



NEWMARK

South Peninsula Office Market Overview

1Q26

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U.S. Market Observations



Economy

- In the Fourth quarter of 2025, the San Jose–Sunnyvale–Santa Clara MSA unemployment rate held at 4.3% as of the latest available data, reflecting stabilization in the local labor market. Nationally, the unemployment rate mirrored this trend, as it increased 10 basis points compared to the prior year.
- Goldman Sachs now projects US real GDP growth around 2.5% in 2026 on a Q4/Q4 basis, roughly 2.8% for the full year, which is above the roughly 2% consensus among economists surveyed by Bloomberg.
- Goldman expects the unemployment rate to stabilize around 4.5% and anticipates two 25-basis-point Federal Reserve rate cuts in June and September 2026, as growth stays solid but the labor market cools.



Leasing Market Fundamentals

- Gross absorption totaled approximately 1.9 million square feet in the first quarter of 2026, representing a 95.3% increase from the prior quarter. This quarterly figure alone represented over half of the 15-year annual gross absorption average of 3.51 million square feet, marking the strongest quarter since Q4 2024.
- As a result of 841,425 square feet of positive absorption in Q1, the vacancy rate decreased to 20.2% in Q1 2026. Net absorption was driven by strong leasing activity across multiple submarkets, with Mountain View contributing 556,736 square feet and Redwood City adding 303,516 square feet of positive net absorption.
- This quarter, average asking rents settled at \$5.66 per square foot NNN, holding steady from the prior quarter and remaining above the 2024 average.



Major Transactions

- A considerable driver of the 1,875,179 square feet of gross absorption was a confidential client's direct lease at 350 Ellis in Mountain View. The AI company completed the quarter's largest transaction, leasing the Ellis Campus for a total of 447,370 square feet.
- The South Peninsula recorded a notable pre-lease in Redwood City on a project that has yet to commence construction, signaling renewed forward-looking tenant commitment. The transaction suggests that some occupiers view current conditions as the trough of the cycle and are moving to lock in space while rental rates remain depressed.
- Law firm, Weil Gotshal, have finalized their lease extension in Redwood City for 59,403 square feet. Law firms recorded a meaningful increase in large-block leases, particularly in Downtown Redwood City.



Outlook

- The South Peninsula office construction pipeline remained largely inactive, constrained by elevated vacancy, higher construction costs, and current interest rates. The absence of new product is likely to tighten the market as tenants compete for existing space, putting downward pressure on vacancy rates.
- In the first quarter of 2026, the gap between Class A and Class B properties measured \$1.89 per square foot, reflecting ongoing flight-to-quality dynamics in the market. Demand has shifted toward highly amenitized, modern, and downtown-located office buildings, supporting stronger pricing for these assets. New projects such as ELCO Yards and Cityline Sunnyvale have attracted significant tenant interest, enabling landlords to push asking rents higher amid elevated demand in downtown markets.

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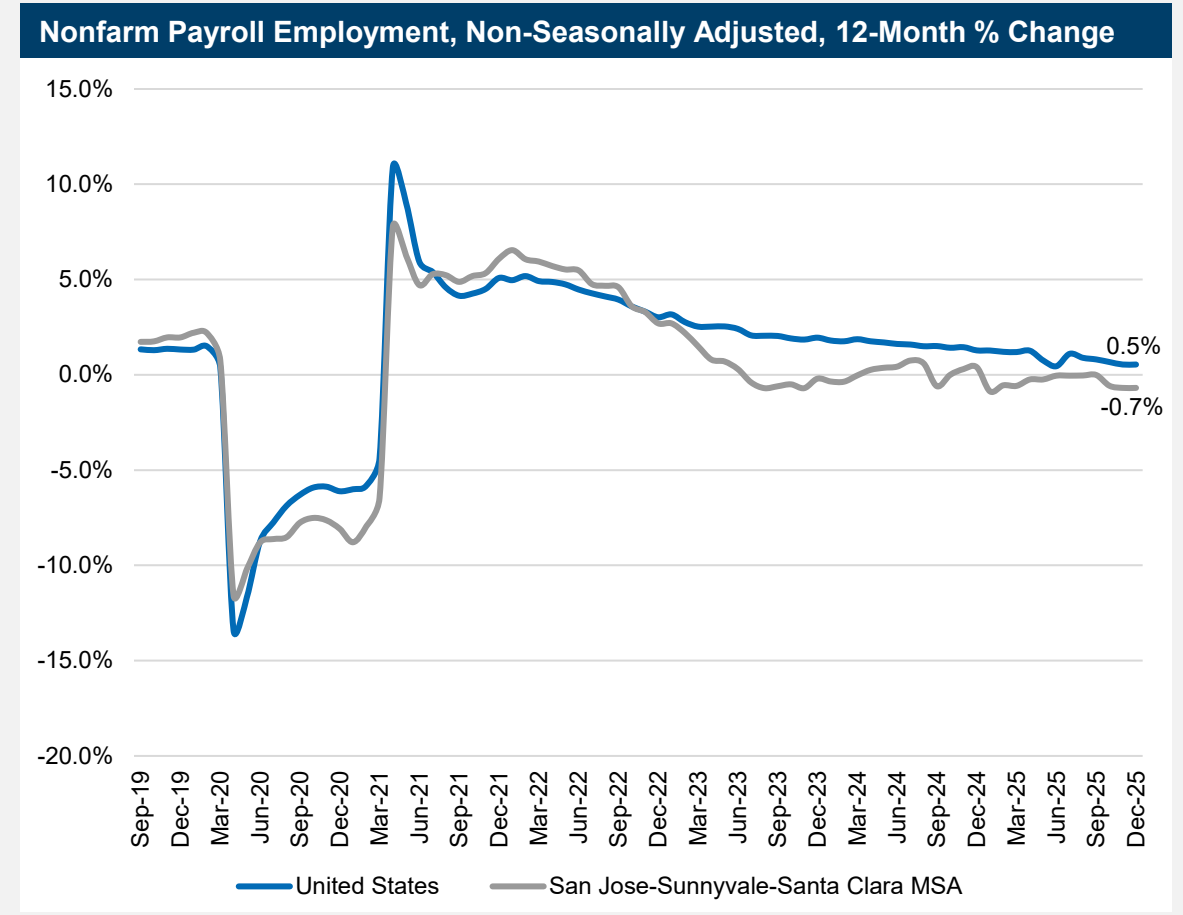
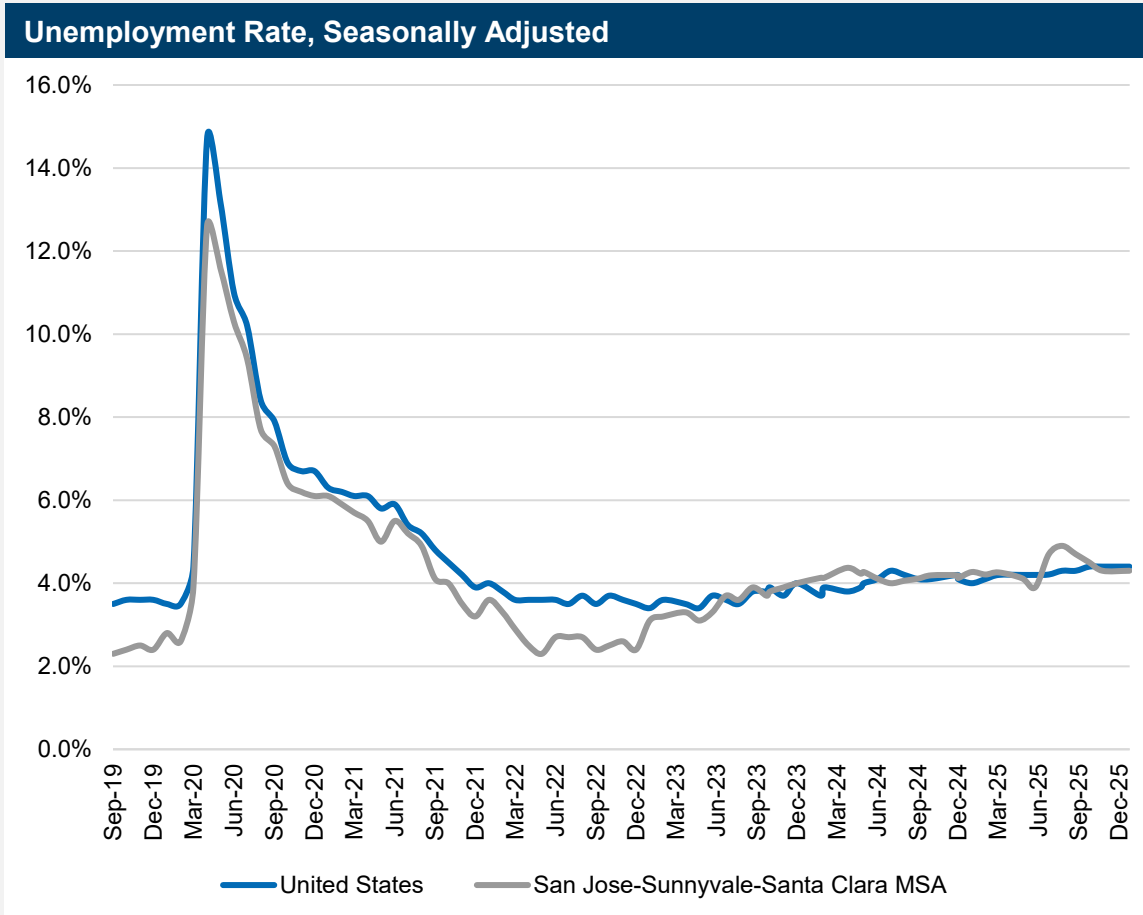
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Economy

