



Silicon Valley office market report

Q2 2023

**AVISON
YOUNG**

Silicon Valley office market trends

-1.49 msf

Quarterly absorption dives into negative territory amid shedding of tech space.

Four submarkets accounted for nearly 80% of the negative absorption in Q2 2023. Sunnyvale Moffett Triangle (Moffett Towers), Mountain View, North San Jose and Palo Alto Stanford Research Park submarkets all witnessed givebacks in large blocks of tech space leading to increased vacancy. Tech companies have continued to consolidate as return to office remains slow. However, a green shoot remains with these submarkets being prime locales and as the economy improves, the space will likely be the first absorbed when demand returns.

-15.9%

The number of remote tech jobs has significantly dropped from peak levels a year ago.

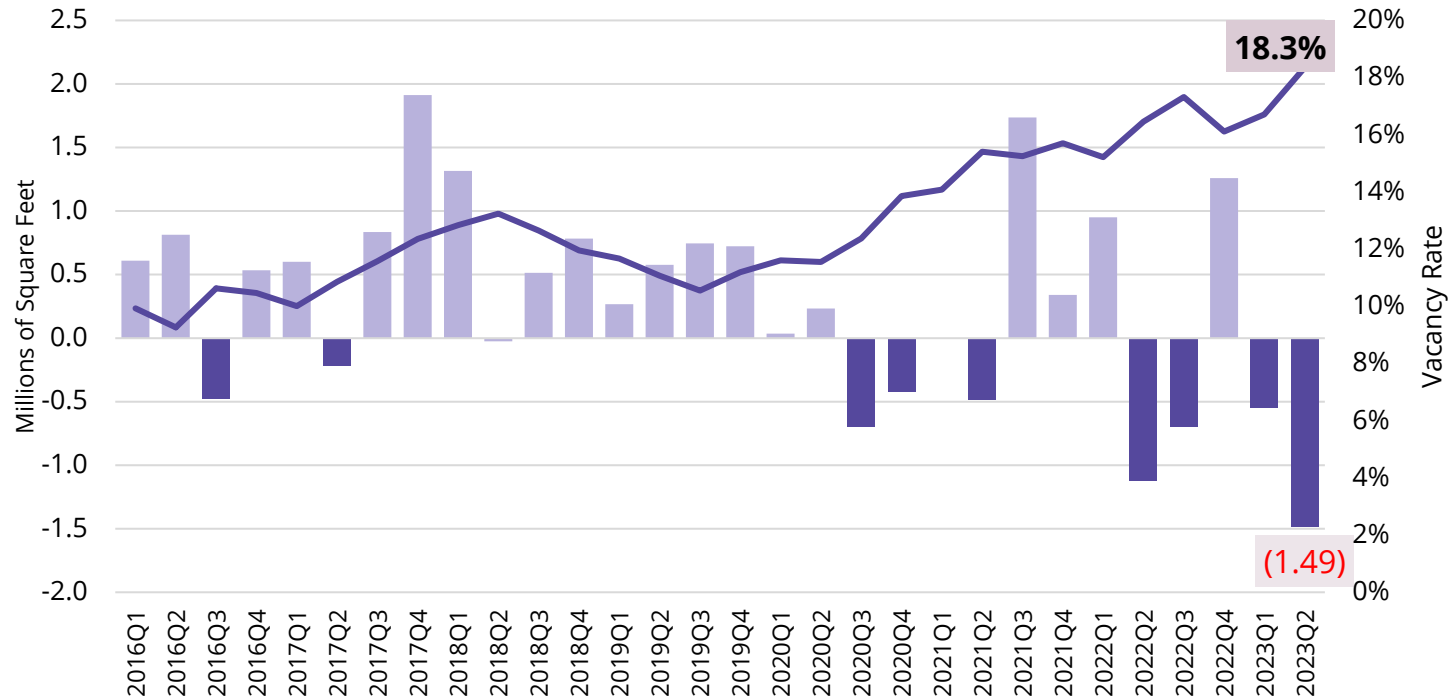
Despite the increased vacancy and lackluster demand, employers have greatly scaled back on the amount of remote tech positions versus a year ago signaling the shift to in person work environments. The percentage of remote job postings was down close to 16% in June 2023 from its peak in May 2022. Reporting 5.5% percentage of remote job postings in June, this figure is closer to the two-year average leading up to the COVID pandemic (3.2%).

