



Office & R&D Q4 2021

10.1%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

355K

Net Absorption, SF

\$6.30

Asking Rent, PSF FS

(Overall, All Property Classes)

ECONOMIC INDICATORS
Q4 2021

1.11M

SF Peninsula Metro
Employment

4.5%

SF Peninsula Metro
Unemployment Rate

4.2%

U.S.
Unemployment Rate

Source: BLS, Moody's Analytics
2021 Q4 data are based on latest available data

ECONOMY: Jobs Shine Closing Out 2021

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 71,200 jobs on a year-over-year (YOY) basis. The unemployment rate has declined from its high in 2020, with the quarterly figure now at 4.5%, well below the 11.9% recorded one year ago. This is slightly higher than the U.S. unemployment rate of 4.2%. For San Mateo County (SMC) alone, YOY jobs increased by 18,900 while the unemployment rate stands at 2.9%, down from 7.2% one year ago. After a potential delay due to the Omicron variant, these employment numbers are expected to improve further.

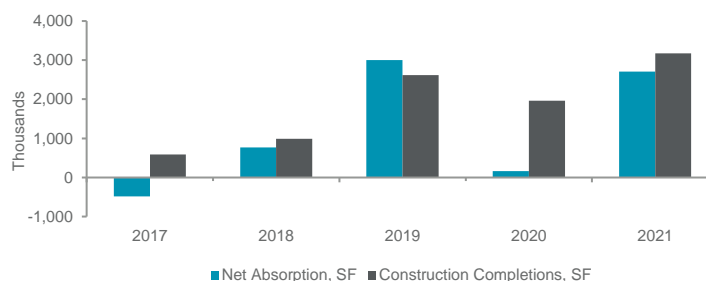
SUPPLY: Office Vacancies Moving Downward

The San Mateo County combined office and R&D vacancy rate finished the fourth quarter at 10.1%, unchanged from 10.1% in the third quarter. This rate is a YOY decrease of 10 basis points (bps) from 10.2% in the fourth quarter of 2020. There has been a substantial decrease in the overall office vacancy during the fourth quarter at 12.5%, down from 14.0% in the third quarter while the R&D movement climbed to 6.5%, up from 4.0%. It is worth noting that office makes up 74% of the current vacancy. The vacancy rate is likely to increase into the first quarter of 2022 as 514,000 square feet (sf) of space is scheduled to deliver to the market with 63.8% of that preleased; other small to medium size blocks are also expected to hit the market.

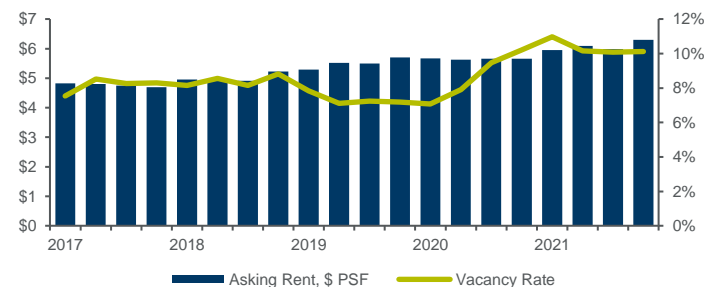
PRICING: Asking Rents on the Rise

The San Mateo County overall asking rent increased dramatically in the fourth quarter finishing at \$6.30 per square foot (psf) on a monthly, full-service basis from \$5.98 psf recorded in the third quarter due to the completion of 700 Gateway Blvd, a vacant 350,000 sf R&D building. R&D rents are up over the quarter at \$6.13 psf on a monthly, triple net basis, from \$5.39 psf in the third 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



SAN MATEO COUNTY

Office & R&D Q4 2021



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Development Activity

Two buildings totaling 420,443 square feet (sf) completed construction in the fourth quarter. The aforementioned R&D building located at 700 Gateway Blvd in South San Francisco totaling 350,000 sf sits 100% unoccupied while 610 Walnut St in downtown Redwood City was completed with its 70,433 sf currently vacant. Currently there is 2.5 million square feet (msf) under construction, all of that being speculative, with 46.4% preleased. Approximately 514,000 sf is expected to deliver in the first quarter of 2022 with another 761,000 sf by year-end 2022 and the balance of 1.2 msf in 2023. San Mateo has the most upcoming deliveries at 613,000 sf followed by Brisbane with 570,000 sf.

Leasing Activity Continues to Be Hot

For the fourth quarter in a row, new leasing activity topped 1.0 msf, closing the quarter at 1.9 msf and hot on the heels of the strong 2.1 msf in the third quarter. The year-to-date annual gross absorption climbed to 6.9 msf, nearly double of the historical low in 2020 of 3.7 msf and not far behind the 2019 total of 7.9 msf. The increase in leasing this quarter was helped by the red-hot life science market and the demand for office. The top deal of the quarter was Meta (475,000 sf) in Burlingame. Other notable deals include Genentech (230,000 sf) in South San Francisco, Impossible Foods (165,000 sf) in Redwood City, and Upstart Holdings (108,000 sf) in San Mateo. Rounding out the top five transactions of the quarter was Graphite Bio (85,000 sf), in South San Francisco.

