

YoY
Chg

12-Mo.
Forecast

5.1%

Vacancy Rate

**719K**

Net Absorption, SF

**\$1.24**

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2021

YoY
Chg

12-Mo.
Forecast

1.08MSan Jose MSA
Employment**4.8%**San Jose MSA
Unemployment Rate**5.9%**U.S.
Unemployment Rate

Source: BLS, Moody's Analytics

2021Q2 data are based in the latest available data

ECONOMY: Unemployment Inching Downward

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.

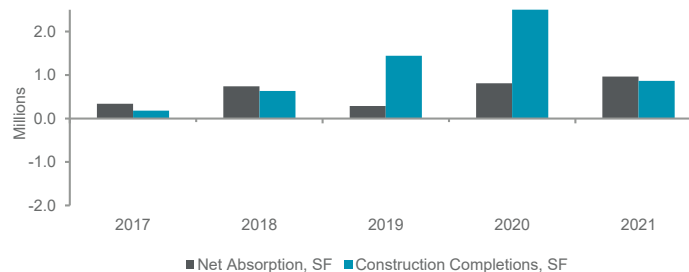
SUPPLY: Vacancy Remains Flat

Silicon Valley's industrial vacancy rate stayed flat for the second straight quarter at 5.1%. The current overall vacancy rate translates into over 6.1 million square feet (msf) of space, which is up from 5.6 msf one year ago. Sublease space accounts for approximately 18.4% of the current figure, which is a slight increase from 18.1% in the first quarter. The vacancy rate for warehouse product decreased minimally to 6.9% in the second quarter from 7.0% in the first quarter while manufacturing product held at 3.9%. 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.

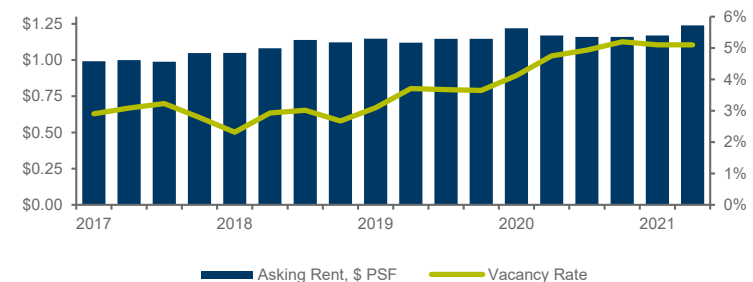
DEMAND: Warehouse Grows, Manufacturing Slows

The Silicon Valley industrial market closed the quarter with 719,000 square feet (sf) of net absorption. This follows the first quarter figure of 244,000 sf and brings the annual 2021 number to 962,000 sf. Warehouse ended at 615,000 sf which is an increase from the negative 330,000 sf last quarter. Conversely, manufacturing ended at 104,000 sf of net absorption which is down from 574,000 sf in the first quarter. Warehouse was largely bolstered by a preleased 374,000 sf building in Fremont completing construction this quarter.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Leasing Activity: Deal Velocity Heats Up

Leasing activity finished strong in the second quarter at 2.7 msf, which is the highest quarterly gross absorption since the second quarter of 2016. The largest lease of the quarter was Applied Materials' transaction on a 209,000 sf newly constructed building in Fremont. Other notable transactions include Cepheid (160,000 sf) in Newark and Watchpoint Logistics (136,000 sf) in Milpitas. There were two renewals amongst the top transactions. Apple renewed on 169,000 sf in Milpitas and XPO Logistics (114,000 sf) in Fremont. 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.

PRICING: Asking Rents Increase

The average asking rent for industrial space in Silicon Valley in the second quarter was \$1.24 per square foot (psf) on a monthly triple net basis, following the \$1.17 psf recorded in the first quarter. The average asking rent for warehouse and manufacturing space was \$1.13 psf and \$1.38 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 \$3.39 psf, while the Morgan Hill/Gilroy submarket has the lowest overall asking rate at \$1.10 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.

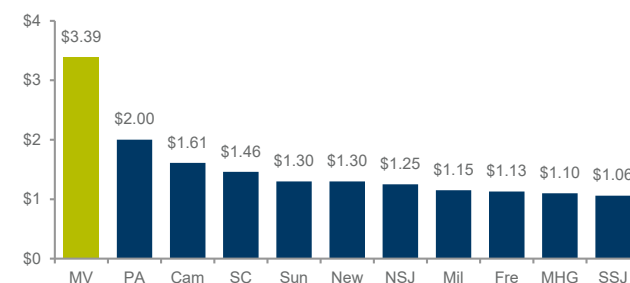
Construction: More Deliveries

Currently, there is approximately 452,000 sf of manufacturing product and 388,000 sf of warehouse product under construction, bringing the total amount under construction to roughly 840,000 sf. Three buildings were completed during the second quarter – two buildings totaling 476,000 sf is part of the Pacific Commons South project in Fremont, a ten-building 1.5 msf project which started construction in 2020. One of those buildings was preleased to a confidential tenant and the other is available. The third building was the aforementioned Applied Materials transaction.

