Kidder Mathews

MARKET TRENDS

PENINSULA *OFFICE*

4Q 2023

MARKET DRIVERS

Demand for office space continued to be limited throughout 2023 as many firms continue to reassess their office needs and evaluate hybrid working models. The Peninsula office market reported an average direct lease rate of $5.91 /sf full service, a slight drop quarter-over-quarter from $5.93/sf full service and has remained relatively steady since the start of 2022. Total leasing activity stood at 561,054 SF for the quarter, a 29.5% increase year-over-year. Class A offices accounted for a majority of the leasing activity throughout the fourth quarter with 297,740 SF while Class B and C offices reported leasing activity of 225,496 SF and 37,818 SF respectively.

Vacancy and availability rates continue to rise throughout the Peninsula office market. Direct office vacancy increased quarter-over-quarter by 10 basis points (bps) to 14.2%, while total vacancy rose to 19.9%. Sublease vacancy grew from 4.4% in the third quarter to 5.7% in the fourth quarter, a trend Kidder Mathews is monitoring closely.

This quarter is the fifth consecutive quarter of negative net absorption totaling -625,246 SF resulting in 1,856,896 SF of negative net absorption for the entirety of 2023. The last time the region had a full year of negative net absorption was in 2020, which resulted in negative 658,881 SF. South San Mateo County accounts for majority of the region's negative absorption for both this year and quarter with approximately 1.7 million SF of negative net absorption year-to-date.

The San Mateo County development pipeline totals 1.73 million square feet of office space currently under construction. JMS Development Partner's 993 Laurel in San Carlos was delivered, totaling 16,609 SF. A total of 326,297 SF of office space was delivered in 2023 and there are limited developments planned beyond this coming year. Any approved projects will have substantial preleasing lender requirements and some planned developments may be placed on hold until interest rates settle and tenant demand increases.

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Market Summary

	4Q23	3Q23	4Q22	Annual Change
Direct Vacancy Rate	14.2%	14.1%	11.3%	**25.3%**
Availability Rate	25.0%	22.5%	17.8%	**40.7%**
Asking Lease Rate	$5.91	$5.93	$5.96	**-0.8%**
Leased SF	561,054	216,880	433,307	**29.5%**
Sold SF	86,678	38,162	96,849	**-10.5%**
Net Absorption	(625,246)	(409,852)	(336,932)	**N/A**

↑ *561K SF*
LEASING ACTIVITY

↓ *-625K SF*
NET ABSORPTION

↑ *14.2%*
VACANCY RATE

↓ *$5.91*
ASKING RENT (AVG)

