

NEWMARK

# Silicon Valley Office Market Overview

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1Q26

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# U.S. Market Observations



## Economy

- Business & Professional Services remained the dominant employment sector in the San Jose-Santa Clara-Sunnyvale region, even as the sector posted a modest contraction of 0.5% over the past year.
- Office-using employment opened Q1 2026 at 409.2K in January, easing slightly from December's high of 411.9K. The unemployment rate held steady at 4.0%, well below the mid-year 2025 peak of 4.9%, a sign that the labor market maintained its footing even as office-using demand got off to a cautious start to the year.



## Leasing Market Fundamentals

- The Silicon Valley office market sustained its recovery trajectory entering 2026, with momentum continuing to build across key demand indicators.
- Quarter end net absorption surpassed 1.1M SF, marking the sixth consecutive quarter of positive net absorption and reinforced the market's return.
- In the first quarter of 2026, rents posted modest increases across multiple Silicon Valley cities, with Cupertino recording the highest year-over-year gain at 8.1%, followed by Santa Clara at 6.7% and Mountain View at 5.9%.



## Major Transactions

- The technology sector dominated leasing activity this quarter, with signed leases exceeding 400K SF by both a confidential company and Everpure, formerly known as Pure Storage.
- Large tenant leasing rose 18.2% quarter-over-quarter and 160.0% year-over-year, totaling thirteen leases, a strong signal of long-term optimism.
- This quarter's elevated transaction volume was driven by large tenant requirements that materialized following improved economic conditions.



## Outlook

- The Silicon Valley office market opened 2026 with its strongest quarterly performance in years, as a convergence of positive demand signals confirmed that the market's recovery has evolved from tentative to sustained.
- Through the remainder of 2026, three converging trends are expected to sustain upward pressure on office rents and sharpen competition for quality space: growing demand from AI-driven occupiers, an improving economic backdrop, and a pipeline constrained by years of limited new construction

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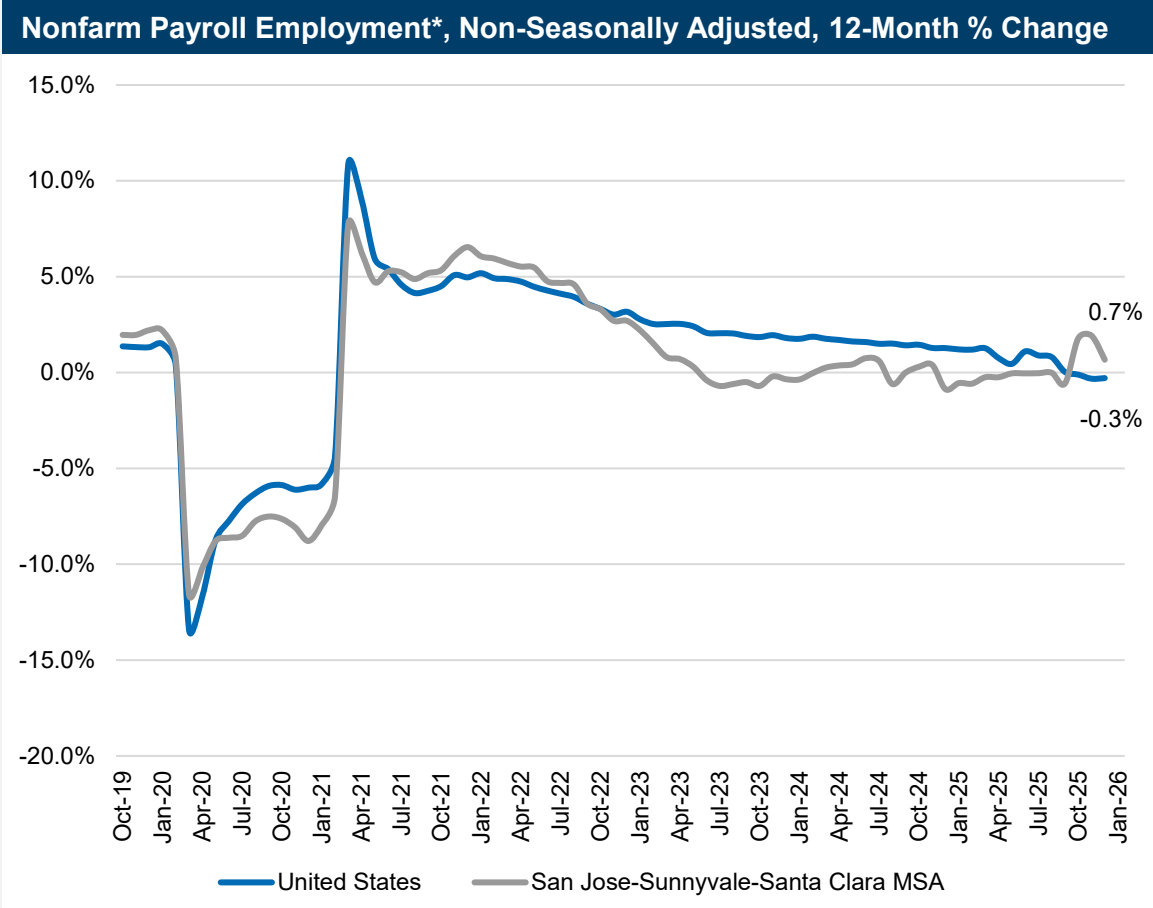
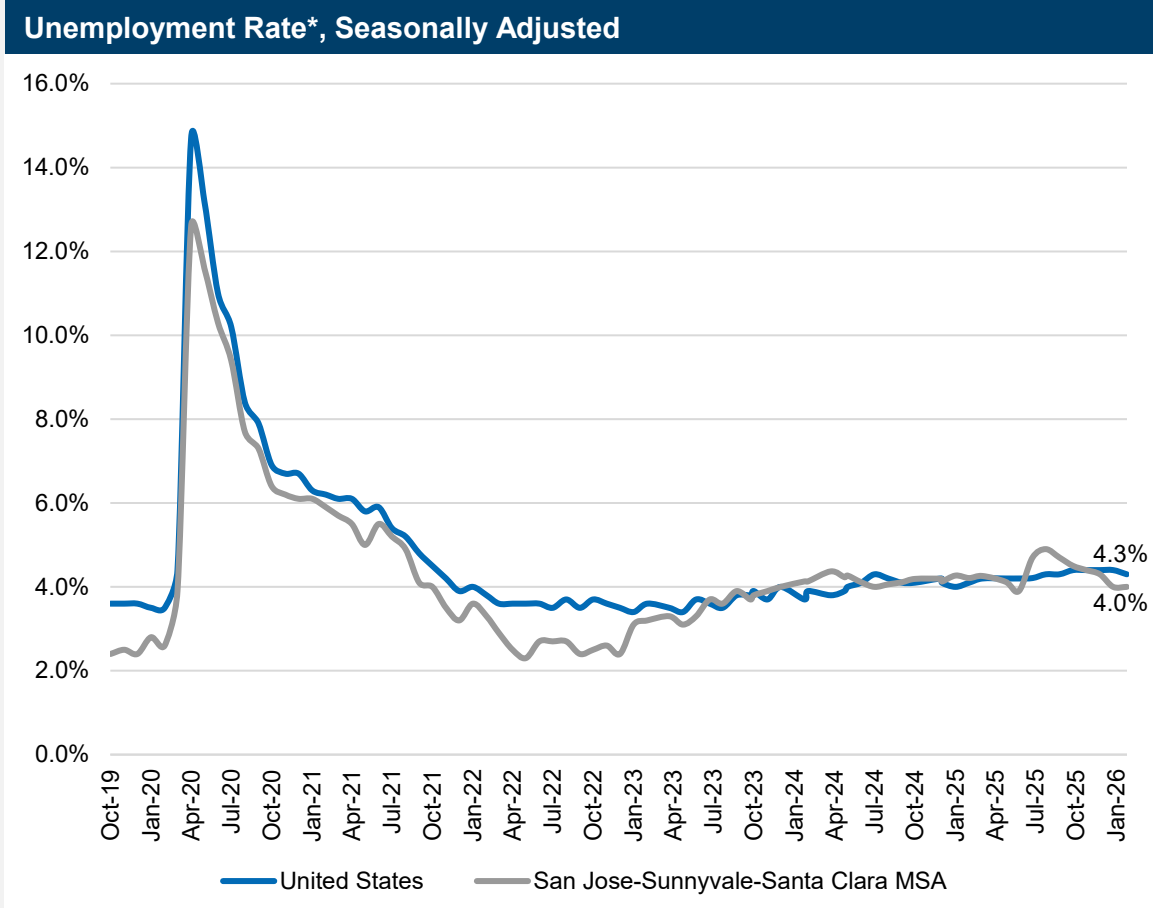
## Economy

