

MARKETBEAT

San Mateo County

Office & R&D Q2 2019



SAN MATEO COUNTY OFFICE & R&D

Economic Indicators

	Q2 18	Q2 19*	12-Month Forecast
SF Peninsula Employment	1.1M	1.2M	▲
SF Peninsula Unemployment	2.3%	2.3%	▼
U.S. Unemployment	3.9%	3.6%	▼

*Q2 19 data based on the latest available data.
Source: BLS, Moody's Analytics, Cushman & Wakefield Research

Market Indicators

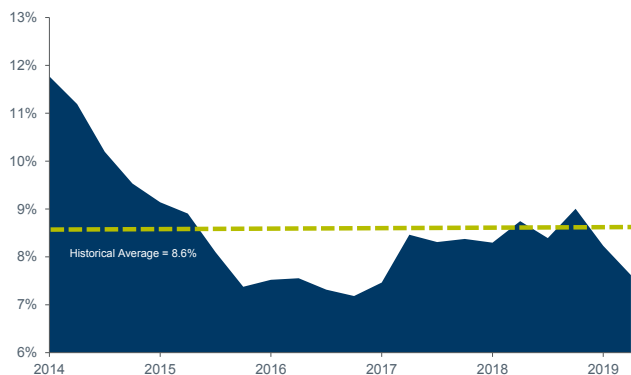
	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	8.7%	7.6%	■
Net Absorption (sf)	-294k	610k	▲
Under Construction (sf)	4.7M	5.6M	▲
Average Asking Rent*	\$4.89	\$5.25	▲

*Rental rates reflect full service asking \$psf/month

Overall Net Absorption/Overall Asking Rent (Full Service) 4-QTR TRAILING AVERAGE



Overall Vacancy



Total Occupancy Surpasses Historical High

The unemployment rate for the core Bay Area markets increased slightly year-over-year (YOY) rising 10 basis points (bps) to 2.8% from 2.7%. With that said, there are over 3.7 million gainfully employed workers, and the region continues to record economic growth despite being almost a decade into this expansion. Meanwhile, the San Francisco Metropolitan Division (San Francisco and San Mateo counties) has outperformed the broader Bay Area with the latest unemployment rate recorded at just 2.3%.

At the close of the second quarter of 2019, San Mateo County's combined office and R&D vacancy rate dropped back down to 7.6%, a 60 bps decrease from the first quarter reading of 8.2%. Over the last two years San Mateo County has seen an uptick in sublease space, from 850,000 square feet (sf) to nearly 1.1 million square feet (msf) today. Furthermore, direct full floor and even full building opportunities have been surfacing at a faster rate than before. But there has been an equal amount of new deals and expansion activity that has kept vacancy growth in check. The current vacancy figure is nearing the lowest point since the dot com era, which was recorded at 7.2% in 2016. Due to the low vacancy and rising total inventory, occupancy in San Mateo County has reached a historical high of 52.1 msf.

San Mateo County's combined office and R&D market recorded an average asking rent of \$5.25 per square foot (psf) on a monthly, full service basis in the second quarter of 2019. This translates to an increase of 7.4% from the year ago reading of \$4.89 psf. For the first time this cycle, the average overall asking rate was recorded higher than the average direct rate which stood at \$5.10 psf. A wave of subleases has appeared within downtown markets and within new construction. Due to prime location and quality, these new sublease rates are priced much higher than the average direct space. Downtown areas have access to top tier retail amenities and are serviced by Caltrain (rail service between San Francisco and Silicon Valley). These features are significant marketing points that draw in potential tenants willing to pay a premium. With the current market conditions these sublease listings aren't expected to last very long especially given the quality and demand of this product.

Within this last cycle, over 87.4% of all delivered space in San Mateo County was pre-leased upon completion. Today, the direct occupancy of those same buildings is 95.7%. In the rare occurrence that a building did not capture any pre-leasing, the available spaces were often filled within 90 days of delivery. Of what's currently under construction 63.3% is pre-leased with that figure expected to grow. The success of the latest wave of new construction has inspired more developers to begin new projects. San Mateo County currently

MARKETBEAT

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has 5.6 msf under construction; an addition of nearly 10% of the current inventory. Though demand is currently keeping up with this increased supply and occupancy at an all time high, the rising inventory bears watching for any signs of overbuilding in the market. Despite the incredible amount of pre-leasing of new construction, this can potentially leave large blocks of second and third generation space vacant as occupiers move to new facilities.

