

NEWMARK

Silicon Valley Industrial Market Overview

1Q26

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U.S. Market Observations



Economy

- The San Jose–Sunnyvale–Santa Clara MSA unemployment rate decreased to 4.0% in January 2026, down 30 basis points from the previous year.
- Industrial-using sectors led employment growth across the San Jose-Santa Clara-Sunnyvale region. Growth was most pronounced in Mining and Construction, which expanded 6.0% year-over-year.
- Employment in Trade, Transportation, and Utilities returned to positive territory in the first quarter of 2026, expanding 0.9% year-over-year to 117.9K jobs after holding essentially flat in the fourth quarter of 2025.



Leasing Market Fundamentals

- Industrial vacancy climbed above its long-term average of 5.8% to start 2026, closing the quarter at 7.4%, driven largely by new space added to the market such as the 174.7K SF direct space at 1245 Hammerwood Ave. in Sunnyvale.
- Activity in the sublease segment remained challenged, as sublease availability offered less flexibility to meet occupier requirements for power capacity, clear height, dock-high and grade-level door configurations, and other critical building specifications.



Major Transactions

- Total leasing activity declined 7.6% quarter-over-quarter and 9.9% year-over-year to 2.0M SF. Despite the pullback, activity remained 12.1% above the five-year average of 1.8M SF, indicating that transaction flow held up steady relative to longer-run norms.
- The largest transaction of the quarter was a direct lease signed by Tesla Motors in the Mission South submarket of Fremont, totaling 267.1K SF.



Outlook

- The construction pipeline remained muted at the start of the year, with no new projects breaking ground during the quarter.
- The Silicon Valley industrial market is well positioned heading into the remainder of 2026, supported by a tightening labor market, broad-based employment gains across industrial sectors, and leasing activity that continues to track above its five-year average despite modest quarterly softness.

Table of Contents

1. Economy
2. Leasing Market Fundamentals
3. Appendix



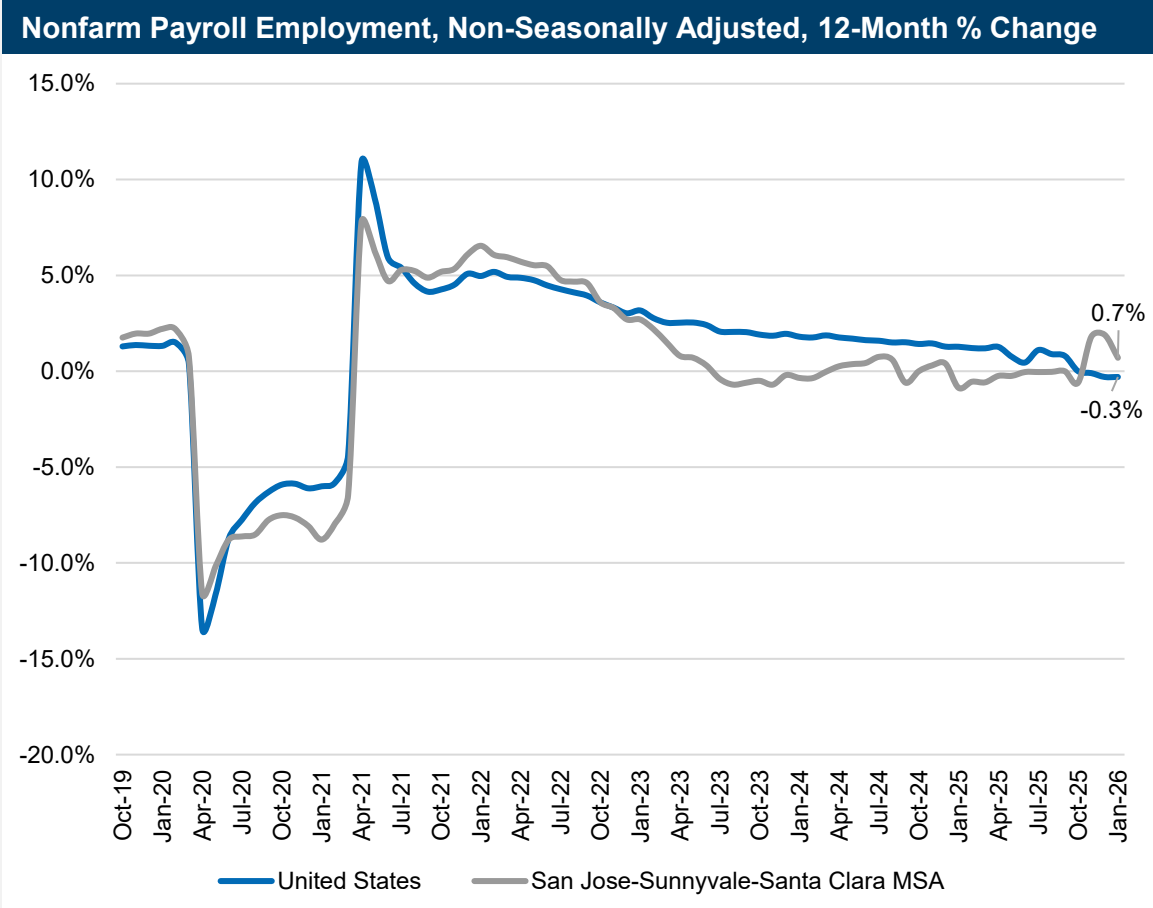
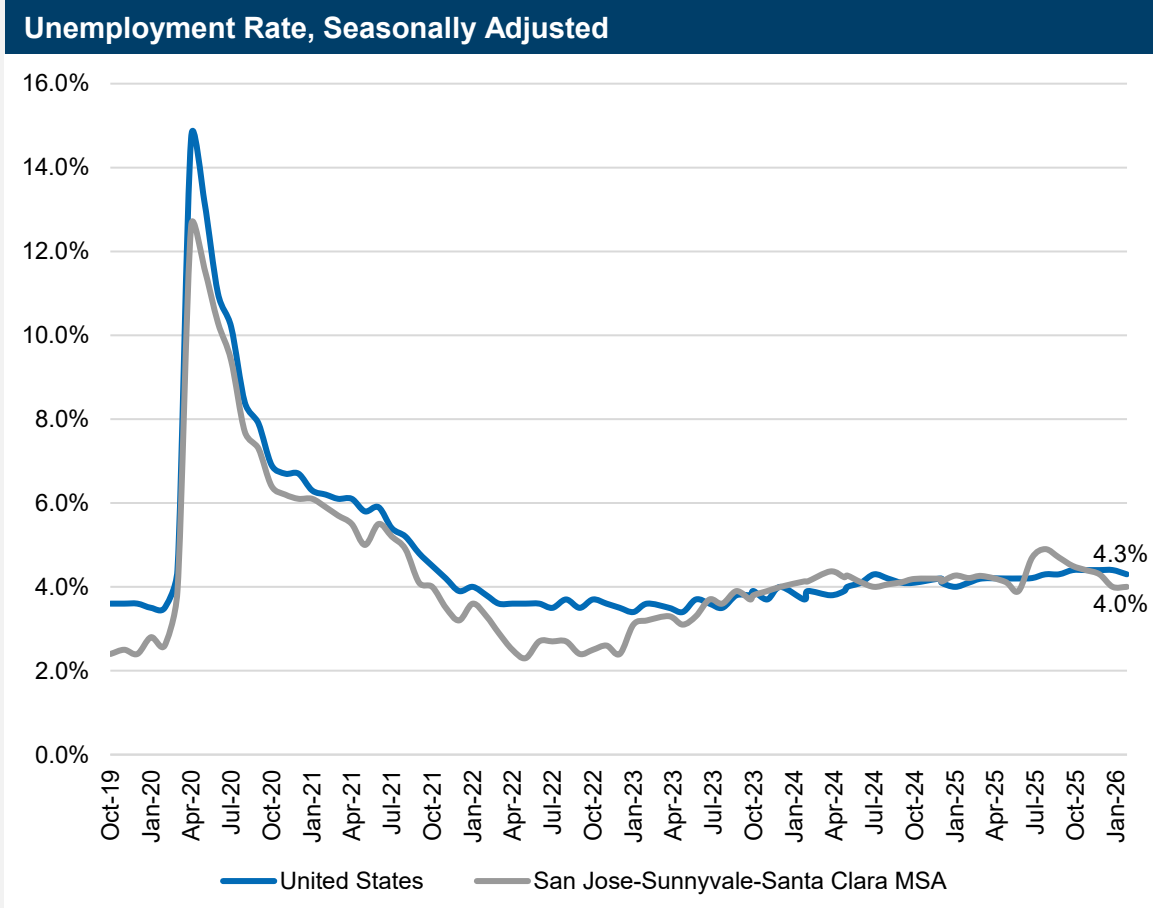
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Economy

