



Silicon Valley/ San Francisco Peninsula office market report

Q1 2024

**AVISON
YOUNG**

Silicon Valley



Silicon Valley office market trends

20.0M

Tech hubs show over 20 million square feet of expiring leases

The effects of hybrid work schedules are becoming more apparent as the Valley's top occupiers seek solutions to optimize workplaces and utilize excess space. With over 20 million square feet of leases set to expire over the next 60 months, there is potential for additional sublease availability to emerge. Tech-centric submarkets in San Jose, Sunnyvale, and Santa Clara are particularly affected, showing significant turnover. It remains uncertain what percentage of those leases will be renewed or put back onto the market.

4.51M

Class A sublease availability slows at the start of 2024

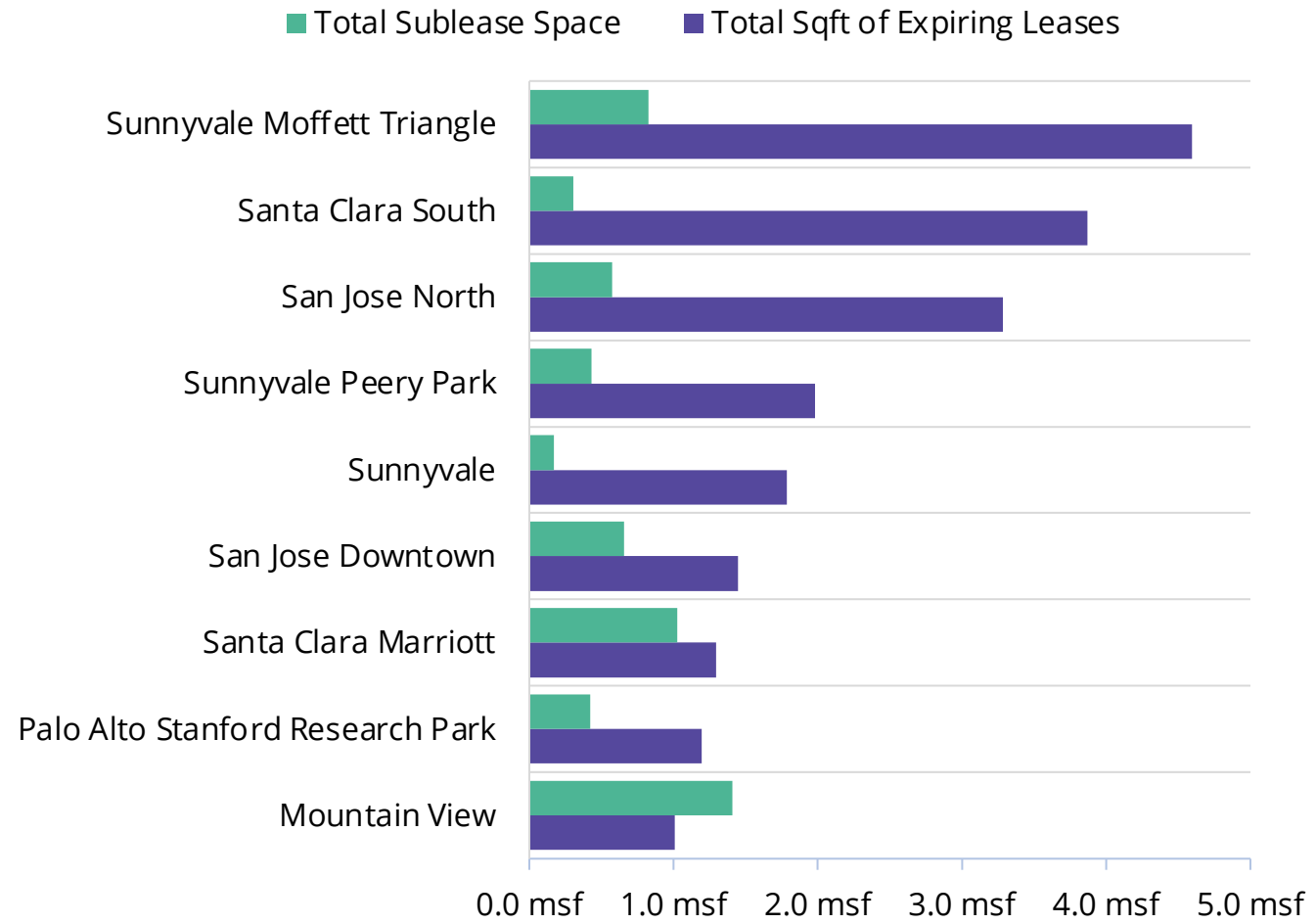
Much of the available sublease space currently on the market stems from leases nearing expiration. For the last several quarters, excess sublease space has been placed onto the market, leaving landlords in a position of impending vacancy. However, at the start of 2024, numbers are starting to show a bottoming-out as the velocity of space shedding has begun to plateau and even decrease.

