

Industrial Q2 2024

	YoY Chg	12-Mo. Forecast
4.9% Vacancy Rate	▲	▼
-859K Net Absorption, SF	▼	▲
\$1.57 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2024

	YoY Chg	12-Mo. Forecast
1.2M San Jose MSA Employment	▲	▲
4.2% San Jose MSA Unemployment Rate	▲	▼
4.1% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics
2024Q2 data are based on the latest available data

ECONOMY: Unemployment Rate Increases

Technology companies, whether Big Tech or startups, continued to right-size both their headcount and their footprint in Silicon Valley in the second quarter of 2024. For the San Jose MSA, the unemployment rate was up 90 basis points (bps) year-over-year (YOY) finishing at 4.2% in the second quarter. Despite the increase in unemployment, jobs grew by 4,700 YOY.

Venture capital funding into Santa Clara County-based companies was \$2.9 billion (B) in 195 deals for the second quarter of 2024, down from \$4.7B in 231 deals in the first quarter. The largest deal was a \$250 million (M) early-stage round to computer chip maker Rivos of Santa Clara followed by a \$227M early-stage round to artificial intelligence company Augment of Palo Alto.

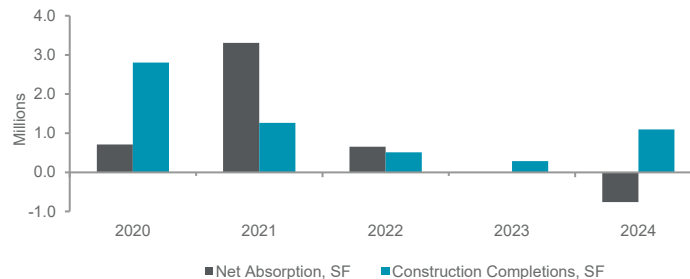
SUPPLY: Uptick in Vacancy Levels

In the second quarter, the overall industrial vacancy rate in Silicon Valley rose to 4.9%, increasing by 150 bps quarter-over-quarter (QOQ) from 3.4% and 190 bps YOY from 3.0%. This was a rare uptick after a period of stability. The Morgan Hill/Gilroy submarket notably contributed to the second quarter increase, with 884,000 square feet (sf) of newly completed industrial product coming online as vacant. Sublease space accounted for 20.8% of vacant space, totaling 1.2 million square feet (msf) in the second quarter, increasing by 176,000 sf QOQ.

PRICING: Asking Rates Remain Stable

The overall average asking rate for industrial product in the Silicon Valley closed the second quarter at \$1.57 per square foot (psf), on a monthly triple net basis across all sectors, an increase of just \$0.01 psf from the first quarter. The average asking rates reported in the second quarter for the warehouse and manufacturing sectors were \$1.43 and \$1.67 psf, respectively.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DEMAND: Deal Velocity Continues to Fall

Gross absorption remained significant in the second quarter, at approximately 1.5 msf but dropped off by 24.0% QOQ and 27.3% YOY. Renewals continued to lead the way for the Silicon Valley industrial market, as four of the top five deals reported for the second quarter were renewals, totaling 339,000 sf.

Net occupancy reported a loss of 859,000 sf in the second quarter across all sectors, following a gain of 100,000 square feet in the previous quarter. The warehouse sector experienced the most significant occupancy losses in second quarter, totaling 618,000 sf, while the manufacturing sector recorded a loss of 242,000 sf. The North San Jose and Milpitas submarkets reported the lowest net occupancy figures in the second quarter, with negative 234,000 sf and negative 265,000 sf, respectively. In contrast, the Morgan Hill/Gilroy submarket reported the highest net occupancy gain, at 19,000 sf.

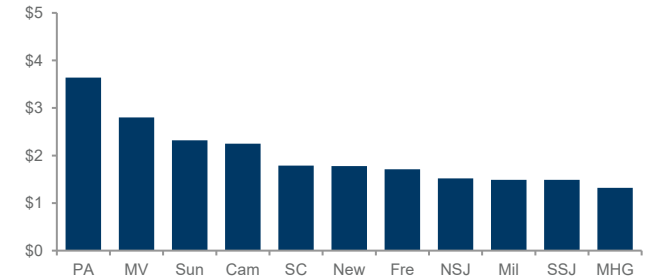
CONSTRUCTION: New Supply Delivers

In the second quarter, approximately 1.8 msf was under construction, representing 1.5% of the total market inventory. These speculative projects are concentrated in Fremont and San Jose and have not yet been preleased. Constraints in land availability and high construction costs have limited the development pipeline, with few new projects breaking ground or being planned despite low overall vacancy levels. That said, there was a new vacant product delivered in the second quarter: two warehouse buildings totaling 383,000 sf at McCarthy Business Park located at 901 and 1001 Venture Way in Gilroy and five manufacturing buildings totaling 501,000 sf at Cochrane Technology Park located at 1065 Half Road in Morgan Hill.

