



# **Silicon Valley industrial market report**

Q4 2023

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**AVISON  
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# Silicon Valley industrial market trends

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## Lion's share of construction expected to deliver in 2024

Following a brief surge in lease activity post-pandemic lockdowns, there is a notable cooling off in demand for industrial and flex spaces. Anticipated new construction slated for delivery in 2024 is expected to introduce more than a million square feet to the market. With over 20% of this inventory available for lease, there is a potential to further impact market fundamentals throughout the year. The majority of these deliveries are concentrated in areas such as San Jose, Sunnyvale, and Gilroy.

-45.2%

## Lease activity down almost half from last year

While direct lease activity in the Valley has not fully rebounded to pre-pandemic levels, there are significant number of occupiers opting for lease renewals. Nevertheless, leasing activity overall has experienced a decline compared to previous years, influenced by supply chain strains and disruptions in tech manufacturing and warehousing. Additionally, the scarcity of high-quality inventory has led to the emergence of "ghost buildings," prompting opportunities for redevelopment into alternative uses.

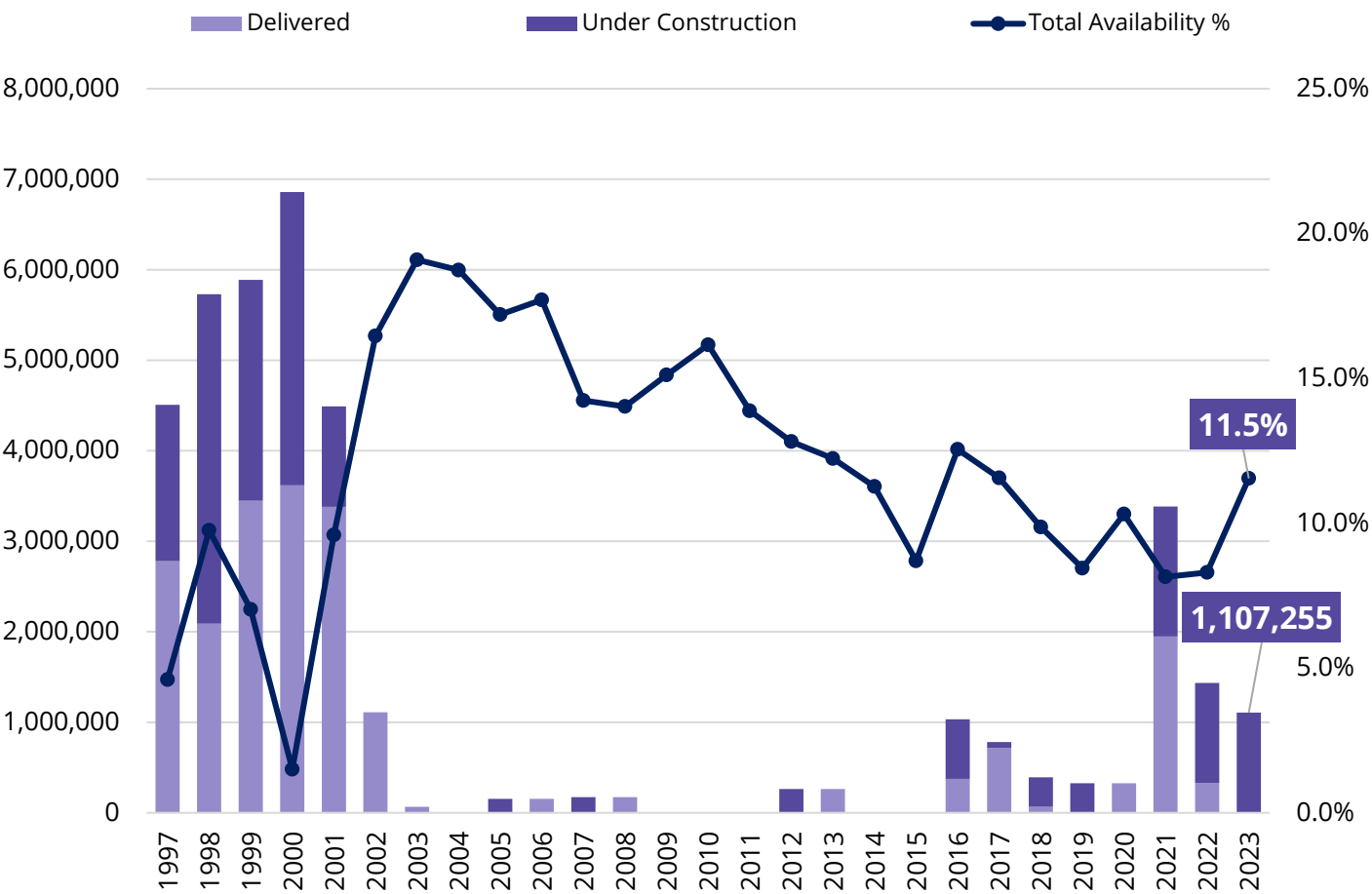
48.3%

## Almost half of flex vacancy is in buildings older than 1990.

Examining the broader industrial market in Silicon Valley reveals a dichotomy between two product types. Deteriorating and nearly obsolete flex products face greater challenges in reducing vacancy rates compared to industrial products, especially newer ones, which have exhibited the highest vacancies to date. Occupiers in this market are divided between considerations of price and quality, taking into account factors such as location, and building characteristics like power, clear height, and other amenities. This distinction between product types creates opportunities for new development, particularly in areas such as housing where land is scarce.

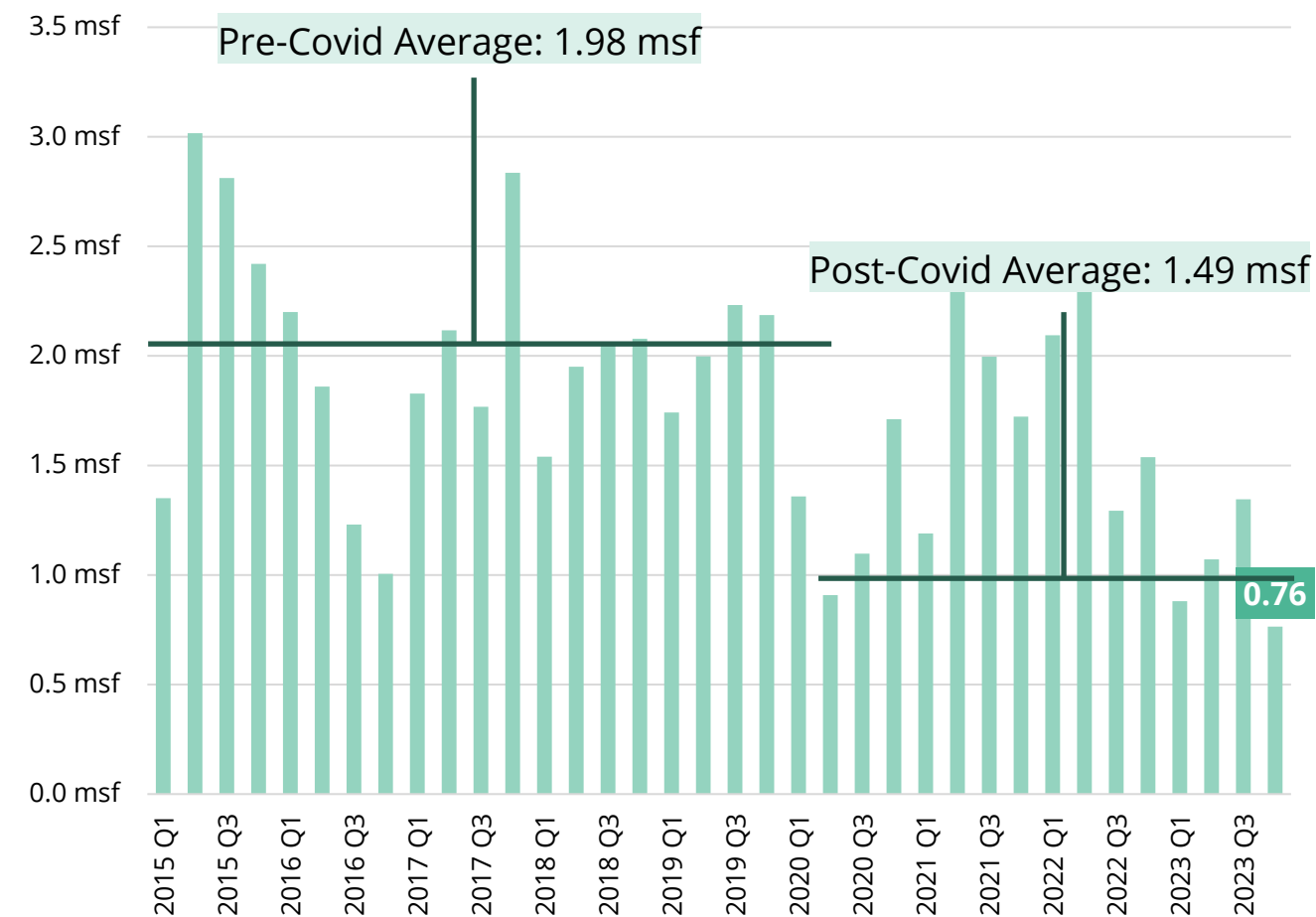


# New construction pipeline empties in 2024



Anticipated for delivery in 2024, impending new construction is set to contribute more than a million square feet to the market.

