

2Q25

# South Peninsula Office Market Overview

NEWMARK

# Market Observations

## Economy

- Throughout 2025, we will closely monitor the impact of potential tariffs, deregulation, and changes in federal interest rates on market dynamics. New construction in the South Peninsula will likely remain constrained as possible tariffs could further exacerbate already elevated construction costs.
- The Vanguard U.S. economic forecast projects rising unemployment levels, inflation increasing to 4% from 2.8%, and business investment growth of 3.4% in 2025.
- Deloitte's economic outlook anticipates one 50-basis-point cut interest rate reductions during 2025, with rates projected to settle around 4% by year-end.
- These macroeconomic factors will significantly influence leasing decisions, particularly among tenants seeking flexibility in their real estate commitments amid evolving economic conditions.

## Major Transactions

- The second quarter's largest transaction involved Lightmatter, securing 84,000 square feet of office space in the Mountain View - Downtown submarket.
- Biopharmaceutical company Summit Therapeutics subleased 36,406 square feet in the Stanford Research Park submarket of Palo Alto. The transaction absorbed space previously occupied by Ascendis Pharmaceutical and was completed within 90 days of the space becoming available to the market. Newmark represented the sub-landlord on the deal, efficiently executing a deal for their client.
- Robinhood completed a lease renewal, for the entire building on 68 Willow Road, Menlo Park.

## Leasing Market Fundamentals

- The South Peninsula market posted 776,485 square feet of gross absorption in Q2, putting the region on track to hit the 15-year historic average of 3.5 million square feet for the year.
- The South Peninsula market experienced 49,649 SF of positive net absorption in 2Q25. Palo Alto itself recorded 75,227 SF of positive net absorption throughout the 2<sup>nd</sup> quarter.
- Palo Alto and Mountain View were the standout performers, accounting for 31.8% and 29.4% of total absorption respectively, with both cities logging over 225,000 square feet of leasing activity this quarter. This shows that these two key markets are experiencing solid demand and attracting tenants

## Outlook

- In our analysis, market indicators suggest that office vacancy rates across the South Peninsula will begin to trend downward. Newmark Research is seeing several factors that support this outlook, including increased demand and a notable slowdown in sublease space coming to market. Furthermore, we anticipate that the limited new construction pipeline will help accelerate this vacancy reduction as existing inventory gets gradually absorbed.
- Artificial Intelligence (AI) companies and their associated capital investments have emerged as significant drivers of office space demand. According to Pitchbook, with nearly 650 reported AI companies within the city of Palo Alto, the global AI race has found a home in the South Peninsula.
- As evidenced by recent media coverage, AI companies have concentrated their hiring efforts on Bay Area-based talent. This regional focus positions the Bay Area to benefit significantly as AI companies continue their expansion.

1. Economy
2. Leasing Market Fundamentals
3. Appendix



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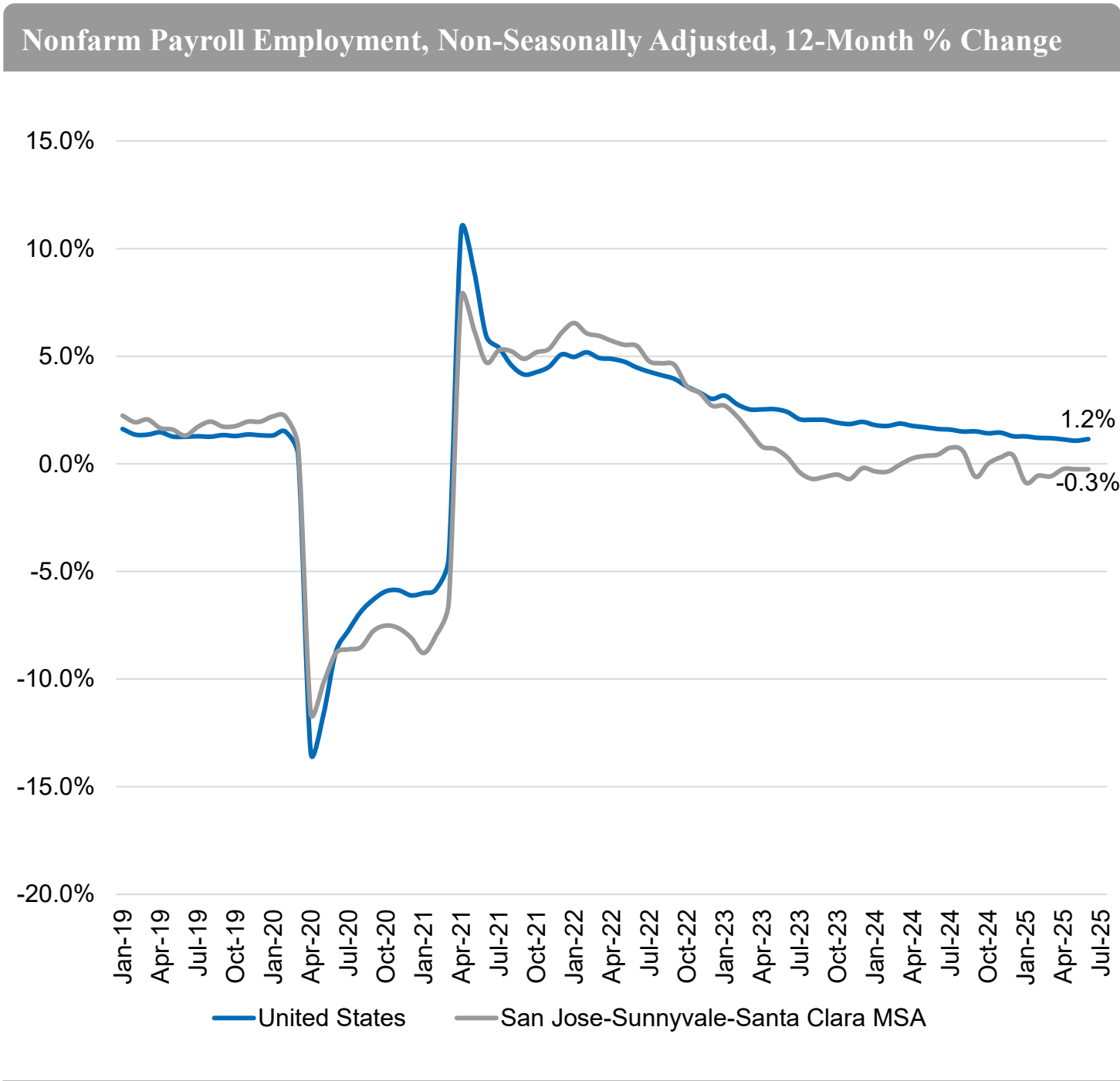
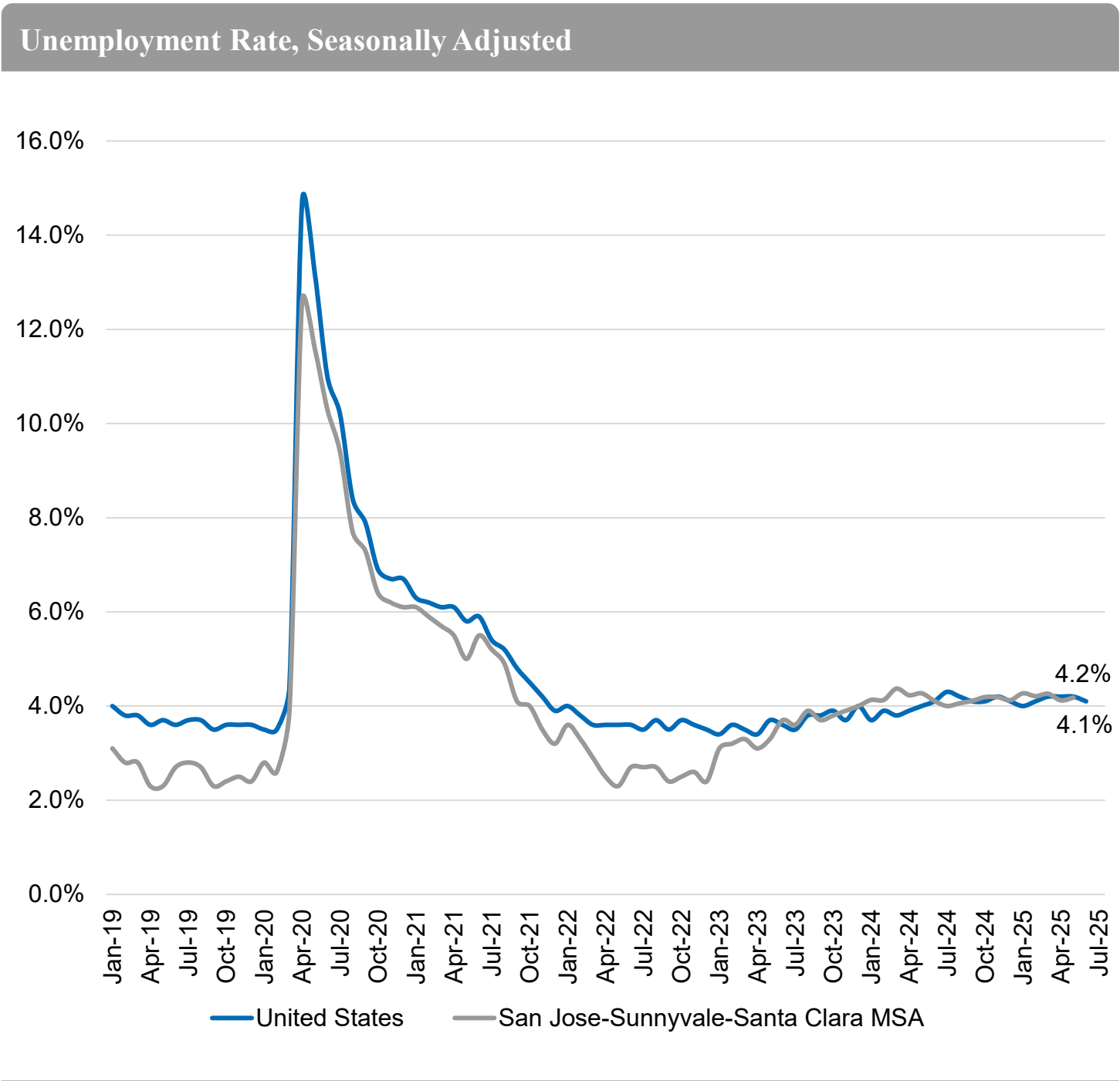
# Economy





