
1Q24

Silicon Valley Industrial Market Overview

NEWMARK

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1. Economy
 2. Leasing Market Fundamentals

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Economy



Market Observations

Economy

- The region’s labor market saw signs of weakening in the first quarter of 2024, with the unemployment rate rising to 4.4%, slightly above the 10-year average of 4.3%. Although not much higher than the national average of 3.9%, nonfarm enrollment also saw annual losses of 0.5% year-over-year, suggesting that the local economy has yet to rebound from the tech layoffs of 2023.
- All industrial-using sectors in the San Jose-Santa Clara-Sunnyvale MSA saw negative job growth year-over-year, with the construction sector seeing total employment fall to 5.4% compared to last year, likely owing to a delayed effect from tech sector pullback.
- The manufacturing sector corrected this quarter, posting -0.5% job growth year-over-year following a run since 2022 that saw the creation of an additional 18,700 jobs.

Major Transactions

- Super Micro Computers made several expansions to their footprint, leasing 457,750 square feet at 2055 S Seventh Street and additionally purchasing the 292,800 square foot Fry’s building at 550 Brokaw Road, which was purchased for land value and will likely be redeveloped.
- Two new projects broke ground this quarter, the 267,099 SF Milmont Industrial project in Fremont, and a 93,156 SF building at 2105 Lundy Avenue in San Jose, increasing the pipeline to 2.2 million square feet.
- Sublease spaces increased this quarter, the largest being Zoon, which shuttered in 2024 and has since vacated 110,588 at 47548 Kato Road in Fremont, followed by Aivres Systems which put 77,608 square feet onto the sublease market at 615 N King Road in San Jose.

Leasing Market Fundamentals

- Net absorption in the first quarter of 2024 totaled negative 107,049 square feet, with negative 41,897 square feet from industrial sector and negative 65,152 square feet from the warehouse sector, translating to a 20-basis point increase in the vacancy rate quarter-over-quarter, rising to 4.1%. This is about the same level as it was last year at 4.2%, suggesting the industrial market is quite stable at this time.
- Asking lease rates in the industrial sector fell slightly from \$1.60/SF to \$1.56/SF, while warehouse asking rents rose from \$1.29/SF to \$1.33/SF quarter-over-quarter, although the combined industrial and warehouse asking rent rose from \$1.46 to \$1.49. Given the market’s strong fundamentals, rent growth is likely to continue.
- Tenant demand remains strong in the industrial sector, with 2.7 million square feet of requirements in the Valley, up from 2.3 million square feet quarter-over-quarter.

Outlook

- Despite slowing activity in the office and R&D sectors, the industrial sector continues to grow due to persistent demand from logistics and manufacturing users.
- There is currently 2.2 million SF of industrial product under construction, of which just 5.8% is preleased. Although vacancy in the region has been consistently low for the past several years, these new projects, if unleashed by delivery, could drive up vacancy through 2024.
- Owing to persistent demand from life science, manufacturing, and tech industries, market fundamentals are expected to remain strong throughout the Valley, despite growing pessimism among other product types.

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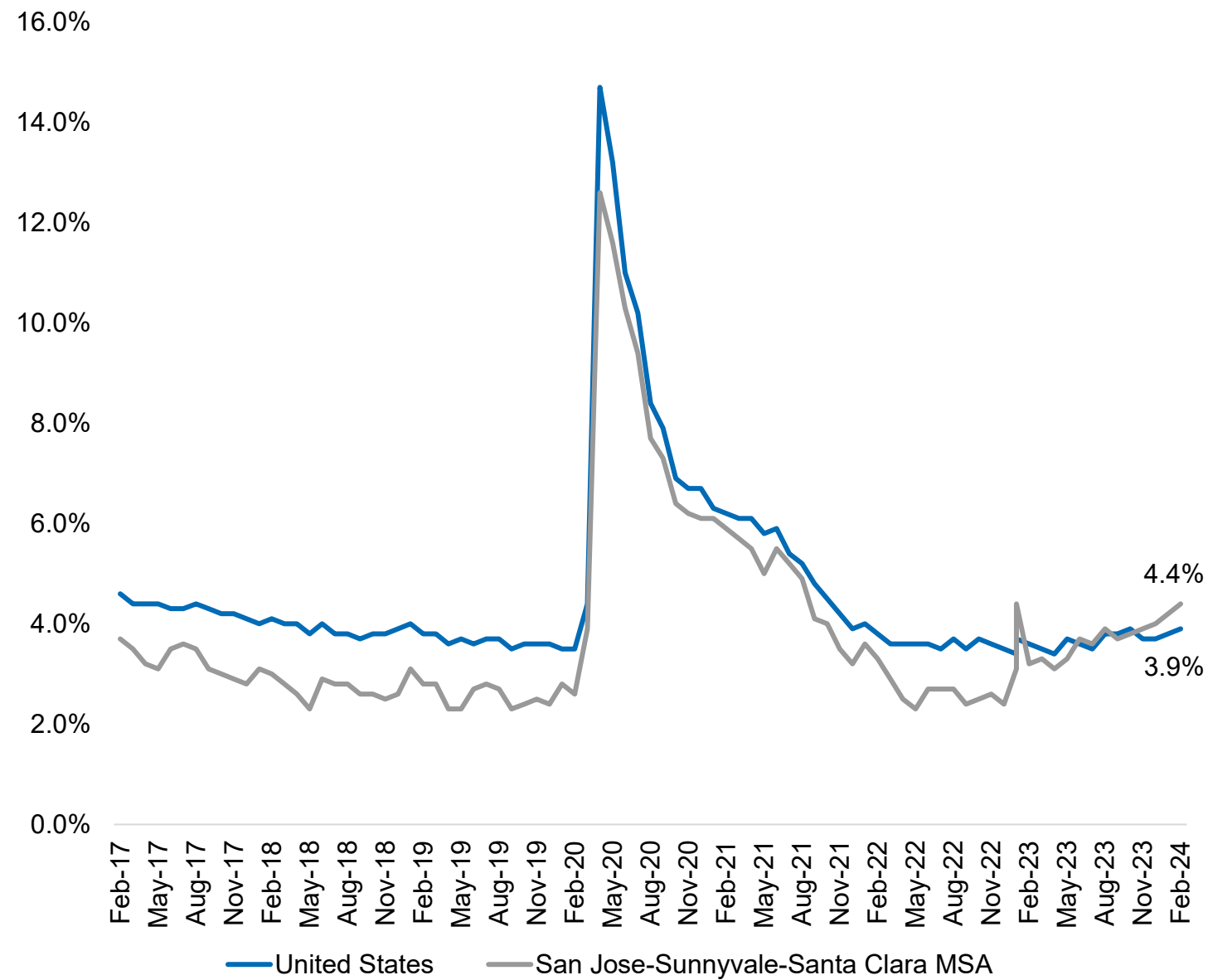
Economy