28.0%

Despite high construction costs, tenant improvements increase YOY to draw tenants.

The average tenant improvement dollars in Trophy, Class A and Class B assets have showed an increase of 28% over the last 24 months as landlords look to compete for limited tenant demand. Free rent on the other hand has decreased as landlords look to stabilize cash flow across assets.

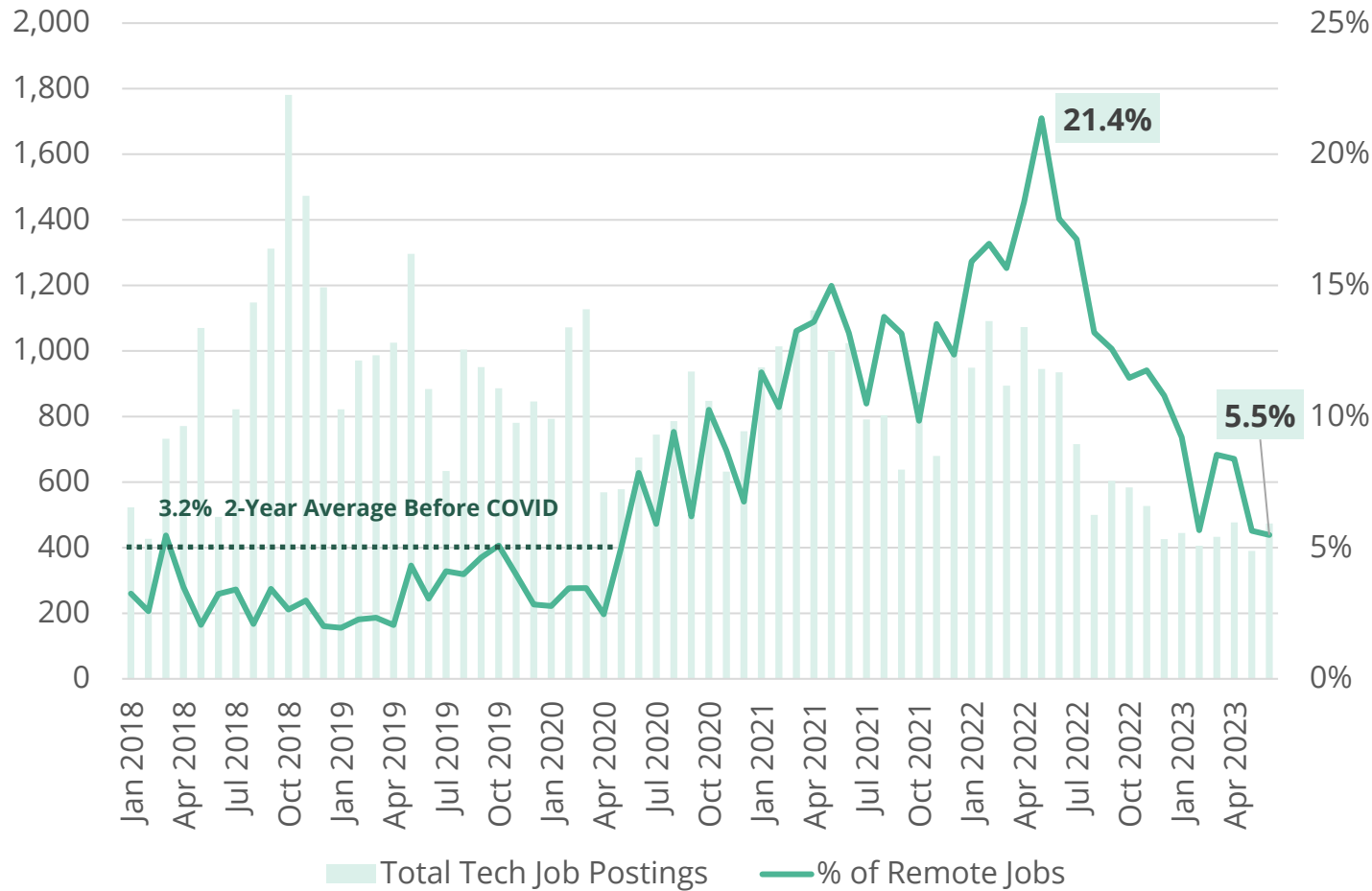
Total historical vacancy and net absorption



Source: AVANT by Avison Young, CoStar

Giveback of space in tech hubs North San Jose, Mountain View and Sunnyvale Moffett Towers dampened absorption.

