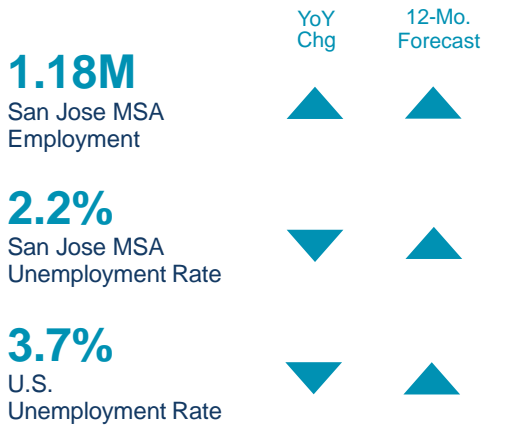


ECONOMIC INDICATORS Q4 2022



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

ECONOMY: Layoffs Shock Commercial Markets

Though 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 (YOY). The San Jose MSA is still 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.

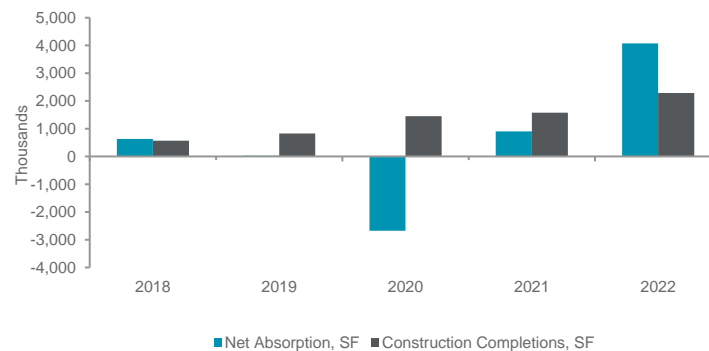
SUPPLY: Vacancy Continues to Fall

Silicon Valley's R&D vacancy rate fell again in the fourth quarter of 2022, decreasing 30 basis points quarter-over-quarter (QOQ) to 10.1% and 160 basis points (bps) YOY from 11.7%. The end of 2022 marks the sixth consecutive quarter of occupancy gains since the vacancy rate peaked at 12.7% in the first quarter of 2021. The current vacancy rate translates to 17.4 million square feet (msf) of space throughout the Valley, of which 21.9% (3.8 msf) is sublet space, a decrease from 23.0% in the third quarter. For comparison, sublet space in the Office sector currently comprises 29.6% of all available space. Despite growing fears about the global economy, R&D product seems to be backed by strong demand and has consistently posted growth during the post-pandemic era.

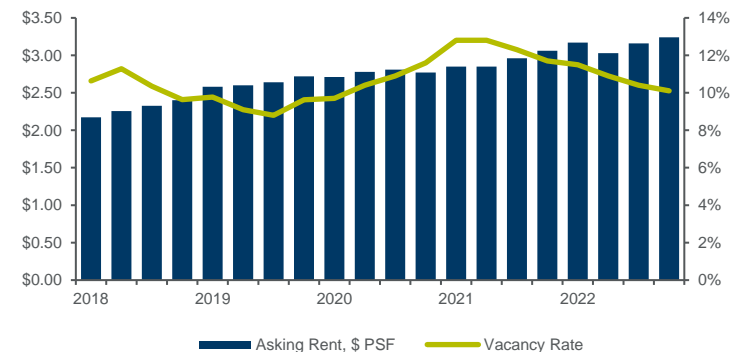
PRICING: Asking Rents Increase

Asking rents continued their upward momentum in 2022, finishing the year at \$3.24 per square foot (psf)/per month on a triple net basis, a 2.5% increase QOQ from \$3.16 psf/month and a 5.9% increase YOY from \$3.06 psf/month. On the year, Fremont had the largest increase in asking rents, increasing to \$3.00 psf/month from \$1.89 psf/month at the end of 2021. In a time of mostly stagnant rents, the Silicon Valley R&D sector seems to be the exception during times of uncertainty.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