# 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.



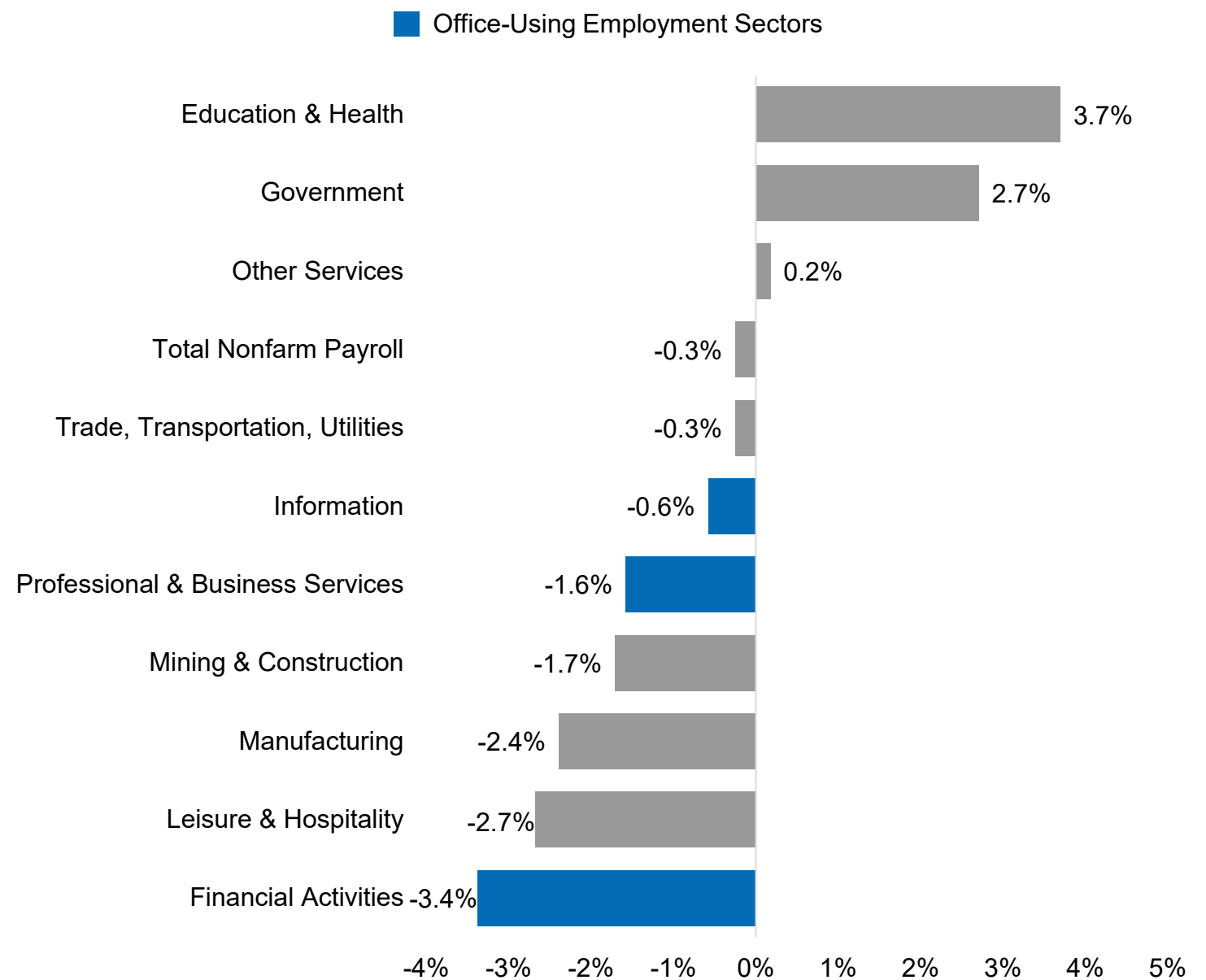
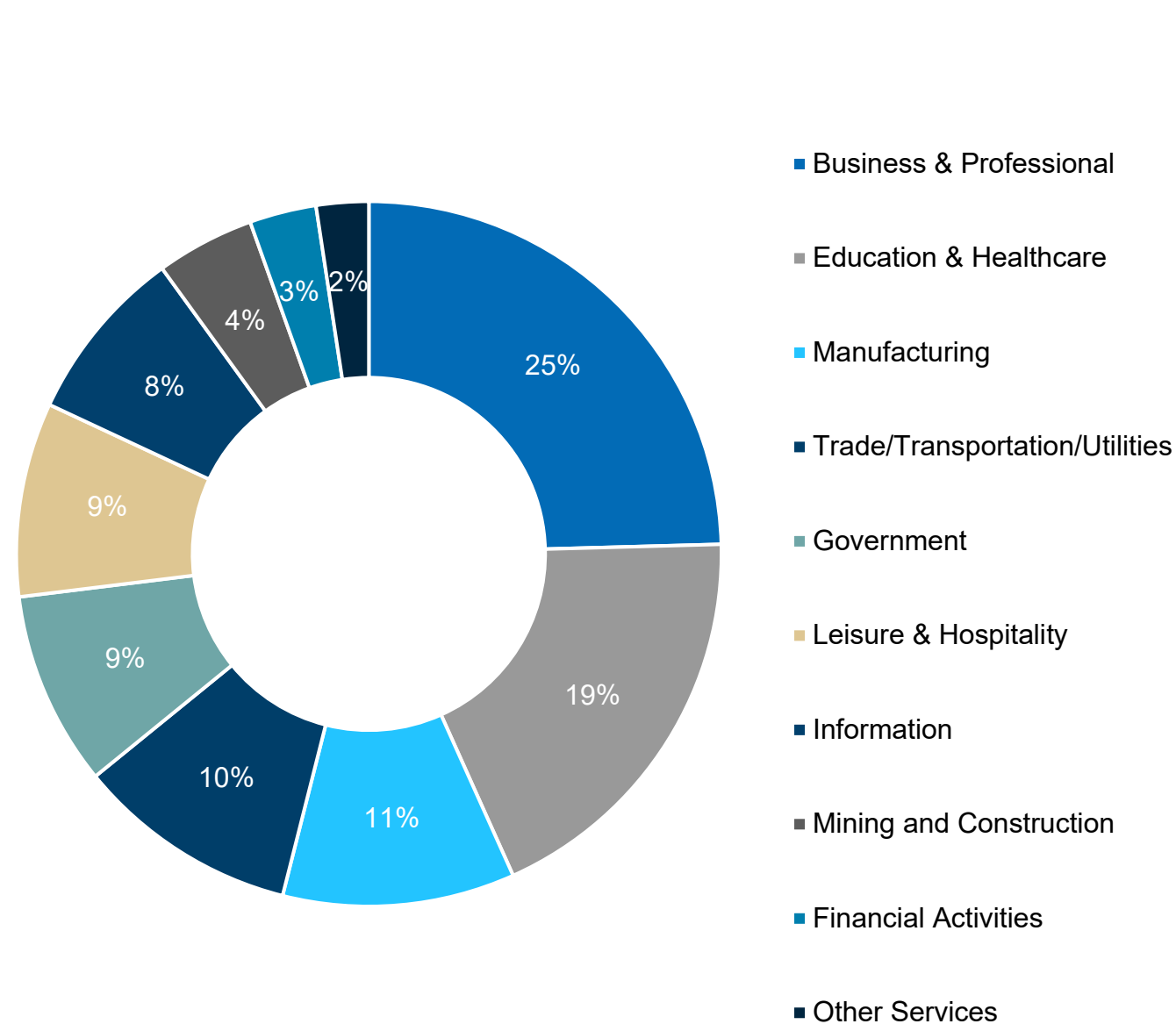
Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale  
National data is as of June. May is the latest month available for metro employment stats

