MARKETBEAT

Silicon Valley

Office Q4 2023

	YoY Chg	12-Mo. Forecast
22.6% Vacancy Rate	▲	▲
-315K Net Absorption, SF	▲	▲
$5.61 Asking Rent, PSF FS	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2023

	YoY Chg	12-Mo. Forecast
1.19M San Jose MSA Employment	▲	▲
3.6% San Jose MSA Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics
2023Q4 data are based on latest available data.

Unemployment Rate 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. One bright spot is the recent push of many companies to mandate a hybrid work situation with at least some time during the week spent in office. All this fluidity in the workforce 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 3.6% in the fourth quarter. Despite this recent rise, there was still an increase of 11,900 jobs YOY.

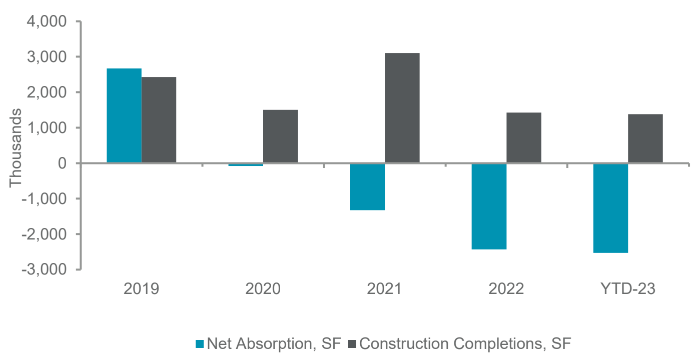
Vacancy on the Rise Again

After a slight decrease in vacancy at the beginning of the year, the Silicon Valley (the Valley) office vacancy rate continued to increase through the past three quarters finishing at a historic high of 22.6%. This is an increase of 50 basis points (bps) from last quarter and 440 bps from the 18.2% recorded in the first quarter. The current rate translates to 20.8 million square feet (msf) of vacant space, an increase from 20.1 msf in the third quarter. Due to recent additions, the percentage of sublease space rose slightly in the fourth quarter, finishing at 35.2% from 34.5% in the third quarter. New subleases added during the quarter included two of Meta's buildings at Menlo Gateway, totaling 521,000 square feet (sf). These sublease blocks as well as others from Big Tech have been major contributors to the rising vacancy in the second half of 2023.

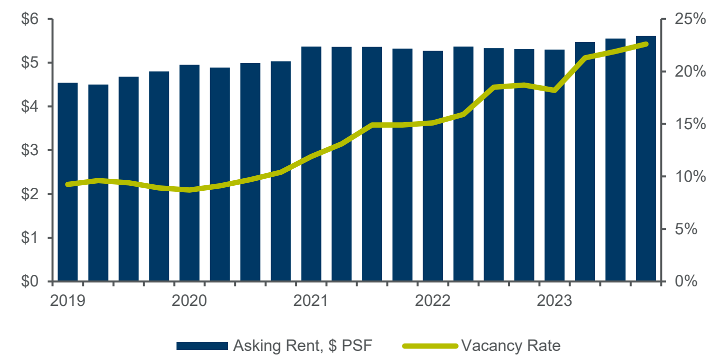
Asking Rents Tick Higher

Average asking rents have generally been holding steady since the beginning of 2022. However, in the fourth quarter of 2023, rents came in at $5.61 per square foot (psf) on a monthly full-service basis, which is a 5.6% or $0.30 psf increase YOY. The northern peninsula cities of Palo Alto, Mountain View, and Menlo Park recorded the highest rents with fourth quarter numbers at $8.53 psf, $7.44 psf and $7.41 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



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A Spark in Deal Velocity

Transaction volume jumped to 2.3 msf in the fourth quarter of 2023, a 53.1% increase from the third quarter. The increase in activity is partially due to Walmart's 719,000 sf sublease from Meta on Crossman Avenue in Sunnyvale. There were 13 deals over 20,000 sf in the Valley, compared with eight last quarter, and six of those were renewals. The biggest renewal of the quarter was Apple keeping 425,000 sf on Mathilda Avenue in Sunnyvale, showing that not all tech companies are shrinking and/or subleasing space. Sales volume also increased this quarter, with four transactions over $10 million, and three of them being investor sales. The biggest sale was Intuitive Surgical's purchase of a newly constructed vacant office building in Sunnyvale totaling 180,000 sf. They also purchased a 140,000-sf R&D building that Apple currently occupies.

