

## MARKET TRENDS

# PENINSULA OFFICE

### MARKET DRIVERS

Positive net absorption and a vacancy rate decline underscore the sentiment felt throughout the Bay Area as office market fundamentals continue to recover. While the improvement has been slow, after a few years of struggle, the positive indicators are a welcome sign. The San Francisco Peninsula market ended 2Q 2025 with 563,420 SF of net absorption, bringing the year-to-date total to 137,770 SF. This was largely influenced by the recent sublease and subsequent move-in by Snowflake (772K SF).

Although full recovery will require a long, sustained period of growth and overall fundamentals remain mixed, cautious optimism persists, and the future remains bright. It is expected to remain a tenants market in the near term, but both occupiers and owners/developers will continue to invest in the future of the Peninsula office market as the market continues to be bolstered by a stable, long-term ownership base. As such, there is a limited number of distressed properties and very few at-risk loans coming due in 2025/2026, unlike other office markets throughout the country.

### VACANCY & DEVELOPMENT

The overall vacancy rate decreased slightly during the quarter, ending 2Q 2025 at 24.1% compared to 25.5% last quarter. However, 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 9.9M SF of vacant space on the market, 16% of which is available for sublease as tenants continue to right-size their space needs. The trickle-down effect 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.

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## Market Summary

	2Q25	1Q24	2Q24	YOY Change
Direct Vacancy Rate	20.0%	19.1%	15.8%	<b>420 bps</b>
Availability Rate	26.8%	24.9%	21.5%	<b>530 bps</b>
Asking Lease Rate	\$5.77	\$5.78	\$6.08	<b>-5.1%</b>
Under Construction	1,528,679	2,288,099	1,301,847	<b>17.4%</b>
	2Q25	2025 YTD	2024 YTD	YOY Change
Construction Deliveries	234,000	271,806	611,113	<b>-55.5%</b>
Leased SF	508,076	828,527	1,079,732	<b>-23.3%</b>
Sold SF	407,946	659,782	282,239	<b>133.8%</b>
Net Absorption	563,420	137,770	-804,037	<b>N/A</b>

# 2Q 2025

↓ **828K SF**  
LEASING ACTIVITY

↑ **563K SF**  
NET ABSORPTION

↑ **20.0%**  
DIRECT  
VACANCY RATE

↓ **\$5.77**  
ASKING RENT (AVG)

