



AVISON
YOUNG

Silicon Valley Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed Silicon Valley unemployment rate to rebound from a high of 12.4 percent to **5.1 percent**.
- Office-using jobs declined by **2.4 percent** compared with 7.1 percent for other industries' job losses, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.



Recovery rate

- The overall U.S. post-COVID rate of recovery based on extrapolated cell phone data is **49.1 percent**.
- The overall rate of recovery in the Bay Area is comparatively higher at **65.7 percent**.
- However, the return of Bay Area office occupiers has lagged other primary markets given the concentration of tech and a lack across the sector of requiring workers back in the office. The rate of recovery across the Bay Area office market is **10.2 percent** compared to the U.S. average of 19.2 percent.



Office demand

- Leasing activity has paused, decreasing by **44.4 percent** compared with long-term historical averages.
- Renewals have become more common, accounting for **22.1 percent** of post-COVID activity.

Key takeaways



Office supply

- The development pipeline remains robust with **8 million sf** of office assets under development.
- Direct and sublease vacancy has risen to highs not seen in the last decade, reaching **15.9 percent**. Vacancy has not, though, reached the same levels as the peaks of the financial crises or dot com bubble.
- The sublease market continues to drag aggregate fundamentals, accounting for a record **3.0 million sf** of available space.



Pricing trends

- Net effective rents decreased by **1.5 percent** from YE 2020. Through the course of the pandemic, landlords were hesitant to significantly change asking rates despite encountering significantly reduced demand.
- Demand is starting to increase as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market.



Capital markets

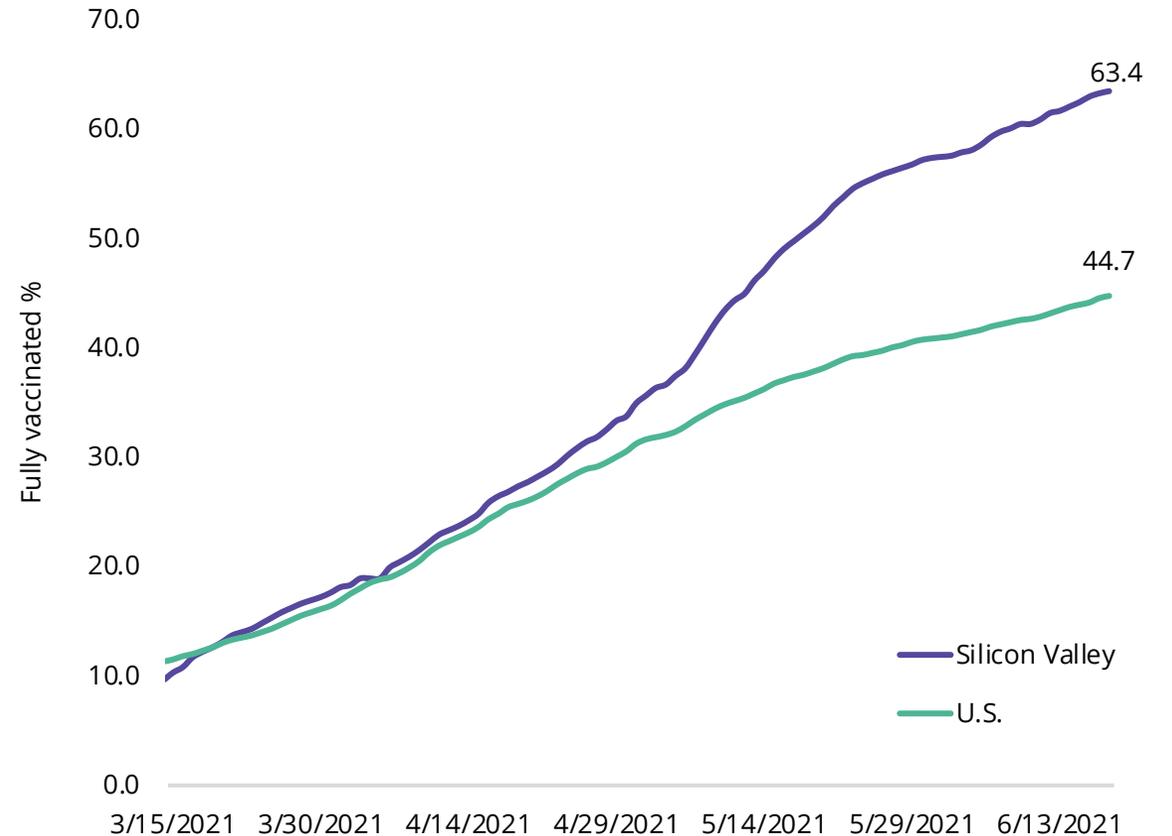
- The market has entered a risk-pricing crisis despite continued record levels of dry powder. As a result, just **\$5.9B** of Silicon Valley offices have been sold since 2020.
- Pricing hit a temporary low of **\$434.15 psf** at the height of the lockdowns in May 2020, but has increased every month since, now at **\$556.62 psf**, marking an increase of nearly 22%.

Vaccination rates

63.4%

Share of total Silicon Valley population that is fully vaccinated

Silicon Valley proportionate vaccination rates have far surpassed U.S. averages, an important metric that has allowed the city to loosen restrictions.



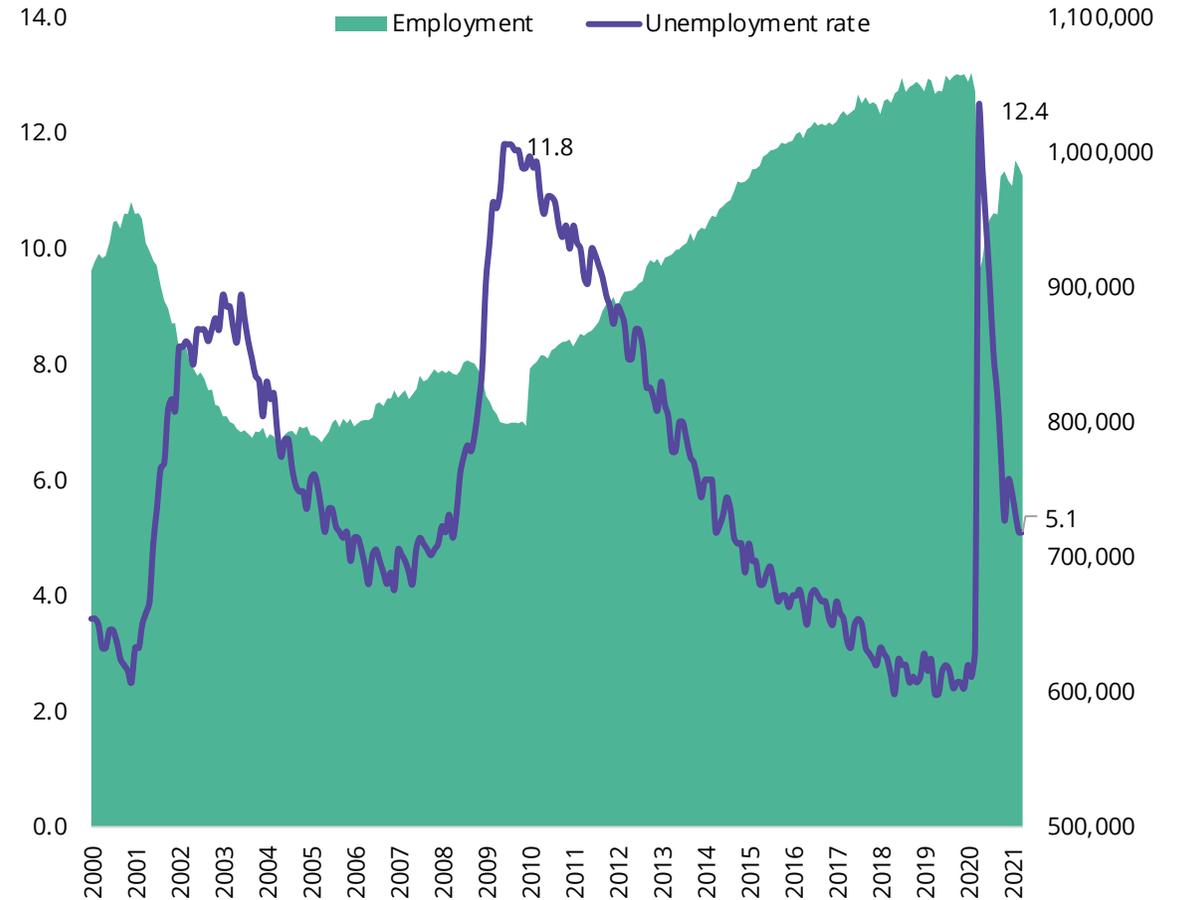
Source: CDC

Employment and unemployment rate

5.1%

Silicon unemployment rate as of June 2021, marking a significant recovery from the peak of the pandemic.

