South Bay Regional Intelligence Report

SANTA CLARA COUNTY | JUNE 2025

Prepared by Beacon Economics, LLC. Presented by Western Alliance and Bridge Bank

Christopher Thornberg Ph.D.,
Founding Partner

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 entered 2025 with good momentum, and final demand (real spending by consumers, businesses and government) growth in the first quarter expanded by a 2.3% seasonally adjusted annual rate (SAAR). The surge in imports — rushing to stockpile before President Trump's tariffs hit — caused the negative estimate. Beacon Economics anticipates better growth in the second quarter, a point of view supported by strong March consumer spending numbers and April employment numbers.

Nevertheless, our forecast for the U.S. economy now includes an increased probability of a recession in the next 12 months: we estimate a 30% likelihood in the coming year. This estimate 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 administration's rapidly changing set of policies.

As chaotic as they may be, we don't believe President Trump's wave of policy gyrations is sufficient to cause a recession in and of itself. 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 is unlikely to 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.

Christopher Thornberg Ph.D.,
Founding Partner

Western Alliance Bank® | BridgeBank®

California Outlook

California's economy is slowing slightly but still performing strongly across key metrics. The state's gross domestic product (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 past 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.

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 1,000 employees), on the other hand, have fared well, with a 9% employment increase and a 64% jump in wages over the same period.

Contraction in the information sector matters more in California than 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 2025 waiving California Environmental Quality Act (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 show 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. These figures are due to two key dynamics intersecting: a lack of new housing and rising real incomes. Higher-income residents can afford the luxury of spreading out and forming smaller, separate households, while lower-income Californians are being priced out and leaving the state altogether.

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.

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

South Bay Regional Intelligence Report

Overview

The South Bay's economy continues to struggle with job losses, driven by declines in tech and computer manufacturing over the past two and a half years. Evidence suggests that 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 (AI), 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 past 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.

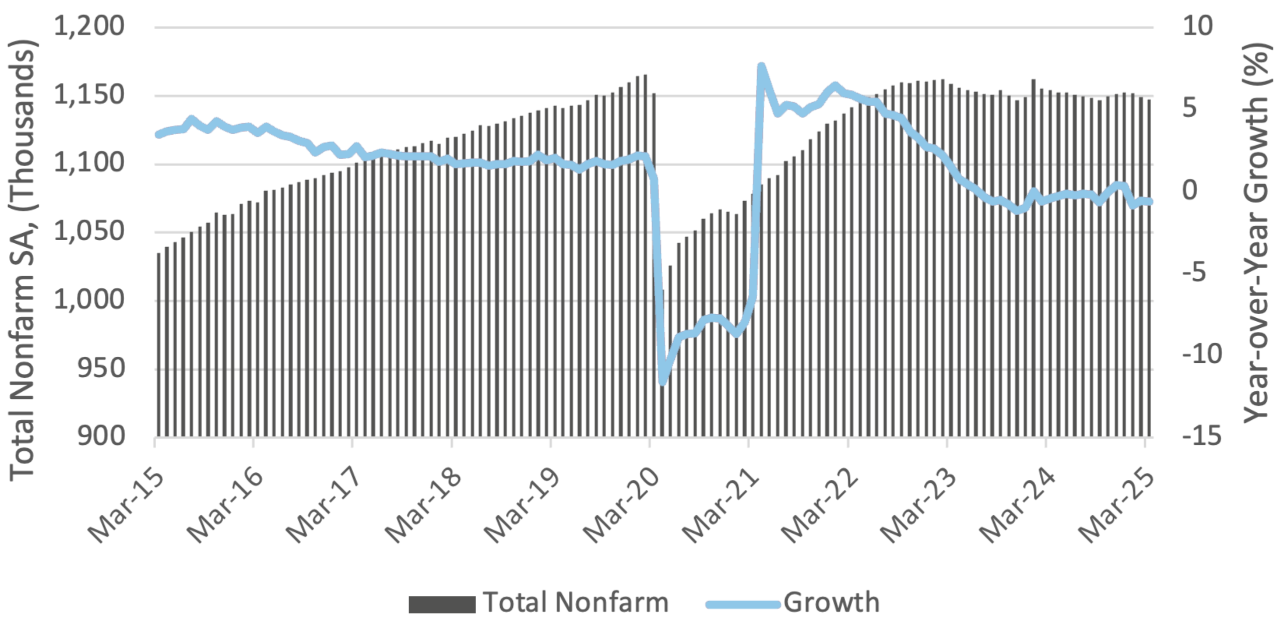
- The South Bay's tech industry continues to struggle, but the recent influx of venture capital funding to the region's AI companies has been a beacon of hope. Payrolls are down 0.6% over the past year, driven by declines in tech and computer manufacturing. In March 2025, the South Bay accounted for 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 outcome 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 past year. In 2024, venture capital funding in Santa Clara County reached $18.7 billion, 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 situation 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 past 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 past 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 have 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 that 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 past two and a half years. Payrolls are down 0.6% over the past year. This decline is more modest than in the East Bay (-0.8%) and San Francisco metropolitan division (MD) (-0.9%), but it 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.

