

MARKET TRENDS

SILICON VALLEY OFFICE

MARKET DRIVERS

THE OFFICE AVAILABILITY RATE rose to 21.6% in 2Q23 which was both an increase from 17.9% in 1Q23 and an increase from 16.6% in 2Q22. This reduction in office space demand can be attributed to company consolidation in anticipation of uncertain economic headwinds.

VACANCY RATES experienced a steady increase of 13.2% compared to the same period last year and the previous quarter, climbing from 12.6% in both 2Q22 and 1Q23 to 14.3% in 2Q23. To maximize their investments, many tenants have chosen to sublease their space, aiming to generate some returns.

ASKING LEASE RATES dropped to \$4.50/SF in 2Q23, a year-over-year reduction from \$5.07/SF in 2Q22 and a quarter-over-quarter reduction from \$4.60/SF in 1Q23. In response to the economic circumstances, certain lessors are incorporating appealing incentives into their offers and adjusting their rates downward.

THE COMBINATION of rising interest rates, concerns about a potential recession, and the recent collapse of three regional banks has led to more conservative lending and investor caution. While there was a quarter-over-quarter increase in sales volume, rising from 207k SF in 1Q23, there was a significant year-over-year decline from 814.6k SF in 2Q22 to 244.9k SF in 2Q23.

CONSISTENT WITH the business sector's fiscal conservation and office space downsizing, net absorption has reached negative 2M SF in 2Q23. This was a substantial quarter-over-quarter decrease from 594.3k SF in 1Q23 and an even larger drop year-over-year from 1.6M SF in 2Q22.

ECONOMIC OVERVIEW

IN SANTA CLARA COUNTY, the unemployment has remained consistent at 3.1% quarter-over-quarter, while California's unemployment rate has slightly risen from 4.3% in the previous quarter to 4.5% in the current quarter.

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Market Summary

	2Q23	1Q23	2Q22	Annual Change
Direct Vacancy Rate	14.26%	12.60%	12.60%	13.15%
Total Availability Rate	21.61%	17.90%	16.60%	30.15%
Direct Asking Lease Rate	\$4.50	\$4.60	\$5.07	-11.24%
Total SF Leased	506,578	2,004,708	2,466,637	-79.46%
Total SF Sold	244,906	206,985	814,556	-69.93%
Direct Net Absorption	-1,954,034	594,308	1,557,151	N/A

2Q 2023

↓ **507K SF**
LEASING ACTIVITY

↓ **-2M SF**
NET ABSORPTION

↓ **14.26%**
VACANCY RATE

↓ **\$4.50**
ASKING RENT (AVG)

↓ **0 SF**
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

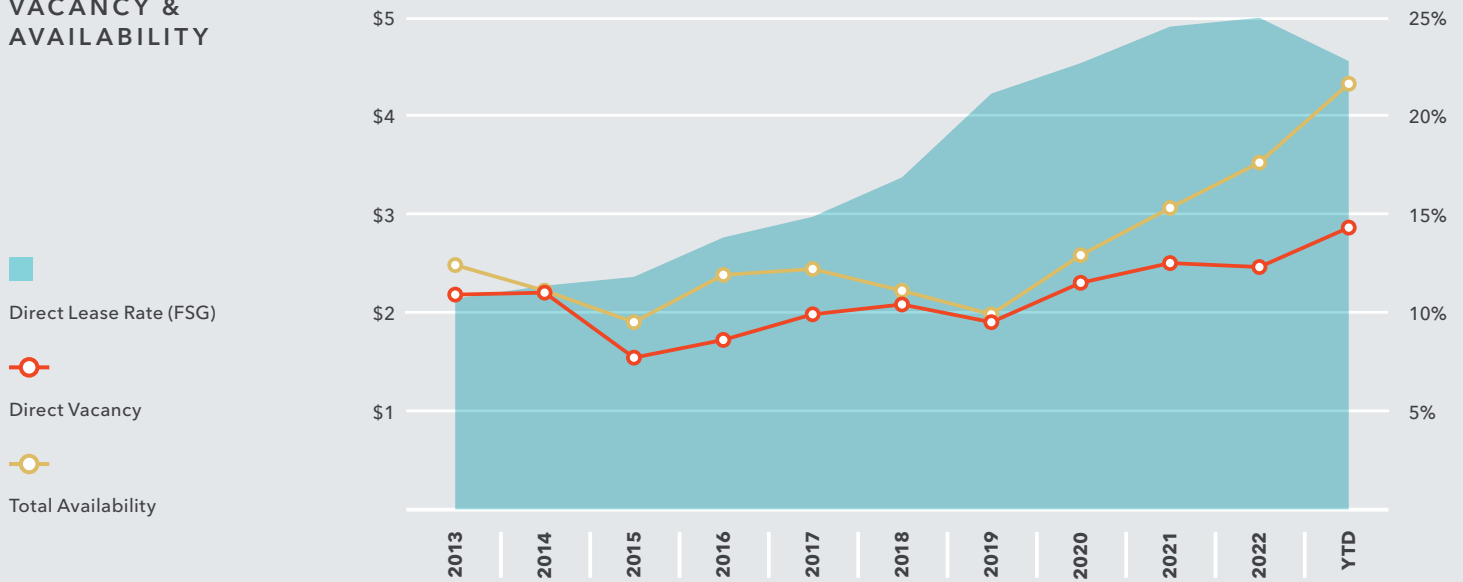
THE AVAILABILITY RATE
increased to 21.1%