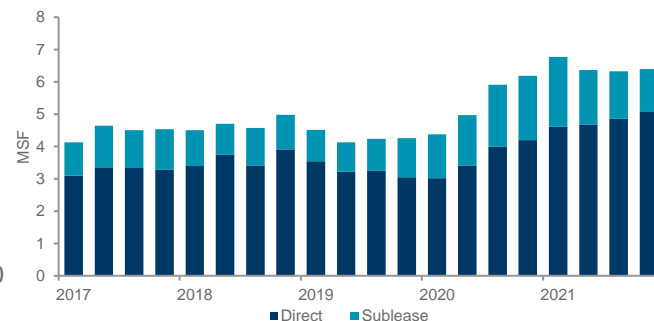
Net absorption increased in the fourth quarter to a positive 355,000 sf, following the positive 84,000 sf in the third quarter. The reason for this increase in occupancy was largely contributed to life science tenant move-ins. The 2021 year-to-date absorption was positive 2.7 msf, up from negative 163,000 in 2020 and back on track near the 3.0 msf recorded in 2019.

There is currently 7.0 msf of tenants in the market, a decrease from the 7.1 msf last quarter. The largest industry segment, by far, is life science with 3.9 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.

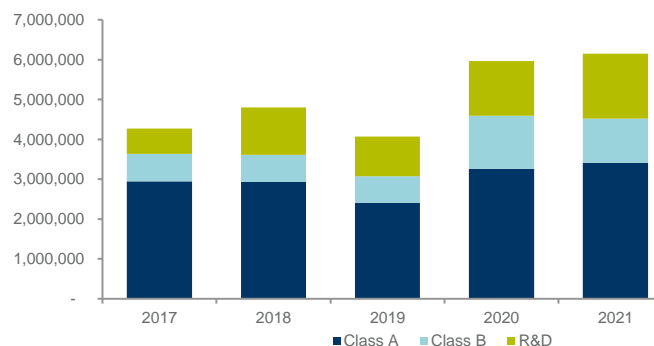
Outlook

- The vacancy rate is likely to increase at least temporarily in first quarter of 2022 as 514,000 sf of space is scheduled to deliver to the market with 63.8% of that preleased; other small to medium size blocks are also expected to hit the market.
- 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.

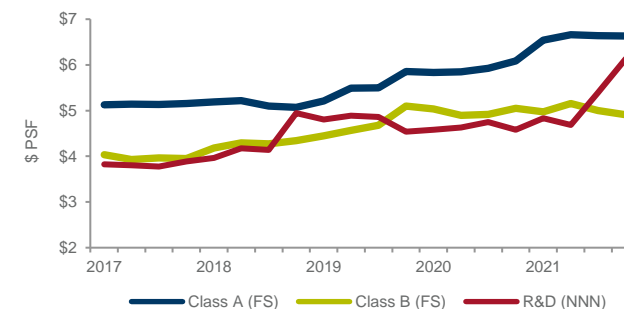
Direct vs. Sublease Space Available Comparison



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	39,467	4.1%	-118	54,856	13,392	0	\$2.99	\$4.65
Brisbane	1,618,048	159,499	41,018	12.4%	-92,119	513,175	575,423	570,000	\$6.53	\$4.06
S. San Francisco	15,205,766	236,249	948,663	7.8%	-45,855	1,568,250	1,789,996	521,008	\$6.43	\$4.14
San Bruno/Millbrae	1,821,863	7,876	27,830	1.5%	-3,806	-3,860	13,371	151,583	\$3.67	\$4.00
Burlingame	3,477,691	29,388	365,517	11.4%	105,040	70,523	662,078	214,605	\$4.07	\$4.34
NORTH COUNTY TOTALS	23,090,080	433,012	1,414,619	8.0%	-36,858	2,202,944	3,054,260	1,457,196	\$5.82	\$4.19
San Mateo	8,014,426	299,637	1,074,627	17.1%	174,424	-13,585	1,038,353	613,353	\$5.82	\$6.50
Foster City	5,114,337	64,981	412,029	9.3%	30,207	42,492	386,558	0	\$5.63	\$5.77
Redwood Shores	6,343,201	128,593	600,160	11.5%	222,001	161,833	560,924	0	\$5.78	\$5.30
CENTRAL COUNTY TOTALS	19,471,964	493,211	2,086,816	13.2%	426,632	190,740	1,985,835	613,353	\$5.77	\$6.04
Belmont/San Carlos	3,048,985	153,287	368,625	17.1%	-166,742	335,165	507,213	0	\$5.41	\$4.64
Redwood City	7,420,476	95,842	502,469	8.1%	85,758	-148,762	932,321	235,142	\$6.85	\$8.01
Menlo Park	10,123,111	146,958	703,061	8.4%	46,150	123,775	438,495	154,000	\$9.08	\$10.16
SOUTH COUNTY TOTALS	20,592,572	396,087	1,574,155	9.6%	-34,834	310,178	1,878,029	389,142	\$7.43	\$8.61
SAN MATEO COUNTY TOTALS	63,154,616	1,322,310	5,075,590	10.1%	354,940	2,703,862	6,918,124	2,459,691	\$6.30	\$6.63

