

Silicon Valley Industrial Market

Mid-Pandemic Momentum Continues

The industrial market continued gaining momentum during the second quarter of 2021. Overall industrial performed strongly throughout the pandemic, and current activity indicates this growth trend will continue. Prior to the pandemic, the market was already extremely tight with near-historic low vacancy and historic high asking rates. Warehouse outperformed general industrial once again, but general industrial did post improved numbers this quarter. Combined industrial and warehouse was the strength of the market during the pandemic, and current momentum bodes well for future growth.

Industrial Market

The industrial market was slowing prior to the onset of the pandemic, but it started to improve at the end of 2020. This quarter, the industrial market closed with a positive net absorption of 57,064 square feet, which is only the third positive net absorption posted since second-quarter 2018. Gross absorption ended at 584,913 square feet, which is the lowest it has been since third-quarter 2019. Industrial market leasing has slowly picked up since the start of the pandemic, and current activity portends relatively stable activity moving forward.

Industrial vacancy and asking rates have been at or near historic levels for an extended amount of time, so there are paltry fluctuations quarter over quarter. Vacancy decreased from 4.0% last quarter to 3.7% this quarter. This is also a decrease from 4.6% one year ago. Vacancy rates declined in all markets except San Jose and Campbell, where rates increased 0.1% and 10.6%, respectively. Campbell's increase is attributed to approximately 110,000 square feet at 600 East Hamilton Avenue coming on the market. Asking rates on a monthly triple-net basis slightly increased from \$1.31/SF to \$1.33/SF. The asking rates have not moved much during the pandemic and should remain steady over the next few quarters.

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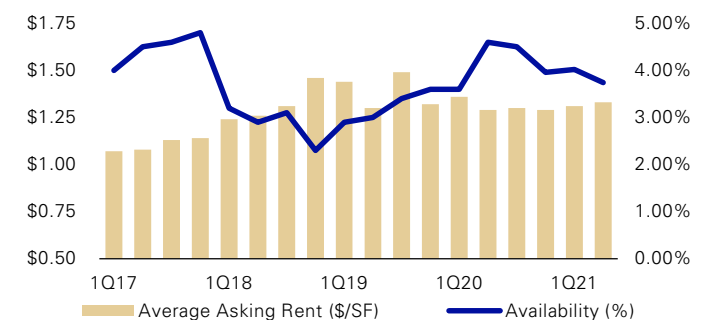


Market Summary

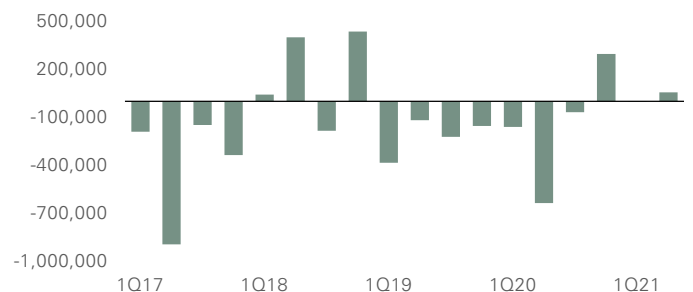
	Current Quarter		Year Ago Period	
	IND	WHS	IND	WHS
Vacancy Rate	3.7%	5.35%	4.63%	9.02%
Qtr Net Absorption	57K SF	479K SF	-635K SF	-185K SF
Qtr Gross Absorption	585K SF	1.6M SF	760K SF	459K SF
Avg NNN Asking Rent	\$1.33/SF	\$1.14/SF	\$1.29/SF	\$1.04/SF
Under Construction	1.2M SF	583K SF	951k SF	1.4M SF

Industrial Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Warehouse Market

The warehouse market performed better than any other major product type during the pandemic, and it continued that trend during the first half of 2020. Warehouse closed the second quarter with positive net absorption of 478,998 square feet. This is the highest it has been since third-quarter 2019, and it also marks the fourth consecutive quarter of positive net absorption. Gross absorption was also the highest since third-quarter 2019, ending at 1,597,521 square feet. Applied Materials’s lease of 48401 Fremont Boulevard in Fremont, a newly constructed, nearly 210,000-square-foot warehouse, was the largest single contributor to this growth. This is more evidence of the market’s voracious appetite for new product which meets its current needs.

