

FOR SALE OR LEASE OFFERING

**FREE STANDING**  
**INDUSTRIAL ■ RETAIL**



**FREE STANDING INDUSTRIAL/RETAIL OPPORTUNITY**

# FREE STANDING INDUSTRIAL ■ RETAIL

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All potential buyers are strongly advised to take advantage of their opportunities and obligations to conduct thorough due diligence and seek expert opinions as they may deem necessary, especially given the unpredictable changes resulting from the continuing COVID-19 pandemic. KW Commercial has not been retained to perform, and cannot conduct, due diligence on behalf of any prospective purchaser. KW Commercial's principal expertise is in marketing investment properties and acting as intermediaries between buyers and sellers. KW Commercial and its investment professionals cannot and will not act as lawyers, accountants, contractors, or engineers. All potential buyers are admonished and advised to engage other professionals on legal issues, tax, regulatory, financial, and accounting matters, and for questions involving the property's physical condition or financial outlook. Projections and pro forma financial statements are not guarantees and, given the potential volatility created by COVID-19, all potential buyers should be comfortable with and rely solely on their own projections, analyses, and decision-making.

FOR SALE OR LEASE OFFERING



# EXECUTIVE SUMMARY

An-Jan Feed & Pet Supply

A photograph of a single-story commercial building with a gabled roof and dark siding. The building has a wide front porch with several glass doors and windows. A large sign above the entrance reads "An-Jan Feed & Pet Supply". The roof features two white square logos with a stylized 'X' inside. The foreground is a paved parking lot with some white markings. The sky is overcast and grey.



## FOR LEASE OR SALE OWNER/USER OPPORTUNITY



- **\$225psf - \$8,577,450**  
\$1.15psf Industrial Gross



- Heavy Industrial Building With Yard



- 38,122 sq ft building on 1.3 acres



- Fenced Yard



- Retail Uses Possible for front parcel



- Potential for redevelopment



- Corner lot – excellent visibility and accessibility

Do not disturb current occupant.

## PROPERTY OVERVIEW

# THE OPPORTUNITY

The Carlson Urban Group of KW Commercial is pleased to present, as exclusive advisors, a for lease or sale owner/user opportunity located at 1633 Monterey Rd and 35 San Jose Avenue in San Jose, California (“Property”). The Property is available for lease at \$1.15sf industrial gross and available for purchase at \$225psf. Building is available when current lessee term expires (12/31/2020), please do not disturb occupant. This is the first time in over 40 years this Property has become available for a new occupant/owner. These two adjacent properties comprise of approximately 38,122 rentable square feet located on approximately 1.3 acres. The Property has excellent visibility on Monterey Rd with over 140’ of frontage and being on a hard corner of Monterey Rd and San Jose Ave creates easy access for customers, trucks, etc. The Property contains two parcels and is currently zoned heavy industrial however the general plan shows that the front parcel on Monterey Rd will have a neighborhood community commercial designation expanding the possible uses for the site.

This Property presents a unique chance to invest in or occupy a building located on Monterey Rd just outside of downtown San Jose which is known as East San Jose-Willow Glen industrial market. Occupancy levels in San Jose's industrial market rose higher in 2019 and the first half of 2020, with the rise in demand stemming from large owner-users, both tech, and non-tech. In 20Q3, tenant move outs, and lack of significant move-ins finally led occupancy levels lower, but the coronavirus pandemic has not affected fundamentals significantly. Per market data, this particular neighborhood has a vacancy rate of just under 3% and an average rental rate of \$1.36psf.

# PROPERTY SUMMARY

COMBINED OVERVIEW			
<b>ADDRESS</b>	1633 Monterey Rd	35 San Jose Ave	<b>Total</b>
<b>Type</b>	Industrial/Retail	Retail	-
<b>APN</b>	434-24-076	434-24-088	-
<b>Zoning</b>	Heavy Industrial (HI)	Heavy Industrial (HI)	-
<b>Building SF</b>	20,102	18,020	<b>38,122</b>
<b>Lot SF</b>	33,190	27,550	<b>60,740</b>
<b>General Plan</b>	NCC	HI	

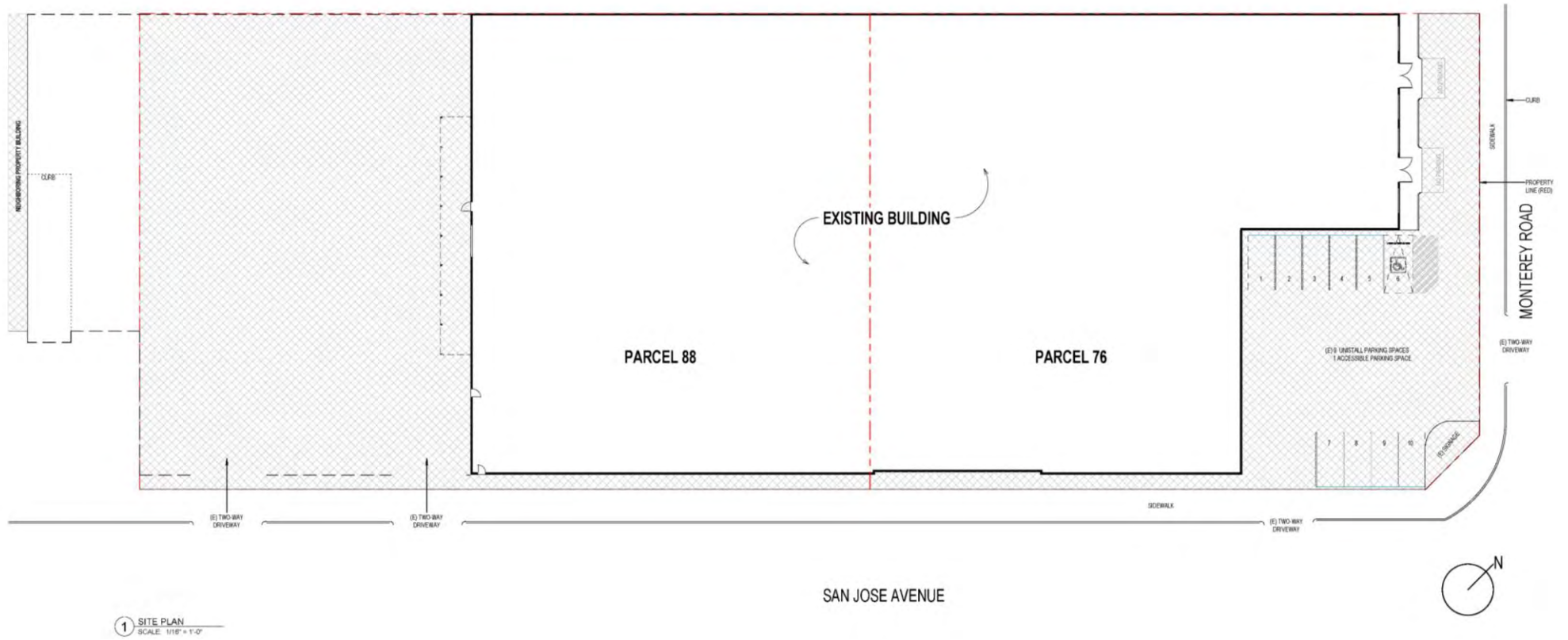
BUILDING INFORMATION	
<b>Building Size</b>	38,122 SF
<b>Sale Price / SF</b>	\$225.00
<b>Lease Rate / SF</b>	\$1.15 PSF IG
<b>Year Built</b>	1942
<b>Date Available</b>	12/31/2020
<b>Number of Floors</b>	1
<b>Construction Status</b>	Existing
<b>Walls</b>	Metal
<b>Roof</b>	Metal
<b>Ceiling Height</b>	Approx. 15'
<b>Foundation</b>	Slab
<b>Grade Level Doors</b>	1
<b>HVAC</b>	Yes – Office Portions
<b>Power</b>	240V- 400A 3-Phase Per Parcel
<b>Parking</b>	10 Stalls in Front
<b>Sprinklers</b>	None

