



## Market conditions remain tight, but new development could open options

Overall availability in the Silicon Valley market declined 170 basis points over the year to end Q1 at 13.6%. Class A availability saw a similar decline, dropping 120 basis points year-over-year to 15.2%. Tighter market conditions have resulted in a development boom – which should open additional options in the future. Approximately 6.0 million square feet (msf) of new office inventory is expected to come to market in the first half of 2019, with most of that space already pre-leased. Of note, Palo Alto, one of the Bay Area’s prime submarkets, removed its commercial real estate office cap of 350,000 square feet (sf), implementing an overall development maximum equal with the rest of the city (850,000 sf); a result of an oversaturated market in dire need of additional space.

### Tech tenants continue to drive activity

Leasing for the quarter totaled 1.6 msf, down 19.6% year-over-year with only a handful of large leases signed. As expected, technology sector tenants continue to drive market growth accounting for nearly three-quarters of major transactions. Leasing activity was once again dominated by tech tenants as Alibaba expanded into 166,000 sf at 525 Almanor Avenue in Sunnyvale/Cupertino, more than quadrupling in size. Google took an additional 151,000 sf at 620 National Avenue in Mountain View/Los Altos, also expanding its presence in the market. MicroFocus is relocating from Sunnyvale, taking 112,605 sf in Santa Clara at 4555 Great America Parkway.

### Limited availability forces companies to explore all options

With limited large blocks available, tenants are seeking opportunities in less traditional submarkets. Downtown San Jose has sparked particular interest as it builds on the momentum of Google’s expanded presence in the submarket. WeWork leased nearly 90,000 sf at 152 North 3rd Street in Downtown San Jose this quarter. This marks the coworking giant’s fourth location in this submarket. In addition to this new location, WeWork also expanded its presence in Palo Alto this quarter, leasing 40,000 sf at 3101 Park Boulevard.

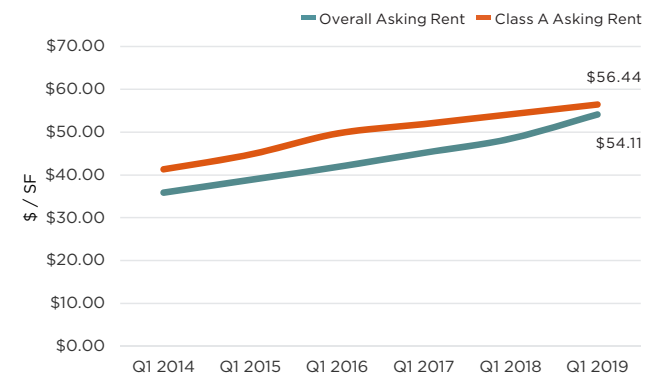
### Outlook

- Tech tenants will continue to drive demand, seeking new and top-quality space along with amenity-rich campuses
- With limited options, and new product leasing fast, availability is expected to continue to decline with upward pressure on asking rents
- Still, tenant options remain abundant with significant availability remaining in submarkets like San Jose and Santa Clara

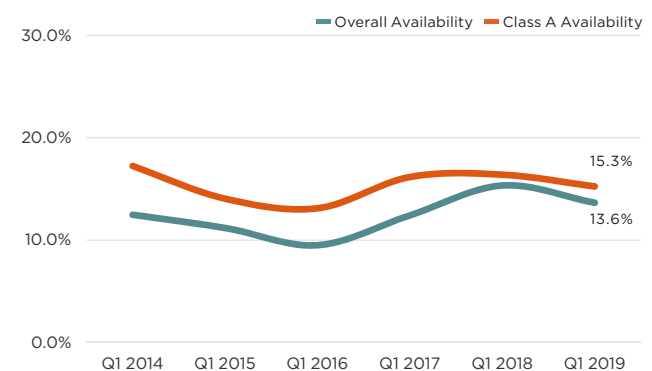
### KEY STATISTICS

	Q1 2018	Q1 2019	y-o-y Change
Inventory	80.0 MSF	<b>82.8 MSF</b>	▲
Availability Rate	15.3%	<b>13.6%</b>	▼
Asking Rental Rate	\$48.46	<b>\$54.11</b>	▲
Class A Asking Rental Rate	\$50.46	<b>\$56.44</b>	▲
Quarterly Leasing Activity	2.0 MSF	<b>1.6 MSF</b>	▼

