



# **Silicon Valley/ San Francisco Peninsula industrial market report**

Q2 2024

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**AVISON  
YOUNG**

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# Silicon Valley



# Silicon Valley industrial market trends

**-679k sf**

## **Net absorption shows dips as industrial market softens**

After an initial uptick in lease activity following the pandemic lockdowns, the San Francisco Peninsula industrial and flex space markets have seen a decline in demand. This cooling off has been accompanied by a decrease in occupancy as industrial occupiers reduce their space needs, contributing to negative net absorption rates in 2024, surpassing last year's figures. The trend reflects broader economic uncertainties and shifting strategies among tenants, impacting the market's overall performance.

**+2.92%**

## **Flex sublease availability increases with tenant consolidations**

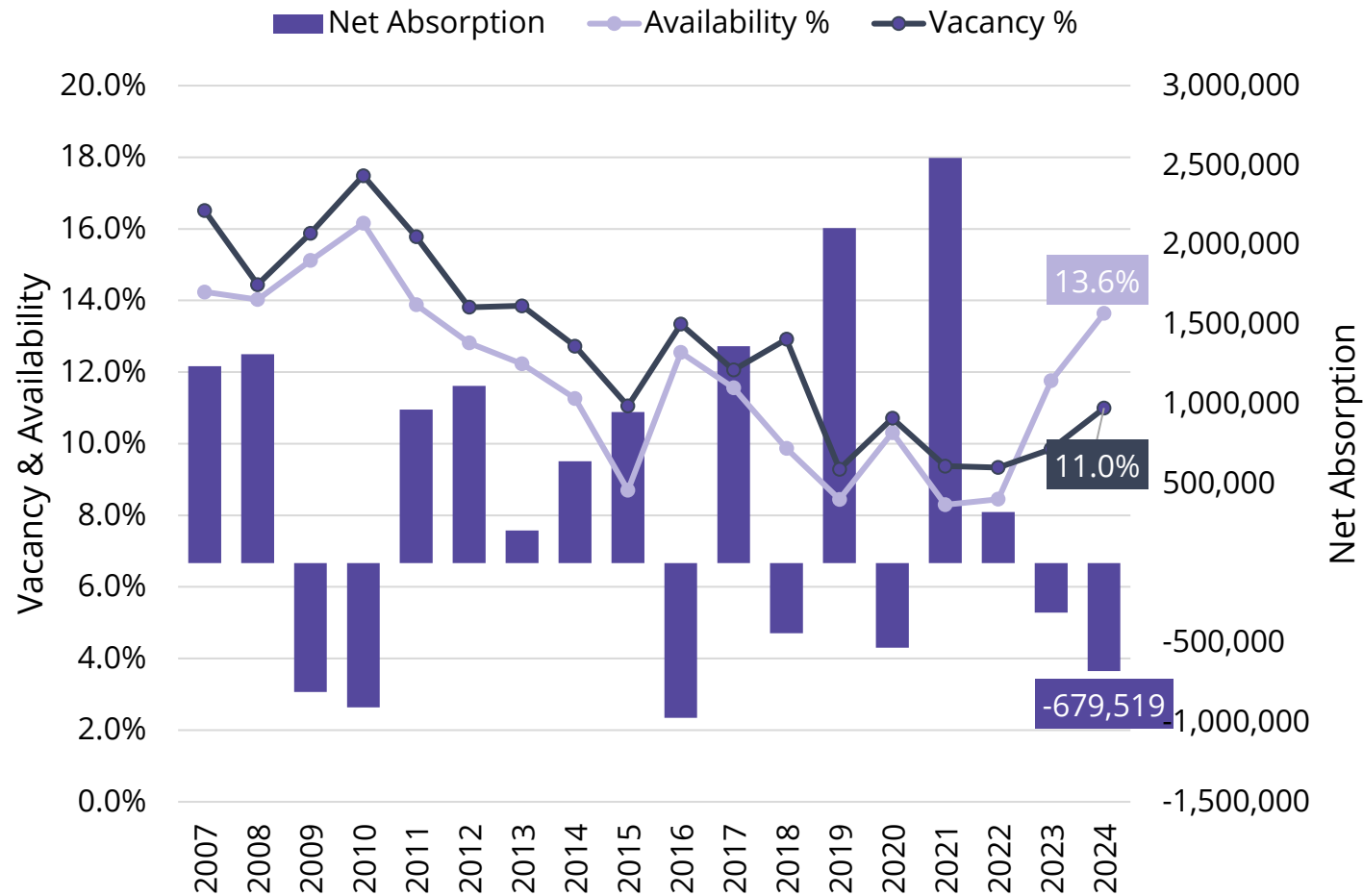
The San Francisco Peninsula industrial market is experiencing a rise in availability and vacancy rates, accompanied by an increase in sublease availability. This trend is partly driven by the tech sector's impact on the flex space market, similar to the office sector. The expiration of sublease space is creating anticipation for potential shifts in market dynamics.

