

FIGURES | SILICON VALLEY | Q2 2023

Silicon Valley Industrial Figures

▶ 2.5%

Vacancy Rate

▲ 25K

SF Net Absorption

▼ 944K

SF Under Construction

▲ \$1.58

NNN / Lease Rate
Existing Properties

▼ 234K

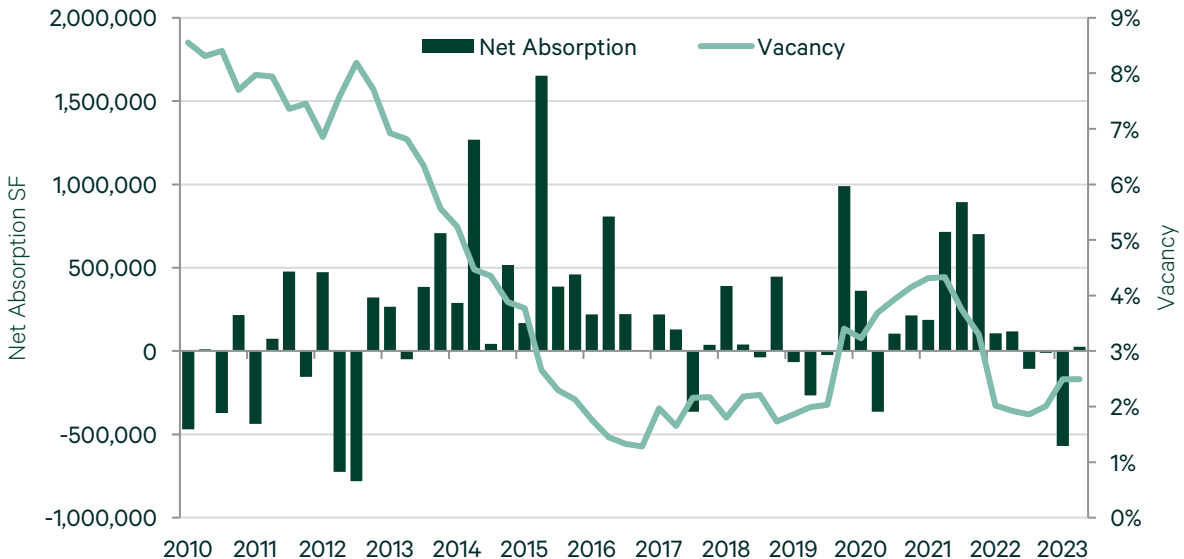
Projected Industrial Using
Employment Santa Clara County

Note: Arrows indicate change from previous quarter.

MARKET HIGHLIGHTS

- Santa Clara County's labor force stood at 1.06 million with 1.03 million employed residents at the close of Q2 2023. The unemployment rate closed the quarter at 2.5%, a 10-basis-point (bps) reduction year-over-year (YoY), but 35 bps higher than the previous quarter.
- Overall net absorption in the Silicon Valley industrial market closed Q2 2023 at positive 25,276 square feet (sq. ft). compared to -569,519 sq. ft. in Q1 2023. This is the first quarter to end with positive net absorption since Q2 2022.
- The average direct asking rate in Silicon Valley increased by \$0.14 YoY and by \$0.01 since Q1 2023. Pricing continues to grow in this competitive market with low supply and high demand.
- Roughly 64% of all leases signed in the Silicon Valley during Q2 2023 were new leases. Newer spaces with more advanced improvements continue to garner the most interest from active tenants.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

INDUSTRIAL OVERVIEW

The Silicon Valley industrial market is comprised of approximately 109 million sq. ft. The only new construction completed this quarter was a single 50,727 -sq.-ft. owner-user building delivered in Fremont. Nearly 1 million sq. ft. (18% pre-leased) was under construction at the close of the quarter of which roughly 340,000 sq. ft. is expected to deliver by the end of the year. The overall vacancy and availability rate remained flat quarter-over-quarter at 2.5% and 3.4%, respectively.