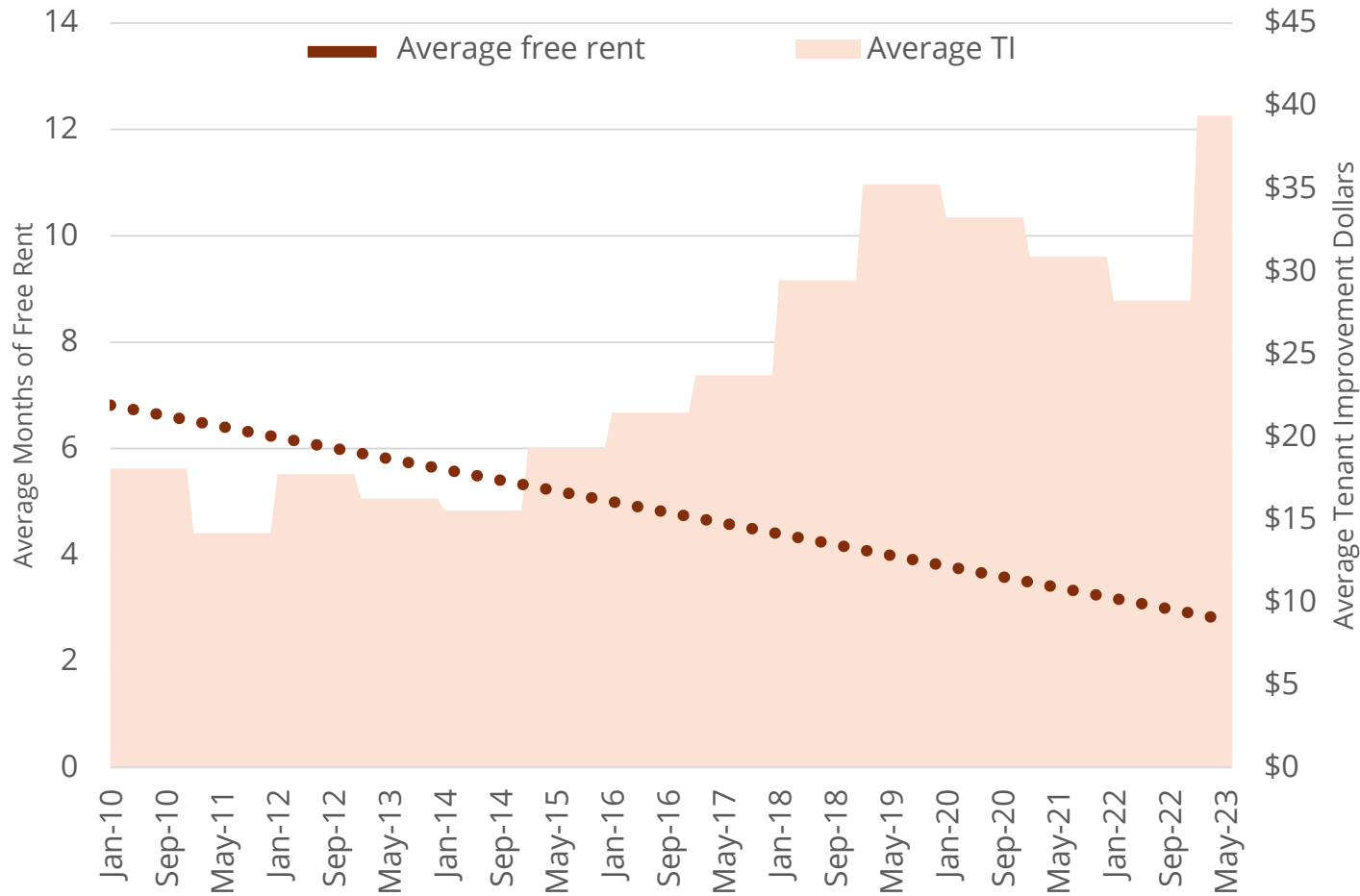
Total tech jobs and % of remote positions



Source: AVANT by Avison Young, CoStar

Employers have greatly scaled back on the amount of tech positions. Remote jobs have decreased close to 16% from last year.

