



North Peninsula Office Market

Inventory Continues to Rise, Paving the Way for a Friendly Occupiers Market as Companies Reevaluate Office Portfolios

Flight to quality continues to be a sustained trend in the North Peninsula market, placing a higher demand on elite space, which in turn is keeping asking rents at a premium while also widening the gap in pricing between Class A space and commodity Class B and Class C space. As companies continue to offload portions of their real estate footprints and adjust to the evolving pandemic-related shift towards hybrid workplace strategies, a well-located highly-amenitized workplace is essential for attracting and retaining quality employees. Net effective rents continue to experience downward pressure due to generous concession packages throughout the Peninsula aimed at attracting and retaining tenancy. Market-wide vacancy increased to 11.2% this quarter, up from 10.4% in the previous quarter but down slightly from 11.5% one year ago. On the sublease front, vacancy counted for 2.7% of the total inventory and 24.5% of the total vacancy this quarter, compared to 2.4% of the total inventory and 23.0% of the total vacancy in the previous quarter. In addition to the growing amount of sublease space on the market, expiring subleases are contributing to the increasing amount of direct space available. Landlords will look to leasing newly vacant space as employers consider altering their footprints as leases expire for higher-quality workspace. These current market conditions bode

Current Conditions

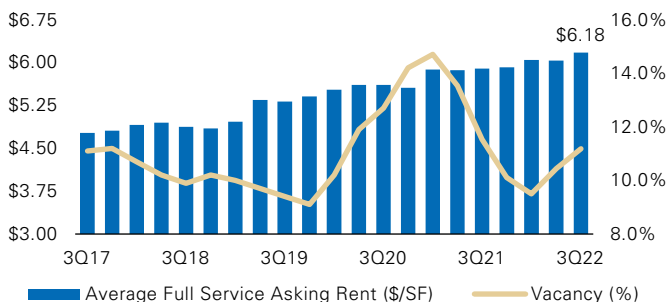
- Sublease vacancy was recorded at 2.7%, up from 2.4% in the prior quarter and up from 2.6% one year ago.
- The quarter’s average Class B and Class C asking rents were recorded at \$5.27/SF and \$3.83/SF Full Service, respectively.
- Tenant demand decreased by 16.0% to 2.1 million square feet this quarter, down from 2.5 million square feet in the previous quarter and down from 2.4 million one year ago.
- Class A leasing activity accounted for 71.0% of the total amount of square feet transacted this quarter.

Market Summary

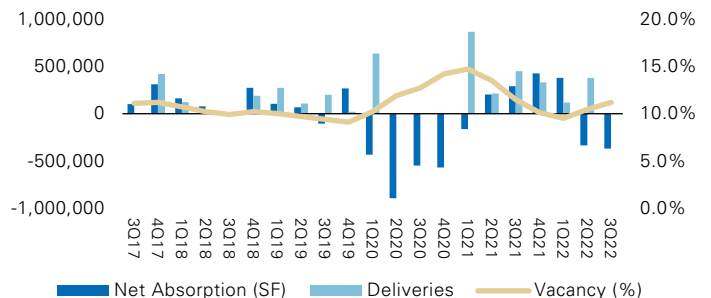
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	41.2M	42.0M	41.7M	→
Vacancy Rate	11.2%	10.4%	11.5%	↑
Qtr Net Abs (SF)	-369K	-336K	289K	↓
Avg FS AskRent/SF	\$6.18	\$6.04	\$5.90	↑
Under Const (SF)	1.6M	1.4M	2.1M	↑
Deliveries (SF)	0	378k	449K	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION V NEW CONSTRUCTION & VACANCY RATE



RESEARCH Q3 2022

well for tenants in the market seeking to occupy space as landlords continue to offer turnkey buildouts, favorable short-term deals and above-average free rent and tenant improvement packages, instead of reducing asset rents. Major companies opting for hybrid or fully-remote work policies will continue to be the new norm in the current environment; however, demand still remains, as return-to-the-office plans have regained momentum in the second half of the year.

Construction Pipeline

The North Peninsula development pipeline currently stands at 1.6 million square feet. Of that 1.6 million square feet, 40.0% is pre-leased or currently undergoing lease negotiations. Windy Hill's 198,572-square-foot Class A development located at 500 E. Third Ave. in Downtown San Mateo broke ground this quarter, with

occupancy scheduled for the second quarter of 2024.

