

**MARKET TRENDS | PENINSULA**

# OFFICE

**MARKET DRIVERS**

**OFFICE** direct vacancy on the Peninsula rose 20.95% year-over-year, but only rose by 20 basis points (bps) since Q3 to 12.7%. However, sublease vacancy rates continue to decrease with 2.1% for Q4 2021.

**THE PENINSULA OFFICE MARKET** reported an average direct lease rate of \$6.08/SF full service. Most tenants seek shorter term leases as they search for flexible options in the market to adjust for “hybrid” working models.

**LEASING ACTIVITY** stood at 2.8M SF for 2021. Total Class A lease activity totaled 1.2M SF by years end. 2021’s leasing activity fared much better than 2020’s 1.4M SF.

**THE SAN MATEO COUNTY** office pipeline remains strong with over 2.3M SF of office buildings under construction. Current ongoing projects include Facebook’s redevelopment in Menlo Park (962,400 SF) and Stockbridge’s Station 1 & 5 in San Mateo (437,000 SF).

**OFFICE SALES** are on the rise to almost pre-pandemic levels with 2.4M of SF sold in 2021. This is up 233% when compared to 2020’s 728,235 of sold SF.

**THE SALES** of office buildings for conversion to life science continues to reduce the office market inventory.

**ECONOMIC OVERVIEW**

**DUE TO THE UNCERTAINTY** the pandemic has created, many businesses are hesitant to have their employees return to the office. The delta and omicron variants have further delayed tenants returning to the office. However, a high percentage of tenants continue to pay their rent.

**SAN MATEO COUNTY’S** unemployment rate continues to drop as it sits at 3.1% as of November 2021—150 bps lower than the previous quarter.

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## Market Summary

	2021	2020	2019	Annual Change
Direct Vacancy Rate	12.7%	10.5%	8.4%	<b>20.95%</b>
Availability Rate	15.1%	18.2%	12.1%	<b>-17.03%</b>
Asking Lease Rate (FS)	\$6.08	\$6.08	\$6.13	<b>0.00%</b>
Leased SF	2,782,312	1,411,443	3,903,881	<b>97.13%</b>
Sold SF	2,433,543	728,735	2,974,967	<b>233.94%</b>
Net Absorption	1,301,421	(922,080)	363,625	<b>N/A</b>

**▲ 2.8M**
**LEASING ACTIVITY (SF)**
**▲ 1.3M**
**NET ABSORPTION (SF)**
**▲ 12.7%**
**VACANCY RATE**
**◀▶ \$6.08**
**AVERAGE ASKING RENT (FS)**
**▲ 2.15M**
**NEW DELIVERIES (SF)**
CHANGE FROM PRIOR YEAR

## Market Highlights

**SUBLEASE AVAILABILITY** remains low, which indicates a stabilizing market.

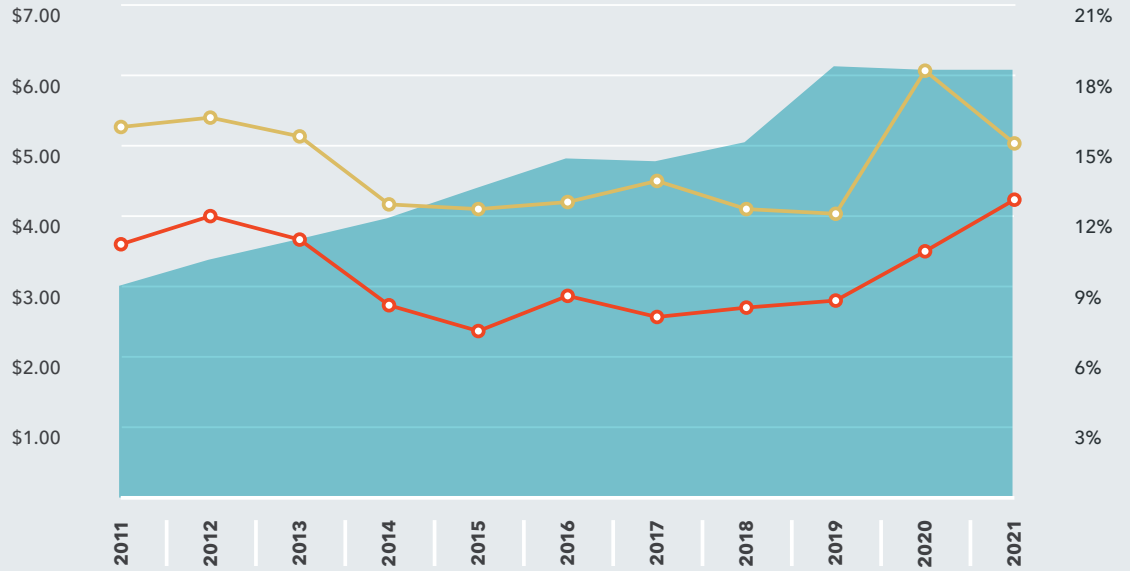
**ASKING RATES** remained steady throughout 2021 at \$6.08/SF full service.

