



RESEARCH 2Q 2021

# Silicon Valley Office Market

## Pre-Pandemic Levels of Leasing Indicate Turning-Point

Silicon Valley's office market saw its seventh consecutive quarter of negative net absorption in the second quarter of 2021, with -725,039 square feet of net absorption. Comparatively, the first quarter ended at -630,456 square feet, and second-quarter 2020 was -825,962 square feet. The year-to-date net absorption now stands at -1.4 million square feet. Leasing velocity has rebounded to pre-pandemic levels with over 1.8 million square feet of gross absorption, which is the highest gross absorption since third-quarter 2019. Overall sublease space continued to increase this quarter to 3.0 million square feet, which is up from roughly 2.6 million square feet at the end of the first quarter.

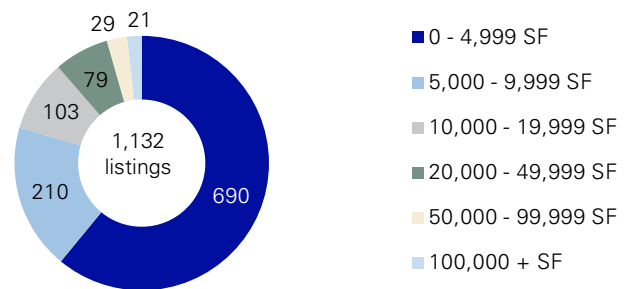
Overall vacancy increased to 12.9%, which is up 75 basis points since the first quarter's 12.2% and up 209 bps year-over-year from 10.1% at the end of second-quarter 2020. Asking rates on a monthly full-service basis dropped \$0.04/SF, from a record high of \$4.81/SF in the first quarter, to \$4.77/SF. This is an increase of \$0.09/SF from \$4.68/SF during second-quarter 2020. Current tracked demand is roughly 7.0 to 8.0 million square feet, which is 80.0% of the 10-year average. Normalization of demand, coupled with employees returning to work are indicators of positive market momentum.

### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Inventory	90.1M	89.3M	88.3M	↑
Vacancy Rate	12.9%	12.2%	10.1%	↓
Qtr Net Absorption	-725K SF	-364K SF	-825K SF	↑
Avg FS Asking Rent	\$4.77/SF	\$4.81/SF	\$4.68/SF	↑
Under Construction	8.3M SF	8.3M SF	8.4M SF	↔

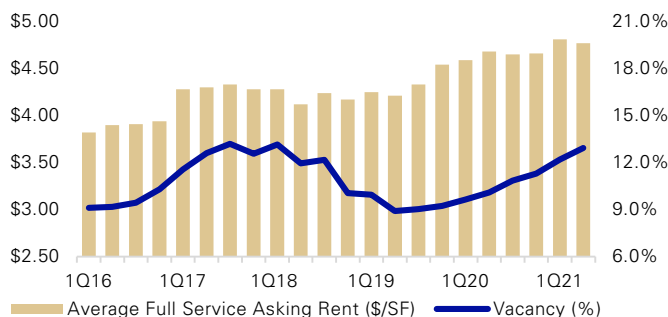
### Market Analysis

#### LEASE VACANCY BREAKDOWN

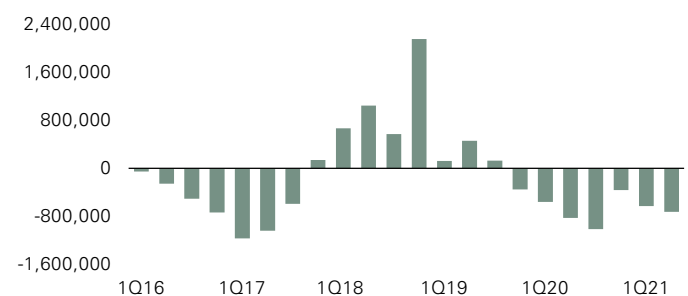


### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



### Submarket Breakdown

Sunnyvale was very active during the second quarter. Peery Park was responsible for the most positive net absorption, with 332,208 square feet of absorption. Conversely, the Moffett Park submarket was responsible for the most negative net absorption with -592,210 square feet. The largest block of space added was the Moffett Green project, totaling over 700,000 square feet. The Cities of Mountain View and Milpitas were the only cities to post positive net absorption with 3,875 square feet and 37,743 square feet, respectively. While only two of the nine cities in Silicon Valley saw positive net absorption this quarter, four of the cities reported improved net absorption numbers since the previous quarter.

