

Silicon Valley R&D Market Overview

Market Observations

Economy

- In the first quarter of 2025, the San Jose-Sunnyvale-Santa Clara MSA unemployment rate edged up slightly from 4.1% in February 2024 to 4.2% in February 2025, a modest 1.7% year-over-year increase. Nationally, the unemployment rate rose more notably, climbing from 3.9% to 4.1% over the same period, a 5.1% year-over-year increase. This indicates that while the broader U.S. labor market experienced a mild softening, Silicon Valley's job market remained comparatively stable, underscoring the region's resilience in key sectors such as technology
- Trade, Transportation and Utilities employment grew steadily in early 2025, supported by resilient consumer spending and supply chain improvements, while manufacturing plateaued due to weak industrial demand and inventory adjustments. This ongoing divergence highlights the service sector's stronger post-pandemic rebound compared to goods-producing industries. Looking ahead, Trade, Transportation and Utilities should maintain moderate growth, but Manufacturing's recovery remains constrained until export markets and business investment show sustained improvement.

Major Transactions

- Muon Space, an aerospace company, leased 129,211 square feet on a direct basis in the Optical Tech Park in the San Jose South submarket.
- Netscout Systems, a cyber security corporation, renewed their location at 178 E Tasman Drive.
- Finisar Corporation, a manufacturer of optical communication components, renewed their lease at 48800 Milmont drive in the Mission South submarket.
- EBR Systems, a medical device company, leased 4600 Patrick Henry for 51,136 square feet in the Marriot Park submarket on a direct basis.

Leasing Market Fundamentals

- Overall vacancy rose for the 10th consecutive quarter, though a divergence between direct and sublease availability emerged. Direct vacancy continued to trend upward, rising 5.2% from the previous quarter. In contrast, sublease availability declined by 1.4%, driven by minimal new subleasing activity. Much of the existing sublease space is transitioning to direct availability as leases expire. Despite the steady increase in vacancy over recent years, R&D vacancy remains below the long-term historical average of 14.3%
- Rent growth in Santa Clara, San Jose, and Sunnyvale was not enough to offset marketwide declines, largely due to significant year-over-year rental rate decreases in Fremont. In the Fremont submarket, 15 buildings totaling 1.1 million square feet of multi-tenant space, primarily in the Bayside and Mission South submarkets, recorded quarter-over-quarter rent decreases. When comparing total available square footage to the space affected by these decreases, Fremont experienced a 43.1% rental rate decrease across its available inventory. Overall asking rates fell to \$2.86 psf NNN, matching Q3 2023 levels, with the average asking rent down 2.3% year-over-year.

Outlook

- The R&D construction pipeline in Silicon Valley is nearing a halt, with no new projects underway after Intuitive Surgical's campus completes—reflecting developer caution amid high interest rates, economic uncertainty, and shifting demand dynamics.
- Although the U.S. is seeing slowed growth in the information and manufacturing sectors, Silicon Valley remains a key driver of R&D innovation. These advancements are expected to fuel local development and job creation, potentially offsetting national declines in R&D employment.
- According to Pitchbook data, the first quarter saw \$3.7 billion invested in AI and ML across 131 deals. Venture capital continues to serve as the driving force behind the proliferation of AI and ML companies throughout the Bay Area, fueling expansion and the growth of existing footprints.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

