

MARKET TRENDS

PENINSULA OFFICE

MARKET DRIVERS

The Peninsula office market reported an average direct lease rate of \$5.93 /SF full service, which fell slightly quarter-over-quarter from \$5.95/SF full service and remained relatively steady 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.). Total leasing activity stood at 259,942 SF for the quarter, roughly a 31.7% decrease year-over-year. Class B offices accounted for the majority of the total leasing activity throughout the third quarter with 202,923 SF while Class A and C offices reported leasing activity of 44,225 SF and 12,794 SF respectively.

Both vacancy and availability rates continue to rise as firms continue to reassess their office needs and evaluate hybrid working models. Throughout the Peninsula, direct office vacancy increased quarter-over-quarter by 80 basis points (bps) to 14.8%, while total vacancy rose to 18.7%. Unlike other Bay-Area markets, sublease vacancy fell by 20 bps quarter-over-quarter to 3.9% and has remained relatively steady throughout this year.

This quarter is the fourth consecutive quarter of negative net absorption totaling 231,484 SF. The Belmont and San Carlos submarket accounted for 104,568 SF of the regions negative net absorption. South San Mateo County accounts for majority of the county's negative absorption for both this year and quarter with almost 1.1 million SF of negative absorption year-to-date. Central County reported 56,424 SF of positive net absorption on the quarter and North County only had negative 11,466 SF of net absorption.

The San Mateo County development pipeline totals 1.95 million square feet of office space currently under construction. No development projects were delivered this quarter or have broken ground. With limited new development planned beyond this coming year, any approved projects will have substantial preleasing lender requirements and most of these planned developments will likely be placed on hold until demand picks up and interest rates settle.

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Market Summary

	3Q23	2Q23	3Q22	Annual Change
Direct Vacancy Rate	14.8%	14.0%	10.8%	37.33%
Availability Rate	25.8%	25.3%	16.7%	54.71%
Asking Lease Rate	\$5.93	\$5.95	\$5.92	0.17%
Leased SF	259,942	355,995	380,364	-31.66%
Sold SF	38,162	10,150	647,712	-94.11%
Net Absorption	(231,484)	(643,440)	363,917	N/A

↓ **259K SF**
LEASING ACTIVITY

↓ **-231K SF**
NET ABSORPTION

↑ **14.8%**
VACANCY RATE

↔ **\$5.93**
ASKING RENT (AVG)