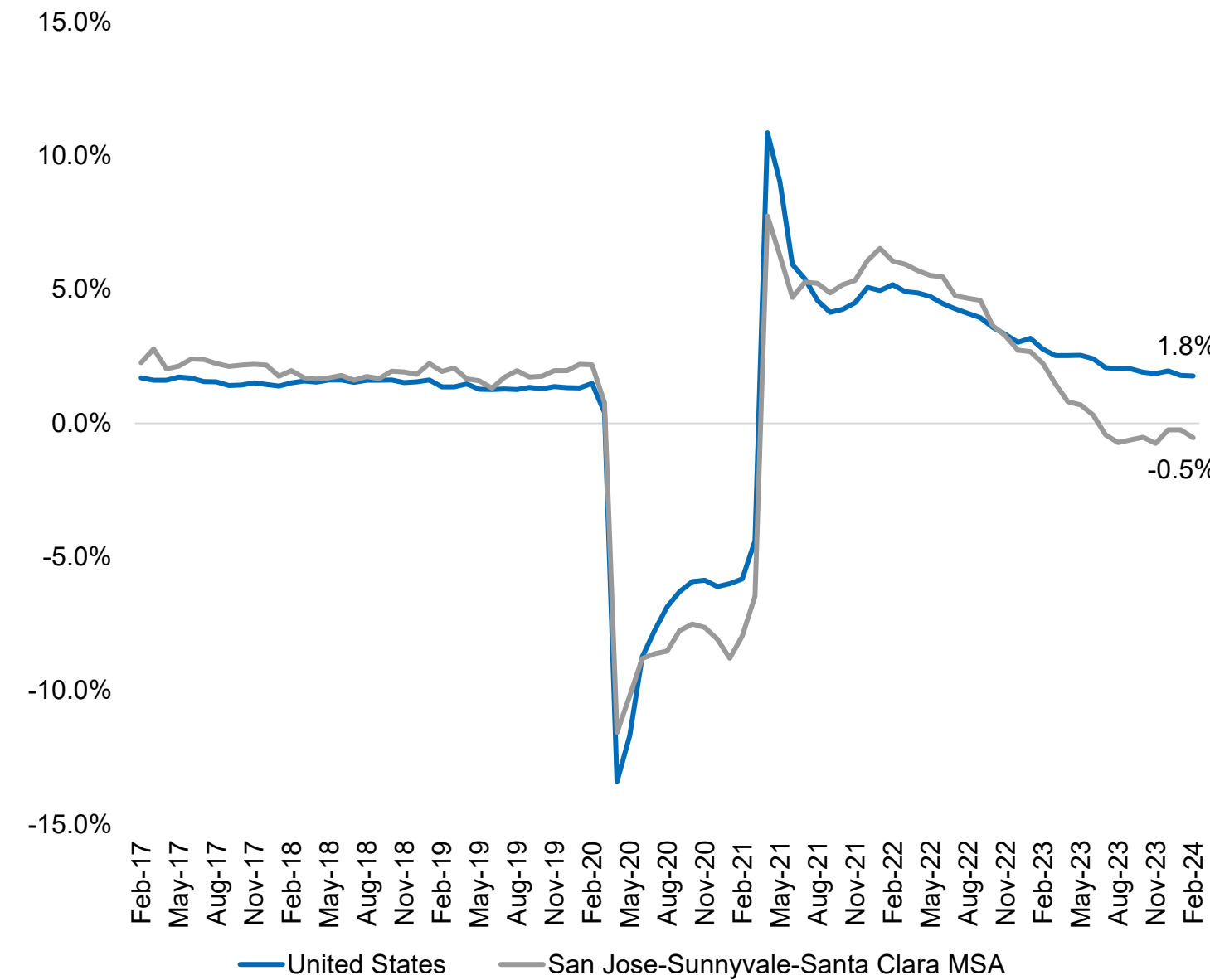
Overall Employment Falling Year-over-Year

The San Jose-Sunnyvale-Santa Clara MSA's overall unemployment rate rose for the fourth consecutive quarter to 4.4%, trending slightly higher than the national average of 3.9%, which remained at the same level as October 2023. Though Santa Clara County has historically outperformed the US average, tech sector layoffs have caused a ripple effect on the local economy, which has posted negative job growth since July 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



