

2Q25

North Peninsula Office Market Overview



Market Observations

Economy

- The U.S. Consumer Price Index (CPI) inflation rate in June registered at 2.4%—the lowest level since 2020.
- The national unemployment rate held steady at 4.2% at the close of Q2, defying forecasts of a rise to 4.3% and signaling that the U.S. economy remains resilient amid shifting trade policy and geopolitical uncertainty.
- The Peninsula’s unemployment rate of 3.6% remains below the national figure, though office-using employment has declined by 12.7% since its 2022 peak.
- Looking ahead, the market anticipates two to three Federal Reserve rate cuts by the end of 2025.

Major Transactions

- Cybersecurity company Qualys completed the largest deal of the quarter, extending its 76,922-SF lease at 919 E. Hillsdale Blvd. in Foster City.
- Video game publisher Activision signed the second-largest deal of the quarter, leasing 37,211 SF at the north end of the Hillsdale Shopping Center in San Mateo.
- The quarter’s most notable property sale involved Manova Partners acquiring 405 E. Fourth Ave. in San Mateo from Windy Hill for \$86.0 million, or \$1,206/SF. The property was fully occupied by Verkada at the time of acquisition.

Leasing Market Fundamentals

- The region recorded its third consecutive quarter of negative absorption, with 239,000 SF in the second quarter of 2025, driven primarily by a portion of Meta’s sublease in Burlingame being placed on the market. Omitting this sublease from the numbers would have resulted in positive net absorption of 148,000 SF for the quarter.
- Gross absorption totaled 711,000 SF, marking a modest 4.0% decline quarter-over-quarter. Leasing from AI companies surged this quarter, comprising 13.3% of total new leasing volume, up from 7.0% in the previous quarter and 1.3% one year ago.
- Market-wide vacancy increased to 20.6%, up from 19.5% in the prior quarter. Sublease vacancy edged up to 4.9%, compared with 4.0% over the same period.
- The total average asking rate closed the quarter at \$6.14/SF Full Service, up from \$6.02/SF in the prior quarter but down from \$6.18/SF one year ago.

Outlook

- Economic uncertainty, including tariff concerns and flat interest rates, is expected to weigh on investor sentiment in the short term.
- Despite a recent uptick in tenant demand, new construction is likely to remain subdued, as tenants continue to prioritize securing high-quality existing or sublease space that offers a lower cost of entry.
- Renewed interest in physical office space from companies focused on artificial intelligence is expected to continue boosting both occupancy and landlord sentiment in the second half of 2025, an encouraging sign for market conditions.
- While San Francisco has been a major hub for AI-related companies, the AI boom has undoubtedly begun expanding into the Peninsula.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

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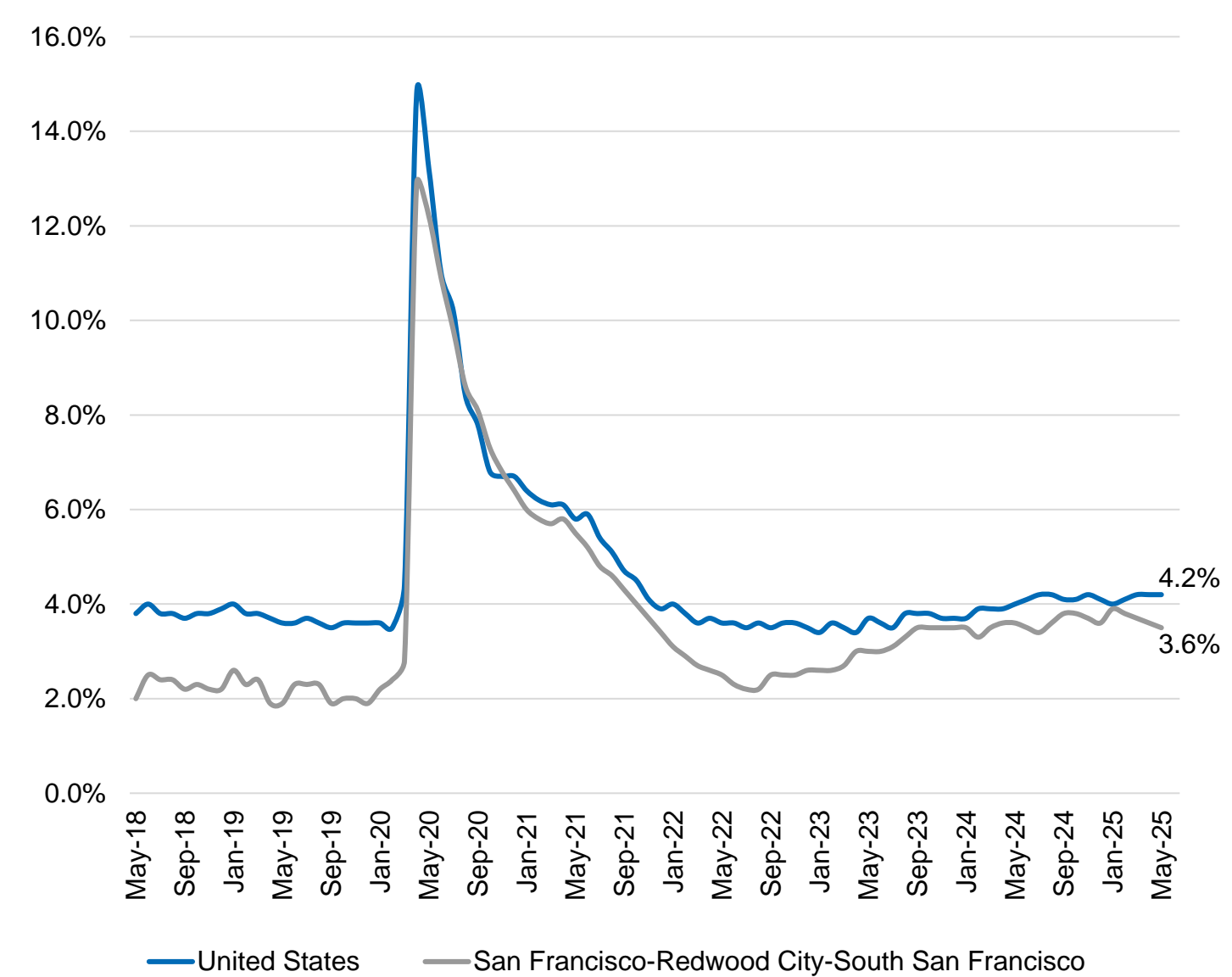
Economy



