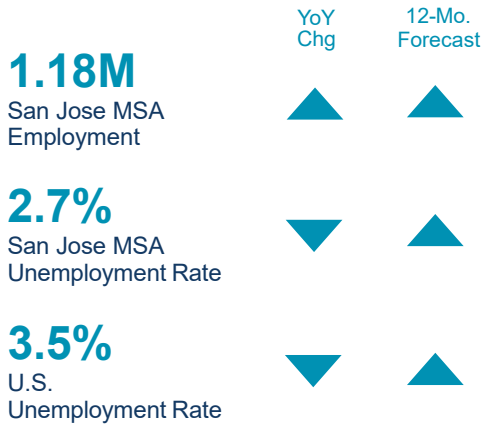


ECONOMIC INDICATORS Q1 2023



Source: BLS, Moody's Analytics
2023 Q1 data are based on the latest available data

ECONOMY: Layoffs Shock Commercial Markets

Though historically more resilient than other markets nationally, the Bay Area has begun to show signs of an economic downturn. Mass layoffs from tech companies throughout the Bay Area have caused tenants and landlords to pause and reassess. The San Jose MSA unemployment rate was down 90 basis points (bps) year-over-year (YOY) finishing at 2.7% but it did climb slightly higher since the fourth quarter of 2022. Despite this recent rise, there was still an increase of 41,800 jobs YOY. The San Jose region with its still low unemployment rate is still outperforming the overall United States at 3.5% nationally, though both figures are likely to rise further this year.

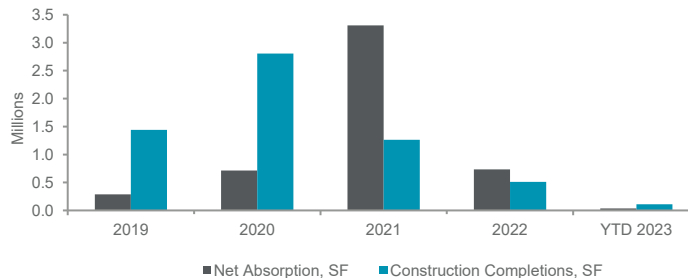
SUPPLY: Vacancy Remains at Pre-Pandemic Levels

At the end of the first quarter of 2023, Silicon Valley's industrial vacancy rate inched up to 3.2%, from 3.1% in the fourth quarter of 2022. This rate translates to a total of 3.8 million square feet (msf) of vacant space in the Valley, and is on par with pre-pandemic levels, when the vacancy rate was 3.0% in the first quarter of 2019. Sublease space accounts for 24.6% of all space, a significant increase from the 5.6% mark at the end of 2021. New subleases that came on the market this quarter included Applied Materials' sublease in Fremont (209,000 sf) and Lucid Motors in Newark (161,000 sf). Both projects were newly constructed and leased during the pandemic though were never occupied. They will likely be attractive to those tenants in the market seeking ready-to-occupy modern space.

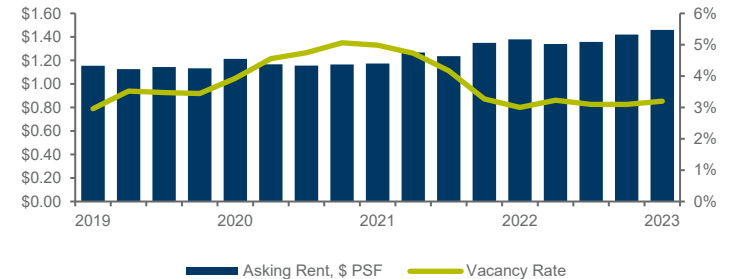
PRICING: Asking Rents Continue Upwards Trend

The average asking rent for industrial space in Silicon Valley continued its upward trend, rising to \$1.46 per square foot (psf) on a monthly triple net basis, a 2.8% increase quarter over quarter (QOQ) and a 5.8% YOY. Likely due to the low vacancy rate in the industrial sector, rents did not see a significant drop due to the pandemic, and have risen 28.1% since the first quarter of 2019 when rents were \$1.14 psf. The average asking rent for warehouse and manufacturing space was \$1.31 psf and \$1.57 psf, 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 in the first quarter of 2023 recording just 757,000 sf. This is less than half the number leased in the fourth quarter and compares to the annual 2022 number of 8.1 msf. Given that the vacancy rate in the Valley began at 5.0% at the start of 2021 and has now fallen to 3.2%, it makes sense that deal activity has decreased, especially during a time where tenants are looking to be more selective about their space. Of the top five deals for the quarter, one was an expansion/renewal and the other four were renewals which shows that tenant interest in the Valley remains healthy; however, most tenants have put expansion or relocation plans on hold possibly due to the uncertain economic times. With little room to move, occupancy gains were also not as high as they were in 2022, measuring 35,000 sf of net absorption in the first quarter of 2023 compared to 734,000 sf in all of 2022.