Sunnyvale had the largest increase in vacancy rate, which rose 315 bps to 10.8%. Los Gatos has the largest decrease, dropping to 4.06% from 7.17%. Asking rents on a full service, monthly basis remained relatively static during the quarter. Most of the cities' asking rents dropped since last quarter, but Santa Clara increased \$0.15/SF. Mountain View remains the most expensive submarket at \$7.04/SF, and Milpitas offers the most economical space, at \$2.79/SF.

### Significant Transactions

Robust leasing activity returned to the market during the second quarter and was even higher than prior pandemic quarters. Apple was once again responsible for the largest deal of the quarter, taking 698,650 square feet at Pathline Park in Sunnyvale. The deal was for six existing buildings, and one 95,000-square-foot proposed building. NetApp signed the next largest deal of the quarter by taking Splunk's former 301,019-square-foot space at

700 Santana Row. Amazon Web Services closed a deal for 86,995 square feet in Santa Clara at 3075 Olcott Street. Bloom Energy expanded into 48,655 square feet more at 4353 North First Street in San Jose. The Judicial Court of California completed the largest renewal of the quarter, opting to stay in 43,758 square feet at 333 West Santa Clara Street in Downtown San Jose. Finally, Eightfold.AI inked the largest sublease of the quarter with its deal for 32,492 square feet at 2625 Augustine Drive in Santa Clara.

The office investment market was also dynamic this quarter, with large acquisitions throughout the market. The largest investment sale this quarter was Tishman Speyer's purchase from NetApp of Moffett Green in Sunnyvale. The project consists of four buildings totaling over 700,000 square feet on Crossman Avenue, and the sale price was approximately \$508/SF. The next-largest sale was completed by Lane Partners and PIMCO at 488 Almaden Boulevard in San Jose. The 381,000-square-foot building sold for roughly \$407/SF. The third-largest sale completed this quarter was an owner-user deal at 475-485 Alberto Way in Los Gatos. AW Los Gatos LLC, a current tenant, purchased the two buildings totaling 55,604 square feet for an estimated \$472/SF.

The pandemic is not completely over, but there are now signs of growth. Relatively speaking, Silicon Valley endured the pandemic well. Historically, vacancy rates have been higher coming out of a recession, but the vacancy did not spike as expected. Silicon Valley's office negative net absorption may appear bleak on the surface, but the increased gross absorption and tenant demand bodes well for future growth. The strong leasing velocity, more employees going back to the office and increased vaccination rates will look to bolster the market in the future. Silicon Valley is poised to resume pre-pandemic levels of activity.

### Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Apple	Pathline Park: Bldgs 4,5,6,7,8,11	Sunnyvale – Peery Park	Direct Lease	698,650
NetApp	700 Santana Row	San Jose – West	Direct Lease	301,019
Amazon Web Services	3075 Olcott Street	Santa Clara – Cntrl Expwy South	Direct Lease	85,995
Bloom Energy	4353 N First Street	San Jose - North	Direct Lease	48,655
Judicial Court of California	333 Santa Clara Street	San Jose – Downtown	Renewal	43,758

### Select Investment/User Sale Transactions

Building(s)	Submarket	Reported Sale Price	Approx. \$/SF	Square Feet
1275, 1345, 1375, 1395 Crossman Ave	Sunnyvale – Moffett Park	\$365,000,000	\$508	719,037
488 Almaden Blvd	San Jose – Downtown	\$155,000,000	\$407	381,000
475 Alberto Way	Los Gatos	\$26,230,000	\$472	55,604
2 N First Street	San Jose – Downtown	\$14,637,000	\$296	49,440
20 Santa Cruz Avenue	Los Gatos	\$20,800,000	\$447	46,545