ASKING LEASE RATES
decreased to 4.50/SF FS

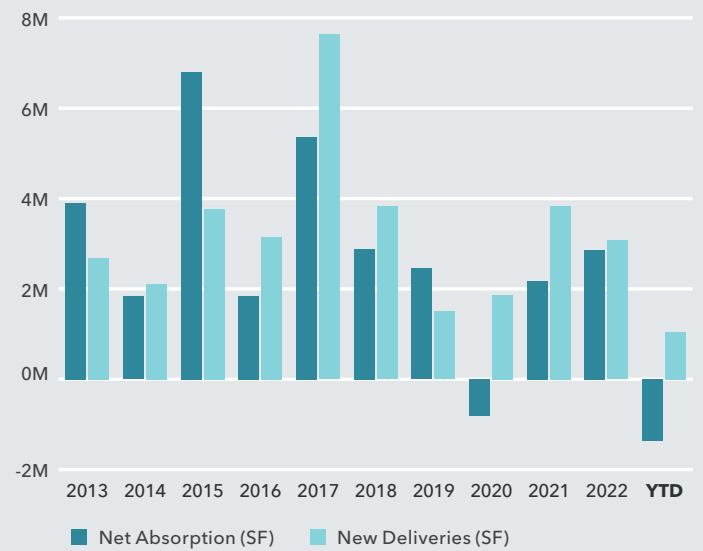
SALE VOLUME dropped to
244,906 SF

TOTAL NET ABSORPTION fell
to negative 2M SF

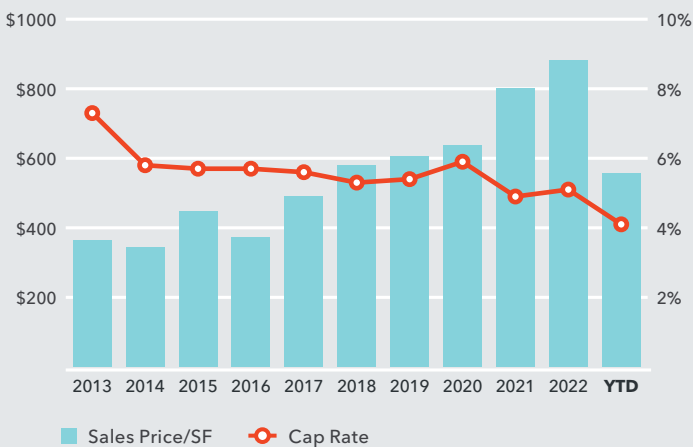
LEASE RATE, VACANCY & AVAILABILITY



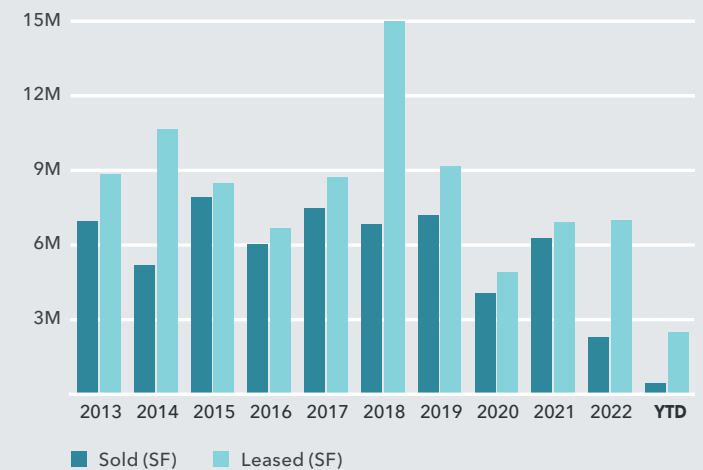
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	SF Under Const.	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	2Q23 Direct Net Absorption	2Q23 Total Net Absorption	YTD Direct Net Absorption	YTD Total Net Absorption	2Q23 Gross Absorption	YTD Gross Absorption	2Q23 Rental Rate KM CoStar
Campbell	2,527,587	165,987	16.4%	24.0%	40.4%	-125	-2,130	17,607	25,686	27,374	39,368	\$4.14
Cupertino	7,481,572	—	4.3%	4.7%	5.5%	-6,727	-6,727	-10,330	-15,289	32,438	147,657	\$4.94
Fremont	5,032,731	—	5.0%	10.9%	12.0%	-54,205	-154,403	7,053	-99,753	17,579	36,833	\$2.50
Milpitas	4,703,810	—	8.7%	10.8%	11.0%	-65,538	-65,538	-25,262	-25,262	383	208,411	\$2.56
Mountain View	13,629,396	233,543	9.3%	14.1%	22.8%	-132,182	-565,306	-288,375	-686,260	70,343	109,550	\$6.72
Newark	473,719	—	15.1%	15.1%	15.1%	-2,263	-2,263	752	752	—	8,988	\$2.60
Palo Alto	12,935,900	—	11.8%	15.3%	18.8%	-327,960	-323,279	-364,840	-308,996	19,275	399,893	\$7.84