75.0%

Tech jobs main catalyst for Valley's open positions

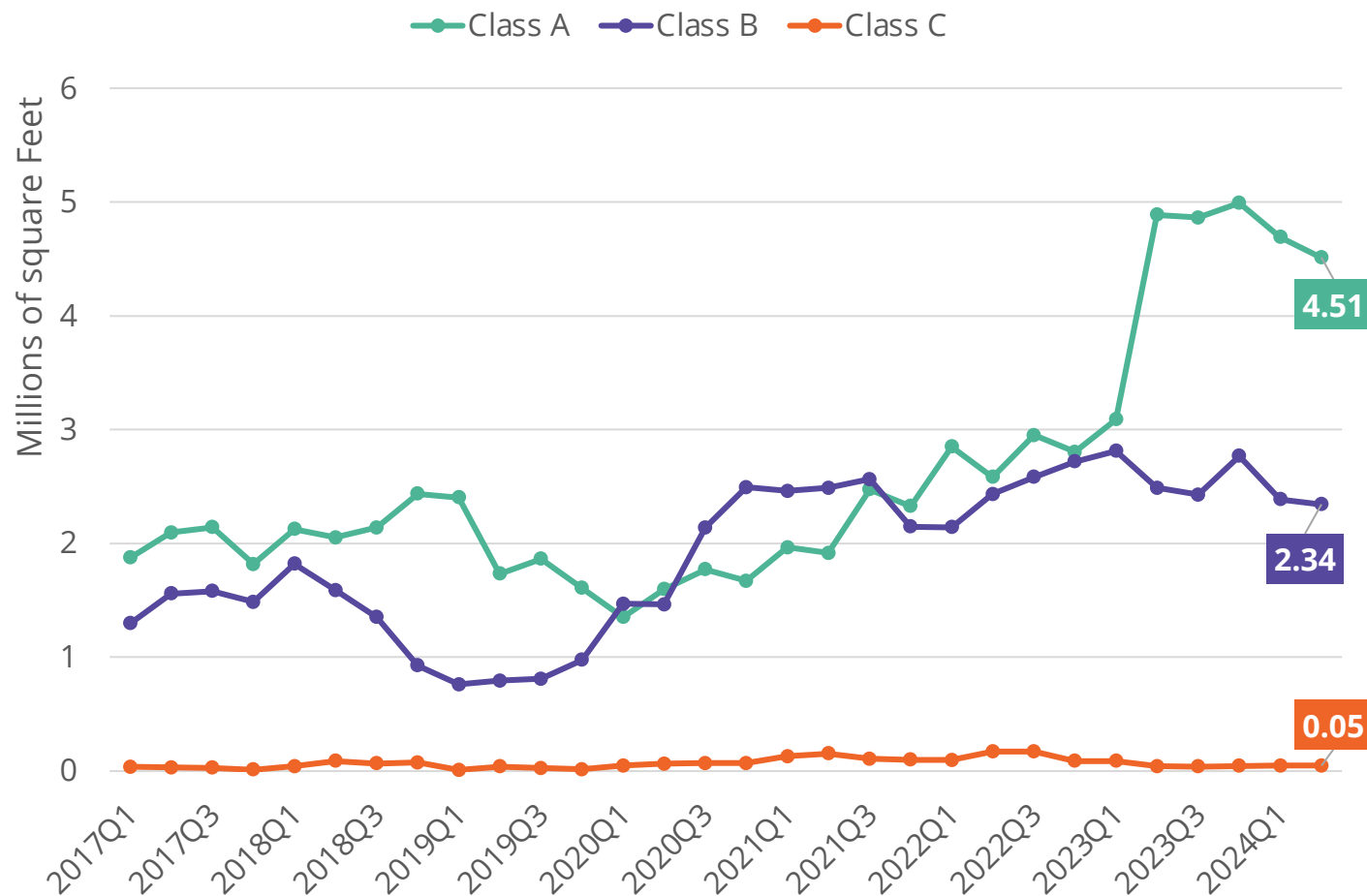
The overall pace of job growth has decelerated across the nation, with Silicon Valley, predominantly hosting the tech industry, experiencing a contraction. Consequently, the metro area has fallen behind other major markets nationally. The cost of conducting business in the Bay Area reached a critical juncture in 2018, exacerbated by the onset of the pandemic, leading to an outmigration of workers who sought more affordable living in other metros while maintaining their salaries. This phenomenon has opened up opportunities for other metropolitan areas to expand their tech presence, leveraging the availability of skilled talent and more favorable business environments.

Lease expirations and sublease availability



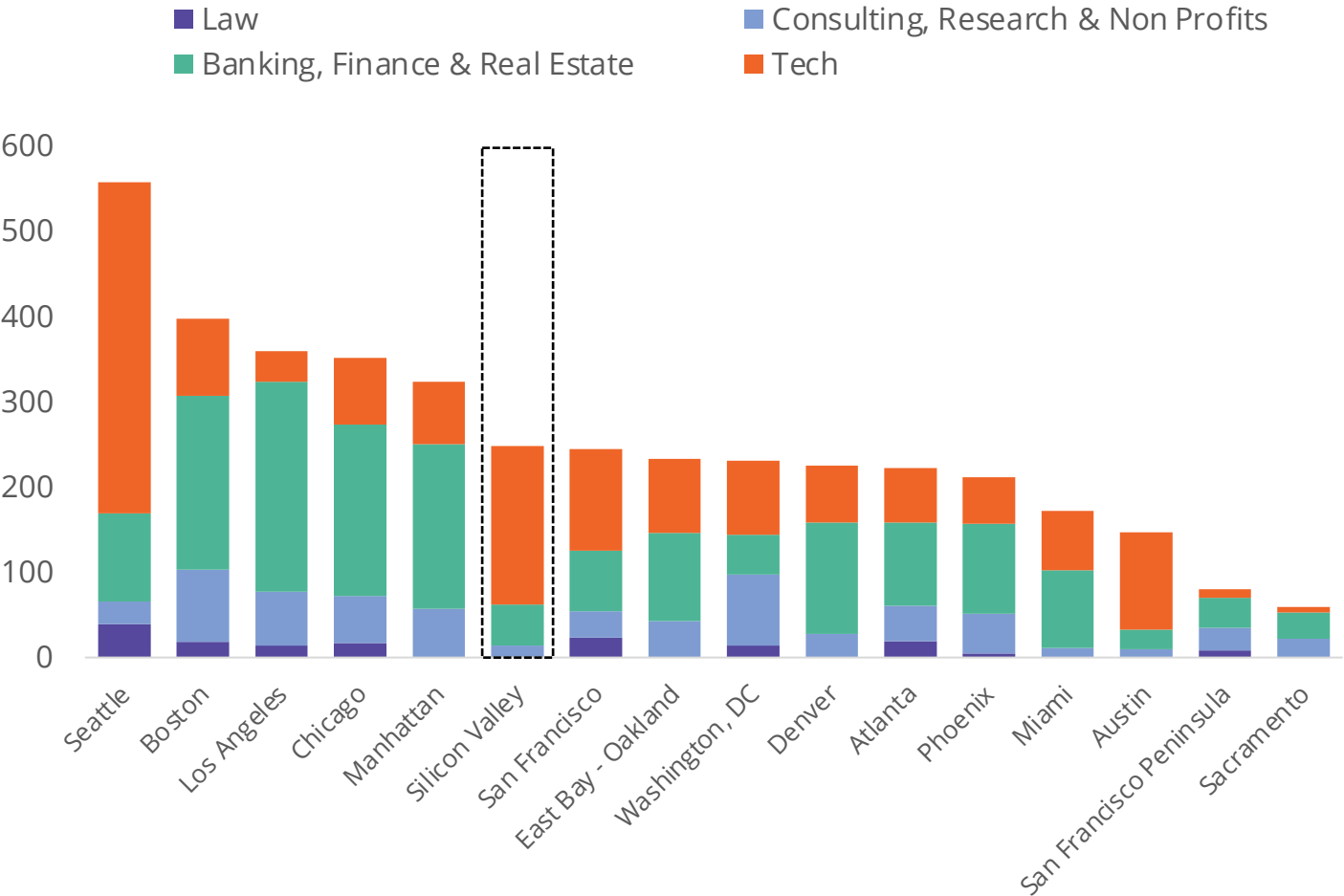
Several key technology hubs within select submarkets show over 20 million of upcoming lease expirations anticipated within the next five years, alongside notable sublease availability.

