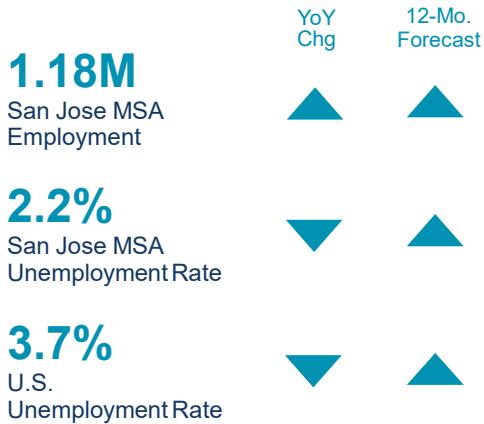


ECONOMIC INDICATORS Q4 2022



Source: BLS, Moody's Analytics
2022Q4 data are based in the latest available data

ECONOMY: Layoffs Shock Commercial Markets

Though more resilient than other markets nationally, the Bay Area has begun to show signs of an economic downturn. Mass layoffs from tech companies in the Bay Area have caused tenants and landlords to pause and reassess. The San Jose MSA has had fewer layoffs compared to the San Francisco MSA, and despite pessimism throughout 2022, there was an increase of 51,000 jobs year-over-year (YOY). The San Jose MSA is still outperforming the United States nationally with a 2.2% unemployment rate compared to 3.7% nationally, though both figures are likely to increase as 2023 progresses.

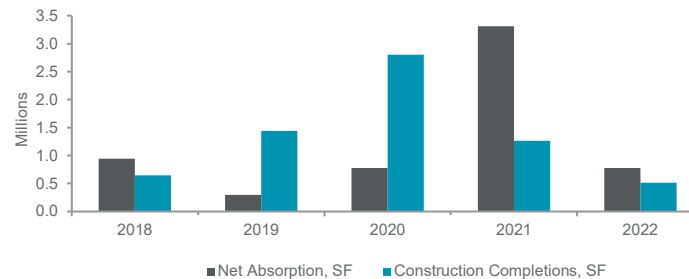
SUPPLY: A Return to Pre-Pandemic Levels

At the end of 2022, Silicon Valley's industrial vacancy rate remained steady at 3.0%, unchanged from the third quarter of 2022 but down 30 basis points YOY from 3.3%. This rate translates to a total of 3.7 million square feet (msf) of vacant space in the Valley, and is on par with pre-pandemic levels, when the vacancy rate was also 3.0% in the first quarter of 2019. Sublease space accounts for 19.2% of all space, a significant increase from the 5.7% mark at the end of 2021, primarily due to two large sublease spaces that hit the market this year in Fremont: National Resilience's' sublease at 800 Corporate Way and Sana Biotechnology's sublease at 5567 Cushing Parkway, which added over 300,000 square feet (sf) of space in the second quarter.

PRICING: Asking Rents Continue Upwards Trend

The average asking rent for industrial space in Silicon Valley continued its upward trend, rising to \$1.42 per square foot (psf) per month on a monthly triple net basis, a 4.4% increase quarter-over-quarter (QOQ) and a 5.2% YOY. Likely due to the low vacancy rate, rents did not register a significant drop due to the pandemic and have risen 22.4% since the first quarter of 2019 when rents were \$1.16 psf/month. The average asking rent for warehouse and manufacturing space was \$1.20 psf/month and \$1.56 psf/month, respectively, and rents are expected to continue this momentum in the future.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Deal Velocity Impacted by Low Inventory

Leasing activity decreased slightly to 1.7 msf in the fourth quarter of 2022, down from 1.8 msf in the previous quarter. This brings the annual gross absorption total to 7.8 msf, an 18.9% decline YOY. Given that the vacancy rate in the Valley began at 5.0% at the start of 2021 and has now fallen to 3.0%, it makes sense that deal activity has decreased, especially during a time where tenants are looking to be more selective about their space, however, current tenant interest in the Valley remains healthy, shown by the fact that three of the top five deals this quarter were renewals.

With little room to move, occupancy gains were also not as high as they were in 2021, measuring 778,828 sf of net absorption compared to 3.3 msf in 2021. The 2021 figure was undoubtedly affected by the 1.2 msf of construction completions that year and the 2.8 msf of completions in 2020, of which 95% of that new shell delivered is now fully absorbed. Completions this year currently stand at just 8% leased, though a large lease could quickly absorb that space. 2022 marks the tenth consecutive year of net occupancy gains, during which 14.2 msf of space has been absorbed, a testament to the persistent need for Industrial space in the Valley by technology, e-commerce, and biotech companies alike.

