
1Q24

North Peninsula Office Market Overview



NEWMARK

Market Observations

Economy

- The peninsula region’s labor market remained stable to start the year amid shifting macroeconomic conditions. February’s 3.8% unemployment rate remained lower than the 4.1% five-year historical average but is up from 3.4% in the previous quarter.
- Year over year, job gains have been most pronounced in the leisure/hospitality and education/health services industry.
- A “higher for longer” view of the interest rate environment has taken hold for investors, as U.S. inflation has remained persistently high over the last few months with core inflation hovering around 3.8%, nearly double the Fed’s long-term target.
- The Fed now sees two to three interest rate cuts in 2024 but forecasts fewer cuts than before in 2025. In comparison, markets were anticipating up to eight rate cuts in 2024.

Major Transactions

- Roblox completed the largest deal of the quarter, subleasing 133,137 SF from Momentive in Station 4 of the Bay Meadows Project in San Mateo.
- Cloud-based software company Momentive completed the second-largest deal of the quarter, subleasing 61,773 SF from Roblox in the Franklin Templeton project in San Mateo.
- The most notable building to change hands this quarter was the 19,200-SF Class C building located at 1575 Bayshore Highway in Burlingame, which was acquired for \$6.4 million, or \$333/SF.

Leasing Market Fundamentals

- Following seven consecutive quarters of negative net, the region recorded 49,000 SF of positive absorption to start the year.
- Market-wide vacancy increased slightly to 18.2% this quarter, up from 18.1% in the previous quarter and 13.0% one year ago. On the sublease front, vacancy counted for 6.1% of the total inventory and 33.3% of the total vacancy this quarter, compared with 6.4% of the total inventory and 36.9% of the total vacancy in the previous quarter.
- Market-wide availability was recorded at 20.5%, on par with the previous quarter.
- Increasingly high availability rates in distressed properties have started to soften the office market and drive down rates, demonstrated by the fact that average asking rates decreased or remained stagnant in 11 out of the 12 major submarkets this quarter.

Outlook

- After hitting bottom in the second quarter of 2023, the North Peninsula office market is now in recovery mode. Since then, active tenant demand has increased more than 300% and leasing activity is up over 150%. Early signs point to a continued improving environment, with net absorption exiting the red for the first time in seven consecutive quarters and stabilizing vacancy.
- Despite a significant uptick in leasing activity this quarter, market-wide vacancy and availability remained virtually unchanged, which demonstrates that majority of tenants are renewing, not expanding. Direct and expansion leases that are getting signed continue to be located in high-quality amenitized projects, buildings that have been recently renovated or in fitted spaces that ultimately save tenants upfront capital.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

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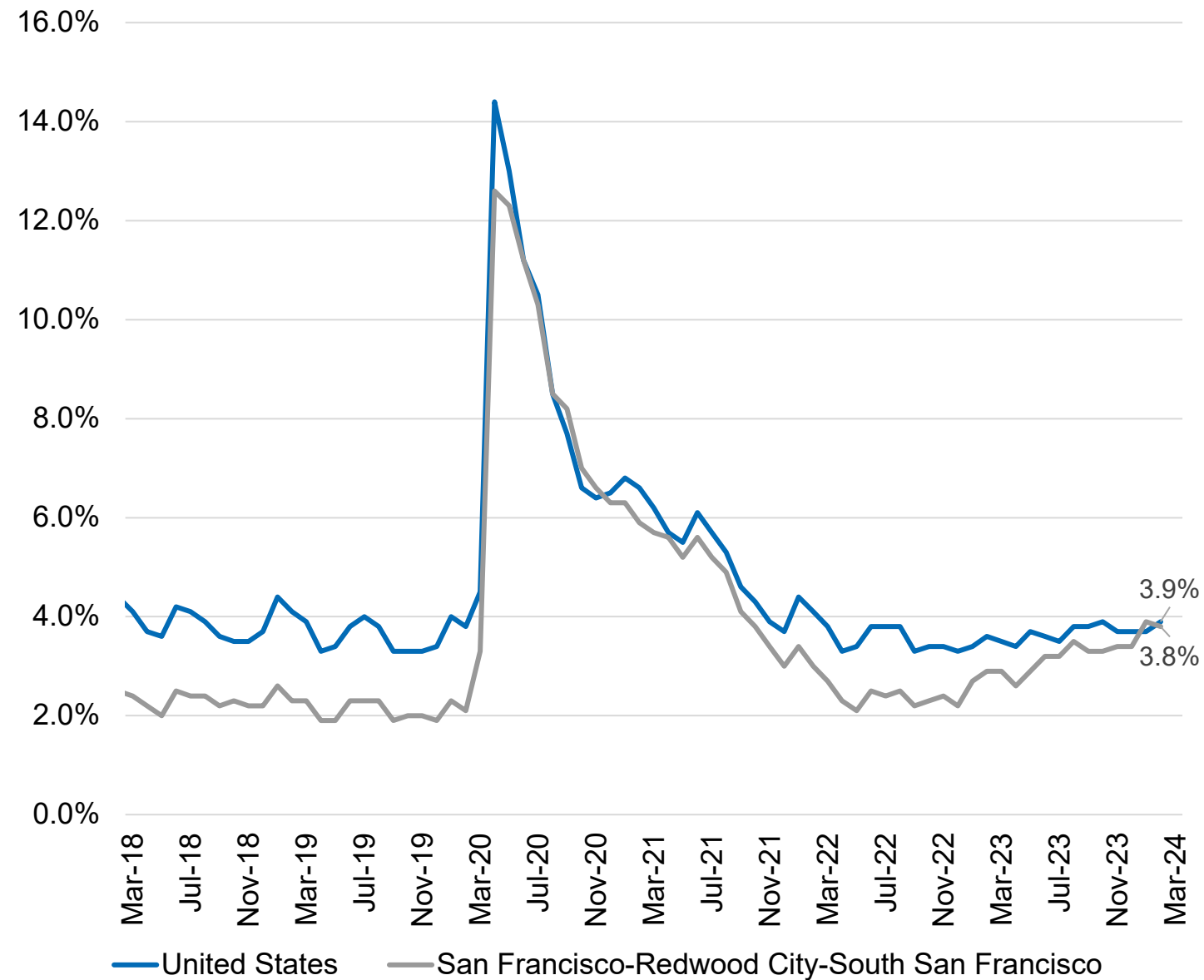
Economy



