

	YoY Chg	12-Mo. Forecast
10.3% Vacancy Rate	▼	▼
-933K Net Absorption, SF	▼	▲
\$3.16 Asking Rent, PSF <i>Overall, Net Asking Rent</i>	▲	▼

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
2023 Q1 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 Jumps

After six consecutive quarters of decreasing vacancy, the Silicon Valley's R&D vacancy rate increased 60 bps, coming in at 10.3% for the first quarter of 2023. The current vacancy rate translates to 16.7 million square feet (msf) of vacant space throughout the Valley, of which 24.1% (4.0 msf) is sublet space, an increase from 21.0% in the fourth quarter. For comparison, sublet space in the Office sector currently comprises 30.0% of all available space. New subleases that came on the market this quarter include ONSemiconductor (84,000 square feet (sf)) and Vocera Communications (77,000 sf), both in North San Jose, and Akamai Technologies (80,000 sf) in Santa Clara.

PRICING: Asking Rents Up Slightly

Asking rents continued their upward momentum in the first quarter of 2023, finishing at \$3.16 per square foot (psf) a month on a triple net basis, a slight increase from \$3.13 psf/month in the fourth quarter. Mountain View had the largest increase in asking rents, increasing to \$5.31 psf/month from \$4.91 at the end of 2022.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

R&D Q1 2023



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. Leasing activity continued strong in the first quarter of 2023 with 2.1 msf of gross absorption (the total amount of combined leasing and user-sale activity), though still below the 2.9 msf quarterly average for 2022. Six 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.

After six quarters of positive net absorption, due in large part to build-to-suit completions, the Silicon Valley occupancy landed in the red for the first quarter of 2023, coming in at a negative 933,000 sf. This follows the annual 2021 and 2022 stats of 798,000 sf and 4.5 msf, respectively. The gains in occupancy for 2021 and 2022 have offset the losses seen as a result of the pandemic, when there was a record 2.8 msf of occupancy losses in 2020.

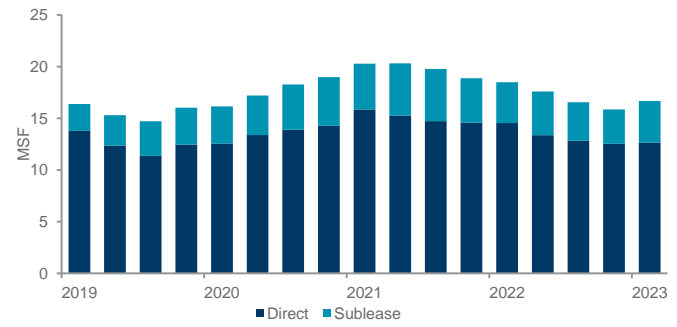
Construction Focused on Build-to-Suits

There was only one construction completion this quarter. Intuit occupied a newly built 179,000 square-foot building in Sunnyvale. There are no projects currently under construction. 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 for the last few quarters.

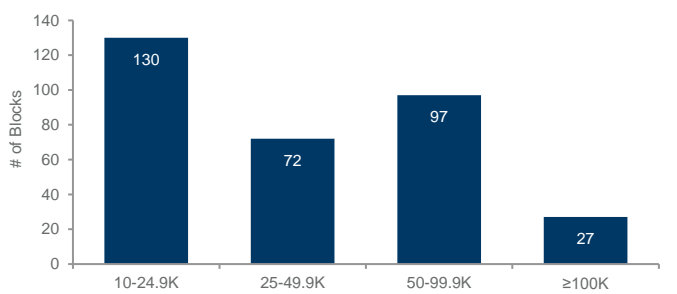
Outlook

- Leasing is expected to fall off 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 2.9 msf of active office/R&D tenant requirements in the Silicon Valley – a low amount by pre-pandemic standards.

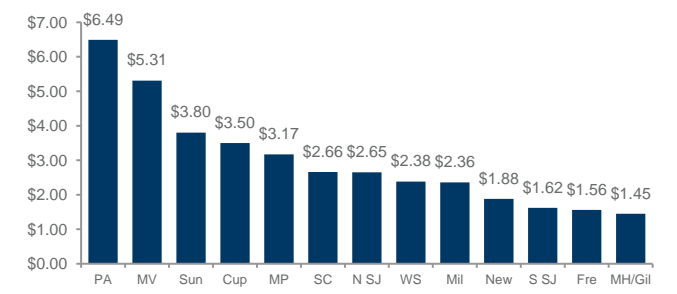
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



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	2,609,633	0	16,687	0.6%	4,700	4,700	18,540	0	\$3.17
Palo Alto	8,826,268	423,547	895,627	14.9%	(250,838)	(250,838)	349,985	0	\$6.49
Mountain View	16,302,674	180,866	1,296,088	9.1%	151,824	151,824	204,380	0	\$5.31
Cupertino	5,710,505	0	0	0.0%	0	0	0	0	\$3.50
Westside	2,251,444	78,552	157,369	10.5%	5,440	5,440	5,440	0	\$2.38
Sunnyvale	24,349,051	819,508	1,177,651	8.2%	(116,988)	(116,988)	197,220	0	\$3.80
Santa Clara	21,288,138	600,680	2,924,603	16.6%	(179,691)	(179,691)	265,766	0	\$2.66
North San Jose	34,940,095	1,098,818	3,245,195	12.4%	(246,821)	(246,821)	333,719	0	\$2.65
South San Jose	9,451,064	227,352	898,513	11.9%	(29,687)	(29,687)	81,896	0	\$1.62
Milpitas	12,255,364	237,300	1,251,239	12.1%	(106,792)	(106,792)	338,811	0	\$2.36
Fremont	18,881,939	339,545	323,117	3.5%	(155,124)	(155,124)	293,628	0	\$1.56
Newark	2,179,902	13,863	166,742	8.3%	0	0	0	0	\$1.88
Morgan Hill/Gilroy	3,604,178	0	304,671	8.5%	(9,328)	(9,328)	0	0	\$1.45
TOTALS	162,650,255	4,020,031	12,657,502	10.3%	(933,305)	(933,305)	2,089,385	0	\$3.16

*Rental rates reflect triple net asking.

