



AVISON
YOUNG

Silicon Valley Office Insight Report

Q3 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 **4.9 percent**.
- Office-using jobs decreased by **2.6 percent** compared with 8.7 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 **55.3 percent**.
- The overall rate of recovery in the Bay Area is comparatively higher at **64.5 percent**.
- Despite the rise of the Delta Variant, the return of Bay Area office occupiers has seen improvements quarter over quarter, led by companies like Tesla. The rate of recovery across the Bay Area office market is **28.7 percent**.



Office demand

- Leasing activity has paused, decreasing by **45.0 percent** compared with long-term historical averages.
- Over the next 5 years, an average of **4.2 msf** are set to expire annually.

Key takeaways



Office supply

- The development pipeline remains robust with **6.5 million sf** of office assets under construction.
- While there a slight decrease since Q2 2021, direct and sublease vacancy is still experiencing highs not seen in the last decade, now at **12.9 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 **3.1 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 continuing to increase as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market.



Capital markets

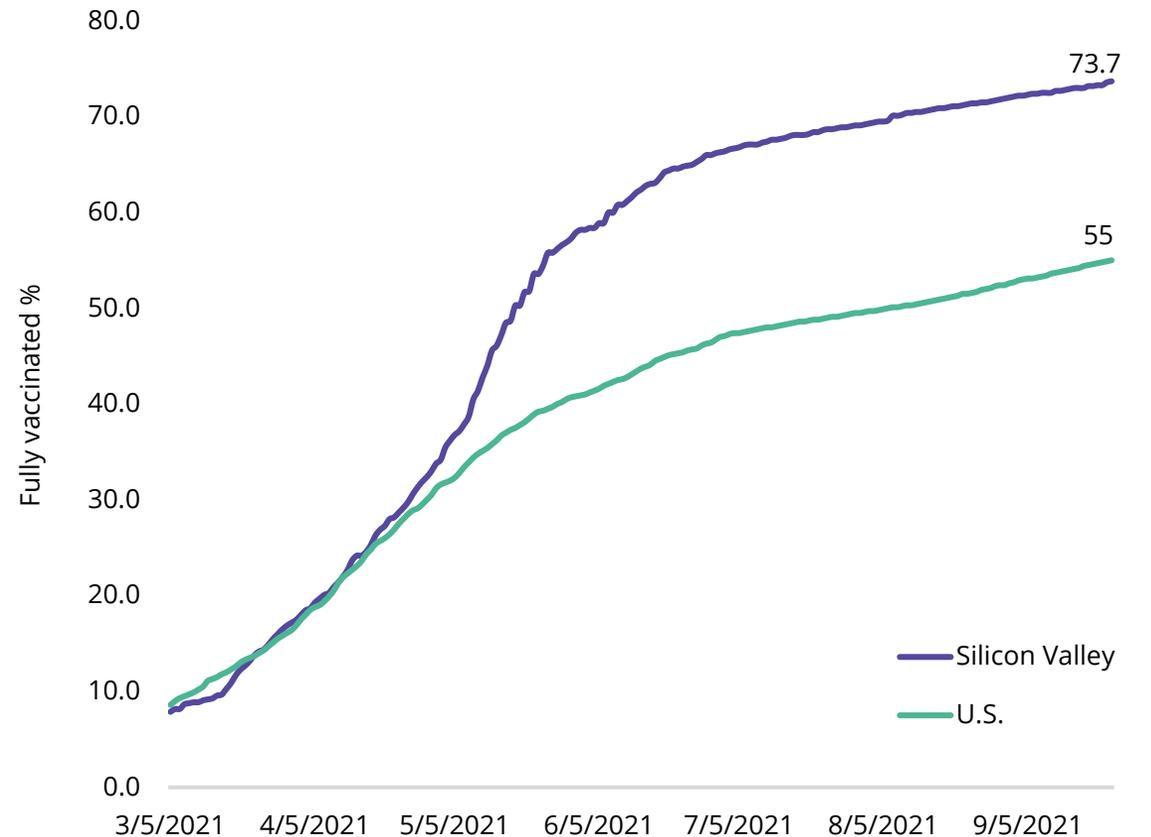
- Market fundamentals remain strong throughout Silicon Valley. As a result, **\$5.2B** of Silicon Valley offices have been sold since 2020.
- Driven by long-term confidence in the region, pricing has hit a record high of **\$670 psf**

