

# SAN MATEO COUNTY

Office & R&D Q2 2021

YoY Chg      12-Mo. Forecast

**11.0%**  
Vacancy Rate      ▲      ▲

**1.4M**  
Net Absorption, SF      ▲      ▼

**\$6.02**  
Asking Rent, PSF FS  
*(Overall, All Property Classes)*      ▲      ▼

**ECONOMIC INDICATORS Q2 2021**

YoY Chg      12-Mo. Forecast

**1.07M**  
SF Peninsula Metro Employment      ▲      ▲

**4.9%**  
SF Peninsula Metro Unemployment Rate      ▼      ▼

**5.9%**  
U.S. Unemployment Rate      ▼      ▼

Source: BLS, Moody's Analytics  
2021 Q2 data are based on the latest available data

**ECONOMY: Unemployment Inching Downward**

One year ago, U.S. job losses reached levels unseen since the Great Depression. As the COVID-19 vaccine was rolled out earlier this year and the economy began to open, improvement was initially slow. However, in the San Francisco metropolitan statistical area (San Francisco and San Mateo counties), there have been strong gains with an increase of 46,000 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 4.9%, well below the 11.9% recorded one year ago. This is significantly lower than the U.S. unemployment rate of 5.9%. For San Mateo County (SMC) alone, YOY jobs remain down by 3,900 while the unemployment rate stands at 4.6%, down from 7.2% one year ago. As businesses fully reopen, these employment numbers are expected to improve further.

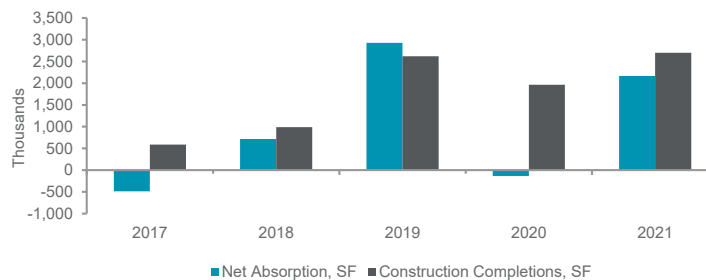
**SUPPLY: Vacancies Decrease in Q2**

For the first time in eight quarters the San Mateo County combined office and R&D vacancy rate decreased, finishing the second quarter at 11.0%, down from 11.8% in the first quarter. This rate is a YOY increase of 250 basis points (bps) from 8.5% in the second quarter of 2020. The least movement was recorded in the overall office vacancy which stayed consistent during the second quarter at 15.0%. There has been a more substantial decrease in R&D vacancy which dropped this quarter to 4.7%, down from 6.6% in the first quarter.

**PRICING: Asking Rents Increase Slightly**

The San Mateo County overall asking rent increased slightly in the second quarter finishing at \$6.02 per square foot (psf) on a monthly, full-service basis from \$5.92 psf recorded in the first quarter. However, R&D rents are down slightly over the quarter at \$4.74 psf on a monthly, triple net basis, from \$4.85 psf in the first quarter. 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

Three preleased R&D/life science buildings totaling 1.2 million square feet (msf) completed construction in the second quarter. These buildings had been preleased in previous quarters to Cytokinetics, Stripe, Arcus Biosciences, Amgen, and Charles River. Currently there is 2.6 msf under construction, all of that being speculative, with only 16.5% preleased. Approximately 1.1 msf is expected to deliver in the second half of 2021 with another 468,000 sf in 2022 and the balance in 2023. South San Francisco has the most upcoming deliveries at 714,000 sf; followed by San Mateo with 624,000 sf.

## Leasing Activity Continues to Be Hot

For the second quarter in a row, new leasing activity topped 1.0 msf, closing the second quarter at 1.3 msf, and bringing the year-to-date figure to 2.8 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 C3.ai (283,000 sf) in Redwood City. Other notable deals include Smart Labs (145,000 sf) in S. San Francisco, Zoon (129,000 sf) in Foster City, and Verkada (115,000 sf) in San Mateo. Rounding out the top five transactions of the quarter was Dexterity, Inc. (100,000 sf), in Redwood City.

