

Silicon Valley office market faces ongoing challenges as pandemic looms

Effects of the COVID-19 pandemic continue to dampen economic activity and soften office market conditions across Silicon Valley. By the end of the fourth quarter, overall availability reached 18.2%, a 400-basis-point increase year over year. As organizations continue to focus on managing costs in uncertain times - including their real estate - large blocks of sublease space have flooded the market, contributing greatly to the overall rise in available space. Over the last 30 days, roughly 300,000 square feet (sf) of sublease space has hit the market. With abundant options at below-market pricing, overall average asking rents are starting to see some decline, falling 4.0% over the year to \$4.71 per square foot (psf) per month.

Leasing demand stalls with occupiers hesitant to make long-term real estate commitments

Just over 600,000 sf of leasing activity was recorded in the fourth quarter, a slight improvement from Q3, but down 67% compared to Q4 2019. This activity brought 2020 total annual leasing volume to 3.5 million square feet (msf), a 50% decline from 2019 levels. Short-term extensions and renewals accounted for a significant share of activity once the pandemic hit, as many tenants are taking a "wait-and-see" approach while market uncertainty persists. The rollout of COVID-19 vaccines brings optimism that the end of the pandemic is in sight. With this, we expect to see tenants begin to focus again on long-term real estate decisions going into 2021 and there will be pent up demand from this year's "pandemic pause". Those tenants that are in the market now will benefit from plentiful options in both direct and sublease space as well as flexibility in lease terms and generous concessions as owners try to attract and retain tenants in a softer market.

Technology, Biotech, and Pharmaceuticals sectors remain active and growing

While many other sectors have struggled through the pandemic, the technology, biotech and pharmaceuticals industries remain active and growing. This quarter, Google's autonomous driving technology company, Waymo, committed to 170,825 sf at 680 E Middlefield Road in Mountainview. Additionally Ascendis Pharma expanded by 72,812 sf in Palo Alto. Even amidst uncertainty, Silicon Valley remains a key market for companies growing in these sectors and will likely see a swift rebound in demand once a return to some normalcy occurs later in 2021.

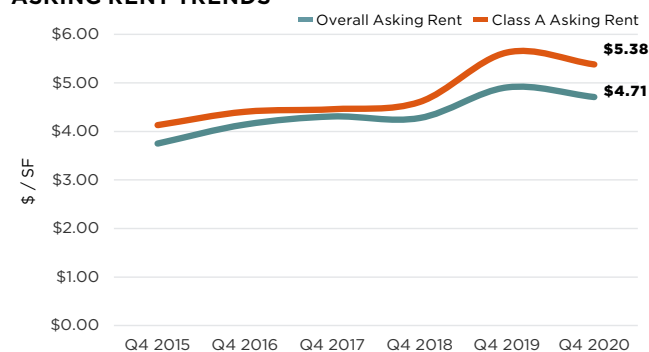
Outlook

- Pandemic concerns loom and many businesses are struggling to cope with future space planning - though vaccine advancements may spark optimism
- Landlords continue to hold out on reducing asking rents despite rapidly rising availability; 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 re-evaluating space needs and functions going forward

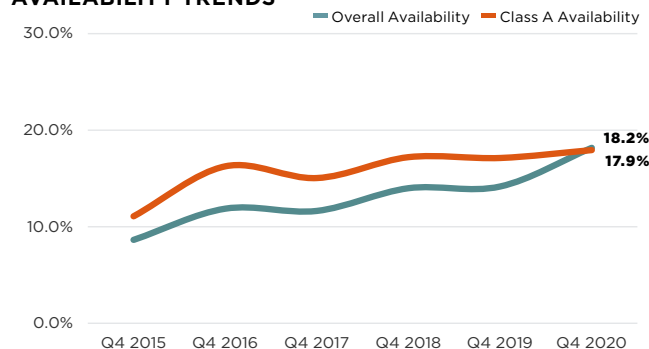
KEY STATISTICS

	Q4 2019	Q4 2020	y-o-y Change
Inventory	84.4 MSF	84.5 MSF	▲
Availability Rate	14.2%	18.2%	▲
Asking Rental Rate	\$4.91	\$4.71	▼
Class A Asking Rental Rate	\$5.63	\$5.38	▼
Quarterly Leasing Activity	1.9 MSF	0.6 MSF	▼

