

SAN MATEO COUNTY

Office & R&D Q1 2021

YoY Chg 12-Mo. Forecast

12.1%
Vacancy Rate ▲ ▲

677K
Net Absorption, SF ▼ ▼

\$5.89
Asking Rent, PSF FS
(Overall, All Property Classes) ▲ ▼

ECONOMIC INDICATORS Q1 2021

YoY Chg 12-Mo. Forecast

1.04M
SF Peninsula Metro Employment ▼ ▲

5.8%
SF Peninsula Metro Unemployment Rate ▲ ▼

6.0%
U.S. Unemployment Rate ▲ ▼

Source: BLS, Moody's Analytics
2021Q1 data are based on the latest available data

ECONOMY: Improvement but Still Elevated

One year ago, U.S. job losses reached levels unseen since the Great Depression. In 2020 signs of economic life reappeared as businesses started to open. However, in late December as COVID-19 cases spiked, San Mateo County went back into lockdown. At this writing as the vaccine is rolled out, the economy is again beginning to open. 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 153,900 jobs. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 5.8%, still well above the figure of 2.3% one year ago. For San Mateo County (SMC) alone, YOY jobs remain down by 16,300 while the unemployment rate stands at 6.2%, up from 5.5% one year ago.

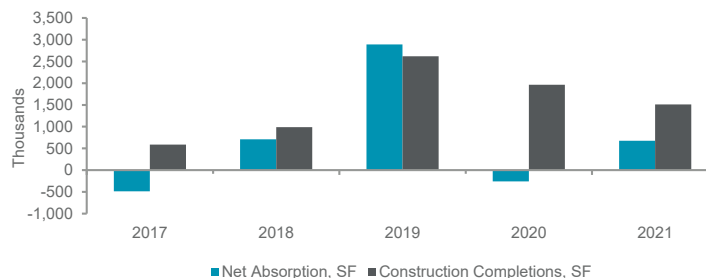
SUPPLY: Vacancies Continue to Rise

The San Mateo County combined office and R&D vacancy rate increased 100 basis points (bps) in the first quarter to 12.1% up from 11.1% in the fourth 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 5.0 million square feet (msf), up from 4.4 msf in the fourth quarter and the sublease figure at 2.5 msf, up from 2.2 msf in the fourth quarter. The least movement was recorded in the R&D overall vacancy which was only up minimally during the first quarter. There has been a more substantial rise in office class A direct vacancy which has climbed this quarter to 2.7 msf, up from 2.3 msf in the fourth quarter. Affecting this increase was the completion of 1.5 msf of speculative product this quarter. However, all but 250,000 sf has been pre-leased.

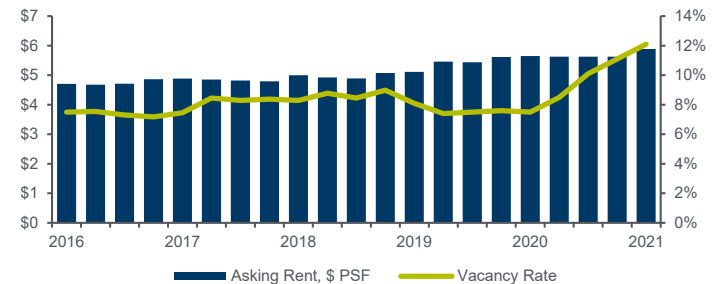
PRICING: Asking Rents Remain Flat

After staying relatively flat for the last three quarters, the San Mateo County overall asking rent increased in the first quarter finishing at \$5.89 per square foot (psf) on a monthly, full-service basis. This number follows the \$5.63 psf recorded in the fourth quarter. Overall Class A office asking rents remain up by 8.0% YOY, closing the first quarter at \$6.45 psf while R&D rents are up slightly over the quarter at \$4.87 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 Q1 2021

Development Activity

Five speculative projects totaling 1.5 msf completed construction in the first quarter. As mentioned above, all but 250,000 sf had been pre-leased in previous quarters. Currently there is 3.3 msf under construction, all of that being speculative, with 39.3% pre-leased. Approximately 2.2 msf is expected to deliver in 2021 with another 470,000 sf in 2022. South San Francisco has the most upcoming deliveries at 1.4 msf; of that, 61.8% is pre-leased to a mix of office and life science tenants.

Leasing Activity Increases in Q1

New leasing activity picked up in the first quarter, closing at 1.3 msf. This follows the historically low 2020 annual gross absorption where just over 3.5 msf was recorded, less than half of the 2019 total of 7.9 msf. The increase in leasing this quarter was helped by the red-hot life science market. The top deal of the quarter was Arcus Biosciences (105,000 sf) in Brisbane. Other notable deals include Vaxcyte (77,000 sf) in San Carlos and Plexikkon (55,000 sf) in South San Francisco. A renewal in the top deals was 23andMe (65,000 sf), also in South San Francisco.

