

YoY
Chg 12-Mo.
Forecast**5.5%**

Vacancy Rate

**-85K**

Net Absorption, SF

**\$1.16**

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS
Q1 2021YoY
Chg 12-Mo.
Forecast**1.06M**San Jose MSA
Employment**5.6%**San Jose MSA
Unemployment Rate**6.0%**U.S.
Unemployment RateSource: BLS, Moody's Analytics
2021Q1 data are based in the latest available data

ECONOMY: Ongoing Recovery

Beginning in March 2020, U.S. job losses reached levels unseen since the Great Depression. In May and June, lockdowns began to ease and signs of economic life reappeared. However, in late December as COVID-19 cases spiked, Santa Clara County went back into lockdown. Employment has started to recover, in the San Jose metropolitan statistical area (MSA), however, it remains down on a year-over-year (YOY) basis by 98,600 jobs. The unemployment rate has declined from its high earlier this year, with the quarterly figure now at 5.6%, still well above the figure of 2.7% one year ago. This is slightly below the US unemployment rate of 6.0%. As the vaccine is distributed in the community and businesses open, the employment numbers are expected to improve further.

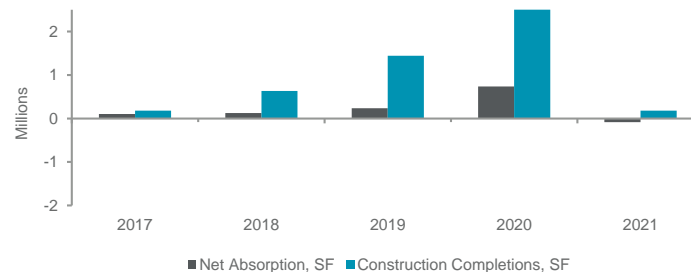
SUPPLY: Vacancy Increases

The current overall vacancy rate, 5.5%, translates into over 6.5 million square feet (msf) of space, which is up from 4.9 msf one year ago and 6.3 msf at the end of 2020. This is the highest reading since the third quarter of 2014, but it remains relatively low. A majority of this increase can be contributed to the delivery of a vacant 180,000 square foot warehouse in San Jose. Sublease space accounts for approximately 17.4% of the current figure, which is down from the fourth quarter's 18.5% and up from 16.3% one year ago. The vacancy rate for manufacturing product increased 130 basis points (bps) to 4.4% YOY while that for warehouse product increased 150 bps to 7.1% YOY. The economic shutdowns began a little over a year ago, and despite the elevated overall vacancy rate, this product endured recent events relatively well. More product is scheduled for delivery over the next eighteen months, which if not leased prior to completion will raise vacancy at least temporarily. However, recent history indicates that new product is leased prior to or shortly after completion, so vacancy is expected to be relatively stable and then trend down towards pre-pandemic levels.

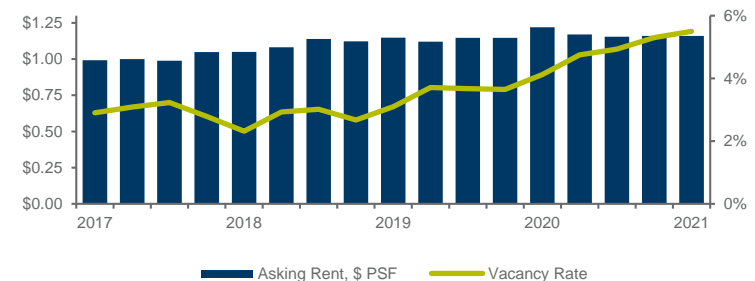
DEMAND: Warehouse Slows, Manufacturing Grows

The Silicon Valley industrial market closed the quarter with negative 85,000 square feet (sf) of net absorption. This is markedly down from 680,000 sf one year ago and the 2020 quarterly average of 203,000 sf. Warehouse ended at negative 354,000 sf which is down from 307,000 sf one year ago and is the first time it has been negative since the third quarter of 2019. Conversely, manufacturing ended at 268,000 sf of net absorption which is down from 374,000 sf one year ago. Manufacturing was largely bolstered by a significant positive figure of 351,000 sf in Fremont. Despite this slight overall decrease, steady leasing activity and new modern product should assist future growth for this metric as tenants continue to move into currently vacant spaces during the year.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



