



Office & R&D Q4 2019

YoY Chg 12-Mo. Forecast

7.7%

Vacancy Rate



462K

Net Absorption, SF



\$5.47

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS
Q4 2019

YoY Chg 12-Mo. Forecast

1.2M

San Francisco Metro
Employment

2.1%

San Francisco Metro
Unemployment Rate

3.6%

U.S.
Unemployment RateSource: BLS, Moody's Analytics
2019Q4 data are based on the latest available data

San Mateo Economy at Full Employment

The San Francisco metropolitan division (San Francisco and San Mateo counties) closed November with an unemployment rate of just 2.1% and employment at 1.2 million. Office using positions grew by 4.8% while the total nonfarm sector increased by 2.1% year-over-year (YOY). The San Francisco metropolitan division unemployment rate has outperformed the broader Bay Area quarter-over-quarter (QOQ) and remains well under the U.S. unemployment rate of 3.6%.

Vacancy Stabilizes

The San Mateo County combined office and R&D vacancy rate was just 7.7% at the end of the fourth quarter, unchanged from the third quarter though down 130 bps from one year ago. Dwindling supply of vacant large block spaces and nearly fully leased new construction have put downward pressure on the vacancy rate in North and Central county markets. For Class A space, the market is even tighter with a direct vacancy rate at just 6.7% and R&D direct vacancy at a very tight 2.5% at the close of the year. The larger continues to be class B with an overall vacancy rate of 11.2% as the flight to quality continues.

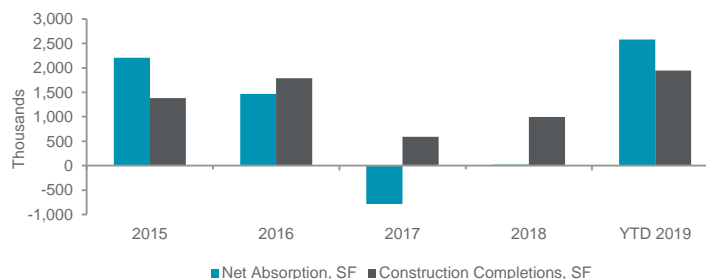
Asking Rents on the Rise

The San Mateo County overall asking rent closed at a record \$5.47 per square foot (psf) on a monthly, full-service basis in the fourth quarter of 2019. This translates to an increase of 7.7% from the year ago figure of \$5.08 psf. There has been a surge in pricing within the Class A direct segment over the past year, climbing 9.6% YOY to \$5.69 psf while R&D direct asking rent declined a modest 1.8% YOY on a monthly, NNN basis. The combined average asking rate has nearly doubled since the beginning of this economic expansion and is continuing an upward climb. The rise in asking rates are found in areas with the most tenant demand, noticeably in downtown markets, life science complexes, and projects accessible to Caltrain stations.

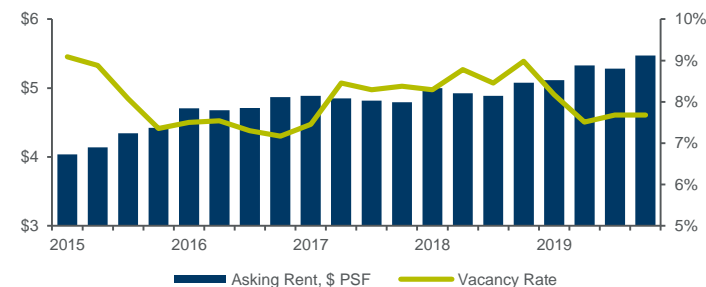
Development Activity

A total of 5.4 million square feet (msf) was under construction at the end of the fourth quarter which is currently 62.1% pre-leased. The remainder is scheduled to complete in 2022 and pre-leasing activity is projected to increase prior to delivery. The 2.9 msf delivering in 2020 includes the 803,000 sf Burlingame Point 100% pre-leased to Facebook, the 556,000 sf The Alexandria District at 35% pre-leased, and the 550,000 sf Gateway of Pacific Phase I 100% pre-leased to AbbVie. In the fourth quarter, the 495,000 sf Menlo Gateway Phase II delivered fully leased to Facebook. Completions in 2019 totaled 1.9 msf of which 948,000 sf was office and 904,000 sf was R&D, combined at 99% pre-leased.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



