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Santa Clara County Regional Intelligence Report

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Beacon Economics

South Bay Regional Intelligence Report

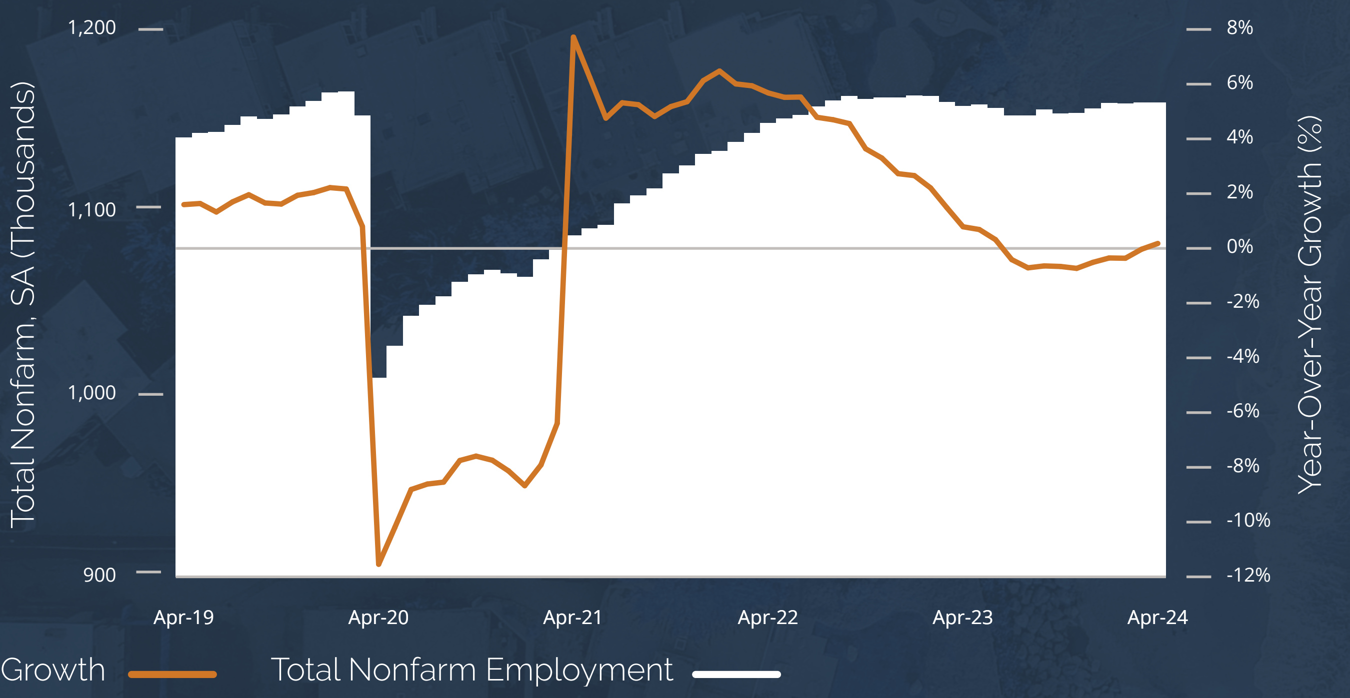
June 2024

SOUTH BAY
REGIONAL INTELLIGENCE REPORT

Employment

The San Jose MSA (South Bay) labor market remains resilient despite a recent batch of tech-sector layoffs and the state's inability to expedite new housing stock hindering growth. From April 2023 to April 2024, employment growth in the South Bay (+0.2%, or 2,100 workers) trailed Modesto (3.6%), the East Bay (0.9%), Stockton (2.0%), California (1.2%), and the nation (1.8%), but surpassed San Francisco (MD) (-0.8%). This growth occurred despite tech layoffs and continued labor-force declines. Moreover, employment in the South Bay (-0.5%) has not yet returned to pre-pandemic levels, trailing growth in Modesto (5.8%), Stockton (9.2%), California (1.8%), and the nation (3.9%), but outpacing San Francisco (MD) (-3.8%).

South Bay Total Nonfarm Employment and Growth



Source: California Employment Development Department (EDD). Analysis by Beacon Economics

The South Bay's unemployment rate increased to 4.1% in April 2024, a 1.1 percentage-point increase from last year. Despite this, unemployment in the region remains well below the East Bay (4.7%), Modesto (7.0%), Stockton (6.8%), and California (5.3%), however it is now above San Francisco (MD) (3.6%) and the nation (3.9%). It's important to note that while unemployment has risen in California in recent months, the state has seen no significant increase in initial unemployment insurance (UI) claims.

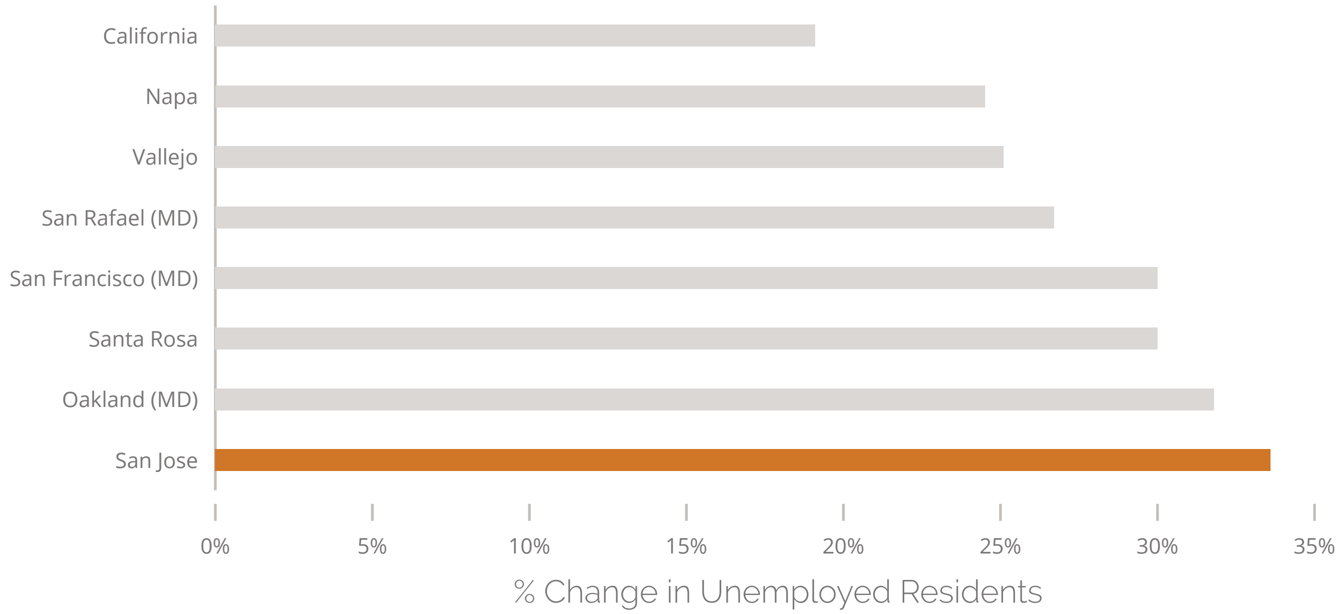
0.2% Employment Growth (1 Year)

4.1% Unemployment Rate (April 2024)

The South Bay labor market remains resilient despite a recent batch of tech-sector layoffs and the state's inability to expedite new housing stock.

