

FIGURES | SILICON VALLEY | Q1 2023

Silicon Valley Industrial Figures

▲ 2.6%

Vacancy Rate

▼ (613K)

SF Net Absorption

► 995K

SF Under Construction

▲ \$1.57

NNN / Lease Rate
Existing Properties

▲ 274K

Industrial Using Employment
Santa Clara County

Note: Arrows indicate change from previous quarter.

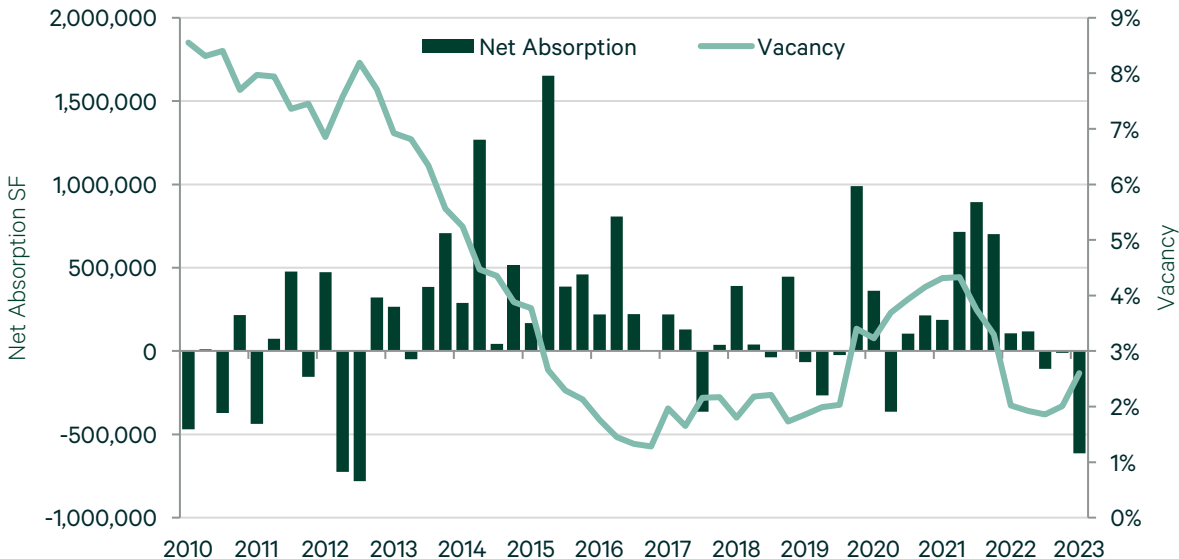
EMPLOYMENT

Silicon Valley is primarily comprised of Santa Clara County and is home to 1.9 million residents with a labor force of 1.06 million. Total resident employment was 1.04 million at the close of Q1 2023, up 2.9% year-over-year (YoY). Total in-market employment totaled 1.18 million employed at the close of Q1 2023. The unemployment rate for Silicon Valley in Q1 2023 was 2.3%; a 65 basis-point (bps) reduction YoY. Industrial sector jobs grew by 1,010 jobs since Q4 2022, to close Q1 2023 at 273,910.

INDUSTRIAL OVERVIEW

The industrial market performed at an unprecedented pace throughout the COVID-19 Pandemic, however, slowed to start 2023. Average market vacancy increased 60 bps from 2.0% in Q4 2022 to 2.6% in Q1 2023, while the market availability rate increased from 2.8% to 3.5% quarter-over-quarter; both still near all time lows. Despite a large amount of sublease space coming to the market, vacancy and availability rates remained at relatively low levels due to consistent demand for top-tier space and limited new construction deliveries. Due to the lack of viable relocation space, many tenants are opting to renew current leases. High-quality product continues to receive attention from tenants looking to occupy buildings that have modern features, such as ESFR fire sprinklers, higher clear heights and more electrical service.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

INDUSTRIAL OVERVIEW (continued)

Net absorption was recorded at negative 613,498 square feet (sq. ft.), which is the largest loss since Q3 2012. The largest contributors to the drop in occupancy this quarter were two new subleases hitting the market in Fremont and Newark. Lucid Motors and Applied Materials listed a combined 371,606 sq. ft. of sublease space. Gross absorption totaled 946,848 sq. ft. to start 2023, of which 64% was attributable to renewals.

