



NEWMARK

# North Peninsula Office Market Overview

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4Q25

# Market Observations



## Economy

- The San Francisco–San Mateo region continued to post an unemployment rate below both the national average and the California state average, which stood at 5.6% in September.
- The Federal Reserve enacted one 25-basis-point cut in October and another in December, bringing the benchmark rate to a range of 3.50% to 3.75%. Economists expect only one additional rate cut in 2026.
- The U.S. Consumer Price Index (CPI) inflation rate registered 2.7% in December, down from 3.0% in September, reinforcing expectations that inflation is moderating as the Federal Reserve weighs its next move on interest rates.



## Leasing Market Fundamentals

- The North Peninsula office market recorded its second consecutive quarter of occupancy gains, posting 98,000 SF of net absorption.
- Gross absorption totaled 956,000 SF, a 2.0% increase quarter-over-quarter. Leasing activity from AI companies increased, accounting for 14.4% of total new leasing volume, up from 10.5% in the prior quarter and 2.3% one year ago. Market-wide vacancy edged up to 21.2% from 21.1% in the prior quarter. Sublease vacancy declined to 4.2%, compared with 4.3% during the same period.
- The average asking rate ended the quarter lower at \$6.11/SF full service, down from \$6.21/SF in the prior quarter and \$6.13/SF one year ago.



## Major Transactions

- Online gaming company Roblox completed the largest deal of the quarter, leasing 112,995 SF on the third and fourth floors at Bay Meadows Station 3 in San Mateo.
- Drone delivery and logistics company Zipline completed the second-largest transaction of the quarter, leasing 170 Harbor Way in South San Francisco with plans to convert the lab building to Class A office.
- The quarter's most notable property sale involved Smilegate's acquisition of 1540 El Camino Real in Downtown Menlo Park from Four Corners Properties for \$103.7 million, or \$2,271/SF. At the time of acquisition, the property was fully occupied by notable tenants including Mechanic's Bank, Immobiliare Management and Sheppard Mullin.



## Outlook

- Looking ahead to 2026, market optimism is expected to build despite near-term headwinds as return-to-office momentum strengthens and occupiers seek to secure space ahead of potential price increases.
- Concessions and tenant improvement allowances are expected to remain elevated as landlords continue to compete aggressively to capture rising demand.
- New speculative development has largely paused as the market contends with historically high vacancy, while conversions of obsolete office buildings may reduce existing inventory. Owners of trophy assets are expected to gain leverage, while older buildings may require higher tenant improvement allowances to remain competitive.

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## Economy

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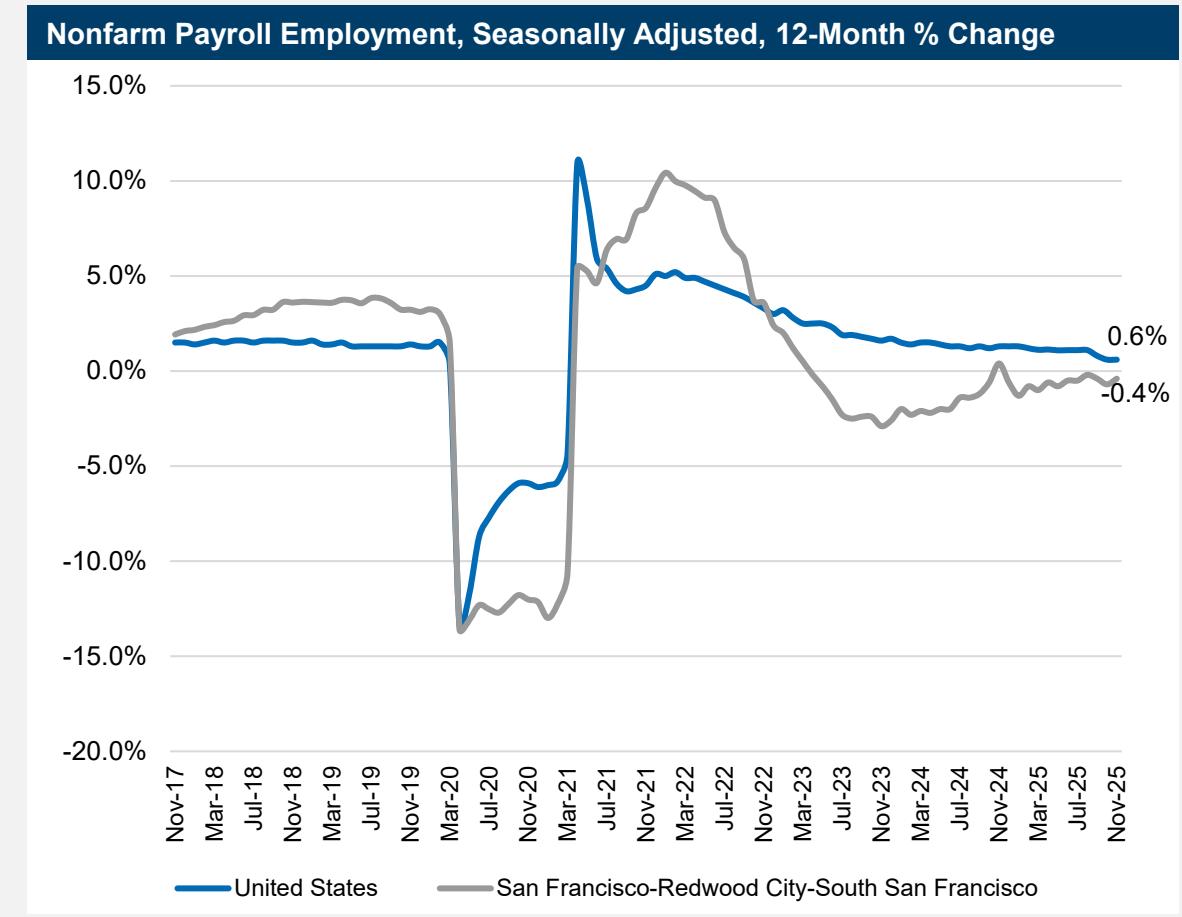
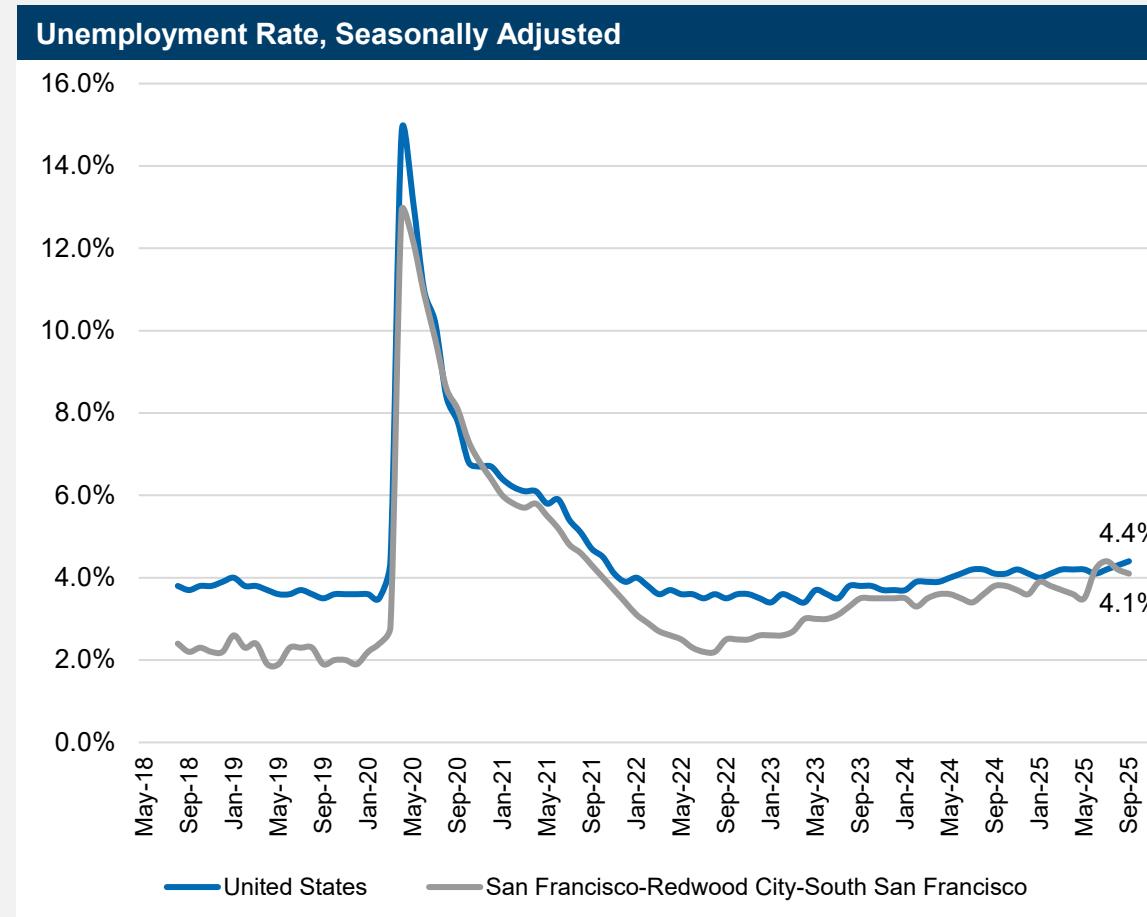
# Office Using Employment Down 2.0% Year-Over-Year