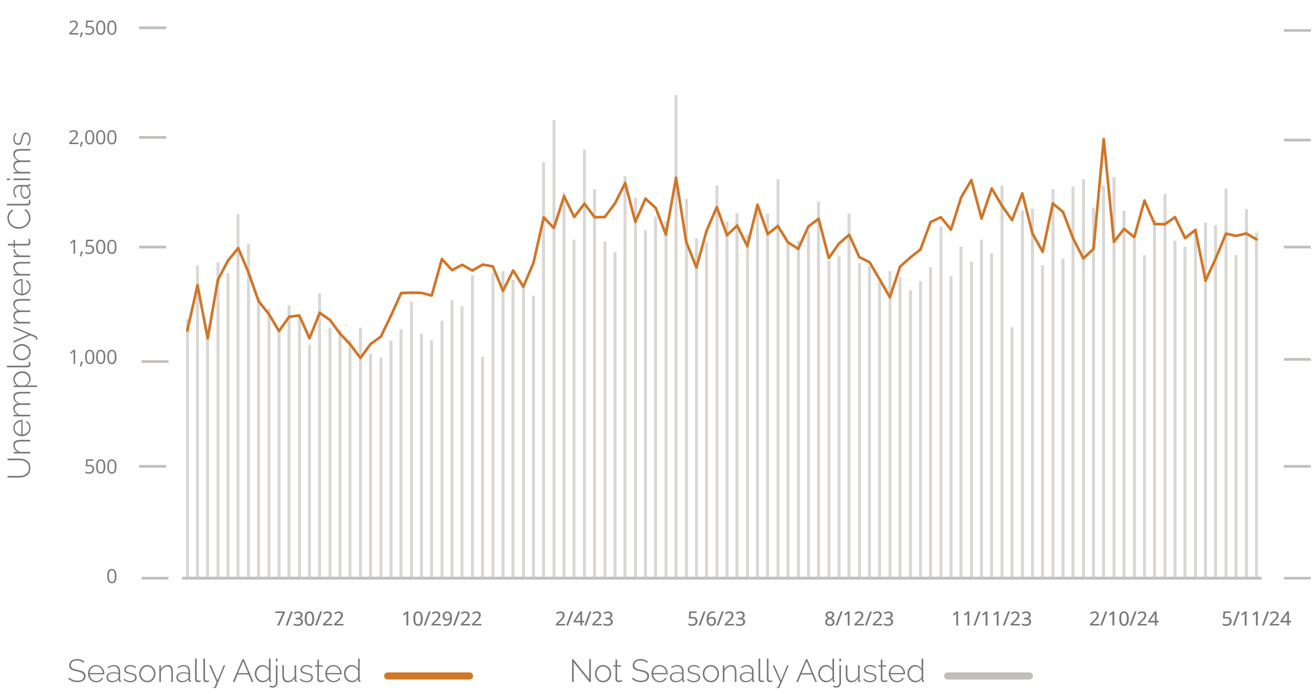
Rising unemployment is a puzzling development. The number of unemployed persons in the South Bay has increased by more than 33% in the last year, and more than 50% in the last eighteen months Even at the state level, there is a sharp divergence between household and payroll surveys. Current data suggests that state household employment (from where the unemployment rate derives) declined 0.6% in the last year while payrolls increased 1.2%. Beacon Economics is not convinced that survey-based estimates of unemployment are entirely accurate, considering UI claims have remained stable once adjusted for seasonal fluctuations and are down 4.6% year to date.

One-Year Change (%) in Unemployed Residents



Source: California Employment Development Department (EDD). Analysis by Beacon Economics

South Bay Weekly UI Claims



Source: California Employment Development Department (EDD). Analysis by Beacon Economics

The state's inability to accelerate the pace of new housing has impacted labor force growth in the South Bay. From February 2020 to April 2024, 21,700 workers left the region's labor force, a -2.0% decline. This decline is more severe than California overall (-1.3%) and contrasts sharply to increases in Modesto (2.0%), Stockton (4.9%), and the nation (2.2%). However, labor force declines have been larger in the East Bay (-2.1%) and San Francisco (MD) (-5.0%).

South Bay Industry Employment

Sector	Apr-24 Empt. (000s)	YoY Chg. (%)	YoY Chg. (000s)
Education/Health	204.7	5.9	11.3
Admin Support	65.6	3.9	2.5
Leisure and Hospitality	103.8	2.3	2.3
Government	99.5	1.9	1.9
Management	14.4	6.0	0.8
Retail Trade	74.2	0.4	0.3
Other Services	26.1	0.1	0.0
Utilities	1.7	0.3	0.0
Transport/Warehouse	16.8	-1.2	-0.2
Financial Activities	37.6	-1.7	-0.6
Wholesale Trade	28.3	-3.3	-1.0
NR/Construction	51.8	-3.4	-1.8
Prof Sci and Tech	168.2	-1.2	-2.1
Manufacturing	175.2	-2.7	-4.9
Information	92.1	-6.5	-6.4
Total Nonfarm	**1,160.1**	**0.2**	**2.1**

Source: California Employment Development Department (EDD). Analysis by Beacon Economics

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 11,300 jobs, or 5.9%. Education and Health Care payrolls are now well above pre-pandemic levels, up 11.7% since February 2020.

