

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
23.0% Vacancy Rate	▲	▲
1.5M YTD Net Absorption, SF	▲	▼
\$5.40 Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▼	▼

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.2M San Jose MSA Employment	▲	▲
4.0% San Jose MSA Unemployment Rate	▲	▼
4.1% U.S. Unemployment Rate <i>Source: BLS</i>	▲	▼

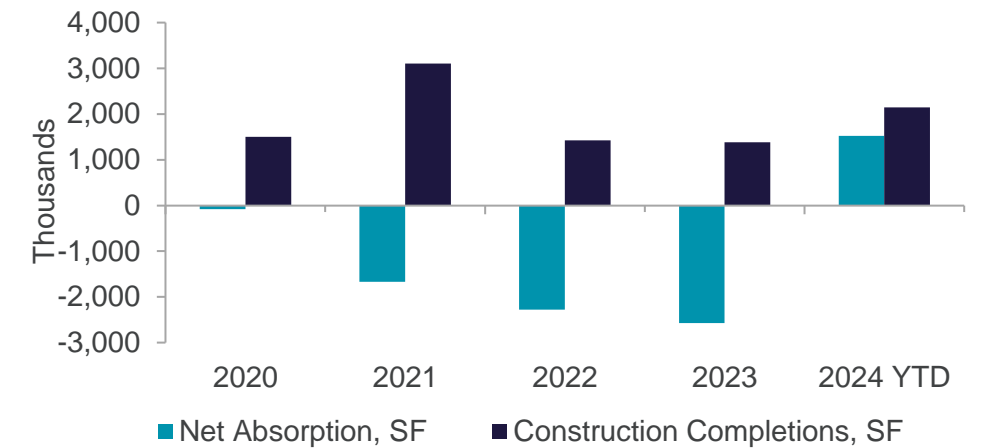
BOTH JOB COUNT AND VC FUNDING CLIMB

Size optimization for technology companies, both Big Tech and startups, continued in the third quarter of 2024 with regard to both headcount and footprint in Silicon Valley. For the San Jose MSA, the unemployment rate climbed 20 basis points (bps) year-over-year (YOY) closing at 4.0% in the third quarter. Despite the increase in unemployment, jobs expanded by 7,400 positions or 0.6% YOY. Venture capital funding into Santa Clara County-based companies topped \$3.9 billion (B) in 141 deals for the third quarter, up from \$3.1B in 221 deals in the second quarter. The largest deals of the quarter were a \$1.0B-early-stage round to artificial intelligence (AI) / software development application company Safe Superintelligence of Palo Alto followed by a \$640 million later-stage round to AI/ Semiconductor company Groq of Mountain View.

