

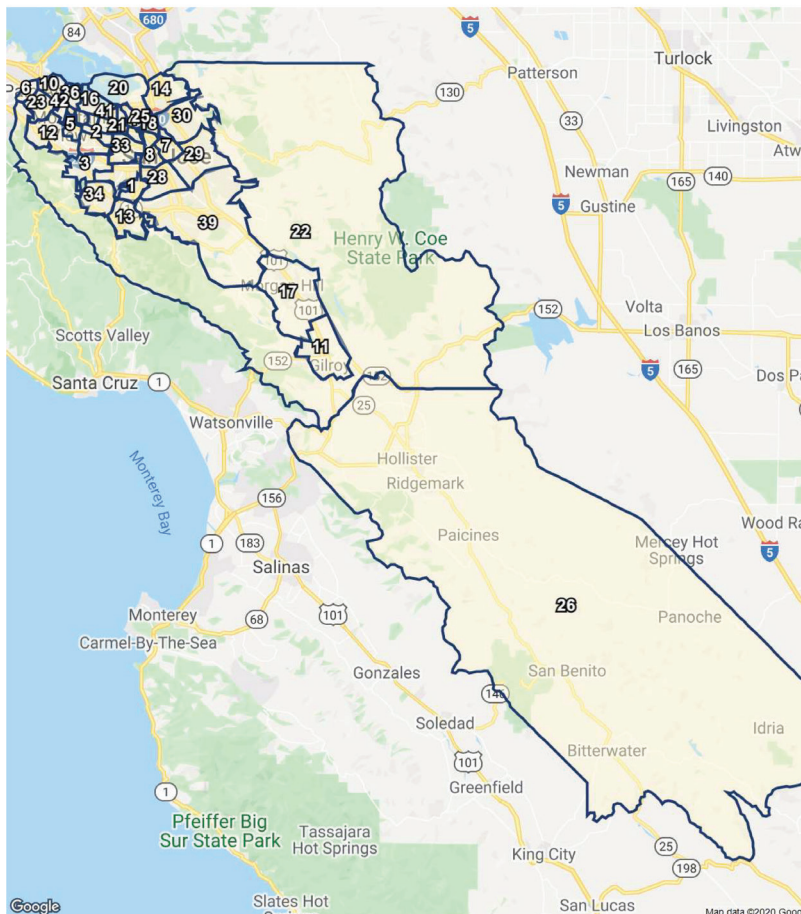
2020 Q2 INDUSTRIAL MARKET REPORT

San Jose, CA

OVERVIEW

THE SAN JOSE MARKET is anchored by the city of San Jose, the largest city based on population and size (covering 179.97 square miles) in Northern California. As of 2019, San Jose had an estimated population of over 1 million people, making it the 3rd largest city in all of California, behind Los Angeles and San Diego. San Jose is the most populous city in the San Jose-San Francisco-Oakland Combined Statistical Area which contains 8.7 million people. San Jose's median annual income continues to rise, and currently sits at \$104,234, significantly higher than the US median annual income of \$61,937. San Jose has the fifth most expensive housing market in the world, with a median home price of roughly \$1,085,000.

SAN JOSE SUBMARKETS



No.	Submarket
1	Campbell
2	Central Sunnyvale
3	Cupertino
4	De La Cruz
5	Downtown Mountain View
6	Downtown Palo Alto
7	Downtown San Jose East
8	Downtown San Jose West
9	East Arques Ave Corridor
10	Embarcadero/101
11	Gilroy
12	Los Altos
13	Los Gatos
14	Milpitas
15	Mission College Area
16	Moffett Park
17	Morgan Hill
18	N. San Jose - Brokaw
19	N.E. Santa Clara
20	Oak Creek
21	Oakmead Park
22	Outlying Santa Clara Cnty
23	Palo Alto South
24	Peery Park
25	Plumeria Drive
26	San Benito County
27	San Jose Airport
28	San Jose Central
29	San Jose East
30	San Jose, IBP East
31	San Jose, IBP West
32	San Jose, Winchester
33	Santa Clara
34	Saratoga
35	Scott Blvd Corridor
36	Shoreline Corridor North
37	Shoreline Corridor South
38	South Moffett Triangle
39	South San Jose
40	South Sunnyvale
41	Sunnyvale Triangle
42	West Mountain View

San Jose is commonly known as the cultural, financial, and political center of Silicon Valley. Silicon Valley covers a portion of the San Jose Industrial Market, extending to the north from Los Gatos to Milpitas, and northwest to Palo Alto. San Jose is Silicon Valley's largest city. Other major Silicon Valley cities include Sunnyvale, Santa Clara, Redwood City, and Mountain View.

