



Silicon Valley

R&D Q2 2023

YoY
Chg12-Mo.
Forecast**10.9%**

Vacancy Rate

**-1.1M**

Net Absorption, SF

**\$3.22**

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2023

YoY
Chg12-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

2023 Q2 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.

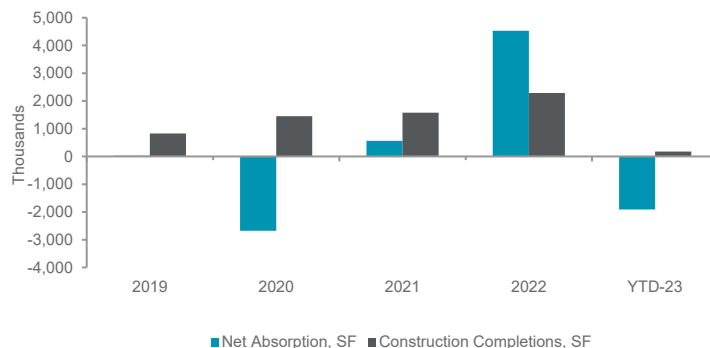
SUPPLY: Vacancy Jumps

For the second consecutive quarter, the Silicon Valley's (the Valley) R&D vacancy rate increased slightly coming in at 10.9%. The current vacancy rate translates to 17.6 million square feet (msf) of vacant space throughout the Valley, of which 26.1% (4.6 msf) is sublet space, an increase from 23.6% in the first quarter. For comparison, sublet space in the office sector currently comprises 35.5% of all available space. New subleases that came on the market this quarter include Woven Planet at 154,000 square feet (sf) in Palo Alto and Ensurge Micropower at 92,000 sf in North San Jose.

PRICING: Asking Rents Up Slightly

Asking rents continued their upward momentum in the second quarter of 2023, finishing at \$3.22 per square foot (psf) on a triple net basis, a slight increase from \$3.16 in the first quarter. The northern peninsula cities of Palo Alto, Mountain View, and Menlo Park recorded the highest rents with second quarter numbers at \$6.35 psf, \$5.34 psf and \$4.91 psf, respectively.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Silicon Valley

R&D Q2 2023



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Deal Velocity Falls

Leasing activity dropped in the second quarter, recording 1.8 msf of gross absorption (the total amount of combined leasing and user-sale activity). This follows the 2.1 msf from the first quarter and the strong year of 2022 when the quarterly average was 3.1 msf. Nine 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. The one new lease in the top ten was SpaceX’s deal on 48,000 sf in Sunnyvale. There were two notable user-sales – the First Pentecostal Church purchased a 76,000-sf building in South San Jose and iHealth Labs purchased a 40,000-sf building in Sunnyvale from LinkedIn.

The Silicon Valley occupancy landed in the red for the second quarter in a row, coming in at a negative 1.1 msf in the second quarter of 2023. This follows the negative 826,000 sf from last quarter. Both 2021 and 2022 had gains in occupancy (564,000 sf and 4.5 msf, respectively) which more than offset the losses seen as a result of the pandemic, when there was a record 2.8 msf of occupancy loss in 2020.

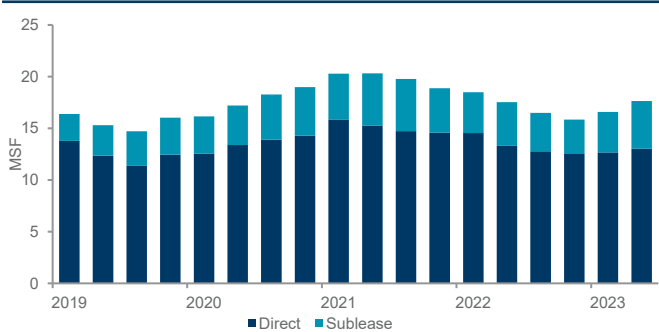
Construction

There are no projects currently under construction and no projects completed construction this quarter. The trend towards build-to-suit projects in the R&D sector, such as Google 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.

