

## ECONOMIC INDICATORS

## National

	Q1 18	Q1 19*	12-Month Forecast**
GDP Growth	2.6%	2.9%	▲
CPI Growth	2.2%	1.6%	▲
Consumer Spending Growth	2.4%	3.2%	▲
Retail Sales Growth	4.9%	4.2%	▲

\*Q1 19 Estimates. Values represent year-over-year % change.

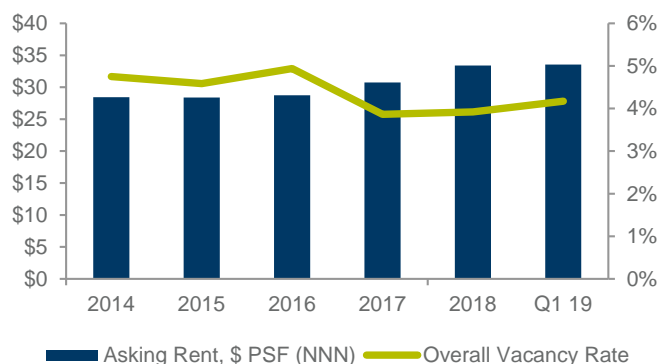
\*\*Forecast by Cushman &amp; Wakefield.

## Regional

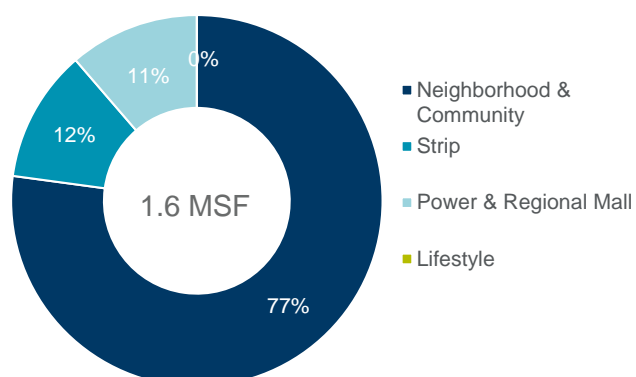
	Q1 18	Q1 19*	12-Month Forecast**
Median Household Income	\$121,600	\$125,800	▲
Population Growth	0.3%	0.4%	■
Unemployment	2.9%	2.5%	▼

Source: Moody's Analytics

## Rental Rate vs. Overall Vacancy



## Availability by Type



## Economy

According to the State of California Employment Development Department, the unemployment rate for San Jose metro area was 2.5% in February 2019, down from 2.9% one year ago. This is well below the overall unemployment rate for the state and nation for the same period at 4.4% and 3.8%, respectively. The region recorded positive job growth with 24,200 jobs added year-over-year (YOY), bringing the total employment level to 1.1 million (up 2.2%) in February 2019. Although the percentage of job increase was still greater than the rest of the Bay Area, it has been slower than just a few years ago as the region has reached full employment and in-bound migration has slowed mainly due to the cost of living. The median household income in Silicon Valley remained the highest in the country at \$125,800, a 3.4% increase YOY. Increasing population, job growth, high incomes and strong consumer spending continue to boost consumption of goods and services in the area.

## Market Overview

After maintaining vacancy rates under 4.0% last year, the Silicon Valley retail vacancy increased slightly to 4.2% in the first quarter of 2019, up 30 basis points (bps) from 3.9% last quarter and 50 bps from 3.7% one year ago. Palo Alto/Mountain View/Los Altos maintained the lowest vacancy rate in the region at 1.8%, down significantly from 2.3% last quarter and 3.2% one year ago. It was followed by Sunnyvale/Cupertino at 2.2%, which was down from both last quarter's and last year's figures of 2.9%. Other submarkets in Silicon Valley experienced increase in vacancy rates; Morgan Hill/Gilroy had the highest jump from 5.7% last year to 6.8% in the first quarter of 2019.

Good quality (Class A) shopping centers and downtown areas, such as Burlingame, Los Gatos and Palo Alto, continued to be favorite locations for retailers and shoppers. Although slower, Class B and some Class C centers still experienced leasing activity, largely from local and start-up tenants. Restaurants and service-oriented retailers – such as fitness clubs, boutique gyms, yoga studios, health, education and child day care, as well as furniture and home improvement stores – continue to dominate leasing transactions in Silicon Valley. Grocery-anchored centers are also still popular for tenants that want the daily needs exposure.

Currently there is 37.5 million square feet (msf) of shopping center inventory in the region, with approximately 1.6 msf of

## MARKETBEAT

# Silicon Valley

Retail Q1 2019



vacant retail space, which is mostly in Class B or C projects.

The net absorption in the first quarter of 2019 was negative 85,100 square feet (sf). Almost all types of retail centers in Silicon Valley had negative absorption, except lifestyle centers with 20,700 sf of positive absorption during the quarter.

