



RESEARCH 2Q 2021

# North Peninsula Office Market

## Rise in Market Activity, Positive Net Absorption and the Repositioning of Office Assets Highlight the Second Quarter of 2021

For the first time in five quarters, the North Peninsula office market recorded positive net absorption, finishing at 202,044 square feet. The overall asking rate remained steady at \$5.87/SF Full Service, while the Class A rate continued to set record highs, ending at \$6.22/SF, up slightly from \$6.21/SF in the previous quarter. Market-wide vacancy dropped to 13.5% this quarter, down from 14.7% in the previous quarter, while availability increased slightly to 15.2%, up from 14.9% in the previous quarter. On the sublease front, vacancy counted for 3.4% of the total inventory and 25.3% of the total vacancy, compared with 3.8% of the total inventory and 25.8% of the total vacancy in the previous quarter. Currently, the construction pipeline holds approximately 2.4 million square feet awaiting completion. Dostart Development's 220 Park Road office development in Downtown Burlingame is currently underway, with an anticipated delivery date in second-quarter 2023. The project will feature 170,000 square feet of Class A office space and 15,000 square feet of ground floor retail. On the delivery front, the largest completion of the quarter was Springline, a 211,324-square-foot Class A project located at 1300 El Camino Real in Menlo Park.

### Current Conditions

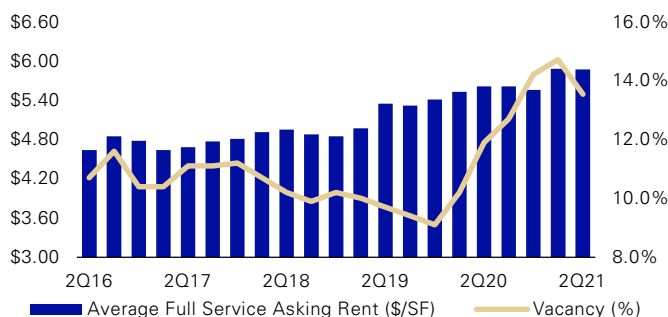
- North Peninsula tenants leased 888,155 square feet this quarter, an increase of 53.8% from 577,680 square feet in the previous quarter
- The quarter's average Class B and Class C asking rents were recorded at \$5.14/SF and \$3.98/SF Full Service, respectively.
- Tenant demand decreased slightly by 3.7% to 3.0 million square feet this quarter.
- Sublease vacancy was recorded at 3.4%, down from 3.8% in the prior quarter.

### Market Summary

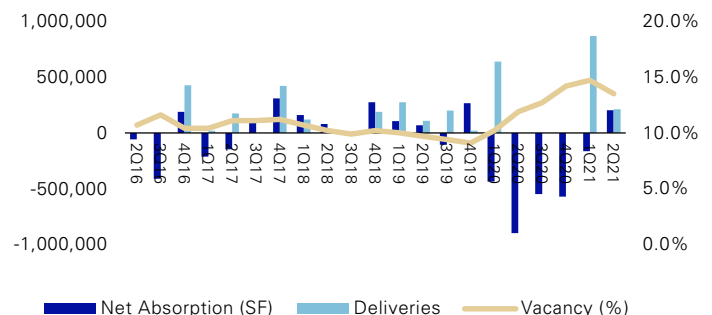
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	42.0M	41.9M	39.9M SF	↑
Vacancy Rate	13.5%	14.7%	11.9%	↑
Qtr Net Abs (SF)	202K	-163K	-896K SF	↑
Avg FS Ask Rent/SF	\$5.87	\$5.88	\$5.61/SF	↑
Under Const (SF)	2.4M	2.2M	4.0M SF	↓
Deliveries (SF)	211K	867K	0 SF	↑

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### Net Absorption v New Construction & Vacancy Rate



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Since the inception of the COVID-19 outbreak, the North Peninsula office market has not been immune to the countless headwinds that plagued the Bay Area over the last several quarters. Despite the challenging overall economic conditions, the North Peninsula life science market continued to outperform, recording robust market activity coupled with record-level rents quarter after quarter. Peninsula office asset owners in high-demand life science clusters who have been challenged by the countless headwinds of the pandemic have taken notice of the outsized demand and attractive premium rents. It's no surprise that the top five recorded sale transactions of the quarter were made by investors looking to reposition newly acquired assets to laboratory facilities to capitalize on this growing sector. With vaccines now widely available, a Bay Area economy that is close to operating at normal capacity and a shifting market presenting

new creative opportunities, all indicators point to a continued strong recovery in the second half of 2021.

### Market Activity

Leasing volume in the second quarter was recorded at 888,155 square feet, up from 577,680 square feet in the previous quarter and up from the pandemic lows one year ago, where leasing activity totaled just 477,068 square feet in second-quarter 2020. There were 10 transactions greater than 20,000 square feet executed this quarter, compared with eight in the previous quarter. A confidential tenant who signed a nondisclosure agreement to remain nameless completed the largest transaction of the quarter, expanding into 128,883 square feet at 4000 East Third Avenue in Foster City.

