

**MARKET FUNDAMENTALS**

	YOY Chg	Outlook
<b>12.5%</b> Vacancy Rate	▲	▲
<b>-191K</b> YTD Net Absorption, SF	▲	▲
<b>\$2.92</b> Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▼	▲

**ECONOMIC INDICATORS**

	YOY Chg	Outlook
<b>1.2M</b> San Jose MSA Employment	▲	▲
<b>4.2%</b> San Jose MSA Unemployment Rate	▲	▼
<b>4.2%</b> U.S. Unemployment Rate	▲	▲

Source: BLS

**BOTH JOB COUNT AND VC FUNDING CLIMB**

Size optimization for technology companies, both Big Tech and startups, continued in the fourth quarter of 2024 with regard to both headcount and footprint in Silicon Valley. For the San Jose MSA, the unemployment rate climbed 10 basis points (bps) year-over-year (YOY) closing at 4.2% in the fourth quarter. Despite the increase in unemployment, jobs expanded by 5,600 positions or 0.5% YOY. Venture capital funding into Santa Clara County-based companies topped \$9.3 billion (B) in 157 deals for the fourth quarter, up from \$4.6B in 194 deals in the third quarter. The largest deals of the quarter were \$6B Series C to Waymo, and a \$950M Series H to Cohesity.

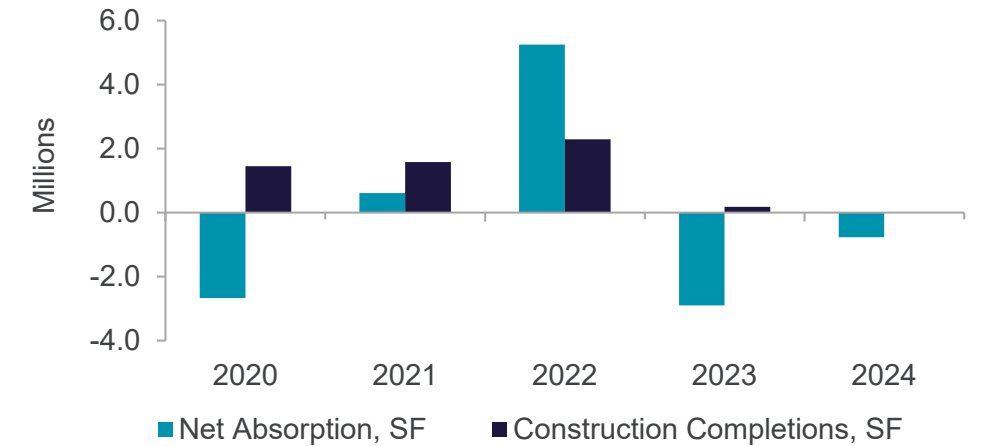
**VACANCY TICKS HIGHER**

Silicon Valley's (the Valley) R&D vacancy rate finished the fourth quarter at 12.5%, marking a slight 10 bps increase from the third quarter. The current vacancy rate translated to 20.5 million square feet (msf) of space throughout the Valley, of which 27.4% (5.6 msf) was sublease space, a decrease from 28.9% reported in the third quarter. For comparison, sublet space in the office sector was reported at approximately 29.2% of all vacant space in the fourth quarter. The most notable sublease addition in the fourth quarter was a 77,000-sf building at 2711 North First Street in North San Jose.

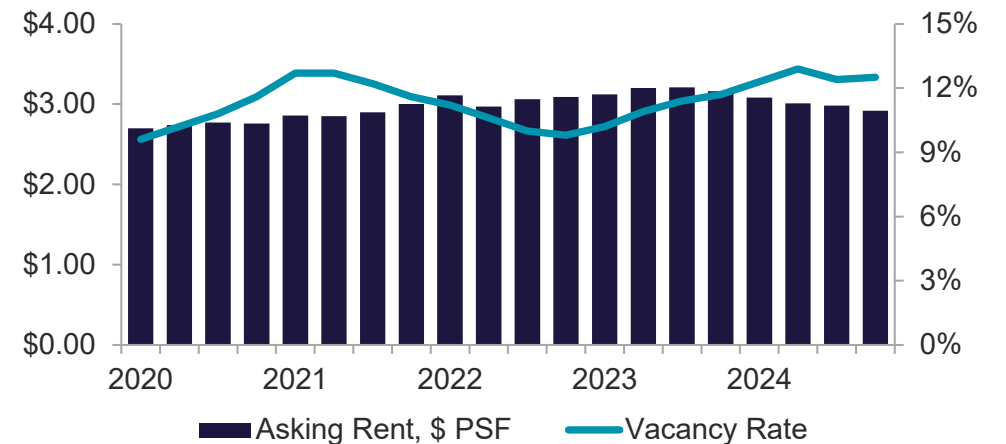
**ASKING RATES CONTINUE TO DROP**

The overall average asking rate for R&D product across the Valley was reported \$2.92 per square foot (psf), on a monthly triple net basis in the fourth quarter, declining by \$0.06 psf QOQ and \$0.23 psf year-over-year (YOY). This was the lowest asking rate recorded since the third quarter of 2021. The cities of Mountain View, Palo Alto, and Sunnyvale continued to hold the highest asking rates with fourth quarter numbers at \$4.77 psf, \$4.58 psf, and \$3.63 psf, respectively. Despite being a submarket with one of the highest asking rates, Palo Alto experienced the largest decline, with a decrease of \$0.26 psf QOQ. Meanwhile, the city of Newark recorded the highest increase in asking rates, reporting \$2.16 psf, an increase of \$0.06 psf QOQ.

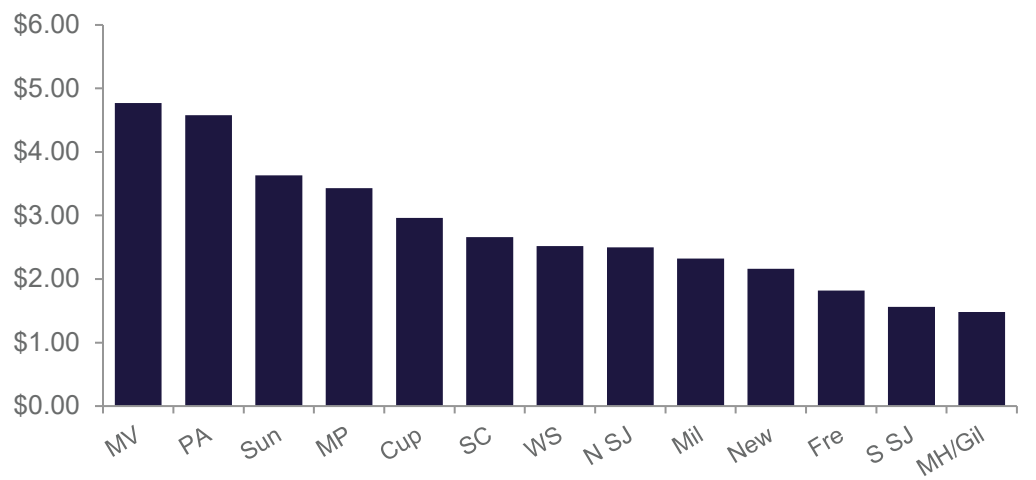
**SPACE DEMAND / DELIVERIES**



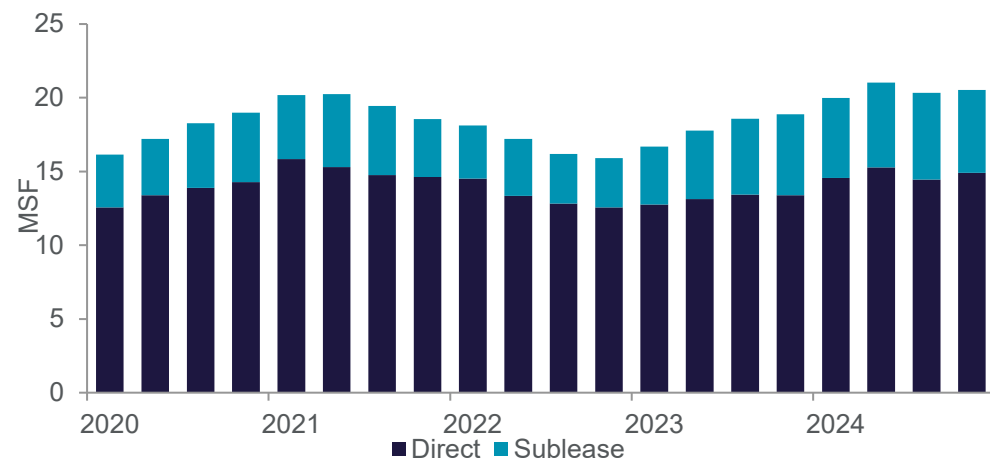
**OVERALL VACANCY & ASKING RENT**



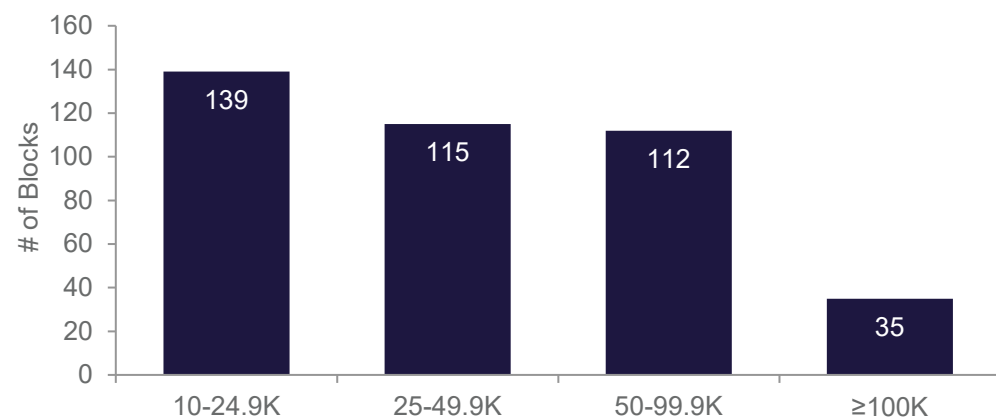
**AVERAGE ASKING RATE BY SUBMARKET**



**VACANT SPACE DIRECT & SUBLEASE**



**BLOCKS OF CONTIGUOUS SPACE**



**GROSS ABSORPTION DECLINES**

Deal activity declined in the fourth quarter, recording 1.8 msf of gross absorption (the total amount of combined leasing and user-sale activity), dropping by 18.6% (415,000 sf) QOQ, though increasing by 5.5% (94,000 sf) YOY. There was a total of twenty deals over 20,000 sf in the Valley (six of those renewals), compared with a total of nineteen deals in the previous quarter. Sales activity in the fourth quarter totaled approximately \$180.1M with a total of 768,000 sf of R&D product purchased.

**NET OCCUPANCY REVERSES BACK TO LOSSES**

After the previous quarter brought a bounce back from six consecutive quarters of net occupancy losses, the fourth quarter reported net occupancy losses of 191,000 sf. This was a significant change from the third quarter's gains of 1.5 msf. Palo Alto led all submarkets in the fourth quarter with net occupancy gains of 82,000 sf while Milpitas experienced the lowest levels of net occupancy, reporting 176,000 sf of losses.

