

MARKET REPORT

Office
San Jose Metro Area

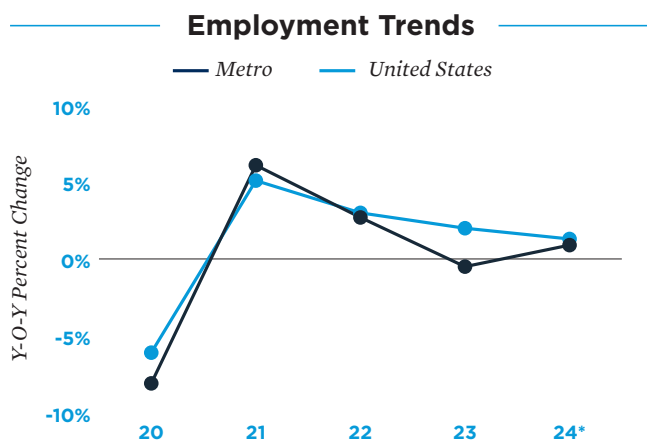
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2Q/24

Gathering Momentum in Lower Rent Office Neighborhoods Foreshadows Future Improvements

Changing tech landscape has implications for the market. After a difficult year for many of the metro's professional services firms, job creation returned to these fields in the early months of 2024. While technology stalwarts, such as Meta and Google, have reduced their operating costs, consolidating both their headcounts and real estate holdings, other companies in the sector are growing. Chipmaker NVIDIA acquired its longtime-leased Santa Clara headquarters earlier this year, adjacent to other office space it developed in 2022. The company is one of several investing in artificial intelligence, an evolving sector with potential long-term benefits for San Jose's office landscape, despite near-term headwinds.

Lower cost areas facing less vacancy pressure. While the tech hubs of Mountain View and Palo Alto, the metro's two most costly office submarkets, face operational pressures, dynamics are stronger in other parts of San Jose. March vacancy was at least 700 basis points below the metrowide level in South San Jose and Milpitas, where asking rents are among the lowest in the market. The latter area is also expected to record 5 percent local population growth by 2028, faster than anywhere else in the market. Next fastest to Milpitas is Santa Clara at 3 percent, whose offices boast an average asking rent roughly \$10 per square foot below the market mean, as well as expanding local office tenants. Both HCL Technologies and the 49ers NFL organization signed leases here earlier this year.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2024 Outlook



**10,000
JOBS**
will be created

EMPLOYMENT:

Hiring for this year will nearly double the net job loss recorded in 2023, aided by renewed growth in professional and business services. Around 2,400 roles in traditionally office-using sectors will be added on net this year.



**1,360,000
SQ. FT.**
will be completed

CONSTRUCTION:

Openings fall to the lowest level in 12 years as Google's Caribbean campus in Moffett Park accounts for more than two-thirds of the schedule. Mid-size projects in Mountain View and Campbell round out the 2024 slate.



**30
BASIS POINT**
increase in vacancy

VACANCY:

Less new supply pressure and strong net absorption to start the year limit the market's upward vacancy momentum. The metrowide rate will rise by the smallest margin in four years to 20.4 percent by December.

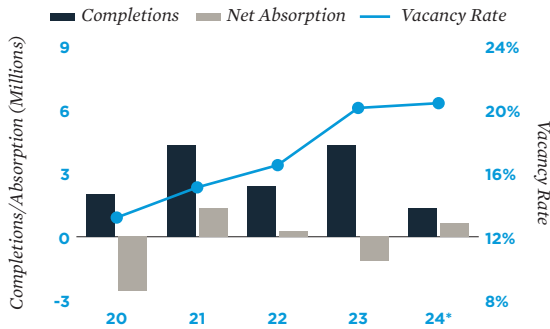


**4.0%
DECREASE**
in asking rent

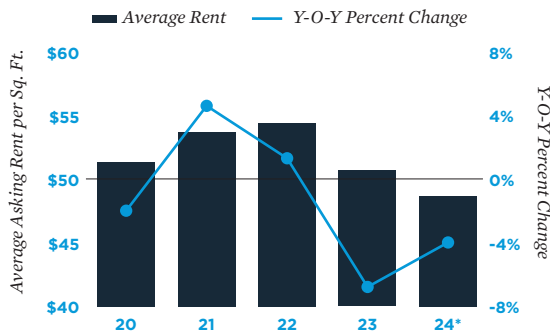
RENT:

Abating upward pressure on vacancy will be aided by an ongoing moderation in asking rents. The mean rate across San Jose will dip down to \$48.67 per square foot, roughly on par with the measure from 2018.

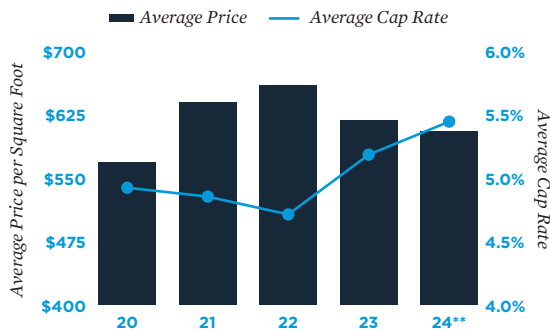
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2024 - 12-Month Period



CONSTRUCTION

3,489,000 sq. ft. completed

- While inventory grew 2.7 percent between April 2023 and March 2024, roughly 90 percent of that space was completed before the start of 2024.
- Deliveries were focused in Santa Clara, the Mountain View-Los Altos area and Downtown San Jose, led by the 1.2 million-square-foot 200 Park. Google also opened its Charleston East building in Mountain View.



VACANCY

260 basis point increase in vacancy Y-O-Y

- Overall office vacancy contracted by 90 basis points quarter-over-quarter to 19.2 percent in March, which is nevertheless up from a year prior.
- Vacancy dropped 410 basis points year-over-year in Santa Clara to 21.6 percent, an improvement that was offset by triple-digit-basis-point increases in other parts of the market, including Mountain View-Los Altos.



RENT

6.9% decrease in the average asking rent Y-O-Y

- The market's average asking rent slid down to \$49.86 per square foot in the first quarter, with marketed rates falling the most in Sunnyvale-Cupertino.
- Class A vacancy that exceeded 22 percent in March translated to greater downward pressure on high-tier asking rates, which fell 11.8 percent year-over-year. The mean Class B/C rent decreased 3.1 percent in that span.

Investment Highlights

- In contrast to years past, Downtown and South San Jose, Santa Clara, Campbell-Los Gatos and Sunnyvale-Cupertino all recorded comparable levels of transaction activity between April 2023 and March 2024. Sale prices were highest among that group in Sunnyvale-Cupertino, where locally-based organizations primarily targeted early-2000s properties over 140,000 square feet in size. Lower entry costs were observed in Downtown San Jose and Campbell-Los Gatos.
- Investors looking to deploy more than \$20 million found options among post-1990-built assets in Santa Clara and Sunnyvale most often, while buyers of properties under \$10 million favored older buildings in settings like Downtown San Jose and Mountain View. Although sales velocity remains constrained, a shift in the metro's mean sale price to \$605 per square foot for the past year indicates more investors may be coming to terms.
- Medical offices predominantly changed hands in South San Jose over the four-quarter period ended in March with an average entry cost above \$500 per square foot. Medical office vacancy was 6.8 percent entering April, roughly double the 2019 rate, but down quarter-over-quarter.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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