### Select Lease/User Transactions

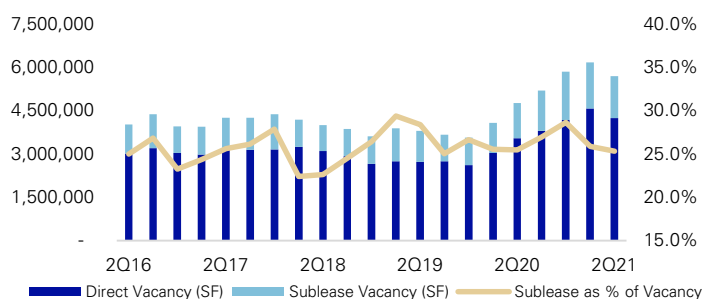
Tenant	Building(s)	Submarket	Type	Square Feet
Confidential Tenant	4000 E. Third Ave	Foster City	Lease Expansion	128,883
Verkada	406 E. Third Ave	San Mateo	Direct Lease	116,122
IXL Learning	777 Mariners Island Blvd	San Mateo	Renewal/Expansion	66,932
Confidential Tenant	1200 Park Place	San Mateo	Direct Lease	62,392
Fanatics	1 Franklin Parkway Bldg. 910	San Mateo	Lease Renewal	47,135

### Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
Burlingame Bay Center	Burlingame	\$170,000,000	\$319	533,000
2001 Junipero Serra Blvd	Daly City	\$168,600,000	\$440	383,123
901 & 951 Mariners Island Blvd	San Mateo	\$154,600,000	\$629	245,623
2929 & 2955 Campus Dr	San Mateo	\$118,000,000	\$510	231,212
1720 El Camino Real	Burlingame	\$64,400,000	\$644	100,000

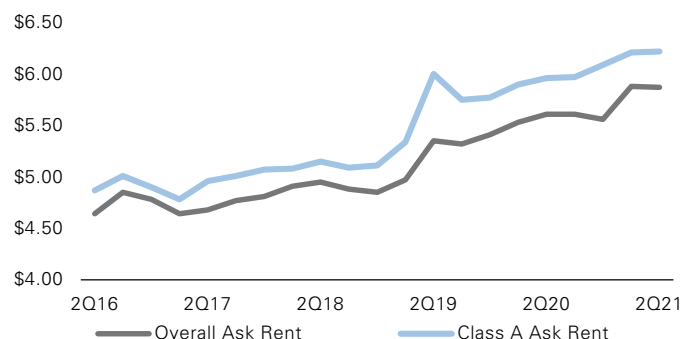
### Vacancy Breakdown

#### SUBLEASE V. DIRECT VACANCY (SF)



### Average Asking Rents

#### WEIGHTED, FULL SERVICE, MONTHLY



Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total FS Asking Rent (Price/SF)	Class A FS Asking Rent (Price/SF)
<b>Belmont</b>	<b>948,962</b>	<b>0</b>	<b>9.82%</b>	<b>9.82%</b>	<b>9,200</b>	<b>6,200</b>	<b>\$4.65</b>	<b>\$4.65</b>
<b>Brisbane</b>	<b>568,265</b>	<b>0</b>	<b>22.57%</b>	<b>22.57%</b>	<b>0</b>	<b>-11,945</b>	<b>\$4.38</b>	<b>\$4.22</b>
<b>Burlingame</b>	<b>3,744,831</b>	<b>214,605</b>	<b>14.67%</b>	<b>15.67%</b>	<b>27,012</b>	<b>-31,123</b>	<b>\$4.94</b>	<b>\$5.55</b>
Downtown Burlingame	548,005	214,605	27.74%	27.86%	7,200	-9,939	\$7.62	\$8.00
<b>Daly City</b>	<b>1,287,321</b>	<b>0</b>	<b>8.29%</b>	<b>8.29%</b>	<b>660</b>	<b>0</b>	<b>\$3.84</b>	<b>\$4.65</b>
<b>Foster City</b>	<b>3,519,740</b>	<b>0</b>	<b>9.69%</b>	<b>9.69%</b>	<b>134,801</b>	<b>105,242</b>	<b>\$5.57</b>	<b>\$5.62</b>
<b>Menlo Park</b>	<b>6,579,180</b>	<b>681,503</b>	<b>11.71%</b>	<b>12.66%</b>	<b>139,139</b>	<b>80,185</b>	<b>\$9.92</b>	<b>\$10.48</b>
<b>Redwood City</b>	<b>6,111,876</b>	<b>696,217</b>	<b>10.78%</b>	<b>17.00%</b>	<b>48,910</b>	<b>9,537</b>	<b>\$6.26</b>	<b>\$6.30</b>
<b>Redwood Shores</b>	<b>4,699,134</b>	<b>0</b>	<b>12.84%</b>	<b>12.88%</b>	<b>68,837</b>	<b>27,586</b>	<b>\$5.03</b>	<b>\$5.07</b>
<b>San Bruno</b>	<b>1,713,151</b>	<b>0</b>	<b>1.69%</b>	<b>1.69%</b>	<b>0</b>	<b>0</b>	<b>\$4.06</b>	<b>\$4.26</b>
<b>San Carlos</b>	<b>984,458</b>	<b>0</b>	<b>21.45%</b>	<b>23.51%</b>	<b>19,877</b>	<b>-14,923</b>	<b>\$4.24</b>	<b>\$4.40</b>
<b>San Mateo</b>	<b>9,167,504</b>	<b>614,122</b>	<b>19.33%</b>	<b>21.73%</b>	<b>424,013</b>	<b>24,790</b>	<b>\$5.41</b>	<b>\$5.74</b>
Downtown San Mateo	1,573,973	181,122	23.80%	24.99%	164,209	18,535	\$6.94	\$7.75
<b>South San Francisco</b>	<b>2,693,548</b>	<b>0</b>	<b>14.90%</b>	<b>15.01%</b>	<b>15,706</b>	<b>6,495</b>	<b>\$3.93</b>	<b>\$4.21</b>
<b>NORTH PENINSULA</b>	<b>42,017,970</b>	<b>2,364,141</b>	<b>13.54%</b>	<b>15.21%</b>	<b>888,155</b>	<b>202,044</b>	<b>\$5.87</b>	<b>\$6.22</b>