Velocity of sublease availability begins to slow



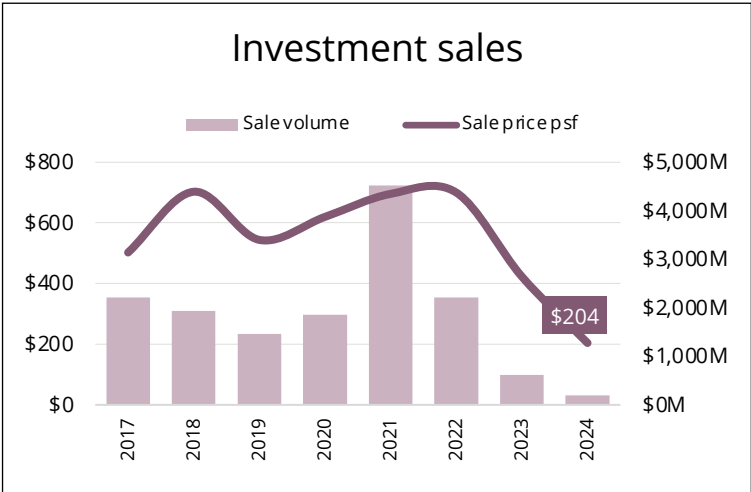
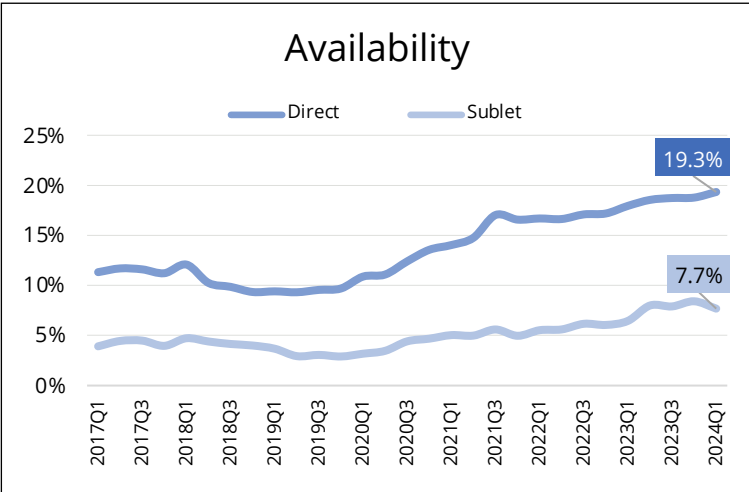
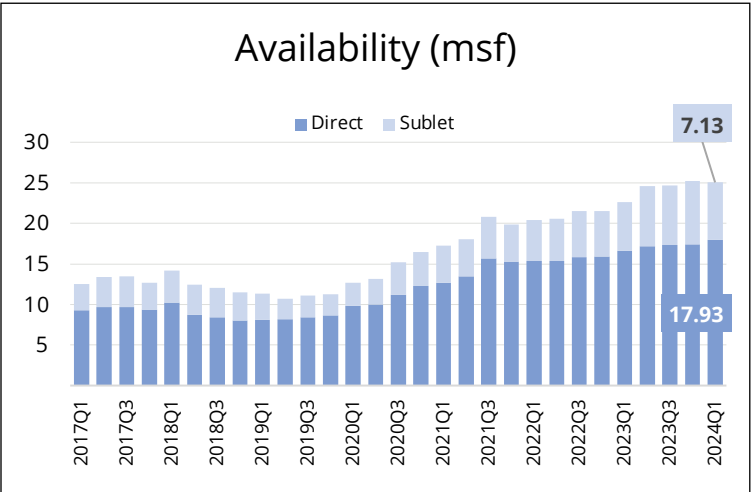
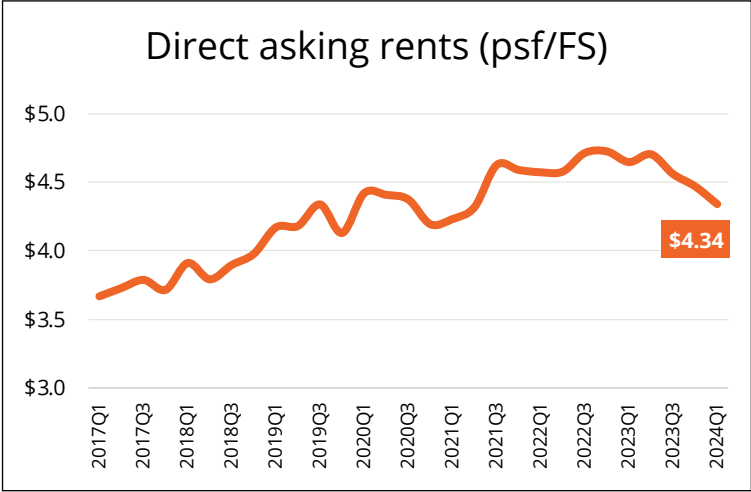
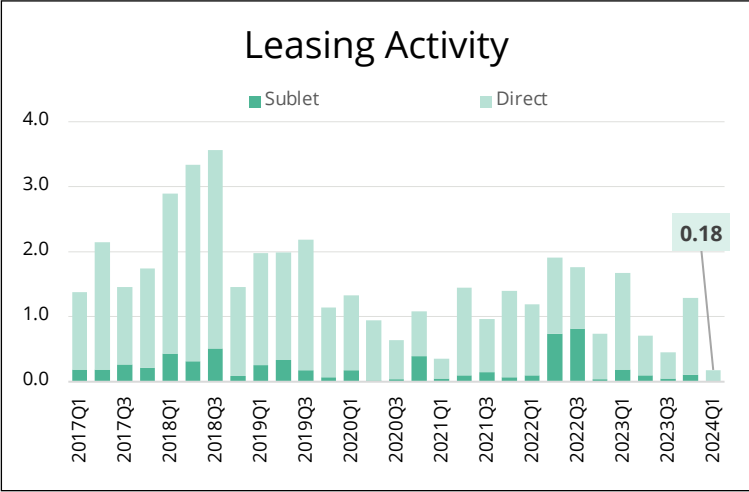
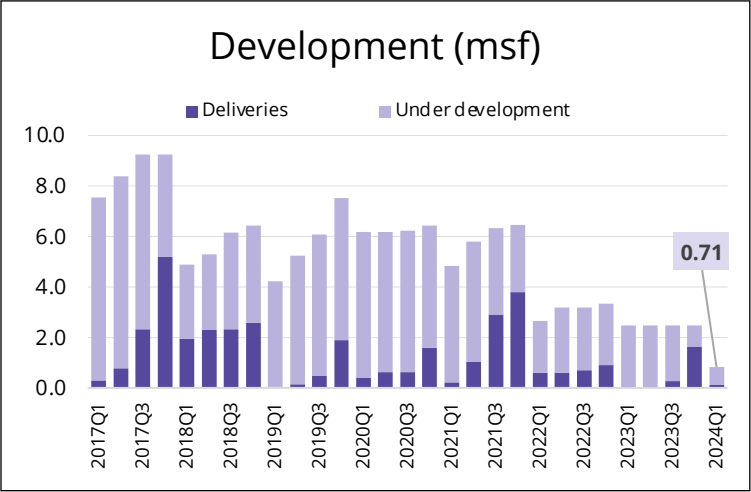
The momentum of sublease availability hitting the market has started to decelerate, suggesting that the market may have reached its potential bottom..

