



	YoY Chg	12-Mo. Forecast
21.6% Vacancy Rate	▲	▲
-2.3M Net Absorption, SF	▼	▲
\$5.48 Asking Rent, PSF FS	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS
Q2 2023

	YoY Chg	12-Mo. Forecast
1.18M San Jose MSA Employment	▲	▲
3.2% San Jose MSA Unemployment Rate	▲	▲
3.6% U.S. Unemployment Rate	■	▲

Source: BLS, Moody's Analytics
2023Q2 data are based on latest available data.

ECONOMY: Unemployment Increases

The Bay Area has struggled to return to its pre-pandemic economic strength. Technology companies have been both a blessing and curse for the region, though more of the latter recently, with layoffs prevalent among Big Tech and startups alike plus the propensity of many of the positions remaining to be remote or at least hybrid. This has all caused tenants and landlords alike to pause and reassess space needs moving forward. One bright spot is the generative artificial intelligence (AI) vertical which is heavily concentrated in the region with 88% percent of the venture capital funding globally going into Bay Area-headquartered AI companies in the first half of 2023. For the San Jose MSA, the unemployment rate was up 70 basis points (bps) year-over-year (YOY) finishing at 3.2% in the second quarter. Despite this recent rise, there was still an increase of 31,800 jobs YOY.

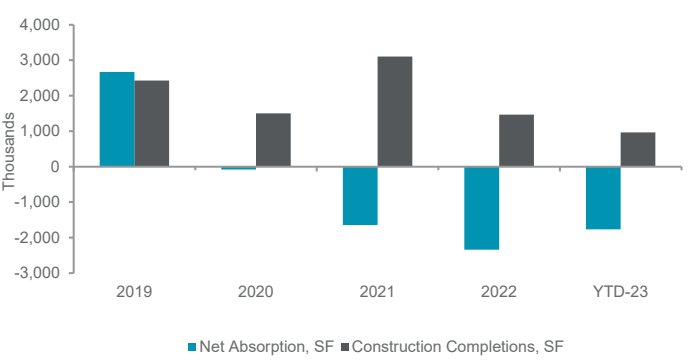
SUPPLY: Vacancy Jumps Significantly

After a slight decrease in vacancy last quarter, the Silicon Valley (the Valley) office vacancy rate increased significantly in the second quarter of 2023 finishing at an historic high of 21.6%. This is a 340 basis points (bps) increase from the 18.2% recorded in the first quarter and a 560-bps increase year-over-year (YOY). Contributing to this rise was the completion of a speculative 965,000 square-foot (sf) building in Downtown San Jose. The current vacancy rate translates to 19.7 million square feet (msf) of vacant space, an increase from 16.5 msf in the first quarter. Also contributing to this increase is the addition of several large blocks of sublease space which now constitutes 35.5% of total available space in the Valley, up from 29.3% last quarter and up from 22.6% at the end of 2021. New subleases added during the quarter included Meta's Moffett Green in Sunnyvale totaling 719,000 sf and a confidential tenant who is subleasing approximately 1.4 msf in the Valley.

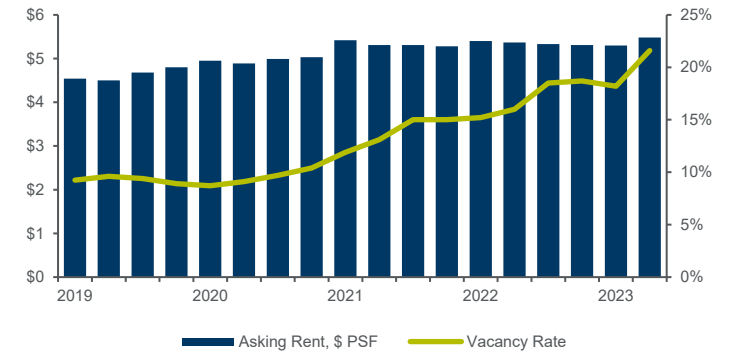
PRICING: Asking Rents Increase Slightly

Average asking rents have generally remained flat since the beginning of 2022. In the second quarter of 2023, rents came in at \$5.48 per square foot (psf) on a monthly full-service basis, which is a 2.0% or \$0.11 psf increase YOY. The northern peninsula cities of Menlo Park, Palo Alto and Mountain View recorded the highest rents with second quarter numbers at \$10.56 psf, \$8.49 psf and \$7.05 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 will occur in the near term.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