Along with this overwhelming demand for new product, a key trend has appeared within the category of older existing properties. Now more than ever before, landlords are providing “speculative suite” options where the tenant can request to build out its space as it sees fit and it being move-in ready within a 30-90 day window. This trend is becoming more and more popular as it gives an edge over the older, unimproved competition. Though these spaces often come with higher pricing to offset the cost of improvements, it effectively provides a new construction feel for the smaller user.

PRE-LEASED NEW CONSTRUCTION AND NUMEROUS LARGE EXISTING DEALS HAVE CONTRIBUTED 1.4 MSF OF POSITIVE NET ABSORPTION IN 2019

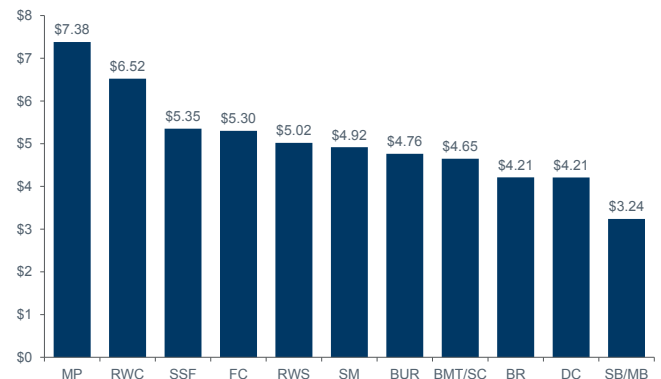
Prospective tenant demand in San Mateo County continues to grow despite recent heavy leasing activity. Nearly 3.3 msf of active tenant requirements are currently being tracked for office and R&D uses. From large campus style tech users to smaller startups, there is no shortage of tenants looking to find a home on the Peninsula. In the second quarter, net absorption, was recorded at positive 610,000 sf. This puts the combined year to date net absorption at positive 1.4 msf. Looking ahead, new construction pre-leasing will add another 2.2 msf in net absorption over 2019 and 2020 while an additional 315,000 sf of leasing in existing properties will be included in net absorption in the second half of 2019.

Outlook

- Vacancy has dropped near the historical low being recorded at 7.6% in the second quarter of 2019. Increasing tenant demand is expected to keep the rising supply in check.
- Asking rates are on the rise again especially within high demand submarkets. The current asking rate was recorded at \$5.25 per square foot.
- After another huge quarter of growth, net absorption will likely continue to record high numbers throughout 2019 with many pre-leased deals still in the pipeline.

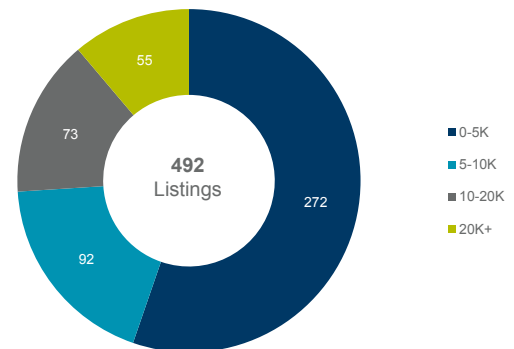
Average Asking Rate by Submarket (Full Service)

MENLO PARK STILL COMMANDS THE HIGHEST ASKING RATES



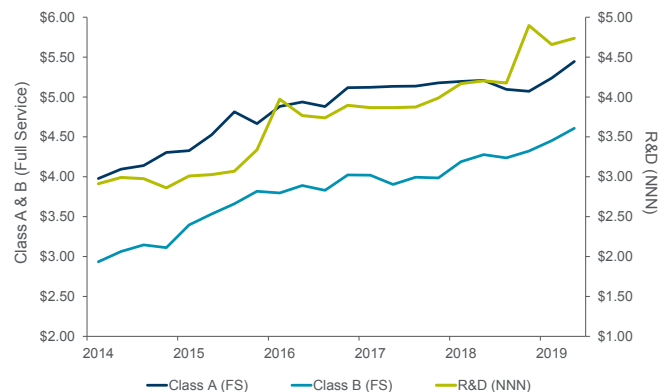
Availabilities by Size Segment

NUMBER OF LISTINGS DROPPED 2.2% SINCE LAST QUARTER



Average Asking Rate by Class (Full Service)

