

SAN MATEO COUNTY

Office & R&D Q3 2023

	YoY Chg	12-Mo. Forecast
17.7% Vacancy Rate	▲	▲
-844K Net Absorption, SF	▼	▲
\$6.53 Asking Rent, PSF FS	▼	▼

*(Overall, All Property Classes)
These values are not reflective of the U.S. MarketBeat Tables

ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
1.21M SF Peninsula Metro Employment	▲	▲
3.0% SF Peninsula Metro Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

*Source: BLS, Moody's Analytics
2023 Q3 data are based on latest available data*

ECONOMY: Kriya Therapeutics Secures Top Spot Nationally in Venture Capital Funding

For San Mateo County in the third quarter, the market's ongoing uncertainty persisted as companies navigate the challenges posed by hybrid work models and flexible office arrangements. With that said, employment in the San Francisco metro division expanded by 28,300 new jobs year-over-year (YOY) for a growth rate of 2.4%. Office jobs, despite numerous announced layoffs this year, remain above the pre-pandemic peak by 7.0% at 527,450 positions for the San Francisco metro division. Meanwhile, the unemployment rate rose 80 basis points (bps) YOY with the most recent figure at 3.0%. Vitaly important to this tech-heavy market is venture capital funding. After a sharp increase in the first quarter, funding to San Mateo County-based companies has dropped in the past two quarters; however, the life sciences sector ruled the roost in the Bay Area capturing a whopping 88.1% of the funding and 43.2% of the deals. The largest deal in Q3 in the U.S. was to Redwood City based drug discovery (gene therapy) company, Kriya Therapeutics, in a later stage series C round for \$430.0 million (M).

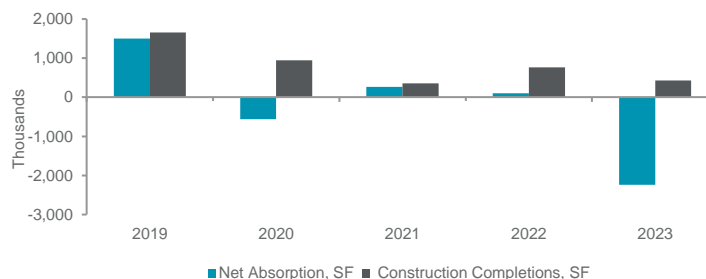
SUPPLY: Office Sector Offloading Large Blocks of Space

The San Mateo County combined office and R&D vacancy rate increased for the sixth quarter in a row, closing the third quarter at 17.7%. This rate is a YOY increase of 680 bps from 10.9% in the third quarter of 2022. For office space alone, there has been an increase in the overall vacancy during the third quarter to 19.8%, up from 15.6% in the second quarter of 2023 and 740 bps YOY. The largest direct block on the market was 346,000 square feet (sf) at Pacific Shores Center in Redwood City; Google has been the owner and user since 2014. 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 Increase

The San Mateo County overall asking rent increased in the third quarter finishing at \$6.53 per square foot (psf) on a monthly, full-service basis, from \$6.38 psf/month recorded in the second quarter of 2023. The submarket with the highest overall asking rent was Menlo Park at \$10.63 psf/month. Class A complexes continue to command the top rents in the market at \$7.25 psf/month.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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CONSTRUCTION: Growth in Downtowns

A total of 598,401 sf is currently under construction, with 56.6% of the total square footage preleased. Approximately 44,347 sf is expected to deliver by year-end 2023, followed by 185,000 sf in 2024, and 369,054 sf in 2025. Downtown markets will gain three new buildings totaling 325,000 sf. The next major delivery is 220 Park Road, located in the heart of downtown Burlingame, expected to deliver in early 2024; the project includes 170,000 sf of office and 15,000 sf of retail. Downtowns along the Peninsula 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 Remains Low

Leasing activity ticked up in the third quarter finishing at 338,998 sf, with office and R&D recording 285,059 sf and 53,939 sf, respectively. Transaction volume is still at a low and far from the recent high of 1.5 million square feet (msf) in Q1 2022. Sequoia Capital's sublease to direct transaction which also included an expansion was the largest deal in the third quarter totaling 37,390 sf at 2882 Sand Hill Road in Menlo Park.

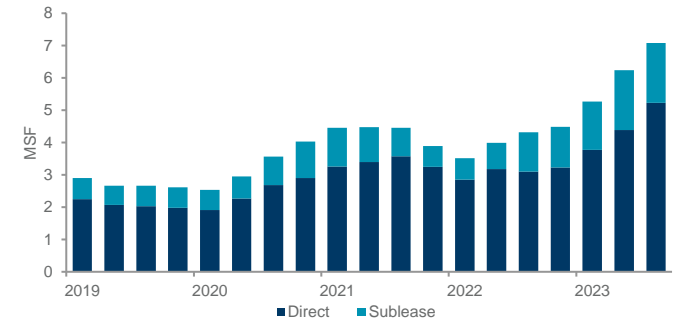
For the fourth quarter in a row, net absorption was in the red. In the third quarter, that number dropped to a negative 843,962 sf, following the second quarter figure of negative 604,911 sf. The bulk of negative absorption came from Class A office buildings at negative 617,221 sf. The reason for this decrease in occupancy was large block vacant space outpacing move-ins across office buildings.

