

MARKET FUNDAMENTALS

	YOY Chg	Outlook
17.4% Vacancy Rate	▼	▼
1.4M YTD Net Absorption, SF	▼	▲
\$5.19 Asking Rent, PSF (Overall, All Property Classes) Not Reflective of U.S. Office MarketBeat	▼	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.18M San Jose MSA Employment*	▲	▬
3.8% San Jose MSA Unemployment Rate*	▼	▲
4.2% U.S. Unemployment Rate	▼	▲

Source: BLS
*Q3 2026 figures are based on latest available data

VENTURE CAPITAL FUNDING DROPS, THOUGH STILL IMPRESSIVE

For the San Jose MSA, the unemployment rate dropped 60 basis points (bps) year-over-year (YOY) closing at 3.8%, while nonfarm employment increased by 18,300 jobs over the same period. Despite these positive numbers, office jobs, particularly within the tech sector, continued to record layoffs in the third quarter, totaling just over 2,200 lost positions.

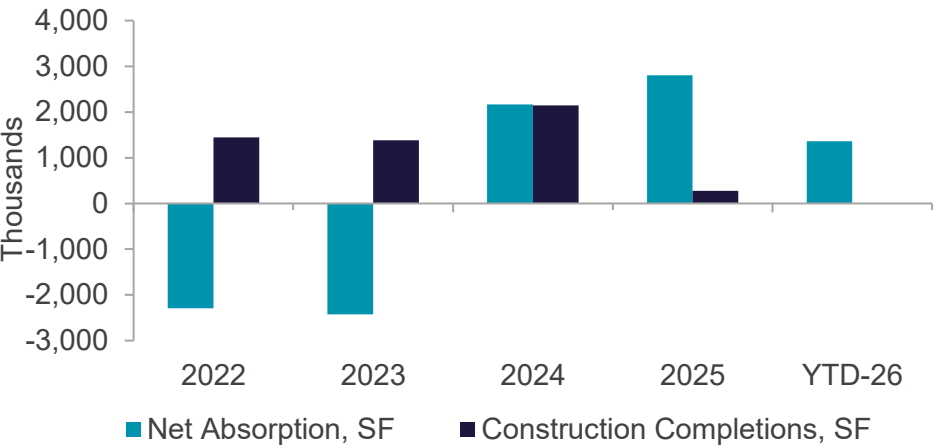
Venture capital funding into Santa Clara County-based companies closed the third quarter at \$14.1 billion (B) in 199 deals, down in both dollars and deals from \$21.2B in 217 deals in the second quarter. That said, funding remains well above the historical average, with the year-to-date figure closing at \$43.1B. The largest deals in the third quarter were Tenstorrent (Santa Clara) with a \$1.3B funding round, followed by River AI (Palo Alto) with a \$1.1B funding round.

VACANCY DECLINES

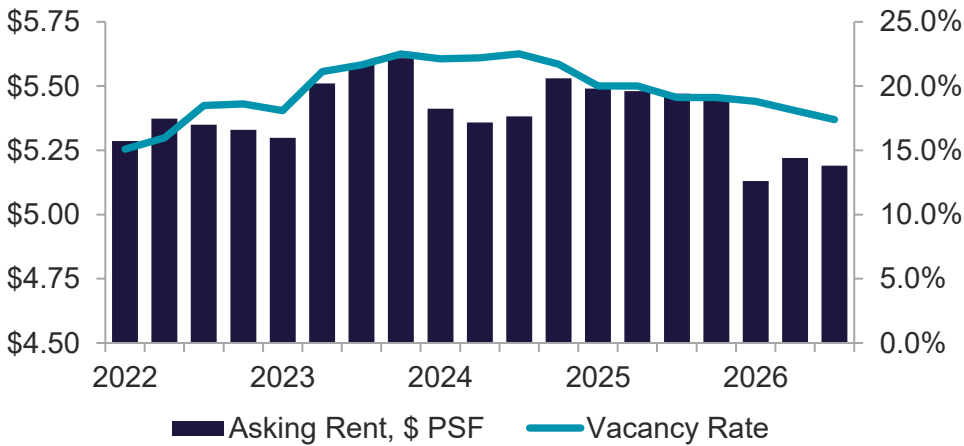
The Silicon Valley office vacancy rate declined meaningfully in the third quarter of 2026, finishing at 17.4%. It has fallen 70 bps from 18.1% last quarter and 170 bps from 19.1% one year ago. The current rate translates to 16.4 million square feet (msf) of space, a decrease from 17.1 msf in the previous quarter, and the lowest figure since the first quarter of 2023. It has consistently remained below 20.0 msf over the last seven quarters, indicating steady improvement. The percentage of sublease space also declined in the third quarter, finishing at 13.5%, a drop of 515,000 square feet (sf).