R&D Q4 2022



Growth in the Post-Pandemic Era

2022 was a strong year for the R&D sector that saw an increase in both leasing activity and occupancy gains. In the fourth quarter of 2022 there was 2.1 million square feet (msf) of gross absorption (the total amount of combined leasing and user-sale activity), an 18.9% increase compared to the third quarter, though slightly below the 3.2 msf quarterly average for 2022. Eight of the top ten deals this quarter were renewals, indicating continued confidence in both the R&D sector as well as tenants' commitment to remain in the area. Annually, gross absorption measured 12.9 msf, its strongest year since 2018, which saw 15.5 msf of gross absorption, suggesting that the R&D sector may be on its way to recovery.

The fourth quarter of 2022 was also a strong year for net absorption, or the change in occupancy over time. Occupancy also saw an increase with 832,323 sf in the fourth quarter, a 18.2% increase over the prior quarter. On the year, however, there was 4.1 msf of net occupancy gains, a whopping 351% increase year over year. The 2021 and 2022 gains in occupancy have offset the losses seen as a result of the pandemic, when there was a recorded 2.8 msf of occupancy losses in 2022. While these gains are, in a large part due to build-to-suit completions, the overall decrease in vacant space through 2022 points to the fact that there's simply no substitute for R&D product, especially in Silicon Valley.

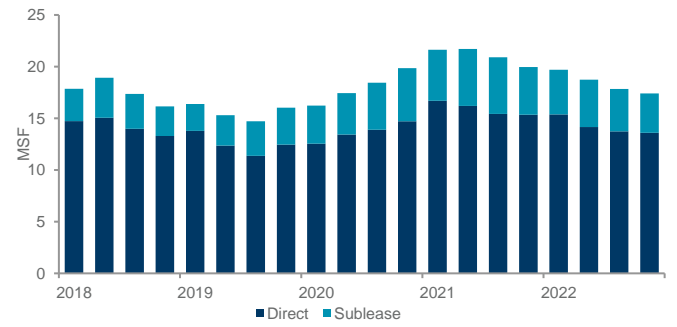
Construction Focused on Build-to-Suits

There was only one construction completion this quarter, the four-building Google Gibraltar campus that totaled 400,199 sf in Sunnyvale. There is one project currently under construction, Intuit's 179,000 campus expansion in Mountain View. The trend towards build-to-suit projects in the R&D sector, such as Intuit and the yet-to-break ground Intuitive Surgical campus expansion suggest that only established tenants, possibly with custom build-outs, are the ones driving new R&D construction in the Valley. Despite an apparent recent uptick in demand for R&D space, no new projects have broken ground this year.

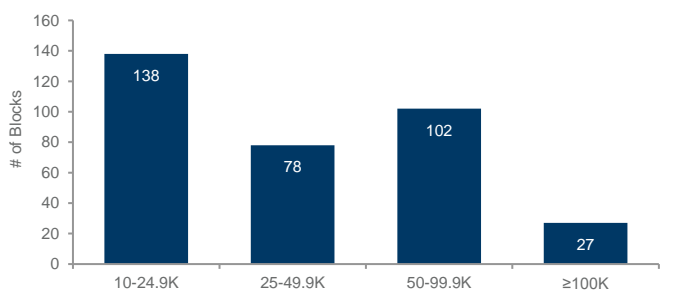
Outlook

- Leasing may fall off slightly in 2023 as fears of an economic downcycle cause demand to fall across the board, however, R&D product has been shown to be more resilient to national market conditions due to its flexibility of use and its popularity among established tenants, especially in the Silicon Valley.
- A continued demand from tech and life science users will benefit the Valley as companies look to be more efficient with their space in the upcoming downturn. Cushman & Wakefield is currently tracking approximately 2.8 msf of active office/R&D tenant requirements in the Silicon Valley – a low amount by pre-pandemic standards.