*Rental rates reflect full service asking

Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
555, 567, 577 Airport Blvd	Burlingame	Meta	474,796	New Lease
751 Gateway Blvd	S. San Francisco	Genentech	230,000	New Lease
1500 Seaport Blvd	Redwood City	Impossible Foods	164,732	New Lease
2950 S Delaware St	San Mateo	Upstart Holdings	108,015	Renewal/Expansion
233 E Grand Ave	S. San Francisco	Graphite Bio	85,165	New Lease

KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Twin Dolphin Plaza	Redwood Shores	Oracle / IQHQ	263,052	\$164.0M / \$623
Harbor Park	Belmont/San Carlos	The Raiser Org / Goodman Birtcher	216,298	\$154.0M / \$712
888 Bransten Rd	Belmont/San Carlos	Black Mountain Prop. / Alexandria Real Estate	210,000	\$55.0M / \$262
Century Centre II	San Mateo	Invesco / Phase 3 Real Estate Partners	173,270	\$72.2M / \$417
1301 Shoreway Rd	Redwood Shores	Westlake Realty Group / Four Corners Prop.	146,564	\$90.2M / \$616

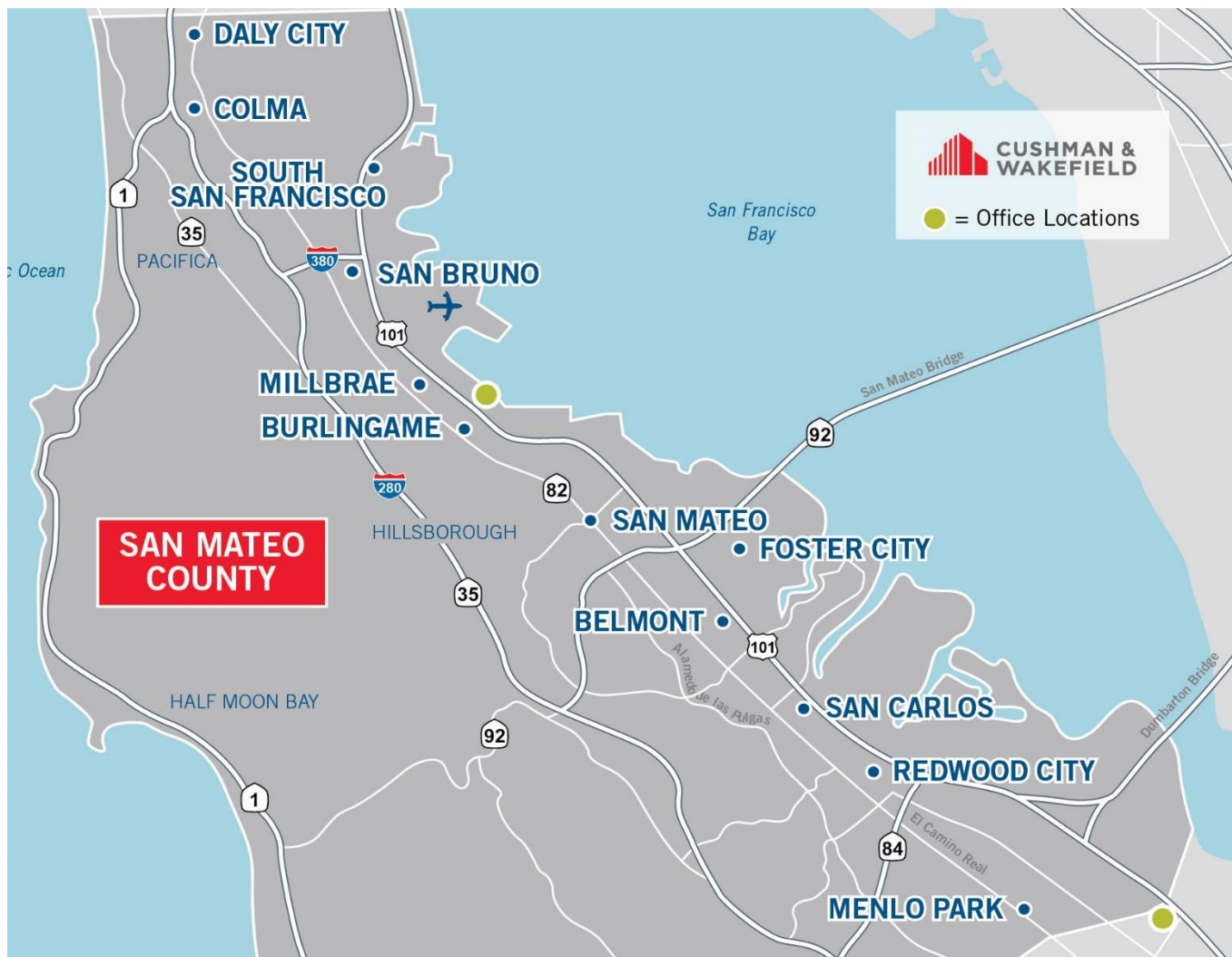
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