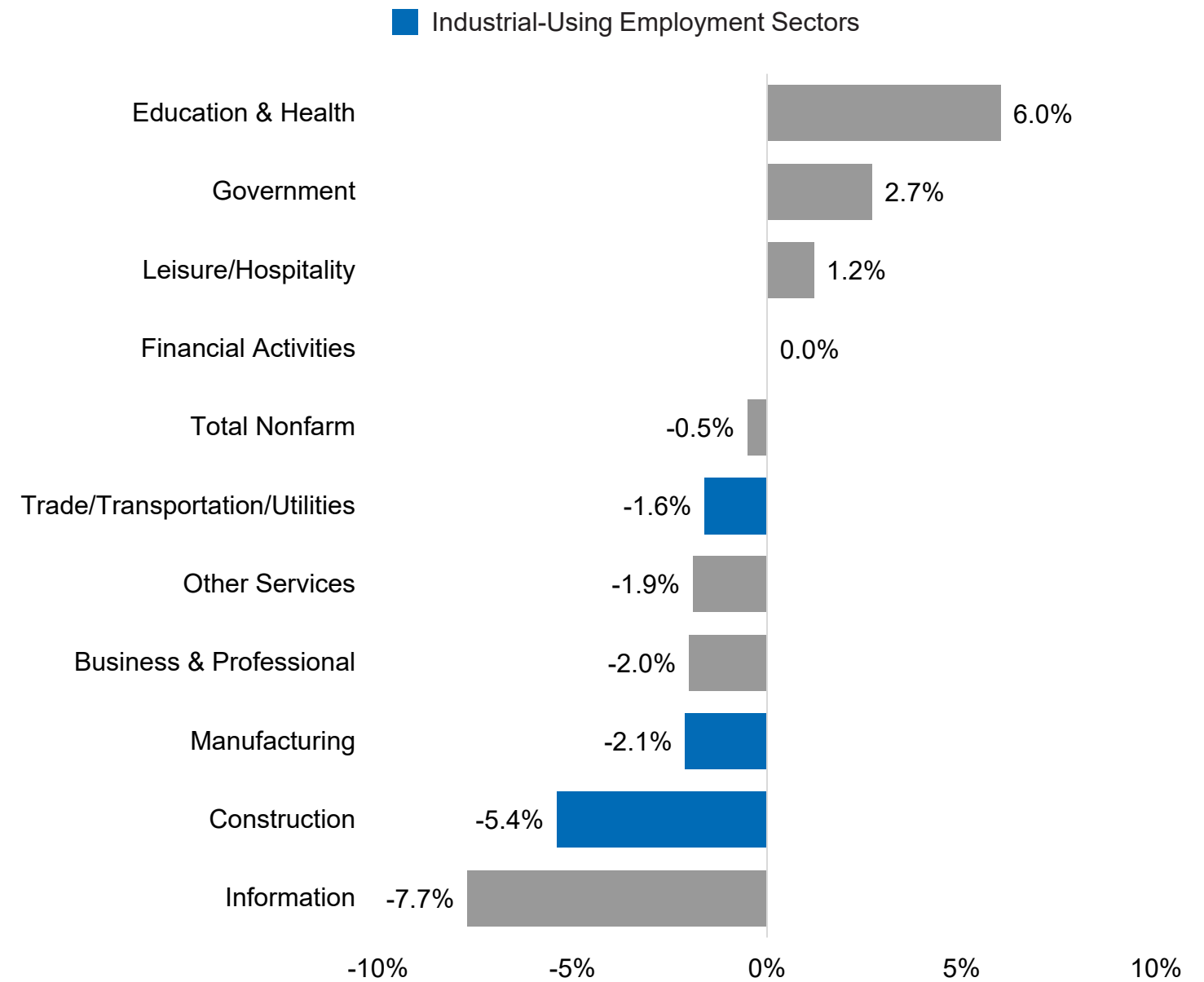
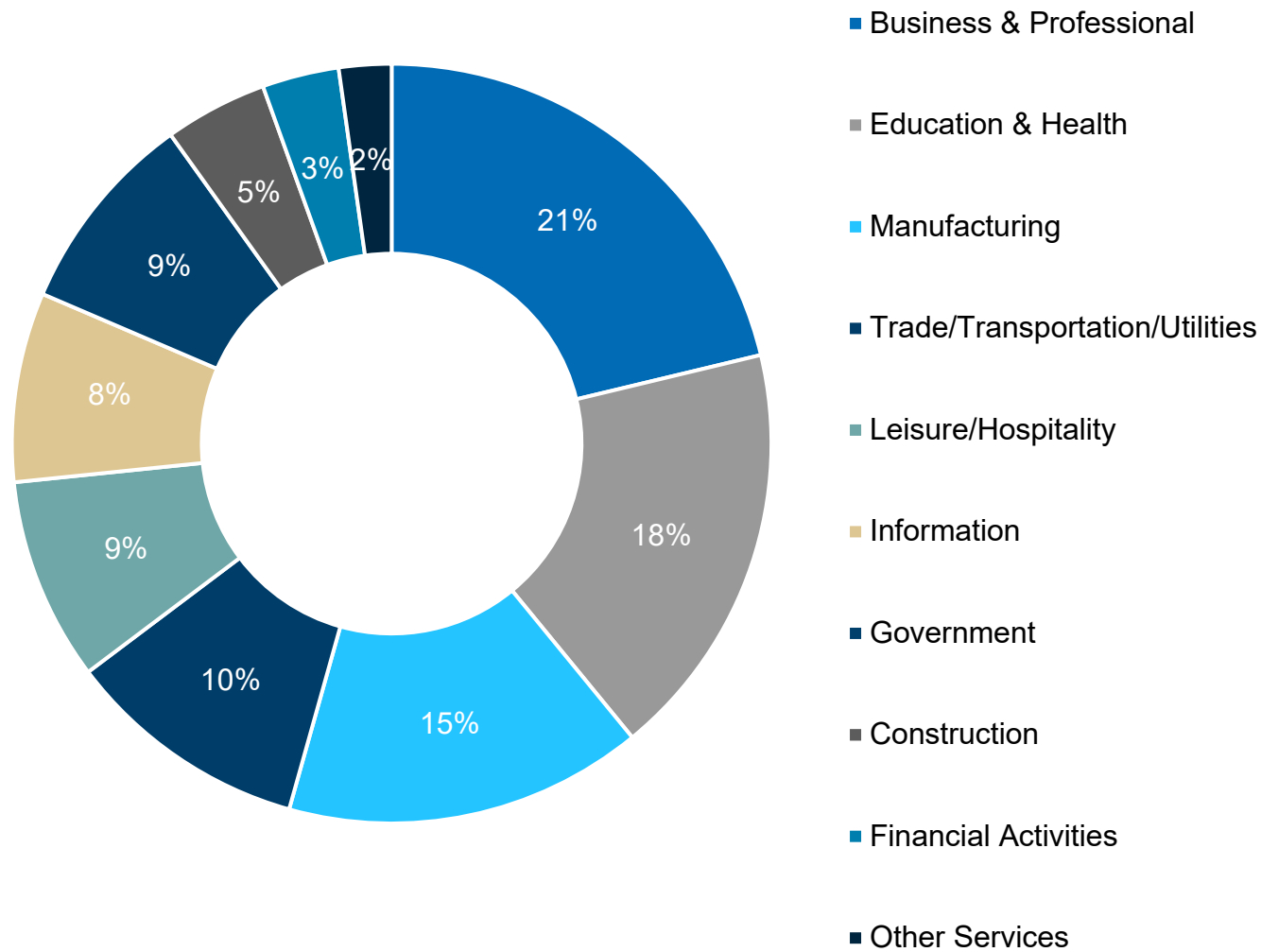
Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
 Note: February 2024 data is preliminary.

Industrial Growth Falters at Start of 2024

In step with a rising unemployment rate and falling overall employment, most industries saw negative year-over-year growth, with total nonfarm employment falling by 0.5%. All three industrial-using employment sectors saw negative growth year-over-year, with the construction sector seeing total employment fall 5.4% compared to last year. This downward pressure is likely due to the tech sector pullback, which affects nearly all other industries in the region.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

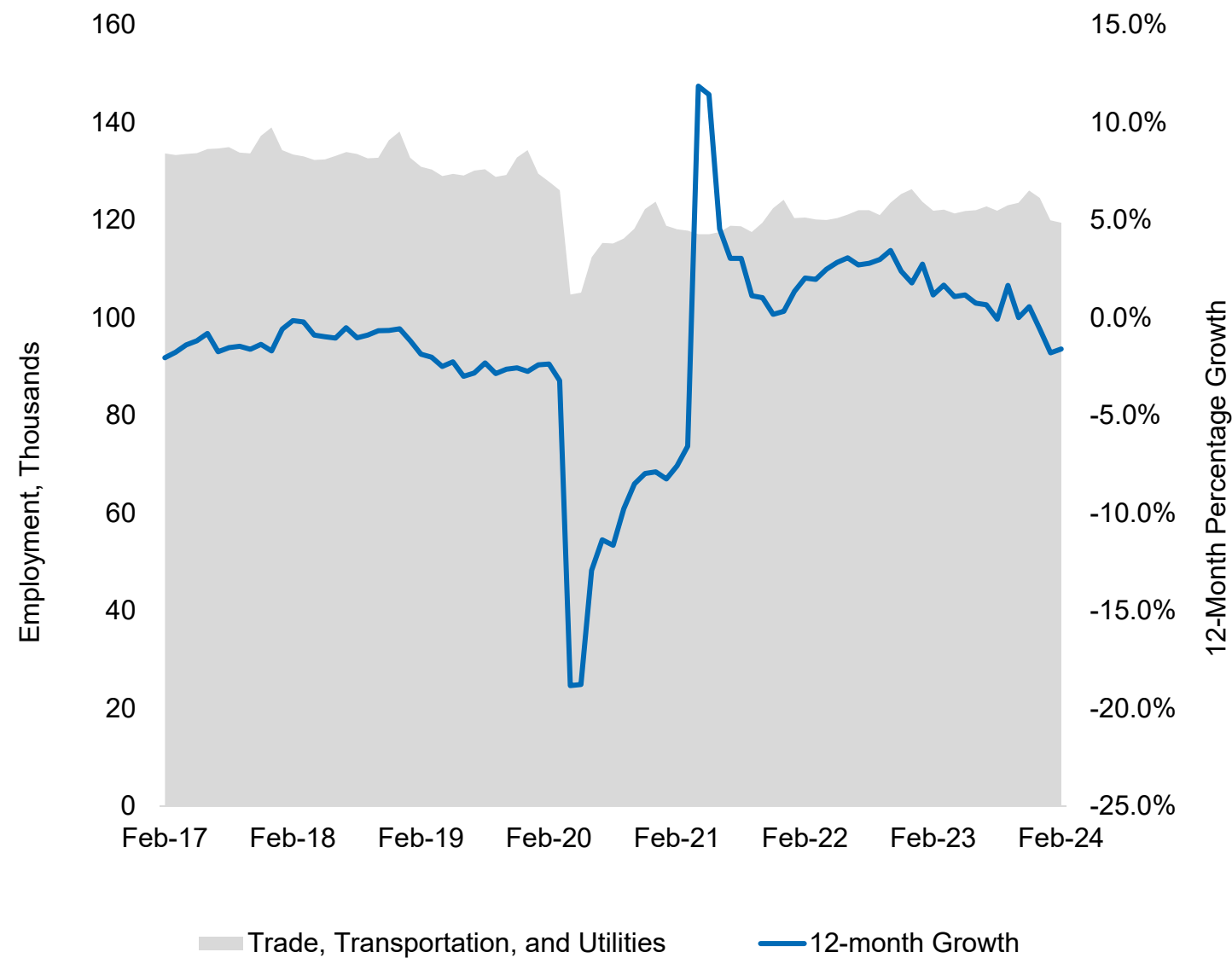


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi
 Note: February 2024 data is preliminary.

