

1Q25

South Peninsula Office Market Overview



NEWMARK

Market Observations

Economy

- Throughout 2025, we will closely monitor the impact of potential tariffs, deregulation, and changes in federal interest rates on market dynamics. New construction in the South Peninsula will likely remain constrained as possible tariffs could further exacerbate already elevated construction costs.
- The Vanguard U.S. economic forecast projects rising unemployment levels, inflation increasing to 4.0% from 2.8%, and business investment growth of 3.4% in 2025.
- Deloitte's economic outlook anticipates two interest rate reductions during 2025, with rates projected to settle between 4.25% and 4.5% by year-end.
- These macroeconomic factors will significantly influence leasing decisions, particularly among tenants seeking flexibility in their real estate commitments amid evolving economic conditions.

Major Transactions

- In the first quarter, the largest deal was to a confidential client who is leasing 113,964 square feet in the Mountain View – El Camino Corridor submarket.
- Robotics company, One X Tech, subleased 82,662 SF in the Stanford Research Park submarket of Palo Alto. This sublease from Kodiak Sciences was a significant transaction in a region that is known for its plethora of R&D and professional services tenants.
- Latham & Watkins' direct lease for nearly 80,000 square feet in Redwood City represents a significant transaction for the market. This agreement successfully absorbs availability at 2075 Broadway that had remained unoccupied for approximately two years.

Leasing Market Fundamentals

- The South Peninsula office market returned to normalized levels in Q1 2025, recording 736,774 square feet of leasing activity following last quarter's historic performance.
- The South Peninsula market experienced 160,028 SF of negative net absorption in 1Q25, predominantly from new available space being listed in Menlo Park especially in the non-Downtown submarkets.
- Palo Alto drove leasing activity in the region, representing 40% of total square footage leased. Despite Mountain View contributing 23% of total gross absorption in the South Peninsula, 68% of Mountain View's gross absorption was from the confidential deal listed above.

Outlook

- Reports that major corporations such as Toyota, JP Morgan Chase, and Boeing are transitioning back to a company-wide in person schedule. This shift has the potential to significantly benefit the commercial real estate market.
- Market indicators suggest that office vacancy rates across the South Peninsula will begin to trend downward. Several factors support this outlook, including increased demand and a notable slowdown in sublease space coming to market. The limited new construction pipeline will help accelerate this vacancy reduction as existing inventory gets gradually absorbed.
- Artificial Intelligence (AI) companies and their associated capital investments have emerged as significant drivers of office space demand. According to Pitchbook data, AI startups received \$178.4 billion in funding during 2024, from capital sources within the US. This substantial investment has stimulated office market activity across the South Peninsula.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

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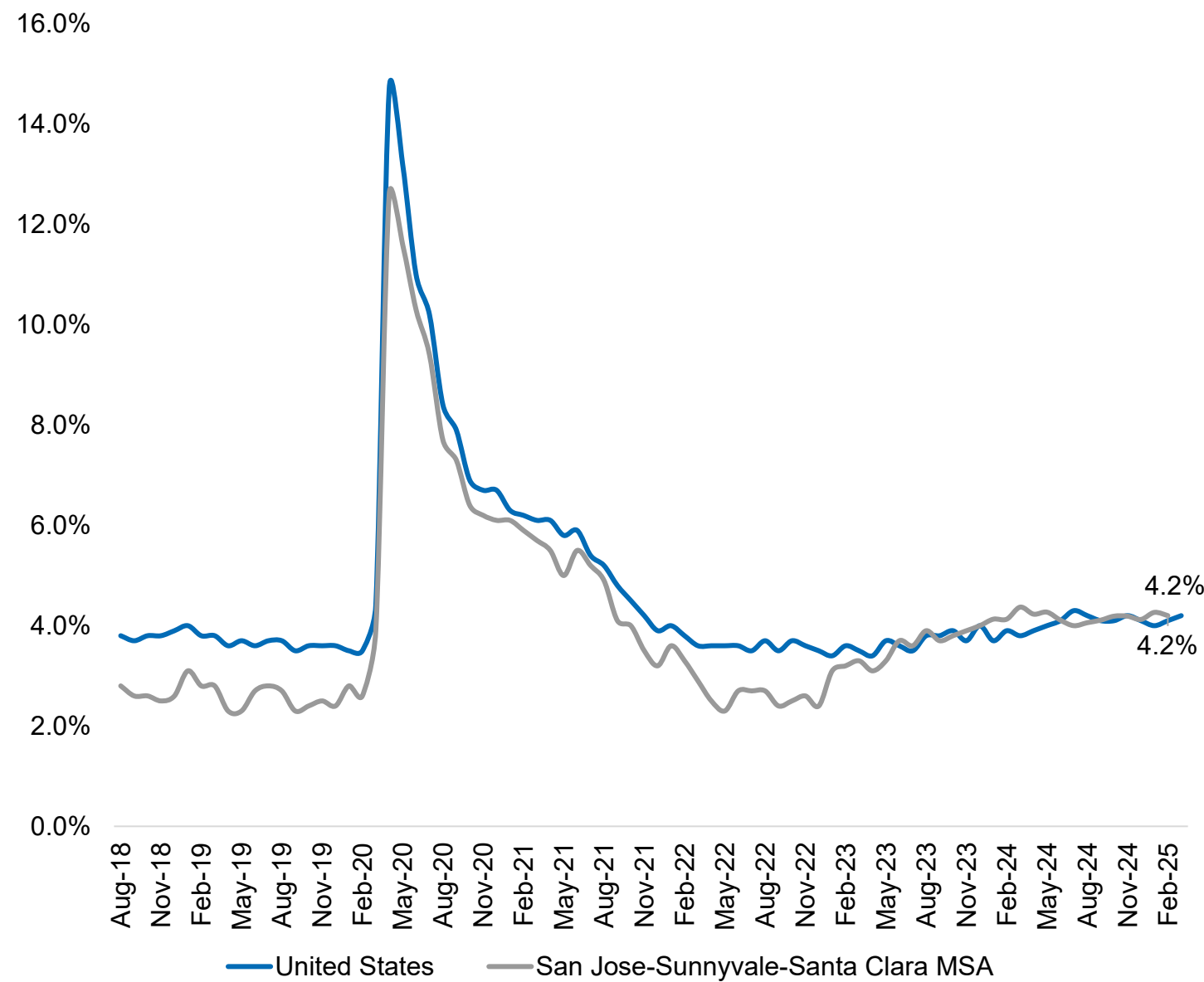
Economy



