

MARKET REPORT

Retail
San Jose Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

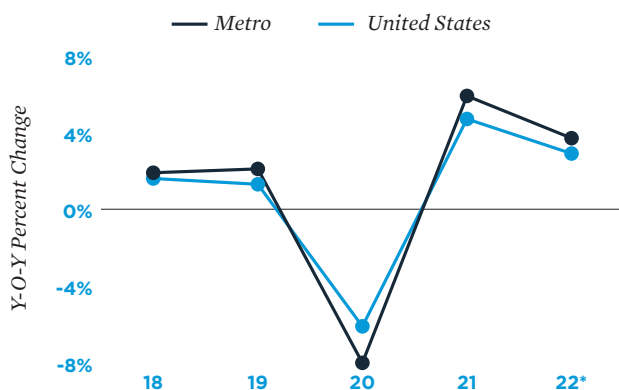
3Q/22

Silicon Valley Records the Tightest Retail Vacancy Rate Among Bay Area Markets

Sector outlook is brightening. With an unemployment rate of 2.4 percent in August, San Jose's labor market is outperforming the national average by 130 basis points. The strength of the metro's economy, coupled with pent-up consumer demand stemming from pandemic lockdowns, led to a rise in consumer spending over the past 12 months ending in June. These circumstances are improving the outlook for the retail sector in the Silicon Valley. Although availability has remained relatively steady over the past year ending in June, the vacancy rate in San Jose is at least 80 basis points lower than any other major Bay Area market. The metro's second quarter performance provides additional reason for optimism. During the three-month span, nearly all San Jose submarkets recorded positive net absorption. Specifically, vacancy fell 120 basis points in Santa Clara to 2.4 percent, the lowest rate in the metro, while availability in Sunnyvale-Cupertino dropped by 110 basis points.

Nominal deliveries a silver lining. In the trailing 12-month period ending in June, only 24,000 square feet of retail space was delivered in the South Bay, marking the lowest four-quarter total in more than 15 years. The lack of deliveries aided retail fundamentals, as recently vacated space had little competition from new supply, which helped keep vacancies from rising substantially. With only 230,000 square feet of retail space underway metrowide as of September, deliveries are expected to remain well below the long-term average of 510,000 square feet per annum in the near- to mid-term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**42,000
JOBS**
will be created

EMPLOYMENT:

Employers are on pace to expand payrolls by 3.7 percent in 2022, driven by strong hiring in the metro's traditionally office-using sectors. By year-end, total employment will surpass the market's pre-pandemic peak.



**95,000
SQ. FT.**
will be completed

CONSTRUCTION:

Annual supply additions fall under the 100,000-square-foot threshold for the first time on record, as developers increase retail inventory by just 0.1 percent. Palo Alto is slated to receive the bulk of new supply in 2022.



**10
BASIS POINT**
increase in vacancy

VACANCY:

Moveouts in South San Jose are expected to offset the elevated space demand recorded in other submarkets, resulting in a slight vacancy increase. Still, the overall rate will remain 20 basis points below the U.S. average.

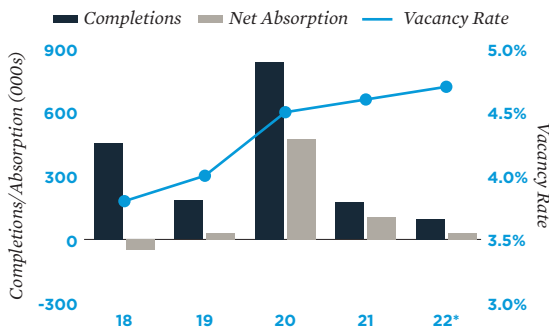


**3.5%
INCREASE**
in asking rent

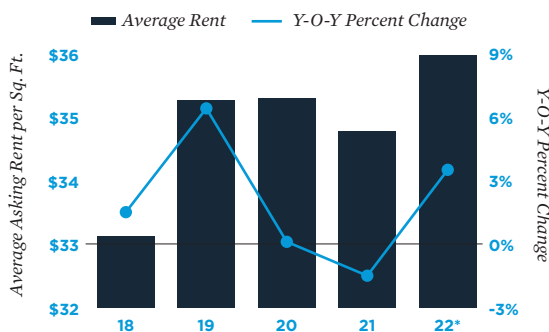
RENT:

The mean asking rent in San Jose will increase to \$35.97 per square foot in 2022, following nearly two years of steady declines. Still, the rate remains 0.6 percent below the record high that was set in the first quarter of 2020.

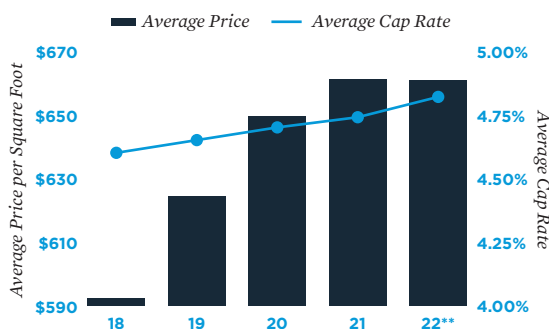
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

24,000 sq. ft. completed

- San Jose added the least amount of retail space among Bay Area markets over the past year ending in June, as developers increased the metro's inventory by less than 0.1 percent.
- The largest project in the pipeline is an 80,000-square-foot neighborhood center in Hollister that is nearly 80 percent leased and will deliver in 2023.



VACANCY

0 basis point change in vacancy Y-O-Y

- Availability in the single-tenant segment fell 40 basis points during the trailing 12-month period ending in June, while vacancy in multi-tenant properties recorded a 170-basis-point jump.
- Leasing activity in Sunnyvale-Cupertino, Santa Clara, Campbell-Los Gatos and San Benito County sliced at least 100 basis points off local vacancies.



RENT

0.7% decrease in the average asking rent Y-O-Y

- Although the average asking rent metrowide declined during the past four quarters ending in June, submarkets like Palo Alto and Sunnyvale-Cupertino observed double-digit gains.
- Asking rents in the single-tenant segment fell 0.5 percent during this span, while the multi-tenant average rate retreated by 1.4 percent.

Investment Highlights

- Transaction velocity for single-tenant assets increased by nearly 25 percent during the past four quarters ending in June, relative to the previous year-long span. Pricing for properties in this segment was largely unchanged, recording at an average of \$739 per square foot, while the mean cap rate remained in the high-4 percent range.
- Restaurants, fast food establishments and auto parts shops are highly sought after by investors with an appetite for net-leased assets. Trades in this segment are occurring most frequently in San Jose proper; however, buyers are also finding opportunities in Mountain View-Los Altos and Sunnyvale-Cupertino, with yields averaging in the high-4 percent span.
- Investor activity for multi-tenant assets has picked up steam in recent quarters. Annual deal flow for properties in this segment increased by more than 60 percent in June. Still, multi-tenant entry costs remained relatively stable at \$598 per square foot on average, with first-year returns in the high-4 percent span. Neighborhood and power centers anchored by high-credit national tenants are being targeted most often. These assets are often changing hands as part of larger portfolio transactions to REITs and institutional investors.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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