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SANTA CLARA COUNTY REGIONAL INTELLIGENCE REPORT

PRODUCED BY BEACON ECONOMICS, LLC

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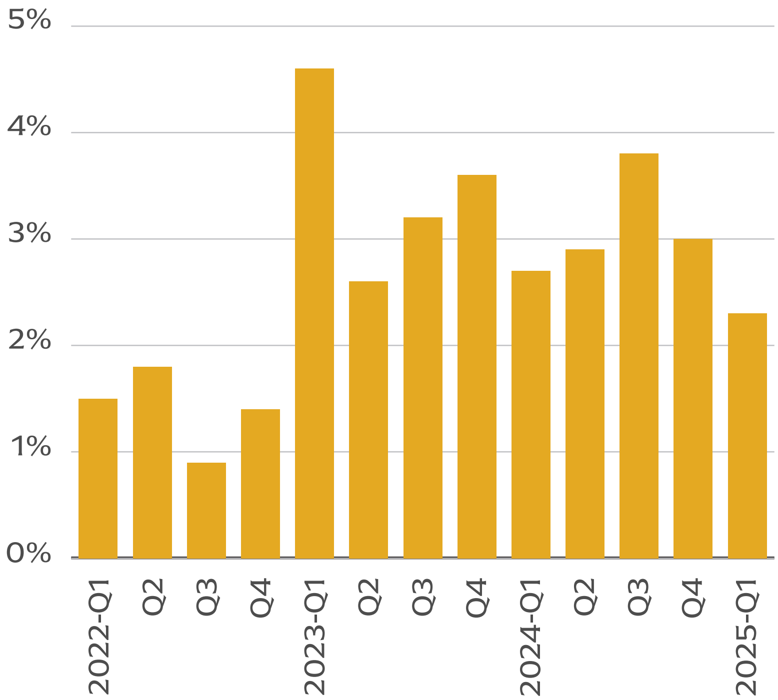
United States Outlook

The first 100 days of the second Trump administration has undoubtedly delivered a large shock to the U.S. economy. Still, the small negative growth rate in the first quarter of 2025 is assuredly not the start of a Trump-driven recession. The economy came into 2025 with good momentum, and final demand (real spending by consumers, businesses, and government) growth in the first quarter expanded by 2.3% SAAR. It was the surge in imports—rushing to stockpile before President Trump's tariffs hit—that caused the negative estimate. Beacon Economics anticipates better growth in the second quarter, a point of view supported by strong March consumer spending numbers, as well as April employment numbers.

U.S. Real Final Demand Growth (%, SAAR)



Source: U.S. Bureau of Economic Analysis. Analysis by Beacon Economics

Nevertheless, our forecast for the U.S. economy now includes an increased probability of a recession in the next twelve months: we estimate a 30% likelihood in the coming year. This is lower than the average (45%) in the most recent Wall Street Journal 'Economic Forecasting Survey', but it's the highest probability Beacon Economics has estimated since the start of 2020. Our lower estimate does not mean that we are more optimistic than other forecasts—we are very worried about the health of the U.S. economy. But our concern stems more from chronic issues, rather than the acute problems being brought on by the current administrations' rapidly change set of policies.

As chaotic as they may be, we don't believe President Trump's wave of policy gyrations are sufficient to cause a recession in and of themselves. Many of the administration's policy reversals have little to do with current economic flows, regardless of their potential long run impact on the nation. The Department of Government Efficiency (DOGE) driven spending cuts are minuscule relative to the scale of Federal spending. Tariffs are clearly the largest risk, and the President has thankfully continued to back down from many of his more draconian threats—at least for now. As for the wobbly and uncertain equity market, it doesn't compare to the ongoing strength of U.S. household finances, namely record high net worth and growing real disposable income. In the end, when it comes to U.S. business cycles, the consumer is king, and spending is driven by income and wealth, not sentiment. The only way the U.S. economy will be pushed into a recession is when the broader turmoil finally penetrates the fortress of household finances.

So, when will it all collapse? It boils down to flows of foreign capital into the United States. If these flows slow and the dollar starts to depreciate even as the U.S. government continues to expand its borrowing, the only possible outcome is a sharp hike in U.S. interest rates. At the moment, the U.S. economy still has plenty of momentum and will not fall into a recession for the next few quarters. But the risks are growing. And ultimately, when (not if) these issues come to a head, remember that Trump is not the source of these problems, but a symptom of them. Our false economic narratives are to blame, and these beliefs were born in the era of 'miserabilism' that took hold in the wake of the Great Recession.

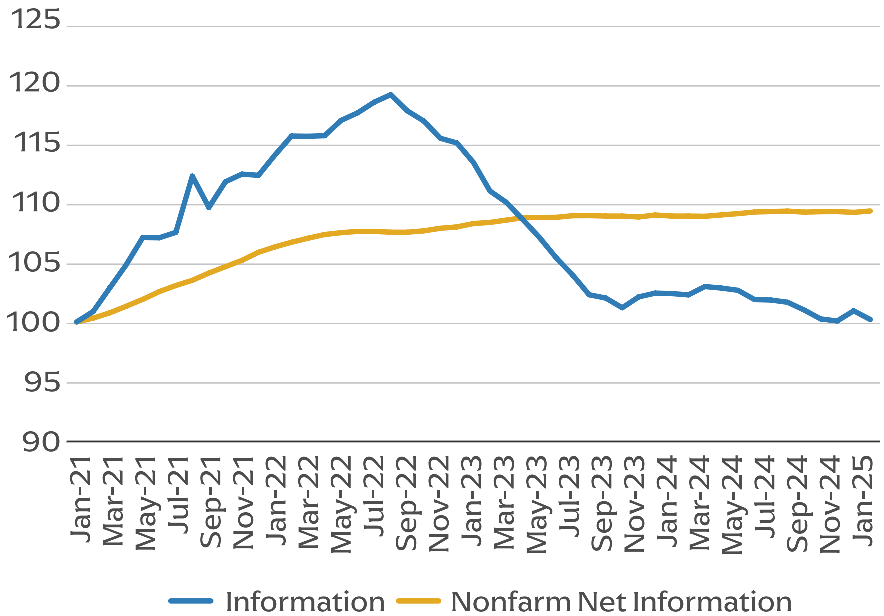
So how do we sum up our forecast? Beacon Economics believes 2025 will see continued growth—but we also see dangerous clouds on the U.S. economy's horizon.

California Outlook

California's economy is slowing slightly but still performing strongly across key metrics. The state's GDP growth has stabilized, aligning with U.S. growth rates and returning to pre-pandemic norms. Taxable sales, while declining by 2% per year over the course of the last couple of years, remain significantly above pre-pandemic levels—26% higher in 2024 compared to 2019. Real median household income continues to rise, albeit at a slightly slower pace (1.3%) than the national average (3.8%), while continuing to outperform the U.S. overall in absolute terms—nearly $90,000 in California compared to around $81,000 nationally.

Indexed Employment in California

2020 to 2025



Source: California EDD. Analysis by Beacon Economics.

Still, signs of softening are evident. The Information sector, which includes both tech and film, has been contracting. According to data from the California Employment Development Department (EDD), while nonfarm employment net the Information sector has gradually returned to January 2020 levels, Information jobs—after surging through 2021 and early 2022—have since declined and are now roughly 9% below where they stood in January 2020. These losses have mostly come from small to mid-sized firms in the sector, which have lost 45,000 workers (a 12% drop in employment) and 5% of their establishments over the past four years. Large firms (those with over 1000 employees) on the other hand, have fared well, with a 9% employment increase and a 64% jump in wages over the same period.

Establishment and Employment Growth

Information Sector in California

Size	4-Yr Est Change	4-Yr Emp Change	4-Yr Emp % Change	4-Yr Wage % Change
<5	4,702	6,597	27%	26%
5 to 99	-245	-7,637	-5%	28%
100 to 499	-120	-27,432	-19%	31%
500 to 999	-13	-9,932	-17%	32%
Over 1000	9	16,491	9%	64%