1Q25

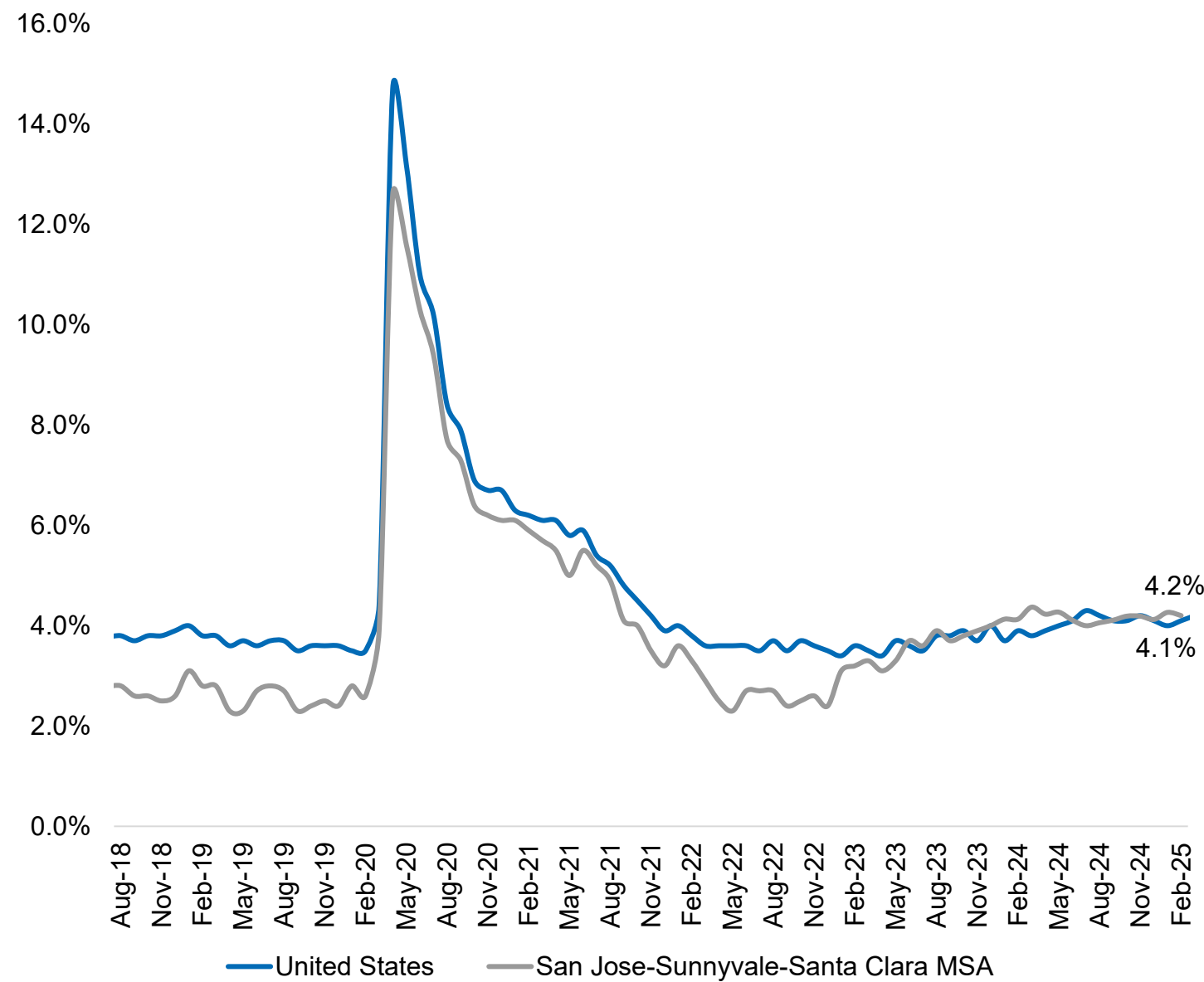
Economy



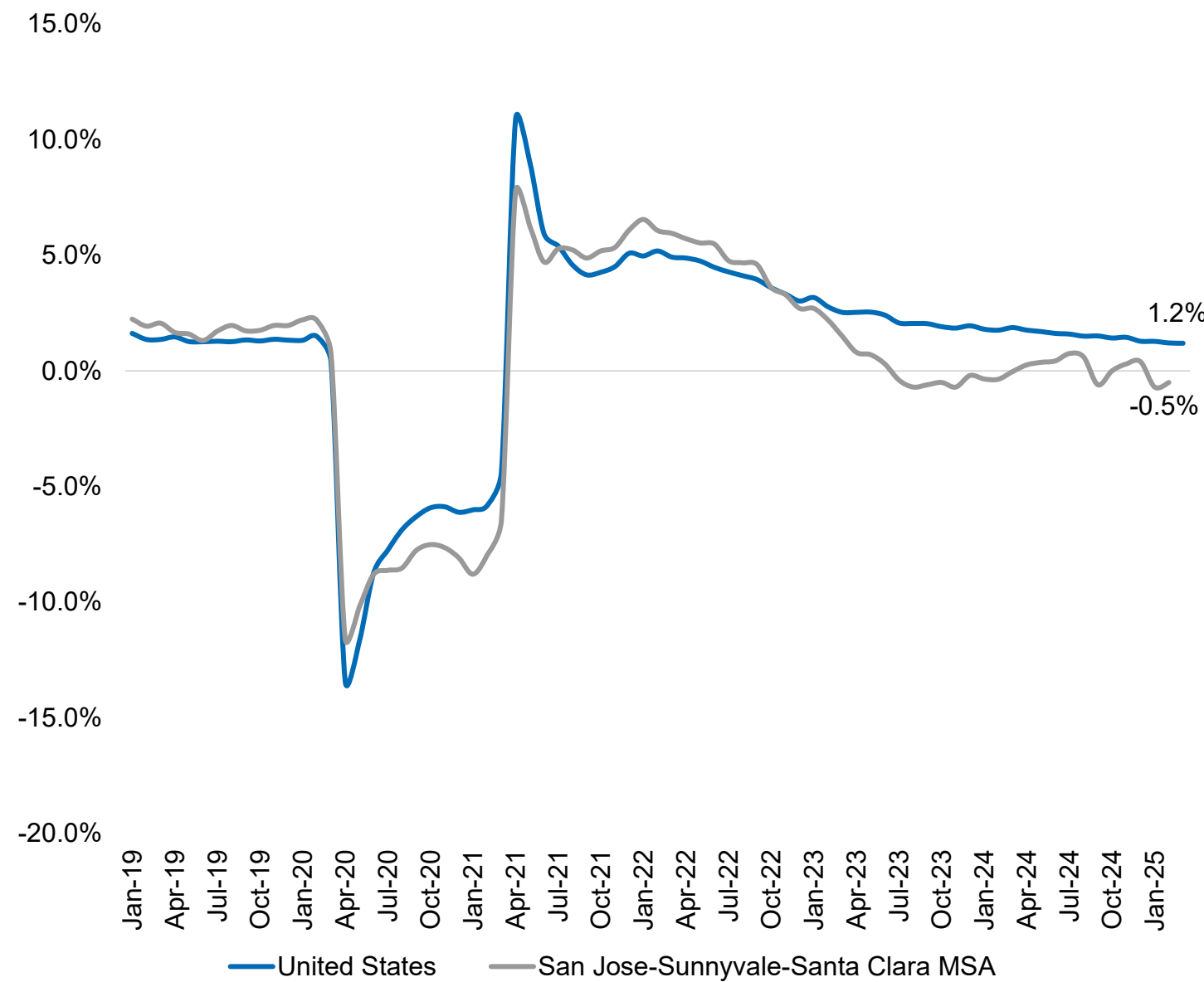
Silicon Valley Labor Market Remains Stable Amid National Softening

In the first quarter of 2025, the San Jose–Sunnyvale–Santa Clara MSA unemployment rate edged up slightly from 4.1% in February 2024 to 4.2% in February 2025, a modest 1.7% year-over-year increase. Nationally, the unemployment rate rose more notably, climbing from 3.9% to 4.1% over the same period, a 5.1% year-over-year increase. While the broader U.S. labor market experienced a mild softening, Silicon Valley’s job market remained comparatively stable, underscoring the region’s resilience in key sectors such as technology.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

