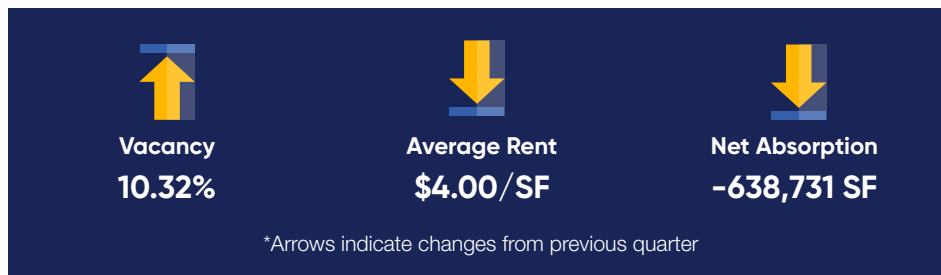


# Occupier's Guide - Office

Uncertainty around the future of office space in Silicon Valley created a cloudy outlook in Q3. We began to see the first indications since the COVID-19 pandemic hit of lowered asking rates, increased vacancies, and downward swings of net absorption. Following Q2, the downward trend of rental rates coupled with increased sublease availability began to impact select submarkets such as Sunnyvale and Mountain View. Asking Rental Rates do not fully represent the severity of the market impact from COVID-19 as many landlords have yet to adjust rental rates due to a minimal number of transactions occurring post-covid, and a lack of lease comparables to establish new, lower rental rates. Along with the need to downsize due to new business realities or an increase in remote work, tenants may be faced with increased expenses, should California Proposition 15 pass in the November election. Prop 15 will effectively increase operating expenses for most tenants through an increase in real estate property taxes tied to reassessment of commercial properties throughout the state.



## Select Submarket Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	YoY Change
\$4.89	Downtown San Jose   Class A 15.1%	▲ +5.7%
\$3.72	Downtown San Jose   Class B 8.9%	▲ +0.5%
\$4.25	Santa Clara   Class A 10.7%	▼ -4.5%
\$3.03	Santa Clara   Class B 17.4%	▲ +5.7%
\$5.56	3.6% Mountain View   Class A	▼ -0.3%
\$4.59	4.5% Mountain View   Class B	▲ +1.6%

## Recent Transactions

	Tenant	Submarket	Type	Size	Sector
1	TripAction	Palo Alto	Direct	99,000 RSF	Professional Services
2	Santa Clara Valley Medical Center	San Jose	Renewal	70,000 RSF	Health Care
3	KPMG	Santa Clara	Renewal	59,000 RSF	Financial Services
4	Fandango Media	Mountain View	Sublease	20,000 RSF	Professional Services

## Occupier's Perspective

- Average rental rates dropped by 2.7% to \$4.00 from Q2 to Q3, with the largest percentage changes occurring in two select submarkets. Sunnyvale rental rates dropped by 15.5% and Mountain View rates decreased by 16.2% quarter-over-quarter.
- Vacancy rates increased by 0.65% across all submarkets, with the largest vacancy increases occurring in Fremont with an increase of 3.3%, and in Cupertino with a 2.9% increase.
- Developers are still eyeing certain Silicon Valley submarkets as potential opportunities to revitalize aging areas. Weingarten Realty Investors' 171k SF redevelopment at the Cambrian Park Plaza is an example of this.