1Q26

Silicon Valley Labor Market Mirrored National Unemployment Levels

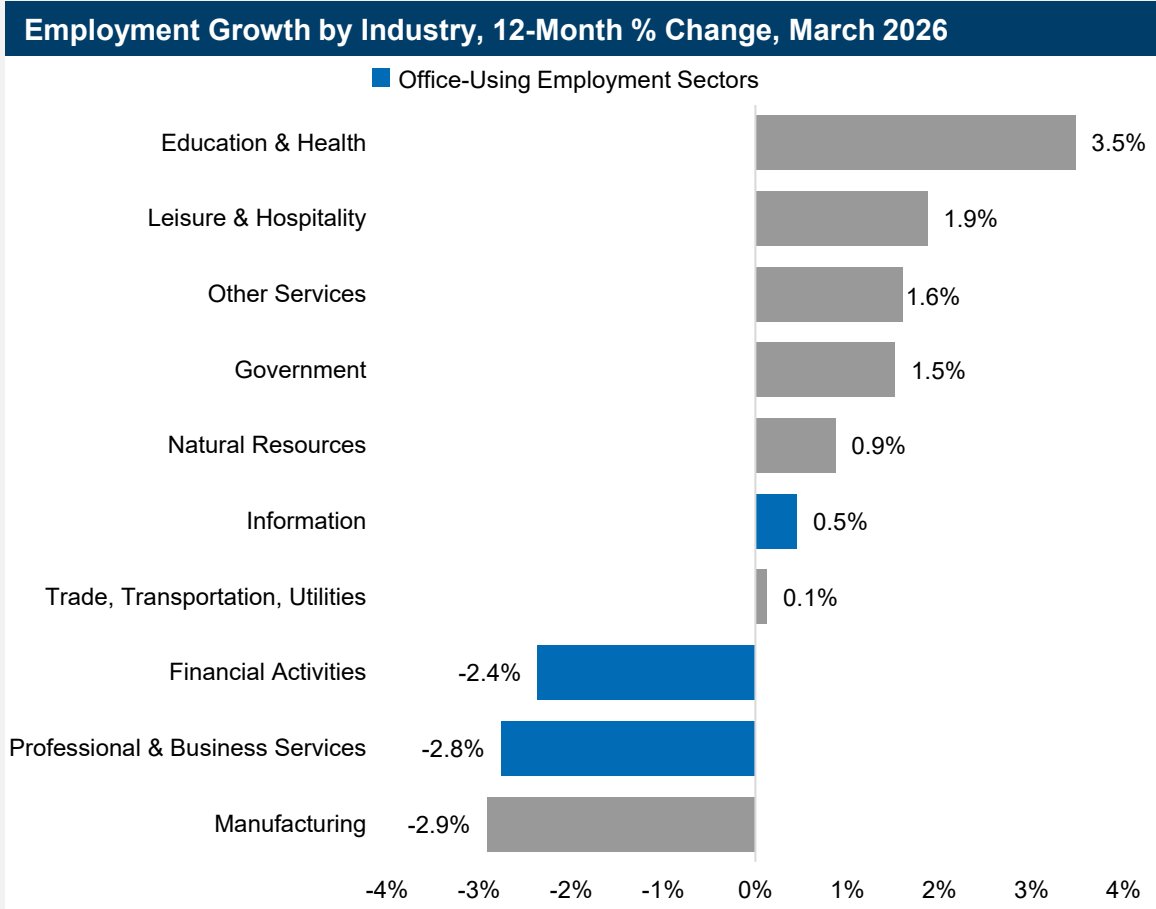
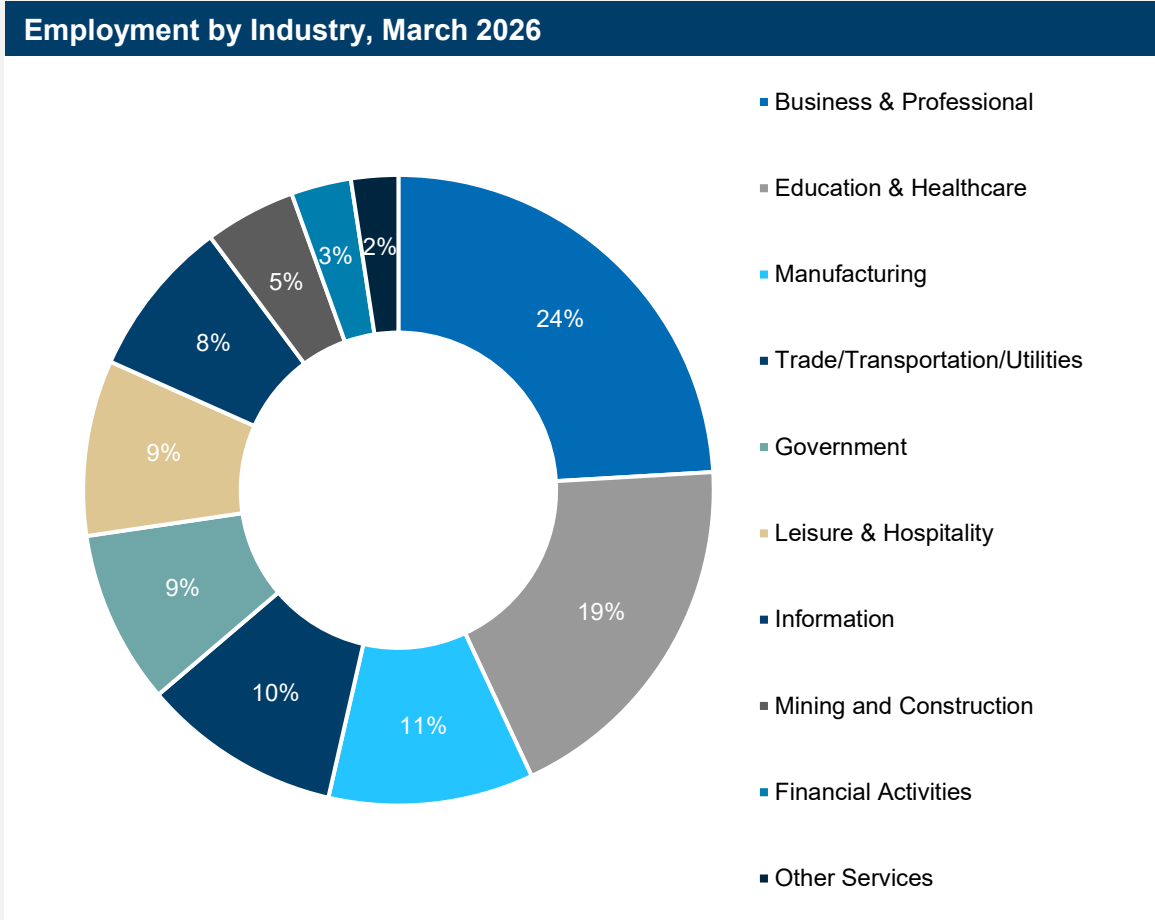
The San Jose–Sunnyvale–Santa Clara MSA unemployment rate remained relatively stable heading into 1Q26. Nationally, the unemployment rate followed a similar path, as it increased 20 basis points over the same period. In contrast, total nonfarm payroll employment in the local market showed mixed signals. The gap reflected ongoing adjustments within the tech sector, where restructuring and cautious rehiring have tempered job growth, yet demand in key industries hints at a rebound.



Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
 *October 2025 government shutdown missing data addressed with duplicating September 2025's data

Office-Using Employment Contracted Despite Gains in Education, Health, and Government

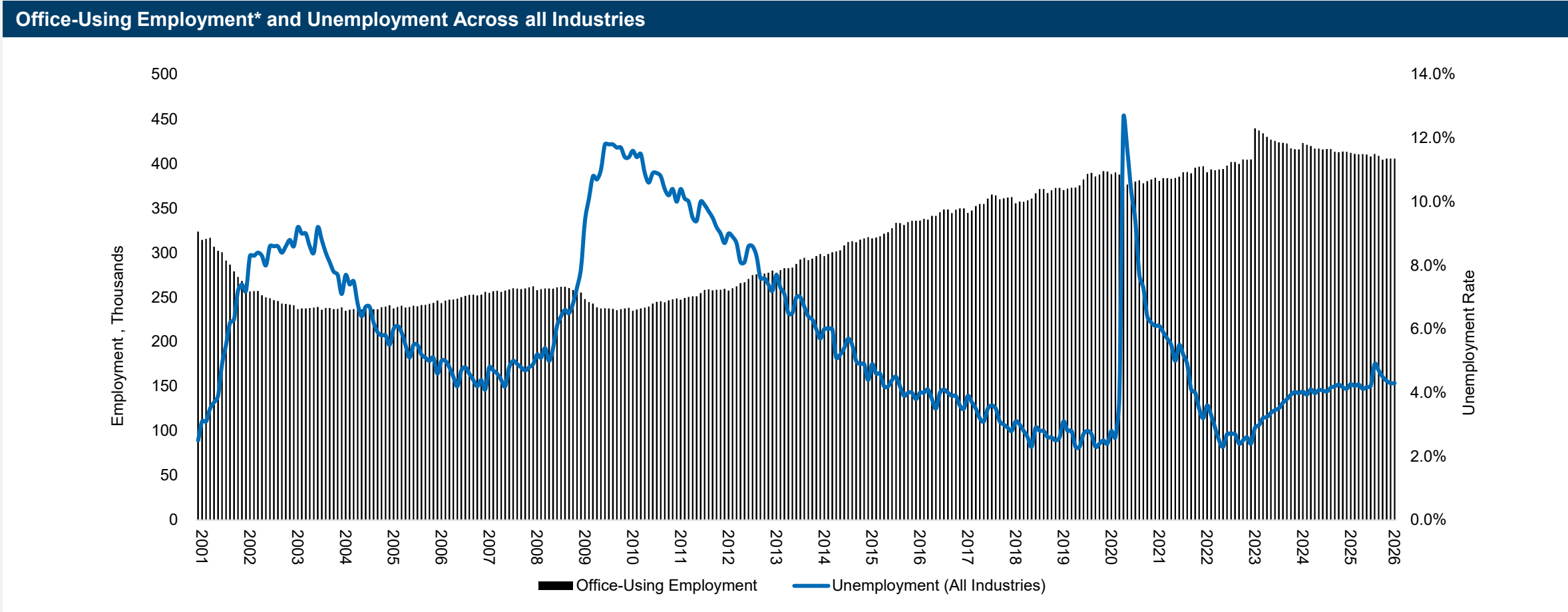
Strong job growth in Education & Health and Government was not enough to offset significant declines across key office-using sectors. Financial Activities, a crucial driver of office demand, fell by 2.4% year-over-year, compounded by losses in the Professional & Business Services and manufacturing sectors, which decreased by 2.8% and 2.9%, respectively. While office demand in the region showed signs of improvement, it remains unclear whether this will translate into sustained growth in office-using employment.



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

Decline in Office-Using Employment Amid Tech Sector Adjustments

The downward trend in office-using employment continued into 1Q26, extending the decline that began after its early 2023 peak. This ongoing contraction has been driven primarily by cost optimization and restructuring within the tech sector. Nonetheless, there are early signs that the market may be nearing a turning point, as improving macroeconomic fundamentals and persistent hiring in high-growth industries, such as artificial intelligence and clean energy, point to the potential for stabilization in the quarters ahead.



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.
*October 2025 government shutdown missing data addressed with duplicating September 2025's data



