



NEWMARK

South Peninsula Office Market Overview

4Q25

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U.S. Market Observations



Economy

- In the Fourth 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.
- Goldman Sachs projects US real GDP growth around 2.5% in 2026 on a Q4/Q4 basis, roughly 2.8% for the full year, which is above the roughly 2% consensus among economists surveyed by Bloomberg.
- Goldman expects the unemployment rate to stabilize around 4.5% and anticipates two 25-basis-point Federal Reserve rate cuts in June and September 2026, as growth stays solid but the labor market cools.



Leasing Market Fundamentals

- Gross absorption totaled approximately 1.0 million square feet in the fourth quarter of 2025, representing a 10.6% increase from the prior quarter. While this figure trailed the 15-year annual gross absorption average of 3.51 million square feet, activity remained relatively consistent throughout 2025.
- Despite 20,778 square feet of positive absorption in Q4, the vacancy rate still trended higher in 2025. Net absorption was heavily influenced by 300 Oracle Parkway, which added 294,000 square feet of vacant space to the Redwood Shores submarket.
- This quarter, average asking rents settled at \$5.66 per square foot NNN, a slight decrease from the prior quarter but still above the 2024 average.



Major Transactions

- A considerable driver to the gross absorption of 976,575 SF was xAI's direct lease at 1510-1530 Page Mill Road, Palo Alto. The AI company inked the largest transaction of the quarter, leasing portions of two buildings of Class A office space which totaled 105,536 square feet.
- Total leases signed in Q4 2025 were just 1.9% below the 15-year annual average. However, active office-only tenant demand remains strong, driven primarily by technology firms.
- Law firm, Paul Hastings, have finalized their direct lease in Redwood City for 45,336 square feet. This transaction indicates a diversifying demand profile, with professional services and financial firms playing a more prominent role in recent large-block leasing activity.



Outlook

- The South Peninsula office market closed out the fourth quarter with cautious optimism, extending the recovery momentum observed throughout the second half of 2025. Investor and occupier sentiment around Artificial Intelligence remained highly positive, with AI companies continuing to drive notable leasing activity, including commitments such as xAI's deal in Stanford Research Park.
- The South Peninsula office construction pipeline remained largely inactive, constrained by elevated vacancy, higher construction costs, and current interest rates. The absence of new product is likely to tighten the market as tenants compete for existing space, putting downward pressure on vacancy rates.

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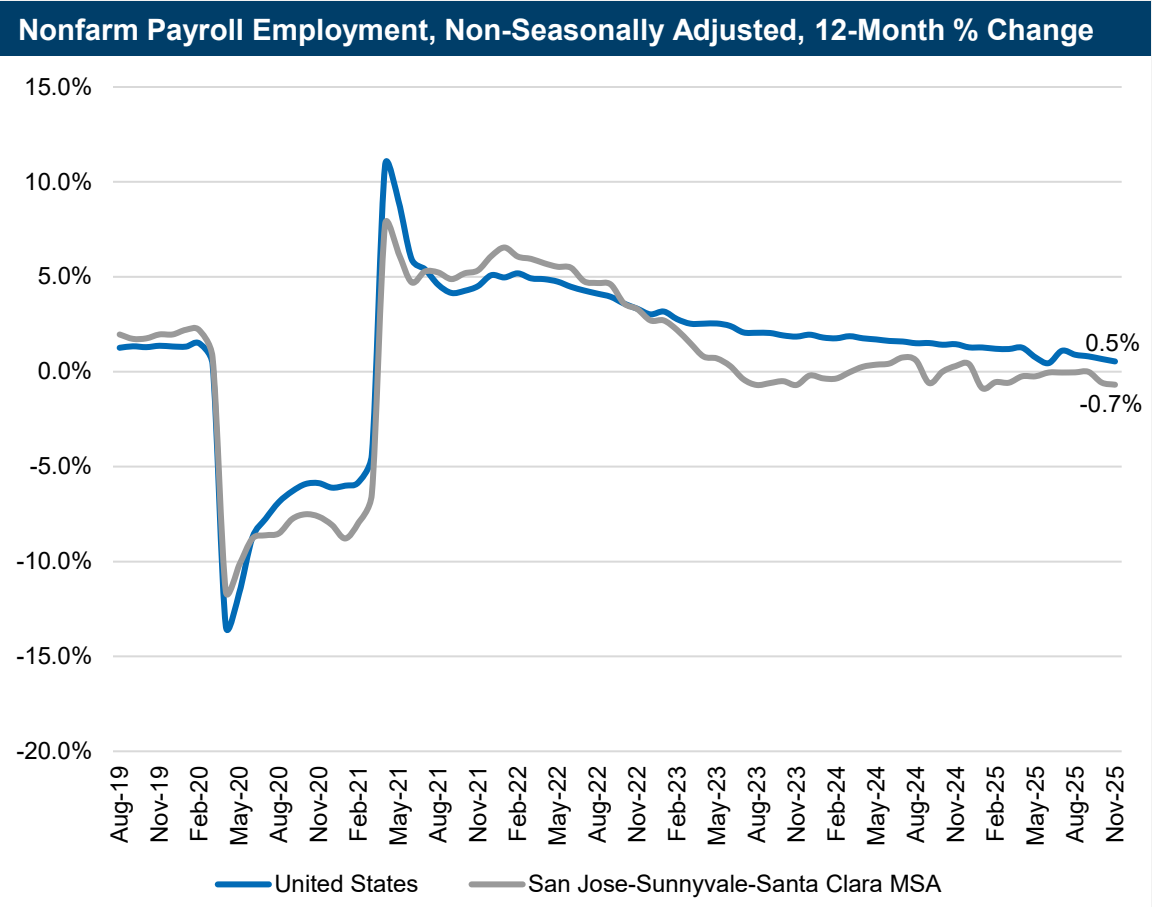
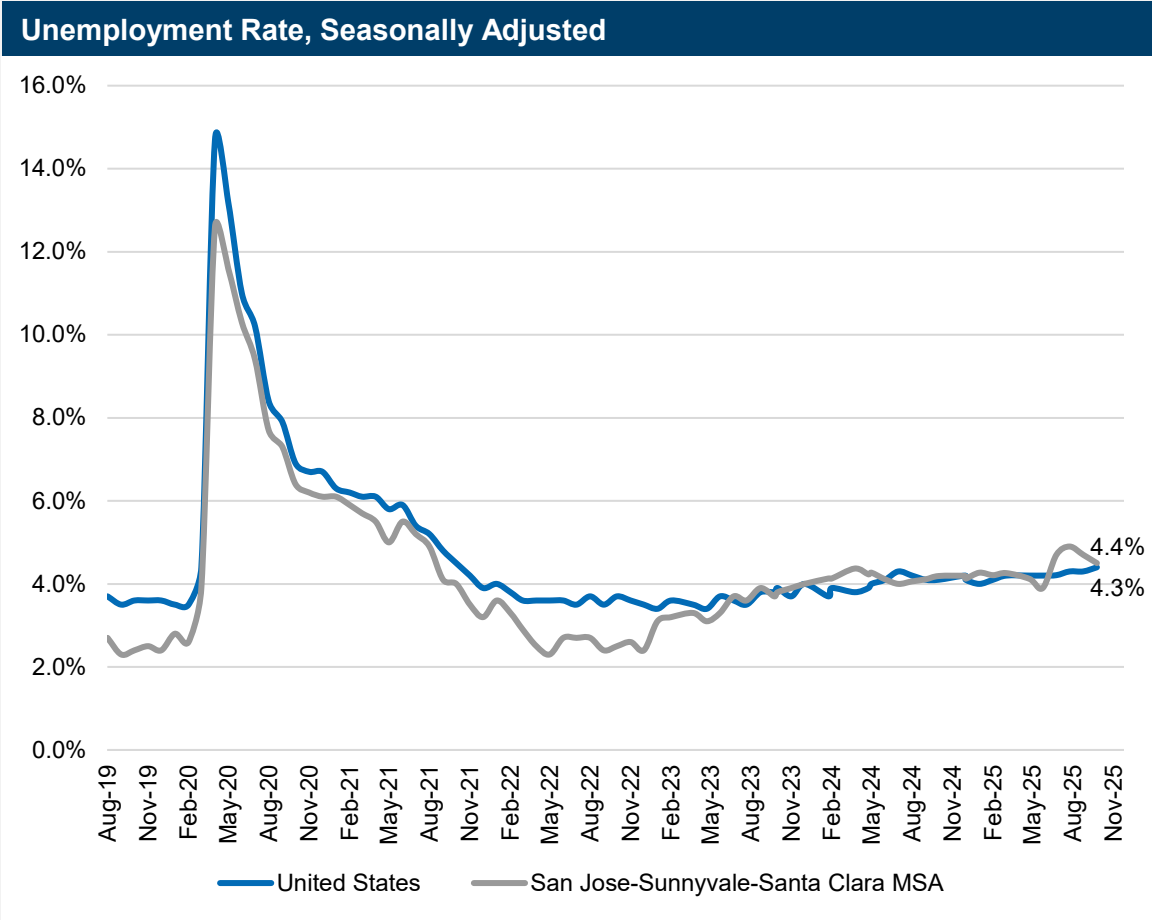
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Economy