## Overall Submarket Statistics

	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Sublease Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total FS Asking Rent (Price/SF)
<b>Campbell</b>	<b>2,491,575</b>	<b>476,646</b>	<b>124,282</b>	<b>19.13%</b>	<b>4.99%</b>	<b>27,349</b>	<b>-11,748</b>	<b>\$4.42</b>
<b>Cupertino</b>	<b>7,409,145</b>	<b>400,769</b>	<b>59,429</b>	<b>5.41%</b>	<b>0.80%</b>	<b>12,923</b>	<b>-319</b>	<b>\$6.19</b>
<b>Los Gatos</b>	<b>2,201,255</b>	<b>89,298</b>	<b>20,248</b>	<b>4.06%</b>	<b>0.92%</b>	<b>5,288</b>	<b>-3,538</b>	<b>\$4.01</b>
<b>Milpitas</b>	<b>1,148,239</b>	<b>108,269</b>	<b>0</b>	<b>9.43%</b>	<b>0.00%</b>	<b>20,591</b>	<b>3,875</b>	<b>\$2.79</b>
East 880	986,950	63,491	0	6.43%	0.00%	13,503	13,503	\$3.00
Oak Creek	161,289	44,778	0	27.76%	0.00%	7,088	-9,628	\$2.51
<b>Mountain View</b>	<b>8,733,770</b>	<b>755,773</b>	<b>359,591</b>	<b>8.65%</b>	<b>4.12%</b>	<b>127,465</b>	<b>37,743</b>	<b>\$7.04</b>
Downtown	1,652,613	321,338	186,998	19.44%	11.32%	33,393	-16,472	\$8.89
Central	352,210	29,690	0	8.43%	0.00%	18,156	18,156	\$5.01
Shoreline	2,927,692	14,835	0	0.51%	0.00%	3,588	1,716	\$4.74
Middlefield	2,338,468	204,829	148,825	8.76%	6.36%	10,401	-5,827	\$4.88
El Camino Corridor	1,462,787	185,081	23,768	12.65%	1.62%	61,927	40,170	\$6.90
<b>San Jose</b>	<b>32,578,711</b>	<b>4,045,880</b>	<b>593,631</b>	<b>12.42%</b>	<b>1.82%</b>	<b>578,672</b>	<b>-107,973</b>	<b>\$4.30</b>
North	7,937,397	692,125	115,277	8.72%	1.45%	69,197	58,199	\$3.88
Trimble South	2,110,220	392,593	13,544	18.60%	0.64%	21,398	-1,852	\$3.20
Int'l Business Park	627,959	8,446	0	1.34%	0.00%	1,244	0	\$2.21
Downtown	10,878,985	1,679,009	313,948	15.43%	2.89%	120,409	-89,934	\$4.54
Airport	5,471,054	558,377	119,073	10.21%	2.18%	29,910	-37,224	\$3.83
South	523,579	22,843	0	4.36%	0.00%	0	-12,967	\$2.51
West	5,029,517	692,487	31,789	13.77%	0.63%	336,514	-24,195	\$5.32
<b>Santa Clara</b>	<b>16,098,504</b>	<b>3,684,406</b>	<b>1,290,438</b>	<b>22.89%</b>	<b>8.02%</b>	<b>320,863</b>	<b>-209,132</b>	<b>\$4.37</b>
Downtown	1,114,126	46,979	8,799	4.22%	0.79%	1,424	1,424	\$2.76
Central Expy N	3,887,022	336,363	260,249	8.65%	6.70%	128,873	29,963	\$4.74
Marriott Park	8,250,520	2,745,472	978,249	33.28%	11.86%	168,658	-261,157	\$4.59
101 North	1,084,912	489,388	13,885	45.11%	1.28%	13,533	13,533	\$2.80
101 South	1,423,783	0	0	0.00%	0.00%	0	0	\$0.00
Central Expy S	338,141	66,204	29,256	19.58%	8.65%	8,375	7,105	\$3.73
<b>Saratoga</b>	<b>368,467</b>	<b>39,884</b>	<b>6,222</b>	<b>10.82%</b>	<b>1.69%</b>	<b>791</b>	<b>-3,109</b>	<b>\$4.40</b>
<b>Sunnyvale</b>	<b>19,103,419</b>	<b>2,062,515</b>	<b>594,736</b>	<b>10.80%</b>	<b>3.11%</b>	<b>740,951</b>	<b>-430,838</b>	<b>\$6.31</b>
Downtown	1,474,081	305,936	75,707	20.75%	5.14%	5,974	-172,676	\$7.25
Peery Park	4,264,593	601,691	407,067	14.11%	9.55%	732,057	332,208	\$6.44
Moffett Park	10,882,744	654,131	0	6.01%	0.00%	0	-592,210	\$5.72
The Woods	186,213	151,931	0	81.59%	0.00%	1,120	1,120	\$6.77
Oakmead	1,698,912	247,114	23,042	14.55%	1.36%	1,800	720	\$5.26
South Central	596,876	101,712	88,920	17.04%	14.90%	0	0	\$5.04
<b>Silicon Valley</b>	<b>90,133,085</b>	<b>11,663,440</b>	<b>3,048,577</b>	<b>12.94%</b>	<b>3.38%</b>	<b>1,834,893</b>	<b>-725,039</b>	<b>\$4.77</b>

