

YoY Chg      12-Mo. Forecast

**3.3%**  
Vacancy Rate



**1.1M**  
Net Absorption, SF



**\$1.35**  
Asking Rent, PSF



Overall, Net Asking Rent

### ECONOMIC INDICATORS Q4 2021

YoY Chg      12-Mo. Forecast

**1.11M**  
San Jose MSA Employment



**4.5%**  
San Jose MSA Unemployment Rate



**4.2%**  
U.S. Unemployment Rate



Source: BLS, Moody's Analytics  
2021Q4 data are based in the latest available data

### ECONOMY: Employment Ratcheting Up

The Bay Area economy, like all markets around the globe, was pummeled at the onset of the COVID-19 pandemic. Parts of the labor force took the opportunity to move away from urban areas, at least temporarily. And though many workers within the office sector remain “remote” for a larger part of their duties, the economy itself has recovered strongly over the past three quarters. There have been gains in the San Jose metropolitan statistical area (MSA), with an increase of 50,500 jobs on a year-over-year basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 4.5%, below the figure of 6.2% one year ago. This is slightly above the US unemployment rate of 4.2%. As businesses fully reopen, these employment numbers are expected to improve further.

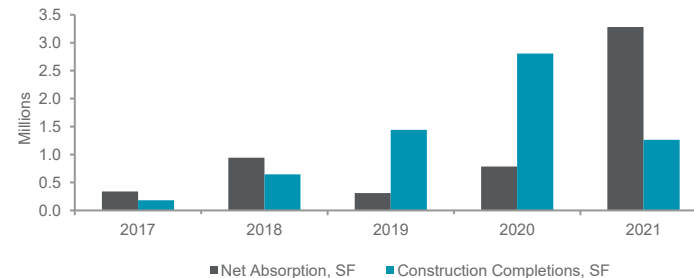
### SUPPLY: Vacancy Continues to Drop

Silicon Valley’s industrial vacancy rate dropped 90 basis points to 3.3% in the fourth quarter, a decrease from 4.2% in the third quarter. The current overall vacancy rate translates into 4.0 million square feet (msf) of space, which is down from 6.0 msf one year ago. Sublease space accounts for approximately 5.7% of the current figure, which is a decrease from 12.4% in the third quarter. The vacancy rate for warehouse product decreased to 4.1% in the fourth quarter from 5.0% in the third quarter while manufacturing product dropped to 2.8% from 3.7% 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.

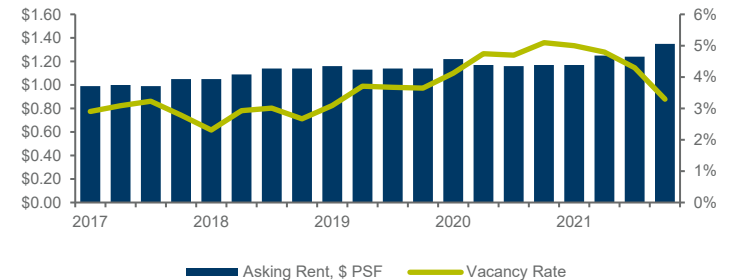
### DEMAND: Both Warehouse and Manufacturing Grows

The Silicon Valley industrial market closed the quarter with 1.1 msf of net absorption. This follows the third quarter figure of 1.0 msf and brings the annual 2021 number to 3.3 msf. The last time net absorption was near this level was in 2014 when the annual number was 3.9 msf. Warehouse ended at 2.0 msf which is a decrease from 2.4 msf last quarter. Manufacturing ended at 664,000 sf of net absorption following 150,000 sf of the third quarter.

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY & ASKING RENT



### Leasing Activity: Deal Velocity Slows

Leasing activity decreased in the third quarter to 1.8 msf, bringing the year-to-date number to 9.4 msf. The market surpassed the full-year 2020 figure of 8.5 msf. The largest lease of the quarter was Quanta Computer's transaction on a 101,191-sf building in Fremont. Other new notable transactions include Alom Technologies (87,592 sf) in Fremont and Sigler Wholesale Distributors (76,972 sf) in South San Jose. There were two renewals amongst the top transactions: Bunzi Distribution for 100,586 sf in Fremont and Second Harvest Food Bank for 91,202 sf in South San Jose. 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 fourth quarter was \$1.35 per square foot (psf) on a monthly triple net basis, following the \$1.24 psf recorded in the third quarter. The average asking rent for warehouse and manufacturing space was \$1.15 psf and \$1.54 psf, respectively. Mountain View and Palo Alto have the highest asking rate at \$2.92 psf, while the Morgan Hill/Gilroy submarket has the lowest overall asking rate at \$0.73 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.