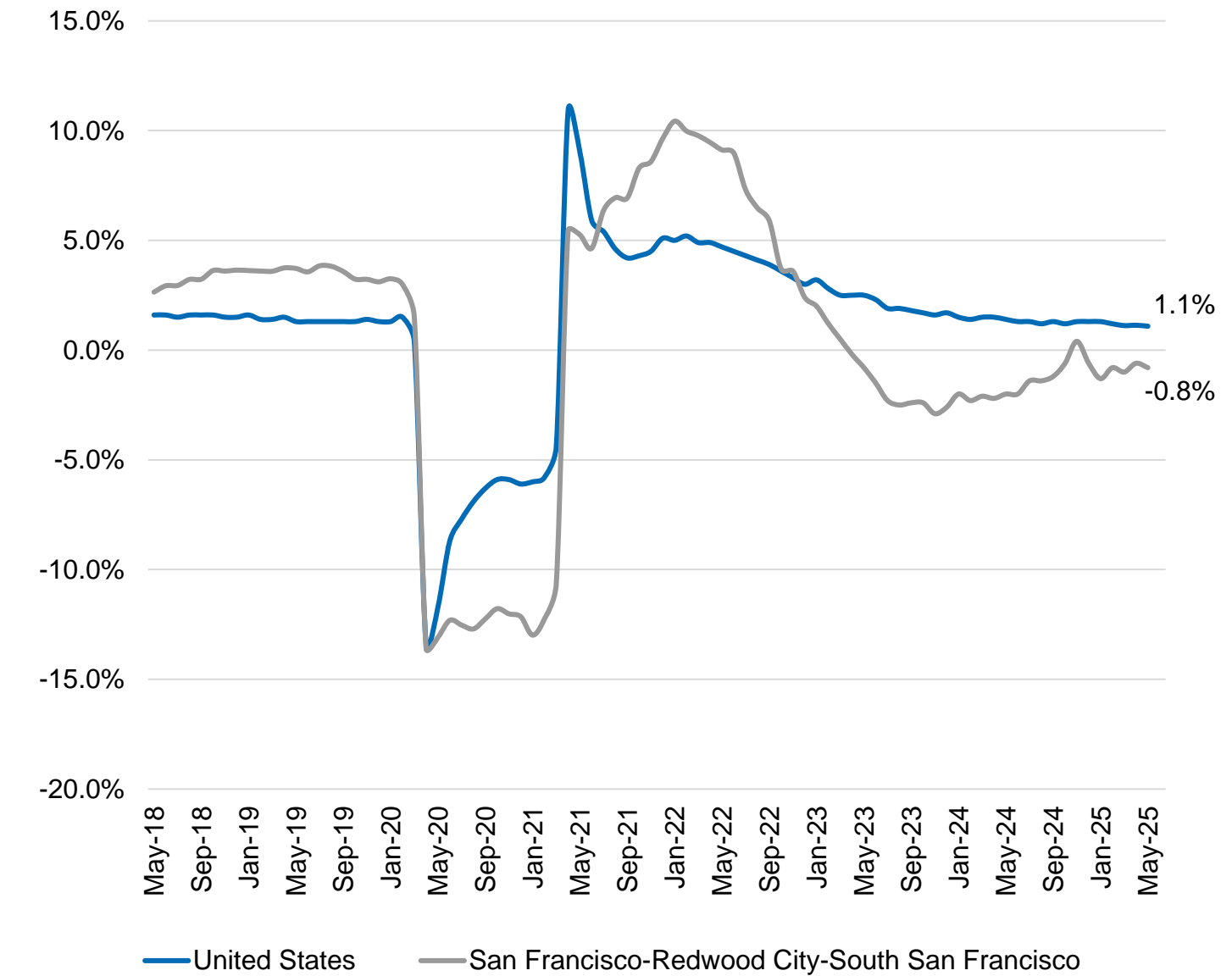
Regional Unemployment Remains Below National Level

While remaining 60 basis points below the national average, the regional unemployment rate has hovered just under 4.0% for several months. Year-over-year changes in nonfarm employment across the region have consistently trended negative over the past two years.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

