

# MARKETBEAT

## San Mateo County

### Office & R&D Q3 2019



#### SAN MATEO COUNTY OFFICE & R&D

##### Economic Indicators

	Q3 18	Q3 19*	12-Month Forecast
SF Peninsula Employment	1.1M	1.2M	■
SF Peninsula Unemployment	2.2%	2.2%	■
U.S. Unemployment	3.8%	3.7%	▲

\*Q3 19 data based on the latest available data.  
Source: BLS, Moody's Analytics, Cushman & Wakefield Research

##### Market Indicators

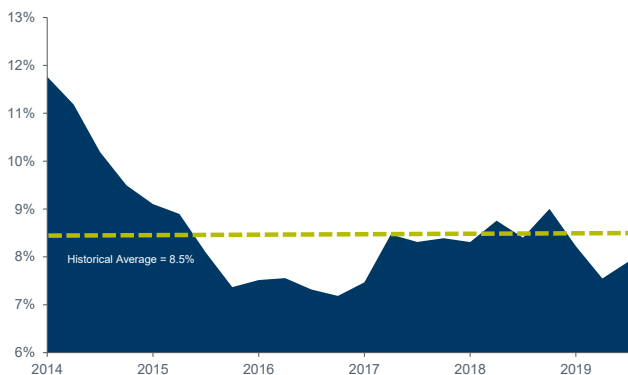
	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	8.4%	7.9%	■
Net Absorption (sf)	755k	586k	▲
Under Construction (sf)	4.9M	5.9M	▲
Average Asking Rent*	\$4.84	\$5.24	▲

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

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



#### Overall Vacancy



#### If You Build It, They Will Come

The unemployment rate for the core Bay Area markets increased slightly year-over-year (YOY) rising 10 basis points (bps) to 2.6% from 2.5%. With that said, there are over 3.8 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 2.2%.

At the close of the third quarter of 2019, San Mateo County's combined office and R&D vacancy rate rose to 7.9%, a 40 bps increase from the second quarter reading of 7.5%. Over the last two years San Mateo County has recorded an uptick in sublease space, from 850,000 square feet (sf) to over 1.2 million square feet (msf) today. A contributing factor to this trend can be observed within new construction. In order to secure future expansion options, large tenants will often pre-lease more space than they need. They immediately offer a portion for sublease with a shorter term. That gives them a state of the art facility with an easy expansion option. Ultimately, this strategy has been very successful as the demand for new construction has been at an all-time high. Within the top 10 deals this quarter, six leases were in newly constructed buildings, four of which were pre-leases. While supply has been ramping up at an increasing rate, there has been an equal amount of new deals and expansion activity that has kept vacancy growth in check over the last two years.

San Mateo County's combined office and R&D market recorded an average asking rent of \$5.24 per square foot (psf) on a monthly, full service basis in the third quarter of 2019. This translates to an increase of 8.3% from the year ago reading of \$4.84 psf. The average asking rate has nearly doubled throughout this economic expansion and is continuing an upward climb. Despite some softening in the market, many landlords are still increasing asking rates. This is mostly due to the overwhelming amount of tenant demand seen within downtown markets, life science projects, projects with newer construction, and projects accessible to Caltrain stations.

Within this last cycle, over 88.2% of all delivered space in San Mateo County was pre-leased upon completion. Today, the direct occupancy of those same buildings is 96.5%. 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, 59.1% is pre-leased with that figure expected to grow. The success of the latest wave of construction has inspired more developers to begin new projects. San Mateo County currently has 5.9 msf under construction; an addition of over 10% of the current inventory. Though demand is currently keeping up with this

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increased supply and occupancy is at a record level, the rising inventory bears watching for any signs of overbuilding in the market. In this quarter alone there was 830,000 sf in completions putting 2019 at a total of 1.4 msf.

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.