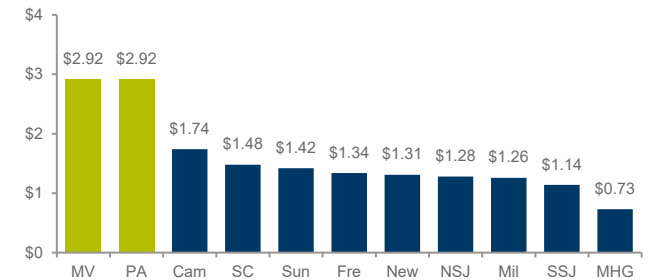
### Construction: More Deliveries

Currently, there is approximately 441,000 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.

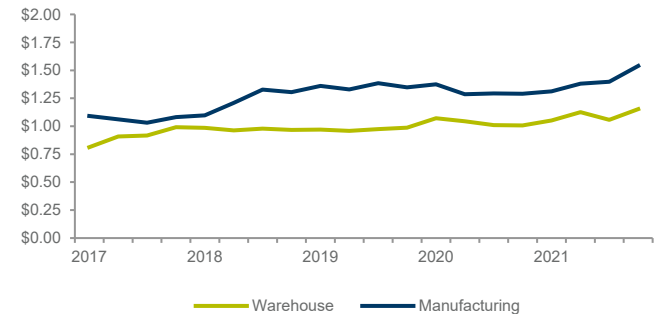
### Outlook

- Warehouse remains the attractive product thanks in large part to e-commerce and last mile delivery. Vacancy is expected to be relatively stable and then to trend to pre-pandemic levels by the end of 2022.
- 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.
- Construction has slowed through 2021 however, there are several proposed projects in San Jose, Milpitas and Fremont that should be starting construction over the next couple of quarters.

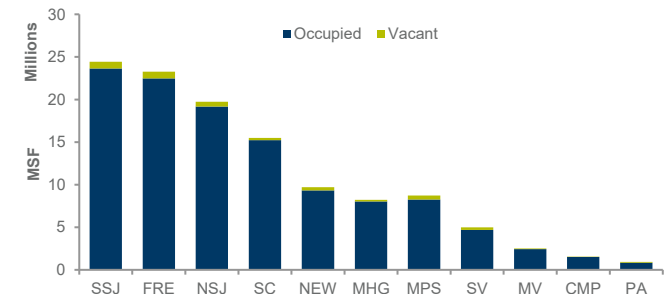
### RENT BY SUBMARKET (\$ PSF, NNN)



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



### OCCUPIED VS. VACANT SPACE



## Industrial Q4 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	106,028	11.4%	-36,000	-104,828	0	0	\$2.92	\$0.00	\$2.92
Mountain View	2,509,604	80,016	3.2%	7,214	-4,156	0	0	\$2.92	\$0.00	\$2.92
101 Technology Corridor	3,441,126	186,044	5.4%	-28,786	-108,984	0	0	\$2.92	\$0.00	\$2.92
Campbell	1,557,660	55,957	3.6%	-1,512	18,519	0	0	\$1.74	\$0.00	\$1.74
Sunnyvale	4,992,911	307,697	6.2%	145,010	-38,834	0	0	\$1.99	\$0.95	\$1.42
Santa Clara	15,498,884	265,035	1.7%	45,921	307,394	0	0	\$1.57	\$1.28	\$1.48
North San Jose	19,730,829	560,053	2.8%	203,764	402,275	0	0	\$1.32	\$1.26	\$1.28
South San Jose	24,443,085	789,498	3.2%	149,732	3,967	0	0	\$1.21	\$1.08	\$1.14
Central Silicon Valley	66,223,369	1,978,240	3.0%	542,915	693,321	0	0	\$1.44	\$1.13	\$1.29
Milpitas	8,729,393	468,085	5.4%	215,873	669,608	0	0	\$1.57	\$1.25	\$1.26
Fremont	23,264,564	779,561	3.4%	147,487	1,362,085	0	0	\$1.40	\$1.25	\$1.34
Newark	9,707,306	371,105	3.8%	172,305	587,276	0	0	\$1.25	\$1.52	\$1.31
South I-880 Corridor	41,701,263	1,618,751	3.9%	535,665	2,618,969	0	0	\$1.35	\$1.28	\$1.31
Morgan Hill/Gilroy	8,220,944	182,681	2.2%	35,090	78,598	453,433	11,154	\$1.35	\$0.65	\$0.73
<b>SUBTYPE BREAKDOWN</b>										
Warehouse	48,154,469	1,967,557	4.1%	420,881	1,807,522	12,160	0			
Manufacturing	71,432,233	1,998,159	2.8%	664,003	1,474,382	441,273	11,154			
<b>SILICON VALLEY TOTALS</b>	<b>119,586,702</b>	<b>3,965,716</b>	<b>3.3%</b>	<b>1,084,884</b>	<b>3,281,904</b>	<b>453,433</b>	<b>11,154</b>	<b>\$1.54</b>	<b>\$1.15</b>	<b>\$1.35</b>