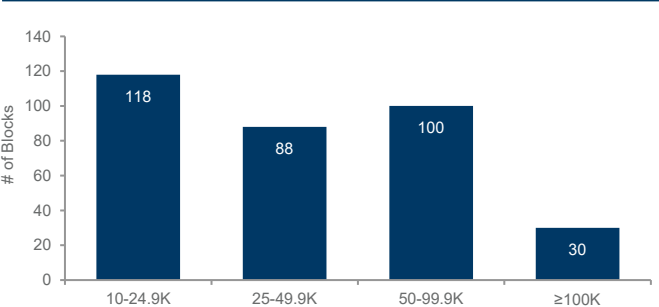
Outlook

- 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.

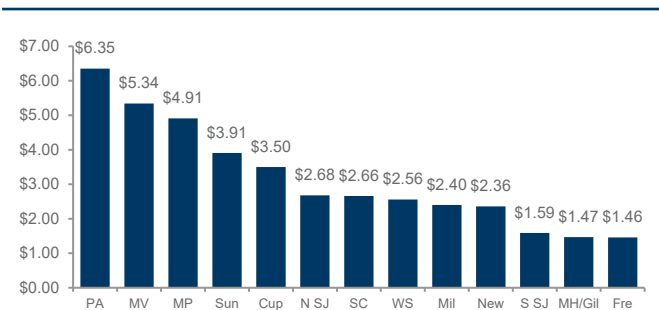
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



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	51,397	2.0%	4,100	8,800	29,715	0	\$4.91
Palo Alto	8,641,970	574,696	846,757	16.4%	(169,174)	(442,003)	323,270	0	\$6.35
Mountain View	16,266,401	393,323	1,345,273	10.7%	(295,574)	(109,818)	711,748	0	\$5.34
Cupertino	5,710,505	0	0	0.0%	0	0	0	0	\$3.50
Westside	2,267,988	78,552	144,037	9.8%	13,332	18,772	77,643	0	\$2.56
Sunnyvale	24,412,087	954,889	1,235,889	9.0%	(140,019)	(232,571)	456,729	0	\$3.91
Santa Clara	21,048,910	534,840	2,961,570	16.6%	(39,934)	(153,341)	474,661	0	\$2.66
North San Jose	34,886,339	1,030,662	3,466,095	12.9%	(152,744)	(399,565)	603,381	0	\$2.68
South San Jose	9,451,064	227,352	823,971	11.1%	74,542	44,855	225,053	0	\$1.59
Milpitas	12,255,486	305,062	1,280,769	12.9%	(108,113)	(214,905)	448,332	0	\$2.40
Fremont	18,881,939	411,942	357,447	4.1%	(111,192)	(261,851)	481,645	0	\$1.46
Newark	2,331,550	97,340	209,419	13.2%	(126,154)	(126,154)	0	0	\$2.36
Morgan Hill/Gilroy	3,602,716	0	299,265	8.3%	5,406	(3,922)	8,599	0	\$1.47
TOTALS	162,366,588	4,608,658	13,021,889	10.9%	(1,084,334)	(1,910,513)	3,840,776	0	\$3.22

*Rental rates reflect triple net asking.

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

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
1800-2000 Charleston Rd	Mountain View	Google	P&A Charleston Rd, LLC	411,227	Renewal
2811 Orchard Pkwy	North San Jose	Fetch Robotics	Flynn Properties	84,560	Renewal
1237 E. Arques Ave.	Sunnyvale	Cerebras Systems, Inc.	Xinbei Tech, LLC	68,608	Renewal
475 Ellis St	Mountain View	Google	Edward Berol, Trustee	67,000	Renewal
2500 Walsh Ave	Santa Clara	CommScope	RMR	65,840	Renewal

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	BUYER	SELLER	SF	PRICE \$/PSF
3333 Scott Blvd	Santa Clara	Preylock Holdings	Calsters /CBREI	245,830	\$182.5M / \$742
1735 Lundy Ave	North San Jose	Invesco	The Sobrato Organization	103,420	\$86.3M / \$834
5891 Rue Ferrari St	South San Jose	First Pentecostal Church	MPJ-A, LLC	76,800	\$21M / \$273
880 W. Maude Ave.	Sunnyvale	iHealth Labs	LinkedIn	40,925	\$23.0M / \$562