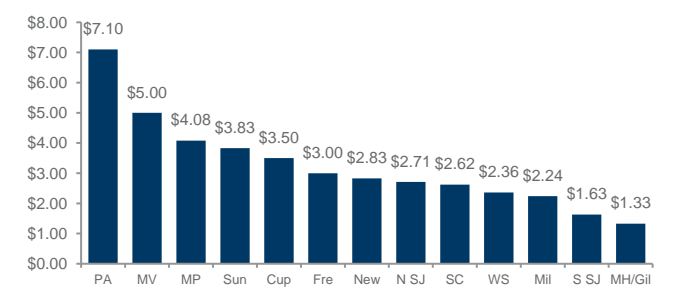
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



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	32,659	72,827	2.7%	(39,677)	(90,975)	83,196	0	\$4.08
Palo Alto	10,927,354	342,345	956,092	11.9%	(83,037)	157,246	429,538	0	\$7.10
Mountain View	16,857,926	175,300	1,399,694	9.3%	(110,988)	1,629,777	2,398,514	179,000	\$5.00
Cupertino	5,710,505	0	0	0.0%	3,000	6,622	44,194	0	\$3.50
Westside	2,251,444	78,552	162,809	10.7%	(6,890)	(45,482)	105,393	0	\$2.36
Sunnyvale	24,987,199	768,274	1,217,217	7.9%	757,021	1,025,679	2,200,985	0	\$3.83
Santa Clara	22,047,304	467,123	2,879,669	15.2%	353,890	451,220	1,827,694	0	\$2.62
North San Jose	35,688,515	950,777	3,303,944	11.9%	(80,810)	890,329	2,985,371	0	\$2.71
South San Jose	10,059,554	211,232	888,584	10.9%	7,973	(139,439)	395,014	0	\$1.63
Milpitas	12,643,951	371,685	1,425,488	14.2%	213,547	422,734	960,988	0	\$2.24
Fremont	20,563,942	339,695	716,158	5.1%	(169,929)	129,530	1,326,300	0	\$3.00
Newark	2,880,223	68,798	281,342	12.2%	(26,777)	(202,115)	141,862	0	\$2.83
Morgan Hill/Gilroy	3,604,178	0	295,343	8.2%	15,000	(162,677)	38,000	0	\$1.33
TOTALS	172,130,416	3,806,440	13,599,167	10.1	832,323	4,072,449	12,937,049	179,000	\$3.24

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

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
1250 Reliance Wy	Fremont	Google	Miramar Asset Mgmt	103,277	Renewal
3001 Orchard Pkwy	North San Jose	Bio Techne	Ridge Capital Investors	97,890	Renewal
399 Trimble Rd, W.	North San Jose	Cepton Technologies	Met Life Realty Group	92,842	Renewal
455 Trimble Rd, W.	North San Jose	XP Power	Highlands REIT	80,125	New Lease
1625 Charleston Rd	Mountain View	Google	Mozart Development Co.	67,000	Renewal

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	BUYER	SELLER	SF	PRICE \$/PSF
Results Way Campus*	Cupertino	Apple, Inc.	Swift Real Estate Partners	383,750	Confidential
Montague Crossing Portfolio	North San Jose	Peninsula Building Materials	Rockwood Capital	209,425	\$94.7M / \$452
684 Maude Ave, W./Catalyst	Sunnyvale	Metzler Realty Advisors	Harvest / Invesco	194,624	\$222M / \$1,140
350 Plumeria Dr, E.	North San Jose	Galaxy REIT	Griffin Realty Trust	142,700	\$37.9M / \$265
2580-2590 Orchard Pkwy	North San Jose	W.F. Batton & Co.	TA Associates Realty	129,024	\$41.5M / \$321