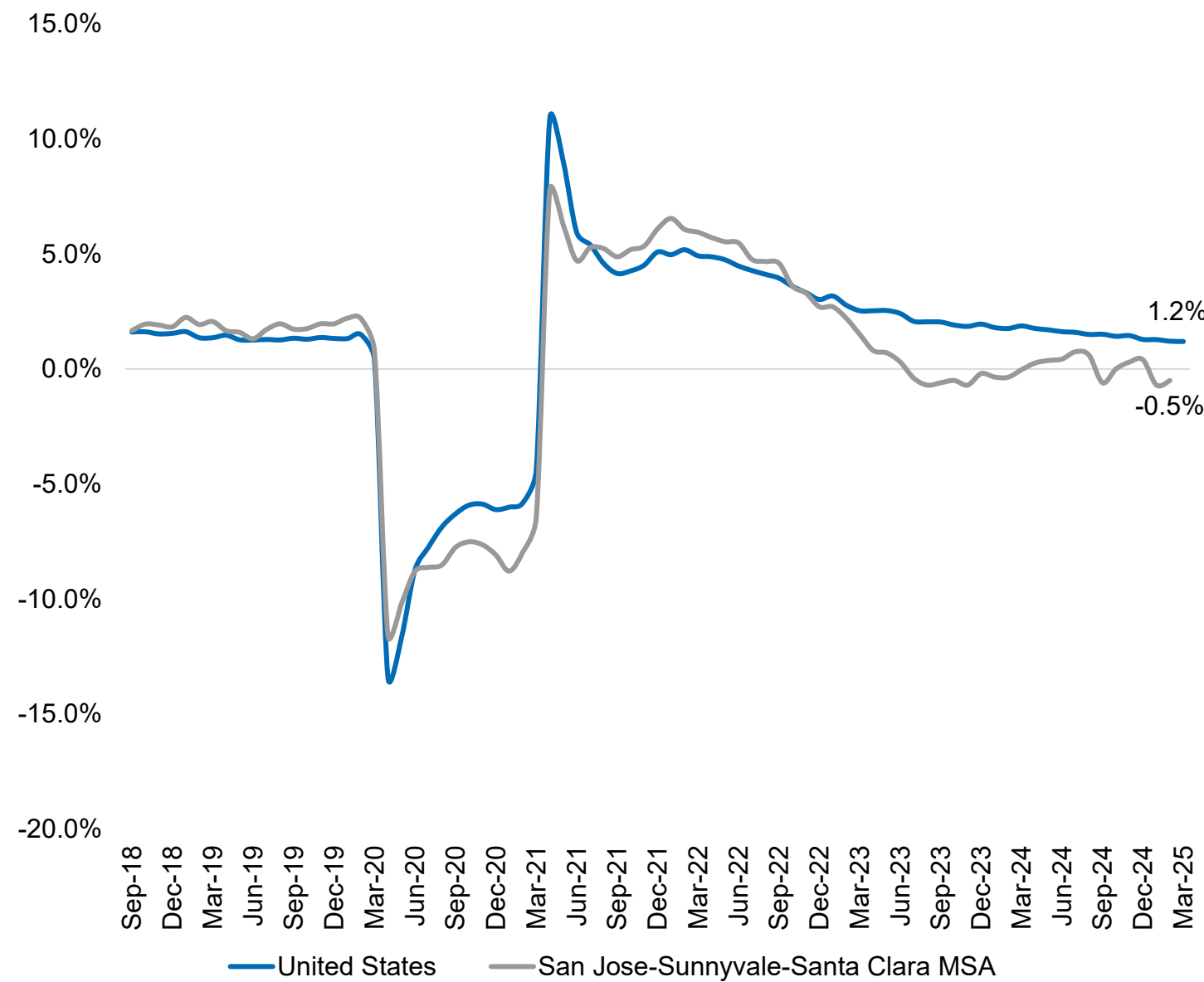
Silicon Valley Labor Market Remains Stable Amid National Softening

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

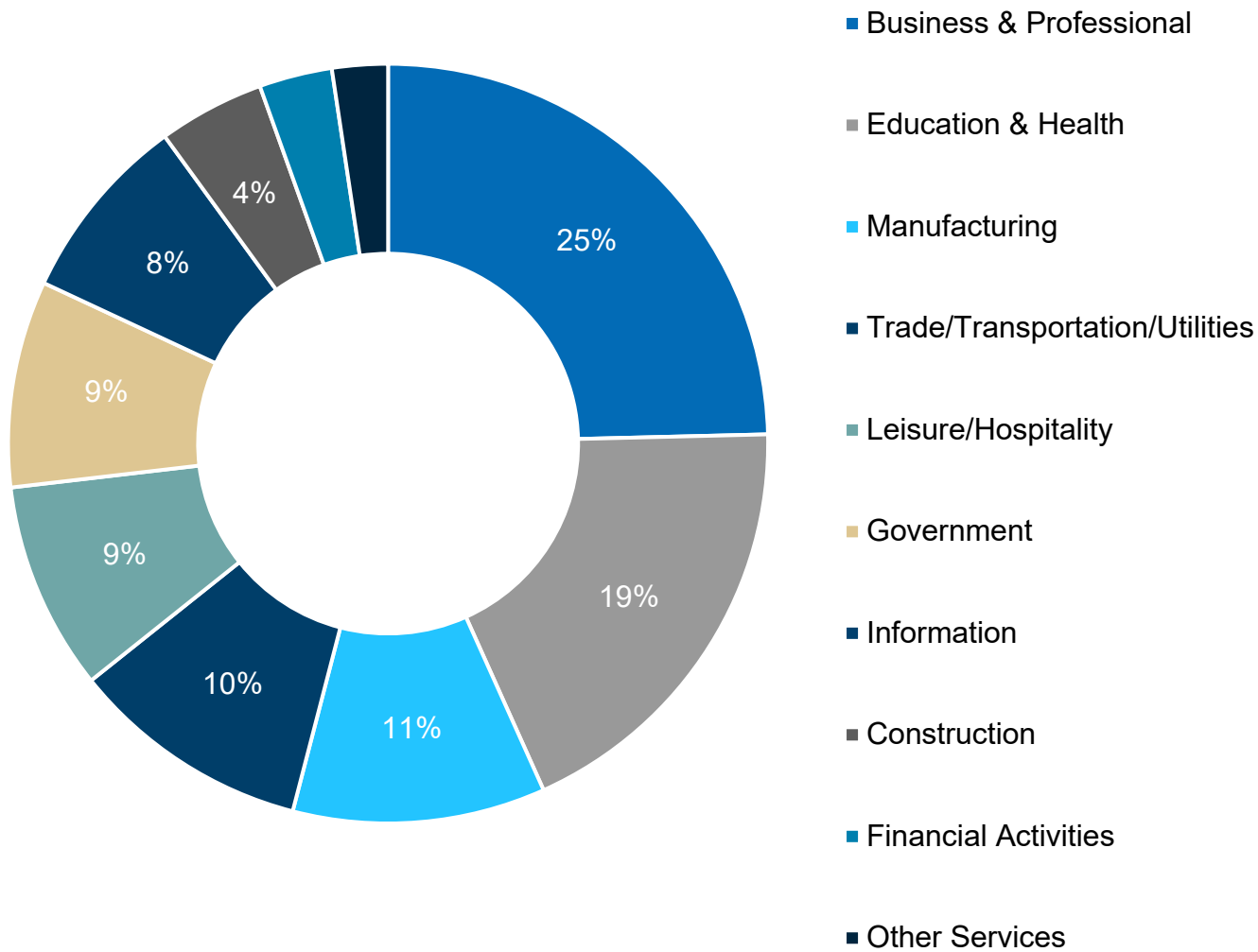


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
National data is as of March, February is the latest month available for metro employment stats

