

MARKET FUNDAMENTALS

	YOY Chg	Outlook
6.5% Vacancy Rate	▲	▼
946K YTD Net Absorption, SF	▲	▲
\$1.68 Asking Rent, PSF (Overall, Net Asking Rent, All Sectors)	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.18M San Jose MSA Employment*	▲	▬
3.8% San Jose MSA Unemployment Rate*	▼	▲
4.2% U.S. Unemployment Rate	▼	▲

Source: BLS
*Q3 2026 figures are latest available data

VENTURE CAPITAL FUNDING DROPS, THOUGH STILL IMPRESSIVE

For the San Jose MSA, the unemployment rate dropped 60 basis points (bps) year-over-year (YOY) closing at 3.8%, while nonfarm employment increased by 18,300 jobs over the same period. Despite these positive numbers, office jobs, particularly within the tech sector, continued to record layoffs in the third quarter, totaling just over 2,200 lost positions.

Venture capital funding into Santa Clara County-based companies closed the third quarter at \$14.1 billion (B) in 199 deals, down in both dollars and deals from \$21.2B in 217 deals in the second quarter. That said, funding remains well above the historical average, with the year-to-date figure closing at \$43.1B. The largest deals in the third quarter were Tenstorrent (Santa Clara) with a \$1.3B funding round, followed by River AI (Palo Alto) with a \$1.1B funding round.

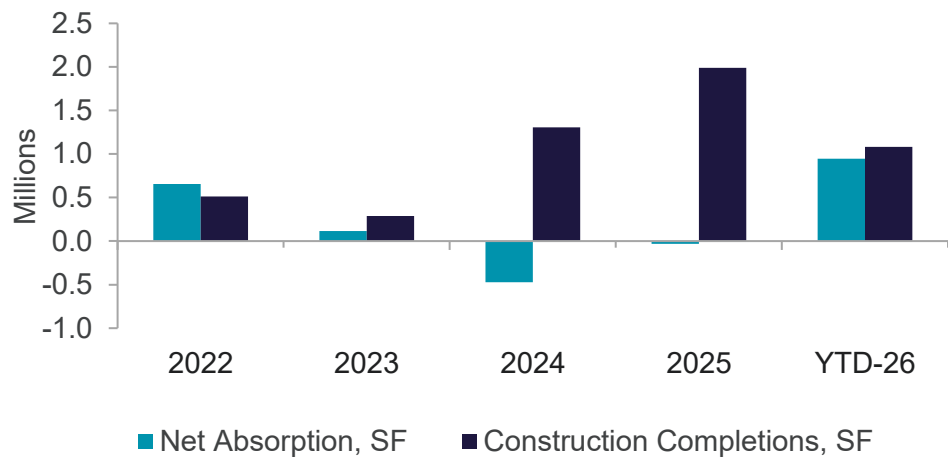
VACANCY TICKS HIGHER, THOUGH SUBLEASE SPACE DECLINES

The overall industrial vacancy rate across all sectors in Silicon Valley (the Valley) closed the third quarter at 6.5%, equating to approximately 7.8 million square feet (msf) of vacant space. Vacancy increased by 20 bps quarter-over-quarter (QOQ) from 6.3% and 80 bps YOY from 5.7%. Despite the slight rise in vacancy, the figure for industrial remained in the single digits and well below office (17.4%) and R&D (12.0%) levels. The warehouse sector continued to have a higher vacancy rate than the manufacturing sector, with rates at 6.6% and 6.4%, respectively. The Morgan Hill/Gilroy submarket maintained the highest vacancy rate, at 11.6%, translating to 1.1 msf of industrial product in the third quarter. Sublease vacancy totaled 868,000 sf in the third quarter, down 178,000 sf (17.0%) QOQ; it accounted for 11.1% of total market vacancy.

