

## MARKET TRENDS

# PENINSULA OFFICE

### MARKET DRIVERS

The office market showed signs of life during the second half of 2024, although there is still a ways to go before the market shifts to a sustained recovery cycle. While it will remain a tenant's market heading into 2025, cautious optimism persists, and the future remains bright. In fact, for the first time since the onset of the pandemic, there has been a handful of longer-term lease commitments on the Peninsula, and there appears to be an increase in overall tenant interest compared to recent years. The Peninsula office market also continues to be anchored by a stable, long-term ownership base that has been able to withstand the various market challenges since the pandemic. As such, there is a limited number of distressed properties and very few at-risk loans coming due in 2025, unlike other office markets throughout the country.

### VACANCY & DEVELOPMENT

While vacancy rates on the Peninsula continued to increase in 2024, the rate of increase has been decelerating compared to recent quarters. As a result, both large vacancy and sublease vacancy have been stabilizing with most of the newer spaces coming online being either smaller or mid-sized availabilities direct with the landlord. Direct vacancy was 18.6% at year-end, while overall vacancy was 24.0%, both up compared to 14.9% and 20.2% at year-end 2023, respectively. Annual net absorption remained negative in 2024 with -799,051 SF, but was much improved compared to last year's figure of -1.7M SF. Although total leasing activity continues to be a bit stagnant due to limited demand and very few significantly expanding tenants, year-end figures are also improved with 2.7M SF of total leasing activity in 2024. Sublease availability declined in Q4 for the first time since, largely due to Snowflake subleasing 772,000 SF in Menlo Gateway, with a move-in date scheduled for April of 2025. Lastly, speculative development has been significantly slowed due to the lack of pre-leasing activity in recent years coupled with increased construction/financing costs.

continued on page 3

## Market Summary

	4Q24	3Q24	4Q23	YOY Change
Direct Vacancy Rate	18.6%	18.3%	14.9%	<b>370 bps</b>
Availability Rate	24.4%	23.6%	20.2%	<b>420 bps</b>
Asking Lease Rate	\$5.80	\$5.84	\$5.89	<b>-1.6%</b>
Under Construction	2,246,985	2,288,099	1,380,113	<b>62.8%</b>
	4Q24	2024	2023	YOY Change
Construction Deliveries	33,266	611,113	638,517	<b>-4.3%</b>
Leased SF	1,298,814	2,694,406	2,553,564	<b>5.5%</b>
Sold SF	211,449	875,196	538,497	<b>62.5%</b>
Net Absorption	(430,223)	(799,051)	(1,749,020)	<b>N/A</b>

# 4Q 2024

↑ **1.3M SF**  
LEASING ACTIVITY

↑ **-430K SF**  
NET ABSORPTION

↑ **18.6%**  
VACANCY RATE

↓ **\$5.80**  
ASKING RENT (AVG)