SOUTH BAY TOTAL NONFARM EMPLOYMENT AND GROWTH



Source: California Employment Development Department. Analysis by Beacon Economics.

SANTA CLARA COUNTY EMPLOYMENT GROWTH BY SUBREGION

Submarket	2024 Jobs	5-Year Change (#)	5-Year Change (%)
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/Los 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 past 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 past 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.

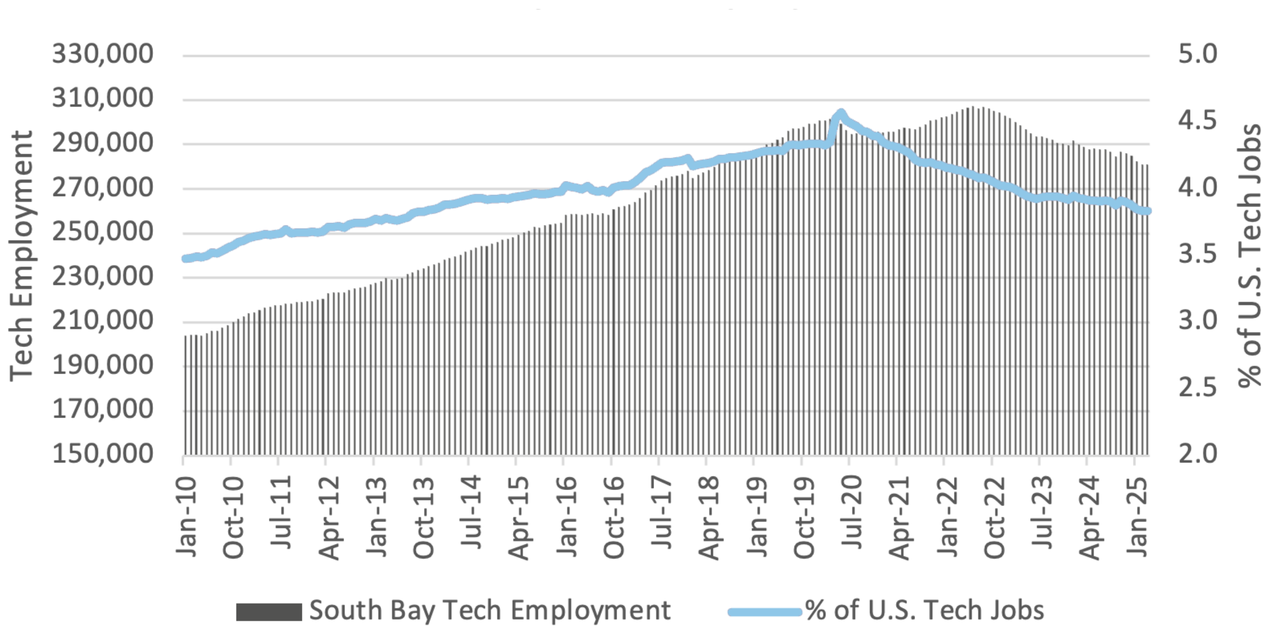
SOUTH BAY INDUSTRY EMPLOYMENT

Sector	Mar-25 Emplt (000's)	YoY Chg. (%)	YoY Chg. (000's)
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 (EDD). Analysis by Beacon Economics

The tech industry in the South Bay has struggled in recent years. Payrolls have fallen by 3.6% over the past year, compared to -0.5% in the U.S. 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.

SOUTH BAY TECH EMPLOYMENT



Source: California Employment Development Department. Analysis by Beacon Economics.

SOUTH BAY TECH EMPLOYMENT BY SUBSECTOR

SECTOR	SOUTH BAY			CALIFORNIA		US	
	Empl. 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 (BLS). 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.

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.

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 decline contrasts with the increases in some inland areas 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 outcome was primarily due to a sharp decline in the number of people per household, resulting from rising incomes and demographic shifts.