Office Q2 2023



CUSHMAN & WAKEFIELD

Deal Velocity Flat

Transaction volume was consistent with last quarter, recording 1.4 msf in the second quarter of 2023. Although this is lower than the average quarterly volume of 1.8 msf in 2022, it tracks with the three-year average for 2020 through 2022. 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, five 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, however this noteworthy sale was a vacant building totaling 160,000 sf in Cupertino which sold to Apple. This was the former Seagate building and sold for \$70M or \$435/sf in the second quarter; it previously sold in 2019 for \$107.5M or \$753/sf.

Net Occupancy has Big Loss

After a small occupancy gain last quarter, the second quarter of 2023 recorded a negative 2.2 msf of occupancy loss. This brings the year-to-date (YTD) annual net to negative 1.8 msf and follows the annual total in 2022 of negative 2.3 msf with three straight years of negative net absorption. As mentioned above, the increase in the availability contributed to the large negative absorption. Deal activity significant enough to propel absorption into positive territory on a more consistent basis is not expected to return to the Valley until 2024.

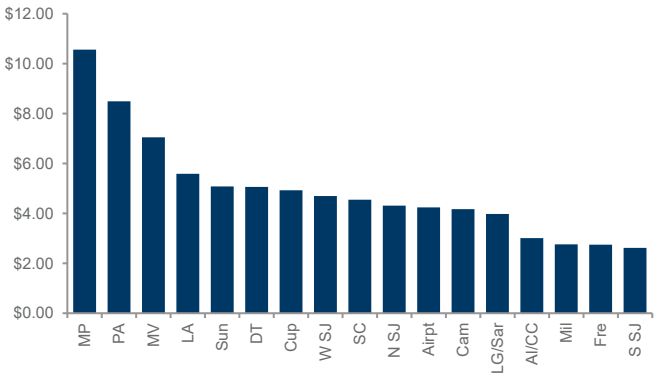
Build-to-Suits and Spec Projects Evenly Split

New product under construction across the region currently stands at approximately 3.2 msf. This breaks down to 1.6 msf of build-to-suit projects and 1.6 msf of speculative projects. There has yet to be any preleasing within those speculative projects and we anticipate it will push vacancy higher in the near-term. As mentioned above, one building totaling 965,000 sf in Downtown San Jose completed construction this quarter.

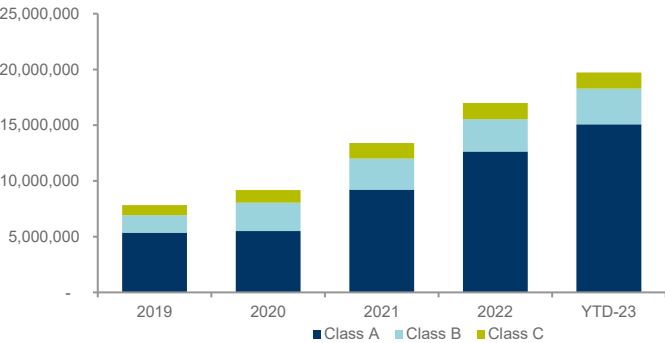
Outlook

- Layoffs and return-to-office decisions among tech companies have caused uncertainty regarding how much space will be needed in the future. C&W is currently tracking approximately 3.3 msf of active office/R&D tenant requirements in the Silicon Valley, an increase from 2.9 msf last quarter.
- 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 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, semiconductors, and IT infrastructure.

