

MARKET FUNDAMENTALS

	YOY Chg	Outlook
12.9% Vacancy Rate	▲	▼
-665K YTD Net Absorption, SF	▼	▲
\$2.77 Asking Rent, PSF (Overall, Net Asking Rent)	▼	▲

ECONOMIC INDICATORS

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

Source: BLS

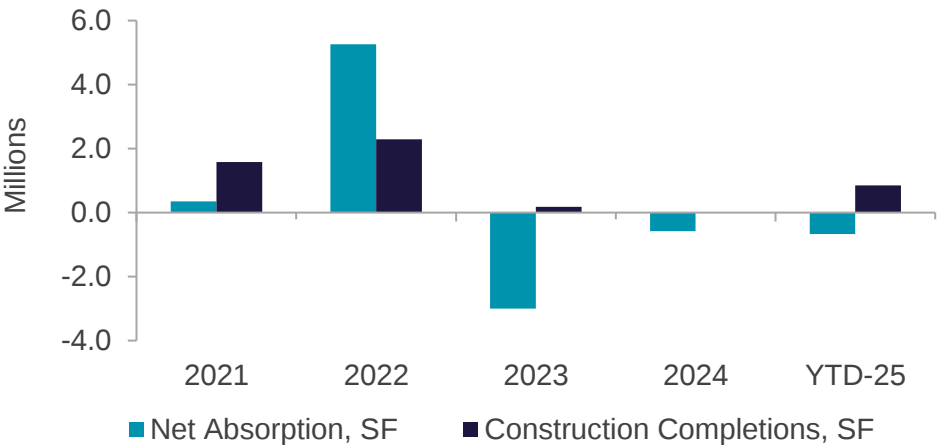
VENTURE CAPITAL FUNDING SHARPLY HIGHER

In Silicon Valley (the Valley), there has been an uptick in the return to office percentage. At the end of the third quarter, the Valley’s on-site weekly occupancy closed at 52.2%, up from 42.0% one year ago, according to Kastle Systems. For the San Jose MSA, the unemployment rate climbed 10 basis points (bps) year-over-year (YOY) closing at 4.3% in the third quarter. Nonfarm employment was essentially flat YOY. Venture capital funding into Santa Clara County-based companies closed the third quarter at \$16.6 billion (B) in 172 deals, up sharply in dollars from \$10.1B though down in deals from 199 in the second quarter. The driver in the major jump in funding was centered around three later-stage deals: a \$10.0B funding round to xAI (Palo Alto), followed by Cerebras (Sunnyvale) with a \$1.1B round, and PsiQuantum (Palo Alto) with a \$1.0B round.

