
4Q24

Silicon Valley Office Market Overview



NEWMARK

Market Observations



Economy

- The region’s unemployment rate showed a slight improvement, decreasing from 4.3% in May to 4.2% in November. In contrast, the national unemployment rate increased from 4.0% to 4.2% over the same period. This inverse suggests that while the broader U.S. labor market softened, Silicon Valley's job market remained relatively stable, reflecting the region's resilience in key industries like technology.
- Notably, Professional & Business Services—the region's largest employment sector and a crucial driver of office demand—continues to grow, signaling optimism for the local office market. This diversification beyond the tech sector highlights Silicon Valley's resilience and adaptability in a shifting economic environment.
- Office-using employment continued to decline in 2024, reflecting ongoing adjustments in the tech sector. Persistent cost-cutting measures and strategic shifts in the tech industry continue to apply downward pressure on employment levels. However, improving economic conditions and sustained demand from AI and renewable energy sectors suggest the market is trending toward stabilization.



Major Transactions

- A considerable driver to the positive net absorption of 1.1 MSF was Sutter Health’s 693,000 sf ground lease signed at Mission 101 in Santa Clara’s Marriott Park submarket.
- Total leasing activity for 2024 fell short of the 16-year annual average by -15.1%. However, deal sizes trended larger, reflecting growing demand for substantial spaces. The average deal size in the fourth quarter was approximately 13,500 SF, a 27.4% increase over the third quarter of 2024.
- Active tenant office demand totaled 3.3 MSF, with eleven tenants seeking spaces over 100,000 square feet and nearly half pursuing spaces above 50,000 square feet. Tech firms—both hardware and software—remain the most active drivers of demand.



Leasing Market Fundamentals

- The Silicon Valley market showed signs of recovery in the fourth quarter, with positive net absorption of 1.1 million square feet (MSF), reversing the previous quarter's negative net absorption of -486,000 square feet. This improvement, alongside vacancy rate decreases from 20.1% to 19.5%, signaled that market stabilization is gaining momentum.
- Overall vacancy decreased to 19.5% in the fourth quarter of 2024, driven by a reduction in both direct and sublease availability. Sublease availability dropped to 4.7 MSF from 4.9 MSF in the third quarter of 2024, and direct space availability decreased to 15.2 MSF.
- Asking rents decreased to \$5.00/SF full service at the end of 2024, down from \$5.10/SF full service from the prior year, indicating market adjustments toward landlord pricing. Effective rents continue to be influenced by high concessions, such as free rent. Companies continue to prioritize amenities such as flexible workspaces, larger conference areas, ample natural light, and state-of-the-art infrastructure to attract employees back to the office.



Outlook

- The Silicon Valley office market enters 2025 with cautious optimism, building on the recovery momentum seen throughout 2024. The decrease in vacancy rates and positive net absorption of 1.1 MSF, coupled with growing deal sizes among tech firms seeking spaces over 100,000 square feet, suggests a gradual return to office strategies are taking hold.
- The emphasis on workplace amenities continues to grow, with features like flexible workspaces and enhanced conference facilities becoming increasingly crucial for tenant attraction and retention in the evolving office landscape.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

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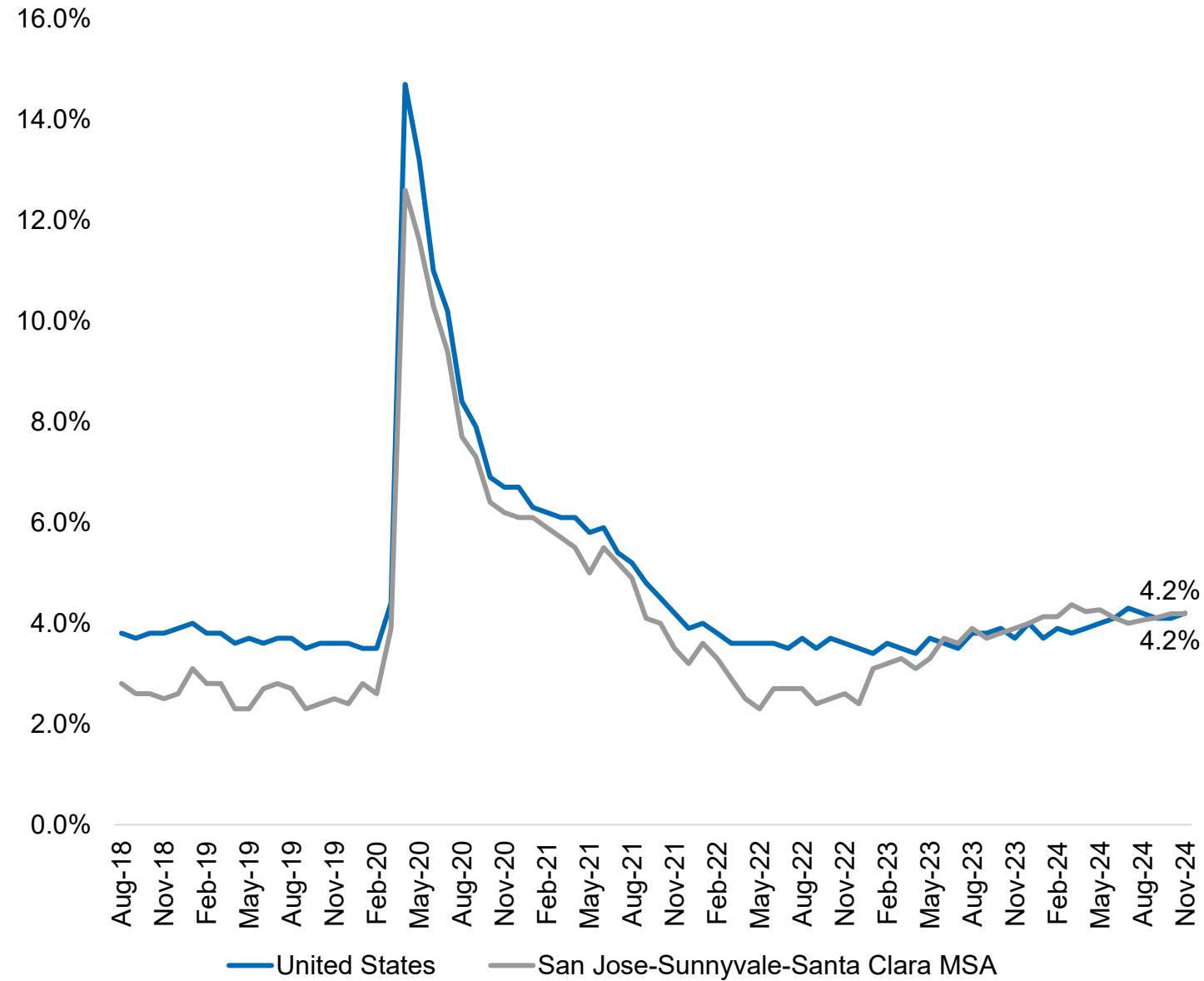
Economy