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Silicon Valley Labor Market Mirrored National Unemployment Levels

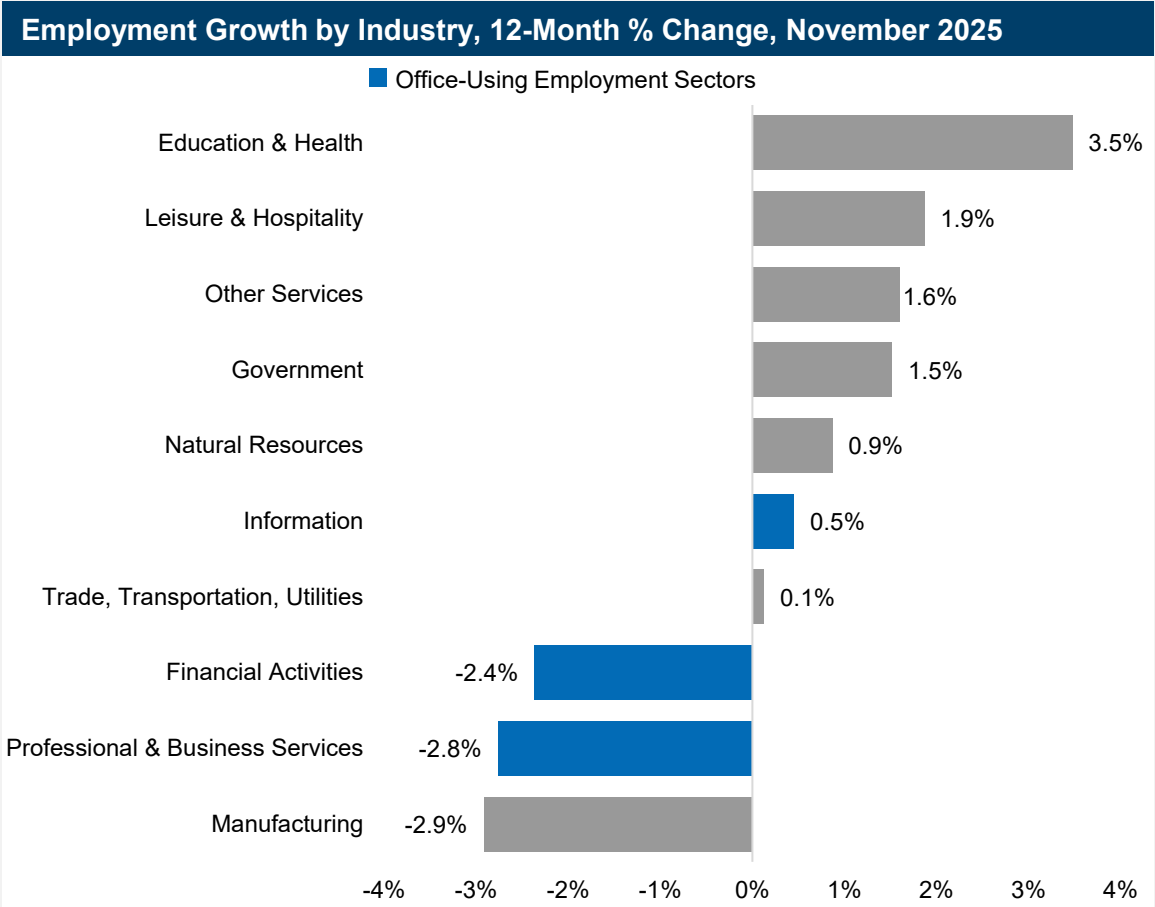
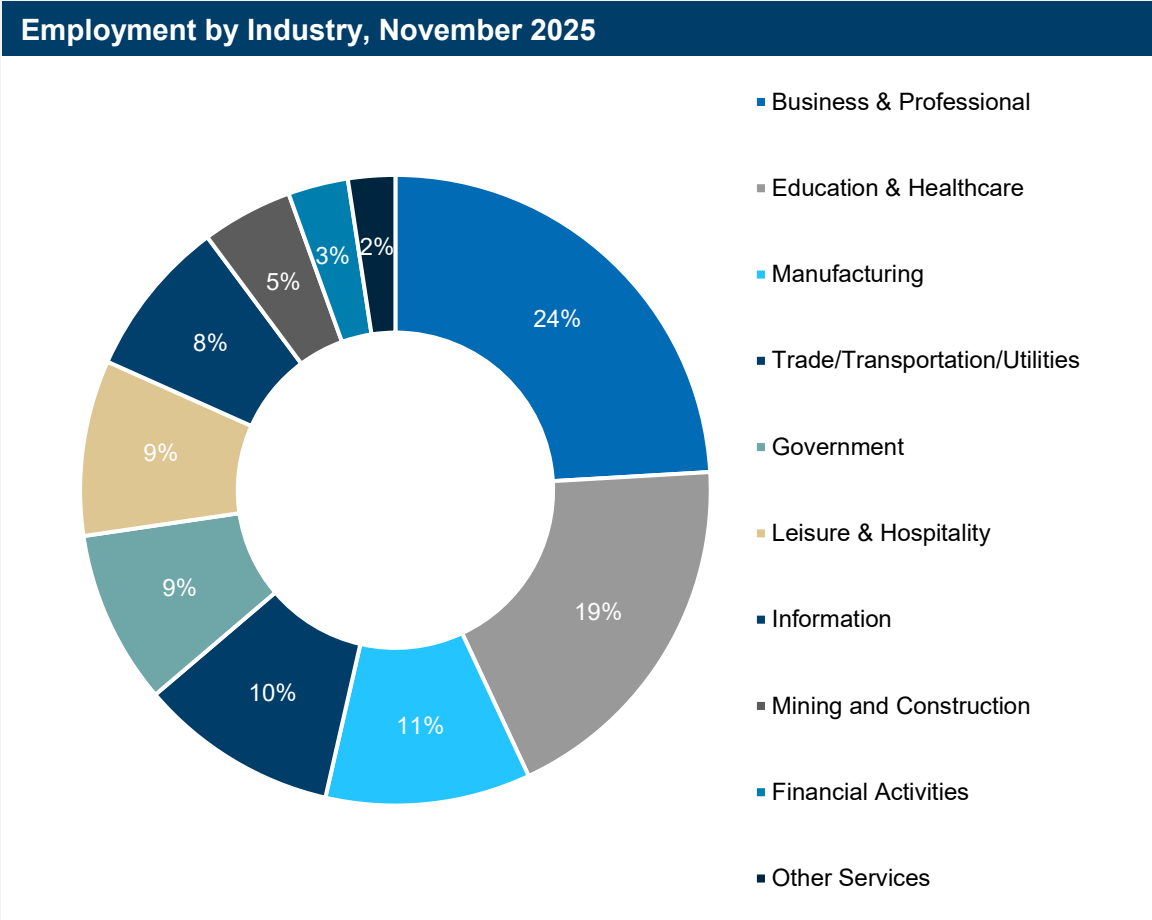
The San Jose–Sunnyvale–Santa Clara MSA unemployment rate rose to 4.3% in November 2025, up 10 basis points from the previous year. Nationally, the unemployment rate followed a similar path, as it increased 20 basis points over the same period. In contrast, total nonfarm payroll employment in the local market decreased 0.7% year-over-year, diverging from national growth of 0.5%. The gap reflected ongoing adjustments within the tech sector, where restructuring and cautious rehiring have tempered job growth, yet demand in key industries hints at a rebound.