Nationally, the final quarter of 2025 was widely characterized as hitting an “air pocket.” While the broader economy avoided a full stall, office-using sectors slowed as companies prioritized cost control and AI-driven efficiency over headcount growth. Some sectors, such as leisure and hospitality, experienced seasonal gains; however, office-using sectors continued to contract. Despite ongoing enthusiasm around artificial intelligence, new AI hiring has not yet been sufficient to offset broader layoffs among legacy technology firms.



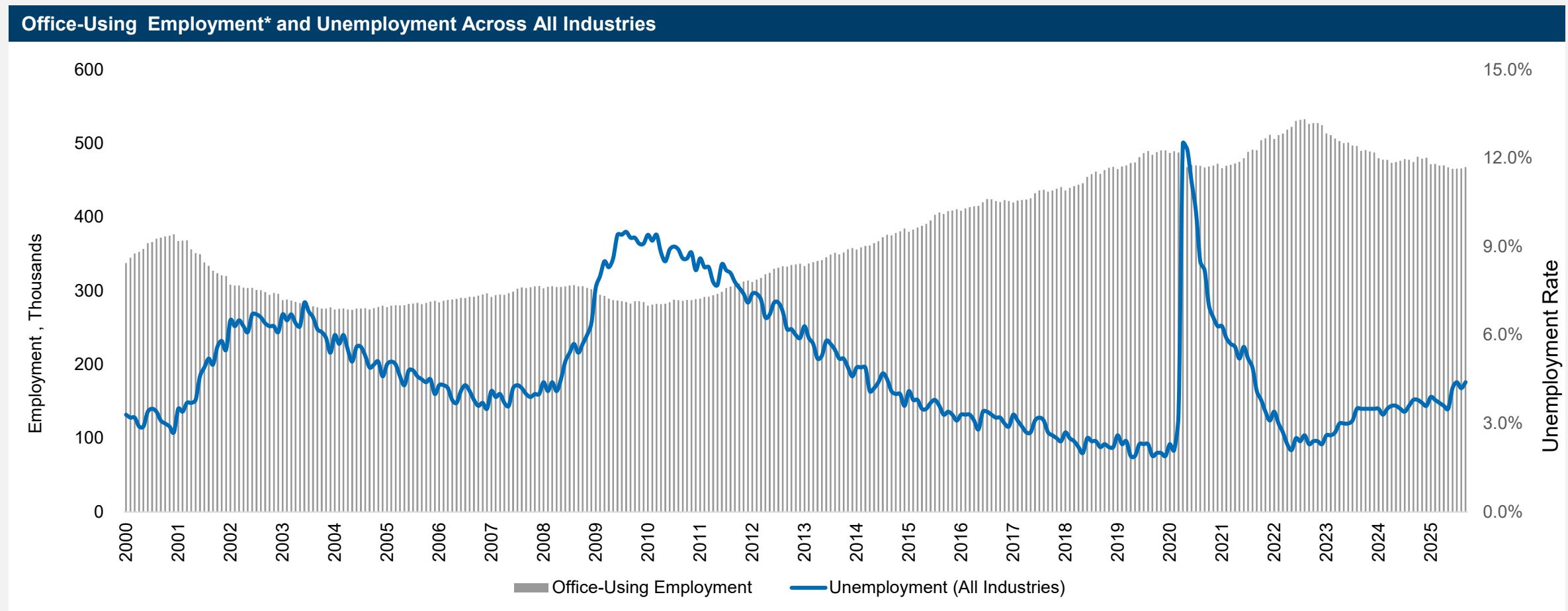
# Regional Unemployment Remains Below National Level