Vaccination rates

73.7%

Share of total Silicon Valley population that is fully vaccinated

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



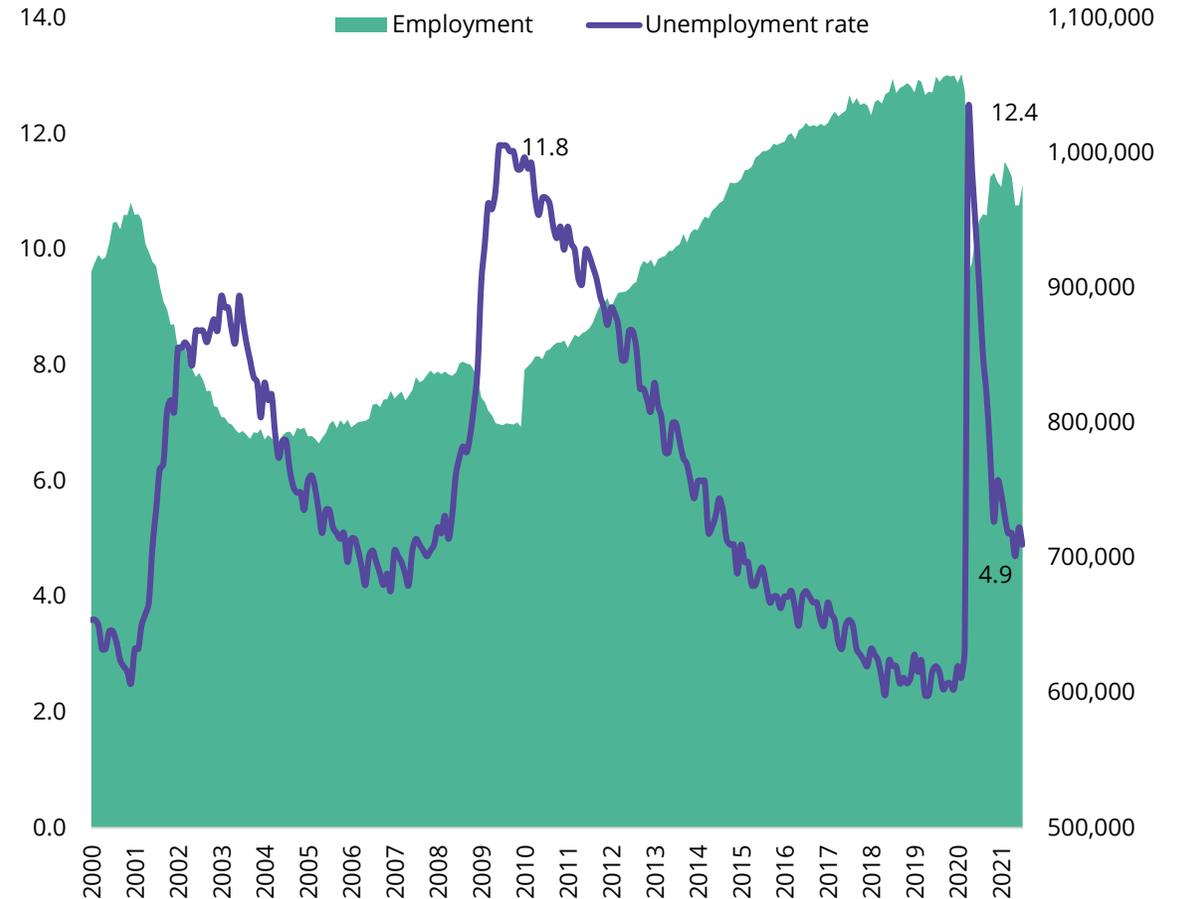
Source: CDC

Employment and unemployment rate

4.9%

Silicon unemployment rate as of July 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 7.2% jobs since May 2020.



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

Office-using job gains and losses

-2.6%

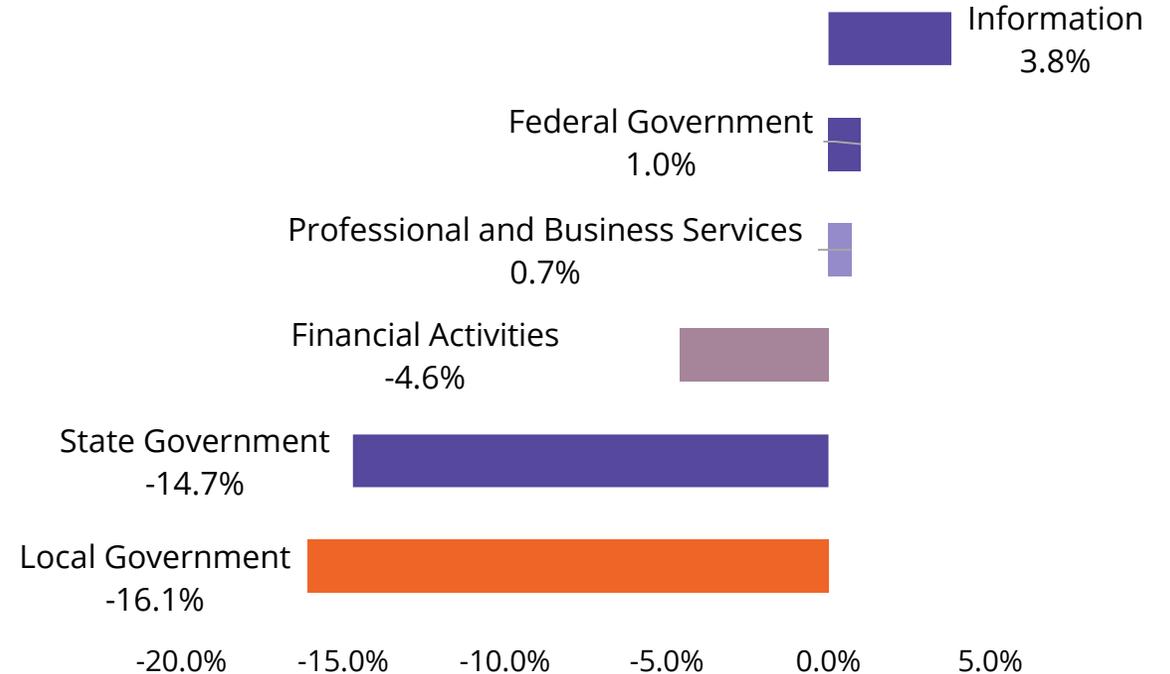
Change in office-using employment during the pandemic

San Jose job losses have increased 6.1% since the start of the pandemic, though office-using jobs decreased by 2.6%, with many private sector group seeing net job gains. 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%.

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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

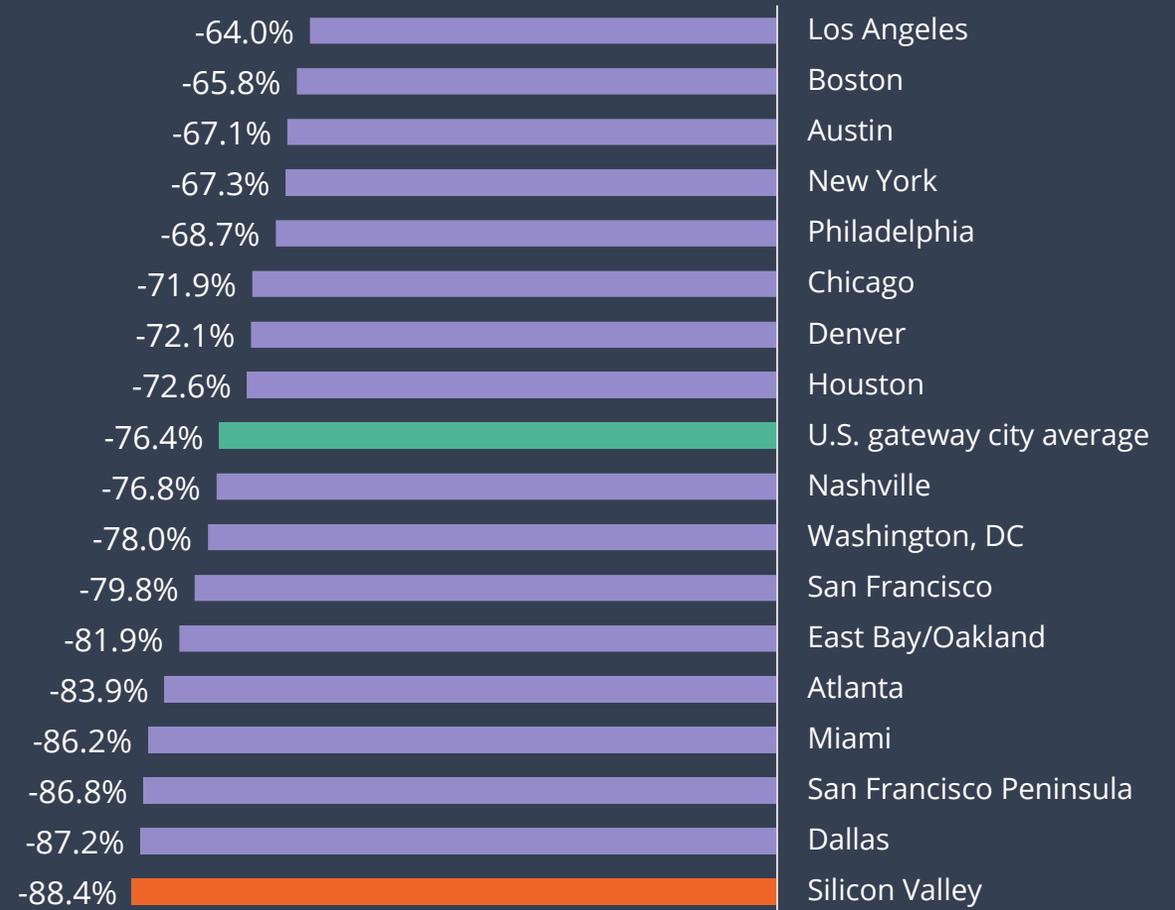
U.S. return-to-work rates since Labor Day 2019