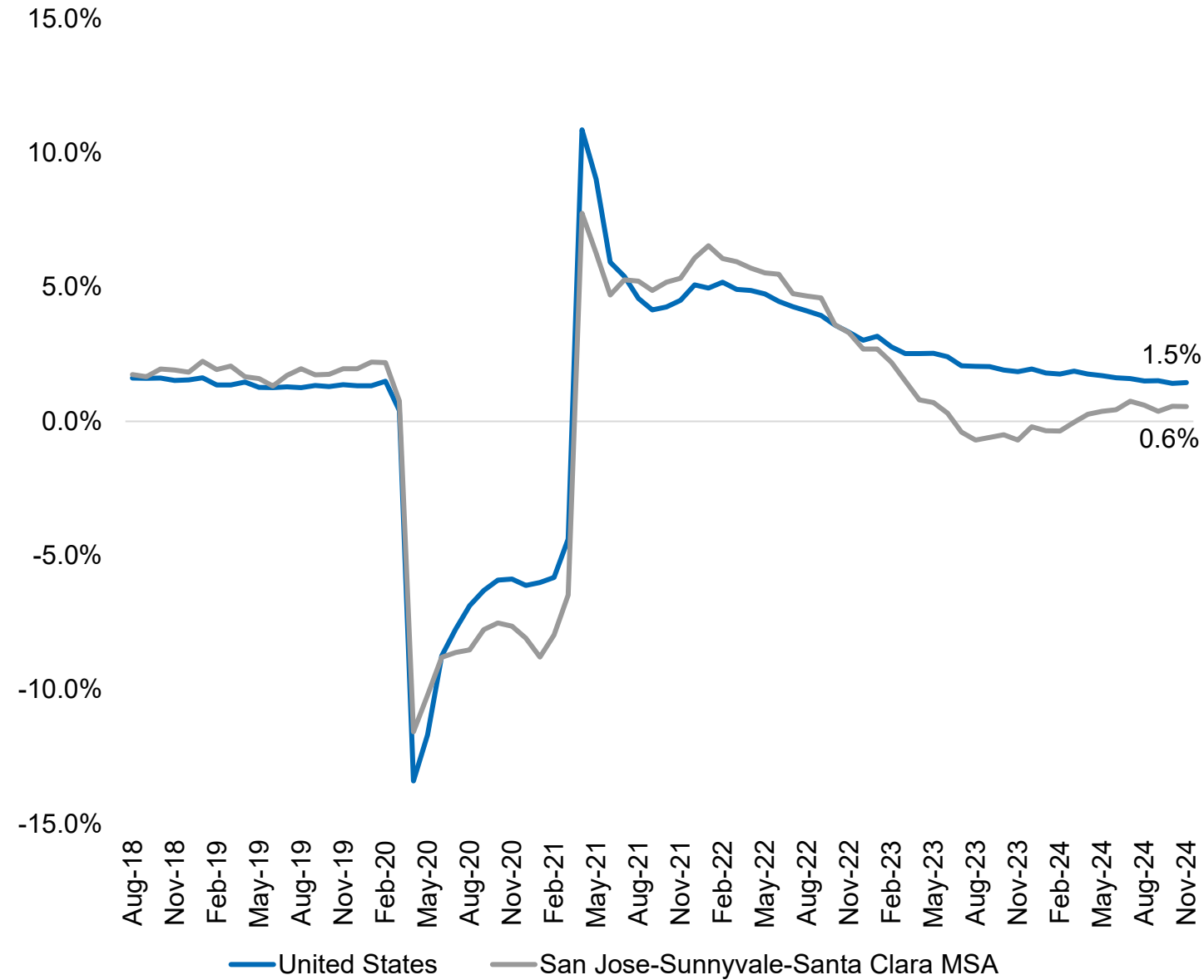
Silicon Valley Labor Market Remains Stable amid National Softening

In 2024, the San Jose-Sunnyvale-Santa Clara MSA unemployment rate showed improvement, which decreased from 4.3% in May to 4.2% in November. In contrast, the national unemployment rate increased from 4.0% to 4.2% over the same period. This suggests that while the broader U.S. labor market softened, Silicon Valley's job market remained relatively stable, reflecting the region's resilience in key industries such as technology.

