

4Q23

# Silicon Valley Office Market Overview



NEWMARK

# Market Observations

## Economy

- The region's labor market remained stable in the fourth quarter of 2023, holding at 3.9% quarter-over-quarter while the national unemployment rate fell 10 basis points to 3.7%. Though trailing the national average, local unemployment remains below the 10-year average of 4.3%.
- Year-over-year, job gains have been most pronounced in the leisure/hospitality industry, which is still making up for lost ground during the pandemic. Leisure/hospitality led all sectors in job gains during the past 12 months and has done so in the past three quarters.
- Office-using employment fell slightly this quarter, with financial and business & professional sectors seeing 1.4% negative growth year-over-year. The total civilian labor force remains mostly stable, however, with a 0.2% decline year-over-year.

## Major Transactions

- The largest transaction of the fourth quarter took place in Sunnyvale, where Walmart.com subleased  $\pm$  719,000 SF from Meta Platforms in what was also the largest transaction of the 2023. The 4-building complex has been vacant since the start of the year.
- Several new subleases vacated this quarter, the largest being Roku's 194,549 SF sublease in the San Jose – Airport submarket and Proofpoint's 121,200 SF sublease in Sunnyvale - Peery Park.
- The construction pipeline fell to  $\pm$  2.5 million SF this quarter following 264,700 SF of completions this quarter. Much of the new construction in the region is centered in Sunnyvale, which encompasses 84.4% of the total construction pipeline.

## Leasing Market Fundamentals

- Absorption in the fourth quarter of 2023 totaled positive 676,054 SF, snapping a five-quarter streak of occupancy losses. Overall vacancy rate fell quarter-over-quarter from 19.5% to 18.8%, however, with net absorption measuring negative 1.1 million SF on the year, vacancy remains at a historically high level, surpassed only by the 20.1% availability rate seen in 2010.
- Following Walmart.com subleasing  $\pm$  719,000 SF from Meta Platforms in Sunnyvale, sublease space constitutes 28.8% of all available space, down from 31.0% in the previous quarter.
- Asking lease rates throughout the region increased from \$5.01/SF to \$5.10/SF full service quarter-over-quarter and represents an 8.3% increase year-over-year. This increase was driven by an increase in asking rents in San Jose and Santa Clara, two of the largest submarkets in the Valley.

## Outlook

- Although strengthened this quarter by several large block deals, rising interest rates and the accompanying investment pullback has caused uncertainty among occupiers that is unlikely to abate in the immediate future.
- Despite the hope for an "AI boom", vacancy is still increasing throughout the Valley as many AI tenants flock to San Francisco. Due to many tech tenants consolidating operations, it's likely that vacancy will continue to rise in coming quarters.
- Rents will continue to be volatile as new sublease space continues to enter the market. Although opportunities do exist, many tenants are holding out for better rents. Investor interest in the region has similarly paused due to ongoing economic uncertainty, though buildings with credit tenants will always remain a popular option.

1. Economy
2. Leasing Market Fundamentals
3. Appendix



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# Economy

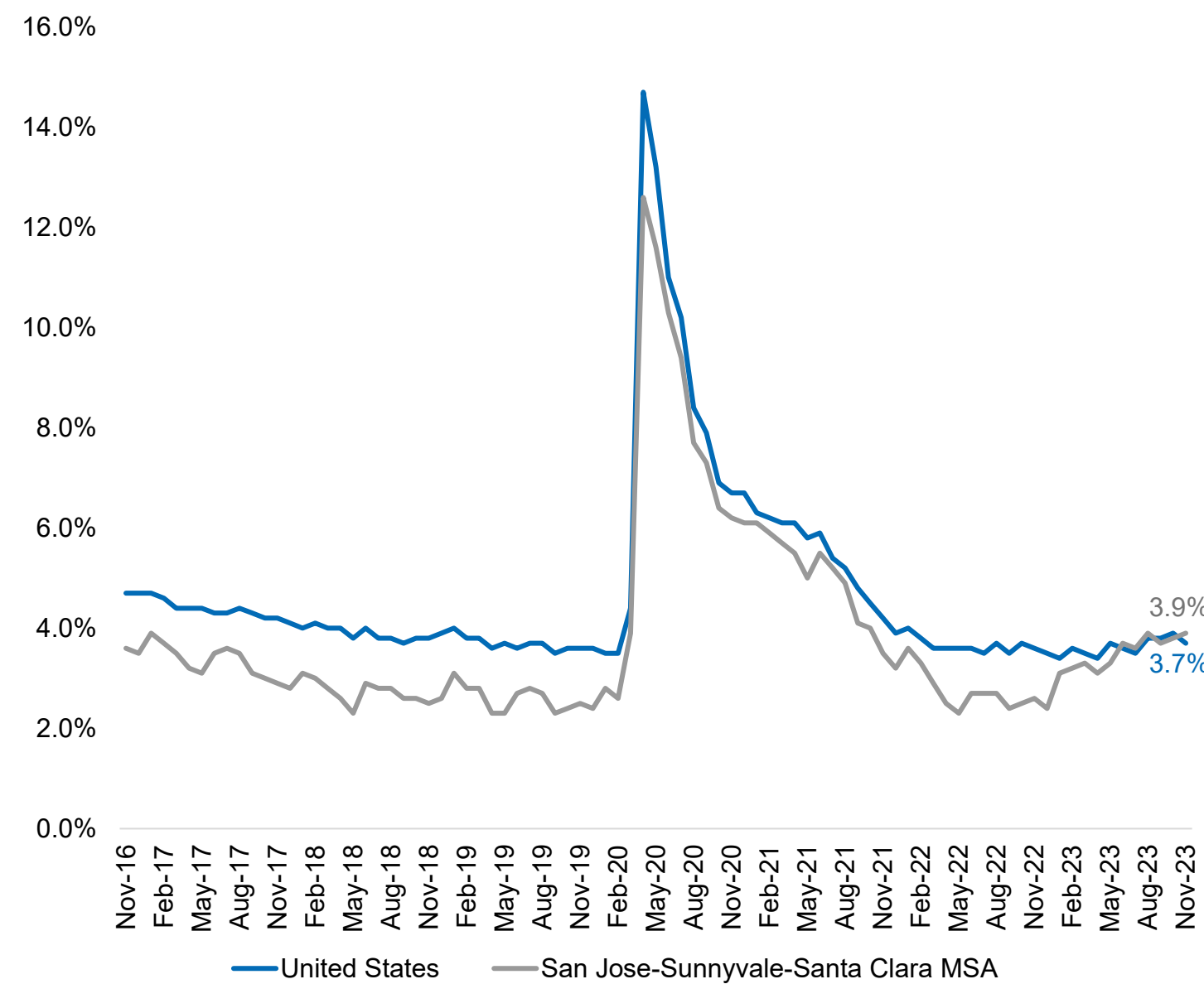




# Metro Employment Trends Indicate a Slower Recovery Compared Nationally

The San Jose-Sunnyvale-Santa Clara MSA’s overall unemployment rate rose for the third consecutive quarter to 3.9%, trending slightly higher than the national average of 3.7%. Though Santa Clara County has historically outperformed the US average, tech sector layoffs have caused companies to hit pause on hiring, tapering growth at the end of 2023.