Valley's job postings lag other major markets



The slowdown in tech leasing reflects the pace of job growth in Silicon Valley. Many office industries are reassessing their space requirements due to the high costs of real estate.

Silicon Valley office market indicators



San Francisco Peninsula



San Francisco Peninsula office market trends

12.6%

Remote job postings continue to show decrease

Following six consecutive quarters of decline, total job postings in the San Francisco Peninsula experienced a noteworthy uptick of 55.8%. The percentage share of overall remote job postings also decreased from 16.8% to 12.6% quarter-over-quarter, pointing to a continued trend of return-to-office.

27.5%

Trophy/Class A vacancy on the rise for fifth straight quarter

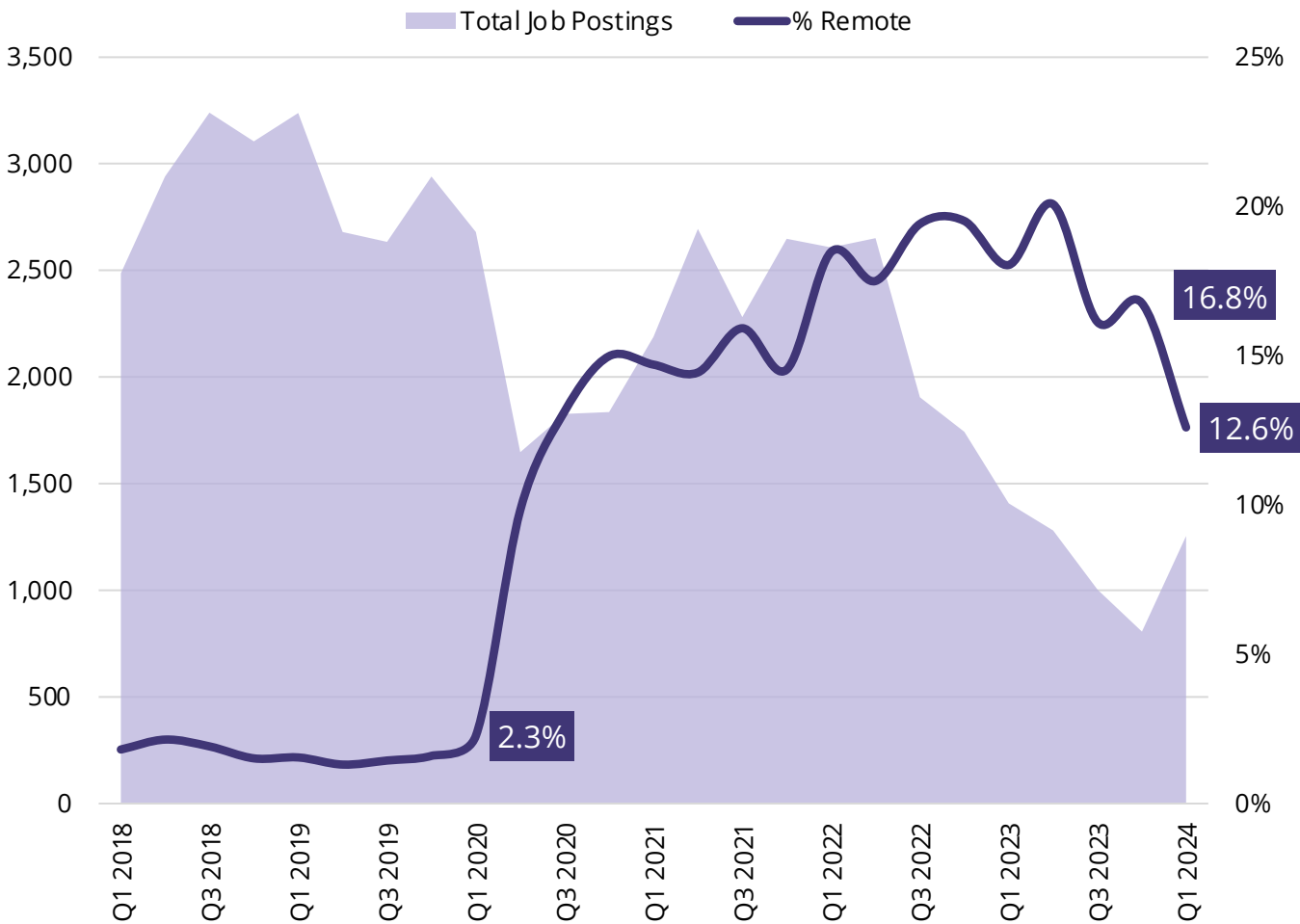
While both Class B and Class C product has remained relatively stable over the past year, Trophy and Class A vacancies have continued to rise for the fifth straight quarter. Overall tenant demand remains relatively muted, with a significant lack of expansions on the horizon. However, with asking rents continuing to fall, leasing could pick up over the next few quarters.

