

# SAN MATEO COUNTY

Office & R&D Q4 2020

	YoY Chg	12-Mo. Forecast
<b>11.0%</b> Vacancy Rate	▲	▲
<b>-370K</b> Net Absorption, SF	▼	▼
<b>\$5.60</b> Asking Rent, PSF FS <i>(Overall, All Property Classes)</i>	▲	▼

## ECONOMIC INDICATORS Q4 2020

	YoY Chg	12-Mo. Forecast
<b>1.1M</b> SF Peninsula Metro Employment	▼	▲
<b>6.0%</b> SF Peninsula Metro Unemployment Rate	▲	▼
<b>6.7%</b> U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics  
2020Q4 data are based on the latest available data

## ECONOMY: Improvement but Still Elevated

Beginning in March 2020, U.S. job losses reached levels unseen since the Great Depression. In May and June, lockdowns began to ease and signs of economic life reappeared. However, in late December as COVID-19 cases spiked, San Mateo County went back into lockdown. Employment has started to recover, in the San Francisco metropolitan statistical area (San Francisco and San Mateo counties), however, it remains down on a year-over-year (YOY) basis by 110,900 jobs. The unemployment rate has declined from its high earlier this year, with the quarterly figure now at 6.0%, still well above the figure of 2.0% one year ago. For San Mateo County (SMC) alone, YOY jobs remain down by 32,600 while the unemployment rate stands at 8.3%, up from 3.7% one year ago.

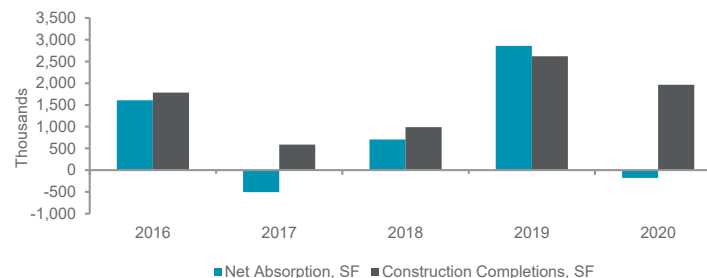
## SUPPLY: Direct and Sublease Vacancy Up

The San Mateo County combined office and R&D vacancy rate increased 80 basis points (bps) in the fourth quarter to 11.0% up from 10.2% in the third quarter and 7.6% one year ago. An increase in both direct and sublease vacancy have almost equally been the culprits with the direct figure at 4.4 million square feet (msf), up from 4.1 msf in the third quarter and the sublease figure at 2.2 msf, up from 2.0 msf in the third quarter. The least movement was recorded in R&D direct vacancy which was only up minimally during the fourth quarter. There has been a more substantial rise in office sublease vacancy which has, in fact, climbed in each of the last four quarters, and finished the year at 1.5 msf.

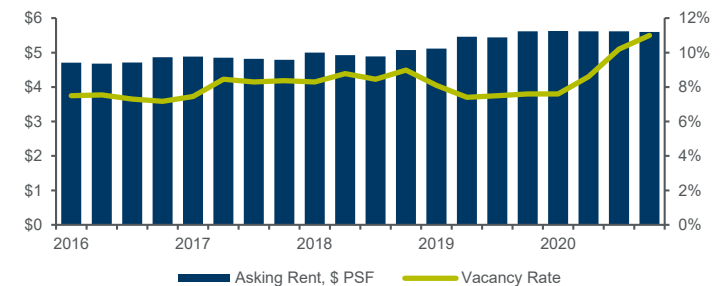
## PRICING: Asking Rents Remain Flat

The San Mateo County overall asking rent closed at \$5.60 per square foot on a monthly, full-service basis (psf/mo) in the fourth quarter of 2020, down only \$0.02 from the third quarter. Overall Class A office asking rents remain up by 3.2% YOY, closing the fourth quarter at \$6.06 psf while R&D rents are down slightly over the quarter at \$4.66 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



# SAN MATEO COUNTY



## Office & R&D Q4 2020

### Development Activity

One 120,000 square foot (sf) speculative building completed construction in the fourth quarter and is completely available. Currently there is 4.3 msf under construction, all of that being speculative, with 45.5% pre-leased. Approximately 3.7 msf is expected to deliver in 2021 with another 550,000 sf in 2022. 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.

### Leasing Activity at Historic Lows

Like essentially every other market in the country, new leasing activity is historically low since the pandemic began. There was just under 381,000 sf recorded in the fourth quarter, down from 569,000 sf in the third quarter. The 2020 annual gross absorption came in at 3.2 msf which is less than half of the 2019 total of 7.9 msf.

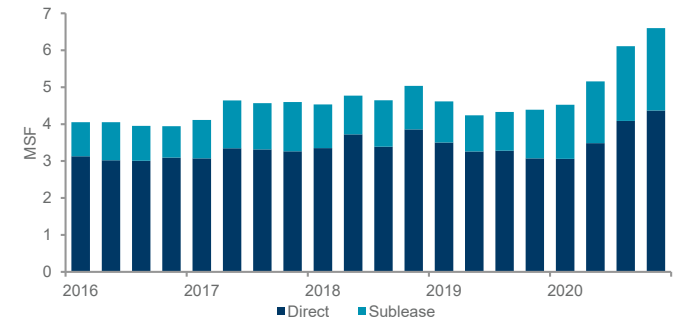
Net absorption was negative for the third quarter in a row at approximately -370,000 sf after a drop of almost -1.0 msf in the third quarter. The first quarter of the year was rather strong at almost 1.4 msf but could not offset the losses in the last three quarters. The 2020 annual net absorption was -178,000 sf following the 2.9 msf recorded in 2019.

