

## New space delivers amidst market softness, creating opportunity for premium product

Silicon Valley continues to face ongoing pandemic challenges, yet signs of optimism are emerging in the first quarter. On a positive note, quarterly lease count is up 47.0% from Q4 2020. Still, in terms of total square footage, activity is down by roughly 10.0% with just 400,000 square feet (sf) leased this quarter as companies remain hesitant to make real estate decisions given ongoing uncertainty. With an active development pipeline, inventory grew by 17 million square feet (msf) to start the year. This surge of new space on the market presents a prime opportunity for tenants to explore top-tier product.

### Rents hold firm even as availability continues to tick up

Asking rents have remained relatively flat, signaling long-term confidence from owners. Overall average asking rents ended the quarter at \$4.82 per square foot (psf) per month, nearly unchanged from one year ago at the pandemic's onset. Availability increased by 20 basis points (bps) over the quarter - a 400 basis-point increase year over year. Sublease additions continue to be a key factor in the overall increase in available space. Sublease availability currently stands at 5.2% - up 190 basis points from pre-pandemic levels.

### Momentum expected to increase as vaccination becomes more widespread through the remainder of the year

Despite the ongoing lull in signed leases there has been a notable increase in tour activity, particularly as a larger percentage of the population is fully vaccinated. Additionally, occupiers appear to be re-evaluating their use of space as a return to office approaches for many organizations. Much of the activity during the early stages of the pandemic was focused on smaller spaces, and was largely driven by expirations. Early pandemic, 60% of major transactions were renewals, showing that many were unwilling to commit to long-term leases during uncertain times. Currently, we are seeing many larger space inquiries as companies look to embrace the concepts of social distancing and a focus on amenities within the workplace. In Q1, 80% of major transactions were new leases, showing the market shift as companies look to create revamped spaces in anticipation of employee returns.

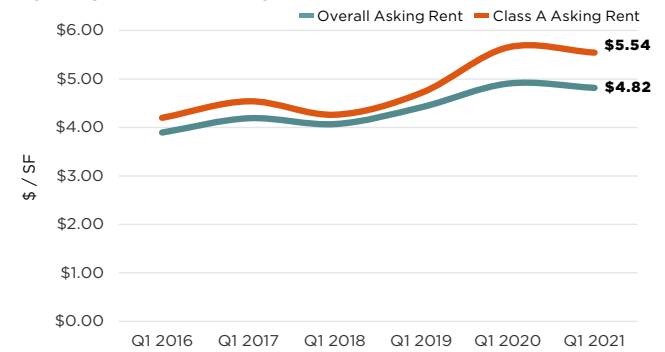
## Outlook

- Companies are looking to improve the quality and design of their workspaces to ensure employees come back to attractive and safe in-person environments
- Market activity shows signs of optimism, but we are still in the midst of the recovery process; we don't expect to see pre-COVID leasing activity and volume until the virus is fully contained

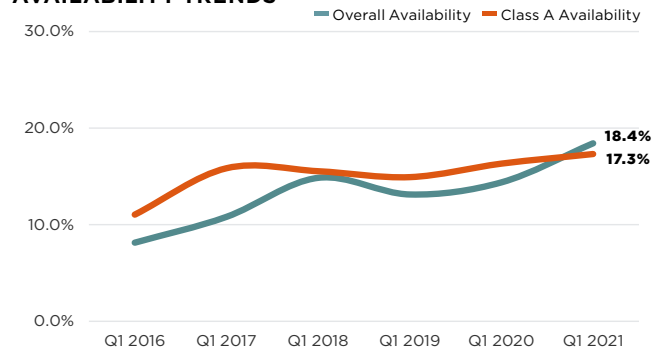
## KEY STATISTICS

	Q1 2020	Q1 2021	y-o-y Change
Inventory	84.3 MSF	<b>84.5 MSF</b>	▲
Availability Rate	14.4%	<b>18.4%</b>	▲
Asking Rental Rate	\$4.90	<b>\$4.82</b>	▼
Class A Asking Rental Rate	\$5.65	<b>\$5.54</b>	▼
Quarterly Leasing Activity	1.6 MSF	<b>0.4 MSF</b>	▼