**37.0%**

## **Deals under 10,000 sf dominate industrial leasing**

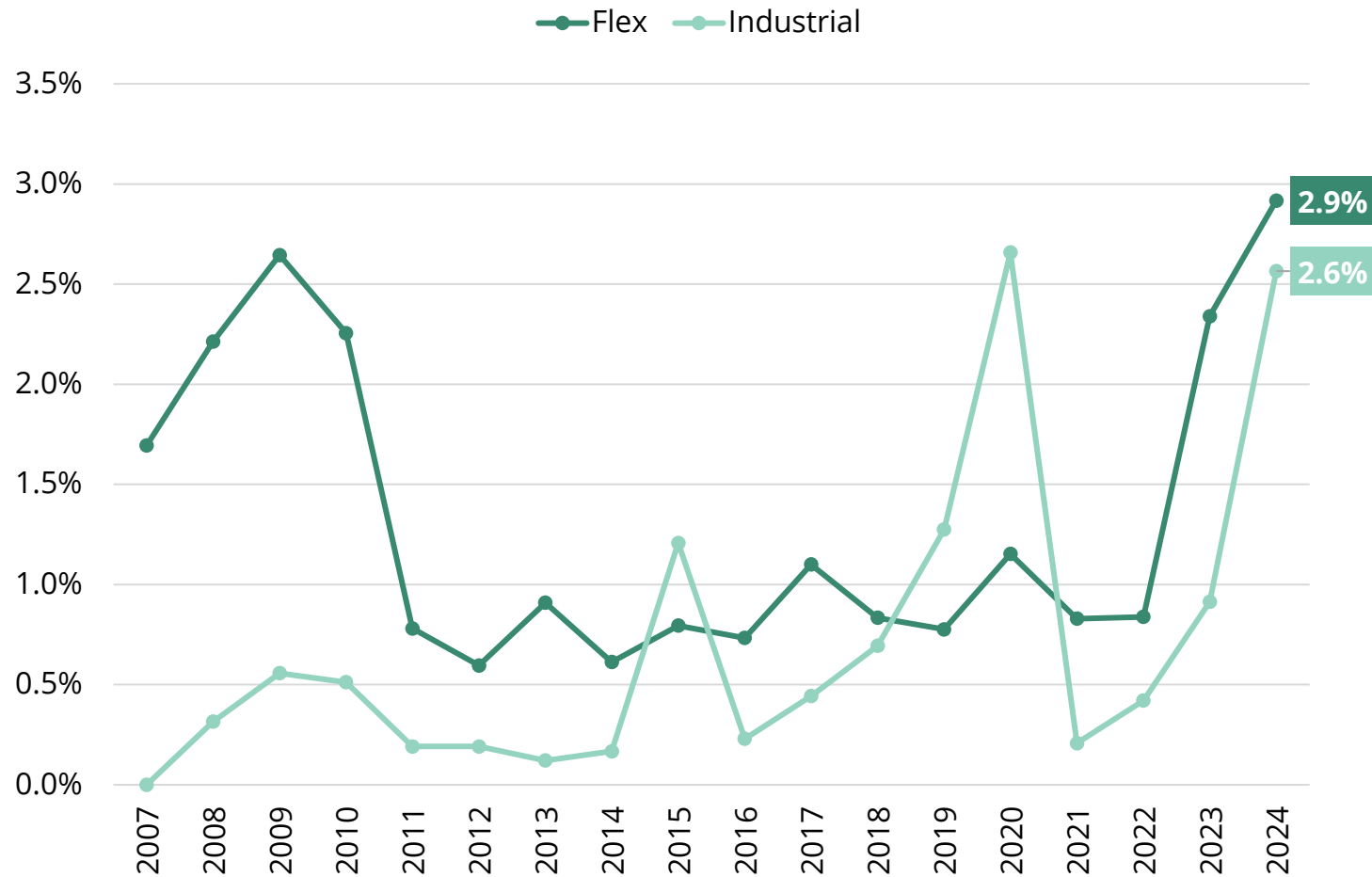
As of the beginning of 2024, the industrial transaction volume has noticeably slowed down due to higher capital costs. More than half of the deals transacted in 2024 were under 20,000 square feet, indicating that larger occupiers are hesitant to expand. Furthermore, over 37% of the deals were under 10,000 square feet. The tech sector accounted for more than a quarter of all deals in 2024, with over 50% being direct or renewal deals and less than 8% involving expansions.

# Vacancy responds to dips in net absorption



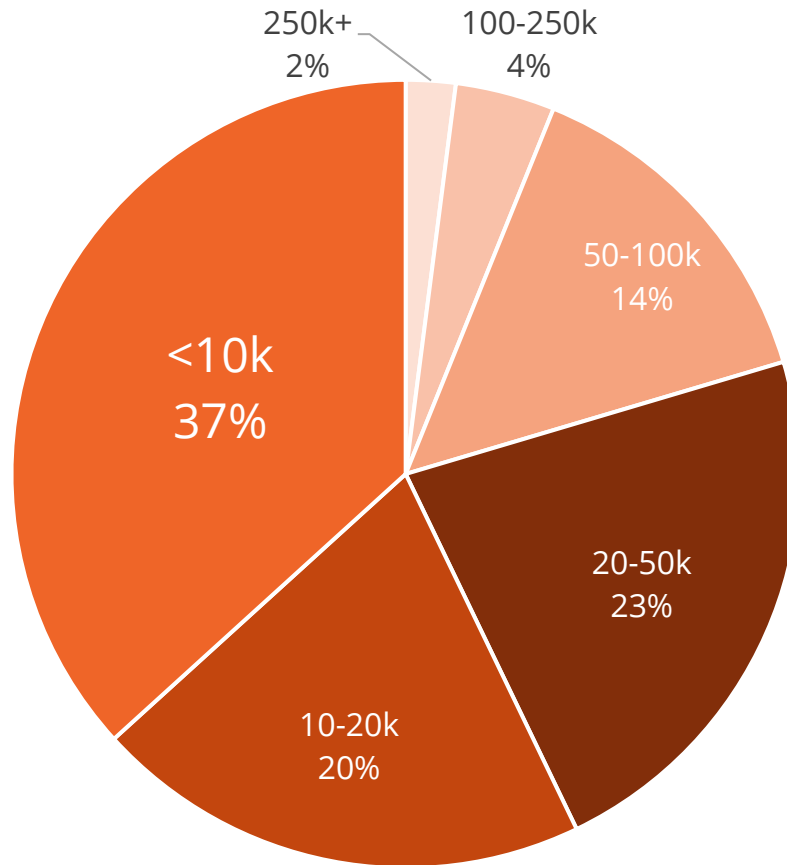
After an initial uptick in lease activity following the pandemic lockdowns, the San Francisco Peninsula industrial and flex space markets have seen a decline in demand.