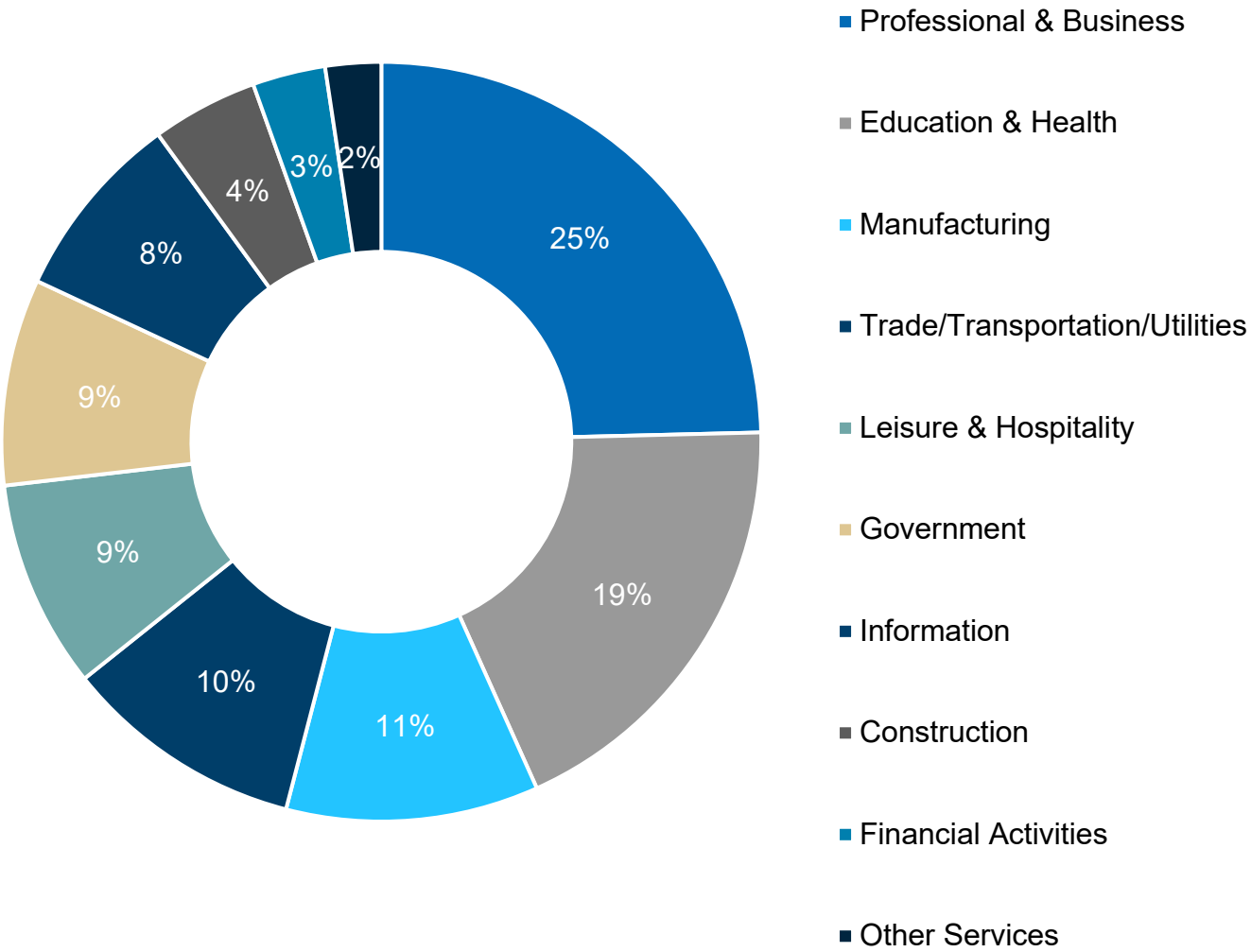


Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

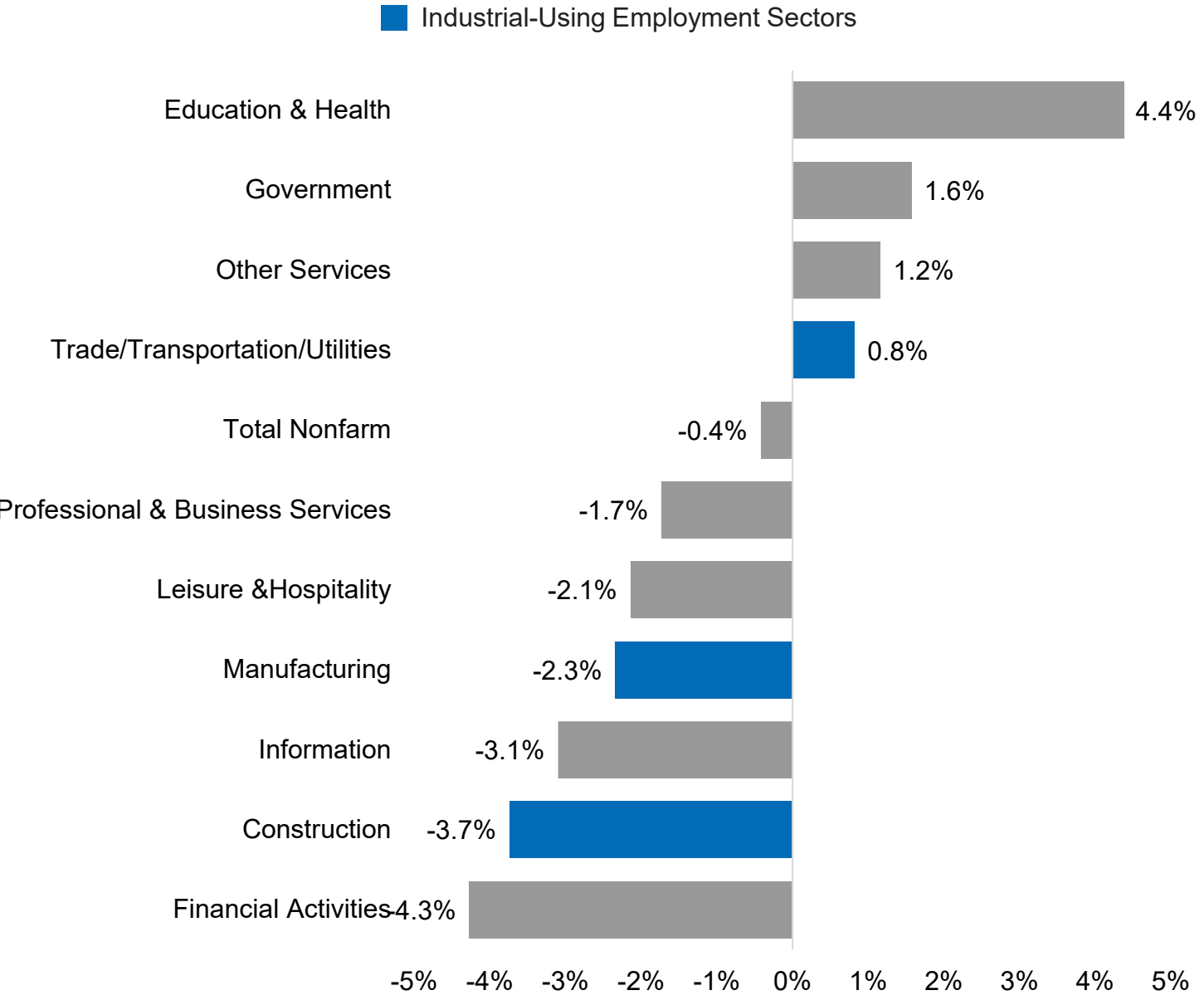
Tech Sector Continued to Shed

Job gains in Education & Health Services, Government, Trade, Transportation & Utilities, and Other Services were insufficient to offset employment declines in key sectors such as Professional & Business Services, Financial Activities, Information, Construction, and Manufacturing. The slowdown in the Information sector could contribute to rising vacancy rates and continued softness in leasing activity in the R&D market.

