
3Q24

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 showed signs of stabilizing. After two months of declines in the beginning of 2024, we have now tracked five months of modest growth, a welcome sign. While employment growth has been slower in this market relative to the U.S., the unemployment rate has remained steady indicating an equilibrium between labor supply and demand.
- Layoffs in the large tech companies outpaced employment gains in the AI space, something that we are closely monitoring. Professional and business services, such as law and consulting firms, are staffing up in anticipation of an increase in work which bodes well for the office market, especially Class A buildings.
- Following along with the overall employment showing signs of stabilizing, office-using employment remains in line with the first few months 2024 after sharp declines in the previous few months. However, the level of office-using employment is still below the peak from one year ago. Small job growth in the AI sector was not enough to counter the overall decline in the information services sector.

Major Transactions

- Strong leasing in the first and second quarter was followed by another quarter of healthy leasing levels. In the third quarter, 1.5 million square feet was leased which is 12% less than the five-year average.
- Some of the notable leases completed were from Underwriters Laboratories, a technology security lab, for a 138,887 square foot lease renewal in the Fremont – Mission South submarket. Quanta Computer Inc., an electronic manufacturer, signed a new lease for 127,452 square feet in the Fremont – Auto Mall North 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 third quarter of 2024.

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 5.1% in the third quarter, up 120 bps from year-end 2023. Fortunately, this remains below the 20-year average of 6.0%. Only one building came online during the third quarter, a 212,684 square foot manufacturing facility.
- Overall market asking rents increased by 15.0% from the same time as last year to \$1.58 /SF NNN with rent growth the highest at 30.0% in the Fremont submarket. San Jose also posted a strong rent growth of 16.2% during the year. While asking rents are inching up, concessions, in the form of TIs and free rent, continue to be a large part of the lease negotiation so it is likely that effect rents are down to flat.

Outlook

- While an increase in both direct and sublease availability has pushed the vacancy rate up to 5.1%, 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 1.7 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.

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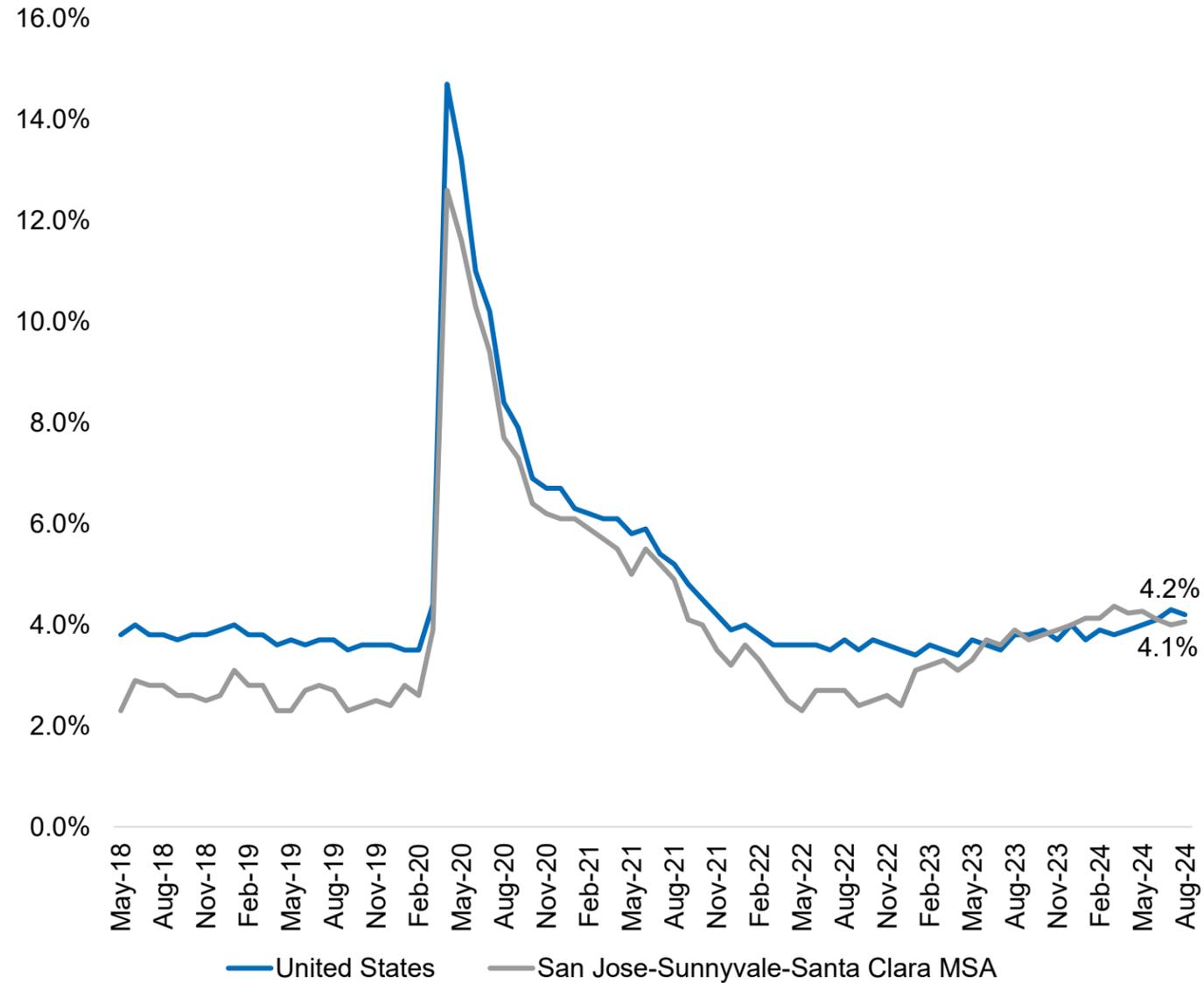
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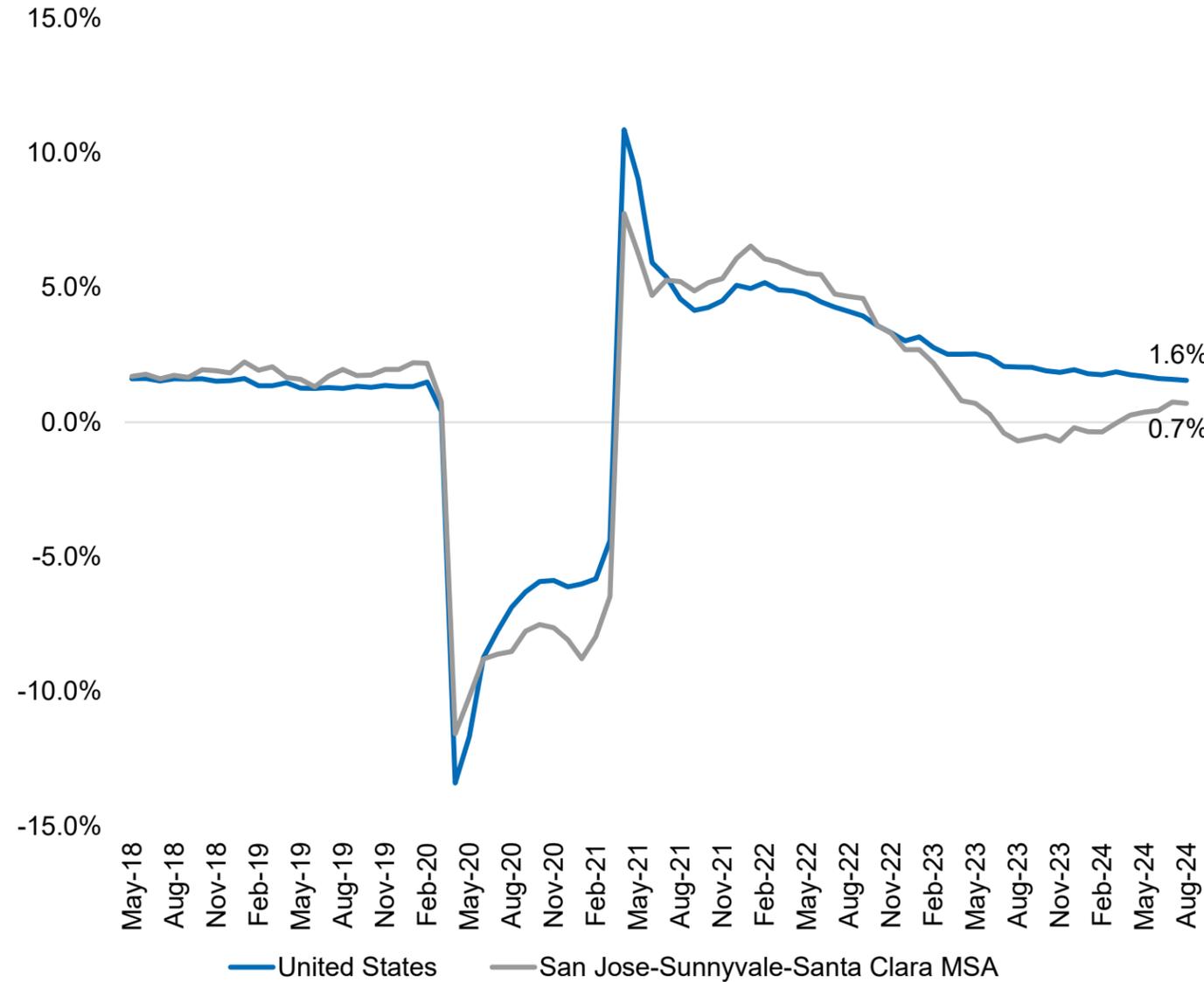
Silicon Valley's Economy Shows Signs of Stabilizing After Job Losses