Despite the slight rise in the national rate, the San Francisco–San Mateo region continued to maintain an unemployment rate below both the national average and the California state average, which reached 5.6% in September. Year-over-year changes in nonfarm employment in the region have remained steadily negative over the past three years.



# Unemployment Rate Below National Average

While the U.S. economy grappled with a stalling labor market and rising national unemployment, the San Francisco-San Mateo office-using core faced a deeper structural contraction, albeit with a resilient local unemployment rate.

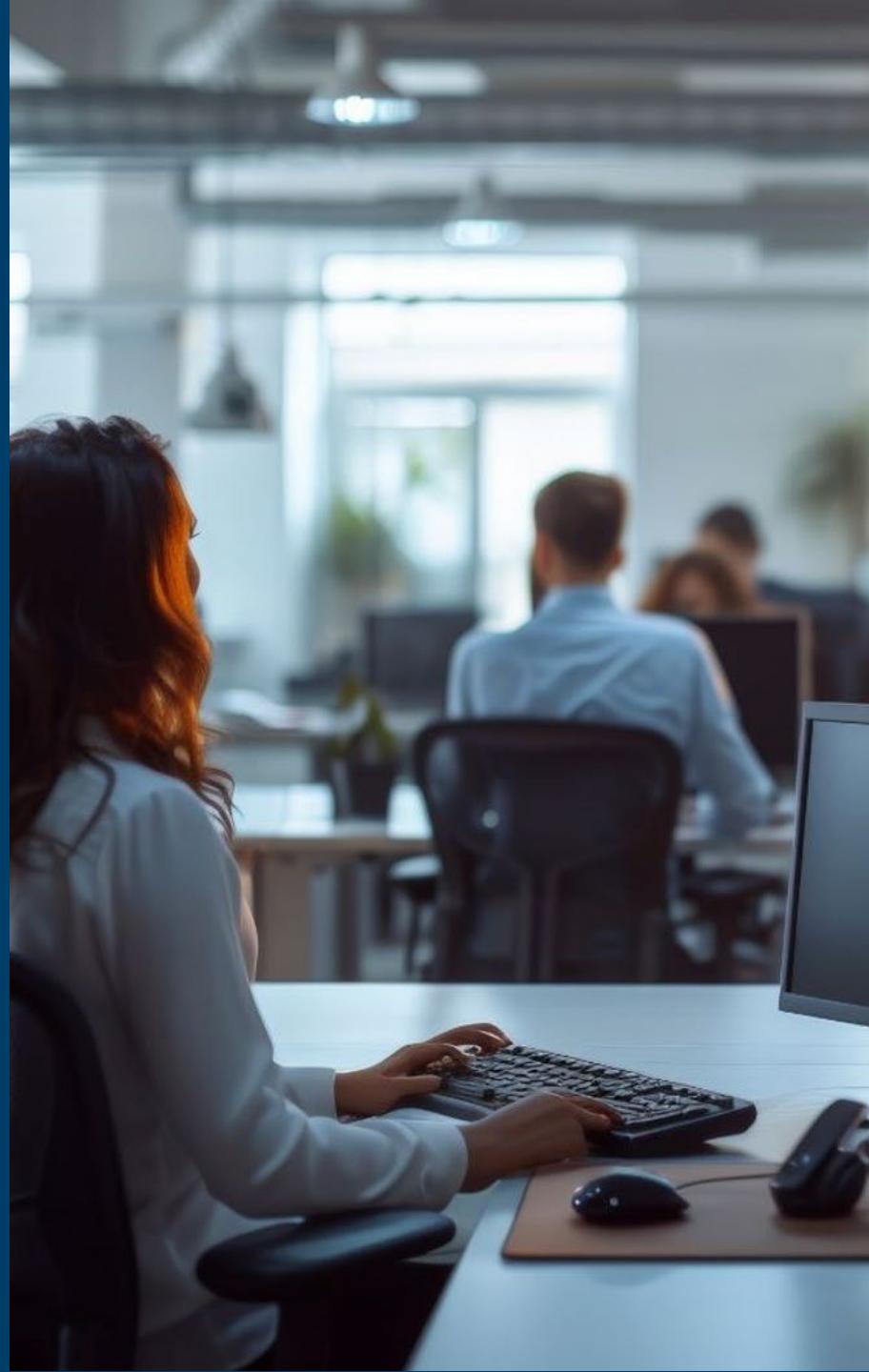


# 02

## Market Fundamentals

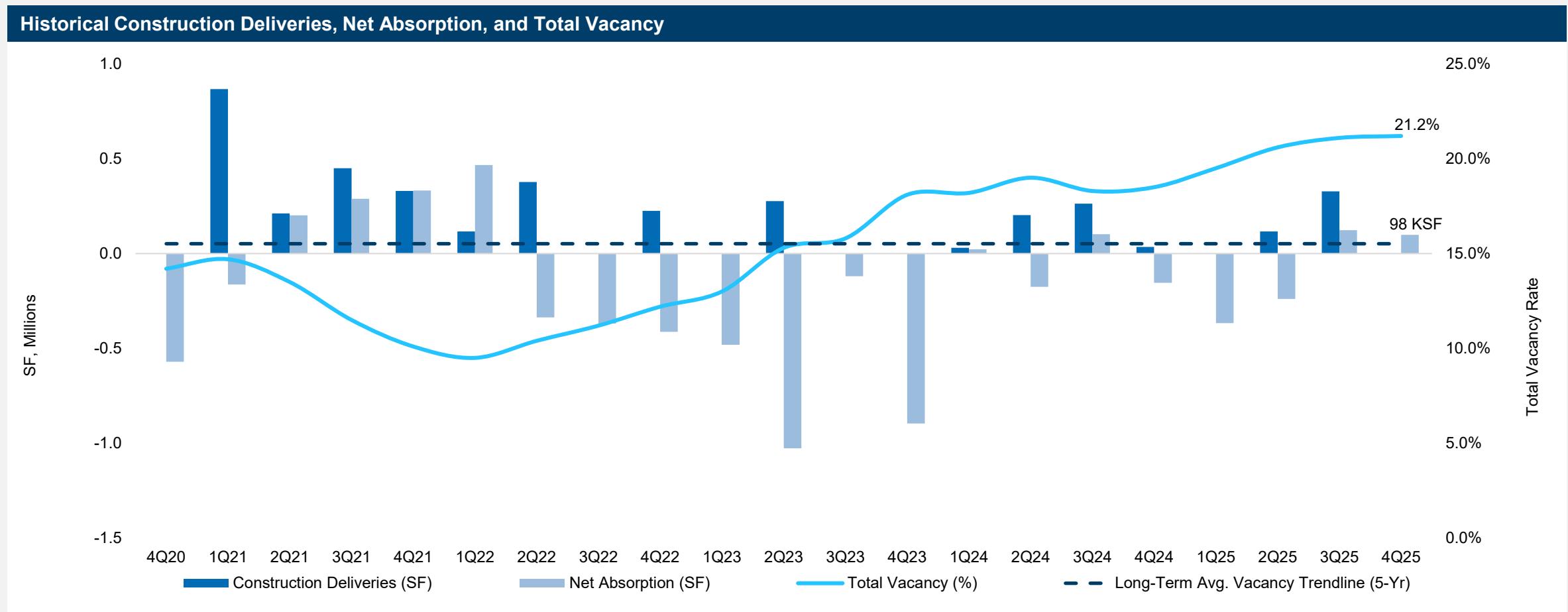
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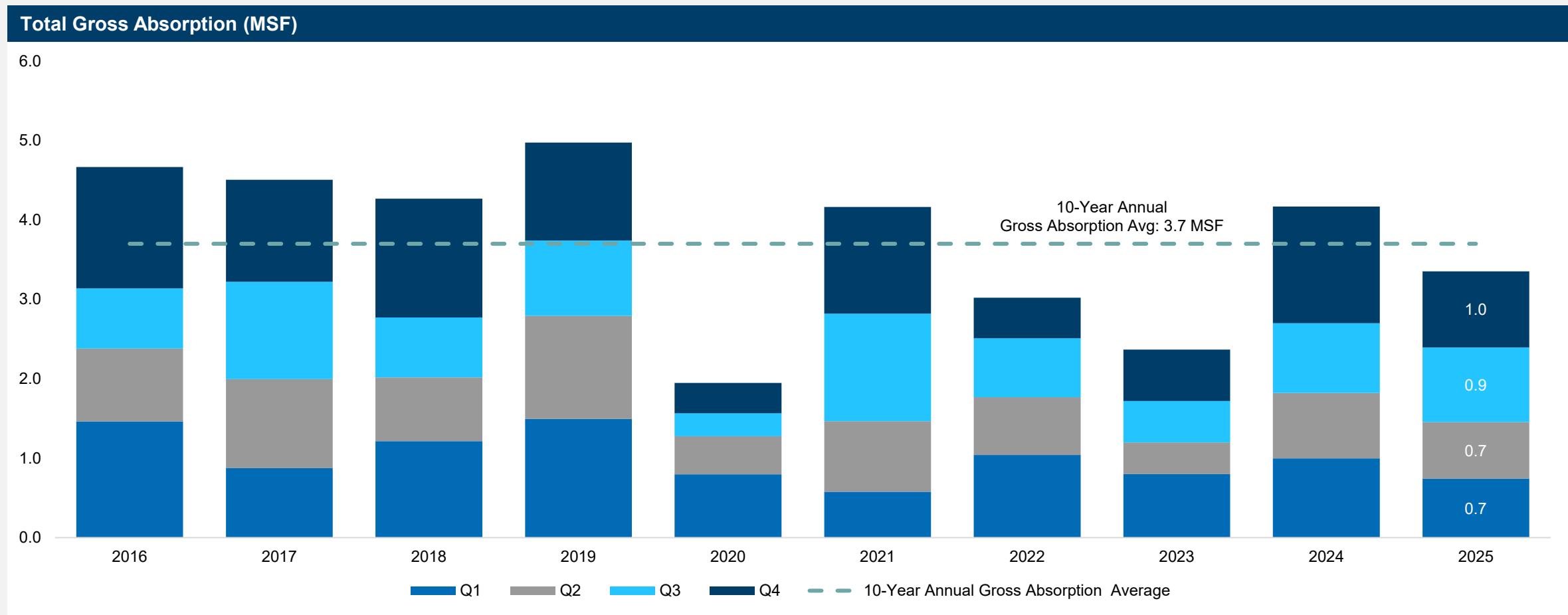
# Second Consecutive Quarter of Occupancy Gains

The North Peninsula market recorded its second consecutive quarter of occupancy gains, posting 98,000 SF of net absorption. This represents the longest stretch of sustained absorption growth since the first quarter of 2022.