Among the top 25 transactions completed in Q1 2023, 12 were new leases, of which 7 landed in warehouse buildings. Much like Q4 2022, Q1 2023 has been characterized by economic uncertainty and limited supply, which has resulted in companies opting to, or forced to, stay in their existing locations instead of signing new long-term deals. Consequently, 13 of the top 25 transactions were renewals.

Space requirements for tenants registered a slight uptick from 5.7. million sq. ft. (msf) in Q4 2022 to 5.8 million sq. ft in Q1 2023, encompassing 45 total industrial requirements, which equates to an average requirement size of 129,555 sq. ft. This figure is 68% percent above the 10-year average of 3.45 million sq. ft.. Currently, there are only seven available spaces totaling 100,000 sq. ft. or greater, limiting options for large users actively searching the market.

The average asking rate for industrial space in Q1 2023 increased slightly to \$1.57 per square foot (psf) on a monthly NNN basis for the combination of manufacturing and warehouse product types. This is an increase of \$0.01 from Q4 2022. Further bifurcation of rents occurred with an increase of \$0.04 for manufacturing to \$1.74 psf, and a modest increase of \$0.01 for warehouse to \$1.40 psf quarter-over-quarter.

At the close of Q1 2023, 5 projects in Silicon Valley totaling 995,307 sq. ft. were under construction with most expected to deliver by early 2024. Inclement winter weather pushed many original delivery dates back a few months. Although construction is down since Q1 2022, several approved projects are expected to break ground within the next 24 months.

FIGURE 2: Submarket Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average NNN Asking Rate (\$)		Q1 Net Absorption	YTD Net Absorption
				Mfg.	Whs.		
Palo Alto	1,269,247	2.0	2.0	2.90	2.25	0	0
Mountain View/Los Altos	1,858,307	3.3	4.0	2.99	2.15	8,192	8,192
Sunnyvale	5,869,277	2.2	3.0	2.85	1.65	(9,960)	(9,960)
Santa Clara	15,910,354	2.1	2.8	1.57	1.76	(96,514)	(96,514)
West Valley	1,591,717	1.4	2.7	2.20	2.15	8,160	8,160
San Jose - Downtown/IBP	12,395,703	2.8	3.1	1.53	1.43	(62,156)	(62,156)
San Jose - North	10,550,101	1.6	2.1	1.64	1.41	2,274	2,274
San Jose - South	12,777,629	4.4	5.4	1.49	1.30	(41,324)	(41,324)
Milpitas	9,657,524	0.7	2.2	1.72	1.56	28,870	28,870
Fremont/Newark	37,078,743	2.9	4.0	1.60	1.41	(451,040)	(451,040)
Silicon Valley	108,958,602	2.6	3.5	1.57*		(613,498)	(613,498)
Manufacturing	60,687,574	2.4	3.0	1.74	N/A	(193,642)	(193,642)
Warehouse	48,271,028	2.8	4.0	N/A	1.40	(419,856)	(419,856)

*Combined Warehouse and manufacturing
Source: CBRE Research

FIGURE 3: Notable Lease Transactions Q1 2023

Tenant	Location	Leased Sq. Ft.	Type
Alom Technologies	48105 Warm Springs Blvd. Fremont	120,433	Renewal
Scholastic Book Fairs	42001 Christy St. Fremont	67,920	Renewal
Managed Facility Solutions	122 & 128 Component Dr. San Jose	63,500	Renewal/Expansion
Lockheed Martin	326-330 Charcot Ave. San Jose	51,175	Renewal
TCT Circuit Supply	660 Vista Way Milpitas	41,855	New Lease