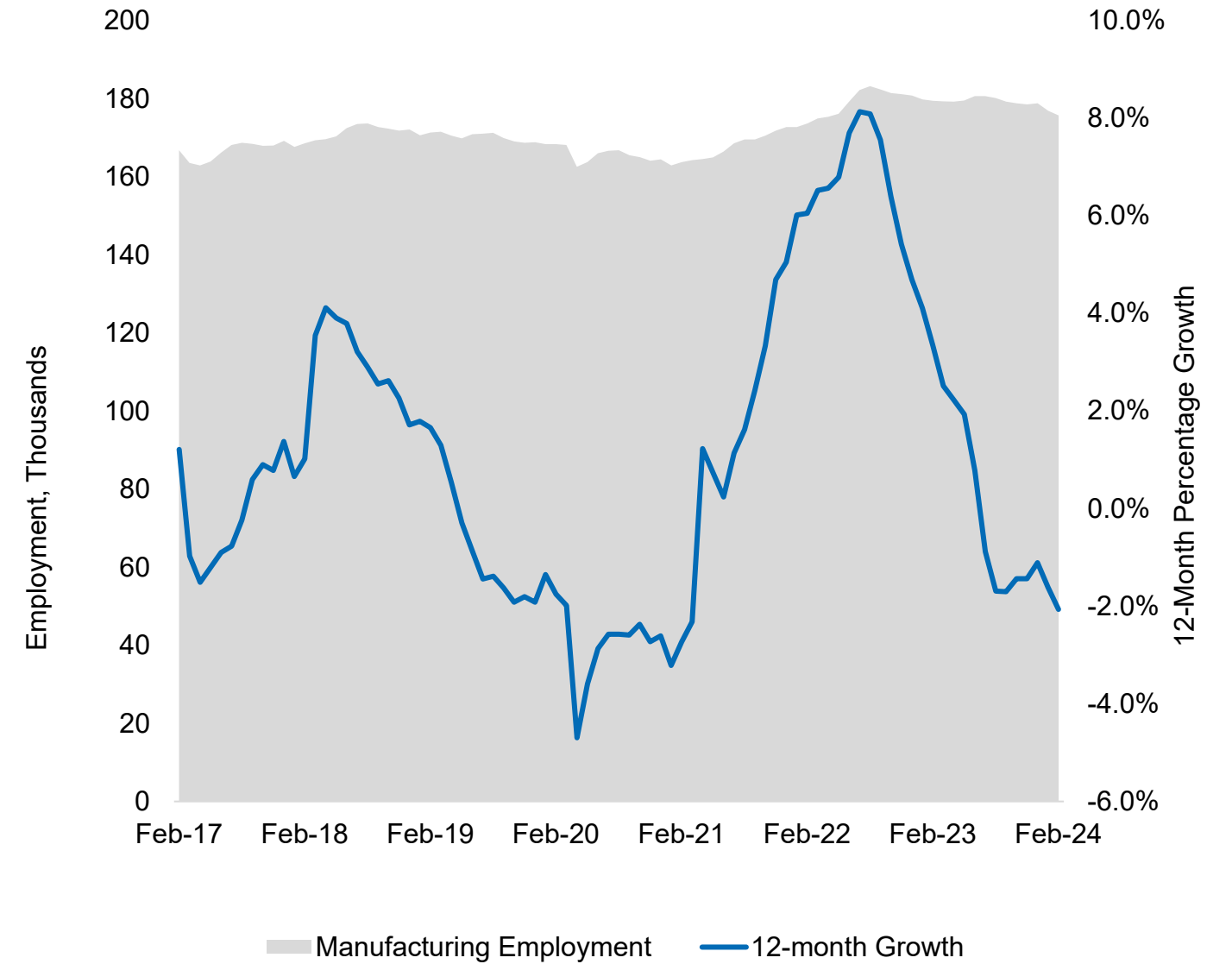
Trade, Manufacturing Sectors See Slight Correction in 2024

The trade/transportation/utilities sector saw a slight correction to start 2024 after holding firm throughout 2023. The manufacturing sector, which saw significant growth in 2022 and 2023 due to the AI boom, has also started to see corrections, posting a 2.1% decline in total employment year-over-year but overall, at a higher level than it was in 2020. Both sectors' numbers can be seen as typical of a region that has persistent demand from the tech sector.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

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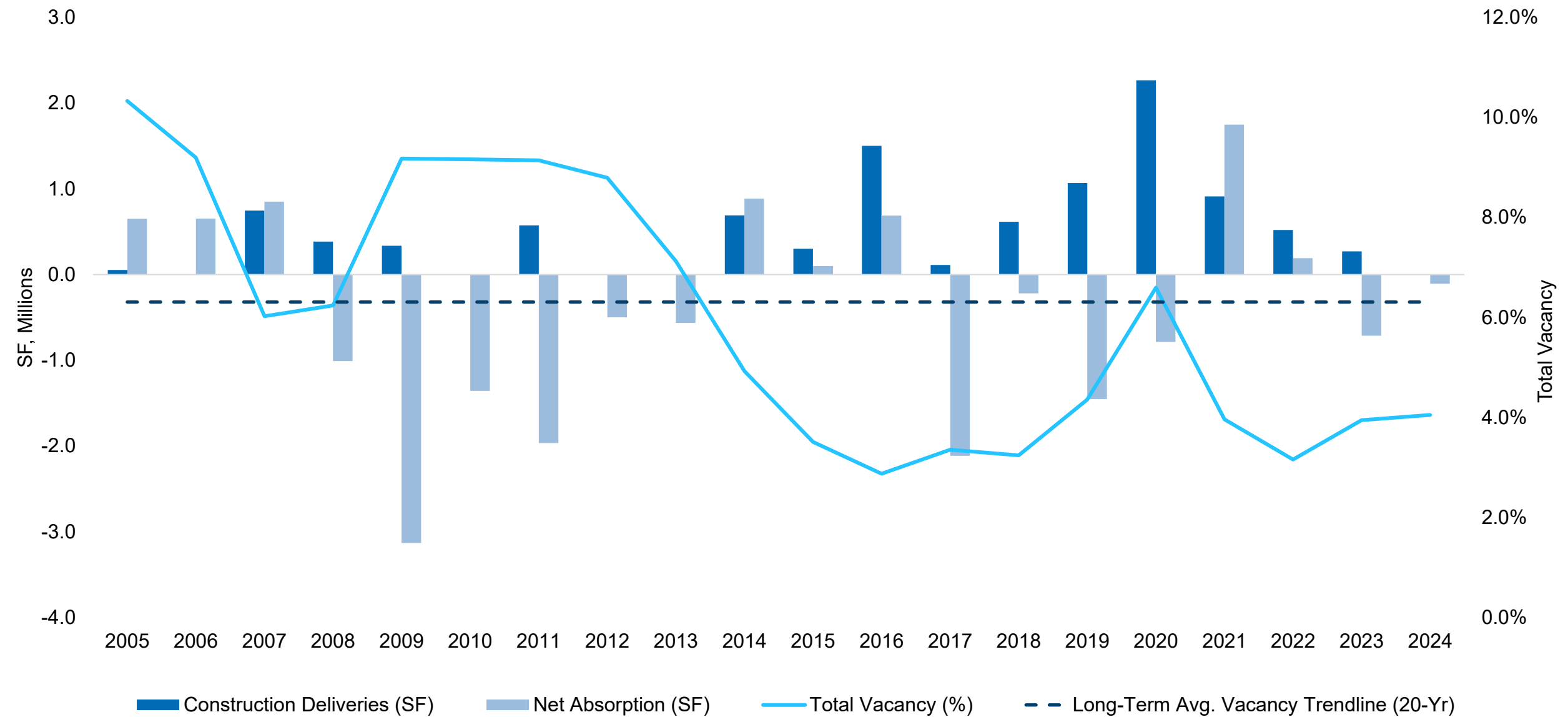
Leasing Market Fundamentals



