
4Q24

South Peninsula Office Market Overview



NEWMARK

Market Observations

Economy

- The Federal Reserve's December interest rate reduction marks its third cut of 2024, enhancing market conditions for lenders, investors, and developers through lower financing costs. Market analysts anticipate additional rate reductions in 2025, which, combined with robust Q4 leasing activity, suggests continued momentum in the commercial real estate sector.
- As Information sector positions contract alongside Manufacturing and Construction declines, the expansion of Professional & Business Services tells a compelling story about the evolving DNA of Silicon Valley's workforce. This sector, now the region's largest employer and primary office space user, is leading a quiet transformation that extends beyond semiconductor fabs and coding campuses.

Major Transactions

- In the fourth quarter, the largest deal was Snowflake's sublease deal comprised of 772,983 square feet in Menlo Park. This lease covered 4 buildings and included a full building that is used to provide amenities for Snowflake's new Silicon Valley campus.
- Robinhood executed a significant lease renewal and expansion at Stanford Research Park in Palo Alto during the fourth quarter, securing 128,743 square feet with tenant representation by Newmark.
- Menlo Park drove leasing activity in the region, representing 45% of total square footage leased. Palo Alto followed with 29% of market activity, while Mountain View accounted for 19% of total leasing volume.

Leasing Market Fundamentals

- The South Peninsula experienced a remarkable quarter in total leasing, achieving 2,177,072 square feet, making it the strongest quarter in the recorded history of the South Peninsula market.
- The South Peninsula market demonstrates notable recovery, recording positive net absorption of 622,678 square feet in 2024. This represents a substantial improvement from 2023, when the market experienced negative net absorption of 3.1 million square feet across all four quarters.
- Free rent, TI's, and mixtures of concessions are important tools to be able to close transactions given the current market conditions. In addition, as companies look for ways to bring employees back to the office, amenities including flexible workspaces, additional conference rooms, and up-to-date infrastructure also play a pivotal role.

Outlook

- Reports that major corporations such as JPMorgan Chase, Dell, Disney, and Amazon are transitioning back to a five-day in-office workweek may signal a broader shift away from the remote work policies that have been widely adopted since the pandemic. This shift has the potential to significantly benefit the commercial real estate market.
- Market indicators suggest that office vacancy rates across the South Peninsula have reached their peak. Several factors support this outlook, including stabilizing demand from the technology sector and a notable slowdown in sublease space coming to market. The limited new construction pipeline will help accelerate this vacancy reduction as existing inventory is gradually absorbed.
- AI companies and their associated capital investments have emerged as significant drivers of office space demand. According to Pitchbook data, AI startups received \$178.4 billion in funding during 2024, from capital sources within the US. This substantial investment has stimulated office market activity across the South Peninsula.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

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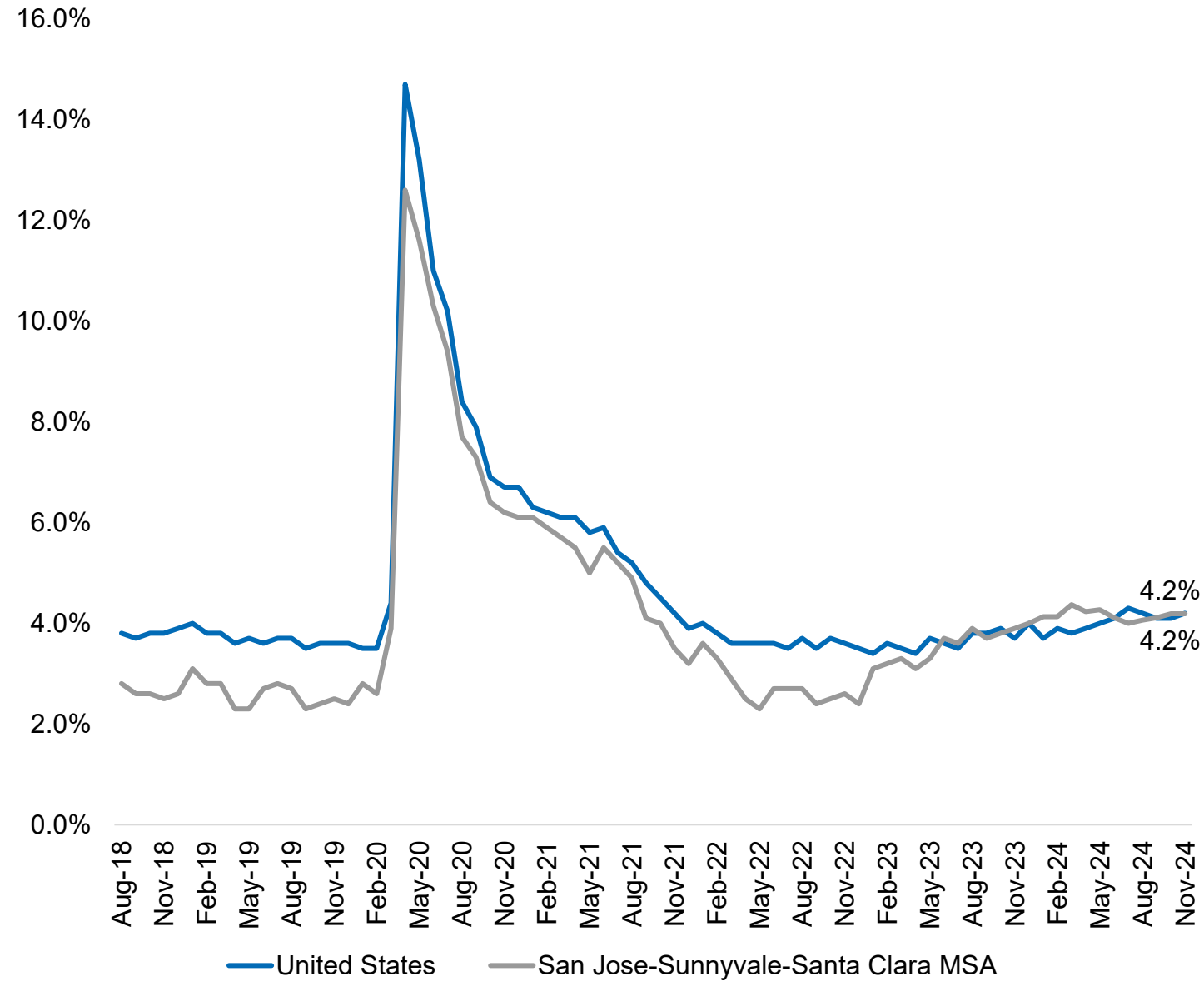
Economy