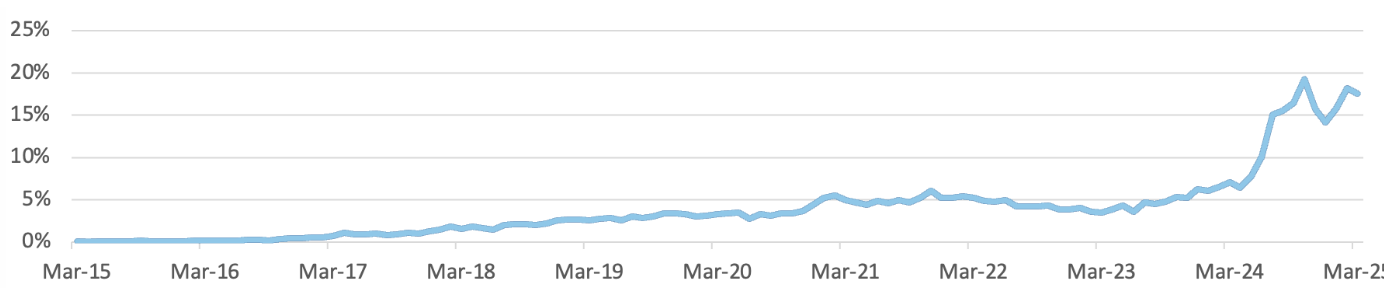
SANTA CLARA COUNTY: WARN NOTICES

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.

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

SHARE OF SAN JOSE MSA POSTINGS WITH AI IN JOB DESCRIPTION



Source: Lightcast. Analysis by Beacon Economics.

Wages

Wages in the South Bay have grown significantly over the past 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 past year, with professional and business services, information, and manufacturing all posting sizeable gains. The gains in the industries with modest wages grew more slowly. Trade, transportation and utilities was the only sector to post wage declines over the past year.

Q3-2024 ANNUAL AVERAGE WAGE BY INDUSTRY, SOUTH BAY

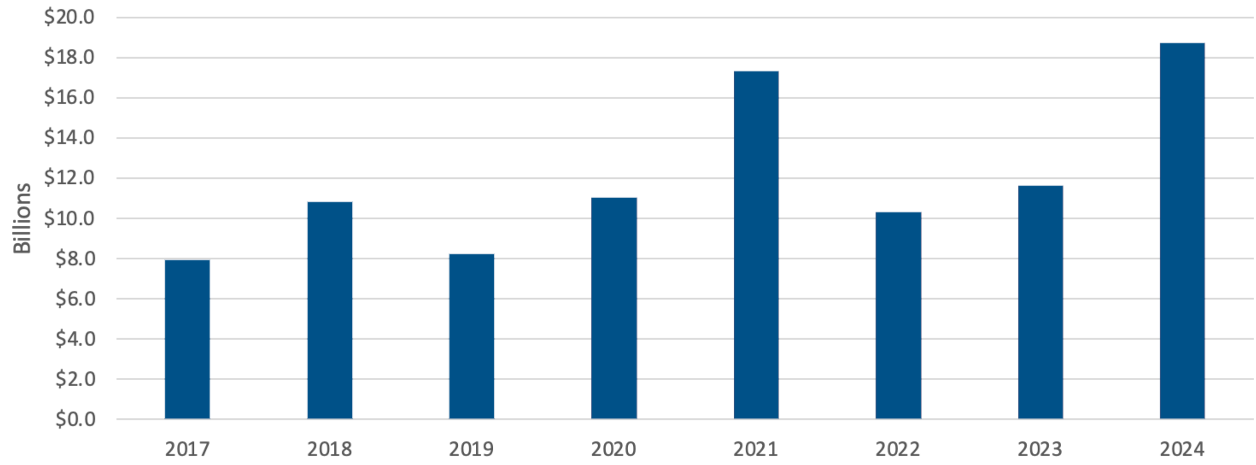
Industry	Q3-2024 ($)	1-Year % Growth
NR/Construction	136,188	27.1
Professional/Business	238,771	22.9
Information	467,907	22.4
Manufacturing	292,438	18.4
Government	102,533	4.5
Leisure and Hospitality	41,195	2.9
Other Services	57,277	2.1
Education/Health	88,850	1.2
Financial Activities	147,248	0.5
Trade,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

