

MARKET TRENDS | **PENINSULA**

# OFFICE

**MARKET DRIVERS**

**OFFICE DIRECT VACANCY** on the Peninsula rose 0.9% year-over-year but dropped by 70 basis points (bps) to 11.6% since the start of 2022. Sublease vacancy continues to drop and currently stands at a 2.2%–30 bps lower than last quarter. This quarter we are seeing positive net absorption of 443,980 SF which is considerably larger than the negative 296,195 SF seen in the first quarter of 2021.

**THE PENINSULA OFFICE MARKET** reported an average direct lease rate of \$6.12/SF full service. As most employers are gravitating toward a hybrid work model, they are seeking shorter term leases as they continue to assess their future office space needs.

**LEASING ACTIVITY** stood at 745,797K, SF roughly 10% lower year-over-year. Reflective of tenants’ desire for higher quality space, Class A Office space leasing activity represented almost all this quarter’s activity with 601,167 SF.

**OFFICE SALES** remain strong with approximately 440k SF conveyed in \$368M in sales. This is a 600% increase in the sold SF year-over-year. The uptick in sales of these office building is primarily driven by the Life Science market with investors converting office space into lab space. This has continued to reduce the office inventory on the Peninsula.

**THE SAN MATEO COUNTY** development pipeline remains strong with over 1.9M SF of office space currently under construction. Current ongoing projects include Stockbridge’s Bay Meadows Station 1 and 5, consisting of roughly 433,000 SF and is slated for delivery in late 2022. Both buildings were recently pre- leased to Roblox.

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## Market Summary

	1Q22	4Q21	1Q21	Annual Change
Direct Vacancy Rate	11.6%	12.3%	11.5%	<b>0.87%</b>
Availability Rate	14.1%	14.4%	18.5%	<b>-23.78%</b>
Asking Lease Rate (FS)	\$6.12	\$6.08	\$6.09	<b>0.49%</b>
Leased SF	745,797	796,745	832,034	<b>-10.36%</b>
Sold SF	436,688	1,508,410	59,126	<b>638.57%</b>
Net Absorption	443,980	221,454	(296,195)	<b>N/A</b>

▼ **746K**

LEASING ACTIVITY (SF)

▲ **444K**

NET ABSORPTION (SF)

▲ **11.6%**

VACANCY RATE

▲ **\$6.12**

AVERAGE ASKING RENT (FS)

▲ **116K**

NEW DELIVERIES (SF)

CHANGE FROM PRIOR YEAR

## Market Highlights

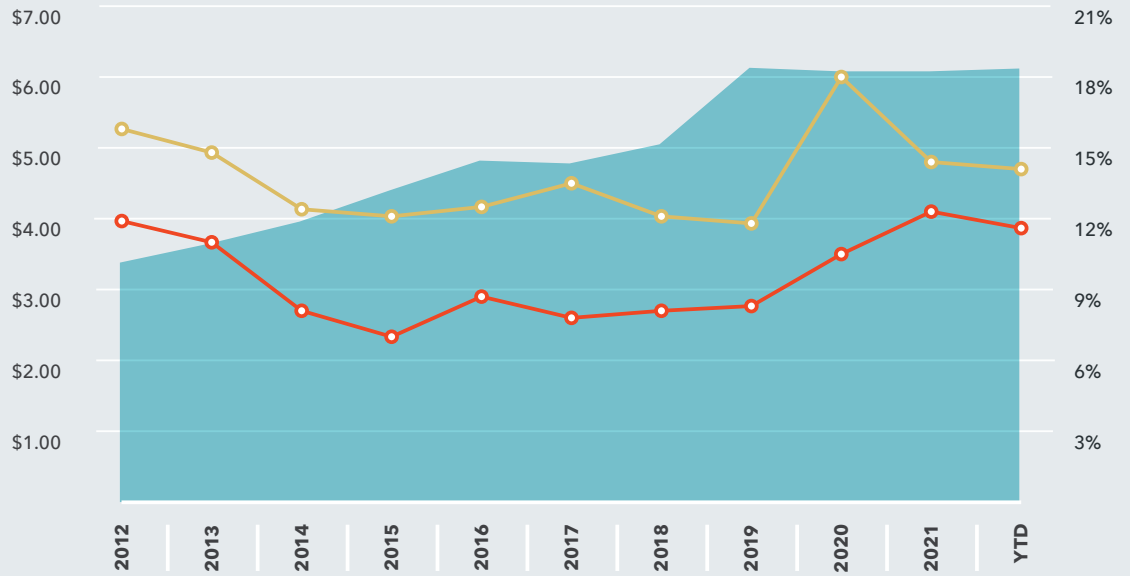
**SUBLEASE AVAILABILITY** is 3.5%-- 20 bps lower than last quarter, which indicates a more stabilized market.