PROPERTY DETAILS	
<b>Property Type</b>	Industrial/Retail
<b>Zoning</b>	HI
<b>General Plan</b>	HI/NCC
<b>Lot Size</b>	1.39 Acres
<b>APN #</b>	434-24-076, 434-24-088
<b>Lot Frontage</b>	144'
<b>Lot Depth</b>	420'
<b>Corner Property</b>	Yes

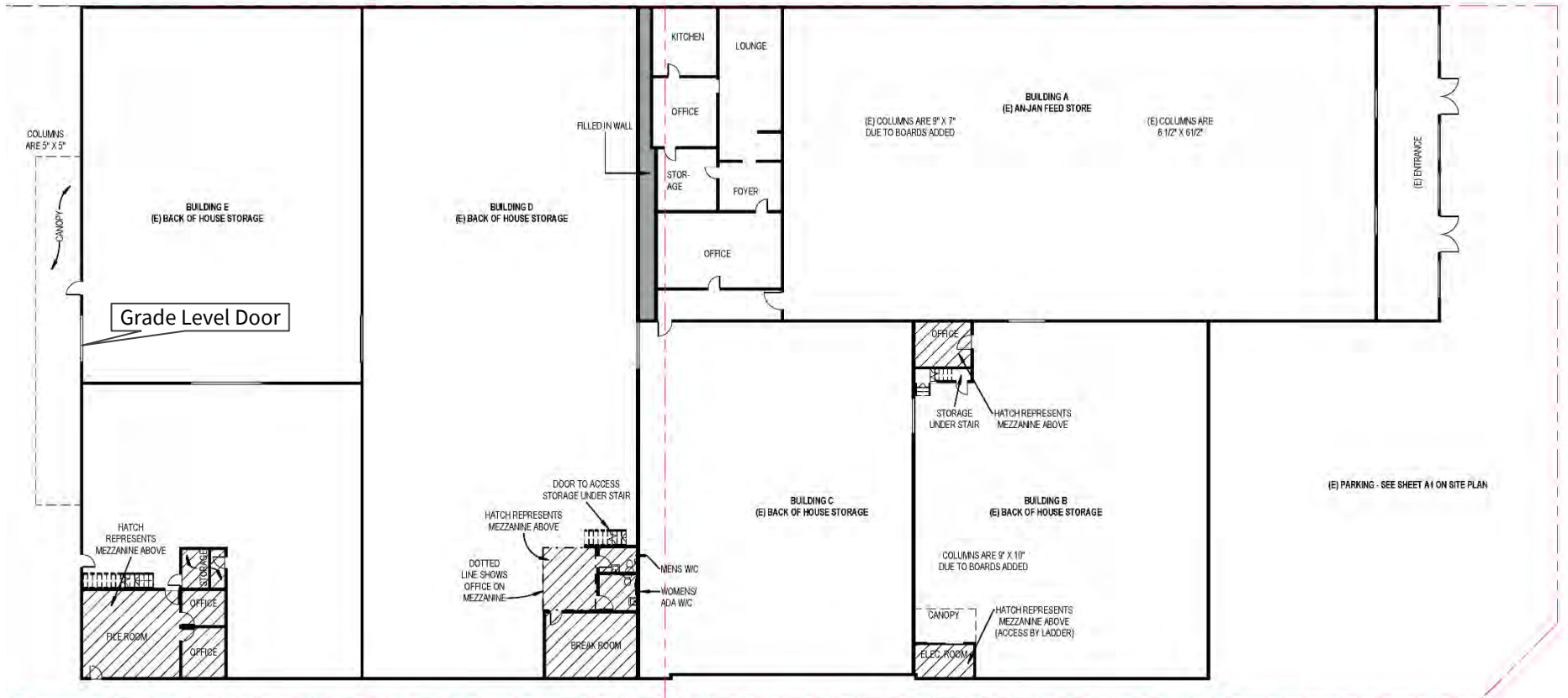
PARKING	
<b>Parking Type</b>	Surface
<b>Number of Spaces</b>	10
<b>- Excludes Unstriped Area In Rear</b>	

POTENTIAL USES	
<ul style="list-style-type: none"> <li>• Construction</li> <li>• Manufacturing</li> <li>• Warehouse / Distribution Facility</li> <li>• Wholesale Sale Establishment</li> <li>• Brewery</li> <li>• Printing</li> <li>• Auto Repair</li> </ul>	

# PROPERTY PLANS



# PROPERTY PLANS





# OWN VS. LEASE COMPARISON

Property Square Footage 38,000 sf

Own	
Purchase Price	\$8,500,000
Improvements	\$0
Other	\$0
Total Project Cost	\$8,500,000
Total Price per Sq. Ft.	\$223.68 PSF

## Start-Up Costs

Cash Down Payment	10%	\$850,000
Estimated Bank Fees	0.50%	\$21,250
Estimated Appraisal & Environmental		\$5,000
Estimated Escrow & Title		\$0
Other Fees		\$0
Total Cash Required		\$876,250

## Monthly Costs

Mortgage Payment (monthly)	\$1.00	\$37,811
Taxes	\$0.01	\$7,650
Insurance	\$0.02	\$760
Condo Fee	\$0.00	\$0
Monthly Expenses	\$0.10	\$3,710
Total Monthly Payment	\$1.31 PSF	\$49,931

## Total Adjusted Monthly Costs

Total Monthly Payment	\$1.31	\$49,931
Less Depreciation	(\$0.38)	-\$14,530
Potential Tenant Income		

**\$35,401.00**

**\$0.93 PSF**

## Forecasted Ownership Benefits

Monthly Mortgage Payment in 10 years	\$37,811
Cash Savings After 10 Years	\$974,688
Equity After 10 Years	\$4,837,029

Assumptions: Depreciation est. at 80% allocation of purchase price.

Equity assumes 2% annual building appreciation

**Loan information provided by**  
**Bruce Whitaker | TMC Financing**  
 408-483-9599 | bruce@tmcf financing.com

Lease	
Monthly Lease Rate	\$43,700
Rented Sq. Ft.	38,000 sf
Lease Rate per Sq. Ft.	\$1.15 PSF

## Start-Up Costs

Prepaid Lease	2 Months Rent	\$87,400
Security Deposit		\$0
Total Cash Required		\$87,400

## Monthly Costs

Lease Payment	\$1.15	\$43,700
Total Monthly Payment	\$1.15 PSF	\$43,700

## Total Adjusted Monthly Costs

Total Monthly Payment	\$1.15	\$43,700
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**\$43,700.00**

**\$1.15 PSF**

## Forecasted Cost of Continuing to Lease

Monthly Lease Payment in 10 years	\$57,019
Cash Savings After 10 Years	\$0
Equity in 10 Years	\$0