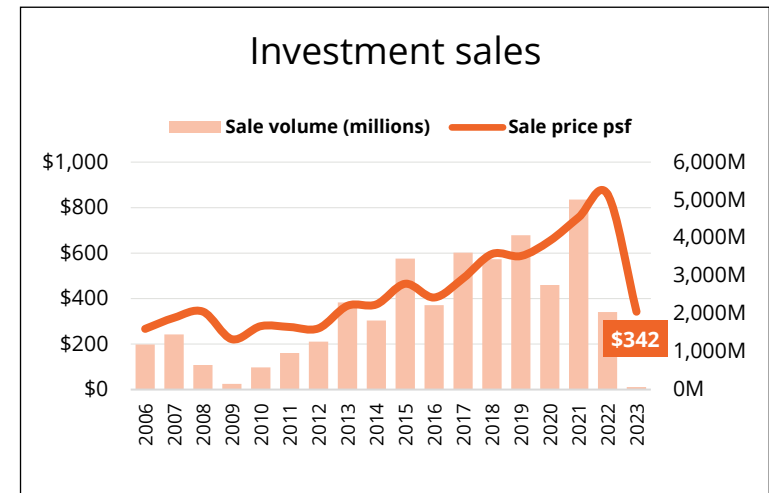
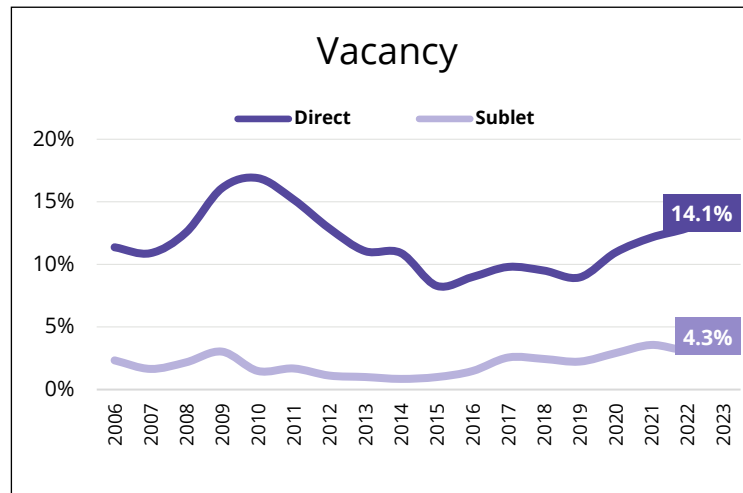
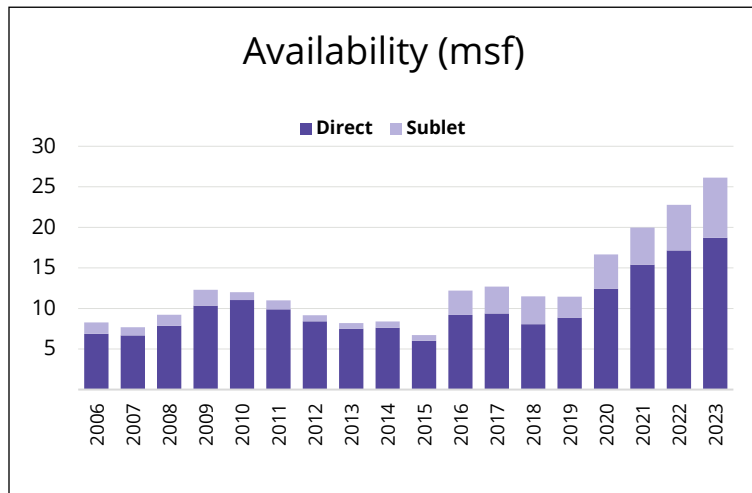
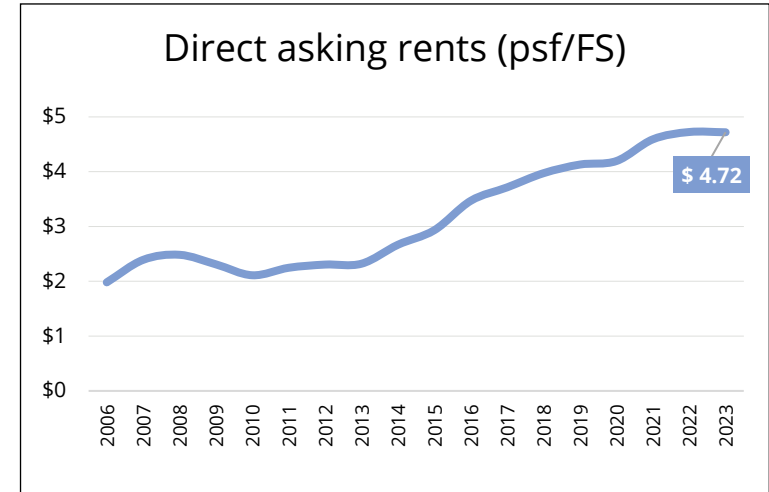