There is currently 4.8 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.

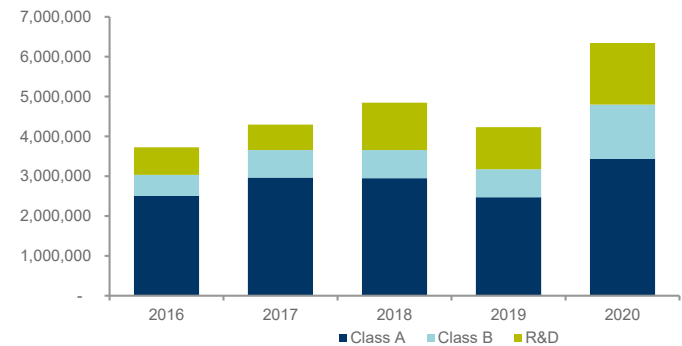
### Outlook

- The vacancy rate is likely to continue to increase in 2021 if for no other reason than 3.7 msf of office space being delivered to the market with just 45.5% 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.

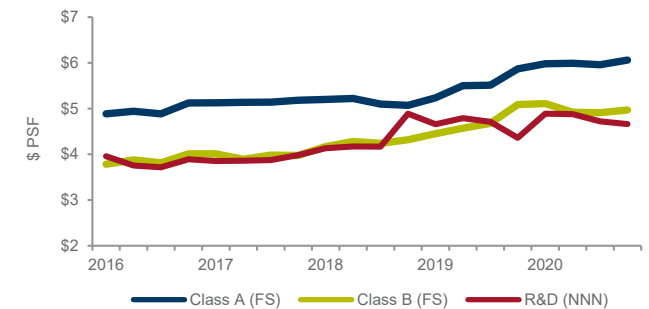
### Direct vs. Sublease Space Available Comparison



### 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	23,755	73,537	10.1%	-25,051	5,846	43,468	0	\$3.78	\$4.65
Brisbane	1,108,099	111,156	92,587	18.4%	77,920	-5,991	413,246	509,949	\$4.57	\$4.45
S. San Francisco	13,431,910	491,797	628,470	8.3%	-65,090	651,676	721,154	1,751,000	\$4.78	\$3.99
San Bruno/Millbrae	1,821,863	16,559	23,439	2.2%	-1,850	-25,988	41,553	157,852	\$3.80	\$4.00
Burlingame	3,477,691	128,372	351,939	13.8%	33,483	647,238	152,318	44,605	\$5.02	\$5.44
<b>NORTH COUNTY TOTALS</b>	<b>20,806,275</b>	<b>771,639</b>	<b>1,169,972</b>	<b>9.3%</b>	<b>19,412</b>	<b>1,272,781</b>	<b>1,371,739</b>	<b>2,463,406</b>	<b>\$4.75</b>	<b>\$4.59</b>
San Mateo	8,234,037	546,526	1,091,920	19.9%	-116,325	-467,512	420,175	509,000	\$5.85	\$6.05
Foster City	5,114,151	206,425	338,013	10.6%	-23,751	-218,374	12,209	0	\$5.60	\$5.70
Redwood Shores	6,321,178	203,113	827,898	16.3%	-90,190	-465,128	318,164	0	\$5.57	\$5.27
<b>CENTRAL COUNTY TOTALS</b>	<b>19,669,366</b>	<b>956,064</b>	<b>2,257,831</b>	<b>16.3%</b>	<b>-230,266</b>	<b>-1,151,014</b>	<b>750,548</b>	<b>509,000</b>	<b>\$5.72</b>	<b>\$5.83</b>
Belmont/San Carlos	2,492,985	159,880	146,700	12.3%	-90,802	-50,251	239,261	556,000	\$3.90	\$4.51
Redwood City	7,239,356	127,913	275,721	5.6%	-82,322	-41,783	512,260	305,585	\$6.12	\$7.78
Menlo Park	9,839,974	217,579	518,629	7.5%	14,306	-207,561	360,803	436,667	\$7.77	\$9.63
<b>SOUTH COUNTY TOTALS</b>	<b>19,572,315</b>	<b>505,372</b>	<b>941,050</b>	<b>7.4%</b>	<b>-158,818</b>	<b>-299,595</b>	<b>1,112,324</b>	<b>1,298,252</b>	<b>\$6.49</b>	<b>\$8.09</b>
<b>SAN MATEO COUNTY TOTALS</b>	<b>60,047,956</b>	<b>2,233,075</b>	<b>4,368,853</b>	<b>11.0%</b>	<b>-369,672</b>	<b>-177,828</b>	<b>3,234,611</b>	<b>4,270,658</b>	<b>\$5.60</b>	<b>\$6.06</b>

\*Rental rates reflect full service asking

Market indicators are not reflective of US MarketBeat tables

## KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1400 Sierra Point Pkwy	Brisbane	Annexon	65,818	New Lease
1490 O'Brien Dr	Menlo Park	Hexagon Bio	31,525	Renewal
1011 Sneath	San Bruno	Kaiser Health Foundation	28,562	Renewal
170 Harbor Blvd	S. San Francisco	Vaxart Inc.	24,606	New Lease
650 Gateway Blvd	S. San Francisco	Asher Biotherapeutics	20,000	New Lease

## KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1 & 2 Tower Place / 4000 Shoreline Ct	S. San Francisco	Phase 3 Real Estate Partners / Ventas Life Science & Healthcare Real Estate	786,433	\$1B / \$1,271

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OFFICE SUBMARKETS



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