Historically tightened labor market conditions were halted by the pandemic with nearly 148,000 job losses between February and May 2020. However, reopening efforts have enabled the economy to add 7.8% jobs since May 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-2.4%

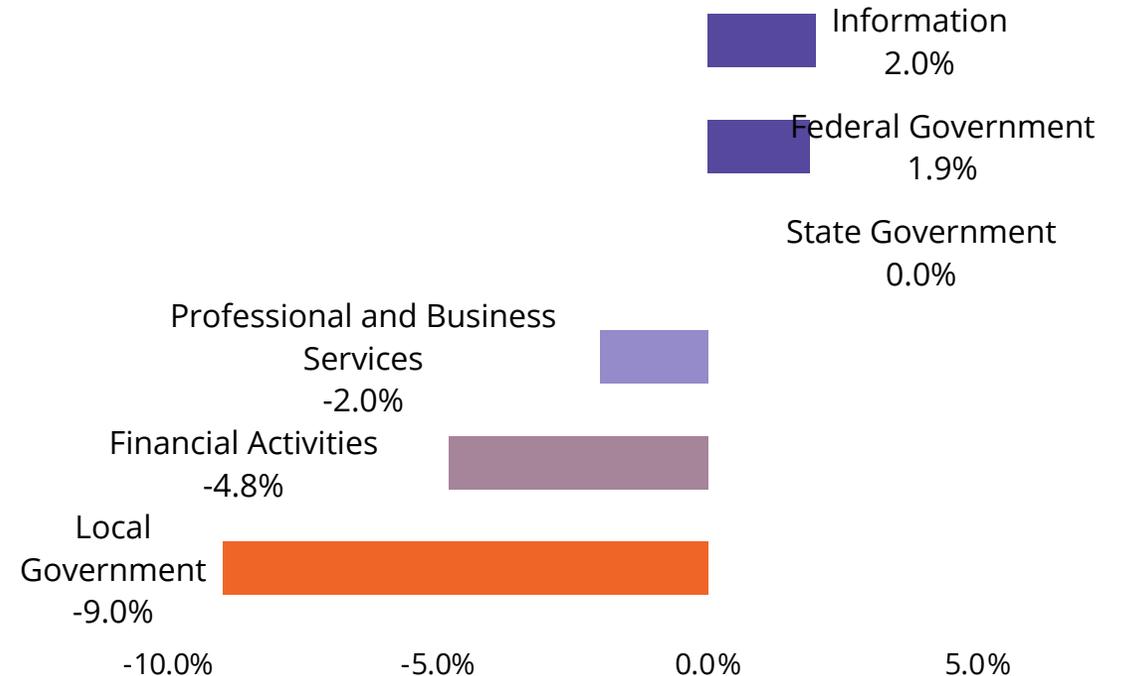
Change in office-using employment during the pandemic

San Jose job losses have declined by 7.1% since the start of the pandemic, though office-using jobs contracted by just 2.4%. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when Financial Activities job losses totaled 4.8%.

[VIEW DASHBOARD](#)

Total change in San Jose MSA* job gains/(losses)

February 2020 to June 2021



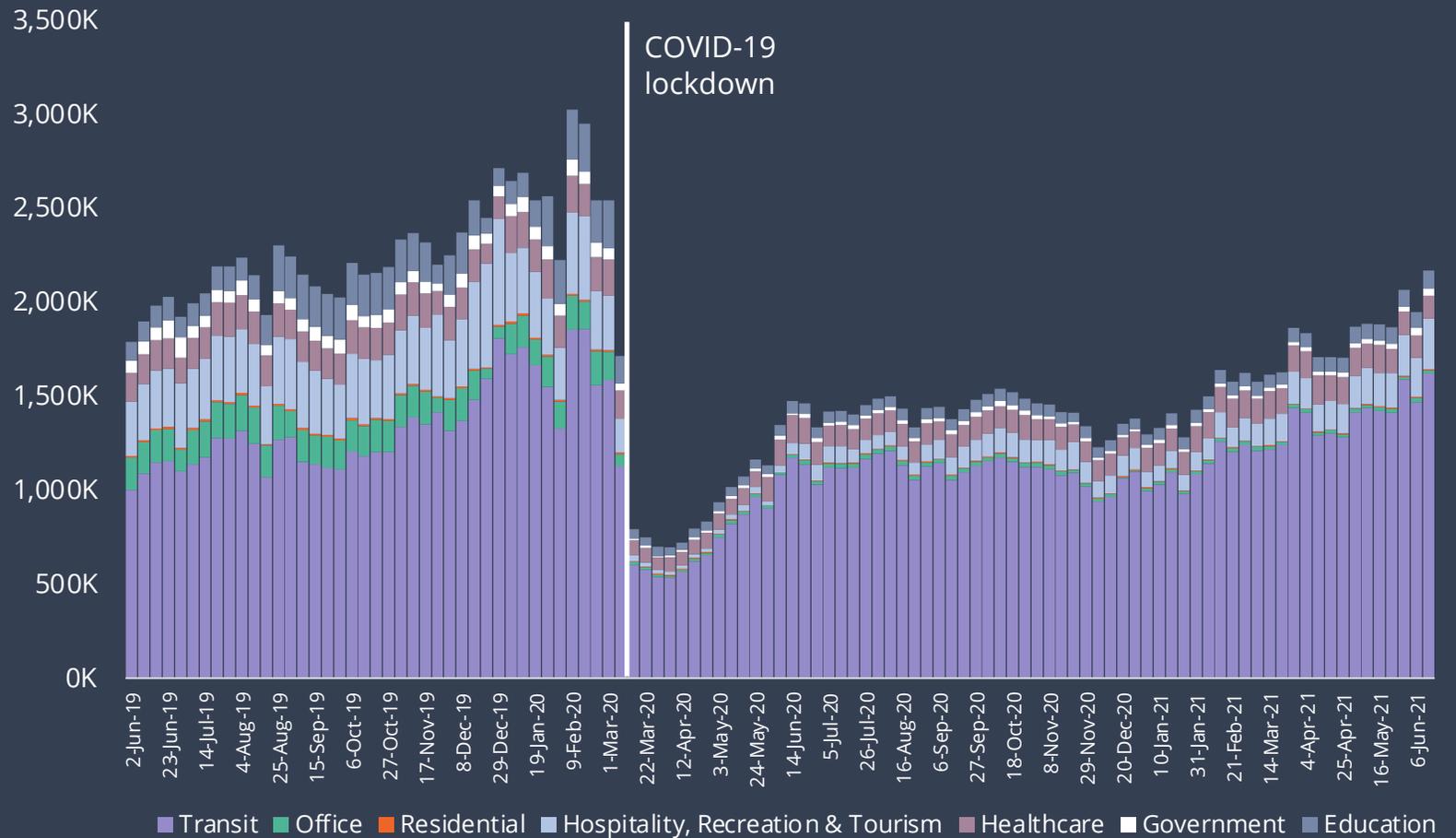
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Bay Area recovery index

65.7%

Post-COVID rate of recovery based on representative locations through 6/20/2021

Activity levels have escalated in recent months and continue to trend upward. Activity has increased by 47% year-over-year, underpinned by strong growth in hospitality (+353%) and government (+239%).