# Leasing activity

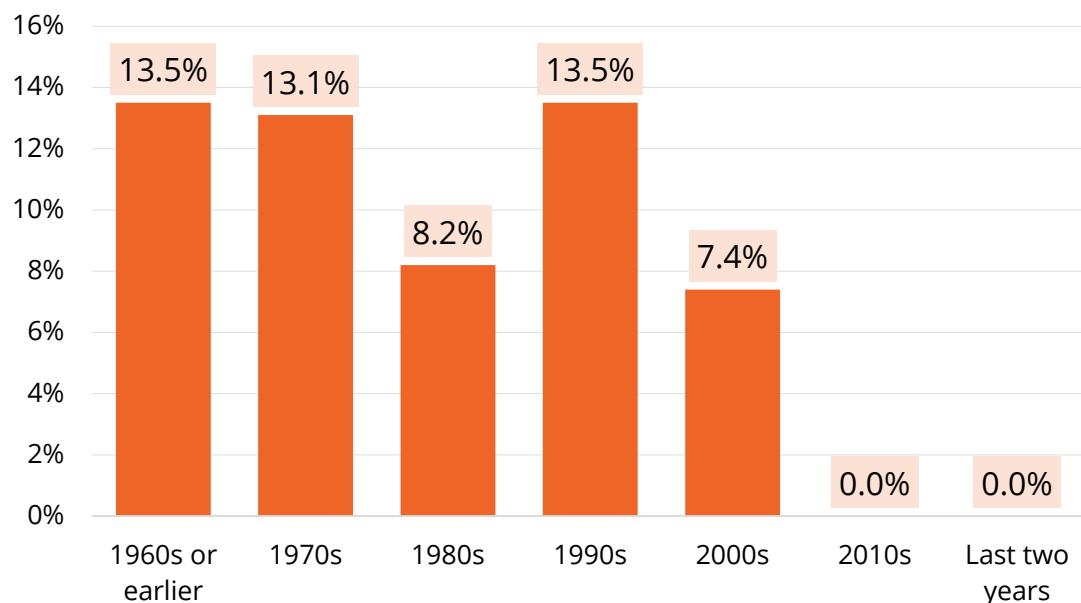


**Leasing activity continues to fall short of the 5-year Pre-Covid leasing average. Total 2023 leasing activity failed to surpass 2020 figures.**

