

YoY Chg 12-Mo. Forecast

4.3%

Vacancy Rate



1.0M

Net Absorption, SF



\$1.23

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2021

YoY Chg 12-Mo. Forecast

1.10M

San Jose MSA Employment



4.6%

San Jose MSA Unemployment Rate



5.2%

U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2021Q3 data are based in the latest available data

ECONOMY: Employment Ratcheting Up

Eighteen months ago, U.S. job losses reached levels unseen since the Great Depression. As the COVID-19 vaccine was rolled out earlier this year and the economy began to open, improvement was initially slow. There have been gains in the San Jose metropolitan statistical area (MSA), with an increase of 37,600 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 4.6%, below the figure of 8.3% one year ago. This is slightly below the US unemployment rate of 5.2%. As businesses fully reopen, these employment numbers are expected to improve further.

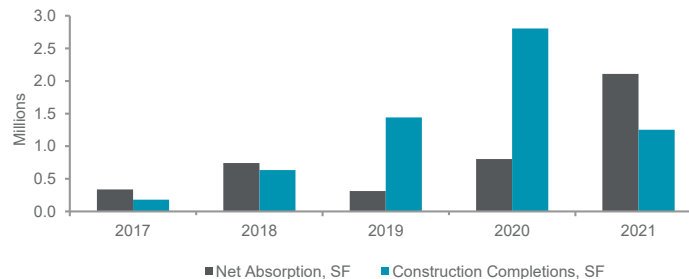
SUPPLY: Vacancy Continues to Drop

Silicon Valley's industrial vacancy rate dropped to 4.3% in the third quarter, a decrease from 4.8% in the second quarter. The current overall vacancy rate translates into 5.1 million square feet (msf) of space, which is down from 5.6 msf one year ago. Sublease space accounts for approximately 14.2% of the current figure, which is a decrease from 19.3% in the second quarter. The vacancy rate for warehouse product decreased to 5.2% in the third quarter from 6.2% in the second quarter while manufacturing product dropped minimally to 3.7% from 3.9% over the same period. 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: Both Warehouse and Manufacturing Grows

The Silicon Valley industrial market closed the quarter with 1.0 msf of net absorption. This follows the second quarter figure of 847,000 sf and brings the annual 2021 number to 2.1 msf. The last time net absorption was near this level was in 2015 when the annual number was 1.9 msf. Warehouse ended at 878,000 sf which is an increase from 737,000 sf last quarter. Although manufacturing also increased occupancy, it was not at the same levels as warehouse, Manufacturing ended at 149,000 sf of net absorption following 110,000 sf in the second quarter. Warehouse was largely bolstered by a preleased 388,000 sf building in Milpitas completing construction this quarter.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Leasing Activity: Deal Velocity Slows

Leasing activity decreased in the third quarter to 2.2 msf, bringing the year-to-date number to 7.5 msf. The market is well on its way to surpass the full-year 2020 figure of 8.5 msf. The largest lease of the quarter was FedEx's transaction on a 179,000 sf newly constructed building in South San Jose. Other new notable transactions include Sana Biotechnology, who leased the remaining available building in Pacific Commons South in Fremont, (164,000 sf) and Weee! (141,000 sf) in Milpitas. There were two renewals amongst the top transactions: Gallaher Corporation for 175,000 sf in North San Jose and RK Logistics Group for 100,000 sf in Fremont. Warehouse remains attractive thanks, in large part, to the continuing growth of e-commerce. Meanwhile, 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 Remain Flat

The average asking rent for industrial space in Silicon Valley in the third quarter was \$1.23 per square foot (psf) on a monthly triple net basis, following the \$1.25 psf recorded in the second quarter. The average asking rent for warehouse and manufacturing space was \$1.07 psf and \$1.39 psf, respectively. Mountain View has the highest asking rate at \$2.92 psf, while the Morgan Hill/Gilroy submarket has the lowest overall asking rate at \$0.71 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.

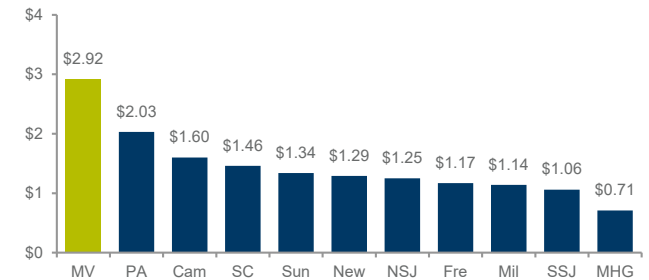
Construction: More Deliveries

Currently, there is approximately 452,000 sf of manufacturing product under construction. There is no warehouse under construction at this time, however we expect several projects to start in the next couple of quarters. There was one warehouse building of 388,000 sf in Milpitas completed during the third quarter. This building had been preleased to Amazon in the second quarter.

