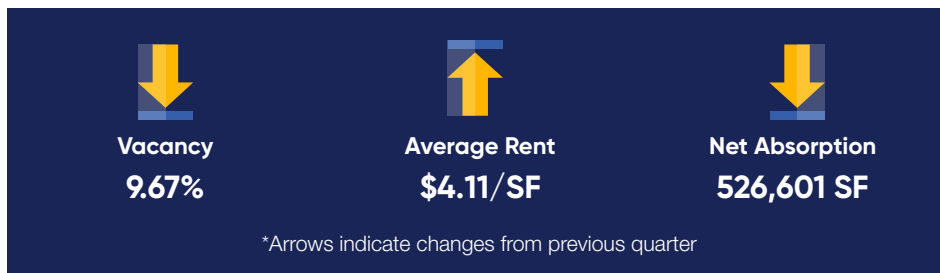


Occupier's Guide - Office

Many changes are taking place in the Silicon Valley office market due to COVID-19. With a downward trend in office demand due to a more remote workforce, shelter-in-place orders, and the prevalent use of Zoom for communications, more spaces are becoming vacant. Not all sectors are experiencing this – biotech and life science are flourishing due to the need for specialized spaces. Sublease space is on the rise, sparking interest in what might be to come in terms of a downward push on rental rates. Although the relationship between increased sublease space and downward pressure on direct rates is generally true for many office markets, the Silicon Valley market has only experienced this relationship in recent times and not historically. Cresa Research can confirm direct and sublease rates have been approaching each other since 2019 Q1, coinciding with sublease availability becoming an increasing proportion of total availability. Regardless of market uncertainty, Q2 ended with several large leases being signed by major tenants.






Select Submarket Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	YoY Change
\$4.88	Downtown San Jose Class A 10.5%	▲ +2.5%
\$3.51	Downtown San Jose Class B 8.5%	▼ -2.3%
\$4.25	Santa Clara Class A 11.8%	▼ -4.1%
\$2.98	Santa Clara Class B 15.1%	▲ +3.7%
\$5.56	3.4% Mountain View Class A	▲ +0.3%
\$5.60	4.2% Mountain View Class B	▲ +0.4%

Recent Transactions

	Tenant	Submarket	Type	Size	Sector
1	Fortinet	Sunnyvale	New Lease	172,000 RSF	Technology
2	Kodiak Sciences	Palo Alto	New Lease	155,000 RSF	Biotechnology
3	TATA Consulting Services	Santa Clara	New Lease	77,000 RSF	Technology
4	Inflobox	Santa Clara	New Lease	42,000 RSF	Technology
5	Neato Robotics	San Jose	New Lease	42,000 RSF	Technology

Occupier's Perspective

-  New class A office campus, 4353 North 1st, was purchased due to the lack of newly developed space in the market. Multiple offers came through to the campus which is home to Rambus Inc. and Bloom Energy, two tech companies that still require office space at this time.
-  Rental rates from Q1 (\$4.02) to Q2 (\$4.11) remained rather flat, with a submarket-wide average increase of 2.24%.
-  WeWork asks for a break on rent due to the loss of its members. It is clear that coworking is not immune to the current environment.

