2Q25

Silicon Valley R&D 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, down 30 basis points year-over-year. Nationally, the rate edged down 10 basis points from Q1 but was flat year-over-year. While both the U.S. and local markets had softened in prior years, the MSA has since rebounded to align with national labor conditions.
- Industrial-using sectors of Trade, Transportation, Utilities, Mining & Construction, and Manufacturing saw employment declines, largely due to broader macroeconomic volatility. Despite short-term fluctuations, specialized employment in the San Jose–Sunnyvale–Santa Clara MSA has historically outperformed other sectors.
- Looking ahead, the market expects two to three Federal Reserve rate cuts by year-end 2025. However, the Fed is likely to proceed cautiously as the impact of tariff-driven inflation becomes clearer.

Leasing Market Fundamentals

- Vacancy rose from 12.5% in Q2 2024 to 13.9% this quarter, bringing the 2025 year-to-date average to 13.5%. The split between direct and sublease vacancy continued, with direct vacancy up 60 bps and sublease down 25 bps. R&D vacancy remained just below the 14.3% historical average.
- After years of steady growth, Silicon Valley R&D rents fell 3.7% year-over-year but remained elevated, up 7.1% from Q2 2023 and 19.8% from Q2 2022. Mountain View stood out amid the slowdown, with Shoreline maintaining the Valley's highest asking rents, driven by its prime location, amenities, and infrastructure.
- Silicon Valley's R&D sector recorded 2.2 million SF of absorption in Q2 2025, up 5.8% from the average. Overall new leasing was quiet, with no direct transactions over 100,000 SF, though renewals dominated. Demand for infrastructure-ready space continues to support sector stability.

Major Transactions

- In total, Quanta Computer transacted upon five buildings totaling 530,144 square feet, between R&D and Warehouse buildings in the Fremont and Newark submarkets. Quanta Computer leased a total of 306,921 square feet across three buildings in the R&D sector.
- Mattson Technology, a semiconductor manufacturer, opted to renewed their 100,728 square foot free standing facility in the Fremont – Bayside submarket.

Outlook

- The R&D construction pipeline in Silicon Valley remained muted, with only one project under construction and the remaining entitled projects hesitant to break ground due to macro-economic volatility or without a tenant to commit to preleasing.
- Despite slowing growth in the U.S. information and manufacturing sectors, Silicon Valley continues to lead in R&D innovation. This momentum is expected to support local development and job growth, helping to counterbalance national declines in R&D employment.

TABLE OF CONTENTS

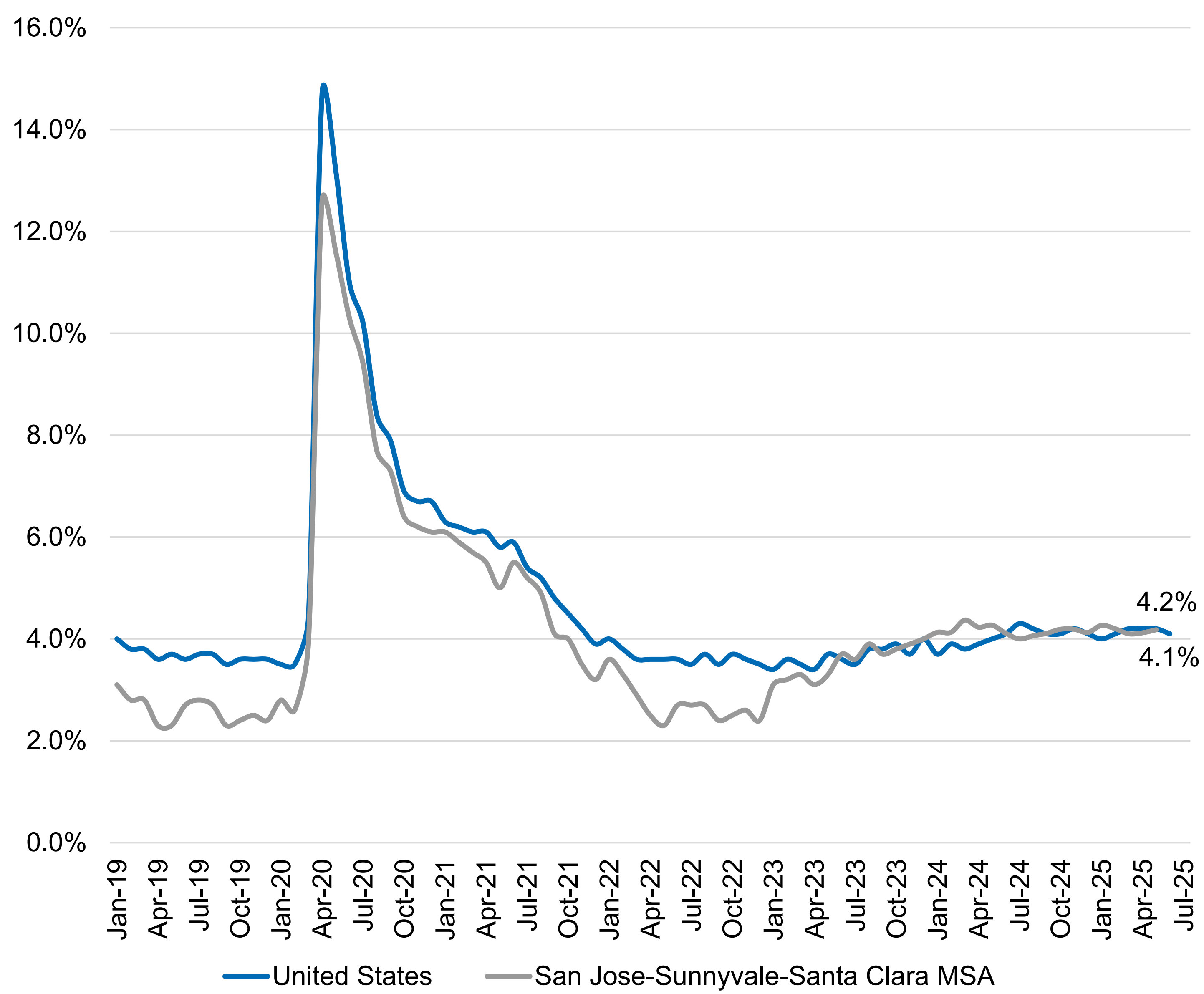
2Q25

Economy

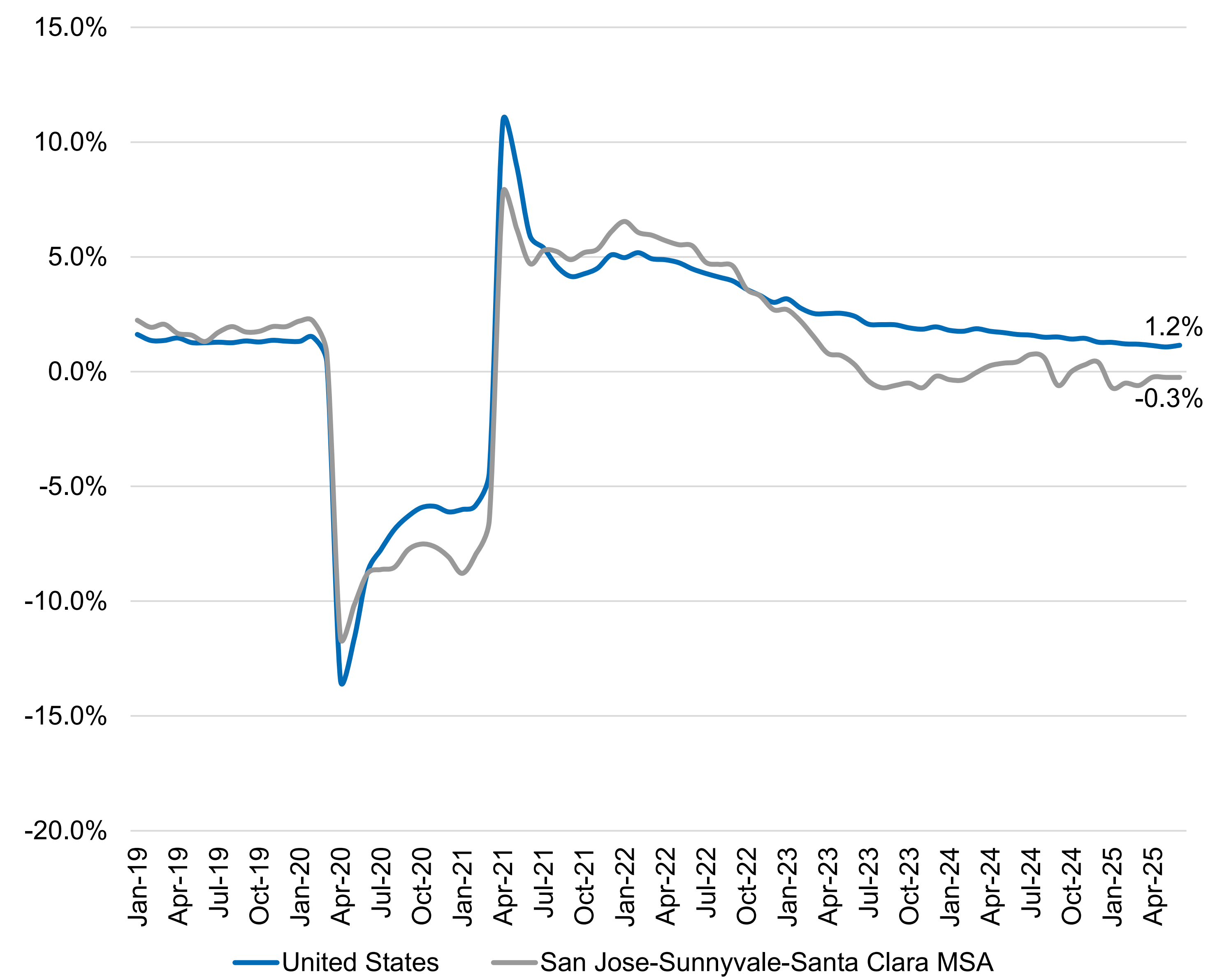
Silicon Valley Labor Market Mirrors National Unemployment Levels