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# Local Labor Market Outperformed National Trends

The San Jose–Sunnyvale–Santa Clara MSA unemployment rate decreased to 4.0% in January 2026, down 30 basis points from the previous year. Nationally, the unemployment rate followed the opposite path, as it increased 30 basis points over the same period. In contrast, total nonfarm payroll employment in the local market increased 0.7% year-over-year, diverging from a national contraction of 0.3%. Looking ahead, the continued build-out of AI infrastructure and the region's deep concentration of technology talent position the San Jose–Sunnyvale–Santa Clara MSA to be among the first markets where office-using demand meaningfully recovers.

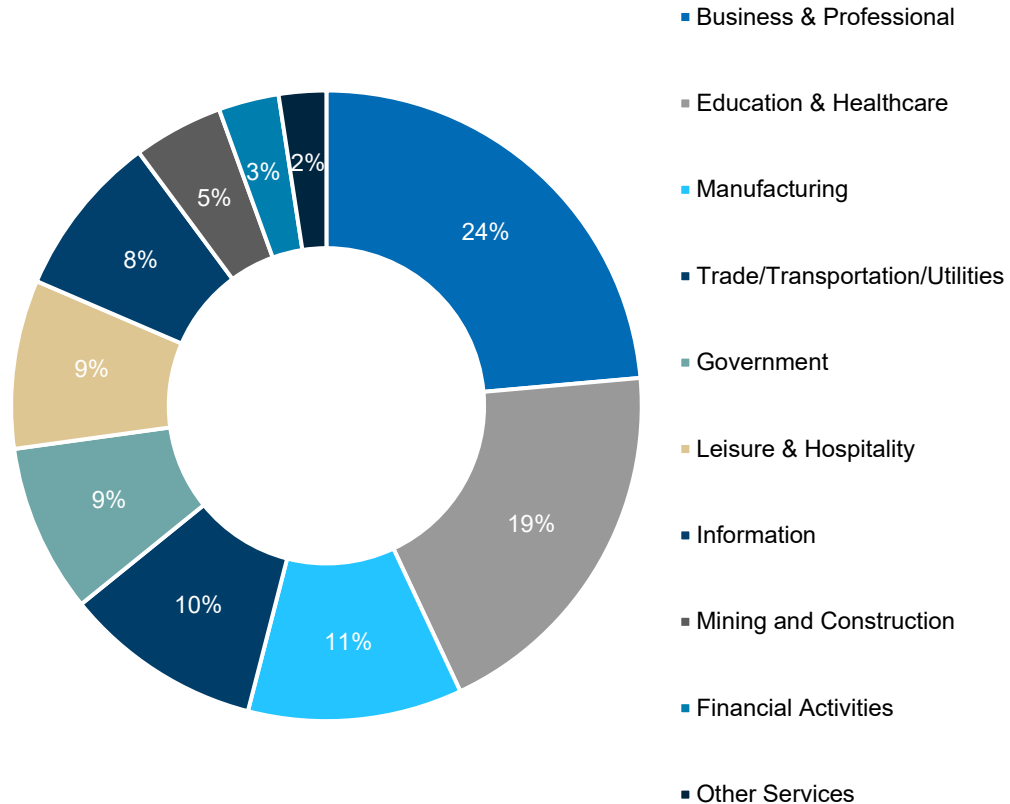


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale  
 \*January 2026 data is preliminary

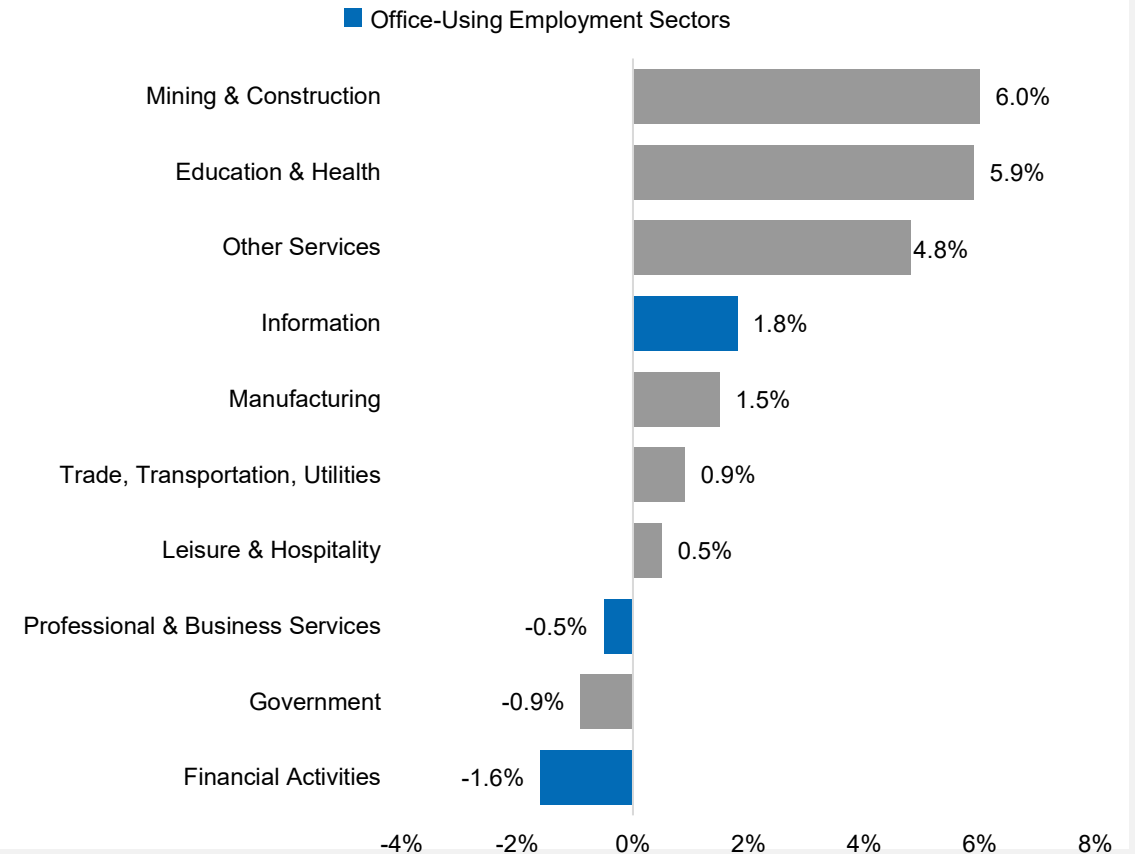
# The Information Industry Led Office-Using Employment Growth