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Local Labor Market Outperformed National Trends

The San Jose–Sunnyvale–Santa Clara MSA unemployment rate decreased to 4.0% in January 2026, down 30 basis points from the previous year. Nationally, the unemployment rate followed the opposite path, as it increased 30 basis points over the same period. In contrast, total nonfarm payroll employment in the local market increased 0.7% year-over-year, diverging from a national contraction of 0.3%.

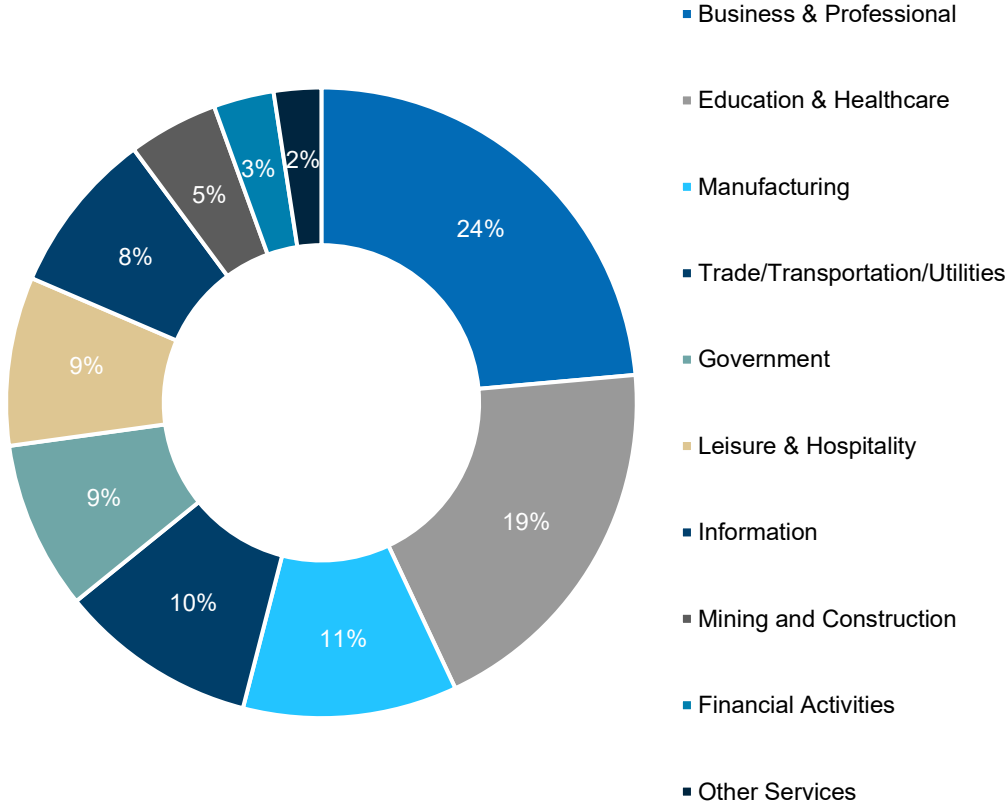


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
 *January 2026 data is preliminary

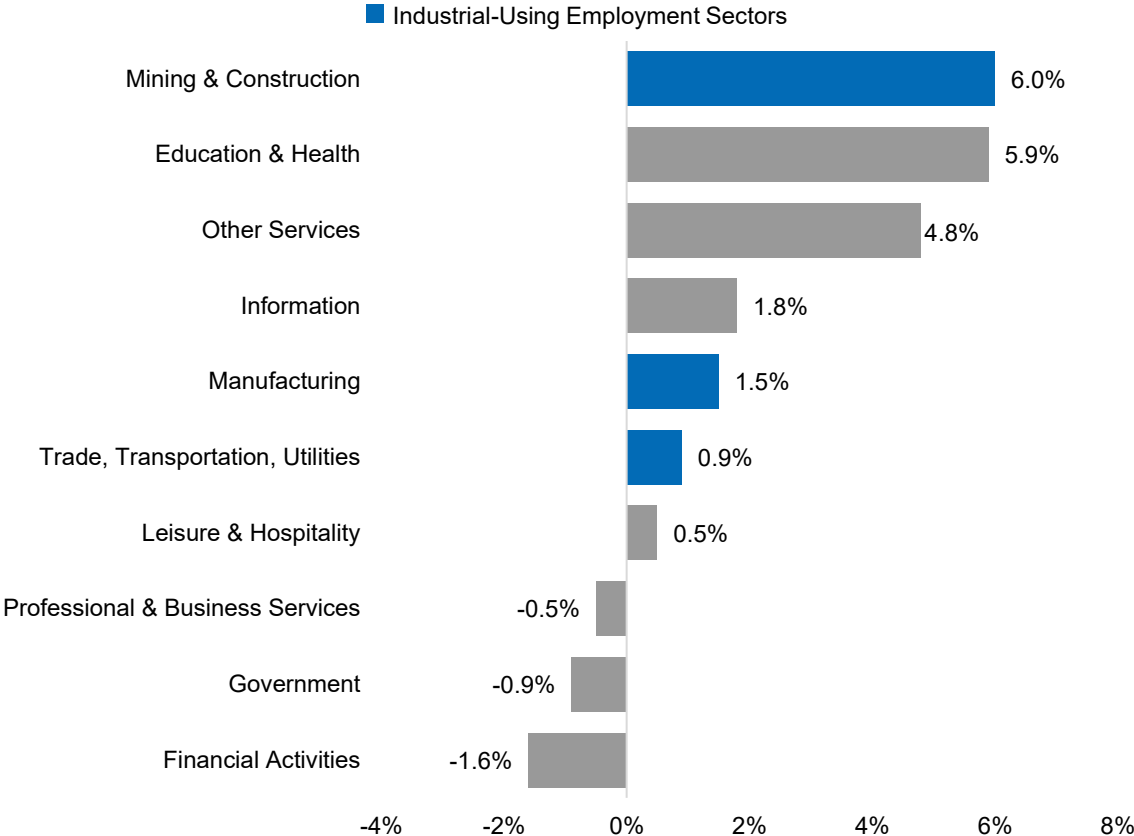
Industrial-Using Sectors Led Regional Employment Growth

