
4Q24

South Peninsula R&D 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 new technology and AI permeate everyday life, traditional R&D sectors are re-thinking existing business models while innovative Life Science and AI Technology companies are expanding and hiring more people. This surge in life science and technology sector growth is driving increased demand for specialized commercial real estate, particularly for lab spaces and tech-enabled office environments that can accommodate sophisticated R&D operations.

Major Transactions

- Newmark brokered the largest recorded R&D transaction in the region, securing 109,082 SF for a confidential client at the new Elco Yards development in Downtown Redwood City.
- Ford Motor Company's autonomous driving technology subsidiary executed a 95,737 SF direct lease in the Stanford Research Park, Palo Alto, exemplifying AI's growing influence in commercial real estate.
- Intrinsic, a Google-owned company focused on industrial robotics innovation, leased properties at 640 and 650 Clyde in Mountain View for approximately 75,000 SF.

Leasing Market Fundamentals

- The South Peninsula market recorded 666,760 square feet of gross absorption in the fourth quarter of 2024, marking the third consecutive quarter to exceed the five-year leasing average. Also recording a positive net absorption of 230,248 SF across the South Peninsula market.
- All 5 of the largest R&D transactions were from AI or Life Science companies, highlighting the continued dominance of these sectors in the market.
- The top 10 largest transactions were direct leases, reflecting a trend away from subleases due to diminishing space availability in the sublease market.

Outlook

- The South Peninsula market demonstrated significant recovery in the latter half of 2024, recording 379,370 square feet of positive net absorption in Q3 and Q4, a marked reversal from 2023's challenging market conditions of over 3 million square feet of negative absorption.
- Market indicators suggest a bottom has been reached, with declining vacancy rates and increasing gross net absorption signaling potential stabilization and recovery.
- Life science leasing activity remains a critical driver of R&D market performance, with expectations of continued sector strength in upcoming quarters.
- Widespread corporate adoption of five-day in-office work models is anticipated to impact all asset classes, potentially further stimulating commercial real estate dynamics.

1. Economy
2. Leasing Market Fundamentals
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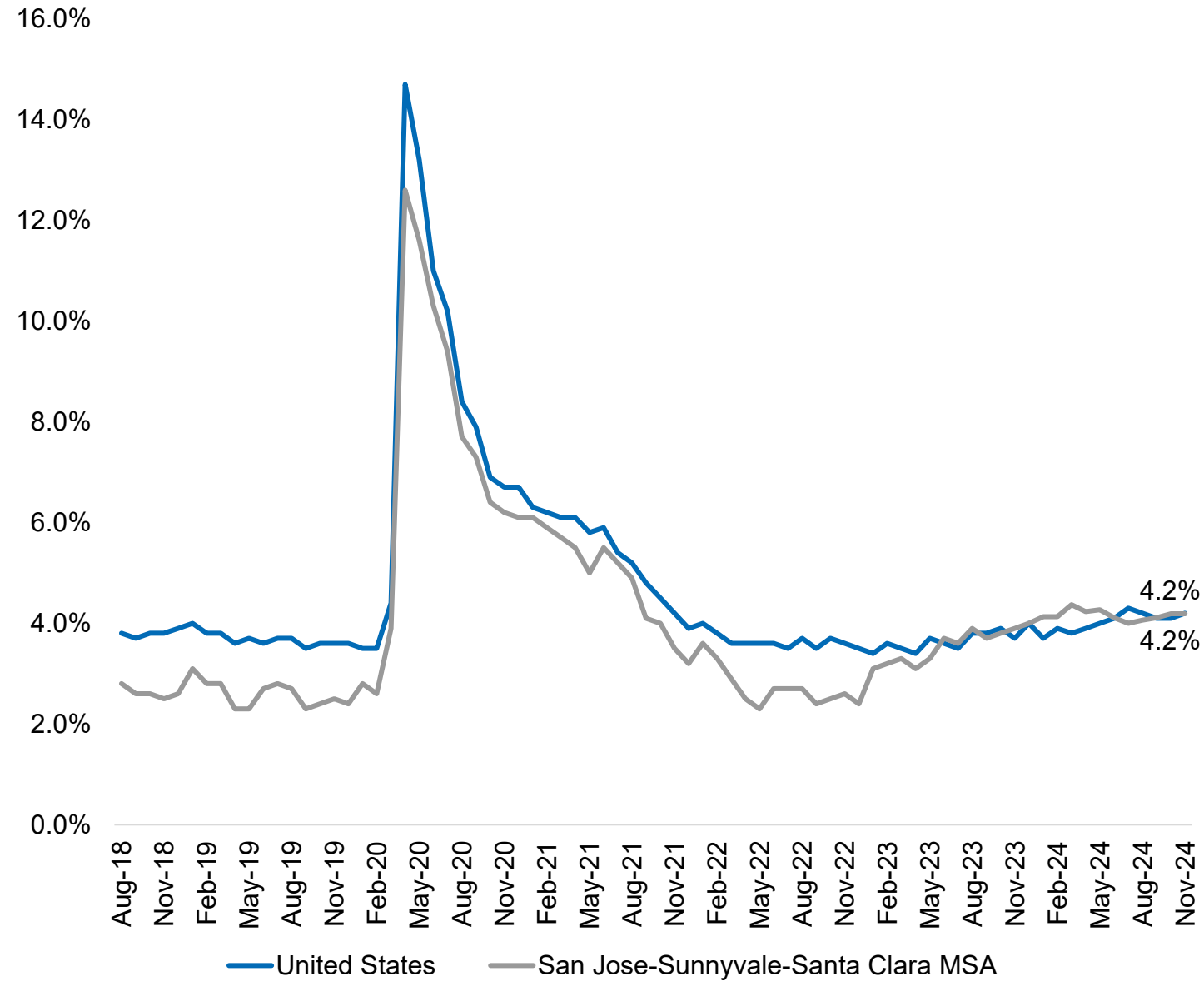
Economy



