

SAN MATEO COUNTY

Office & R&D Q4 2023

	YoY Chg	12-Mo. Forecast
19.3% Vacancy Rate	▲	▲
-776K Net Absorption, SF	▼	▲
\$5.95 Asking Rent, PSF FS	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2023

	YoY Chg	12-Mo. Forecast
1.2M SF Peninsula Metro Employment	▲	▲
3.1% SF Peninsula Metro Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics
2023 Q4 data are based on latest available data

ECONOMY: Office Jobs Remain Above the Pre-Pandemic Peak

San Mateo County office and R&D market has yet to fully right itself, yet a glimmer of optimism emerged in the fourth quarter with several large tenants making commitments to stay or expand in the market. Employment in the San Francisco metro division expanded by 9,683 new jobs year-over-year (YOY) for a growth rate of 0.8%. Office jobs, despite numerous announced layoffs this year, remain above the pre-pandemic peak by 6.1% at 522,900 positions. Meanwhile, the unemployment rate rose 70 basis points (bps) YOY with the most recent figure at 3.1%. Venture capital (VC) funding into start-ups is a significant driver of the San Mateo County economy. Capital invested into San Mateo County based companies in the fourth quarter reached \$1.6 billion (B), though that was down 21.6% from the third quarter. Throughout the entire year, VC funding reached \$12.6B, marking a 6.7% decrease from the 2022 figure, yet both figures fall short when compared to the record \$20.0B in 2021. Life sciences, one of the most important industry verticals slowed for the full year, however, San Mateo County took in the majority of the \$6.9B (42.1%) absorbed by Bay Area life sciences companies.

SUPPLY: Large Sublease Blocks on the Rise

The San Mateo County combined office and R&D vacancy rate increased for the seventh quarter in a row, closing the fourth quarter at 19.3%. This rate is a YOY increase of 800 bps from 11.3% in the fourth quarter of 2022. For office space, there has been an increase in the sublease vacancy during the fourth quarter to 6.8%, up from 4.7% in the third quarter of 2023 and 3.6% one year ago. The largest sublease block to hit the market this quarter was Meta's 521,000 square feet (sf) at Menlo Gateway in Menlo Park. Meta's cumulative 1 million square feet (msf) of sublease space in Menlo Park has made a significant impact on the market's overall vacancy. 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: Class A Command Top Rents

The San Mateo County overall asking rent decreased in the fourth quarter finishing at \$5.95 per square foot (psf) on a monthly, full-service basis, from \$6.20 psf/month recorded in the third quarter of 2023. The submarket with the highest overall asking rent was Burlingame at \$7.62 psf/month. Class A complexes continue to command elevated rents in the market at \$6.45 psf/month while Menlo Park class A direct asking rent still reigns supreme at \$11.67 psf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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CONSTRUCTION: Pipeline to Deliver by 2025

A total of 598,401 sf is currently under construction, with 57.4% of the total square footage preleased. Approximately 196,500 sf is expected to deliver by early 2024, followed by 369,054 sf in 2025. Downtown markets will gain three new buildings totaling 324,500 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 more successful in attracting workers back to the office thanks to an abundant mix of retail, entertainment, and proximity to CalTrain.

DEMAND: New SamTrans Lease Uplifts a Sluggish Year

Leasing activity jumped up 37.5% from the last quarter finishing at 595,010 sf, with office capturing all transactions. SamTrans' new lease was the largest deal in the fourth quarter totaling 157,000 sf at Gateway at Millbrae Station; it will serve as the new headquarters for the transit agency. Annual leasing activity was down in 2023 reaching just 2.0 msf, below the previous year at 3.1 msf and slightly above 2020's historic low at 1.9 msf. The limited demand for large blocks of space coupled with major tenants offloading space has impacted leasing velocity.

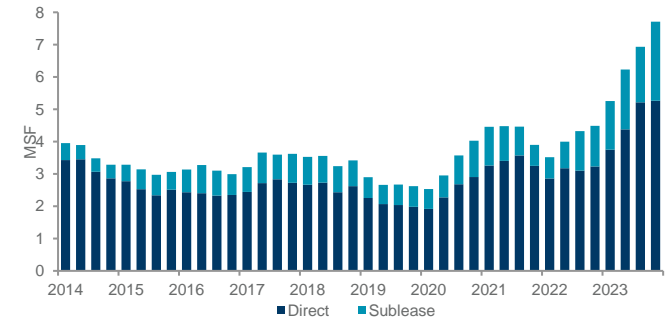
For the fifth quarter in a row, net absorption was in the red. In the fourth quarter, that number dropped to a negative 776,319 sf, following the third quarter figure of negative 706,192 sf. The bulk of negative absorption came from Class A office buildings at negative 736,799 sf. The reasons for this decrease in occupancy was large block vacant space outpacing move-ins and slowing leasing activity across office buildings.

