Quarterly Report

SILICON VALLEY COMMERCIAL SPACE

Q1 2017

This report is released on a quarterly basis by the Silicon Valley Institute for Regional Studies, in partnership with JLL Silicon Valley.

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Summary:

- Developers continued to break ground in Silicon Valley and throughout the Bay Area in Q1, but a cooling of pre-leasing activity in the suburban markets led to increased vacancy rates (when unleased projects were delivered to the market).

- Office space rental rates are coming back down slightly following the jump in 2016 as sublease space (and increasing availabilities driven by M&A activity) provides a release valve for tenants.

- The demand for transit-oriented commercial space remains high, leading to continued increases in rental rates, decreases in vacancy rates, and continued development along major transit lines.

Silicon Valley is experiencing cautious optimism carried over from 2016 while several large corporate technology firms have put space back on the market, preemptively buckling down should the economy begin to signal a slowdown. Although requirements for larger spaces have declined, many tech companies are continuing their growth, albeit at a slower pace when compared to 2015-2016.

Q1 2017 occupancy losses were a function of muted leasing activity, rightsizing (consolidation combined with more efficient utilization of space) by some traditional office tenants, and consolidation due to merger and acquisition deals that closed in 2016. However, despite less overall leasing of space, large-space leasing activity was strong in both Silicon Valley and San Francisco in Q1 as Uber, Slack, Cavium, and Accenture landed expansionary space of more than 100,000 square feet each.
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A. New Commercial Development

A1. Quarterly Commercial Space Completions by Sector, Silicon Valley, 2000 – Q1 2017

Nearly 1.8 million square feet of new Silicon Valley commercial space construction were completed in Q1, including 675,000 square feet of industrial and 1.1 million square feet of office space. Office space completions were much lower than during the booming Q3 2015 – Q2 2016 period, where quarterly totals reached more than 2.6 million square feet (in Q2 2016).

A2. Annual and Year-to-Date Commercial Space Completions by Sector, Silicon Valley, 2010 – Q1 2017

Year-to-date completions of Silicon Valley commercial space were nearly 1.8 million square feet, representing 28% of the amount completed during last calendar year's boom. 62% of the 2017 completions was Office space, and 38% was Industrial. There was no Silicon Valley R&D space completed in Q1.

A3. Large Office Space Completions, Silicon Valley, Q1 2017

Notable Silicon Valley office space completions in Q1 included a ground-up 260,000 square foot development by Rockwood Capital in Moffett Park Sunnyvale, a 247,000 square foot Class A development in Santa Clara by Menlo Equities that is part of an approximately 1.4 million square foot campus (part of which is preleased to Palo Alto Networks), and a 214,000 square foot, creative Class A development in East Palo Alto at 2100 University Avenue.
B. Commercial Vacancy Rates


Vacancy rates for Silicon Valley Office space increased to 13.3% in Q1 from 11.5% in the previous quarter; while vacancy rates for Industrial and R&D space remained relatively stable.

B2. Q1 Vacancy Rates by Sector, Silicon Valley, 2000 – 2017

Q1 2017 vacancy rates for Silicon Valley Office space were 0.8% higher than in Q1 2016, while remaining lower than in Q1 of all other years since 2001.

B3. Average Office Space Vacancy Rates by Proximity to Transit, Bay Area, Q1 2017

Bay Area office space vacancy rates near transit are 2.5 percentage points lower than for locations not near transit.
C. Commercial Rents

C1. Nominal Quarterly Asking Rents by Sector, Silicon Valley, 2010 – Q1 2017

Silicon Valley commercial asking rents decreased slightly in Q1 for Office ($4.06 per square foot, down from $4.21 in Q4) and R&D ($2.12, down from $2.34) space, while increasing slightly for Industrial space (up nine cents per square foot, to $1.18).

C2. Inflation-Adjusted Q1 Asking Rents by Sector, Silicon Valley, 2000 – 2017

Average asking rents continued to rise in Q1 for Silicon Valley Industrial space, reaching $1.18 per square foot (up from $1.09 the previous quarter) and representing the highest average asking rent for Industrial space since 2001; meanwhile, Office space asking rents were down 5.5% year-over-year (after adjusting for inflation).

C3. Average Office Space Asking Rents by Proximity to Transit, Bay Area, Q1 2017

Bay Area office space asking rents near transit are 1.3 times higher than for locations not near transit.
D. Tech Occupancy

D1. Commercial Office Space Under Construction and Share Pre-Leased to Tech Firms, Bay Area, Q1 2017

Of the 15.5 million square feet of new office space under construction last quarter, 34.5% is pre-leased to tech firms (with 46% pre-leased overall). Of the space that is pre-leased, 75% is pre-leased to tech.

Annotations:

Data Source: JLL

Analysis: Silicon Valley Institute for Regional Studies; JLL

Notes: Data represents the end of each annual period unless otherwise noted. Commercial space includes Office, Industrial, and R&D space. The JLL inventory includes all development above 35,000 square feet, with the exception of Downtown Palo Alto and Downtown Mountain View. Silicon Valley data includes San Mateo County, Santa Clara County, and the City of Fremont. Bay Area data includes all San Francisco Bay Area Submarkets, including Silicon Valley, North Bay, Mid-Peninsula, Oakland, and East Bay Suburbs. Average asking rents are “Full Service Gross” (FSG), which is the monthly rental rate and includes common area maintenance fees, utility fees, and taxes/insurance fees. The vacancy rate is the amount of unoccupied space, and is calculated by dividing the direct and sublease vacant space by the building base. The vacancy rate does not include occupied spaces presently being offered on the market for sale or lease. Average asking rents, where not noted as nominal, have been inflation-adjusted and are reported in 2017 dollars, using the February 2017 Bay Area consumer price index for all urban consumers from the Bureau of Labor Statistics. Near transit is defined as located within a 10 minute walk of a Caltrain, BART, or VTA station.

Resources:

- For questions regarding this quarterly report, contact Rachel Massaro, Vice President and Senior Research Associate at Joint Venture Silicon Valley (massaro@jointventure.org).

- For more information about Silicon Valley’s commercial real estate market, contact Christian Basconcillo, Research Manager at JLL (Christian.Basconcillo@am.jll.com) or visit www.jll.com/silicon-valley/en-us/research.

- To access Silicon Valley’s online data hub, visit www.SiliconValleyIndicators.org.
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