

INVESTMENT FORECAST

Office
San Jose Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

As Hub of Premier Workforce Talent, San Jose's Office Sector Begins to Make Meaningful Progress

Market facing challenges with strong momentum. San Jose's office sector saw its best quarter for net absorption since 2018 in the final three months of last year, dropping vacancy 100 basis points in that span to 18.7 percent. Vacant inventory decreased the most in Santa Clara, Palo Alto and the Mountain View-Los Altos area, with a more modest improvement in the Sunnyvale-Cupertino area. Late 2024 move-ins by TikTok, Industrious and software developer Ommissa added to the jump in occupied stock. That progress may be partially interrupted this year, however, amid headwinds in the technology sector. The number of local professional and business services-related jobs, as well as those in the information sector, were down last year by about 27,000 roles from the mid-2022 peak. Some staff count adjustments may continue this year, influencing immediate space needs. The second-most educated population nationally nevertheless provides a concentration of skilled labor likely to draw employers during the next expansion.

Tenants, private buyers dominate current investment landscape. Office trading has been subdued in San Jose since 2021, as higher interest rates and vacancy levels made deals harder to pencil. Two campus-spanning owner-user transactions from Microsoft and NVIDIA joined two other smaller multi-property exchanges to form the backbone of last year's sales velocity, though local private buyers were also active in the metro. This cohort is likely to lead trading in 2025, with listings in the Campbell-Los Gatos area, North San Jose, Palo Alto and Santa Clara drawing focus following local Class B/C vacancy drops of more than 100 points last year. Transactions involved assets changing hands for their stabilized cash flow or redevelopment potential. With sub-10 percent vacancy, South San Jose may also see activity, primarily inside the Highway 85 curve.

2025 MARKET FORECAST

+0.5%



EMPLOYMENT: While the pace of attrition is slowing, an estimated 1,500 roles in traditionally office-using fields will be relinquished this year amid a broader employment gain of 6,000 jobs.

2,722,000
sq. ft.



CONSTRUCTION: Google's Caribbean office park and property on Java Drive lead a Sunnyvale-Cupertino-focused development pipeline in 2025 that exceeds last year's total.

+20 bps



VACANCY: Vacancy will end the year at 18.9 percent — 130 basis points under 2023's record high. Availability was tightest entering 2025 in South San Jose and the Sunnyvale-Cupertino area.

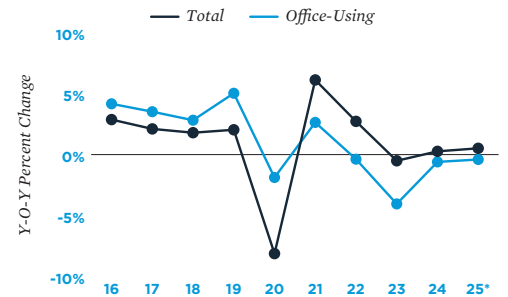
-0.9%



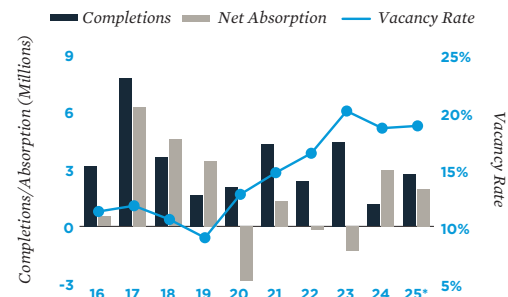
RENT: Rent corrections continue into their third year as the mean marketed rate eases down slightly to \$48.75 per square foot. Still, San Jose retains the nation's second-highest average rent.

INVESTMENT: *Approximately 40 percent of trades last year involved owner-users or a conversion. Improved vacancy, however, may broaden the number of well-leased listings for investors with more standard strategies.*

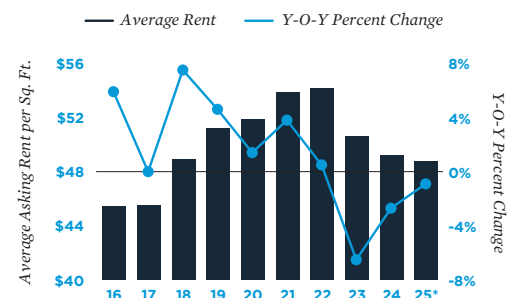
Employment Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.