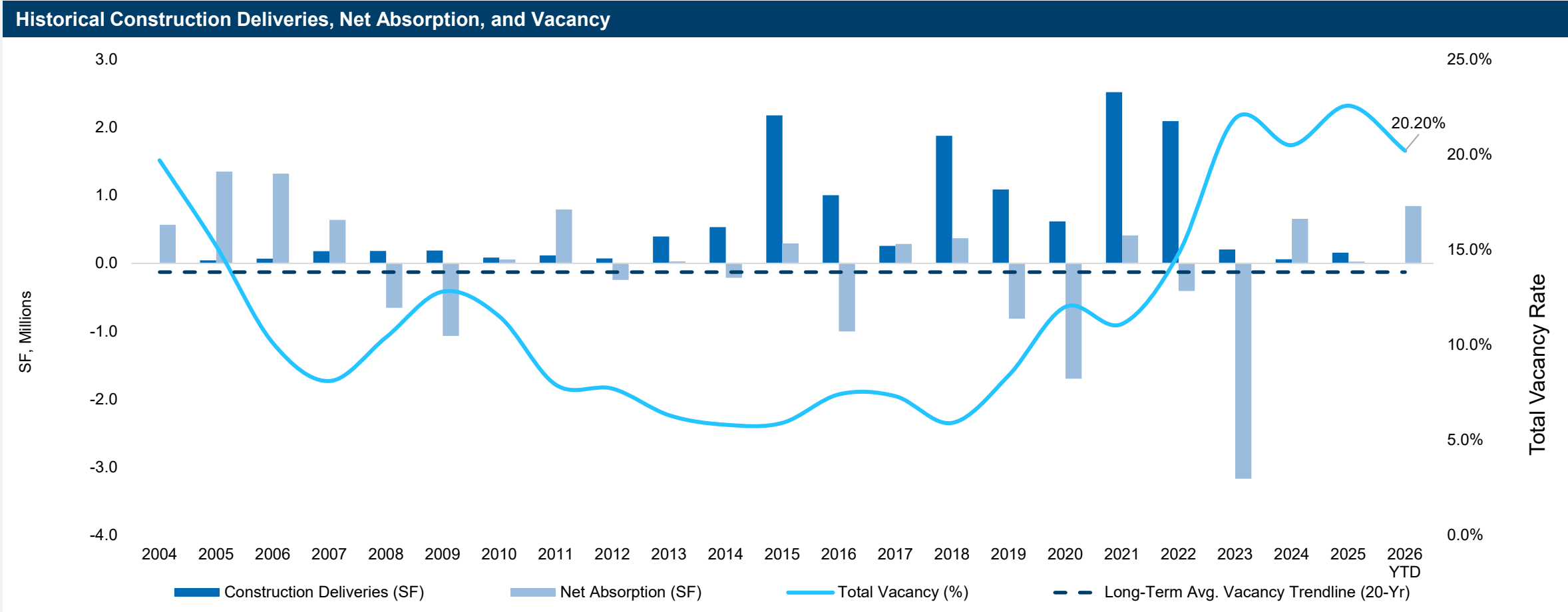
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Leasing Market Fundamentals

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Strong Q1 Absorption Drove Vacancy Lower in Early 2026

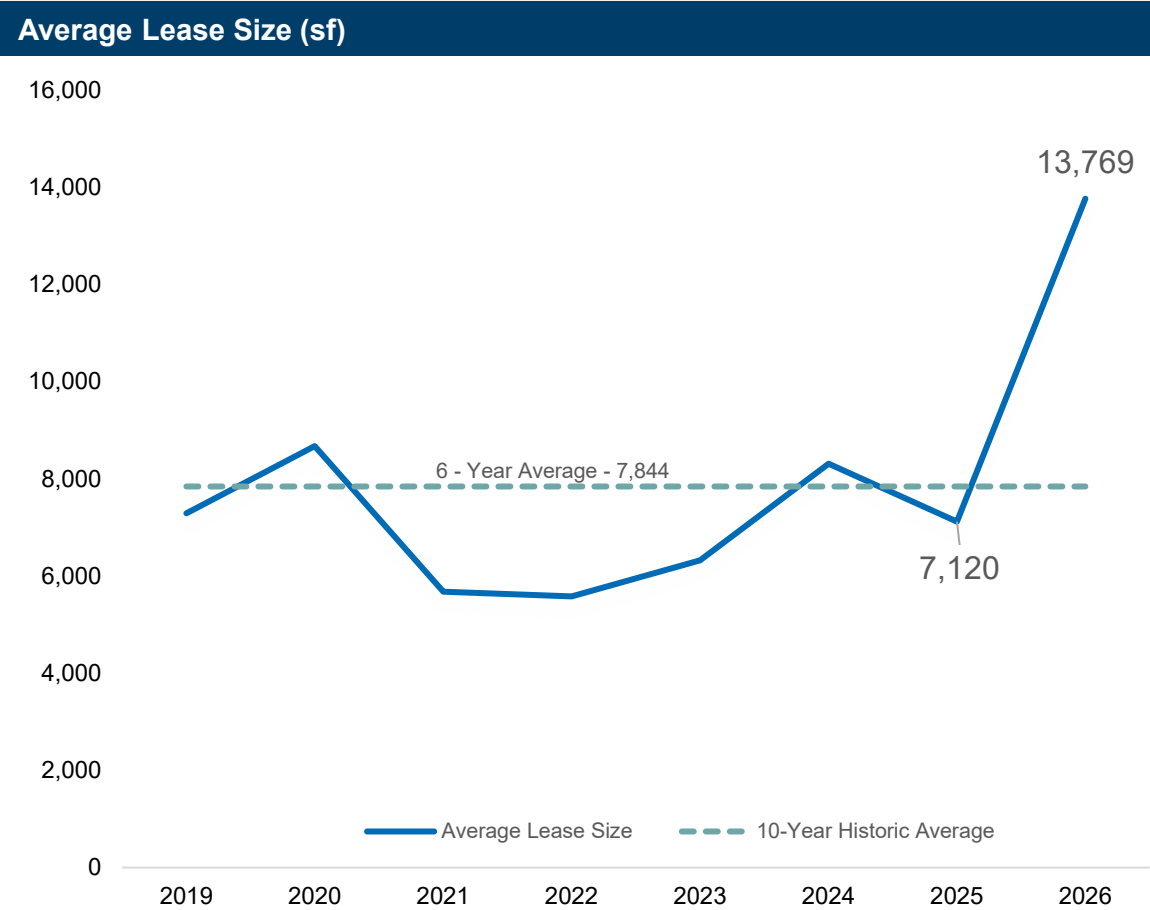
The South Peninsula recorded 841,425 square feet of positive net absorption in Q1 2026, driving the vacancy rate down to 20.2% from 22.6% at year-end 2025. Net absorption was driven by strong activity in Mountain View (366,366 SF) and Redwood City (303,516 SF), along with steady gains in Menlo Park (127,513 SF) and Palo Alto (69,234 SF). No new office construction deliveries were recorded in the South Peninsula during 1Q 2026.



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

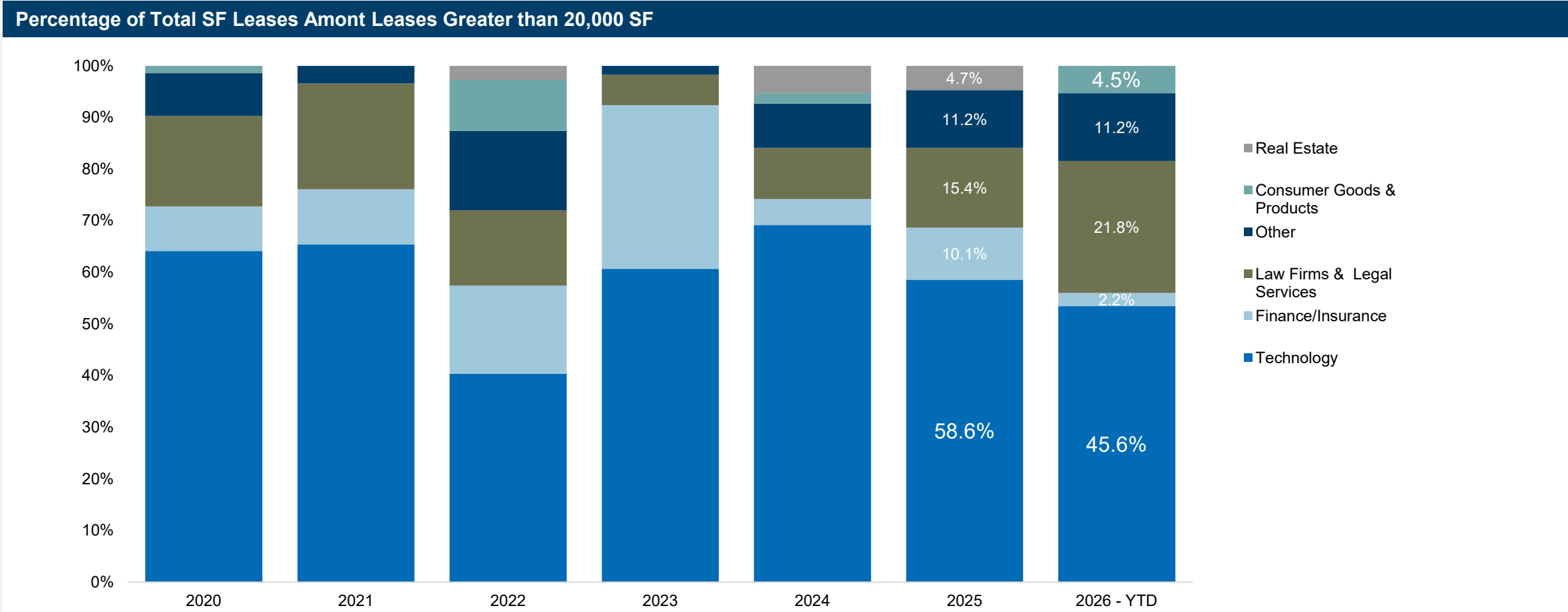
Deal Count Improved Year-Over-Year Despite Smaller Average Footprints

