

Silicon Valley

Market Facts

5.4%

Class A Vacancy

8.1%

Class B Vacancy

\$4.82 FS

Class A
Average Asking Rate

\$4.10 FS

Class B
Average Asking Rate

Office demand weakens in Silicon Valley amid concerns of a Global Pandemic following a decade of growth

- As the first half of 2020 came to a close, uncertainty of the implications of COVID-19 on the economy and commercial real estate market continues to loom over the Silicon Valley. While shelter in place orders remain, Silicon Valley's economy struggles to recover. As of June, 115,200 people in Santa Clara County were out of work, bringing the unemployment rate to 10.8%.
- Leasing volume came to a near halt as tenants began to reevaluate space needs and growth projections as the lasting impacts of COVID-19 remain unclear. New activity measured 666,313 square feet, down 62% from the amount of activity measured in the first quarter of 2020 and 73% from one year earlier.
- Total vacant office space in the Silicon Valley measured 7.1 million square feet at the close of the first quarter. This amount of space translates to a vacancy rate of 6.6% overall. This compares to total available space, space on the market but still occupied by a tenant, which measures 12.6 msf and a 11.2% availability rate.
- As the impact on average asking rates remain uncertain, landlords are holding steady while tenants continue to look for a post-covid discount. At the close of Q2, average asking rates measured \$4.28 per square foot, full service, an 11.1% increase year over year. Asking rates in Palo Alto and Mountain View continue to command rents more than 60% higher than the region's average.
- As tenants reevaluate space needs the rate at which sublease space hit the market increased in the second quarter. The total amount of sublease space on the market totals 2.8 million square feet, up 13% from q1. Nearly 90% of all available sublease space available for lease is offered at 50,000 sf or less.
- Investors across the Bay Area largely took a seat on the side line during the second quarter, as many anticipated market disruption as a result of COVID-19. Investment activity in the Silicon Valley office market fell 75% year-over-year, measuring \$455 million in total deal volume during the second quarter.

Trends to Watch



Subleases

An increase in sublease space is likely to hit the market in the quarters to come as companies begin to reevaluate space needs as many employees continue to work from home.



Construction

The pipeline of office space may begin to dwindle and delivery dates will be pushed out as developers pause construction. Impacts this will have on tenants has yet to be seen.



Rents

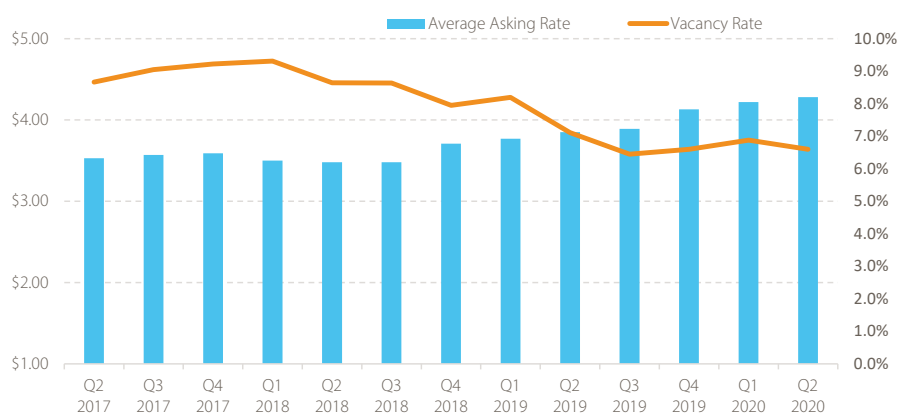
Expect to see asking rates soften as tenant demand adjusts from recent highs. As continued sublease space hits the market this too will put downward pressure on average asking rates.

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.

Looking Forward

Although the impacts of COVID-19 on the Silicon Valley office market begin to surface, the full implications have yet to be realized. As the region remains under shelter in place orders, the continued pressure on the economy is likely to have an impact on demand, asking rates and vacancy. However, the Silicon Valley is an innovation based economy with a healthy tenant base of tech companies such as Google and Apple, who employ a highly educated workforce. Following any slowdown or recession, the Silicon Valley is likely to recover quickly, just as it has done in previous cycles.

Historical Vacancy vs. Asking Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Tata Communications	3975 Freedom Circle	Santa Clara	76,986	Direct Lease
Infoblox	2390 Mission College Boulevard	Santa Clara	42,544	Direct Lease
Apple, Inc. <small>AVISON YOUNG</small>	10725 N. De Anza Boulevard	Cupertino	39,961	Renewal
Achronix Semiconductor	2903 Bunker Hill Lane	Santa Clara	36,736	Direct Lease
Plume	325 Lytton Avenue	Palo Alto	25,759	Direct Lease

AVISON YOUNG Avison Young Transaction

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
237 @ First Street	CBRE Global Investors	North San Jose	368,702	\$173,540,000	\$470
160 W Santa Clara Street	Barrett Block Properties	Downtown San Jose	229,000	\$131,800,000	\$575
225 W Tasman Drive Hill Lane	Google	North San Jose	140,210	\$41,200,000	\$294
121 S Market	Jay Paul Company	Downtown San Jose	74,000	\$42,000,000	\$567