SIGNIFICANT TENANT DEMAND AND LEASING ARE PUSHING RATES



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San Mateo County

Office & R&D Q2 2019



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT* (ALL CLASSES)	OVERALL AVERAGE ASKING RENT* (CLASS A)
Daly City	966,712	0	81,560	8.4%	27,554	13,996	0	\$4.21	\$4.50
Brisbane	984,903	75,165	45,261	12.2%	0	-46,858	616,439	\$4.21	\$4.11
S. San Francisco	12,566,266	134,964	603,414	5.9%	533,826	962,555	2,127,909	\$5.35	\$3.69
San Bruno/Millbrae	1,821,863	4,716	28,570	1.8%	24,806	-22,399	0	\$3.24	\$3.69
Burlingame	2,621,162	98,139	320,168	16.0%	-4,037	5,684	803,853	\$4.76	\$5.38
NORTH COUNTY TOTALS	18,960,906	312,984	1,078,973	7.3%	582,149	912,978	3,548,201	\$4.96	\$4.61
San Mateo	7,606,211	370,387	730,753	14.5%	-10,344	74,397	574,100	\$4.92	\$5.11
Foster City	4,857,493	20,817	299,960	6.6%	64,390	320,874	0	\$5.30	\$5.40
Redwood Shores	6,320,697	129,301	680,160	12.8%	18,998	140	0	\$5.02	\$5.15
CENTRAL COUNTY TOTALS	18,784,401	520,505	1,710,873	11.9%	73,044	395,411	574,100	\$5.01	\$5.18
Belmont/San Carlos	2,467,498	30,486	97,682	5.2%	1,772	7,960	577,551	\$4.65	\$5.04
Redwood City	6,851,269	77,741	109,573	2.7%	-47,646	51,312	95,000	\$6.52	\$7.36
Menlo Park	9,361,426	133,173	226,731	3.8%	1,154	5,245	798,794	\$7.38	\$9.03
SOUTH COUNTY TOTALS	18,680,193	241,400	433,986	3.6%	-44,720	64,517	1,471,345	\$6.62	\$7.91
CLASS BREAKDOWN									
Office Class A	24,867,670	691,751	1,667,426	9.5%	160,379	-284,284	3,009,298	\$5.45	
Office Class B	6,465,713	136,547	615,099	11.6%	1,210	-19,670	0	\$4.61	
R&D	21,740,623	220,544	788,365	4.6%	456,985	1,695,604	2,584,348	\$4.74	
TOTAL	56,425,500	1,074,889	3,223,832	7.6%	610,473	1,372,906	5,593,646	\$5.25	\$5.45

*Rental rates reflect full service asking \$psf/month

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
4500 Bohannon Dr.	69,543	E-Trade	Kilroy Real Estate	Renewal	Menlo Park
1051 E. Hillsdale Blvd.	52,624	Exabeam	Heitman LLC	New Lease	Foster City
2950 S. Delaware St.	48,353	Upstart	Stockbridge	Sublease	San Mateo
1200 Bridge Pkwy.	37,500	Ascendis Pharma	PGIM / Longfellow	New Lease	Redwood Shores

Key Sale Transactions Q2 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	MARKET
1350 Bayshore Hwy.	196,077	Woodstock Development	Harvest / New York Life	\$73,500,000 / \$375	Burlingame
901 Cherry Ave.	184,000	Google	Gap	\$220,550,000 / \$1,199	San Bruno/Millbrae
1450 Fashion Island Blvd.	103,282	Renault & Handley	Invesco Advisors	\$63,000,000 / \$610	San Mateo

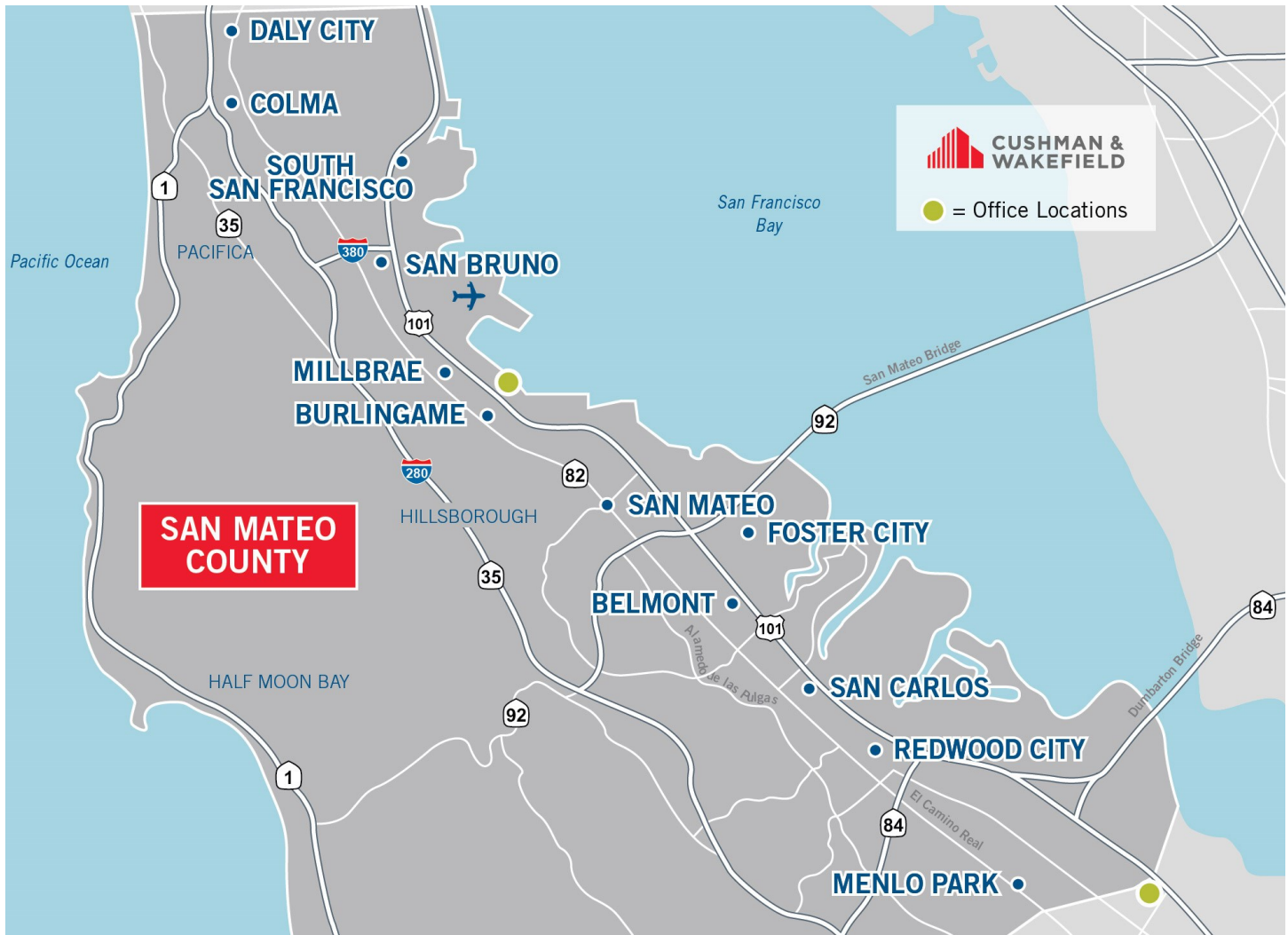
MARKETBEAT

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Office & R&D Q2 2019



Office & R&D Submarkets San Mateo County



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About Cushman & Wakefield

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