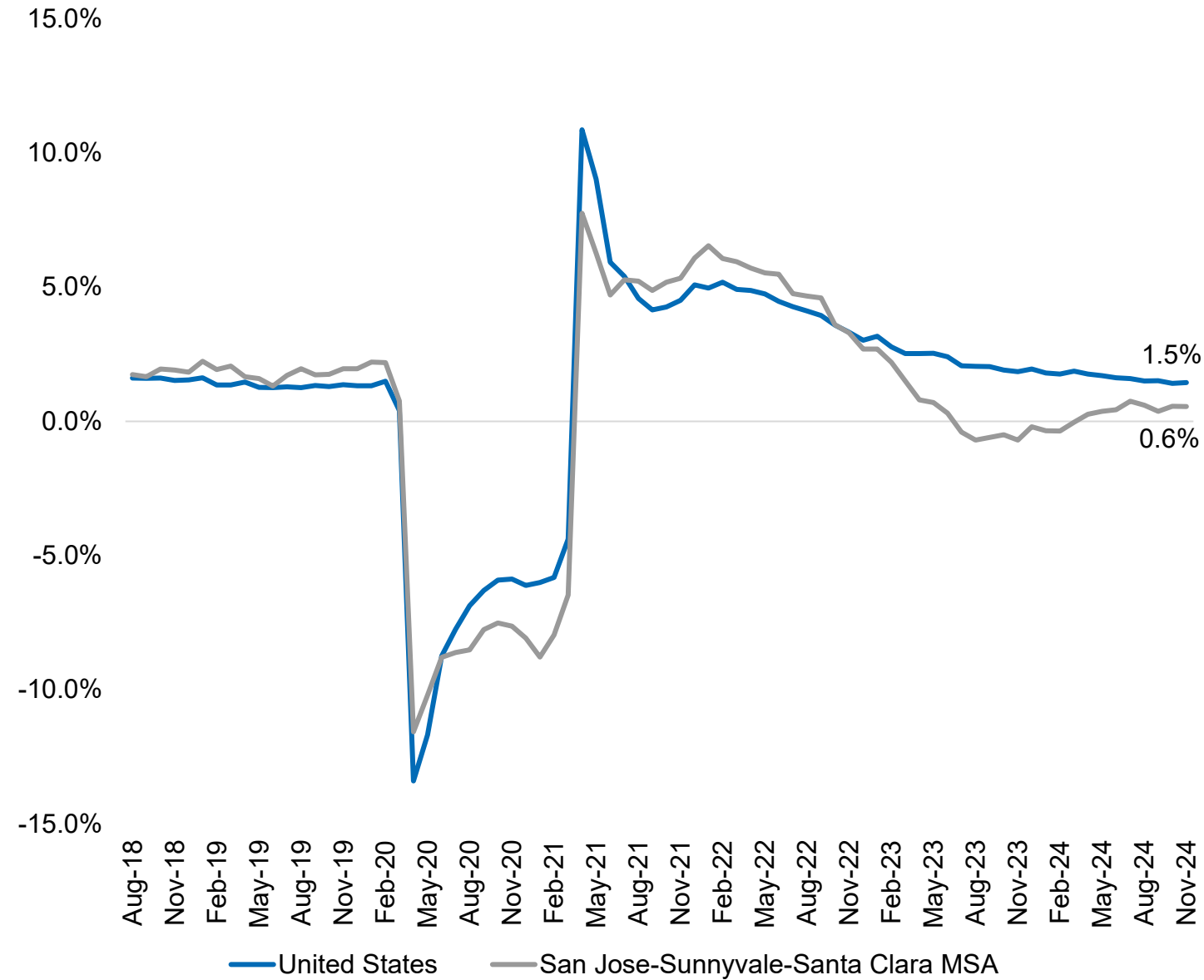
Silicon Valley Labor Market Remains Stable Amid National Softening

