

# Silicon Valley



## Market Facts

**6.7%**

Class A Vacancy

**8.5%**

Class B Vacancy

**\$4.44 FS**

Class A

Average Monthly Asking Rate

**\$4.08 FS**

Class B

Average Monthly Asking Rate

As the first quarter of 2020 came to a close, uncertainty of the implications of COVID-19 on the economy and commercial real estate markets loomed over the Silicon Valley. For the first time in history, the Bay Area's nine counties issued a shelter in place order, limiting the number of businesses that could continue normal operations and restricting the movement and activities of more than 6 million residents. Retailers closed their doors and nearly all office using tenants sent employees home. As a result, more than 2.1 million California residents filed for unemployment benefits in the final weeks of March, and estimates suggest the unemployment rate could reach as high as 15% in Santa Clara County, the February rate was 2.6%, according to data from the BLS.

### Vacancy

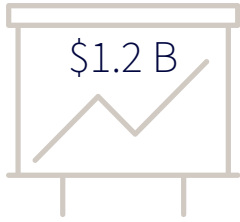
Total available office space in the Silicon Valley measured 7.9 million square feet (msf) at the close of the first quarter. This amount of space translates to a vacancy rate of 7.3% overall, down from one year earlier when vacancy totaled 8.6%. Class A vacancy measured 6.7% while class B space measured a slightly higher rate of 8.5% in the Silicon Valley's office market.

### Asking Rates

Overall asking rates in the Silicon Valley have begun to level off as prices have hit all time peaks in previous quarters. At the close of the first quarter, average asking rates measured \$4.19 per square foot, full service, an 11.1% increase year over year and up 20.7% from the same period in 2018. Asking rates in Palo Alto and Mountain View command rents more than 60% higher than the region's average.

### Demand

Total leasing activity measured 1.5 msf during the first quarter, a relatively slow start to the year and a 20.7% decline from the activity measured during the same period one year earlier. As tenant's appetite for space slowed, it was outpaced by those giving up space resulting in negative net absorption of 76,472 square feet. The impacts of COVID-19 on the Silicon Valley's office market have yet to be seen, however leasing activity in the final weeks of the quarter appear to have been affected as demand has slowed.



### Investment Activity

Investment activity in the Silicon Valley office market measured \$1.2 billion total deal volume with an average price per square foot totaling \$657, up from the previous quarter.

### Trends to Watch



#### Demand

Uncertainty of the impacts of COVID-19 are likely to cause investors and tenants to take a temporary seat on the side lines



#### Development

Construction start and completion dates will be delayed as a result of construction restrictions from the shelter in place order



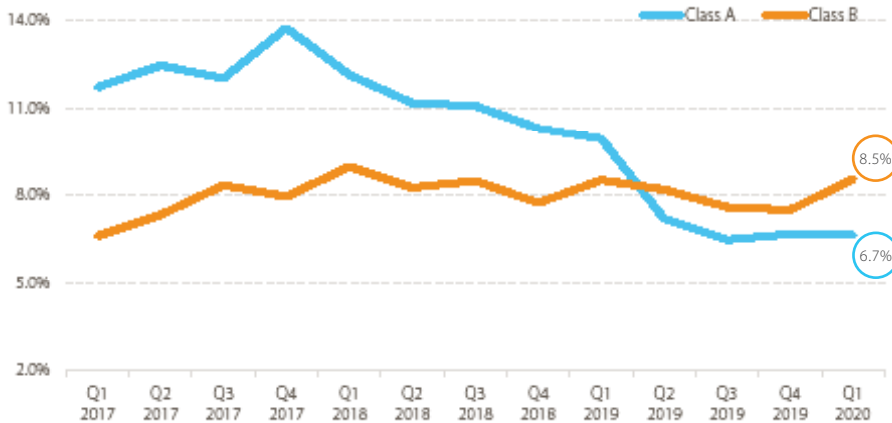
#### Office Density

Occupiers may look to increase average square feet per employee as they seek to adjust to new social distancing measures

## 6.0 MILLION SQUARE FEET

to be delivered region-wide by 2021, with 4.2 msf preleased

### Historical Vacancy



### Sublease Space

Tenants continue to scoop up available sublease space as these offer attractive cost alternatives to direct space. The total amount of sublease space on the market totals 1.4 million square feet, down 19.9% year over year.