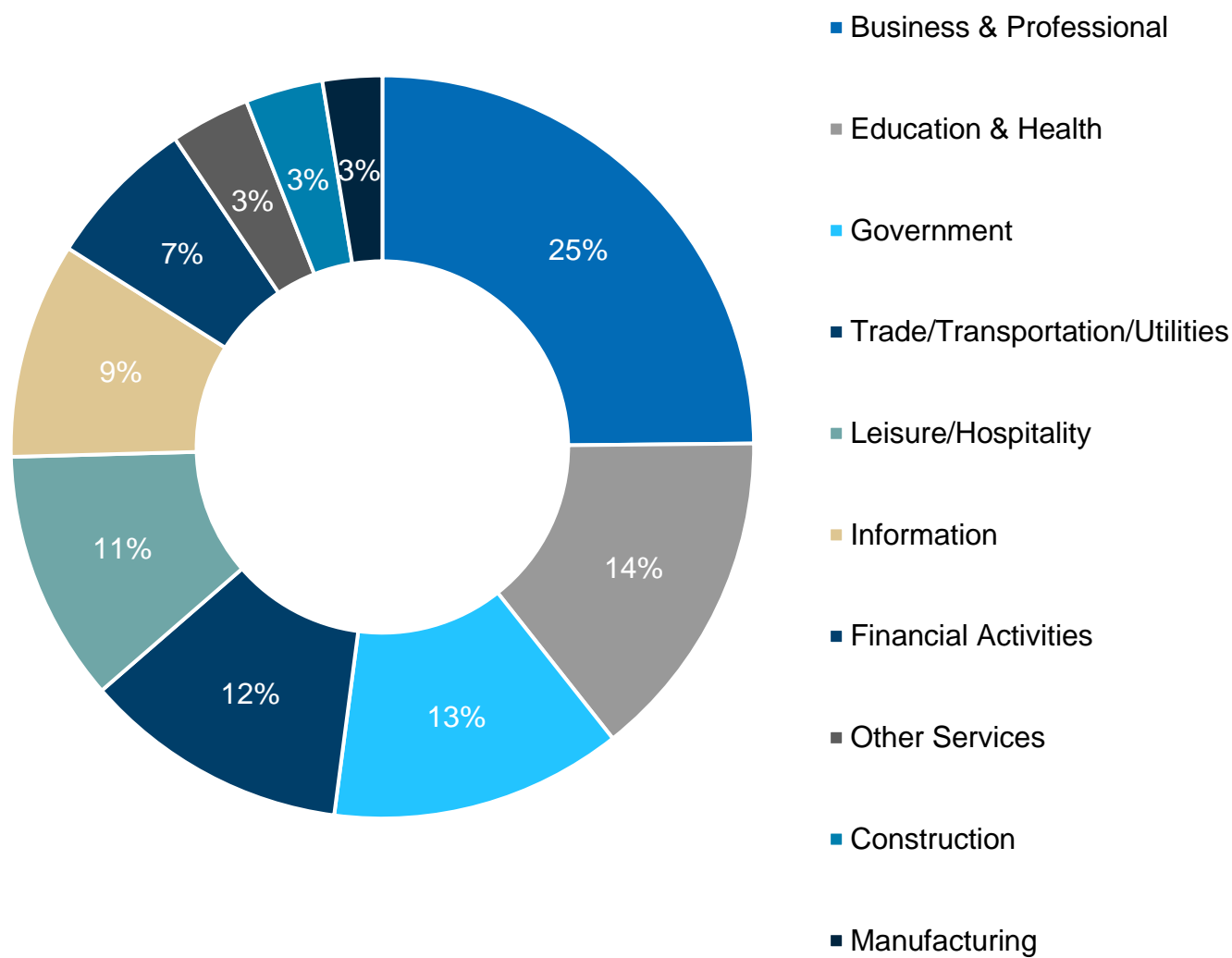


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

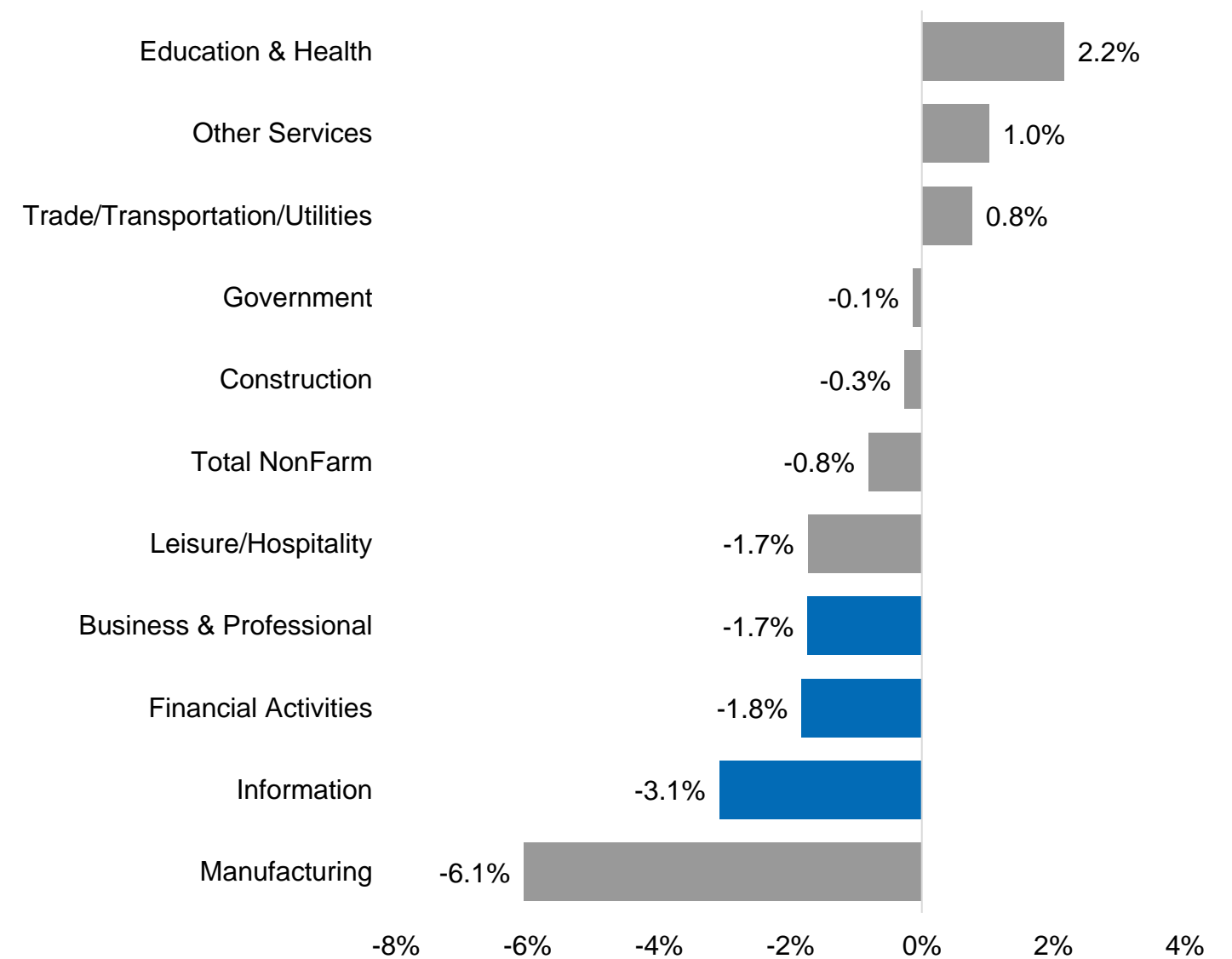
Office Using Employment Down 2.1% Year-Over-Year

All three office-using industries contracted over the past year, with a combined decline of 2.1%, led by the information sector. Gains in the Education and Health, Other Services, and Trade/Transportation/Utilities sectors were not enough to offset losses elsewhere. Regionally, the area has approximately 9,300 fewer jobs than in May 2024.

Employment by Industry, May 2025



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

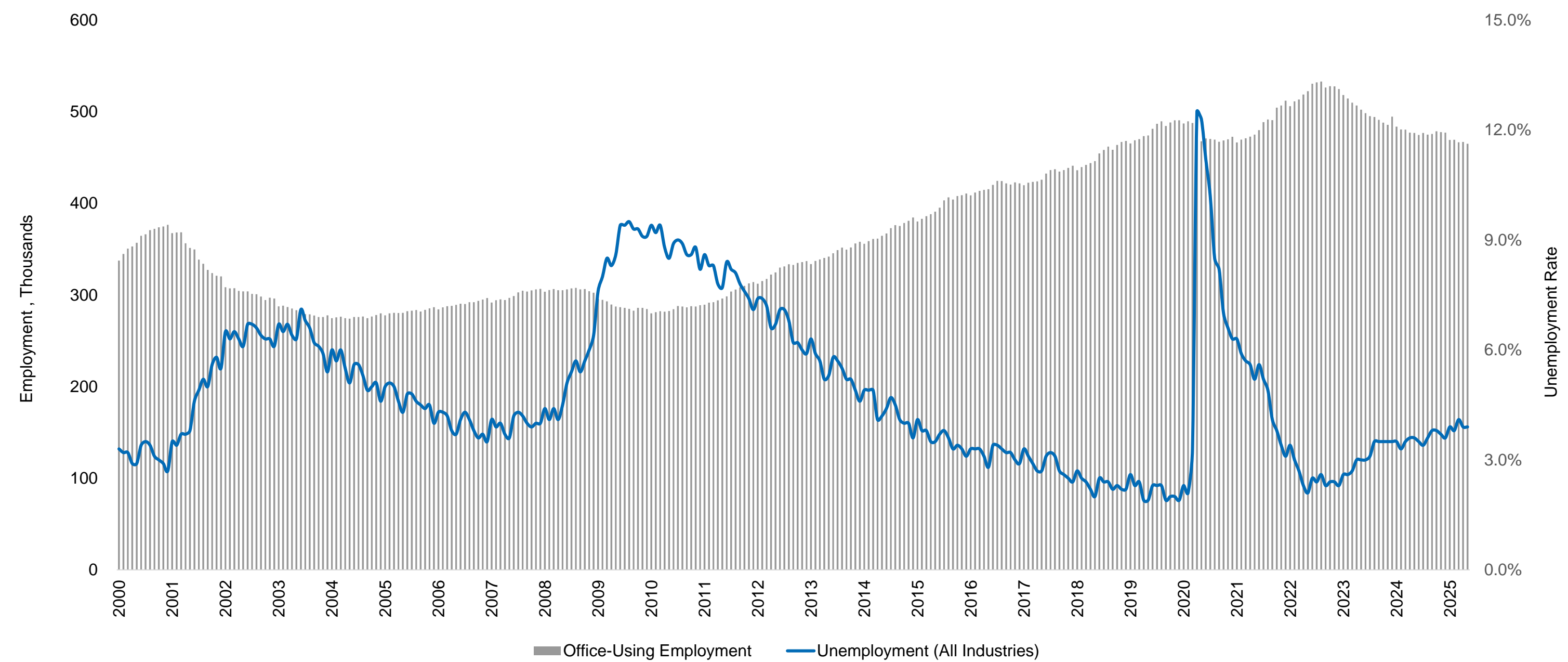


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco. Data is preliminary.