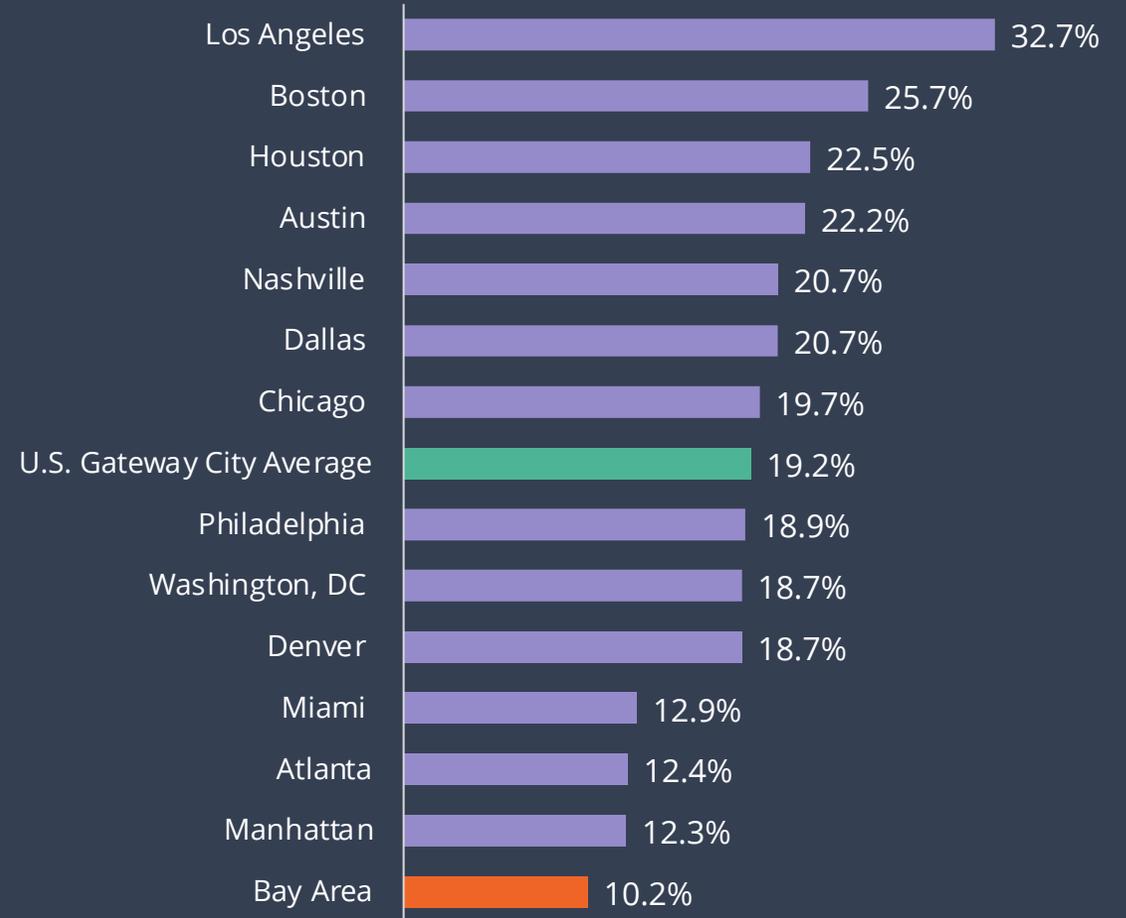
Note: Representative areas of interest.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Bay Area office recovery vs. U.S. gateway cities

10.2%

Post-COVID rate of recovery for Bay Area office employers

Bay Area office employers have been comparatively hesitant to return to the office, as measured by the lowest recovery rate among U.S. gateway cities.



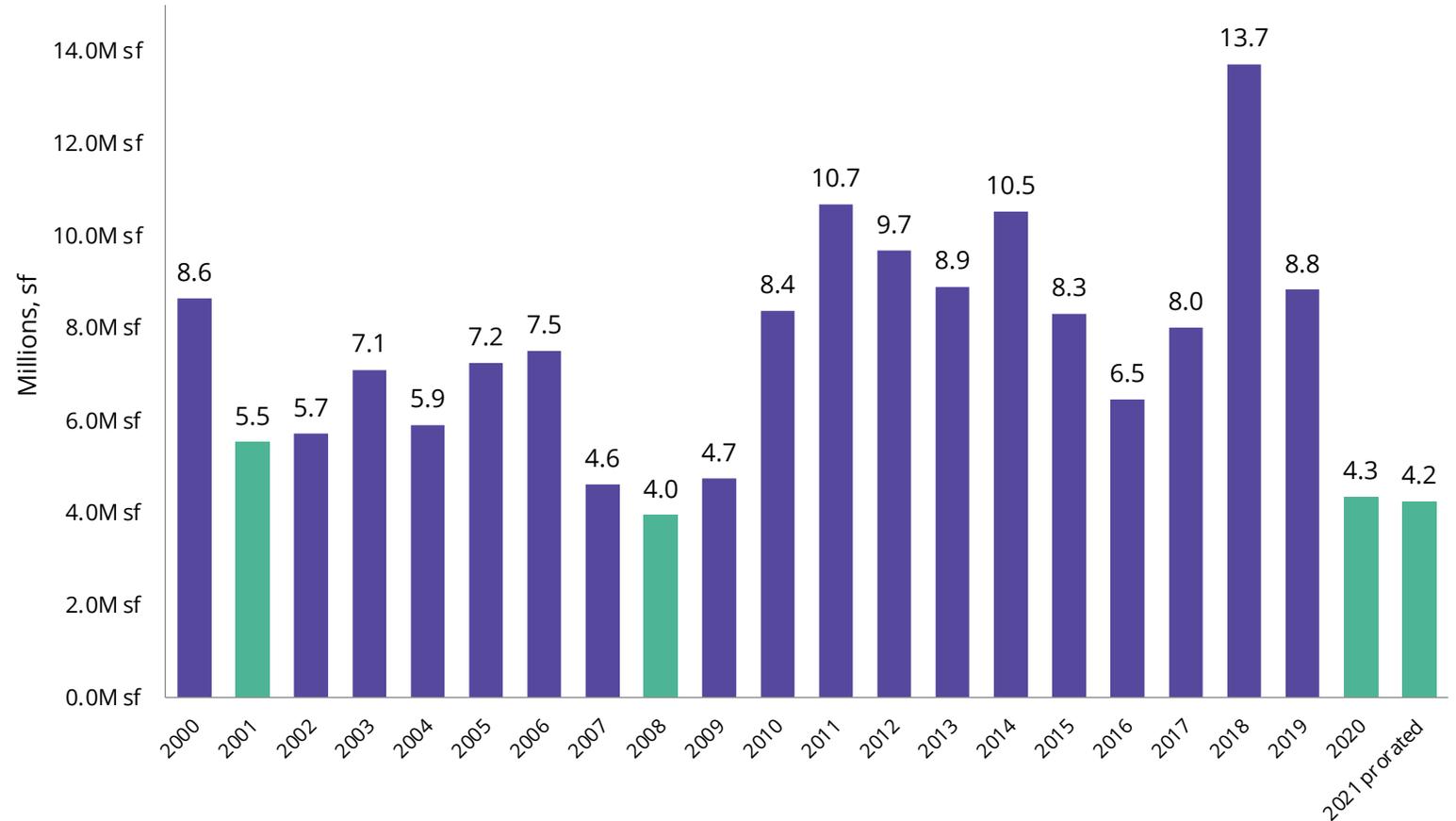
Note: Select, representative occupiers only. Weekdays only.
 Pre-COVID period measured as 6/1/2019 to 3/14/2020.
 Post-COVID period measured as 3/15/2020 to 6/20/2021.
 Source: Orbital Insights, AVANT by Avison Young

Office leasing activity

-44.4%

2021-pro-rated and 2020 vs. prior 20-year annual average leasing activity

With exception of the 2008 financial crisis, there has been no period with a more significant slowdown in leasing activity. This is due to the sudden change in office occupiers' future workplace strategies and the 2020 recession.