# Broader industrial market in Silicon Valley reveals a dichotomy between two product types

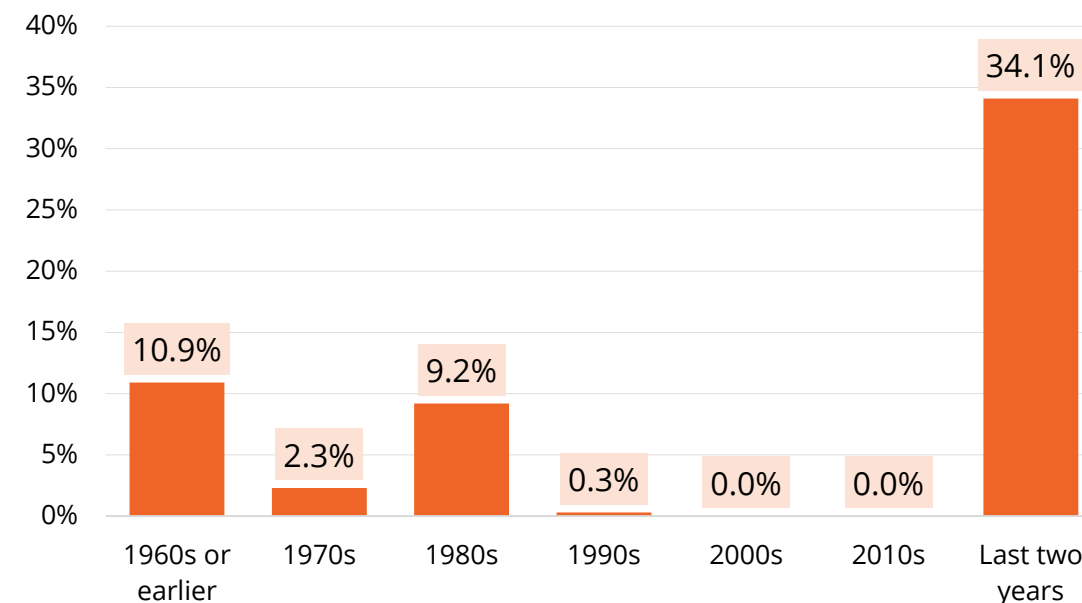
## 48.3%

Vacancy overall has climbed due slower lease-up however almost half of flex vacancy is in buildings older than 1990.



## 34.1%

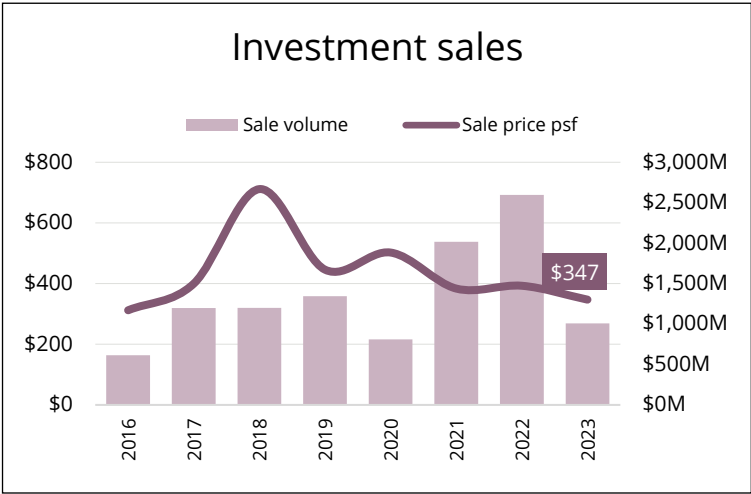