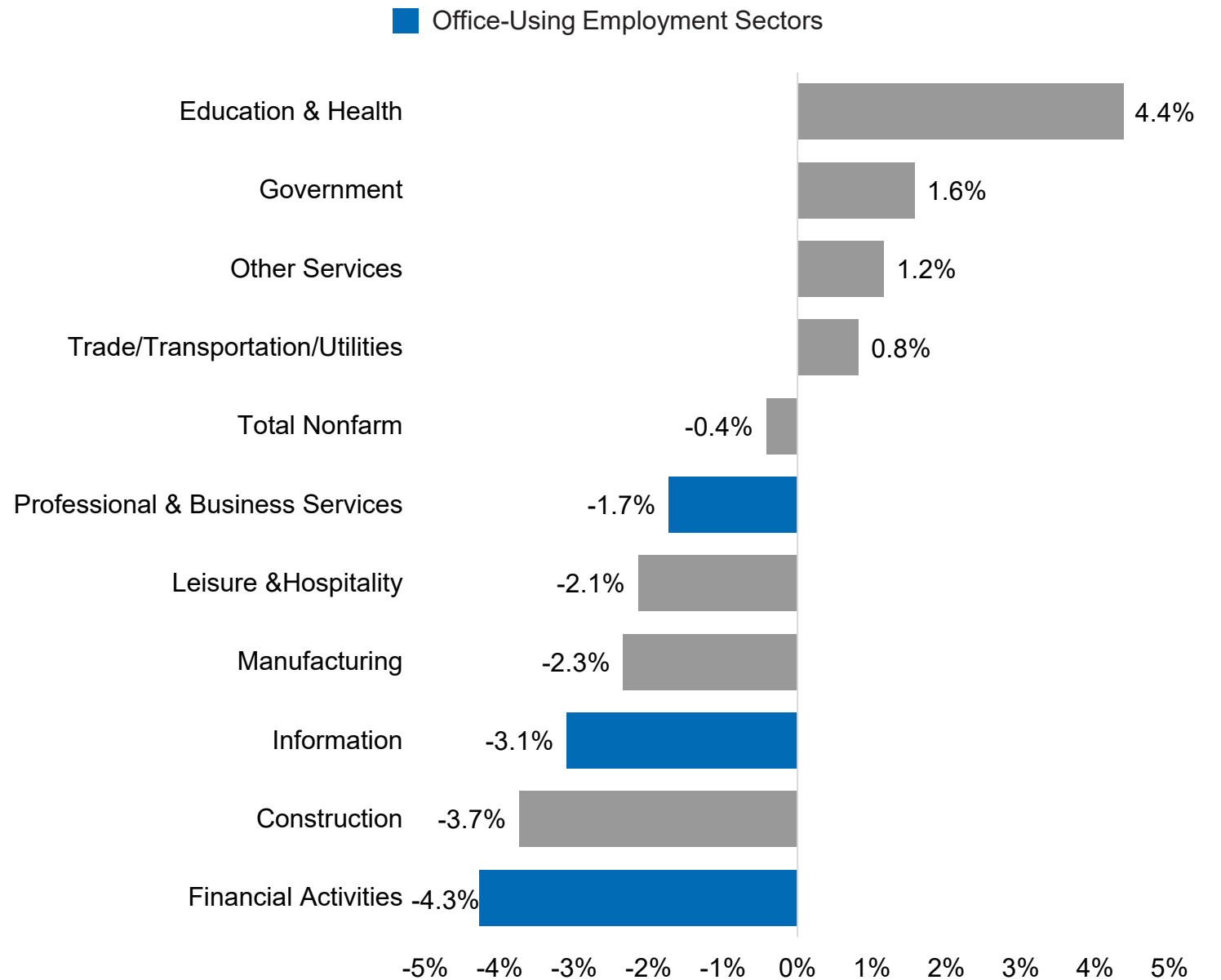
Office Using Sectors Continued to Shed Jobs

Job gains in Education & Health Services, Government, Trade, Transportation & Utilities, and Other Services were insufficient to offset employment declines in the key office-using sectors of Professional & Business Services, Financial Activities, and Information. Notably, Professional & Business Services, the region’s largest employment sector and a key driver of office demand, declined by 1.7% year-over-year, signaling potential instability in the local office market. This slowdown in office-using employment could contribute to rising vacancy rates and continued softness in leasing activity.

