

Real Estate Market Review

# Silicon Valley Industrial

The Silicon Valley industrial and warehouse markets had a relatively quiet third quarter, but maintained low levels of vacancy and high rental rates that have become normal for this active market. Net absorption of industrial and warehouse properties was down slightly for a second consecutive quarter, finishing the third quarter down 103,509 s.f. and 91,249 s.f. respectively. Despite the slight dip in net absorption, vacancy rates remain at historic lows, and average asking rates for industrial and warehouse space remains at or near historic highs on a per square foot basis.

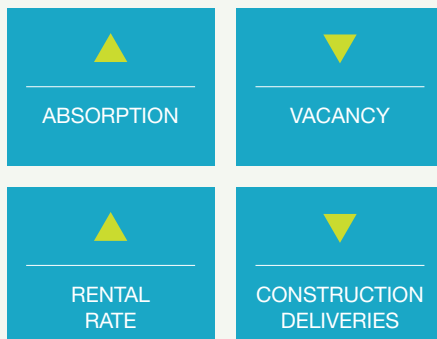
The market for Silicon Valley’s industrial and warehouse properties remains very tight, even relative to other Northern California markets. Supply may soon catch up with demand and relieve some pressure on vacancy, as projects under construction at the end of the third quarter totaled nearly two million s.f.

The vacancy rate for industrial properties rose very slightly from 1.7% last quarter to 1.9% this quarter. The warehouse vacancy rate also experienced a slight increase from 3% last quarter to 3.3% this quarter. Despite industrial and warehouse vacancy rates rising by 20 and 30 basis points, respectively, these property markets are still among the tightest and most robust in the country. The demand for more space has not abated, so it is reasonable to expect that the market will maintain these low levels of vacancy for the rest of the year.

Despite another quarter of slightly decreasing net absorption for industrial and warehouse properties, both markets remain positive in net absorption year-to-date. Not all submarkets saw down net absorption, as Newark realized the largest industrial net absorption gain adding 18,386 s.f. while San Jose posted the largest warehouse net absorption gain with 316,370 s.f. The largest losses of the quarter came from San Jose’s industrial property market down 56,716 s.f. of net absorption, and the warehouse property market in Fremont which finished the quarter down 231,344 s.f. Despite the small decrease in net absorption, overall leasing activity was healthy with 153,483 s.f. and 300,156 s.f. leased for industrial and warehouse respectively. Furthermore, leasing activity for warehouse properties was up 42.44% quarter-over-quarter and 6% year-over-year. As construction projects are

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### Market Forecast Trends



YEAR-TO-YEAR BASIS

### Notable Lease Transactions

- Leotek Electronics**  
1935 - 1955 Lundy Avenue, San Jose  
77,035 s.f.
- Bestronics**  
2090 Fortune Drive, San Jose  
71,749 s.f.
- Porcelanosa USA**  
2086 - 2110 Zanker Road, San Jose  
65,384 s.f.
- Andrian**  
1935 - 1955 Lundy Avenue, San Jose  
54,225 s.f.