PRICING: Asking Rents Static

The average asking rent for industrial space in Silicon Valley in the first quarter was \$1.16 per square foot (psf) on a monthly triple net basis. The average asking rent for warehouse and manufacturing space was \$1.04 psf and \$1.30 psf, respectively. This figure reached \$1.22 psf one year ago but declined slightly afterwards and has remained relatively stable since. Mountain View has the highest asking rate at \$2.71 psf, while the Morgan Hill/Gilroy submarket has the lowest overall asking rate at \$0.74 psf. New buildings are becoming more technologically advanced therefore are a tailwind for increasing rents, while functionally obsolete buildings and subleases remain a headwind, ultimately keeping rents effectively static.

Construction: New Starts, More Deliveries

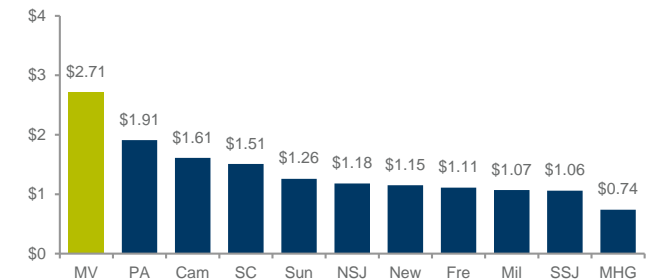
Construction started off strongly during the first quarter of 2021. Currently, there is approximately 555,000 sf of manufacturing product and 971,000 sf of warehouse product under construction, bringing the total amount under construction to roughly 1.5 msf. One project completed during the first quarter a 180,000-sf warehouse at 1605 Industrial Avenue in San Jose. Currently, that project is fully available. Three new projects broke ground, and it is worth noting that they were in either Morgan Hill or Gilroy. The largest is a 410,000-sf five-building manufacturing project called Butterfield Technology Park. Approximately 52% of the 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. These new products satisfy the needs of the modern tenant, which is why they are often leased rather quickly.

Leasing Activity: Strong Start Signals Growth

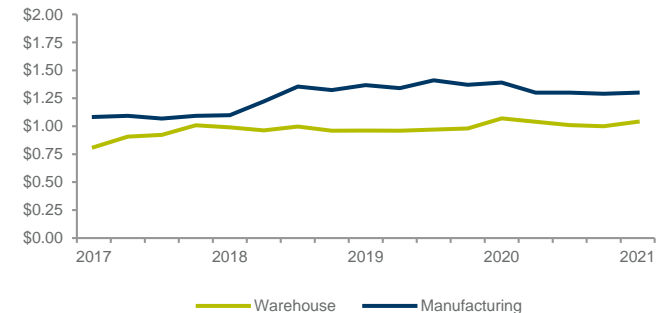
Leasing activity ended the first quarter at slightly over 2.3 msf, which is lower compared to the first quarter of 2020 when this metric was roughly 2.6 msf. However, it is higher than the 2.1 msf average quarterly reading for 2020. RK Logistics completed the largest deal of the first quarter by leasing 269,000 sf at 6753 Mowry Avenue in Newark. RK Logistics also leased an additional 141,275 sf in Newark at 7375 Morton Avenue in the Morton Commerce Center. Synnex signed the largest renewal of the quarter, 177,000 sf in Fremont at 5555 Auto Mall Parkway. An undisclosed tenant leased 164,000 sf at Pacific Commons South in Fremont. HD Supply signed the largest lease in Santa Clara County with the 141,000-sf renewal at 2800 Kifer Road in Santa Clara. Warehouse remains attractive thanks, in large part, to the continuing growth of e-commerce. Meanwhile, the recently delivered and currently under construction manufacturing product will look to address the evolving needs of today's users, especially technology and biotech companies.

- Vacancy increased to 5.5% during the first quarter of 2021, which is still relatively low considering recent events. Warehouse remains attractive and E-commerce remains a strength for this product.
- Over 1.5 msf is currently under construction that will deliver over the next eighteen months. Roughly 52% 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 \$1.16 psf is unchanged since the previous quarter and has remained relatively constant the past year. 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.

