Office Insight

Silicon Valley | Q2 2015

Demand for high-image space running at full steam

Tenants still chasing newer generation space

Market conditions in Silicon Valley are expected to maintain current velocity, causing a decline in Class A availabilities. The ongoing expansion of the tech sector is largely responsible for the flight-to-quality effect as the millennial workforce is viewing office space as a way to foster collaboration and recruit fresh talent. With prime submarkets lacking the available supply to satisfy requirements greater than 20,000 square feet, more tenants are expected to begin landing deals in North San Jose where there are a number of high-image space options with future expansion potential. Leasing activity will push down vacancy over the next 12 months, especially in areas in San Jose like renovation row, 237 corridor, and North 1st Street corridor.

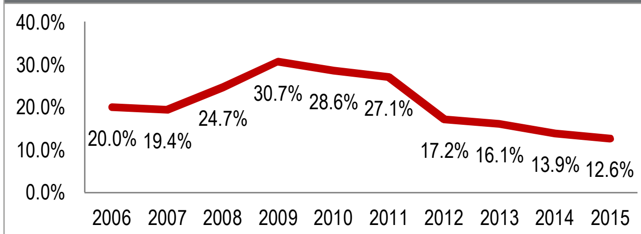
Developers ramping up for the next wave of leasing activity

Construction volume in the Valley is reaching dot.com levels, spurred by the growing number of tenants in need of growth space. In response to pre-leasing activity, many developers are breaking ground on projects that were tabled during the 2008 recession. Most of the development that has yet to pre-lease has had significant tenant interest and touring activity for requirements greater than 100,000 square feet has been enough to bolster developer confidence. The future construction pipeline will remain strong well into 2017 once tenants who are currently looking at campus style options begin to land.

VC funding fueling growth; post-IPO companies look to expand

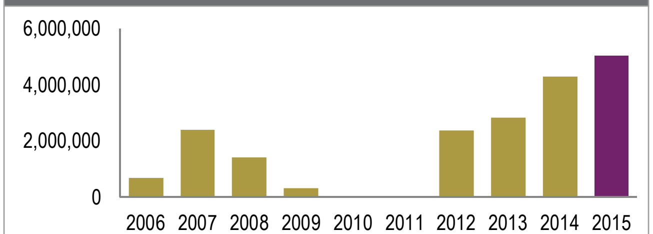
Venture capitalists remain confident in the stability of the tech sector and are still placing their bets toward young companies in high-growth mode. Several startups are still circling the market for options, while IPO graduates like ServiceNow and Palo Alto Networks recently inked deals for more than 400,000 square feet to accommodate rapid headcount growth. This trend is expected to continue as there are several well-funded tech tenants who are looking to double their footprint over the next 18 months. This will keep leasing conditions in Silicon Valley on an upward trajectory, however analysts are waiting to see if the potential looming interest rate hike will slow funding in the future.

Overall Class A vacancy trend indicates flight to quality



Source: JLL Research

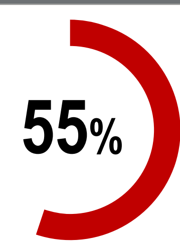
Historical office development near dot.com levels



Source: JLL Research

Bay Area continues to attract venture capital investment

In Q1 2015, the Bay Area accounted of the total U.S. high-tech venture capital funding volume as investors continue to funnel cash toward future innovation.



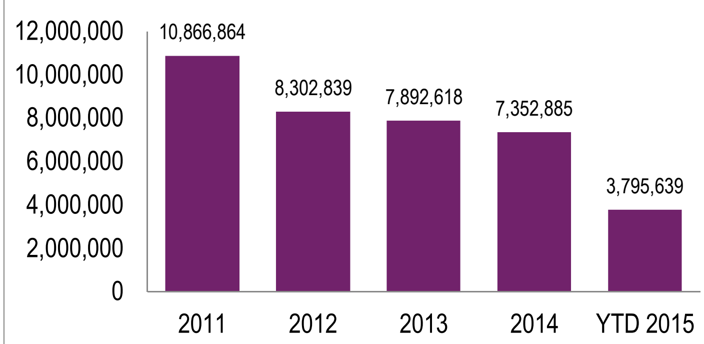
Source: JLL Research

66,647,113 Total inventory (s.f.)	**325,616** Q2 2015 net absorption (s.f.)	**$3.51** Direct average asking rent	**5,043,620** Total under construction (s.f.)
13.0% Total vacancy	**1,420,029** YTD net absorption (s.f.)	**4.2%** 12-month rent growth	**47.6%** Total preleased