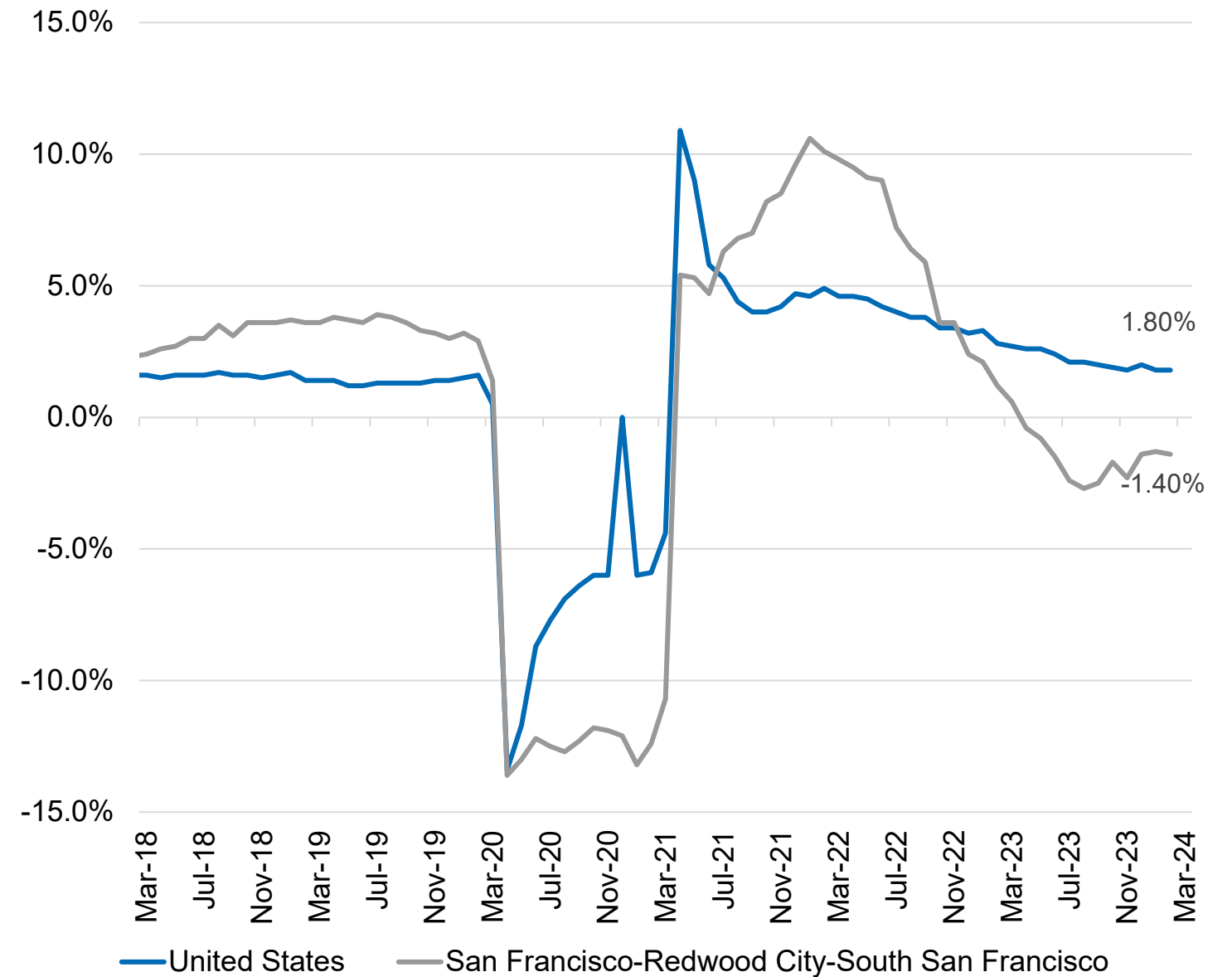
Metro Employment Trends Signal a Slowing, Tighter Economy

The region's unemployment rate rose closer to the national average in recent months. Furthermore, the nonfarm employment in the region is down 1.4% year over year, a stark difference compared with the 1.8% increase nationally.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

