
1Q24

Silicon Valley Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market saw signs of weakening in the first quarter of 2024, with the unemployment rate rising to 4.4%, slightly above the 10-year average of 4.3%. Although not much higher than the national average of 3.9%, nonfarm enrollment also saw annual losses of 0.5% year-over-year, suggesting that the local economy has yet to rebound from the tech layoffs of 2023.
- The information sector saw a 7.7% annual decrease in employment year-over-year as tech sector layoffs continued throughout the region. Education and healthcare saw the greatest growth of all industries, posting a 6.0% increase year-over-year.
- Office-using employment saw another correction in the first quarter of 2024, with total employment falling from 398,000 to 375,000 jobs quarter-over-quarter. Although layoffs took a brief pause at the end of 2023, the start of 2024 saw an uptick in layoffs as companies continued to cut payroll to reduce costs.

Major Transactions

- Several large deals took place this quarter, the largest from social media platform ByteDance, which subleased ±162,557 square feet from Roku at Coleman Highline, followed by accounting firm PWC leasing ±141,023 square feet at One Santana West, also in San Jose. These two deals, both in new shell space, represent the persistent demand for Class A space, especially with motivated landlords.
- The largest increase in vacancy was in Sunnyvale, which saw Google fully vacating the ±957,204 square foot Technology Corners campus, causing the vacancy rate to rise from 12.2% to 16.1% quarter-over-quarter. During the same period, however, Google also completed ±1.0 million square feet in their Caribbean Drive campus as well as a second ±315,000 square foot building at 399 W. Java Drive, both in Moffett Park

Leasing Market Fundamentals

- Net absorption in the first quarter of 2024 totaled 623,487 square feet, recording positive absorption for the second quarter in a row. Most of the positive absorption this quarter was caused by 1.3 million square feet of build-to-suit construction by Google; the overall vacancy rate rose from 18.8% to 19.3% despite the positive net absorption, indicating that vacancies are still outpacing demand.
- The construction pipeline fell to ±1.3 million square feet this quarter following the completions mentioned above, its lowest point since 2011. Though several projects are planned, many have been put on pause until demand returns.
- Asking lease rates throughout the region fell from \$5.10/SF to \$5.05/SF full service, a 1.0% decrease quarter-over-quarter, but represents the first quarter since 2022 that asking lease rates have fallen despite rising availability during the same period.

Outlook

- As interest rates stabilize, both investor and occupier interest may increase – strengthened by several large, high-profile deals, optimism is high to start 2024.
- Rents will continue to be volatile as new supply hits the market, especially in the sublet space market. Although one quarter is too early to tell, a softening of rental rates to start of 2024 could translate to an increase in tenant activity and more deals getting done throughout 2024.
- As tech tenants right-size throughout the region, the vacancy rate will likely remain high. Given the current level of local demand, it’s likely that vacancy will remain high for the immediate future, unless tenants from outside Silicon Valley enter the market.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