Current conditions – submarket

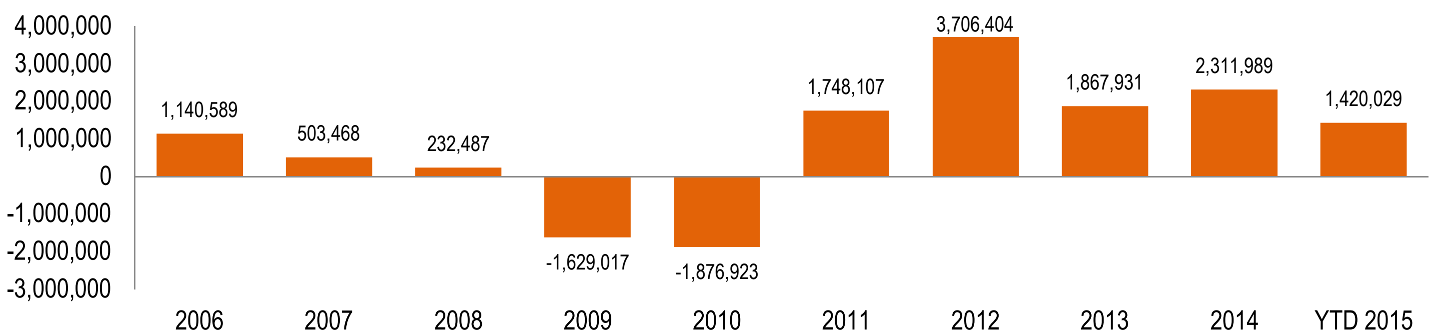
Source: JLL Research

Historical leasing activity (s.f.)



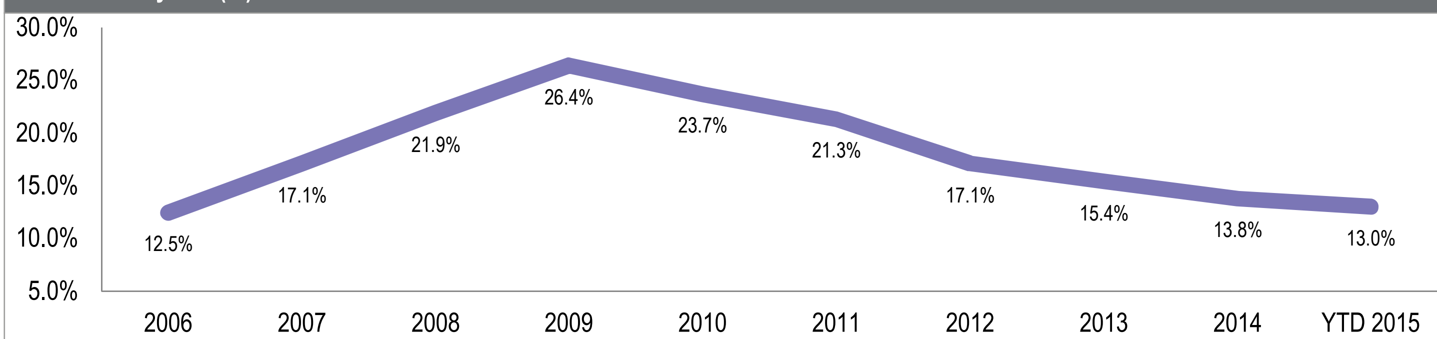
Source: JLL Research

Total net absorption (s.f.)



Source: JLL Research

Total vacancy rate (%)



Source: JLL Research

Direct average asking rent ($ p.s.f.)

Source: JLL Research

For more information, contact: Christan Basconcillo | +1 650 480 2213 | christan.basconcillo@am.jll.com