**ASKING RATES** have remained steady during 1Q 2022 at \$6.12/SF full service.

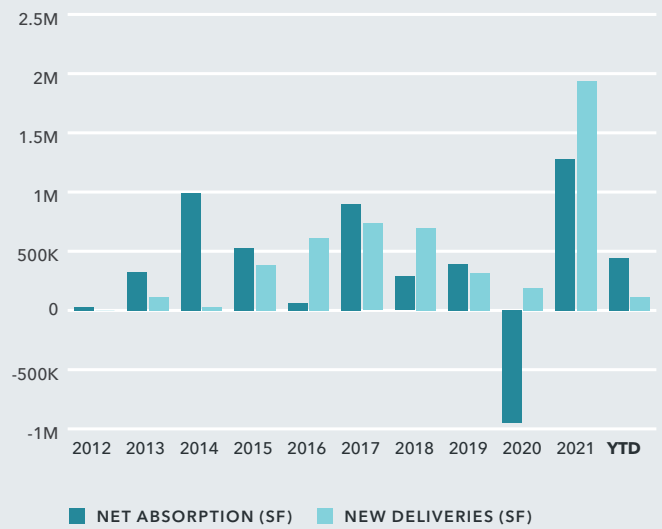
**NET ABSORPTION** for 1Q 2022 totaled positive 443,980 SF.

# Lease Rate, Vacancy & Availability

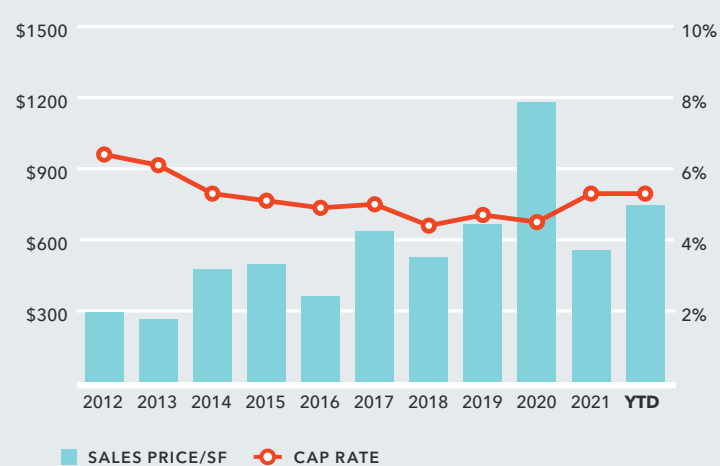
■ DIRECT LEASE RATE (FSG)  
○ DIRECT VACANCY  
○ TOTAL AVAILABILITY



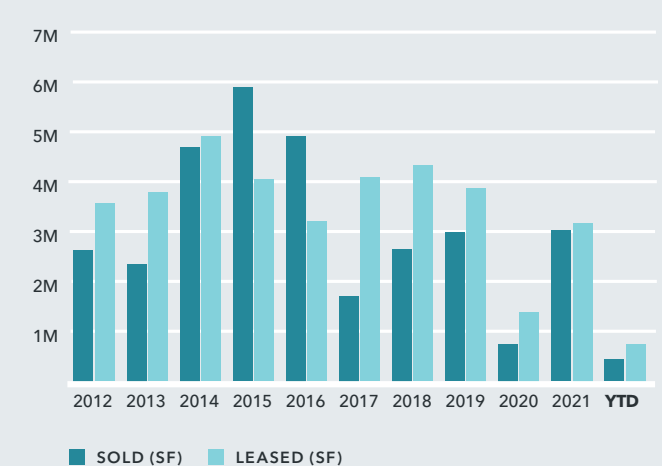
# Net Absorption & New Deliveries



# 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	1Q22 Total Net Absorption	YTD Total Net Absorption	1Q22 Leasing Activity	YTD Leasing Activity	Average Rental Rate (F5)
Daly City	428,908	0	1.1%	1.1%	1.5%	(1,694)	(1,694)	0	0	\$2.96
Brisbane	568,069	0	7.2%	11.9%	11.4%	4,945	4,945	41,018	41,018	\$4.03
South San Francisco	1,889,074	0	14.3%	16.4%	17.3%	(8,241)	(8,241)	66,551	66,551	\$3.47
San Bruno/Millbrae	1,446,942	151,538	16.3%	16.7%	18.2%	(18,751)	(18,751)	1,302	1,302	\$5.62
Burlingame	3,715,298	215,634	6.3%	6.7%	9.9%	135,570	135,570	61,548	61,548	\$4.89
<b>North County Totals</b>	<b>8,048,291</b>	<b>367,172</b>	<b>9.8%</b>	<b>10.8%</b>	<b>12.8%</b>	<b>111,829</b>	<b>111,829</b>	<b>170,419</b>	<b>170,419</b>	<b>\$4.52</b>
San Mateo	8,119,034	498,885	15.8%	17.3%	16.8%	102,577	102,577	488,470	488,470	\$5.49
Foster City	2,208,602	0	9.8%	10.4%	13.4%	161,700	161,700	100	100	\$5.41
Redwood Shores	3,358,051	0	20.7%	22.8%	17.0%	53,292	53,292	26,922	26,922	\$5.38
<b>Central County Totals</b>	<b>13,685,687</b>	<b>498,885</b>	<b>16.0%</b>	<b>17.5%</b>	<b>16.3%</b>	<b>317,569</b>	<b>317,569</b>	<b>515,492</b>	<b>515,492</b>	<b>\$5.45</b>
Belmont/San Carlos	2,017,014	0	8.9%	11.2%	21.5%	78,261	78,261	0	0	\$4.57
Redwood City	5,651,297	93,506	7.6%	9.9%	14.4%	(29,150)	(29,150)	19,707	19,707	\$6.49
Menlo Park	6,855,177	975,816	9.0%	10.2%	11.6%	(34,529)	(34,529)	40,179	40,179	\$9.50
<b>South County Totals</b>	<b>14,523,488</b>	<b>1,069,322</b>	<b>8.5%</b>	<b>10.2%</b>	<b>14.1%</b>	<b>14,582</b>	<b>14,582</b>	<b>59,886</b>	<b>59,886</b>	<b>\$7.64</b>
<b>Peninsula Total</b>	<b>36,257,466</b>	<b>1,935,379</b>	<b>11.6%</b>	<b>13.1%</b>	<b>14.6%</b>	<b>443,980</b>	<b>443,980</b>	<b>745,797</b>	<b>745,797</b>	<b>\$6.12</b>
Class A	14,881,738	1,935,379	12.0%	14.1%	16.2%	298,762	298,762	601,167	601,167	\$7.16
Class B	16,102,369	0	12.9%	14.2%	15.5%	163,494	163,494	131,294	131,294	\$5.77
Class C	5,273,359	0	6.6%	7.2%	7.7%	(18,276)	(18,276)	13,336	13,336	\$4.26