1Q24

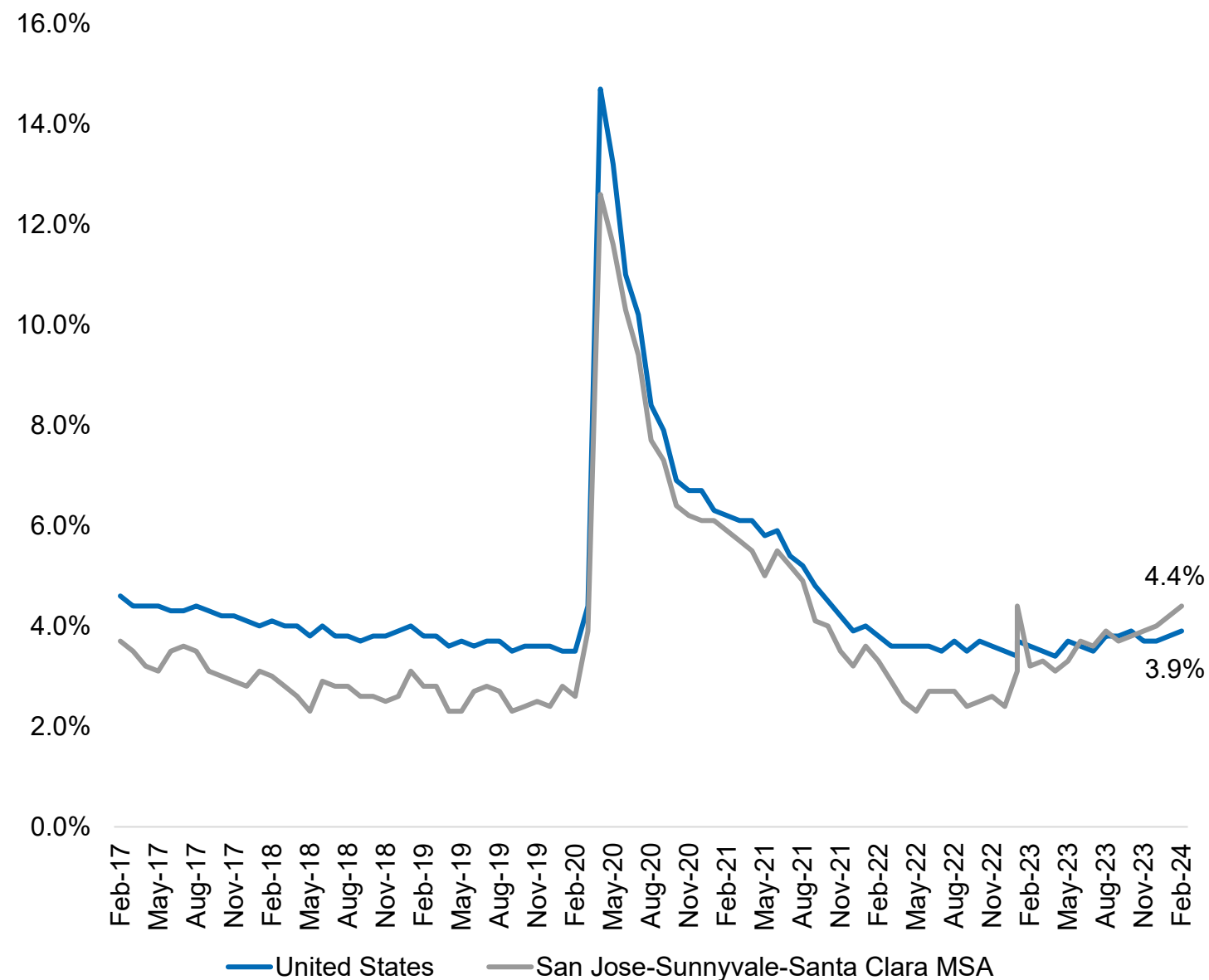
Economy



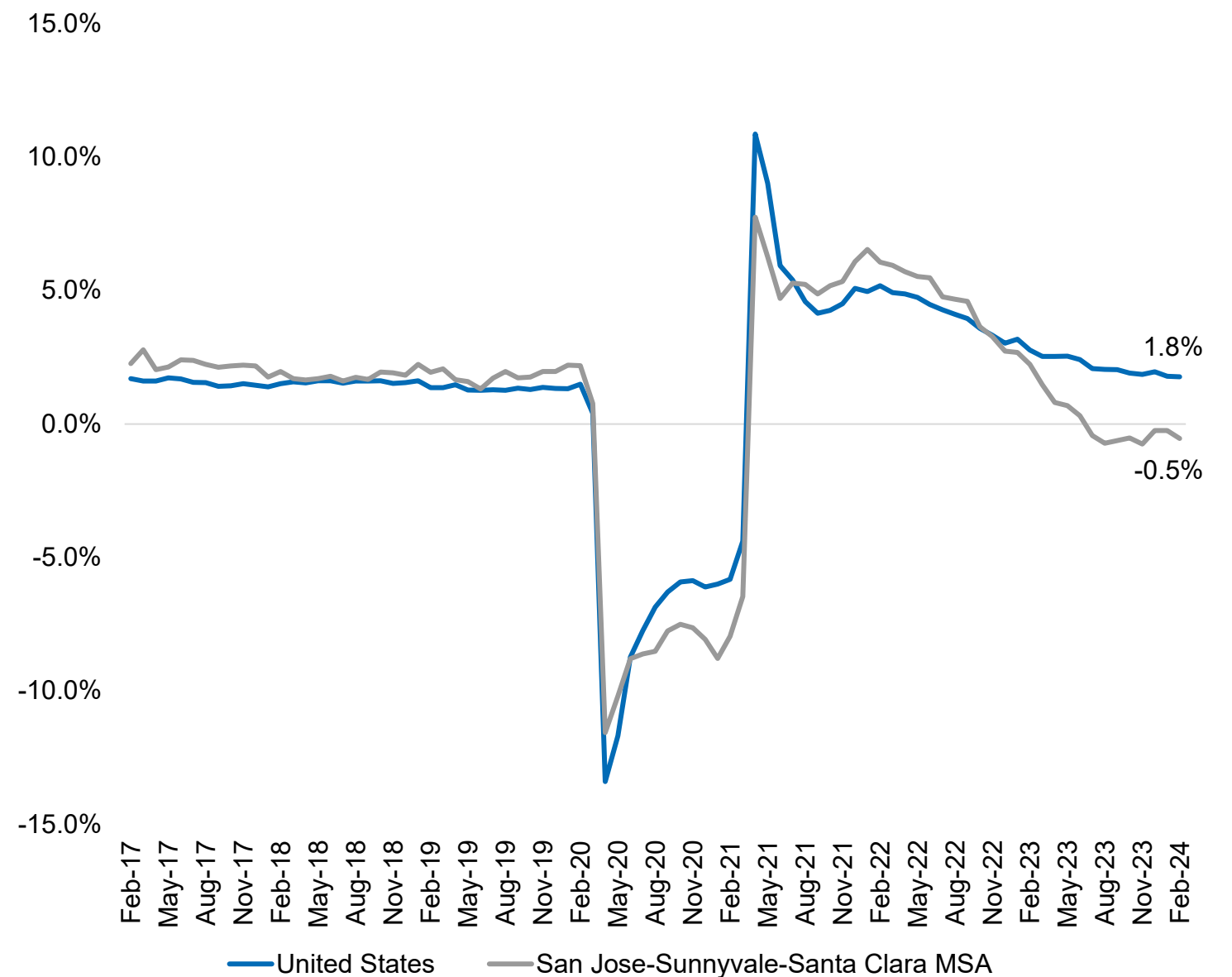
Overall Employment Falling Year-over-Year

The San Jose-Sunnyvale-Santa Clara MSA's overall unemployment rate rose for the fourth consecutive quarter to 4.4%, trending slightly higher than the national average of 3.9%, which remained at the same level as October 2023. Though Santa Clara County has historically outperformed the US average, tech sector layoffs and have caused a ripple effect on the local economy, which has posted negative job growth since July 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

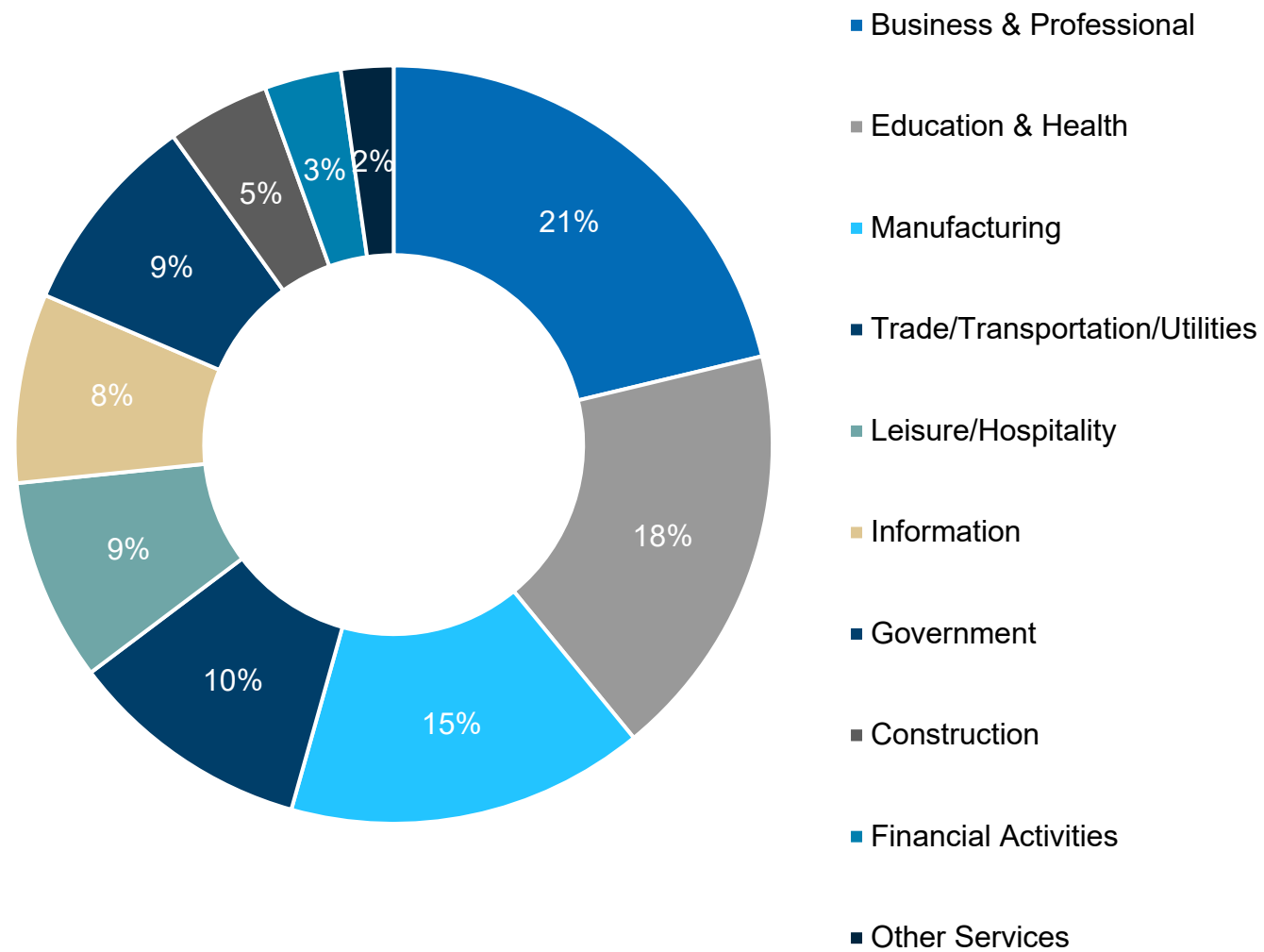


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
 Note: February 2024 data is preliminary.