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

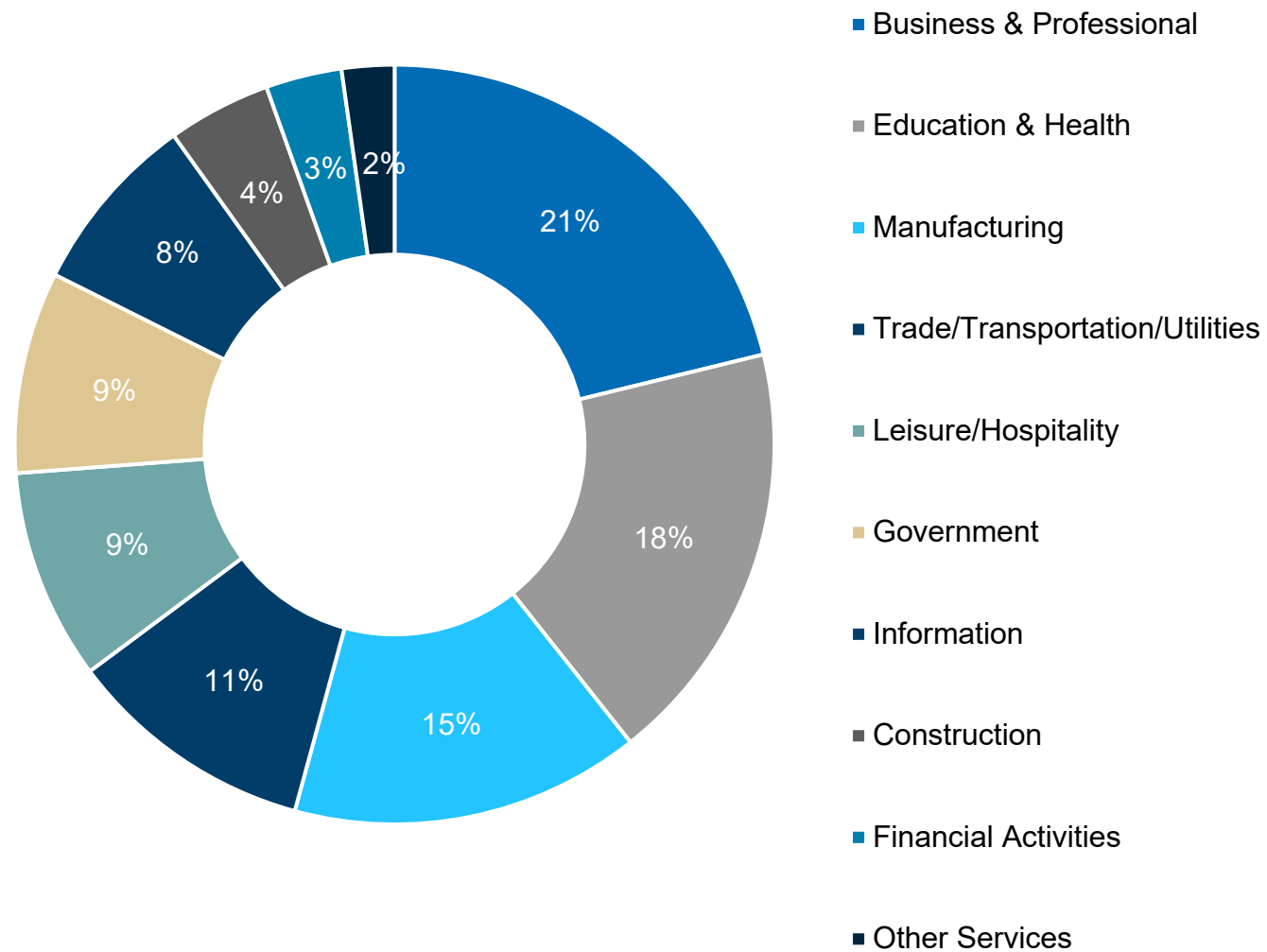


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale

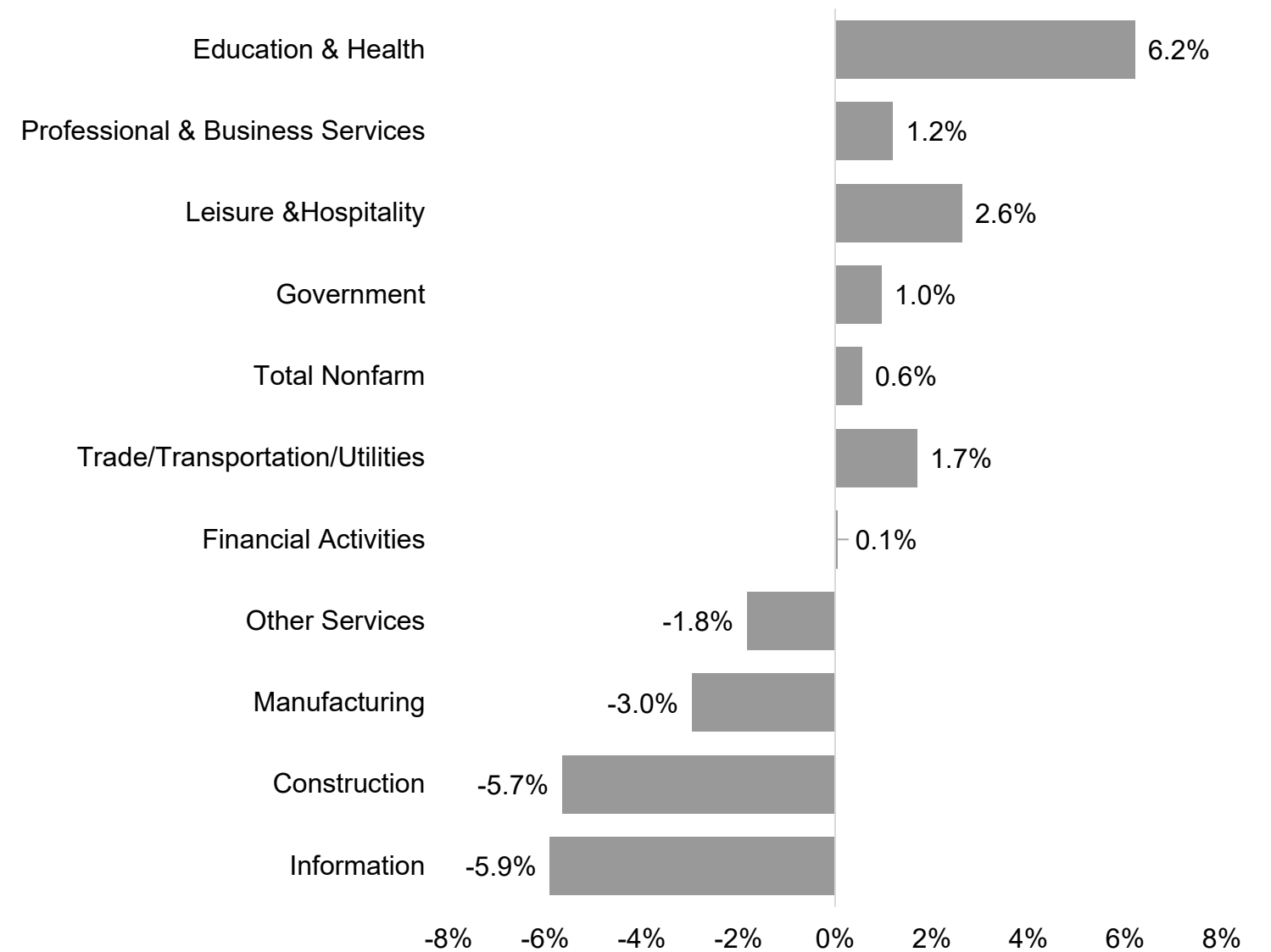
The Shift Away from Pure Technology Dominance