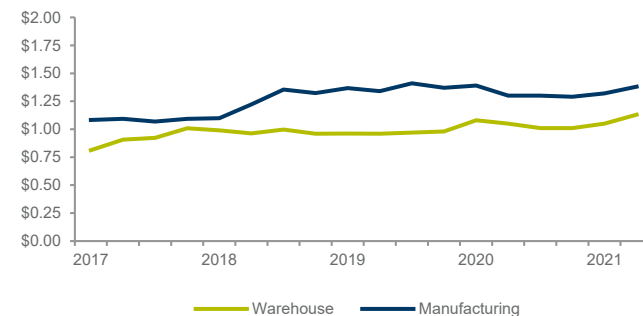
Outlook

- Vacancy remained flat during the second quarter of 2021, finishing at 5.1%. This number is low especially considering recent events. Warehouse remains attractive and e-commerce remains a strength for this product.
- After a year of flat rents, the current average asking rate increased in the second quarter to \$1.24 psf, following the \$1.17 psf recorded in the first quarter. New Class A product will likely push prices upwards in the coming quarters, though the older product and subleases will put some downward pressure on growth.
- Approximately 840,000 sf is currently under construction that will deliver over the next twelve months. Roughly 46% of this space is currently leased, and indications are that the remaining space will be leased prior to or soon after completion.

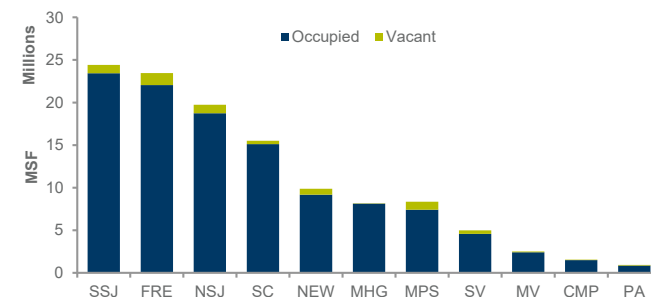
RENT BY SUBMARKET (\$ PSF, NNN)



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



OCCUPIED VS. VACANT SPACE



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	931,522	79,136	8.5%	-41,936	-77,936	0	0	\$2.00	\$0.00	\$2.00
Mountain View	2,509,604	95,187	3.8%	-24,047	-34,327	0	0	\$3.39	\$0.00	\$3.39
101 Technology Corridor	3,441,126	174,323	5.1%	-65,983	-112,263	0	0	\$2.76	\$0.00	\$2.76
Campbell	1,557,660	63,715	4.1%	-2,520	7,148	0	0	\$1.61	\$0.00	\$1.61
Sunnyvale	4,989,611	408,978	8.2%	7,059	-158,115	0	0	\$1.55	\$0.95	\$1.30
Santa Clara	15,506,816	386,734	2.5%	135,651	233,371	0	0	\$1.60	\$1.30	\$1.46
North San Jose	19,745,579	1,000,420	5.1%	100,363	-33,356	0	0	\$1.26	\$1.25	\$1.25
South San Jose	24,425,152	992,991	4.1%	-111,622	-180,226	0	0	\$1.22	\$0.96	\$1.06
Central Silicon Valley	66,224,818	2,852,838	4.3%	128,931	-131,178	0	0	\$1.38	\$1.11	\$1.23
Milpitas	8,341,153	938,492	11.3%	-247,624	-189,039	388,240	0	\$1.15	\$1.15	\$1.15
Fremont	23,457,084	1,410,579	6.0%	381,594	920,441	0	686,146	\$1.22	\$1.01	\$1.13
Newark	9,872,218	699,435	7.1%	155,229	258,946	0	0	\$1.23	\$1.52	\$1.30
South I-880 Corridor	41,670,455	3,048,506	7.3%	289,199	990,348	388,240	686,146	\$1.22	\$1.14	\$1.17
Morgan Hill/Gilroy	8,161,873	34,772	0.4%	366,574	215,353	452,402	0	\$1.10	\$0.70	\$1.10
SUBTYPE BREAKDOWN										
Warehouse	47,933,199	3,293,420	6.9%	614,523	283,969	388,240	583,209			
Manufacturing	71,565,073	2,817,019	3.9%	104,198	678,291	452,402	102,937			
SILICON VALLEY TOTALS	119,498,272	6,110,439	5.1%	718,721	962,260	840,642	686,146	\$1.38	\$1.13	\$1.24

