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4Q24

# Silicon Valley Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- The region’s unemployment rate showed a slight improvement, decreasing from 4.3% in May to 4.2% in November. In contrast, the national unemployment rate increased from 4.0% to 4.2% over the same period. This decline suggests that while the broader U.S. labor market softened, Silicon Valley’s job market remained relatively stable, reflecting the region’s strength in key industries like technology.
- Employment in the trade, transportation, and utilities sector marginally contracted through November 2024, with a 10-basis point decrease from the previous month, yet a 170-basis point increase from the previous year. The overall economy remains in a slump, with November metrics recording -3.0% over 12-month growth projections. Despite overall contractions in the economy, the trade, transportation, and utilities industry flipped from negative growth to recording four consecutive months of positive 12-month growth projections.

## Major Transactions

- The San Jose submarket dominated leasing activity with over 390,000 square feet transacted in the fourth quarter of 2024. Over half of the leases signed in San Jose were direct leases with Lucid Motors signing in San Jose’s Downtown submarket; representing Silicon Valley’s largest lease at 92,500 square feet.
- The Newark submarket recorded a sizable amount of signed leases just under 200,000 square feet. Valassis Direct Mail, Inc., a public relations agency, signed an 80,640 square foot lease extension and a confidential tenant signed a 62,536 square foot direct lease.
- AC Foods Wholesale, a produce grower and distributor, renewed their Milpitas location in the Fleming Business Park for 65,082 square feet.

## Leasing Market Fundamentals

- Inflated levels of sublease and direct space on the market pushed the Silicon Valley combined industrial and warehouse vacancy rate up to 5.8% in the fourth quarter of 2024, up 187 bps from year-end 2023. Despite the increases, vacancy remains below the 20-year historic average of 6.0%.
- Overall market asking rents increased by 7.6% from the same period as last year to \$1.54 per square foot NNN, with rent growth recording the highest at 35.5% in the San Jose submarket. Sunnyvale also posted strong rent growth of 27.9% 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 effective rents are to remain flat.

## Outlook

- While an increase in both direct and sublease availability has pushed the vacancy rate up to 5.8%, the outlook for this market is positive. The economy appears to be stabilizing, which bodes well for the return of stronger demand.
- Newmark research currently tracks 1.8 million square feet of new construction that currently has a low level of preleasing. If these projects deliver without meaningful preleasing, overall vacancy will push upward the 20-year historical vacancy average of 6.0%.
- Continued demand from the region’s logistics, life sciences and returning technology employers will keep demand and supply balanced in the coming years as more robust demand returns.

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1. Economy
  2. Leasing Market Fundamentals
  3. Appendix

