MARKET IN MINUTES
Savills Research

Q2 2022 - Office

Silicon Valley

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Office availability increases yet again as the technology sector is now in correction

In the second quarter 2022, the total availability rate in the Silicon Valley office market increased 90 basis points (bps) over last quarter to 20.9%. This was also up 160 bps from 19.3% reported a year ago. With the Federal Reserve raising interest rates to fight inflation, the entire global technology sector has been affected with much greater scrutiny by investors and lenders on technology firms, especially those still operating at a loss. The overall average asking rental rate ended the quarter at $4.71 per square foot (psf) per month. This was down from $4.73 psf per month reported last quarter, as well as down from $4.78 psf per month reported a year ago. With continued concerns over inflation, expect interest rates to continue to rise which might slow overall economic growth in general and have a negative effect on the technology sector, especially amongst startup firms. As a result, expect office availability rates to continue to rise while downward pressure will remain on both average asking and effective rental rates.

Leasing activity up significantly over last quarter led by larger deals

Led by a few larger deals, leasing activity totaled 1.4 million square feet (msf) for the quarter, up significantly from over just 0.6 msf reported last quarter. A confidential tech company leased approximately 358,800 square feet (sf) at 615-625 N Mathilda Avenue in Sunnyvale, Pure Storage subleased nearly 328,000 sf from Analog Devices at 2555-2565 Augustine Drive in Santa Clara, and Applied Materials subleased nearly 246,000 sf from Hewlett Packard at 3333 Scott Boulevard also in Santa Clara. These three transactions amounted for nearly 1.0 msf of leasing activity, turning what otherwise would have been a decrease in leasing activity over last quarter into a sharp increase.

New development pipeline expected to remain relatively low over the short-term

With just 1.3 msf now under construction, of which 21% is pre-leased, the Silicon Valley office market is currently seeing much lower levels of development activity relative to a few years ago when 2-3 msf was delivered annually. On the other hand, the overall trend of flight to quality by occupiers could see more pre-leased build-to-suit projects start as large technology companies are attracted to newer projects with an emphasis on health and wellness. For larger technology companies with the balance sheet to continue growing either organically or by acquisition, the near-term will provide plenty of options as availability continues to be historically high and the overall market remains tenant-favorable.

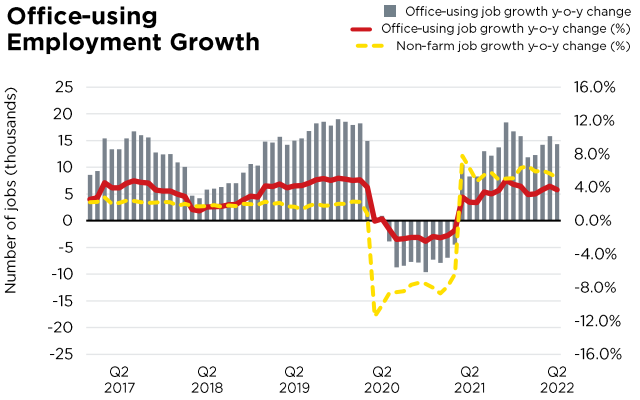
Outlook

- With rising interest rates, the current technology sector correction is likely to continue which will lead to increased availability levels in the short-term
- As availability levels remain elevated, expect concessions to remain high as landlords aggressively compete for occupancy
- Larger technology companies with the capital reserves to "weather the storm" will try to capitalize on lower demand by leasing high quality trophy space as the overall trend of flight to quality by occupiers continues

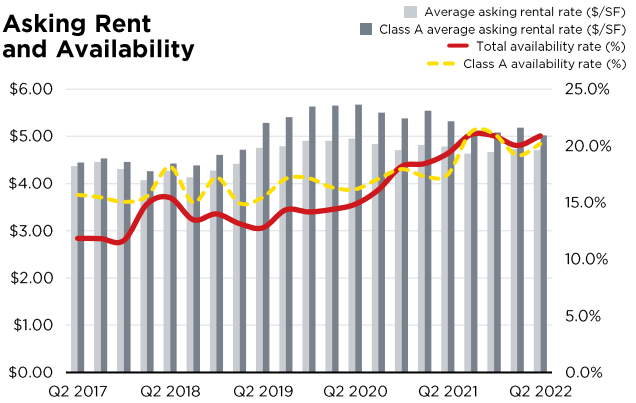
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	84.9 MSF	85.4 MSF	▲
Availability Rate	19.3%	20.9%	▲
Asking Rental Rate	$4.78	$4.71	▼
Class A Asking Rental Rate	$5.32	$5.02	▼
Quarterly Leasing Activity	1.2 MSF	1.4 MSF	▲
Available Sublease Space	4.6 MSF	4.9 MSF	▲

