MARKETBEAT

# Silicon Valley

## Retail Q2 2019

CUSHMAN & WAKEFIELD

### ECONOMIC INDICATORS

**National**

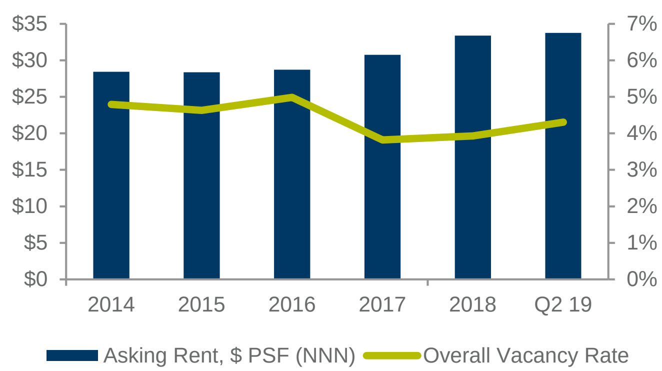
| | Q2 18 | Q2 19 | 12-Month Forecast |
|---|---|---|---|
| GDP Growth | 2.9% | 2.6% | ▼ |
| CPI Growth | 2.7% | 1.8% | ▲ |
| Consumer Spending Growth | 4.7% | 4.5% | ▼ |
| Retail Sales Growth | 5.6% | 3.3% | ▼ |

**Regional**

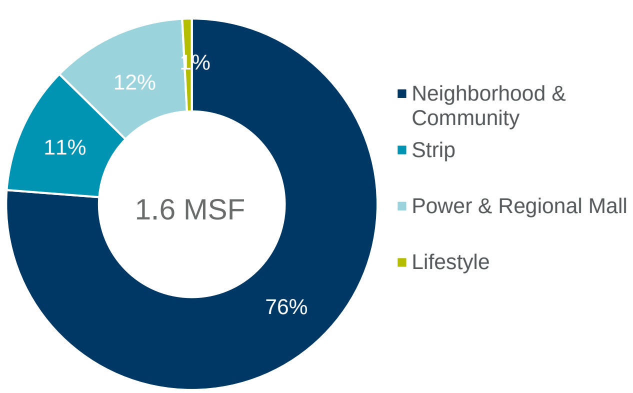
| | Q2 18 | Q2 19 | 12-Month Forecast |
|---|---|---|---|
| Median Household Income | $122,300 | $127,900 | ▲ |
| Population Growth | 0.3% | 0.5% | ▲ |
| Unemployment | 2.7% | 2.8% | ▼ |

Q2 2019 data are based on latest available data. Growth rates are year-over-year.
Source: BLS, BOC, Moody's Analytics

### Rental Rate vs. Overall Vacancy




### Availability by Type




## Economy

The San Jose metro area continued its strong economic performance. The region recorded positive job growth with 28,100 jobs added year-over-year (YOY), up 2.5%, bringing the total employment level to nearly 1.2 million in May 2019. As the region has reached full employment, the job increase has been more measured than just a few years ago. Due to the increase of the labor force, the unemployment rate increased slightly 10 basis points (bps) to 2.8% from 2.7% one year ago, still well below the national figure of 3.6%. The median household income in Silicon Valley remained the highest in the country at $127,900, a 4.6% 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

Silicon Valley's retail vacancy rate climbed slightly during the second quarter of 2019 to 4.3%, an increase of 10 bps from 4.2% last quarter and 40 bps from 3.9% one year ago. Strategic closures of some national retailers was the main reason for the increase of vacancy in the region.

Palo Alto/Mountain View/Los Altos maintained the lowest vacancy rate in the region at 1.7%, down from 1.8% last quarter and significantly lower than 2.6% one year ago. Almost all submarkets in Silicon Valley experienced an increase in vacancy rates, with Santa Clara having the highest jump from 1.9% last year to 5.5% in the second quarter of 2019 due, in large part, to several supermarket and restaurants closures.

Lifestyle centers continue to be in high demand, thus recorded the lowest vacancy rate by property type in the region at 2.2%, followed by strip centers at 3.1%. The total net absorption in the second quarter of 2019 was negative 54,200 square feet (sf). Almost all types of retail centers in Silicon Valley were in the red for the quarter, except strip centers with 5,800 sf of positive absorption.

Though a moderate amount of space has been returned to the market, demand for well located, quality product remains strong. Good quality (Class A) shopping centers and downtown areas continued to be favorite locations for retailers and shoppers. Class B and some Class C centers also still experienced leasing activity, mainly 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

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furniture and home improvement stores – remain active opening new stores in Silicon Valley. Grocery-anchored centers are also still popular for tenants that want the daily needs exposure.

Currently there is 37.2 million square feet (msf) of shopping center inventory in the region, with approximately 1.6 msf of vacant retail space, which is mostly in Class B or C projects.

Hudson Yards' developer, The Related Companies, is planning to build an $8.0 billion mega development in Santa Clara. The development site is replacing a public golf course and located just north of Levi's Stadium. The project will have 5.4 million square feet (msf) of office, 700 hotel rooms, 1,680 residential units and 1.0 msf of retail, dining and entertainment space. The first phase of the development is expected to open in 2023.