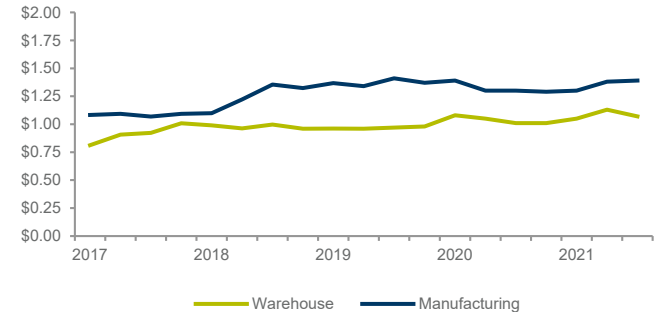
Outlook

- Vacancy dropped during the third quarter of 2021, finishing at 4.3%. Warehouse remains attractive and e-commerce remains a strength for this product.
- Asking rent dropped slightly in Q3, coming in at \$1.23 psf, following the \$1.25 psf recorded in the second 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 452,000 sf is currently under construction that will deliver over the next twelve months. However, there are several projects in San Jose, Milpitas and Fremont that should be starting construction over the next couple of quarters.

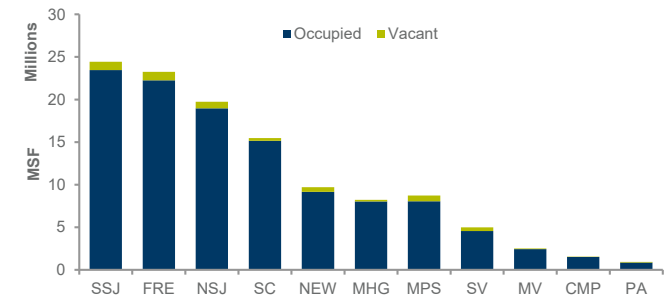
RENT BY SUBMARKET (\$ PSF, NNN)



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



OCCUPIED VS. VACANT SPACE



Industrial Q3 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	931,522	70,028	7.5%	9,108	-68,828	0	0	\$2.03	\$0.00	\$2.03
Mountain View	2,509,604	87,230	3.5%	7,957	-11,370	0	0	\$2.92	\$0.00	\$2.92
101 Technology Corridor	3,441,126	157,258	4.6%	17,065	-80,198	0	0	\$2.53	\$0.00	\$2.53
Campbell	1,557,660	54,445	3.5%	9,270	20,031	0	0	\$1.60	\$0.00	\$1.60
Sunnyvale	4,989,611	434,707	8.7%	-25,729	-183,844	0	0	\$1.59	\$0.95	\$1.34
Santa Clara	15,471,922	310,956	2.0%	42,702	261,473	0	0	\$1.61	\$1.29	\$1.46
North San Jose	19,730,829	763,817	3.9%	184,866	198,511	0	0	\$1.26	\$1.25	\$1.25
South San Jose	24,430,381	966,686	4.0%	35,958	-146,768	0	0	\$1.20	\$0.96	\$1.06
Central Silicon Valley	66,180,403	2,530,611	3.8%	247,067	149,403	0	0	\$1.37	\$1.09	\$1.23
Milpitas	8,729,393	683,958	7.8%	566,755	453,263	0	388,240	\$1.27	\$1.11	\$1.14
Fremont	23,253,314	1,013,949	4.4%	191,998	1,127,697	0	0	\$1.28	\$1.02	\$1.17
Newark	9,707,306	543,410	5.6%	156,025	414,971	0	0	\$1.25	\$1.52	\$1.29
South I-880 Corridor	41,690,013	2,241,317	5.4%	914,778	1,995,931	0	388,240	\$1.27	\$1.11	\$1.19
Morgan Hill/Gilroy	8,209,705	186,617	2.3%	-151,845	43,508	452,427	0	\$1.14	\$0.65	\$0.71
SUBTYPE BREAKDOWN										
Warehouse	48,131,203	2,491,064	5.2%	877,994	1,284,015	0	388,240			
Manufacturing	71,390,044	2,624,739	3.7%	149,071	824,629	452,427	0			
SILICON VALLEY TOTALS	119,521,247	5,115,803	4.3%	1,027,065	2,108,644	452,427	388,240	\$1.39	\$1.07	\$1.23

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

KEY LEASE TRANSACTIONS Q3 2021

MF = Manufacturing W/D = Warehouse/Distribution

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1605 Industrial Ave	South San Jose	FedEx	179,600	New Lease
1741-1749 Junction	North San Jose	Galleher Corporation	175,600	Renewal
5567 Cushing Pkwy	Fremont	Sana Biotechnology	164,939	New Lease
1029 Montague Expy	Milpitas	Weee!	141,017	New Lease
40577 Albrae St	Fremont	RK Logistics Group	100,290	Renewal