Unemployment Rate Below National Average

The overall unemployment rate of 3.9% remains below the national rate of 4.2%, but there has been a 12.7% decrease in office-using employment since the height of hiring in 2022. Overall office-using employment is down 2.1% year-over-year, having dropped by over 12,000 jobs since the end of 2024.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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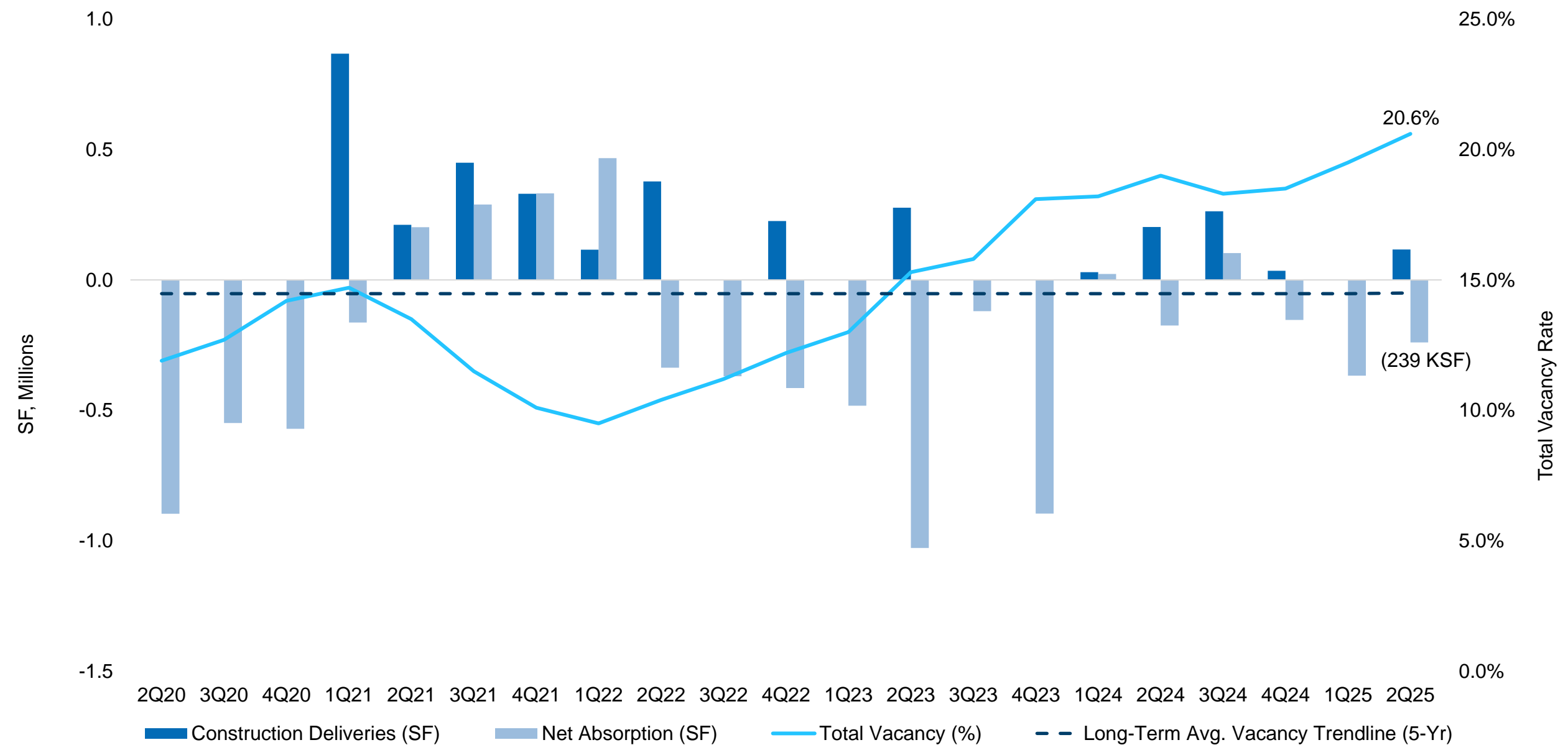
Leasing Market Fundamentals



Total Vacancy At New Record High In Q2

Total vacancy for the North Peninsula rose to a new high in the second quarter, reaching 20.6%, up from 19.5% in the previous quarter.

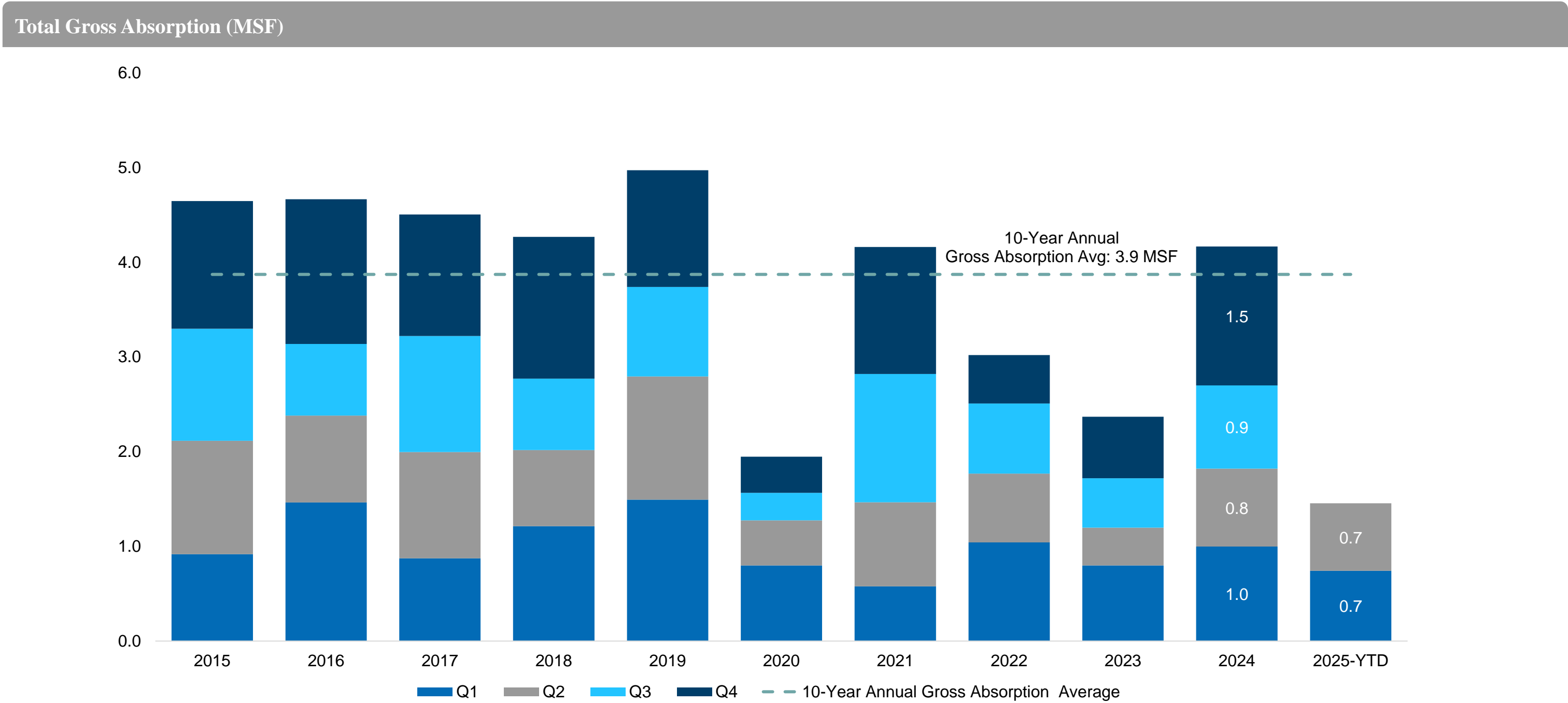
Historical Construction Deliveries, Net Absorption, and Total Vacancy