Employment by Industry, April 2025



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

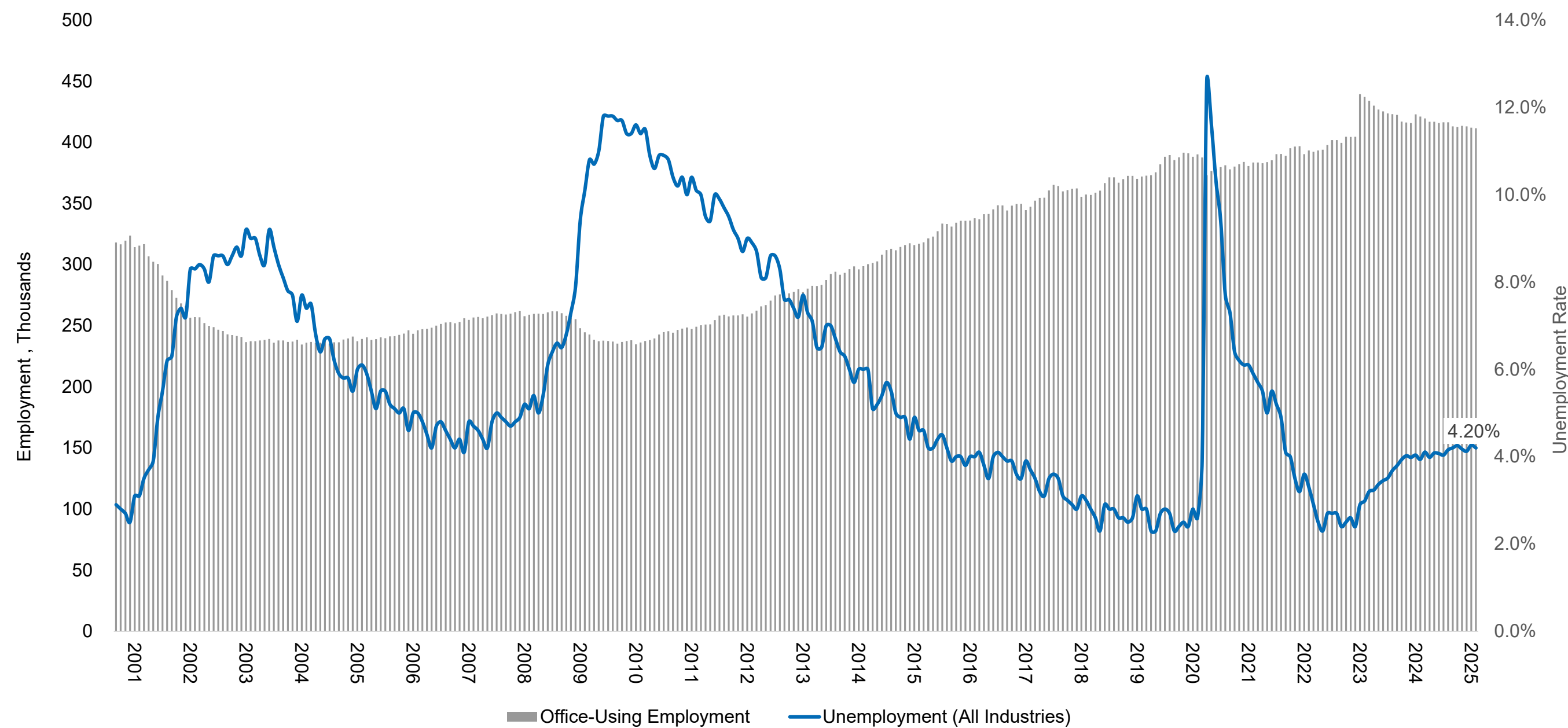


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi

Decline in Office-Using Employment Amid Tech Sector Adjustments

Office-using employment continued to decline in the first quarter of 2025, reflecting ongoing adjustments within the tech sector. After peaking in 2022, employment levels have steadily decreased, reaching 411,500 jobs as of February 2025. Cost-cutting measures and strategic shifts among tech companies remain key drivers of this trend. However, improving macroeconomic conditions and sustained demand from high-growth sectors such as artificial intelligence and renewable energy suggest the market may be approaching stabilization.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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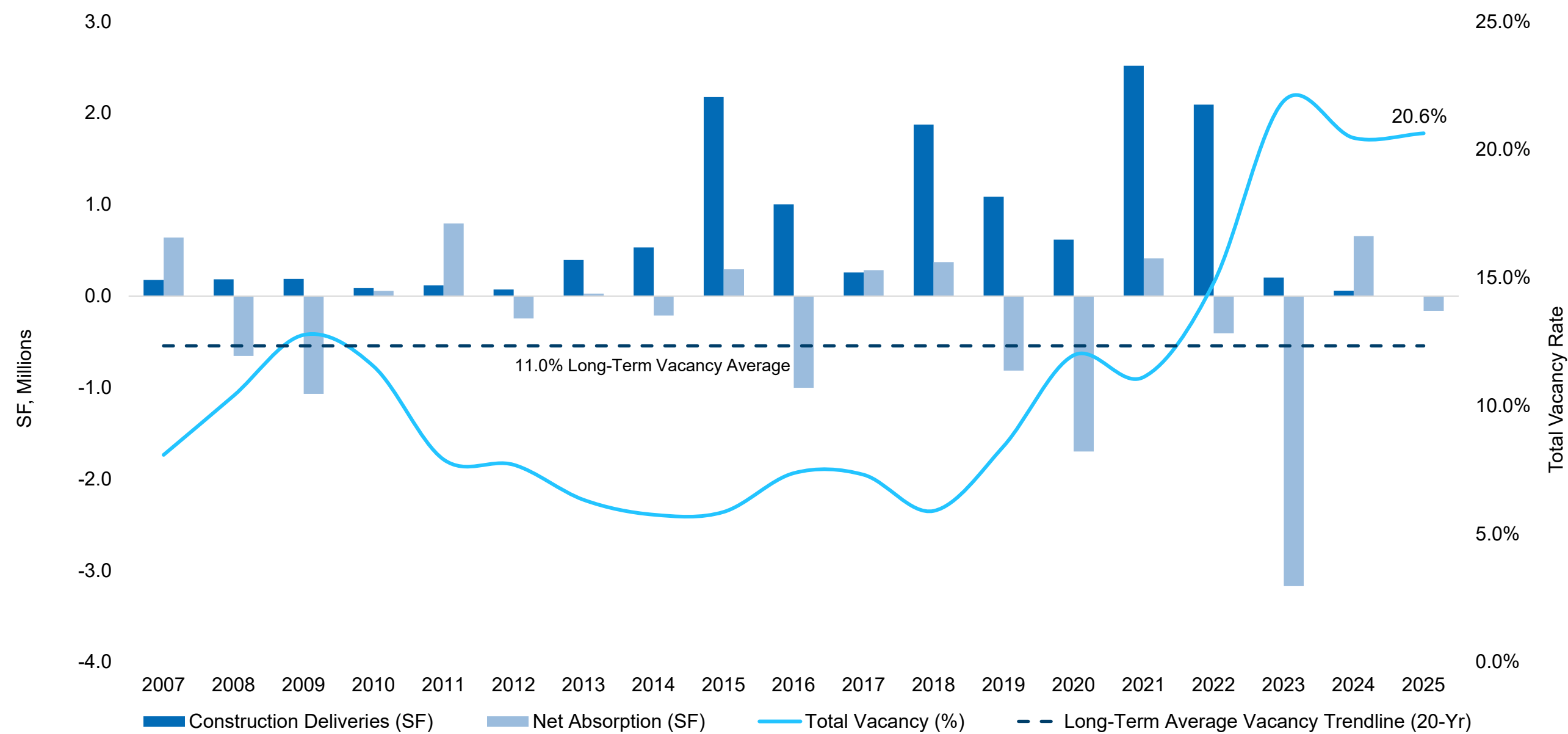
Leasing Market Fundamentals



South Peninsula Market Holding Steady as Construction Deliveries Freezes

With no new office space coming to market, vacancy rates have stabilized after climbing to concerning levels. This is a welcome shift from the consecutive quarterly increases observed throughout 2023 and early 2024. The pause in new inventory has allowed the market to find its footing. The combination of steady absorption and limited development activity further supports the market's path toward improved fundamentals.

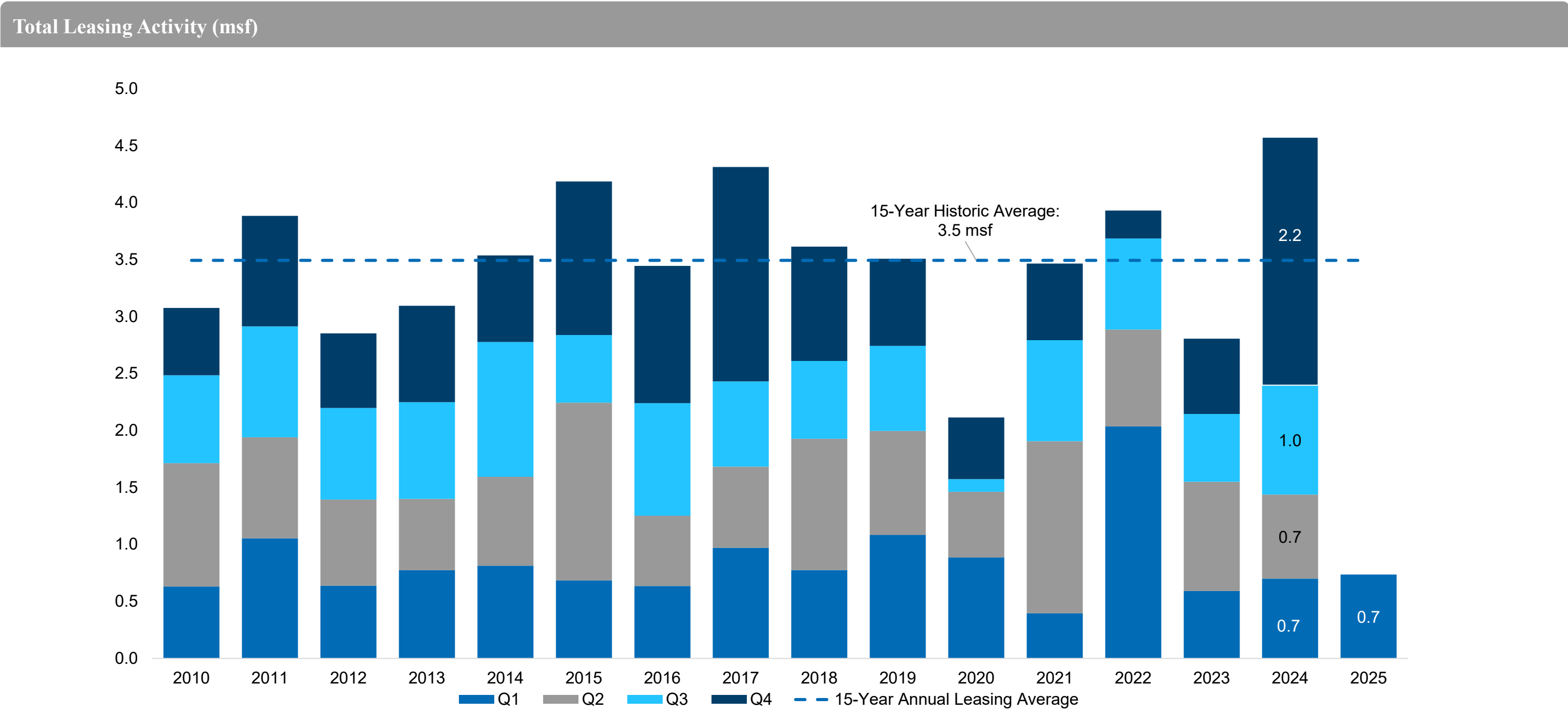
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

South Peninsula Office Market Normalizes After Record Q4

The South Peninsula office market returned to normalized levels in the first quarter, recording 736,774 square feet of leasing activity following last quarter's historic performance. The fourth quarter of 2024 had shattered all previous records with an unprecedented 2.2 million square feet of absorption, the highest ever for the region. This 73% quarter-over-quarter decrease following the surge of activity in the final months of 2024 reflects the market's natural adjustment rather than signaling market weakness.