# Flex sublease availability increases as tech continues to shed unused space



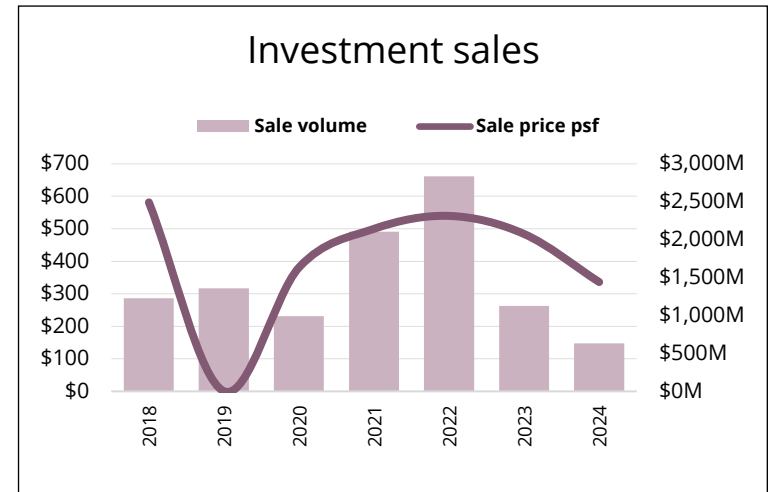
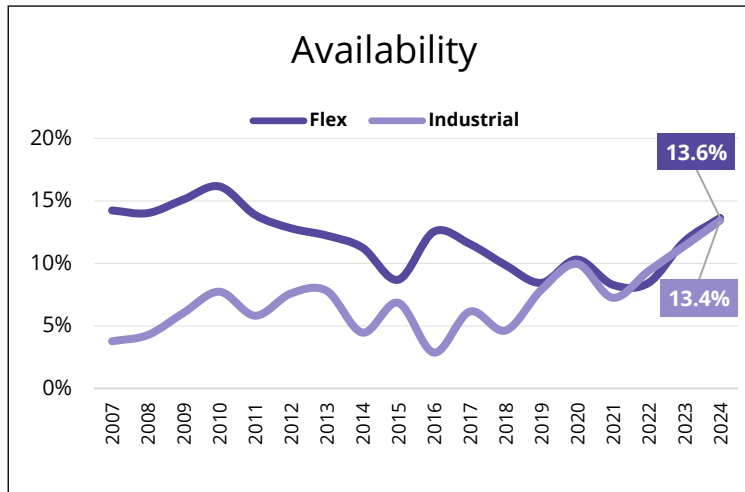
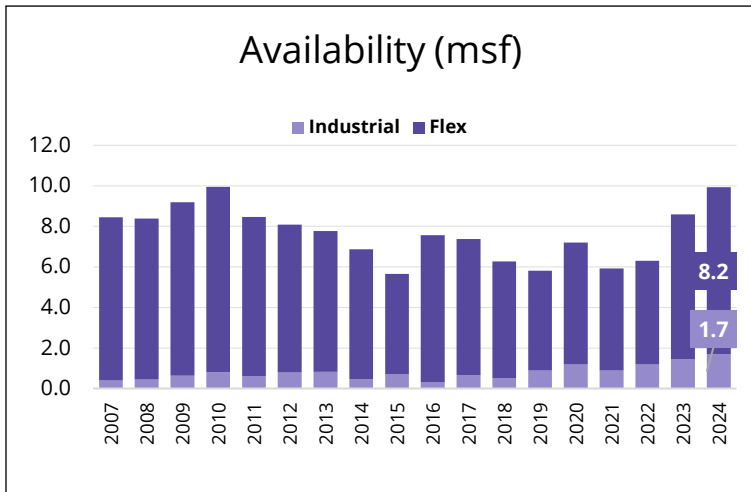
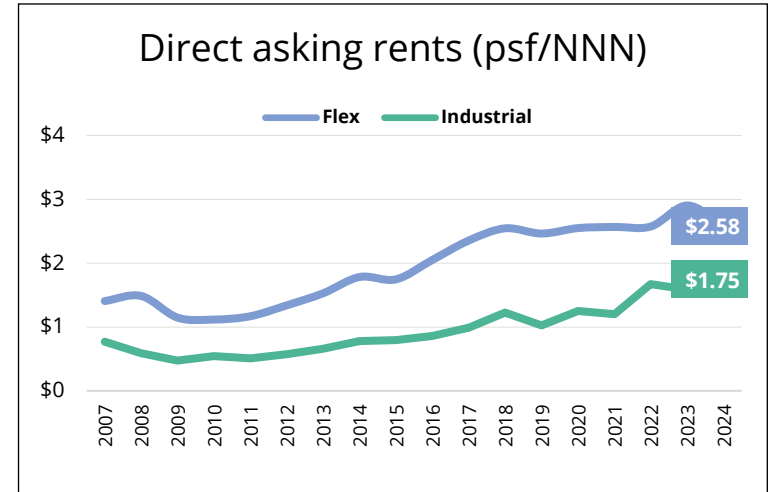
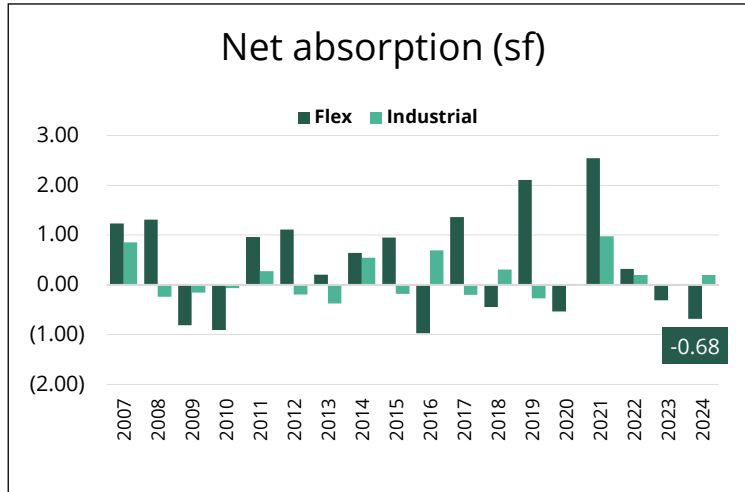
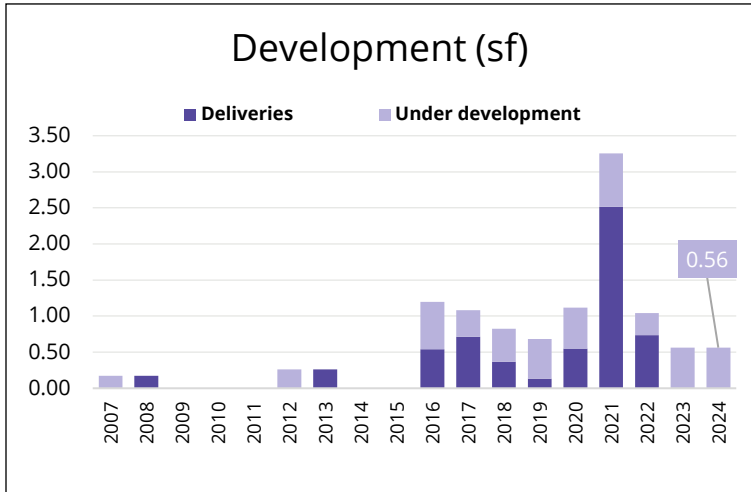
The San Francisco Peninsula industrial market is experiencing a rise in availability and vacancy rates, accompanied by an increase in sublease availability.