Modest job growth returned to the San Jose-Sunnyvale-Santa Clara's economy through August 2024 with employment inching up 0.7% year-over-year. This marks the fifth straight month in a row of employment gains after eight months of losses. The overall unemployment rate held relatively steady through August, dropping below the U.S. average within the past two months. Professional & Business and Educational services recorded the largest gains whereas Information Technology, Construction, and Manufacturing shed jobs.

Unemployment Rate, Seasonally Adjusted



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

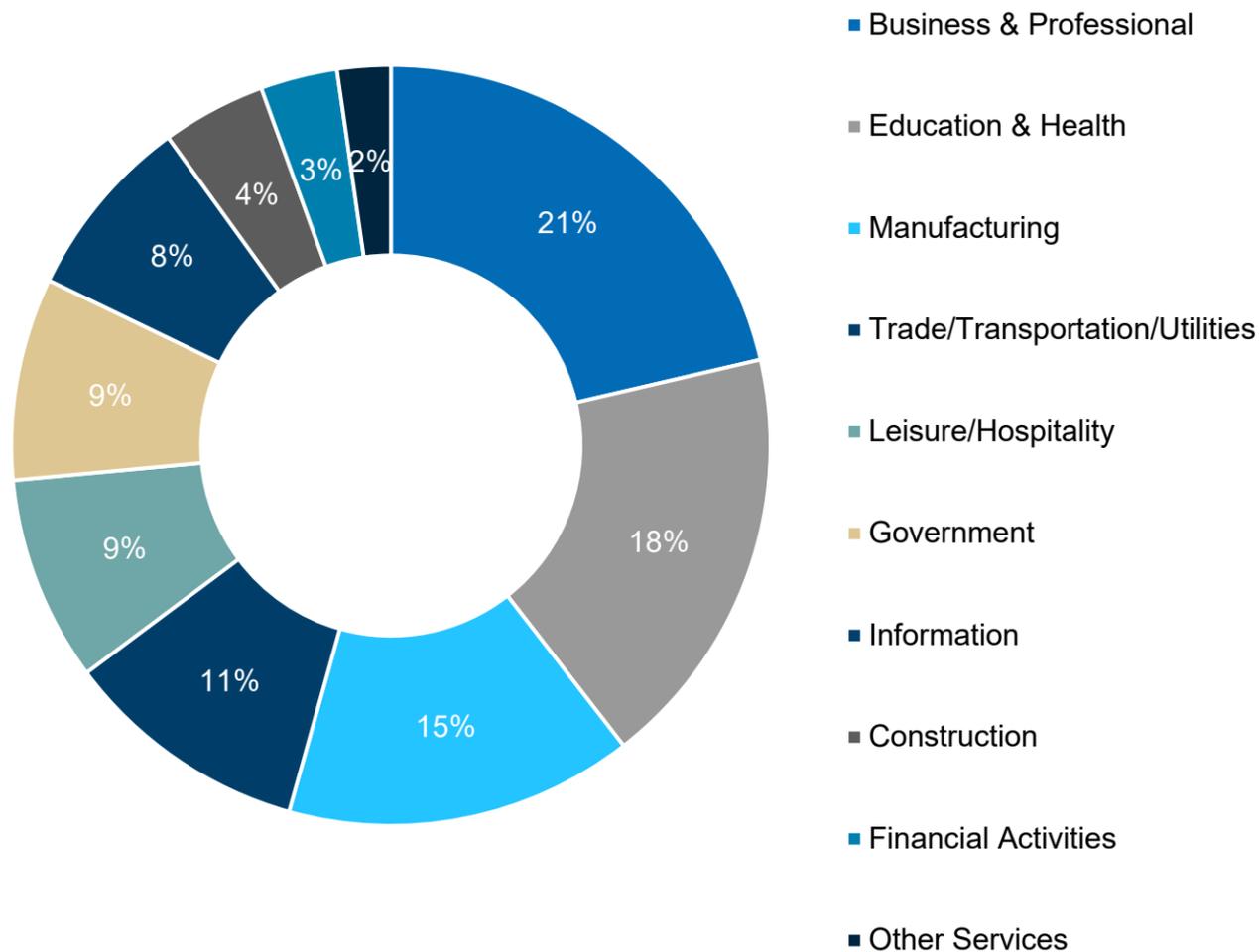


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

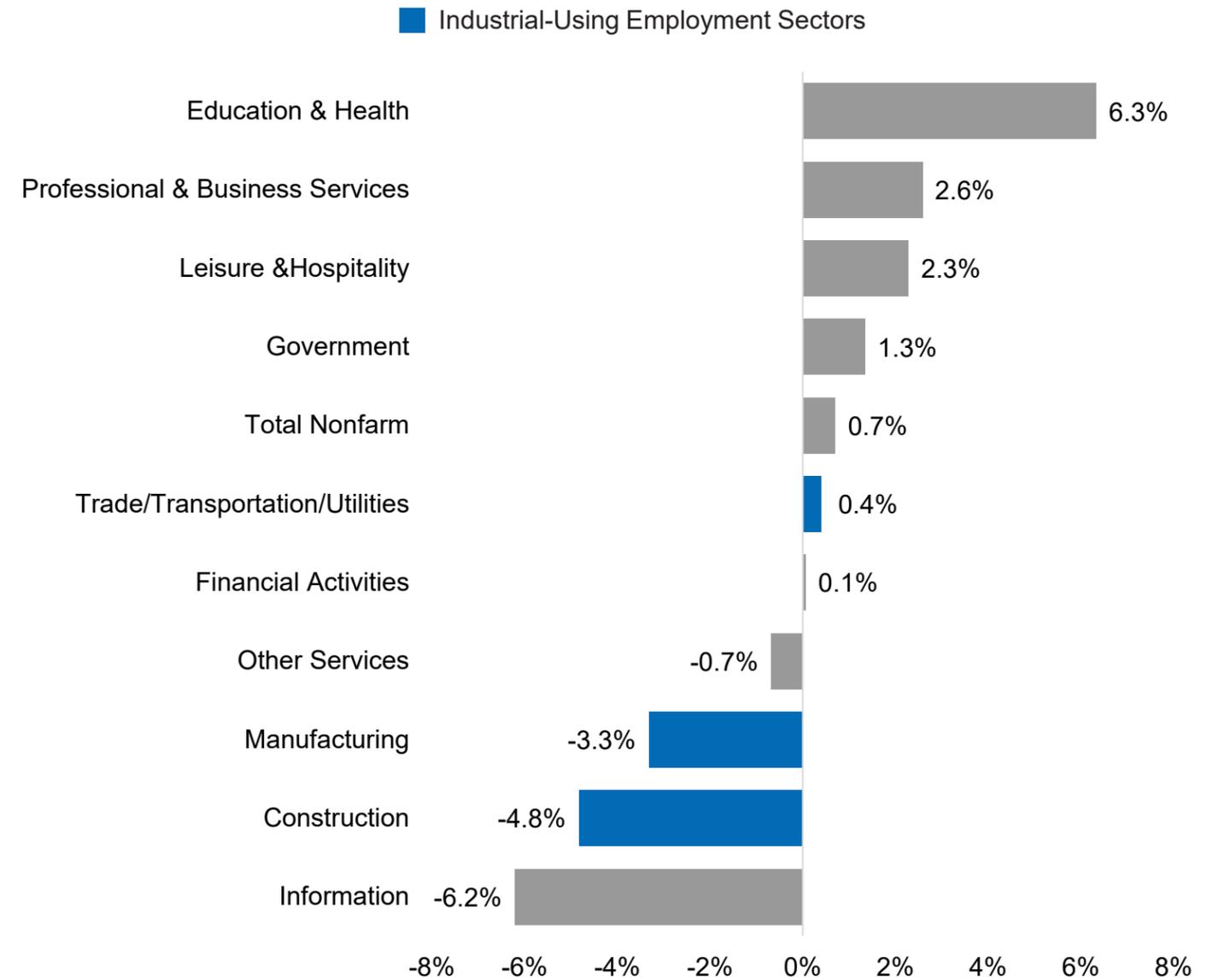
Technology and Manufacturing Shed Jobs, but Overall Employment Grew

Job gains in the Professional & Business Services, Education & Health, and Leisure & Hospitality and Government outpaced losses in the Tech (Information Technology), Construction, and Manufacturing sectors. Fortunately, Professional & Business Services – a key driver of the local office market - remains Silicon Valley's largest employment sector and is expanding once again, which bodes well for the office market, despite the Valley's reputation as a tech-only hub.