↓ **33K SF**  
NEW DELIVERIES

Year-Over-Year Trend

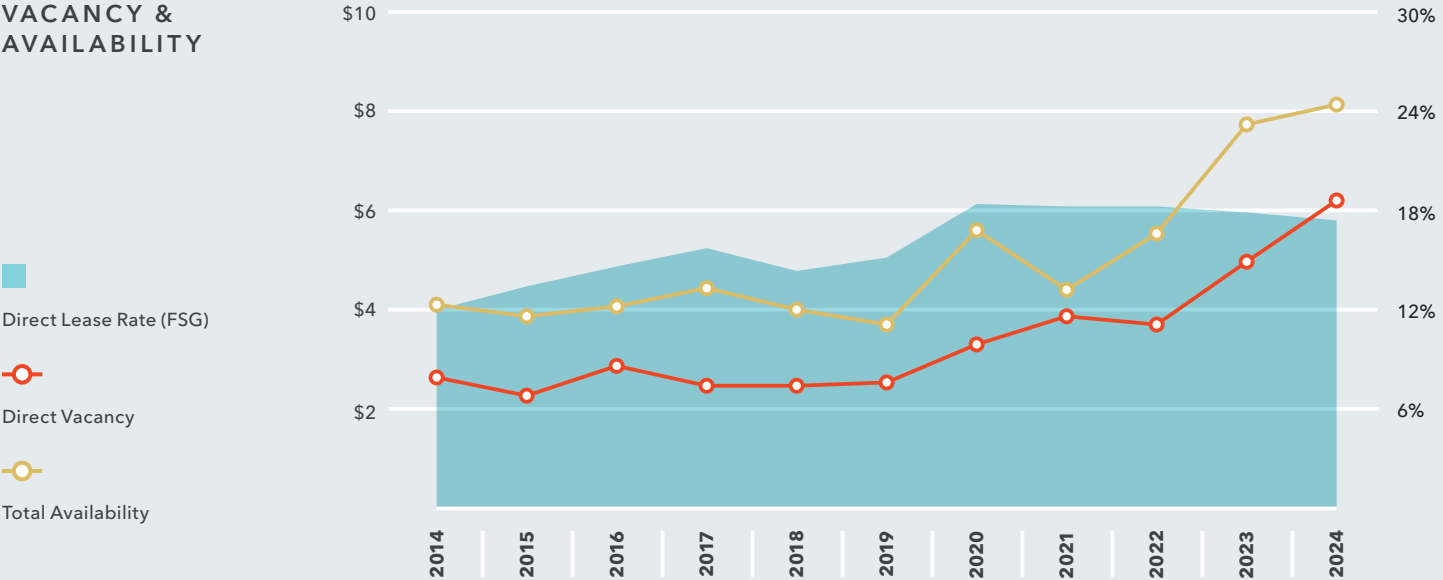
## Market Highlights

**TOTAL VACANCY** rose to 18.6% at the end of 4Q 2024.

**LEASING ACTIVITY** ended the year at 1.3M SF.

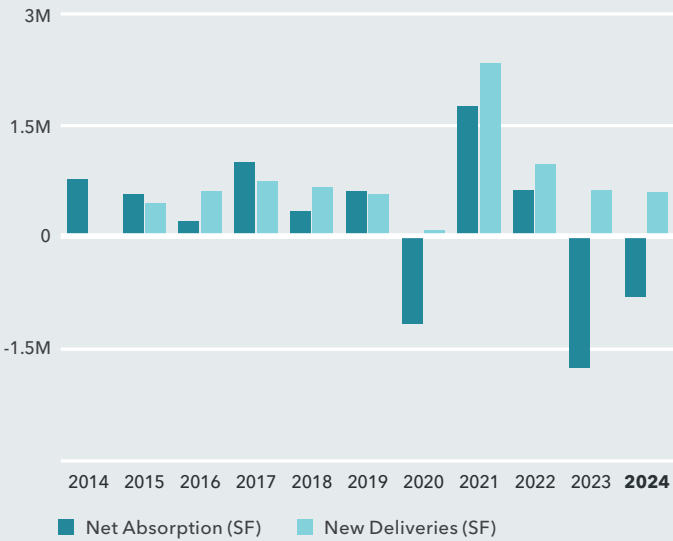
**NET ABSORPTION** improved in 2024 with negative 800K SF.

