
2Q24

Silicon Valley Industrial Market Overview

NEWMARK

-
1. Economy
 2. Leasing Market Fundamentals

2Q24

Economy



Market Observations

Economy

- The area’s economy showed signs of stabilizing, adding a modest 0.2% job growth year-over-year. This is the third month in a row with year-over-year growth, a welcome change from eight months of declines.
- After peaking in the summer of 2022 as demand for AI hardware exploded, employment in the manufacturing sector shed jobs. Employment in this sector contracted by 3.2% year-over-year through May 2024. Meanwhile, the trade/transportation/utilities sector posted two months of subdued job growth after shedding jobs.
- The unemployment rate ticked down to 3.5% from 4.5% one year ago.

Major Transactions

- Strong leasing in the first quarter was followed by another quarter of healthy leasing levels. In the second quarter, 2.3 million square feet was leased which is 30% above the five-year average.
- Some of the notable leases completed were from DSV Logistics, a logistics company, for a 110,538 SF sublease in Fremont. Cal Wine Transport, a wine storage and delivery company, signed an extension for 92,000 sf in the San Jose – Central submarket.
- Leasing activity is still a mix of new leases, subleases and renewals and extensions. Warehouse leasing activity comprises the lion’s share of overall leasing in the Silicon Valley, reaching nearly 60% in the first half of 2024, remaining above 50% over the past five years.

Leasing Market Fundamentals

- The high levels of sublease and direct space on the market pushed the Silicon Valley combined industrial and warehouse vacancy rate up to 4.2% in the second quarter, up 40 bps from year-end 2023. Fortunately, this remains below the 20-year average of 6.3%. Only one building came online during the second quarter, a 126,700 SF warehouse building.
- Although most new construction is marketed as “manufacturing,” given the flexibility of warehouse tenants, they will likely continue to account for a large share in industrial leasing.
- Asking rates continue to rise with the overall vacancy rate at low levels. Asking rents increased by 10.2% from the same time as last year to \$1.58 /SF NNN with rent growth the highest at 15.6% in the Santa Clara submarket. San Jose also posted a strong rent growth of 14.5% during the year.

Outlook

- While an increase in the large blocks of sublease space on the market has pushed the vacancy rate up modestly, the outlook for this market is positive. The economy appears to be possibly bottoming out or even stabilizing, which bodes well for the return of stronger demand.
- We are currently tracking 1.8 million square feet of new construction that currently has a low level of preleasing. If these projects are delivered without much preleasing, the overall vacancy in the market could push the vacancy rate up further.
- Continued demand from the region’s logistics, life sciences and returning technology employers should keep demand and supply relatively balanced in the coming years as more robust demand returns.

