

Slow but Steady Recovery for the Silicon Valley Lodging Market

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Trends in Remote Work and Layoffs

Since the onset of the COVID-19 pandemic, Silicon Valley has experienced drastic changes including the shift to remote work policies, the exodus of several major companies, and the widespread layoffs in Q4 2022 and Q1 2023. The table below summarizes recent layoffs and remote work policies at major companies in Silicon Valley.

Recent Layoffs and Remote Work Policies

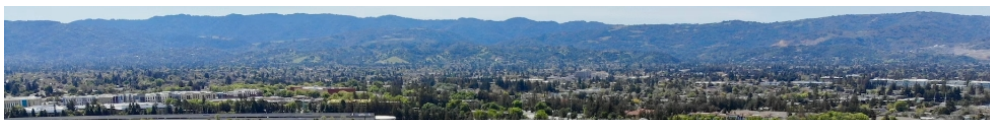
Company	Employees Laid Off	Remote Work Policy
Meta (NASDAQ: META)	21,000	Hybrid—3 Days in Office
Google (NASDAQ: GOOGL)	12,000	Hybrid—3 Days in Office
Microsoft (NASDAQ: MSFT)	10,000	Remote, Hybrid, or In-Person
Salesforce (NYSE: CRM)	8,000	Hybrid—1 to 4 Days in Office
Cisco (NASDAQ: CSCO)	4,100	Remote, Hybrid, or In-Person
PayPal (NASDAQ: PYPL)	2,000	Remote, Hybrid, or In-Person
Lucid (NASDAQ: LCID)	1,300	In-Person
Zoom (NASDAQ: ZM)	1,300	Remote, Hybrid, or In-Person
Apple (NASDAQ: APPL)	Undisclosed	Hybrid—3 Days in Office

Source: [TechCrunch](#)

On top of the shift in workforce policies, a number of major companies have relocated out of Silicon Valley in recent years. **Oracle (NYSE: ORCL) announced in December 2020** that it will move its headquarters from Silicon Valley to Austin, Texas. **Tesla (NASDAQ: TSLA) also reported plans** to move its corporate headquarters from Palo Alto to Austin in October 2021; the company had previously announced plans to build a new factory there. **Hewlett Packard Enterprise (NYSE: HPE) opened its new headquarters in Houston** in April 2022 after moving from San Jose.

Known for its venture capital ecosystem, Silicon Valley, San Francisco, and Oakland accounted for \$15.2 billion, or 41% of the nation's venture investments in Q1 2023. However, the region experienced a significant setback when **Silicon Valley Bank collapsed on March 10, 2023**, following a bank run amidst macroeconomic challenges. While this setback has slowed the startup industry to a certain degree, Silicon Valley continues to attract investors due to its track record of successful ventures, reputation as a technology innovation hub, and available talent pool from well-known universities.

The release of **ChatGPT** in November 2022 has led to increased interest in the rapidly growing field of generative artificial intelligence. The influx of capital has had a ripple effect in the job market, as layoffs and hiring freezes at larger corporations have created an opportunity for smaller companies and startups to bolster their teams with talented professionals. Industries that have previously struggled to compete with tech companies' higher salaries are also seizing the opportunity. Silicon Valley's unemployment rate reached 3.0% in May 2023. This remains well below California's statewide unemployment rate of 4.5%, indicative of the strength of the Silicon Valley economy.



Summary

Silicon Valley historically experienced strong lodging performance driven by high-rated corporate demand during the week. Thus, the rise of remote work policies has had an impact on recovery. However, the presence of Big Tech, surging interest in AI technology, and expansion of the life-sciences sector are anticipated to drive growth in this market over the long term.

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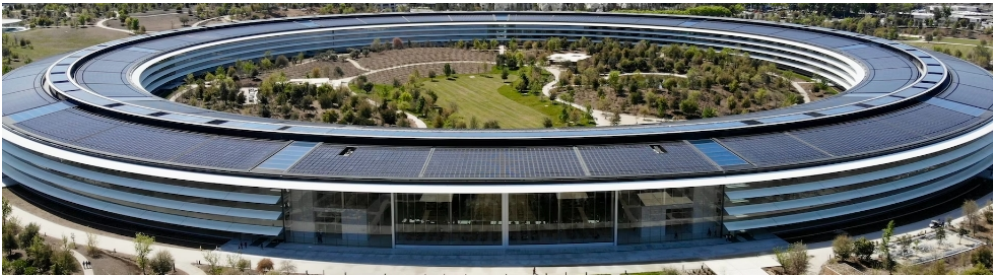
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Apple Park, Cupertino

Changes in Office Statistics

Trends in occupied office space are typically among the most reliable indicators of lodging demand, as firms that occupy office space often have a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or occupied office space may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand. The rise in remote work, the relocation of major companies, and the increase in office inventory are all factors that have contributed to an increase in office vacancy levels as of year-end 2022. The 2022 office statistics for Silicon Valley submarkets are illustrated below, in comparison with 2019 data.