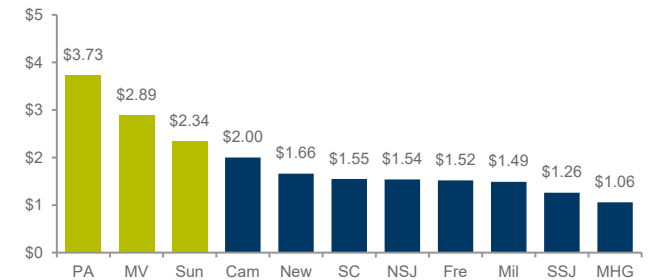
New Supply Underway

There are no projects breaking ground this quarter, though there is currently 1.4 msf under construction. The developments are focused in just three cities: Fremont, Morgan Hill, and San Jose. Only one project, the 209,000-sf Link Logistics Kato Road in Fremont, is set to complete in the first half of 2023, providing some needed additional modern supply in the near term.

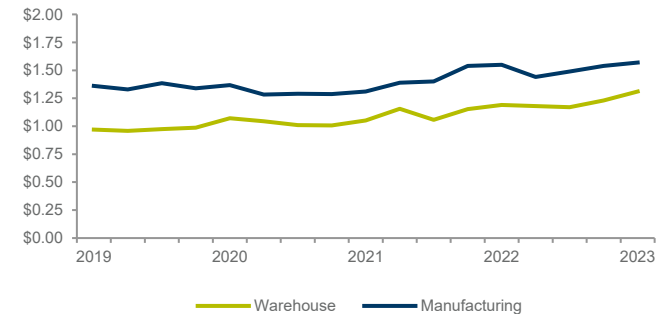
Outlook

- 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 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 placed on the market.

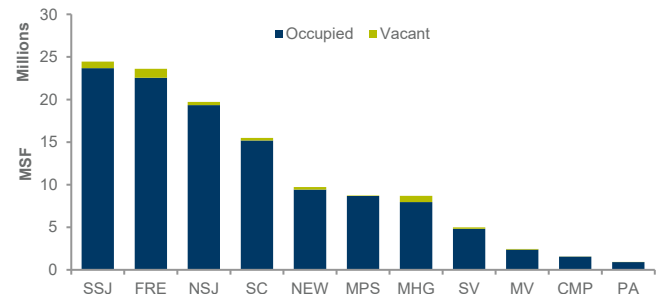
RENT BY SUBMARKET (\$ PSF, NNN)



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	921,143	7,200	0.8%	11,762	11,762	0	0	\$3.73	N/A**	\$3.73
Mountain View	2,446,051	79,215	3.2%	1,050	1,050	0	0	\$2.89	N/A**	\$2.89
101 Technology Corridor	3,367,194	86,415	2.6%	12,812	12,812	0	0	\$2.96	N/A**	\$2.96
Campbell	1,557,660	5,912	0.4%	(4,262)	(4,262)	0	0	\$2.00	N/A**	\$2.00
Sunnyvale	4,977,738	151,351	3.0%	6,578	6,578	0	0	\$2.32	\$2.45	\$2.34
Santa Clara	15,499,881	309,934	2.0%	(59,193)	(59,193)	0	0	\$1.59	\$1.52	\$1.55
North San Jose	19,717,332	377,416	1.9%	71,759	71,759	339,331	0	\$1.64	\$1.40	\$1.54
South San Jose	24,448,544	759,288	3.1%	264,249	264,249	0	0	\$1.32	\$1.23	\$1.26
Central Silicon Valley	66,201,155	1,603,901	2.4%	279,131	279,131	339,331	0	\$1.66	\$1.35	\$1.49
Milpitas	8,734,909	58,193	0.7%	45,454	45,454	0	0	\$1.54	\$1.45	\$1.49
Fremont	23,604,668	1,044,639	4.4%	(101,315)	(101,315)	605,041	110,558	\$1.53	\$1.52	\$1.52
Newark	9,723,681	304,383	3.1%	(194,943)	(194,943)	0	0	\$1.67	\$1.60	\$1.66
South I-880 Corridor	42,063,258	1,407,215	3.3%	(250,804)	(250,804)	605,041	110,558	\$1.57	\$1.52	\$1.55
Morgan Hill/Gilroy	8,692,688	735,926	8.5%	(5,890)	(5,890)	501,314	0	\$1.23	\$0.62	\$1.06
SUBTYPE BREAKDOWN										
Warehouse	48,398,988	1,635,667	3.4%	(111,803)	(111,803)	558,202	0			
Manufacturing	71,925,307	2,197,790	3.1%	147,052	147,052	887,484	110,558			
SILICON VALLEY TOTALS	120,324,295	3,833,457	3.2%	35,249	35,249	1,445,686	110,558	\$1.57	\$1.31	\$1.46

