

Industrial Q4 2023

	YoY Chg	12-Mo. Forecast
3.4% Vacancy Rate	▲	▼
95K Net Absorption, SF	▼	▲
\$1.49 Asking Rent, PSF	▲	▲
Overall, Net Asking Rent		

ECONOMIC INDICATORS
Q4 2023

	YoY Chg	12-Mo. Forecast
1.2M San Jose MSA Employment	▲	▲
3.6% San Jose MSA Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics
2023 Q4 data are based on the latest available data

ECONOMY: Unemployment Increases

The Bay Area has struggled to return to its pre-pandemic economic strength. Technology companies have been both a blessing and curse for the region, though more of the latter recently, with layoffs prevalent among Big Tech and startups. One bright spot is the recent push of many companies to mandate a hybrid work situation with at least some time during the week spent in office. All this fluidity in the workforce has caused tenants and landlords alike to pause and reassess space needs moving forward. For the San Jose MSA, the unemployment rate was up 100 basis points (bps) year-over-year (YOY) finishing at 3.6% in the fourth quarter. Despite this recent rise, there was still an increase of 11,900 jobs YOY.

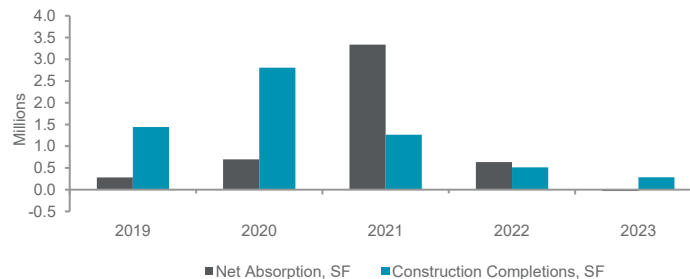
SUPPLY: Slight Increase in Vacancy

Silicon Valley's industrial vacancy rate rose slightly to 3.4% in the fourth quarter. This rate translates to a total of 4.1 million square feet (msf) of vacant space in the Valley, and is a slight uptick from pre-pandemic levels, when the vacancy rate was 3.0% in the first quarter of 2019. The one more recent twist to the data is that sublease space accounts for 23.2% of all space, a significant rise from the 5.6% mark at the end of 2021. New subleases placed on the market in the fourth quarter included Zook with 110,000 sf and Seagate with 103,000 sf, both in Fremont.

PRICING: Asking Rents Rise

The average asking rent for industrial space in Silicon Valley dropped slightly, finishing the fourth quarter at \$1.49 per square foot (psf) on a monthly triple net basis, down from \$1.51 psf in the third quarter. Likely due to the low vacancy rate in the industrial sector, rents did not yield a significant drop during the pandemic, and have actually climbed 30.7% since the first quarter of 2019 when rents were \$1.14 psf. The average asking rent for warehouse and manufacturing space was \$1.35 psf and \$1.58 psf, respectively, with pricing expected to continue momentum and trend higher in the near-term.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DEMAND: Deal Velocity Drops in Third Quarter

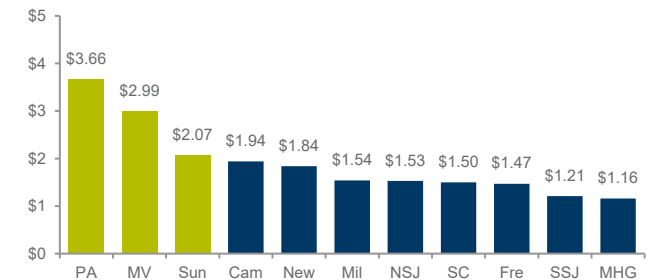
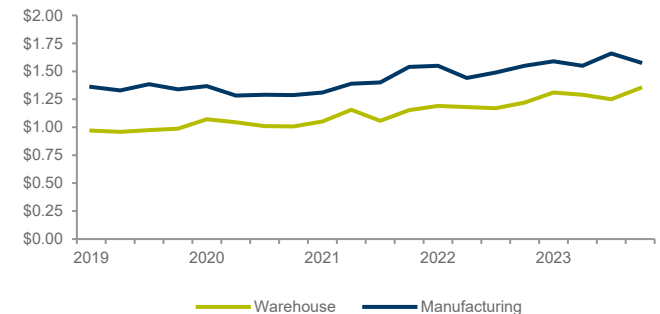
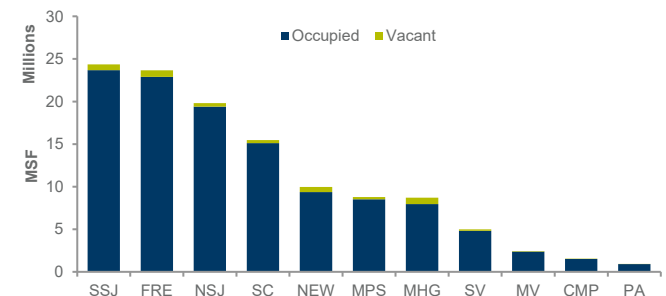
Leasing activity increased in the fourth quarter recording 2.0 msf. This brings the annual 2023 gross absorption to 6.5 msf, well below the 9.5 msf and 8.0 msf from 2021 and 2022, respectively. The top lease of the quarter was DGA Services' 386,000-sf renewal in Milpitas. Also in Milpitas was Flextronics' renewal on 344,000 sf. Three of the top five deals were renewals, showing that tenant interest in the Valley remains healthy. With that said, many tenants have remained on the sidelines for the time being likely due to the uncertain economic times. With such a low vacancy rate and with minimal new recent deliveries, occupancy gains were also not as substantial as they were in 2022, measuring negative 32,000 sf of net absorption for the year versus positive 635,000 sf in 2022. The fourth quarter did, however, manage positive absorption of 95,000 sf. Fueling the net losses have been older, outdated product which has accounted for the bulk of vacancies in recent quarters.

