

MARKET TRENDS

PENINSULA OFFICE

MARKET DRIVERS

The Peninsula office market in Q1 2024 witnessed a continued decline in demand, partially reflecting the ongoing reassessment of office needs and hybrid working models by firms. Despite this, asking rents managed to hold relatively steady, though tenants continue to hold significant leverage in negotiations. Notably, there a shift in demand patterns among internal county users, with some opting for minor expansions rather than downsizing.

While the market saw increased inquiries and interest from various industries, this enthusiasm has yet to translate into absorption. 1Q posted a moderate increase in negative net absorption over 1Q 2023 figures, though improving markedly over 4Q 2023 numbers. Demand remains strong for spaces under 5,000 SF, with a preference for shorter lease terms.

Vacancy rates have doubled from pre-COVID levels for the first time in Q1. The direct vacancy rate now sits at 16.0% and sublease availability at 5.9%, both up from Q4 figures as the market struggles to absorb existing inventory. Speculative new construction has slowed down significantly, due to the lack of pre-leasing activity and increased interest rates.

ECONOMIC REVIEW

Economic indicators suggest a nuanced picture. While interest rates remain stable, prompting cautious optimism, unemployment has seen an uptick, posing challenges for the labor market and by logical extension, near-term tenant demand. Despite signs of economic activity, including increased office attendance and traffic, the market is characterized by a lack of urgency among tenants, who hold significant negotiating power.

NEAR-TERM OUTLOOK

Ahead, the Peninsula office market faces ongoing challenges. Limited demand and high vacancy rates may further pressure pricing and property values, with some properties already showing distress signals, possibly affecting ownership structures.

In conclusion, while certain industries are showing interest and inquiries are on the rise, the Peninsula office market remains in a period of uncertainty. Landlords must adapt their strategies to align with changing tenant preferences and market conditions.

Market Summary

	1Q24	4Q23	1Q23	YOY Change
Direct Vacancy Rate	16.0%	15.1%	11.9%	410 bps
Availability Rate	26.2%	25.1%	19.3%	690 bps
Asking Lease Rate	\$5.91	\$5.93	\$5.96	-0.8%
	1Q24	2023 Total	1Q23	YOY Change
Leased SF	444,485	1,522,870	553,047	-19.6%
Sold SF	86,678	551,514	96,849	-10.5%
Net Absorption	(242,045)	(1,862,497)	(161,615)	N/A

↑ **444K SF**
LEASING ACTIVITY

↓ **-242K SF**
NET ABSORPTION

↑ **22%**
VACANCY RATE

↓ **\$5.91**
ASKING RENT (AVG)