Warehouse vacancy and asking rates also continued trending positively during the second quarter. Vacancy decreased 116 basis points from 6.5% to 5.4% quarter over quarter. Further, this is also down from second-quarter 2019’s 9.0%. All cities recorded no movement or a decrease, except for San Jose, which increased a paltry 17 basis points to 4.4%. Asking rates on a monthly triple-net basis increased by \$0.06/SF to \$1.14/SF. Standing at \$0.96/SF, Santa Clara remains the only market with an average asking rate below \$1.00/SF. The warehouse market has been on a momentous run, and it seems one of the only obstacles is older buildings lacking the attributes modern tenants are looking for.

Significant Transactions

The industrial market had a few large transactions this quarter. Watchpoint Logistics leased 136,632 square feet at 607 McCarthy Boulevard in Milpitas. This is especially notable, as it

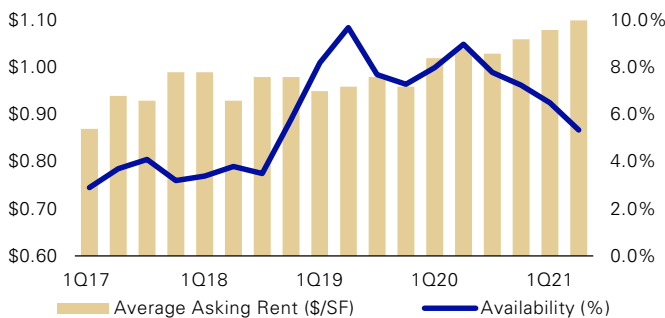
was larger than the next four leases combined. These mid-range deals include: an undisclosed company leasing 38,692 square feet at 4160 Business Center Drive in Fremont; Plusai Inc leasing 36,087 square feet at 41320 Boyce Road, also in Fremont; Gissing Automotive Systems leasing 30,702 square feet at 6815 Mowry Avenue in Newark;, and Sunrun leasing 29,670 square feet at 1800 10th St/470 Needles Avenue in San Jose.

The warehouse market had a more robust quarter, with five leases over 100,000 square feet, 10 leases over 50,000 square feet and 22 over 10,000 square feet. Eight out of the 10 top transactions were in either Milpitas, Newark or Fremont, with the other two coming from San Jose. The largest deal was by Applied Materials, which continued to expand with a 209,252-square-foot lease at 48401 Fremont Boulevard in the Auto Mall North submarket of Fremont. RK Logistics’s footprint also keeps growing with three leases this quarter, the largest being 141,275 square feet at 7375 Morton Avenue in Newark. In Milpitas, Apple renewed a 169,195-square-foot lease at 1021 Yosemite Drive. XPO Logistics renewed its lease at 6120 Stewart Avenue in Fremont for 114,918 square feet. In Newark, Transpak leased 101,250 square feet at 38503 Cherry Street. Javelin Logistics renewed its 97,034-square-foot lease at 7025 Central Avenue. In San Jose, Piedmont Moving Systems leased 83,914 square feet at 2071 Ringwood Avenue. Future Motion Inc leased 80,170 square feet at 587 Charcot Avenue.

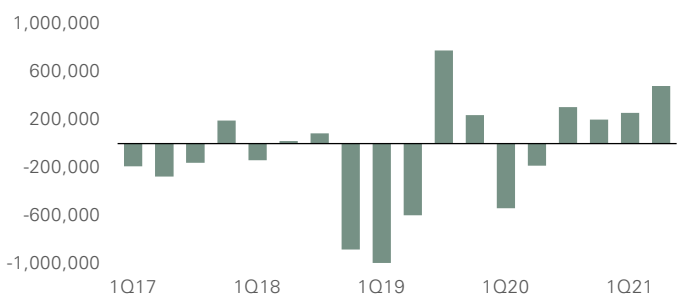
Investment sales were noticeably absent this quarter, with only one transaction over 10,000 square feet. Lift Real Estate Partners Fund purchased the 24,000-square-foot property at 500-506 Phelan Avenue in San Jose for \$8.4 million, or \$349/SF.