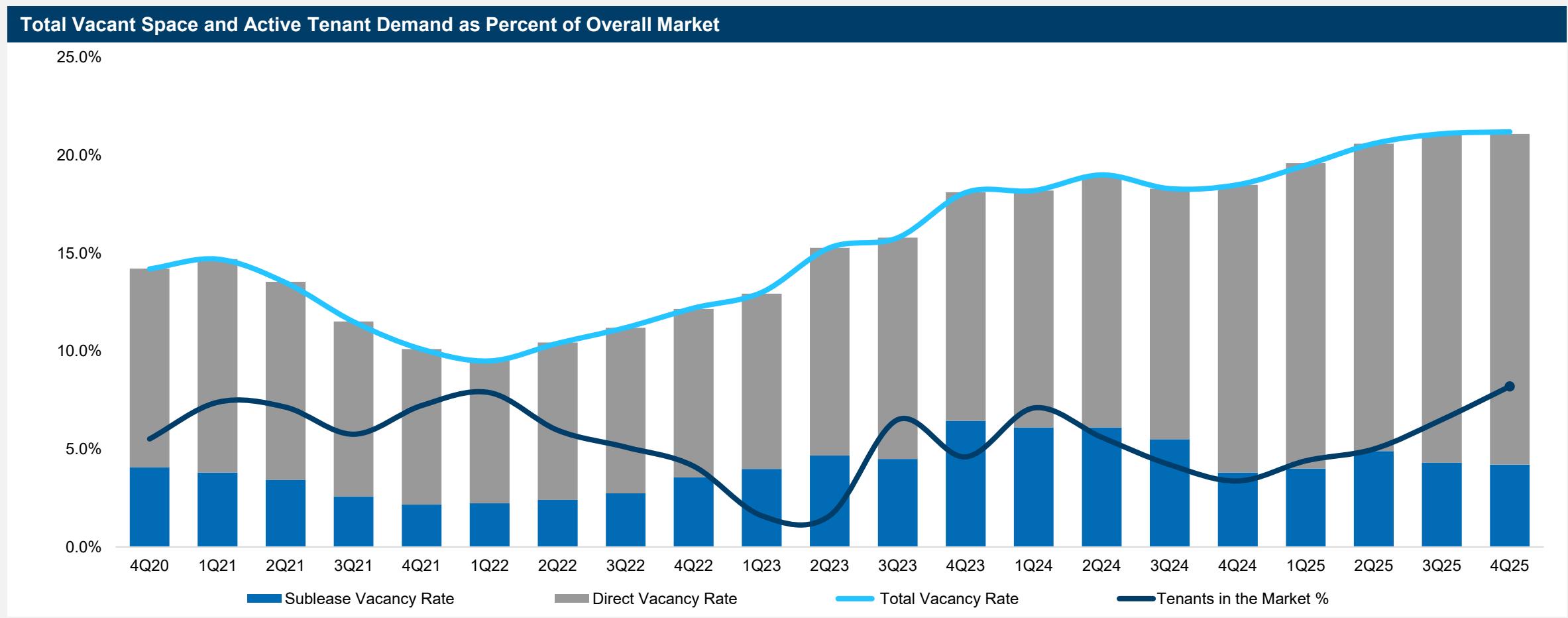
# Slight Uptick In Gross Absorption Quarter-Over-Quarter, Led By Class A Deals

Total gross absorption for the quarter reached 956,000 SF, representing a 2.0% increase quarter-over-quarter. Class A properties accounted for 85.0% of total SF transacted, with Class B at 12.0% and Class C at 3.0%. In the prior quarter, Class A similarly comprised 85.0% of gross absorption, compared with 9.0% for Class B and 6.0% for Class C. The continued uptick in leasing of top-tier space indicates an ongoing recovery in the North Peninsula office market.



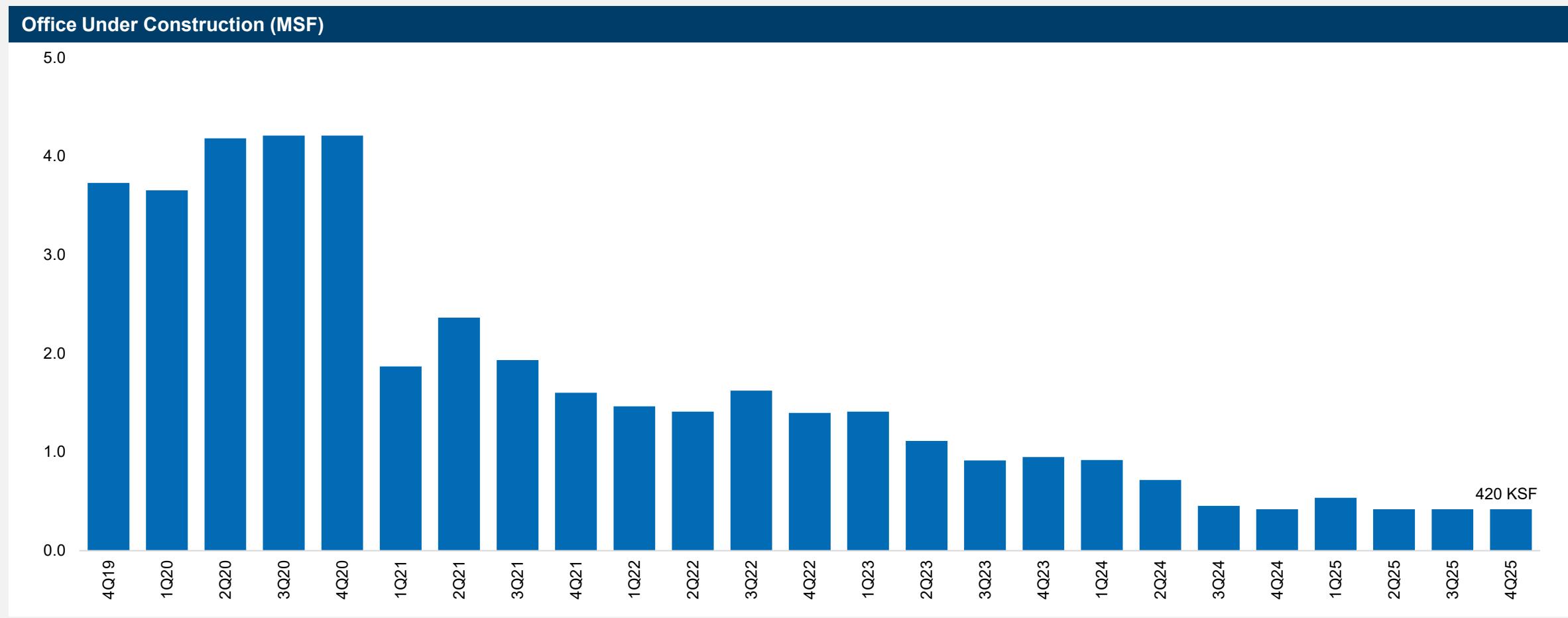
# Tenant Demand Rises While Sublease Vacancy Decreases