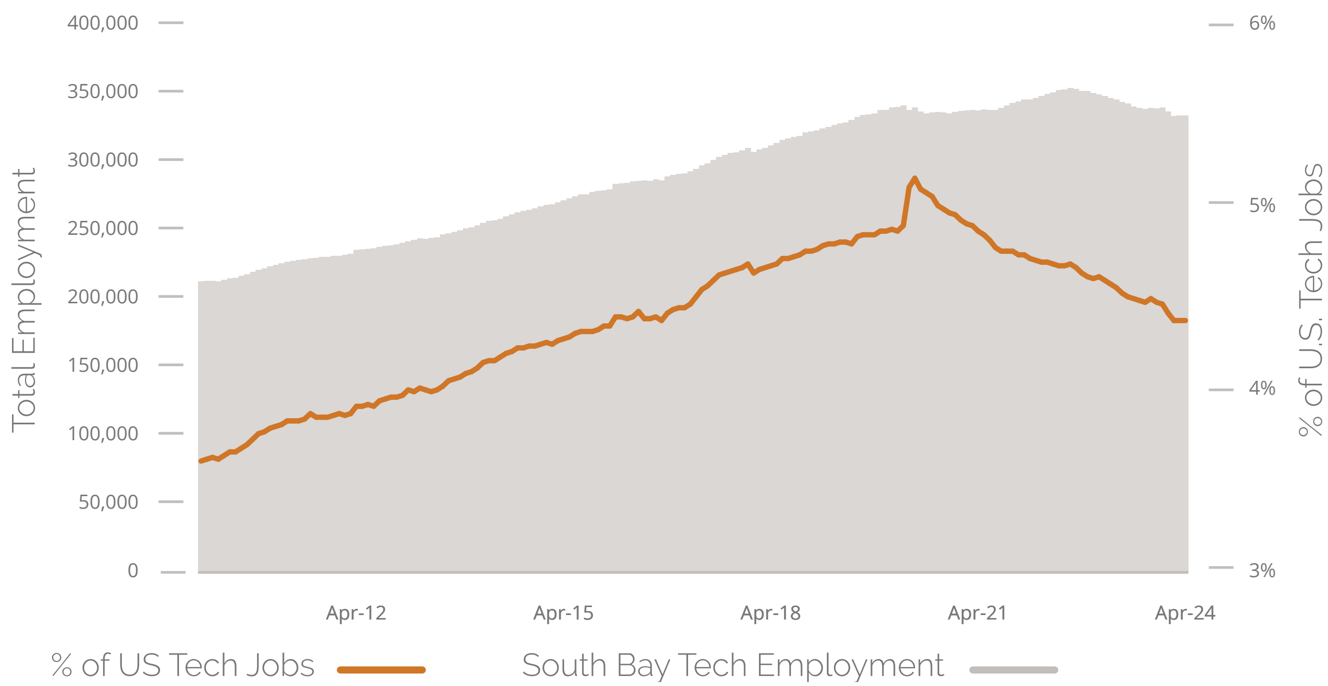
Other sectors with significant job gains include Administrative Support (2,500 jobs, or 3.9%); Leisure and Hospitality (2,300 jobs, or 2.3%); Government (1,900 jobs, or 1.9%); Management (800 jobs, or 6.0%); and Retail Trade (300 jobs or 0.4%).

Despite overall payroll gains in the last year, several sectors in the South Bay shed jobs. Losses have been most pronounced in Information, with payrolls down by -6,400 jobs, a -6.5% decline. This should come as no surprise given the layoffs from major tech companies in the region and the fact that payrolls in the sector are now -4.3% below pre-pandemic levels. Information payrolls are down a more modest 0.9% from pre-pandemic levels in San Francisco (MD), but a more substantial 16.5% in the East Bay. Other significant job losses occurred in Manufacturing; Professional, Scientific, and Technical Services; Natural Resources and Construction; Wholesale Trade; Financial Activities; and Transportation and Warehousing.

Tech Employment

Employment in the South Bay's tech industry fell by -3.4% over the last year, a more modest decline than California (-4.3%), but a marked contrast to the 0.5% growth in the United States overall. That said, tech jobs continue to play a vital role in the South Bay economy, accounting for 4.4% of all tech-related jobs in the United States, despite the region accounting for just 0.7% of total U.S. employment.

South Bay Tech Employment



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

Overall, tech jobs in the South Bay rose 1.8% in the last five years, trailing California slightly (2.0%), but well behind the United States (11.7%). Rising housing costs, stemming from a statewide lack of new building, have hindered employers' efforts to attract workers to the South Bay. As a result, many tech firms have chosen to shift operations to states with a lower cost of living.

The last year saw a number of major tech layoffs in the South Bay. Since June 2023, Broadcom Inc. filed WARN notices indicating they would be letting go 1,267 workers. Other major WARN notices came from Cisco Systems Inc. (973 workers), Tesla Inc. (858 workers), Jabil Inc. (643 workers), Apple Inc. (614 workers), and Intel Corporation (506 workers)

> "Tech jobs continue to play a vital role in the South Bay economy, accounting for **4.4%** of all tech-related jobs in the United States, despite the region accounting for just **0.7%** of total U.S. employment."

South Bay Tech Employment By Subsector

Sector	South Bay			California		U.S.	
	Empt. Apr-24	1-Year Chg. (%)	5-Year Chg. (%)	1-Year Chg. (%)	5-Year Chg. (%)	1-Year Chg. (%)	5-Year Chg. (%)
Computer & Electronic Prod. Manufacturing	125,900	-1.9	6.2	-2.7	4.1	-0.6	2.9
Information	91,600	-6.6	-4.7	-7.1	-4.1	-1.3	5.9
Computer Systems Design & Related Services	87,100	-2.6	-2.9	-2.8	-0.9	2.2	16.7
Scientific Research & Development Services	26,900	-0.7	26.9	-1.6	27.2	3.0	32.5
Total Tech	331,500	-3.4	1.8	-4.3	2.0	0.5	11.7