Industrial-using sectors led employment growth across the San Jose-Santa Clara-Sunnyvale region. Growth was most pronounced in Mining and Construction, which expanded 6.0% year-over-year, while Manufacturing, representing 11.0% of total regional employment, grew 1.5% over the same period. The broad-based gains pointed to expanding activity across both infrastructure and service-oriented industries heading into the year, reinforcing the demand backdrop for industrial space in the region.

Employment by Industry, January 2026*



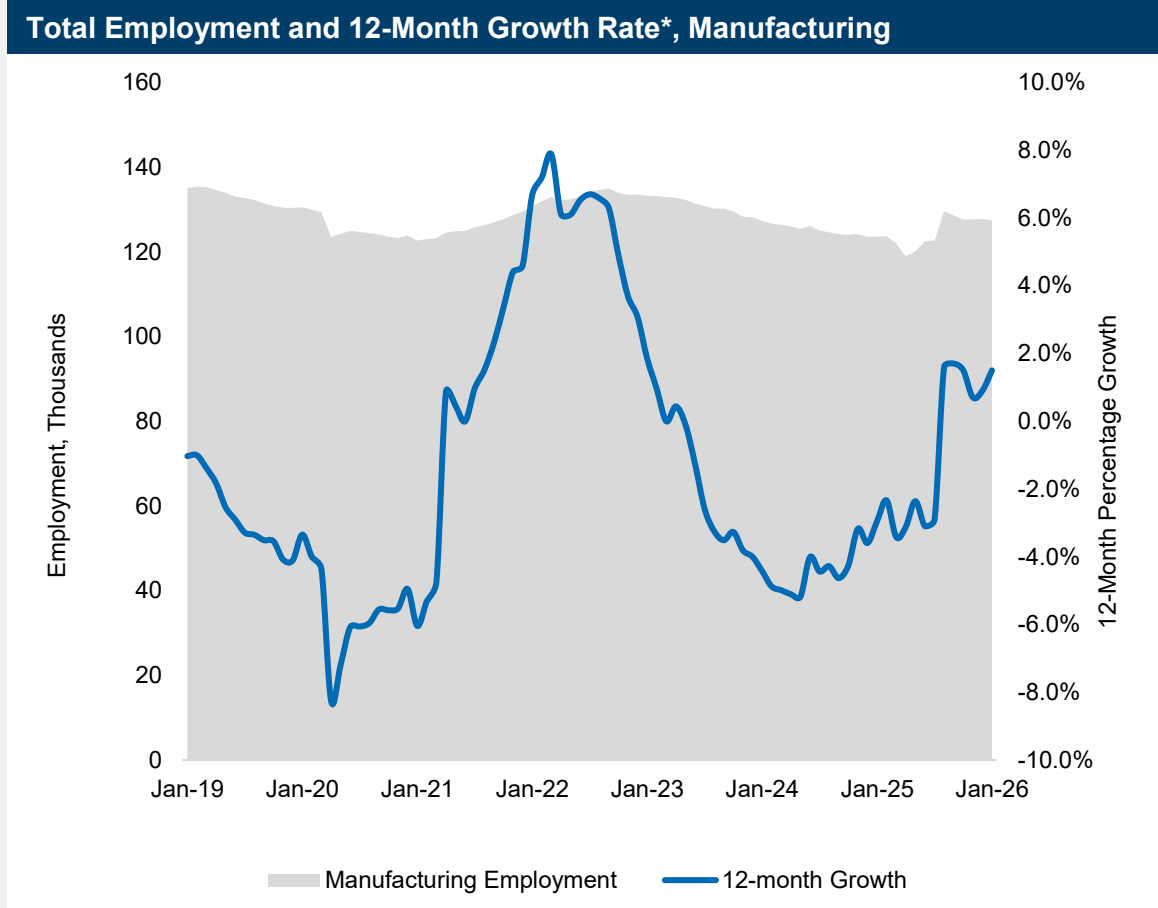
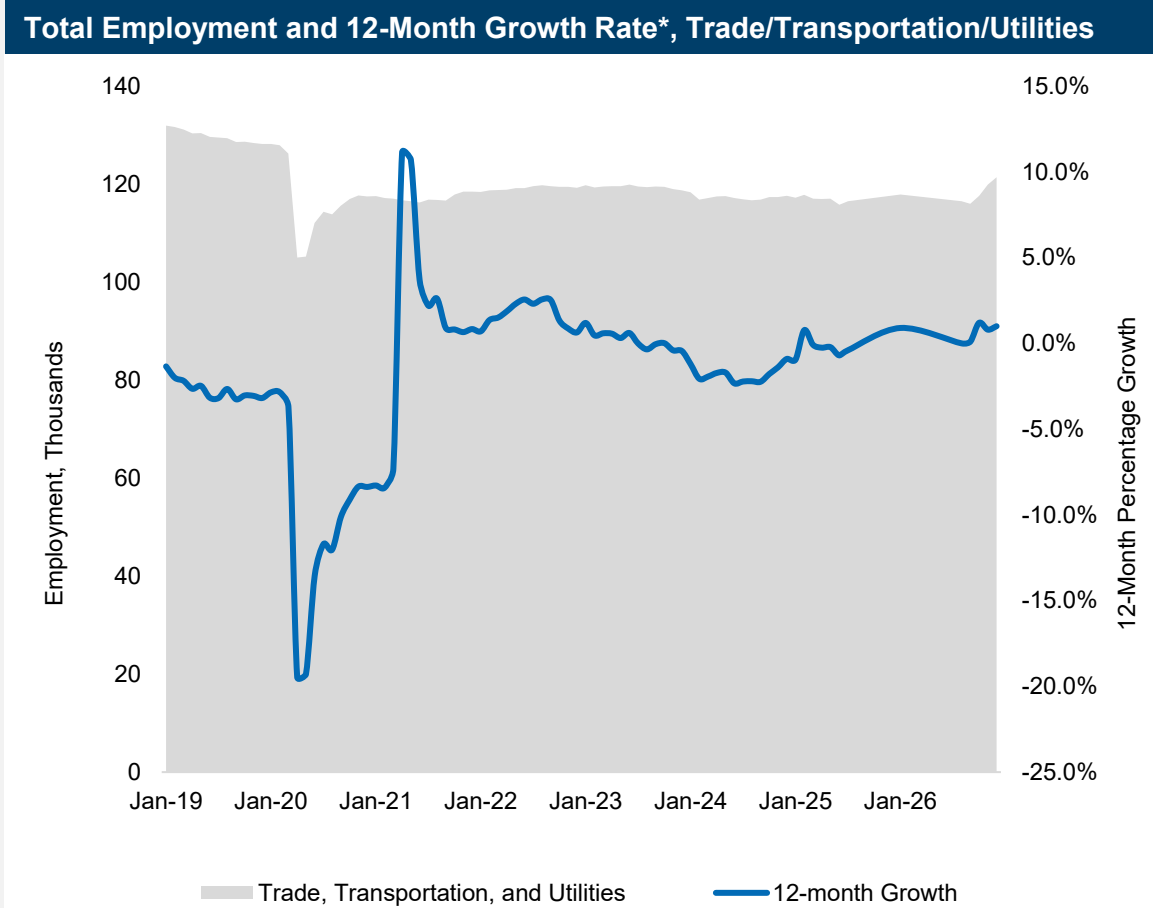
Employment Growth by Industry, 12-Month % Change, January 2026*



Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
 *Preliminary as of 04/15/2026

Trade and Manufacturing Employment Returned to Growth

Employment in Trade, Transportation, and Utilities returned to positive territory in the first quarter of 2026, expanding 0.9% year-over-year to 117.9K jobs after holding essentially flat in the fourth quarter of 2025. Manufacturing employment reversed its prior contraction as well, growing 1.5% year-over-year to 127.4K jobs, a notable swing from the 3.2% decline recorded in the previous quarter. The rebound suggested that earlier pressure from softened global demand for technology products had begun to ease, although Manufacturing remained sensitive to shifts in global tech demand and trade policy given its increasingly capital-intensive profile and historical role as a key regional employer.



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



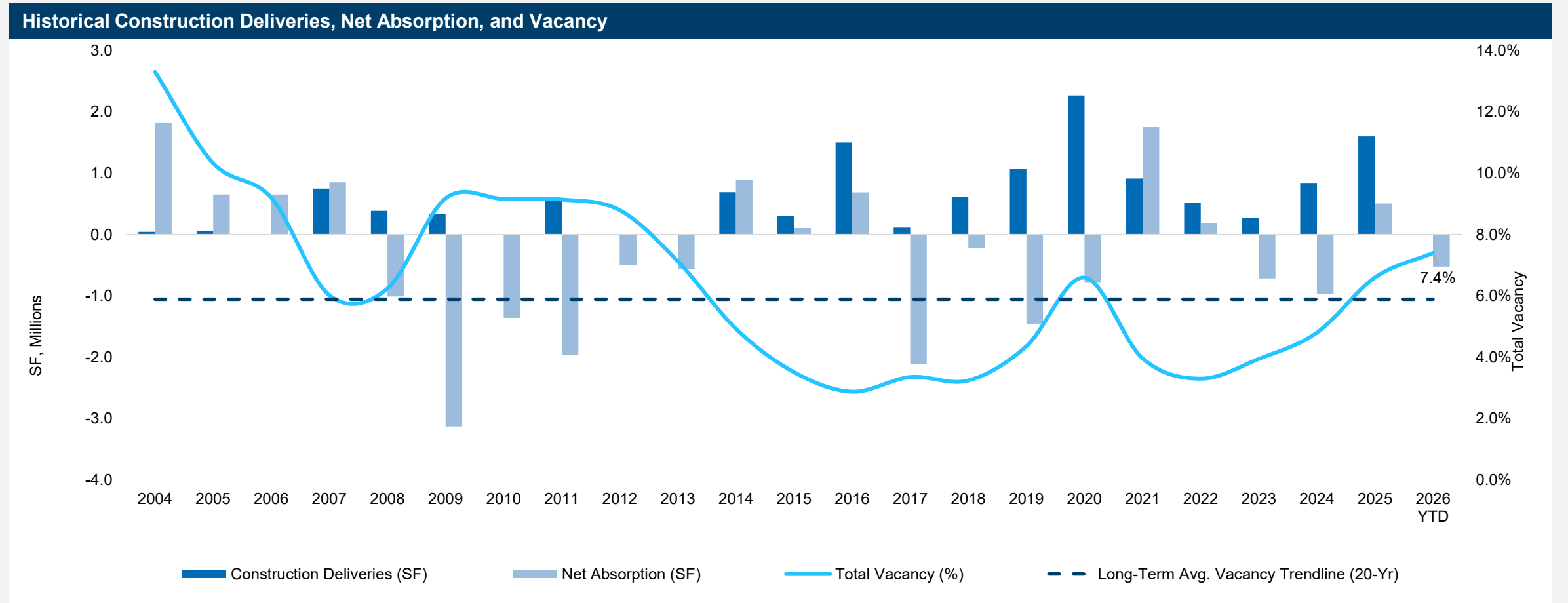
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Leasing Market Fundamentals

