

Leasing demand declines again as market activity drags amid ongoing pandemic concerns

As the Silicon Valley continues to experience effects of the COVID-19 pandemic, office fundamentals have slowed considerably. In addition to pandemic concerns, the region also grappled with widespread wildfires over the quarter. Total third-quarter leasing activity was a little over 500,000 square feet (sf), 36.3% of what was leased last quarter and 65.3% when compared to Q3 2019's total of 1.5 million square feet (msf). Leases under 20,000 sf comprised most of the minimal activity this quarter, as companies held off on committing to larger spaces – a vast change from pre-pandemic quarters where large tenants were rapidly taking up space. Though currently challenged, the Silicon Valley market is poised to survive and emerge resilient due to its foundation of world-class talent and jobs and its position as a leading tech market.

Sublease space swells as many companies adjust to indefinite work-from-home measures, pricing drop lags in response

With cost reduction top of mind, and real estate being one of the largest organizational costs, companies are turning to sublease strategies. Sublease availability has skyrocketed with a 29% increase in sublease inventory in the wake of COVID-19, pushing overall availability up 130 basis points over the quarter to 16.1%. However, asking rents have held fairly firm despite the increase in lower-cost options as landlords mainly take a “wait-and-see” approach. With such limited activity in the market there has not been opportunity for true price discovery and tenants that are active now will benefit from increased landlord flexibility and favorable terms.

The role of the office likely to evolve as work-from-home lessons (good and bad) are learned

Forced to do so in current circumstances, companies are now adjusting to the growing pains of managing a virtual workforce and analyzing employee productivity and efficiencies when most, if not all, remain offsite for an indefinite length of time. On the surface, it may seem like a convenience for most, but a remote workforce model lacks the regular in-person interactions that build organizational culture and make teams stronger. Going forward, the role of the office will be critical in serving as a place for fostering culture and collaboration when a safe return is possible, even if it is certain that there will be more work-from-home flexibility.

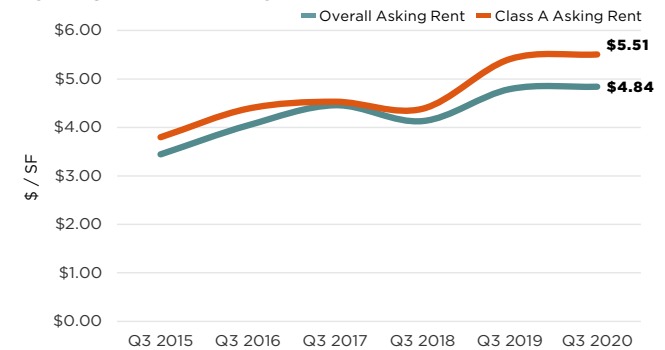
Outlook

- Pandemic concerns loom and many businesses are struggling to cope with future planning
- Landlords continue to hold out on reducing asking rents despite rapidly rising availability vacancy; until demand returns, asking rents are likely to lag market softening
- As work-from-home environments continue indefinitely and fewer employees are expected in the office, companies are reevaluating space needs and functions going forward

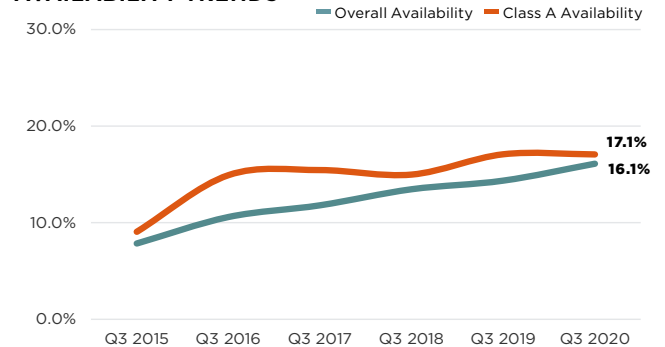
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	83.7 MSF	84.4 MSF	▲
Availability Rate	14.4%	16.1%	▲
Asking Rental Rate	\$4.79	\$4.84	▲
Class A Asking Rental Rate	\$5.41	\$5.51	▲
Quarterly Leasing Activity	1.5 MSF	0.5 MSF	▼

