

FIGURES | SILICON VALLEY | Q4 2022

Silicon Valley R&D Figures

▲ 10.0%

Vacancy Rate

▲ (642K)

SF Net Absorption

▶ N/A

SF Under Construction

▲ \$2.93

NNN / Lease Rate
Existing Properties

▲ 408K

Office/R&D Using Employment
Santa Clara County

Note: Arrows indicate change from previous quarter.

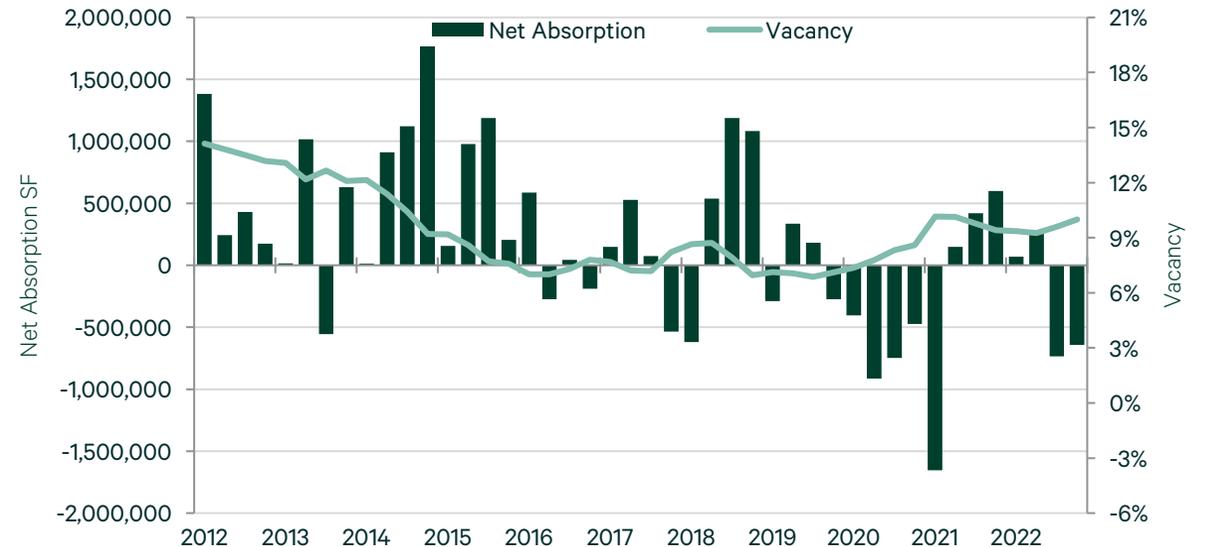
EMPLOYMENT

The Silicon Valley is primarily comprised of Santa Clara County and is home to 1.9 million residents with a labor force of 1.06 million. At the close of Q4 2022, the total resident employment was 1.03 million, up 4.34% from Q4 2021. The Silicon Valley total in-market employment added another 53,410 jobs to the employment base and totaled 1.17 million employed at the close of Q4 2022. The unemployment rate for Silicon Valley in Q4 2022 was 2.6% an 82 basis-point (bps) reduction from the fourth quarter of 2021. Since the third quarter of 2022, office (and R&D) sector jobs in the Silicon Valley, inclusive of in-market employment, grew by 3,880 jobs to 408,000 jobs.

R&D OVERVIEW

Despite sustained leasing momentum in 2021 and through the first half of 2022, activity in the Silicon Valley R&D market slowed significantly over the last six months of 2022. The tech industry, which has historically bolstered the market, experienced some layoffs and companies are in a holding pattern given economic uncertainty and moves by the Fed to curb inflation. Still, tech companies remained relatively active throughout 2022 and the versatility of R&D product attracts tenants from numerous industries. This should help mitigate future occupancy losses.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

R&D OVERVIEW (continued)

The Silicon Valley R&D market posted negative 642,153 sq. ft. of net absorption in Q4 2022, ending the year with negative 1.02 million sq. ft. of net absorption. In contrast to office product, Sunnyvale was the biggest detractor of net absorption in Q4 2022, contributing negative 126,619 sq. ft. of net absorption; whereas Fremont/Newark was the largest contributor of net absorption in Q4 2022 posting a modest 19,125 sq. ft. of positive net absorption. San Jose - North contributed the most to annual net absorption closing the year out with 517,009 sq. ft. of positive net absorption.

