

YoY Chg 12-Mo. Forecast

5.1%

Vacancy Rate



73K

Net Absorption, SF



\$1.15

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2020

YoY Chg 12-Mo. Forecast

1.05M

San Jose MSA Employment



8.4%

San Jose MSA Unemployment Rate



8.8%

U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2020Q3 data are based in the latest available data

ECONOMY: Unemployment Rebounding

Beginning in March 2020, U.S. job losses reached levels unseen since the Great Depression. In May and June, as lockdowns begun to ease, signs of economic life began to reappear as people and businesses began to acclimate to the rules of our new reality. By August, employment begun to recover in the San Jose metropolitan statistical area (MSA) however it remains down on a year-over-year (YOY) basis by 96,400 jobs. The unemployment rate has declined from its high earlier this year, with the quarterly figure now at 8.4%, still well above the figure of 2.5% one year ago. According to Beacon Economics & UC Riverside, tech companies added 4,000 jobs, retailers gained 1,400 positions, and health care employers added 1,300 jobs during the month in the county. However, absent a public health resolution to the pandemic, the broader Silicon Valley economy is likely to remain unsteady. Cushman and Wakefield's team of economic researchers recently completed a comprehensive study on the pandemic's global office impact and recovery timing. The study and an accompanying presentation can be found [here](#).

SUPPLY: Vacancy Up, But Not By Much

The current overall vacancy rate, 5.1%, translates into almost 6.1 million square feet (msf) of space, which is up from 4.4 msf one year ago and 5.8 msf at the end of the second quarter. Part of this increase is because over 2.0 msf of new construction has delivered this year alone. Sublease space accounts for approximately 23% of the current figure, which is down from last quarter's 25%. The vacancy rate for manufacturing increased 20 basis points (bps) to 4.2% while warehouse increased 10 bps to 6.4% during the third quarter. A majority of currently vacant product was built prior to the new millennium and lacks the desired attributes modern users are looking for such as height clearance, electrical requirements, and sprinkler capacity. Nearly 2.0 msf of product is scheduled for delivery by the end of the second quarter of 2021. Recent activity on new construction indicates this new product coming to market is addressing modern demands.

DEMAND: Small, But Positive Gain

The Silicon Valley industrial market closed the quarter with 73,000 square feet (sf) of positive net absorption. The year-to-date (YTD) total is now a positive 240,000 sf, which is up from -1.2 msf through the first three quarters of 2019. Demand for industrial product has held steady throughout this downturn, seemingly undaunted by the impacts of COVID-19. A large contributor to this figure was the delivery of a 503,400 sf warehouse in Morgan Hill which was 67% pre-leased. Steady leasing activity signals future growth for this metric as tenants move into currently vacant spaces during the fourth quarter and into early 2021.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



PRICING: Asking Rents Still Steady

The average asking rent for industrial space in Silicon Valley in the third quarter was \$1.15 per square foot (psf) on a monthly triple net basis, down from \$1.17 in the second quarter. The average asking rent for warehouse and manufacturing space decreased by \$0.03 and \$0.01, respectively, quarter-over-quarter. 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.

Construction: No Starts, Plenty in the Pipeline

Construction is steadily moving along, but no new projects started during the third quarter. Currently, there is approximately 812,000 sf of manufacturing product and 1.2 msf of warehouse product under construction, bringing the total amount under construction to roughly 2.05 msf. The one completion was the aforementioned 503,000 sf warehouse in Morgan Hill that was 67% leased prior to completion, leaving the remainder currently vacant and available. All of the projects underway are expected to deliver by the end of the second quarter of 2021, however that is subject to potential local building restrictions. Approximately 53% 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 a strength for industrial product in this market.