San Jose is a United States Foreign-Trade Zone (FTZ), which means that the city is granted jurisdiction to oversee and administer foreign trade in Santa Clara County, Monterey County, San Benito County, Santa Cruz County, and in the southern parts of San Mateo County and Alameda County. San Jose received its Foreign Trade Zone Grant in 1974, making it the 18th foreign-trade zone established in the US, out of 186 active trade zones in the US. Merchandise may be held in FTZ without being subject to Customs duties or other added value taxes. Importers, manufacturers, and distributors can realize cost-savings benefits because they can avoid payment of US Customs duties. This relief is designed to lower the costs of US-based businesses engaged in international trade and thereby create and retain the employment and capital investment opportunities that result from those operations.

San Jose is known as a city of innovation. In early 2020, San Jose city officials announced a new "innovation zone" located on the west side in San Jose where companies can test new technology. Several companies are listed as early collaborators in the effort, including Federal Realty Investment Trust, Amazon, and Verizon. San Jose also houses the headquarters of many global technology companies including: Cisco Systems, eBay, Adobe Inc., PayPal, Broadcom, Samsung, Acer, Hewlett Packard Enterprise, and Zoom.

The San Jose market had a low unemployment rate at 3.5% compared to the national average unemployment rate at 4.4% in March of 2020, prior to the COVID-19 pandemic. The unemployment rate in San Jose had historically remained below 4%, however, as of June 2020, San Jose's unemployment rate increased to 10.8%, below the national average at 11.1%, as a direct result of the pandemic.

While the retail and office markets in San Jose have been hit hard by the pandemic, the industrial market has seen a less significant impact. A large portion of the San Jose Industrial market is flex, lab and R&D space – all of which have remained relatively unaffected by the pandemic. Although vacancy rates remain low at 5.8%, a few landlords in the industrial segment have offered concessions of up to 10% rental reduction. The entire US is seeing similar impacts as a result of the pandemic, where industrial segments are the least impacted. However, the San Jose Industrial market has managed particularly well due to low vacancy rates and strong demand prior to the pandemic.

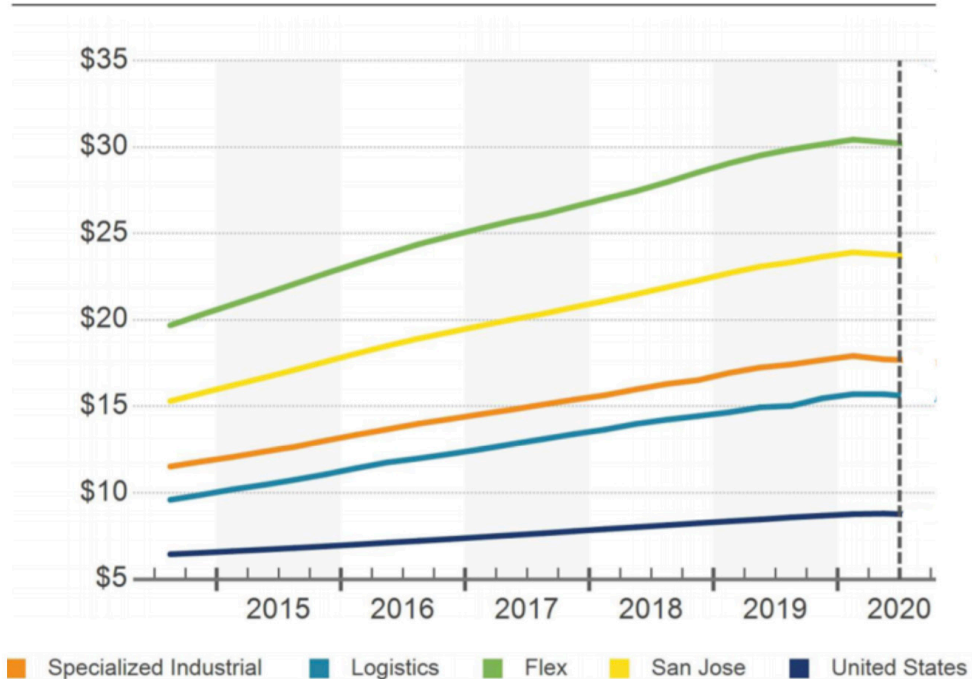
MARKET REVIEW

Largest Lease Transactions					
Tenant	Address	City	Submarket	Size	Quarter Signed
Amazon	205 N McCarthy Blvd	Milpitas	Milpitas	388,240	Q1 20
Amazon	970 McLaughlin Ave	San Jose	San Jose East	223,827	Q1 20
Amazon	1710 Little Orchard St	San Jose	San Jose Central	212,840	Q1 20
Amazon	807 N McCarthy Blvd	Milpitas	Milpitas	131,331	Q4 19
Iron Mountain	111 Uranium Dr	Sunnyvale	East Arques	126,788	Q4 19