Unemployment Rate, Seasonally Adjusted



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

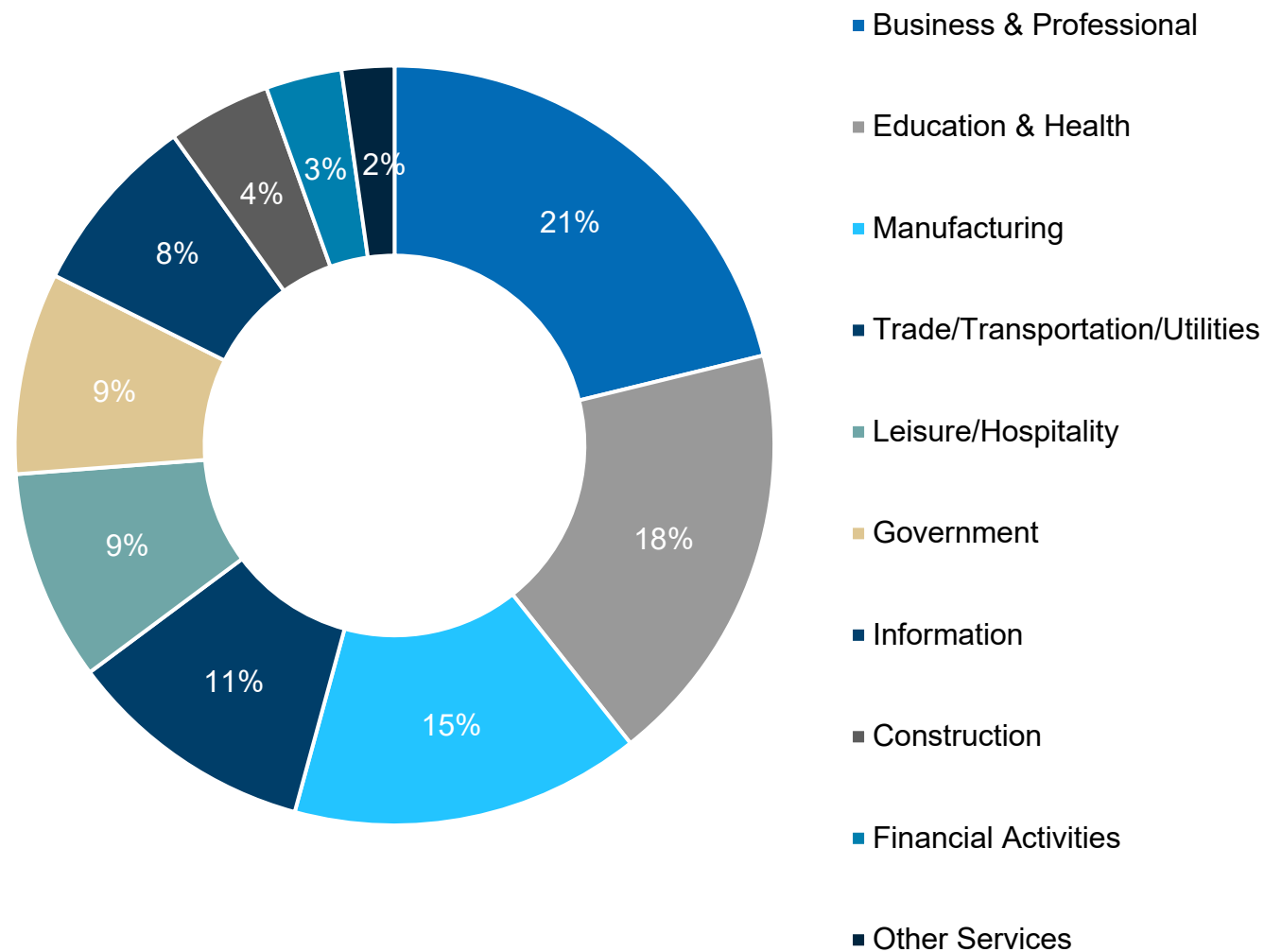


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

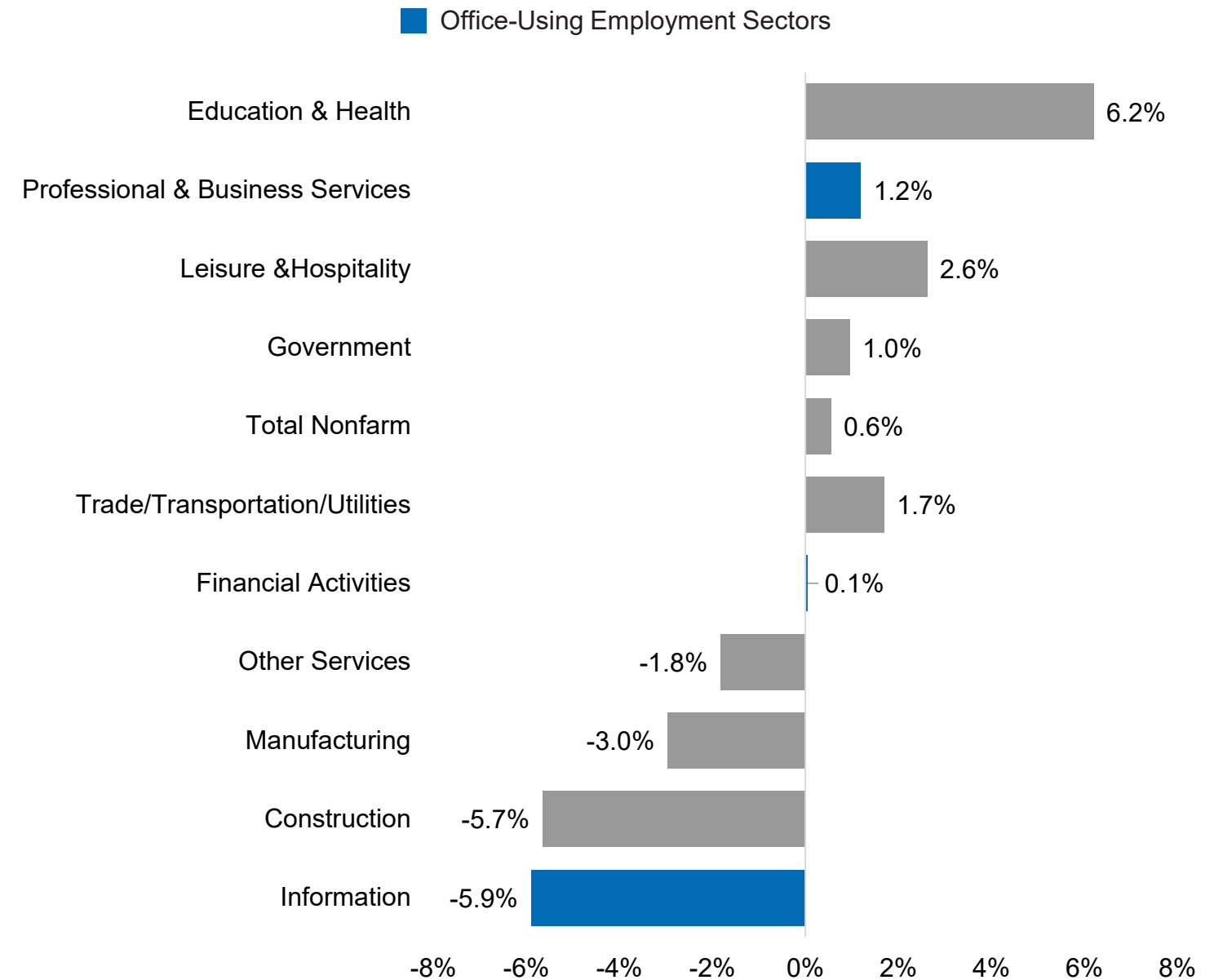
Professional & Business Services Added Jobs While the Tech Sector Continued to Shed

Job growth in Education & Health, Professional & Business Services, Leisure & Hospitality, and Government offset employment declines in key sectors like Information, Construction, and Manufacturing. Notably, Professional & Business Services—the region's largest employment sector and a crucial driver of office demand—continued to grow, signaling potential stability for the local office market. This diversification beyond the tech sector highlights Silicon Valley's resilience and adaptability in a shifting economic environment.

Employment by Industry, November 2024



Employment Growth by Industry, 12-Month % Change, November 2024

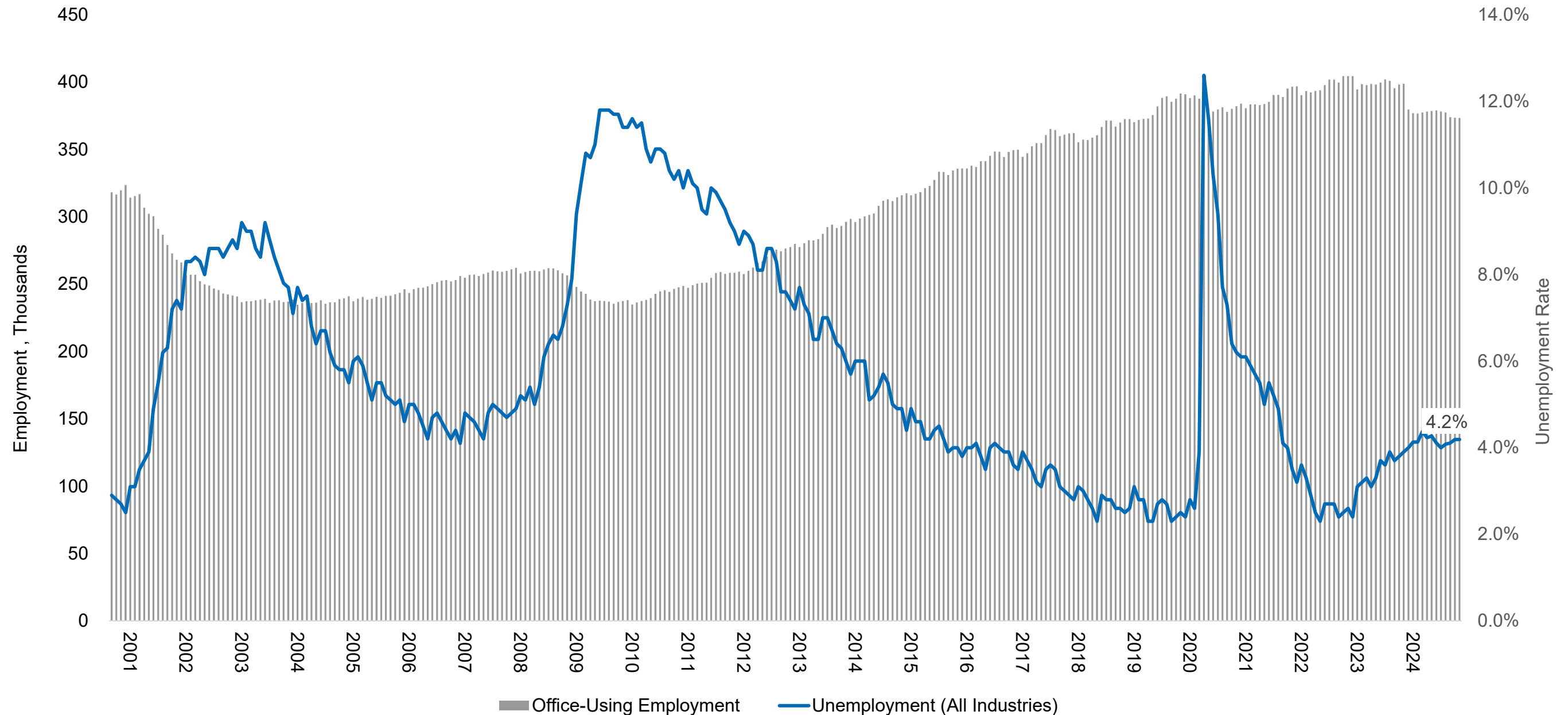


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi

Decline in Office-Using Employment amid Tech Sector Adjustments

Office-using employment continued its decline in 2024, reflecting ongoing adjustments in the tech sector. After peaking in 2022, employment steadily dropped throughout 2023 and into 2024, reaching 373,400 in November 2024. Persistent cost-cutting measures and strategic shifts in the tech industry continue to impact employment levels. However, improving economic conditions and sustained demand from AI and renewable energy sectors suggest the market is trending towards stabilization.

