

SAN MATEO COUNTY

Office & R&D Q3 2022

	YoY Chg	12-Mo. Forecast
9.6% Vacancy Rate	▲	▲
-159K Net Absorption, SF	▼	▼
\$6.80 Asking Rent, PSF FS <i>(Overall, All Property Classes)</i>	▲	▼

ECONOMY: Unemployment Rate Bottoms Out at 2.1%

For San Francisco Peninsula in the third quarter, there was an increase in the pace of workers returning to the office at least a portion of the week. However, hybrid and remote working practices are both significant factors of the equation locally and that will likely remain the case at least in the near-term. With venture capitalists being much more cautious due to the recent economic turmoil, San Francisco Peninsula funding tumbled to \$1.95 billion (B) in the third quarter of 2022, down almost 50.0% from the \$3.86B recorded last quarter and the lowest since the \$1.8B in first quarter of 2019. The top-funded San Francisco Peninsula company was The Boring Company at \$675 million. Employment across all sectors has trended higher in the San Francisco metro division with 71,300 new jobs year-over-year (YOY) for a growth rate of 6.4%. Office job growth has moved well above the pre-pandemic peak by 5.8% at 516,940 positions for the San Francisco metro division. Meanwhile, the unemployment rate has dropped 240 basis points (bps) YOY with the most recent figure at 2.1%.

SUPPLY: Office and R&D Vacancies Trend Upward

The San Mateo County combined office and R&D vacancy rate finished the third quarter at 9.6%, an increase from 8.8% in the second quarter of 2022. This rate is a YOY increase of 50 bps from 9.1% in the third quarter of 2021. For office space alone, there has been an increase in the overall vacancy during the third quarter at 12.5%, up from 11.7% in the second quarter of 2022. The R&D figure increased as well to 5.1%, up from 4.4% in the second quarter. It is worth noting that office makes up 79% of the current vacancy.

PRICING: Asking Rents Hit a New High

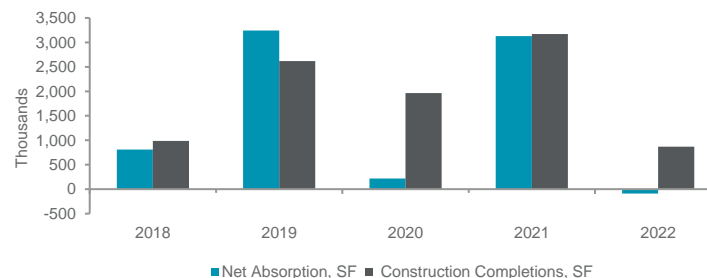
The San Mateo County overall asking rent has set a new high in the third quarter finishing at \$6.80 per square foot (psf) on a monthly, full-service basis, from \$6.62 psf recorded in the second quarter of 2022. R&D rents are down over the quarter at \$6.79 psf on a monthly, triple net basis, from \$6.88 psf in the second quarter. Trophy class A and life science complexes continue to command the top rents in the market.

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
1.18M SF Peninsula Metro Employment	▲	▲
2.1% SF Peninsula Metro Unemployment Rate	▼	■
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2022 Q3 data are based on latest available data

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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Development: New Deliveries in San Mateo and Downtown Redwood City

Two office buildings totaling 360,636 square feet (sf) completed construction in the third quarter. Bay Meadows – Station 1 in San Mateo totaling 219,000 sf sits 100% occupied by Roblox along with 1180 Main Street in downtown Redwood City totaling 141,636 sf. Main Street was released by CZI /Chan Zuckerberg Initiative in the first quarter of 2020. Currently there is 3.6 million square feet (msf) under construction, all of that being speculative, with 34.5% preleased. Approximately 620,000 sf is expected to deliver by year-end 2022, another 1.3 msf by 2023 and the balance of 1.7 msf by 2024. South San Francisco has the most upcoming deliveries at 1.8 msf followed by Redwood City with 592,000 sf.

Leasing Activity: Fueled by Life Science Tenants

For the seventh quarter in a row, new leasing activity topped 1.0 msf, closing the quarter at 1.2 msf though it dipped from the 1.4 msf in the previous quarter. The last four quarters of annual gross absorption climbed to 6.6 msf, nearly double the historical low in 2020 of 3.7 msf yet a reach to the 2019 total of 7.9 msf. The increase in leasing this quarter was helped both by the red-hot life science market and the demand for office. The top deal of the quarter was Astellas (154,000 sf) pre-lease at 494 Forbes in South San Francisco. Other notable deals include NGM Biopharmaceuticals (121,706 sf) at 333 Oyster Point Blvd in South San Francisco, Altos Labs (91,645 sf) in Redwood Shores and E-Trade (63,078 sf) in Menlo Park. Rounding out the top five transactions of the quarter was Arsenal Bio (55,602 sf) in South San Francisco.

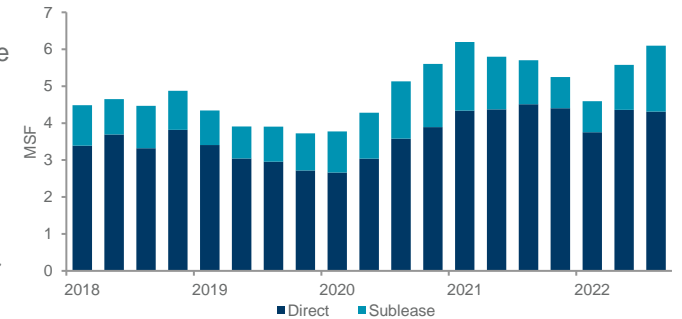
Net absorption decreased in the third quarter to a negative 159,447 sf, an improvement from the previous quarter at negative 688,710 sf. The bulk of negative absorption came from R&D buildings at negative 185,841 sf. The reason for this decrease in occupancy was the delivery of vacant new construction along with large block vacant space outpacing move-ins across office and R&D buildings.