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

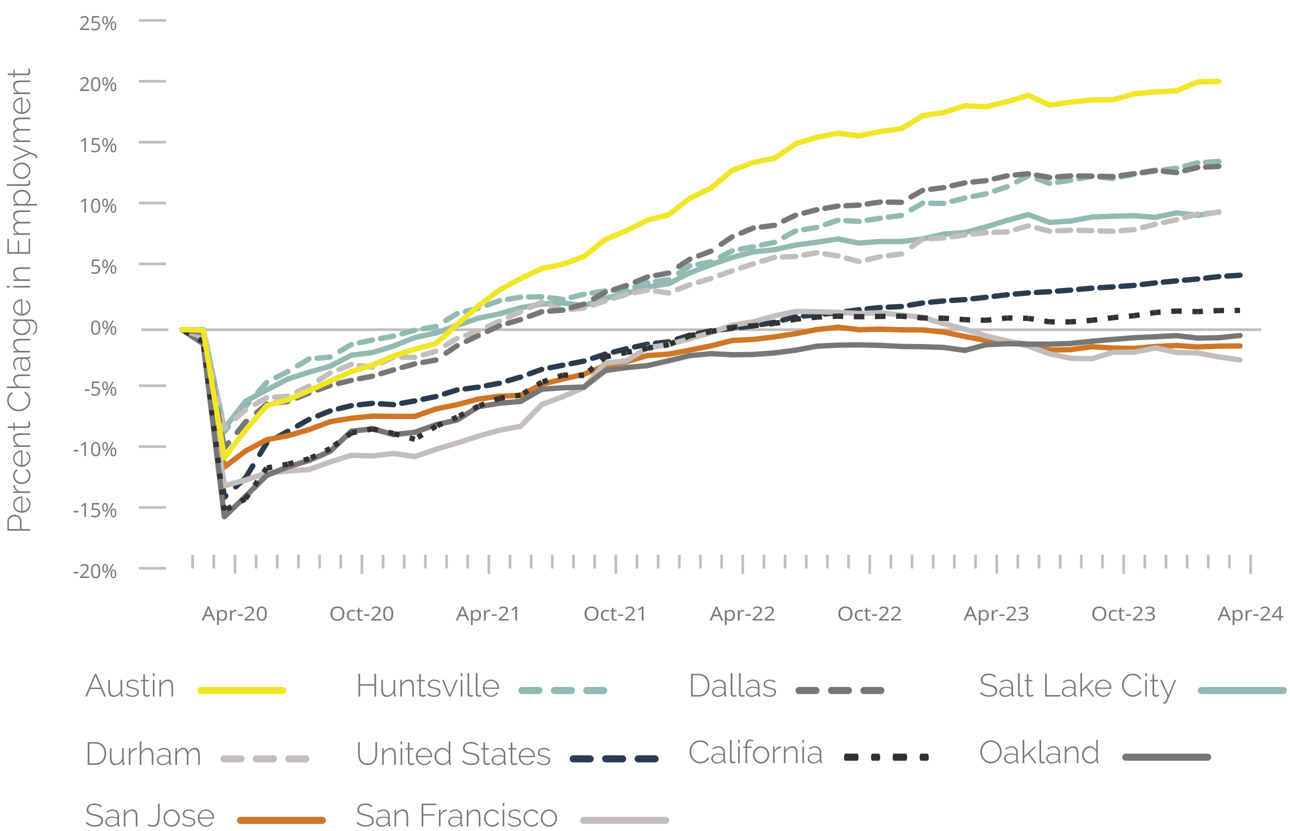
Santa Clara County: WARN Notices

Company	Layoffs 7/1/2023 to 5/15/2024
Broadcom Inc.	1,267
Cisco Systems, Inc.	973
Tesla, Inc.	858
Jabil Inc.	643
Apple Inc.	614
Intel Corporation	517
LinkedIn Corporation	506
BILL Operations, LLC	468
Surefox North America Inc	386
PayPal	311
eBay Inc.	261

Source: California Employment Development Department. Analysis by Beacon Economics

The South Bay's tech sector has clearly lost momentum. Even so, it is still relatively large and comprises a considerable share of the region's payrolls. But since the onset of the pandemic, its dominance has waned with noticeable declines in tech employment across the Bay Area. Since the pre-pandemic peak in February 2020, payrolls in tech are down in the East Bay, San Jose, and San Francisco, but up 1.6% statewide. Other regions have seen a marked expansion in tech-sector employment, particularly Austin, Texas, where tech employment has increased more than 20% over pre-pandemic levels.

Percent Change in Tech Employment from February 2020



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

Wages

Wages in the South Bay have grown modestly over the last year, but remain well above pre-pandemic levels. Average annual wages across the region increased from the third quarter of 2022 to the third quarter of 2023, growing 3.9% to $159,767. The South Bay outshined the East Bay (-1.0%), Stockton (-0.8%) California (0.8%), and the United States (0.1%), but trailed gains in San Francisco (MD) -5.0%).

Wage growth was strongest in the Information sector, with average annual wages up by 13.7%. Other sectors posting significant gains over the last year include Manufacturing (11.4%), Trade, Transportation, and Utilities (4.1%); Natural Resources and Construction (4.0%); Professional and Business Services (2.1%); and Other Services (0.1%). Education and Health Care (-4.0%), Financial Activities (-1.7%), Government (-1.0%), and Leisure and Hospitality (-0.7%) were the only sectors to post wage declines over the last year.

Q3-2023 Annual Average Wage by Industry, South Bay

Industry	Q3-2023 ($)	1-Year % Growth
Information	382,300	13.7
Manufacturing	250,162	11.4
Trade, Transportation, and Utilities	96,825	4.1
NR/Construction	109,805	4.0
Professional/Business	194,829	2.1
Other Services	56,335	0.1
Leisure & Hospitality	40,102	-0.7
Government	98,120	-1.0
Financial Activities	146,972	-1.7
Education/Health	87,415	-4.0
Total Nonfarm	**159,767**	**3.9**

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

Local Spending

Consumer spending in the South Bay has retreated from recent highs. From the fourth quarter of 2022 to the fourth quarter of 2023, taxable receipts in the region fell by -2.4%, a modest decline compared to the East Bay (-9.5%) and Modesto (-2.8%), but trailing growth in San Francisco (MD) (1.6%) and Stockton (1.7%). Taxable receipts in the region expanded by +21.1% over the last five years, surpassing the East Bay (15.3%) but trailing Modesto (32.9%), San Francisco (MD) (21.9%), Stockton (68.6%), and California (31.2%).

South Bay Sales Tax Receipts by Category

Category	Q4-23 ($ Thousands)	1-Year Change (%)	5-Year Change (%)
Restaurants and Hotels	16,903	4.1	22.5
Autos and Transportation	19,701	-0.7	12.2
General Consumer Goods	19,539	-0.7	2.9
County & State Pool	26,585	-1.2	34.1
Fuel and Service Stations	7,455	-4.0	11.0
Building and Construction	9,706	-4.7	9.6
Business and Industry	38,228	-5.4	42.8
Food and Drugs	4,506	-8.2	-0.5
Total	**142,400**	**-2.4**	**21.1**

Source: HdL Companies. Analysis by Beacon Economics

Taxable receipts at Food and Drugs Stores fell -8.2% in the last year, and spending is down 0.5% from five years ago. Other sectors with significant declines in taxable receipts include Business and Industry (-5.4%); Building and Construction (-4.7); Fuel and Service Stations (-4.0%); County and State Pool (-1.2%); General Consumer Goods (-0.7%); and Autos and Transportation (-0.7%). However, spending in all these categories remains higher than five years ago.

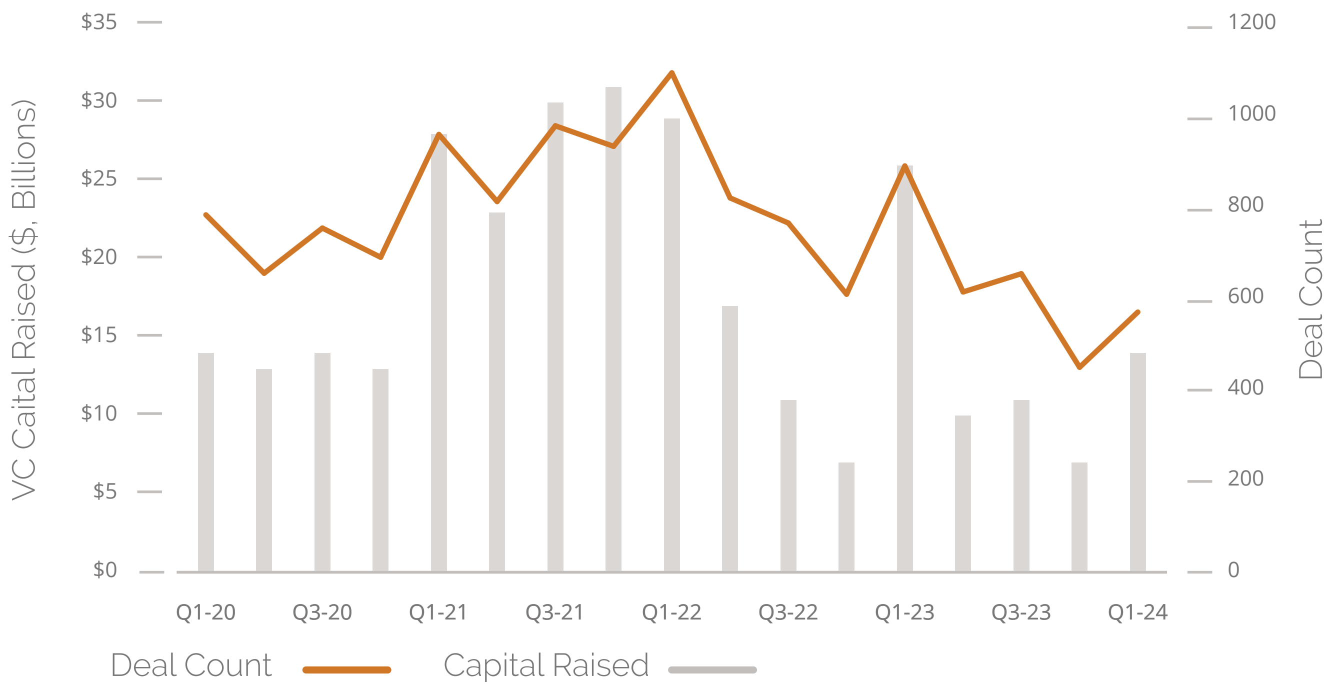
With more people eating out, taxable receipts at Restaurants and Hotels grew 4.1% from the fourth quarter of 2022 to the fourth quarter of 2023. Although this sector was one of the hardest hit by the pandemic, spending is now up 22.5% over the last five years.