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

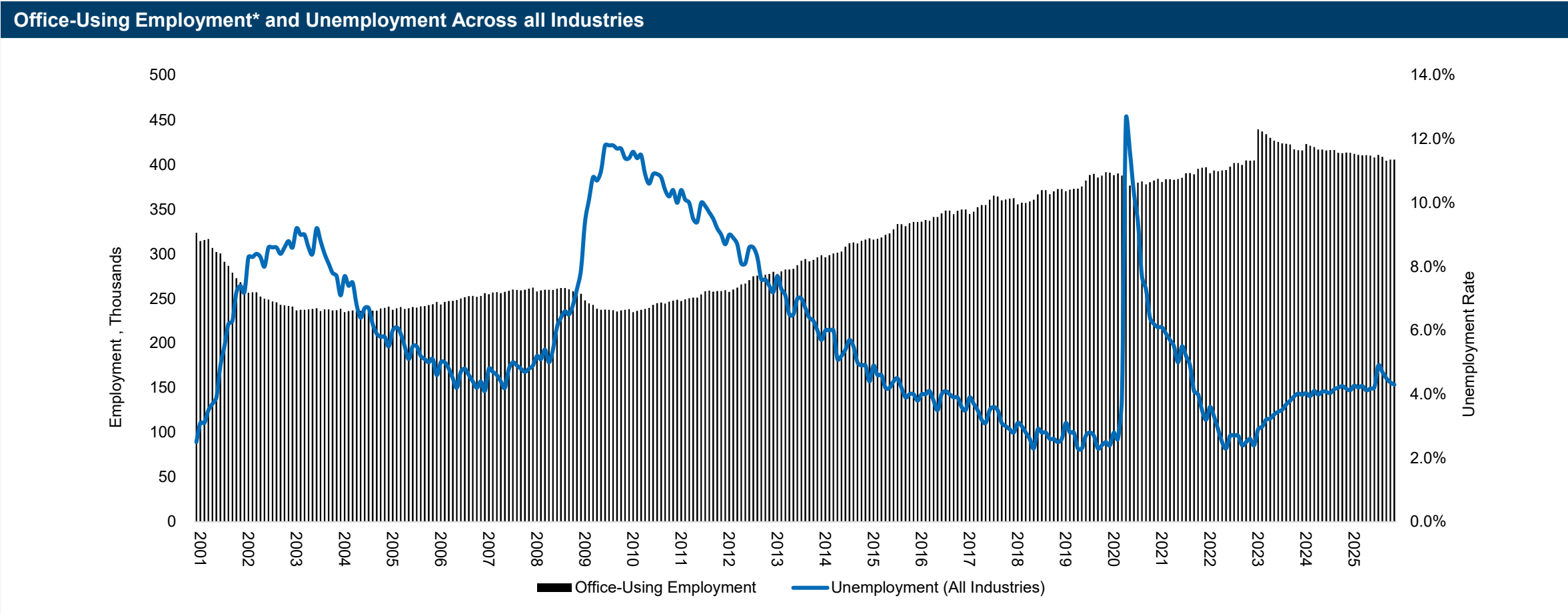
Office Using Employment Sectors Continued to Slide

Strong job growth in Education & Health and Government was not enough to offset significant declines across key office-using sectors. Financial Activities, a crucial driver of office demand, fell by 2.4% year-over-year, compounded by losses in the Professional & Business Services and manufacturing sectors, which decreased by 2.8% and 2.9%, respectively. While office demand in the region showed signs of improvement, it remains unclear whether this will translate into sustained growth in office-using employment.



Decline in Office-Using Employment Amid Tech Sector Adjustments

The downward trend in office-using employment extended through Q4 2025, continuing the decline that began after its early 2023 peak. As of November 2025, total office-using employment stood at 405.5K, while the unemployment rate for all industries held at 4.3%. This ongoing contraction has been driven primarily by cost optimization and restructuring within the tech sector. Nonetheless, there are early signs that the market may be nearing a turning point, as improving macroeconomic fundamentals and persistent hiring in high-growth industries, such as artificial intelligence and clean energy, point to the potential for stabilization in the quarters ahead.



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.



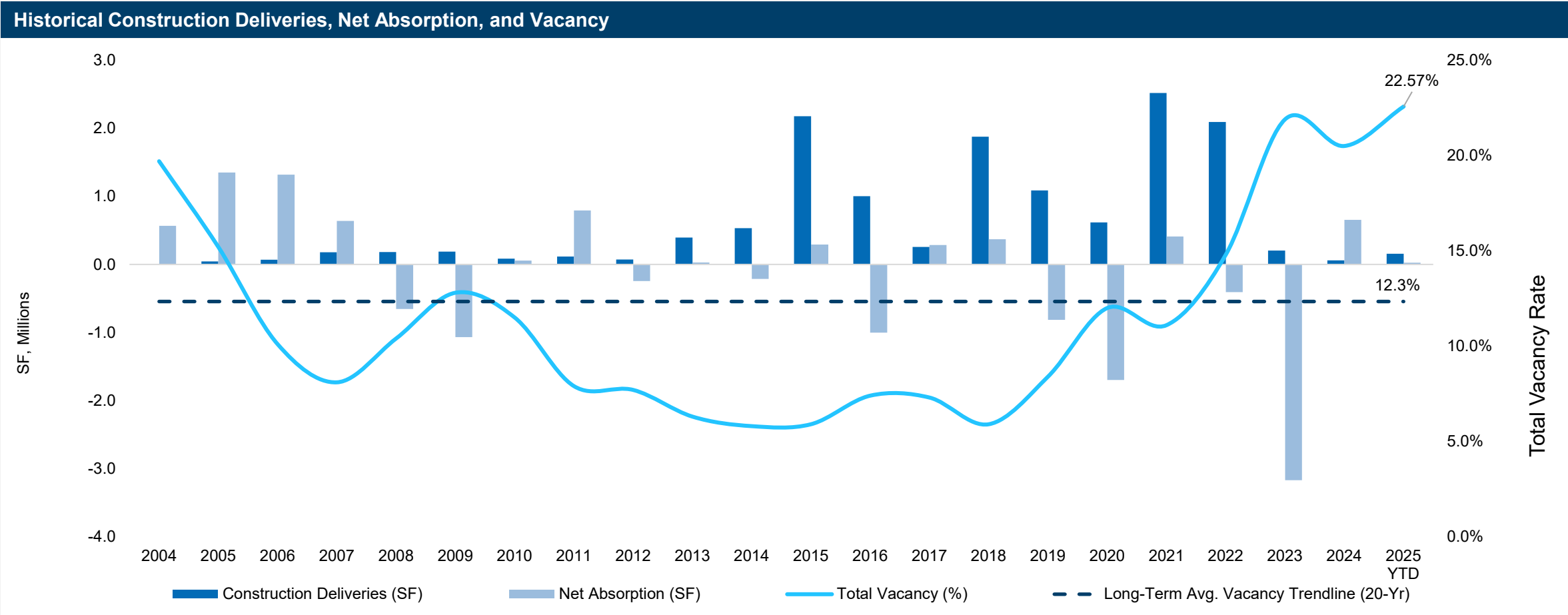
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Leasing Market Fundamentals

