

From the Silicon Valley Business Journal:

<https://www.bizjournals.com/sanjose/news/2021/04/29/structures-extra-netapp-sunnyvale-san-jose-move.html>

Cover story: NetApp's big southbound move

NetApp spent five years shedding its Sunnyvale real estate portfolio. With a new San Jose HQ, it's betting that plan will pay dividends.

NetApp slims down to build itself back up

Apr 29, 2021, 4:38pm PDT Updated: Apr 30, 2021, 8:20pm PDT

After years of being in a headquarters too big for its needs, NetApp Inc. had to make a choice: Sell the last four office buildings it owned in Sunnyvale, or consolidate within the complex and try to sublease out whatever space it wasn't using.

Yet during the Covid-19 pandemic, as the firm determined what its future work model would look like, it chose a third option: Relocate its global headquarters, something it hadn't done in more than 20 years.

"It was more driven with the opportunity to be able to go into a building in the heart of Santana Row that offered all the employee amenities ..." said Ralph Renne, NetApp senior director of workplace resources and real estate, referring to the mixed-use center in San Jose. "The retail amenities, the restaurants, and the social aspect are being clearly recognized by new management as an important part of the work experience."

On April 15, NetApp announced it would move its global base from a six-building campus in Sunnyvale to a single building it's leasing in Santana Row.

Leasing a headquarters isn't unique — newer Silicon Valley-based tech employers like Roku and 8x8 Inc., for example, lease their respective primary locations in San Jose and Campbell. But many of the largest and more established companies own their HQs: Apple Park in Cupertino, the Googleplex in Mountain View, and Facebook's growing collection of buildings in Menlo Park, to name a few.

As one of the more entrenched companies based in the Valley, 39-year-old NetApp is showing what happens as a company evolves and downsizes. At one time, it owned and occupied one of the Valley's largest business complexes. But after its local workforce became more dispersed, Renne said, NetApp was faced with the unwelcome situation of having far more space than it needed.

The Covid-19 pandemic — which forced companies around the Valley to send home their office workers and embrace remote work — brought the issue to a head, indicating it would likely need even less space in the future.

NetApp decided to take advantage of the situation, using it as an opportunity not only to trim its excess space, but also to offer employees a potentially better experience. It's moving from a spread-out, half-empty office park that was built in a different era and had



TOMAS OVALLE

NetApp Inc. is confident it will be able to offer a better employee experience at its new Santana Row headquarters, pictured, compared to its former home in Sunnyvale's Moffett Park.

few nearby amenities to a compact multiuse center with restaurants and shops within easy walking distance.

“Santana Row, I think, speaks for itself in terms of what the location offers,” said Renne, who manages NetApp’s real estate portfolio in the Americas. “And yet, you don’t really have good comparables ... The ‘flight from urban’ is really where I think the suburban markets and mixed-use developments become far more attractive.”

Ownership has its privileges – and drawbacks

While the decision to buy or lease a headquarters space varies, there are some clear benefits and disadvantages to both approaches. Firms that own space have a real asset that will only increase in value as real estate appreciates. Even when companies have to take out a loan to buy their buildings, they can often lock in a payment amount that can look like a bargain when rents and land values rise quickly.

“We’ve seen this in the Valley, we can go from a recession-type environment where office rents are \$2 a square foot a month, net, then triple to \$6, net, once we’re out of that,” said [Rich Branning](#), an executive managing director at JLL, a commercial real estate brokerage.

Renting, by contrast, offers flexibility. Companies can more easily scale up or down their amount of space, or move to other locations. They don’t have the headache — or ongoing expense — of managing their own buildings. And they also don’t have a bunch of money tied up in property, freeing it for other uses.

In NetApp’s case, once its growth engine began slowing down in 2013, it clearly identified the inefficiencies in its real estate portfolio. About five years ago, it started selling off its holdings in Sunnyvale, which at the time encompassed 1.7 million square feet of space, according to documents filed with the Securities and Exchange Commission.

Before announcing its Santana Row move and the sale of its remaining property in Sunnyvale to Tishman Speyer for \$365 million, NetApp had already whittled down its holdings to a little more than 700,000 square feet of space. Prior to the Tishman Speyer deal, it sold its other Sunnyvale buildings to Google LLC, which has become the dominant landowner in the neighborhood.