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

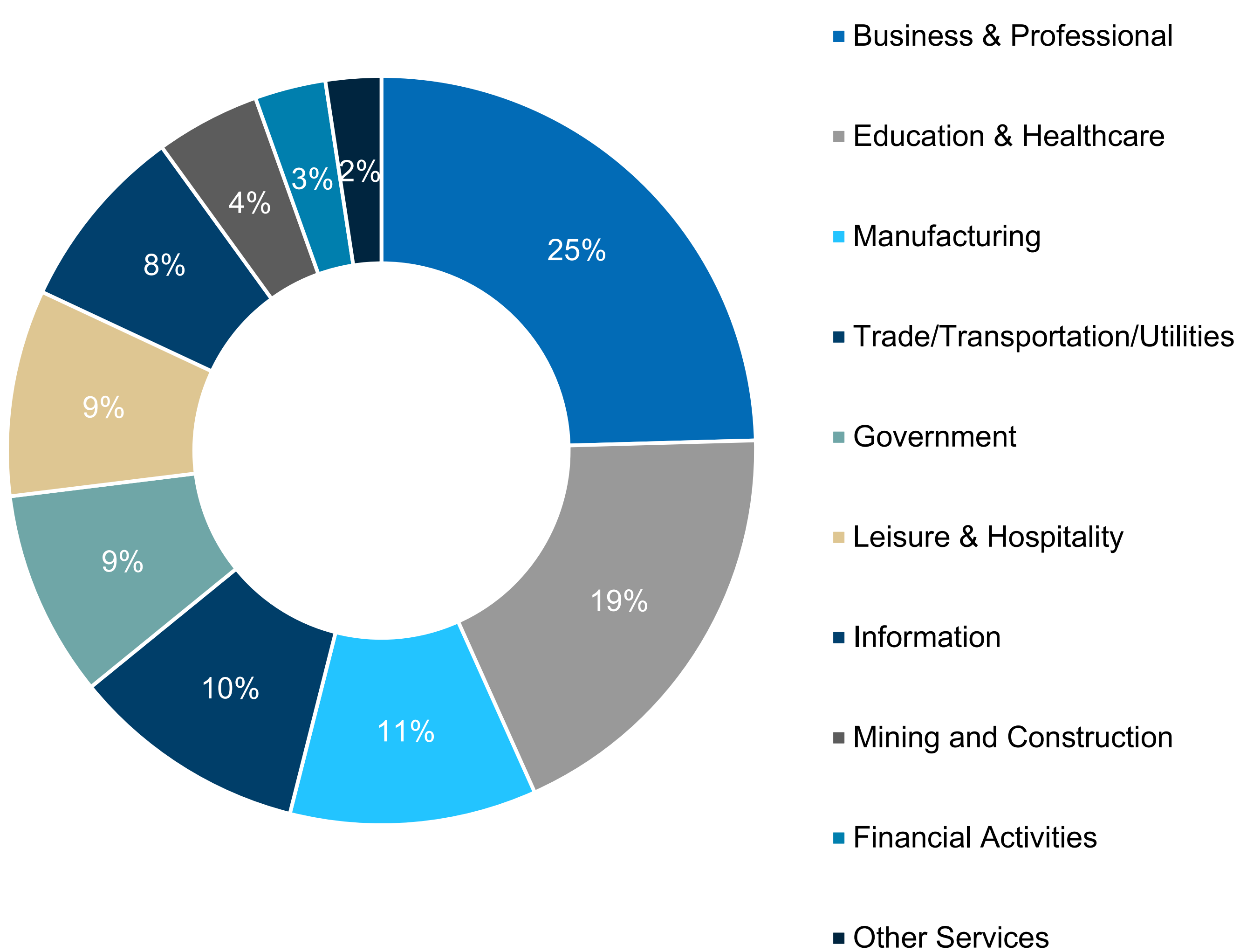


Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

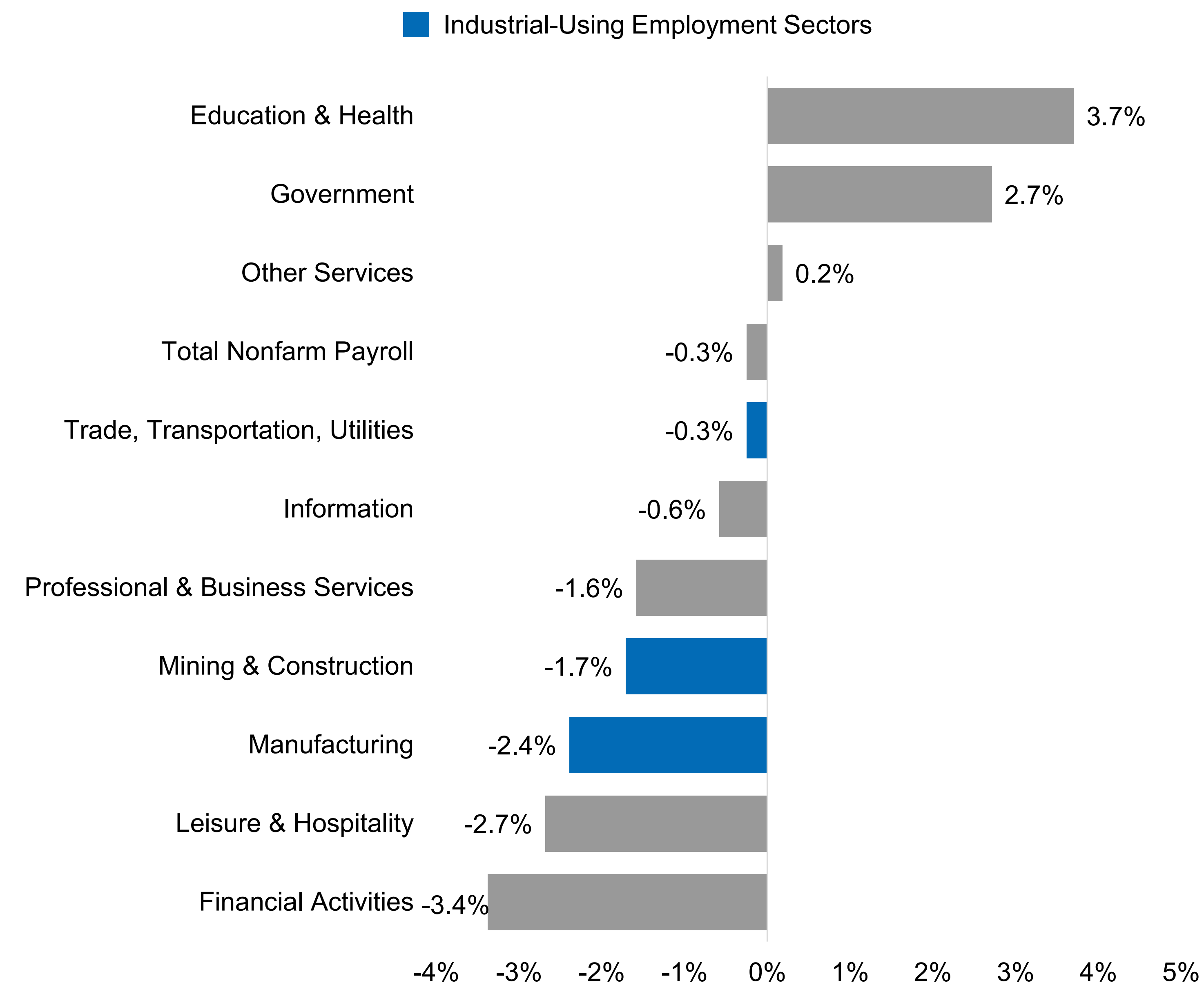
Tech Sector Continued to Shed

Industrial-using employment sectors in Trade, Transportation, Utilities, Mining & Construction, and Manufacturing all experienced employment shrinkage. Declines in industrial-using employment sectors can be attributed to a multitude of factors, stemming from