

Savills Studley Report Silicon Valley office sector

Q3 2017



SUMMARY

Market Highlights

LEASING UP SLIGHTLY

Deal volume jumped by nearly 10% in the third quarter, tenants have leased 4 msf in the four most recent quarters.

OVERALL AVAILABILITY UP SLIGHTLY

The region's overall availability rate inched up by 30 basis points to 16% in the third quarter. The Class A availability rate dropped by 10 basis points to 21.0%, but this was offset by a 50 basis point increase in Class B and C availability to 13.6%.

RENTAL RATE PUSHES HIGHER

Regional overall asking rent, \$4.14 dipped by 1.3% during the third quarter, but has increased by 12.4% year-on-year. Class A rent has spiked by 19% from third quarter of 2016 to \$4.28.

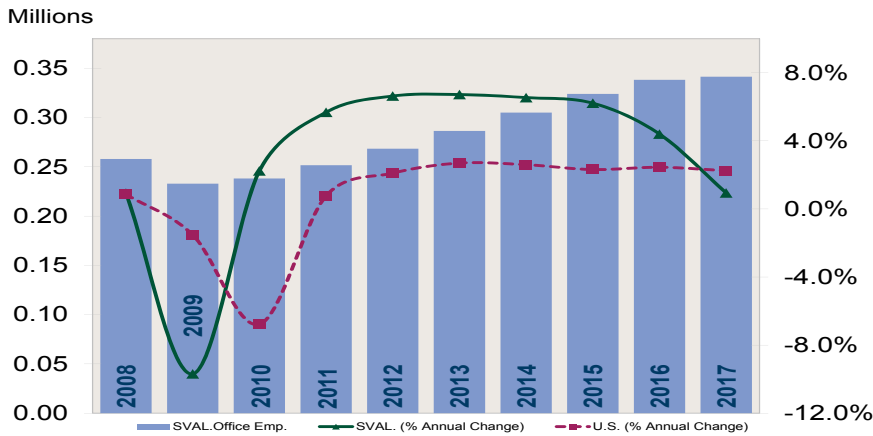
SALES INCREASED

Year-to-date property sales (through July of 2017) totaled \$2.14 billion – rising by 23.1% compared to the \$1.74 billion sold during the same period in 2016.

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"While Amazon conducts a nationwide search for its much vaunted HQ2, Google is keeping it close to home. News of major property acquisitions in Sunnyvale and details on its plans in Downtown San Jose underscore the ecommerce giant's commitment to the Valley."

