

Silicon Valley

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Office leasing activity remains low as tech sector correction and hybrid work continues

In Q2 2024, the total availability rate in the Silicon Valley office market increased by another 110 basis points (bps) from last quarter to 28.7%. As large technology companies have decided to cut their occupied space and return to office rates have lagged the national average, office space demand remains low. Looking into the second half of the year, it appears that the Federal Reserve will be keeping interest rates higher for longer which will be a headwind for businesses already dealing with higher costs, as well as the technology sector where venture capital funding is expected to remain low.

Quarterly leasing activity remains at just 0.7 million square feet

Leasing activity in Q2 2024 was just 0.7 million square feet (msf) again with the largest deal of the quarter being PwC's leasing 147,353 square feet (sf) at One Santana West. However, this was the exception as the vast majority of deals remain under 20,000 sf. Available sublease has remained stubbornly high at 7.7 msf which is down from 8.8 msf reported in Q4 2023 but still up from 7.6 msf reported a year ago. While large proposed office projects such as Google's massive \$15 billion project with Lendlease are now shelved, there is still an additional 1.2 msf of office space under construction in Downtown San Jose and Sunnyvale, respectively. As a result, expect office availability to remain high for the foreseeable future.

Asking rental rates remain high due to new development

The overall average asking rental rate increased to \$5.17 per square foot (psf) per month in Q2 2024, down 0.2% year over year. The Class A average rental rate of \$5.33 psf is up 0.2% year over year as many landlords have offered large concession packages such as rental abatement and large tenant improvement allowances in return for keeping their face rents high. While there continues to be strong downward pressure on office rental rates due to lower demand, expect average rental rates to continue to be high as even more high-end speculative office space is added to the market between now and the end of next year.

Key Statistics

	Q2 2023	Q2 2024	Y-0-Y
Inventory	89.2 msf	90.2 msf	+1.0 msf
Availability Rate	26.3%	28.7%	+240 bps
Asking Rental Rate	\$5.18	\$5.17	-0.2%
Class A Asking Rental Rate	\$5.32	\$5.33	+0.1%
Quarterly Leasing Activity	0.7 msf	0.7 msf	+0.0 msf
Available Sublease Space	7.6 msf	7.7 msf	+0.1 msf

Note: Rents quoted are monthly

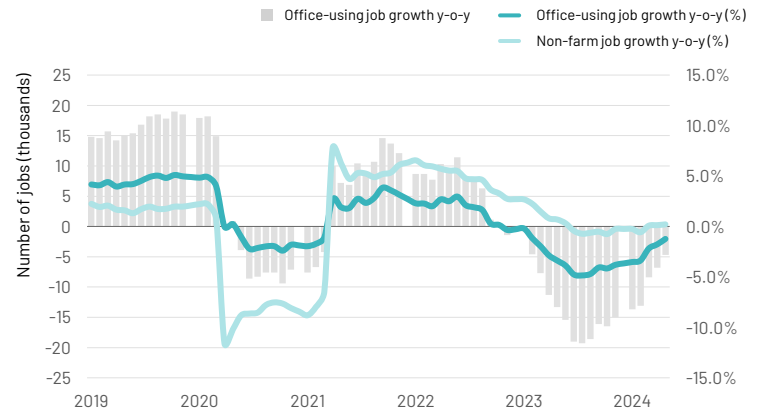
Outlook

01 Expect leasing activity to remain largely expiration-driven as most occupiers, especially large tech companies, are focused on controlling costs and rightsizing their office space

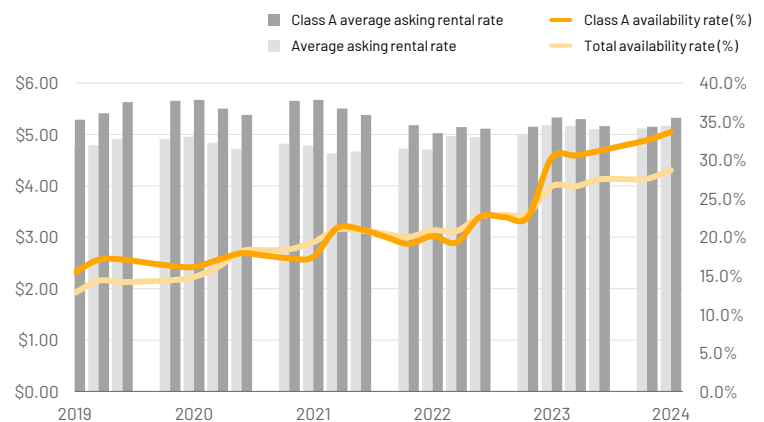
02 Availability rates are expected to remain high as new Class A speculative office space is delivered to the market and sublease space levels continue to be stubbornly high

03 Expect more owner-users to acquire discounted office buildings as most institutional value-add investors continue to be on the sidelines amidst a correction in valuations