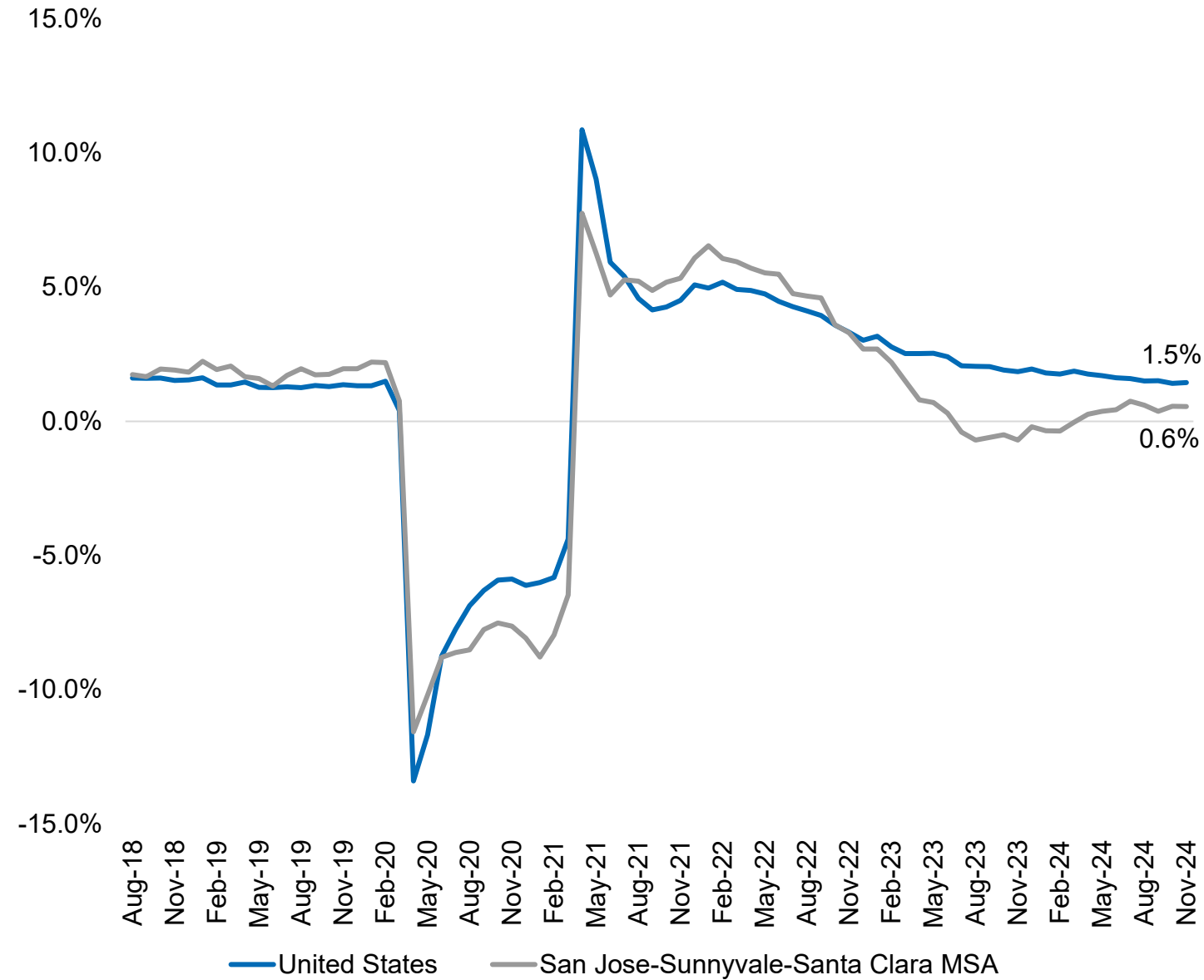
Silicon Valley Labor Market Remains Stable Amid National Softening

Despite widespread tech sector layoffs making headlines throughout 2024, the San Jose-Sunnyvale-Santa Clara region's employment metrics tell a more nuanced story. From May to November, the area's unemployment rate inched down from 4.3% to 4.2%, defying the national trend which saw unemployment climb from 4.0% to 4.2%. These figures suggest that Silicon Valley's diversifying economy and ongoing startup formation may be offsetting job losses from established tech companies, helping maintain workforce stability in the region.