Employment by Industry, August 2024



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

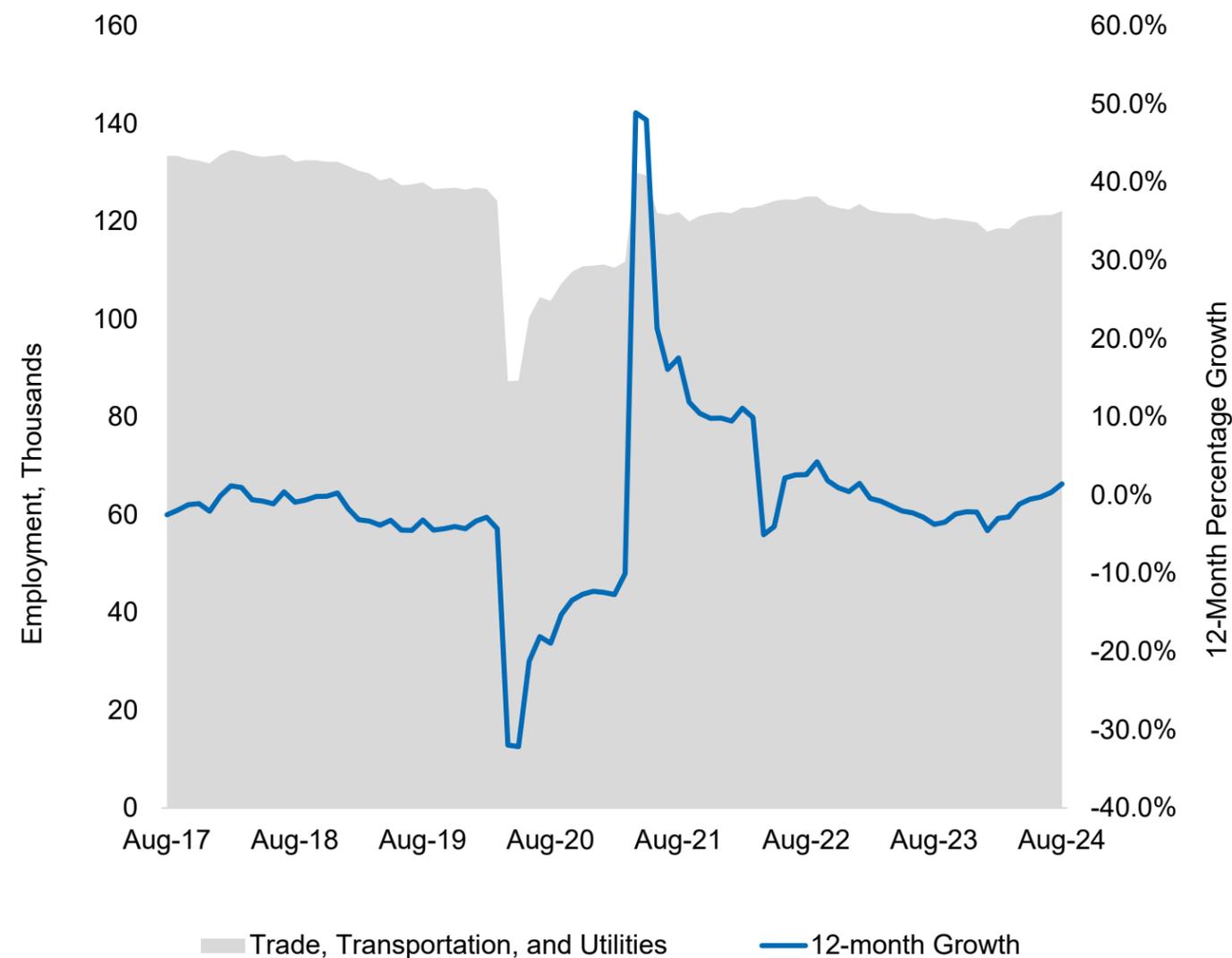


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi

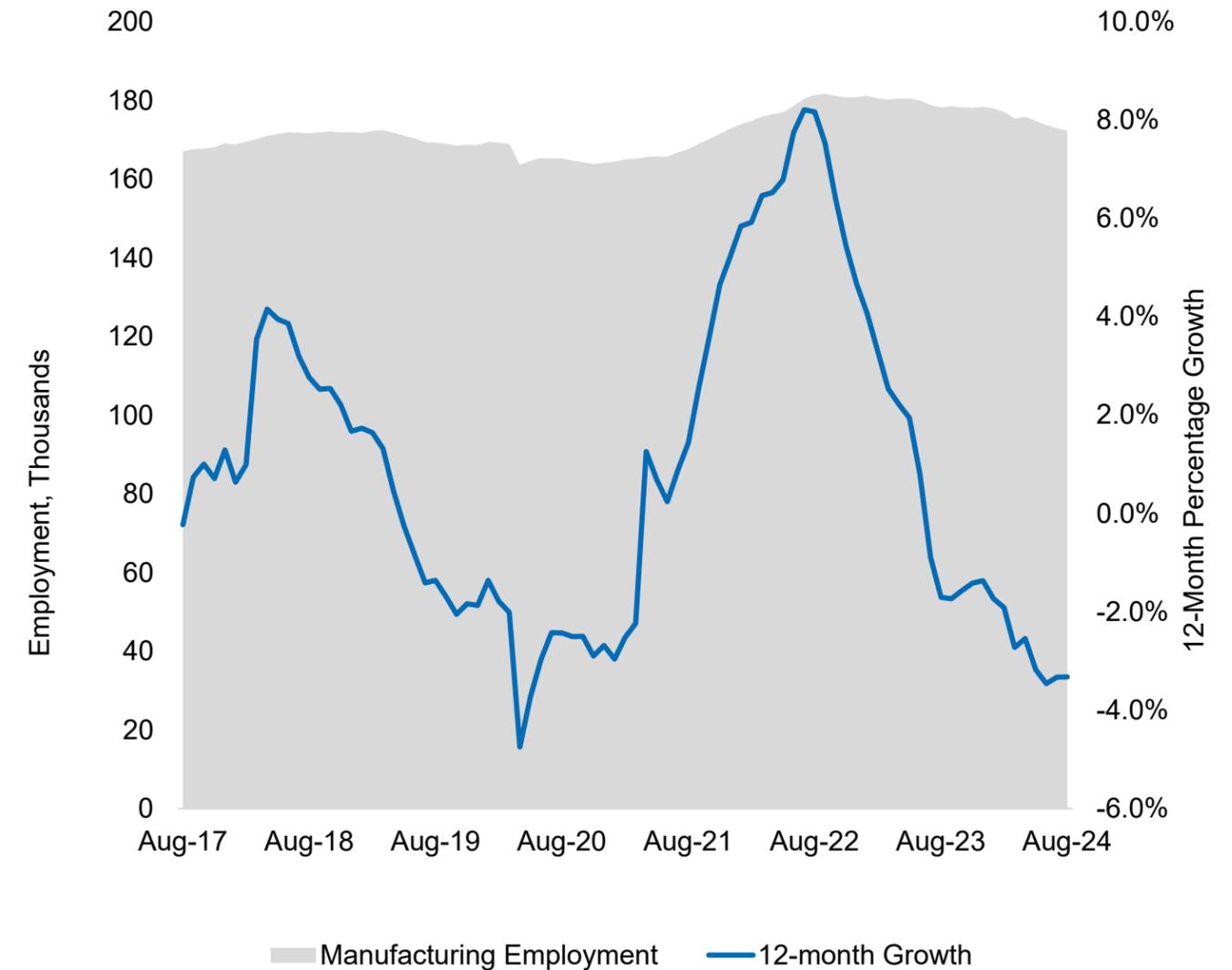
Mixed Signals for Industrial Demand Drivers

Employment in the Trade, Transportation, and Utilities sector added jobs through August 2024, with a 0.7% increase from the previous month and 1.4% year-over-year increase. As the economy hits bottom and then starts improving, we expect these two sectors will quickly rebound. On the other hand, the manufacturing sector shed jobs through August 2024, following the same trend from the previous 13 quarters. Technology has also been shedding jobs in the local economy.

