3Q25

South Peninsula R&D Market Overview

NEWMARK

Market Observations

Economy

- Throughout 2025, we will closely monitor the impact of 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. Please reach out to your broker for more information, as our research team has reports on how to navigate this macroenvironment.
- The Vanguard U.S. economic forecast projects rising unemployment levels, inflation stabilizing near 2.7%, and business investment growth of 3.4% in 2025 supported by strong trends in AI-driven productivity and capital investment.
- Deloitte's economic outlook still anticipates modest interest rate reductions during 2025, with rates projected to settle around 4% by year-end.

Major Transactions

- In the first quarter, the largest deal was a direct lease for a confidential client who is leasing 73,414 square feet in the city of Palo Alto.
- Revolution Medicine, a clinical oncology company, signed a direct lease to occupy the entire building at 400 Saginaw Drive, totaling 60,841 SF transacted. They simultaneously subleased Impossible Foods back their space in 400 Saginaw Drive.
- Periodic Labs, an AI company, has renewed its lease at 4055 Bohannon Drive, occupying the whole building.

Leasing Market Fundamentals

- The South Peninsula market experienced subdued leasing activity, registering below the five-year average for the third consecutive quarter. As mentioned in our last report, the subdued leasing numbers seem to be a long-term trend as opposed to an anomaly. The Life Science activity in the South Peninsula has been extremely dormant comprising of primarily renewals and extensions.
- The South Peninsula R&D market has reached its highest historical vacancy rate of 19.5%. This upward trend in vacancy is primarily attributable to two newly constructed developments being introduced to the market in 2025.
- The South Peninsula market experienced subdued leasing activity, registering below the five-year average for the third consecutive quarter. As mentioned in our last report, the subdued leasing numbers seem to be a long-term trend as opposed to an anomaly.

Outlook

- R&D asking rents in the South Peninsula fell to $5.08 per square foot in Q3 2025, continuing a steady decline with no signs of stabilizing. Rates remain well below the Q3 2022 peak of $5.82, reflecting roughly a 10% year-over-year drop driven by rising vacancies and a clear flight to quality.
- We’re continuing to monitor whether sustained vacancy will lead to further rent softening or prompt developers to continue to scale back the current pipeline to allow the market to stabilize.

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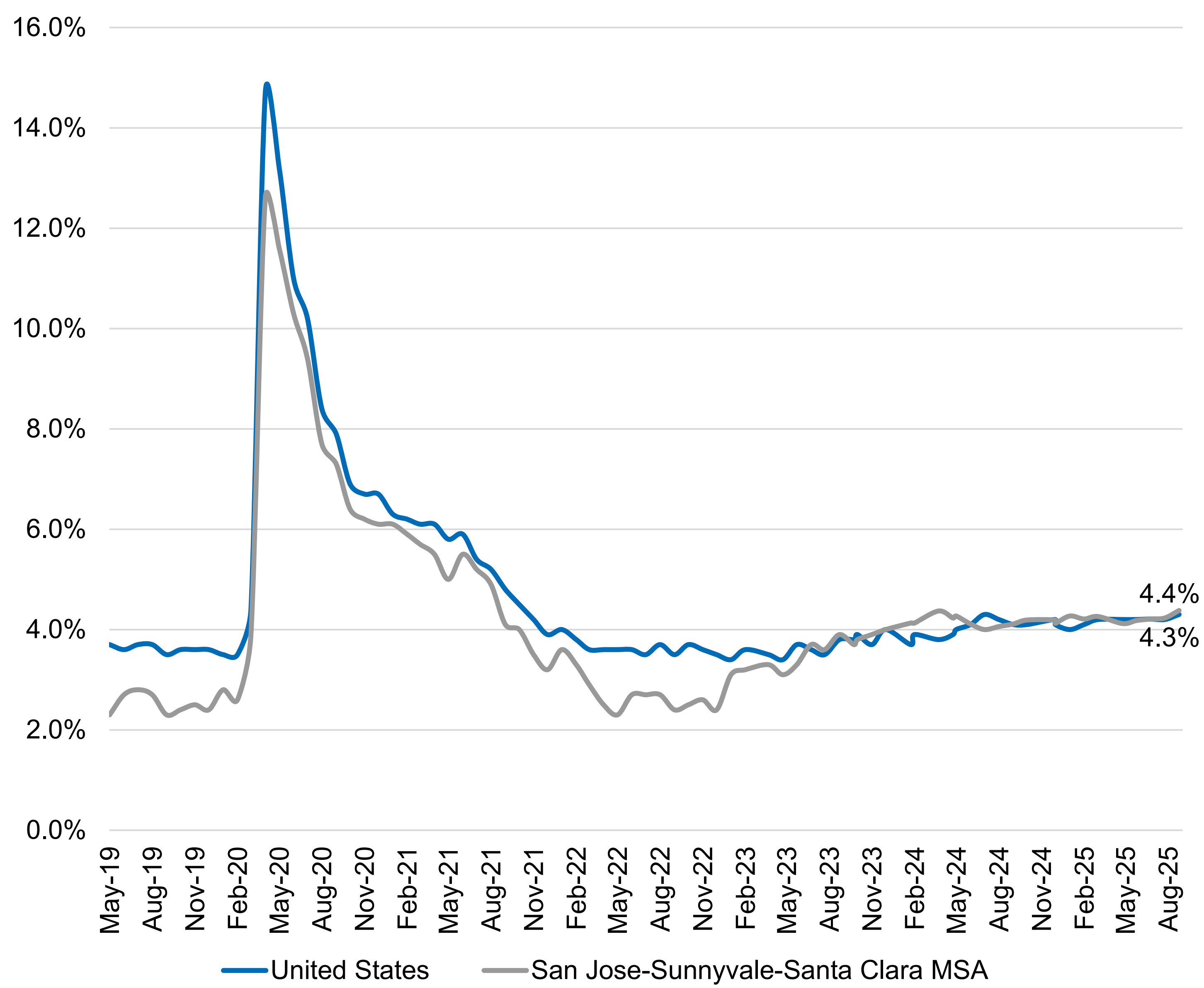
Economy