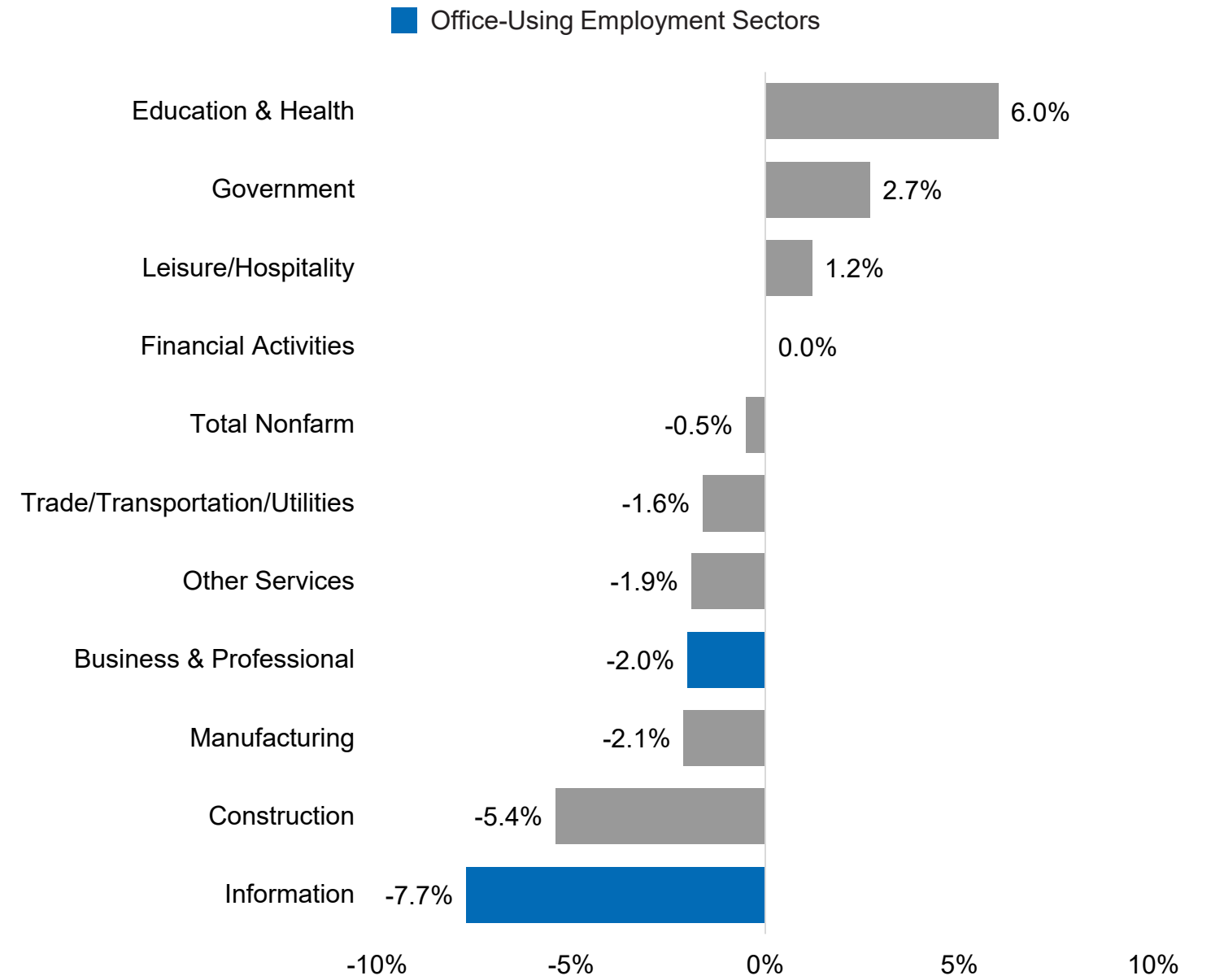
Tech Sector Layoffs Impacting Job Growth in 2024

In step with a rising unemployment rate and falling overall employment, most industries saw negative year-over-year growth, with total nonfarm employment falling by 0.5%. The information sector saw the largest loss of employment year-over-year, likely driven by the ±57,000 tech sector employee layoffs in the first quarter of 2024, as reported by layoff tracker website layoffs.fyi.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

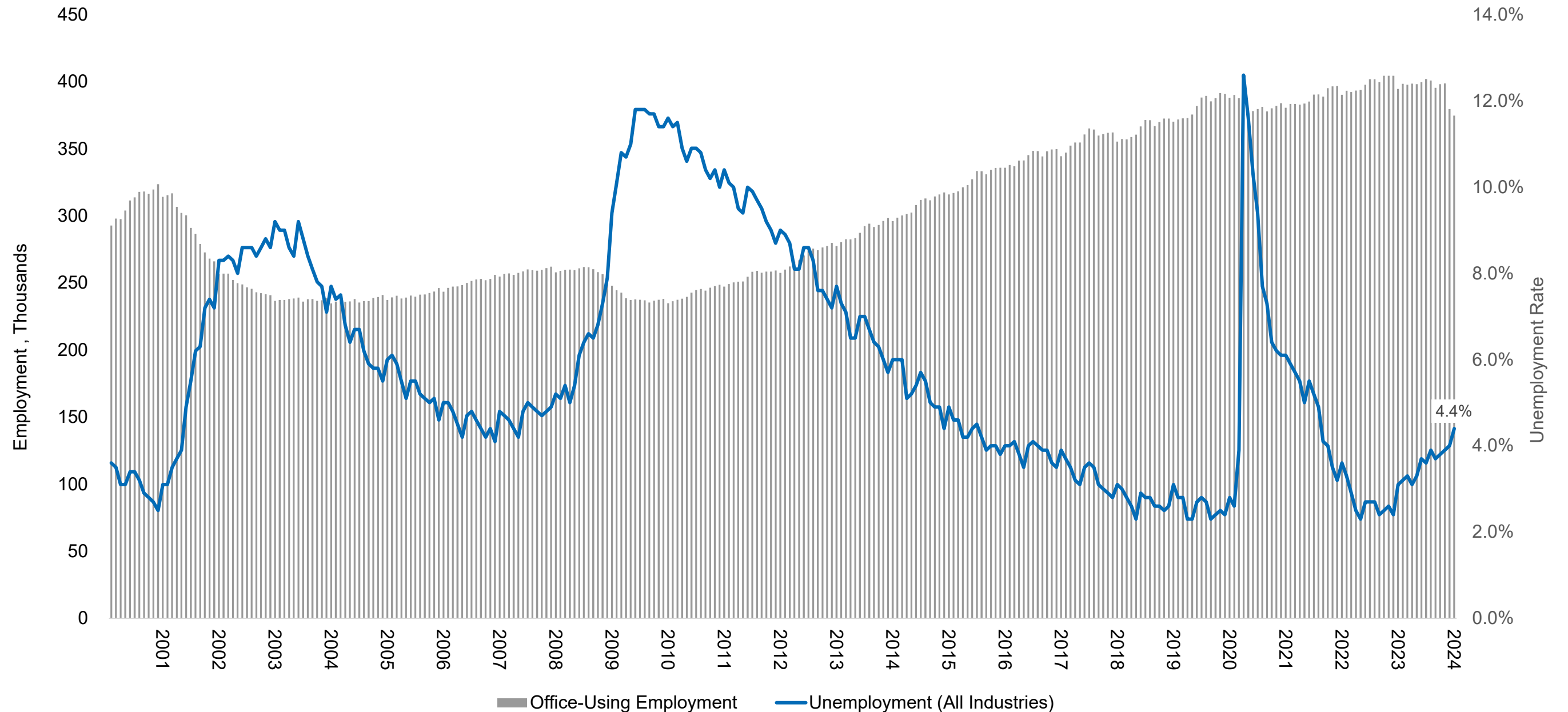


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi
 Note: February 2024 data is preliminary.