# Small deals make up majority of industrial activity in 2024



More than half of the deals transacted in 2024 were under 20,000 square feet, indicating that larger occupiers are hesitant to expand.

# Silicon Valley industrial market indicators



# San Francisco Peninsula





# San Francisco Peninsula industrial market trends

**-747k sf**

## Net absorption witnesses deepest dive since 2009

The San Francisco Peninsula has experienced a notable shift in its industrial market. A lack of tenant demand and reduction in occupancy has driven net absorption into negative territory, marking the deepest decline since the aftermath of the Great Recession. Despite the industrial sector's relative resilience during the pandemic, recent economic challenges, such as inflation and supply chain constraints, have dampened market conditions. This negative trend in net absorption highlights the ongoing struggles within the market, as businesses face uncertainties that impact their space needs and leasing decisions.

**9.2%**

## Key industrial submarkets carry majority of available space

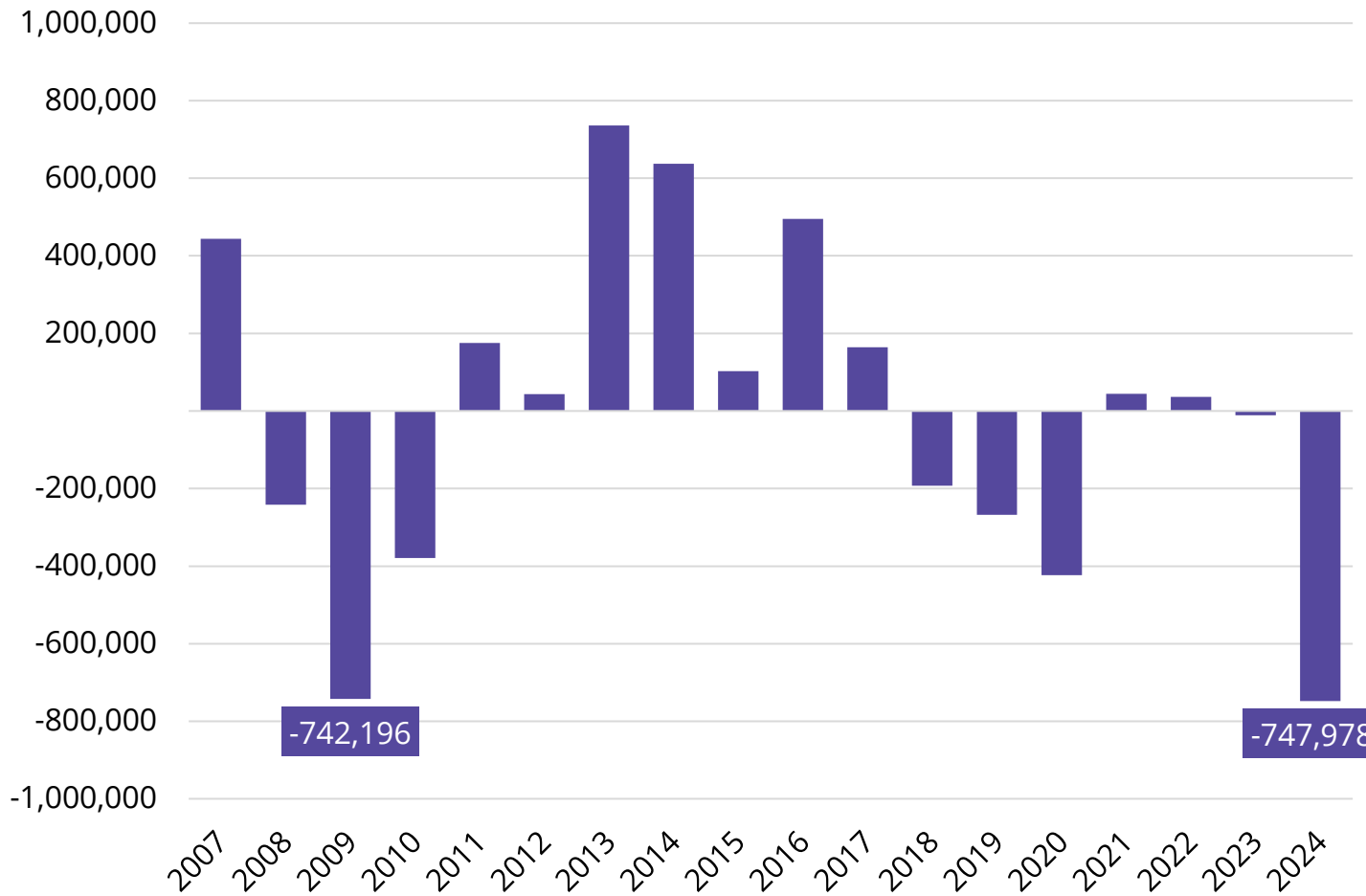
The San Francisco Peninsula, with its limited industrial inventory of just 26 msf, is experiencing a challenging market environment. The largest submarkets, including South San Francisco, Brisbane, and Burlingame, hold the most significant amount of available space and are key to the region's potential recovery. Notably, South San Francisco – East of the 101 has the highest concentration of sublease space, with over 401,308 square feet available. As tenants begin to resume expansion activities, there is optimism for a market recovery and limited inventory could lead to a swift uptick in absorption rates once demand picks up.