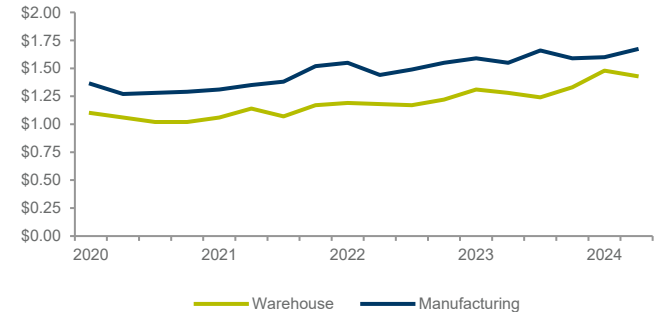
Outlook

- Despite remaining economic uncertainty, industrial vacancy is expected to remain low due 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 uptick of new deliveries will reduce supply constraints but will also push up rents in the Fremont and San Jose submarkets. This trend may be somewhat offset by subleases and older product being placed on the market.

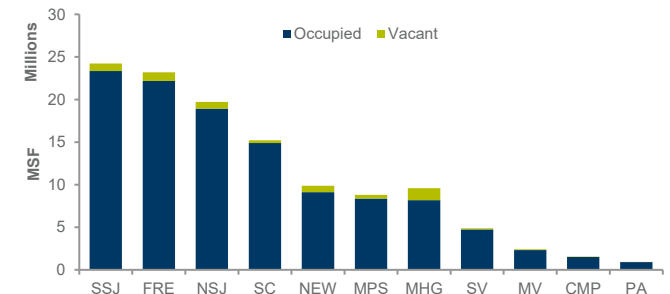
RENT BY SUBMARKET (\$ PSF, NNN)



WAREHOUSE/MANUFACTURING ASKING RENT (\$ PSF, NNN)



OCCUPIED VS. VACANT SPACE



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	925,251	11,788	1.3%	0	4,442	0	0	\$3.64	\$0.00	\$3.64
Mountain View	2,418,968	100,955	4.2%	-21,000	-36,800	0	0	\$2.80	\$0.00	\$2.80
101 Technology Corridor	3,344,219	112,743	3.4%	-21,000	-32,358	0	0	\$2.89	\$0.00	\$2.89
Campbell	1,544,277	36,696	2.4%	9,773	-11,102	0	0	\$2.25	\$0.00	\$2.25
Sunnyvale	4,866,879	132,312	2.7%	4,104	28,913	0	0	\$2.29	\$2.45	\$2.32
Santa Clara	15,206,225	324,345	2.1%	-16,057	32,074	0	0	\$1.44	\$3.00	\$1.79
North San Jose	19,715,544	793,862	4.0%	-233,832	-396,593	212,683	0	\$1.62	\$1.48	\$1.52
South San Jose	24,223,739	879,685	3.6%	-136,114	-212,003	938,608	0	\$1.34	\$1.28	\$1.29
Central Silicon Valley	65,556,664	2,166,900	3.3%	-372,126	-558,711	1,151,291	0	\$1.63	\$1.47	\$1.53
Milpitas	8,792,474	417,005	4.7%	-265,446	-192,870	0	0	\$1.48	\$1.51	\$1.49
Fremont	23,195,069	1,012,382	4.4%	-141,709	-35,898	662,325	0	\$1.76	\$1.54	\$1.71
Newark	9,876,818	756,271	7.7%	-78,293	-168,773	0	0	\$1.88	\$1.53	\$1.78
South I-880 Corridor	41,864,361	2,185,658	5.2%	-485,448	-397,541	662,325	0	\$1.76	\$1.53	\$1.69
Morgan Hill/Gilroy	9,585,758	1,398,734	14.6%	19,241	229,283	0	883,870	\$1.41	\$1.14	\$1.32
SUBTYPE BREAKDOWN										
Warehouse	48,337,839	2,538,019	5.3%	-617,676	-494,191	918,261	382,565			
Manufacturing	72,013,163	3,326,016	4.6%	-241,657	-265,136	895,355	501,305			
SILICON VALLEY TOTALS	120,351,002	5,864,035	4.9%	-859,333	-759,327	1,813,616	883,870	\$1.67	\$1.43	\$1.57