Overall Office-Using Employment Declining to Start of 2024

Specific office-using employment began to fall in the first quarter of 2024, falling from ±398,000 to ±375,000 jobs since October 2023, a decrease of 5.7%. Cost cutting in the financial sectors and tech sector hiring freezes, which saw the largest loss among all industries, can be credited for this decrease. Despite this, advancements in the AI sector as well as upcoming national elections could offset this downward trend relatively quickly.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

Note: February 2024 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

1Q24

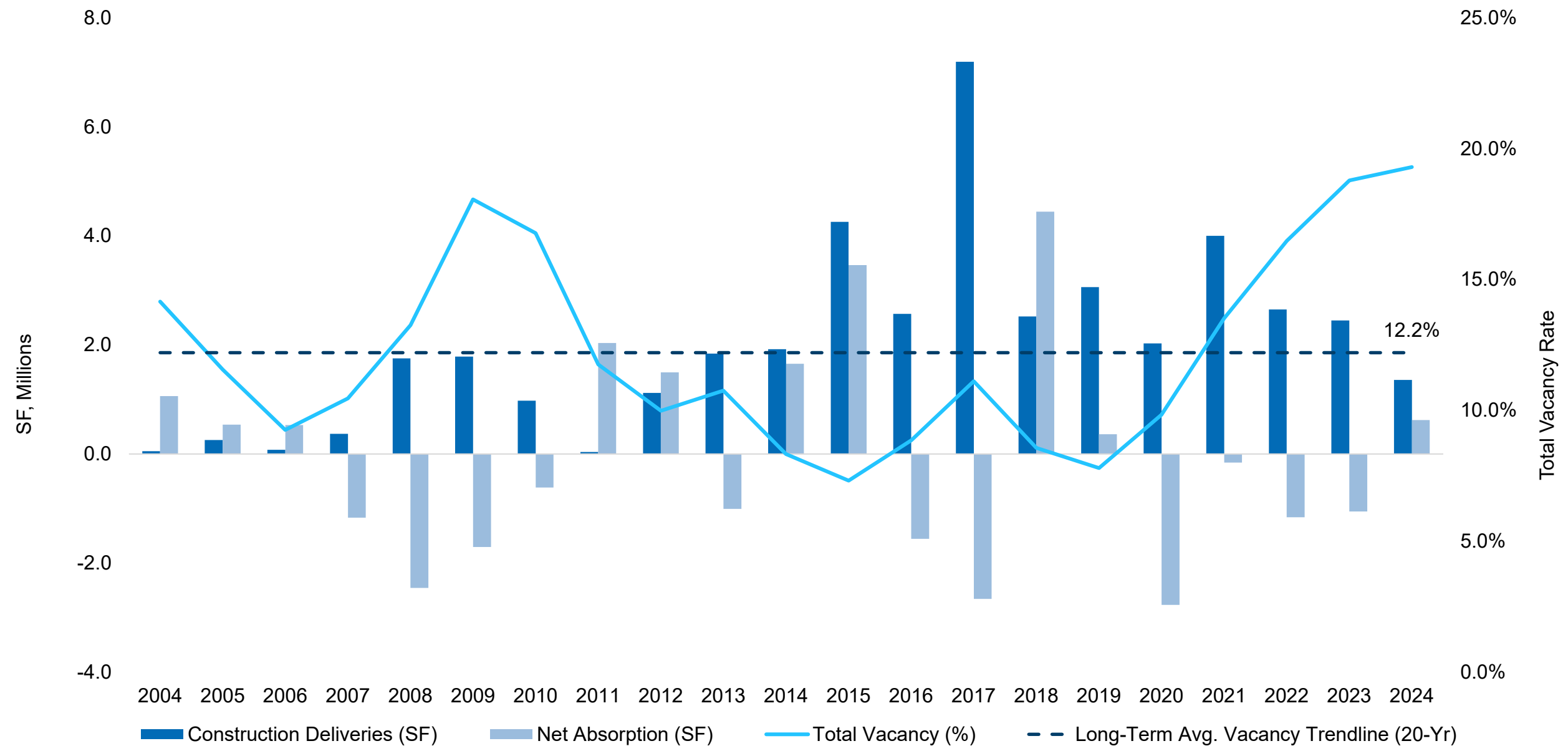
Leasing Market Fundamentals



Vacancy Continues to Rise in 2024 Despite Occupancy Gains

The first quarter saw an increase in the overall vacancy rate to 19.3%, up from 18.8% at the end of 2023, continuing the trend of rising vacancy levels since 2020. Net absorption this quarter, however, was positive due to 1.3 million square feet of construction completions in the Sunnyvale: Google's 1.0 million square foot Caribbean Drive campus and a second building at 399 W. Java Drive, also owned by Google, indicating that despite a net positive amount of occupied square feet, new supply continues to outpace demand.

Historical Construction Deliveries, Net Absorption, and Vacancy

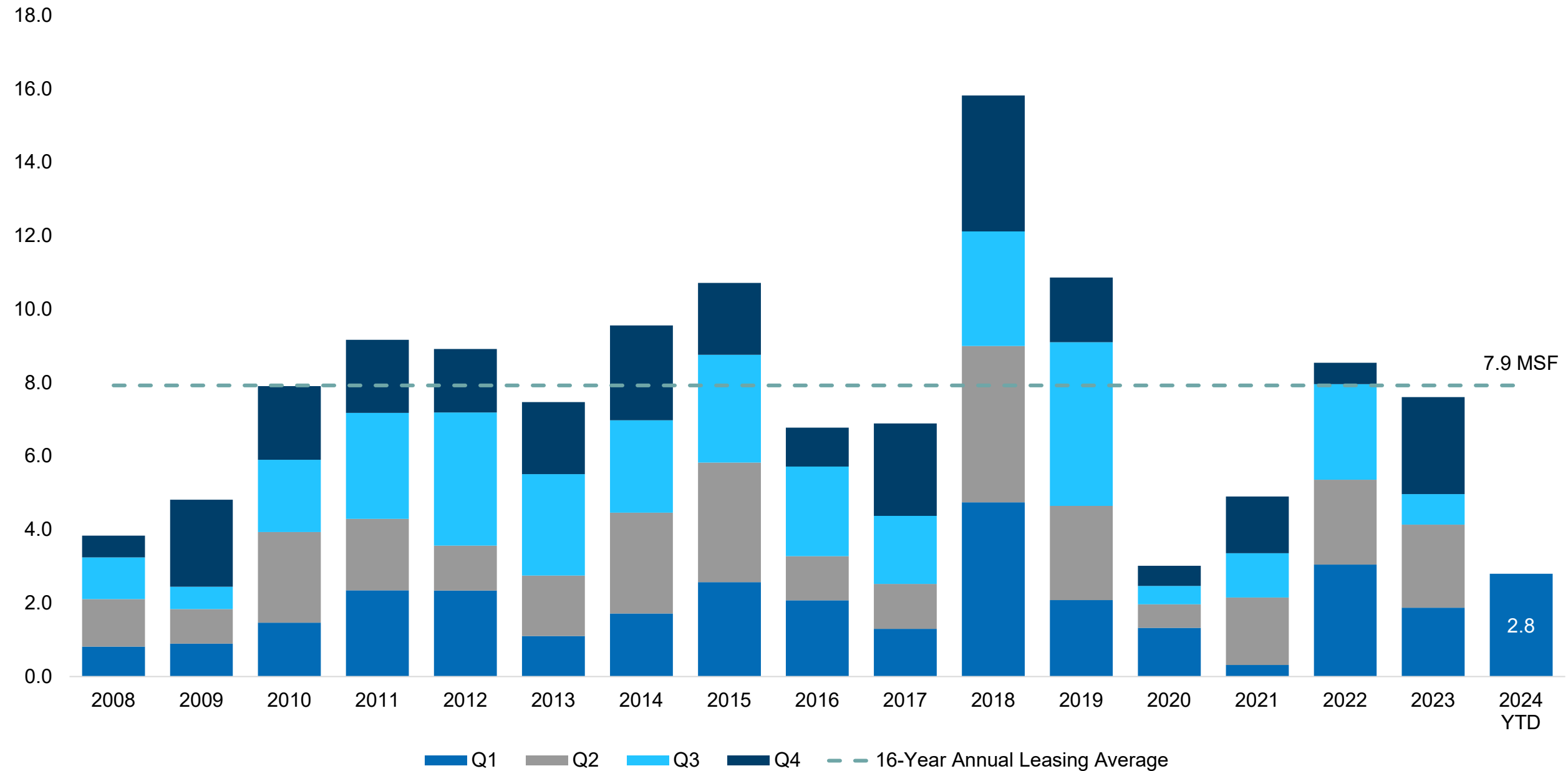


Source: Newmark Research

First Quarter Leasing Stronger Than Prior Year

The deal volume in the first quarter of 2024 has outpaced that of the same period in 2023. Bolstered by Google occupying 1.4 million square feet in Moffett Park, gross absorption exceeded that of the previous quarter by 7.6%. The momentum observed in early 2024 suggests a promising year ahead, with the potential to exceed the 16-year average deal volume of 7.9 million square feet.