## ECONOMIC OVERVIEW

**SINCE THE OMICRON VARIANT** of COVID-19 has started to lose steam, many companies like Meta and Google have publicly announced their return to the office in late March/ early April of this year. Other companies may follow suit and have their employees return for an average of three days a week. With more employers adopting the hybrid work model there has been less traffic during peak commute times, enabling employers to tap into talent from a wider geographic range. San Mateo County's unemployment rate is 3.1% as of January which has remained low and steady quarter-over-quarter.

**EVEN WITH INFLATION ON THE RISE**, there is still an abundance of capital in the market attracted to the office market. Strain on the supply chain is delaying construction delivery times, forcing tenants to plan ahead. Tenant improvement costs continue to rise, impacting lease negotiations.

## NEAR-TERM OUTLOOK

**THERE HAS BEEN A SLIGHT UPTICK** in demand for office space as companies plan their return to the office. It is still too soon to see any tangible trends of the office market returning to the heights it once had prior to the pandemic.

**DUE TO THE NEW HYBRID** work model many employers are assessing the amount of space they will require and how it will lay out. As a result, we are seeing many companies take shorter term leases to mitigate that risk.

**THERE IS A STRONG** continued demand for lab space on the Peninsula which fueled many conversions in 2021. We expect that trend to continue throughout 2022 due to the extremely low vacancy rate and high demand in the Life Science market. In late March, the Boston based King Street Properties purchased a Burlingame office for \$45.2M with plans to develop a 300,000 SF Class A Life Science cluster.

## TOP SALE TRANSACTIONS FOR Q1 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
5000 Shoreline Ct	South San Francisco	141,360	\$164,500,000	\$1,163.70	Divco West Services, LLC	Actelion Pharmaceuticals Ltd.
Shores Center: 3 Office Properties	Redwood City	148,219	\$82,750,000	\$558.30	Prince Street Partners	Rockpoint Group, LLC.
1499 Bayshore Hwy & 801 Mahler Rd	Burlingame	65,000	\$45,200,000	\$695.38	King Street Properties	Mehrdad Elie 2006 Revocable Trust

## TOP LEASE TRANSACTIONS FOR Q1 2022

Property	Submarket	Square Feet	Sign Date	Landlord	Tenant
Bay Meadows Station 1 & 5	San Mateo	433,000	March 2022	Stockbridge Capital Group, LLC	Roblox
3 Lagoon Dr	Redwood Shores	31,898	January 2022	MetLife, Inc.	Alation Inc.
181 2nd Ave	San Mateo	12,557	March 2022	Downtown Properties Holdings LLC	Carbon Health

## TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
Facebook Redevelopment 301-309 Constitution Dr	301-309 Constitution Dr	Menlo Park	512,900	Facebook/Meta	Q2 2022
Bay Meadow Station 1 & 5	2750 & 3150 S Delaware St	San Mateo	433,000	Stockbridge Capital Group, LLC	Q4 2022
220 Park Rd	220 Park Rd	Burlingame	185,000	Dostart Development Company, LLC	Q4 2023

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.

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**Commercial  
Brokerage**

**\$10.9B**  
TRANSACTION  
VOLUME (ANNUAL)

**49.7M** **43.7M**  
SALES SF  
(ANNUAL) LEASING SF  
(ANNUAL)

**Valuation  
Advisory**

**2,600+**  
ASSIGNMENTS  
ANNUALLY

**51/24**  
TOTAL NO.  
APPRAISERS/MAI'S

**Asset  
Services**

**62M**  
MANAGEMENT  
PORTFOLIO SF

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

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