

Leasing activity falls to historic lows as COVID-19 impact hits Silicon Valley

Numerous companies have put real estate decisions on hold, as both state and local legislatures are still uncertain of future restrictions regarding COVID-19. Few companies are committing to leasing new space, due to the uncertainty, and many companies' work-from-home (WFH) policies have been extended for the near future. Some companies have taken a proactive approach in expanding their office footprints in order to de-densify space to meet social distancing requirements; however, overall office demand dropped drastically and just 800,000 square feet (sf) was leased in the past three months - a roughly 50.0% drop from the first-quarter total. Overall availability rose 50 basis points (bps) to 14.8% quarter over quarter while overall asking rents held fairly flat at \$4.95 per square foot (psf).

Sublease market driving majority of leasing activity

Current market conditions are forcing many companies to analyze their real estate portfolios and workplace strategies, questioning whether to offload unnecessary space or to expand in order to optimize efficiencies and promote social distancing within the office. Most companies are downsizing, as layoffs and furloughs continue to creep into the labor force, in addition to WFH measures being lengthened. The sublease market has seen the most activity this quarter because of this trend. There is currently 2.5 million square feet (sf) of sublease space available and sublet inventory has seen consistent increases of roughly 10% for new subleases of 10,000 sf or greater on a month-to-month basis.

Continued market uncertainty abounds

The uncertainty of the implications of COVID-19 cannot be understated. As many companies prepare for a potential second wave, in which shelter-in-place restrictions could be reinstated, there is no rush to bring employees back to the office. For the few companies that are in a position to capitalize on the down market, this is the optimal time to find space as landlords are highly focused on securing cashflow. San Jose continues hopes to capitalize on market situations as many companies are looking for Class A alternatives to the expensive rents in the San Francisco and Mid-Peninsula markets. Downtown San Jose is the largest submarket in the South Bay region and boasts the highest amount of sublease inventory; it is expected that many companies will have interest in this submarket as a possible lower-cost relocation alternative.

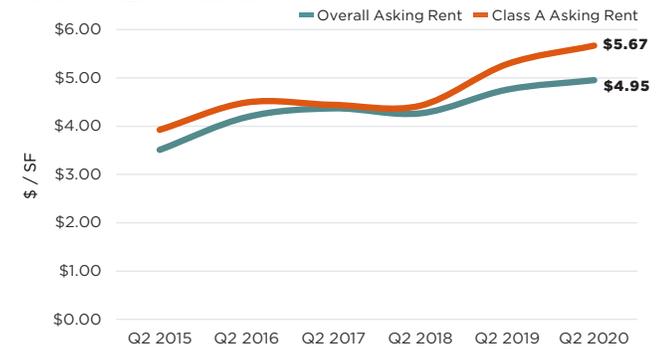
Outlook

- As the market enters uncertain waters, many companies are being extremely hesitant in signing long-term leases and are leaning towards short-term commitments with increased flexibility
- The South Bay region provides many low-cost relocation options for San Francisco and Mid-Peninsula tech companies, due to significantly lower asking rents
- COVID-19 has led many companies to be proactive in terms of de-densifying space to meet local state and county legislature regarding social distancing, in addition to remote work capabilities continuing to be a viable and efficient option for employees

KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	83.5 MSF	84.4 MSF	▲
Availability Rate	12.8%	14.8%	▲
Asking Rental Rate	\$4.76	\$4.95	▲
Class A Asking Rental Rate	\$5.29	\$5.67	▲
Quarterly Leasing Activity	2.0 MSF	0.8 MSF	▼

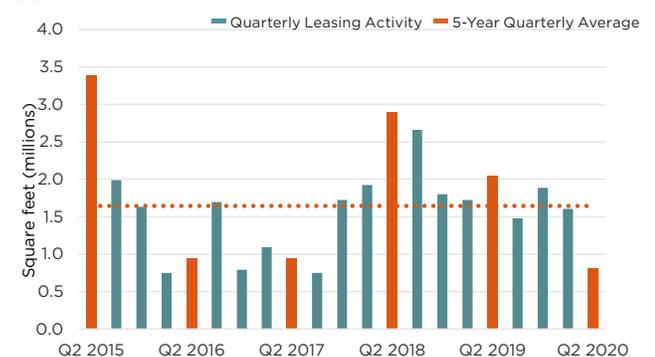
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

4 of 5

of major transactions were new locations

78.9%

of large transactions occurred in the Santa Clara submarket

96.0%

Technology sector represented 96.0% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
ServiceNow Inc.	310,345	2215 & 2225 Lawson Lane	Renewal	Santa Clara	Technology
Google	54,000	4009 Miranda Avenue	New Location	Palo Alto	Technology
Infoblox, Inc.	42,118	2390 Mission College Boulevard	New Location	Santa Clara	Technology
Niantic, Inc	22,465	100 Mathilda Place	New Location	Sunnyvale/Cupertino	Technology
Northeastern University	17,717	4 N 2nd Street	New Location	Downtown San Jose	Education

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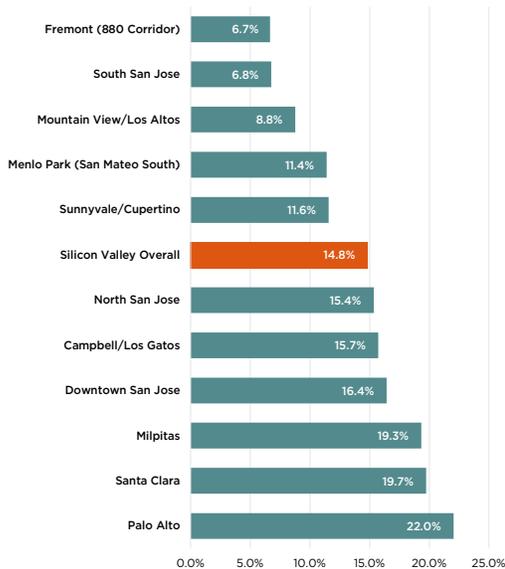
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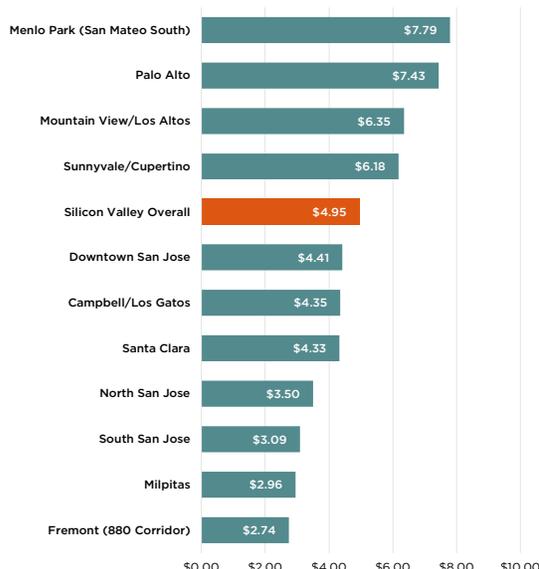
AVAILABILITY RATE COMPARISON

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.

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.

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