There is currently 1.7 msf of office and R&D tenants in the market, an increase from the 1.3 msf last quarter. The largest office segment is Professional Services with 575,000 sf. While life sciences properties are now tracked separately, it is by far the largest industry segment with 1.8 msf of demand.

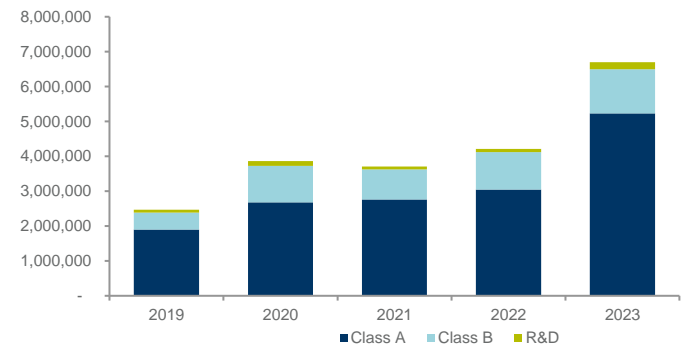
OUTLOOK

- Vacancy rates are expected to rise in select markets with the tech sector continuing to shed large blocks of space due to additional layoffs and positions remaining remote or hybrid.
- Expect a decrease in asking rents due to increased sublease space at discounted rates and direct spaces sitting longer; trophy class A pricing will likely be the exception thanks to the ongoing flight to quality.
- The office and R&D markets will continue to benefit from being associated with life sciences, which, though recently suffering some slowdown, remains one of the hottest segments of commercial real estate today.

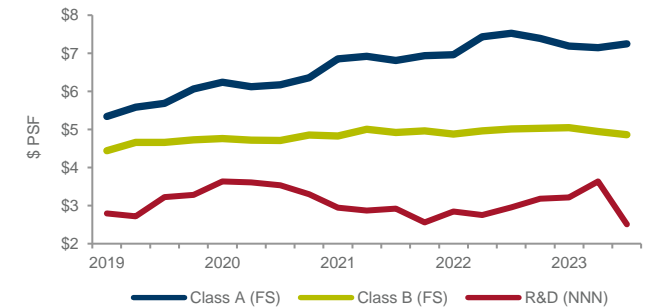
Direct vs. Sublease Space Available Comparison



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	35,549	6.4%	-10,844	-13,901	13,561	0	\$3.34	\$3.00
Brisbane	495,595	30,855	66,349	19.6%	-17,132	-39,843	6,214	0	\$6.00	\$6.00
S. San Francisco	1,953,395	75,663	212,244	14.7%	5,434	-57,768	64,179	0	\$4.01	\$4.40
San Bruno/Millbrae	1,964,473	0	215,012	10.9%	-20,318	-8,906	14,903	0	\$6.79	\$7.75
Burlingame	3,175,307	39,999	201,602	7.6%	33,678	-42,142	56,528	411,054	\$4.61	\$7.07
NORTH COUNTY TOTALS	8,170,920	148,259	730,756	10.8%	-9,182	-162,560	155,385	411,054	\$5.05	\$6.11
San Mateo	7,989,214	374,875	1,513,002	23.6%	-153,777	-311,959	547,324	26,500	\$5.56	\$6.40
Foster City	2,587,479	117,561	346,373	17.9%	-78,518	-167,021	128,206	0	\$5.91	\$6.00
Redwood Shores	4,804,454	240,904	722,986	20.1%	-61,434	-415,563	50,470	0	\$5.15	\$5.32
CENTRAL COUNTY TOTALS	15,381,147	733,340	2,582,361	21.6%	-293,729	-894,543	726,000	26,500	\$5.49	\$5.95
Belmont/San Carlos	1,662,563	108,555	190,814	18.0%	3,895	-119,842	59,877	17,847	\$5.86	\$6.44
Redwood City	5,988,404	314,257	1,113,581	23.8%	-443,612	-600,919	99,869	128,000	\$6.68	\$7.40
Menlo Park	8,892,516	553,178	609,899	13.1%	-101,334	-457,672	298,104	0	\$10.63	\$11.15
SOUTH COUNTY TOTALS	16,543,483	975,990	1,914,294	17.5%	-541,051	-1,178,433	457,850	145,847	\$8.18	\$8.94
SAN MATEO COUNTY TOTALS	40,095,550	1,857,589	5,227,411	17.7%	-843,962	-2,235,536	1,339,235	598,401	\$6.53	\$7.25

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2882 Sand Hill Rd	Menlo Park	Sequoia Capital	37,390	New Lease/Expansion
2884 Sand Hill Rd	Menlo Park	Patient Square Capital	24,754	New Lease
201 Baldwin Ave	San Mateo	Backblaze	23,671	Sublease
989 Hillsdale Blvd, E.	Foster City	Alluxio	13,034	Sublease
2885 Sand Hill Rd – Bldg 2	Menlo Park	Coatue Management	11,168	New Lease

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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