-76.4%

Average office visitor volumes across U.S. gateway cities, Labor Day 2019 vs. September 13, 2021

Return-to-work efforts across cities have been influenced by governmental regulations (informed by infection and vaccination rates), office-using industry composition and employees' reliance on mass transit.

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Note: Representative full-building office occupiers only. Weekdays only. Data as of September 13, 2021. Source: Orbital Insight, AVANT by Avison Young

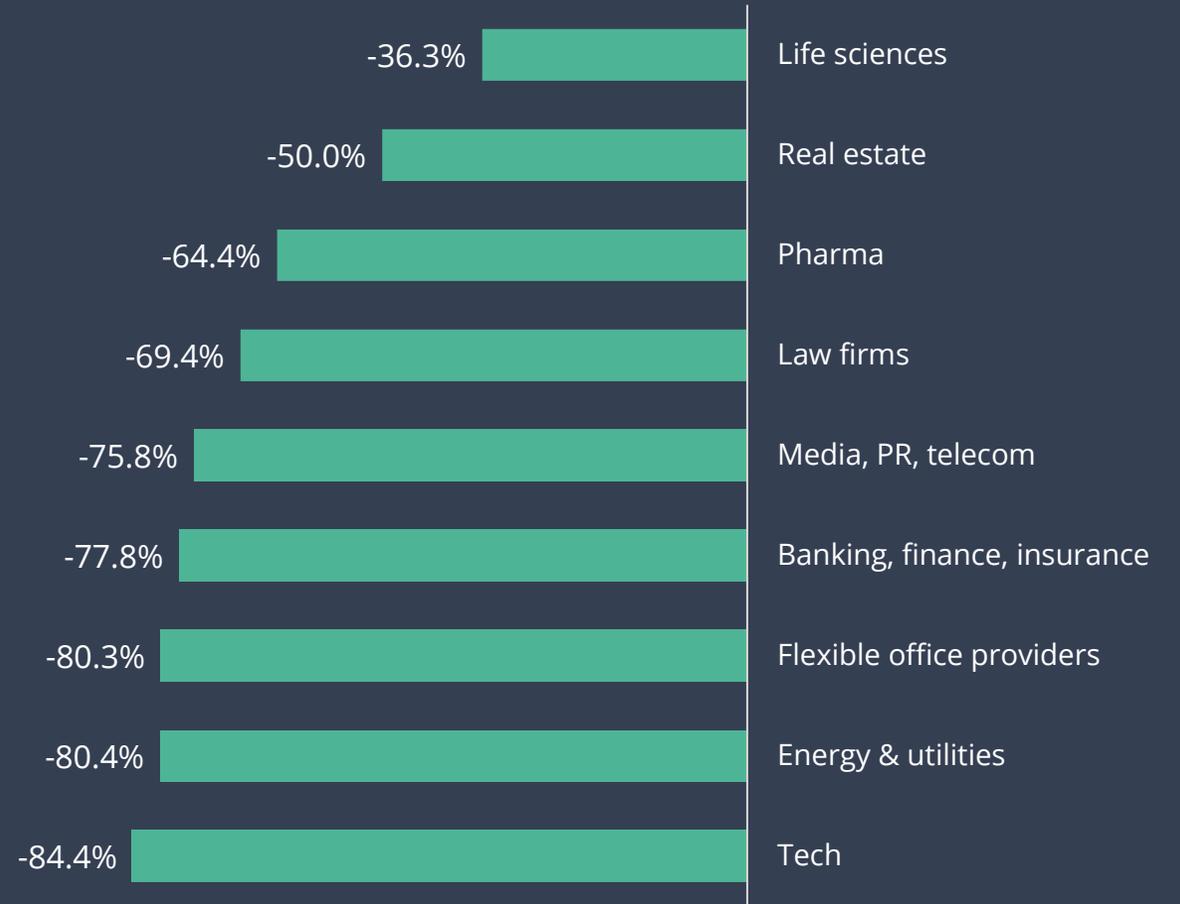
U.S. return-to-work rates since Labor Day 2019

-84.4%

Average tech office visitor volumes across U.S. gateway cities, Labor Day 2019 vs. September 13, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