Net Occupancy Doldrums

The net absorption for the fourth quarter was recorded at negative 315,000 sf. This follows the loss in the third quarter of negative 636,000 and brings the 2023 annual net to negative 2.5 msf. This is relatively flat compared to the 2022 annual net figure of negative 2.4 msf. The city with the lowest 2023 annual net absorption was Menlo Park at negative 1.1 msf. This was due to the previously mentioned sublease space Meta put on the market this quarter as well as additional spaces added earlier this year. Despite the increase in deal activity, it wasn't significant enough to propel absorption into positive territory on a more consistent basis.

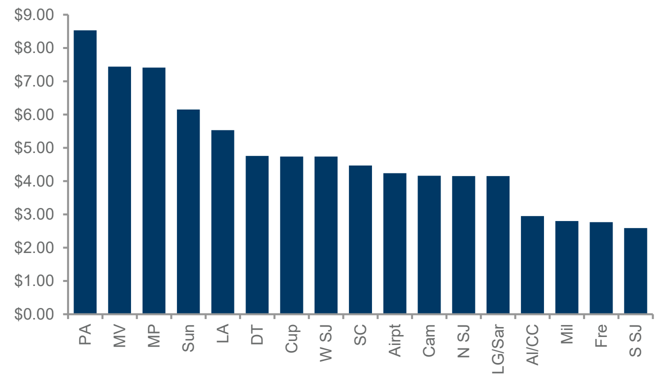
Construction Steady

New product under construction across the region currently stands at 2.4 msf, breaking down to 1.6 msf of build-to-suit projects and 761,000 sf of speculative projects. The largest speculative project under construction is Cityline Downtown Sunnyvale, totaling 595,000 sf with completion expected by the end of 2024. There has yet to be any preleasing within all speculative projects and we anticipate it will push vacancy higher in the near-term.

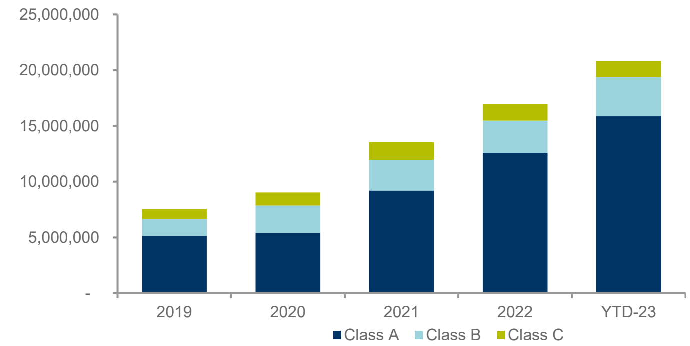
Outlook

- 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 5.2 msf of active office/R&D tenant requirements in the Silicon Valley, an increase from 4.9 msf last quarter.
- There will continue to be a bifurcation of the market with tenants searching for the best quality space 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 recovery could be fast-tracked in the Valley due to its focus on critical industries such as hardware, semiconductors, and IT infrastructure.

