Kidder Mathews

MARKET TRENDS

PENINSULA *OFFICE*

3Q 2025

MARKET DRIVERS

The Bay Area office market continues to show incremental signs of recovery, supported by positive net absorption and relatively stable vacancy rates. Although the pace of improvement remains uneven, recent activity reflects a welcome shift following several years of disruption. The San Francisco Peninsula office market recorded 111K SF of positive net absorption in Q3 2025, bringing the year-to-date total to 248K SF, marking the second consecutive quarter of growth. Central and North Counties led performance with 180K SF and 61K SF of positive absorption, respectively.

While a full recovery will require sustained momentum and strengthening fundamentals, market sentiment remains cautiously optimistic. The Peninsula continues to benefit from a stable ownership base, which has helped mitigate distress and limit exposure to at-risk loans maturing in 2025 and 2026. As a result, both occupiers and investors remain committed to the long-term viability of the region's office sector, even as the market remains tenant-favorable in the near term.

VACANCY & DEVELOPMENT

The San Francisco Peninsula office market is adapting to ongoing shifts in workplace strategy, with over 10.2M SF of vacant space currently available. Approximately 20% of this inventory is listed for sublease, reflecting continued efforts by tenants to recalibrate space needs in response to hybrid and flexible work models. While these dynamics have contributed to elevated vacancy levels, the gradual rollout of return-to-office policies is expected to stimulate demand across the Bay Area.

Despite positive absorption, the overall vacancy rate rose slightly to 24.7%, up from 24.2% in the previous quarter, primarily due to new deliveries entering the market with unleased space. Conversely, the direct vacancy rate declined to 19.4%, down from 20.0%, indicating modest stabilization. Much of the new inventory consists of small to mid-sized availabilities offered directly by landlords, rather than large-scale sublease blocks.

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Market Summary

	3Q25	2Q25	3Q24	YOY Change
Direct Vacancy Rate	19.4%	20.0%	17.5%	**190 bps**
Availability Rate	24.7%	24.2%	23.3%	**140 bps**
Asking Lease Rate	$5.72	$5.77	$6.04	**-5.3%**
Under Construction (SF)	1,774,657	1,528,679	1,096,743	**61.8%**

	3Q25	2025 YTD	2024 YTD	YOY Change
Construction Deliveries	575,700	964,506	236,119	**308.5%**
Leased SF	876,891	1,705,418	1,818,696	**-6.2%**
Sold SF	263,495	1,632,537	663,747	**146.0%**
Net Absorption (SF)	110,690	248,460	-1,137,801	**N/A**

↓ *877K SF*
LEASING ACTIVITY

↑ *111K SF*
NET ABSORPTION

↑ *19.4%*
DIRECT VACANCY RATE

↓ *$5.72*
ASKING RENT (AVG)

