

MARKET FUNDAMENTALS

	YOY Chg	Outlook
12.4% Vacancy Rate	▲	▼
239K YTD Net Absorption, SF	▲	▲
\$2.87 Asking Rent, PSF <i>(Overall, Net Asking Rent)</i>	▼	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.15M San Jose MSA Employment	▼	▲
4.3% San Jose MSA Unemployment Rate	▲	▼
4.1% U.S. Unemployment Rate	▲	▲

Source: BLS

BOTH JOB COUNT AND VC FUNDING FALL

In Silicon Valley (the Valley), the trend towards remote work has gradually shifted to permanent in-office or hybrid schedules, and the layoffs in the technology industry have been declining since their peak two years ago. At the end of the first quarter, the Valley’s on-site weekly occupancy closed at 53.1%, just shy of its post-pandemic high, according to Kastle. For the San Jose MSA, the unemployment rate climbed 30 basis points (bps) year-over-year (YOY) closing at 4.3% in the first quarter. In coordination with this rise, jobs decreased by 5,900 positions or 0.5% YOY. Venture capital funding into Santa Clara County-based companies closed the first quarter at \$4.7 billion (B) in 174 deals, down from \$15.8B in 201 deals in the fourth quarter. The largest deals to start the year were a \$1.5B later-stage deal to Mountain View-based Groq and a \$480 million later-stage deal to San Jose-based Lambda.

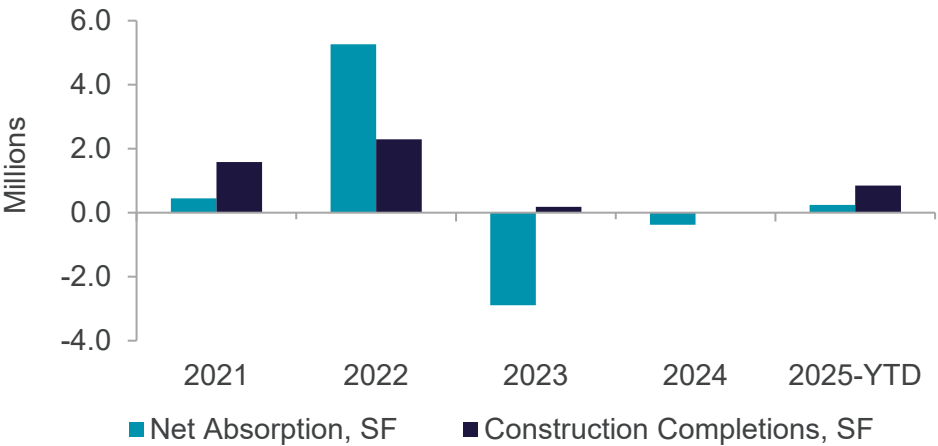
VACANCY LEVELS REMAIN STABLE

The Valley’s R&D overall vacancy rate finished the first quarter at 12.4%, slightly up 10 bps quarter-over-quarter (QOQ) from 12.3% and up 10 bps YOY from 12.3%. The current vacancy rate translated to 20.3 million square feet (msf) of space throughout the Valley, of which 25.1% (5.1 msf) was sublease space, a decrease from 26.9% reported in the fourth quarter. For comparison, sublet space in the office sector throughout the Valley was reported at approximately 26.9% of all vacant space in the first quarter. Vacancy levels continued to remain relatively stable YOY due to the lack of vacant deliveries across the Valley, peaking during the second quarter of 2024 at 12.9%.

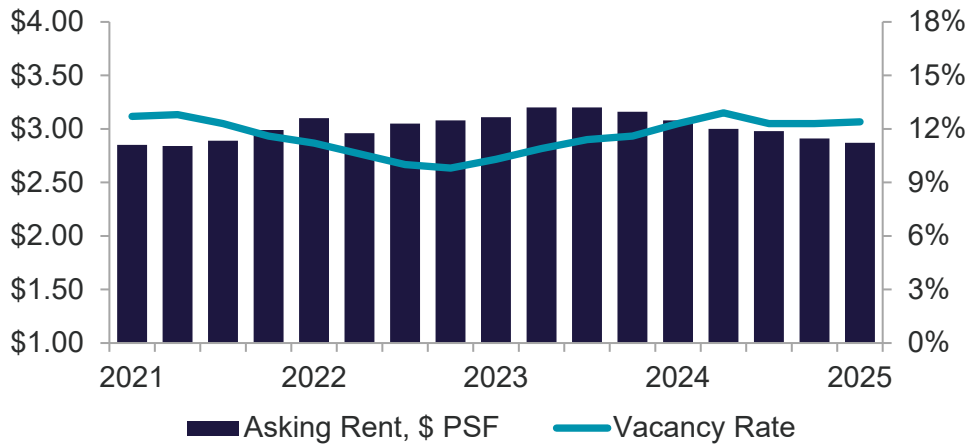
ASKING RATES CONTINUE TO DECLINE

The overall average asking rate for R&D product across the Valley was reported at \$2.87 per square foot (psf), on a monthly triple net basis in the first quarter, decreasing by \$0.04 psf QOQ and \$0.21 psf YOY. This was the lowest asking rate recorded since the second quarter of 2021. The cities of Palo Alto, Mountain View, and Sunnyvale continued to yield the highest asking rate with first quarter numbers at \$4.80 psf, \$4.74 psf, and \$3.70 psf, respectively. Palo Alto also recorded the highest increase in asking rates, with a \$0.22 psf bump QOQ. Meanwhile, Menlo Park experienced the largest decline, with a decrease of \$0.21 psf QOQ.

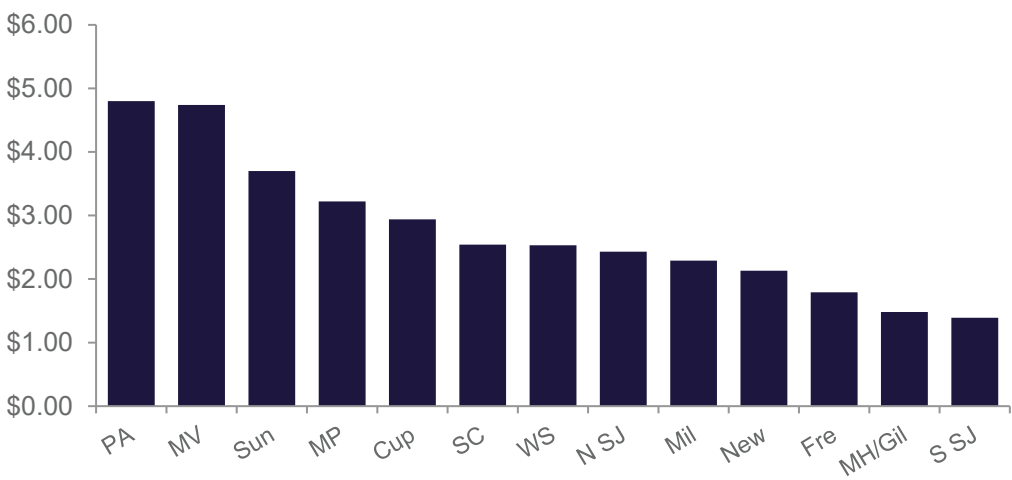
SPACE DEMAND / DELIVERIES



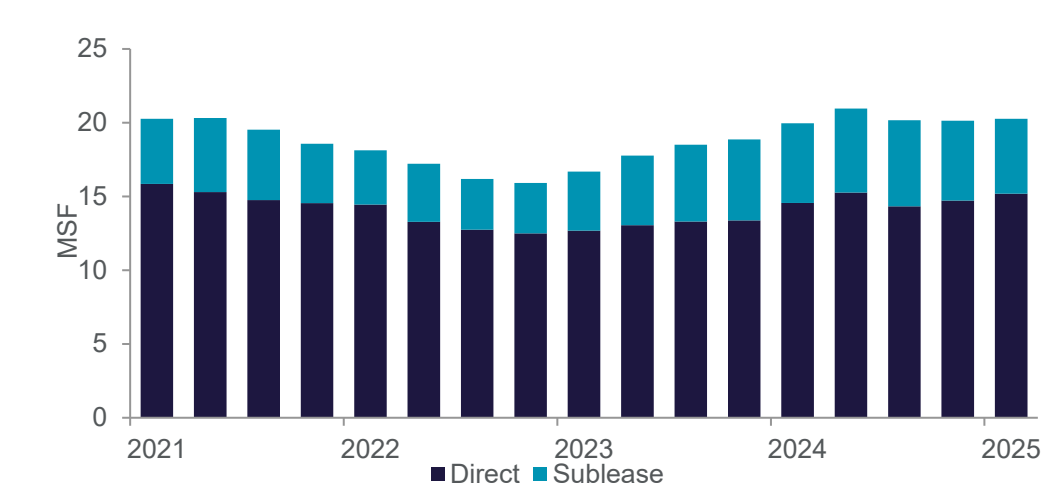
OVERALL VACANCY & ASKING RENT



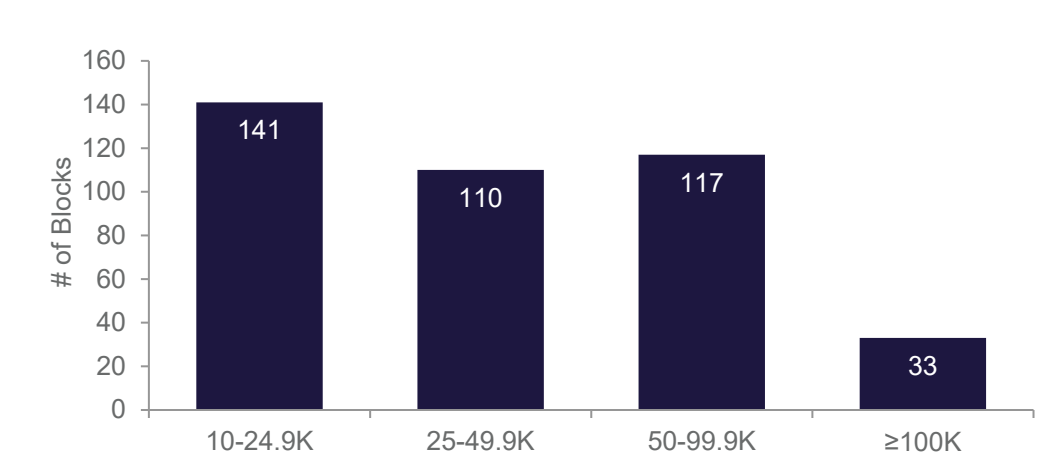
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE DIRECT & SUBLEASE



BLOCKS OF CONTIGUOUS SPACE



GROWTH IN GROSS ABSORPTION

Deal activity grew in the first quarter, recording 2.9 msf of gross absorption (the total amount of combined leasing and user-sale activity), increasing by 32.4% (939,000 sf) QOQ and 20.1% (485,000 sf) YOY. There was a total of thirty-one leases over 20,000 sf in the Valley (thirteen of those renewals), compared to a total of twenty deals recorded in the previous quarter. Sales activity in the first quarter totaled approximately \$276.1M (\$276.5 price per sf) with approximately 1.0 msf of R&D product purchased.

NET OCCUPANCY SHOWS SIGNIFICANT IMPROVEMENT

The first quarter recorded net occupancy gains at 239,000 sf, an increase of 192,000 sf from the 47,000-sf recorded in the previous quarter. This also marked a significant YOY improvement, with an increase of approximately 1.3 msf YOY due to the 1.1 msf of net occupancy losses recorded in the first quarter of 2024. Sunnyvale led all submarkets in the first quarter with net occupancy gains reaching 770,000 sf while the North San Jose submarket experienced the lowest levels of net occupancy, reporting 426,000 sf of losses.

SIGNS OF ACTIVITY IN THE DEVELOPMENT PIPELINE

In the first quarter, the Valley’s development pipeline included 5.1 msf of proposed R&D projects with 60.0% expected to be build-to-suit and 40.0% expected to be speculative. One project that completed in the first quarter was Intuitive Surgical's build-to-suit 847,000 sf R&D expansion at 950 Kifer Road in Sunnyvale. Additionally, Arista Networks 245,000 sf build-to-suit building at 5200 Patrick Henry Drive in Santa Clara broke ground in the first quarter and is expected to be completed by January 2027. Arista Networks plans to occupy this space for their expansion. The trend towards build-to-suit projects in the R&D sector suggests that only established tenants, possibly with custom build-outs, will be driving new construction in the Valley.

OUTLOOK

- Tenant requirements are expected to rise further, finishing the first quarter at 5.7 msf, proving the deal pipeline will remain healthy. Technology companies, which will always be prominent in the Valley, represent 70.6% of those requirements.
- To take advantage of lower pricing and to woo employees back to the office, companies will seek out the best quality space. Lower-tier buildings will still record leasing activity, though it will be less than that in trophy buildings.
- With vacancy rates remaining stable and asking rates declining consecutively each quarter, landlords will need to compete by continuing to lower their asking rents when possible and offering concessions to attract tenants.
- In 2025, R&D is expected to outperform office product in the Valley. Office continues to hold high overall vacancy levels, reporting 21.1% at the end of the first quarter. This represents an 870-bps difference in vacancy between office and R&D product.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT*
Menlo Park	2,495,510	2,538	124,858	5.1%	-8,800	-8,800	13,100	0	\$3.22
Palo Alto	8,764,238	299,625	427,184	8.3%	215,705	215,705	113,962	0	\$4.80
Mountain View	16,341,443	724,883	1,984,122	16.6%	-162,853	-162,853	102,740	0	\$4.74
Cupertino	5,723,435	0	55,950	1.0%	0	0	0	0	\$2.94
Westside	2,243,488	73,409	127,531	9.0%	0	0	5,440	0	\$2.53
Sunnyvale	24,921,753	219,268	2,912,617	12.6%	769,955	769,955	1,125,222	0	\$3.70
Santa Clara	22,339,858	484,307	2,380,957	12.8%	-1,065	-1,065	298,702	245,000	\$2.54
North San Jose	34,850,676	1,324,652	3,182,565	12.9%	-425,602	-425,602	436,070	0	\$2.43
South San Jose	9,449,738	525,720	931,697	15.4%	-6,776	-6,776	176,163	0	\$1.39
Milpitas	12,165,623	373,932	1,384,279	14.5%	-51,371	-51,371	130,002	0	\$2.29
Fremont	18,758,452	997,114	939,505	10.3%	-89,571	-89,571	446,383	0	\$1.79
Newark	2,331,550	53,300	389,015	19.0%	-10,635	-10,635	9,679	0	\$2.13
Morgan Hill/Gilroy	3,631,516	0	342,635	9.4%	9,695	9,695	40,911	0	\$1.48
TOTALS	164,017,280	5,078,748	15,182,915	12.4%	238,682	238,682	2,898,374	245,000	\$2.87

*Rental rates reflect average triple net asking \$psf/month
*Market indicators are not reflective of US MarketBeat tables

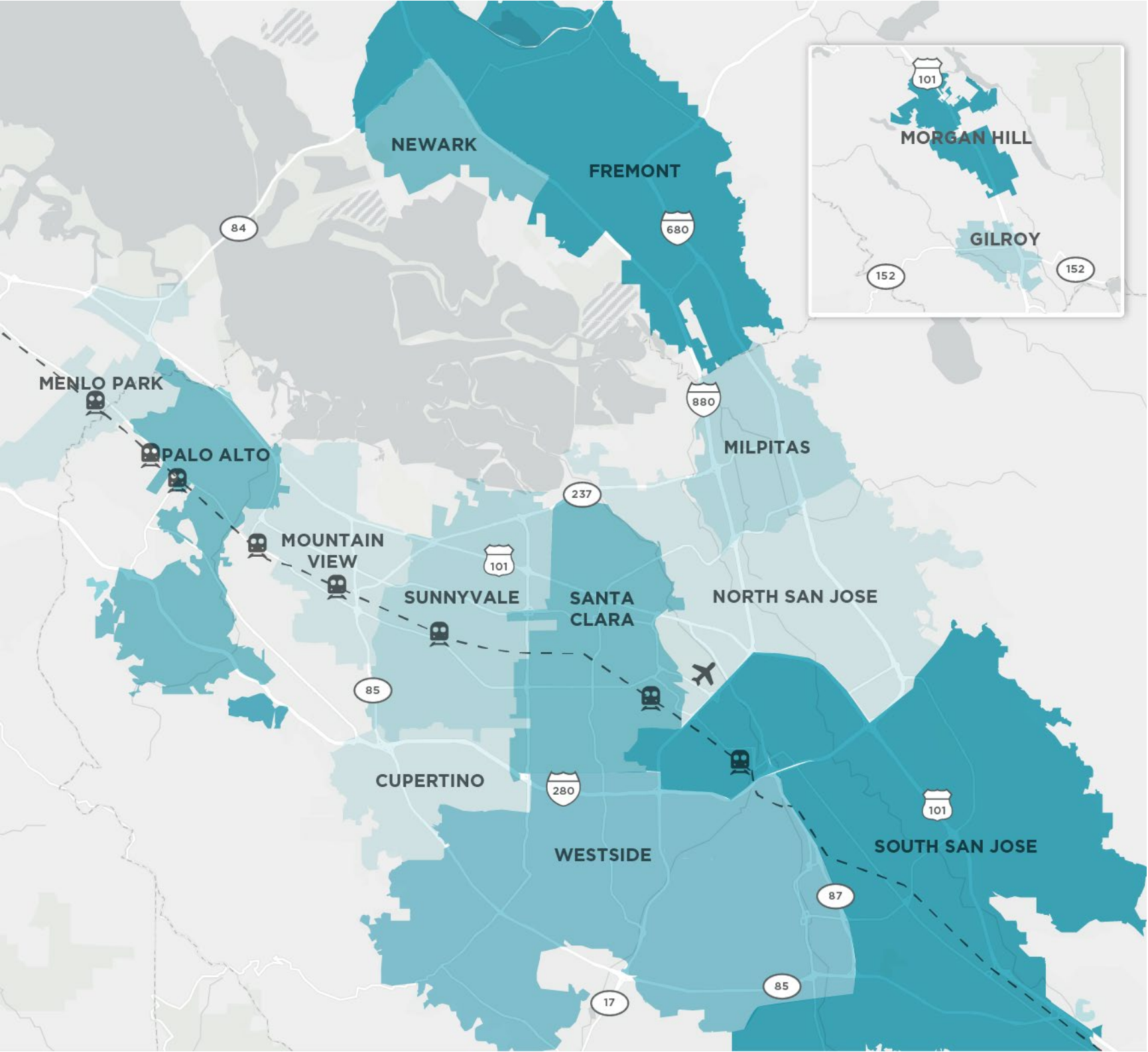
KEY LEASE TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Sunnyvale Business Park	Sunnyvale	Applied Intuition	219,659	New Lease
5970 Optical Ct	South San Jose	Muon Space	129,221	New Lease
Assembly at North First	North San Jose	Figure AI	107,892	New Lease
47131 Bayside Pkwy	Fremont	Mattson Technology	100,728	Renewal
3380 Coyote Hill	Palo Alto	SAP	85,420	Sublease

KEY SALE TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1230-1280 E Arques Ave	Sunnyvale	Lane Partners / Ingrasys Technology	313,740	\$128.0M / \$408
Connect 101	Santa Clara	RMR Group / Four Corners Properties	149,062	\$21.2M / \$142
3200 Patrick Henry Dr	Santa Clara	The Bigler Trust / Habib Zakerani	105,100	\$18.0M / \$171
680 Vaqueros & 755 Mathilda Ave	Sunnyvale	Clarion Partners & IPERS / Ellis Partners & Baupost	105,000	\$15.5M / \$148
3550 N First St	North San Jose	Analog Devices / LBA Realty	85,017	\$18.5M / \$242

R&D SUBMARKETS



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