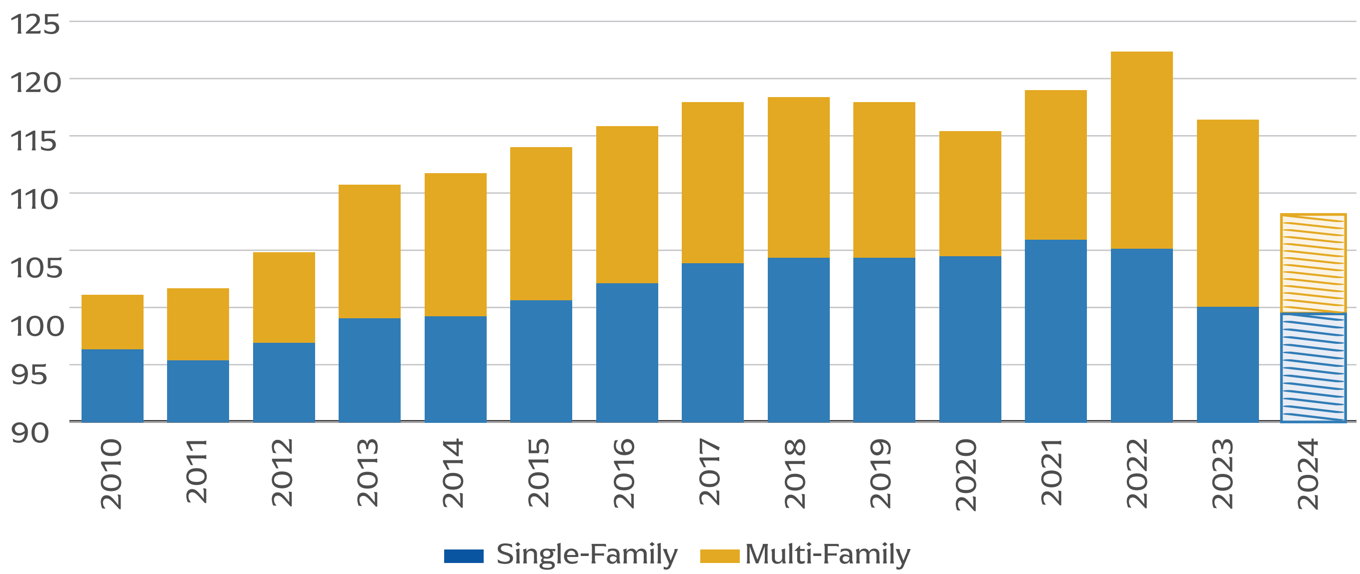
Source: California EDD. Analysis by Beacon Economics.

This matters in California more than it does in other states. Real GDP from the Information sector makes up 14% of the state's total industry GDP and 16% of its private sector GDP, compared to just 7% and 8%, respectively, for the nation overall. That means job losses in tech and film have broader impacts across California's economy. And as these high-wage sectors cool, they have exposed deeper structural issues— problems that were easier to overlook during boom years but won't vanish when growth returns. They'll just become harder to spot. Those structural issues include wage mandates, a restrictive residential permitting process, and a growing dependence on volatile revenue sources.

California's restrictive residential permitting process is holding back growth, although Governor Gavin Newsom did issue an executive order in January waiving CEQA and Coastal Act requirements for the homes destroyed in the Los Angeles and Ventura County fires.[1] Permit issuance has slowed in the state, which has contributed to shifts in household formation patterns. The data clearly shows that the number of households has increased, from about 13.2 million pre-pandemic to 13.9 million in 2024, while the average household size has declined from 2.96 to 2.75 over the same period. This is due to two key dynamics intersecting: a lack of new housing and rising real incomes. Higher-income residents are able to afford the luxury of spreading out and forming smaller, separate households, while lower-income Californians are being priced out and leaving the state altogether.

SF and MF (Unit) Permits in California

2010 to 2024



Source: Construction Industry Research Board. Analysis by Beacon Economics.

Without enough new housing, population and labor force expansion can't keep pace with a growing economy. As economic theory tells us, competitive advantages arise from an abundance, not a shortage, of resources. If California lacks an abundant labor force due to housing shortages, industries like the service sector that rely heavily on labor will struggle to expand.

At a glance, the fundamentals may still look solid in a state as large and dynamic as California. But as parts of the economy begin to soften, they reveal what's been harder to see during boom times: structural challenges—from minimum wage hikes and housing constraints to growing reliance on volatile revenue streams and one-time budget fixes—that leave the state vulnerable to sharper shocks when the next downturn hits. How California responds now will shape its resilience in the years ahead.

[1] https://www.gov.ca.gov/wp-content/uploads/2025/01/EO-N-4-25-Rebuilding-Final-signed.pdf

South Bay Outlook

Overview

The South Bay's economy continues to struggle with job losses, driven by declines in tech and computer manufacturing over the last two-and-a-half years. Evidence suggests the recent decline in the region's tech industry is cyclical, due largely to the pandemic and the Federal Reserve's response to the crisis. With venture capital funding reaching a record high in 2024, thanks for the most part to artificial intelligence, the seeds of the next cycle of tech growth are starting to sprout. However, the region's inability to grow its housing supply will limit growth. While the region's labor force has grown over the last year, it remains below pandemic levels, and, perhaps more importantly, growth in housing stock has slowed. The region must step up its investment in housing to stay competitive.

- The South Bay's tech industry continues to struggle, but the recent influx of venture capital funding to the region's AI companies has been a beacon of hope. Payrolls are down 0.6% over the last year, driven by declines in tech and computer manufacturing. In March 2025, the South Bay accounted for just 3.84% of the tech workforce in the United States, the region's lowest share since 2013.

- While demand for workers has grown, the South Bay's labor force remains below pre-pandemic levels. The core issue is a shortage of housing. While the population has contracted, the number of households has increased. This was primarily driven by a sharp decline in household sizes, the result of rising incomes and demographic shifts.

- Despite declines in tech payrolls and weakness in the commercial space, venture capital funding rebounded to record highs in the last year. In 2024, venture capital funding reached $18.7 billion in Santa Clara County, a 61% increase from 2023 and above the record $17.3 billion set in 2021. Santa Clara County and Greater Silicon Valley accounted for 52% of venture capital funding in the United States in 2024, the region's highest share on record.

- Office vacancies climbed to 26% in the fourth quarter of 2024, a record high for the region, the fifth highest in the nation, and higher in comparison to other parts of the Bay Area. This is being driven by a decline in occupied space and additional office space coming online. A healthy distribution of real estate assets simply requires less office space, and some vacant office stock should be repurposed as multifamily housing.

- Demand for commercial space in San Jose has softened over the last year, with occupied stock in Flex/R&D falling by 2.1%. Efforts to restore semiconductor manufacturing in the United States have gained new momentum, with plans underway for a Microsoft data center and a Nokia chip plant in the South Bay.

- Consumer spending in the South Bay has also seen a resurgence over the last year. From the fourth quarter of 2023 to the fourth quarter of 2024, taxable receipts in the region grew by 3.1%, outpacing California (-1.1%). While spending is above pre-pandemic levels, local hotels continue to struggle. In the fourth quarter of 2024, revenue per available unit was 16.6% lower compared to the fourth quarter of 2019. The slower growth in consumer spending and lower visitor volume has put a strain on city budgets.

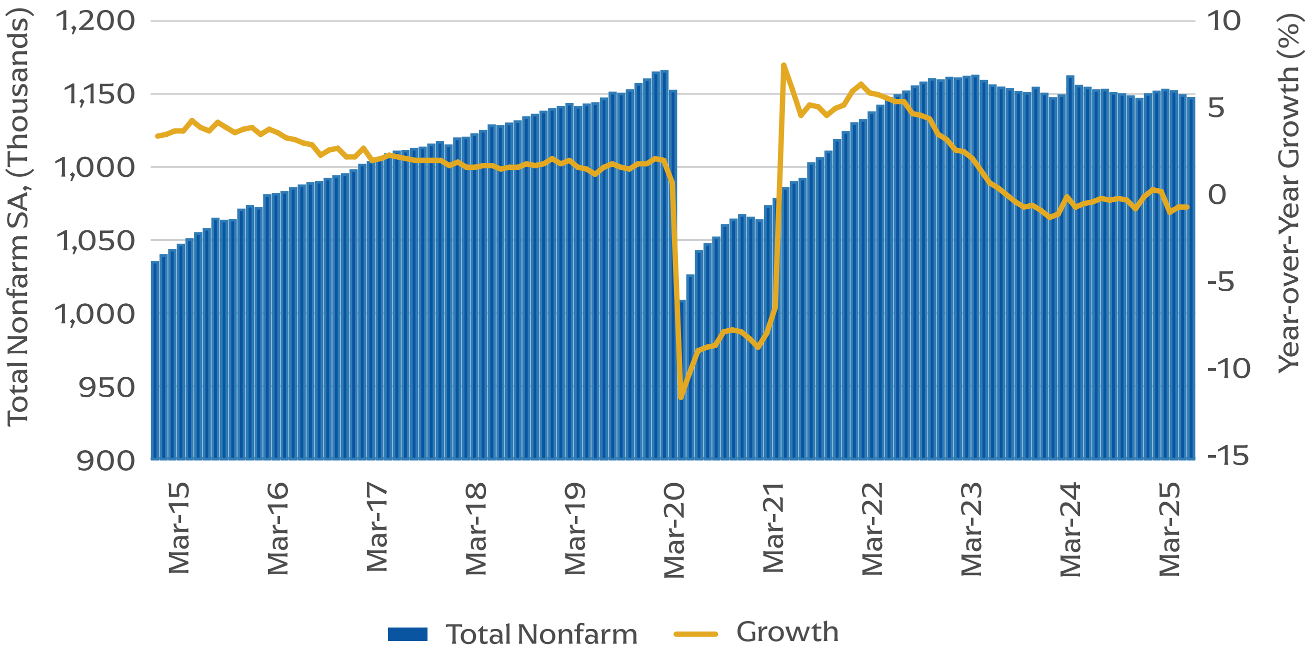
- Driven by rising incomes, home prices in the South Bay continue to rise despite high mortgage rates and limited inventory. The latest data suggest the tide may finally be turning. Inventories remain low but are growing, increasing by 16.2% year-over-year in February 2025. With new residential construction still sluggish, the rise in listings comes from existing homes, suggesting sellers are adjusting to higher mortgage rates.

