



Silicon Valley/ San Francisco Peninsula office market report

Q2 2024

**AVISON
YOUNG**

Silicon Valley



Silicon Valley office market trends

+0.22%

Office market sees net absorption boost after Walmart moves in

In Q3 2023, retail giant Walmart.com's digital unit subleased the expansive 719,000-square-foot Moffett Green tech campus in Sunnyvale, previously leased by Meta. Walmart.com has maintained an office space at the Sunnyvale Business Park since 2014. This recent occupancy has positively impacted the market, boosting net absorption as a percentage of inventory after five consecutive quarters of negative figures. This move indicates a positive trend, suggesting that companies are recommitting to in-person work environments.

-10.7%

Asking rents begin descent as landlords look to fill vacancies

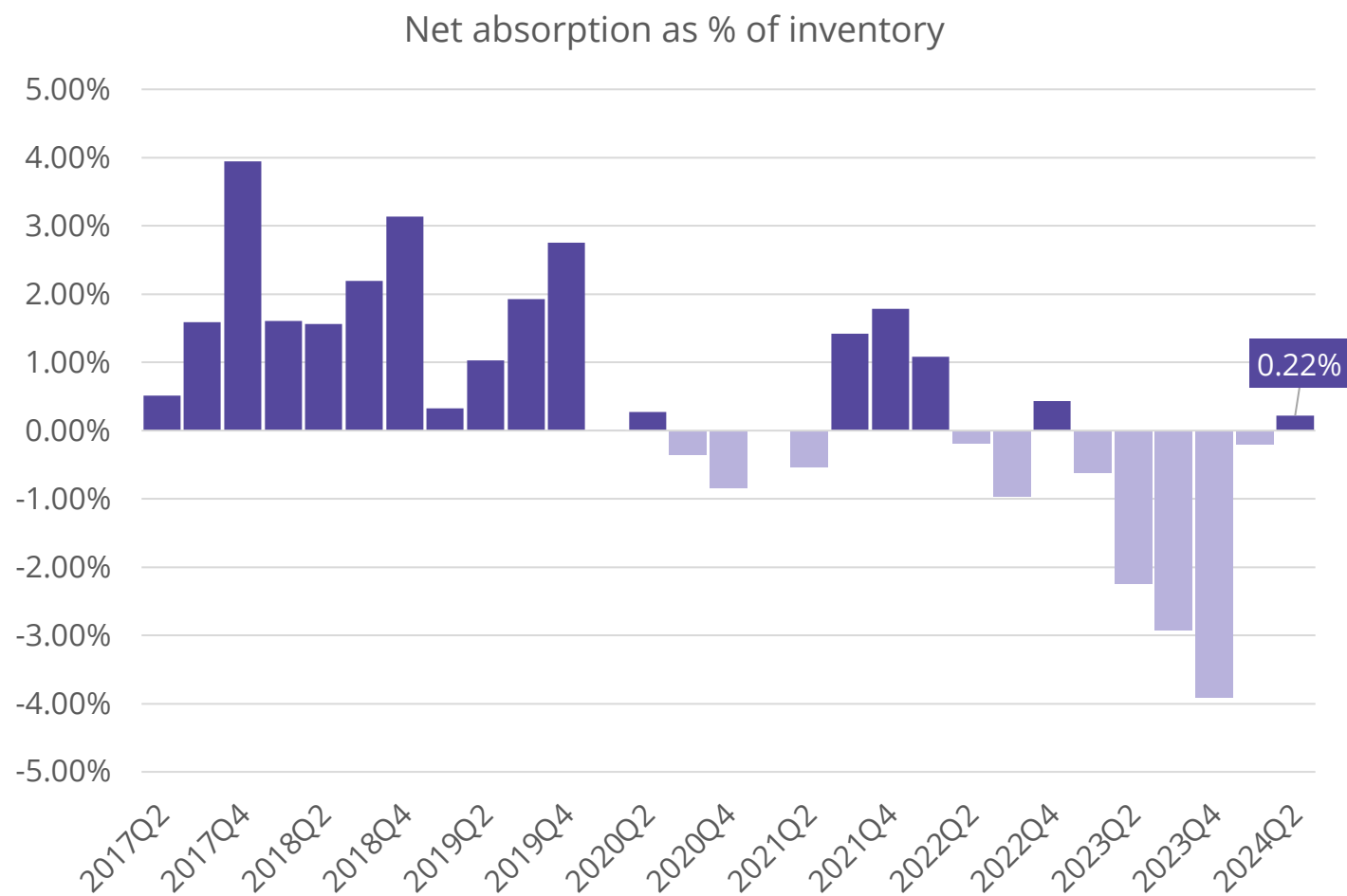
With five consecutive quarters of negative net absorption and lackluster tenant demand, asking rents have continued their decline as landlords strive to fill vacancies. In Q2 2024, the average full-service asking rent was \$4.27 Full Service, a drop of 10.7% from the 2022 high of \$4.73 Full Service, bringing rents back to levels seen in the first half of 2019. While concessions such as tenant improvements and free rent are sparse, landlords with second-generation spaces and higher-end buildings are faring better as tenants seek deals in the market.

149

Valley's lack of VC deals in 2024 correlates to low job postings

The overall pace of job growth has decelerated across the nation, with Silicon Valley, predominantly hosting the tech industry, experiencing a strong contraction. Consequently, the number of venture capital deals funded has also waned, and there is a direct correlation between venture activity and job postings. A major catalyst for the Bay Area's job generation is its strong innovation ecosystem, attracting global investors. As the venture capital market picks up, we expect to see an increase in job growth, which should assist in leasing momentum.