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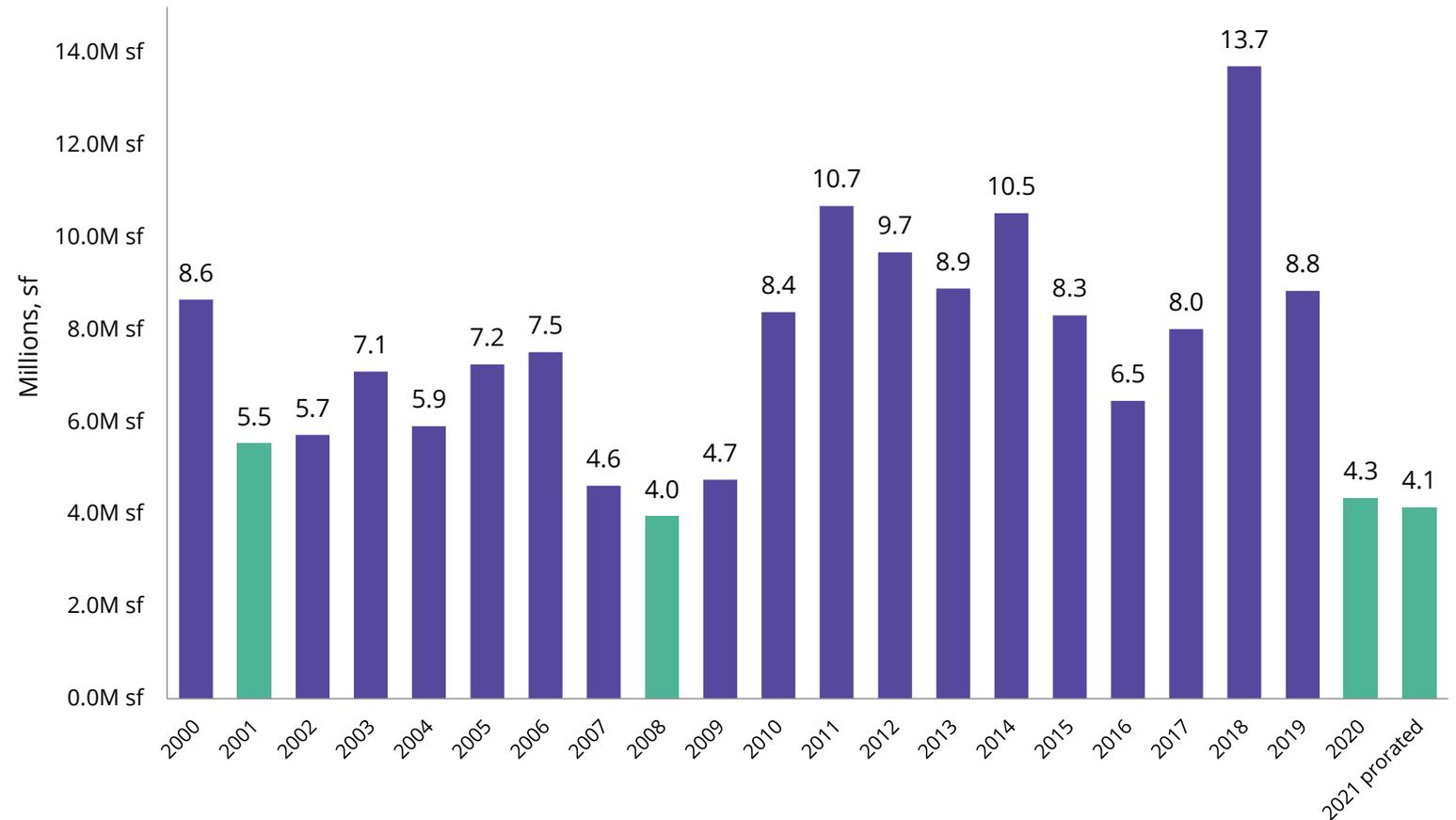
Note: Representative full-building office occupiers only. Weekdays only. Data as of September 13, 2021. Source: Orbital Insight, AVANT by Avison Young

Office leasing activity

-45.0%

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. While optimism was high at the beginning of the third quarter, the Delta Variant has delayed real estate decisions further.

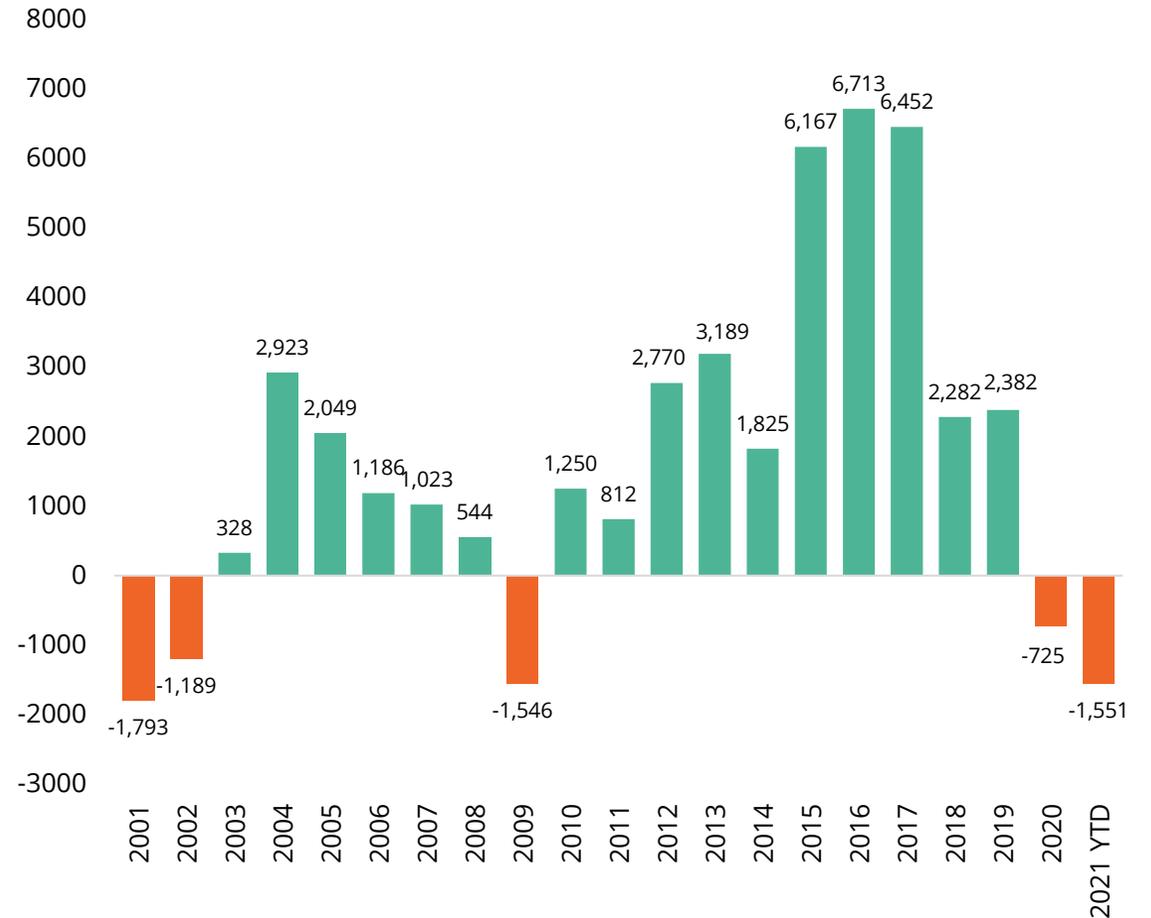


Source: AVANT by Avison Young

-2.3M sf

Total net absorption, 2020 through Q3 2021

Occupancy losses from 2020 to 3Q21 have totaled nearly 2.3 million sf, reaching near historical highs not seen since the peak of the dot com bust.



