



NEWMARK

South Peninsula R&D Market Overview

1Q26

NMRK.COM

U.S. Market Observations



Economy

- In the first quarter of 2026, the San Jose–Sunnyvale–Santa Clara MSA unemployment rate remained relatively stable heading into 1Q26. Nationally, the unemployment rate mirrored this trend, as it increased approximately 20 basis points compared to the prior year.
- Goldman Sachs 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

- The South Peninsula R&D market recorded –80,281 square feet of negative net absorption in the first quarter of 2026. Negative absorption was concentrated in Menlo Park and Mountain View, where large blocks of space returned to the market.
- The vacancy rate increased to 21.0%, up approximately 1 basis point from the prior quarter. Overall availability rate also increased to 25.4%, up from 21.13% in the last quarter. This is mainly a result of Broadcom’s campus re-entering the R&D market.
- The first quarter of 2026 closed with 748,377 square feet of gross absorption, a 209.8% increase quarter-over-quarter.



Major Transactions

- Palo Alto led leasing activity with 400,830 square feet of gross absorption in 1Q26, driven primarily by activity in Stanford Research Park. This is mainly driven by Tesla’s lease renewal at 3500 Deer Creek Road in Stanford Research Park.
- Redwood City contributed 91,529 SF of total leasing in 1Q26, mainly the 87,262 SF direct lease by CelLink Technologies. The circuit company supports electric vehicle production as well as data center construction.



Outlook

- Newmark research estimates that there will be virtually no increase in office-using employment until 2030. While many believe AI will eliminate thousands of jobs, Newmark research estimates that it will just stagnate job growth.
- The R&D construction pipeline remains extremely constrained with 0 SF currently under construction. This lack of new R&D space may help stabilize the growing vacancy rate as the market tightens over the next few years.

Table of Contents

1. Economy
2. Leasing Market Fundamentals
3. Appendix



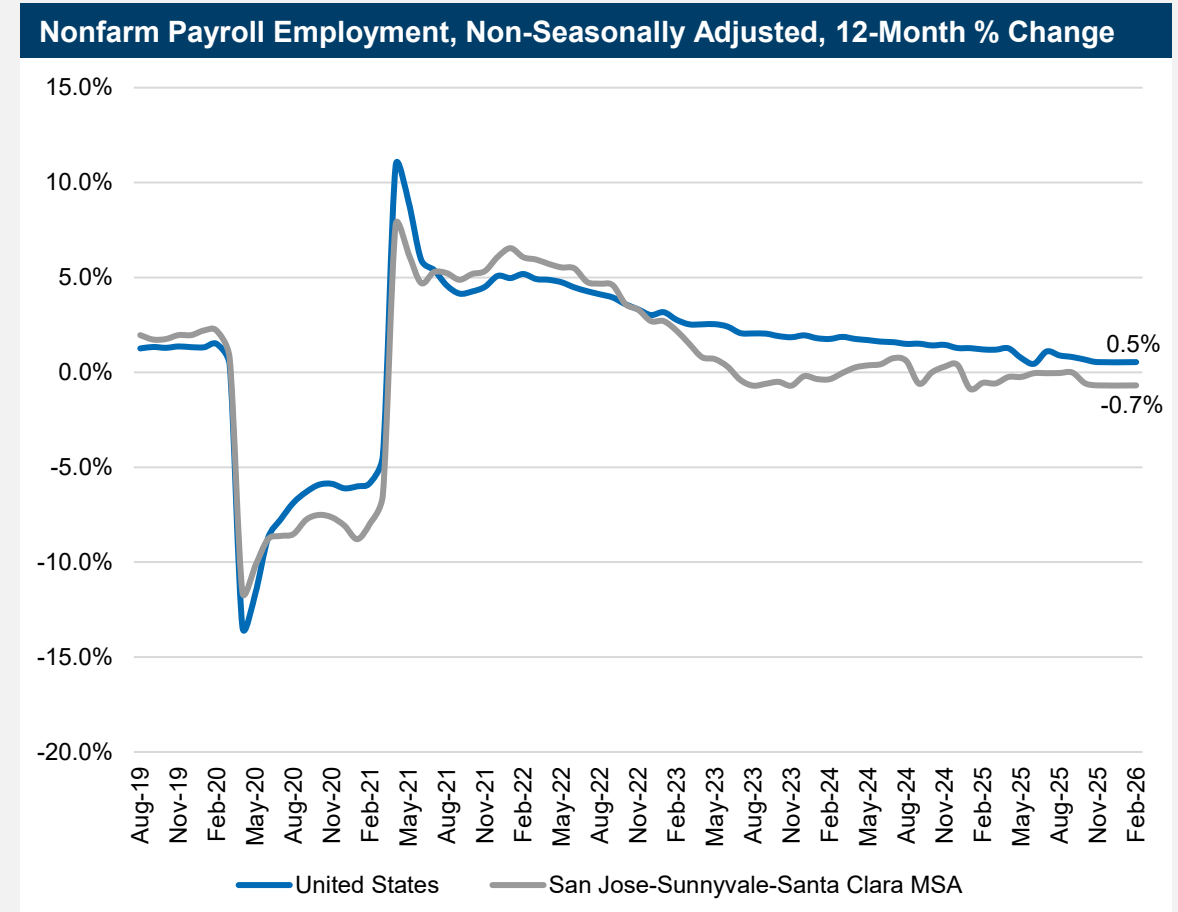
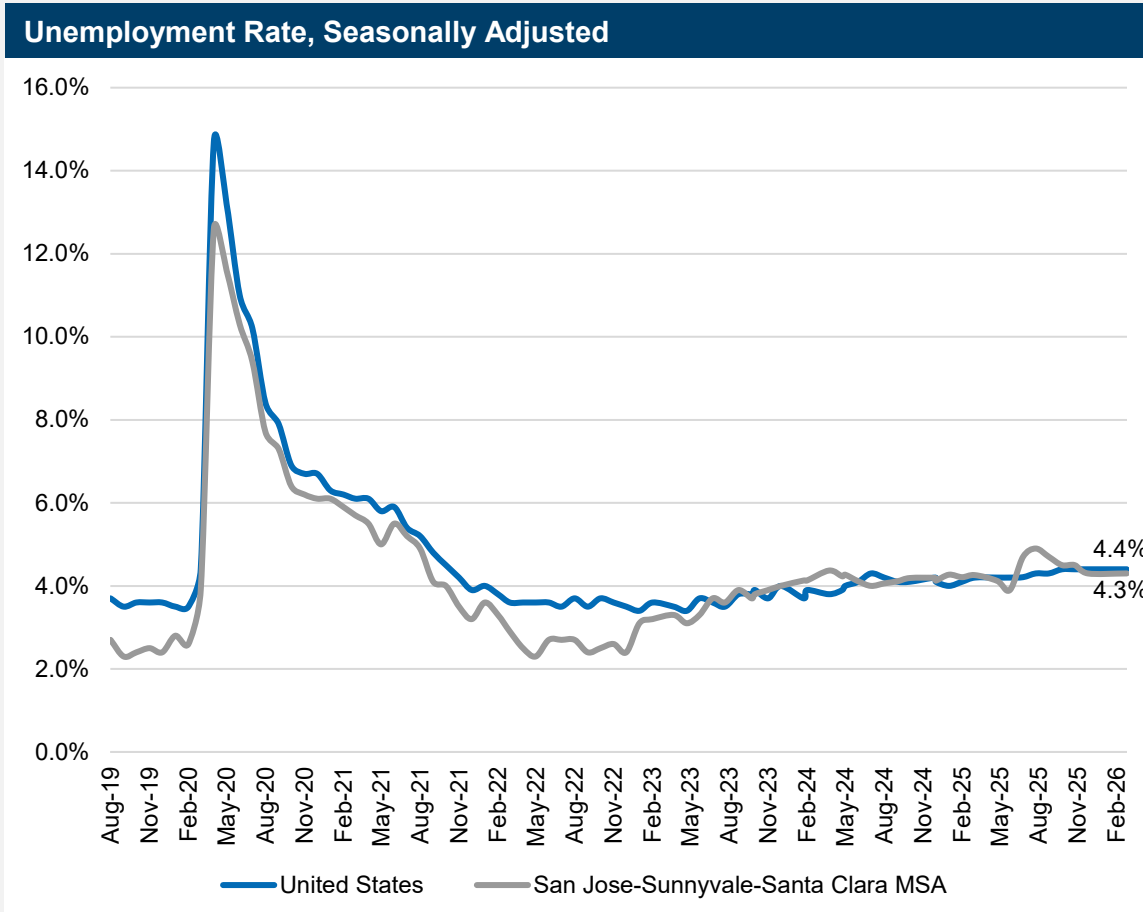
01