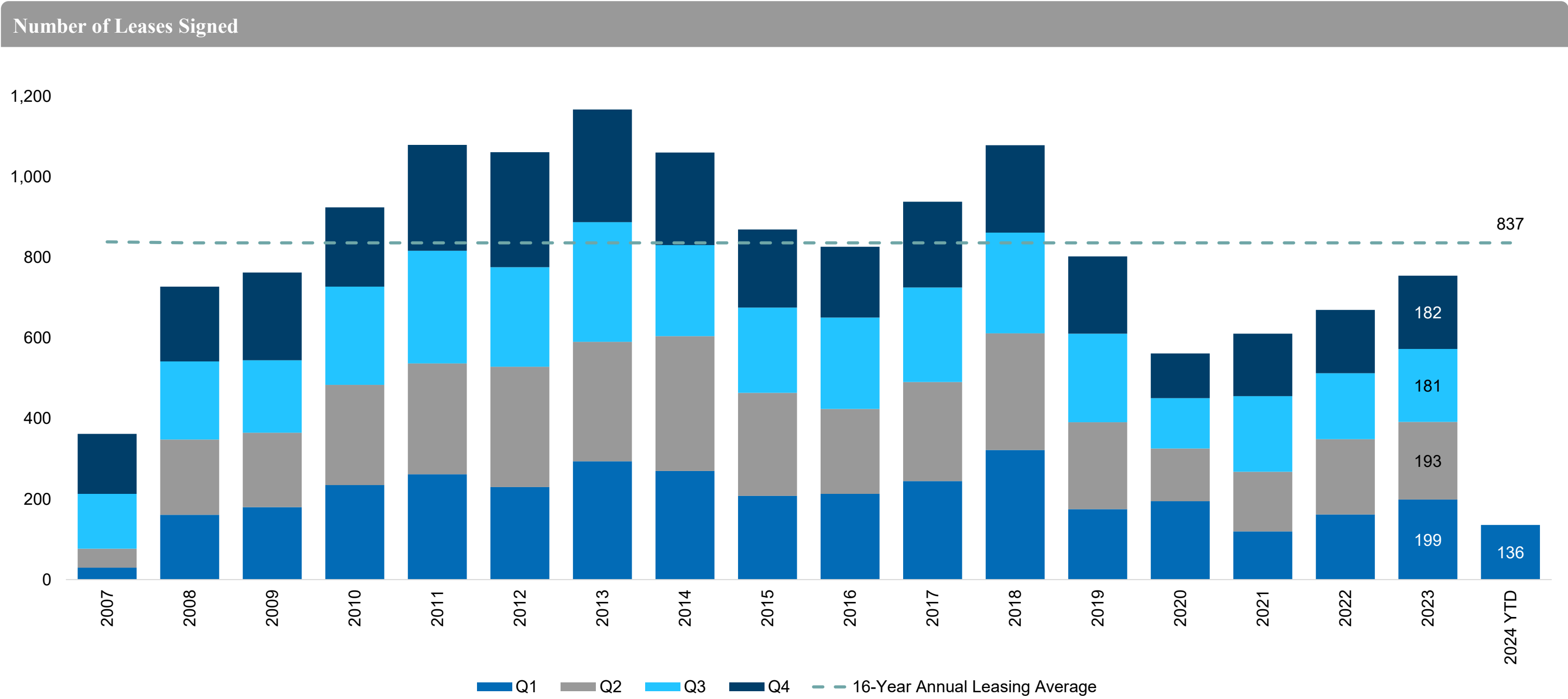
Total Leasing Activity (msf)



Source: Newmark Research, CoStar

Transaction Counts Remain Below Historical Average

This quarter witnessed 136 office transactions, a decrease from the first quarter of 2023. Although the number of transactions remains modest, a higher gross absorption points to an upward trajectory in the overall leasing activity by square footage for 2024 due to construction completions. The trend of gradually rising average transaction counts since 2020 reflects a steady recovery from the pandemic-induced downturn.



Source: Newmark Research, CoStar

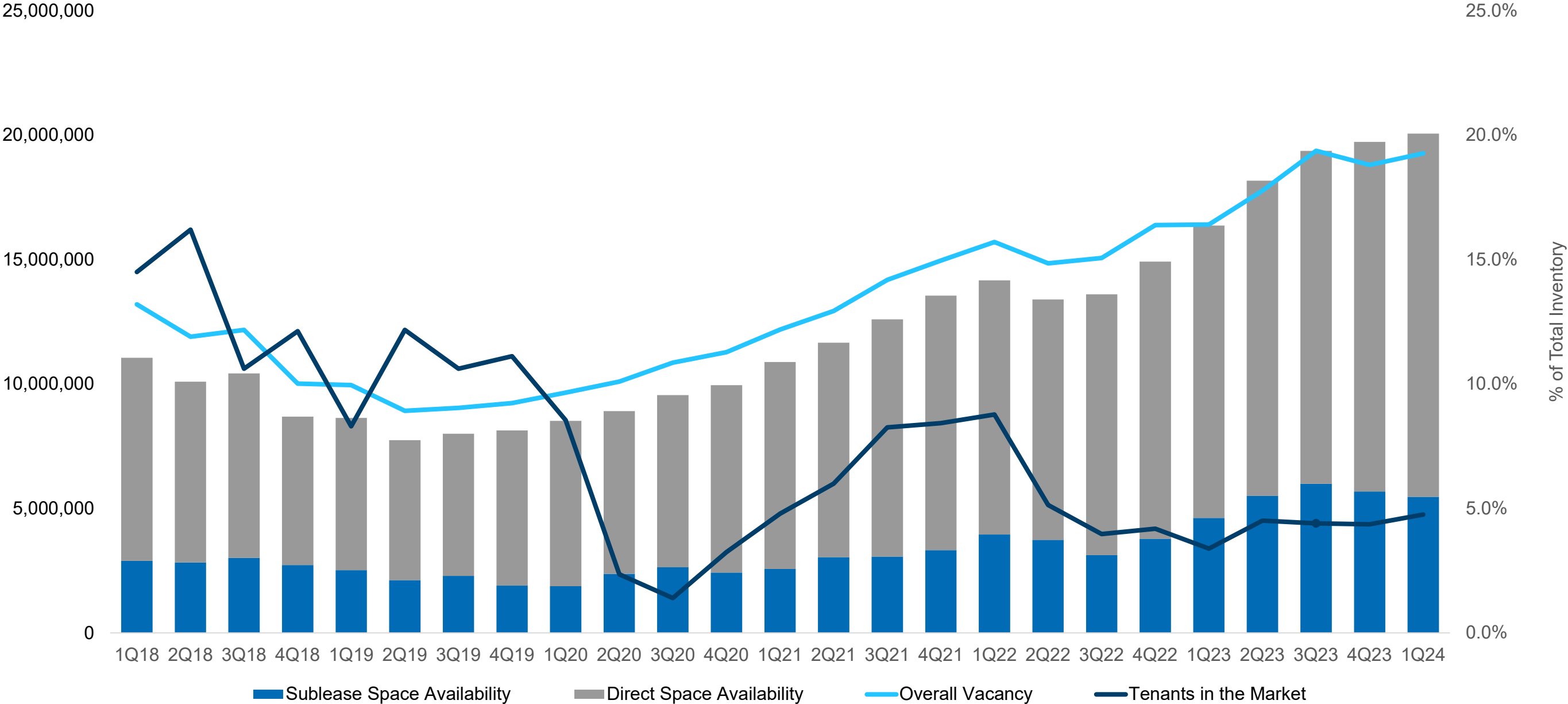


Please reach out to your
Newmark business contact for this information

Supply Continues to Increase Despite Diminishing Sublease Space

Demand from tenant requirements currently comprises of 4.8% of total inventory, a 40-basis point increase quarter-over-quarter as tenant activity increases. Although sublease availability is falling as tenants lease up sublease space, such as Bytedance's 162,557 square foot sublease from Roku, overall vacancy remains at 19.3%, a significantly higher level than tenant demand. Given that requirements are moving very slowly as tenants hold out for reduced rents, this trend of imbalanced supply and demand is not likely to change soon.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