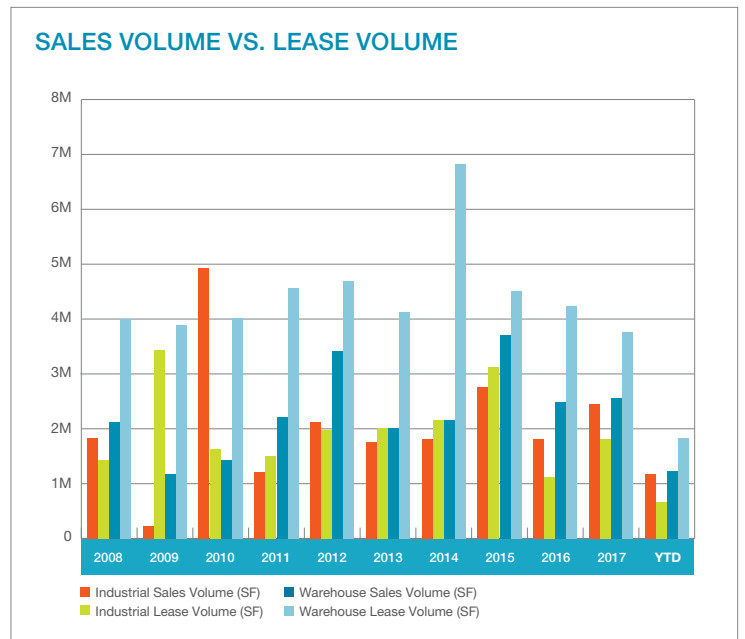
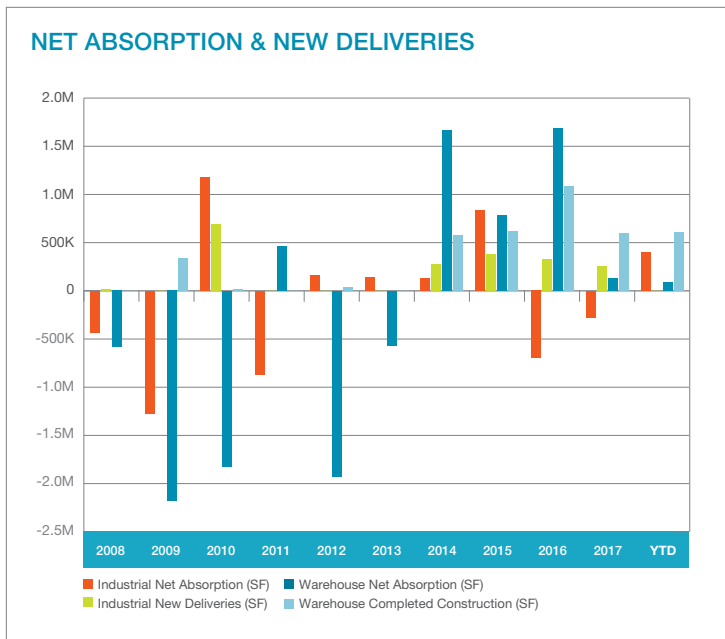
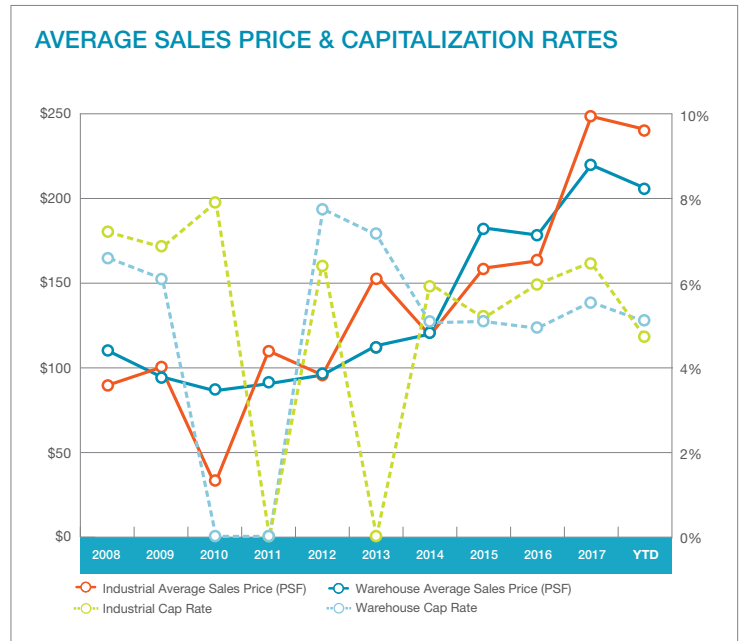
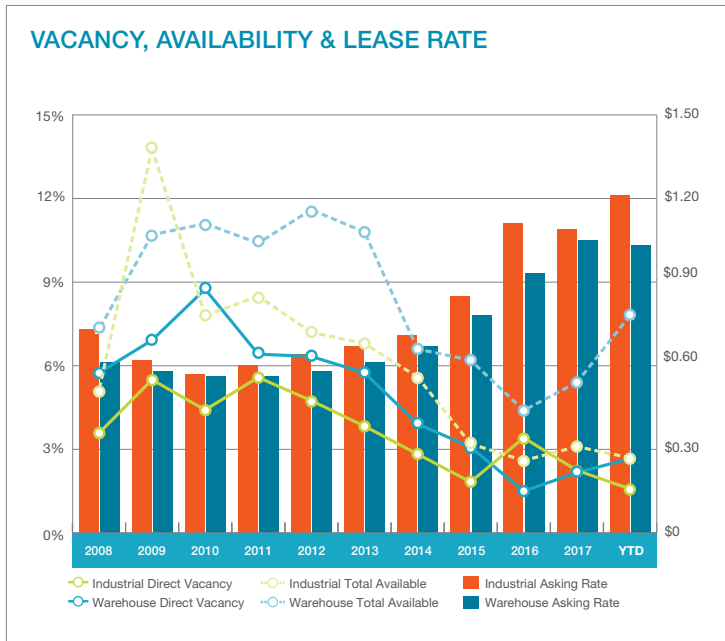
### Notable Sale Transactions