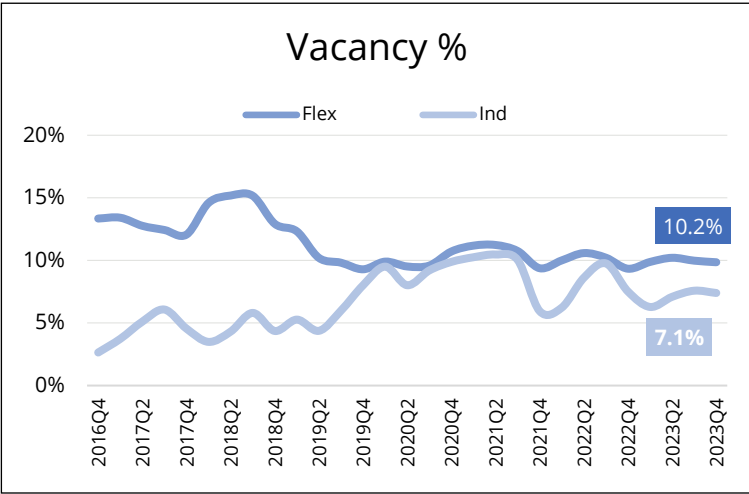
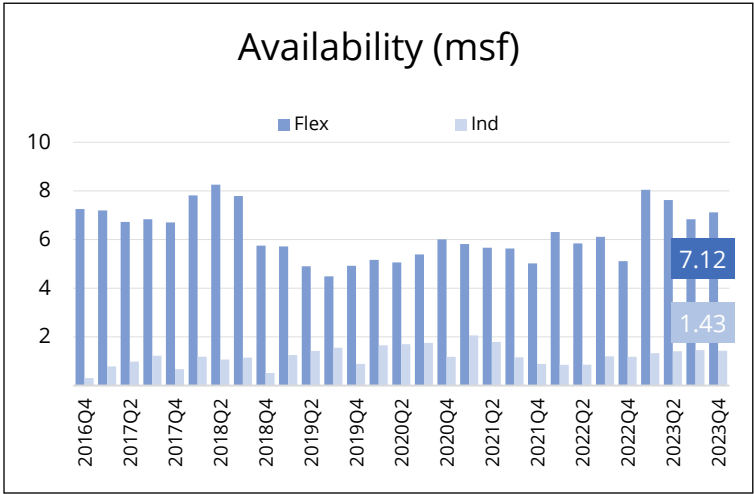
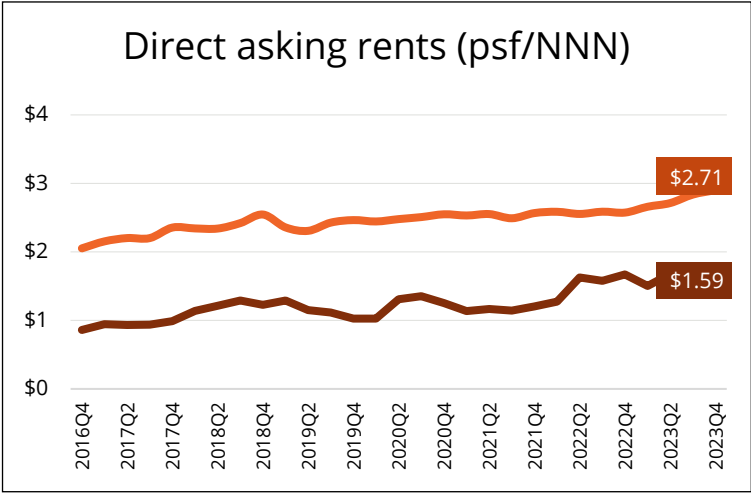
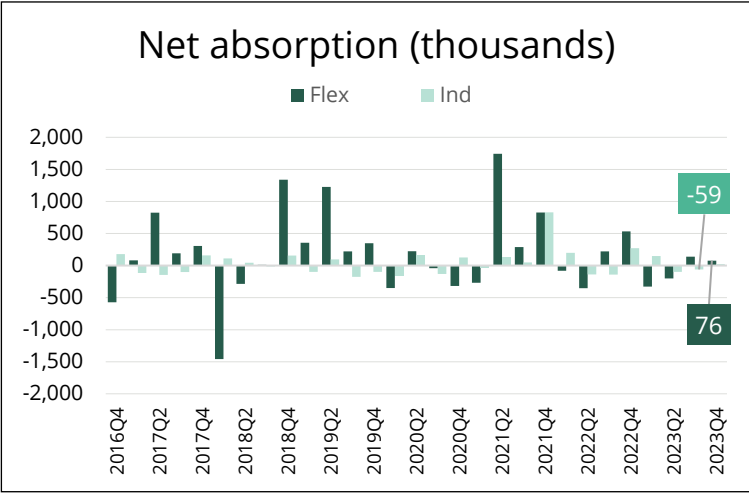
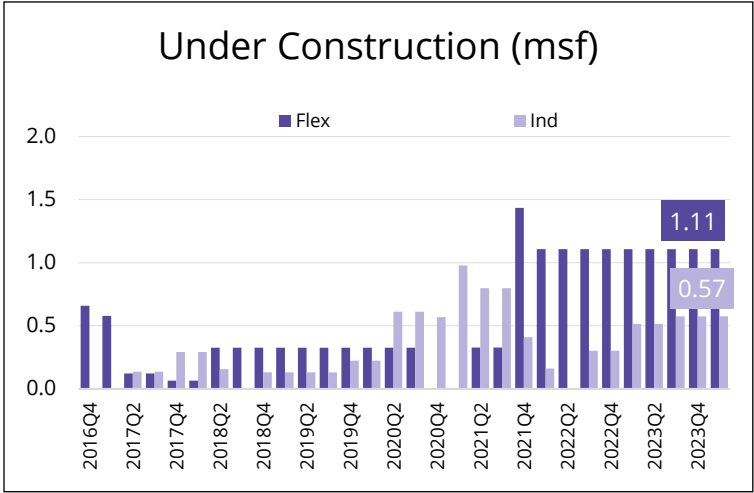
In a stark contrast from flex, industrial vacancy almost entirely resides in new development.