Professional & Business Services remained the dominant employment sector in the San Jose-Santa Clara-Sunnyvale MSA, despite a modest 0.5% year-over-year contraction. Across all three office-using sectors combined, office-using employment accounted for 35.1% of total regional employment. Within that group, Information was the standout performer, growing 1.8% year-over-year.

Employment by Industry, January 2026\*

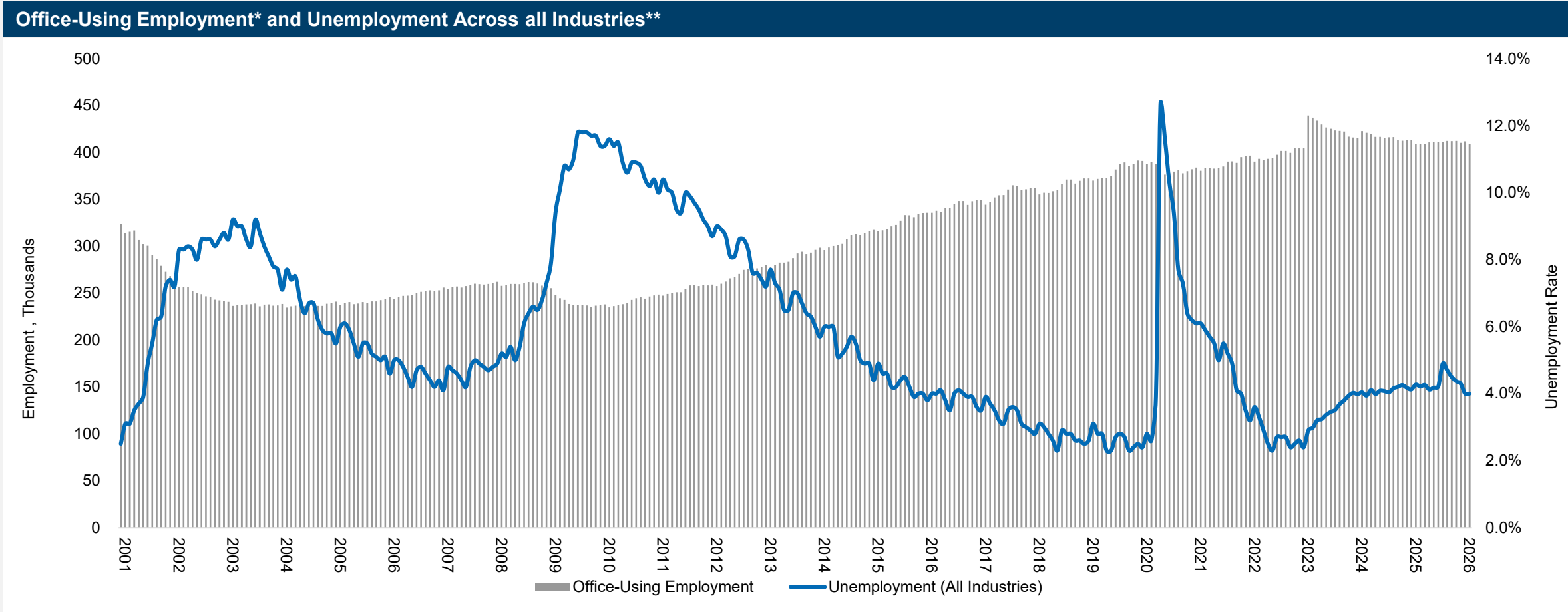


Employment Growth by Industry, 12-Month % Change, January 2026\*



# Labor Market Held Steady as Office Demand Found Its Footing

Office-using employment opened Q1 2026 at 409.2K in January, easing slightly from December's high of 411.9K. The unemployment rate held steady at 4.0%, well below the mid-year 2025 peak of 4.9%, a sign that the labor market maintained its footing even as office-using labor got off to a cautious start to the year.



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.  
\*\*January 2026 missing unemployment data addressed with duplicating December 2025's data. January 2026 Office-Using Employment is preliminary.



# 02

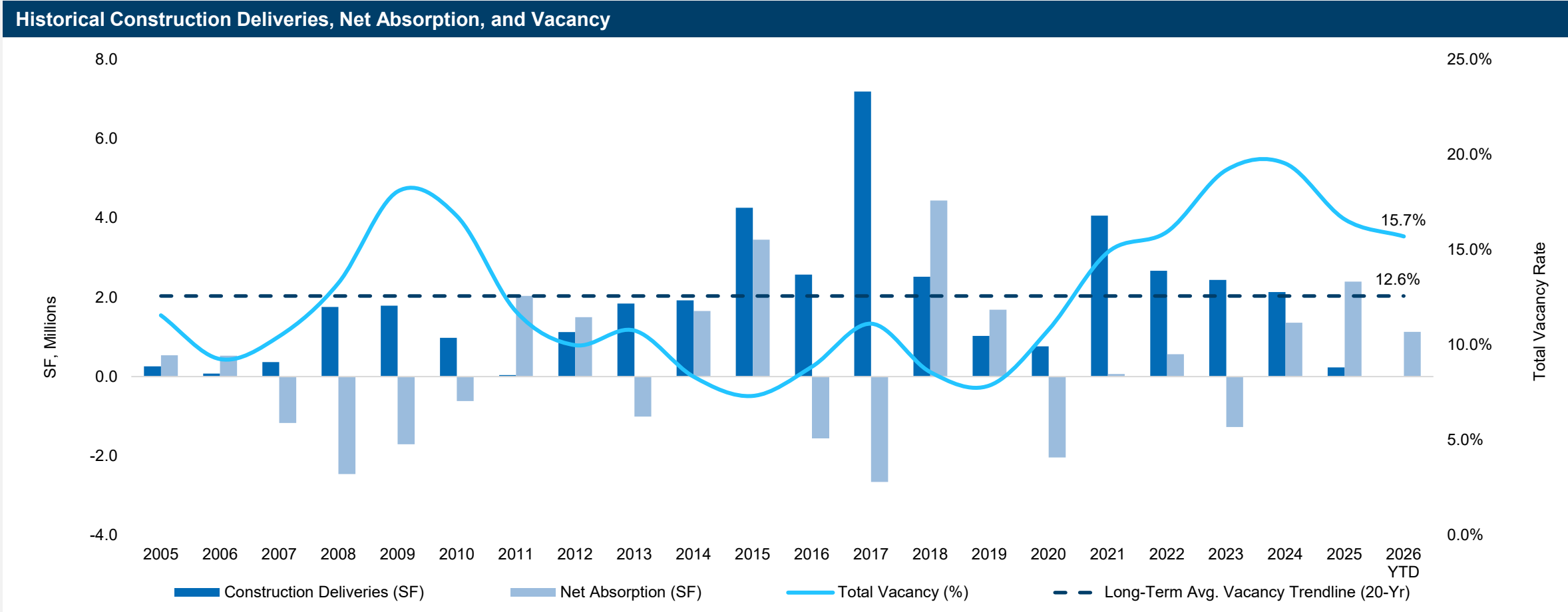
## Leasing Market Fundamentals

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# Early 2026 Momentum Recorded in Q1