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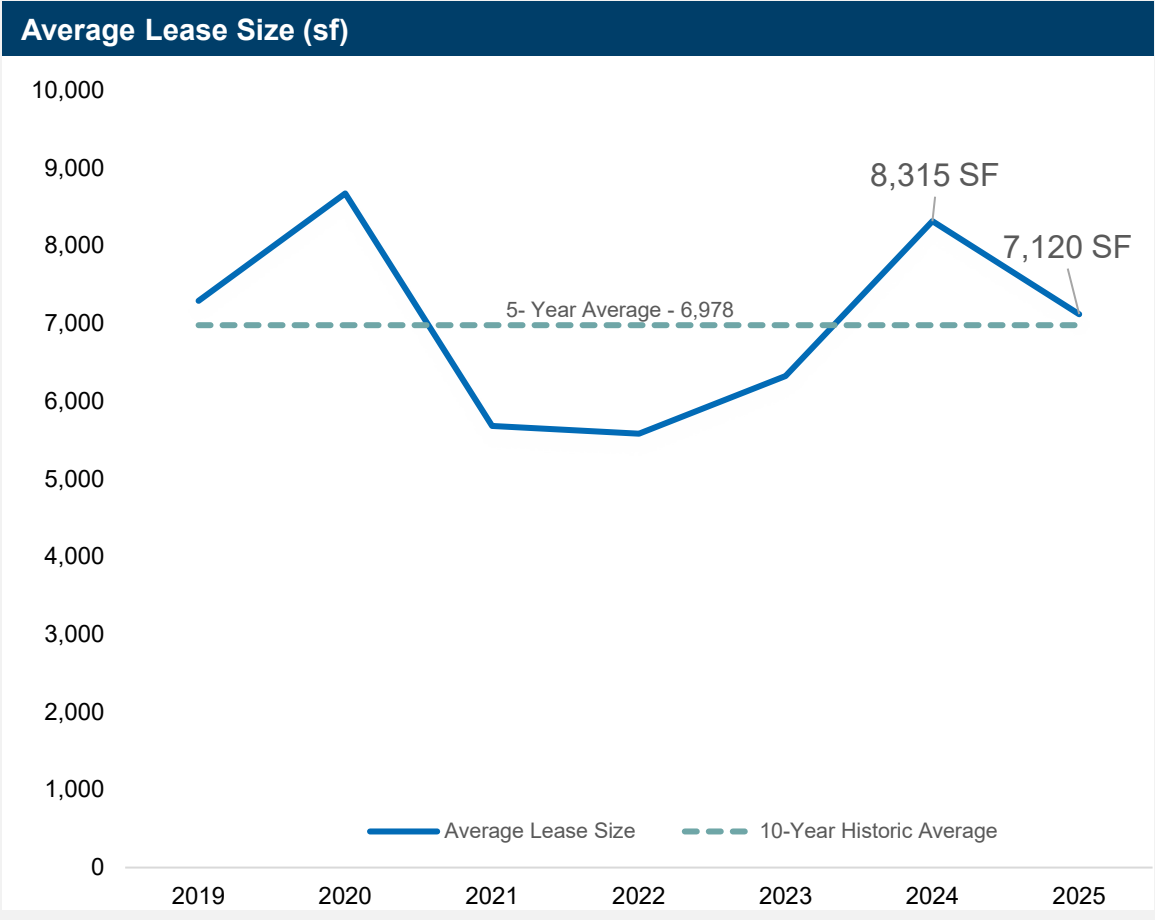
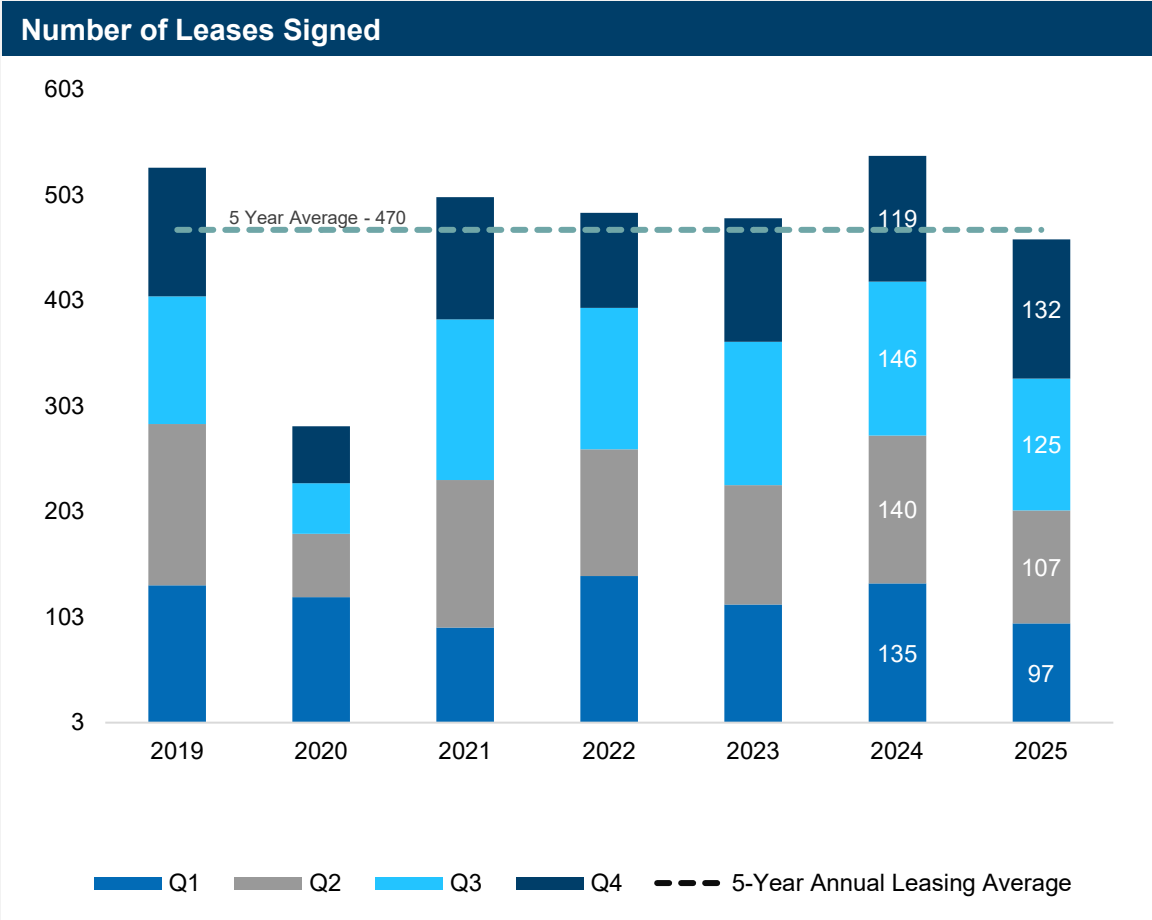
Positive Q4 Absorption, but Vacancy Still Increased in 2025

Despite 20,778 square feet of positive absorption in Q4, the vacancy rate still trended higher in 2025 due to weaker quarters earlier in the year. Net absorption was heavily influenced by 300 Oracle Parkway, which added 294,000 square feet of vacant space to the Redwood Shores submarket. No new office construction deliveries were recorded in the South Peninsula during Q4.



