

Silicon Valley

Year-end leasing momentum led by big tech flight-to-quality drives positive absorption into 2022

- Nearly 2.4 million s.f. of space was delivered in the fourth quarter, contributing to vacancy increasing 150 basis points.
- Net absorption was positive for the third consecutive quarter since the pandemic and landed at 216,862 s.f.
- Nearly 1.3 million s.f. of leasing activity was recorded this quarter, outperforming all previous quarters' of the year.
- Availability decreased for the first time quarter-over-quarter since Q1 2020 as companies took large blocks of space.

Despite the prevalence of COVID-19 variants and growing work-from-home trends, Silicon Valley's office market defied expectations with a vigorous fourth quarter and ended the year on a strong note. Net absorption was positive for the third consecutive quarter since the pandemic, largely in part to Google and a confidential e-commerce company moving into newly constructed offices in San Jose and Santa Clara, respectively. Rents have grown by 6.7% since Q1 2020 in contrast to office trends in the Bay Area, indicating the Valley's continued resilience.

Two firms set the stage for a dramatic expansion in Sunnyvale. A social media conglomerate signed the largest office deal in the nation this year for a four-building campus on Crossman Avenue. Another employment-oriented networking company leased Catalyst Phase I and acquired Phase II, which will be ready for occupancy in 2023. Tenants continued a trend towards flight-to-quality as retention and recruitment remain driving factors of companies seeking space that incentivizes workers to return to the office.

The two largest contributions to vacancy and availability are a result of new developments that were not preleased and delivered vacant this quarter - Mathilda Commons (358,801 s.f.) in Sunnyvale and Santana West Phase I (374,106 s.f.) in West San Jose. Other significant completions include Coleman Highline (603,363 s.f.) in San Jose and Thirty75 Tech (295,000 s.f.) in Santa Clara. Coleman Highline was preleased in 2019; however, the tenant put half the building for sublease. Thirty75 Tech has completed one 85,000 s.f. deal thus far.

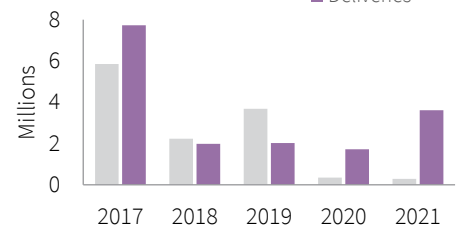
Outlook

The active office tenant requirements have picked up since the thick of the pandemic when many requirements were placed on hold. There are now 2.3 million s.f. of active office tenant requirements in the Silicon Valley.

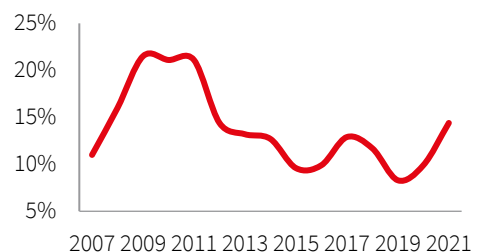
The venture capital and IPO markets continue to be robust. Silicon Valley firms received \$28 billion in Venture Capital investment year-to-date. On the IPO side, 28 Silicon Valley-based companies went public, adding more than \$102 billion to the region's market cap.

Fundamentals	Forecast
YTD net absorption	284,019 s.f. ▲
Under construction	5,670,731 s.f. ▼
Total vacancy	14.4% ▲
Sublease vacancy	1,861,858 s.f. ▼
Direct asking rent	\$5.51 p.s.f. ►
Sublease asking rent	\$4.90 p.s.f. ▼
Concessions	Stable ►

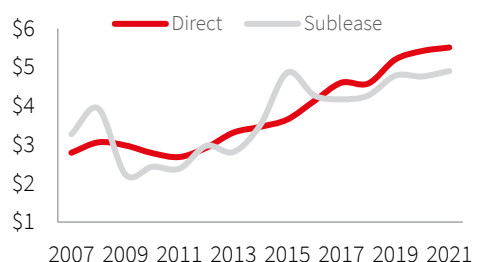
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent (\$ p.s.f.)



