

2Q25

# Silicon Valley Office Market Overview

NEWMARK



# Market Observations

## Economy

- In Q2 2025, the San Jose–Sunnyvale–Santa Clara MSA unemployment rate held steady at 4.1% in June 2025, with a slight decrease of -0.3%, year-over-year. Nationally, the unemployment rate remained steady, decreasing 10 basis points from the first quarter, yet remained stagnant, year-over-year.
- Notably, Financial Activities, a major sector of office-using employment and key driver of broader office demand, decreased by 3.4%, year-over-year. While an uptick in office demand has been noted, it is yet to be seen if the recent increased demand will translate to broad-based growth in the office-using employment sector.
- Office-using employment continued to trend downward in Q2 2025, extending the decline that began after reaching a peak in early 2023. As of May 2025, total office-using employment stood at 410,450, reflecting a steady pullback from post-pandemic highs. This contraction has been driven primarily by ongoing cost optimization and restructuring within the tech sector.

## Major Transactions

- A considerable driver to the gross absorption of 2.2 million square feet was Walmart’s lease at 809 & 815 11<sup>th</sup> Avenue in Sunnyvale. The eCommerce division of the consumer goods company leased a total of 338,307 square feet of premier class A office space across buildings 4 and 6 in Technology Corners.
- Total leases signed in Q2 2025 were 23.6% below the 16-year annual average of 229 leases for Q2. However, deal size increased compared to Q1 of 2025, signaling a potential shift in tenant behavior as office demand begins to stabilize. The average deal size in Q2 was 11,364 square feet, marking a 19.2% increase from Q1 2025.
- Another contributor to this quarter’s gross absorption was the Zscaler sublease of 301,163 SF across 4301 and 4401 Great America Parkway in Santa Clara. This quarter’s top leases point to a shift in sentiment, as large occupiers began to re-engage with longer term leases.

## Leasing Market Fundamentals

- The Silicon Valley office market showed signs of recovery in Q2 2025, recording 1.2 million square feet of positive net absorption, the third consecutive quarter of growth following Q4’s positive 1.1 million SF, and the highest level of net absorption since Q4 2018.
- Overall vacancy recorded 18.5%, a 110-basis point decrease from 19.6% in the previous quarter. Tenant demand increased, with active tenants in the market rising 45.5% since Q1 2025. Positive signs are emerging, as demand levels are up 104.3% year-over-year compared to Q2 2025, indicating strong tenant demand and improving confidence.
- Asking rents decreased to \$5.06 per square foot full service in the second quarter of 2025, down 1.75% from the previous quarter, reflecting market adjustments to pricing.

## Outlook

- The Silicon Valley office market entered 2025 with cautious optimism, building on the recovery momentum seen throughout 2024. The decrease in vacancy rates and gross absorption of 2.2 MSF, coupled with growing deal sizes among tech firms seeking spaces over 100,000 square feet, suggests gradual return to office strategies are taking hold.
- Companies are increasingly prioritizing amenities like flexible workspaces, larger conference areas, ample natural light, and state-of-the-art infrastructure to encourage employees to return to the office.