Sunnyvale experienced the steepest decline in vacancy in the third quarter, decreasing to 10.3% from 13.7% in the second quarter, largely due to the removal of subleases spaces on Enterprise Way. In contrast, North San Jose experienced the steepest rise in vacancy in the third quarter, increasing to 20.7% from 19.4% last quarter. The uptick was due to a 130,000-sf sublease on Bering Drive coming to market.

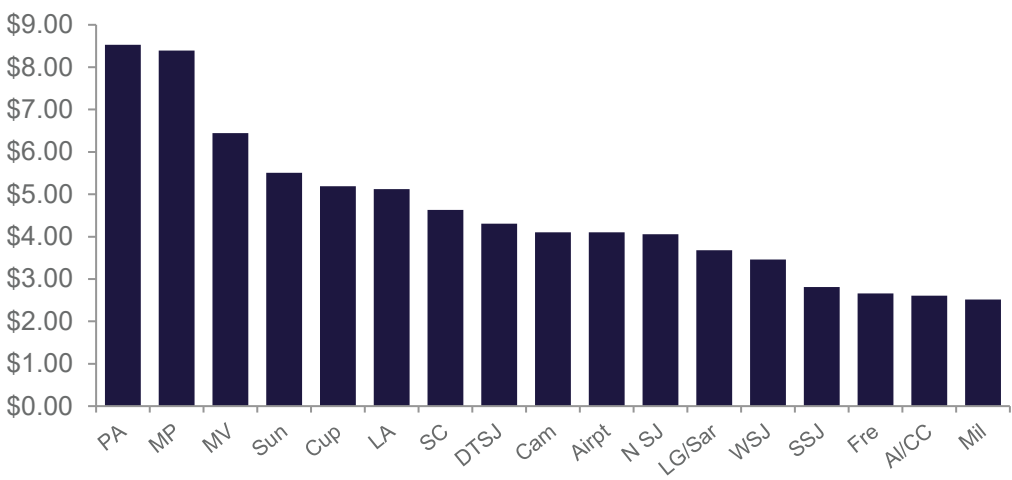
SPACE DEMAND / DELIVERIES



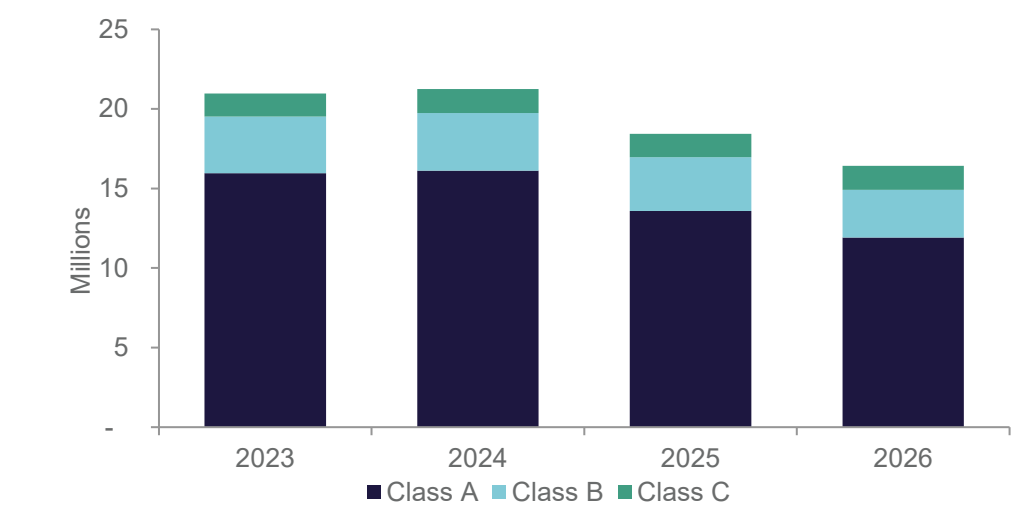
OVERALL VACANCY & ASKING RENT



AVERAGE ASKING RATE BY SUBMARKET



VACANT SPACE BY CLASS



ASKING RENT COMPARISON



SMALL DIP IN ASKING RENTS

Average asking rents decreased slightly in the third quarter, coming in at \$5.19 per square foot (psf) on a monthly full-service basis, a \$0.03 dip from the second quarter. The Southern Peninsula cities of Palo Alto, Menlo Park, and Mountain View continued to record the highest rents with second quarter numbers at \$8.53 psf, \$8.39 psf and \$6.44 psf, respectively. While rents remain below the previous pre-pandemic highs, the pricing does point to a healthier market dynamic – it has largely been a reflection of leasing activity concentrated in high to moderately priced space, rather than any distress-driven concessions. Rents are forecast to grow gradually as stronger leasing activity meets a shrinking supply of top-tier space.

GROSS ABSORPTION GROWS

Transaction volume grew 39.0% from just under 3.0 msf in the second quarter to 4.2 msf in the third quarter. Leasing activity through the first nine months of 2026 has already exceeded every full-year total recorded since 2020. Given the current trajectory, 2026 year-end leasing volume is on track to approach, and potentially surpass, the pre-pandemic 2019 total. There were 18 deals over 20,000 sf in the Valley, compared with 21 last quarter. Four of those deals in the most recent quarter were renewals. The submarket with the most significant gross absorption in the third quarter was Sunnyvale, largely due to Google renewing on seven buildings, totaling 2.2 msf. Amazon’s new lease of 318,000 sf at 1000 Enterprise Way also contributed to the elevated number.

NET ABSORPTION INCREASES

Net absorption for the third quarter increased to positive 607,000 sf, from positive 551,000 sf in the second quarter. Sunnyvale recorded the highest net absorption of the quarter among all submarkets in the Valley at positive 520,000 sf. In contrast, North San Jose experienced the lowest figure at negative 89,000 sf, due to the previously mentioned 130,000-sf sublease space added on Bering Drive.

TWO PROJECTS UNDER CONSTRUCTION

There were two projects under construction in the third quarter of 2026: a 60,000-sf speculative building at 2525 Park Boulevard in Palo Alto, as well as a 364,000-sf build-to-suit for Intuitive Surgical at 950 Kifer Road in Sunnyvale. The latter development serves as a second phase to another 847,000-sf R&D building at the same address, completed in early 2025. Once the office portion is completed, the campus will total 1.2 msf.

OUTLOOK

- Tenant requirements finished the third quarter at 11.3 msf, the highest figure since the second quarter of 2019. This is solid proof that activity is rebounding and will expectantly translate into transactions throughout the remainder of 2026 and into 2027. Technology companies represent 56.7% of requirements.
- Artificial Intelligence companies are expected to drive VC funding, tenant demand, and leasing activity in the foreseeable future. The effects of recent safety concerns, if any, remain to be seen.
- Tenants will continue to search for the best quality space to offer their employees, evident by Class A properties representing 89.3% of leasing activity in the third quarter. There will still be leasing activity in lower-tier buildings, though it is likely to be smaller in scale.
- The Sunnyvale submarket continued to be a strong performer, accounting for 2.6 msf of gross absorption, or 61.3% of total activity for the third quarter. While the city is expected to remain resilient throughout 2026, limited availability of top-tier Class A space could constrain future growth.