-
1. Economy
 2. Leasing Market Fundamentals

2Q24

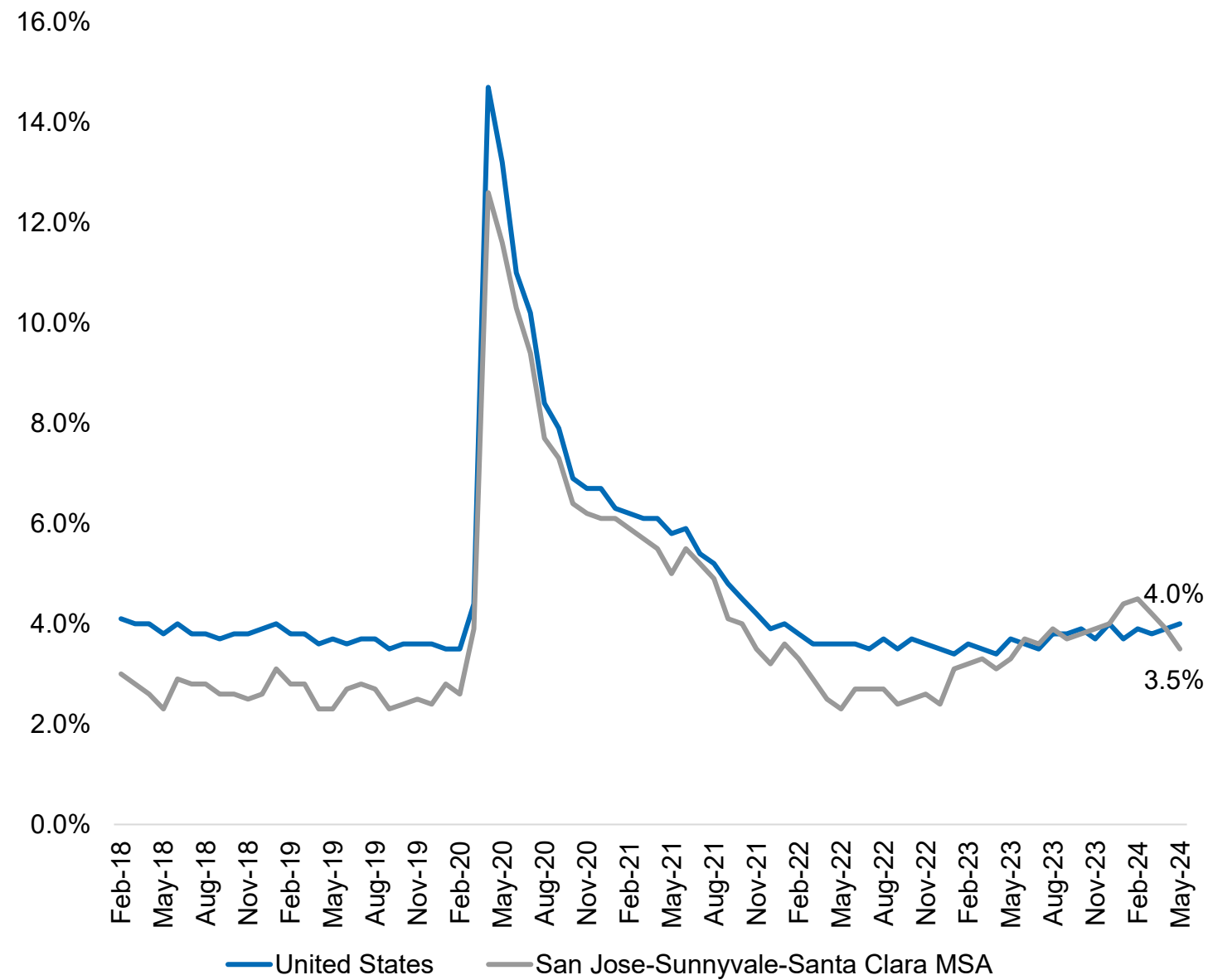
Economy



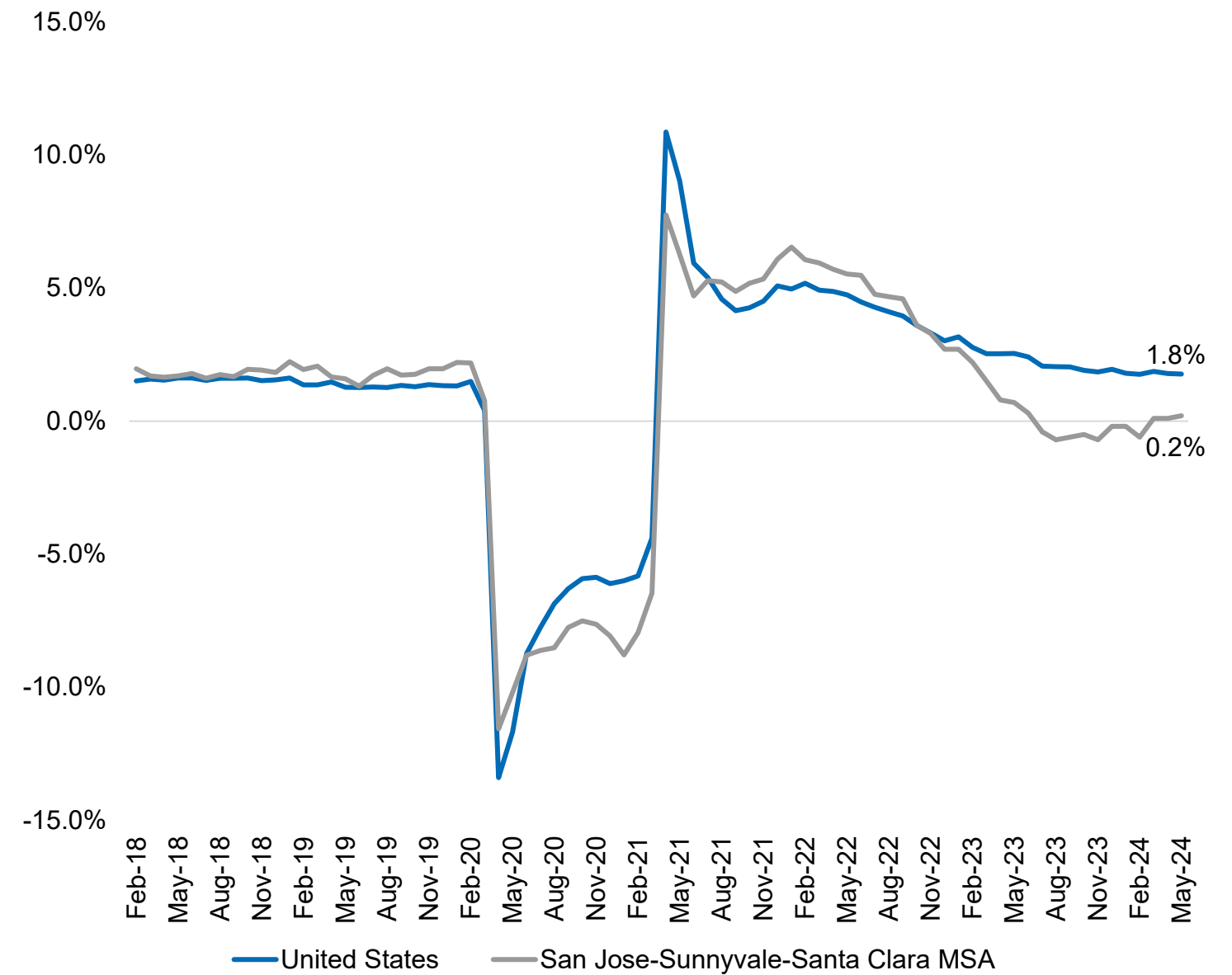
Job Growth Turned Positive, Indicating a Possible Turning Point in the Economy

Employment growth in the San Jose-Sunnyvale-Santa Clara MSA turned positive the past three months through May 2024 after eight months of decline. While still very low at only 0.2% year-over-year, it indicates that the local economy may be stabilizing. The unemployment rate ticked down to 3.5% from 4.5% one year ago, whereas the U.S.'s unemployment rate has stayed in the high -3% to 4.0% during this same period. The sharper rate of decline in the MSA indicates a tight labor market.