Source: CBRE Research

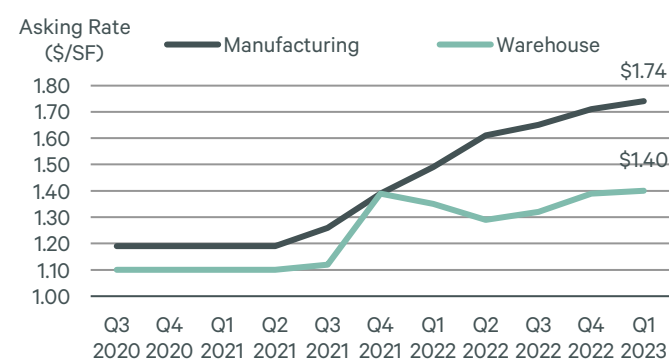
FIGURE 4: Notable Sale Transactions Q1 2023

Buyer	Location	Sold Sq. Ft.	Sale Price \$/SF
*Central & Lafayette LLC	960 Central Expy. Santa Clara	747,424	\$237.8M \$318.11
Terreno Realty Co.	Morton Commerce Center Newark	602,731	\$186.0M \$308.60
Monarch Truck Center	1015 Timothy Dr. San Jose	59,857	\$17.9M \$299.05
Yan Lingney Chiu Trust	37427 Centralmont Pl. Fremont	42,400	\$10.3M \$242.92
South Bay Development Co	1190 & 1250 Norman Ave. Santa Clara	30,456	\$8.6M \$282.00

*Building sold for land value and will be redeveloped. Total land square footage is 1,827,457, which equates to roughly \$130 per land square foot.