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. 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.

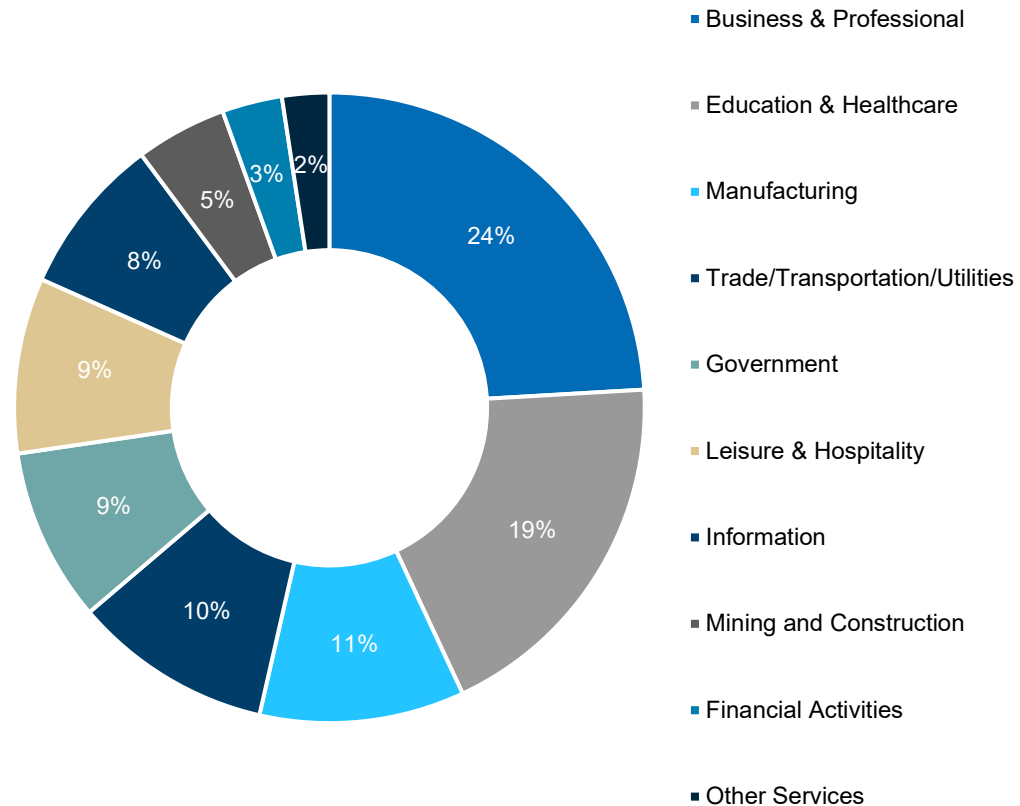


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

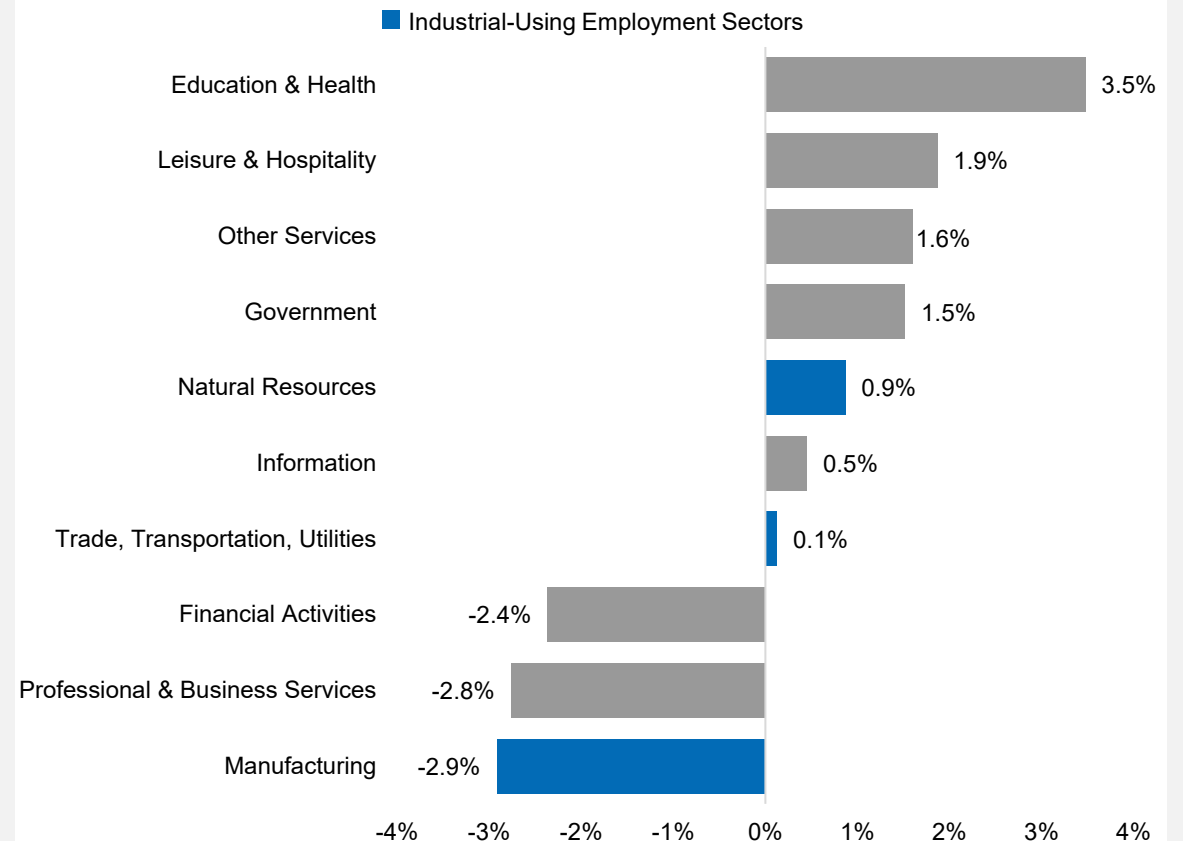
Specialized Employment Resilience Persists into 1Q26

Industrial sector performance remained mixed heading into 1Q26. While the Manufacturing sector continued to contract, the Natural Resources and the Trade, Transportation and Utilities industries both showed relative stability. Nonetheless, specialized employment in the San Jose-Sunnyvale-Santa Clara MSA continued to demonstrate historical resilience, typically proving more durable than broader economic segments during periods of market fluctuation.