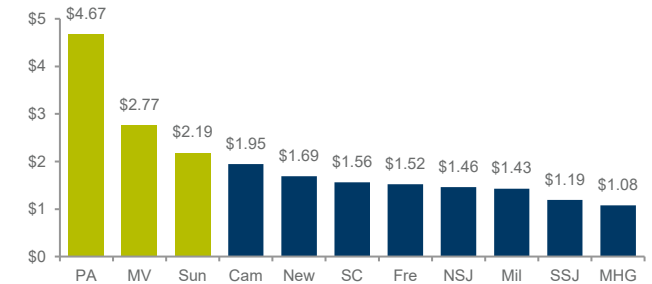
New Supply Underway

Several projects broke ground this quarter, adding an additional 1.3 msf of space to the pipeline and bringing the total amount of space under construction up to 1.6 msf. Construction is focused in just three cities: Fremont, Morgan Hill, and San Jose. Of that number, 928,000 sf is scheduled to complete in 2023, though 110,558 sf of it has already been preleased. Only one project, the 209,916 sf Link Logistics Kato Road in Fremont is set to complete in the first half of 2023, keeping vacancy low in the short term but providing additional supply for the future. Given the scarcity of space, this new space is expected to drive even more growth in Silicon Valley's industrial sector in the future.

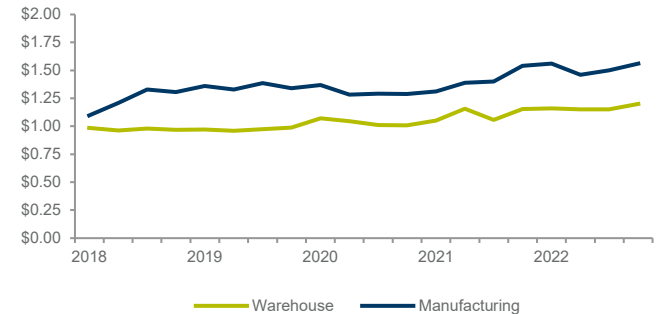
Outlook

- Despite growing uncertainty, industrial vacancy fell to pre-pandemic levels at the end of 2022 and is expected to remain stable thanks in large part to persistent demand from e-commerce, last mile delivery, and a growing need from the life science sector for advanced manufacturing and distribution.
- An influx of new space from new construction will reduce market constraints but will also push up rents in the Fremont, San Jose, and Morgan Hill/Gilroy submarkets. This trend may be offset by subleases and older product being put on the market.

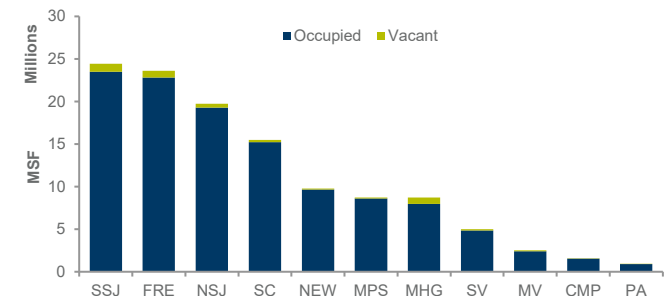
RENT BY SUBMARKET (\$ PSF, NNN)



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%	0	87,066	0	0	\$4.67	N/A**	\$4.67
Mountain View	2,509,391	81,765	3.3%	(2,234)	(6,149)	0	0	\$2.77	N/A**	\$2.77
101 Technology Corridor	3,441,234	100,727	2.9%	(2,234)	80,917	0	0	\$3.13	N/A**	\$3.13
Campbell	1,557,660	1,650	0.1%	1,512	54,307	0	0	\$1.95	N/A**	\$1.95
Sunnyvale	5,014,358	157,929	3.1%	(20,471)	149,768	0	0	\$2.16	\$2.45	\$2.19
Santa Clara	15,487,547	256,920	1.7%	(64,554)	31,815	0	0	\$1.55	\$1.57	\$1.56
North San Jose	19,731,587	449,175	2.3%	(27,498)	115,064	339,331	0	\$1.50	\$1.41	\$1.46
South San Jose	24,448,528	958,943	3.9%	73,927	(152,645)	0	0	\$1.35	\$1.09	\$1.19
Central Silicon Valley	66,239,680	1,824,617	2.8%	(37,084)	198,309	339,331	0	\$1.55	\$1.26	\$1.40
Milpitas	8,734,909	103,647	1.2%	78,830	353,438	0	0	\$1.63	\$1.25	\$1.43
Fremont	23,605,439	790,469	3.3%	(9,083)	(7,097)	715,599	59,046	\$1.58	\$1.38	\$1.52
Newark	9,793,927	109,440	1.1%	52,596	247,183	0	0	\$1.75	\$1.52	\$1.69
South I-880 Corridor	42,134,275	1,003,556	2.4%	122,343	593,524	715,599	59,046	\$1.60	\$1.37	\$1.53
Morgan Hill/Gilroy	8,721,075	730,036	8.4%	(39,230)	(93,922)	501,314	0	\$1.23	\$0.65	\$1.08
SUBTYPE BREAKDOWN										
Warehouse	48,448,561	1,445,446	3.0%	35,149	438,671	558,202	0			
Manufacturing	72,087,703	2,213,490	3.1%	8,646	340,157	998,042	59,046			
SILICON VALLEY TOTALS	120,536,264	3,658,936	3.0%	43,795	778,828	1,556,244	59,046	\$1.56	\$1.20	\$1.42