macro-economic volatility. Despite near time volatility, specialized employment metrics in the San Jose-Santa Clara-Sunnyvale MSA has historically faired better than other sectors of the economy.

Employment by Industry, June 2025



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

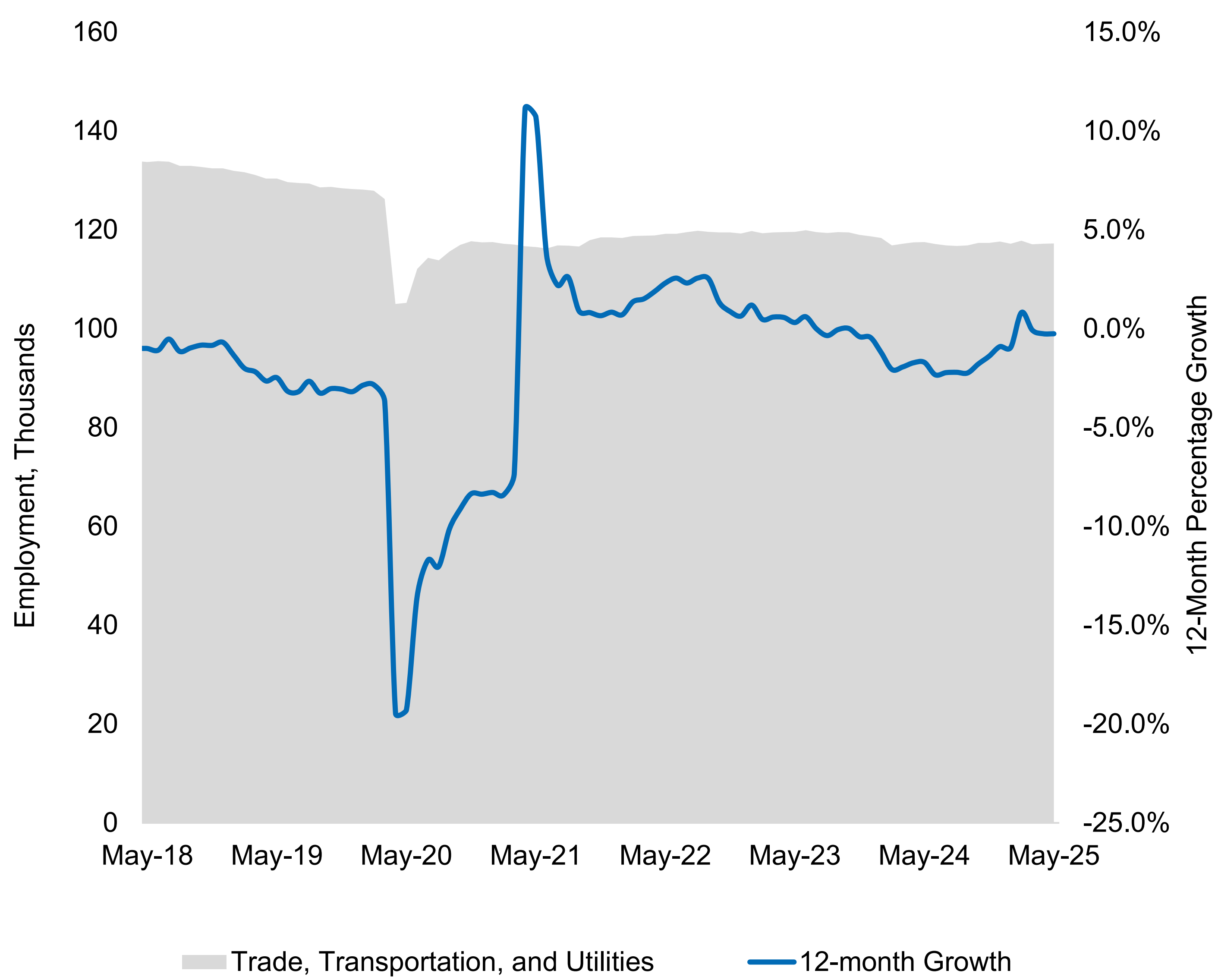


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

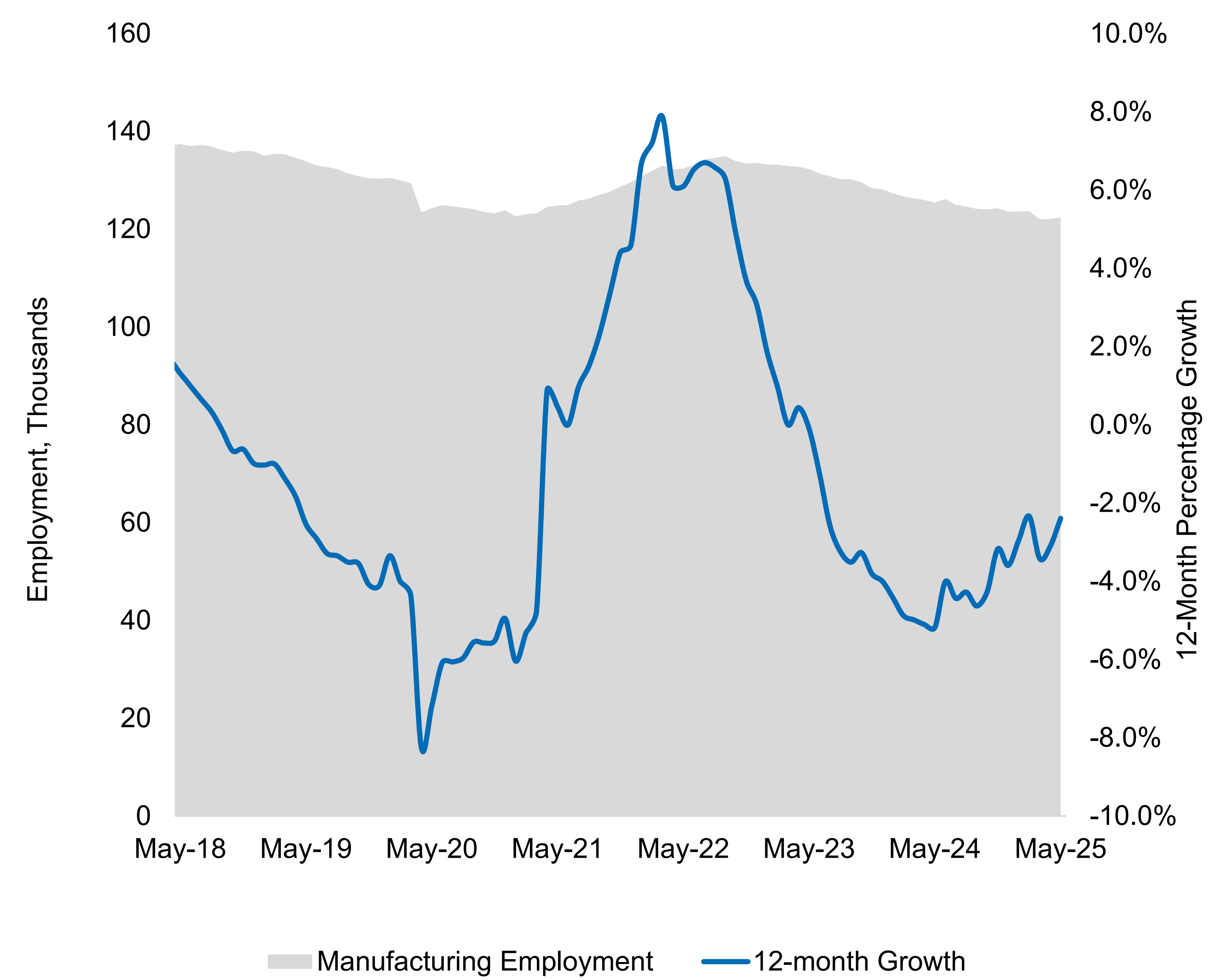
San Jose MSA Labor Market Held Steady as Manufacturing Slipped