Assumes annual lease rate increase of 3%





2<sup>nd</sup> Street Studios

El Primero High School

Wendy's

Best Value Inn

Sprint

Walmart

Big 5

Teletron

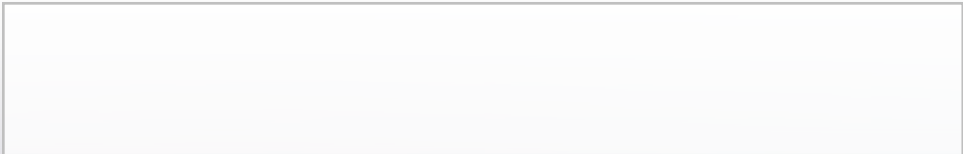
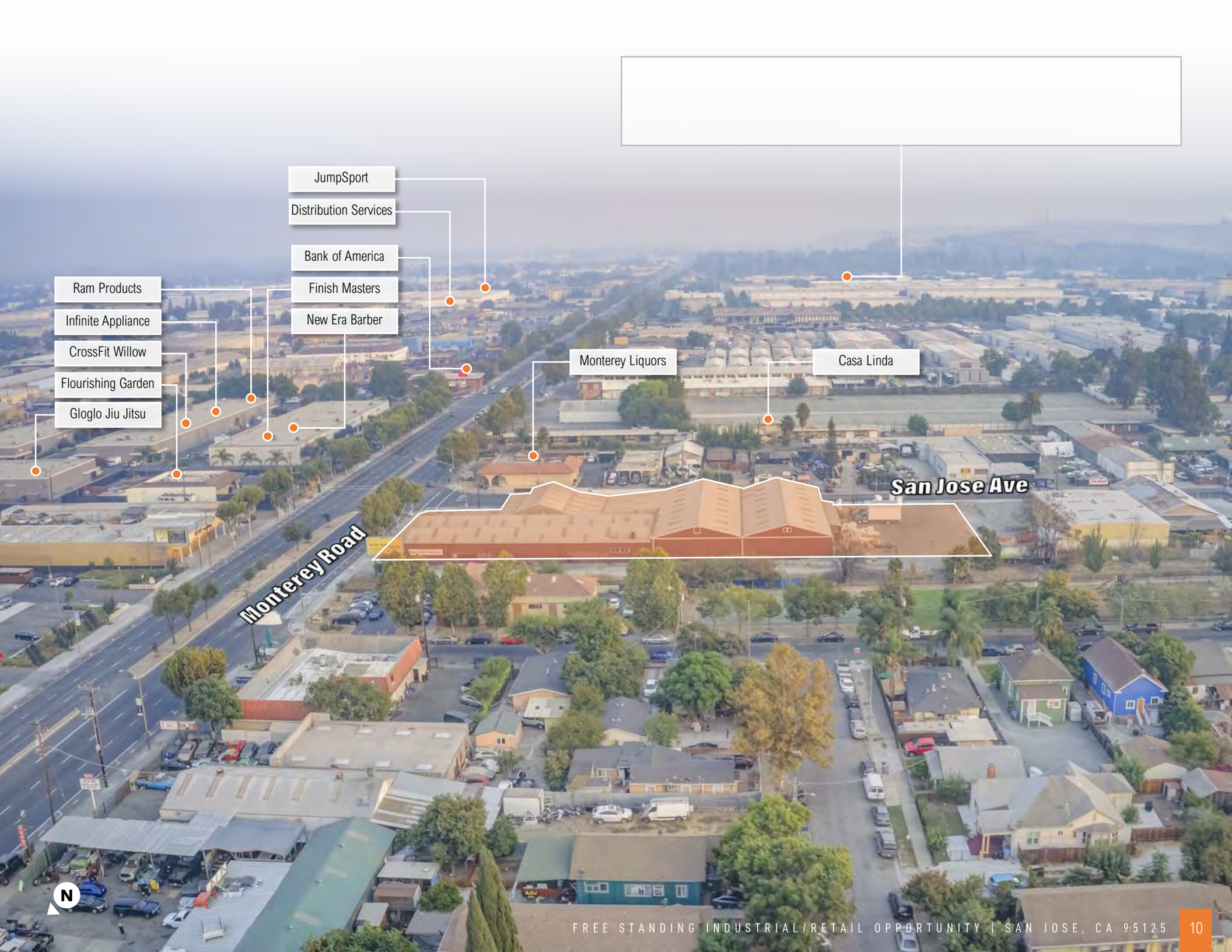
Popeyes

Monterey Road

San Jose Ave

N





JumpSport  
Distribution Services

Bank of America  
Finish Masters  
New Era Barber

Ram Products  
Infinite Appliance  
CrossFit Willow  
Flourishing Garden  
Gloglo Jiu Jitsu

Monterey Liquors

Casa Linda

**Monterey Road**

**San Jose Ave**







An aerial photograph of an industrial district. A large, dark-colored warehouse with a multi-gabled roof is the central focus. To its right, a multi-lane highway runs parallel to the industrial buildings. The surrounding area is filled with various industrial structures, parking lots with cars, and some trees. In the background, a city skyline is visible under a hazy sky. The text 'LOCATION OVERVIEW' is overlaid in the center of the image.

# LOCATION OVERVIEW

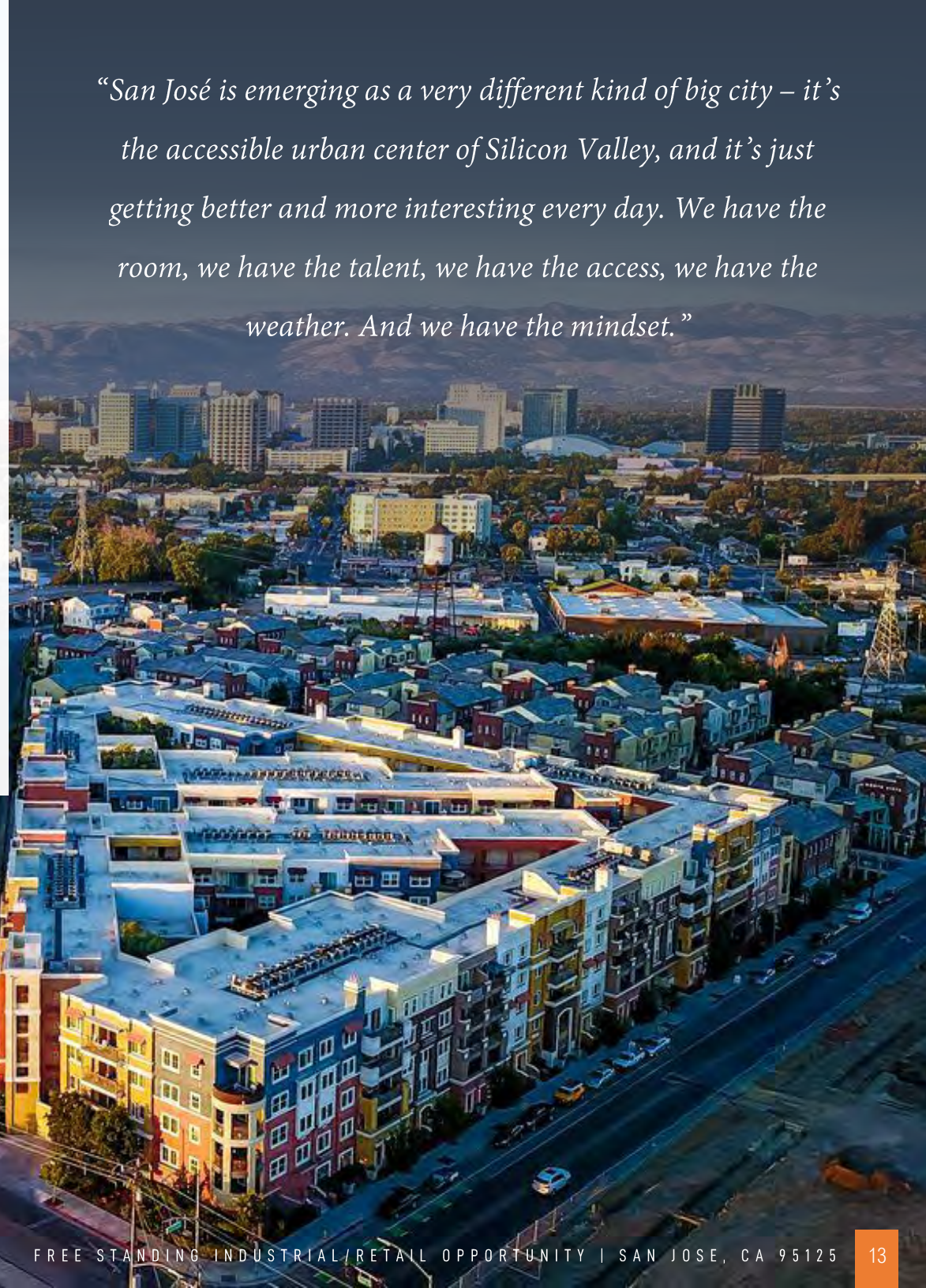


# SAN JOSE, CA

San Jose is the economic, cultural, and political center of Silicon Valley and the largest city in Northern California (both by population and area). With an estimated 2018 population of 1,030,119, it is the third-most populous city in California (after Los Angeles and San Diego) and the tenth-most populous in United States. Located in the center of the Santa Clara Valley, on the southern shore of San Francisco Bay, San Jose covers an area of 179.97 square miles (466.1 km<sup>2</sup>). San Jose is the county seat of Santa Clara County, the most affluent county in California and one of the most affluent counties in the United States.