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

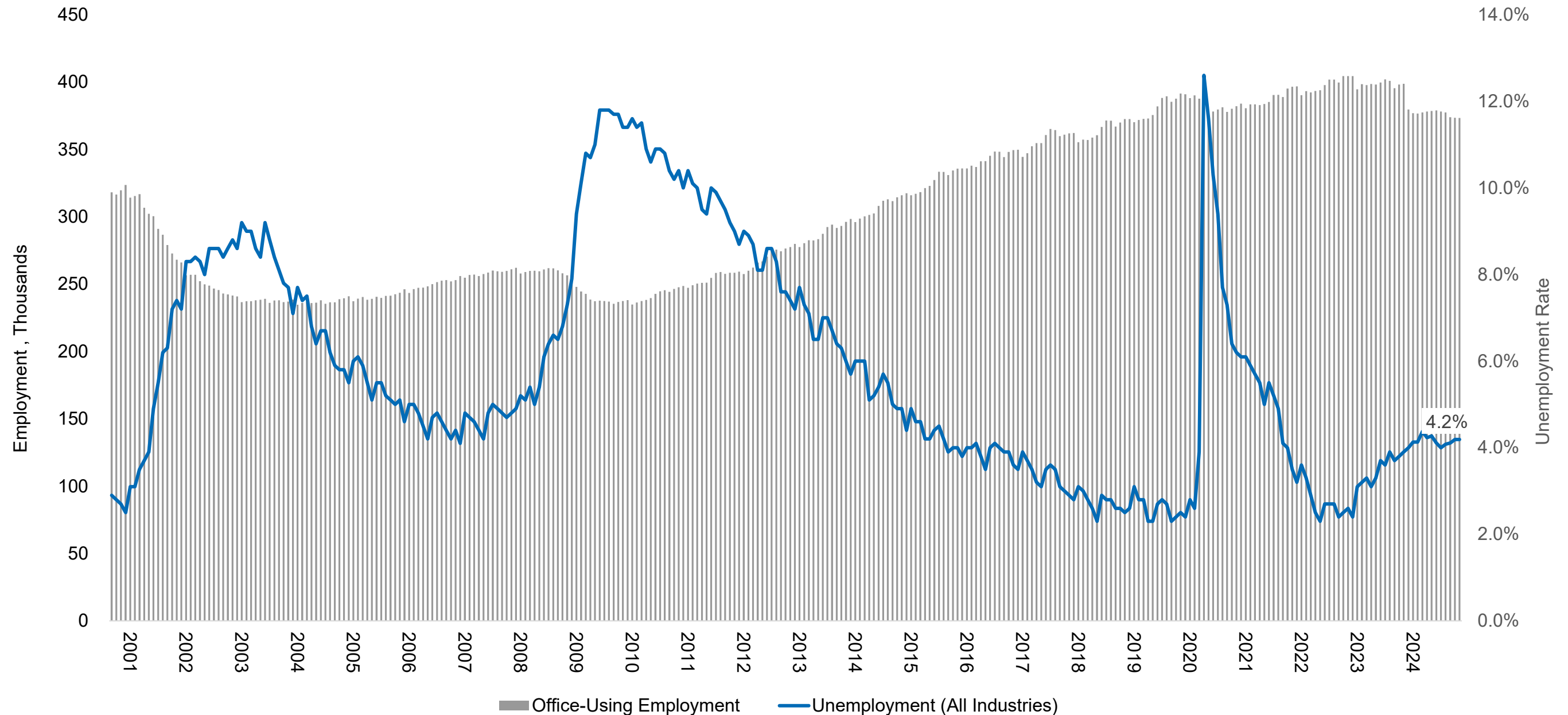


Source: U.S. Bureau of Labor Statistics, San Jose-Santa Clara-Sunnyvale, layoffs.fyi

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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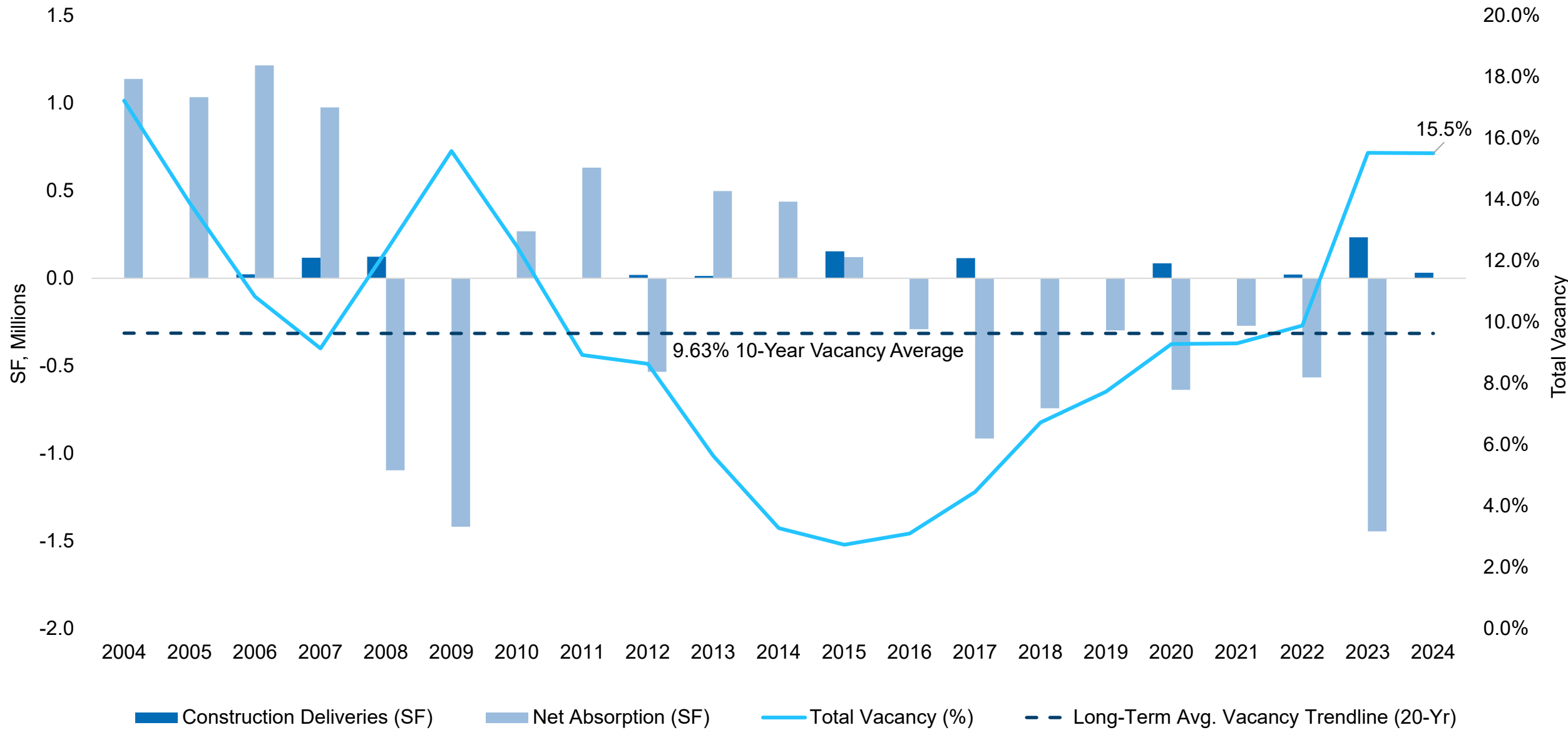
Leasing Market Fundamentals