Recorded tenant demand rose to 3.2 million SF this quarter, up from 2.5 million SF in the prior quarter and 1.3 million SF year-over-year. Vacant sublease space edged down to 1.68 million SF from 1.71 million SF in the previous quarter. The sublease vacancy rate has declined for two consecutive quarters, signaling a stabilizing market as tenants reclaim space and prioritize move-in-ready and plug-and-play options.



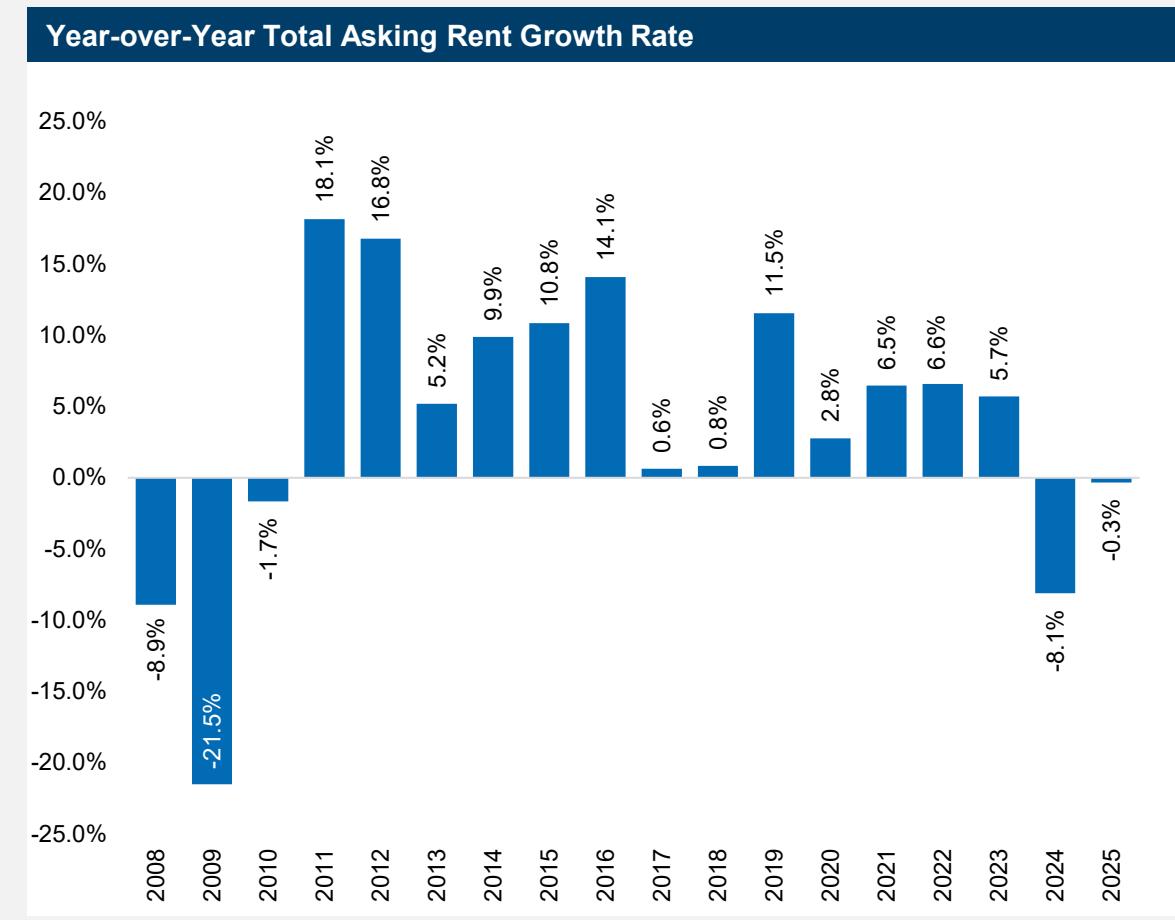
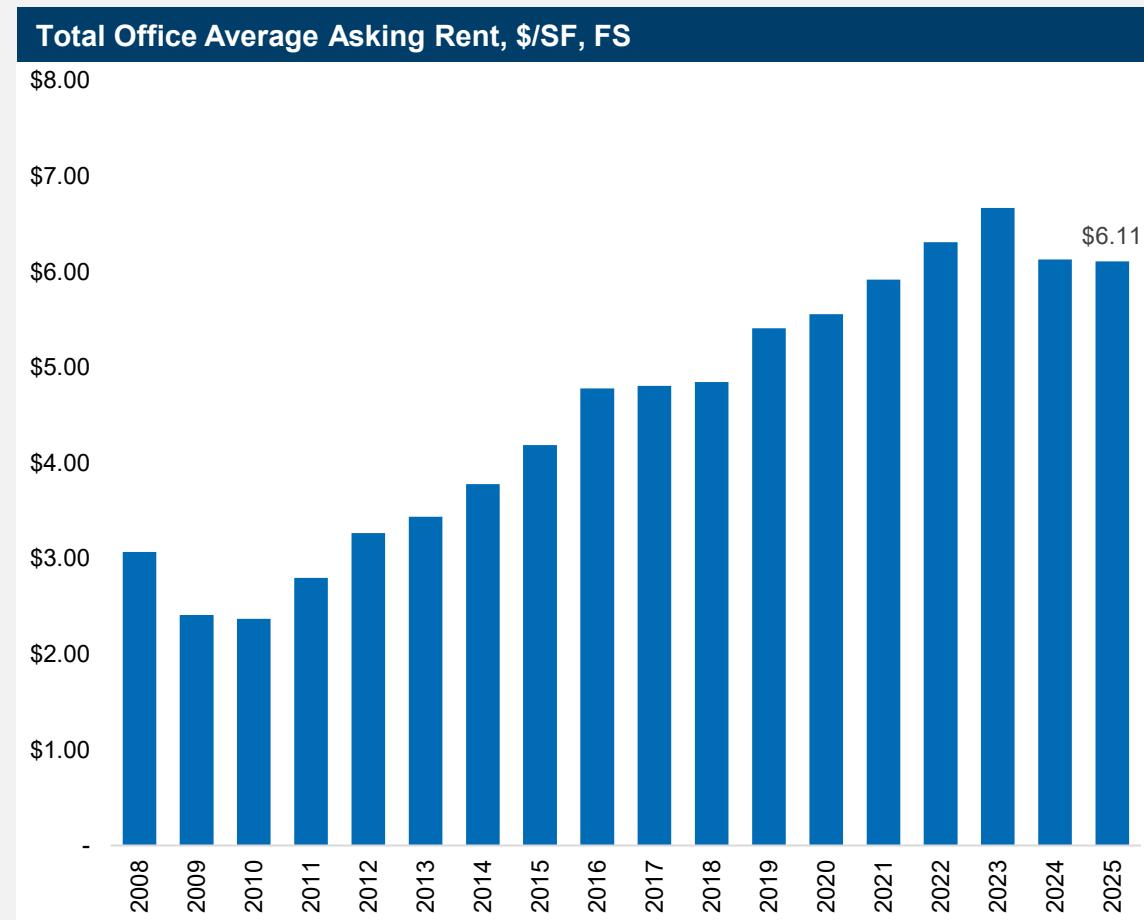
# Construction Activity Remains At Historic Low