425K sf

Q1 leasing activity remains below pre-pandemic figures

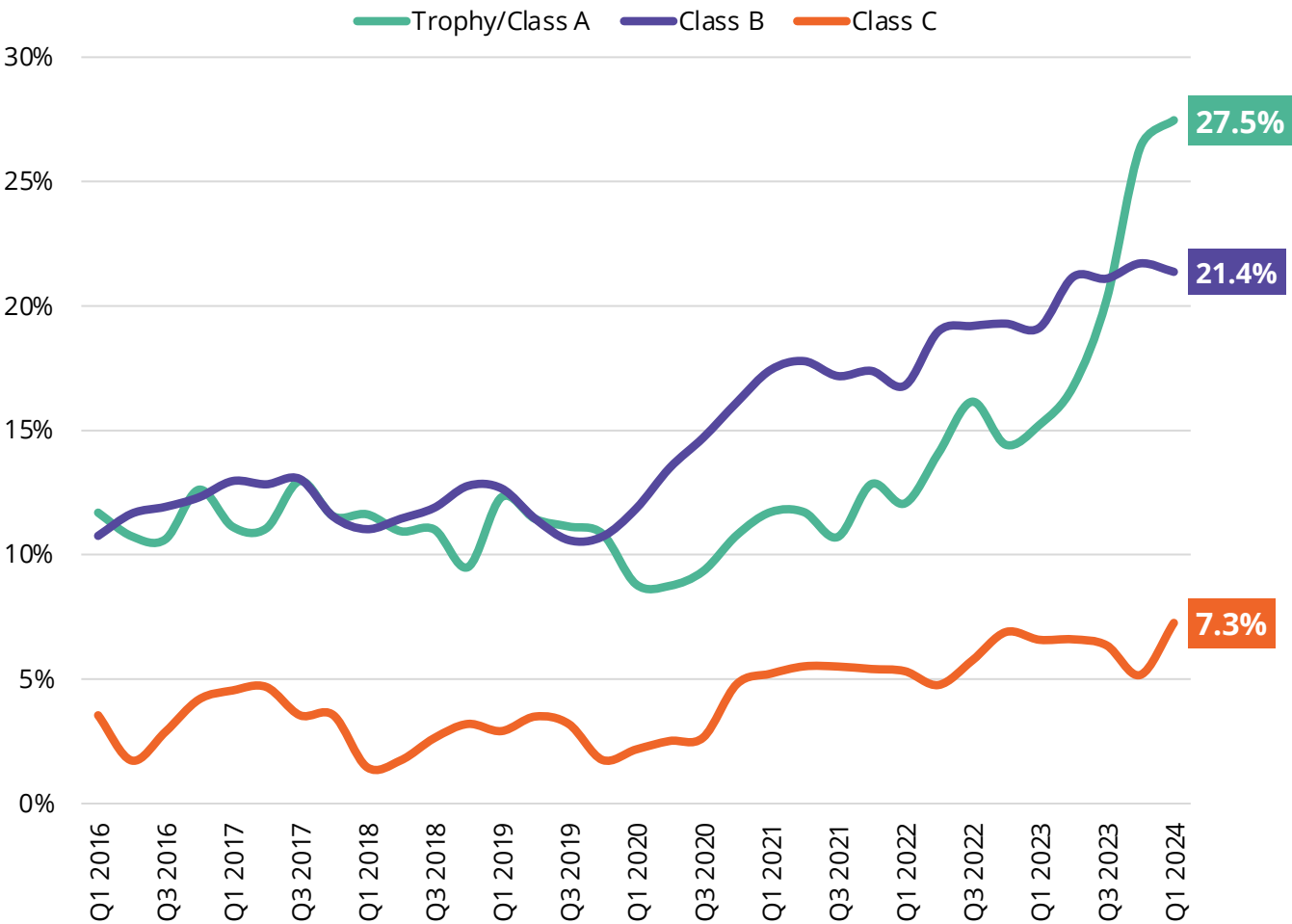
Overall leasing activity continues to fall well below the 5-year pre-COVID average, as many companies continue right-sizing initiatives. The two largest deals of the quarter saw Poshmark and Morgan Stanley both renewing their existing spaces for a combined 100K sf.