↔ *17K SF*
NEW DELIVERIES

Year-Over-Year Trend

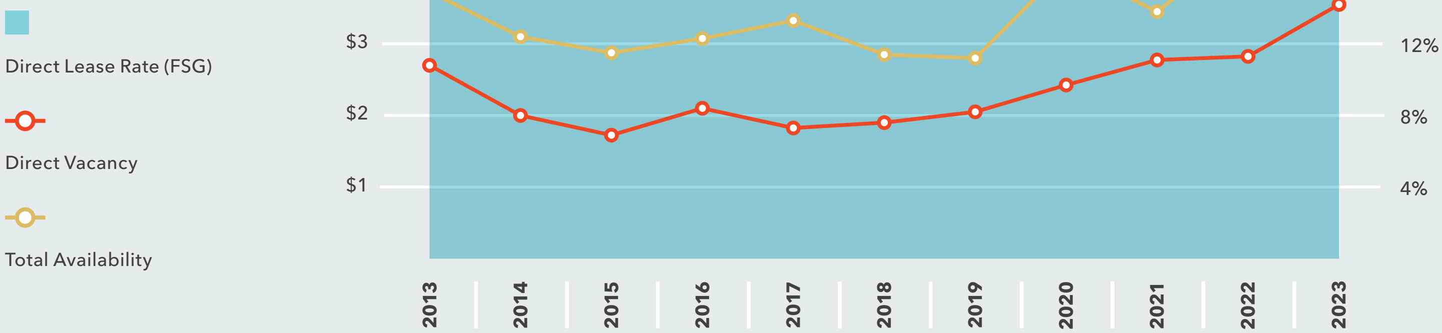
Market Highlights

TOTAL VACANCY RATE grew to 19.9%

RENTAL RATES fell slightly to $5.91/sf full service

SUBLEASE VACANCY increased to 5.7% from 4.4% the previous quarter

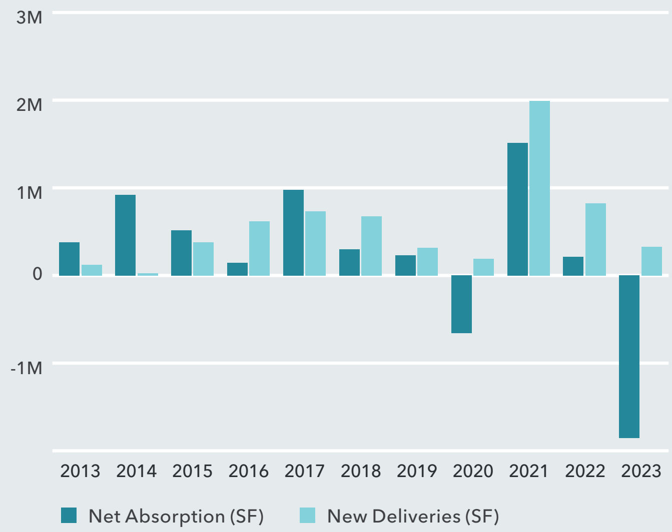
LEASE RATE, VACANCY & AVAILABILITY



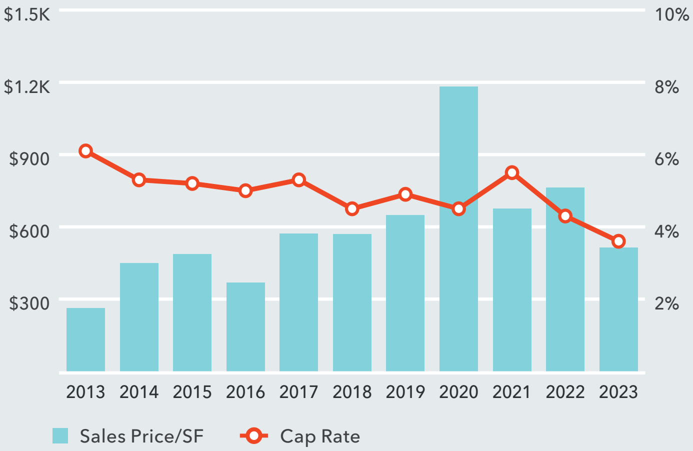
LARGEST LEASE OF THE QUARTER

166 N Rollins Rd, Millbrae

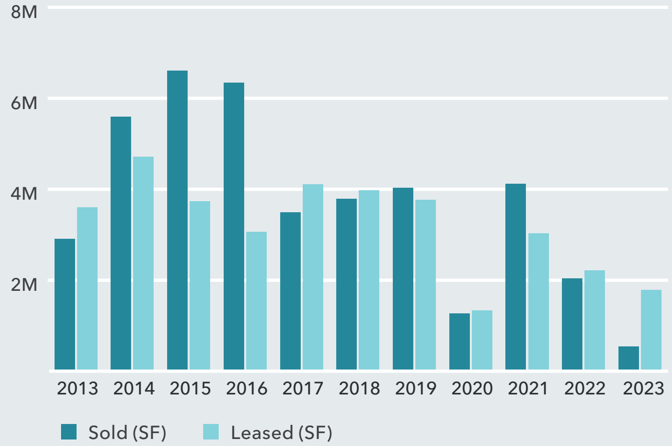
NET ABSORPTION & NEW DELIVERIES



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	4Q23 Total Net Absorption	2023 Total Net Absorption	4Q23 Total Leasing Activity	2023 Leasing Activity	Average Rental Rate (FS)
Daly City	412,908	-	4.7%	4.7%	6.1%	2,989	(1,473)	2,660	12,777	$2.98
Brisbane	568,069	-	6.6%	7.9%	20.8%	(2,778)	(18,094)	0	0	$3.78
South San Francisco	1,743,266	-	13.0%	14.4%	15.5%	(26,908)	(71,486)	23,418	117,037	$3.48
San Bruno/Millbrae	1,546,996	-	13.4%	13.5%	14.1%	(6,561)	9,531	164,679	199,067	$5.89
Burlingame	3,566,011	426,679	7.5%	8.1%	14.6%	(33,154)	(15,201)	47,217	102,403	$4.63
North County Totals	**7,837,250**	**426,679**	**9.7%**	**10.4%**	**14.7%**	**(66,412)**	**(96,723)**	**237,974**	**431,284**	**$4.47**
San Mateo	8,621,143	26,500	16.1%	20.0%	25.6%	(134,643)	5,605	66,531	630,945	$5.33
Foster City	2,223,462	-	9.5%	10.6%	15.5%	50,361	1,352	1,292	32,875	$5.31
Redwood Shores	2,627,687	234,000	15.5%	21.5%	25.3%	(26,863)	(54,296)	42,828	190,727	$5.43
Central County Totals	**13,472,292**	**260,500**	**14.9%**	**18.7%**	**23.9%**	**(111,145)**	**(47,339)**	**110,651**	**854,547**	**$5.35**
Belmont/San Carlos	2,039,583	-	11.8%	17.4%	34.2%	(9,667)	(19,614)	106,437	146,320	$4.46
Redwood City	5,783,651	1,012,000	20.5%	23.8%	26.5%	118,649	(462,844)	80,348	136,020	$6.41
Menlo Park	6,890,446	34,708	13.2%	30.5%	35.2%	(556,671)	(1,230,376)	25,644	215,901	$8.84
South County Totals	**14,713,680**	**1,046,708**	**15.9%**	**26.1%**	**31.6%**	**(447,689)**	**(1,712,834)**	**212,429**	**498,241**	**$7.28**
Peninsula Totals	**36,023,222**	**1,733,887**	**14.2%**	**19.9%**	**25.0%**	**(625,246)**	**(1,856,896)**	**561,054**	**1,784,072**	**$5.91**
Class A	15,654,775	1,733,887	15.4%	26.5%	33.9%	(517,384)	(1,638,145)	297,740	865,657	$6.94
Class B	15,339,092	-	15.4%	17.2%	21.0%	(73,753)	(210,966)	225,496	774,066	$5.48
Class C	5,029,355	-	6.5%	7.7%	9.7%	(34,109)	(7,785)	37,818	144,349	$4.05

ECONOMIC OVERVIEW

As of October 2023, San Mateo County's unemployment rate was reported at 3.2%, a 100-bps increase year-over-year, but significantly lower than California's 4.8% unemployment. Despite the year-over-year increase, unemployment throughout the region is relatively low, indicating a stable labor market.

