

MARKET FUNDAMENTALS

	YOY Chg	Outlook
12.3% Vacancy Rate	▼	▼
212K YTD Net Absorption, SF	▲	▲
\$2.88 Asking Rent, PSF <i>(Overall, Net Asking Rent)</i>	▼	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.15M San Jose MSA Employment	▼	▲
4.1% San Jose MSA Unemployment Rate	▼	▲
4.2% U.S. Unemployment Rate	▲	▲

Source: BLS

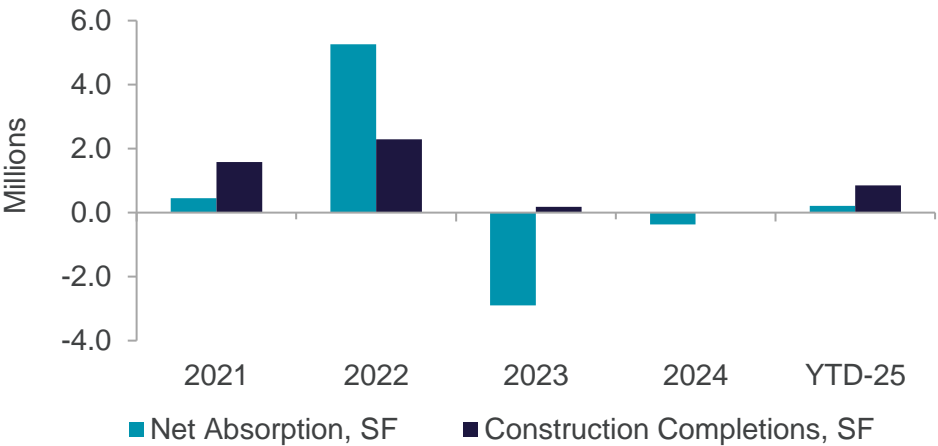
UNEMPLOYMENT RATE RECORDS MINOR IMPROVEMENT

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 second quarter, the Valley’s on-site weekly occupancy closed at 49.4%, just shy of its post-pandemic high, according to Kastle Systems. For the San Jose MSA, the unemployment rate fell 10 basis points (bps) year-over-year (YOY) closing at 4.1% in the second quarter. In contrast with the improvement in the unemployment rate, jobs decreased by 2,200 positions or 0.2% YOY. Venture capital funding into Santa Clara County-based companies closed the second quarter at \$6.4 billion (B) in 163 deals, up in dollars from \$3.3B though down in deals from 224 in the first quarter. The largest rounds in the second quarter were a \$2.0B early-stage deal to Palo Alto-based Safe Superintelligence and a \$600 million later-stage deal to Mountain View-based Applied Intuition.

