

SAN MATEO COUNTY

Office & R&D Q1 2024

	YoY Chg	12-Mo. Forecast
18.8% Vacancy Rate	▲	▲
110K Net Absorption, SF	▲	▼
\$5.85 Asking Rent, PSF FS	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
1.2M SF Peninsula Metro Employment	▼	▲
3.7% SF Peninsula Metro Unemployment Rate	▲	▼
3.8% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics
2024 Q1 data are based on latest available data

ECONOMY: Office Jobs Fell Below the Pre-Pandemic Peak

Employment in the San Francisco metro division decreased by 13,933 jobs year-over-year (YOY) for a growth rate of negative 1.2%. Office jobs in the San Francisco metro division fell below the pre-pandemic peak by 1.5%, attributed to numerous announced layoffs since the beginning of 2023. Subsequently, the unemployment rate rose 110 basis points (bps) YOY with the most recent figure at 3.7%. 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 first quarter reached \$8.7 billion (B), bouncing back from the previous quarter figure of \$1.6B with South San Francisco-based financial software (Artificial Intelligence) company Stripe in a \$6.9B late-stage round taking top spot in the U.S. Life sciences, one of the most important industries in the market, contributed \$728.4 million (M) and secured the second and third largest deals in the U.S. which were to South San Francisco-based drug discovery company Alumis in a \$259M late-stage round and South San Francisco-based decision/risk analysis company Freenome in a \$254.0M late-stage round.

SUPPLY: A Dip in Office Vacancy

The San Mateo County combined office and R&D vacancy rate dipped to 18.8% in the first quarter of 2024; this rate follows seven straight quarters of increases from 10.1% in second quarter of 2022 to 19.1% in fourth quarter of 2023. For office space, there has been a decrease in both direct and sublease vacancy during the first quarter of 240 bps and 230 bps respectively. The largest office sublease block to hit the market this quarter was Box's 75,000 square feet (sf) at Crossing 900 in Redwood City. R&D vacancy which accounts for only 3.7% of total availabilities, increased 180 bps from the previous quarter to 279,993 sf with much of that being direct space in Southern San Mateo County. While the drop in vacancy is a positive sign of a recovery, there remains uncertainty in the market due to ongoing tech layoffs and the fact that many software positions continue to be remote or hybrid.

PRICING: Class A Command Top Rents

The San Mateo County overall asking rent decreased in the first quarter at \$5.85 per square foot (psf) on a monthly, full-service basis, from the peak \$6.33 psf in the first quarter 2023 and relatively flat onwards. The submarket with the highest overall asking rent was Menlo Park at \$7.04 psf/month. Class A complexes continue to command elevated direct rents in the market at \$6.76 psf/month while Menlo Park class A direct asking rent still reigns supreme at \$11.39 psf.



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CONSTRUCTION: Pipeline to Deliver by 2025

A total of 974,054 sf is currently under construction, with 24.7% of the total square footage preleased. Approximately 185,000 sf is expected to deliver this year, followed by 789,054 sf in 2025. Downtown markets will gain two new buildings totaling 313,000 sf. The next major delivery is 220 Park Road, located in the heart of downtown Burlingame, expected to deliver in mid-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: Roblox Kicking off the Year

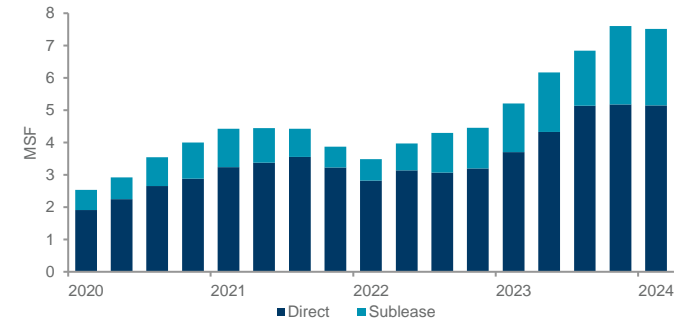
Leasing activity jumped 25.1% from the last quarter finishing at 783,222 sf, with office capturing 743,369 sf of transactions. This was the most active quarter since first quarter of 2022 at 1.5 million square feet (msf). Since then, quarterly leasing activity averaged 566,107 sf, compared to the pre-pandemic 2019 quarterly average of 1.1 msf. The Roblox sublease swap with Survey Monkey was the largest deal in the first quarter totaling 133,137 sf at Bay Meadows followed by Survey Monkey's 61,773 sf sublease at 1 Franklin Pkwy. The limited demand for large blocks of space coupled with major tenants offloading space has impacted leasing velocity.

Net absorption turned positive after five quarter in a row of negative absorption closing the first quarter at positive 109,647 sf, following the fourth quarter of 2023 figure of negative 756,844 sf. The bulk of positive absorption came from Class A office buildings at positive 212,019 sf. The reasons for this increase in occupancy was Roblox's 214,000 sf move-in at Bay Meadows, Station 5 block. Net absorption is still vulnerable to vacant space outpacing move-ins and slowing leasing activity across office buildings.