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# Economy

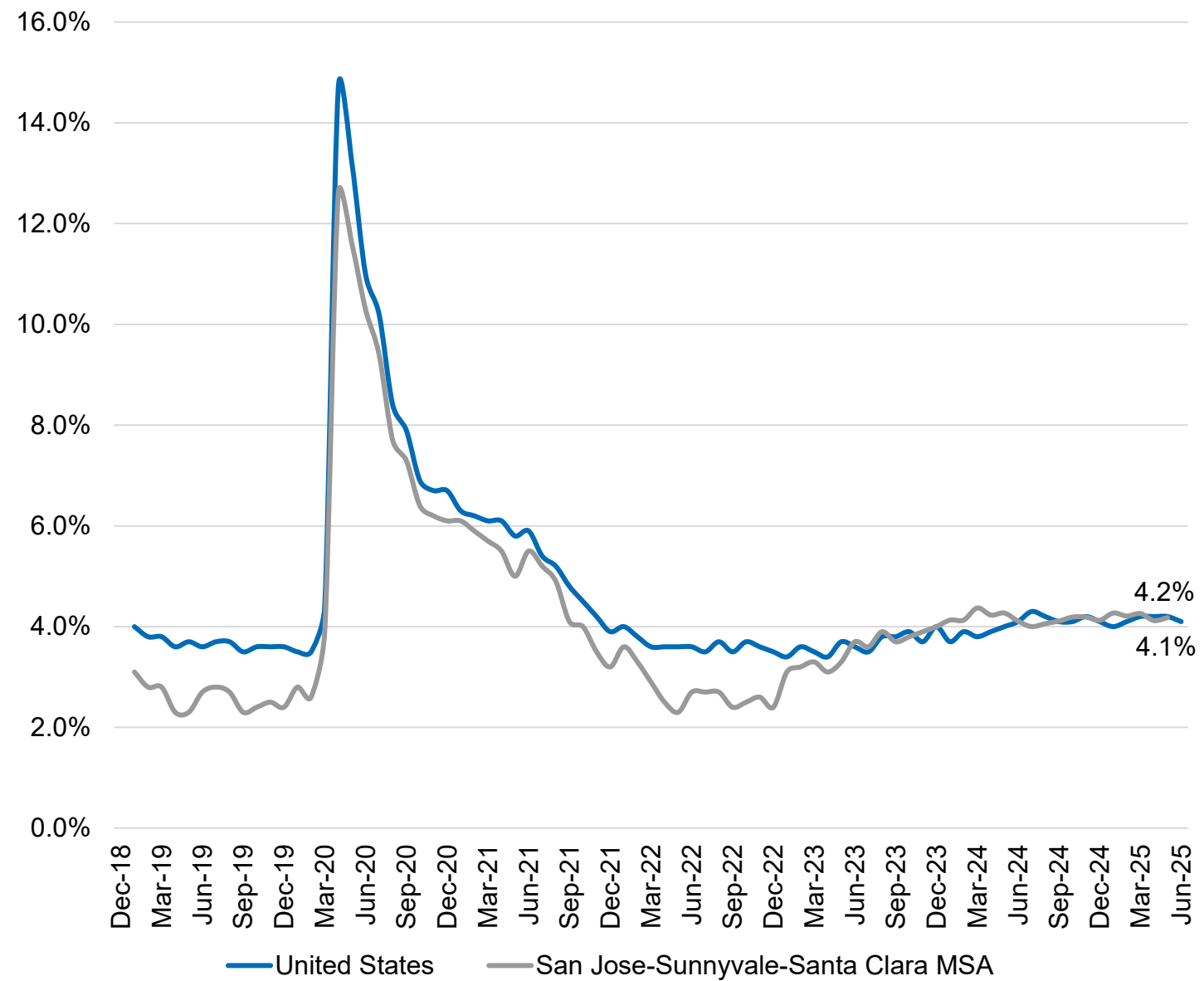




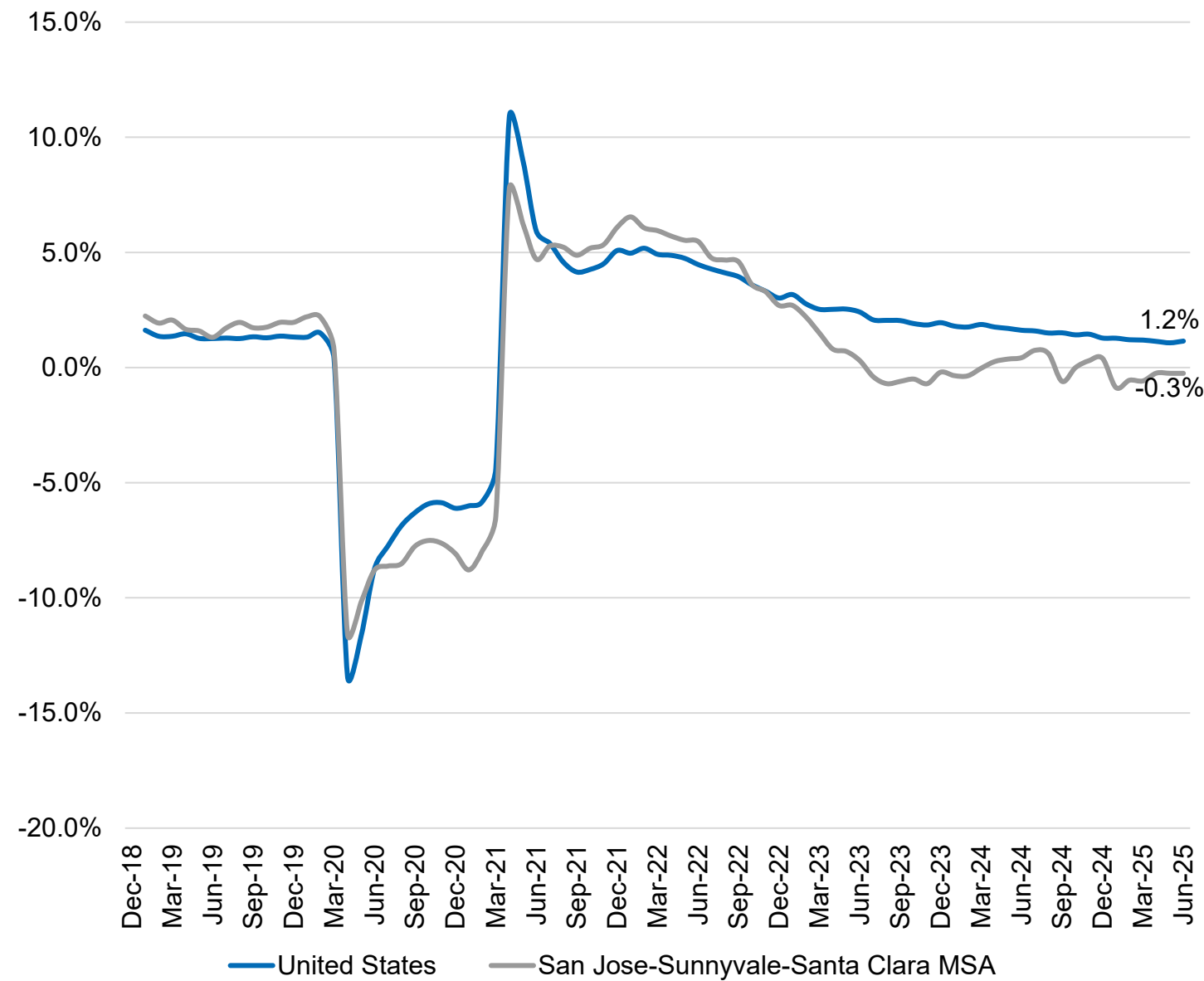
# Silicon Valley Labor Market Mirrors National Unemployment Levels

In the second quarter of 2025, the San Jose–Sunnyvale–Santa Clara MSA unemployment rate held steady at 4.1% in June 2025, with a slight decrease of -0.3%, year-over-year. Nationally, the unemployment rate remained steady, decreasing 10 basis points from the first quarter, yet remained stagnant, year-over-year. Although both the broader U.S. labor market and local MSA softened in previous years, the local San Jose-Sunnyvale-Santa Clara MSA experienced increases in the labor market, reaching comparable levels to the broader U.S. labor market.

Unemployment Rate, Seasonally Adjusted



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



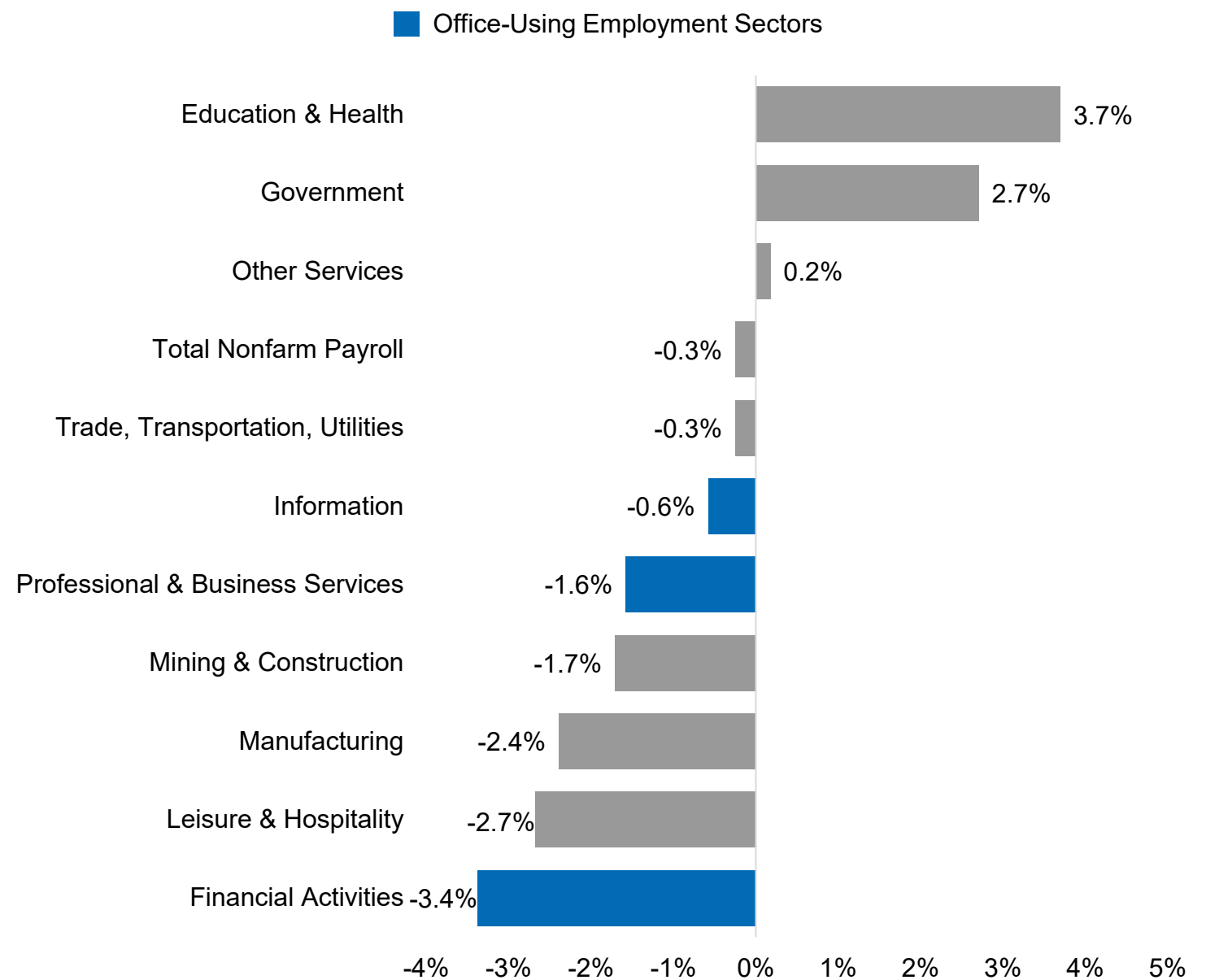
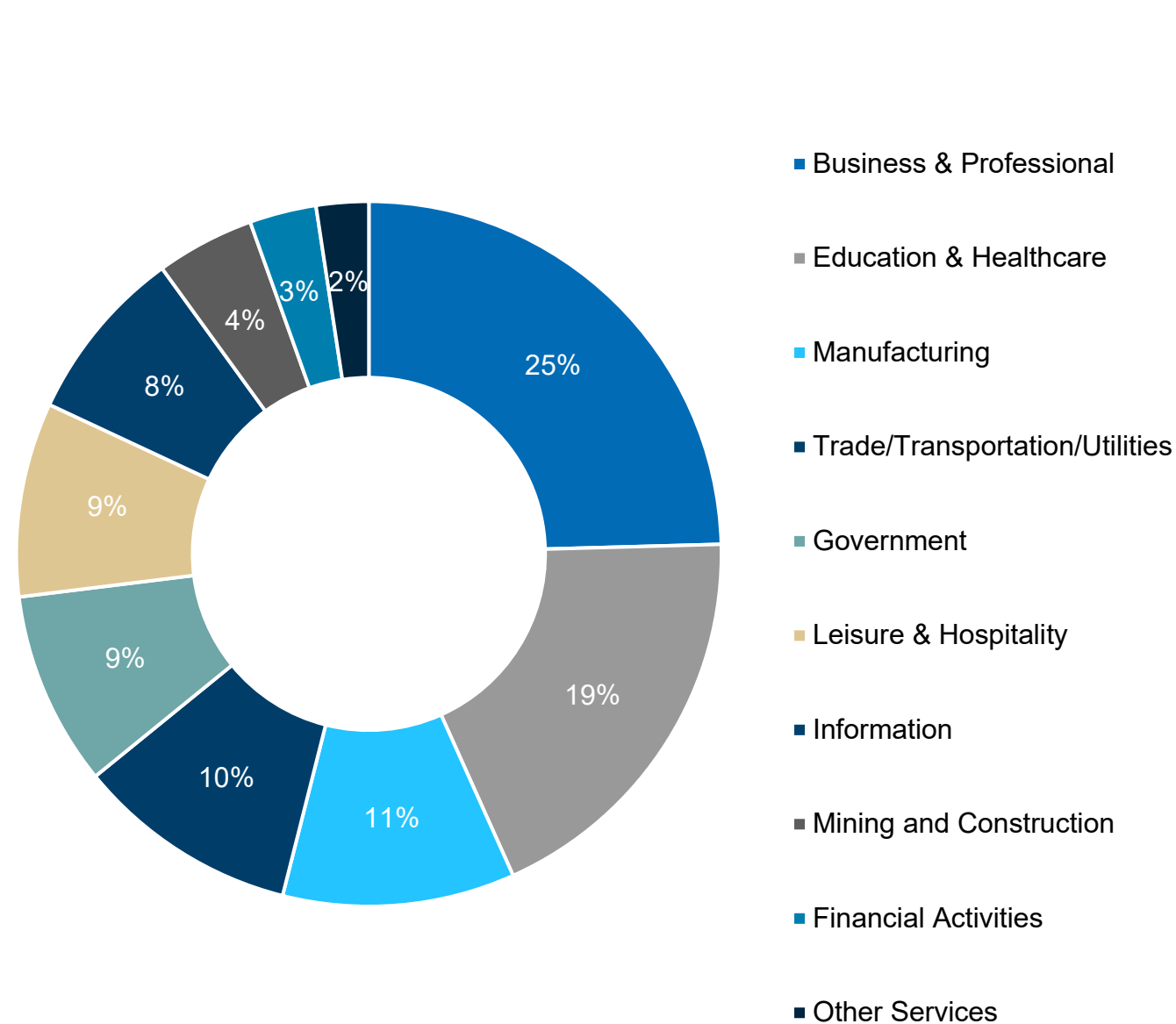
Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale  
National data is as of June. May is the latest month available for metro employment stats