Source: Newmark Research, CoStar

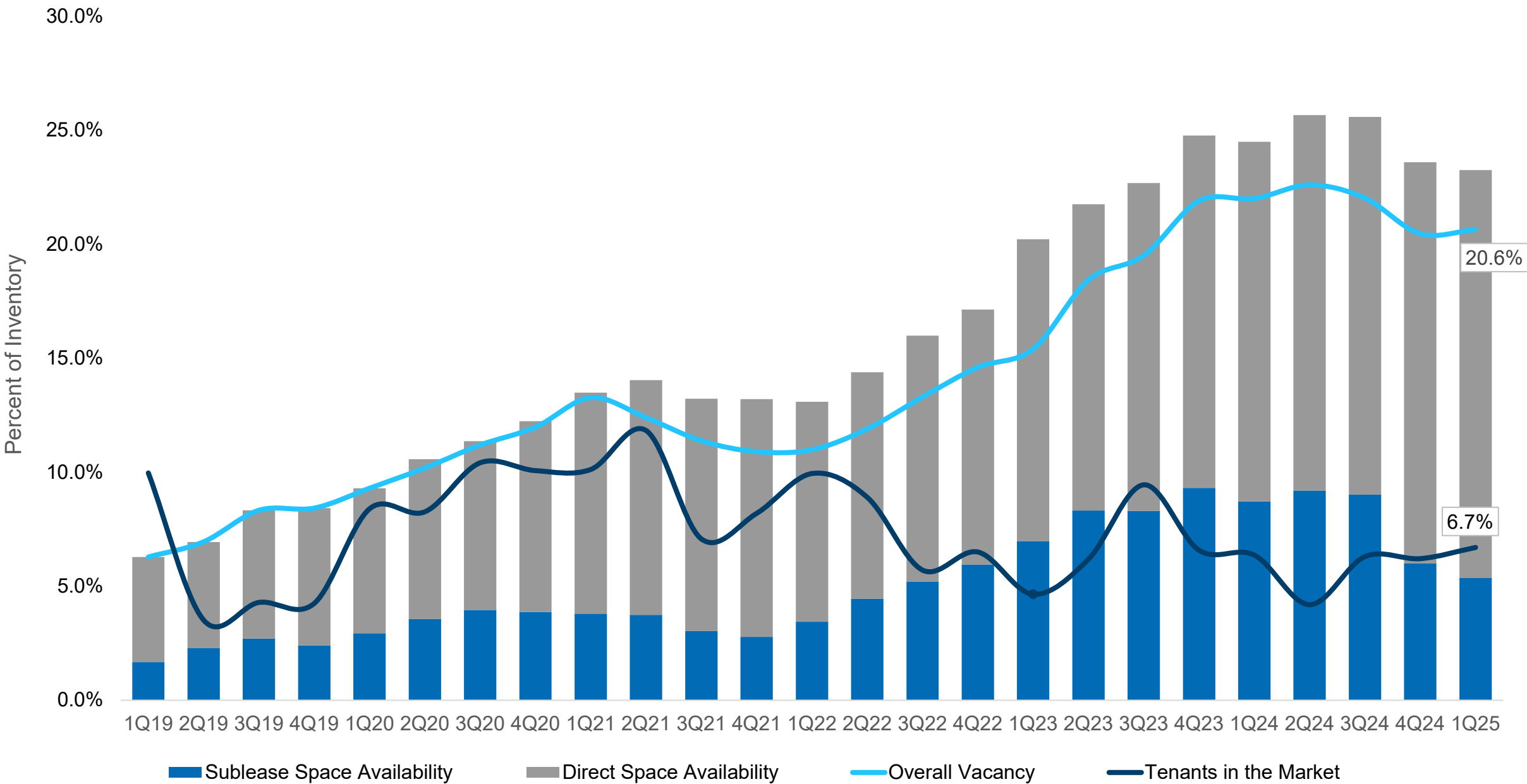


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Robust Tenant Demand and Decreasing Sublease Availability Signal Strength

Tenant demand remains strong and sublease space has become scarcer; both good signs for the health of the South Peninsula market. As corporations continue to develop their return to office strategies, prominent companies such as Toyota, JP Morgan Chase, and Boeing have announced plans for company-wide office returns. The sustained demand, coupled with the tightening of inventory in the South Peninsula, is expected to gradually exert downward pressure on vacancy rates.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

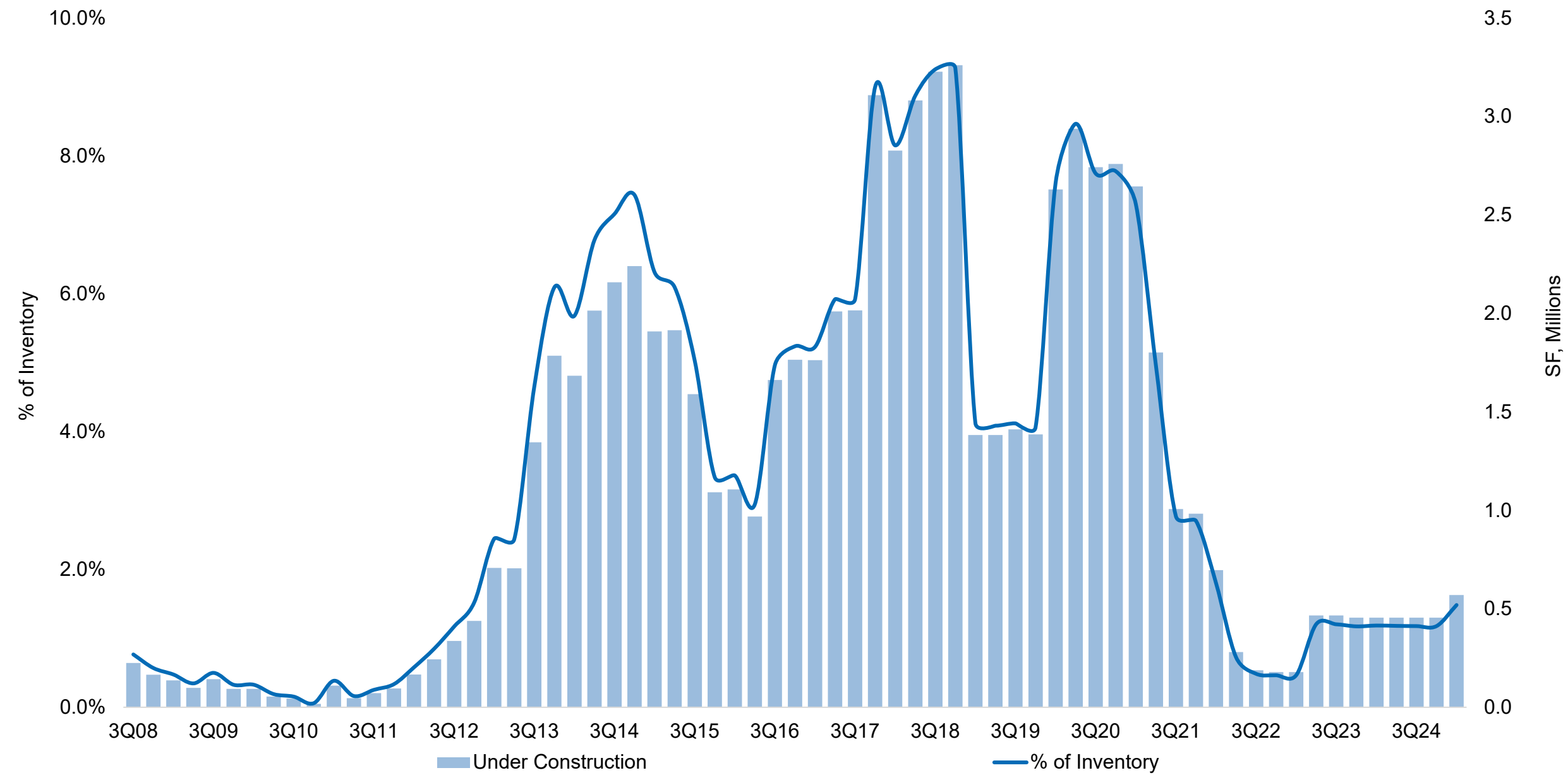


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Office Construction Sees Uptick as Developers Respond to Life Science Saturation

Construction activity showed a modest increase following the announcement that 200 Lathrop within the Elco Yards development, originally designated as an R&D facility targeting life science tenants, will instead be developed as a traditional office building. This repositioning reflects growing market sentiment that the region faces an oversupply of life science-specific real estate. Elsewhere in the South Peninsula, new construction remains stalled, constrained by high availability rates, elevated construction costs, and tariff impacts.

