

South Peninsula R&D Market Overview

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 increase 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 transaction was a lease renewal for Pacific Biosciences of California who is leasing 190,389 square feet in the Menlo Park – 101 Industrial submarket.
- Databricks, a data analytics and artificial intelligence company, expanded its footprint to encompass a total of 47,835 square feet in Mountain View's South Middlefield submarket. This transaction was facilitated by Newmark Palo Alto agents.
- AliveCor, a developer of portable ECG devices that provide artificial intelligence solutions for cardiologists and patients, secured a direct lease for 31,636 square feet in Mountain View.

Leasing Market Fundamentals

- The South Peninsula market experienced subdued leasing activity, falling below the five-year average for the first time in three quarters. Notably, gross absorption totals closely mirror those recorded in Q1 2024, suggesting this moderation likely represents a natural adjustment following three consecutive quarters of strong performance in 2024. We believe this change is a result of the fluctuations in the real estate market, rather than a lack of demand for R&D space.
- The South Peninsula recorded modest leasing activity this quarter, with Pacific Biosciences of California's 190,000-square-foot lease renewal in Menlo Park accounting for 50% of the region's gross absorption.

Outlook

- R&D asking rents in the South Peninsula continued their downward trajectory, reaching \$5.15 per square foot in the first quarter of 2025.
- The South Peninsula R&D market has reached its highest historical vacancy rate of 17.3%, driven by increasing availability across the region. This upward trend in vacancy is primarily attributable to several large spaces newly introduced to the market.
- We anticipate increased leasing volume in upcoming quarters as continuing return-to-office initiatives drive companies to reoccupy and expand their physical workspace.

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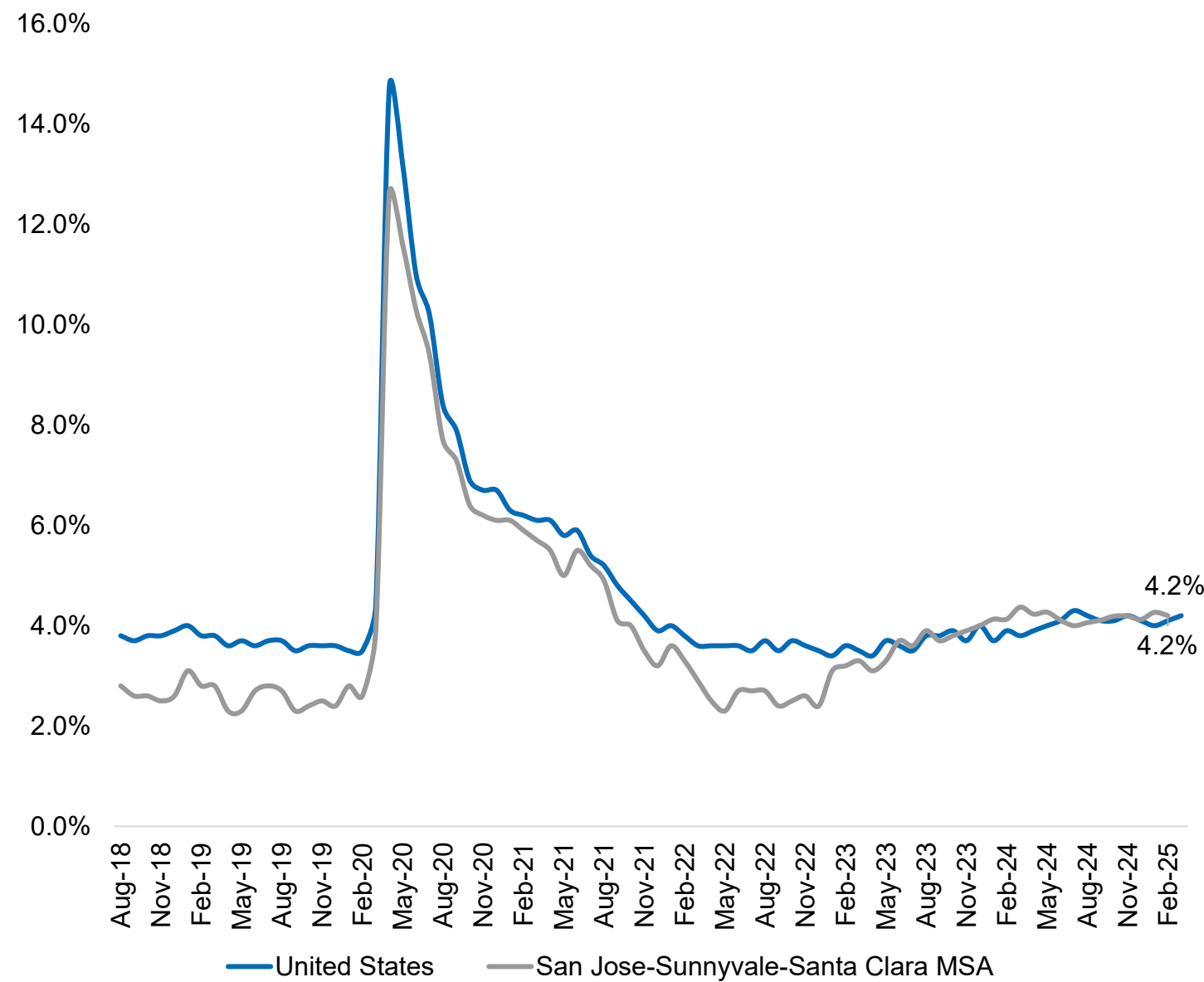
Economy