Stable Vacancies and Positive Absorption in South Peninsula R&D Market

The South Peninsula's R&D market continued to show stability, maintaining steady vacancy rates since early 2024. The region logged positive net absorption of 230,428 square feet in Q4. Adding to these encouraging signs, there's been a clear shift from sublease to direct lease activity, pointing to stronger market fundamentals in the South Peninsula.

Historical Construction Deliveries, Net Absorption, and Vacancy

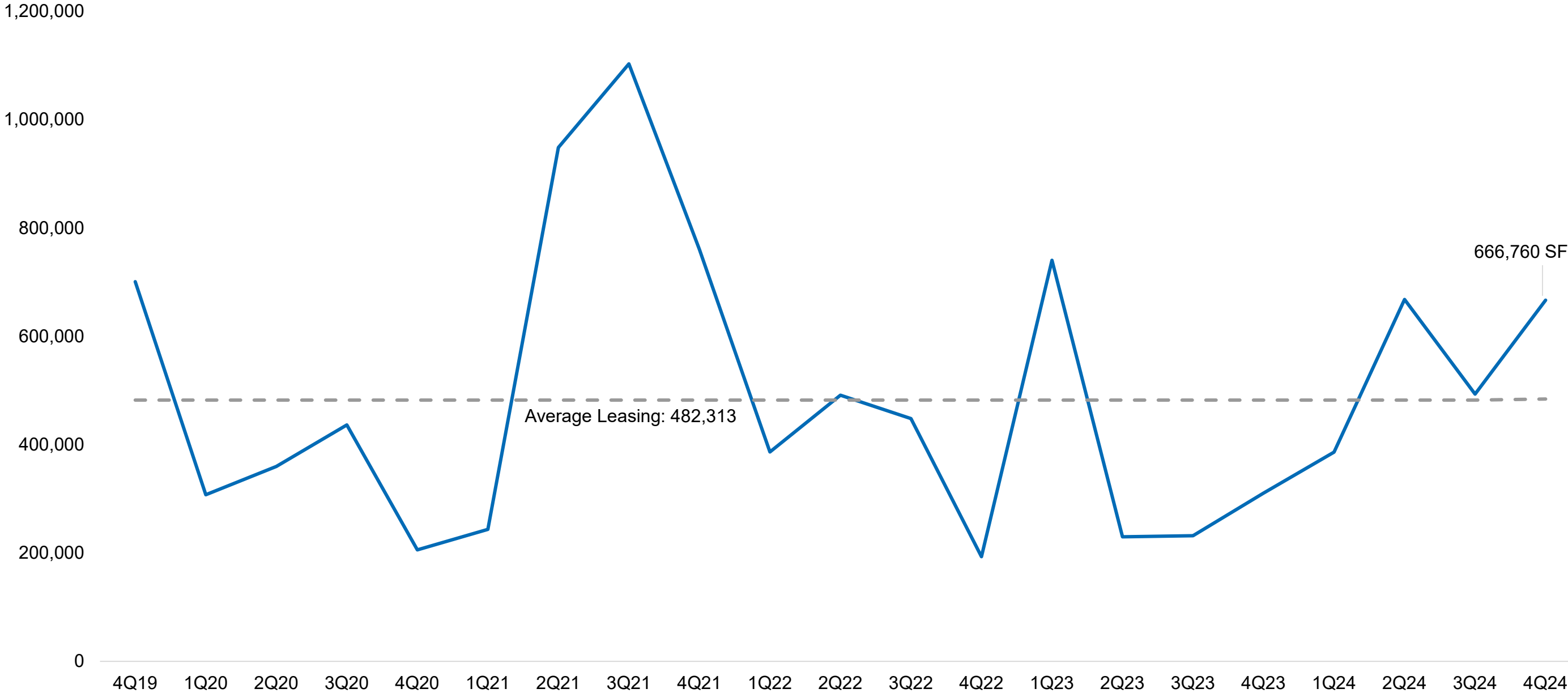


Source: Newmark Research, CoStar

South Peninsula R&D Market Maintains Momentum with Strong Leasing

Leasing was strong in the R&D sector in the South Peninsula in the fourth quarter. Life science deals in the Seaport submarket have been particularly impressive, driving over 300,000 square feet of gross absorption. This performance represents the third consecutive quarter where total leasing in the broader South Peninsula market has surpassed the 5-year average, with a total of 666,760 SF transacted.