**37.3%**

## Expirations concentrated in South San Francisco

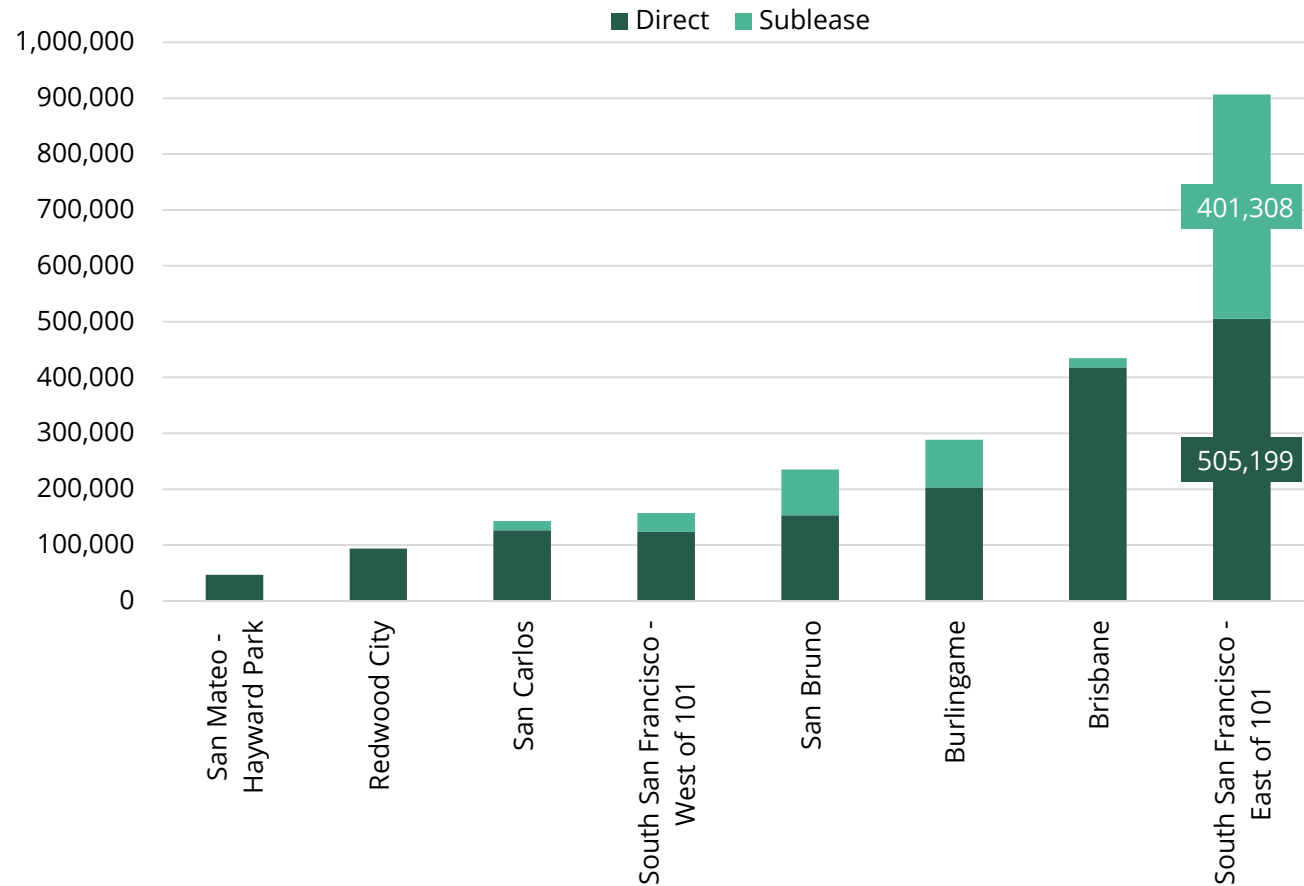
The overall leasing activity for both flex and industrial space has reached its lowest point in over a decade. The rising cost of capital continues to stifle market growth, making it challenging for businesses to commit to new leases or expansions. Large industrial submarkets like South San Francisco are particularly affected, as they have a significant number of lease expirations scheduled over the next four years. This situation could exacerbate market challenges, as the absorption of available space may struggle to meet demand.