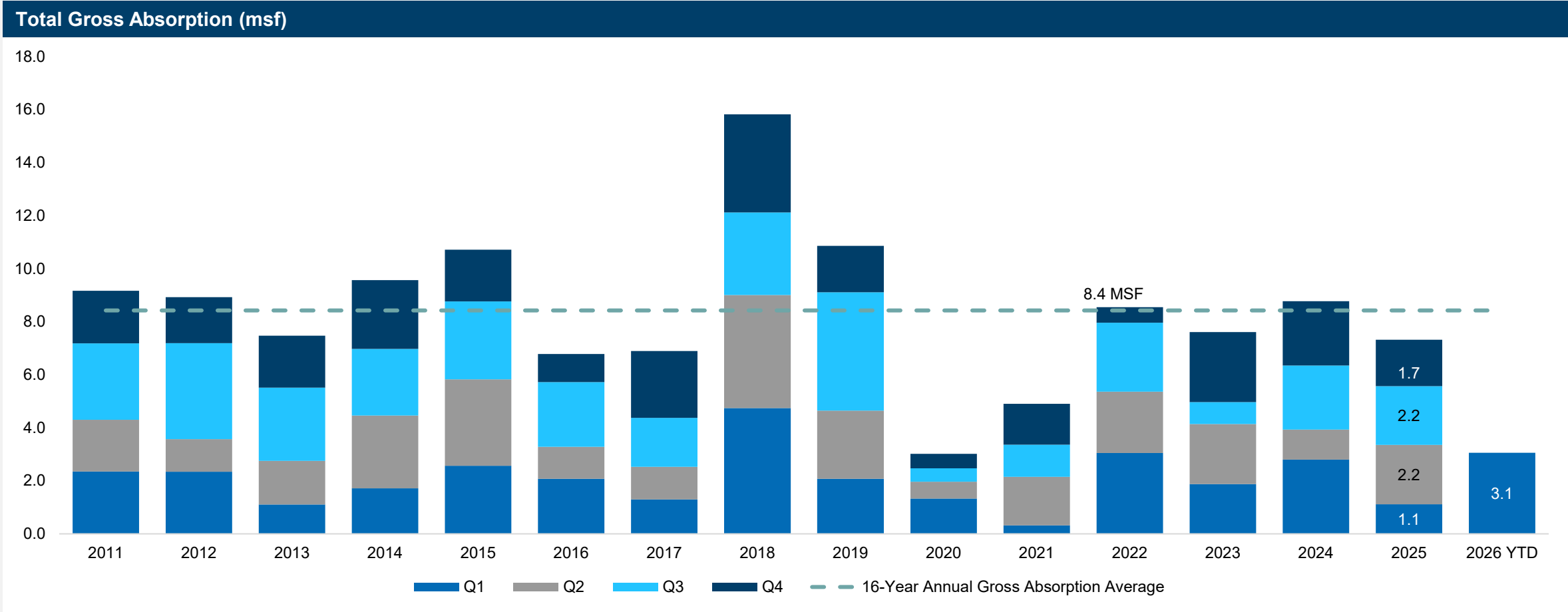
The Silicon Valley office market sustained its recovery trajectory entering 2026, with momentum continuing to build across key demand indicators. Year-to-date net absorption surpassed 1.1M SF, marking the sixth consecutive quarter of positive net absorption and solidified the market’s return to pre-pandemic levels. Vacancy compressed by 90 basis points quarter-over-quarter to 15.7%, reflecting heightened leasing activity and continued progress toward stabilization. Meanwhile, the construction pipeline remained largely inactive, with no new deliveries recorded during the quarter.



Source: Newmark Research  
 \*Absorption includes owner-user sales and owner-user constructed deliveries.

# Santa Clara Drove Quarterly Gross Absorption

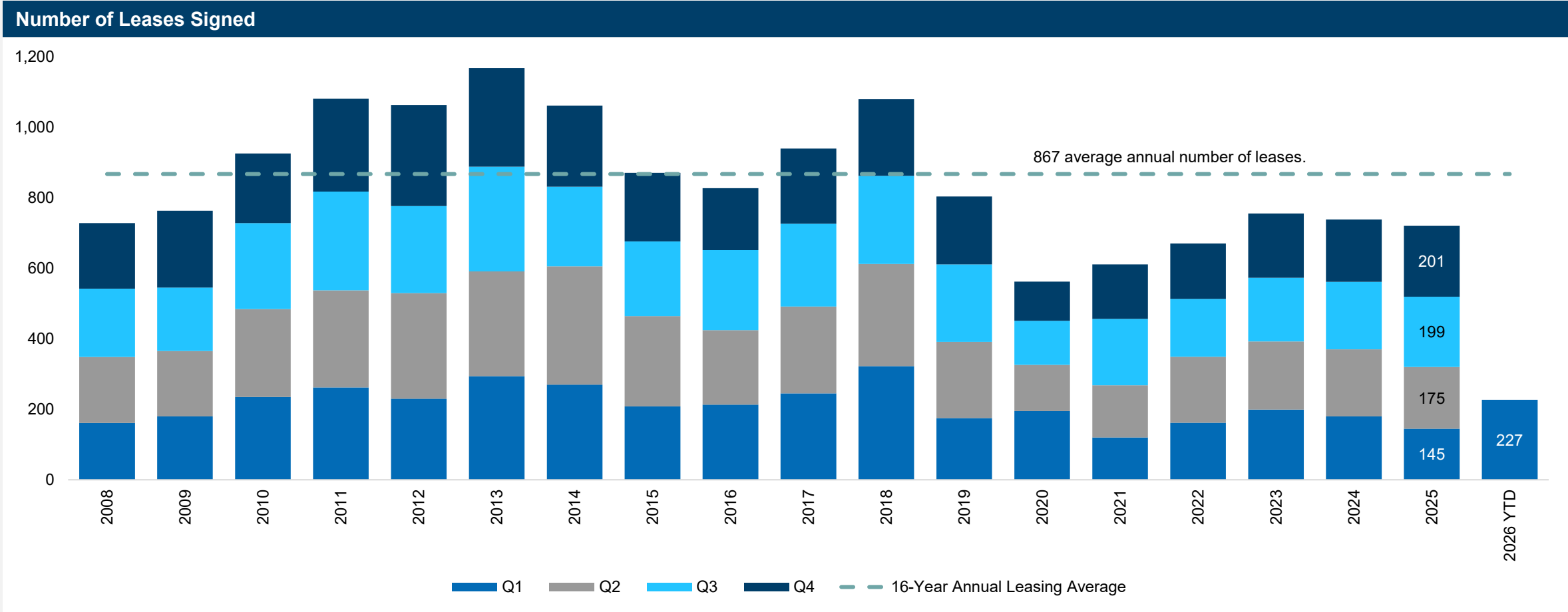
Gross absorption eclipsed 3.1M SF in the first quarter of 2026, representing a 174.0% increase year-over-year. In the post-pandemic era, this marked the first instance of gross absorption achieving above a 3.0M SF quarterly threshold, having previously achieved a comparable level in Q1 2019. Activity was geographically concentrated in Santa Clara, specifically within the Central Expressway North submarket, driven largely by the Everpure 440.3K SF lease at 2555-2565 Augustine Drive.