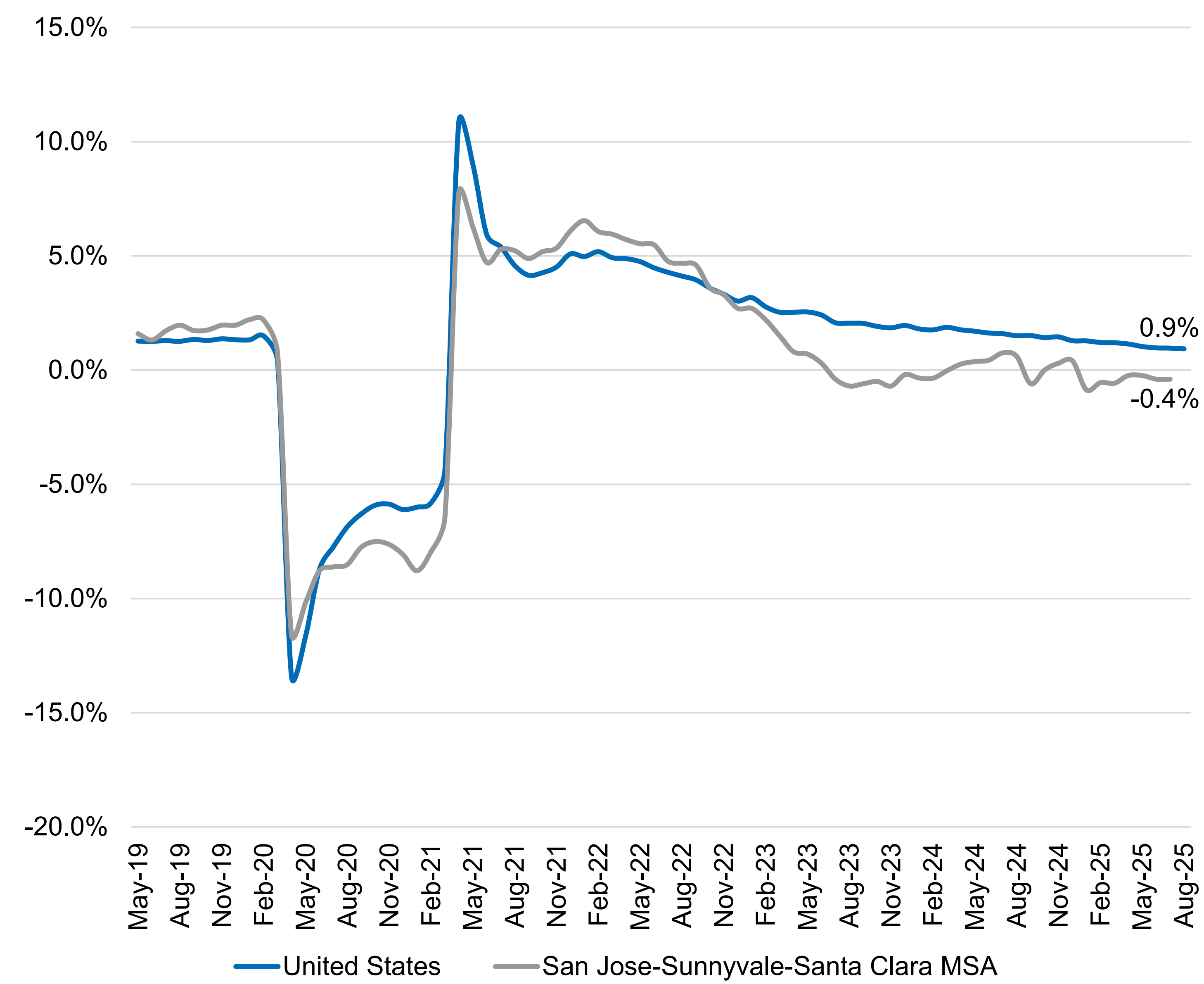
Silicon Valley Labor Market Mirrored National Unemployment Levels

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



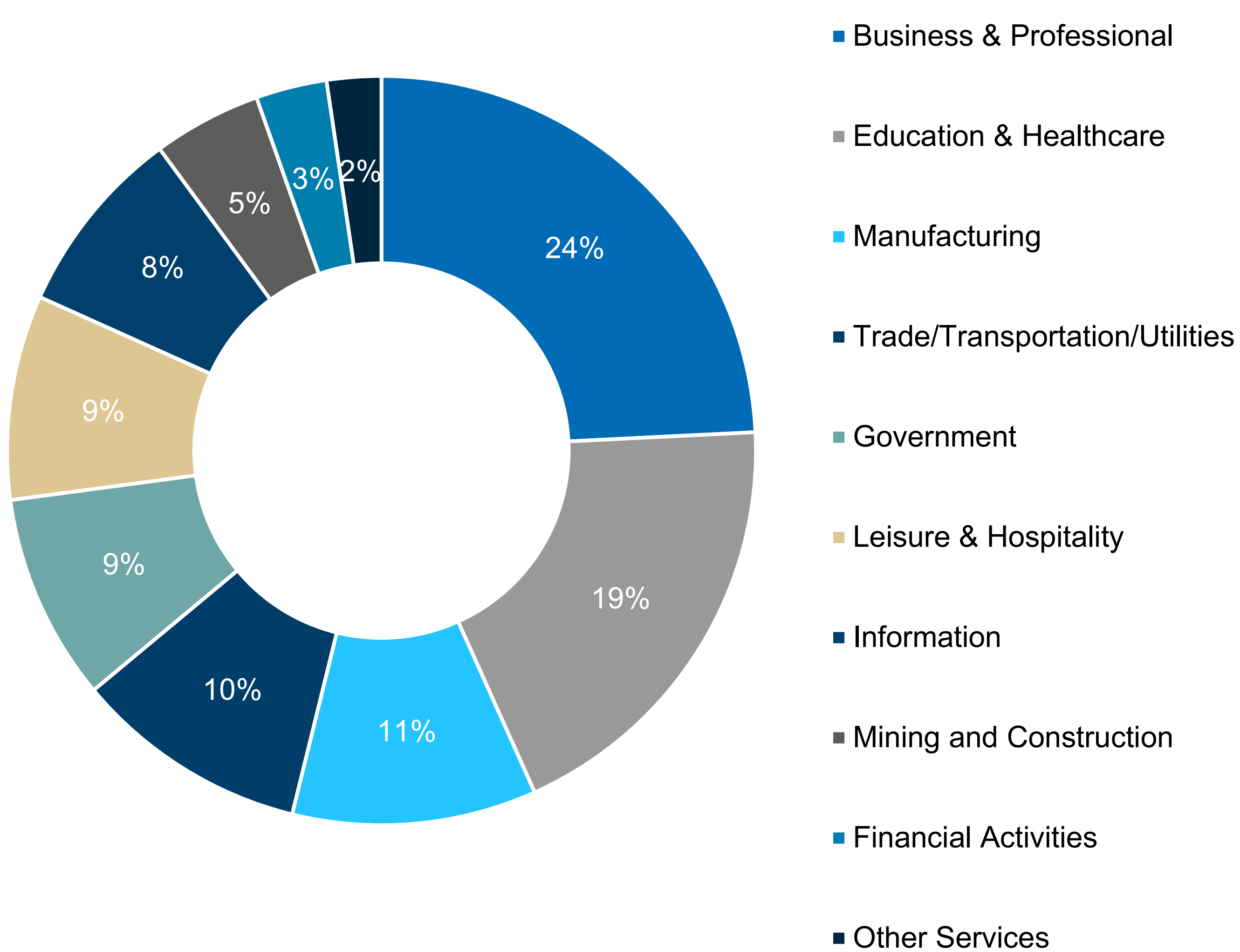
Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

National data is as of June. May is the latest month available for metro employment stats