Total Leasing Activity (SF)

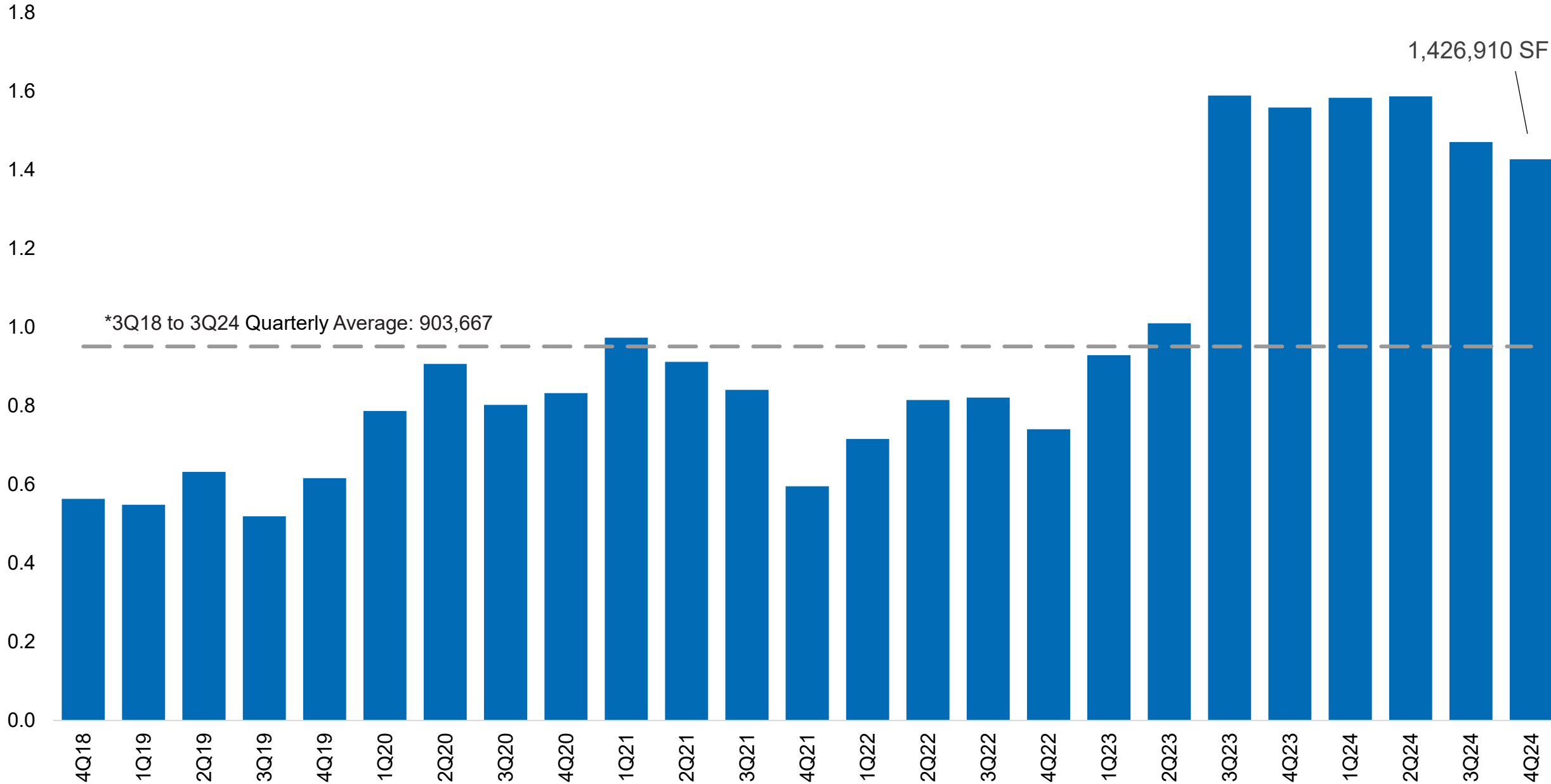


Source: Newmark Research, CoStar

South Peninsula R&D Availability Concentrated in Big Block Availabilities

Large contiguous spaces dominate the South Peninsula's R&D sublease market. Two notable listings illustrate this trend: Google's 700,000 SF sublease offering in Mountain View's South Middlefield submarket and TIBCO Software's 300,000 SF sublease in Palo Alto's Stanford Research Park. These two properties alone represent over 66% of the South Peninsula's total sublease availability. These large subleases inflate the current sublease market, and sublease availability has been making stead decreases in vacancy.

Available R&D Sublease Volume (msf)