# 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

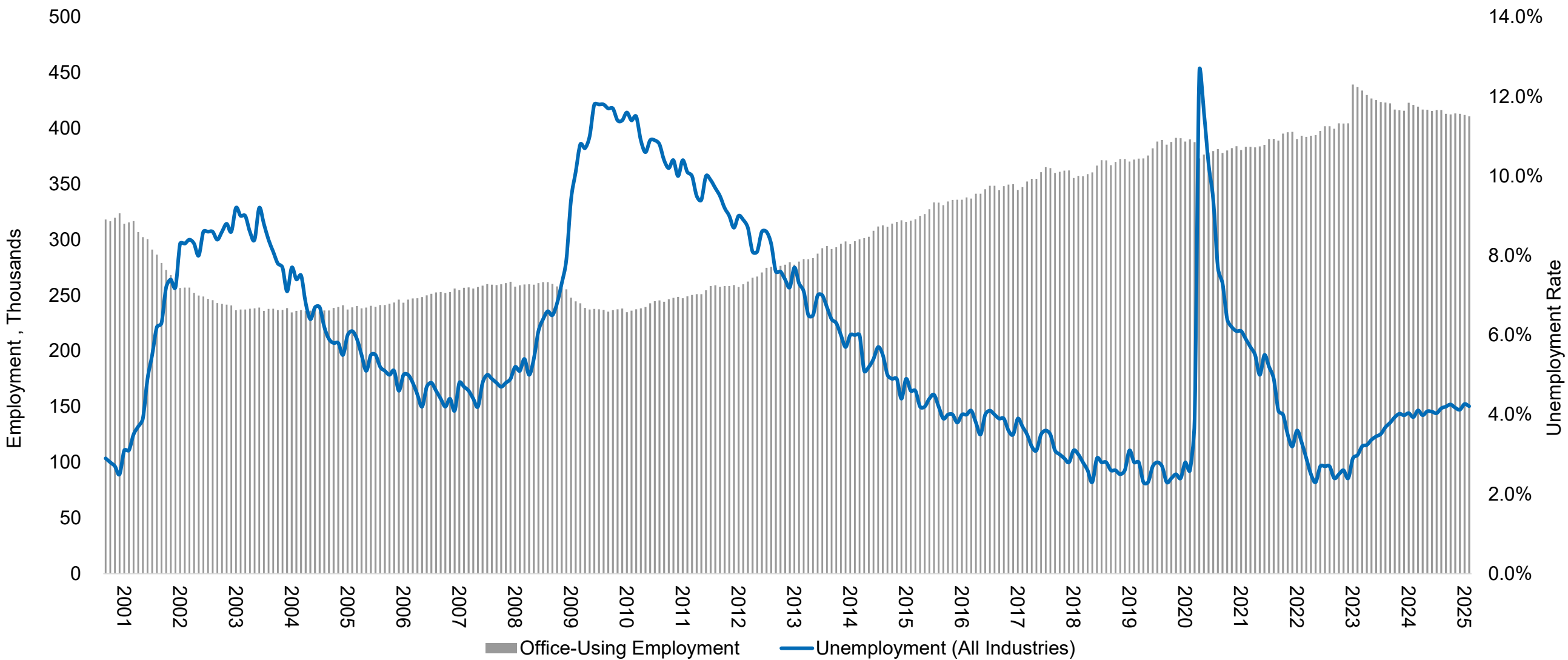


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

# 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 recording 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

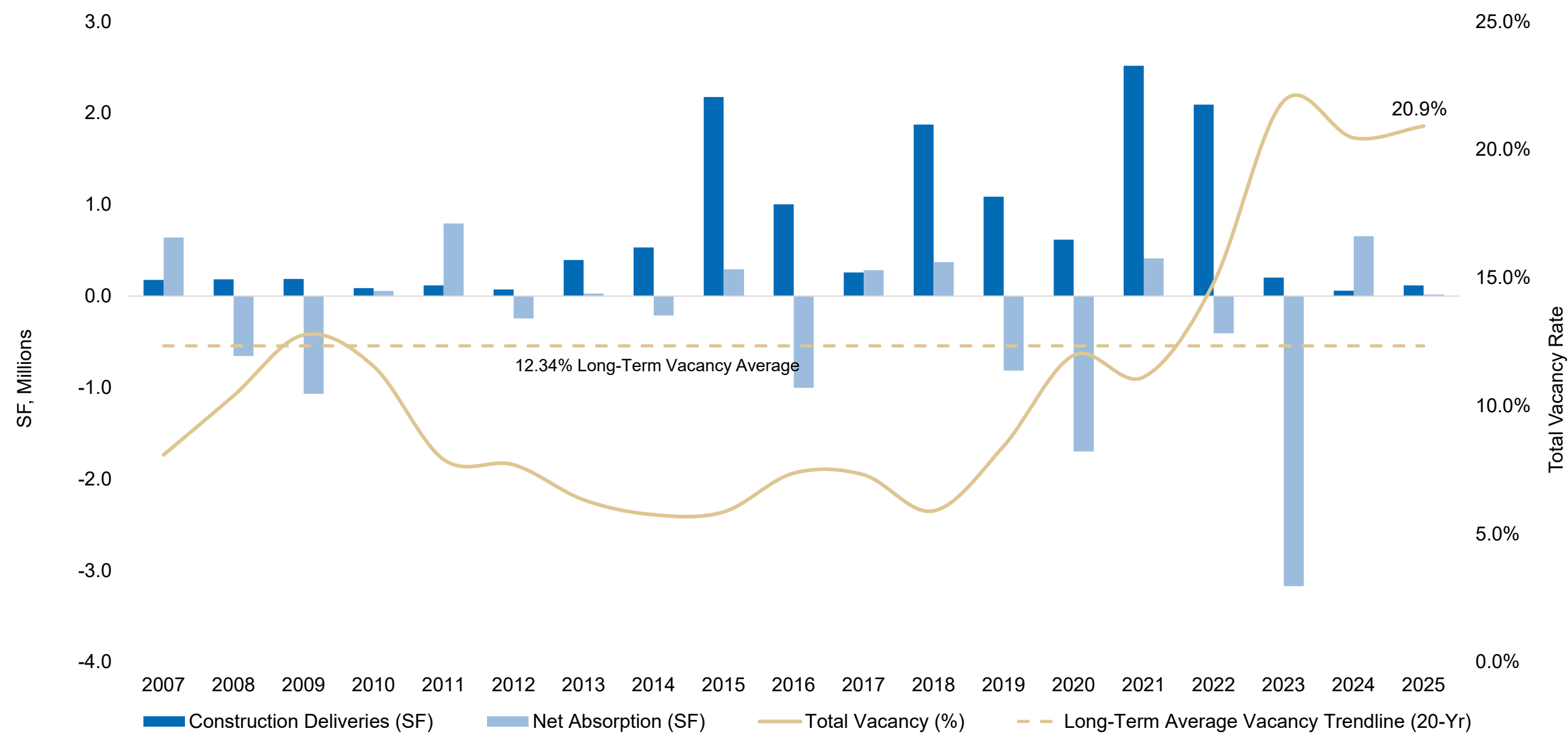




# South Peninsula Office Market Poised for Recovery as Vacancy Rates Hit Ceiling

Market data in 2025 suggests vacancy rates have likely peaked and will start declining over the next few years. This expected decrease will be driven by limited new construction, growing demand from AI companies, and employers continuing to hire from the Peninsula. The completion of 200 Lathrop (ELCO Yards) in Redwood City brought 117,000 square feet of top-tier trophy space to the market, which temporarily bumped up regional vacancy. However, this high-quality addition should attract premium tenants and help support the market's recovery going forward.