SAN MATEO COUNTY

Office & R&D Q4 2019



CUSHMAN & WAKEFIELD

Demand Continues to be Robust

New leasing totaled 1.4 msf in the fourth quarter, down from a revised 2.0 msf in the third quarter. Two mega deals contributed to nearly half of new leasing. Stripe, a fintech unicorn, will be relocating its headquarters from San Francisco to Oyster Point in South San Francisco, taking 412,000 sf with an expected 2021 occupancy. Amgen, one of the world's largest independent biotech companies, is expanding its footprint in South San Francisco by pre-leasing 240,000 sf at Gateway of Pacific Phase II, set to deliver in 2021.

Leasing activity for the full year totaled 6.4 msf, lagging well behind the peak of this economic cycle of 9.3 msf in 2015. Prospective tenant demand otherwise continues to grow within San Mateo County reaching a staggering all time high of 4.9 msf of active tenant requirements. Life science outpaces all other industries accounting for half of the requirements.

Net absorption totaled positive 462,374 sf in the fourth quarter and positive 2.6 msf for the year. Move-ins were concentrated in Central County at positive 1.4 msf and North County at positive 881,518 sf. The largest move-in in the fourth quarter was Proteus Digital Health for 50,000 sf at Bayshore Tech Park. In 2019, this complex was converted from class A office to R&D.

Investment Activity

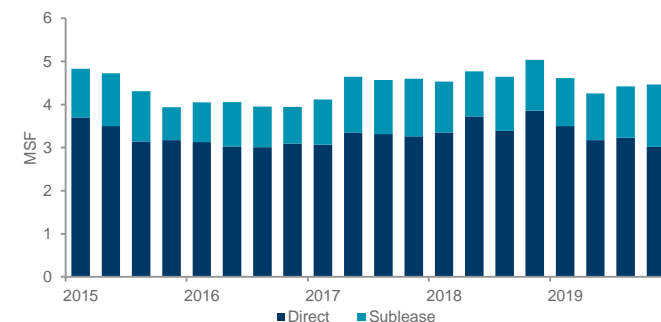
San Mateo County investment activity totaled \$2.5 billion year-to-date; well ahead of last year's figure of \$1.5 billion. There were 20 transactions totaling 3.5 msf with an average price of \$696 per square foot (psf). The largest transaction of the fourth quarter was the sale 500 Forbes Blvd; Clarion Partners acquired the R&D property occupied by Genentech for \$896 psf or \$139.5 million.

Office valuations have been on the rise throughout this market cycle with average price per square foot increasing 127% as R&D buildings and office parks have maintained strong leasing activity along with rising rents.

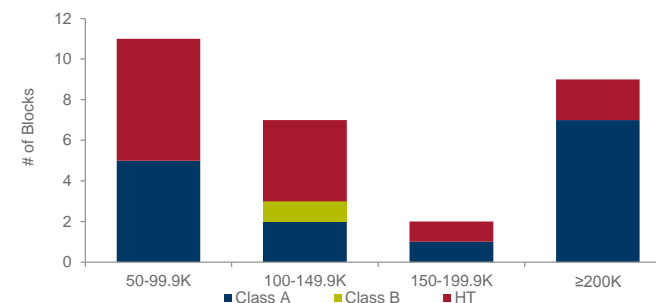
Outlook

- Office job growth is expected to continue through 2020 but at a slower pace than the 3.1% to 7.4% annual rates recorded over the past five years.
- Vacancy rates are expected to increase in select markets when new developments deliver without being fully pre-leased. Expect overall market asking rents to rise when these vacancies hit the market.
- The demand pipeline is robust at 4.9 msf with tenants looking to expand or relocate in 2020. The construction wave in this cycle will continue to attract tenants from San Francisco to Silicon Valley.
- There is 5.4 msf now under construction in developments mostly situated near Caltrain; a further 22 msf of office and R&D projects are in the proposed phase.