**ABSENCE OF NEW DELIVERIES**

In the fourth quarter, the Valley's development pipeline included 5.6 msf of proposed R&D projects with 41.5% expected to be speculative and 58.5% expected to be build-to-suit. There was only one recorded project under construction in the fourth quarter: 950 Kifer Road, an 847,000 sf R&D expansion for Intuitive Surgical, with completion expected in the first quarter of 2025. There were no new deliveries of R&D product in the fourth quarter. Due to high construction costs throughout the Valley, proposed projects continued to stall. 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 R&D construction in the Valley.

**OUTLOOK**

- Tenant requirements remained high at 5.1 msf in the fourth quarter, proving the deal pipeline will remain healthy. Despite mass layoffs over the past two years, technology companies, which will always be prominent in the Valley, represent 76.3% of those requirements.
- To take advantage of lower pricing and to woo employees back to the office, companies will seek out for 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 rising 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 22.5% at the end of the fourth quarter. This represents a 1000 bps difference in vacancy between office and R&D.

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	116,058	4.8%	0	-8,116	49,906	0	\$3.43
Palo Alto	8,764,238	504,813	437,701	10.8%	82,220	371,922	456,355	0	\$4.58
Mountain View	16,339,803	739,143	1,880,543	16.0%	-30,556	-213,634	442,972	0	\$4.77
Cupertino	5,723,435	0	35,850	0.6%	0	-18,000	3,823	0	\$2.96
Westside	2,243,488	73,409	127,531	9.0%	40,840	10,893	129,868	0	\$2.52
Sunnyvale	24,110,014	690,032	2,564,116	13.5%	-95,388	-1,091,757	1,582,998	847,000	\$3.63
Santa Clara	22,421,109	442,978	2,549,051	13.3%	-2,126	1,138,097	2,013,381	0	\$2.66
North San Jose	35,242,597	1,173,479	3,309,184	12.7%	22,297	362,772	1,603,749	0	\$2.50
South San Jose	9,450,758	499,163	950,957	15.3%	62,425	-222,341	357,455	0	\$1.56
Milpitas	12,165,570	466,559	1,287,863	14.4%	-176,357	-201,060	543,760	0	\$2.32
Fremont	18,813,488	976,392	915,515	10.1%	-100,461	-778,013	1,145,424	0	\$1.82
Newark	2,331,550	53,300	378,380	18.5%	-7,698	-41,856	75,003	0	\$2.16
Morgan Hill/Gilroy	3,631,516	0	352,330	9.7%	13,575	-79,862	159,244	0	\$1.48
<b>TOTALS</b>	<b>163,733,076</b>	<b>5,621,806</b>	<b>14,905,079</b>	<b>12.5%</b>	<b>-191,229</b>	<b>-770,955</b>	<b>8,563,938</b>	<b>847,000</b>	<b>\$2.92</b>