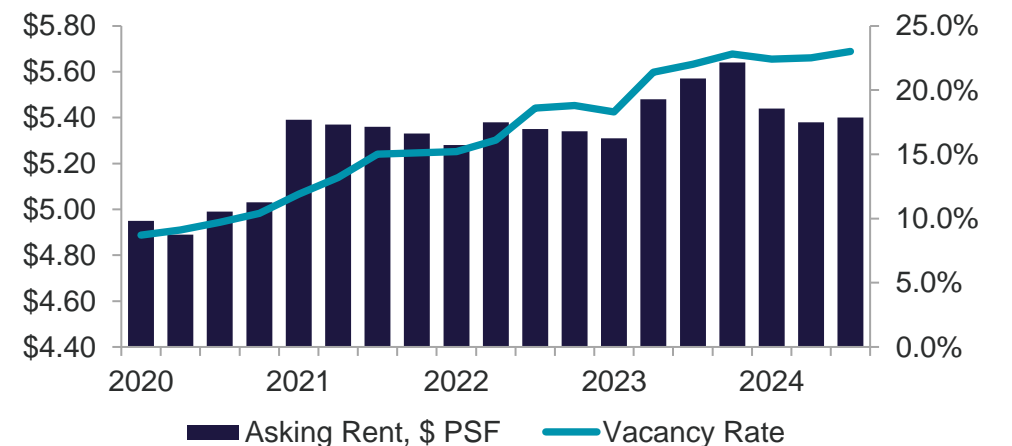
VACANCY INCREASES TO HISTORIC HIGH

The Silicon Valley (the Valley) office vacancy rate finished the third quarter at an historic high of 23.0%, increasing 50 bps from 22.5% last quarter, and up 100 bps from 22.0% one year ago. The increase was partially due to two newly constructed buildings with no preleasing. The current rate translates to 21.7 million square feet (msf) of space, an increase from 21.0 msf in the previous quarter. The percentage of sublease space decreased in the third quarter, finishing at 31.0% compared to 32.2% last quarter. 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.