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

Venture Capital

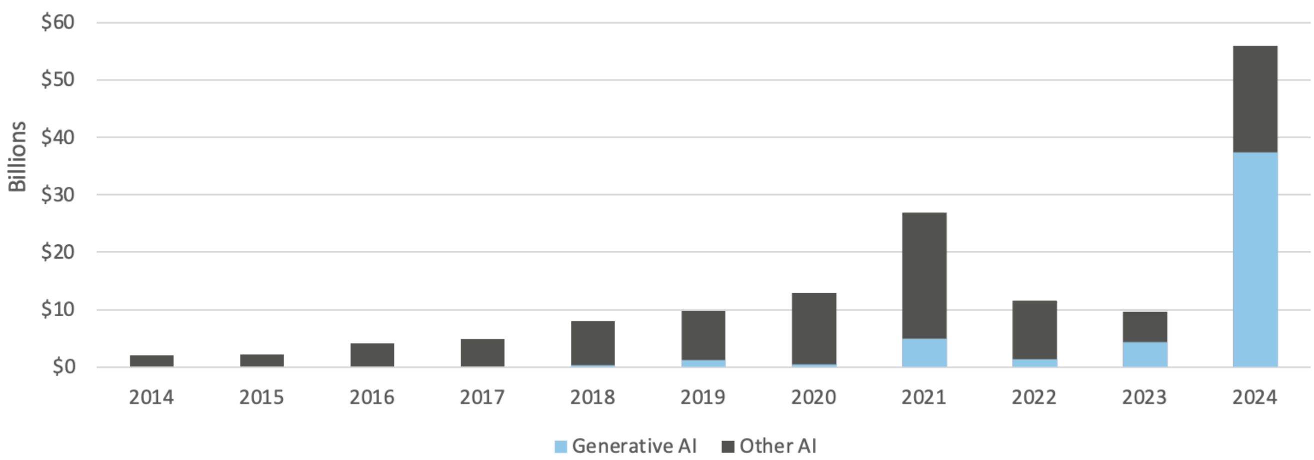
Venture capital funding rebounded to new highs in Santa Clara County in 2024, reaching $18.7 billion in Santa Clara County. This is a 61% increase from 2023 and higher than the record $17.3 billion set in 2021. Santa Clara County and Greater Silicon County accounted for 52% of venture capital funding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

SANTA CLARA COUNTYVENTURE CAPITAL INVESTMENT



Source: CB Insights. Analysis by Beacon Economics.

GREATER SILICON VALLEY VC FUNDING TO AI COMPANIES



Source: CB Insights. Analysis by Beacon Economics.

AI 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 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 that 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.

SANTA CLARA COUNTY TOP DEALS 2024

Investee Company	City	Amount (Millions)
xAI	Palo Alto	$12,000
Waymo	Mountain View	$5,600
Figure AI	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

$56 Billion

VENTURE CAPITAL FUNDING TO AI COMPANIES

(2024)

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

Venture Capital

Consumer spending in the South Bay increased 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 five years from 2019-2024, surpassing the East Bay (10.4%) but trailing California (22.5%), Modesto (25.8%), San Francisco (MD) (16.7%) and Stockton (66.6%).

Q3-2023 ANNUAL AVERAGE WAGE BY INDUSTRY, SOUTH BAY

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. The business and industry and restaurants and hotels categories also posted steady gains over the same period. The most recent data from Placer.ai show 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 past 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 decline is modest compared to that in the East Bay (-21.2%) and San Francisco (MD) (-19%) but trails 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 past 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 REVPAR: 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 deficit has caused the city to cut services and explore new revenue sources.[4]

[4] https://www.mercurynews.com/2025/04/03/san-jose-nvidia-tech-economy-hotel-restaurant-food-travel-jobs-money/