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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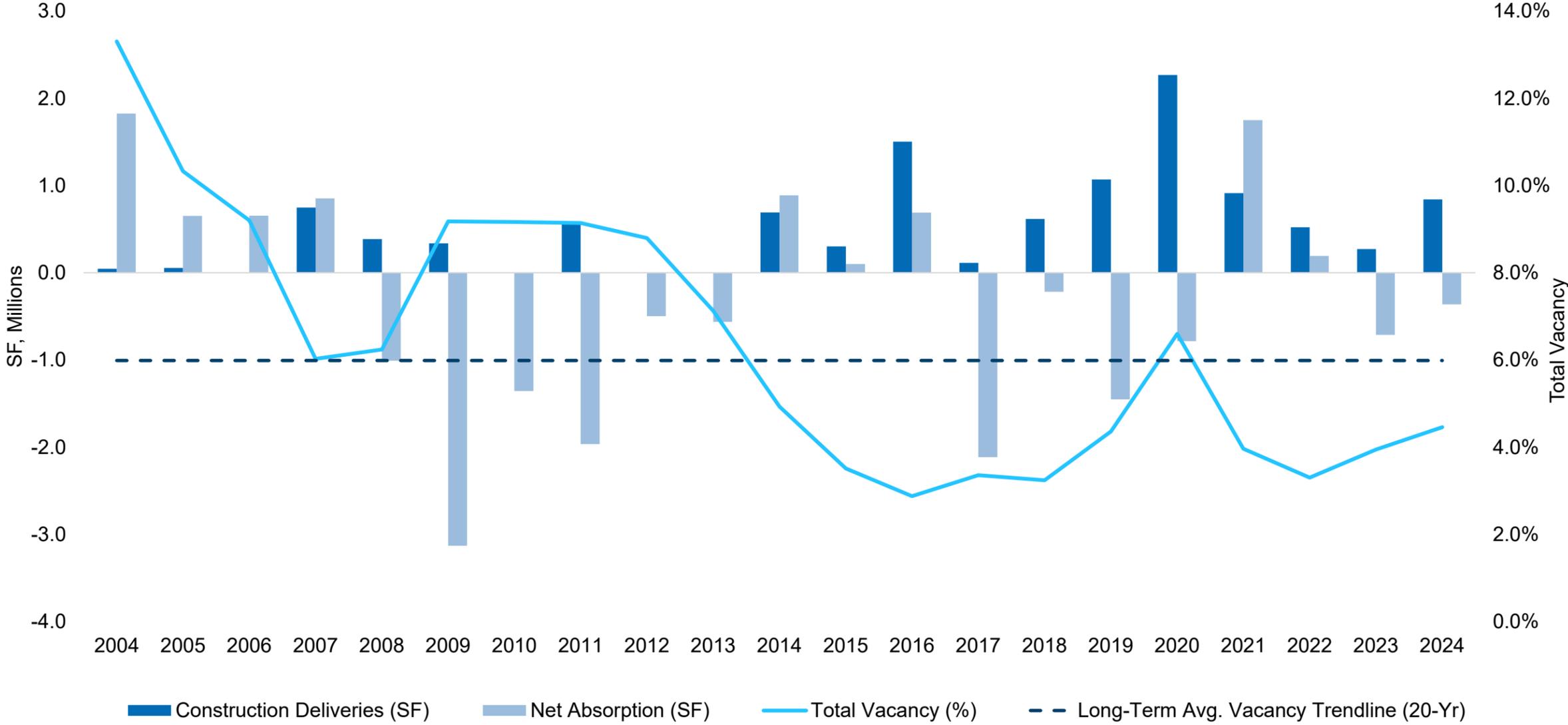
Leasing Market Fundamentals



While Total Vacancy Rate Inched Up, It Is Still Below 20-Year Average

The total combined vacancy rate of both industrial and warehouse inched up 20 basis points in the third quarter to 4.5% as the amount of sublease and direct space on the market remained high. While the current direction of the total vacancy rate is ticking up, it is still well below its 20-year average of 6.3%. Approximately 841,000 square feet has been delivered in 2024. In San Jose, 650 N King Road was delivered in July as a manufacturing facility for 212,684 square feet.

Historical Construction Deliveries, Net Absorption, and Vacancy

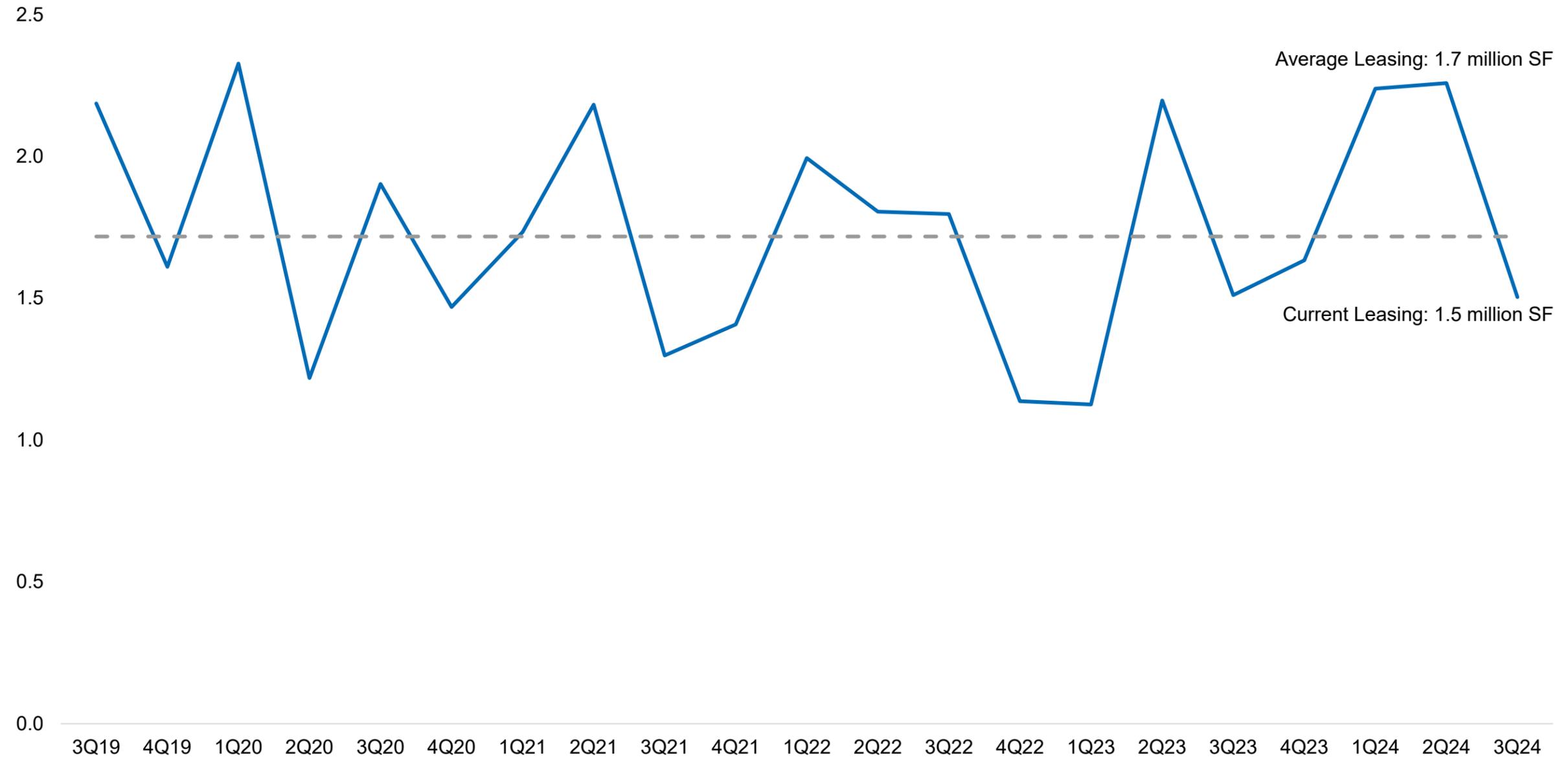


Source: Newmark Research

The Pace of Leasing Slowed

Industrial and warehouse leasing slowed in the third quarter of 2024 after strong activity in the first two quarters. Despite this, we believe total leasing for the year will still exceed 2023 levels, thanks to the first-half strong momentum and modest leasing in the third quarter of 2024 of 1.5 million square feet. As this graph shows, leasing activity can vary greatly quarter to quarter, fluctuating between a high of 2.3 million square feet and a low of 1.1 million square feet. This is significantly different from the 10-year average of 1.7 million square feet.