Venture Capital

Silicon Valley is home to some of the world's most prominent technology companies. For that reason, venture capital (VC) plays a vital role in the South Bay economy. However, higher interest rates are impacting growth. From 2022 to 2023, total capital raised in Silicon Valley decreased by -16.8% to $53.9 billion. This compares to an overall -34.6% decline in the United States during the same period. The total number of deals made in 2023 was 2,607, down -20.7% from 2022's 3,288 deals and a more modest decline than the United States (-27.7%). Silicon Valley accounted for 24.1% of all deals and 39.4% of the venture capital raised in 2023. In addition, $14.4 billion has been raised in VC investment in the first quarter of 2024 with Silicon Valley accounting for 23.5% of all deals and 42.1% of venture capital.

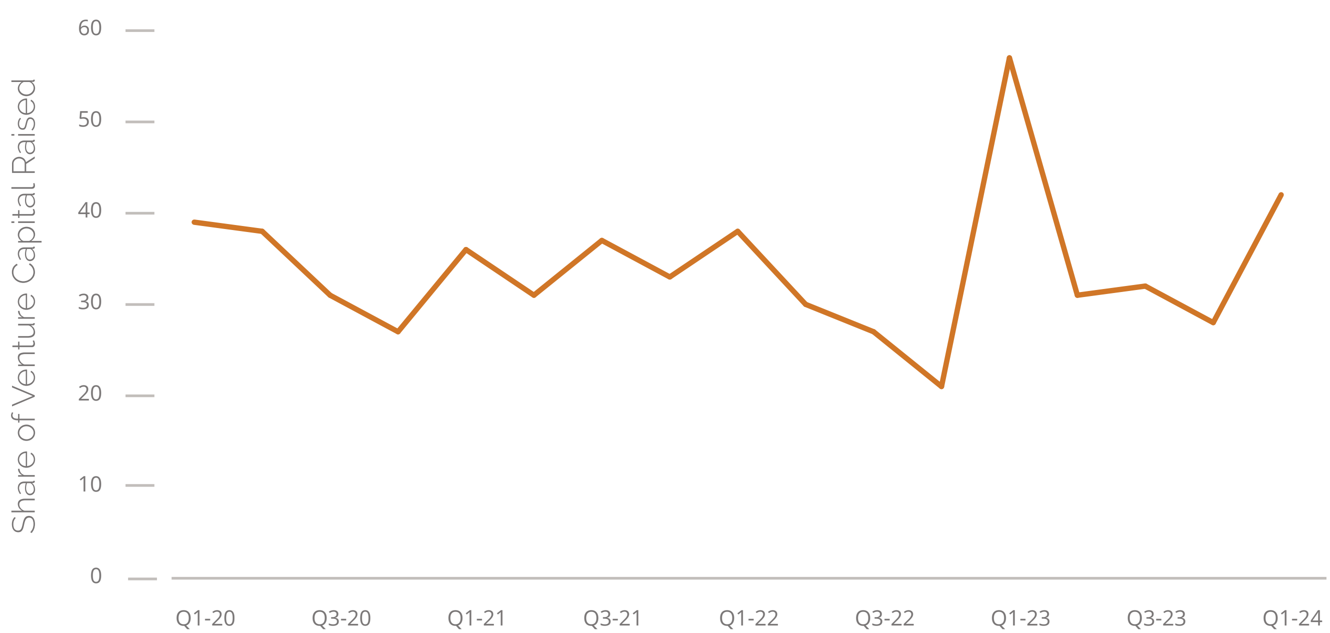
Anthropic, an Internet Software & Services firm, had the largest equity deal in the first quarter of 2024, at $2.8 billion, with a further equity deal of $750 million in the same quarter. Other companies benefitting from sizeable VC investment deals in the first quarter of 2024 were Generate Capital ($1.5 billion), Figure ($675 million), and Lambda ($320 million).

South Bay VC Capital Rasied and Deal Count



Source: CB Insights. Analysis by Beacon Economics

Silicon Valley's Share of U.S. Venture Capital Raised



Source: CB Insights. Analysis by Beacon Economics

Q1-2024 Top Five Equity Deals, Silicon Valley

Company	Round Amount	Sector	Industry
Anthropic	$2.8B	Internet	Internet Software & Services
Generate Capital	$1.5B	Finance	Lending
Anthropic	$750M	Internet	Internet Software & Services
Figure	$675M	Industrials	Machinery & Equipment
Lambda	$320M	Computer Hardware & Services	Specialty Computer Hardware

Source: CB Insights. Analysis by Beacon Economics

$53.9 Billion

Total Capital Raised in Silicon Valley (2022 - 2023)