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4Q24

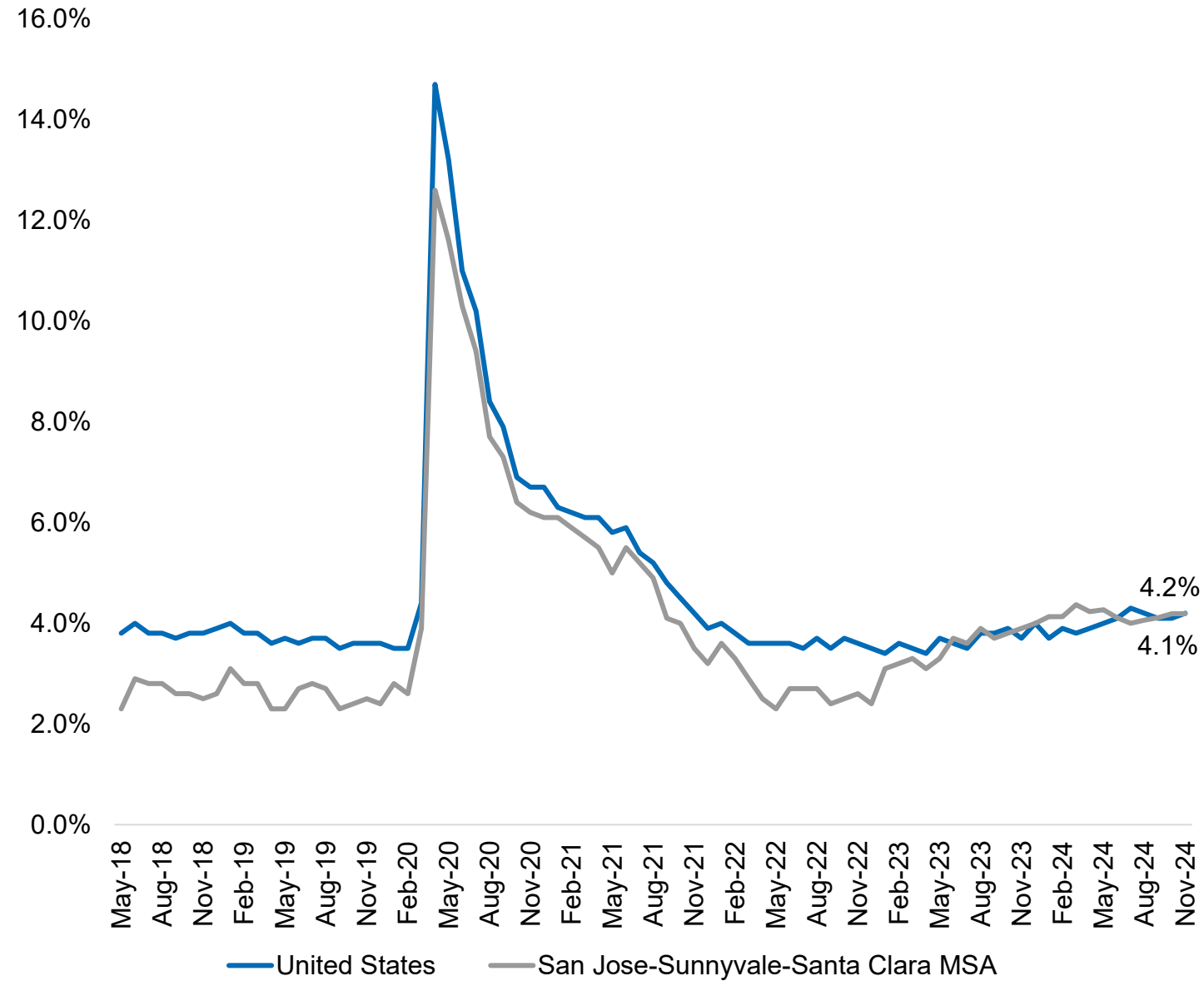
# Economy



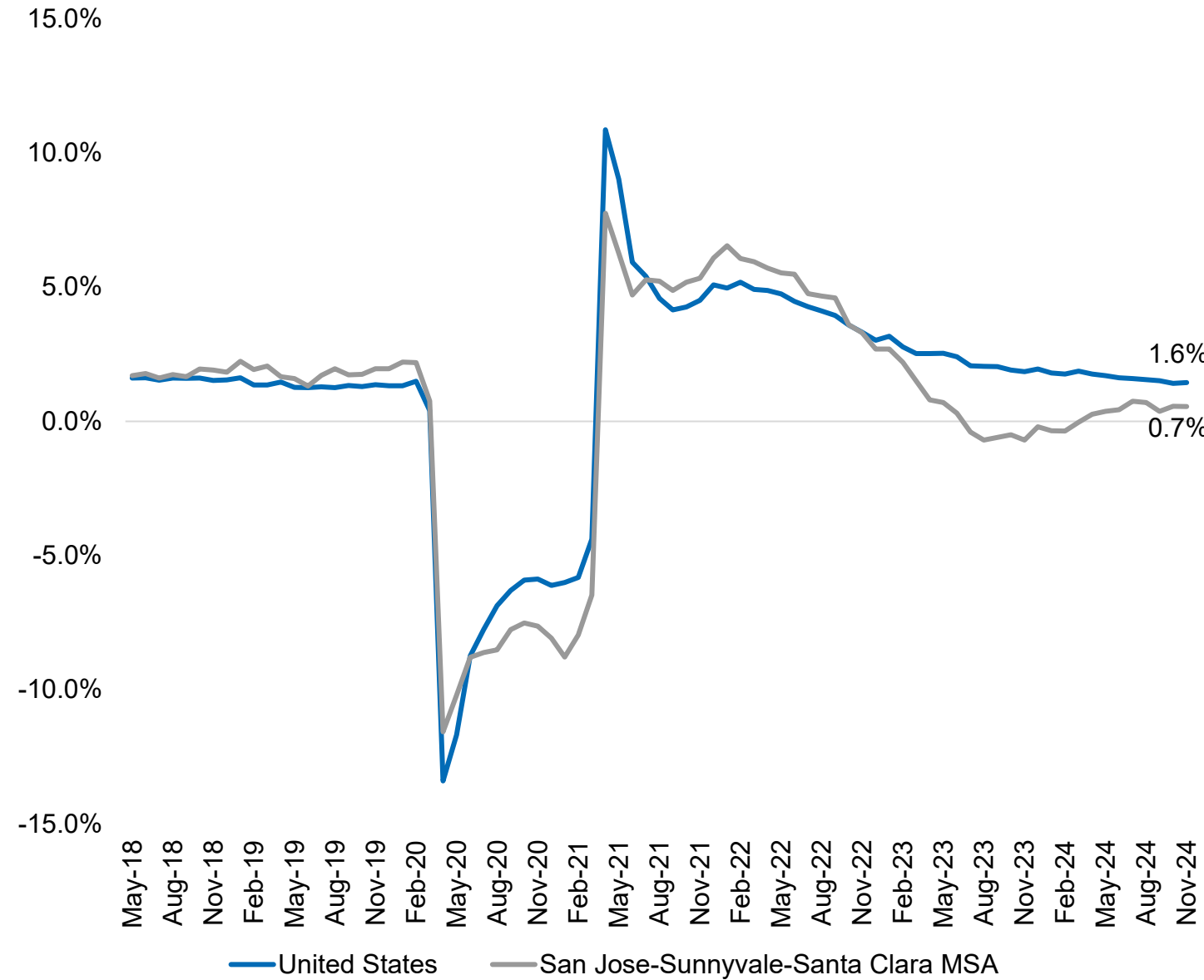
# Silicon Valley Labor Market Remained Stable Amid National Softening

In 2024, the San Jose-Sunnyvale-Santa Clara MSA unemployment rate showed improvement, which decreased from 4.3% in May to 4.2% in November. In contrast, the national unemployment rate increased from 4.0% to 4.2% over the same period. This suggests that while the broader U.S. labor market softened, Silicon Valley's job market remained relatively stable, reflecting the region's strength in key industries such as technology.