San Jose	40,940,177	390,000	13.1%	15.0%	24.0%	-326,748	-331,243	346,801	363,449	163,803	733,039	\$3.96
Santa Clara	20,844,939	—	12.5%	16.9%	26.0%	436,403	478,770	433,831	289,340	119,925	445,790	\$4.09
Sunnyvale	21,842,363	2,207,563	9.1%	12.5%	20.4%	-726,839	-981,915	-474,571	-903,393	55,458	381,757	\$5.67
Total	128,906,198	2,997,093	11.0%	14.3%	21.6%	-1,206,184	-1,954,034	-357,334	-1,359,726	506,578	2,511,286	\$4.50
Class A	51,113,004	2,997,093	9.9%	14.0%	27.7%	-671,467	-1,481,400	321,211	-695,380	109,909	938,169	5.54
Class B	66,605,588	—	12.8%	15.7%	18.7%	-446,514	-408,761	-547,909	-588,832	326,258	1,328,821	4.01
Class C	12,693,602	—	5.4%	5.8%	9.7%	-88,203	-63,873	-130,636	-75,514	70,411	244,296	2.98

ECONOMIC OVERVIEW (CONTINUED)

THE PROFESSIONAL BUSINESS SECTOR in San Jose-Sunnyvale-Santa Clara MSAs saw quarter-over-quarter and year-over-year job gains, a refreshing shift in employment compared to previous quarters' layoffs. Specifically, the sector experienced a 2.8% increase from 249.6k jobs in 2Q22 and a 0.8% increase from 254.5k jobs in 1Q23, a 6.9k year-over-year and 2k quarter-over-quarter job gain.

