

YoY Chg 12-Mo. Forecast

3.3%
Vacancy Rate



-61K
Net Absorption, SF



\$1.32
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2022

YoY Chg 12-Mo. Forecast

1.15M
San Jose MSA Employment



2.8%
San Jose MSA Unemployment Rate



3.6%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2022Q2 data are based in the latest available data

ECONOMY: Employment Picture Continues to Improve

The Bay Area economy, like its domestic counterparts, was pummeled at the onset of the COVID-19 pandemic. Many white-collar members of the labor force took the opportunity to move away from urban areas, at least temporarily. Despite fears of growing headwinds, the local employment picture has thus far continued its post-lockdown recovery. Year-over-year, the San Jose metropolitan statistical area (MSA) has logged an increase of 57,500 jobs. Similarly, the unemployment rate has declined from its 2020 peak, with the quarterly figure now standing at 2.8%, a level slightly above the pre-pandemic low of 2.5%. San Jose MSA's 2.8% unemployment rate is also tracking significantly below the US unemployment rate of 3.6%.

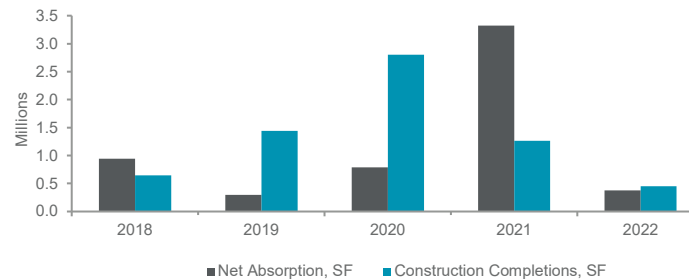
SUPPLY: Vacancy Increases

Silicon Valley's industrial vacancy rate increased 40 basis points (bps) to 3.3% in the second quarter, an increase from 2.9% in the first quarter and back to the fourth quarter level. The current overall vacancy rate translates into 3.9 million square feet (msf) of space, which is down from 5.7 msf one year ago. Sublease space accounts for approximately 19.2% of the current figure, which is an increase from 9.4% in the first quarter. The vacancy rate for warehouse product decreased to 3.0% in the second quarter from 3.5% in the first quarter while manufacturing product increased to 3.4% from 2.6% 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.

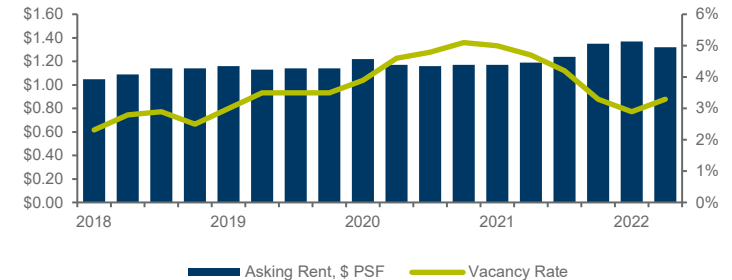
DEMAND: Warehouse Occupancy Grows, Manufacturing Takes a Loss

The Silicon Valley industrial market closed the second quarter with a negative 61,000 sf of net absorption. The majority of the loss is attributed to manufacturing product which had a negative 216,000 sf loss. The last time manufacturing had an occupancy loss was the third quarter of 2020. Warehouse recorded a 155,000 sf gain in the second quarter. The market total follows the first quarter figure of 437,000 sf and compares to the annual 2021 number of 3.3 msf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Leasing Activity: Deal Velocity Increases

Leasing activity increased to 2.1 msf in the second quarter, after two quarters where the activity was below 2.0 msf. This brings the year-to-date gross absorption to 3.8 msf. At this pace, the market is on track to surpass the annual 2021 number of 7.4 msf. The largest lease of the quarter was Office Depot's renewal on a 476,000-sf building in Fremont. Other new notable transactions include a confidential tenant (162,000 sf) in Newark and Intuitive Surgical's (127,000 sf) in Sunnyvale. The last two deals in the top list were also in Fremont: Bloom Energy (73,000 sf) and Our Next Energy (71,000 sf). 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 Drop Slightly

The average asking rent for industrial space in Silicon Valley in the second quarter was \$1.32 per square foot (psf) on a monthly triple net basis, following the \$1.37 psf recorded in the first quarter. The average asking rent for warehouse and manufacturing space was \$1.15 psf and \$1.42 psf, respectively. Mountain View has the highest asking rate at \$2.66 psf, while the Morgan Hill/Gilroy submarket has the lowest overall asking rate at \$0.97 psf. An outlier is Palo Alto which has less 1.0 msf of inventory and only 18,000 sf vacant, where asking rents are \$4.81 psf. New buildings are becoming more technologically advanced and therefore are a tailwind for increasing rents, while functionally obsolete buildings and subleases remain a headwind, ultimately keeping rents effectively static.