Unemployment Rate, Seasonally Adjusted



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

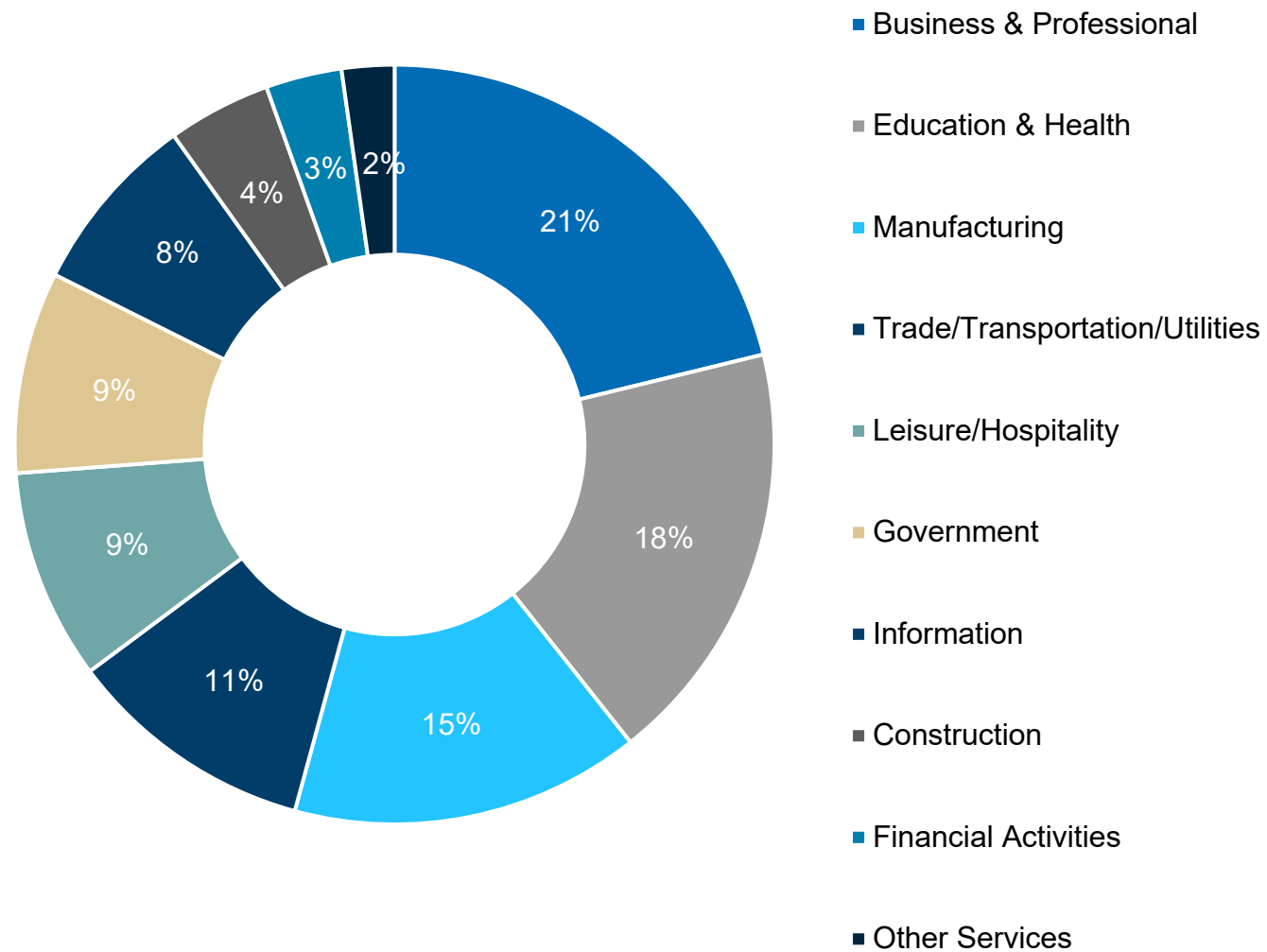


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

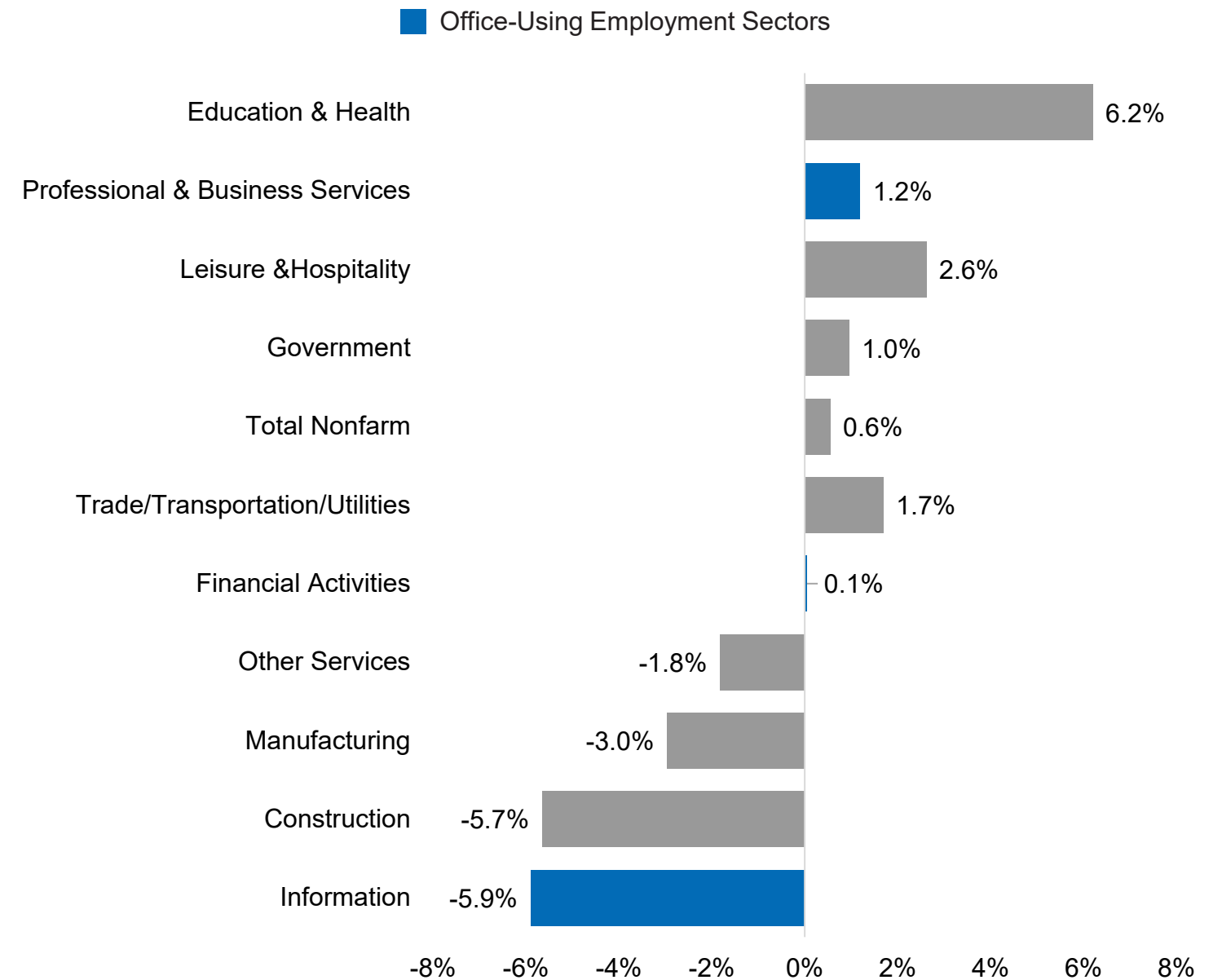
The Shift Away from Pure Technology Dominance

While Silicon Valley has long been synonymous with tech jobs, 2024's employment data reveals an unexpected narrative: the region's most dynamic job creation is happening outside its traditional tech core. As Information sector positions contract, the expansion of the Professional & Business Services sector tells a compelling story about the evolving DNA of Silicon Valley's workforce. This sector, now the region's largest employer and primary office space user, is leading a quiet transformation that extends beyond semiconductor fabs and coding campuses.

Employment by Industry, November 2024



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

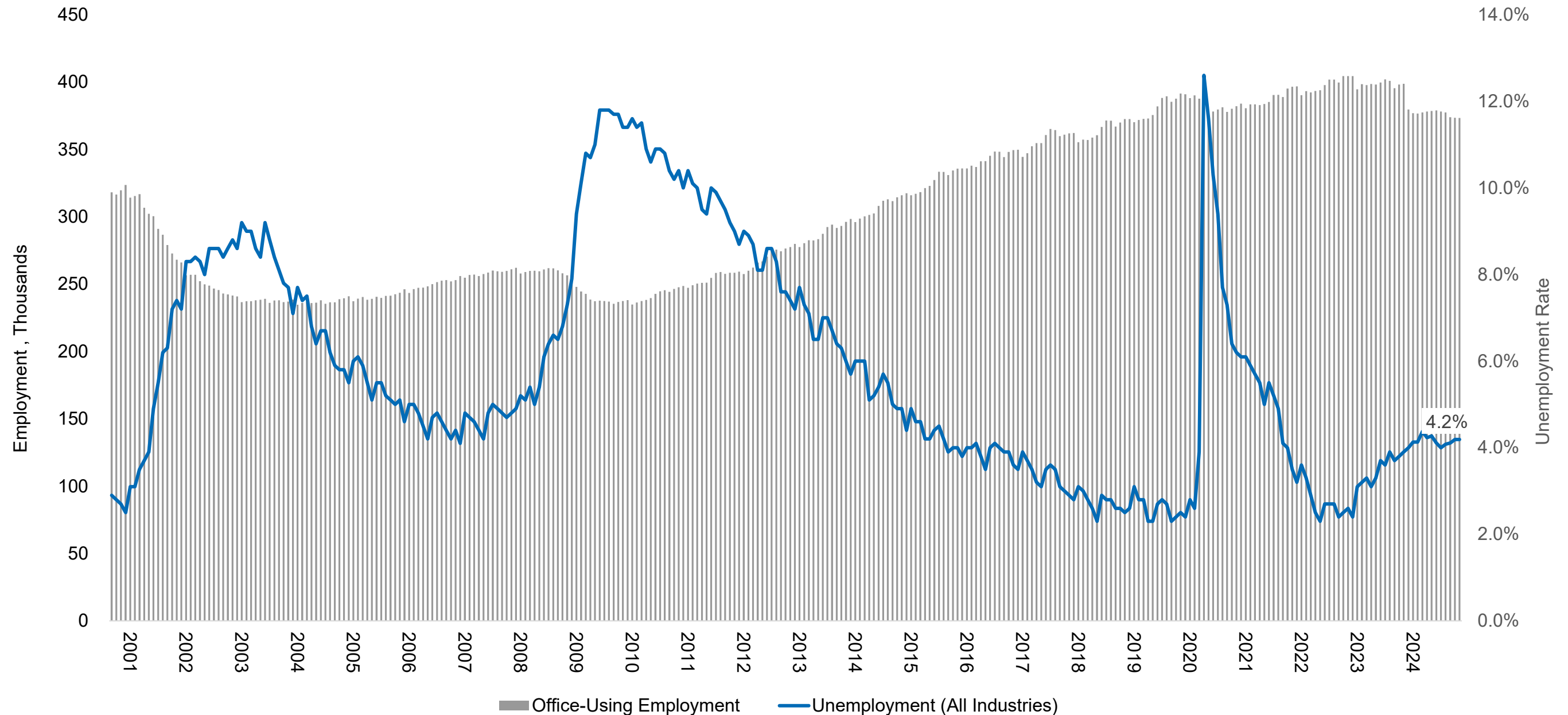


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi

Decline in Office-Using Employment Amid Tech Sector Adjustments

The decline in office-using employment to 373,400 workers by November 2024 marks a critical juncture in Silicon Valley's post-pandemic reset. The rise of AI ventures suggests that rather than a straightforward downturn, the market is experiencing a strategic reallocation of talent and resources. As established tech firms streamline operations through cost-cutting initiatives, emerging sectors are quietly absorbing skilled workers, potentially setting the stage for the next wave of innovation-driven office demand.

