



# Silicon Valley

## R&D Q3 2023

YoY  
Chg

12-Mo.  
Forecast

### 11.5%

Vacancy Rate



### -1.0M

Net Absorption, SF



### \$3.23

Asking Rent, PSF



Overall, Net Asking Rent

### 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

2023 Q3 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.

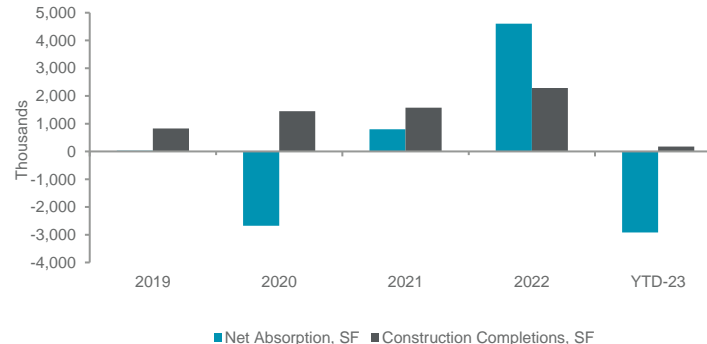
### SUPPLY: Vacancy Increases

For the third consecutive quarter, the Silicon Valley's (the Valley) R&D vacancy rate increased coming in at 11.5%. The current vacancy rate translates to 18.6 million square feet (msf) of vacant space throughout the Valley, of which 28.8% (5.4 msf) is sublet space, an increase from 26.3% in the second quarter. For comparison, sublet space in the office sector currently comprises 34.6% of all available space. New subleases that came on the market this quarter include a confidential tenant with both 447,000 square feet (sf) in Mountain View and 183,000 sf in Palo Alto.

### PRICING: Asking Rents Stay Flat

Asking rents stayed flat in the third quarter of 2023, finishing at \$3.23 per square foot (psf) on a triple net basis. However, this is a 4.9% increase YOY from the \$3.08 psf in the third quarter of 2022. The northern peninsula cities of Palo Alto, Mountain View, and Sunnyvale recorded the highest rents with third quarter numbers at \$5.85 psf, \$4.98 psf and \$3.84 psf, respectively.

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY & ASKING RENT



# Silicon Valley

R&D Q3 2023



CUSHMAN & WAKEFIELD

Deal Velocity

Leasing activity increased in the third quarter, recording 2.2 msf of gross absorption (the total amount of combined leasing and user-sale activity). This follows the 1.8 msf from the second quarter and the strong year of 2022 when the quarterly average was 3.0 msf. The top deal of the quarter was Western Digital’s leaseback on 588,000 sf. Of the top ten deals this quarter, four were renewals. There was one notable user-sale – Lam Research purchased three buildings they already occupied in Fremont (347,000 sf).

The Silicon Valley occupancy landed in the red for the third quarter in a row, coming in at a negative 1.0 msf in the third quarter of 2023. This follows the negative 1.1 sf from last quarter and brings the year-to-date 2023 number to a negative 2.9 msf partially reversing the occupancy gains from both 2021 and 2022 (801,000 sf and 4.6 msf, respectively). For comparison, the first year of the pandemic in 2020, the occupancy loss was a negative 2.7 msf.

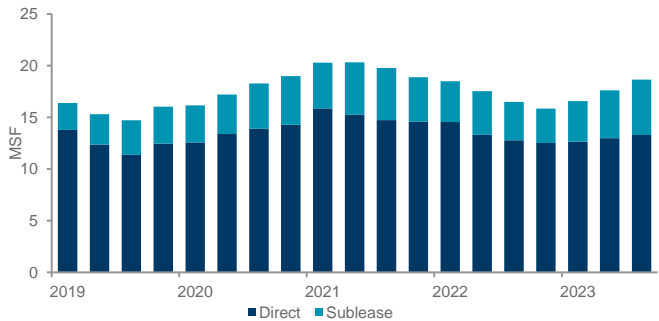
Construction

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.