Remote job postings



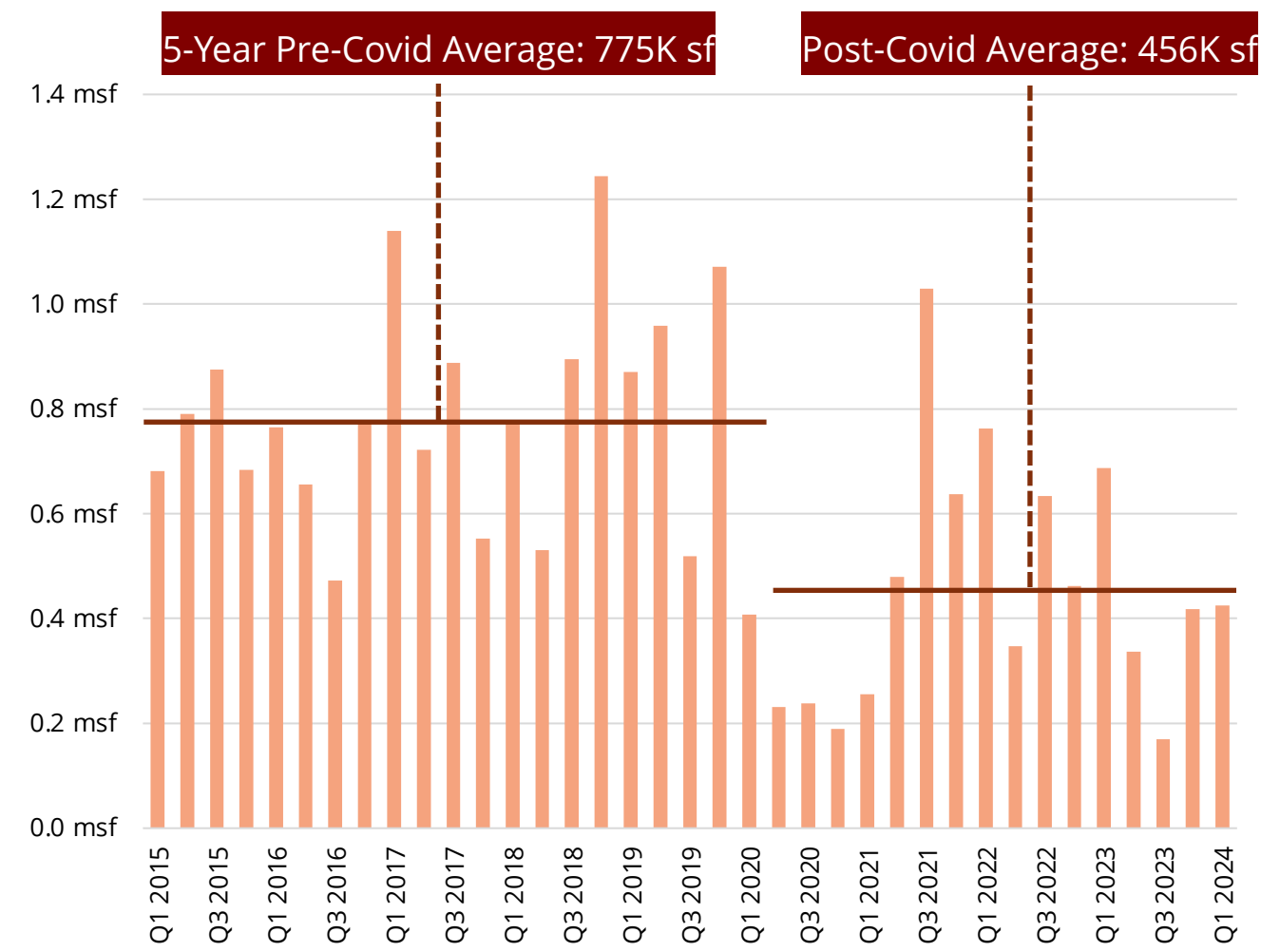
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Total vacancy by class