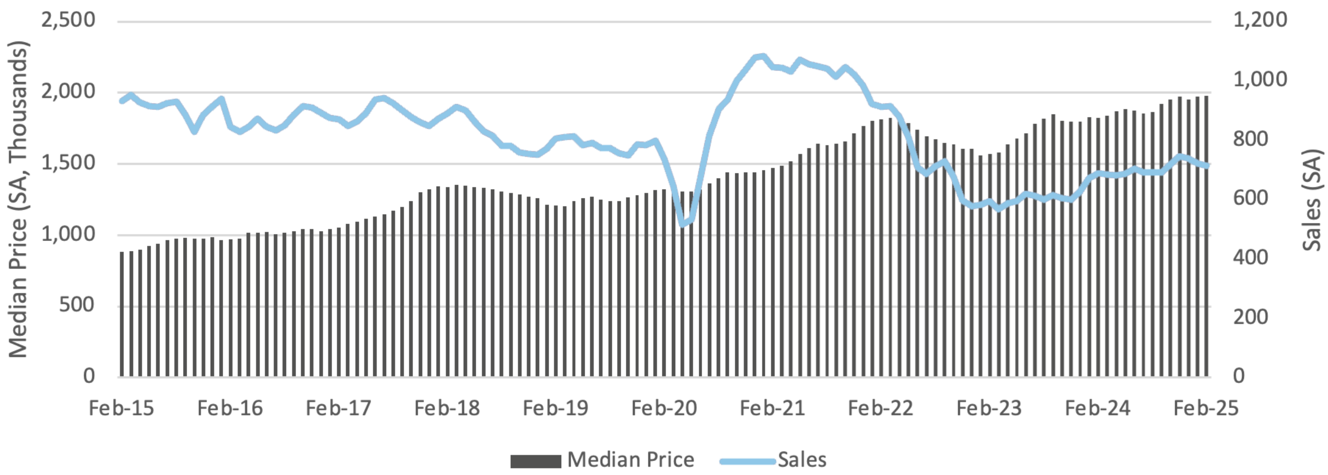
[3] https://sanjosespotlight.com/san-joses-projected-budget-deficit-skyrockets/

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.

SANTA CLARA COUNTY SINGLE-FAMILY HOMES

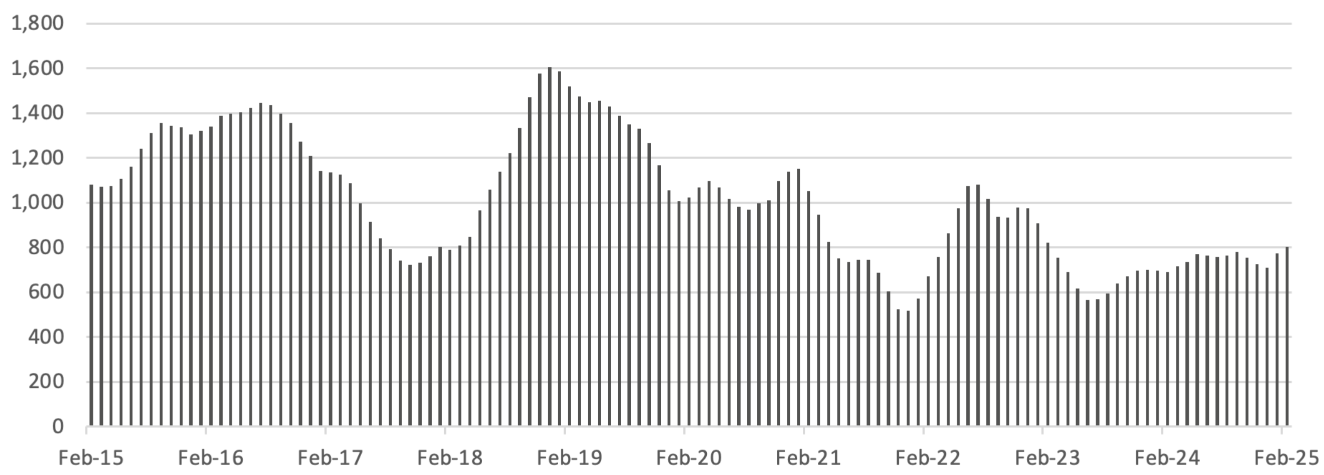


Source: Redfin. Analysis by Beacon Economics

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 that sellers are adjusting to higher mortgage rates.

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 past 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 that the South Bay is more affordable than San Francisco (MD) ($3,252) but more expensive than the East Bay ($2,659).