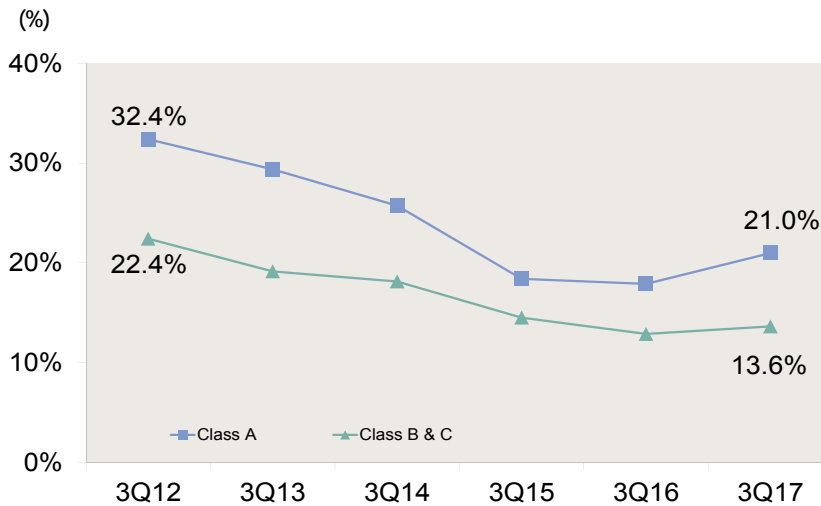
Joe Brady, Senior Managing Director

Office-Using Employment Trends

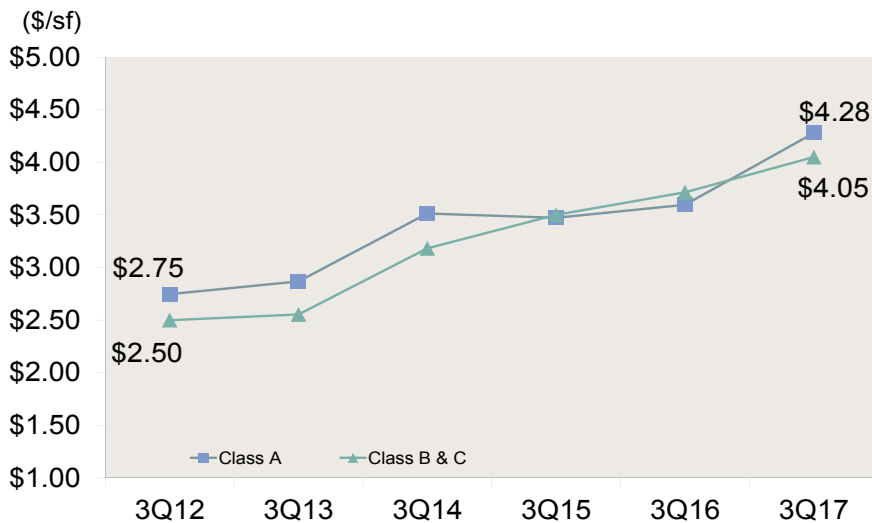


Source: Bureau of Labor Statistics

Vacant Availability Rate Trends



Asking Rent Trends



Company Towns

Politicians, business leaders and brokers around the country are captivated by the Amazon HQ2 contest. The e-commerce/logistics giant may have already narrowed its list to a handful of markets, but the RFP process promises to provide one of the most comprehensive looks at development options and incentive packages around the country ever assembled. Over the last few years the ecommerce and logistics giant has opened up office locations and fulfillment centers in many major markets – these may also serve as lead intel sites, giving Amazon info on the quality and depth of local labor, logistics and infrastructure. It seems unlikely that Amazon will select Silicon Valley for HQ2 – the competition for talent is too costly and volatile, and housing costs for their planned workforce of 50,000 employees will be a high hurdle. If Amazon does opt for Silicon Valley, though, they might want to approach Google about a location. The tech giant has emerged as a top property owner and may have some extra space on its hands.

If Seattle is a company town – dominated by Microsoft, Amazon and Boeing – Silicon Valley is arguably a collection of company towns – Apple (Sunnyvale/Cupertino) and Facebook (Menlo Park). Google's home base is in Mountain View. It has a rapidly expanding footprint in Sunnyvale and it appears to be heading to Downtown San Jose after that. It is hard to fathom just how much of the landscape in Silicon Valley is now held by Google. As much as it has pursued talent in markets around the country, Google clearly places a lot of value on its local presence. During the last few years Google has made several billion in property purchases across the region.

Sunnyvale - Google's HQ2

Google, under the guise of CBRE Global Investors, made more than 52 South Bay property purchases totaling \$820 million over the last three years. The acquisitions were concentrated in Sunnyvale between Mathilda Avenue, West Caribbean Drive and Highway 237. Google has occupied some buildings but its plans for many sites remains unclear. Additionally, Google recently paid \$18.9 million for 1190 Borregas Avenue (\$604/sf for the 32,800-sf building) and \$206.1 million (\$1,338/sf) for 215 Moffett Park Drive. Most recently, Google picked up three NetApp buildings in Sunnyvale for \$318.7 million. Located at 475 and 495 East Java Drive, and 1130 Geneva Drive, the three properties totaling 381,000 sf changed

hands for \$831/sf. NetApp will consolidate all of its employees into four buildings on the campus, including one that was purchased by Google. The data storage firm has been trying to shift to cloud-based services, but it has faced stiff competition from other firms such as Dell.

Next Stop Diridon

Google promises to play a big role in the transformation of Downtown San Jose as well. This summer they unveiled plans for a mixed-use community with up to 8.0 msf of office, retail and residences on a 240-acre site that includes land around the Diridon CalTrain Station. Google's clandestine purchases in Sunnyvale may have enabled them to get ahead of any land rush. They have not had the advantage of a smokescreen in Downtown San Jose. According to a recent report, Google and Trammell Crow have paid an average of 37% more to buy properties surrounding Diridon Station. As recently as two years ago land sites were selling for roughly \$150/sf, now similar sites are commanding more than \$225 per square foot.