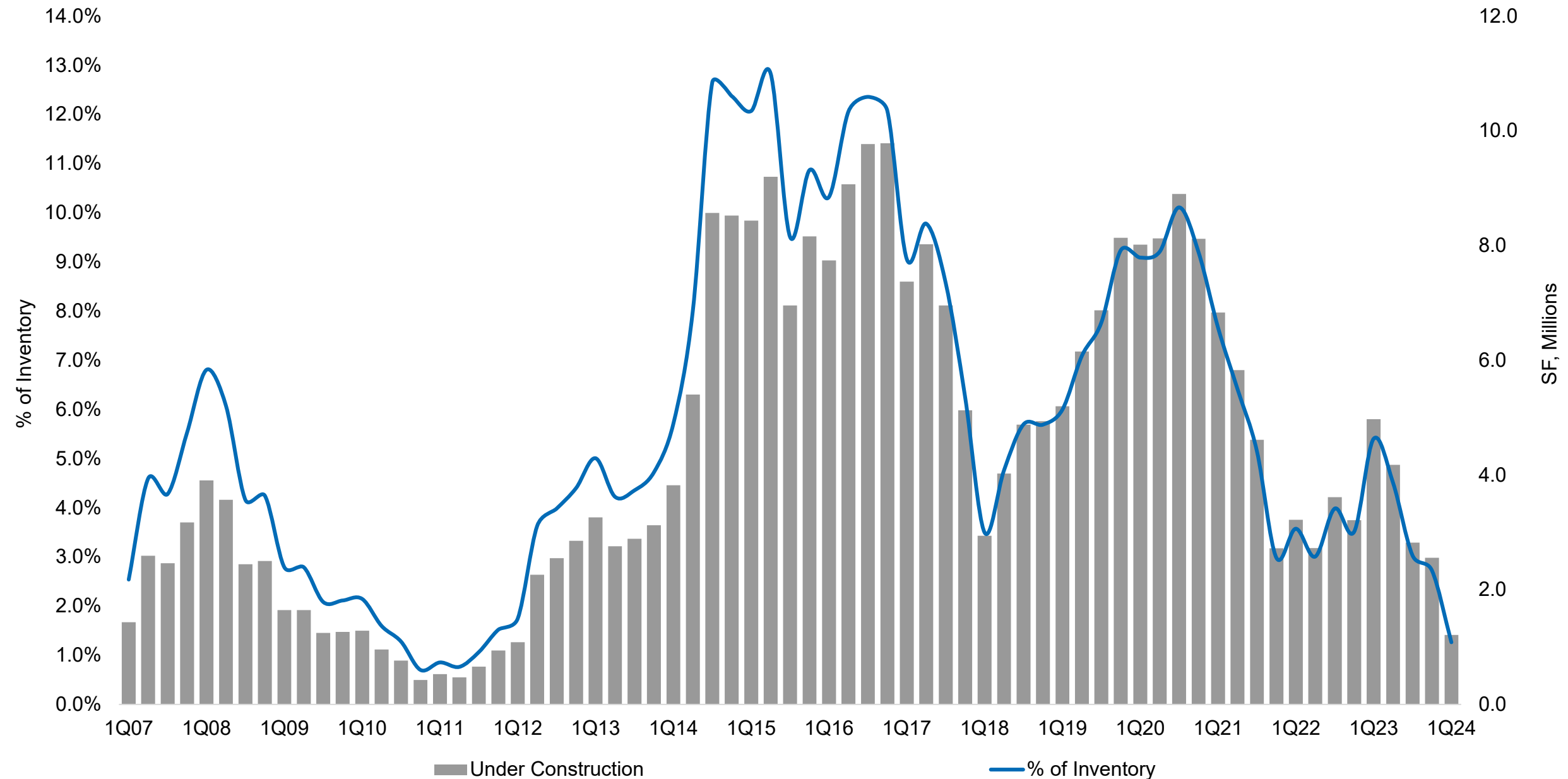


Please reach out to your
Newmark business contact for this information

Office Pipeline Shrinks With No New Construction Starts

The office construction pipeline continued to shrink in size with the delivery of two Google-owned projects in Sunnyvale totaling 1.3 million square feet, bringing the total amount of office space under construction to just 1.2 million square feet. Total inventory is set to expand just 1.3% with the remaining pipeline, its lowest point since 2011. Although there have been many proposals for additional shell space, these projects have been put on hold until tenant demand picks up again.

