

Silicon Valley

Quick Stats

6.9%

Class A Vacancy

9.5%

Class B Vacancy

\$4.41 fs

Class A
Average Asking Rate

\$4.00 fs

Class B
Average Asking Rate

The spread of COVID-19 and the containment policies throughout California and the U.S. continue to change rapidly. While information in this report is current as of the date written, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. We are committed to you, our clients, and remain available for discussions and advice as your partners and to offer our latest insights.

Diminishing Demand Puts Increased Pressure on Silicon Valley Market Fundamentals

- As the third quarter came to a close continued uncertainty of the implications of COVID-19 on the economy and commercial real estate market continues to loom over the Silicon Valley. The region has been cautious in opening and the Silicon Valley's economy struggles to gain momentum. Unemployment in Santa Clara County stood at 7.1% in September.
- Leasing volume was subdued during the third quarter, totaling 917,925 square feet, the second consecutive quarter that leasing volume in Silicon Valley's office market has been below 1.0 million square feet. Office demand has come to a near halt as tenants began to reevaluate space needs and growth projections as the lasting impacts of COVID-19 remain unclear.
- Total vacant office space in Silicon Valley measured 8.7 msf at the close of the third quarter. This amount of space translates to a vacancy rate of 8.0% overall. Vacant space has continued to climb since the onset of Covid-19, measuring a year over year increase of more than 20% in the Silicon Valley office market.
- The impact on average asking rates remain uncertain, landlords are holding steady while tenants continue to look for a post-covid discount. As sublease space continues to build, this offers tenants an alternative and is beginning to impact overall averages. At the close of Q3, average asking rates measured \$4.07 per square foot, full service, an 4.8% decrease from Q2.
- As tenants reevaluate space needs available sublease space continues its steady climb. The total amount of sublease space on the market totals 3.0 million square feet, up 31% from the first quarter of the year. More than 75% of all available sublease space is offered at less than 100,000 sf in Silicon Valley.
- Investors took a seat on the sideline during the third quarter, as market disruption from COVID-19 continued to rattle investor confidence. Investment activity in the Silicon Valley office market fell 84% year-over-year, measuring \$345 million in total deal volume during the third quarter, down from \$2.1 billion during the third quarter of 2019.

Trends to Watch

Rents



An increase in sublease options coming to market will put downward pressure on asking rents going forward and may force landlords to offer alternative options to stay competitive.

Construction



Construction was booming pre-covid and projects nearing completion will open to weaker tenant demand. Implications this will have on pricing and incentives are yet to be seen

Workplace

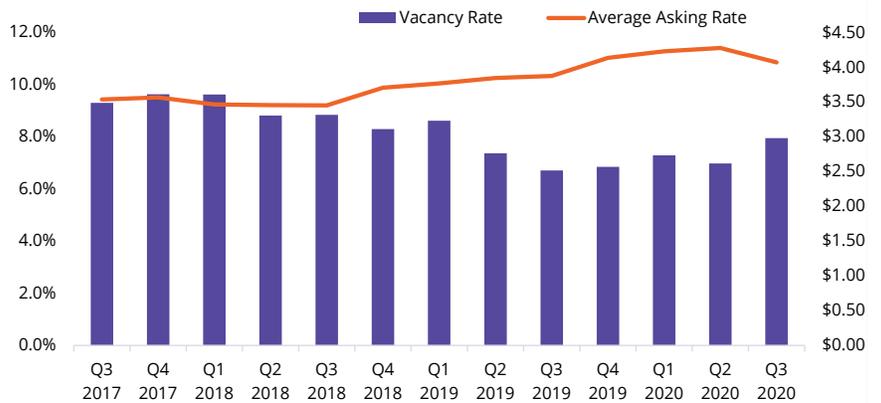


No longer is the traditional office environment as desirable post-pandemic. Many organizations are shifting their thinking to a hub & spoke mindset and optimizing their overall footprint in the process

Looking Forward

Although demand continues to be tempered, quarter over quarter activity began to stabilize in the third quarter and sharp declines measured during the second quarter have begun to soften. As the tenants begin their gradual return to the office, and the economic engine begins to turn back on, the pace of recovery will become clearer across the market. There will continue to be hurdles ahead as tenants return to an office environment they do not necessarily recognize. How far impacts of covid will persist is still unclear, as it has accelerated our rethinking of workplaces and office building design. How this will shift market fundamentals in Silicon Valley is only beginning to take shape.