Large Walmart lease boosts office market



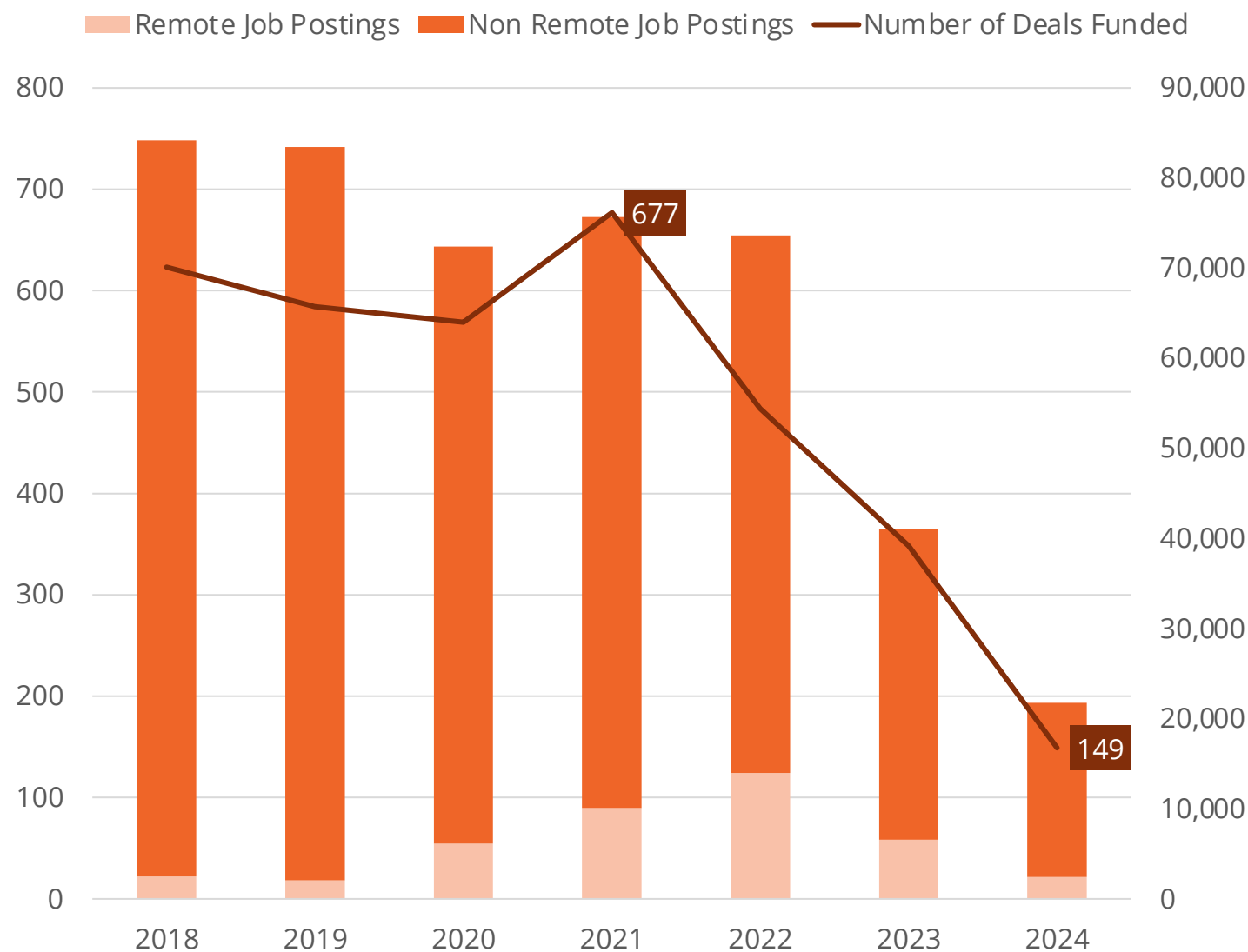
This recent Walmart.com occupancy has positively impacted the market, boosting net absorption as a percentage of inventory after five consecutive quarters of negative figures.

