



	YoY Chg	12-Mo. Forecast
22.1% Vacancy Rate	▲	▲
-814K Net Absorption, SF	▲	▲
\$5.58 Asking Rent, PSF FS	▲	▼
(Overall, All Property Classes)		

ECONOMIC INDICATORS
Q3 2023

	YoY Chg	12-Mo. Forecast
1.19M San Jose MSA Employment	▲	▲
3.5% San Jose MSA Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics
2023Q3 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. One bright spot is the recent push of companies to mandate at least hybrid in office. All this change has caused tenants and landlords alike to pause and reassess space needs moving forward. For the San Jose MSA, the unemployment rate was up 100 basis points (bps) year-over-year (YOY) finishing at 3.5% in the third quarter. Despite this recent rise, there was still an increase of 23,000 jobs YOY.

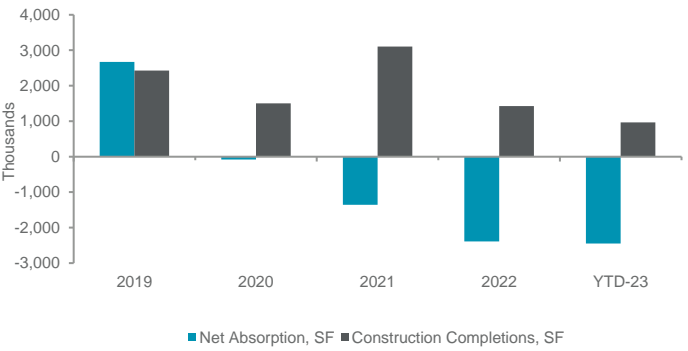
SUPPLY: Vacancy Keeps Increasing

After a slight decrease in vacancy at the beginning of the year, the Silicon Valley (the Valley) office vacancy rate has continued to increase in the third quarter of 2023 finishing at an historic high of 22.1%. This is an increase of 80 basis points (bps) from last quarter and 400 bps from the 18.1% recorded in the first quarter. The current rate translates to 20.3 million square feet (msf) of vacant space, an increase from 19.6 msf in the second quarter. Despite recent additions, the percentage of sublease space dropped slightly in the third quarter, finishing at 34.6% from 35.5% in the second quarter. New subleases added during the quarter included two of Roku's buildings at Coleman Highline, totaling 357,000 square feet (sf). Contributing to the increase in vacancy during the last six months has been large blocks of sublease space on the market by tech firms. Meta has 719,000 sf in Sunnyvale for sublease and a confidential tenant recently added 1.4 msf throughout the Valley.

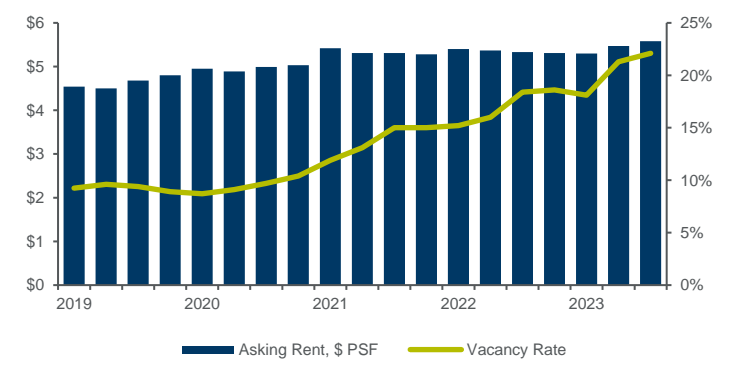
PRICING: Asking Rents Increase Slightly

Average asking rents have generally remained flat since the beginning of 2022. However, in the third quarter of 2023, rents came in at \$5.58 per square foot (psf) on a monthly full-service basis, which is a 4.7% or \$0.25 psf increase YOY. The northern peninsula cities of Menlo Park, Palo Alto and Mountain View recorded the highest rents with third quarter numbers at \$10.81 psf, \$8.61 psf and \$7.17 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 Q3 2023



CUSHMAN & WAKEFIELD

Deal Velocity Flat

Transaction volume was consistent with last quarter, recording 1.4 msf in the third 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 that will likely persist throughout the remainder of this year. There were only eight deals over 20,000 sf in the Valley, compared with 11 last quarter. Four of these deals were renewals; the largest was a 581,000-sf renewal by Amazon which shows that not all tech companies are shrinking and/or subleasing space. Sales volume was also down, with no investment transactions this quarter. However, there were two small user sales on buildings under 20,000 sf.

Net Occupancy has Another Loss

The net absorption for the third quarter was recorded at negative 814,000 sf. This follows the huge loss in the second quarter of negative 2.1 msf and brings the year-to-date (YTD) net to negative 2.4 msf. The figure through the third quarter already matches the annual total in 2022 of negative 2.4 msf. 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.