Unemployment Rate, Seasonally Adjusted



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

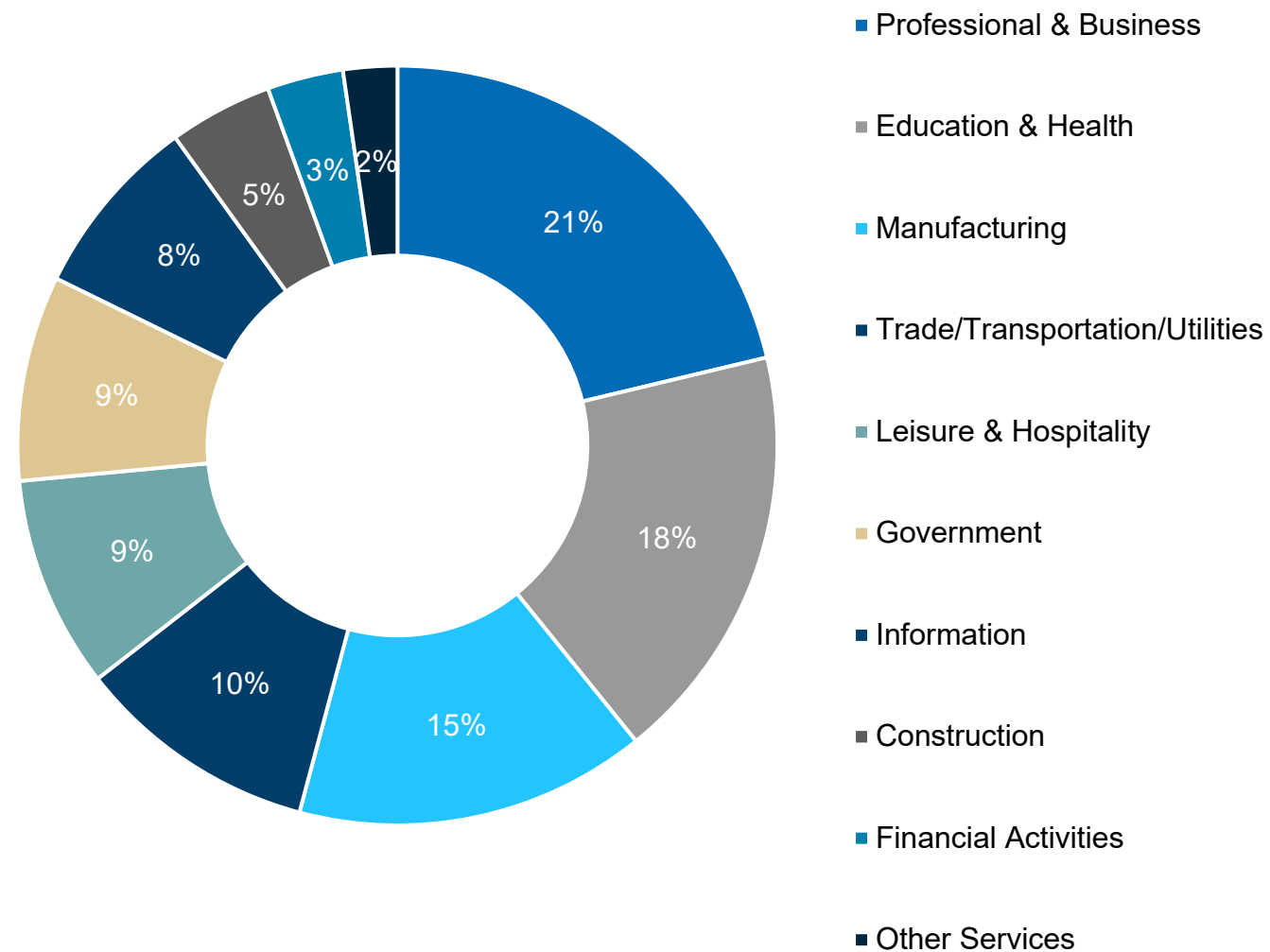


Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

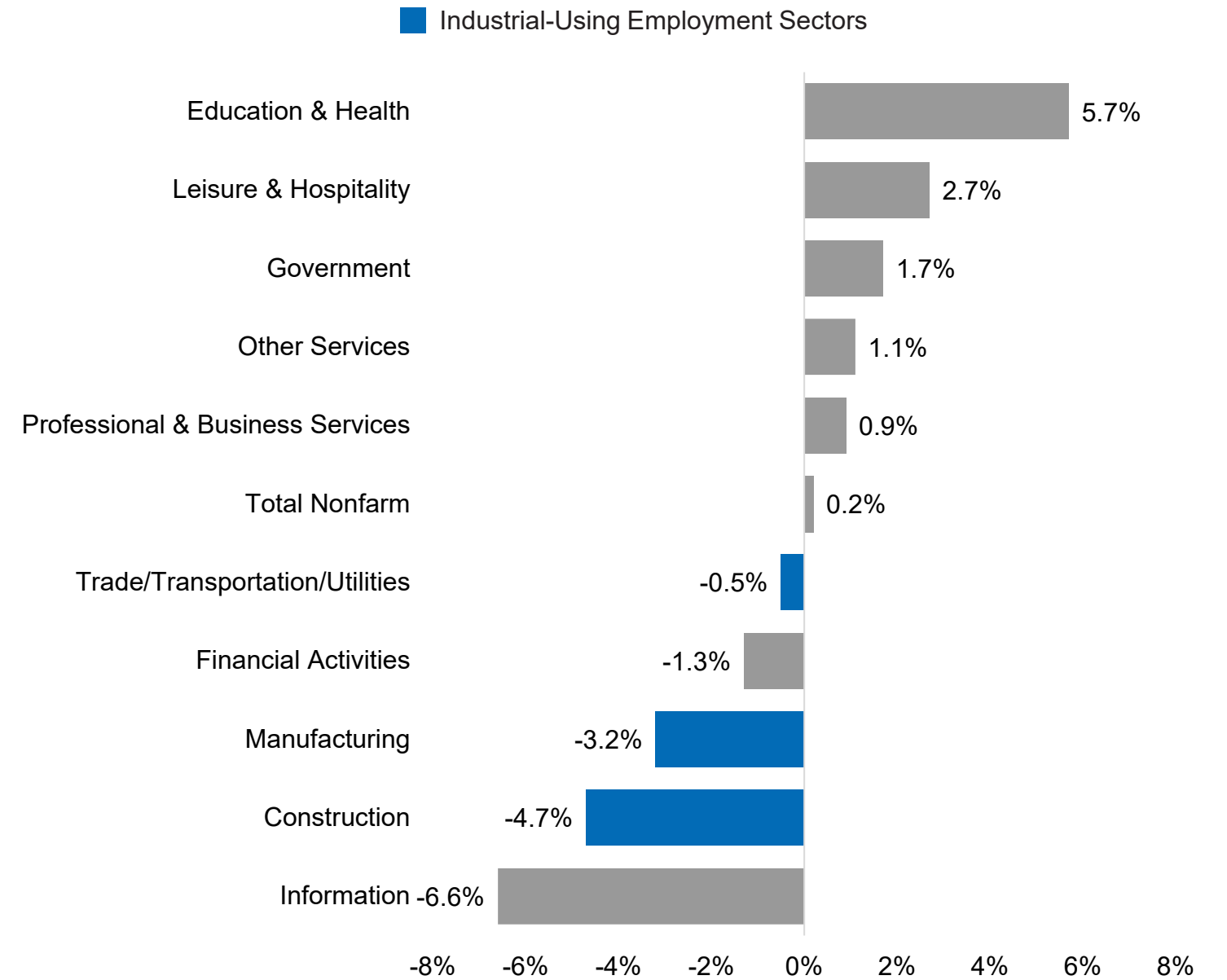
Job Losses in Tech and Manufacturing Stunted Overall Employment Growth

Despite strong employment growth in the Education & Health and Leisure & Hospitality sectors, job losses in the Information sector dragged down overall employment growth to a mere 0.2% from the same time last year. Manufacturing is a big economic driver in the local economy, and weakness in this sector is weighing heavily on the industrial market, causing continued contraction. But small gains in other sectors might be a sign that the economy is at a turning point, or least bottoming out.

Employment by Industry, May 2024



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

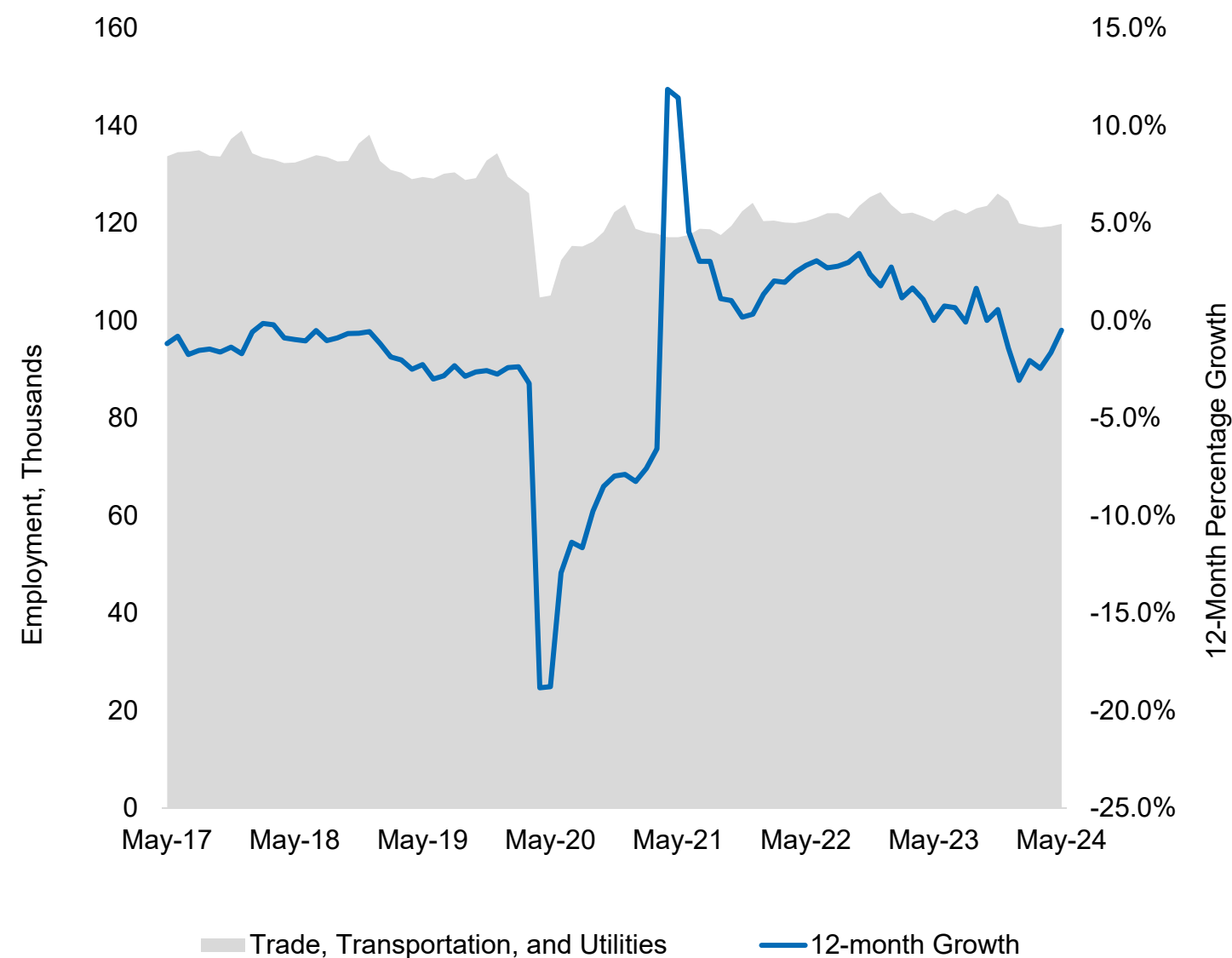


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
 Note: May 2024 data is preliminary.