Unemployment Rate, Seasonally Adjusted



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

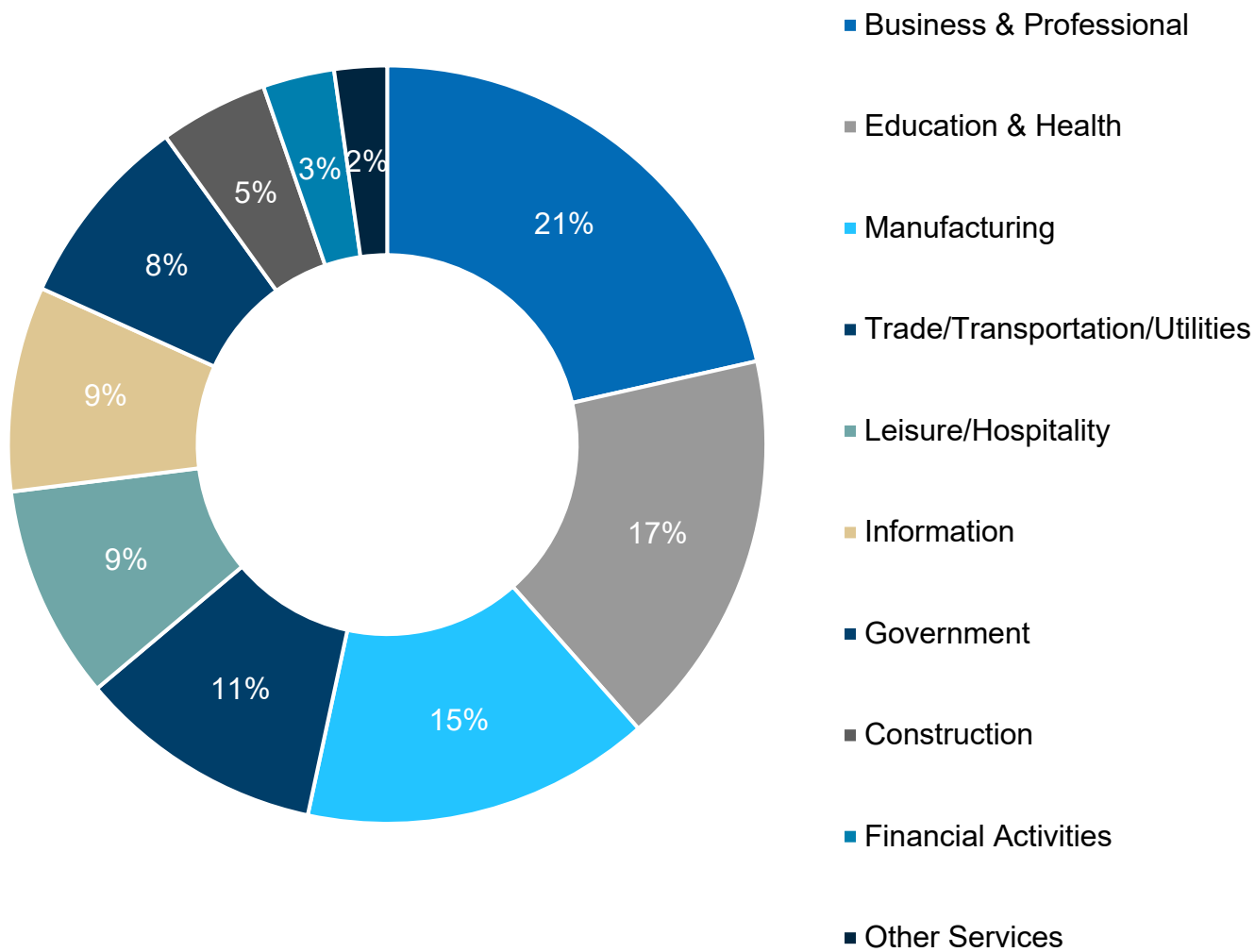


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale  
Note: November 2023 data is preliminary.

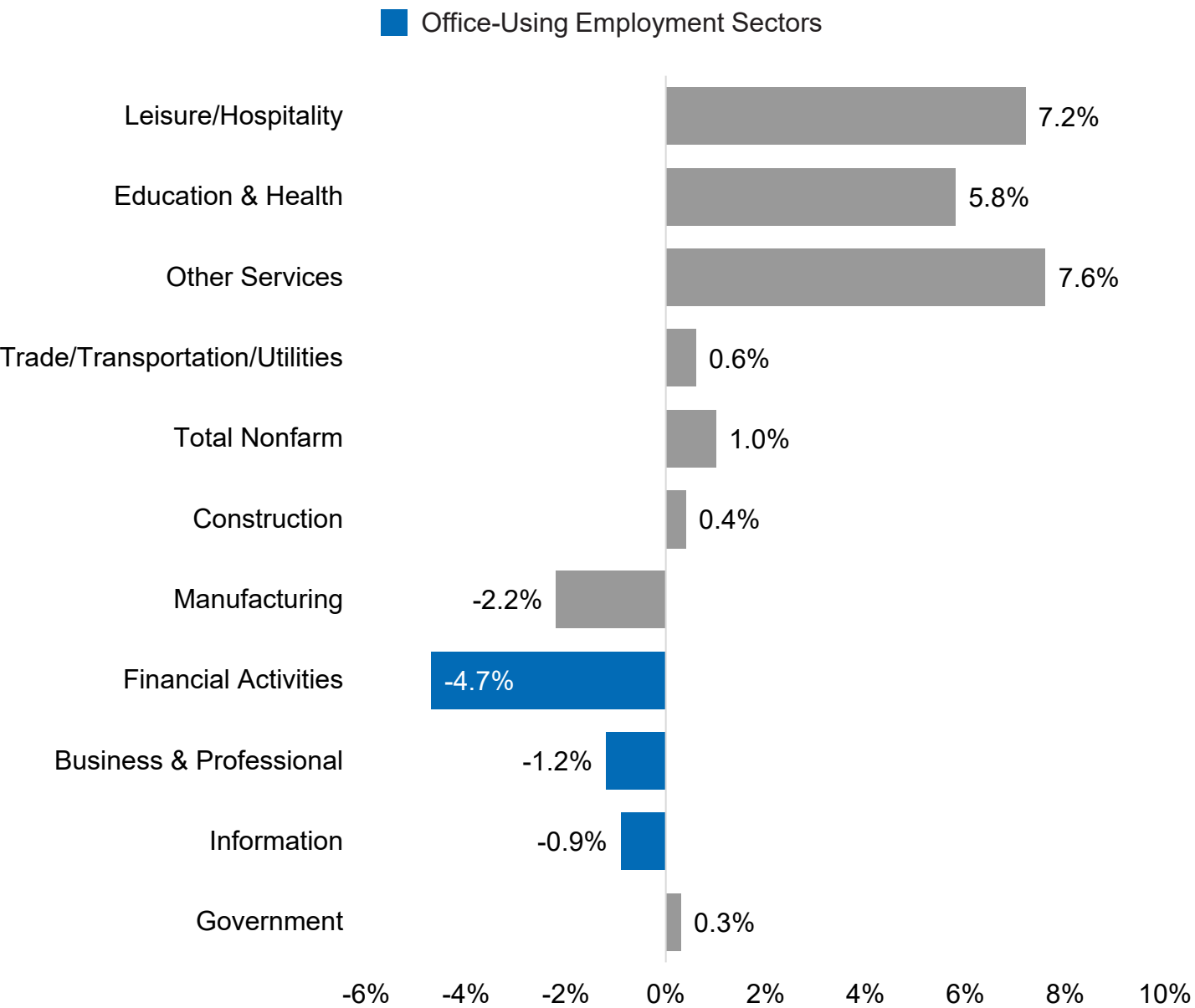
# Financial Activities Sector Sees Slowdown at End of Year

In step with a rising unemployment rate, several industries this quarter saw negative year-over-year growth, with the financial activities sector seeing the largest loss of employment year-over-year. The leisure/hospitality sector, however, consistently saw growth throughout 2023, as in-person dining and retail gradually returned to the region following the pandemic.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023