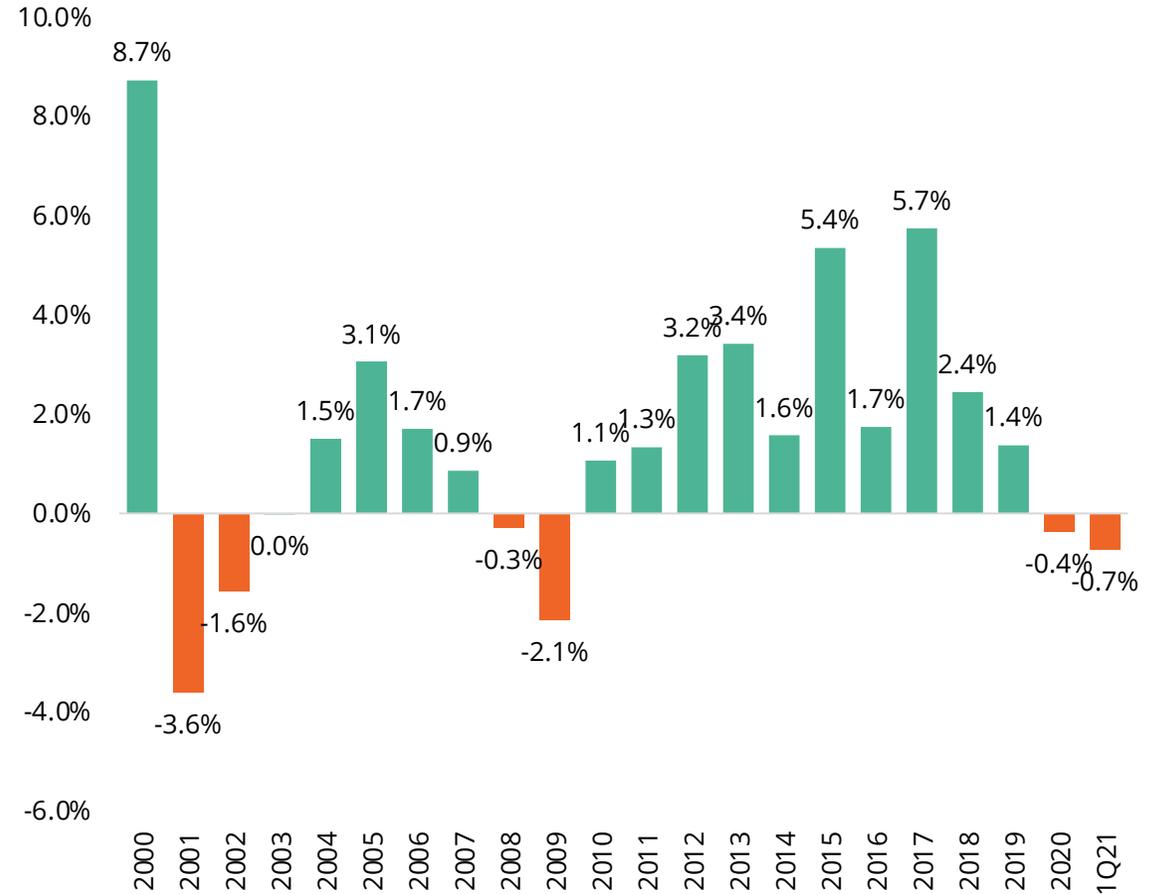
Source: AVANT by Avison Young

Absorption

-1.1%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Occupancy losses from 2020 to 2Q21 have totaled 1.2 million sf. While significant, these losses do not come close to the peaks of the dot com bust or financial crisis.



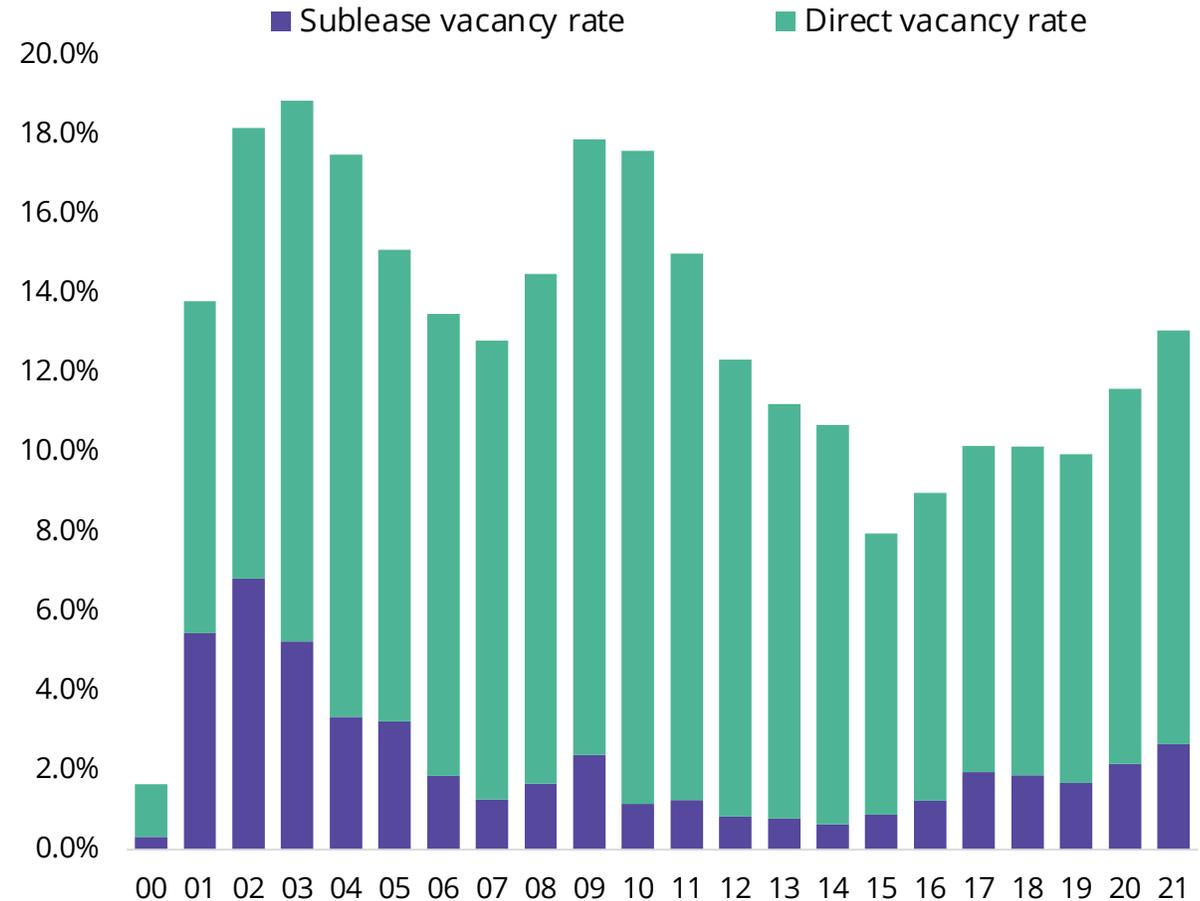
Source: AVANT by Avison Young

Vacancy rate

13.1%

**Silicon Valley vacancy
as of Q2 2021**

While the Q2 2021 vacancy rate has reached a high for the last decade, it has not risen to the peaks of neither the financial crisis nor the dot com bubble.