Employment by Industry, February 2026

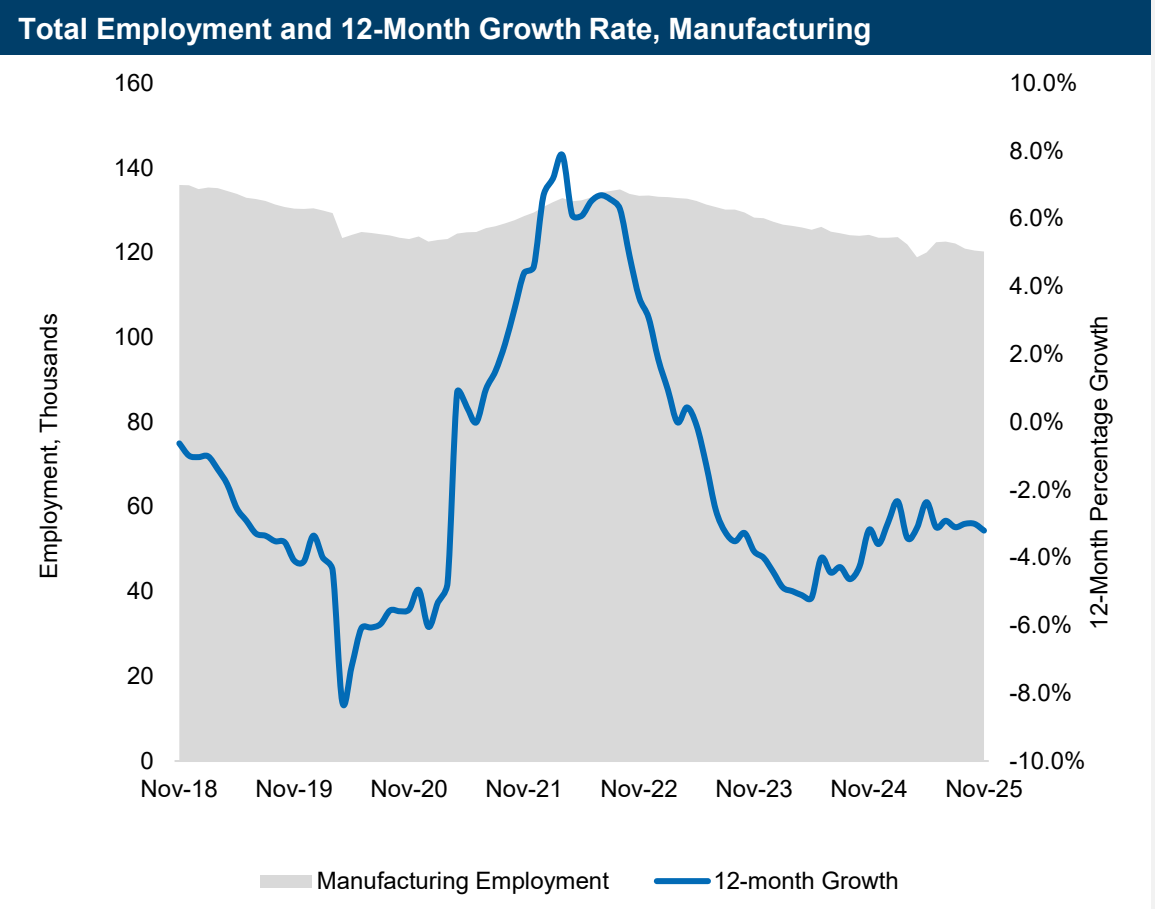
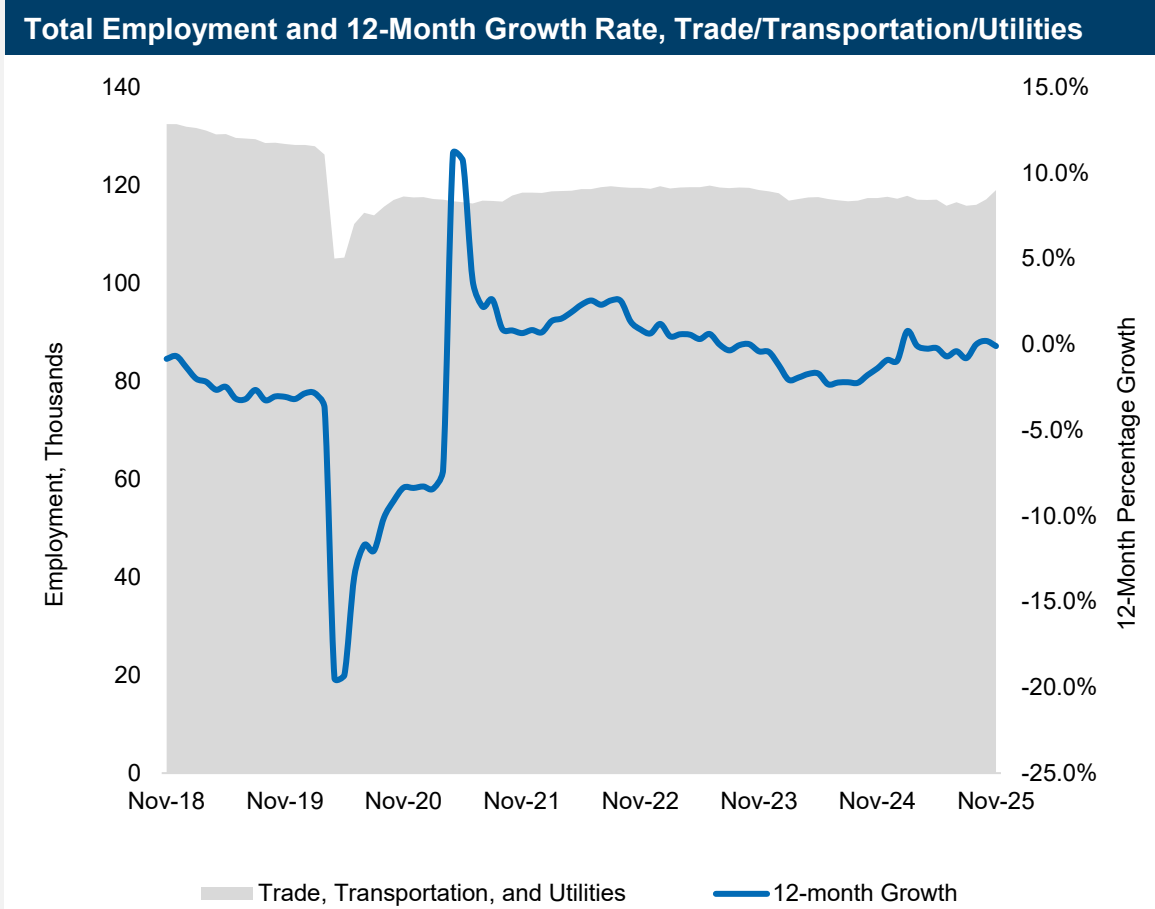