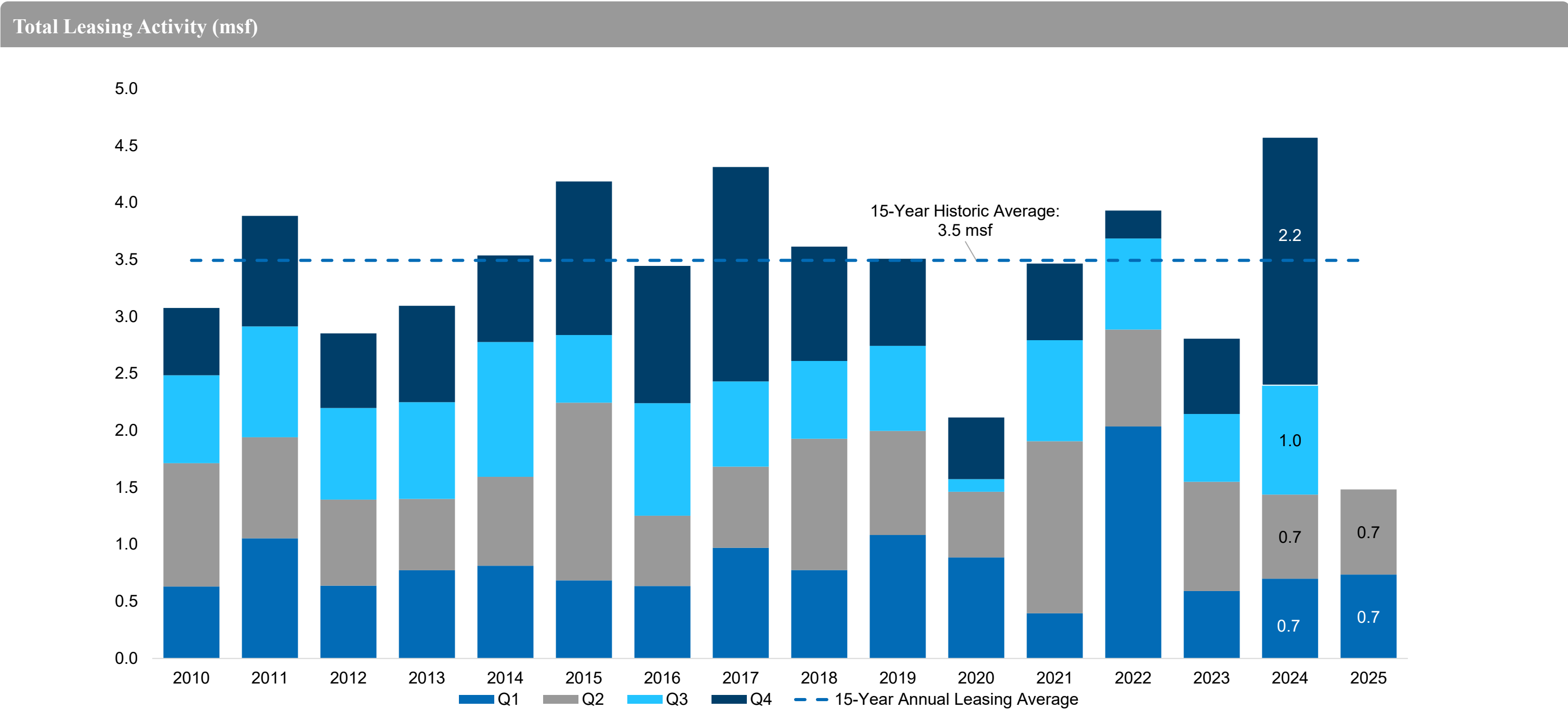
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# South Peninsula Office Market On-Track to Exceed Yearly Total Leasing Average

The South Peninsula market posted 746,675 square feet of gross absorption in Q2, putting the region on track to hit the 15-year historic average of 3.5 million square feet for the year. Palo Alto and Mountain View were the standout performers, driving 33.1% and 26.6% of total absorption respectively, with both cities logging 200,000 square feet of leasing activity this quarter.



Source: Newmark Research, CoStar



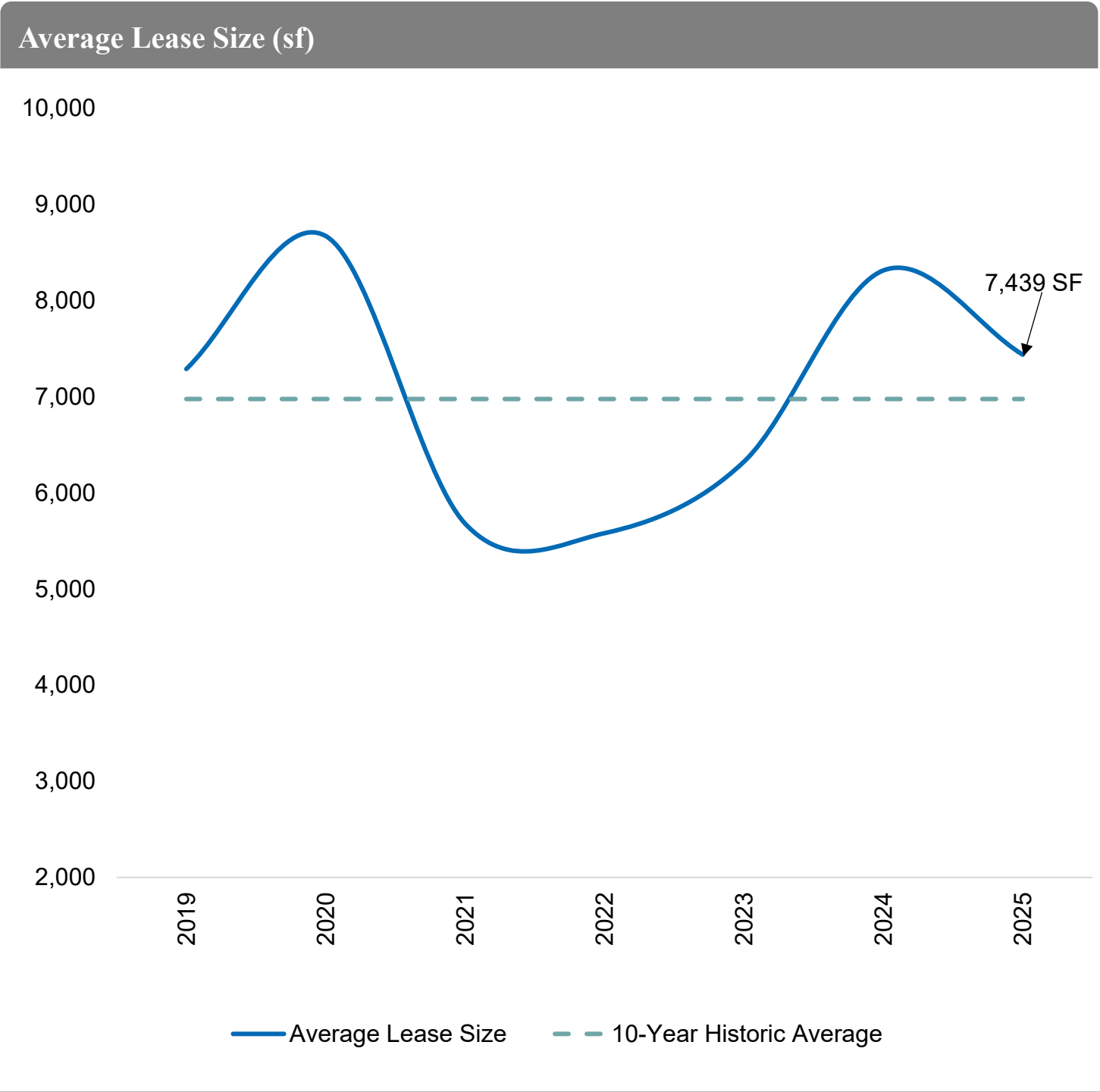
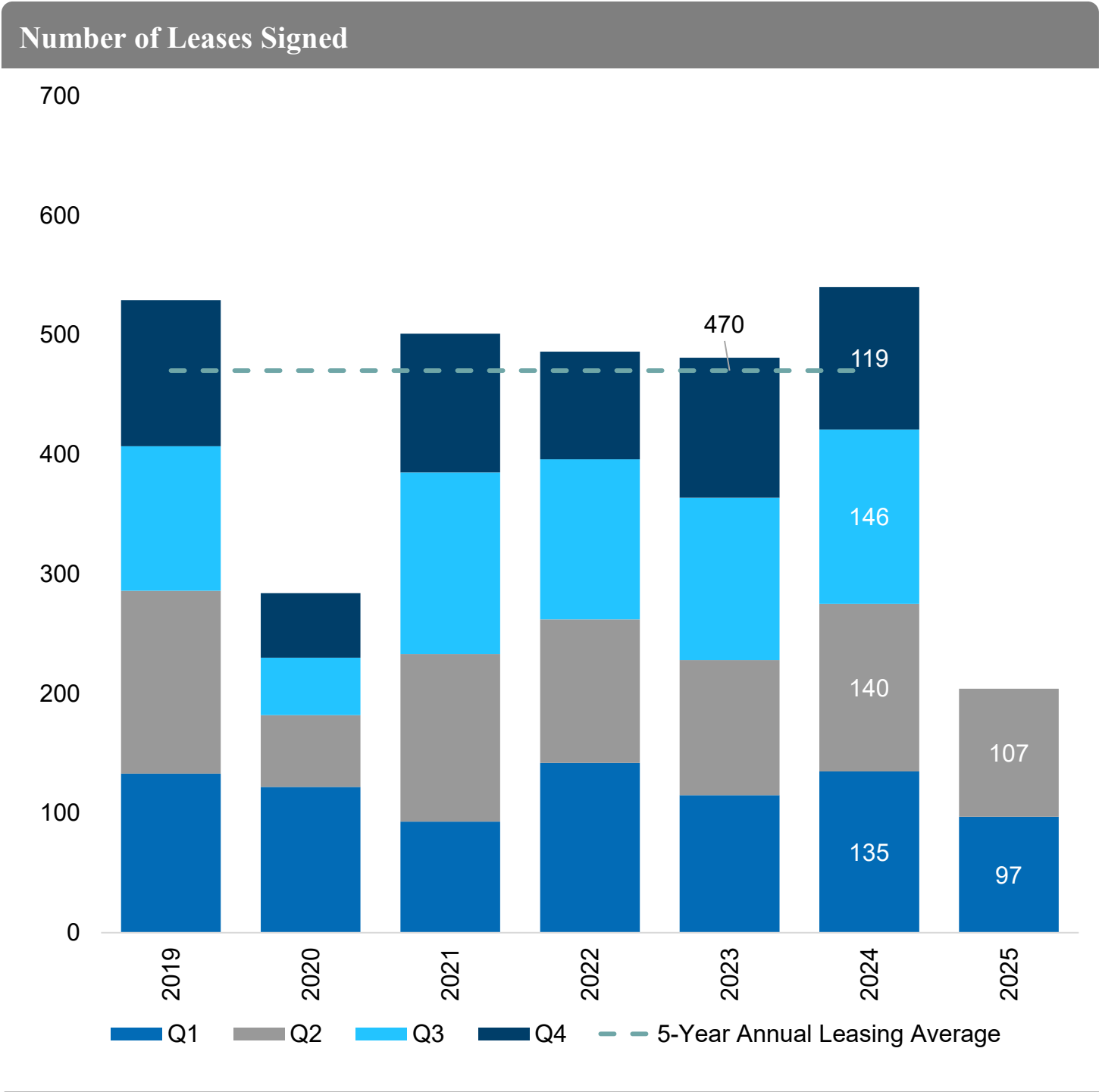