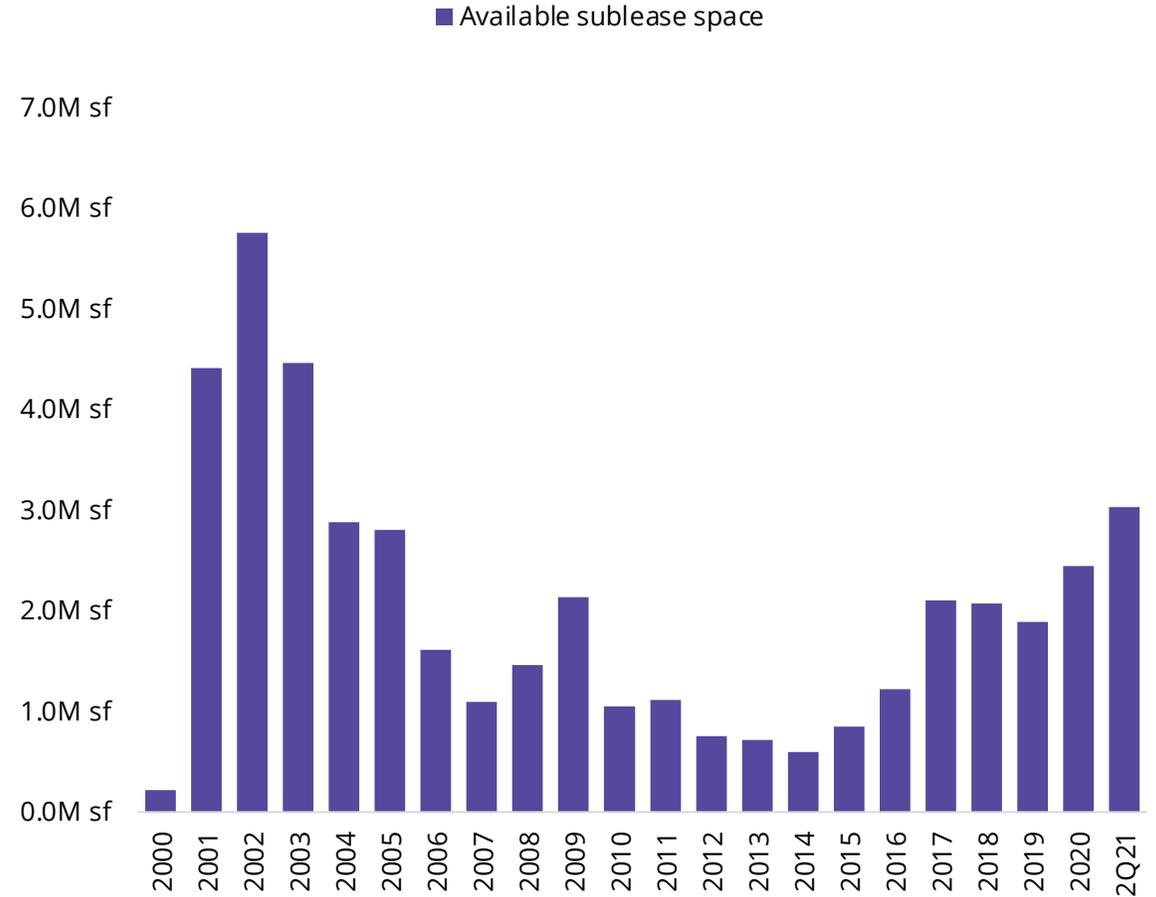
Source: AVANT by Avison Young

Available sublease space

3.0 msf

Available sublease space

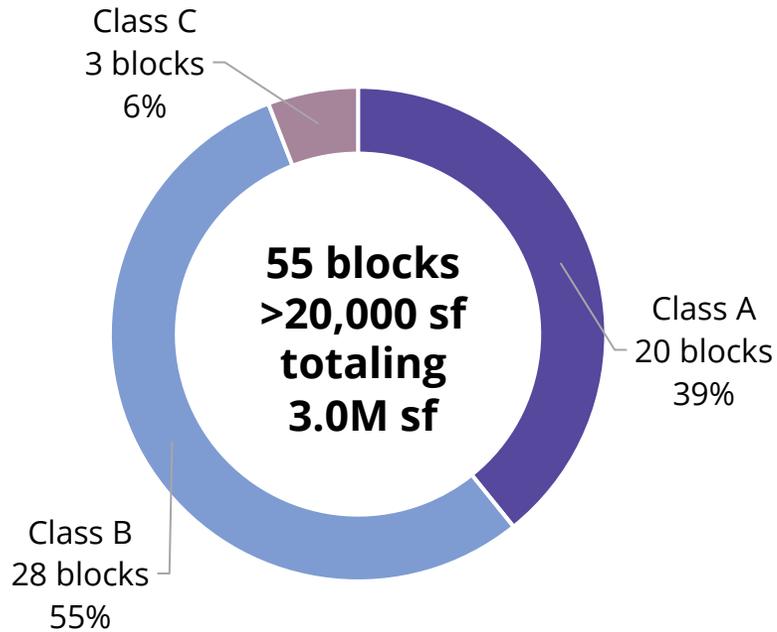
Available sublease space continues to grow and has increased by 60% over the past 18 months, yet has not reached the highs of the burst of the dot com bubble.



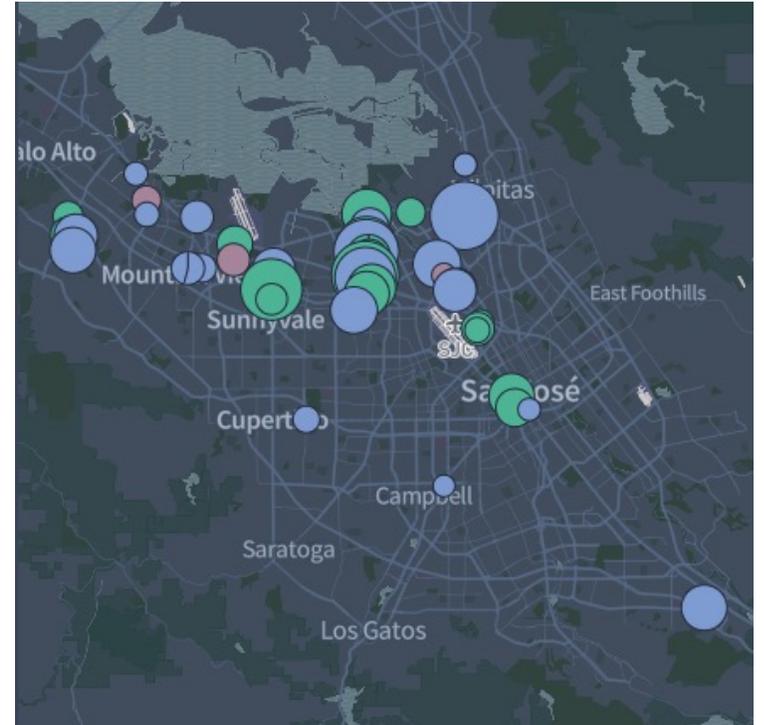
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Asking rent per square foot (monthly)