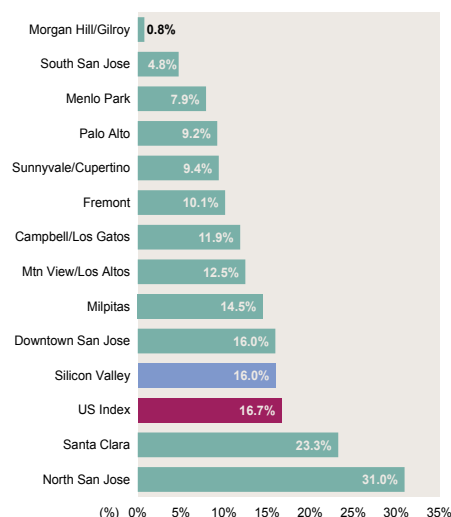
Assuming that no major roadblocks (zoning or a major recession) pop up, it will likely be several years before Google starts construction on its campus. That timing lines up well with BART's planned extension through San Jose to Santa Clara, expected to open in 2026 with one of the four new stops planned at Diridon.

Google's new development near Diridon Station is casting Downtown San Jose in a new light. Businesses used to bypass the town due to lack of transit and nightlife. Companies now say they are drawn to Downtown's strong talent pool, proximity to mass transit and an array of restaurants and hotels within walking distance – something that is lacking in other Silicon Valley locations. Cohesity is moving to a 40,000 sf office at Riverpark Tower II from University Station in Santa Clara. Cohesity joins Zoom Video and Okta, two other rapidly expanding tech firms that have moved to Downtown San Jose.

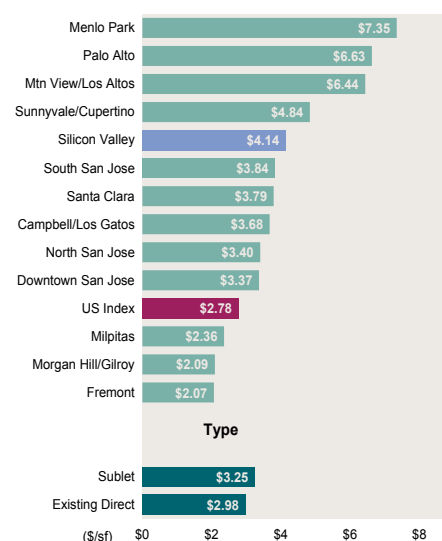
Development Pushed South

Intensifying efforts by Menlo Park, Mountain View, Palo Alto and Sunnyvale to cap commercial property development – should give added impetus to the flow of leasing to points South. In late August the Palo Alto City council extended its two-year cap on new office construction until June of 2018, maintaining a limit of 50,000 sf in

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
DLA Piper	118,821	2000 University Ave	Palo Alto
Jazz Pharmaceuticals	99,415	3181 Porter Dr	Palo Alto
Lyft	93,330	3210 Porter Dr	Palo Alto
Comerica Bank Western Market	81,213	333 W Santa Clara St	Downtown San Jose
EarLens	65,839	4055 Campbell Ave	Menlo Park
SoundHound, Inc.	61,360	5400 Betsy Ross Dr	Santa Clara
Palantir	58,481	100 Hamilton Ave	Palo Alto
Cohesity	40,000	300 Park Ave	Downtown San Jose
White Hat Security	28,930	1741 Technology Dr	North San Jose
Abby Software	20,155	890 Hillview Ct	Milpitas

commercial development allowed each year. Stanford Research Park and non-profits are exempted from the cap. Other areas such as North San Jose, Downtown San Jose and South San Jose have seen development pass them by, and are now eager to attract development. The San Jose City Council recently approved Insight Realty's Museum Place proposal. The 1.4-msf development calls for a 60,475-sf expansion to the Tech Museum, 263,676 sf of office space, 306 residential units, 21,074 sf of retail and 184 hotel rooms.

Looking Forward

The Valley's troika of major employers – Google, Apple and Facebook – affords the region many advantages. There are few other regions in the country where top employers are taking such an active role in resolving a key problem that faces many metro areas – a shortage of affordable housing.

An immediate need for housing is spurring some temporary remedies. Google, for example, recently purchased 300 temporary, pre-fabricated residential units to house employees near some of its sites. Longer-term solutions are already emerging in the form of changes to zoning that permit extensive housing development. Facebook unveiled master plans for Willow Campus – its redevelopment of the former 21-building Menlo Science & Technology Park. Plans call for 1,500 housing units, 1.75 msf of office space and 125,000 sf of retail. The earliest phase (set to be completed in early 2021) will provide much-needed retail and housing. About 15% of the new residential units will be priced below market. The entire project is expected to take about a decade to complete. The office portion calls for nine buildings, some up to five stories, with enough space to accommodate about 8,700 employees. Ideally, build-out will coincide with significant upgrades to the Dumbarton transit corridor.