**Unemployment Rate, Seasonally Adjusted**



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

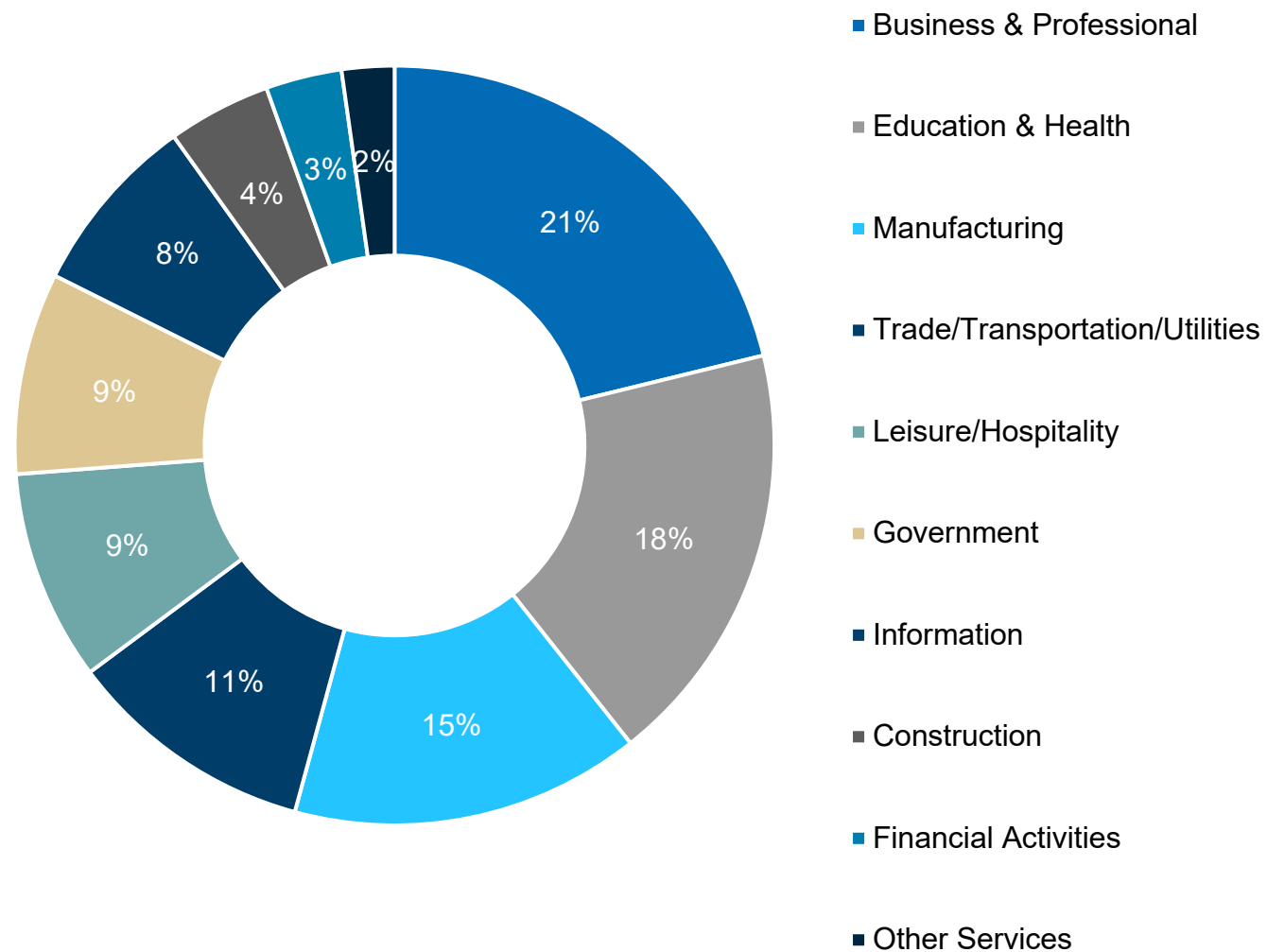


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

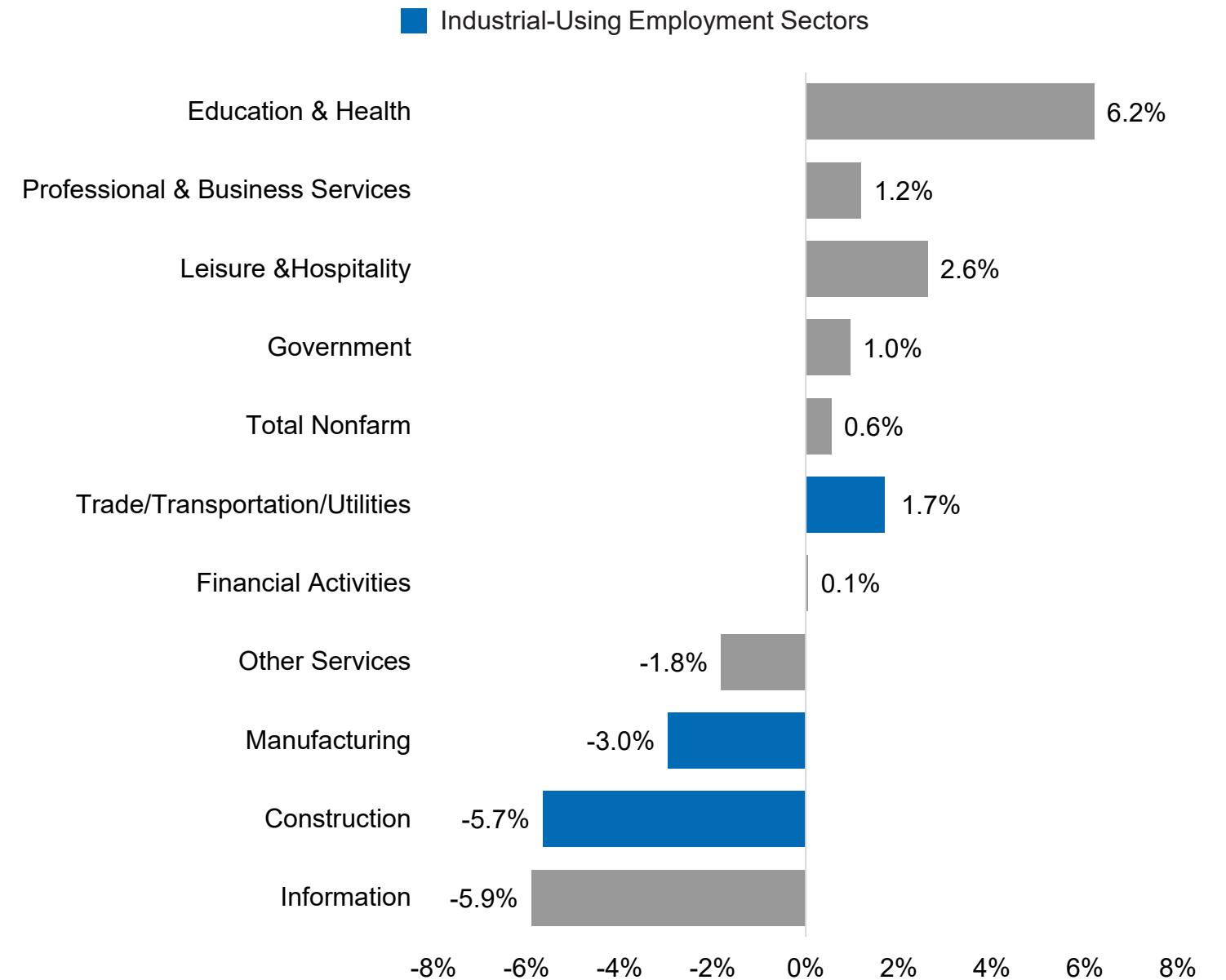
# Trade/Transportation/Utilities Added Jobs While the Manufacturing Sector Declined

Within the Industrial-Using employment sectors, Trade/Transportation/Utilities was the only sector to record year-over-year employment gains, increasing by 1.7%. Both Manufacturing and Construction recorded declines of -3.0% and -5.7% respectively. This indicates a shift in demand within industrial sectors, with Trade/Transportation/Utilities showing strength, while Manufacturing and Construction face challenges likely tied to broader economic factors or sector-specific headwinds.