LEASE RATE,  
VACANCY &  
AVAILABILITY

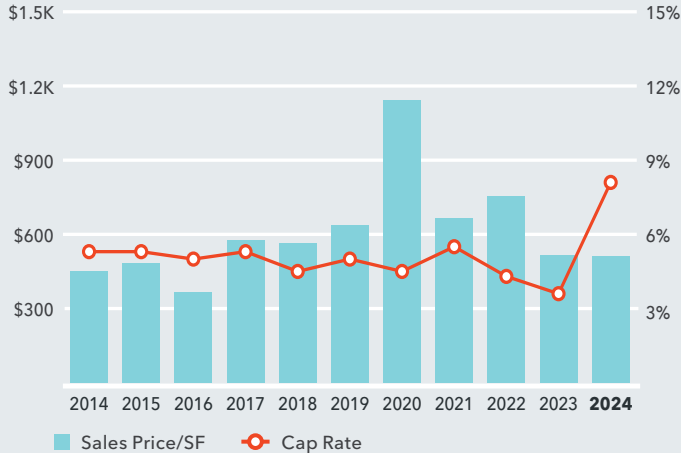


BIGGEST SALE OF THE QUARTER  
*Sandhill Commons I & II*  
*Menlo Park, CA*

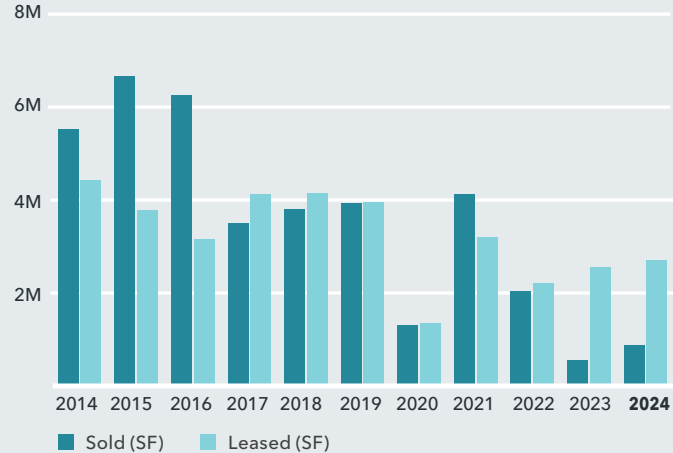
NET ABSORPTION & NEW DELIVERIES



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	4Q24 Total Net Absorption	2024 Total Net Absorption	4Q24 Leasing Activity	2024 Leasing Activity	Average Rental Rate (FS)
Daly City	412,908	0	4.2%	4.2%	5.2%	2,095	1,697	3,993	6,338	\$3.03
Brisbane	569,252	0	24.3%	27.8%	33.9%	2,563	(113,707)	0	71,777	\$3.69
South San Francisco	2,456,137	0	28.7%	29.9%	32.1%	(32,298)	(63,176)	1,840	48,784	\$3.43
San Bruno/Millbrae	1,667,496	440,000	13.9%	13.9%	5.1%	1,522	134,670	2,931	330,729	\$5.93
Burlingame	3,863,918	241,679	12.5%	13.2%	14.0%	(125,999)	(37,940)	18,547	185,528	\$4.11
<b>North County Totals</b>	<b>8,969,711</b>	<b>681,679</b>	<b>15.8%</b>	<b>16.4%</b>	<b>15.8%</b>	<b>(152,117)</b>	<b>(78,456)</b>	<b>27,311</b>	<b>643,156</b>	<b>\$4.19</b>
San Mateo	8,531,631	26,500	18.8%	21.5%	24.5%	(4,441)	(147,861)	74,070	257,354	\$5.15
Foster City	2,048,778	0	20.3%	21.2%	26.7%	(204,211)	(197,257)	14,006	114,411	\$5.18
Redwood Shores	3,009,139	234,000	31.2%	34.1%	35.4%	(27,991)	(125,256)	5,997	178,389	\$5.43
<b>Central County Totals</b>	<b>13,589,548</b>	<b>260,500</b>	<b>21.8%</b>	<b>24.3%</b>	<b>27.3%</b>	<b>(107,290)</b>	<b>(470,374)</b>	<b>94,073</b>	<b>550,154</b>	<b>\$5.27</b>
Belmont/San Carlos	2,136,186	0	8.9%	18.2%	29.8%	122,242	35,232	189,785	236,300	\$4.43
Redwood City	5,853,808	1,012,000	24.5%	28.9%	32.7%	(96,831)	(115,933)	30,272	170,028	\$6.34
Menlo Park	7,300,878	292,806	14.1%	30.5%	21.7%	(66,874)	(169,520)	957,373	1,094,768	\$8.72
<b>South County Totals</b>	<b>15,290,872</b>	<b>1,304,806</b>	<b>17.4%</b>	<b>28.2%</b>	<b>27.1%</b>	<b>(41,463)</b>	<b>(250,221)</b>	<b>1,177,430</b>	<b>1,501,096</b>	<b>\$7.16</b>
<b>Peninsula Totals</b>	<b>37,850,131</b>	<b>2,246,985</b>	<b>18.6%</b>	<b>24.0%</b>	<b>24.4%</b>	<b>(430,223)</b>	<b>(799,051)</b>	<b>1,298,814</b>	<b>2,694,406</b>	<b>\$5.80</b>
Class A	17,136,477	2,246,985	21.3%	30.3%	33.2%	(478,860)	(482,778)	1,056,637	1,828,720	\$6.89
Class B	15,262,626	0	19.5%	22.3%	21.6%	16,258	(328,940)	222,982	773,365	\$5.47
Class C	5,451,028	0	7.7%	9.5%	10.5%	32,379	12,667	19,195	92,321	\$4.05