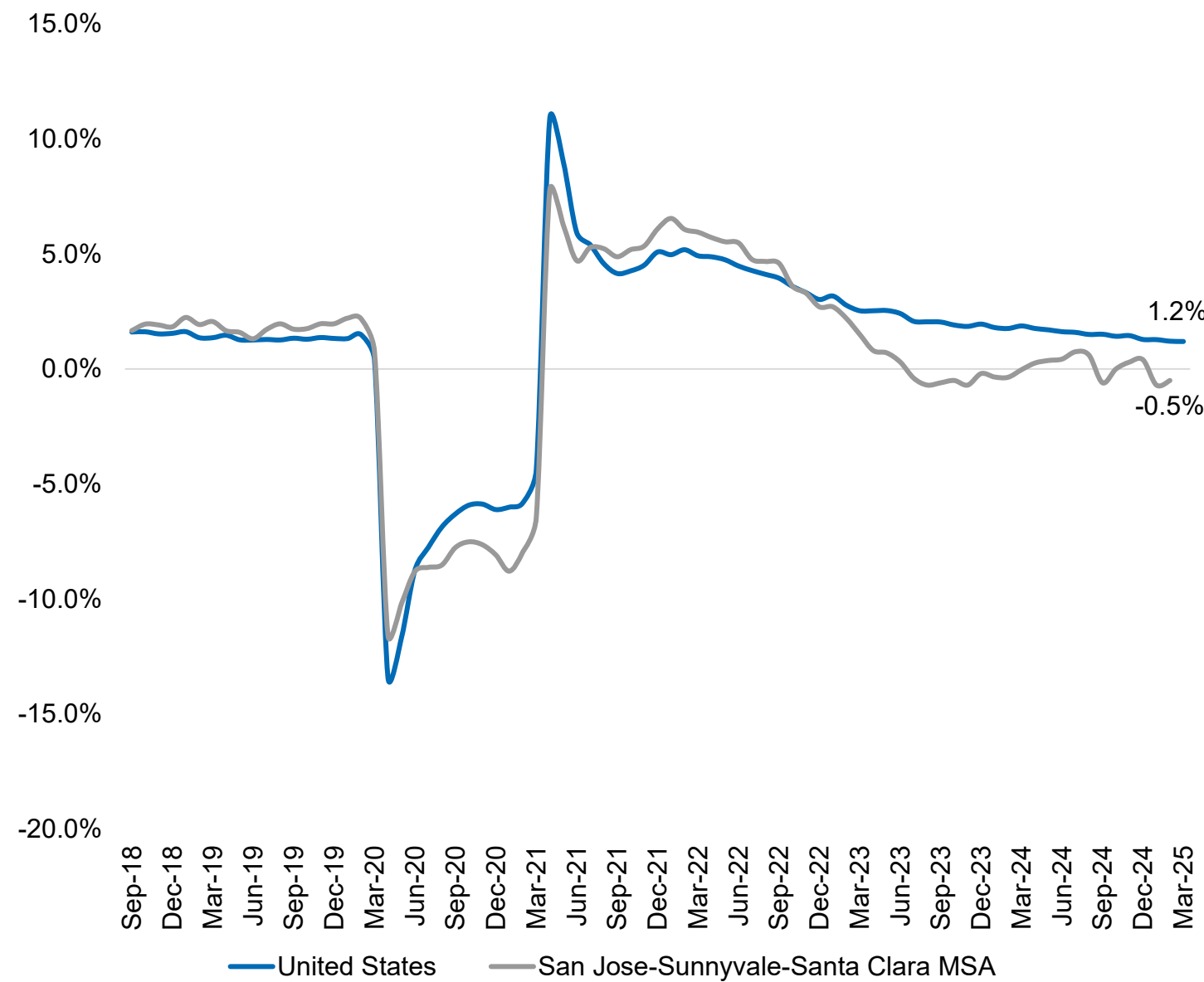
Silicon Valley Labor Market Remained Stable Amid National Softening