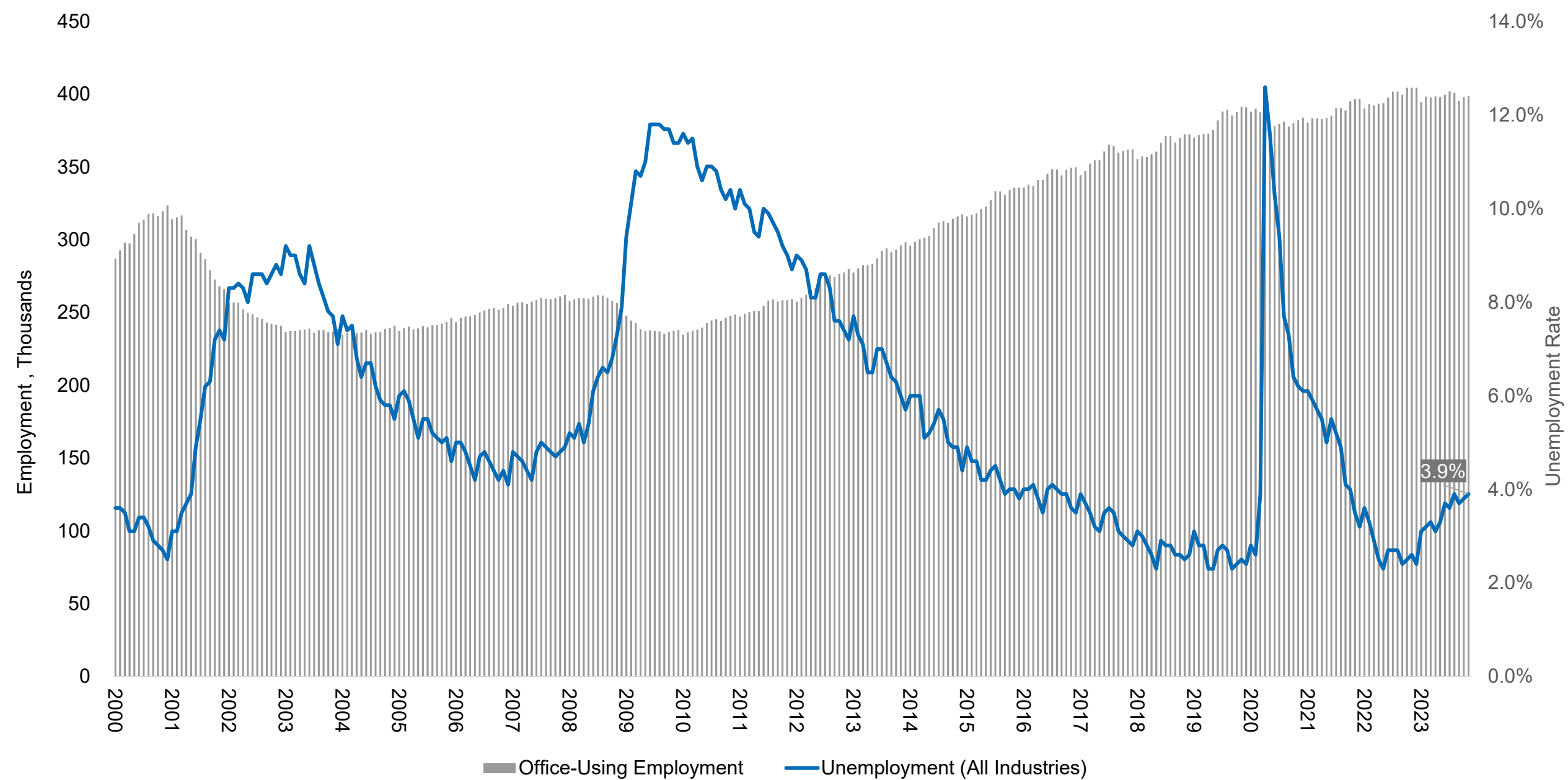


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale  
Note: November 2023 data is preliminary.

# Overall Office-Using Employment Falling

Following an impressive rebound back to pre-pandemic levels, office-using employment pulled back slightly in 2023, decreasing 1.4% to 398,700 jobs. This decrease can be attributed to tech sector pullbacks as well as cost cutting in the financial sector, which saw the largest loss among all industries – two of the region’s major industries. Given the dynamic nature of these industries, however, a rebound is expected in the near-term.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale  
Note: November 2023 data is preliminary.  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals

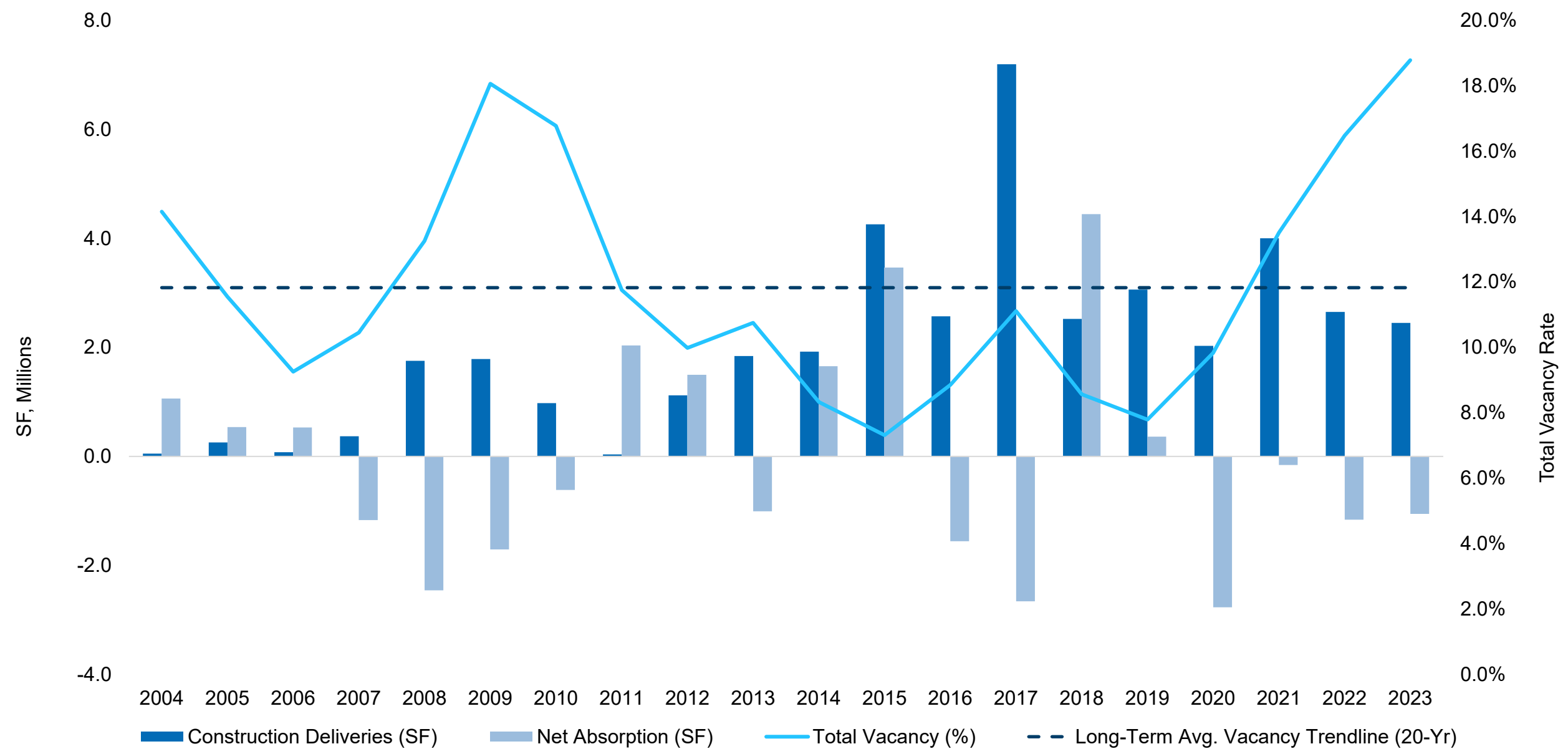




# Vacancy Rises in 2023 as Construction Deliveries Remain Unleased

The final quarter of 2023 saw an overall vacancy rate of 18.8%, up from the 16.5% vacancy rate measured at the end of 2022 and higher still than the most recent trough of 7.8% at the end of 2019. Although owner-user deliveries continue to contribute to net absorption, all spec projects totaling ±1.3 million SF delivered in 2023 remain unleased. Given the diminished level of tech leasing, this trend is expected to continue into 2024 as well.