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

MF = Manufacturing W/D = Warehouse/Distribution

**Not enough data to establish rents

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
48021 Warm Springs Blvd	Fremont	Alom Technologies	106,100	Renewal
122 & 128 Component Dr	North San Jose	Managed Facility Solutions	63,500	Expansion/Renewal
45861 Hotchkiss St	Fremont	FM Industries Inc.	40,830	Renewal
1010 Milpitas Blvd, S.	Milpitas	Eco-Office, Inc.	31,500	Renewal
8610 Thornton Ave	Newark	SMART Modular Technologies	30,000	Renewal

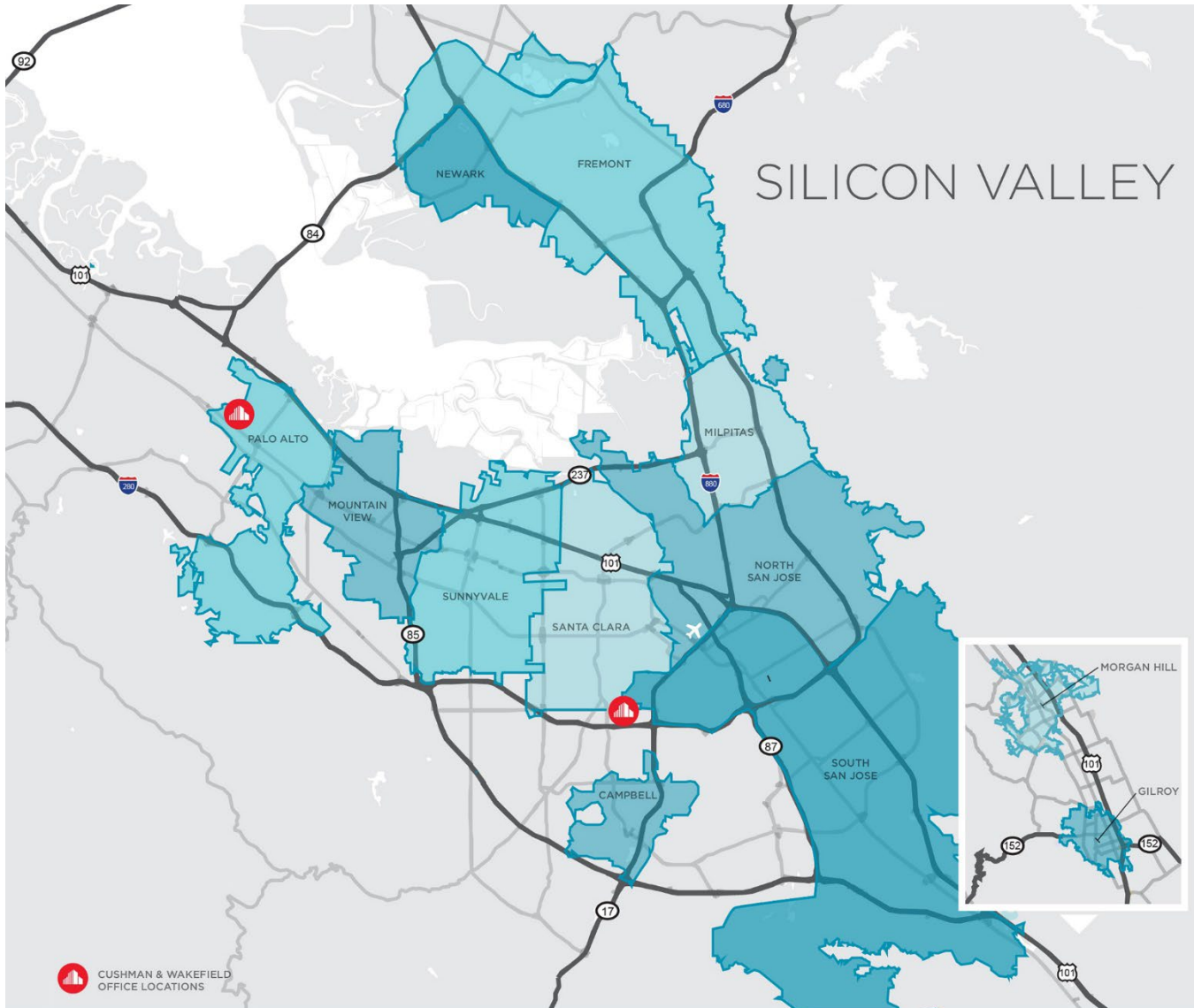
KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
7355-7395 Morton Ave	Newark	Overton Moore Properties / Terreno Realty	602,731	\$186.0M / \$308
1015 Timothy Dr	North San Jose	Ho Enterprise LLC / C&G California Enterprise	59,857	\$17.9M / \$299
1190-1262 Norman Ave	Santa Clara	Mark Amaral / South Bay Development	30,456	\$8.6M / \$282
41911 Osgood Rd	Fremont	Stacey Secrest / Christina Alley	15,000	\$4.2M / \$280

SILICON VALLEY

Industrial Q1 2023

INDUSTRIAL SUBMARKETS



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