

# SAN MATEO COUNTY

Office & R&D Q1 2023

	YoY Chg	12-Mo. Forecast
<b>14.1%</b> Vacancy Rate	▲	▲
<b>-960K</b> Net Absorption, SF	▼	▼
<b>\$6.45</b> Asking Rent, PSF FS <i>(Overall, All Property Classes)</i>	▲	▼

**ECONOMIC INDICATORS Q1 2023**

	YoY Chg	12-Mo. Forecast
<b>1.21M</b> SF Peninsula Metro Employment	▲	▲
<b>2.4%</b> SF Peninsula Metro Unemployment Rate	▼	▼
<b>3.5%</b> U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics  
2023 Q1 data are based on latest available data

**ECONOMY: Venture Capital Funding Climbs**

For San Mateo County (SMC) in the first quarter, employment across all sectors has trended higher with 17,300 new jobs year-over-year (YOY) for a growth rate of 4.1%. Meanwhile, the unemployment rate has dropped 90 basis points (bps) YOY with the most recent figure at 2.4%. Layoff announcements have been prevalent since mid-year 2022, especially among tech companies, and this will begin to show in the official employment data this year. Venture capital (VC) funding to San Mateo County-based companies climbed sharply in Q1 2023 due to one major transaction, that being a \$6.5 billion (B) late-stage round to financial software company Stripe located in South San Francisco. That pushed total funding to \$7.5B from \$1.9B quarter-over-quarter; deal count declined to 75 from 100 over the same period.

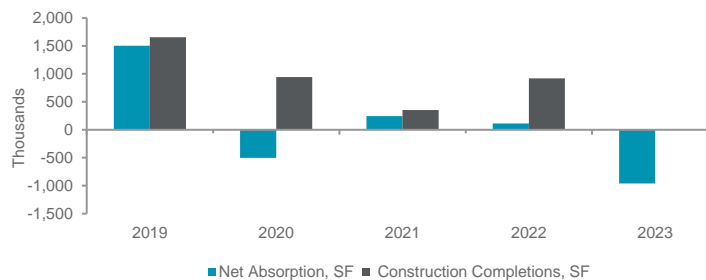
**SUPPLY: Inventory Change Affects R&D Sector**

Due to inventory adjustments implemented in the first quarter, about 25 million square feet (msf) of R&D buildings were moved to a separate life sciences classification. This caused the R&D vacancy to decrease to 2.1%, compared to 5.8% in the fourth quarter, and led office to make up 98% of the current vacancy this quarter. The San Mateo County combined office and R&D vacancy rate increased for the fourth quarter in a row, closing the first quarter at 14.1%. This rate is a YOY increase of 570 bps from 8.4% in the fourth quarter of 2022. For office space alone, there has been an increase in the overall vacancy during the first quarter to 15.9%, up from 13.6% in the fourth quarter of 2022.

**PRICING: Asking Rents Decrease**

The San Mateo County overall asking rent decreased in the first quarter finishing at \$6.45 per square foot (psf) on a monthly, full-service basis, from \$6.87 psf/month recorded in the fourth quarter of 2022. The submarket with the highest overall asking rent was Menlo Park at \$10.90 psf/month. Trophy class A complexes continue to command the top rents in the market.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**



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## CONSTRUCTION: Four Buildings to be Completed This Year

A total of 1,571,439 square feet (sf) is currently under construction, with 81.0% of the total sf preleased. Approximately 565,885 sf is expected to deliver in 2023, including a portion of YouTube’s campus expansion totaling 286,885 sf in San Bruno. These completions will be followed by 764,500 sf in 2024, and 241,054 sf in 2025.

## DEMAND: Leasing Activity Reaches New Low

New leasing activity dropped in the first quarter finishing at 664,652 sf. This is a new low since the fourth quarter of 2020 when gross absorption was around 600,000 sf. Roblox’s sublease from Guidewire was the largest new lease in the first quarter totaling 179,496 sf at 2850 South Delaware Street in San Mateo.

For the fourth quarter in a row, net absorption was in the red. In the first quarter, that number dropped to a negative 959,822 sf, following the fourth quarter figure of negative 424,512 sf. The bulk of negative absorption came from Class A office buildings at negative 754,730 sf. The reason for this decrease in occupancy was large block vacant space outpacing move-ins across office and R&D buildings.

There is currently 3.0 msf of tenants in the market, a drop from the 3.4 msf last quarter. While life sciences properties are now tracked separately, it is by far the largest industry segment with 1.7 msf of demand. The largest office segment is Professional Services with 653,500 sf.

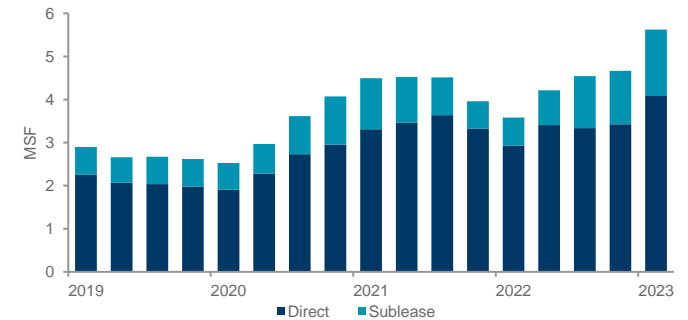
## SALES: Three Transactions Start out the Year

There were three office sales recorded in San Mateo County in the first quarter of 2023 totaling \$198 million (M). The largest transaction, worth \$102M, was Skyway Landing in San Carlos. Hudson Pacific sold the 241,694-sf pair of office buildings to Phase 3 RE Partners, who plans to convert the property to life science use.