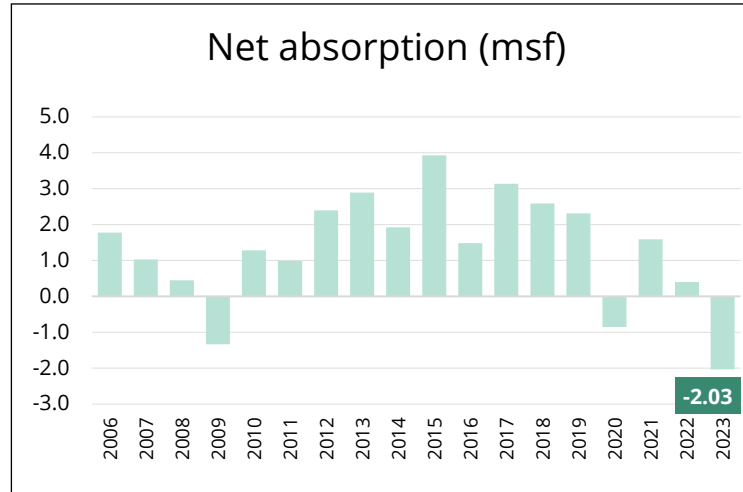
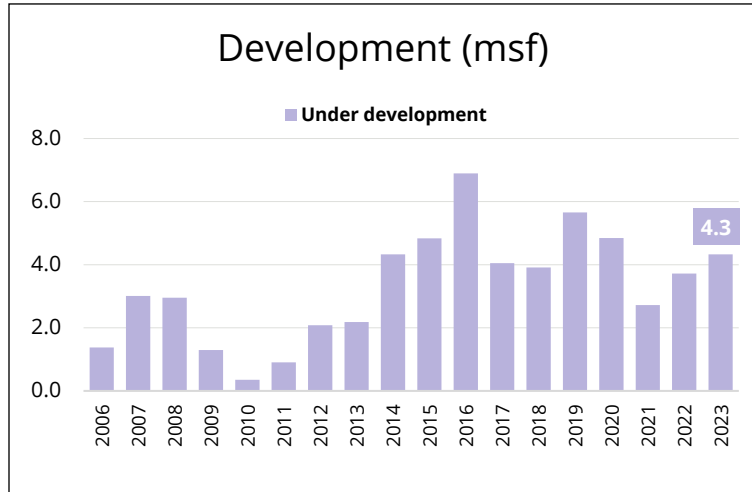
Historical average concessions (5-year term)