The overall average asking rate for industrial space in Silicon Valley increased quarter-over-quarter from \$1.57 in Q1 2023 to \$1.58 in Q2 2023 on a monthly, triple-net (NNN), direct basis. Rates have continued to increase as demand remains steady and supply of quality space was limited. Fremont/Newark average asking rates continue to rise, reaching asking rates of \$1.64 NNN for manufacturing product and \$1.54 NNN for warehouse product in Q2 2023.

Tenant demand ended Q2 2023 at 5.1 million sq. ft., which was down from 5.8 million sq. ft. at the end of Q1 2023, but above the ten-year average of 3.4 million sq. ft. Despite having a robust pipeline of tenant demand, lack of functional space options continued to extend deal timelines.

The industrial market registered an uptick in activity during Q2 2023. Gross absorption totaled 1.71 million sq. ft. during the quarter, up 80% from the 946,848 sq. ft. reported last quarter. Renewal activity accounted for roughly 38% of the current quarter total. Net absorption totaled positive 25,276 sq. ft. compared to -569,519 sq. ft. in Q1 2023.

The Silicon Valley industrial market continues to perform well, however there are headwinds preventing further growth. Many of the available buildings are antiquated and lack features current tenants are seeking. Notably, power demand is outpacing supply, and tenants continue to experience extended waiting periods getting adequate power into their buildings.

FIGURE 2: Submarket Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average NNN Asking Rate (\$)		Q2 Net Absorption	YTD Net Absorption
				Mfg.	Whs.		
Palo Alto	1,271,427	2.8	5.4	2.65	2.05	(10,180)	(10,180)
Mountain View/Los Altos	1,846,307	3.7	3.8	3.03	2.15	(11,430)	(3,238)
Sunnyvale	5,849,668	1.5	1.5	2.94	2.05	25,860	15,900
Santa Clara	15,947,235	2.2	2.9	1.63	1.66	(30,559)	(127,073)
West Valley	1,578,473	0.3	0.5	1.97	2.00	138	8,298
San Jose - Downtown/IBP	12,395,753	3.2	3.4	1.56	1.46	(41,147)	(103,303)
San Jose - North	10,550,101	2.2	2.5	1.74	1.56	(68,917)	(66,643)
San Jose - South	12,788,139	4.3	5.5	1.54	1.29	(3,491)	(24,706)
Milpitas	9,789,514	0.8	2.1	1.94	1.56	(36,288)	16,452
Fremont/Newark	37,213,952	2.5	3.8	1.64	1.54	201,290	(249,750)
Silicon Valley	109,230,569	2.5	3.4	1.58*		25,276	(544,243)
Manufacturing	60,626,821	2.2	2.8	1.80	N/A	37,336	(127,710)
Warehouse	48,603,748	2.9	4.1	N/A	1.44	(12,060)	(416,533)

*Combined warehouse and manufacturing
Source: CBRE Research

FIGURE 3: Notable Lease Transactions Q2 2023

Tenant	Location	Leased Sq. Ft.	Type
Confidential	48401 Fremont Blvd. Fremont	209,926	New Lease
RK Logistics	47020 Kato Rd. Fremont	209,916	New Lease
Ontrac Logistics	41460 Boyce Rd. Fremont	132,900	Renewal
Bintang	48900 Milmont Dr. Fremont	124,137	New Lease
Ontrac Logistics	1121 Montague Expy. Milpitas	101,066	Renewal

Source: CBRE Research

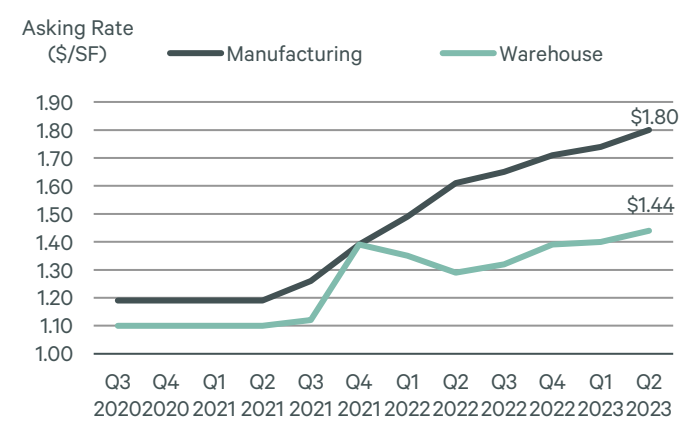
FIGURE 4: Notable Sale Transactions Q2 2023