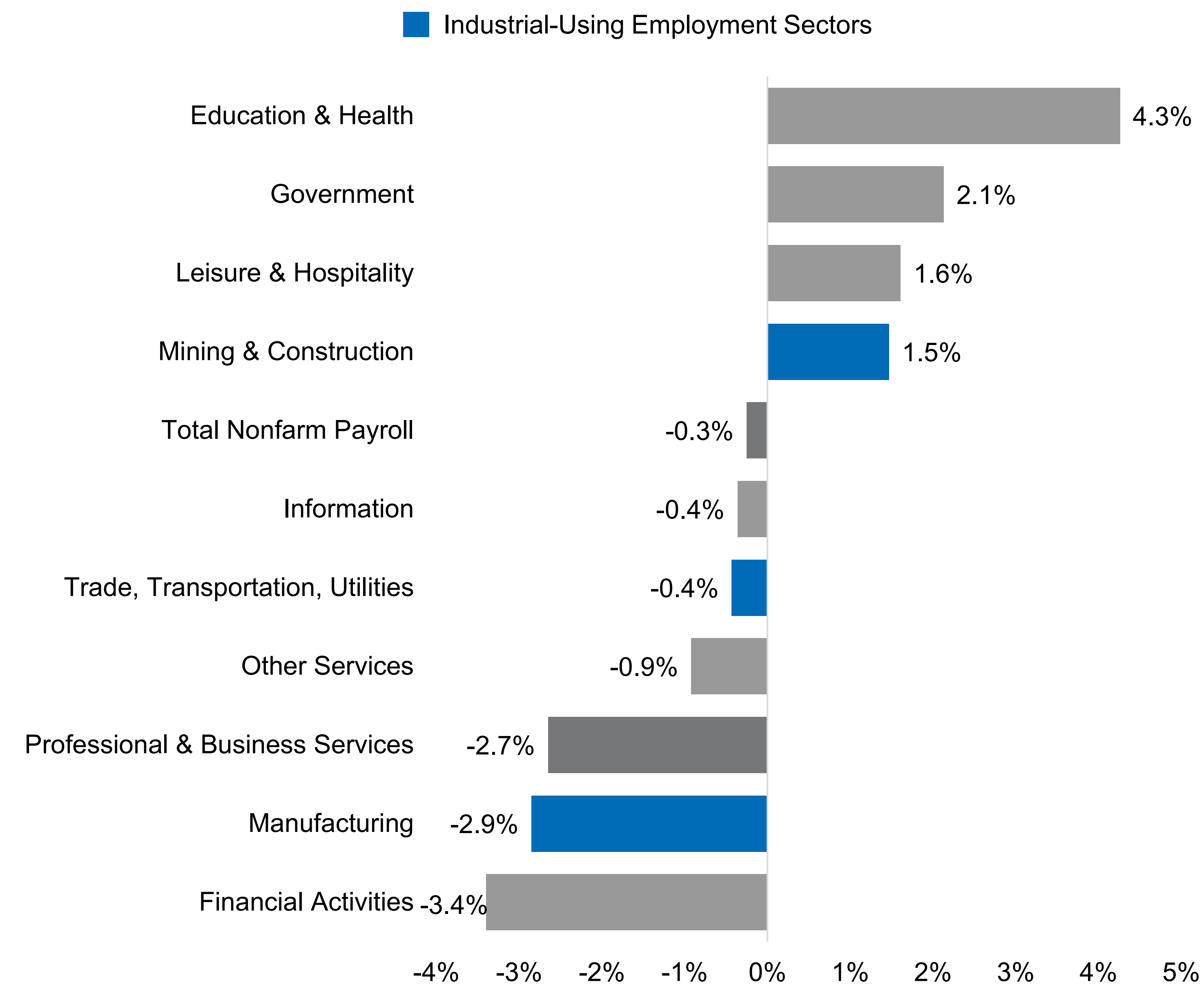
Tech Sector Continued to Shed

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

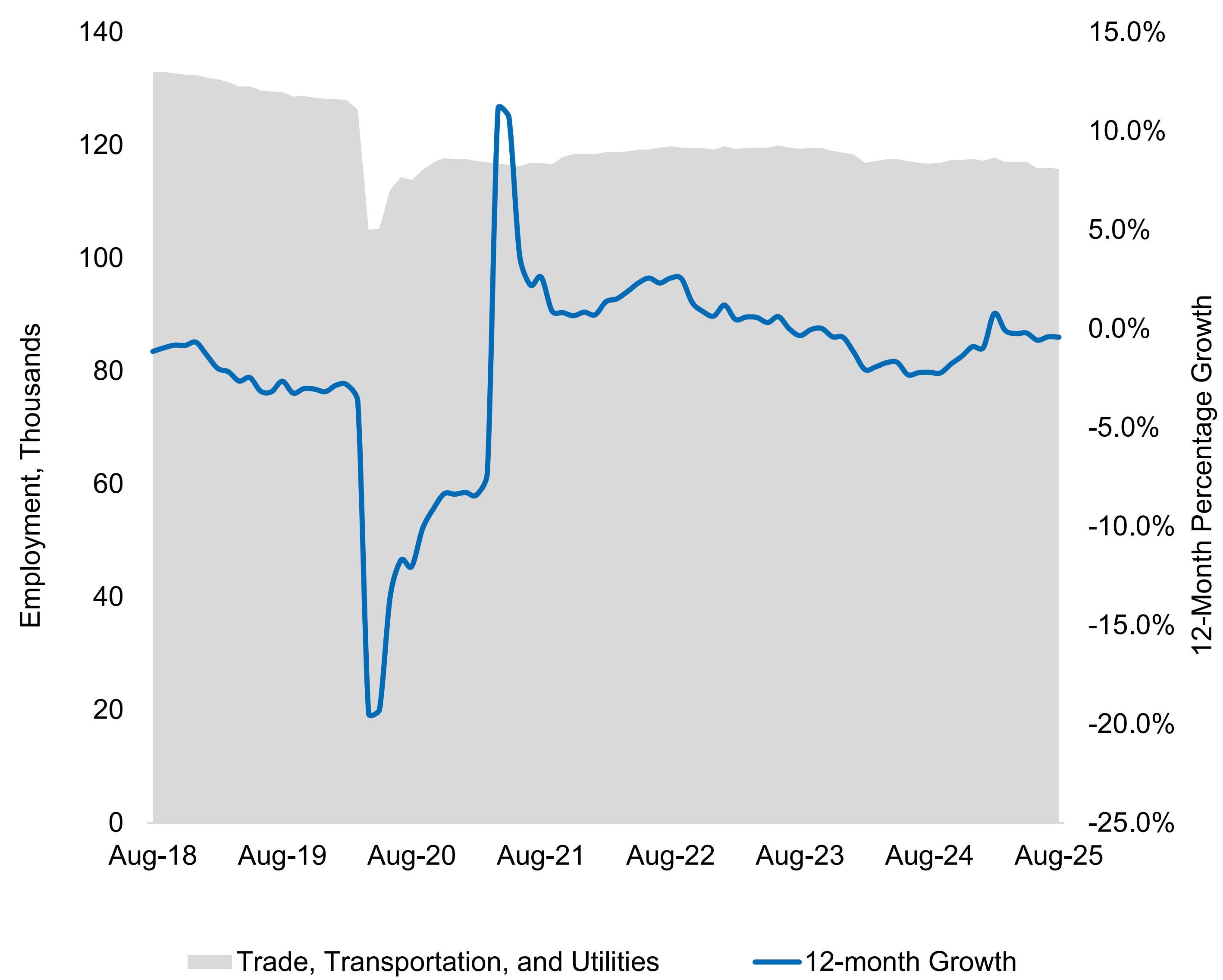


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

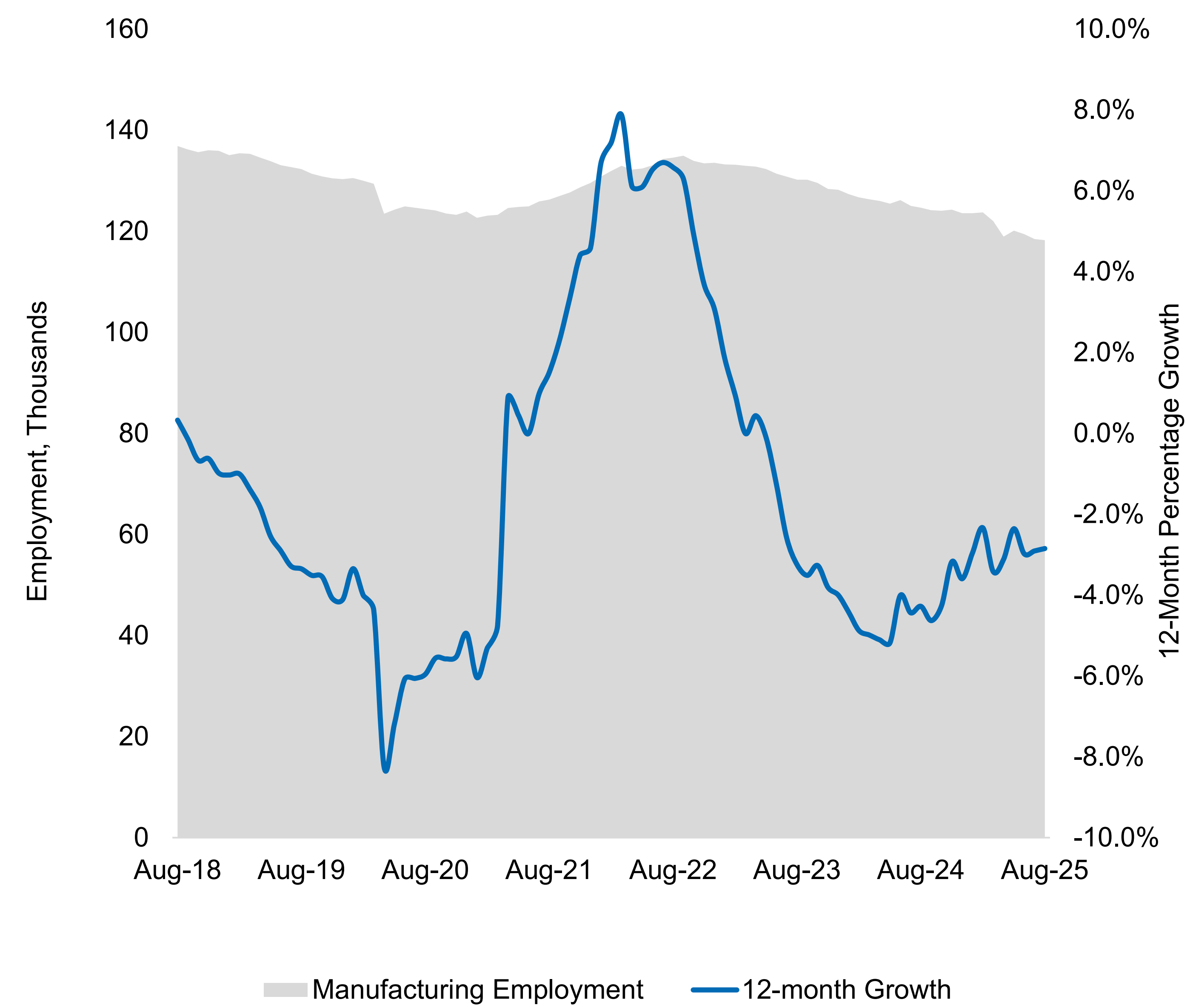
San Jose MSA Labor Market Held Steady as Manufacturing Slipped

