MARKET IN MINUTES
Savills Research

Q3 2022 - Office

Silicon Valley

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Overall availability remains high despite largest office lease signed since the onset of the pandemic

In the third quarter 2022, Silicon Valley's overall availability rate decreased by 10 basis points (bps) over last quarter to 20.8% as the largest office lease since the onset of the COVID-19 pandemic was signed. Led by TikTok parent company, Bytedance, subleasing 657,934 square feet (sf) from Yahoo at the Coleman Highline project in San Jose, the Silicon Valley office market continues to see a slow recovery in leasing activity led mostly by technology firms. On the other hand, many occupiers have had difficulty getting their employees back into the office which has led to stubbornly high availability levels. Looking to the end of the year, expect a slow recovery as office availability remains high.

Average asking rental rates increase as new development and high-priced space floods the market

Leasing activity of 1.7 million square feet (msf) was up 25% from the 1.4 msf reported last quarter, as well as up significantly from just 0.9 msf reported a year ago. However, with the Bytedance lease comprising 38% of total leasing activity in the third quarter, the market continues to see smaller deal volume as most occupiers remain cautious about adding costs in an uncertain economic environment. The overall average asking rental rate ended the quarter at $4.97 per square foot (psf) per month. This was up significantly from $4.71 psf reported last quarter as large new office development projects and high-priced direct and sublease space became available this quarter. With larger technology firms announcing cost cutting, expect availability rates to remain high moving forward.

Full office market recovery remains elusive as long as the technology sector is in a correction

Despite strong year-over-year office-using employment growth and a regional unemployment rate that is now just 2.4%, the Silicon Valley office market continues to see stubbornly high availability levels as work-from-home policies have acted as a headwind to higher leasing activity. With Silicon Valley having the second lowest weekly office occupancy rate (40.4%), behind only San Francisco, as tracked by Kastle Systems in mid-September, the road to a full office market recovery appears elusive for now. In the meantime, expect landlords to remain aggressive as they chase occupancy resulting in tenant-favorable market conditions through year end and into 2023.

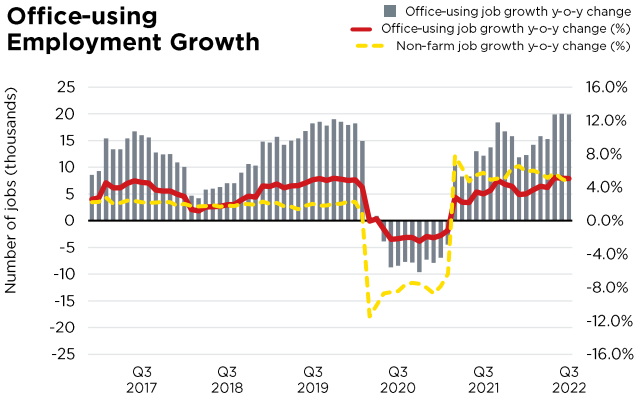
Outlook

- The correction in the technology sector continues to heavily impact the regional office market as many large firms look to cut costs and put space on the market for sublease
- Tenant-favorable market conditions are expected to remain for the foreseeable future as landlords keep their face rents high through large concessions
- Expect availability levels to remain elevated until technology firms begin growing again

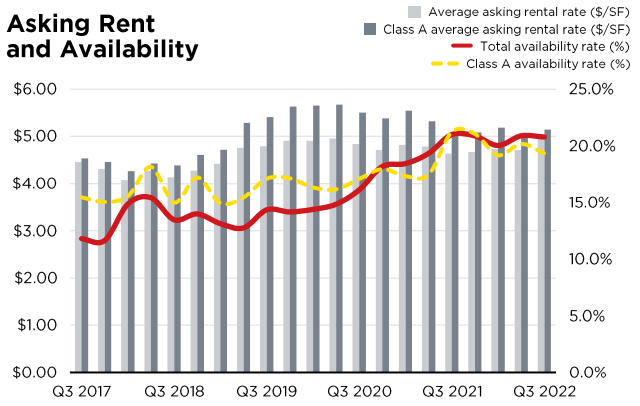
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	85.6 MSF	87.0 MSF	▲
Availability Rate	21.0%	20.8%	▼
Asking Rental Rate	$4.63	$4.97	▲
Class A Asking Rental Rate	$5.08	$5.15	▲
Quarterly Leasing Activity	0.9 MSF	1.7 MSF	▲
Available Sublease Space	4.6 MSF	4.5 MSF	▼