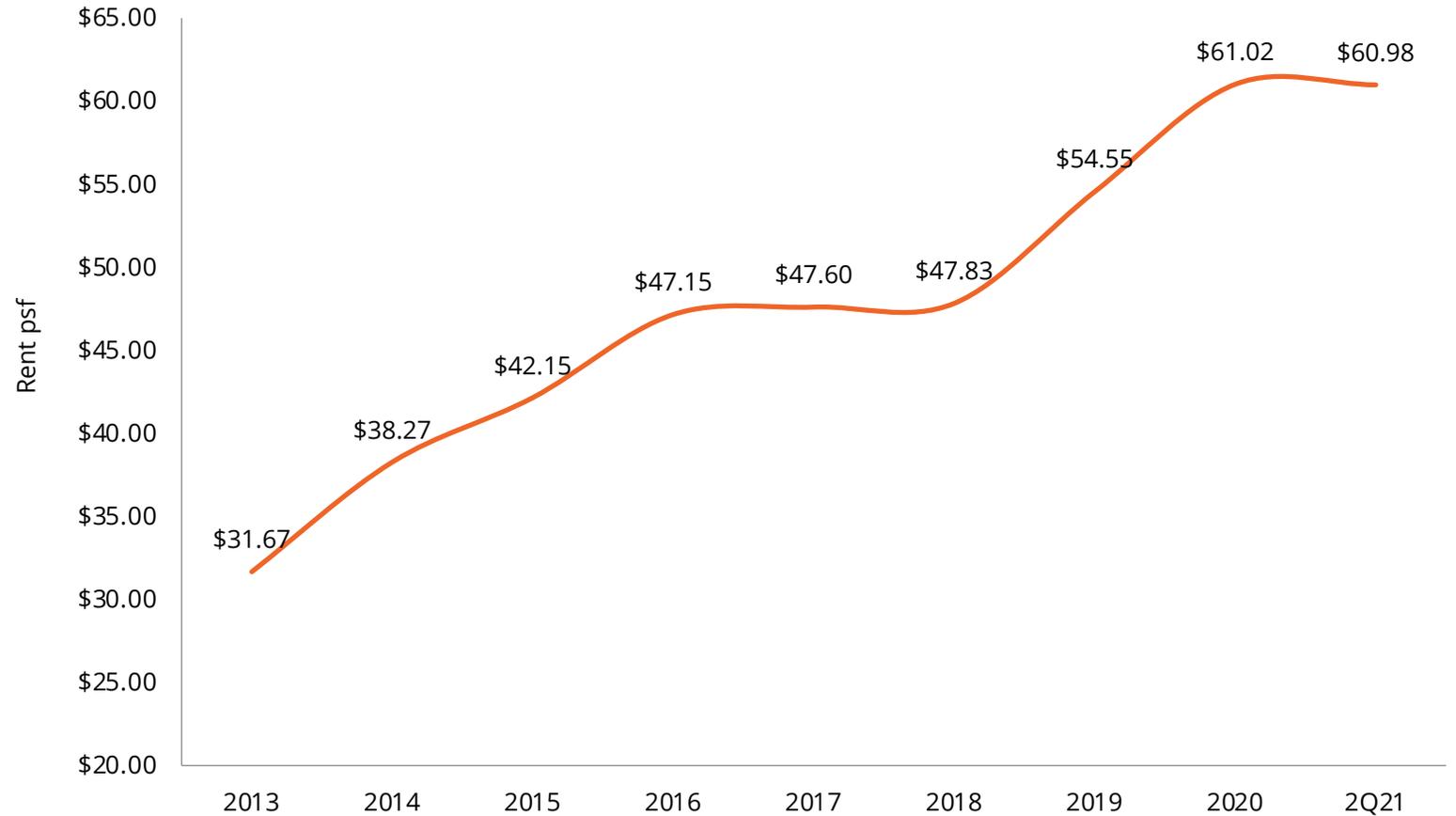
Source: AVANT by Avison Young

Base rents

0%

Change in base rents since YE 2020

Despite significant decreases in the volume of leases signed in the Silicon Valley, base rents stayed mostly stagnant throughout the pandemic, with average base rents decreasing by only \$0.04 per sf from 2020 to 2021.

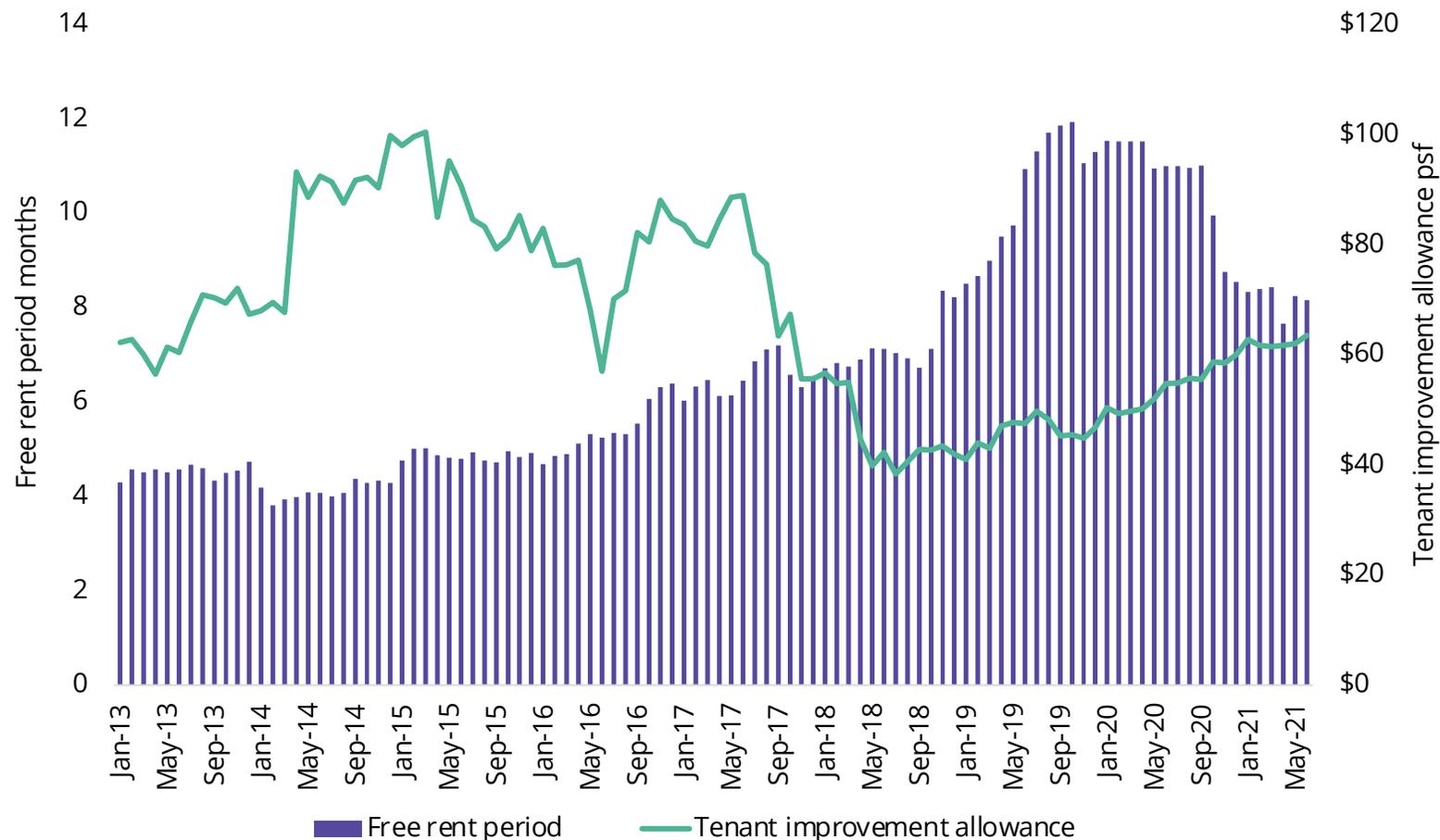


Source: AVANT by Avison Young

28.7%

Increase in average free rent concessions awarded to tenants since Feb 2020

Tenant improvement allowances and free rent periods have begun to stabilize as activity levels have risen. During this stabilization, landlords have become less apt to provide concessions in the form of free rent.