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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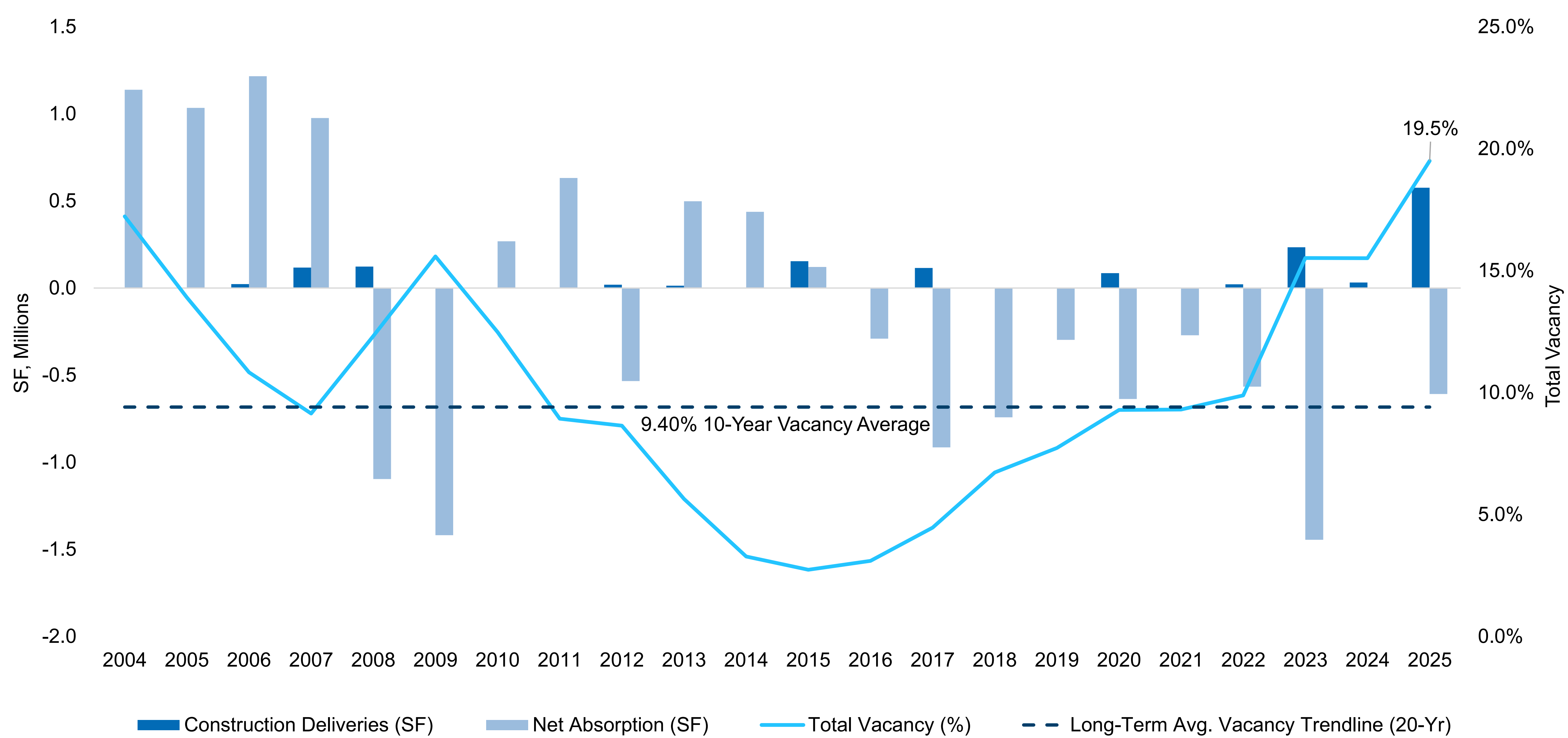
Leasing Market Fundamentals

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 19.5%. 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