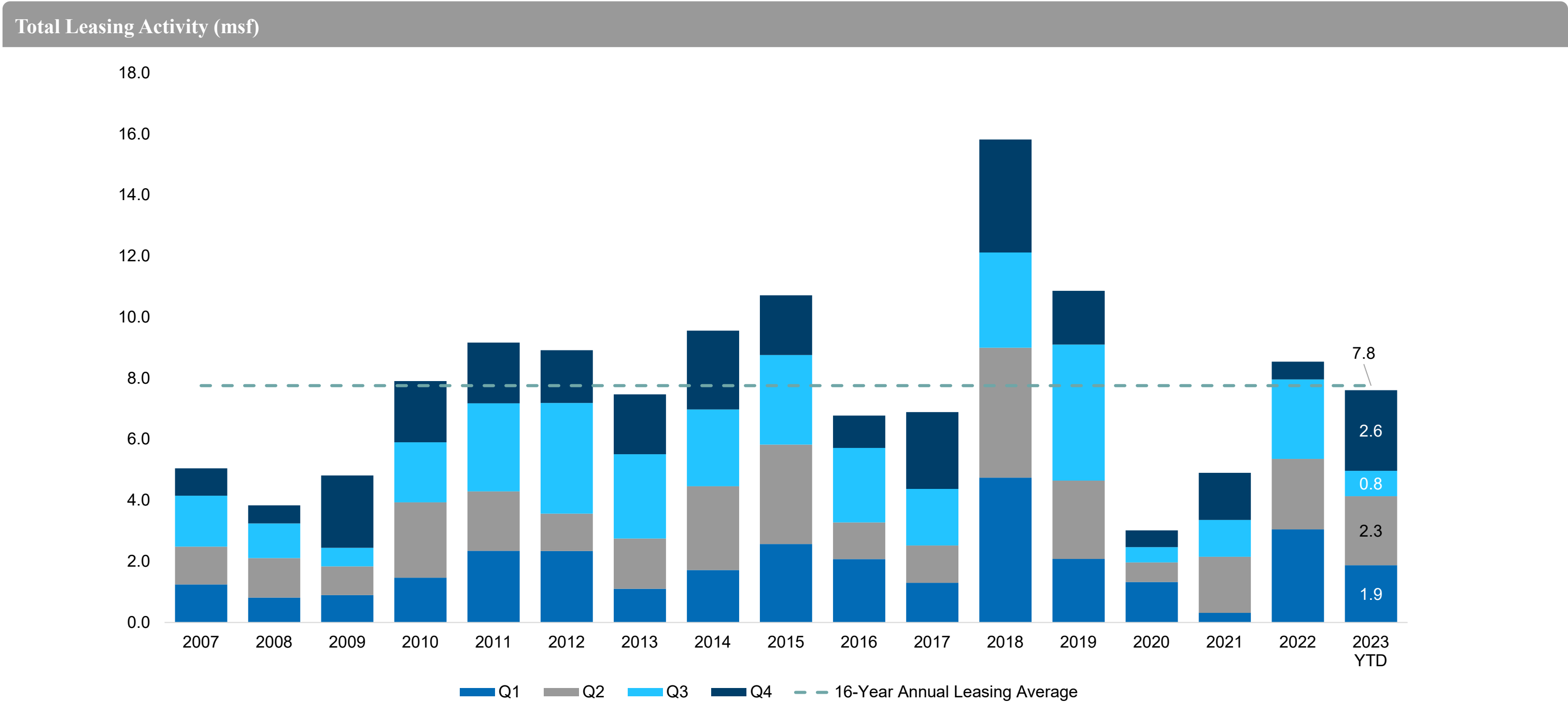
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Deal Volume Picks up in the Fourth Quarter

Bolstered by the largest deal of the year, Walmart subleasing the entire ±719,000 SF Moffett Green complex from Meta Platforms, the fourth quarter saw the largest deal volume in all of 2023, bringing annual leasing volume to just slightly below the 16-year historical average of 7.8 million SF. While the combination of the increased cost of capital has caused many tenants to reassess their space needs, deals in large block space remain possible, especially in the sublease market.

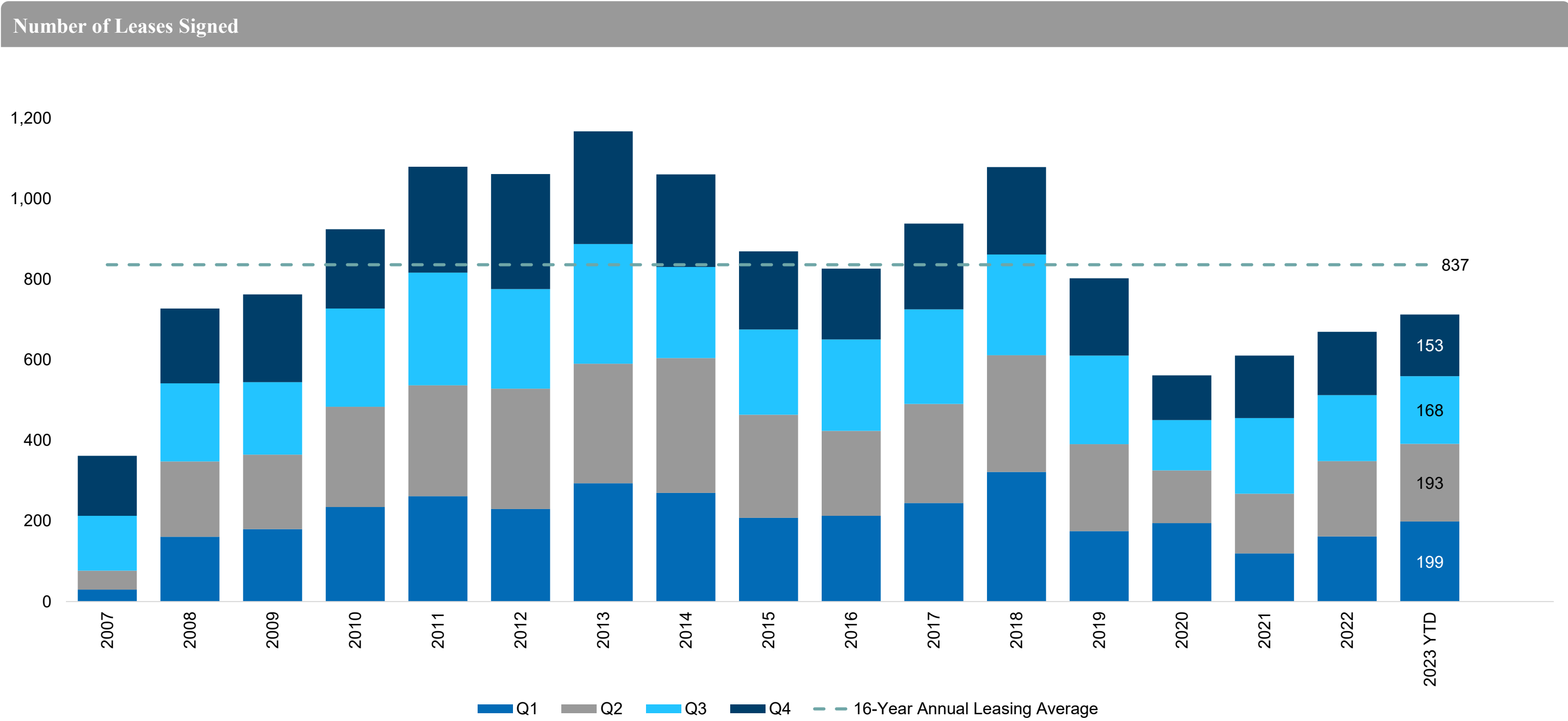


Source: Newmark Research, CoStar



# Transaction Counts Remain Below Historical Average

A total of 713 office deals were signed this year, a 6.4% increase compared to 2022. Although the count of leases has steadily increased since 2020, overall leasing volume in terms of square footage and counts have been below the historical average, indicating that the office sector has not fully recovered from the pandemic.



