

South Peninsula R&D Market Overview

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 4.0% 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 4.0% 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

- In the first quarter, the largest deal was a lease renewal for a confidential client who leased 162,755 square feet in the Redwood City – Seaport submarket.
- Cyngn, an autonomous industrial vehicle maker, has signed a direct lease to occupy the entire building at 1344 Terra Bella Avenue, totaling 39,628 SF.
- Egnyte, an AI-enhanced medical device company, has renewed its lease at 189 Bernardo Avenue, maintaining its existing footprint within the building. This renewal accounted for 29,670 SF of gross absorption in the Mountain View – South Middlefield submarket.

Leasing Market Fundamentals

- The South Peninsula market experienced subdued leasing activity, registering below the five-year average for the second consecutive quarter. Despite a modest quarter-over-quarter improvement, total leasing volume declined 36.5% year-over-year.
- The sluggish performance in total R&D transactions contributed significantly to this slow first half of the year. Moving forward, we will closely monitor market conditions to determine whether these two quarters represent an anomaly or signal the beginning of a longer-term trend.
- The South Peninsula recorded modest leasing activity this quarter, with 424,346 SF of total leasing. Two of the 5 largest deals in the region were completed by South Peninsula brokers, including the largest R&D deal of the quarter.

Outlook

- R&D asking rents in the South Peninsula have shown modest downward pressure, declining to \$5.30 per square foot in the second quarter of 2025.
- The South Peninsula R&D market has reached its highest historical vacancy rate of 19.2%. This upward trend in vacancy is primarily attributable to two newly constructed developments being introduced to the market in 2025.
- We're continuing to monitor whether sustained vacancy will lead to further rent softening or prompt developers to continue to scale back the current development pipeline to allow the market to stabilize.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

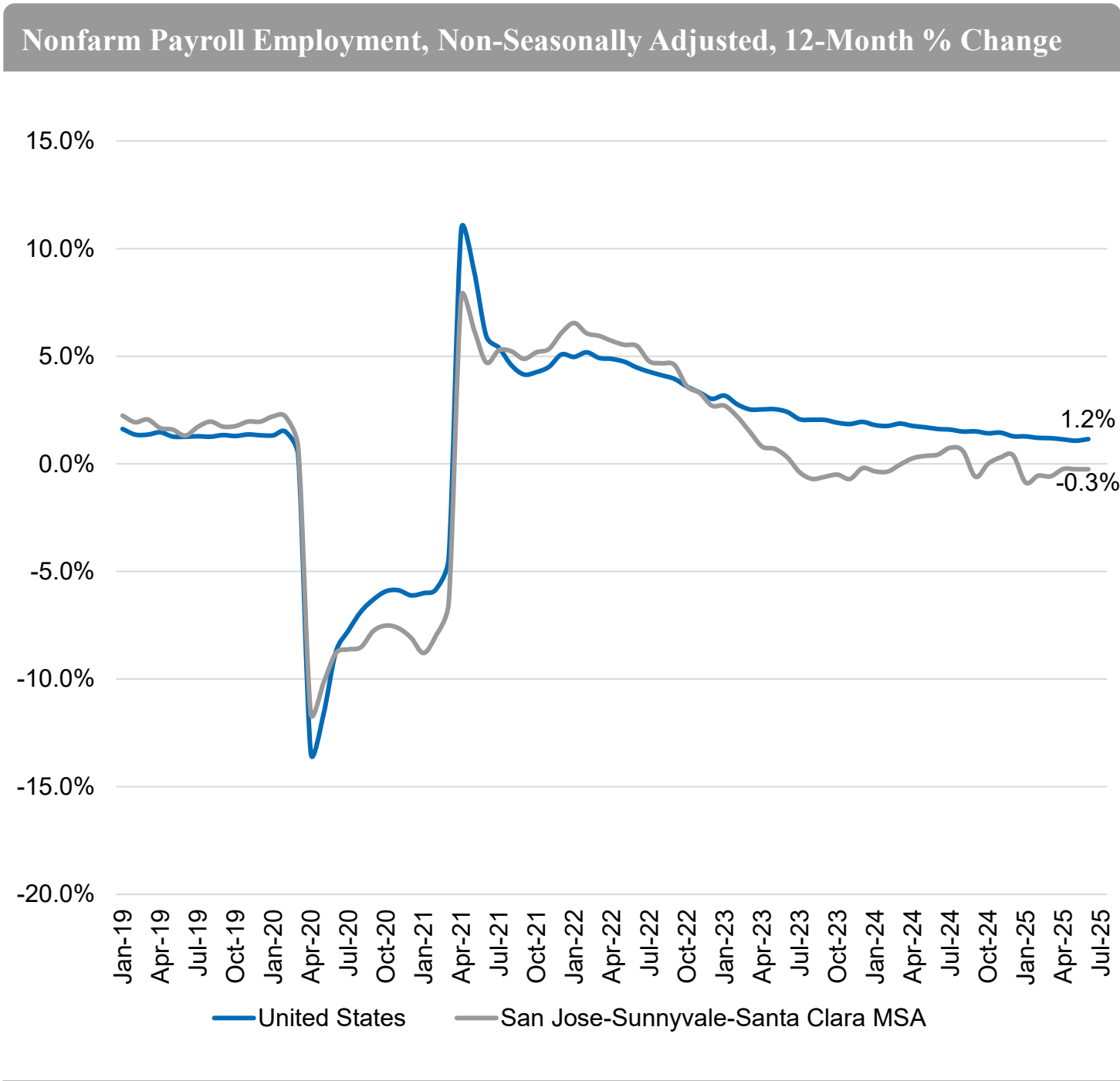
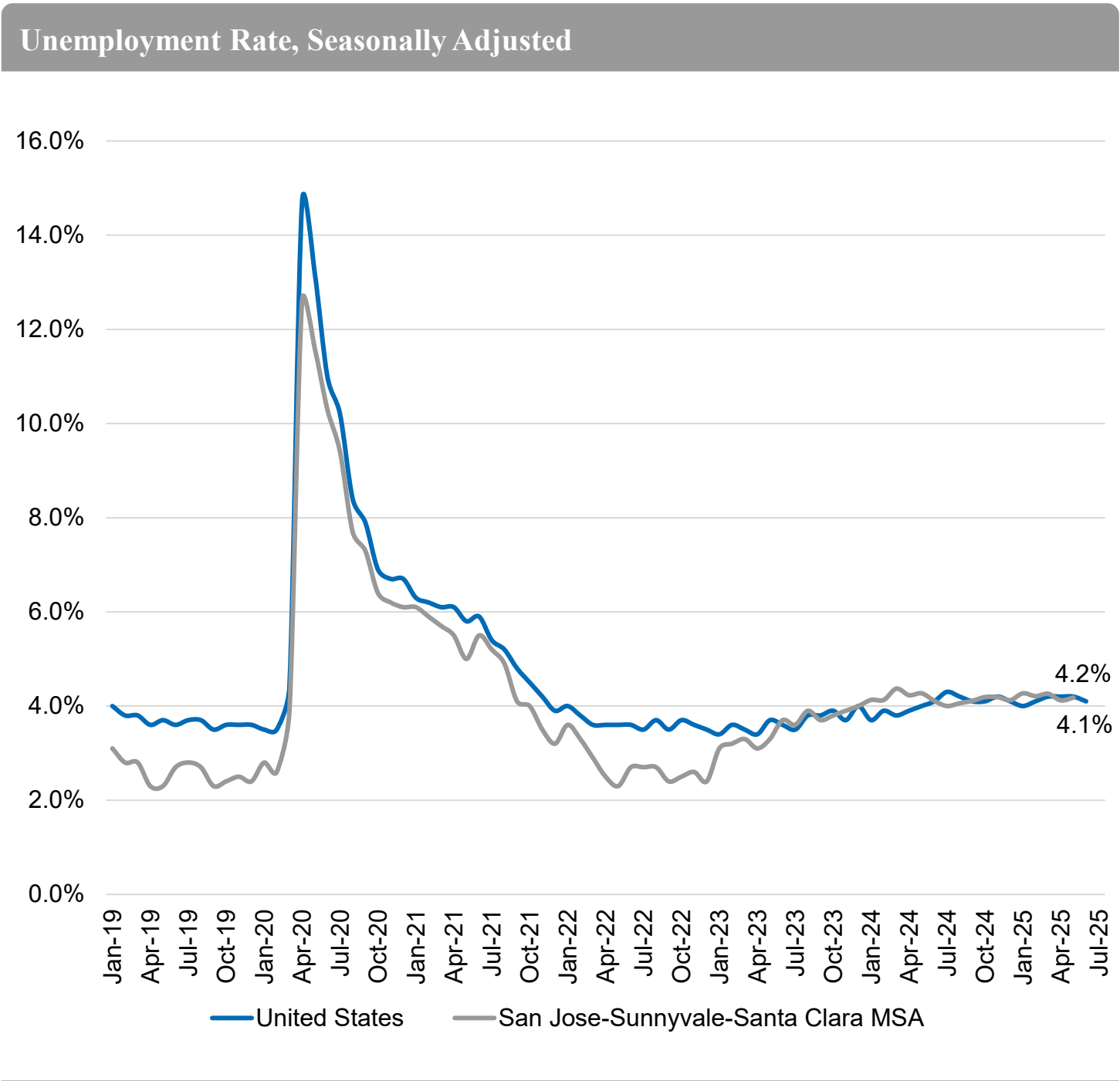
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Economy