Source: Newmark Research

Gross Absorption On Par With Previous Quarter

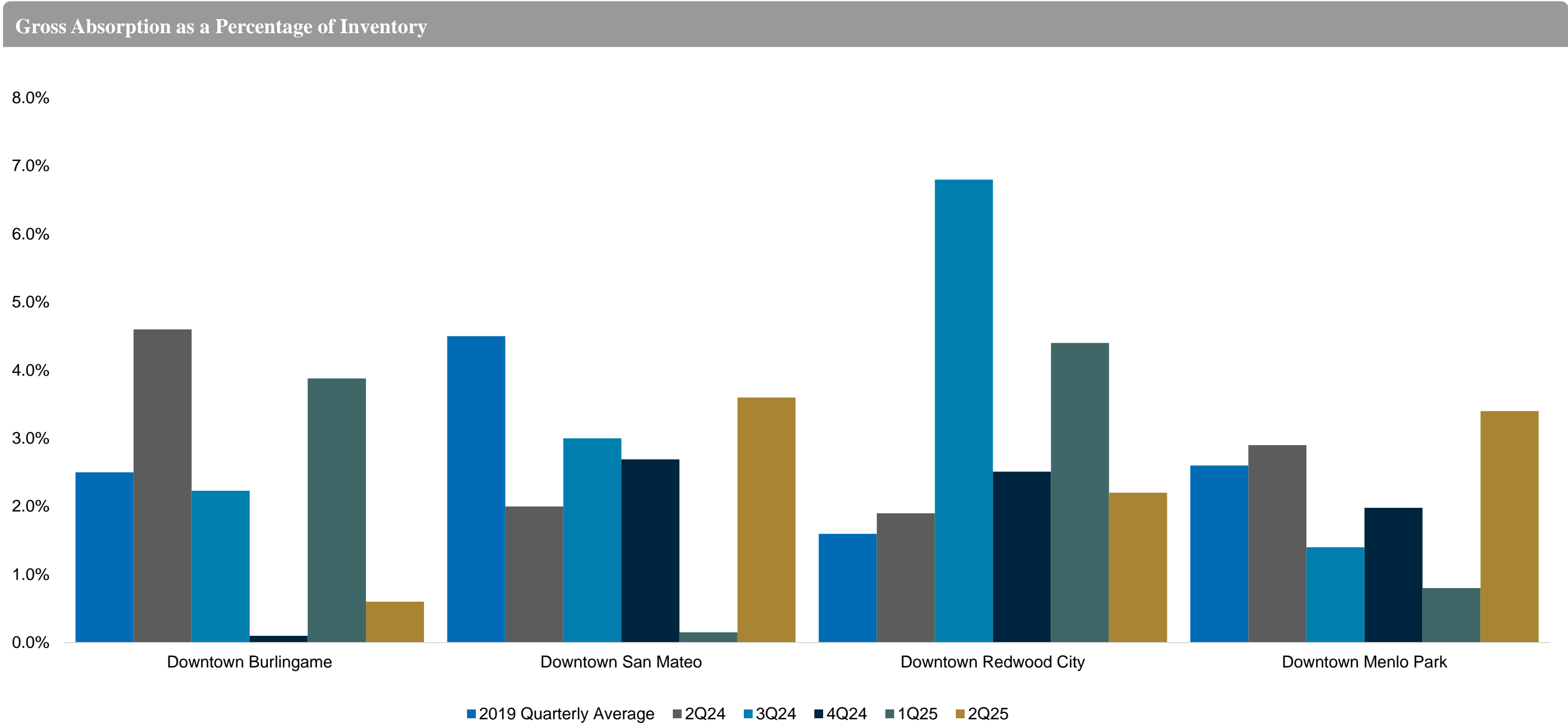
Total gross absorption for the quarter reached 711,000 SF, representing a 4.0% decline quarter-over-quarter and a 13.0% drop year-over-year. Class A properties accounted for 31.0% of total square footage transacted, with Class B at 60.0% and Class C at 9.0%. This reflects a notable shift from the previous quarter, when Class A made up 71.0% of gross absorption, compared to 27.0% for Class B and 2.0% for Class C.



Source: Newmark Research, CoStar

Downtown Transaction Activity Mixed in Q2

Transaction activity across the core Downtown Peninsula markets was mixed in the second quarter of 2025, with Downtown San Mateo and Menlo Park leading the group in overall deal volume relative to their market sizes.

