



## Rapidly evolving COVID-19 crisis shuts down Bay Area as quarter ends

The COVID-19 crisis has transformed life in Santa Clara County and the surrounding areas. The Bay Area was the first region to take unprecedented measures to slow the spread of the novel coronavirus. In February, the region declared a state of emergency and by mid-March was the first major metro area to institute a shelter-in-place order, bringing a halt to a majority of businesses. Santa Clara County has been the hardest hit area in the general Bay Area. The impact to the market will be significant and the severity is dependent on how long the current circumstances extend. Ahead of any pandemic-related impact, the market saw some softening as quarterly leasing activity dropped to 1.6 million square feet (msf), down almost 300,000 sf from Q4 2019. Overall availability remained stable at 14.4% and overall asking rents saw a slight 0.8% drop to \$4.90 per square foot (psf) monthly from the previous quarter. Similarly, Class A rents rose nominally to \$5.65 psf monthly and Class A availability dropped 80 basis points to 16.3% over the same period.

### High-end built-out space continues to command a premium

As amenity-rich spaces continue to be an attractive option for tenants, spaces that contain built-out conference rooms, gyms, and other high-end options continue to command a price premium. Even before the pandemic, employers have focused on their employees' well-being and safety, amid a competitive job market. With these priorities in mind, initial and total build-out costs for spaces and amenities have increased. The demand for these types of spaces, along with higher build-out costs, continue to drive cost-conscious companies to look towards secondary cities for cheaper rents and increased affordability for employees. The growth in remote work and flexible working enabled by technology is changing the way businesses think and the strategy behind how organizations find and occupy space.

### Development pipeline remains robust, notably so in San Jose

The development pipeline in Silicon Valley is robust, with nearly 12 million square feet (msf) currently under construction. Correspondingly, construction costs have risen, and future growth of the Valley is tied heavily to construction pricing, and labor and materials availability - factors likely to be further impacted by COVID-19. Many developers have shifted focus to less cost-intensive projects. The current influx of development in San Jose will have a positive effect on its surrounding submarkets, as it will shift the center of the Valley's commercial real estate hub south. Surrounding submarkets are poised to benefit from the residual growth of the increased footprint of companies in the immediate San Jose area.

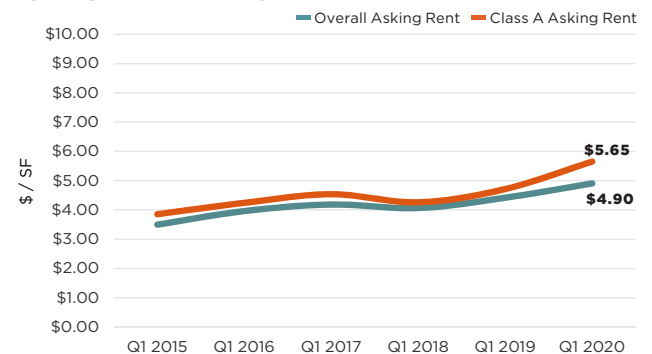
### Outlook

- As the market enters uncertain times, many companies are being even more cautious in signing long-term leases and are leaning towards short-term commitments with increased flexibility
- San Jose's influx of development and growth will shift the center of the Valley's commercial real estate hub further south from the lower peninsula area, once current construction is completed
- As the novel coronavirus impacts both the commercial real estate market and employees' remote work capabilities, there may be a shift in strategy as tenants look for creative ways to restructure current leases

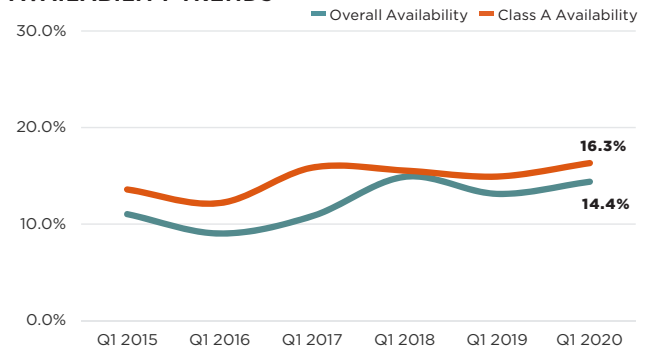
### KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	83.3 MSF	<b>84.6 MSF</b>	▲
Availability Rate	13.1%	<b>14.4%</b>	▲
Asking Rental Rate (Monthly)	\$4.42	<b>\$4.90</b>	▲
Class A Asking Rental Rate (Monthly)	\$4.71	<b>\$5.65</b>	▲
Quarterly Leasing Activity	1.7 MSF	<b>1.6 MSF</b>	▼