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

MF = Manufacturing W/D = Warehouse/Distribution

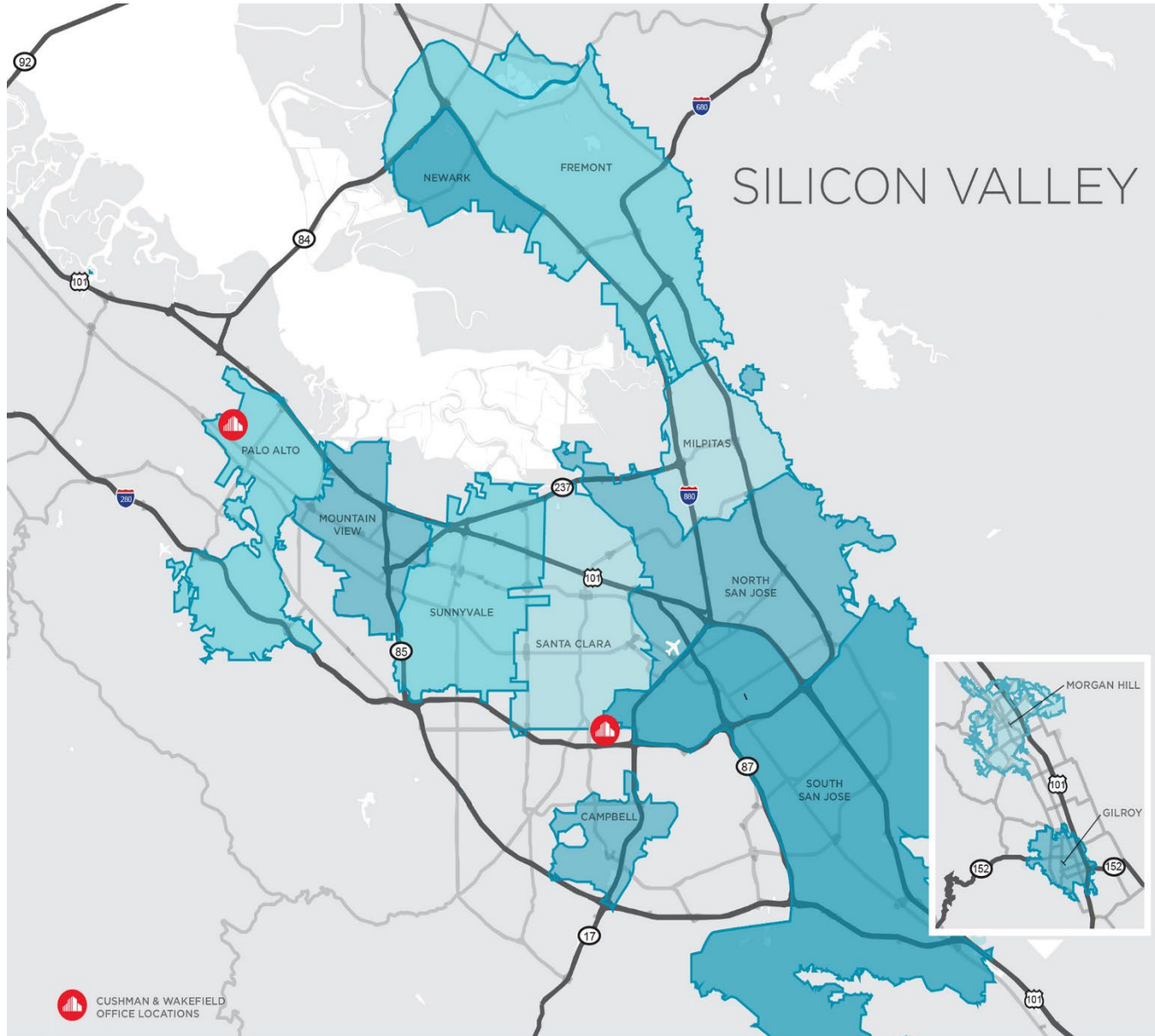
KEY LEASE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
6120 Stewart Ave	Fremont	GXO Logistics	114,948	Renewal
930-940 McLaughlin Ave	South San Jose	California Wine Transport	92,303	Renewal
45861 & 45897 Hotchkiss St	Fremont	Wisk Aero	70,866	Renewal/Expansion
529 Race St	South San Jose	LG RV Fleet & Services Center	60,516	Direct
430 E Trimble Rd	North San Jose	Lord & Sons	60,400	Renewal

KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Fremont Commerce Center	Fremont	Link Logistics / DRA Advisors	335,337	\$81.0M / \$242
43800 Osgood	Fremont	Richard Singe / Sterling Organization	143,795	\$35.7M / \$248

INDUSTRIAL SUBMARKETS



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