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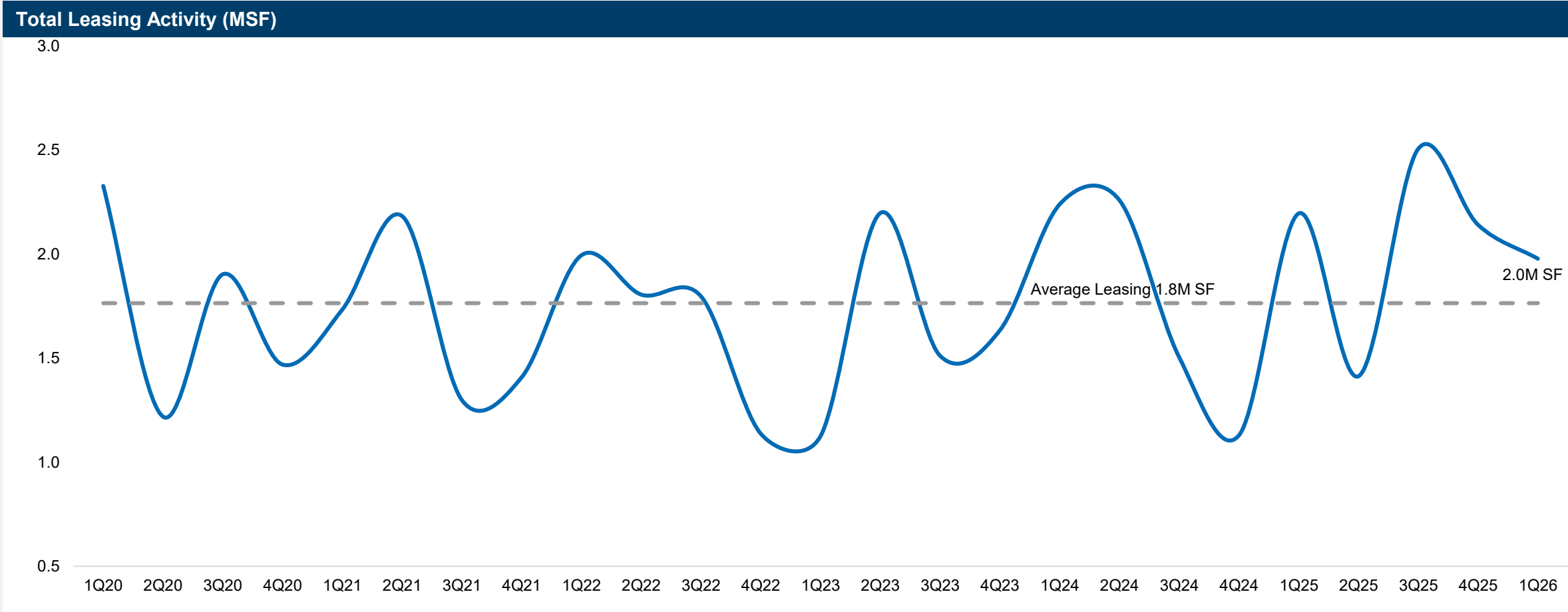
Vacancy Opened the Year Above Long-Term Average

Industrial vacancy climbed above its long-term average of 5.8% to start 2026, closing the quarter at 7.4%, driven largely by new space added to the market such as the 174.7K SF direct space at 1245 Hammerwood Ave. in Sunnyvale. Net absorption turned negative, totaling negative 524.2K SF for the quarter, while the construction pipeline delivered no new product. The combination of fresh supply and muted occupier activity weighed on the market's occupancy performance in the opening period. Despite recent negative trends, the most recent vacancy remained healthy in historical standards.



Eased Leasing Activity Outpaced Five-Year Norm

Total leasing activity declined 7.6% quarter-over-quarter and 9.9% year-over-year to 2.0M SF. Despite the pullback, activity remained 12.1% above the five-year average of 1.8M SF, indicating that transaction flow held up steady relative to longer-run norms.



Warehouse Leasing Led Activity, Anchored by Tesla Transaction

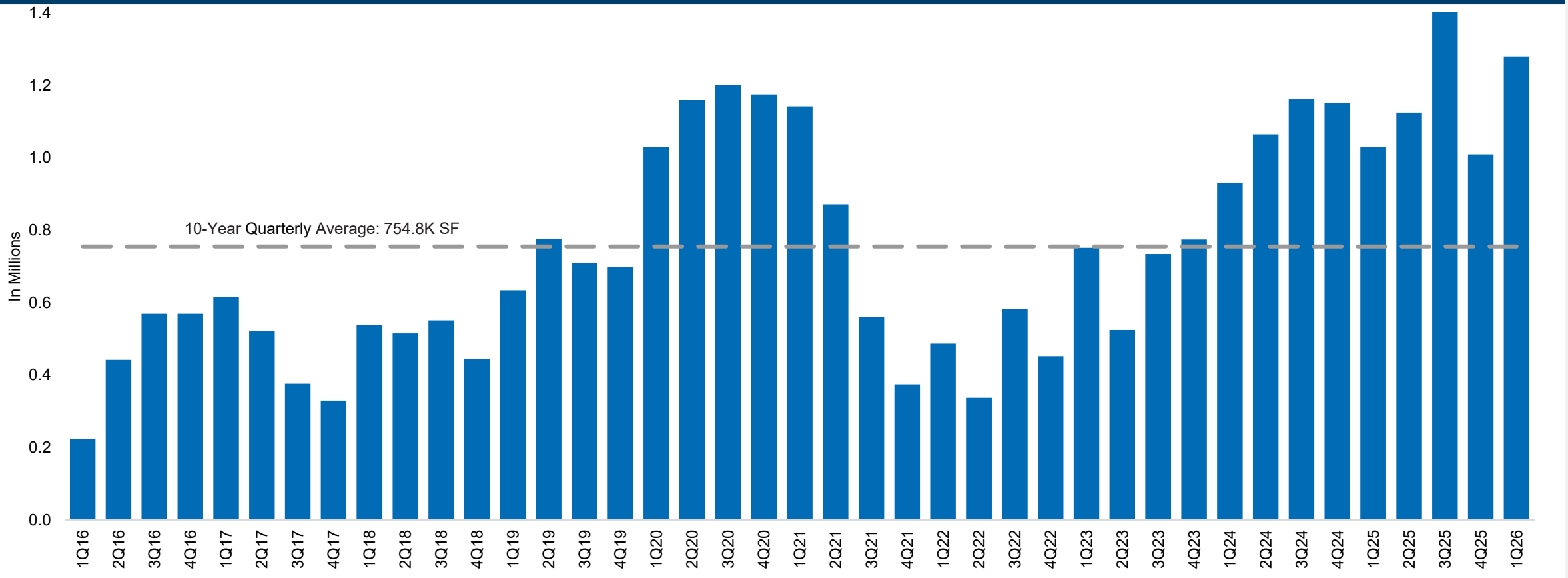
Warehouse leasing accounted for 57.2% of the 2.0M SF of industrial space leased year-to-date. The quarter's largest transaction was a 267.1K SF lease in Fremont signed by Tesla Motors. The prominence of sizable deals suggested that South Bay industrial demand continued to gain traction among large occupiers, particularly those tied to advanced manufacturing and logistics.