# Appendix



# Silicon Valley industrial market indicators



# Silicon Valley industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct Availability %	Sublet Availability %	Total Availability %	Quarterly Total Net Absorption SF	YTD Total Net Absorption SF	Direct asking rent psf NNN
Central San Jose	482,654	-	-	3.2%	5.1%	8.3%	15,383	(24,788)	\$ 1.53
Gilroy	102,466	-	211,800	63.3%	0.0%	63.3%	-	-	\$ 1.25
Milpitas	3,399,684	-	-	5.4%	2.1%	7.5%	-	25,310	\$ 2.58
Morgan Hill	410,101	-	60,000	69.1%	0.0%	69.1%	-	-	\$ 1.27
Mountain View	60,000	-	-	0.0%	0.0%	0.0%	-	-	
Palo Alto	100,693	-	-	0.0%	0.0%	0.0%	-	-	
San Jose Downtown	152,878	-	-	0.0%	0.0%	0.0%	-	-	
San Jose IBP	1,443,657	-	-	8.6%	0.0%	8.6%	11,850	(66,143)	\$ 1.55
San Jose North	2,863,713	-	-	0.5%	0.0%	0.5%	-	76,683	\$ 1.66
Santa Clara North	327,197	-	-	10.7%	0.0%	10.7%	-	34,902	\$ 1.56
Santa Clara South	526,526	-	-	3.2%	0.0%	3.2%	(5,041)	(5,041)	\$ 1.53
South San Jose	1,789,949	-	302,775	19.3%	1.0%	20.3%	-	(26,800)	\$ 1.49
Sunnyvale	454,205	-	-	0.0%	0.0%	0.0%	-	-	
Sunnyvale Moffett Triangle	35,174	-	-	0.0%	0.0%	0.0%	-	-	
<b>Industrial Total</b>	<b>12,148,897</b>	<b>-</b>	<b>574,575</b>	<b>10.8%</b>	<b>1.0%</b>	<b>11.8%</b>	<b>22,192</b>	<b>14,123</b>	<b>\$ 1.60</b>



# Silicon Valley flex market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct Availability %	Sublet Availability %	Total Availability %	Quarterly Total Net Absorption SF	YTD Total Net Absorption SF	Direct asking rent psf NNN
Campbell	576,700	-	-	2.8%	0.0%	2.8%	130,794	179,086	
Central San Jose	759,422	-	-	46.9%	0.0%	46.9%	-	-	
Cupertino	1,530,624	-	-	0.0%	0.0%	0.0%	-	-	
Gilroy	229,578	-	-	39.7%	0.0%	39.7%	-	-	
Los Gatos/Saratoga	66,400	-	-	0.0%	100.0%	100.0%	-	-	
Milpitas	6,210,661	-	-	5.5%	2.0%	7.5%	(5,418)	(229,195)	\$ 2.57
Morgan Hill	2,357,036	-	-	16.0%	0.0%	16.0%	26,797	(87,797)	\$ 1.50
Mountain View	1,881,138	-	-	16.8%	4.6%	21.4%	(68,387)	(102,476)	\$ 5.53
Mountain View Shoreline	1,059,581	-	-	0.0%	0.0%	0.0%	-	-	
Palo Alto	268,548	-	-	0.0%	13.0%	13.0%	-	-	
Palo Alto Stanford Research Park	1,500,724	-	-	6.2%	1.8%	8.1%	-	5,914	

# Silicon Valley flex market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct Availability %	Sublet Availability %	Total Availability %	Quarterly Total Net Absorption SF	YTD Total Net Absorption SF	Direct asking rent psf NNN
San Jose Downtown	-	-	260,255	0.0%	0.0%	0.0%	-	-	
San Jose IBP	4,763,596	-	-	7.1%	0.1%	7.1%	(2,198)	(272,292)	\$ 1.94
San Jose North	16,460,554	-	-	10.1%	4.3%	13.9%	40,956	(150,955)	\$ 3.15
San Jose West	718,098	-	-	0.0%	0.0%	0.0%	-	-	
Santa Clara Marriott	3,174,048	-	-	19.6%	0.2%	19.8%	(5,785)	383,673	\$ 2.63
Santa Clara North	543,596	-	-	0.0%	0.0%	0.0%	-	-	
Santa Clara South	5,281,506	-	-	10.1%	0.0%	10.1%	-	(50,622)	\$ 2.57
South San Jose	5,282,850	-	-	7.4%	3.4%	10.8%	(32,087)	89,906	\$ 1.89
Sunnyvale	4,330,093	-	847,000	6.1%	1.3%	7.4%	(8,307)	23,162	\$ 3.70
Sunnyvale Moffett Triangle	2,116,438	-	-	5.2%	0.0%	5.2%	-	(60,448)	\$ 2.80
Sunnyvale Peery Park	1,448,807	-	-	15.1%	7.2%	22.4%	-	(40,327)	\$ 4.91
<b>Flex Total</b>	<b>60,559,998</b>	<b>-</b>	<b>1,107,255</b>	<b>9.5%</b>	<b>2.3%</b>	<b>11.8%</b>	<b>76,365</b>	<b>(312,371)</b>	<b>\$ 3.02</b>

# Industrial insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Property subtypes

- **Distribution:** properties used primarily to ship good with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

## Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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