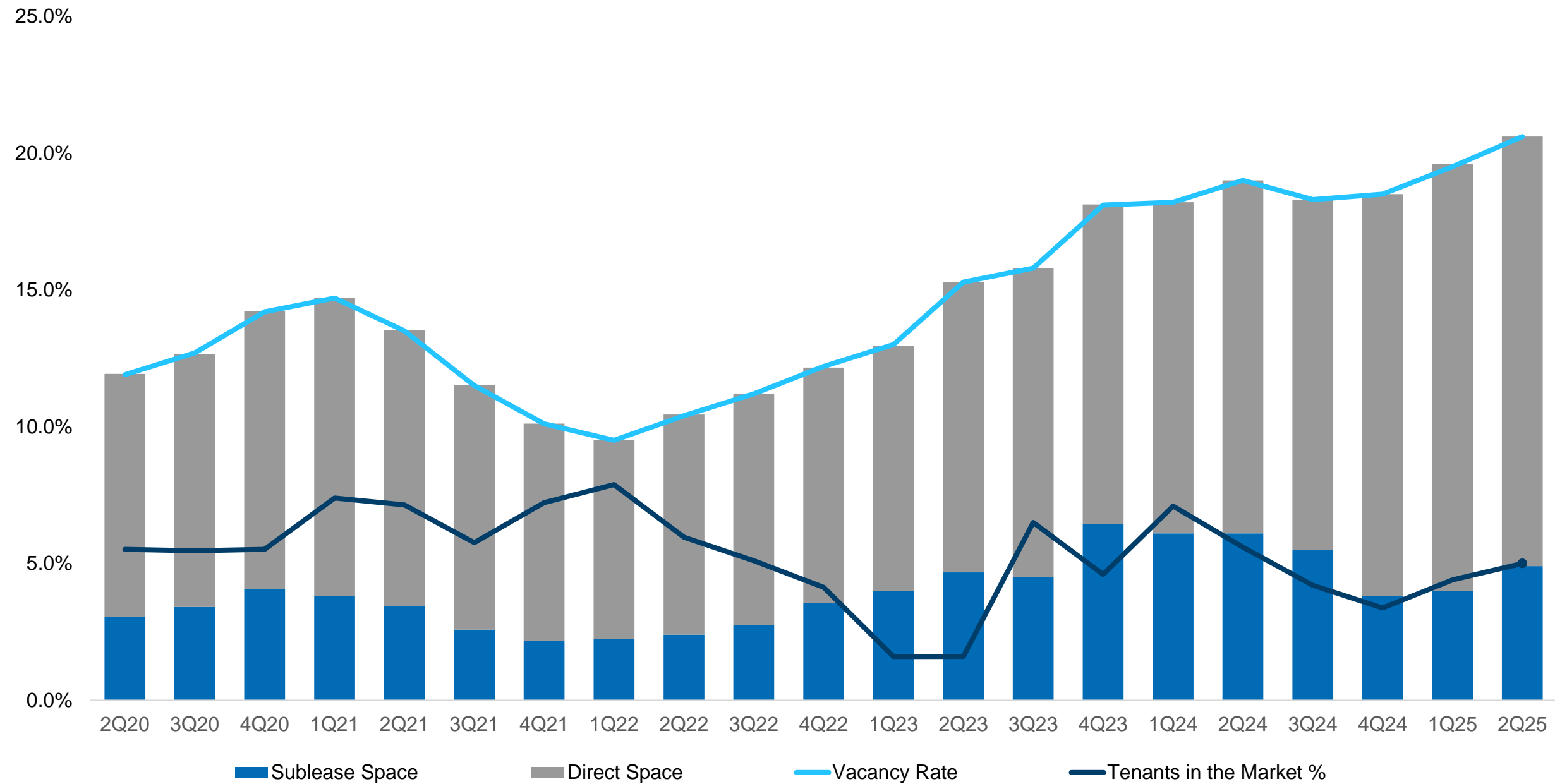


Source: Newmark Research, CoStar

Tenant Demand & Sublease Vacancy Higher

Recorded tenant demand rose to 2.0 million SF this quarter, up from 1.8 million SF in the previous quarter but down from 2.2 million SF year-over-year. Vacant sublease space rose to 1.9 million SF this quarter, up from 1.6 million SF in the previous quarter but down from 2.4 million SF year-over-year. The most notable contributor to the rise in sublease vacancy this quarter was a portion of Meta’s 536,500-SF sublease in Burlingame on the east side of Highway 101 coming to market.

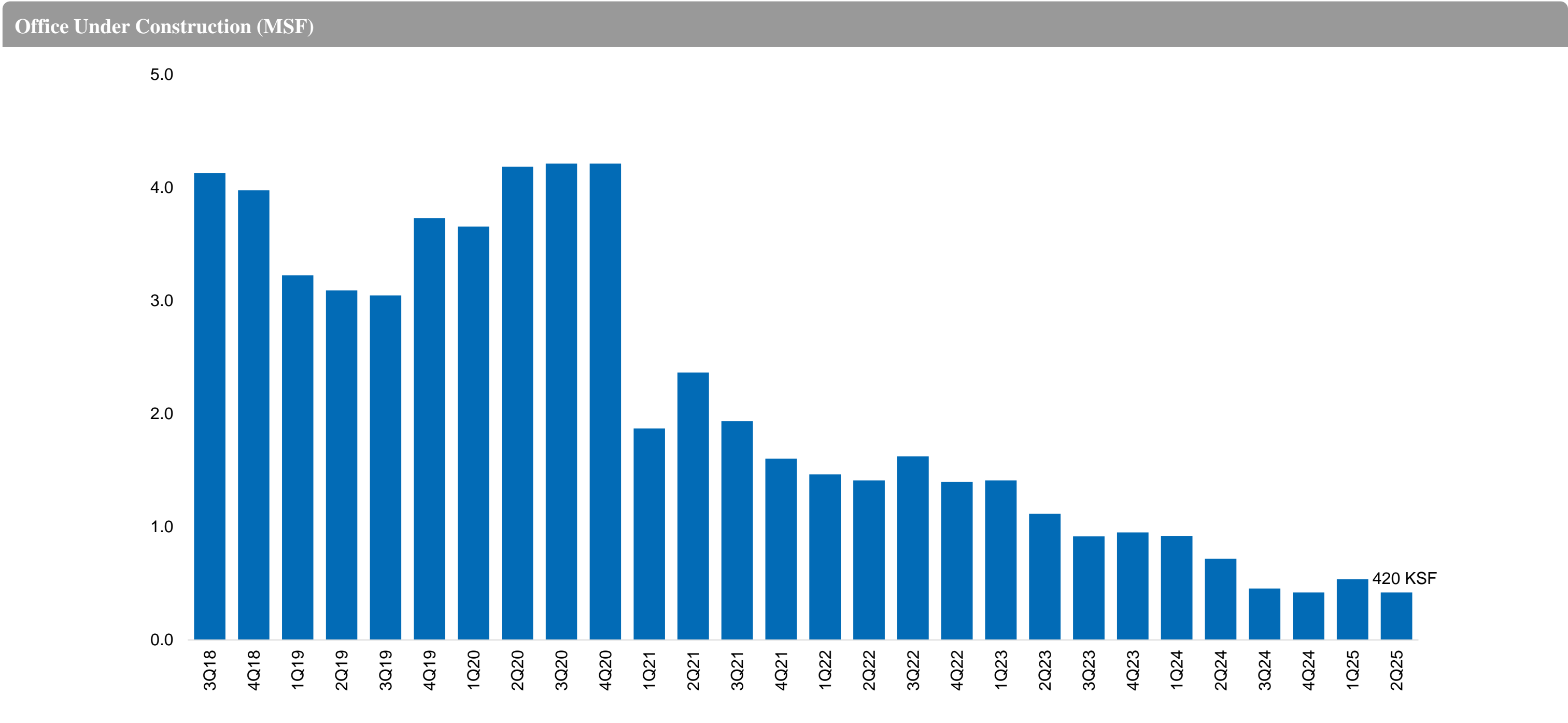
Total Vacant Space and Active Tenant Demand as Percent of Overall Market



Source: Newmark Research

Construction Activity Near Historic Low

The total volume of under-construction product in the North Peninsula market remained at historic lows, with just 420,000 SF currently underway. On the completion side, The Nest, located at 200 Lathrop Street in IQHQ’s ELCO Yards project in Downtown Redwood City, was delivered this quarter. The Peninsula construction pipeline has unsurprisingly dwindled since the Covid-19 pandemic and is likely to remain subdued in the near term.