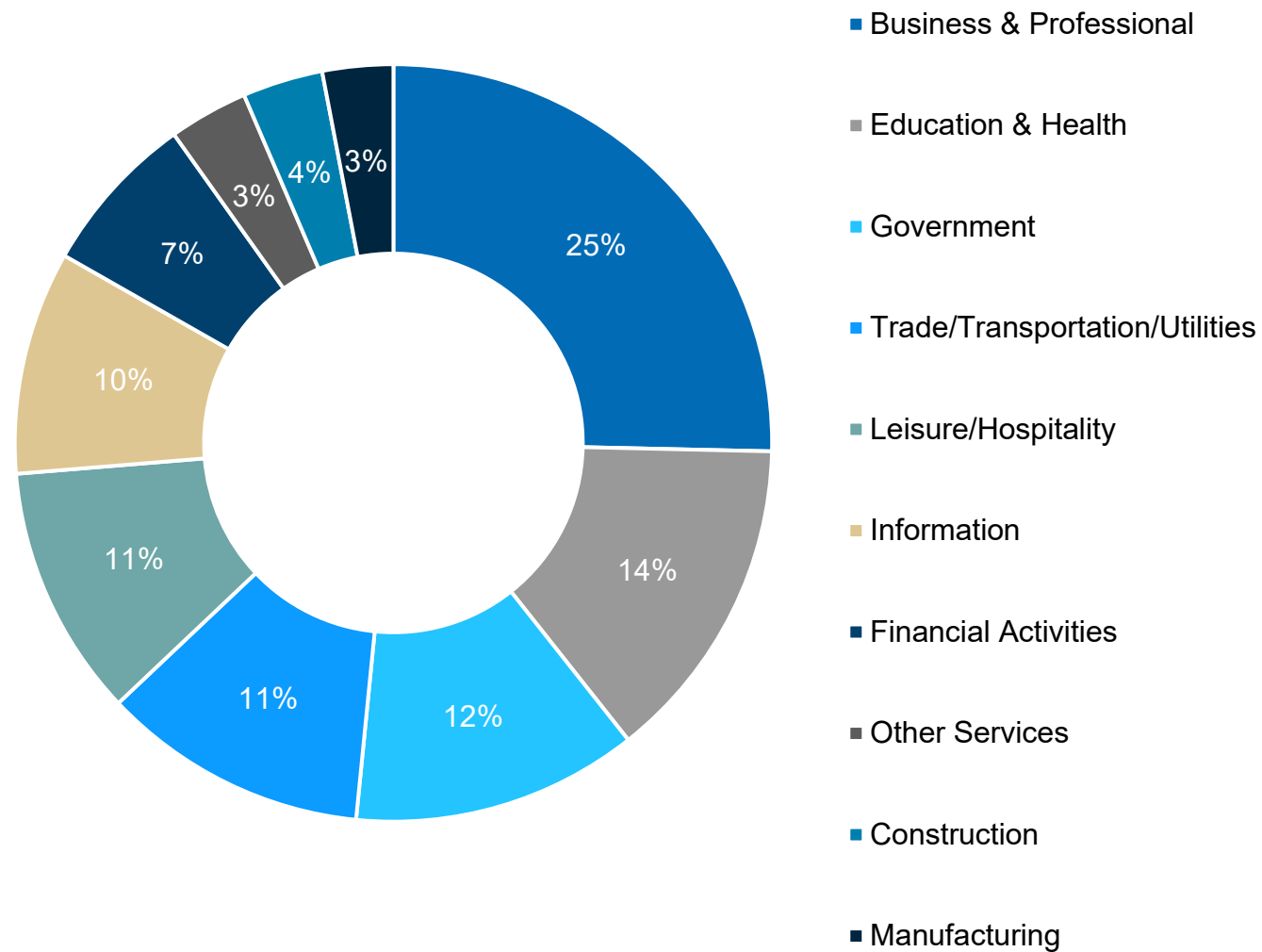


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

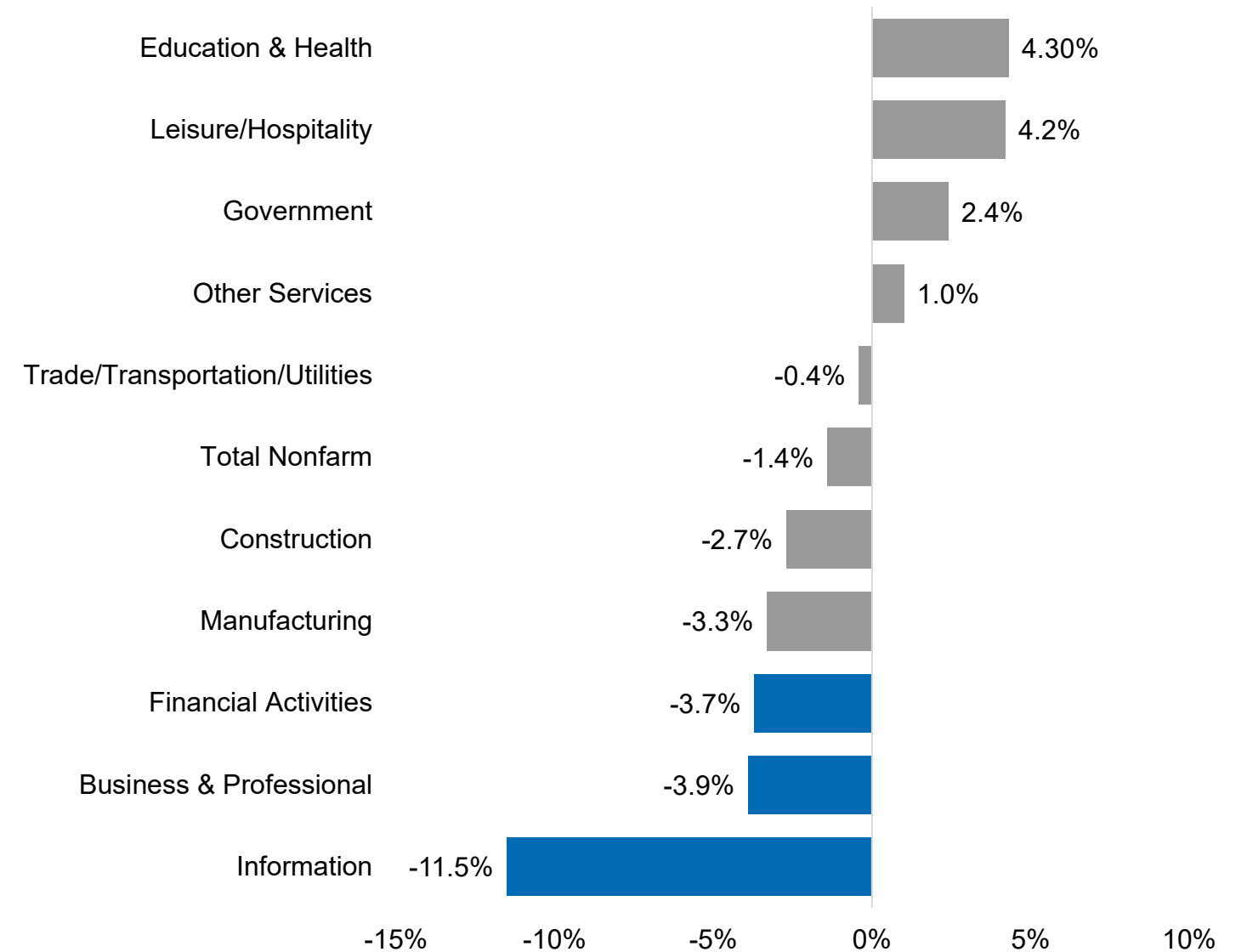
Employment in Information Industry Down 11.5% Year over Year