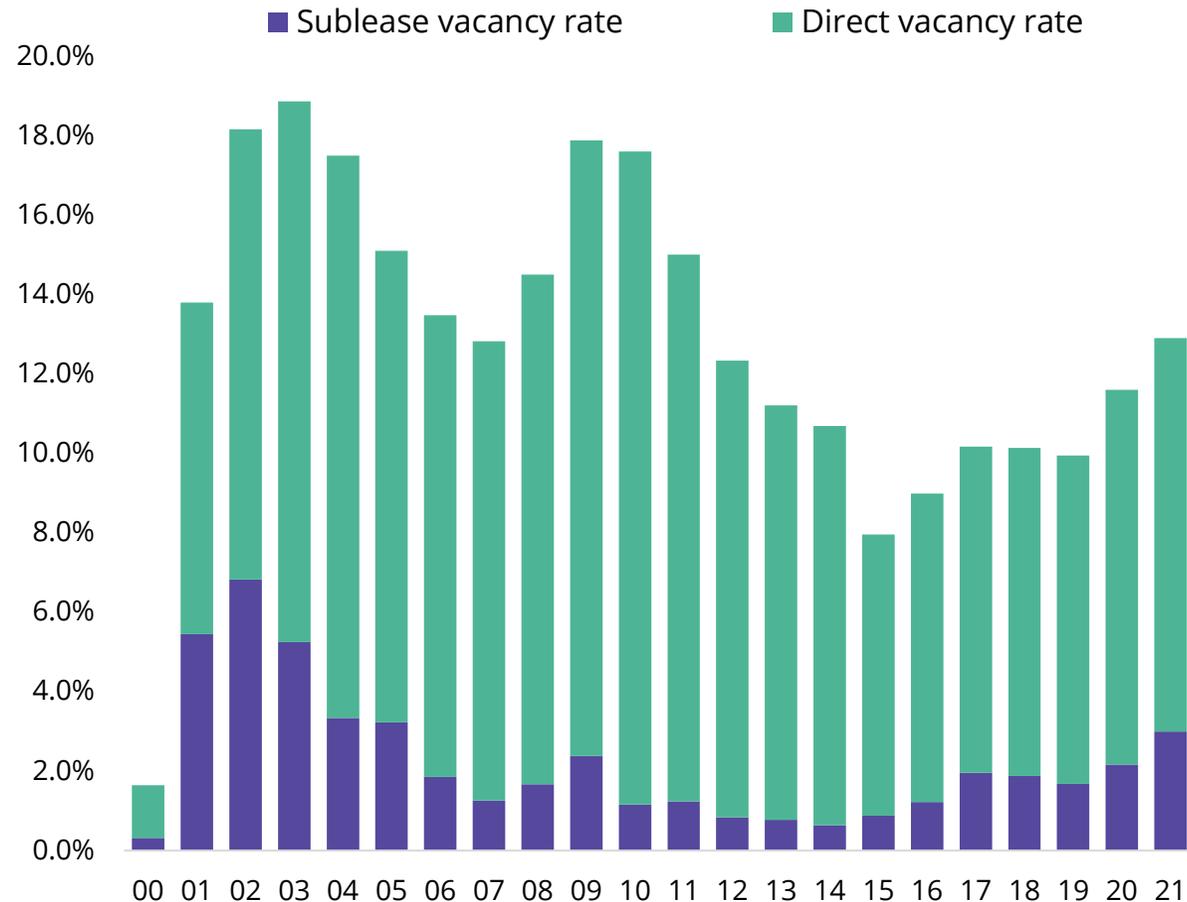
Source: AVANT by Avison Young

Vacancy rate

12.9%

Silicon Valley vacancy as of Q3 2021

While vacancy rates are near decade highs, signs of improvement are beginning to show with total vacancy dropping to 12.9% in Q3 2021 from 13.1% in Q2.