The deal count increased 37.1% year-over-year, indicating faster leasing velocity and a strengthening market, with average lease size also rising sharply in the first quarter. The surge in average size was largely driven by OpenAI's 447,000-square-foot lease in Mountain View. Taken together, the higher volume of deals and the presence of such large commitments forecast renewed confidence among big-block occupiers and underscore tenants' willingness to make long-term bets on the South Peninsula office market.



Leasing Remained Tech-Led, with Growing Legal Demand in Downtown Redwood City

Technology and AI-related companies continued to anchor the largest leases in the South Peninsula, despite a 13% decline in total square footage leased by technology tenants in Q1 2026. Law firms recorded a meaningful increase in large-block leases, particularly in Downtown Redwood City. In contrast, finance and insurance tenants showed a notable pullback in requirements over 20,000 square feet.



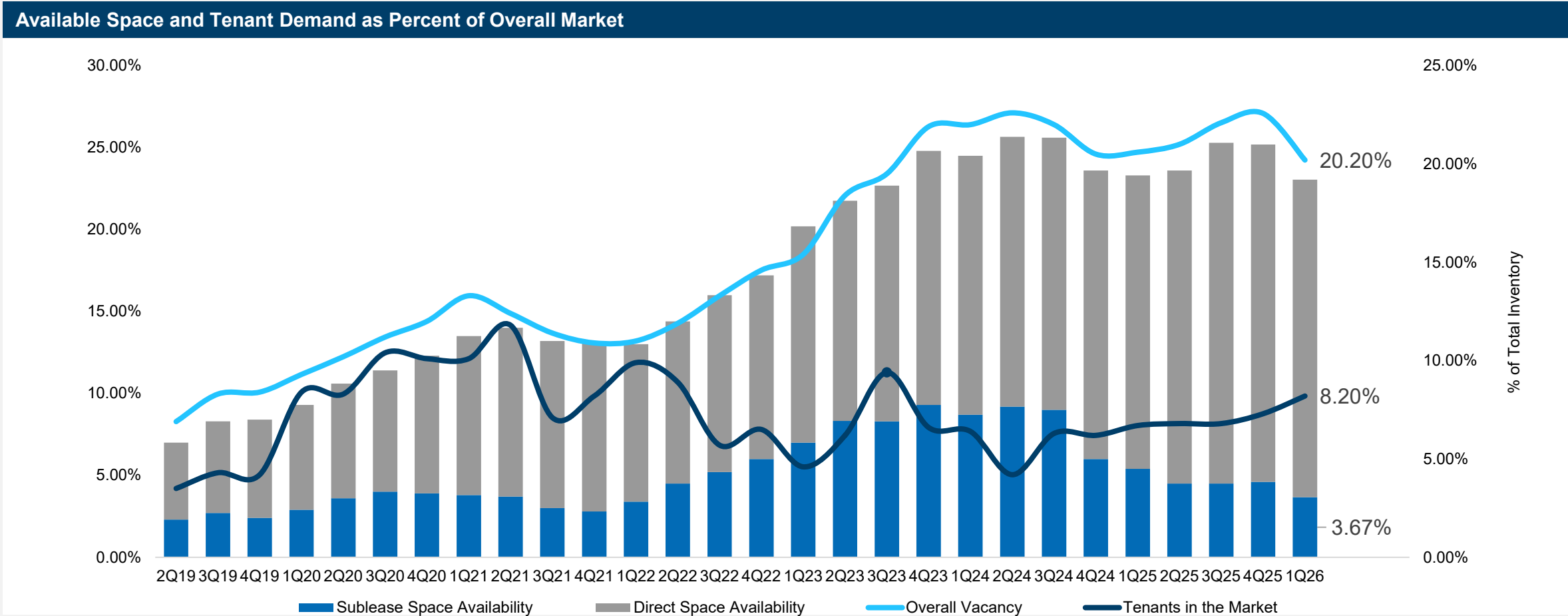
Source: Newmark Research

Large-sized transactions*: Transactions greater than 20,000 square feet.

Other**: The Other category records a wide variety of categories such as, but not limited to: Advertising, PR, Arts, Entertainment, Recreation, Consulting, Education, Health Care, Social Assistance, Media, Transportation, Manufacturing, Logistics.

Availability Declined Sharply as Absorption Surged Across Submarkets

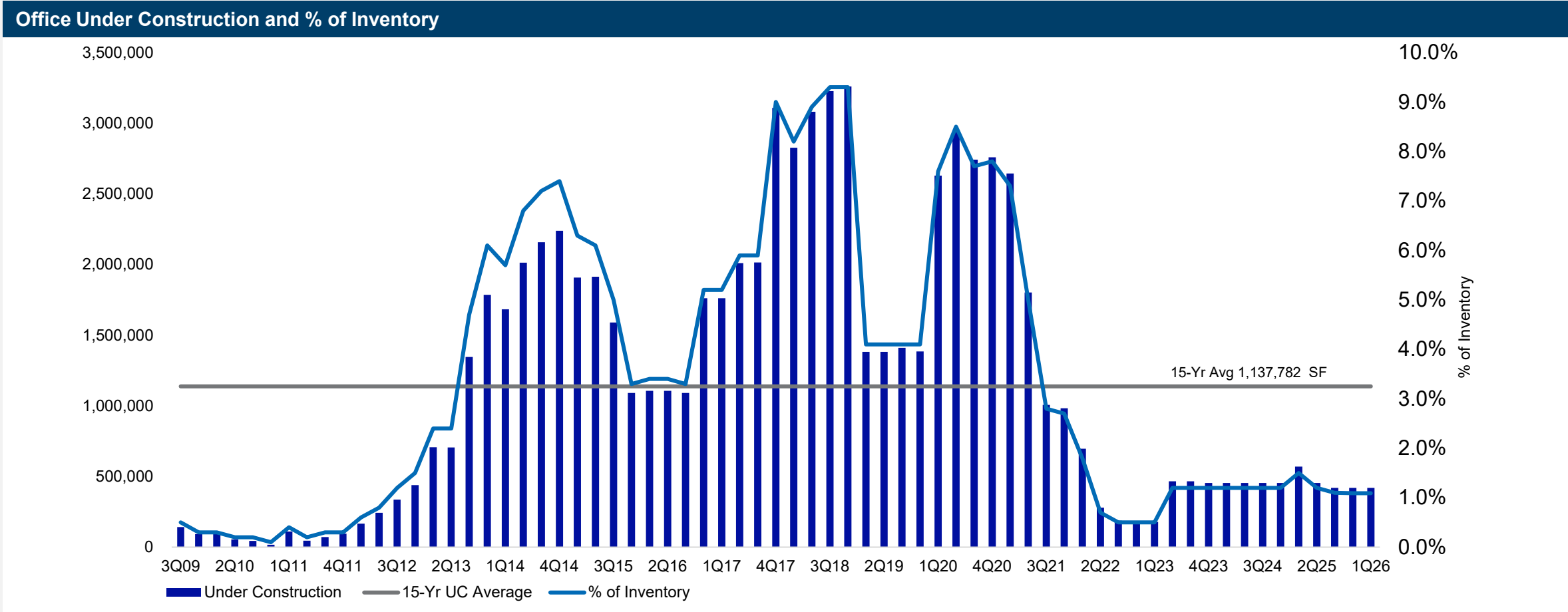
The South Peninsula recorded a significant decline in availability during the first quarter of 2026, supported by 841,425 square feet of positive net absorption. However, underlying trends varied sharply by asset class: Class A properties posted 793,234 square feet of positive net absorption, while Class B assets experienced 56,387 square feet of positive net absorption highlighting an ongoing flight to quality across the submarket.



