

MARKET TRENDS | SILICON VALLEY

OFFICE

MARKET DRIVERS

LEASE rates held steady asking \$4.76/SF full service on average. This represents a 42 basis point drop from last quarter.

OFFICE availability increased 50.45% year-over-year (YOY) to 17.30%. Sublease availability rose 60 basis points YOY, standing at 3.8% for all class types.

LARGE deals dominated this quarter. Apple had the largest lease in the first half of 2021, expanding its presence in Silicon Valley with 698,550 SF at Pathline Park in Sunnyvale. NetApp sold its 695,932 SF campus in Sunnyvale to Tishman Speyer, relocating to 700 Santana Row in San Jose by leasing 301,000 SF. Oracle sold its 381,000 SF building at 488 Almaden in San Jose to a Lane Partners and PIMCO joint venture. Tech companies solidified their Silicon Valley presence with Google renewing 447,553 SF at The Quad in Mountain View and Dell renewing 153,584 SF at 5450 Great America Pkwy in Santa Clara.

GROSS absorption more than doubled YOY from 1.10M SF in 2Q20 to 2.51M SF in 2Q21. Sunnyvale and San Jose were the most active markets for the quarter with 1.33M SF and 479,165 SF respectively. Sales volume has followed a similar trend, increasing from 807,495 SF in 2Q20 to 1.79M SF in 2Q21.

NET absorption dropped to negative 396,588 SF for 2Q21. Year to date net absorption is at negative 296,039 SF. Strong leasing activity this quarter points towards a rebound for the second half of 2021.

THE construction pipeline currently has 6.08 million SF of office space under development.

Market Summary

	2Q 2021	1Q 2021	2Q 2020	Annual Change
Vacancy Rate	12.58%	11.70%	9.70%	29.67%
Availability Rate	17.30%	14.50%	11.50%	50.45%
Asking Lease Rate	\$4.76	\$4.78	\$4.62	3.03%
Lease Volume (SF)	2,508,868	1,086,770	1,098,884	128.31%
Sale Volume (SF)	1,794,083	593,288	807,495	122.18%
Net Absorption	-396,588	-55,092	336,331	N/A

▲ **2.50M**
LEASING ACTIVITY (SF)

▼ **-396K**
NET ABSORPTION (SF)

▲ **12.58%**
VACANCY RATE

▼ **\$4.76**
AVERAGE ASKING RATE

▲ **1.79M**
NEW DELIVERIES (SF)

CHANGE FROM PRIOR QUARTER

Market Highlights

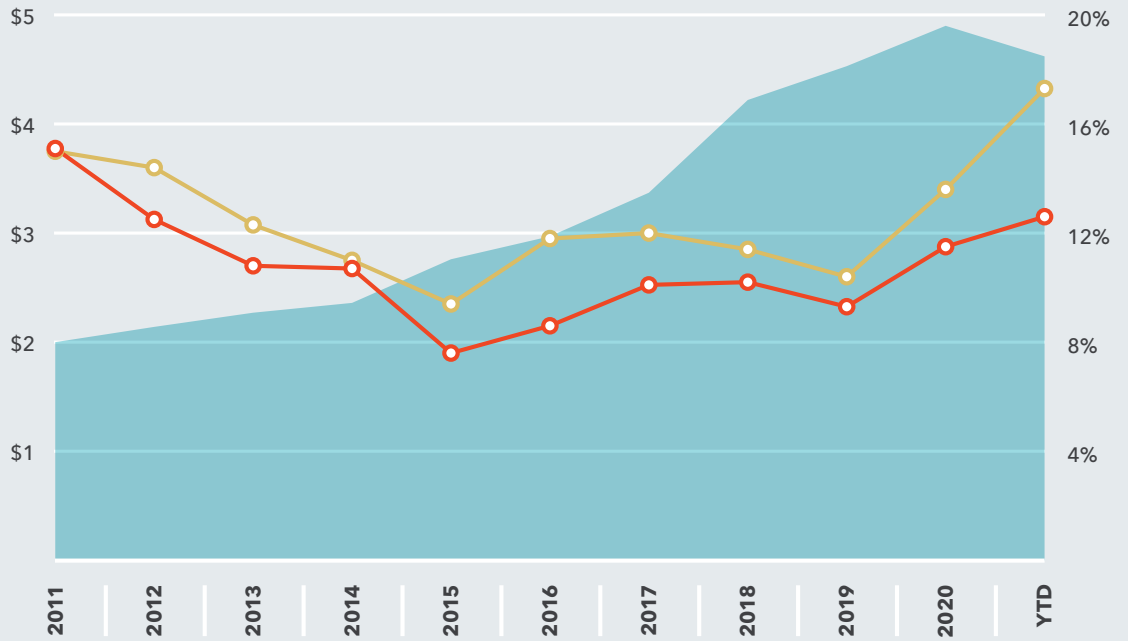
ASKING LEASE RATES dropped 42 basis points from last quarter to \$4.76/SF full service.

