

SAN MATEO COUNTY

Office & R&D Q2 2023

YoY Chg 12-Mo. Forecast

15.7%
Vacancy Rate ▲ ▲

-641K
Net Absorption, SF ▼ ▼

\$6.36
Asking Rent, PSF FS ▼ ▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2023

YoY Chg 12-Mo. Forecast

1.21M
SF Peninsula Metro Employment ▲ ▲

2.7%
SF Peninsula Metro Unemployment Rate ▲ ▼

3.6%
U.S. Unemployment Rate ▬ ▲

Source: BLS, Moody's Analytics
2023 Q2 data are based on latest available data

ECONOMY: Stripe Secures Top Spot Globally in Venture Capital Funding

For San Mateo County in the second quarter, the trend toward hybrid work and flexible office arrangements continued as companies sought to meet the evolving needs of their workforce. Layoffs, especially among technology companies, have grown substantially since mid-year 2022 and will likely continue throughout the remainder of 2023. With that said, employment in the San Francisco metro division expanded by 32,000 new jobs year-over-year (YOY) for a growth rate of 2.7%. Office job growth has moved well above the pre-pandemic peak by 8.1% at 532,640 positions for the San Francisco metro division. Meanwhile, the unemployment rate rose 40 basis points (bps) YOY with the most recent figure at 2.7%. Vital to this tech-heavy market is venture capital funding. Funding to San Mateo County-based companies increased \$6.5 billion to \$7.8 billion quarter-over-quarter. Stripe at \$6.9 billion secured the top spot globally, signaling the importance of financial technologies to the local and global economies.

SUPPLY: Office Sector Offloading Large Blocks of Space

The San Mateo County combined office and R&D vacancy rate increased for the fifth quarter in a row, closing the second quarter at 15.7%. This rate is a YOY increase of 550 bps from 10.2% in the second quarter of 2022. For office space alone, there has been an increase in the overall vacancy during the second quarter to 17.7%, up from 15.1% in the first quarter of 2023 and 610 bps YOY. The largest sublease block to hit the market is Meta's 210,000 square feet (sf) space at 100 Independence Dr in Menlo Park. The largest direct block on the market at mid-year was 104,000 sf at 1 Circle Star in San Carlos. The addition of multiple large blocks of space can be attributed to recent tech layoffs, along with the fact that software positions continue to be primarily remote or hybrid.

PRICING: Asking Rents Decrease

The San Mateo County overall asking rent decreased in the second quarter finishing at \$6.36 per square foot (psf) on a monthly, full-service basis, from \$6.43 psf/month recorded in the first quarter of 2023. The submarket with the highest overall asking rent was Menlo Park at \$10.23 psf/month. Trophy class A complexes continue to command the top rents in the market at \$7.11 psf/month.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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CONSTRUCTION: Growth in Downtowns

A total of 985,554 square feet (sf) is currently under construction, with 24.5% of the total sf preleased. Approximately 196,500 sf is expected to deliver by year-end 2023, followed by 128,000 sf in 2024, and 661,054 sf in 2025. Downtown markets will gain three new buildings totaling 325,000 sf. The next building to deliver is 220 Park Rd, located in the heart of downtown Burlingame, is expected to deliver year-end 2023; the project includes 170,000 sf of office and 15,000 sf of retail. Downtowns have been desirable locations to attract workers back to the office with an abundant mix of retail, entertainment and proximity to CalTrain.

DEMAND: Leasing Activity Reaches New Low

New leasing activity dropped in the second quarter finishing at 267,446 sf. This is a new low since the third quarter of 2020 when gross absorption was around 300,000 sf. Cardlytics' sublease from Apstra was the largest new lease in the second quarter totaling 14,123 sf at 333 Middlefield Rd in Menlo Park.

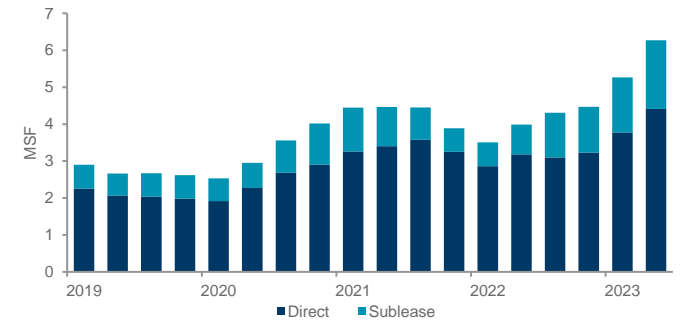
For the third quarter in a row, net absorption was in the red. In the second quarter, that number dropped to a negative 640,904 sf, following the first quarter figure of negative 795,411 sf. The bulk of negative absorption came from Class A office buildings at negative 548,319 sf. The reason for this decrease in occupancy was large block vacant space outpacing move-ins across office buildings.

There is currently 1.3 msf of office and R&D tenants in the market, a drop from the 1.4 msf last quarter. The largest office segment is Professional Services with 589,000 sf. While life sciences properties are now tracked separately, it is by far the largest industry segment with 1.5 msf of demand.

