

	YoY Chg	12-Mo. Forecast
18.4% Vacancy Rate	▲	▲
371K Net Absorption, SF	▲	▼
\$5.37 Asking Rent, PSF FS	▬	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
1.18M San Jose MSA Employment	▲	▲
2.7% San Jose MSA Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2023Q1 data are based on latest available data.

ECONOMY: Unemployment Increases

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 unemployment rate was down 90 basis points (bps) year-over-year (YOY) finishing at 2.7% but it did climb slightly higher since the fourth quarter of 2022. Despite this recent rise, there was still an increase of 41,800 jobs YOY. The San Jose region with its still low unemployment rate is still outperforming the overall United States at 3.5% nationally, though both figures are likely to increase further this year.

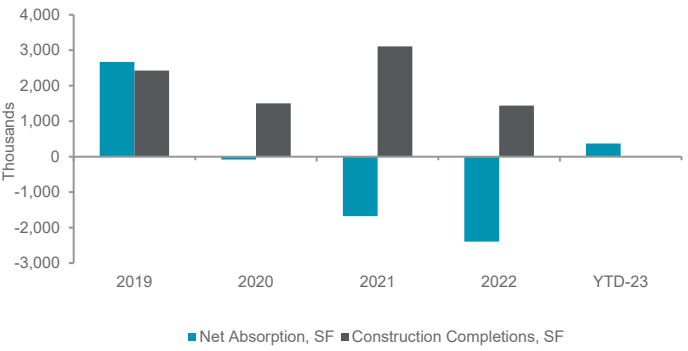
SUPPLY: Vacancy Decreases Slightly

For the first time in three years, Silicon Valley's office vacancy rate decreased in the first quarter of 2023 to 18.4%, down from 18.8% in the fourth quarter. However, this dip in vacancy will likely be short-lived. One major reason for an expected increase in vacancy in the near-term is that there is a 965,000 square-foot speculative building in Downtown San Jose that will complete construction next quarter with no preleasing activity. The current vacancy rate translates to 16.7 million square feet (msf) of vacant space. Sublease space now constitutes 30.0% of total available space in the Valley, up slightly from 28.9% last quarter and up from 22.6% at the end of 2021. New subleases added during the quarter included Facebook's three buildings in Menlo Park totaling 480,000 sf and a LinkedIn building in Sunnyvale totaling 125,000 sf.

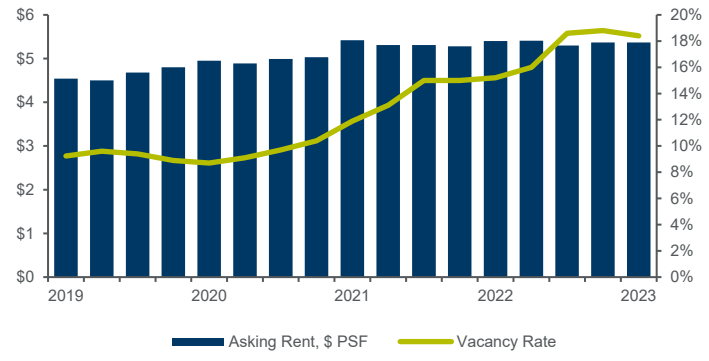
PRICING: Asking Rents at a Standstill

Average asking rents have generally remained flat since the beginning of 2022. In the first quarter of 2023, rents came in at \$5.37 per square foot (psf) on a monthly full-service basis, which is a \$0.07 increase YOY. The northern peninsula cities of Menlo Park, Palo Alto and Mountain View have the highest rents with first quarter numbers recorded at \$10.90 psf, \$7.95 psf and \$7.45 psf, respectively. 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

Office Q1 2023



Deal Velocity Increases

Transaction volume increased in the first quarter of 2023, recording 1.4 msf of gross absorption after the poor showing of just 840,000 sf in the fourth quarter. The first quarter figure matches the average quarterly deal velocity over the past three years. Demand for new office space fell on the news of large-scale tech-sector layoffs this quarter that will likely persist throughout 2023. Of the 11 deals over 20,000 sf in the Valley, seven 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 three sales over 10,000 sf this quarter, 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 has Positive Gains

After three quarters of occupancy losses, the first quarter of 2023 recorded a positive 371,000 sf of occupancy gains. This follows the annual total in 2022 of negative 2.4 msf with three straight years of negative net absorption. That positive absorption for the first quarter is likely an anomaly, as there are several large blocks of space set to come on the market in the next two quarters. Deal activity significant enough to propel absorption into positive territory on a more consistent basis is not expected to return to the Silicon Valley until 2024.