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

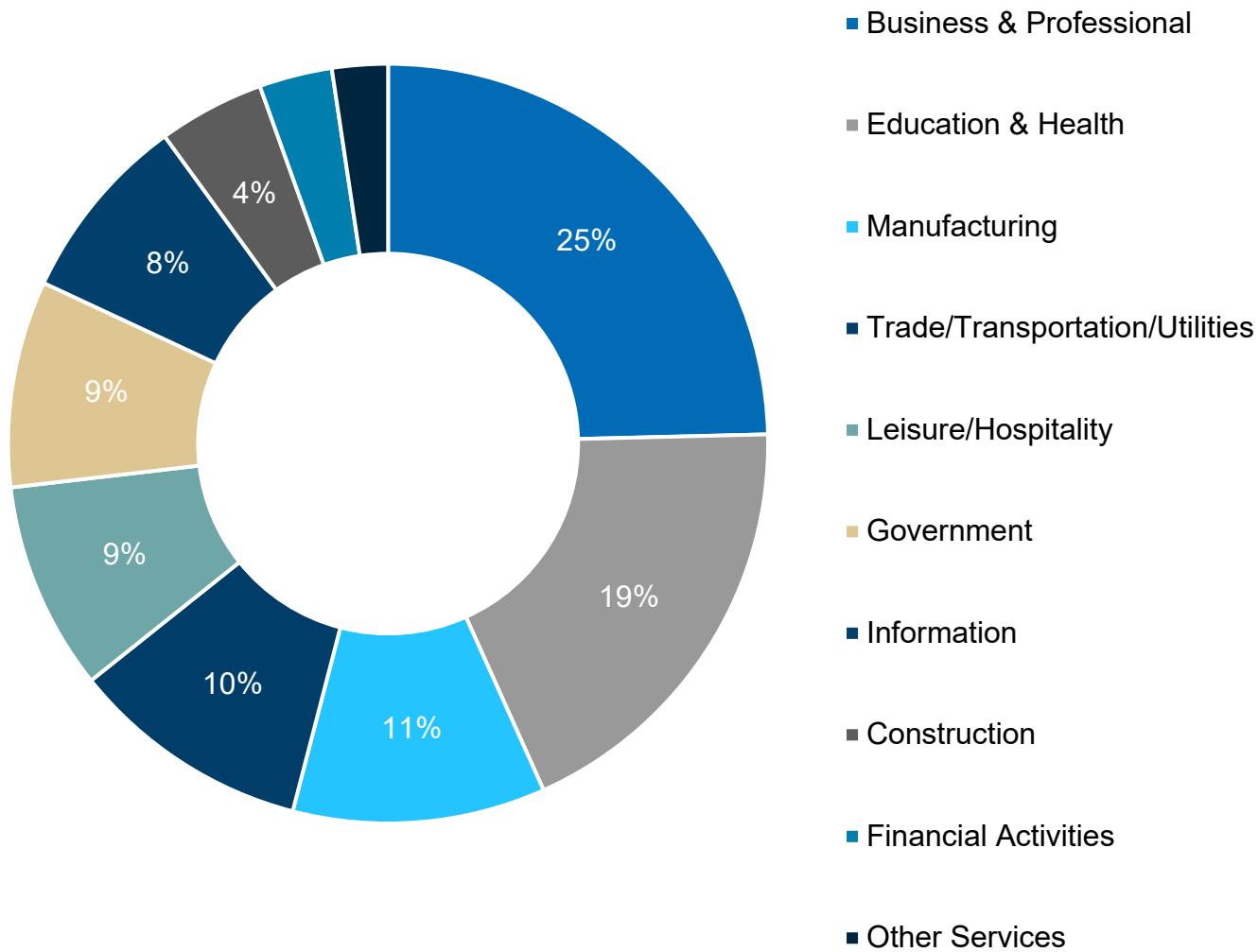


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
National data is as of March, February is the latest month available for metro employment stats

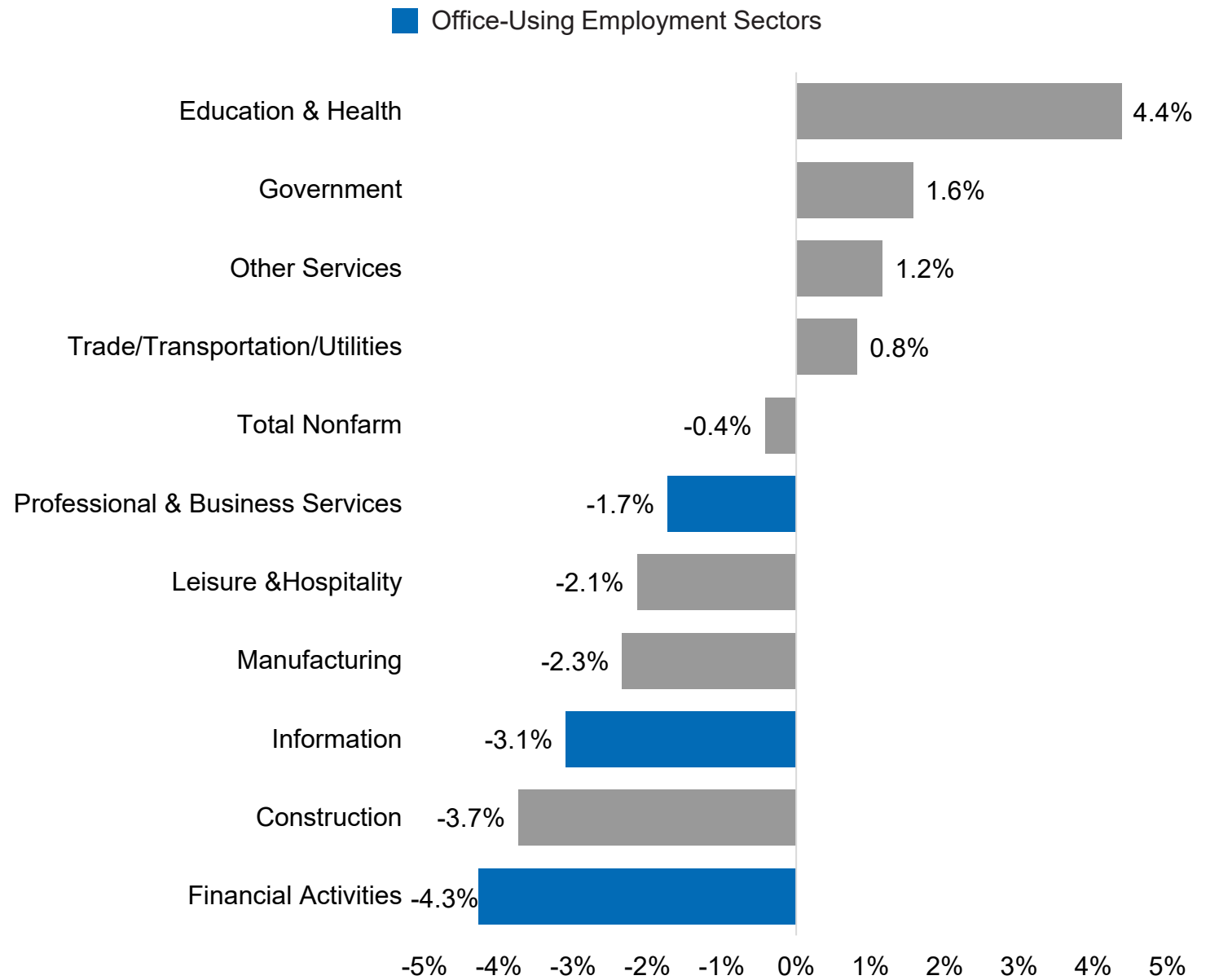
Office Using Sectors Continued to Shed Jobs