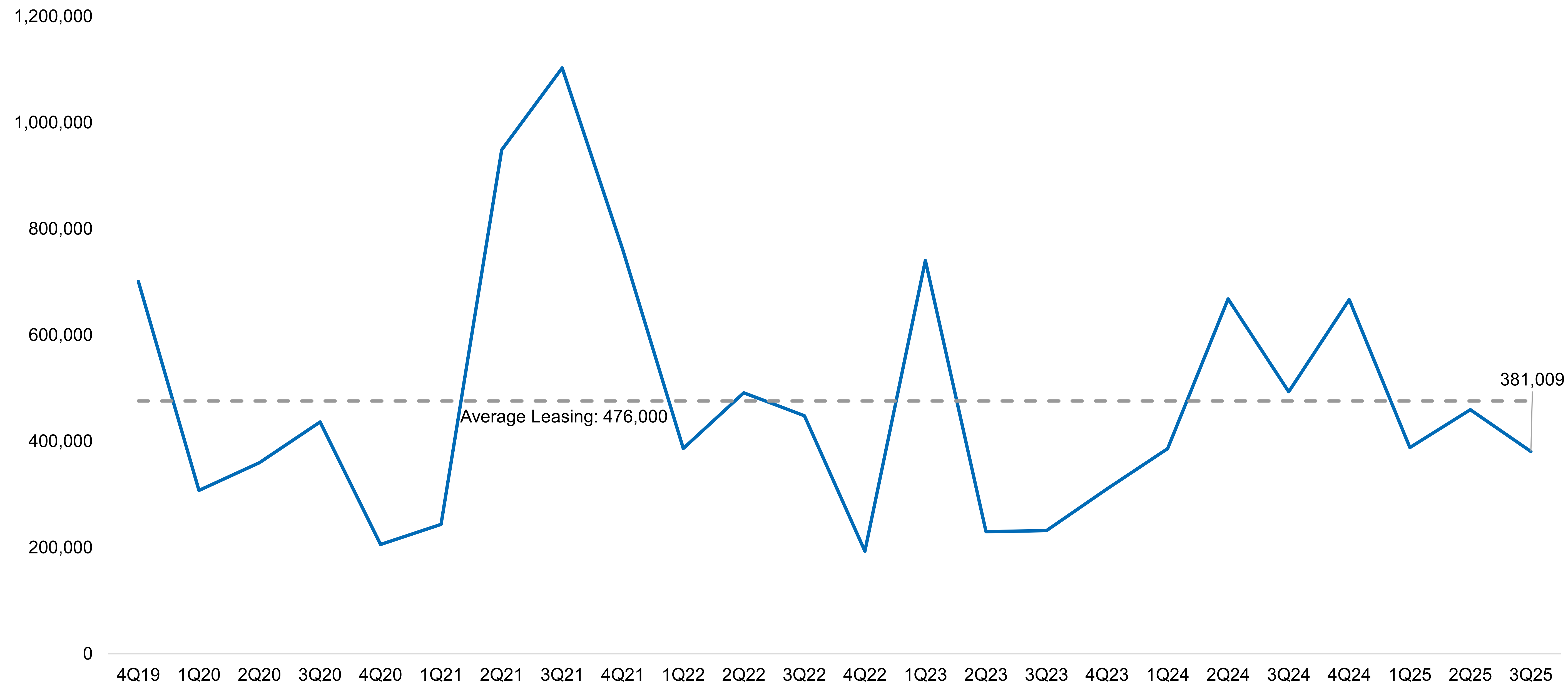


Source: Newmark Research

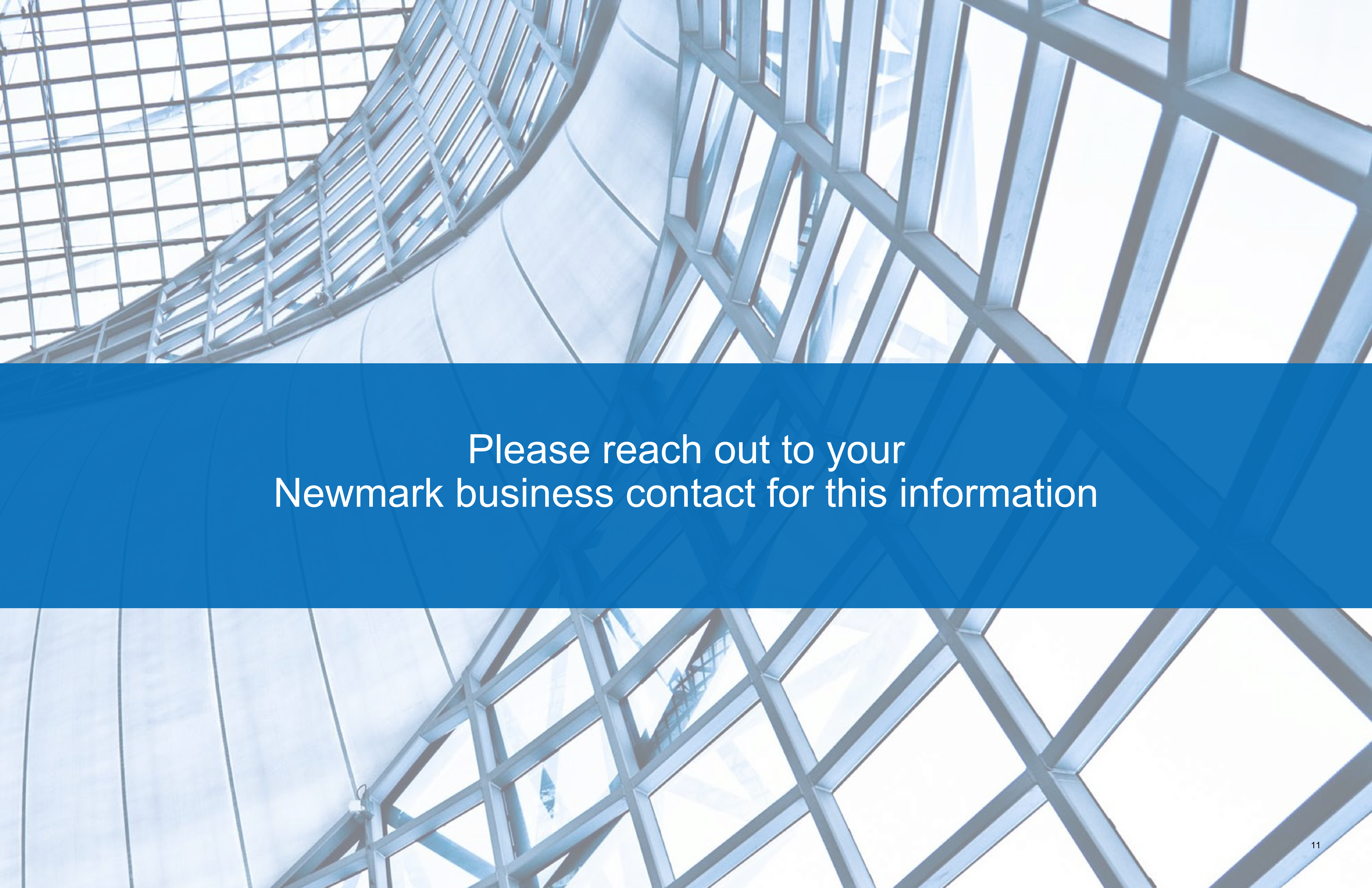
Q3 Total Leasing Struggled to Eclipse 5-year Leasing Average

The South Peninsula market experienced subdued leasing activity, registering 381,009 SF of total leasing which is below the five-year average for the third consecutive quarter. As mentioned in our last report, the subdued leasing numbers seem to be a long-term trend as opposed to an anomaly. The Life Science activity in the South Peninsula has been extremely dormant comprising of primarily renewals and extensions.

Total Leasing Activity (SF)



Source: Newmark Research, CoStar



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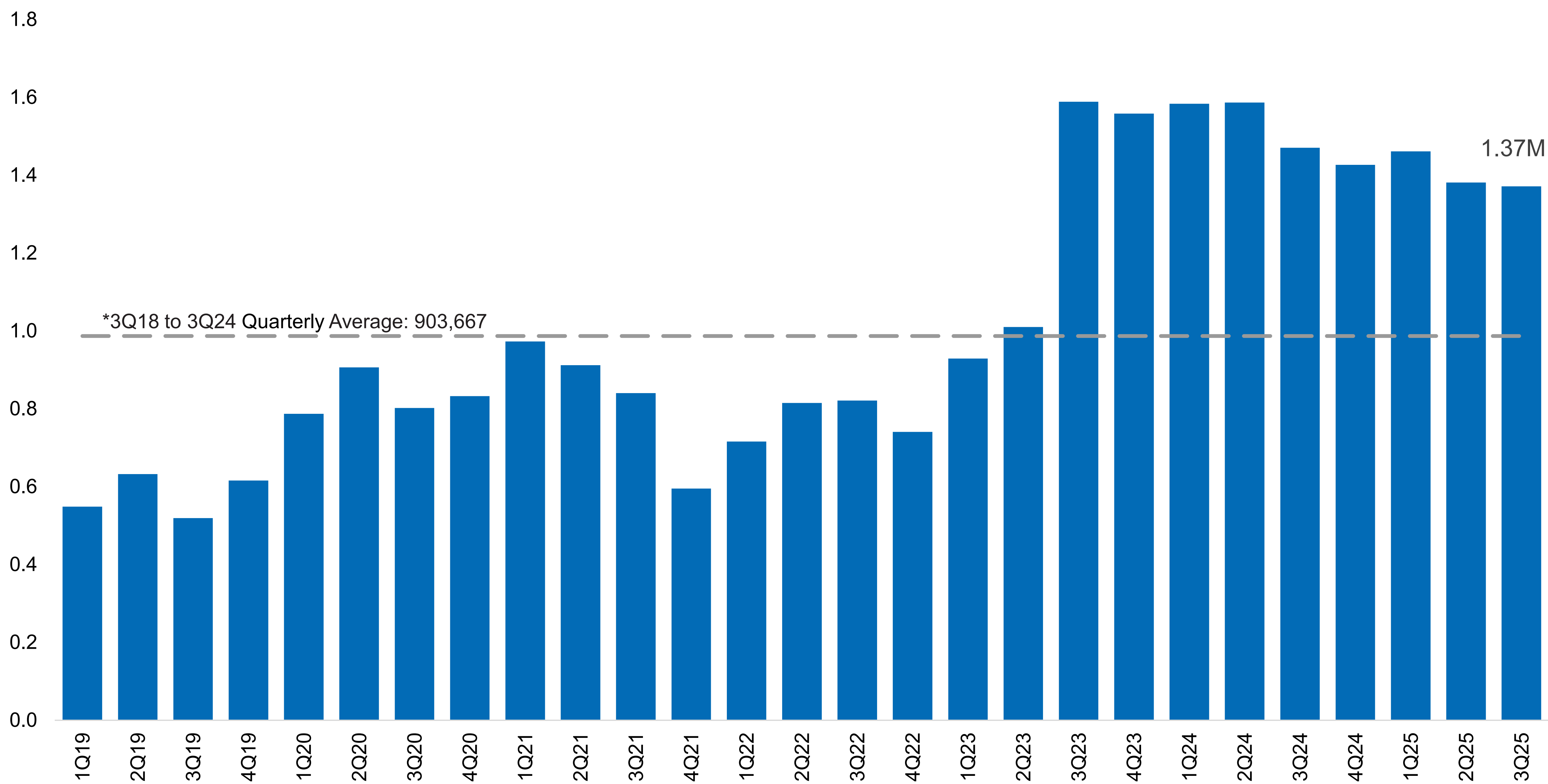
South Peninsula R&D Sublease Inventory Continued to Shrink in Q3