Silicon Valley Office Statistics – 2019 vs. 2022

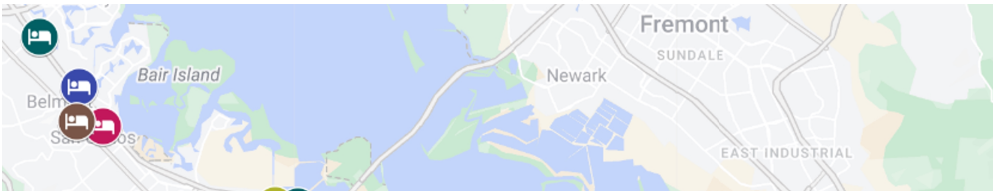


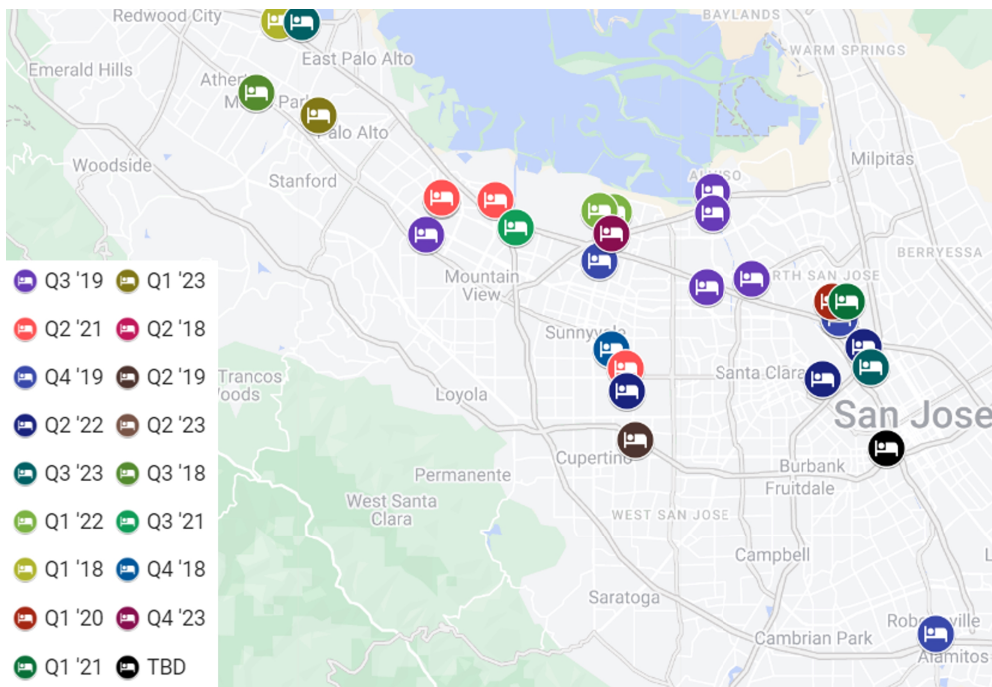
Source: REIS Report, 4th Quarter, 2022

Changes in Supply

Most submarkets showed a decline in occupancy in the years leading up to the pandemic as a result of the sharp increase in room supply. Since 2018, Silicon Valley saw the opening of roughly 4,700 hotel rooms, of which 2,000 opened since the onset of the pandemic. An additional 900 rooms are currently under construction. The map below illustrates the new supply opening in Silicon Valley since 2018.

New Supply by Opening Date





Major Commercial Developments

Aside from hotel developments, Silicon Valley currently has a number of commercial projects in planning or under construction that are anticipated to boost business and travel activities. Some of the largest projects are listed below.