Historical Asking Rates vs Vacancy Rates



Notable Lease Transactions

Tenant	Building	Submarket	SF	Type
Guardant Health, Inc.	3000 Hanover Street	Stanford Research Park	249,549	Direct
Kodiak Sciences Inc.	1050 Page Mill Road	Stanford Research Park	155,434	Direct
TripActions	1501 Page Mill Road	Stanford Research Park	98,690	Direct
KPMG	3975 Freedom Circle	Marriott Park	59,078	Renewal
Fandango Media, LLC	2440 El Camino Real	Mountain View	20,344	Sublease

Notable Sales

Building	Buyer	Submarket	SF	Sale Price	PSF
4300 Stevens Creek Boulevard	Miramar Capital	San Jose	233,000	\$54.5	\$326
10300 and 10460 Bubb Road	Global Asset Capital	Cupertino	109,779	\$73.8M	\$672
3181-3201 Porter Drive	Alexandria Real Estate Equities	Palo Alto	99,415	\$115.2 M	\$1,152
250 Holger Way	Bailard	North San Jose	76,410	\$38.25 M	\$500

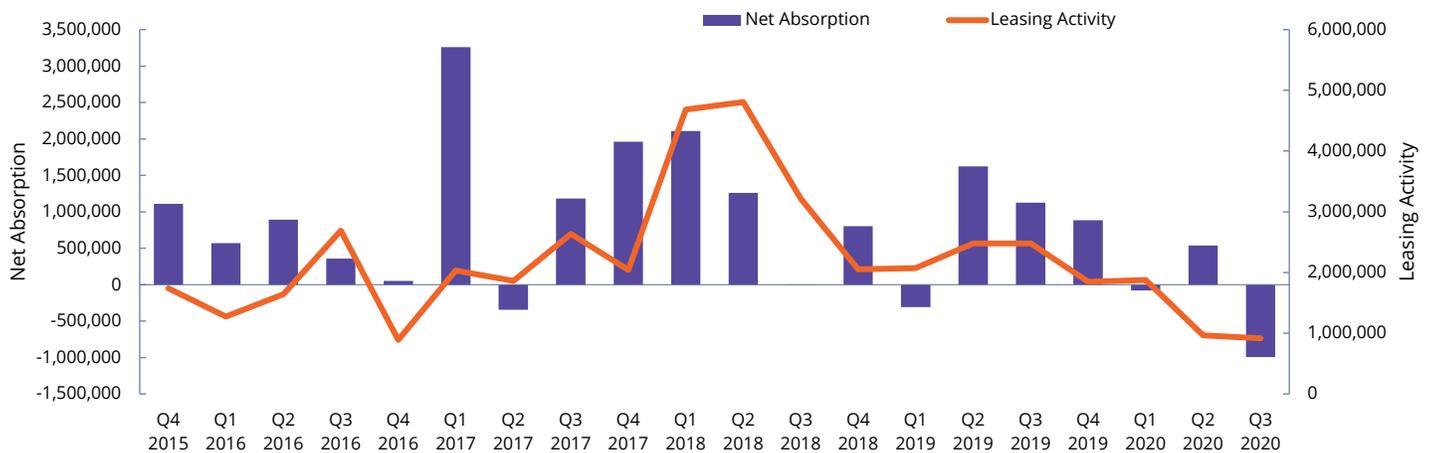
Under Construction

Building	Developer	Submarket	SF	%Leased	Delivery
333 W San Fernando	Adobe	Downtown San Jose	700,000	100%	Q2 2021
Charleston East	Google	Mountain View	595,000	100%	Q1 2021
Santana West	Federal Realty	San Jose	375,000	0%	Q1 2021
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

Market by the numbers

Submarket	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate	Avail Rate	Net Absorp. (SF)	Net Absorp. YTD (SF)	Avg. Asking Rent (F\$)		
								Total	Class A	Class B
Palo Alto	10,685,865	762,858	250,204	9.5%	15.0%	121,463	140,693	\$6.80	\$7.95	\$6.92
Mountain View/Los Altos	11,589,217	199,196	196,680	3.4%	6.5%	-24,250	-178,475	\$4.84	\$5.98	\$4.87
Cupertino	6,960,907	245,449	39,293	4.1%	5.8%	-186,092	-210,725	\$4.77	\$5.35	\$4.67
Campbell	2,112,544	387,778	47,928	20.6%	23.9%	-83,219	-26,007	\$3.99	\$4.79	\$3.77
Los Gatos/Saratoga	1,637,550	39,106	2,424	2.5%	4.0%	-4,369	-244	\$5.20	\$10.00	\$3.77
Sunnyvale	17,759,638	616,595	112,500	4.1%	10.9%	-136,844	91,998	\$4.31	\$7.90	\$4.10
Santa Clara	19,173,477	1,566,580	680,419	11.7%	20.1%	-284,084	-271,620	\$3.08	\$4.08	\$3.05
San Jose	31,474,034	2,567,536	401,905	9.4%	14.2%	-311,694	89,055	\$3.84	\$4.35	\$3.53
Downtown San Jose	10,054,585	885,555	215,688	11.0%	12.8%	-254,503	-139,662	\$4.34	\$4.83	\$3.84
Milpitas	4,100,574	333,481	93,565	10.4%	17.1%	-55,494	-90,296	\$2.68	NA	\$2.68
Fremont	4,018,456	119,430	46,352	4.1%	5.6%	-28,225	-79,119	\$2.56	NA	\$2.60
Silicon Valley Total	109,512,262	6,838,009	1,871,270	8.0%	11.9%	-992,808	-534,740	\$4.07	\$4.41	\$4.00

Historical Leasing vs Net Absorption



Get more market information

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