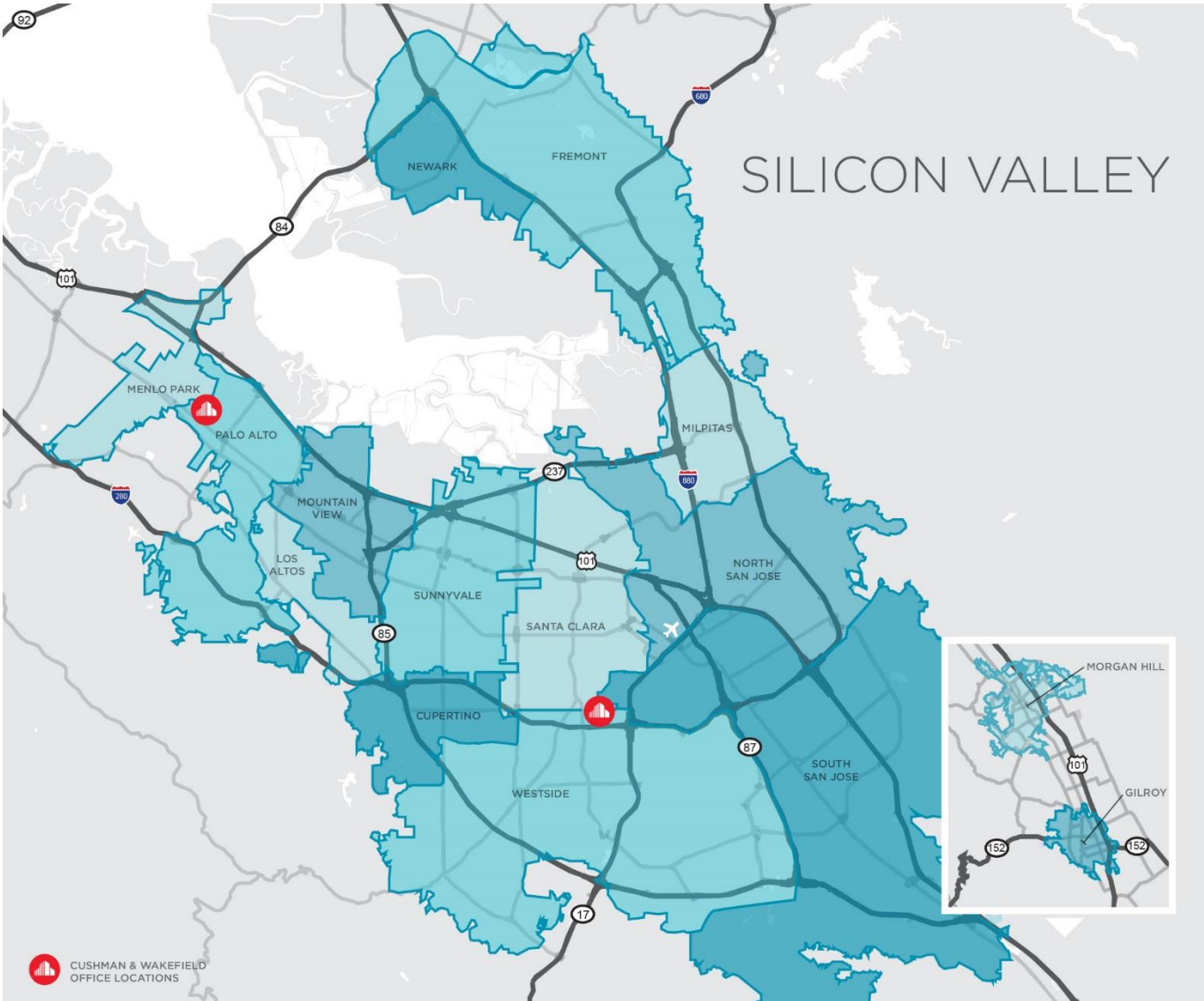
*Apple has been occupying Results Way campus since 2011.

Silicon Valley

R&D Q4 2022



R&D SUBMARKETS



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