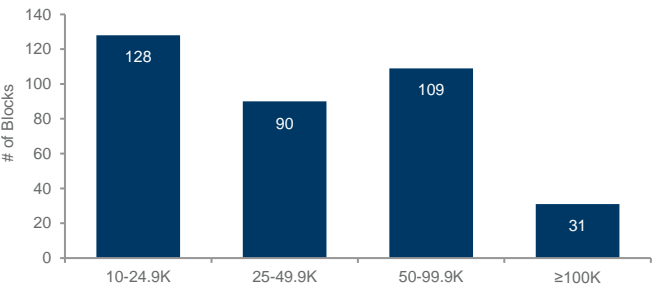
Outlook

- 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 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.

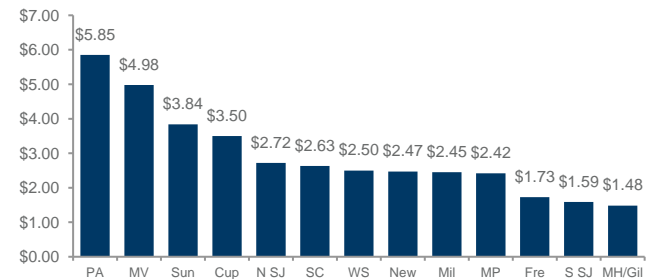
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



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	2,675,472	65,839	46,443	4.2%	(60,885)	(90,895)	32,574	0	\$2.42
Palo Alto	8,770,382	758,429	809,435	17.9%	(146,411)	(588,414)	391,482	0	\$5.85
Mountain View	16,149,233	887,558	1,420,830	14.3%	(567,244)	(679,610)	771,607	0	\$4.98
Cupertino	5,723,435	0	17,850	0.3%	(17,850)	(17,850)	174,508	0	\$3.50
Westside	2,268,688	78,552	137,331	9.5%	22,676	41,448	129,119	0	\$2.50
Sunnyvale	24,413,558	953,786	1,349,718	9.4%	(119,278)	(346,148)	600,024	0	\$3.84
Santa Clara	20,803,729	497,404	3,098,354	17.3%	(100,908)	(252,689)	652,615	0	\$2.63
North San Jose	35,214,577	1,188,684	3,257,338	12.6%	38,775	(348,830)	1,149,477	0	\$2.72
South San Jose	9,451,064	204,648	931,290	12.0%	(58,096)	(39,760)	256,819	0	\$1.59
Milpitas	12,255,486	249,415	1,325,803	12.9%	(311)	(204,292)	1,153,693	0	\$2.45
Fremont	18,817,104	423,862	268,663	3.7%	97,816	(194,369)	721,224	0	\$1.73
Newark	2,331,550	52,000	346,900	17.1%	(144,318)	(218,295)	26,641	0	\$2.47
Morgan Hill/Gilroy	3,631,516	0	272,468	7.5%	26,797	22,875	35,396	0	\$1.48
TOTALS	162,505,794	5,360,177	13,282,423	11.5%	(1,029,237)	(2,916,829)	6,095,179	0	\$3.23

\*Rental rates reflect triple net asking.

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

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	LANDLORD	SF	TYPE
McCarthy & Technology	Milpitas	Western Digital	Blue Owl Capital	588,111	Sale-Leaseback
10100 Tantau Ave	Cupertino	Confidential	Prudential Real Estate Investors	161,288	Renewal
2251 Lawson Ln	Santa Clara	ServiceNow	Sobrato Development Co.	130,399	Renewal
550 E Brokaw Rd	North San Jose	Super Micro Computer	Gary Mann	124,230	New Lease
91 E Tasman Dr	North San Jose	Institute For Business & Technology	Century Urban Tasman LLC	84,049	New Lease

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	BUYER	SELLER	SF	PRICE \$/PSF
McCarthy & Technology	Milpitas	Blue Owl Capital	Western Digital	588,111	\$192.5M / \$327
4300-4650 Cushing Blvd	Fremont	Lam Research *	MUFG Americas Capital	437,000	\$195.8M / \$448
Clipper Court	Fremont	CIP Real Estate	Canyon Partners Real Estate	352,000	\$103.5M / \$294
1580-1630 Oakland Rd	North San Jose	Peninsula Land & Capital	Link Logistics Real Estate	176,446	\$37.2M / \$210
3101-3151 Jay St	Santa Clara	Alvarez & Marsal Capital	TA Realty Associates	142,552	\$32.5M / \$228