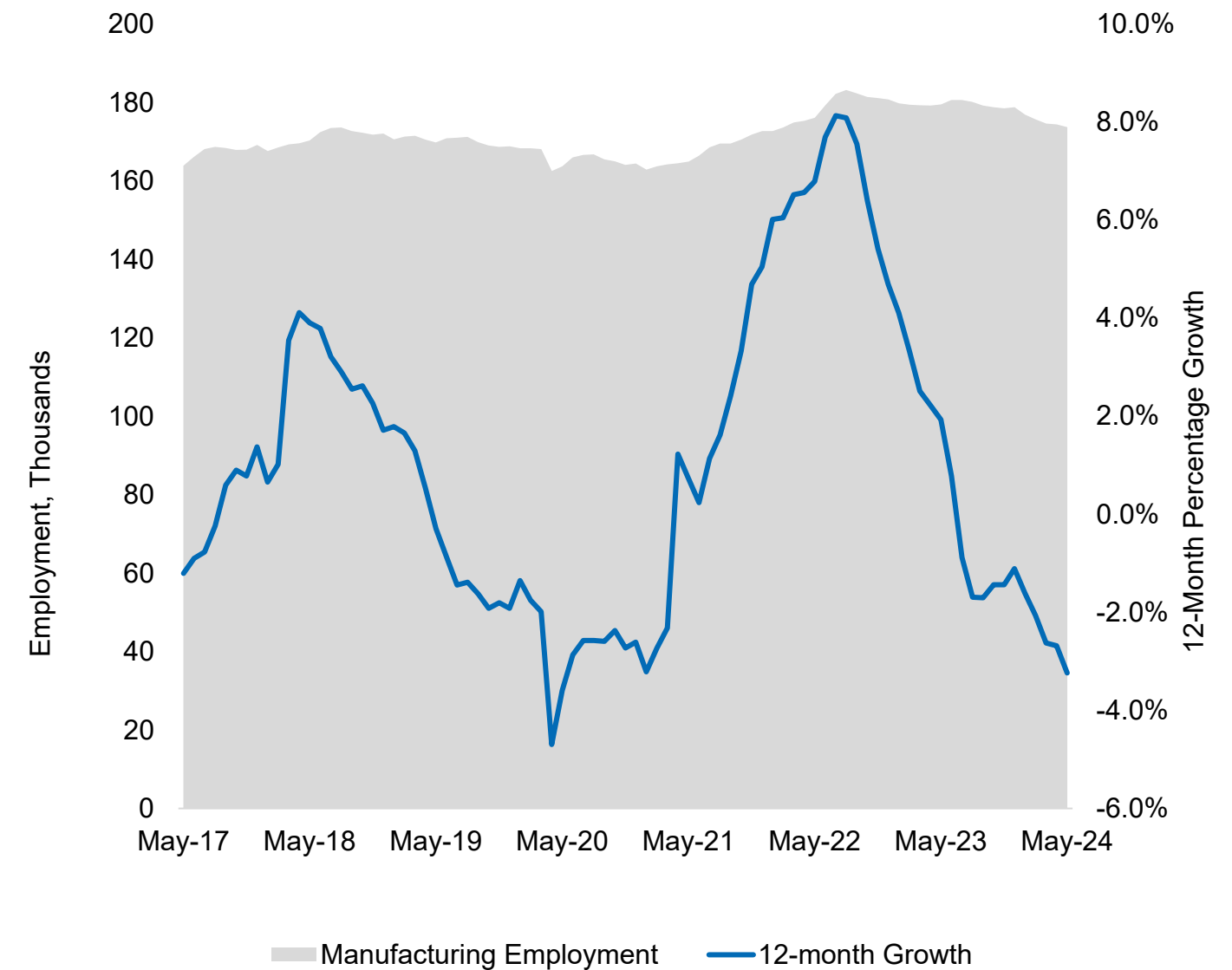
Mixed Signals for Industrial Demand Drivers

After peaking in the summer of 2022 as demand for AI hardware exploded, employment in the manufacturing sector shed jobs. Employment in this sector contracted by 3.2% year-over-year through May 2024. Meanwhile, the trade/transportation/utilities sector posted two months of subdued job growth after shedding jobs at the end of 2023 and into the first three months of 2024. As the economy hits bottom and then starts improving, we expect these two sectors will quickly rebound.

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
 Note: May 2024 data is preliminary.