Leisure and Hospitality as well as the Education and Health sectors had the largest year-over-year increases of any industry. The Information sector highlighted the largest decline year-over-year of any industry.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

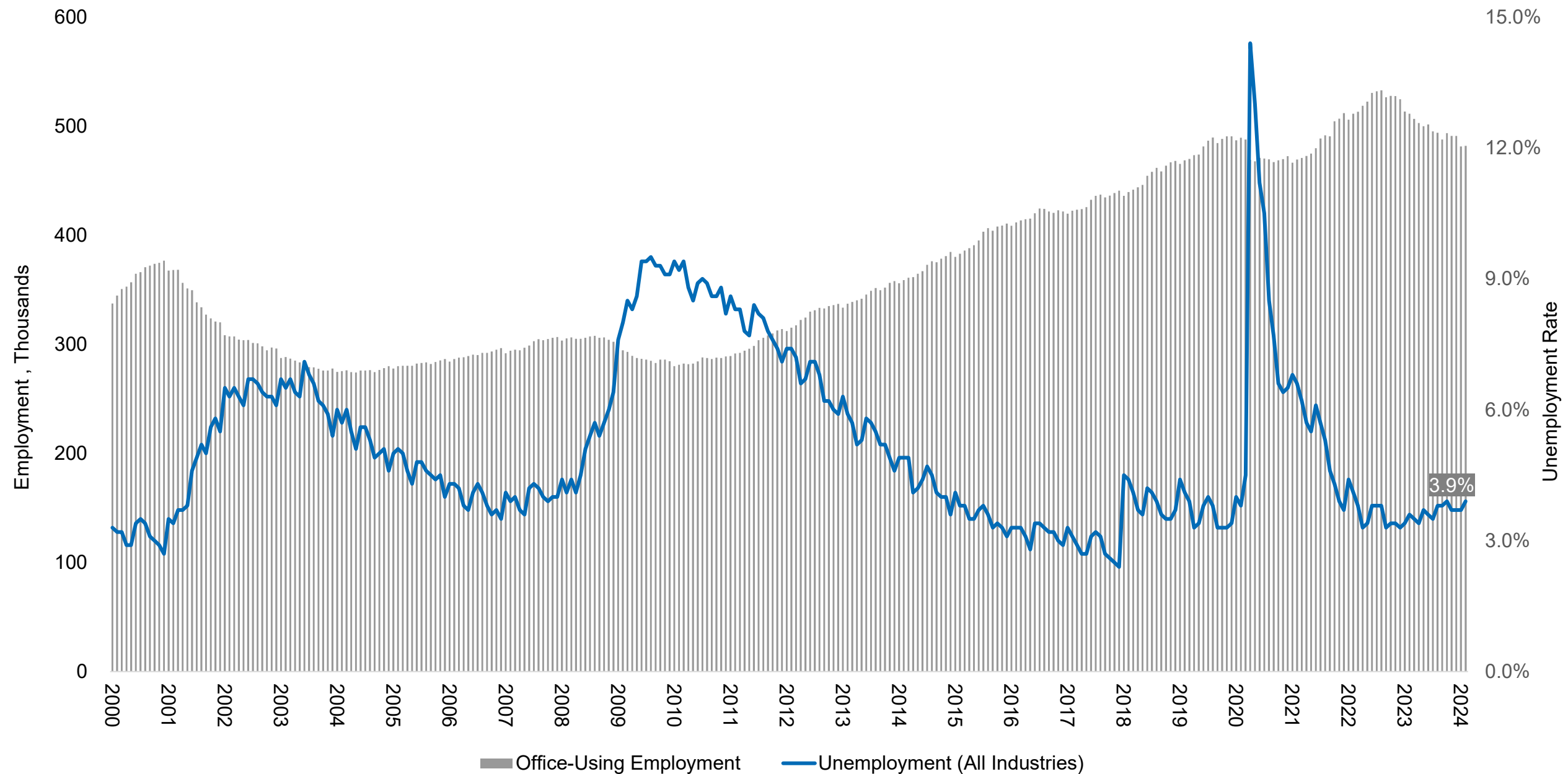


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

Overall Office-Using Employment Dips Below Pre-Pandemic Total

After surging above pre-pandemic totals for several quarters, total office-using employment is now 1.8% below the pre-pandemic mark and 9.6% lower than the 2022 highpoint.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