**THE OVERALL VACANCY RATE OF SHOPPING CENTERS IN THE REGION WAS 4.3% IN THE SECOND QUARTER OF 2019.**

The rental rate in Silicon Valley has been relatively flat for the last four quarters. The average asking rent in the second quarter of 2019 was $33.77 per square foot (psf) on an annual triple net basis, only up 1.7% from last year's figure of $33.21 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.

In June 2019, Regency Center acquired Pruneyard Shopping Center in Campbell from a joint venture between Ellis Partners and an investment fund managed by Fortress Investment Group. This 258,000-sf iconic center in the Silicon Valley is anchored by Trader Joe's, Sports Basement and Pruneyard Cinemas & Cedar Room, and was sold for $212.5 million or $824 psf.

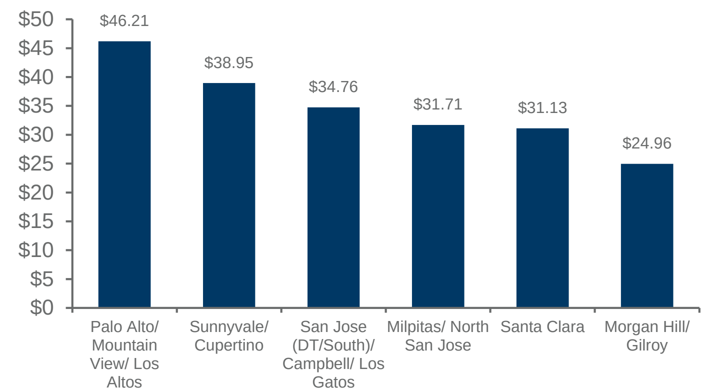
### Outlook

- 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.

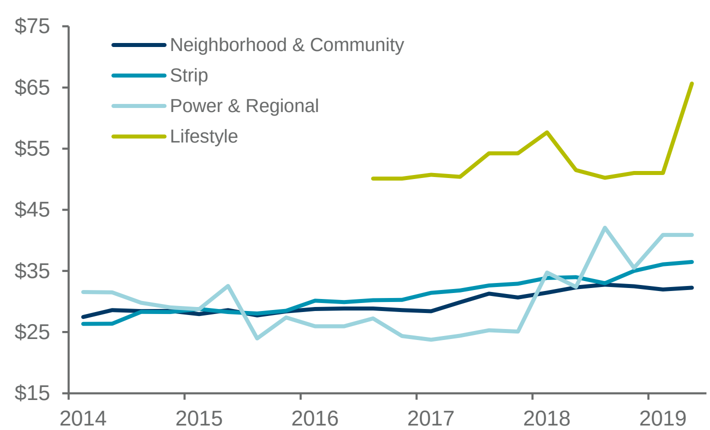
### Market Indicators

| | Q2 18 | Q2 19 | % Growth (1 Year) | 12-Month Forecast |
|---|---|---|---|---|
| Overall Vacancy | 3.9% | 4.3% | 40 BPS | |
| Net Absorption (SF) | -87,000 | -54,000 | -37.7% | |
| Under Construction (SF) | 527,000 | 446,000 | -15.3% | |
| Average Asking Rent (NNN) | $33.21 | $33.77 | 1.7% | |

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




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



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| 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 | 18,318,363 | 4.4% | -3,699 | -87,023 | 20,973 | $34.76 |
| Sunnyvale/Cupertino | 223 | 4,707,556 | 3.5% | -50,341 | -19,661 | 385,000 | $38.95 |
| Santa Clara | 132 | 2,685,290 | 5.5% | -48,060 | -61,038 | 23,195 | $31.13 |
| Palo Alto/Mountain View/Los Altos | 130 | 2,651,070 | 1.7% | 3,352 | 17,471 | 0 | $46.21 |
| Milpitas/North San Jose | 242 | 4,996,148 | 3.8% | 25,189 | 40,175 | 5,200 | $31.71 |
| Morgan Hill/Gilroy | 164 | 3,944,196 | 7.4% | -22,882 | -61,844 | 12,000 | $24.96 |

| 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 | 1,003 | 25,364,168 | 4.8% | -35,146 | -97,674 | 10,660 | $32.27 |
| Strip | 608 | 5,715,440 | 3.1% | 5,838 | 217 | 50,708 | $36.47 |
| Power & Regional | 152 | 5,466,361 | 3.5% | -11,609 | -39,623 | 0 | $40.89 |
| Lifestyle | 8 | 616,234 | 2.2% | -13,264 | 7,420 | 385,000 | $65.63 |
| SILICON VALLEY RETAIL TOTALS | 1,771 | 37,162,203 | 4.3% | -54,181 | -129,660 | 446,368 | $33.77 |

*Rental rates reflect NNN asking $PSF/year

### Key Lease Transactions Q2 2019

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|---|---|---|---|---|
| 760 East El Camino Real | 30,100 | Kukje Supermarket | Lease | Sunnyvale |
| 111-251 Ranch Drive (McCarthy Ranch) | 11,100 | US Cricket Store | Lease | Milpitas |
| 5353 Almaden Expressway | 7,550 | The Floor Store | Lease | San Jose |
| 3315 Coronado Place (Santa Clara Square) | 4,700 | Pacific Catch | Lease | Santa Clara |