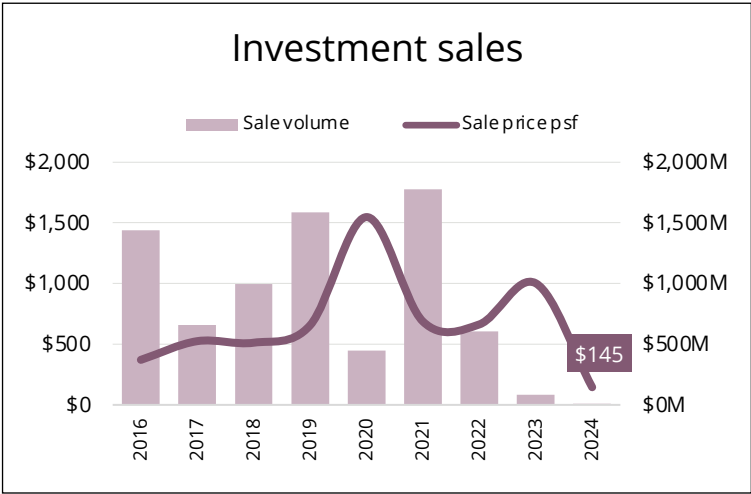
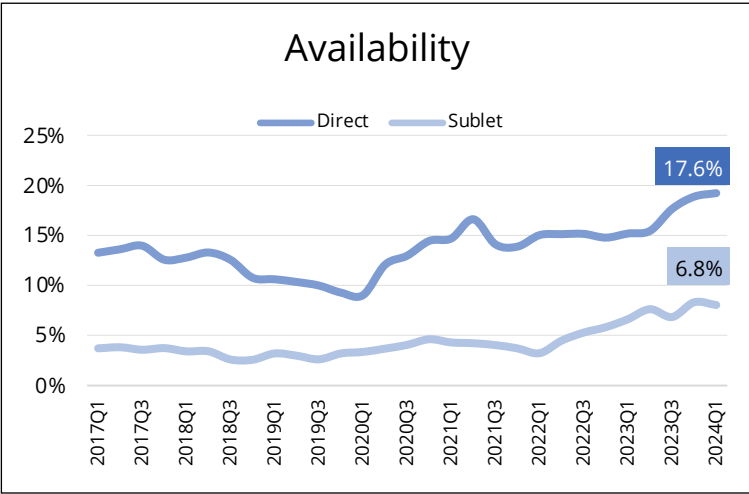
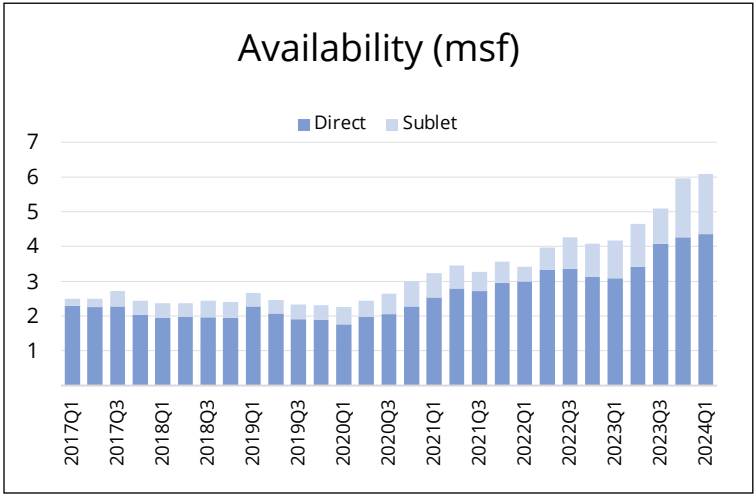
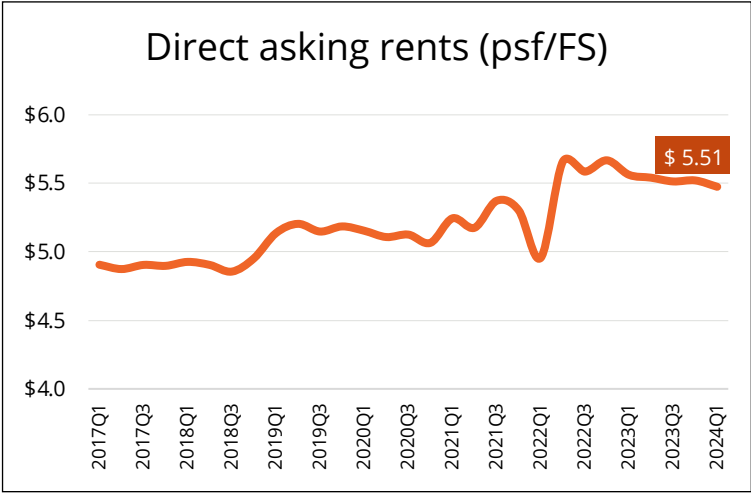
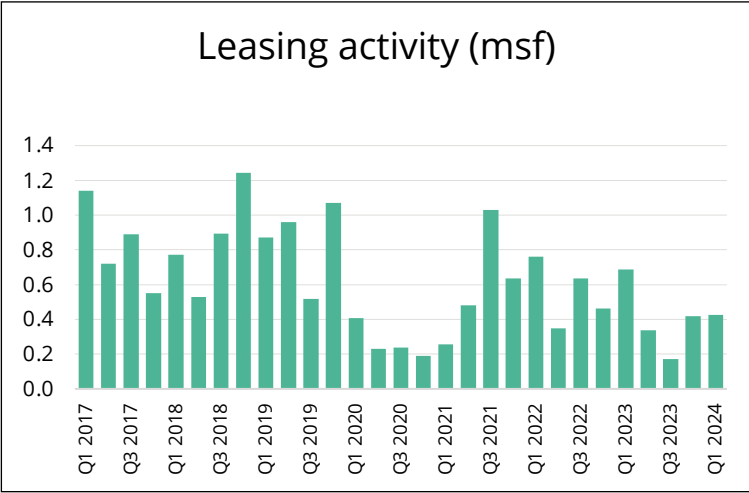
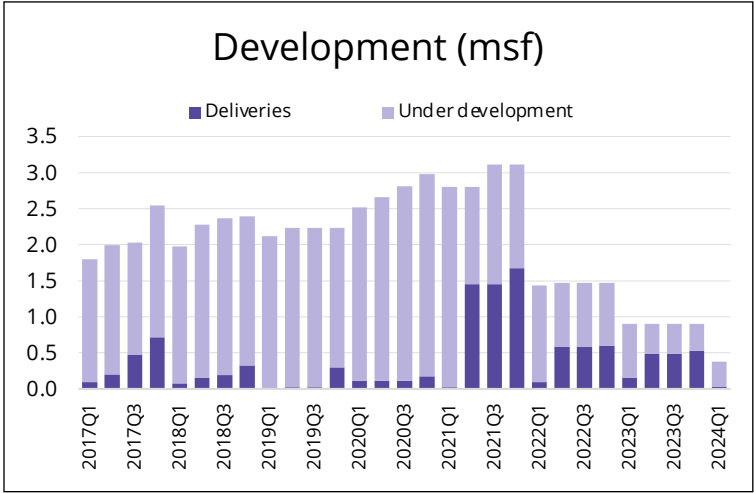
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Historical leasing activity



Overall leasing activity continues to fall well below the 5-year pre-COVID average, as many companies continue right-sizing initiatives. The two largest deals of the quarter saw Poshmark and Morgan Stanley both renewing their existing spaces for a combined 100K sf.