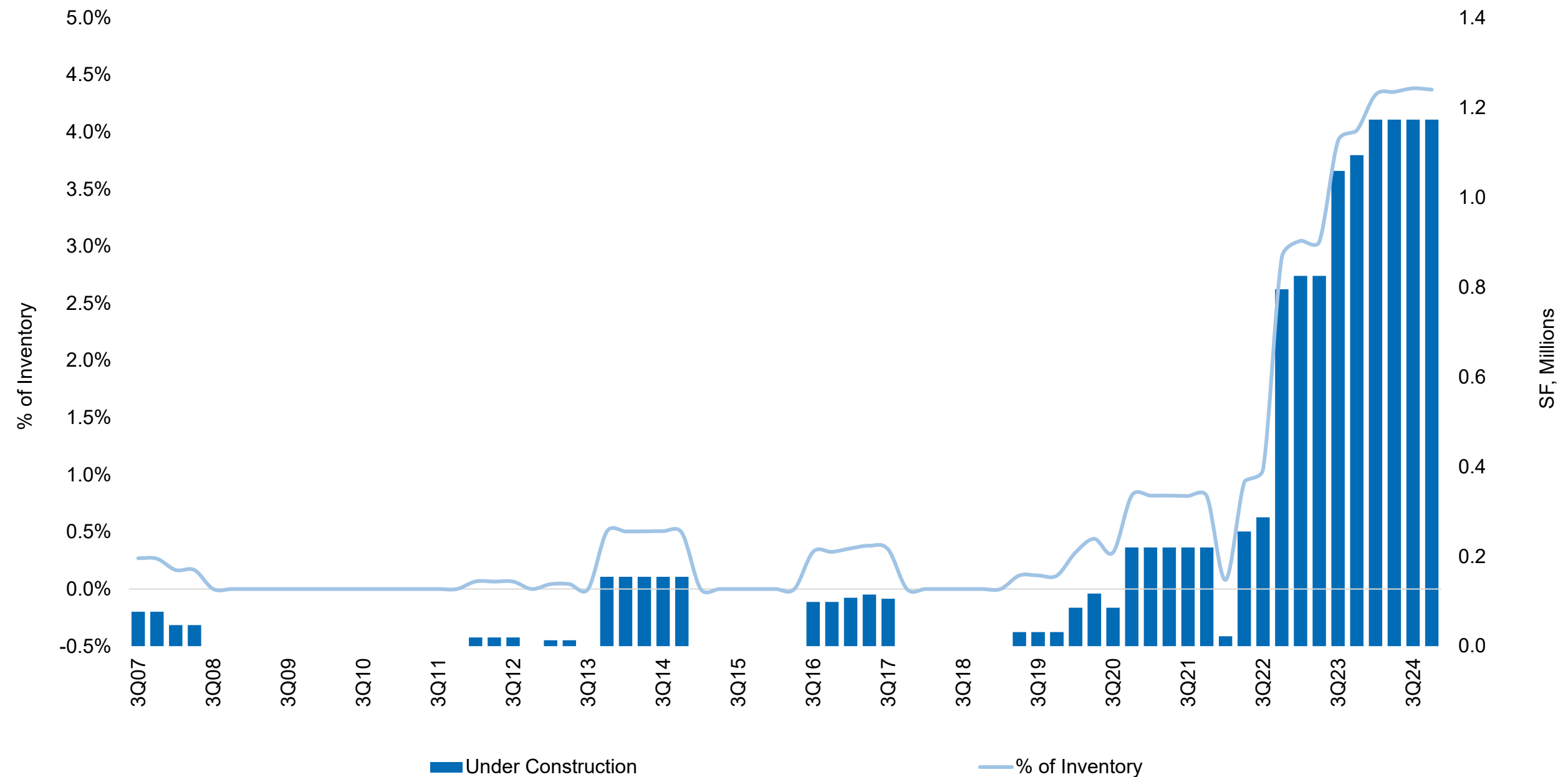


Source: Newmark Research, CoStar

R&D Construction Pipeline Remains Unchanged in Q4

The R&D construction pipeline remained static during the fourth quarter of 2024, with no new groundbreakings or project deliveries. The initial phase of the Elco Yards development in Redwood City is scheduled for completion in early 2025. New construction projects are unlikely in the near term due to several market factors: weakened demand, elevated interest rates, high construction costs, and increased caution among both lenders and developers.