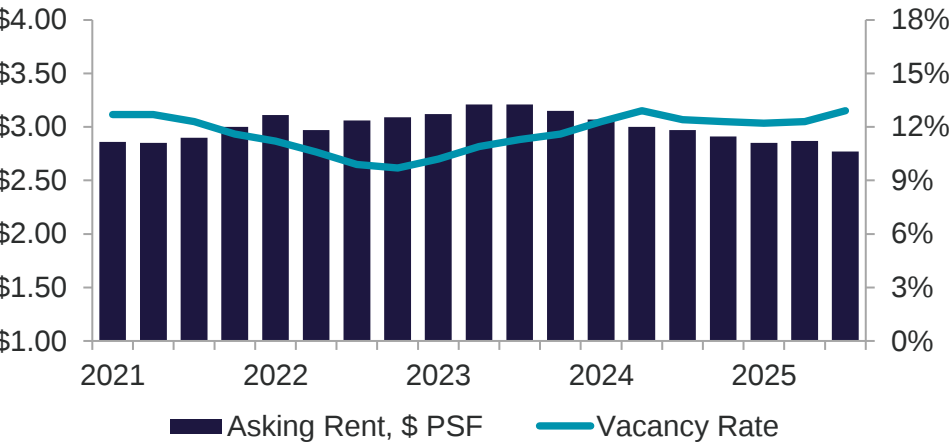
VACANCY LEVELS CLIMB

The Valley’s R&D market ended the third quarter with a sharp increase in vacancy, with the overall figure climbing to 12.9%, up 60 bps quarter-over-quarter (QOQ) from 12.3% and 50 bps YOY from 12.4%. This rate ties with the second quarter of 2024 as the highest level recorded since the first quarter of 2014. The current vacancy rate translated to 21.1 million square feet (msf) of space, of which 24.8% (5.2 msf) was sublease space, a slight decrease from 24.9% recorded in the second quarter. For comparison, sublet space in the office sector throughout the Valley was reported at approximately 20.7% of all vacant space in the third quarter. The largest block to come online as vacant in the third quarter was 850 Jarvis Drive in Morgan Hill, a 286,000-square-foot (sf) R&D facility listed for sublease following Republic National Distributing Company’s departure. As a result, the Morgan Hill/Gilroy submarket recorded the steepest vacancy increase in the third quarter, climbing to 19.4%, an 810-bps rise QOQ from 11.3%.

