

## Overview

Job creation fueled by strong high-tech industry business growth and capital flows is driving demand for talent and office space in high-tech oriented markets across the United States and Canada. Expansions by established firms and start-ups have caused costs and competition to escalate, especially in choice urban locations capable of attracting large talent pools and providing a testing ground for products and services. Markets such as San Francisco, Silicon Valley, Seattle, New York City, and Boston are the fastest growing. Office space vacancies are falling and rents rising in many of these markets, but that's not the only thing – the same is true for talent. Competition for top engineering, product development, and sales talent has escalated and driven many firms to find ways to leverage real estate for employee attraction and retention and establish themselves in other talent centers. This has played out in office markets from coast-to-coast and put disproportionate pressure on certain space types and locations. The high-tech industry still makes a small footprint with only 8.5 percent of all jobs using office space, but makes a large footprint on new demand with 30 percent of net absorption.

## United States scorecard

Annual employment growth (Q1 2012 vs. Q1 2011)



**5.2%**

High-tech services

**2.1%**

Office-Using

High-tech IPO activity



2011 Volume

**\$8.6B**

38 deals

2010 Volume

**\$3.6B**

27 deals

High-tech venture capital funding



2011

**\$15.3B**

2010

**\$11.3B**

## Market highlights

### Seattle

Amazon buys land; plans to build 3.0 million sf campus

### Vancouver

Hollywood north: Sony, Pixar, Technicolor, expand

### Toronto

Google, Facebook, AJB Software grab more space

### Montréal

Gaming grows; Eidos expands, adds to cluster w/Ubisoft, EA, A2M

### Boston

Tech firms squeezed out of Cambridge into Seaport

### Portland

eBay, Dotster, Monsoon expand; Adobe, NetApp plan datacenters

### San Francisco

Salesforce.com, Macys.com and Riverbed lease over 800,000 sf

### Silicon Valley

Apple expands again with 157,000 sf lease in Sunnyvale

### Los Angeles

YouTube going to 'Spruce Goose' Hercules Campus in Playa Vista

### Orange County

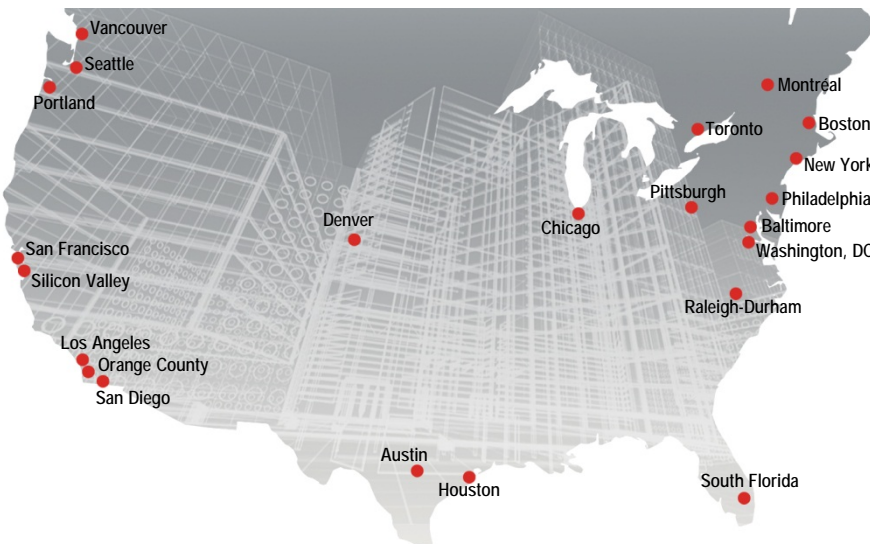
Amazon's a2z expanded into 82,000 sf at Irvine Spectrum

### San Diego

San Diego Tech Center leases 70,000 sf to high-tech tenants

### Denver

Micron expands in Longmont; will open engineering/design center



### Austin

Apple plans \$304 million campus, 3,600 new hires in Northwest

### Houston

Software developers flock to Texas Medical Center

### South Florida

Citrix Systems expands in Cypress Creek by 40,000 sf

### New York

Cornell will build Roosevelt Island campus to feed high-tech industry

### Chicago

'1871 Chicago' digital innovation center opens in Merchandise Mart

### Pittsburgh

More incubator offices open to attract start-ups

### Philadelphia

Tech growth focused on software for 'eds and meds'

### Baltimore

Millennial Media's stock price doubles in IPO debut

### Washington DC

Tech industry growth mitigating federal workforce contraction

### Raleigh-Durham

Red Hat and Cree Inc. post double digit Q1 stock price growth

## Market dynamics

### Employment

The employment picture clearly shows certain sectors outperforming and leading growth prospects in the United States and Canada. High-tech and energy stand out and are impacting select real estate markets. High-tech employment is more closely linked to office space use and its 5.2 percent annual growth rate in the United States is more than three times faster than total employment and two and a half times faster than traditional office-using sectors. With most of this job growth and increased venture capital and public market funding concentrated in a handful of markets, it becomes clear why office space dynamics are so greatly impacted in terms of cost and available choices.

