

Industrial Q2 2023

YoY
Chg 12-Mo.
Forecast

3.1%

Vacancy Rate



68K

Net Absorption, SF



\$1.44

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS
Q2 2023YoY
Chg 12-Mo.
Forecast

1.2M

San Jose MSA
Employment

3.3%

San Jose MSA
Unemployment Rate

3.5%

U.S.
Unemployment Rate

Source: BLS, Moody's Analytics

2023 Q2 data are based on the latest available data

ECONOMY: Layoffs Shock Commercial Markets

The Bay Area has struggled to return to its pre-pandemic economic strength. Technology companies have been both a blessing and curse for the region, though more of the latter recently, with layoffs prevalent among Big Tech and startups alike plus the propensity of many of the positions remaining to be remote or at least hybrid. This has all caused tenants and landlords alike to pause and reassess space needs moving forward. One bright spot is the generative artificial intelligence (AI) vertical which is heavily concentrated in the region with 88% percent of the venture capital funding globally going into Bay Area-headquartered AI companies in the first half of 2023. For the San Jose MSA, the unemployment rate was up 70 basis points (bps) year-over-year (YOY) finishing at 3.2% in the second quarter. Despite this recent rise, there was still an increase of 31,800 jobs YOY.

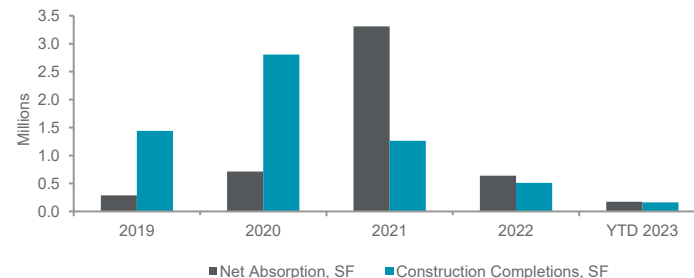
SUPPLY: Vacancy Remains at Pre-Pandemic Levels

Silicon Valley's industrial vacancy rate has remained flat for the last four quarters, finishing the second quarter at 3.1%. 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 3.0% in the first quarter of 2019. The one more recent twist to the data is that sublease space accounts for 24.5% of all space, a significant increase from the 5.6% mark at the end of 2021.

PRICING: Asking Rents Drop Slightly

The average asking rent for industrial space in Silicon Valley dropped slightly, finishing the quarter at \$1.44 per square foot (psf) on a monthly triple net basis, down from \$1.46 psf in the first quarter. Likely due to the low vacancy rate in the industrial sector, rents did not see a significant drop due to the pandemic, and have actually climbed 26.3% since the first quarter of 2019 when rents were \$1.14 psf. The average asking rent for warehouse and manufacturing space was \$1.29 psf and \$1.54 psf, respectively, with rents expected to continue further upward momentum in the future.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Deal Velocity Jumps in Second Quarter

After a very slow first quarter that saw only 900,000 square feet (sf) of deals, leasing more than doubled in the second quarter to 1.9 msf. Interestingly, approximately 1.0 msf of the total leases took place in Fremont. The top lease of the quarter was Tesla who leased the newly built 209,000-sf building that just came on the market last quarter. Four of the top five deals occurred in Fremont and two were renewals which shows that tenant interest in the Valley remains healthy; that said, many tenants still remain on the sidelines for the time being likely due to the uncertain economic times. With such a low vacancy rate and with minimal new recent deliveries, occupancy gains were also not as substantial as they were in 2022, measuring 68,000 sf of net absorption in the second quarter of 2023 compared to 638,000 sf in all of 2022.

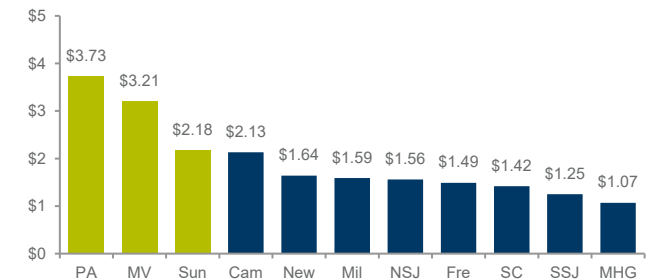
New Supply Underway

There was one project that broke ground this quarter – two buildings totaling 382,000 sf in Gilroy. The total under construction is 1.8 msf which is all speculative space. The developments are focused in Fremont, Morgan Hill, San Jose and now Gilroy. Only two projects, the 209,000-sf Link Logistics Kato Road in Fremont, and the 212,000-sf Black Creek Group N. King Road site in San Jose are set to complete in 2023, providing some needed additional modern supply in the near term.

