

SAN MATEO COUNTY

Office & R&D Q3 2020

	YoY Chg	12-Mo. Forecast
10.3% Vacancy Rate	▲	▲
-1.0M Net Absorption, SF	▼	▼
\$5.60 Asking Rent, PSF FS <i>(Overall, All Property Classes)</i>	▲	▼

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
1.0M SF Peninsula Metro Employment	▼	▲
9.1% SF Peninsula Metro Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics
2020Q3 data are based on the latest available data

ECONOMY: Improvement but Still Elevated

Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#). For the San Francisco metropolitan division (San Francisco and San Mateo counties), job growth has begun to recover though is still down year-over-year (YOY) by 129,000 positions with the unemployment rate reading 9.1%, up from a near record low 2.0% one year ago. For San Mateo County (SMC) alone, YOY jobs remain down by 32,700 to 386,300 while the unemployment rate stands at 7.9%, up from 2.1% over the same time period.

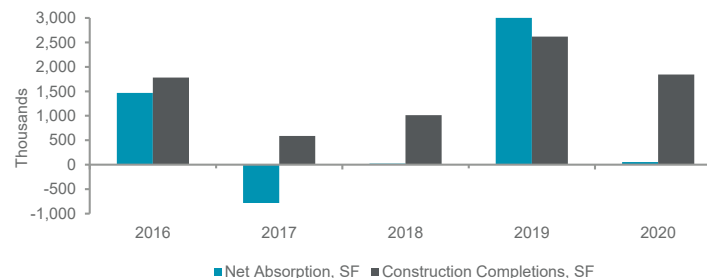
SUPPLY: Direct and Sublease Vacancy Up

Though rising over the past two quarters, the SMC combined office and R&D vacancy rate remains well below that of the surrounding markets. In the third quarter, the combined rate increased 160 basis points (bps) to 10.3% up from 8.7% in the second quarter and 7.5% one year ago. An increase in both direct and sublease vacancy have almost equally been the culprits with the direct figure at 4.1 million square feet (msf), up from 3.5 msf in the second quarter with the sublease figure at 2.1 msf, up from 1.7 msf in the second quarter. The least movement was recorded in R&D direct vacancy which was only up minimally during the third quarter. There has been a more substantial rise in R&D sublease vacancy which has, in fact, climbed in each of the last four quarters, though it has remained below 1.0 msf.

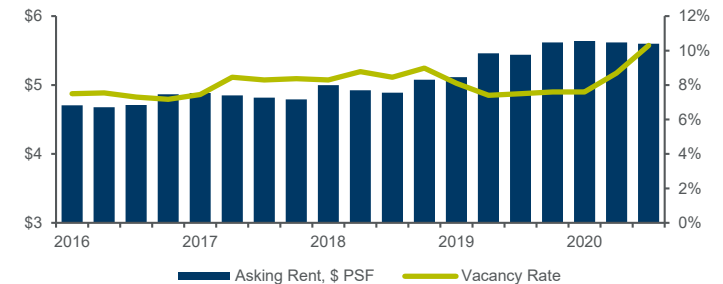
PRICING: Asking Rents Hold

The San Mateo County overall asking rent closed at \$5.60 per square foot (psf) on a monthly, full-service basis in the third quarter of 2020, down only \$0.02 psf from the second quarter. Overall office asking rents remain up by 6.2% YOY, closing the third quarter at \$5.55 psf while R&D rents are down slightly over the quarter and flat YOY at \$4.70 psf on a monthly, triple net basis. Downtown (mixed-use) markets, projects accessible to Caltrain stations and life science complexes, continue to command the top rents in the market.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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Development Activity

There were no new deliveries in the third quarter, though year-to-date, there has been just over 1.8 msf with all except 190,000 sf being speculative. Currently there is 4.2 msf under construction, all of that being speculative, with 44.2% pre-leased. Approximately 410,000 square feet (sf) is expected to deliver in the fourth quarter of this year with another 3.3 msf in 2021. South San Francisco has the most upcoming deliveries at 1.8 msf; of that, 55.0% is pre-leased to a mix of office and life science tenants.

An Ace Up Its Sleeve

Like essentially every other market in the country, new leasing activity has quieted dramatically since the pandemic began. There was just under 520,000 sf recorded in the third quarter, down from an upwardly revised 911,000 sf in the second quarter and almost 1.4 msf in the first quarter of 2020.

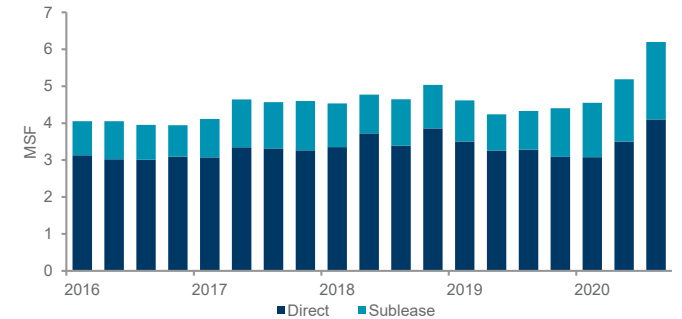
Net absorption was negative for the second quarter in a row at approximately -1.0 msf after a drop of -341,000 sf in the second quarter. But the first quarter of the year was rather strong at almost 1.4 msf, which has managed to keep the year-to-date figure in positive territory at 55,000 sf.