2Q24

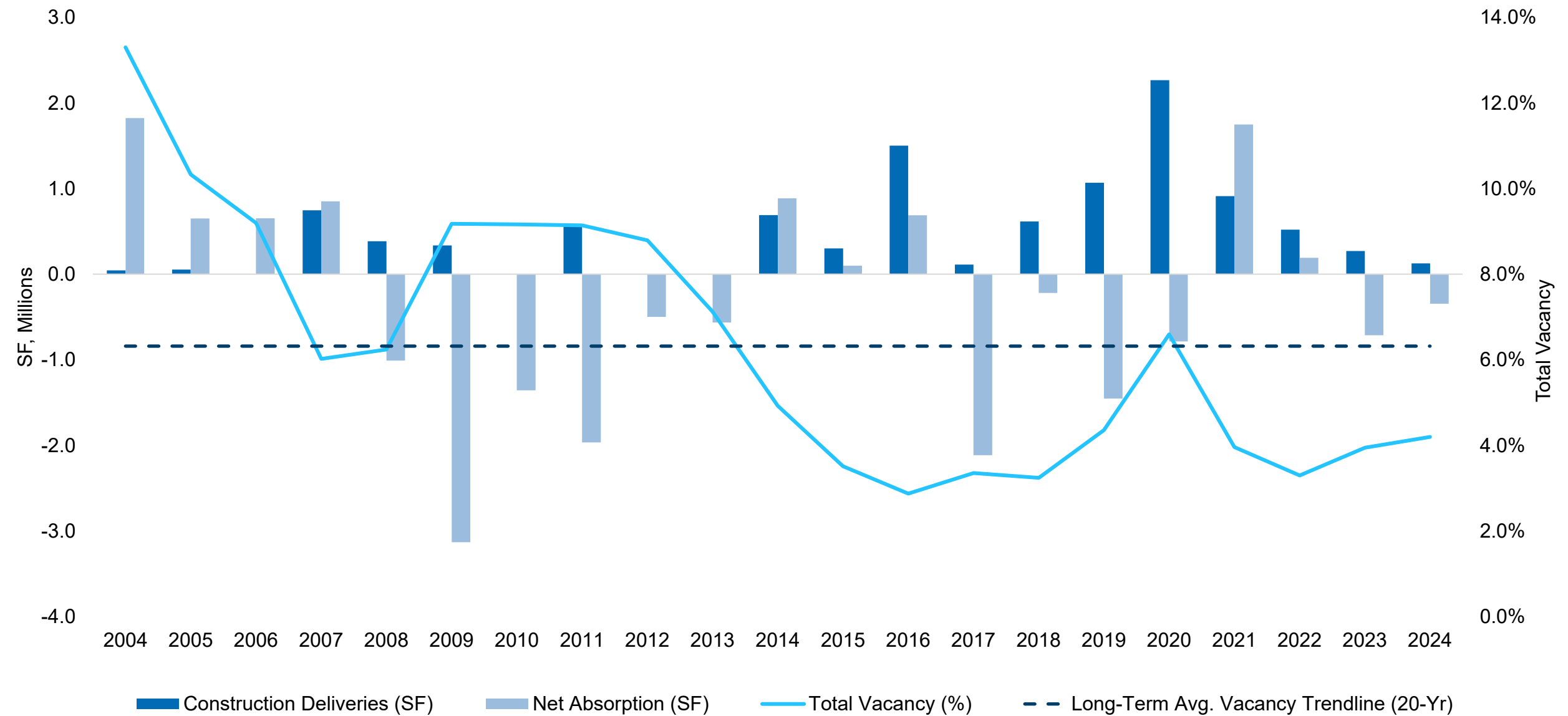
Leasing Market Fundamentals



Supply Outpaced Demand this Quarter

The high levels of sublease and direct space on the market pushed the Silicon Valley combined industrial and warehouse vacancy rate up to 4.2% in the second quarter, up 20 bps from the first quarter and 40 bps from year-end 2023. Fortunately, this remains below the 20-year average of 6.3%. Only one building came online during the second quarter, a 126,700 square foot warehouse building which was 100% leased to Home Depot. We are tracking another 1.8 million square feet currently under construction.

Historical Construction Deliveries, Net Absorption, and Vacancy

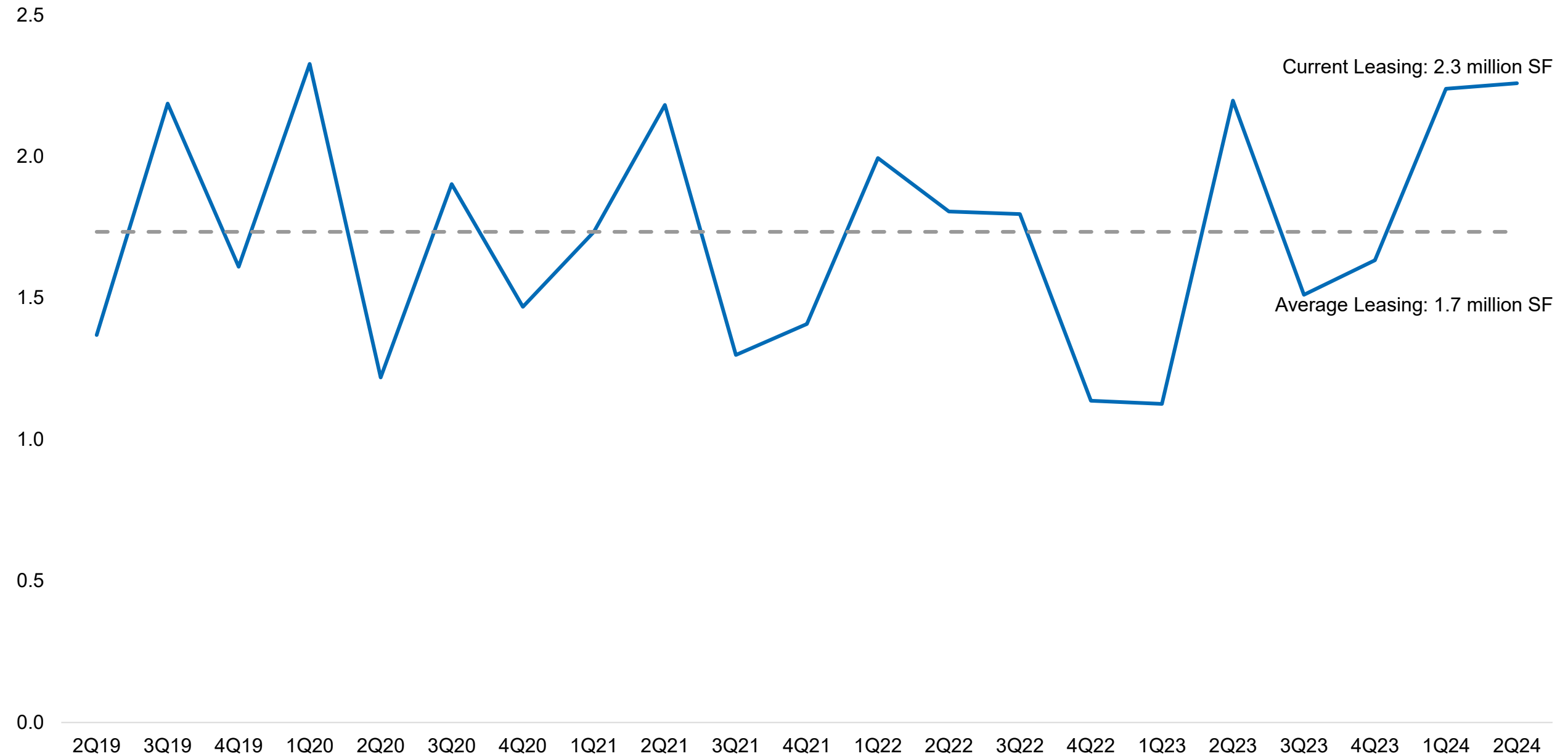


Source: Newmark Research

Industrial Leasing Activity Well Above Five-Year Average

Leasing momentum remained strong in the second quarter, with a total of 2.3 million square feet leased, exceeding the five-year average by 30%. This follows a strong first quarter, highlighting a consistent trend in positive leasing activity. Some of the notable leases completed include DSV Logistics, a logistics company, which leased 110,538 square feet in Fremont, and Cal Wine Transport, a wine storage and delivery company, which took 92,000 square feet in the San Jose – Central submarket.

Total Leasing Activity (msf)