### LIFE SCIENCE PROJECTS DOMINATE THE PRE-LEASING FIGURES THIS QUARTER WITH OVER 430,000 SF IN NEW DEALS.

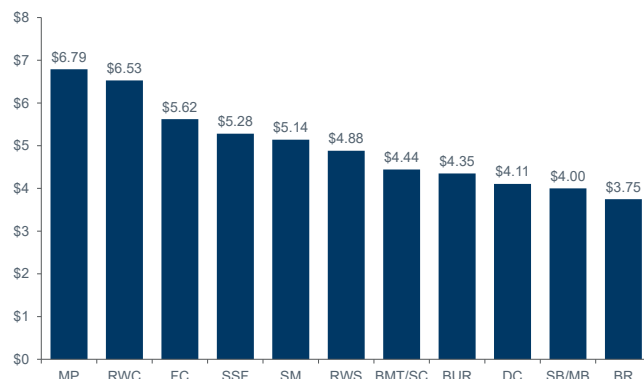
Prospective tenant demand in San Mateo County continues to grow despite recent heavy leasing activity. Nearly 3.8 msf of active tenant requirements are currently being tracked for office and R&D uses. From large campus style tech users to smaller startups, there is no shortage of tenants looking to find a home on the Peninsula. In the third quarter, net absorption was recorded at positive 586,000 sf. This puts the combined year to date net absorption at positive 2.0 msf. Looking ahead, new construction pre-leasing will add another 2.8 msf in net absorption over the next two years while an additional 423,000 sf of leasing in existing properties will be included in net absorption in the fourth quarter of 2019 and into 2020.

### Outlook

- Vacancy fluctuated upwards this quarter to 7.9%. With supply increasing rapidly, tenant demand has kept vacancy growth in check. The life science industry has contributed heavily to both tenant demand and completed deals.
- Tenant demand has continued to increase, now being recorded at 3.8 msf. The success of new construction in this last cycle has been dependent on this figure.
- Asking rates continue to climb driven by the heightened tenant demand. The current average asking rate is \$5.24 psf.

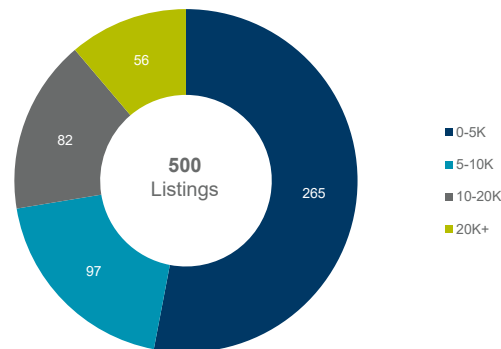
### Average Asking Rate by Submarket (Full Service)

