

Silicon Valley

Office Q2 2024



	YoY Chg	12-Mo. Forecast
22.8% Vacancy Rate	▲	▲
-250K Net Absorption, SF	▲	▼
\$5.36 Asking Rent, PSF FS	▼	▼

(Overall, All Property Classes)

Unemployment Rate Increases

Technology companies, whether Big Tech or startups, continue to right-size both their headcount and their footprint in Silicon Valley in the second quarter of 2024. For the San Jose MSA, the unemployment rate was up 90 basis points (bps) year-over-year (YOY) finishing at 4.2% in the second quarter. Despite the increase in unemployment, jobs grew by 4,700 YOY. Venture capital funding into Santa Clara County-based companies was \$2.9 billion (B) in 195 deals for the second quarter of 2024, down from \$4.7B in 231 deals in the first quarter. The largest deal was a \$250 million (M) early-stage round to computer chip maker Rivos of Santa Clara followed by a \$227M early-stage round to artificial intelligence company Augment of Palo Alto.

Vacancy Increases to Historic High

The Silicon Valley (the Valley) office vacancy rate finished the second quarter at an historic high of 22.8%, increasing 40 bps from 22.4% last quarter, and up 150 bps from 21.3% one year ago. The increase was partially due to a newly-constructed building with no preleasing. The current rate translates to 21.4 million square feet (msf) of vacant space, an increase from 20.9 msf in the previous quarter. The percentage of sublease space remained flat in the second quarter, finishing at 33.0%. Though there were no significant sublease spaces added this quarter, remaining sublease blocks from Big Tech and lack of leasing activity have been major contributors to the rising vacancy throughout 2024.

ECONOMIC INDICATORS Q2 2024

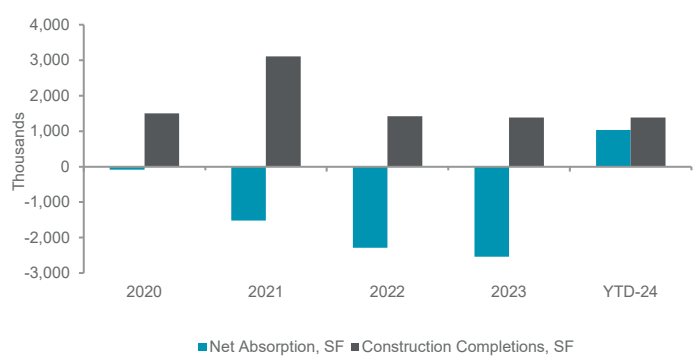
	YoY Chg	12-Mo. Forecast
1.16M San Jose MSA Employment	▲	▲
4.2% San Jose MSA Unemployment Rate	▲	▼
4.1% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics
2024Q2 data are based on latest available data.

Asking Rents Fall

Average asking rents fell once again, coming in at \$5.36 per square foot (psf) on a monthly full-service basis, marking a 2.0% YOY decrease. The northern peninsula cities of Palo Alto, Menlo Park, and Mountain View recorded the highest rents with second quarter numbers at \$8.36 psf, \$7.01 psf and \$6.99 psf, respectively. Given the current lack of demand for office space as well as ongoing economic uncertainty, there is little expectation that significant rent increases will occur in the near term.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Gross Absorption Drops

After a very strong first quarter, transaction volume fell 59.0% to 1.1 msf in the second quarter. There were only four deals over 20,000 sf in the Valley, compared with 14 last quarter, and two of those were renewals. The city with the most gross absorption in the second quarter was Santa Clara, due to Verb Surgical's renewal at 5490 Great America Parkway totaling 230,000 sf. They also leased 92,000 sf of R&D space at a neighboring building. Sales volume slowed down as well this quarter, with only one transaction over \$10 million, that being 555 Knowles Drive in Los Gatos.

Net Occupancy Declines

Net absorption for the second quarter plummeted to negative 250,000 square feet, contrasting sharply with the first quarter's gain of 1.3 msf. Despite the downturn, this represents a notable 87.6% increase compared to the same period last year. The San Jose Airport submarket narrowly beat Mountain View for the lowest second quarter net absorption, finishing at negative 115,000 sf.

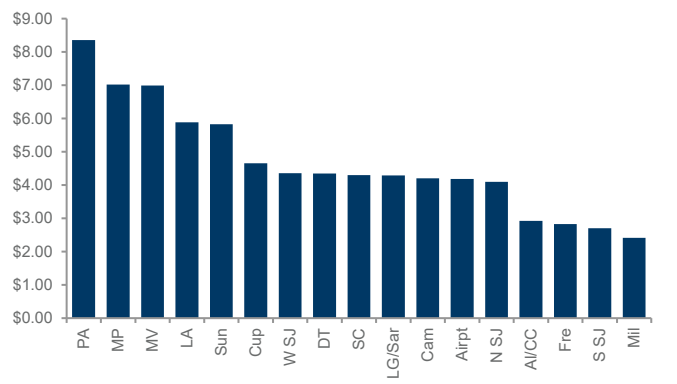
Construction Steady

New product under construction across the region currently stands at 827,000 sf, breaking down to 232,000 sf of build-to-suit projects and 595,000 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 vacancy will climb higher in the near-term. The second quarter also saw one completion: The Creekview in Campbell. The Class A office building at 1700 Dell Avenue delivered fully vacant at 166,000 sf.