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# South Peninsula Transaction Volume Fell as Tenants Stay in Place

The South Peninsula market recorded significantly fewer total transactions compared to Q2 2024, reflecting a 23.6% year-over-year decrease. Additionally, tenant re-occupancy increased across the South Peninsula, with over 80,000 square feet of space being re-occupied during the quarter. As the supply of high-quality space is reduced, companies are electing to stay in place and sign long-term renewals in the high-quality buildings they were able to occupy during the years of higher availability.



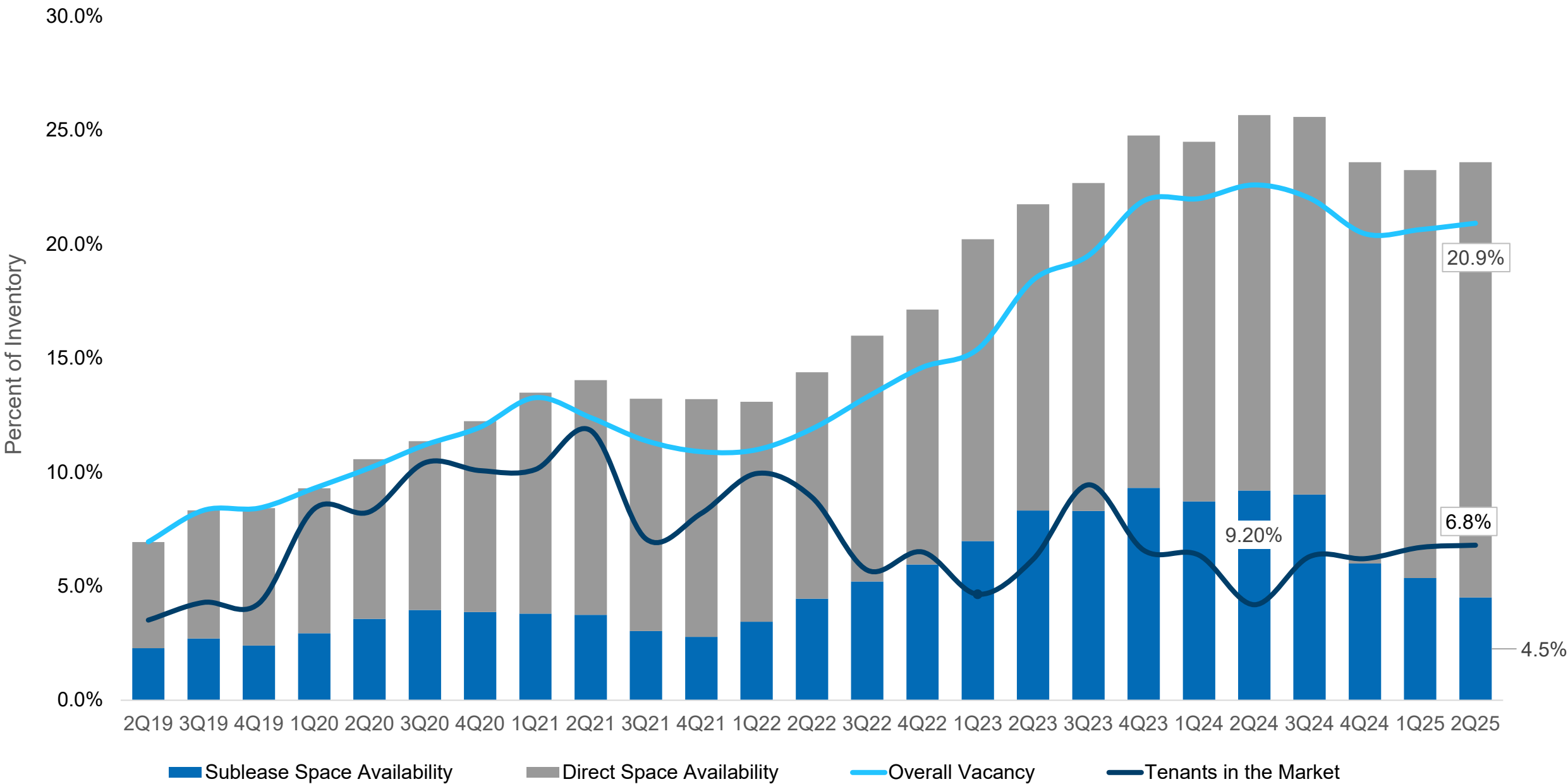
Source: Newmark Research



# Sublease Availability Plunged 48.9% Year-Over-Year in South Peninsula Market

Tenant demand remains strong, and the shrinking sublease inventory is a positive sign for South Peninsula market health. Sublease availability now sits at 4.5% of total market availability, down 48.9% year-over-year. This decline shows that tenants are moving past the downsizing strategy we've seen in recent years. With less discounted sublease space available, we're likely to see upward pressure on asking rates, which strengthens landlords' negotiating position.