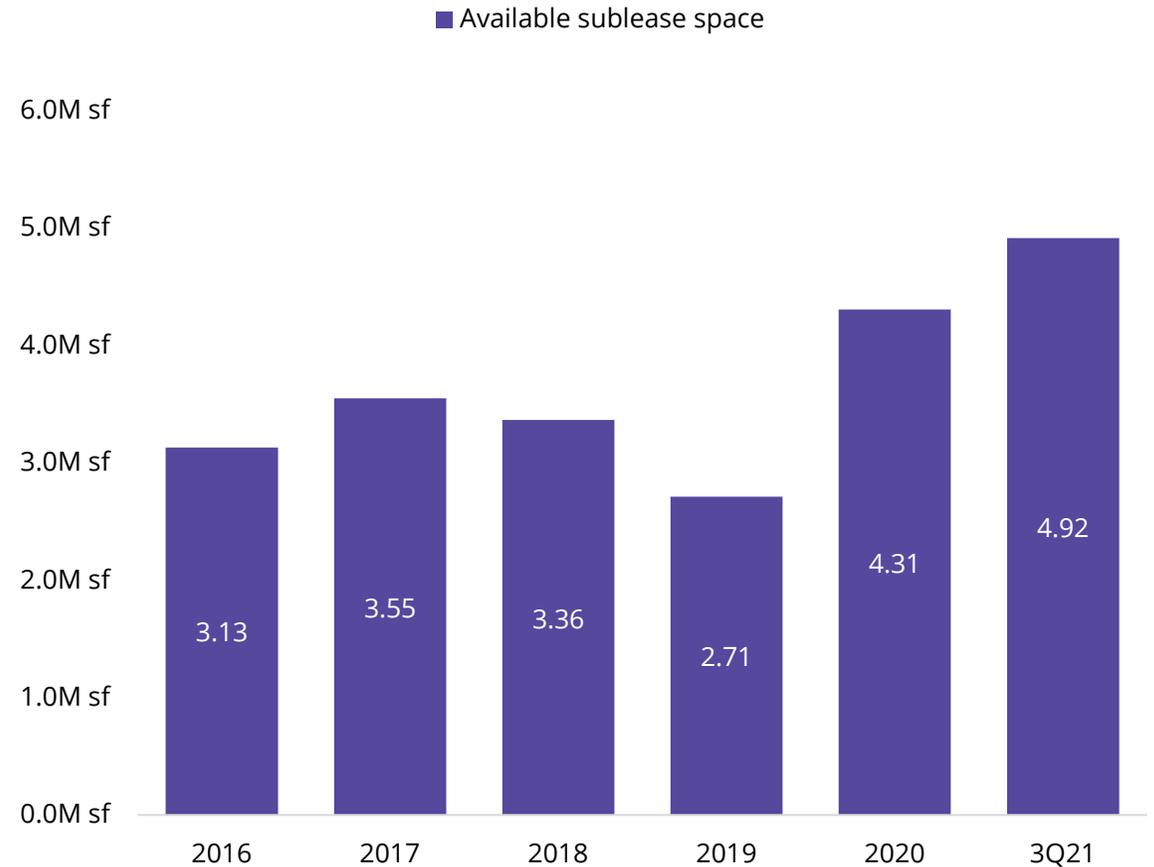
Source: AVANT by Avison Young

Available sublease space

4.9M sf

Available sublease space

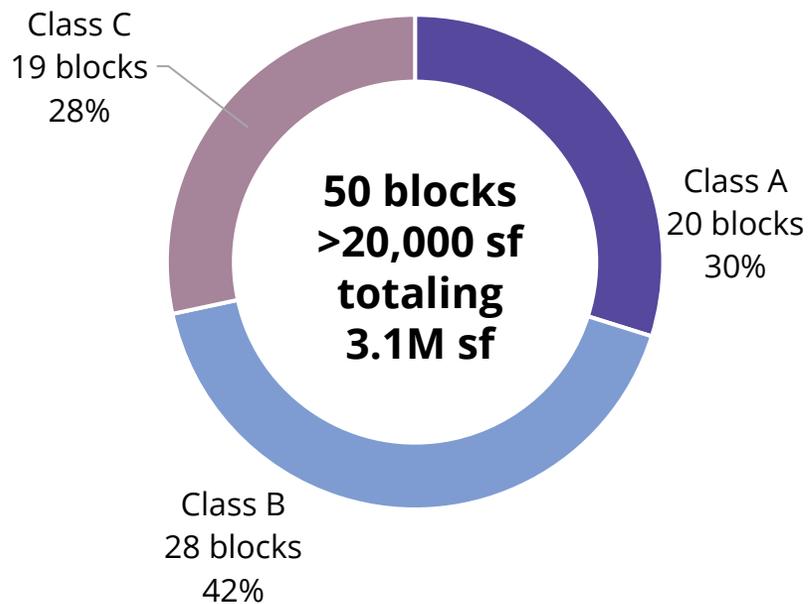
Available sublease space continues to grow (up to 4.9M sf in Q3 2021 from 4.3M sf in 2020) and has increased by nearly 79% since the beginning of the pandemic but has not reached the highs of the burst of the dot com bubble.



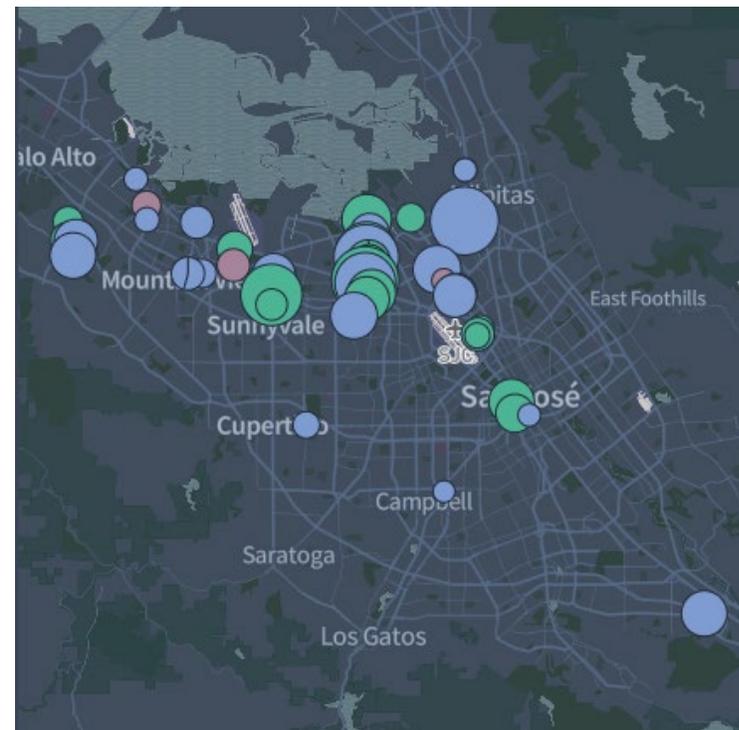
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Asking rent per square foot (monthly)