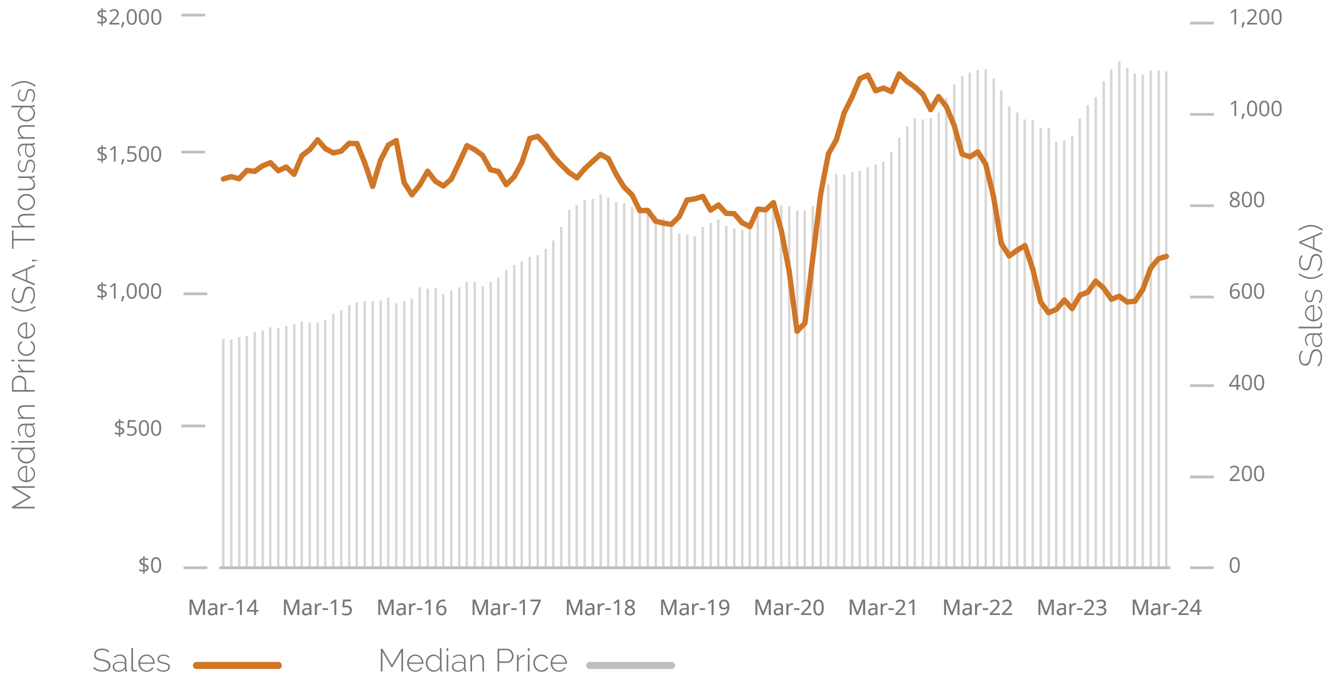
Residential Real Estate

The South Bay housing market has slowed but remains stable. Home sales continue to decline amid rising mortgage rates and limited inventory. Home prices have continued to grow and are significantly elevated compared to pre-pandemic peaks. In addition, consumer balance sheets are relatively strong. As a result, a housing market collapse is unlikely.

Against this backdrop, home prices in the South Bay remain well above pre-pandemic levels. From March 2023 to March 2024, the median single-family home price in Santa Clara County grew by 15.5%, a more rapid increase than San Francisco (7.8%), San Mateo (6.6%), and Contra Costa (10.3%) counties, but more modest than Alameda County (20.6%). Home prices in Santa Clara County are now 37.5% above February 2020 levels.

The lack of new housing supply, rapid rises in median home prices, and high interest rates are hampering the region's ability to attract new workers. As of the first quarter of 2024, only 18% of households in Santa Clara County can afford to purchase a median-priced home, a -3 percentage-point decline from the first quarter of 2023. This makes the region slightly more affordable than California as a whole (17%), but significantly less affordable than the United States (37%). High prices are driven by a lack of new housing supply and are pushing households toward more affordable markets in California and even into other states.

Santa Clara County Single-Family Homes

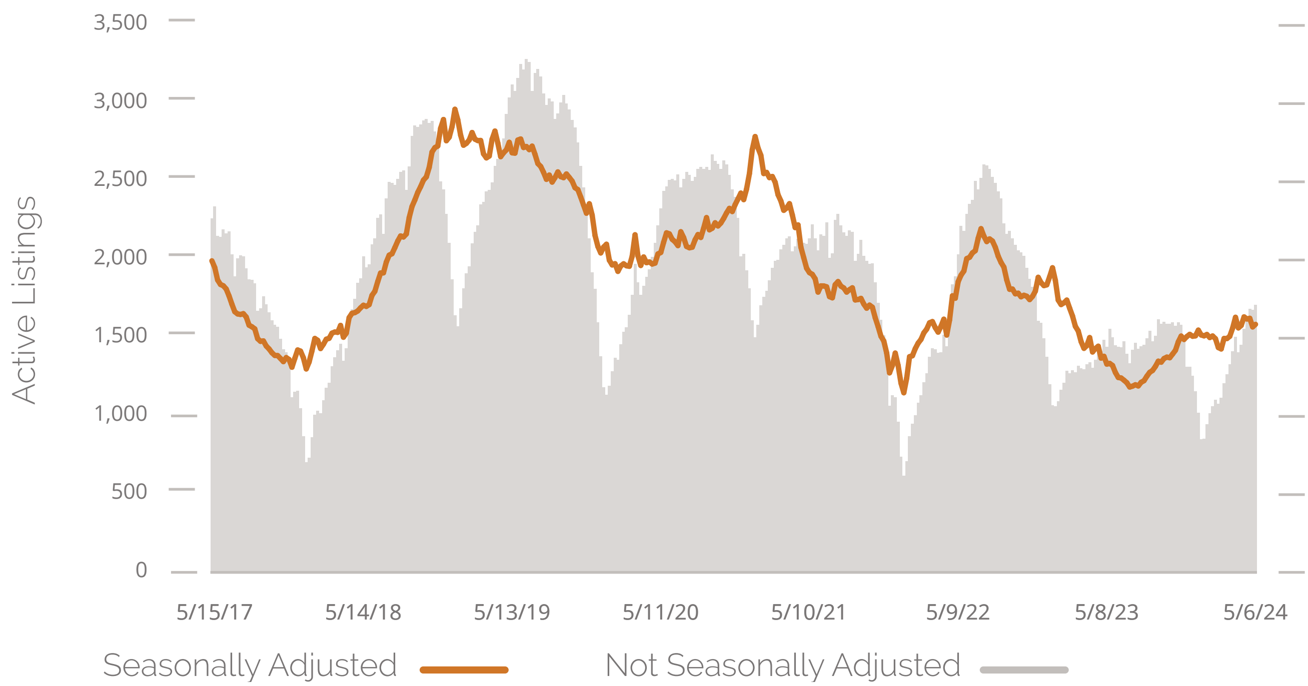


Source: Redfin. Analysis by Beacon Economics

With rising mortgage rates and a lack of available inventory limiting potential buyers, the number of homes sold in the South Bay remains below pre-pandemic levels. Existing single-family home sales grew 21.4% in Santa Clara County from March 2023 to March 2024, a larger increase than Alameda (6.6%) and Contra Costa (0.3%) counties, but more modest than San Francisco (22.4%) and San Mateo (21.4%) counties.

Home inventories throughout the state remain low. In March 2024, there were just 1.6 months of supply in Santa Clara County, a 0.2 month increase from March 2023. A balanced market typically includes six to seven months of supply. A buyer's market is seven months of supply and above, and a seller's market is six months of supply and under.[1] The good news is that active listings are gradually rising. Weekly data from Redfin suggests that although inventories are still historically low, active listings in the South Bay have been rising since July 2023.