Buyer	Location	Sold Sq. Ft.	Sale Price \$/SF
Madison Capital Group	47488 Kato Rd. Fremont	574,775	\$260.0M \$452
Prologis	48350 Fremont Blvd. Fremont	246,450	N/A*
FJM Investments	Hannover Industrial Park Fremont	165,243	\$45.0M \$272
Ho Family Trust	1980 Senter Rd. San Jose	134,250	\$37.8M \$282
Prologis	6212 Hellyer Ave. San Jose	111,043	N/A*

*Part of a larger national portfolio sale totaling approximately 14 million sq. ft. for \$3.1B

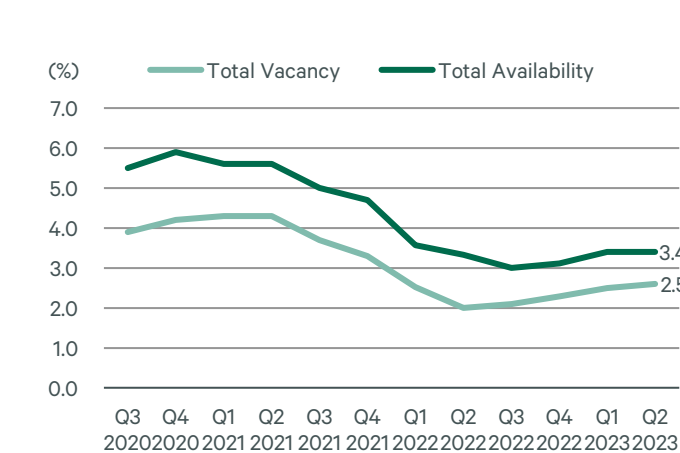
Source: CBRE Research

FIGURE 5: Lease Rates



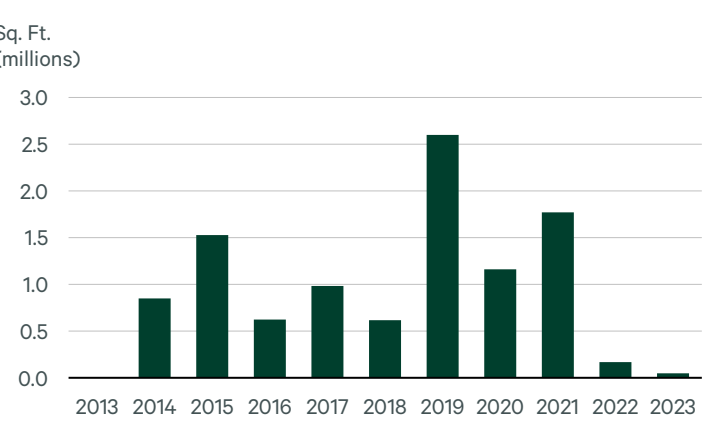
Source: CBRE Research

FIGURE 6: Vacancy & Availability



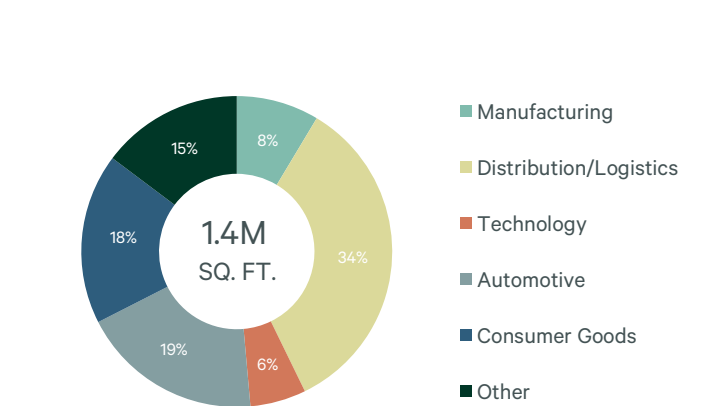
Source: CBRE Research

FIGURE 7: Construction Completions



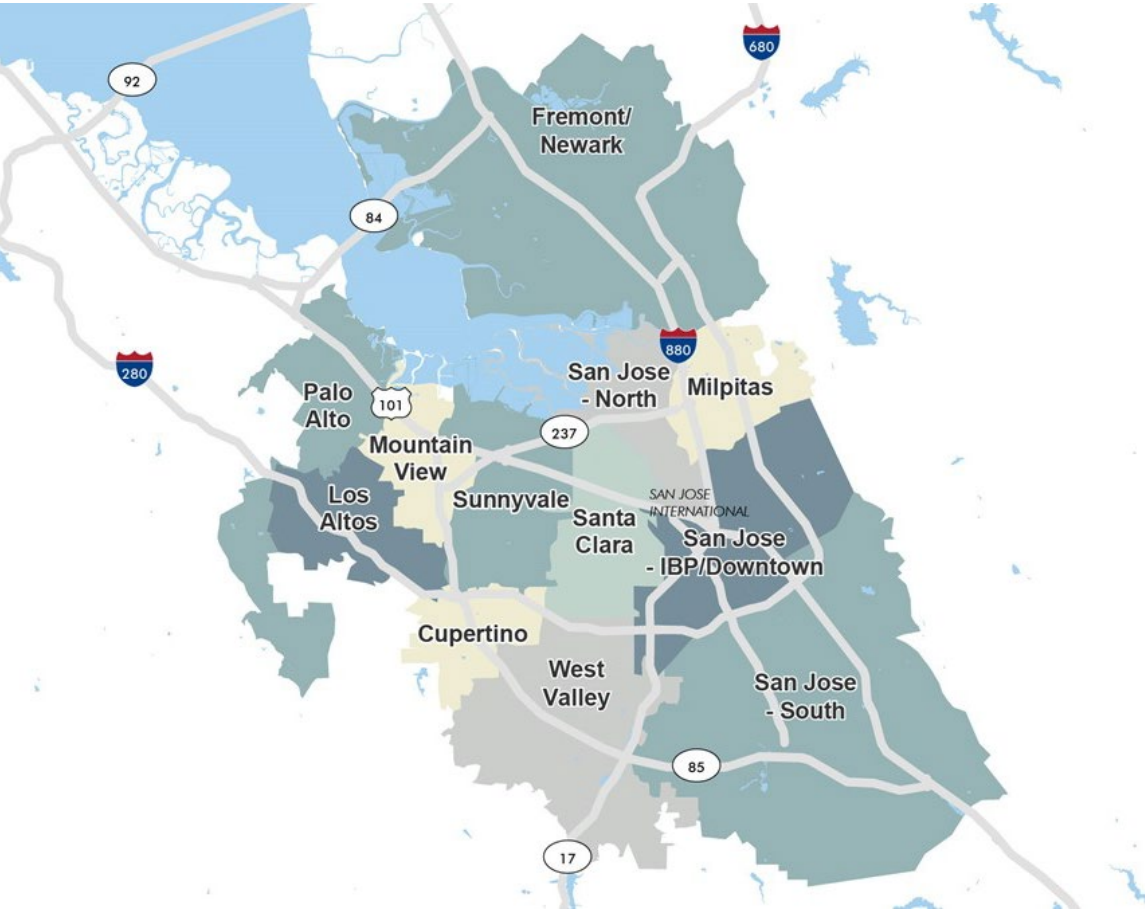
Source: CBRE Research

FIGURE 8: Top 25 Leases of the Quarter by Industry



Source: CBRE Research

Submarket Map



Source: CBRE Research, Location Intelligence

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Definitions

Average Asking Rate Direct Monthly Lease Rates, Triple Net (NNN), Availability All existing space being marketed for lease. Total Vacancy Rate Direct Vacancy + Sublease Vacancy.

CBRE's market report analyzes existing single- and multi-tenant Industrial buildings that total 7,500+ sq. ft. within defined submarkets, including owner-occupied buildings. CBRE assembles all information through telephone canvassing, third-party vendors, and listings received from owners, tenants and members of the commercial real estate brokerage community.

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