

Silicon Valley

Market Facts

2.2%

Industrial Vacancy

3.8%

Warehouse Vacancy

\$1.11 NNN

Industrial
Average Asking Rate

\$1.14 NNN

Warehouse
Average Asking Rate

Ecommerce Continues to Drive Demand for Industrial and Warehouse Space as Demand from Other Sectors Weaken

- As the first half of 2020 came to a close, uncertainty of the implications of COVID-19 on the economy and commercial real estate market continues to loom over the Silicon Valley. While shelter in place orders remain, Silicon Valley's economy struggles to recover. As of June, 115,200 people in Santa Clara County were out of work, bringing the unemployment rate to 10.8%.
- New tenant activity was quiet during the second quarter as many business operations came to a halt as a result of COVID-19. Total leasing measured 465,989 square feet, down 71% from the amount of activity measured in the first quarter of 2020 and 60% from one year earlier.
- Total vacant industrial space in the Silicon Valley measured 904,838 square feet at the close of the first quarter, compared to the 2.1 million square feet of vacant warehouse space. This amount of space translates to a vacancy rate of 3.1% overall for the two products types combined.
- At the close of Q2, average asking rates measured \$1.11 per square foot, NNN for industrial while warehouse space was commanding rates at \$1.14 per square foot, NNN. The impact on average asking rates remain uncertain, landlords are holding steady while tenants continue to look for a post-covid discount.
- With the onset of COVID-19, the focus on the movement of goods from transportation hubs to the final consumer destination has intensified. Amazon inked two of the largest warehouse deals signed during the second quarter. The ecommerce company leased 388,240 square feet in Milpitas in addition to 77,608 sf in San Jose, largely propping up tenant demand during the quarter.
- Investment activity fell 42% during the second quarter recording only \$273 million in total volume as investors across the Bay Area largely took a seat on the side line as many anticipate continued market disruption as a result of COVID-19.

Trends to Watch



Demand

With declines in leasing activity in the first half of the year, look for vacancy to trend upward as COVID-19 continues to put pressure on Bay Area companies



Ecommerce

As consumer expectations and needs shift as a result of COVID-19, business operations will too. Logistics networks will focus more on integrating local and regional hubs.



Rents

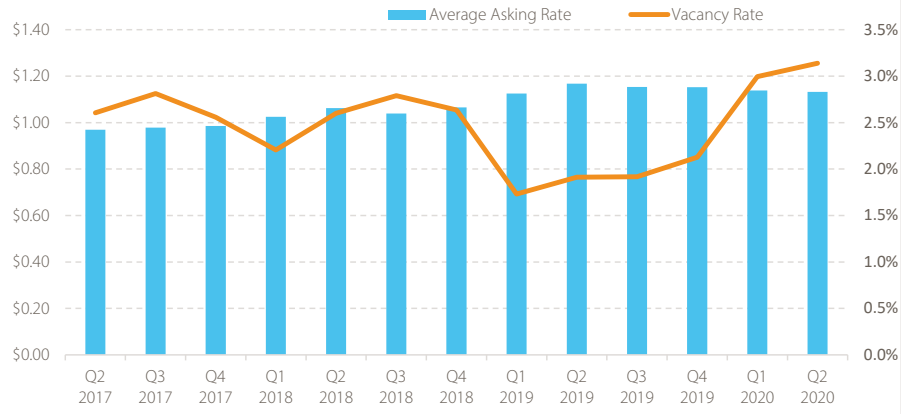
Expect to see asking rates soften as tenant demand adjusts from recent highs. As continued sublease space hits the market this too will put downward pressure on average asking rates.

The spread of COVID-19 and the containment policies throughout California and the U.S. continue to change rapidly. While information in this report is current as of the date written, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. We are committed to you, our clients, and remain available for discussions and advice as your partners and to offer our latest insights.

Looking Forward

Although the impacts of COVID-19 on the Silicon Valley office market begin to surface, the full implications have yet to be realized. As the region remains under shelter in place orders, the continued pressure on the economy is likely to have an impact on demand, asking rates and vacancy. However, the Silicon Valley is an innovation based economy with a healthy tenant base of tech companies such as Google and Apple, who employ a highly educated workforce. Following any slowdown or recession, the Silicon Valley is likely to recover quickly, just as it has done in previous cycles.