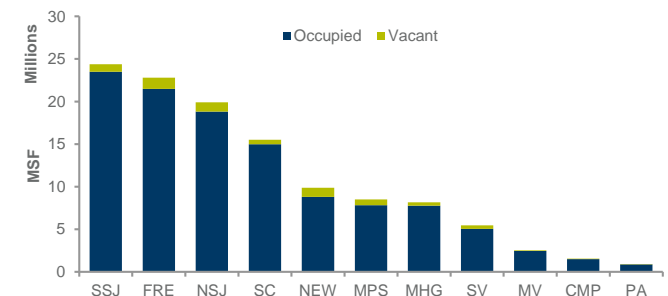
RENT BY SUBMARKET (\$ PSF, NNN)



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



OCCUPIED VS. VACANT SPACE





Industrial Q1 2021

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT
Palo Alto	917,706	42,200	4.6%	-36,000	-36,000	0	0	\$1.91	\$0.00	\$1.91
Mountain View	2,524,604	71,140	2.8%	4,720	4,720	0	0	\$2.71	\$0.00	\$2.71
101 Technology Corridor	3,442,310	113,340	3.3%	-31,280	-31,280	0	0	\$2.41	\$0.00	\$2.41
Campbell	1,557,660	61,195	3.9%	9,668	9,668	0	0	\$1.61	\$0.00	\$1.61
Sunnyvale	5,464,737	416,037	7.6%	-165,174	-165,174	0	0	\$1.47	\$0.95	\$1.26
Santa Clara	15,506,816	522,385	3.4%	97,720	97,720	0	0	\$1.54	\$1.44	\$1.51
North San Jose	19,900,757	1,075,223	5.4%	-133,719	-133,719	0	180,000	\$1.21	\$1.17	\$1.18
South San Jose	24,378,514	881,369	3.6%	-68,604	-68,604	0	0	\$1.20	\$0.93	\$1.06
Central Silicon Valley	66,808,484	2,956,209	4.4%	-260,109	-260,109	0	180,000	\$1.35	\$1.11	\$1.22
Milpitas	8,507,411	690,868	8.1%	58,585	58,585	388,240	0	\$1.17	\$1.05	\$1.07
Fremont	22,794,051	1,301,556	5.7%	351,226	351,226	686,146	0	\$1.17	\$1.01	\$1.11
Newark	9,872,218	1,061,701	10.8%	-52,660	-52,660	0	0	\$1.20	\$1.08	\$1.15
South I-880 Corridor	41,173,680	3,054,125	7.4%	357,151	357,151	1,074,386	0	\$1.18	\$1.05	\$1.12
Morgan Hill/Gilroy	8,162,114	401,346	4.9%	-151,221	-151,221	452,402	0	\$1.16	\$0.70	\$0.74
SUBTYPE BREAKDOWN										
Warehouse	48,023,420	3,406,222	7.1%	-353,882	-353,882	971,449	180,000			
Manufacturing	71,563,168	3,118,798	4.4%	268,423	268,423	555,339	0			
SILICON VALLEY TOTALS	119,586,588	6,525,020	5.5%	-85,459	-85,459	1,526,788	180,000	\$1.30	\$1.04	\$1.16