Leasing Activity: High Volume Portends Future Growth

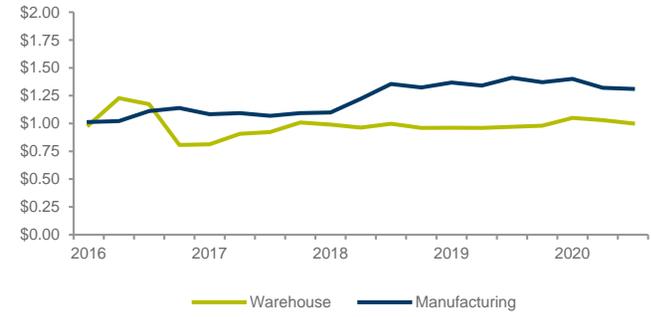
Leasing activity ended the third quarter at nearly 1.9 msf, which brings the year-to-date total to over 6.2 msf, and on pace to exceed the 2019 annual total of 7.9 msf. A mix of renewals and new leases comprised the notable transactions during the quarter. Fry's Electronics completed the largest lease of the third quarter by renewing 151,000 sf at 1077 E Arques Avenue in Sunnyvale. OnCore Manufacturing Services signed the second largest lease of the quarter, opting to remain in 127,000 sf in Fremont. Temco Logistics signed the largest new lease, taking a 106,000-sf warehouse at 7447 Morton Avenue in Newark. Tesla also completed a new lease, deciding to take 104,000 sf at 700 Laurelwood Road in Santa Clara. Finally, Second Harvest Food Bank closed a deal for a 91,000-sf warehouse on Brennan Street in San Jose. 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 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 increased to 5.1% during the third quarter of 2020, which is still relatively low considering recent events. Warehouse remains attractive and e-commerce remains a strength for this product.
- 2.05 msf is currently under construction that will deliver over the next nine months. Roughly 53% of this space is currently leased, which indicates the remaining space has a good chance of being leased prior to or soon after completion.
- The current average asking rate of \$1.15 psf is a decrease, but the figure 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



Industrial Q3 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	900,436	6,200	0.7%	-3,640	-4,840	0		0	\$1.25	\$0.00	\$1.25
Mountain View	2,506,604	72,512	2.9%	-41,655	-45,785	0		0	\$3.09	\$0.00	\$3.09
101 Technology Corridor	3,407,040	78,712	2.3%	-45,295	-50,625	0		0	\$2.95	\$0.00	\$2.95
Campbell	1,643,870	64,159	3.9%	-19,078	-31,807	0		0	\$1.59	\$0.00	\$1.59
Sunnyvale	5,464,520	222,831	4.1%	-15,695	-143,815	0		0	\$1.55	\$0.95	\$1.44
Santa Clara	15,506,816	618,936	4.0%	-71,842	-119,120	0		0	\$1.53	\$1.08	\$1.32
North San Jose	19,692,298	920,449	4.7%	-26,730	-278,532	180,150		0	\$1.18	\$1.12	\$1.14
South San Jose	24,285,919	513,140	2.1%	-124,035	226,033	82,260		0	\$1.16	\$0.90	\$1.05
Central Silicon Valley	66,593,423	2,339,515	3.5%	-257,380	-347,241	262,410		0	\$1.36	\$1.07	\$1.21
Milpitas	8,505,708	869,336	10.2%	-22,406	-212,376	388,240		0	\$1.02	\$0.99	\$1.00
Fremont	22,685,836	1,896,822	8.4%	-164,231	97,039	790,545		0	\$1.25	\$0.96	\$1.16
Newark	9,261,754	629,054	6.8%	202,354	405,747	604,796		0	\$1.21	\$0.91	\$1.02
South I-880 Corridor	40,453,298	3,395,212	8.4%	15,717	290,410	1,783,581		0	\$1.22	\$0.96	\$1.09
Morgan Hill/Gilroy	8,140,688	246,923	3.0%	360,104	347,417	0		503,400	\$1.06	\$0.87	\$0.91
SUBTYPE BREAKDOWN											
Warehouse	47,710,244	3,062,153	6.4%	417,851	745,086	1,233,859		503,400			
Manufacturing	70,884,205	2,998,209	4.2%	-344,705	-505,125	812,132		0			
SILICON VALLEY TOTALS	118,594,449	6,060,362	5.1%	73,146	239,961	2,045,991		503,400	\$1.31	\$1.00	\$1.15

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1077 E. Arques Avenue	Sunnyvale	Fry's Electronics	151,200	Renewal
6600 Stevenson Boulevard	Fremont	OnCore Manufacturing Services, Inc	127,452	Renewal
7447 Morton Avenue	Newark	Temco Logistics	105,797	New Lease
700 Laurelwood Road	Santa Clara	Tesla	103,500	New Lease
520-530 Brennan Street	San Jose	Second Harvest Food Bank	91,202	New Lease

