

**MARKET TRENDS | PENINSULA**

# OFFICE

**MARKET DRIVERS**

**THE PENINSULA OFFICE** market reported an average direct asking lease rate of \$5.92/SF full service. This is a change of \$6.12/SF from the 1st quarter of 2022 and \$6.07/SF from a year ago. Leasing activity stood at 370,822 SF for the quarter. Class A Offices accounted for 156,887 SF of the leasing activity, reflecting some tenants' willingness to pay for higher quality space. Many employers continue to work towards getting employees back into the office. For some, this means high quality space in Class A buildings with amenities. For others, this means quality space in convenient locations and a lower price point. In either case, buildings with newly improved suites ready for occupancy are leasing much quicker than second generation office spaces.

**DIRECT OFFICE VACANCY** on the Peninsula rose to 12.4%, year-over-year by 30 basis points (bps). Quarter-over-quarter direct office vacancy rose by 80 bps. Sublease vacancy rose by 20 bps to 1.6% from 1.4% quarter-over-quarter, but is still 80 bps lower than the second quarter of 2021. The lack of a dramatic increase in sublease vacancy indicates a relatively healthy market. The Year-to-date net absorption for the Peninsula is positive 312,191 SF. This quarter, net absorption is negative 152,583 SF. This is the first quarter since Q1 of 2021 that the Peninsula has had negative net absorption. The negative net absorption is primarily attributed to some larger tenants "right-sizing" and leasing less space than they had previously occupied.

**OFFICE SALES** remain strong with approximately 99,851 SF trading. The majority of these office sales are driven by the Life Science market with investors converting office space into lab space. This trend continues and will reduce the office inventory on the peninsula, as the conversions are completed. Sales activity dropped quarter-over-quarter, most likely due to the rise in

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## Market Summary

	2Q22	1Q22	2Q21	Annual Change
Direct Vacancy Rate	12.4%	11.6%	12.1%	<b>2.48%</b>
Availability Rate	16.2%	13.6%	18.7%	<b>-13.23%</b>
Asking Lease Rate (FS)	\$5.92	\$6.12	\$6.07	<b>-2.47%</b>
Leased SF	370,822	776,674	369,282	<b>0.42%</b>
Sold SF	99,851	494,387	1,135,206	<b>-91.20%</b>
Net Absorption	(152,583)	464,774	1,149,412	<b>N/A</b>

**◀▶ 370K**
**LEASING ACTIVITY (SF)**
**▼ -152K**
**NET ABSORPTION (SF)**
**▲ 12.4%**
**VACANCY RATE**
**▼ \$5.92**
**AVERAGE ASKING RENT (FS)**
**▲ 94K**
**NEW DELIVERIES (SF)**

CHANGE FROM PRIOR YEAR

## Market Highlights

**CONSTRUCTION**

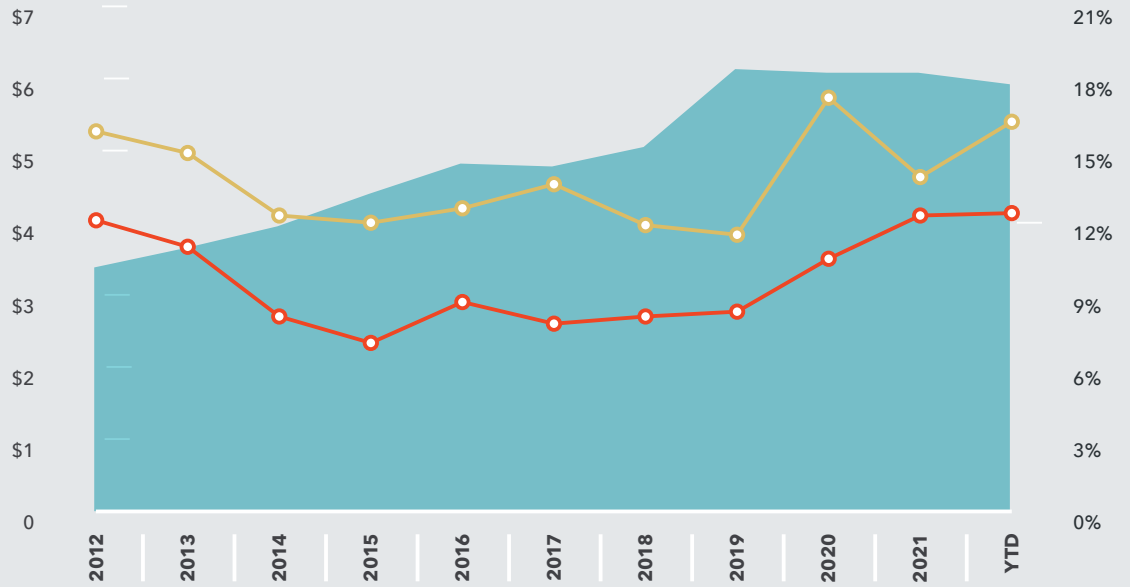
remains steady with 1.5M SF currently under construction