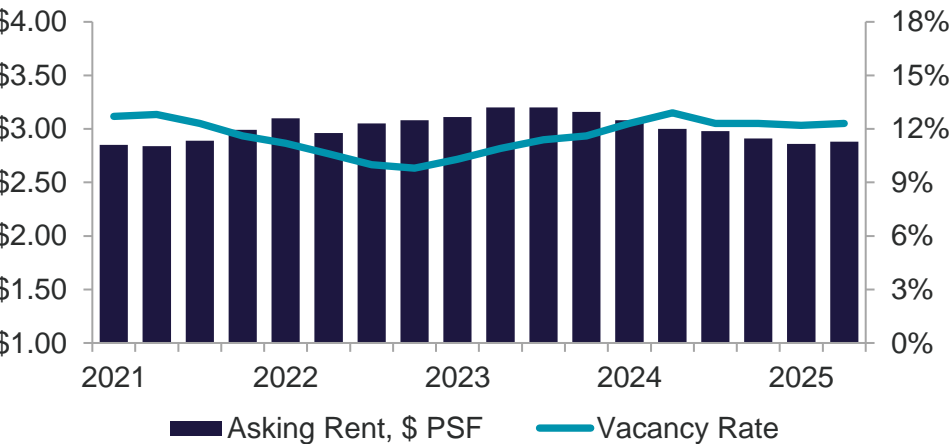
VACANCY REMAINS STABLE

Due to the lack of new deliveries, the vacancy rate continued to remain relatively stable over the past year with the Valley’s R&D overall figure finishing the second quarter at 12.3%, slightly up 10 bps quarter-over-quarter (QOQ) from 12.2% and down 60 bps YOY from 12.9%. The current vacancy rate translated to 20.2 million square feet (msf) of space throughout the Valley, of which 24.5% (5.0 msf) was sublease space, a slight decrease from 24.9% reported in the first quarter. For comparison, sublet space in the office sector throughout the Valley was reported at approximately 25.1% of all vacant space in the second quarter. The largest block to come online as vacant in the second quarter was a set of four contiguous buildings totaling 196,000 square feet (sf) of R&D space, located at 4001–4015 Miranda Avenue in Palo Alto.