# Office Using Employment Sectors Continued to Slide

Job gains in Education & Health Services and Government were not enough to offset broader employment declines across key office-using sectors such as Information, Professional & Business Services, and Financial Activities. Financial Activities, a major sector of office-using employment and key driver of broader office demand declined by 3.4% year-over-year. While office demand in the region has shown signs of improvement, it remains unclear whether this will translate into sustained growth in office-using employment.

Employment by Industry, June 2025

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

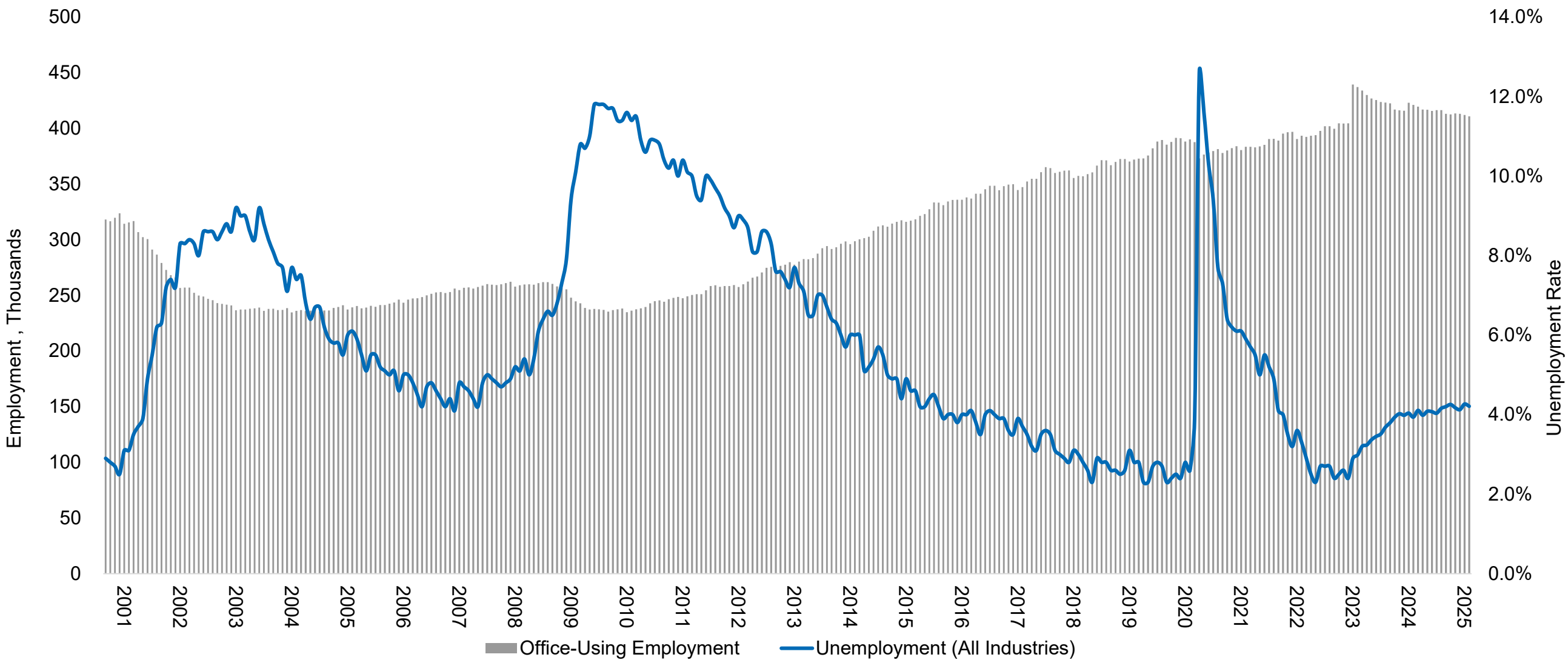


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

# Decline in Office-Using Employment Amid Tech Sector Adjustments

Office-using employment continued to trend downward in Q2 2025, extending the decline that began after reaching a peak in early 2023. As of May 2025, total office-using employment recorded 410,450, reflecting a steady pullback from post-pandemic highs. This contraction has been driven primarily by ongoing cost optimization and restructuring within the tech sector. Nonetheless, there are early signs that the market may be nearing a turning point. Improving macroeconomic fundamentals, coupled with persistent hiring momentum in high-growth industries, such as artificial intelligence and clean energy, point to the potential for stabilization in the quarters ahead.

