

	YoY Chg	12-Mo. Forecast
2.9% Vacancy Rate	▼	▼
559K Net Absorption, SF	▲	▼
\$1.37 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
1.14M San Jose MSA Employment	▲	▲
3.7% San Jose MSA Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2022Q1 data are based in the latest available data

ECONOMY: Employment Increases

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 as many workers within the office sector start to return to their offices, 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 59,700 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 3.7%, below the figure of 5.7% one year ago. This is just slightly above the US unemployment rate of 3.6%.

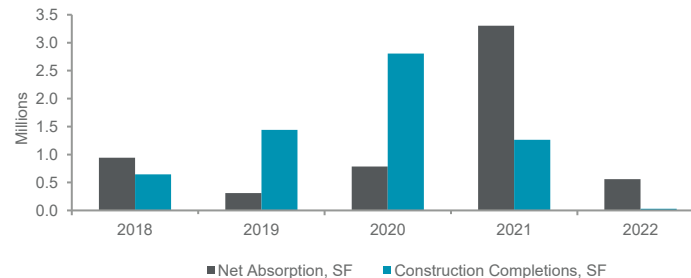
SUPPLY: Vacancy Continues to Drop

Silicon Valley's industrial vacancy rate dropped 40 basis points (bps) to 2.9% in the first quarter, a decrease from 3.3% in the fourth quarter. The current overall vacancy rate translates into 3.4 million square feet (msf) of space, which is down from 5.9 msf one year ago. Sublease space accounts for approximately 9.7% of the current figure, which is an increase from 5.7% in the fourth quarter. The vacancy rate for warehouse product decreased to 3.3% in the first quarter from 4.1% in the fourth quarter while manufacturing product dropped to 2.6% from 2.8% over the same period. There are several projects in the pipeline that could be starting construction over the next few quarters. 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 559,000 sf of net absorption. The majority of this gain is attributed to warehouse product which had 393,000 sf of growth. Manufacturing recorded 166,000 sf in the first quarter. This follows the fourth quarter figure of 1.1 msf and compares to the annual 2021 number of 3.3 msf. The last time net absorption was near this level was in 2014 when the annual number was 3.9 msf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Leasing Activity: Deal Velocity Slows

For the second quarter in a row, leasing activity was below 2.0 msf, recording just 1.6 msf in the first quarter. This follows the 1.7 msf recorded in the fourth quarter. For comparison, the full annual 2021 number was 9.4 msf. All of the top five leases were done in Milpitas and Fremont. The largest lease of the quarter was S&M Moving Systems' renewal on a 186,000-sf building in Fremont. Other new notable transactions include Apple (142,000 sf) in Milpitas and Zoox' prelease (110,000 sf) in Fremont. The last two deals in the top list were renewals: Quanta Computer (102,000 sf) in Fremont and Extron Logistics (102,000 sf) in Milpitas. 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 first quarter was \$1.37 per square foot (psf) on a monthly triple net basis, following the \$1.35 psf recorded in the fourth quarter. The average asking rent for warehouse and manufacturing space was \$1.15 psf and \$1.56 psf, respectively. Mountain View and Palo Alto have the highest asking rate at \$2.71 psf and \$3.43 psf respectively, 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.

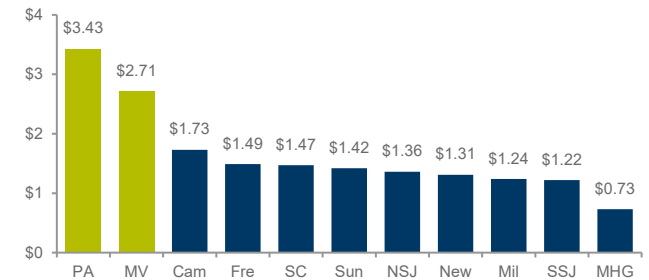
Construction: Slows

Currently, there is approximately 520,000 sf of manufacturing product under construction. Of that number, 110,000 sf has been preleased to Zoox. There is one small warehouse of 12,000 sf under construction. However, there are several projects in the pipeline, and we expect speculative construction to pick up over the next few months.