San Jose's location within the booming high-tech industry, as a cultural, political, and economic center has earned the city the nickname "Capital of Silicon Valley". San Jose is one of the wealthiest major cities in the United States and the world, and has the third highest GDP per capita in the world (after Zürich, Switzerland and Oslo, Norway), according to the Brookings Institution. The San Jose Metropolitan Area has the most millionaires and the most billionaires in the United States per capita.

*“San José is emerging as a very different kind of big city – it’s the accessible urban center of Silicon Valley, and it’s just getting better and more interesting every day. We have the room, we have the talent, we have the access, we have the weather. And we have the mindset.”*





# DOWNTOWN SAN JOSE

## HISTORIC URBAN CORE OF SILICON VALLEY

Collaboration. Creative collisions. Highly amenitized workspaces. In Downtown San José and its regional transit hubs, those aren't just buzzwords. They're just how Silicon Valley's historic urban core rolls. Hang around a while, and you're bound to run into a street festival, farmers' market, or colleagues at a sidewalk café – maybe even popup table tennis. It's why Downtown San José is not just the historic center and commercial hub of the Northern California's largest city (1 million residents strong and counting). It's also a lifestyle centerpiece where Silicon Valley comes together for sports, art and culture.

Known for its cluster of accounting, design, real estate and banking businesses, DTSJ is also home to a growing tech portfolio. Why are companies like Okta, Zoom, Adobe, WeWork and ThreatMetrix growing downtown? Credit downtown's unique existing buildings, strong development capacity accessible regional transit (with BART on the way), and new high-rise housing popping up. Not to mention more affordable office rents than other Bay Area downtowns.

### DEVELOPMENT REINASSANCE

Downtown offers tremendous possibilities for growth, facilitated by a city development policy that allows capacity for millions of square feet of commercial capacity. It's all possible on a number of parking lots and underused commercial buildings ripe for reinvention.

Among the soonest coming online is MUSEUM PLACE, a dramatically styled high-rise mixed-use project from Insight Realty Co. on Park Avenue that includes 340,000 square feet of Class A office – alongside a new Kimpton hotel, condos and retail. It's all wrapped in a striking design that's like nothing else on the West Coast.

CITY HALL ROTUNDA



DE ANDA HOTEL



EVERGREEN VILLAGE





## LOCAL BUSINESS SUPPORT PROGRAM

San Jose offers a number of established support programs available to all businesses in the city: Our Foreign Trade Zone can reduce or eliminate duty payments; the Business Cooperation Program can provide a rebate on sales and use taxes; and our Special Tenant Improvement program for plan reviews is key to getting projects up and running quickly.

In addition to access to one of the world's best tech workforces, San José companies benefit from significantly lower business tax rates than many other major cities in California, more land availability than the rest of Silicon Valley, and subsequently, lower costs than surrounding cities. San José has adopted a progressive balanced land-use plan for the development of the city between now and 2040 that continues to place a priority on employers like Amazon, focusing on producing new commercial and residential development centered on key investments in transit infrastructure. In addition to supporting San José's position as a leading center for innovation, these plans and policies will help us to continue our position as one of the country's most progressive cities on climate issues.

# BUSINESS ENVIRONMENT

San José has a long history of supporting companies that drive the global economy. We strive to build deep and lasting relationships with businesses that invest in our community, from tech giants to local mom-and-pops, and use the feedback and insight that these relationships provide to continually improve our processes and procedures. Working with some of the largest tech companies in the world, and their development partners, the City of San José has developed a highly skilled team with a proven track-record in supporting the design and development of innovative urban campuses, major headquarters facilities, and specialty and technical operations. We've repeatedly demonstrated our ability to deliver projects on an expedited timeline, including development entitlements (Samsung's 10-story North American Headquarters received all planning approvals within 76 days) and building permits (tech users have the option to work with our expedited team who issue 80% of permits same day).