Employment by Industry, November 2024



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

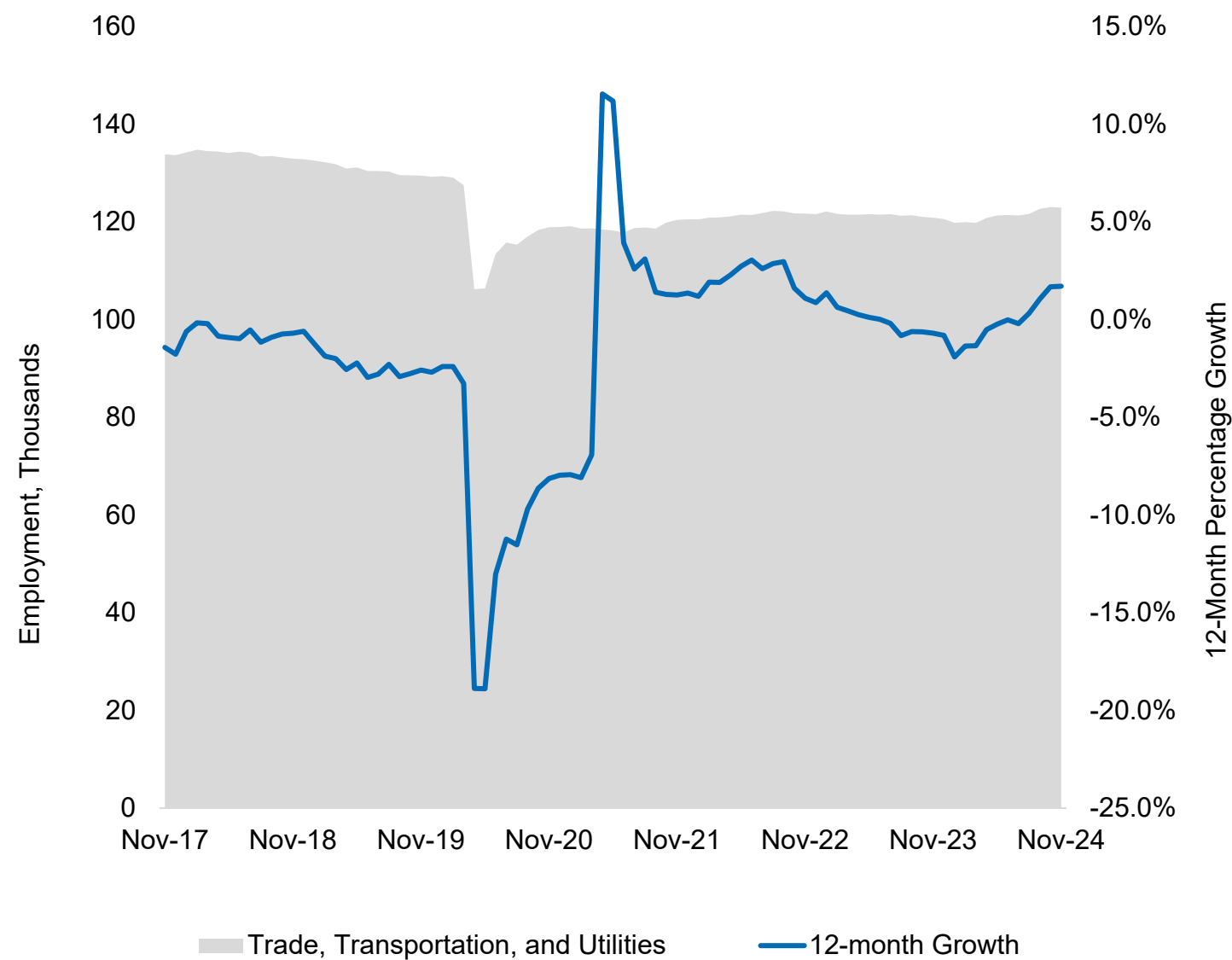


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi

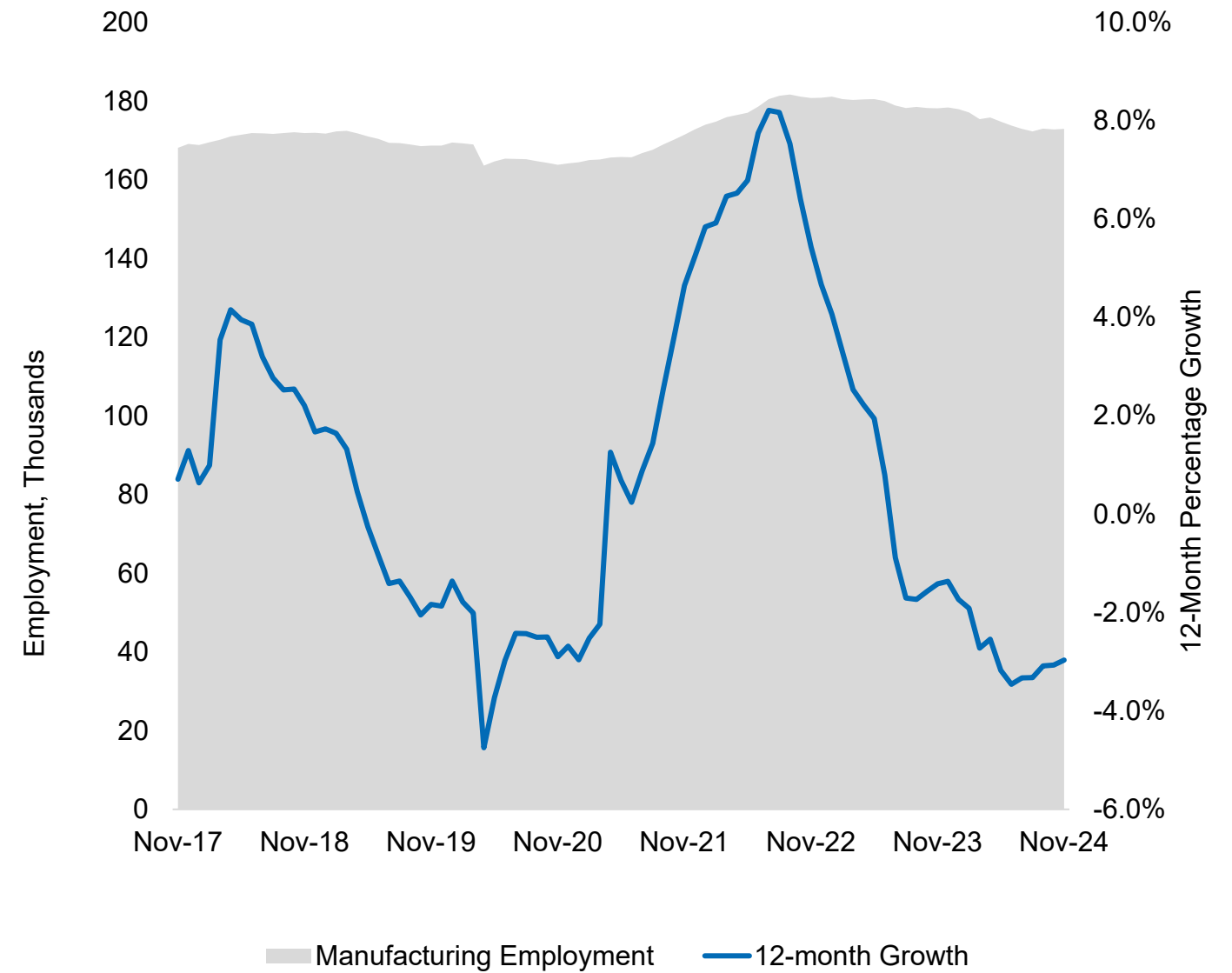
# Industrial/R&D Demand Drivers Show Improvement from Overall Economy

Employment in the Trade, Transportation, and Utilities sector marginally retracted through November 2024, with a 10-basis point decrease from the previous month, yet a 170-basis point increase from the previous year. The overall economy remains in a slump, with November metrics recording -3.0% 12-month growth projections. Despite overall contractions in the economy, the trade, transportation, and utilities industry flipped from negative growth to recording four consecutive months of positive 12-month growth projections.