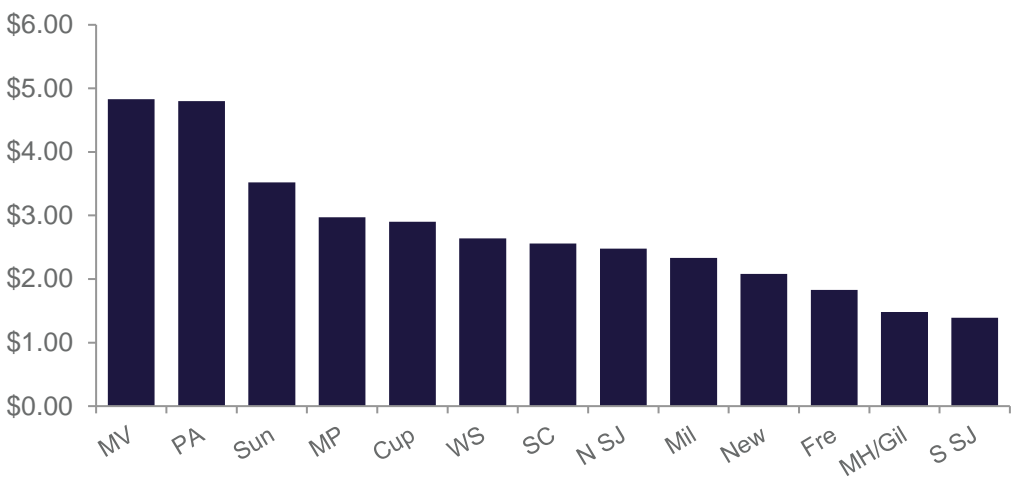
SPACE DEMAND / DELIVERIES



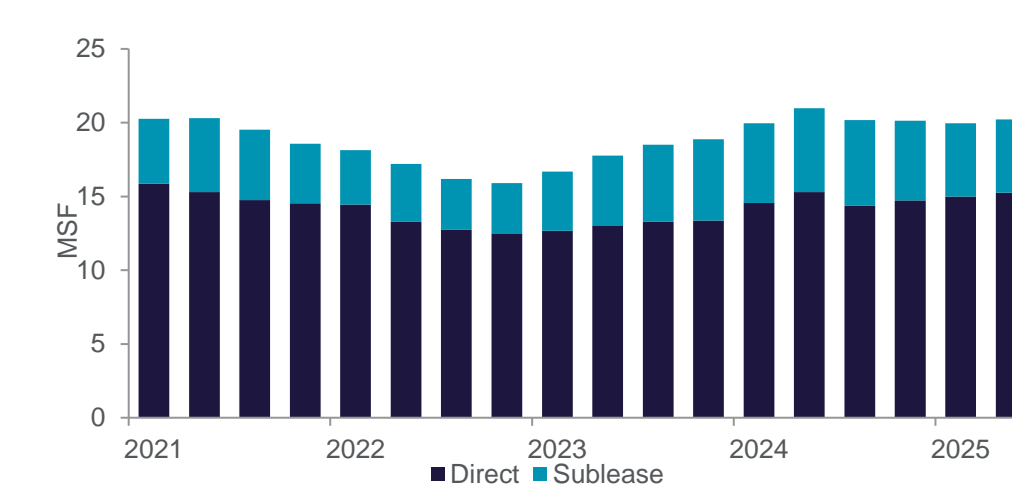
OVERALL VACANCY & ASKING RENT



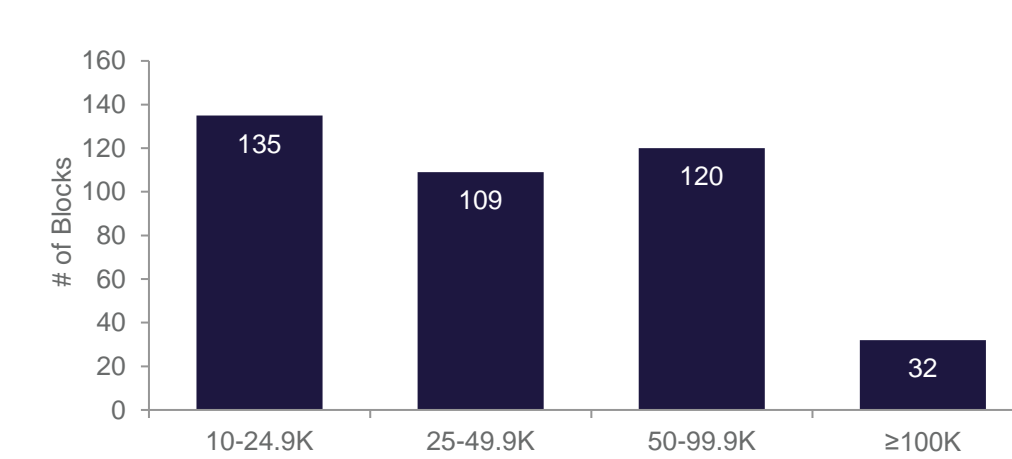
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE DIRECT & SUBLEASE



BLOCKS OF CONTIGUOUS SPACE



ASKING RATES INCREASE AFTER PREVIOUS DOWNWARD TREND

After three years of steady declines, asking rates recorded a slight uptick in the second quarter. The overall average asking rate for R&D product across the Valley was reported at \$2.88 per square foot (psf), on a monthly triple net basis in the second quarter, increasing by \$0.02 psf QOQ though decreasing by \$0.12 psf YOY. Among all cities in the Valley, Mountain View, Palo Alto, and Sunnyvale continued to yield the highest asking rate with second quarter numbers at \$4.83 psf, \$4.80 psf, and \$3.52 psf, respectively. The Westside submarket, which includes Campbell, Los Gatos and West San Jose, recorded the highest increase in asking rates, with an \$0.11 psf bump QOQ. Meanwhile, Menlo Park posted the sharpest QOQ decline in the Valley, dropping by \$0.25 psf

GROSS ABSORPTION DECLINES

Deal activity declined in the second quarter, recording 1.9 msf of gross absorption (the total amount of combined leasing and user-sale activity), dropping 42.3% (1.4 msf) QOQ and 12.7% (274,000 sf) YOY. There was a total of twenty-two leases over 20,000 sf in the Valley (eight of those renewals), compared to a total of thirty-one deals recorded in the previous quarter. Sales activity in the second quarter totaled approximately \$1.2 billion with approximately 2.6 msf of R&D product purchased. Of this total, seven user sales accounted for approximately 1.2 msf.

NET ABSORPTION LEVELS FALL

The second quarter recorded net absorption at negative 335,000 sf, a decrease of 882,000 sf from the previous quarter's positive 547,000 sf. Despite the significant QOQ decline, YOY net absorption improved by 663,000 sf from the negative 1.0 msf recorded in Q2 2024. The North San Jose submarket experienced the highest levels of net absorption in the second quarter, reaching 185,000 sf, while Fremont experienced the lowest levels, reporting negative 368,000 sf.