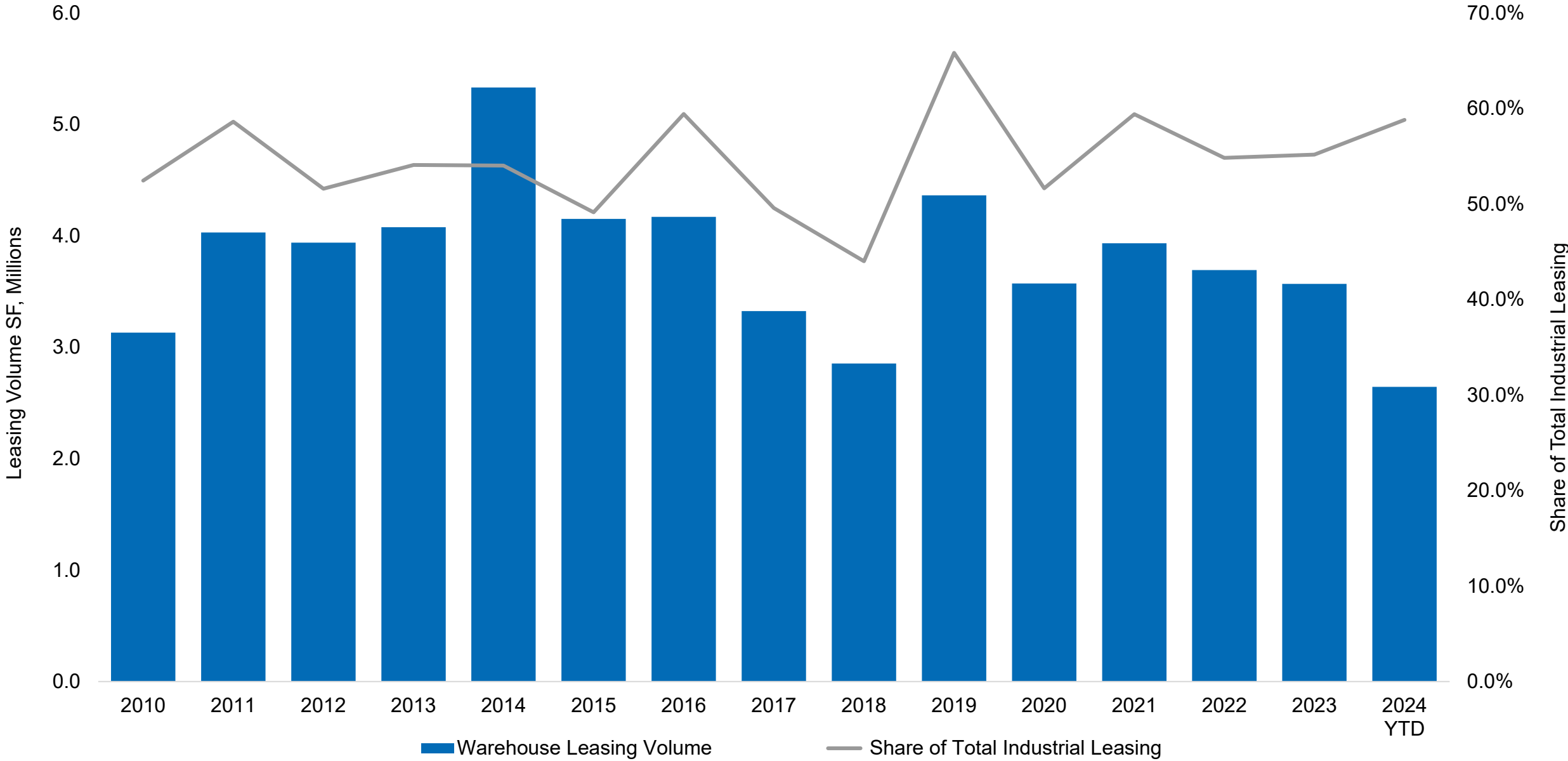


Source: Newmark Research, CoStar

Warehouse Leasing Accounted for Lion's Share of Overall Leasing Activity

Warehouses dominated overall leasing activity in the overall Silicon Valley industrial market, reaching nearly 60% of all leases in the first half of 2024. Although most new industrial construction is marketed as "manufacturing," its flexibility will likely attract logistics tenants as well. This trend is evident with the 126,700 square foot Concourse Logistics Center, the only second-quarter completion, which Home Depot fully leased for regional logistics.

Warehouse Leasing Volume and Percentage of Total Industrial Leasing Volume

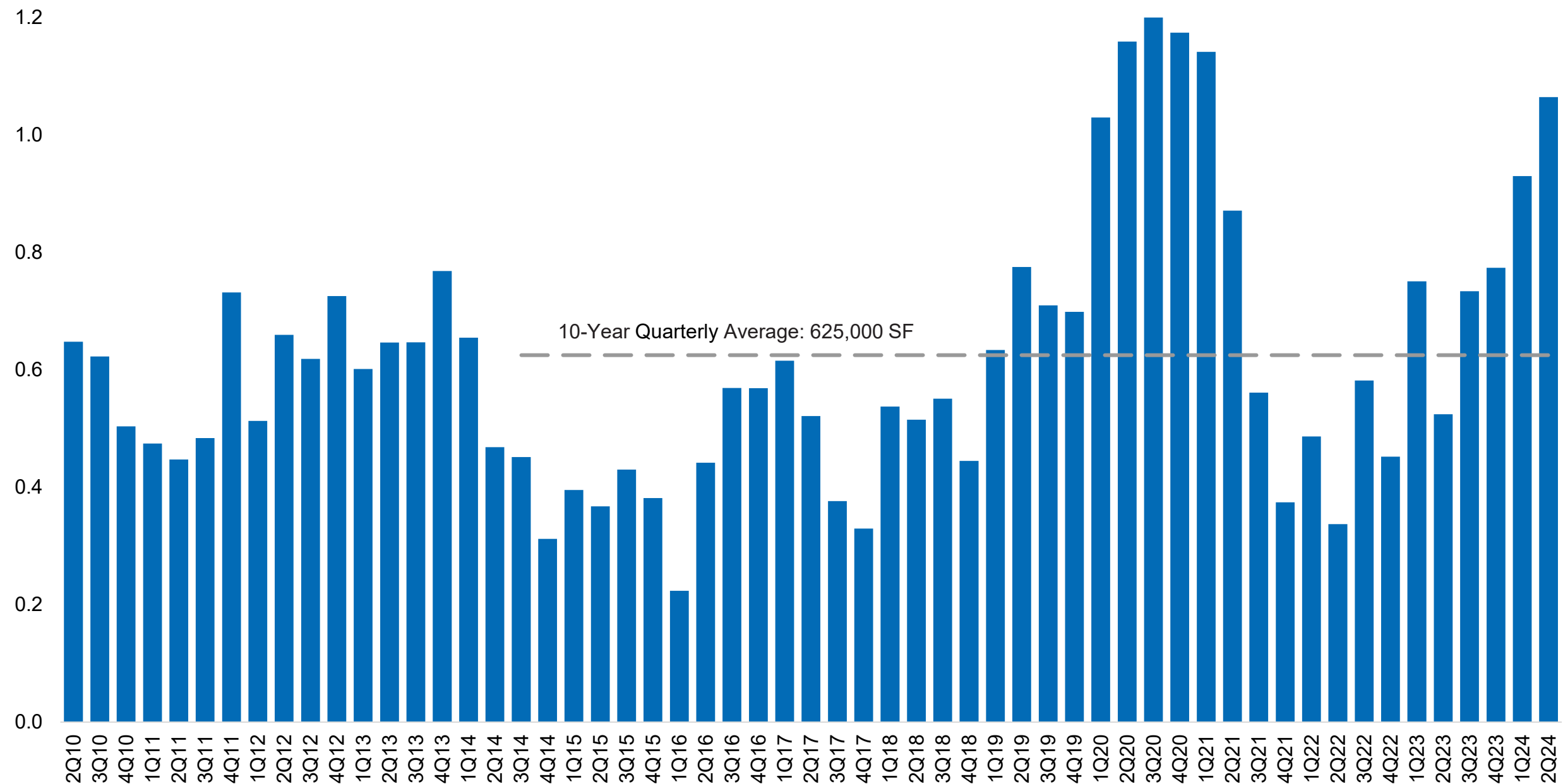


Source: Newmark Research, CoStar

Sublease Availability Rose but Still In-Check Relative to the Size of the Market

The amount of sublease space on the market inched up during the second quarter to more than 1.0 million square feet, approaching the record highs posted during the pandemic and well above the 16-quarter average of 634,000 square feet. While this seems high on an absolute level, relative to the size of broader industrial market this amount of space represents 1.3% of the total inventory. However, if more large sublease space becomes available, it could drive the overall vacancy rate up.