Investment sales activity remained extremely limited throughout 2023, resulting in only 86,678 SF of office properties trading hands in the fourth quarter. Throughout 2023 only 545,228 SF of office properties were sold, roughly a quarter of the 2 million SF sold in 2022. Unsurprisingly, average price per square foot fell year-over-year by 32.6% from $763.00/sf in 2022 to $513.80/sf in 2023.High interest rates, limited demand, and lack of recent comparable data continues to widen the gap on pricing between buyers and sellers. Despite the limited office market activity, we are not seeing a trend of distressed properties being turned over to the lender, demonstrating the stability of the region's ownership.

NEAR TERM OUTLOOK

The Peninsula office market generated little demand throughout 2023. Businesses continue to "right-size" or occupy less space than they previously occupied as they weigh their options of hybrid working models and their return-to-office. After a year of relatively steady rental rates, this quarter, rates have begun to soften slightly. This may result in more prospective tenant demand—especially from the professional sector and tenants who never left the office. If interest rates start to come down and the stock market continues to perform, demand may pick up in the second half of 2024 as recession concerns may begin to fade.

TOP SALE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
1275 California Dr	Burlingame	2,438	$2,250,000	$922.89	1275 California Dr LLC	McPherson Family Trust

TOP LEASE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
166 N Rollins Rd	San Bruno/Millbrae	157,694	December 2023	Republic Urban Properties	SamTrans
900 Middlefield Road, Building B	Redwood City	54,066	December 2023	Kilroy Realty Corporation	Davis Polk & Wardwell
333 Twin Dolphin	Redwood Shores	27,532	October 2023	Hudson Pacific Properties, Inc.	Coherus Biosciences

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	Q3 2024

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

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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.

COMMERCIAL BROKERAGE	$12B TRANSACTION VOLUME ANNUALLY	32.1M ANNUAL SALES SF	41.2M ANNUAL LEASING SF
ASSET SERVICES	53M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,800+ ASSIGNMENTS ANNUALLY	42 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS

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