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

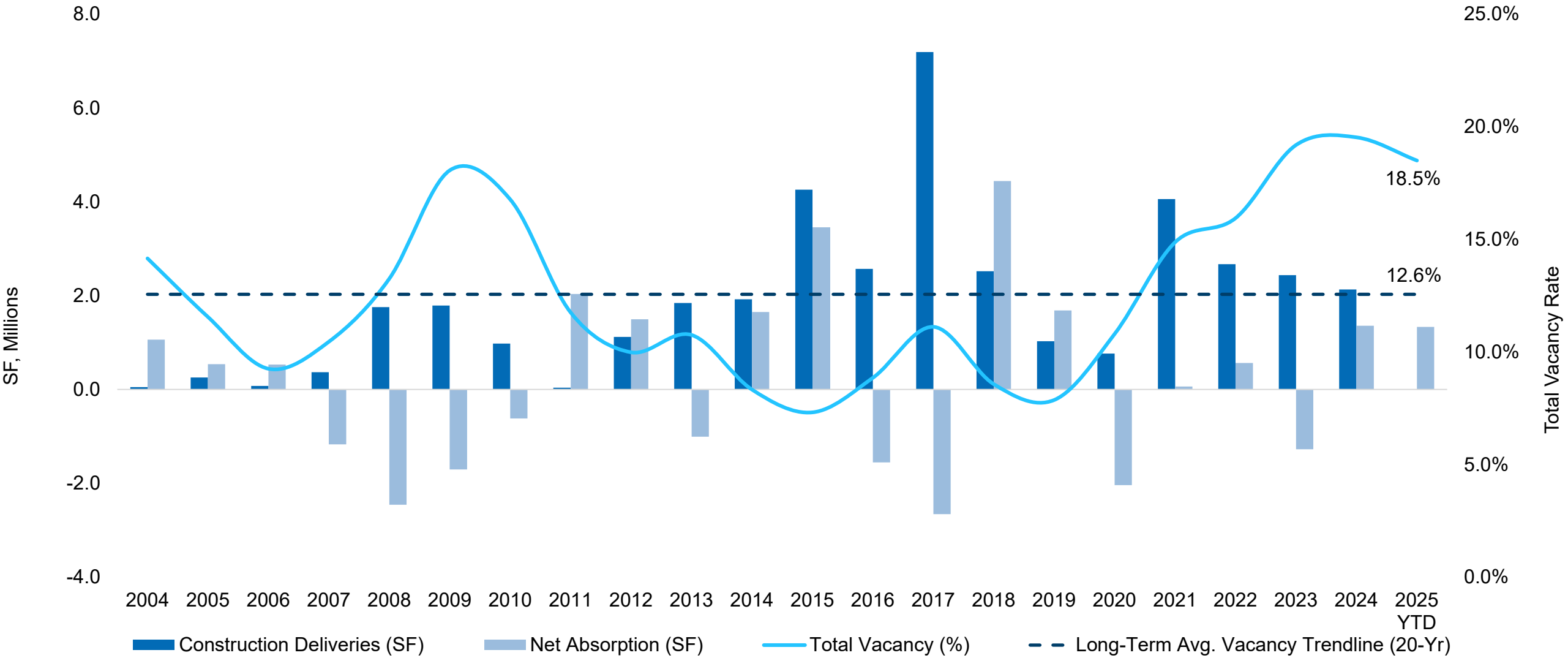




# Office Market Continues to Trend Towards Stabilization

The Silicon Valley office market showed promising trends in the second quarter, recording approximately 1.2 million square feet of positive net absorption, the third consecutive quarter of net absorption growth, and the highest level of net absorption since Q4 of 2018. Vacancy showed signs of improvement, falling 19.6% to 18.5%, indicating growing tenant activity and momentum toward market stabilization. While overall vacancy remains elevated relative to historical norms, sustained positive absorption suggests a gradual return of occupier confidence following an extended period of volatility.

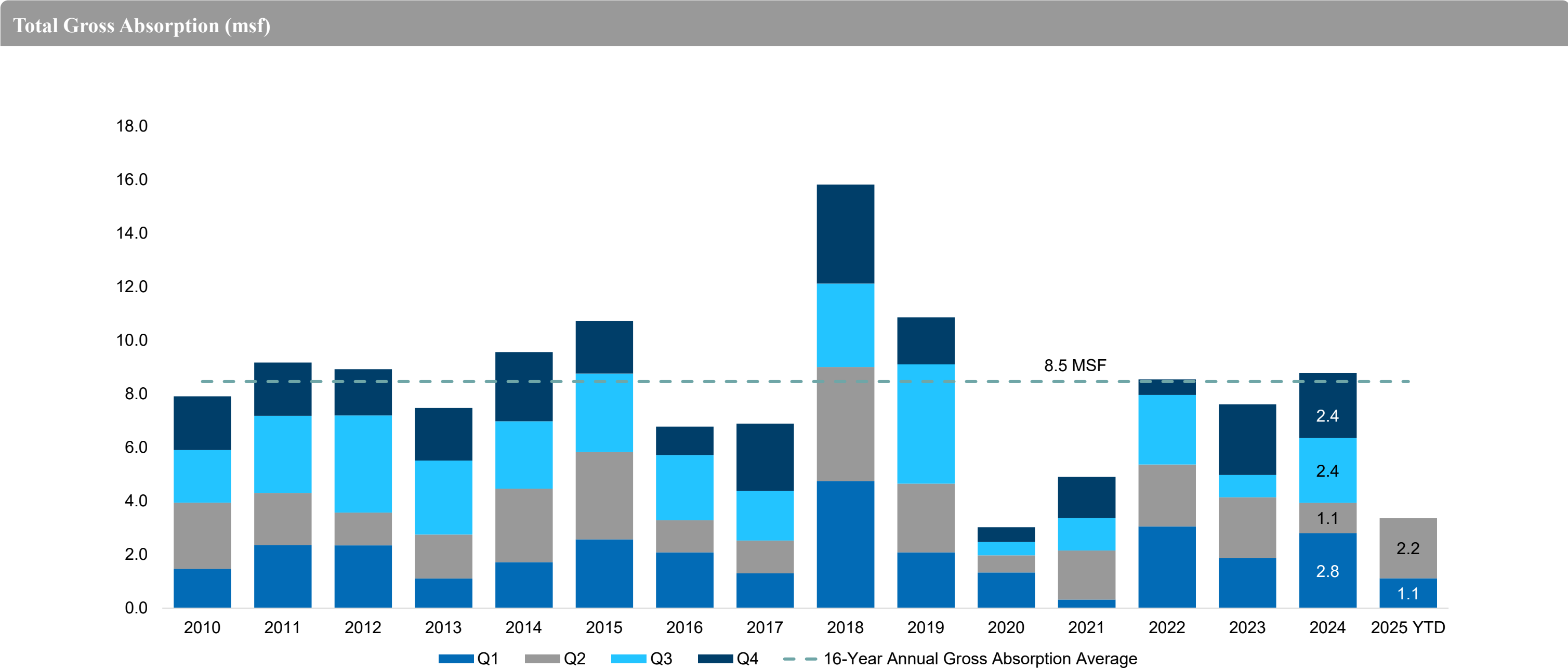
Historical Construction Deliveries, Net Absorption, and Vacancy



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

# Strong Second Quarter Absorption Boosts Outlook for 2025

Gross absorption totaled approximately 2.2 million square feet in the second quarter of 2025, an increase of 100.5% from the same period the previous year. This growth was fueled by several large transactions, including VTA’s owner-user acquisition of 488 Almaden Avenue in San Jose, Walmart, who leased two buildings at Technology Corners in Sunnyvale, and Zscaler, who secured subleases across two buildings in Santa Clara. While cumulative leasing volume remained slightly below mid-2024 levels, the sharp uptick during the quarter highlighted renewed tenant engagement and signaled early momentum in the broader recovery of Silicon Valley’s office market.