### Construction

Kicking off Q1, construction continued to boom in the Silicon Valley. As a result of COVID-19, construction sites throughout the Bay Area are closed and have put projects on pause. Development across the market has been delayed pushing completion and start dates out by an average of three months. Impacts will vary market by market based on government policy and impacts to demand. Developers may take a wait and see approach to any projects that had not started to weigh demand after the shelter in place is lifted.



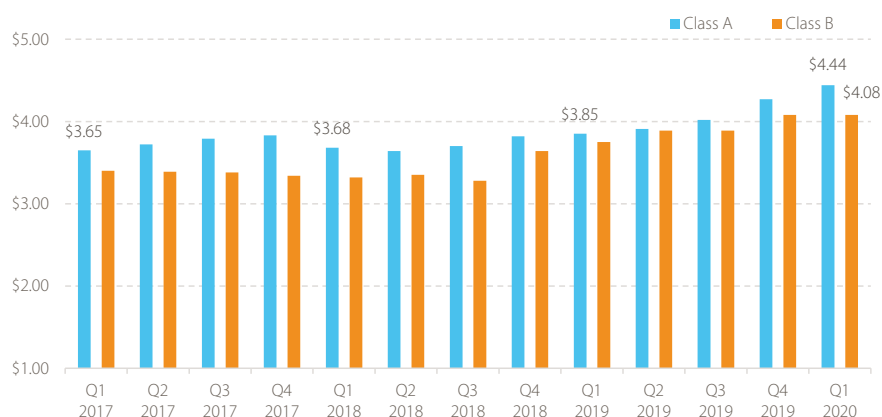
### Notable Transactions

The largest deal signed during the first quarter was Google inking a lease agreement for all 222,000 square feet of space under construction at 750 Moffett Blvd in Mountain View. The project, known as Ameswell, is being built by Broadreach Capital Partners and will include a 225-room luxury hotel.

## Looking Forward

Although the impacts of COVID-19 on the Silicon Valley office market have yet to be realized, the result of the shelter in place slowing the economy are likely to have an impact on demand, asking rates and vacancy. However, the Silicon Valley is an innovation based economy with a healthy tenant base of tech companies such as Google and Apple, who employ a highly educated workforce. Following any slowdown or recession, the Silicon Valley is likely to recover quickly, just as it has done in previous cycles.

## Historical Asking Rates



## Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Google	750 Moffett Blvd	Mountain View	222,000	Prelease
Apple	5300 Stevens Creek Blvd	Cupertino	88,000	Direct Lease
Comcast	1050 Enterprise Way	Sunnyvale	80,995	Renewal
Google	4005-4009 Miranda Ave	Palo Alto	56,329	Direct Lease
Applied Materials	3325 Scott Blvd	Santa Clara	35,776	Direct Lease
Panasonic Electric Works	3460 Hillview Ave	Palo Alto	34,611	Direct Lease
Forward Networks	2390 Mission College Blvd	Santa Clara	27,835	Direct Lease

## Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
Platform 16 Office Development	Boston Properties	Downtown San Jose	1,100,000	\$134,750,000	\$689 (land sf)
3945-3965 Freedom Circle	Hines & Oaktree	Santa Clara	433,342	\$195,200,000	\$452
2962-3052 Bunker Hill Lane	TMG Partners	Santa Clara	410,106	\$152,000,000	\$371
2215-2225 Lawson Lane	Northridge Capital	Santa Clara	328,867	\$276,300,000	\$890
675 Campbell Way	Joss Realty Partners	Campbell	177,815	\$139,000,000	\$781