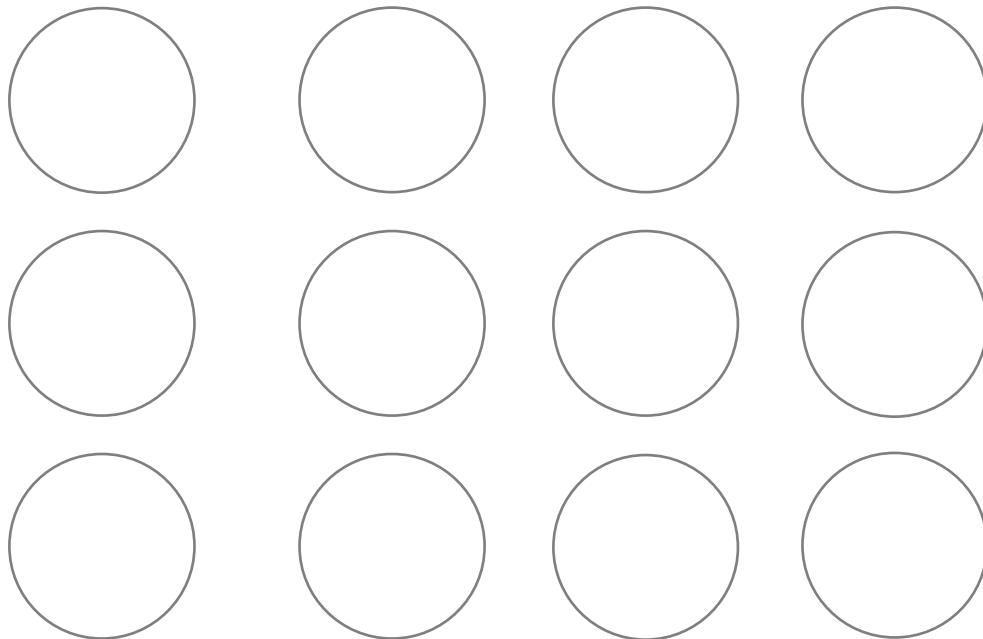


# COMPANY HEADQUARTERS

## 1,000 EMPLOYEES OR MORE

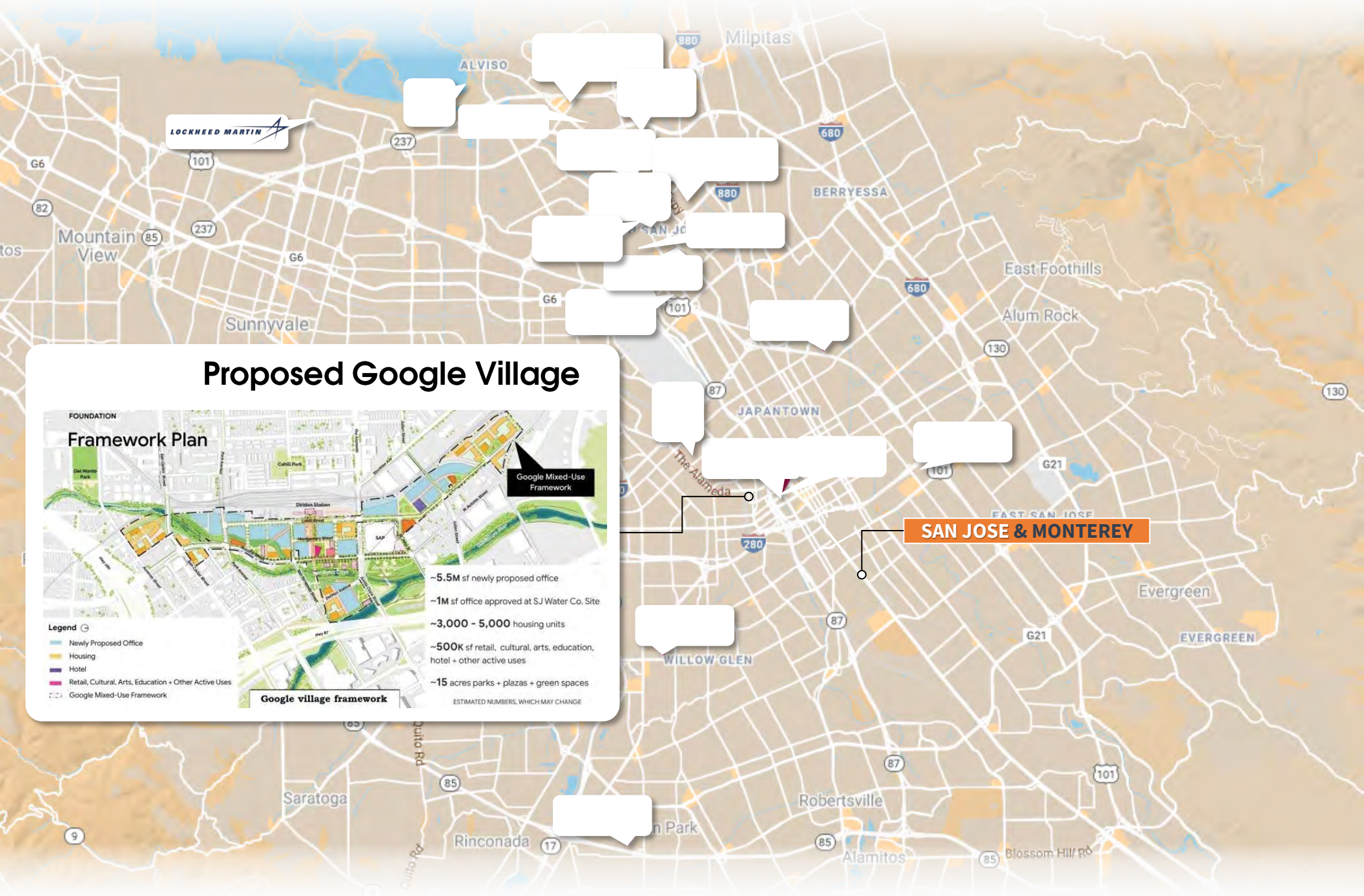
San Jose holds the distinction of being a United States Foreign-Trade Zone. The City received its Foreign Trade Zone grant from the U.S. Federal Government in 1974, making it the 18th foreign-trade zone established in the United States. Under its grant, the City of San Jose is granted jurisdiction to 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 lists many companies with 1,000 employees or more, including the headquarters of Adobe, Altera, Brocade Communications Systems, Cadence Design Systems, Cisco Systems, eBay, Zoom Inc., Lumileds, PayPal, Rosendin Electric, Sanmina-SCI, and Xilinx, as well as major facilities for Becton Dickinson, Ericsson, Hewlett-Packard, Hitachi, IBM, Kaiser Permanente, KLA Tencor, Lockheed Martin, Nippon Sheet Glass, Qualcomm, and AF Media Group. The North American headquarters of Samsung Semiconductor are located in San Jose. Approximately 2000 employees will work at the new Samsung campus which opened in 2015.





# MAJOR EMPLOYERS SAN JOSE



## Proposed Google Village

**FOUNDATION Framework Plan**

**Legend**

- Newly Proposed Office
- Housing
- Hotel
- Retail, Cultural, Arts, Education + Other Active Uses
- Google Mixed-Use Framework

**Google village framework**

- ~5.5M sf newly proposed office
- ~1M sf office approved at SJ Water Co. Site
- ~3,000 - 5,000 housing units
- ~500K sf retail, cultural, arts, education, hotel + other active uses
- ~15 acres parks + plazas + green spaces

ESTIMATED NUMBERS, WHICH MAY CHANGE



## CAL TRAIN

San José to San Francisco in about an hour on the 'Baby Bullet'

## ACE

San José to Stockton in a little more than 2 hours

## BART

San José's Berryessa district to San Francisco in about an hour, via the East Bay

## VTA LIGHT RAIL

42 miles of rail stretching from South San José up to Mountain View

## BART PHASE 2

Downtown San José to San Francisco planned for 2026

## VTA RAPID

A just-completed \$148 million Bus Rapid Transit project connects San José's east side to the downtown transit hub on stylish new buses running every 10 minutes.

## CAPITOL CORRIDOR

San José to Sacramento in about 3 hours

## VTA BUS SYSTEM

3,777 stops countywide with 1,236 miles traveled serving 71 total routes, including 18 express and limited lines.

# TRANSIT PROFILE

When it comes to mobility, San José is thinking big. The Envision 2040 General Plan calls for shifting 36% of all trips to walking, biking or transit by 2022 (up from 22 percent in 2007). To get there, it is making big investments in bikeways, transportation and public spaces. Also focusing 120,000 its planned housing units in areas serviced by transit and close to jobs and retail. Lastly, improving existing systems, like our 42-mile-long light rail network.

While Silicon Valley originally developed in a low-density format, San José is actually well served by transit: The Diridon Station hums along with thousands of daily boardings between Caltrain, VTA light rail and buses, Amtrak's Capitol Corridor, and Altamont Commuter Express rail. Light rail – which began in 1987 with 9 miles of tracks and 12 stations – now includes 62 stations stretching across the county. In 2018, BART opened its first San José station, connecting to San Francisco via the East Bay. By 2026, BART is slated to reach downtown San José, realizing a decades long dream of rail ringing the Bay.

California High Speed Rail (HSR) will also connect at Diridon Station, linking San José to San Francisco, the Central Valley and Los Angeles. The nation's first HSR system – under construction now – is slated to begin service first between San José and Bakersfield in 2025. With its completion, Diridon Station will become the preeminent transit hub of the Western United States.



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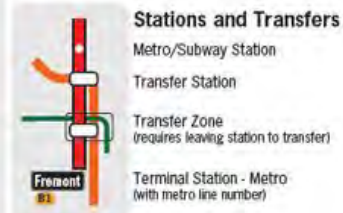
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## New Rail, Service and Extensions

- High-Speed Rail**
- H51 CAHSR** San Francisco - San Jose - Los Angeles
- Metro (BART & Commuter Rail)**
- B1 BART** Richmond - San Jose Diridon
  - B2 BART** San Jose Diridon - Daly City
  - B3 BART Metro** Downtown Berkeley - Civic Center
  - B4 BART Metro** Bay Fair - Civic Center
  - B5 aBART** Pittsburg/Bay Point - Hillcrest/Antioch
  - CCF Capital Corridor** San Jose Diridon - American Canyon
  - ACE ACE** Downtown Livermore - San Jose Diridon
  - C1 Caltrain** Baby Ballet - extend to Transbay Term.
  - C2 Caltrain** Local Line - extend to Transbay Term. and East Bay via 2nd Transbay Tube
- Light Rail**
- J** Meni extended to SF State - Embarcadero
  - M** Meni routed to Daly City - Embarcadero
  - T** Meni Lombard - Bayshore
  - V1 VTA** extended to Eastridge - Santa Teresa
  - V2 VTA** extended to Vasona Junction - Downtown
  - V3 VTA** realigned: Almaden - Mountain View
  - V4 VTA** Capitol/Guadalupe - Mountain View
  - V5 VTA** San Jose Airport Connector
  - B9 BART** Oakland Airport Connector
- Streetcar**
- E** Meni Fort Mason - 4th & King
  - 21T** Meni Jack London Square to Emeryville