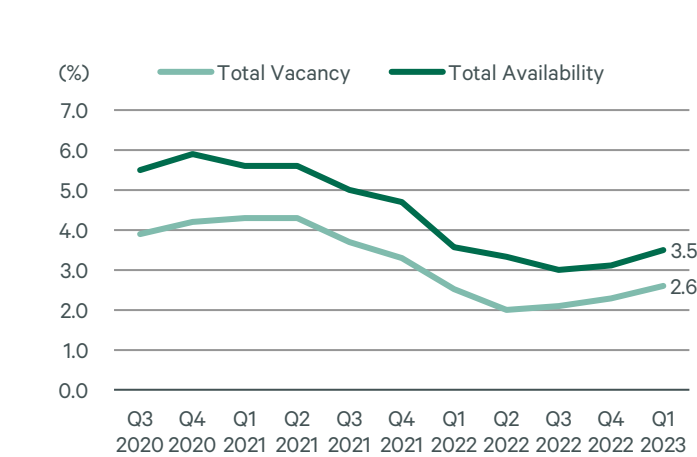
Source: CBRE Research

FIGURE 5: Lease Rates



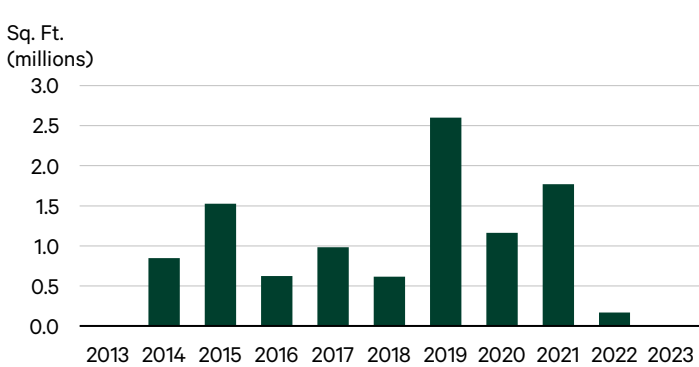
Source: CBRE Research

FIGURE 6: Vacancy & Availability



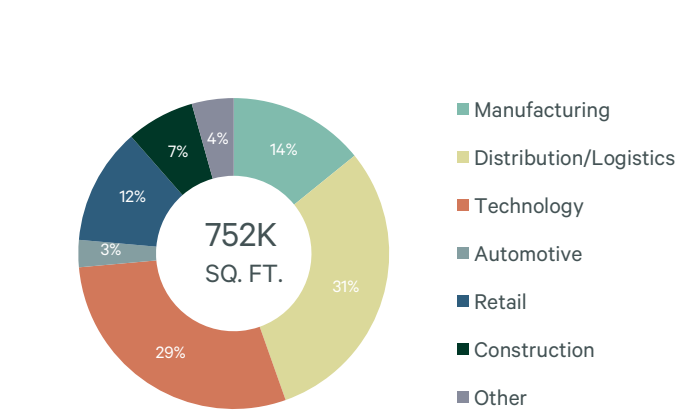
Source: CBRE Research

FIGURE 7: Construction Completions



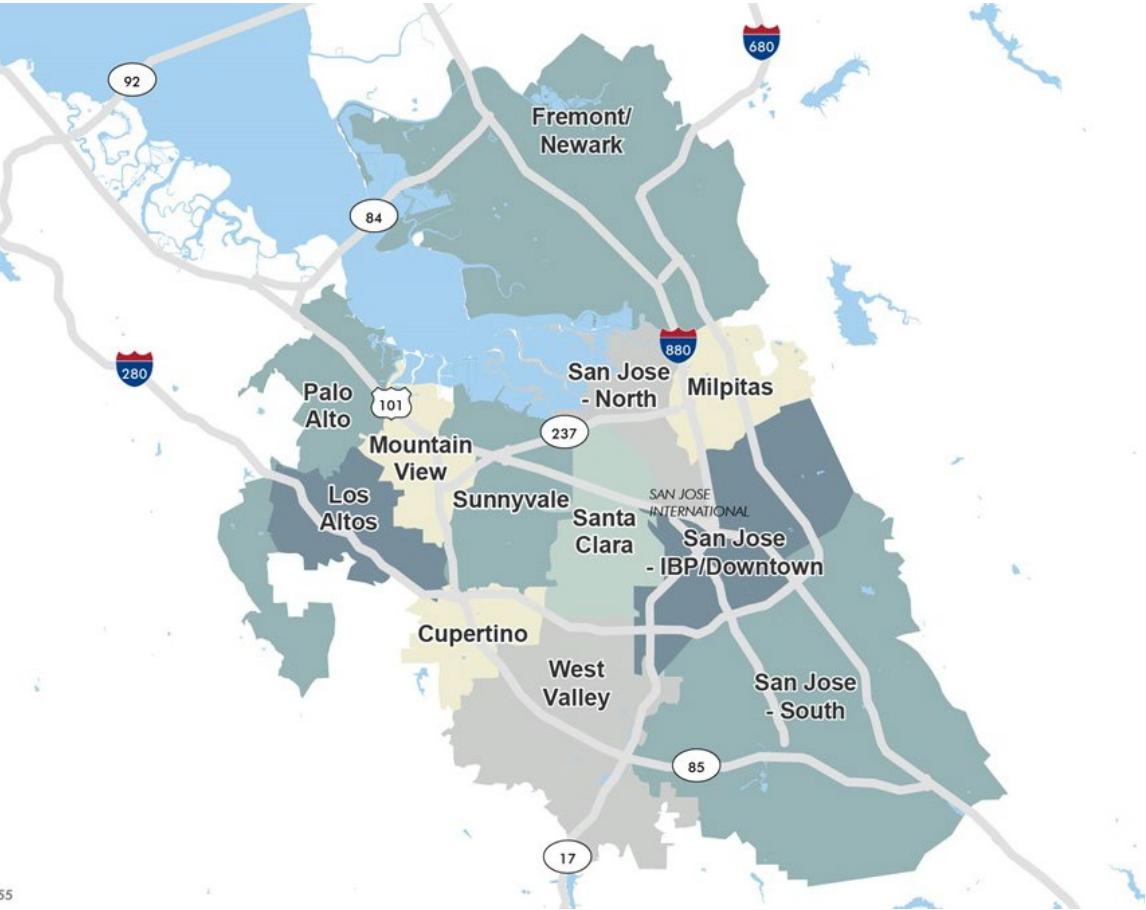
Source: CBRE Research

FIGURE 8: Top 25 Leases of the Quarter by Industry



Source: CBRE Research

Submarket Map



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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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