Source: Newmark Research, CoStar





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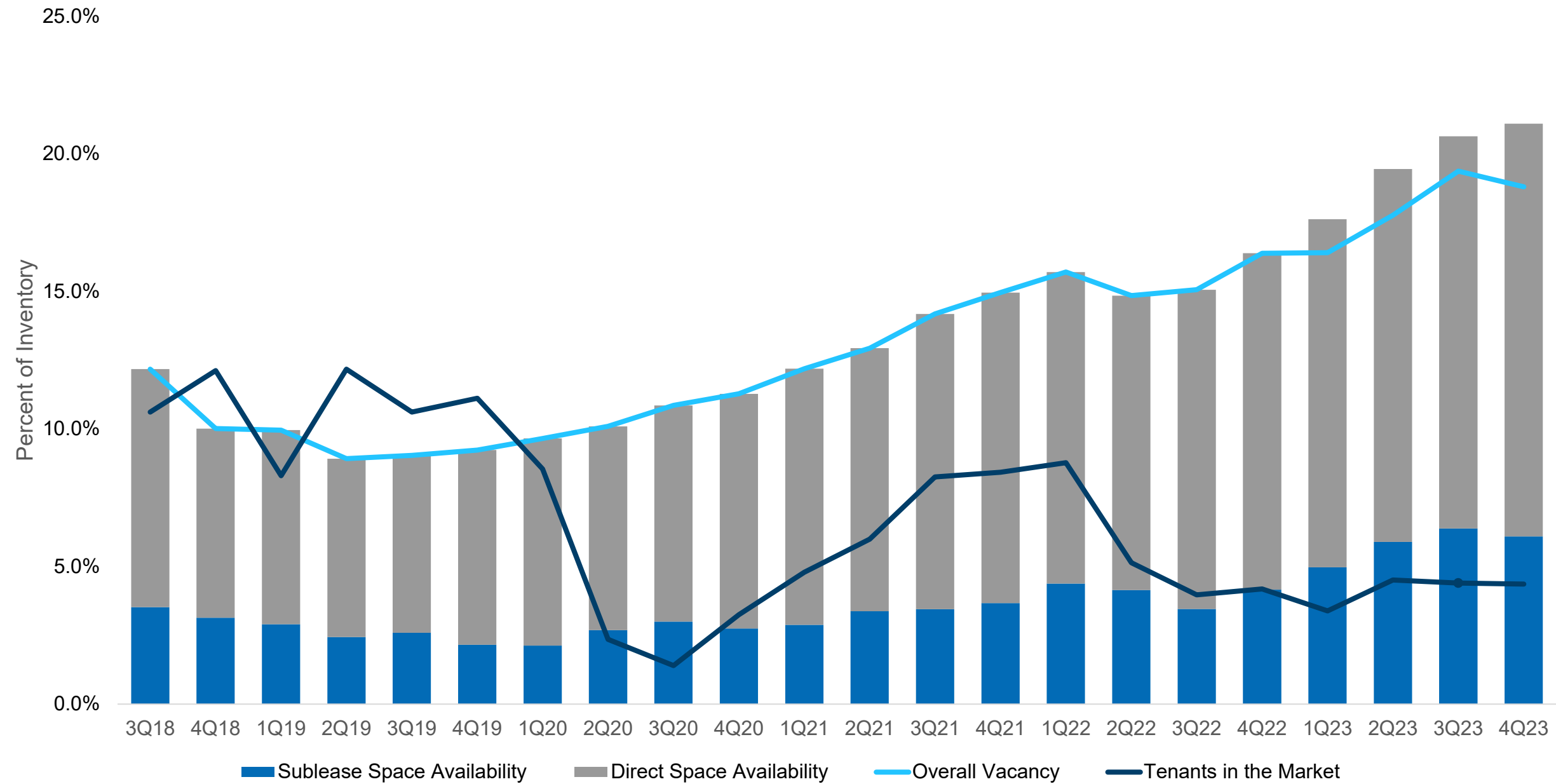
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# Supply Continues to Increase While Tenant Demand Remains Stable

Demand remained at about the same level going into the fourth quarter of 2023, while supply continued to increase. Although there was a noticeable drop in vacancy, overall availability in the region ticked upwards. Given that space 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



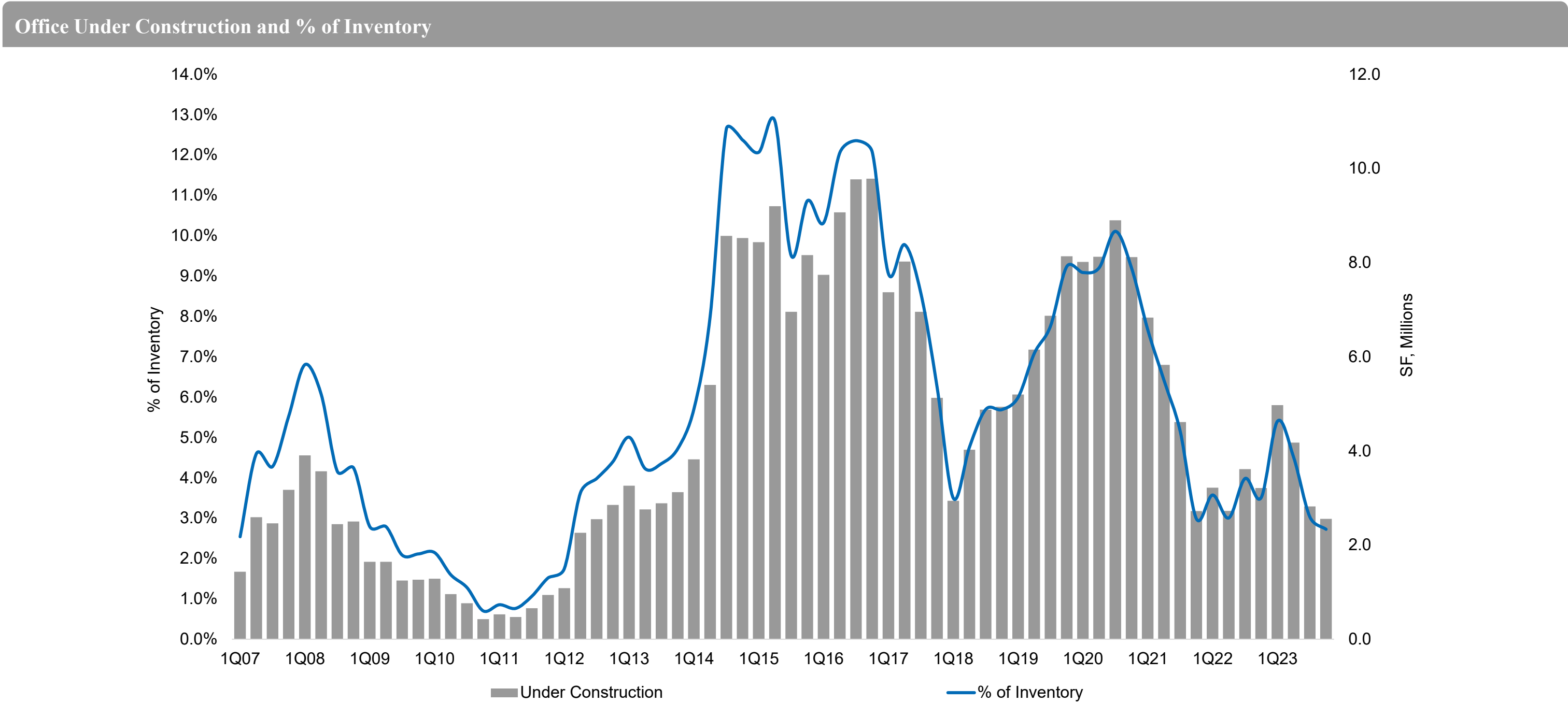


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# Deliveries Continue While New Construction Slows

The office construction pipeline has steadily diminished throughout 2023, with total construction measuring just 2.5 million SF this quarter, down 16.2% quarter-over-quarter and 20.7% year-over-year. New construction now represents just 2.7% of total inventory, indicating a diminished level of developer interest in the region, at least until the local economy recovers enough to sustain new spec construction.