SANTA CLARA COUNTY SINGLE-FAMILY HOME INVENTORY

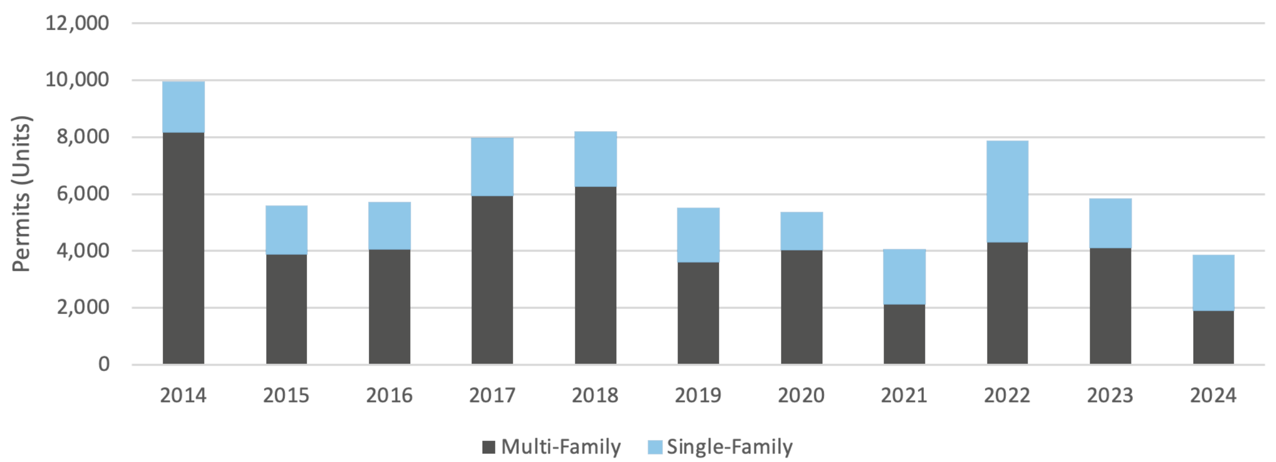


Source: Redfin. Analysis by Beacon Economics

Residential construction in the region has fallen to its lowest level in a 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% between 2014 and 2024, outpacing the 7.1% increase in California. However, this increase is modest compared to states like Texas (20.9%), Florida (15.5%) and Nevada (13.6%), which have seen their populations and economies expand significantly. 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]

SOUTH BAY RESIDENTIAL PERMITS



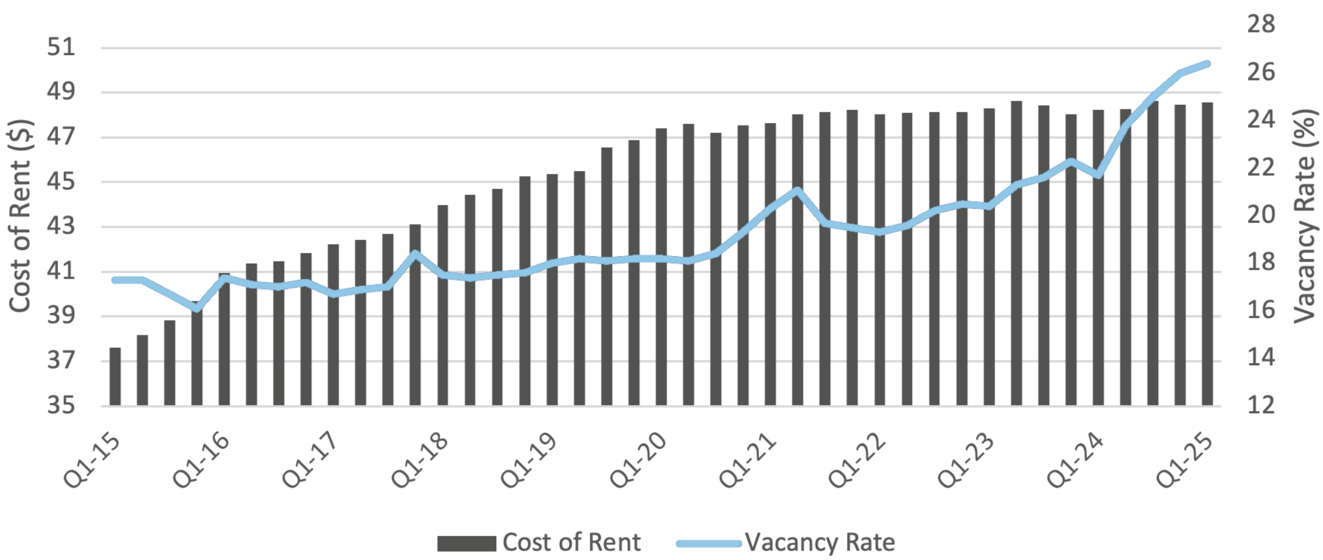
Source: Construction Industry Research Board (CIRB). Analysis by Beacon Economic

[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 affected demand for San Jose's office market, with an increase in office vacancies over the past 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.

SOUTH BAY OFFICE MARKET



Source: REIS. Analysis by Beacon Economic

SOUTH BAY SALES TAX RECEIPTS BY CATEGORY

Office Submarkets	Occupied Stock Q1-25 (sq. ft.)	1-Yr Change (%)	Change since Q4-19 (%)
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
Total	**55,682,000**	**-4.6**	**-3.4**

Source: REIS. Analysis by Beacon Economic

With companies reducing payrolls and hiring remote workers, San Jose has 3.4% less occupied office space now 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 past 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 past year and more than double over the past 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 past year, with occupied stock falling by 2.1%. The vacancy rate grew to 10.4% in the first quarter of 2025, a 1.8 percent 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.