Available Industrial and Warehouse Sublease Volume (msf)

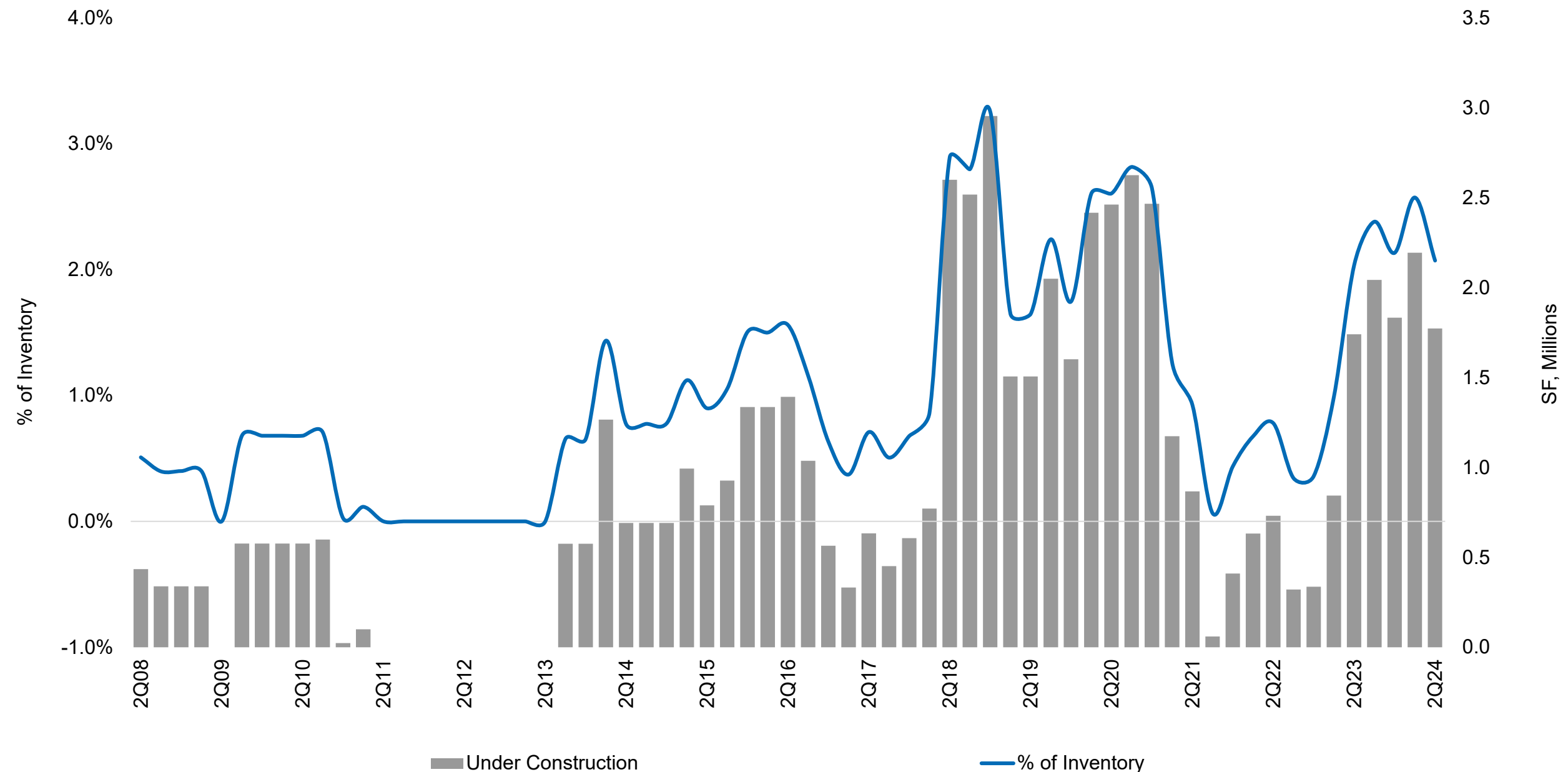


Source: Newmark Research, CoStar

Construction Pipeline Pushed South in Search of Available Sites

With possible construction sites so limited in Silicon Valley, developers have been pushing further south in San Jose, where available sites are located. We are currently tracking 1.8 million square feet under construction, of which all projects are currently speculative without any major leases. The largest project currently underway is a 501,314 square foot general industrial building in Morgan Hill. While construction has ramped up in the past few quarters, it represents only 2.1% of existing inventory.