The graph below illustrates the declining trend in R&D sublease availability across the South Peninsula. In Q3 2025, total sublease space decreased 6.8% 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. Available sublease space has consistently decreased in 4 of the last 5 quarters.

Available R&D Sublease Volume (msf)

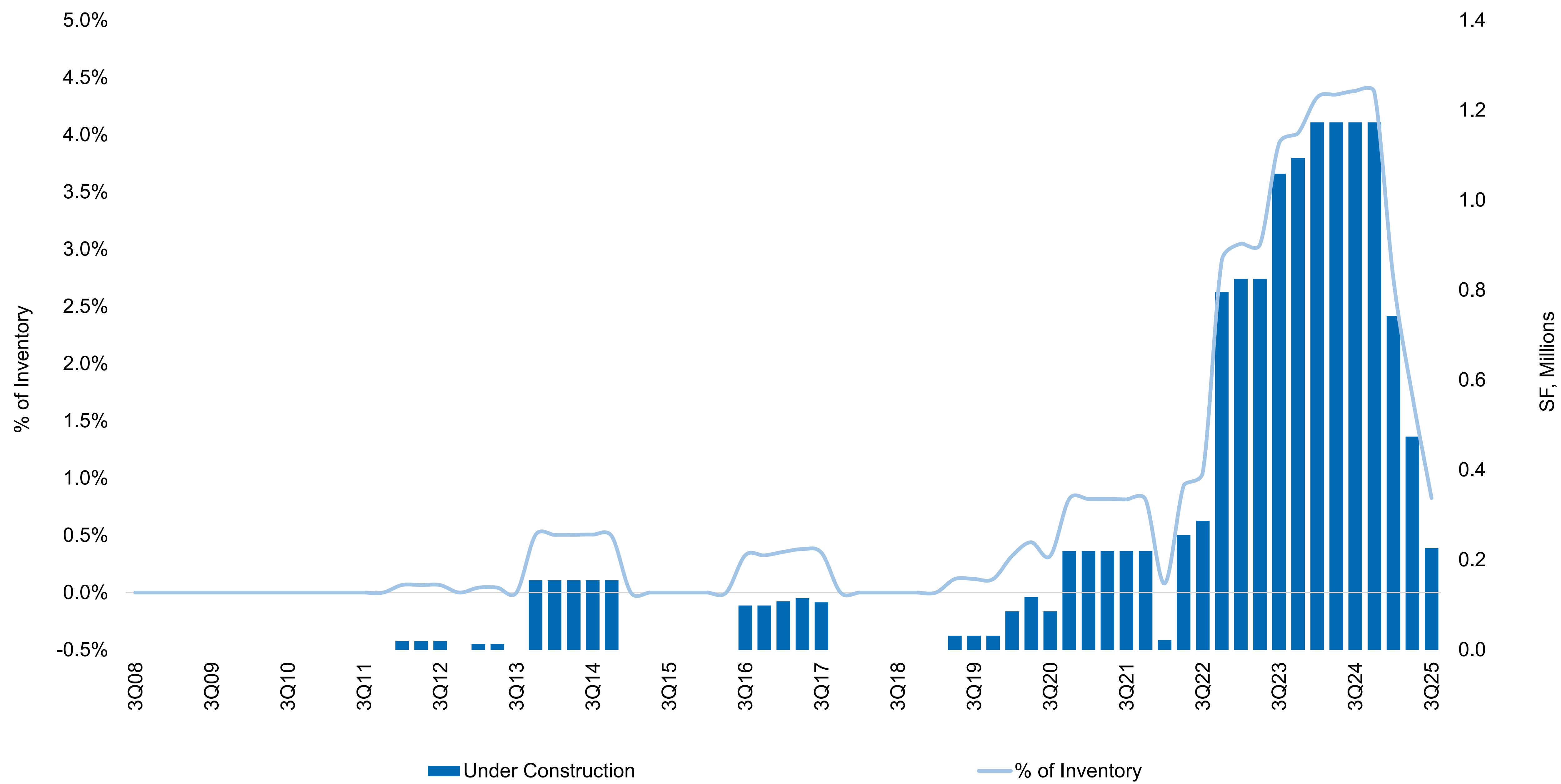


Source: Newmark Research, CoStar

South Peninsula R&D Project Experienced Asset Class Change

The R&D construction pipeline shifted notably in Q3 2025 with the completion of two major ELCO Yards developments in Redwood City: The Loft and The Mill. Both buildings, originally planned as R&D space, have been reclassified as office, contributing to a major drop in the region's active construction pipeline. This conversion, along with broader economic headwinds, has reduced the total under-construction inventory by nearly half, underscoring the ongoing challenges facing the R&D sector.