↓ **0 SF**
NEW DELIVERIES

Year-Over-Year Trend

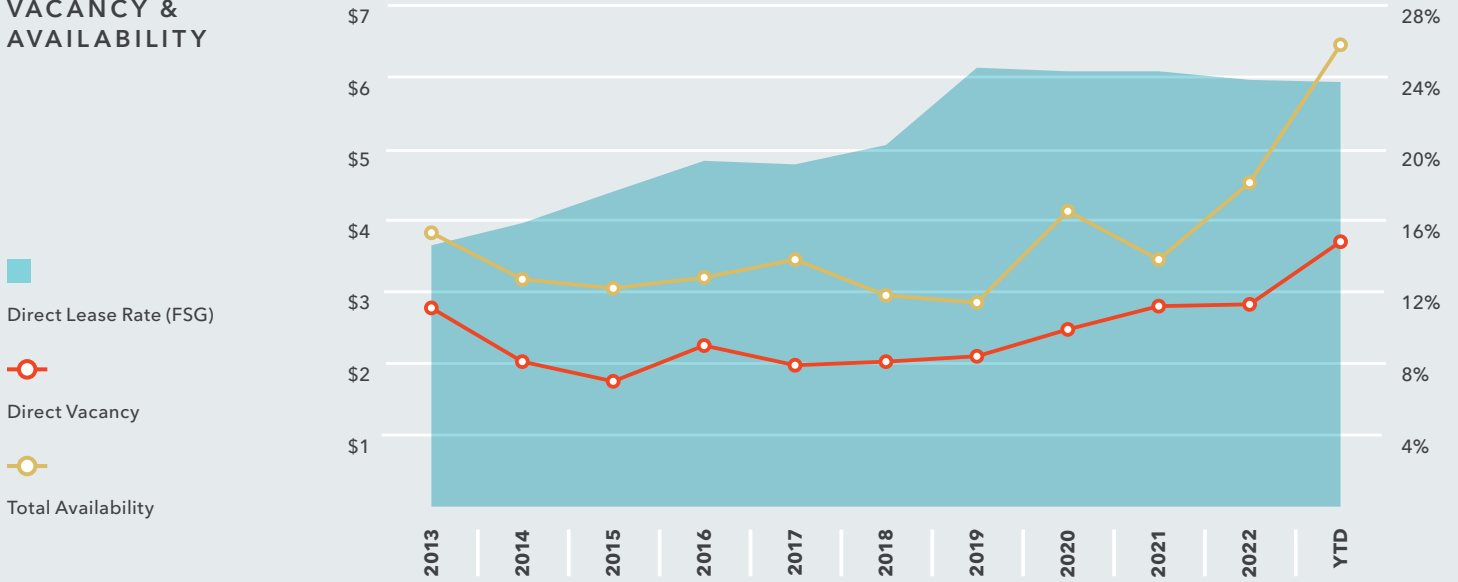
Market Highlights

TOTAL VACANCY RATE rose to 18.7%

RENTAL RATES held steady year-over-year

SUBLEASE VACANCY remains at a relatively low 3.9%

LEASE RATE, VACANCY & AVAILABILITY

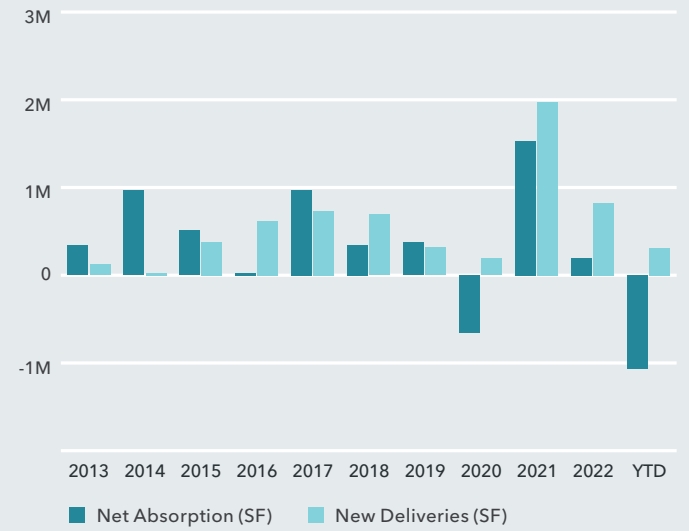


LARGEST LEASE OF THE QUARTER

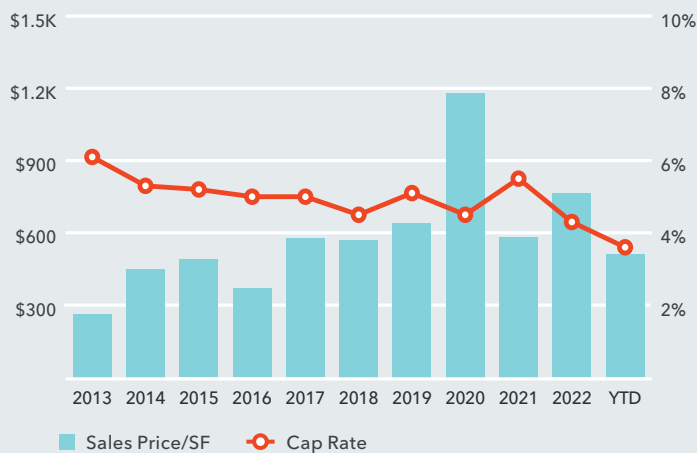
1710 Gilbreth Rd, Burlingame



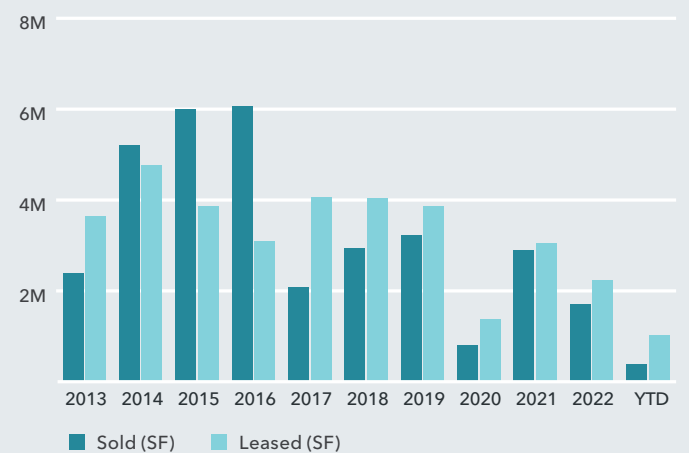
NET ABSORPTION & NEW DELIVERIES



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	3Q23 Total Net Absorption	YTD Total Net Absorption	3Q23 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	412,908	-	5.4%	5.4%	6.3%	(8,368)	(4,462)	2,930	10,117	\$2.98
Brisbane	568,069	-	6.2%	7.4%	21.5%	(20,116)	(15,316)	0	0	\$3.78
South San Francisco	2,002,850	-	10.2%	13.9%	17.0%	13,433	(52,025)	11,846	93,619	\$3.48
San Bruno/Millbrae	1,594,036	-	22.9%	22.9%	25.5%	14,821	15,202	3,917	34,388	\$5.89
Burlingame	3,522,005	426,679	6.3%	6.8%	10.9%	(11,236)	(9,625)	17,142	44,423	\$4.63
North County Totals	8,099,868	426,679	10.5%	11.7%	15.8%	(11,466)	(66,226)	35,835	182,547	\$4.45
San Mateo	8,508,821	225,072	14.9%	18.3%	24.4%	34,390	175,163	61,909	424,167	\$5.33
Foster City	2,223,462	-	9.5%	12.9%	17.0%	1,618	(49,009)	22,827	27,398	\$5.31
Redwood Shores	2,909,557	234,000	24.9%	30.0%	31.2%	20,416	(27,433)	5,253	65,731	\$5.43
Central County Totals	13,641,840	459,072	16.2%	19.9%	24.7%	56,424	98,721	89,989	517,296	\$5.35
Belmont/San Carlos	2,049,058	16,609	11.2%	21.7%	38.5%	(104,568)	(109,524)	36,593	39,883	\$4.46
Redwood City	5,783,651	1,012,000	21.3%	25.0%	37.3%	(79,640)	(581,493)	7,389	37,115	\$6.41
Menlo Park	6,872,175	34,708	12.9%	18.6%	26.6%	(92,234)	(403,097)	90,136	246,690	\$8.83
South County Totals	14,704,884	1,063,317	16.0%	21.5%	32.4%	(276,442)	(1,094,114)	134,118	323,688	\$7.27
Peninsula Totals	36,446,592	1,949,068	14.8%	18.7%	25.8%	(231,484)	(1,061,619)	259,942	1,023,531	\$5.93
Class A	16,260,550	1,949,068	17.3%	23.3%	33.8%	(99,429)	(841,270)	44,225	421,928	\$6.96
Class B	15,432,480	-	14.7%	17.3%	22.4%	(121,809)	(242,026)	202,923	512,416	\$5.51
Class C	5,088,562	-	6.4%	7.2%	9.2%	(10,246)	21,677	12,794	89,187	\$4.08

ECONOMIC OVERVIEW

As of July 2023, San Mateo County's unemployment rate was reported at 3%, a 70-bps increase year-over-year, but is faring better than California's 4.6% unemployment. The region's labor market remains healthy reporting unemployment rates below 3.1% since February of last year.