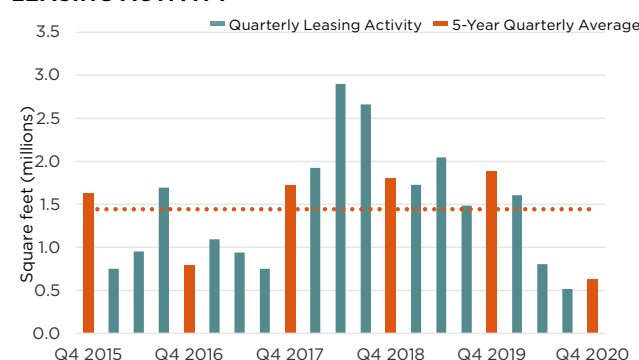
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

62.0%

of major transactions were **new locations** by square footage

40.6%

of large transactions occurred in the **Mountain View/Los Altos** submarket by square footage

53.7%

Technology sector tenants represented 53.7% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Waymo	170,825	680 E Middlefield Road	New Location	Mountain View/Los Altos	Technology
Ascendis Pharma	72,812	1050 Page Mill Road	Expansion	Palo Alto	Pharmaceuticals
Cerebras	55,168	1237 E Arques Avenue	New Location	Sunnyvale/Cupertino	Technology
Qorvo, Inc.	51,105	3099 Orchard Drive	Renewal	North San Jose	Manufacturing
Perkins Coie LLP	36,000	3150 Porter Drive	Renewal	Palo Alto	Legal Services
San Jose BioCube II, LLC	34,999	2680 Zanker Road	New Location	North San Jose	Real Estate

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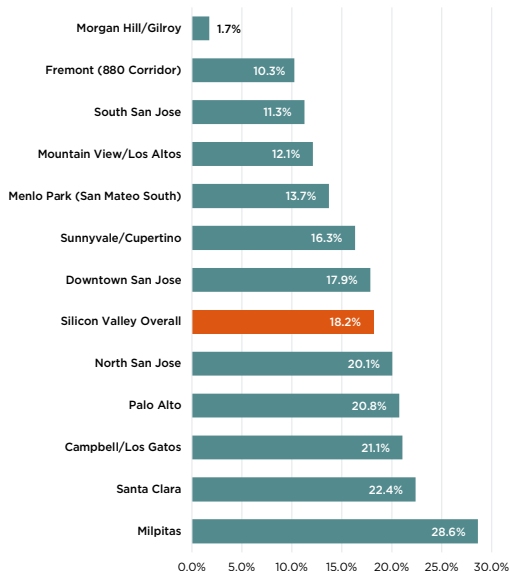
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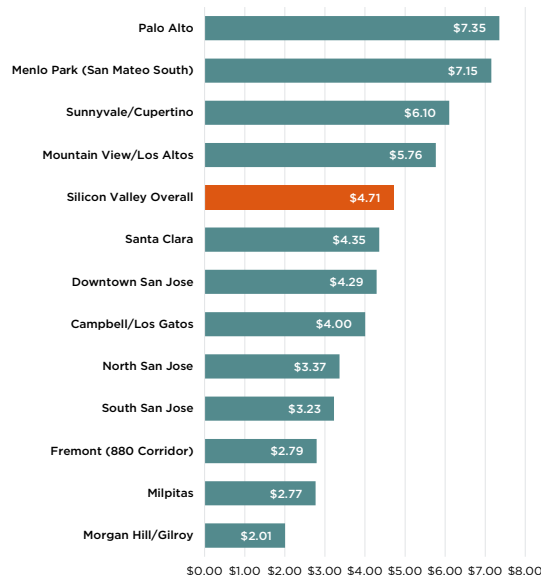
AVAILABILITY RATE COMPARISON

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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