San Francisco Peninsula office market indicators



Appendix



Silicon Valley office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Monthly direct asking rent psf FS
Campbell	1,948,438	0	161,870	36.3%	10.5%	46.8%	23,674	\$ 3.88
Central San Jose	419,976	0	0	6.9%	0.0%	6.9%	(5,418)	\$ 2.59
Cupertino	2,501,902	0	0	6.6%	0.4%	7.0%	(137)	\$ 4.54
Gilroy	148,268	0	0	2.8%	0.0%	2.8%	-	\$ 2.36
Los Altos	626,470	0	0	19.2%	0.3%	19.5%	(6,926)	\$ 5.10
Los Gatos/Saratoga	1,350,273	0	0	8.9%	12.0%	20.9%	(15,863)	\$ 3.82
Milpitas	3,938,990	0	0	9.6%	0.7%	10.3%	(11,315)	\$ 2.55
Morgan Hill	434,757	0	0	0.0%	0.0%	0.0%	2,614	-
Mountain View	5,306,601	0	0	23.3%	26.5%	49.8%	(70,495)	\$ 5.03
Mountain View Downtown	1,368,950	0	0	26.4%	14.8%	41.2%	53,071	\$ 7.07
Mountain View Shoreline	1,322,342	0	0	0.0%	0.0%	0.0%	-	-
Palo Alto	2,463,938	0	30,000	20.0%	14.8%	34.8%	60,433	\$ 5.65
Palo Alto Downtown	1,631,321	0	0	13.4%	5.9%	19.3%	(5,560)	\$ 8.85
Palo Alto Stanford Research Park	5,483,907	0	0	11.4%	7.7%	19.2%	160,769	\$ 7.14

Silicon Valley office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Monthly direct asking rent psf FS
San Jose Downtown	12,743,792	115,395	0	25.1%	5.1%	30.2%	86,530	\$ 4.17
San Jose IBP	388,713	0	0	10.3%	1.4%	11.7%	6,190	\$ 2.09
San Jose North	11,789,955	0	0	31.1%	4.9%	34.0%	32,059	\$ 3.75
San Jose West	3,301,035	0	0	19.8%	3.6%	23.3%	39,903	\$ 4.53
Santa Clara Marriott	7,164,332	0	0	34.7%	14.3%	49.0%	57,205	\$ 3.69
Santa Clara North	668,467	0	0	7.2%	0.0%	7.2%	186,198	\$ 2.43
Santa Clara South	7,952,271	0	0	5.3%	3.8%	9.1%	207,777	\$ 3.38
South San Jose	1,257,051	0	0	3.9%	7.3%	11.2%	(1,350)	\$ 2.01
Sunnyvale	3,464,163	0	513,254	38.8%	4.3%	42.9%	(60,038)	\$ 6.00
Sunnyvale Moffett Triangle	8,945,531	0	0	11.6%	9.2%	20.9%	(919,328)	\$ 3.87
Sunnyvale Peery Park	5,400,889	0	0	4.9%	8.0%	13.0%	(638)	\$ 5.41
Market total	12,743,792	115,395	0	19.5%	7.7%	27.0%	(180,645)	\$ 4.50

San Francisco Peninsula office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Brisbane	643,901	-	-	16.8%	4.2%	21.0%	(107,260)	(107,260)	-
Burlingame	2,807,343	-	185,000	14.3%	0.6%	15.0%	9,192	9,192	\$4.10
Daly City	662,052	-	-	2.4%	0.3%	2.7%	(3,191)	(3,191)	\$3.02
Millbrae	187,160	-	-	85.5%	0.0%	85.5%	(2,200)	(2,200)	\$6.41
San Bruno	402,225	-	-	6.7%	0.3%	7.0%	(5,056)	(5,056)	\$4.35
South San Francisco - East of 101	467,365	-	-	16.1%	0.0%	16.1%	0	0	\$3.95
South San Francisco - West of 101	168,404	-	-	2.3%	0.0%	2.3%	2,919	2,919	\$2.40
North County	5,338,450	-	185,000	15.3%	0.9%	16.3%	(105,596)	(105,596)	\$4.76
Belmont	154,345	-	-	0.0%	0.0%	0.0%	0	0	-
Foster City	1,924,132	-	-	13.1%	4.5%	17.6%	45,867	45,867	\$4.30
San Mateo - Downtown	566,173	33,266	-	14.2%	2.5%	16.7%	29,551	29,551	\$5.68
San Mateo - East	978,079	-	-	12.1%	5.2%	17.4%	(9,563)	(9,563)	\$4.97

San Francisco Peninsula office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)	Annual direct asking rent psf FS
San Mateo - Hayward Park	1,798,539	-	-	25.3%	2.8%	28.1%	42,710	42,710	\$4.11
San Mateo - South of 92	3,149,519	-	-	20.9%	8.2%	29.2%	19,330	19,330	\$4.97
San Mateo - West	310,921	-	-	29.9%	2.2%	32.1%	5,746	5,746	\$5.93
Central County	8,881,708	33,266	-	18.7%	5.3%	24.0%	133,641	133,641	\$4.70
East Palo Alto	721,086	-	-	48.1%	0.0%	48.1%	0	0	\$7.79
Menlo Park	3,501,892	-	34,710	13.6%	26.5%	40.0%	(58,018)	(58,018)	\$8.40
Redwood City	6,998,259	-	121,000	22.7%	7.3%	29.0%	(75,516)	(75,516)	\$5.83
San Carlos	398,017	-	-	29.3%	33.7%	63.0%	(6,446)	(6,446)	\$5.64
South County	11,619,254	-	155,710	22.0%	13.7%	35.1%	(139,980)	(139,980)	\$6.32
Overall	25,839,412	33,266	340,710	19.5%	8.2%	27.4%	(111,935)	(111,935)	\$5.48

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

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