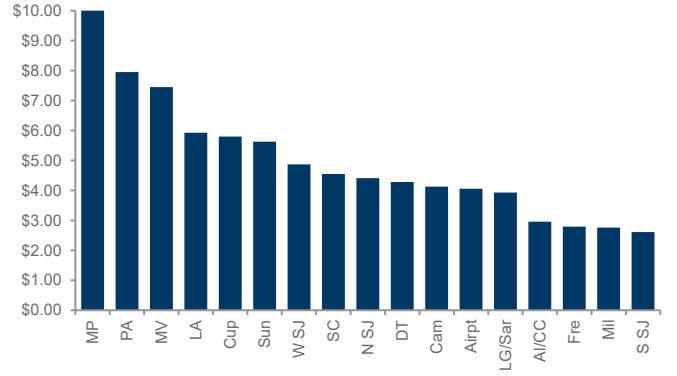
Build-to-Suits on the Rise

New product under construction across the region currently stands at approximately 4.8 msf. This breaks down to 2.2 msf of build-to-suit projects and 2.6 msf of speculative projects. There has yet to be any preleasing within those speculative projects and with 1.4 msf of that delivering before the end of this year, it will push vacancy higher.

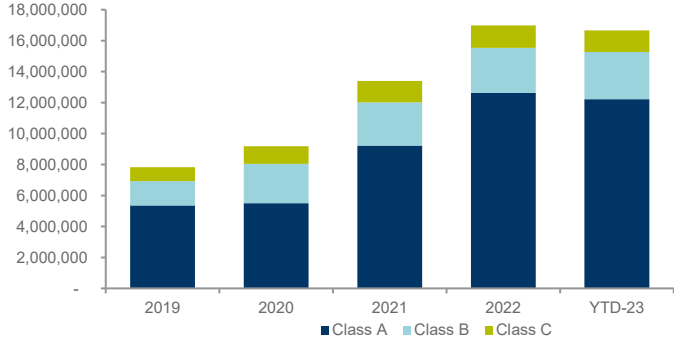
Outlook

- Layoffs among tech companies have caused uncertainty regarding how much new space is needed going forward. C&W is currently tracking approximately 2.9 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 as hardware, semiconductor, and IT infrastructure.

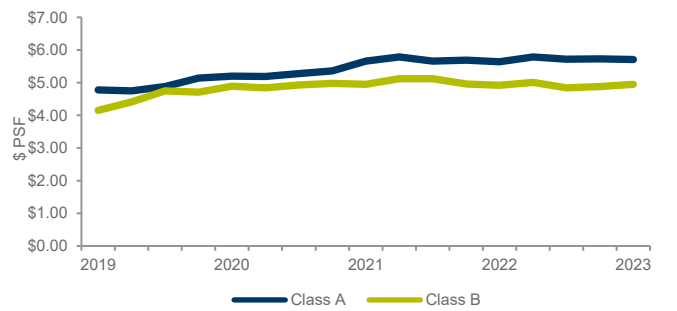
AVERAGE ASKING RATE BY SUBMARKET



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	6,227,637	261,446	522,922	12.6%	-86,204	-86,204	99,422	0	\$10.90	\$11.22
Palo Alto	10,423,891	632,765	1,202,446	17.6%	-102,417	-102,417	49,760	0	\$7.95	\$7.96
Los Altos	1,178,824	28,171	153,900	15.4%	146	146	9,239	0	\$5.93	\$7.88
Mountain View	5,683,263	647,043	442,562	19.2%	60,410	60,410	148,361	1,033,543	\$7.45	\$8.25
Cupertino	4,404,981	22,582	373,053	9.0%	21,464	21,464	112,184	0	\$5.80	\$6.46
Campbell	2,493,459	219,635	528,587	30.0%	270	270	23,915	165,987	\$4.13	\$4.72
Los Gatos/Saratoga	2,611,148	171,835	99,237	10.4%	-5,123	-5,123	5,027	0	\$3.93	\$4.43
West San Jose	5,085,861	116,609	783,618	17.7%	-71,868	-71,868	39,071	0	\$4.87	\$5.76
Sunnyvale	13,318,945	321,211	661,724	7.4%	468,351	468,351	11,906	2,207,563	\$5.63	\$6.13
Santa Clara	10,877,775	1,462,311	2,295,555	34.5%	230,618	230,618	420,451	0	\$4.55	\$4.71
San Jose Airport	5,327,520	726,187	1,280,492	37.7%	3,377	3,377	121,064	0	\$4.06	\$4.24
North San Jose	6,354,822	163,098	776,797	14.8%	-44,670	-44,670	50,359	0	\$4.41	\$4.77
Alameda/Civic Center	2,027,952	15,434	182,218	9.7%	-1,289	-1,289	12,755	0	\$2.96	\$4.25
South San Jose	1,788,917	0	113,841	6.4%	-18,291	-18,291	3,200	0	\$2.61	\$3.23
Downtown San Jose	9,769,007	183,862	1,912,345	21.5%	-70,474	-70,474	213,108	1,355,342	\$4.28	\$4.38
Milpitas	908,872	0	140,225	15.4%	-22,441	-22,441	6,183	0	\$2.76	\$2.40
Fremont	2,053,160	26,329	191,689	10.6%	9,280	9,280	44,108	0	\$2.79	\$2.51
CLASS BREAKDOWN										
Class A	56,668,091	4,664,879	7,556,392	21.6%	415,814	415,814	768,380	4,762,435	\$5.71	
Class B	19,892,788	267,056	2,778,867	15.3%	-106,250	-106,250	601,733	0	\$4.95	
TOTALS	90,536,034	4,998,518	11,661,211	18.4%	371,139	371,139	1,370,113	4,762,435	\$5.37	\$5.71

