Kidder Mathews

MARKET TRENDS

PENINSULA *OFFICE*

3Q 2022

MARKET DRIVERS

The Peninsula Office market reported an average direct asking lease rate of $6.02/SF full service. This is a change from $5.92/SF full service from the 2nd quarter of 2022 and $6.39/SF from a year ago. Leasing activity stood at 330,108 SF for the quarter and 1,799,726 SF year-to-date. This quarter, Class A offices accounted for 123,686 SF of the leasing activity reflecting some of the tenants' willingness to pay for higher quality space. Buildings with newly improved suites that are ready for occupancy are leasing much quicker than second generation office spaces

Direct Office vacancy on the Peninsula dropped both quarter-over-quarter and year-over-year by 50 basis points (bps) and currently is 11.6%. Total Vacancy rose by 20 bps to 14.3% quarter-over-quarter, this rise in total vacancy is due to the 60 bps increase in sublease vacancy. Sublease vacancy currently sits at 2.7%, but 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 540,501 SF. This quarter, net absorption totaled positive 297,080 SF, bouncing back from the previous quarter which reported negative net absorption of 103,879 SF.

Office sales picked back up in the third quarter, reporting 628,701 SF in transactions. This increased by 10.28% year-over-year.

San Mateo County development pipeline remains strong totaling 1.8 million square feet of office space currently under construction. Two major office developments completed their construction this quarter including Gateway Millbrae Station (157,694 SF) and 2750 S Delaware St in San Mateo (219,831 SF). Stockbridge's 2750 S Delaware St is 100% preleased to Roblox along with the second building in the project located at 3150 S Delaware St, San Mateo. 3150 S Delaware St totals 218,831 SF of office space and is slated for delivery in Q2 of 2023.

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MARKET SUMMARY

	3Q22	2Q22	3Q21	Annual Change
Direct Vacancy Rate	11.6%	12.1%	12.1%	**-4.13%**
Availability Rate	17.2%	15.1%	15.1%	**13.79%**
Asking Lease Rate	$6.02	$5.92	$6.39	**-5.79%**
Leased SF	330,108	662,775	1,180,571	**-72.04%**
Sold SF	628,701	125,929	570,070	**10.28%**
Net Absorption	297,080	(103,879)	400,169	**N/A**

↓ *330K SF* LEASING ACTIVITY

↓ *297K SF* NET ABSORPTION

↓ *11.6%* VACANCY RATE

↓ *$6.02* ASKING RENT (AVG)

↑ *406K SF* NEW DELIVERIES

Year-Over-Year Trend

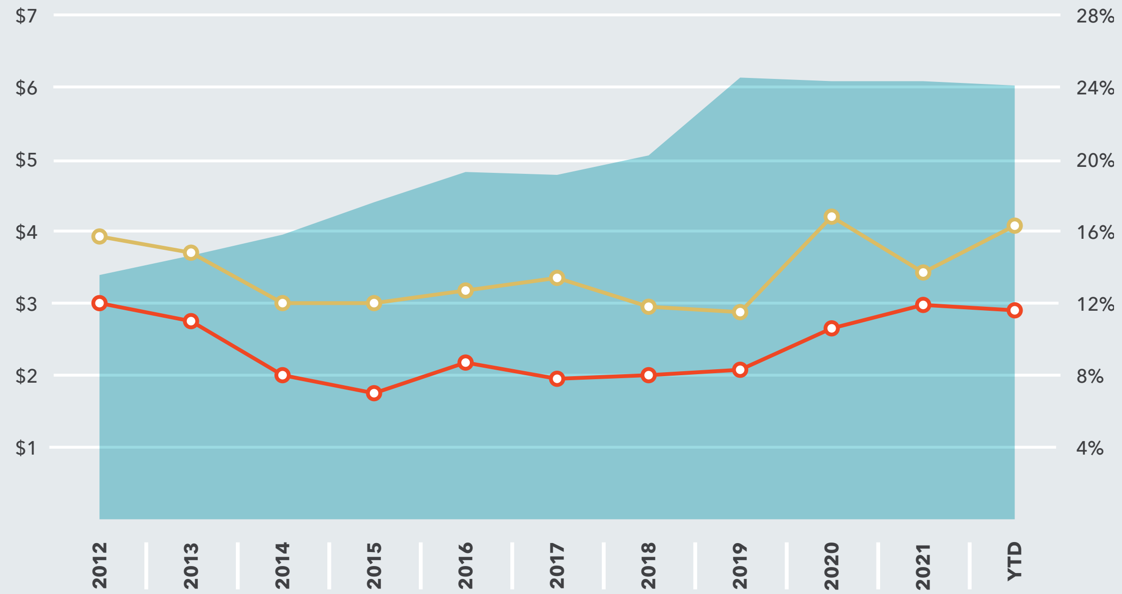
MARKET HIGHLIGHTS

Q3 2022 Net absorption is positive 297,080 SF, following a quarter of negative net absorption