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

MF = Manufacturing W/D = Warehouse/Distribution

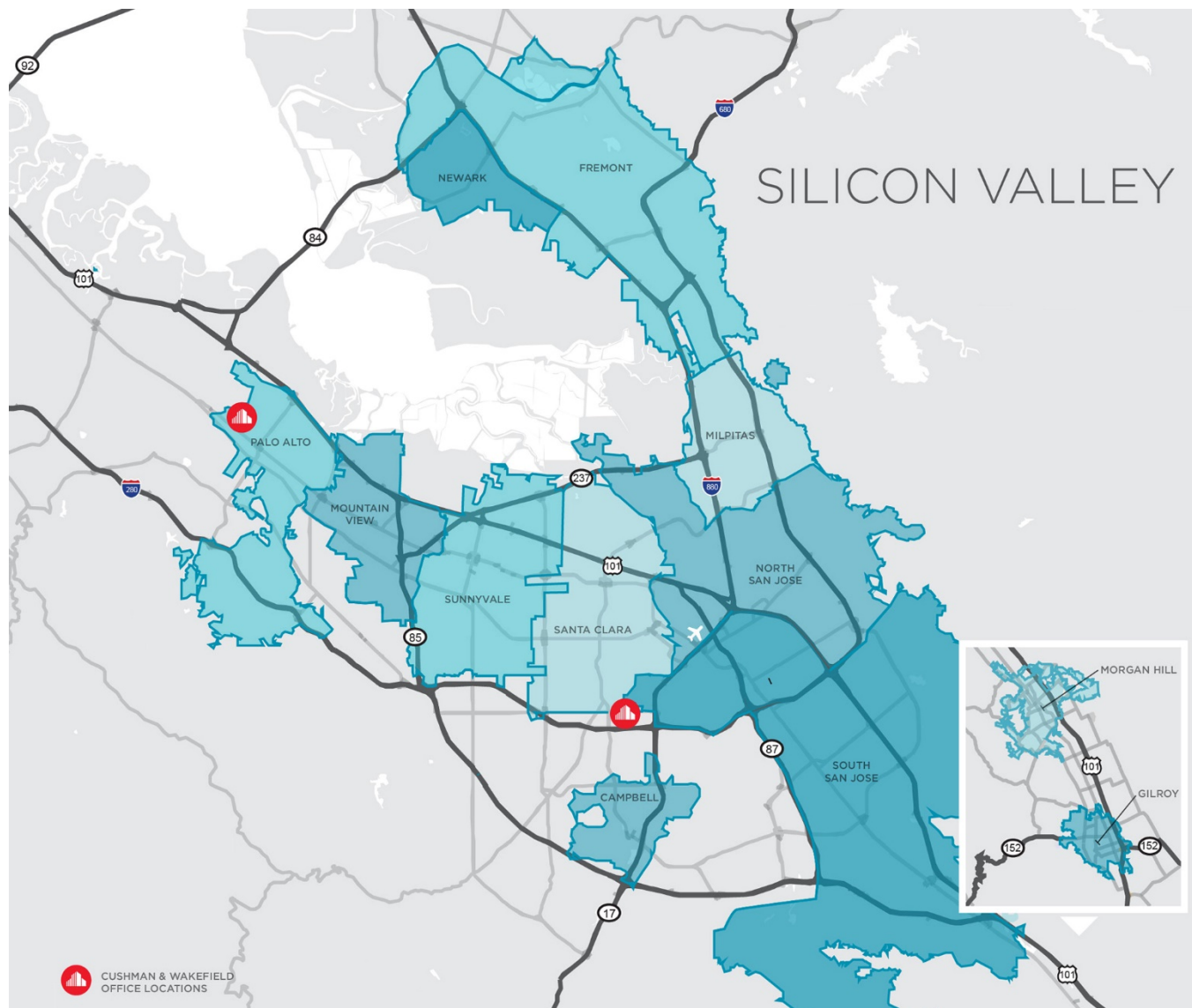
KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
48401 Fremont Blvd	Fremont	Applied Materials	209,252	New Lease
1021-1071 Yosemite Dr	Milpitas	Apple	169,195	Renewal
6601 Overlake Pl	Newark	Cepheid	160,000	New Lease
607 McCarthy Blvd	Milpitas	Watchpoint Logistics, Inc.	136,632	New Lease
6120 Stewart Ave	Fremont	XPO Logistics	114,948	Renewal

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
6215 Engle Wy	Gilroy	Bilcar Limited Partnership / SJ Distributors	164,021	\$15.5M / \$95
3011 First St, N.	North San Jose	Sand Hill Properties / Cannae Partners	146,159	\$49.6M / \$340
2250 Tenth St, S.	South San Jose	Burke Industries / Clarion Partners	115,930	\$22.0M / \$190
559 Charcot Ave	North San Jose	Joseph Herr Living Trust / Briggs Development	53,332	\$12.2M / \$229

INDUSTRIAL SUBMARKETS



JULIE LEIKER

Market Director, Silicon Valley

Tel: +1 408 615 3400

Julie.leiker@cushwake.com

Cushman & Wakefield

300 Santana Row

Fifth Floor

San Jose, CA 95128

525 University Avenue

Suite 220

Palo Alto, CA 94301

**A CUSHMAN & WAKEFIELD
RESEARCH PUBLICATION**

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in 400 offices and 60 countries. In 2020, the firm had revenue of \$7.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2021 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

cushmanwakefield.com