NetApp didn’t need as much space

When the Great Recession hit in 2008, NetApp had already acquired all of the expansion property it would need to build out its Sunnyvale portfolio, which encompassed 17 buildings upon completion. While that would not have been an issue if the company stayed in hyper-growth mode after the downturn ended, it became a problem when its growth eventually leveled out.

“We are not, at least on a top-line measurement, any larger than where we were in 2013,” Renne said, referring to the company’s revenues. “We came to realize that we do have overcapacity in a substantial manner, coupled with the fact that the workforce strategy had been evolving and the concentration of employees in Sunnyvale was now taking on more of a dispersment model.”

The company has been [cutting its workforce for years](#), including last year, when it said it would be [cutting 5% of its global staff](#) of 10,800. Since 2016, NetApp’s Sunnyvale workforce has dropped by about 50%, to 1,520 workers, according to data from the city.

Thanks to those cuts, the company had lots of surplus space on its hands, even after paring down its landholdings in Sunnyvale by more than half since 2015. Before selling its remaining four office buildings to Tishman, it utilized only about 54% of the space in them, according to [Chris Drago](#), NetApp’s head of global public relations.

But NetApp was also likely motivated by a desire to improve its image and work environment to better compete for young workers, Branning said. The area around its

Sunnyvale campus isn't very walkable and has little around it in the way of restaurants or shops.

It "was suffering from a lack of energy and vibe and excitement," said Joe Brady, an executive managing director at real estate brokerage Savills, which represented NetApp in both the sale of its Sunnyvale buildings to Tishman and the Santana Row lease.

The draw of Santana Row

Santana Row, by contrast, offered a much more attractive place to be, said [Debra McCowan](#), NetApp's chief human resources officer. The company is moving into 700 Santana Row, a 319,000-square-foot office building owned by Federal Realty Investment Trust that is located at the southern end of the center.

But getting into 700 Santana Row took some doing. Splunk, the machine data company that has dual headquarters in San Jose and San Francisco, signed a lease for the entire building in 2018 while it was under construction. The company had a [130-month lease agreement](#), which included a base rent obligation of more than \$162 million.

News that Splunk CEO Doug Merritt personally was moving to Austin, Texas, caught Savills and NetApp's attention: "We thought to ourselves, 'Well, if he's moving, maybe his real estate is available,'" Brady said. "We made a call and, sure enough, we found a hole that wasn't openly listed, and we pursued it."

For Splunk, which already occupied another Santana Row office building just steps away, a number of factors convinced it to reassess its needs. Splunk Chief People Officer Kristen Robinson said, among other things, that "the pandemic, our long-term workforce strategy, and recent feedback from our employees has given us cause to reevaluate our future office space needs."

Negotiations between Splunk, Newmark (Splunk's corporate real estate adviser), NetApp and Federal Realty began last December and lasted about three months, Brady said, culminating in Splunk terminating its lease on 700 Santana Row and NetApp agreeing to take over the entire building. Yet the deal could not be consummated until NetApp found a buyer for its Sunnyvale headquarters, which it found in Tishman Speyer. The real estate investment firm began negotiating with NetApp in February.

The allure of Santana Row was clear. NetApp was looking for a site that was convenient for customers and partners, McCowan said. But it also wanted a place that was good for employees, in terms of location, amenities and atmosphere. "We felt that the Santana Row location presents all of that," she said.

The move also was motivated by the pandemic-inspired remote-work trend. Like every other Valley tech company, NetApp closed its offices early on in the Covid crisis. Although it plans to open its new Santana Row offices in [July or August](#), it is allowing employees to continue to work from home through January.

Even after that, the company plans to embrace remote work going forward. Employees will have the option to split time between the office and home. The new headquarters will have plenty of collaboration space for workers to interact with those in the office and out.

"We're confident that, with the degree of flexibility that we're going to be offering, it's still a really good footprint for us to be able to have that space for our employees," McCowan said.

NetApp's decision to shrink its footprint and consolidate its offices will likely be followed by similar moves by other companies, real estate sources say. It's a trend that's already happening around the nation, said Jan Sweetnam, Western region president for Federal Realty. Sweetnam expects the company's newest office development in San Jose — One Santana West, an eight-story building currently under construction and slated to open next year — will be filled by a corporation making the same move NetApp did.

"That's what we're expecting to see," Sweetnam said, referring to One Santana West.
"Somebody that does not want to be in three buildings or four buildings and wants to step into one building."

Snapshot

Matthew Niksa

Commercial real estate reporter
Silicon Valley Business Journal