Total Leasing Activity (msf)

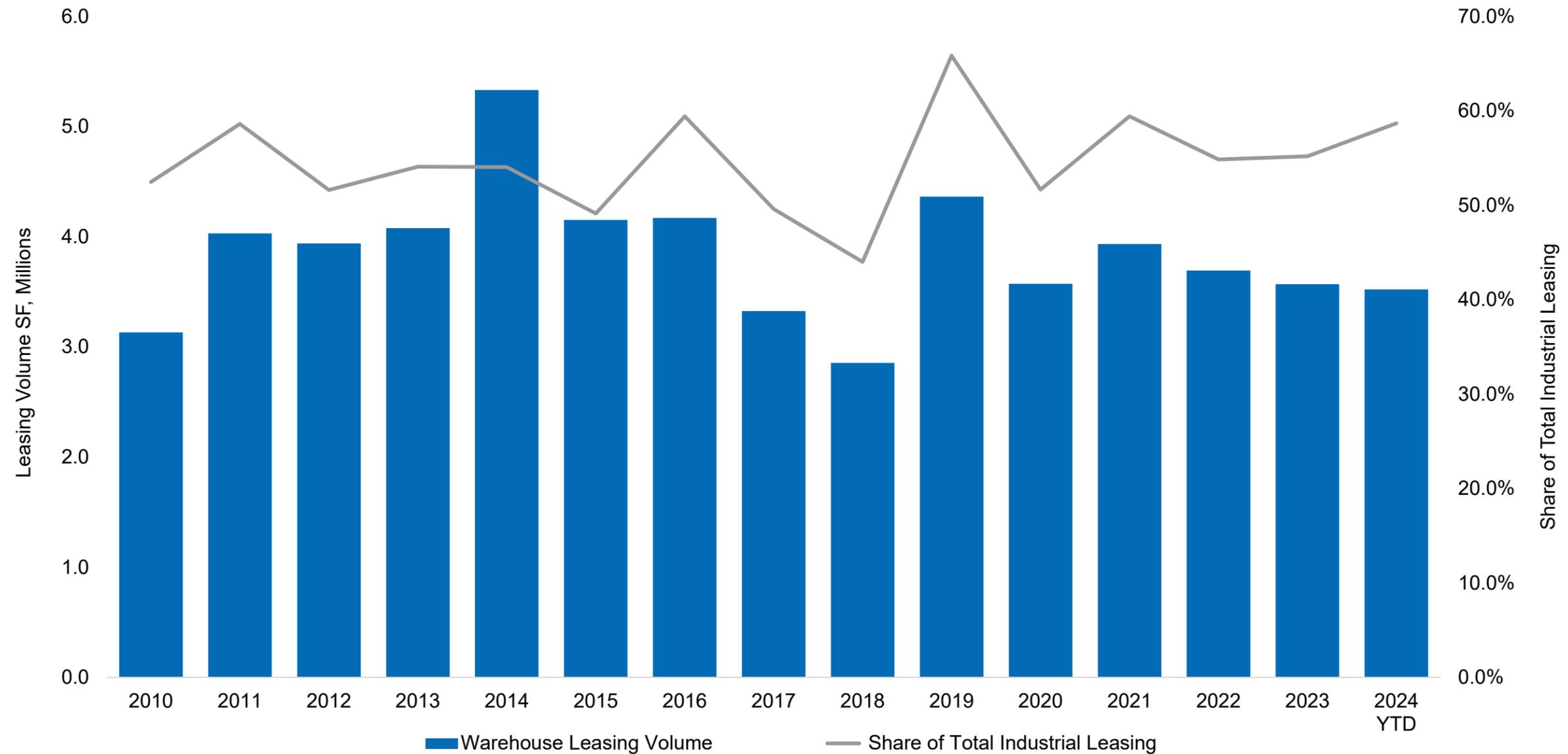


Source: Newmark Research, CoStar

Hardware Manufacturer Was the Largest New Lease During the Quarter

Warehouse leasing activity accounted for the lion's share of overall leasing, year-to-date in the third quarter with 3.5 million square feet leased. This equates to nearly 60% of total leasing in the Silicon Valley warehouse and industrial market. The largest warehouse lease during the quarter was also the largest direct lease recorded with Quanta Computer, a Taiwanese-based company focusing on manufacturing computer hardware, including notebooks. Other notable large leases were from transportation and logistics companies.

Warehouse Leasing Volume and Percentage of Total Industrial Leasing Volume

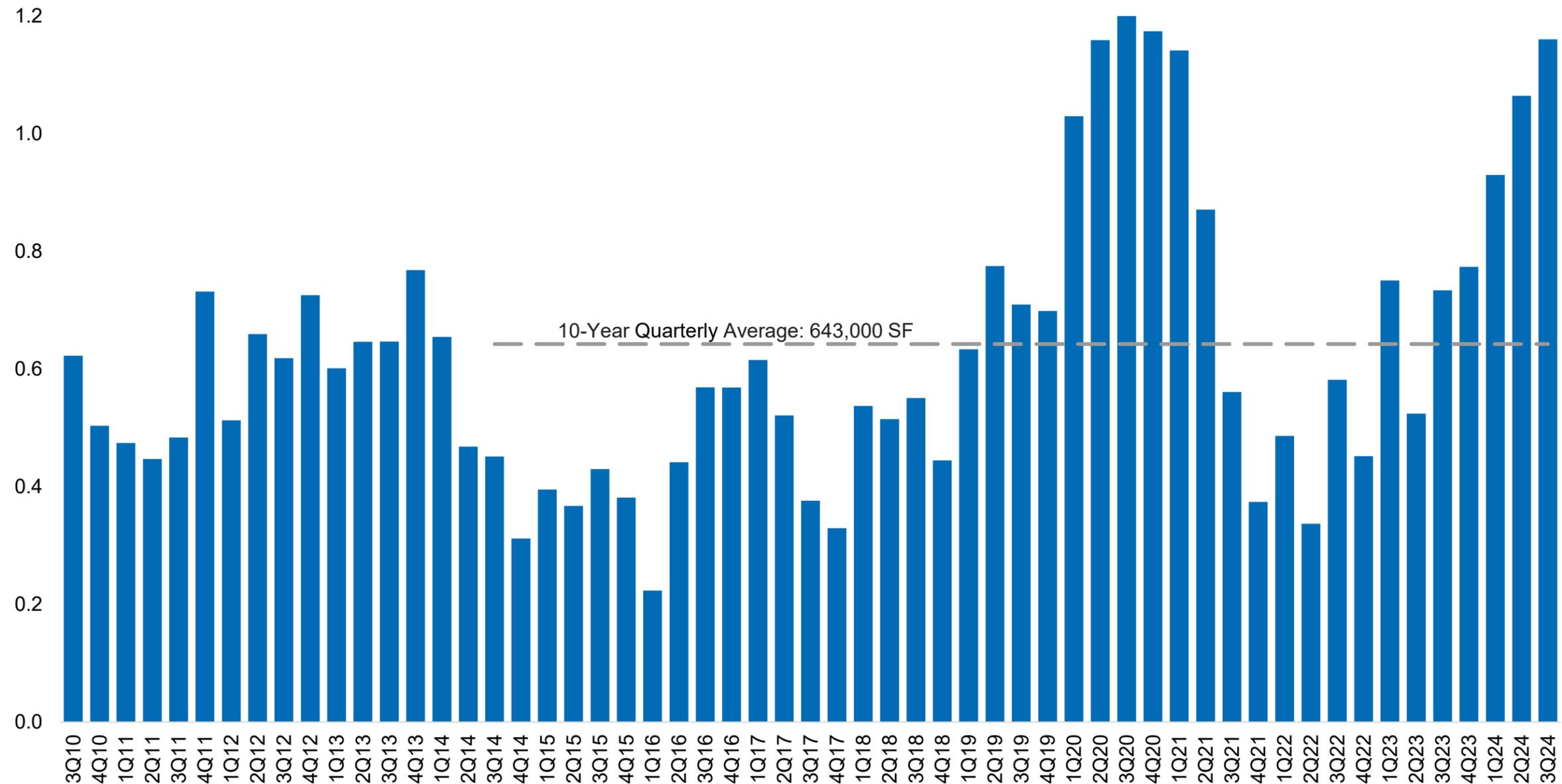


Source: Newmark Research, CoStar

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 third quarter to nearly 1.2 million square feet, at or near the record highs posted during the pandemic and well above the 16-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)