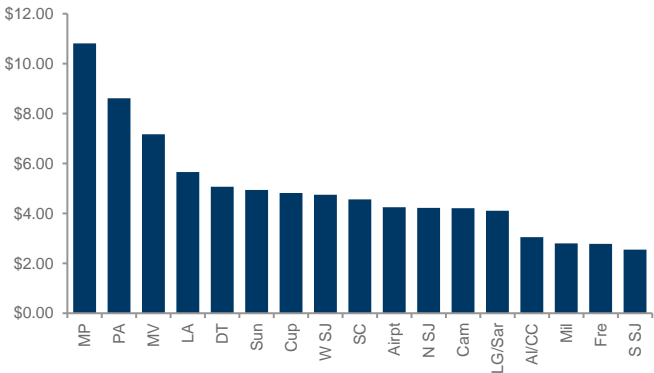
Construction Slows

New product under construction across the region currently stands at approximately 2.8 msf. This breaks down to 1.6 msf of build-to-suit projects and 1.2 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. Platform 16, three buildings totaling 1.1 msf, in Downtown San Jose, had started construction several quarters ago. The developers decided to pause and will complete only the foundation and parking structure by year's end.

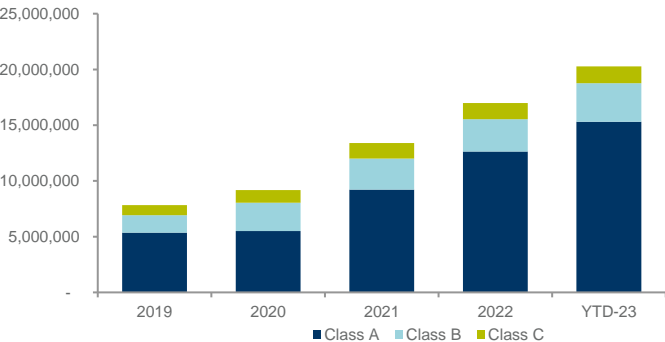
Outlook

- 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 4.9 msf of active office/R&D tenant requirements in the Silicon Valley, an increase from 3.3 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.

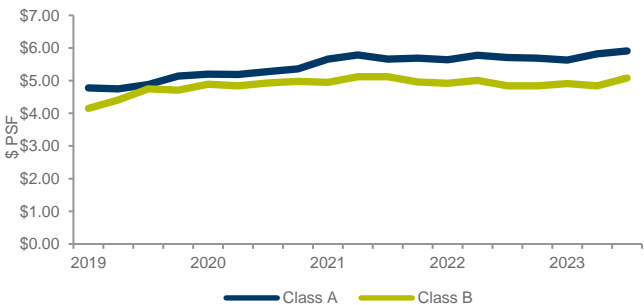
AVERAGE ASKING RATE BY SUBMARKET



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	6,217,044	487,339	547,232	16.6%	-24,908	-350,553	261,560	0	\$10.81	\$11.13
Palo Alto	10,451,463	782,305	1,542,241	22.2%	-436,795	-572,985	196,394	0	\$8.61	\$9.40
Los Altos	1,178,824	16,247	150,733	14.2%	19,668	15,237	41,881	0	\$5.66	\$7.22
Mountain View	5,694,931	1,035,767	617,669	29.0%	-211,675	-509,141	313,651	233,543	\$7.17	\$7.66
Cupertino	4,405,047	11,027	208,748	5.0%	5,459	197,324	335,257	0	\$4.82	\$6.17
Campbell	2,493,334	235,058	538,779	31.0%	-6,697	-25,470	103,067	165,987	\$4.21	\$4.77
Los Gatos/Saratoga	2,612,595	174,843	134,012	11.8%	366	-42,906	30,500	0	\$4.11	\$4.43
West San Jose	4,966,856	164,997	758,454	18.6%	-138,344	-237,244	374,933	231,579	\$4.75	\$5.52
Sunnyvale	13,325,566	1,819,541	726,434	19.1%	-320,759	-1,094,689	658,000	2,207,563	\$4.94	\$5.15
Santa Clara	11,082,130	1,260,743	2,247,837	31.7%	-1,238	428,734	1,051,920	0	\$4.56	\$4.69
San Jose Airport	5,327,520	470,885	1,347,002	34.1%	417,276	192,169	368,862	0	\$4.25	\$4.15
North San Jose	6,354,822	238,537	780,466	16.0%	-45,092	-123,778	154,130	0	\$4.22	\$4.66
Alameda/Civic Center	2,048,799	5,589	179,952	9.1%	40,351	31,669	74,056	0	\$3.05	\$4.25
South San Jose	1,788,917	2,200	110,283	6.3%	1,538	-16,933	32,141	0	\$2.55	\$3.89
Downtown San Jose	10,748,515	284,935	3,012,455	30.7%	-83,380	-299,040	356,305	0	\$5.07	\$5.49
Milpitas	908,872	0	128,346	14.1%	10,489	-10,562	14,289	0	\$2.80	\$2.40
Fremont	2,053,160	20,031	235,854	12.5%	-40,259	-30,591	77,780	0	\$2.78	\$2.51
CLASS BREAKDOWN										
Class A	57,828,739	6,502,537	8,798,872	26.5%	-367,141	-1,778,217	2,865,854	2,838,672	\$5.91	
Class B	19,795,332	391,991	3,067,563	17.5%	-408,354	-656,833	1,578,872	0	\$5.08	
TOTALS	91,658,395	7,010,044	13,266,497	22.1%	-814,000	-2,448,759	4,444,726	2,838,672	\$5.58	\$5.91