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 (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Menlo Park	6,465,528	343,291	845,465	18.4%	-50,149	702,189	203,005	0	\$8.39	\$8.40
Palo Alto	10,016,291	96,609	1,243,096	13.4%	207,609	68,948	885,958	60,188	\$8.53	\$9.01
Los Altos	1,115,367	14,331	128,778	12.8%	2,415	14,330	60,340	0	\$5.12	\$5.76
Mountain View	6,139,401	450,844	1,268,925	28.0%	-40,468	244,630	863,244	0	\$6.44	\$7.50
Cupertino	4,423,625	2,017	135,368	3.1%	9,752	62,145	80,485	0	\$5.19	\$5.82
Campbell	2,602,869	226,481	652,861	33.8%	24,894	-99,577	187,958	0	\$4.10	\$4.73
Los Gatos/Saratoga	2,661,523	197,088	105,753	11.4%	12,807	26,464	103,096	0	\$3.68	\$3.68
West San Jose	5,302,902	103,853	391,503	9.3%	-7,779	103,415	281,239	0	\$3.46	\$4.95
Sunnyvale	15,140,915	30,963	1,523,213	10.3%	520,086	705,854	3,218,077	364,000	\$5.51	\$6.26
Santa Clara	11,050,063	395,630	1,621,944	18.3%	45,198	-61,340	2,540,905	0	\$4.63	\$5.06
San Jose Airport	5,324,727	16,270	1,360,578	25.9%	20,799	94,231	262,172	0	\$4.10	\$4.15
North San Jose	6,589,209	261,025	1,104,994	20.7%	-88,797	-362,416	522,057	0	\$4.06	\$5.05
Alameda/Civic Center	2,115,101	1,416	204,626	9.7%	10,966	5,644	62,439	0	\$2.61	\$3.50
South San Jose	1,946,054	6,146	123,018	6.6%	-774	2,433	36,069	0	\$2.81	\$3.15
Downtown San Jose	10,612,744	68,392	3,199,191	30.8%	-54,065	-139,227	256,991	0	\$4.31	\$4.50
Milpitas	889,297	1,924	108,447	12.4%	-8,566	-11,726	23,953	0	\$2.52	\$2.39
Fremont	2,053,160	0	190,354	9.3%	2,747	7,955	54,285	0	\$2.66	\$2.51
CLASS BREAKDOWN										
Class A	61,307,194	1,929,677	9,994,966	19.5%	481,560	1,502,780	7,824,380	424,188	\$5.85	
Class B	19,637,966	168,541	2,821,758	15.2%	204,924	52,720	1,817,893	0	\$4.31	
TOTALS	94,448,776	2,216,280	14,208,114	17.4%	606,675	1,363,952	9,642,273	424,188	\$5.19	\$5.85

*Rental rates reflect full service asking
*Market indicators are not reflective of US MarketBeat tables