Employment

The South Bay continues to struggle with job losses, driven by declines in tech and computer manufacturing over the last two-and-a-half years. Payrolls are down 0.6% over the last year. This is a more modest decline than the East Bay (-0.8%) and San Francisco (MD) (-0.9%), but trails growth in California (0.3%), Stockton (1.9%), and the United States (1.2%). Despite the South Bay's struggles in recent years, the recent AI boom is creating opportunities, and venture capital is continuing to flow to the region's tech companies. This inflow of capital should help position the region for success in the years ahead.

Total Nonfarm Employment and Growth

South Bay



Source: California Employment Development Department. Analysis by Beacon Economics

Employment Growth by Subregion

Santa Clara County

Submarket	2024 Jobs	5-Year Chg. (#)	5-Year Chg. (%)
Santa Clara County Total	1,170,655	-632	-0.1
South San Jose	315,481	16,994	5.7
Mountain View/Los Altos	174,432	-7,222	-4.0
Santa Clara	145,936	-2,051	-1.4
Downtown San Jose	140,126	-5,751	-3.9
Morgan Hill/Gilroy	134,497	1,732	1.3
Sunnyvale	131,708	1,615	1.2
North San Jose/Milpitas	128,475	-5,949	-4.4

Source: Lightcast. Analysis by Beacon Economics

Payrolls in Santa Clara County remain below pre-pandemic levels. However, the employment picture has been mixed. A significant number of the county's tech companies are concentrated in its central and northern regions. As a result, these areas of Santa Clara County have trailed southern parts of the county, which have a smaller tech presence. From 2019 to 2024, payrolls in the South San Jose submarket expanded by 5.7%, followed by growth in Morgan Hill/Gilroy (1.3%) and Sunnyvale (1.2%). In contrast, payrolls fell in North San Jose/Milpitas (-4.4%), Mountain View/Lo Altos (-4.0%), Downtown San Jose (-3.9%), and Santa Clara (-1.4%) over the same period.

At the industry level, growth has been mixed, with some sectors adding jobs while others lost them. Education and Health Care led payroll gains over the last year, expanding by 8,800 jobs, or 4.3%. Education and Health Care payrolls are now well above pre-pandemic levels, up 17.3% (or 31,800 jobs) since February 2020.

Other sectors with significant job gains include Government (1,700 jobs, or 1.7%); Other Services (700 jobs, or 2.4%); Retail Trade (200 jobs, or 0.3%); and Wholesale Trade (100 jobs, or 0.3%).

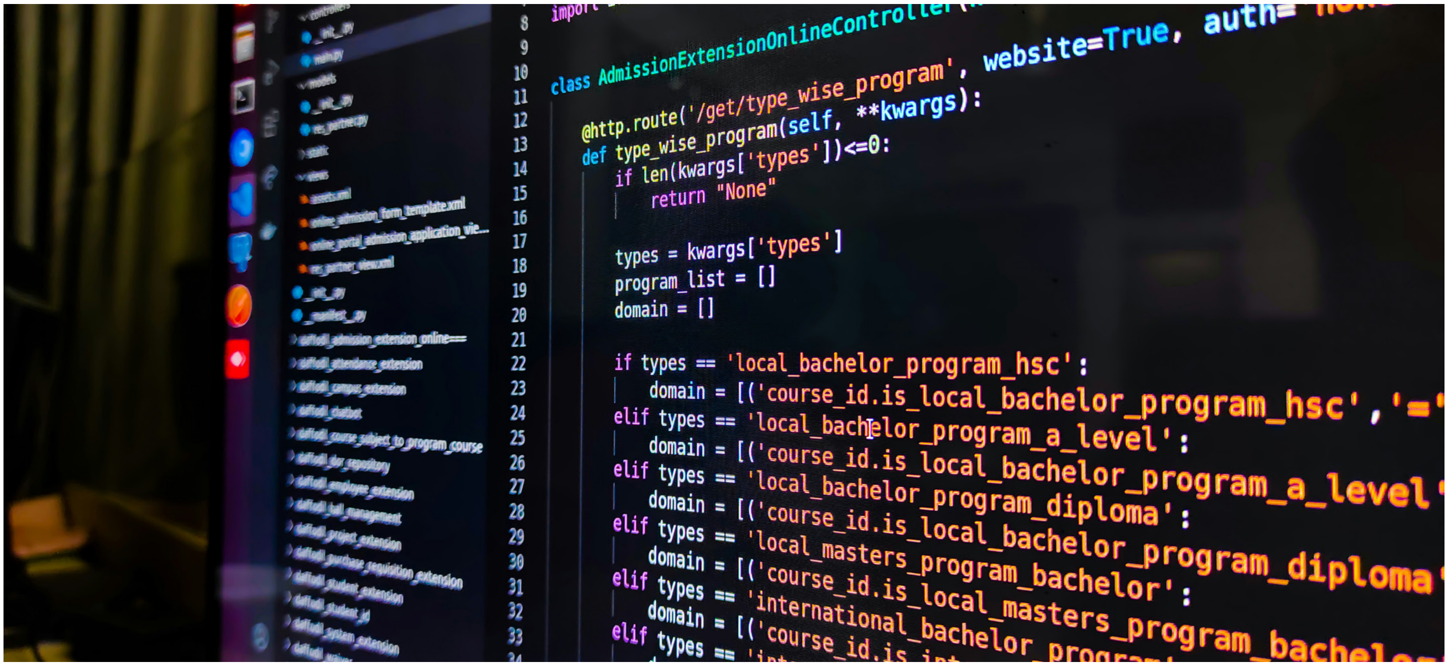
Despite overall payroll gains in the last year, several sectors in the South Bay shed jobs, with losses most pronounced in Professional, Scientific, and Technical Services, where payrolls are down by -4,500 jobs, a -2.7% decline. Other significant job losses occurred in other tech-related industries, such as Manufacturing and Information.

Industry Employment

South Bay

Sector	Mar-25 Emplt (000s)	YoY Chg. (%)	YoY Chg. (000s)
Education/Health	215.3	4.3	8.8
Government	101.5	1.7	1.7
Other Services	27.7	2.4	0.7
Retail Trade	72.5	0.3	0.2
Wholesale Trade	28.5	0.3	0.1
Utilities	1.8	0.2	0.0
Transport/Warehouse	14.6	-3.3	-0.5
Management	60.1	-1.2	-0.7
Admin Support	58.4	-1.9	-1.1
Financial Activities	35.6	-3.9	-1.4
Leisure and Hospitality	102.5	-1.4	-1.5
Information	92.4	-2.1	-2.0
NR/Construction	51.6	-4.6	-2.5
Manufacturing	122.1	-3.4	-4.3
Prof Sci and Tech	162.4	-2.7	-4.5
Total Nonfarm	**1,147.1**	**-0.6**	**-7.0**

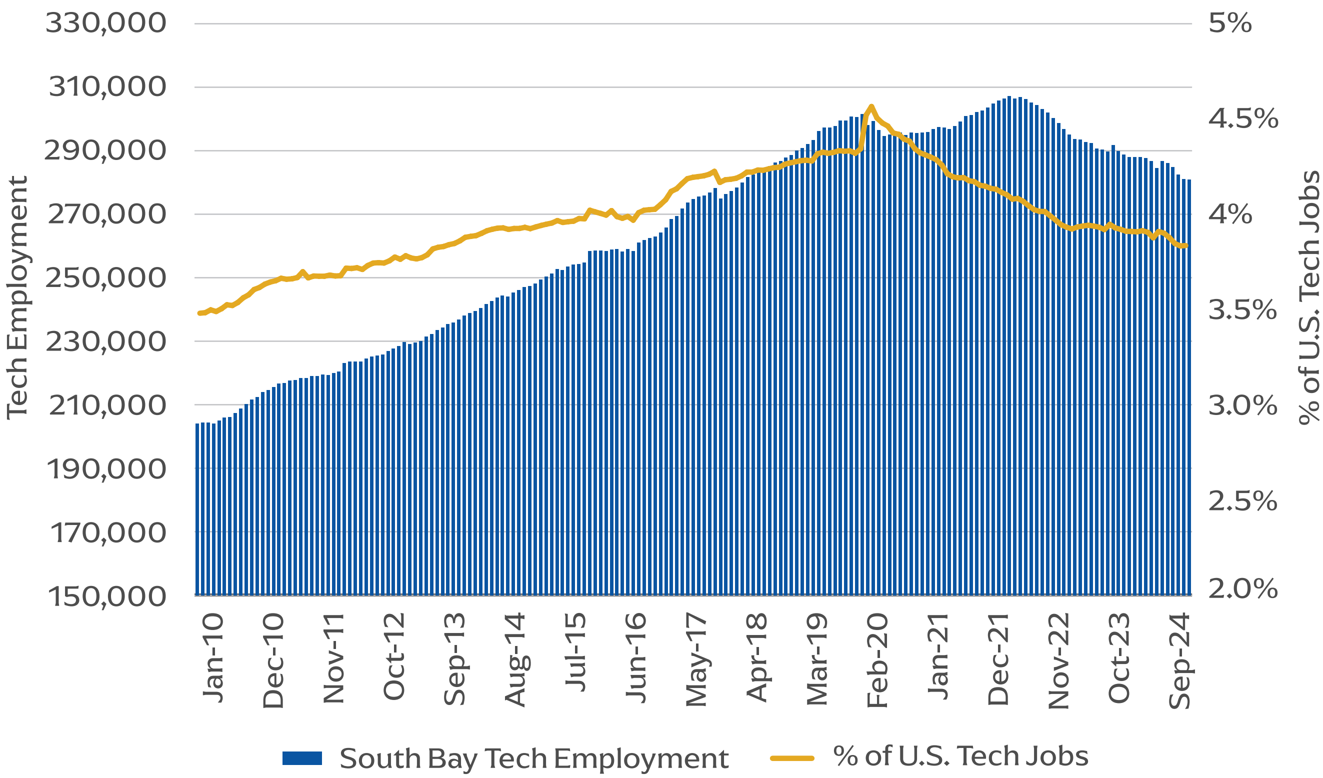
Source: California Employment Development Department. Analysis by Beacon Economics