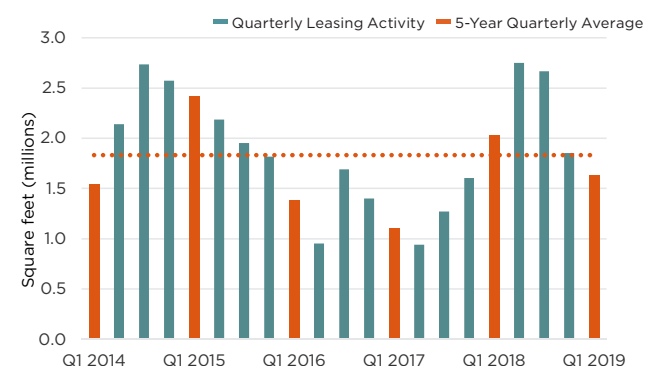
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

**ALL**

major transactions were **new market entrants or relocations**

**36.2%**

of large transactions occurred in the **Sunnyvale/Cupertino** submarket

**73.0%**

**Technology companies** represented 73.0% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Alibaba	166,000	525 Almanor Avenue	Expansion	Sunnyvale/Cupertino	TAMI
Google	151,000	620 National Avenue	New Location	Mountain View/Los Altos	TAMI
MicroFocus	112,605	4555 Great America Parkway	Relocation	Santa Clara	TAMI
WeWork	88,958	152 N 3rd Street	New Location	Downtown San Jose	Coworking
ThoughtSpot	74,652	910 Hermosa Court	Relocation	Sunnyvale/Cupertino	TAMI
Ruckus Wireless	48,479	388 W Java Drive	Relocation	Sunnyvale/Cupertino	TAMI
JUUL Labs, Inc.	47,081	825 E Middlefield Road	New Location	Mountain View/Los Altos	Healthcare
WeWork	40,000	3101 Park Boulevard	New Location	Palo Alto	Coworking
Udemy	39,861	2440 W El Camino Real	New Location	Mountain View/Los Altos	Education
Tinder	29,989	2555 Park Boulevard	New Location	Palo Alto	TAMI

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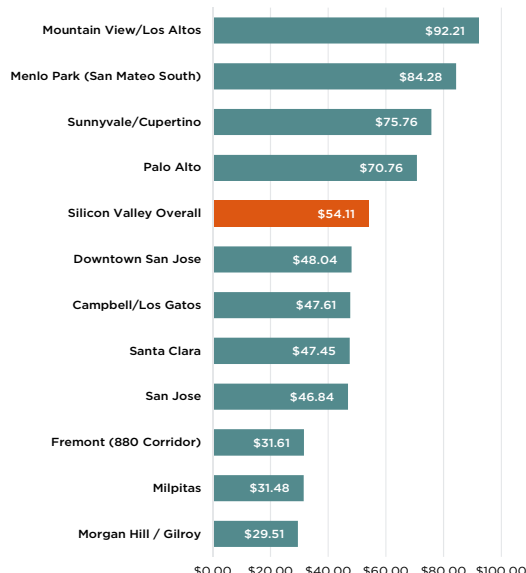
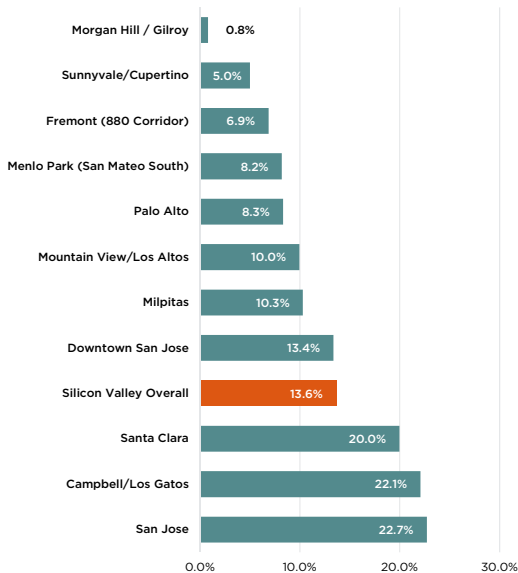
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AVAILABILITY RATE COMPARISON

Silicon Valley Submarkets

RENTAL RATE COMPARISON (\$/SF)

Silicon Valley Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf. 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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