



KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑	↑
Vacant Space	↑	→	→
Construction Levels	↓	→	↑
Leasing Volume	↓	↓	↓
Investment Volume	→	→	→

and commercial markets. At the close of 2019 there was more than 6.3 million square feet (msf) of office construction underway, of which more than 75% was preleased. Industrial construction struggles to keep pace with demand, offering tenants few alternative space options in a historically tight market. As a result, industrial occupiers may begin to look for viable space options in surrounding regions such as the East Bay and Tri-Valley. Housing supply struggles to align with demand from a growing population, and the lack of affordable housing has spurred a trend of residents relocating to alternative high growth regions in the U.S. Local infrastructure also struggles to support the region as increased density puts pressure on transportation and local governments. The two combined continue to be one of the greatest challenges facing the region and will persist into 2020.

Major investors in Silicon Valley not only include traditional institutions but also tech titans such as Apple and Google, who have contributed to enormous growth in investment

volume over the years. A phenomenon that has fueled additional leasing volume as tenants of assets acquired by these tech companies seek out space options with traditional landlords. Investment activity is expected to continue at a modest pace in 2020 as investors take advantage of the low interest rate environment. The region remains a preferred investment location with stable returns, which will continue to draw increased capital flow in the coming year.

With an extremely tight job market, unemployment in the region has remained below the national and state averages and job growth continues to outpace the nation. Growth in the job market is likely to continue, albeit at somewhat of a slower pace in 2020. However, recent surges of economic growth in the area have caused an imbalance within the region and affordability poses a real threat to sustained progress. However, the Silicon Valley has withstood many challenges over the years and will continue to thrive as one of the most competitive markets in the country in 2020 and beyond.

EXECUTIVE SUMMARY

- Going into 2020, job growth and venture capital are expected to remain stable, continuing to fuel the economic growth within the Silicon Valley.
- Leasing activity will remain strong across all product types in the Silicon Valley as companies housed in the area maintain healthy growth projections in 2020.
- Construction in the Silicon Valley struggles to keep pace with demand for office and residential development putting upward pressure on pricing and building costs.
- Investment activity is expected to remain stable in 2020 as the Silicon Valley property market continues to provide investors with stable returns and growth potential on investment.

The Silicon Valley is one of the most competitive economies in the U.S. based on a productive and educated workforce, deep venture capital pool, and a concentration of highly competitive technology and research organizations. With its longstanding reputation for cutting edge innovation, the Silicon Valley is well poised to measure continued GDP growth as investors look for higher-yield returns and continue to make large investment in the private sector.

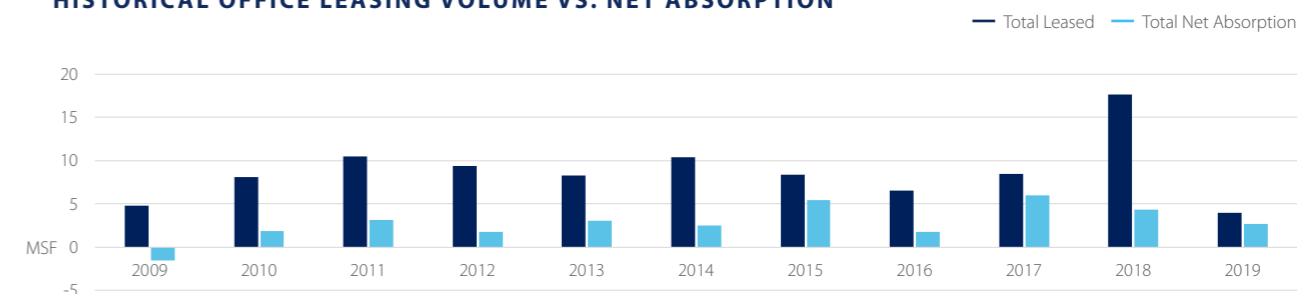
While the Silicon Valley economy maintains momentum, the commercial property market in the region is poised to do the same. As job growth continues, companies adding to their local headcount will maintain demand for commercial space to accommodate growth. Political tensions such as the U.S.-China trade wars and uncertainties inherent in an election year are some of the potential headwinds that may slow the rate of growth measured in the Silicon Valley in 2020.

Continued tenant demand in the market has attributed to declining vacancy over recent years, a trend that will endure in the coming year. At the close of 2019, both the office and industrial markets in the Silicon Valley recorded a decline in vacant space of greater than 14% year-over-year. Leasing volume will continue into the new year which will maintain stability and growth in pricing of assets. Despite the continued growth in rental rates, year-over-year, rates in the Silicon Valley have started to level off, slowing the pace of growth measured in prior years. In 2019, rental rates in the office sector grew 5.0% overall, where industrial rates measured an increase of just over 2.0% as asking rates near their peak.

Construction in the Silicon Valley continues to boom, although struggles to keep pace with demand from both the residential

Occupancy rates in the office sector continue to grow in the Silicon Valley, measuring more than 20 msf of positive net absorption over the most recent five-year period. On an annualized basis, the Silicon Valley office market has measured positive net absorption since the end of the recession in 2010, a ten-year streak that is likely to continue in 2020.

HISTORICAL OFFICE LEASING VOLUME VS. NET ABSORPTION



Source: Avison Young and CoStar Realty Information, Inc.