Source: Newmark Research
 Large-sized transactions*: Transactions greater than 25,000 square feet.
 Other**: The Other category records a wide variety of categories such as, but not limited to: Advertising, PR, Arts, Entertainment, Recreation, Consulting, Education, Health Care, Social Assistance, Media, Transportation, Manufacturing, Logistics.

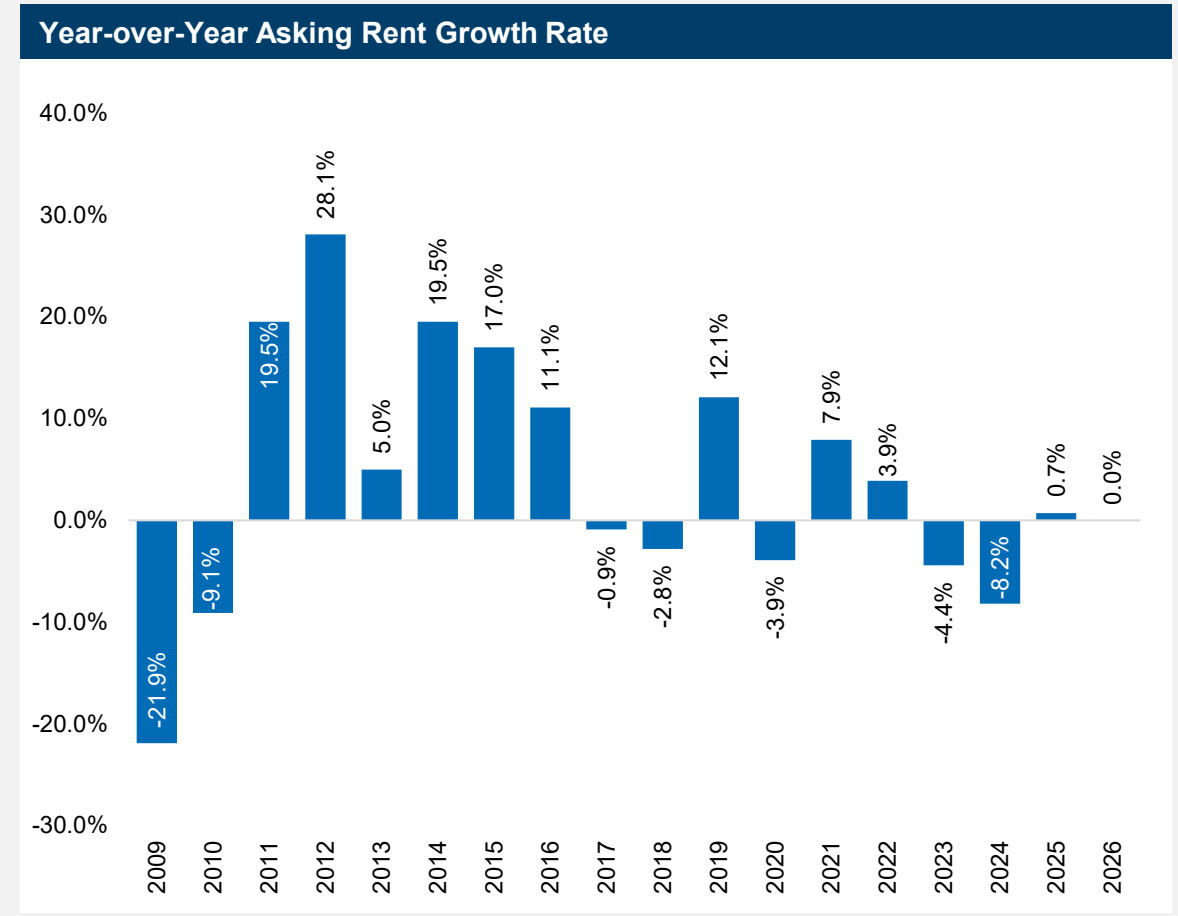
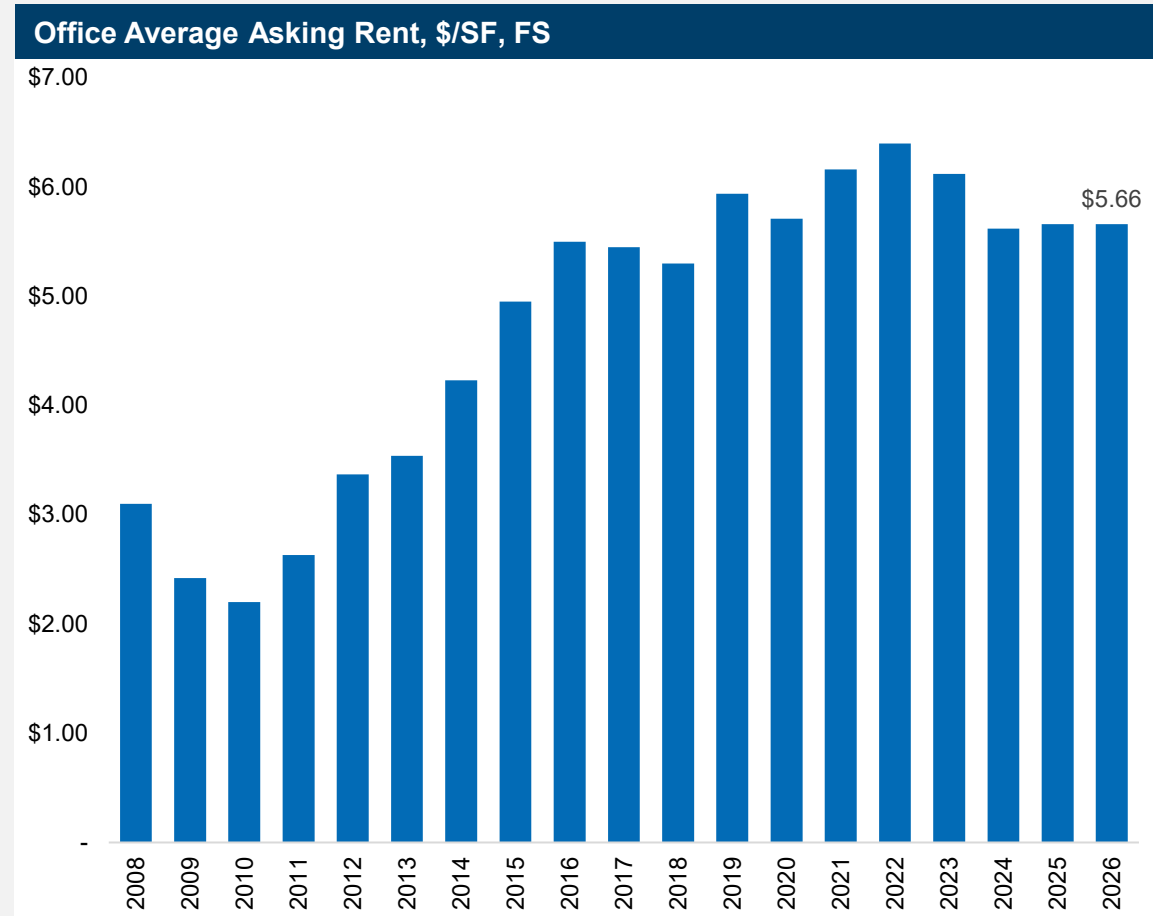
Lack of New Construction Added No Supply to the South Peninsula Pipeline