Employment by Industry, April 2025



Employment Growth by Industry, 12-Month % Change, April 2025

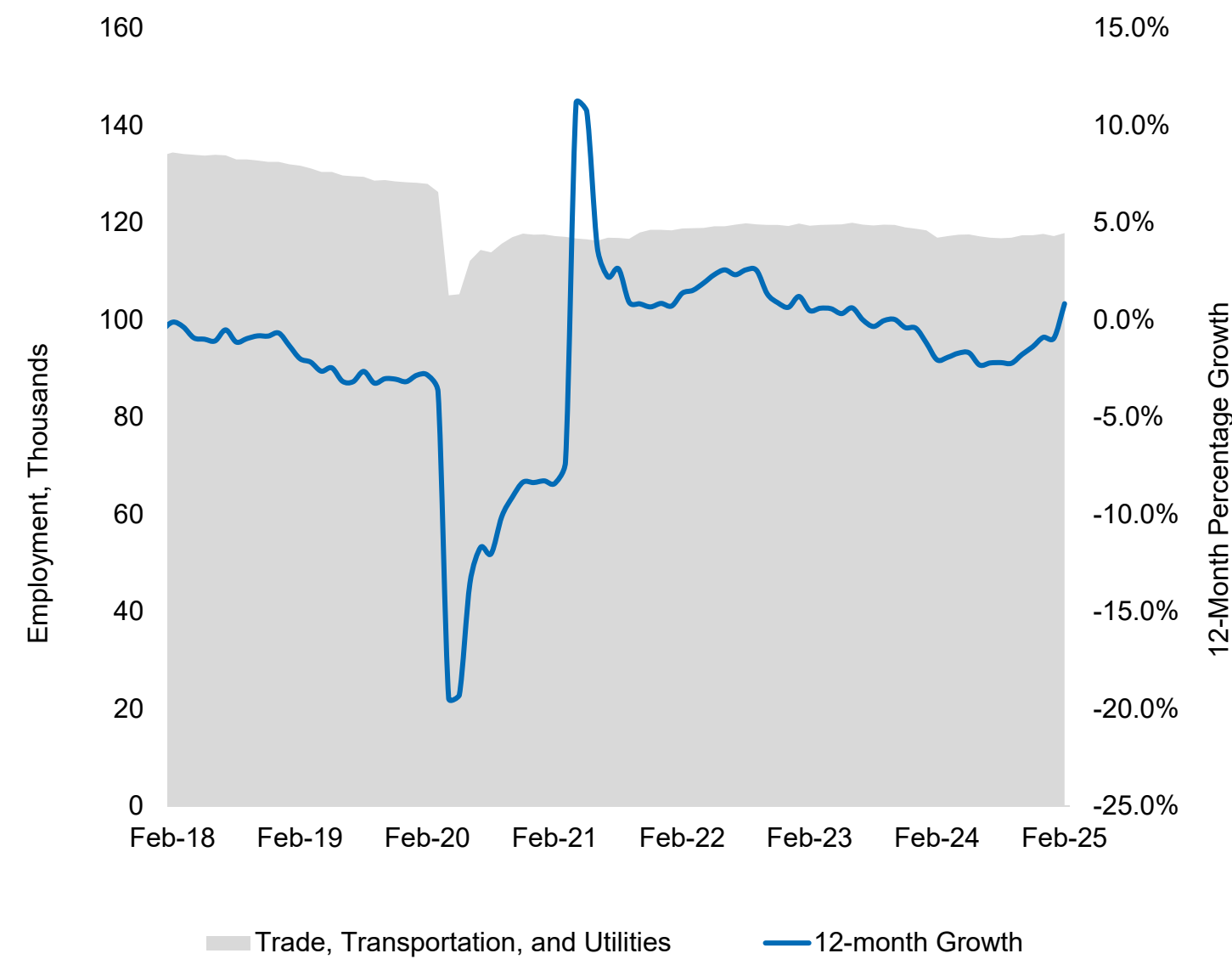


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

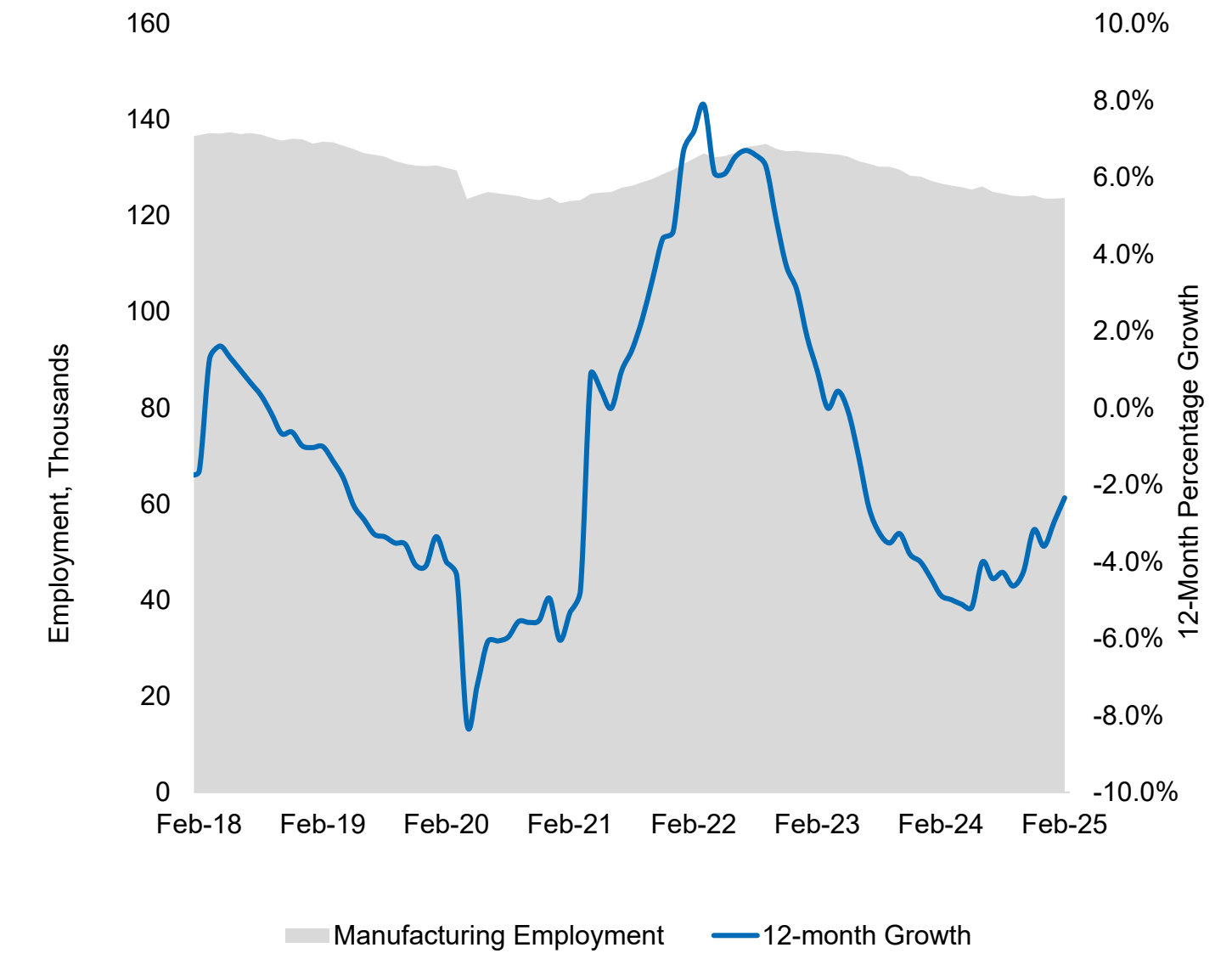
Services Outpace Manufacturing in Early 2025

Trade, Transportation and Utilities employment grew steadily in early 2025, supported by resilient consumer spending and supply chain improvements, while Manufacturing plateaued due to weak industrial demand and inventory adjustments. This ongoing divergence highlights the service sector's stronger post-pandemic rebound compared to goods-producing industries. Looking ahead, Trade, Transportation and Utilities should maintain moderate growth, but Manufacturing's recovery remains constrained until export markets and business investment show sustained improvement.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