\*Sale to existing tenant

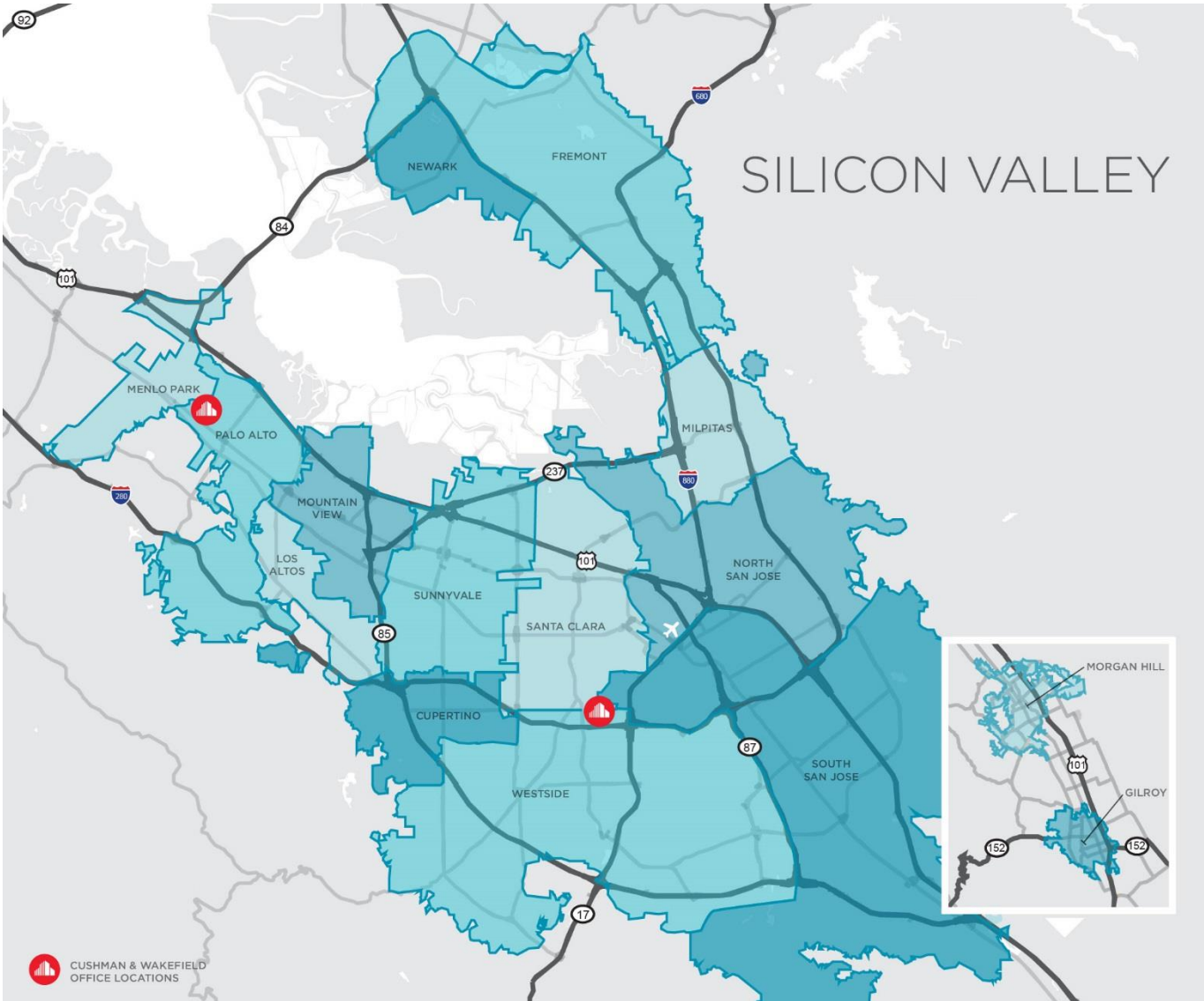


# Silicon Valley

R&D Q3 2023



R&D SUBMARKETS



**JULIE LEIKER**  
*Senior Research Manager, Silicon Valley*  
Tel: +1 408 615-3434  
[Julie.leiker@cushwake.com](mailto:Julie.leiker@cushwake.com)

**CUSHMAN & WAKEFIELD**  
300 Santana Row  
Fifth Floor  
San Jose, CA 95128  
  
525 University Ave  
Suite 220  
Palo Alto, CA 94301

**A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION**  
Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of \$10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more. For additional information, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com).

©2023 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.