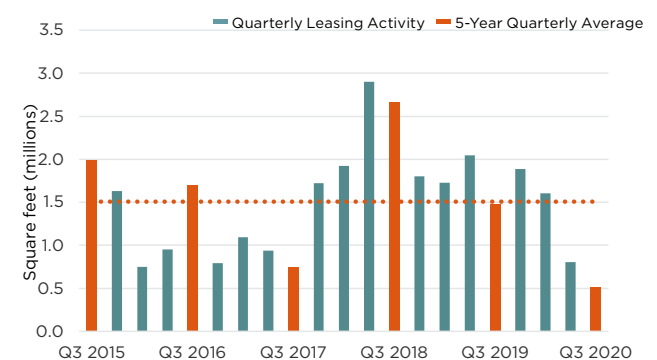
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

91.0%

of major transactions were new locations by square footage

82.0%

of large transactions occurred in the Palo Alto submarket by square footage

82.0%

Healthcare represented 82.0% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Guardant Health	250,000	3000 Hanover Street	New Location	Palo Alto	Healthcare
Jfrog	21,824	250 E Caribbean Drive	New Location	Sunnyvale/Cupertino	TAMI
Sophos	14,578	3945 Freedom Circle	Renewal	Santa Clara	Professional Services
Pahl & McCay	10,108	225 W Santa Clara Street	Renewal	Downtown San Jose	Legal Services
RStor	8,500	12930 Saratoga Avenue	New Location	Campbell/Los Gatos	TAMI

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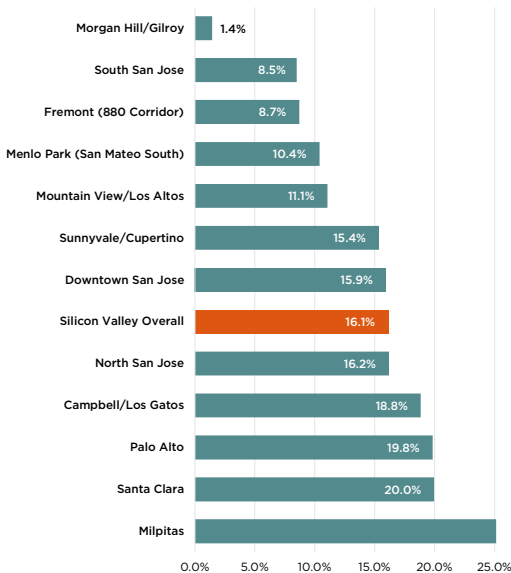
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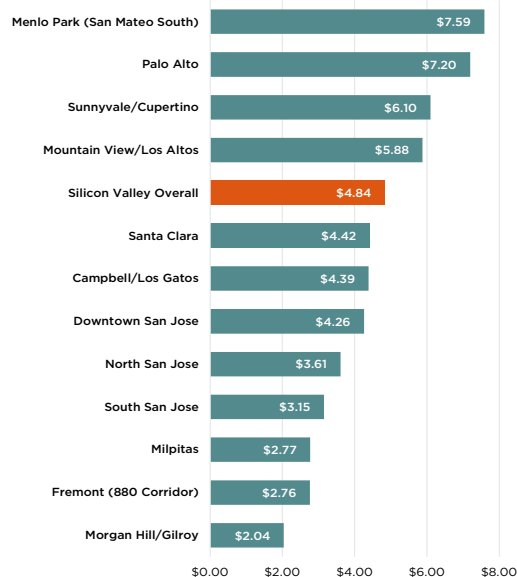
AVAILABILITY RATE COMPARISON

Silicon Valley Suburban Submarkets



RENTAL RATE COMPARISON (\$/SF)

Silicon Valley Suburban Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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