SOUTHERN MARKETS OFTEN COMMAND HIGHEST ASKING RATES



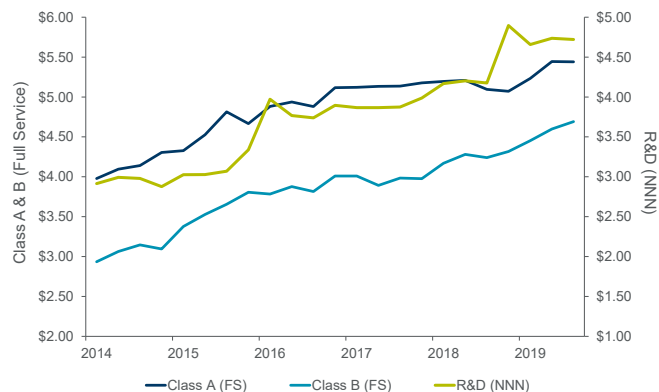
### Availabilities by Size Segment

NUMBER OF LISTINGS HAVE FALLEN 6.9% SINCE THE FIRST QUARTER



### Average Asking Rate by Class (Full Service)

ASKING RATES CONTINUE ON AN UPWARD TRAJECTORY



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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	3,681	77,173	8.4%	706	14,702	0	\$4.11	\$4.50
Brisbane	1,001,609	95,281	14,079	10.9%	11,066	-35,792	616,439	\$3.75	\$3.66
S. San Francisco	12,566,266	113,476	768,446	7.0%	-142,023	819,011	2,127,909	\$5.28	\$3.76
San Bruno/Millbrae	1,821,863	2,000	10,000	0.7%	19,063	-3,336	0	\$4.00	\$4.00
Burlingame	2,644,042	42,330	331,355	14.1%	66,747	73,186	803,853	\$4.35	\$4.68
<b>NORTH COUNTY TOTALS</b>	<b>19,000,492</b>	<b>256,768</b>	<b>1,201,053</b>	<b>7.7%</b>	<b>-44,441</b>	<b>867,771</b>	<b>3,548,201</b>	<b>\$4.85</b>	<b>\$4.12</b>
San Mateo	8,059,211	405,461	814,428	15.1%	331,259	408,648	126,853	\$5.14	\$5.38
Foster City	5,124,151	20,525	324,225	6.7%	311,002	651,401	0	\$5.62	\$5.72
Redwood Shores	6,320,697	162,865	476,689	10.1%	161,773	163,947	0	\$4.88	\$5.02
<b>CENTRAL COUNTY TOTALS</b>	<b>19,504,059</b>	<b>588,851</b>	<b>1,615,342</b>	<b>11.3%</b>	<b>804,034</b>	<b>1,223,996</b>	<b>126,853</b>	<b>\$5.14</b>	<b>\$5.38</b>
Belmont/San Carlos	2,414,508	82,472	113,449	8.1%	-54,312	-38,242	556,000	\$4.44	\$5.04
Redwood City	6,856,164	144,167	133,834	4.1%	-92,201	-39,375	725,740	\$6.53	\$7.13
Menlo Park	9,332,426	157,532	221,663	4.1%	-27,484	-20,046	952,794	\$6.79	\$8.65
<b>SOUTH COUNTY TOTALS</b>	<b>18,603,098</b>	<b>384,171</b>	<b>468,946</b>	<b>4.6%</b>	<b>-173,997</b>	<b>-97,663</b>	<b>2,234,534</b>	<b>\$6.17</b>	<b>\$7.49</b>
<b>CLASS BREAKDOWN</b>									
Office Class A	25,358,927	760,232	1,718,222	9.8%	326,212	70,990	3,325,240	\$5.44	
Office Class B	6,465,713	135,894	602,782	11.4%	-1,630	-21,300	0	\$4.69	
R&D	21,993,054	299,781	804,133	5.0%	284,875	1,980,479	2,584,348	\$4.72	
<b>TOTAL</b>	<b>57,107,649</b>	<b>1,229,790</b>	<b>3,285,341</b>	<b>7.9%</b>	<b>585,596</b>	<b>1,994,104</b>	<b>5,909,588</b>	<b>\$5.24</b>	<b>\$5.44</b>

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

#### Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Kilroy Oyster Point	234,892	Cytokinetics	Kilroy Realty Corporation	Pre-Leased Construction	S. San Francisco
500 El Camino Real	154,000	SoftBank	Stanford	Pre-Leased Construction	Menlo Park
835 Industrial Rd.	99,557	Atreca	Alexandria Real Estate Eq.	Pre-Leased Construction	San Carlos
835 Industrial Rd.	96,463	ChemoCentryx	Alexandria Real Estate Eq.	Pre-Leased Construction	San Carlos

#### Key Sale Transactions Q3 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	MARKET
400 450 Concar	304,885	Diamond Investment Prop.	Goldman Sachs	\$320,000,000 / \$1,050	San Mateo
San Mateo Gateway	223,500	Kennedy Wilson Properties	Hines & Angelo, Gordon	\$87,500,000 / \$391	San Mateo
345 Convention Way	17,808	Pan Asian Venture Capital	Satellite Healthcare	\$4,400,000 / \$247	Redwood City