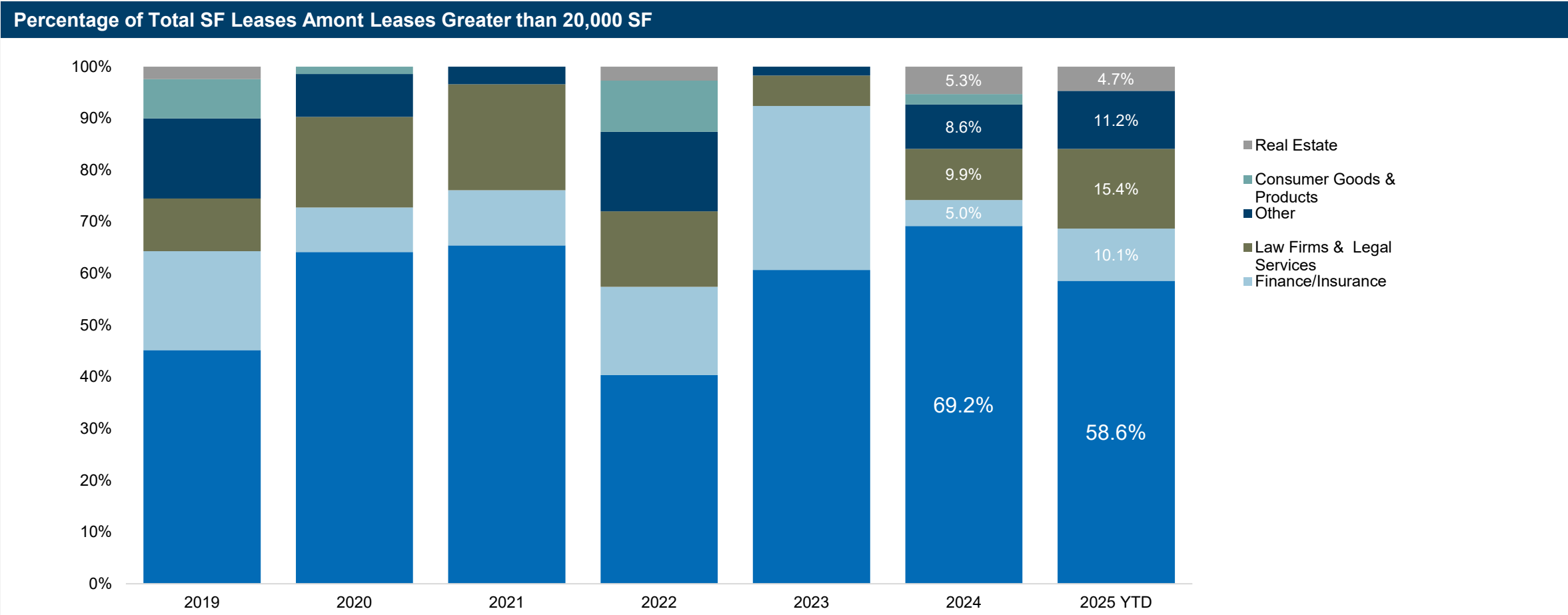
Deal Count Improved Year-Over-Year Despite Smaller Average Footprints

This quarter, the South Peninsula market recorded a 10.9% year-over-year increase in total transactions. The region finished just below the long-term average of 470 leases signed per year. Average lease size declined 14.4% from 2024, likely reflecting the impact of several very large leases completed in the fourth quarter of 2024 referenced on the previous page. Taken together, these trends indicate that while deal volume remained healthy, demand was more heavily concentrated in small- and mid-size requirements than in large block transactions.



Tech and AI Still Led Large Leases While Finance Footprints Doubled

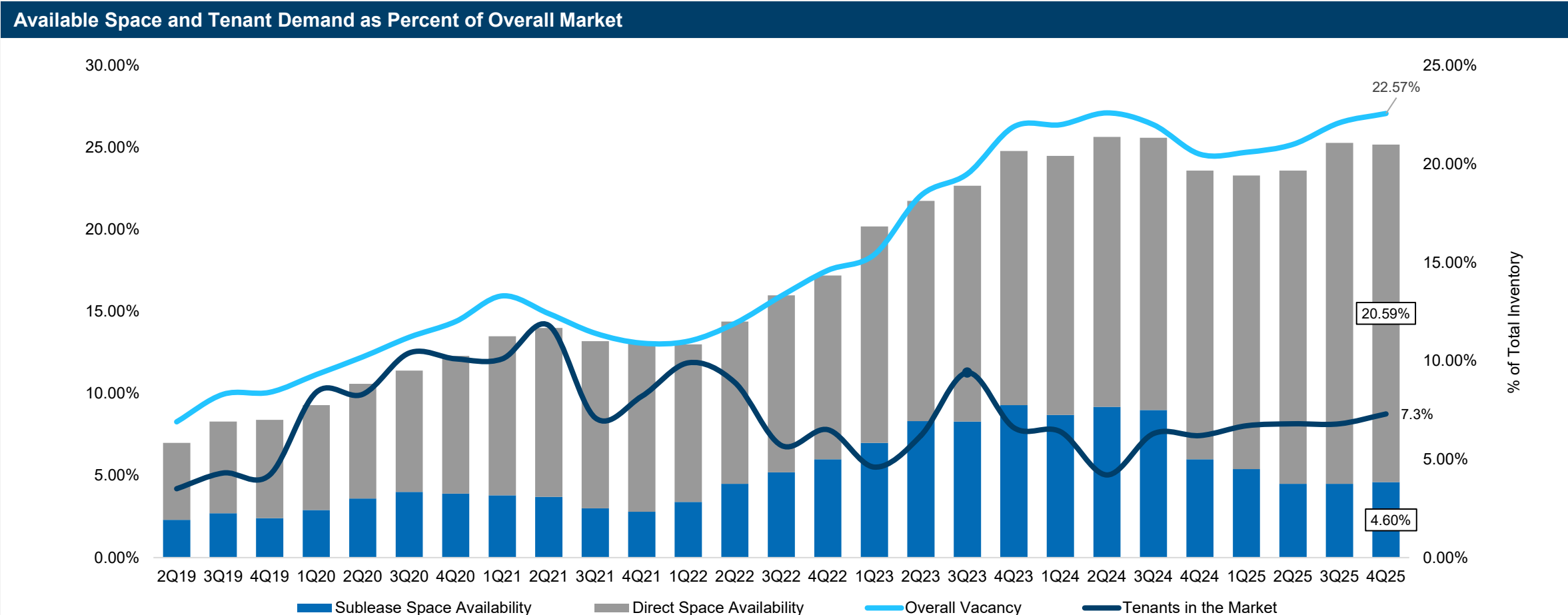
Total number of large transactions* increased 57.1% quarter-over-quarter, with law firms and finance companies accounting for a greater share of this volume. Technology and AI-related companies continued to represent most large leases in the South Peninsula, but the square footage leased by finance tenants doubled over the past quarter. This shift reflects a rebalancing in tenant composition, with finance leasing activity returning to more typical levels stabilizing around 10% in 2025 following an unusually high 31% share in 2023 and a cyclical low of 5% in 2024.



Source: Newmark Research
Large-sized transactions*: Transactions greater than 20,000 square feet.
Other**: The Other category records a wide variety of categories such as, but not limited to: Advertising, PR, Arts, Entertainment, Recreation, Consulting, Education, Health Care, Social Assistance, Media, Transportation, Manufacturing, Logistics.