Warehouse Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Select Industrial Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Watchpoint Logistics	607 N McCarthy Boulevard	Milpitas – Oakmead	Direct	136,632
Undisclosed	4160 Business Center Drive	Fremont – Mission North	Direct	38,692
Plusai, Inc	41320 Boyce Road	Fremont – Auto Mall North	Direct	36,087
Gissing Automotive Systems	6815 Mowry Avenue	Newark	Direct	30,702
SunRun, Inc.	1800 Tenth St / 470 Needles Ave	San Jose – Central	Direct	29,670
Miller Catalyzer Corp.	684 Laurelwood Road	San Jose – 101 North	Direct	23,000
California Newspapers Partnership	2000 Senter Road	San Jose – Central	Direct	20,840

Select Industrial Investment Sale Transactions

Building(s)	Submarket	Reported Sale Price	Approx. \$/SF	Square Feet
500 Phelan Avenue	San Jose (Brokaw South)	\$8,385,000	\$349	24,000

Select Warehouse Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Applied Materials	48401 Fremont Boulevard	Fremont – Auto Mall North	Direct	209,252
Apple	1021 Yosemite Drive	Milpitas – East 880	Renewal	169,195
RK Logistics Group	7375 Morton Avenue	Newark	Direct	141,275
XPO Logistics	6120 Stewart Avenue	Fremont – Auto Mall North	Renewal	114,918
Transpak	38503 Cherry Street	Newark	Direct	101,250
Javelin Logistics	7025 Central Avenue	Newark	Renewal	97,034
Piedmont Moving Systems	2071 Ringwood Avenue	San Jose – International Bus. Park	Sublease	83,914
Future Motion, Inc.	587 Charcot Avenue	San Jose – Trimble South	Direct	80,170
Peloton	7355 Morton Avenue	Newark	Direct	76,162
NSI	37940 Filbert Street	Newark	Direct	50,095