Employment in Trade, Transportation, and Utilities held steady in Q2, with a slight -0.2% year-over-year decline. Manufacturing saw a sharper 12-month contraction of -3.0%, reflecting weak global tech demand. Some stabilization in manufacturing is possible later in the year, particularly if AI chip and infrastructure tech demand rebounds, though a full recovery may not arrive until 2026. Modest gains in Trade and Transportation could emerge from seasonal activity, but significant growth is unlikely. Tech hiring and venture capital trends remain critical indicators for future economic momentum.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



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

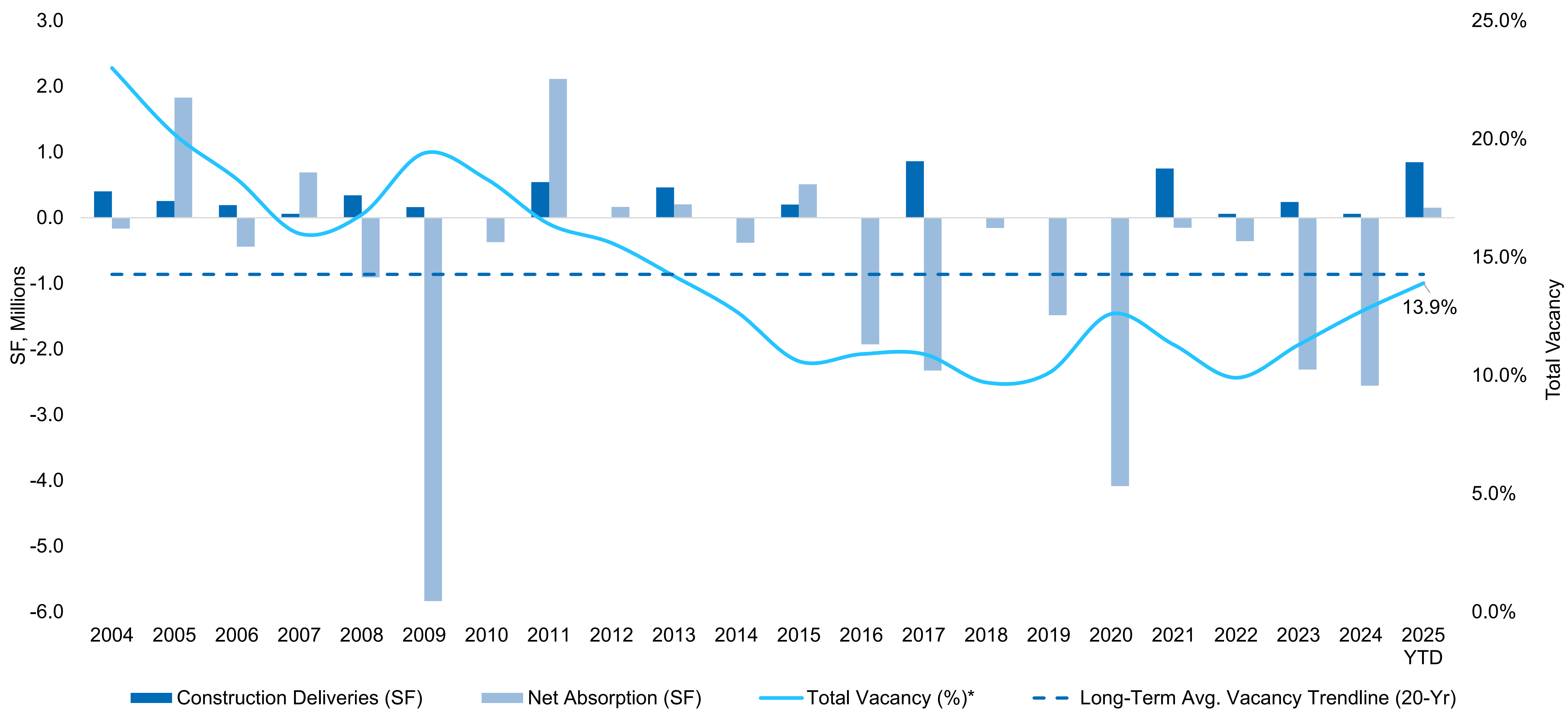
2Q25

Leasing Market Fundamentals

2025 Vacancy Up Year-to-Date as Direct Space Grows, Sublease Shrinks

Overall vacancy continued to rise, increasing from 12.5% in Q2 2024 to 13.9% in the current quarter, bringing the 2025 year-to-date average to 13.5%. The trend of divergence between direct and sublease vacancy persisted in Q2 2025, with direct vacancy rising by 60 basis points quarter-over-quarter, while sublease vacancy declined by 25 basis points. Although nearing the long-term average, R&D vacancy remained slightly below the historical norm of 14.3%.

