

Industrial Q3 2023

	YoY Chg	12-Mo. Forecast
3.4% Vacancy Rate	▲	▼
-429K Net Absorption, SF	▼	▲
\$1.50 Asking Rent, PSF	▲	▲
Overall, Net Asking Rent		

ECONOMIC INDICATORS
Q3 2023

	YoY Chg	12-Mo. Forecast
1.2M San Jose MSA Employment	▲	▲
3.5% San Jose MSA Unemployment Rate	▲	▲
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics
2023 Q3 data are based on the latest available data

ECONOMY: Unemployment Increases

The Bay Area has struggled to return to its pre-pandemic economic levels. 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. One bright spot is the recent push of companies to mandate at least hybrid in office. All this change has caused both tenants and landlords to pause and reassess space needs moving forward. For the San Jose MSA, the unemployment rate was up 100 basis points (bps) year-over-year (YOY) finishing at 3.5% in the third quarter. Despite this recent rise, there was still an increase of 23,000 jobs YOY.

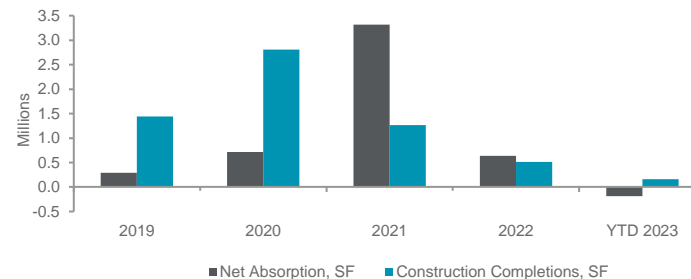
SUPPLY: Slight Increase in Vacancy

Silicon Valley's industrial vacancy rate has remained mostly flat for the last several quarters but did climb to 3.4% in the third quarter. This rate translates to a total of 4.1 million square feet (msf) of vacant space in the Valley, and is a slight increase from 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 25.5% of all space, a significant rise from the 5.6% mark at the end of 2021.

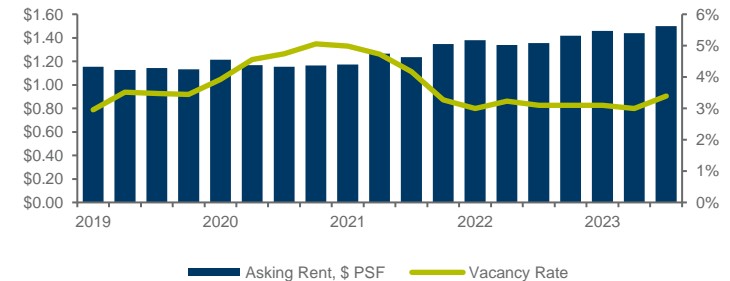
PRICING: Asking Rents Rise

The average asking rent for industrial space in Silicon Valley is the highest this year at \$1.50 per square foot (psf) on a monthly triple net basis, up from \$1.44 psf in the second quarter. Likely due to the low vacancy rate in the industrial sector, rents did not yield a significant drop during the pandemic, and have actually climbed 31.6% since the first quarter of 2019 when rents were \$1.14 psf. The average asking rent for warehouse and manufacturing space was \$1.25 psf and \$1.64 psf, respectively, with pricing expected to continue momentum and trend higher in the near-term.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DEMAND: Deal Velocity Drops in Third Quarter