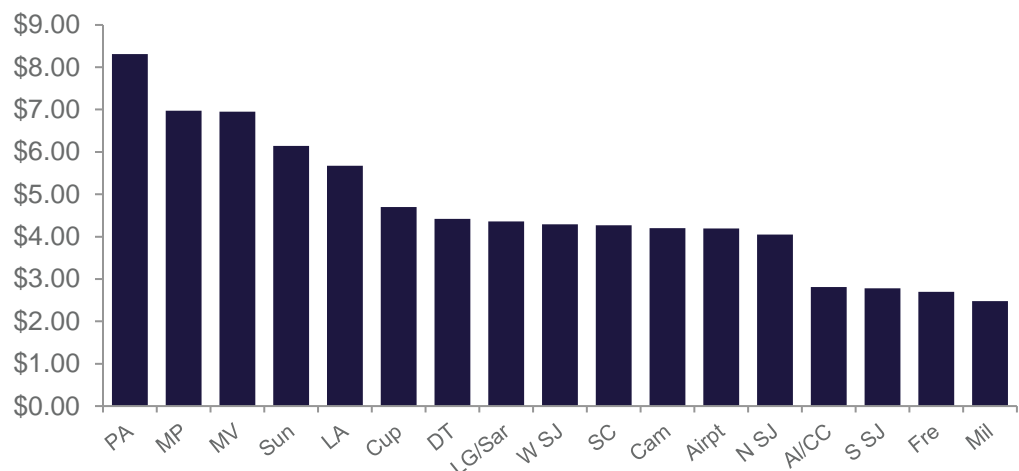
SPACE DEMAND / DELIVERIES



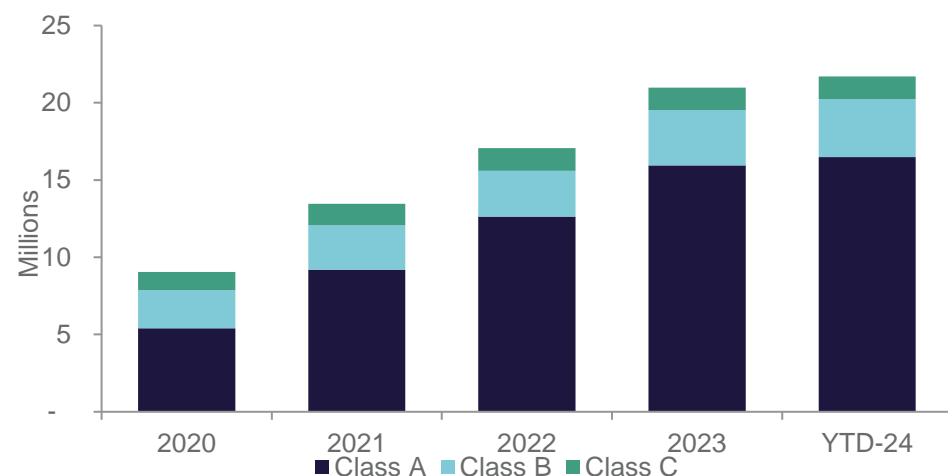
OVERALL VACANCY & ASKING RENT



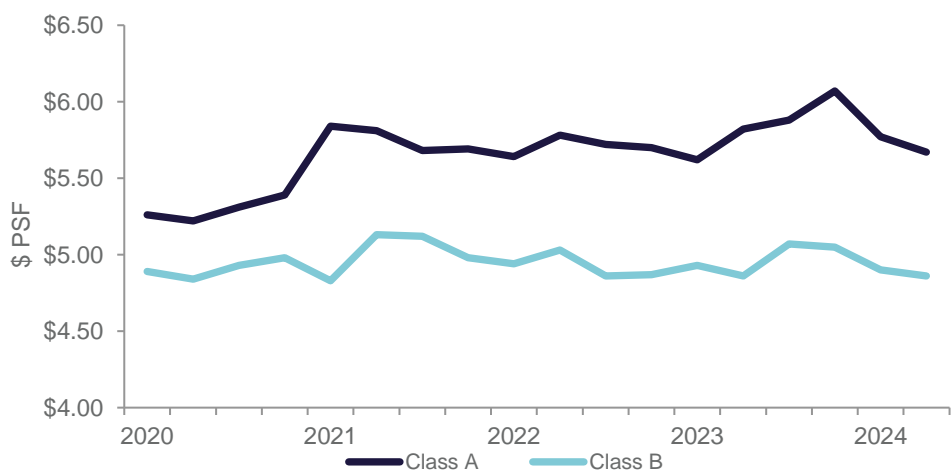
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE BY CLASS



ASKING RENT COMPARISON



ASKING RENTS MAKE SMALL JUMP

Average asking rents slightly increased in the third quarter, coming in at \$5.40 per square foot (psf) on a monthly full-service basis, marking a 0.4% rise from last quarter. The Northern Peninsula cities of Palo Alto, Menlo Park, and Mountain View recorded the highest rents with second quarter numbers at \$8.31 psf, \$6.97 psf and \$6.95 psf, respectively. Given the current lack of demand for office space due to ongoing economic flux, there is little expectation that significant rent increases will occur in the near term.

GROSS ABSORPTION DROPS

After a very strong first quarter and moderate second quarter, transaction volume fell 15.9% to 1.1 msf in the third quarter. There were eight deals over 20,000 square feet (sf) in the Valley, compared with seven last quarter, and only one of those was a renewal & expansion. Subleases were very prominent this quarter, accounting for four of the top five leases and 37.1% of total leasing activity. The submarket with the most gross absorption in the third quarter was San Jose Airport, due to TikTok’s sublease at Coleman Highline totaling 195,000 sf. This brings TikTok’s total footprint in Coleman Highline to 357,000 sf.

NET OCCUPANCY DECLINES

Net absorption for the third quarter dropped to negative 2,800 sf from positive 118,000 sf in the second quarter. Despite the downturn, this represents a notable 99.6% increase compared to the same period last year. The Alameda/Civic Center submarket had the lowest third quarter net absorption, finishing at negative 60,000 sf.

CONSTRUCTION STEADY

New product under construction across the region currently stands at 262,000 sf, breaking down to one 232,000 sf build-to-suit project and one 30,000 sf speculative project. There were two buildings completed in the third quarter, both at CityLine in Sunnyvale, delivering fully vacant at 595,000 sf. We anticipate the lack of leasing activity in both recent construction completions and in the speculative project will push vacancy higher in the near-term.