Employment Growth by Industry, 12-Month % Change, February 2026



Manufacturing Employment Declines Amid Softer Global Tech Demand

Employment in Trade, Transportation, and Utilities continued to show mixed signals in 1Q26. Conversely, Manufacturing continued its contraction, a reflection of softened global demand for technology products. While Manufacturing has historically been a key employer in the region, it has become increasingly capital-intensive and more sensitive to shifts in global tech demand and trade policies.



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



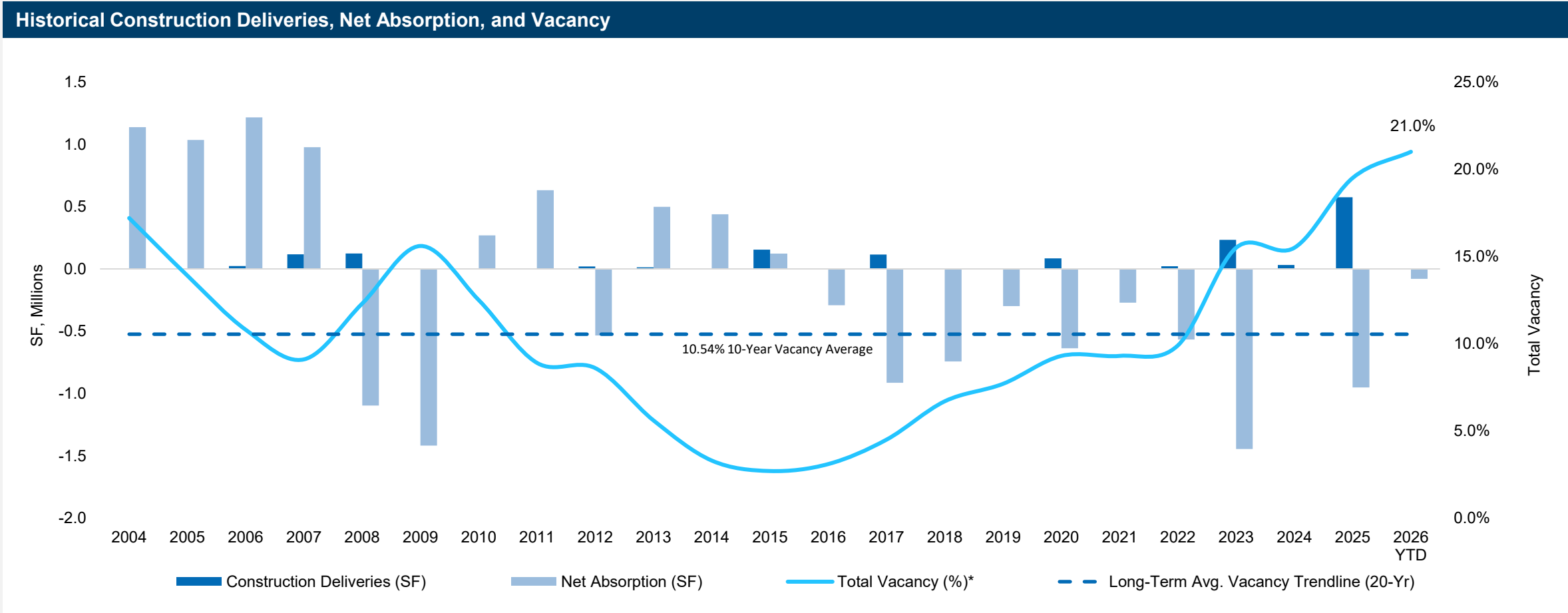
02

Leasing Market Fundamentals

1Q26

R&D Deliveries Tighten Supply as Large Stanford Research Park Projects Come to Market

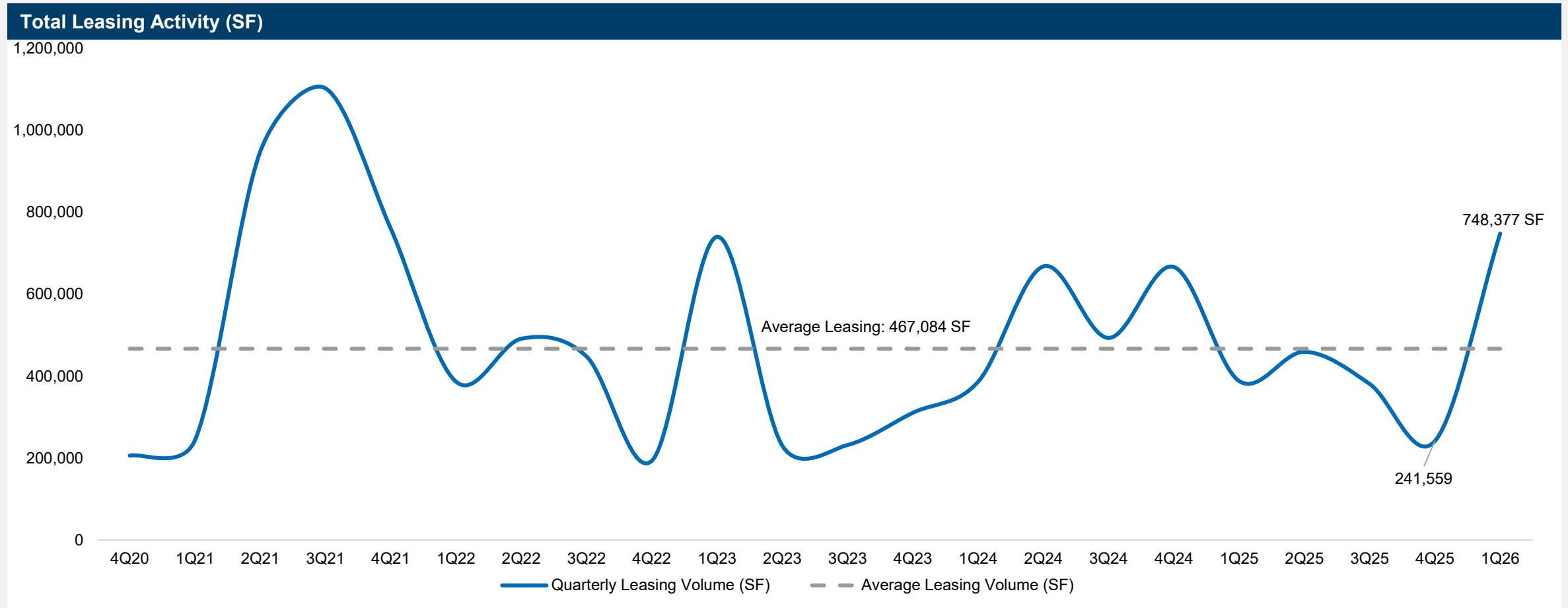
The South Peninsula R&D market ticked up modestly as several large projects were brought to market, led by the former Broadcom campus in Stanford Research Park in Palo Alto. With no new R&D construction deliveries in 1Q26, the pipeline remains constrained, further limiting the supply of new product and helping to temper upward pressure on the vacancy rate over time.