Vacancy across the market increased during Q4 2022 to 10.0%, a 60 bps increase from Q4 2021's 9.4%. Availability increased as well, increasing 20 bps from Q4 2021's 12.1% to 12.3%.

Leasing activity totaled 1.2 million sq. ft. in Q4 2022 bringing annual leasing activity to 8.1 million sq. ft.. Comparatively, leasing activity in 2021 ended at 8.5 million sq. ft.. Roughly 37% of deals completed in Q4 2022 were renewals, accounting for 42% of the total square footage leased. Nearly 62% of leases completed during Q4 2022 came from the 0-9,999 sq. ft. size range followed by: 10,000-20,000 sq. ft. (15%); 20,000-50,000 sq. ft. (16%); and 50,000-100,000 sq. ft. (7%) ranges. Tenant demand in Q4 2022 increased slightly quarter-over-quarter, closing the year out with 3.7 million sq. ft. of combined active requirements for Office and R&D space. Despite the uptick, demand is still down compared to 2021's total of 8.9 million sq. ft..

Average asking rates for R&D space in the Silicon Valley increased year-over-year from \$2.76 in 2021 to \$2.93 in 2022 on a monthly, NNN basis. Palo Alto continued to hold the highest average rent at \$6.81, and San Jose - East recorded the lowest average asking rent at \$1.50.

Investment transactions in Silicon Valley remained well-below normal market levels mainly due to the increased cost of financing coupled with lower liquidity in the debt markets. Assets leased long-term to credit tenants continued to trade but higher cap rates given lending rates were 2X from the beginning of 2022. Lower sales volume is expected to persist through the first part of 2023 until the debt markets stabilize.

FIGURE 2: Submarket Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Asking Lease Rate (\$)	Q4 Net Absorption	YTD Net Absorption
Palo Alto	11,180,987	13.3	15.4	6.81	(214,574)	(564,533)
Mountain View/Los Altos	10,984,390	8.4	10.5	5.04	(100,118)	(50,012)
Sunnyvale	18,791,673	8.6	10.2	3.62	(126,619)	(510,982)
Cupertino	2,652,369	0.7	0.7	3.73	0	0
Santa Clara	20,427,702	12.9	17.1	2.75	(83,394)	(7,911)
Campbell	1,075,152	11.1	11.1	2.52	(11,603)	(1,586)
Los Gatos	603,952	19.8	19.8	2.75	0	(99,523)
San Jose – Downtown	655,858	0.0	0.0	1.77	0	72,744
San Jose – North	23,428,544	13.4	16.4	2.65	(459)	517,009
San Jose – South	8,462,835	12.0	13.6	1.68	4,273	(29,590)
San Jose – IBP	9,739,845	4.5	6.1	1.75	(82,149)	(84,093)
San Jose – East	605,178	1.7	1.7	1.50	8,900	8,612
Milpitas	11,882,281	12.1	16.0	2.00	(55,535)	(16,989)
Fremont/Newark	23,429,955	5.9	7.5	1.90	19,125	(253,820)
Silicon Valley	143,920,721	10.0	12.4	2.93	(642,153)	(1,020,674)

Source: CBRE Research

FIGURE 3: Notable Lease Transactions Q4 2022

Tenant	Location	Leased Sq. Ft.	Type
Bio-Techne (ProteinSimple)	3001 Orchard Pkwy San Jose	97,890	Renewal
XP Power	455 E Trimble Rd San Jose	80,125	New Lease
Confidential	1625 Charleston Rd Mountain View	67,000	Renewal
Bionova Scientific	47968-47998 Fremont Blvd Fremont	55,000	New Lease
Aehr Test Systems	400-424 Kato Ter Fremont	51,289	Renewal

