

YoY Chg 12-Mo. Forecast

3.0%
Vacancy Rate



203K
Net Absorption, SF



\$1.36
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2022

YoY Chg 12-Mo. Forecast

1.2M
San Jose MSA Employment



2.3%
San Jose MSA Unemployment Rate



3.5%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2022Q3 data are based in the latest available data

ECONOMY: Employment Picture Continues to Improve

Despite headwinds, Silicon Valley's economic indicators continue to outperform the United States average as a whole. Year-over-year, the San Jose metropolitan statistical area (MSA) has logged an increase of 57,900 jobs, which has culminated in a current unemployment rate of 2.3%, a steep decline from the previous high of 12.2% witnessed at the end of Q1 2020. Moreover, an unemployment rate of 2.3% puts the San Jose MSA slightly below the pre-pandemic rate of 2.5% seen during the fourth quarter of 2019. By comparison, the unemployment rate for the United States nationally stands at 3.5%; still low by historic standards but lagging behind Silicon Valley.

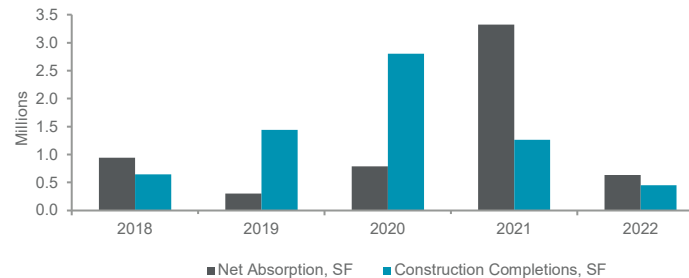
SUPPLY: Vacancy Decreases

Silicon Valley's industrial vacancy rate continued an overall downward trend remaining under 3.4% for the fourth consecutive quarter. Vacancy decreased by 20 basis points (bps) to 3.0% in the third quarter, which translated to 3.6 million square feet (msf) of space, down from 5.0 msf one year ago. Sublease space accounts for approximately 18.5% of total availability, down from 19.5% in the second quarter. While warehouse vacancy remained the same since last quarter, manufacturing vacancy decreased slightly from 3.2%. Although existing vacancy remains low, there are several projects in the pipeline that could be starting construction over the next few quarters and add additional supply like Clarion Bayside (473,000 sf) in Fremont and Fremont Technology Center (190,000 sf). However, recent history indicates that new product is generally leased prior to or shortly after completion, thus vacancy is expected to remain stable and then trend down towards pre-pandemic levels.

DEMAND: Manufacturing Occupancy Grows, Warehouse to Follow

The Silicon Valley manufacturing market closed the third quarter with 216,000 sf of net absorption while warehouse product saw an overall occupancy loss with -13,000 sf net absorption. The year-to-date (YTD) net absorption of 637,000 sf is in line with 789,000 sf recorded in 2020. Last year, the near record-level absorption number of 3.3 msf was attributed to the increased leasing recorded in 2020 and 2021. Occupancy is expected to increase for both manufacturing and warehouse as spaces are leased considering the demand for industrial space has remained high.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Leasing Activity: Deal Velocity to Accelerate

Leasing activity decreased to 1.7 msf in the third quarter from 2.4 msf last quarter. This brings the YTD gross absorption to 5.9 msf. For comparison, gross absorption recorded 9.6 msf in 2021. The largest lease of the third quarter was All Fab Precision's transaction for 132,721 sf in South San Jose. Meanwhile, other notable deals included Sanmina (109,000 sf) renewing in North San Jose, Santa Clara County (100,000 sf) in Milpitas, and Beckton Dickinson (82,260 sf) in South San Jose. Both industrial product types remain attractive with warehouse product continuing to fuel e-commerce growth, while recently delivered and currently under construction manufacturing product looks to address the evolving needs of today's users, especially technology and biotech companies.

PRICING: Asking Rents to Increase

The average asking rent for industrial space in Silicon Valley continued its upward trend since 2021, increasing to \$1.36 per square foot (psf) on a monthly triple net basis in the third quarter from \$1.24 psf a year ago. The average asking rent for warehouse and manufacturing space was \$1.14 psf and \$1.50 psf, respectively. Mountain View had the highest asking rate at \$2.69 psf, while the Morgan Hill/Gilroy submarket has the lowest overall asking rate at \$0.99 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.