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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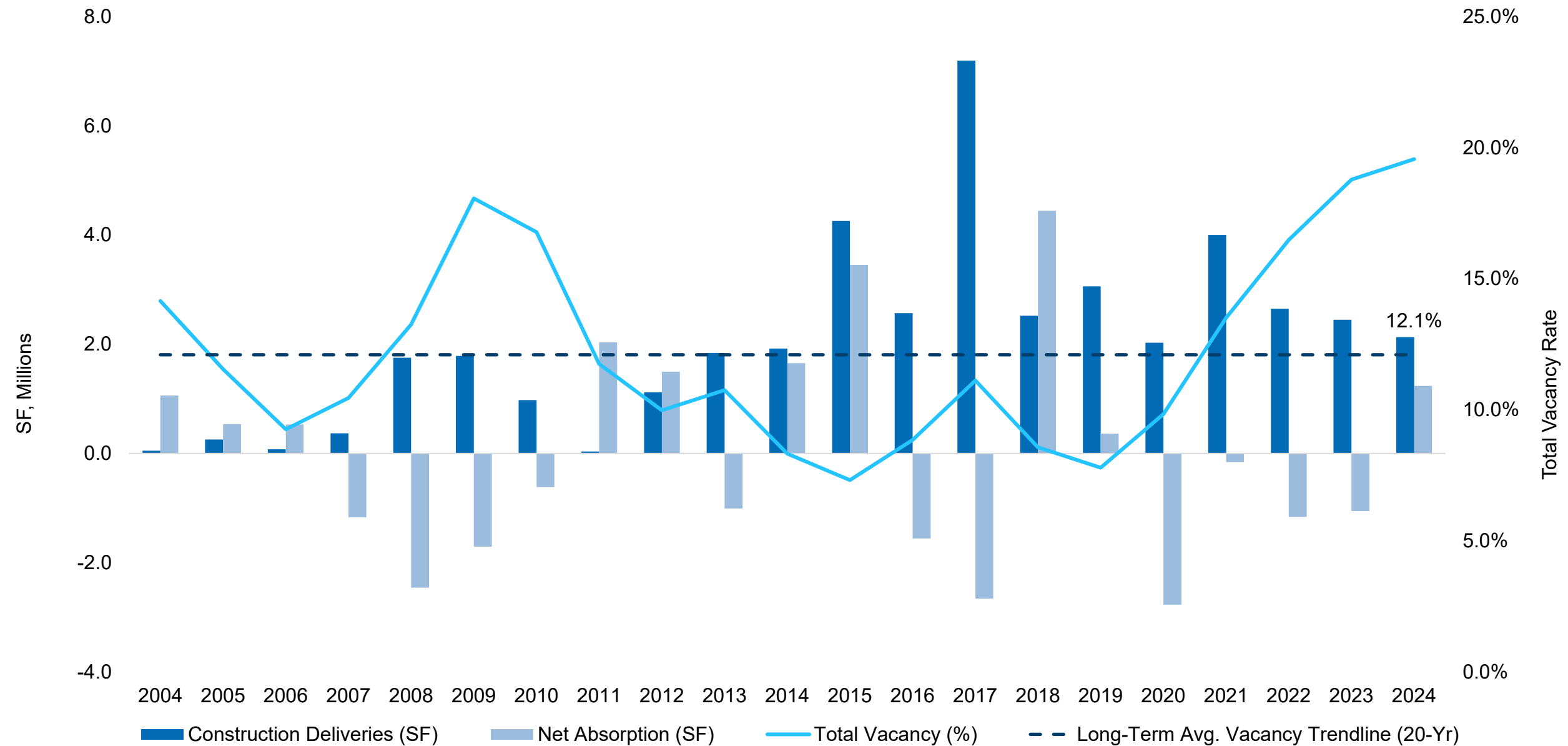
Leasing Market Fundamentals



Office Market Trends Towards Stabilization from Last Quarter

The Silicon Valley market showed signs of recovery in the fourth quarter of 2024, with positive net absorption of 1.1 MSF, reversing the previous quarter's negative net absorption of -485K sf. This improvement, alongside a quarter-over-quarter vacancy rate decrease from 20.1% to 19.5%, signals that market stabilization is gaining momentum. While vacancy remains elevated compared to the long-term average of 12.1%, the shift to positive absorption suggests tenants are beginning to return to the market after recent volatility.

Historical Construction Deliveries, Net Absorption, and Vacancy

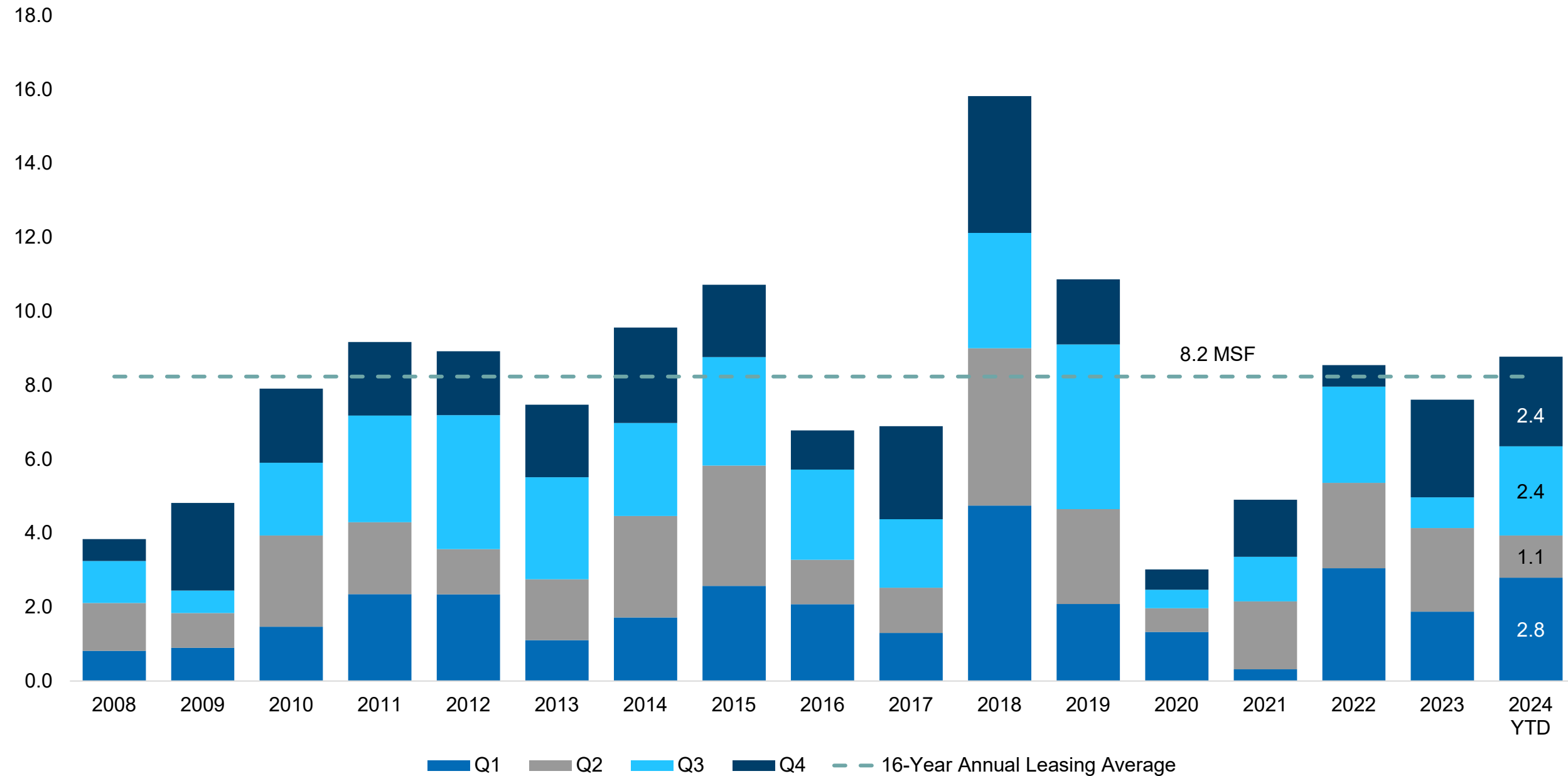


Source: Newmark Research

Annual Leasing Activity Surpasses 16-Year Average

Strong leasing activity in the first and third quarters of 2024, combined with fourth quarter's volume of 2.4 MSF, pushed 2024 leasing to 8.7 MSF, surpassing the 16-year average of 8.2 MSF. This sustained leasing momentum throughout the year signaled growing tenant confidence and stabilizing market conditions. The consistent deal flow across various submarkets suggests a broader market recovery is taking hold.