**LEASING ACTIVITY** improved, with 2.8M SF for 2021.

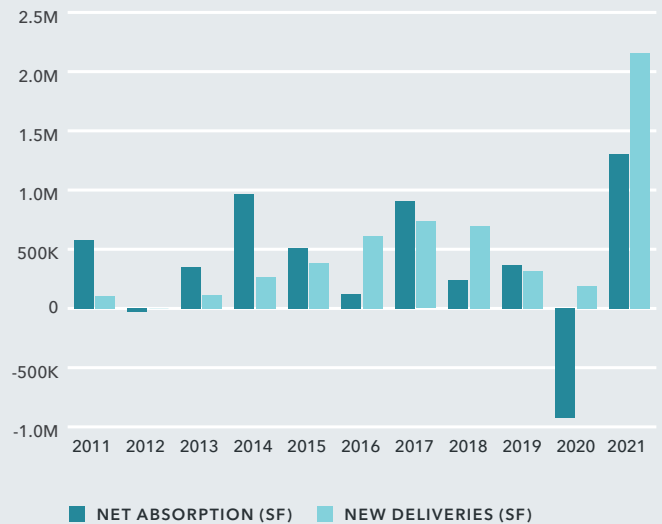
**IN 2021** net absorption more than doubled compared to 2020 with 1.3M SF.

