



4.9%
Vacancy Rate

YoY Chg  12-Mo. Forecast 

-497K
Net Absorption, SF

YoY Chg  12-Mo. Forecast 

\$1.17
Asking Rent, PSF

YoY Chg  12-Mo. Forecast 

Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2020

1.02M
San Jose MSA
Employment

YoY Chg  12-Mo. Forecast 

11.8%
San Jose MSA
Unemployment Rate

YoY Chg  12-Mo. Forecast 

13.0%
U.S.
Unemployment Rate

YoY Chg  12-Mo. Forecast 

Source: BLS, Moody's Analytics
2020Q2 data are based in the latest available data

ECONOMY: Unemployment Grows

The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place (SIP) ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID here. Job growth in the San Jose metropolitan statistical area (MSA) decreased by 128,400 jobs year-over-year (YOY). This brings regional employment to 1.0 million. Though this decrease was expected due to the SIP, jobs are slowly coming back as the economy reopens in fits and starts. The San Jose MSA unemployment rate increased during the quarter, closing at 11.8% which compares to the higher national figure of 13.0%.

SUPPLY: Large Amount Hits Market

The current overall vacancy rate, 4.9%, translates into 5.8 million square feet (msf) of space, which is up from 4.5 msf one year ago and 5.1 msf at the end of the first quarter. Sublease space accounts for approximately 25% of the current figure, which is up from last quarter's 18%. Over the second quarter, the vacancy rate for manufacturing increased 60 basis points (bps) while warehouse has increased 40 bps. It is still uncertain how much COVID has contributed to the uptick in space on the market. However, a majority of currently vacant product lacks the desired attributes modern users are looking for such as height clearance, electrical requirements, and sprinkler capacity. Nearly 2.3 msf of new product is scheduled for delivery over the next 18 months, and recent activity on new construction indicates this new product is addressing modern demands.

DEMAND: Down, But Not Out

The Silicon Valley industrial market closed the quarter at -497,000 square feet (sf). This total brings mid-year net absorption to a still positive 144,000 sf, which is up from -1.2 msf through the first two quarters of 2019. Demand for industrial product has held steady throughout this downturn, and increased high-volume leasing activity portends future growth for this metric as tenants move into currently vacant spaces in 2020.

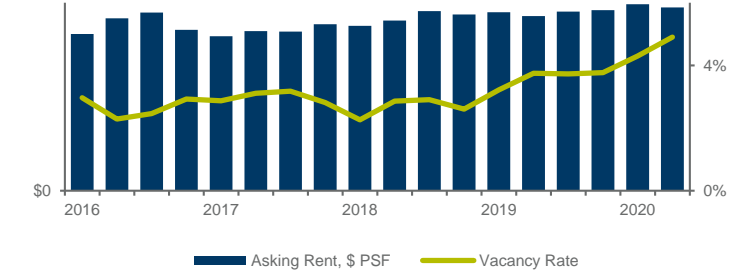
PRICING: Asking Rents Hold

The average asking rent for industrial space in Silicon Valley in the second quarter was \$1.17 per square foot (psf) on a monthly triple net basis, down from \$1.19 in the first quarter. The average asking rent for warehouse and manufacturing space decreased by \$0.03 and \$0.04, respectively, quarter-over-quarter. Asking rents remain slightly elevated from the fourth quarter of 2019. New buildings are becoming more technologically advanced, and placing upward pressure on rents, while functionally obsolete buildings and subleases have tamped down even steeper increases.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Construction: Activity Remains

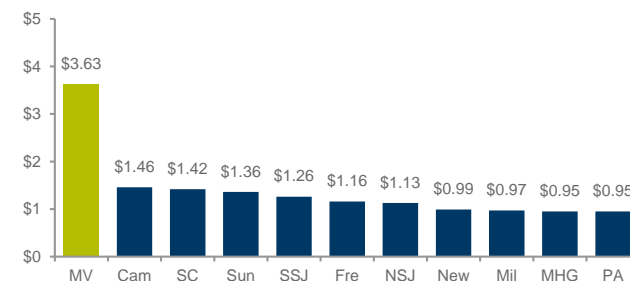
Construction was not as robust as recent quarters, but still there was activity. Currently, there is approximately 812,000 sf of manufacturing product and 1.5 msf of warehouse product under construction, bringing the total amount under construction to roughly 2.3 msf. There was one delivery and no new starts. The one completion was a 224,000 sf warehouse in San Jose that was leased by a confidential tenant prior to completion. The most recent construction start was in January and will be a 388,000-sf warehouse in Milpitas built by Bridge Partners. The project was leased this quarter by a confidential tenant. All of the projects underway are expected to deliver within the next twelve months, however that is subject to potential local building restrictions. Approximately 61% of the current square footage under construction has been pre-leased, and the current trend of strong activity for new product indicates these buildings should be leased prior to or shortly after completion. New construction continues to be the biggest strength for industrial product in this market.