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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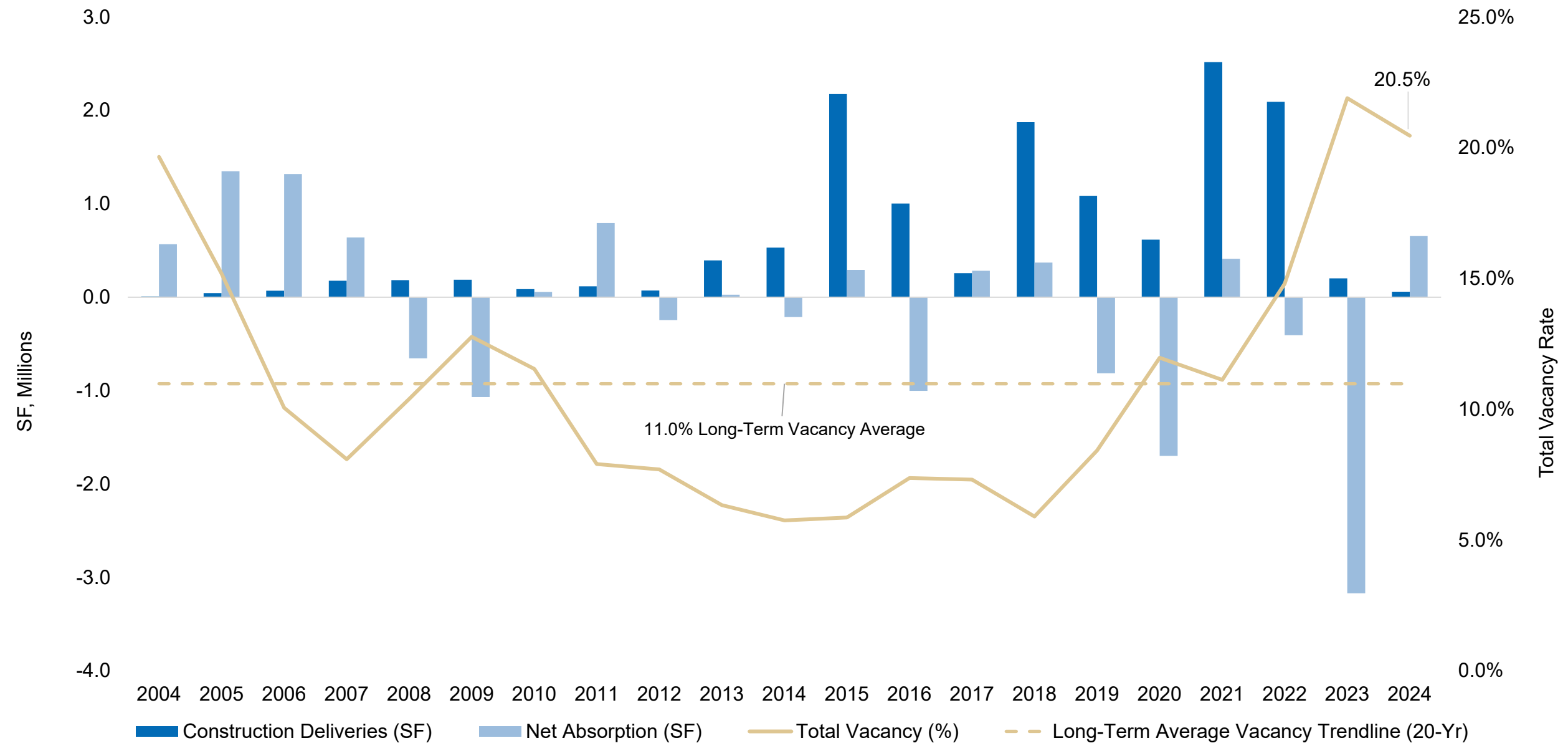
Leasing Market Fundamentals



Vacancy Continues to Decrease as Result of Improved Leasing Activity

The South Peninsula office market demonstrated notable improvement in the fourth quarter of 2024, achieving positive net absorption of 622,678 square feet and reducing the total vacancy rate to 20.5%. This quarter continued a positive trend of declining vacancy rates over the past three quarters—a marked reversal from 2022 and 2023, when the market experienced consistent vacancy rate increases.

Historical Construction Deliveries, Net Absorption, and Vacancy

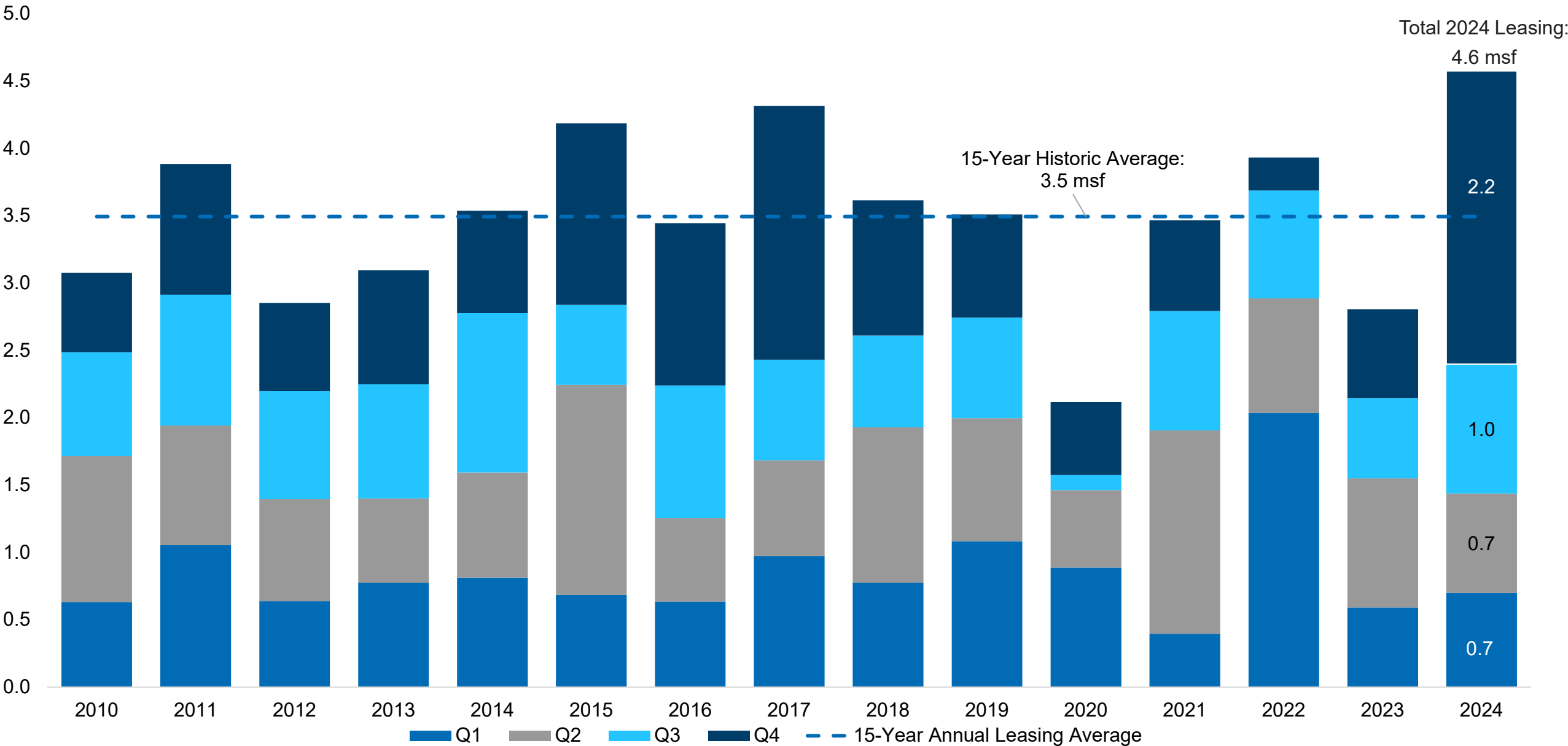


Source: Newmark Research, CoStar

South Peninsula Records Gross Absorption of 2.2 M SF

The South Peninsula market achieved a historic milestone in Q4 2024, recording 2.2 million square feet of leasing activity—the highest quarterly volume ever recorded in the region. This exceptional performance was driven by major lease commitments from industry leaders including Snowflake, Amazon, and Robinhood. The concentration of large-scale transactions by prominent technology firms signals renewed confidence in the market and suggests a potential shift in the broader office sector's trajectory.