VACANCY RATES ticked upwards 7.50% from last quarter to 12.58%.

GROSS absorption more than doubled YOY to 2.51M.

Direct Lease Rate, Total Vacancy & Availability

■ DIRECT LEASE RATE (FS)
○ TOTAL VACANCY
○ TOTAL AVAILABILITY

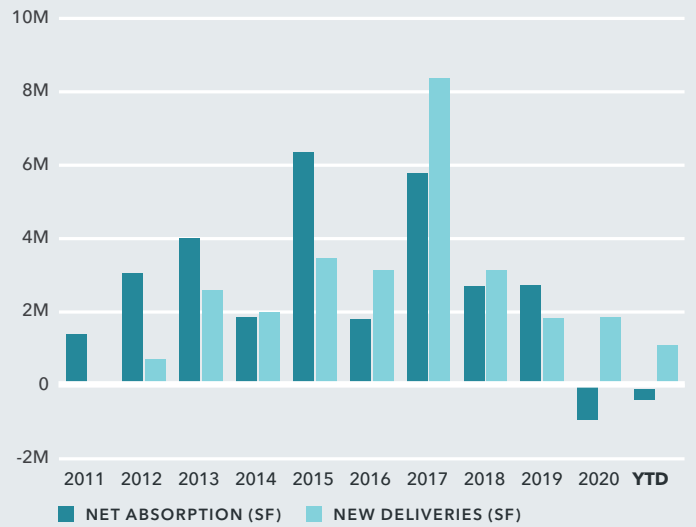


BIGGEST SALE OF THE QUARTER

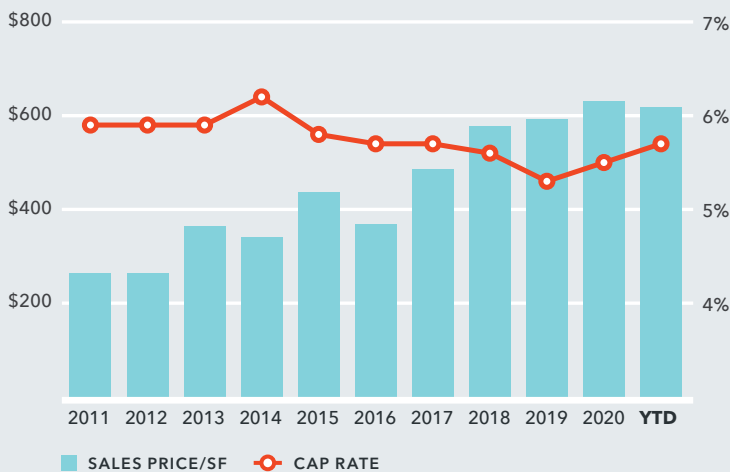
NetApp Campus Sunnyvale



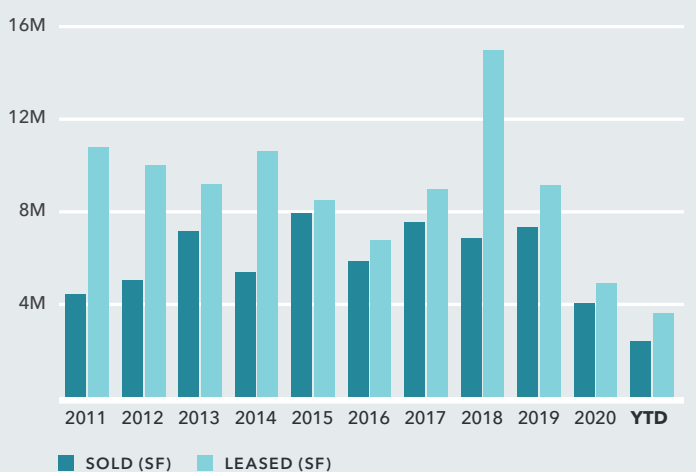
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume vs. Lease Volume