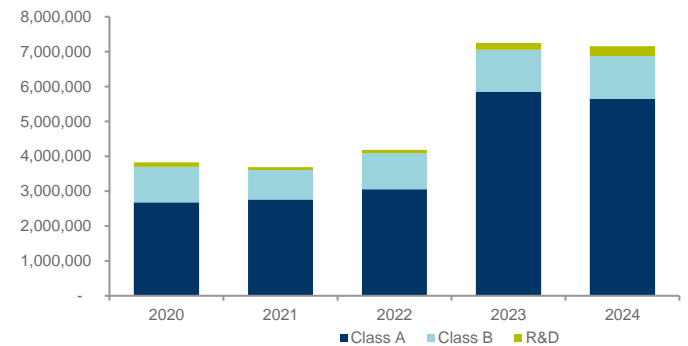
OUTLOOK

- 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.
- A continued 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.
- There is currently 1.8 msf of office and R&D tenants in the market, an increase from the 1.5 msf last quarter. The largest office demand segment is technology at 800,000 sf. The office and R&D markets will continue to benefit from being associated with life sciences with that sector the largest demand driver by far at 1.6 msf.

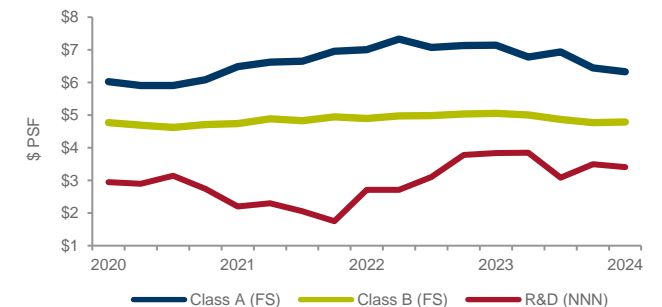
Direct vs. Sublease Space Available Comparison



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)	OVERA AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Daly City	582,150	1,742	27,302	5.0%	1,154	1,154	2,898	0	\$3.32	N/A
Brisbane	495,595	20,116	111,210	26.5%	-34,122	-34,122	62,551	0	\$4.21	\$4.21
S. San Francisco	1,953,395	67,925	198,831	13.7%	32,347	32,347	26,888	0	\$4.23	\$4.43
San Bruno/Millbrae	1,944,890	2,380	203,604	10.6%	942	942	9,090	0	\$3.93	N/A
Burlingame	3,185,528	25,191	237,591	8.2%	-5,890	-5,890	38,300	426,054	\$4.65	\$7.96
NORTH COUNTY TOTALS	8,161,558	117,354	778,538	11.0%	-5,569	-5,569	139,727	426,054	\$4.32	\$5.04
San Mateo	8,015,396	256,577	1,407,144	20.8%	312,595	312,595	321,423	0	\$5.37	\$6.09
Foster City	2,587,479	131,936	239,355	14.3%	-51,322	-51,322	109,123	0	\$5.62	\$5.73
Redwood Shores	4,802,799	227,744	727,955	19.9%	16,125	16,125	79,229	0	\$5.12	\$5.28
CENTRAL COUNTY TOTALS	15,405,674	616,257	2,374,454	19.4%	277,398	277,398	509,775	0	\$5.31	\$5.69
Belmont/San Carlos	1,641,103	147,955	188,090	20.5%	-46,099	-46,099	15,589	0	\$5.93	\$6.45
Redwood City	5,940,870	269,444	1,123,592	23.4%	-105,029	-105,029	35,396	548,000	\$6.10	\$6.43
Menlo Park	8,788,880	1,218,633	688,371	21.7%	-11,054	-11,054	82,735	0	\$7.04	\$7.24
SOUTH COUNTY TOTALS	16,370,853	1,636,032	2,000,053	22.2%	-162,182	-162,182	133,720	548,000	\$6.59	\$6.90
SAN MATEO COUNTY TOTALS	39,938,085	2,369,643	5,153,045	18.8%	109,647	109,647	783,222	974,054	\$5.85	\$6.32

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3050 Delaware St, S.	San Mateo	Roblox	133,137	Sublease
1 Franklin Pkwy	San Mateo	Survey Monkey	61,773	Sublease
8000 Marina Blvd	Brisbane	Odoo	57,512	New Lease
203 Redwood Shores	Redwood Shores	Poshmark	50,327	Renewal
1001 Hillsdale Blvd, E.	Foster City	Replit	48,815	New Lease

KEY SALE TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
411 Airport Bvd	Burlingame	Lena Cheung / Simon Chu	10,800	\$5.8M/\$532

KEY CONSTRUCTION COMPLETIONS YTD 2024

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
300 Ellsworth Ave, S.	San Mateo	N/A	26,500	Lane Partners

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OFFICE SUBMARKETS



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