

# Silicon Valley Industrial

## Market Forecast

	Industrial
Absorption	↓
Vacancy	↔
Rental Rate	↔
New Construction	↔
	Warehouse
Absorption	↑
Vacancy	↔
Rental Rate	↔
New Construction	↔

The Silicon Valley industrial and warehouse market tightened in the fourth quarter, but looks to continue steady growth in the near future. The markets reported a combined 543,027 square feet of net absorption. The year closed out with a combined 1,132,657 square feet of net absorption. Average blended industrial and warehouse asking rental rates market-wide remained steady at \$1.14 per square foot per month on a triple-net basis, which is up from \$1.02 at the end of last year. Industrial vacancies also remained relatively unchanged at 4.91%; a modest increase from 2015 Q4's 4.86%. Demand for warehouse product is very strong. Constrained supply in that market has driven rental rates to historic highs, and multiple offers are common, especially for smaller spaces. The industrial market is also compressed, and users have limited choices in the current environment.

## Notable Lease Transactions

**J. Lohr Winery**  
1895 S. 10th Street, San Jose  
169,200 s.f.

**Riverview Systems, Group**  
1001 Cadillac Court, San Jose  
70,042 s.f.

## Notable Sale Transactions

**The Blackstone Group LP**  
2055 S Seventh Street, San Jose  
459,479 s.f.

**The Blackstone Group LP**  
800/850 Corporate Way, Fremont  
193,798 s.f.

**Handley Family**  
1820 McCarthy Blvd, Milpitas  
107,984 s.f.

The industrial vacancy rate remained constant at 4.91% this quarter, while warehouse vacancies also remained constant at 2.22%, although the unchanged vacancy rate is somewhat misleading. The Silicon Valley industrial market remains strong, but vacancy rates are at or have been near historically low levels for several quarters, so there isn't a lot of room for it to decrease even with robust demand. Tenants have been forced to move, as their old facilities are slated for redevelopment to residential or higher density office projects. This serves to compress the market further as near term supply decreases while demand remains robust. The Silicon Valley warehouse market saw 631,482 square feet of net absorption this quarter, and 1,132,657 square feet of net absorption for the year. Fremont experienced the biggest industrial net absorption gain in the Silicon Valley, posting 30,165 square feet in the fourth quarter. Milpitas had the largest warehouse net absorption gain this quarter with 291,417 square feet. San Jose once again posted the largest industrial loss with (88,669) square feet of negative net absorption. San Jose posted the largest warehouse annual gain with 482,176 square feet of net absorption.

Notable large industrial and warehouse lease transactions were not as prolific during the fourth quarter compared to previous quarters, but were upheld by strong renewals. J. Lohr Winery renewed 169,200 sf at 1895 S. Tenth Street in San Jose. Riverview Systems Group also renewed in San Jose for 70,042 sf at 1001 Cadillac Court. Compass Group USA, Inc. inked the largest Fremont deal, snagging 61,010 square feet at 4900 Hannover Place in Fremont. Finally, Gruma Corporation will be settling into a new location with their 38,433 sf lease at 410 Trimble in San Jose.

Historically high volumes of user requirements paired with decreasing industrial supply kept rental rates at \$1.14 per square foot per month on a triple-net basis this quarter. New developments

→ Continued, page 2

**Offices**

Seattle  
206.296.9600

Bellevue  
425.454.7040

South Seattle  
206.248.7300

Tacoma  
253.722.1400

Olympia  
360.705.2800

Portland  
503.221.9900

San Francisco  
415.229.8888

Redwood Shores  
650.769.3600

Silicon Valley  
408.970.9400

Sacramento  
916.970.9700

Roseville  
916.751.3600

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

**Contact**

**Reed Payne**  
Executive VP, Brokerage  
Northern California  
415.229.8888  
[rpayne@kiddermathews.com](mailto:rpayne@kiddermathews.com)