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

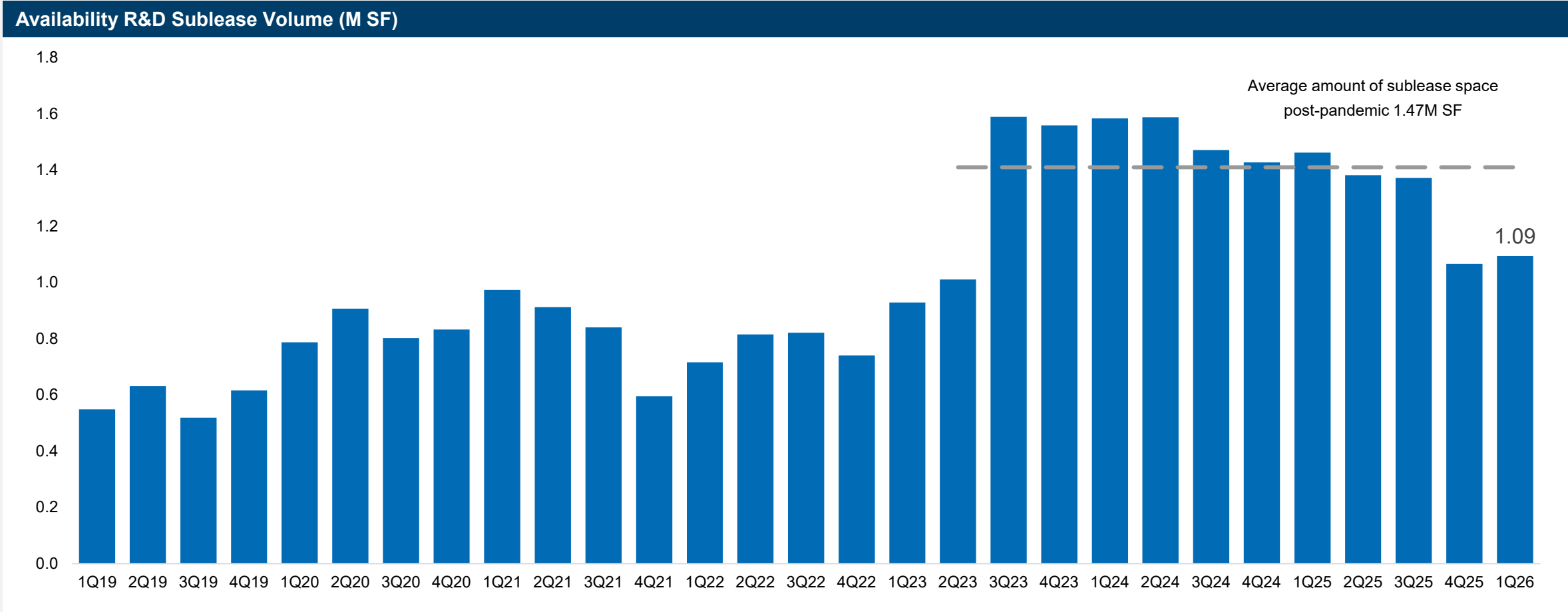
1Q26 Gross Absorption Surges 209.8% Quarter-over-Quarter

The first quarter of 2026 closed with 748,377 square feet of gross absorption, a 209.8% quarter-over-quarter increase in leasing activity. The surge was concentrated in Palo Alto, which accounted for 400,830 square feet, or more than half of total gross absorption. The quarter's largest Palo Alto transaction was Tesla's lease renewal at 3500 Deer Creek Road, totaling 362,434 square feet.



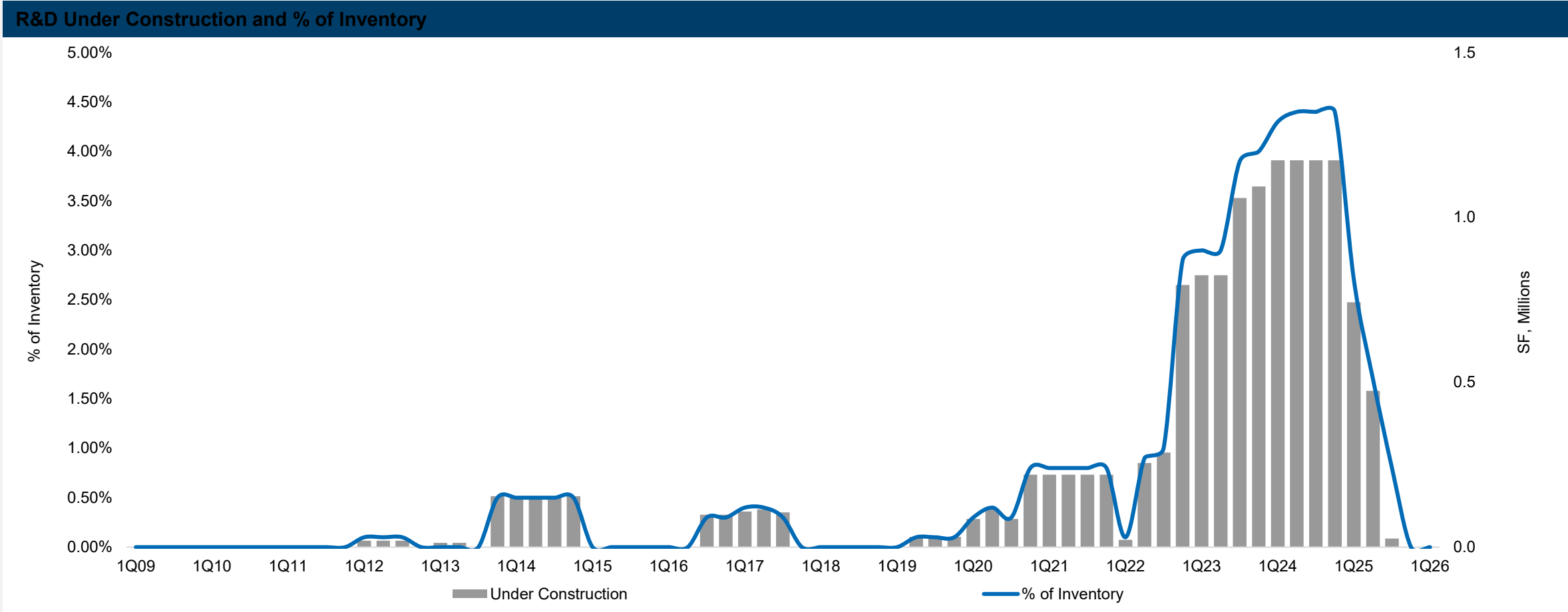
Sublease Availability Edges Up While Staying Well Under Post-Pandemic Average

Sublease availability in the South Peninsula edged up 2.7% to 1,094,064 square feet in the first quarter of 2026, a modest increase following the sharp decline in the prior quarter. The increase was driven by new sublease listings, though the overall sublease market remained well below its post-pandemic average.