Vacancy Remains Stable Quarter-Over-Quarter

Silicon Valley combined industrial and warehouse vacancy increased to 4.1% year-over-year, up from 3.9% in the previous quarter, but still below the long-term historical average of 6.3%. Though no projects completed this quarter, with 1.9 million square feet of inventory in the construction pipeline, vacancy is likely to increase as those unleased projects deliver. Given the market's strong fundamentals, however, it's equally likely that those projects will be leased upon completion.

Historical Construction Deliveries, Net Absorption, and Vacancy

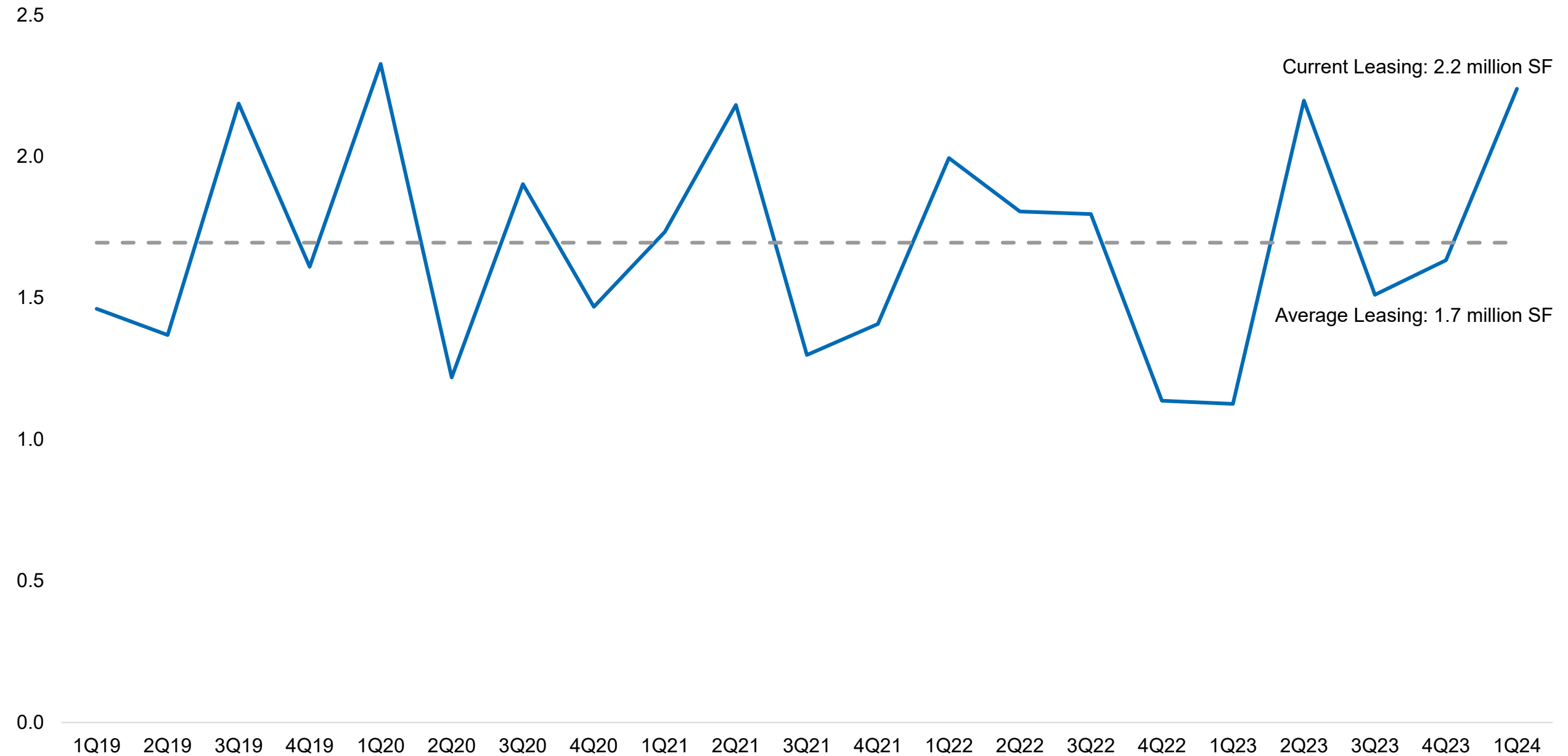


Source: Newmark Research

Industrial Leasing Receives Boost from Tech

Industrial leasing saw a large boost this quarter thanks to tech manufacturer Super Micro Computers, which leased 457,750 square feet at 2055 S Seventh Street and purchased the 292,800 square foot Fry's building at 550 Brokaw Road in a major expansion of operations. These two deals sent the current quarter's activity far above the average of 1.7 million square feet. Although any strong start to the year is hopeful, it's unlikely these large block deals will be commonplace given the area's low vacancy rate.