The total volume of under-construction product in the North Peninsula market remained at historic lows, with just 420,000 SF underway and no deliveries reported this quarter. With limited new supply on the horizon, market adjustment is expected to occur largely within existing inventory, as redevelopment and renovation activity continues to reshape the North Peninsula office landscape.



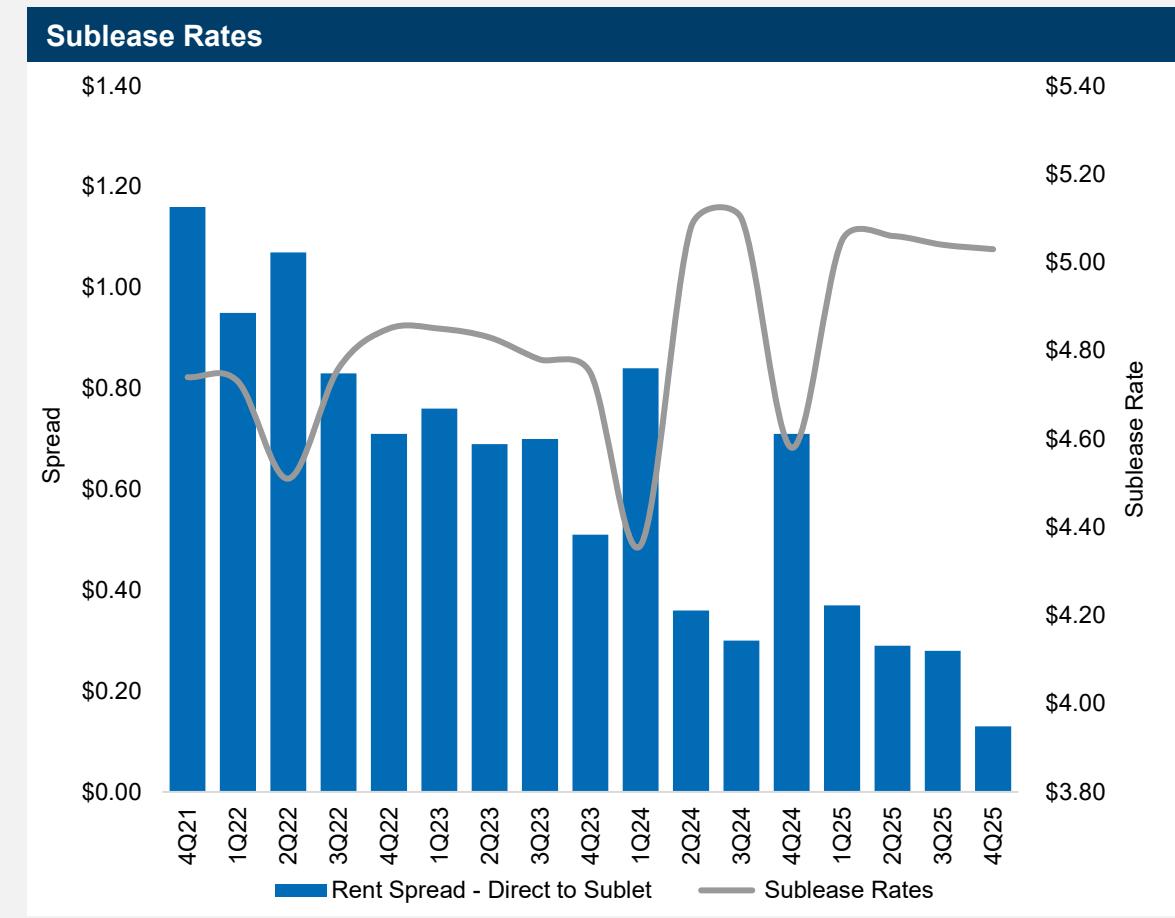
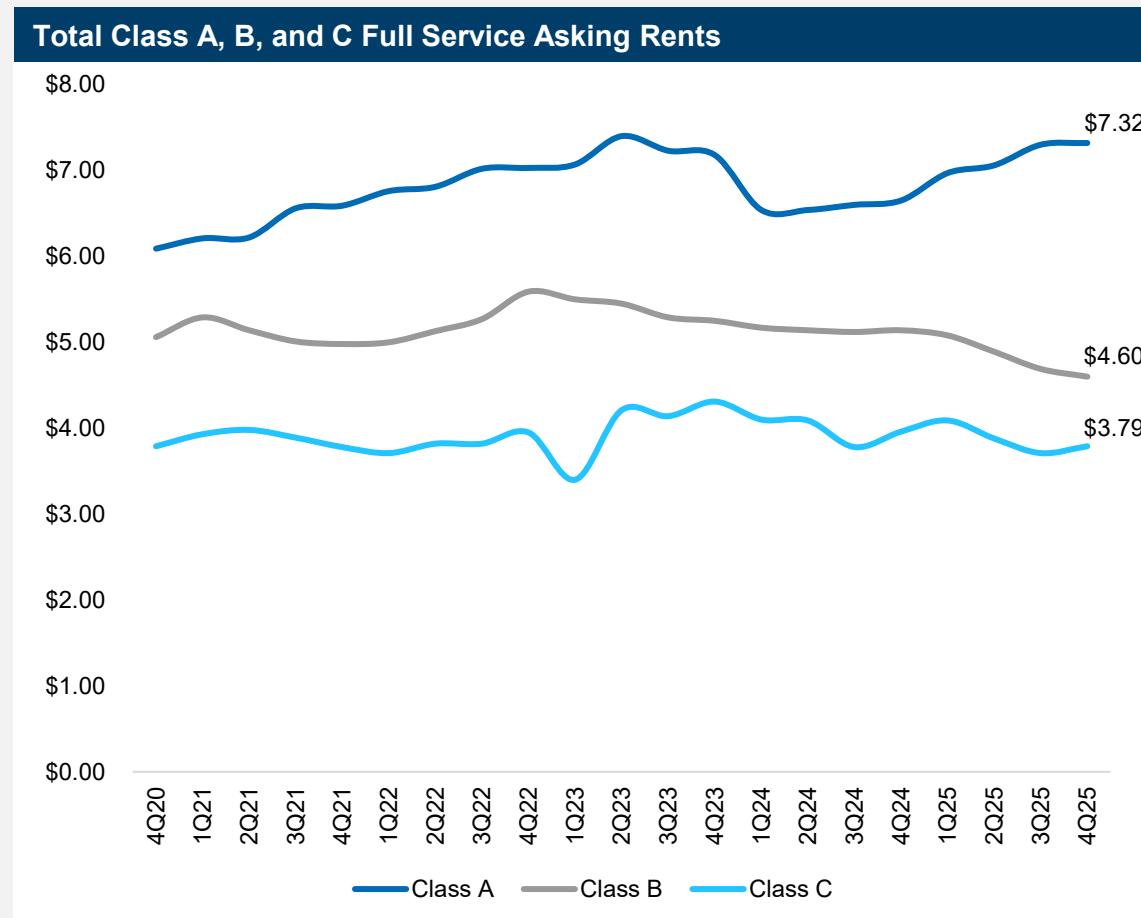
# Average Asking Rents Post Quarter-Over-Quarter Decreases