CONSTRUCTION: New Supply Underway

Projects under construction total 2.0 msf and are all on a speculative basis which is just 1.7% of the total inventory in the market. Of the buildings under construction, only 209,000 sf has been pre-leased. The developments are focused in Fremont, Morgan Hill, San Jose and Gilroy. One building of 126,000 sf in San Jose completed construction this quarter. This was pre-leased to Home Depot in 2022.

OUTLOOK

- Despite remaining economic uncertainty, industrial vacancy is expected to remain low thanks in large part to persistent demand from e-commerce, last mile delivery, and a growing need from the life science sector for advanced manufacturing and distribution.
- An influx of new deliveries will reduce supply constraints but will also push up rents in the Fremont, San Jose, and Morgan Hill/Gilroy submarkets. This trend may be somewhat offset by subleases and older product being placed on the market.

RENT BY SUBMARKET (\$ PSF, NNN)**WAREHOUSE/MANUFACTURING ASKING RENT (\$ PSF, NNN)****OCCUPIED VS. VACANT SPACE**

Industrial Q4 2023

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT
Palo Alto	924,893	16,230	1.8%	(10,230)	2,732	0	0	\$3.66	\$0.00	\$3.66
Mountain View	2,433,993	64,155	2.6%	(28,865)	16,110	0	0	\$2.99	\$0.00	\$2.99
101 Technology Corridor	3,358,886	80,385	2.4%	(39,095)	18,842	0	0	\$3.12	\$0.00	\$3.12
Campbell	1,540,932	25,594	1.7%	(3,222)	(23,944)	0	0	\$1.94	\$0.00	\$1.94
Sunnyvale	4,978,804	157,001	3.2%	(24,087)	928	0	0	\$2.02	\$2.45	\$2.07
Santa Clara	15,474,155	361,460	2.3%	46,564	(110,719)	0	0	\$1.37	\$2.02	\$1.50
North San Jose	19,804,297	410,867	2.1%	133,213	164,956	212,683	126,648	\$1.59	\$1.49	\$1.53
South San Jose	24,360,953	670,550	2.8%	73,963	356,987	302,775	0	\$1.30	\$1.19	\$1.21
Central Silicon Valley	66,159,141	1,625,472	2.5%	226,431	388,208	515,458	126,648	\$1.54	\$1.37	\$1.45
Milpitas	8,786,363	260,423	3.0%	(71,215)	(148,026)	0	0	\$1.56	\$1.53	\$1.54
Fremont	23,661,839	761,859	3.2%	(117,847)	208,864	605,041	0	\$1.46	\$1.49	\$1.47
Newark	9,966,090	592,659	5.9%	129,983	(483,219)	0	0	\$1.88	\$1.59	\$1.84
South I-880 Corridor	42,414,292	1,614,941	3.8%	(59,079)	(422,381)	605,041	0	\$1.64	\$1.53	\$1.61
Morgan Hill/Gilroy	8,701,888	746,259	8.6%	(33,507)	(16,223)	883,870	0	\$1.28	\$0.82	\$1.16
SUBTYPE BREAKDOWN										
Warehouse	48,463,377	1,510,345	3.1%	(57,035)	40,918	1,243,542	0			
Manufacturing	72,170,830	2,556,712	3.5%	151,785	(72,472)	760,827	0			
SILICON VALLEY TOTALS	120,634,207	4,067,057	3.4%	94,750	(31,554)	2,004,369	126,648	\$1.58	\$1.35	\$1.49