Total Leasing Activity (msf)

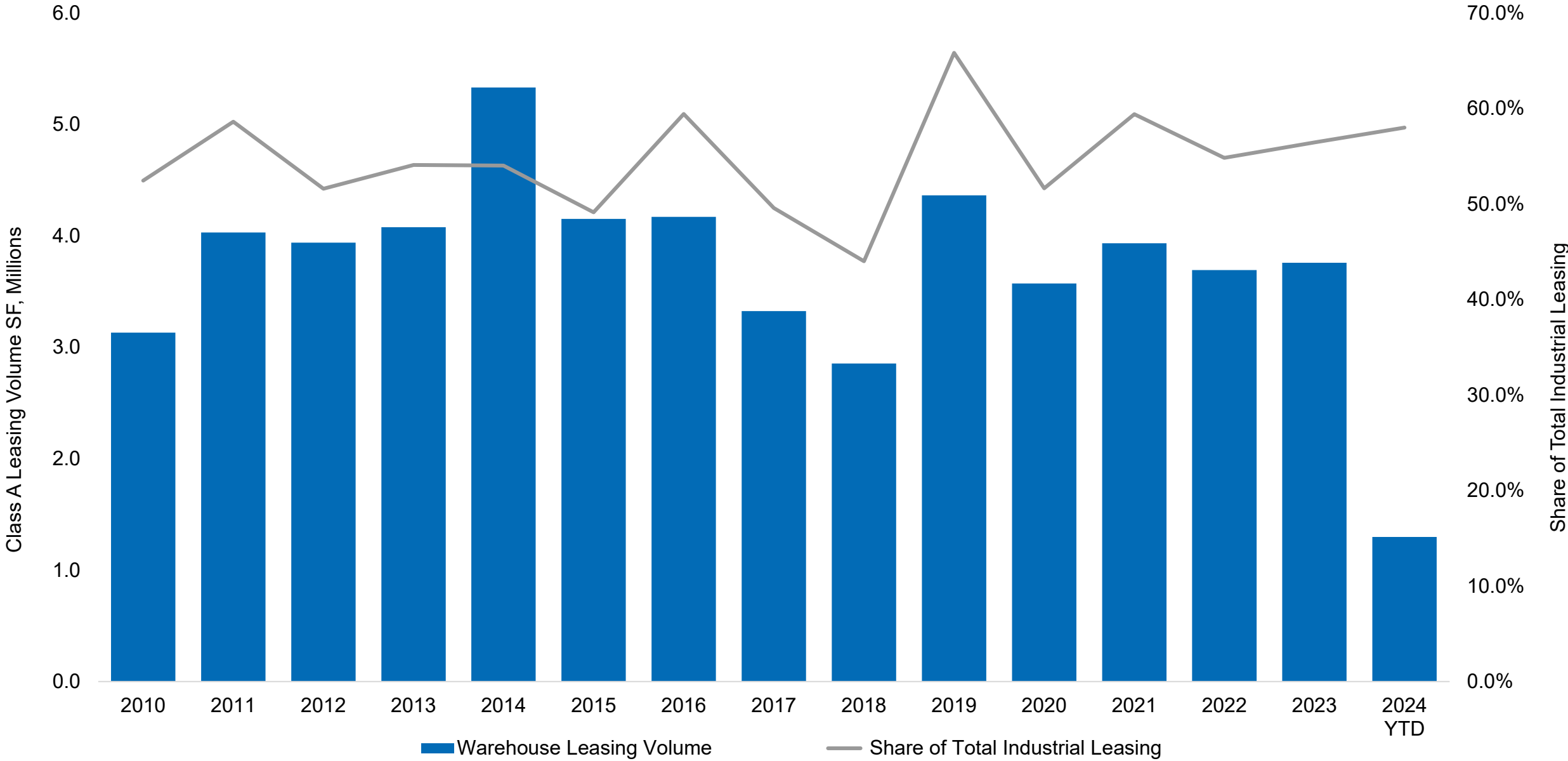


Source: Newmark Research, CoStar

Warehouse Remains a Significant Portion of Industrial Leasing

Warehouse leasing has always comprised a significant portion of industrial leasing, dropping off slightly in past years but rebounding following the pandemic, and now currently comprises 58.0% of all industrial leasing. Although most new construction is marketed as “manufacturing,” given the flexibility of warehouse tenants, they will likely continue to comprise a large role in all industrial leasing.

Warehouse Leasing Volume and Percentage of Total Industrial Leasing Volume

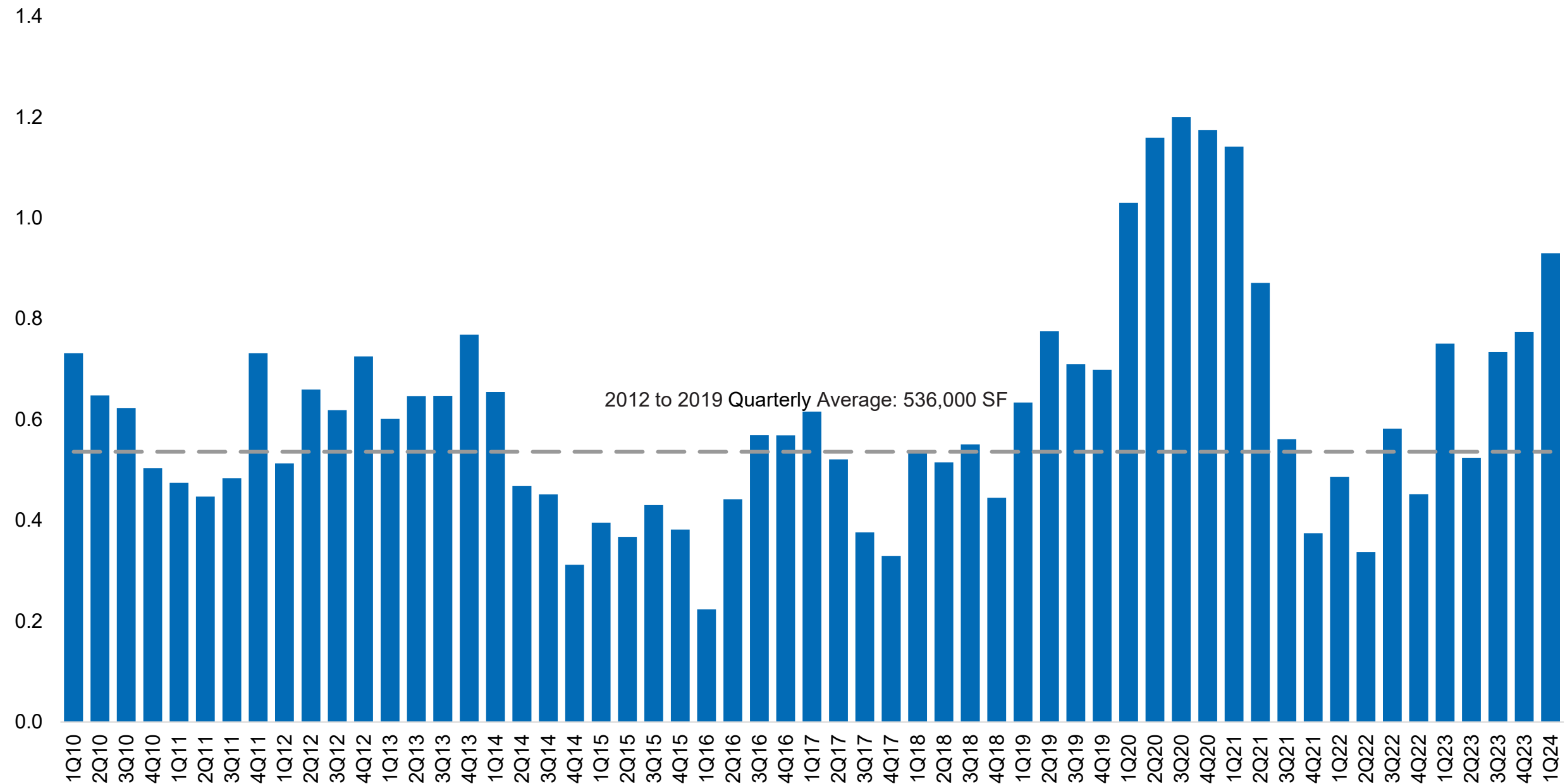


Source: Newmark Research, CoStar

Sublease Volume Sees Bump in Available Space

Total sublease volume rose significantly during the first quarter of 2024, increasing to 929,997 square feet, a 20.2% increase quarter-over-quarter. Although this number seems high, the relatively small sublease market compared to total inventory (the sublease availability rate is just 1.1%) makes large swings possible with just a handful of new additions – in this case, the 110,588 square foot sublease from Zoox, and the 77,608 square feet sublease from Aivres Systems.

