Kidder Mathews

1Q 2023

MARKET TRENDS

SILICON VALLEY *INDUSTRIAL*

↓ VACANCY	↓ ABSORPTION
↑ RENTAL RATES	↔ CONSTRUCTION DELIVERIES

Year-Over-Year Change

MARKET DRIVERS

The availability rate for industrial space increased quarter-over-quarter, rising from 2.3% in 4Q22 to 3.0% in 1Q23. Meanwhile, the availability rate for warehouse space also increased quarter-over-quarter from 3.7% in 4Q22 to 4.2% in 1Q23.

The vacancy rate for industrial buildings experienced a slight reduction quarter-over-quarter, while the vacancy rate for warehouse buildings grew quarter-over-quarter, rising to 2.6% in 1Q23.

Industrial asking lease rates rose quarter-over-quarter and year-over-year to $1.85/SF NNN in 1Q23 from $1.75/SF NNN in 4Q22 and $1.65/SF NNN in 1Q22. Moreover, warehouse asking lease rates also increased quarter-over-quarter and year-over-year to $1.45/SF NNN in 1Q23 from $1.36/SF NNN in 4Q22 and $1.29/SF NNN in 1Q22.

Leasing activity for industrial buildings experienced a sharp decline to 209.7k SF in 1Q23. Compared to the 4Q22, leasing activity dropped from 399.1k SF. On a year-over-year basis, the decrease was greater with activity falling from 438.6k SF in 1Q22. Leasing activity for warehouse buildings was particularly affected, experiencing a decline from 730.2k SF in 4Q22 to 173.7k SF in 1Q23. Likewise, there was a decrease from 1Q22, when leasing activity was at 752.4k SF.

Total sales volume greatly increased for industrial buildings in 1Q23, with quarter-over-quarter growth from 81.5k SF in 4Q22 to 882.2k SF in 1Q23. In contrast, sales volume for warehouse buildings declined quarter-over-quarter from 92.9k SF in 4Q22 to 51.3k SF in 1Q23. The increase in industrial building sales shows investors see long term opportunity as they plan to weather the current economic environment.

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INDUSTRIAL MARKET BREAKDOWN

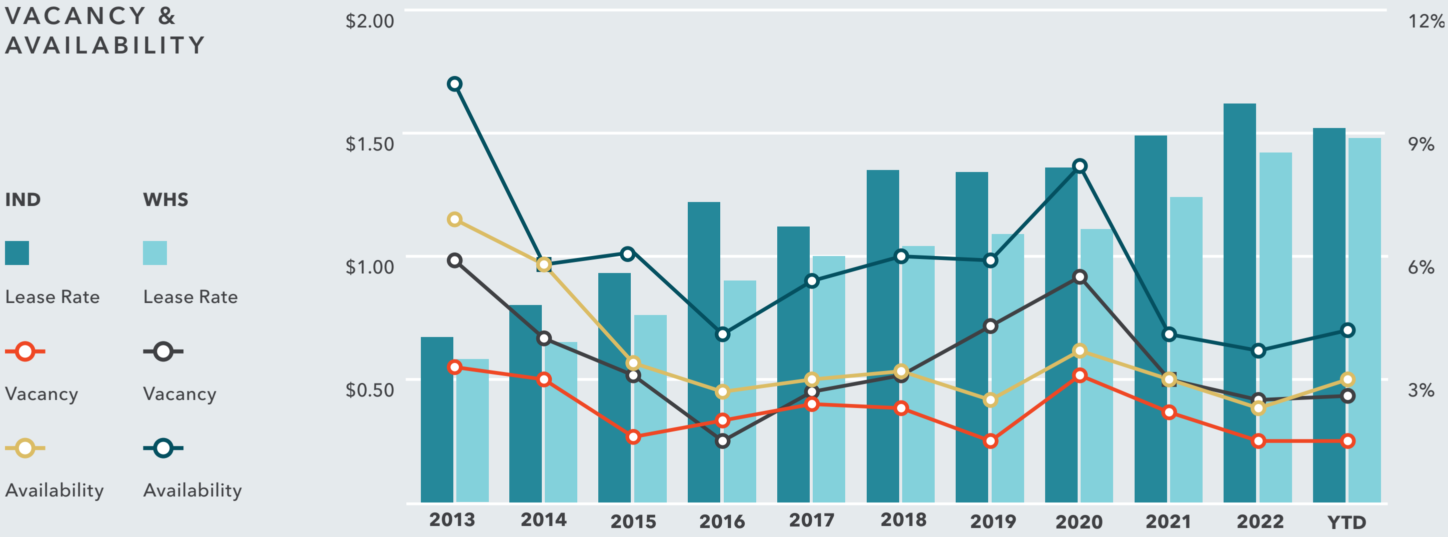
	1Q23	4Q22	1Q22	Annual Change
Direct Vacancy Rate	1.46%	1.50%	2.30%	**-36.41%**
Availability Rate	3.00%	2.30%	2.80%	**7.32%**
Asking Lease Rate*	$1.85	$1.75	$1.65	**12.12%**
Asking Lease Rate**	$1.52	$1.62	$1.53	**-0.65%**
Leased SF	209,651	399,060	438,557	**-52.20%**
Sold SF	882,170	81,493	293,931	**200.13%**
Direct Net Absorption	1,421	128,162	(81,421)	**N/A**