The South Peninsula office construction pipeline remained largely inactive, limited by elevated vacancy, higher construction costs, and current interest rates. The absence of new product is likely to tighten the market as tenants compete for existing space, putting downward pressure on vacancy rates. This trend is already evident in many downtown submarkets, including Downtown Palo Alto, which continued to hold below 10% vacancy.



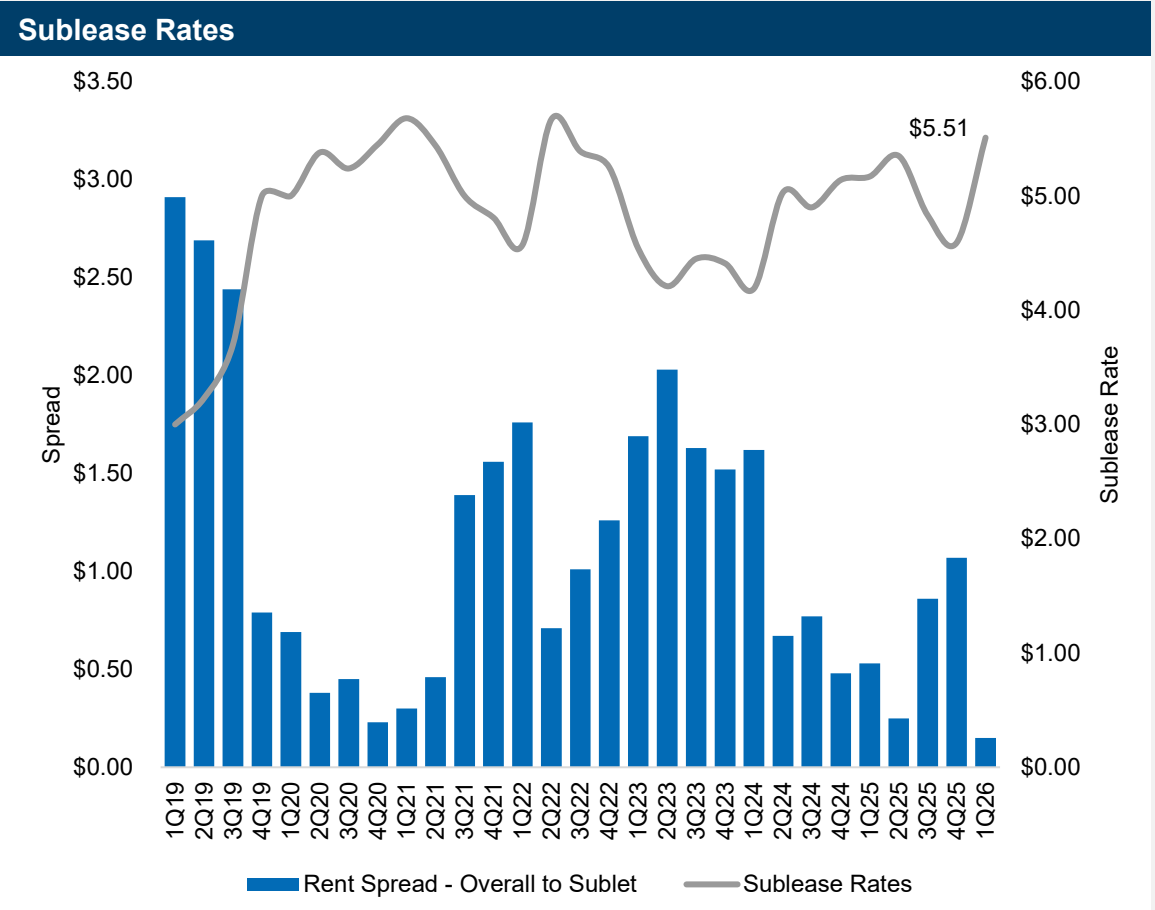
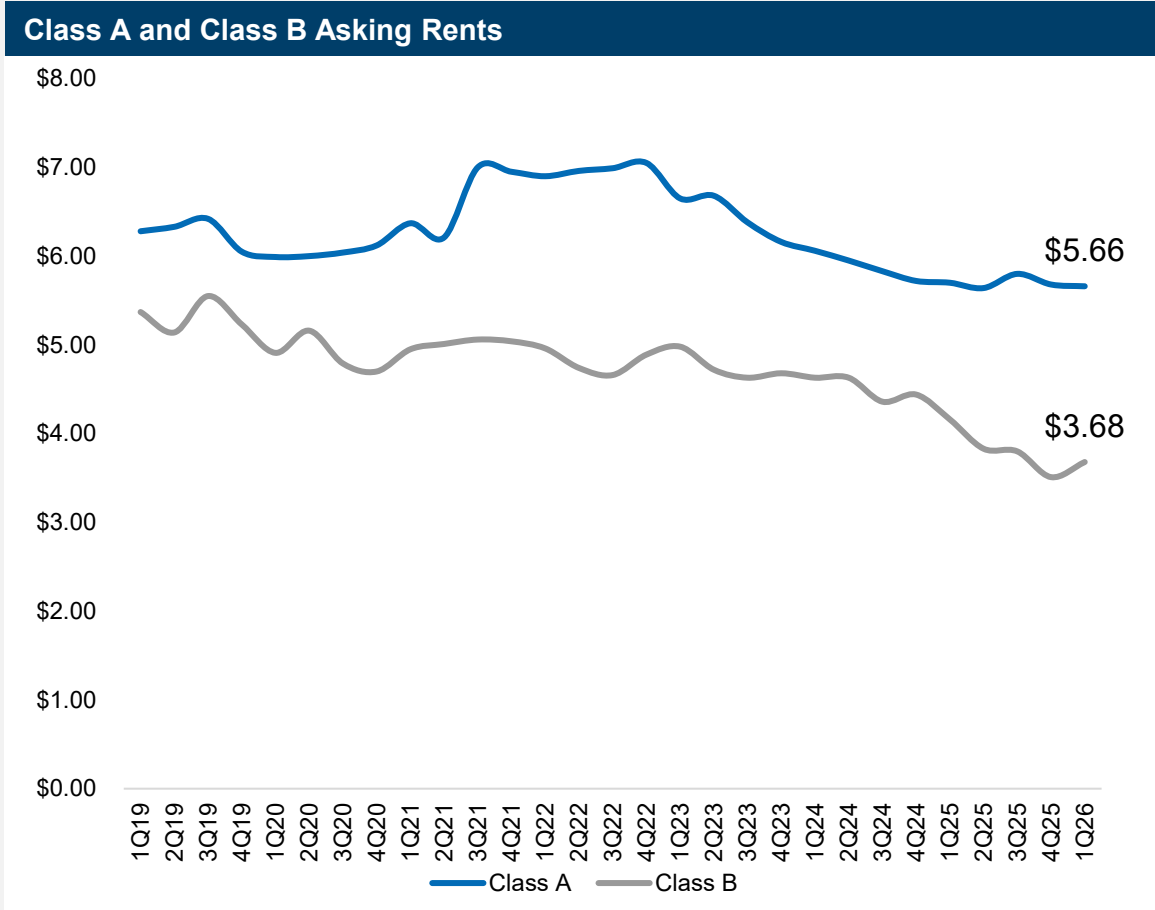
Rents Held Steady, Maintaining Levels Above 2024 Averages