Available Industrial Sublease Volume (msf)

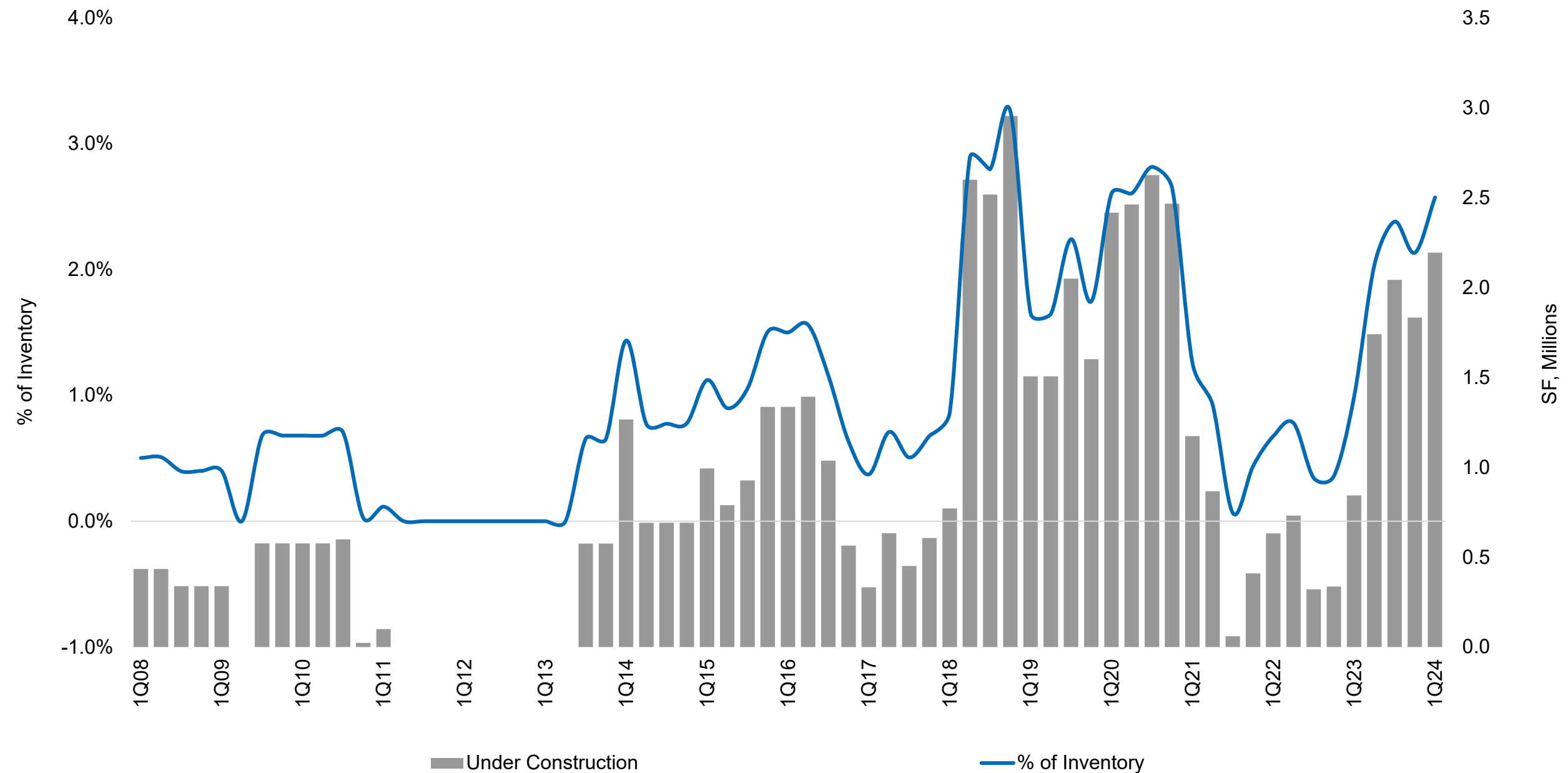


Source: Newmark Research, CoStar

Construction Pipeline Continues to Expand

Two new projects broke ground this quarter, the 267,099 square foot Milmont Industrial project in Fremont and the 93,156 square foot manufacturing building at 2105 Lundy Avenue in San Jose, adding an additional ±360,000 square feet of new manufacturing space to the pipeline. Of the 2.2 million SF figure, 1.9 million SF is set to complete in 2024, which will in turn expand total inventory by 2.2%. These modest increases in supply have helped the industrial sector in Silicon Valley post growth consistently over the past few years.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