## Construction Pipeline

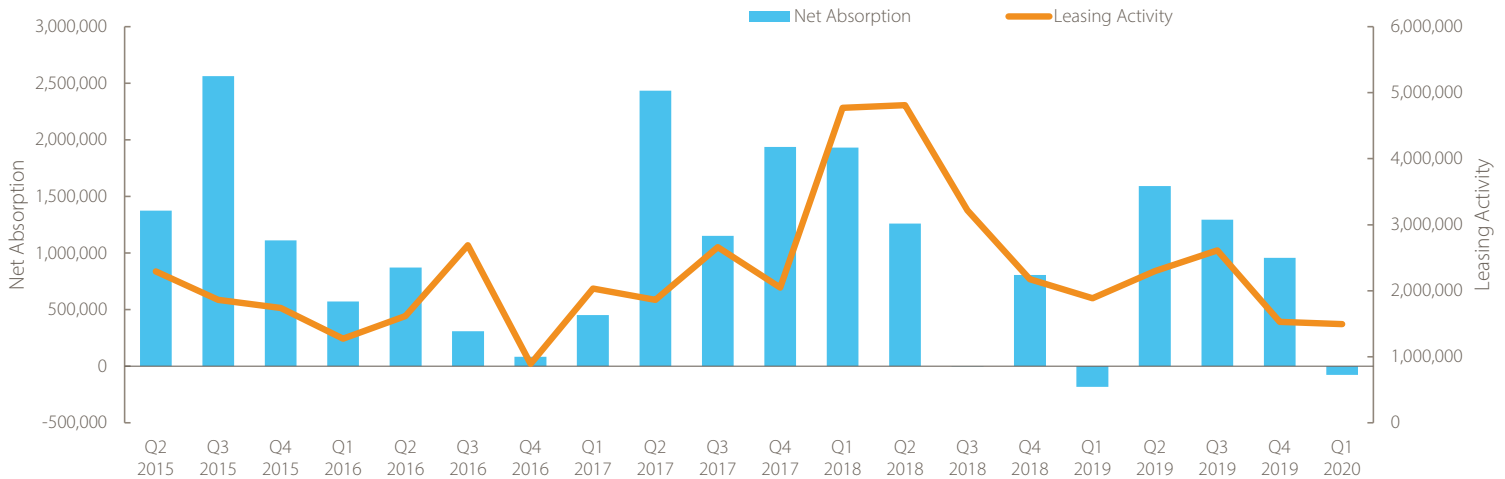
Building	Developer	Submarket	Square Feet	% Leased	Delivery
333 W San Fernando	Adobe	Downtown San Jose	700,000	100%	Q2 2021
Charleston East	Google	Mountain View	595,000	100%	Q3 2020
Santana West	Federal Realty	San Jose	375,000	0%	Q3 2020
Pathline Park	The Irvine Company	Sunnyvale	367,000	0%	Q3 2020
THIRTY75TECH	MDY Properties, Inc.	Santa Clara	259,234	0%	Q3 2020
700 E Middlefield	LinkedIn	Sunnyvale	293,744	100%	Q2 2021
Ameswell Mountain View	Broadreach Capital Partners	Mountain View	222,000	100%	Q3 2020



## Market By The Numbers

Submarket	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate		Net Absorp. (SF)	Net Absorp. YTD (SF)	Avg. Asking Rent (F\$)		
				Q4'19	Q1'20			Total	Class A	Class B
Palo Alto	10,560,722	957,596	140,600	9.7%	10.4%	-17,253	-17,253	\$7.92	\$8.36	\$6.23
Mountain View/Los Altos	11,562,379	133,013	177,654	1.9%	2.7%	-92,646	-92,646	\$6.44	\$6.50	\$6.37
Cupertino	6,840,976	47,534	47,640	1.1%	1.4%	-21,157	-21,157	\$4.95	-	\$4.44
Campbell	2,127,802	330,961	31,622	19.3%	17.0%	47,116	47,116	\$3.87	\$4.70	\$3.77
Los Gatos/Saratoga	1,611,122	33,276	2,424	2.1%	2.2%	-1,914	-1,914	\$5.48	\$8.00	\$3.81
Sunnyvale	17,873,404	369,911	55,168	2.4%	2.4%	245,363	245,363	\$5.10	\$5.06	\$5.22
Santa Clara	19,145,362	1,588,740	574,371	10.3%	11.3%	-183,651	-183,651	\$3.06	\$3.83	\$3.01
San Jose	31,413,205	2,496,094	467,840	8.9%	9.4%	-6,528	-6,528	\$3.65	\$3.92	\$3.45
Downtown San Jose	9,387,119	951,123	53,427	9.6%	10.7%	-102,773	-102,773	\$4.35	\$4.81	\$3.94
Milpitas	4,101,993	369,722	72,580	9.8%	10.8%	-38,325	-38,325	\$2.13	-	\$2.13
Fremont	4,021,105	71,097	23,313	2.2%	2.3%	-7,747	-7,747	\$2.56	-	\$2.61
<b>Silicon Valley Total</b>	<b>109,258,070</b>	<b>6,397,944</b>	<b>1,593,212</b>	<b>6.8%</b>	<b>7.3%</b>	<b>-76,742</b>	<b>-76,742</b>	<b>\$4.19</b>	<b>\$4.44</b>	<b>\$4.08</b>

## Historical Leasing vs Net Absorption



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