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.



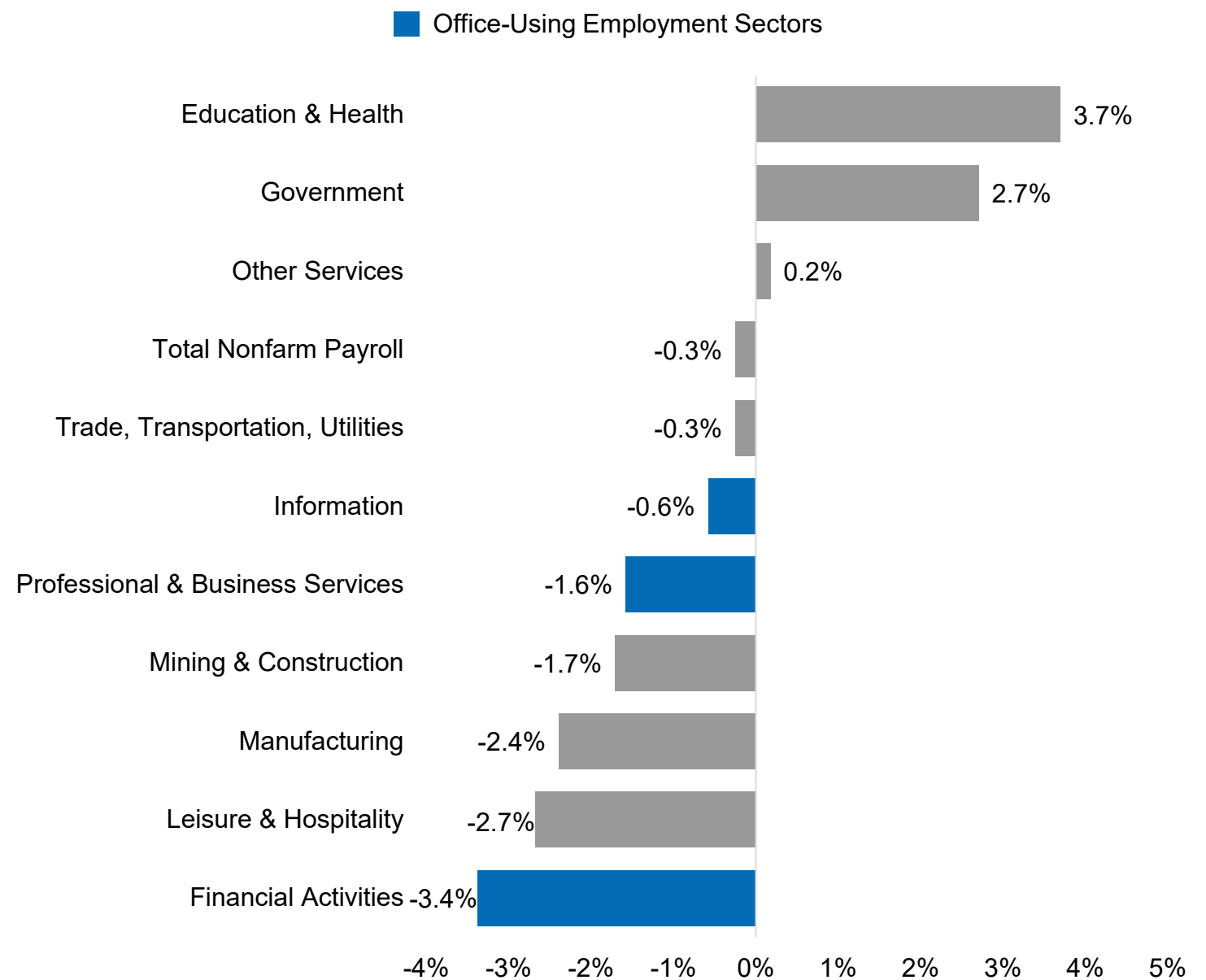
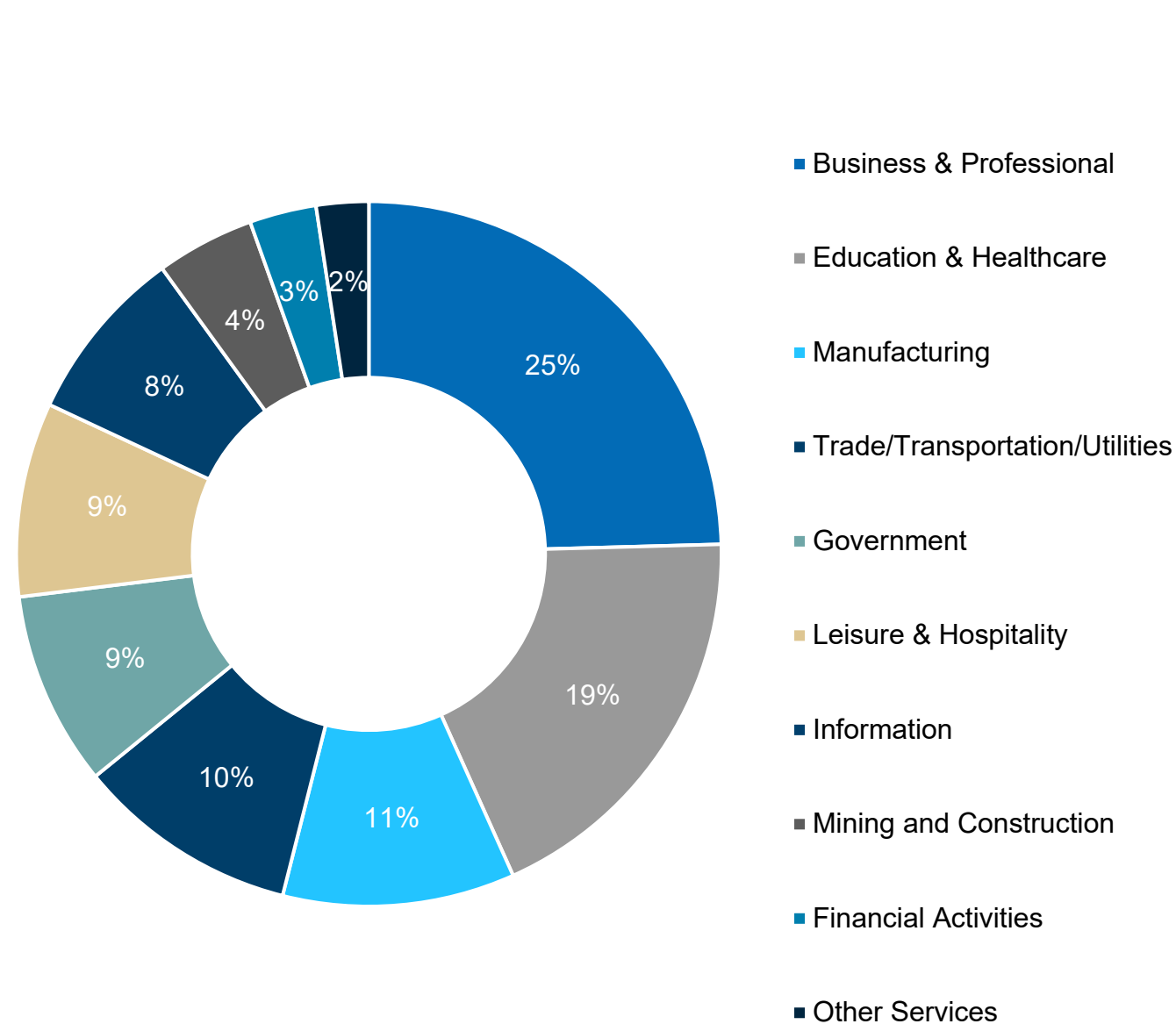
Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
National data is as of June. May is the latest month available for metro employment stats