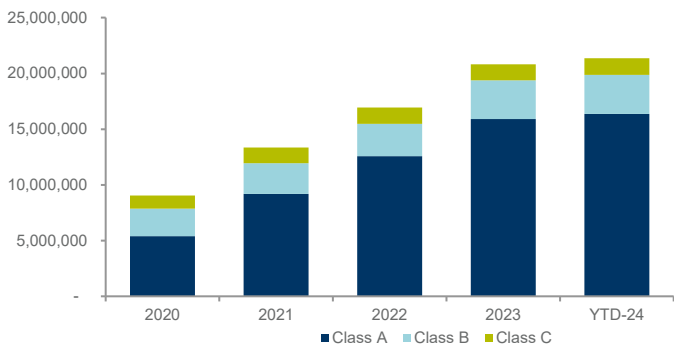
Outlook

- Tenant requirements increased 12.8% from 6.1 msf in the first quarter to 6.8 msf in the second quarter, showing interest remains healthy. Despite their mass layoffs over the past two years, technology companies represent 65.3% of those requirements and will always be prominent in the Valley.
- Tenants will continue to search for the best quality space to offer their employees, evident by Class A properties representing 66.3% of leasing activity in the second quarter. Commodity buildings will still see leasing activity, though deals will be smaller in scale.
- With vacancy rates rising each quarter, landlords will need to compete with their asking rents and offer concessions to attract tenants.

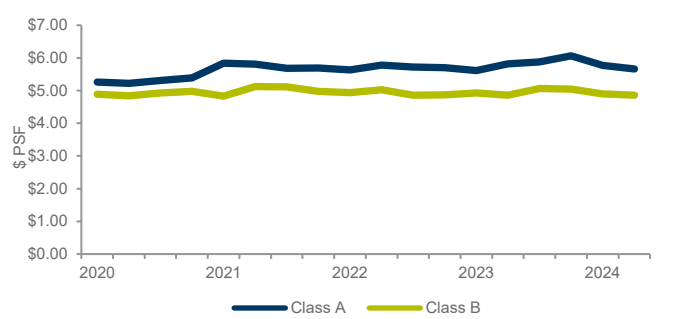
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE BY CLASS



ASKING RENT COMPARISON



MARKETBEAT

Silicon Valley



Office Q2 2024

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	6,291,295	1,187,465	644,477	29.1%	-53,033	-42,359	146,047	0	\$7.02	\$6.99
Palo Alto	10,538,511	670,004	1,531,339	20.9%	-37,473	58,282	251,985	0	\$8.36	\$9.25
Los Altos	1,179,756	13,792	141,782	13.2%	-9,707	-4,434	23,905	0	\$5.89	\$7.20
Mountain View	5,997,401	986,618	951,663	32.3%	-114,333	-86,026	87,756	0	\$6.99	\$7.28
Cupertino	4,405,178	9,167	233,682	5.5%	-5,457	-27,418	28,137	0	\$4.66	\$5.81
Campbell	2,665,472	201,230	707,021	34.1%	-9,062	1,771	63,758	0	\$4.21	\$4.73
Los Gatos/Saratoga	2,615,451	190,734	236,622	16.3%	-43,761	-67,269	46,414	0	\$4.29	\$3.82
West San Jose	4,974,350	103,487	731,944	16.8%	36,908	49,977	248,906	231,579	\$4.36	\$5.10
Sunnyvale	14,717,962	1,609,323	1,324,563	19.9%	-14,158	1,125,033	1,422,131	595,162	\$5.83	\$6.43
Santa Clara	11,082,160	1,114,942	1,843,311	26.7%	70,460	180,617	588,539	0	\$4.30	\$4.42
San Jose Airport	5,327,391	436,861	1,525,776	36.8%	-114,556	-143,885	519,886	0	\$4.19	\$4.16
North San Jose	6,290,001	223,703	821,535	16.6%	-47,136	-55,843	122,900	0	\$4.10	\$4.59
Alameda/Civic Center	2,059,572	0	158,358	7.7%	-10,430	-1,247	31,931	0	\$2.93	\$4.25
South San Jose	1,853,226	6,414	101,676	5.8%	73,251	64,936	46,478	0	\$2.71	\$3.99
Downtown San Jose	10,696,033	285,682	3,004,410	30.8%	33,028	-3,736	107,705	0	\$4.35	\$4.45
Milpitas	889,297	0	135,038	15.2%	-2,408	-6,729	30,654	0	\$2.42	\$2.40
Fremont	2,053,160	7,417	225,920	11.4%	-2,125	-10,630	17,515	0	\$2.83	\$2.51
CLASS BREAKDOWN										
Class A	60,186,136	6,586,659	9,773,887	27.2%	-221,101	1,096,618	3,049,532	826,741	\$5.67	
Class B	19,620,839	329,828	3,176,380	17.9%	-8,765	-31,642	735,115	0	\$4.86	
TOTALS	93,636,216	7,046,839	14,319,117	22.8%	-249,992	1,031,040	3,784,647	826,741	\$5.36	\$5.67