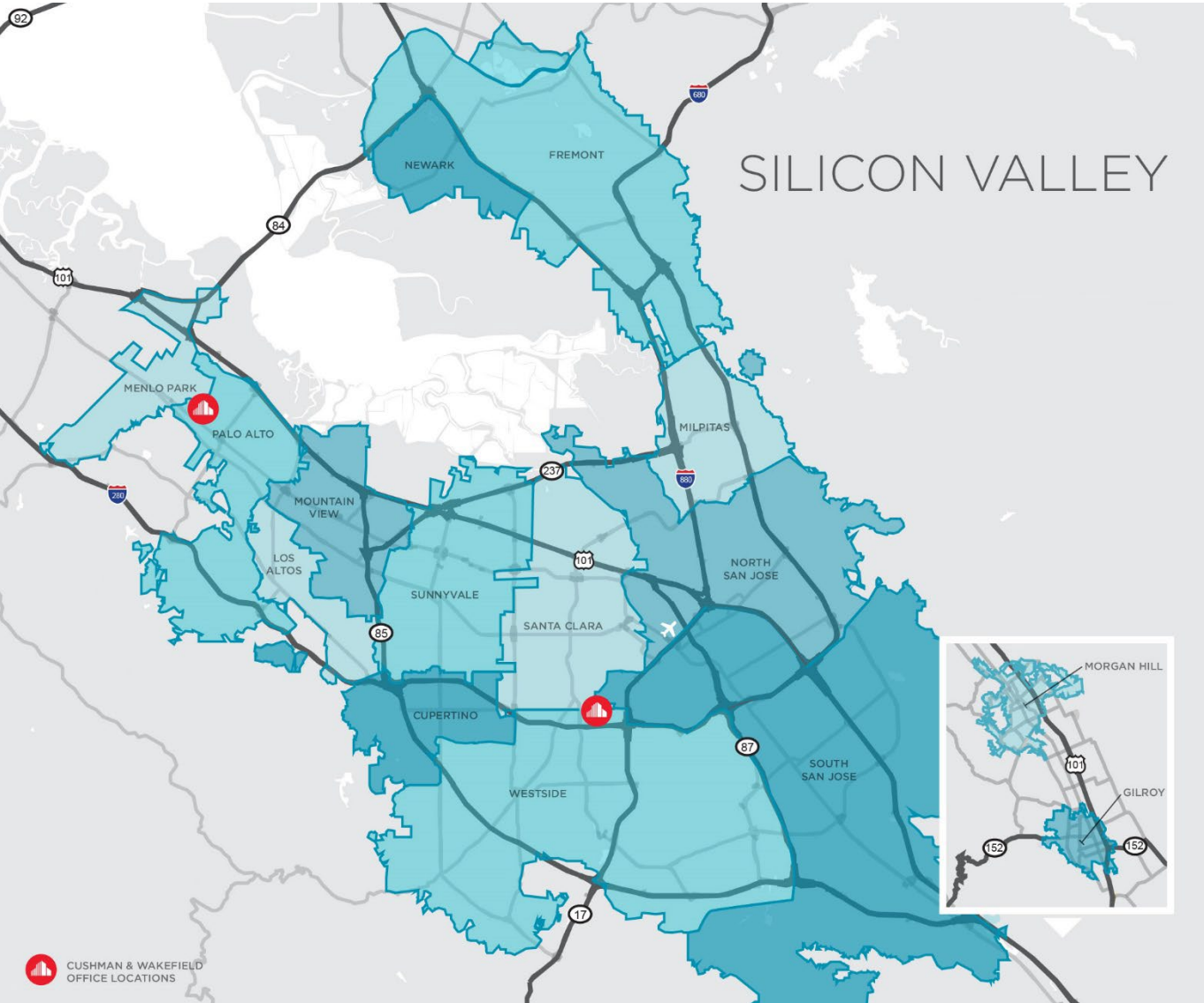
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R&D SUBMARKETS



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