*Rental rates reflect weighted net asking \$psf/month

**Not enough data to establish rents

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1001, 1065 & 1075 Montague Expy	Milpitas	DGA Services	386,383	Renewal
777-1177 Gibraltar Ct	Milpitas	Flextronics International	344,512	Renewal
650 Brennan St	North San Jose	HD Supply Facilities Maintenance	103,140	Renewal
6401 Automall Pkwy	Gilroy	Modules, Inc.	100,479	New Lease
44560-44660 Osgood Rd	Fremont	East Star Building Supply	87,592	New Lease

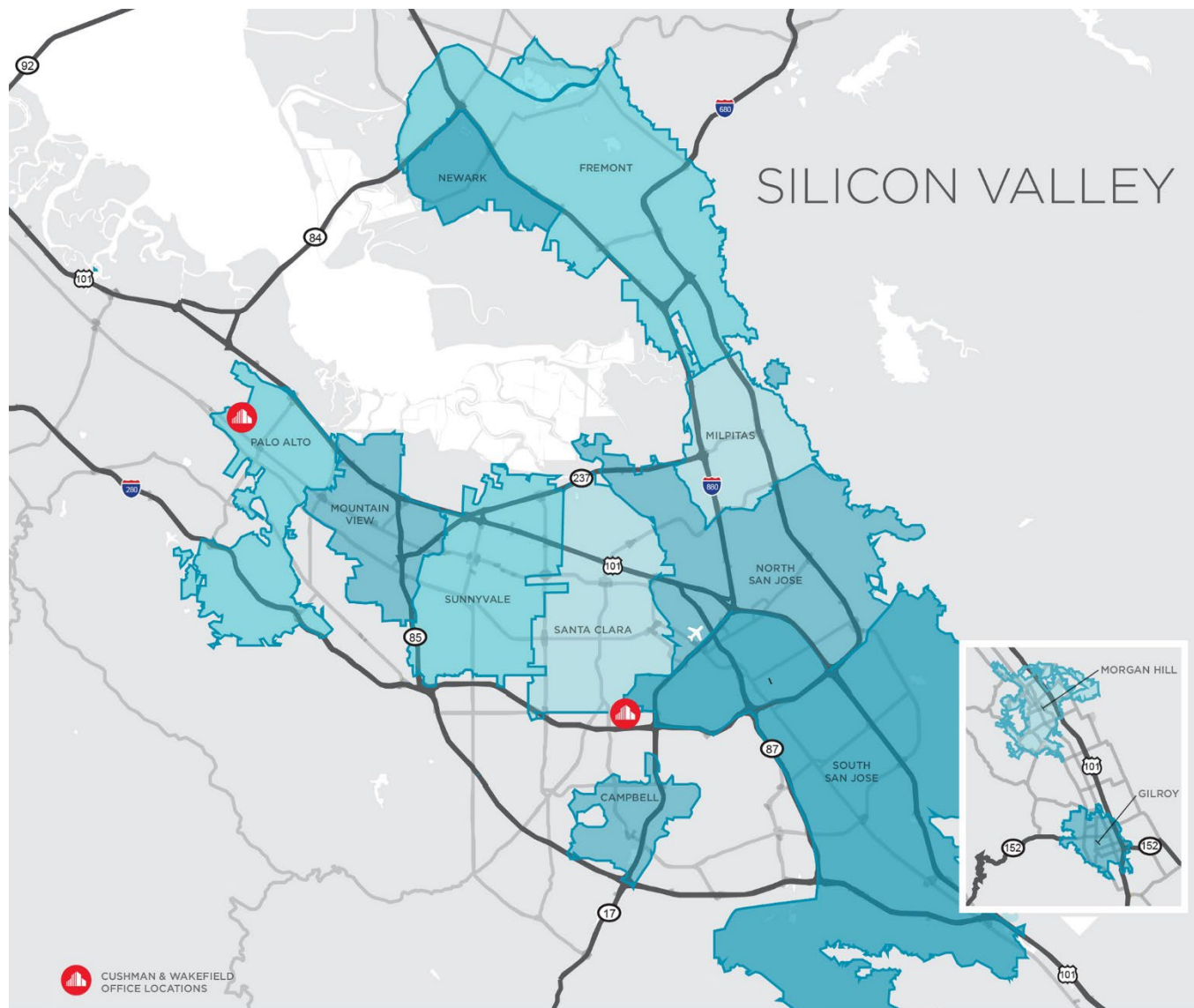
KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Junction-Hartog Industrial Park	North San Jose	Stockbridge Capital Group / BKM Capital Partners	119,568	\$30.7M / \$256
37580 Filbert St	Newark	DataSafe, Inc. / Bridge Logistics Properties	84,482	\$14.1M / \$166
2999 San Ysidro Wy	Sunnyvale	Bayview Development Group / Intuitive Surgical	15,924	\$5.0M / \$314
1495 Industrial Ave*	North San Jose	Bertolotti Living Trust / Greenwaste Recovery Inc.	15,000	\$10.4M / \$690

*Sold for land value.



INDUSTRIAL SUBMARKETS

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