

MARKET TRENDS

# PENINSULA OFFICE

MARKET DRIVERS

**THE PENINSULA OFFICE MARKET** reported an average direct lease rate of \$5.95 /SF full service, which remained steady quarter-over-quarter and up from the \$5.92/SF full service reported this time last year. Since the start of 2022, the region’s asking rates have held relatively steady despite the negative external economic factors (Inflation, layoffs, etc.). Leasing activity stood at 296,413 SF for the quarter, roughly a 54% decrease year-over-year. Class B offices accounted for 169,598 SF of the total leasing activity throughout the second quarter while Class A and C offices reported leasing activity of 89,818 SF and 36,997 SF respectively.

**BOTH VACANCY AND AVAILABILITY RATES** continue to rise as firms reassess their office needs—even testing the market for space they previously occupied. Recently, Oracle listed a portion of their campus located at 100- 200 Oracle Pkwy in Redwood Shores. Consisting of 335,000 SF of Class A office space, this space has never been on the market before. Throughout the Peninsula, direct office vacancy increased quarter-over-quarter by 240 bps to 13.7%, while total vacancy rose to 17.9%. Sublease vacancy remains at a relatively low 4.2% but has also ticked up from 3.6% in the previous quarter.

**THIS QUARTER** is the third consecutive quarter of negative net absorption totaling 610,536 SF. Menlo Park accounted for negative 285,935 SF of the regions negative net absorption. San Mateo, Daly City, and the San Bruno/Millbrae submarkets were the only regions that reported positive net absorption.

**THE SAN MATEO COUNTY** development pipeline remains strong totaling 1.95 million square feet of office space currently under construction. Two offices were delivered this quarter in San Mateo including 303 Baldwin Ave and Bay Meadows Station 5 totaling approximately 280,000 square feet of office space. Bay Meadows Station 5 was fully preleased to Roblox in 2022. Prometheus will self-occupy most of 303 Baldwin and has leased approximately 12,000 square feet to Hercules Capital. With limited new development planned beyond this coming year, any approved projects will have substantial preleasing lender requirements.

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Market Summary

	2Q23	1Q23	2Q22	Annual Change
Direct Vacancy Rate	13.7%	11.3%	11.3%	<b>20.80%</b>
Availability Rate	24.7%	19.8%	15.8%	<b>56.05%</b>
Asking Lease Rate	\$5.95	\$5.95	\$5.92	<b>0.51%</b>
Leased SF	296,413	378,875	643,061	<b>-53.91%</b>
Sold SF	8,800	290,627	125,929	<b>-93.01%</b>
Net Absorption	(610,536)	(194,880)	(215,875)	<b>N/A</b>

↓ 296K SF  
LEASING ACTIVITY

↓ -611K SF  
NET ABSORPTION

↑ 13.7%  
VACANCY RATE

↔ \$5.95  
ASKING RENT (AVG)