Office Statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (%) of stock	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD Completions (s.f.)	Under Development (s.f.)
Downtown San Jose	Totals	10,962,715	-81,728	-254,353	-2.3%	13.7%	15.3%	\$5.20	0	1,800,405
CBD	Totals	10,962,715	-81,728	-254,353	-2.3%	13.7%	15.3%	\$5.20	0	1,800,405
Cupertino	Totals	5,098,849	0	-2,197	0.0%	3.2%	3.6%	\$7.38	0	0
Fremont/Newark	Totals	625,476	-9,316	-9,741	-1.6%	5.9%	7.5%	\$2.32	0	0
Milpitas	Totals	241,874	-16,797	-23,023	-9.5%	15.5%	15.5%	\$2.84	0	0
Mountain View	Totals	6,438,754	-18,665	430,348	6.7%	2.3%	5.1%	\$7.04	466,788	2,213,609
North San Jose	Totals	4,705,290	5,763	668,131	14.2%	15.1%	15.4%	\$4.43	611,335	0
Palo Alto	Totals	3,100,871	4,239	-95,264	-3.1%	9.8%	14.0%	\$9.80	0	0
San Jose Airport	Totals	4,870,879	249,802	218,263	4.5%	9.5%	17.1%	\$4.09	603,363	0
Santa Clara	Totals	13,331,061	85,050	-451,822	-3.4%	14.8%	21.7%	\$5.11	701,706	388,919
Sunnyvale	Totals	14,911,230	-3,393	-483,152	-3.2%	12.0%	12.0%	\$7.23	852,055	1,366,203
West Valley/Campbell	Totals	3,082,672	1,907	286,829	9.3%	22.4%	23.6%	\$5.07	374,106	0
Suburban	Totals	56,406,956	298,590	538,372	1.0%	11.2%	14.2%	\$5.64	3,609,353	3,968,731
Silicon Valley	Totals	67,369,671	216,862	284,019	0.4%	11.6%	14.4%	\$5.51	3,609,353	5,769,136
Downtown San Jose	A	5,372,284	-64,296	-239,909	-4.5%	15.1%	18.2%	\$5.61	0	1,702,000
CBD	A	5,372,284	-64,296	-239,909	-4.5%	15.1%	18.2%	\$5.61	0	1,702,000
Cupertino	A	4,233,844	0	-2,197	-0.1%	3.9%	4.4%	\$7.38	0	0
Fremont/Newark	A	310,735	0	0	0.0%	2.5%	4.1%	\$1.68	0	0
Mountain View	A	4,820,299	-21,369	410,878	8.5%	1.9%	5.0%	\$6.91	466,788	2,213,609
North San Jose	A	3,415,123	-5,030	678,919	19.9%	19.0%	19.1%	\$4.52	611,335	0
Palo Alto	A	2,129,400	-26,124	-107,500	-5.0%	11.3%	15.3%	\$9.73	0	0
San Jose Airport	A	4,594,600	243,486	214,411	4.7%	9.5%	17.5%	\$4.14	603,363	0
Santa Clara	A	12,106,420	90,897	-435,462	-3.6%	14.8%	21.9%	\$5.21	701,706	388,919
Sunnyvale	A	13,703,387	2,519	-344,050	-2.5%	10.9%	10.9%	\$7.66	714,801	1,366,203
West Valley/Campbell	A	2,892,107	1,907	293,267	10.1%	23.7%	24.9%	\$5.08	374,106	0
Suburban	A	48,205,915	286,286	708,266	1.5%	11.5%	14.7%	\$5.69	3,472,099	3,968,731
Silicon Valley	A	53,578,199	221,990	468,357	0.9%	11.9%	15.0%	\$5.67	3,472,099	5,670,731
Downtown San Jose	B	4,925,563	-13,173	-27,944	-0.6%	12.9%	13.3%	\$4.10	0	98,405
CBD	B	4,925,563	-13,173	-27,944	-0.6%	12.9%	13.3%	\$4.10	0	98,405
Cupertino	B	865,005	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
Fremont/Newark	B	274,741	-9,316	-10,816	-3.9%	9.0%	10.9%	\$2.66	0	0
Milpitas	B	241,874	-16,797	-23,023	-9.5%	15.5%	15.5%	\$2.84	0	0
Mountain View	B	1,618,455	2,704	19,470	1.2%	3.5%	5.5%	\$7.33	0	0
North San Jose	B	1,290,167	10,793	-10,788	-0.8%	4.9%	5.5%	\$3.78	0	0
Palo Alto	B	768,461	2,920	-16,429	-2.1%	8.1%	12.5%	\$9.99	0	0
San Jose Airport	B	276,279	6,316	3,852	1.4%	10.4%	10.4%	\$3.37	0	0
Santa Clara	B	1,100,953	-5,847	-15,318	-1.4%	15.8%	20.7%	\$4.06	0	0
Sunnyvale	B	1,172,122	-5,912	-139,102	-11.9%	25.6%	25.7%	\$5.18	137,254	0
West Valley/Campbell	B	190,565	0	-6,438	-3.4%	3.4%	3.4%	\$4.55	0	0
Suburban	B	7,798,622	-15,139	-198,592	-2.5%	9.7%	11.4%	\$5.30	137,254	0
Silicon Valley	B	12,724,185	-28,312	-226,536	-1.8%	10.9%	12.1%	\$4.75	137,254	98,405
Downtown San Jose	C	664,868	-4,259	13,500	2.0%	7.3%	7.3%	\$3.02	0	0
CBD	C	664,868	-4,259	13,500	2.0%	7.3%	7.3%	\$3.02	0	0
Fremont/Newark	C	40,000	0	1,075	2.7%	10.8%	10.8%	\$0.00	0	0
Palo Alto	C	203,010	27,443	28,665	14.1%	0.0%	6.4%	\$0.00	0	0
Santa Clara	C	123,688	0	-1,042	-0.8%	4.4%	6.0%	\$2.59	0	0
Sunnyvale	C	35,721	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
Suburban	C	402,419	27,443	28,698	7.1%	2.4%	6.1%	\$2.59	0	0
Silicon Valley	C	1,067,287	23,184	42,198	4.0%	5.5%	6.9%	\$2.94	0	0