## Market Trends

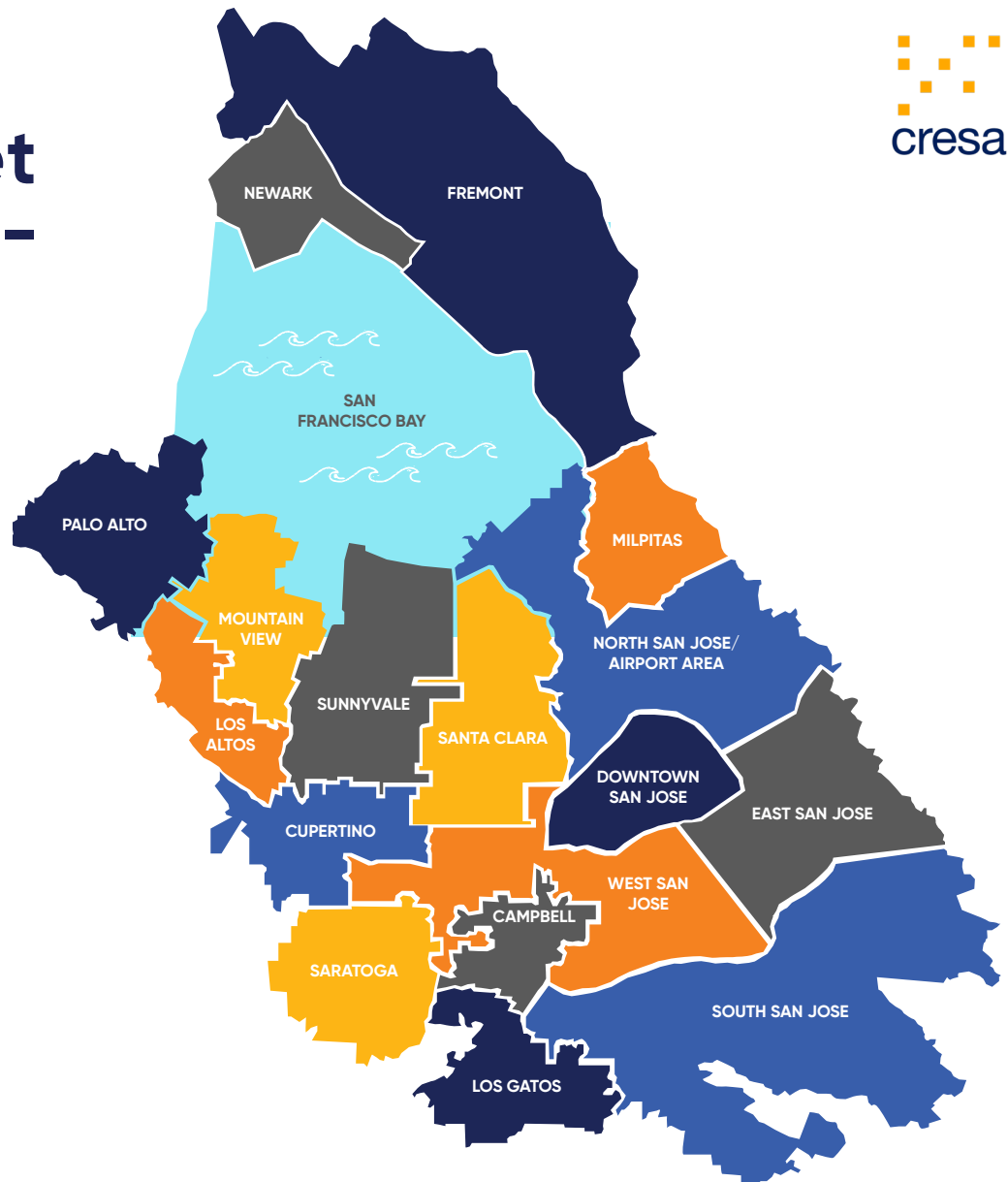


**Office planning models are increasing** square foot per employee. Estimates have currently risen to 225 square foot, from previous 150 square foot standards.

**Leasing activity continue a downward trend** from previous quarters due to uncertainties in the market including ongoing impacts from COVID-19, companies considering switching to a remote-first work strategy, de-densifying the office space, the upcoming election, and potential changes tied to state propositions on the ballot.

**Prop 15 will be put to vote in November**, changing the way commercial properties will be taxed by reassessing the value of the property at current market value. This includes all commercial properties worth, in aggregate, more than \$3M.

# Submarket Statistics - Office



Submarket	Inventory	Overall Rent	YoY Trend	Vacancy	YoY Trend	Net Absorption
Palo Alto	10,365,405	\$6.90	▲	14.2%	▲	(46,339)
Mountain View/ Los Altos	11,365,405	\$4.74	▼	4.3%	▲	(26,200)
Sunnyvale	17,989,663	\$4.42	▼	6.5%	▲	170,479
Santa Clara	19,148,045	\$3.08	▲	14.0%	▲	(160,978)
Cupertino	334,371	\$4.50	▲	4.5%	▲	(210,337)
West Valley	911,011	\$3.84	▲	9.9%	▼	(186,530)
South San Jose	96,153	\$2.41	▲	3.5%	▲	(11,813)
Downtown San Jose	1,294,840	\$4.35	▲	11.5%	▲	(261,487)
North San Jose	2,358,291	\$3.41	▲	14.6%	▼	205,738
Milpitas	466,794	\$2.56	▲	11.2%	▲	(67,032)
Fremont/Newark	602,882	\$2.57	▲	12.9%	▲	(44,232)