## Class A City Statistics

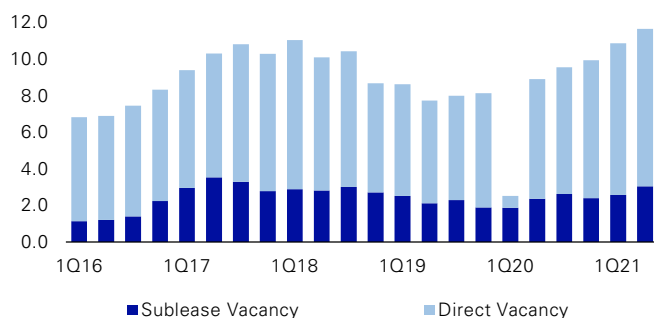
	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Sublease Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total FS Asking Rent (Price/SF)
Campbell	1,063,275	310,102	86,814	29.16%	8.16%	22,038	-1,521	\$4.56
Cupertino	6,284,999	317,521	52,796	5.05%	0.84%	0	-7,297	\$6.47
Los Gatos	869,110	29,782	2,424	3.43%	0.28%	0	0	\$4.04
Milpitas	392,657	78,519	0	20.00%	0.00%	20,591	3,875	\$2.45
Mountain View	6,463,955	571,226	332,591	8.84%	5.15%	68,297	21,927	\$6.90
San Jose	20,017,506	2,728,110	445,850	13.63%	2.23%	510,475	-78,319	\$4.57
Santa Clara	11,896,987	2,635,566	1,090,587	22.15%	9.17%	284,520	-213,344	\$4.74
Saratoga	100,529	25,069	2,427	24.94%	2.41%	0	0	\$4.83
Sunnyvale	17,734,717	1,933,091	566,862	10.90%	3.20%	732,057	-437,457	\$6.44
<b>Silicon Valley</b>	<b>64,823,735</b>	<b>8,628,986</b>	<b>2,580,351</b>	<b>13.31%</b>	<b>3.98%</b>	<b>1,637,978</b>	<b>-712,136</b>	<b>\$5.11</b>

## Class B City Statistics

	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Sublease Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total FS Asking Rent (Price/SF)
Campbell	982,169	151,270	31,407	15.40%	3.20%	5,311	-10,227	\$4.24
Cupertino	811,424	70,872	3,245	8.73%	0.40%	6,003	58	\$4.96
Los Gatos	955,445	56,247	17,824	5.89%	1.87%	5,288	-3,538	\$4.01
Milpitas	518,638	29,750	0	5.74%	0.00%	0	0	\$3.65
Mountain View	2,220,726	175,886	27,000	7.92%	1.22%	59,268	14,516	\$5.71
San Jose	9,619,596	1,131,367	132,441	11.76%	1.38%	60,504	-36,282	\$3.79
Santa Clara	3,602,601	1,017,499	190,789	28.24%	5.30%	36,343	4,212	\$3.32
Saratoga	204,388	8,656	3,795	4.24%	1.86%	791	791	\$3.66
Sunnyvale	1,039,991	125,904	27,874	12.11%	2.68%	7,094	5,899	\$4.65
<b>Silicon Valley</b>	<b>19,954,978</b>	<b>2,767,451</b>	<b>434,375</b>	<b>13.87%</b>	<b>2.18%</b>	<b>180,602</b>	<b>-24,571</b>	<b>\$3.82</b>