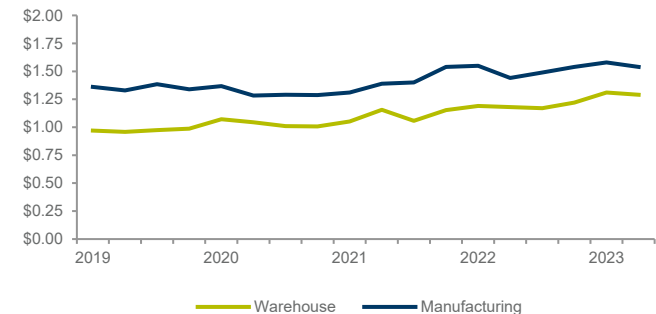
Outlook

- Despite remaining economic uncertainty, industrial vacancy is expected to remain low 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 deliveries will reduce market constraints but will also push up rents in the Fremont, San Jose, and Morgan Hill/Gilroy submarkets. This trend may be somewhat offset by subleases and older product being placed on the market.

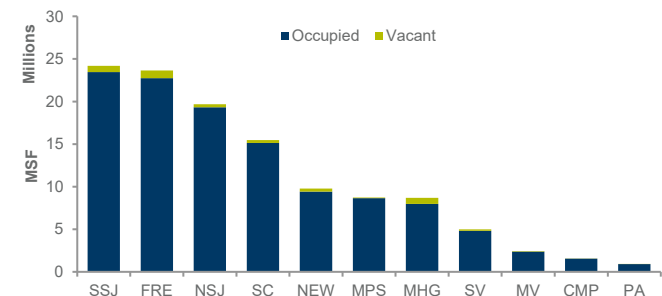
RENT BY SUBMARKET (\$ PSF, NNN)



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%	0	11,762	0	0	\$3.73	N/A**	\$3.73
Mountain View	2,433,993	56,280	2.3%	22,935	23,985	0	0	\$3.21	N/A**	\$3.21
101 Technology Corridor	3,355,136	63,480	1.9%	22,935	35,747	0	0	\$3.27	N/A**	\$3.27
Campbell	1,557,660	7,512	0.5%	(1,600)	(5,862)	0	0	\$2.13	N/A**	\$2.13
Sunnyvale	4,977,738	150,745	3.0%	606	7,184	0	0	\$2.13	\$2.45	\$2.18
Santa Clara	15,475,281	342,525	2.2%	(37,871)	(91,784)	0	0	\$1.42	\$1.43	\$1.42
North San Jose	19,677,038	350,383	1.8%	27,033	98,792	339,331	0	\$1.65	\$1.46	\$1.56
South San Jose	24,197,011	738,663	3.1%	20,625	284,874	0	0	\$1.28	\$1.23	\$1.25
Central Silicon Valley	65,884,728	1,589,828	2.4%	8,793	293,204	339,331	0	\$1.56	\$1.34	\$1.45
Milpitas	8,734,909	91,293	1.0%	(24,350)	21,104	0	0	\$1.66	\$1.55	\$1.59
Fremont	23,654,908	911,159	3.9%	96,679	59,564	605,041	50,727	\$1.53	\$1.44	\$1.49
Newark	9,781,449	354,909	3.6%	(50,526)	(245,469)	0	0	\$1.64	\$1.63	\$1.64
South I-880 Corridor	42,171,266	1,357,361	3.2%	21,803	(164,801)	605,041	50,727	\$1.57	\$1.48	\$1.54
Morgan Hill/Gilroy	8,692,688	721,751	8.3%	14,175	8,285	501,305	0	\$1.24	\$0.62	\$1.07
SUBTYPE BREAKDOWN										
Warehouse	48,185,704	1,484,733	3.1%	178,333	66,530	940,767	50,727			
Manufacturing	71,918,114	2,247,687	3.1%	(110,627)	105,905	887,475	0			
SILICON VALLEY TOTALS	120,103,818	3,732,420	3.1%	67,706	172,435	1,828,242	50,727	\$1.54	\$1.29	\$1.44