Office Under Construction and % of Inventory

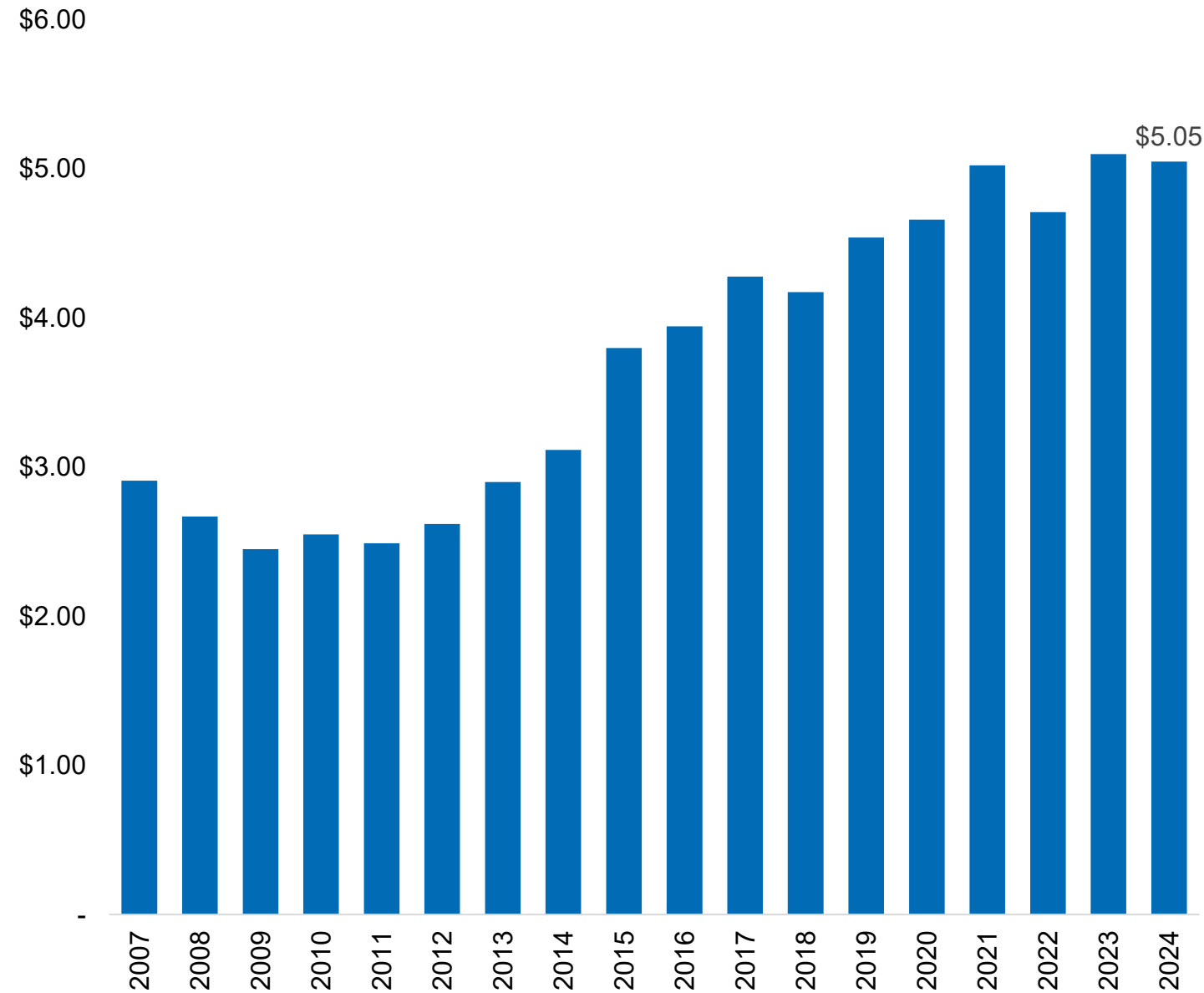


Source: Newmark Research, CoStar, San Jose-Santa Clara-Sunnyvale MSA

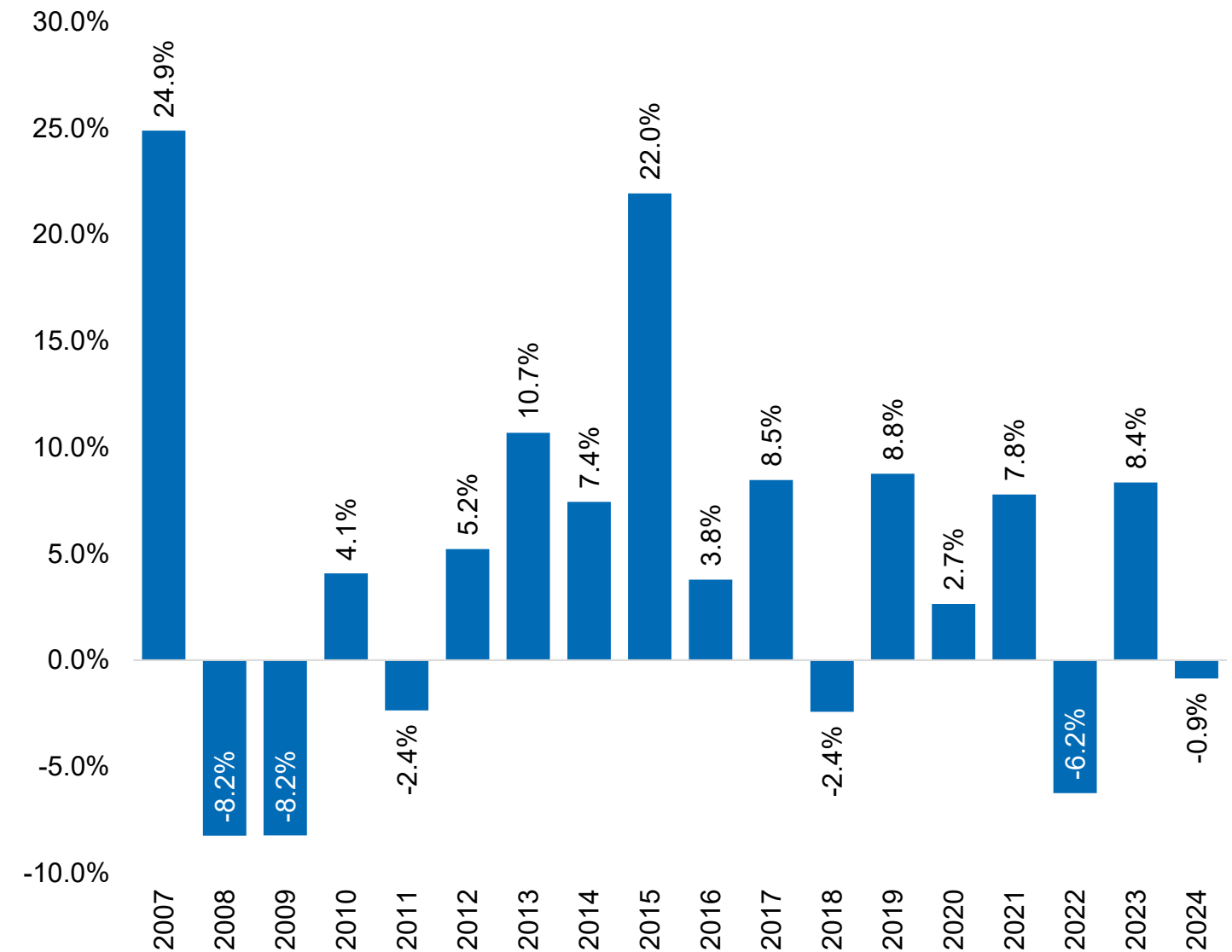
Rents Begin to Fall As Availability Rises

Overall asking rates dropped slightly to \$5.05/SF, a 1.1% decrease quarter-over-quarter, and a 1.7% increase year-over-year. With an increase in supply, rental prices are beginning to decline. Following a period of significant increases in asking rents that ran contrary to the increasing supply throughout 2023, we are now observing a trend towards falling rent prices in 2024.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