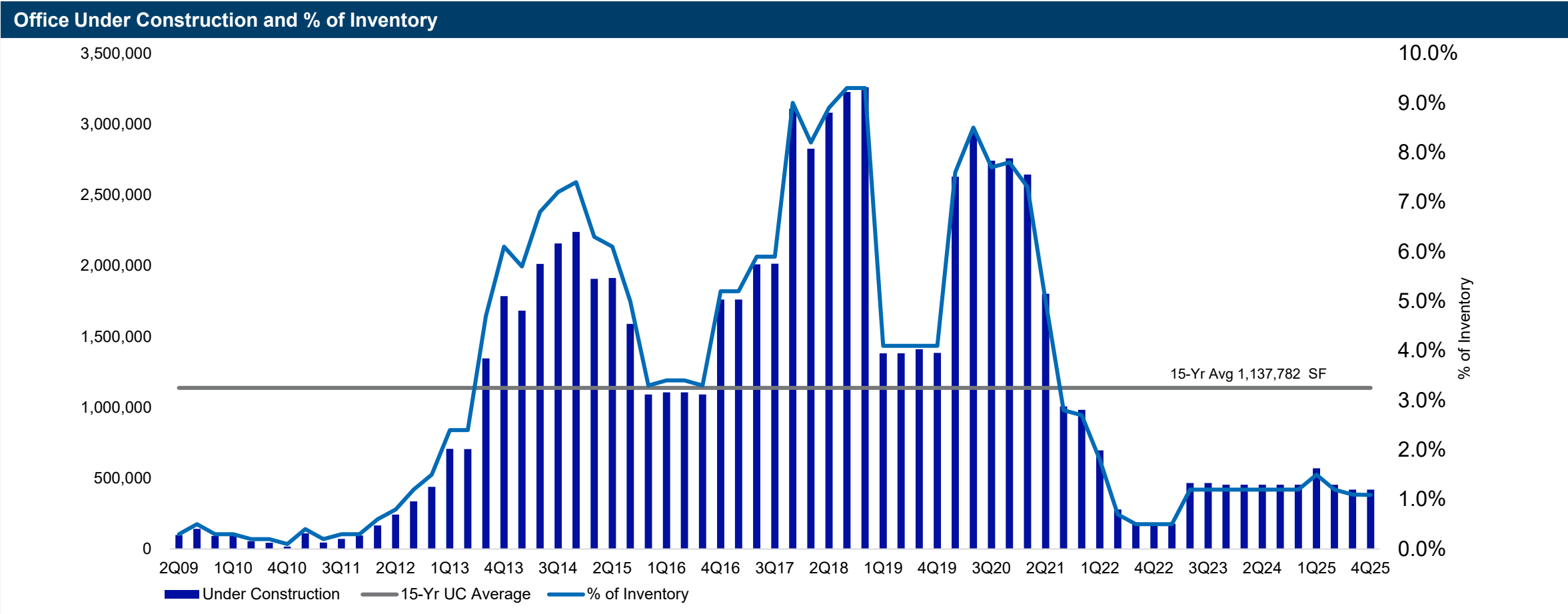
Availability Edges Down as Tenants Consolidate into Higher-Quality Space

The South Peninsula recorded a modest decline in availability during the fourth quarter, supported by 20,778 square feet of positive net absorption. However, underlying trends varied sharply by asset class: Class A properties posted 308,205 square feet of positive absorption, while Class B assets experienced 205,975 square feet of negative absorption highlighting an ongoing flight to quality across the submarket.



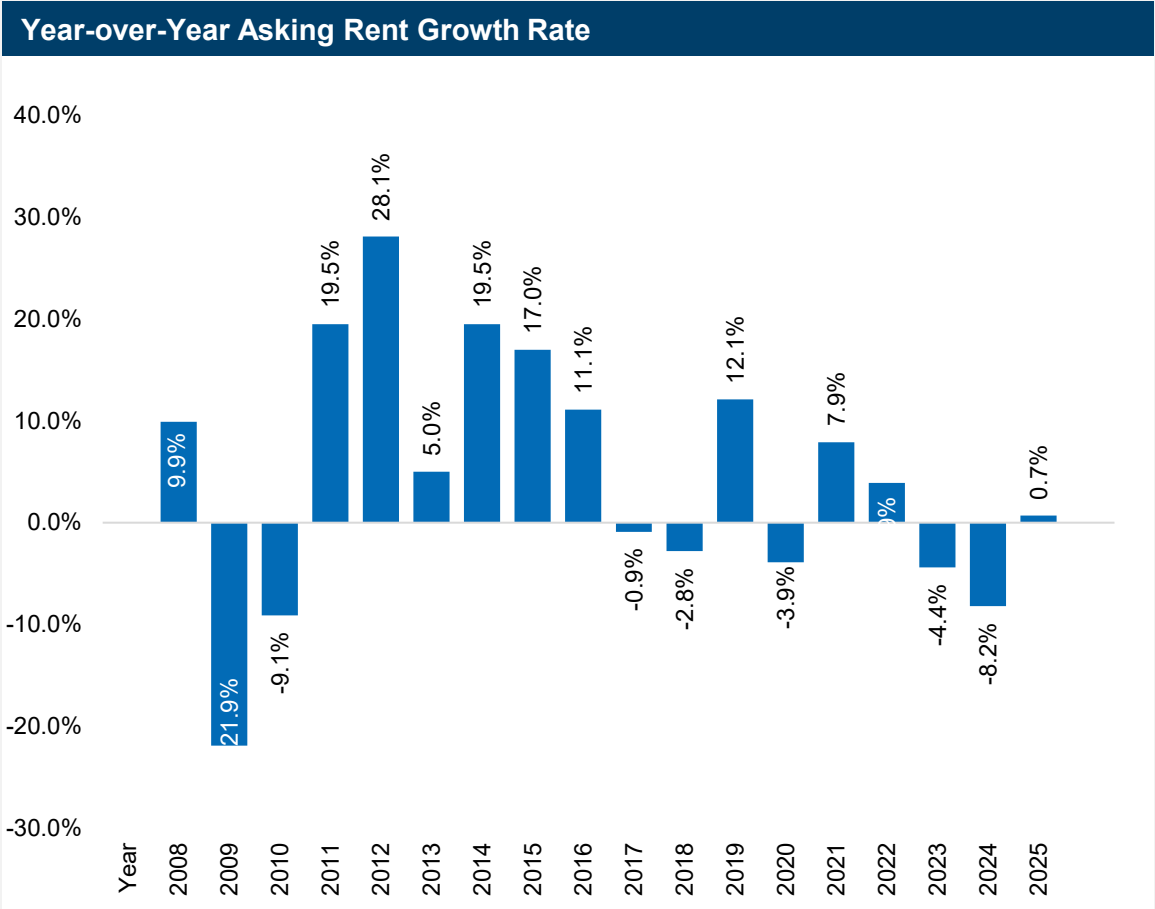
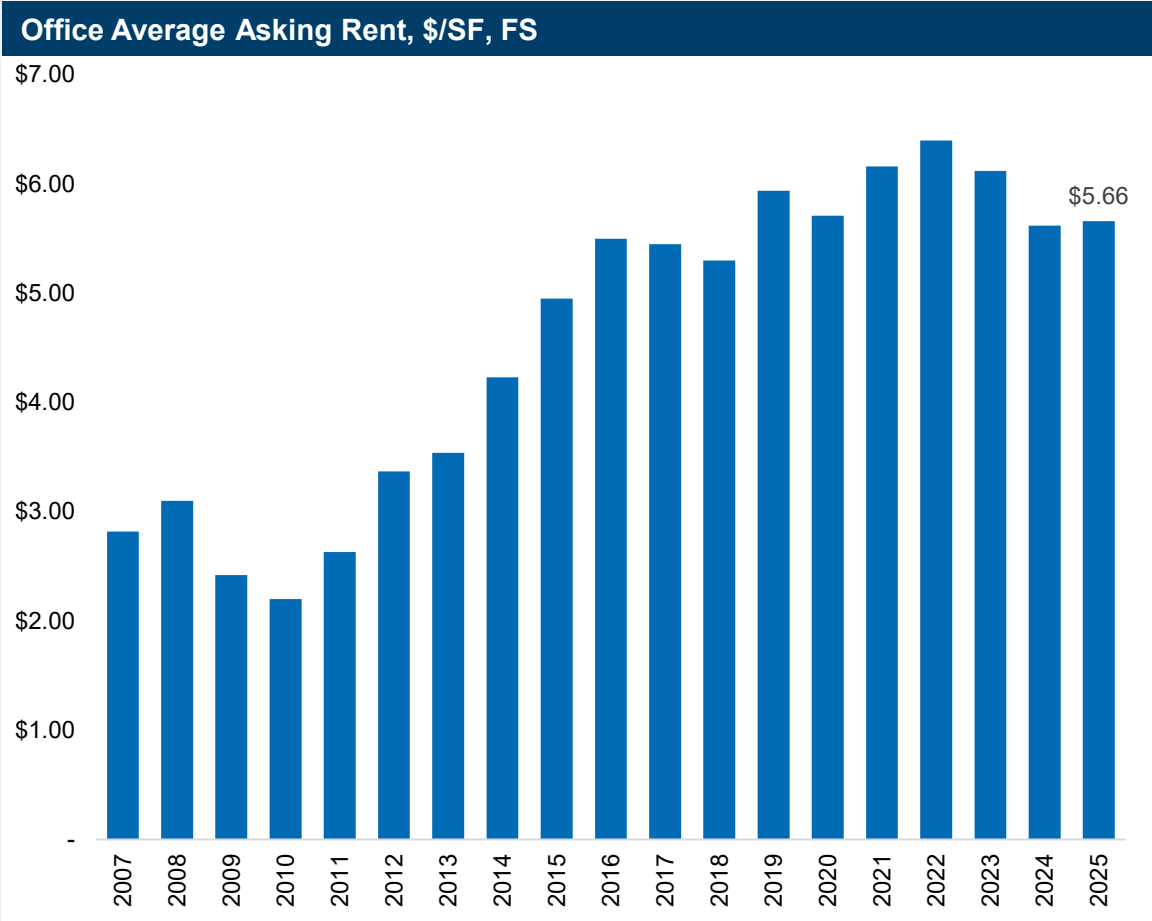
Lack of New Construction Added No Supply to the South Peninsula Pipeline