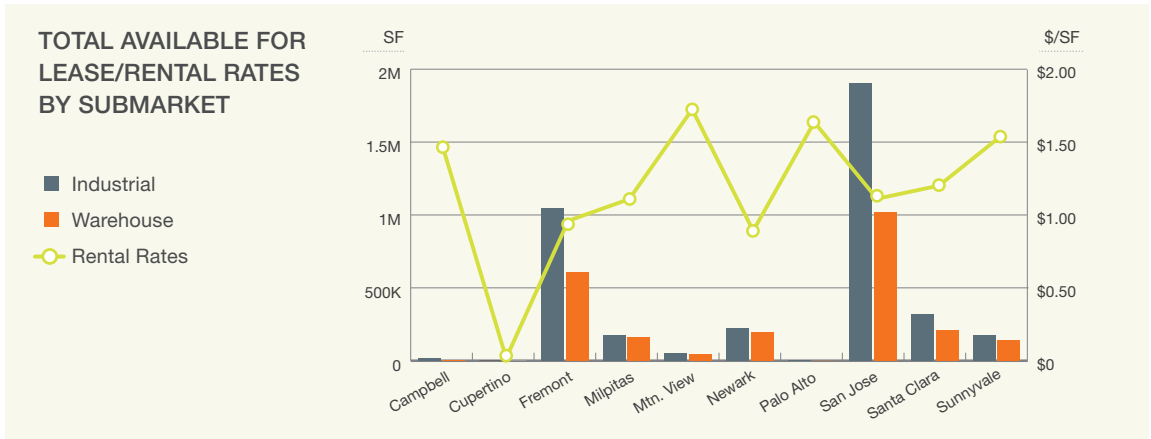
Designated Broker  
Reed Payne | LIC #00818935

continue to boost their asking rents, driving price tags higher on choice product market-wide. At \$1.75 per square foot, Mountain View had the highest industrial asking rent in the Silicon Valley market at quarter's end, while Newark, at \$0.92 per square foot, had the lowest. About 3.91 million square feet of industrial space was available for lease at quarter's end, with San Jose accounting for 48% of the availabilities and Fremont contributing another 26%. Warehouse supply continues to tighten and is struggling to keep pace with demand. Warehouse rents are hitting historical levels, and multiple offers are becoming more common.

Industrial and warehouse sales activity remained robust this quarter, especially for investment groups like The Blackstone Group, which was very active this quarter. Their first purchase was a 459,479 sf warehouse located at 2055 S Seventh Street in San Jose. Blackstone's next big purchase was for two buildings totaling 193,798 square feet located at 800 and 850 Corporate Way in Fremont. The next largest purchase was in Milpitas, where the Handley Family purchased 1820

McCarthy Boulevard totaling 107,984 square feet. Goble Investments, LLC was another active investor making moves this quarter. Their largest purchase was a 53,702 sf warehouse located at 3201 Keller Street in San Jose. Goble Investments, LLC purchased another 46,956 sf warehouse in Santa Clara at 3233 De La Cruz Boulevard. The industrial market is getting tighter as prices are nearing record highs, and older projects are being demolished to make way for residential developments. The Fed has raised interest rates recently, and will most likely continue slowly increasing the rate in the near future. The investment market should remain strong, with the owner/user segment of the market being impacted the most by interest rate increases.

New construction remained steady during the fourth quarter. Industrial projects stayed constant at 1,090,960 square feet with delivery expected in the next 6-24 months. No warehouse projects are currently under construction.



**Submarket Statistics**

Submarket	INDUSTRIAL					WAREHOUSE				
	Total Available for Lease	Sublease	Total Available for Sale	Vacancy %	Net Absorption YTD	Total Available for Lease	Sublease	Total Available for Sale	Vacancy %	Net Absorption YTD
Campbell	20,380	0	25,600	2.97%	15,041	5,695	0	0	0.40%	19,305
Cupertino	0	0	0	0.00%	0	0	0	0	0.00%	0
Fremont	1,049,169	81,011	139,420	6.22%	8,004	605,818	5,000	36,598	2.44%	306,542
Milpitas	174,271	9,800	18,471	23.10%	(33,937)	160,596	0	214,108	6.36%	214,437
Mountain View	48,242	0	0	2.43%	3,467	41,842	0	0	2.28%	3,404
Newark	220,982	20,000	0	4.77%	16,458	193,319	0	45,158	8.14%	33,579
Palo Alto	4,070	0	0	0.63%	36,723	0	0	0	0.00%	28,600
San Jose	1,901,193	124,267	321,282	7.54%	(198,743)	1,017,529	77,379	261,735	3.82%	482,176
Santa Clara	320,652	71,426	6,400	4.98%	24,165	209,293	64,000	14,060	1.32%	61,417
Sunnyvale	172,171	40,182	0	4.72%	6,467	139,151	32,590	0	6.26%	(16,803)
<b>Total</b>	<b>3,911,130</b>	<b>346,686</b>	<b>511,173</b>	<b>4.91%</b>	<b>(122,355)</b>	<b>2,373,243</b>	<b>178,969</b>	<b>571,659</b>	<b>2.22%</b>	<b>1,132,657</b>

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.