

Forecast 2021



Silicon Valley, CA

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Silicon Valley



Executive Summary

- Negative impacts from COVID-19 on the property markets have been mitigated by the strength of the Silicon Valley's economy going into 2020 and entering the crisis from a position of substantial stability.
- Developers and investors remain bullish on the region's long-term prospects despite near-term challenges.
- COVID-19 has accelerated growth in the Bay Area's booming life science industry, driving increased conversions of industrial and office space for lab use.
- A full recovery relies heavily on suppressing the virus throughout the U.S.

The impacts of COVID-19 have been far reaching and have had widespread impacts across the economy and property markets, with severity varying widely by location and market sector. The forecast remains cloudy going into 2021 for the Silicon Valley as virus cases continue to rise and a second wave of restrictions are placed on the Bay Area in an attempt to control the spread.

Office tenants in the Silicon Valley spent most of 2020 in a holding pattern with employees working from home. Suburban office has gained increased favor over dense urban cores among tenants and investors as businesses contemplate how to bring employees back safely. Announcements of plans to delay office re-entry until summer 2021 filled headlines throughout the year from some of Silicon Valley's largest tenants. As a result, leasing activity is expected to remain subdued in the near term, placing upward pressure on vacancy and slowing rent growth. A

recent increase in sublease availability is likely to continue as tenants delay decision making. Remote working has been largely successful, but the longer it goes on, the more employees and business owners are recognizing the importance of the physical office, particularly for mentoring and building culture. Remote work will endure in at least some measure post-COVID. The question is how much it will be offset by a reversal of the space densification trends witnessed over the last decade.

After a brief period of stalled activity in the spring, Silicon Valley industrial tenant demand returned to pre-COVID levels by the second half of the year. The pandemic accelerated a consumer shift toward online shopping, driving demand for logistics locations close to population centers to facilitate more efficient delivery. The growth in online purchasing has also led to the rise of "reverse logistics," the need to facilitate an increase in the number of returns. This will continue to fuel demand in the logistics sector going into 2021. Sustained tenant demand is likely to keep vacancy tight for the foreseeable future.


Investors remain bullish on the Silicon Valley investment market, with industrial assets attracting the highest demand. Despite subdued transaction volume throughout 2020, quarterly activity outpaced that measured during the Great Recession by more than two-fold. This demonstrates that buyers with access to capital are still active.

Within the Silicon Valley's commercial sectors, retail took the biggest blow from COVID-19 as lock-down orders took a heavy toll on both local businesses and national brands, with some making the difficult decision to close permanently. Vacancy crept higher throughout the year and is likely to increase further in 2021, especially as rising COVID cases lead to renewed restrictions going into the holiday shopping season. The news has not been all bad for the sector. Some tenants have seized the opportunities presented by newly vacant spaces in prime locations, particularly restaurants, which can get up and running quickly without substantial fit-up costs.


High cost of living and lack of affordable housing have always put pressure on the region. With the onset of the pandemic and an accelerated trend of employees working remote have encouraged increased outward migration trends. Although some businesses and employees may leave for tax relief and cost benefits, there will remain an abundance of businesses who can afford to be here, and in-fact can thrive only in a region of this magnitude and location.

Market fundamentals in the Silicon Valley are unlikely to recover until at least the second half of 2021. Demand and leasing volume will remain subdued until the Bay Area can successfully suppress the spread of the virus and job growth brings unemployment closer to pre-COVID levels. This recovery will be uneven; however, the Silicon Valley has proven to be one of the most resilient markets in the world and is expected to fully rebound.

Trend watch



No place like home
The pandemic confirmed the functionality of work-from-home, prompting tenants to reevaluate their need for office space



Workplace eXperience
The future of office will rely heavily on how companies will attract employees back to the office. The workplace will need to accommodate employee desires and support collaboration

Silicon Valley historical investment volume by product type

Avison Young Research & Real Capital Analytics



Get more market information

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