Asking rents slowly begin to decline



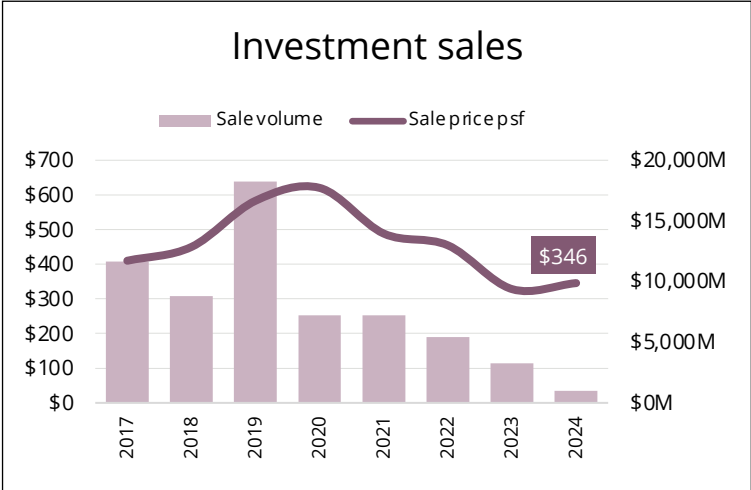
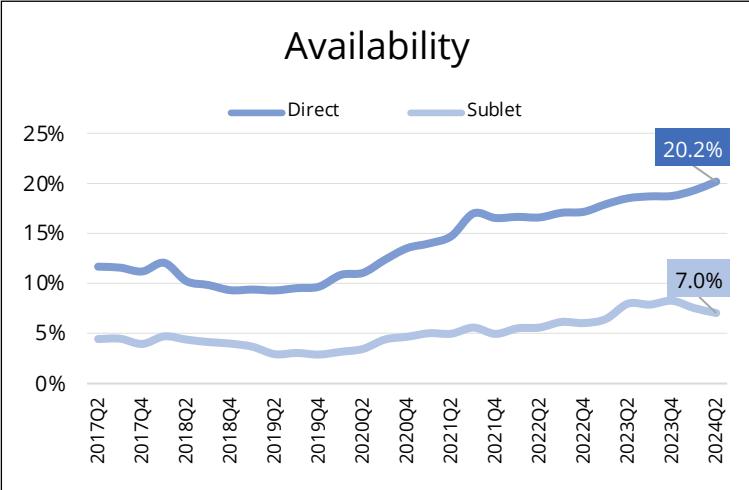
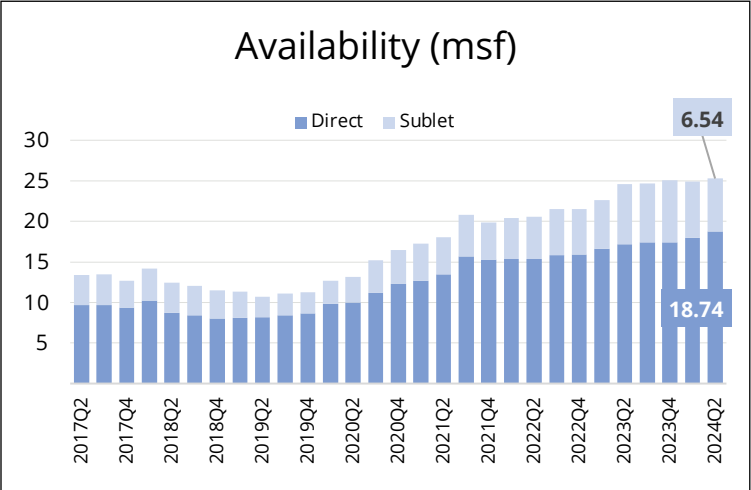
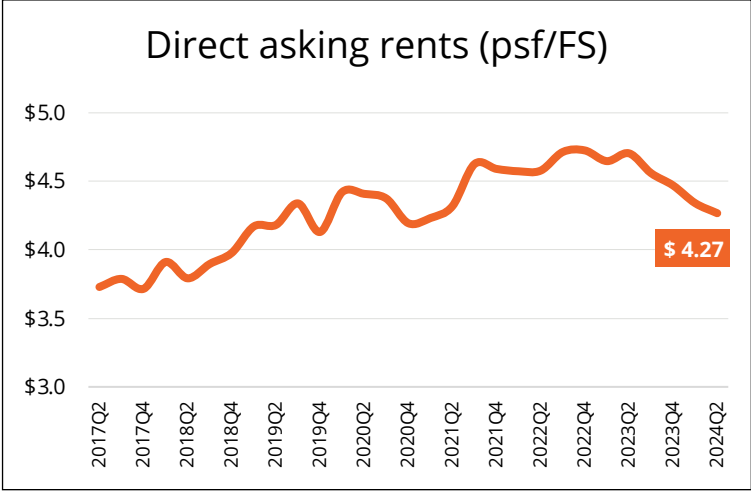
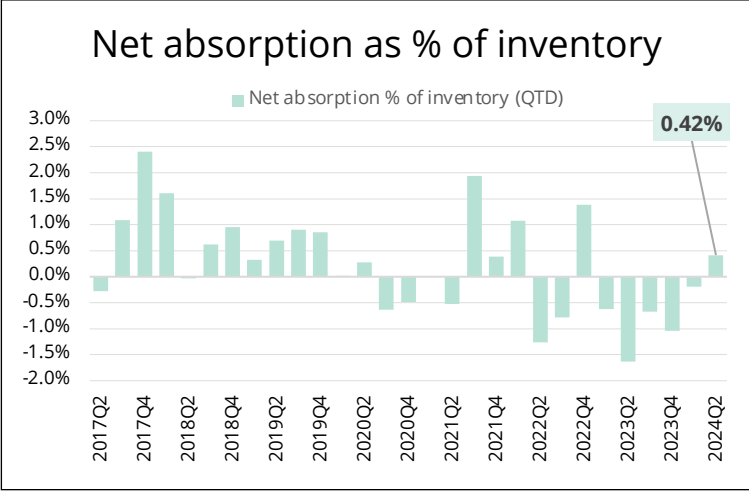
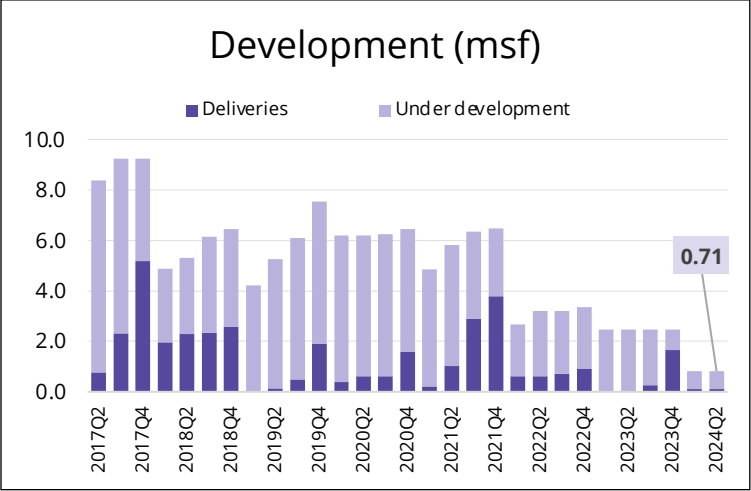
In Q2 2024, the average full-service asking rent was \$4.27 FS, a drop of 10.7% from the 2022 high of \$4.73 FS and higher-end buildings are faring better as tenants seek deals in the market.