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

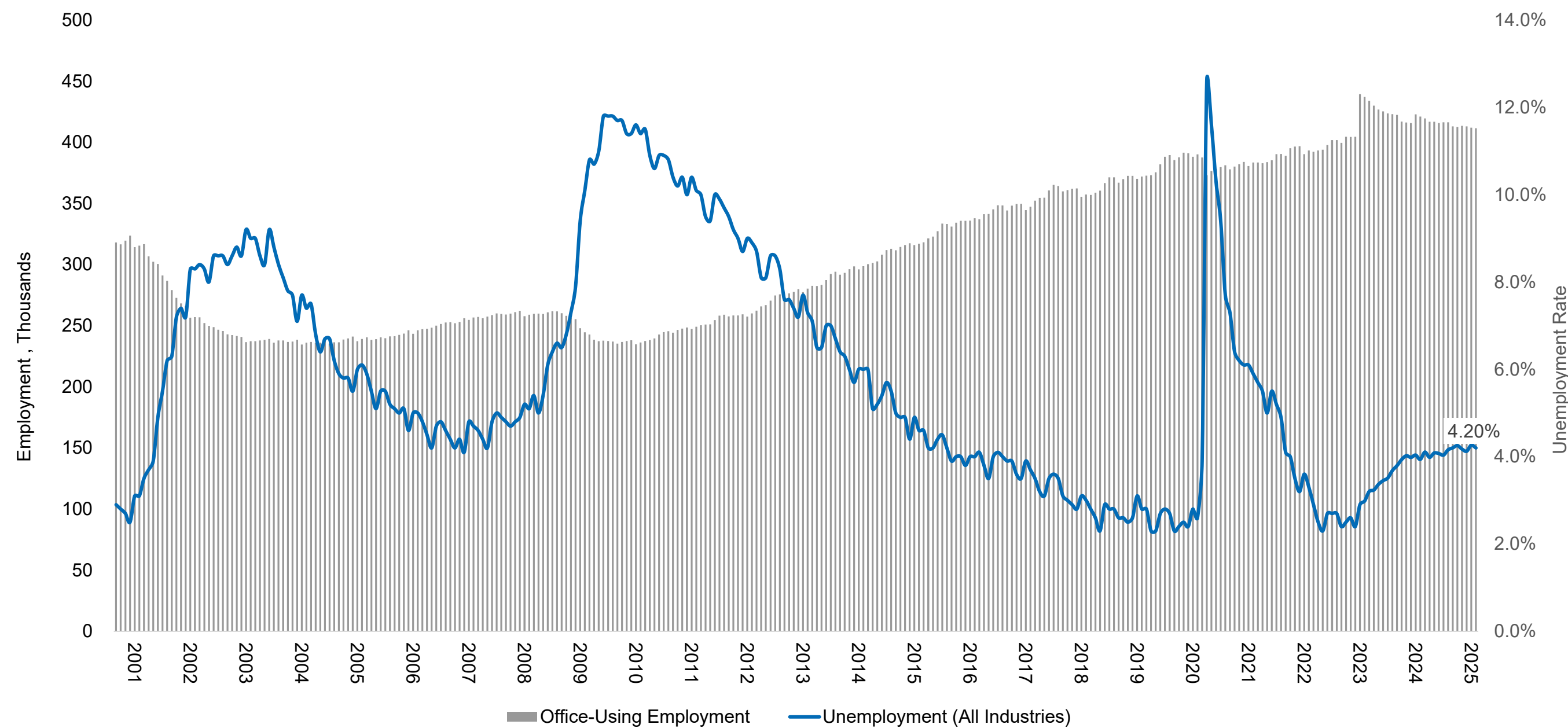


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi

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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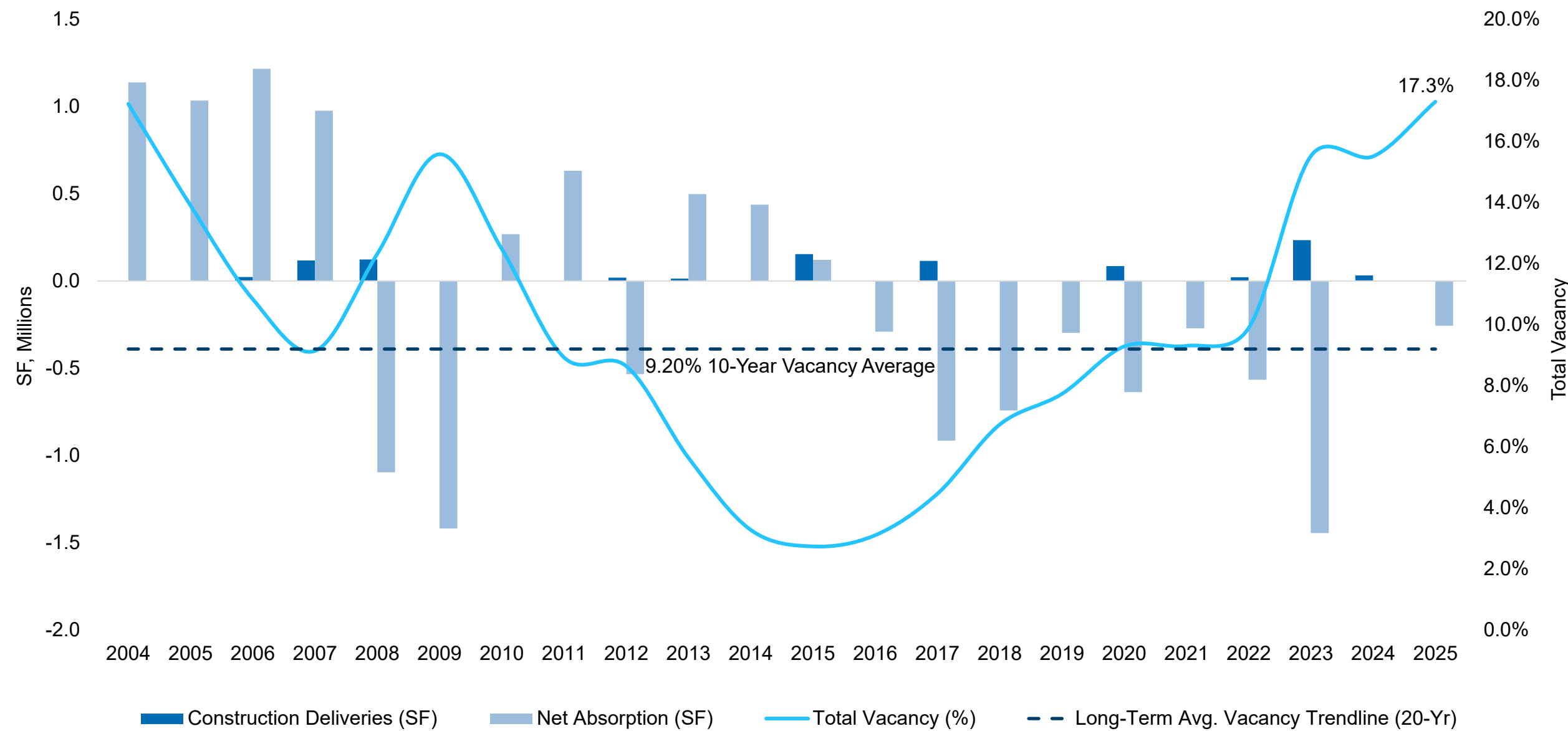
Leasing Market Fundamentals