Sublease Availability Rose on Three Large Blocks

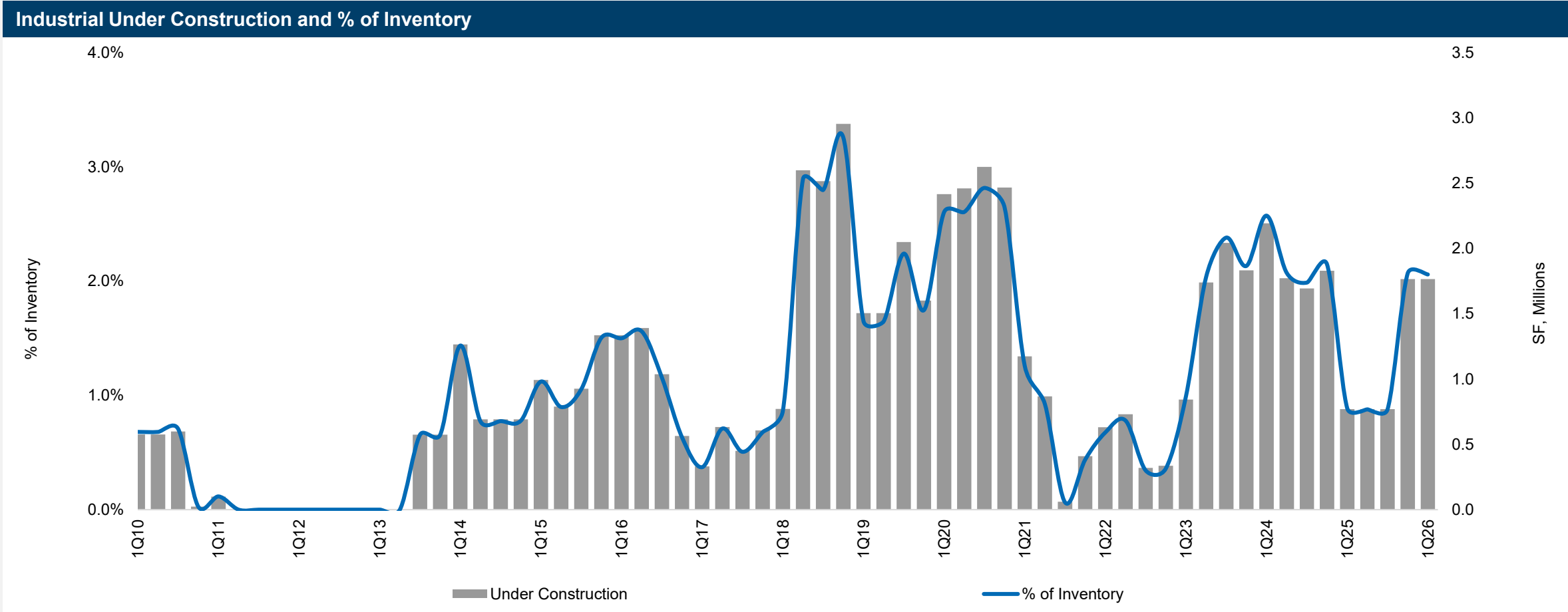
Sublease availability increased 26.8% quarter-over-quarter to 1.3M SF, remaining well above the 10-year average of 754.8K SF. The largest contributor was the Living Spaces 150.0K SF sublet availability at The Crossings at 880, in Fremont. Activity in the sublease segment remained challenged, as sublease availability offered less flexibility to meet occupier requirements for power capacity, clear height, dock-high and grade-level door configurations, and other critical building specifications. Where gaps existed, sublessors often bridged the difference through deeper concessions, including reduced asking rates and extended free rent periods.

Available Industrial and Warehouse Sublease Volume (MSF)