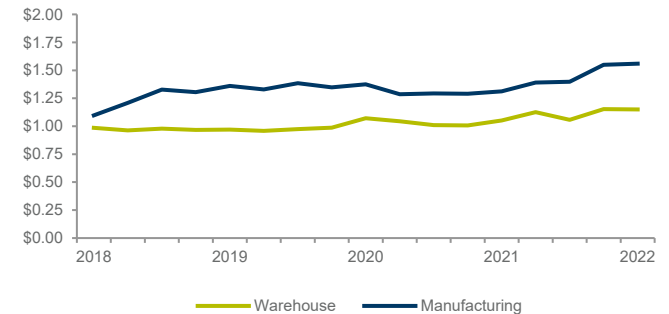
Outlook

- 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 2023.
- 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 however, there are several proposed projects in Milpitas and Fremont that should be starting construction over the next couple of quarters.

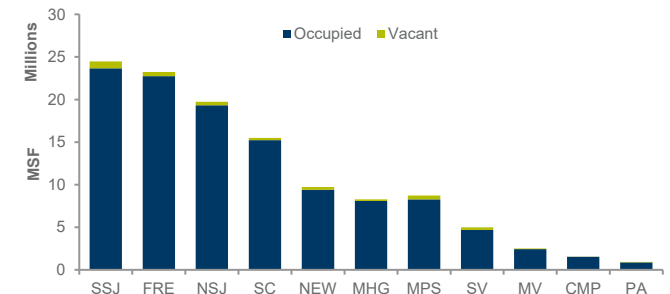
RENT BY SUBMARKET (\$ PSF, NNN)



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



OCCUPIED VS. VACANT SPACE



Industrial Q1 2022

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	931,843	54,962	5.9%	51,066	51,066	0	0	\$3.43	\$0.00	\$3.43
Mountain View	2,509,604	73,346	2.9%	6,670	6,670	0	0	\$2.71	\$0.00	\$2.71
101 Technology Corridor	3,441,447	128,308	3.7%	57,736	57,736	0	0	\$3.02	\$0.00	\$3.02
Campbell	1,557,660	34,889	2.2%	21,068	21,068	0	0	\$1.73	\$0.00	\$1.73
Sunnyvale	4,992,911	301,379	6.0%	6,318	6,318	0	0	\$2.02	\$0.95	\$1.42
Santa Clara	15,497,342	264,886	1.7%	149	149	0	0	\$1.55	\$1.28	\$1.47
North San Jose	19,730,822	415,529	2.1%	148,710	148,710	0	0	\$1.37	\$1.33	\$1.36
South San Jose	24,479,919	809,170	3.3%	-21,600	-21,600	0	0	\$1.25	\$1.19	\$1.22
Central Silicon Valley	66,258,654	1,825,853	2.8%	154,645	154,645	0	0	\$1.46	\$1.17	\$1.33
Milpitas	8,729,393	462,570	5.3%	5,515	5,515	0	0	\$1.43	\$1.22	\$1.24
Fremont	23,241,664	503,430	2.2%	258,431	258,431	110,558	0	\$1.58	\$1.25	\$1.49
Newark	9,713,668	304,585	3.1%	59,878	59,878	0	0	\$1.26	\$1.52	\$1.31
South I-880 Corridor	41,684,725	1,270,585	3.0%	323,824	323,824	110,558	0	\$1.45	\$1.26	\$1.36
Morgan Hill/Gilroy	8,282,741	190,659	2.3%	23,194	23,194	410,101	31,172	\$1.23	\$0.69	\$0.73
SUBTYPE BREAKDOWN										
Warehouse	48,208,256	1,573,703	3.3%	393,854	2,201,912	12,160	0			
Manufacturing	71,459,311	1,841,702	2.6%	165,545	1,661,855	520,659	31,172			
SILICON VALLEY TOTALS	119,667,567	3,415,405	2.9%	559,399	3,863,767	532,819	31,172	\$1.56	\$1.15	\$1.37

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
48641 Warm Springs Blvd	Fremont	S&M Moving Systems	186,890	Renewal
240-270 S. Milpitas Blvd	Milpitas	Apple, Inc.	142,272	New Lease
47540 Kato Rd	Fremont	Zoox	110,558	Prelease
41652-41660 Boscell Rd	Fremont	Quanta Computer	102,626	Renewal
496 Abbott Ave.	Milpitas	Extron Logistics	102,407	Renewal