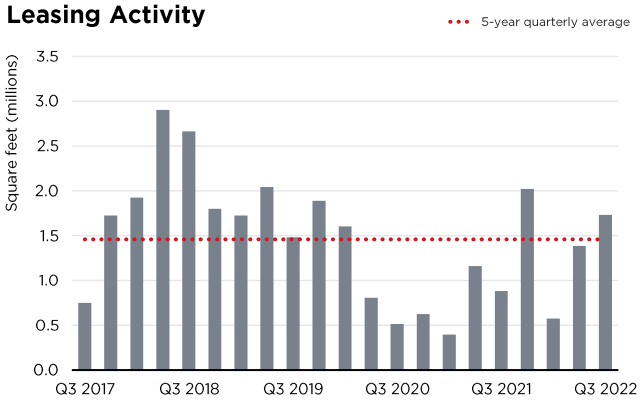
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

2.4%
San Jose-Sunnyvale-Santa Clara unemployment rate (as of August 2022)

5.1%
Office-using employment growth year over year (as of August 2022)

1.1 msf
Office space currently under construction

Top Transactions

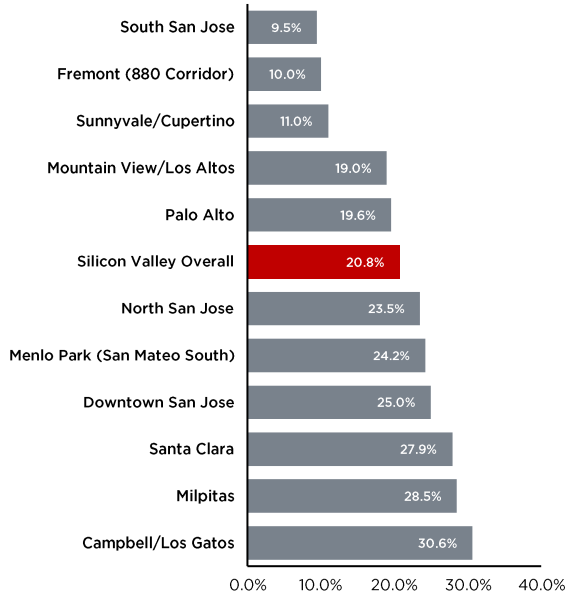
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Bytedance*	657,934	1183, 1193 & 1199 Coleman Avenue	New Location	North San Jose	TAMI
Nutanix	215,857	1740 Technology Drive	Renewal & Expansion	North San Jose	TAMI
Blue River Technology*	81,800	3303 Scott Boulevard	Relocation	Santa Clara	TAMI
Advanced Micro Devices	62,500	2755 Augustine Drive	Relocation	Santa Clara	TAMI
Northeastern University	55,004	4 N 2nd Street	Renewal	Downtown San Jose	Education
DLA Piper	52,252	3223 Hanover Drive	Relocation	Palo Alto	Legal Services
SiFive	36,586	2625 Augustine Drive	Relocation	Santa Clara	TAMI
Amkor Technology	22,960	25 Metro Drive	Renewal	North San Jose	TAMI
ScaleFlux*	22,048	900 N McCarthy Boulevard	Relocation	Milpitas	TAMI
Gibson Dunn & Crutcher LLP	19,320	310 University Avenue	Relocation	Palo Alto	Legal Services

*Sublease

Source: Savills Research

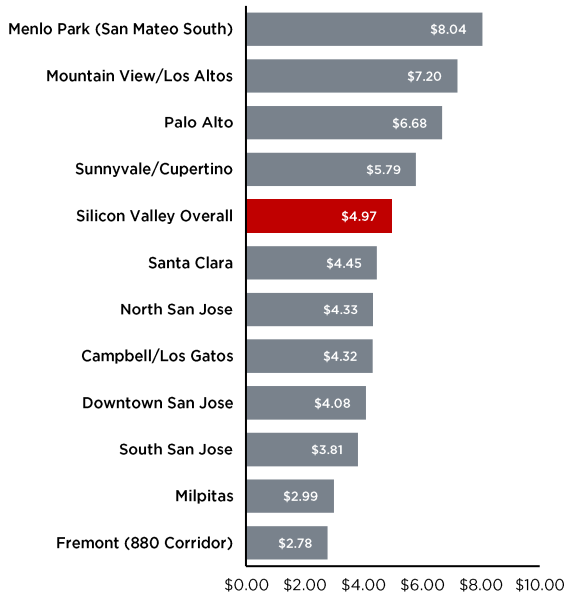
Availability Rate Comparison (%)

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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