↑ *576K SF*
NEW DELIVERIES

Year-Over-Year Trend

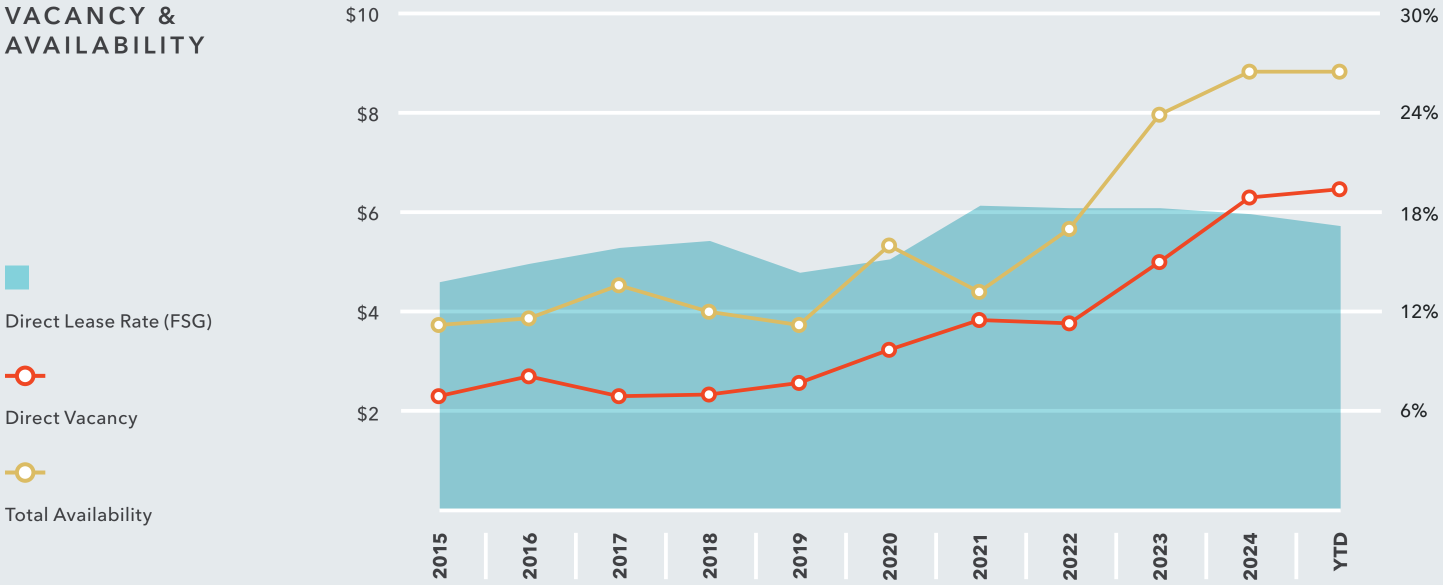
Market Highlights

DIRECT VACANCY rose to 19.4% in 3Q 2025

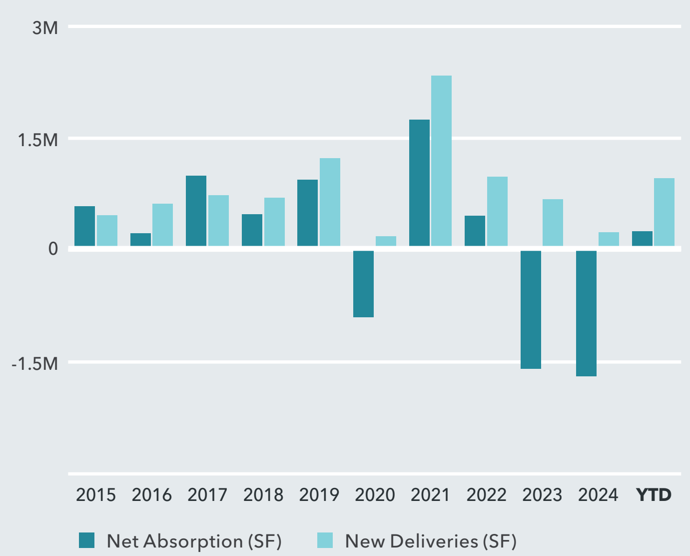
LEASING ACTIVITY was 1.7M SF year-to-date