↓ **0 SF**
NEW DELIVERIES

Year-Over-Year Trend

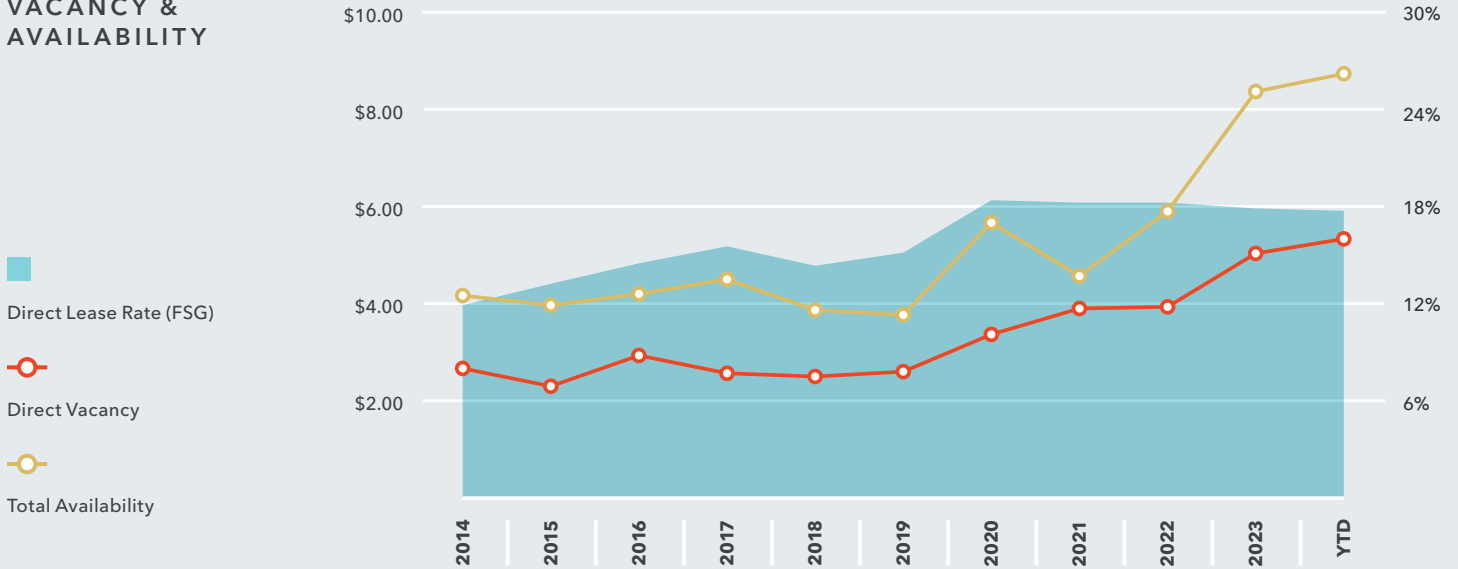
Market Highlights

TOTAL VACANCY grew to 22%

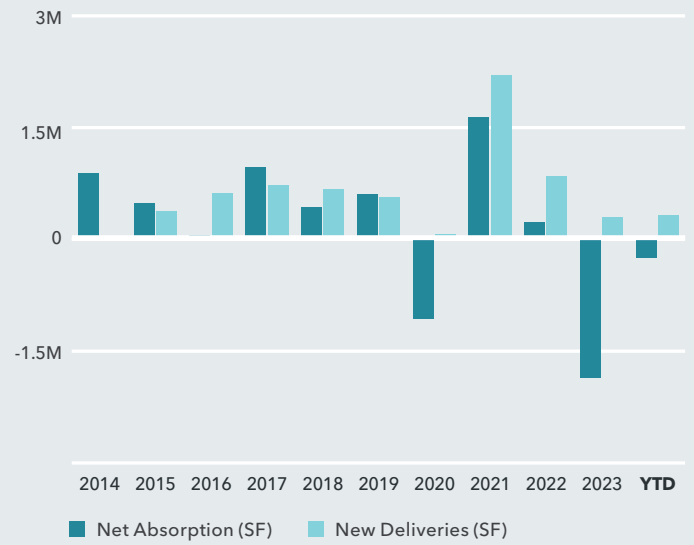
NET ABSORPTION improved versus 4Q 2023 to -242,045