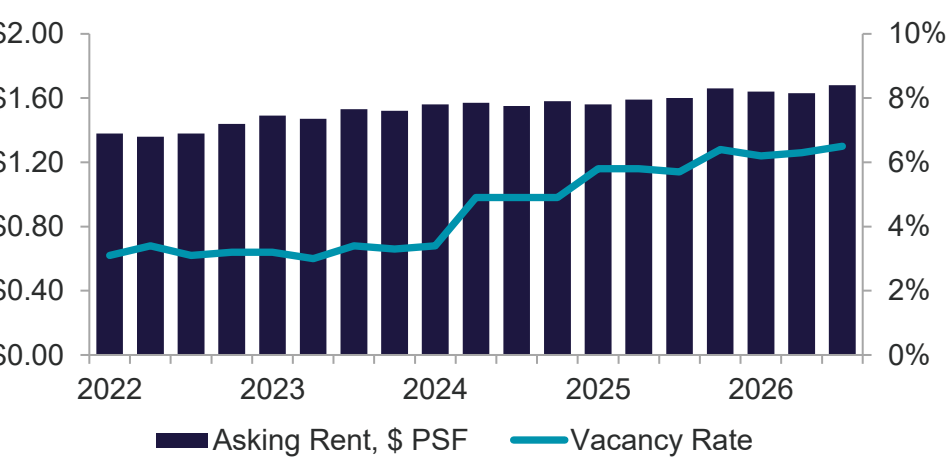
ASKING RATES EDGE UP

The overall average asking rate for industrial product across all sectors in the Valley closed the third quarter at \$1.68 per square foot (psf), on a monthly triple net (NNN) basis, up \$0.05 psf (3.1%) QOQ and \$0.08 psf (5.0%) YOY. The average asking rates for the warehouse and manufacturing sectors both closed higher, settling at \$1.56 psf and \$1.76 psf, respectively.

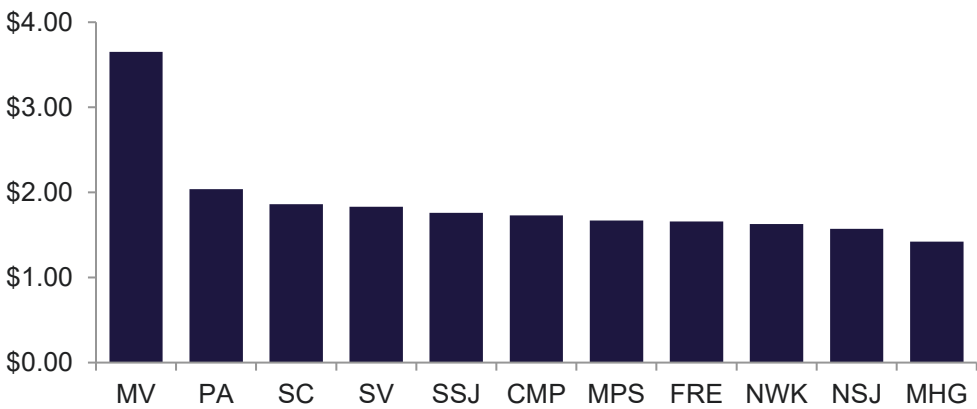
SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