Construction Pipeline Held Steady with No New Starts

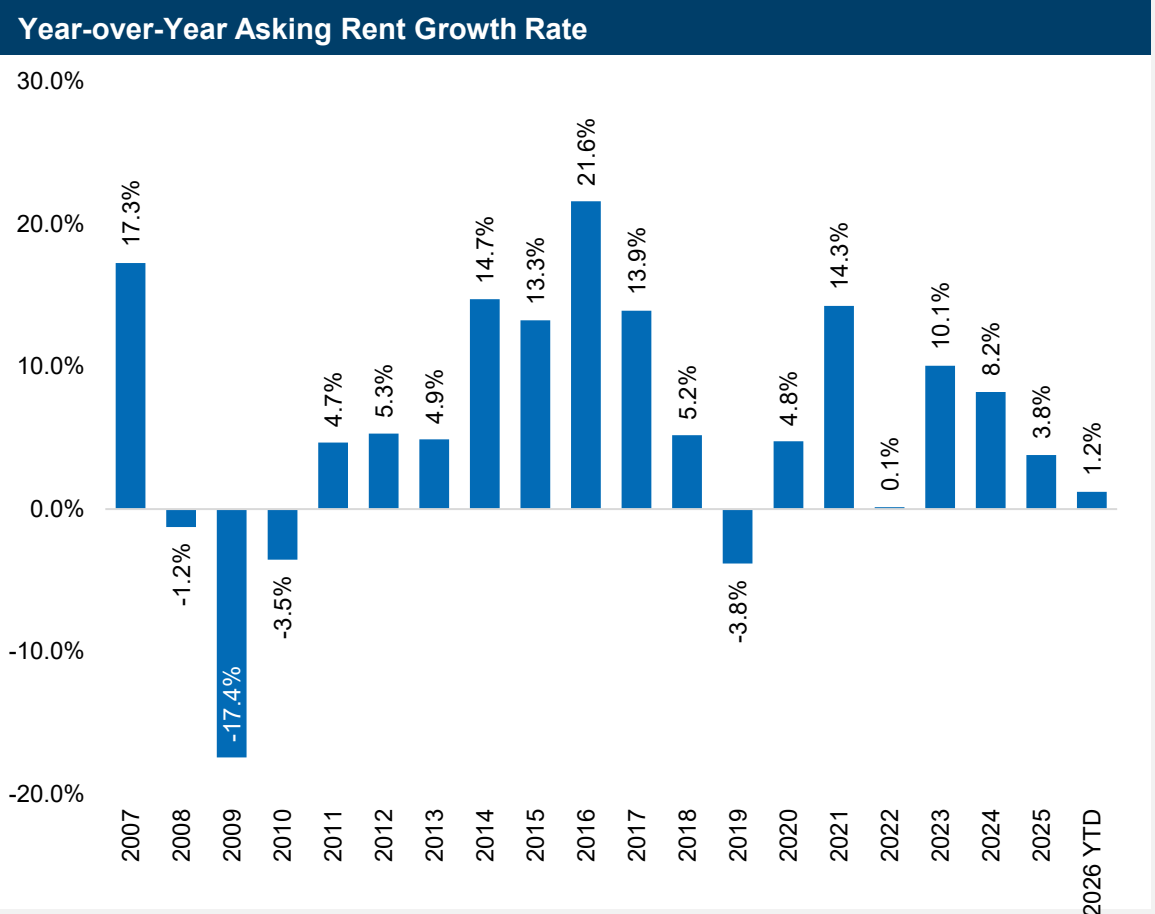
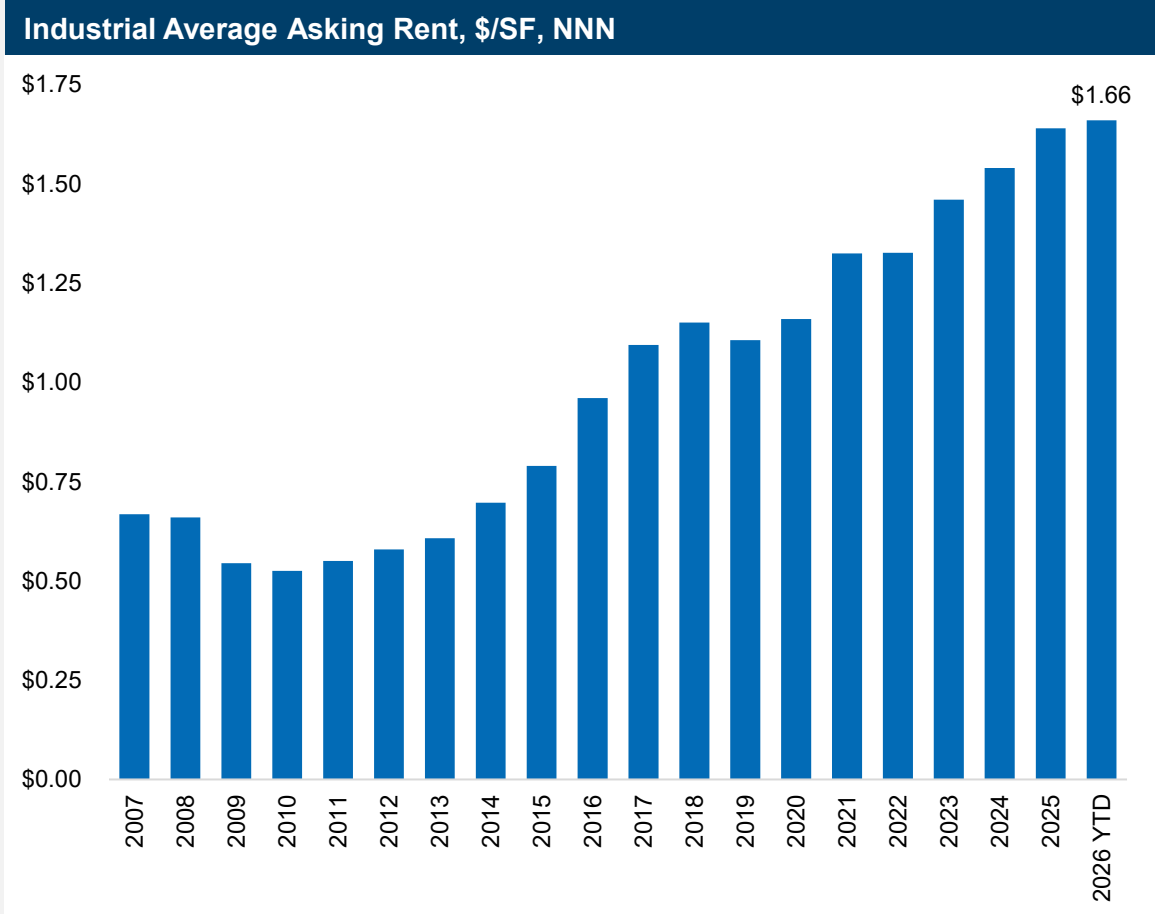
The construction pipeline remained muted at the start of the year, with no new projects breaking ground during the quarter. Two developments continued under construction: the 294.0K SF Prologis project at 475 Sycamore Drive and the 69.9K SF Palisade Fremont Innovation Center at 43990 Fremont Boulevard. The limited development tightened the supply pipeline heading into the remainder of 2026.



Source: Newmark Research, CoStar, San Jose-Santa Clara-Sunnyvale MSA

Asking Rents Posted Modest Quarter-over-Quarter Gain

Asking rents in the first quarter posted a modest increase from the previous quarter, with average asking rates reaching \$1.66 per square foot NNN, up 1.1% from Q4 2025. Measured against the 2025 full-year average asking rate, the first-quarter figure represented a 1.2% increase, reflecting steady but measured pricing power relative to prior-year norms.