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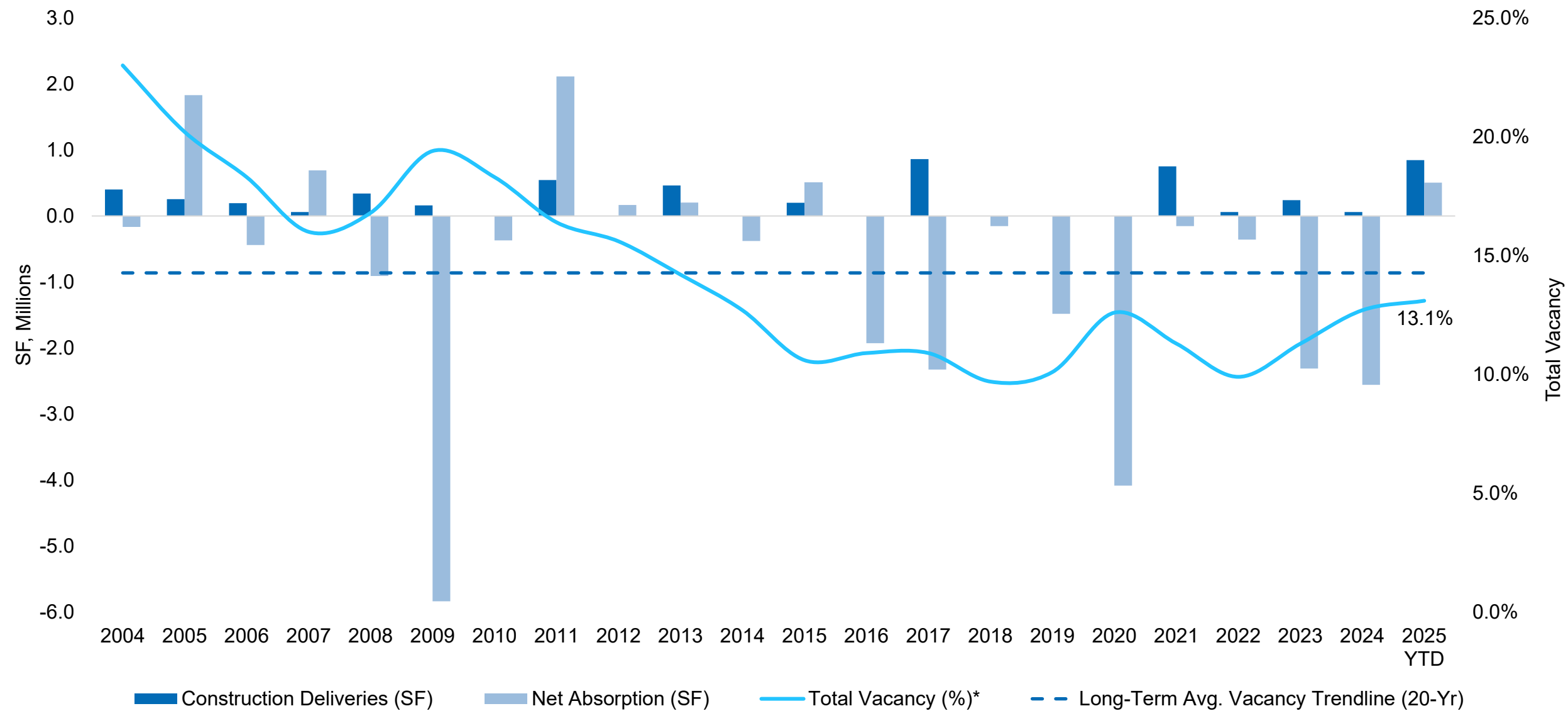
Leasing Market Fundamentals



Direct Vacancy Pushes Rates Higher as Sublease Supply Eases

Overall vacancy rose for the 10th consecutive quarter, though a divergence between direct and sublease availability emerged. Direct vacancy continued to trend upward, climbing 5.2% from the previous quarter. In contrast, sublease vacancy declined by 1.4%, driven by a combination of subleases expiring and sublease transactions. Much of the existing sublease space is transitioning to direct vacancy as leases expire. Despite the steady increase in vacancy, R&D vacancy remains below the long-term historical average of 14.3%.

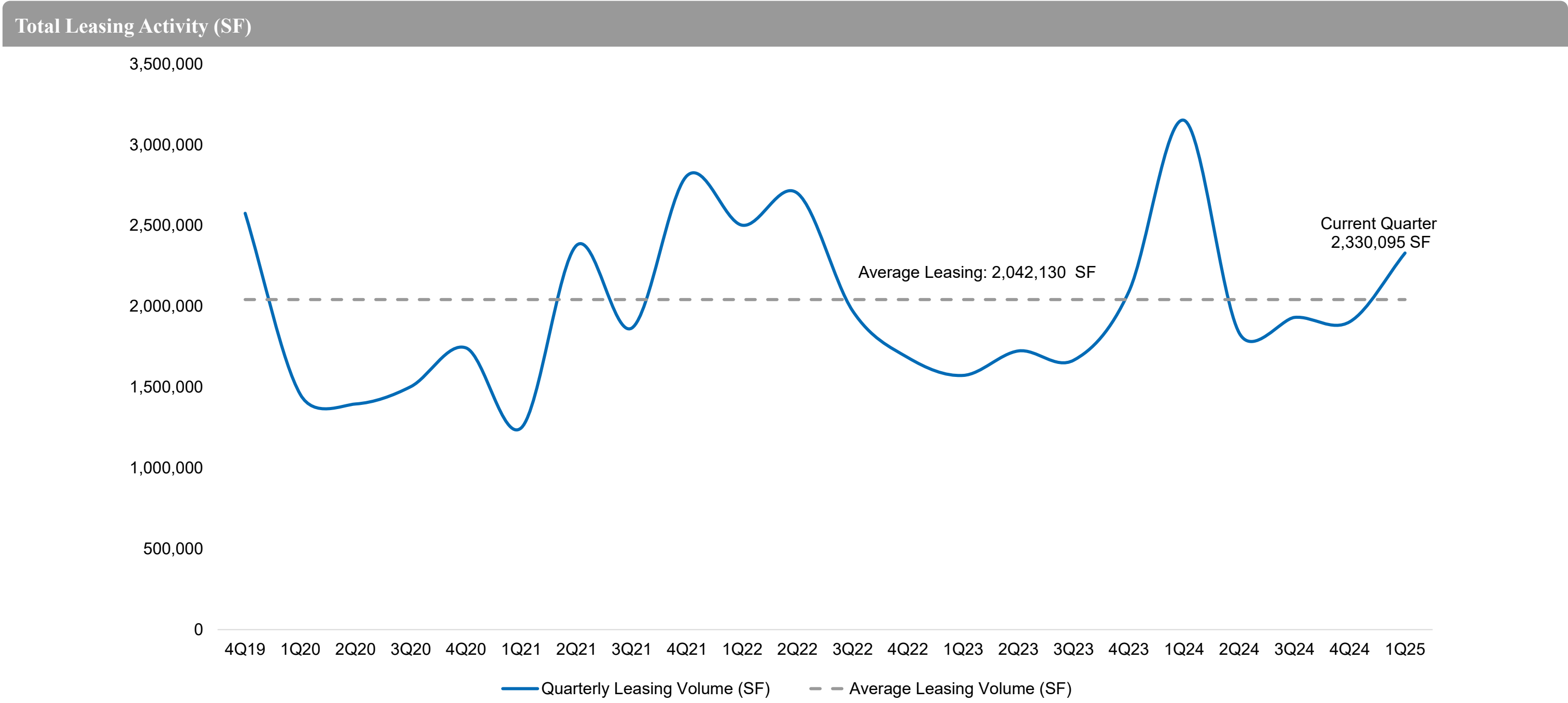
Historical Construction Deliveries, Net Absorption, and Vacancy



*Vacancy was only tracked starting in 2023; prior figures refer to availability.

