

Silicon Valley

Quick Stats

2.7%
Industrial Vacancy

8.2%
Warehouse Vacancy

\$1.16 nnn
Industrial Average
Asking Rate

\$1.13 nnn
Warehouse Average
Asking Rate

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.

Subdued Tenant Demand Slows Leasing Volume Throughout Silicon Valley

- As the third quarter came to a close continued uncertainty of the implications of COVID-19 on the economy and commercial real estate market continues to loom over the Silicon Valley. The region has been cautious in opening and the Silicon Valley's economy struggles to gain momentum. Unemployment in Santa Clara County stood at 7.1% in September.
- New tenant activity was quiet during the third quarter as Santa Clara County remained under shelter in place orders which continued to restrict business operations in the region. Total leasing measured 568,718 square feet, down 65.6% from the amount of activity measured in the first quarter of 2020 and 74.1% from one year earlier.
- Total vacant industrial space in the Silicon Valley measured 1.1 million square feet at the close of the third quarter, compared to the 2.7 msf of vacant warehouse space. This amount of space translates to a vacancy rate of 3.9% overall for the two products types combined.
- At the close of Q2, average asking rates measured \$1.16 per square foot, NNN for industrial while warehouse space was commanding rates at \$1.13 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.
- The two largest leases signed during the third quarter of the year were renewals. Fry's Electronics renewed their 151,000 square foot lease at 1077 E Arques Avenue in Sunnyvale; while OnCore Manufacturing Services inked a deal to remain in their 127,000 square foot space in Fremont.
- Investment activity picked up during the third quarter totaling \$411 million in total volume as investors' appetite for Silicon Valley industrial space continues to grow. Despite the quarterly increase in total volume, activity still remains low when compared to 2019 investment activity, down 44% from the \$732 M registered in total volume one year earlier.

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

Rents



Expect asking rates to soften as tenant demand adjusts from recent highs. As continued restrictions put pressure on businesses, tenants will look for low cost alternatives.

Ecommerce

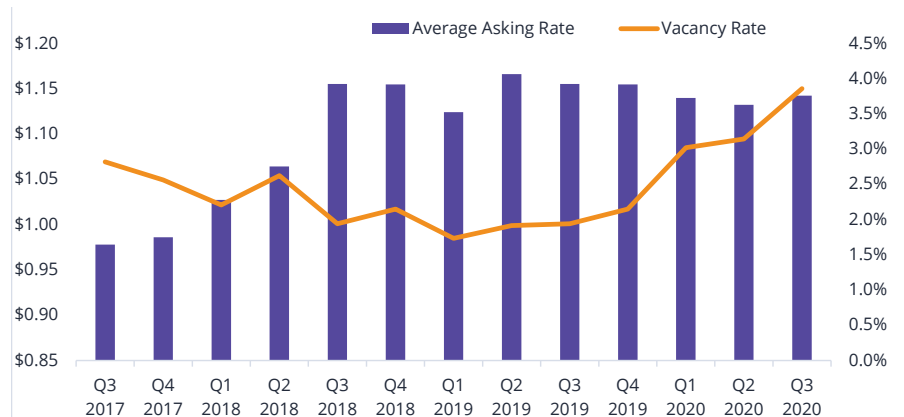


As consumer expectations and needs shift as a result of COVID-19, business operations will too. Logistics networks will focus more on integrating local and regional hubs

Looking Forward

Although demand continues to be tempered, quarter over quarter activity began to stabilize in the third quarter and sharp declines measured during the second quarter have begun to soften. As the tenants begin their gradual return to work, and the economic engine begins to turn back on, the pace of recovery will become clearer across the market. There will continue to be hurdles ahead as tenants and investors return to an environment they do not necessarily recognize.