ABSENCE OF NEW DELIVERIES

In the second quarter, the Valley's development pipeline included 6.7 msf of proposed R&D projects with 53.0% expected to be build-to-suit and 47.0% expected to be speculative. Two projects were under construction in the second quarter. Arista Network's 245,000 sf build-to-suit project at 5200 Patrick Henry Drive in Santa Clara continued construction and is expected to be completed by January 2027. Arista Networks plans to occupy this space as part of its expansion. In North San Jose a 137,000-sf speculative R&D project located off 2000 Trade Zone Boulevard is expected to complete in October of this year. No new R&D projects were completed during the second quarter. The trend towards build-to-suit projects in the R&D sector suggests that only established tenants, possibly with custom build-outs, are driving new construction in the Valley.

OUTLOOK

- Finishing the second quarter at 7.7 msf, tenant requirements are expected to rise further, proving the deal pipeline will remain healthy. Technology companies, which will always be prominent in the Valley, represent 75.2% of those requirements.
- R&D space remains highly desirable among technology tenants across the valley due to its versatile mix of office, manufacturing, and high-power infrastructure. These tenants also seek larger block opportunities, which are widely available, as 30.3% of all space on the market falls within the 50,000 to 100,000 sf range.
- 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.
- In 2025, R&D is expected to outperform office product in the Valley. Office continues to record a higher vacancy rate, at 20.7% at the end of the second quarter. This represents an 840-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	2,520,551	2,538	171,099	6.9%	-32,686	-41,486	21,900	0	\$2.97
Palo Alto	8,762,861	226,813	699,998	10.6%	-290,839	15,703	117,835	0	\$4.80
Mountain View	16,341,357	674,856	1,961,645	16.1%	53,926	-90,349	322,887	0	\$4.83
Cupertino	5,723,442	0	52,950	0.9%	0	0	45,474	0	\$2.90
Westside	2,213,488	73,409	45,356	5.4%	82,175	82,175	5,440	0	\$2.64
Sunnyvale	24,907,986	159,298	3,085,909	13.0%	-197,724	624,768	1,873,596	0	\$3.52
Santa Clara	22,215,920	488,027	2,258,184	12.4%	134,345	117,988	690,196	245,000	\$2.56
North San Jose	34,765,362	1,214,845	2,866,513	11.7%	184,907	-83,491	702,467	136,600	\$2.48
South San Jose	9,449,738	494,051	941,674	15.2%	21,692	14,916	207,064	0	\$1.39
Milpitas	12,165,178	368,244	1,316,107	13.8%	75,472	24,101	200,907	0	\$2.33
Fremont	18,758,738	1,202,019	1,126,418	12.4%	-368,084	-453,255	739,582	0	\$1.83
Newark	2,331,550	52,000	388,661	18.9%	1,654	-8,981	150,227	0	\$2.08
Morgan Hill/Gilroy	3,630,931	0	342,635	9.4%	0	9,695	61,814	0	\$1.48
TOTALS	163,787,102	4,956,100	15,257,149	12.3%	-335,162	211,784	5,139,389	381,600	\$2.88

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

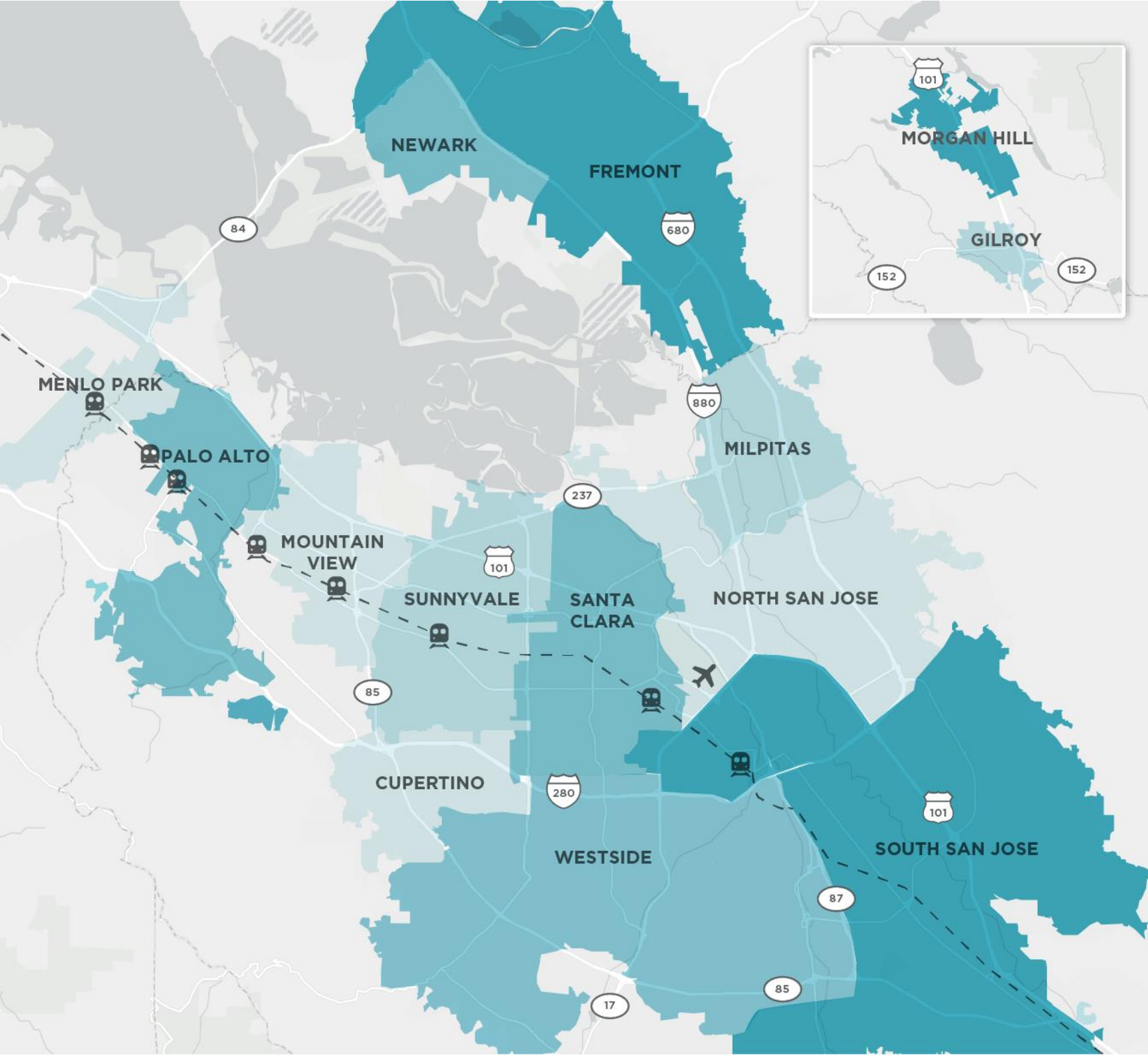
KEY LEASE TRANSACTIONS Q2 2025

PROPERTY	SUBMARKET	TENANT	SF	TYPE
223 N Mathilda Ave	Sunnyvale	Snap	156,050	New Lease
809 11 <sup>th</sup> Ave	Sunnyvale	Walmart	133,470	New Lease
2220-2240 Martin Ave	Santa Clara	Fujifilm Dimatix	94,101	Renewal
4750 Patrick Henry Dr	Santa Clara	Collaborative Robotics	65,360	New Lease
3500 Gateway Blvd	Fremont	Tandem PV	64,383	Sublease

KEY SALE TRANSACTIONS Q2 2025

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
615-625 Mathilda Ave	Sunnyvale	Jay Paul / Apple	382,488	\$350.0M / \$915
2711-2731 San Tomas Expwy	Santa Clara	Sobrato / Nvidia	375,000	\$254.0M / \$677
Analog Devices Campus	Milpitas	Analog Devices / Goodman Group	319,835	\$40.4M / \$126
Santa Clara Commerce Park	Santa Clara	Link Logistics / Nvidia	258,282	\$123.0M / \$476
755 Jarvis Dr	Morgan Hill	Ridge Capital Investors / Bridge Group Investments	258,122	\$22.0M / \$85

R&D SUBMARKETS



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