The Tech industry in the South Bay has struggled in recent years. Payrolls have fallen by 3.6% over the last year, compared to -0.5% in the US overall. While declines have occurred across the country, the South Bay has seen its share of the tech workforce fall drastically in recent years. In March 2025, the South Bay accounted for just 3.84% of the tech workforce in the United States, the region's lowest share since 2013.

Tech Employment

South Bay



Source: California Employment Development Department. Analysis by Beacon Economics

Tech Employment

By Subsector

Sector	South Bay			California		U.S.	
	Emplt. Mar-25	1-Year Chg. (%)	6-Year Chg. (%)	1-Year Chg. (%)	6-Year Chg. (%)	1-Year Chg. (%)	6-Year Chg. (%)
Computer & Electronic Prod. Manufacturing	74,300	-3.3	-9.1	-3.2	-7.4	-2.0	-2.3
Information	92,200	-2.0	-4.6	-4.0	-7.2	-0.7	3.2
Computer Systems Design & Related Services	87,700	-2.1	-1.0	-2.2	-1.9	-0.3	12.0
Scientific Research & Development Services	25,900	-5.5	23.3	-5.4	20.3	1.0	31.3
Total Tech	**280,100**	**-2.7**	**-2.7**	**-3.6**	**-2.7**	**-0.5**	**8.1**

Source: U.S. Bureau of Labor Statistics. Analysis by Beacon Economics.

Computer Manufacturing has also declined significantly in recent years. From March 2019 to March 2025, payrolls in Computer Manufacturing in the South Bay fell by 9.1%, more substantial than the 2.3% decline in the United States over the same period.

While tech losses have eased over the past year, several companies have recently issued WARN notices. From July 1, 2024, to April 14, 2025, Cisco Systems, Inc. (761), Cepheid (731), and Intel Corporation (617) issued the largest number of layoffs in Santa Clara County. This trend is not unique to the South Bay, with other companies in the Bay Area and other parts of California also issuing WARN notices over the period. In addition, the recent influx of venture capital funding into the region's growing AI start-ups has helped offset some of these losses.

WARN Notices*

Santa Clara County

Company	Layoffs 07/01/24 to 04/14/2025
Cisco Systems, Inc.	761
Cepheid	731
Intel Corporation	617
AppLovin Corporation	490
Jabil Inc.	472
Intuit Inc.	384
Right At School, LLC	202
Infineon Technologies Americas Corp.	137
23andMe, Inc.	122
Roche Molecular Systems, Inc.	108
IGM Biosciences, Inc.	100

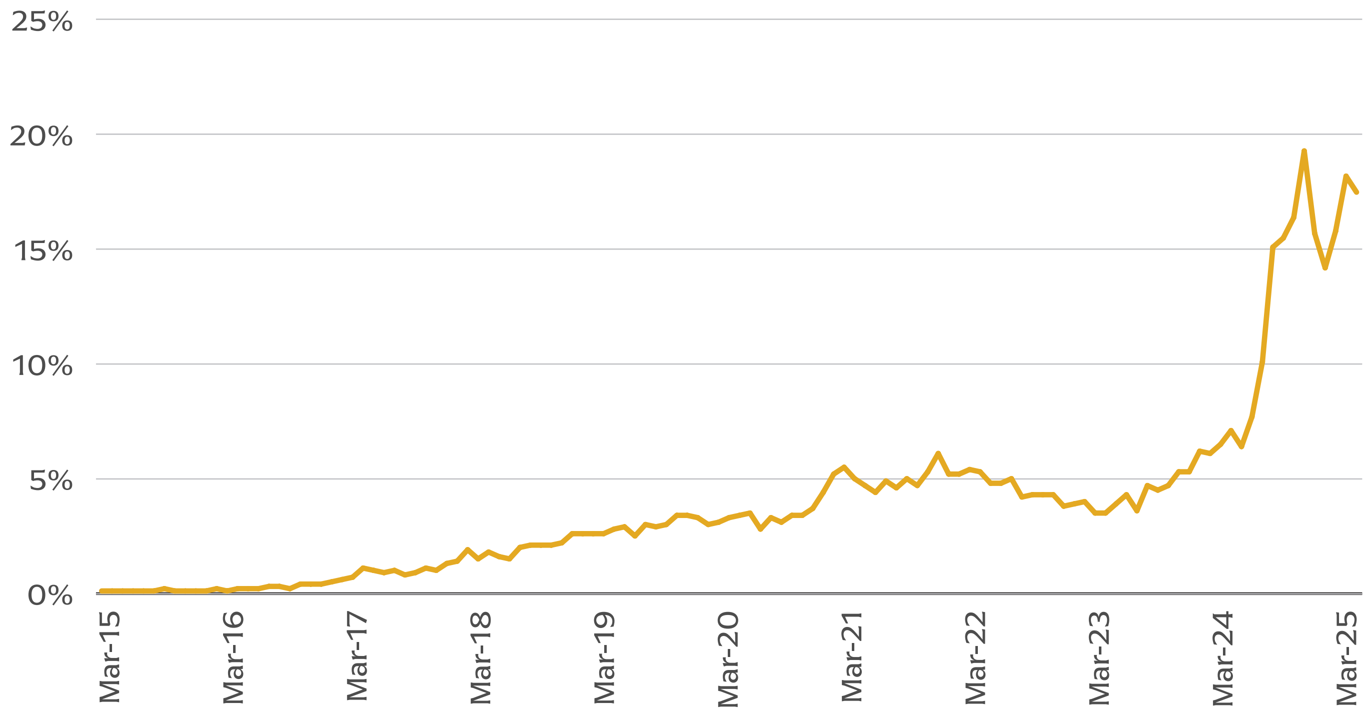
Source: California Employment Development Department. Analysis by Beacon Economics

*Note: The Worker Adjustment and Retraining Notification Act (WARN Act), is a federal law requiring employers with 100 or more employees to give at least 60 days' notice before a mass layoff or plant closing.

Despite the overall decline in payrolls, there were 28,500 unique job postings in the South Bay in March 2025, a 18.1% increase from March 2024. However, the number of job postings remains well below the 2019 average of 44,200 per month. The recent increase has been aided by demand for workers familiar with AI. Experience with AI was listed as a desired job skill in 17.5% of postings' job descriptions in the South Bay in March 2025, an increase from 7.1% in March 2024 and just 2.6% in March 2019.

Job Postings with AI Included In Description

Share in San Jose MSA



Source: Lightcast. Analysis by Beacon Economics

While demand for workers has grown, the South Bay's labor force remains below pre-pandemic levels. From February 2020 to March 2025, 3,000 workers left the region's labor force, a -0.3% decline. This is in contrast to the increases in some inland parts of Northern California and the United States overall. However, labor force declines have been larger in other parts of the Bay Area, the East Bay, and San Francisco (MD), for instance. The workforce contraction in the South Bay has been driven in part by the region's shrinking population. The core issue continues to be a shortage of housing. While the population has contracted, the number of households has increased over the past five years. This was primarily due to a sharp decline in the number of people per household, the result of rising incomes and demographic shifts.

More restrictive immigration policy could limit labor force growth over the coming years, as the South Bay has one of the highest shares of foreign-born residents in the nation, with many new residents of the South Bay coming through the H-1B program, a program for immigrants with distinguished ability.

Wages

Wages in the South Bay have grown significantly over the last year and remain well above pre-pandemic levels. Average annual wages across the region increased from the third quarter of 2023 to the third quarter of 2024, growing 12.9% to $179,589. The South Bay outshone the East Bay (2.6%), Stockton (5.9%), San Francisco (MD) (5.5%), California (5.1%), and the United States (4.5%).

Wage growth was strongest in the Natural Resources and Construction sector, with average annual wages up by 27.1%. The South Bay's higher wage sectors also posted significant gains over the last year, with Professional and Business Services, Information, and Manufacturing all posting sizeable gains. The gains in the industries with a modest wage grew more slowly. Trade, Transportation, and Utilities was the only sector to post wage declines over the last year.