Stalled R&D Construction Aids Future Absorption While Near-Term Rents Stay Soft

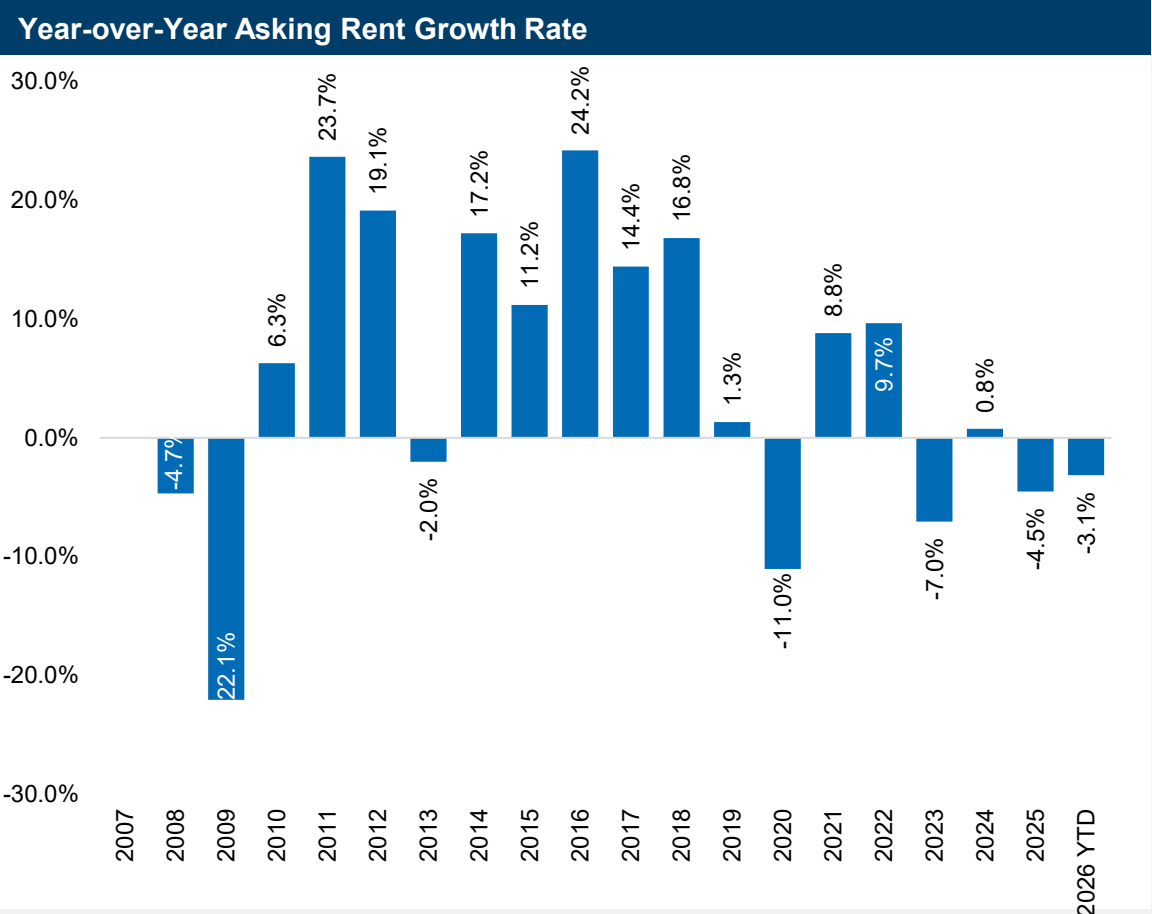
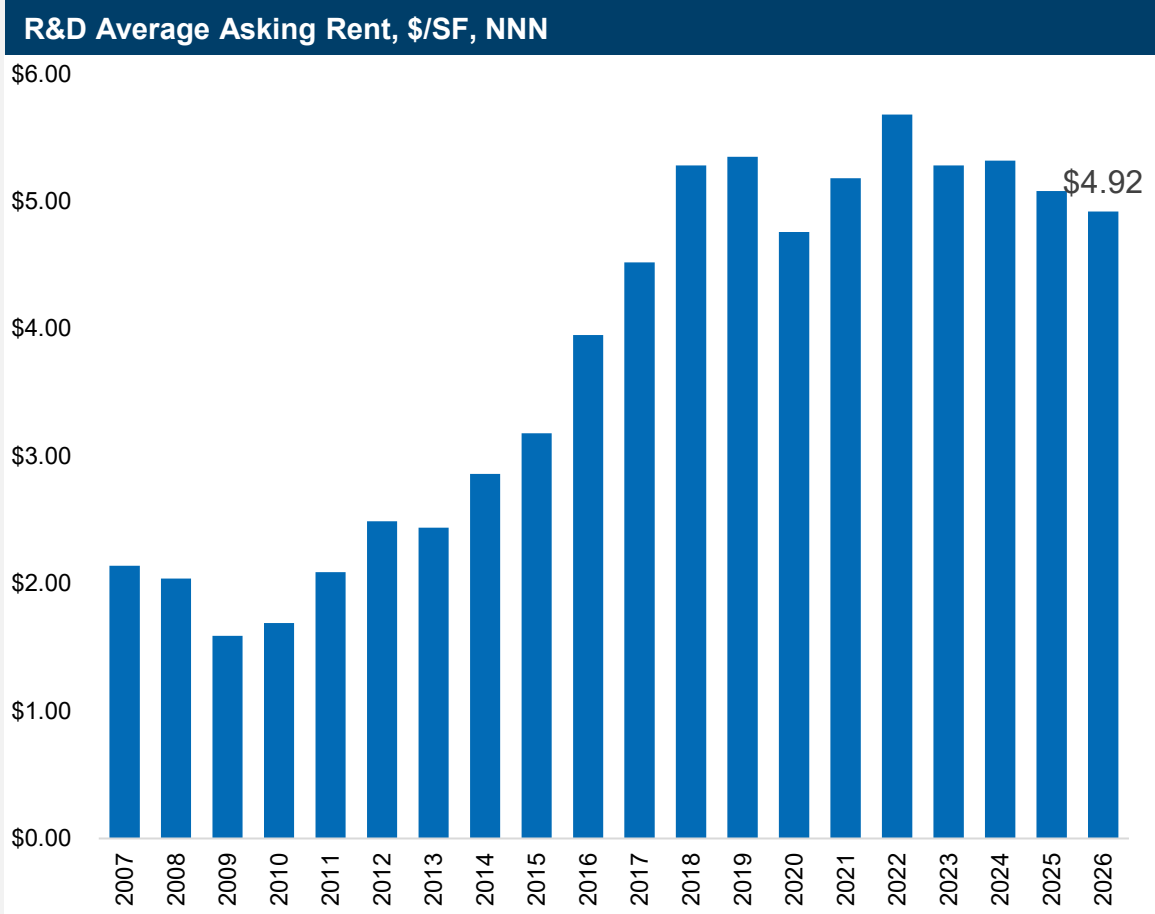
With no R&D projects currently under construction, the pipeline is effectively empty, so very little new space is set to hit the market. In the meantime, vacancy remains elevated, and landlords are likely to keep offering generous concessions, which will hold down effective rents in the near term. Over time, though, the lack of new product should help the market work through existing vacancies and gradually tighten conditions over the next few years.