Industrial Under Construction and % of Inventory

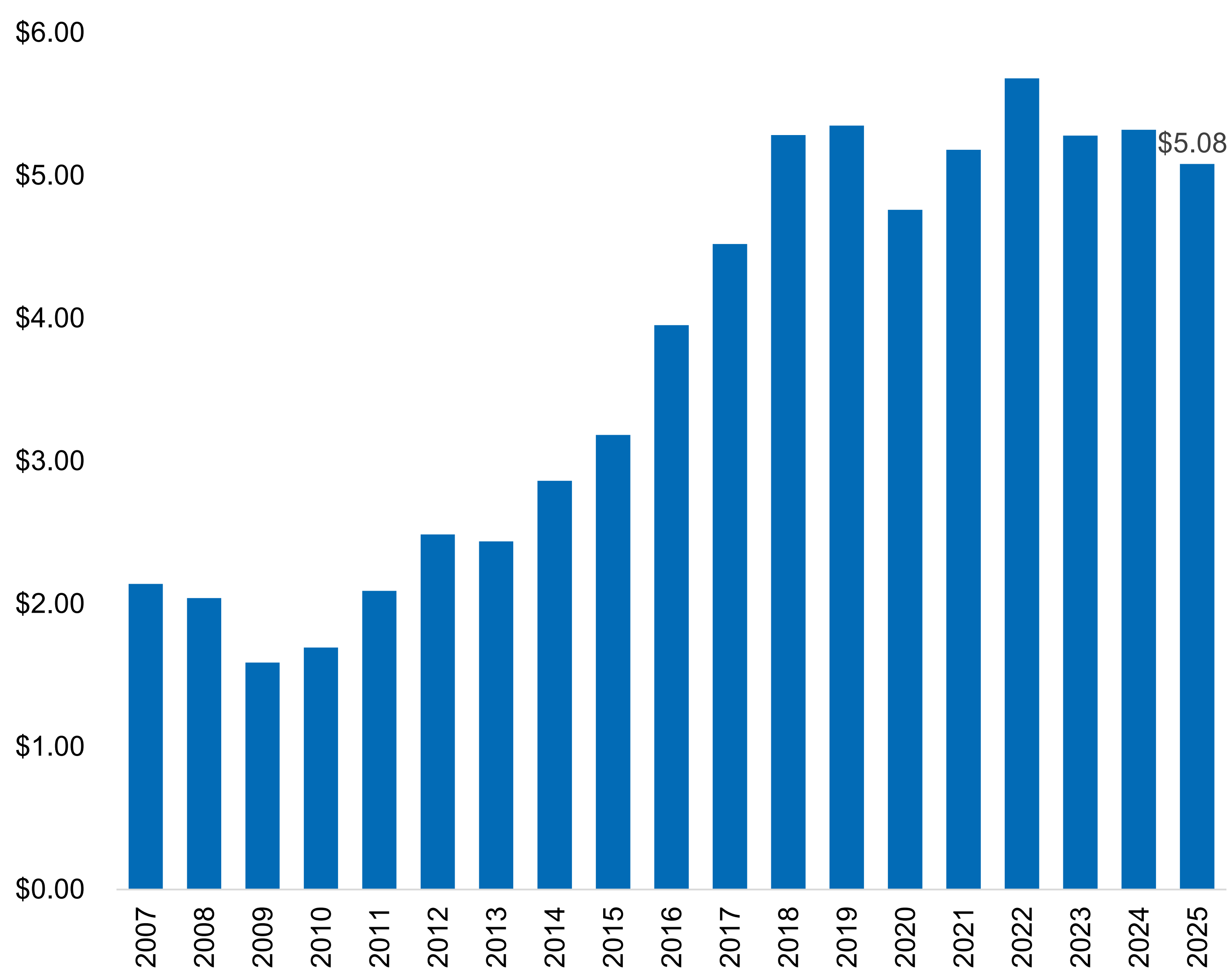


Source: Newmark Research, CoStar

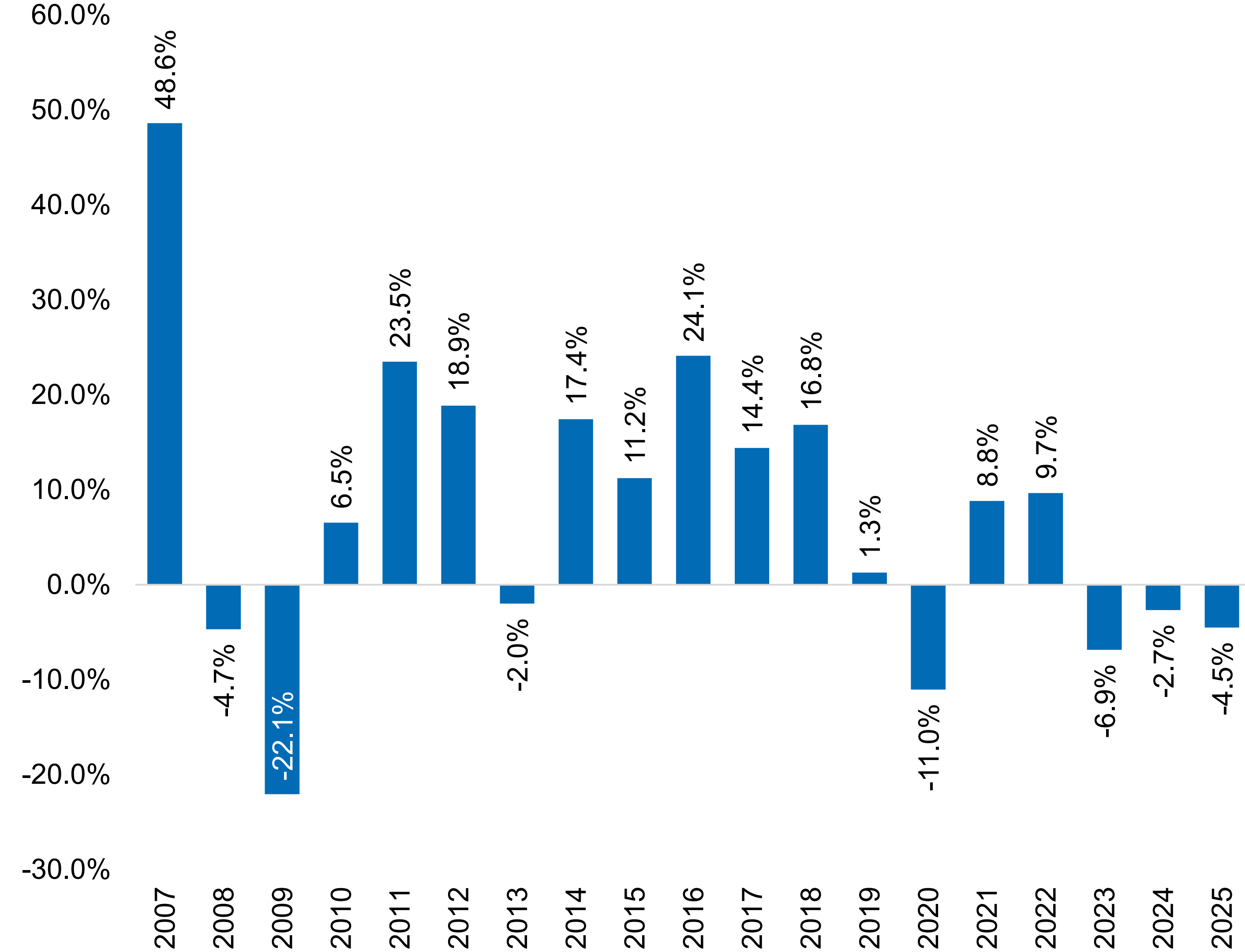
R&D Rents Continued to Decline as Vacancy Remained Elevated

R&D asking rents in the South Peninsula fell to $5.08 per square foot in Q3 2025, continuing a steady decline with no signs of stabilizing. Rates remain well below the Q3 2022 peak of $5.82, reflecting roughly a 10% year-over-year drop driven by rising vacancies and a clear flight to quality. Tenants are favoring top-tier projects like Redwood City's ELCO Yards which had three buildings which reclassified from R&D to office space also pulling down average asking rates.