Large-User Activity Anchored First Quarter Leasing

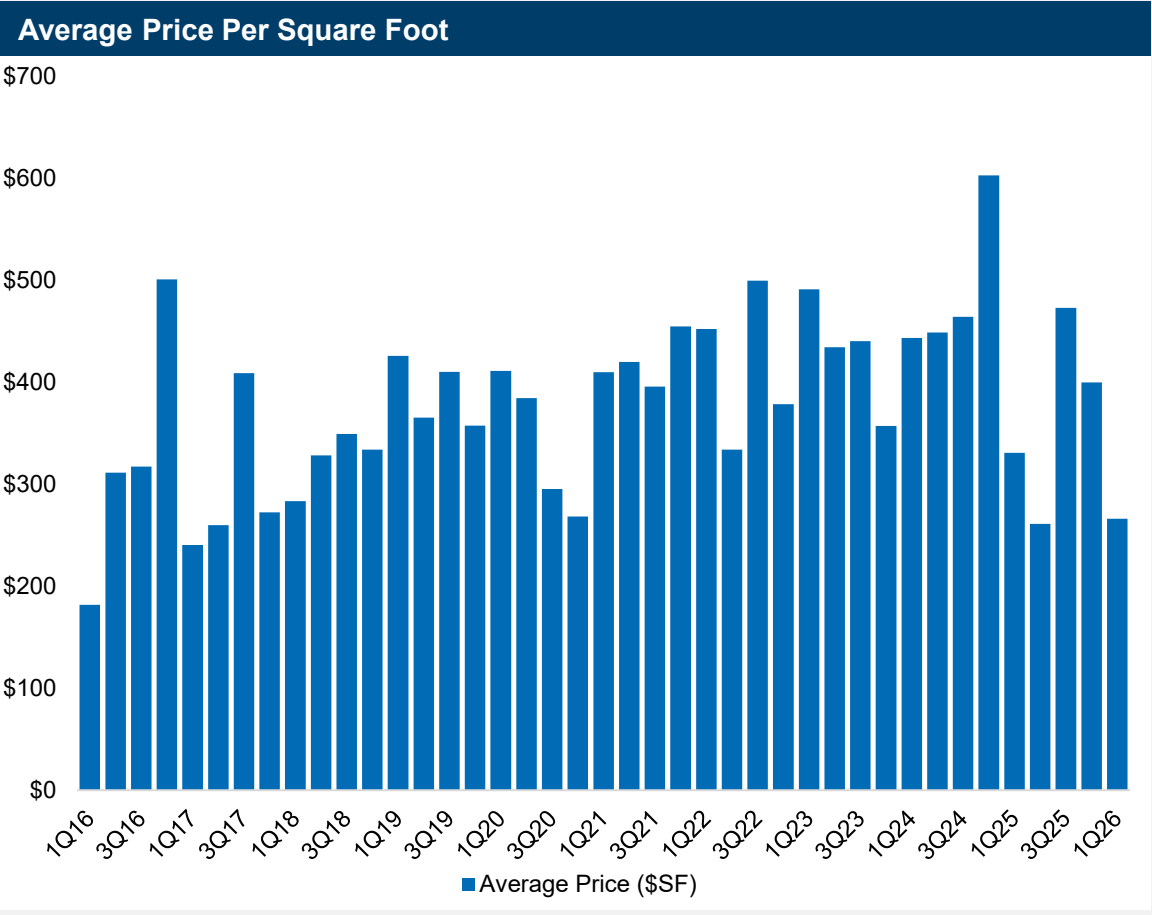
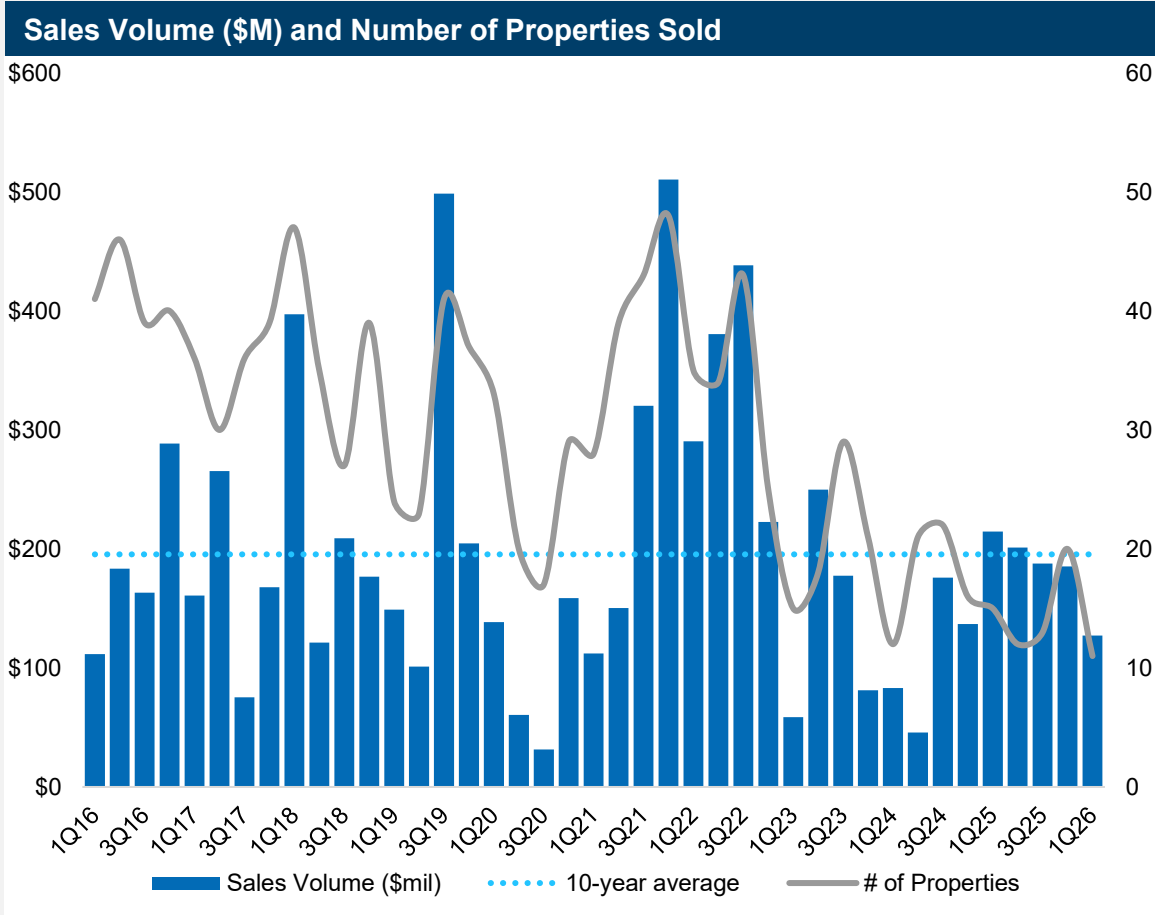
Leasing activity in the first quarter of 2026 reflected renewed confidence among large industrial and manufacturing users. The largest transaction of the quarter was a direct lease signed by Tesla Motors in the Mission South submarket of Fremont, totaling 267.1K SF. The second-largest deal was a 117.1K SF lease renewal by Specialized Packaging Solutions in Newark, reinforcing the continued presence of established occupiers in the market.

Notable 1Q26 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Tesla Motors	49000 Milmont Dr	Fremont – Mission South	Direct Lease	267,099
<i>Tesla Motors, the Automotive and Robotics company, signed a direct lease in the Mission South submarket of Fremont, further expanding their footprint in the South Bay.</i>				
Specialized Packaging Solutions	38505 Cherry St	Newark	Lease Renewal	117,115
<i>Specialized Packaging Solutions renewed its existing lease at the Lincoln Newark Business Park in Newark. It has been at this location since 1999.</i>				
Quanta Computer	7447 Morton Ave	Newark	Direct Lease	105,760
<i>Quanta Computer signed a direct lease at the Morton Avenue Industrial Center, leasing an entire building in Newark.</i>				
PODS	1959 Monterey Hwy	San Jose – Brokaw South	Direct Lease	104,400
<i>PODS, the moving and storage company, signed a direct lease in the Brokaw South submarket of San Jose.</i>				
Confidential	1324 Kifer Rd	Sunnyvale – South Central	Lease Renewal	90,685
<i>A confidential company extended its lease at the Kifer Industrial Park in Sunnyvale. The company has been at this location since 2011.</i>				

Silicon Valley Industrial Sales Soften as Rate Pressures Weigh on Pricing

Industrial sales activity softened further in 1Q 2026, totaling \$127.3 million across 11 transactions as interest rates remain stubborn. Additionally, average pricing declined 33.5% quarter-over-quarter as the 11 transaction valuations averaged \$266.1 per square foot. Despite the recent declines, demand and industrial sentiment in Silicon Valley continues to drive interest toward well-located assets.



03

Appendix

4Q25

Access the Extended 1Q26 Silicon Valley Industrial Report

To access, please reach out
to your Newmark contact.

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