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

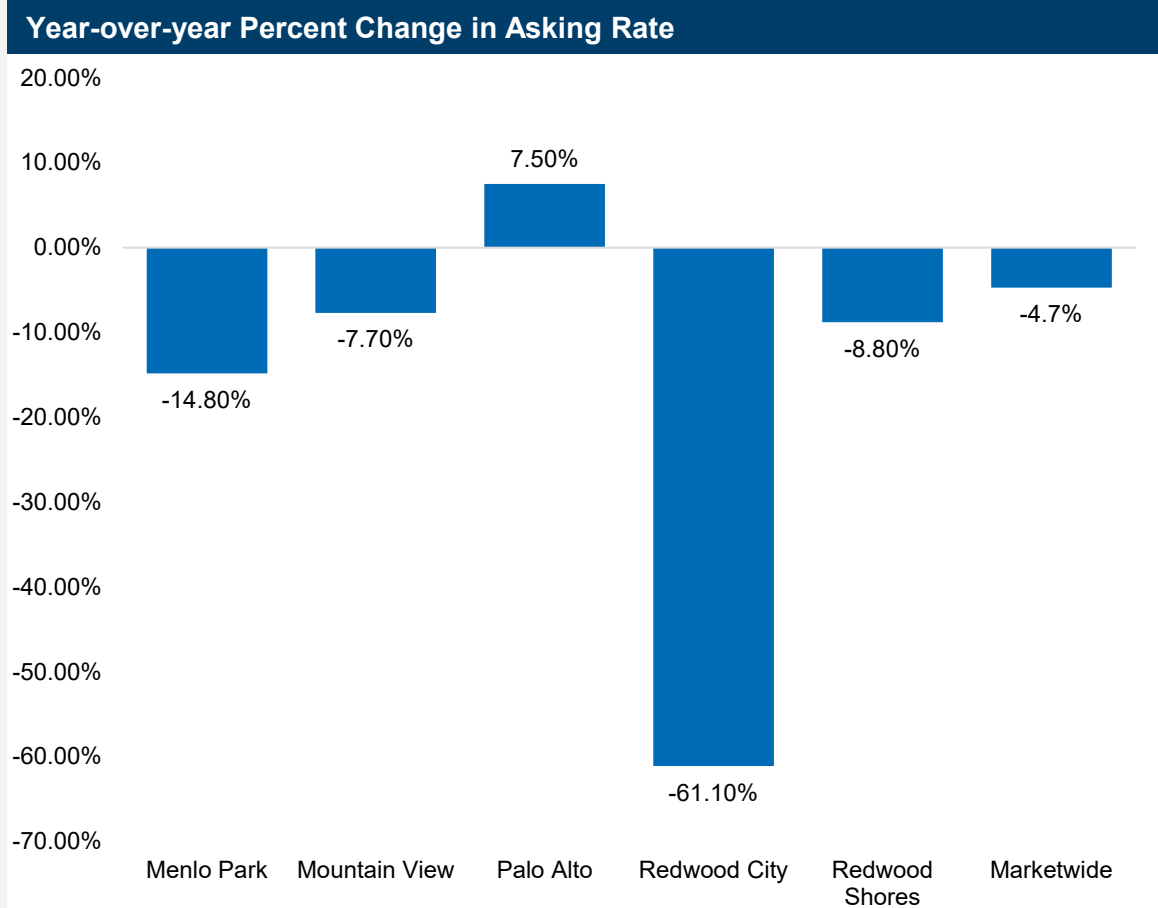
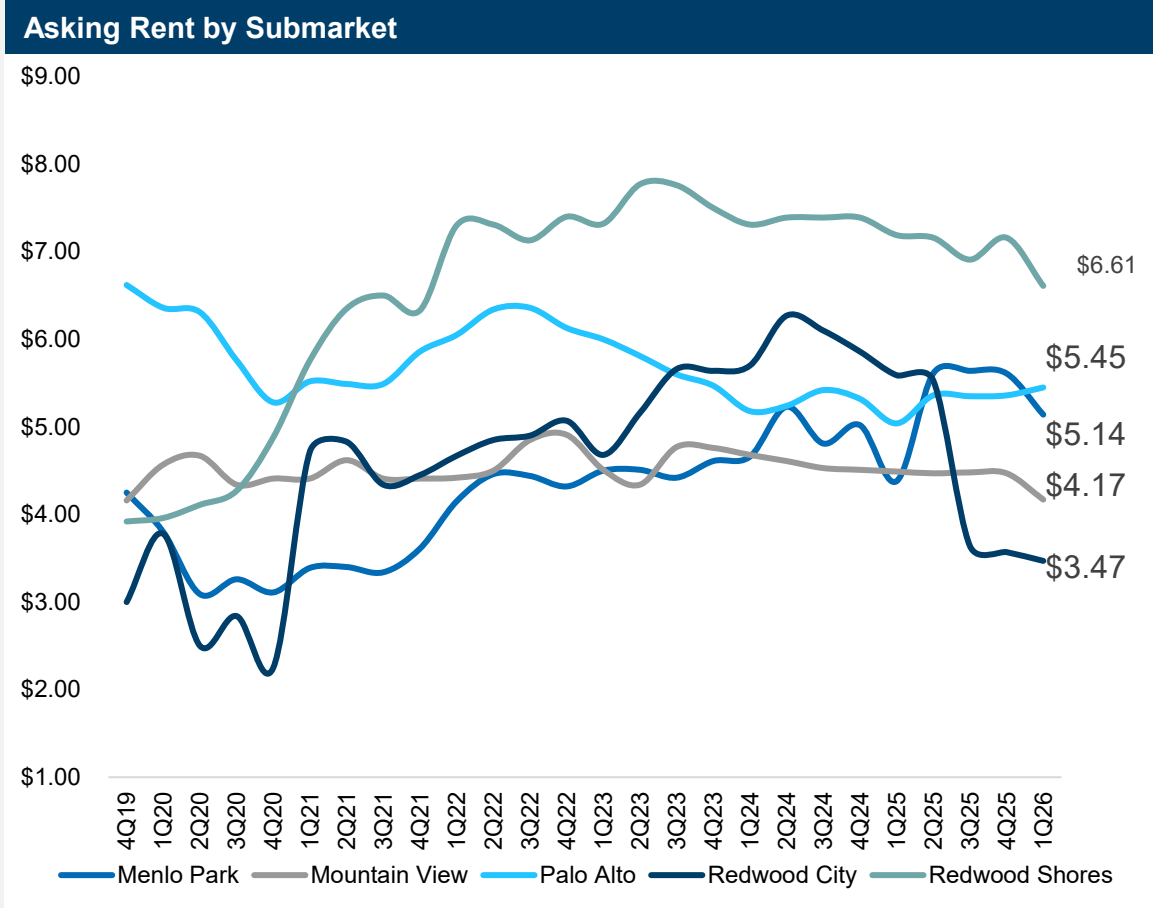
Elevated Vacancy Continues to Weigh on Asking Rents

R&D rental rates continued their downward trajectory into 1Q26, with the average asking rent declining to \$4.92 per square foot NNN, down 7.2% from the prior quarter. The pullback reflects persistent elevated vacancy weighing on landlord pricing power. With the construction pipeline remaining thin and tenants cautious about committing to larger blocks of space, rents are expected to experience further modest declines before stabilizing.