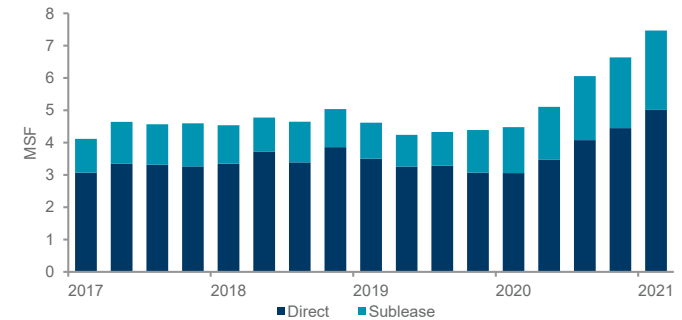
Net absorption increased in the first quarter to a positive 677,000 sf, following three consecutive quarters in negative territory. The reason for this increase in occupancy was the above mentioned pre-leased deals that occupied this quarter. The 2020 annual net absorption was -260,000 sf following the 2.9 msf recorded in 2019.

There is currently 6.6 msf of tenants in the market, an increase from the 4.8 msf last quarter. 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.

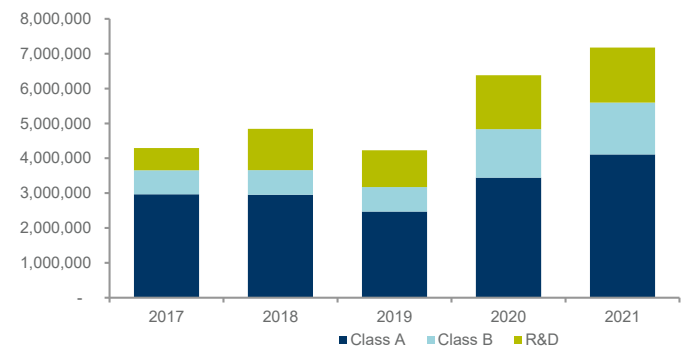
Outlook

- The vacancy rate is likely to continue to increase in 2021 if for no other reason than 3.3 msf of office space being delivered to the market with just 39.3% 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.

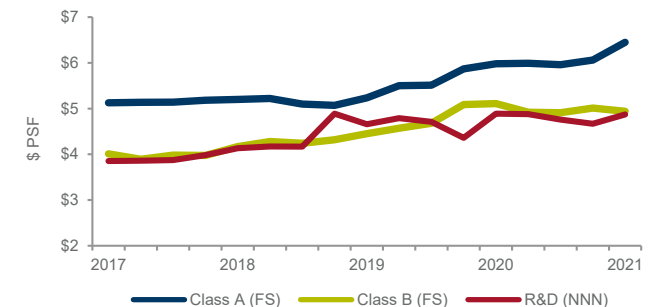
Direct vs. Sublease Space Available Comparison



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	23,755	73,149	10.0%	-73	-73	2,578	0	\$3.78	\$4.65
Brisbane	1,512,486	147,085	47,892	12.9%	413,153	413,153	146,345	675,562	\$5.45	\$4.43
S. San Francisco	13,753,766	503,694	669,171	8.5%	268,273	268,273	412,101	1,436,000	\$4.95	\$4.02
San Bruno/Millbrae	1,821,863	7,876	27,817	2.0%	4,305	4,305	10,575	157,852	\$3.42	\$4.00
Burlingame	3,477,691	127,692	379,621	14.6%	-26,183	-26,183	29,309	44,605	\$4.92	\$5.51
NORTH COUNTY TOTALS	21,532,518	810,102	1,197,650	9.3%	659,475	659,475	600,908	2,314,019	\$4.91	\$4.65
San Mateo	8,234,037	538,604	1,218,372	21.3%	-139,753	-139,753	123,548	509,000	\$5.75	\$6.09
Foster City	5,114,337	177,632	346,648	10.3%	17,222	17,222	37,756	0	\$5.56	\$5.65
Redwood Shores	6,328,413	208,675	947,365	18.3%	-117,559	-117,559	42,740	0	\$5.62	\$5.35
CENTRAL COUNTY TOTALS	19,676,787	924,911	2,512,385	17.5%	-240,090	-240,090	204,044	509,000	\$5.68	\$5.84
Belmont/San Carlos	3,048,985	167,126	217,982	12.6%	477,472	477,472	263,536	0	\$4.41	\$4.68
Redwood City	7,239,356	265,340	366,028	8.7%	-220,207	-220,207	123,593	305,585	\$6.72	\$7.59
Menlo Park	10,074,638	291,843	717,756	10.0%	625	625	106,030	202,003	\$8.59	\$10.03
SOUTH COUNTY TOTALS	20,362,979	724,309	1,301,766	9.9%	257,890	257,890	493,159	507,588	\$7.21	\$8.34
SAN MATEO COUNTY TOTALS	61,572,284	2,459,322	5,011,801	12.1%	677,275	677,275	1,298,111	3,330,607	\$5.89	\$6.45

*Rental rates reflect full service asking

Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1800 Sierra Point Pkwy	Brisbane	Arcus Biosciences	105,562	New Lease
825 Industrial Rd	San Carlos	Vaxcyte	77,734	New Lease
349 Oyster Point Blvd	S. San Francisco	23andMe	65,340	Renewal
329 Oyster Point Blvd	S. San Francisco	Plexikkon	55,602	New Lease
825 Industrial Rd	San Carlos	Codexis	55,150	New Lease

KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
840-860 Dubuque	S. San Francisco	PSAI Realty Partners / BioMed Realty	112,417	Confidential
115 Independence Dr	Menlo Park	Philip Bourgeois / Greystar Real Estate Partners	17,000	\$13.7M / \$805

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