**ASKING RATES** slightly declined quarter-over-quarter to \$5.92/sf full service

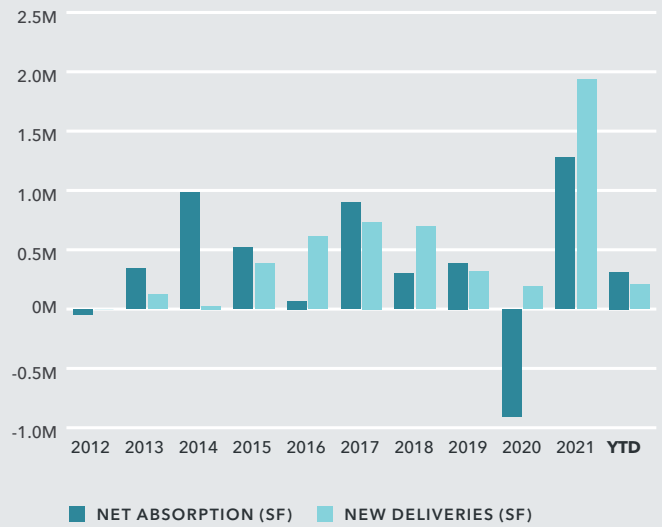
**SUBLEASE VACANCY** Remains low at 1.6%