Total Leasing Activity (msf)

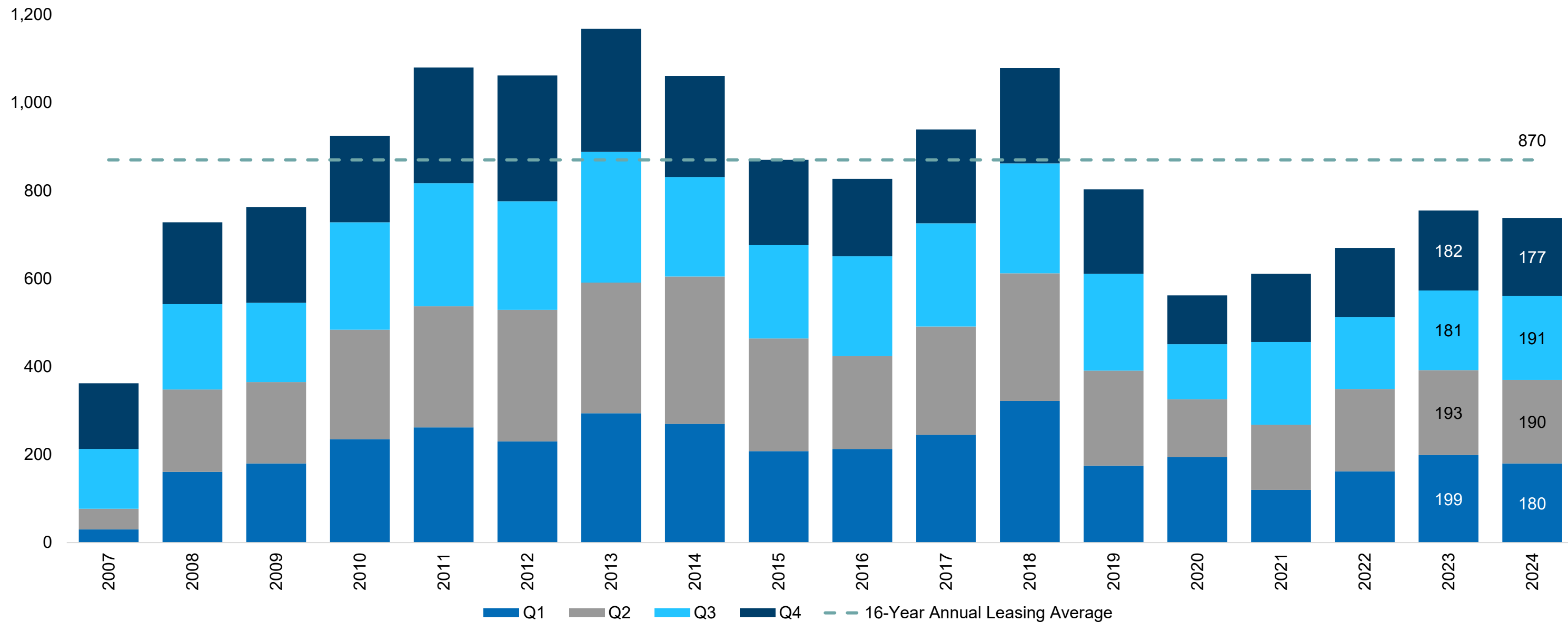


Source: Newmark Research, CoStar

Leasing Activity Remains Subdued, but Larger Deals Signal Demand

Total leasing activity for 2024 fell short of the 16-year annual average by -15.1%. However, deal sizes are trending larger, reflecting growing demand for substantial spaces. The average deal size in the fourth quarter was approximately 13,500 sf, a 27.4% increase over the third quarter of 2024. Active tenant office demand totals 3.3 MSF, with 11 tenants seeking spaces over 100K square feet and nearly half pursuing spaces above 50K square feet. Tech firms—both hardware and software—remain the most active drivers of demand.

Number of Leases Signed



Source: Newmark Research, CoStar

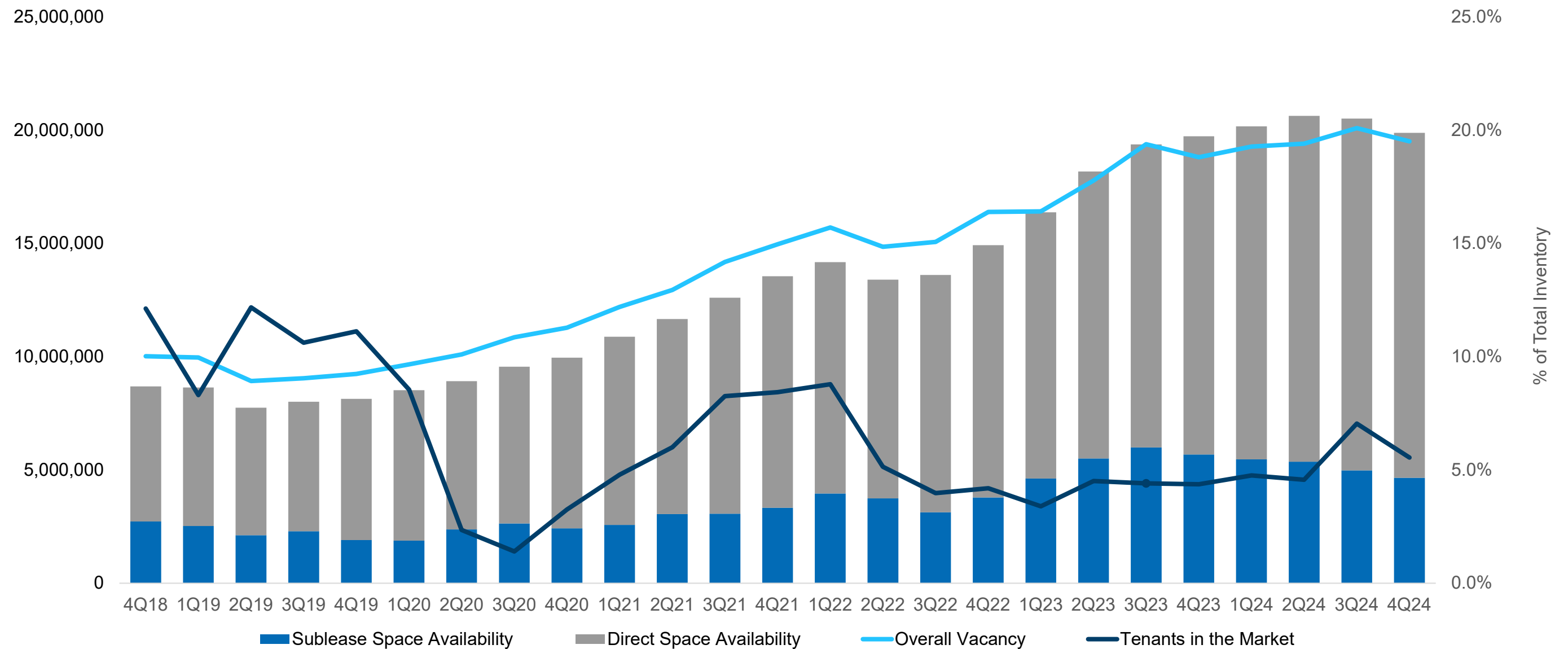


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Declining Vacancy Reflects Stabilizing Market, but Tenant Demand Eases

