

## ECONOMIC INDICATORS

## National

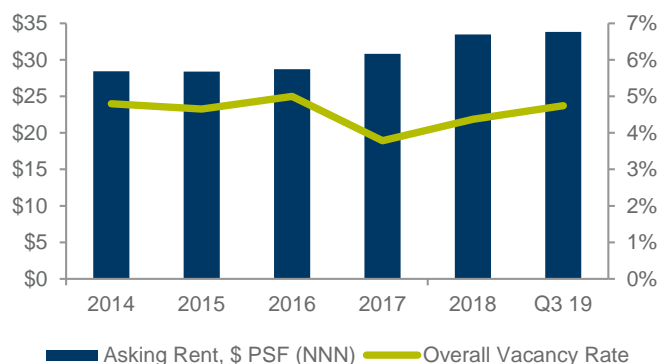
	Q3 18	Q3 19	12-Month Forecast
GDP Growth	3.1%	2.1%	▲
CPI Growth	2.6%	1.8%	▲
Consumer Spending Growth	5.9%	4.1%	▲
Retail Sales Growth	5.6%	3.7%	▲

## Regional

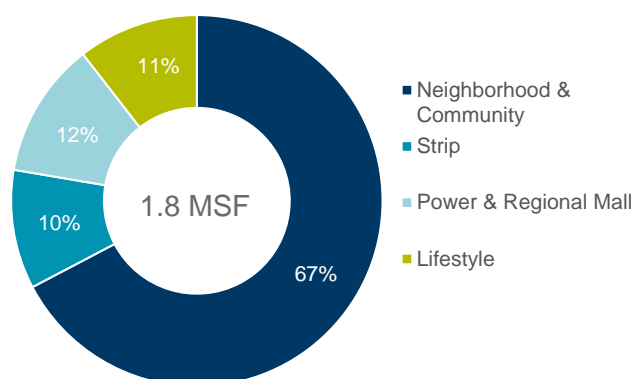
	Q3 18	Q3 19	12-Month Forecast
Median Household Income	\$123,500	\$128,400	▲
Population Growth	0.3%	0.5%	▲
Unemployment	2.5%	2.6%	▲

Q3 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

Employment in San Jose metro area continued to tick up modestly, increasing by 31,900 jobs (+2.8%) year-over-year (YOY) to 1.2 million. The job increase has been more measured than just a few years ago as the region has reached full employment. The unemployment rate increased by 10 basis points (bps) to 2.6% from 2.5% one year ago, mainly due to the rise in the labor force. Silicon Valley has attracted huge amounts of in-migration over the last several years, in large part due to its draw as a premier technology hub. That unemployment rate remains well below the national figure of 3.7%. The median household income in Silicon Valley continued to be the highest in the country at \$128,400, a 4.0% increase YOY, while the population grew 0.5% YOY.

## Market Overview

The Silicon Valley retail market ended the third quarter of 2019 with an overall vacancy rate of 4.7%. This was a 10 bps down from 4.8% last quarter, but a 40 bps increase from 4.3% one year ago.

The Palo Alto/Mountain View/Los Altos submarket recorded its lowest rate since 2008 at only 1.2%. This was followed by the Sunnyvale/Cupertino and Milpitas/North San Jose submarkets at 3.1% and 3.3%, respectively. In comparison, the Morgan Hill/Gilroy submarket had the highest vacancy at 7.5%. Palo Alto/Mountain View/Los Altos is a perfect combination of quality, yet limited, product in attractive mixed-use downtown settings with high income consumers – obviously all of which are favorable attributes for retailers and their shoppers.

The slight decrease in total market vacancy equates to a 49,000-square-foot (sf) net occupancy gain during the third quarter, the first positive quarterly absorption in 2019, bringing the year-to-date total to negative 119,000 sf. The majority of the positive absorption was concentrated among neighborhood & community centers at 43,000 sf, followed by power & regional centers at 18,500 sf. Meanwhile, strip and lifestyle centers were in the red, at negative 4,000 sf and negative 9,000 sf, respectively.

Grocery-anchored centers are still popular for tenants that want the daily needs exposure. The eCommerce-resistant tenants, such as food, fitness, entertainment and medical continue to be the main drivers of the demand for retail space. Moreover, furniture and home improvement stores are also active in opening new stores in Silicon Valley.

## MARKETBEAT

# Silicon Valley

Retail Q3 2019



Ace Hardware opened two Bay Area locations (one in the East Bay and one in the South Bay) that once were occupied by Orchard Supply Hardware (OSH), which closed all its locations last year. The new Ace Hardware in the South Bay is occupying a 34,500-sf former OSH Mountain View space at 2555 Charleston Road. Furthermore, a two-level 23,500-sf former Ethan Allen furniture showroom at Westfield Oakridge Mall is being turned into GameWorks, a San Francisco-based gaming venue and entertainment destination.

There were approximately 11,000 sf of retail space delivered from the completion of a couple of new pad buildings in San Jose, which brought the total shopping center inventory in Silicon Valley to 37.2 million square feet (msf). In addition, 448,500 sf of retail space are currently under construction. The largest retail center now underway is CityLine Sunnyvale, a mixed-use project of residences, shopping, entertainment and office space in downtown Sunnyvale. The retail part of the project will be anchored by Whole Foods Market and AMC Theaters, which is expected to open in early 2020.