Investment sales activity continues to be limited throughout 2023, reporting only 38,162 SF of office space trading hands this quarter and only 382,929 SF on the year. 1710 Gilbreth Rd in Burlingame was purchased by North East Medical Services for \$15.1 million or \$437.63/sf. Amidst climbing interest rates, limited demand, and lack of recent sale comparable data, buyers and sellers have not yet found a middle ground on pricing with limited properties coming to the market.

NEAR TERM OUTLOOK

Demand for office space continues to be very low throughout the market as firms continue to reassess their office footprint. 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. Sublease vacancy remained relatively steady throughout the year. However, we are seeing an increase in general vacancy from sublease spaces going back to the landlord as the initial leases begin to expire.

As of July, Caltrain average weekday ridership has increased 20% year-over-year to 20,334. While current ridership is a fraction of its pre-pandemic numbers, it is considerably higher than the low 1,547 reported in April of 2020. Anecdotally, there seems to be an uptick in midweek traffic during general commute hours which may point to more employees returning to the office.

TOP SALE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
1710 Gilbreth Rd	Burlingame	34,504	\$15,100,000	\$437.63	North East Medical Services	California Society of CPA's
407 N San Mateo Dr	San Mateo	2,260	\$2,600,000	\$1,150.44	Kehan Properties LLC	Aaron Parnells Reposturing

TOP LEASE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
275 Middlfield Rd	Menlo Park	65,435	September 2023	DWS	Robinhood
2884 Sand Hill Rd	Menlo Park	24,754	August 2023	Clarion Partners	Patient Square Capital
201 Baldwin	San Mateo	23,671	July 2023	Baldwin Avenue Assocs. LLC	Backblaze

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Elco Yards	1601 El Camino Real	Redwood City	592,000	IQHQ	Q2 2025
Broadway Plaza	1401 Broadway	Redwood City	420,000	Sobrato	Q3 2025
567 Airport Blvd	567 Airport Blvd	Burlingame	241,679	Lane Partners	Q1 2024

Data Source: CoStar, U.S. Bureau of Labor Statistics, KM Research, Caltrain



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The information in this report was composed by the Kidder Mathews Research Group.

GARY BARAGONA
Vice President, Research
415.229.8925
gary.baragona@kidder.com

DAVID NELSON
Regional President, Brokerage
Northern California & Nevada
775.301.1300
david.nelson@kidder.com
LIC N° 01716942

COMMERCIAL BROKERAGE	<i>\$12B</i> TRANSACTION VOLUME ANNUALLY	<i>32.1M</i> ANNUAL SALES SF	<i>41.2M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>53M</i> MANAGEMENT PORTFOLIO SF	<i>771+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES CLIENTS
VALUATION ADVISORY	<i>2,800+</i> ASSIGNMENTS ANNUALLY	<i>41</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

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