Historical Vacancy vs. Asking Rates



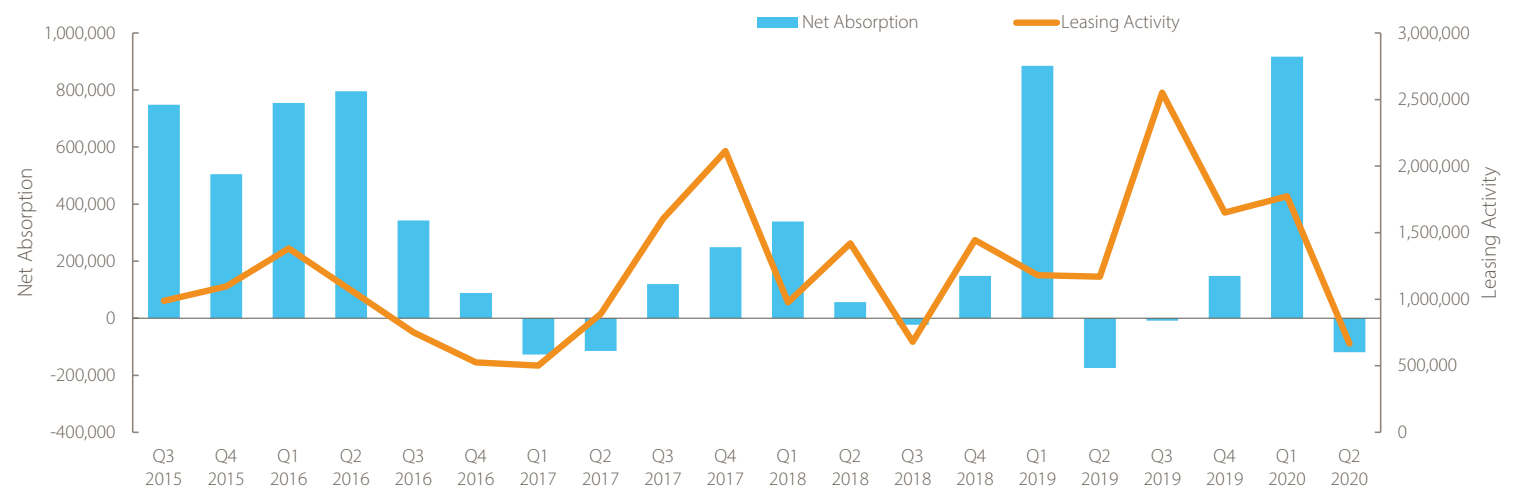
Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Amazon	205 N McCarthy Boulevard	Milpitas	388,240	Direct Lease
DGA Services	1025 Montague Expressway	San Jose	82,179	Direct Lease
Amazon	615 King Road	San Jose	77,608	Direct Lease
Scholastic Book Fairs	42001 Christy Street	Fremont	67,920	Renewal
MacCal	2520 Zanker Road	San Jose	55,600	Renewal

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
180-186 E Sunnyoaks Avenue	Robinson Oil Company	Campbell	71,339	\$20,500,500	\$287
4200 Business Center Drive	Locke Investments	San Jose	46,589	\$8,600,000	\$185
4160-4170 Business Center Drive	Johnson Lam	San Jose	38,692	\$9,125,000	\$235
37428 Centralmont Place	Mercado Enterprises, LLC	Fremont	14,000	\$2,740,000	\$196

Historical Leasing vs Net Absorption



SUBMARKET	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate	Avail Rate	Total SF Leased	Net Absorption (SF)	Under Const.	SF Delivered	Avg. Asking Rate (NNN)
Palo Alto										
Industrial	1,240,319	19,975	0	0.3%	0.3%	0	8,020	0	0	\$2.50
Warehouse	807,479	0	0	0.0%	0.7%	0	0	0	0	\$1.12
Mountain View										
Industrial	618,184	51,537	3,600	2.3%	2.6%	9,200	0	0	0	\$2.41
Warehouse	838,230	26,957	0	3.5%	3.6%	8,600	1,059	0	0	\$2.84
Sunnyvale										
Industrial	2,544,034	24,087	0	5.3%	6.1%	0	0	0	0	\$2.13
Warehouse	2,467,628	2,150	0	0.4%	1.7%	0	0	0	0	\$1.25
Santa Clara										
Industrial	7,641,271	38,708	0	1.9%	2.4%	43,834	-14,640	0	0	\$1.39
Warehouse	6,459,832	33,287	0	2.2%	6.6%	106,409	-6,675	0	0	\$1.06
San Jose										
Industrial	12,950,109	427,728	0	2.4%	4.7%	54,150	-21,996	0	0	\$1.06
Warehouse	25,216,429	701,526	1,500	2.4%	5.1%	485,408	-8,577	165,640	0	\$0.94
West Valley										
Industrial	1,292,760	0	0	2.6%	2.7%	0	-13,910	0	0	\$1.83
Warehouse	786,195	800	0	1.3%	1.3%	0	-9,300	0	0	\$1.41
Milpitas										
Industrial	2,665,274	127,000	0	2.1%	8.5%	7,871	-20,200	0	0	\$1.10
Warehouse	5,146,024	376,919	33,518	1.8%	13.0%	143,410	9,285	0	450,610	\$1.05
Fremont										
Industrial	11,392,164	139,549	10,000	1.9%	2.5%	147,330	30,436	0	0	\$1.35
Warehouse	14,424,168	483,264	7,120	8.0%	14.5%	414,092	-95,645	1,796,573	0	\$1.15
Silicon Valley Totals										
Industrial	40,344,115	828,584	13,600	2.2%	3.7%	262,385	-32,290	0	0	\$1.11
Warehouse	56,145,985	1,624,903	42,138	3.8%	8.1%	1,157,919	-109,853	1,962,213	450,610	\$1.14
Total	96,490,100	2,453,487	55,738	3.1%	6.3%	1,420,304	-142,143	1,962,213	450,610	\$1.13



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Properties

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