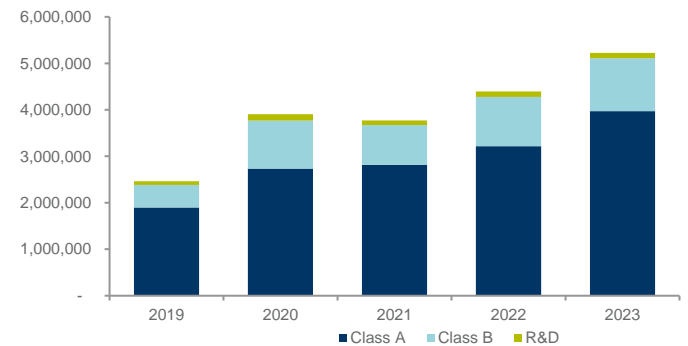
## OUTLOOK

- Vacancy rates are expected to rise in select markets when new developments deliver without being fully pre-leased.
- It is expected that sublease space will rise this year contributing to further increased vacancy.
- Expect a decrease in asking rents due to the R&D to life sciences inventory adjustments.
- The office and R&D markets will continue to benefit from being associated with life sciences, which is arguably the hottest segment of commercial real estate today.

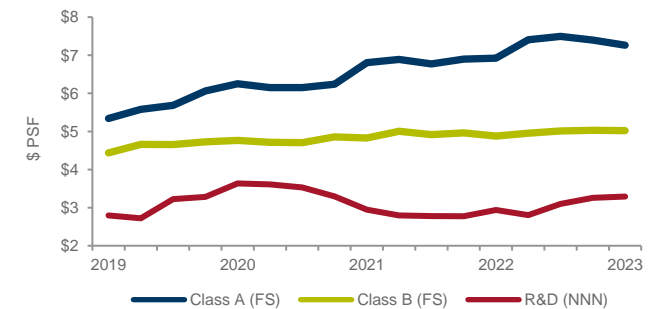
## Direct vs. Sublease Space Available Comparison



## Vacant Space by Product Type



## Asking Rent Comparison



## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRET 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	582,150	1,742	25,699	4.7%	-4,051	-4,051	0	0	\$3.08	\$3.00
Brisbane	495,595	33,839	31,545	13.2%	-8,023	-8,023	6,214	0	\$3.86	\$3.86
S. San Francisco	1,953,395	69,121	191,770	13.4%	-30,752	-30,752	11,361	0	\$3.95	\$4.15
San Bruno/Millbrae	1,964,473	0	223,404	11.4%	-17,298	-17,298	4,407	726,885	\$6.60	\$7.75
Burlingame	3,175,307	49,202	229,759	8.8%	-64,066	-64,066	5,001	411,054	\$4.85	\$7.00
<b>NORTH COUNTY TOTALS</b>	<b>8,170,920</b>	<b>153,904</b>	<b>702,177</b>	<b>10.5%</b>	<b>-124,190</b>	<b>-124,190</b>	<b>26,983</b>	<b>1,137,939</b>	<b>\$4.90</b>	<b>\$5.81</b>
San Mateo	7,710,200	304,324	1,191,065	19.4%	-142,618	-142,618	335,837	305,500	\$5.56	\$6.44
Foster City	2,587,479	115,219	269,740	14.9%	-77,850	-77,850	97,914	0	\$5.57	\$5.80
Redwood Shores	4,804,454	237,572	601,486	17.5%	-290,731	-290,731	18,669	0	\$5.18	\$5.51
<b>CENTRAL COUNTY TOTALS</b>	<b>15,102,133</b>	<b>657,115</b>	<b>2,062,291</b>	<b>18.0%</b>	<b>-511,199</b>	<b>-511,199</b>	<b>452,420</b>	<b>305,500</b>	<b>\$5.45</b>	<b>\$5.96</b>
Belmont/San Carlos	1,869,587	113,494	104,159	11.6%	-29,576	-29,576	3,664	0	\$5.11	\$5.61
Redwood City	5,987,431	355,038	676,148	17.2%	-213,353	-213,353	63,623	128,000	\$7.19	\$7.95
Menlo Park	8,837,270	261,446	539,609	9.1%	-81,504	-81,504	117,962	0	\$10.90	\$11.29
<b>SOUTH COUNTY TOTALS</b>	<b>16,694,288</b>	<b>729,978</b>	<b>1,319,916</b>	<b>12.3%</b>	<b>-324,433</b>	<b>-324,433</b>	<b>185,249</b>	<b>128,000</b>	<b>\$8.42</b>	<b>\$9.29</b>
<b>SAN MATEO COUNTY TOTALS</b>	<b>39,967,341</b>	<b>1,540,997</b>	<b>4,084,384</b>	<b>14.1%</b>	<b>-959,822</b>	<b>-959,822</b>	<b>664,652</b>	<b>1,571,439</b>	<b>\$6.45</b>	<b>\$7.26</b>

\*Rental rates reflect full service asking

Market indicators are not reflective of US MarketBeat tables

## KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2850 S. Delaware St	San Mateo	Roblox	179,496	Sublease
1 Franklin Pkwy	San Mateo	Guidewire	78,911	Sublease
1001-1051 E. Hillsdale Blvd	Foster City	Activision Publishing	63,332	Renewal
901 Marshall St	Redwood City	Kaiser Foundation Health Plan	34,247	Renewal
2775 Sand Hill Rd	Menlo Park	Silverlake Holdings	30,000	Renewal

## KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Skyway Landing	San Carlos	Hudson Pacific Properties / Phase 3 RE Partners	241,694	\$102.0M / \$422
1766 El Camino Real	Burlingame	Certosa / Carmel Partners	74,226	\$28.0M / \$377
321 Middlefield Rd	Menlo Park	The Pollock Financial Group / Morgan Stanley	44,719	\$68.0M / \$1,521

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OFFICE SUBMARKETS



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