

SAN MATEO COUNTY

Office & R&D Q3 2021

	YoY Chg	12-Mo. Forecast
11.1% Vacancy Rate	▲	▲
-212M Net Absorption, SF	▼	▼
\$5.94 Asking Rent, PSF FS <i>(Overall, All Property Classes)</i>	▲	▼

ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
1.09M SF Peninsula Metro Employment	▲	▲
4.6% SF Peninsula Metro Unemployment Rate	▼	▼
5.2% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2021 Q3 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 59,000 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 4.6%, well below the 11.9% recorded one year ago. This is significantly lower than the U.S. unemployment rate of 5.2%. For San Mateo County (SMC) alone, YOY jobs increased by 12,900 while the unemployment rate stands at 3.1%, down from 7.7% one year ago. As businesses fully reopen, these employment numbers are expected to improve further.

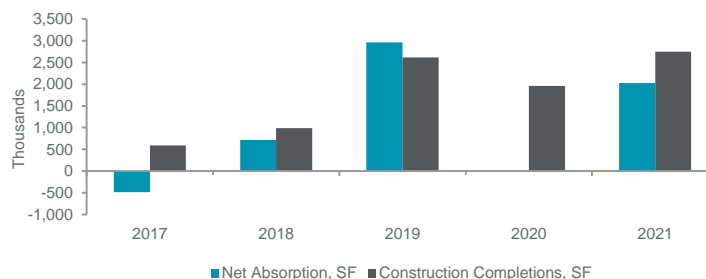
SUPPLY: Office Vacancies Moving Upward

The San Mateo County combined office and R&D vacancy rate finished the third quarter at 11.1%, up from 10.6% in the second quarter. This rate is a YOY increase of 130 basis points (bps) from 9.8% in the third quarter of 2020. There has been a more substantial increase in the overall office vacancy during the third quarter at 15.0%, up from 14.5% in the second quarter. The least movement was recorded in the R&D vacancy which climbed this quarter to 4.9%, up from 4.6% in the second quarter. It is worth noting that office makes up 82% of the current vacancy. The vacancy rate is likely to increase into the fourth quarter of 2021 as 922,000 sf of space is scheduled to deliver to the market with just 38.0% of that released.

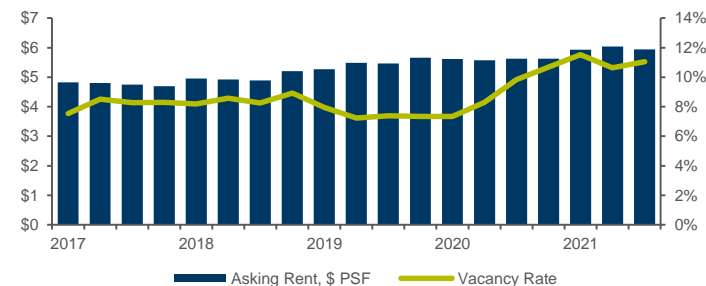
PRICING: Asking Rents Decrease Slightly

The San Mateo County overall asking rent decreased slightly in the third quarter finishing at \$5.94 per square foot (psf) on a monthly, full-service basis from \$6.04 psf recorded in the second quarter due to rents down on the office side. However, R&D rents are up over the quarter at \$5.39 psf on a monthly, triple net basis, from \$4.73 psf in the second 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

One preleased office building totaling 48,000 square feet (sf) completed construction in the third quarter. This building located in downtown Menlo Park had been preleased to Sheppard Mullin, an international law firm. Currently there is 2.7 million square feet (msf) under construction, all of that being speculative, with 30.3% preleased. Approximately 922,000 is expected to deliver in the fourth quarter of 2021 with another 774,000 sf in 2022 and the balance of 999,000 in 2023. South San Francisco has the most upcoming deliveries at 707,000 sf; followed by San Mateo with 613,000 sf.

Leasing Activity Continues to Be Hot

For the third quarter in a row, new leasing activity topped 1.0 msf, closing the quarter at 1.9 msf marking the highest quarter since the 2.1 msf in the third quarter 2019. The year-to-date figure climbed to 4.8 msf. This follows the historically low 2020 annual gross absorption where just over 3.6 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 a confidential life science tenant (335,000 sf) in Brisbane. Other notable deals include C3 AI (283,000 sf) in Redwood City, Altos Labs (233,000 sf) in Redwood Shores, and Roblox (122,600 sf) in San Mateo. Rounding out the top five transactions of the quarter was Nkarta (88,000 sf), in South San Francisco.

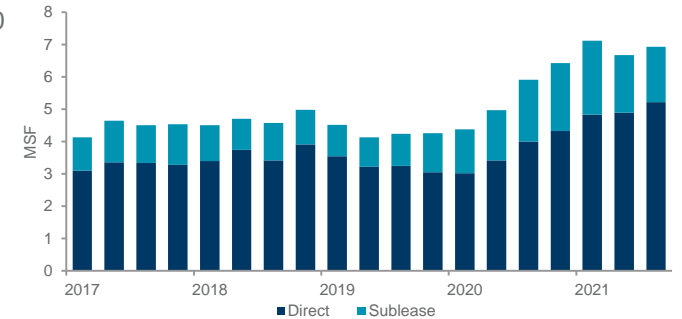
Net absorption decreased in the third quarter to a negative 212,000 sf, following the positive 1.4 msf in the second quarter. The reason for this decrease in occupancy was the rise in vacancy and fewer major tenant move-ins than had occurred in the past two quarters. The 2021 year-to-date absorption was positive 2.0 msf, up from negative 18,000 in 2020 and back on track heading towards the 2.9 msf recorded in 2019.