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

MF = Manufacturing W/D = Warehouse/Distribution

**Not enough data to establish rents

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
6753 Mowry Ave	Newark	RK Logistics	268,538	Renewal
2011 Senter Rd	South San Jose	Legacy Transportation Services	129,269	Renewal
1953 Concourse Dr	North San Jose	Home Depot	126,648	New Lease
38505 Cherry St	Newark	Innovated Packaging Company	102,916	Renewal
7355 Morton Ave	Newark	Pegasus Logistics	74,097	New Lease

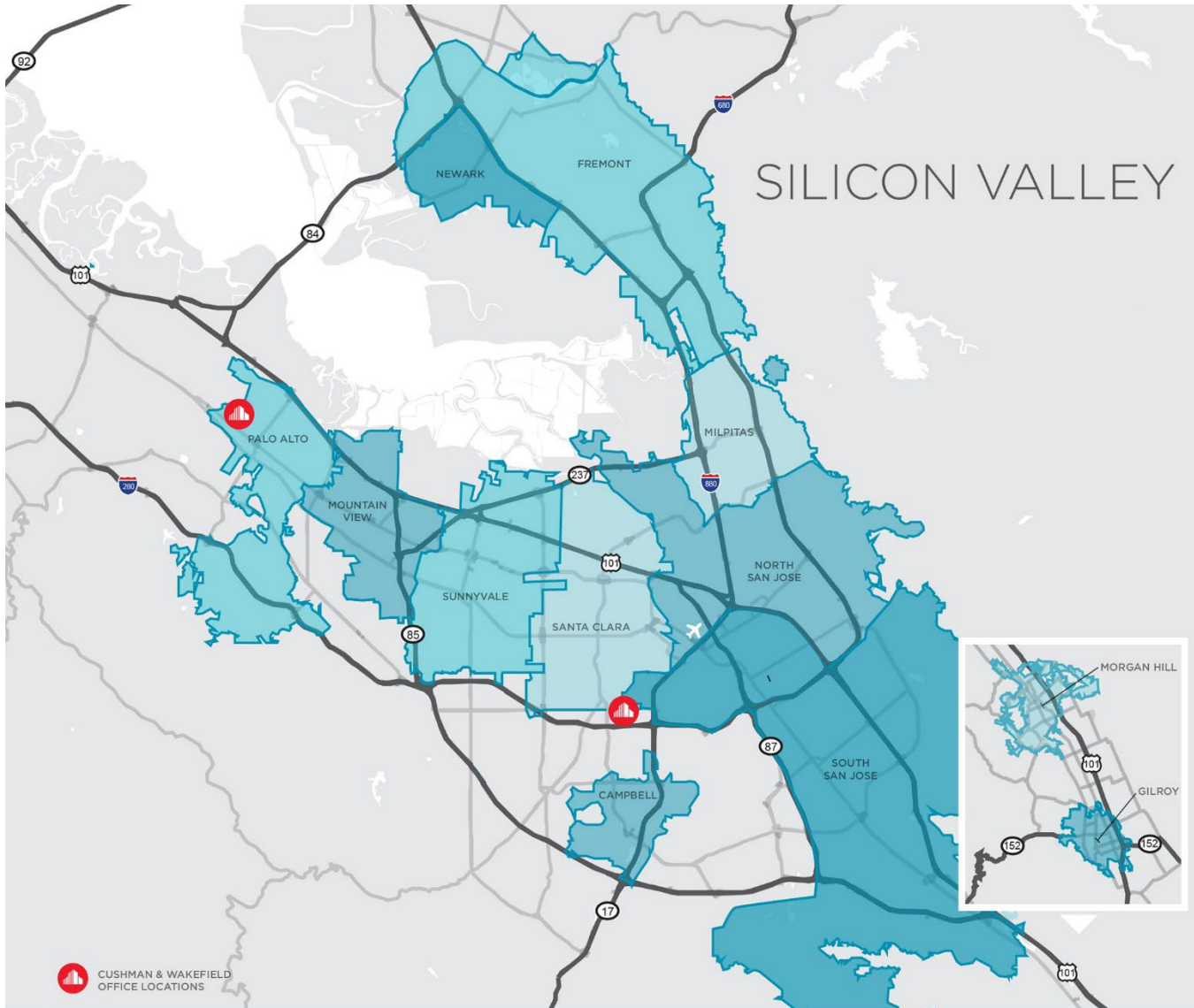
KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
38811 Cherry St	Newark	Met Life Realty Group / BentallGreenOak	574,640	\$138M / \$240
35445 Dumbarton Ct	Newark	ETM Electromatic / Teledyne Technologies	55,193	\$16.9M / \$307
3060 Raymond St	Santa Clara	Ooibodo LLC / Ellis Partners	29,058	\$13.5M / \$465
2290 De La Cruz Blvd	Santa Clara	Victor Leasing Company / DP Ventures LLC	25,600	\$7.5M / \$293

SILICON VALLEY

Industrial Q4 2022

INDUSTRIAL SUBMARKETS



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