This quarter, average asking rents settled at \$5.66 per square foot NNN, a slight decrease from the prior quarter but still above the 2024 average. As the limited development pipeline continues to put downward pressure on vacancy rates, asking rents are expected to gradually stabilize and potentially increase through the remainder of 2026 given the inverse relationship between these two metrics. Landlords with well-located, renovated assets are likely to benefit most in this environment, as tenants focus on a smaller pool of competitive options.



High Demand for Modern Downtown Offices Widened the Class A–Class B Rent Spread

In the first quarter of 2026, the gap between Class A and Class B properties measured \$1.89 per square foot, reflecting ongoing flight-to-quality dynamics in the market. Demand has shifted toward highly amenitized, modern, and downtown-located office buildings, supporting stronger pricing for these assets. New projects such as ELCO Yards and Cityline Sunnyvale have attracted significant tenant interest, enabling landlords to push asking rents higher amid elevated demand in downtown markets.



Newmark Maintained Leading Role in South Peninsula Large-Lease Activity

Newmark advised on three of the five notable lease transactions in the fourth quarter, thereby participating in the majority of the market’s largest deals during the period. This represented the third consecutive quarter in which the firm played a leading role in major transactions. Together, these assignments highlight Newmark’s continued influence on large-scale relocations and expansions across the region.

Notable 1Q26 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Confidential	350 Ellis Street	Mountain View – South Middlefield	Direct Lease	447,370
<i>Confidential client, has signed a direct lease for the entire Ellis Campus.</i>				
Confidential	1900 Broadway	Redwood City - Downtown	Pre-lease	144,799
<i>A confidential tenant has finalized their pre-lease of 1900 Broadway in Redwood City, before the project has begun construction.</i>				
Solace Health	610 Walnut	Redwood City - Downtown	Direct Lease	71,330
<i>Solace leased the entire building at 610 Walnut in Redwood City, relocating from another property elsewhere in the city.</i>				
Kaiser Permanente	1400 Veterans Blvd.	Redwood City – Downtown	Lease Extension	62,500
<i>Kaiser Permanente extended its lease at 1400 Veterans Blvd, its total leased area equaled 62,500 square feet.</i>				
Weil, Gotshal & Manges LLP	201 Redwood Shores Parkway	Redwood Shores	Lease Extension	59,403
<i>Weil, Gotshal & Manges finalized their lease extension at 201 Redwood Shores Parkway.</i>				

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Appendix

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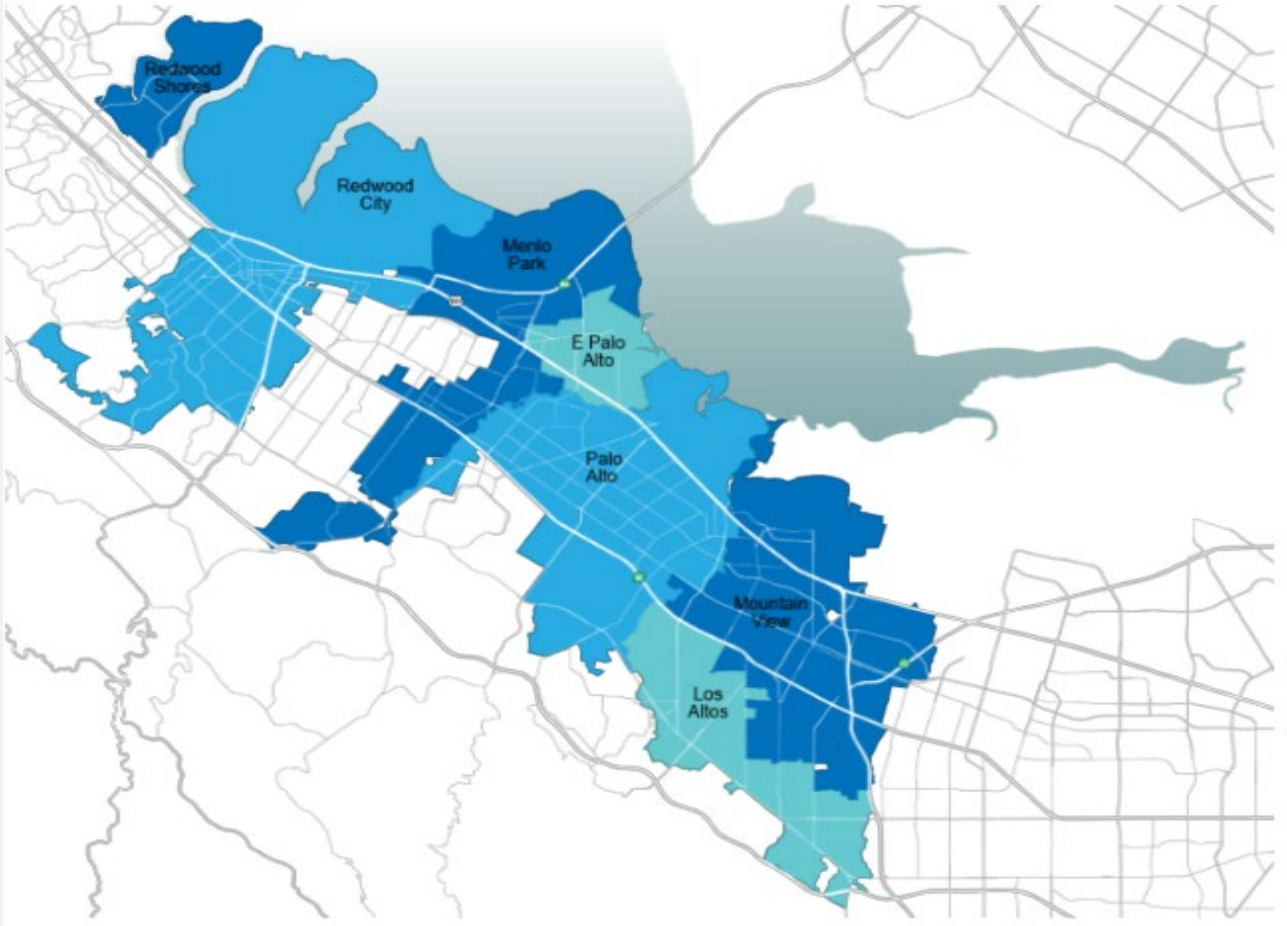
Access the Extended 1Q26 South Peninsula Office Report

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



Zach Faris
Research Analyst
South Peninsula
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

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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