SILICON VALLEY SUBMARKET STATISTICS

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Direct Net Absorption	2Q Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	2Q Gross Absorption	YTD Gross Absorption	2021 Rental Rate KM (FS)
Campbell	2,586,325	-	17.09%	19.49%	27.24%	55,038	43,010	36,188	22,111	37,406	68,115	4.15
Cupertino	7,492,676	-	4.13%	4.66%	6.35%	48,198	51,586	-23,937	-17,225	4,392	40,856	5.36
Fremont	5,129,296	-	5.29%	6.45%	6.46%	257,923	257,923	394,907	384,430	113,830	135,565	2.63
Milpitas	4,781,081	-	9.89%	10.59%	14.83%	-9,518	-9,518	-23,579	-14,987	3,674	187,251	2.52
Mountain View	12,743,939	595,000	2.97%	5.17%	8.41%	428,115	581,840	364,493	347,233	72,054	103,858	6.65
Newark	470,739	-	17.13%	17.13%	17.67%	-23,027	-19,358	-24,957	-21,288	4,791	6,370	2.80
Palo Alto	12,965,989	-	11.47%	16.31%	19.05%	-45,451	-18,471	110,363	-151,010	111,343	328,785	8.02
San Jose	37,967,586	2,287,000	10.07%	12.04%	18.81%	152,362	-83,860	22,688	-65,775	479,165	992,962	3.91
Santa Clara	20,388,627	1,432,161	12.36%	17.46%	26.30%	-256,791	-111,437	-294,712	-370,032	352,754	395,999	4.08
Sunnyvale	19,510,648	1,763,347	13.64%	14.99%	15.95%	-769,197	-831,931	-331,449	-409,496	1,329,459	1,335,877	5.91
Totals	124,036,906	6,077,508	10.03%	12.58%	17.30%	-217,897	-396,588	230,005	-296,039	2,508,868	3,595,638	4.76
Class A	45,091,133	6,077,508	10.33%	12.97%	20.08%	180,041	468,359	826,076	698,404	1,589,271	2,057,461	5.02
Class B	65,427,360		11.01%	13.77%	17.35%	-283,661	-526,929	-457,686	-775,927	534,929	1,116,915	4.85
Class C	13,518,413		4.34%	5.49%	7.80%	-58,728	-81,646	-138,385	-218,516	83,668	120,262	3.08

ECONOMIC OVERVIEW

CALIFORNIA reopened the economy on June 15, largely removing COVID-19 restrictions on physical distancing requirements and face coverings. In Santa Clara County, 75.3% of residents ages twelve and above have had a completed vaccination as of July 2021. The lifting of COVID-19 restrictions and high vaccination rates mean that companies can implement their plans for employees to start returning to their offices and increase demand.

UNEMPLOYMENT in California stood at 7.5% for May 2021. Santa Clara County recorded the third-lowest unemployment rate in the state with 4.7% during this period.

NEAR-TERM OUTLOOK

DIRECT asking lease rates are predicted to hold firm. High sublease availabilities and remote work measures apply downward pressures to overall asking rates. Mega leases this quarter from Apple (698,550 SF) in Pathline Park in Sunnyvale and NetApp (301,000 SF) in Santana Row in San Jose help point towards the latent need for office space in Silicon Valley.

SOURCE: COSTAR; STATE OF CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT; SANTA CLARA COUNTY PUBLIC HEALTH

BIGGEST LEASE OF THE QUARTER

**Pathline Park
Sunnyvale**

TOP SALE TRANSACTIONS FOR 2Q 2021

Property	Submarket	Buyer	Seller	Sale Price	\$/SF	SF
NetApp Campus	Sunnyvale	Tishman Speyer	NetApp	\$365,000,000	\$524.48	695,932
488 S Almaden Blvd	San Jose	Lane Partners JV PIMCO	Oracle	\$131,830,000	\$346.01	381,000
515-545 N Whisman Rd	Mountain View	Steelwave JV Angelo Gordon	NortonLifeLock	\$100,500,000	\$659.22	152,452
2475 Hanover St	Palo Alto	Alexandria Real Estate Equities	JP Morgan Chase	\$71,445,000	\$850.54	84,000
445 Sherman Ave	Palo Alto	Bay Area Industrial Corp	Robert Wheatley Prop	\$33,800,000	\$1,455.96	23,215

TOP LEASE TRANSACTIONS FOR 2Q 2021

Property	Submarket	Landlord	Tenant	Sign Date	SF
Pathline Park	Sunnyvale	Irvine Company	Apple	May 2021	698,550
The Quad	Mountain View	The Lovell Company	Google	May 2021	447,553
700 Santana Row	San Jose	Federal Realty Investment Trust	NetApp	April 2021	301,000
5450 Great America Pkwy	Santa Clara	DWS Group	Dell	April 2021	153,584
115 N McCarthy Blvd	Milpitas	Embarcadero Capital Partners	Corsair Gaming	May 2021	118,127

TOP UNDER CONSTRUCTION

Property	Submarket	Owner	Delivery Date	SF
200 Park	San Jose	Jay Paul Co	July 2023	937,000
Voyager Bldg	Santa Clara	NVIDIA	July 2021	754,800
Adobe North Tower	San Jose	Adobe	July 2022	700,000
Charleston East	Mountain View	Google	July 2021	595,000
Catalyst Phase II	Sunnyvale	Harvest Properties	October 2022	382,188

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

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**Commercial
Brokerage**

\$8B
TRANSACTION
VOLUME (ANNUAL)

23M
SALES SF
(ANNUAL)

42M
LEASING SF
(ANNUAL)

**Valuation
Advisory**

1,800+
ASSIGNMENTS
ANNUALLY

40/19
TOTAL NO.
APPRAISERS/MAI'S

**Asset
Services**

70M
MANAGEMENT
PORTFOLIO SF

\$12B
IN ASSETS UNDER
MANAGEMENT

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