Office Under Construction and % of Inventory

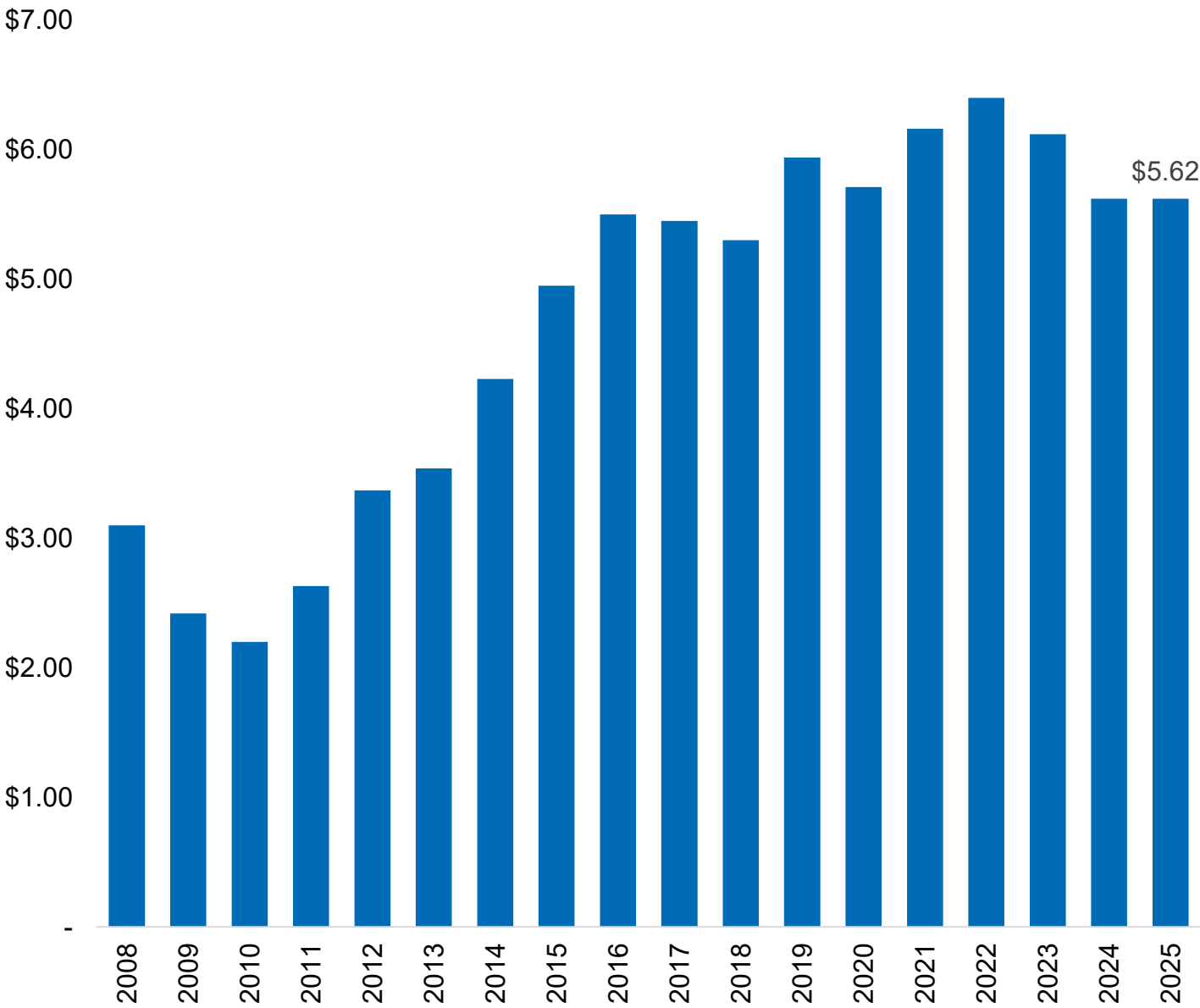


Source: Newmark Research, CoStar

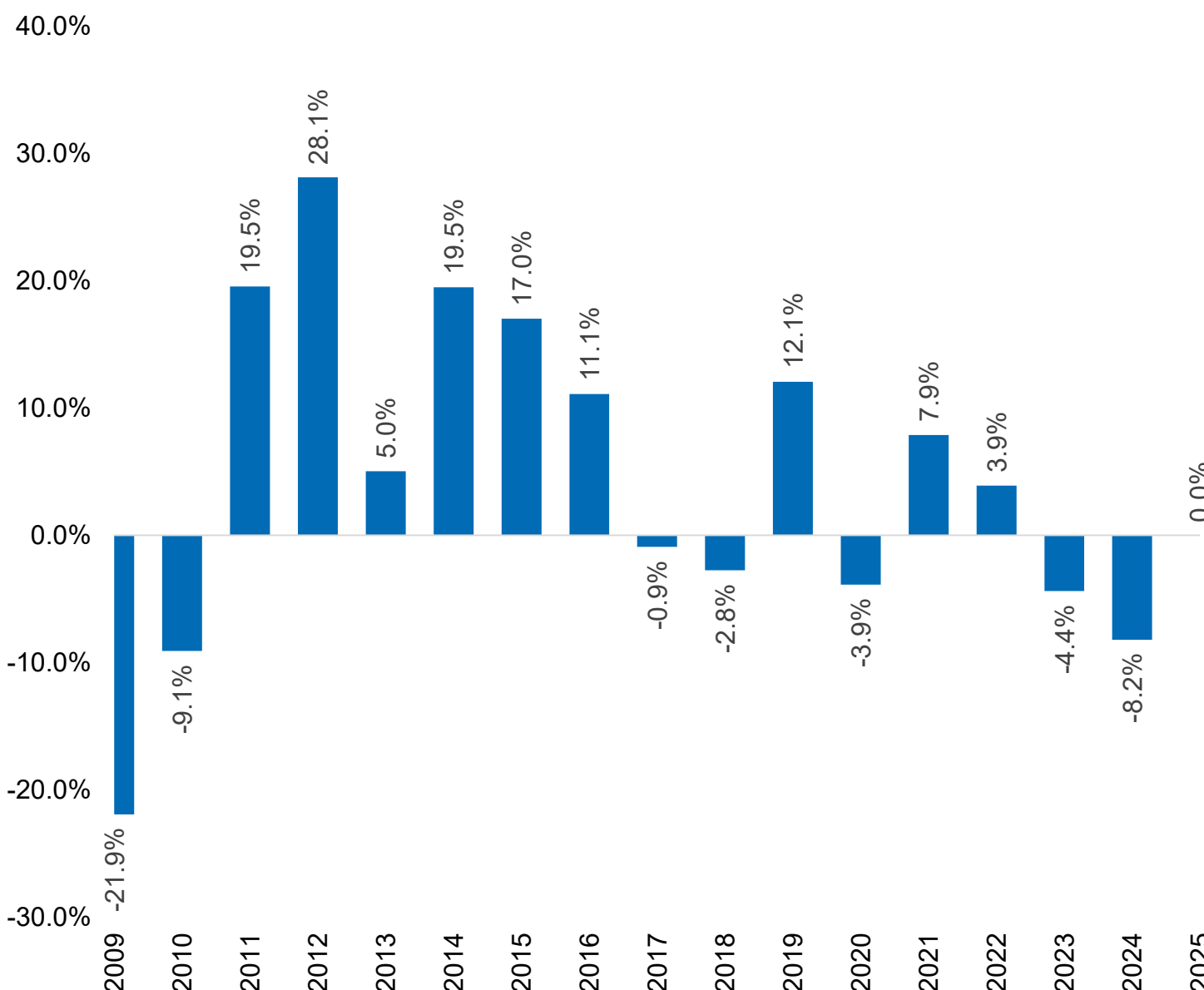
South Peninsula Rental Rates Showing Signs of Stabilization