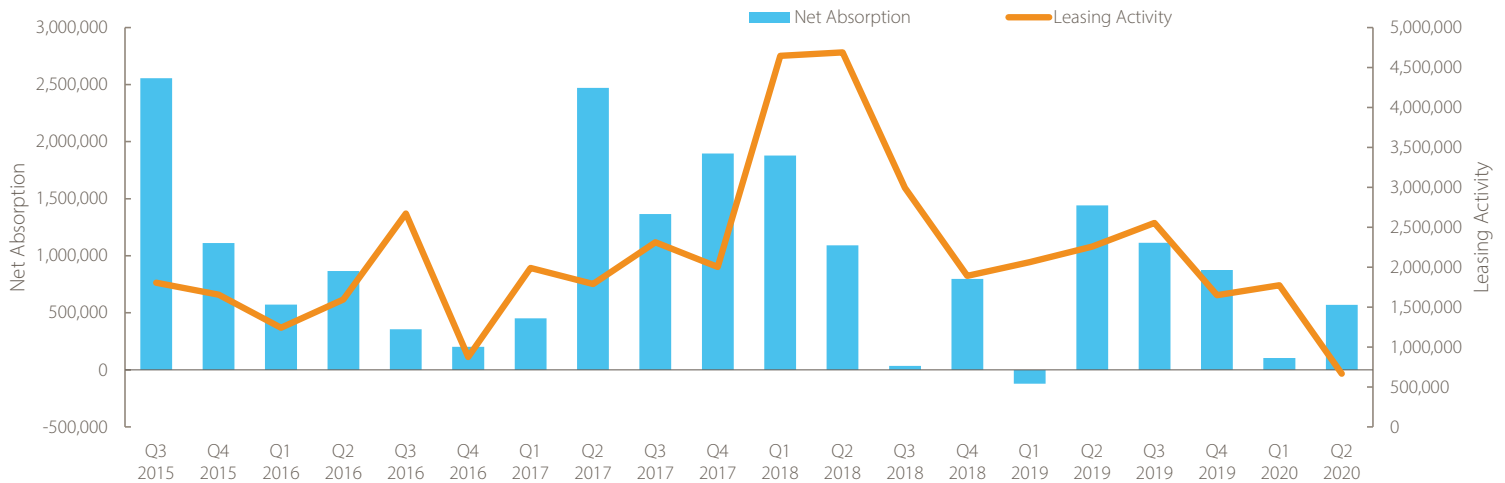
Construction Pipeline

Building	Developer	Submarket	Square Feet	% Leased	Delivery
333 W San Fernando	Adobe	Downtown San Jose	700,000	100%	Q2 2021
Charleston East	Google	Mountain View	595,000	100%	Q3 2020
Santana West	Federal Realty	San Jose	375,000	0%	Q3 2020
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
Ameswell Mountain View	Broadreach Capital Partners	Mountain View	222,000	100%	Q3 2020

Market By The Numbers

Submarket	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate	Availability Rate	Net Absorp. (SF)	Net Absorp. YTD (SF)	Avg. Asking Rent (F\$)		
								Total	Class A	Class B
Palo Alto	10,623,952	915,471	218,520	10.7%	17.1%	81,807	17,643	\$8.15	\$8.32	\$8.23
Mountain View/Los Altos	11,531,677	162,385	179,949	3.0%	6.1%	-60,959	-124,313	\$6.14	\$6.57	\$5.65
Cupertino	6,627,980	41,388	31,204	1.1%	3.3%	-2,094	-12,263	\$4.49	NA	\$4.49
Campbell	2,103,521	321,055	31,432	16.8%	20.1%	10,096	57,212	\$3.92	\$4.70	\$3.82
Los Gatos/Saratoga	1,636,422	34,737	2,424	2.3%	8.9%	8,539	4,125	\$5.34	\$9.00	\$3.88
Sunnyvale	17,644,637	526,530	65,721	3.4%	9.4%	-16,521	228,842	\$5.16	\$5.17	\$5.21
Santa Clara	17,769,590	1,126,398	359,387	8.4%	15.1%	-39,326	84,542	\$3.01	\$3.61	\$3.00
San Jose	30,964,477	2,103,900	465,078	8.3%	12.2%	450,277	436,418	\$3.76	\$4.32	\$3.45
Downtown San Jose	9,250,217	719,777	65,041	8.5%	11.7%	230,813	101,268	\$4.35	\$4.82	\$3.92
Milpitas	4,100,573	257,702	75,166	8.1%	12.0%	67,511	29,186	\$2.67	NA	\$2.68
Fremont	3,925,921	86,819	47,803	3.4%	4.3%	70,230	-47,959	\$2.64	NA	\$2.67
Silicon Valley Total	106,928,750	5,576,385	1,476,684	6.6%	11.2%	569,560	673,433	\$4.28	\$4.82	\$4.10

Historical Leasing vs Net Absorption



avisonyoung.com



© 2020 Avison Young Northern California, Ltd. All rights reserved.
E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.

For more information, please contact:

Gregg von Thaden
Principal & Managing Director
408.913.6901
gregg.vonthaden@avisonyoung.com

Jennifer Vaux
Vice President, Director of U.S. Research
408.913.6902
jennifer.vaux@avisonyoung.com

2880 Stevens Creek Boulevard
Suite 200
San Jose, CA 95128
408.377.4300