↑ 279K SF  
NEW DELIVERIES

Year-Over-Year Trend

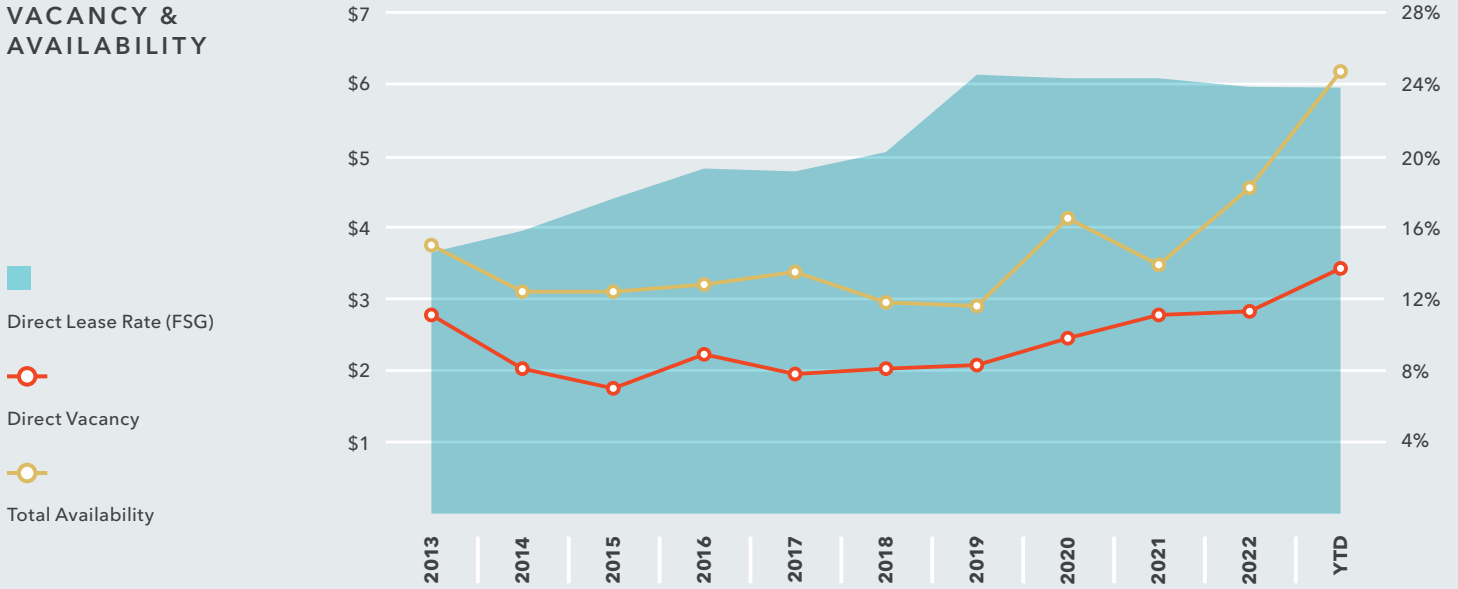
Market Highlights

**TOTAL VACANCY RATE** rose to 17.9%

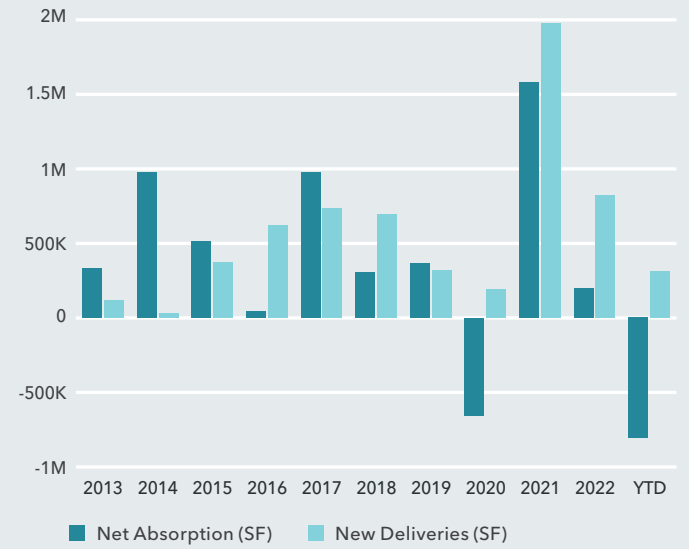
**RENTAL RATES** held steady quarter-over-quarter