Q3-2024 Annual Average Wage by Industry

South Bay

Industry	Q3-2024 ($)	1-Year % Growth
NR/Construction	136,188	27.1
Professional/Business	238,771	22.9
Information	467,907	22.4
Manufacturing	292,438	18.4
Government	102,533	4.5
Leisure and Hospitality	41,195	2.9
Other Services	57,277	2.1
Education/Health	88,850	1.2
Financial Activities	147,248	0.5
Trade, Transportation, and Utilities	89,620	-7.6
Total Nonfarm	**179,589**	**12.9**

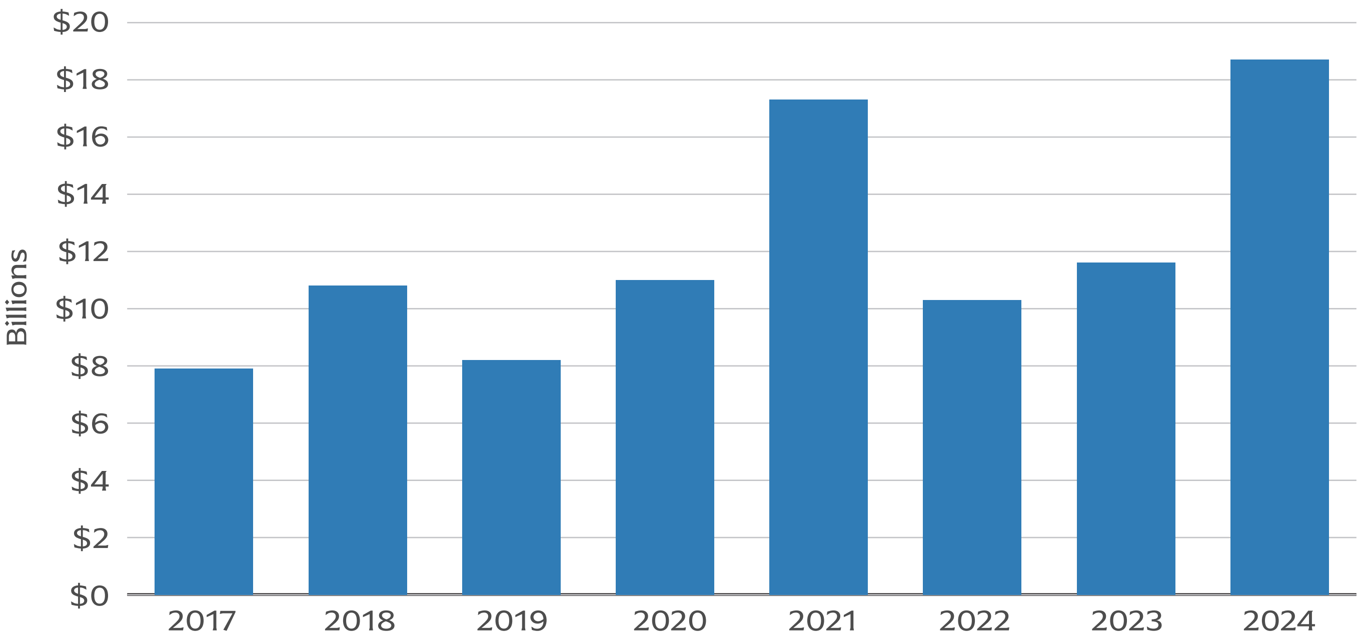
Source: Quarterly Census of Employment and Wages. Analysis by Beacon Economics.

Venture Capital

Venture capital funding rebounded to new highs in Santa Clara County last year. In 2024, venture capital funding reached $18.7 billion in Santa Clara County, a 61% increase from 2023 and higher than the record $17.3 billion set in 2021. Santa Clara County and Greater Silicon County accounted for 52% of venture capital funding in the United States in 2024, the region's highest share on record.

Venture Capital Investment

Santa Clara County

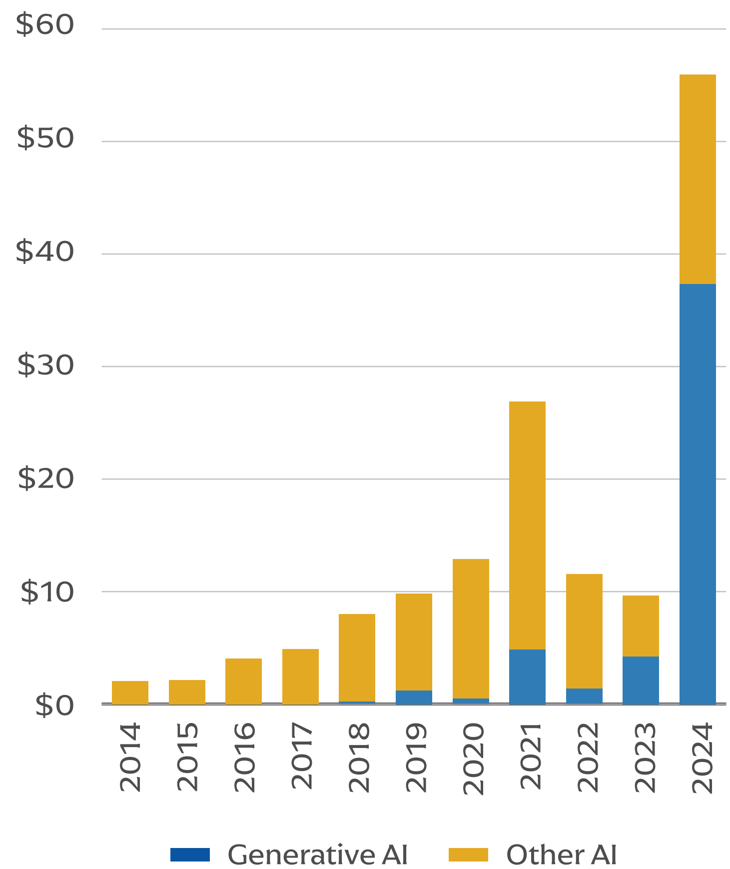


Source: CB Insights. Analysis by Beacon Economics.

Artificial Intelligence is the driving force behind the growth in venture capital funding in Santa Clara County and the Greater Silicon Valley. In 2024, venture capital funding to AI companies totaled $56 billion, outpacing the $9.6 billion from 2023 by a wide margin. In addition, San Francisco-based OpenAI recently received the largest venture capital deal ever, $40 billion in the first quarter of 2025.[2]

Palo Alto-based xAI received the largest deal in Santa Clara County in 2024, totaling $12 billion. Other companies with large deals in 2024 include Waymo, Figure, Groq, GondolaBio, SandboxAQ, and Glean. While Santa Clara's tech industry has suffered in recent years, the recent inflow of venture capital funding shows the region still has a bright future. However, the Bay Area will need to increase its housing stock to accommodate this growth, or risk losing its competitive advantage in this growing field.

Greater Silicon Valley VC Funding to AI Companies



Source: CB Insights. Analysis by Beacon Economics.

Top Venture Capital Deals 2024

Santa Clara County

Investee Company	City	Amount (millions)
xAI	Palo Alto	$12,000
Waymo	Mountain View	$5,600
Figure	Sunnyvale	$675
Groq	Mountain View	$640
GondolaBio	Palo Alto	$300
SandboxAQ	Palo Alto	$300
Glean	Palo Alto	$260

Source: CB Insights. Analysis by Beacon Economics.

[2] https://pitchbook.com/news/articles/openai-largest-vc-funding-round-40-billion

Business Activity

Consumer spending in the South Bay has increased over the last year. From the fourth quarter of 2023 to the fourth quarter of 2024, taxable receipts in the region grew by 3.1%, outpacing California (-1.1%), the East Bay (-1.6%), Modesto (-2.4%), San Francisco (MD) (0.5%), and Stockton (2.8%). Taxable receipts in the region expanded by 16.1% over the last five years, surpassing the East Bay (10.4%) but trailing California (22.5%), Modesto (25.8%), San Francisco (MD) (16.7%), and Stockton (66.6%).

South Bay Sales Tax Receipts

By Category

Category	Q4-24 ($, 000s)	1-Year Chg. (%)	Chg. Since Q4-19 (%)
County and State Pool	29,448	11.7	23.5
Business and Industry	42,397	9.0	23.2
Restaurants and Hotels	17,936	4.0	27.4
General Consumer Goods	19,793	0.5	6.6
Building and Construction	9,490	-2.1	8.3
Food and Drugs	4,339	-5.5	-7.1
Autos and Transportation	17,520	-10.8	7.8
Fuel and Service Stations	6,512	-11.9	-3.4
Total	**148,438**	**3.1**	**16.1**

Source: HdL Companies. Analysis by Beacon Economics.

Consumer spending gains were led by the County and State Pool, which grew 11.7% year-over-year. Business and Industry and Restaurants and Hotels also posted steady gains over the same period. The most recent data from Placer.Ai, shows that retail traffic in downtown San Jose is outpacing pre-pandemic levels by roughly 4%, just behind Santa Clara County (5%) and California (6%).

Taxable receipts at Fuel and Service Stations fell -11.9% over the last year, and spending is down 3.4% from five years ago. Other sectors with significant declines in taxable receipts include Autos and Transportation, Food and Drugs, and Building and Construction.