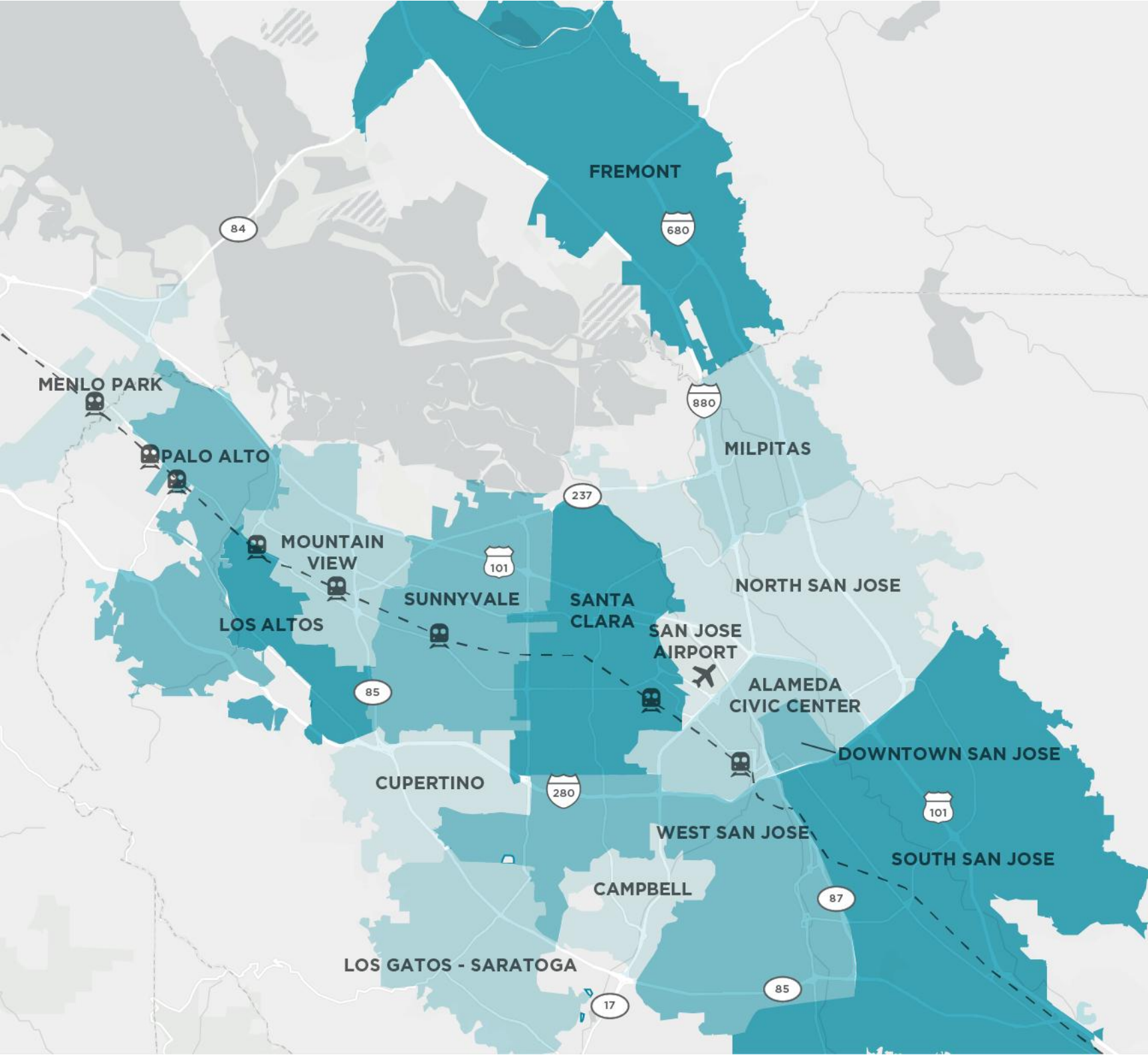
KEY LEASE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Moffett Place/Moffett Gateway	Sunnyvale	Google	2,189,156	Renewal
1000 Enterprise Way	Sunnyvale	Amazon	318,255	New Lease
1300 La Avenida Ave	Mountain View	Physical Intelligence	233,543	New Lease
1255 Pear Ave	Mountain View	Google	160,379	New Lease
3100 Hansen Way	Palo Alto	Rivian	66,579	Sublease

KEY SALE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1133 Innovation Way	Sunnyvale	HPE / BlueRock Group	318,172	\$330.8M / \$1,040
2350 Mission College Blvd	Santa Clara	PCCP / SFF Realty Partners	235,883	\$40.5M / \$172
2001 Gateway PI	San Jose Airport	Hudson Pacific / Peninsula Land & Capital	152,326	\$25.0M / \$164
2390 Mission College Blvd	Santa Clara	AllianceBernstein / SFF Realty Partners	152,311	\$44.3M / \$291
400 Castro St	Mountain View	Tishman Speyer / Spear Street Capital	138,681	\$121.5M / \$876

OFFICE SUBMARKETS



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