The South Peninsula office construction pipeline remained largely inactive, limited by elevated vacancy, higher construction costs, and current interest rates. The absence of new product is likely to tighten the market as tenants compete for existing space, putting downward pressure on vacancy rates. This trend is already evident in many downtown submarkets, including Downtown Palo Alto, which fell below 10% vacancy for the first time since the first quarter of 2020.



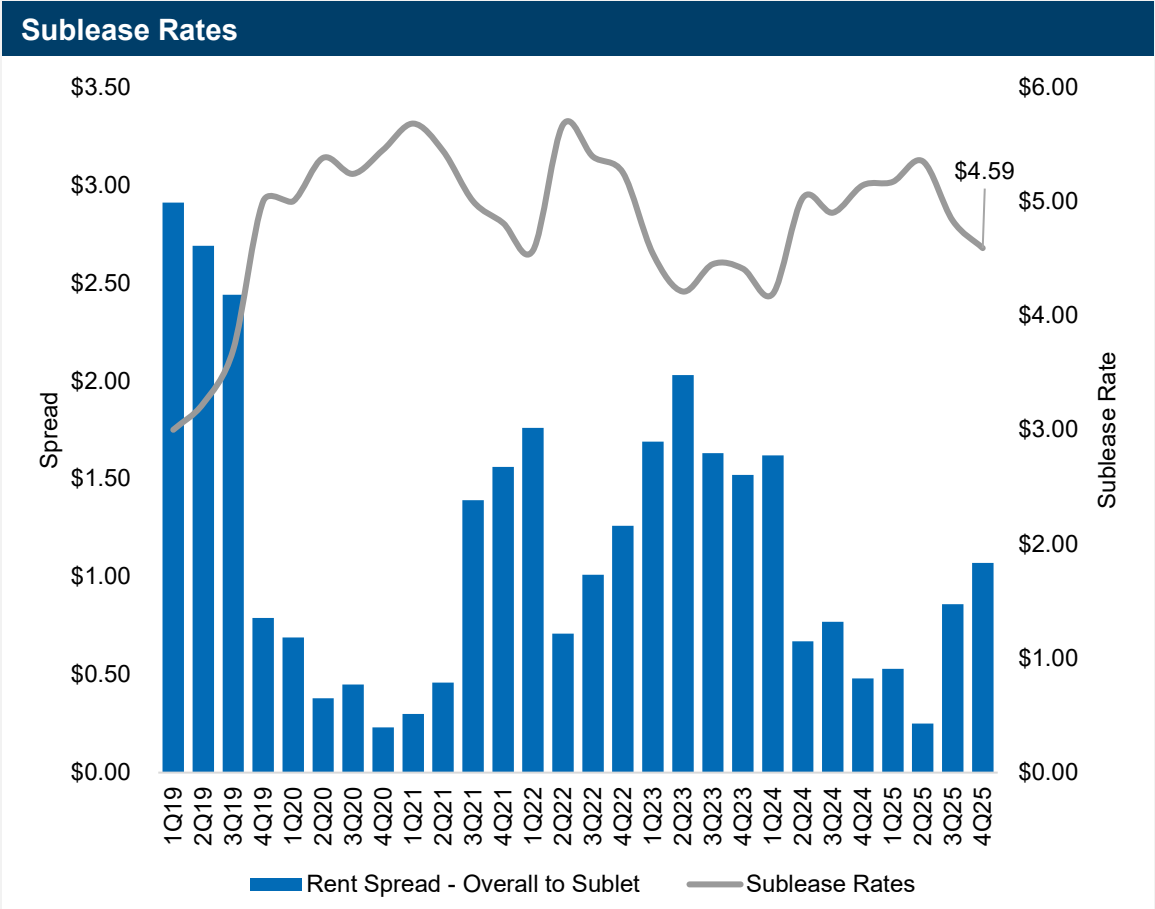
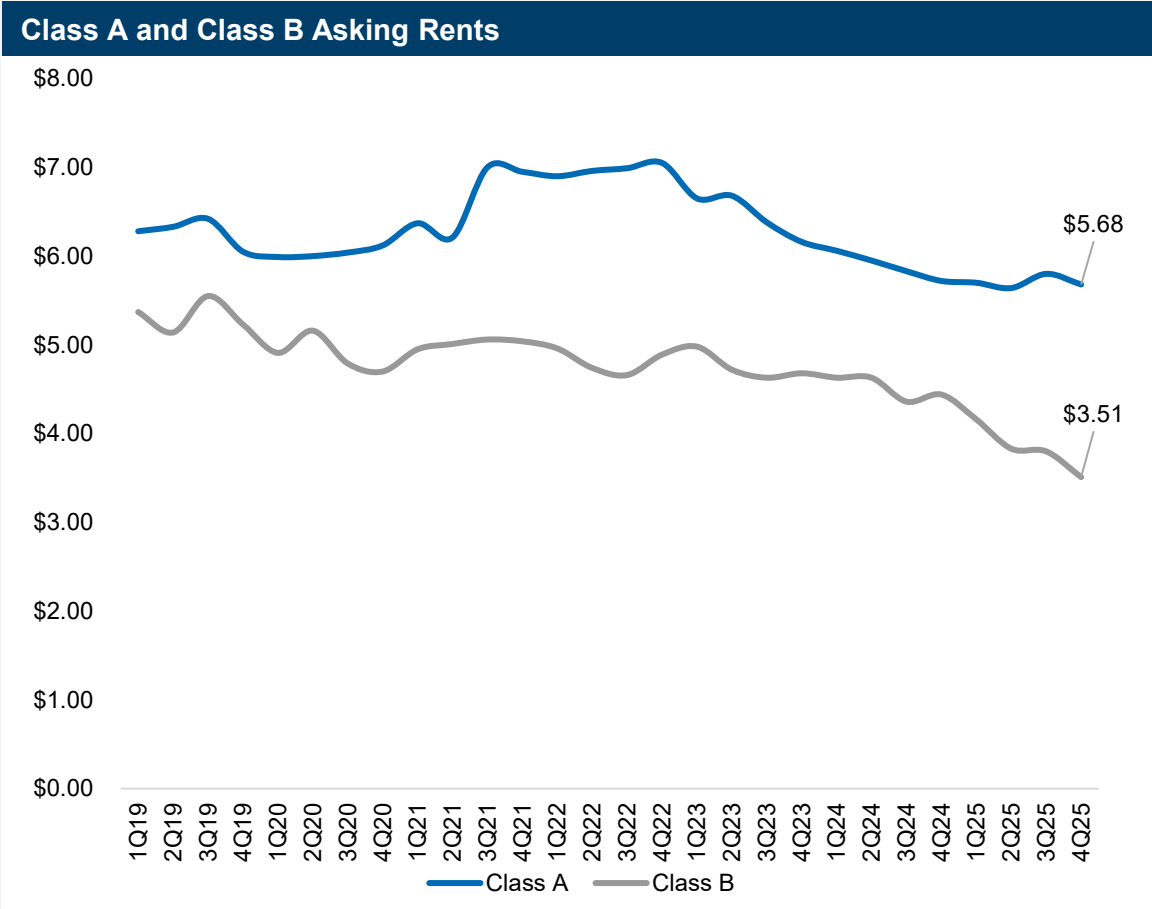
Rents Dipped Slightly but Stayed Above 2024 Levels