NEAR-TERM OUTLOOK

THERE IS A NOTABLE DECLINE in office space demand compared to previous years. Tenants are primarily choosing to downsize or renew their existing space temporarily. This decrease in demand can be attributed to factors such as work from home policies, low unemployment rates, economic challenges, and companies anticipating a reduced need for office space in the future.

GOOGLE LLC is looking to sublease 1.4 million square feet of office space in Silicon Valley, comprising seven buildings in Sunnyvale and Mountain View. This decision comes as part of the company's efforts to reassess its real estate requirements and align them with its hybrid workforce. The move is also part of a broader cost-cutting initiative following a significant layoff announcement earlier this year. While the sublease listings represent a substantial amount of space, they only constitute a fraction of Google's extensive real estate portfolio in the Bay Area, which includes millions of square feet of office and

R&D space. Despite these changes, Google remains steadfast in its commitment to invest in the local community by maintaining a presence in the Bay Area.

ACCORDING TO A RECENT ANALYSIS conducted by S&P Global, the influence of remote work and decreased office attendance on city revenues has been relatively limited up to this point. While transit ridership has declined and commercial property values have weakened, large cities have demonstrated resilience due to various economic factors. Nevertheless, cities are projecting future revenue losses due to the prolonged impact of reduced office occupancy. In response, major cities are anticipated to proactively tackle these challenges through initiatives like repurposing vacant commercial properties.

MANY MARKETS have been disproportionately impacted by the technology sector's reduced space requirements for office products, demonstrating low demand. This slowdown in tech leasing, which was previously a dominant force, has significant repercussions for specific office markets. While some major tech companies are gradually returning to the office, the remote work policies and economic uncertainties continue to shape the future demand for office spaces in the tech sector. The surplus of office space in tech-centric markets is expected to provide more leverage for tenants and contribute to higher vacancy rates in the current market.

TOP SALE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
3333 Scott Blvd	Santa Clara	244,906	\$182,500,000	\$745.18	Preylock Holdings, LLC	CalSTRS
10200 S De Anza Blvd	Cupertino	160,837	\$70,000,000	\$435.22	Apple, Inc.	Rubicon Point Partners
2060 - 2118 Walsh Ave	Santa Clara	78,258	\$15,200,000	\$194.23	The Fox Real Estate & Development Co.	Link Logistics Real Estate

TOP LEASE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1410 S Bascom Ave	San Jose	231,579	May 2023	PMB Real Estate Svcs/Harrison St. Capital	Santa Clara Valley Medical Center
5453 Great America*	Santa Clara	149,607	May 2023	Irvine Company	Arista
391 & 401 San Antonio Rd	Mountain View	40,000	April 2023	Brookfield Properties	Coinbase, Inc.
2600 Great America Way	Santa Clara	37,880	April 2023	The Irvine Company / City of Santa Clara	HCL Technologies
5451 Great America*	Santa Clara	30,549	May 2023	Irvine Company	Arista

* Renewal

TOP UNDER CONSTRUCTION

Property	Submarket	SF	Delivery	Owner
100 W Caribbean Dr	Sunnyvale	537,000	July 2023	Google, Inc.
200 W Caribbean Dr	Sunnyvale	505,078	July 2023	Google, Inc.
325 Autumn Pkwy	San Jose	390,000	March 2025	TMG Partners/Valley Oak Partners
399 W Java Dr	Sunnyvale	340,000	September 2023	Google, Inc.
300 W Washington Ave	Sunnyvale	330,448	October 2024	STC Venture 200WA, LLC

Data Source: Costar; ycharts.com, data.bls.gov, bizjournals.com



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COMMERCIAL
BROKERAGE

\$12B

TRANSACTION
VOLUME ANNUALLY

32.1M

ANNUAL
SALES SF

41.2M

ANNUAL
LEASING SFASSET
SERVICES

53M

MANAGEMENT
PORTFOLIO SF

771+

ASSETS UNDER
MANAGEMENT

250+

ASSET SERVICES
CLIENTSVALUATION
ADVISORY

2,600+

ASSIGNMENTS
ANNUALLY

46

TOTAL
APPRAISERS

23

WITH MAI
DESIGNATIONS