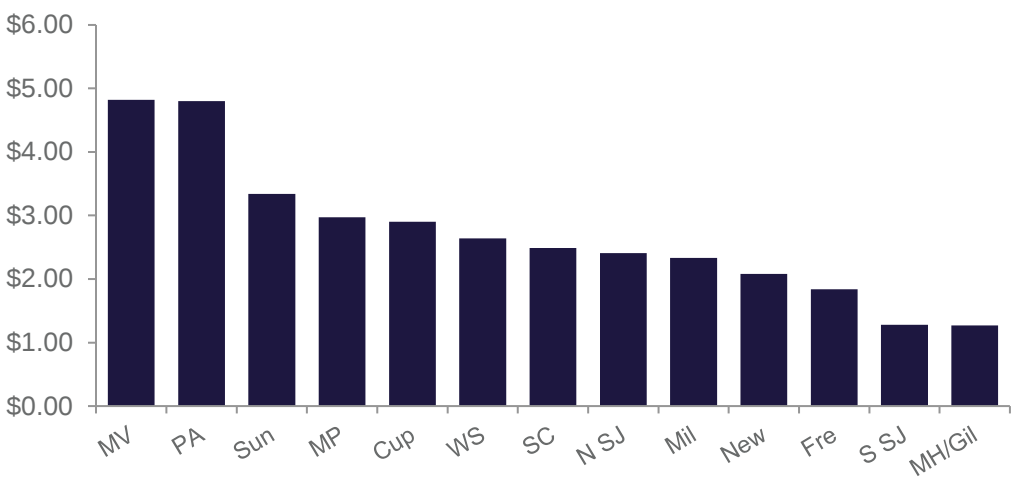
SPACE DEMAND / DELIVERIES



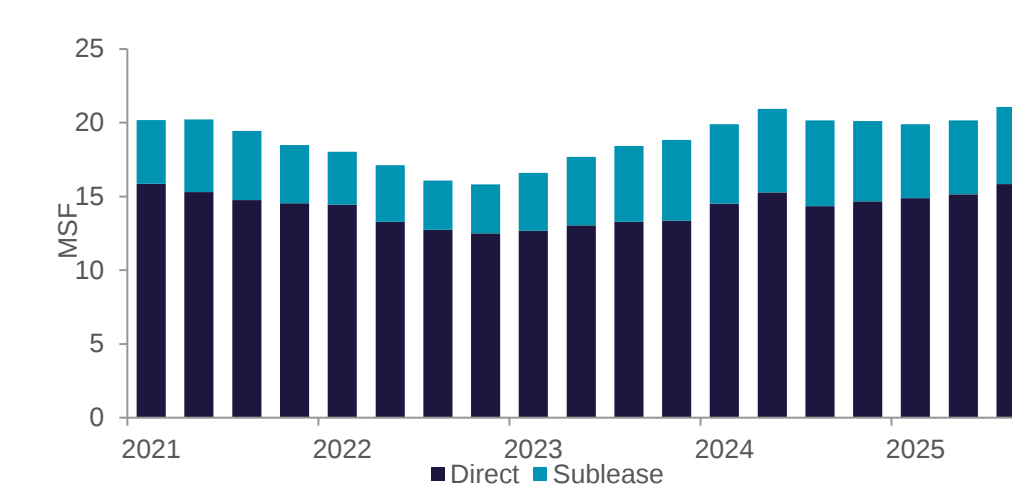
OVERALL VACANCY & ASKING RENT



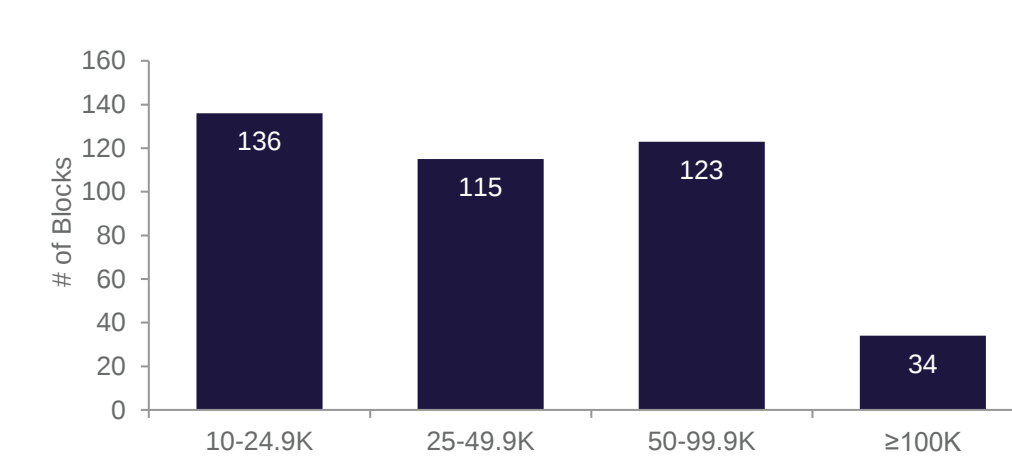
AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE DIRECT & SUBLEASE



BLOCKS OF CONTIGUOUS SPACE



FIVE-YEAR LOW FOR ASKING RATES

Asking rates fell sharply in the third quarter, reaching a five-year low. The overall average asking rate for R&D product across the Valley was reported at \$2.77 per square foot (psf), on a monthly triple net basis in the third quarter, decreasing by \$0.10 psf QOQ and \$0.20 psf YOY. Among all cities in the Valley, Mountain View, Palo Alto, and Sunnyvale continued to yield the highest asking rates with third quarter numbers at \$4.82 psf, \$4.80 psf, and \$3.34 psf, respectively. The only submarket to experience an increase in asking rates was Fremont, with a slight \$0.02 psf bump QOQ. Meanwhile, the Morgan Hill/Gilroy submarket posted the sharpest QOQ decline in the valley, dropping by \$0.21 psf. The decline was primarily attributable to a single large sublease: the 286,000-sf block at 850 Jarvis Drive.

GROSS ABSORPTION SLIGHTLY INCREASES

Deal activity slightly increased in the third quarter, recording 2.1 msf of gross absorption (the total amount of combined leasing and user-sale activity), increasing by 5.6% (113,000 sf) QOQ and decreasing by 6.4% (146,000 sf) YOY. There was a total of 27 leases over 20,000 sf in the Valley (eight of those renewals), compared to a total of twenty-three deals in the previous quarter. Sales activity in the third quarter was \$517.0 million with 1.4 msf of R&D product purchased. Of this total, four user sales accounted for 319,000 sf.

NET ABSORPTION LEVELS FALL

The third quarter recorded net absorption at negative 910,000 sf, 580,000 sf further in the red from the prior quarter’s negative 330,000 sf and indicating a sharp 2.6 msf reversal from the 1.6 msf recorded a year ago. Sunnyvale was the only submarket to post positive absorption in the third quarter, recording 47,000 sf, while the Morgan Hill/Gilroy submarket closed with the lowest figure at negative 287,000 sf.

ABSENCE OF NEW DELIVERIES

In the third quarter, the Valley’s development pipeline included 4.4 msf of proposed R&D projects with 63.1% build-to-suit and 36.9% speculative. Two projects were under construction in the third quarter. Arista Network’s 363,000 sf build-to-suit project at 5200 Patrick Henry Drive in Santa Clara continued construction and is expected to be completed by January 2027. They are expected 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 April 2026. No new R&D projects were completed during the third 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 third quarter at 8.8 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 63.3% 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 30.2% of all space on the market falls within the 50,000 to 100,000 sf range.
- In 2025, R&D is expected to outperform office product in the Valley. Office continues to record a higher vacancy rate, at 19.7% at the end of the third quarter. This represents a 680-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	171,838	6.9%	-739	-42,225	39,780	0	\$2.97
Palo Alto	8,762,861	223,613	707,594	10.6%	-7,596	9,722	142,010	0	\$4.80
Mountain View	16,341,355	686,642	1,952,812	16.2%	-62,842	-93,302	350,603	0	\$4.82
Cupertino	5,723,442	0	52,950	0.9%	0	0	65,090	0	\$2.90
Westside	2,213,488	73,409	49,204	5.5%	-3,848	78,327	11,080	0	\$2.64
Sunnyvale	24,911,466	160,234	3,079,053	13.0%	-39,929	560,273	2,249,614	0	\$3.34
Santa Clara	22,217,025	486,427	2,184,043	12.0%	46,635	192,865	934,775	362,660	\$2.49
North San Jose	34,774,015	1,172,441	3,055,824	12.2%	-146,924	-230,398	1,539,787	136,600	\$2.41
South San Jose	9,494,418	494,051	1,113,652	16.9%	-140,767	-157,062	234,923	0	\$1.28
Milpitas	12,165,178	354,324	1,344,521	14.0%	-14,494	9,607	299,810	0	\$2.33
Fremont	18,404,948	1,169,902	1,384,549	13.9%	-235,317	-688,826	1,249,351	0	\$1.84
Newark	2,331,550	52,000	405,749	19.6%	-17,088	-26,069	204,504	0	\$2.06
Morgan Hill/Gilroy	3,549,931	346,000	344,075	19.4%	-287,440	-277,745	61,814	0	\$1.27
TOTALS	163,410,228	5,221,581	15,845,864	12.9%	-910,349	-664,833	7,383,141	499,260	\$2.77

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

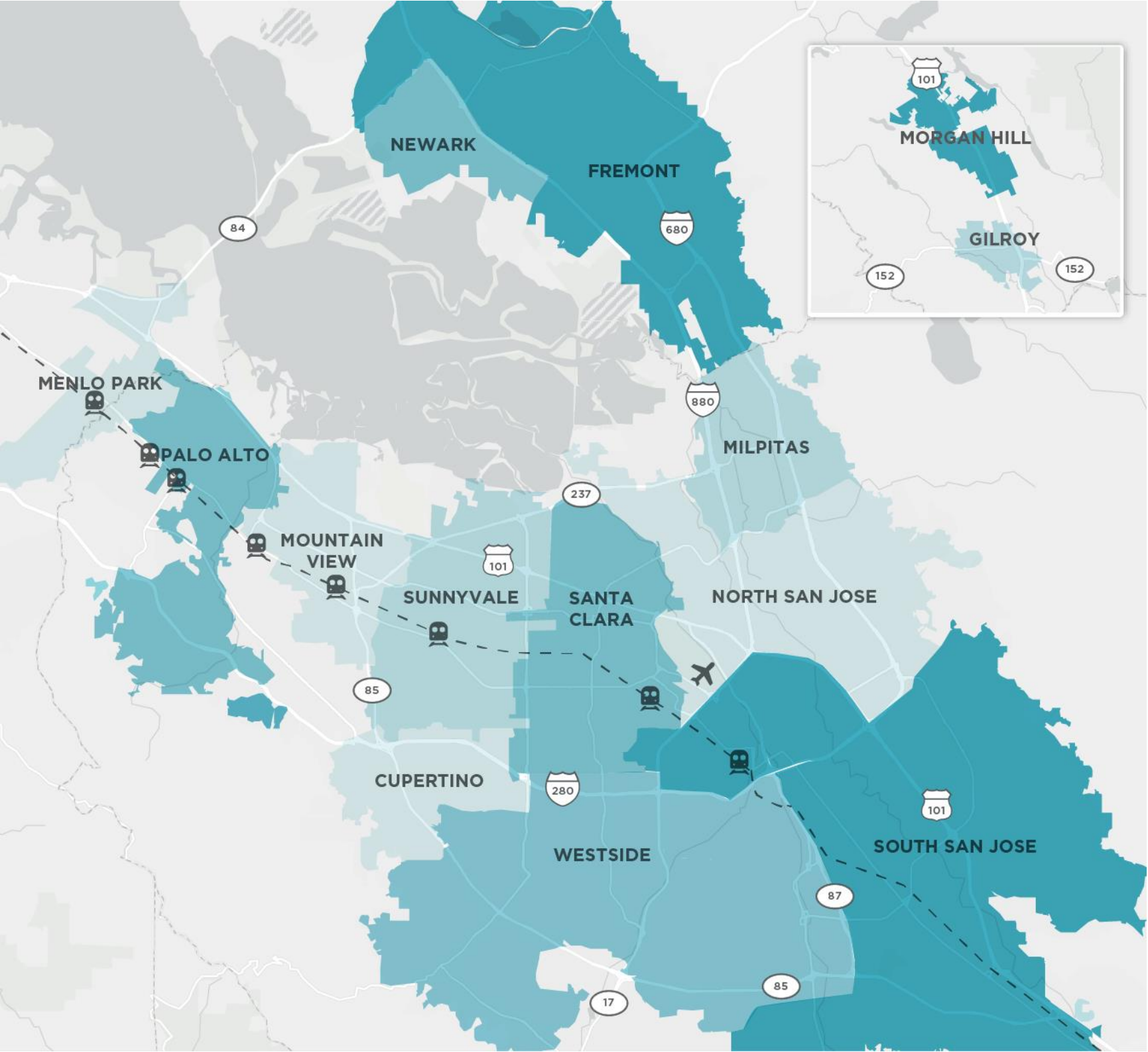
KEY LEASE TRANSACTIONS Q3 2025

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Northport Business Park	Fremont	Quanta Computer	237,312	Renewal
10 W Tasman Dr	North San Jose	Archer Aviation	105,039	New Lease
3055 Orchard Dr	North San Jose	Advantest	94,170	New Lease
1750 Automation Parkway	North San Jose	MiTAC	80,641	New Lease
3355 Scott Blvd	Santa Clara	Rivos	60,731	Sublease

KEY SALE TRANSACTIONS Q3 2025

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
3315-3355 Scott Blvd	Santa Clara	Clarion Partners / Ellis Partners/Baupost	459,658	\$207.0M / \$450
Terra Bella Tech Park	Mountain View	Zappettini Capital / Citi Real Estate Funding	312,081	\$100.0M / \$320
5020 & 5070 Brandin Ct	Fremont	Dutra Enterprises, Inc. / Berkeley Partners	131,710	\$32.7M / \$248
3000-3030 Orchard Pkwy	North San Jose	AEW Capital Management / Rosendin Electric	130,994	\$23M / \$176
2701 San Tomas Expwy	Santa Clara	The Sobrato Organization / Nvidia	125,000	\$83.2M / \$666

R&D SUBMARKETS



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