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, 2024, the National Semiconductor Technology Center 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]

3.4%
DECREASE IN OFFICE SPACE OCCUPANCY

2.1%
FALL IN DEMAND FOR FLEX/R&D SPACE

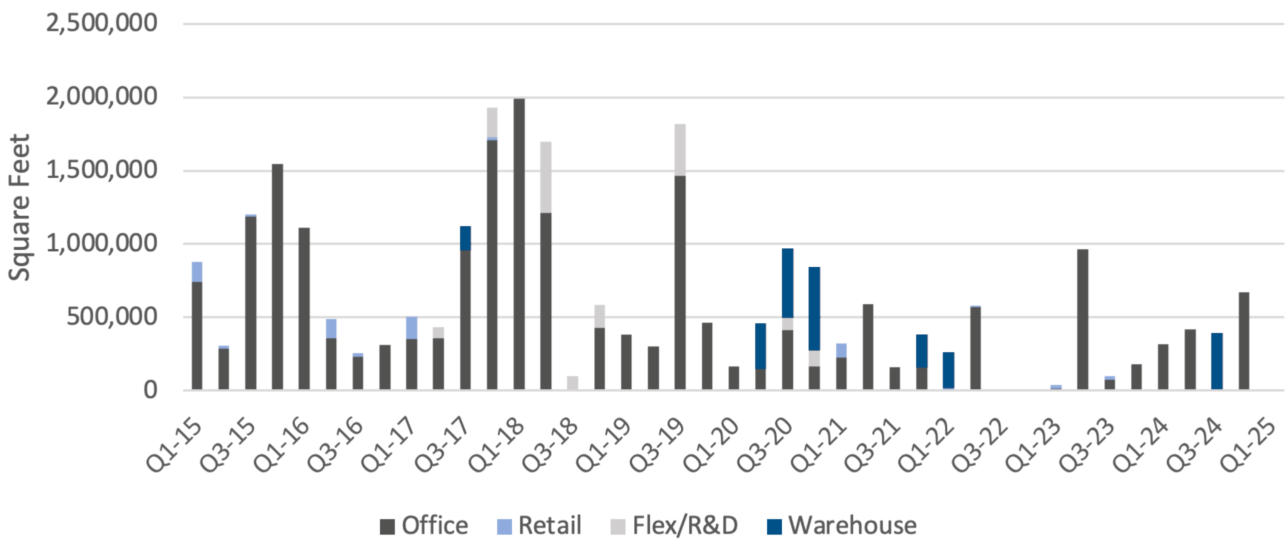
1.0%
DECREASE IN RETAIL/ WAREHOUSE OCCUPANCY

Demand for retail space declined in the South Bay over the past 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 percent 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 past 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).