Market Trends

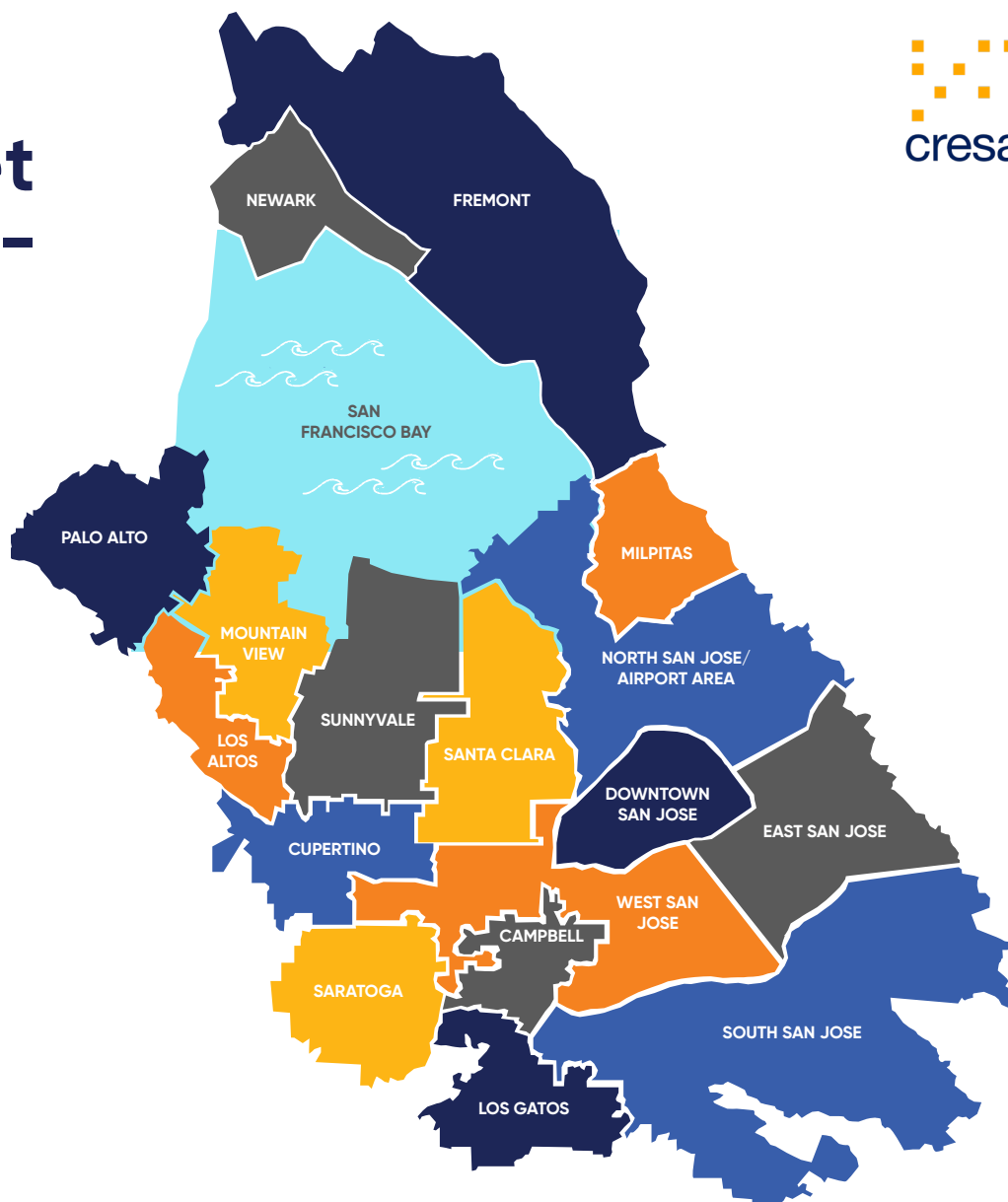


Unemployment surged to 7.14 million from 5.79 million in February, sparking the need for large scale government relief programs.

Leasing activity has significantly reduced due to shelter-in-place orders brought about by COVID-19. Concerning indicators like this have many tenants unsure of what the future holds.

The Federal Reserve Bank is now expecting a 35.5% decline in real US GDP in 2020 Q2. A contraction of this size would be the largest in modern history.

Submarket Statistics - Office



Submarket	Inventory	Overall Rent	YoY Trend	Vacancy	YoY Trend	Net Absorption
Palo Alto	10,333,817	\$6.85	▼	13.9%	▲	(6,394)
Mountain View/ Los Altos	11,927,829	\$5.66	▼	4.0%	▲	(66,344)
Sunnyvale	18,100,703	\$5.23	▲	7.4%	▲	(39,354)
Santa Clara	19,207,078	\$3.02	▼	13.1%	▼	142,938
Cupertino	7,420,494	\$4.68	▲	1.6%	▲	(6,781)
West Valley	8,714,452	\$3.78	▼	7.2%	▼	(6,207)
South San Jose	2,836,081	\$2.55	▲	7.5%	▼	(12,993)
Downtown San Jose	11,327,123	\$4.35	▲	9.3%	▼	140,148
North San Jose	16,029,532	\$3.31	▲	15.6%	▼	333,287
Milpitas	4,210,146	\$2.68	▲	8.6%	▲	75,862
Fremont/Newark	4,676,657	\$2.59	▲	9.6%	▲	(27,561)