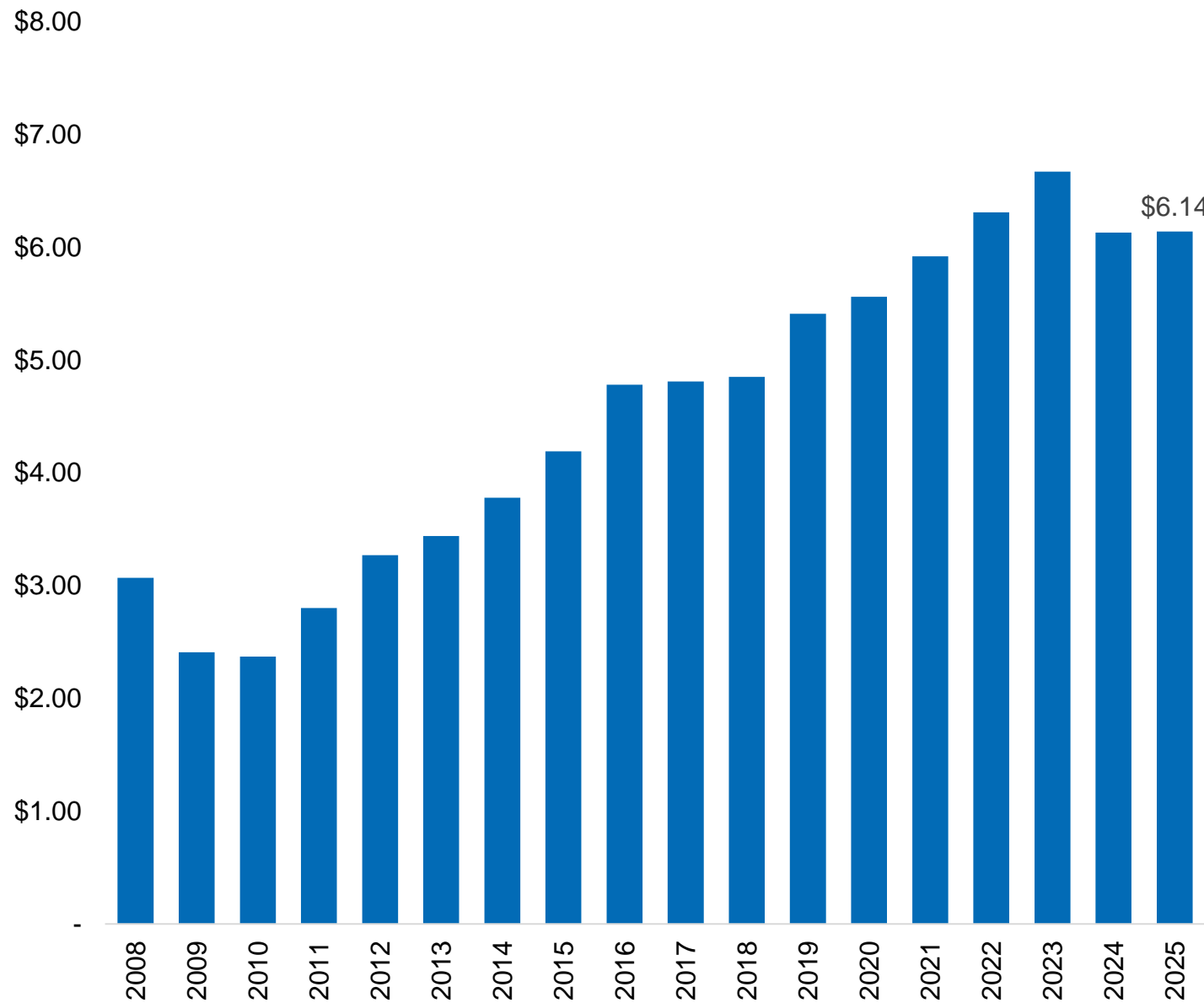


Source: Newmark Research

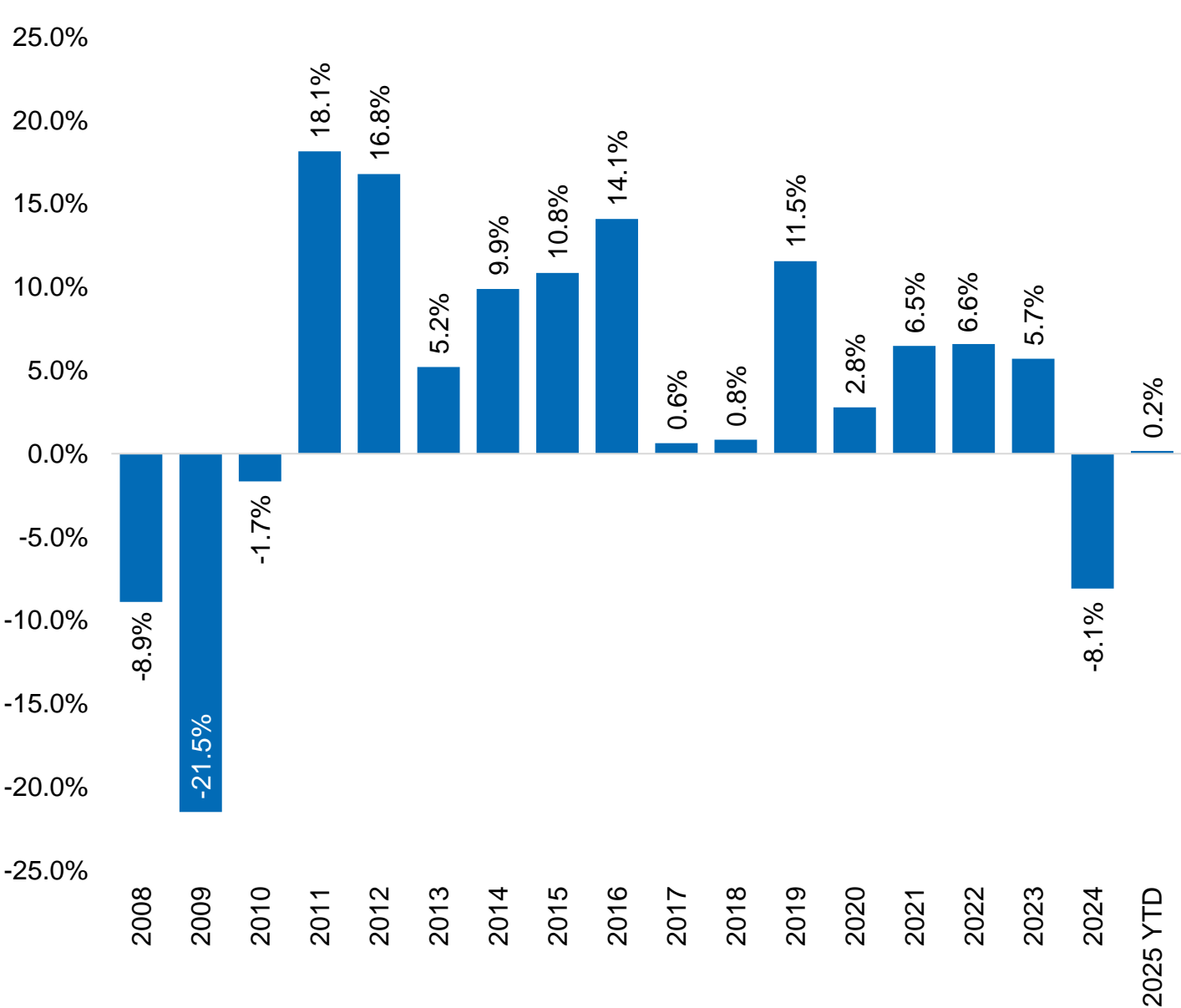
Average Asking Rents Post Nominal Quarter-Over-Quarter Gains