Industrial Under Construction and % of Inventory

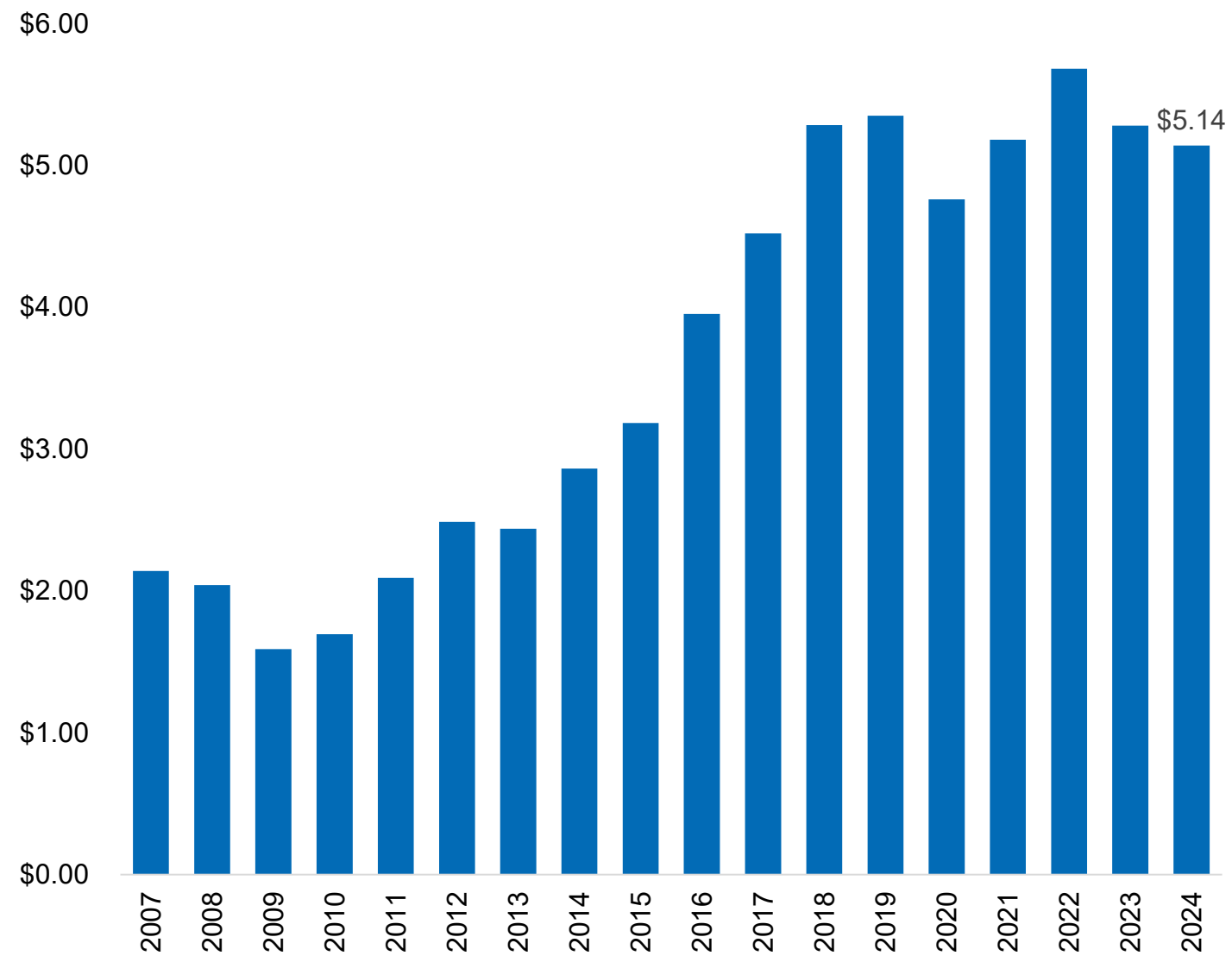


Source: Newmark Research, CoStar

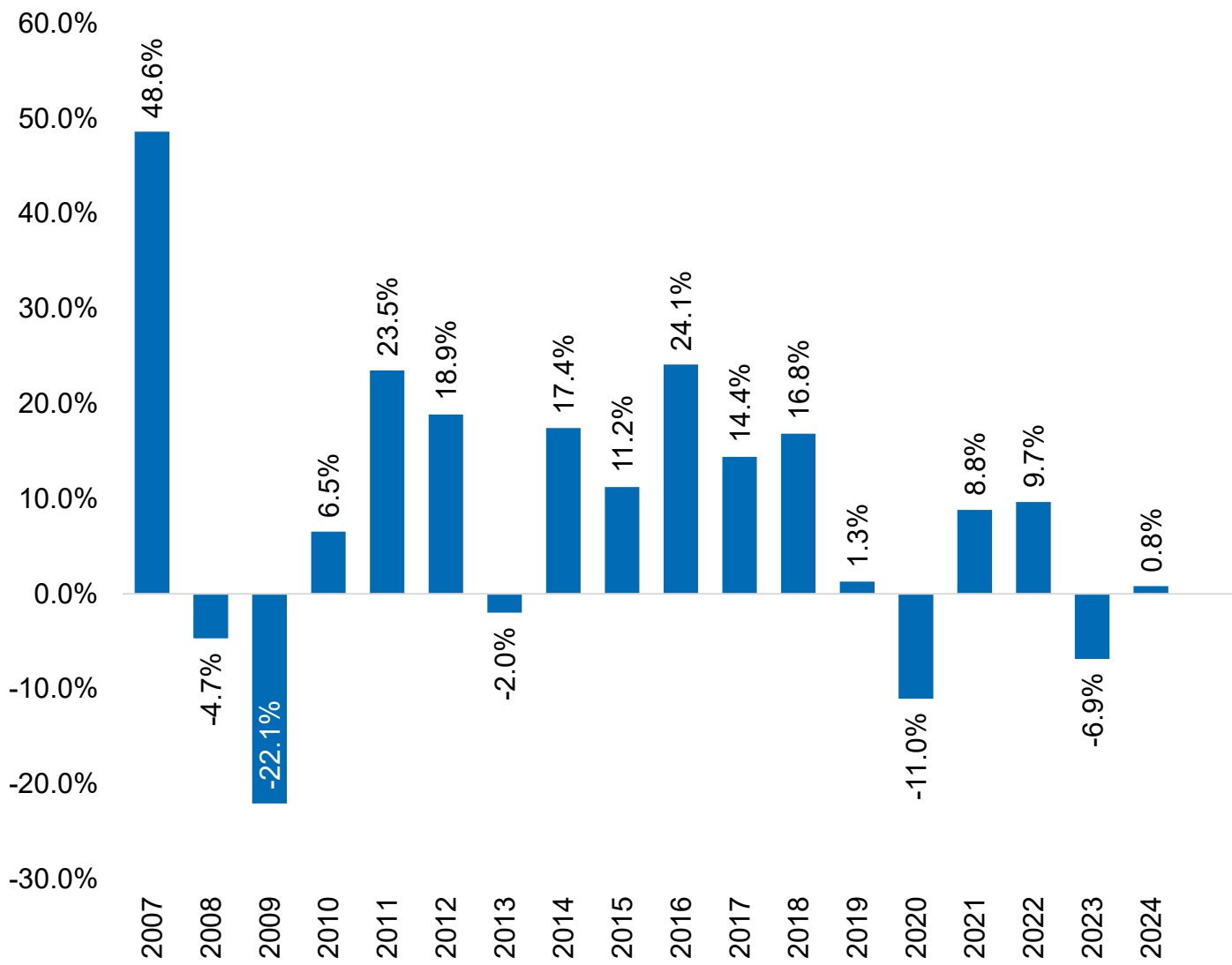
Stabilizing R&D Rents: A Balancing Act in the South Peninsula Market

R&D asking rents in the South Peninsula continued their downward trajectory, reaching \$5.14/SF in the fourth quarter of 2024. This marked a significant shift from mid-year, when rents briefly rebounded to \$5.59/SF in Q2 before declining to \$5.44/SF in Q3. Current rates were well below the market peak of \$5.82/SF recorded in Q3 2022, reflecting broader softness in the South Peninsula R&D market.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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Tech and Life Sciences Drive Large Scale Expansions in South Peninsula

Fourth quarter 2024 leasing activity in the South Peninsula market reached 666,760 square feet, marking the third consecutive quarter to surpass the 10-year quarterly average of 475,596 square feet. Life science companies continued to dominate the market, accounting for over 55% of all transactions. Notably, artificial intelligence companies are emerging as another significant driver of demand, securing several major leases and contributing substantially to the leasing activity in the South Peninsula.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Confidential	1300 Main Street	Redwood City - Downtown	Lease Expansion	109,082
<i>This confidential client has expanded their lease for 1300 Main Street, which is still under construction. They now have pre-leased the entire building adding up to a total footprint of 225,878 SF.</i>				
Latitude AI	3210 Porter Drive	Palo Alto – Stanford Research Park	Direct Lease	95,737
<i>Ford Motor Company's autonomous driving technology subsidiary has executed a direct lease for approximately 100,000 square feet.</i>				
Intrinsic	640&650 Clyde Court	Mountain View – South Middlefield	Direct Lease	73,744
<i>Intrinsic, an AI robotics company, has secured a combined 73,744 square feet, leasing 640 Clyde Avenue (39,703 square feet) and the Google-owned 650 Clyde Avenue (34,041 square feet).</i>				
Confidential	1505 O'Brien Drive	Menlo Park – Hwy 101 Industrial	Lease Renewal	59,269
<i>A confidential tenant has executed a lease renewal at 1505 O'Brien Drive.</i>				
Revolution Medicines	600 Saginaw Drive	Redwood City Seaport	Lease Expansion	46,961
<i>Revolution Medicines has expanded its footprint by leasing the entire 600 Saginaw building, comprising 46,961 square feet. The company subsequently subleased the first floor (23,481 square feet) to EditCo.</i>				

Source: Newmark Research

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Appendix / Tables





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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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