Average asking rates in the South Peninsula have remained stable through the early months of 2025, a welcome development following two consecutive years of declining rates. Despite this stabilization, the substantial inventory of premium available space continues to create a tenant-favorable market, exerting downward pressure on asking rates. However, as high-quality sublease inventory continues to diminish in the South Peninsula, we anticipate a potential reversal of this trend and to see slight increases to asking rates.

Office Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate

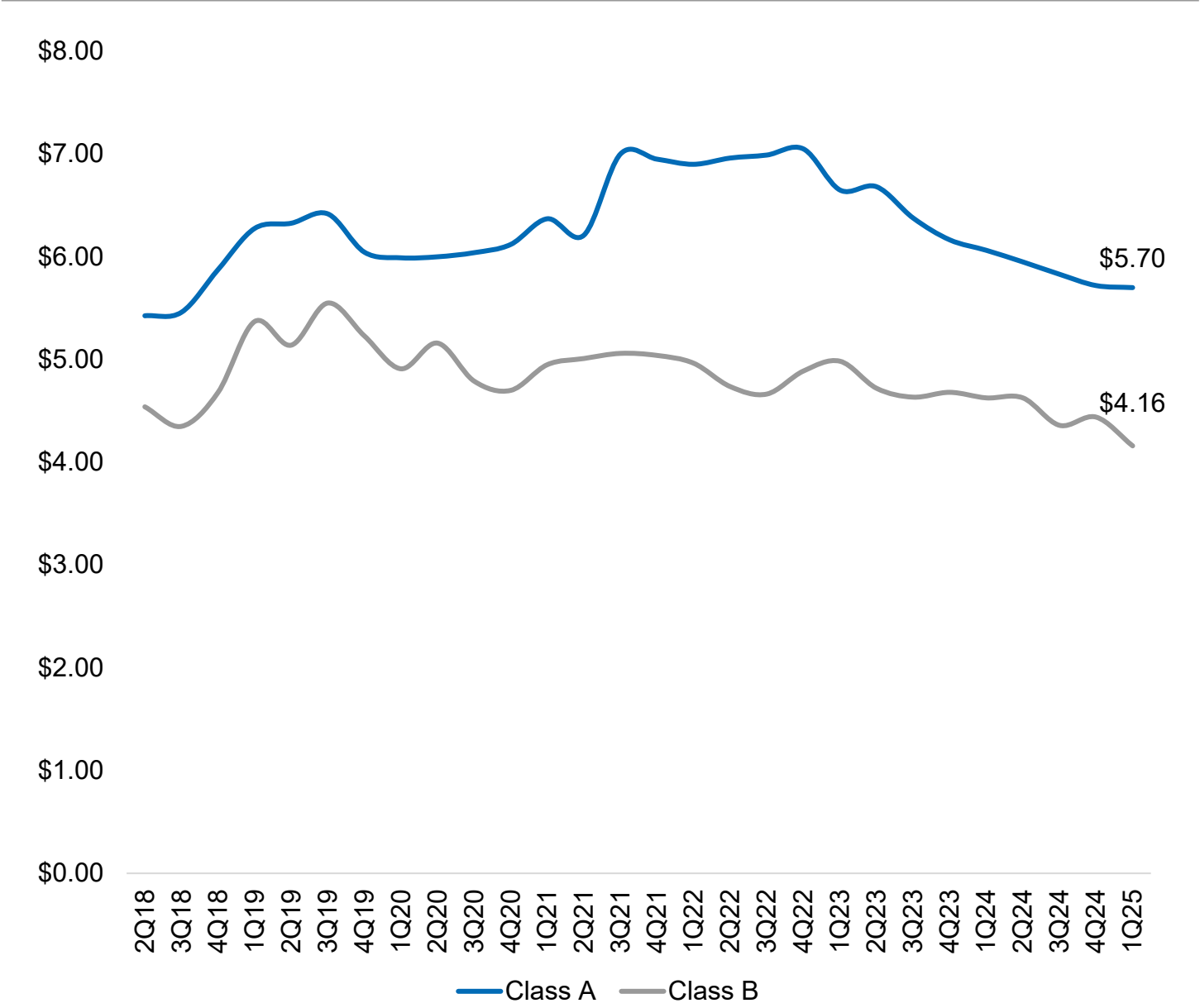


Source: Newmark Research, CoStar

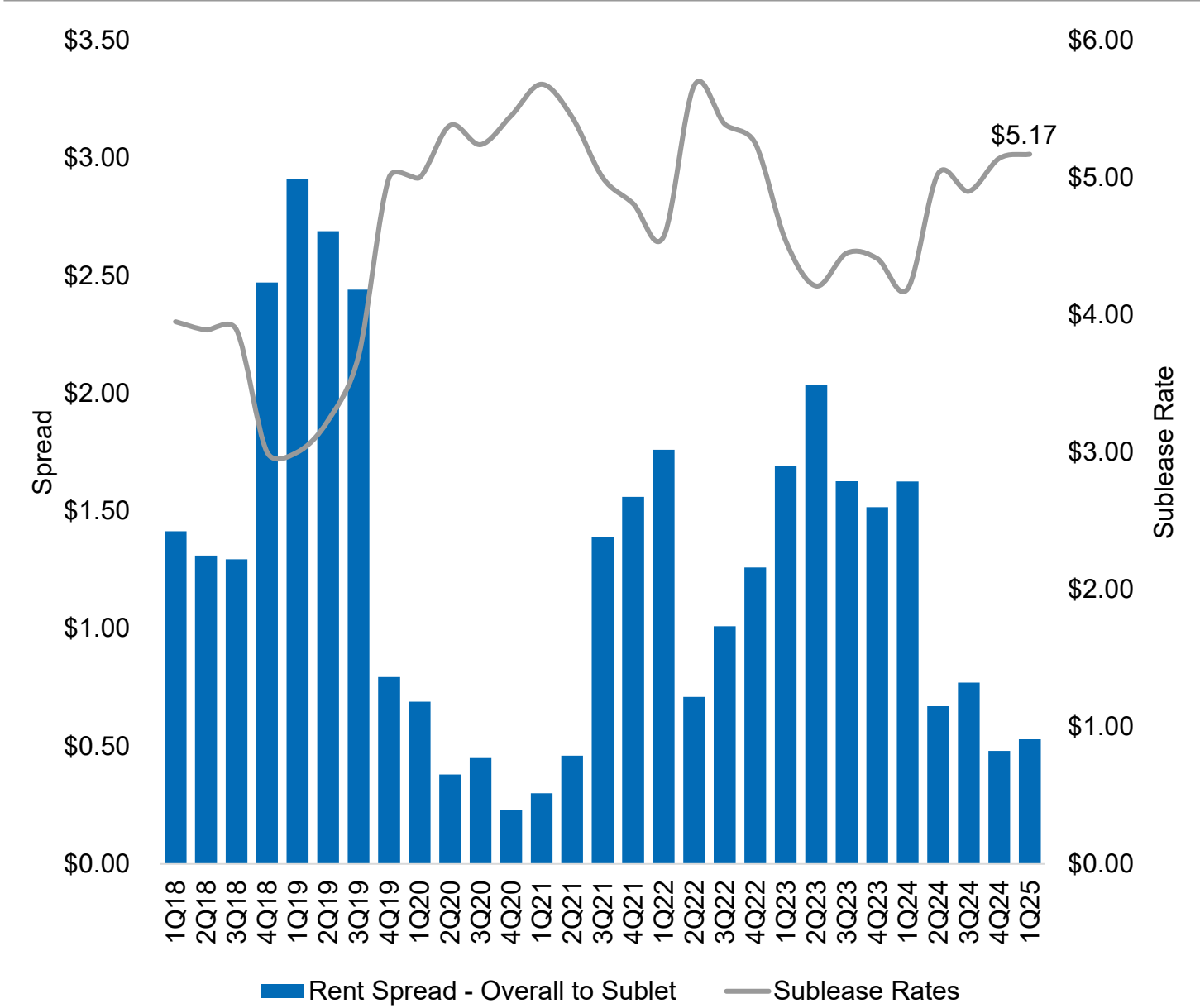
Rent Spread Continues to Widen as High-Quality Sublease Space Leased