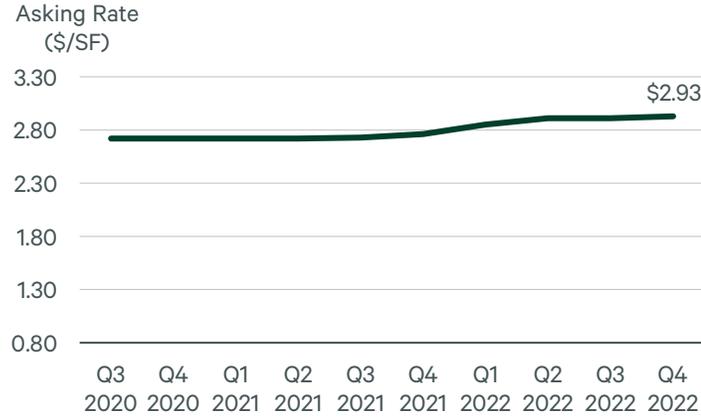
Source: CBRE Research

FIGURE 4: Notable Sale Transactions Q4 2022

Buyer	Location	Sold Sq. Ft.	Sale Price \$/SF
Peninsula Building Materials Co.	Multiple Addresses San Jose	209,425	\$94.7M \$451
Batton Associates, LLC	2580 Orchard Pkwy San Jose	129,024	\$41.5M \$321
Paceline Investors	Multiple Addresses Fremont	115,537	\$36.3M \$313
The Wonderful Company	350 Holger Wy San Jose	96,502	\$54M \$559
Alvarez & Marsal Holdings, LLC	3553 N 1 st St San Jose	86,145	\$24.5M \$284