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

### KEY LEASE TRANSACTIONS Q4 2021

MF = Manufacturing W/D = Warehouse/Distribution

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1875 & 1879 Senter Rd	San Jose	County of Santa Clara	153,254	Renewal
41652-41660 Boscell Rd	Fremont	Quanta Computer	102,626	Renewal
44108 Pacific Commons Blvd	Fremont	Quanta Computer	101,191	New Lease
40999 Boyce Rd	Fremont	Bunzl Distribution	100,586	Renewal
520-530 Brennan St	San Jose	Second Harvest Food Bank	91,202	Renewal

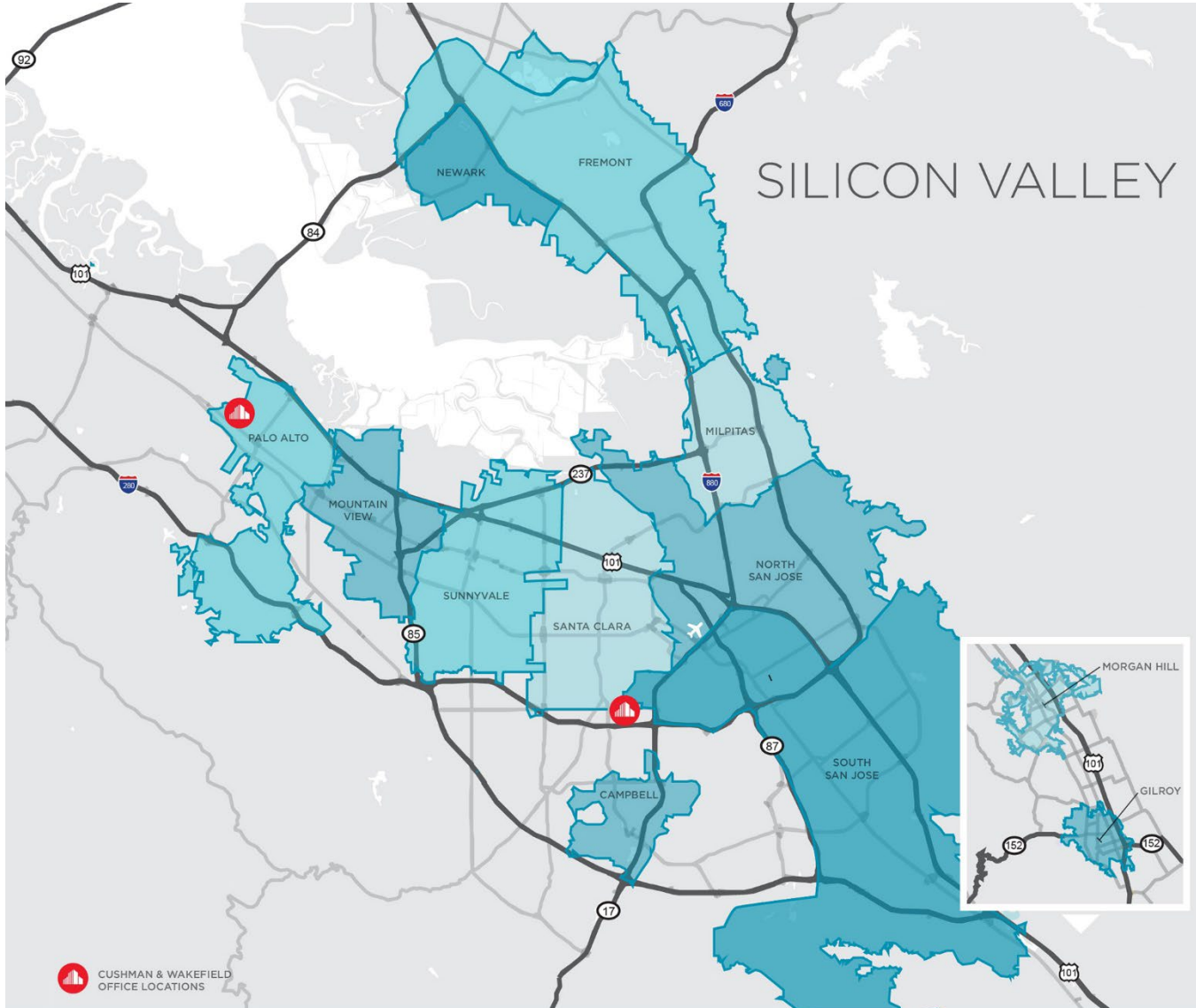
### KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
47550 Kato Rd	Fremont	Homelegance, Inc. / Fortress Investment Group	254,563	\$80M / \$314
1484 Kifer Rd	Sunnyvale	Youland Smarhome LLC / Fortinet	129,597	\$44M / \$340
4121 Business Center Dr	Fremont	Spurgin Development / Sparqtron Corp.	13,200	\$4.10M / 311
1355 Tenth St, N.	San Jose	GS Limited Partnership / Silicon Valley Mechanical	10,800	\$4.05M / \$375

# SILICON VALLEY

Industrial Q4 2021

## INDUSTRIAL SUBMARKETS



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