Sublease space availability continued to decline in the fourth quarter of 2024, dropping -6.6% to 4.7 MSF from 5.0 MSF in the third quarter of 2024. Direct space availability also decreased -1.9% to 15.2 MSF, bringing the overall vacancy rate down to 19.5% from 20.1% in the previous quarter. However, tenant demand softened, with active tenants in the market falling -20.7% since the third quarter of 2024. Despite this pullback, demand levels remain elevated by 17.0% compared to the first quarter of 2024, suggesting underlying persisting interest.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

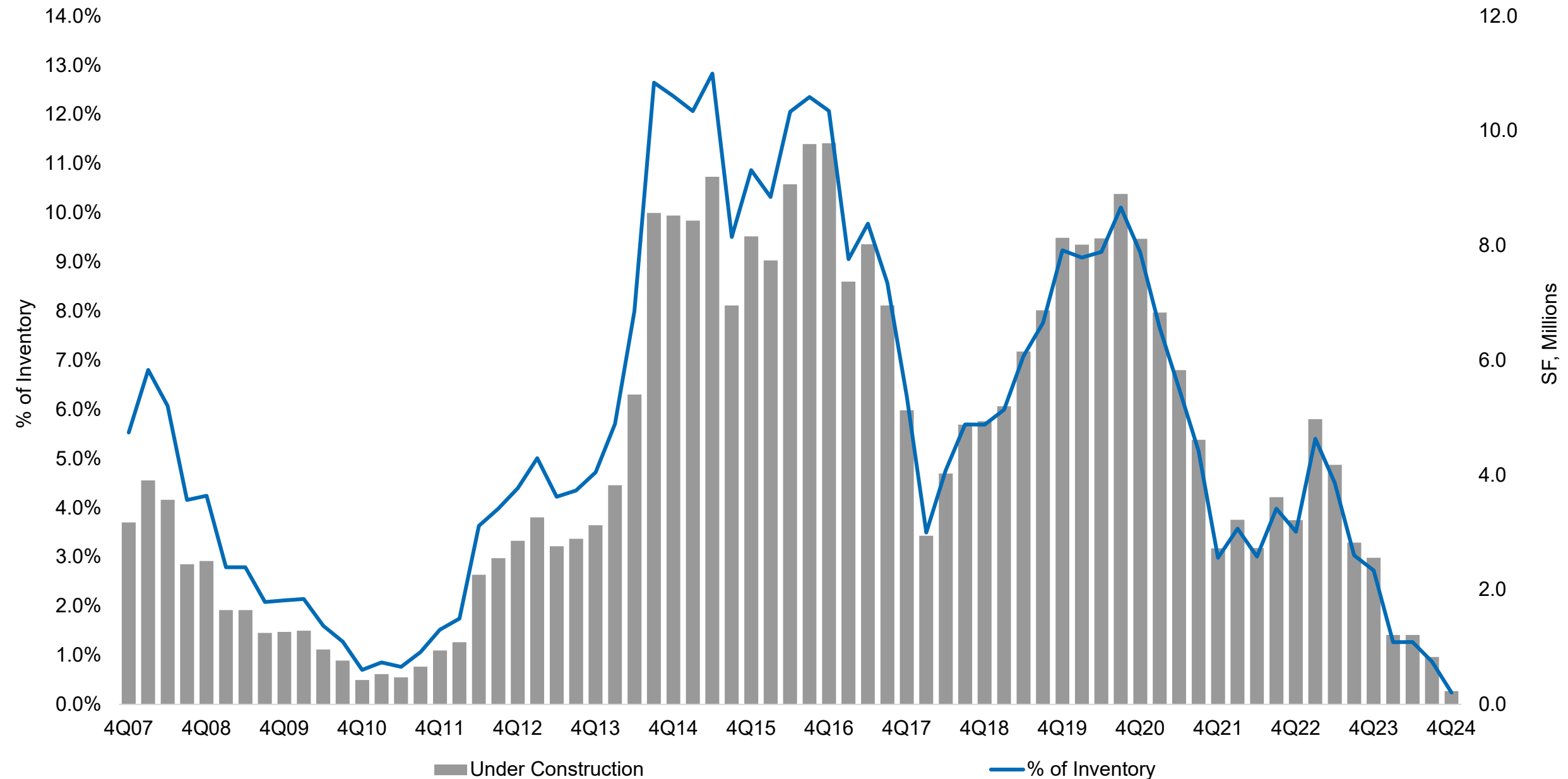


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Construction Pipeline Cools Further, Supporting Market Stability

The construction pipeline in Silicon Valley continues to shrink, falling to 232K square feet in the fourth quarter of 2024, down from 827K square feet in the prior quarter following the delivery of CityLine in Sunnyvale. This significant drop highlights developers' caution in initiating new projects amid ongoing market uncertainty and limited construction financing. However, the Fed's decision to keep interest rates steady after previous cuts has helped improve market sentiment, potentially setting the stage for gradual economic recovery.