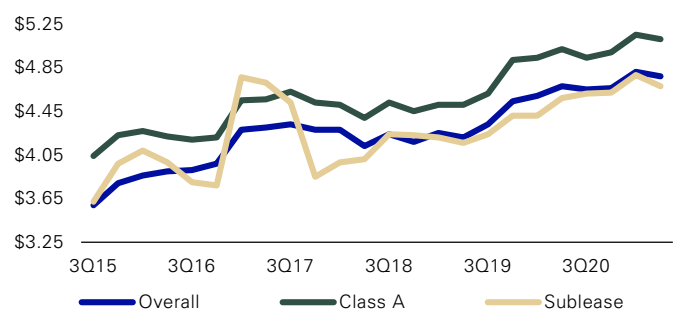
## Vacancy Breakdown

SQUARE FEET, MILLIONS



## Asking Rents

WEIGHTED, FULL SERVICE, MONTHLY



Historical Vacancy Rates								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
<b>Silicon Valley</b>	<b>9.04%</b>	<b>9.24%</b>	<b>9.66%</b>	<b>10.10%</b>	<b>10.86%</b>	<b>11.28%</b>	<b>12.19%</b>	<b>12.94%</b>
Campbell	15.72%	16.06%	12.79%	15.17%	17.08%	18.21%	19.29%	19.13%
Cupertino	2.46%	2.40%	4.41%	4.82%	5.55%	5.75%	5.33%	5.41%
Los Gatos	3.81%	3.82%	6.91%	6.98%	7.23%	7.31%	7.17%	4.06%
Milpitas	6.71%	7.11%	7.45%	6.47%	8.39%	9.07%	9.71%	9.43%
Mountain View	7.97%	9.23%	7.49%	9.85%	10.13%	8.17%	10.46%	8.65%
San Jose	9.27%	9.48%	10.24%	10.10%	10.59%	10.79%	12.18%	12.42%
Santa Clara	19.66%	17.83%	18.38%	17.44%	19.38%	20.31%	21.29%	22.89%
Saratoga	2.26%	2.26%	7.51%	7.51%	8.92%	11.35%	9.98%	10.82%
Sunnyvale	2.11%	3.86%	4.12%	5.79%	6.05%	7.56%	7.65%	10.80%
Historical Full Service Asking Rents								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
<b>Silicon Valley</b>	<b>\$4.33</b>	<b>\$4.54</b>	<b>\$4.59</b>	<b>\$4.68</b>	<b>\$4.65</b>	<b>\$4.66</b>	<b>\$4.81</b>	<b>\$4.77</b>
Campbell	\$4.05	\$3.97	\$4.31	\$4.41	\$4.46	\$4.36	\$4.38	\$4.42
Cupertino	\$5.35	\$5.45	\$6.26	\$6.23	\$6.25	\$6.17	\$6.22	\$6.19
Los Gatos	\$3.90	\$3.96	\$5.73	\$5.98	\$5.81	\$5.64	\$5.68	\$4.01
Milpitas	\$2.98	\$3.04	\$3.04	\$3.12	\$2.90	\$2.89	\$2.74	\$2.79
Mountain View	\$7.24	\$6.92	\$6.55	\$6.36	\$6.67	\$6.93	\$7.01	\$7.04
San Jose	\$3.87	\$3.88	\$4.06	\$4.03	\$4.06	\$4.05	\$4.32	\$4.30
Santa Clara	\$4.05	\$4.27	\$4.20	\$4.30	\$4.26	\$4.22	\$4.21	\$4.37
Saratoga	\$3.07	\$3.07	\$4.45	\$4.45	\$4.40	\$4.37	\$4.53	\$4.40
Sunnyvale	\$5.77	\$6.12	\$5.79	\$5.95	\$5.99	\$6.28	\$6.32	\$6.31

Historical Net Absorption								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
<b>Silicon Valley</b>	<b>129,780</b>	<b>-350,574</b>	<b>-561,624</b>	<b>-825,962</b>	<b>-1,015,569</b>	<b>-364,215</b>	<b>-630,456</b>	<b>-725,039</b>
Campbell	188,136	-25,138	29,571	-95,942	-59,502	-28,180	-29,802	-11,748
Cupertino	-43,926	-6,031	-146,122	-32,314	-71,792	-14,379	16,441	-319
Los Gatos	-4,935	-183	-67,241	-7,583	-8,282	-1,837	1,787	-3,538
Milpitas	620	-4,649	-3,926	-13,628	-33,247	-7,717	-7,409	3,875
Mountain View	-260,433	-115,072	161,820	-219,194	-44,603	109,623	-204,530	37,743
San Jose	612,147	-31,356	-289,306	-130,680	-253,811	-105,891	-229,943	-107,973
Santa Clara	-241,843	158,684	-173,202	-77,151	-489,992	-214,797	-159,146	-209,132
Saratoga	1,400	0	0	0	-5,175	-5,685	0	-3,109
Sunnyvale	-121,386	-326,829	-73,218	-249,470	-49,165	-95,352	-17,854	-430,838
Historical Gross Absorption								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
<b>Silicon Valley</b>	<b>4,458,232</b>	<b>1,756,802</b>	<b>1,330,414</b>	<b>637,987</b>	<b>499,565</b>	<b>552,190</b>	<b>319,483</b>	<b>1,834,893</b>
Campbell	254,255	54,292	76,465	26,230	33,192	14,391	41,751	27,349
Cupertino	353,092	26,400	96,483	43,354	17,327	28,612	71,128	12,923
Los Gatos	168,793	13,917	21,714	0	15,771	32,646	23,114	5,288
Milpitas	6,319	6,804	7,910	3,286	6,561	2,307	1,358	20,591
Mountain View	168,564	92,941	312,333	60,991	31,629	186,013	19,986	127,465
San Jose	1,541,259	593,390	505,211	253,219	251,402	198,376	104,647	578,672
Santa Clara	212,165	601,966	161,253	221,129	121,609	83,089	48,424	320,863
Saratoga	1,400	0	0	0	19,529	397	0	791
Sunnyvale	1,752,385	367,092	149,045	29,778	2,545	6,359	9,075	740,951