↓ **271K SF**  
NEW DELIVERIES

Year-Over-Year Trend

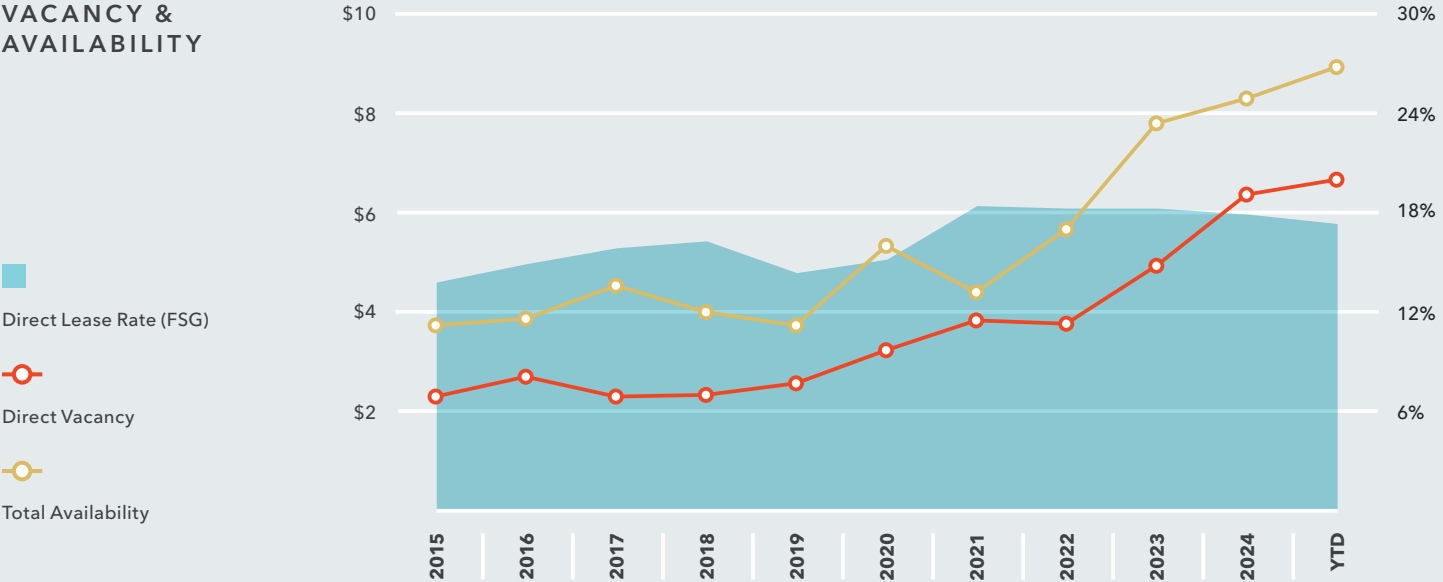
## Market Highlights

**DIRECT VACANCY** rose to 20.0% in 2Q 2025.

**LEASING ACTIVITY** was 828K SF year-to-date.

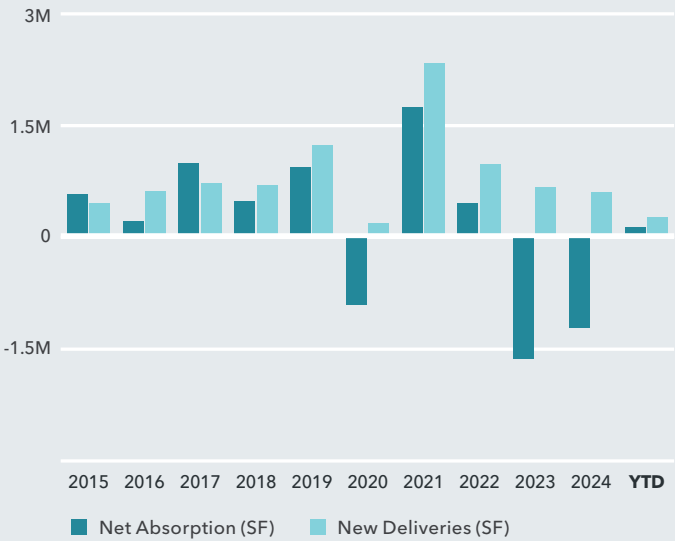
**NET ABSORPTION** was positive for the quarter with 563K SF.