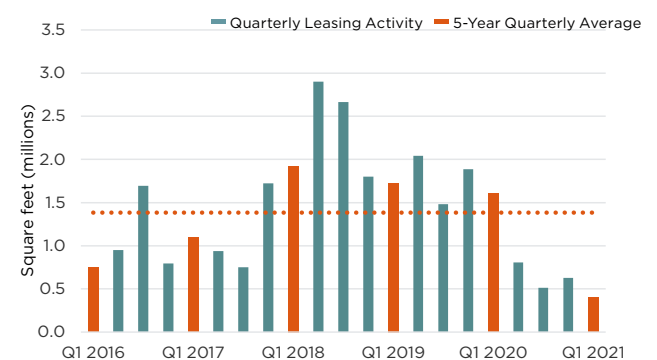
## ASKING RENT TRENDS



## AVAILABILITY TRENDS



## LEASING ACTIVITY



MAJOR TRANSACTIONS

81.0%

of major transactions were new locations by square footage

40.9%

of large transactions occurred in the North San Jose submarket by square footage

39.9%

Healthcare represented 39.9% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Veeco Instruments	96,780	355 East Trimble Road	New Location	North San Jose	Manufacturing
Ascend Clinical	92,820	435 Oakmead Parkway	New Location	Santa Clara	Healthcare
Apple	80,257	1150-1170 Kifer Rd	Renewal	Sunnyvale	Technology
Google	76,740	3400 Hillview Ave	New Location	Palo Alto	Technology
Auris Health	76,000	170 Baytech Drive	New Location	North San Jose	Healthcare

Source Savills Research

For more information, please contact us:

**Savills**  
550 S. Winchester Blvd.,  
Suite 600  
San Jose, CA 95128  
+1 408 554 8855

705 High Street  
Palo Alto, CA 94301  
+1 650 812 9800

**Michael Mordaunt**  
Vice Chairman  
mmordaunt@savills.us

**Joe Brady**  
Executive Managing  
Director  
joebrady@savills.us

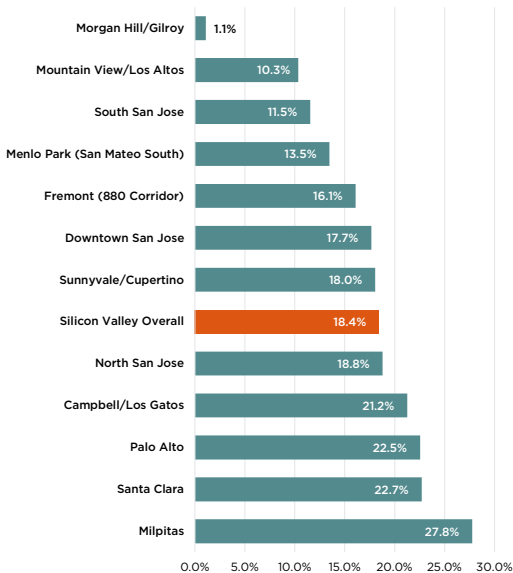
**Alex Williams**  
Research Associate  
awilliams@savills.us

**About Savills Inc.**  
Savills helps organizations find the right solutions that ensure employee success. Sharply skilled and fiercely dedicated, the firm's integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, workforce and incentives strategy, workplace strategy and occupant experience, project management, and capital markets, Savills has elevated the potential of workplaces around the corner, and around the world, for 160 years and counting.

For more information, please visit Savills.us and follow us on LinkedIn, Twitter, Instagram and Facebook.

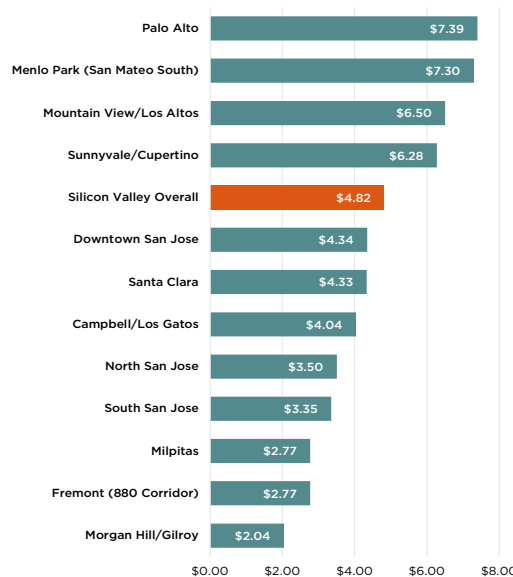
AVAILABILITY RATE COMPARISON

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.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills research.

Copyright © 2021 Savills