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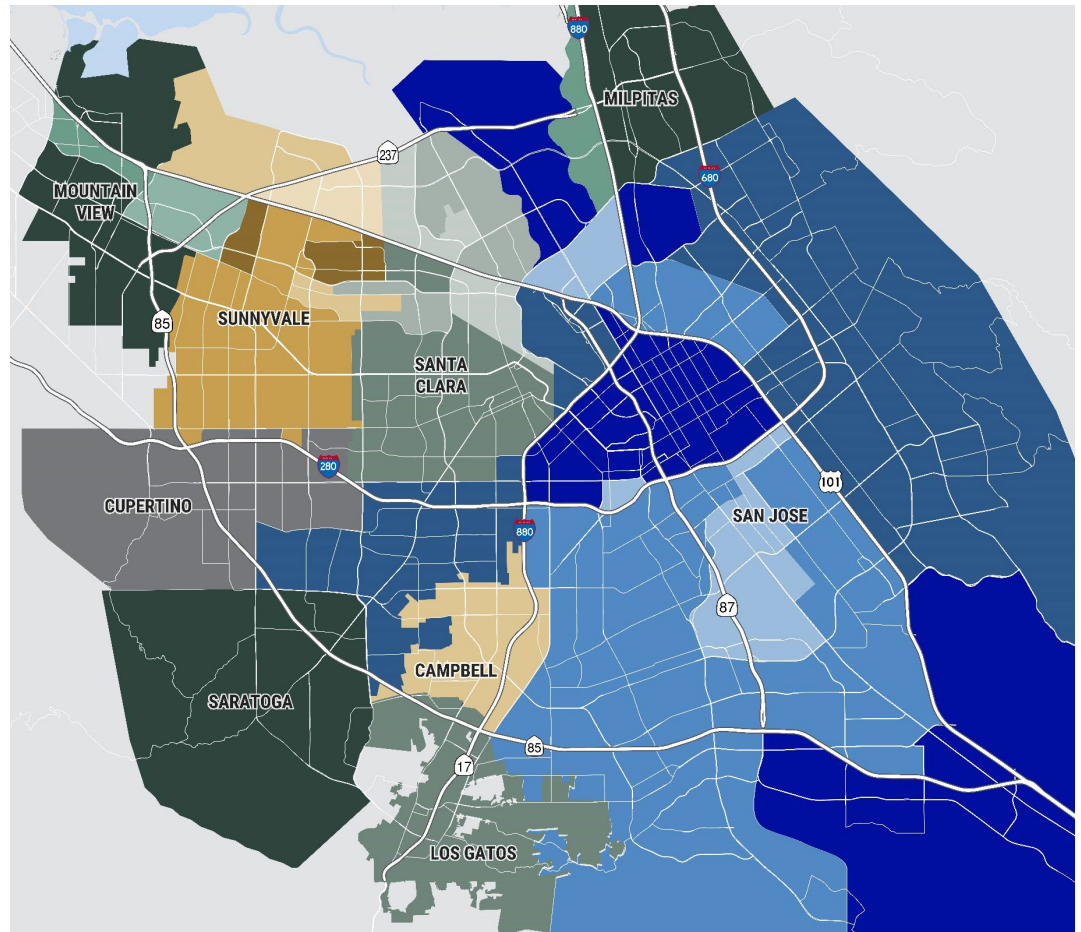
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