OUTLOOK

- Tenant requirements ticked higher by 1.2% from 6.8 msf in the second quarter to 6.9 msf in the third quarter, proving the deal pipeline will remain healthy. Despite mass layoffs over the past two years, technology companies, which will always be prominent in the Valley, represent 75.8% of those requirements.
- Tenants will continue to search for the best quality space to offer their employees, evident by Class A properties representing 64.6% of leasing activity in the third quarter. There will still be leasing activity in lower-tier buildings, though it is likely to be smaller in scale.
- With vacancy rates on the rise, landlords will still need to compete with their asking rents when possible and offer concessions to attract tenants.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Menlo Park	6,292,691	1,201,149	679,251	29.9%	-47,973	-75,876	181,423	0	\$6.97	\$6.93
Palo Alto	10,620,937	705,137	1,504,589	20.8%	-28,526	59,200	387,567	30,000	\$8.31	\$9.16
Los Altos	1,199,109	10,184	152,825	13.6%	-10,827	-7,777	52,493	0	\$5.67	\$7.03
Mountain View	5,855,389	815,105	941,452	30.0%	139,883	104,420	296,552	0	\$6.95	\$7.30
Cupertino	4,423,237	16,017	231,655	5.6%	14,437	-10,737	44,950	0	\$4.70	\$5.55
Campbell	2,665,472	195,643	728,602	34.7%	-16,380	-6,852	111,227	0	\$4.20	\$4.75
Los Gatos/Saratoga	2,617,059	193,260	199,689	15.0%	10,188	-32,862	124,311	0	\$4.36	\$3.69
West San Jose	4,986,499	134,615	710,186	16.9%	-11,791	40,067	302,944	231,579	\$4.29	\$5.07
Sunnyvale	15,313,124	1,558,691	1,974,497	23.1%	-5,667	1,160,207	1,491,566	0	\$6.14	\$6.63
Santa Clara	11,082,160	1,097,838	1,818,578	26.3%	30,175	222,454	870,113	0	\$4.27	\$4.42
San Jose Airport	5,327,391	272,670	1,575,886	34.7%	-40,621	-29,804	804,976	0	\$4.05	\$4.14
North San Jose	6,289,581	297,107	676,868	15.5%	-47,413	15,420	174,105	0	\$4.14	\$4.71
Alameda/Civic Center	2,059,572	0	216,638	10.5%	-59,989	-59,527	43,912	0	\$2.81	\$4.25
South San Jose	1,854,890	1,350	86,102	4.7%	19,752	85,574	60,250	0	\$2.78	\$3.99
Downtown San Jose	10,768,268	225,835	3,147,440	31.3%	55,145	52,215	154,548	0	\$4.42	\$4.53
Milpitas	889,297	0	122,783	13.8%	16,199	7,818	52,718	0	\$2.48	\$2.40
Fremont	2,053,160	0	222,302	10.8%	-19,406	405	45,984	0	\$2.70	\$2.51
CLASS BREAKDOWN										
Class A	60,639,506	6,167,509	10,327,472	27.2%	105,857	1,604,313	3,992,487	261,579	\$5.74	
Class B	19,825,541	437,274	3,298,656	18.8%	-122,412	-56,580	1,217,152	0	\$4.87	
TOTALS	94,297,836	6,724,601	14,989,343	23.0%	-2,814	1,524,885	5,209,639	261,579	\$5.40	\$5.74