New Availabilities Drove Record Vacancy in South Peninsula R&D Market

The South Peninsula R&D market has reached its highest historical vacancy rate of 17.3%, driven by increased availability across the region. This upward trend in vacancy is primarily attributable to several large spaces newly introduced to the market. Notable examples include properties at 1205 Veteran's Boulevard and 1089 Mills Way in Redwood City, which have contributed significantly by creating a total of 194,540 square feet of negative net absorption.

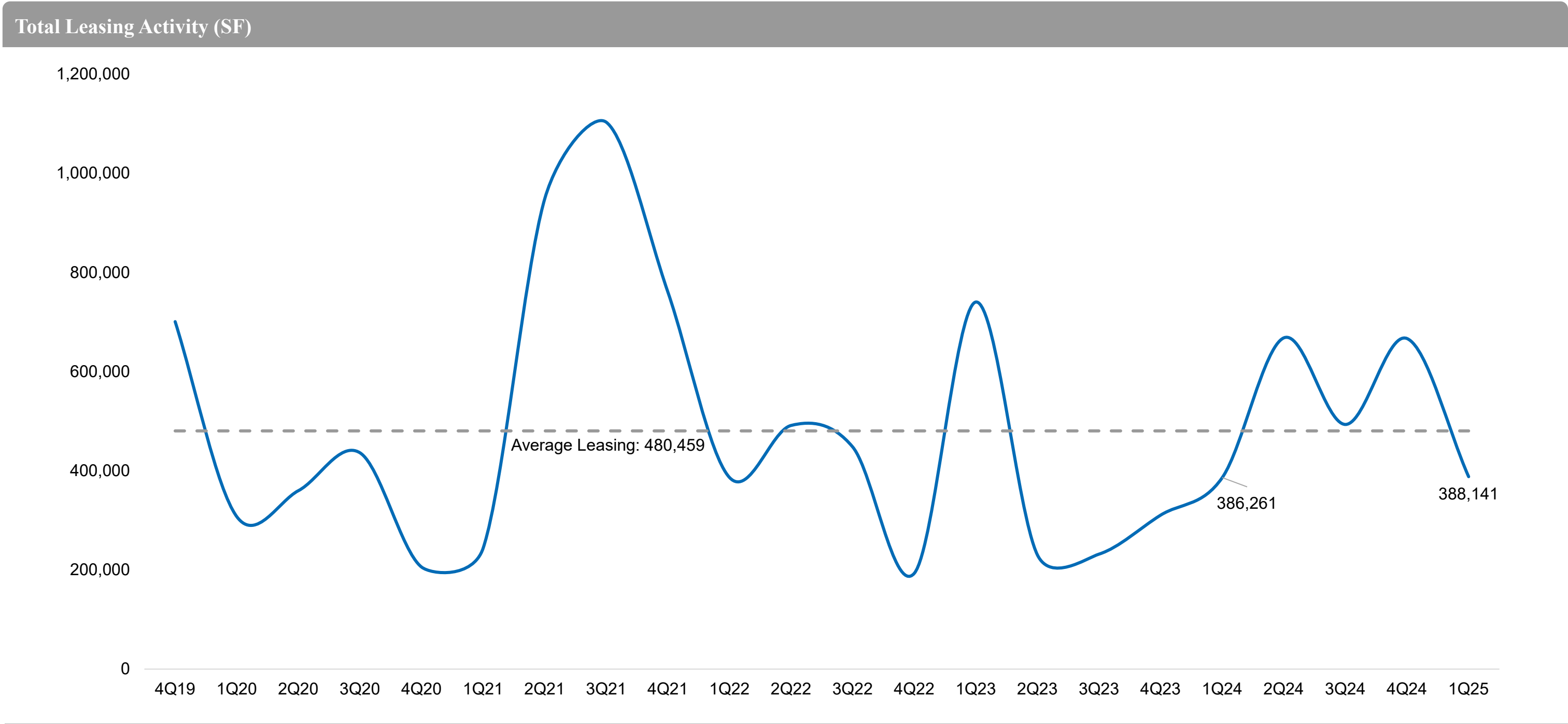
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Q1 Total Leasing Remained Unchanged Year-Over-Year