Total Leasing Activity (msf)

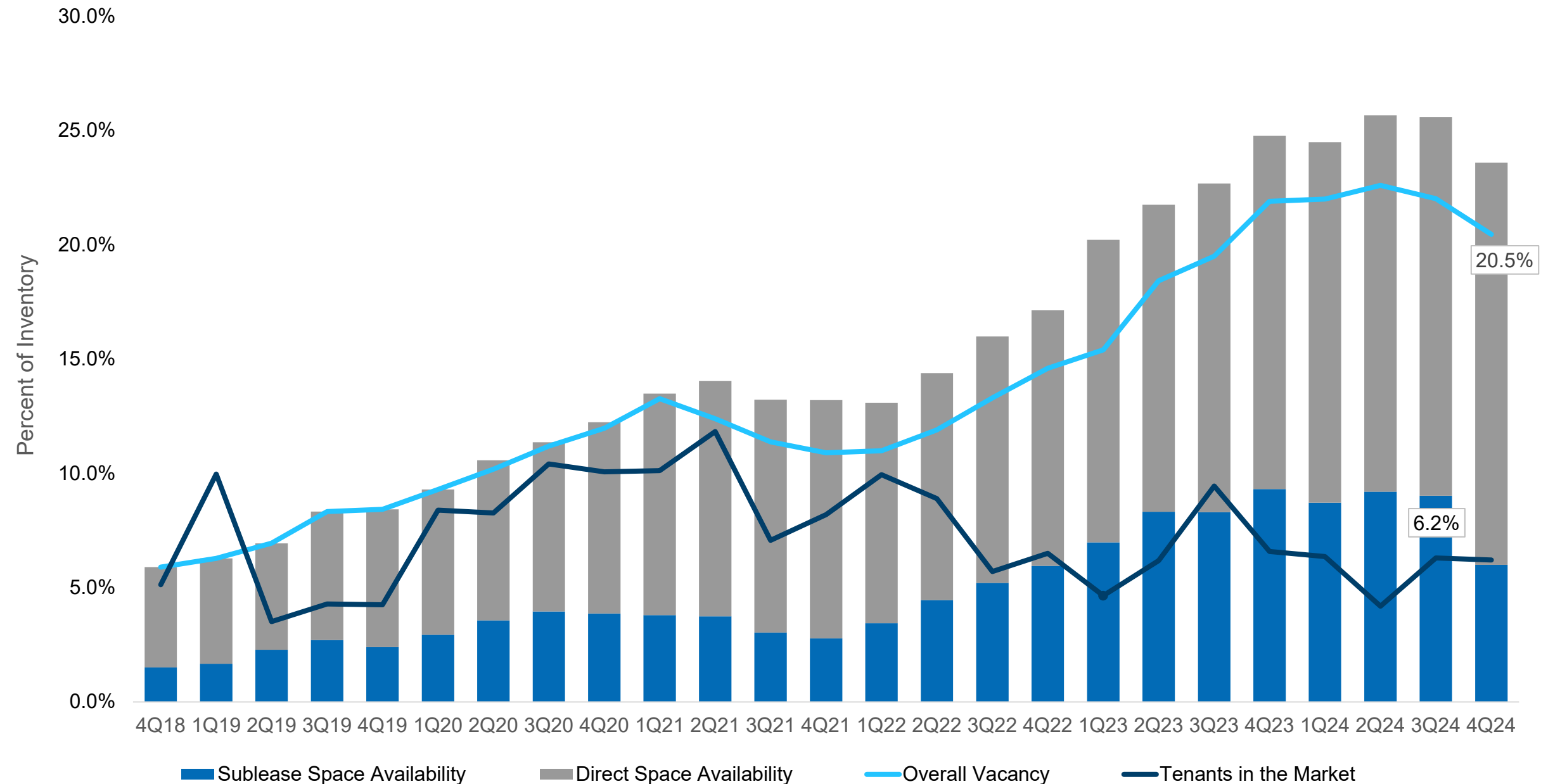


Source: Newmark Research, CoStar

Tenant Demand Maintains a Healthy Level

Despite several significant lease transactions this quarter from major tenants including Snowflake, Amazon, Robinhood, and SAP, tenant demand in the South Peninsula remains stable. This sustained demand reflects ongoing space requirements from companies, potentially influenced by the growing trend of large corporations reinstating five-day office work weeks—notably JP Morgan Chase, Amazon, Intel, and Dell Technologies.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research, CoStar