The average asking rent declined to \$6.11/SF full service in the fourth quarter, down from \$6.21/SF in the prior quarter and \$6.13/SF one year ago. After peaking in 2023, annual rent growth has continued to stall as vacancy remains elevated.



# Class A Asking Rate Gap Widens

This quarter's average asking rents were \$7.32/SF for Class A properties, \$4.60/SF for Class B and \$3.79/SF for Class C. This marks a notable shift from the prior quarter, when Class A rents averaged \$7.30/SF, Class B \$4.69/SF and Class C \$3.71/SF. High-quality assets remain in strong demand, commanding rents approximately 75% higher than the average for Class B and Class C properties.



# 4Q25 Market Activity

Fifteen transactions of 20,000 SF or more were completed this quarter, up from nine in the prior quarter and five during the same period last year.

Notable Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Roblox	Bay Meadows Station 3 2950 S Delaware St.	San Mateo	Direct Lease	112,995
<i>Online gaming company Roblox completed the largest deal of the quarter, leasing 112,995 square feet on the third and fourth floor at Bay Meadows Station 3 in San Mateo.</i>				
Zipline	Point Grand 170 Harbor Way	South San Francisco	Direct Lease	74,907
<i>Drone delivery and logistics company Zipline completed the second-largest deal of the quarter, leasing 170 Harbor Way in South San Francisco, with the intent to convert the lab building to Class A office.</i>				
Upstart Network	TwoTwentyPark 220 Park Rd.	Burlingame	Direct Lease	53,319
<i>Fintech company Upstart completed a 53,319-square foot lease in Downtown Burlingame for the third-largest deal of the quarter.</i>				
Paul Hastings, LLP.	1991 Broadway St.	Redwood City	Direct Lease	45,336
<i>Global law firm Paul Hastings completed the fourth-largest deal of the quarter, leasing 45,336 square feet on the second and third floor at 1991 Broadway Street in Downtown Redwood City.</i>				
Pacira BioSciences	Sierra Point Towers 2000 Sierra Point Pkwy.	Brisbane	Direct Lease/Expansion	41,755
<i>In the fifth-largest deal of the quarter, Pacira Bio completed a direct lease on the 9<sup>th</sup> floor at 2000 Sierra Point while also expanding into the 10<sup>th</sup> floor for a total 41,755 square feet transacted.</i>				

# 03

## Submarkets

4Q25

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# Access the Extended 4Q25 South Peninsula Office Report

The extended version of this report includes:

- **Data on leasing trends**
  - Deal count and average lease size
  - Leasing by submarket
- **Further insight into tenant demand**
- **Availability and rent data by submarket**
- **Market statistics for the overall market and Class A**

To access, please reach out  
to your Newmark contact.

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