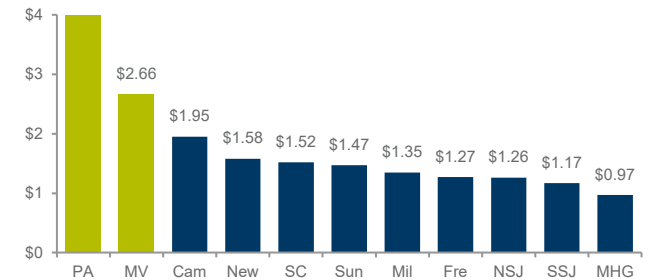
Construction: Slows

Currently, there is approximately 320,000 sf of product under construction, all in Fremont. Of that number, 110,000 sf has been preleased to Zoox. The five-building manufacturing project in Morgan Hill has just finished construction this quarter. Interesting to note, that project also sold to a Trammell Crow this quarter. There are several projects in the pipeline, and we expect speculative construction to pick up over the next few months.

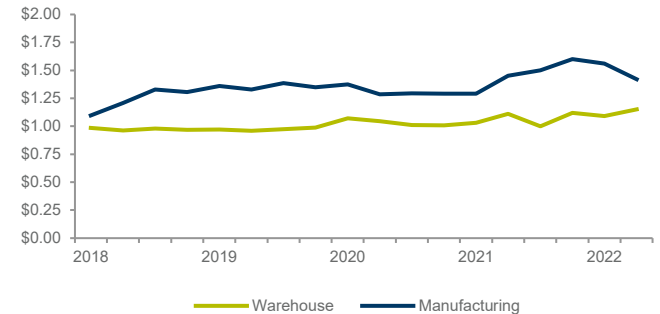
Outlook

- 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.

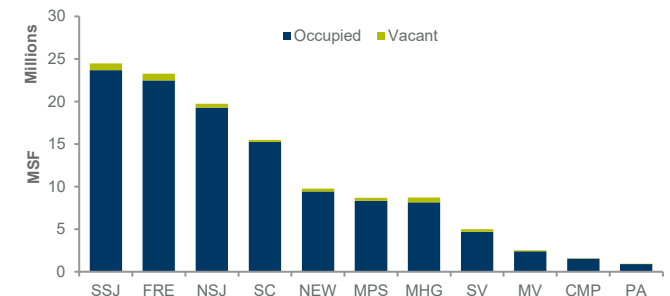
RENT BY SUBMARKET (\$ PSF, NNN)



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



OCCUPIED VS. VACANT SPACE



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	18,962	2.0%	36,000	87,066	0	0	\$4.81	\$0.00	\$4.81
Mountain View	2,509,817	81,837	3.3%	(8,491)	(1,821)	0	0	\$2.66	\$0.00	\$2.66
101 Technology Corridor	3,441,660	100,799	2.9%	27,509	85,245	0	0	\$3.06	\$0.00	\$3.06
Campbell	1,557,660	4,132	0.3%	30,757	51,825	0	0	\$1.95	\$0.00	\$1.95
Sunnyvale	4,992,911	291,167	5.8%	10,212	16,530	0	0	\$2.18	\$0.95	\$1.47
Santa Clara	15,497,392	220,899	1.4%	43,987	44,136	0	0	\$1.61	\$1.29	\$1.52
North San Jose	19,739,422	438,319	2.2%	(22,790)	125,920	0	0	\$1.23	\$1.33	\$1.26
South San Jose	24,483,467	817,227	3.3%	(8,057)	(27,729)	0	0	\$1.21	\$1.12	\$1.17
Central Silicon Valley	66,270,852	1,771,744	2.7%	54,109	210,682	0	0	\$1.40	\$1.14	\$1.29
Milpitas	8,738,143	348,200	4.0%	114,370	119,885	0	0	\$2.06	\$1.23	\$1.35
Fremont	23,272,203	772,950	3.3%	(234,001)	(99,539)	320,474	0	\$1.23	\$1.36	\$1.27
Newark	9,786,300	359,355	3.7%	(59,475)	403	0	0	\$1.59	\$1.52	\$1.58
South I-880 Corridor	41,796,646	1,480,505	3.5%	(179,106)	20,749	320,474	0	\$1.41	\$1.30	\$1.37
Morgan Hill/Gilroy	8,704,189	576,282	6.6%	36,638	59,832	0	422,261	\$1.10	\$0.65	\$0.97
SUBTYPE BREAKDOWN										
Warehouse	48,350,005	1,469,727	3.0%	155,505	2,248,930	209,916	12,160			
Manufacturing	71,863,342	2,459,603	3.4%	(216,355)	1,453,929	110,558	410,101			
SILICON VALLEY TOTALS	120,213,347	3,929,330	3.3%	(60,850)	3,702,859	320,474	422,261	\$1.42	\$1.15	\$1.32