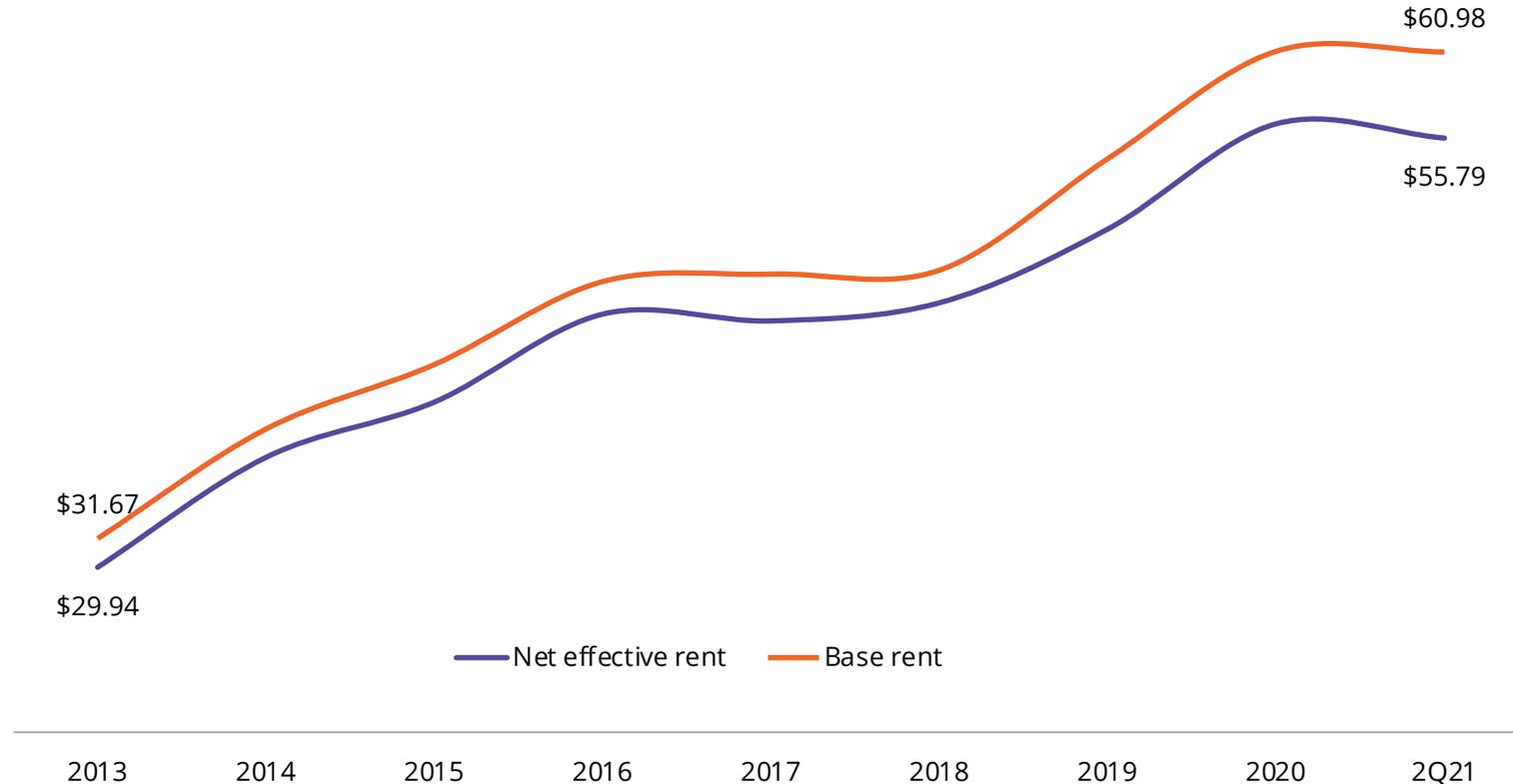
Note: Class A office properties. Trailing 12-month unweighted averages. Excludes subleases, renewals and expansions. Normalized to 10-year lease terms. Source: AVANT by Avison Young

Net effective rents and base rents

18.8%

Increase in delta between base and net effective rents

Net effective rents have declined by 1.5% over the first half of 2021, signaling that demand remains limited, however, tenants that postponed their real estate decisions are beginning to re-enter the market.



Note: Class A office properties. Trailing 12-month unweighted averages. Excludes subleases, renewals and expansions. Source: AVANT by Avison Young

Class B and C economics after the pandemic

2018 to
03/2020

Period

\$36.82 psf

Average
base rent

9 months

Average free
rent period

\$53.72 psf

Average tenant
improvement
allowance

\$41.79 psf

Average net
effective rent

04/2020
to today

Period

\$43.81 psf

Average
base rent

7 months

Average free
rent period

\$71.12 psf

Average tenant
improvement
allowance

\$41.58 psf

Average net
effective rent

Note: Class B and C direct relocations only normalized for 10-year lease terms.
Source: AVANT by Avison Young

Silicon Valley's aging inventory

144 properties

proposed or under construction

57.2 msf

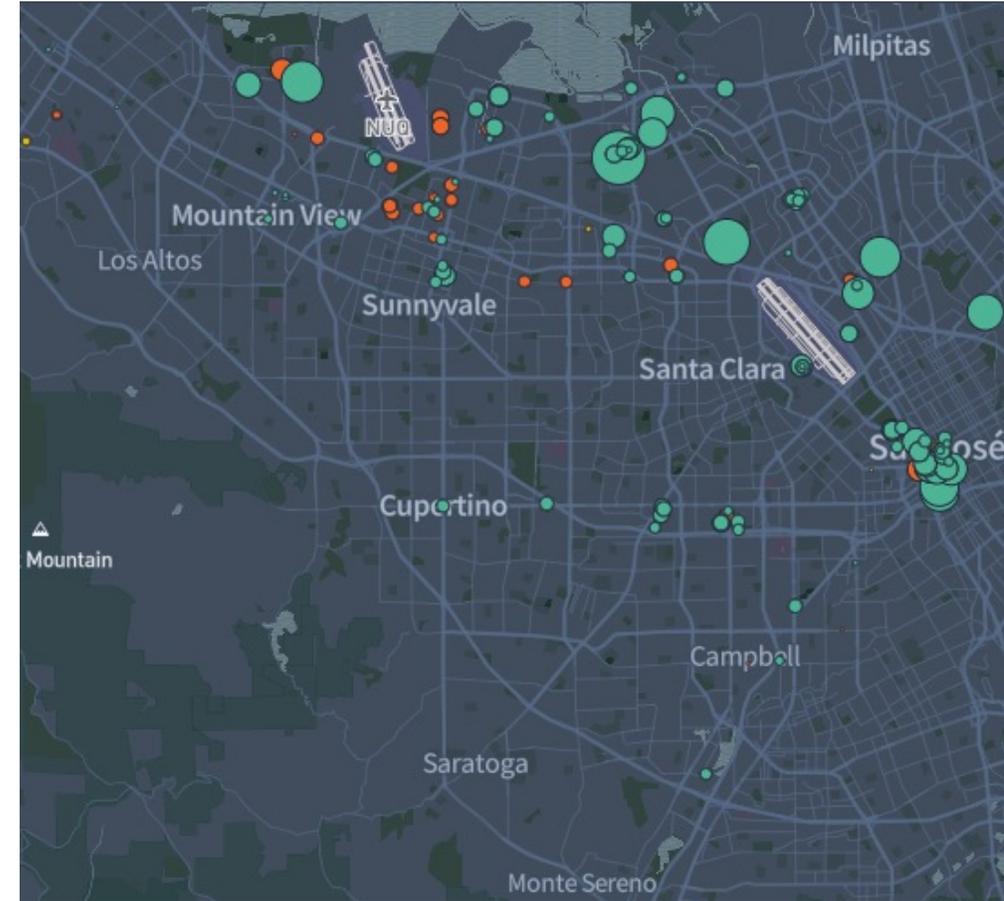
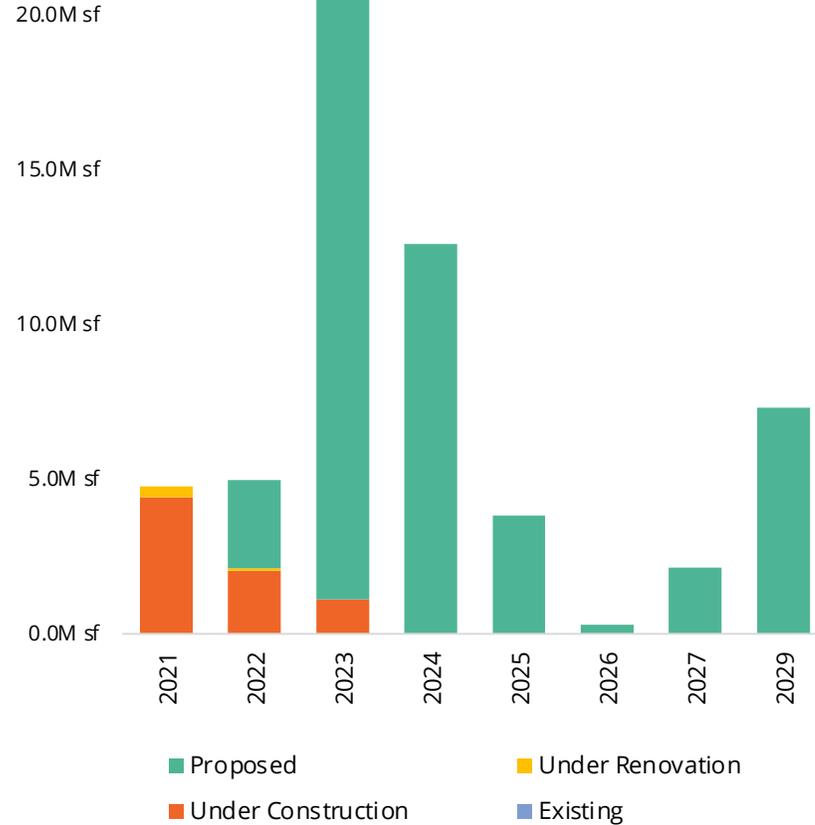
proposed or under construction