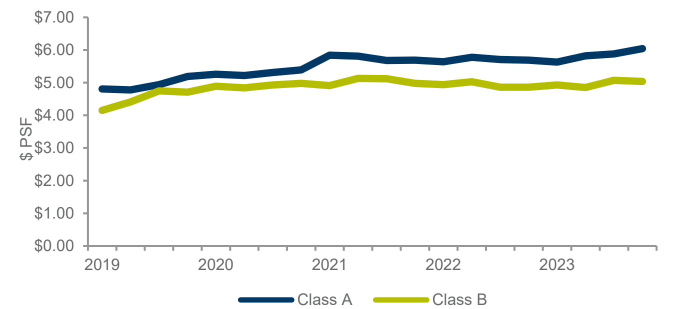
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE BY CLASS



ASKING RENT COMPARISON



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CUSHMAN & WAKEFIELD

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	6,248,216	1,171,302	626,004	28.8%	-765,422	-1,113,288	403,863	0	$7.41	$7.41
Palo Alto	10,452,809	772,319	1,531,670	22.0%	-159,936	-551,426	388,577	0	$8.53	$9.45
Los Altos	1,178,824	16,247	134,583	12.8%	16,150	31,387	49,785	0	$5.53	$7.22
Mountain View	5,928,474	986,310	894,309	31.7%	17,419	-494,300	427,583	0	$7.44	$7.66
Cupertino	4,405,047	9,167	206,264	4.9%	5,215	201,668	367,255	0	$4.74	$6.17
Campbell	2,496,346	225,543	537,954	30.6%	18,652	-15,130	139,214	165,987	$4.16	$4.77
Los Gatos/Saratoga	2,612,595	189,972	155,894	13.2%	-41,888	-79,917	68,236	0	$4.15	$4.43
West San Jose	4,988,034	163,027	729,784	17.9%	49,183	-185,426	455,667	231,579	$4.74	$5.52
Sunnyvale	13,506,231	1,609,323	972,710	19.1%	165,853	-918,368	1,691,106	1,977,237	$6.15	$5.15
Santa Clara	11,082,130	1,222,089	1,920,956	28.4%	335,881	794,269	1,400,026	0	$4.47	$4.69
San Jose Airport	5,327,520	468,447	1,352,705	34.2%	-3,265	188,904	451,817	0	$4.24	$4.15
North San Jose	6,354,822	224,361	818,327	16.4%	-23,685	-147,463	198,113	0	$4.15	$4.66
Alameda/Civic Center	2,048,584	1,015	156,096	7.7%	28,430	60,099	107,504	0	$2.95	$4.25
South San Jose	1,788,917	5,604	103,653	6.1%	6,630	-13,167	36,071	0	$2.59	$3.89
Downtown San Jose	10,748,515	261,156	3,021,909	30.5%	-3,134	-284,715	486,326	0	$4.76	$5.49
Milpitas	908,872	0	118,464	13.3%	12,697	2,135	34,628	0	$2.80	$2.40
Fremont	2,053,160	13,777	215,507	11.2%	26,371	-3,990	96,122	0	$2.77	$2.51
CLASS BREAKDOWN										
Class A	58,296,299	6,879,556	8,981,738	27.2%	-261,583	-1,867,301	4,600,589	2,374,803	$6.04	
Class B	19,798,344	366,115	3,149,773	17.8%	-97,208	-704,570	2,201,304	0	$5.04	
TOTALS	**92,129,096**	**7,339,119**	**13,496,789**	**22.6%**	**-314,849**	**-2,528,728**	**6,801,893**	**2,374,803**	**$5.61**	**$6.04**

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

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1275-1395 Crossman Ave	Sunnyvale	Walmart	719,037	Sublease
605 W. Maude Ave	Sunnyvale	Apple	156,784	Renewal
275 Middlefield Rd	Menlo Park	Robinhood	65,435	Renewal
391 San Antonio Rd	Mountain View	Lacework	42,798	Renewal
60 S. Market St	Downtown SJ	GSA	36,220	New Lease

KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / $PSF
3655 Kifer Rd	Sunnyvale	Bayview Development Group / Intuitive Surgical	180,287	$71.0M / $394
303 Almaden Blvd	Downtown SJ	AEW Capital Management / Steerpoint Capital	157,537	$23.8M / $150
307 Orchard City Dr	Campbell	Imwalle Properties / Premia Capital	56,082	$6.1M / $108
2555 Park Blvd	Palo Alto	Kenson Ventures / The Douglas Living Trust	29,989	$58.0M / $1,934

