,500	22.7%	-239,155	-2,124,408	2,663,187	4,762,435	\$5.73	
Class B	19,934,629	278,474	2,658,807	14.7%	-106,458	-401,567	4,707,372	0	\$4.88	
TOTALS	90,815,728	5,107,176	12,138,591	19.0%	-360,441	-2,559,198	7,370,559	4,762,435	\$5.36	\$5.73

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
60 Market St, S. #500 & 600	Downtown SJ	Frank Rimmerman & Co.	34,882	Renewal
4151 Middlefield Rd	Palo Alto	Valley Health Center	24,512	New Lease
50 San Fernando St, W. 6 th Floor	Downtown SJ	Armanino LLP	19,853	Renewal
50 San Fernando St, W. 10 th Floor	Downtown SJ	McManis Faulkner	19,853	Renewal
333 San Carlos St, W. #101	Downtown SJ	Confidential	19,739	Renewal

KEY SALES TRANSACTIONS Q4 2022

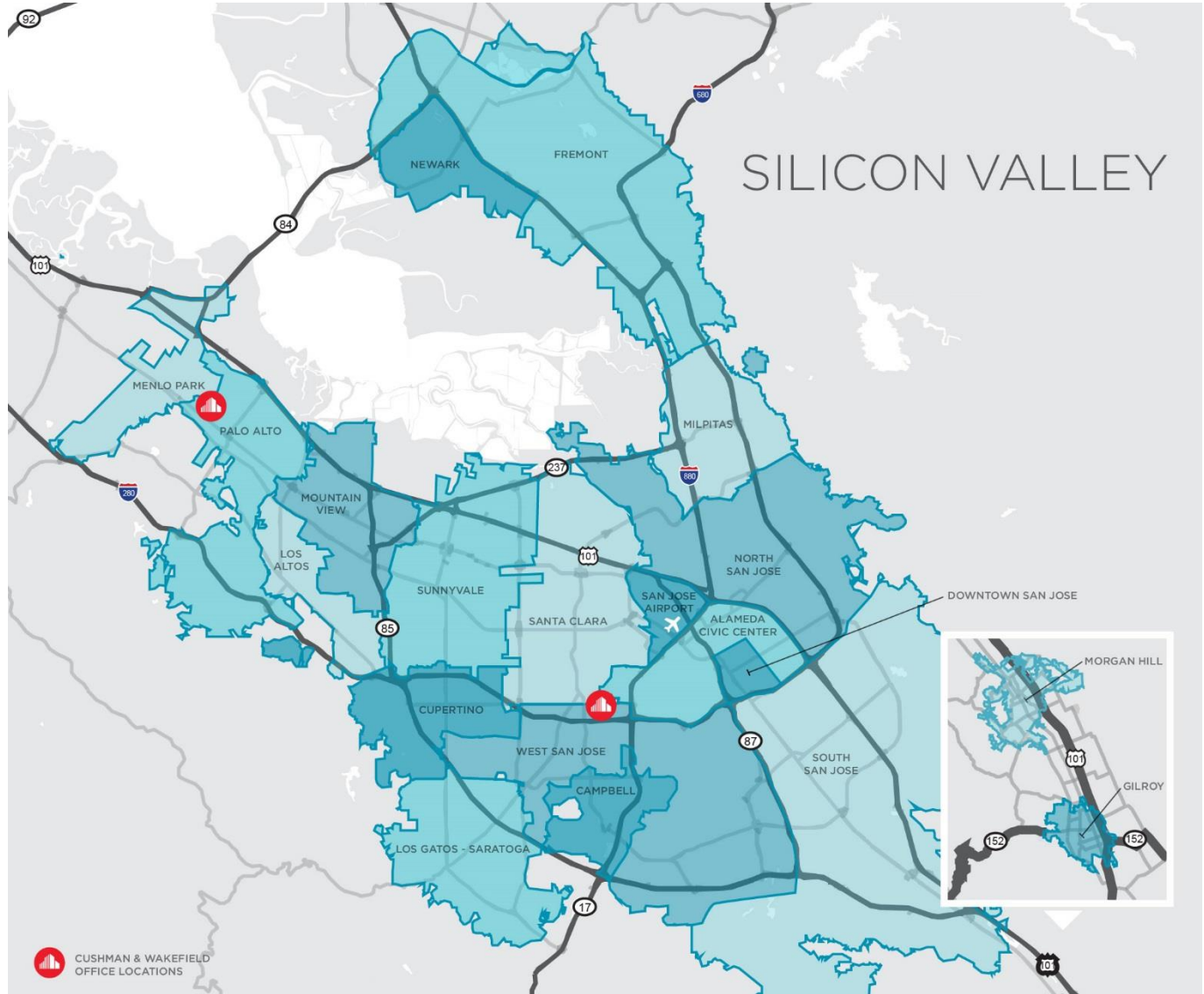
PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$PSF
200 Mathilda Ave, S.	Sunnyvale	JP Morgan Asset / Drawbridge Realty	156,960	\$180.0M / \$1,146
236 Castro St	Mountain View	G. Fiegl & A. Wang / Smith Development	6,912	\$5.4M / \$781
5448 Thornwood Dr	San Jose	Evarklou / Dermer	5,910	\$3.2M / \$533

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OFFICE SUBMARKETS



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