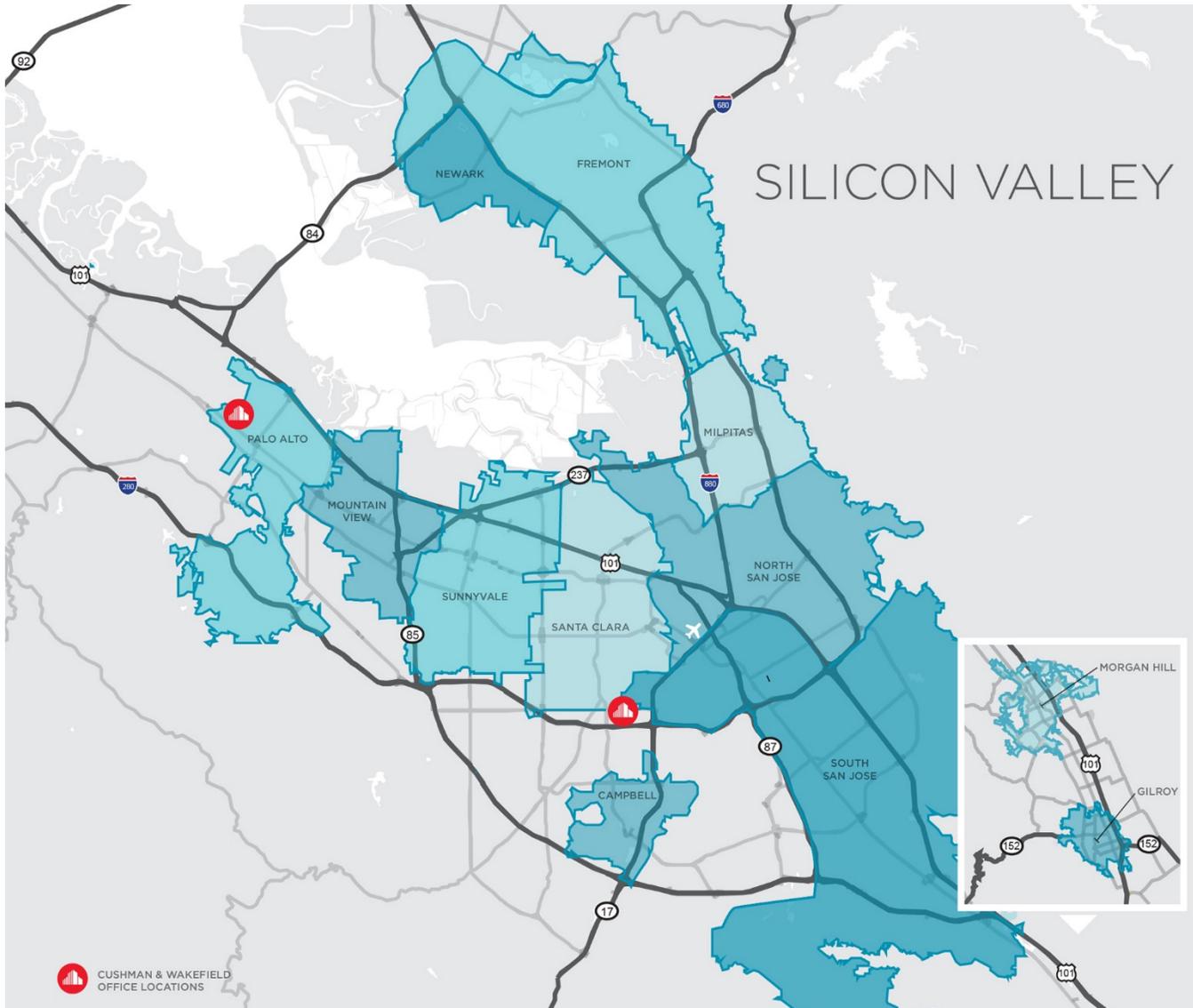
KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1600 Memorex Drive	Santa Clara	Westcore Properties / EdgeConneX Inc	229,180	\$83.2M/\$363
2800 Kifer Road	Santa Clara	SCPO LLC / LBA Realty	141,006	\$43.5M/\$309
345 Digital Drive	Morgan Hill	Velodyne Properties, LLC / Jumping Dogs Properties LLC	61,198	\$13.16/\$215
8484 Central Avenue	Newark	QQE Properties LLC / Abejas Properties, LLC	40,000	\$8.8M/\$220

SILICON VALLEY

Industrial Q3 2020

INDUSTRIAL SUBMARKETS



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