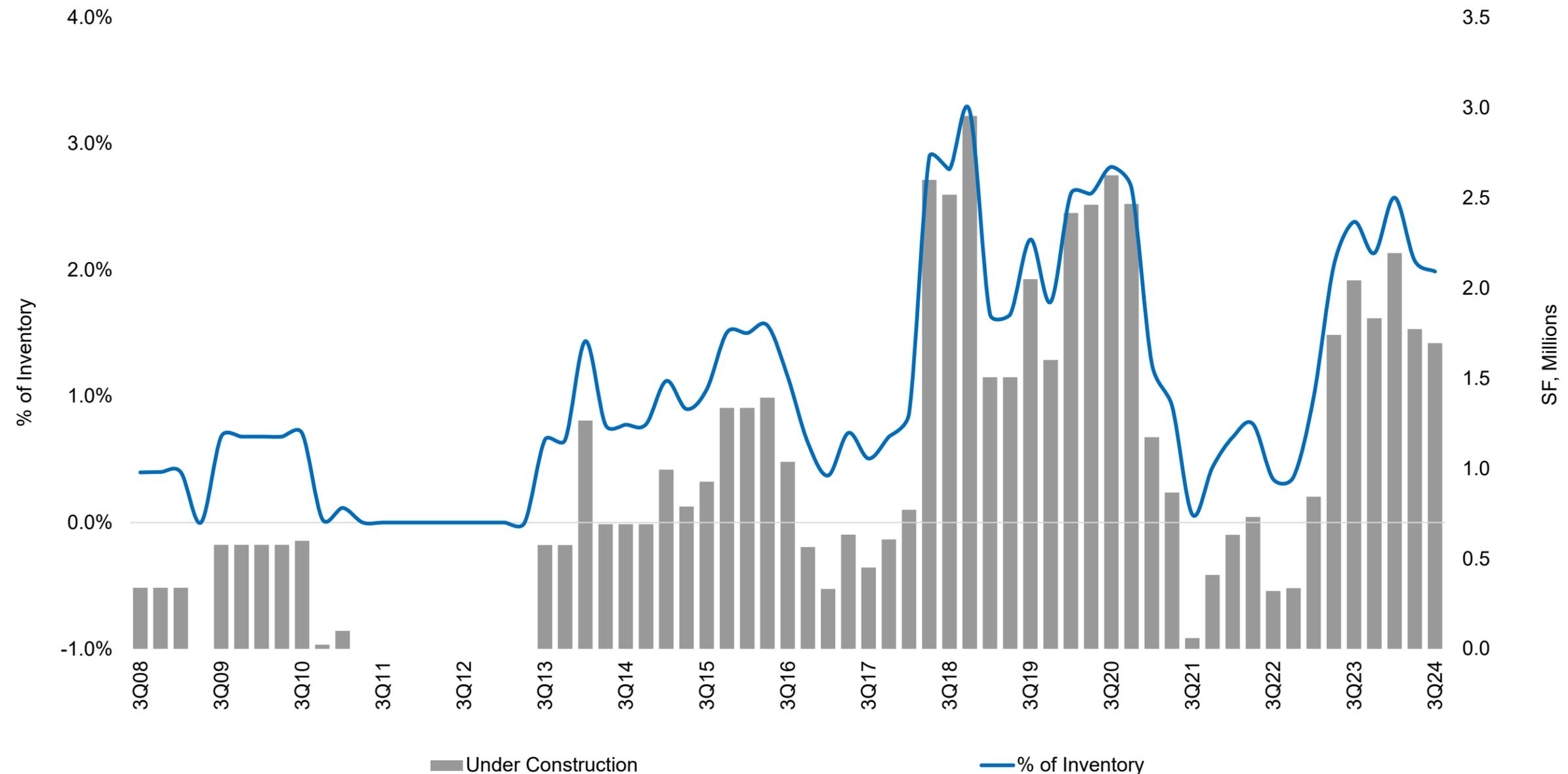


Source: Newmark Research, CoStar

The Construction Pipeline Inches Down, Waiting for Improved Fundamentals

Construction levels are luckily slowing down as landlords try to fill currently vacant space. Hines is building Edenvale, the largest industrial development in the Valley that is 635,833 square feet and is slated to be completed by June 2025. We are currently tracking nearly 1.7 million square feet underway throughout the market. This equates to 2.0% of current stock. With available development sites limited, developers have turned further south in San Jose, where available sites are located.

Industrial Under Construction and % of Inventory

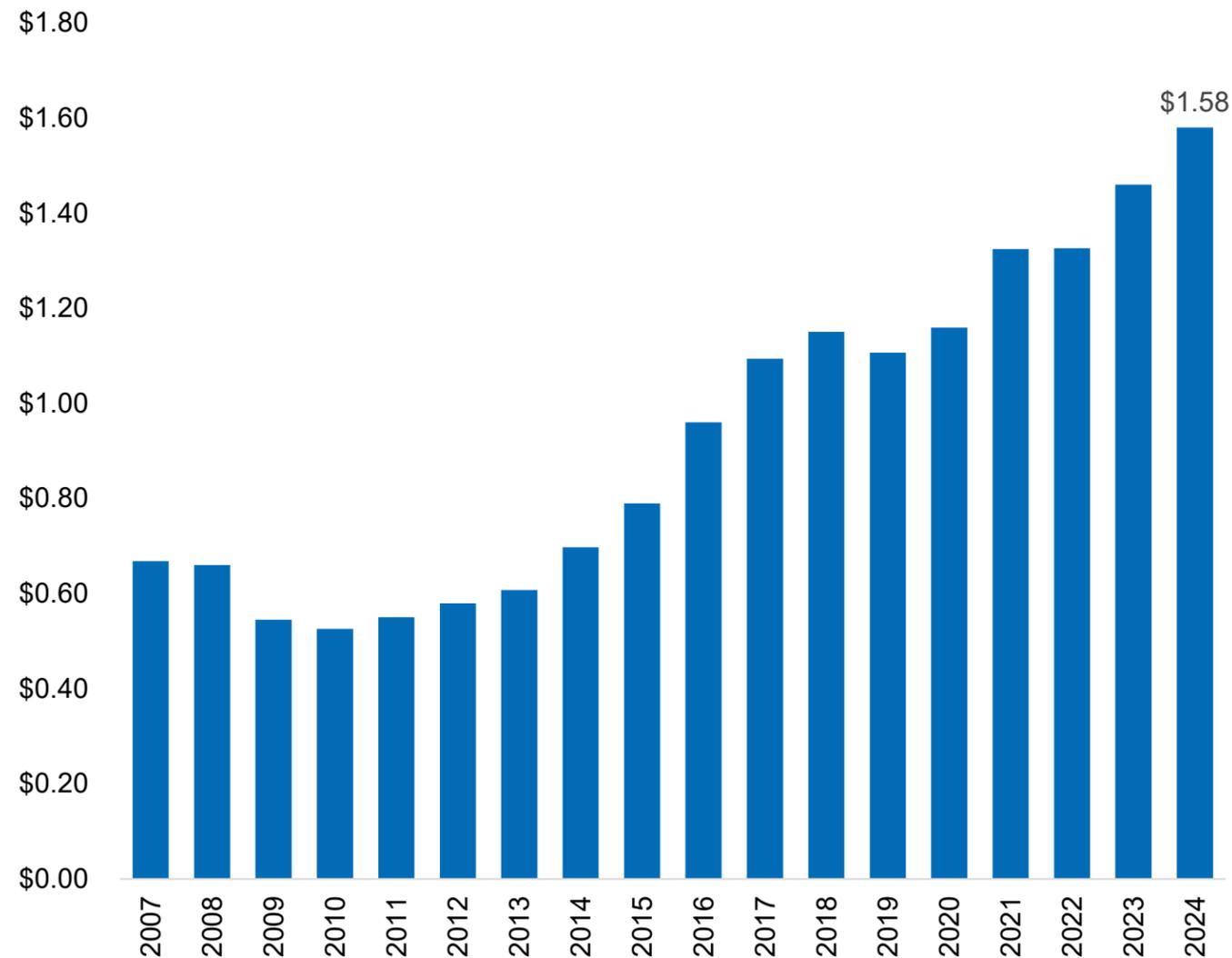


Source: Newmark Research, CoStar

Asking Rents Trend Upward

While conditions in the overall economy and broader industrial market remained murky, asking rental rates continued to rise. The asking rent as of the third quarter increased 8.2% from year-end 2023 to \$1.58 per square foot. On a quarterly basis, asking rents rose 15.0% from the third quarter of 2023. While asking rents are inching up, concessions, in the form of TIs and free rent, continue to be a large part of the lease negotiation so it is likely that effect rents are down to flat.