45.7%

share of office inventory

1983

average delivery date of existing Silicon Valley offices



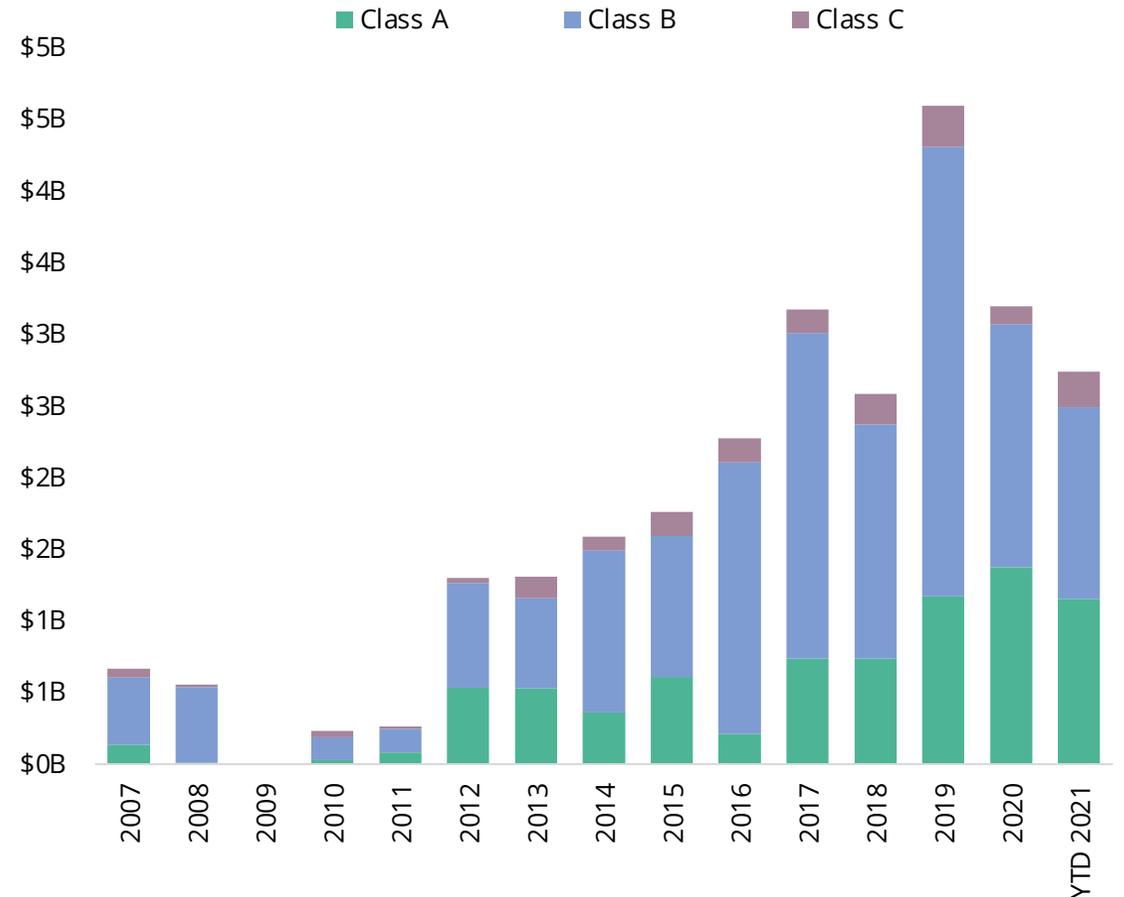
Source: AVANT by Avison Young

Office investment dollar volume

\$5.9B

Silicon Valley office dollar volume 2020 to present

While office sales have come down from their peak in 2019, the fundamentals of the Silicon Valley have remained strong, with many buyers having confidence in the Post-COVID future of the region as office tenants return to the office. Much of this confidence comes from a robust development pipeline and the consistent growth of the traditional tech giants.



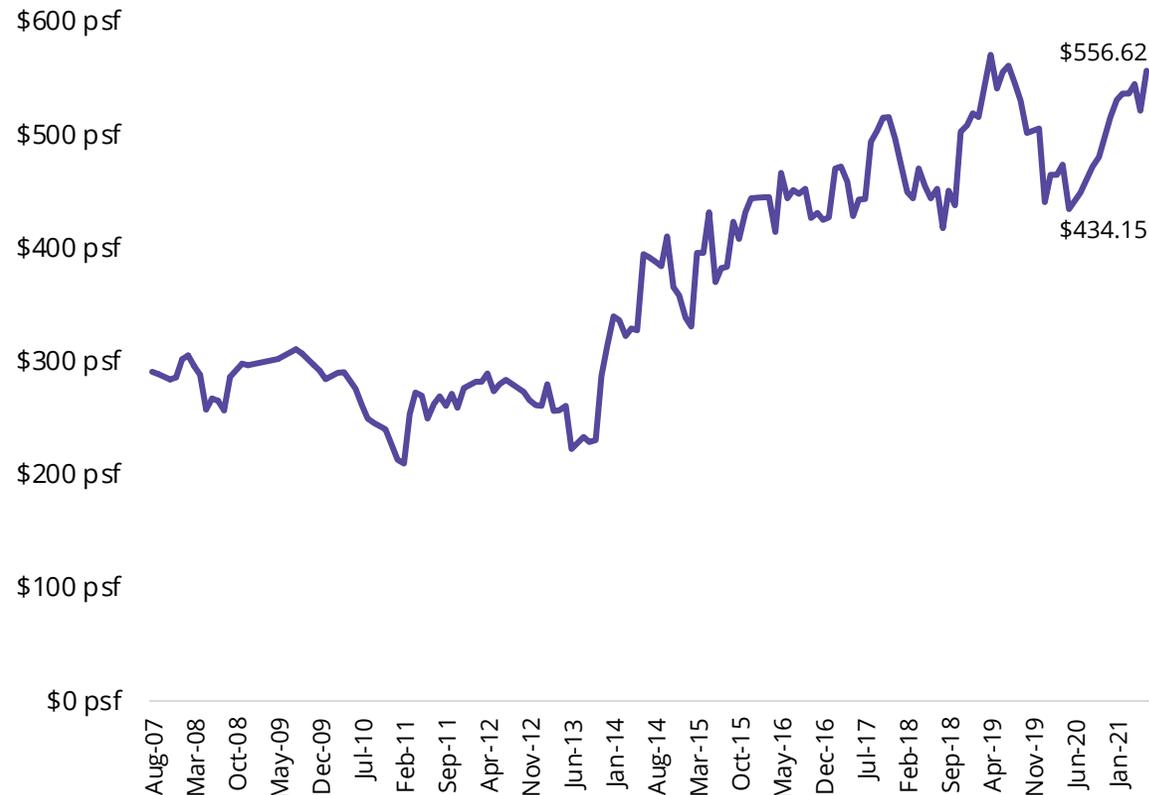
Source: AVANT by Avison Young,
California Department of Finance, RCA

Office asset pricing

22.0%

Increase in Silicon Valley office pricing from May 2020 to present

Pricing has not only returned to pre-pandemic levels but has surpassed them as investors see an end to the pandemic in sight, employees begin to return to the office, and leasing activity beginning to increase. Pricing hit a temporary low of \$434.15 psf at the height of the lockdowns in May 2020, but has increased every month since, now at \$556.62 psf.



Source: AVANT by Avison Young
New York City Department of Finance, RCA

Get in touch



Nick Baldwin

Senior Data Analyst
Innovation
+1 408 913 6914
nick.baldwin@avisonyoung.com



Jen Vaux

U.S. Director of Insight, Office
Research
+1 408 913 6902
jennifer.vaux@avisonyoung.com



Carl Caputo

Global Practice Lead, Innovation – Data
Innovation
+1 202 508 5284
carl.caputo@avisonyoung.com



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Let's talk

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