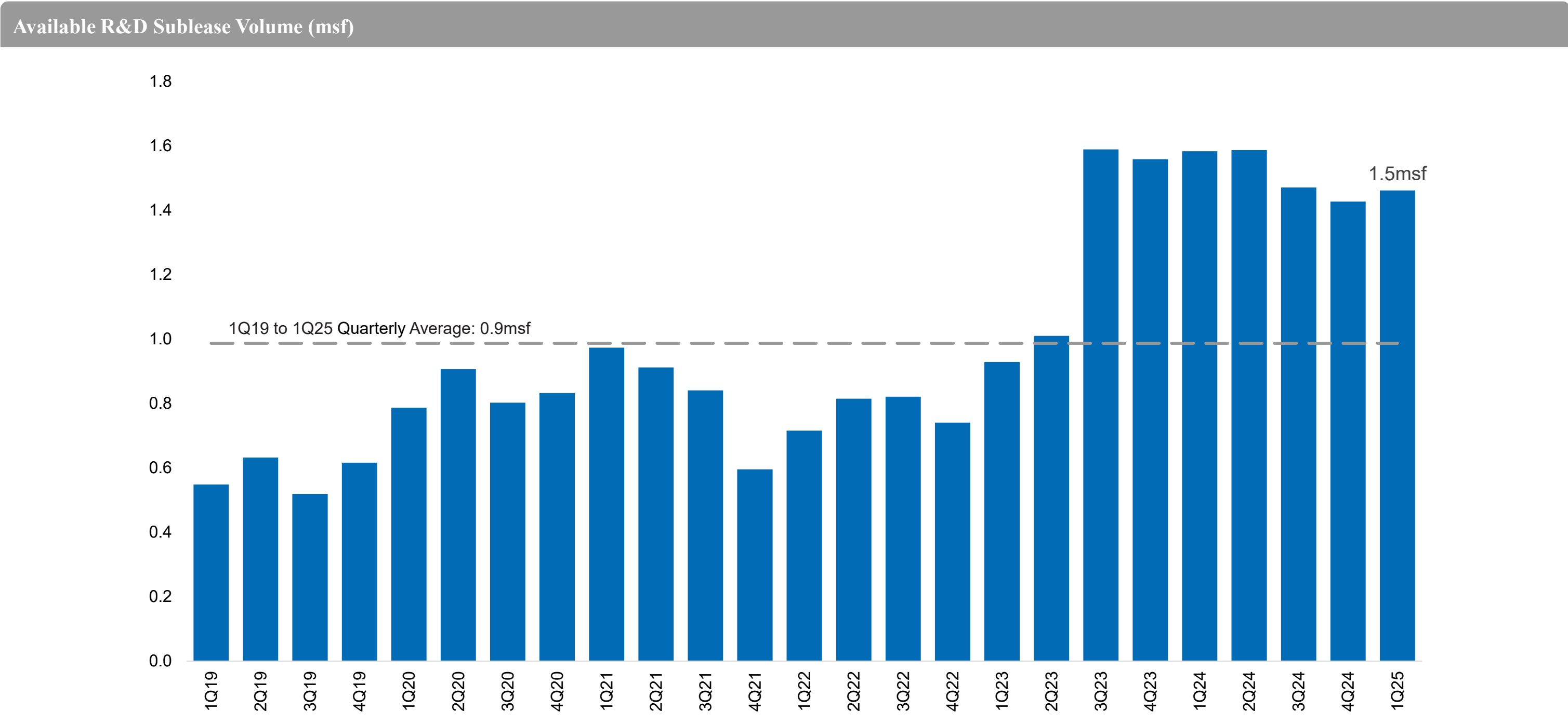
The South Peninsula market experienced subdued leasing activity, falling below the five-year average for the first time in three quarters. Notably, gross absorption totals closely mirror those recorded in Q1 2024, suggesting this moderation likely represents a natural adjustment following three consecutive quarters of strong performance in 2024. We believe this change is a result of the fluctuations in the real estate market, rather than a lack of demand for R&D space.



Source: Newmark Research, CoStar

South Peninsula R&D Availability Concentrated in Big Block Availabilities

Large contiguous spaces dominate the South Peninsula's R&D sublease market. Two notable regions illustrate this trend: Google's 450,000 SF sublease offerings in Mountain View's South Middlefield submarket and TIBCO Software's 300,000 SF sublease in Palo Alto's Stanford Research Park. These two properties alone represent over 50% of the South Peninsula's total sublease availability. These large subleases inflate the current sublease market, and sublease availability has been making stead decreases in vacancy.