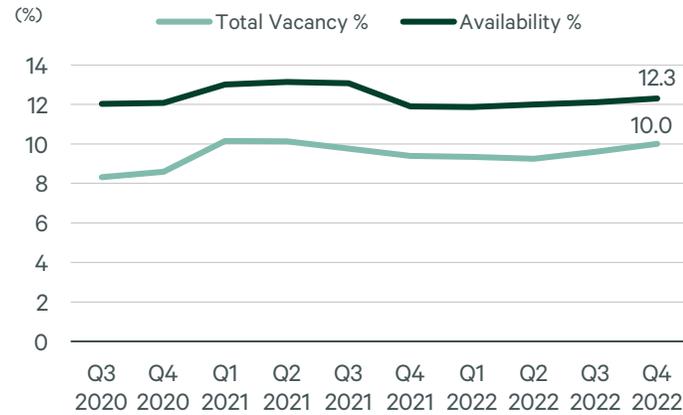
Source: CBRE Research

FIGURE 5: Lease Rates



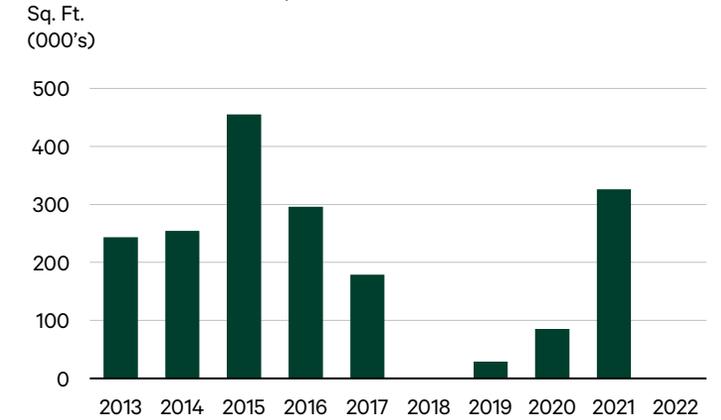
Source: CBRE Research

FIGURE 6: Vacancy & Availability



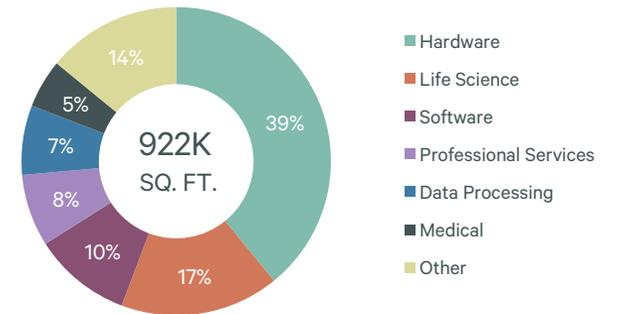
Source: CBRE Research

FIGURE 7: Construction Completions



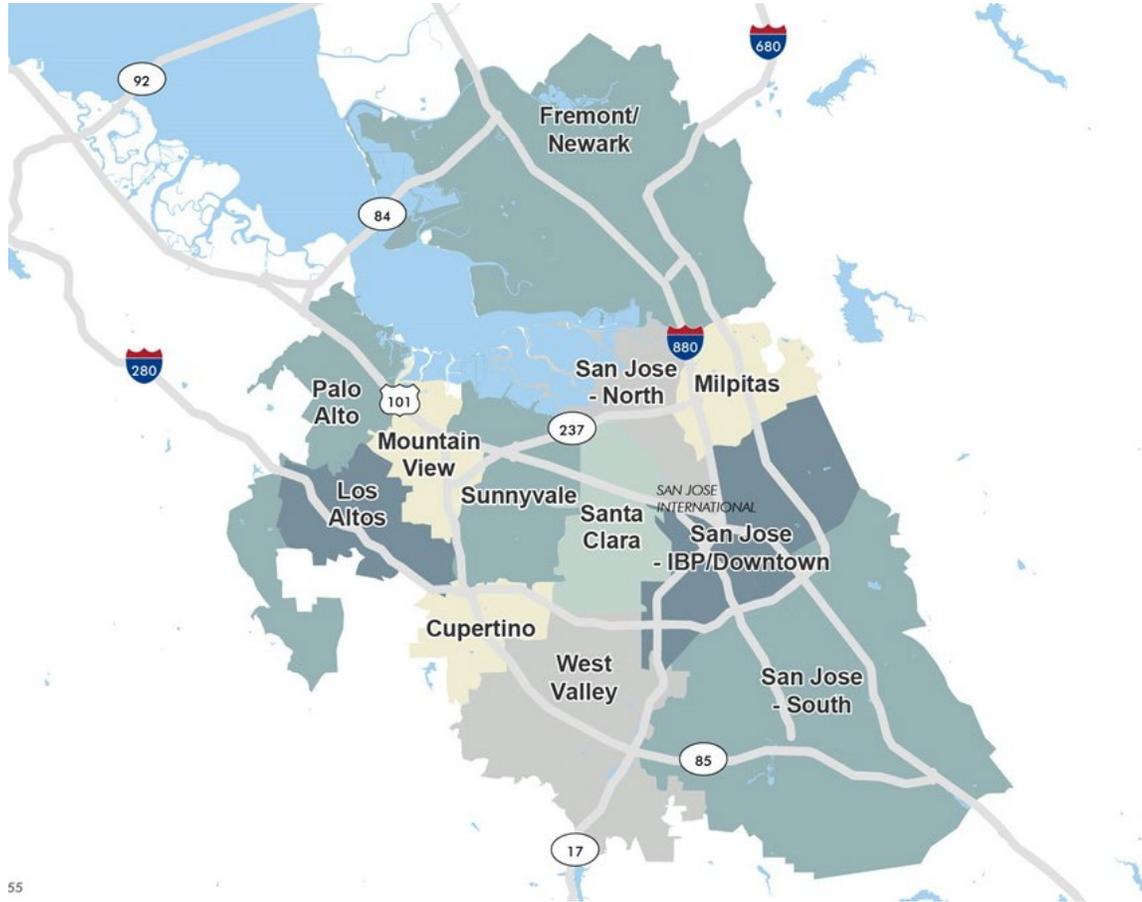
Source: CBRE Research

FIGURE 8: Top 25 Leases of the Quarter by Industry



Source: CBRE Research

Submarket Map



55

Source: CBRE Research, Location Intelligence

Definitions

Average Asking Rate Direct Monthly Lease Rates., Triple Net (NNN). Availability All existing space being marketed for lease. Total Vacancy Rate Direct Vacancy + Sublease Vacancy.

CBRE's market report analyzes existing single- and multi-tenant R&D buildings that total 7,500+ sq. ft. within defined submarkets, including owner-occupied buildings. CBRE assembles all information through telephone canvassing, third-party vendors, and listings received from owners, tenants and members of the commercial real estate brokerage community.

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