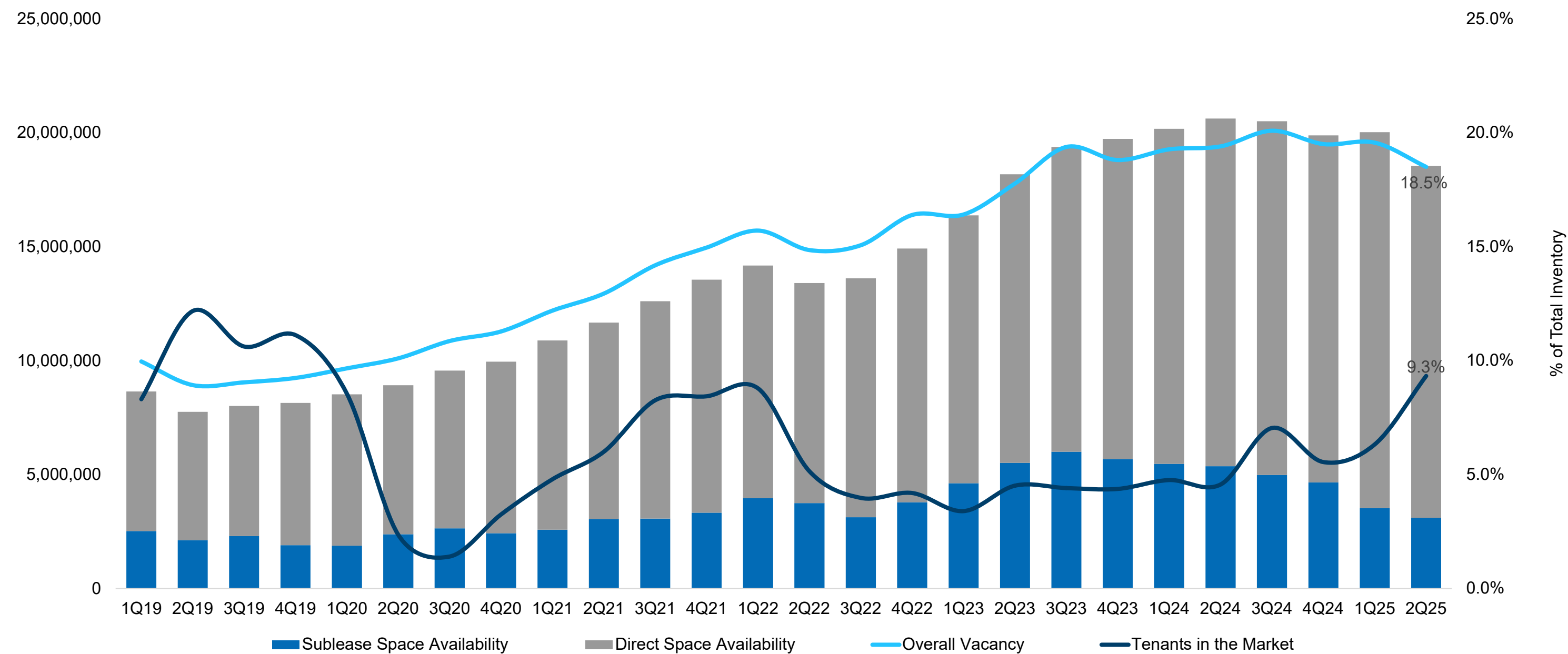
Source: Newmark Research  
\*Absorption includes owner-user sales and owner-user constructed deliveries.



# Elevated Vacancy Reflects a Tenants' Market Despite Demand Increasing

Sublease space availability continued to decrease in Q2 2025, falling 12.0% to 3.1 million square feet from 3.5 million square feet in Q1 2025. Overall vacancy fell 105 basis-points, recording 18.5%, a significant decrease from the previous quarter's 19.6%. The drop in vacancy stemmed from an uptick in leasing activity in high-quality office buildings. Additionally, tenant demand increased, with active tenants in the market climbing 45.5% since Q1 2025. Positive signs emerged, as demand levels were up 103.0% year-over-year compared to Q2 2024, indicating an increase in underlying interest.

Available Space and Tenant Demand as Percent of Overall Market

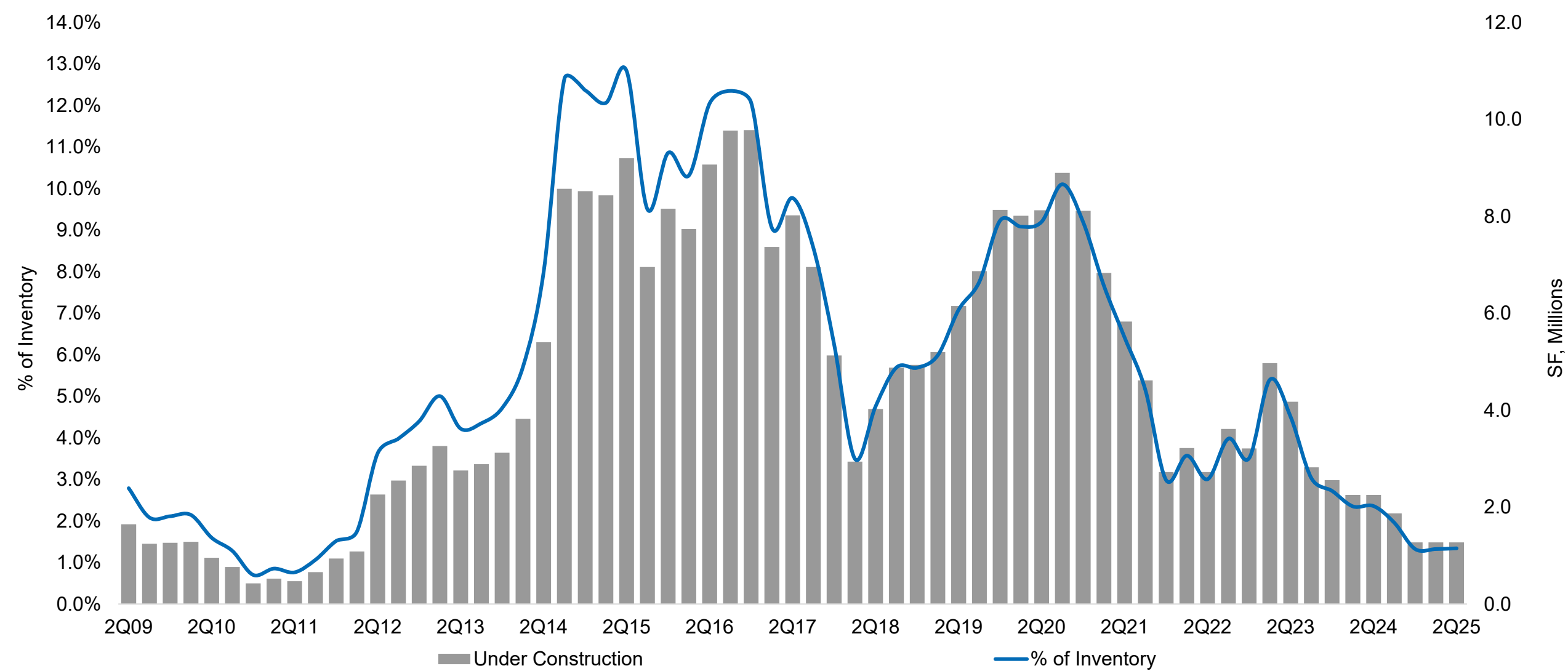


Source: Newmark Research

# Construction Activity Remained Unchanged for Q2

The construction pipeline remained unchanged in Q2 2025, with 1.3 million SF under construction for the third consecutive quarter. Compared to the second quarter of 2024, this represents a 43.4% year-over-year decrease. The continued lack of new construction reflects a broader slowdown in project launches, contributing to tightening availability and gradually shifting conditions to a lessor’s market.