Quarterly Gross Absorption Topped Average, Driven by Owner-User Activity

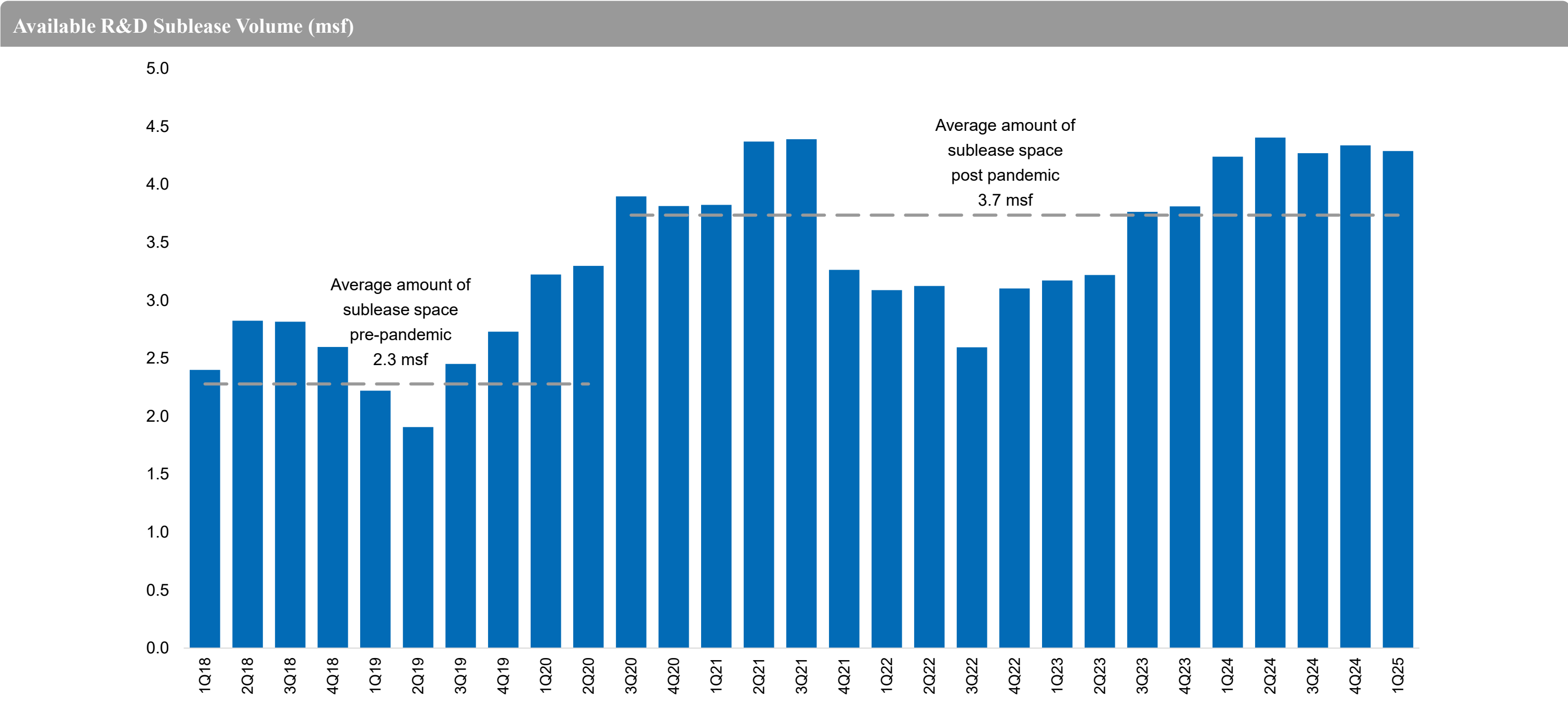
The first quarter of 2025 showed improvement over the previous quarter, with gross absorption reaching 2.3 million square feet, surpassing the 25-quarter average of 2.0 million square feet. However, a significant portion of this activity stemmed from owner-user transactions, including the sale of 1600 Technology Dr. to Goodwill in the Airport submarket of San Jose and the partial delivery of Intuitive Surgical’s campus in the South-Central Sunnyvale submarket, which together accounted for roughly 1.1 million square feet. Leasing activity remained limited overall, with Muon Space representing the quarter’s most notable transaction, a lease of 129,221 square feet in a 4,000-amp facility in South San Jose.



Source: Newmark Research, CoStar

Specialized Requirements Challenge Sublease Viability in R&D Market

Sublease availability edged down at the close of the first quarter but remained elevated. Sublease space currently accounts for 23.9% of total available inventory and is expected to remain high through 2025. Tenants seeking R&D space often require specialized features such as unique power configurations, clean rooms, and lab infrastructure, which tend to have tenants gravitate toward direct leasing. As requirements grow in specificity and become exceedingly challenging to find, long-term direct leasing becomes the preferred option. As a result, short-term subleasing may face challenges, leading a portion of today’s sublease inventory to transition into direct space.

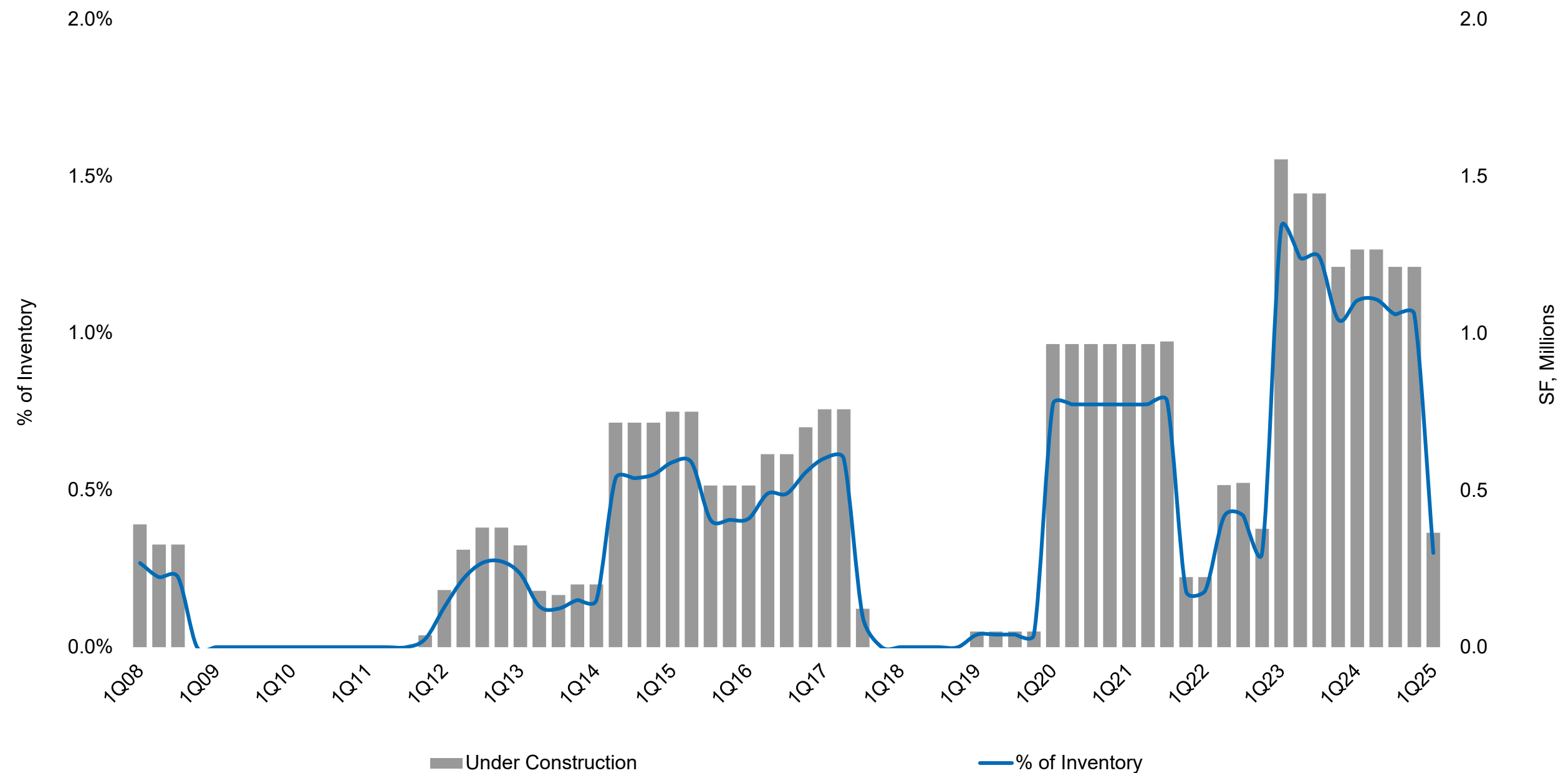


Source: Newmark Research, CoStar

R&D Pipeline Shrank as Intuitive Surgical Neared Project Completion

Intuitive Surgical’s partial delivery of 847,000 square feet from its 1,211,000-square-foot campus contributed significant positive absorption to the Sunnyvale – South Central submarket, representing 0.7% of Silicon Valley’s total R&D inventory. The remaining 364,000 square feet is expected to deliver in Q2 2025. Intuitive Surgical plans to establish its headquarters, further anchoring its presence in Sunnyvale. Upon the project’s completion, there will be no additional R&D inventory under construction.