South Bay Active Listings



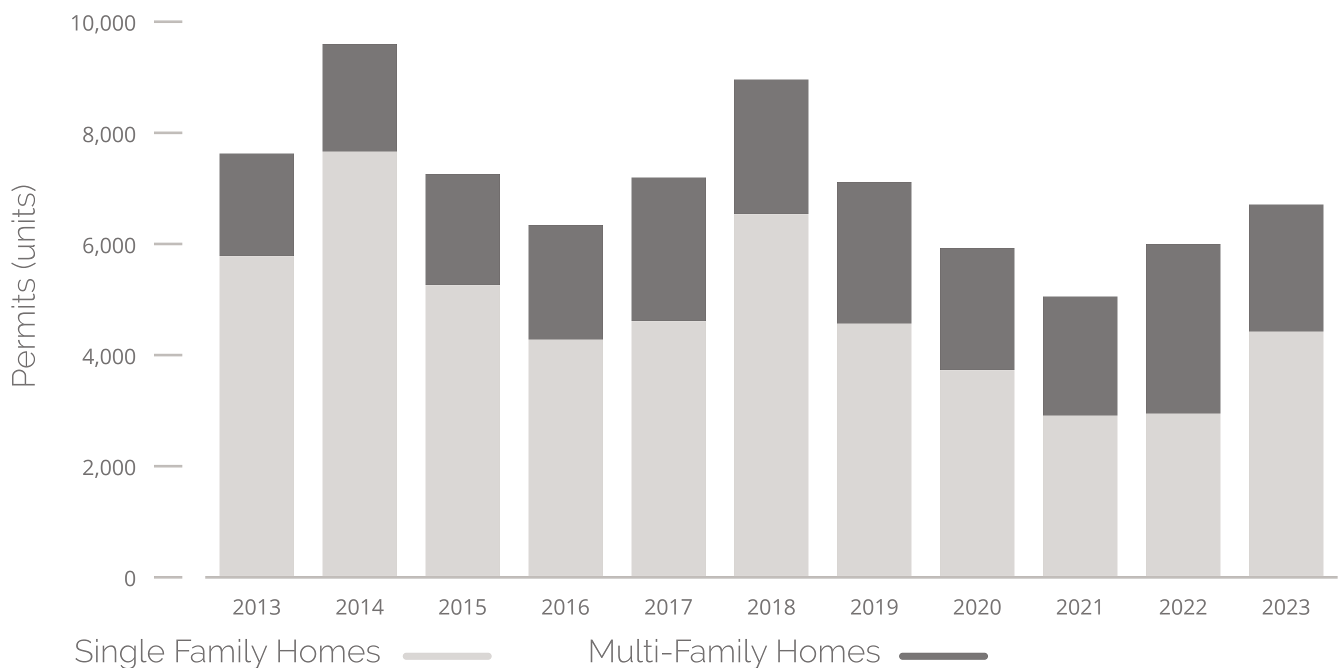
Source: Redfin. Analysis by Beacon Economics

The South Bay apartment market remains stable, but growth in asking rents has leveled off. Vacancy rates grew to 5.2% in the first quarter of 2024, up 0.1 percentage-points from a year earlier. Vacancies were higher in the East Bay (5.6%) and lower in San Francisco (MD) (4.1%). Asking rents grew 0.7% to $3,012 per-unit per month, meaning the South Bay is still more affordable than San Francisco (MD) ($3,139), but more expensive than the East Bay ($2,659).

1 National Association of Realtors (NAR)

Residential construction in the region has increased over the last year. The South Bay issued 4,426 multi-family permits in 2023, a 50% increase from 2022. There were 2,283 single-family permits issued in 2023, a -25.1% decrease from 2022. Overall, residential permitting in the South Bay totaled 6,709 permits issued in 2023, a 11.8% increase from 2022. Continuing additions to housing stock will be essential to sustaining future economic growth.

South Bay Residential Permits

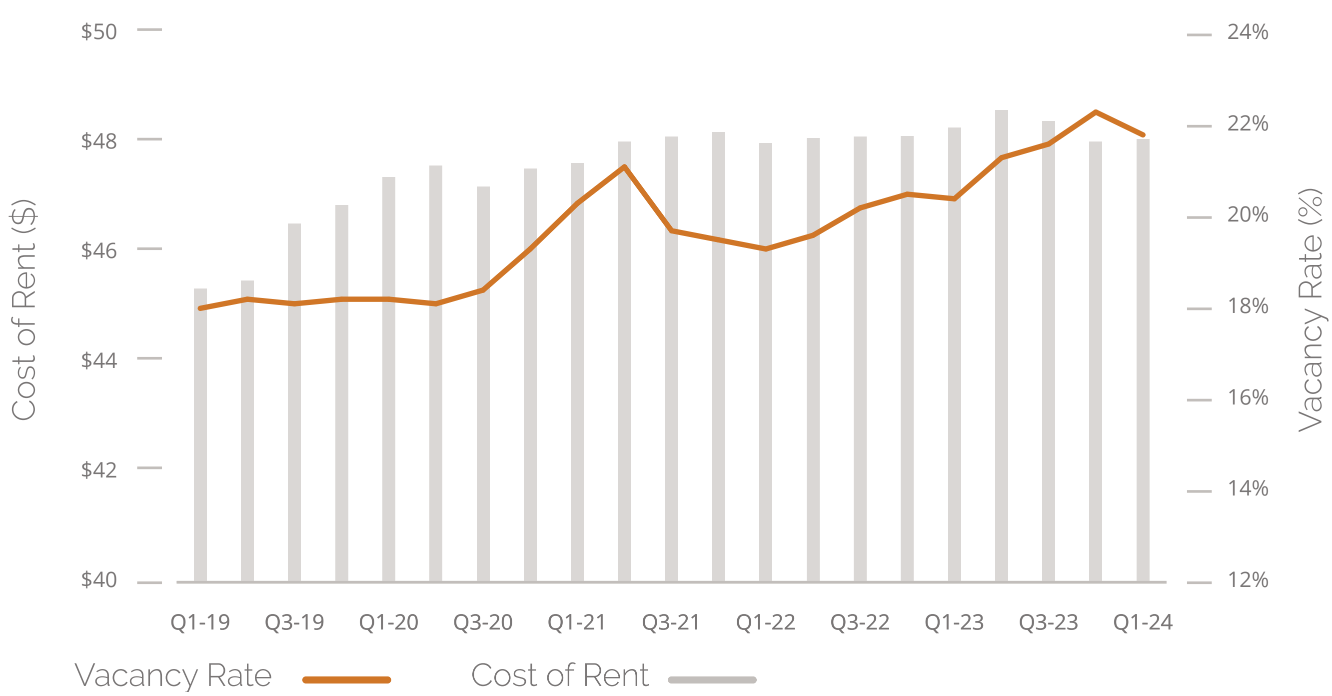


Source: Construction Industry Research Board (CIRB). Analysis by Beacon Economics

Commercial Real Estate

The South Bay office market has high levels of available stock due to reduced demand, particularly in the technology sector. In the first quarter of 2024, the vacancy rate grew +1.4 percentage-points to 21.8%, higher than San Francisco (MD) (19.9%) and the East Bay (18.5%). Over the last year, the cost of rent in the South Bay fell -0.4% to an annual rate of $48.09 per square-foot, making it more affordable than San Francisco (MD) ($63.43), but more expensive than the East Bay ($34.60).

South Bay Office Market



Source: REIS. Analysis by Beacon Economics

Much of the weakness in the office market can be traced to the rise in working from home. However, the share of job postings offering hybrid or fully remote work has been steadily shrinking. Job postings data from Lightcast suggests that the demand for remote work peaked in late 2022, and now less than 8% of job postings in the South Bay explicitly advertise remote or hybrid options. While tech jobs still account for a decent number of job postings at 18%, Manufacturing currently has the largest share (14.4%).