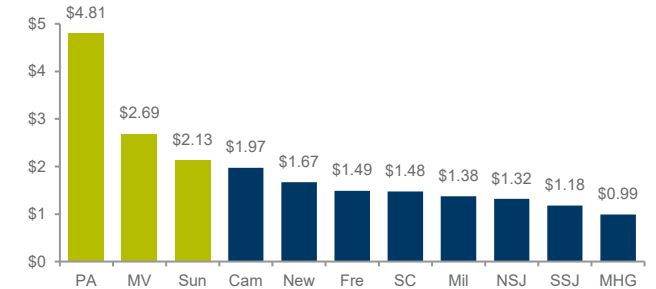
Construction: Construction Slows but New Supply Underway

Currently, there is 894,978 sf of product under construction, all in Fremont and San Jose. Of that number, 110,588 sf has been preleased to Zoon and they will be occupying the space through 2032. Six buildings are currently under construction, with 533,157 sf expected to deliver in 2023, keeping vacancy low for the short-term but creating additional supply in the longer term. Given the scarcity of space, construction is predicted to pick up over the next few months.

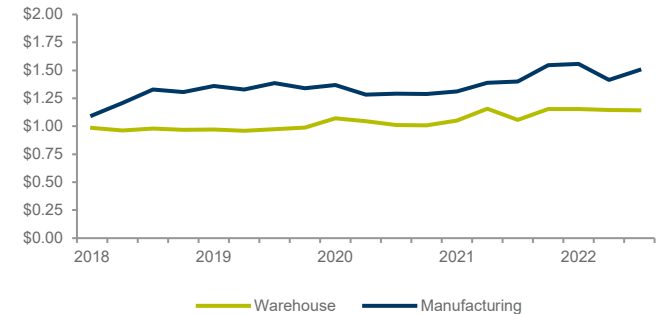
Outlook

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

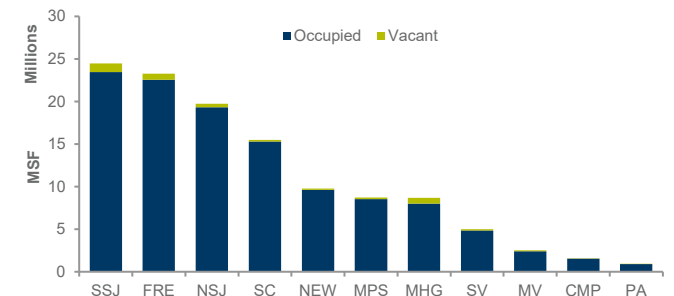
RENT BY SUBMARKET (\$ PSF, NNN)



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%	-	87,066	-	-	\$4.81	-	\$4.81
Mountain View	2,509,817	79,531	3.2%	(2,094)	(3,915)	-	-	\$2.69	-	\$2.69
101 Technology Corridor	3,441,660	98,493	2.9%	(2,094)	83,151	-	-	\$3.10	-	\$3.10
Campbell	1,557,660	3,162	0.2%	970	52,795	-	-	\$1.97	-	\$1.97
Sunnyvale	4,993,085	137,458	2.8%	153,709	170,239	-	-	\$2.13	\$0.95	\$2.13
Santa Clara	15,485,392	187,556	1.2%	28,873	92,079	-	-	\$1.53	\$1.35	\$1.48
North San Jose	19,739,472	420,677	2.1%	(478)	143,562	212,683	-	\$1.27	\$1.39	\$1.32
South San Jose	24,484,867	1,027,700	4.2%	(211,646)	(221,402)	302,775	-	\$1.35	\$1.09	\$1.18
Central Silicon Valley	66,260,476	1,776,553	2.7%	(28,572)	237,273	515,458	-	\$1.48	\$1.16	\$1.32
Milpitas	8,734,909	193,477	2.2%	152,410	274,608	-	-	\$2.19	\$1.24	\$1.38
Fremont	23,280,236	707,654	3.0%	74,412	(25,127)	379,520	-	\$1.55	\$1.35	\$1.49
Newark	9,793,927	175,475	1.8%	121,680	122,083	-	-	\$1.70	\$1.52	\$1.67
South I-880 Corridor	41,809,072	1,076,606	2.6%	348,502	371,564	379,520	-	\$1.61	\$1.32	\$1.50
Morgan Hill/Gilroy	8,704,189	690,806	7.9%	(114,524)	(54,692)	-	-	\$1.10	\$0.67	\$0.99
SUBTYPE BREAKDOWN										
Warehouse	48,342,100	1,471,609	3.0%	(13,402)	423,508	512,691	-			
Manufacturing	71,873,297	2,170,849	3.0%	216,714	213,788	382,287	-			
SILICON VALLEY TOTALS	120,215,397	3,642,458	3.0%	203,312	637,296	894,978	-	\$1.50	\$1.14	\$1.36

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1980-1984 Senter Rd	South San Jose	All Fab Precision	132,721	New Lease
590 Brennan St	North San Jose	Sanmina Corp	109,400	Renewal
901-927 Wrigley Wy	Milpitas	Santa Clara County	100,103	New Lease
86 Montecito Vista Dr	South San Jose	Beckton Dickinson	82,260	New Lease
42505 Christy St	Fremont	Three Way Logistics	75,963	Renewal