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

MF = Manufacturing W/D = Warehouse/Distribution

**Not enough data to establish rents

KEY LEASE TRANSACTIONS Q2 2023

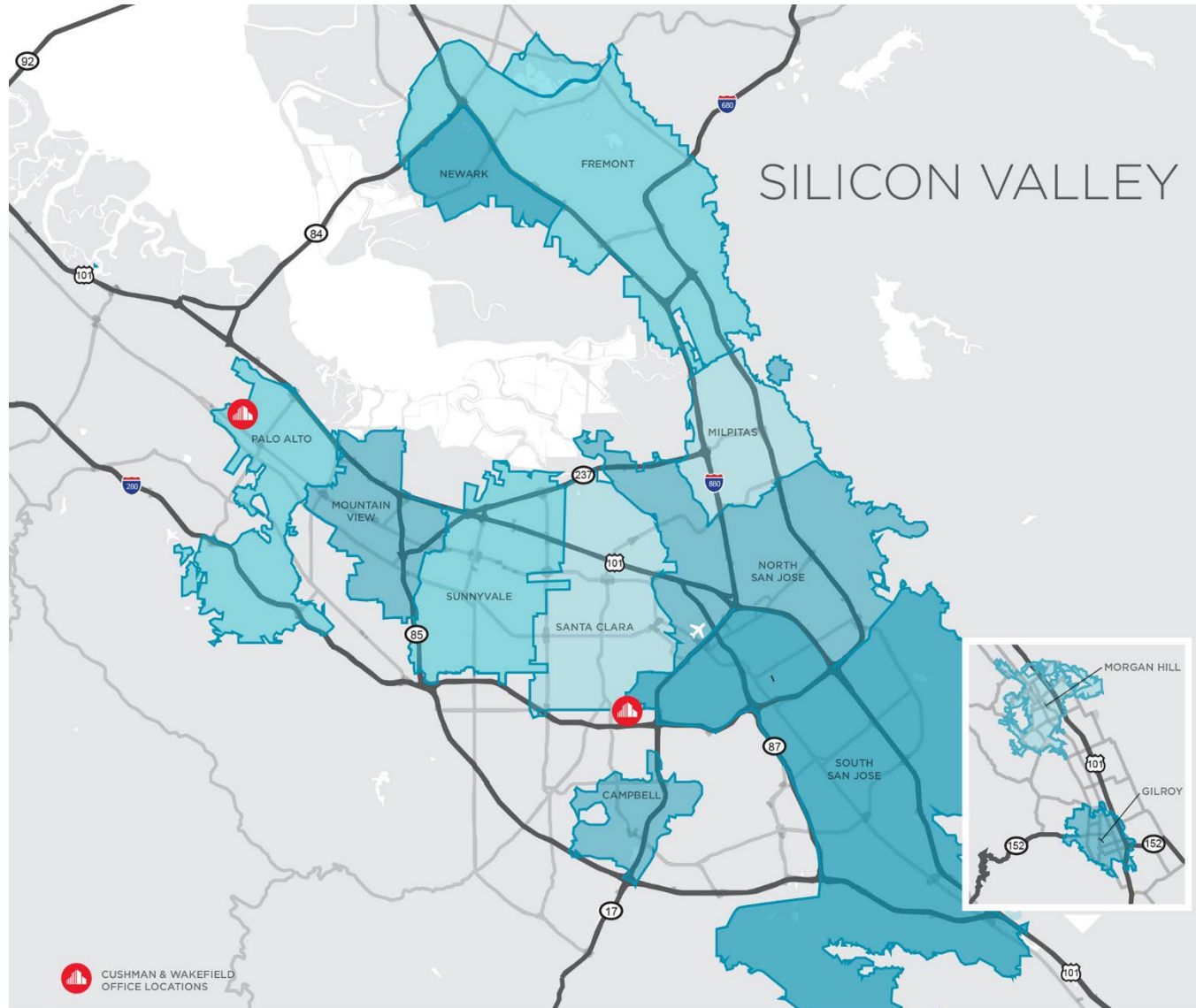
PROPERTY	SUBMARKET	TENANT	SF	TYPE
48401 Fremont Blvd	Fremont	Tesla	209,926	New Lease
47020 Kato Rd	Fremont	RK Logistics	209,916	New Lease
41460 Boyce Rd	Fremont	OnTrac Logistics, Inc.	132,900	Renewal
48900 Milmont Dr	Fremont	Bintang Badminton	123,969	New Lease
1121 Montague Expy	Milpitas	OnTrac Logistics, Inc.	101,066	Renewal

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
47488 Kato Rd	Fremont	Seagate Technology / Madison Capital	574,775	\$260.0M / \$452
1980 Senter Rd	South San Jose	Exeter Group / Ho Family Living Trust	132,721	\$37.8M / \$285
2060 Walsh Ave	Santa Clara	PS Business Parks / 2060 Walsh LLC	82,907	\$15.2M / \$183
5120 Brandin Ct	Fremont	Schwan's Sales Enterprises / Lift Partners	15,875	\$5.6M / \$352



INDUSTRIAL SUBMARKETS

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