# Industrial leasing hits roadblock in 2024



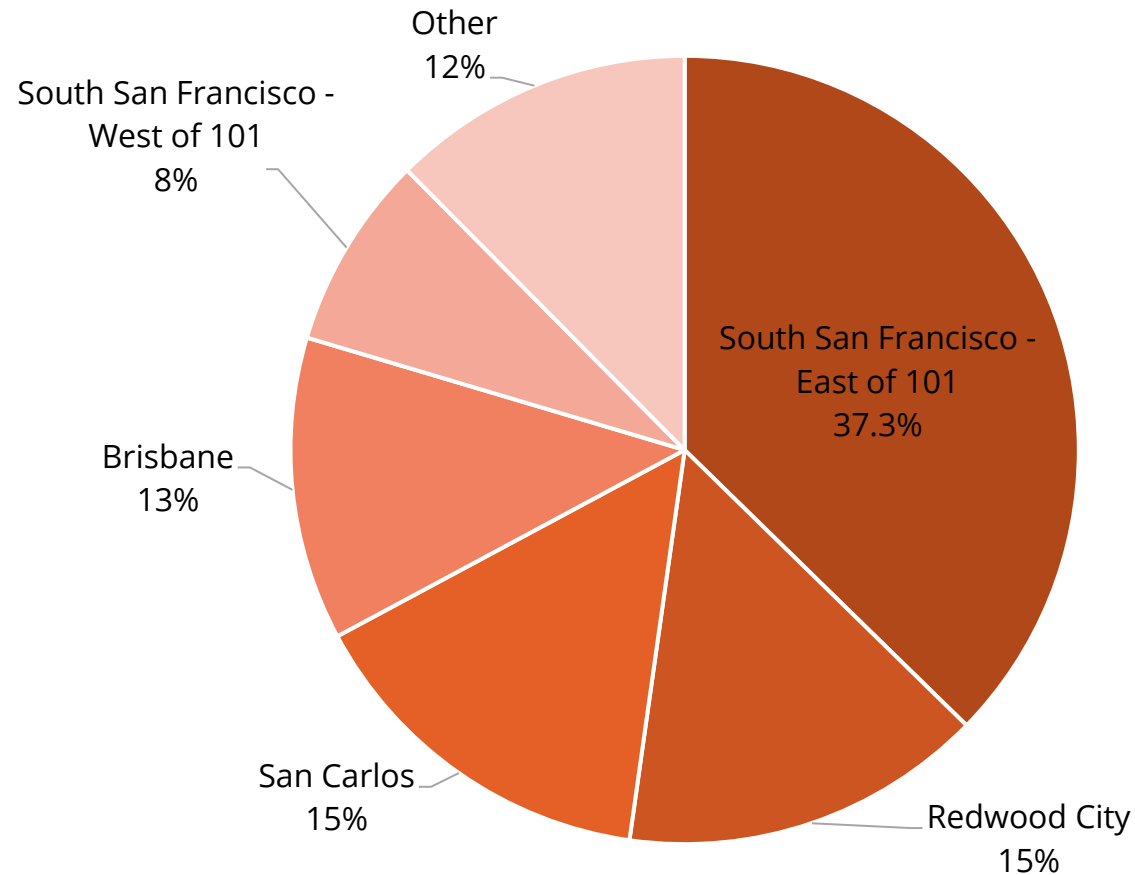
The San Francisco Peninsula has experienced a notable shift in its industrial market. A lack of tenant demand and a reduction in occupancy has driven net absorption into negative territory, marking the deepest decline since the aftermath of the Great Recession.