### Key Sales Transactions Q2 2019

| PROPERTY | SF | SELLER/BUYER | PRICE / $PSF | SUBMARKET |
|---|---|---|---|---|
| 1875 South Bascom Avenue (Pruneyard Shopping Center) | 258,000 | Ellis Partners JV Fortress / Regency Centers | $212,500,000 / $824 | Campbell |
| 1663 Tully Road | 43,800 | Chiu Family Trust / VQ2 Properties | $22,800,000 / $522 | San Jose |
| 444 South Mathilda Avenue (Bank of America) | 34,100 | Gramercy (Blackstone) / Mathilda Property LLC | $10,700,000 / $314 | Sunnyvale |
| 72 North 5th Street (Trianon Theatre) | 15,000 | Trianon Holdings LLC / Sand Hill Prop Co | $5,600,000 / $375 | San Jose |

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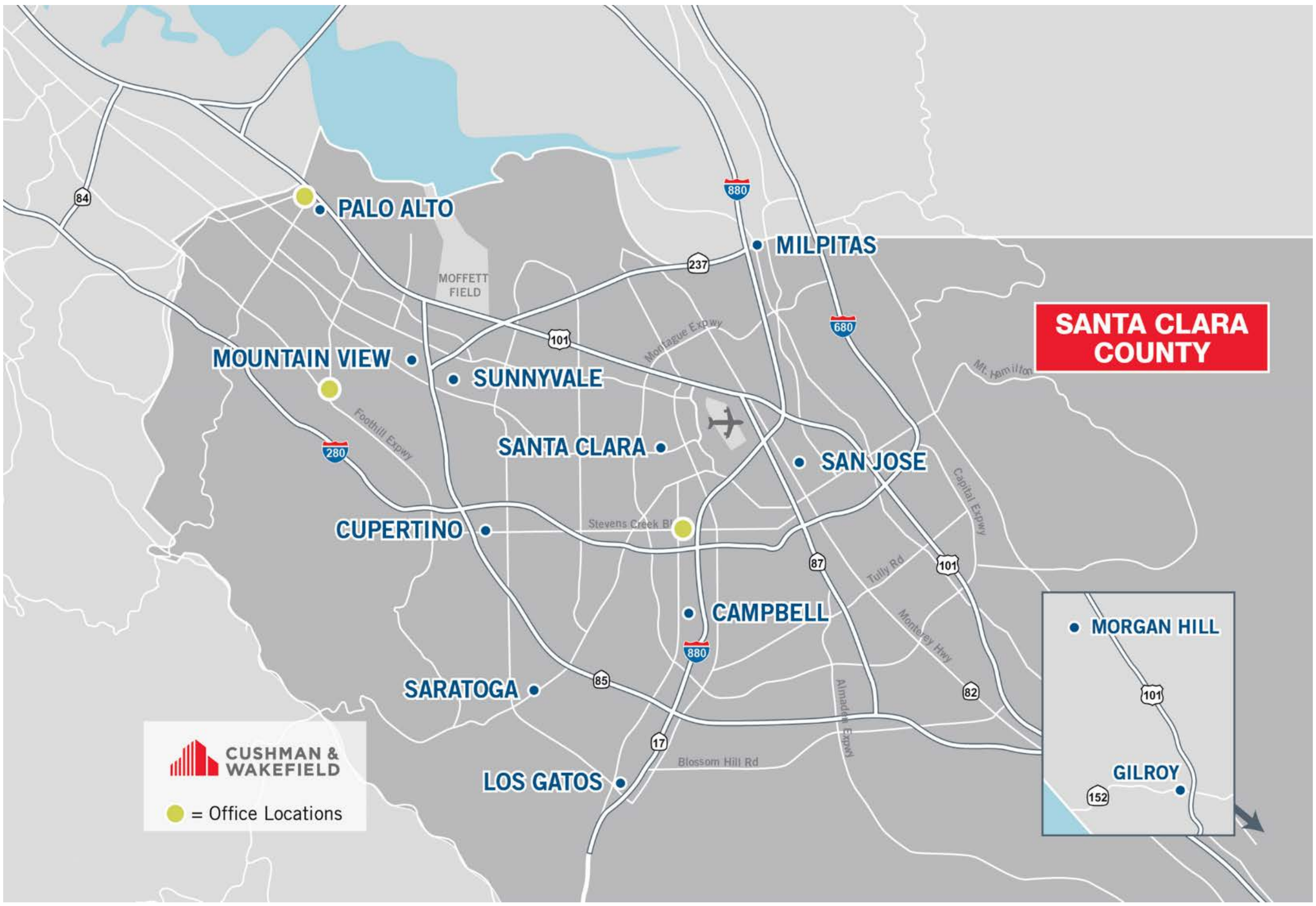
**Retail Q2 2019**

## RETAIL SUBMARKETS

SILICON VALLEY





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