Historical Construction Deliveries, Net Absorption, and Vacancy

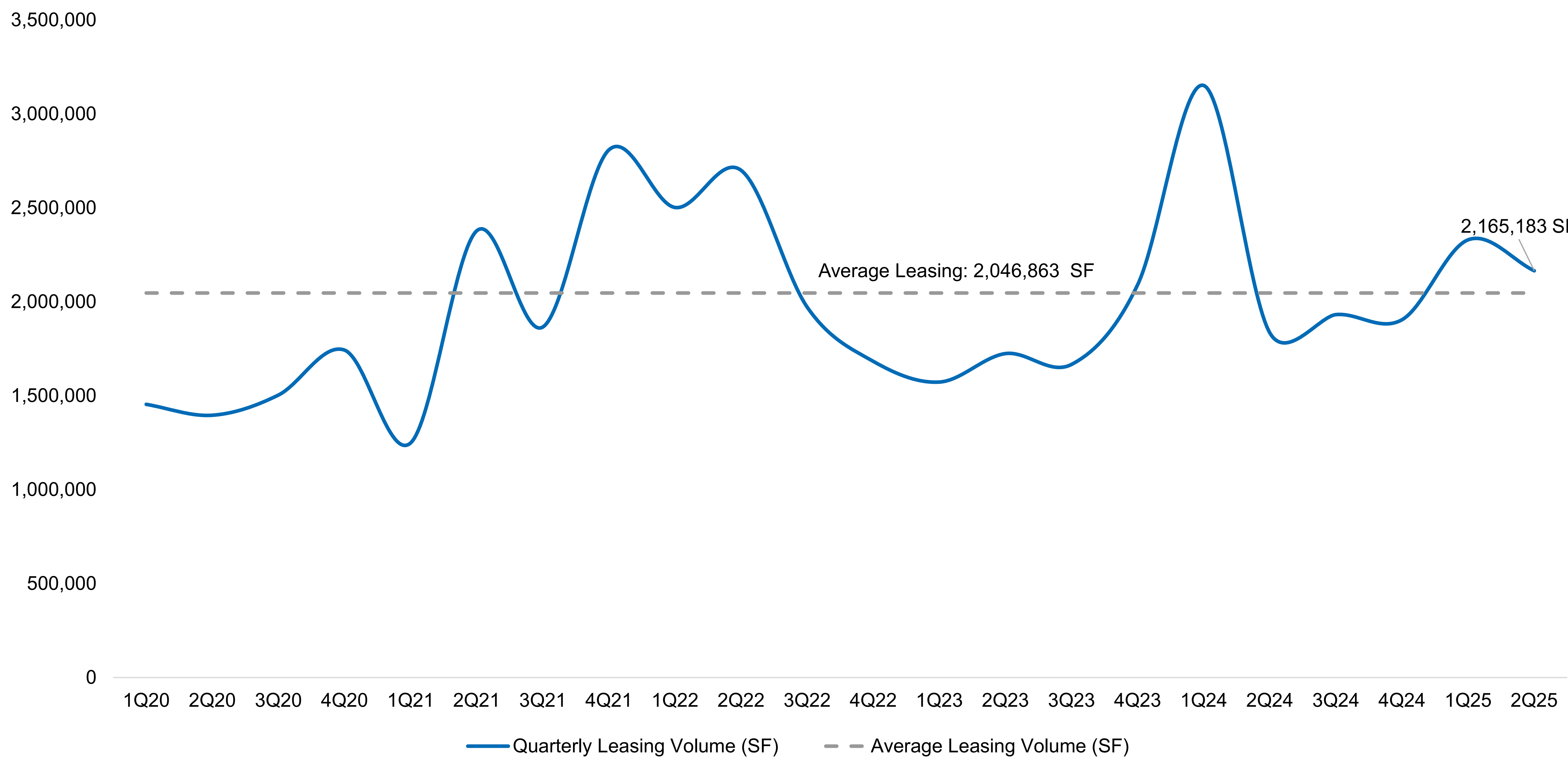


Source: Newmark Research, CoStar
*Vacancy was only tracked starting in 2023; prior figures refer to availability.

High Build-Out Costs and Uncertainty Drive Tenants Toward Renewals in Q2 2025

The second quarter of 2025 closed with activity slightly above the norm. Gross absorption recorded nearly 2.2 million square feet, up 5.8% higher than the average leasing trend, but driven largely by renewals rather than new leasing activity. R&D tenants remained anchored in their existing spaces, deterred by the high cost of specialized build-outs and the financial burden of relocation. Amid ongoing macroeconomic uncertainty, many companies reassessed their space needs and opted to stay put.

Total Leasing Activity (SF)

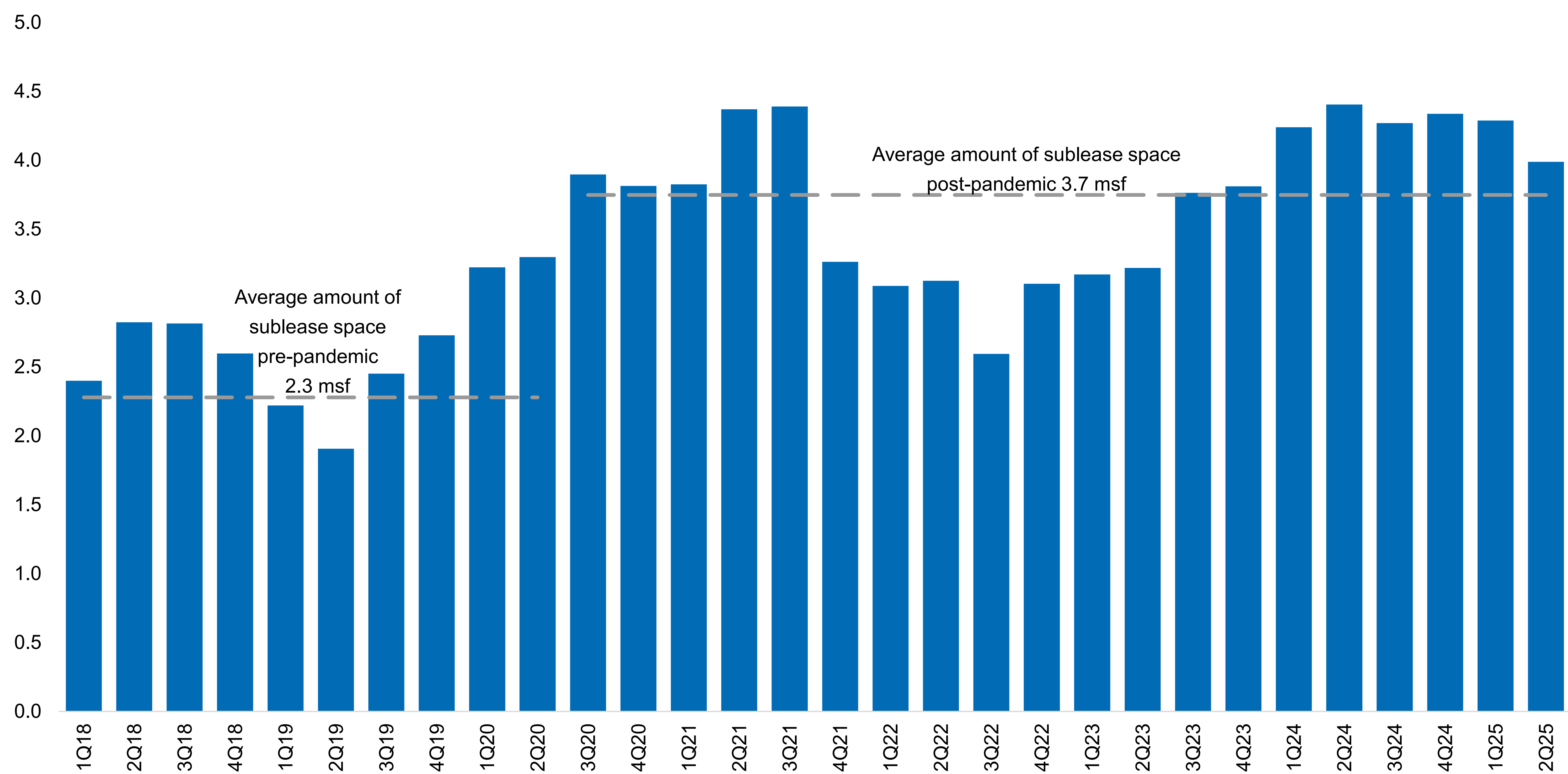


Source: Newmark Research, CoStar

Sublease Availability Eases, But Sublet Functional Challenges Persist for R&D Users

Sublease availability continued to decline at the end of the second quarter but remained elevated overall. Sublease space accounted for 21.8% of total available inventory, down 210 basis points from the previous quarter. This trend is expected to continue through the second half of 2025 as many sublease terms expire, and direct availability remains abundant. Short-term subleases without a path to direct leasing remain challenged, particularly in the R&D sector, where tenants require highly specialized buildouts. These custom build-outs drive up tenant improvement (TI) costs, which are typically not supported by most sublease offerings.

Available R&D Sublease Volume (msf)