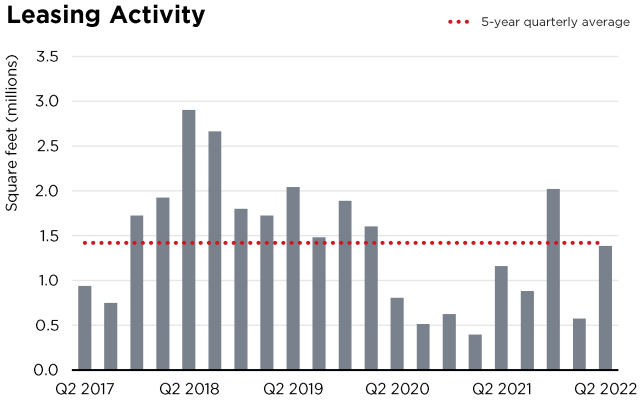
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

1.9%
San Jose-Sunnyvale-Santa Clara unemployment rate (as of May 2022)

3.7%
Office-using employment growth year over year (as of May 2022)

1.3 msf
Office space currently under construction

Top Transactions

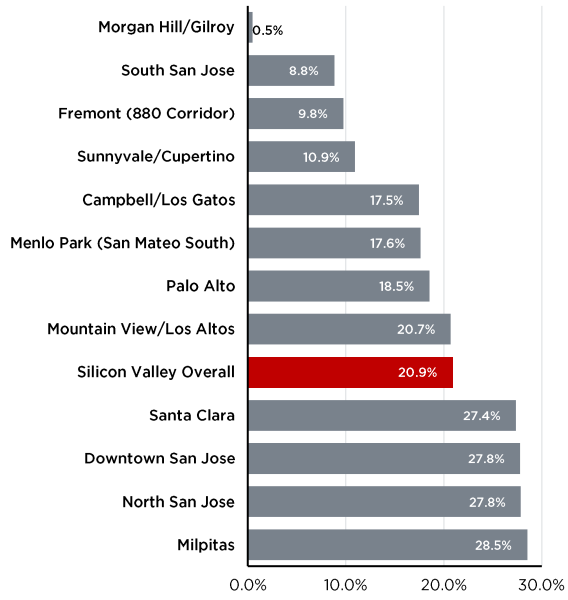
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Confidential	358,801	625 & 655 N Mathilda Avenue	New Location	Sunnyvale	TAMI
Pure Storage*	327,970	2555 & 2565 Augustine Drive	Relocation	Santa Clara	TAMI
Applied Materials*	245,830	3333 Scott Boulevard	Relocation	Santa Clara	TAMI
Databricks*	45,240	351 E Evelyn Avenue	Relocation	Mountain View	TAMI
Sullivan & Cromwell LLP	43,475	550 Hamilton Avenue	Relocation	Palo Alto	Legal Services
Kohl's	26,642	620 N McCarthy Boulevard	New Location	Milpitas	Retail
Elastics Cloud*	19,361	451 El Camino Real	Relocation	Santa Clara	TAMI
Mindray	14,036	690 N McCarthy Boulevard	Relocation	Milpitas	TAMI
Eliyan	6,620	3910 Freedom Circle	Relocation	Santa Clara	TAMI
Cipherome	6,411	2674 N 1st Street	Relocation	San Jose	TAMI

*Sublease

Source: Savills Research

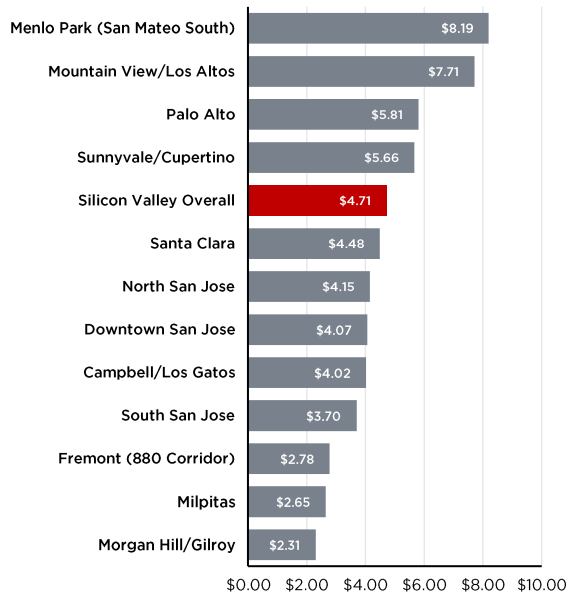
Availability Rate Comparison (%)

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. 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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