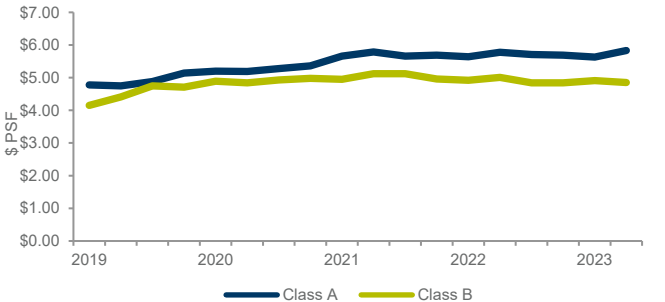
AVERAGE ASKING RATE BY SUBMARKET



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	6,218,137	562,791	510,500	17.3%	-328,968	-389,273	147,468	0	\$10.56	\$10.98
Palo Alto	10,446,768	709,183	1,185,921	18.1%	-42,507	-143,543	160,106	0	\$8.49	\$9.04
Los Altos	1,178,824	28,171	158,958	15.9%	-8,408	-4,912	22,370	0	\$5.59	\$7.15
Mountain View	5,694,005	978,679	512,456	26.2%	-502,324	-332,921	255,088	233,543	\$7.05	\$7.62
Cupertino	4,404,981	11,427	211,887	5.1%	168,140	193,785	305,104	0	\$4.93	\$6.30
Campbell	2,493,334	220,590	545,165	30.7%	3,317	-17,388	63,548	165,987	\$4.17	\$4.77
Los Gatos/Saratoga	2,611,148	174,643	134,578	11.8%	-38,149	-43,272	17,368	0	\$3.98	\$4.43
West San Jose	5,086,856	153,832	773,934	18.2%	-26,544	-98,412	316,486	231,579	\$4.70	\$5.50
Sunnyvale	13,336,128	1,509,445	715,771	16.7%	-1,248,825	-773,930	34,962	2,207,563	\$5.08	\$5.20
Santa Clara	10,873,418	1,275,013	2,260,052	32.5%	171,631	402,249	827,886	0	\$4.55	\$4.70
San Jose Airport	5,327,520	885,297	1,349,866	42.0%	-231,299	-225,107	219,252	0	\$4.24	\$4.28
North San Jose	6,354,822	178,422	795,489	15.3%	-34,016	-78,686	102,867	0	\$4.31	\$4.65
Alameda/Civic Center	2,027,952	15,434	189,611	10.1%	-7,393	-8,682	45,142	0	\$3.01	\$4.25
South San Jose	1,788,917	0	114,021	6.4%	-180	-18,471	16,245	0	\$2.62	\$3.24
Downtown San Jose	10,748,515	279,483	2,936,415	29.9%	-147,074	-217,548	299,156	390,000	\$5.06	\$5.49
Milpitas	908,872	0	138,835	15.3%	1,390	-21,051	9,847	0	\$2.76	\$2.40
Fremont	2,053,160	23,328	194,752	10.6%	-3,063	9,218	63,841	0	\$2.75	\$2.51
CLASS BREAKDOWN										
Class A	57,622,911	6,643,140	8,434,651	26.2%	-2,058,499	-1,540,680	1,797,100	3,228,672	\$5.83	
Class B	19,921,291	265,999	2,933,933	16.1%	-173,653	-252,060	1,109,636	0	\$4.85	
TOTALS	91,553,357	7,005,738	12,728,211	21.6%	-2,274,272	-1,767,944	2,906,736	3,228,672	\$5.48	\$5.83

*Rental rates reflect full service asking
*Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1410 S. Bascom Ave	West SJ	Santa Clara Valley Medical Center	231,579	BTS Lease
5453 Great America Pky	Santa Clara	Arista Networks	149,608	Renewal
391 San Antonio Rd	Mountain View	Coinbase, Inc.	40,000	Sublease
2600 Great America Way	Santa Clara	HCL Technologies	37,880	New Lease
5451 Great America Pky	Santa Clara	Arista Networks	30,549	Renewal

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$PSF
10200 De Anza Blvd	Cupertino	Rubicon Point Partners / Apple, Inc.	160,837	\$70M / \$435
329 S. San Antonio	Los Altos	Dymond Devel. / Bhang Properties	6,577	\$4.7M / \$707
2326 McKee Rd	South San Jose	2326 McKee LLC / Asian Americans for Community Involvement	4,900	\$3.2M / \$642