NET ABSORPTION was positive for the quarter with 111K SF

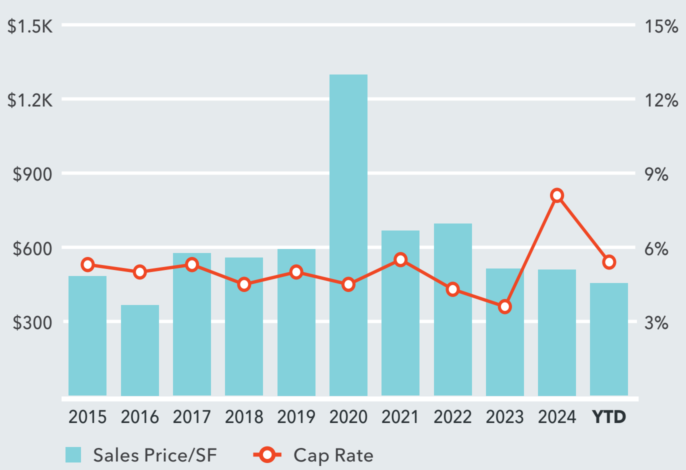
LEASE RATE, VACANCY & AVAILABILITY



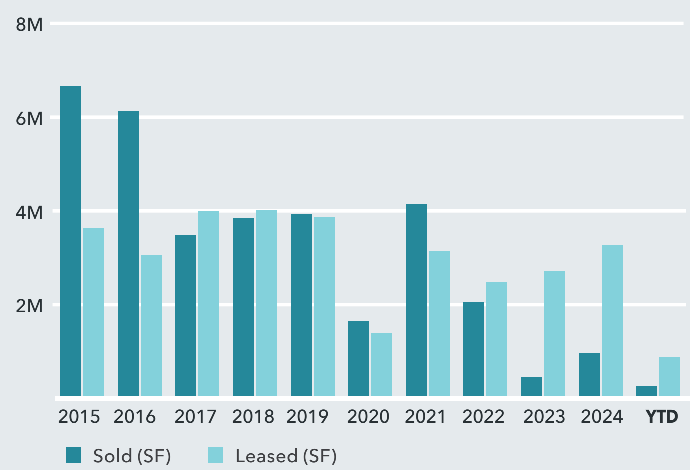
NET ABSORPTION & NEW DELIVERIES



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	3Q25 Total Net Absorption	YTD Total Net Absorption	3Q25 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	432,922	0	6.4%	6.4%	10.1%	2,796	-9,950	2,140	5,365	$2.93
Brisbane	856,248	0	21.1%	26.4%	26.4%	-35,571	108,992	0	193,759	$3.59
South San Francisco	3,900,511	0	25.0%	34.0%	34.9%	-103,563	-167,660	71,008	127,184	$3.33
San Bruno/Millbrae	1,627,493	440,000	13.7%	14.9%	5.8%	-1,012	-7,035	8,546	16,797	$5.93
Burlingame	3,868,694	241,679	9.1%	13.0%	17.9%	6,478	7,651	23,414	87,590	$4.11
North County Totals	**10,685,868**	**681,679**	**14.5%**	**19.4%**	**20.1%**	**-130,872**	**-68,002**	**105,108**	**430,695**	**$3.93**
San Mateo	8,418,899	0	16.9%	21.6%	23.9%	273,560	92,110	370,043	561,310	$5.05
Foster City	1,995,009	192,100	26.0%	32.5%	35.8%	-21,572	-221,568	109,751	154,483	$5.08
Redwood Shores	3,045,586	0	32.4%	37.7%	32.3%	-71,737	-127,609	25,371	49,305	$5.33
Central County Totals	**13,459,494**	**192,100**	**21.8%**	**27.3%**	**28.0%**	**180,251**	**-257,067**	**505,165**	**765,098**	**$5.13**
Belmont/San Carlos	2,229,872	0	12.7%	21.2%	25.6%	-65,756	2,457	70,670	199,184	$4.38
Redwood City	5,581,737	645,878	32.0%	36.2%	41.9%	-481	-99,101	35,816	75,690	$6.28
Menlo Park	7,665,807	255,000	14.7%	20.8%	22.5%	127,548	670,173	160,132	234,751	$8.72
South County Totals	**15,477,416**	**900,878**	**20.7%**	**26.4%**	**29.9%**	**61,311**	**573,529**	**266,618**	**509,625**	**$7.18**
Peninsula Totals	**39,622,778**	**1,774,657**	**19.4%**	**24.7%**	**26.5%**	**110,690**	**248,460**	**876,891**	**1,705,418**	**$5.72**
Class A	17,791,105	1,774,657	24.4%	32.0%	35.5%	-171,900	405,083	565,383	998,159	$6.84
Class B	16,439,382	0	19.1%	23.8%	25.2%	267,926	-111,389	288,883	638,827	$5.42
Class C	5,392,291	0	8.9%	9.2%	10.0%	14,664	-45,234	22,625	68,432	$4.04