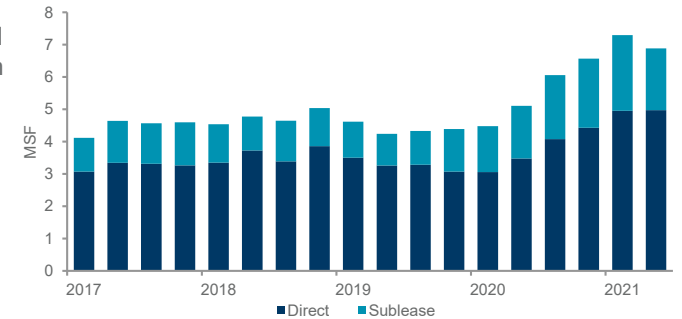
Net absorption increased in the second quarter to a positive 1.4 msf, following the positive 783,000 sf in the first quarter. The reason for this increase in occupancy was the above-mentioned preleased deals that occupied this quarter. The 2020 annual net absorption was a negative 134,000 sf following the 2.9 msf recorded in 2019.

There is currently 7.8 msf of tenants in the market, an increase from the 6.6 msf last quarter. The largest industry segment, by far, is life science with 4.0 msf of demand. SMC continues to benefit from being a global center for life sciences, arguably the hottest segment of commercial real estate today. There remains huge demand locally for both office and R&D/lab space from that sector. 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.

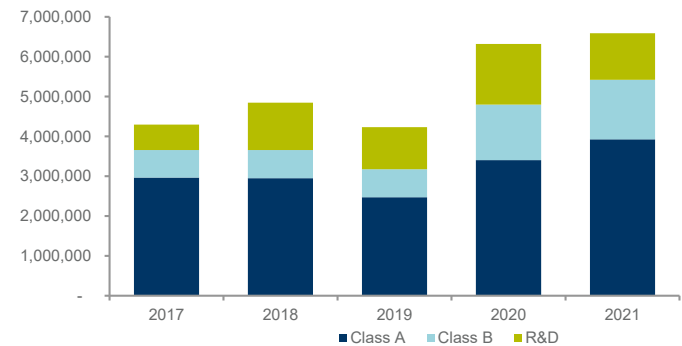
## Outlook

- The vacancy rate is likely to increase at least temporarily in the second half of 2021 if for no other reason than 2.6 msf of office space being delivered to the market with just 16.5% of that preleased.
- Expect some uptick in asking rents within the hot R&D sector; this will be propelled by 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 be a powerful force throughout the pandemic.

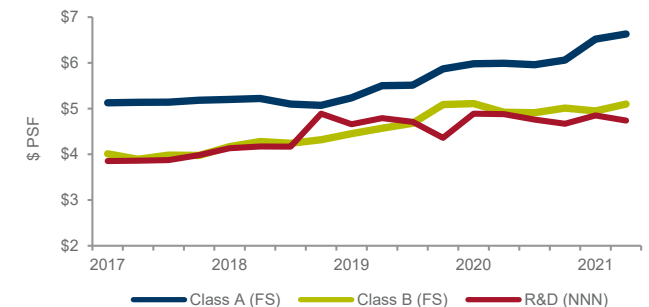
## Direct vs. Sublease Space Available Comparison