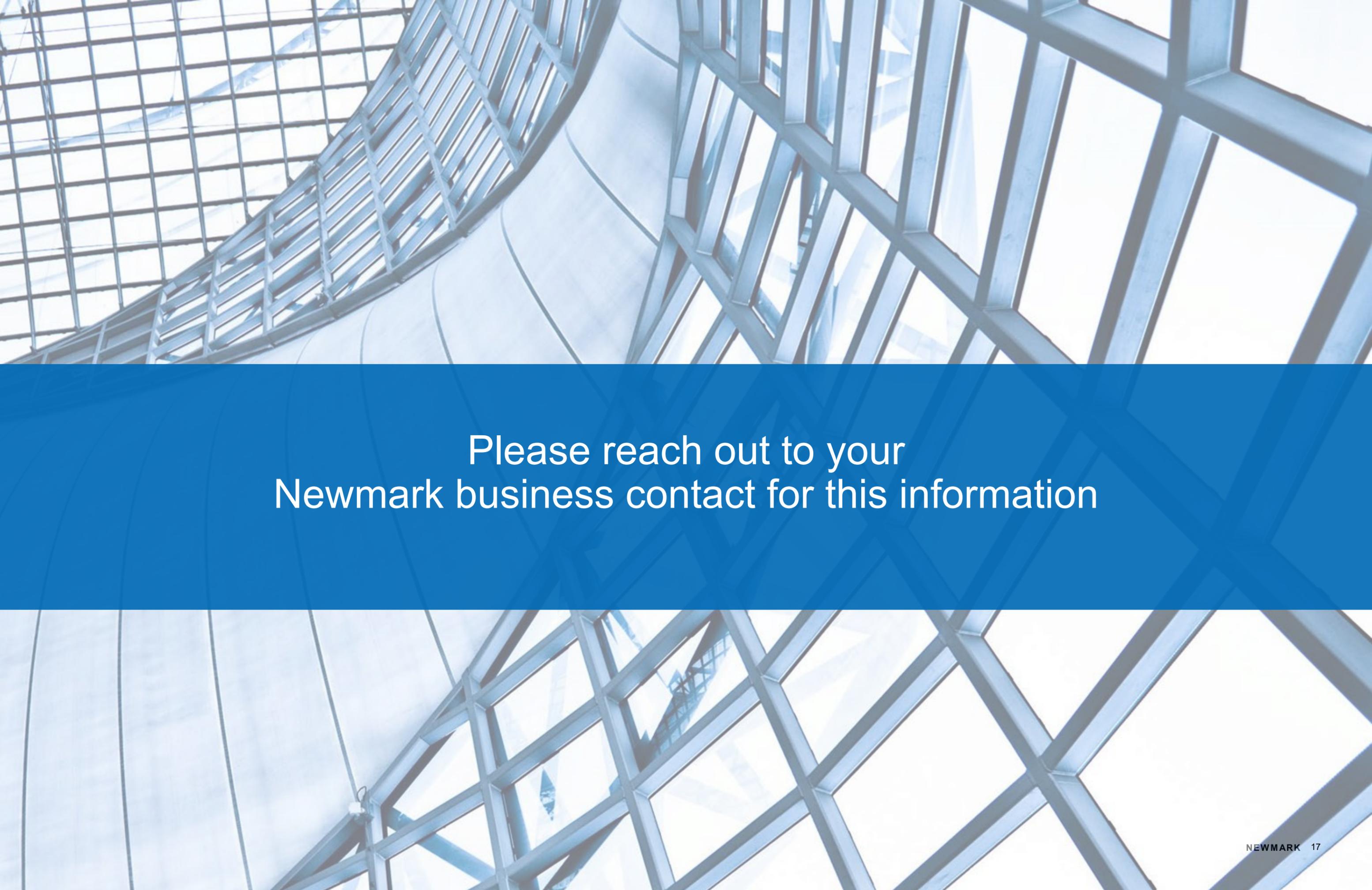
Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



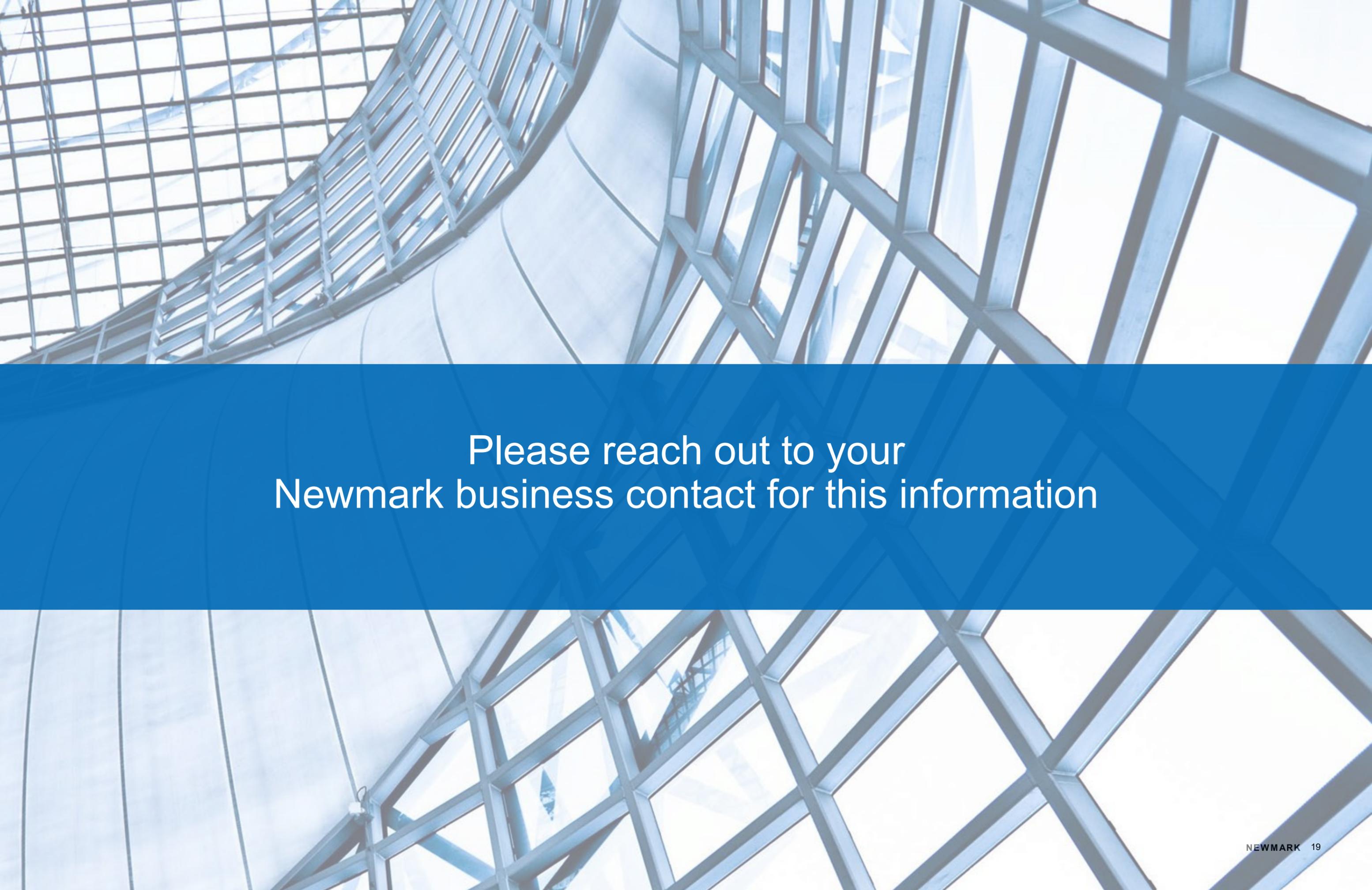
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The Fremont Submarket Recorded Four of the Top Five Leases