Available Space and Tenant Demand as Percent of Overall Market

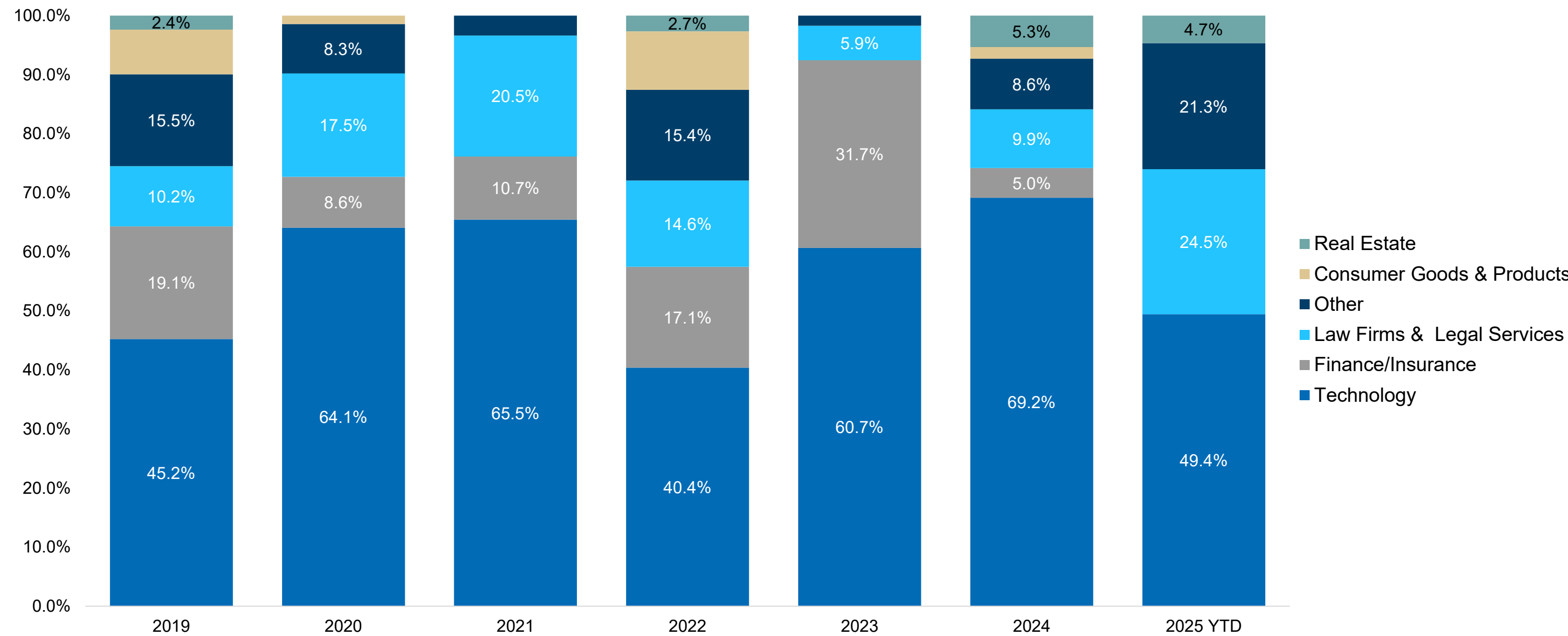


Source: Newmark Research

# Tech Companies Lead Leasing as AI Sector Drove South Peninsula Activity

Technology companies emerged as the primary drivers of large-scale transactions exceeding 20,000 square feet this quarter. AI-adjacent companies continued to fuel leasing activity throughout the South Peninsula, with Lightmatter's 84,000 SF lease representing the quarter's largest office transaction. This deal establishes a new headquarters for the emerging semiconductor company and underscores the technology sector's continued expansion in the region.

Percentage of Total SF Leases Among Leases Greater than 20,000 SF



Source: Newmark Research





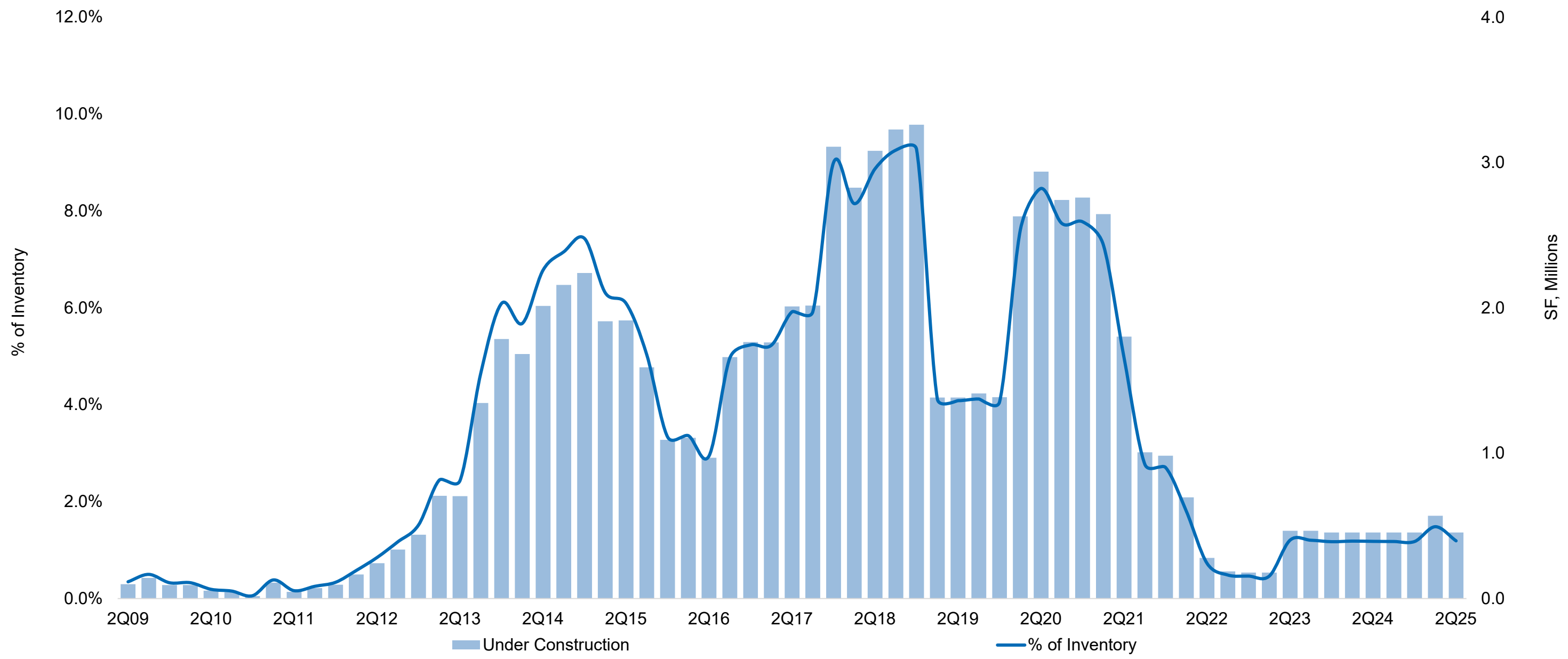
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# High Vacancy and Rising Costs Stalled South Peninsula Office Projects

Office construction in the South Peninsula remains on hold indefinitely as the region continues to deal with high vacancy rates, rising construction costs, and an uncertain capital markets environment. We expect this construction halt will continue until vacancy rates drop substantially from current levels or interest rates fall significantly, reducing financing costs and making projects more feasible.