Map	Submarket	Total	Leasing Activity		Available SF		Availability Rate			Asking Rents Per SF		
			SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.
1	Campbell/Los Gatos	2,967	122	353	16.8%	309	11.9%	1.7%	10.3%	\$3.68	-0.3%	\$3.40
	Campbell/Los Gatos - Class A	614	23	52	56.4%	37	8.5%	3.1%	6.1%	\$4.04	1.9%	\$3.63
2	Downtown San Jose	9,030	586	1,442	-2.3%	1,428	16.0%	-0.4%	15.9%	\$3.37	-4.6%	\$3.14
	Downtown San Jose - Class A	3,425	340	502	-15.2%	575	14.7%	-2.6%	16.8%	\$3.78	-1.2%	\$3.21
3	Milpitas	2,790	543	405	-32.1%	692	14.5%	-6.9%	24.8%	\$2.36	-4.9%	\$1.91
	Milpitas - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4	Morgan Hill/Gilroy	713	37	6	-31.0%	44	0.8%	-0.3%	6.0%	\$2.09	3.2%	\$1.39
	Morgan Hill/Gilroy - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$0.00	N/A	\$0.00
5	Mountain View/Los Altos	7,597	157	949	-3.8%	585	12.5%	-0.5%	7.7%	\$6.44	-0.3%	\$5.37
	Mountain View/Los Altos - Class A	1,234	5	155	-10.7%	173	12.5%	-1.5%	14.0%	\$5.91	-1.1%	\$4.25
6	North San Jose	12,289	377	3,805	4.0%	3,873	31.0%	1.2%	31.5%	\$3.40	-1.5%	\$2.94
	North San Jose - Class A	4,827	231	1,818	2.3%	1,549	37.7%	0.9%	32.0%	\$3.51	-0.7%	\$3.12
7	Palo Alto	6,644	338	613	6.3%	267	9.2%	0.5%	4.0%	\$6.63	-6.2%	\$6.78
	Palo Alto - Class A	285	1	N/A	2.7%	6	28.2%	0.7%	2.3%	\$0.00	N/A	\$6.54
8	Santa Clara	14,264	746	3,320	7.9%	2,482	23.3%	1.7%	17.4%	\$3.79	-2.2%	\$3.28
	Santa Clara - Class A	5,977	406	2,073	5.5%	1,349	34.7%	1.8%	22.5%	\$4.30	-3.8%	\$3.70
9	South San Jose	3,853	131	183	-27.4%	411	4.8%	-1.8%	10.7%	\$3.84	-12.6%	\$3.31
	South San Jose - Class A	517	3	74	-51.7%	161	14.4%	-15.4%	31.2%	\$4.81	-6.9%	\$4.36
10	Sunnyvale/Cupertino	13,859	664	1,303	12.8%	795	9.4%	1.1%	5.7%	\$4.84	3.7%	\$3.80
	Sunnyvale/Cupertino - Class A	7,857	599	719	0.7%	449	9.1%	0.1%	5.7%	\$5.13	-0.4%	\$3.84
11	Menlo Park	5,007	152	397	-3.3%	655	7.9%	-0.3%	13.1%	\$7.35	-7.1%	\$7.25
	Menlo Park - Class A	1,502	140	34	-24.3%	411	2.2%	-0.7%	27.4%	\$9.59	10.7%	\$7.16
12	Fremont	2,122	105	215	-11.1%	247	10.1%	-1.3%	11.7%	\$2.07	-3.7%	\$1.70
	Fremont - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1-12	Silicon Valley Total	81,135	4,008	12,992	2.0%	11,787	16.0%	0.3%	14.5%	\$4.14	-1.3%	\$3.68
	Silicon Valley Total - Class A	26,237	1,823	5,507	-0.4%	4,711	21.0%	-0.1%	17.9%	\$4.28	0.8%	\$3.60

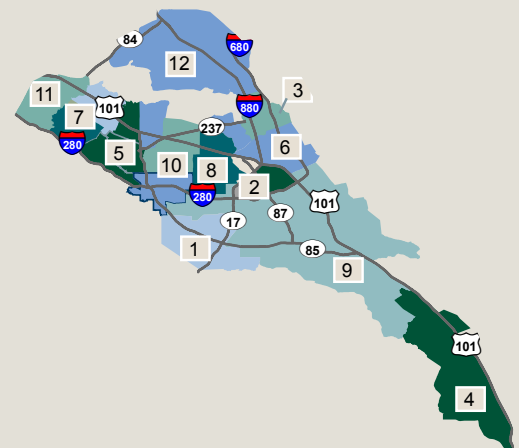
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(1) Percentage point change for availability rates.
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
 Statistics are calculated using both direct and sublease information.
 Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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