Source: Newmark Research  
 \*Absorption includes owner-user sales and owner-user constructed deliveries.

# Lease Activity Surged to Near-Record Highs

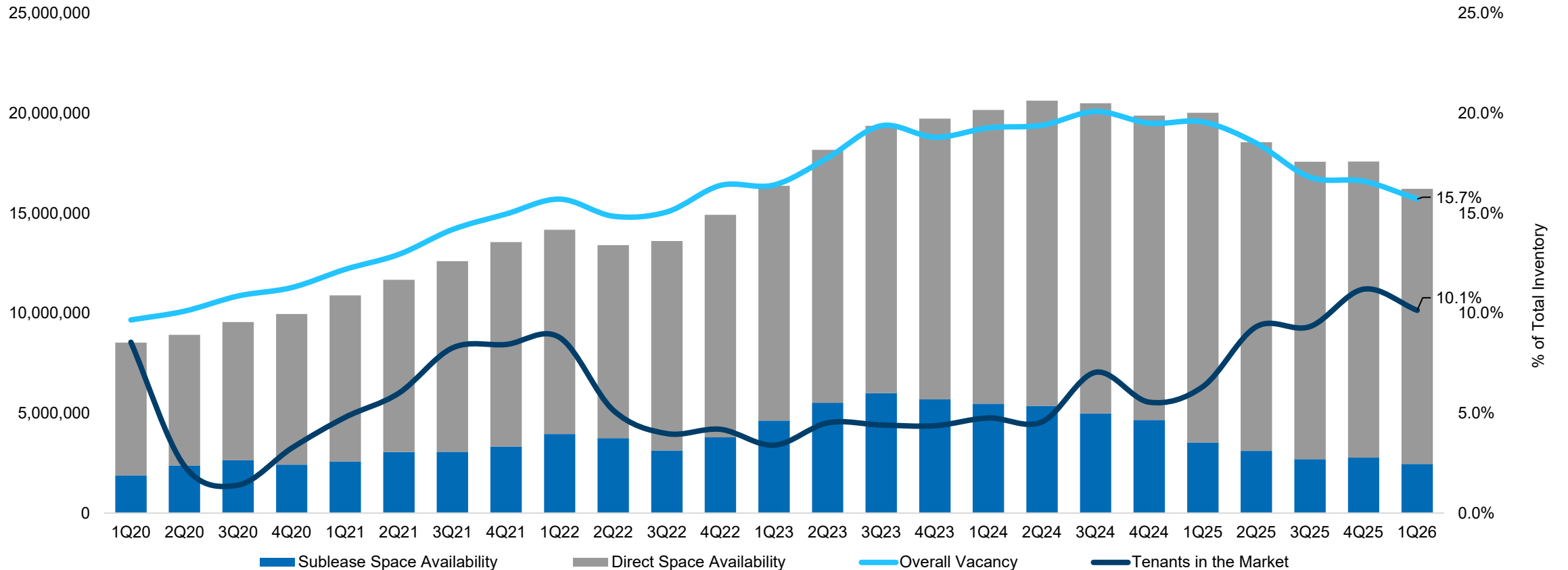
Total leases signed in the first quarter of 2026 increased 56.6% year-over-year, recording 227 transactions. Comparably, the second highest single-quarter count since 2018, a year in which the market recorded 1,079 total leases. The elevated transaction volume was driven by large tenant requirements that materialized following improved economic conditions.



# Vacancy Fell as Sublease Space Contracted

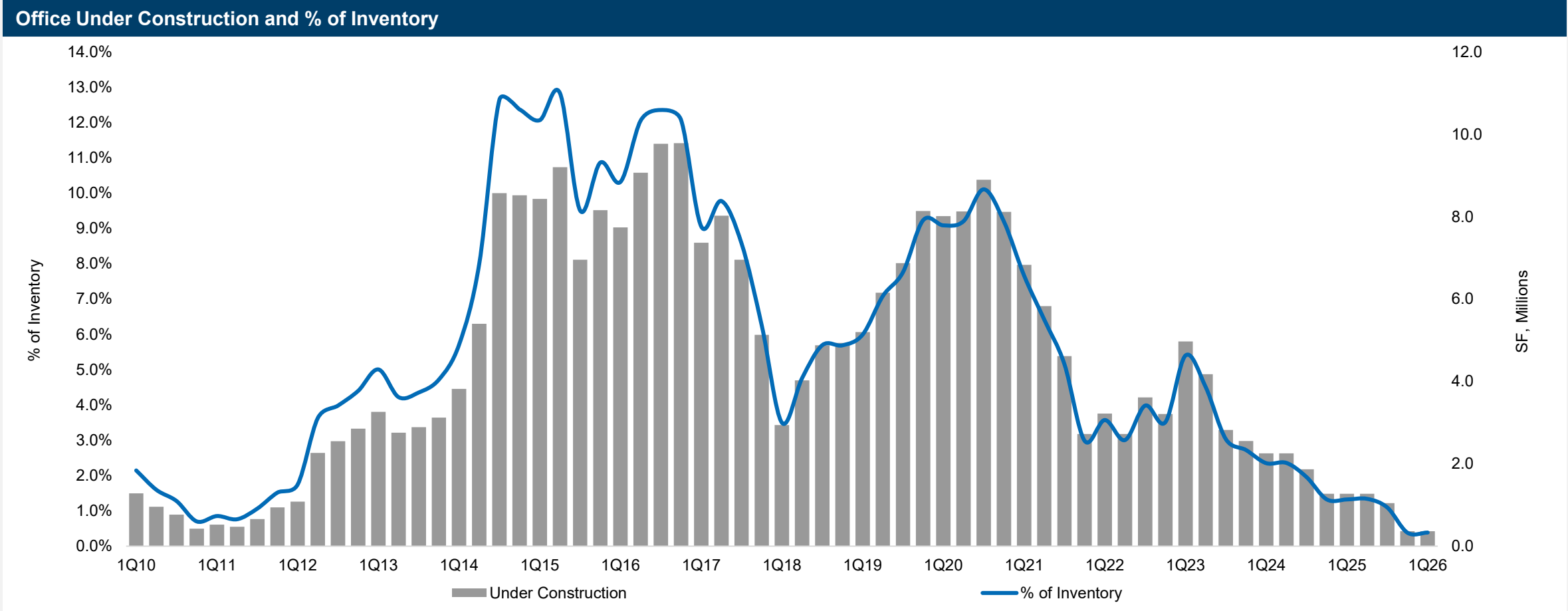
Overall vacancy declined to 15.7%, a 90-basis-point decrease from the previous quarter, driven by reductions in both direct and sublease space availability. Sublease availability contracted 11.2% quarter-over-quarter and 30.3% year-over-year, largely attributable to the confidential company and Everpure subleases, which collectively removed 309,400 SF of sublease space from the market. Tenant demand, as a percentage of the market, declined 106 basis points as large tenants completed transactions during the quarter, further compressing direct availability and overall vacancy.