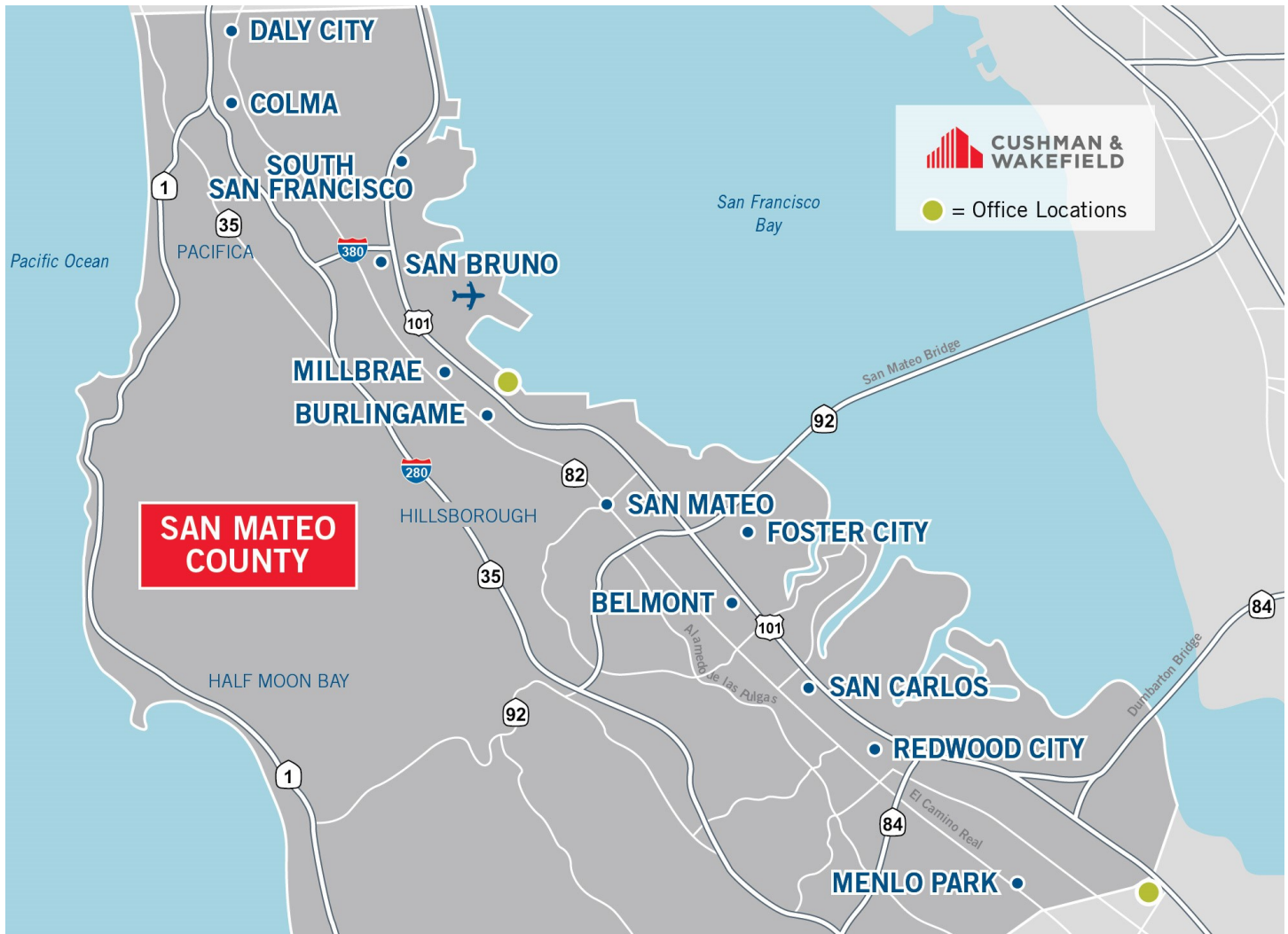
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#### Office & R&D Submarkets San Mateo County



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