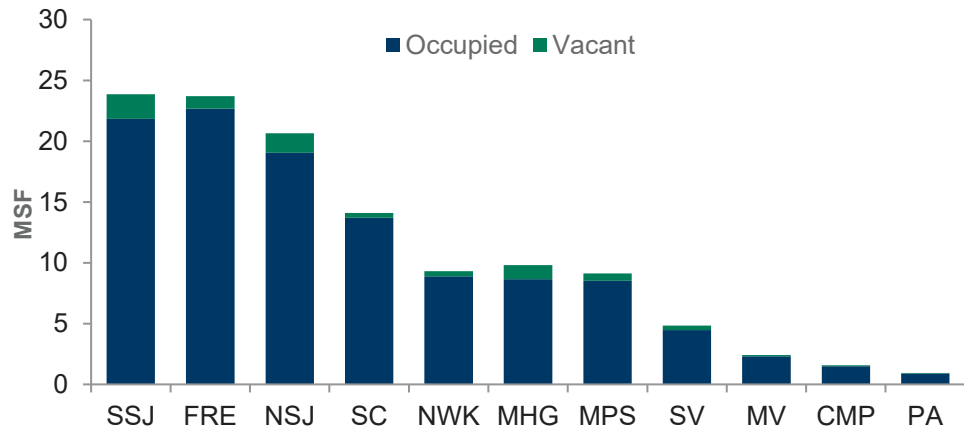
AVERAGE ASKING RATE BY SUBMARKET



WAREHOUSE/MANUFACTURING ASKING RENT



OCCUPIED VS. VACANT SPACE



GROSS ABSORPTION EASES

Deal activity eased in the third quarter with gross absorption (combined leasing and user-sale activity) at approximately 3.1 msf, down 177,000 sf (5.4%) QOQ but up 668,000 sf (27.7%) YOY. There was 979,000 sf of renewal activity recorded in the third quarter. Sales activity during the quarter totaled approximately 1.9 msf, with 703,000 sf of warehouse product and 1.2 msf of manufacturing product purchased. Investor sales accounted for 74.8% of total square footage sold, compared with 25.2% for user sales.

NET ABSORPTION SLOWS

The third quarter recorded net absorption gains of 29,000 sf across all sectors, down 592,000 sf from the previous quarter's gain of 621,000 sf and down 165,000 sf from the 194,000-sf gain recorded a year ago. By sector, warehouse recorded losses of 140,000 sf, while manufacturing recorded gains of 169,000 sf. The South San Jose submarket yielded the highest net absorption in the Valley at 234,000 sf, largely driven by PODS' occupancy of a 104,000-sf warehouse facility at 1959 Monterey Road in the Monterey Business Center. In contrast, the Fremont submarket recorded the steepest net absorption loss among all submarkets, totaling 121,000 sf. This decline was driven primarily by the former Fry's Electronics building at 43800 Osgood Road, a roughly 150,000-sf warehouse facility, which became vacant in the third quarter.

NEW GROUNDBREAKINGS AND ONE COMPLETION

The third quarter concluded with three warehouses and eleven manufacturing buildings under construction, totaling approximately 1.6 msf across the Valley. Of the 14 buildings underway, only four are build-to-suit projects, while the remaining ten are speculative. Two projects broke ground in the third quarter. 760 Jarvis Drive in Morgan Hill is a 44,000-sf speculative warehouse facility with no preleasing activity, and it is expected to complete in the third quarter of 2027. Prologis Bayside, located at 46895 Bayside Parkway in Fremont, is a 203,000-sf manufacturing building being developed as a build-to-suit for Quanta, which preleased the entire building during the third quarter and is expected to occupy it upon completion in the third quarter of 2027. Overall, 342,000 sf of industrial space is projected to be delivered next quarter, of which only 84,000 sf remains unleased.

One project completed in the third quarter, a 294,000-sf manufacturing facility in Oak Creek Business Park at 475 Sycamore Drive in Milpitas. The project is fully vacant and available for lease. Looking ahead, 12 projects totaling 2.4 msf remain in the proposed stage of the development pipeline, with 57.6% of the square footage planned to be speculative and 42.4% designated as build-to-suit.

