

MARKET TRENDS

PENINSULA OFFICE

MARKET DRIVERS

After showing signs of life during the back half of 2024, the San Francisco Peninsula office market started the year slow with -425,650 SF of net absorption and only 320,451 SF of leasing activity during the quarter. Although there continues to be a long path to a sustained recovery period and overall fundamentals remain soft, cautious optimism persists, and the future remains bright. While it will remain a tenants market in the near term, both occupiers and owners will continue to invest in the future of the Peninsula office market. In fact, the market continues to be anchored by a stable, long-term ownership base that is 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

As expected with negative net absorption, the overall vacancy rate increased during 1Q 2025, rising to 25.5% compared to 24.9% last quarter and 21.5% at the same time last year. However, it important to note that the rate of increase has been decelerating in recent quarters compared to early 2024 and 2023. 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.

Overall, there is more than 9.8M SF of vacant space on the market, 24% of which is available for sublease as tenants continue to right-size their space needs and optimize their space planning. The reverberation continues to be felt from the shift to a more hybrid and flexible workforce. However, with more and more companies beginning to implement return to work policies, the change is expected to revitalize many markets across the Bay Area. While work from home and hybrid work policies will persist, there is presumed 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 sooner than expected.

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Market Summary

	1Q25	4Q24	1Q24	YOY Change
Direct Vacancy Rate	19.6%	19.1%	15.8%	380 bps
Availability Rate	25.5%	24.9%	21.5%	400 bps
Asking Lease Rate	\$5.78	\$5.80	\$6.08	-5.0%
Under Construction	2,182,679	2,288,099	1,301,847	67.7%
	1Q25	4Q24	1Q24	YOY Change
Construction Deliveries	37,806	0	33,266	13.6%
Leased SF	320,451	1,521,077	652,431	-50.9%
Sold SF	88,947	255,910	22,374	297.5%
Net Absorption	-425,650	-348,907	-375,887	N/A

1Q 2025

↓ **320K SF**
LEASING ACTIVITY

↑ **-425K SF**
NET ABSORPTION

↑ **19.6%**
VACANCY RATE

↓ **\$5.78**
ASKING RENT (AVG)