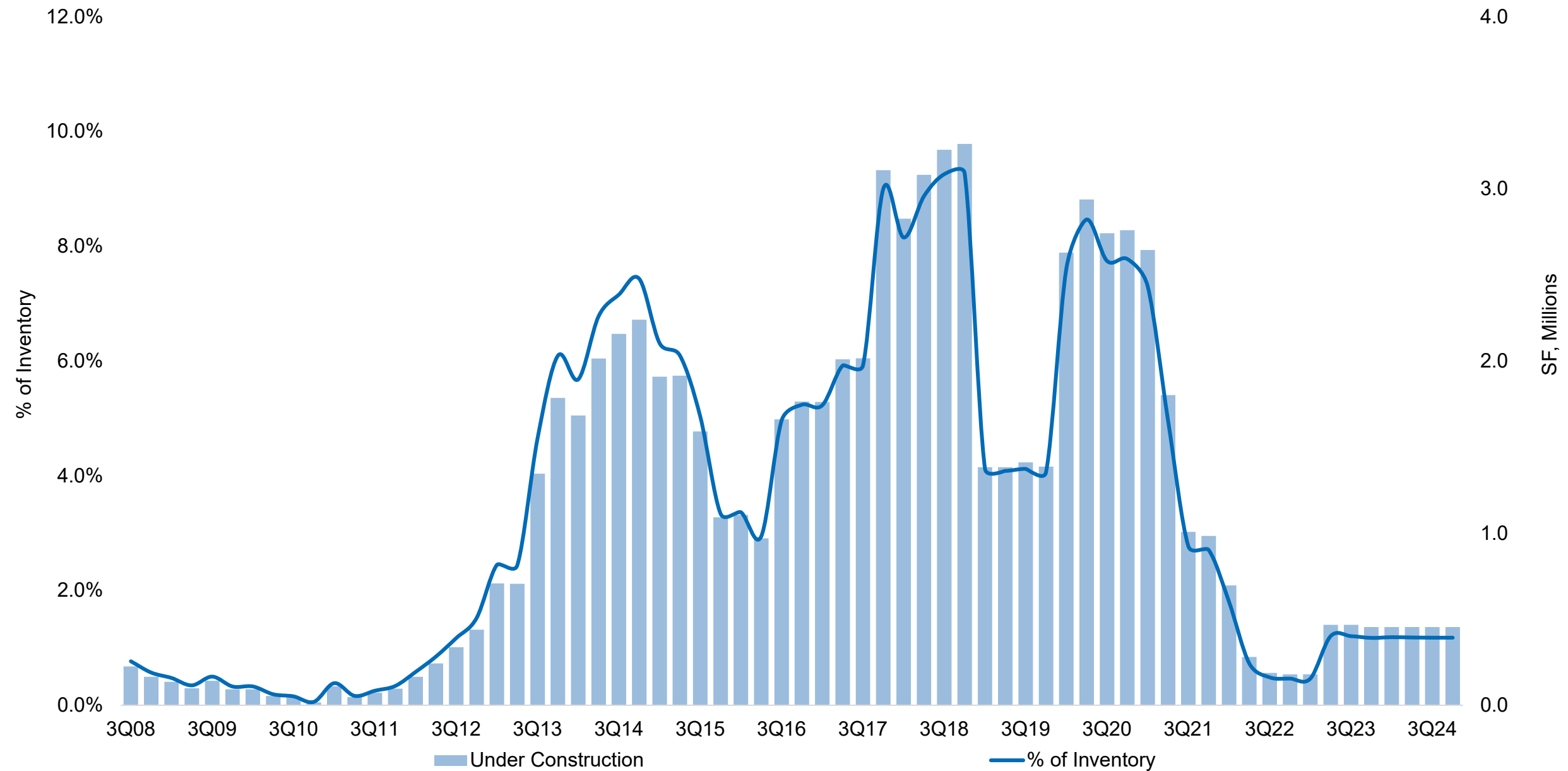


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New Construction Delays Continue to Limit Incoming Supply

The South Peninsula market has recorded its fifth consecutive quarter without new construction activity. Multiple factors continue to delay development projects, including potential tariffs, rising construction costs, and elevated availability rates. This pause in new development may help balance the current oversupply of office space. A notable example is 600 Ellis in Mountain View, which has yet to break ground despite its originally planned construction date of Q4 2023. It is now slated to break ground later this year.

Office Under Construction and % of Inventory

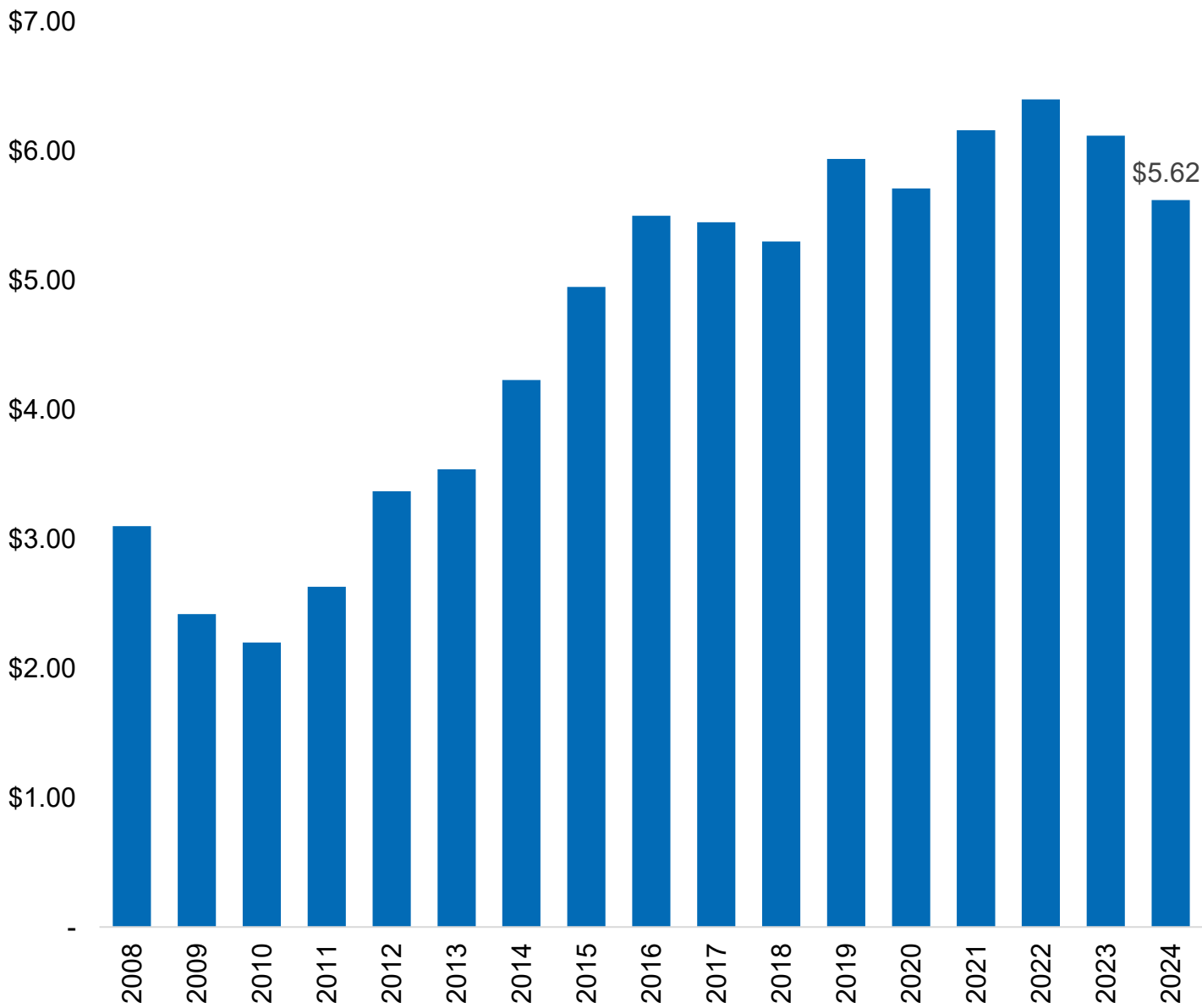


Source: Newmark Research, CoStar

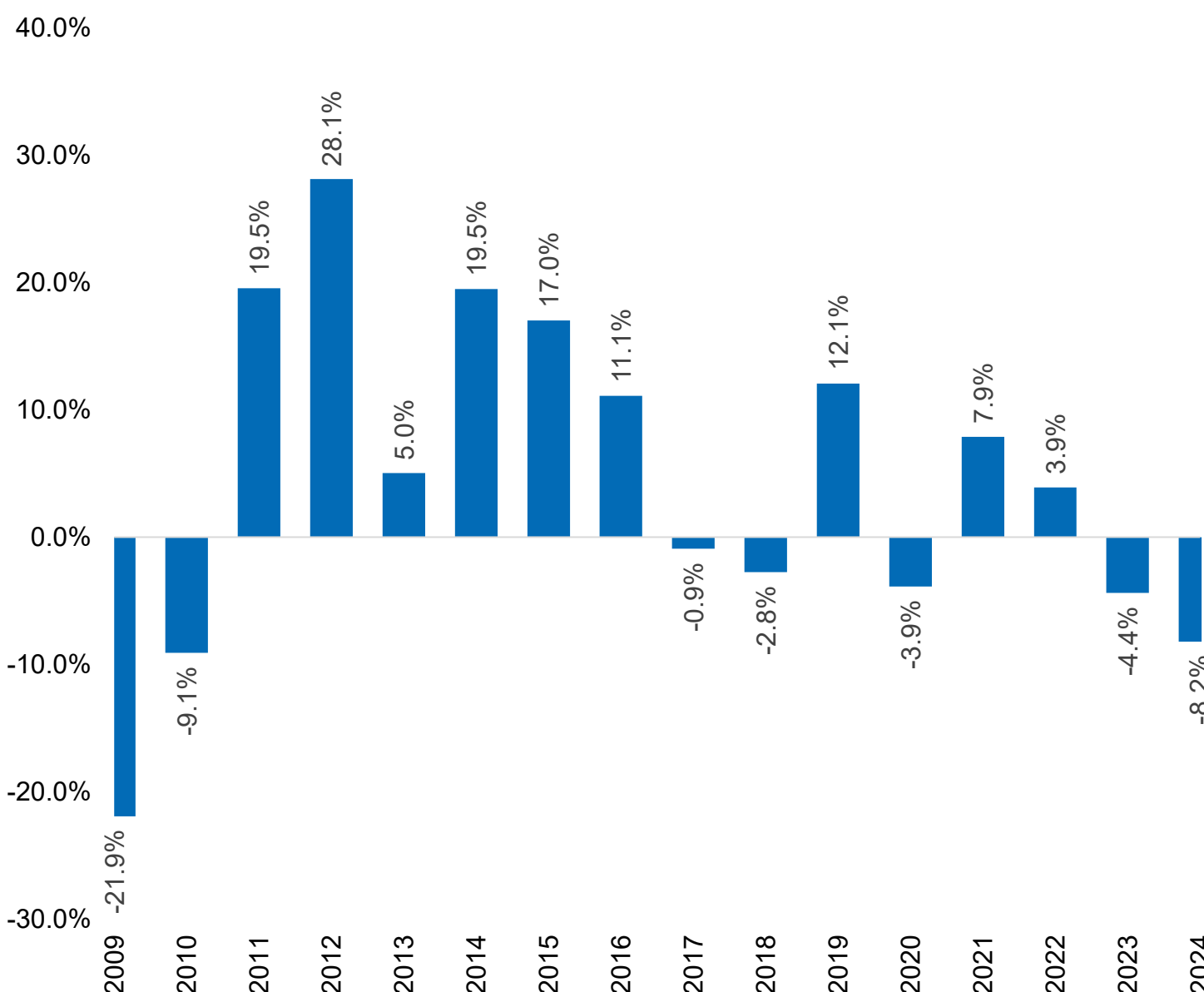
Small Drop-in Asking Rates Between Quarters