OUTLOOK

- Overall industrial vacancy is projected to remain low, driven by sustained demand from sectors such as e-commerce, logistics, electric vehicle manufacturing, and artificial intelligence hardware production, all of which rely on advanced manufacturing, warehouse, and distribution facilities.
- Pricing for the ever-tight premium product, including newly constructed space, is expected to continue rising; however, this upward pressure may be offset by increased sublease space and the return of older assets to the market.
- With approximately 3.1 msf completed since the first quarter of 2025, and 1.6 msf currently under construction, developers remain optimistic about easing supply constraints and meeting current demand; however, proposed projects are expected to remain stalled until newly completed speculative space is absorbed and elevated land and material costs subside.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT
Palo Alto	933,242	39,820	4.3%	0	14,560	0	0	\$2.04	\$0.00	\$2.04
Mountain View	2,421,454	107,921	4.5%	-23,668	-19,080	0	0	\$3.65	\$0.00	\$3.65
101 Technology Corridor	3,354,696	147,741	4.4%	-23,668	-4,520	0	0	\$3.22	\$0.00	\$3.22
Campbell	1,567,688	79,630	5.1%	11,082	19,882	0	0	\$1.73	\$0.00	\$1.73
Sunnyvale	4,829,395	368,031	7.6%	1,915	111,814	0	0	\$2.63	\$1.73	\$1.83
Santa Clara	14,108,703	414,696	2.9%	86,325	187,556	107,000	0	\$1.86	\$2.05	\$1.86
North San Jose	20,638,460	1,581,631	7.7%	-46,808	142,467	642,223	786,041	\$1.60	\$1.47	\$1.57
South San Jose	23,868,456	2,024,293	8.5%	234,008	114,531	0	0	\$2.00	\$1.57	\$1.76
Central Silicon Valley	65,012,702	4,468,281	6.9%	286,522	576,250	749,223	0	\$1.80	\$1.58	\$1.71
Milpitas	9,116,347	596,109	6.5%	1,122	138,001	0	294,000	\$1.72	\$1.56	\$1.67
Fremont	23,691,390	1,021,354	4.3%	-120,616	307,020	737,553	0	\$1.65	\$1.76	\$1.66
Newark	9,295,639	415,871	4.5%	-58,782	52,466	0	0	\$1.49	\$1.49	\$1.63
South I-880 Corridor	42,103,376	2,033,334	4.8%	-178,276	497,487	737,553	294,000	\$1.64	\$1.67	\$1.65
Morgan Hill/Gilroy	9,797,052	1,138,307	11.6%	-55,341	-123,556	62,825	0	\$1.53	\$1.20	\$1.42
SUBTYPE BREAKDOWN										
Warehouse	48,143,095	3,182,221	6.6%	-139,456	368,321	278,492	71,550			
Manufacturing	72,124,731	4,605,442	6.4%	168,693	577,340	1,271,109	1,008,491			
SILICON VALLEY TOTALS	120,267,826	7,787,663	6.5%	29,237	945,661	1,549,601	1,080,041	\$1.76	\$1.56	\$1.68

*Rental rates reflect weighted net asking \$psf/month *Market indicators are not reflective of U.S. MarketBeat tables