Four out of the five largest leases during the third quarter were renewals as companies continue to value their footprint in the market. In addition, the Fremont submarket recorded four out of the five leasing deals that took place this quarter. In the largest lease, a technology security lab renewed nearly 140,000 square feet in Fremont. The largest direct lease was from a Taiwanese-based technology manufacturer for nearly 127,500 square feet, also in Fremont. This new lease is an addition to other locations they occupy in the Valley.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Underwriters Laboratories <i>Lease Renewal. Underwriter Laboratories have been renewing their lease at these locations since 2012.</i>	843 Auburn Court, 47173 Benicia Street, & 47266 Benicia Street	Fremont - Mission South	Lease Renewal	138,887
Quanta Computer Inc. <i>New Lease. Quanta Computer Inc., an electronic manufacturer company, opened their first Silicon Valley location in Fremont in 2011.</i>	6600 Stevenson Boulevard	Fremont - Auto Mall North	Direct Lease	127,452
XPO Logistics <i>Lease Renewal. XPO Logistics, a transportation and logistics service provider, have occupied the property since 2002.</i>	6120 Stewart Avenue	Fremont - Auto Mall North	Lease Renewal	114,918
Piedmont Moving Systems <i>Lease Renewal. Piedmont Moving Systems, a transportation and logistics service company, opened their first Silicon Valley location in San Jose in 2003.</i>	2071 Ringwood Avenue	San Jose - International Bus Park	Lease Renewal	83,914
Amazon <i>Lease Renewal. Amazon first occupied the property in 2019 and renewed for 36 months.</i>	44051 Osgood Road	Fremont - Warm Springs	Lease Renewal	70,171

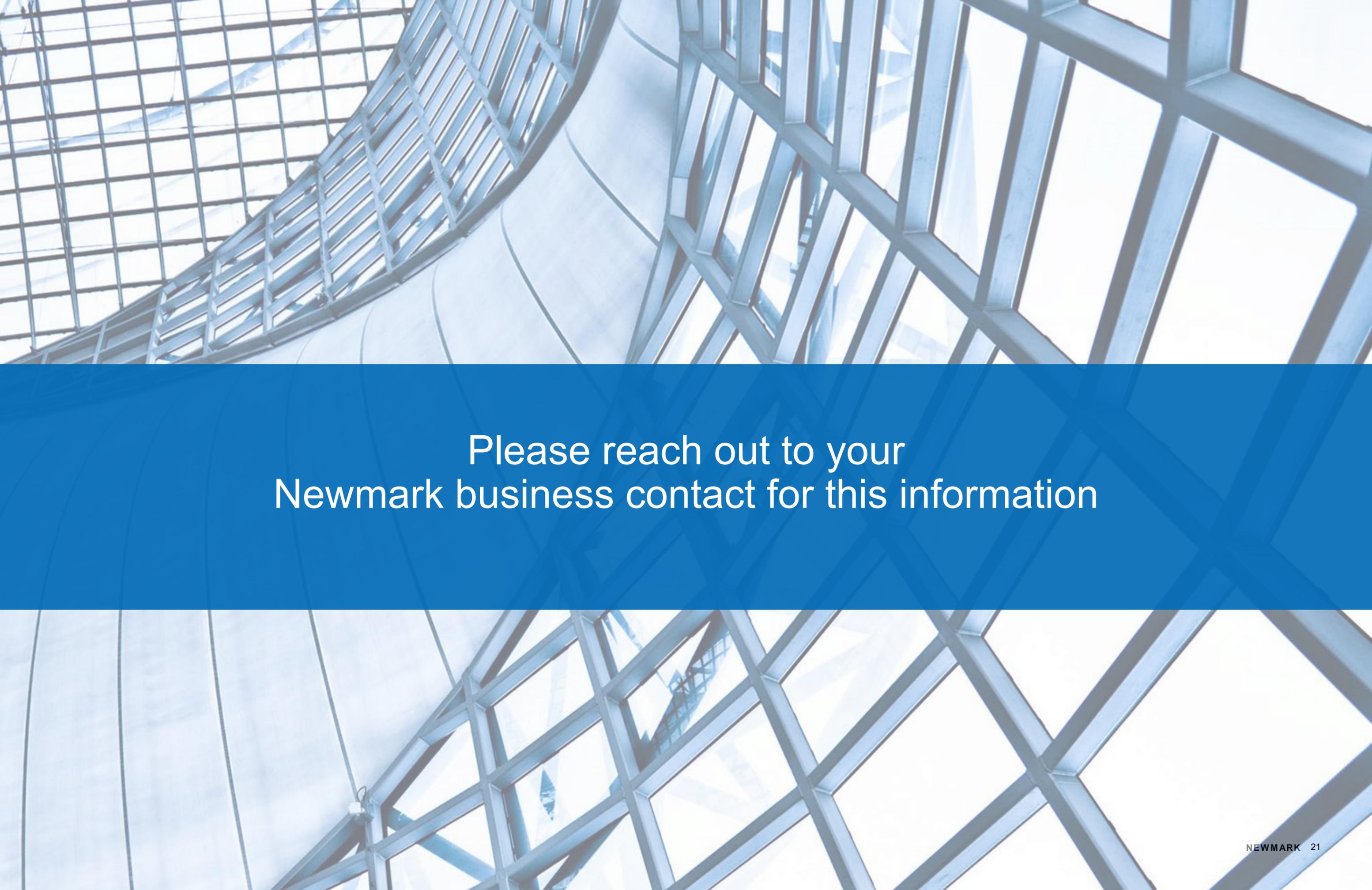


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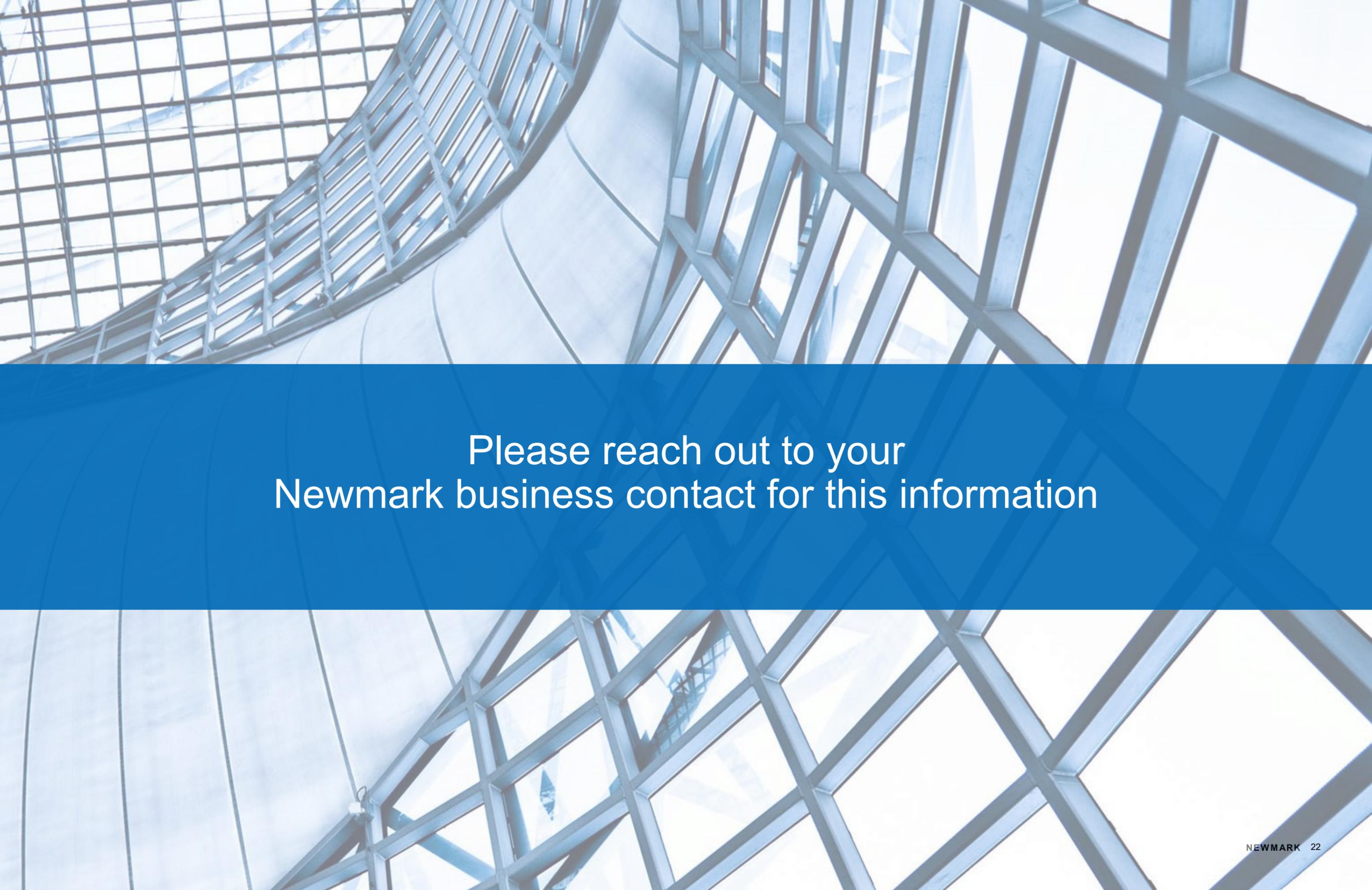
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Appendix / Tables





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