Industrial Submarket Statistics								
	Total Inventory (SF)	Total Vacancy (SF)	Direct Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
Campbell	1,024,988	139,468	139,468	0	13.61%	2,888	-109,263	\$1.66
Fremont	12,307,413	567,579	555,099	12,480	4.61%	118,272	37,482	\$1.23
Mission South	2,359,504	72,776	72,776	0	3.08%	0	0	\$0.00
Warm Springs	3,937,317	116,829	116,829	0	2.97%	73,010	73,010	\$1.21
Mission North	1,332,880	164,939	164,939	0	12.37%	0	-50,000	\$1.26
Bayside	2,130,490	76,019	76,019	0	3.57%	38,692	38,692	\$1.08
Auto Mall North	2,547,222	137,016	124,536	12,480	5.38%	6,570	-24,220	\$1.26
Los Gatos	63,378	0	0	0	0.00%	0	0	\$0.00
Milpitas	3,920,170	129,506	123,656	5,850	3.30%	151,993	62,957	\$1.05
East 880	2,737,527	129,506	123,656	5,850	4.73%	15,361	-73,675	\$1.05
Oak Creek	1,182,643	0	0	0	0.00%	136,632	136,632	\$0.00
Mountain View	2,337,648	117,665	78,699	38,966	5.03%	0	0	\$2.79
Central	1,215,131	76,085	38,919	37,166	6.26%	0	0	\$2.66
Shoreline	454,826	0	0	0	0.00%	0	0	\$0.00
Middlefield	667,691	41,580	39,780	1,800	6.23%	0	0	\$3.20
Newark	4,116,675	249,123	237,753	11,370	6.05%	64,836	30,702	\$1.41
San Jose	17,375,724	548,991	470,516	78,475	3.16%	119,381	-19,510	\$1.19
North	726,459	19,248	19,248	0	2.65%	0	0	\$1.50
Trimble South	3,343,717	132,413	82,922	49,491	3.96%	24,232	-28,857	\$1.31
Int'l Business Park	1,292,435	11,030	11,030	0	0.85%	0	0	\$1.32
Brokaw South	5,016,516	94,566	76,069	18,497	1.89%	20,521	3,472	\$1.04
Central	6,298,002	244,996	234,509	10,487	3.89%	74,628	5,875	\$1.11
South	698,595	46,738	46,738	0	6.69%	0	0	\$1.53
Santa Clara	10,883,682	251,399	212,651	38,748	2.31%	117,581	50,824	\$1.25
Central Expy N	48,494	0	0	0	0.00%	0	0	\$0.00
101 North	4,367,492	64,480	56,052	8,428	1.48%	76,636	38,392	\$1.37
101 South	5,282,729	63,046	59,046	4,000	1.19%	32,156	10,045	\$1.53
Central Expy S	1,184,967	123,873	97,553	26,320	10.45%	8,789	2,387	\$1.19
Sunnyvale	2,708,890	40,879	38,918	1,961	1.51%	9,962	3,872	\$1.49
Peery Park	200,066	0	0	0	0.00%	0	0	\$0.00
Moffett Park	43,500	0	0	0	0.00%	0	0	\$0.00
The Woods	1,025,415	37,639	35,678	1,961	3.67%	9,962	3,872	\$1.49
Oakmead	536,653	3,240	3,240	0	0.60%	0	0	\$0.00
South Central	903,256	0	0	0	0.00%	0	0	\$0.00
Silicon Valley	54,738,568	2,044,610	1,856,760	187,850	3.74%	584,913	57,064	\$1.33

Warehouse Submarket Statistics								
	Total Inventory (SF)	Total Vacancy (SF)	Direct Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
Fremont	10,468,999	313,760	144,637	169,123	3.00%	453,745	210,014	\$1.04
Mission South	2,922,894	75,168	26,880	48,288	2.57%	0	-26,880	\$1.10
Warm Springs	4,370,899	0	0	0	0.00%	442,745	236,894	\$0.00
Mission North	1,778,225	0	0	0	0.00%	11,000	0	\$0.00
Bayside	450,801	0	0	0	0.00%	0	0	\$0.00
Auto Mall North	946,180	238,592	117,757	120,835	25.22%	0	0	\$0.91
Milpitas	5,252,838	557,523	329,247	228,276	10.61%	215,195	46,000	\$1.12
East 880	5,145,488	557,523	329,247	228,276	10.84%	215,195	46,000	\$1.12
Oak Creek	107,350	0	0	0	0.00%	0	0	\$0.00
Newark	4,179,812	293,544	237,930	55,614	7.02%	620,437	76,162	\$1.18
San Jose	15,186,584	673,707	493,156	180,551	4.44%	308,144	146,822	\$1.17
Trimble South	3,714,113	68,000	68,000	0	1.83%	161,010	161,010	\$1.15
Int'l Business Park	1,182,505	0	0	0	0.00%	83,914	83,914	\$0.00
Brokaw South	4,094,931	365,089	327,547	37,542	8.92%	63,220	-98,102	\$1.30
Central	6,195,035	240,618	97,609	143,009	3.88%	0	0	\$1.06
Santa Clara	2,627,811	113,118	52,618	60,500	4.30%	0	0	\$0.96
101 North	560,271	0	0	0	0.00%	0	0	\$0.00
101 South	1,410,872	20,240	20,240	0	1.43%	0	0	\$0.59
Central Expy S	656,668	92,878	32,378	60,500	14.14%	0	0	\$1.04
Sunnyvale	1,289,064	136,972	95,772	41,200	10.63%	0	0	\$1.51
Peery Park	113,074	0	0	0	0.00%	0	0	\$0.00
Moffett Park	613,184	0	0	0	0.00%	0	0	\$0.00
South Central	562,806	136,972	95,772	41,200	24.34%	0	0	\$1.51
Silicon Valley	39,005,108	2,088,624	1,353,360	735,264	5.35%	1,597,521	478,998	\$1.14