Valley's lack of VC funding correlates to job postings



The number of venture capital deals funded has also waned, and there is a strong correlation between venture activity and job postings.

Silicon Valley office market indicators



San Francisco Peninsula



San Francisco Peninsula office market trends

0.13%

Net absorption % of inventory improves as new deliveries slow

Following four consecutive quarters of declining absorption, Q2 2024 reported an increase in net absorption as a percentage of inventory. A slowdown in newly delivered space has helped stabilize net absorption by limiting the amount of new vacant space. In 2021, well over two million square feet was delivered, with only a small percentage of that space pre-leased to occupiers. This contributed to higher vacancy levels, which in turned into dampened net absorption levels coupled with weak leasing activity.

8.1%

Sublease availability affected by core submarkets

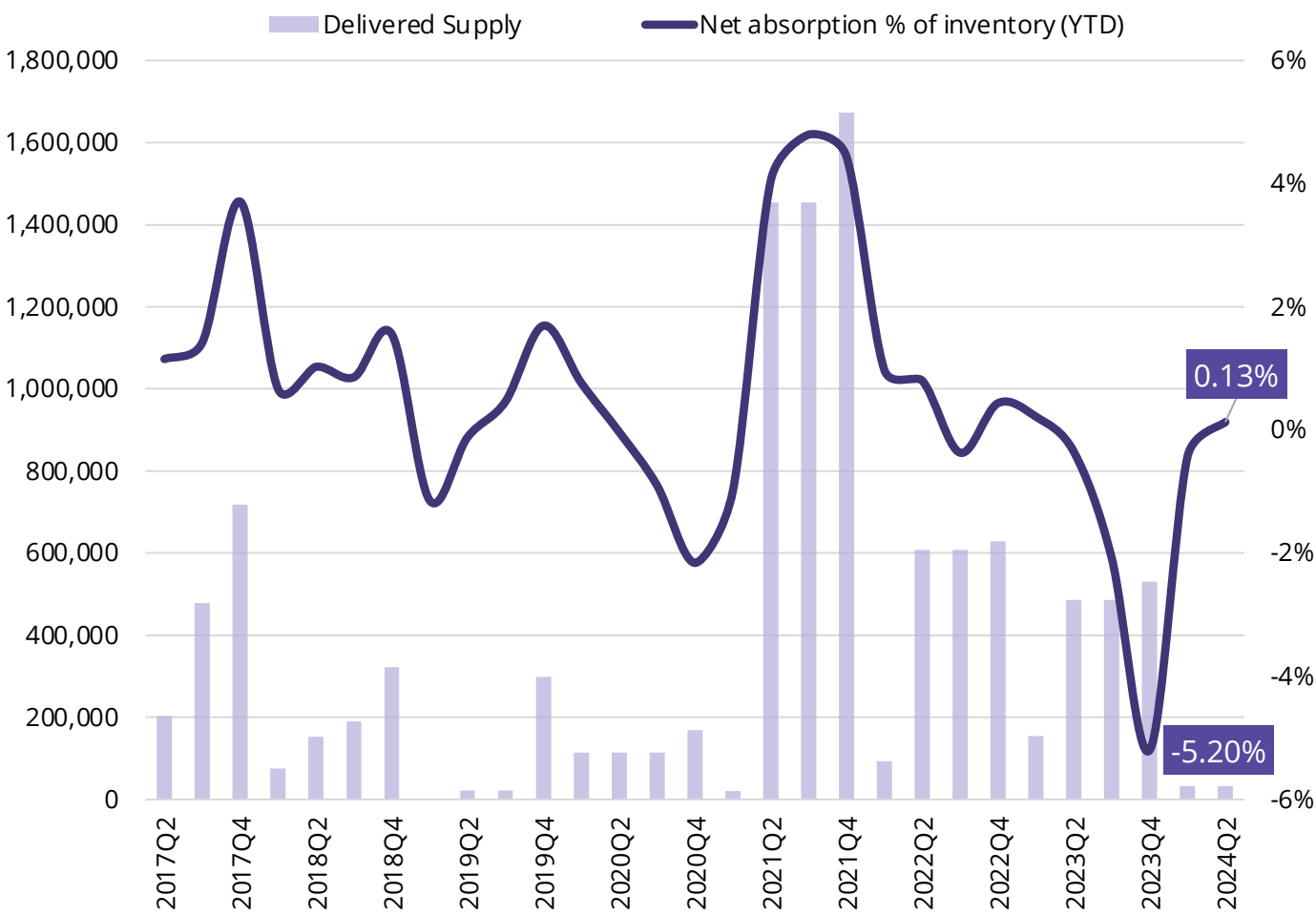
With the consolidation of major tenants especially those in tech across the Silicon Valley, Q2 2024 figures show that sublease availability is at an all time high. The submarkets of Menlo Park, San Carlos, Redwood City and San Mateo make up more than half of all the sublease space on the San Francisco Peninsula. San Carlos and Menlo Park show a large percentage of 34% and 26% respectively.