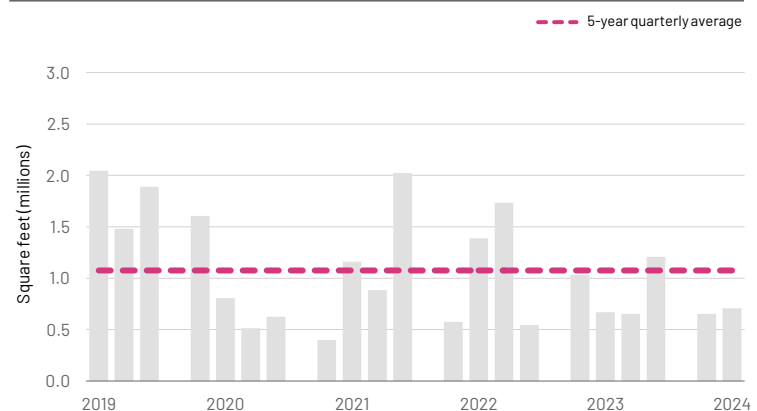
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

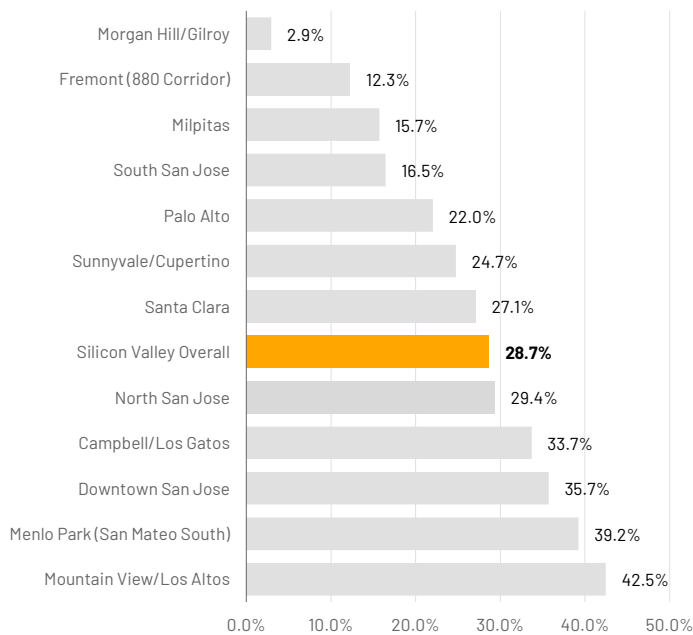
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
PwC	Business, Professional and Consulting Services	South San Jose	3155 Olsen Drive	147,353	Relocation
Concept Therapeutics	Pharmaceuticals	Menlo Park (San Mateo South)	149 Commonwealth Drive	50,177	Extension
Augment Computing	TAMI	Palo Alto	395 Page Mill Road	35,067	New Location
Indie Semiconductor	TAMI	North San Jose	25 Metro Drive	24,209	New Location
Indie Semiconductor	TAMI	North San Jose	181 Metro Drive	23,135	New Location
AESC Group	Manufacturing	Santa Clara	2350 Mission College Boulevard	20,133	Renewal
Mayer Brown	Legal Services	Palo Alto	3000 El Camino Real	19,490	Renewal
Futurewei Technologies	TAMI	North San Jose	2560 N 1st Street	18,805	New Location
Sapeon	TAMI	North San Jose	2099 Gateway Place	18,152	New Location
Compass	Real Estate	Campbell/Los Gatos	750 University Avenue	17,314	New Location

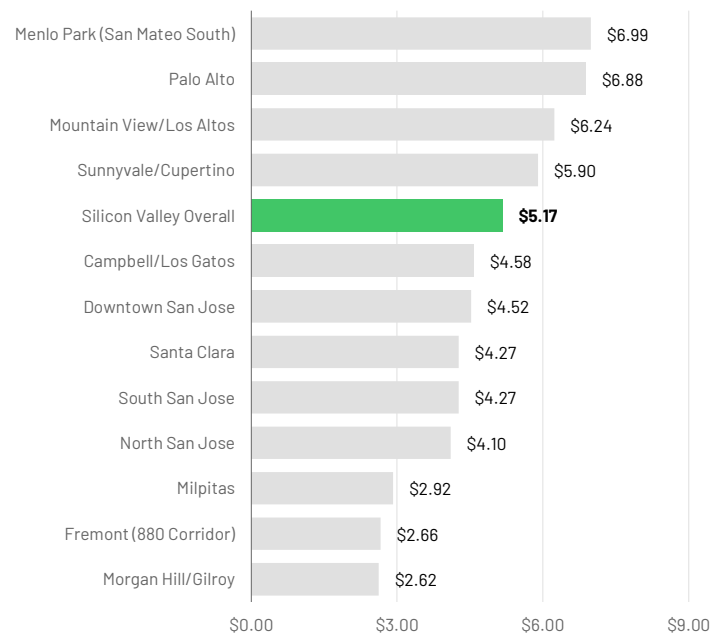
Availability Rate Comparison (%)

SILICON VALLEY SUBMARKETS



Rental Rate Comparison (\$/sf)

SILICON VALLEY SUBMARKETS



Silicon Valley Q2 2024 - Office

Note: Rents quoted are monthly

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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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