↑ **37K SF**
NEW DELIVERIES

Year-Over-Year Trend

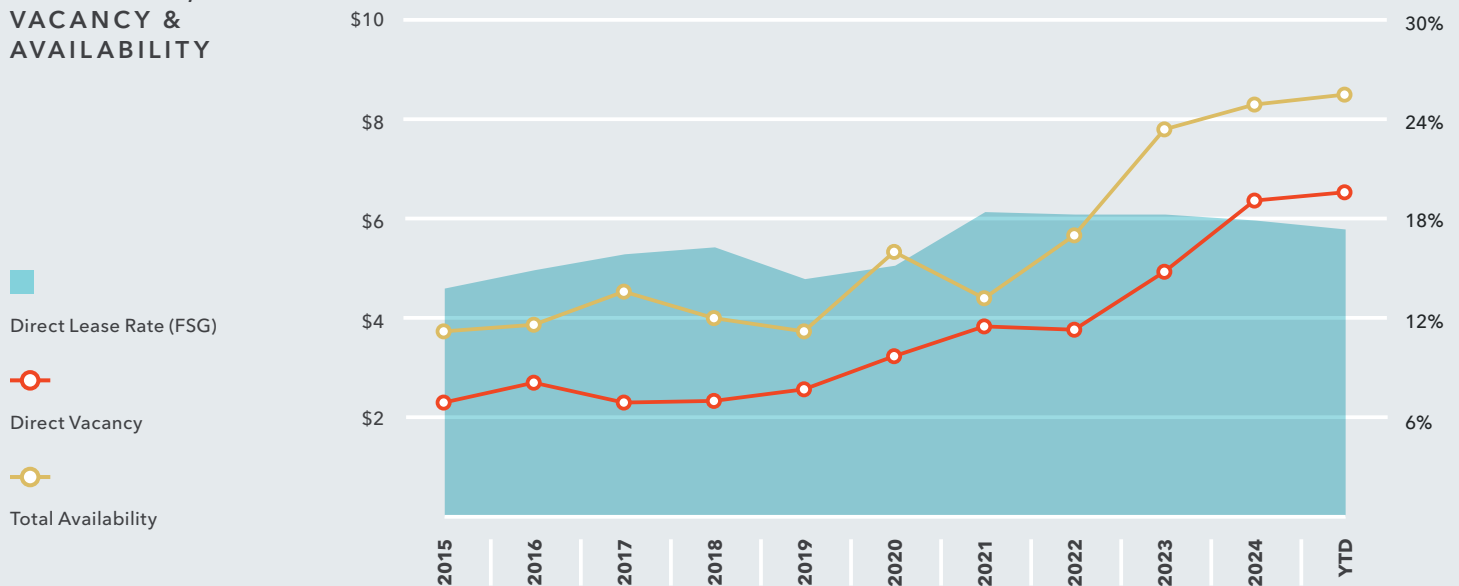
Market Highlights

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

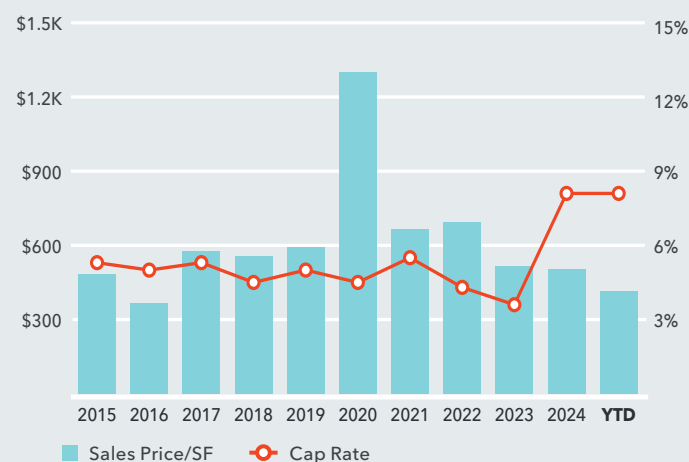
*Bridge Park Center,
Redwood City, CA*



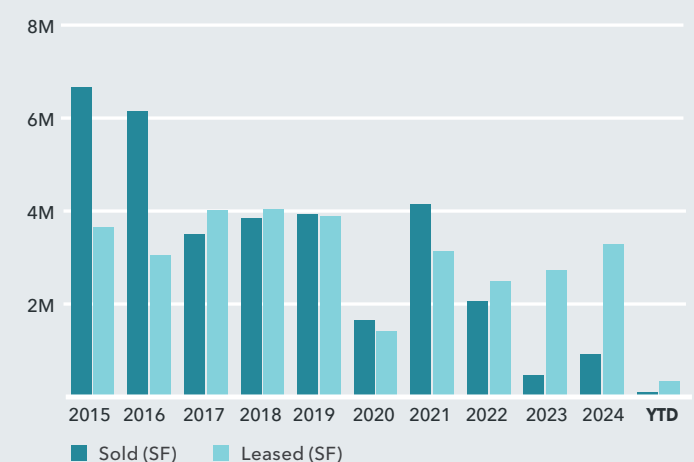
NET ABSORPTION & NEW DELIVERIES



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	1Q25 Total Net Absorption	2024 Total Net Absorption	1Q25 Leasing Activity	2024 Leasing Activity	Average Rental Rate (FS)
Daly City	404,597	0	6.5%	6.5%	7.3%	-7,452	1,697	325	6,338	\$3.04
Brisbane	580,456	0	27.6%	31.1%	33.6%	-22,012	-113,707	26,603	71,777	\$3.64
South San Francisco	3,151,368	0	23.3%	28.0%	29.2%	-55,191	-63,176	36,947	48,784	\$3.38
San Bruno/Millbrae	1,627,494	440,000	14.7%	14.7%	5.7%	-6,716	134,670	0	330,729	\$5.93
Burlingame	3,842,909	241,679	8.8%	12.9%	17.8%	10,146	-37,940	54,190	185,528	\$4.11
North County Totals	9,606,824	681,679	13.7%	16.8%	17.7%	-81,225	-78,456	118,065	643,156	\$4.08
San Mateo	8,059,553	0	19.6%	24.7%	28.1%	-175,776	-147,861	78,487	257,354	\$5.15
Foster City	1,990,870	0	26.5%	30.3%	35.1%	-177,310	-197,257	10,059	114,411	\$5.18
Redwood Shores	3,053,980	234,000	33.1%	35.9%	31.7%	-37,126	-125,256	-37,126	178,389	\$5.43
Central County Totals	13,104,403	234,000	23.8%	28.2%	30.0%	-390,212	-470,374	51,420	550,154	\$5.27
Belmont/San Carlos	2,242,449	0	13.0%	18.0%	23.5%	72,191	35,232	111,132	236,300	\$4.40
Redwood City	5,515,911	1,012,000	26.8%	28.5%	32.4%	19,246	-115,933	18,491	170,028	\$6.31
Menlo Park	7,365,087	255,000	16.7%	22.7%	23.3%	-45,650	-169,520	21,343	1,094,768	\$8.72
South County Totals	15,123,447	1,267,000	19.8%	24.1%	26.6%	45,787	-250,221	150,966	1,501,096	\$7.15
Peninsula Totals	37,834,674	2,182,679	19.6%	23.7%	25.5%	-425,650	-799,051	320,451	2,694,406	\$5.78
Class A	17,353,766	2,182,679	21.4%	28.0%	34.5%	0	-482,778	0	1,828,720	\$6.84
Class B	15,152,601	0	21.6%	23.9%	23.3%	0	-328,940	0	773,365	\$5.42
Class C	5,328,307	0	8.9%	10.0%	11.2%	0	12,667	0	92,321	\$4.04

VACANCY & DEVELOPMENT CONTINUED

Speculative development has been significantly slowed due to the lack of pre-leasing activity in recent years coupled with increased construction/financing costs. There is currently 2.1M SF under construction with a mix between tech expansions, mixed use projects and speculative construction. Of the 1.2M SF of speculative construction, there has been no pre-leasing activity to date and all three projects are slated for delivery late summer of 2025.

ECONOMIC LANDSCAPE