- Bus Rapid Transit (BRT)**
- V22 VTA** Mountain View - Eastridge Mall
  - V23 VTA** De Anza College - Eastridge Mall
  - S22 SamTrans** El Camino: Palo Alto - Daly City
  - VMP VTA** Tri-Valley BRT: Livermore Lab-Stoneridge
  - G22 Golden Gate** Santa Rosa - Transbay Terminal
  - 1R AC Transit** Bay Fair - Berkeley Marina
  - 22R Meni** 18th Street: 4th & Townsend - Church
  - 38R Meni** Geary: Point Lobos - Transbay Terminal
  - 47R Meni** Van Ness: Fisherman's Wharf - 4th & King
  - 48R Meni** Van Ness: Fort Mason - City College SF

- Rapid Bus (Local/Express)**
- 2R AC Transit** MacArthur Bd: Coliseum-Transbay Term.
  - 3R AC Transit** I-80: Vallejo-Transbay Terminal
  - 3BR County Connect** San Ramon Valley: Pleasant Hill-Hacienda
  - DBR VTA** Dumbarton: Union City-Stanford Res. Prk.
  - 191B VTA/SamTrans** San Jose Diridon-Millbrae
  - 24R Meni** Oakdale/Palo-24th Street/Mission

- Regional Rail**
- SMART** SMART Santa Rosa-Larkspur
  - CapCor** CapCor Monterey-Sacramento
  - ACE** ACE Stockton-San Jose Diridon

- Airport
- Hospital
- Train Station (long distance)
- Universities and Colleges
- Points of Interest
- Inter-city Bus Station (greyhound)
- High Speed Rail Train Station



# MAJOR AREA DEVELOPMENTS

1



COLEMAN HIGHLINE

Coleman Highline is steps from Caltrain (via a brand-new underground tunnel), centrally located, and puts an urban twist on Silicon Valley tech office. The close-to-downtown campus features eight light-filled buildings totaling 1.5 million square feet connected via “the high line,” a network of walkways and outdoor gathering areas on third level. Developers are proposing about 1,600 apartments for the far end of the campus, adding attractive housing to the area. Three fiber providers running along Coleman Avenue make this well-connected in ways beyond transit, too. With 357,000 square feet ready for occupancy, and more quickly available, it’s the perfect initial entry point for a large campus user with easy expansion plays into Downtown or North San José.

2



1 & 2 WEST SANTA CLARA ST.

1 West Santa Clara St. will offer 100,000 square feet of renovated creative office space in what was once San José’s downtown J.C. Penney department store. The revamp brings fresh design thinking while maintaining the historic features, like the board-form concrete frame, timber deck and dramatic center atrium. A Blue Bottle café is planned for the ground floor. 2 W. Santa Clara St. is a historic gem, one of California’s first steel-construction high rises. This 84,000 square-foot, 1910 building features downtown’s Walgreens on the ground floor and will be one of the closest to downtown’s BART station upon completion in 2025. New ownership is planning a renovation to modernize the space while retaining historic features.

3



TOWERS AT SECOND

Home to WeWork, the San José Mercury News and dozens of startups, these two towers at 75 E. Santa Clara and 4 N. Second St. recently underwent a top-to-bottom refresh that added a recreation center, arcade and outdoor lounge. The ground floor contains two best-loved downtown institutions: Ike’s Sandwiches and ISO Beers. About 100,000 square feet is available. Downtown offers tremendous possibilities for growth, facilitated by a city development policy that allows capacity for millions of square feet of commercial capacity. It’s all possible on a number of parking lots and underused commercial buildings ripe for reinvention.





# MARKET OVERVIEW

# INDUSTRIAL MARKET

## OVERVIEW

### AVERAGE RENTAL RATE OF \$16.30PSF.

The coronavirus pandemic presents a unique shock to the economy, but the industrial sector is expected to fare best among all property types, particularly in Silicon Valley. Due to an ongoing slowdown in trade with China, and more recently a halting of manufacturing activity – first overseas and now locally, vacancy has increased in the larger East Bay industrial market adjacent to San Jose, particularly among logistics properties. But rather than distribution and warehouse logistics facilities, the South Bay market is heavy in flex, lab and R&D space, niche's that have fared well so far, and may weather the storm relatively unscathed.

Mature, profitable tech giants based in Silicon Valley are still flush with cash and have long-term expansion plans in the region. Shelter in place orders may even provide a boost for e-commerce and the biotech healthcare industry, generating stronger demand for last-mile distribution properties and lab space. Furthermore, due to its distance from the region's major Port in Oakland, San Jose is somewhat insulated from a slowdown in international trade.

Prior to the coronavirus outbreak, Silicon Valley had strong economic momentum, and its industrial market still largely reflects that environment. Demand for Silicon Valley's industrial space remained strong throughout the expansion cycle—especially from tech and life science firms. Growing demand spurred moderate levels of new development, which began delivering at the end of 2016 and did not significantly dampen market fundamentals. Rent growth peaked in 2015, a trend seen through much of California. Rent growth was still strong in 2017 and 2018, but slowed further in 2019 and is softening more in response to the coronavirus pandemic.

### INDUSTRIAL LEASING

Occupancy levels in San Jose's industrial market rose higher in 2019 and the first half of 2020, with the rise in demand stemming from large owner-users, both tech, and non-tech. In 20Q3, tenant move outs, and lack of major move-ins finally led occupancy levels lower, but the coronavirus pandemic has not affected fundamentals significantly.

The 20Q3 move-outs were led by laser-maker Coherent vacating a 97,684 SF Flex R&D building, 5200 Patrick Henry, in the Mission College area of Santa Clara. In addition, commercial office furniture dealership, One Workplace vacated 83,914 SF at the Ringwood Industrial Center in the Berryessa district of San Jose, offering the space for sublease.

Net absorption in prior recent quarters was positive. In 20Q2, International Technological University vacated space at 2717 N 1st St., but with Amazon taking occupancy of the Little Orchard Center distribution property, move-ins outpaced move-outs. In 2019, Google moved into three advanced manufacturing buildings at the Midpoint @ 237 campus in North San Jose, which they purchased from developer Trammel Crow in 2018. Google subsequently acquired four adjacent office buildings totaling 413,000 square feet.

Another owner occupant, The County of Santa Clara moved into the Silver Creek Business Park, a five building, 440,000 square foot R&D campus in South San Jose they purchased in November of 2018. The County of Santa Clara is shedding its leased space, having acquired properties for occupancy in order to stabilize costs. They also acquired an equally sized campus on Tasman Dr in the County's Northern end in July 2018.



# INDUSTRIAL MARKET

## LEASING CONTINUED

The metro division encompasses Gilroy, where Performance Food Group opened a new 200,000 square distribution warehouse in 2019. The company moved from Santa Cruz, and has the option to develop another 150,000 square feet at the new Gilroy site.

Due to the market's strong performance in 2019 and only negligible occupancy losses as of late, vacancy remains near its cyclical lows of 5.7% reached in 20Q2, at just 6.4%.

Beyond strong historical demand drivers, San Jose lacks the potential for long-term supply growth as expensive land values and zoning favor office and residential development. Despite the emergence of new supply for the first time in over a decade, demand has maintained downward pressure on vacancy.