Office Under Construction and % of Inventory



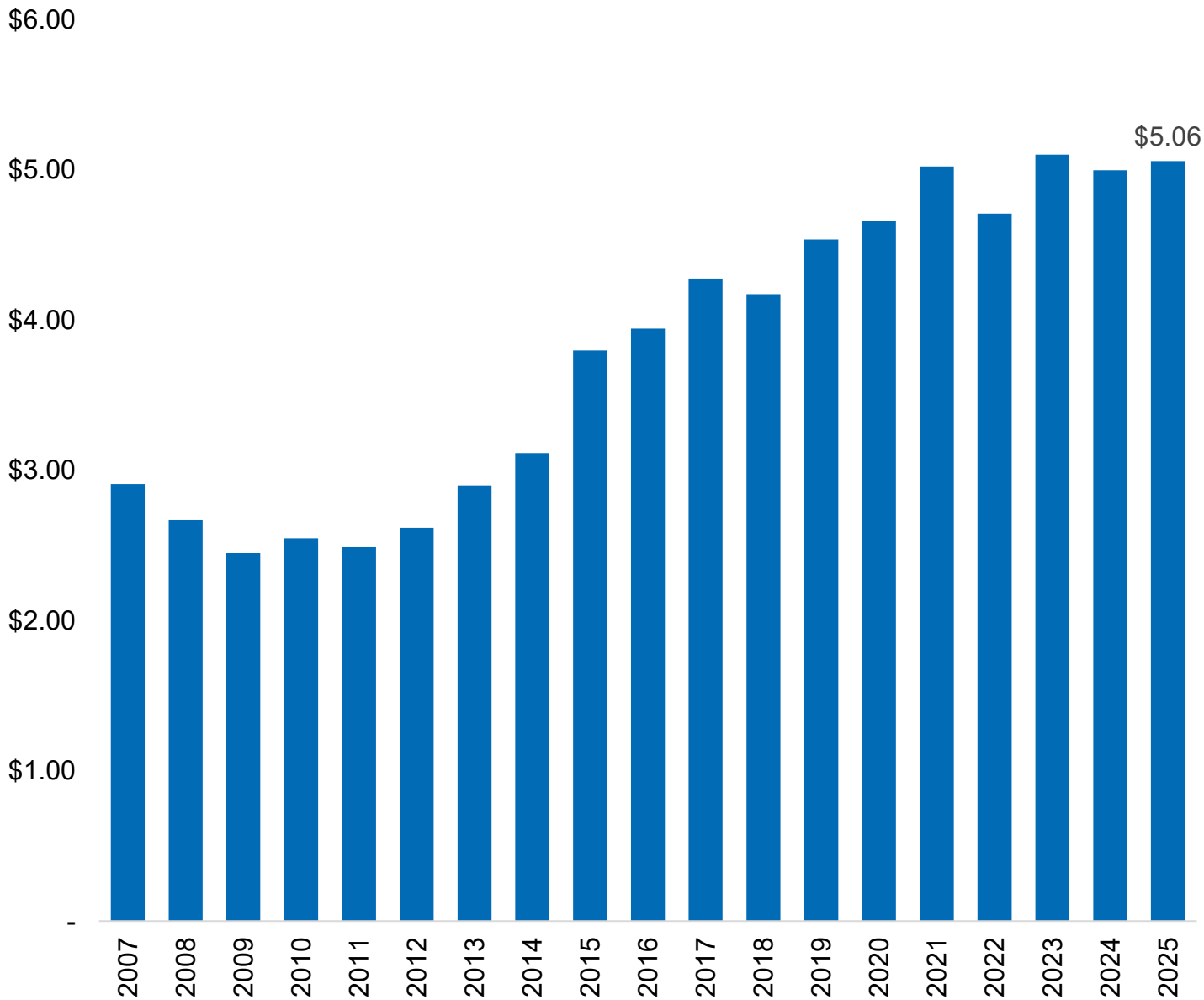
Source: Newmark Research, CoStar, San Jose-Santa Clara-Sunnyvale MSA



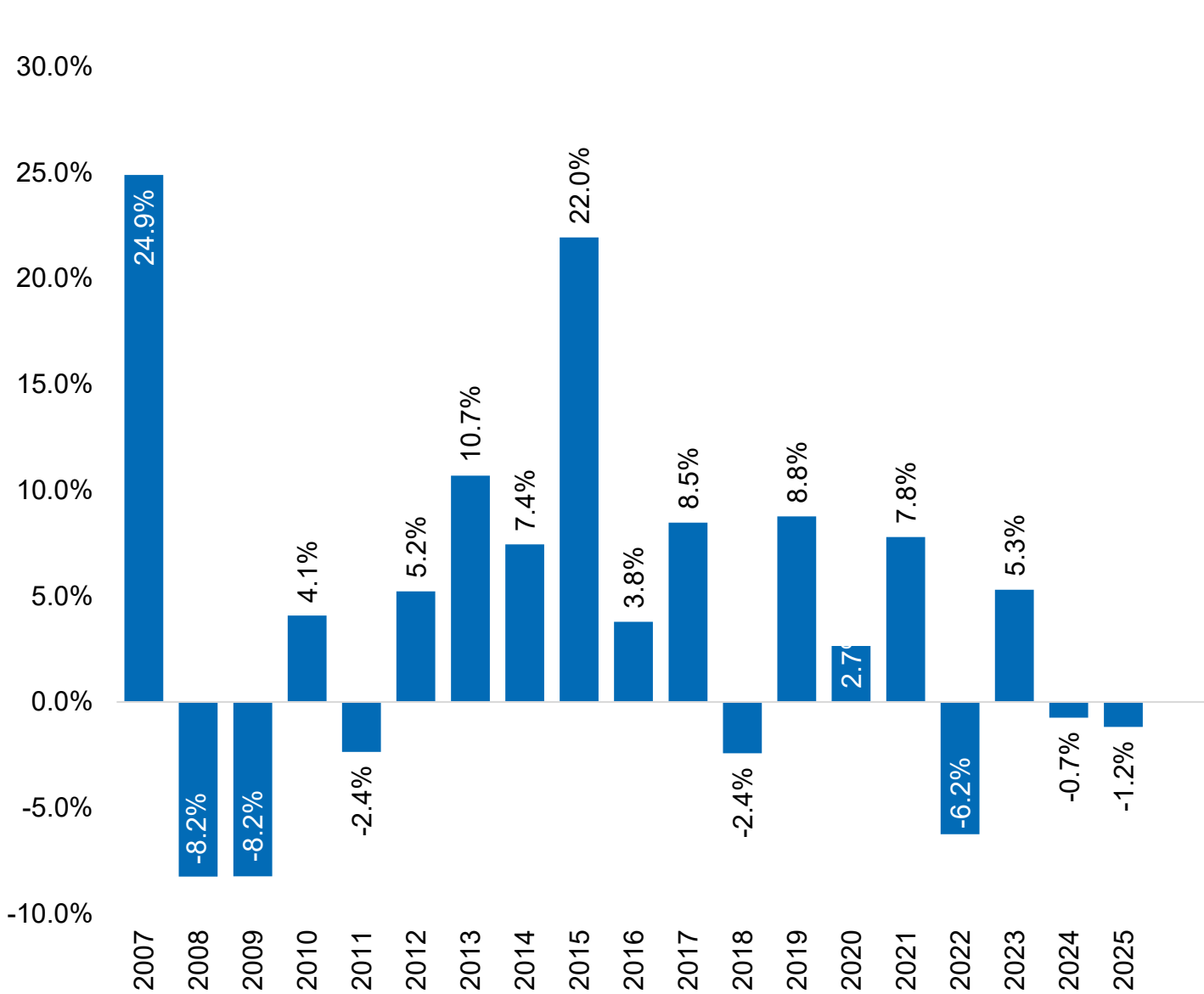
# Asking Rates Decreased in the Second Quarter of 2025