# Lease Rate, Vacancy & Availability

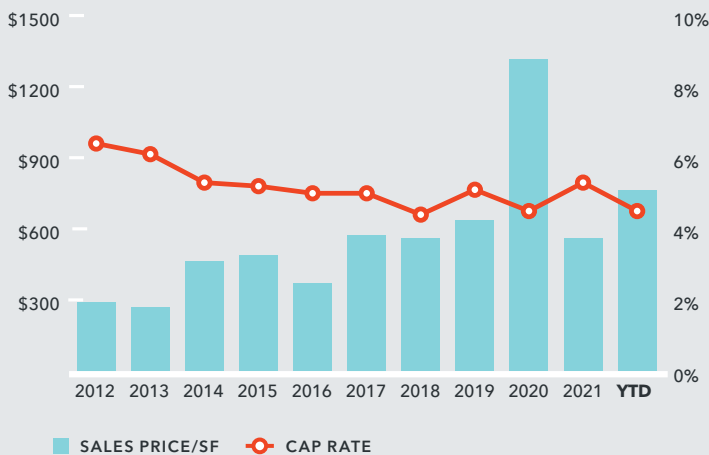
- DIRECT LEASE RATE (FSG)
- DIRECT VACANCY
- TOTAL AVAILABILITY



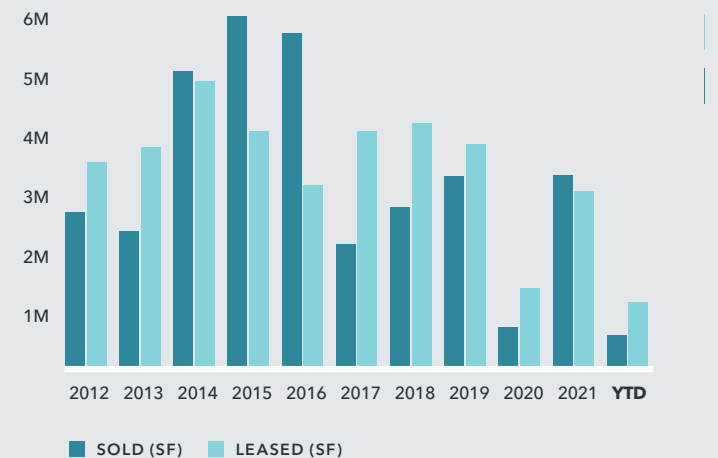
# Net Absorption & New Deliveries



# 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	2Q22 Total Net Absorption	YTD Total Net Absorption	2Q22 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	428,908	0	1.3%	1.3%	1.7%	(985)	(2,679)	0	0	\$2.96
Brisbane	568,069	0	6.6%	8.7%	15.9%	18,069	23,014	11,689	52,707	\$4.03
South San Francisco	1,889,074	0	12.5%	14.5%	17.4%	32,565	27,337	15,261	73,344	\$3.49
San Bruno/Millbrae	1,618,808	151,538	26.2%	26.4%	17.8%	(16,146)	(30,845)	5,203	8,526	\$5.62
Burlingame	3,676,002	215,634	5.4%	5.9%	9.1%	33,977	168,949	38,313	100,605	\$4.89
<b>North County Totals</b>	<b>8,180,861</b>	<b>367,172</b>	<b>11.1%</b>	<b>11.9%</b>	<b>12.8%</b>	<b>67,480</b>	<b>185,776</b>	<b>70,466</b>	<b>235,182</b>	<b>\$4.55</b>
San Mateo	8,151,864	498,885	16.2%	17.3%	17.5%	(7,917)	102,410	151,835	651,026	\$5.53
Foster City	2,208,631	0	10.8%	11.4%	15.8%	(22,397)	139,303	1,181	1,181	\$5.41
Redwood Shores	2,998,604	0	21.6%	23.8%	17.0%	(26,388)	33,481	21,457	48,379	\$5.47
<b>Central County Totals</b>	<b>13,359,099</b>	<b>498,885</b>	<b>16.5%</b>	<b>17.8%</b>	<b>17.1%</b>	<b>(56,702)</b>	<b>275,194</b>	<b>174,473</b>	<b>700,586</b>	<b>\$5.50</b>
Belmont/San Carlos	2,017,014	16,609	9.2%	11.4%	27.8%	(5,229)	73,032	7,895	7,895	\$4.54
Redwood City	5,750,307	420,000	10.9%	12.6%	16.6%	(74,128)	(103,278)	72,361	92,068	\$6.49
Menlo Park	6,866,074	212,916	8.4%	11.4%	14.8%	(84,004)	(118,533)	45,627	111,765	\$8.30
<b>South County Totals</b>	<b>14,633,395</b>	<b>649,525</b>	<b>9.5%</b>	<b>11.9%</b>	<b>17.3%</b>	<b>(163,361)</b>	<b>(148,779)</b>	<b>125,883</b>	<b>211,728</b>	<b>\$7.07</b>
<b>Peninsula Total</b>	<b>36,173,355</b>	<b>1,515,582</b>	<b>12.4%</b>	<b>14.0%</b>	<b>16.2%</b>	<b>(152,583)</b>	<b>312,191</b>	<b>370,822</b>	<b>1,147,496</b>	<b>\$5.92</b>
Class A	14,968,807	1,515,582	13.9%	15.2%	17.9%	44,611	346,136	156,887	757,153	\$7.15
Class B	15,891,780	0	13.1%	15.3%	17.3%	(201,024)	(19,184)	194,099	356,861	\$5.60
Class C	5,312,768	0	6.4%	7.0%	8.1%	3,830	(14,761)	19,836	33,482	\$4.14

interest rates and inflation, along with reduced tenant leasing demand. There are still plenty of investment opportunities within the market, but with the recent increase of interest rates and stricter underwriting criteria, buyers may reassess pricing while sellers have not yet reduced their prices. Despite this, a 43,083 square foot office building located at 200 Middlefield Rd. in Menlo Park, was purchased by Ellis Partners for \$62.7 million (\$1,455 /sf).

**THE SAN MATEO COUNTY** development pipeline remains strong with over 1.5M SF of office space under construction. Kidder Mathews expects speculative construction activity to slow down, as both materials and labor costs have risen. Many construction projects have delayed delivery due to the ongoing slowdown in the supply chain and availability of labor. Current ongoing projects include Stockbridge Capital's Bay Meadows Station 1 & 5 totaling 433,000 SF of office space. They are slated for delivery in late 2022 and are fully leased as of last quarter.

## ECONOMIC OVERVIEW

**DESPITE INFLATION** and economic uncertainty, there is an abundance of capital available and interested in the office market. As a hedge against inflation, there may be an

increase in demand to purchase property as an investment opportunity. On the other hand, this economic uncertainty may slow down the market as both buyers and sellers adjust to the rising interest rates.

**SAN MATEO'S** unemployment rate continues to drop and currently sits at 2.1% as of April—120 bps lower than the start of the year. This can be felt county wide as traffic on the freeway and on Cal Train have increased—specifically on Tuesdays through Thursdays as many offices are currently adopting the hybrid work model.

## NEAR-TERM OUTLOOK

**AVAILABILITY OF MATERIALS** and costs for tenant improvements is impacting lease negotiations by taking longer for occupancy and with higher rents and/or longer terms being required. Due to the hybrid work model, many employers are assessing the amount of space they will require. This will be an on-going issue for the foreseeable future. Continuing conversions of office buildings to life science is displacing several office tenants, which is driving some of the current leasing activity. Once the conversions have been finished the properties will be removed from the Office inventory, which will be reflected with a lower vacancy rate in future quarters.

## TOP SALE TRANSACTIONS FOR Q2 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
200 Middlefield Rd	Menlo Park	43,083	\$62,700,000	\$1,455.33	Ellis Partners	TIAA
1814-1820 Ogden Dr	Burlingame	17,334	\$22,000,000	\$1,269.18	1818 Ogden Summit LLC	Sierra Investments
11 and 61 Airport Blvd	South San Francisco	21,000	\$15,685,449	\$746.93	PS Business Park LP	Public Storage

## TOP LEASE TRANSACTIONS FOR Q2 2022

Property	Submarket	Square Feet	Sign Date	Landlord	Tenant
1840 Gateway Dr	San Mateo	37,390	April 2022	Monday Properties	BeiGene
520 S El Camino Real	San Mateo	30,755	June 2022	Westlake Realty Group, Inc.	Observe, Inc
950 Tower Ln	Foster City	11,806	June 2022	Hudson Pacific Properties, Inc.	Phoenix Labs

## TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
Bay Meadows 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	Q1 2024
Middle Plaza	200-500 El Camino Real	Menlo Park	184,000	Stanford University	Q3 2022

DATA SOURCE: COSTAR, STATE OF CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT, U.S. BUREAU OF LABOR STATISTICS

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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

**50/25**  
TOTAL NO.  
APPRAISERS/MAI'S

**Asset  
Services**

**62M**  
MANAGEMENT  
PORTFOLIO SF

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

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