Office Under Construction and % of Inventory



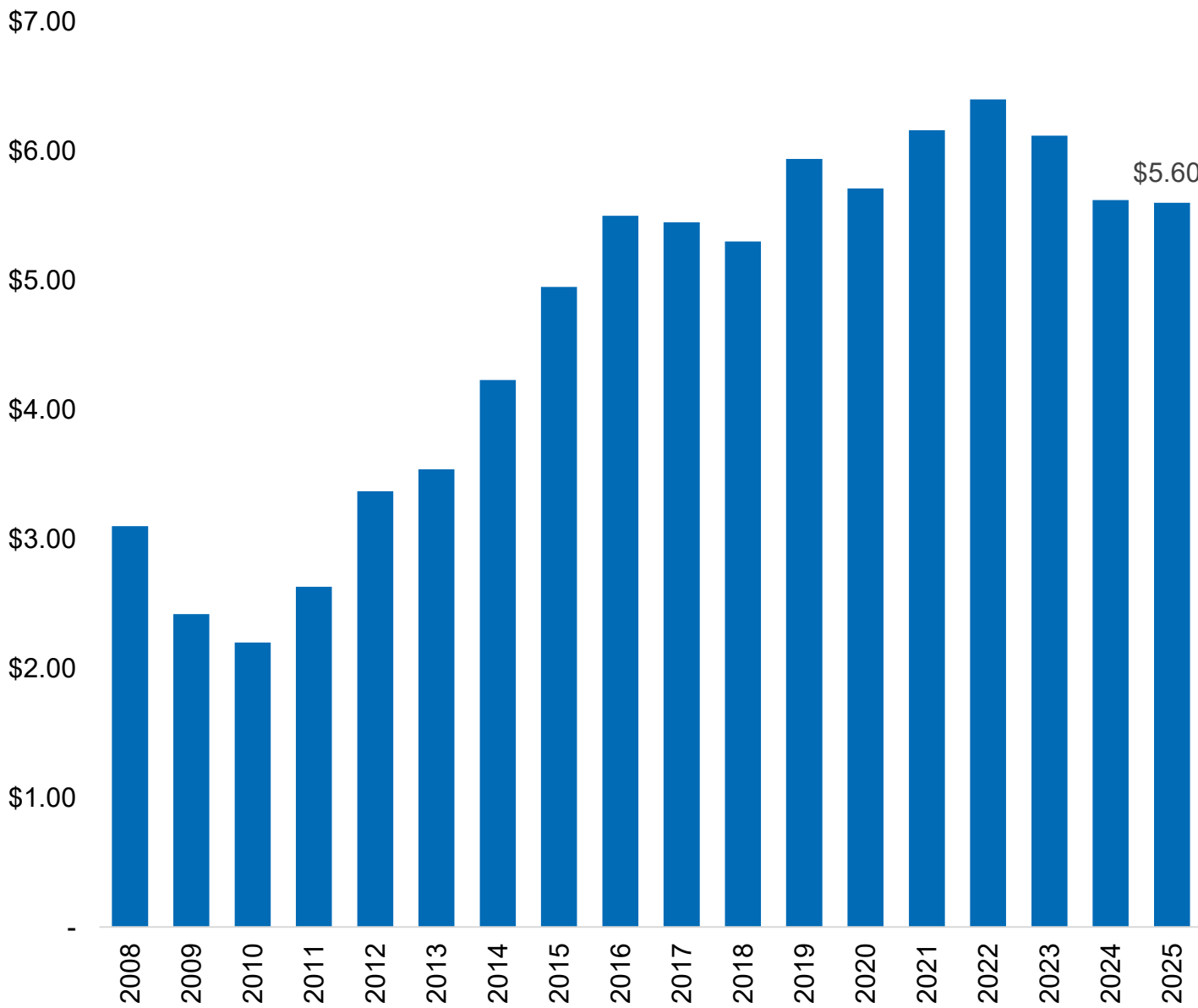
Source: Newmark Research, CoStar



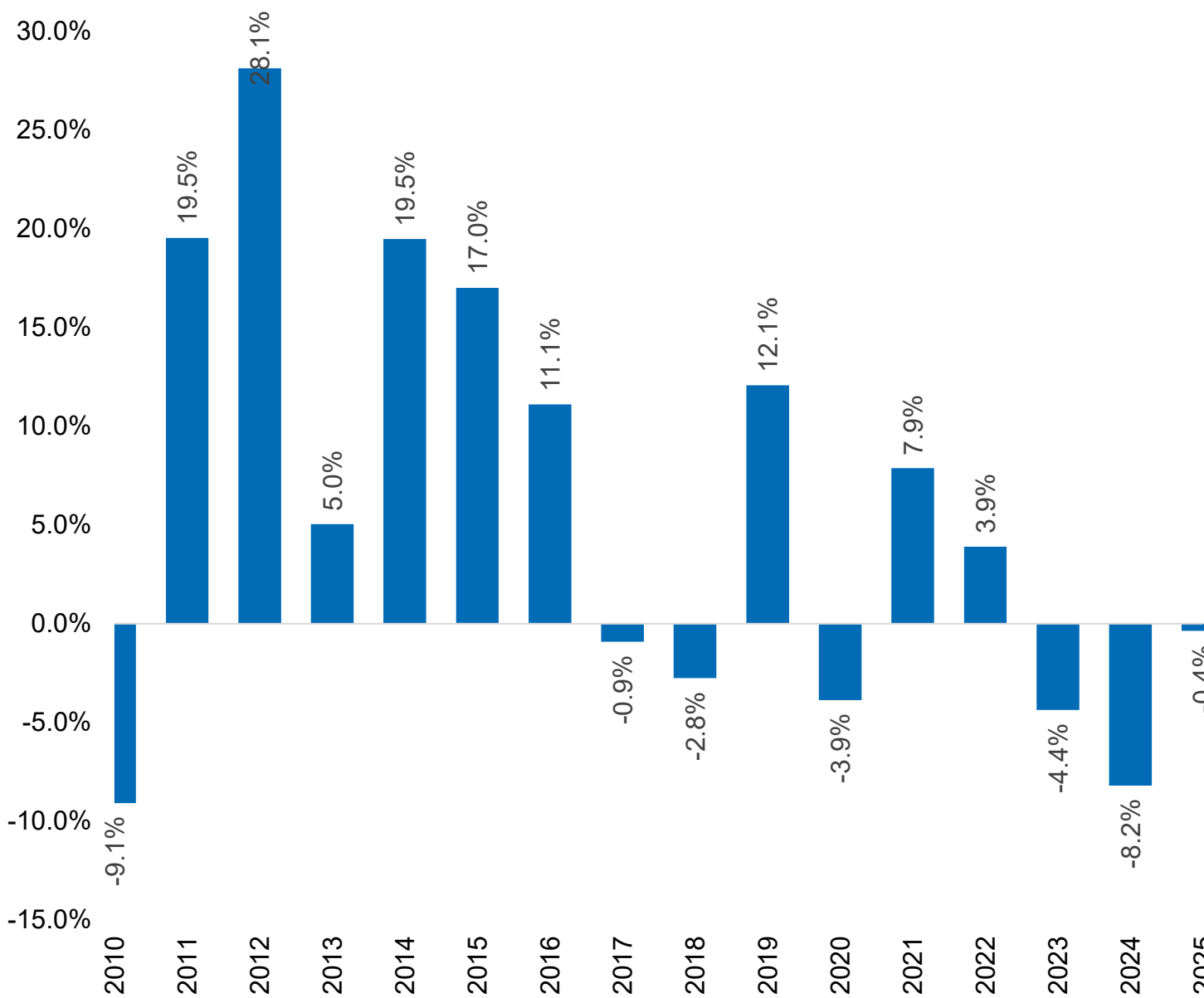
# South Peninsula Asking Rates Stabilized, But Flight-to-Quality Continues Pressure

Average asking rates in the South Peninsula have remained stable throughout 2025, a welcome shift following two consecutive years of declining rates. However, we anticipate asking rates will continue to experience modest declines as the flight-to-quality trend among tenants influences market dynamics. As tenants increasingly absorb Trophy and Class A properties, average asking rates across the broader market appear suppressed by concentrated activity in lower-tier assets.