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
4555 Great America Pkwy	Santa Clara	Confidential	205,774	New Lease
55 Market St, S.	Downtown SJ	Internal Revenue Service	123,940	Renewal
391 San Antonio Rd	Mountain View	Yahoo	79,500	Sublease
20400 Stevens Creek Blvd	Cupertino	Amazon / Lab126	72,461	Renewal
2445 Augustine Dr	Santa Clara	Cambridge Industries	61,457	Renewal

KEY SALES TRANSACTIONS Q1 2023

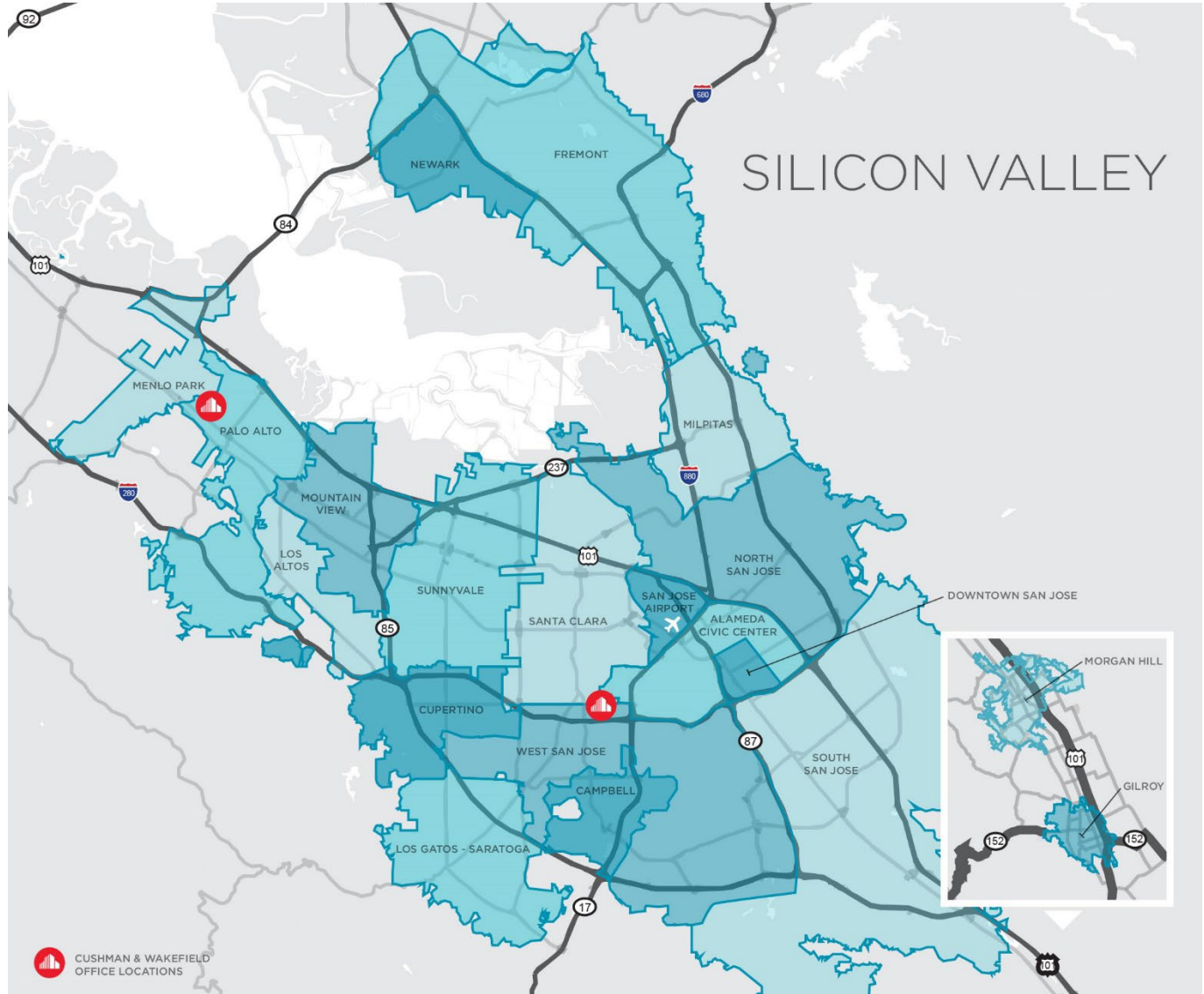
PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$PSF
303 Bryant St.	Mountain View	WealthCap Mountain View / JP Morgan Asset Mgmt	55,956	\$36.0M / \$643
1641 First St, N.	North San Jose	Santa Clara County Federal CU / 1641 North First St, LLC	45,932	\$11.0M / \$239
3131 S Bascom Ave	West San Jose	Winokur Financial Group / 3131 Bascom Partners, LLC	10,272	\$2.6M / \$250

Silicon Valley

Office Q1 2023



OFFICE SUBMARKETS



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