+5.8%

Rental rates increase post pandemic despite slowing

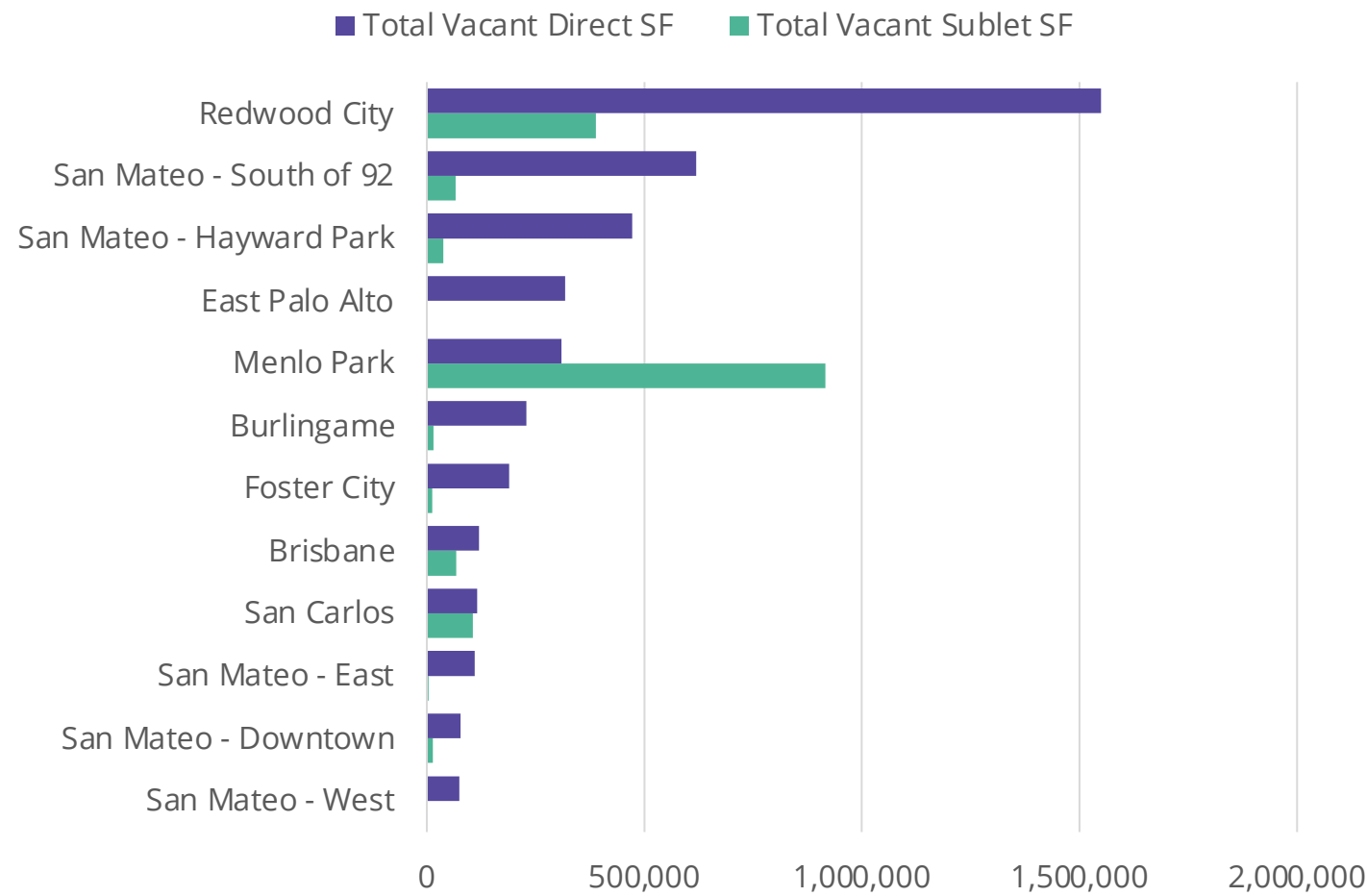
Overall leasing activity continues to fall below the 5-year pre-COVID average, as many companies continue right-sizing initiatives. Despite the lackluster leasing activity rental rates ironically have continued to maintain values with a balance in flight to quality in Trophy and Class A coupled with a downward trend in commodity Class B space that are witnessing higher vacancy levels. There is also a bit of a lag with landlords lowering rents as they try to maintain asset values to meet lender requirements.