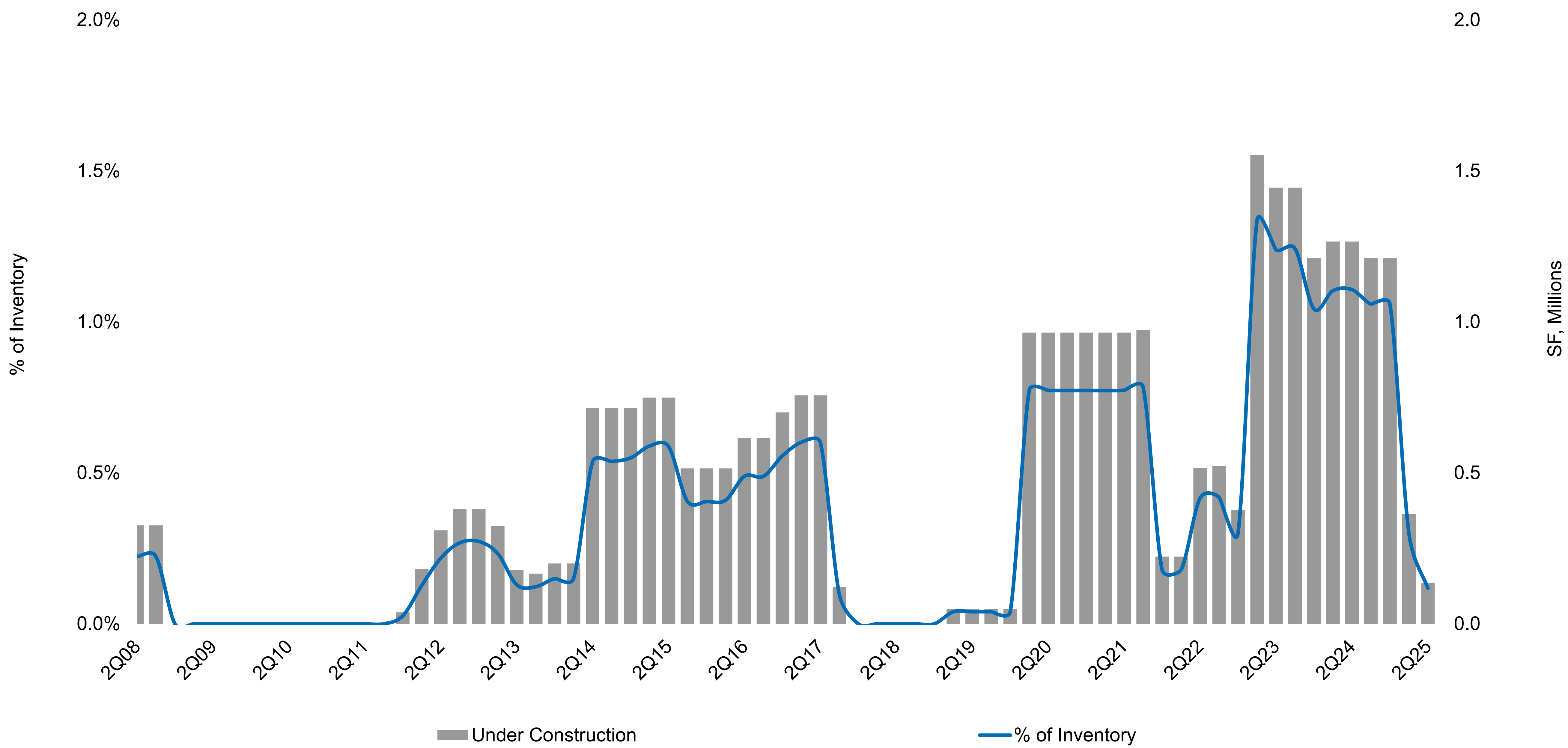


Source: Newmark Research, CoStar

Muted R&D Construction Pipeline Awaits Market Improvement

R&D construction activity remained quiet following the Phase I delivery of Intuitive Surgical's Kifer campus. At the time, the only project underway was 2000 Trade Zone Boulevard, which is scheduled for delivery in Q4 2025. Although several entitled and proposed developments in the Sunnyvale submarket had been exploring speculative or build-to-suit strategies, most will postpone groundbreaking until tenant demand strengthens, and broader economic conditions improve.

R&D Under Construction and % of Inventory

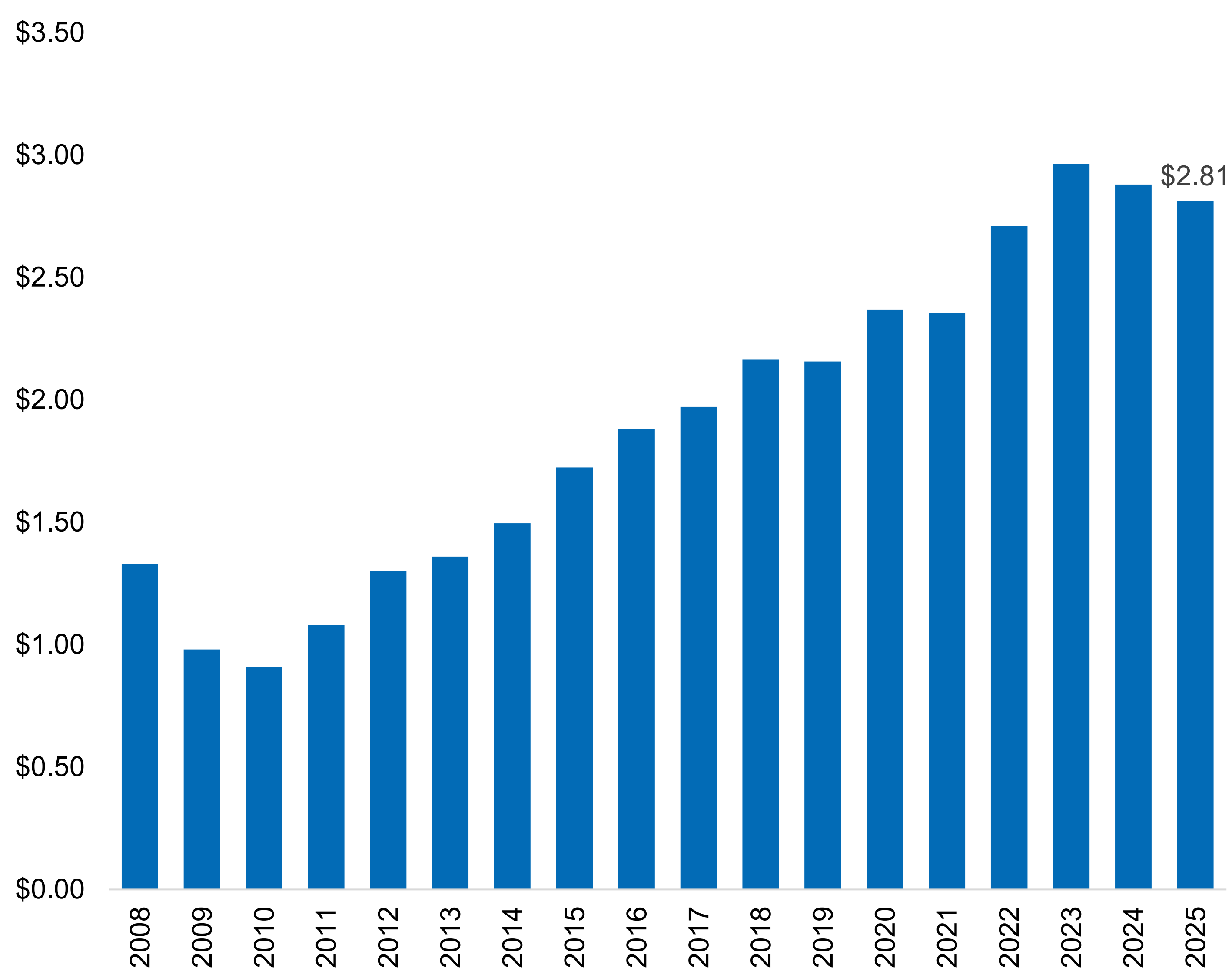


Source: Newmark Research, CoStar

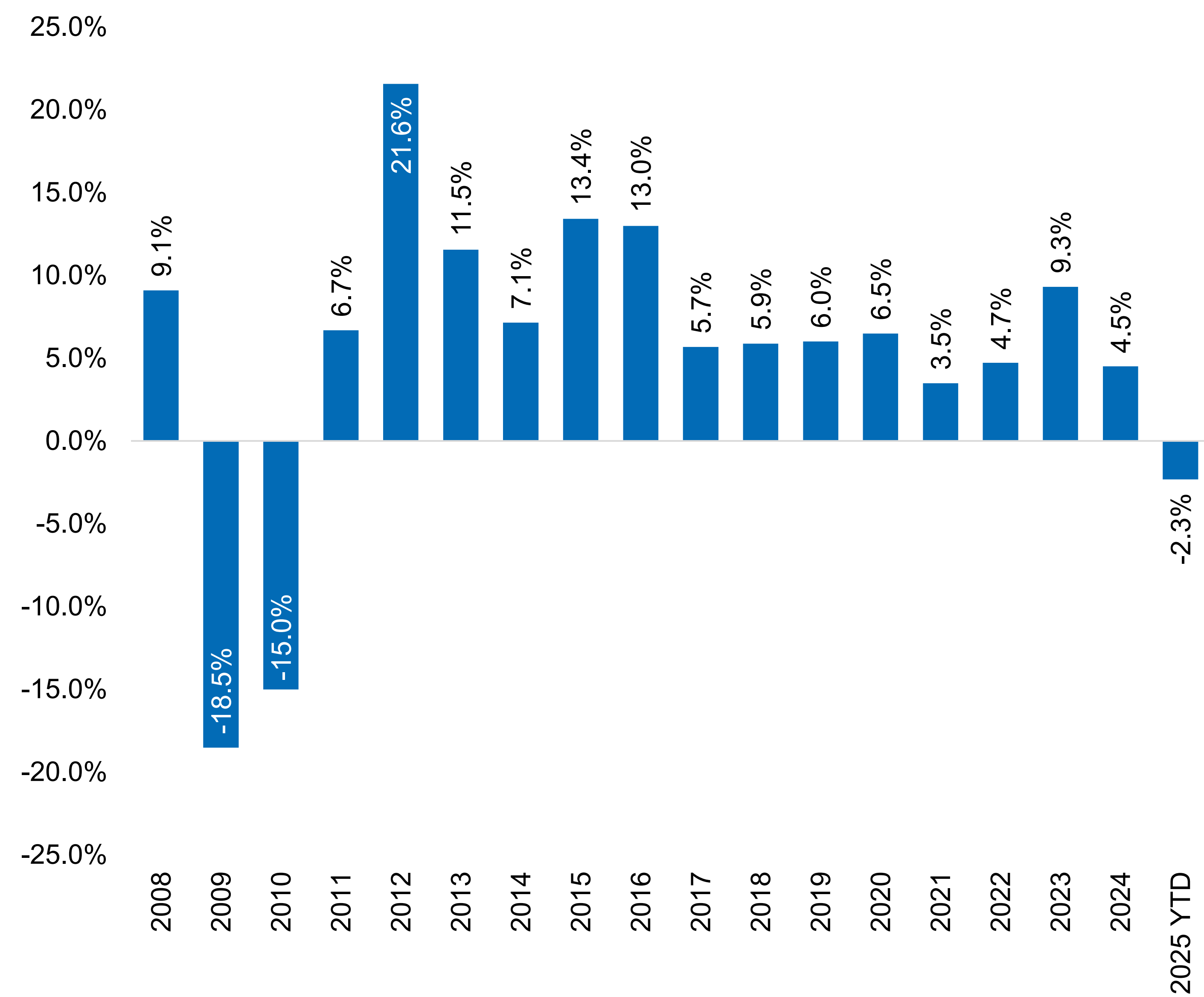
R&D Rents Continue to Soften Amid Tepid Demand and Limited Construction