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

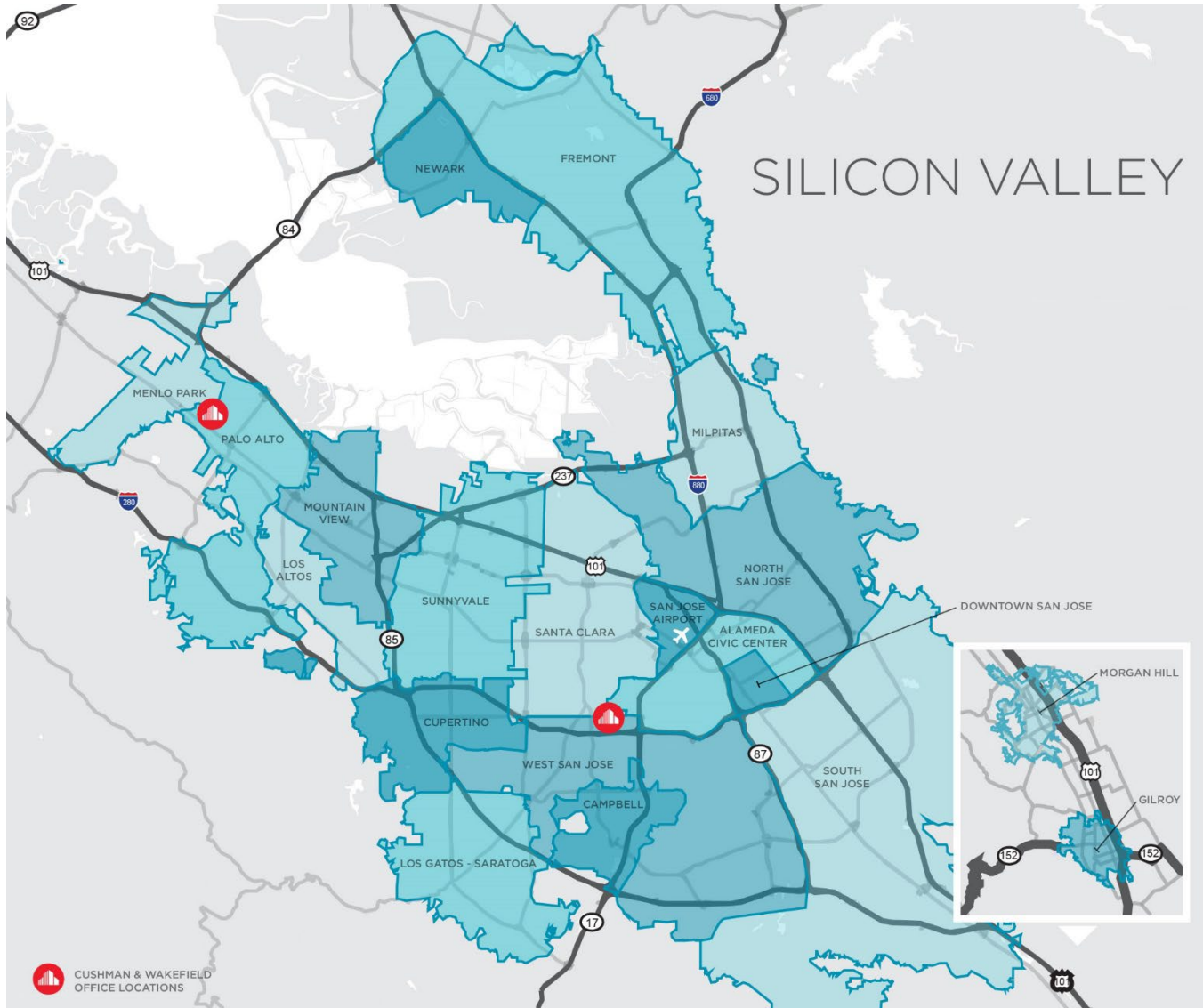
KEY LEASE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
5490 Great America Pkwy	Santa Clara	Verb Surgical	229,626	Renewal
525 University Ave	Palo Alto	Skadden	58,671	Renewal
181 Metro Dr	San Jose Airport	Indie Semiconductor	23,135	New Lease
2350 Mission College Blvd	Santa Clara	AESC	20,133	New Lease
2 Palo Alto Sq	Palo Alto	Mayer Brown LLP	19,490	Renewal

KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$PSF
555 Knowles Dr	Los Gatos	Welltower / El Camino Hospital	55,927	\$41.5M / \$742

OFFICE SUBMARKETS



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