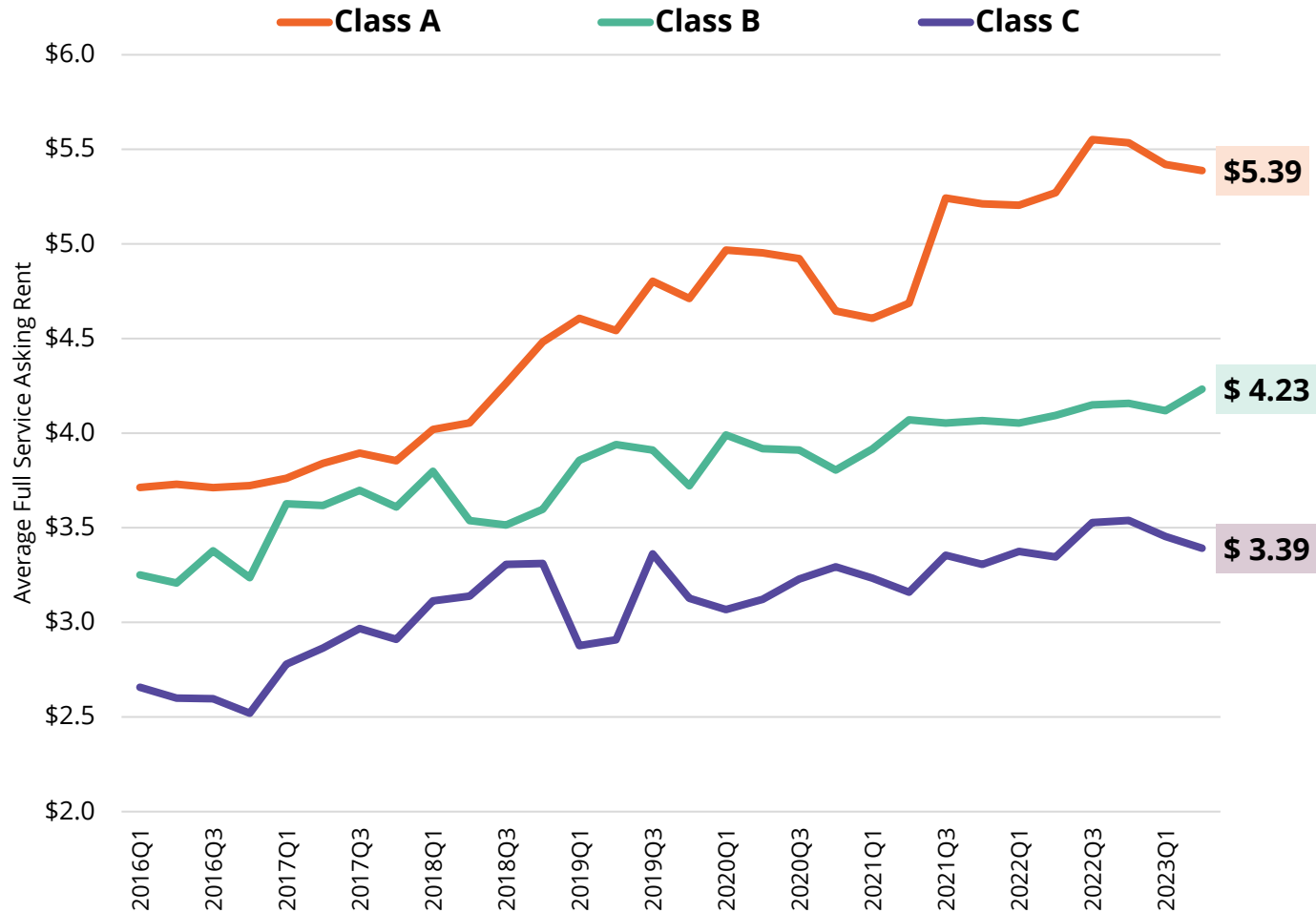
Source: AVANT by Avison Young, CoStar

Landlords have dramatically changed approach as concessions on average lease terms have jumped over the past decade.

Silicon Valley office market indicators



Average full service asking rents by class



Source: AVANT by Avison Young, CoStar

Class A rents remain above pre-Covid levels as landlords hold steady on pricing.