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



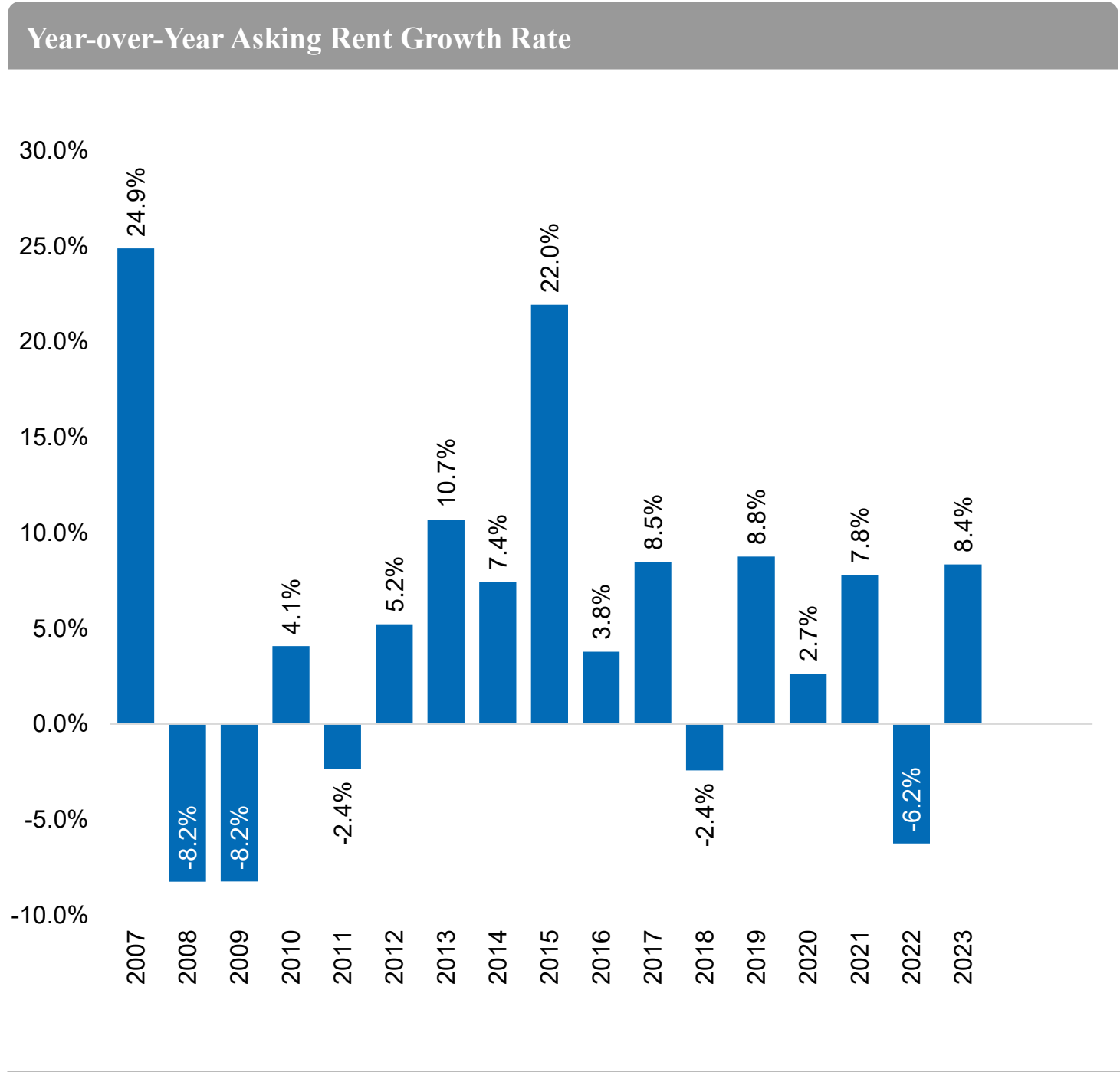
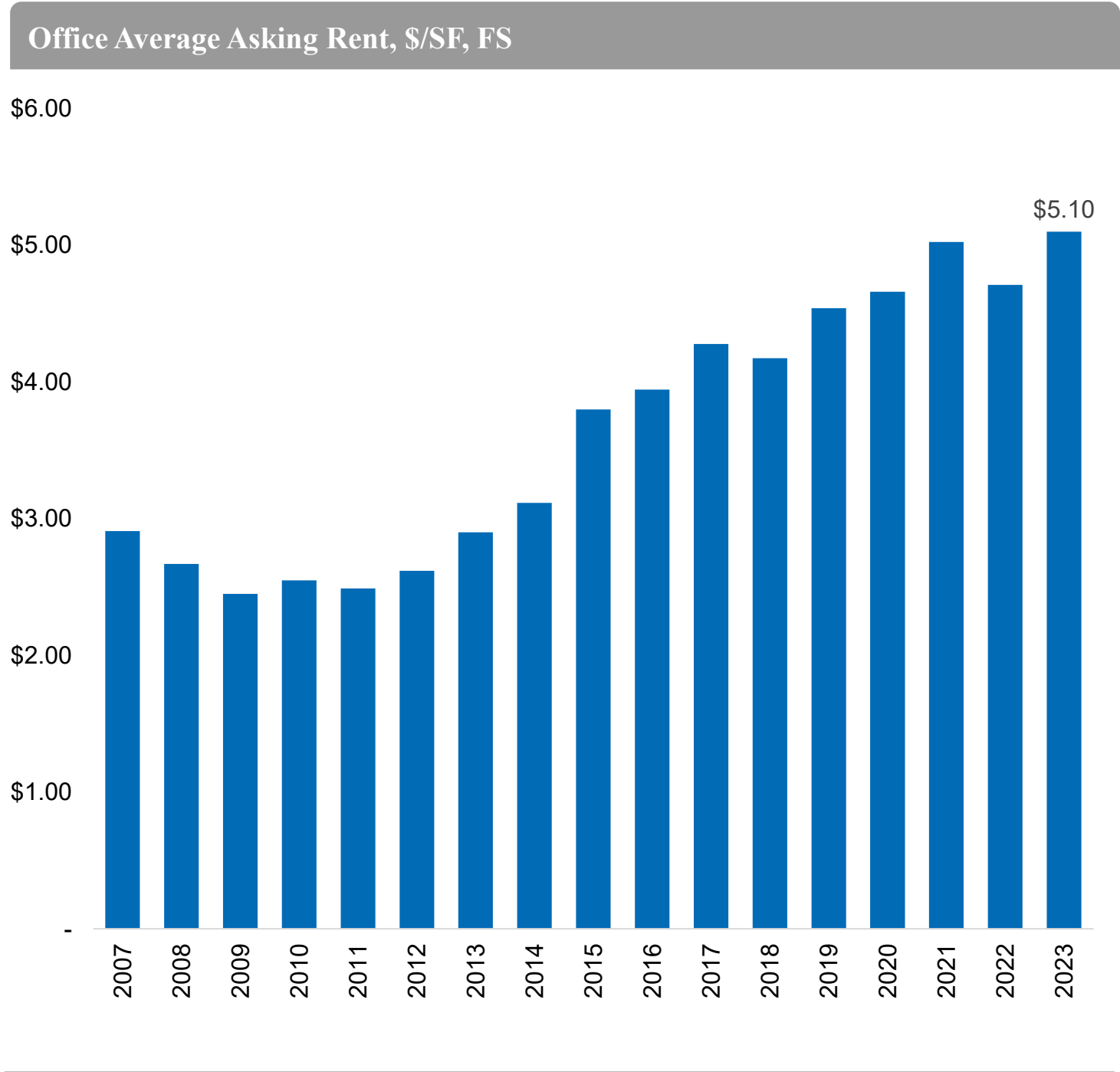