KEY SALES TRANSACTIONS Q1 2022

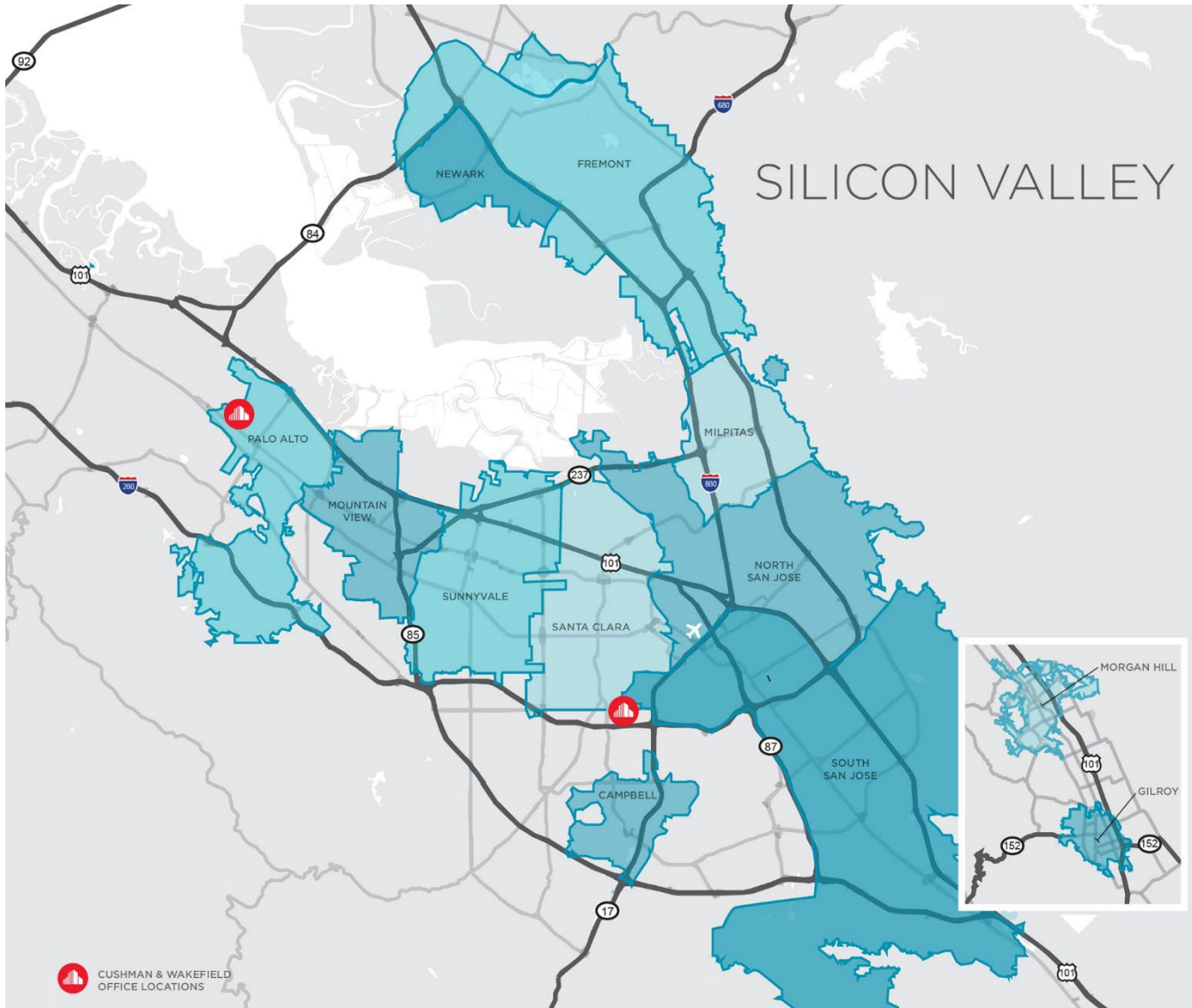
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
123 Uranium Rd	Sunnyvale	Uranium Dr Assoc / Apple, Inc.*	105,000	\$44.0M / \$419
16100 Jacqueline Ct	Morgan Hill	Scianna LLC / 16100 Jacqueline LLC	103,191	\$19.6M / \$189
8190 Murray Ave	Gilroy	Mohr Gilroy LLC / Four Springs Capital Trust	102,466	\$19.2M / \$187
2000 Senter Rd	South San Jose	Intelli LLC / Luu Fortune LLC	54,122	\$16.3M / \$300

* Buyer had been occupying the building since 2015.

SILICON VALLEY

Industrial Q1 2022

INDUSTRIAL SUBMARKETS



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