Available Space and Tenant Demand as Percent of Overall Market



# Construction Pipeline Remained Muted at Start of 2026

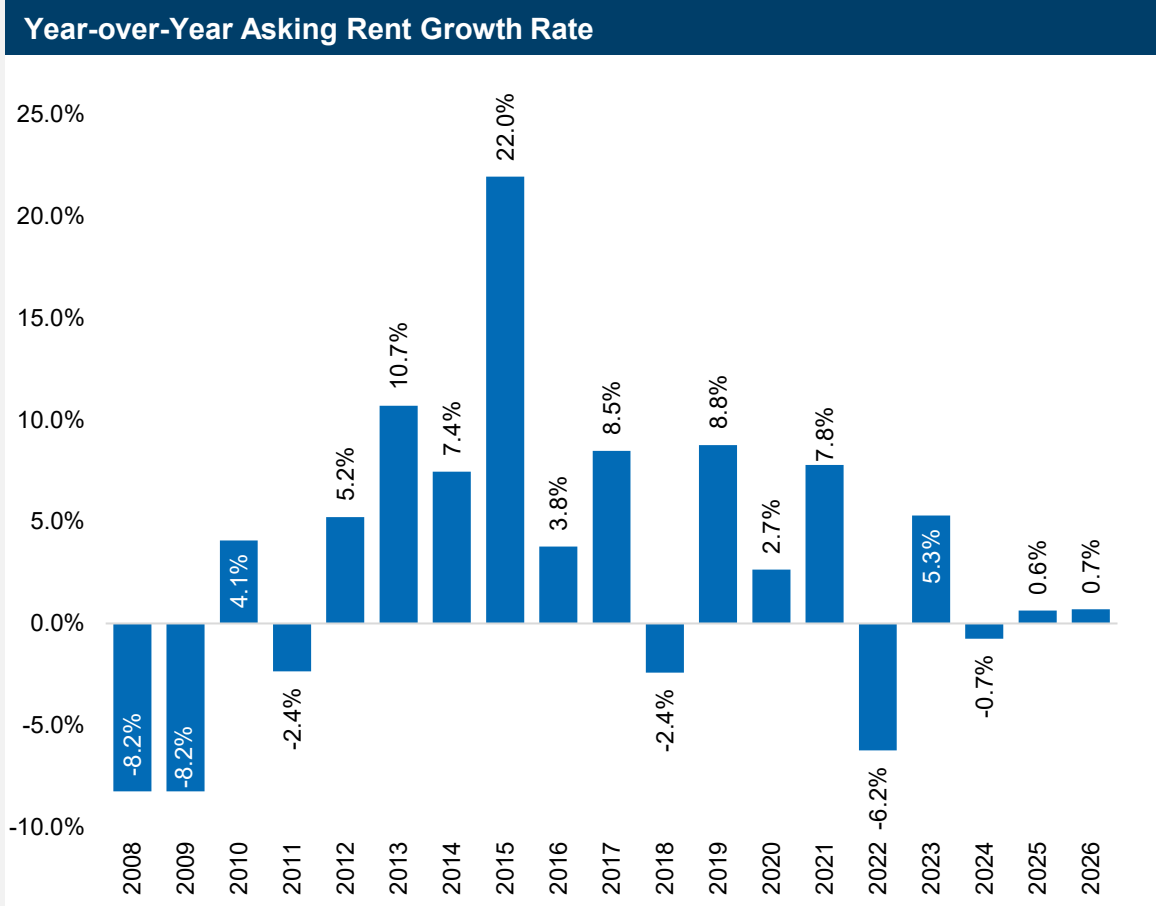
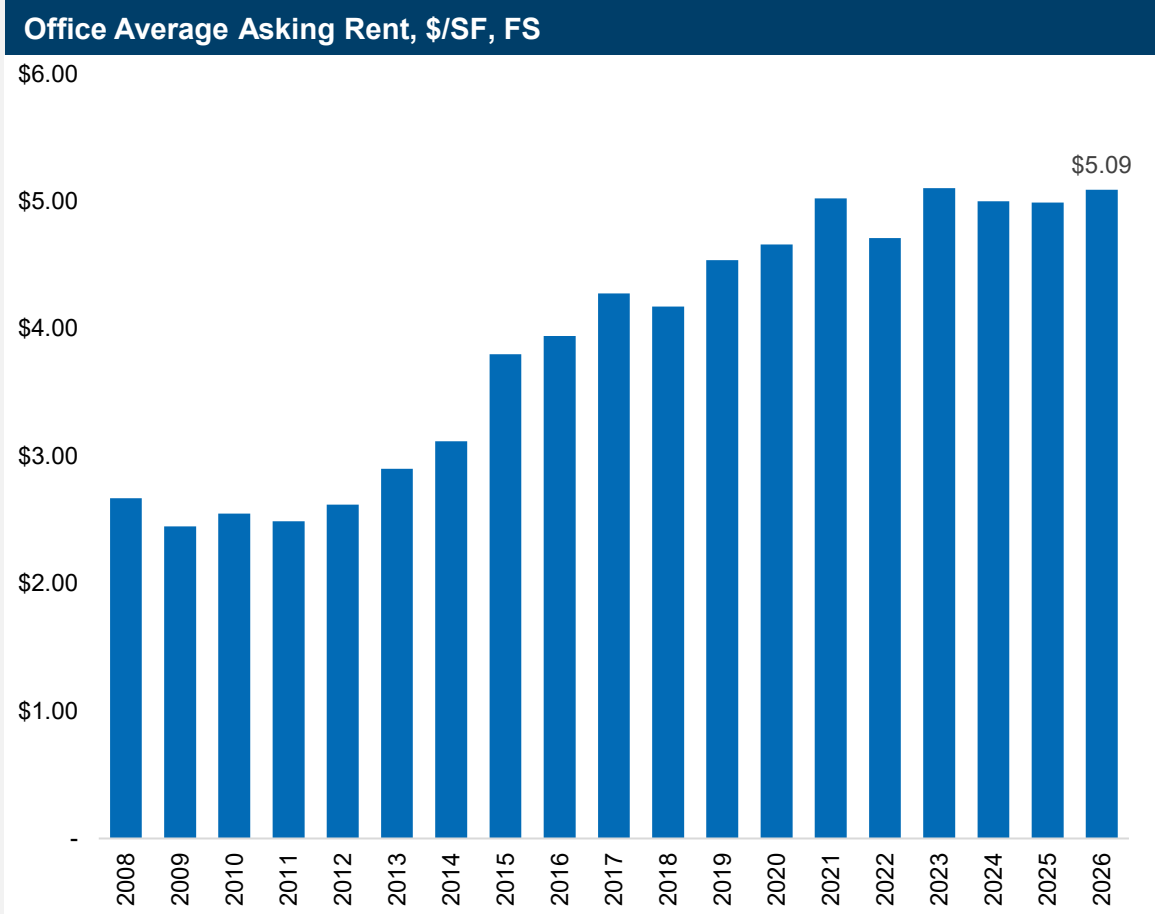
After the contraction in the office construction pipeline at the close of 2025, development activity remained limited during the first quarter of 2026, anchored primarily by the Arista Networks headquarters expansion at 5200 Patrick Henry Drive in Santa Clara, an owner-user development slated for delivery in late 2026. Construction activity had broadly contracted in the wake of interest rate hikes that began in early 2022, with the pipeline showing little sign of recovery since. Evolving economic conditions and AI-driven workforce transformation remain key variables to monitor through the remainder of 2026.