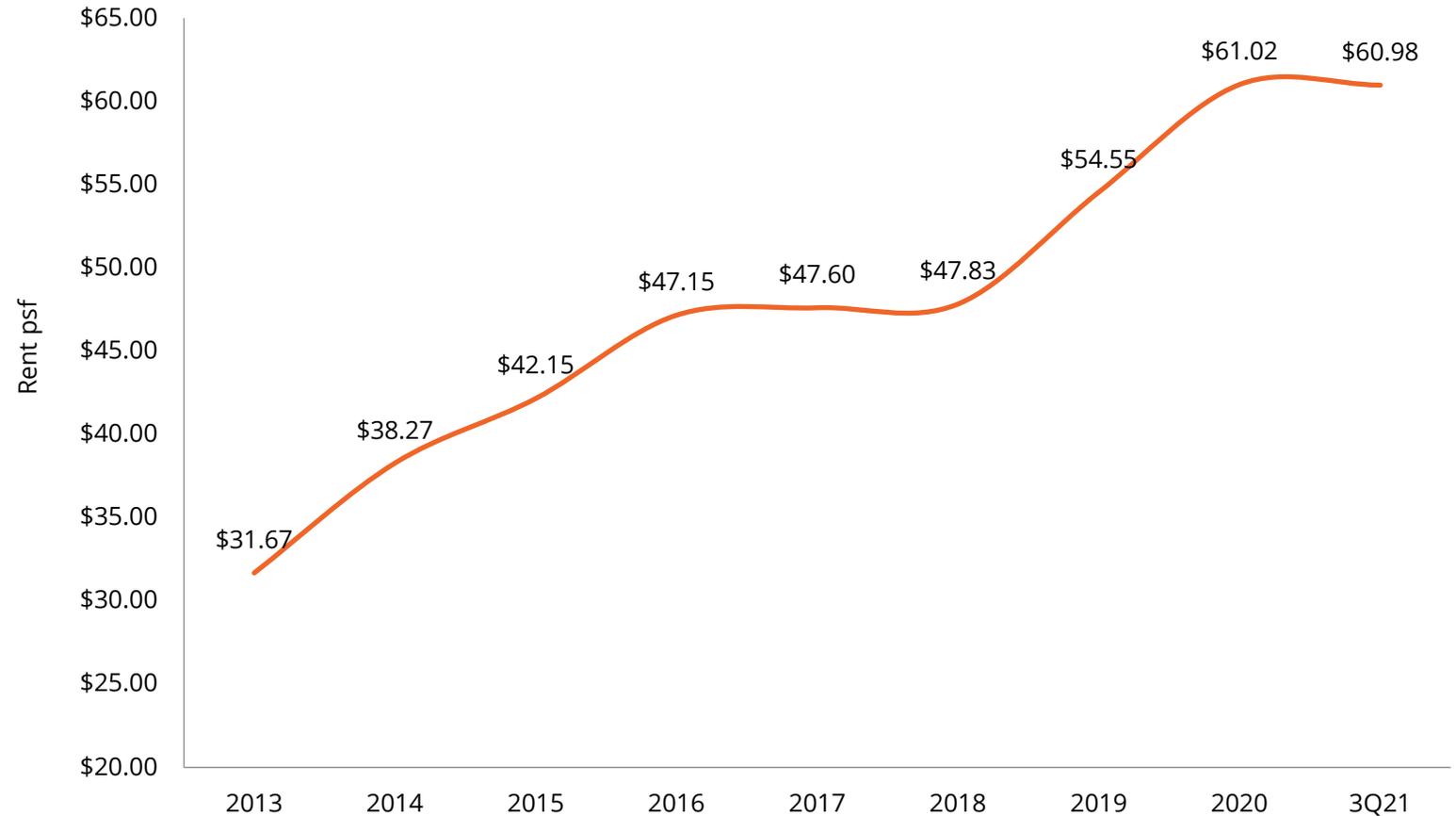
Source: AVANT by Avison Young

Class A - Base rents

0%

Change in base rents since 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.



Note: Class A office properties
Source: AVANT by Avison Young

Concessions

28.7%

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

Tenant improvement allowances & free rent periods have begun to stabilize as activity levels have risen. During this stabilization, landlords have become more apt to provide concessions in the form of free rent rather than in the form of rental discounts.



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

Class B and C economics after the pandemic



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

Silicon Valley's aging inventory

115 properties

proposed or under construction

55.7 msf

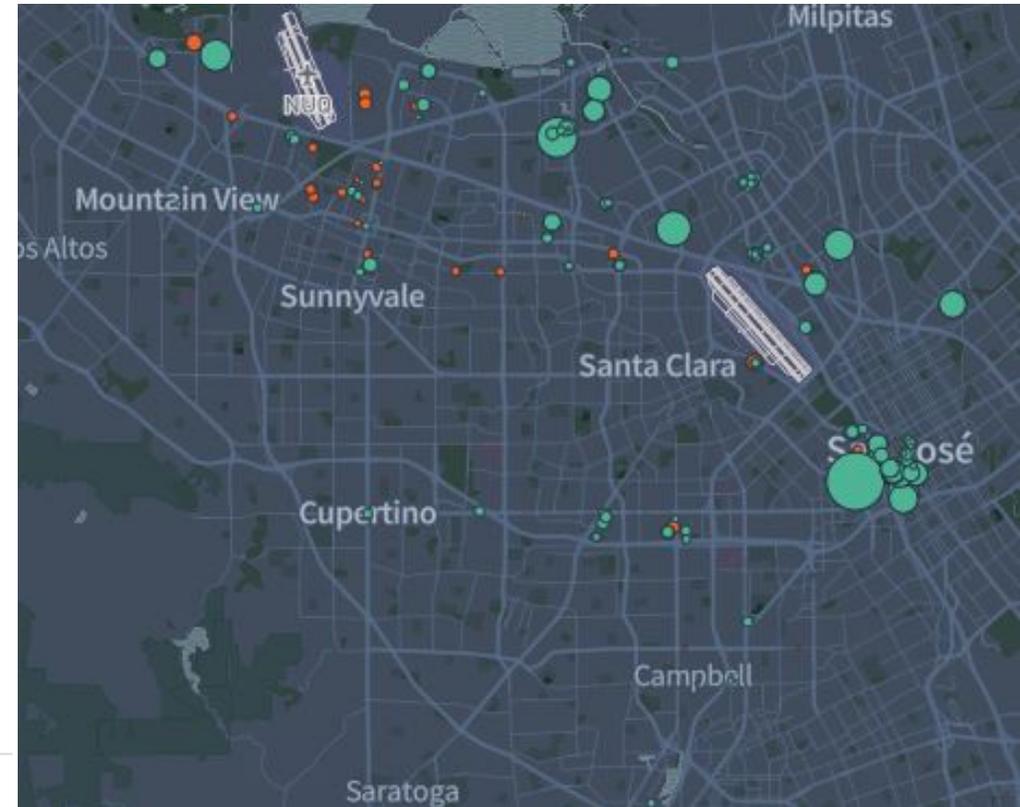
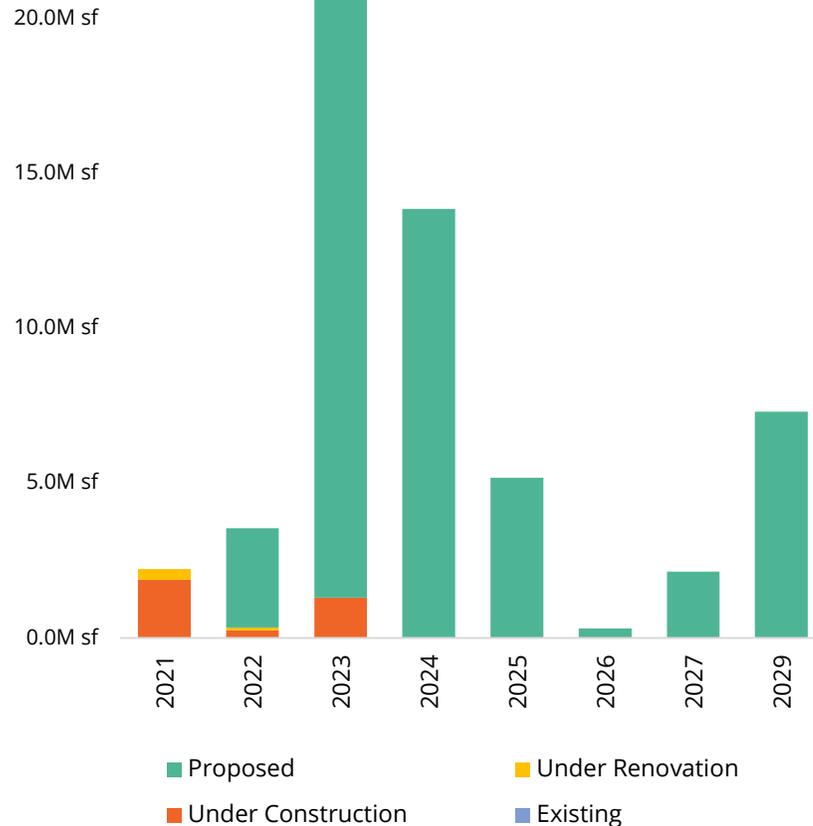
proposed or under construction