This quarter, average asking rents settled at \$5.66 per square foot NNN, a slight decrease from the prior quarter but still above the 2024 average. As the limited development pipeline continues to put downward pressure on vacancy rates, asking rents are expected to gradually increase in 2026 given the inverse relationship between these two metrics. Landlords with well-located, renovated assets are likely to benefit most in this environment, as tenants focus on a smaller pool of competitive options.



High Demand for Modern Downtown Offices Widened the Class A–Class B Rent Spread

In the fourth quarter, the gap between Class A and Class B properties widened to \$2.10 per square foot, an 8.5% increase from the previous quarter. Demand has shifted toward highly amenitized, modern, and downtown-located office buildings, supporting stronger pricing for these assets. New projects such as ELCO Yards and Cityline Sunnyvale have attracted significant tenant interest, enabling landlords to push asking rents higher amid elevated demand in downtown markets.



Newmark Involved in Over Half of the Largest Deals for a Second Consecutive Quarter

Newmark contributed to 3 of the 5 notable lease transactions in the fourth quarter, resulting in participation in a majority of the market’s largest deals for the period. This also marked the second consecutive quarter in which Newmark was involved in more than 50% of the region’s largest transactions. These deals reflect the firm’s continued activity across a range of significant relocations and expansions in the South Peninsula market.

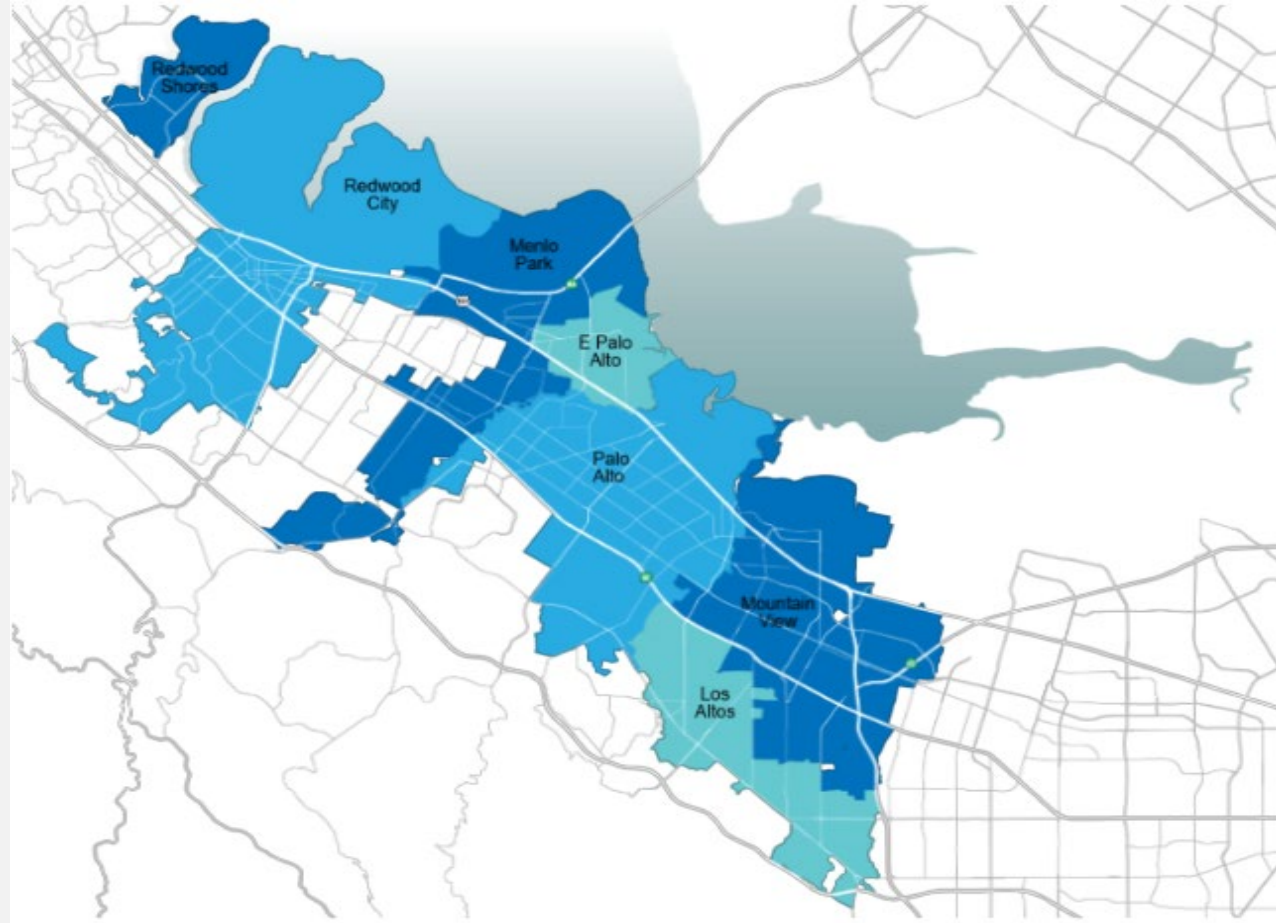
Notable 4Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
xAI	1510-1530 Page Mill Road	Palo Alto – Stanford Research Park	Direct Lease	105,536
xAI, the creator of Grok, has signed a direct lease for the remaining space in 1510- and 1530-Page Mill Road.				
Paul Hastings LLP	1991 Broadway Street	Redwood City - Downtown	Direct Lease	45,336
Law firm, Paul Hastings, have finalized their lease in Redwood City for 45,336 square feet.				
Confidential	85 Willow Road	Menlo Park – Middlefield	Lease Extension	38,667
Confidential tenant extended their lease.				
ID.Me	599 Castro Street	Mountain View – Downtown	Sublease	31,571
ID.Me has subleased the space that previously belonged to Pure Storage for a total of 31,571 SF.				
Evercore Partners	2460 Sand Hill Road	Menlo Park – Sand Hill Road	Lease Extension	27,544
Evercore Partners have blended and extended within “The Quad” in the sand hill road submarket.				

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Appendix

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Silicon Valley – Submarket Map



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**

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