Leasing Activity

Leasing activity ended the fourth quarter at nearly 1.8 msf, which brings the annual total to almost 4.3 msf, and on pace to exceed the 2019 annual total of 7.9 msf. New leases made up a large portion of the notable transactions during the quarter. A confidential tenant completed the largest lease of the second quarter by pre-leasing the aforementioned 388,000-sf warehouse at the McCarthy Center in Milpitas. KZ Kitchen signed the largest renewal of the quarter, opting to remain in 123,000 sf in Milpitas. A confidential tenant signed the largest lease in San Jose, taking a 78,000-sf warehouse at 615 N. King Road. Bay Advanced Technologies completed the largest manufacturing deal, choosing to stay in 77,000 sf at 8100 Central Avenue in Newark. Also, in Newark, Cepheid closed the largest sublease deal taking 70,000 sf at 7000 Gateway Boulevard. Warehouse remains attractive, which may be attributable to e-Commerce's need of storing and distributing goods. Most available manufacturing spaces do not fully meet the needs of modern users; however, new manufacturing spaces are being leased prior to or shortly after completion. The nearly 812,000 sf of new manufacturing product under construction will look to address the evolving needs of today's users. Many manufacturing tenants opt to renew either due to lack of viable alternatives or are stymied by the high cost of construction and build-out in a potential relocation.

- Vacancy has increased to 4.9% during the first half of 2020, which is still relatively low considering recent events. Warehouse remains attractive and e-Commerce remains a strength for this product.
- 2.3 msf is currently under construction that will deliver over the next eighteen months. Roughly 61% of this space is currently leased, which indicates the rest has a good chance of being leased prior to or soon after completion.
- The current average asking rate of \$1.17 psf has remained fairly constant. New Class A product will likely push prices upwards in the coming quarters, while the older product and subleases will put downward pressure on growth.

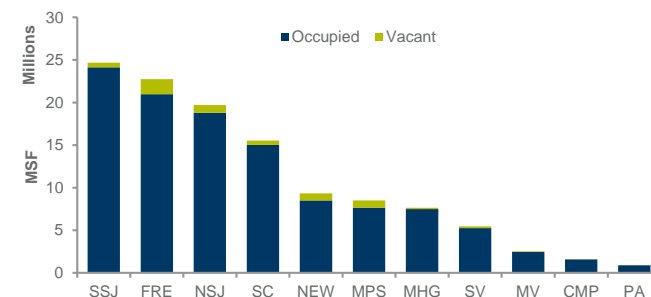
RENT BY SUBMARKET (\$ PSF, NNN)



WAREHOUSE/MANUFACTURING ASKING RENT (\$ PSF, NNN)



OCCUPIED VS. VACANT SPACE



MARKETBEAT SILICON VALLEY

Industrial Q2 2020



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CONSTR	COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT
Palo Alto	899,076	1,200	0.1%	-1,200	-1,200	0		0	\$0.95	\$0.00	\$0.95
Mountain View	2,519,672	60,561	2.4%	-3,171	-35,696	0		0	\$3.63	\$0.00	\$3.63
101 Technology Corridor	3,418,748	61,761	1.8%	-4,371	-36,896	0		0	\$3.57	\$0.00	\$3.57
Campbell	1,629,165	38,338	2.4%	-7,626	-20,691	0		0	\$1.46	\$0.00	\$1.46
Sunnyvale	5,464,520	207,136	3.8%	-29,841	-12,523	0		0	\$1.46	\$0.95	\$1.36
Santa Clara	15,530,816	511,947	3.3%	-15,411	850	0		0	\$1.53	\$1.31	\$1.42
North San Jose	19,692,298	890,785	4.5%	-225,107	-233,078	180,150		0	\$1.14	\$1.13	\$1.13
South San Jose	24,670,479	528,623	2.1%	275,880	229,265	306,087		223,827	\$1.31	\$1.21	\$1.26
Central Silicon Valley	66,987,278	2,176,829	3.2%	-2,105	-36,177	486,237		223,827	\$1.35	\$1.18	\$1.26
Milpitas	8,505,708	849,350	10.0%	-176,343	-192,390	388,240		0	\$1.00	\$0.96	\$0.97
Fremont	22,749,761	1,776,708	7.8%	-202,984	252,153	581,293		0	\$1.23	\$1.01	\$1.16
Newark	9,335,210	842,771	9.0%	-21,916	192,030	604,796		0	\$1.21	\$0.89	\$0.99
South I-880 Corridor	40,590,679	3,468,829	8.5%	-401,243	251,793	1,574,329		0	\$1.20	\$0.95	\$1.07
Morgan Hill/Gilroy	7,637,288	149,484	2.0%	-88,825	-34,544	503,400		0	\$1.09	\$0.72	\$0.95
SUBTYPE BREAKDOWN											
Warehouse	47,753,243	3,019,085	6.3%	20,432	343,754	1,528,007		223,827			
Manufacturing	70,880,750	2,837,818	4.0%	-516,976	-199,578	812,132		0			
SILICON VALLEY TOTALS	118,633,993	5,856,903	4.9%	-496,544	144,176	2,340,139		223,827	\$1.31	\$1.03	\$1.17