R&D Under Construction and % of Inventory

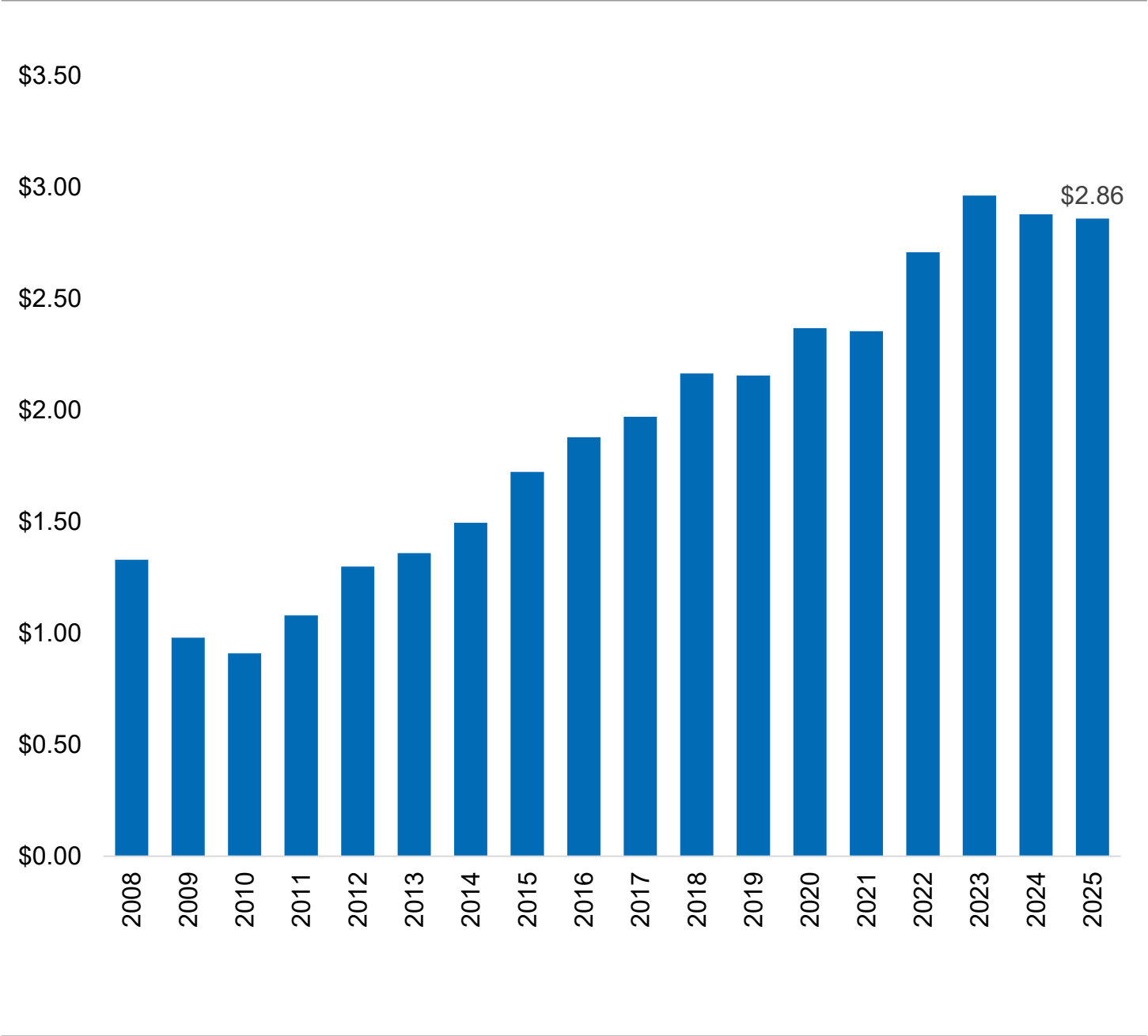


Source: Newmark Research, CoStar

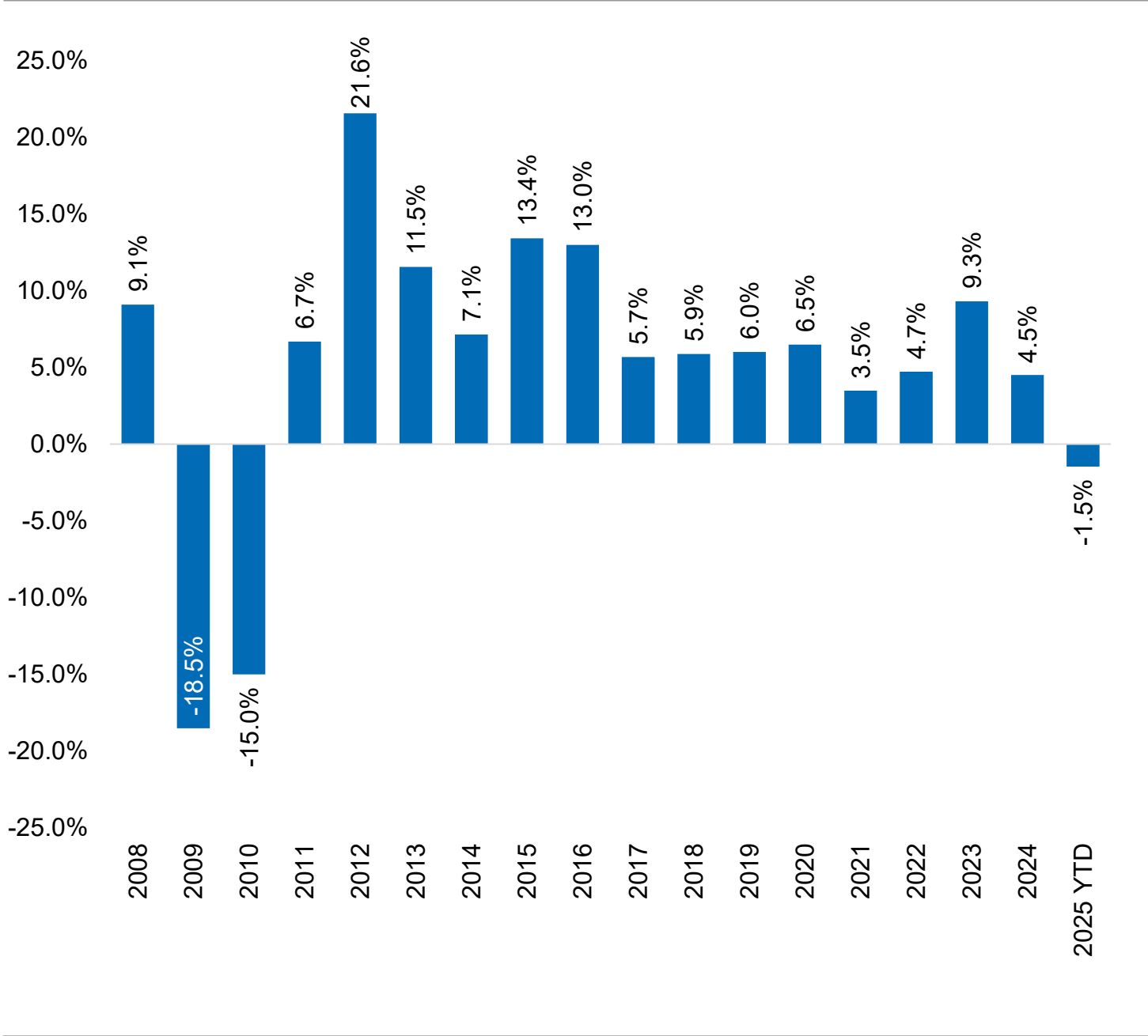
R&D Asking Rents Continued Downward Trend Amid Rising Availability