Office Under Construction and % of Inventory

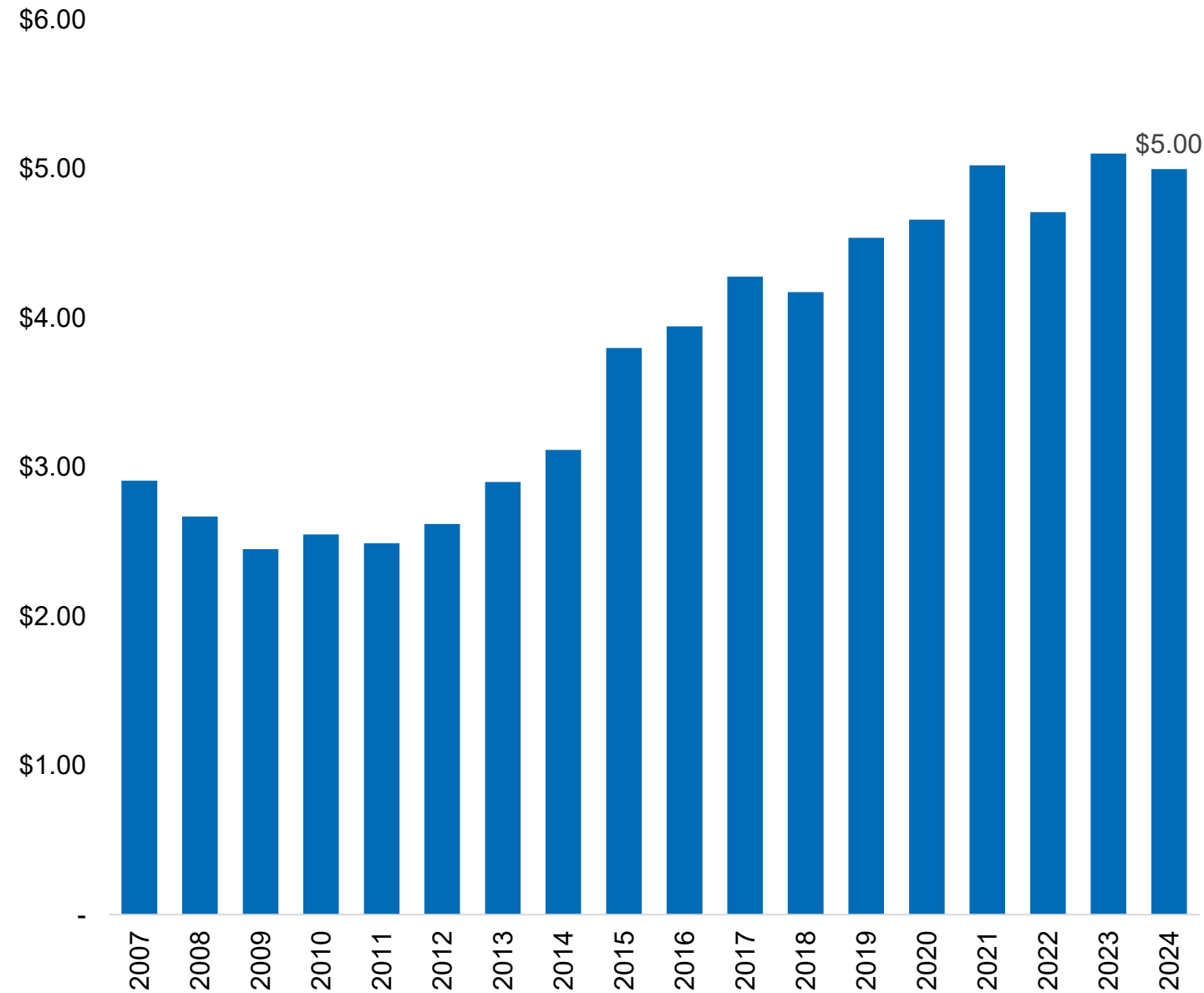


Source: Newmark Research, CoStar, San Jose-Santa Clara-Sunnyvale MSA

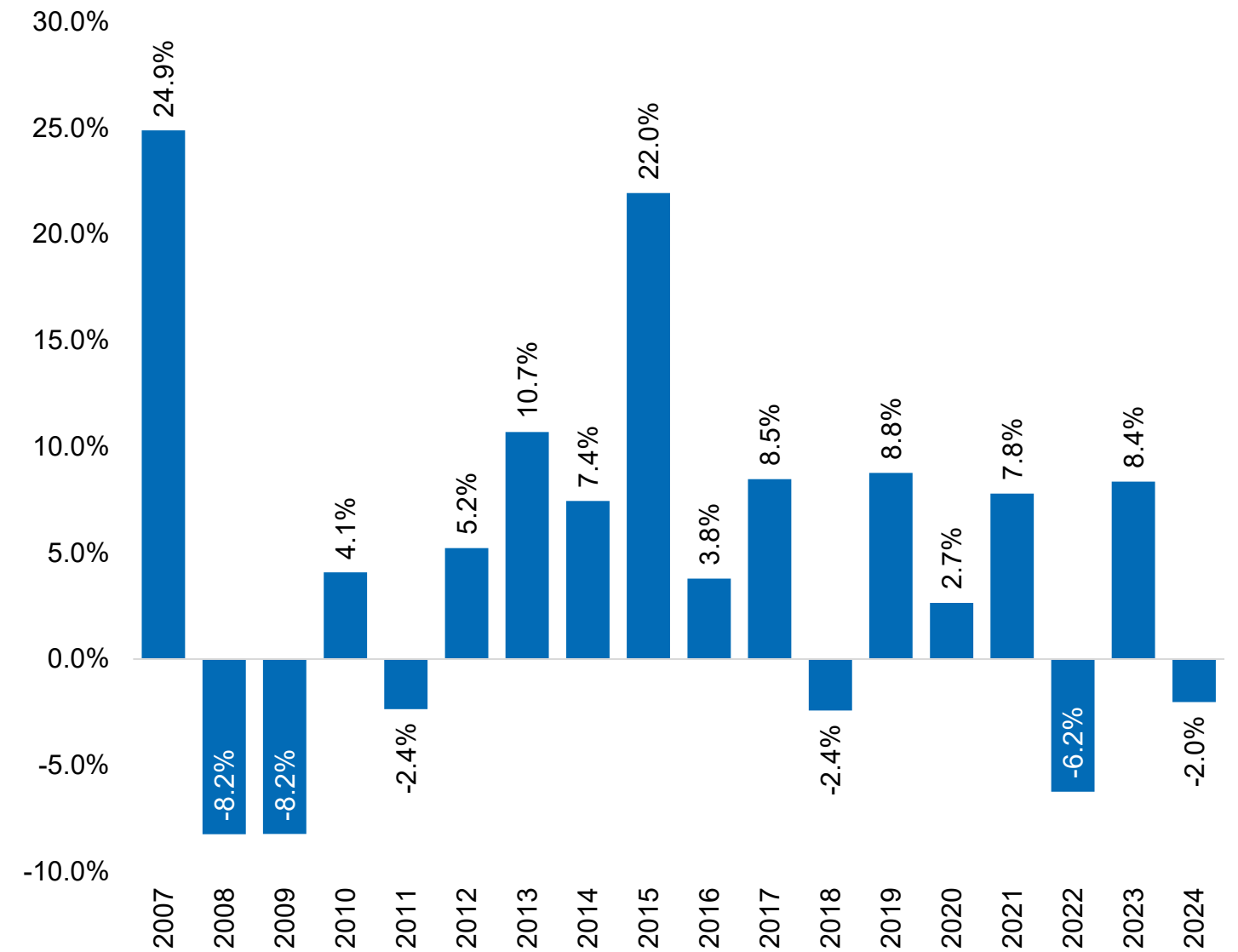
Asking Rents Continue Their Decline in 2024

Asking rents decreased to \$5.00 psf full service at the end of 2024, down from \$5.10 psf full service the previous year, reflecting market adjustments to landlord pricing. Effective rents continue to be influenced by high concessions, such as free rent. Companies are increasingly prioritizing amenities like flexible workspaces, larger conference areas, ample natural light, and state-of-the-art infrastructure to attract employees back to the office.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