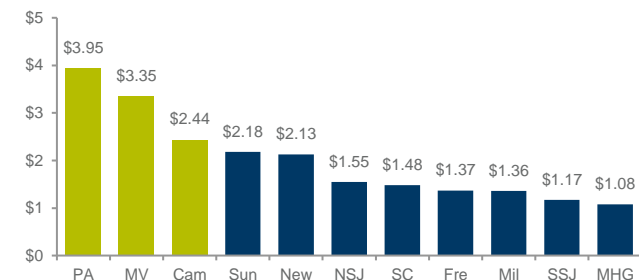
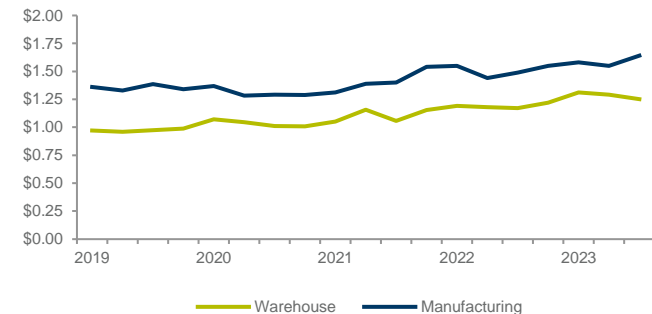
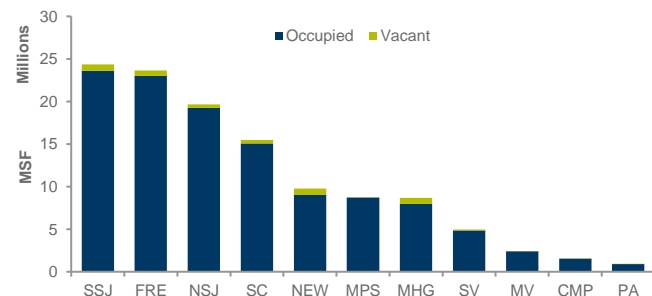
After a strong second quarter with almost 2.0 msf of activity, leasing fell to 1.5 msf in the third quarter. The submarkets with the most leasing were North San Jose and Fremont, which together accounted for 53.0% of all activity. The top lease of the quarter was RK Logistics Group's 190,000-sf renewal at 47107 Christy Street in Fremont. Two of the top five deals were renewals, showing that tenant interest in the Valley remains healthy. With that said, many tenants have remained 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 429,000 sf of negative net absorption in the third quarter of 2023 compared to positive 635,000 sf in all of 2022. Fueling the net losses have been older, outdated product which has accounted for the bulk of vacancies in recent quarters.

CONSTRUCTION: New Supply Underway

There was one project that broke ground this quarter – 5835 Rue Ferrari in San Jose. The 302,000-sf project is being developed by Prologis and is expected to be complete in late 2024. Projects under construction total 2.1 msf and are all on a speculative basis. The developments are focused in Fremont, Morgan Hill, San Jose and Gilroy. The only project set to be completed in the fourth quarter is Link Logistics' 209,000-sf building on Kato Road in Fremont, which is fully preleased to RK Logistics Group.

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 supply 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**

Industrial Q3 2023

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	6,000	0.7%	1,200	12,962	0	0	\$3.95	\$0.00	\$3.95
Mountain View	2,433,993	35,290	1.4%	20,990	44,975	0	0	\$3.35	\$0.00	\$3.35
101 Technology Corridor	3,355,136	41,290	1.2%	22,190	57,937	0	0	\$3.44	\$0.00	\$3.44
Campbell	1,557,660	22,372	1.4%	(14,860)	(20,722)	0	0	\$2.44	\$0.00	\$2.44
Sunnyvale	4,977,738	132,914	2.7%	11,371	25,015	0	0	\$2.13	\$2.45	\$2.18
Santa Clara	15,475,281	408,024	2.6%	(135,499)	(157,283)	0	0	\$1.47	\$1.51	\$1.48
North San Jose	19,677,936	415,132	2.1%	(64,749)	34,043	339,331	0	\$1.61	\$1.49	\$1.55
South San Jose	24,361,376	762,013	3.1%	(19,350)	265,524	302,775	0	\$1.22	\$1.15	\$1.17
Central Silicon Valley	66,049,991	1,740,455	2.6%	(223,087)	146,577	642,106	0	\$1.55	\$1.31	\$1.43
Milpitas	8,734,909	189,208	2.2%	(97,915)	(76,811)	0	0	\$1.57	\$1.25	\$1.36
Fremont	23,655,060	653,012	2.8%	262,032	317,711	605,041	0	\$1.33	\$1.47	\$1.37
Newark	9,781,449	754,322	7.7%	(401,198)	(644,882)	0	0	\$2.19	\$1.63	\$2.13
South I-880 Corridor	42,171,418	1,596,542	3.8%	(237,081)	(403,982)	605,041	0	\$1.81	\$1.43	\$1.72
Morgan Hill/Gilroy	8,701,888	712,752	8.2%	8,999	17,284	883,870	0	\$1.25	\$0.67	\$1.08
SUBTYPE BREAKDOWN										
Warehouse	48,371,556	1,462,310	3.0%	28,133	88,953	1,243,542	0			
Manufacturing	71,906,877	2,628,729	3.7%	(457,112)	(271,137)	887,475	0			
SILICON VALLEY TOTALS	120,278,433	4,091,039	3.4%	(428,979)	(182,184)	2,131,017	0	\$1.64	\$1.25	\$1.50