One significant transaction was the 108,000-sf lease to Living Spaces, which will fill a block vacated by Sears last year at Westfield Oakridge shopping center in San Jose. With the growth of population and housing, furniture and décor retailers are expanding, occupying the empty retail space left behind by other big box retailers that have been downsizing, such as Sears or Toys R Us / Babies R Us.

### THE OVERALL VACANCY RATE OF SHOPPING CENTERS IN THE REGION WAS 4.2% IN THE FIRST QUARTER OF 2019.

The rental rate in Silicon Valley has been relatively flat for the last four quarters. The average asking rent in the first quarter of 2019 was \$33.56 per square foot (psf) on an annual triple net basis, up 3.4% from last year's figure of \$32.45 psf. These rates reflect what is currently available in the marketplace, which is mostly Class B or C space. Asking rates for small shop space in Class A or newly completed projects are typically topping the \$70.00 psf mark with some projects exceeding \$80.00 psf.

The largest retail sale transaction in the Silicon Valley during the first quarter of 2019 was the sale of El Paseo de Saratoga in San Jose, near the Westgate Center. This 340,000-sf open-air retail and entertainment center is anchored by AMC Saratoga, Lucky supermarket and REI. It was sold by Terramar Retail Center to Sand Hill Property Co. for \$146.6 million or \$430 psf.

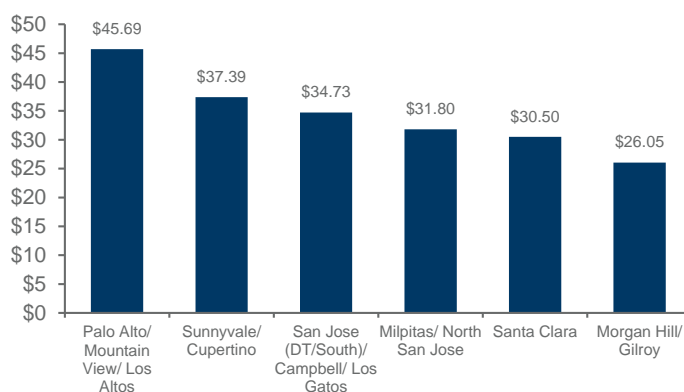
### Outlook

- Residential growth, low unemployment and top national income stats will continue to drive retailer interest in Silicon Valley.
- Restaurants, health & fitness, education and day care will continue to dominate leasing transactions.
- Rental rates will continue to rise in prime properties and downtowns.

### Market Indicators

	Q1 18	Q1 19	% Growth (1 Year)	12-Month Forecast
Overall Vacancy	3.7%	4.2%	50 BPS	▼
Net Absorption (SF)	95,000	-85,000	-190.0%	▲
Under Construction (SF)	553,000	580,000	4.8%	▼
Average Asking Rent (NNN)	\$32.45	\$33.56	3.4%	■

### Average Asking Rent by Market (psf/yr NNN)



### Average Asking Rate by Type (psf/yr NNN)



## MARKETBEAT

## Silicon Valley

Retail Q1 2019



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
San Jose (DT/South)/Campbell/Los Gatos	886	18,472,836	4.3%	-72,563	-72,563	22,473	\$34.73
Sunnyvale/Cupertino	225	4,841,892	2.2%	34,042	34,042	385,000	\$37.39
Santa Clara	131	2,718,626	3.6%	-13,470	-13,470	23,195	\$30.50
Palo Alto/Mountain View/Los Altos	131	2,664,164	1.8%	14,119	14,119	144,000	\$45.69
Milpitas/North San Jose	245	5,011,514	4.8%	-9,633	-9,633	5,200	\$31.80
Morgan Hill/Gilroy	165	3,970,416	6.8%	-37,609	-37,609	0	\$26.05

SHOPPING CENTER TYPE	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
Neighborhood & Community	1,015	25,824,690	4.7%	-73,485	-73,485	154,660	\$32.24
Strip	601	5,615,006	3.2%	-4,299	-4,299	38,708	\$36.28
Power & Regional	153	5,481,170	3.2%	-28,014	-28,014	0	\$40.89
Lifestyle	8	618,058	0.0%	20,684	20,684	386,500	\$52.81
<b>SILICON VALLEY RETAIL TOTALS</b>	<b>1,777</b>	<b>37,538,924</b>	<b>4.2%</b>	<b>-85,114</b>	<b>-85,114</b>	<b>579,868</b>	<b>\$33.56</b>

\*Rental rates reflect NNN asking \$PSF/year

## Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5540 Winfield Boulevard (Westfield Oakridge)	108,000	Living Spaces	Lease	San Jose
5502 Monterey Highway	30,000	Altitude Trampoline Park	Lease	San Jose
4150-4180 North 1 <sup>st</sup> Street – Building 100	14,300	El Camino Hospital	Lease	San Jose
2623-2627 South Bascom Avenue	6,500	Hot Springs of San Jose	Lease	Campbell

## Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
700 El Paseo de Saratoga (El Paseo de Saratoga)	341,000	Terramar Retail Centers / Sand Hill Property Co.	\$146,600,000 / \$430	San Jose
1253 West El Camino Real	26,500	Will of Ernest P Martin JV Alexander F and Ellen C Prandi Trust / Toufic & Eva Jissser Trust	\$17,300,000 / \$653	Sunnyvale
477 South Market Street (Tate Family Complete Auto Care)	19,000	Benjamin Taft / Insight Realty Company	\$6,500,000 / \$343	San Jose
2725 El Camino Real	17,200	University Avenue Partner LLC / Alexander Pak	\$12,200,000 / \$711	Santa Clara

## MARKETBEAT

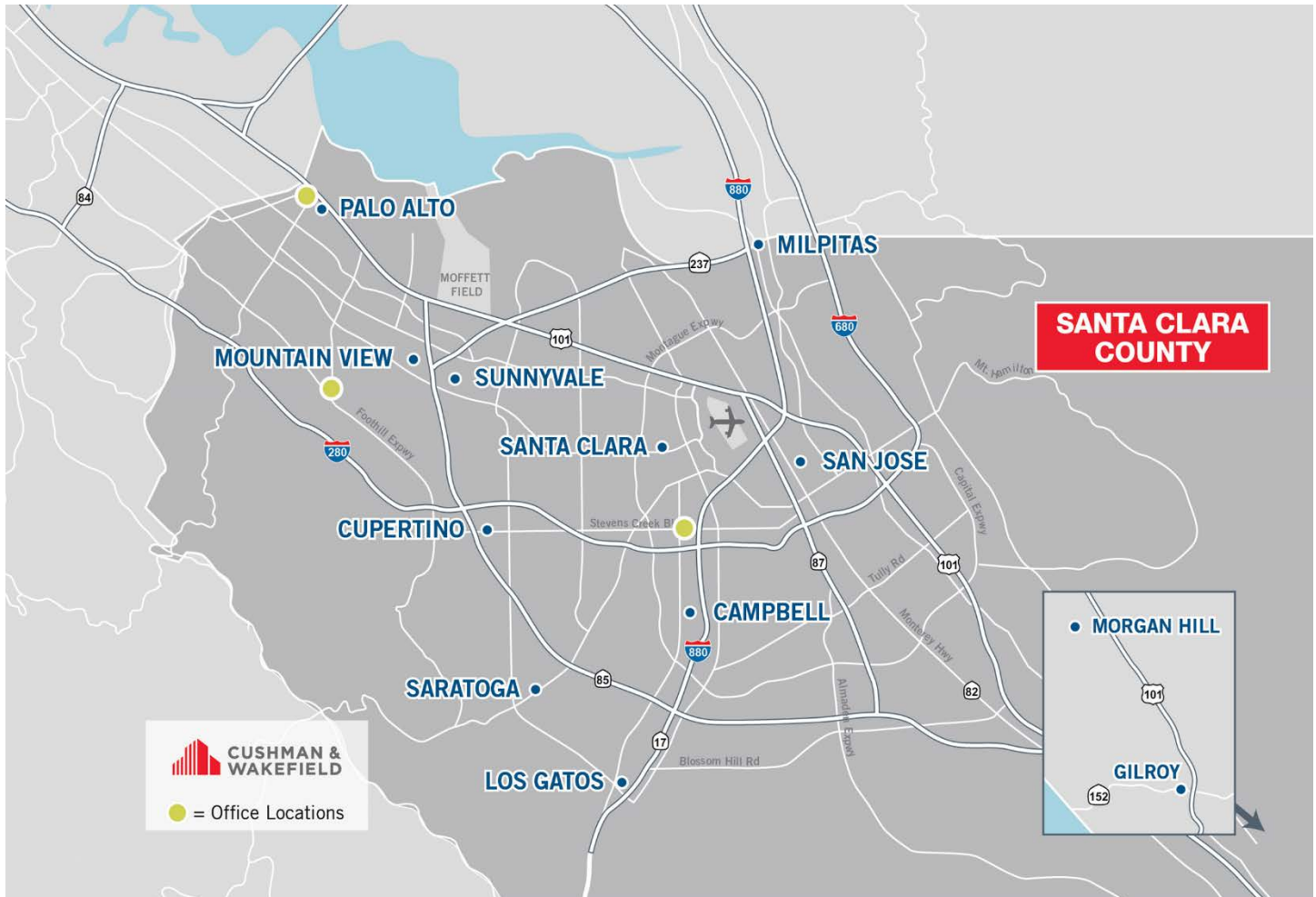
# Silicon Valley

Retail Q1 2019



## RETAIL SUBMARKETS

### SILICON VALLEY



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#### About Cushman & Wakefield

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