San Jose regularly ranks near the bottom of the nation in terms of supply growth, along with San Francisco and Honolulu. Developers frequently seek industrial properties with redevelopment potential. Following the 2007 enactment of legislation to limit conversions as a part of the Preservation of Employment Lands initiative, redevelopment has become trickier, particularly in the city of San Jose. Industrial development has been restrained, with minimal deliveries since the late 1990's expansion period.

Since San Jose is a flex, and local warehouse market, demand depends largely on the tech sector, retail sales, and manufacturing output. Congruent with the homegrown nature of this market, tenants occupying less than 100,000 SF are the most common, with most Bay Area distributors preferring to locate in the East Bay, which offers cheaper rents and land, along with better infrastructure.

# INDUSTRIAL MARKET

Industrial real estate development in San Jose has been limited despite strong demand. Expensive land values and zoning favor office, and residential development instead. Among the nation's largest industrial markets, very few have less inventory under construction on a square footage basis. In fact, inventory levels in San Jose have actually declined in nearly all of the past 15 years. Developers have targeted aging industrial sites for creative office and residential redevelopment projects, leading to a 12% decline in industrial supply since 2004.

Demolitions and limited construction plus a strong rise in demand has led to a tight market for tenants, who often face two undesirable options: renewing at a significantly higher rental rate, or relocating out of the market. New space, with ample clear height and high power capacity, has been highly prized in a region where most inventory has aged, and development has been limited overall. The few industrial projects that have come out of the ground in recent years leased successfully.

Most of the recent development has occurred on the north side of the market near Highway 101, in Milpitas off of I-880, or at the southern edge of the city of San Jose, where I-85 meets Highway 101.

To the north, Midpoint @ 237 completed two of its buildings at the end of 2016 and its third building in February 2017. At the end of the year, Google leased all space in the complex and moved in 18Q1. In the south, DBI moved into its 150,000 SF build to suit property at the end of 2016, and two additional Silicon Valley.

# CONSTRUCTION

Industrial Center buildings completed in 2017 and 2018 have been fully leased as well. Currently, 2,017,974 SF is under construction, representing just 1.0% of the market's existing stock. Regardless of demand trends, development will remain limited in San Jose, as high land values and zoning dictate residential and office construction instead.

Recent development was headlined by the McCarthy Creekside Industrial Center in Milpitas. Phase 1 of the project included a 300,000 SF + building that leased to Apple, and a 137,000 SF building leased to a Chinesebacked electric car startup, which is now available for sublease. Phase II of McCarthy Creekside, three buildings ranging from 100,000 to 130,000 square feet delivered in 19Q3 having been leased by Amazon for a new delivery center.

Amazon also preleased the Bridge Point Silicon Valley project, a 388,240 SF building and parking lot at 205 N McCarthy Blvd. in Milpitas, and in January 2020, Amazon preleased 970 McLaughlin Ave in San Jose, an advanced manufacturing building near the intersections of Highways 28, 680 and 101 developed by Seefried Industrial Properties and Clarion Partners Intuitive Surgical is under construction on Phase 1 of a new campus in Sunnyvale. A 326,000 SF building is scheduled for completion in 2020, and a second building could be developed as needed. Additionally, The Shoe Palace is developing a 500,000 square foot distribution building next to their headquarters in Morgan Hill.



Industrial sales volume in San Jose soared in the expansion cycle and remains relatively strong considering the current macroeconomic environment. Sales volume in 20Q2 fell to a seven-year low but still registered over \$250 million. Average pricing in the market rose by 7% in 2019 and has continued on an upward trajectory so far in 2020 Google continues to snatch up real estate in its hometown of Mountain View and throughout the metro at a brisk pace. The search giant led the market with over \$500 million of industrial and flex properties acquired in 2019. That outpaced second place Blackstone Group twofold.

Google's volume was boosted but its \$250 million, 3- building purchase from Perry Arillaga in Mountain View, and \$1 billion dollar acquisition of the former Yahoo! Headquarters in Sunnyvale from Verizon. Also toward the end of 2018, Google acquired the Chesapeake Commons in Sunnyvale for \$160.3M and an office building, 4300-4400 N 1st in San Jose for \$154.5M. Google also acquired the aforementioned three building Midpoint @ 237 complex in early 2018 for \$117.3 million (\$208/SF) from longstanding partner Trammell Crow Company.












Santa Clara County recently acquired two R&D campuses for occupancy. They purchased four refurbished former Cisco Systems buildings known as Champion Point on 110, 130, 150 & 180 W Tasman Dr in San Jose, totaling around 426,000 SF, in July 2018 for \$174 million. Additionally, they purchased a five building

440,000 SF campus in South San Jose, Silver Creek Business Park, in November 2018. Some of the market's largest transactions have been linked to redevelopment projects. One of the largest single-asset deals to close in 2018 was Prometheus Real Estate Group's acquisition of a 115,000 SF flex building in Mountain View. The multifamily developer also acquired a 58,000 SF office asset in the same deal from Blackstone Group for a total of \$132.5 million SF with plans to redevelop the area.

In January 2019, biotech giant Alexandria Real Estate Equities purchased a 99,000 SF R&D building; 3170 Porter Drive in the Stanford Research Park for over \$1,000 per square foot. The building is 100% leased to Jazz Pharmaceuticals and traded at a 5.1% cap rate. And in July 2019, the private, San Francisco-based Embarcadero Capital Partners, along with LA-based PCCP acquired a 3 building R&D complex on N. McCarty Blvd. in Milpitas. The investors plan to revitalize the 65-acre campus into a contemporary, creative workplace and rebrand it as Park Point. It contains 470,000 square feet of existing office space, which is available for lease with an asking rate of \$30/NNN, as well as a 950,000 square foot build-to-suit opportunity. With investment interest stemming from high-tech owner-users like Google, biotech landlords including Alexandria, and value-add investors, demand has held up well.