Silicon Valley office market stats

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)	Direct asking rent FS
Campbell	1,946,722	161,870	34.2%	11.3%	45.6%	(41,643)	(175)	\$ 3.88
Central San Jose	419,976		6.4%		6.4%	1,029	11,690	\$ 3.08
Cupertino	2,662,394		12.5%	0.3%	12.9%	10,469	18,220	\$ 5.30
Gilroy	626,470		16.1%	1.1%	17.2%	7,980	3,169	\$ 4.93
Los Altos	1,403,570		8.8%	11.6%	20.4%	(25,415)	(32,946)	\$ 3.71
Los Gatos/Saratoga	3,938,990		8.1%	3.2%	11.3%	44,554	(409)	\$ 2.42
Milpitas	434,757		.6%		.6%	(2,614)	(2,614)	\$ 1.55
Morgan Hill	5,306,601		21.3%	18.4%	39.4%	(442,585)	(592,199)	\$ 5.38
Mountain View	1,368,751		24.1%	20.3%	43.9%	(80,380)	(59,463)	\$ 7.98
Mountain View Downtown	2,463,938	420,640	16.7%	10.0%	26.7%	8,468	91,034	\$ 5.74
Mountain View Shoreline	1,631,321		8.6%	9.2%	17.7%	(55,977)	(93,342)	\$ 8.78
Palo Alto	5,471,960		14.0%	10.6%	24.6%	(220,029)	(209,351)	\$ 6.51
Palo Alto Downtown	1,946,722	161,870	34.2%	11.3%	45.6%	(41,643)	(175)	\$ 3.88
Palo Alto Stanford Research Park	419,976		6.4%		6.4%	1,029	11,690	\$ 3.08

The charts and statistics in this report are composed by Class A, B, and C, non-owner occupied office buildings 20,000 sf and above in the submarkets listed above.

Silicon Valley office market stats

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)	Direct asking rent FS
San Jose Downtown	11,704,346	2,223,813	30.0%	3.8%	33.8%	(69,238)	(80,931)	\$ 5.59
San Jose IBP	388,713		11.7%	0.1%	11.8%	(388)	(1,544)	\$ 1.83
San Jose North	11,811,513		28.0%	4.9%	31.0%	(237,699)	(105,742)	\$ 3.80
San Jose West	3,301,035		22.2%	4.3%	26.5%	1,267	(104,687)	\$ 4.59
Santa Clara Marriott	7,164,210		33.5%	15.6%	49.1%	161,931	54,608	\$ 3.75
Santa Clara North	668,467		7.2%		7.2%	354,076	354,076	\$ 2.43
Santa Clara South	7,430,899	534,000	7.6%	6.3%	13.9%	(25,295)	(72,948)	\$ 3.97
South San Jose	1,306,175		4.3%	6.3%	10.6%	(456)	(7,570)	\$ 2.28
Sunnyvale	3,277,231	854,033	39.5%	4.3%	43.8%	112,938	(16,764)	\$ 6.36
Sunnyvale Moffett Triangle	8,945,740		9.4%	10.2%	19.6%	(986,805)	(996,612)	\$ 3.62
Sunnyvale Peery Park	5,400,889	134,795	7.1%	10.1%	17.1%	20	(187,927)	\$ 5.97
Market total	90,794,601	4,329,151	20.0%	8.2%	28.2%	(1,485,792)	(2,032,427)	\$ 4.72

The charts and statistics in this report are composed by Class A, B, and C, non-owner occupied office buildings 20,000 sf and above in the submarkets listed above.

Silicon Valley office market stats by class

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)	Direct asking rent FS
Class A	40,639,489	4,226,227	20.6%	10.9%	31.4%	(1,466,388)	(1,635,672)	\$ 5.39
Class B	42,965,621	102,924	19.9%	5.8%	25.1%	(161,741)	(423,608)	\$ 4.23
Class C	7,189,491		13.0%	.6%	13.6%	142,337	26,853	\$ 3.39
Market total	90,794,601	4,329,151	20.0%	8.2%	28.2%	(1,485,792)	(2,032,427)	\$ 4.72

The charts and statistics in this report are composed by Class A, B, and C, non-owner occupied office buildings 20,000 sf and above in the submarkets listed above.

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
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