Source: Newmark Research, CoStar, San Jose-Santa Clara-Sunnyvale MSA

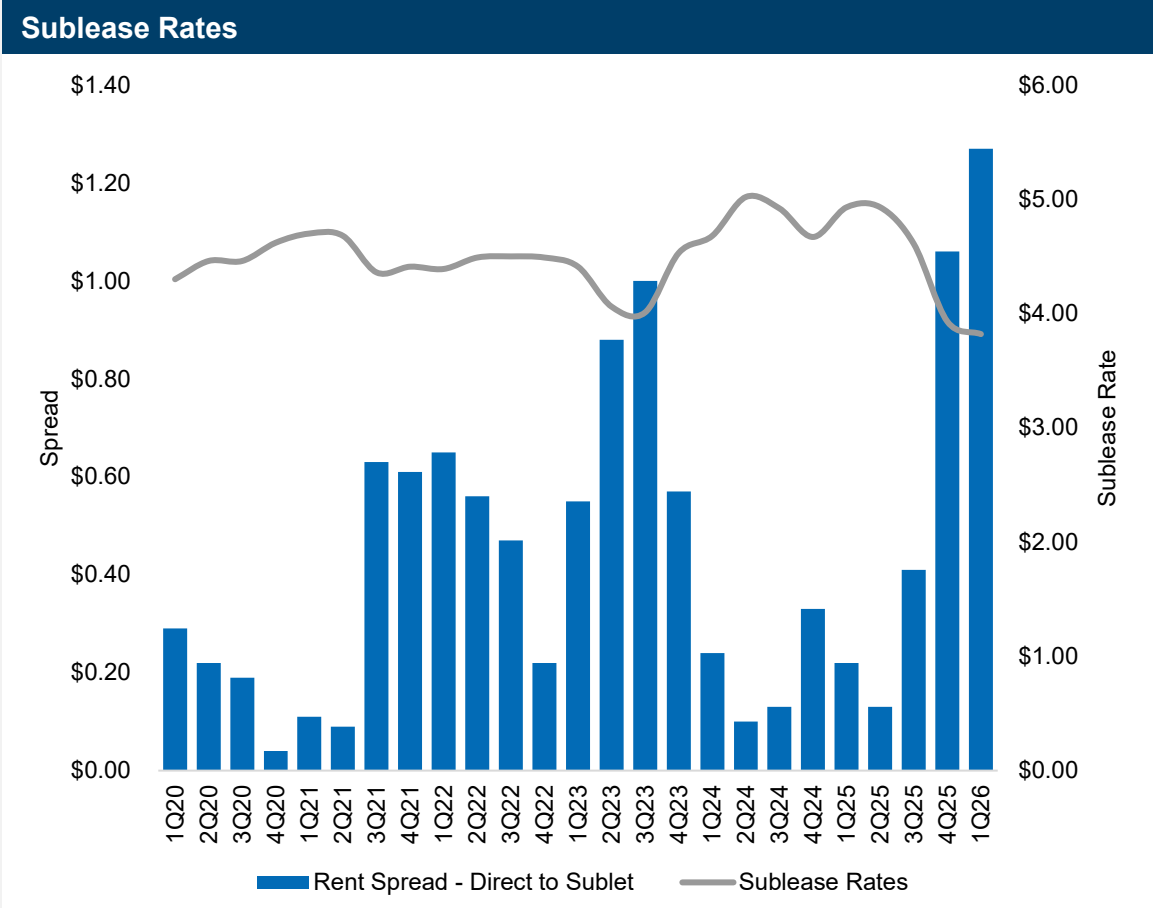
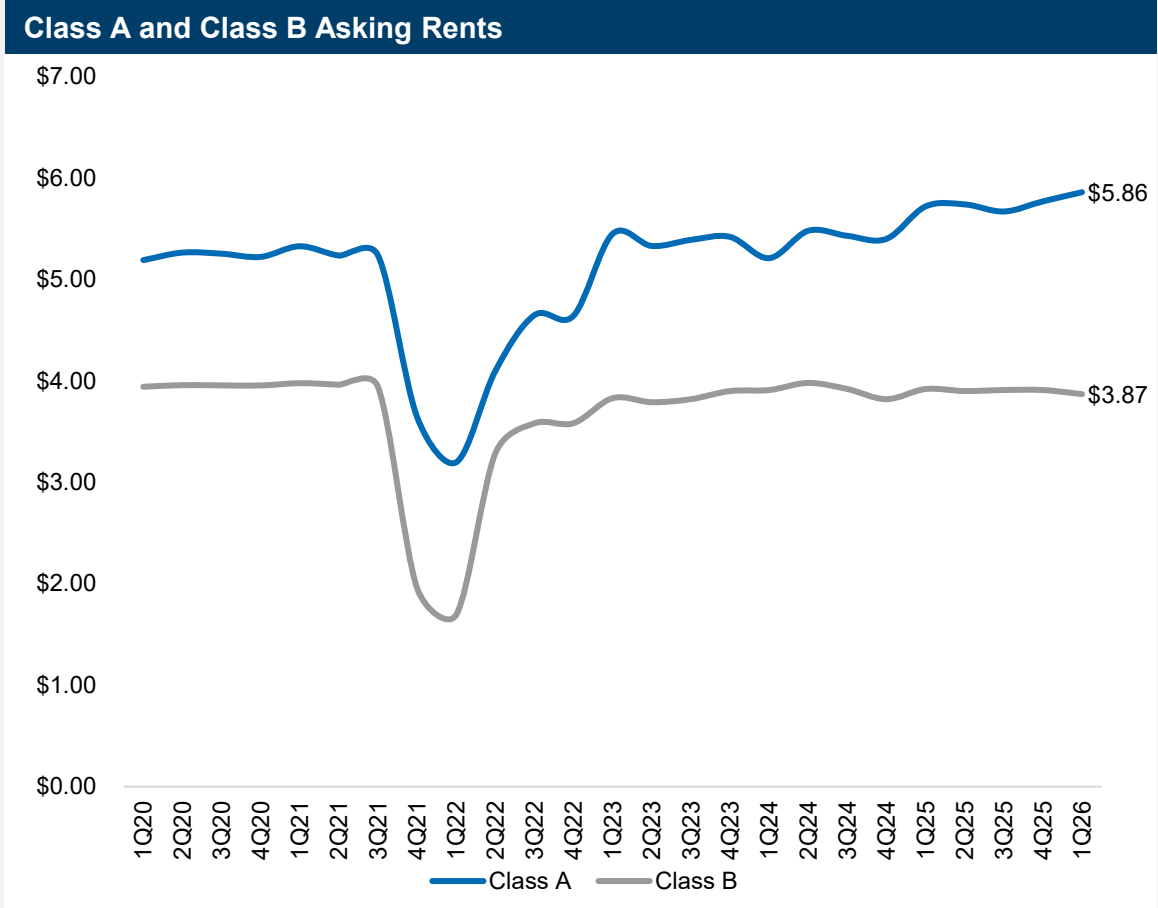
# Asking Rent Trends & Pricing Dynamics

Average asking rents in the first quarter of 2026 stood at \$5.09 per square foot full service, up 0.7% from the 2025 average and 1.3% above the 2024 average. The increase was largely driven by new listings added during the quarter, which carried asking rents 8.0% higher than those introduced in the same period in 2025, exerting upward pressure on the overall market average. Existing high-in-demand class A listings also recorded rent increases during the quarter, further reinforcing the upward trend.