LEASE RATE, VACANCY & AVAILABILITY

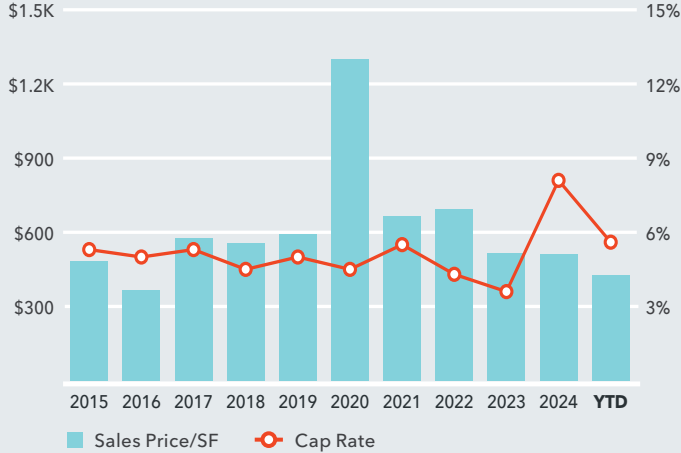


BIGGEST SALE OF THE QUARTER  
*Tower Plaza, San Mateo*

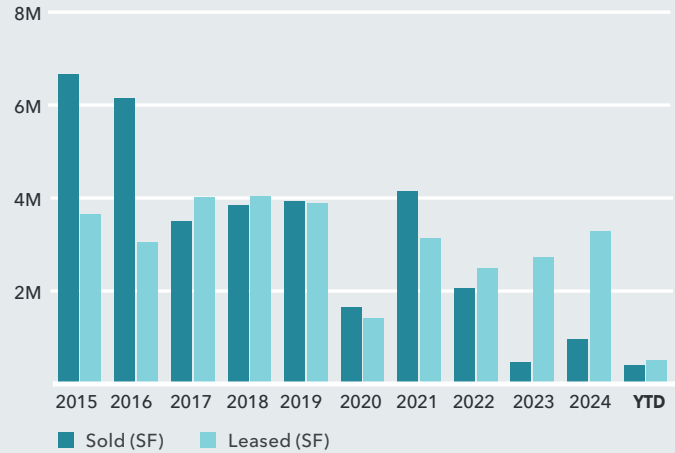
NET ABSORPTION & NEW DELIVERIES



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	2Q25 Total Net Absorption	YTD Total Net Absorption	2Q25 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	432,922	0	7.0%	7.0%	10.7%	-5,294	-12,746	2,900	3,225	\$2.98
Brisbane	740,415	0	20.7%	23.5%	25.4%	166,575	144,563	167,156	193,759	\$3.64
South San Francisco	3,151,368	0	24.3%	29.1%	30.2%	-8,906	-64,097	19,229	56,176	\$3.38
San Bruno/Millbrae	1,627,494	440,000	14.6%	14.6%	5.3%	693	-6,023	8,251	8,251	\$5.93
Burlingame	3,868,476	241,679	9.1%	13.2%	17.9%	-8,973	1,173	9,986	64,176	\$4.11
<b>North County Totals</b>	<b>9,820,675</b>	<b>681,679</b>	<b>13.8%</b>	<b>17.0%</b>	<b>17.6%</b>	<b>144,095</b>	<b>62,870</b>	<b>207,522</b>	<b>325,587</b>	<b>\$4.07</b>
San Mateo	8,413,080	0	19.6%	24.3%	27.3%	-5,674	-181,450	112,780	191,267	\$5.10
Foster City	1,995,009	0	25.7%	30.1%	35.3%	-22,686	-199,996	34,673	44,732	\$5.13
Redwood Shores	3,045,586	0	32.8%	35.4%	30.8%	-18,746	-55,872	61,060	23,934	\$5.38
<b>Central County Totals</b>	<b>13,453,675</b>	<b>0</b>	<b>23.5%</b>	<b>28.1%</b>	<b>29.8%</b>	<b>-47,106</b>	<b>-437,318</b>	<b>208,513</b>	<b>259,933</b>	<b>\$5.17</b>
Belmont/San Carlos	2,237,416	0	13.2%	18.2%	23.1%	-3,978	68,213	17,382	128,514	\$4.43
Redwood City	5,618,943	592,000	31.0%	35.6%	42.2%	-117,866	-98,620	21,383	39,874	\$6.31
Menlo Park	7,373,012	255,000	15.4%	20.9%	23.9%	588,275	542,625	53,276	74,619	\$8.72
<b>South County Totals</b>	<b>15,229,371</b>	<b>847,000</b>	<b>20.8%</b>	<b>25.9%</b>	<b>30.5%</b>	<b>466,431</b>	<b>512,218</b>	<b>92,041</b>	<b>243,007</b>	<b>\$7.21</b>
<b>Peninsula Totals</b>	<b>38,503,721</b>	<b>1,528,679</b>	<b>20.0%</b>	<b>24.2%</b>	<b>26.8%</b>	<b>563,420</b>	<b>137,770</b>	<b>508,076</b>	<b>828,527</b>	<b>\$5.77</b>
Class A	17,406,468	1,528,679	24.1%	30.7%	35.5%	897,173	576,983	281,543	432,776	\$6.89
Class B	15,808,414	0	20.8%	24.0%	26.0%	-356,228	-379,315	189,035	349,944	\$5.47
Class C	5,288,839	0	8.8%	9.0%	9.5%	22,475	-59,898	37,498	45,807	\$4.05

## VACANCY &amp; 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 1.5M SF under construction with a mix between tech expansions, mixed-use projects and speculative construction. Of the 936K SF of speculative construction, there has been no preleasing activity to date and all three projects are slated for delivery late summer of 2025.

## ECONOMIC LANDSCAPE

The Bay Area, San Francisco and SF Peninsula economies are anchored by the technology industry and currently experiencing tepid job growth, along with a reduction in daytime employment levels due to hybrid employees and remote workers. The unemployment rate for the San Mateo County was 3.4% in May, a slight decrease compared to last quarter and a 30 bps increase compared to last year. However, the labor force participation rate declined versus last year, meaning total employment has fallen to a larger degree than unemployment figures suggest. Recent layoffs from both the Professional and Business Services sector and the Technology sector have driven the majority of job losses during the past year according to the California Employment Development Department.

## NEAR-TERM OUTLOOK

Cautious optimism continues to be the theme for both San Francisco and the San Francisco Peninsula office markets. The market has been showing signs of recovery, and many anticipate the market will find solid footing for near-term future growth. If return to work trends persist and employees continue to fill office buildings, the office market will likely shift to recovery and growth sooner than expected.

Lastly, expansion in both the technology and AI sectors is expected to provide a spark for future tenant demand activity, while modest growth across all other sectors will likely assist in filling additional voids in vacancy. 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 2Q 2025

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Tower Plaza (5 Prop.)	San Mateo	200,626	\$22,000,000	\$110	Tourbineau Real Estate Partners	TPG Global, LLC
100 Middlefield Rd	Menlo Park	10,341	\$12,300,000	\$1,189	Kvic Silicon Valley	Premia Menlo Holdings, LLC
The Clock Tower	Burlingame	6,815	\$5,400,000	\$792	20 Park Rd, LLC	Grace Woods Real Estate

SIGNIFICANT LEASE TRANSACTIONS 2Q 2025

Property	Submarket	SF	Transaction Date	Landlord	Tenant
919 E Hillsdale Blvd	Foster City	76,922	April 2025	Hudson Pacific Properties	Qualys
60 31st Ave	San Mateo	37,211	May 2025	Bohannon Companies	Activision Publishing
2950 S Delaware St	San Mateo	31,145	June 2025	Workday (Sublease)	Freshworks

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Elco Yards	1601 El Camino Real	Redwood City	592,000	IQHQ	4Q 2025
Google Expansion	1300 Bayhill Dr & 1350 Grundy Ln	San Bruno	440,000	Alphabet	4Q 2025
1350 Adams Ct	1350 Adams Ct	Menlo Park	255,000	Tarlton Properties	2Q 2026

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

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