# Key submarkets make up majority of available industrial space



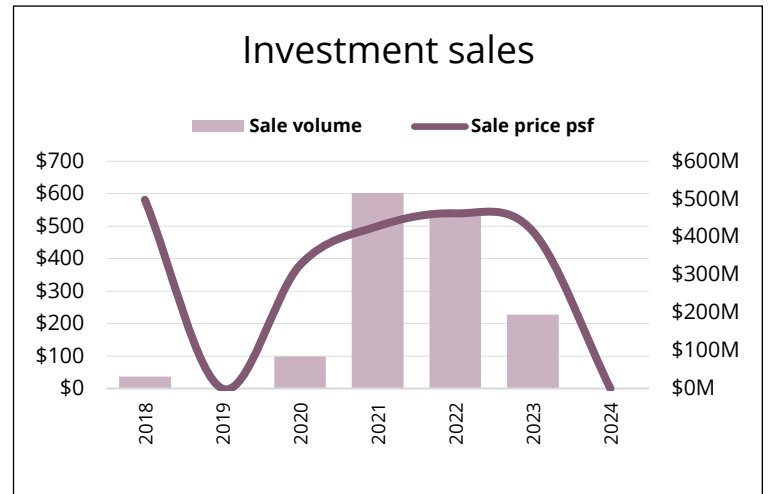
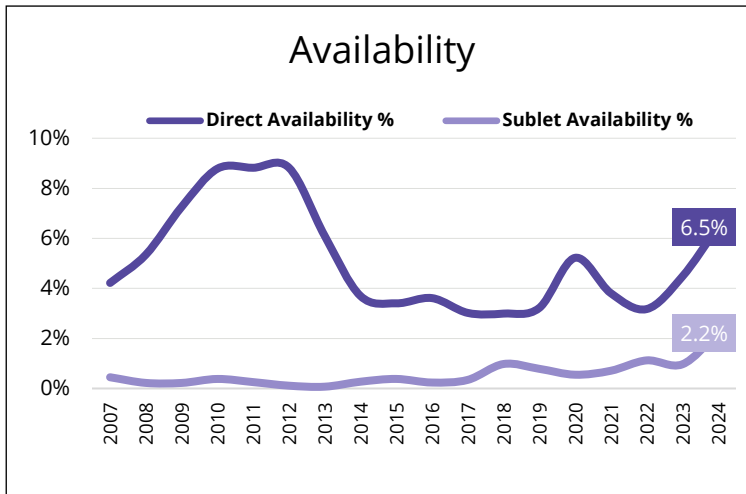
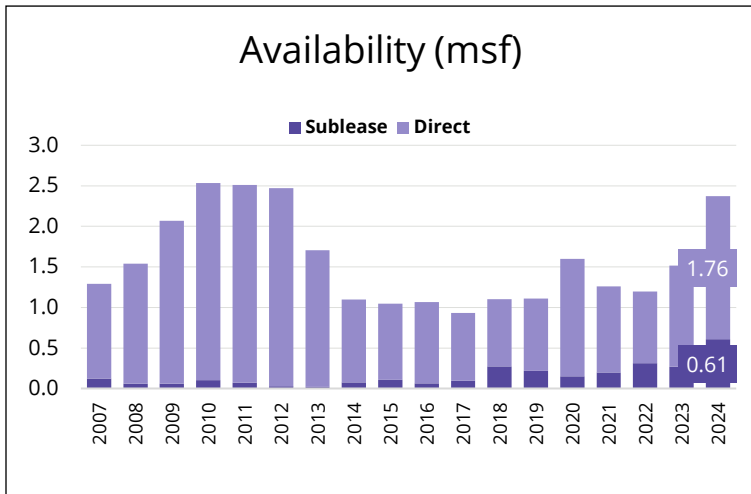
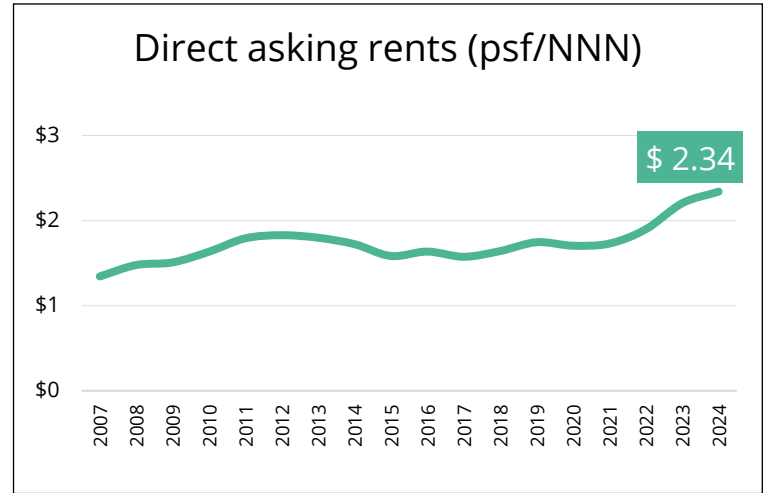
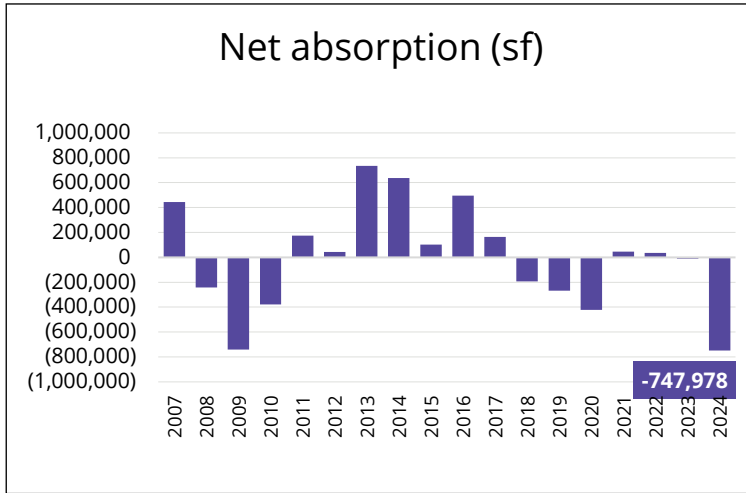
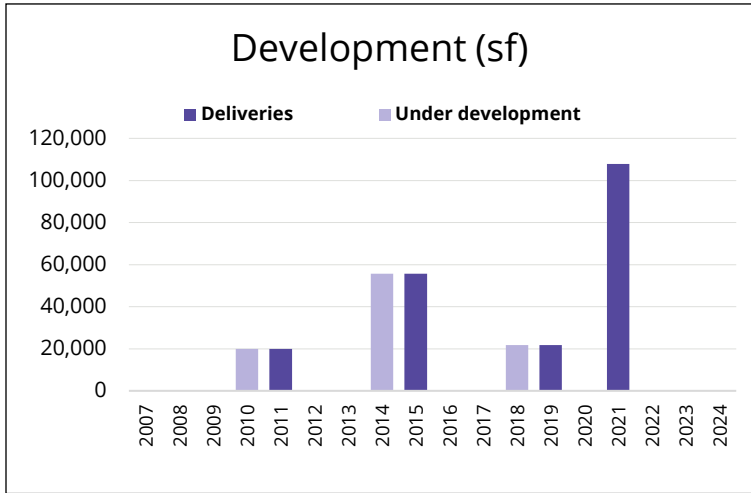
The largest submarkets, including South San Francisco, Brisbane, and Burlingame, hold the most significant amount of available space and are key to the region's potential recovery.

# Upcoming expirations concentrated in South San Francisco



Large industrial submarkets like South San Francisco are particularly affected by upcoming lease expirations, as they have a significant number scheduled over the next four years.

# San Francisco Peninsula industrial market indicators



# Appendix



# Silicon Valley industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Monthly direct asking rent psf NNN
Central San Jose	482,654	-	-	0.0%	5.1%	5.1%	-	0.0%	-
Gilroy	102,466	-	198,965	66.0%	0.0%	66.0%	-	0.0%	\$ 1.25
Milpitas	3,399,684	-	-	5.0%	0.0%	5.0%	20,371	0.6%	\$ 2.64
Morgan Hill	410,101	-	60,000	62.1%	0.0%	62.1%	85,456	20.8%	\$ 1.27
Mountain View	60,000	-	-	0.0%	0.0%	0.0%	-	0.0%	-
Palo Alto	100,693	-	-	0.0%	0.0%	0.0%	-	0.0%	-
San Jose Downtown	152,878	-	-	0.0%	0.0%	0.0%	-	0.0%	-
San Jose IBP	1,443,657	-	-	12.0%	5.4%	17.4%	-103,361	-7.2%	\$ 1.52
San Jose North	2,830,153	-	-	3.8%	1.5%	5.3%	-79,729	-2.8%	-
Santa Clara North	327,197	-	-	0.0%	6.1%	6.1%	-19,831	-6.1%	-
Santa Clara South	526,526	-	-	0.0%	0.0%	0.0%	5,041	1.0%	-
South San Jose	1,739,755	-	302,775	20.2%	7.7%	27.9%	-57,748	-3.3%	\$ 1.48
Sunnyvale	454,205	-	-	0.0%	0.0%	0.0%	-	0.0%	-
Sunnyvale Moffett Triangle	35,174	-	-	0.0%	0.0%	0.0%	-	0.0%	-
<b>Market Total</b>	<b>12,065,143</b>	<b>-</b>	<b>561,740</b>	<b>11.2%</b>	<b>2.7%</b>	<b>13.9%</b>	<b>-149,801</b>	<b>-1.2%</b>	<b>\$ 1.63</b>