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

4Q24

# Leasing Market Fundamentals

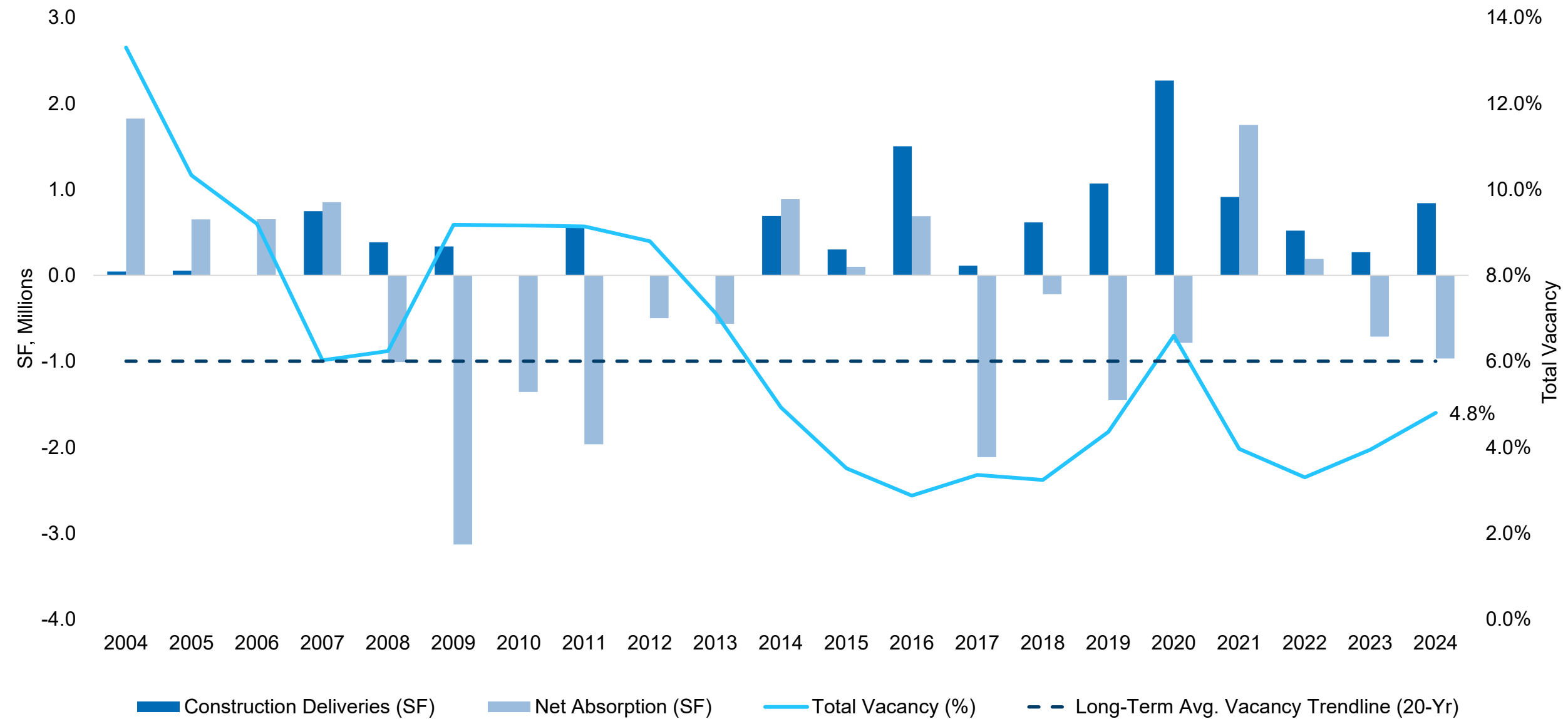




# Vacancy Continued to Climb, Inching Nearer 20-Year Average

The vacancy rate continued to rise, marking the fourth consecutive quarter of rising vacancy rates. Vacancy in the fourth quarter rose 71 basis points from the previous quarter and 187 basis points from the previous year. However, at 4.8%, fourth quarter vacancy was below the 20-year average of 6.0%. Any market with vacancy this low is considered a tight market and welcomes additional construction. While there were no deliveries in the fourth quarter, 840,697 square feet was delivered in 2024, with additional product to come online in 2025.

## Historical Construction Deliveries, Net Absorption, and Vacancy

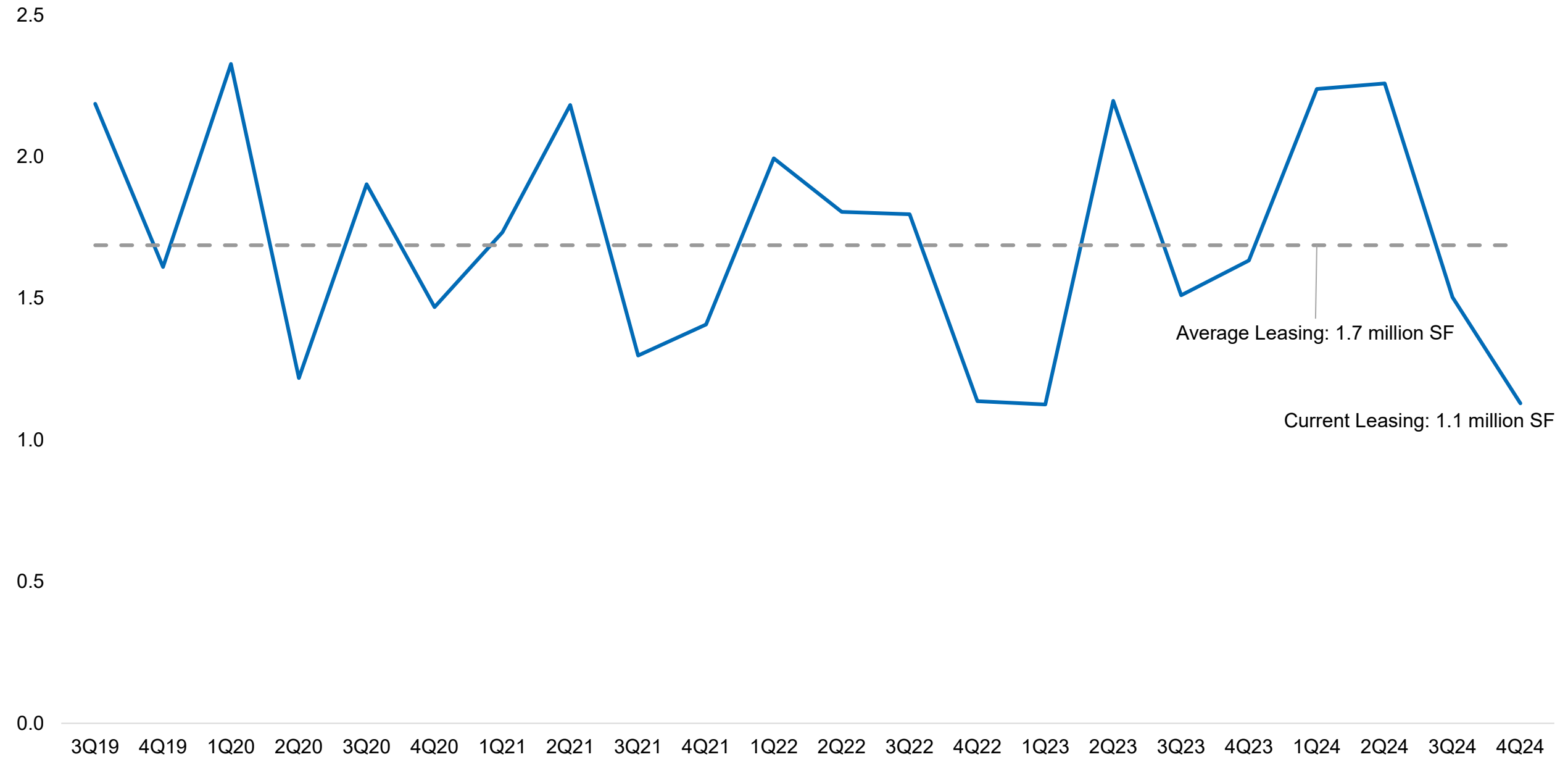


Source: Newmark Research, CoStar

# Strong Leasing Year Ended with Soft Leasing Quarter

The fourth quarter closed on a quiet note, and gross absorption for the quarter was 1,129,480 square feet, a -25.0% decrease from the third quarter of 2024. However, gross absorption for the year was 7,131,076 square feet, or a 10.3% increase from the previous year, and the largest figure since 2016. The industrial and warehouse market remained tight due to lack of availability in the market, causing most tenants to opt for long-term renewals.