**SUBLEASE VACANCY** remains at a relatively low 4.2%

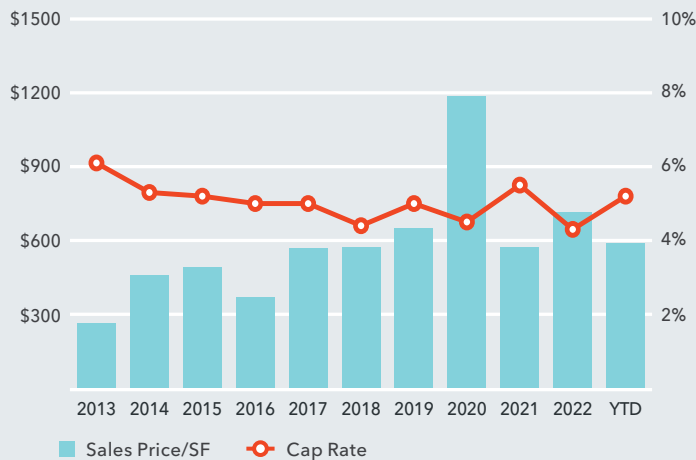
### LEASE RATE, VACANCY & AVAILABILITY



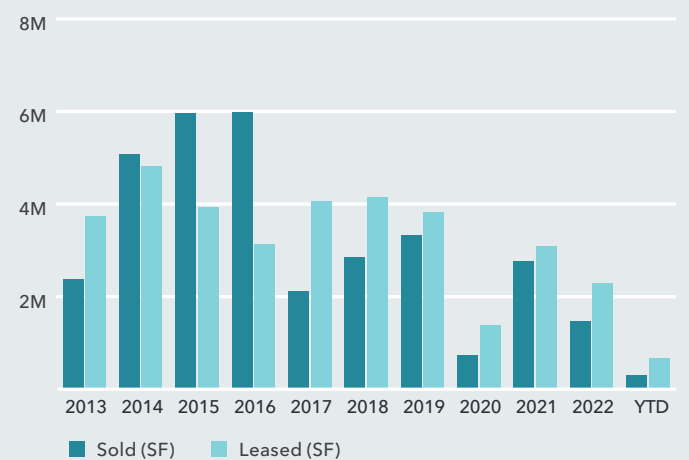
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALES PRICE/SF & CAP RATE