# Lease Rate, Vacancy & Availability

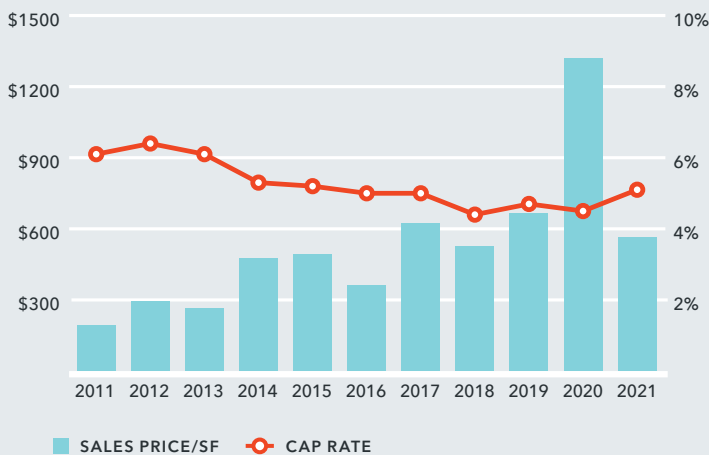
- DIRECT LEASE RATE (FSG)
- DIRECT VACANCY
- TOTAL AVAILABILITY



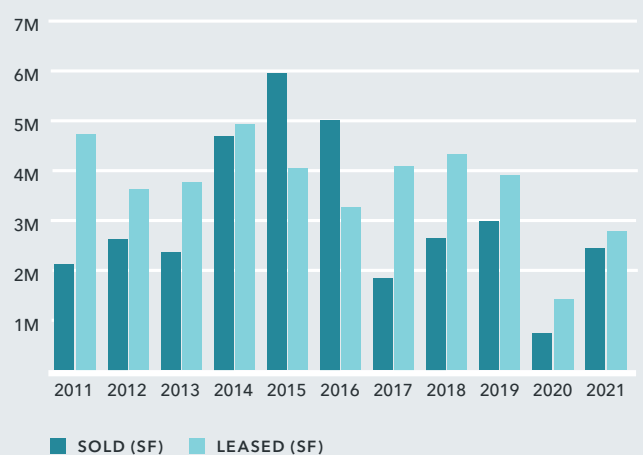
# Net Absorption & New Deliveries



# Average Sales Price/SF & Cap Rate



# Sale Volume & Leasing Activity



## SUBMARKET STATISTICS

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q21 Total Net Absorption	YTD Total Net Absorption	4Q21 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	812,031	0	0.4%	0.4%	0.6%	7,415	49,176	7,067	15,545	\$3.76
Brisbane	568,069	0	7.2%	12.8%	19.5%	0	9,064	0	26,990	\$4.03
South San Francisco	1,747,714	0	16.4%	17.7%	18.8%	34,162	(52,073)	11,384	180,706	\$3.47
San Bruno/Millbrae	1,532,140	157,694	14.1%	14.6%	18.0%	5,210	(23,333)	20,350	30,540	\$5.62
Burlingame	3,673,121	30,634	9.8%	10.5%	11.2%	(16,020)	813,225	152,632	270,259	\$4.89
<b>North County Totals</b>	<b>8,333,075</b>	<b>188,328</b>	<b>11.8%</b>	<b>13.1%</b>	<b>15.4%</b>	<b>30,767</b>	<b>796,059</b>	<b>191,433</b>	<b>524,040</b>	<b>\$4.56</b>
San Mateo	8,365,215	614,507	15.3%	17.2%	22.4%	(30,594)	(286,211)	108,959	335,231	\$5.34
Foster City	2,204,974	0	10.5%	11.1%	11.9%	24,142	(10,630)	3,534	212,539	\$5.41
Redwood Shores	3,315,204	0	8.9%	11.6%	16.5%	79,497	(76,619)	61,539	384,705	\$5.38
<b>Central County Totals</b>	<b>13,885,393</b>	<b>614,507</b>	<b>11.8%</b>	<b>13.4%</b>	<b>17.7%</b>	<b>73,045</b>	<b>(373,460)</b>	<b>174,032</b>	<b>932,475</b>	<b>\$5.36</b>
Belmont/San Carlos	2,011,351	0	5.5%	12.5%	14.8%	81,249	452,105	0	421,581	\$4.57
Redwood City	5,628,031	280,746	7.2%	9.3%	13.6%	1,845	(19,266)	49,380	631,398	\$6.49
Menlo Park	6,855,177	1,294,403	8.9%	9.9%	12.4%	13,639	445,983	52,094	272,818	\$9.47
<b>South County Totals</b>	<b>14,494,559</b>	<b>1,575,149</b>	<b>8.1%</b>	<b>10.4%</b>	<b>13.2%</b>	<b>96,733</b>	<b>878,822</b>	<b>101,474</b>	<b>1,325,797</b>	<b>\$7.63</b>
<b>Peninsula Total</b>	<b>36,713,027</b>	<b>2,377,984</b>	<b>12.7%</b>	<b>14.8%</b>	<b>15.3%</b>	<b>200,545</b>	<b>1,301,421</b>	<b>466,939</b>	<b>2,782,312</b>	<b>\$6.08</b>
Class A	15,278,268	2,377,984	14.4%	17.1%	18.0%	51,372	391,703	94,502	1,223,292	\$6.10
Class B	16,144,555	0	13.3%	15.2%	16.0%	140,326	921,304	350,409	1,370,797	\$5.08
Class C	5,290,204	0	6.1%	6.9%	7.5%	8,847	(11,586)	22,028	188,223	\$4.25

## NEAR-TERM OUTLOOK

**TENANT IMPROVEMENT (TI)** costs continue to increase due to the low availability of building materials. This is affecting completion and occupancy dates for new development projects.

**CONTINUED DEMAND** for lab space on the Peninsula has fueled more office space conversion to life science throughout 2021 such as Phase 3's purchase of 2001 Junipero Serro Blvd. in Daly City which consists of 383,123 SF (Sold in Q2 2021 ). We expect to see this trend continue throughout 2022.

## TOP SALE TRANSACTIONS FOR 2021

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
555-577 Airport Blvd	Burlingame	275,746	\$170,000,000	\$616.51	Barings Real Estate Advisors	EverWest Real Estate Investors, LLC
2001 Junipero Serra Blvd, Daly City	Daly City	383,123	\$168,600,000	\$440.07	Phase 3 Real Estate Partners, Inc.	Harvest Properties and Cerberus Capital Management
10 Twin Dolphin Dr	Redwood City	263,064	\$164,000,000	\$623.42	IQHQ	Oracle

## TOP LEASE TRANSACTIONS FOR 2021

Property	Submarket	Landlord	Tenant	Sign Date	NRSF
1300-1400 Seaport Blvd	Redwood City	283,015	August 2021	Divco West	C3.ai
406 E 3rd Ave, San Mateo	San Mateo	116,122	May 2021	Windy Hill Property Ventures, Inc.	Verkada
555 Airport	Burlingame	95,742	December 21	Baring Real Estate Advisors	Meta

## TOP UNDER CONSTRUCTION

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

DATA SOURCE: COSTAR, STATE OF CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT

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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

**45/23**  
TOTAL NO.  
APPRAISERS/MAI'S

**Asset  
Services**

**64M**  
MANAGEMENT  
PORTFOLIO SF

**\$11B**  
IN ASSETS UNDER  
MANAGEMENT

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