## THE OVERALL VACANCY RATE OF SHOPPING CENTERS IN THE REGION WAS 4.7% IN THE THIRD QUARTER OF 2019.

The average asking rent in the third quarter of 2019 was \$33.82 per square foot (psf) on an annual triple net basis, up 1.4% from last year's figure of \$33.36 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.

There was no major shopping center sale transaction in Silicon Valley in the third quarter of 2019.

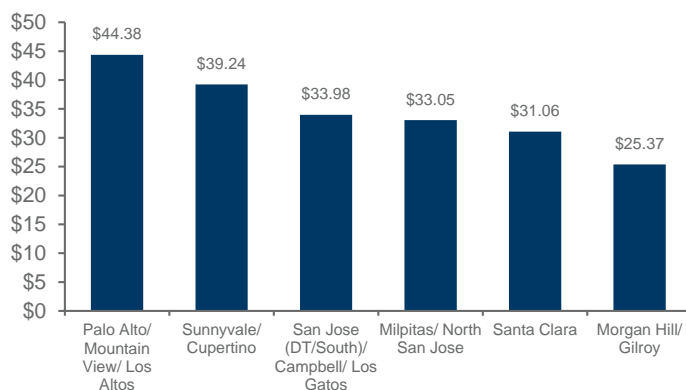
### Outlook

- Residential growth, low unemployment and top national income stats will continue to drive retailer interest in Silicon Valley.
- Food, fitness, entertainment, medical and home related concepts will continue to dominate leasing transactions.
- Rent growth is forecast to remain subdued.

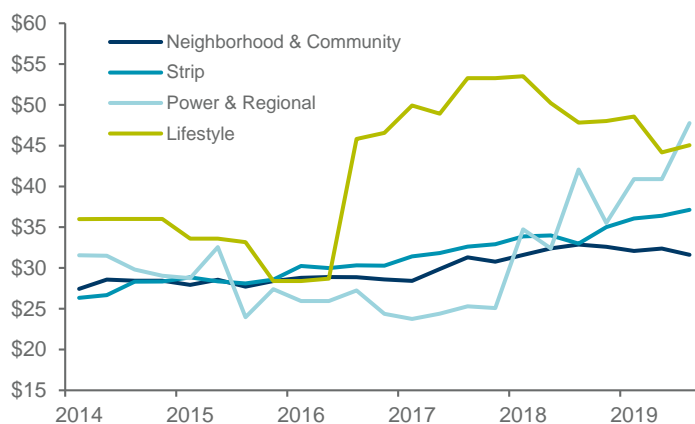
### Market Indicators

	Q3 18	Q3 19	% Growth (1 Year)	12-Month Forecast
Overall Vacancy	4.3%	4.7%	40 BPS	▼
Net Absorption (SF)	-44,000	49,000	-211.9%	▲
Under Construction (SF)	484,000	449,000	-7.3%	▼
Average Asking Rent (NNN)	\$33.36	\$33.82	1.4%	■

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



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



## MARKETBEAT

## Silicon Valley

Retail Q3 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	896	18,444,362	5.6%	-13,121	-184,293	22,913	\$33.98
Sunnyvale/Cupertino	224	4,708,564	3.1%	18,712	41,311	385,000	\$39.24
Santa Clara	131	2,676,542	5.4%	1,003	-17,775	23,195	\$31.06
Palo Alto/Mountain View/Los Altos	127	2,547,669	1.2%	11,615	32,586	0	\$44.38
Milpitas/North San Jose	243	5,017,974	3.3%	33,690	73,865	5,400	\$33.05
Morgan Hill/Gilroy	164	3,944,096	7.5%	-2,600	-64,444	12,000	\$25.37

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	999	25,401,249	4.7%	43,392	11,750	5,400	\$31.61
Strip	608	5,694,892	3.2%	-3,797	-4,634	50,708	\$37.12
Power & Regional	155	5,203,423	4.0%	18,538	-59,241	7,400	\$47.77
Lifestyle	17	899,223	20.6%	-8,834	-66,625	385,000	\$45.05
<b>SILICON VALLEY RETAIL TOTALS</b>	<b>1,779</b>	<b>37,198,787</b>	<b>4.7%</b>	<b>49,299</b>	<b>-118,750</b>	<b>448,508</b>	<b>\$33.82</b>

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

## Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Capital Expressway (Evergreen Circle)	148,300	Costco Business Center	Lease	San Jose
1375 Blossom Hill Road (Princeton Plaza)	61,000	Undisclosed	Lease	San Jose
2555 Charleston Road	34,500	Ace Hardware	Lease	Mountain View
879-947 Blossom Hill Road (Westfield Oakridge Mall)	23,500	Gameworks	Lease	San Jose

## Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
2580 California Street (CalSafe)	42,400	Ronald J Marazzo / GS MVSA Holdings LLC	\$66,800,000 / \$1,576	Mountain View
477 South Market Street (Tate Family Complete Auto Care)	19,000	Insight Realty Company / CG-AQ 477 S Market Street LLC	\$6,800,000 / \$358	San Jose
3529 Steven Creek Boulevard (La-Z-Boy)	18,300	Jamshid Noghrey Trust / Srinivas G Reddy	\$9,000,000 / \$492	Santa Clara
1020 North 4 <sup>th</sup> Street	14,400	BWD 4 <sup>th</sup> Street LLC / People Assisting the Homeless – PATH	\$6,800,000 / \$472	San Jose