## INDUSTRIAL MARKET SALES

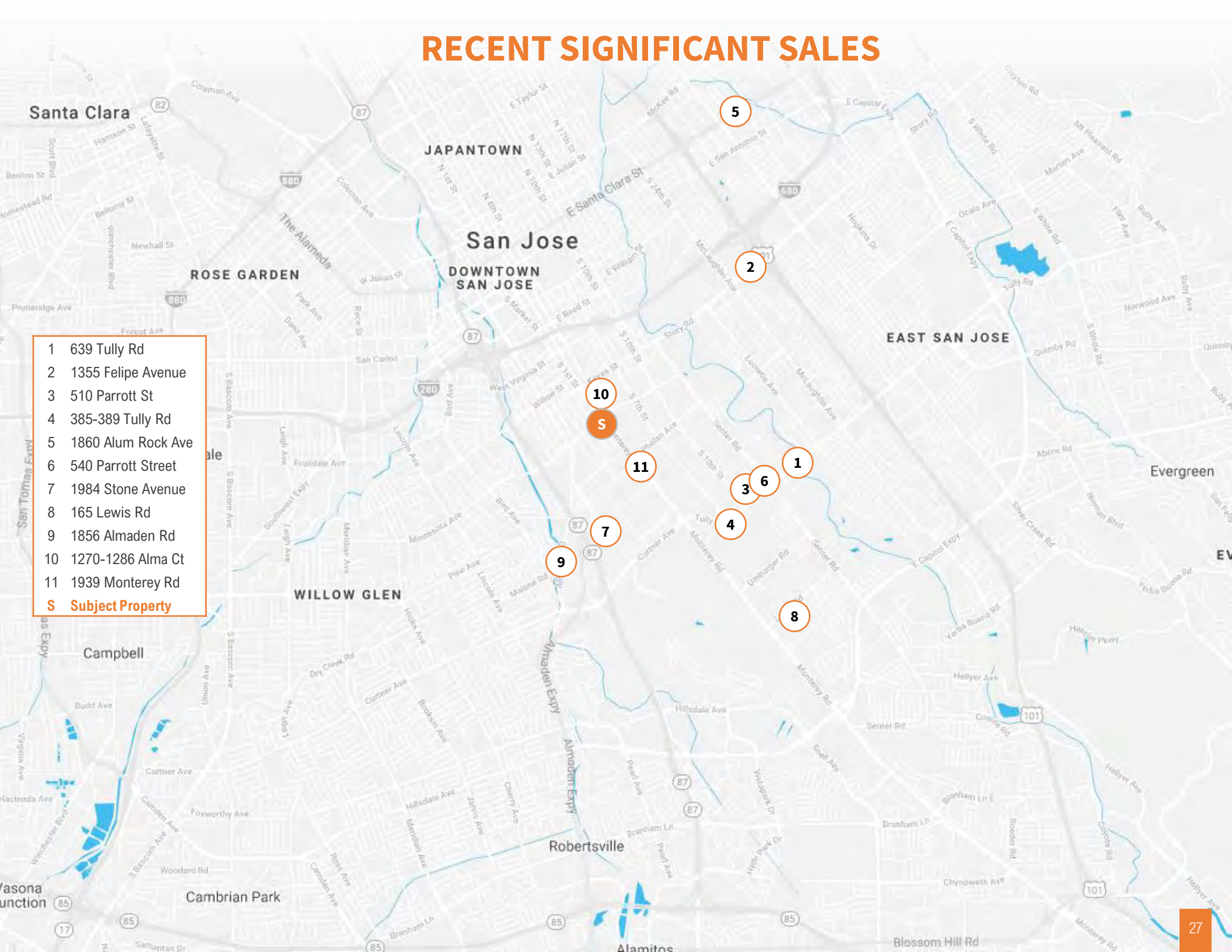
# RECENT SIGNIFICANT SALES

	ADDRESS	SALE DATE	PRICE	PRICE/SF	CAP	LEASED	HOLD	GROSS SF	BUILT	SALE COND
	1 639 Tully Rd San Jose, CA 95111	Nov-19	\$5,300,000	\$209	6.00%	100%	20+ Years	25,344	1988	1031 Exchange
	2 1355 Felipe Avenue San Jose, CA 95122	Aug-20	\$3,900,000	\$465	5.10%	100%	20+ Years	8,380	1968	Investment
	3 510 Parrott St San Jose, CA 95112	Mar-20	\$3,800,000	\$224	N/A	N/A	1 Months	16,956	1980	Investment
	4 385-389 Tully Rd San Jose, CA 95111	Mar-20	\$3,700,000	\$198	4.00%	100%	2 Months	18,720	1982	Investment
	5 1860 Alum Rock Ave San Jose, CA 95116	Apr-20	\$3,000,000	\$521	N/A	100%	97 Months	5,760	1977	Owner User
	6 540 Parrott Street San Jose, CA 95112	Sep-20	\$2,700,000	\$274	N/A	100%	113 Months	9,869	1980	Owner User
	7 1984 Stone Avenue San Jose, CA 95125	Oct-19	\$2,500,000	\$289	N/A	0%	20+ Years	8,640	1976	Owner User
	8 165 Lewis Rd San Jose, CA 95111	Feb-20	\$2,100,000	\$135	N/A	0%	13 Months	15,600	1983	High Vacancy Property
	9 1856 Almaden Rd San Jose, CA 95125	Mar-20	\$1,700,000	\$733	N/A	75%	63 Months	2,320	1965	Investment
	10 1270-1286 Alma Ct San Jose, CA 95112	Feb-20	\$1,500,000	\$255	N/A	87%	41 Months	5,886	1981	Investment
	11 1939 Monterey Rd • Bldg 3 San Jose, CA 95112	Dec-19	\$1,500,000	\$268	N/A	0%	29 Months	5,591	2001	High Vacancy Property
<b>AVERAGES</b>			<b>\$2,881,818</b>	<b>\$325</b>	<b>5.03%</b>	<b>66%</b>		<b>20,331</b>	<b>1980</b>	



# RECENT SIGNIFICANT SALES

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  - 2 1355 Felipe Avenue
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  - 11 1939 Monterey Rd
- S Subject Property**

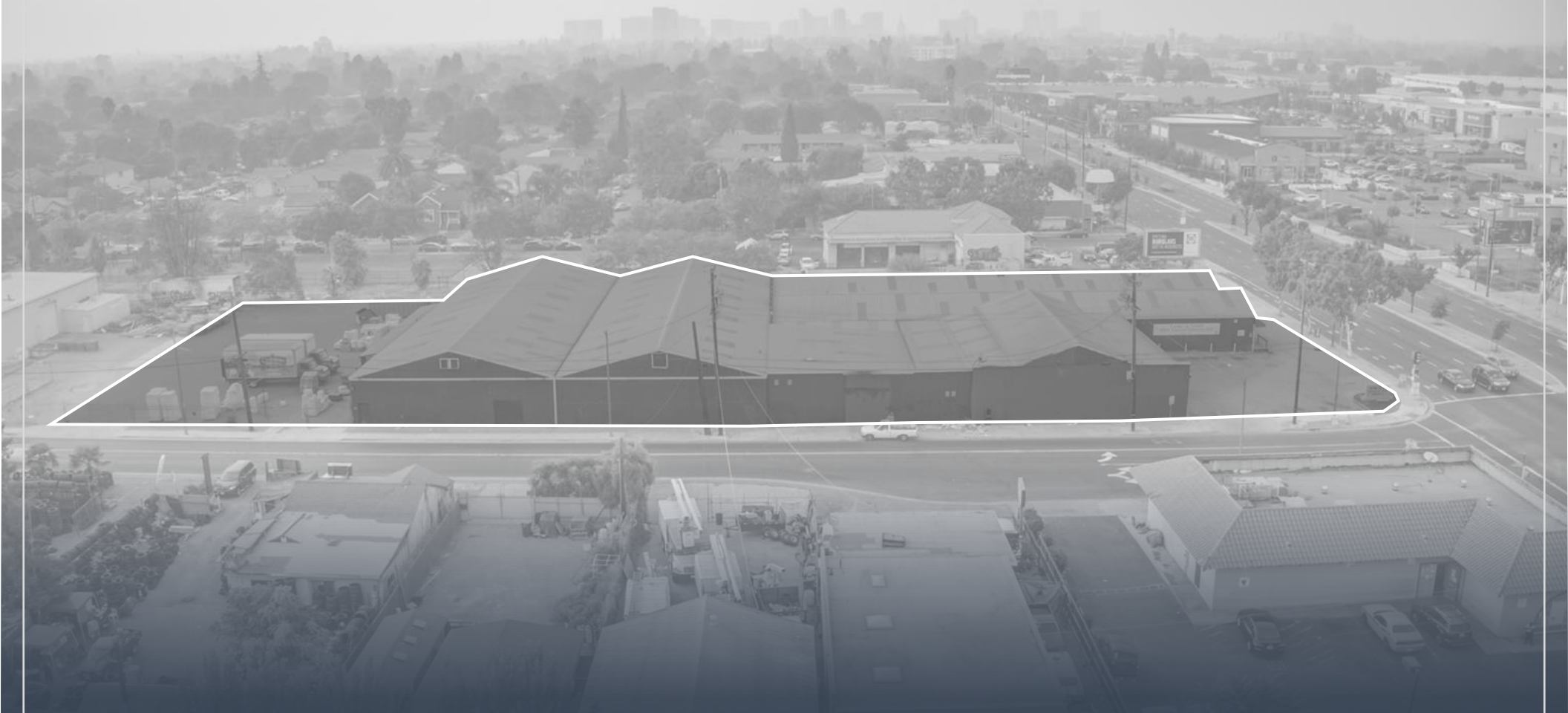


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