

Silicon Valley

Powered by Savills Research & Data Services

Despite largest office lease signed in Northern California, office space demand remains low

In Q4 2023, the largest office lease signed since the pandemic was executed as Walmart subleased over 718,000 square feet from Meta Platforms at the 4-building Crossman Campus in Sunnyvale. However, despite this major transaction, overall leasing activity in Silicon Valley ended the quarter at just 1.2 million square feet (msf). This brought 2023 total leasing activity to 3.6 msf, down from 4.2 msf reported in 2022. It should be noted that total leasing activity in 2023 is down significantly from the 7.1 msf reported in 2019 which was the last full year before the pandemic. Office availability remains at an all-time high and is expected to increase even further as return to office rates have lagged the rest of the country and many large technology companies have realized they now have too much space.

Total availability rate ends 2023 at record-high of 27.5%

The total availability rate increased 90 basis points (bps) from 26.6% last quarter to end 2023 at 27.5%. This is also up 480 bps from 22.7% reported a year ago as larger technology companies have put large blocks available for sublease or terminated their existed entirely in 2023. The overall average asking rental rate decreased to \$5.10 per square foot (psf) per month, down from \$5.16 psf reported last quarter but still up from \$4.95 psf reported a year ago. With availability rates at historic highs and leasing activity weak, expect the market to remain highly tenant-favorable as landlords offer generous concessions in order to attract and retain occupancy.

Expect office market to continue to struggle as long as tech sector demand remains muted

Due to slow return to office rates amidst continued Work From Home and a local economy high dependent on the technology sector, leasing activity in the Silicon Valley office market is expected to remain slow through at least the beginning of 2024. While there have been some green shoots, especially with regards to generative A.I. startup activity, demand for office space from the larger tech conglomerates is forecasted to remain low in the short-term. As a result, tenant-favorable conditions are expected for the foreseeable future.

Key Statistics

	Q4 2022	Q4 2023	Y-0-Y
Inventory	87.3 msf	89.3 msf	+2.0 msf
Availability Rate	22.7%	27.5%	+480 bps
Asking Rental Rate	\$4.95	\$5.10	+2.9%
Class A Asking Rental Rate	\$5.11	\$5.16	+0.9%
Quarterly Leasing Activity	0.5 msf	1.2 msf	+0.7 msf
Available Sublease Space	5.2 msf	8.8 msf	+3.6 msf

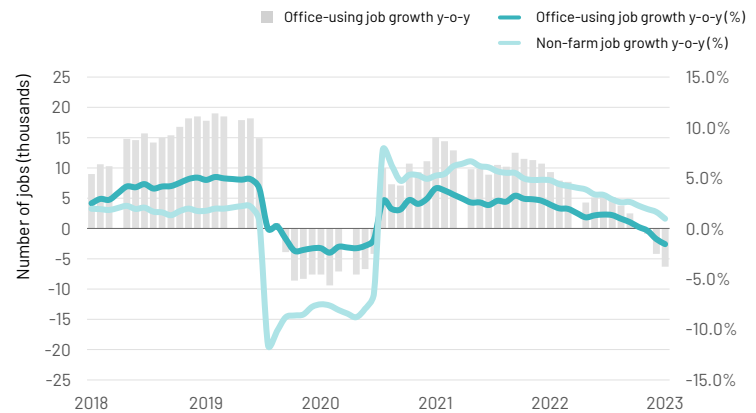
Outlook

01 Expect office leasing activity to remain lower as long as the technology sector, which is the primary driver of space demand locally, remains in a correction

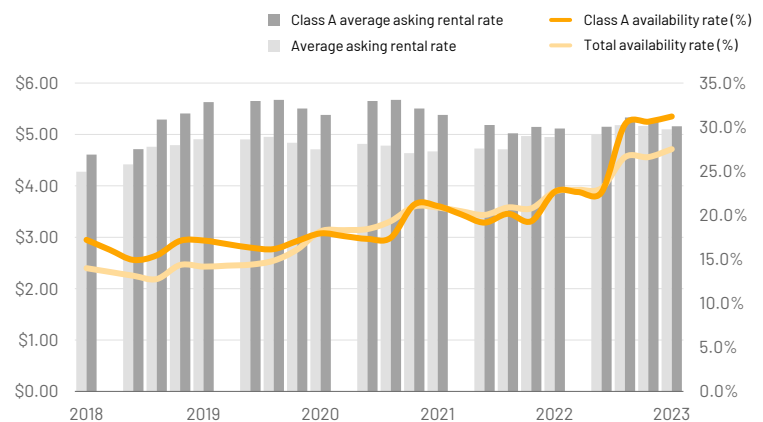
02 Availability is forecasted to increase as larger tech companies finally are terminating leases or putting their spaces on the market for sublease

03 Occupier flight to quality will continue but expect more flight to capital as landlords who are stronger financially benefit amidst higher interest rates