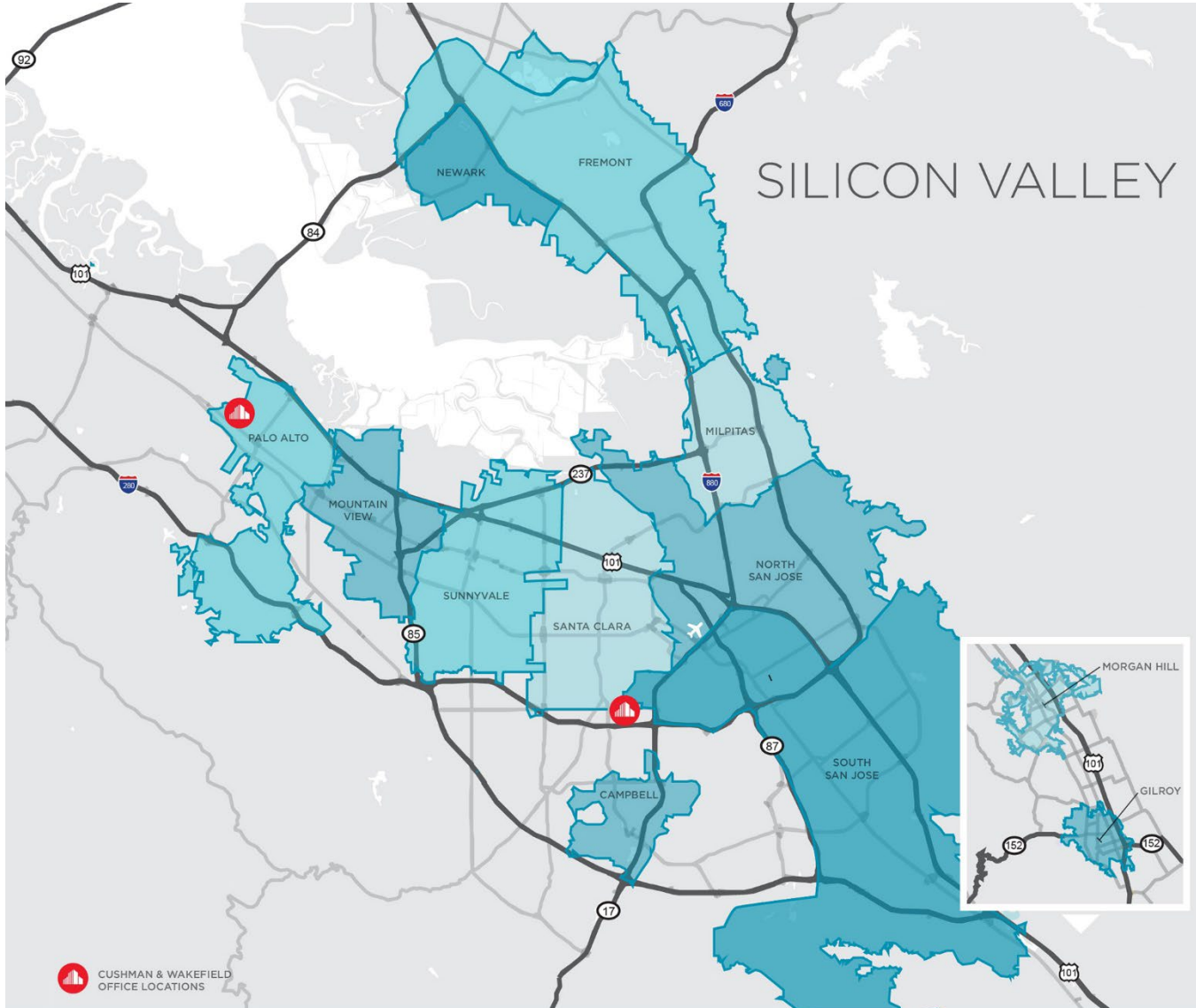
KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1080-1090 Walsh Ave	Santa Clara	Garden City Sanitation / Waste Connections	50,300	\$17.9M / \$356
700 Mathew St	Santa Clara	Jan E. Nordmo / TC Real Estate Holdings	38,800	\$11.5M / \$296
4055 Bohannon Dr	Menlo Park	Barbara K Romandia / Helios Real Estate Partners	36,700	\$16.0M / \$436
894 Faulstich Ct	North San Jose	Dirt Road RE / Lucas Cao	31,409	\$9.6M / \$306

SILICON VALLEY

Industrial Q3 2022

INDUSTRIAL SUBMARKETS



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