Historical Industrial Vacancy Rates								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Silicon Valley	3.39%	3.59%	3.57%	4.55%	4.54%	3.96%	4.02%	3.74%
Campbell	2.82%	1.62%	2.58%	2.99%	3.50%	3.31%	3.00%	13.61%
Fremont	4.93%	5.63%	5.55%	9.03%	9.46%	5.98%	5.49%	4.61%
Los Gatos	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Milpitas	5.75%	5.50%	5.56%	4.93%	5.50%	5.39%	5.25%	3.30%
Mountain View	4.31%	3.78%	4.22%	4.83%	4.28%	3.67%	5.46%	5.03%
Newark	3.80%	2.88%	2.45%	2.72%	2.34%	5.01%	6.80%	6.05%
San Jose	3.03%	3.38%	3.35%	3.46%	2.96%	3.12%	3.10%	3.16%
Santa Clara	1.85%	2.19%	1.98%	2.66%	2.87%	2.82%	2.78%	2.31%
Sunnyvale	1.20%	1.21%	1.80%	1.80%	1.80%	1.80%	1.65%	1.51%

Historical Industrial NNN Asking Rents								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Silicon Valley	\$1.49	\$1.32	\$1.36	\$1.29	\$1.30	\$1.29	\$1.31	\$1.33
Campbell	\$1.74	\$1.85	\$1.87	\$1.74	\$1.64	\$1.65	\$1.63	\$1.66
Fremont	\$1.65	\$1.12	\$1.18	\$1.18	\$1.18	\$1.19	\$1.21	\$1.23
Los Gatos	-	-	-	-	-	-	\$0.00	\$0.00
Milpitas	\$1.18	\$1.17	\$1.17	\$1.14	\$1.15	\$1.15	\$1.15	\$1.05
Mountain View	\$3.07	\$3.25	\$3.05	\$3.10	\$3.10	\$2.68	\$2.75	\$2.79
Newark	\$1.20	\$1.61	\$1.44	\$1.35	\$1.38	\$1.28	\$1.15	\$1.41
San Jose	\$1.16	\$1.10	\$1.18	\$1.17	\$1.23	\$1.23	\$1.26	\$1.19
Santa Clara	\$1.52	\$1.43	\$1.51	\$1.39	\$1.29	\$1.29	\$1.22	\$1.25
Sunnyvale	\$1.67	\$1.55	\$1.86	\$1.57	\$1.50	\$1.55	\$1.49	\$1.49

Historical Industrial Net Absorption								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Silicon Valley	-225,811	-153,931	-158,703	-634,920	-67,483	297,665	-3,923	57,064
Campbell	11,278	3,162	-6,815	-7,244	-5,084	1,851	3,162	-109,263
Fremont	42,126	-78,279	3,381	-517,580	-40,180	420,951	41,697	37,482
Los Gatos	0	0	0	0	0	0	0	0
Milpitas	-134,940	360,457	-334	0	-24,170	4,024	5,040	62,957
Mountain View	145	3,971	-6,920	-40,174	-19,632	14,307	-40,568	0
Newark	-86,222	-21,200	-119,494	-21,150	12,719	-109,959	-14,363	30,702
San Jose	-21,281	-380,557	-52,849	-4,733	91,351	-29,203	2,887	-19,510
Santa Clara	-31,741	-41,485	11,128	-14,471	-82,487	-4,306	-5,803	50,824
Sunnyvale	-5,176	0	13,200	-29,568	0	0	4,025	3,872