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

**Not enough data to establish rents

MF = Manufacturing W/D = Warehouse/Distribution

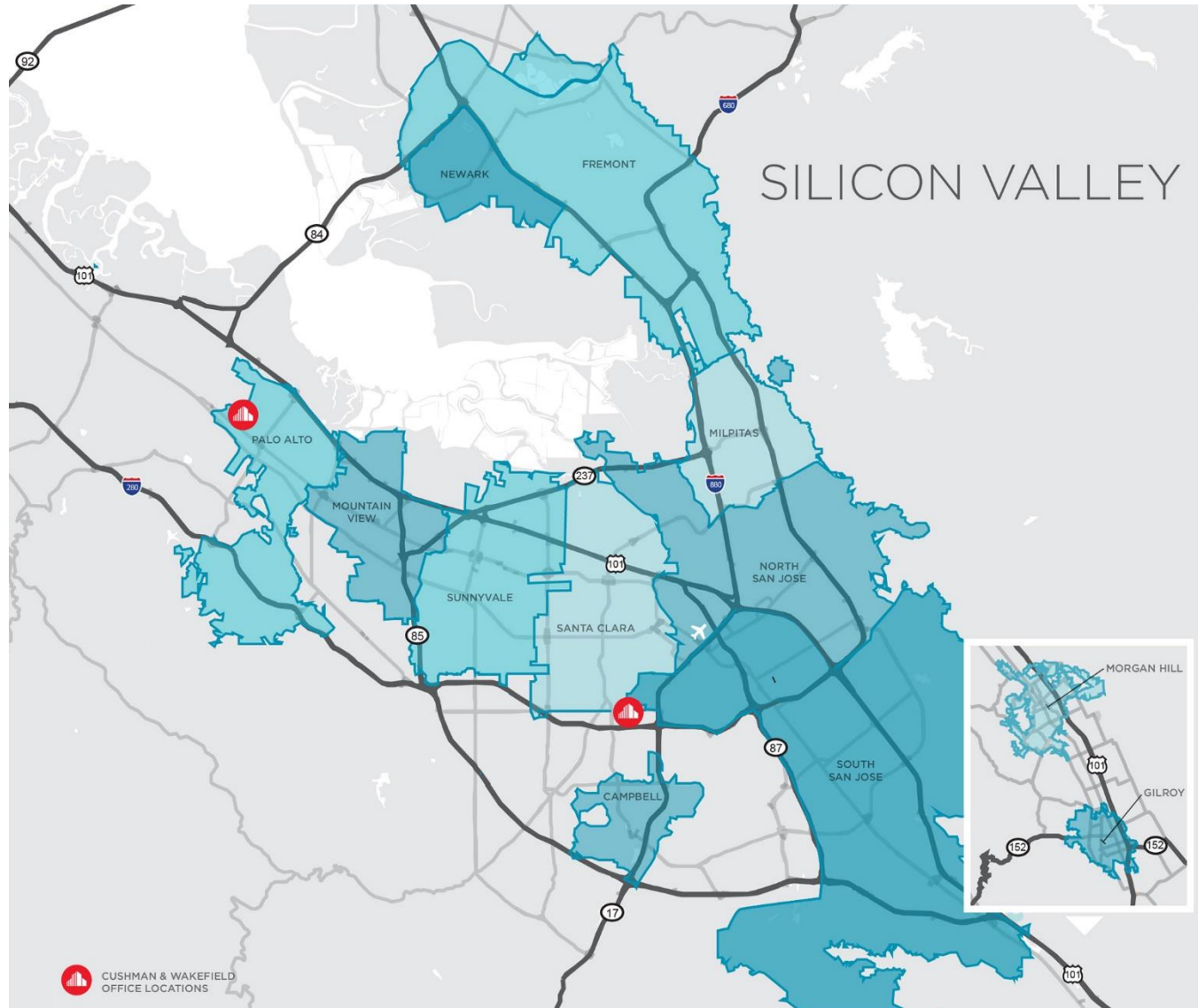
KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
47107 Christy St	Fremont	RK Logistics Group	190,080	Renewal
5567 Cushing Pky	Fremont	Quanta Manufacturing	163,193	New Lease
7395 Morton Ave	Newark	Verdagay	123,348	Sublease
1480 Nicora Ave	North San Jose	Slakey Brothers, Inc.	93,605	Renewal
18225 Butterfield Blvd	Morgan Hill	Pinnacle Exhibits, Inc.	85,456	New Lease

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
48350 Fremont Blvd	Fremont	Blackstone / Prologis	246,500	\$86.6M / \$351
6212 Hellyer Ave	South San Jose	Colony Capital / Prologis	111,043	\$37.7M / \$339
1919 Monterey Rd	South San Jose	Lin & Liang Real Estate / Dalfen Industrial	77,727	\$25.0M / \$321
1235 Elko Dr	Sunnyvale	Rialto Capital / Teviac California, LLC	36,036	\$20.2M / \$560

INDUSTRIAL SUBMARKETS



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