AVERAGE DIRECT RENTAL RATES fell slightly to \$5.91/sf full service

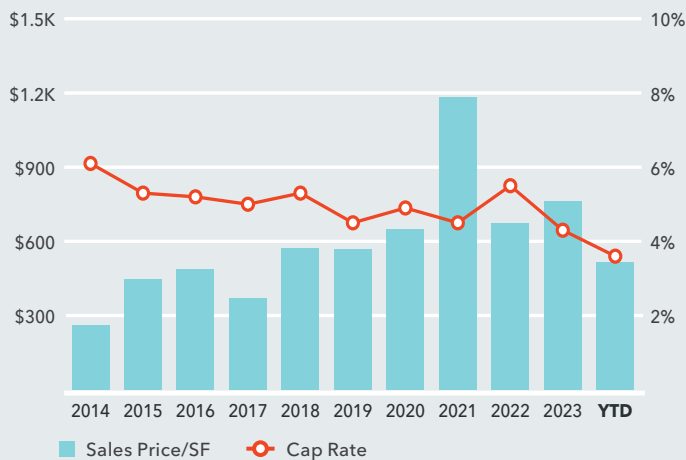
LEASE RATE, VACANCY & AVAILABILITY



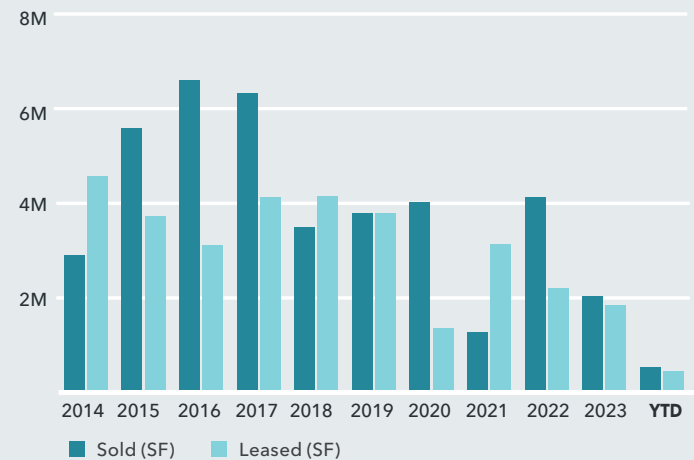
NET ABSORPTION & NEW DELIVERIES



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	1Q24 Total Net Absorption	YTD Total Net Absorption	1Q24 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	412,908	-	5.2%	5.2%	5.6%	(3,205)	(3,205)	1,156	1,156	\$2.98
Brisbane	714,629	-	19.7%	23.5%	30.7%	(145,616)	(145,616)	31,545	31,545	\$3.74
South San Francisco	1,928,850	-	12.4%	13.7%	16.3%	22,945	22,945	4,297	4,297	\$3.48
San Bruno/Millbrae	1,566,075	-	13.2%	13.3%	5.6%	158,583	158,583	168,407	168,407	\$5.93
Burlingame	3,513,560	426,679	7.1%	7.6%	13.2%	(6,364)	(6,364)	13,740	13,740	\$4.19
North County Totals	8,136,022	426,679	10.5%	11.4%	13.6%	26,343	26,343	219,145	219,145	\$4.26
San Mateo	8,654,157	26,500	20.2%	22.2%	25.2%	(179,518)	(179,518)	52,822	52,822	\$5.31
Foster City	2,060,462	-	10.0%	11.2%	18.6%	64,358	64,358	81,506	81,506	\$5.28
Redwood Shores	2,844,490	234,000	23.9%	29.5%	22.9%	(13,319)	(13,319)	20,388	20,388	\$5.43
Central County Totals	13,559,109	260,500	19.4%	22.1%	23.7%	(128,479)	(128,479)	154,716	154,716	\$5.33
Belmont/San Carlos	2,039,583	-	11.6%	24.0%	52.4%	(27,415)	(27,415)	3,970	3,970	\$4.46
Redwood City	5,570,160	1,012,000	21.1%	25.8%	30.4%	(61,445)	(61,445)	37,093	37,093	\$6.37
Menlo Park	7,016,461	34,708	13.2%	30.4%	34.8%	(51,049)	(51,049)	29,561	29,561	\$8.72
South County Totals	14,626,204	1,046,708	16.0%	27.7%	35.6%	(139,909)	(139,909)	70,624	70,624	\$7.23
Peninsula Totals	36,321,335	1,733,887	16.0%	22.0%	26.2%	(242,045)	(242,045)	444,485	444,485	\$5.91
Class A	15,862,581	1,733,887	17.4%	28.2%	35.4%	229,169	229,169	309,887	309,887	\$6.94
Class B	15,506,531	-	17.8%	20.2%	22.2%	(480,885)	(480,885)	111,011	111,011	\$5.48
Class C	4,952,223	-	6.2%	7.4%	9.4%	9,671	9,671	23,587	23,587	\$4.05

BIGGEST LEASE OF THE QUARTER

2494 Sand Hill Rd, Menlo Park, CA



SIGNIFICANT SALE TRANSACTIONS 1Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
1575 Bayshore Highway	Burlingame	19,200	\$6,400,000	\$333.33	Undisclosed	Association-California School
620 Jefferson Avenue	Redwood City	2,400	\$2,050,000	\$854.17	Mental Health Assoc. of San Mateo County	Keyes Family Trust
600 N San Mateo Drive	San Mateo	2,515	\$1,950,000	\$775.35	Undisclosed	Robert Cappa

SIGNIFICANT LEASE TRANSACTIONS 1Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
2494 Sand Hill Road	Menlo Park	23,049	March 2024	Divco West Services, LLC	Fortress
1001 E Hillsdale Blvd	Foster City	21,076	February 2024	TR Parkside Towers Corp.	Anderson Tax
950 Tower Lane	QuinStreet Inc	21,134	January 2024	Hudson Pacific Properties, Inc.	QuinStreet, Inc.

SIGNIFICANT 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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COMMERCIAL BROKERAGE	\$10B 3-YEAR AVERAGE TRANSACTION VOLUME	31.7M ANNUAL SALES SF	42.4M ANNUAL LEASING SF
ASSET SERVICES	51M SF MANAGEMENT PORTFOLIO SIZE	750+ ASSETS UNDER MANAGEMENT	250+ CLIENTS SERVED
VALUATION ADVISORY	2,600+ 3-YEAR AVERAGE ASSIGNMENTS	43 TOTAL APPRAISERS	25 WITH MAI DESIGNATIONS

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