Note: November 2023 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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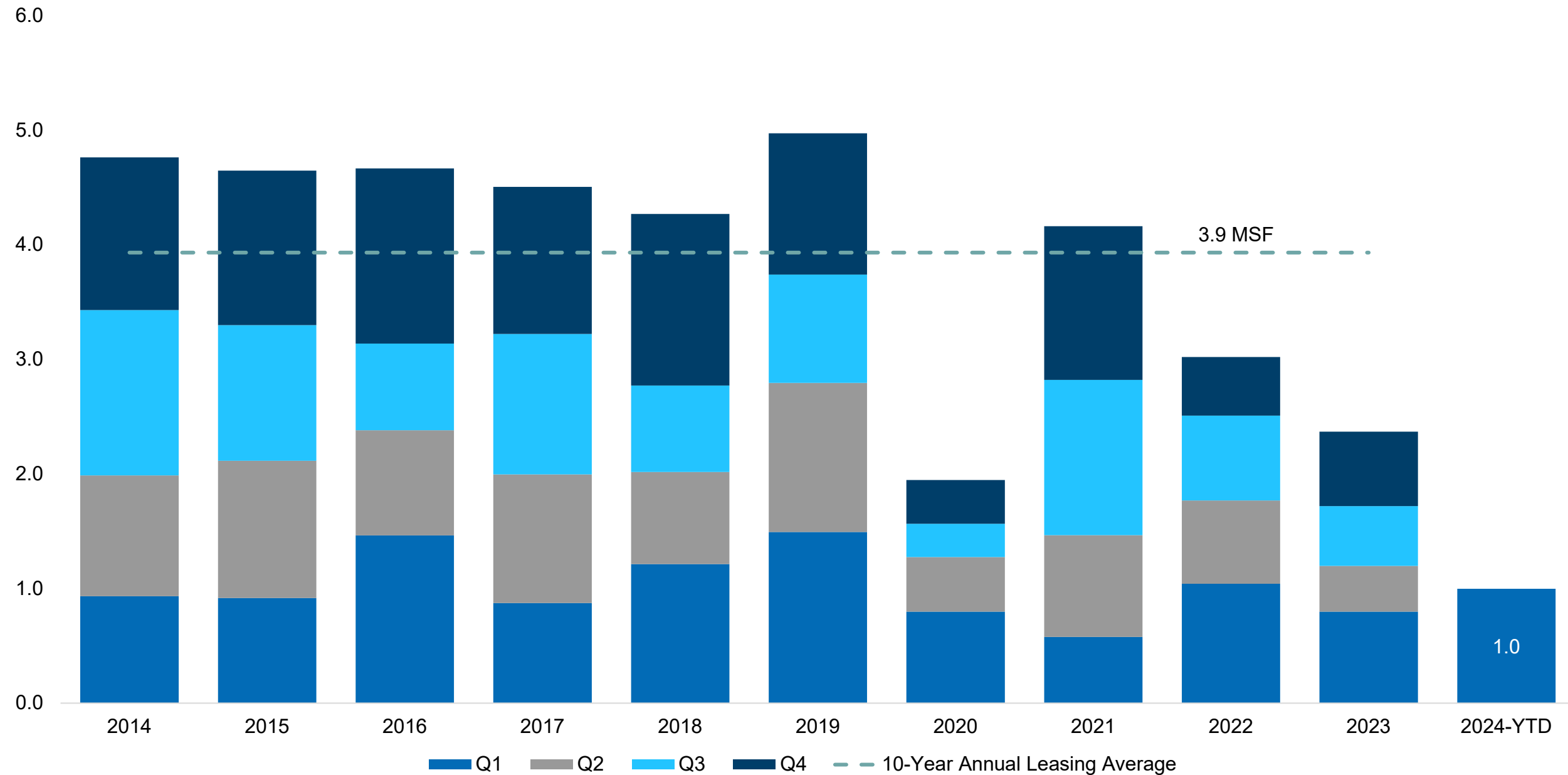
Leasing Market Fundamentals



Deal Velocity Continues to Rebound

Total leasing activity for the quarter measured 1.0 million SF, marking a 53.7% increase quarter-over-quarter and 25.0% increase year-over-year. Class A leasing accounted for 82% of the total amount of SF transacted this quarter, followed by Class B at 15% and Class C at 3%. This follows a quarter in which Class A leasing accounted for 80% of the total amount of space transacted, followed by Class B at 13% and Class C at 7%.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

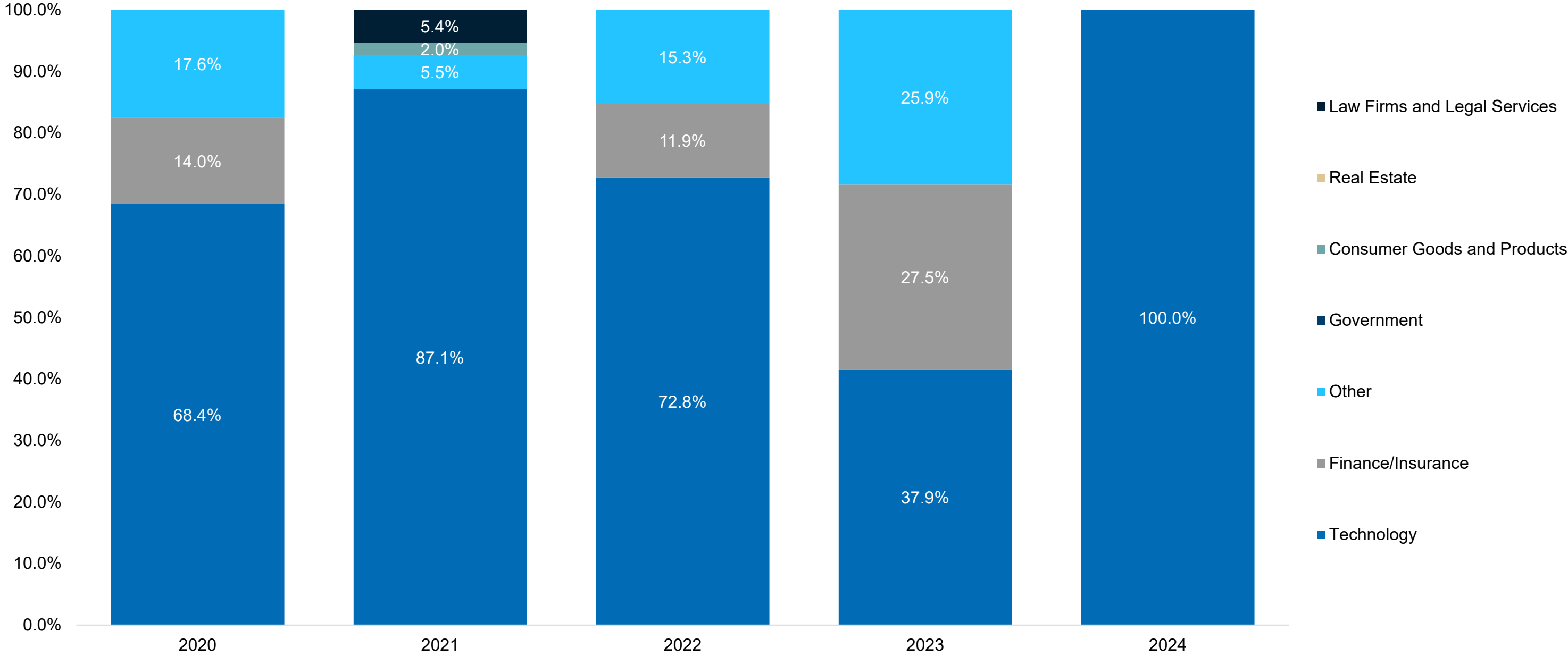


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Tech Rebounds to Start the Year

The largest leases signed in the first quarter of 2024 were all executed by tech tenants.