### Office market

High-tech occupiers are focused on acquiring the best talent and are keen on markets with highly-skilled labor pools. Established markets appear to be top choices, but emerging markets have begun to surface as affordable alternatives with more available talent and office space. Silicon Valley, San Francisco, Seattle, Boston, and New York lead high-tech office demand, causing rapidly rising rents in their respective high-tech submarkets. The top five submarkets recorded annual rent growth between 16.8 and 57.9 percent. Not surprisingly, these top markets are also among the nation's leaders in terms of overall market rent growth, while the remainder of the country continues to seek a boost in economic momentum. Emerging high-tech markets such as Chicago, Washington, DC and Vancouver are gaining traction as choice locales for future growth.

### Workplace trends

In all markets, high-tech occupiers prefer creatively-configured spaces and buildings over traditional high-rises, large over small floor plates, open and flexible workspaces that allow for enhanced collaboration over fixed offices and cubes, and proximity to transit and urban amenities. These work-environment preferences are resulting in a shortage of creative office space that could stir activity among developers to build anew and convert existing space to accommodate the need for unique offices that can embody the personality of a high-tech company. Nonetheless, supply in many of the hottest markets cannot keep pace with growing demand and many tenants are encountering competitive conditions. The changing work-environment preferences could have significant implications for not just the high-tech office user, but the overall office market if technology trends continue to truly shape the way we all do business, communicate, and collaborate.

## Annual rent growth by high-tech submarket



\*Q1 2012 vs. Q1 2011 full service gross overall average asking rent growth

## Spotlight

### Venture capitalist perspective

*Anecdotes from industry experts – heard at Jones Lang LaSalle's San Francisco forecast event held in March 2012*

- "Tech is growing like a weed and large cities work well for start-ups, providing the perfect environment to attract talent and perform product testing."
- "What's emerging today is a 'collaborative consumption' generation favoring the 'sharing/social economy' concept, which is a multi-trillion dollar opportunity. Disruptive firms, changing the status quo of how we live, work, and run our businesses are leading the way."
- "Venture capital funding supply is ample, yet disciplined – 'we never fund a company without a viable business theory.' The public markets are not fueling growth in the same way they did during the dot-com era."
- "Any future downturn in tech will be more like a normal business cycle rather than a bubble bursting. Tech today versus 1999-2000 is not a house of cards propped up by mass hallucination."

## Tenants in the market by sub-sector

Search / Social	LivingSocial Washington, DC 350,000 sf	Google Chicago 250,000 sf	Google Raleigh Durham 200,000 sf	Indeed Austin 60,000 sf
Hardware / Software	Allscripts Raleigh-Durham 300,000 sf	Qualcomm San Diego 300,000 sf	Oracle Denver 250,000 sf	Concur Technologies Seattle 150,000 sf
Cloud	Salesforce.com San Francisco 600,000 sf	VMWare Austin 125,000 sf	Rackspace Austin 100,000 sf	Hulu Los Angeles 70,000 sf
eCommerce	Shutterfly San Francisco Peninsula 100,000 sf	Amazon.com Northern Virginia 80,000 sf	eBay Boston 60,000 sf	OpenSky New York 20,000 sf
Start-ups	Yodle Austin 80,000 sf	Spotify New York 45,000 sf	Box.net San Francisco 20,000 sf	AppFog Portland 6,000 sf

## Lease transactions by sub-sector

Search / Social	Google 111 Richmond Street Toronto 89,000 sf	Take-Two Interactive 622 Broadway New York 68,000 sf	Kabam 795 Folsom Street San Francisco 62,000 sf	Square Enix 999 N Sepulveda Los Angeles 50,000 sf
Hardware / Software	Information Builders 2 Penn Plaza New York 219,000 sf	Kronos 300 Billerica & 4 Omni Way Boston 192,000 sf	Apple 250 S. Mathilda Silicon Valley 157,000 sf	Smith Micro Software Two Corporate Center Pittsburgh 56,000 sf
Cloud	Salesforce.com 50 Fremont Street San Francisco 402,000 sf	EMC Corporation 371 Centennial Parkway Denver 37,000 sf	Informatica 13785 Research Boulevard Austin 35,000 sf	Salesforce.com 375 Water Street Vancouver 17,500 sf
eCommerce	Macys.com 680 Folsom Street San Francisco 243,000 sf	GrubHub 111 W Washington Street Chicago 60,000 sf	Monsoon 520 NW Davis Portland 18,000 sf	FiftyOne Ecommerce 292 Madison Avenue New York 17,000 sf
Start-ups	Evernote 305 Walnut Street Silicon Valley 88,000 sf	SCVNGR One Congress Street Boston 41,000 sf	Ridecharge.com 5904 Richmond Highway Washington, DC 10,400 sf	Gigwalk 539 Bryant Street San Francisco 2,200 sf



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### Sources used in this report:

#### Employment data

Bureau of Labor Statistics, current employment statistics

#### IPO

PriceWaterhouseCoopers

#### Venture capital

PriceWaterhouseCoopers MoneyTree

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