Marketwide R&D Rent Compression Deepens, Led by Redwood City Reclassification

Asking rents in the South Peninsula R&D market declined in 1Q26, with the marketwide average falling to \$4.92 per square foot NNN. Rent reductions were broad-based across submarkets, reflecting persistently elevated vacancy. Redwood City experienced the steepest declines, largely due to the ELCO Yards project being reclassified as office rather than R&D space, while the sole remaining R&D building at ELCO Yards is now fully leased, further limiting available product in that submarket.



Source: Newmark Research, CoStar

Lease Renewals Dominate as Tech R&D Replaces Life Science

Over half of this quarter’s notable transactions were lease renewals, with Tesla’s large renewal serving as a key contributor to total leasing volume. In contrast to prior periods, none of the largest transactions in 1Q26 involved life science tenants, as recent R&D leasing has been led primarily by AI, robotics, and other technology companies.

Notable 1Q26 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Tesla Motors	3500 Deer Creek Road	Palo Alto – Stanford Research Park	Lease Renewal	362,434
<i>Tesla renewed its lease at 3500 Deer Creek Road, where the company operates a manufacturing facility it has utilized since at least 2009.</i>				
Cellink Technologies	1089 Mills Way	Redwood City – Other	Direct Lease	87,262
<i>Cellink Technologies leased the entire property at 1089 Mills Way in Redwood City.</i>				
Google	475 Ellis Street	Mountain View – South Middlefield	Lease Renewal	67,000
<i>Google has renewed their lease for the entire property at 475 Ellis Street in Mountain View.</i>				
Intuit Inc.	2675 Coast Avenue	Mountain View – Shoreline	Lease Renewal	62,905
<i>Intuit Inc., a financial software company, renewed its lease at 2675 Coast Avenue in Mountain View.</i>				
Windborne Systems	1600 Bridge Parkway	Redwood Shores	Sublease	51,822
<i>Windborne Systems subleased the entire building at 1600 Bridge Parkway, using the space for R&D rather than life science.</i>				

03

Appendix

1Q26

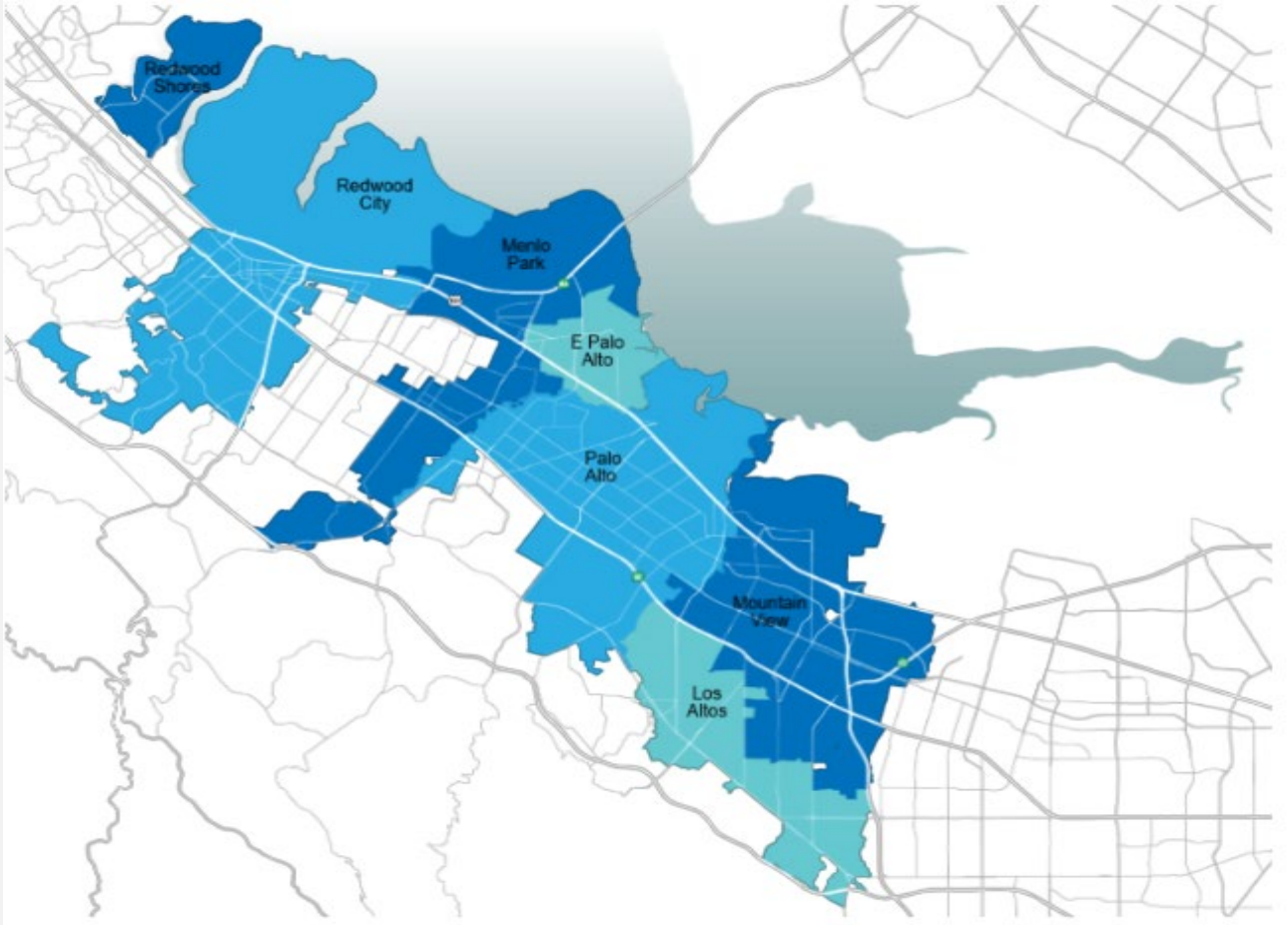
Access the Extended 1Q26 South Peninsula R&D Report

The extended version of this report includes:

- **Data on leasing trends**
- **Market statistics for the overall Market**

To access, please reach out to your Newmark contact.

South Peninsula – 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.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.