Elevated market availability continues to exert downward pressure on asking rents in the South Peninsula. Following their peak in 2022, asking rents declined 8.2% year-to-date in 2024 to \$5.62 per square foot (NNN). Properties featuring premium amenities—including conference facilities, flexible workspaces, abundant natural light, open floor plans, and modern infrastructure—have demonstrated greater rent stability, though they remain subject to broader market adjustments.

Office Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

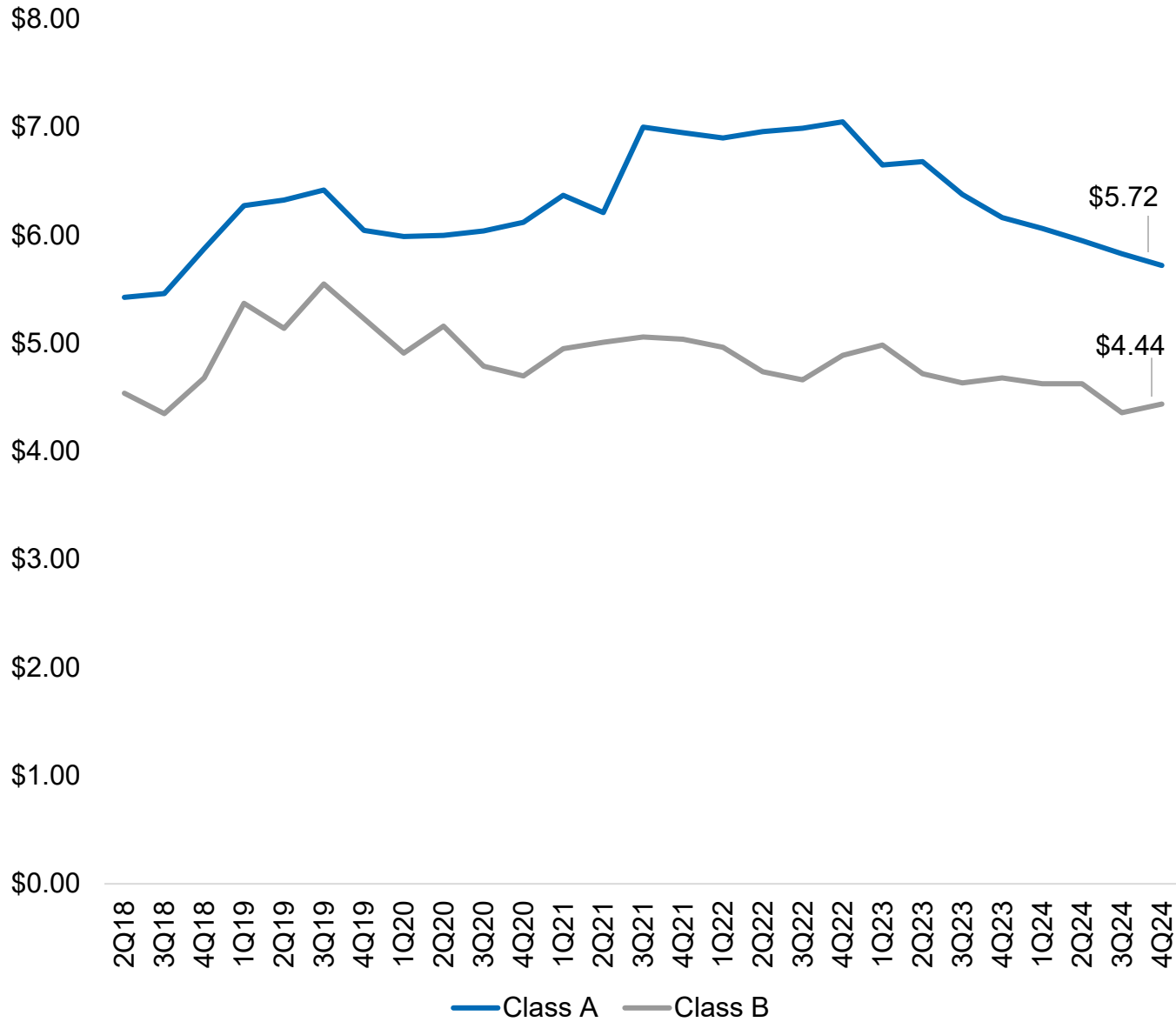
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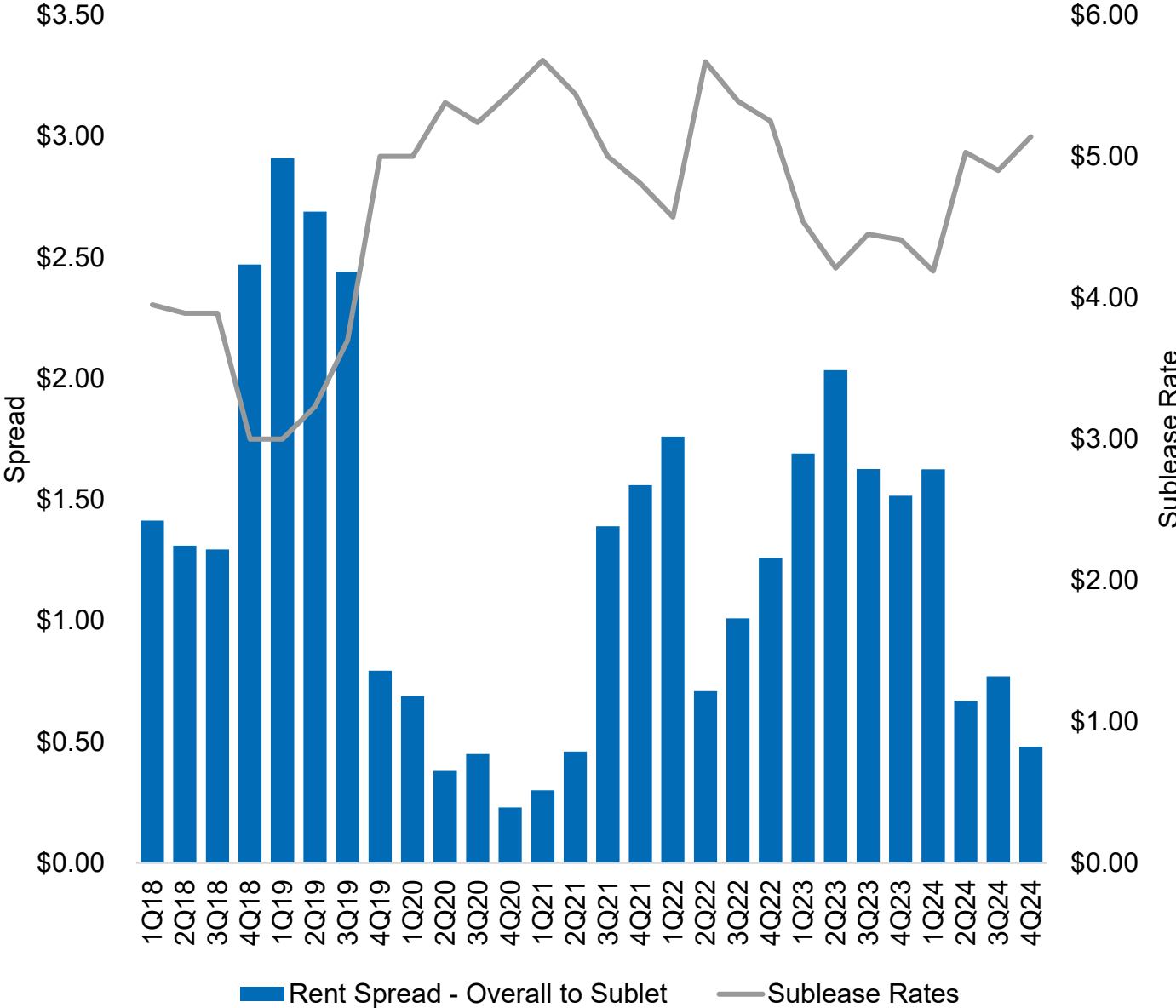
Slight Decrease in Asking Rates Despite Strong Leasing Activity