Total Leasing Activity (msf)

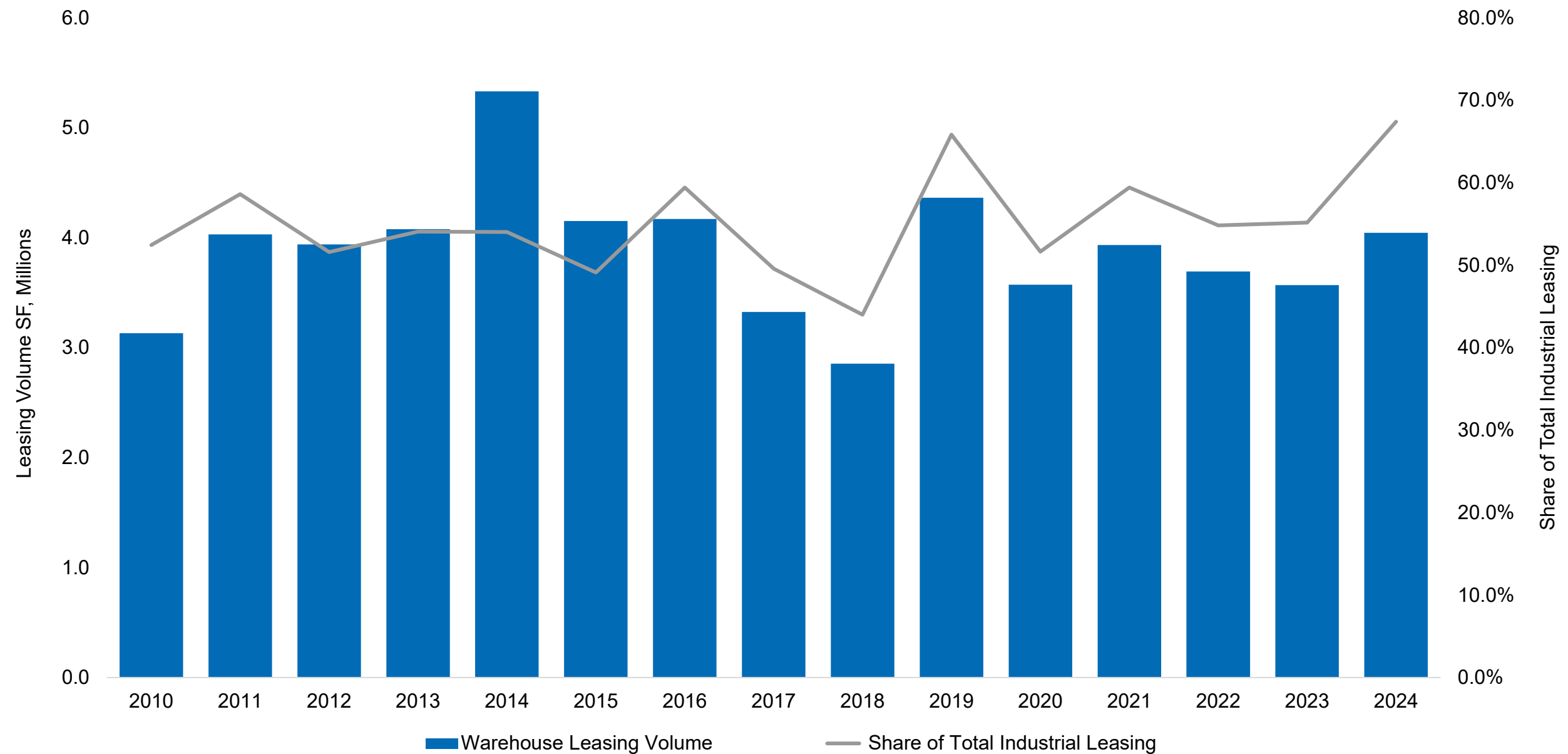


Source: Newmark Research, CoStar

# Electric Vehicle Manufacturer Was the Largest New Lease During the Quarter

Warehouse leasing activity accounted for most of the overall leasing for 2024, accounting for 4.0 million square feet of the 7.1 million square feet leased. The largest warehouse lease during the quarter was also the largest direct lease recorded with Lucid Motors, a manufacturer of luxury electric vehicles. Other notable large leases were from transportation and logistics companies.

Warehouse Leasing Volume and Percentage of Total Industrial Leasing Volume

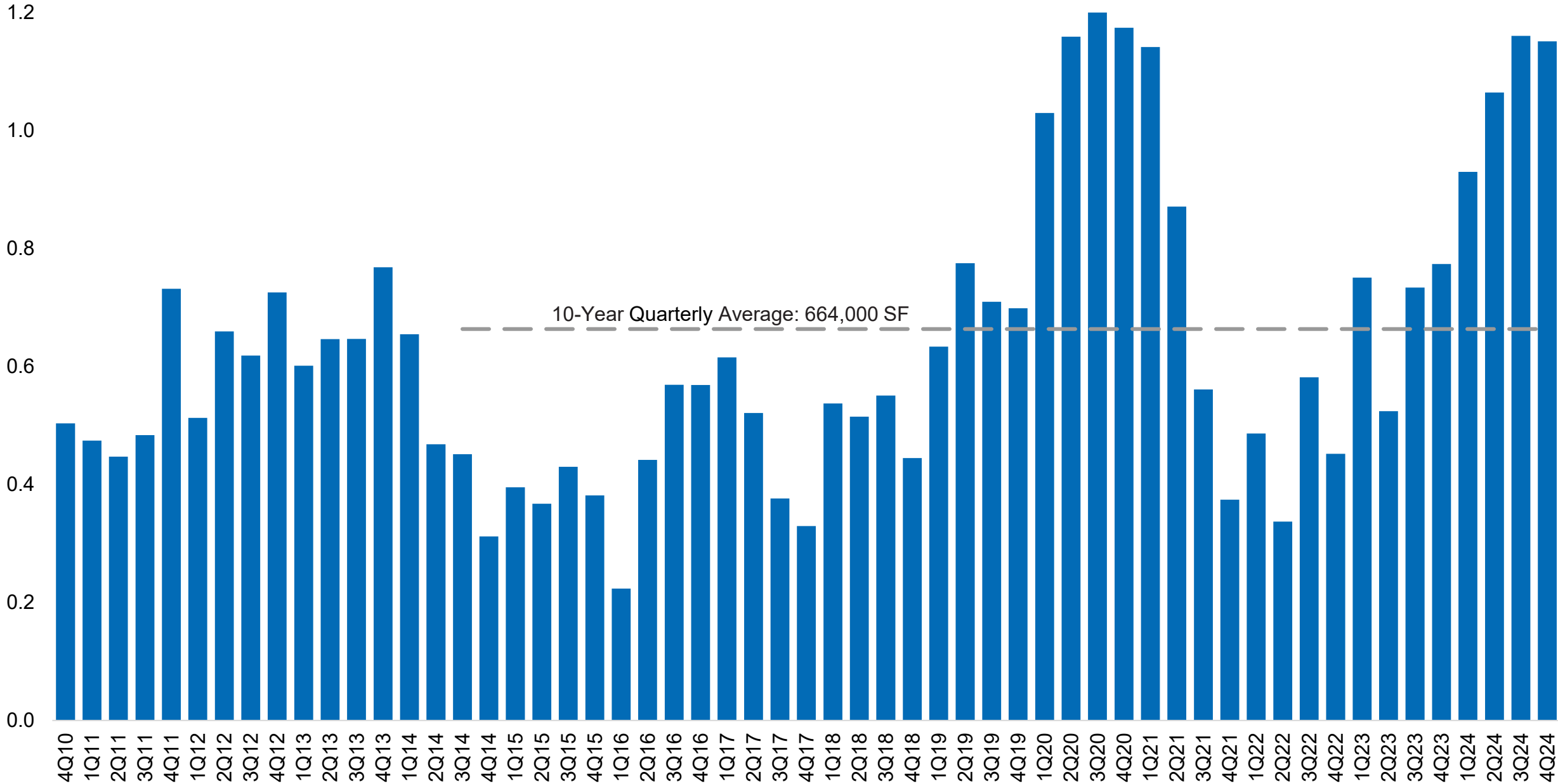


Source: Newmark Research, CoStar

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

The amount of sublease space on the market inched down during the fourth quarter of 2024 to 1,151,400 square feet, at or near the record highs posted during the pandemic and well above the industrial and warehouse 16-year average of 653,000 square feet. While this seems high on an absolute level, relative to the size of broader industrial market, this amount of space represents 1.4% 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)