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

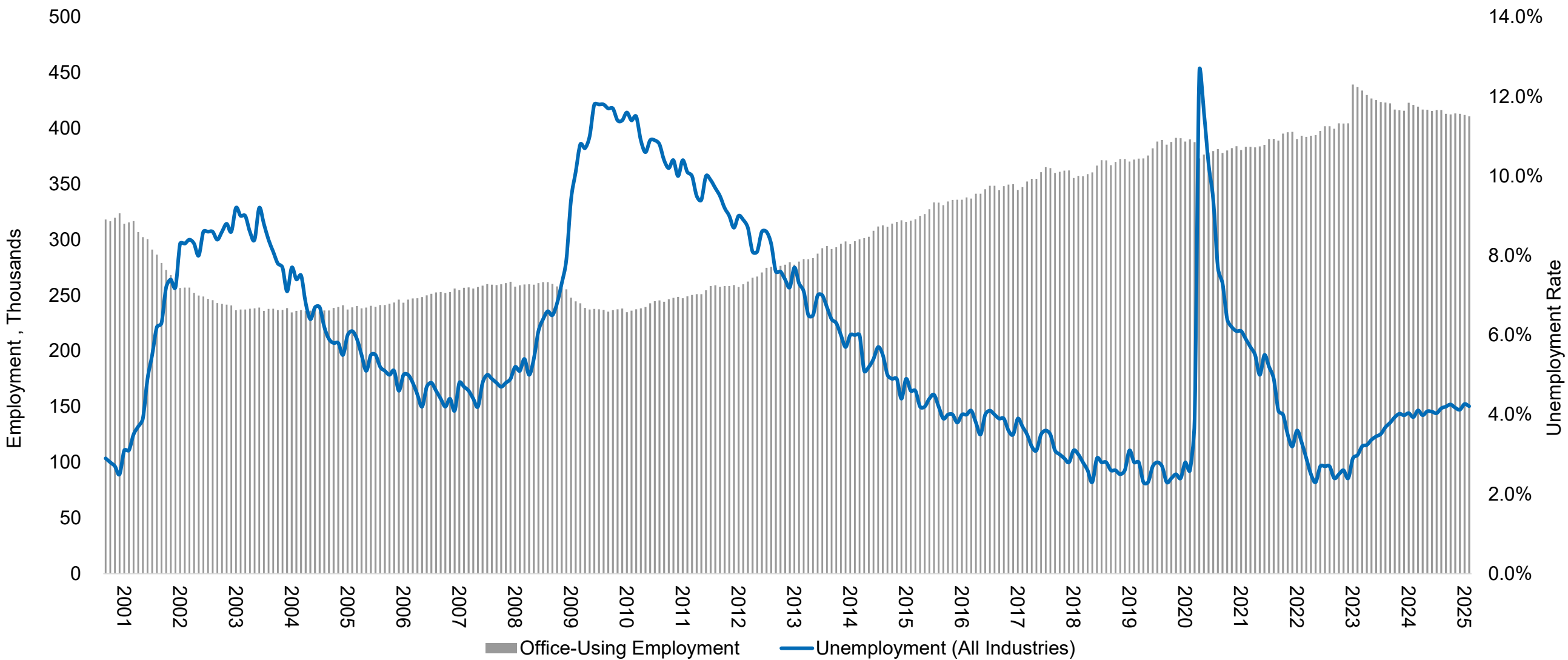


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

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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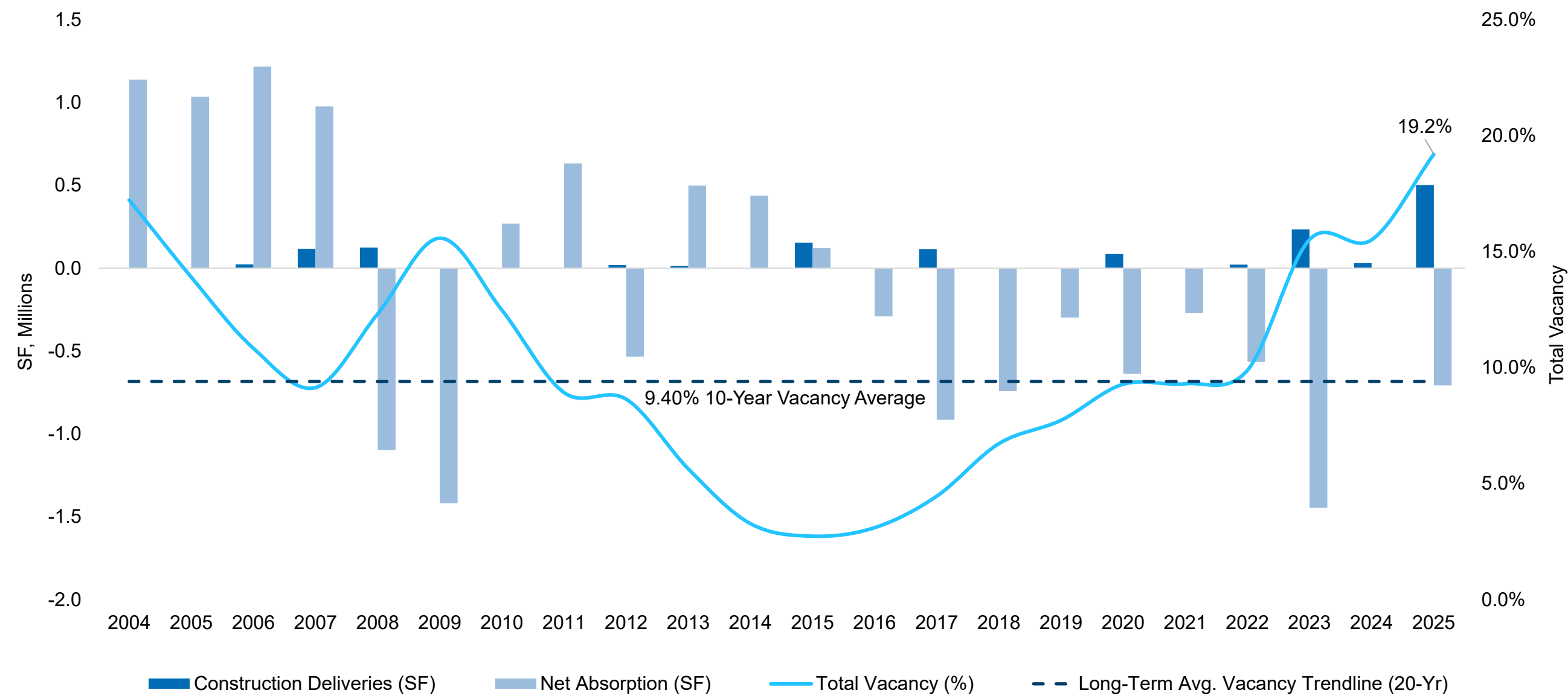
Leasing Market Fundamentals



Construction Deliveries Drove Record Vacancy in South Peninsula R&D Market

The South Peninsula R&D market has reached its highest historical vacancy rate of 19.2%. This upward trend in vacancy is primarily attributable to two newly constructed developments being introduced to the market in 2025. These new builds include 1350 Adams Court in Menlo Park, and 200 Twin Dolphin road in Redwood Shores. These two buildings have contributed to 502,486 SF of new vacancy being introduced to the South Peninsula R&D market.

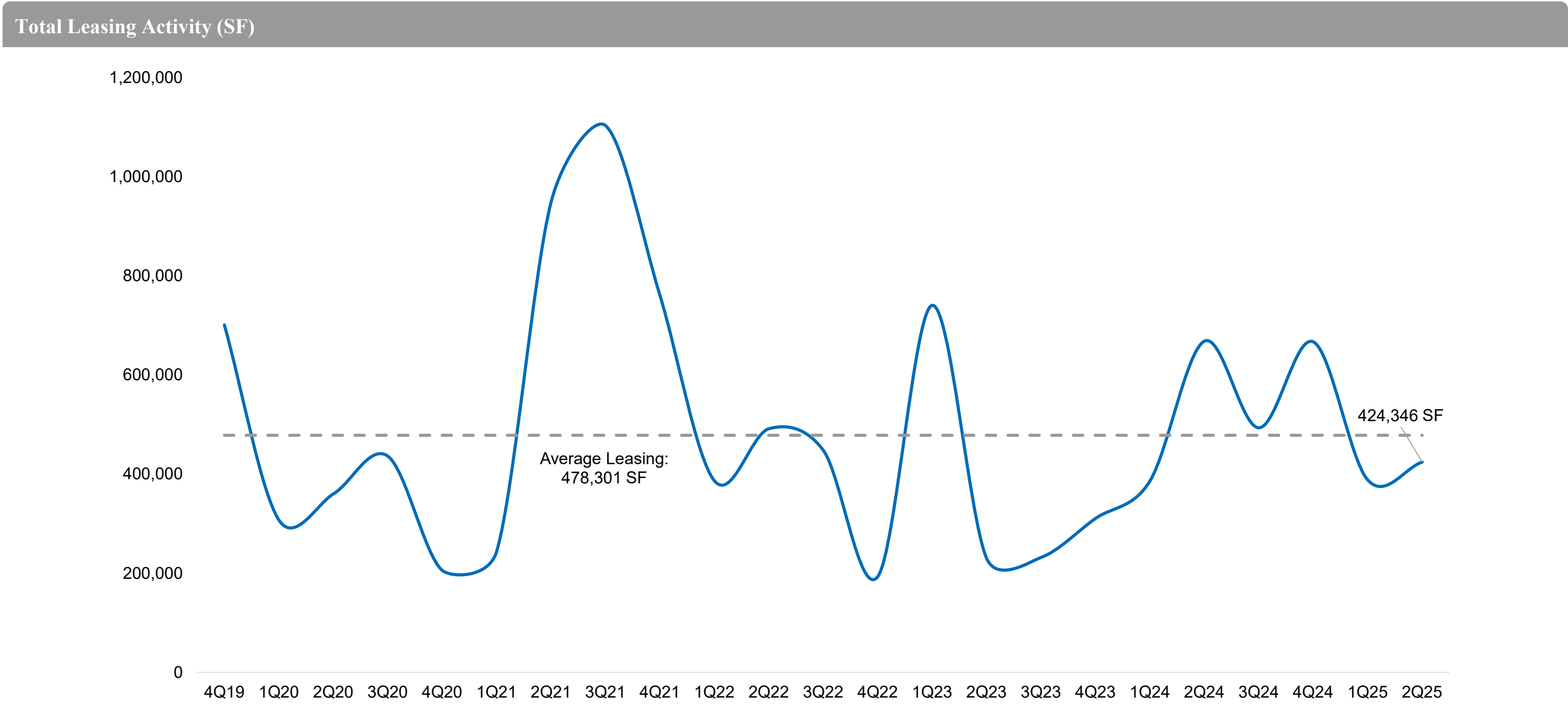
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Q2 Total Leasing Dropped Significantly Year-Over-Year

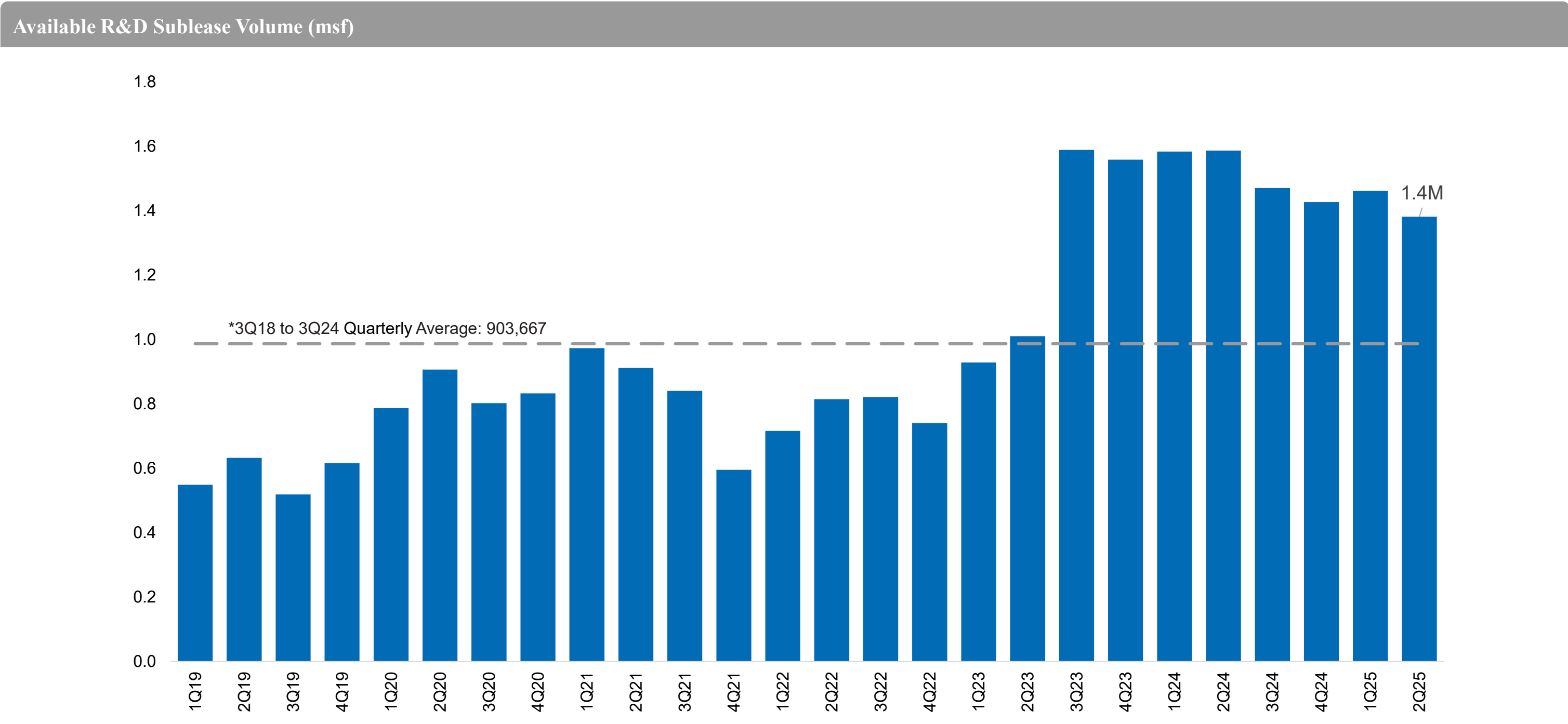
The South Peninsula market experienced subdued leasing activity, registering below the five-year average for the second consecutive quarter. Despite a modest quarter-over-quarter improvement, total leasing volume declined 36.5% year-over-year. The sluggish performance in R&D transactions contributed significantly to this slow start to the year. Moving forward, we will closely monitor market conditions to determine whether these two quarters represent an anomaly or signal the beginning of a longer-term trend.



Source: Newmark Research, CoStar

South Peninsula R&D Sublease Inventory Shrunk in Total Volume

The graph below illustrates the declining trend in R&D sublease availability across the South Peninsula. In Q2 2025, total sublease space decreased 12.9% year-over-year, reflecting the continued contraction of this market segment. This downward trajectory is expected to persist as pandemic-era leases reach expiration and transition back to the market as direct space, reducing the overall sublease inventory.

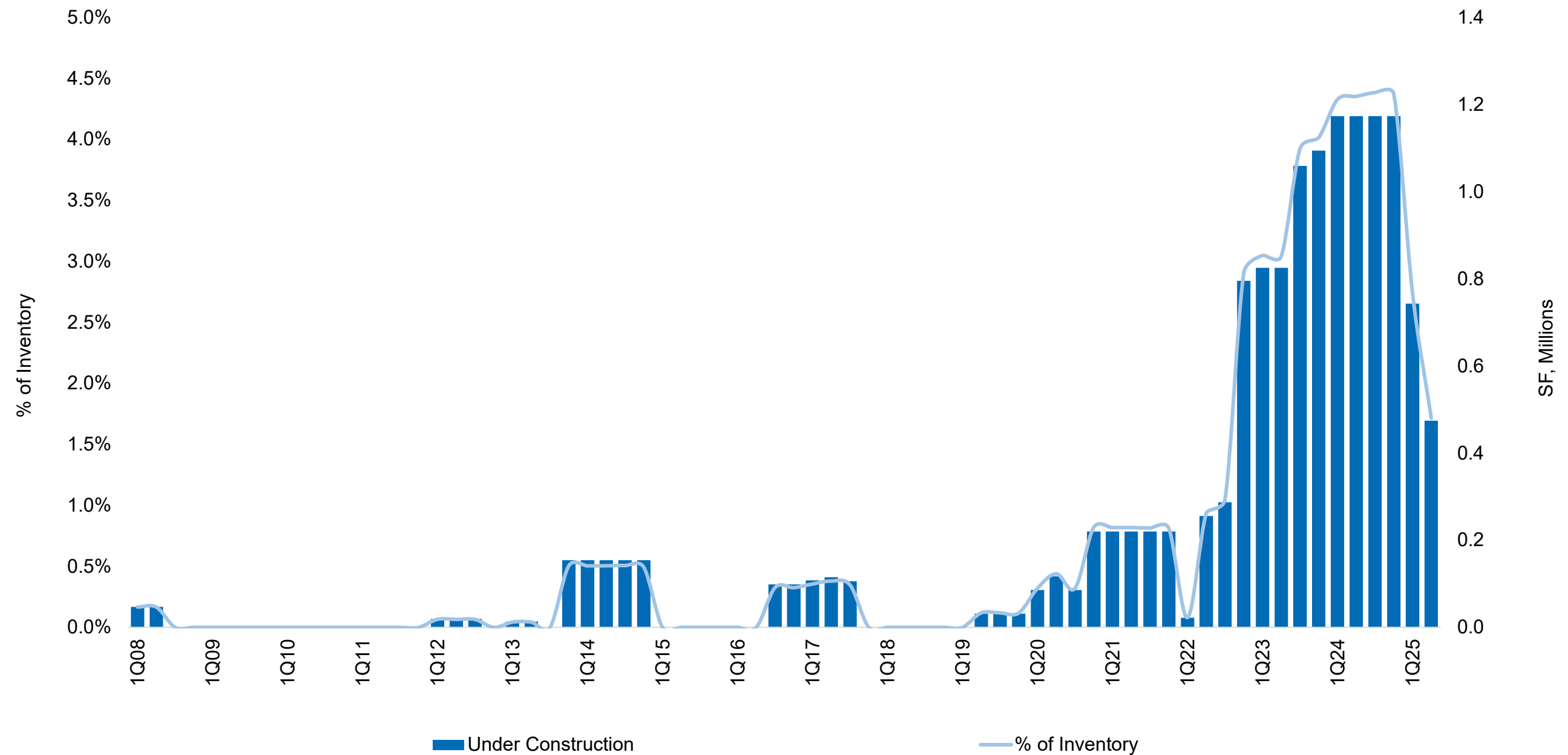


Source: Newmark Research, CoStar

South Peninsula R&D Pipeline Delivered Adams Court

The R&D construction pipeline has undergone a significant shift with the completion of two major developments in 2025: 1350 Adams Court in Menlo Park and 200 Twin Dolphin Drive in Redwood Shores. These newly delivered buildings have added 502,486 square feet of vacant space to the South Peninsula R&D market. The completion of these projects reduces the under-construction pipeline by nearly half, underscoring the challenging macroeconomic conditions that continue to discourage new development activity.

Industrial Under Construction and % of Inventory

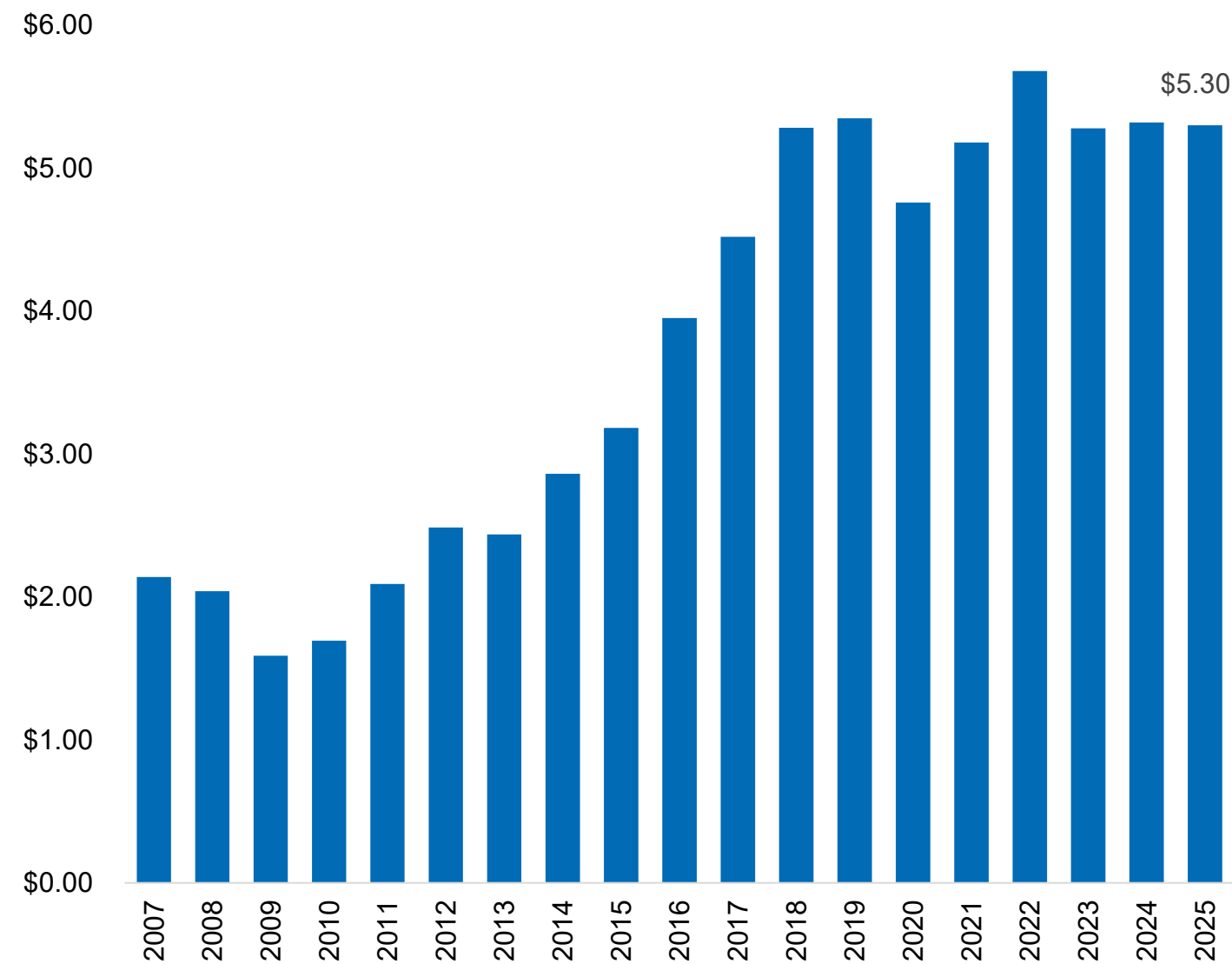


Source: Newmark Research, CoStar

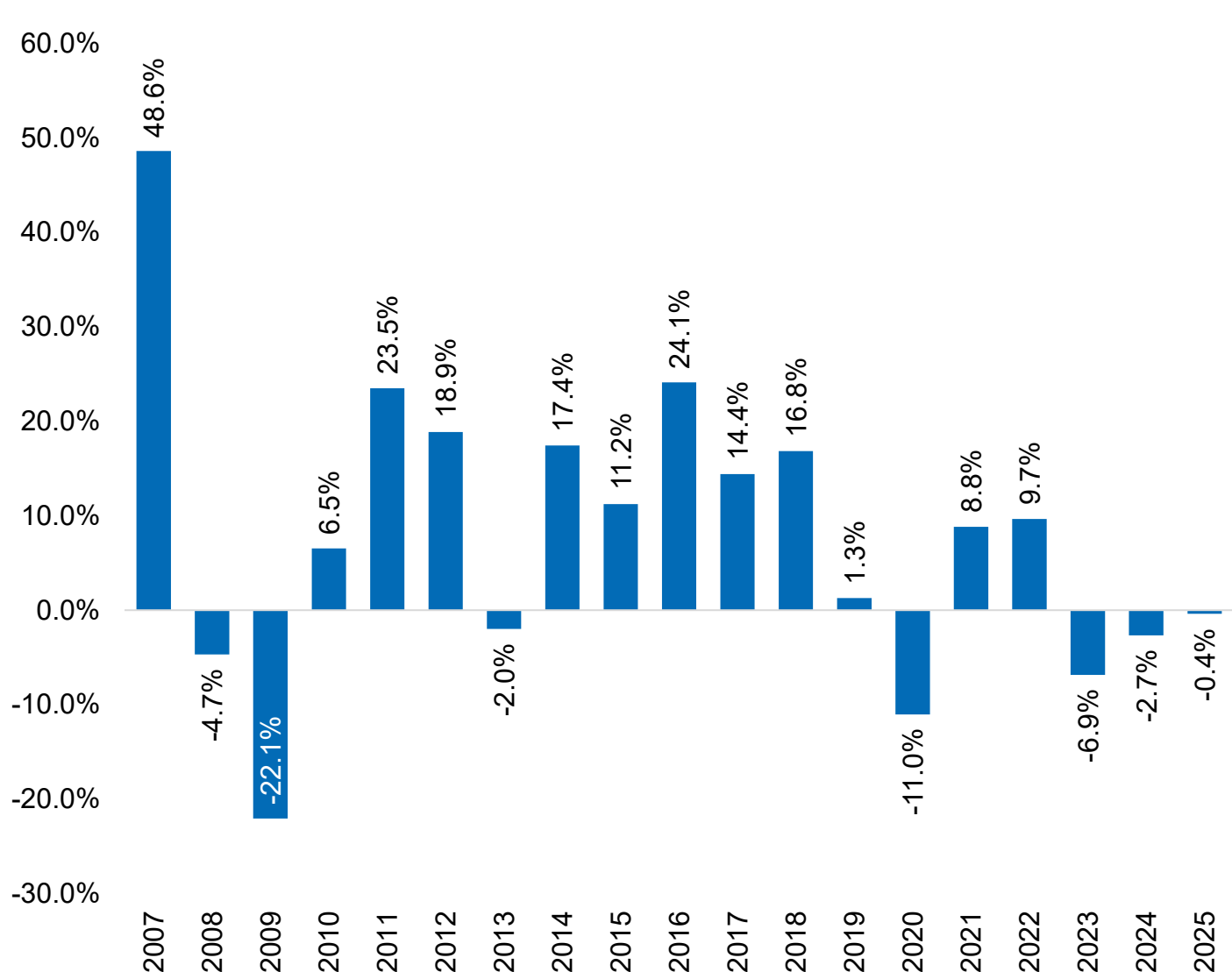
South Peninsula R&D Rental Rates Experienced Gradual Softening

R&D asking rents in the South Peninsula have shown modest downward pressure, declining to \$5.30 per square foot in the second quarter of 2025. While current rates remain well below the market peak of \$5.82 per square foot recorded in Q3 2022, the recent quarterly decline has been gradual.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research



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South Peninsula Brokers Captured Major Lease Wins

The South Peninsula recorded modest leasing activity this quarter, with 424,346 SF of total leasing. Two of the 5 largest deals in the region were completed by South Peninsula brokers, including the largest R&D deal of the quarter.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Confidential Client	Redwood City	Redwood City - Seaport	Lease Renewal	162,755
Confidential client has renewed their lease in Redwood City.				
Cyngn	1344 Terra Bella Avenue	Mountain View – South Middlefield	Direct Lease	39,628
Cyngn, an autonomous industrial vehicle maker, has signed a direct lease to occupy the entire building at 1344 Terra Bella Avenue.				
Egnyte	1350 Middlefield Road	Mountain View – South Middlefield	Lease Renewal	29,670
An AI-enhanced medical device company has renewed its lease at 189 Bernardo Avenue, maintaining its existing footprint within the building.				
Confidential Client	Mountain View	Mountain View – Shoreline	Direct Lease	21,862
Confidential client has signed a direct lease in Mountain View.				
Panasonic Corporation of North America	365 Ravendale Drive	Mountain View – South Middlefield	Sublease New	21,163
Panasonic has signed a sublease for the 21,163 SF in the South Middlefield submarket of Mountain View.				

Source: Newmark Research

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Appendix / Tables





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