South Bay Share of Remote/Hybird Job Postings

Source: Lightcast. Analysis by Beacon Economics

Demand for retail space declined in the South Bay over the last year. Even so, vacancy rates in the first quarter of 2024 were unchanged from the previous year at 5.9%, lower than the East Bay (8.6%), but higher than San Francisco (MD) (5.8%). The cost of rent grew 1.3% over the last year to $38.63 per square-foot, keeping the South Bay more affordable than San Francisco (MD) ($41.31), but more expensive than the East Bay ($32.10).

2.6%

Warehouse Vacancy

San Francisco - 2.9%

Despite falling demand for South Bay office and retail space, warehouse demand remains strong with vacancy rates down to 2.6% in the first quarter of 2024, a -0.4 percentage-point decline from a year earlier. Vacancy rates for warehouse properties are higher in the East Bay (2.9%) and San Francisco (MD) (2.9%). The cost of rent in the South Bay increased 3.1% over the last year to an annual rate of $10.39 per square-foot, keeping it more affordable than San Francisco (MD) ($13.69), but more expensive than the East Bay ($9.04).

Although vacancy rates remain high, downtown activity in the South Bay, computed by counting the number of unique visitors in a city's downtown area, has almost returned to pre-COVID levels. As of October 2023, San Jose's downtown was at 96% of pre-pandemic levels, the third highest among major metros in the United States. San Jose was well ahead of San Francisco (67%) and the East Bay (74%) in its recovery over this period.[2]

96%

Downtown Activity

San Francisco - 67%

8.6%

Flex/R&D Vacancy

East Bay - 8.5%

The vacancy rate for Flex/R&D properties in the South Bay grew to 8.6% in the first quarter of 2024, a +0.3 percentage-point increase from the previous year. Vacancy rates were lower in San Francisco (MD) but similar in the East Bay (8.5%). The cost of rent for Flex/R&D space in the South Bay grew 3.1% over the last year to an annual rate of $20.43 per square-foot, keeping it more affordable than San Francisco (MD) ($22.23), but more expensive than the East Bay ($14.53).

2 University of Toronto, Downtown Recovery Rankings

Some context helps to understand what exactly has happened to the South Bay commercial market in the four years since the pandemic began. The table below demonstrates how different segments of the commercial market have performed since the first quarter of 2020. The vacancy rate for office properties is high and has increased by 3.6 percentage points, but net absorption of office space has been positive. The same is true across all segments of the commercial market. **The rise in office vacancies is a result of new stock coming online rather than a decline in occupied stock.**

South Bay Commercial Real Estate, Q1-2024

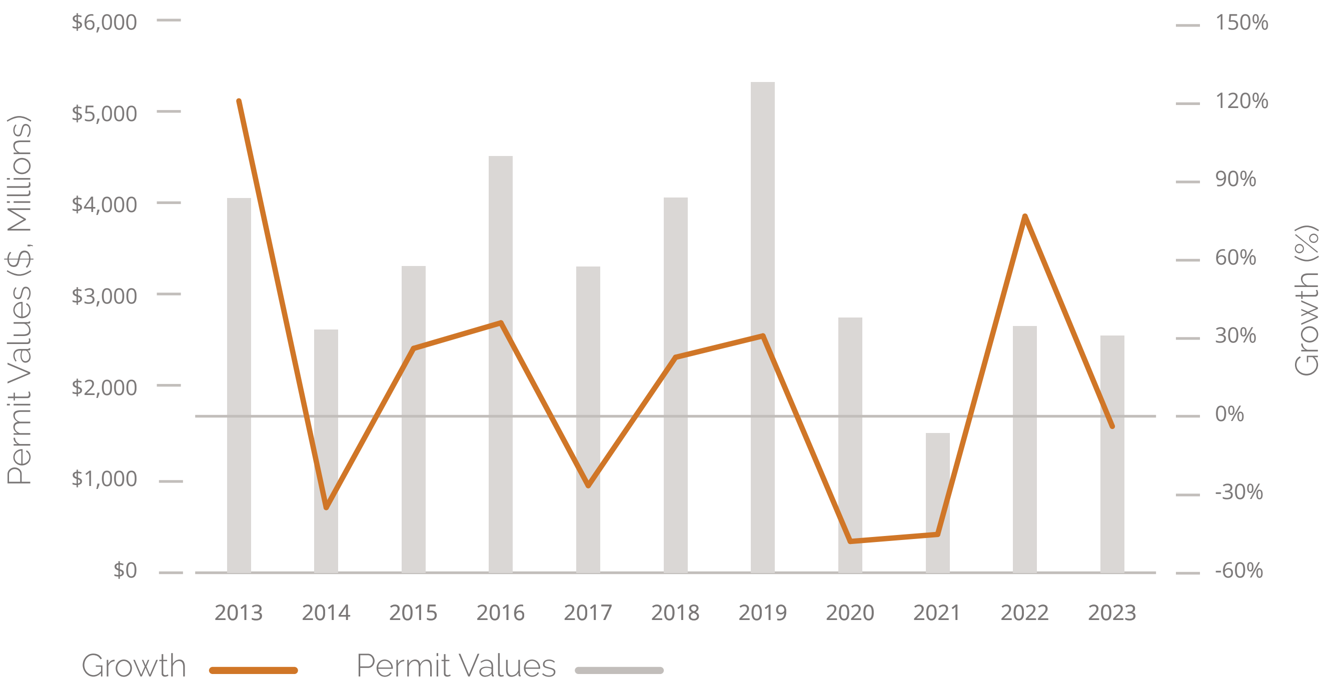
		Change from 2020-Q1		
	Vacancy Rate	pp change	Completions	Net Absorption
Apartment	5.2	+1.1	+13,079	+11,148
Flex/R&D	8.6	-3.5	+195,000	+2,480,000
Office	21.8	+3.6	+3,836,000	+420,000
Retail	5.9	+0.5	+171,000	+76,000
Warehouse/Distribution	2.6	-5.6	+1,812,000	+3,724,000

Source: REIS, Inc. Analysis by Beacon Economics

Despite an increase in completions, the total value of non-residential permits in the South Bay declined by 3.9% in 2023. In the same year, retail permitting totaled $205 million, a -11.1% decline from 2022. Over the same period, South Bay office permitting totaled $137 million, a -62.4% decline, and Industrial permitting totaled $2.1 million.

Permitting for non-residential alterations and additions in 2023 totaled $2.0 billion, 46.8% higher than the previous year. Showing great resilience since the end of the pandemic, non-residential alterations in 2023 comprised roughly 79% of all non-residential construction values, a record share. This suggests that rather than breaking ground on new facilities, firms have opted to improve/expand existing spaces. Many of these alterations, common across sectors, are likely attempts to render existing properties more desirable and hence more competitive in the current environment.

South Bay Nonresidential Permits



Source: Construction Industry Research Board (CIRB). Analysis by Beacon Economics

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