# Asset Class Rent Divergence & Sublease Pricing

The gap between Class A and Class B properties widened to \$1.99 per square foot in the first quarter of 2026, expanding 7.0% from the prior quarter. This divergence underscored a bifurcated market in which tenants demonstrated a willingness to pay a premium for high-quality amenities to support return-to-office initiatives, while Class B landlords faced mounting pressure to remain competitive. Simultaneously, sublease rates declined to \$3.82 per square foot full service, marking a 22.5% year-over-year decrease, a level not recorded since the end of 2028.



Source: Newmark Research, CoStar

# Technology Companies Drove Leasing Momentum

The technology sector drove almost exclusively the leasing activity of the quarter, with a confidential company and Everpure signing two leases above 400K SF, signaling long-term optimism. Leasing activity among large tenants increased 18.2% from last quarter and 160.0% year-over-year, recording a total of 13 leases. The average transaction size also increased in the first quarter of the year, up 149.8% quarter-over-quarter, and 225.0% year-over-year.

## Notable 1Q26 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Confidential	The Ellis Campus	Mountain View – South Middlefield	Direct Lease	447,370
<i>A Confidential tenant leased the entirety of The Ellis Campus at 350-380 Ellis Street in the South Middlefield submarket of Mountain View.</i>				
Everpure	Santa Clara Square	Santa Clara – Central Expy North	Direct Lease	440,312
<i>Everpure signed a direct lease at 2555 &amp; 2565 Augustine Drive in Santa Clara, commencing in 2030. Additionally, it signed a 114k SF sublease in Santa Clara Square.</i>				
Infinion Technologies	America Center West	San Jose – North	Direct Lease	220,872
<i>Infinion Technologies, a semiconductor manufacturer, signed on a direct basis the building at 6001 America Center Drive in North San Jose.</i>				
Apple	Catalyst	Sunnyvale – Peery Park	Sublease	194,624
<i>Apple signed a sublease at 684 W Maude Ave in the Peery Park submarket of Sunnyvale.</i>				
Databricks	Altair	Sunnyvale – Downtown	Direct Lease	180,417
<i>Databricks signed a new lease in the Altair building at 100 Altair Way in Downtown Sunnyvale.</i>				

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## Appendix

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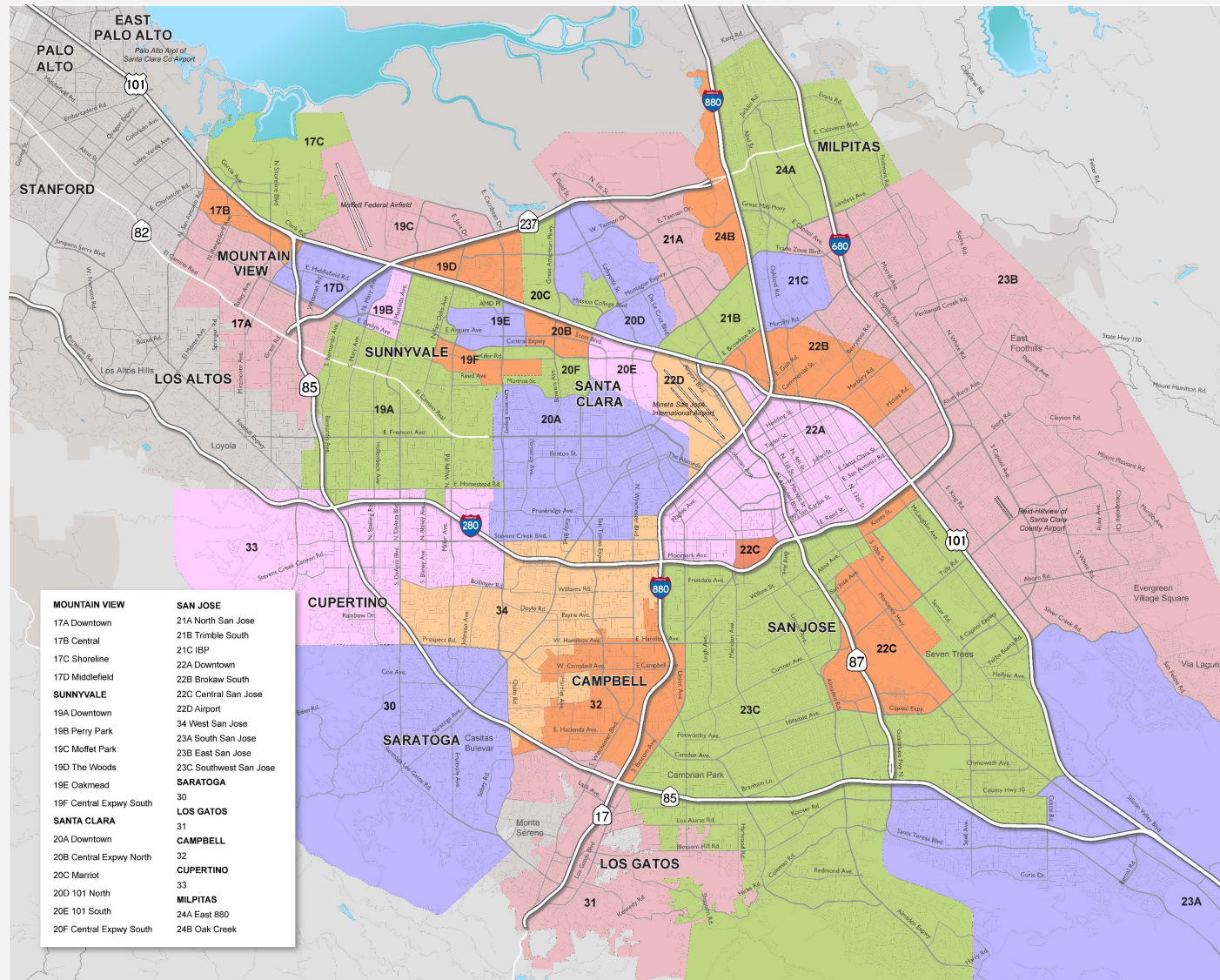
# Access the Extended 4Q25 Silicon Valley Office Report

The extended version of this report includes:

- **Data on leasing trends**
  - Deal count and average lease size
  - Leasing by submarket
- **Further insight into tenant demand**
- **Availability and rent data by submarket**
- **Market statistics for the overall market and Class A**

To access, please reach out to your Newmark contact.

# Silicon Valley – Submarket Map



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