Note: Market indicators are not reflective of US MarketBeat tables.

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
3000 Hanover St	Palo Alto	Tesla	Sand Hill Property Company	319,699	New Lease
601 McCarthy Blvd, N.	Milpitas	KLA-Tencor Corp.	GI Partners	189,481	New Lease
48105 Warm Springs Blvd.	Fremont	Alom Technologies	Link Logistics Real Estate	120,433	Renewal
4551 Great America Pkwy	Santa Clara	Abbott Laboratories	Sobrato Development Company	118,320	Renewal
397 Trimble Rd, W.	North San Jose	Verizon	Met Life Realty Group	91,725	Renewal

KEY SALES TRANSACTIONS Q1 2023

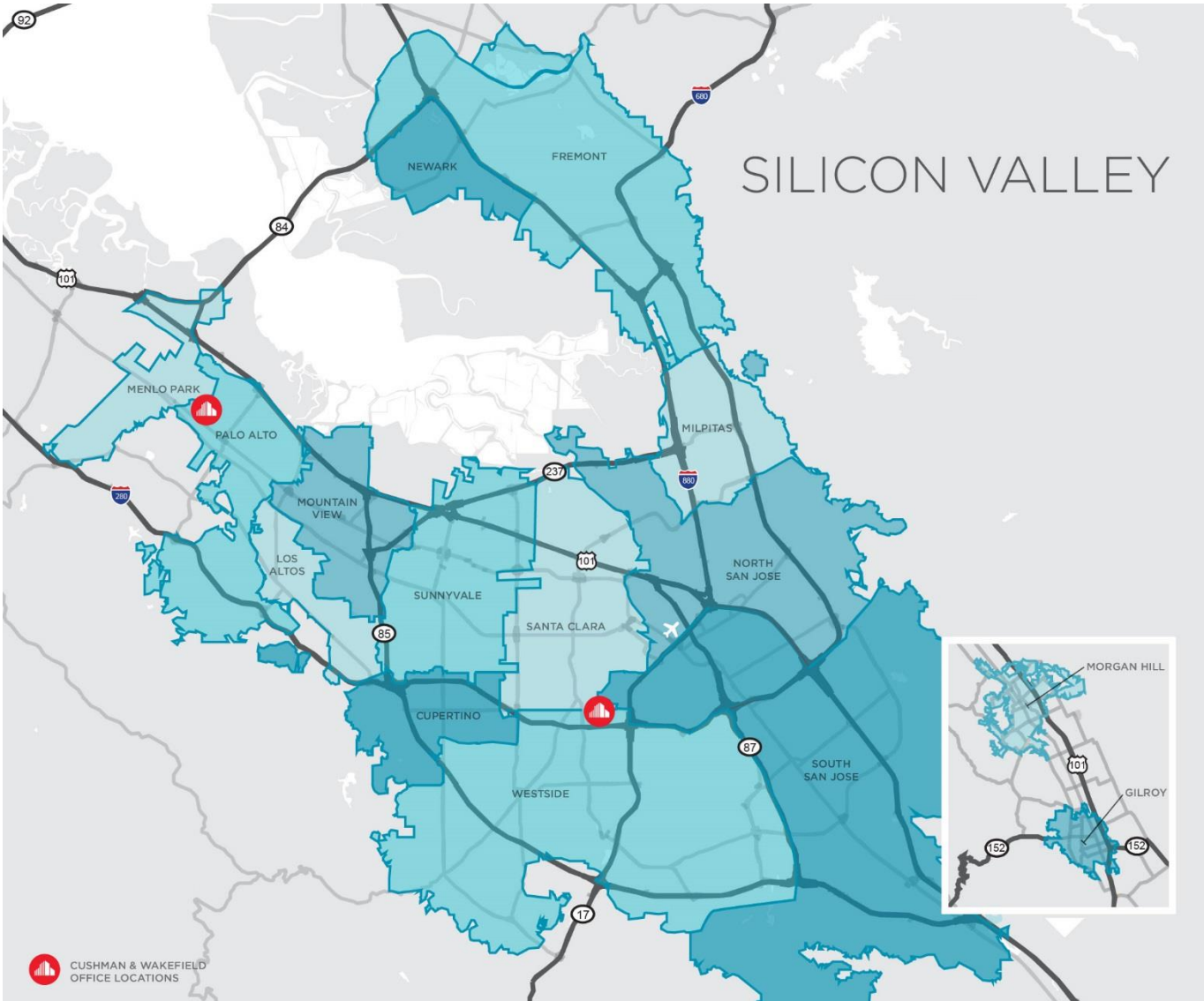
PROPERTY	SUBMARKET	BUYER	SELLER	SF	PRICE \$/PSF
350 Cobalt Way	Sunnyvale	PSAI Realty Partners	Fujitsu America, Inc.	126,564	\$31.0M / \$245
500 Mercury Dr	Sunnyvale	Atila BioSystems, Inc.	Gener8, Inc.	30,690	\$16.5M / \$537
301 Whisman Rd, N.	Mountain View	Sand Hill Property Company	Robert Wheatley Properties	17,100	\$17.5M / \$1,023
907 Dell Ave	Campbell	Creekside Gilroy, LLC	Campbell Veterinary Properties	15,624	\$15.0M / \$960

Silicon Valley

R&D Q1 2023



R&D SUBMARKETS



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