Summary

• More than three million square feet of newly constructed Silicon Valley commercial space was delivered to the market during the first three quarters of 2018, including both office and industrial space (76% and 24% of the total, respectively).

• A total of 1.1 million square feet of Silicon Valley commercial space was completed in Q3 alone (consisting of 85% office space and 15% industrial).

• Three large Silicon Valley commercial developments were completed over the past quarter, all of which were Class A Office space (Apple’s Central & Wolfe campus in Sunnyvale and two developments on Park Boulevard in Palo Alto).

• Throughout the Bay Area, more than nine million square feet of new commercial office space was under construction in Q3, 71% (6.45 million square feet) of which was in Silicon Valley. Sixty-eight percent of the Bay Area in-progress development has been preleased – primarily (90%) to tech companies.

• The total amount of new Silicon Valley commercial space under construction in Q3 (10.44 million square feet, which includes 1.47 million square feet of R&D space) rivals what was seen back in 2001 – an amount of development that had not been matched since the recent spike in late-2016 through mid-2017.

• Asking rents for office and industrial space increased slightly in Q3 (up 1% and 5%, respectively, since Q2).

• Average R&D asking rents have not increased with inflation over the past year, dipping nine cents per square foot in 2018 (Q1-3) over 2017 after inflation adjustment despite a nominal decrease of only one cent.

• Silicon Valley’s industrial space vacancy rate is at an 18-year low (2.6% for Q1-3 2018), while office space vacancy has risen dramatically compared to 2017 – averaging 17.9% over the first three quarters of 2018. This relatively high vacancy rate is influenced by continued M&A and consolidation activity, primarily in the hardware sector in North San Jose, as well as occupancy losses in the airline and finance industries in San Mateo County.

The pace of new commercial development in Silicon Valley remains brisk, rivaling that of the tech boom in 2001. Nearly three quarters of the in-progress developments throughout the Bay Area are in Silicon Valley, and almost all of the preleased space is going to tech companies. In Q3 alone, 1.1 million square feet of space was delivered to the Silicon Valley market, including more than 800,000 square feet of Class A Office space. While the pace of new construction in 2018 has slowed compared to the previous three years, competitive preleasing activity is keeping developers optimistic.
Two out of three major Silicon Valley office developments completed in Q3 were preleased at the time of delivery (to Apple in Sunnyvale, and Tencent in Palo Alto), indicative of the ongoing demand for Class A space. This demand (especially in the technology and life science clusters) is expected to keep the pressure on average rental rates – even as new developments are completed and become available – and push leasing activity down the 101 corridor toward San Jose (e.g., leases signed in Q3 by Roku, Splunk, and Nokia).

While Silicon Valley’s industrial space vacancy rate is at an 18-year low (2.6% for Q1-3 2018), office space vacancy has risen dramatically this year (up 4.2 percentage points to 17.9% in Q1-3 2018). This relatively high vacancy rate is influenced by continued M&A and consolidation activity, primarily in the hardware sector in North San Jose, as well as occupancy losses in the airline and finance industries in central San Mateo County (including space released by Visa, MasterCard, and Virgin Airlines). Office vacancy rates remain low in prime submarkets such as Palo Alto, Redwood City, Menlo Park, Mountain View, and Sunnyvale.
Contents

A. New Commercial Development.............................................................................................................................................. 5
   A2. Annual and Year-to-Date Commercial Space Completions by Sector, Silicon Valley, 2010 – Q3 2018 ... 5
   A3. Large Commercial Space Completions, Silicon Valley, Q3 2018 ......................................................................................... 5
   A4. Quarterly In-Progress Commercial Space Developments by Sector, Silicon Valley, 2000 – Q3 2018 ...... 6

B. Commercial Vacancy Rates ...................................................................................................................................................... 6

C. Commercial Rents ...................................................................................................................................................................... 7
   C1. Nominal Quarterly Asking Rents by Sector, Silicon Valley, 2010 – Q3 2018 ................................................................. 7
   C2. Inflation-Adjusted Annual Average Asking Rents by Sector, Silicon Valley, 2000 – Q3 2018 ...................... 8

D. Tech Occupancy ....................................................................................................................................................................... 8
   D1. Commercial Office Space Under Construction and Share Pre-Leased to Tech Firms, Bay Area, Q3 2018 ................................................................................................................................. 8
A. New Commercial Development

A1. Quarterly Commercial Space Completions by Sector, Silicon Valley, 2000 – Q3 2018

A total of 1.1 million square feet of Silicon Valley commercial space was completed in Q3 2018 (consisting of 65% office space and 15% industrial).

A2. Annual and Year-to-Date Commercial Space Completions by Sector, Silicon Valley, 2010 – Q3 2018

Silicon Valley commercial space completions in the first three quarters of 2018 totaled 3.38 million square feet, none of which was R&D space. While the pace of new construction has slowed compared to the previous three years, competitive preleasing activity is keeping developers optimistic.

A3. Large Commercial Space Completions, Silicon Valley, Q3 2018

Three large commercial developments were completed in Q3, all of which were Class A Office space. The largest was Landbank’s Central and Wolfe campus, which was preleased to Apple and has been referred to as Apple’s ‘second spaceship’ due to its unconventionally curved architecture. The property is a LEED-Platinum development and includes three large buildings plus 30,000 square feet of service and amenity space. Of the two developments on Park Boulevard in Palo Alto, only one was preleased at the time of delivery (to Chinese tech company Tencent).