The average asking rent increased to \$6.14/SF Full Service in the second quarter of 2025, up from \$6.02/SF the quarter prior.

Total Office Average Asking Rent, \$/SF, FS



Year-over-Year Total Asking Rent Growth Rate



Source: Newmark Research, CoStar

2Q25 Market Activity

Six transactions of 20,000 SF or more were completed this quarter, down from eight in the previous quarter and on par with six during the same period last year.

Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Qualys	Metro Center 919 E. Hillsdale Blvd.	Foster City	Lease Extension	76,922
Cybersecurity company Qualys completed the largest deal of the quarter, extending their 76,922-square foot lease at 919 E. Hillsdale Blvd. in Foster City.				
Activision Publishing	16 E Hillsdale Shopping Center	San Mateo	Direct Lease	37,211
Video game publisher Activision completed the second-largest deal of the quarter, leasing 37,211 square feet at the north end of the Hillsdale Shopping Center in San Mateo.				
Skild AI	Franklin Templeton HQ 1 Franklin Pkwy.- Building 970	San Mateo	Sublease	32,420
Skild AI, a startup focused on developing machine learning algorithms specifically for robotics, completed the third-largest deal of the quarter, subleasing 32,420 square feet from Roblox on the first floor at 1 Franklin Pkwy.- Bldg. 970 in San Mateo.				
O'Melveny & Myers LLP	2765 Sand Hill Rd.	Menlo Park	Lease Extension	30,000
Law firm O'Melveny & Myers completed the fourth-largest deal of the quarter, extending their 30,000-square foot lease at 2765 Sand Hill Rd. in Menlo Park.				
Robinhood Markets	68 Willow Rd.	Menlo Park	Lease Extension	27,500
Robinhood completed the fifth-largest deal of the quarter, extending their 27,500-square foot lease at 68 Willow Road in Menlo Park.				

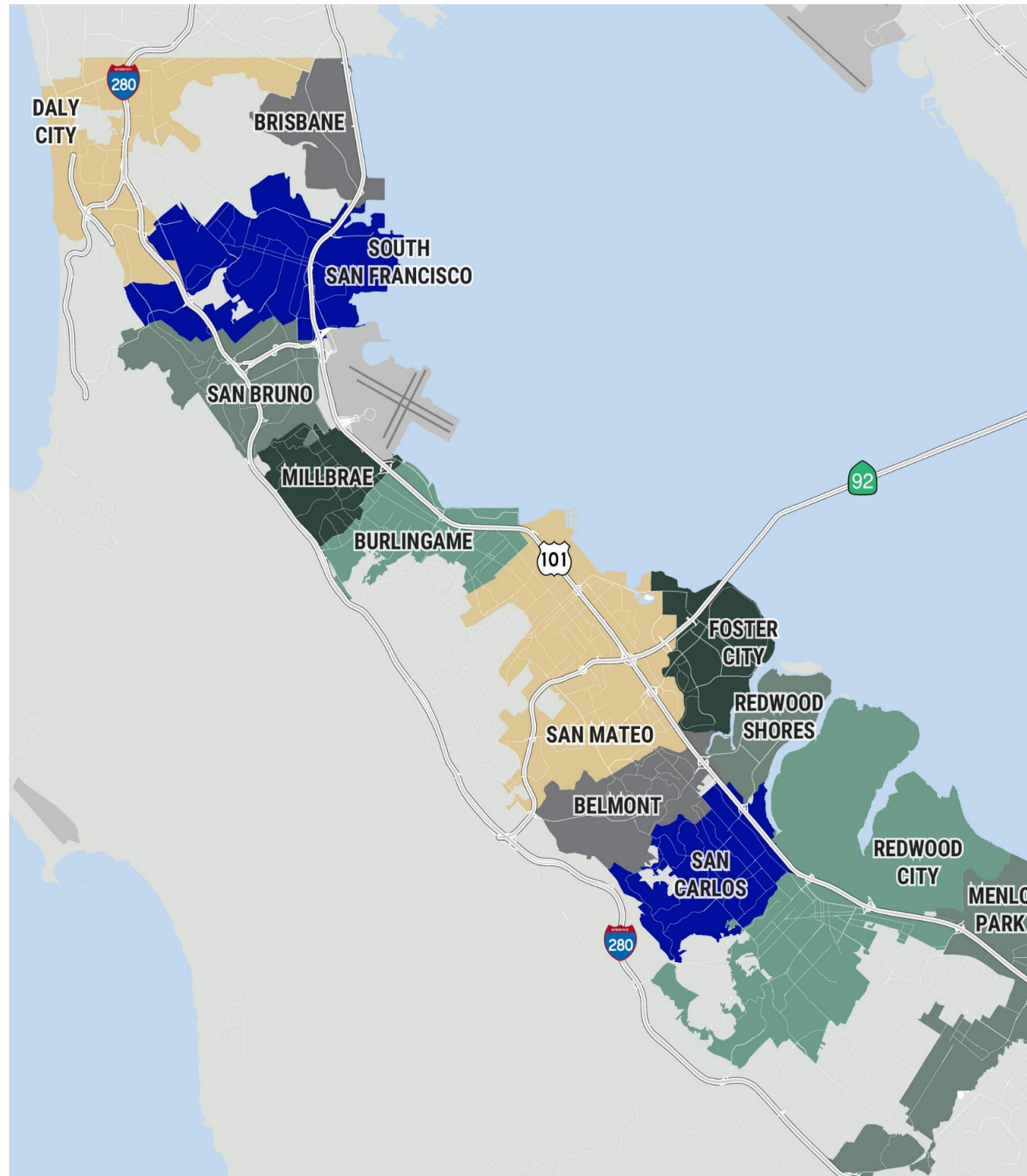
Source: Newmark Research

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Appendix



North Peninsula- Submarket Map



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