R&D asking rents continued their downward trajectory from the first quarter, falling 2.9% quarter-over-quarter and declining 3.7% year-over-year. As of year-to-date 2025, the market had recorded its largest annual rent decreases since 2010, in the aftermath of the Great Financial Crisis. Despite this recent softening, rental rates had previously climbed steadily throughout the longest economic expansion on record. The recent dip appeared more a modest correction than a sharp decline. With new R&D construction remaining limited and tenants showing caution toward committing to larger blocks of space, rents seems likely to hold steady or face further gradual declines.

R&D Average Asking Rent, $/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change

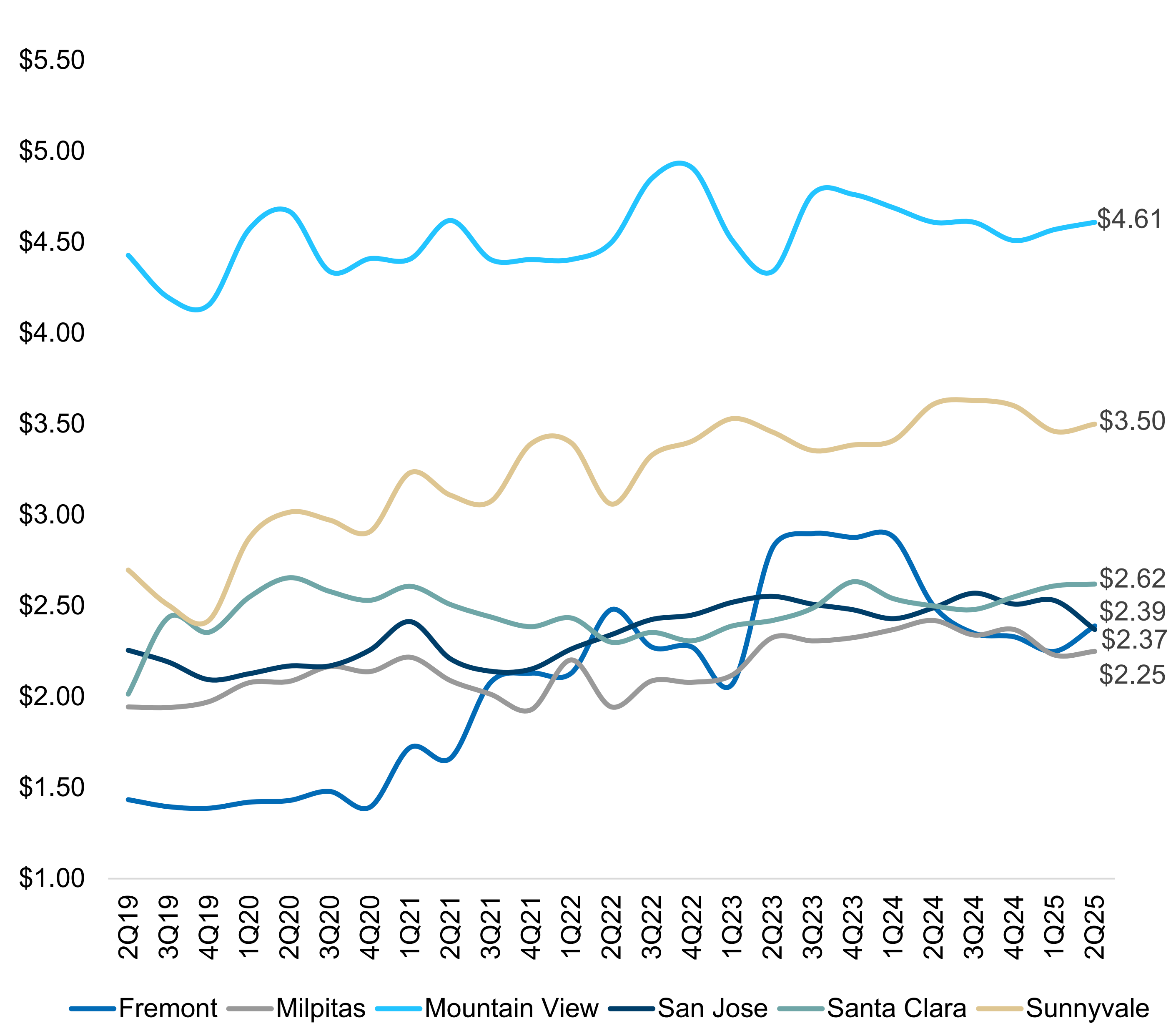


Source: Newmark Research

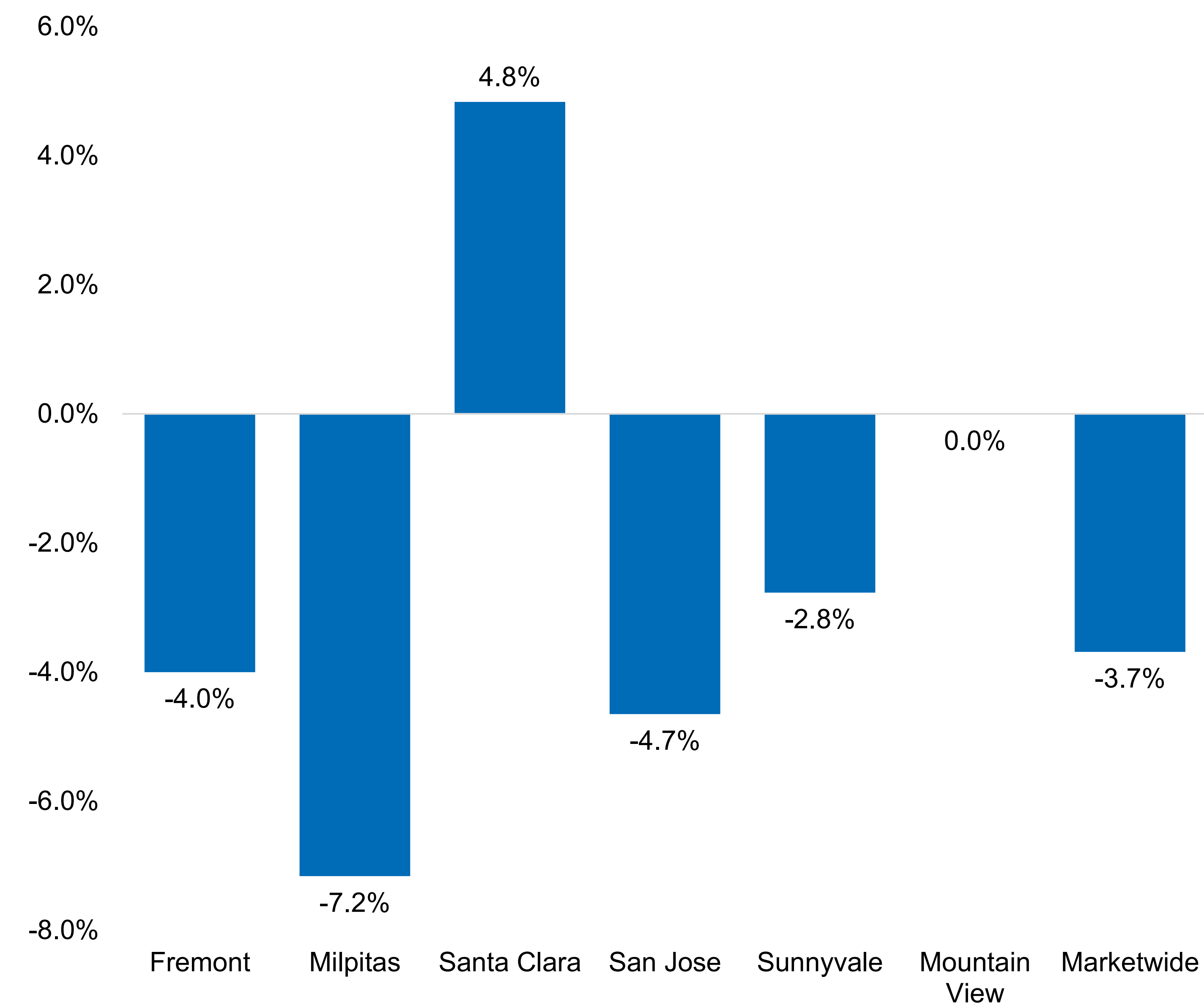
Mountain View Rents Remained Strong as R&D Rents Stabilize