*Rental rates reflect full service asking

*Market indicators are not reflective of US MarketBeat tables

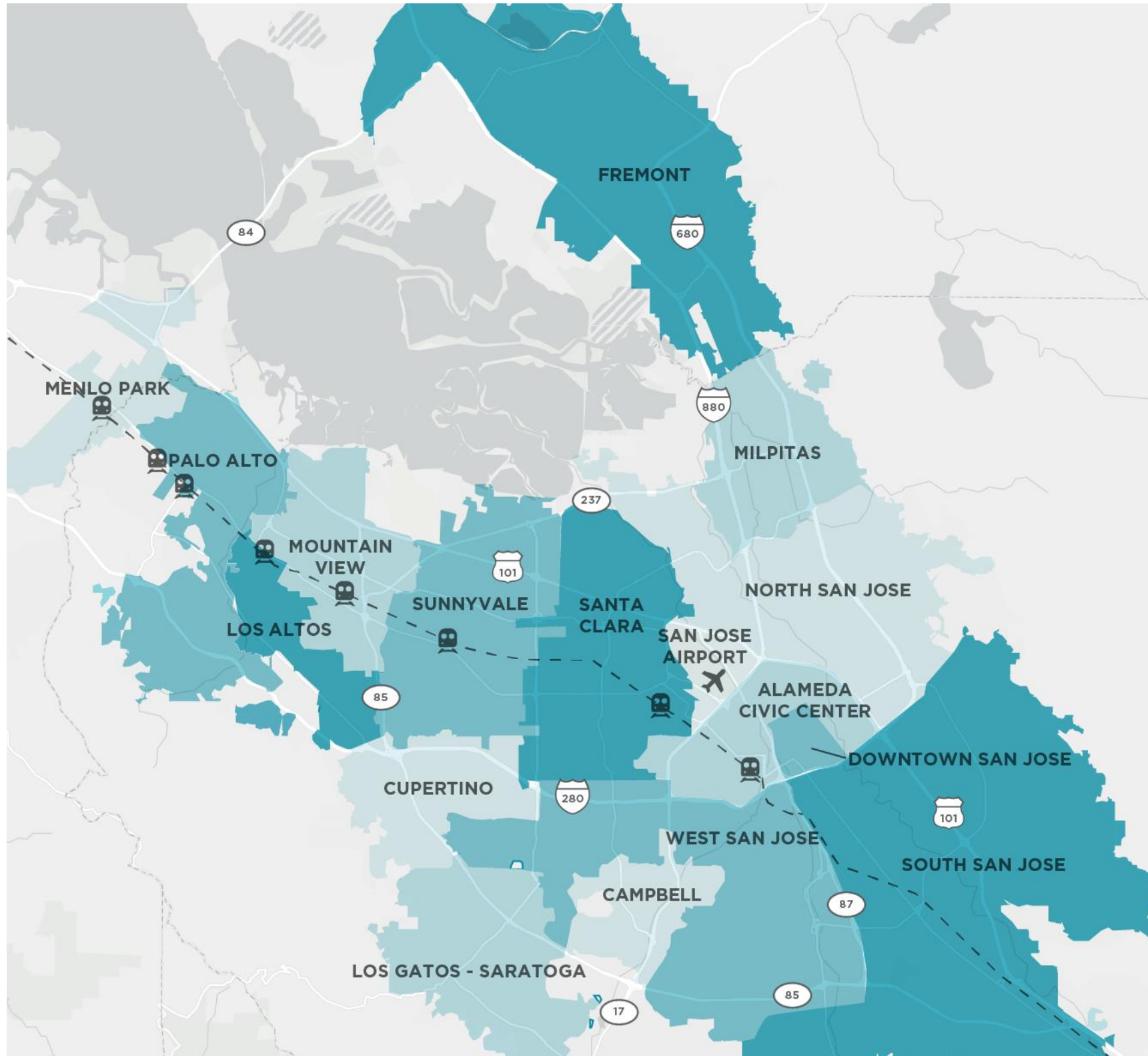
KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1155 Coleman Ave	San Jose Airport	TikTok	194,549	Sublease
391 San Antonio Rd	Mountain View	Yahoo!	119,884	Sublease/Renewal/Expansion
5455 Great America Pkwy	Santa Clara	Siemens	61,634	New Lease
100 Mathilda Pl	Sunnyvale	Uber	38,525	Sublease
2625 Augustine Dr	Santa Clara	First Citizens Bank	32,492	Sublease

KEY SALE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
600 Clyde Ave	Mountain View	Renault & Handley / Divco	189,974	\$108.1M / \$569
718 University Ave	Los Gatos	Lack Properties / Schwager Group	164,000	\$257.M / \$1,567

OFFICE SUBMARKETS



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