Historical Industrial Gross Absorption								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Silicon Valley	521,577	654,959	961,289	760,141	960,912	662,188	680,981	584,913
Campbell	26,472	10,550	3,353	7,717	16,838	3,363	6,525	2,888
Fremont	120,973	91,495	441,763	23,730	189,581	467,015	416,815	118,272
Los Gatos	0	0	0	0	0	0	0	0
Milpitas	20,621	365,754	7,196	425,145	13,680	17,446	29,268	151,993
Mountain View	26,034	26,931	29,430	4,341	19,211	14,307	45,563	0
Newark	65,437	1,789	20,777	70,576	77,636	0	29,715	64,836
San Jose	186,545	93,904	309,077	148,447	323,235	94,989	60,458	119,381
Santa Clara	75,495	64,536	136,493	74,378	320,731	62,655	83,612	117,581
Sunnyvale	0	0	13,200	5,807	0	2,413	9,025	9,962

Historical Warehouse Vacancy Rates								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Silicon Valley	7.67%	7.31%	7.96%	9.02%	7.82%	7.26%	6.51%	5.35%
Fremont	8.58%	7.42%	3.71%	5.15%	4.81%	5.01%	5.00%	3.00%
Milpitas	10.87%	10.59%	11.47%	15.07%	12.61%	10.30%	11.49%	10.61%
Newark	13.16%	13.16%	22.57%	24.38%	21.64%	19.66%	12.22%	7.02%
San Jose	4.71%	4.67%	5.09%	4.94%	4.29%	4.06%	4.27%	4.44%
Santa Clara	10.17%	10.25%	10.18%	10.27%	7.03%	7.03%	4.30%	4.30%
Sunnyvale	0.00%	0.00%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%

Historical Warehouse NNN Asking Rents								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Silicon Valley	\$0.98	\$0.96	\$1.02	\$1.04	\$1.03	\$1.06	\$1.08	\$1.14
Fremont	\$0.96	\$0.97	\$0.96	\$1.00	\$1.08	\$1.08	\$1.07	\$1.04
Milpitas	\$1.04	\$1.03	\$1.04	\$0.95	\$0.94	\$0.94	\$1.03	\$1.12
Newark	\$0.89	\$0.89	\$1.02	\$1.03	\$0.97	\$1.07	\$1.11	\$1.18
San Jose	\$0.97	\$0.96	\$1.07	\$1.13	\$1.14	\$1.13	\$1.09	\$1.17
Santa Clara	\$1.22	\$0.94	\$0.94	\$0.99	\$0.97	\$0.97	\$0.96	\$0.96
Sunnyvale	-	-	-	\$1.26	\$1.23	\$1.23	\$1.27	\$1.51

Historical Warehouse Net Absorption								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Silicon Valley	776,325	149,018	-540,445	-185,392	303,885	199,474	255,950	478,998
Fremont	823,437	244,190	256,325	-115,234	35,501	-20,948	-23,328	210,014
Milpitas	-110,042	0	-156,344	-160,561	94,579	120,965	-62,448	46,000
Newark	0	0	-384,915	0	114,682	82,536	373,454	76,162
San Jose	34,992	-84,979	-120,416	90,403	20,623	16,921	-31,728	146,822
Santa Clara	27,938	-10,193	1,877	0	38,500	0	0	0
Sunnyvale	0	0	-136,972	0	0	0	0	0

Historical Warehouse Gross Absorption								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Silicon Valley	1,665,271	930,221	1,365,992	458,618	931,883	806,622	1,052,489	1,597,521
Fremont	1,060,263	422,182	722,902	67,920	162,953	95,214	61,340	453,745
Milpitas	0	143,024	0	166,600	233,351	149,285	273,553	215,195
Newark	0	0	46,202	0	166,296	394,529	414,968	620,437
San Jose	509,177	293,184	447,107	224,098	275,783	167,594	91,871	308,144
Santa Clara	95,831	71,831	22,993	0	103,500	0	210,757	0
Sunnyvale	0	0	126,788	0	0	0	0	0