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

MF = Manufacturing W/D = Warehouse/Distribution

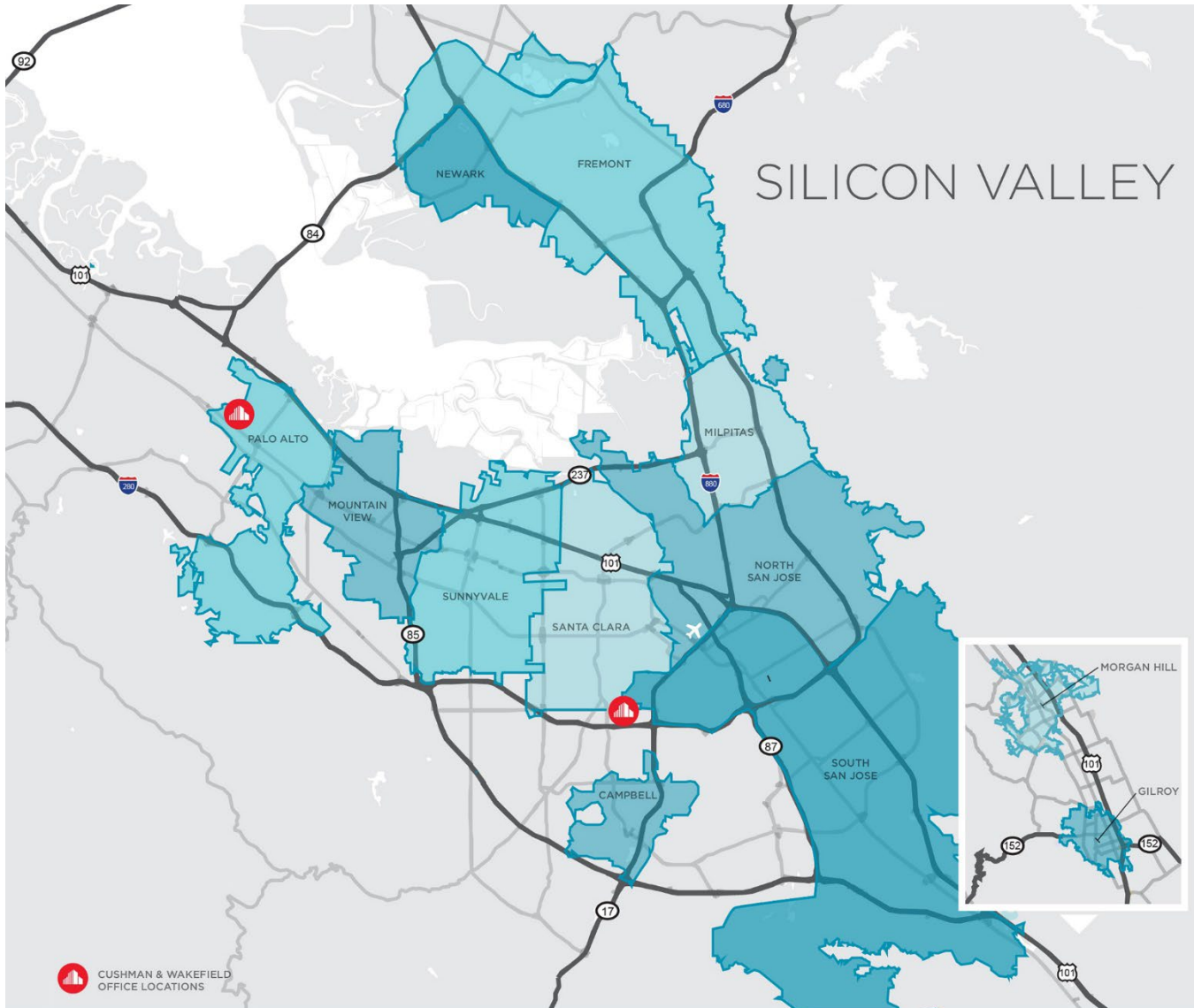
KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6700 Auto Mall Pkwy	Fremont	Office Depot	476,176	Renewal
7395 Morton Ave	Newark	Confidential	161,680	New Lease
111 Uranium Rd	Sunnyvale	Intuitive Surgical	126,788	New Lease
401 Whitney Pl	Fremont	Bloom Energy	72,776	New Lease
45535 Northport Loop, E.	Fremont	Our Next Energy	70,505	New Lease

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Butterfield 5 Tech Park	Morgan Hill	Trammell Crow / Invesco Real Estate	410,076	\$119.3M / \$290
3660 Thomas Rd	Santa Clara	Marchese Family / Terreno Realty	135,000	\$54.6M / \$404
42744-42774 Boscell Rd	Fremont	AER Worldwide / Fortress Investment Group	93,385	\$29.0M / \$310
43960 Fremont Blvd	Fremont	New Mountain Capital / Portner Living Trust	47,600	\$17.6M / \$370

INDUSTRIAL SUBMARKETS



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