MF = Manufacturing W/D = Warehouse/Distribution

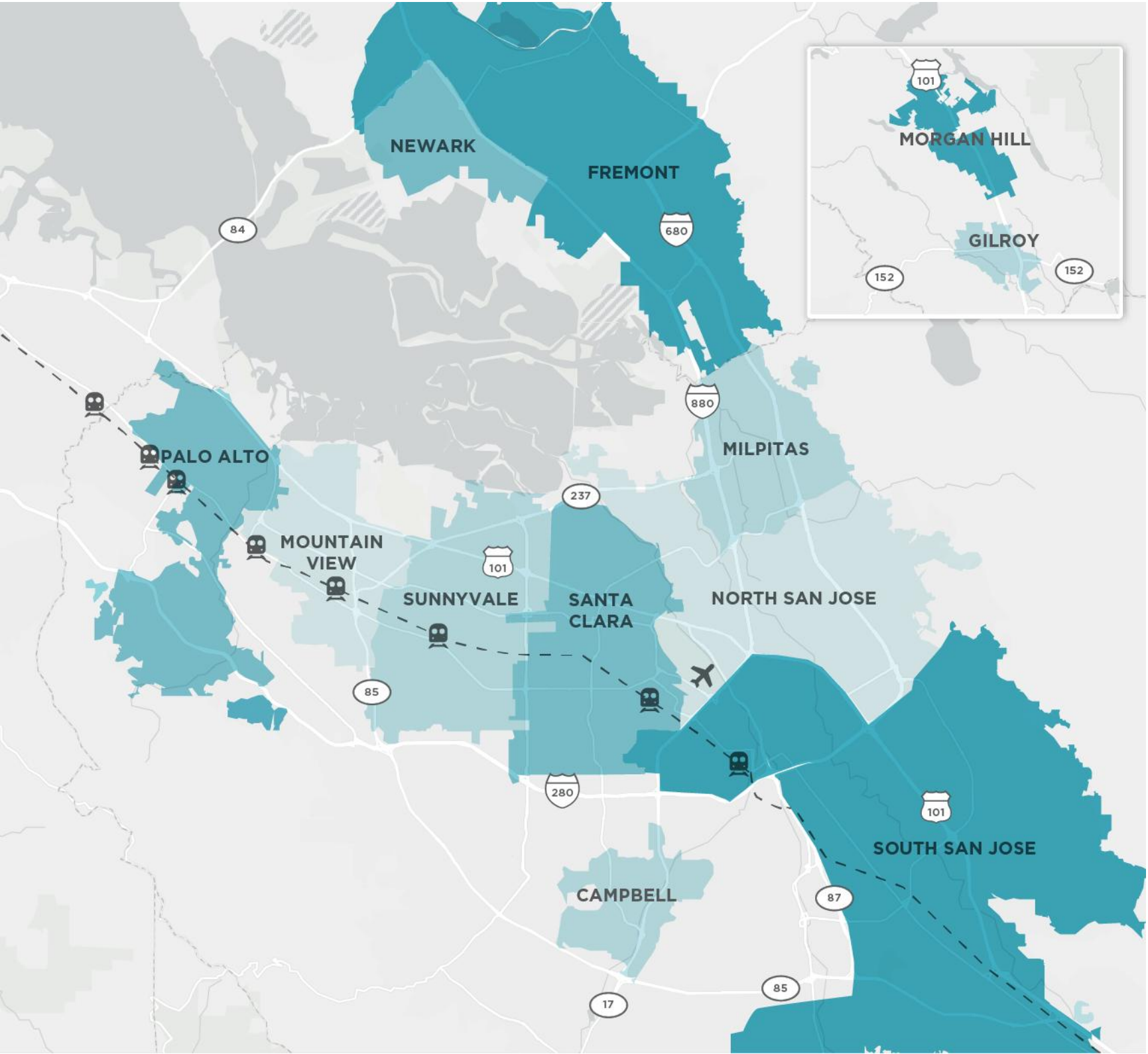
KEY LEASE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Cochrane Technology Park	Morgan Hill/Gilroy	Confidential	501,314	New Lease
46895 Bayside Parkway	Fremont	Quanta	203,414	New Lease
8311 Central Ave	Newark	Quanta	198,768	New Lease
925-935 McLaughlin Ave	South San Jose	Legacy Transportation Services	189,400	Renewal
585-587 Charcot Ave & 2250 Zanker Rd	North San Jose	Future Motion, Inc.	178,840	Renewal

KEY SALE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
Warm Springs Business Park	Fremont	Link Logistics Real Estate / Wistron Corporation	374,730	\$120.0M / \$320
Dixon Landing Business Park	Milpitas	DRA Advisors / Galvanize Real Estate	301,461	\$93.7M / \$311
47020 Kato Rd	Fremont	KKR / Clarion Partners	209,916	\$89.5M / \$426
45101-45169 Industrial Dr	Fremont	Link Logistics Real Estate / Bridge Logistics Properties	198,676	\$61.4M / \$309
18215 Butterfield Blvd	Morgan Hill/Gilroy	Invesco Real Estate / MIR Group, Inc.	82,446	\$19.6M / \$238

INDUSTRIAL SUBMARKETS



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