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

MF = Manufacturing W/D = Warehouse/Distribution

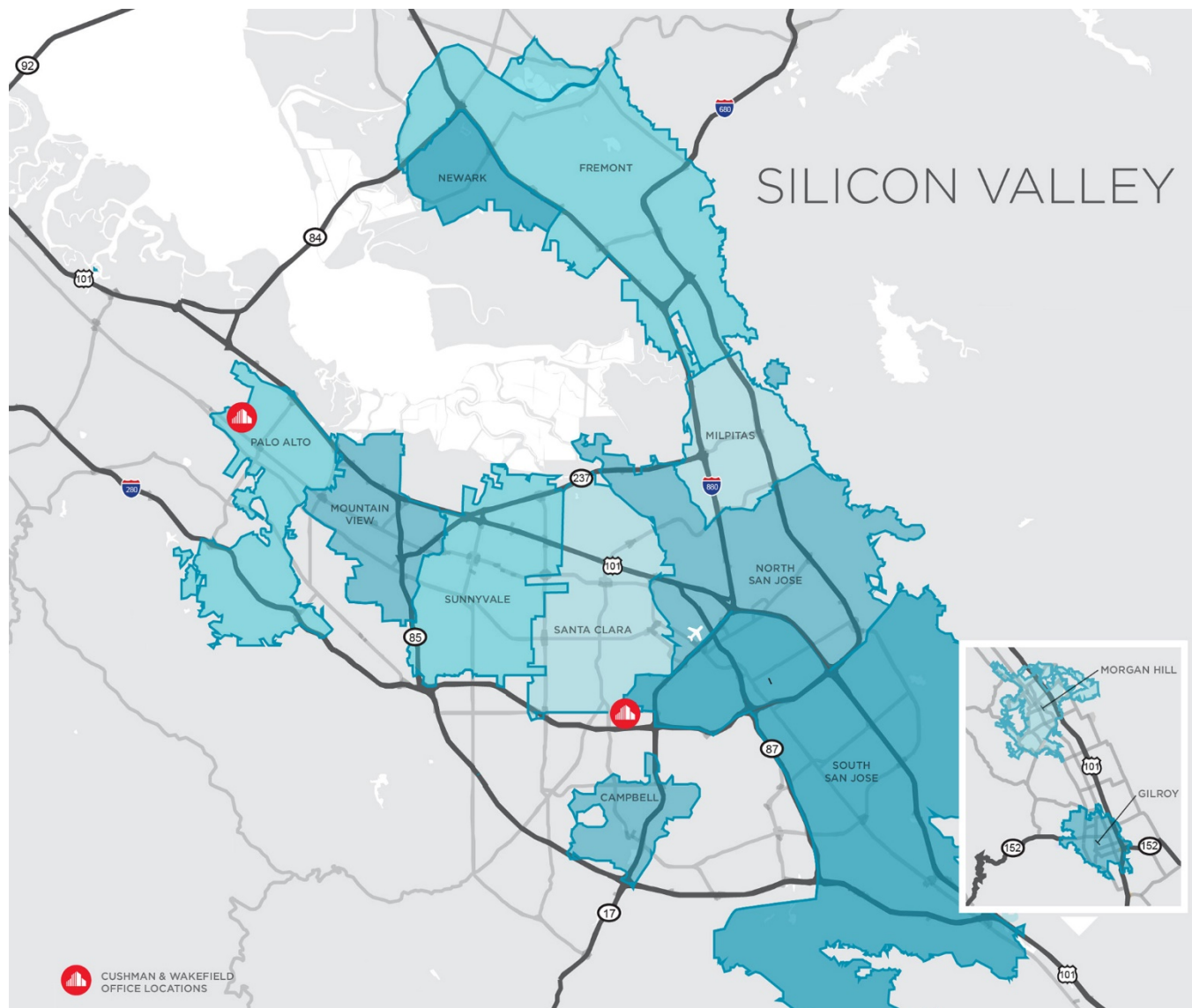
KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6753 Mowry Avenue	Newark	RK Logistics	268,538	New Lease
5555 Auto Mall Parkway	Fremont	Synnex	177,041	Renewal
44408 Pacific Commons Blvd	Fremont	Undisclosed	164,293	New Lease
7375 Morton Avenue	Newark	RK Logistics	141,275	New Lease
2800 Kifer Road	Santa Clara	HD Supply	141,006	Renewal

KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1980-1984 Senter Road	San Jose	Intelli Inc / The Exter Group	132,721	\$18.80M/\$141
648-658 King Road	San Jose	Orton Development / Black Creek Group	117,442	\$29.5M/\$251
3495 De La Cruz Blvd	Santa Clara	Ben Yates / V1 CRE Holdings	33,120	\$8.5M/\$257
2303-2319 Calle Del Mundo	Santa Clara	Beta & Properties LLC / Ensemble Real Estate	17,500	\$8.0M/\$457

INDUSTRIAL SUBMARKETS



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