Percentage of Total SF Leases Among Leases Greater than 25,000 SF

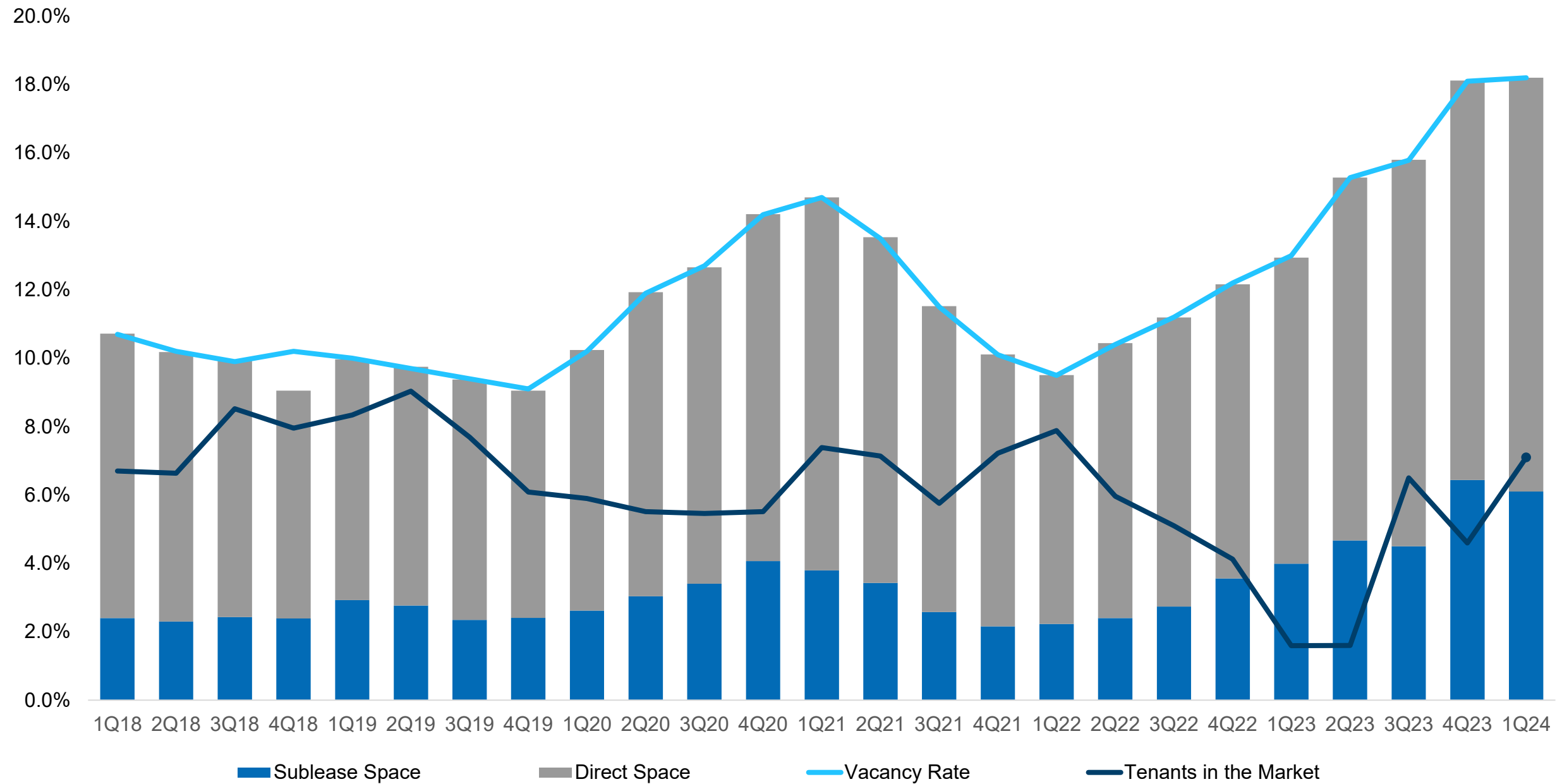


Source: Newmark Research

Active Tenant Demand Inches Higher

Tenant demand increased to 2.86 million SF this quarter, up from 1.84 million in the previous quarter and 649 KSF one year ago.

Vacant Space and Active Tenant Demand as Percent of Overall Market



Source: Newmark Research

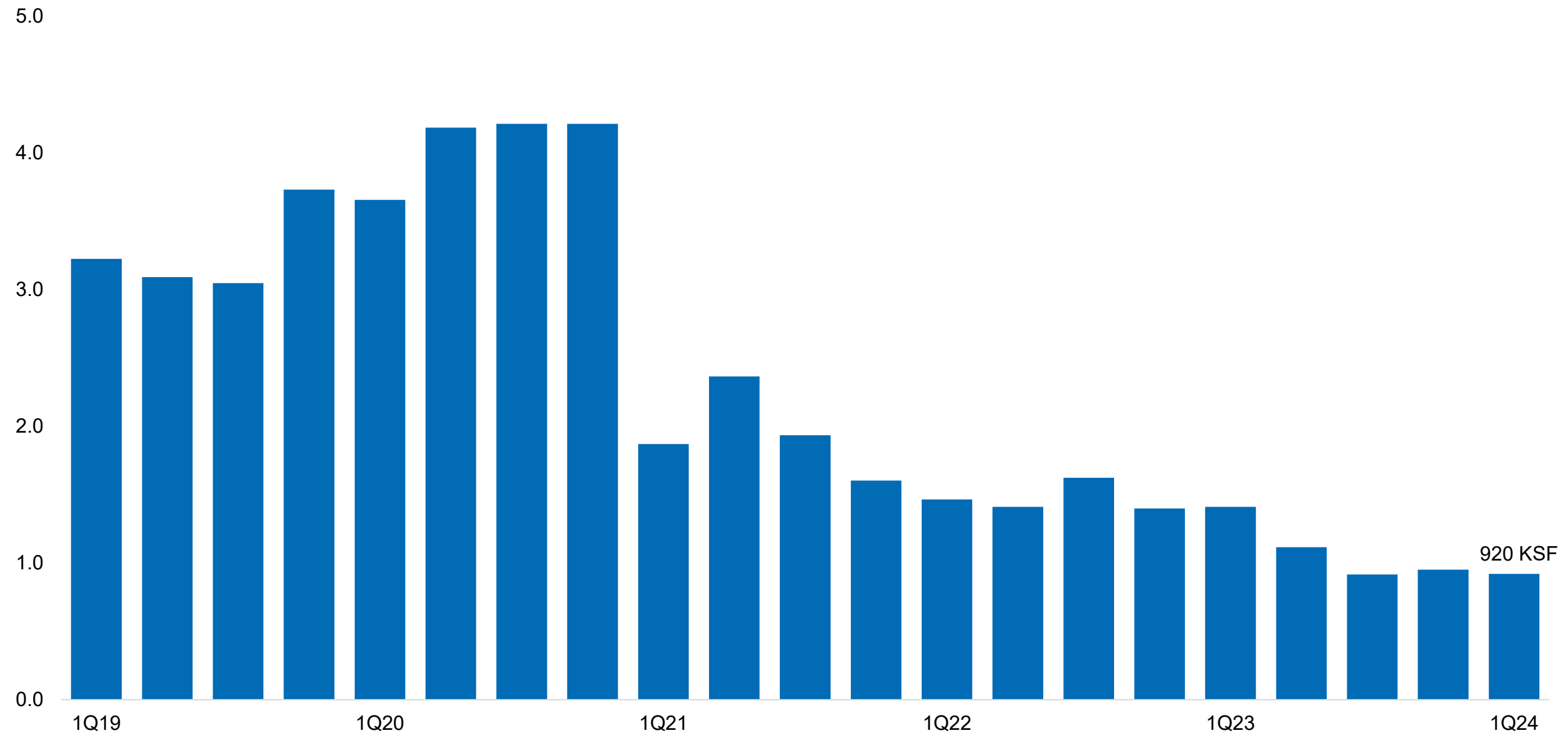


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Construction Activity Remains Flat

The total volume of under-construction product in the North Peninsula market decreased in the first quarter of 2024 and was recorded as 920,000 SF, with 28.6% of that under-construction figure already released. Development remains historically low, with 67.7% of ongoing construction located in Downtown submarkets. On the completion side, 300 S. Ellsworth Avenue in Downtown San Mateo was delivered fully vacant this quarter.