Slowing in new supply helps soften net absorption



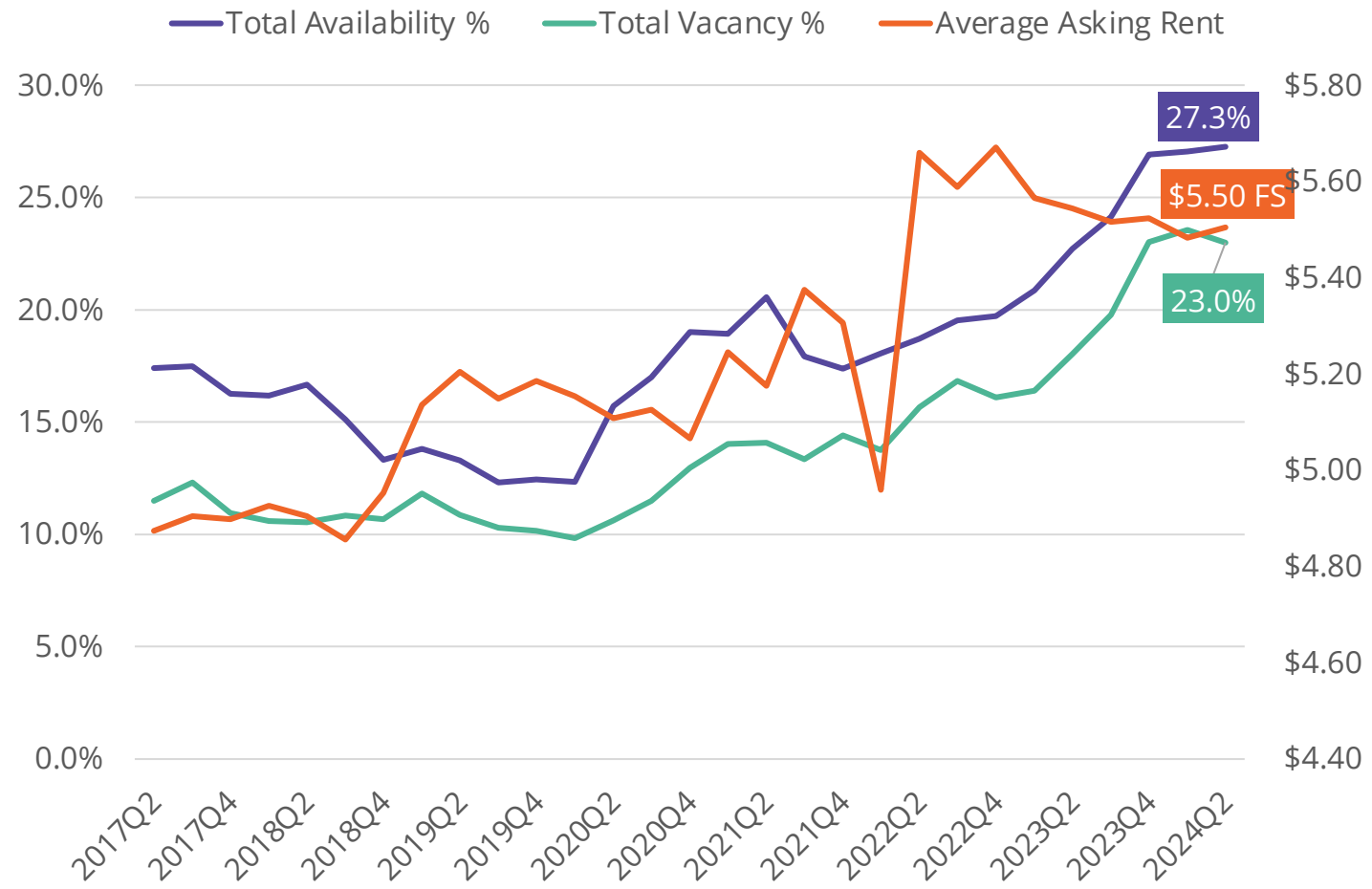
A slowdown in newly delivered space has helped stabilize net absorption by limiting the amount of new vacant space.