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

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1000-1050 Enterprise Wy	Sunnyvale	Amazon	581,973	Renewal
1740 N First St.	North San Jose	Sony	79,874	Renewal
5425 Stevens Creek Blvd	Santa Clara	Confidential	59,384	Renewal
5451 Great America Pky	Santa Clara	Workday	30,279	New Lease
2884 Sand Hill Rd	Menlo Park	Patient Square Capital	24,754	New Lease

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$PSF
4850 Union Ave	West San Jose	4850 Union Ave LLC / LGTC Group	17,175	\$9.0M / \$524
314 Lytton Ave.	Palo Alto	Melissa Pederson / Apercen Partners	8,552	\$12.5M / \$1,461

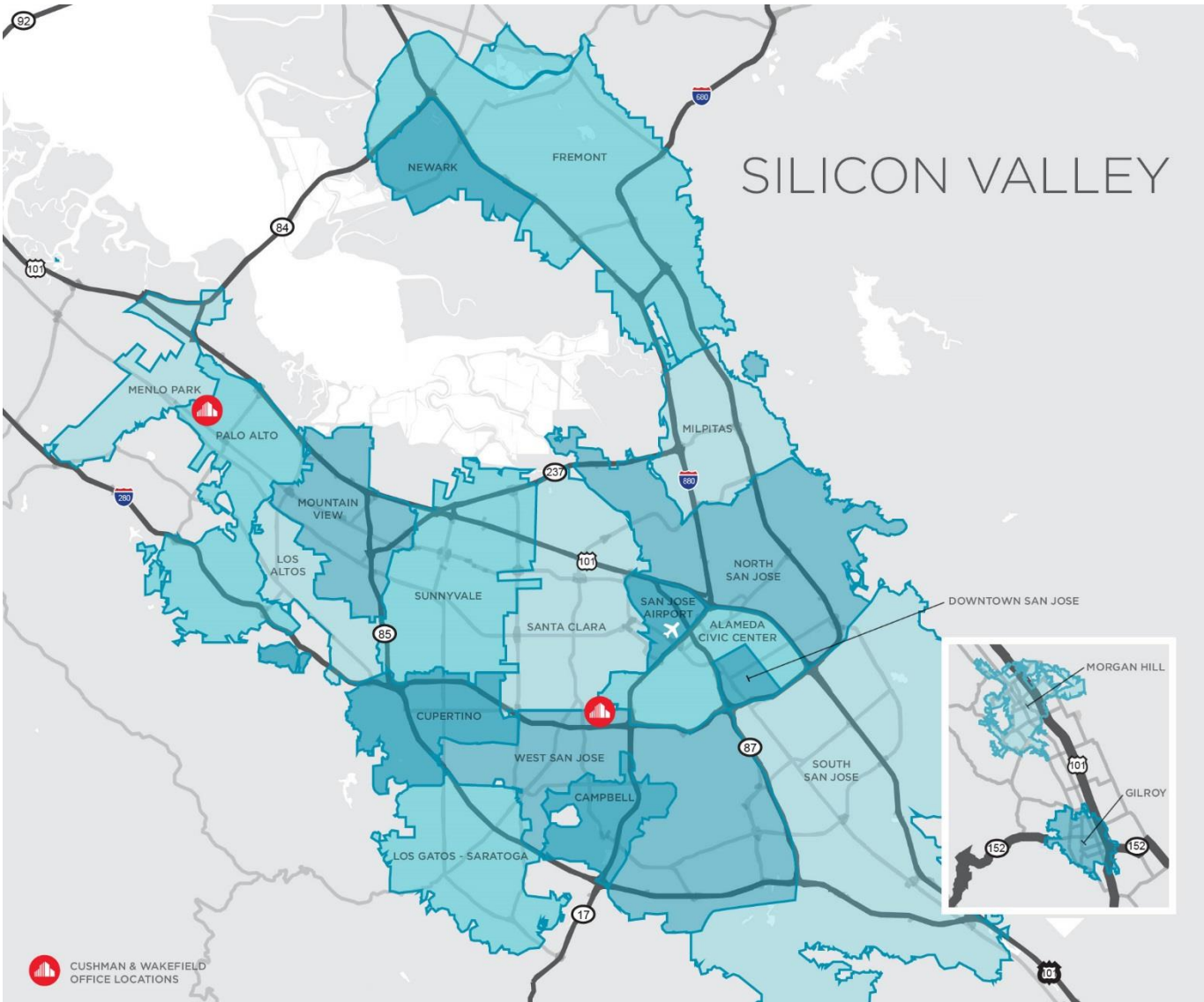
Silicon Valley

Office Q3 2023



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OFFICE SUBMARKETS



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