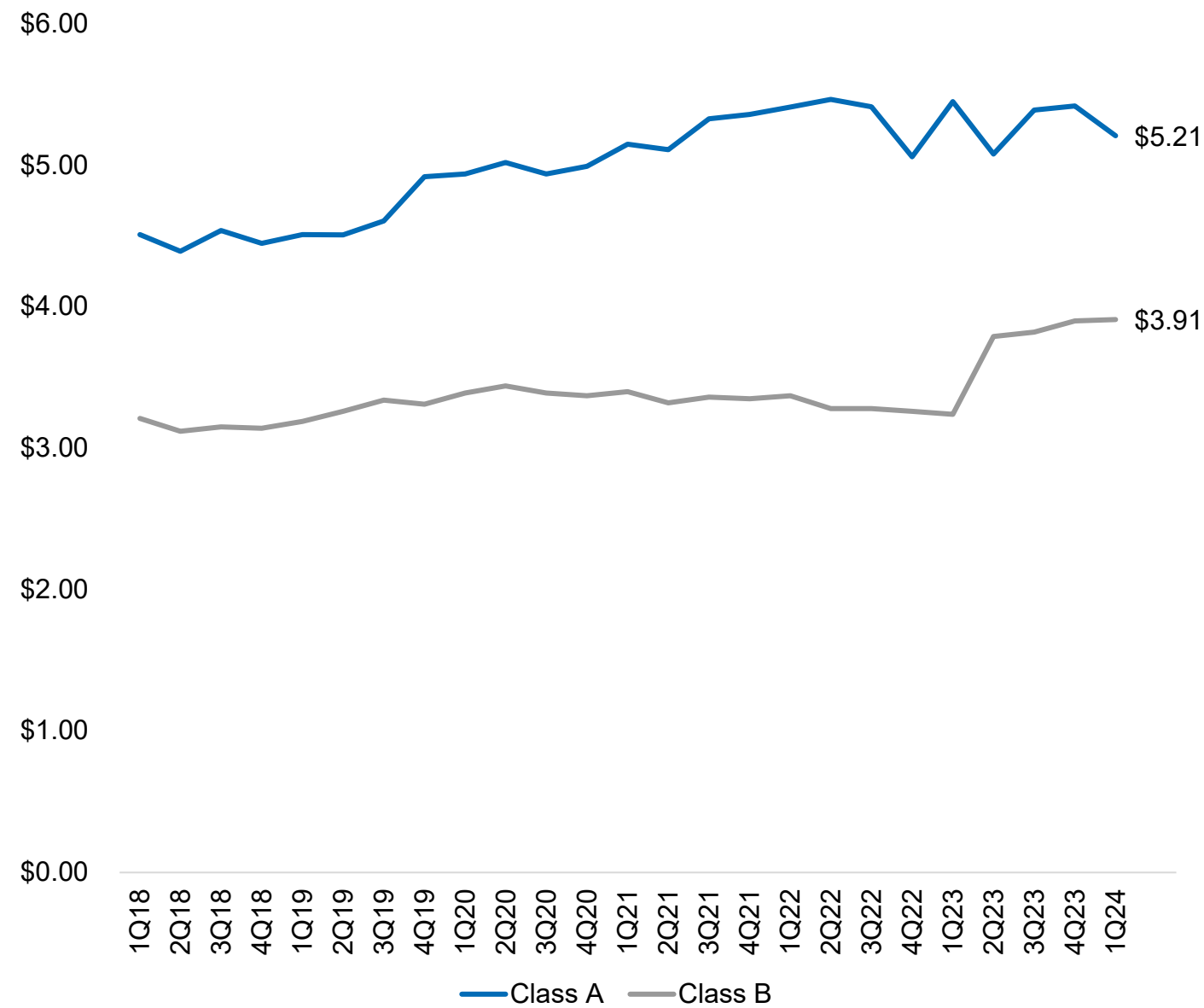


Please reach out to your
Newmark business contact for this information

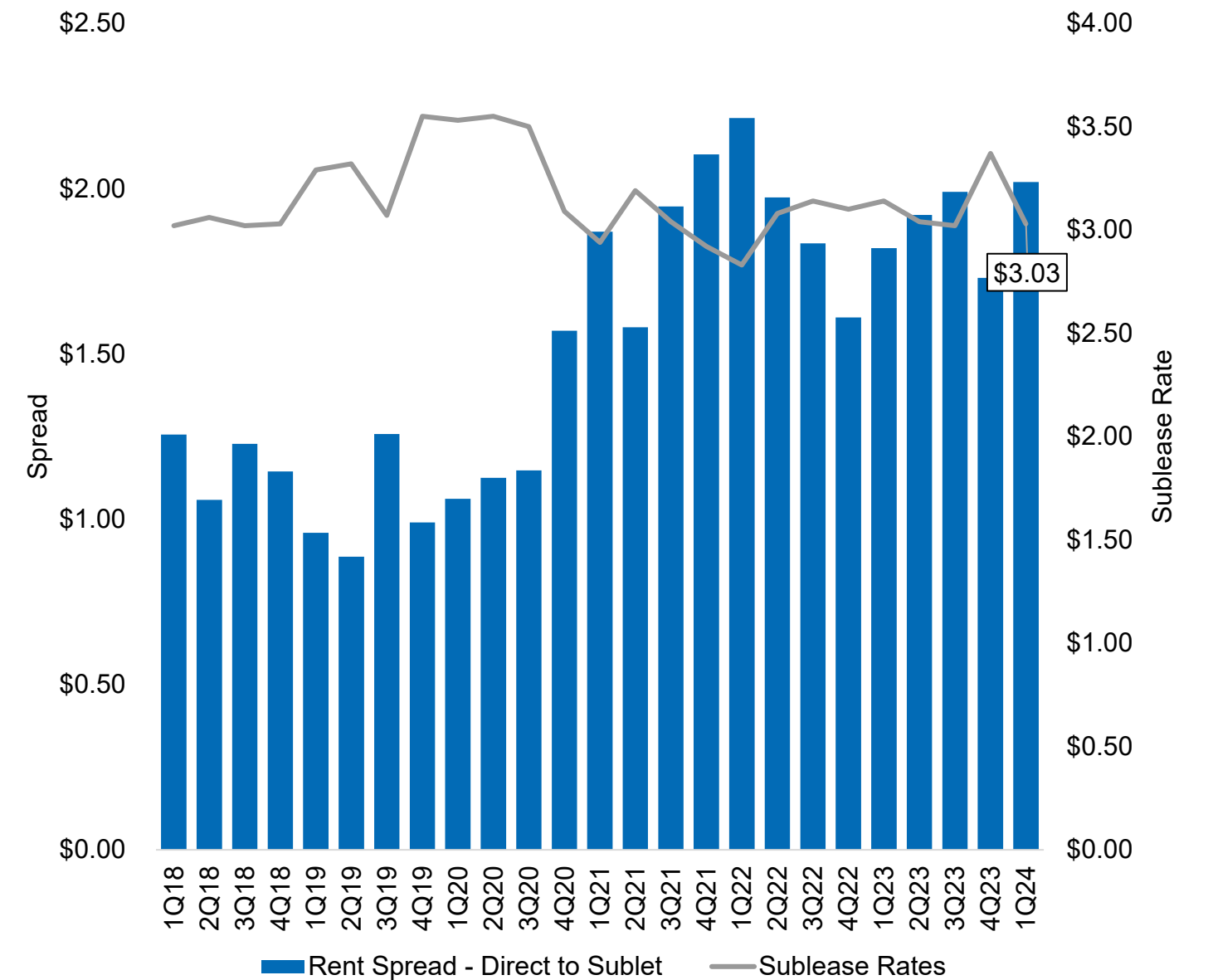
Class A Rents Begin to Soften

Class A rents began to fall in the first quarter of 2024, declining 3.9% quarter-over-quarter to \$5.21/SF, the fact that this movement was mostly seen in Class A rents suggests that the influx of sublease space is finally having impact on the region's rents. Although historically landlords have resisted asking rate adjustments in favor of concessions, in some premier markets such as Mountain View, that no longer seems to be the case. Future rent adjustments are likely going forward.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Several Large Deals Kick Off 2024

The top five transactions in the first quarter of 2024 consisted of a varied mix including one sublease, two direct leases, one lease renewal, and one sublease renewal. Highlighting the quarter's activity are substantial leases by ByteDance and PWC, both exceeding 100,000 square feet: ByteDance subleased ±162,557 square feet from Roku at Coleman Highline, while PWC leased the 6th, 7th, and 8th floors at One Santana West, totaling ±141,023 square feet, becoming the first tenant to occupy an entire floor in the building.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
ByteDance	1143 Coleman Avenue	San Jose – Airport	Sublease	162,557
<i>Sublease. Subleased from Roku; ByteDance now occupies ±820,491 square feet in the Coleman Highline business park and represents one of the new major tech tenants in Silicon Valley.</i>				
PWC	3155 Olsen Drive	San Jose – West	Direct Lease	141,023
<i>New lease. PWC leased three floors at the newly built Santana West. PWC is the first full floor tenant in the project.</i>				
Invensense/TDK	1745 Technology Drive	San Jose – Airport	Lease Renewal	82,159
<i>Renewal/downsize. Invensense, acquired by TDK in 2016, has been in the building since 2013 and previously occupied 6 floors in 2018, but has downsized to 4 floors with their latest renewal.</i>				
NVIDIA	2890 Scott Boulevard	Santa Clara – Central Expressway North	Sublease Renewal	75,000
<i>Sublease renewal. NVIDIA subleased from Huawei originally in 2018, and remains in proximity with its main campus at 2600 San Tomas Expressway.</i>				
San Francisco 49ers	4655 Great America Parkway	Santa Clara – Marriott Park	Direct Lease	52,677
<i>New lease. The San Francisco 49ers took a full floor at 4655 Great America Parkway, past the parking lot of Levi's Stadium.</i>				

4Q23

Appendix





Please reach out to your
Newmark business contact for this information

For more information:

Mike Pham

*Associate Research Director
Silicon Valley Research*

Mike.Pham@nmrk.com

Nu Nandar Aung

*Research Analyst
Silicon Valley Research*

NuNandar.Aung@nmrk.com

Silicon Valley Office

3055 Olin Ave, Ste 2200
San Jose, CA 95128
t 408-727-9600

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK