

**MARKET TRENDS | PENINSULA**

# OFFICE

**MARKET DRIVERS**

**OFFICE** direct vacancy on the Peninsula rose 35% YOY, reporting a rate of 12.3% across all class types. However, sublease vacancy rates remained stable at 2.5% by the end of Q2 2021. The Peninsula has not seen nearly the same increase in sublease space as other Bay Area markets, such as San Francisco.

**DIRECT** asking lease rates have decreased slightly in the second quarter of 2021, reporting an average rate of \$6.07/SF full service. Most tenants on the Peninsula seek shorter term leases as they search for flexible options in this market and adjust to future “hybrid” working models.

**LEASING ACTIVITY** stood at 260,836 SF by the end of Q2 2021. Total Class A lease activity reached 82,038 SF, with sublease activity reporting 34,901 SF by quarter-end.

**TWO** major office projects were delivered in the second quarter on the Peninsula, pre-leased entirely to Facebook: Burlingame Point (803,000 SF) in Burlingame and Menlo Gateway, located at 125 & 135 Constitution Dr. (495,000 SF) in Menlo Park.

**THE SAN MATEO** County office pipeline remains strong, with just over 2.37 million SF of office space under construction. Current ongoing projects include Facebook’s redevelopment in Menlo Park (962,400 SF) and Gateway at Millbrae Station in Millbrae (157,694 SF). Looking into the rest of 2021, Stockbridge’s Station 1 & 5 is anticipated to arrive in San Mateo, adding 433,000 SF to this submarket in Q4.

## Market Summary

	2Q 2021	1Q 2021	2Q 2020	Annual Change
Direct Vacancy Rate	12.3%	11.9%	9.1%	<b>35.16%</b>
Availability Rate	20.4%	18.7%	15.7%	<b>29.94%</b>
Asking Lease Rate	\$6.07	\$6.09	\$6.28	<b>-3.40%</b>
Leased SF	260,836	671,897	271,539	<b>-3.94%</b>
Sold SF	902,207	59,126	100,246	<b>799.99%</b>
Net Absorption	763,203	(241,563)	(504,259)	<b>N/A</b>

**▼ 261K**
**LEASING ACTIVITY (SF)**
**▲ 763K**
**NET ABSORPTION (SF)**
**▲ 12.3%**
**VACANCY RATE**
**▼ \$6.07**
**AVERAGE ASKING RENT**
**▲ 1.30M**
**NEW DELIVERIES (SF)**
CHANGE FROM PRIOR QUARTER

## Market Highlights

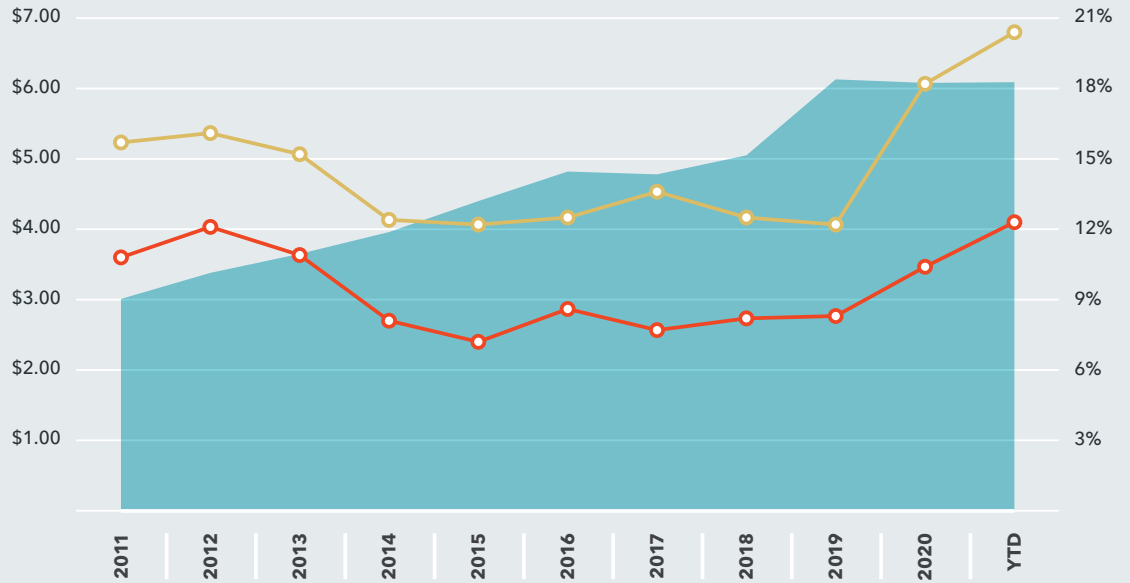
**DIRECT VACANCY RATES** increased to 12.3%, up 35% YOY

**ABSORPTION RATES** stood in positive territory, reporting 763,203 SF by the end of Q2 2021

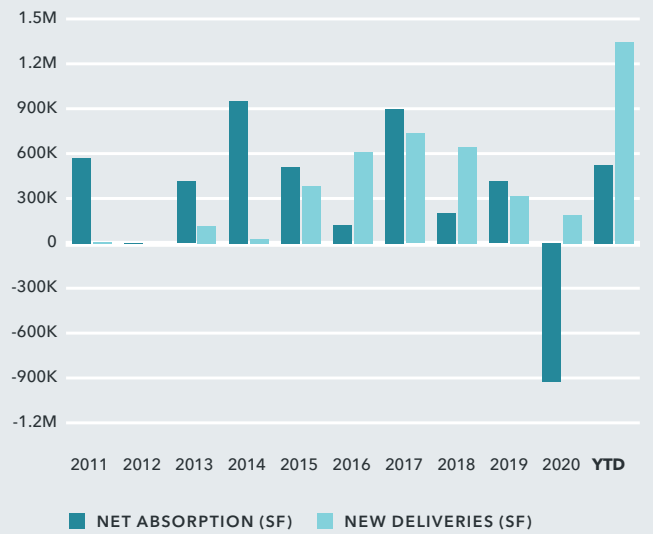
**CONSTRUCTION** projects remain active, with over 2.37 million SF of office developments in the pipeline, of which 53% is pre-leased

# Lease Rate, Vacancy & Availability

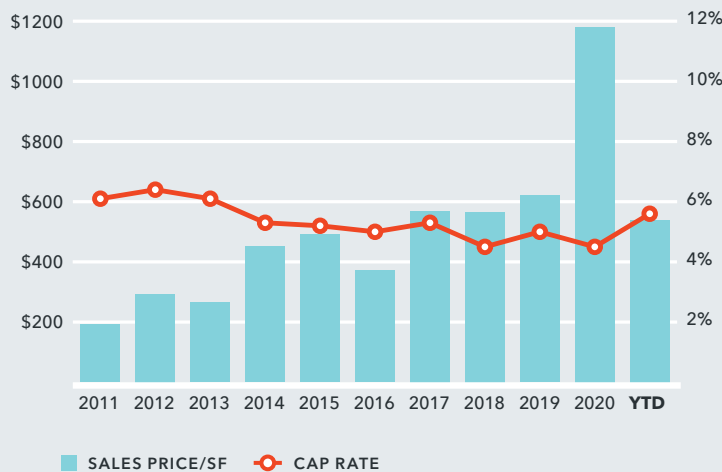
■ DIRECT LEASE RATE (FSG)  
○ DIRECT VACANCY  
○ TOTAL AVAILABILITY



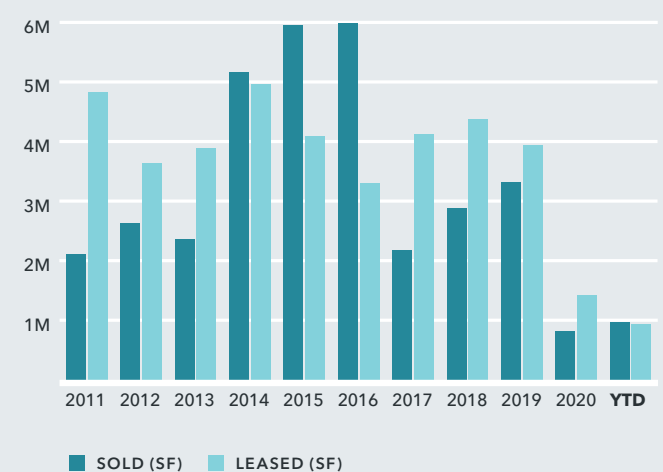
# Net Absorption & New Deliveries



# Average Sales Price/SF & Cap Rate



# Sale Volume & Leasing Activity



## SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q21 Total Net Absorption	YTD Total Net Absorption	2Q21 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	833,833	0	3.9%	4.1%	5.1%	38,887	39,312	1,874	6,452	\$3.84
Brisbane	568,069	0	8.4%	13.1%	16.6%	0	7,135	0	0	\$3.83
South San Francisco	1,747,327	0	22.4%	23.9%	24.2%	(124,104)	(161,286)	20,169	160,163	\$3.60
San Bruno/Millbrae	1,514,740	157,694	13.2%	13.5%	14.6%	(5,391)	(4,959)	625	10,190	\$5.41
Burlingame	3,649,260	30,634	9.3%	10.9%	15.0%	781,394	802,266	38,581	58,677	\$4.71
<b>North County Totals</b>	<b>8,555,021</b>	<b>188,328</b>	<b>11.8%</b>	<b>13.2%</b>	<b>15.2%</b>	<b>690,786</b>	<b>682,468</b>	<b>61,249</b>	<b>235,482</b>	<b>\$4.30</b>
San Mateo	8,282,668	609,122	13.9%	17.0%	28.0%	(70,590)	(157,108)	35,406	95,309	\$5.24
Foster City	2,235,180	0	18.2%	19.1%	21.4%	(30,555)	(47,310)	2,188	9,741	\$5.39
Redwood Shores	3,422,199	0	19.9%	21.1%	27.1%	(21,310)	(52,011)	43,040	93,511	\$5.40
<b>Central County Totals</b>	<b>13,901,869</b>	<b>609,122</b>	<b>16.1%</b>	<b>18.4%</b>	<b>26.8%</b>	<b>(122,455)</b>	<b>(256,429)</b>	<b>80,634</b>	<b>198,561</b>	<b>\$5.32</b>
Belmont/San Carlos	2,241,750	0	12.6%	21.7%	17.8%	263,720	308,613	9,475	274,783	\$4.42
Redwood City	5,495,260	280,746	6.2%	8.7%	19.8%	(14,202)	(71,822)	22,455	42,379	\$6.30
Menlo Park	6,438,476	1,294,403	9.6%	11.7%	13.7%	(54,646)	(147,607)	87,023	181,528	\$10.00
<b>South County Totals</b>	<b>14,175,486</b>	<b>1,575,149</b>	<b>8.8%</b>	<b>12.1%</b>	<b>16.7%</b>	<b>194,872</b>	<b>89,184</b>	<b>118,953</b>	<b>498,690</b>	<b>\$7.87</b>
<b>Peninsula Total</b>	<b>36,632,376</b>	<b>2,372,599</b>	<b>12.3%</b>	<b>14.8%</b>	<b>20.4%</b>	<b>763,203</b>	<b>515,223</b>	<b>260,836</b>	<b>932,733</b>	<b>\$6.07</b>
Class A	14,976,764	2,372,599	13.0%	15.7%	26.9%	(40,343)	(101,198)	82,038	257,397	\$5.96
Class B	16,316,147	0	13.8%	16.5%	18.4%	814,704	651,484	161,830	577,238	\$5.15
Class C	5,069,138	0	5.3%	6.6%	7.6%	(11,158)	(35,063)	16,968	98,098	\$4.10

## ECONOMIC OVERVIEW

**ON** June 15, 2021, San Mateo County reopened most businesses and activities, as the state of California fully reopened its economy.

**SAN MATEO COUNTY** unemployment stood at 4.6% in Q2 2021, while California unemployment reported a rate of 7.5%

## NEAR-TERM OUTLOOK

**CONTINUED** demand for lab space on the Peninsula has fueled office space conversions to life science. In particular, 901

& 951 Mariners Island Blvd. in San Mateo and 2001 Junipero Serra Blvd. in Daly City (all sold in Q2 2021) will become repositioned for life science use.

**ASKING RATES** dipped slightly in the market, however Kidder Mathews anticipates rates to increase over the next two quarters.

**GREATER** concessions in the form of free rent and tenant improvement allowances are being offered to tenants, with final lease rates closing near asking rates.

## TOP SALE TRANSACTIONS FOR 2Q 2021

Property	Submarket	Buyer	Seller	Sale Price	\$/SF	NRSF
2001 Junipero Serra Blvd, Daly City	Daly City	Phase 3 Real Estate Partners, Inc.	Harvest Properties & Cerberus Capital Management	\$168,600,000	\$440.07	383,123
901 & 951 Mariners Island Blvd, San Mateo	San Mateo	Longfellow Real Estate Partners	Rubicon Point Partners	\$156,000,000	\$628.11	248,364
1000 Main St, Redwood City	Redwood City	Lane Partners	Wells Fargo Bank	\$25,000,000	\$1,666.67	15,000

## TOP LEASE TRANSACTIONS FOR 2Q 2021

Property	Submarket	Landlord	Tenant	Sign Date	NRSF
406 E 3rd Ave, San Mateo	San Mateo	Windy Hill Property Ventures, Inc.	Verkada	May 2021	116,122
8 Homewood Pl, Menlo Park	Menlo Park	H K N Llc li	Robinhood	April 2021	21,000
855 Oak Grove Ave, Menlo Park	Menlo Park	Robert Wheatley Properties	Instabase	Jun 2021	12,321

## TOP UNDER CONSTRUCTION

Property	Address	Submarket	Owner	Delivery Date	SF
Facebook Redevelopment	301-309 Constitution Dr, Menlo Park	Menlo Park	Facebook, Inc.	Q2 2022	962,400
Bay Meadows Station 1 & 5	2750 & 3150 S Delaware St., San Mateo	San Mateo	Stockbridge	Q4 2021	433,000
Gateway at Millbrae Station	100 Garden Lane	Millbrae	Republic Urban Properties	Q3 2022	157,694

DATA SOURCE: COSTAR, STATE OF CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

**GARY BARAGONA**  
 Director of Research  
 415.229.8925  
[gary.baragona@kidder.com](mailto:gary.baragona@kidder.com)

**ERIC LUHRS**  
 Regional President, Brokerage  
 Northern California/Nevada  
 650.769.3600  
[eric.luhrs@kidder.com](mailto:eric.luhrs@kidder.com)

Designated Broker  
 Mark Read | LIC N° 00572743

**Commercial  
 Brokerage**

**\$8B**  
 TRANSACTION  
 VOLUME (ANNUAL)

**23M**  
 SALES SF  
 (ANNUAL)

**42M**  
 LEASING SF  
 (ANNUAL)

**Valuation  
 Advisory**

**1,800+**  
 ASSIGNMENTS  
 ANNUALLY

**39/20**  
 TOTAL NO.  
 APPRAISERS/MAI'S

**Asset  
 Services**

**70M**  
 MANAGEMENT  
 PORTFOLIO SF

**\$12B**  
 IN ASSETS UNDER  
 MANAGEMENT

**km Kidder  
 Mathews**