*D Star | ** Costar

WAREHOUSE MARKET BREAKDOWN

	1Q23	4Q22	1Q22	Annual Change
Direct Vacancy Rate	2.61%	2.50%	2.70%	**-3.18%**
Availability Rate	4.22%	3.70%	3.60%	**17.28%**
Asking Lease Rate*	$1.45	$1.36	$1.29	**12.40%**
Asking Lease Rate**	$1.48	$1.42	$1.31	**12.98%**
Leased SF	173,744	730,232	752,420	**-76.91%**
Sold SF	51,334	92,858	140,175	**-63.38%**
Direct Net Absorption	(85,750)	218,770	201,855	**N/A**

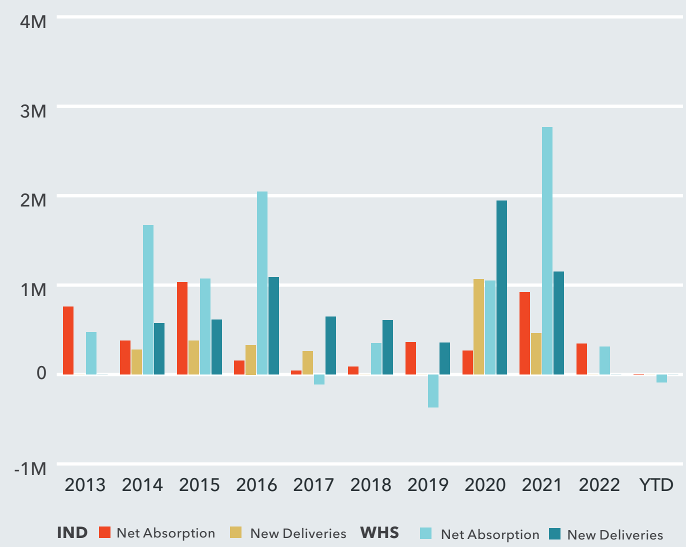
LEASE RATE, VACANCY & AVAILABILITY



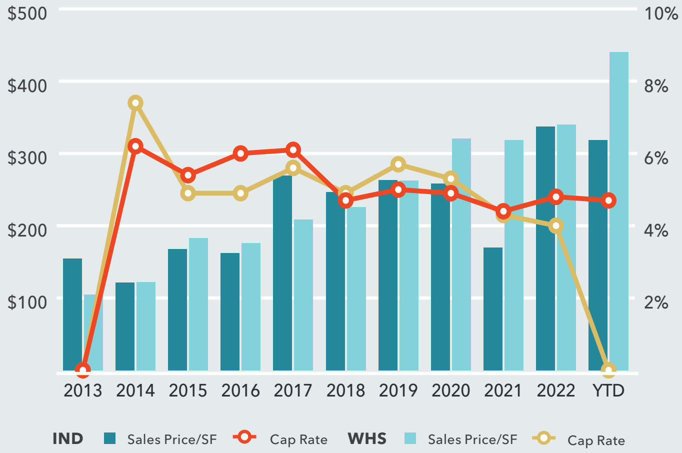
BIGGEST SALE OF THE QUARTER

960-980 Central Expy

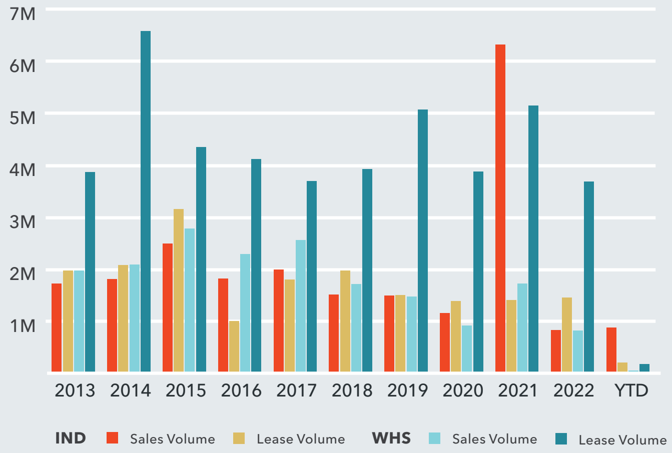
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q23 Direct Net Absorption	YTD Direct Net Absorption	1Q23 Gross Absorption	YTD Gross Absorption	Rental Rate
Campbell	953,241	7,002	1.79%	1.79%	1.95%	-5,596	-5,596	5,440	5,440	$2.21
Cupertino	537,376	-	0.00%	0.00%	0.00%	0	0	0	0	-
Fremont	11,601,824	-	0.38%	0.38%	3.19%	13,629	13,629	2,496	2,496	$2.17
Milpitas	2,711,925	-	5.54%	5.54%	8.27%	0	0	36,036	36,036	$2.06
Mountain View	820,360	-	2.34%	2.70%	0.94%	0	0	24,842	24,842	$2.75
Newark	3,866,786	-	0.22%	5.43%	5.43%	-1,277	-1,277	0	0	$1.00
Palo Alto	1,378,870	-	0.47%	0.47%	0.36%	-1,425	-1,425	20,880	20,880	-
San Jose	14,950,875	-	1.26%	1.46%	1.81%	62,129	62,129	48,287	48,287	$1.45
Santa Clara	8,684,100	-	2.89%	3.00%	3.72%	-37,879	-37,879	71,670	71,670	$1.60