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# Rents Stabilize Despite Rising Availability

Overall asking rates increased slightly to \$5.10/SF, a 1.2% increase quarter-over-quarter, and an 8.4% increase year-over-year. After seeing a slight drop off at the end of 2022, rents have returned to a level near the end of 2021. Given the current volatility of rents due to an increasing amount of sublease space entering the market over the past few years, it is unclear if this level will hold through 2024.



Source: Newmark Research, CoStar





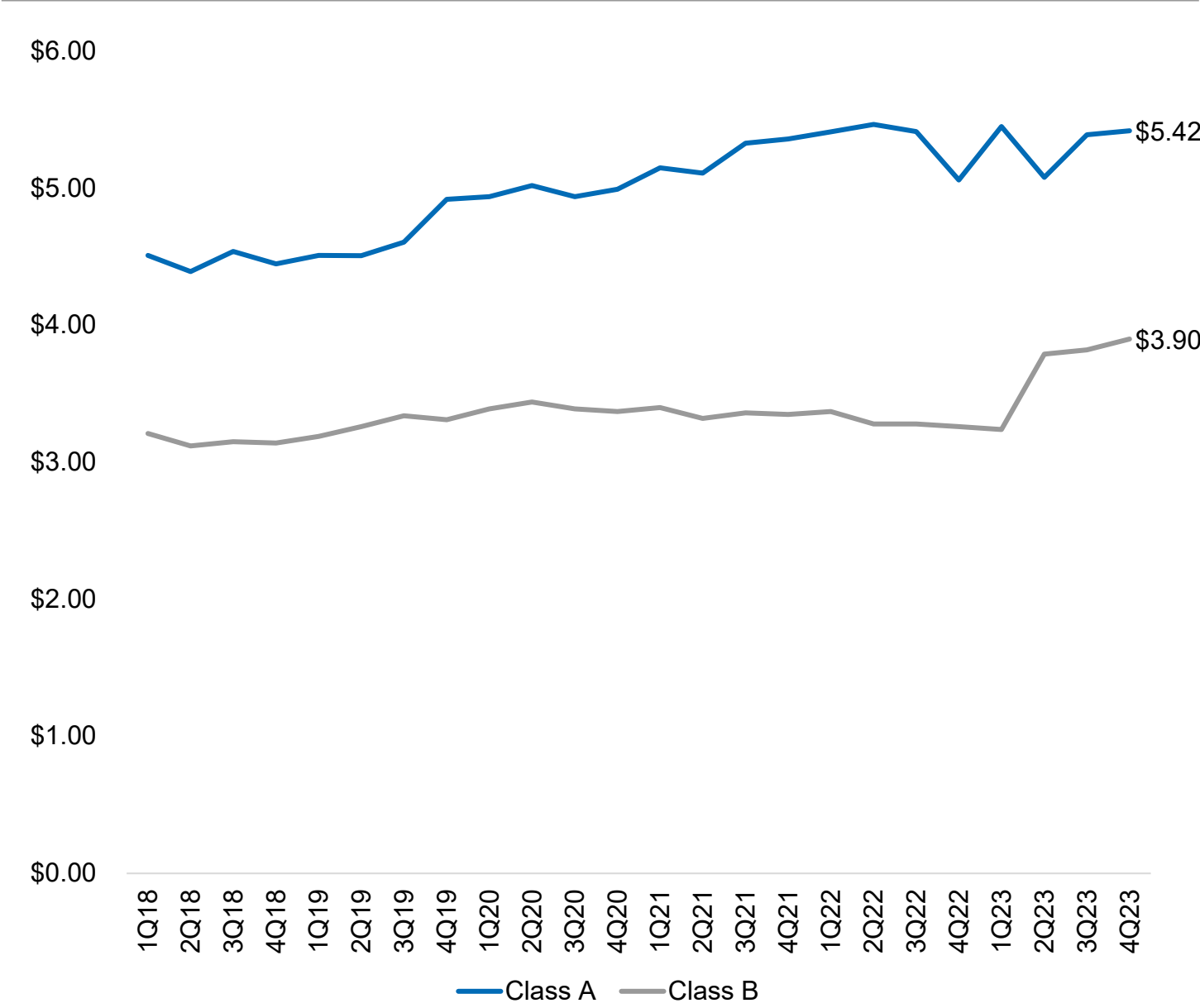
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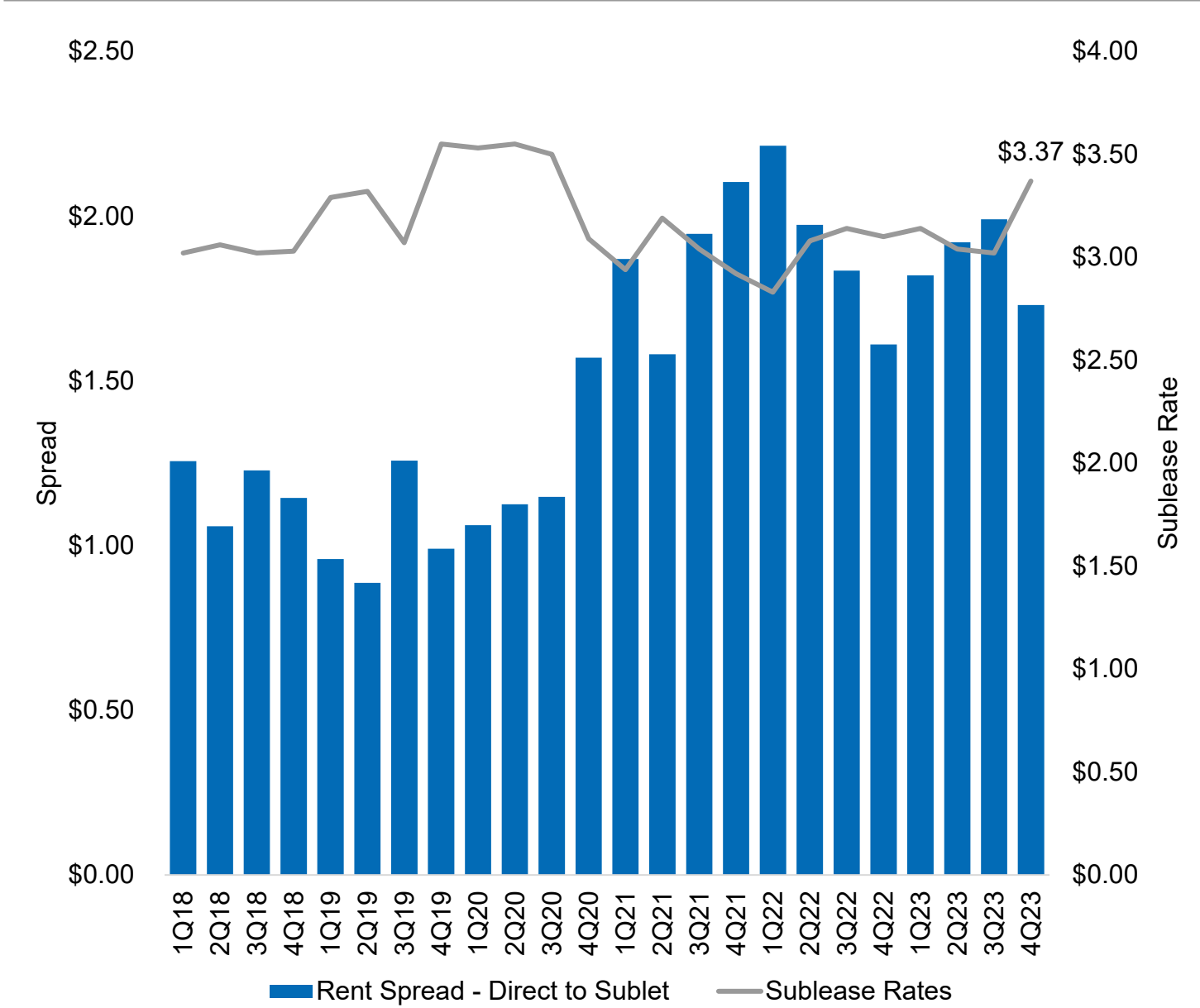
# Asking Rents Remain High Despite Market Conditions