Sublease availability affected by core submarkets



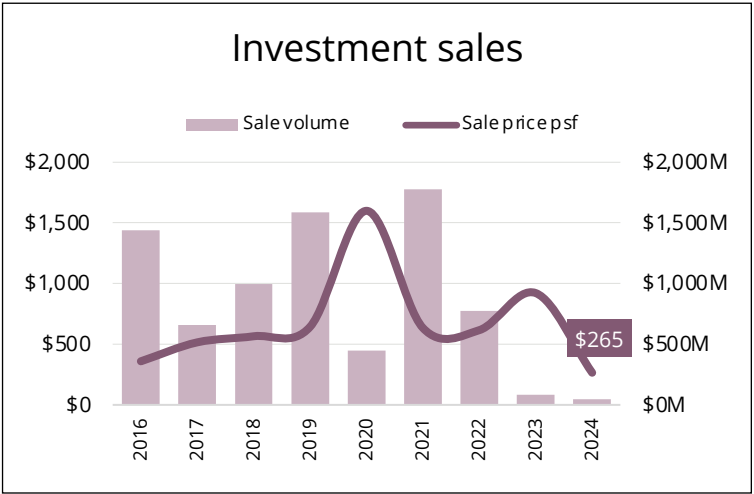
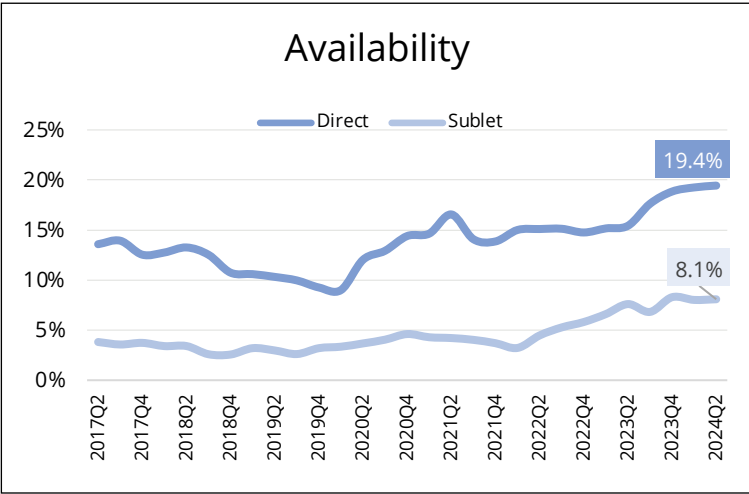
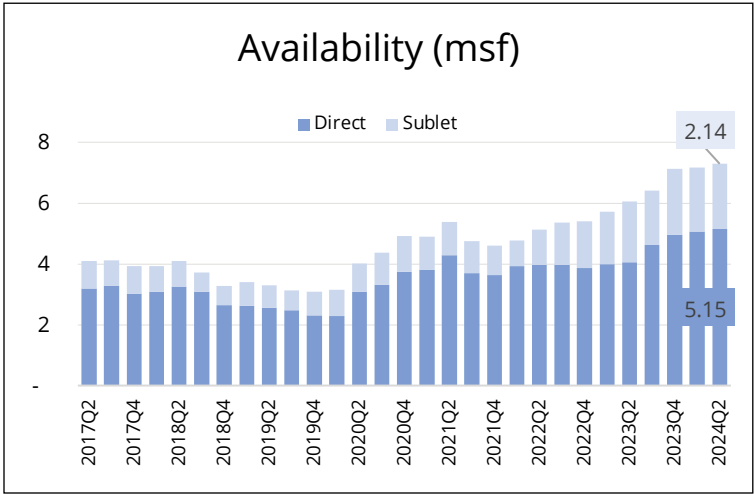
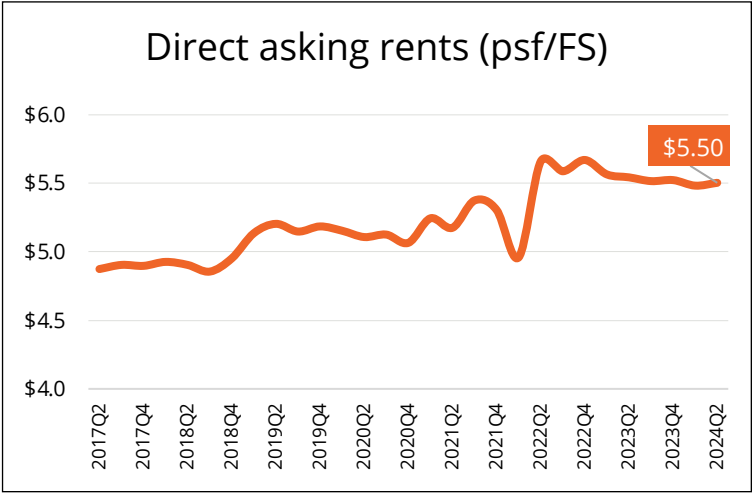
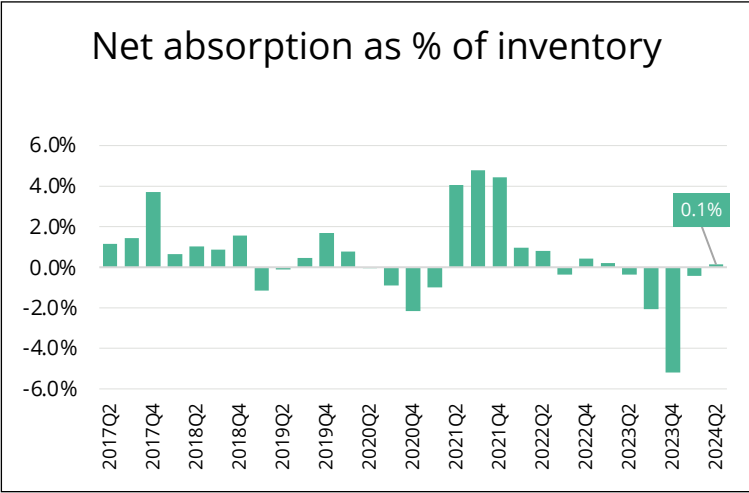
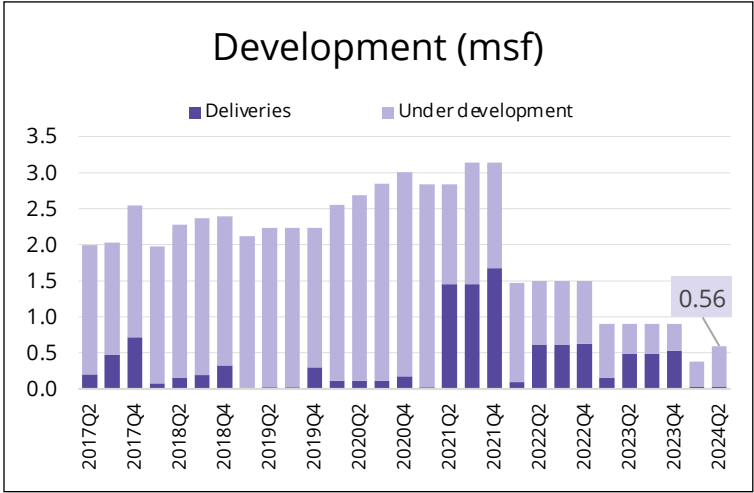
Menlo Park, San Carlos, Redwood City and San Mateo make up more than half of all the sublease space on the San Francisco Peninsula.

Rental rates increase despite lack of demand



Despite the lackluster leasing activity rental rates ironically have continued to maintain values with a balance in flight to quality in Trophy and Class A coupled with a downward trend in commodity Class B space that are witnessing higher vacancy levels.