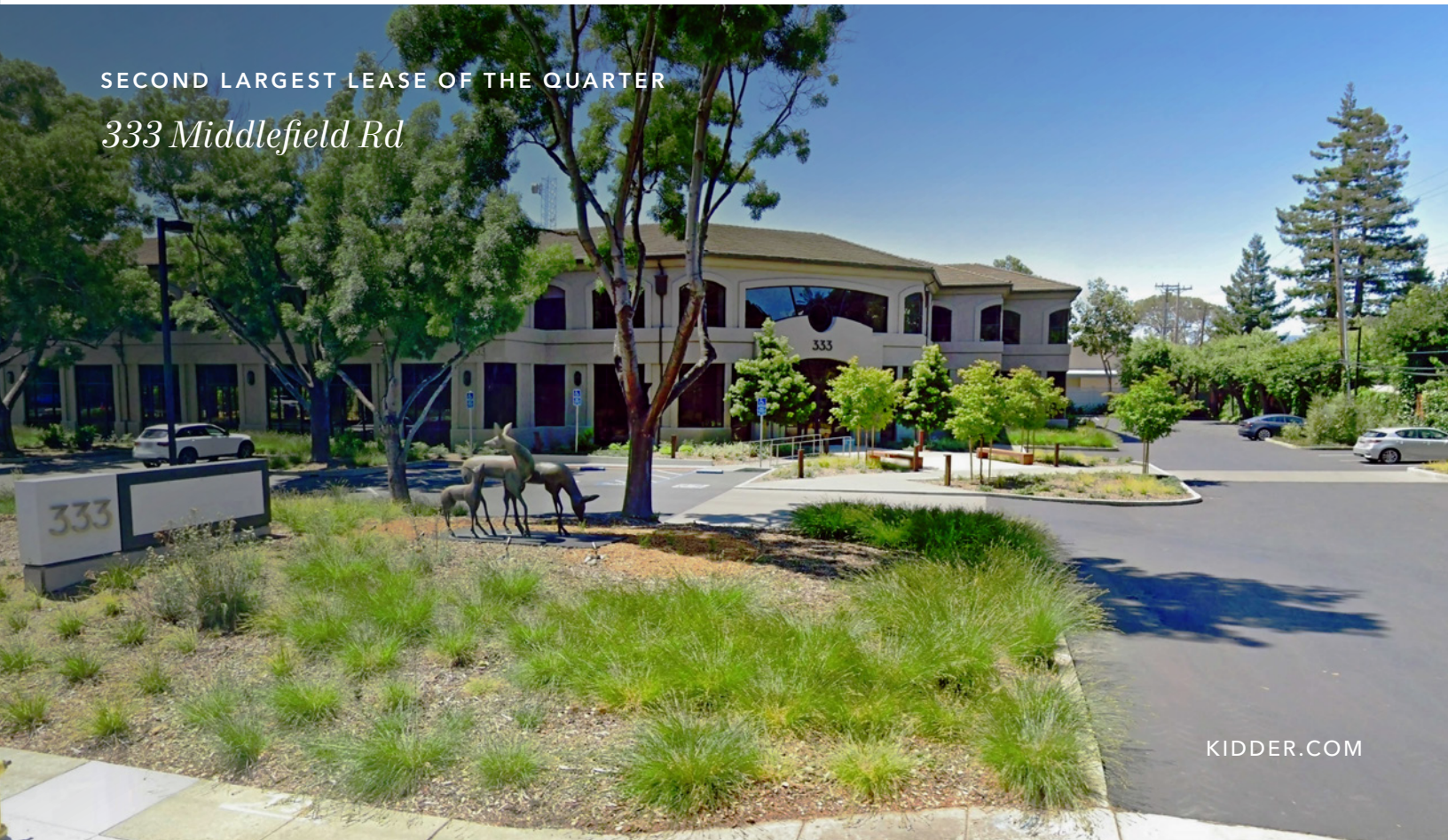


### SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q23 Total Net Absorption	YTD Total Net Absorption	2Q23 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	412,908	-	3.4%	3.4%	5.9%	2,431	3,906	3,755	7,187	\$2.91
Brisbane	568,069	-	2.6%	3.8%	20.5%	(16,667)	4,800	0	0	\$3.86
South San Francisco	1,941,003	-	10.3%	15.1%	18.2%	(42,465)	(66,172)	44,714	51,806	\$3.48
San Bruno/Millbrae	1,588,555	-	23.9%	23.9%	26.3%	5,274	381	8,281	20,471	\$5.76
Burlingame	3,582,605	426,679	5.9%	6.4%	11.4%	(23,241)	(617)	23,168	32,515	\$4.71
<b>North County Totals</b>	<b>8,093,140</b>	<b>426,679</b>	<b>10.1%</b>	<b>11.6%</b>	<b>16.3%</b>	<b>(74,668)</b>	<b>(57,702)</b>	<b>79,918</b>	<b>111,979</b>	<b>\$4.47</b>
San Mateo	8,533,551	225,072	14.6%	18.5%	23.5%	243,745	150,723	99,908	349,092	\$5.38
Foster City	2,208,631	-	9.6%	13.1%	17.6%	(54,607)	(50,627)	3,992	4,571	\$5.31
Redwood Shores	3,136,687	234,000	22.9%	29.0%	30.5%	(80,838)	(40,802)	17,232	68,969	\$5.43
<b>Central County Totals</b>	<b>13,878,869</b>	<b>459,072</b>	<b>15.7%</b>	<b>20.0%</b>	<b>24.1%</b>	<b>108,300</b>	<b>59,294</b>	<b>121,132</b>	<b>422,632</b>	<b>\$5.38</b>
Belmont/San Carlos	2,010,539	16,609	11.3%	16.9%	34.3%	(99,711)	(4,956)	1,780	3,290	\$4.46
Redwood City	5,779,387	1,012,000	17.6%	21.9%	31.7%	(258,522)	(405,181)	8,354	21,426	\$6.41
Menlo Park	6,981,582	34,708	11.1%	18.1%	26.7%	(285,935)	(396,871)	85,229	115,961	\$8.84
<b>South County Totals</b>	<b>14,771,508</b>	<b>1,063,317</b>	<b>13.7%</b>	<b>19.4%</b>	<b>29.7%</b>	<b>(644,168)</b>	<b>(807,008)</b>	<b>95,363</b>	<b>140,677</b>	<b>\$7.29</b>
<b>Peninsula Totals</b>	<b>36,743,517</b>	<b>1,949,068</b>	<b>13.7%</b>	<b>17.9%</b>	<b>24.7%</b>	<b>(610,536)</b>	<b>(805,416)</b>	<b>296,413</b>	<b>675,288</b>	<b>\$5.95</b>
Class A	16,393,851	1,949,068	15.4%	22.0%	31.2%	(488,067)	(641,531)	89,818	344,776	\$6.96
Class B	15,522,155	-	14.0%	16.9%	22.7%	(150,264)	(193,744)	169,598	279,190	\$5.52
Class C	5,162,511	-	6.2%	6.9%	8.1%	27,795	29,859	36,997	51,322	\$4.08