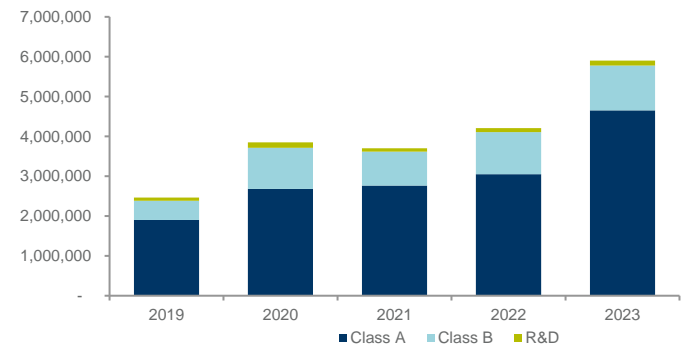
OUTLOOK

- Vacancy rates are expected to rise in select markets as the tech sector continues to shed large blocks of space, layoffs and positions continue to be remote or hybrid.
- Expect a decrease in asking rents due to increased sublease space discounted rates and direct spaces sitting longer while trophy class A rates will hold.
- 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.

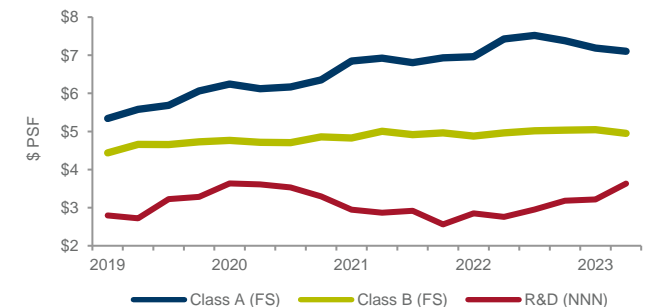
Direct vs. Sublease Space Available Comparison



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	24,705	4.5%	-3,057	-3,057	4,403	0	\$3.36	\$3.00
Brisbane	495,595	33,839	46,233	16.2%	-14,688	-22,711	6,214	0	\$4.39	\$4.39
S. San Francisco	1,953,395	94,910	205,832	15.4%	-41,791	-70,603	39,350	0	\$4.07	\$4.33
San Bruno/Millbrae	1,964,473	0	203,163	10.3%	-2,803	2,943	5,719	0	\$6.77	\$7.75
Burlingame	3,175,307	47,439	230,560	8.8%	-15,689	-75,820	26,199	411,054	\$4.74	\$7.20
NORTH COUNTY TOTALS	8,170,920	177,930	710,493	10.9%	-78,028	-169,248	81,885	411,054	\$4.91	\$5.78
San Mateo	7,989,200	374,328	1,345,598	21.5%	-64,538	-162,030	464,815	26,500	\$5.65	\$6.69
Foster City	2,587,479	115,219	270,197	14.9%	-10,653	-88,503	115,172	0	\$5.39	\$5.48
Redwood Shores	4,804,454	262,579	665,333	19.3%	-88,854	-379,585	30,920	0	\$4.95	\$5.10
CENTRAL COUNTY TOTALS	15,381,133	752,126	2,281,128	19.7%	-164,045	-630,118	610,907	26,500	\$5.40	\$5.91
Belmont/San Carlos	1,619,563	113,494	189,770	18.7%	-94,161	-123,737	26,860	0	\$5.62	\$6.17
Redwood City	5,987,431	316,007	670,376	16.5%	-6,527	-159,464	65,246	548,000	\$6.71	\$7.09
Menlo Park	8,827,770	497,256	561,897	12.0%	-298,143	-353,748	170,108	0	\$10.23	\$10.98
SOUTH COUNTY TOTALS	16,434,764	926,757	1,422,043	14.3%	-398,831	-636,949	262,214	548,000	\$8.15	\$8.95
SAN MATEO COUNTY TOTALS	39,986,817	1,856,813	4,413,664	15.7%	-640,904	-1,436,315	955,006	985,554	\$6.36	\$7.11

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
333 Middlefield Rd	Menlo Park	Cardlytics	14,123	Sublease
2 W. 5 th Ave	San Mateo	Loop Now Technologies	13,500	New Lease
303 Baldwin Ave	San Mateo	Hercules Capital	12,389	New Lease
201 S. B St	San Mateo	OneSignal	12,320	Sublease
2121 S. El Camino Real	San Mateo	Peninsula Corridor Joint Powers Board	12,181	Renewal

KEY CONSTRUCTION COMPLETIONS YTD 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
901 Cherry Ave, Phase II	San Bruno	YouTube	286,885	Alphabet / Wilson Meany
Bay Meadows – Station 5	San Mateo	Roblox	214,000	Stockbridge / Wilson Meany
Gateway at Millbrae Station	Millbrae	N/A	157,000	Republic / Republic

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OFFICE SUBMARKETS



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