R&D asking rents continued to slide, recording a 1.5% year-over-year decrease, and edged down further in Q1 2025 to \$2.83 psf NNN, a 0.7% decline from the previous quarter, as available supply outpaced demand. With elevated availability and broad-based rent decreases, asking rents are likely to remain flat or trend downward in the near term. Total available space increased quarter-over-quarter by 4.2%, rising from 15.1% in Q4 2024 to 15.5% in Q1 2025.

R&D Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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Specialized Demand Drives Strong Start for Silicon Valley R&D Sector in 2025

Silicon Valley’s R&D sector posted 2.3 million square feet of gross absorption* in Q1 2025, outperforming the six-year quarterly average of 2.0 million square feet. Leasing was driven largely by direct deals, renewals, and extensions, with limited sublease activity. The continued dominance of direct leasing underscores tenants’ need for highly specialized infrastructure, such as clean rooms and enhanced power, prompting landlords to offer tenant improvement packages and flexible concessions to secure long-term commitments.

1Q25 Top Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Muon Space Inc. <i>Muon Space, an aerospace company, leased 129,211 square feet on a direct basis in the Optical Tech Park in the San Jose South submarket.</i>	5970 Optical Court	San Jose – South	Direct Lease	129,221
Applied Intuition <i>New Lease. Applied Intuition, a software company, leased two R&D and one office building for a combined total of 219,659 square feet in the Sunnyvale Business Park</i>	460 & 490 W California Drive	Sunnyvale – Peery Park	Direct Lease	111,550
Netscout Systems <i>New lease. Netscout Systems, a cyber security corporation, renewed their location located at 178 E Tasman Drive.</i>	178 E Tasman Drive	San Jose - North	Lease Renewal	54,775
Finisar Corporation <i>Finisar Corporation, a manufacturer of optical communication components, renewed their lease at 48800 Milmont Drive in the Mission South submarket.</i>	48800 Milmont Drive	Fremont – Mission South	Lease Renewal	53,000
EBR Systems <i>EBR Systems, a medical device company, leased 4600 Patrick Henry for 51,136 square feet in the Marriot Park submarket on a direct basis.</i>	4600 Patrick Henry	Santa Clara – Marriott Park	Direct Lease	51,136

Source: Newmark Research
*Gross absorption includes leasing activity, owner-user sales, and owner-user deliveries

1Q25

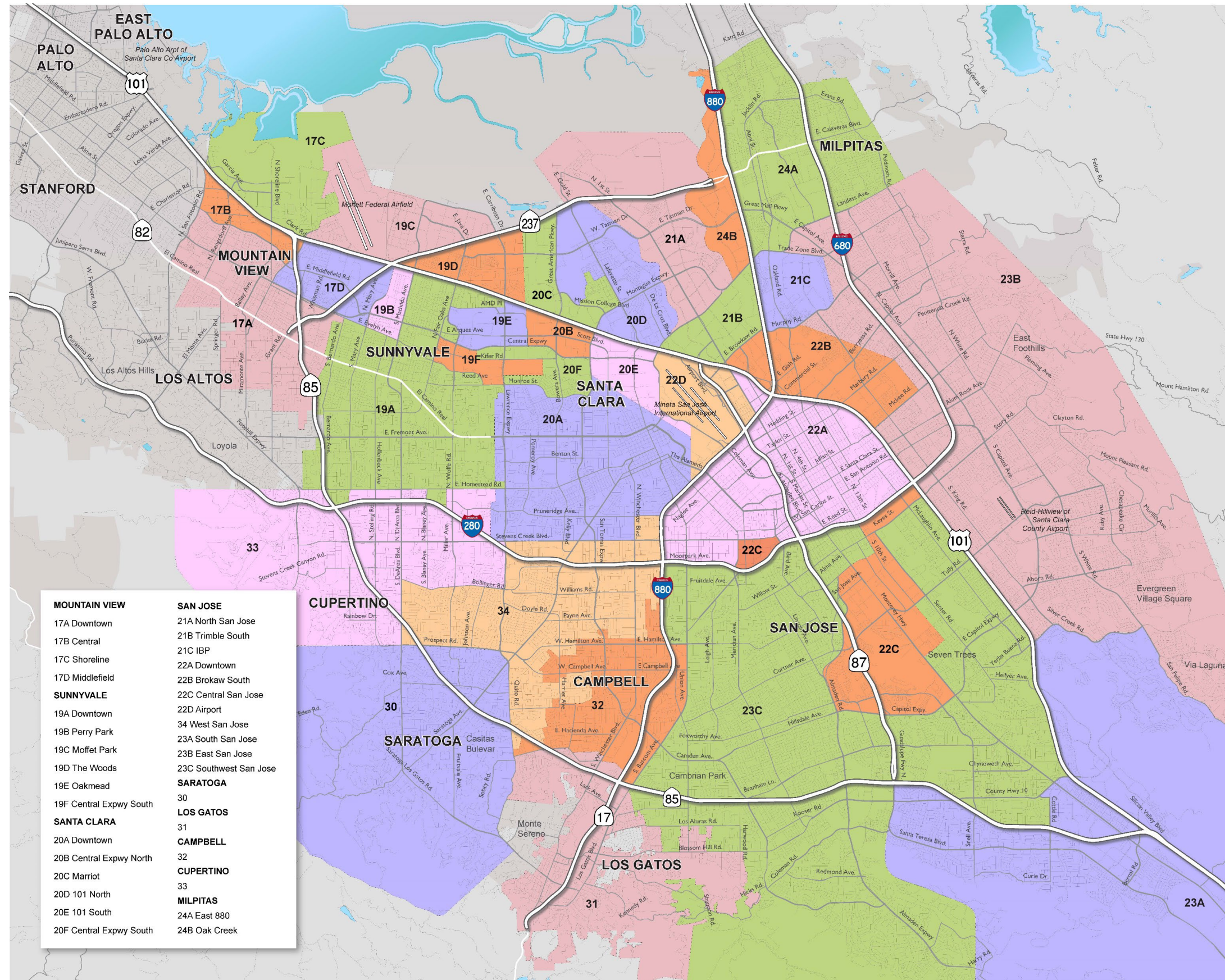
Appendix/Tables





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Silicon Valley – Submarket Map



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