# Silicon Valley flex market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Monthly direct asking rent psf NNN
Submarket	576,700	-	-	0.0%	0.0%	0.0%	-	0.0%	\$ 2.50
Campbell	759,422	-	-	54.8%	0.0%	54.8%	-	0.0%	\$ 0.65
Central San Jose	1,530,624	-	-	0.0%	0.0%	0.0%	-	0.0%	-
Cupertino	229,578	-	-	0.0%	0.0%	0.0%	-	0.0%	-
Gilroy	66,400	-	-	0.0%	0.0%	0.0%	-	0.0%	-
Los Gatos/Saratoga	6,208,688	-	-	12.1%	1.8%	13.9%	-62,940	-0.8%	\$ 2.62
Milpitas	2,357,036	-	-	16.0%	0.0%	16.0%	-	0.0%	\$ 1.50
Morgan Hill	1,881,138	-	-	13.2%	5.6%	18.8%	-13,891	-0.2%	\$ 3.86
Mountain View	1,059,581	-	-	0.0%	0.0%	0.0%	-	0.0%	-
Mountain View Shoreline	268,548	-	-	0.0%	0.0%	0.0%	34,876	0.0%	-
Palo Alto	1,500,724	-	-	6.2%	0.0%	6.2%	-	0.0%	-



# Silicon Valley flex market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Monthly direct asking rent psf NNN
San Jose IBP	4,703,168	-	-	8.2%	0.0%	8.2%	85,509	1.4%	\$ 1.97
San Jose North	16,465,623	-	-	6.8%	1.6%	8.4%	64,315	-0.4%	\$ 2.99
San Jose West	718,098	-	-	10.1%	0.0%	10.1%	-72,774	0.0%	-
Santa Clara Marriott	3,174,048	-	-	18.9%	0.2%	19.1%	-136,700	-4.3%	\$ 2.63
Santa Clara North	543,596	-	-	0.0%	0.0%	0.0%	-	0.0%	-
Santa Clara South	5,216,143	-	-	9.4%	0.0%	9.4%	-50,228	0.0%	\$ 2.66
South San Jose	5,282,850	-	-	7.2%	0.7%	7.9%	-116,160	-2.7%	\$ 1.97
Sunnyvale	4,330,093	-	-	9.1%	1.5%	10.6%	-118,208	0.0%	\$ 3.50
Sunnyvale Moffett Triangle	2,116,438	-	-	4.6%	0.0%	4.6%	66,049	0.3%	\$ 2.80
Sunnyvale Peery Park	1,448,807	-	-	15.1%	3.6%	18.8%	-	0.0%	\$ 4.91
<b>Market Total</b>	<b>60,437,303</b>	<b>-</b>	<b>-</b>	<b>9.4%</b>	<b>1.0%</b>	<b>10.4%</b>	<b>-320,152</b>	<b>-0.5%</b>	<b>\$ 2.66</b>

# San Francisco Peninsula industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Monthly direct asking rent psf NNN
Belmont	113,776	-	-	2.4%	0.0%	2.4%	-	0.0%	-
Brisbane	3,866,473	-	-	11.2%	0.4%	11.6%	-167,668	-4.3%	\$ 1.96
Burlingame	3,101,223	-	-	6.9%	0.0%	6.9%	-82,939	-2.7%	\$ 2.22
Daly City	996,085	-	-	0.0%	0.0%	0.0%	-	0.0%	-
East Palo Alto	211,573	-	-	0.0%	0.0%	0.0%	32,620	15.4%	-
Foster City	495,314	-	-	0.0%	0.0%	0.0%	-	0.0%	-
Menlo Park	2,102,644	-	-	0.9%	0.0%	0.9%	-1,716	-0.1%	\$ 3.98
Millbrae	58,241	-	-	37.2%	0.0%	37.2%	-	0.0%	\$ 2.06
Redwood City	1,869,712	-	-	3.2%	0.0%	3.2%	-124	0.0%	\$ 2.26
San Bruno	1,786,300	-	-	21.0%	0.5%	21.6%	-148,646	-8.3%	\$ 2.08
San Carlos	2,475,513	-	-	5.1%	0.7%	5.8%	-52,827	-2.1%	\$ 2.24

# San Francisco Peninsula industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Monthly direct asking rent psf NNN
San Mateo - Downtown	41,505	-	-	0.0%	11.5%	11.5%	-	0.0%	-
San Mateo - Hayward Park	83,175	-	-	56.3%	0.0%	56.3%	-	0.0%	\$ 2.47
San Mateo - South of 92	71,504	-	-	0.0%	0.0%	0.0%	-	0.0%	-
San Mateo - West	51,000	-	-	0.0%	0.0%	0.0%	-	0.0%	-
South San Francisco - East of 101	6,308,656	-	-	7.2%	1.4%	8.5%	-213,127	-3.4%	\$ 1.78
South San Francisco - West of 101	4,028,114	-	-	3.7%	0.1%	3.8%	-60,076	-1.5%	\$ 1.89
<b>Overall</b>	<b>23,680,559</b>	-	-	<b>8.0%</b>	<b>0.6%</b>	<b>8.6%</b>	<b>-694,503</b>	<b>-0.3%</b>	<b>\$ 2.29</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

For more market insights and  
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**Dina Gouveia**

Regional Lead, Market Intelligence  
U.S. West  
dina.gouveia@avisonyoung.com

**Louis Thibault**

Senior Market Intelligence Analyst  
Northern California  
louis.thibault@avisonyoung.com

**Howard Huang**

Market Intelligence Analyst  
Northern California  
howard.huang@avisonyoung.com