41.9%

share of office inventory

1983

average delivery date of existing Silicon Valley offices



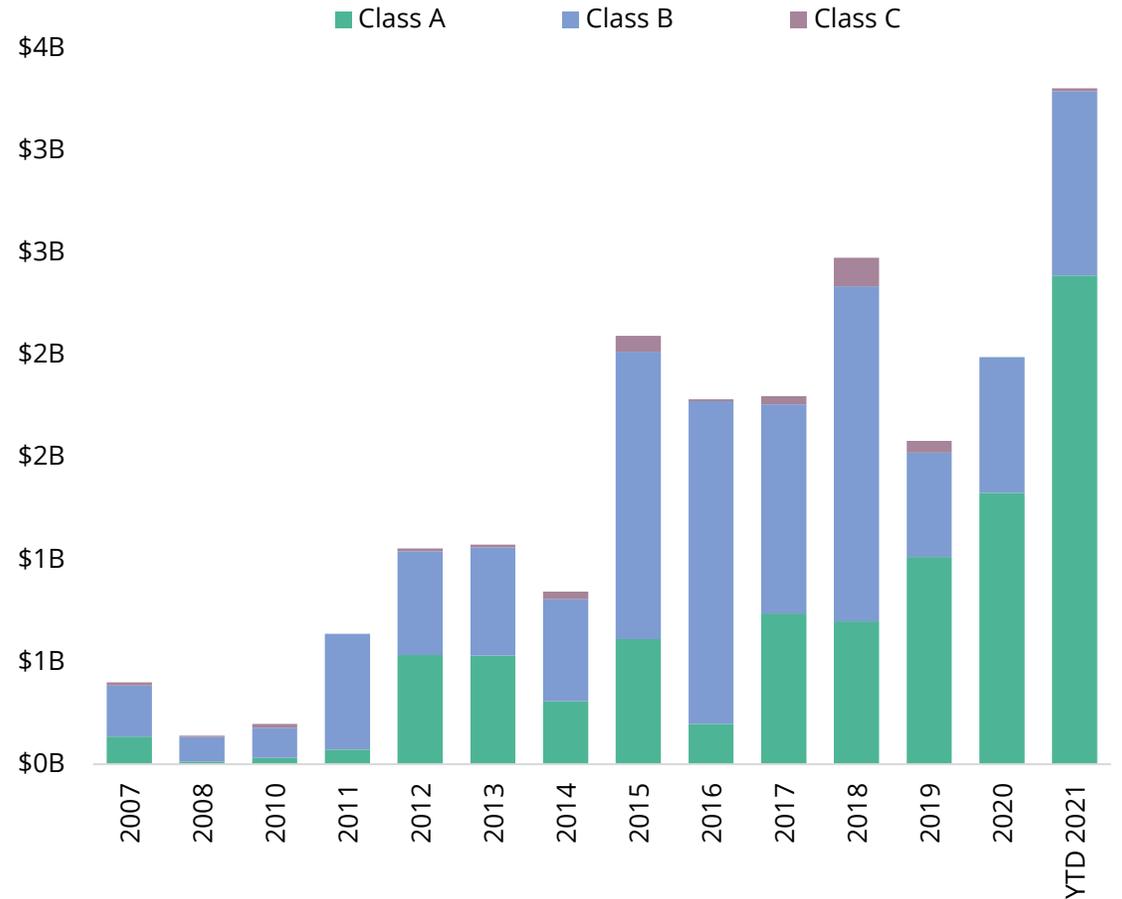
Source: AVANT by Avison Young

Office investment dollar volume

\$5.2B

Silicon Valley office dollar volume 2020 to present

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.



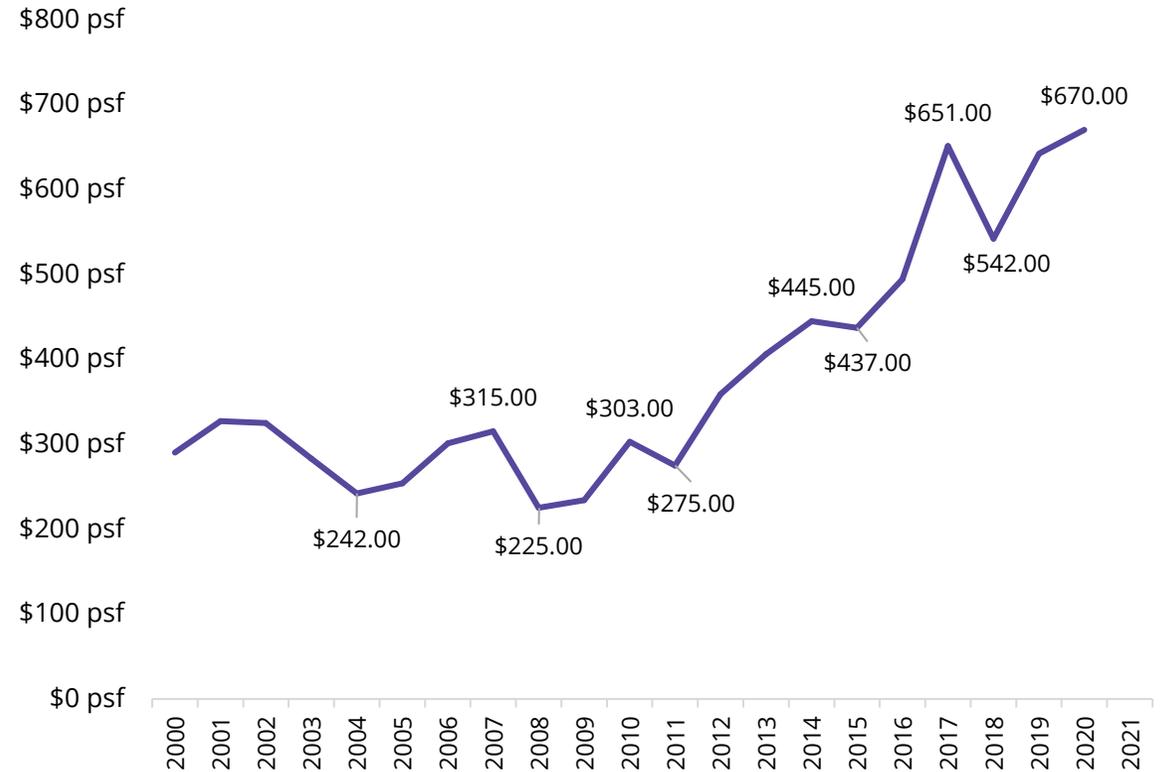
Source: AVANT by Avison Young,
California Department of Finance, RCA

Office asset pricing

\$670 psf

Record high prices reached in 2021

The market fundamentals have remained strong throughout the pandemic. These fundamentals have sustained long-term confidence in the region, leading to record high prices psf throughout the region.



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

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Let's talk

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