The South Peninsula market reached its highest level of gross absorption since Newmark Research began tracking these figures. Despite this achievement, there were slight decreases in asking rents during the fourth quarter. The removal of one million square feet of sublease space in Q4 has contributed to the reduction of the 'Rent Spread' – the variance between direct and sublease space pricing. As sublease availability continues to decline, we expect this pricing differential to further contract.

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



Sublease Rates



Source: Newmark Research, CoStar

Record-breaking Q4 Leasing Spurred by Snowflake 773K Deal

The fourth quarter was the South Peninsula's strongest quarter for total leasing on record. The largest deal in the fourth quarter was Snowflake's 772,983 square foot transaction in Menlo Park, which played a key factor in the surge of leasing activity in this quarter. There were also 3 large deals in the Stanford Research Park totaling approximately 300,000 SF.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Snowflake	125 -135 Constitution + More	Menlo Park – Hwy 101 Industrial	Sublease	772,983 SF
<i>Snowflake has subleased four buildings totaling approximately 773,000 square feet: 125 Constitution, 135 Constitution, 100 Independence, and 150 Independence (which serves as the amenities building).</i>				
Amazon	391 San Antonio Road	Mountain View – El Camino Corridor	Sublease	217,754
<i>Sublessor Wework has leased 217,000 square feet to Amazon, making it the second largest deal in the South Peninsula markets.</i>				
Robinhood	275 Middlefield	Palo Alto – Stanford Research Park	Lease Renewal/Expansion	128,743
<i>Renewal on existing space and adding more expansion space.</i>				
Stanford	3170 Porter Drive	Palo Alto – Stanford Research Park	Direct Lease	98,626 SF
<i>Stanford University entered into a direct agreement with the lessor to re-occupy the building, following Jazz Pharmaceuticals' previous listing of the property for sublease.</i>				
SAP	3380 Coyote Hill Road	Palo Alto – Stanford Research Park	Sublease	85,420 SF
<i>SAP is subleasing the entire building from VMware, thus assuming VMware's prior long-term lease agreement on the property.</i>				

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Appendix



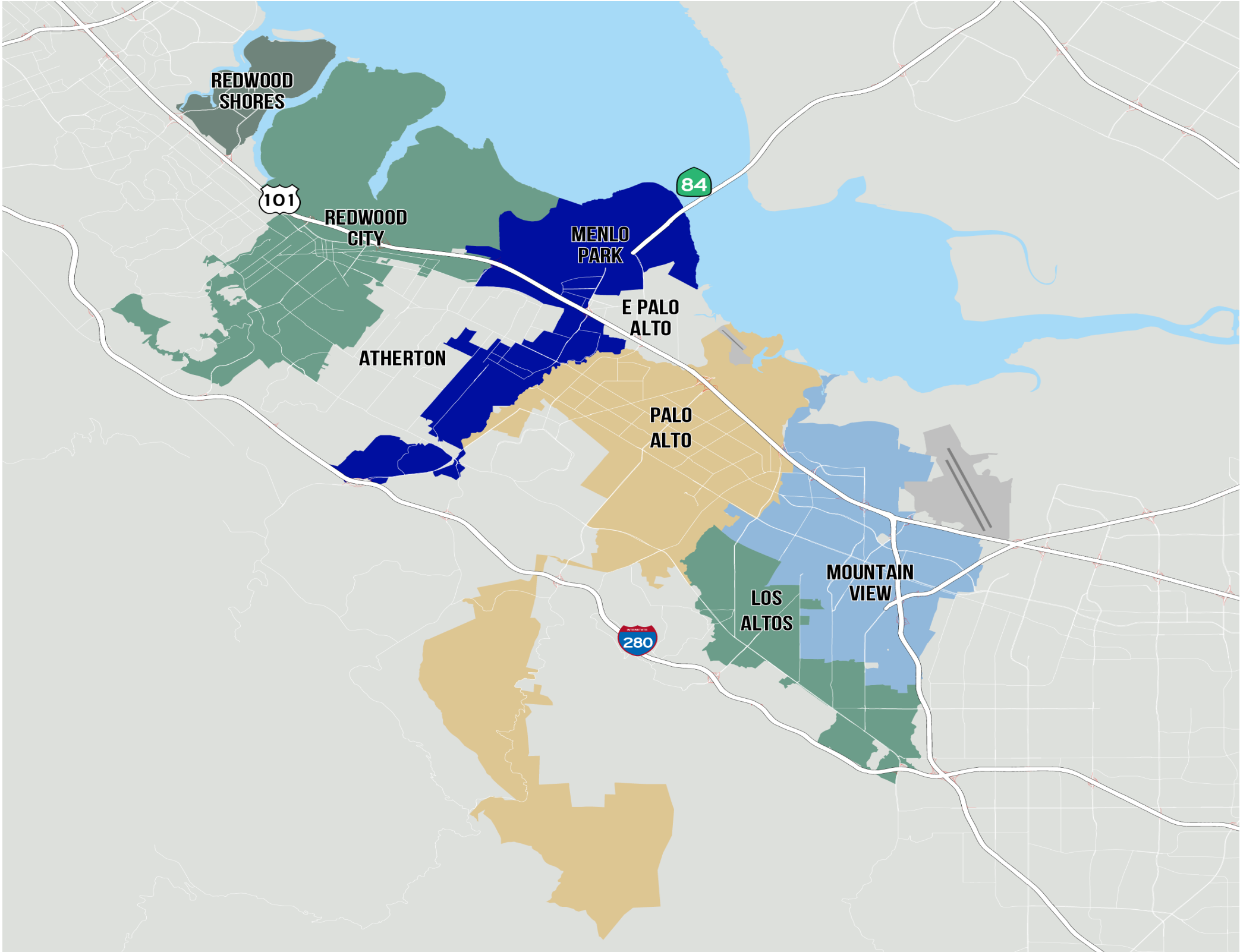


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South Peninsula Submarket Map



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