Compared to the previous quarter, asking rents decreased to \$5.06 per square foot full service in Q2 2025. Despite the quarterly decrease, asking rents increased 1.2% year-over-year as landlords adjusted pricing to reflect current market conditions. However, elevated concession packages, such as free rent, continued to impact effective rents. As companies focus on attracting employees back to the office, tenant demand is shifting toward spaces that offer flexible work environments, expansive conference areas, abundant natural light, and modern infrastructure.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

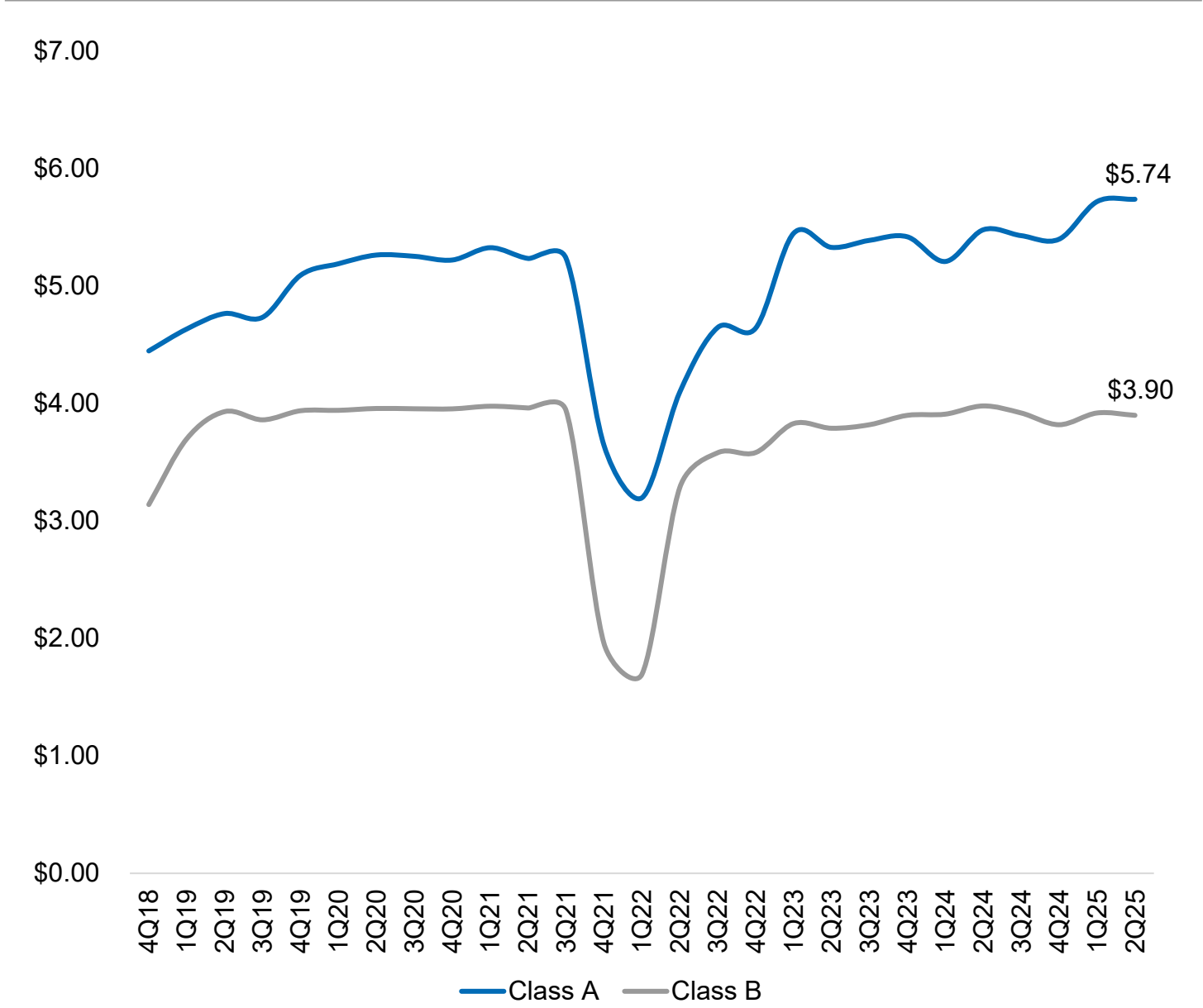


Source: Newmark Research, CoStar

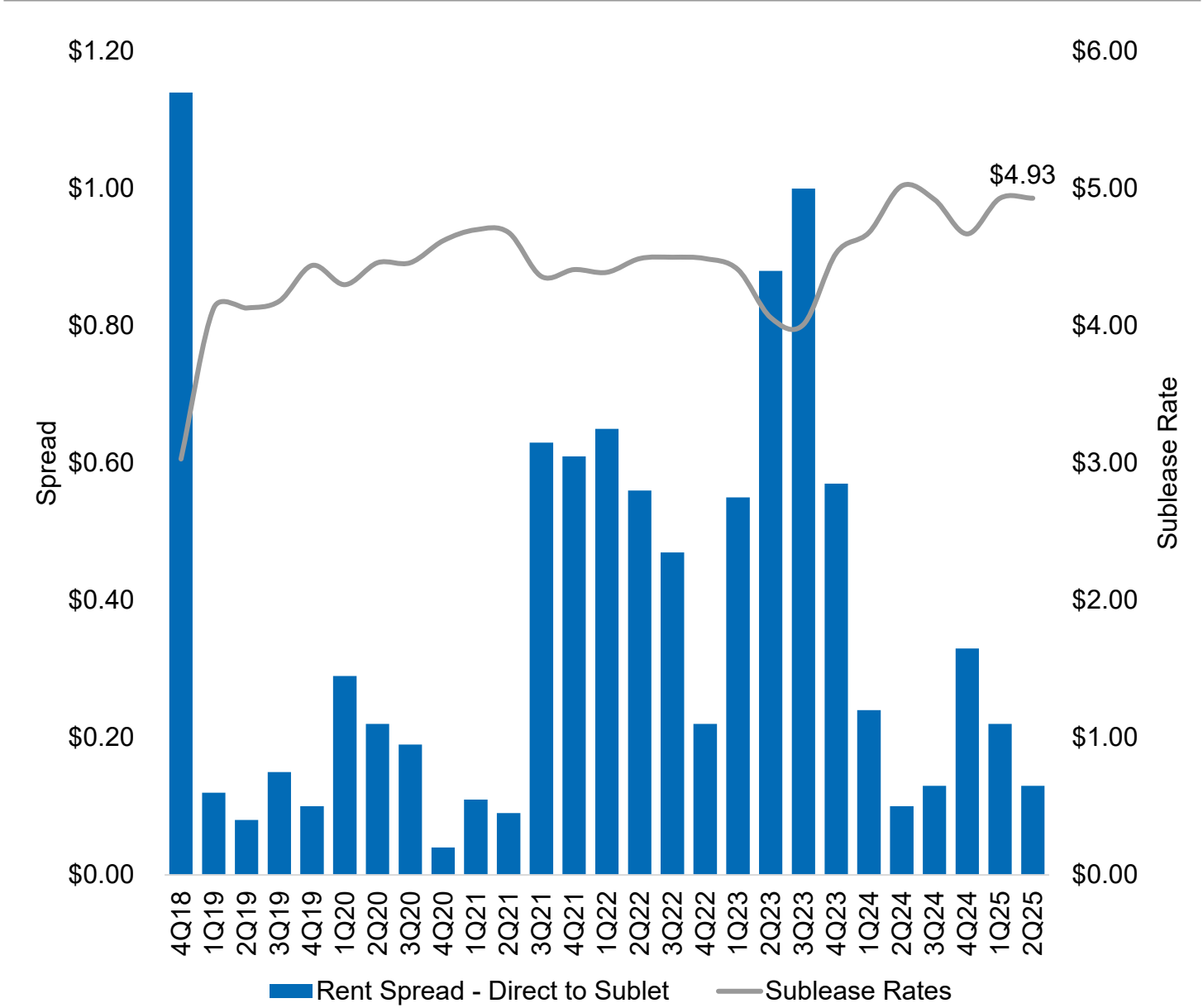
# Asking Rents Marginally Decreased in Overall Rents