Office Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate

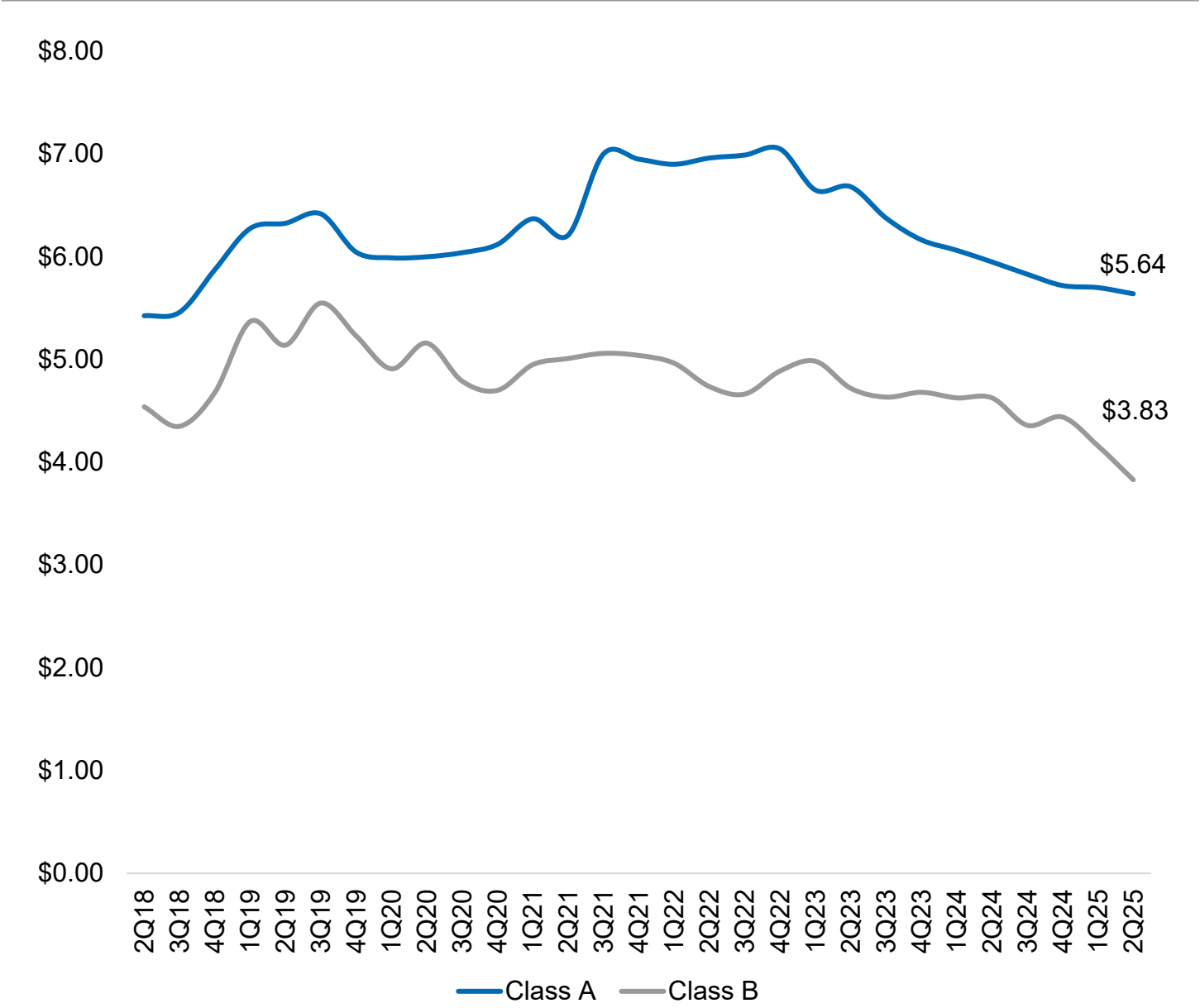


Source: Newmark Research, CoStar

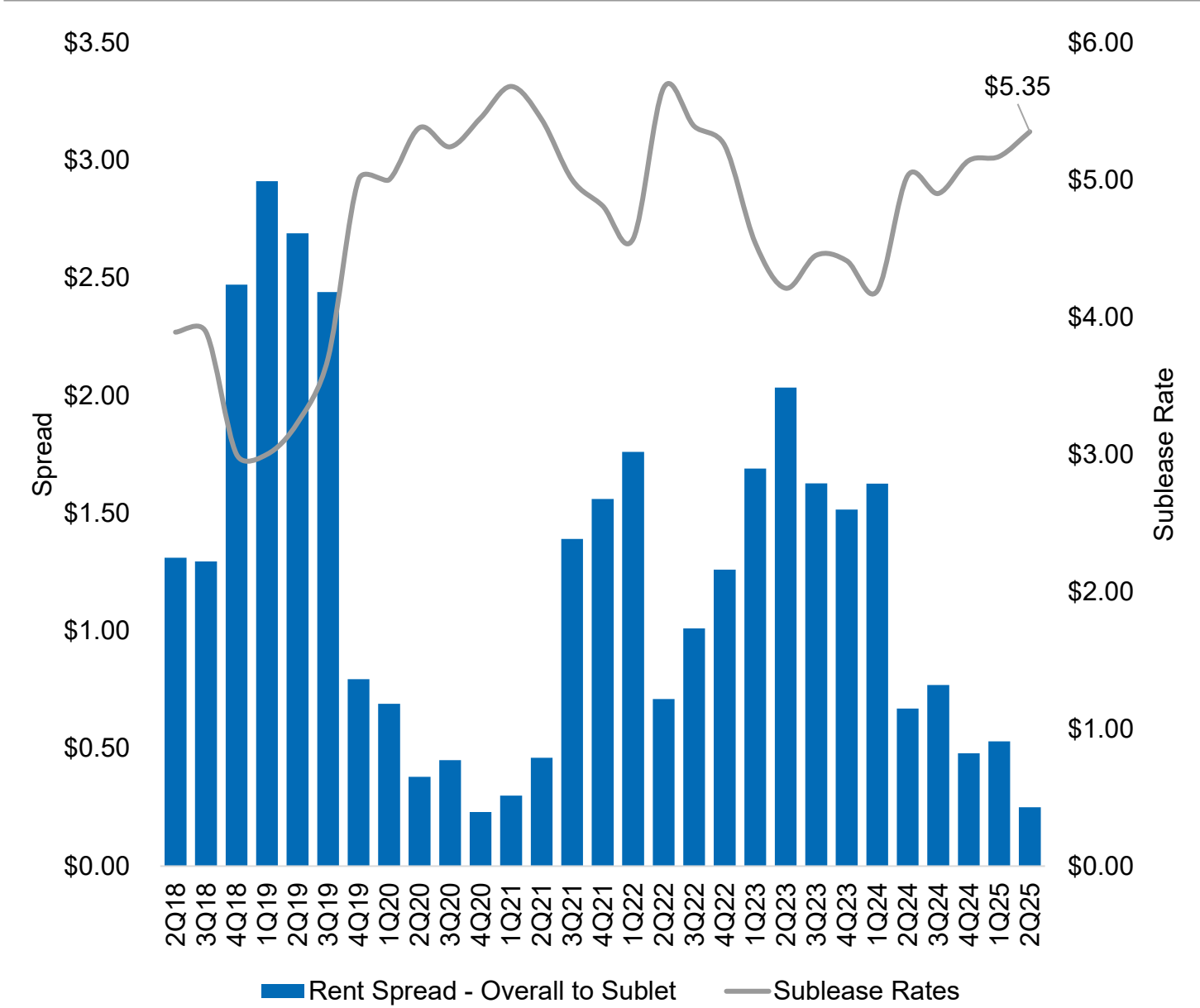
# Rental Decline Continued as Class A Properties Outperform Market

During Q2 2025, rental rates across the South Peninsula continued their downward trend at a moderate pace. The sublease market demonstrates compelling dynamics, with high-quality space experiencing rapid absorption and consequently widening the rental differential between direct lease transactions and sublease opportunities. While the current oversupply conditions continue to exert downward pressure on overall rental rates, Class A office properties have demonstrated greater resilience than anticipated.

Class A and Class B Asking Rents, \$/SF, NNN



Sublease Rates



Source: Newmark Research, CoStar



# Newmark Involved in 3 of 5 Largest Q2 Transactions

Total office leasing activity in the South Peninsula reached 746,675 square feet during Q2 2025, marginally exceeding 2Q2024. Our firm played a substantial role in this quarter's transaction volume, brokering the second, third, and fourth largest deals of the period. This strong market participation exemplifies our continued leadership position in the South Peninsula office leasing market.

## Notable 2Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Lightmatter	250 Bryant	Mountain View – Downtown	Direct	84,000 SF
Lightmatter, an Artificial Intelligence chip manufacturer, has signed a direct lease for the entire building located at 250 Bryant Street in the downtown submarket of Mountain View.				
Summit Therapeutics	1000 Page Mill Road	Palo Alto – Stanford Research Park	Sublease	36,406
The biopharmaceutical oncology firm has relocated to Stanford Research Park in Palo Alto to support the continued advancement of its mission.				
O’Melveny & Myers	2765 Sand Hill Road	Menlo Park – Sand Hill Road	Lease Renewal	30,000
Law firm renewal.				
Robinhood	68 Willow Road	Menlo Park - Middlefield	Lease Renewal	27,500
Robinhood, a financial services company, has signed a renewal.				
Industrious	2000 University	East Palo Alto	Direct Lease	24,873
Industrious, a co-working provider, has signed their second direct deal in this East Palo Alto office park.				

Source: Newmark Research



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# Appendix







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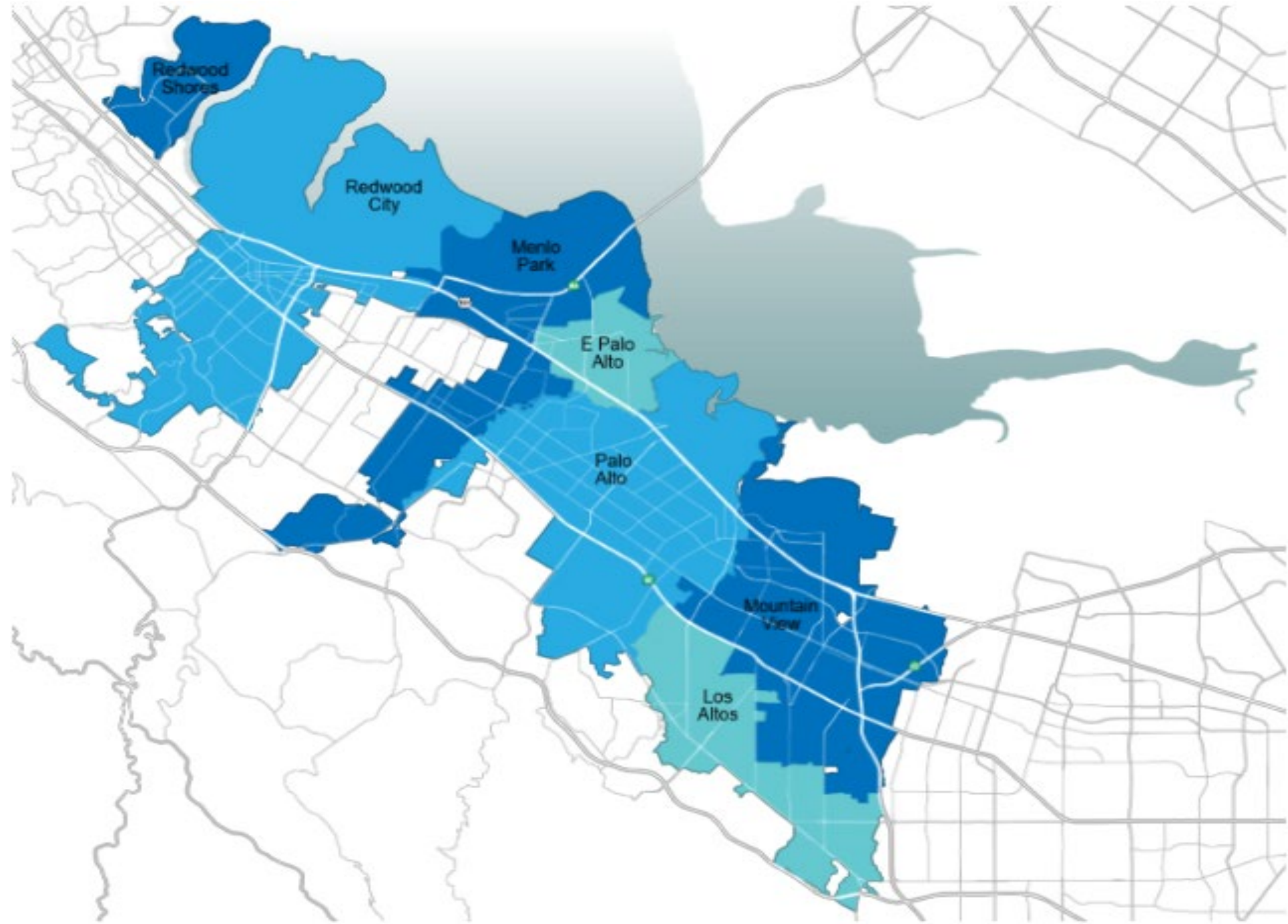




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# South Peninsula Submarket Map





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