*For more information:*

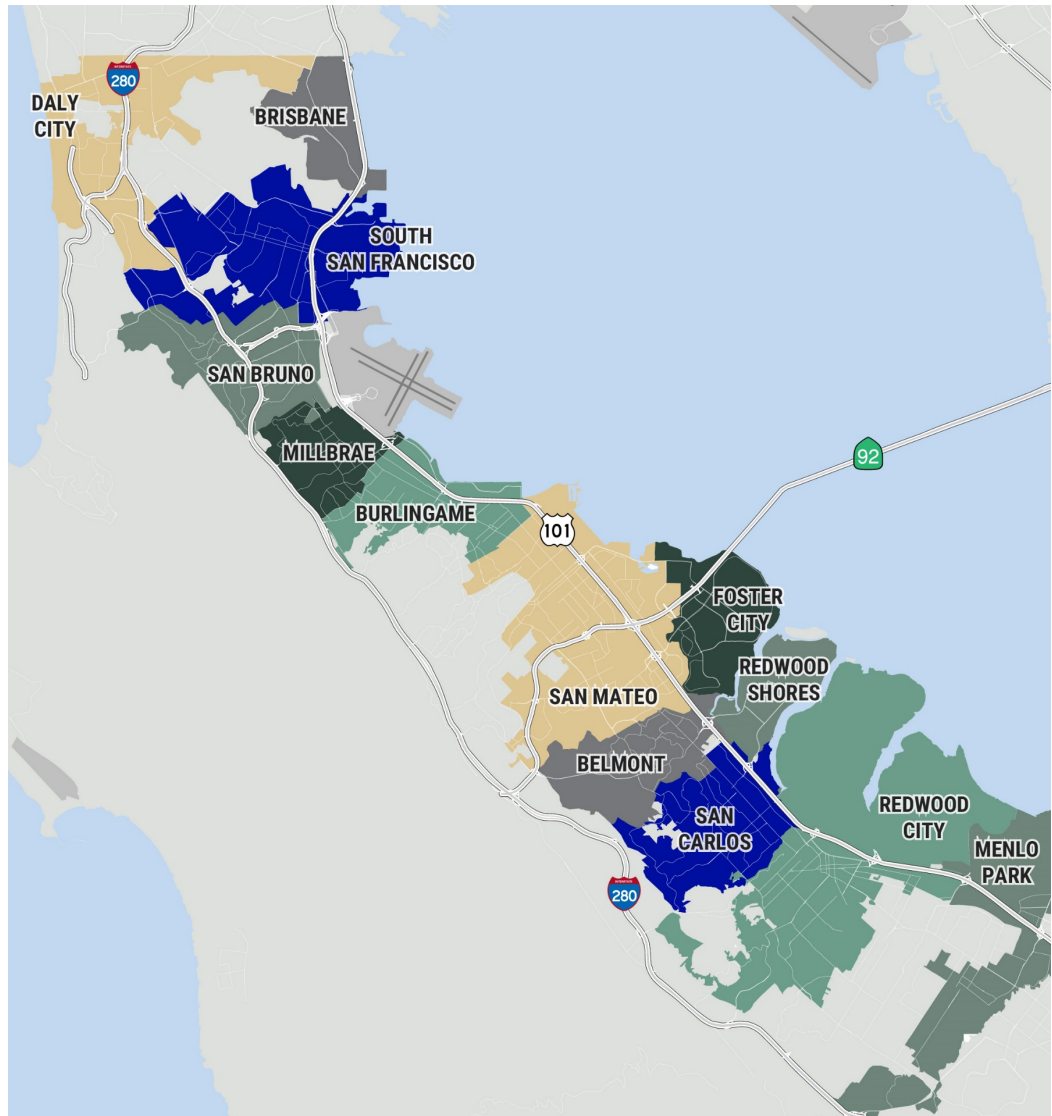
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