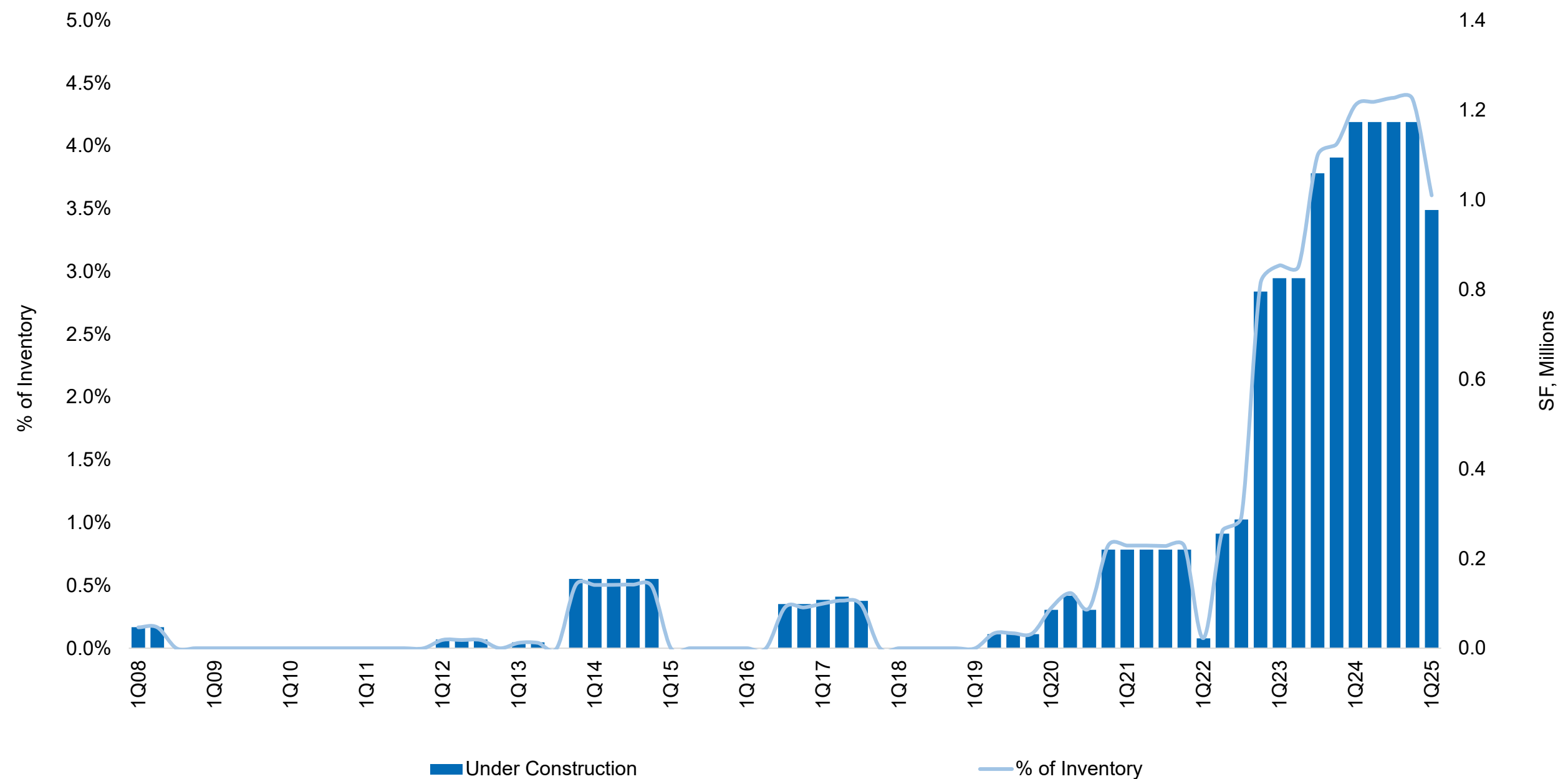


Source: Newmark Research, CoStar

Life Science Landlords Worried About Oversupply of LS Deliveries

The R&D construction pipeline has experienced a notable shift as 200 Lathrop within the Elco Yards development, originally planned as a life science-focused R&D facility, will now be developed as a traditional office building. This repositioning suggests market recognition of current life science space oversupply in the region. The broader South Peninsula R&D construction market remains inactive, with no new projects breaking ground due to the high availability rates, increasing construction costs, and tariff concerns.