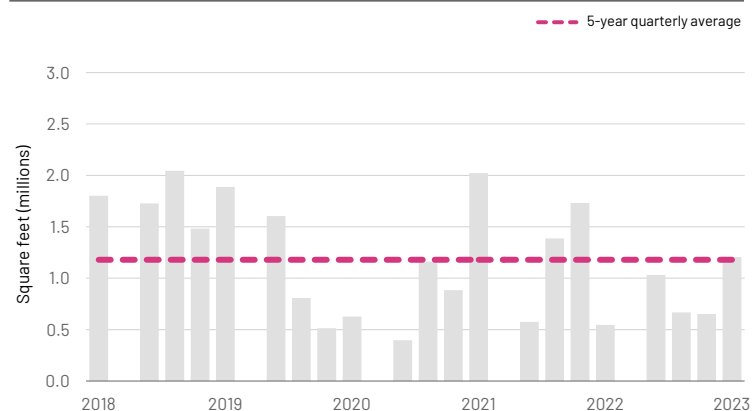
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

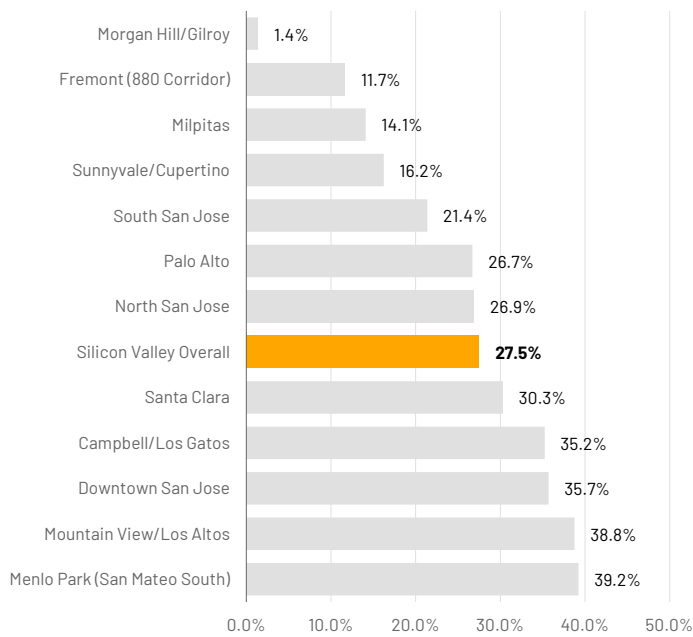
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Walmart	Retail	Sunnyvale/Cupertino	1275, 1345, 1375 & 1395 Crossman Avenue	718,651	New Location**
Rivos	TAMI	Santa Clara	3315 Scott Boulevard	41,252	New Location**
Eightfold AI	TAMI	Santa Clara	2625 Augustine Drive	32,492	Renewal
Tinder	TAMI	Palo Alto	285 Hamilton Avenue	30,636	New Location**
Teladoc	TAMI	South San Jose	560 S Winchester Boulevard	17,132	New Location
DeVry University	Education	North San Jose	2160 Lundy Avenue	13,816	Renewal
Lyte	TAMI	Mountain View/Los Altos	100 View Street	12,978	New Location**
Doordash	TAMI	Sunnyvale/Cupertino	800 W California Avenue	12,149	New Location
CSI Electrical Contractors	Architecture, Engineering & Construction	Los Altos	270 Third Street	11,494	New Location
Sight Sciences	TAMI	Menlo Park (San Mateo South)	4040 Campbell Avenue	10,823	Renewal

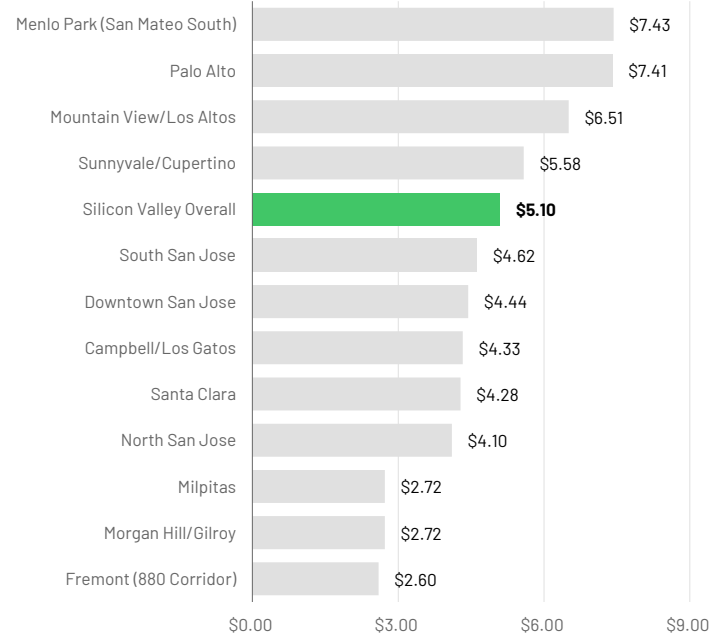
Availability Rate Comparison (%)

SILICON VALLEY SUBMARKETS



Rental Rate Comparison (\$/sf)

SILICON VALLEY SUBMARKETS



Silicon Valley Q4 2023 - Office

Note: Rents quoted are monthly

For more information, please contact us:

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

Erin Proto
Northern California
Research Manager
eproto@savills.us

savills.us

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 © 2024 Savills