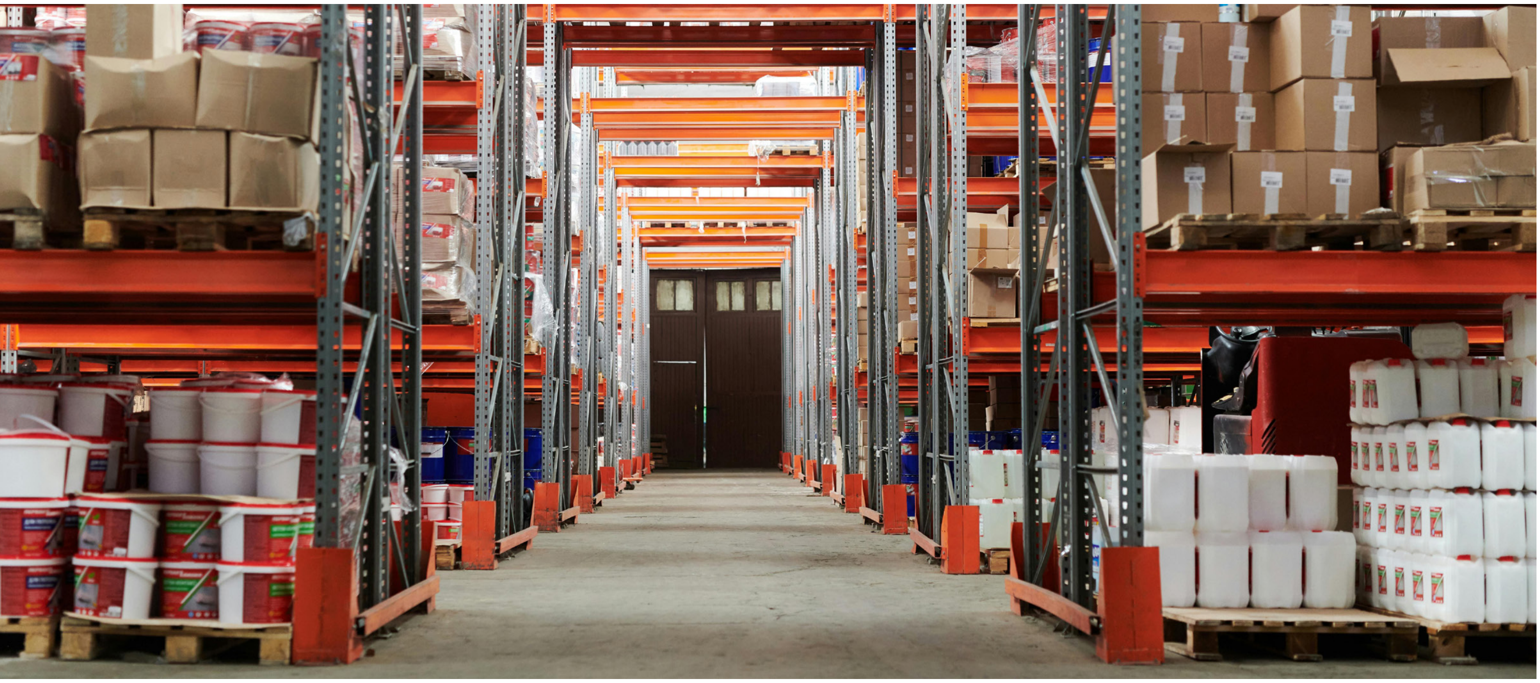
[6] https://www.siliconvalley.com/2025/04/15/nvidia-san-jose-south-bay-tech-build-property-economy-jobs-chips-ai/
[7] https://www.siliconvalley.com/2025/04/10/commission-greenlights-microsofts-data-center-plans-in-north-san-jose/
[8] https://www.siliconvalley.com/2025/04/14/san-jose-economy-jobs-chips-tech-semiconductor-build-develop-nokia/

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 percent 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 past 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).

SOUTH BAY COMPLETIONS



Source: Redfin. Analysis by Beacon Economics.



Our Banking Offices

Bridge Bank Executive Office
55 Almaden Boulevard, Suite 100
San Jose, CA 95113
(408) 423-8500

Oakland
1951 Webster Street
Oakland, CA 94612
(510) 899-7500

Limited Service Offices*

Chicago
150 North Upper Wacker Drive
Suite 2800
Chicago, IL 60606
(312) 237-2320

Denver
1725 Blake Street
Suite 400
Denver, CO 80202
(720) 779-8100

New York City
477 Madison Avenue
17th Floor
New York, NY 10022
(646) 571-2900

**Limited service offices do not have cash on premises and do not accept cash transactions. Appointment required.*

Our Loan Production Offices**

Atlanta
Six Concourse Parkway, Suite 2130
Atlanta, GA 30328
(470) 639-1656

Austin
405 Colorado Street, Suite 1650
Austin, TX 78701
(737) 231-2511

Boston
28 State Street, Suite 2301
Boston, MA 02109
(617) 995-1313

Costa Mesa
600 Anton Boulevard, Suite 100
Costa Mesa, CA 92626
(949) 438-4000

East Bay
5820 Stoneridge Mall Road, Suite 100
Pleasanton, CA 94588
(925) 249-4900

San Diego
4370 La Jolla Village Drive, Suite 305
San Diego, CA 92122
(858) 259-5356

San Francisco
201 Montgomery Street
San Francisco, CA 94104
(628) 221-6630

San Francisco
201 Spear Street, Suite 1500
San Francisco, CA 94105
(415) 230-4834

Seattle
255 South King Street, Suite 09-130
Seattle, WA 98104
(415) 230-4834

Washington, D.C.
8350 Broad Street, Suite 1825
Tysons Corner, VA 22102
(703) 481-1705

***Loan production offices do not accept deposits, cash or checks.*

Turn to us for expert solutions to meet your business and personal banking needs.

BridgeBank.com | (408) 423-8500

Western Alliance Bank®

BridgeBank®