VACANCY & DEVELOPMENT CONTINUED

Speculative development remains limited, constrained by low pre-leasing activity and rising construction and financing costs. As of Q3 2025, 1.7M SF was under construction, after 575K SF of deliveries during the quarter. Notable completions include two buildings at ELCO Yards in Redwood City totaling 327K SF, and 1350 Gundy Lane, a 248K SF building leased to YouTube. Projects currently underway include a mix of tech expansions, mixed-use developments, and speculative office space.

ECONOMIC LANDSCAPE

San Mateo County's economy remains fundamentally strong in 2025, supported by robust property valuations and strategic public investment. The local job market continues to show resilience, with an unemployment rate of 4.3% and the highest wage growth among California's large counties. While office vacancy remains elevated at 24.7%, consistent positive absorption suggests a gradual recovery is underway.

The county's employment base is dominated by the service sector, though green jobs and technology roles—particularly in AI and adjacent industries—are gaining momentum. Venture capital activity remains a key driver of innovation, with over $35B invested across more than 300 funding rounds in recent years. Local institutions such as SamCERA continue to support growth-stage VC funds, reinforcing San Mateo County's role as a cornerstone of the Bay Area's innovation ecosystem.

NEAR-TERM OUTLOOK

The San Francisco Peninsula office market is expected to maintain a trajectory of cautious recovery. While remote and hybrid work arrangements remain prevalent, a gradual shift toward a more balanced in-office workforce is underway. If this trend continues, increased physical occupancy could accelerate the market's transition to sustained growth.

Expansion in the technology and AI sectors is anticipated to drive future tenant demand, while modest growth across other industries may help absorb remaining vacancies. Key indicators to monitor include: return-to-office policies, sublease inventory levels, space utilization and density strategies, leasing velocity and net absorption, inflation and interest rate trends, tariff impacts and federal downsizing, changes in lender underwriting standards.

SIGNIFICANT SALE TRANSACTIONS 3Q 2025

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
Park Place at Bay Meadows	San Mateo	405,327	$175,000,000	$431	Shorenstein	Park Place Holdco, LLC
USGA Campus	Menlo Park	404,887	$137,000,000	$338	Presidio Bay Ventures	US General Administration
Clearview Business Park	San Mateo	379,615	$102,000,000	$269	Harvest Properties/Stockbridge	Hines

SIGNIFICANT LEASE TRANSACTIONS 3Q 2025

Property	Submarket	SF	Transaction Date	Tenant
2850 & 3050 Delaware St	San Mateo	408,225	August 2025	Roblox Corporation
135 Commonwealth Dr	Menlo Park	58,800	July 2025	Moloco
2950 Delaware S (Sublease)	San Mateo	54,992	July 2025	Freshworks

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Google Expansion	1300 Bayhill Dr & 1350 Grundy Ln	San Bruno	440,000	Google	Q3 2025
567 Airport Blvd	567 Airport Blvd	Burlingame	241,790	Lane Partners	Q3 2025
ELCO Yards Building - The Shop	1300 Main St	Redwood City	225,878	Greystar/ IQHQ	Q4 2025

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

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Kidder Mathews is the largest fully independent commercial real estate firm in the Western U.S., with over 900 real estate professionals and staff in 19 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, and debt & equity finance services for all property types.

COMMERCIAL BROKERAGE	$9B AVERAGE ANNUAL TRANSACTION VOLUME	26.2M ANNUAL SALES SF	36.7M ANNUAL LEASING SF
ASSET SERVICES	53M SF MANAGEMENT PORTFOLIO SIZE	800+ ASSETS UNDER MANAGEMENT	250+ CLIENTS SERVED
VALUATION ADVISORY	2,400+ AVERAGE ANNUAL ASSIGNMENTS	39 TOTAL APPRAISERS	24 WITH MAI DESIGNATIONS