Sunnyvale	3,964,097	-	1.00%	1.11%	1.44%	-28,160	-28,160	0	0	$2.25
Silicon Valley Industrial Total	**49,469,454**	**7,002**	**1.46%**	**1.97%**	**3.00%**	**1,421**	**1,421**	**209,651**	**209,651**	**$1.85**
Campbell	744,448	-	0.93%	0.93%	1.13%	-4,512	-4,512	3,512	3,512	$1.63
Cupertino	166,229	-	0.00%	0.00%	10.09%	0	0	0	0	-
Fremont	16,744,657	655,924	1.65%	4.85%	6.07%	-107,612	-107,612	0	0	$1.45
Milpitas	6,572,336	-	0.72%	0.72%	1.82%	85,347	85,347	7,480	7,480	$1.32
Mountain View	933,291	-	5.01%	5.01%	8.00%	24,858	24,858	3,720	3,720	$2.48
Newark	5,166,464	-	2.26%	2.56%	2.70%	2,994	2,994	15,138	15,138	$1.52
Palo Alto	807,324	-	0.15%	0.15%	0.15%	0	0	0	0	-
San Jose	26,178,969	642,158	4.04%	4.27%	4.56%	-70,445	-70,445	97,347	97,347	$1.29
Santa Clara	6,416,348	-	2.00%	2.00%	2.35%	-16,712	-16,712	39,574	39,574	$1.79
Sunnyvale	2,115,925	-	1.91%	3.04%	2.77%	332	332	6,973	6,973	$1.59
Silicon Valley Warehouse Total	**65,845,991**	**1,298,082**	**2.61%**	**3.58%**	**4.22%**	**(85,750)**	**(85,750)**	**173,744**	**173,744**	**$1.45**

MARKET DRIVERS CONTINUED

Direct net absorption saw a significant decline in the industrial sector, falling from 128.2k SF in the 4Q22 to only 1.4k SF in 1Q23. The warehouse sector's direct net absorption also saw a substantial decrease, dropping from 218.8k SF in the 4Q22 to negative 85.8k SF in 1Q23.