There is currently 4.1 msf of tenants in the market, a drop from the 5.0 msf last quarter. The largest industry segment, by far, is life science with 2.6 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.

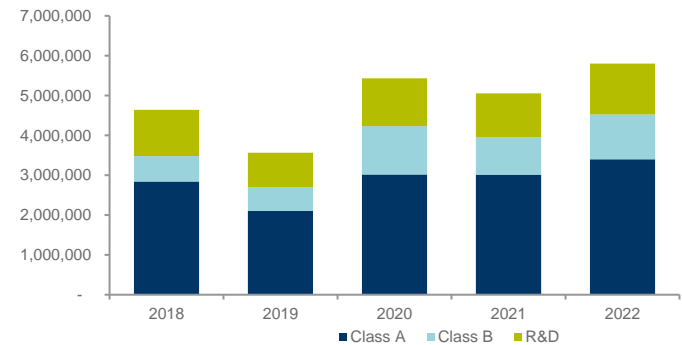
Outlook

- The vacancy rate is likely to increase at least temporarily in 2022 due to small to medium size blocks that are 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 key center of the life sciences industry which continued to be a powerful force throughout the pandemic and will continue to control a large swath of the market for some time to come.

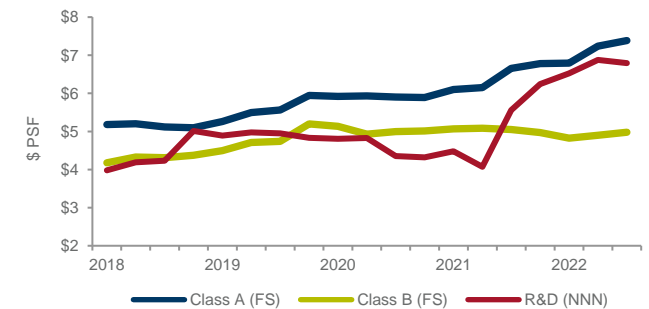
Direct vs. Sublease Space Available Comparison



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	10,753	19,400	3.1%	-1,742	6,496	112,903	0	\$3.59	\$4.75
Brisbane	1,618,048	102,533	93,867	12.1%	-59,668	-27,334	94,623	570,000	\$7.38	\$5.51
S. San Francisco	14,796,463	216,862	561,753	5.3%	94,064	92,709	1,300,273	1,766,008	\$7.36	\$4.13
San Bruno/Millbrae	1,974,473	1,850	204,256	10.4%	-9,124	-34,508	291,267	0	\$6.70	\$7.75
Burlingame	3,403,118	82,968	202,759	8.4%	66,808	10,671	121,622	214,605	\$4.33	\$5.99
NORTH COUNTY TOTALS	22,758,814	414,966	1,082,035	6.6%	90,338	48,034	1,920,688	2,550,613	\$6.62	\$5.89
San Mateo	8,517,499	351,922	1,057,473	16.5%	86,440	185,294	1,499,992	279,000	\$5.92	\$6.91
Foster City	5,114,337	37,995	195,018	4.6%	-19,518	178,362	85,964	0	\$5.46	\$5.74
Redwood Shores	6,297,894	331,458	570,942	14.5%	-202,602	-282,654	238,913	0	\$6.04	\$5.53
CENTRAL COUNTY TOTALS	19,929,730	721,375	1,823,433	12.8%	-135,680	81,002	1,824,869	279,000	\$5.92	\$6.31
Belmont/San Carlos	3,070,680	175,155	135,231	10.1%	-26,131	-7,794	85,423	174,000	\$5.63	\$5.75
Redwood City	7,657,770	175,248	676,791	11.1%	-20,391	-89,647	149,328	592,000	\$7.24	\$8.51
Menlo Park	10,256,383	298,332	597,273	8.7%	-67,583	-120,631	447,738	0	\$9.58	\$10.30
SOUTH COUNTY TOTALS	20,984,833	648,735	1,409,295	9.8%	-114,105	-218,072	682,489	766,000	\$8.02	\$8.96
SAN MATEO COUNTY TOTALS	63,673,377	1,785,076	4,314,763	9.6%	-159,447	-89,036	4,428,046	3,595,613	\$6.80	\$7.39

*Rental rates reflect full service asking

Market indicators are not reflective of US MarketBeat tables

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
494 Forbes Blvd	S. San Francisco	Astellas	154,000	New Lease
333 Oyster Point Blvd	S. San Francisco	NGM Biopharmaceuticals	121,706	Renewal
Redwood LIFE	Redwood Shores	Altos Labs	91,645	Renewal/Expansion
4500 Bohannon Dr	Menlo Park	E-Trade	63,078	Renewal
280 E Grand Ave	S. San Francisco	Alumis	50,195	New Lease

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
ARE Peninsula Lab Collection	S. San Francisco, San Carlos	Alexandria Real Estate / GI Partners	330,919	\$388.0M / \$1,172
1 & 2 Circle Star Way	San Carlos	Griffin Capital / Galaxy Properties	207,896	\$111.8M / \$537

KEY CONSTRUCTION COMPLETIONS Q3 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
2750 Delaware St, S.	San Mateo	Roblox	219,000	Stockbridge / Wilson Meaney
1180 Main St	Redwood City	CZI / Chan Zuckerberg Initiative	141636	Premia Capital / South Bay Development

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OFFICE SUBMARKETS



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