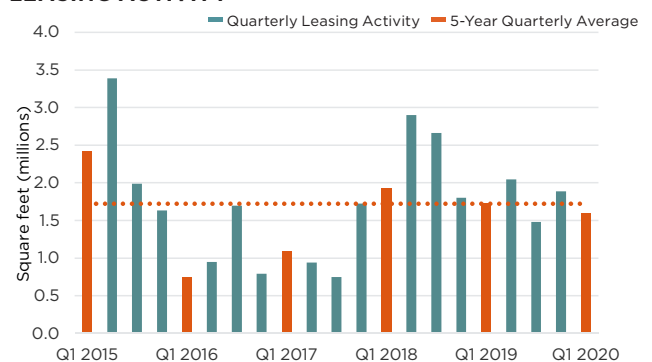
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

9 of 10

of major transactions were new locations

28.3%

of major transactions occurred in the North San Jose submarket

80.9%

Tech tenants represented a combined 80.9% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Google	222,000	750 Moffett Boulevard	New Location	Mountain View/Los Altos	Technology
AirBnB	150,128	4401 Great America Parkway	New Location	Santa Clara	Technology
AirBnB	150,128	4301 Great America Parkway	New Location	Santa Clara	Technology
Bill.com	131,801	6220 America Center Drive	New Location	North San Jose	Technology
Synopsis	105,000	770 N Mary Avenue	New Location	Sunnyvale/Cupertino	Technology
Raytheon	97,977	200 Holger Way	New Location	North San Jose	Professional Services
Apple	85,628	5300 Stevens Creek Boulevard	Expansion	South San Jose	Technology
WilmerHale	62,616	2600 El Camino Real	New Location	Palo Alto	Legal Services
Raytheon	45,831	100 Headquarters Drive	New Location	North San Jose	Professional Services
Polycom Inc.	30,000	6001 America Center Drive	New Location	North San Jose	Technology

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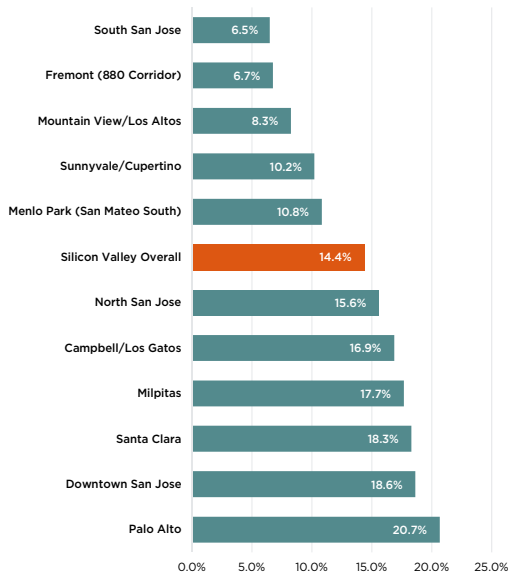
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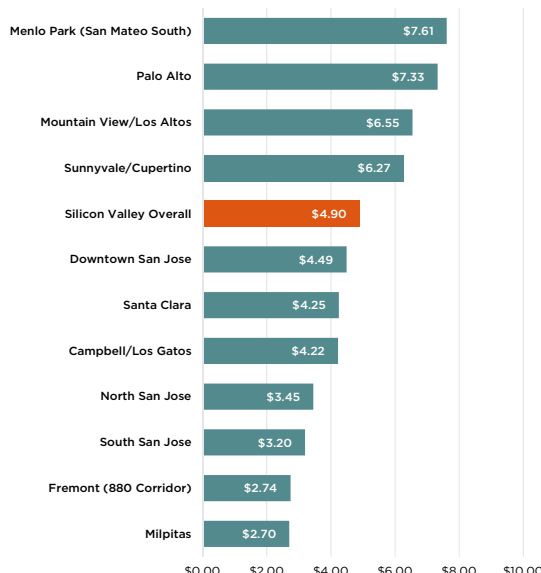
AVAILABILITY RATE COMPARISON

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 per square foot (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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