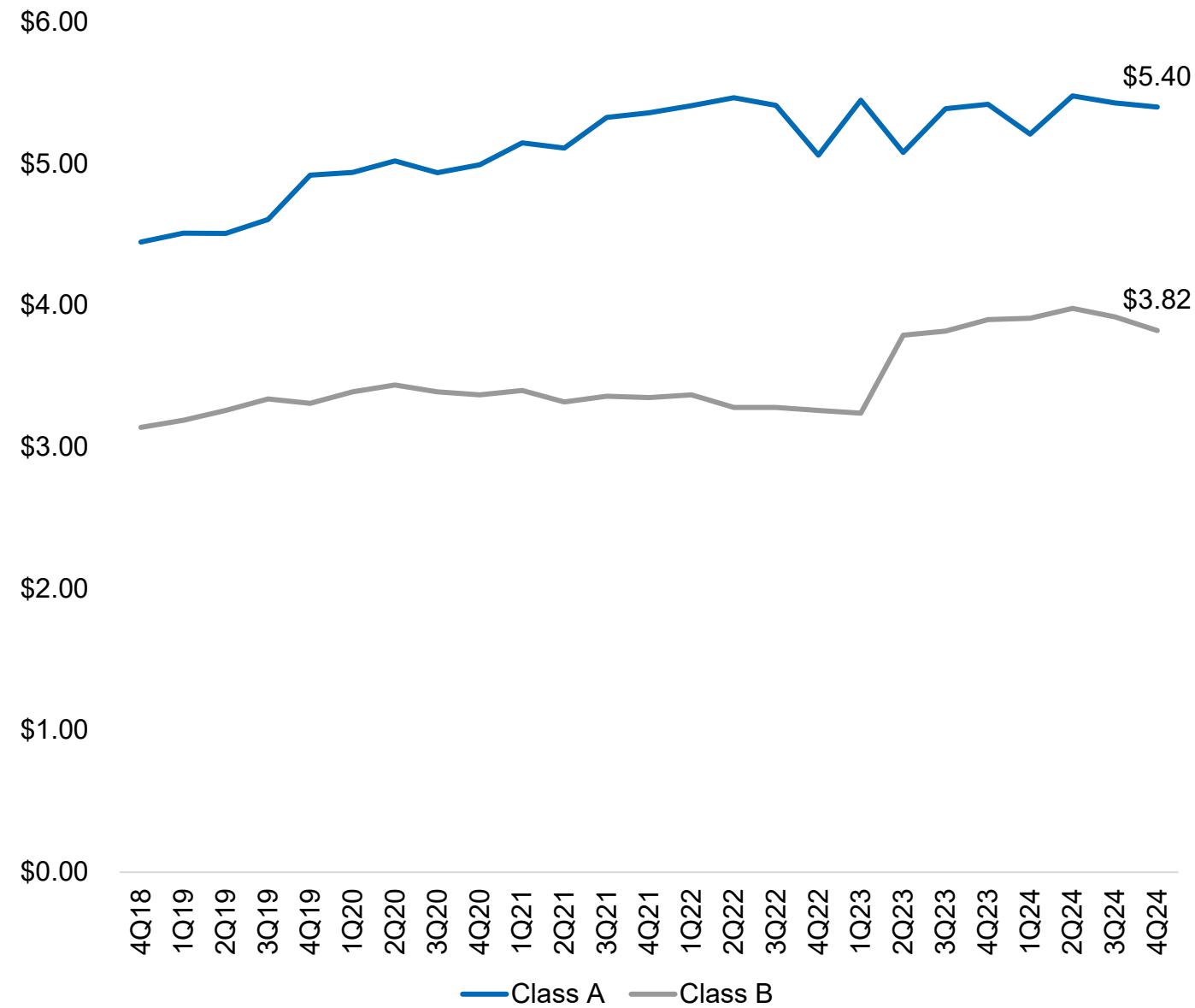


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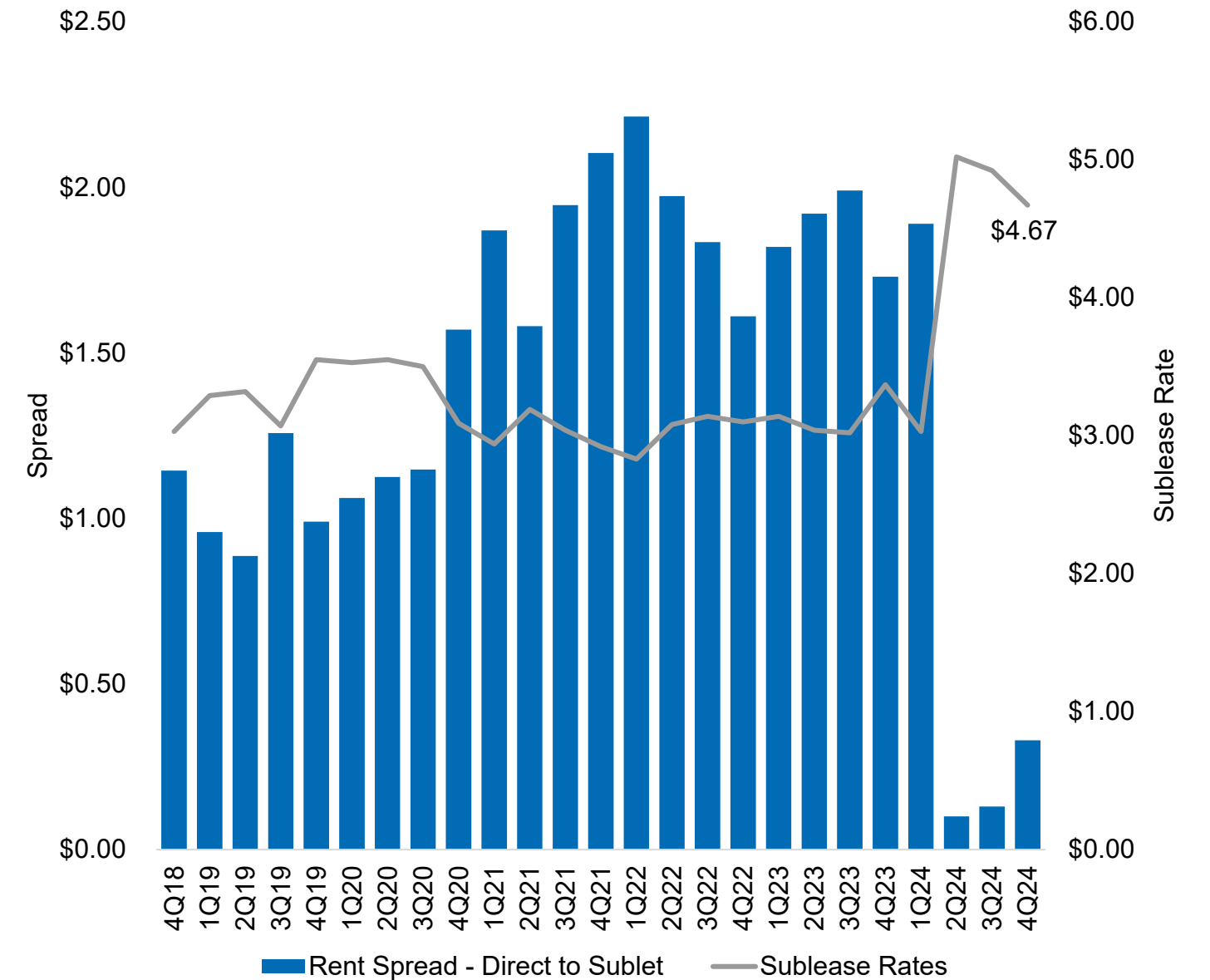
Asking Rents Holding Steady

Asking rents have fluctuated modestly in recent quarters as the market stabilizes, with the gap between class A and class B rents narrowing. The spread between direct and sublease rents compressed in the second and third quarters as sublease space gained attention, with sublease rents rising while direct rents held steady. In the fourth quarter, the spread widened again as sublease rates adjusted downward, reflecting softer demand for sublease space.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Optimism Builds as Strong Leasing Economics Close out the Year

The fourth quarter of 2024 saw exceptionally strong figures, with a diverse range of lease transactions and company types. These robust leasing figures contributed to positive net absorption, which recorded 1.1 MSF — a level not seen since the fourth quarter of 2018. Newmark research currently tracks 3.3 MSF of active office requirements in the market. There are eleven requirements exceeding 100K square feet, and approximately half of all requirements are seeking a minimum of 50K square feet.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Sutter Health	2811-2841 Mission College Blvd.	Santa Clara – Marriott Park	Ground Lease	692,944
<i>Ground lease. Sutter Health transacted on the entire Mission 101 campus, spread across five buildings.</i>				
Amazon	391 San Antonio Rd.	Mountain View – El Camino Corridor	Sublease	217,754
<i>Sublease. Amazon sublet from WeWork as a full plug & play transaction and is set to expire in July 2029.</i>				
Amazon	2795 Augustine Dr.	Santa Clara – Central Expressway North	Lease Renewal	181,562
<i>Lease Renewal. Amazon's previous had a previous sublease at 2795 Augustine Dr., which is nearing expiration, so they renewed the entire six floor Santa Clara Square on a direct basis.</i>				
Astera Labs	2315-2343 N. First St.	San Jose – Trimble South	Direct Lease	154,231
<i>Direct Lease. Astera Labs leased an aggregated 154,231 square feet at Guadalupe Corporate Center, with an option to expand their premises to include the remainder of the building located at 2315 N. First St.</i>				
Walmart Stores	860 W. California Ave.	Sunnyvale – Peery Park	Lease Renewal	108,109
<i>Lease renewal. Walmart renewed the full 108,109 square foot building at 860 W. California Ave. Walmart also renewed their space at 640 W. California Ave., but that is classified as a R&D building and not included in this total.</i>				

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Appendix





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