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

KEY LEASE TRANSACTIONS Q4 2024

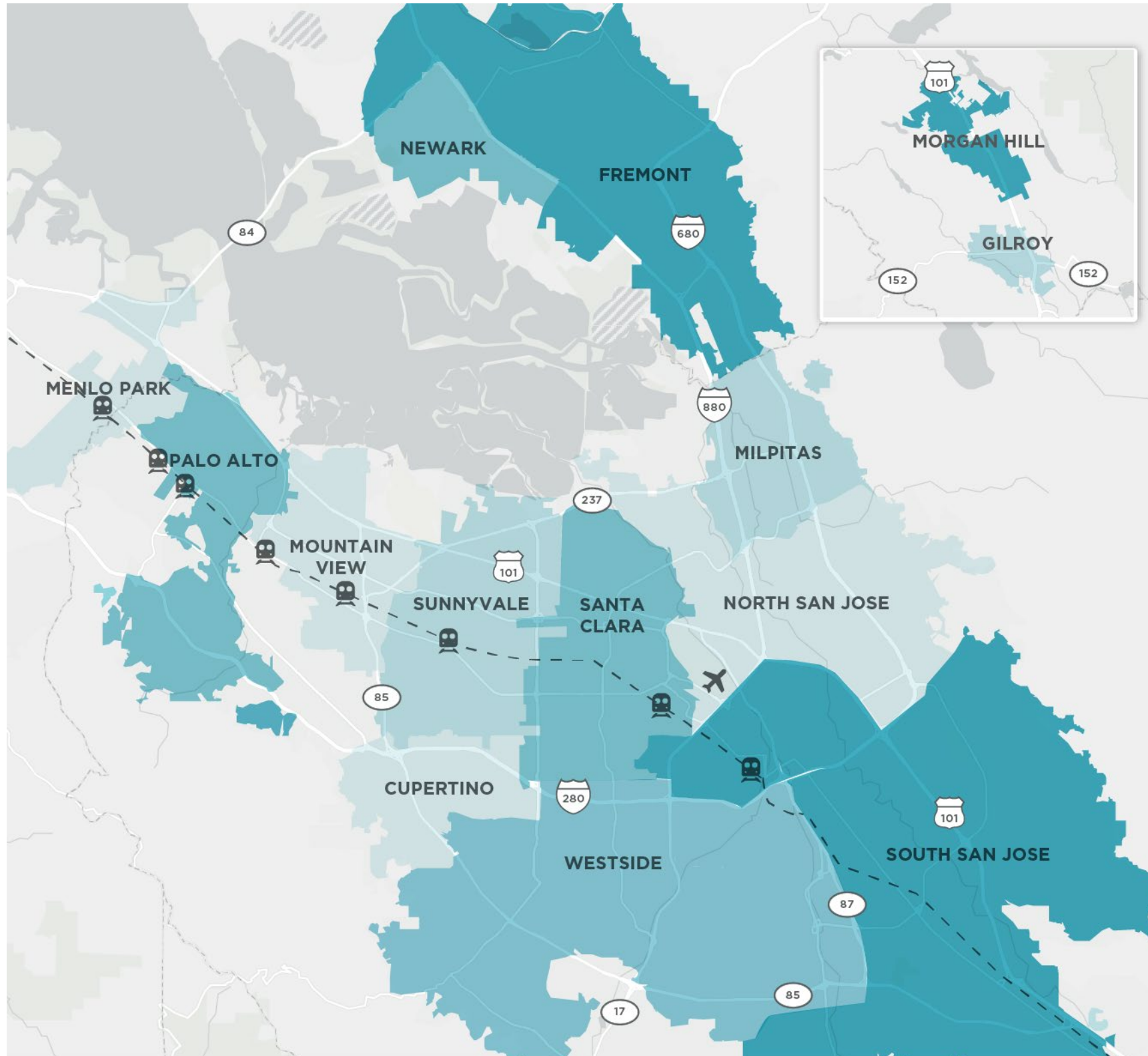
PROPERTY	SUBMARKET	TENANT	SF	TYPE
2315-2345 N First St	North San Jose	Astera Labs	154,231	New Lease
350 Cobalt Way	Sunnyvale	Confidential	134,218	New Lease
Stevenson Business Center	Fremont	Confidential	116,780	New Lease
3545 N First St & 30 Rio Robles Dr	North San Jose	F5	112,719	Renewal
860 W California Ave	Sunnyvale	Walmart	107,000	Renewal

KEY SALE TRANSACTIONS Q4 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
2334 Lundy Ave	North San Jose	Digital Realty / Overton Moore Properties	130,752	\$9.5M / \$73
3100 N First St	North San Jose	East West Bank / Vibrant Wellness	99,494	\$17.5M / \$176
355-415 E Middlefield Rd	Mountain View	Renault & Handley / Essex Property Trust	86,377	\$26.0M / \$301
18095 Serene Dr	Morgan Hill	Sakata Seed Corporation / Amelia Investment LLC	76,728	\$18.7M / \$244
2400 Walsh Ave	Santa Clara	Nanez Manufacturing / Fortune Realty	59,430	\$16M / \$270



R&D SUBMARKETS



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