While retail spending is above pre-pandemic levels, local hotels continue to struggle. In the first quarter of 2025, revenue per available unit was 14.5% lower than in the fourth quarter of 2019. This is a more modest decline compared to the East Bay (-21.2%) and San Francisco (MD) (-19%), but trails the increases in Las Vegas (83.9%), New York (30.2%), San Diego (28.9%), Boston (27.6%), and Phoenix (21.5%). The decline in visitors is also being felt at San Jose International Airport, with passenger traffic down 19% over the last five years. However, with Silicon Valley at the forefront of the AI boom, events like the NVIDIA AI Conference should help the industry.[3]

Hotel Revenue per Available Unit

Select MSAs

Location	RevPAR Q1-25 ($)	1-Yr Change (%)	Change since Q4-19 (%)
Las Vegas	121.90	-0.9	83.9
New York	254.02	0.5	30.2
San Diego	143.54	-6.0	28.9
Boston	163.74	-3.5	27.6
Phoenix	116.16	0.4	21.5
Los Angeles (MD)	146.39	0.3	11.9
Seattle	122.21	-1.8	10.9
San Jose	121.45	2.6	-14.5
San Francisco (MD)	150.95	6.2	-19.0
Oakland (MD)	94.35	-0.8	-21.2

Source: REIS. Analysis by Beacon Economics

Slower growth in consumer spending and lower visitor volume have put a strain on city budgets. The City of San Jose's budget shortfall is projected to be $60 million in the 2025-26 fiscal year, a 50% increase from the initial estimate of $39 million. This has caused the city to cut services and explore new revenue sources.[4]

[3] https://www.mercurynews.com/2025/04/03/san-jose-nvidia-tech-economy-hotel-restaurant-food-travel-jobs-money/
[4] https://sanjosespotlight.com/san-joses-projected-budget-deficit-skyrockets/

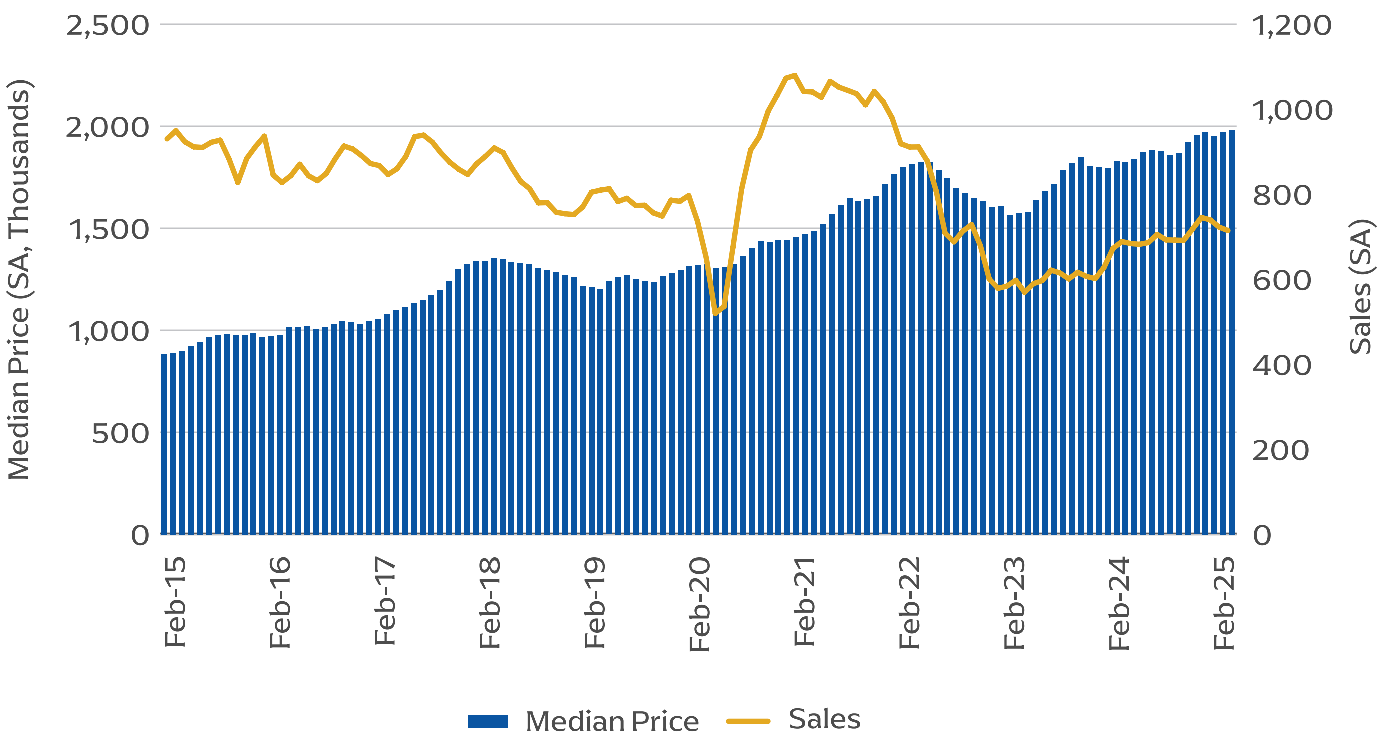
Residential Real Estate

As a result of rising incomes, home prices in the South Bay continue to rise despite high mortgage rates and limited inventory. Although the average 30-year fixed mortgage rate has fallen by around one percentage point from its peak in October 2023, reaching 6.7% in March 2025, it remains well above pre-pandemic levels. For the past few years, high mortgage rates have dampened demand and kept sales low, which would normally push prices down. However, limited inventories are keeping home prices high. An increase in supply, whether through new construction or more existing homes being offered for sale, is necessary to balance the market. California's strict zoning laws and high building costs limit new housing supply, while many homeowners hesitate to sell due to high mortgage rates.

Given these dynamics, home prices in Santa Clara County remain well above pre-pandemic levels. From February 2024 to February 2025, the median single-family home price rose 8.5%, outpacing all other Bay Area counties.

Single-Family Home Prices and Sales

Santa Clara County

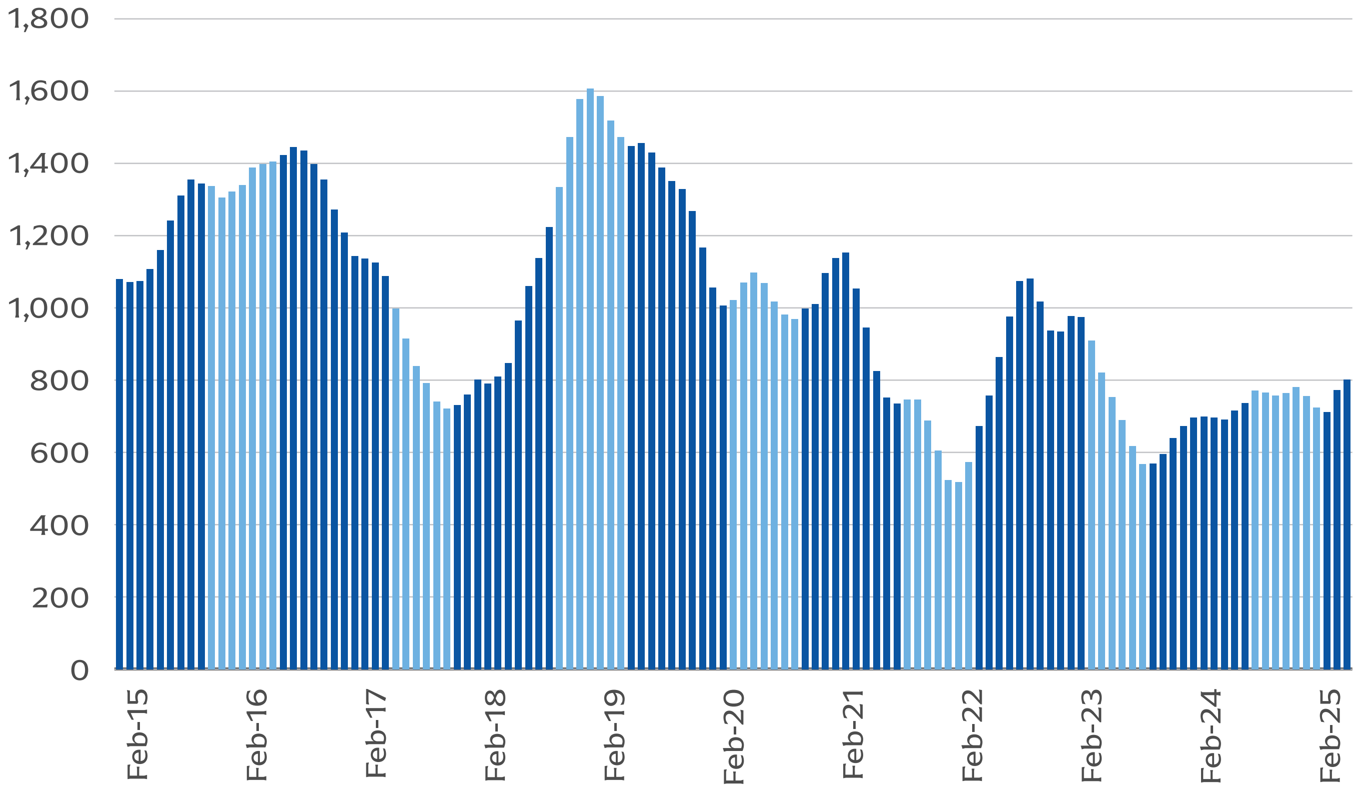


Source: Redfin. Analysis by Beacon Economics

The latest data suggest the tide may finally be turning. Inventories remain low but are on the rise, increasing by 16.2% year-over-year in February 2025. With new residential construction still sluggish, the rise in listings reflects more activity among existing homeowners, suggesting sellers are adjusting to higher mortgage rates.