Office Under Construction (MSF)





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1Q24 Market Activity

There were 12 transactions 20,000 SF or greater executed this quarter, compared with five in the previous quarter and 11 one year ago.

Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Roblox	3050 S. Delaware St	San Mateo	Sublease (Lease Assignment)	133,137
<i>Online gaming company Roblox completed the largest deal of the quarter, subleasing 133,137 square feet from Momentive in Station 4 of the Bay Meadows project.</i>				
Momentive	1 Franklin Parkway- Bldg. 910	San Mateo	Sublease (Lease Assignment)	61,773
<i>Cloud-based software company Momentive completed the second-largest deal of the quarter, subleasing 61,773 square feet from Roblox in the Franklin Templeton project in San Mateo.</i>				
Odoo	8000 Marina Blvd	Brisbane	Direct Lease	57,512
<i>Business management software company Odoo leased 57,512 square feet at 8000 Marina Blvd. in Brisbane for the third-largest deal of the quarter.</i>				
Poshmark	203 Redwood Shores Parkway	Redwood Shores	Lease Renewal	50,327
<i>Social commerce company Poshmark completed the fourth-largest deal of the quarter, renewing their 50,327-square foot lease on the seventh and eighth floor at 203 Redwood Shores Parkway through December 2029.</i>				
Replit	1001 E. Hillsdale Blvd	Foster City	Direct Lease	48,815
<i>Software creation company Replit completed the fifth-largest deal of the quarter, leasing the fourth floor at 1001 E. Hillsdale Blvd. in Foster City through May 2027.</i>				

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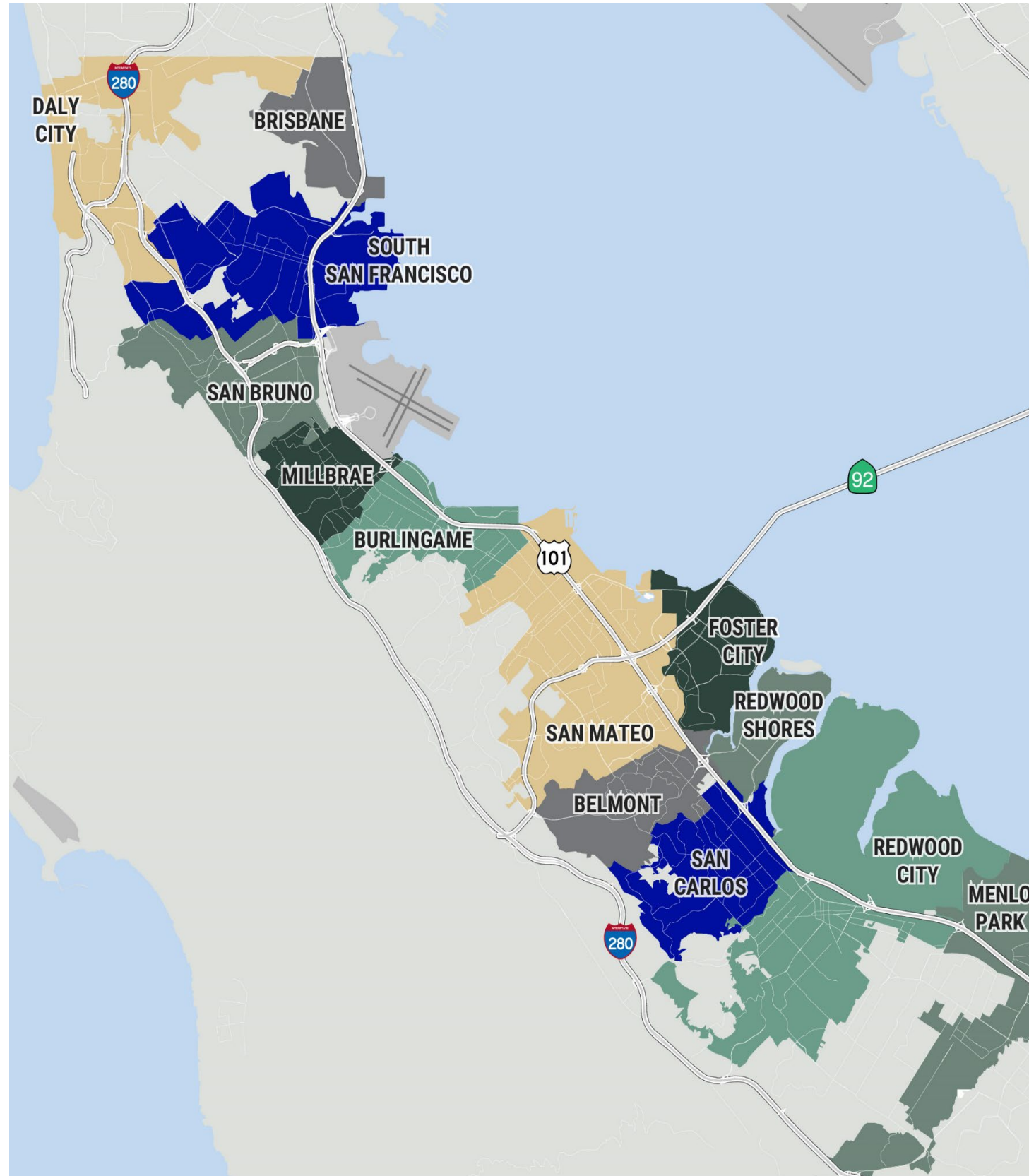
Appendix





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North Peninsula- Submarket Map



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