*Rental rates reflect weighted net asking \$psf/month

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q2 2020

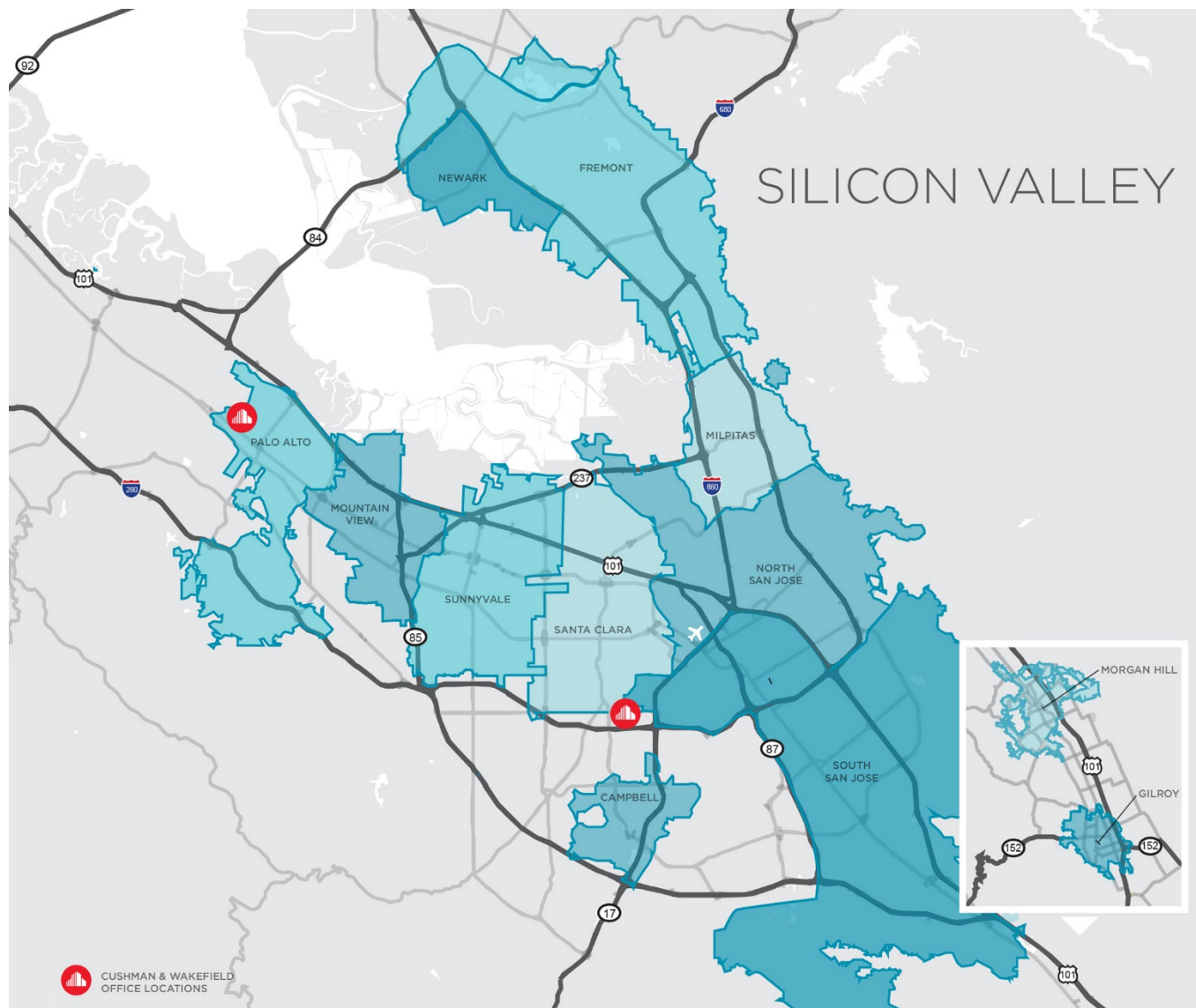
PROPERTY	SUBMARKET	TENANT	RSF	TYPE
205 McCarthy Blvd., N.	Milpitas	Confidential	388,240	New Lease
Dixon Landing Business Park	Milpitas	KZ Kitchen	122,880	Renewal*
615 N. King Road	San Jose	Confidential	77,608	New Lease
8100 Central Avenue	Newark	Bay Advanced Technologies	76,526	Renewal*
7000 Gateway Boulevard	Newark	Cepheid	70,246	Sublease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
901 Page Avenue	Fremont	Divco West / Morgan Stanley	506,490	\$110.2M/\$217
Sunnyoaks & Dell Avenue	Campbell	Dell Avenue Properties LLC / Robinson Oil	71,339	\$20.5M/\$287
4200 Business Center Drive	Fremont	Eric Locke / First Industrial Realty Trust	46,280	Undisclosed
660 N. King Road	San Jose	Temple Court / Westcore Properties	40,000	\$9.2M/\$230

INDUSTRIAL SUBMARKETS

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