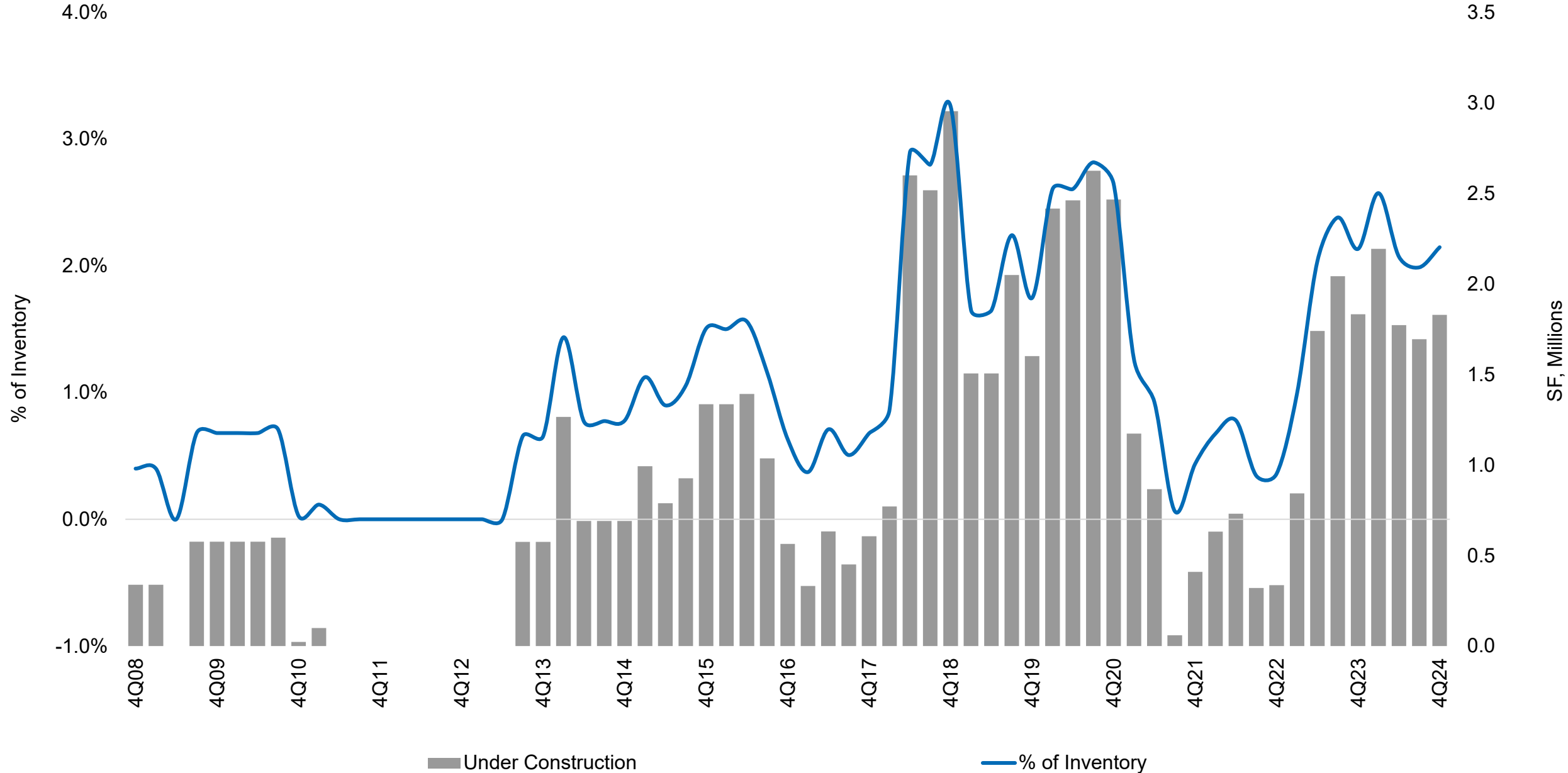


Source: Newmark Research, CoStar

# The Construction Pipeline Inches Up With an Addition in South San Jose

With available development sites limited, developers have turned further south in San Jose and to Morgan Hill. Specifically, a 135,000 square foot warehouse development has broken ground in South San Jose and is slated to deliver in the third quarter of 2025. Hines is building Edenvale, the largest industrial development in the Valley, 635,833 square feet, which is expected to be completed by June 2025. We are currently tracking over 1.8 million square feet underway throughout the market. This equates to 2.1% of current inventory.