Economic uncertainty remains across the Bay Area, with lukewarm job growth, increasing unemployment and elevated interest rates. While the technology sector will continue to drive the future recovery in the Bay Area, there appears to be a current lull in sector growth as many firms have paused to see how the economy will take shape in 2025. This wait and see approach will likely delay growth for the San Francisco Peninsula office market. 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. 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

Even though a full office rebound appears to be a considerable distance away, cautious optimism is already taking shape for 2025 in hopes the market will find solid footing for mid-term future growth. With many new proposed policies being discussed at the national, state and local levels which include tariffs, decreased corporate taxes, and deregulation it has become difficult to project the impact on commercial real estate in 2025. A few indicators worth monitoring include return to office employee policies, sublease space levels, future space planning and density levels, leasing and net absorption trends, inflation rates, interest rates, impact of tariffs, the potential occupancy impact from Federal downsizing, and future lender underwriting policy changes.

SIGNIFICANT SALE TRANSACTIONS 1Q 2025

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Bridge Park Center	Foster City/Redwood Shores	35,324	\$12,942,500	\$366	IDIS Americas, Inc.	350 Marine Parkway, LLC
1261 E Hillsdale Blvd	Foster City/Redwood Shores	13,700	\$6,300,000	\$460	55 Julian, LLC	JSP Enterprises, LLC

SIGNIFICANT LEASE TRANSACTIONS 1Q 2025

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1440 Chapin	Burlingame	26,522	March 2025	Patson Development	City of Burlingame
101 Ellsworth Ave	San Mateo	23,979	March 2025	Luminary Cloud	Notable Health (Sublease)
2000 Sierra Point Pkwy	Brisbane	20,116	February 2025	Myovant	Pacira Pharmaceuticals (Sublease)

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	Q2 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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COMMERCIAL BROKERAGE	<i>\$9B</i> AVERAGE ANNUAL TRANSACTION VOLUME	<i>26.2M</i> ANNUAL SALES SF	<i>36.7M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>58M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>850+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,400+</i> AVERAGE ASSIGNMENTS	<i>39</i> TOTAL APPRAISERS	<i>24</i> WITH MAI DESIGNATIONS

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