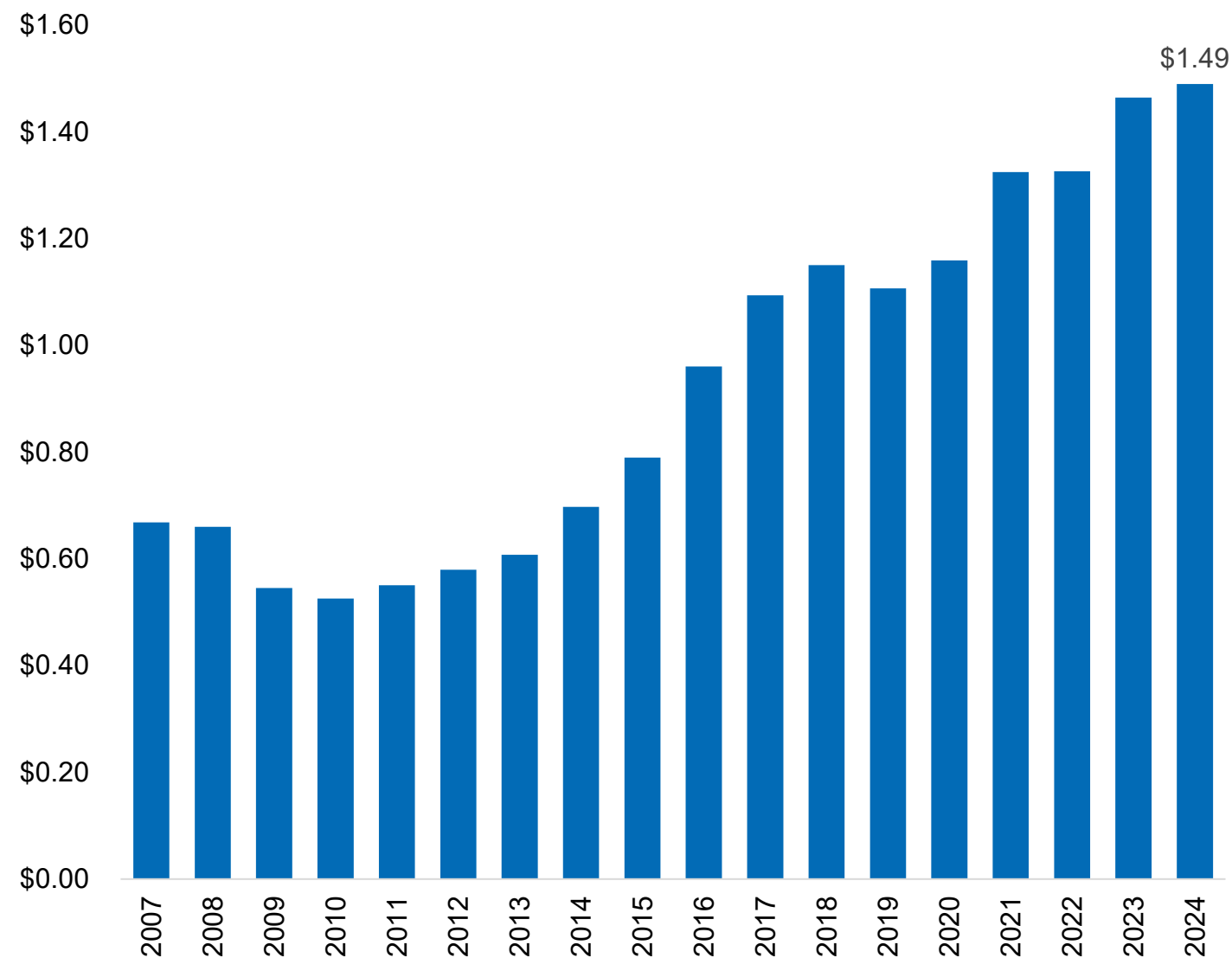


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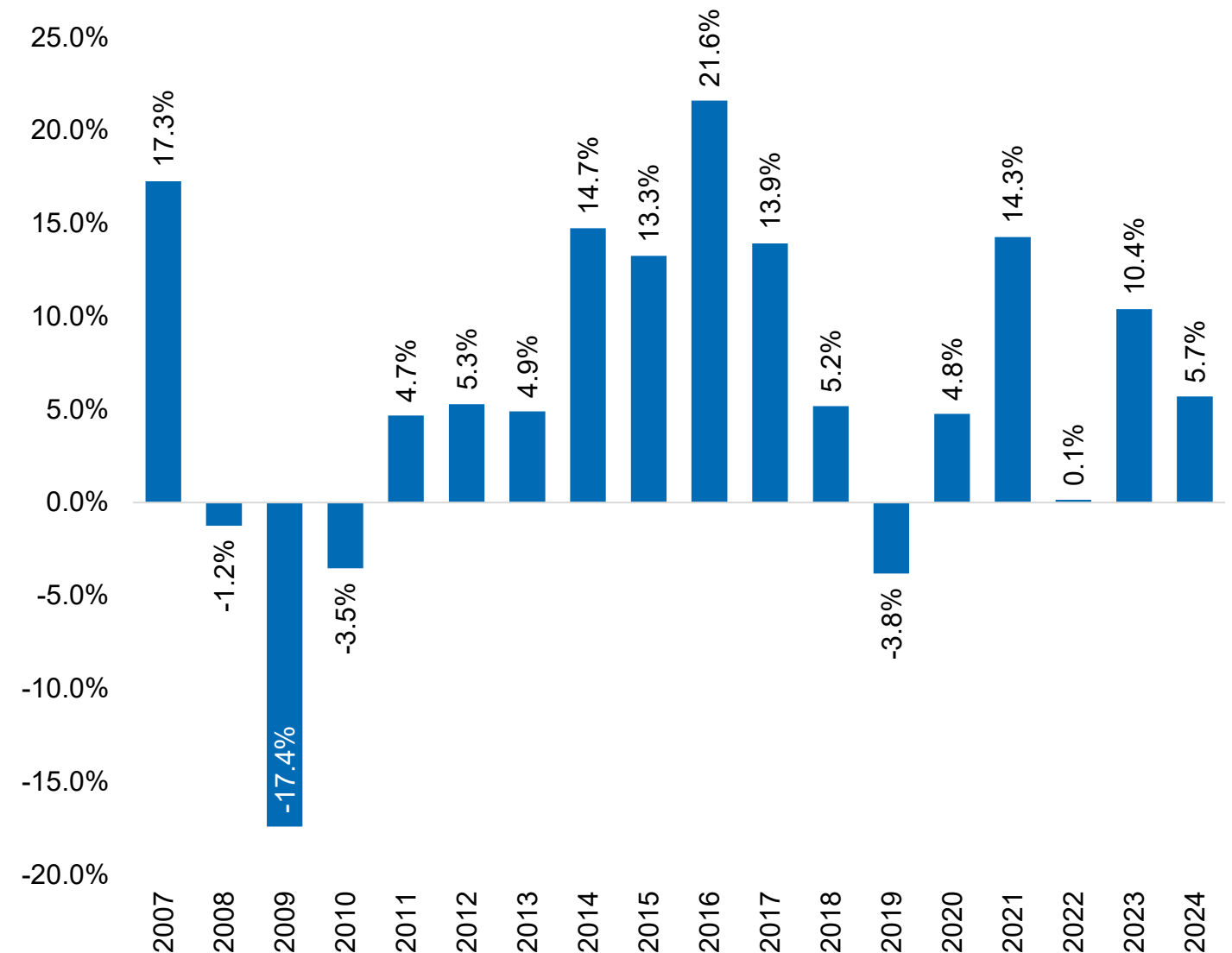
Industrial Rents Continue to Grow

Industrial average asking rents continued to grow in 2024, increasing 5.7% year-over-year to \$1.49/SF. Rent growth in the industrial sector has remained remarkably stable, with industrial and warehouse rents climbing consistently. This trend is expected to continue due to low vacancy, persistent demand, and an expanding construction pipeline for Class A space which push rents higher.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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Top Deals a Mix of Expansion, Renewals

Leasing activity picked up slightly in the first quarter of 2024, with gross absorption totaling 2.2 million SF, up from 1.6 million SF at the end of 2023. Super Micro Computers, which leased 457,000 square feet at 2055 S Seventh Street in addition to purchasing a 292,800 square foot building, represent a tech company that is expanding while many choose to renew. With 4 of the 5 top transactions this quarter being renewals, it's likely that leasing activity will return to normal levels following this quarter.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Super Micro Computer <i>New lease. Super Micro, which saw a large increase in stock price in the past year, is one of the few tech tenants actively expanding in the region.</i>	2055 S Seventh Street	San Jose – Central	New Lease	457,750
Maxar Technologies <i>Lease renewal. Maxar Technologies, a space company with a presence in the Valley, renewed in their facility in San Jose. They have been in the space since 2015.</i>	1989 Little Orchard Street	San Jose – Central	Renewal	158,200
Transpak <i>Lease renewal. Transpak, a 3PL company, occupies about half of the 259,000 square foot Wrigley Creek Industrial Park. They have been in this location since 2021.</i>	206-218 Railroad Avenue	Milpitas – East 880	Renewal	129,936
Quanta Computer <i>Lease renewal. Quanta Computer, a tech/manufacturing tenant that operates out of multiple buildings in Fremont, renewed in this building that they have been in since 2010.</i>	41893 Christy Street	Fremont – Auto Mall Parkway	Renewal	120,960
HD Supply <i>Lease renewal. HD Supply, an industrial equipment supplier, renewed in their current facilities. They have been in the space since 2004.</i>	650 Brennan Street	San Jose – Trimble South	Renewal	103,140

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Appendix / Tables





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