## Industrial Under Construction and % of Inventory

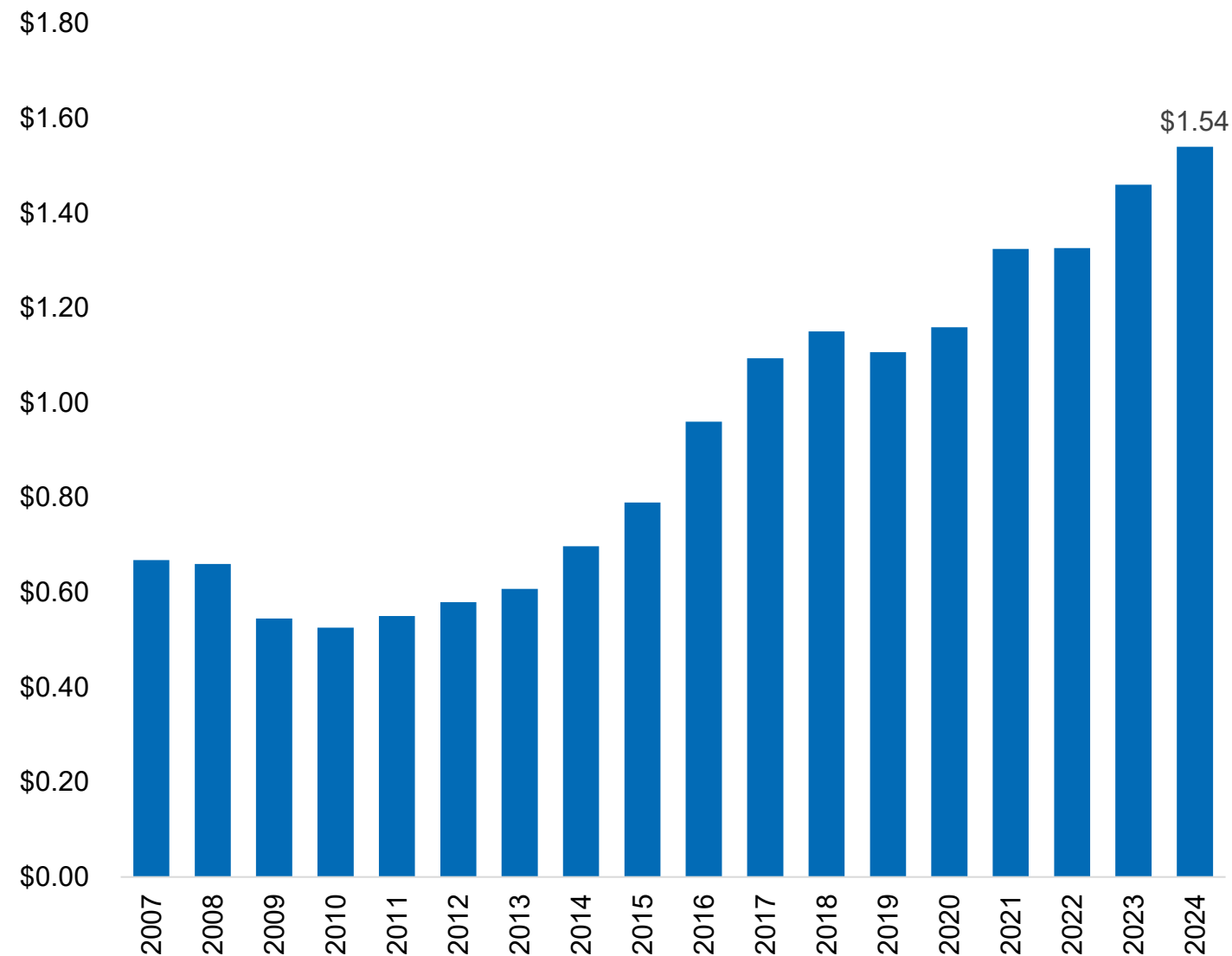


Source: Newmark Research, CoStar

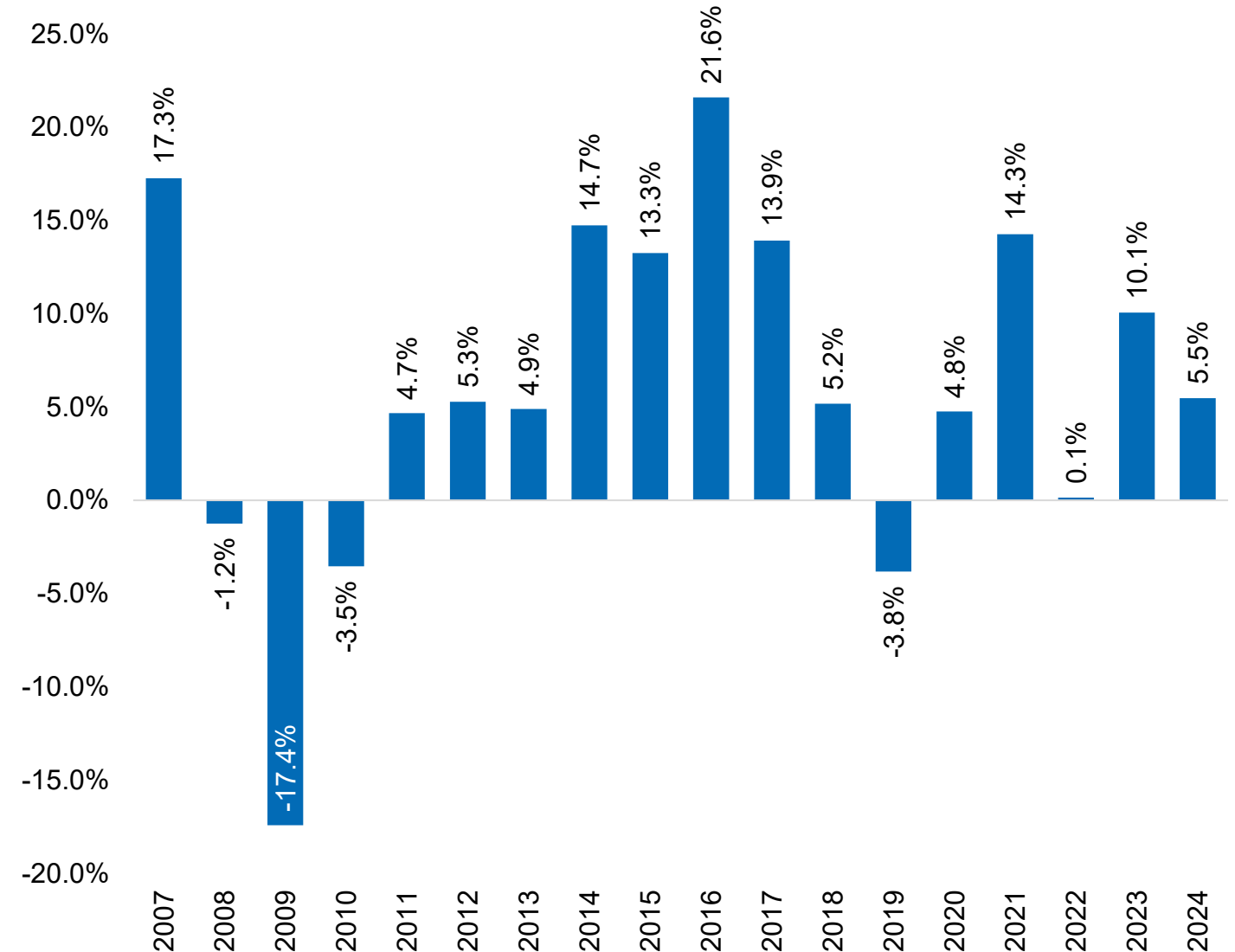
# Asking Rents Trended Upward

While conditions in the overall economy and broader industrial market remain murky, asking rental rates continued to rise. The average asking rent as of the fourth quarter of 2024 increased 5.5% from year-end 2023 to \$1.54 per square foot NNN. 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 effective 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 San Jose and Newark Submarkets Recorded Majority of Top Leases

The San Jose submarket dominated leasing activity with over 390,000 square feet transacted in the fourth quarter of 2024. Over half of the leases signed in San Jose were direct leases, with Lucid Motors signing in San Jose’s Downtown submarket which represented Silicon Valley’s largest lease at 92,500 square feet. Despite Fremont signing over 250,000 square feet in the fourth quarter of 2024, Fremont’s top lease wasn’t large enough to land a spot in the top five lease transactions. Fremont’s top lease was Aramark signing a 49,000 square foot lease renewal in the Auto Mall North submarket.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Lucid Motors <i>Direct Lease. Lucid Motors, manufacturer of award-winning luxury electric vehicles, has committed to leasing the entire 92,500 square foot industrial facility for 10 years.</i>	250 Stockton Avenue	San Jose – Downtown	Direct Lease	92,500
Cal Wine Transport <i>Lease renewal. Cal Wine Transport, a wine storage and delivery service, renewed their Prologis space in the San Jose submarket.</i>	930 McLaughlin Avenue	San Jose – Central	Lease Renewal	92,303
Valassis Direct Mail, Inc <i>Lease Extension. Valassis Direct Mail, Inc extended their lease for an additional 3 years. The public relations agency has been at this property since 2014.</i>	6955 Mowry Avenue	Newark	Lease Extension	80,640
AC Foods Wholesale <i>Lease Renewal. AC Foods Wholesale, a produce grower &amp; shipper, renewed their Milpitas location in the Fleming Business Park.</i>	1101 Montague Expressway Bldg. 1	Milpitas – East 880	Lease Renewal	65,082
Confidential <i>Direct lease. A confidential client took space on a direct basis in the Cherry Business Park, a Prologis owned business park.</i>	38503 Cherry Street	Newark	Direct Lease	62,536





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4Q24

# Appendix / Tables





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