Asking rents fluctuated modestly in recent quarters as the market had stabilized, while the gap between Class A and Class B rents had continued to widen. Rent spread compression had persisted in Q2 2025, falling sharply from the highs of mid-2024 to a Q2 spread of \$0.13. Overall office sublease rates had remained steady at \$4.93 in Q2, compared to a 1.6% decrease in overall direct rents, with the overall average asking rent having recorded \$5.06 per square foot full service.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



# Zscaler and Walmart Were the Anomaly for Q2 2025

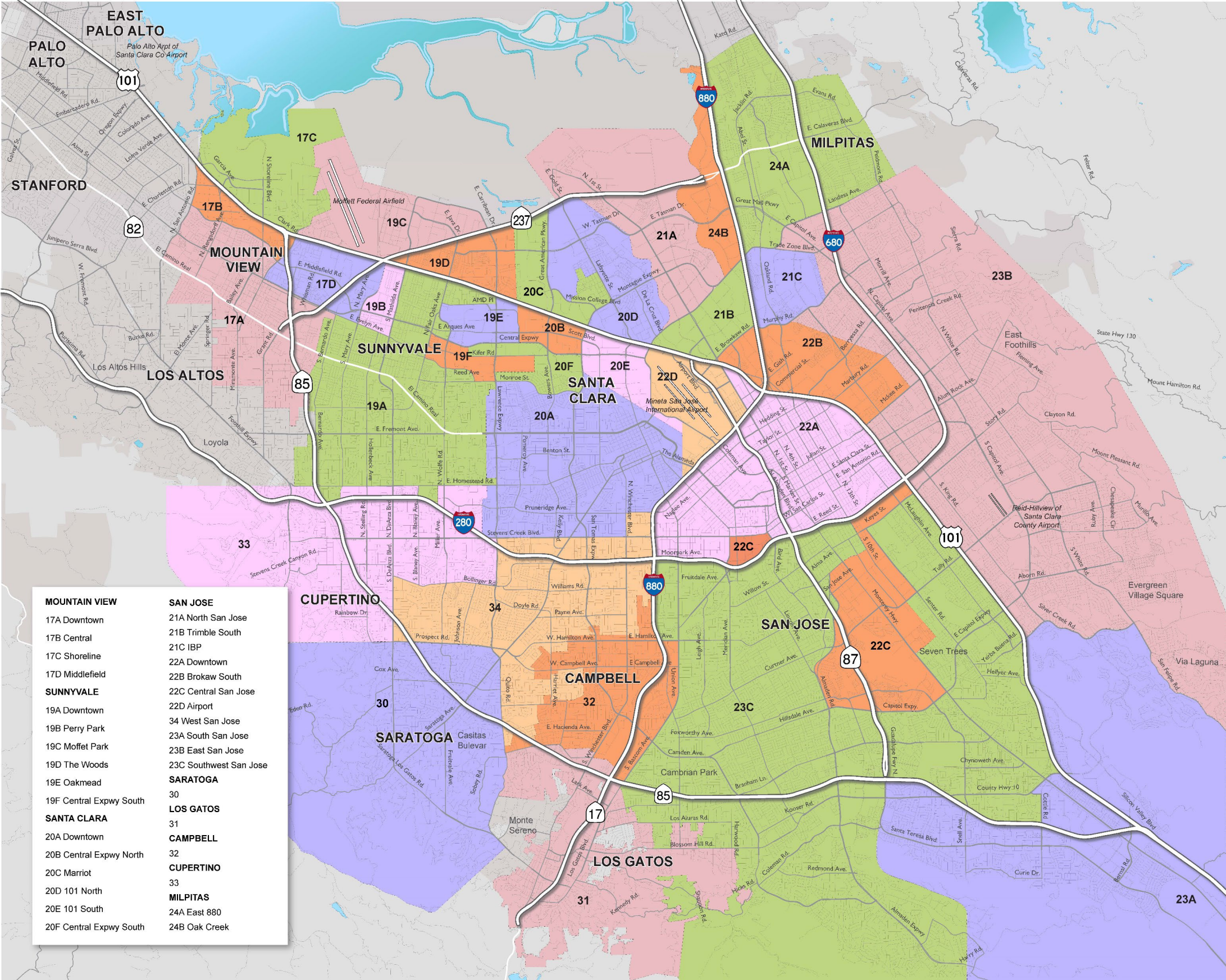
Although most leases signed in the second quarter averaged 11,364 square feet, Zscaler and Walmart made a notable impact: Zscaler subleased 301,163 square feet, and Walmart secured a direct lease for 338,307 square feet. This activity underscores the increasing momentum within the office sector, demonstrating that demand for well-located, high-quality space remains strong.

Notable 2Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Walmart	809 11 <sup>th</sup> Avenue, Building 4 815 11 <sup>th</sup> Avenue, Building 6	Sunnyvale – Moffett Park	Direct Lease	338,307
Walmart’s technology arm leased buildings 4 and 6 of Jay Paul’s Tech Corners in Sunnyvale.				
Zscaler	4301 Great America Parkway 4401 Great America Parkway	Santa Clara – Marriot Park	Sublease	301,163
Zscaler subleased 301,163 square feet, which includes 4301 Great America Parkway and 4401 Great America Parkway.				
Snap, Inc.	221 N. Mathilda Avenue	Sunnyvale – Peery Park	Direct Lease	156,050
Snap took over the entirety of the 156,050-square-foot building at 221 N. Mathilda Avenue in Sunnyvale.				
WeWork	4980 Great America Parkway	Santa Clara – Marriot Park	Direct Lease	140,965
A confidential tenant leased 140,965 square feet at 4980 Great America Parkway.				
Lightmatter, Inc.	250 Bryant Street	Mountain View – Downtown	Direct Lease	84,000
Lightmatter signed an 84-month building lease at 250 Bryant Street in Downtown Mountain View.				

Source: Newmark Research



# Silicon Valley - Submarket Map





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