## 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	73,149	7.6%	23,755	23,682	2,578	0	\$3.74	\$4.65
Brisbane	1,618,048	80,445	83,821	10.2%	136,273	549,426	150,357	570,000	\$5.45	\$4.43
S. San Francisco	14,839,766	286,727	552,304	5.7%	1,411,700	1,688,107	937,242	714,008	\$4.92	\$4.13
San Bruno/Millbrae	1,821,863	7,876	27,817	2.0%	0	4,305	10,575	157,852	\$3.42	\$4.00
Burlingame	3,477,691	106,133	391,336	14.3%	283	-23,512	43,657	44,605	\$4.87	\$5.51
<b>NORTH COUNTY TOTALS</b>	<b>22,724,080</b>	<b>481,181</b>	<b>1,128,427</b>	<b>7.1%</b>	<b>1,572,011</b>	<b>2,242,008</b>	<b>1,144,409</b>	<b>1,486,465</b>	<b>\$4.88</b>	<b>\$4.73</b>
San Mateo	8,016,034	428,348	1,172,430	20.0%	-145,162	-211,614	300,503	624,353	\$5.86	\$6.20
Foster City	5,114,337	149,014	370,985	10.2%	-15,655	4,503	206,402	0	\$5.74	\$5.87
Redwood Shores	6,328,413	191,451	934,735	17.8%	608	-113,443	78,339	0	\$5.54	\$5.24
<b>CENTRAL COUNTY TOTALS</b>	<b>19,458,784</b>	<b>768,813</b>	<b>2,478,150</b>	<b>16.7%</b>	<b>-160,209</b>	<b>-320,554</b>	<b>585,244</b>	<b>624,353</b>	<b>\$5.73</b>	<b>\$5.89</b>
Belmont/San Carlos	3,048,985	160,721	214,945	12.3%	3,037	486,914	274,411	0	\$4.42	\$4.56
Redwood City	7,349,588	219,208	370,068	8.0%	29,195	-192,254	615,614	305,585	\$6.81	\$8.23
Menlo Park	10,075,108	279,624	781,937	10.5%	-62,534	-51,337	168,376	202,003	\$8.74	\$10.08
<b>SOUTH COUNTY TOTALS</b>	<b>20,473,681</b>	<b>659,553</b>	<b>1,366,950</b>	<b>9.9%</b>	<b>-30,302</b>	<b>243,323</b>	<b>1,058,401</b>	<b>507,588</b>	<b>\$7.38</b>	<b>\$8.54</b>
<b>SAN MATEO COUNTY TOTALS</b>	<b>62,656,545</b>	<b>1,909,547</b>	<b>4,973,527</b>	<b>11.0%</b>	<b>1,381,500</b>	<b>2,164,777</b>	<b>2,788,054</b>	<b>2,618,406</b>	<b>\$6.02</b>	<b>\$6.63</b>

\*Rental rates reflect full service asking

Market indicators are not reflective of US MarketBeat tables

## KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1400 Seaport Blvd	Redwood City	C3.ai	283,015	New Lease
750 Gateway Blvd	S. San Francisco	Smart Labs	145,192	New Lease
4000 Third Ave, E.	Foster City	Zoox	129,084	New Lease
406 3 <sup>rd</sup> Ave, E.	San Mateo	Verkada	115,353	New Lease
1155 Veterans Blvd	Redwood City	Dexterity, Inc.	100,000	New Lease

## KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2001 Junipero Serra Blvd	Daly City	Harvest Properties / Phase 3 Real Estate Partners	384,954	\$168.6M / \$438
901 & 951 Mariners Island Blvd	San Mateo	Rubicon Point Partners / Longfellow Real Estate	236,268	\$155.0M / \$656
1720 El Camino Real	Burlingame	Lincoln Prop-Angelo Gordon / Anchor Health Prop.	104,327	\$64.4M / \$617
1201-1235 Radio Rd	Redwood Shores	Vertical Ventures / GI Partners	89,145	\$30.1M / \$338



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OFFICE SUBMARKETS



**JULIE LEIKER**

Market Director, Silicon Valley  
 Tel: +1 408 615 3400  
[Julie.leiker@cushwake.com](mailto:Julie.leiker@cushwake.com)

**ROBERT SAMMONS**

Senior Director, Research  
 Tel: +1 415 773 3514  
[Robert.sammons@cushwake.com](mailto:Robert.sammons@cushwake.com)

**CUSHMAN & WAKEFIELD**

1350 Bayshore Hwy  
 Suite 900  
 Burlingame, CA 94010

525 University Ave  
 Suite 220  
 Palo Alto, CA 94301

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