Single-Family Home Inventory

Santa Clara County



Source: Redfin. Analysis by Beacon Economics

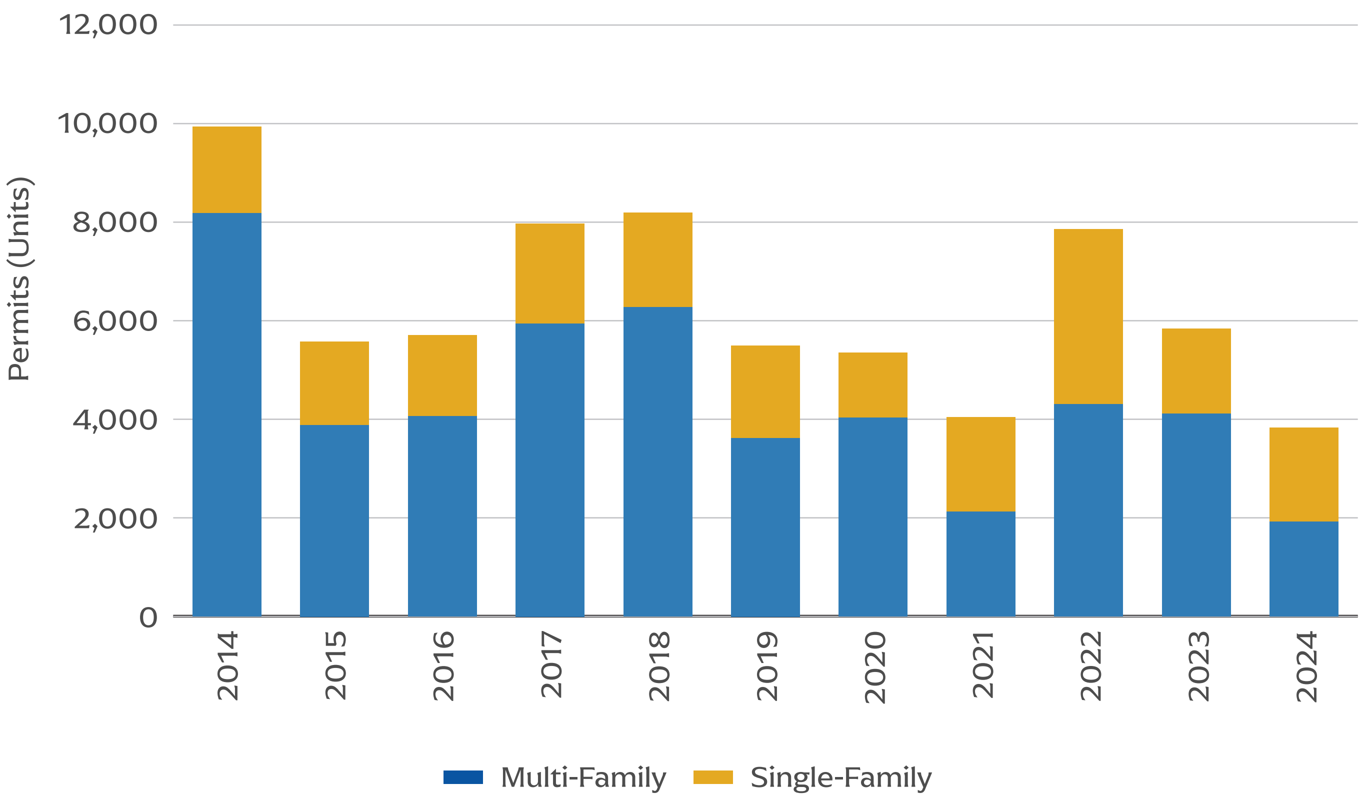
A lack of liquidity in the housing market has hindered potential homebuyers from entering the market, even as incomes rise. At present, demand for apartment units in the South Bay remains strong. The number of occupied units has grown by 10.4% since the fourth quarter of 2019, outpacing the East Bay (8.8%), Stockton (7.0%), San Francisco (MD), and the United States (10.2%). However, with new units coming online over the last year, vacancy rates grew to 5.1% in the first quarter of 2025, up 0.3 percentage points from a year earlier. Vacancies were higher in the East Bay (5.4%) and lower in San Francisco (MD) (4.5%) and Stockton (4.5%). Asking rents grew 3.4% to $3,179 per-unit per month, meaning the South Bay is more affordable than San Francisco (MD) ($3,252), but more expensive than the East Bay ($2,659).

Residential construction in the region has fallen to its lowest level in the last decade. Santa Clara County issued just 1,923 multifamily permits in 2024, a 53% decrease from 2023. There were 1,915 single-family permits issued in 2024, a 11.1% increase from 2023. In 2024, Santa Clara County issued 3,838 residential permits — a 34.2% decline from 2023.

Continuing to increase housing stock is essential to sustaining future economic growth. Santa Clara County, and the Bay Area overall, have added housing units at a faster pace than other areas of California. Santa Clara County increased its housing stock by 9.5% over the last decade, outpacing the 7.1% increase in California. However, this is a more modest increase compared to states like Texas (20.9%), Florida (15.5%), and Nevada (13.6%), which have seen their populations and economies expand significantly over the last decade. As mentioned earlier, California's strict zoning laws and high building costs are limiting new housing supply. These high building costs could be pushed even higher if a prolonged trade war increases the cost of building materials.[5]

Residential Permits

Santa Clara County



Source: U.S. Department of Housing and Urban Development. Analysis by Beacon Economics.

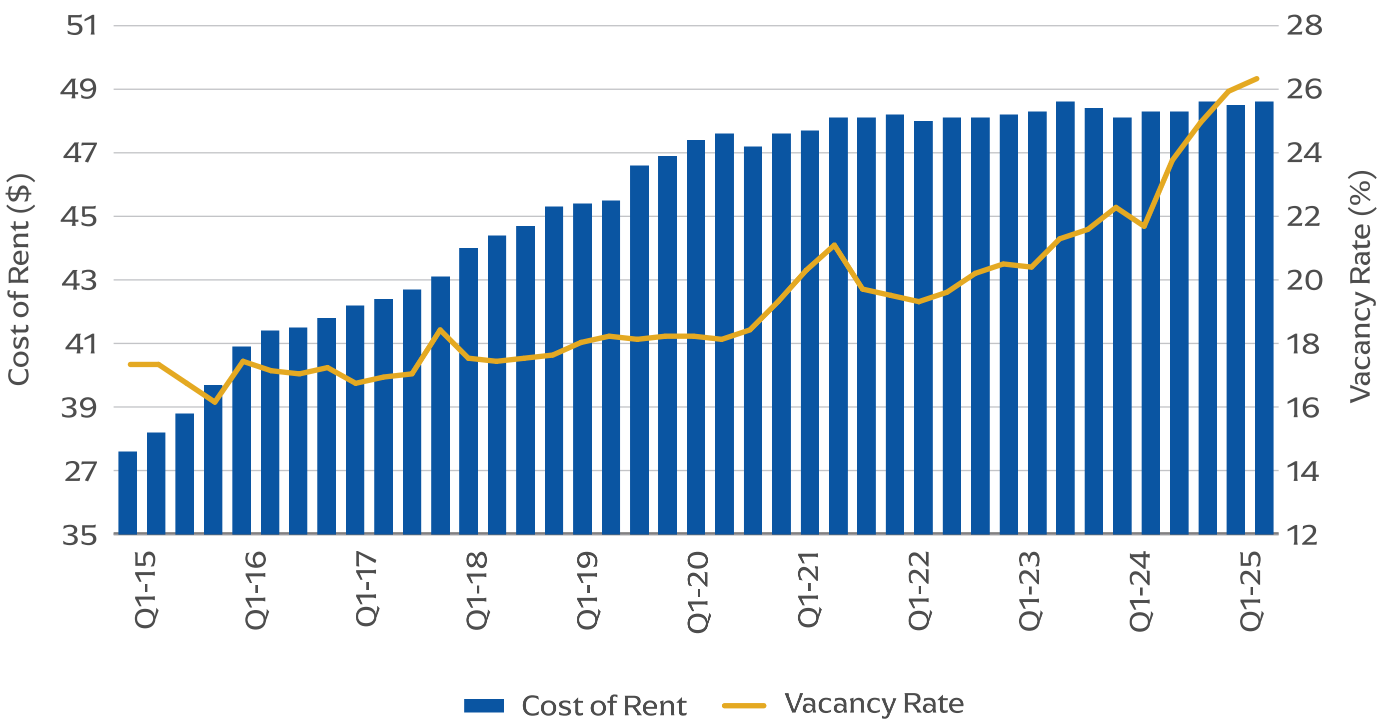
[5] https://www.nahb.org/advocacy/top-priorities/building-materials-trade-policy/how-tariffs-impact-home-building#:~:text=The%20cost%20of%20building%20materials,actions%20at%20%249%2C200%20per%20home.