Historical Asking Rates vs Vacancy Rates



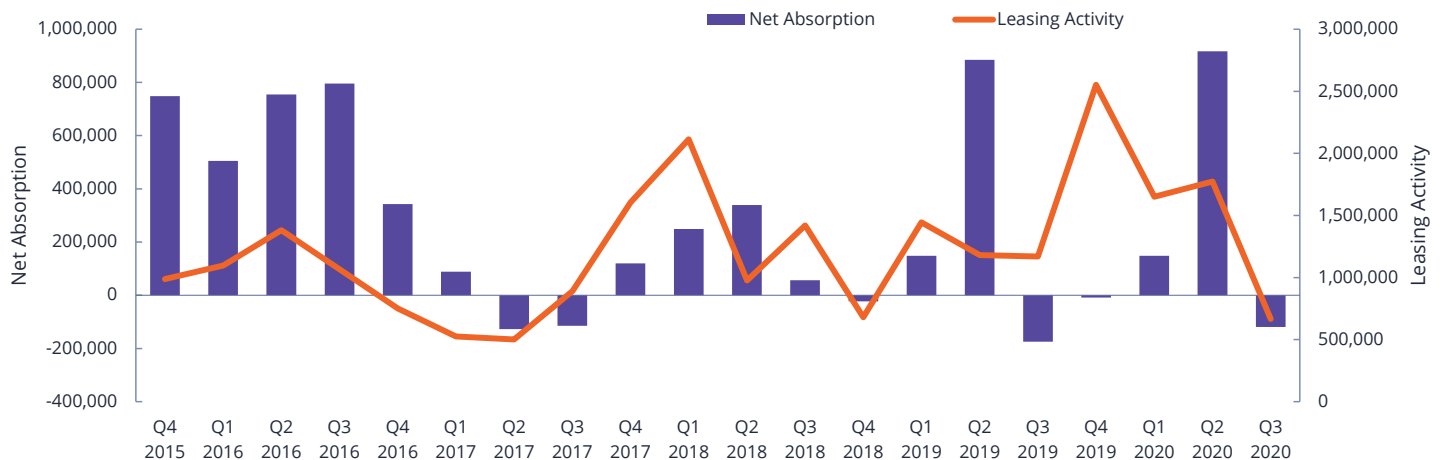
Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Fry's Electronics	1077 E. Arques Avenue	Sunnyvale	151,200	Renewal
OnCore Manufacturing	6600 Stevenson Boulevard	Fremont	127,452	Renewal
Tesla	700 Laurelwood Road	Santa Clara	103,500	Direct Lease
Second Harvest Food Bank	520-530 Brennan Street	San Jose	91,202	Direct Lease

Notable Sales Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
1600 Memorex Drive	EdgeConneX Inc	Santa Clara	229,180	\$83.2 M	\$363
2800 Kifer Road	LBA Realty	Santa Clara	141,006	\$43.5 M	\$309
345 Digital Drive	Jumping Dogs Properties LLC	Morgain Hill	61,198	\$13.16 M	\$215
1980 Lundy Avenue	Sierra Circuits, Inc.	San Jose	25,140	\$6.9 M	\$274

Historical Leasing vs Net Absorption



Market by the numbers

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	1,249,147	19,975	0	0.3%	0.3%	0	1,080	0	0	\$2.31
Warehouse	777,900	0	0	0.0%	0.8%	0	-5,902	0	0	\$1.12
Mountain View										
Industrial	618,184	51,537	3,600	3.1%	2.6%	9,200	-4,518	0	0	\$2.39
Warehouse	838,230	26,957	0	3.2%	3.6%	8,600	2,342	0	0	\$3.23
Sunnyvale										
Industrial	2,544,034	24,087	0	5.3%	6.1%	0	0	0	0	\$2.22
Warehouse	2,467,628	2,150	0	1.3%	1.7%	0	-22,524	0	0	\$1.51
Santa Clara										
Industrial	7,666,439	38,708	0	2.7%	2.4%	43,834	-59,406	0	0	\$1.41
Warehouse	6,400,855	52,287	0	3.2%	6.7%	106,409	-61,144	0	0	\$1.28
San Jose										
Industrial	12,987,387	427,728	0	2.3%	4.7%	54,150	2,925	0	0	\$1.06
Warehouse	25,104,639	701,526	1,500	3.2%	5.1%	485,408	-207,093	165,640	0	\$0.94
West Valley										
Industrial	1,307,092	0	0	2.7%	2.7%	0	-1,456	0	0	\$1.79
Warehouse	766,072	800	0	1.4%	1.4%	0	0	0	0	\$1.41
Milpitas										
Industrial	2,681,874	127,000	0	2.5%	8.5%	7,871	-12,628	0	0	\$0.80
Warehouse	5,146,423	376,919	33,518	2.4%	13.0%	143,410	-33,665	0	450,610	\$1.02
Fremont										
Industrial	11,314,990	132,208	6,800	3.0%	2.5%	147,330	-126,752	0	0	\$1.41
Warehouse	14,442,321	490,605	10,320	9.1%	14.5%	414,092	-175,573	1,796,573	0	\$1.14
Silicon Valley Totals										
Industrial	40,369,147	821,243	10,400	2.7%	3.7%	262,385	-200,755	0	0	\$1.16
Warehouse	55,944,068	1,651,244	45,338	4.6%	8.2%	1,157,919	-503,559	1,962,213	450,610	\$1.13
Total	96,313,215	2,472,487	55,738	3.9%	6.3%	1,420,304	-704,314	1,962,213	450,610	\$1.14

Get more market information

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