The first quarter of 2025 saw modest decreases in asking rents across the South Peninsula. High-quality sublease space continues to be rapidly absorbed by tenants, further widening the rent spread between direct and sublease asking rates. Although significant market availability continues to exert downward pressure on overall pricing, Class A rental rates have shown resilience in this challenging environment.

Class A and Class B Asking Rents, \$/SF, NNN



Sublease Rates



Source: Newmark Research, CoStar

South Peninsula Office Leasing Outpaces 2024 Despite Expected Slowdown

Total office leasing in the South Peninsula reached 736,774 square feet during Q1 2025, slightly outperforming the same period in 2024. While this represents approximately 30% of the previous quarter's activity, the market remains on track to potentially exceed the 15-year leasing average of 3.5 million square feet annually. This muted performance was anticipated following the exceptional leasing activity observed in the South Peninsula during Q4 2024.

Notable 1Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Confidential	2350 W El Camino Real	Mountain View – El Camino Corridor	Direct	113,964 SF
A confidential client leased the entire building.				
One X Tech	1200 Page Mill Road	Palo Alto – Stanford Research Park	Sublease	82,662
One X Tech has executed an 82,500-square-foot sublease with Kodiak Sciences, removing another highly amenitized sublease opportunity from the South Peninsula market.				
Latham & Watkins	2075 Broadway	Redwood City – Downtown	Direct Lease	79,897
Latham & Watkins have signed a direct lease for 79,897 SF in a significant deal for the Downtown Redwood City office submarket.				
Lowenstein Sandler LLP	390 Lytton	Palo Alto – Downtown	Lease Renewal/Expansion	20,564
The law firm renewed their original lease while expanding their footprint in this major downtown market to occupy the entire building.				
Alpfa Medical	1880 Embarcadero	Palo Alto – Bayshore	Direct Lease	18,564
The Medical device start-up leased 18,564 SF of office space in the Bayshore submarket of Palo Alto after leaving their previous space in Menlo Park.				

Source: Newmark Research

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Appendix



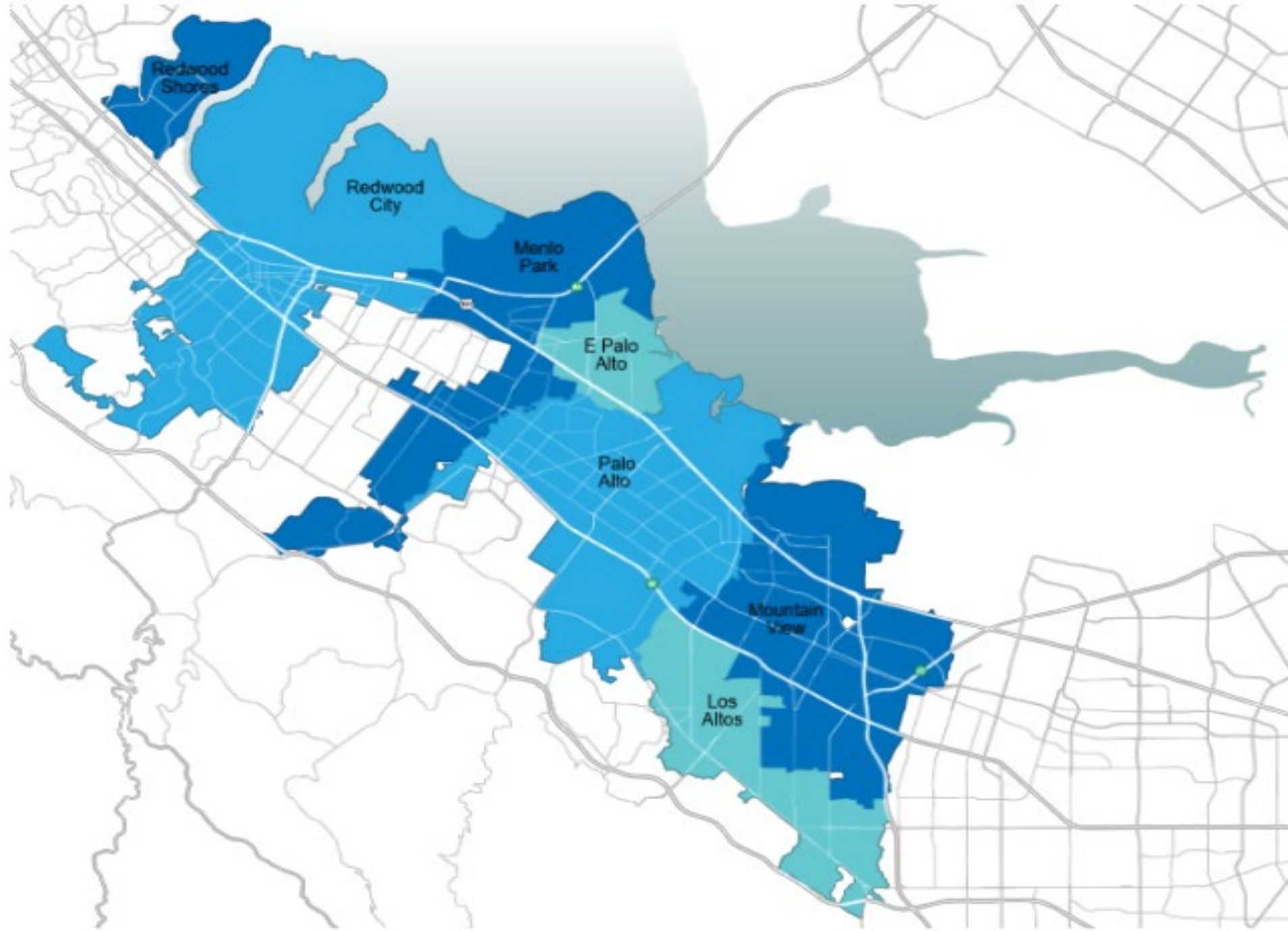


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South Peninsula Submarket Map



For more information:

Zachary Faris

Research Analyst

Palo Alto Research

zach.faris@nmrk.com

Palo Alto Office

258 High Street

Palo Alto, CA 94301

t 650-322-2600

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

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