Developments currently under construction are continuing, but projects not yet under construction (unless highly pre-leased) are likely to be delayed

Sublease Vacancy slightly rose to 2.7%

LEASE RATE, VACANCY & AVAILABILITY



Direct Lease Rate (FSG)

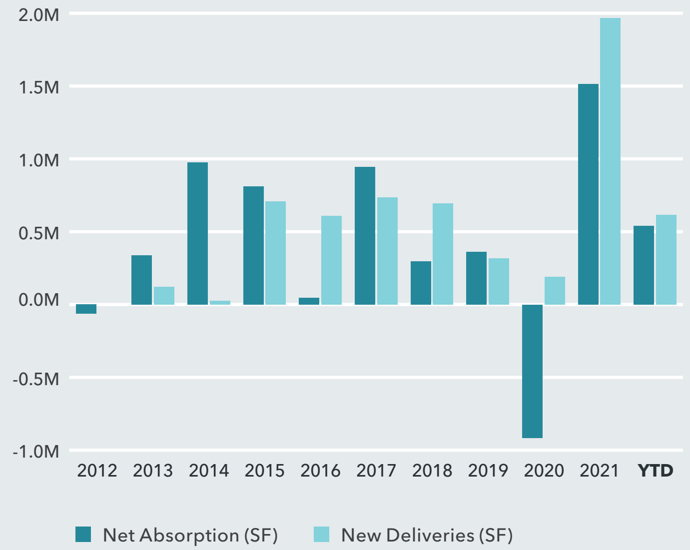
Direct Vacancy

Total Availability

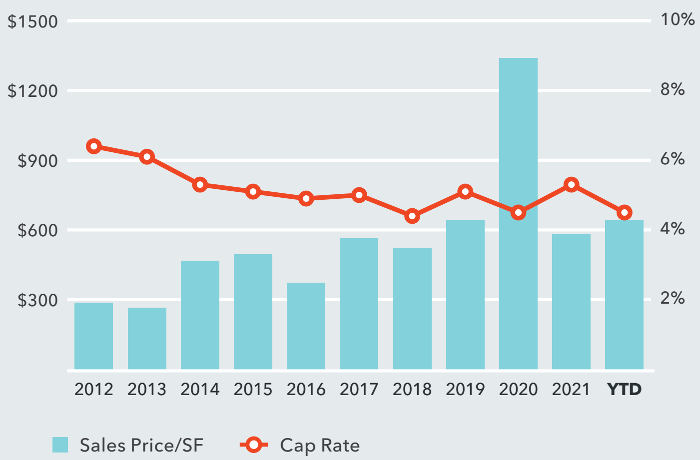
BIGGEST SALE OF THE QUARTER

1650-1730 S Amphlett Blvd
San Mateo

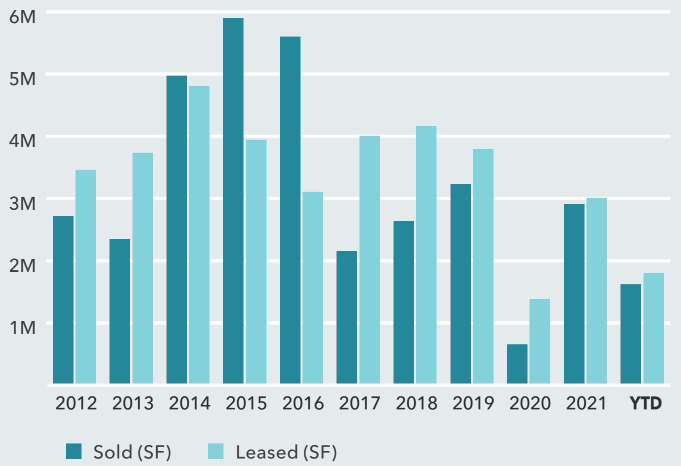
NET ABSORPTION & NEW DELIVERIES



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	3Q22 Direct Net Absorption	YTD Direct Net Absorption	3Q22 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
North County Totals	**8,412,053**	**457,313**	**10.3%**	**11.0%**	**12.6%**	**244,756**	**445,950**	**67,457**	**385,023**	**$4.53**
Daly City	428,908		1.2%	1.2%	1.7%	621	-2,058	0	0	$2.96
Brisbane	568,069		4.7%	4.7%	11.2%	22,949	45,963	26,506	79,213	$4.03
South San Francisco	2,109,946		11.3%	12.7%	15.5%	227,419	254,756	14,612	160,955	$3.51
San Bruno/Millbrae	1,597,555		23.8%	23.9%	16.8%	19,764	5,763	15,632	31,190	$5.72
Burlingame	3,707,575	457,313	5.8%	6.6%	10.6%	-25,997	141,526	10,707	113,665	$4.85
Central County Totals	**13,334,824**	**305,554**	**14.7%**	**18.2%**	**17.5%**	**129,468**	**310,673**	**176,174**	**1,080,431**	**$5.48**
San Mateo	8,177,591	305,554	14.1%	17.4%	18.5%	160,339	222,875	114,945	827,204	$5.51
Foster City	2,208,631		9.4%	10.0%	14.1%	51,471	170,525	7,089	35,657	$5.39
Redwood Shores	2,948,602		20.5%	26.6%	17.1%	-82,342	-82,727	54,140	217,570	$5.47
South County Totals	**15,013,583**	**1,065,317**	**9.6%**	**12.8%**	**19.5%**	**-77,144**	**-216,122**	**86,477**	**334,272**	**$7.35**
Belmont/San Carlos	2,017,689	16,609	8.8%	16.2%	27.5%	6,365	79,397	12,245	25,187	$4.52
Redwood City	6,087,317	1,014,000	11.2%	13.0%	17.8%	-72,030	-165,686	68,119	162,391	$6.51
Menlo Park	6,908,577	34,708	8.3%	11.7%	18.6%	-11,479	-129,833	6,113	146,694	$8.91
Peninsula Totals	**36,760,460**	**1,828,184**	**11.6%**	**14.3%**	**17.2%**	**297,080**	**540,501**	**330,108**	**1,799,726**	**$6.02**
Class A	15,175,839	1,828,184	12.5%	16.4%	20.0%	305,735	565,251	123,686	1,133,935	$7.10
Class B	16,268,313		12.3%	14.6%	17.4%	57,087	41,209	194,662	615,463	$5.60
Class C	5,316,308		6.9%	7.8%	8.5%	-65,742	-65,959	11,760	50,328	$4.21

ECONOMIC REVIEW

In July of 2022, San Mateo County's unemployment rate was reported to be 1.9%. This is 20 bps lower than what was reported in April.

Throughout 2022, inflation has been on the rise leading to several interest rate hikes. The rise in inflation continues to strain the supply chain causing the cost of raw materials used in construction to increase, further delaying delivery times and tenant improvement projects.

NEAR-TERM OUTLOOK

Due to all the uncertainty in the market, which is mainly attributed to employees desire to work from home and inflation concerns, tenants are "right-sizing" into smaller space and looking for shorter term leases. Some landlords are agreeing to shorter terms since they want to fill their offices (some of which sat vacant throughout the pandemic) and with hope that upon lease expiration tenants will commit longer term once employees return to the office.

Throughout the Peninsula the predominant activity is from the professional sector, particularly tenants that were displaced by the Life Science conversion market.

TOP SALE TRANSACTIONS 3Q 2022

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
1650-1730 S Amphlett Blvd (7 Office Properties)*	San Mateo	336,098	$149,600,000	$445.11	Blackstone Inc.	PS Business Parks, Inc.
1-2 Circle Star Way*	San Carlos	215,416	$91,537,000	$424.93	GIC Real Estate	Griffin Realty Trust
150 N Hill Dr	Brisbane	73,966	$49,800,000	$673.28	Angelo, Gordon & Co.	West Valley Properties, Inc.

TOP LEASE TRANSACTIONS 3Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
4500 Bohannon Dr	Menlo Park	63,078	Jul 2022	Kilroy Realty Corporation	E-Trade
1302 El Camino Real	Menlo Park	40,562	Aug 2022	Greenheart Land Company	Wells Fargo
101 S Ellsworth Ave	San Mateo	33,756	Aug 2022	Divco West Services, LLC	Luminary Cloud

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Elco Yards	1601 El Camino Real	Redwood City	594,000	IQHQ	Q1 2025
Broadway Plaza	1401 Broadway	Redwood City	420,000	Sobrato	Q3 2025
Bay Meadows Station 5	3150 S Delaware St	San Mateo	218,554	Stockbridge	Q2 2023

* Part of a Large National Portfolio
Data Source: KM Research, Costar, U.S Bureau of Labor Statistics

Kidder Mathews

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, 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.

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COMMERCIAL BROKERAGE	$10.9B TRANSACTION VOLUME ANNUALLY	49.7M ANNUAL SALES SF	43.7M ANNUAL LEASING SF
ASSET SERVICES	52M MANAGEMENT PORTFOLIO SF	875+ ASSETS UNDER MANAGEMENT	270+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,600+ ASSIGNMENTS ANNUALLY	48 TOTAL APPRAISERS	24 WITH MAI DESIGNATIONS