- Cyrus One**  
2600 de la Cruz Boulevard, Santa Clara  
\$52,800,000
- Landmark Infrastructure Partners LP**  
5100 Lafayette Street, Santa Clara  
\$36,850,000
- First Community Housing**  
258 McEvoy Street, San Jose  
\$13,500,000
- Ensemble Real Estate Solutions**  
2260 - 2278 Calle de Luna, Santa Clara  
\$12,340,000

## Market Breakdown

	INDUSTRIAL				WAREHOUSE			
	3Q 2018	2Q 2018	3Q 2017	Annual % Change	3Q 2018	2Q 2018	3Q 2017	Annual % Change
Direct Vacancy Rate	1.90%	1.70%	3.00%	-36.67%	3.30%	3.00%	3.30%	0.00%
Availability Rate	2.90%	3.00%	3.40%	-14.71%	7.80%	7.70%	5.80%	34.48%
Asking Lease Rate	\$1.21	\$1.18	\$1.14	6.14%	\$1.02	\$1.01	\$0.99	3.03%
Leased SF	153,483	262,509	634,602	-75.81%	768,073	460,555	724,594	6.00%
Sold SF	344,985	197,581	232,704	48.25%	142,130	531,668	297,407	-52.21%
Net Absorption	(103,509)	(18,218)	(41,136)	N/A	(91,249)	(291,737)	(16,674)	N/A

## Silicon Valley Industrial & Warehouse Charts



## Industrial Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Avg NNN Rental Rate
Campbell	963,181	-	0.00%	0.00%	0.00%	-	-	-	4,134	-
Cupertino	537,376	-	0.00%	0.00%	0.00%	-	-	-	-	-
Fremont	10,906,764	-	1.80%	1.90%	1.90%	(52,375)	45,594	86,274	316,309	\$1.19
Milpitas	3,018,913	-	4.20%	4.20%	5.30%	(120)	(20,728)	-	22,045	\$1.07
Mountain View	896,623	-	7.30%	7.30%	6.50%	(5,123)	(31,523)	7,200	23,800	\$3.01
Newark	3,207,110	-	1.60%	1.60%	0.20%	18,386	(21,916)	45,000	124,386	\$0.92
Palo Alto	2,020,030	-	1.60%	1.90%	2.90%	(12,097)	(12,097)	-	-	\$3.68
San Jose	14,847,556	200,000	2.00%	2.00%	3.70%	(56,716)	402,684	1,325	259,847	\$1.05
Santa Clara	8,944,361	-	1.40%	1.40%	2.10%	(6,655)	43,089	13,684	104,614	\$1.22
Sunnyvale	3,073,501	-	1.00%	1.00%	5.90%	(7,276)	(4,826)	-	5,000	\$1.88
<b>Total</b>	<b>48,415,415</b>	<b>200,000</b>	<b>1.90%</b>	<b>1.90%</b>	<b>2.90%</b>	<b>(121,976)</b>	<b>400,277</b>	<b>153,483</b>	<b>860,135</b>	<b>\$1.21</b>

## Warehouse Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Avg NNN Rental Rate
Campbell	736,989	-	1.10%	1.10%	3.10%	-	1,666	5,390	13,696	\$2.12
Cupertino	166,229	-	0.00%	0.00%	0.00%	-	-	-	-	-
Fremont	15,301,017	1,796,573	4.50%	4.60%	17.40%	(88,386)	(231,344)	34,240	602,960	\$1.09
Milpitas	5,396,727	-	9.90%	10.40%	14.30%	(18,390)	(3,503)	41,886	289,505	\$1.00
Mountain View	1,053,907	-	0.30%	0.30%	0.20%	12,000	11,043	957	14,557	\$2.50
Newark	5,071,048	-	0.70%	0.70%	2.40%	13,827	68,955	6,130	40,472	\$1.02
Palo Alto	1,012,788	-	0.90%	0.90%	0.90%	-	-	15,450	30,900	\$2.36
San Jose	26,695,676	-	2.70%	2.80%	4.10%	7,687	316,370	150,889	928,931	\$0.94
Santa Clara	6,782,799	-	0.90%	0.90%	3.10%	4,492	12,577	40,591	200,915	\$1.13
Sunnyvale	2,795,966	-	1.00%	1.00%	0.90%	(10,923)	(62,383)	4,623	12,616	\$1.92
<b>Total</b>	<b>65,013,146</b>	<b>1,796,573</b>	<b>3.20%</b>	<b>3.30%</b>	<b>7.80%</b>	<b>(79,693)</b>	<b>113,381</b>	<b>300,156</b>	<b>2,134,552</b>	<b>\$1.02</b>