SECOND LARGEST LEASE OF THE QUARTER

*333 Middlefield Rd*

## ECONOMIC REVIEW

**AS OF APRIL 2023**, San Mateo County's unemployment rate was reported at 2.5%, a 30-bps increase year-over-year, but is faring better than California's 4.5% unemployment. After several rounds of tech-layoffs the region's labor market remains healthy reporting unemployment rates below 3% since February of last year.

**INVESTMENT SALES ACTIVITY** continues to be limited throughout 2023, reporting no significant transactions this quarter.

**SINCE MARCH OF 2022**, the Federal Reserve has raised interest rates ten (10) consecutive times to combat inflation. After the most recent interest rate hike, they had announced their plans to not raise rates further for the month of June. According to a recent article by Reuters, policymakers anticipate two more 25-bps hikes this year.

## NEAR-TERM OUTLOOK

**DEMAND FOR OFFICE SPACE** continues to be very low throughout the market as firms continue to "right-size" by occupying less space than previously occupied and looking for shorter term leases. Current demand is primarily driven by the professional sector and some emerging AI companies. Rental rates hold steady but are offset by an increase in concessions and tenant improvement projects. This trend is expected to continue until leasing activity rebounds, largely in office buildings that offer flexibility, desirable amenities, and do not require a build-out.

## TOP LEASE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
630 N San Mateo Dr	San Mateo	17,938	June 2023	Sierra Investments	The Avalon Academy
333 Middlefield Rd	Menlo Park	14,123	April 2023	Apstra	Cardlytics
303 Baldwin Ave	San Mateo	11,509	May 2023	Prometheus	Hercules Capital, Inc.

## TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Elco Yards	1601 El Camino Real	Redwood City	592,000	IQHQ	Q1 2025
Broadway Plaza	1401 Broadway	Redwood City	420,000	Sobrato	Q2 2025
567 Airport Blvd	567 Airport Blvd	Burlingame	241,679	Lane Partners	Q4 2024

Data Source: KM Research, Costar, 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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<b>COMMERCIAL BROKERAGE</b>	<b>\$12B</b> TRANSACTION VOLUME ANNUALLY	<b>32.1M</b> ANNUAL SALES SF	<b>41.2M</b> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<b>53M</b> MANAGEMENT PORTFOLIO SF	<b>771+</b> ASSETS UNDER MANAGEMENT	<b>250+</b> ASSET SERVICES CLIENTS
<b>VALUATION ADVISORY</b>	<b>2,600+</b> ASSIGNMENTS ANNUALLY	<b>46</b> TOTAL APPRAISERS	<b>23</b> WITH MAI DESIGNATIONS

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