## ECONOMIC LANDSCAPE

Economy uncertainty remains across the Bay Area, with lukewarm job growth, increasing unemployment and elevated interest rates. Although inflation rates have recently stabilized, many expect core inflation to remain above the Fed's target of 2% in 2025. There has also been a limited amount of new start-up activity on the Peninsula, indicating a pause in economic and entrepreneurial growth - which is expected to be a short-term trend. With that said, the overall economic outlook is relatively positive for 2025 with many employers projected to hire during the first half of the year. And after a subdued couple of years, there has been a recent uptick in both venture capital funding and M&A activity - both long standing drivers of the Peninsula office market. If this trend continues, it should bode well for future growth.

## NEAR-TERM OUTLOOK

In early 2025, there will be a few trends worth monitoring. First, more and more companies are beginning to implement return to work mandates that are expected to revitalize most office markets across the country, including the Bay Area. While work from home and hybrid work policies will persist, there is expected to be a conscious shift to a more balanced workforce. If this trend continues to gain momentum and employees continue to fill office buildings, the office market will likely shift to recovery and growth mode sooner than expected. Additionally, the upcoming administration change will likely bring new policies impacting both the economy and commercial real estate - with potential tax breaks and a notable shift to a business-friendly environment that could spur future growth in the office market. In the near-term, the Peninsula market will remain tenant favorable, due to the high vacancy rates and subdued tenant demand. Landlords will likely continue offering concessions to attract tenants, while speculative new development will remain constrained until market fundamentals improve.

SIGNIFICANT SALE TRANSACTIONS 4Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Sandhill Commons I & II	Menlo Park	133,449	\$222,200,000	\$1,665	Divco West Services   Norges Bank	Clarion Partners   Invesco
Hillsdale Executive	San Mateo	26,000	\$7,000,000	\$269	Mok Accountancy Corporation	The Movassate Family Trust
1741 Broadway St	Redwood City	7,000	\$1,940,000	\$277	1741 Broadway LLC	Working Dirt Management, Inc.

SIGNIFICANT LEASE TRANSACTIONS 4Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
Menlo Gateway	Menlo Park	772,976	November 2024	Sublease	Snowflake
275 Middlefield Rd	Menlo Park	128,000	December 2025	DWS Group	Robinhood
University Circle	Menlo Park	29,051	October 2025	PIMCO	Industrious

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Elco Yards	1601 El Camino Real	Redwood City	592,000	IQHQ	Q2 2025
Google Expansion	1300 Bayhill Dr & 1350 Grundy Ln	San Bruno	440,000	Google, Inc	Q1 2025
Broadway Plaza	1401 Broadway	Redwood City	420,000	Sobrato	Q3 2025

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



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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>	<i>\$10B</i> 3-YEAR AVERAGE TRANSACTION VOLUME	<i>31.7M</i> ANNUAL SALES SF	<i>42.4M</i> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<i>57M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>850+</i> ASSETS UNDER MANAGEMENT	<i>260+</i> CLIENTS SERVED
<b>VALUATION ADVISORY</b>	<i>2,600+</i> 3-YEAR AVERAGE ASSIGNMENTS	<i>43</i> TOTAL APPRAISERS	<i>27</i> WITH MAI DESIGNATIONS