- **Related Santa Clara** is a planned 9.2-million-square-foot, mixed-use development that will offer the following features:
 - 5.7 million square feet of office space
 - 700 rooms across two luxury hotels (including the Bay Area's first **Equinox Hotel**)
 - 1,680 residential units
 - 500,000 square feet of retail space
 - 200,000 square feet of restaurant space
 - 100,000 square feet of entertainment space
 - 102 acres of outdoor recreation area

The project is estimated to generate up to 10,000 construction jobs and almost \$1 billion in wages and benefits over its construction period. Once completed, Related Santa Clara is expected to create up to 25,000 local jobs and generate nearly \$40 million in taxes, fees, and lease revenue annually. Construction has been delayed and is anticipated to begin later this year.

- In June 2023, **Google** received approvals for its **North Bayshore** project, the biggest development ever in Mountain View. The development will include 7,000 new homes, 3 million square feet of office space, and over 26 acres of outdoor recreation area. Given its size, the project is expected to be built out over the next 30 years.
- Another project in Google's pipeline is **Downtown West**, a proposed mixed-use development in San Jose. The project, which was first announced in 2018, is planned to encompass 80 acres in the heart of Downtown San Jose. It is anticipated to feature approximately 7.3 million square feet of office space and up to 4,000 residential units, as well as up to 500,000 square feet of retail, cultural, arts, education, and other active uses. The development is forecasted to take ten to thirty years to complete. However, construction is currently on hold given the economic slowdown.

- In January 2018, the aviation director for **San José Mineta International Airport (SJC)** announced **plans for an expansion** to accommodate the surge in demand. The \$1-billion expansion is anticipated to extend Terminal B to the south and increase the number of gates from 31 to at least 40 by 2024. Most recently, in October 2022, SJC was awarded roughly \$11 million in grant money from the **Federal Aviation Administration** to improve the taxiways. The City of San Jose is also developing a transit solution to connect the airport and **Diridon Station**. This project is still in early development, and construction is anticipated to start in 2027.
- The **Bay Area Rapid Transit (BART) extension to San Jose and Santa Clara** is an ongoing project aimed at improving transportation options and connectivity in the Silicon Valley area. The extension is expected to add approximately six miles of new track and four new stations to the existing BART system. Construction of the extension began in 2012 and is currently ongoing, with completion expected in several phases. The first phase of the extension, which includes two new stations in Milpitas and Berryessa/North San Jose, opened in June 2020. The second phase of the extension, which includes two additional stations in Downtown San Jose and Santa Clara, is under construction and expected to be completed by 2026.

Conclusion

Silicon Valley is recognized around the world for its contributions to the high-tech industry; the many technology, artificial intelligence, semiconductor, and social-networking companies located here serve as the driving force for the local economy. While we are confident that the Silicon Valley market will eventually recover to pre-pandemic levels, our current outlook for most submarkets in the region indicates that a full recovery will not be reached until 2025/26. The entrance of new supply and hybrid workforce policies are slowing the rebound in demand. In general, the improvement in performance will remain gradual until higher-rated business travel improves, larger corporate groups reconvene, and a full in-person office policy becomes more widely adopted.

We continue to watch the factors affecting Silicon Valley lodging, and our many consulting engagements throughout the greater area allow us to keep our finger on the pulse of the market.

For more information, please **contact John Berean**, who oversees HVS operations in Northern California.

About **John Berean**



John Berean, a Senior Vice President with HVS San Francisco, conducts hotel appraisals and feasibility studies in markets across the western U.S.; John is the firm's Hawaii expert. HVS leaders now live in and work from markets throughout the western Americas region, including LA, San Francisco, Portland, Vancouver, Las Vegas, and Phoenix. John's hands-on hospitality experience includes work as Accounts Coordinator and Revenue Analyst for the Queen Kapiolani Hotel in Honolulu, Hawaii. John earned a Masters of Economics, with a concentration in Quantitative Finance, from the Peking University HSBC Business School in Shenzhen, China. He previously majored in International Studies, with a minor in Environmental Studies, at Middlebury College in Middlebury, Vermont. Contact John at +1 (281) 381-3456 or [\[email protected\]](#).

About **Jason Lee**



Jason Lee is a Project Manager with the HVS Los Angeles office. He attended the Collins College of Hospitality Management at California Polytechnic State University, Pomona (Cal Poly Pomona). Jason graduated cum laude with a Bachelor of Science in Hospitality Management in May 2022. Before joining HVS in July 2022, Jason worked as a corporate accountant at Brighton Management. His past hospitality experience includes a limited-service airport hotel, a luxury beachfront hotel, and restaurants. Contact Jason at +1 (424) 216-0049 or [\[email protected\]](#).