San Francisco Peninsula office market indicators



Appendix



Silicon Valley office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Monthly direct asking rent psf FS
Campbell	1,948,438	0	161,870	35.0%	9.3%	44.3%	15,391	\$ 3.90
Central San Jose	419,976	0	0	6.9%	0.0%	6.9%	(5,275)	\$ 2.56
Cupertino	2,501,902	0	0	7.5%	0.4%	7.8%	(15,998)	\$ 4.47
Gilroy	148,268	0	0	2.8%	0.0%	2.8%	-	\$ 2.36
Los Altos	605,920	0	0	18.2%	0.3%	18.5%	1,937	\$ 4.86
Los Gatos/Saratoga	1,350,273	0	0	9.4%	12.0%	21.4%	(35,399)	\$ 3.90
Milpitas	3,938,990	0	0	9.4%	0.8%	10.2%	(1,208)	\$ 2.24
Morgan Hill	434,757	0	0	2.2%	0.0%	2.2%	(16,763)	\$ 2.50
Mountain View	5,299,303	0	0	25.3%	25.4%	50.7%	(89,239)	\$ 4.60
Mountain View Downtown	1,380,810	0	0	35.1%	10.3%	45.4%	42,490	\$ 7.49
Mountain View Shoreline	1,322,342	0	0	3.3%	0.0%	3.3%	-	

Silicon Valley office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Monthly direct asking rent psf FS
Palo Alto	2,465,237	0	30,000	19.5%	15.1%	34.6%	74,254	\$ 5.48
Palo Alto Downtown	1,635,396	0	0	14.0%	5.0%	18.9%	27,354	\$ 8.74
Palo Alto Stanford Research Park	5,481,452	0	0	12.9%	7.8%	20.7%	147,347	\$ 6.84
San Jose Downtown	12,743,792	115,395	0	26.0%	3.7%	29.7%	234,704	\$ 4.13
San Jose IBP	388,713	0	0	13.0%	1.4%	14.4%	(4,353)	\$ 1.95
San Jose North	11,960,015	0	0	31.8%	4.3%	34.3%	(301,808)	\$ 3.62
San Jose West	3,319,413	0	0	21.2%	3.4%	24.6%	(162,538)	\$ 4.20
Santa Clara Marriott	7,173,521	0	0	33.6%	14.2%	47.8%	146,715	\$ 3.65
Santa Clara North	646,567	0	0	4.8%	0.0%	4.8%	184,816	\$ 2.48
Santa Clara South	7,952,271	0	0	7.1%	4.1%	10.4%	139,071	\$ 3.34
South San Jose	1,257,051	0	0	5.0%	7.1%	12.1%	4,895	\$ 2.39
Sunnyvale	3,466,906	0	513,254	38.3%	4.3%	42.4%	(57,147)	\$ 5.87
Market total	90,239,295	115,395	543,254	19.9%	7.0%	26.7%	188,571	\$ 4.21

San Francisco Peninsula office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Monthly direct asking rent psf FS
Belmont	154,345	0	0	0.0%	0.0%	0.0%	-	
Brisbane	643,901	0	0	16.8%	13.6%	30.3%	(142,453)	
Burlingame	2,807,343	0	185,000	13.3%	0.5%	13.8%	95	\$ 4.07
Daly City	662,052	0	0	3.1%	0.0%	3.1%	(7,762)	\$ 2.95
East Palo Alto	721,086	0	0	48.1%	0.0%	48.1%	-	\$ 7.79
Foster City	1,924,132	0	0	13.0%	8.3%	21.2%	62,004	\$ 4.32
Menlo Park	3,524,941	0	0	13.3%	26.6%	39.6%	(24,698)	\$ 8.40
Millbrae	216,321	0	0	10.5%	0.0%	10.5%	156,594	\$ 3.00
Redwood City	7,007,419	0	376,050	25.5%	7.5%	32.1%	(70,363)	\$ 5.94
San Bruno	402,225	0	0	9.7%	0.3%	10.0%	(21,403)	\$ 4.44
San Carlos	398,017	0	0	29.0%	34.0%	63.0%	(6,446)	\$ 5.64

San Francisco Peninsula office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Monthly direct asking rent psf FS
San Mateo - Downtown	566,174	33,266	0	14.8%	2.5%	17.3%	(9,110)	\$ 5.66
San Mateo - East	973,545	0	0	12.2%	5.5%	17.7%	(9,930)	\$ 4.97
San Mateo - Hayward Park	1,814,164	0	0	26.4%	2.8%	29.2%	(47,044)	\$ 4.07
San Mateo - South of 92	3,148,165	0	0	21.0%	4.1%	25.2%	123,811	\$ 4.98
San Mateo - West	320,093	0	0	23.7%	2.1%	25.8%	26,605	\$ 6.01
South San Francisco - East of 101	467,365	0	0	15.9%	0.0%	15.9%	751	\$ 3.95
South San Francisco - West of 101	168,404	0	0	2.5%	0.0%	2.5%	3,024	\$ 2.41
Market total	25,919,692	33,266	561,050	19.9%	8.3%	27.8%	33,675	\$ 5.08

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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Dina Gouveia

Regional Lead, Market Intelligence
Western US
dina.gouveia@avisonyoung.com

Louis Thibault

Senior Market Intelligence Analyst
Northern California
Louis.Thibault@avisonyoung.com

Howard Huang

Market Intelligence Analyst
Northern California
Howard.Huang@avisonyoung.com