ECONOMIC OVERVIEW

The unemployment rate in Santa Clara County increased from 2.2% in the previous quarter to 3.0% this quarter. In a similar trend, California's unemployment rate rose slightly from 4.1% in the previous quarter to 4.3% this quarter.

In the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA), industrial jobs showed a decrease compared to the previous quarter, but increased year-over-year. The Transportation and Warehouse sector declined by 1.9% compared to the previous quarter, while showing a 2.0% increase year-over-year, resulting in 122.7k jobs. Similarly, the Manufacturing sector decreased by 1.3% compared to 4Q22, but had a 4.1% increase compared to the 1Q22, totaling 180.9k jobs.

NEAR TERM OUTLOOK

The Silicon Valley industrial market has not been immune to the economic downturn. There has been a notable slowdown with Industrial and Warehouse products in 1Q23; however, even with the reduced activity, data center clients are actively seeking to acquire and adapt outdated industrial properties for their operations.

The recent collapse of Silicon Valley Bank, the largest bank failure since the 2008 financial crisis, has caused concern for the Bay Area due to the already negative economic outlook. However, it is important to note that the SVB collapse does not necessarily suggest further bank collapses, particularly in larger national banks that are not as vulnerable to the issues that caused the collapse. First Citizen's Bank will acquire Silicon Valley Bank, joining the list of over 20 bank acquisitions since the 2008 financial crisis.

Despite slowdowns in the industrial sector, there is still a substantial need for industrial space. In response, several development firms have proposed large-scale industrial projects in Fremont, a region rapidly growing in the life science and technology areas. More specifically, the developer - Valley Oak Partners - has proposed a 490k SF data center in Fremont with the intention of expanding the data capacity for clients.

TOP SALE TRANSACTIONS 1Q 2023

Property	City	SF	Sale Price	$/SF	Buyer	Seller
960-980 Central Expy	Santa Clara	732,571	$237,761,000	$324.56	Amazon	Owens Corning
1015 Timothy Dr	San Jose	59,857	$17,900,000	$299.05	C&G California Enterprises LLC	All Fab Precision Sheetmetal
37421-37427 Centralmont Pl	Fremont	42,400	$10,300,000	$242.92	Yan Lingney Chiu Trust	John Sutter
922 E Weddell Ct	Sunnyvale	14,864	$7,423,000	$499.39	Sunnyvale Lodge	Non-exempt Marital Deduction Share Trust
1045 Commercial Ct	San Jose	5,000	$6,500,000	$1,300.00	Redwood Property Investors	Anderson-Graves LLC

TOP LEASE TRANSACTIONS 1Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
48105 Warm Springs Blvd	Fremont	120,433	February 2023	The Blackstone Group LP	Alom Technology Corporation
326-346 Charcot Ave	San Jose	51,175	January 2023	Prologis LP	Lockheed Martin
45861 Hotchkiss St	Fremont	40,875	January 2023	Terreno Realty Corporation	FM Industries, Inc.
1010 S Milpitas Blvd	Milpitas	31,500	March 2023	Crow Milpitas Associates LP	Eco-Office, Inc.
8610 Thornton Ave	Newark	30,000	January 2023	Prologis LP	SMART Modular Technologies

TOP UNDER CONSTRUCTION

Property	City	SF	Delivery Date	Owner
Cochrane Technology Center	Morgan Hill	501,656	December 2023	Trammell Crow JV CBRE Investment Mgmt.
Fremont Technology Center	Fremont	395,281	September 2023	Ares Management
6500-6503 Camino Arroyo	Gilroy	383,000	December 2024	McCarthy Ranch
650 N King Road	San Jose	212,638	December 2023	Black Creek Group
1953-1965 Concourse Drive	San Jose	126,700	June 2023	Overton Moore Properties

Data Source: Costar; edd.ca.gov, ycharts.com, bizjournals.com

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

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COMMERCIAL BROKERAGE	$12B TRANSACTION VOLUME ANNUALLY	32.1M ANNUAL SALES SF	41.2M ANNUAL LEASING SF
ASSET SERVICES	53M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,600+ ASSIGNMENTS ANNUALLY	46 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS