

Silicon Valley R&D Market Overview

Market Observations

Economy

- In the third quarter of 2025, the San Jose–Sunnyvale–Santa Clara MSA unemployment rate increased to 4.4% in August 2025, up 30 basis points year-over-year. Nationally, the unemployment rate mirrored this trend, as it increased 10 basis points compared to the prior year.
- The industrial sectors of Trade, Transportation, Utilities, and Manufacturing all experienced employment shrinkage. However, the Mining & Construction sector grew by 1.5% year-over-year. 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 more Federal Reserve rate cuts by the end of 2025. However, the Fed is likely to proceed cautiously as the impact of tariff-driven inflation becomes clearer.

Major Transactions

- Silicon Valley's R&D Sector posted 2.3M SF of gross absorption in the third quarter of the year, with most transactions signed in the North San Jose submarket. This region is characterized as the largest tech business center in Silicon Valley.
- Archer Aviation, Advantest, and Mitac International signed the largest leases of the quarter, all in San Jose. Archer Aviation signed a direct lease for 105K SF at 10 W Tasman Drive, while Advantest leased a 94.1K SF at 3055 Orchard Drive.

Leasing Market Fundamentals

- Vacancy rose from 13.2% in Q3 2024 to 13.7% this quarter, bringing the 2025 year-to-date average to 13.6%. Despite the year-over-year increase in vacancy, direct and sublet vacancy decreased quarter-over-quarter.
- After years of steady growth, Silicon Valley R&D rents fell 3.1% year-over-year. 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 2.3M SF of gross absorption in Q3 2025, 12.0% above the 6-year average leasing trend. 38.7% of the Valley's leasing activity occurred in the San Jose submarket

Outlook

- The R&D construction pipeline in Silicon Valley remained muted, with only two projects 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.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

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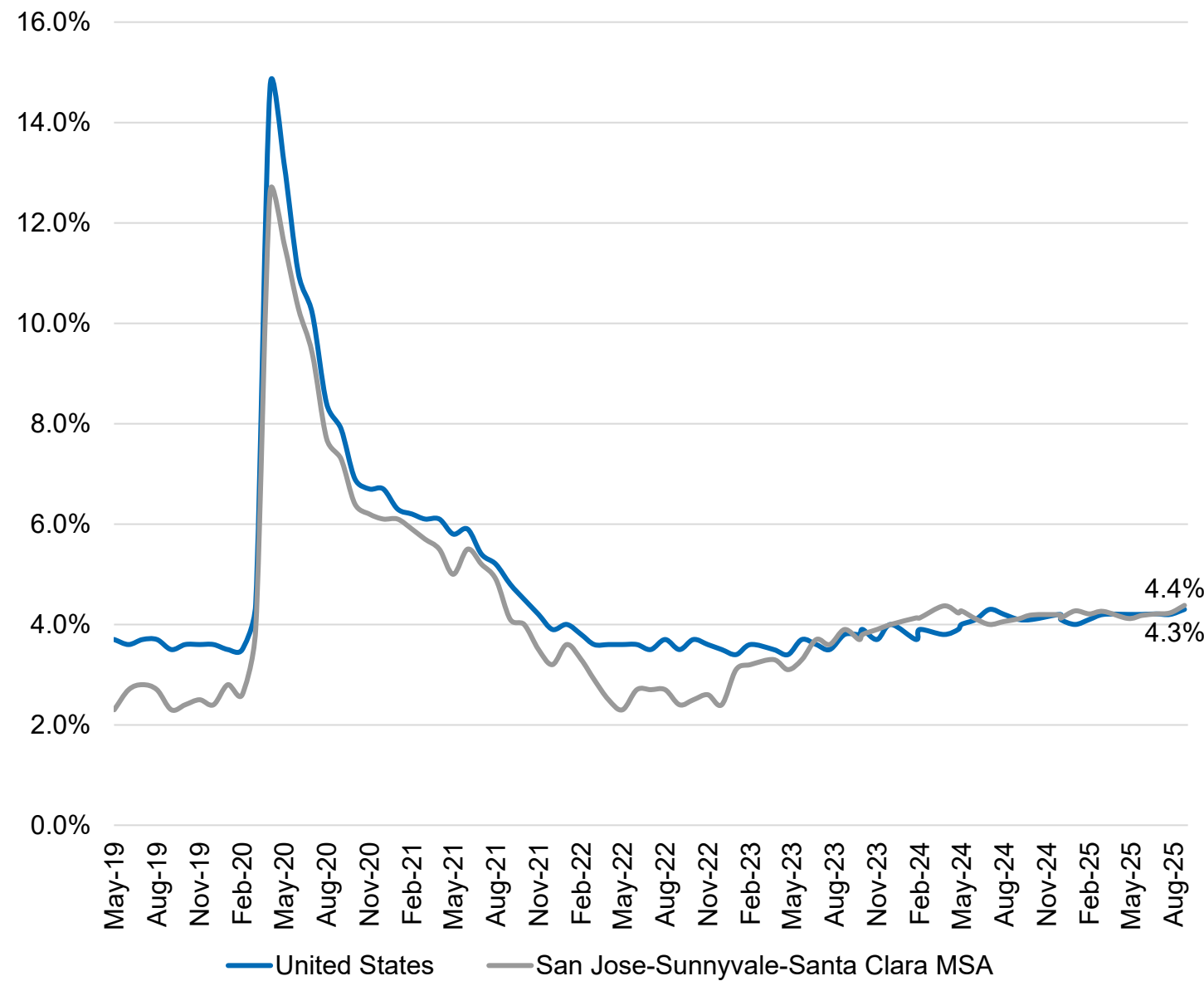
Economy



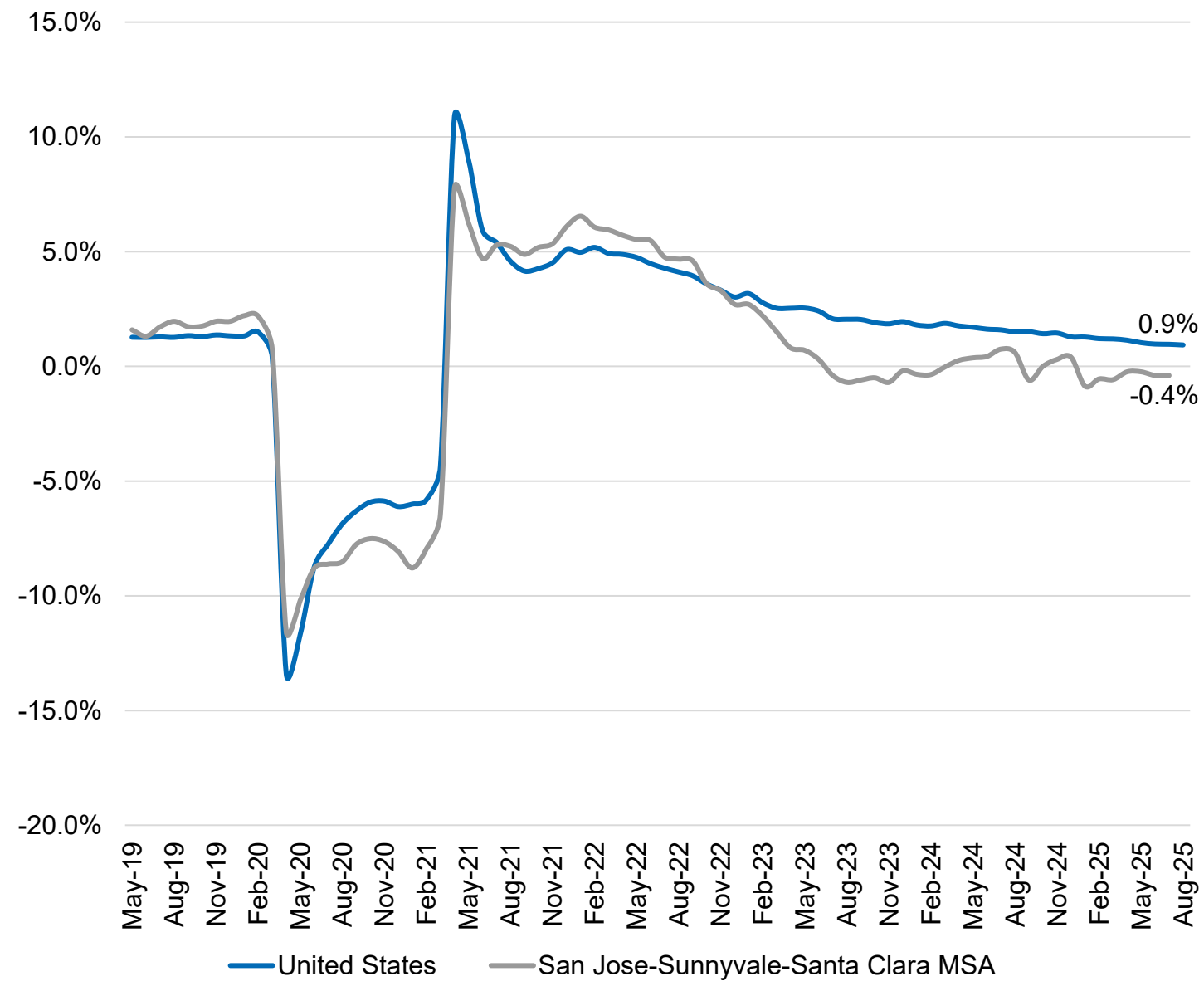
Silicon Valley Labor Market Mirrored National Unemployment Levels

In the third quarter of 2025, the San Jose–Sunnyvale–Santa Clara MSA unemployment rate increased to 4.4% in August 2025, up 30 basis points year-over-year. Nationally, the unemployment rate mirrored this trend, as it increased 10 basis points compared to the prior year. Although both the local and national labor markets show signs of moderation, employment and unemployment levels in the San Jose–Sunnyvale–Santa Clara region remain broadly aligned with national trends, suggesting a period of steady yet subdued labor market performance heading into late 2025.

Unemployment Rate, Seasonally Adjusted



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

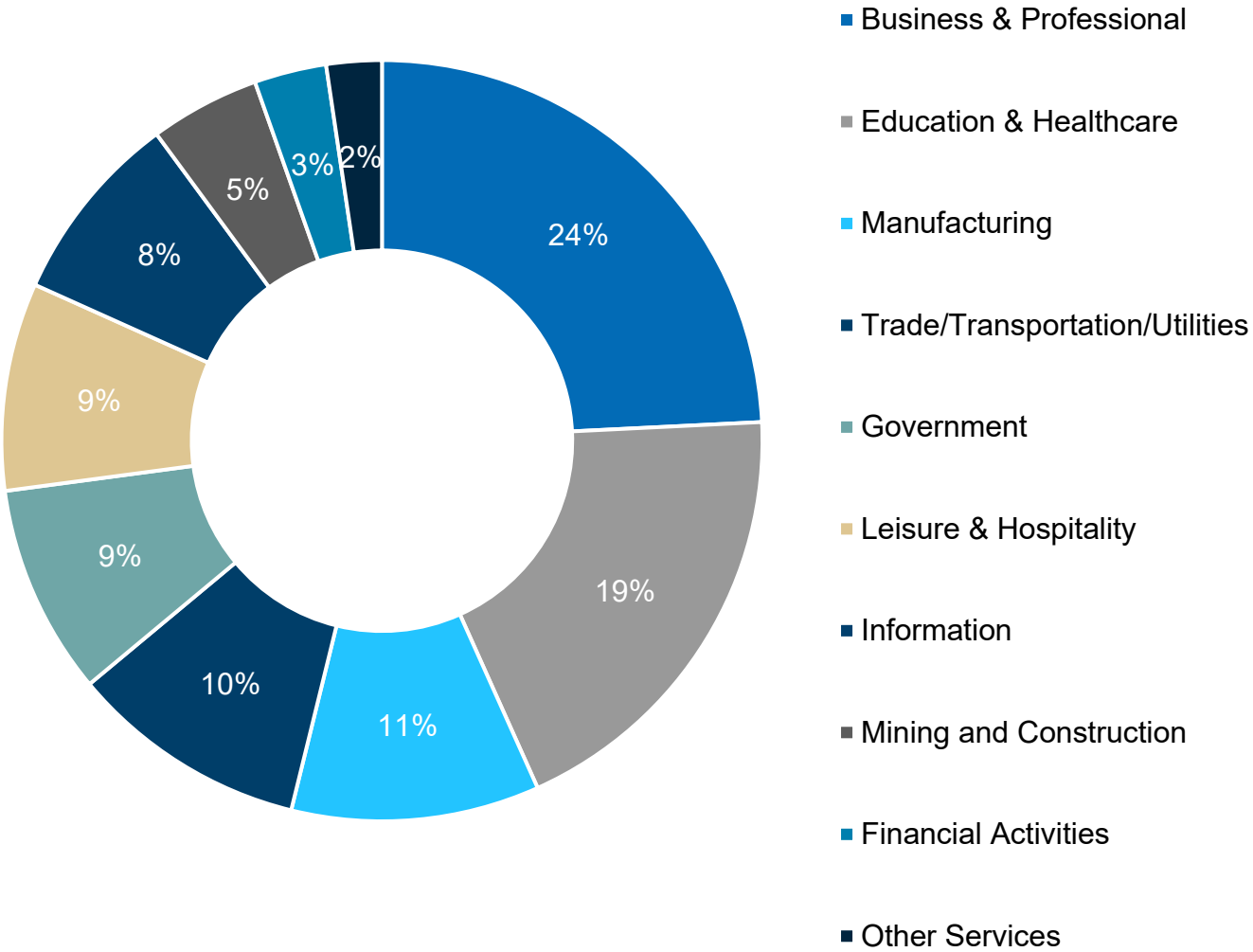


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale
National data is as of June. May is the latest month available for metro employment stats

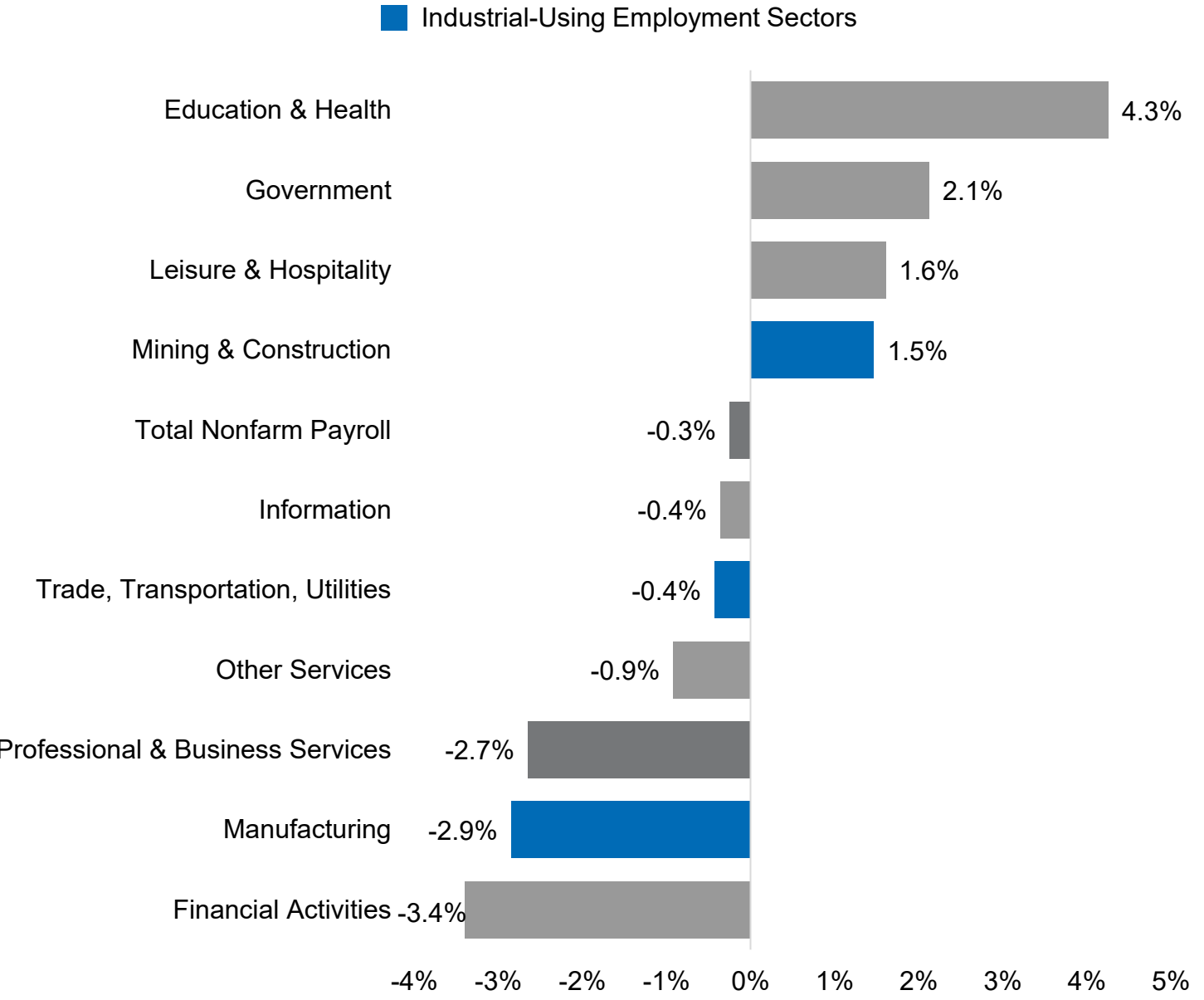
Tech Sector Continued to Shed

The industrial sectors of Trade, Transportation, Utilities, 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. However, the Mining & Construction sector grew by 1.5% year-over-year. Despite near time volatility, specialized employment metrics in the San Jose-Santa Clara-Sunnyvale MSA has historically fared better than other sectors of the economy.

Employment by Industry, August 2025



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

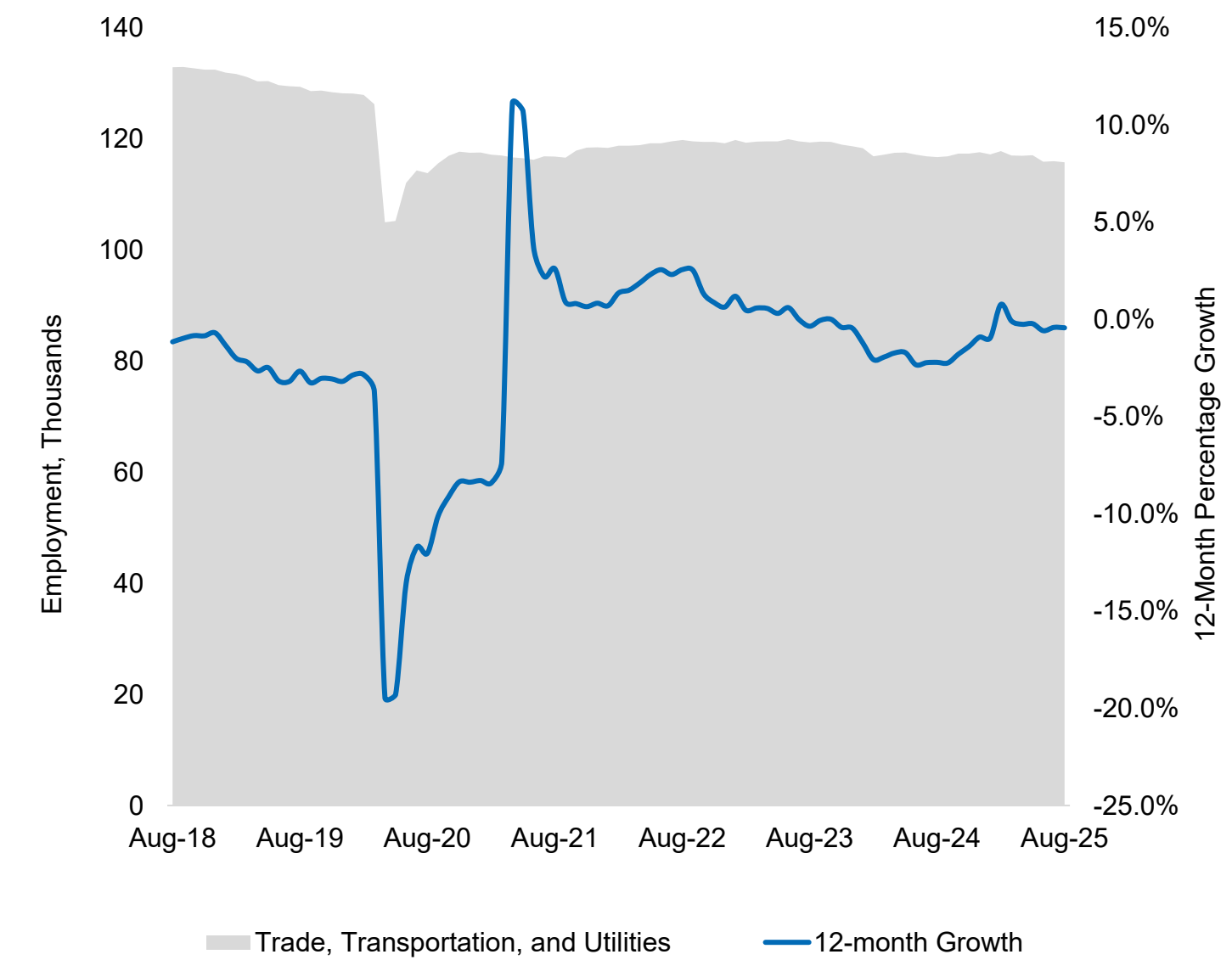


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

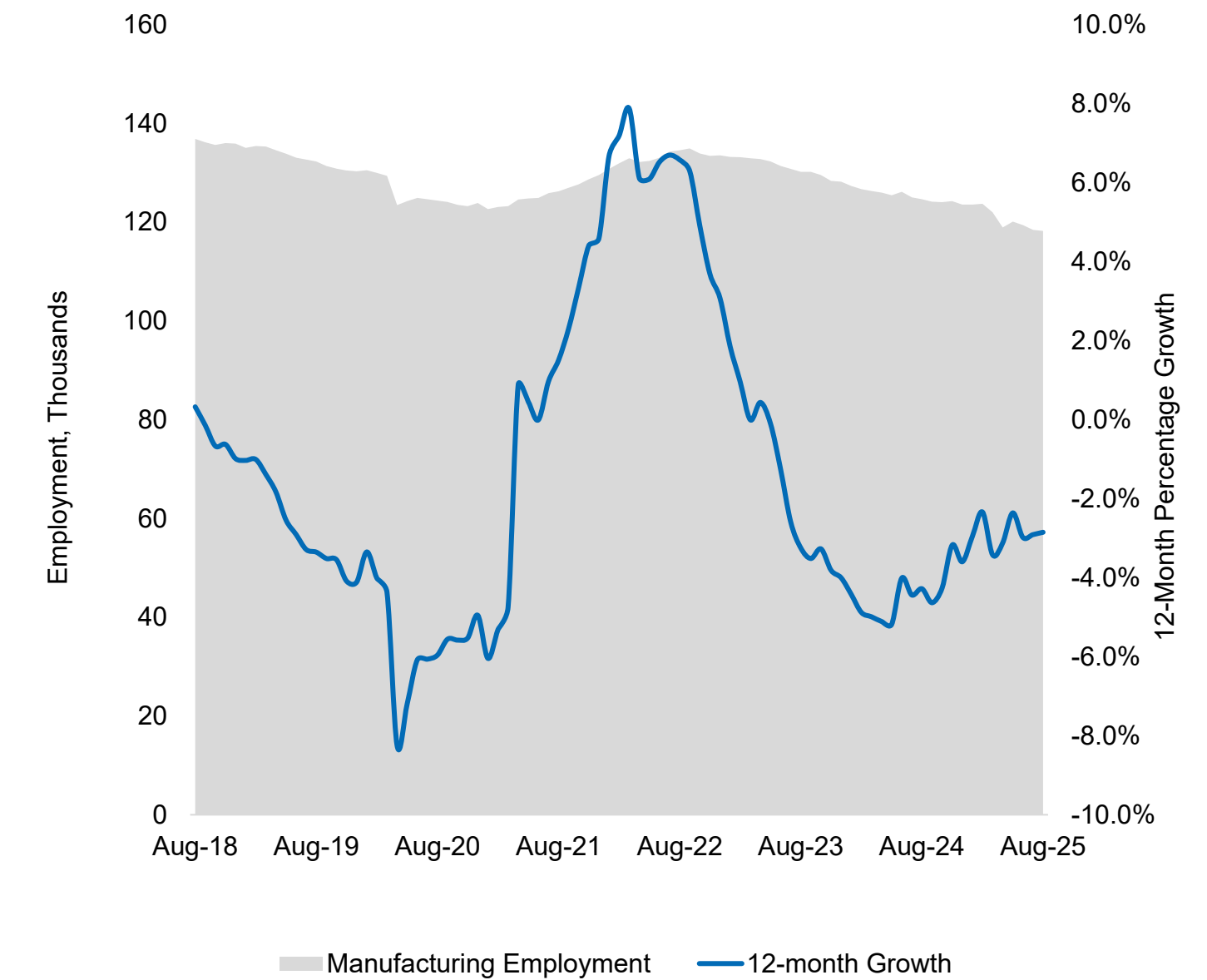
San Jose MSA Labor Market Held Steady as Manufacturing Slipped

Employment in Trade, Transportation, and Utilities held steady in Q3, with a slight 0.4% year-over-year decrease. Manufacturing saw a sharper 12-month contraction of 2.9%, 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. 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

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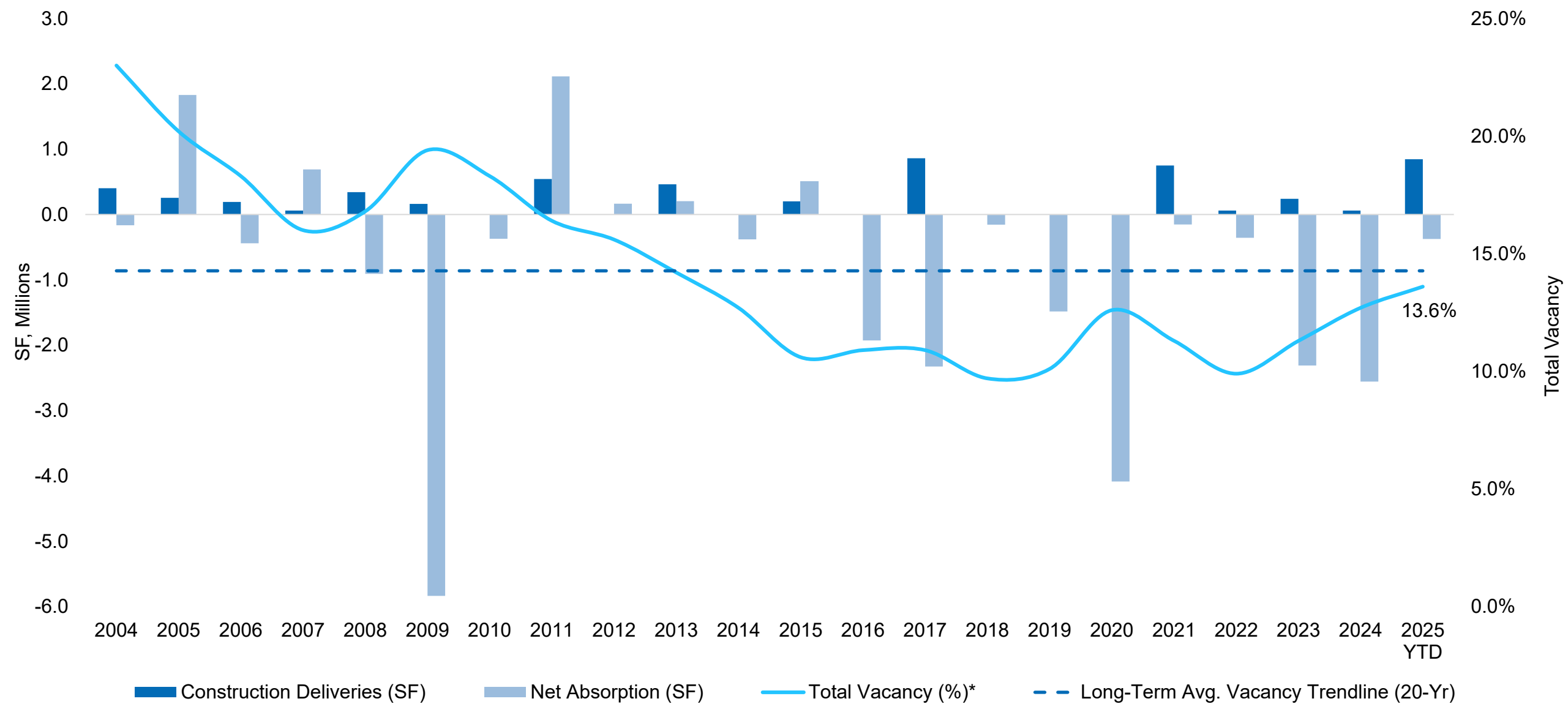
Leasing Market Fundamentals



2025 Vacancy Up Year-to-Date as Direct Space Grew, Sublease Shrunk

Overall vacancy increased from 13.2% in Q3 2024 to 13.7% in the current quarter, bringing the 2025 year-to-date average to 13.6%. Q3 2025 marked a reversal of the recent upward trend in vacancy, with both direct and sublease rates decreasing from the previous quarter. Direct vacancy shrunk by 160 basis points quarter-over-quarter, and sublease vacancy by 25 basis points. Although nearing the long-term average, R&D vacancy remained slightly below the historical norm of 14.3%.

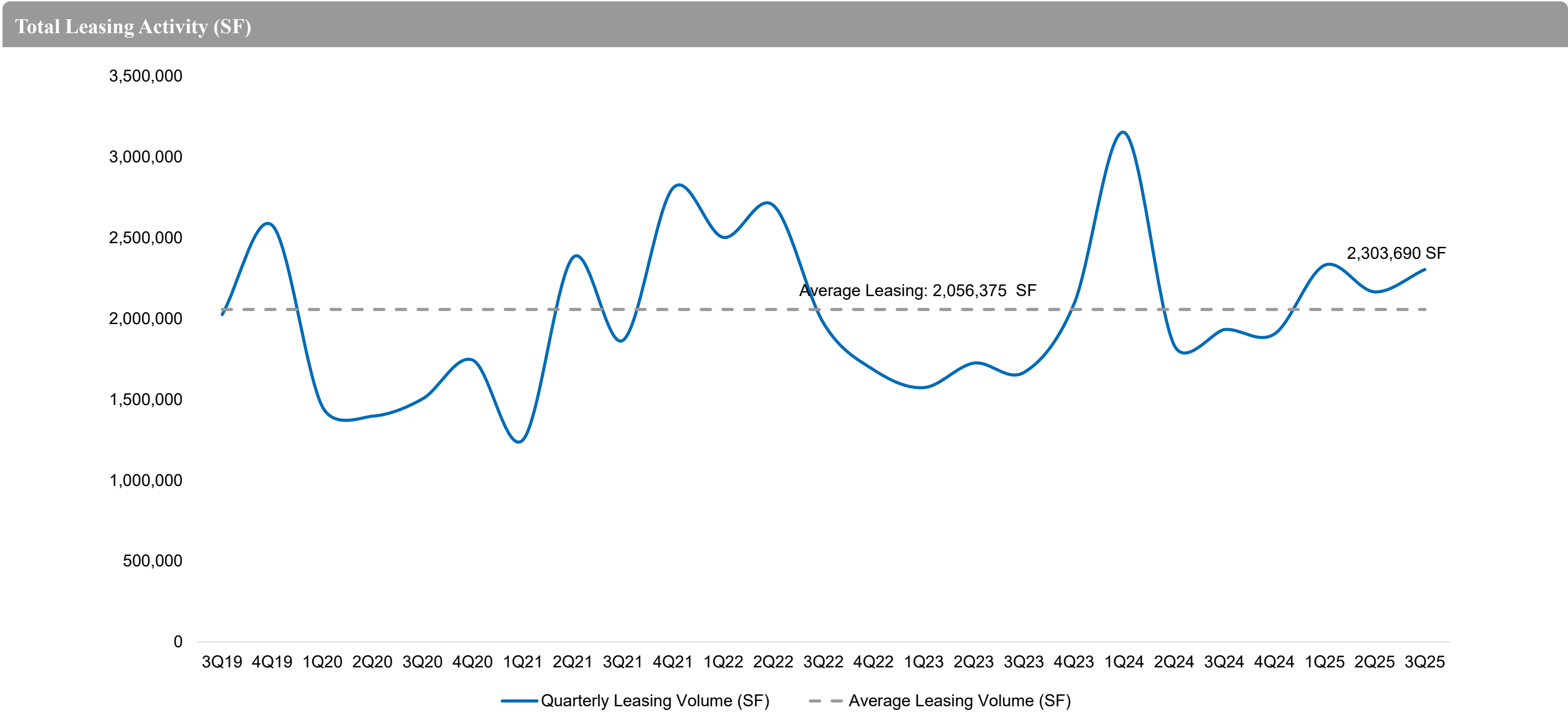
Historical Construction Deliveries, Net Absorption, and Vacancy



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 Q3 2025

The third quarter of 2025 closed with continued activity above the leasing average. Gross absorption recorded 2.3M SF, 12.0% above the 6-year average leasing trend. R&D activity recorded its third consecutive quarter of elevated leasing, underscoring tenant stickiness and optimism in the sector. R&D tenants remained anchored in their existing spaces, deterred by the high cost of specialized build-outs and the financial burden of relocation.

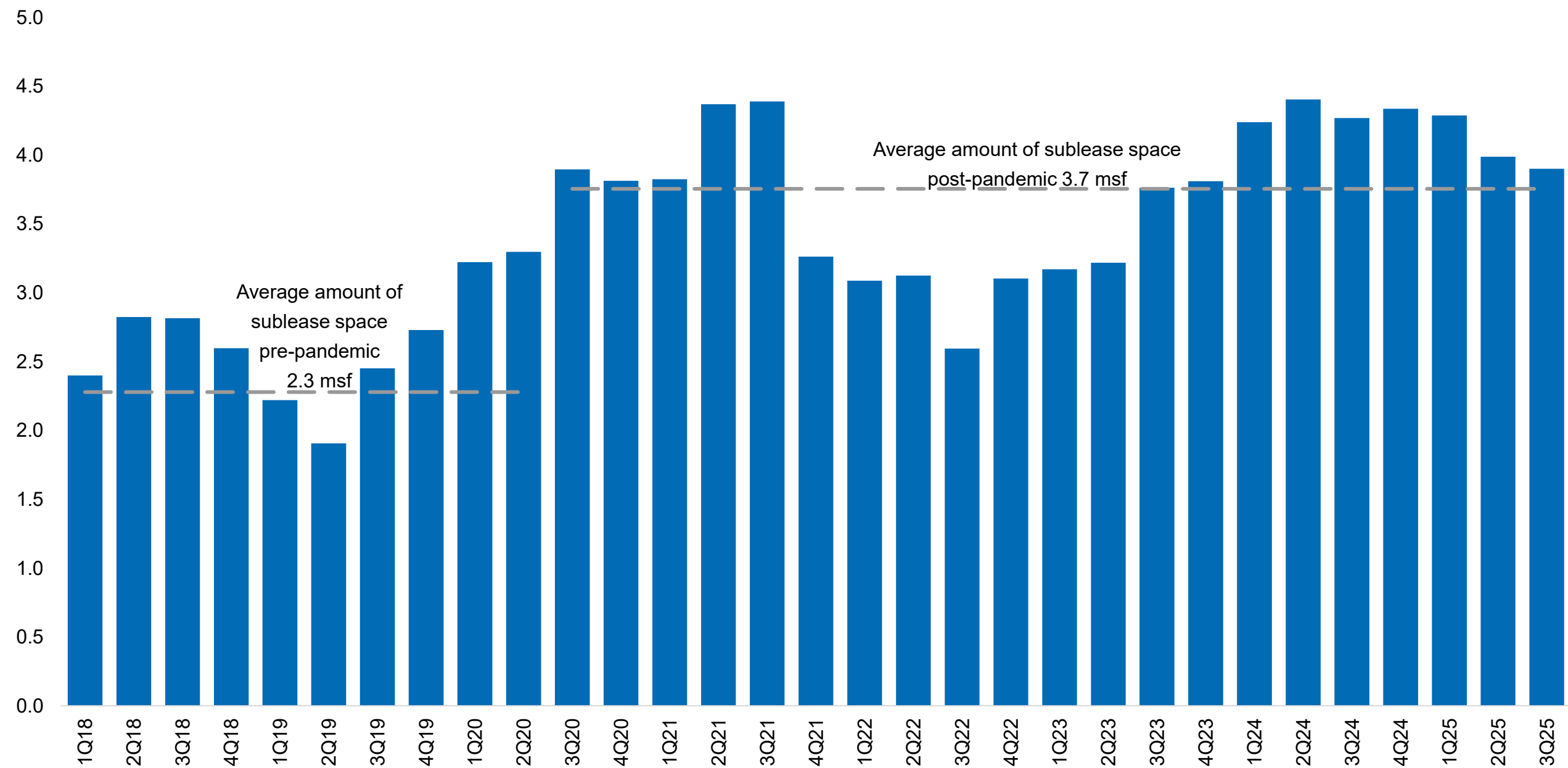


Source: Newmark Research, CoStar

Sublease Availability Eased, But Sublet Functional Challenges Persisted for R&D Users

Sublease availability continued to decline at the end of the third quarter but remained elevated overall. Sublease space accounted for 22.2% of the total available inventory, up 40 basis points from the previous quarter. This trend is expected to continue through the end of 2025, as 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 buildouts drive up tenant improvement (TI) costs, which are typically not supported by most sublease offerings.

Available R&D Sublease Volume (msf)

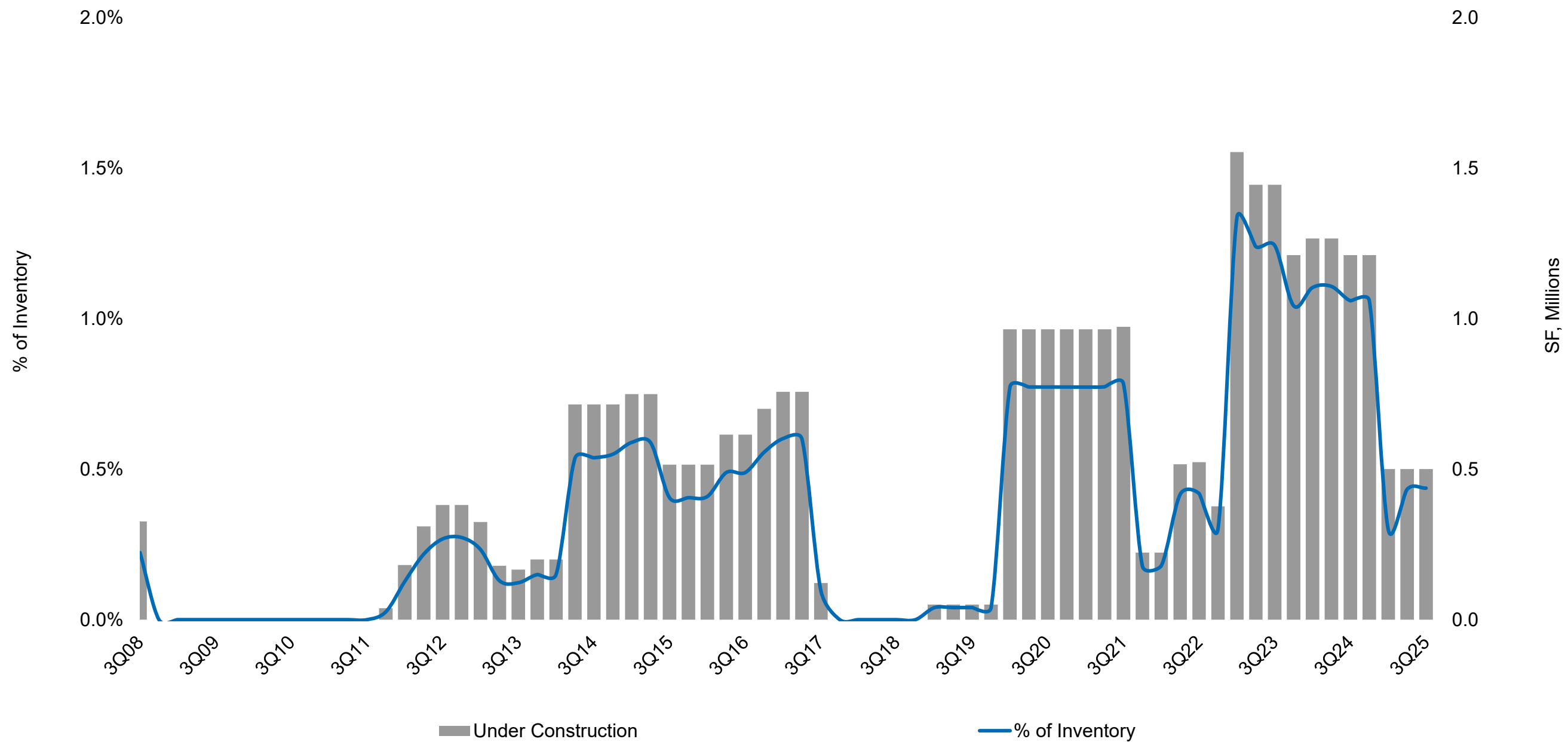


Source: Newmark Research, CoStar

Muted R&D Construction Pipeline Awaits Market Improvement

The start of new R&D construction remained paused this quarter, with market activity confined to two significant ongoing projects: the Phase II of the Intuitive Surgical Campus at 945 Kifer Road, and the Blue Rise Ventures building at 2000 Trade Zone Boulevard.

R&D Under Construction and % of Inventory

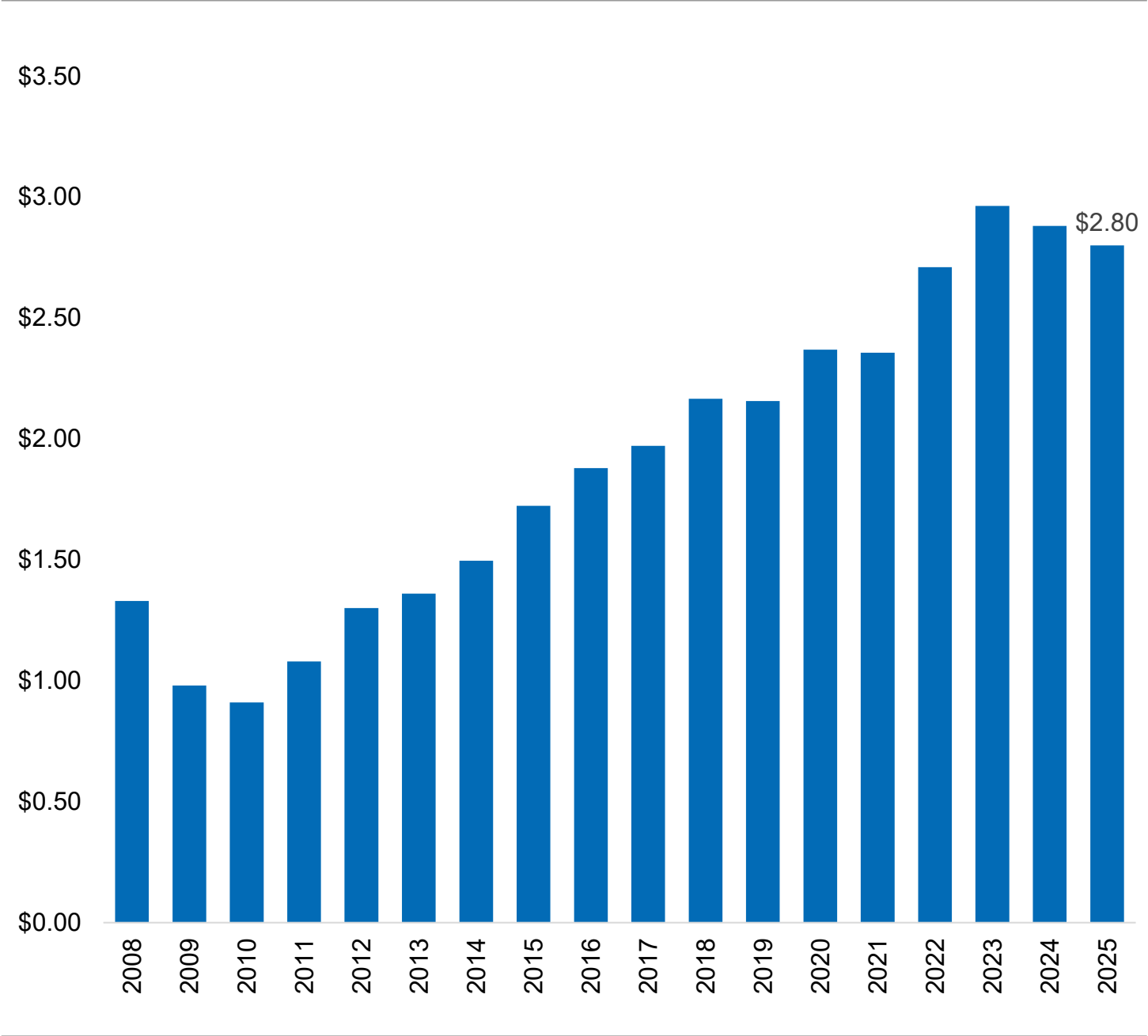


Source: Newmark Research, CoStar

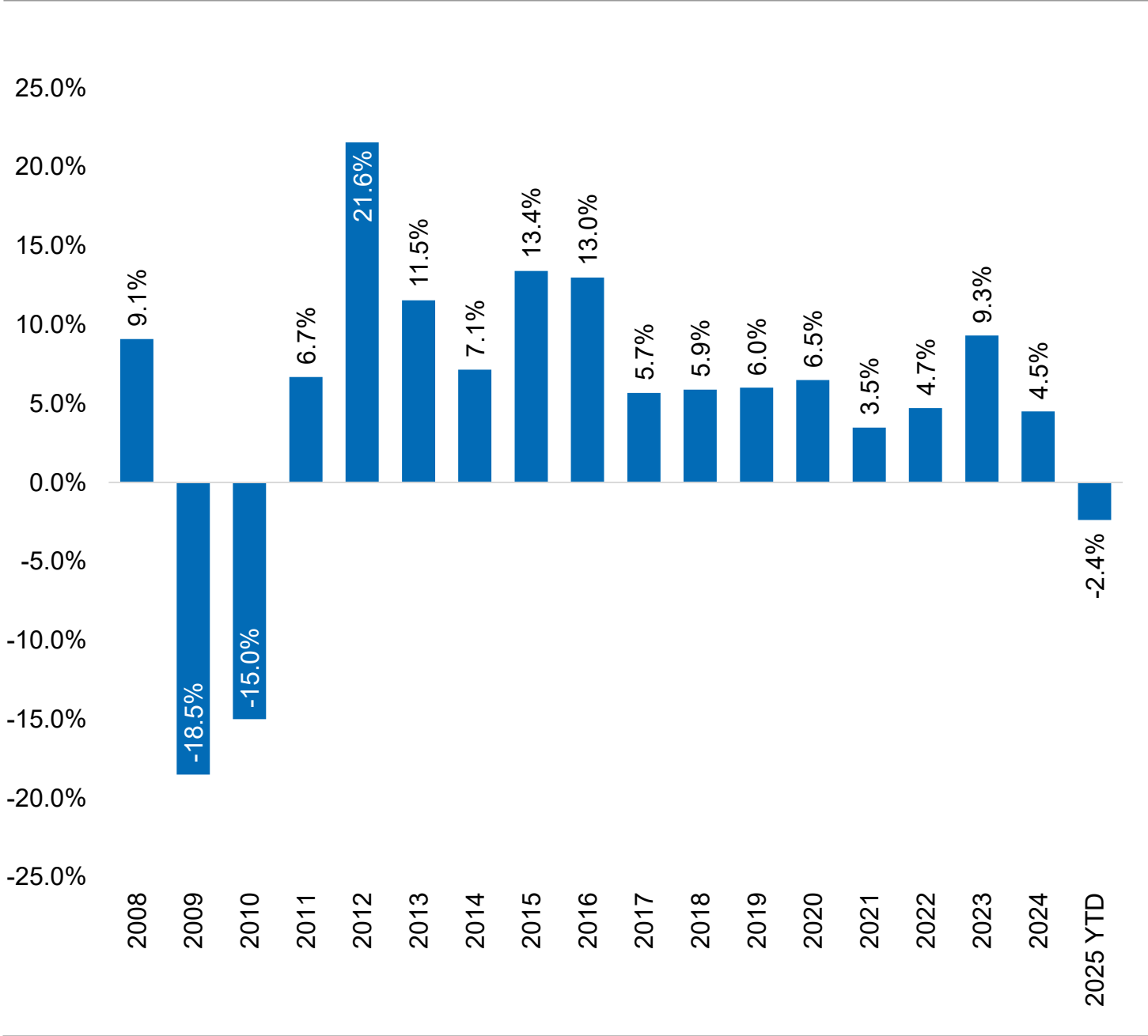
R&D Rents Continued to Soften Amid Tepid Demand and Limited Construction

R&D asking rents continued their modest pullback from the second quarter, falling 0.3% quarter-over-quarter and decreased 2.4% year-over-year. As of year-to-date 2025, the market had recorded its largest annual decrease in rent 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

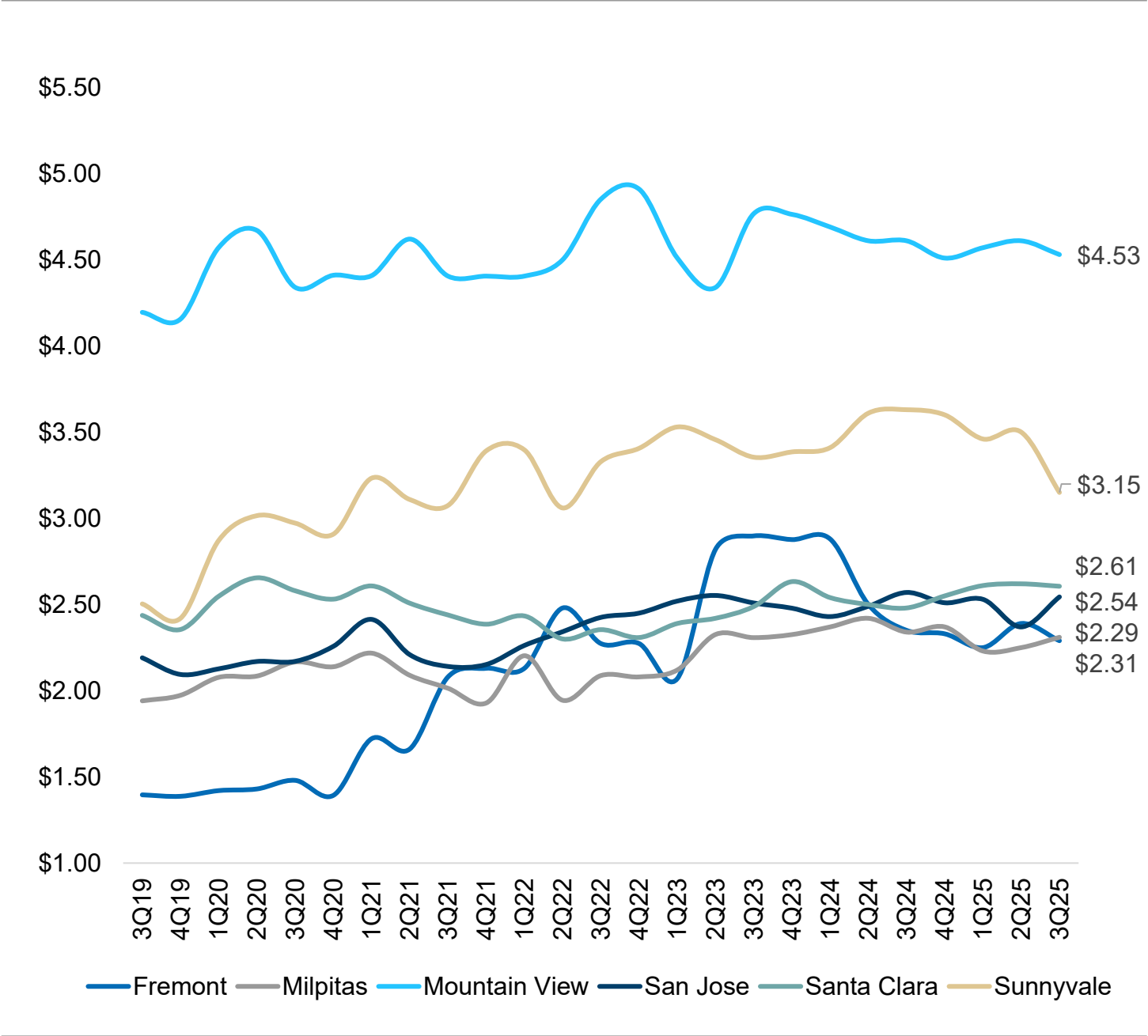


Source: Newmark Research

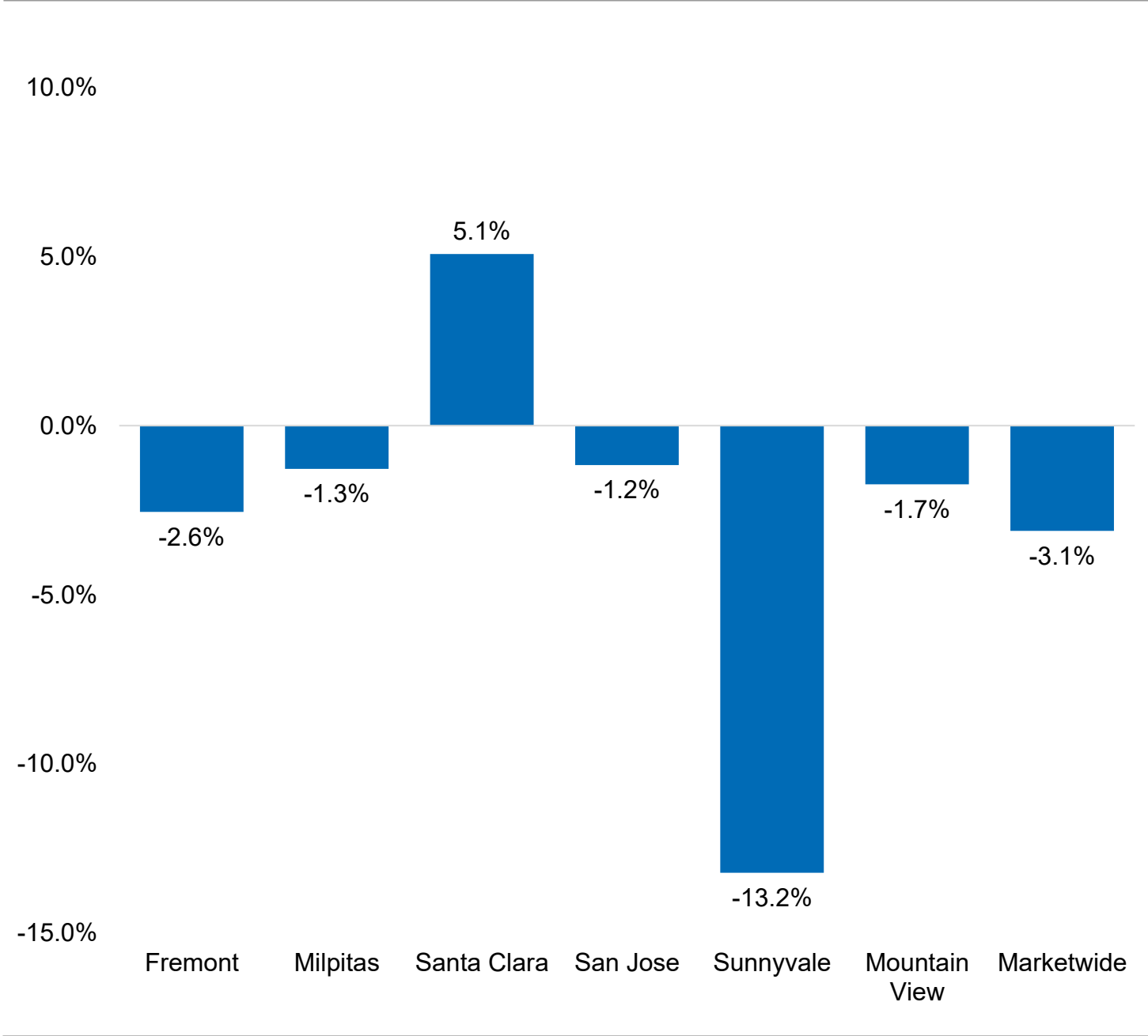
Shoreline Submarket Rents Remained Strong as R&D Rents Stabilize

Following a year of steady growth, the Silicon Valley R&D market experienced a modest pullback, with market-wide asking rates falling 3.1% year-over-year. The Shoreline submarket in Mountain View stood out amid the broader slowdown, as it maintained the highest asking rents in Silicon Valley at \$6.01 per square foot NNN. 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 Market Active in Q3 2025, Led by North San Jose

Silicon Valley’s R&D sector recorded 2.3M SF gross absorption in the third quarter, and the San Jose submarket accounted for 38.7% of that activity. The average deal size was 50.9K SF among large-sized leases*, with 20 transactions over 20K SF, excluding owner user sales. The R&D sector remained resilient to macroeconomic headwinds, due to ongoing demand for specialized infrastructure and manufacturing capabilities.

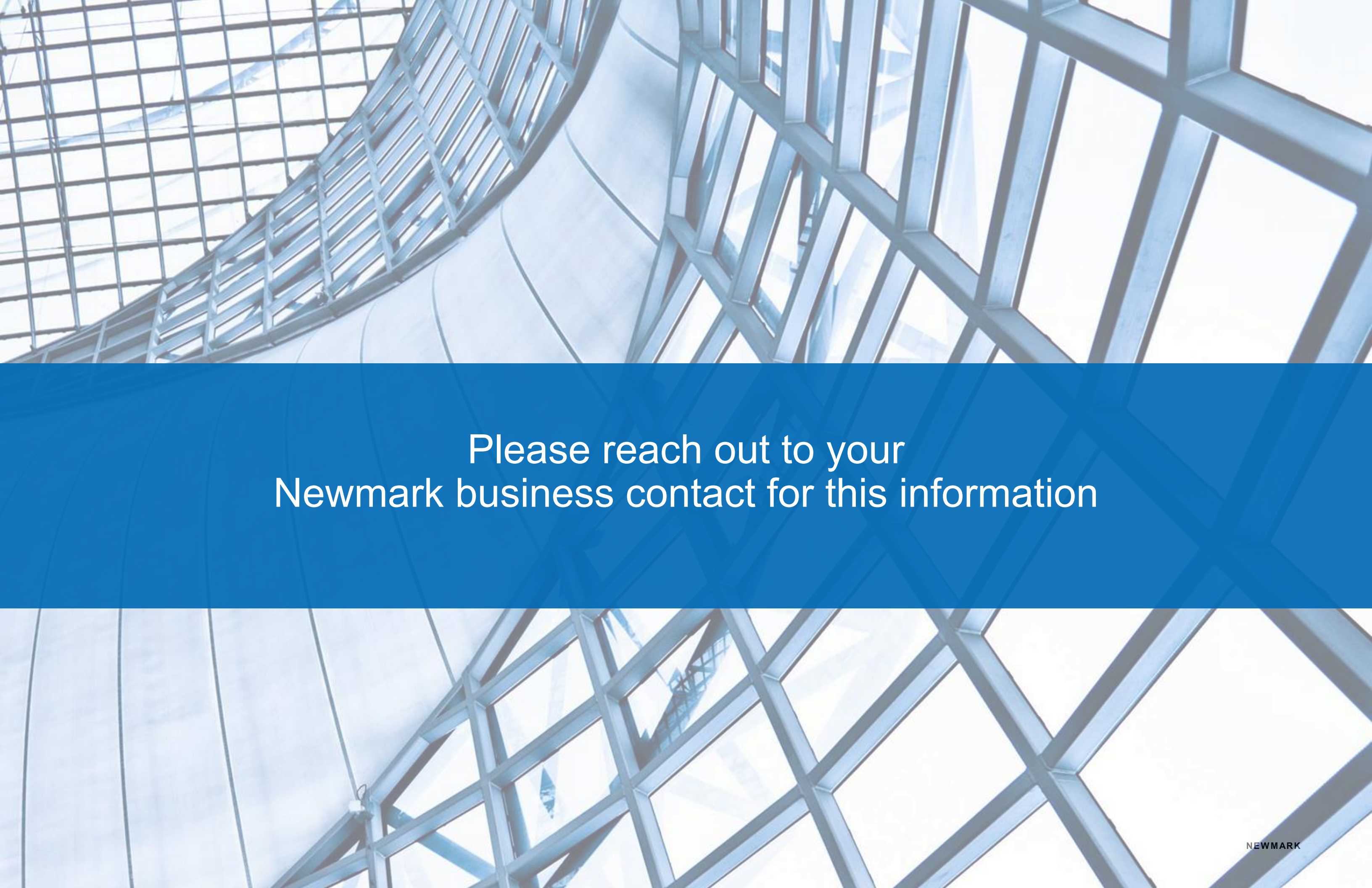
3Q25 Top Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Archer Aviation	10 W Tasman Drive	San Jose – North	Direct Lease	105,039
Archer Aviation, a developer of electric vertical takeoff and landing aircrafts, signed a direct lease at 10 W Tasman Drive in North San Jose for 105,039 square feet.				
Advantest	3055 Orchard Drive	San Jose – North	Direct Lease	94,170
Advantest, a semiconductor company, leased 94,170 square feet at 3055 Orchard Drive in San Jose.				
Mitac International	1750 Automation Parkway	San Jose – International Bus Park	Direct Lease	80,641
Mitac International signed a direct lease at 1750 Automation Parkway in San Jose				
Toshiba	55 W Trimble Road	San Jose – North	Lease Renewal	65,900
Toshiba renewed its 60,566 square feet lease at 55 W Trimble Road in North San Jose				
Maxeon Solar Technologies	51 Rio Robles	San Jose – North	Direct Lease	60,566
Maxeon Solar Technologies, a solar energy company, signed a direct lease in San Jose for 60,566 square feet.				

Source: Newmark Research
* Large-sized leases: Transactions bigger than 20,000 square feet.

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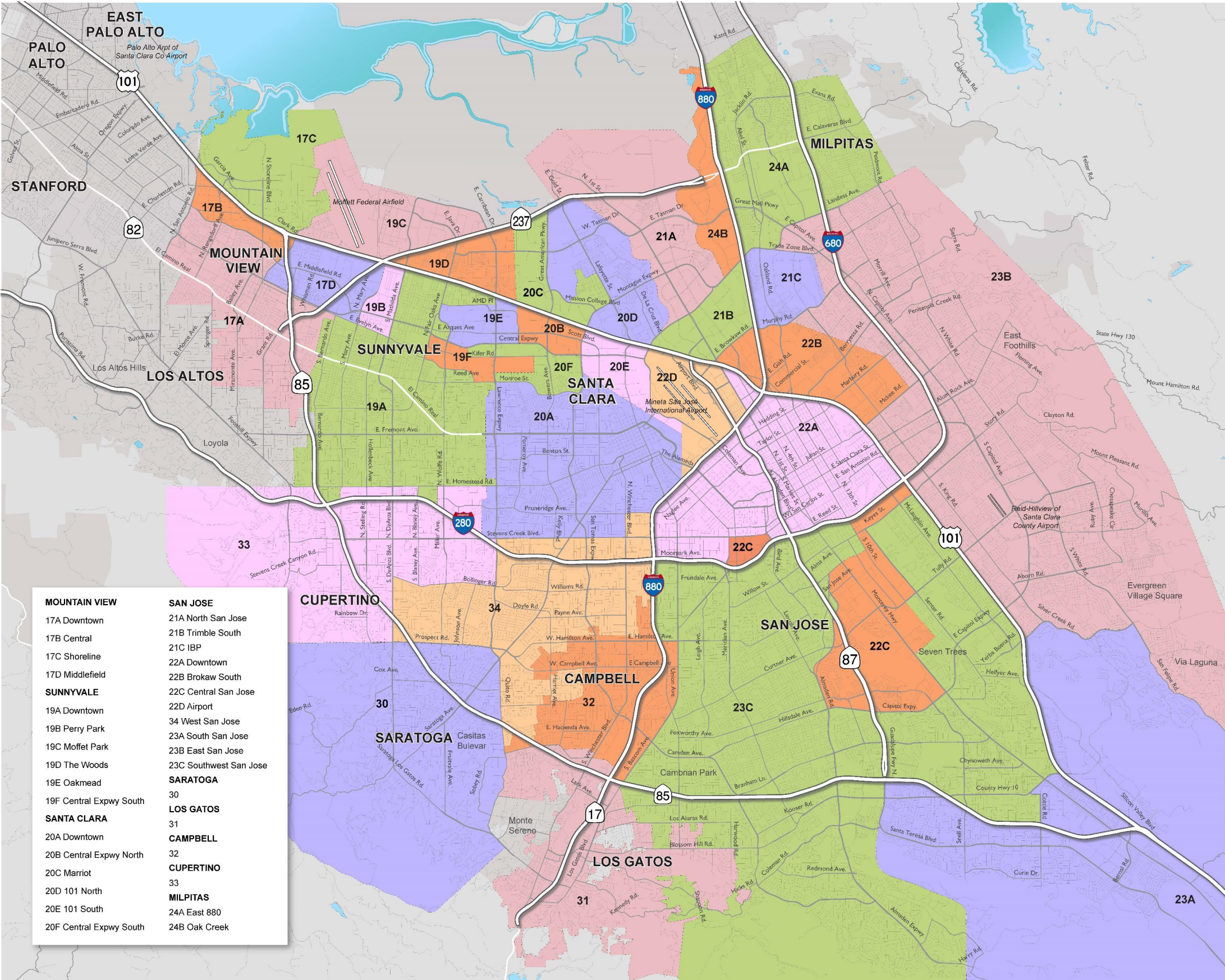
Appendix/Tables





Please reach out to your
Newmark business contact for this information

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

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