Commercial Real Estate

The slowdown in tech has impacted demand for San Jose's office market, with an increase in office vacancies over the last year and occupied stock below pre-pandemic levels. Total stock has also grown by 7.5% since the fourth quarter of 2019, pushing vacancy rates even higher. A healthy balance of real estate requires less office space, and some vacant office stock should be repurposed as multifamily housing. Office vacancies climbed to 26% in the fourth quarter of 2024, a regional record, higher than San Francisco (MD) (22.8%) and the East Bay (20.7%), and fifth highest in the nation. The office vacancy rate in San Jose was below 20% before the pandemic.

Office Market

South Bay



Source: REIS. Analysis by Beacon Economics

Occupied Office Stock by Submarket

South Bay

Office Submarkets	Occupied Stock Q1-25 (sq. ft.)	1-Yr Change (%)	Change since Q4-19 (%)
Total	55,682,000	-4.6	-3.4
Santa Clara/Sunnyvale	26,276,000	-4.1	3.0
Airport/Milpitas	9,132,000	-4.4	-11.0
Cupertino/Campbell/Los Gatos	7,027,000	-1.3	-3.0
Palo Alto/Mountain View/Los Altos	6,809,000	-7.9	-12.6
San Jose Submarket	6,438,000	-6.4	-5.5

Source: REIS. Analysis by Beacon Economics.

With companies reducing payrolls and hiring remote workers, there is now 3.4% less occupied office space in San Jose compared to the fourth quarter of 2019. The decline in occupied stock has been more severe in San Francisco (MD) (-11.9%) and the East Bay (-5.6%), while the United States (-0.5%) has seen more modest declines. With new stock coming online and a lack of tenants to fill the space, the amount of vacant stock grew by 17.2% in San Jose over the last year and is now 46.6% higher than five years ago. The Palo Alto/Mountain View/Los Altos submarket has seen vacant stock increase by more than 50% over the last year and more than double over the last five years.

Despite recent office market trends, sentiment appears to be improving. Nvidia has begun preparing a North San Jose office building for occupancy, potentially bringing more tech workers to the area. [6]

Demand for Flex/R&D space in San Jose has softened over the last year, with occupied stock falling by 2.1%. The vacancy rate grew to 10.4% in the first quarter of 2025, a 1.8 percentage-point increase from the previous year. Vacancy rates were lower in San Francisco (MD) (7.3%) but higher in the East Bay (12.1%). Vacancy rates grew because of a 2.1% decline in occupied stock.

[6] https://www.siliconvalley.com/2025/04/15/nvidia-san-jose-south-bay-tech-build-property-economy-jobs-chips-ai/

Despite the recent decline in demand for Flex/R&D space, efforts to revive semiconductor manufacturing in the U.S. have gained renewed momentum. On November 1, the National Semiconductor Technology Center (NSTC) announced Sunnyvale as the expected location for the CHIPS for America Design and Collaboration Facility. According to the announcement, this new facility will play an important role in advancing semiconductor design research, workforce development, investment, and collaboration across the entire semiconductor value chain.

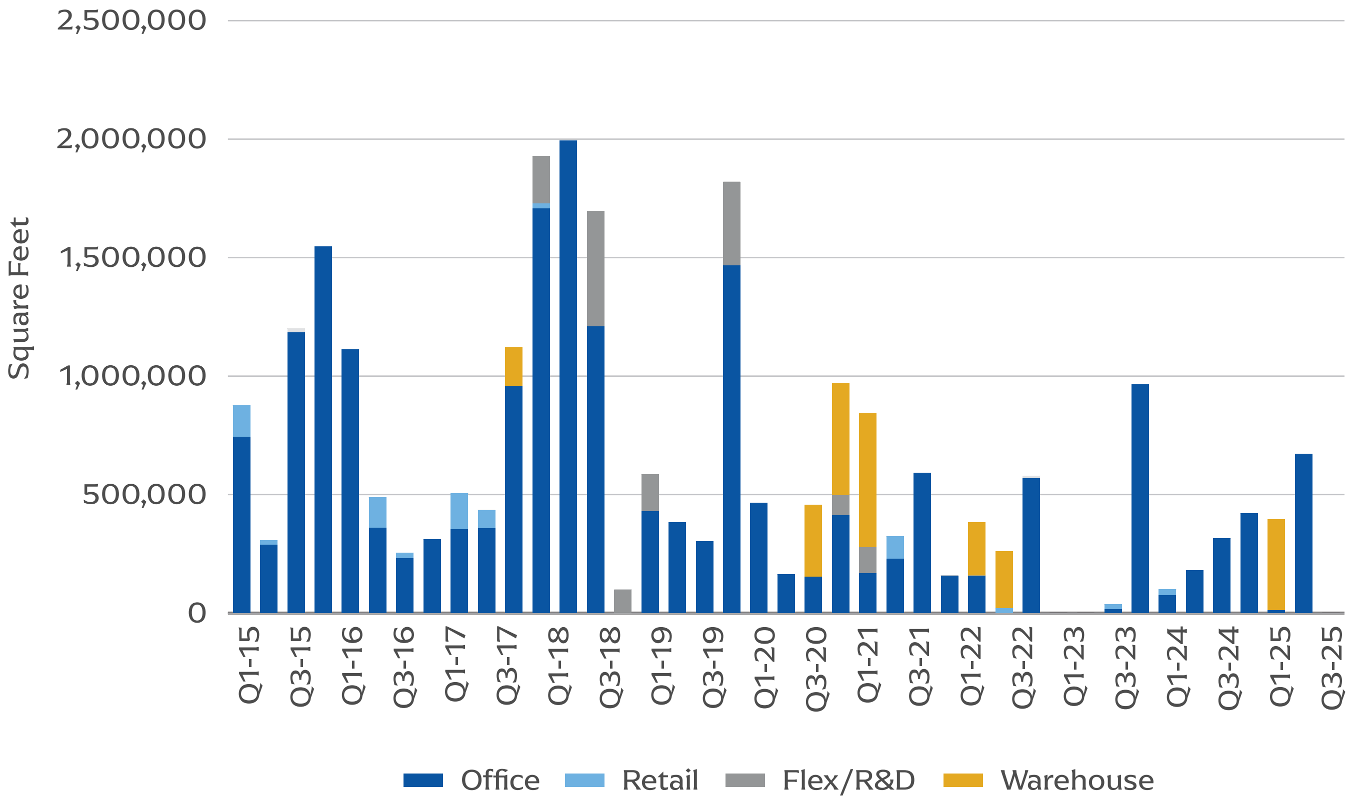
There are also plans for a new data center and a chip manufacturing plant in the South Bay. Microsoft has received approval to proceed with its North San Jose data center project — the company's first self-built, owned, and operated digital infrastructure facility in the South Bay.[7] In addition, a Nokia plant in South San Jose is expected to begin initial operations sometime in 2026 at an office and research building, a development that would support hundreds of manufacturing jobs.[8]

Demand for retail space declined in the South Bay over the last year, with occupied retail space falling by 1.0%. The decline in occupied stock pushed retail vacancy rates up to 6.8%, a 0.9 percentage-point increase from a year earlier. Vacancy rates were similar in San Francisco (MD) (6.9%), but higher in the East Bay (8.6%). The cost of rent grew 0.8% over the last year to $38.93 per square foot, keeping the South Bay more affordable than San Francisco (MD) ($41.42), but more expensive than the East Bay ($32.42).

Demand for warehouse space also softened over the past year, with occupied space declining by 1.0%. This drop in occupancy pushed retail vacancy rates up to 4.6% — a 2.0 percentage-point increase from a year earlier. Vacancy rates for warehouse properties match the East Bay (4.6%) but were lower in San Francisco (MD) (3.4%). The amount of Warehouse space in San Jose has grown by 6.3% since the fourth quarter of 2019, outpacing the East Bay (4.6%) and San Francisco (MD) (0.6%). The cost of rent in the South Bay increased 2.4% over the last year to an annual rate of $10.64 per square foot, keeping it more affordable than San Francisco (MD) ($14.00), but more expensive than the East Bay ($9.24).

[6] https://www.siliconvalley.com/2025/04/10/commission-greenlights-microsofts-data-center-plans-in-north-san-jose/
[7] https://www.siliconvalley.com/2025/04/14/san-jose-economy-jobs-chips-tech-semiconductor-build-develop-nokia/

South Bay Completions



Source: REIS. Analysis by Beacon Economics.

About Beacon Economics

Founded in 2006, Beacon Economics, an LLC and certified Small Business Enterprise with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis they need to understand the significance of on-the-ground realities and to make informed business and policy decisions.

Learn more at beaconecon.com

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