Industrial Under Construction and % of Inventory

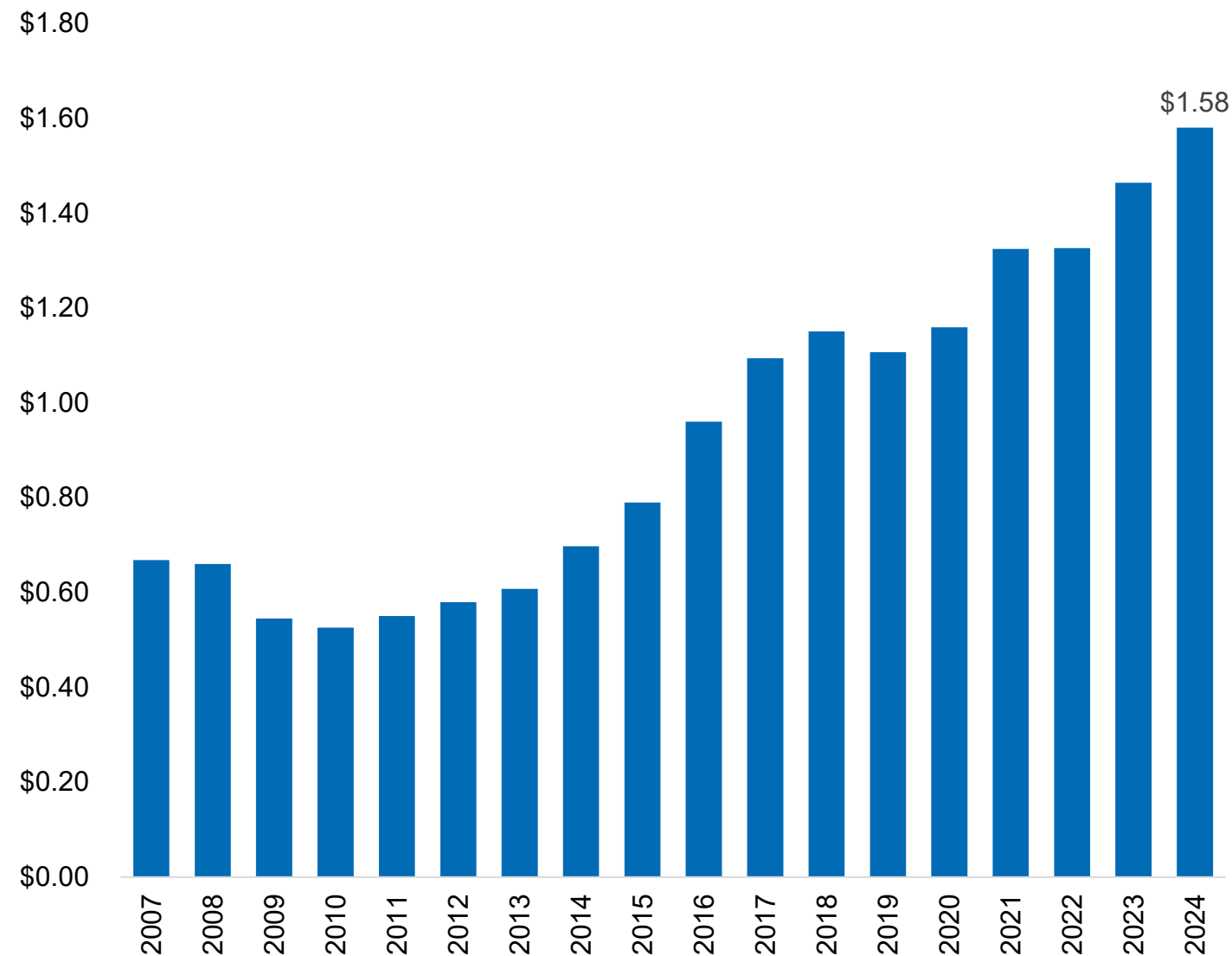


Source: Newmark Research, CoStar

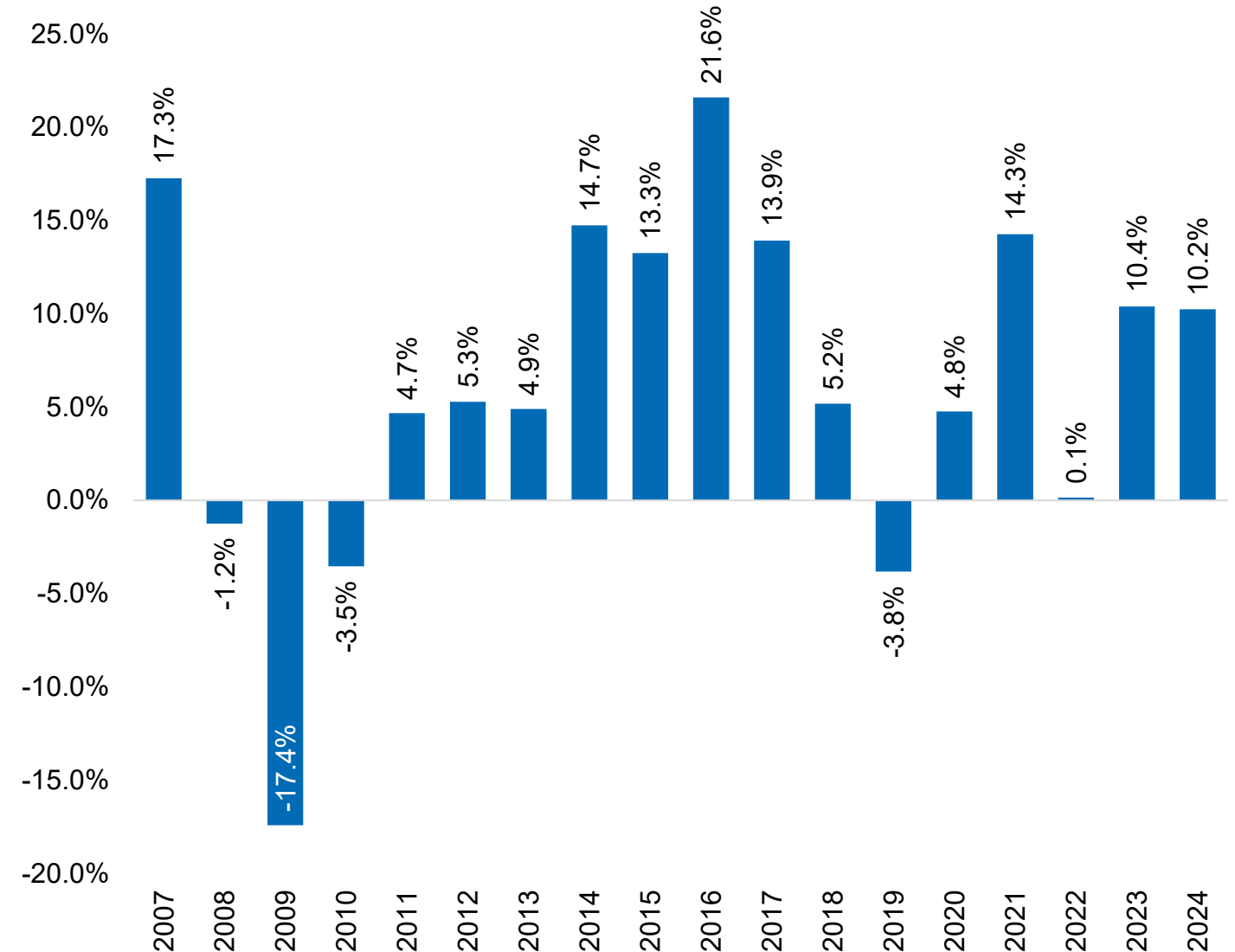
Tight Markets Pushed Upward Pressure on Industrial Asking Rents

While conditions in the overall economy and broader industrial market remained murky, asking rental rates continued to rise. With the overall vacancy rate at 4.2%, still below the historical average of 6.3%, asking rents rose 7.9% during the first half of the year and 10.2% from the second quarter of 2023 to \$1.58 /SF NNN. Rent growth in the industrial sector has remained remarkably stable, with industrial and warehouse rents climbing consistently over the past few quarters. This trend is expected to continue due to low vacancy, persistent demand, and an expanding construction pipeline for Class A space, which drives rents higher.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



Please reach out to your
Newmark business contact for this information

Sublease Deal Topped Largest Leases in the Quarter

Three of the top five leases during the second quarter were from logistics companies. DSV Logistics, in the largest lease of the quarter, subleased more than 110,500 square feet at 4748 Kato Road in Fremont. Cal Wine Transport, another logistics company that serves the wine industry, renewed more than 92,000 square foot in San Jose. The largest new lease was from a confidential tenant, which committed to more than 54,000 SF in San Jose.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
DSV Logistics <i>Sublease. DSV logistics subleased ±110,538 SF space from Zoox.</i>	47548 Kato Road	Fremont – Mission South	Sublease	110,538
Cal Wine Transport <i>Lease renewal. Cal Wine Transport has been renewing their lease in this location since 2014.</i>	930 McLaughlin Avenue	San Jose – Central	Lease Renewal	92,303
Lord & Sons, Inc. <i>Lease extension. Lord & Sons, Inc. first renewed their lease back in 2019.</i>	430 E Trimble Road	San Jose – Trimble South	Lease Extension	60,400
Confidential <i>New lease. Occupied by a confidential tenant.</i>	1935 Lundy Avenue	San Jose – International Bus Park	Direct Lease	54,225
Sempera Organics, Inc. <i>New lease. Sempera Organics, Inc., a biotechnology company opened their first Silicon Valley location in Morgan Hill.</i>	18400 Sutter Boulevard	Morgan Hill	Direct Lease	51,328



Please reach out to your
Newmark business contact for this information

2Q24

Appendix / Tables





Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information

For more information:

Nu Nandar Aung

Research Analyst

Silicon Valley Research

NuNandar.Aung@nmrk.com

Andrew Miner

Research Analyst

Silicon Valley Research

Andrew.Miner@nmrk.com

Silicon Valley Office

3055 Olin Ave, Ste 2200

San Jose, CA 95128

t 408-727-9600

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK

NEWMARK