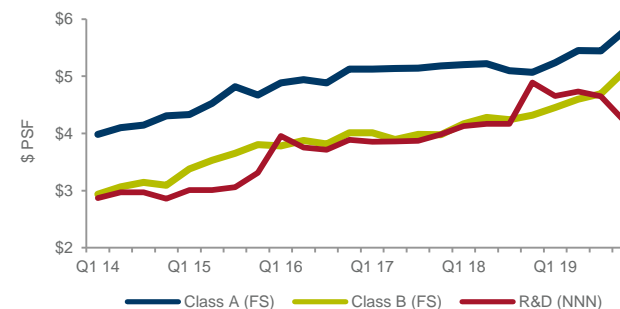
Direct vs. Sublease Space Available Comparison



Blocks of Contiguous Space



Asking Rent Comparison





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Daly City	966,712	3,681	91,390	9.83%	-14,437	485	52,053	0	\$4.26	\$4.67
Brisbane	1,001,609	61,310	69,952	13.11%	-21,902	-57,694	58,644	616,439	\$5.41	\$5.40
S. San Francisco	13,291,252	255,962	586,875	6.34%	-17,513	840,482	2,011,418	2,127,909	\$4.86	\$3.76
San Bruno/Millbrae	1,821,863	2,000	12,010	0.77%	-2,010	-5,346	58,734	0	\$4.33	\$4.00
Burlingame	2,660,365	20,776	313,921	12.58%	27,452	103,591	202,410	803,853	\$4.48	\$4.91
NORTH COUNTY TOTALS	19,741,801	343,729	1,074,148	7.18%	-28,410	881,518	2,383,259	3,548,201	\$4.78	\$4.60
San Mateo	8,059,211	391,840	732,477	13.95%	123,148	543,889	1,191,239	126,853	\$5.55	\$5.63
Foster City	5,124,151	12,236	313,828	6.38%	18,686	670,087	401,138	0	\$5.63	\$5.74
Redwood Shores	6,320,697	209,375	375,188	9.25%	49,448	218,938	639,267	0	\$5.04	\$5.01
CENTRAL COUNTY TOTALS	19,504,059	613,451	1,421,493	10.43%	191,282	1,432,914	2,231,644	126,853	\$5.41	\$5.51
Belmont/San Carlos	2,414,508	106,477	65,562	7.13%	13,128	-14,360	470,309	556,000	\$4.34	\$5.01
Redwood City	6,616,085	170,855	126,498	4.49%	-73,108	-58,727	793,234	725,740	\$6.44	\$6.94
Menlo Park	9,808,102	212,929	326,914	5.50%	359,482	339,436	488,530	432,664	\$7.34	\$8.50
SOUTH COUNTY TOTALS	18,838,695	490,261	518,974	5.36%	299,502	266,349	1,752,073	1,714,404	\$6.57	\$7.63
SAN MATEO COUNTY TOTALS	58,084,555	1,447,441	3,014,615	7.68%	462,374	2,580,781	6,366,976	5,389,458	\$5.47	\$5.79

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Oyster Point	S. San Francisco	Stripe	412,000	New Lease
750 Gateway Blvd – Phase II	S. San Francisco	Amgen	240,000	New Lease
Seaport Centre	Redwood City	Genomic Health	192,750	Renewal* / Expansion
2000 Seaport Blvd	Redwood City	Course Hero	79,084	Renewal
2 Tower Place	S. San Francisco	Arsenal Bio	39,973	New Lease
500 Arguello St.	Redwood City	Fish & Richardson	37,833	Renewal
2855 Campus Dr.	San Mateo	Incorta	25,000	New Lease

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
150 Industrial Rd.	San Carlos	Vica Capital / Graymark Capital	229,640	\$99.0M/\$431
2121 S. El Camino Real	San Mateo	Investcorp / Lincoln Property Co.	205,107	\$76.9M/\$375
500 Forbes Blvd	S. San Francisco	Alexandria RE / Clarion Partners	155,685	\$139.5M/\$896

KEY CONSTRUCTION COMPLETIONS YTD 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Menlo Gateway Phase II	Menlo Park	Facebook	494,710	Bohannon Development Co.

SAN MATEO

Office & R&D Q4 2019

**CUSHMAN &
WAKEFIELD****OFFICE SUBMARKETS****JASON KARBELK**

Associate Director, Research

Tel: +1 650 401 2112

jason.karbelk@cushwake.com**A CUSHMAN & WAKEFIELD
RESEARCH PUBLICATION**

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of \$8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services.

©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

cushmanwakefield.com