There is currently 1.5 msf of office and R&D tenants in the market, a decrease from the 1.7 msf last quarter. The largest office segment is technology with 600,000 sf. While life sciences properties are now tracked separately, it is by far the largest industry segment with 1.2 msf of demand.

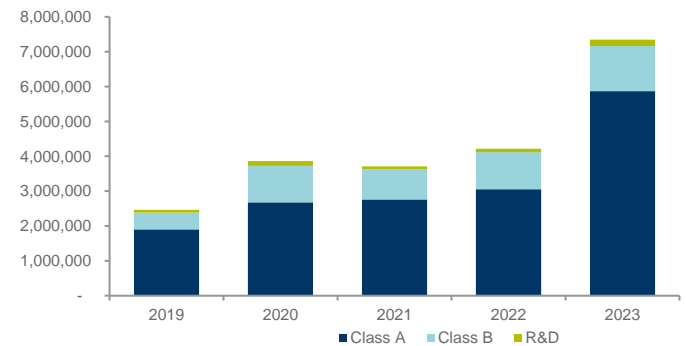
OUTLOOK

- 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.

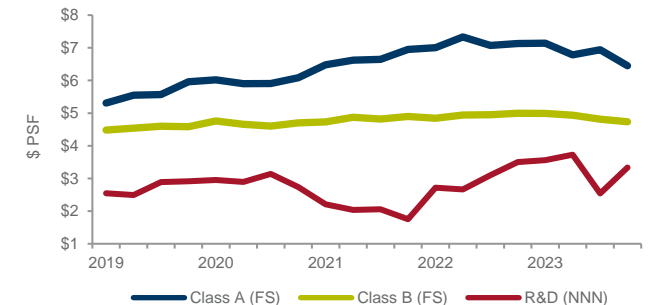
Direct vs. Sublease Space Available Comparison



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	29,743	5.4%	5,806	-8,095	14,481	0	\$3.36	N/A
Brisbane	495,595	30,855	66,349	19.6%	0	-39,843	10,714	0	\$6.28	\$6.28
S. San Francisco	1,953,395	92,693	257,313	17.9%	-62,099	-119,867	109,968	0	\$4.17	\$4.38
San Bruno/Millbrae	1,944,890	2,380	222,782	11.6%	-4,733	-13,639	172,936	0	\$4.28	N/A
Burlingame	3,175,307	31,806	234,548	8.4%	-26,034	-66,895	79,575	426,054	\$4.60	\$7.62
NORTH COUNTY TOTALS	8,151,337	159,476	810,735	11.9%	-87,060	-248,339	387,674	426,054	\$4.45	\$5.28
San Mateo	7,988,896	377,296	1,587,364	24.6%	-86,416	-388,742	668,838	26,500	\$5.51	\$6.32
Foster City	2,587,479	80,234	239,735	12.4%	143,965	-23,056	136,777	0	\$5.86	\$5.98
Redwood Shores	4,802,799	242,001	729,823	20.2%	-15,719	-418,934	122,368	0	\$5.14	\$5.30
CENTRAL COUNTY TOTALS	15,379,174	699,531	2,556,922	21.2%	41,830	-830,732	927,983	26,500	\$5.42	\$5.86
Belmont/San Carlos	1,610,563	130,960	154,608	17.7%	-3,678	-108,732	74,873	17,847	\$6.03	\$6.45
Redwood City	5,988,333	218,583	1,072,261	21.6%	38,011	-463,925	210,635	128,000	\$6.26	\$6.48
Menlo Park	8,808,880	1,237,141	672,447	21.7%	-765,422	-1,204,183	436,437	0	\$7.19	\$7.41
SOUTH COUNTY TOTALS	16,407,776	1,586,684	1,899,316	21.2%	-731,089	-1,776,840	721,945	145,847	\$6.76	\$7.02
SAN MATEO COUNTY TOTALS	39,938,287	2,445,691	5,266,973	19.3%	-776,319	-2,855,911	2,037,602	598,401	\$5.95	\$6.45

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Gateway at Millbrae Station	Millbrae	SamTrans	157,000	New Lease
275 Middlefield Rd	Menlo Park	Robinhood	65,435	Renewal
900 Middlefield Rd	Redwood City	Davis Polk & Wardwell LLP	54,434	New Lease
333 Twin Dolphin Dr	Redwood Shores	Coherus Biosciences	27,532	Renewal
1850 Gateway Dr	San Mateo	Apixio	21,441	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	SamTrans	157,000	Republic / Republic

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