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



Year-over-Year Asking Rent Growth Rate % Change

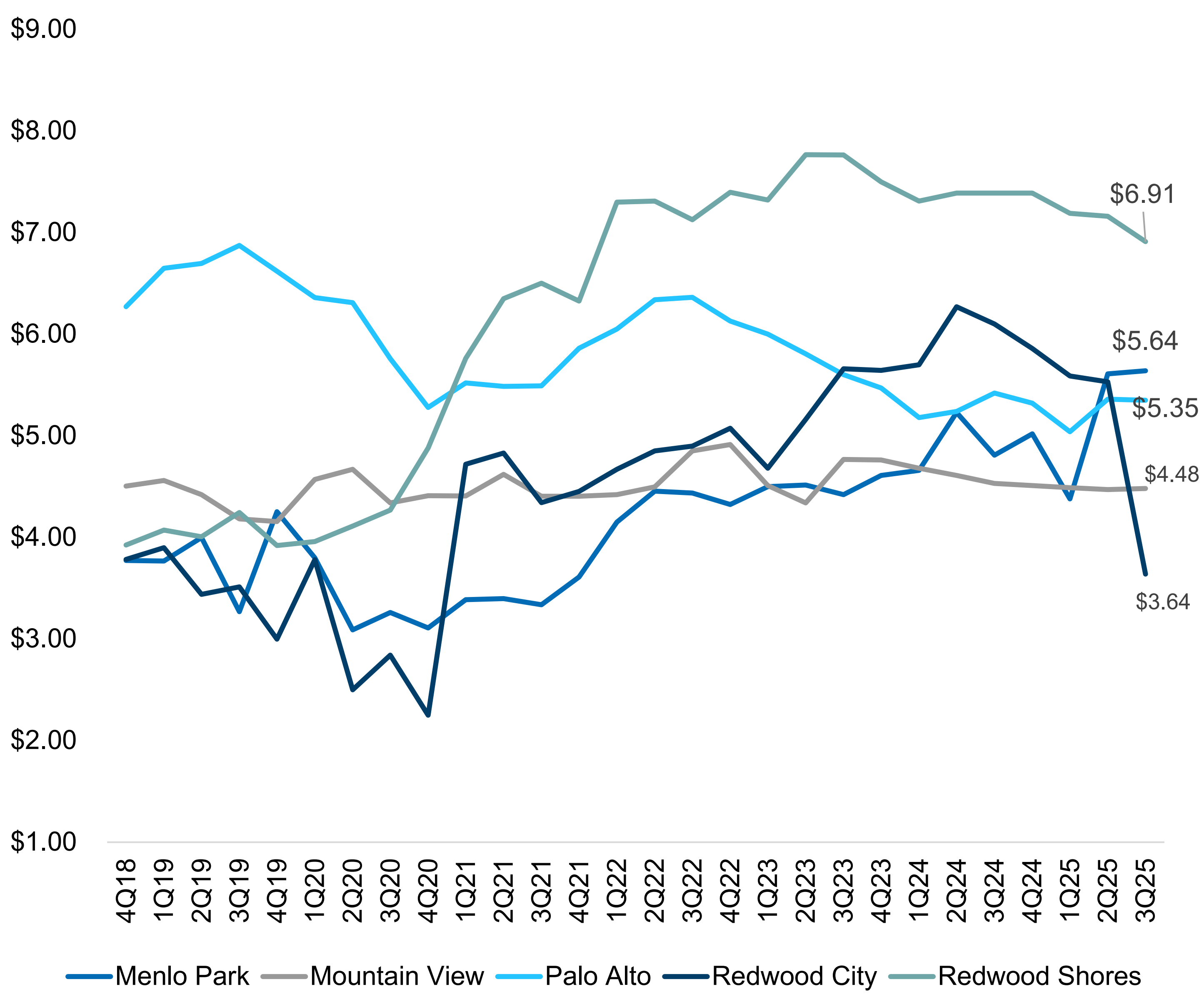


Source: Newmark Research

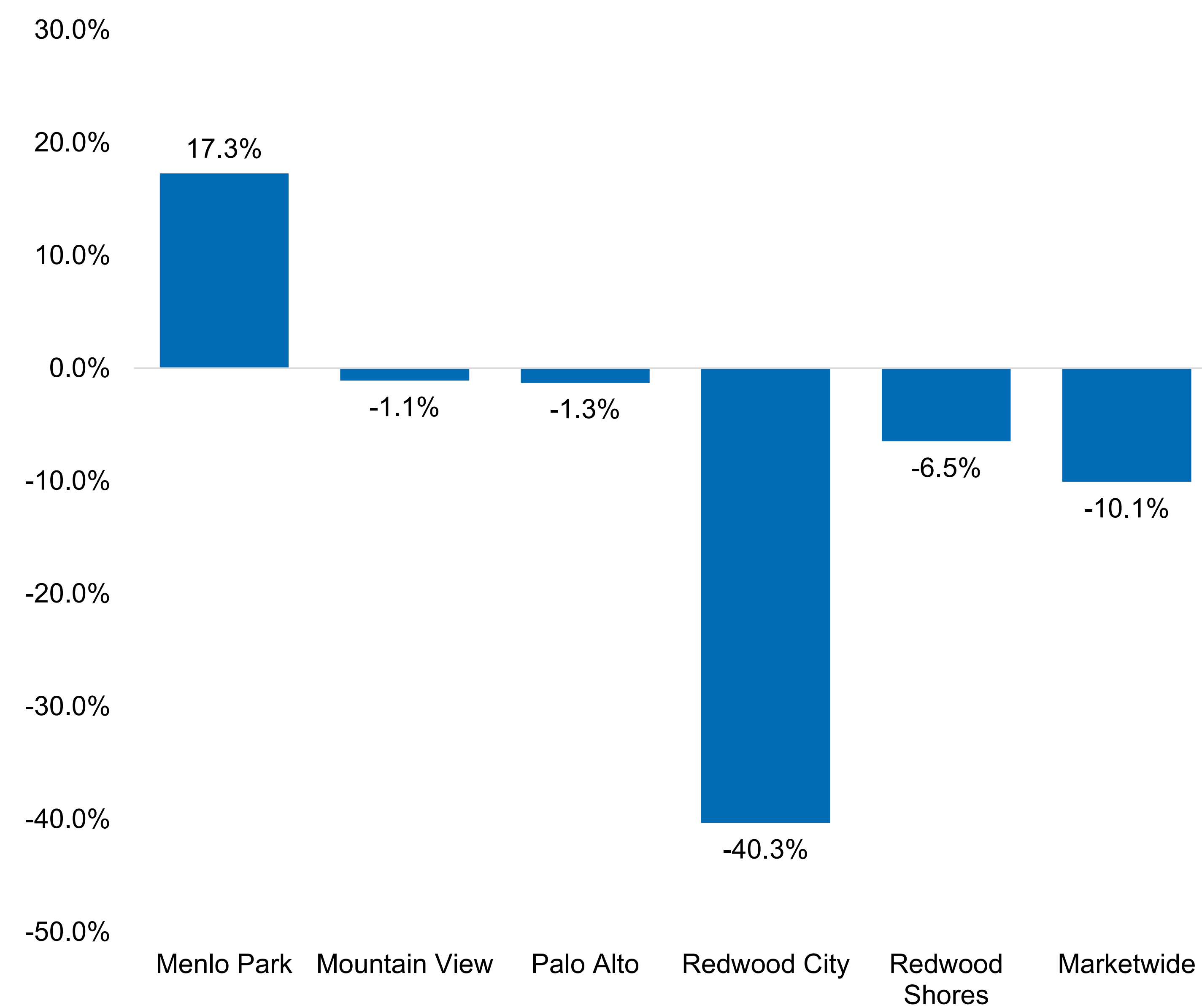
Elevated Vacancies and Reclassifications Drove Rent Adjustments in Redwood City

The South Peninsula's R&D market has seen asking rents fall about 10% year-over-year, pressured by elevated vacancy rates. The flight to quality continues as tenants pursue premier projects like Redwood City's ELCO Yards, much of which is now pre-leased. Additionally, three ELCO Yards buildings were reclassified from R&D to office use, sharply influencing the region's average rents.

Asking Rent by Submarket



Year-over-year Percent Change in Asking Rate



Source: Newmark Research

South Peninsula Saw Modest Activity but Captures Major Lease Wins

The South Peninsula recorded modest leasing activity this quarter, with 381,009 SF of total leasing. Two of the 5 largest deals in the region were completed by South Peninsula Newmark brokers, including the largest R&D deal of the quarter.

Top Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Confidential Client	Confidential	Pal Alto – California Avenue	Direct Lease	73,414
Confidential client has leased a large space in Palo Alto.				
Revolution Medicines	400 Saginaw Drive	Redwood City – Seaport	Lease Expansion	60,841
Revolution medicines has expanded their lease to occupy the entirety of 400 Saginaw drive.				
Impossible Foods	400 Saginaw Drive	Redwood City – Seaport	Sublease	37,808
After leasing the entirety of 400 Saginaw, Revolution Medicines immediately subleased impossible foods their space back allowing the alternative food company to finish out their lease.				
Periodic Labs	4055 Bohannon drive	Menlo Park – Hwy 101 Industrial	Direct Lease	26,328
Periodic Labs, the AI company, has signed a direct lease to occupy the whole building.				
Boeing	329 Bernardo Ave	Mountain View – South Middlefield	Lease Renewal	24,378
Panasonic has signed a sublease for the 21,163 SF in the South Middlefield submarket of Mountain View.				

Source: Newmark Research

Appendix / Tables

Please reach out to your
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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.

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