1. www.centralandwolfe.com

Three large commercial developments were completed in Q3, all of which were Class A Office space. The largest was Landbank’s Central and Wolfe campus, which was preleased to Apple and has been referred to as Apple’s ‘second spaceship’ due to its unconventionally curved architecture. The property is a LEED-Platinum development and includes three large buildings plus 30,000 square feet of service and amenity space. Of the two developments on Park Boulevard in Palo Alto, only one was preleased at the time of delivery (to Chinese tech company Tencent).
A4. Quarterly In-Progress Commercial Space Developments by Sector, Silicon Valley, 2000 – Q3 2018

Silicon Valley’s in-progress commercial space development numbers increased for office space over the past two quarters, with 6.45 million square feet under construction in Q3. Major projects include 1.35 million square feet at Moffett Towers (slated to be occupied by Facebook and Amazon), Microsoft’s campus in Mountain View (450,000 square foot renovation), Splunk’s new building at Santana Row (300,000 square feet), 250,000 square feet of new space at Google in Mountain View, and the new 200,000-square-foot County of Santa Clara building in downtown San Jose. Industrial space underway includes the Pacific Commons in Fremont (1.8 million square feet) and the Gateway Project in Newark (410,000 square feet). While no R&D space was delivered to the market in 2018, 1.47 million square feet is underway — a large part of which are life science buildings in South San Francisco (including 850,000 square feet expected to be completed in Q1 2019) and some renovations in Menlo Park and San Mateo. In total, the amount of new commercial space under construction across all space-types remained phenomenally high, at 10.44 million square feet.

B. Commercial Vacancy Rates

B1. Quarterly Vacancy Rates, Silicon Valley, 2010 – Q3 2018

Silicon Valley vacancy rates have continued to increase for office space, rising to 18.4% in Q3 — a rate the region has not experienced since 2012. Much of this increase was due to occupancy losses in the airline and finance industries in San Mateo County — including space released by Visa, MasterCard, and Virgin Airlines — as well as continued M&A and consolidation activity, primarily in the hardware sector in North San Jose. Office vacancy rates remain low in prime submarkets such as Palo Alto, Redwood City, Menlo Park, Mountain View, and Sunnyvale (3-6% vacancy rates). Meanwhile, vacancy rates remained relatively steady for industrial (2.5%) and R&D space (7.8%).
B2. Annual Rate of Commercial Vacancy by Sector, Silicon Valley, 2000 – Q3 2018

Silicon Valley’s office space vacancy has risen dramatically compared to 2017 – averaging 17.9% over the first three quarters of 2018 – while the industrial space vacancy rate is at an 18-year low (2.6%). This low vacancy is due to a lack of supply and partly due to the demand for Class A office space (with obsolete industrial buildings being redeveloped into office).

C. Commercial Rents

C1. Nominal Quarterly Asking Rents by Sector, Silicon Valley, 2010 – Q3 2018

Silicon Valley asking rents for office and industrial space increased slightly in Q3, while R&D rents spiked (up 48 cents per square foot over Q2, reaching $2.27). Despite office space asking rents remaining relatively steady over the past few quarters, they have risen dramatically over the past decade (nearly doubling, without adjusting for inflation). Most of this increase is due to aggressively-expanding tech tenants and the newer Class A space, which is renting at much higher prices than older stock.
Despite the nominal uptick in Silicon Valley R&D asking rents in Q3, the average Q1-3 2018 R&D rents (after inflation-adjustment) were slightly lower than in 2017. This decline of nine cents per square foot was due almost entirely to inflation adjustment.

D. Tech Occupancy

A total of 9.1 million square feet of new commercial office space was under construction throughout the Bay Area in Q3 2018 (71% of which was in Silicon Valley). Of that total, 6.2 million square feet was preleased, primarily (90%) to tech companies.
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. The JLL inventory includes all development above 35,000 square feet, with the exception of Downtown Palo Alto and Downtown Mountain View, and all R&D development above 10,000 square feet. The data included in this report does not include owner/user developments. 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 office space 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. Industrial and R&D asking rents are quoted “triple net” (NNN), which is the monthly base rental rate in which common area maintenance fees, utility fees, and taxes/insurance fees are excluded. 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 2018 dollars using the Bay Area consumer price index for all urban consumers from the Bureau of Labor Statistics, 2018 estimate based on August data.

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 Ricky Manago, Research Analyst at JLL (Ricky.Manago@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.
This quarterly report was prepared by Rachel Massaro, Vice President and Senior Research Associate at the Silicon Valley Institute for Regional Studies, in partnership with Ricky Manago, Research Analyst at JLL Silicon Valley. Jill Jennings created the report’s layout; Duffy Jennings served as copy editor.

Silicon Valley Institute for Regional Studies

The Silicon Valley Institute for Regional Studies provides research and analysis on a host of issues facing Silicon Valley’s economy and society. The Institute is housed within Joint Venture Silicon Valley.

Joint Venture Silicon Valley

Established in 1993, Joint Venture Silicon Valley brings together established and emerging leaders—from business, government, academia, labor and the broader community—to spotlight issues, launch projects, and work toward innovative solutions. For more information, visit www.jointventure.org.

JLL Silicon Valley

JLL is a leading professional services firm that specializes in real estate and investment management. A Fortune 500 company, JLL helps real estate owners, occupiers and investors achieve their business ambitions. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit www.jll.com/silicon-valley.