Rents held mostly stable in the region, with Class B rents seeing a slight increase in 2023, pushing rents overall rents higher. Given the sharp increase in availability, especially sublease availability, in the past year, downward pressure on rents seems to be on the horizon. 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 until the economy begins to recover.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

# Several Large Deals Close Out the Year

The last quarter of 2023 saw the largest quarterly deal volume this year, owing to several deals over 100,000 SF including Walmart.com subleasing ±700,000 SF in Sunnyvale and Intuitive Surgical purchasing three buildings in Santa Clara totaling ±340,000 SF. These large block deals, often done at below-market rents and prices, highlight the power of tenants who are willing and able to commit to long-term deals to negotiate better deals.

| Notable 4Q23 Lease Transactions   |                           |  |                  |             |
|---|---------------------------|--|------------------|-------------|
| Tenant  | Building(s)               | Submarket                              | Type             | Square Feet |
| Walmart.com   | 1275-1395 Crossman Avenue | Sunnyvale – Moffett Park               | Sublease         | 719,037     |
| Sublease. Walmart.com subleased 4 buildings totaling 719,037 square feet. Occupancy will be phased and at a significantly discounted rate than the master lease. This was the largest deal of 2023. |                           |  |                  |             |
| Laceworks   | 391 San Antonio Road      | Mountain View – El Camino Corridor     | Lease Renewal    | 42,798      |
| Renewal. Originally subleased through WeWork, the cloud security company Lacework has renewed their full floor lease.   |                           |  |                  |             |
| Rivos   | 3315 Scott Boulevard      | Santa Clara - Central Expressway North | Sublease         | 41,252      |
| Sublease. Subleased from Edelman Financial Engines, this chip making startup company took over the entire 4 <sup>th</sup> floor.  |                           |  |                  |             |
| GSA   | 60 S Market Street        | San Jose - Downtown                    | Direct Lease     | 36,220      |
| New lease. The General Services Administration took 3 floors totaling 36,220 at 60 S Market St, bringing occupancy to 70% in the tower.   |                           |  |                  |             |
| Eightfold.AI  | 2625 Augustine Drive      | Santa Clara – Central Expressway North | Sublease Renewal | 32,482      |
| Sublease renewal. Originally subleased from Upwork in 2021, the AI company that preceded the recent AI boom, renewed their original lease in Santa Clara Square.                                    |                           |  |                  |             |

Source: Newmark Research



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# Appendix



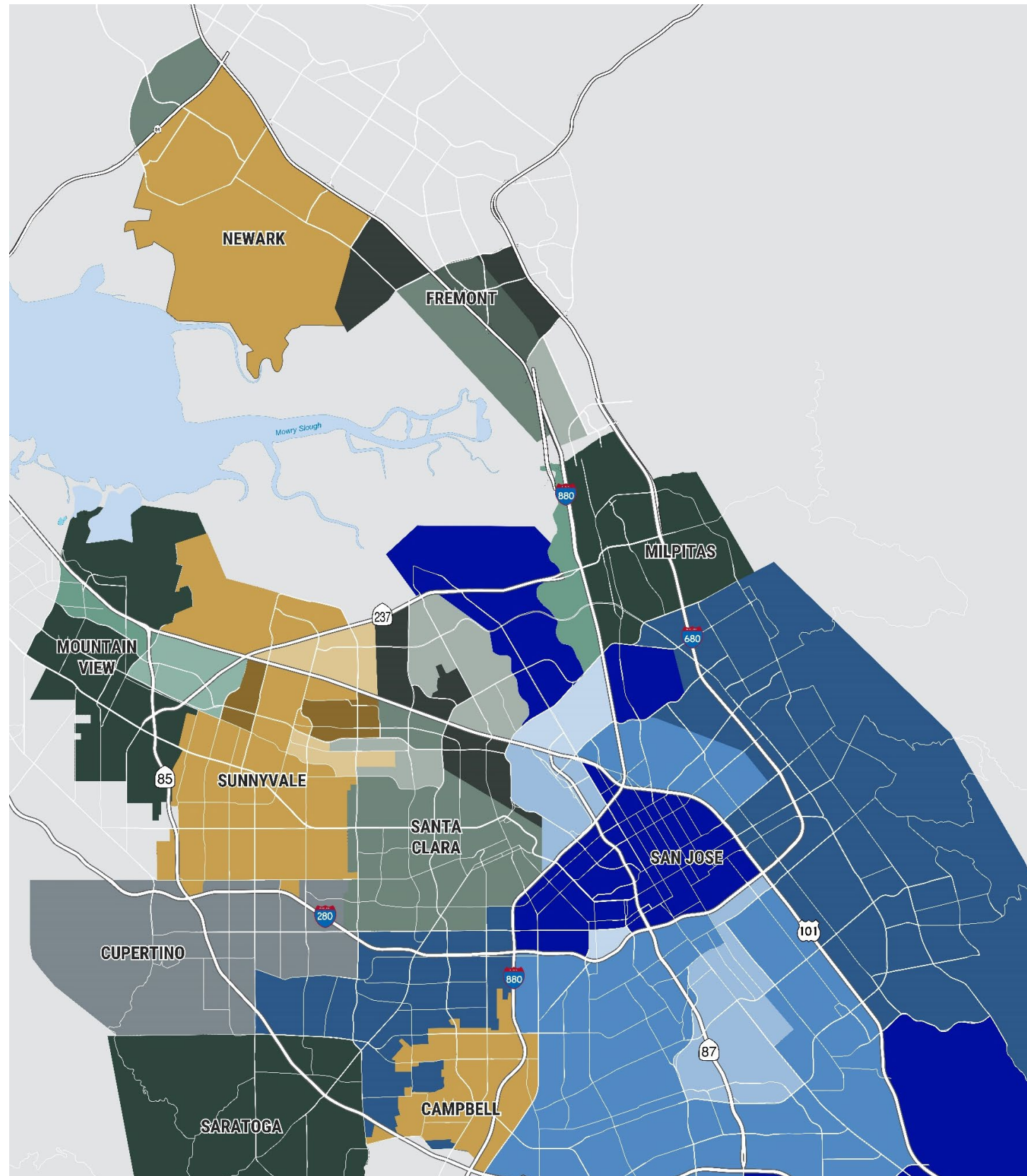


A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of steel beams and girders forming a grid-like pattern. Large glass panels are visible, reflecting the sky and other parts of the structure. The perspective creates a sense of height and architectural scale. A solid blue horizontal band is superimposed over the middle of the image, containing white text.

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# Silicon Valley - Submarket Map



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