delivered in the fourth quarter and beyond, leasing activity should continue to increase.

The stiff competition for available space that has defined this market for the past few years continued in the third quarter, leading many tenants to renew at their current locations. San Jose had the largest leases for the quarter, with Leotek Electronics leading the way by renewing their lease of 77,035 s.f. at 1935-1955 Lundy. Bestronics signed the next largest deal by signing on to occupy 71,749 s.f. in the San Jose submarket at 2090 Fortune. Porcelanosa USA decided to commit to leasing 65,384 s.f. at 2086-2110 Zanker. Rounding out the largest leases of the quarter was Andrian, who renewed their 54,225 s.f. lease at 1935-1955 Lundy. New leases for large blocks of space remain scarce as tenants with large spaces opt to renew instead of testing their luck by entering this notoriously tight market.

Both warehouse and industrial property markets experienced quarter-over-quarter and year-over-year drops in square footage sold. This is most likely due to a combination of a lack in supply coupled with waiting for new construction to deliver; although, there were some notable sale transactions. CyrusOne purchased the former 127,056 s.f. Graphics Packaging plant at 2600 de la Cruz in Santa Clara to redevelop into a data center. Landmark Infrastructure Partners LP purchased a 26,900 s.f. data center on 5101 Lafayette in Santa Clara. First Community Housing purchased 9,550 s.f. at 258 McEvoy in San Jose to redevelop into a 319-unit apartment complex. Finally, Ensemble Real Estate Solutions bought the 28,114 s.f. property at 2260-2278 Calle de Luna in Santa Clara. Both industrial and warehouse properties are in high demand throughout the Bay Area due in large part

to the boom in e-commerce. The proportion of sales through e-commerce is expected to continue growing, which should incentivize more purchases of industrial and warehouse property in and around Silicon Valley.

The average asking rental rates for the industrial and warehouse markets saw slight increases, despite a quarter where net absorption was down and vacancy increased. Industrial and warehouse rates ended the quarter at \$1.21/s.f. and \$1.02/s.f. respectively. This represented an increase of 2.54% for industrial properties and 1% for warehouse properties. The increase in industrial property rates are attributed to low supply and high demand of high end Class A properties. Newark has the most affordable industrial space at \$0.92/s.f., while San Jose has the best deal for warehouse space at \$0.94/s.f. Future increases in supply of high-quality industrial and warehouse space due to upcoming construction deliveries portend a continuation of sustained growth in rental rates.

With only one construction delivery in the third quarter, there are still ten buildings under construction that total over 2.3 million s.f. Warehouses dominate the construction pipeline with Equinix's 200,000 s.f. data center in South San Jose being the only industrial property in the pipeline. The warehouse development pipeline nearly tripled year-over-year from 606,519 s.f. to 1,796,573 s.f. despite three deliveries over the course of 2018. Most of this increase can be attributed to Overton Moore's developments at the Pacific Commons in Fremont. These developments come at a great time and help satisfy growing demand.

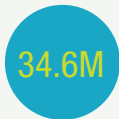
Source: CoStar

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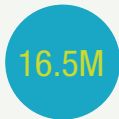
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# BROKERS

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PORTFOLIO

#### VALUATION ADVISORY



ASSIGNMENTS  
ANNUALLY



TOTAL #  
APPRAISERS/MAI'S

#### Contact

**Jerry Holdner**  
Director of Research  
949.557.5050  
jholdner@kiddermathews.com

**Erik Luhrs**  
Executive VP, Brokerage  
408.970.9400  
eluhrs@kiddermathews.com

Designated Broker  
Mark Read | LIC # 00572743

[kiddermathews.com](http://kiddermathews.com)



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