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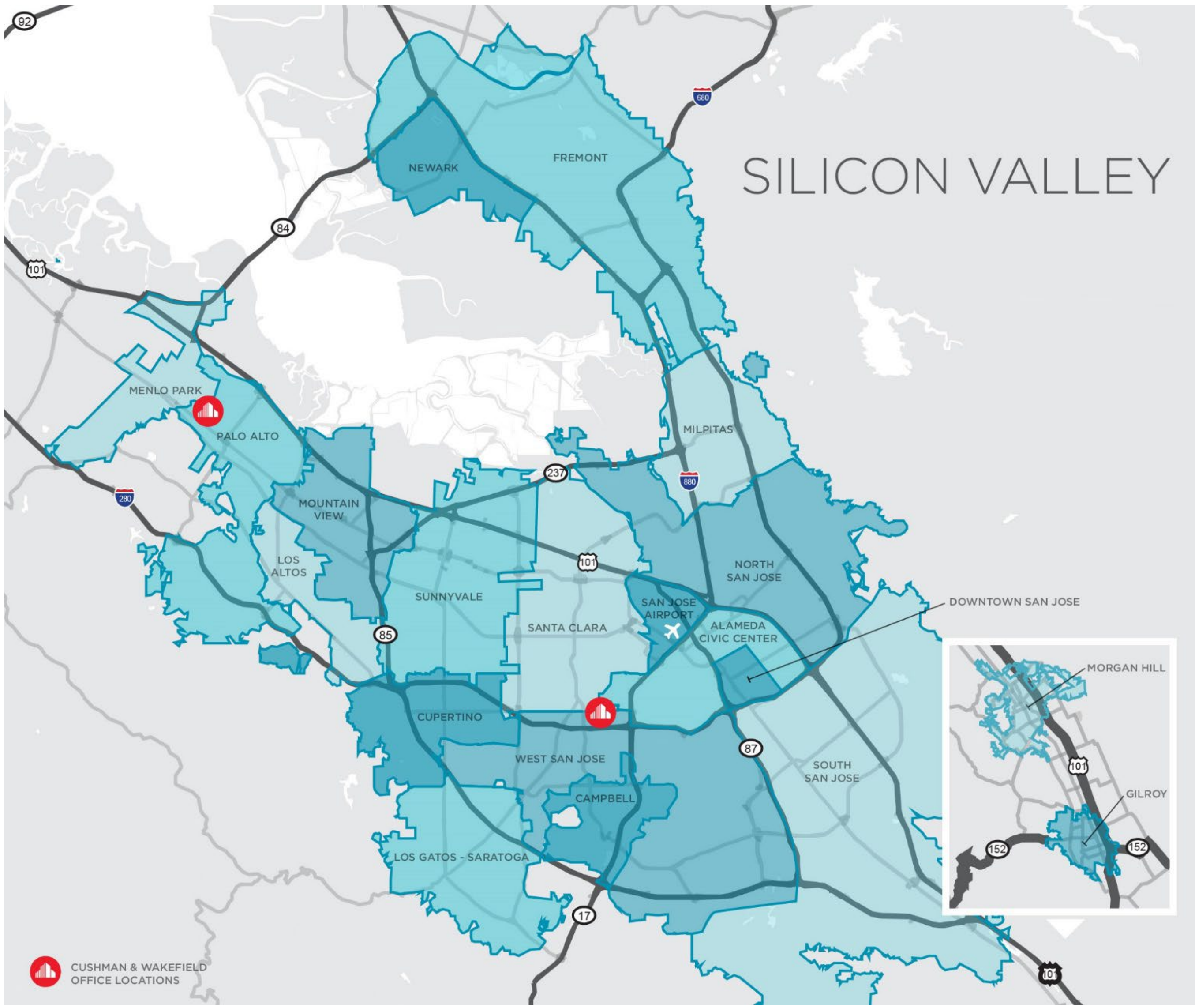
OFFICE SUBMARKETS



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