There is currently 4.2 msf of tenants in the market though some of the requirements are on hold because of the pandemic. The largest industry segment, by far, is life science with 2.5 msf of demand. The one benefit to SMC that few other markets in the country have is that it is one of the largest life science markets and that sector continues to be very active in the market. – whether for office or R&D space. In addition, SMC has the advantage of mass transit along with a more low-rise environment with available parking and sits between two of the more expensive markets in the Bay Area – San Francisco and Silicon Valley.

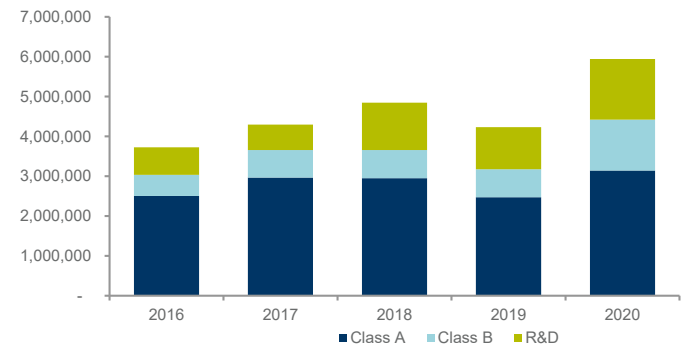
Outlook

- The vacancy rate is likely to tick up slightly in the fourth quarter if for no other reason than 410,000 sf of office space being delivered to the market with just 29.3% of that pre-leased.
- Asking rents for office space will remain rather flat for the foreseeable future; expect some uptick within the R&D sector. In 2021, there will likely be a further increase with new product delivering at trophy-level price points.
- The key advantage over the long-term for SMC is that it is a less expensive market compared to its neighbors to the north and south; plus, it is one of the key centers of the life science industry which has continued to move forward throughout the pandemic.

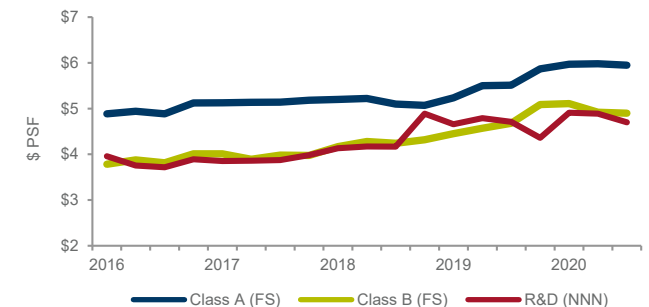
Direct vs. Sublease Space Available Comparison



Vacant Space by Product Type



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	0	72,241	7.5%	-19,933	30,897	38,442	0	\$3.85	\$4.65
Brisbane	1,108,099	203,252	117,110	28.9%	-46,159	-122,610	353,225	509,949	\$5.32	\$4.30
S. San Francisco	13,441,175	459,264	603,560	7.9%	-76,654	709,119	602,065	1,751,000	\$4.99	\$3.99
San Bruno/Millbrae	1,821,863	14,709	23,439	2.1%	-7,538	-24,138	41,553	0	\$3.88	\$4.00
Burlingame	3,477,628	128,199	385,595	14.8%	-49,391	600,755	118,442	44,605	\$4.98	\$5.42
NORTH COUNTY TOTALS	20,815,477	805,424	1,201,945	9.6%	-199,675	1,194,023	1,153,727	2,305,554	\$4.98	\$4.58
San Mateo	8,102,961	477,601	939,028	17.5%	-232,054	-366,391	374,632	618,345	\$5.56	\$5.66
Foster City	5,114,151	192,611	335,328	10.3%	-216,001	-201,875	10,699	0	\$5.67	\$5.74
Redwood Shores	6,321,142	220,918	736,501	15.1%	-22,981	-379,455	269,176	0	\$5.45	\$5.24
CENTRAL COUNTY TOTALS	19,538,254	891,130	2,010,857	14.9%	-471,036	-947,721	654,507	618,345	\$5.54	\$5.59
Belmont/San Carlos	2,492,985	79,678	136,100	8.7%	-77,536	16,124	239,261	556,000	\$4.22	\$4.88
Redwood City	7,238,256	100,343	220,969	4.4%	-85,021	26,222	508,103	305,585	\$5.94	\$7.64
Menlo Park	9,839,974	220,079	530,012	7.6%	-167,333	-234,002	226,058	436,667	\$7.74	\$9.46
SOUTH COUNTY TOTALS	19,571,215	400,100	887,081	6.6%	-329,890	-191,656	973,422	1,298,252	\$6.70	\$8.52
SAN MATEO COUNTY TOTALS	59,924,946	2,096,654	4,099,883	10.3%	-1,000,601	54,646	2,781,656	4,222,151	\$5.60	\$5.95

*Rental rates reflect full service asking

Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
111 Oyster Point Blvd	S. San Francisco	Sutro Biopharma	115,466	Sublease
20 Davis Dr.	Belmont	Confidential	84,148	Renewal
630 Gateway Blvd	S. San Francisco	Ambys	50,160	New Lease
1000 Marina Blvd	Brisbane	Mammoth Bio	45,278	New Lease
1200 Sierra Point Pkwy	Brisbane	MyoKardia	34,463	Sublease

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1800-1850 Sullivan Ave	Daly City	SMC Coastside Properties LLC / Verity Health Systems	144,825	\$13.3M / \$92

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OFFICE SUBMARKETS



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