For more information:

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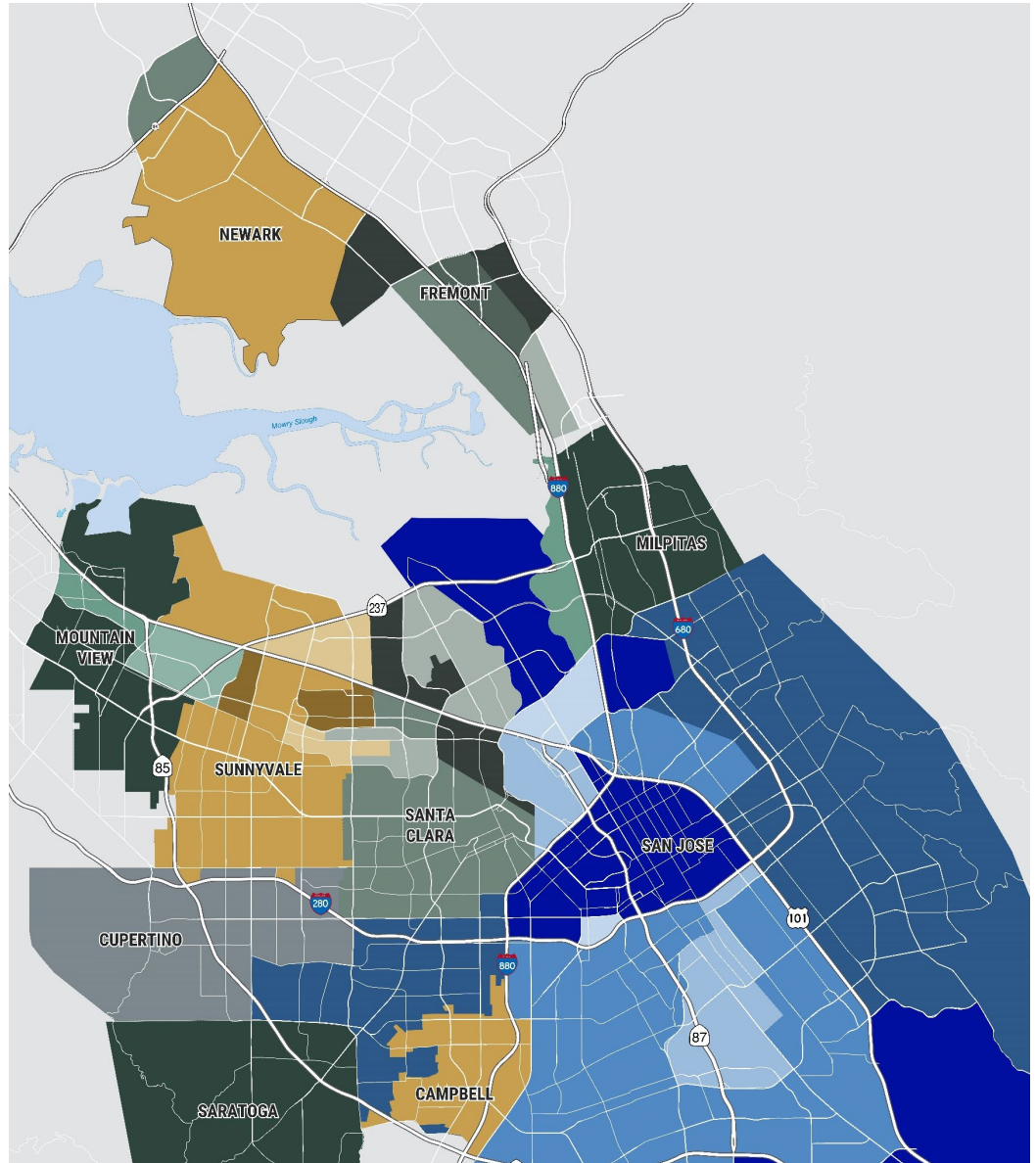
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.
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