San Jose’s industrial market consists of mainly flex, lab and R&D space, housing companies such as Amazon, PayPal, eBay, and Zoom. Many of these companies have long-term expansion plans in the region, such as Amazon, who signed over 600,000 SF in the first quarter. As a result, demand for industrial space remains strong, and relatively unaffected by the coronavirus pandemic. Due to the strong performance of the market, vacancy rates remain low at 5.9%, and have historically remained under 7% since 2014.

The San Jose industrial market consists of 197 million square feet of inventory, of which roughly 47% is warehouse/distribution space. The majority of occupancy growth in 2019 was caused by large owner-users. Google purchased 3 manufacturing buildings and 4 office buildings in 2019, totaling over 800,000 SF. The County of Santa Clara also purchased a 5 building, R&D campus in South San Jose at the beginning of 2019, totaling over 400,000 square feet.

MARKET RENT PER SQUARE FEET



Industrial rent growth in San Jose has more than doubled since 2010. Rent growth peaked at 12% in 2015, but slowed in 2016 and 2017 towards 7%, fell below 5% in 2019, and currently registers 2.9% on a year-over-year basis. The current rental rate for the San Jose industrial market was up to \$23.00/SF as of Q2 2020. While this trend was expected to continue throughout 2020, the coronavirus pandemic has caused rent growth to slow. It is yet to be seen how future rent will be affected by the pandemic, however the city is optimistic that industrial demand will continue to support rent growth in the future, albeit at a lower year-over-year increase than previously projected.

Under Construction						
Developer	Tenant	Address	City	Submarket	Size (SF)	Estimated Completion
Shoe Palace Corp	Shoe Palace	745 Jarvis Drive	Morgan Hill	Morgan Hill	503,400	Aug-20
Bridge Development Partners	Amazon	205 N McCarthy Blvd	Milpitas	Milpitas	388,240	Apr-21
Intuitive Surgical, Inc.	Intuitive Surgical	1050 Kifer Road	Sunnyvale	East Arques	326,000	Sep-20
Deefried Properties, Inc.	Amazon	970 McLaughlin Ave	San Jose	San Jose East	223,827	Aug-20
Panattoni Development Company	County of Santa Clara	2144 Oakland Rd	San Jose	San Jose, IBP East	84,648	Nov-21
Graniterock, Inc	BTS	86-96 Montecito Vista Dr.	San Jose	San Jose Central	82,260	Sep-20

San Jose lacks the potential for long-term supply growth, primarily due to lack of undeveloped land, expensive land prices, and zoning requirements that favor office and residential development. San Jose has historically ranked near the bottom in the US in terms of supply growth. During the last 12 months, new supply has emerged in the market, however there is only 1.7 million square feet under construction, which represents under 1% of the market’s existing stock. The market has historically quickly absorbed available product, and will continue to, keeping vacancy rates low.

SAN JOSE SUBMARKET SUMMARY

San Jose consists of 42 submarkets. Generally, rates are lower towards the south end of the San Jose Market. San Benito County is the largest, most southern submarket in the San Jose Industrial market, averaging \$10.43/SF for industrial product, with 4.5 million square feet of industrial inventory and a vacancy rate just below 7%. Palo Alto South is located at the north end of the San Jose Industrial market in Silicon Valley, with industrial rental rates averaging \$57.03/SF, consisting 4.3 million square feet of inventory, and a vacancy rate at 3.5%. While Palo Alto has only 200,000 square feet less than San Benito County, it is over 50 times smaller. Palo Alto is known as one of the most upscale and expensive areas of not only California, but the whole US. Stanford University is located here, and companies typically locate to this area to attract an educated, skilled workforce.

Santa Clara	
Inventory	1.2 M
Under Construction	0
12 Mo Net Absorption SF	827
Vacancy Rate	1.7%
Market Rent/SF	\$24.71
Annual Rent Growth	3.4%

N.E. Santa Clara	
Inventory	594 K
Under Construction	0
12 Mo Net Absorption SF	6.4 K
Vacancy Rate	5.6%
Market Rent/SF	\$18.95
Annual Rent Growth	2.5%

San Jose Airport	
Inventory	1.2 M
Under Construction	0
12 Mo Net Absorption SF	-50.3 K
Vacancy Rate	5.9%
Market Rent/SF	\$21.54
Annual Rent Growth	3.3%

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