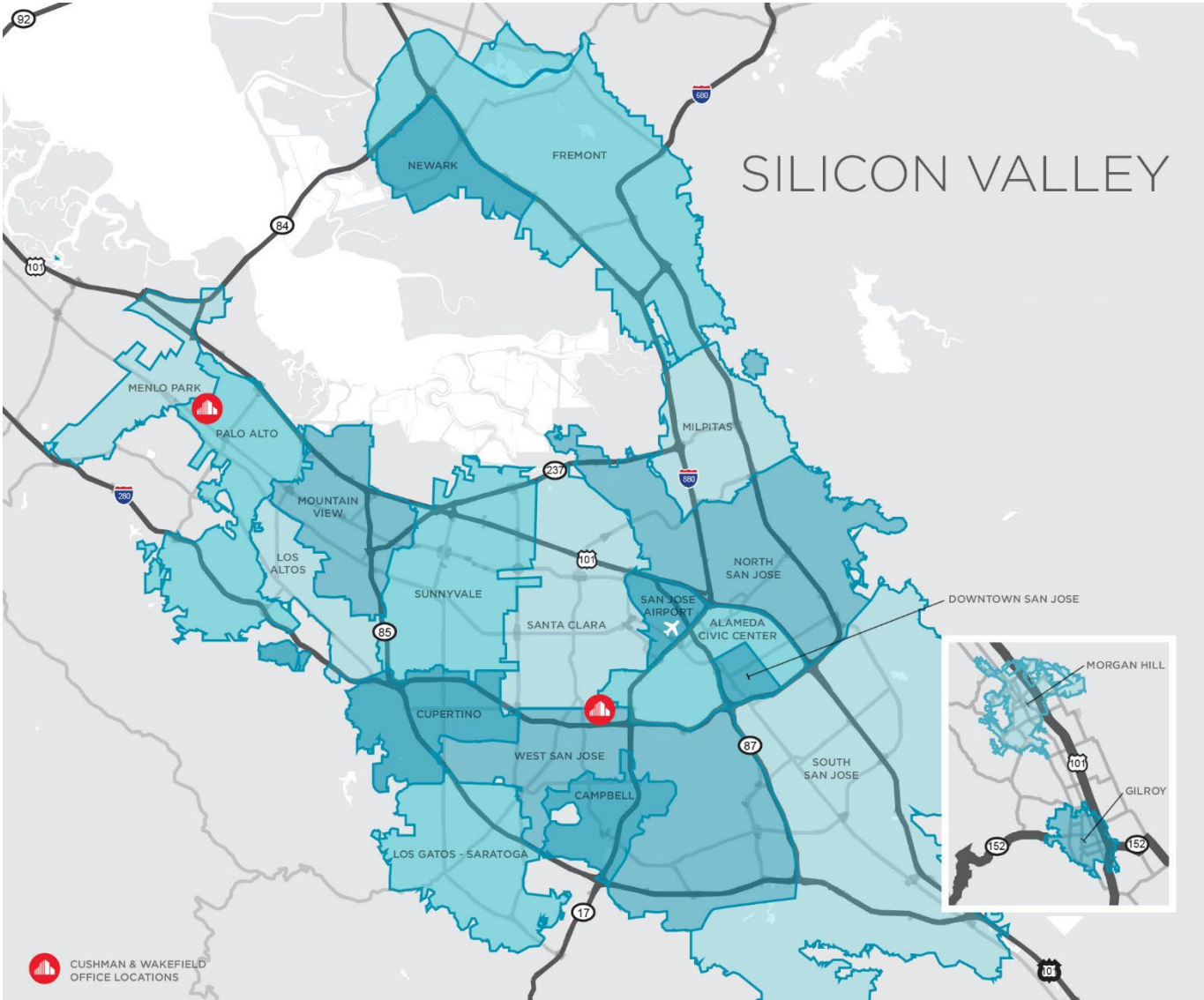
Silicon Valley

Office Q2 2023



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OFFICE SUBMARKETS



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