Industrial Under Construction and % of Inventory

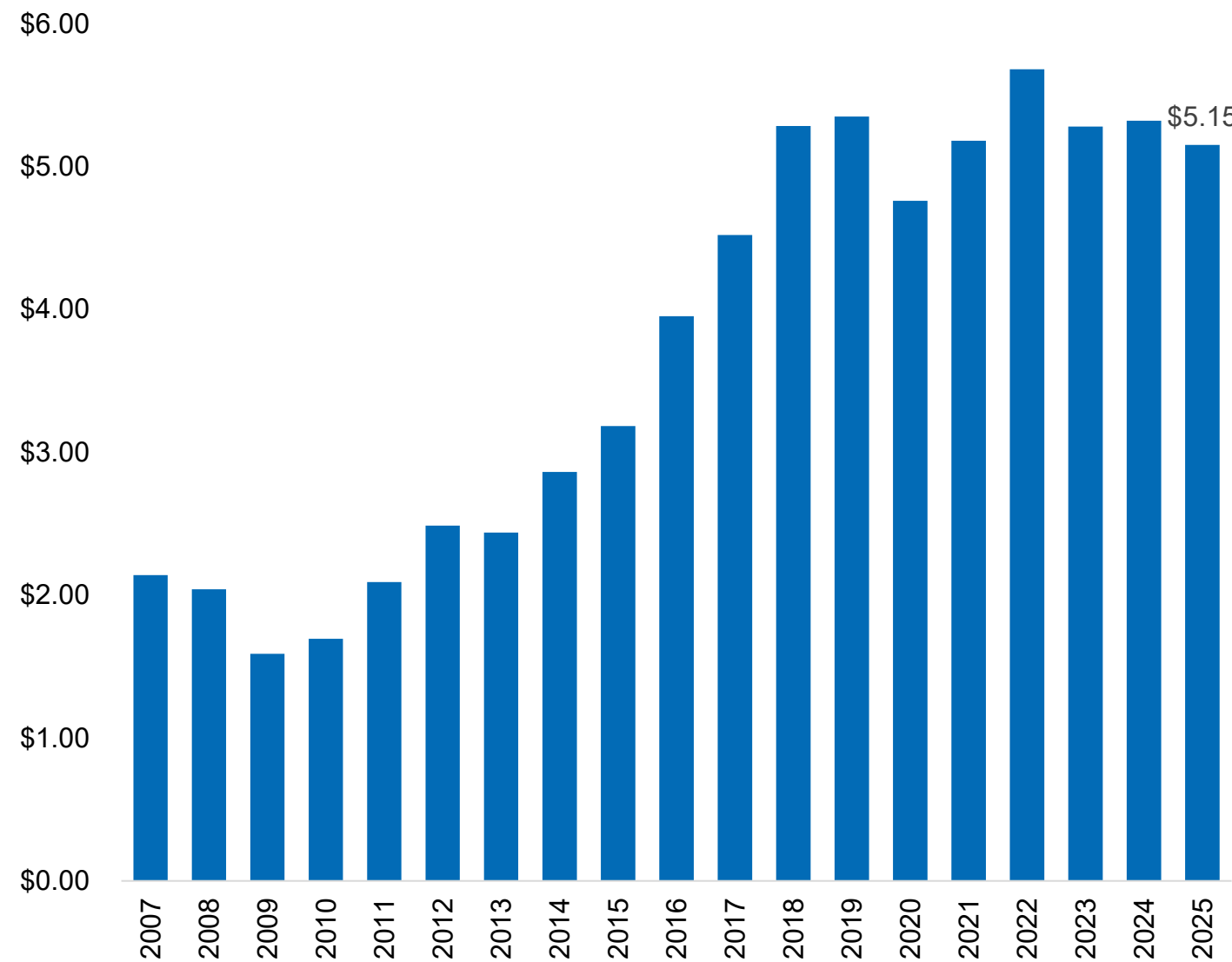


Source: Newmark Research, CoStar

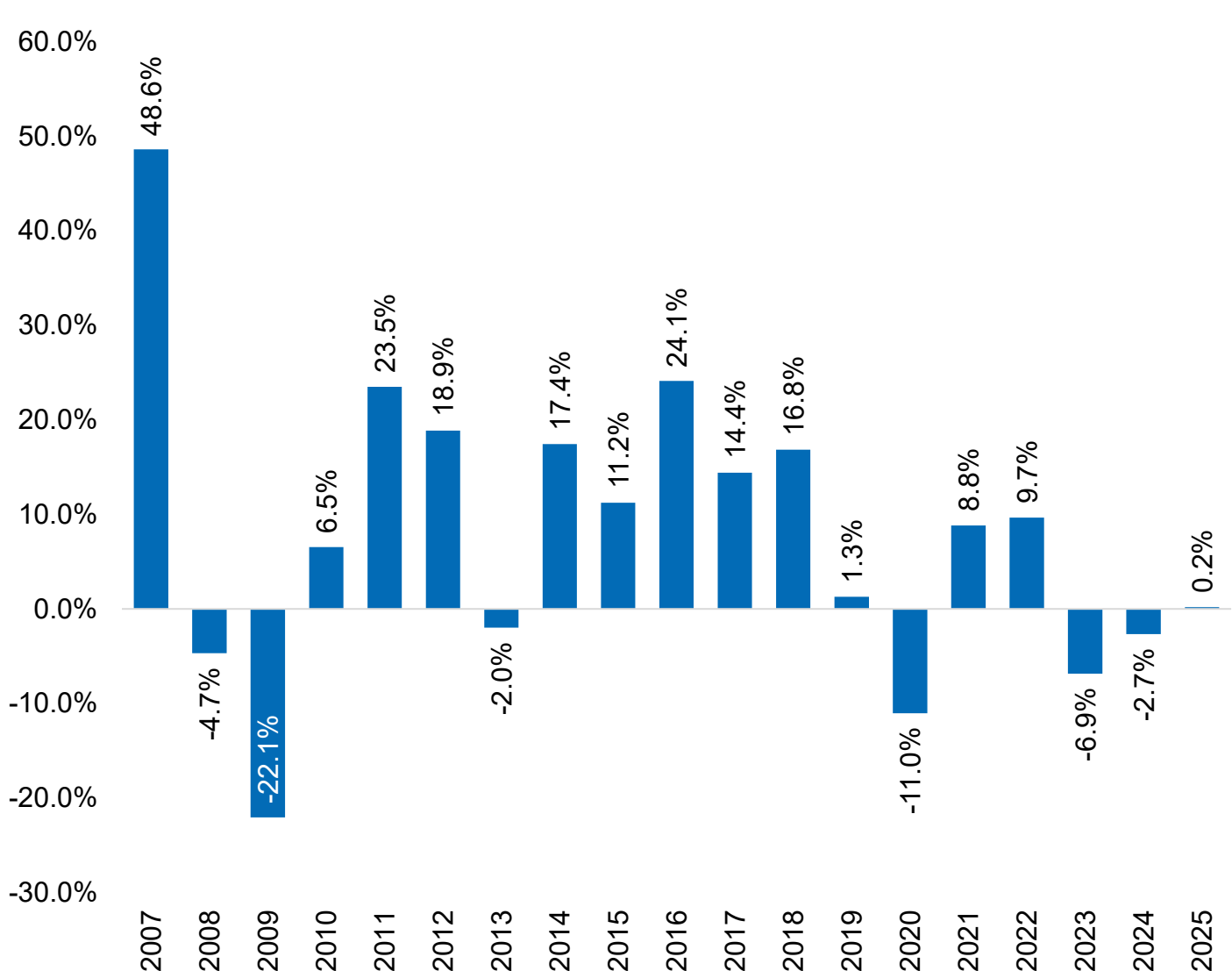
Continued Downward Pressure on R&D Rents

R&D asking rents in the South Peninsula continued their downward trajectory, reaching \$5.15 per square foot in the first quarter of 2025. Current rates are significantly below the market peak of \$5.82 per square foot recorded in Q3 2022. Rising vacancy rates, oversupply of space, and economic uncertainty have created tenant-favorable conditions, enabling occupiers to negotiate more advantageous lease terms.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research



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Large Transactions Lead Leasing Activity in Transitional Quarter

The South Peninsula recorded modest leasing activity this quarter, with Pacific Biosciences of California's 190,000-square-foot lease renewal in Menlo Park accounting for 49% of the region's gross absorption. The large transactions listed below represent 81.8% of all gross absorption in the region. We anticipate increased leasing volume in upcoming quarters as continuing return-to-office initiatives drive companies to reoccupy and expand their physical workspace.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Pacific Biosciences of California	1305 O'Brien Drive	Menlo Park – Hwy 101 Industrial	Lease Renewal	190,389
The premier life science technology company has renewed its long-term lease, maintaining occupancy of the entire 190,389-square-foot building at 1305 O'Brien Drive.				
Databricks	381 Evelyn Avenue	Mountain View – South Middlefield	Lease Expansion	47,835
Databricks, a leading data analytics company, has expanded its lease at 381 Evelyn Avenue to occupy the entire building. Two agents from the Palo Alto office facilitated this transaction.				
Alivacor	189 Bernardo Avenue, Suite 100	Mountain View – South Middlefield	Lease Renewal	31,636
An AI-enhanced medical device company has renewed its lease at 189 Bernardo Avenue, maintaining its existing footprint within the building.				
Sonocharge Energy	1340 Middlefield Road	Mountain View – Central Expressway	Direct Lease	25,000
Sonocharge Energy, a battery technology company, has executed a direct lease for the entire rentable square footage at 1340 Middlefield Road.				
Swift Beat	4040 Fabian Way	Palo Alto - Bayshore	Direct Lease	20,986
An artificial intelligence military drone startup, founded by a former Google CEO, has executed a direct lease for the entire building.				

Source: Newmark Research

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Appendix / Tables





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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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