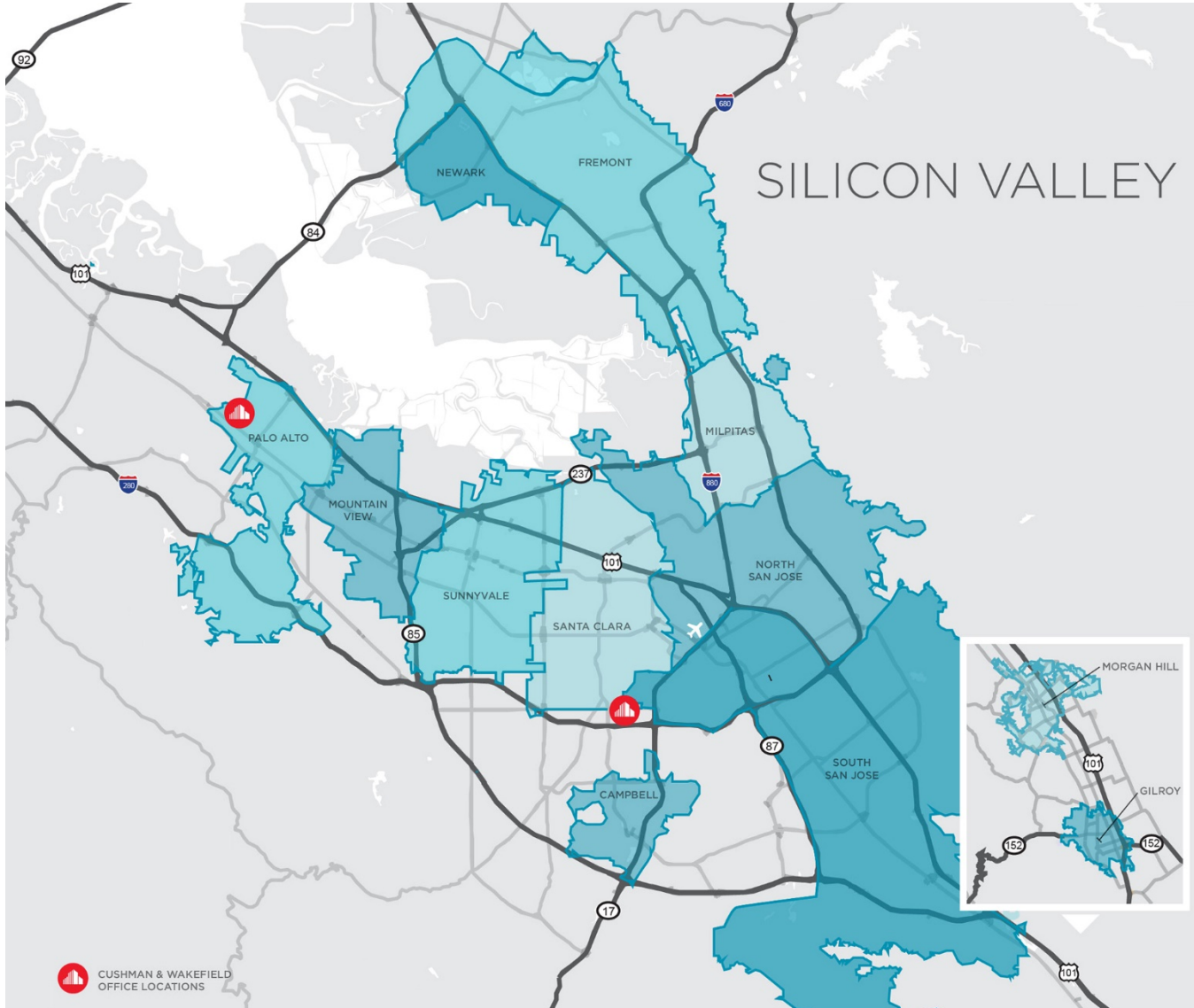
KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1712-1870 Little Orchard, Barnard & Stauffer	South San Jose	Stockbridge Capital Group / Black Creek Group	276,747	\$95.8M / \$346
18255 Sutter Blvd.	Morgan Hill	Toeniskoetter Devel. / STAG Industrial, Inc.	79,059	\$26.8M / \$338
385-395 Taylor St, E.	South San Jose	385 E Taylor Warehouse Holdings / CYGMA, LLC	59,847	\$6.7M / \$111
42650-42660 Osgood Rd	Fremont	Martinek Manufacturing / First Industrial Realty	38,760	\$8.2M / \$211

SILICON VALLEY

Industrial Q3 2021

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