There is currently 7.1 msf of tenants in the market, a decrease from the 7.8 msf last quarter. The largest industry segment, by far, is life science with 3.2 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.

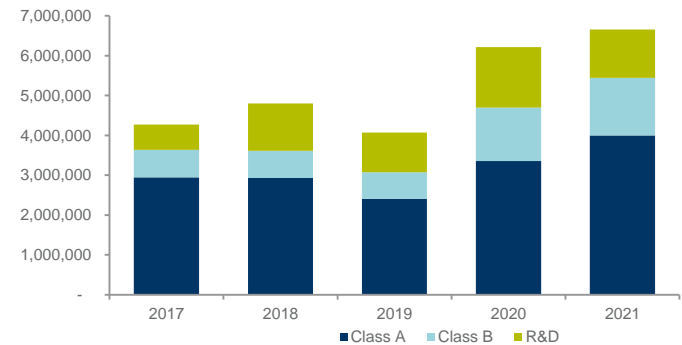
Outlook

- The vacancy rate is likely to increase at least temporarily in fourth quarter of 2021 as 922,000 sf of space is scheduled to deliver to the market with just 38.0% 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.

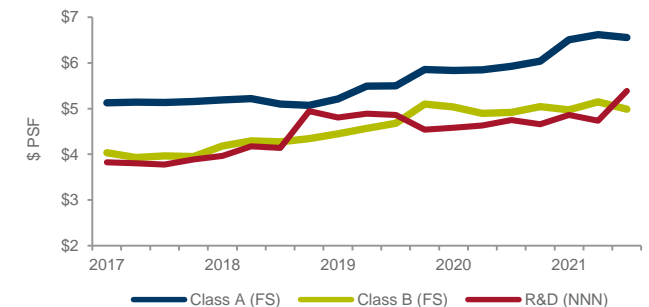
Direct vs. Sublease Space Available Comparison



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	41,857	4.3%	-1,463	54,974	4,452	0	\$2.96	\$4.65
Brisbane	1,618,048	31,451	76,947	6.7%	55,868	605,294	521,168	570,000	\$6.60	\$4.81
S. San Francisco	14,855,766	297,433	624,752	6.2%	-101,360	1,597,509	1,228,888	856,008	\$5.10	\$4.16
San Bruno/Millbrae	1,821,863	7,876	26,148	1.9%	-7,155	-54	13,371	151,583	\$3.61	\$4.00
Burlingame	3,477,691	106,133	410,888	14.9%	-963	-46,173	142,137	44,605	\$4.29	\$4.73
NORTH COUNTY TOTALS	22,740,080	442,893	1,180,592	7.3%	-55,073	2,211,550	1,910,016	1,622,196	\$4.78	\$4.16
San Mateo	8,014,426	469,658	1,240,941	21.3%	-128,898	-345,044	678,019	613,353	\$5.86	\$6.24
Foster City	5,114,337	95,188	412,029	9.9%	28,802	12,285	348,143	0	\$5.66	\$5.80
Redwood Shores	6,339,907	166,788	928,894	17.3%	-33,479	-116,514	381,201	0	\$5.31	\$5.13
CENTRAL COUNTY TOTALS	19,468,670	731,634	2,581,864	17.0%	-133,575	-449,273	1,407,363	613,353	\$5.65	\$5.90
Belmont/San Carlos	3,048,985	153,287	214,183	12.1%	-7,160	497,107	433,035	0	\$4.48	\$4.56
Redwood City	7,350,033	184,075	444,950	8.6%	-41,176	-245,181	652,485	305,585	\$6.91	\$8.64
Menlo Park	10,123,111	196,557	804,105	9.9%	24,643	13,436	369,606	154,000	\$8.61	\$9.71
SOUTH COUNTY TOTALS	20,522,129	533,919	1,463,238	9.7%	-23,693	265,362	1,455,126	459,585	\$7.31	\$8.42
SAN MATEO COUNTY TOTALS	62,730,879	1,708,446	5,225,694	11.1%	-212,341	2,027,639	4,772,505	2,695,134	\$5.94	\$6.56

*Rental rates reflect full service asking

Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3000-3300 Marina Blvd	Brisbane	Confidential	335,419	New Lease
1400 Seaport Blvd	Redwood City	C3 AI	283,015	New Lease
Redwood LIFE	Redwood Shores	Altos Labs	232,987	New Lease
1 Franklin Pkwy	San Mateo	Roblox	122,630	New Lease
1150 Veterans Blvd	S. San Francisco	Nkarta	88,106	New Lease

KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
301-501 Island Pkwy	Redwood Shores	Oracle / BioMed Realty	227,507	\$160.0M / \$703

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OFFICE SUBMARKETS



JASON KARBELK
 Senior Analyst, Silicon Valley
 Tel: +1 415 485 3742
jason.karbelk@cushwake.com

ROBERT SAMMONS
 Senior Director, Research
 Tel: +1 415 773 3514
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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