After years of steady rental rate growth, most of the market saw a modest pullback. Silicon Valley's R&D rental rates declined 3.7% year-over-year, but from a longer-term perspective, the market remained elevated, up 7.1% from Q2 2023 and 19.8% from Q2 2022. Mountain View stood out amid the broader slowdown, with the Shoreline submarket having maintained the highest asking rents in Silicon Valley. Shoreline submarket buildings command premium rents due to location, attractive amenities, and advanced infrastructure.

Asking Rent by Submarket



Year-over-year Percent Change in Asking Rate



Source: Newmark Research, CoStar

Silicon Valley R&D Favored Renewals

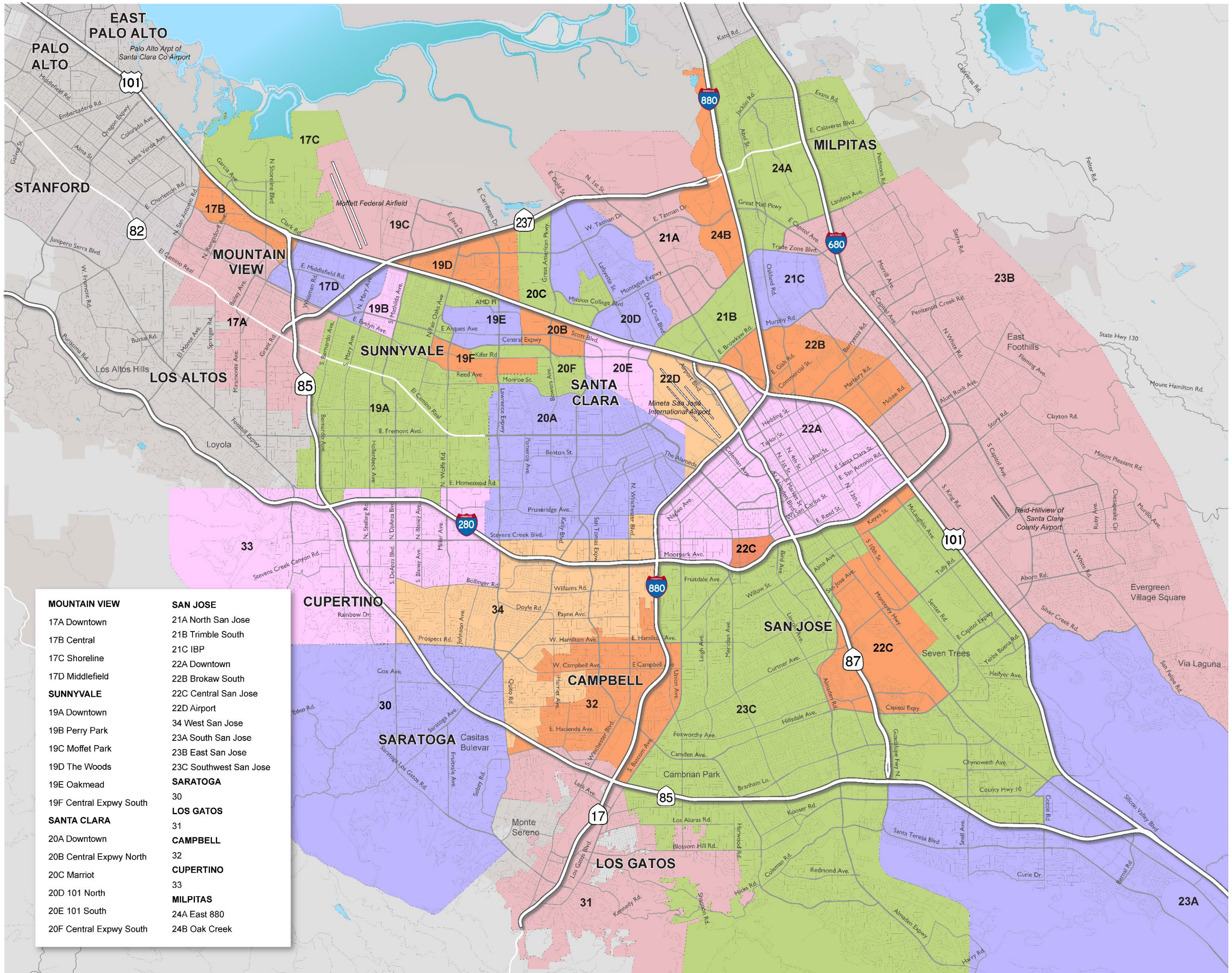
Silicon Valley's R&D sector posted 2.2 million square feet of gross absorption in Q2 2025, 5.6% above the average. Leasing activity was subdued, with no direct transactions exceeding 100,000 square feet. Despite this, the R&D sector historically remains resilient to macroeconomic headwinds, due to ongoing demand for specialized infrastructure and manufacturing capabilities.

2Q25 Top Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Quanta Computer	45550 Northport Loop East, 45225 North Port East, 39700 Stevenson Point Tech Park II	Fremont - Bayside	Lease Renewals / Direct Lease	306,921
Quanta Computer, an electronic manufacturing company, renewed multiple locations, with 45550 Northport Loop East being their largest freestanding building renewal in the Northport Business Park.				
Mattson Technology	47131 Bayside Parkway	Fremont – Bayside	Lease Renewal	100,728
Mattson Technology, a manufacturer of semiconductor wafer processing equipment, renewed their space in the Bayside Fremont submarket.				
Fujifilm Dimatix	2220-2250 Martin Avenue	Santa Clara – 101 South	Lease Renewal	71,823
Fujifilm Dimatix, an inkjet printhead technology firm, renewed at 2220, 2230, and 2350 Martin Avenue for a combined 71,823 square feet.				
Collaborative Robotics	4750 Patrick Henry Drive	Santa Clara – Marriott Park	Direct Lease	65,360
Collaborative Robotics, a humanoid robotics developer, leased the entire building at 4750 Patrick Henry Drive, in the Marriott Business Park.				
Confluent Medical	47513 Westinghouse Drive	Fremont – Mission Park	Lease Renewal	65,136
Confluent Medical, a medical device manufacturer, renewed their entire freestanding building in the Fremont Research Center.				

Source: Newmark Research

Silicon Valley – Submarket Map



For more information:

Michael Simunovic
Associate Director, Research
Silicon Valley Research
Michael.Simunovic@nmrk.com

Gerson Morales
Research Analyst
Silicon Valley Research
Gerson.Morales@nmrk.com

Silicon Valley Office
3055 Olin Ave, Ste 2200
San Jose, CA 95128
t 408-727-9600

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

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.

NEWMARK

Please reach out to your
Newmark business contact for this information