Market Activity

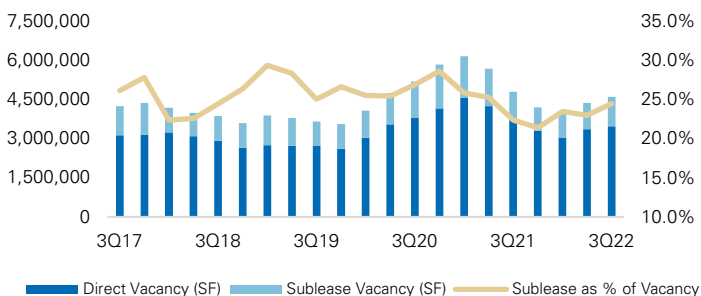
The North Peninsula leasing activity this quarter was consistent with the previous quarter, increasing slightly by 2.0% to 740,935 square feet of gross absorption recorded. Class A leasing accounted for 71.0% of the total amount of square feet transacted this quarter, followed by Class B at 27.0% and Class C at 2.0%. This follows a quarter in which Class A leasing accounted for 74.0% of the total amount of space transacted, which further demonstrates the market's ongoing appetite for high-quality and well-located office product. There were 10 transactions greater than 20,000 square feet executed this quarter, compared with four in the previous quarter and 13 one year ago.

Select Lease/User Transactions				
Tenant	Market	Building(s)	Type	Square Feet
E*Trade Financial Corporation	Menlo Park	4500 Bohannon Dr	Lease Renewal	63,078
Wells Fargo Bank	Menlo Park	1302 El Camino Real	Direct Lease	40,002
Kaiser Foundation	Daly City	2001 Junipero Serra Blvd	Lease Renewal	37,945
Luminary Cloud	San Mateo	101 S. Ellsworth Ave	Direct Lease	33,756
Auris Health	Redwood Shores	333 Twin Dolphin Dr	Lease Renewal	27,416
Biomea Fusion	Redwood City	900 Middlefield Rd	Sublease Renewal	27,003

Select Investment Sale Transactions				
Building(s)	Market	Sale Price	\$/SF	Square Feet
1 & 2 Circle Star Wy	San Carlos	\$111,795,000	\$537	207,896
150 N. Hill Dr	Brisbane	\$49,800,000	\$697	71,404
2191 S. El Camino Real	San Mateo	\$3,750,000	\$586	6,400
151 Old County Rd	San Carlos	\$3,090,900	\$515	6,000

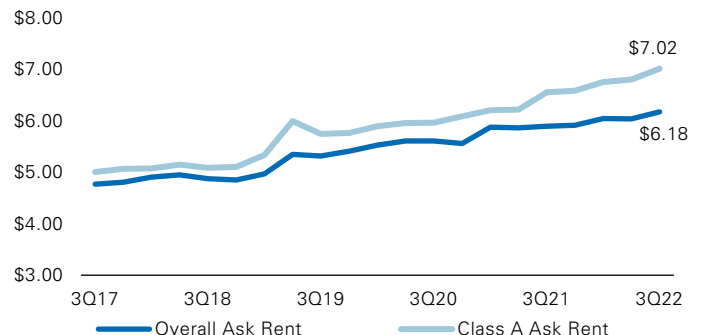
Vacancy Breakdown

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)
Belmont	766,299	0	17.99%	25.04%	0	(9,629)	\$3.93	\$3.93
Brisbane	496,861	0	10.64%	11.54%	26,506	0	\$4.95	\$4.95
Burlingame	3,633,242	492,543	7.08%	8.44%	24,321	(10,150)	\$4.49	\$5.54
Downtown Burlingame	550,320	229,605	10.70%	10.88%	3,116	(14,298)	\$7.73	\$9.03
Daly City	904,198	0	3.54%	4.56%	37,945	0	\$3.12	-
Foster City	3,526,863	0	6.56%	7.99%	21,182	(45,172)	\$6.02	\$6.13
Millbrae	330,874	0	53.46%	55.37%	1,247	0	\$3.27	\$7.60
Menlo Park	6,495,890	154,000	11.58%	13.92%	246,102	(4,022)	\$10.49	\$10.95
Downtown Menlo Park	1,306,949	154,000	15.60%	19.39%	60,451	40,088	\$10.45	\$11.69
Redwood City	6,134,496	432,000	13.64%	16.15%	73,593	(72,415)	\$6.86	\$7.64
Downtown Redwood City	2,905,556	432,000	20.28%	24.78%	50,144	(57,647)	\$7.86	\$8.96
Redwood Shores	4,699,134	0	8.83%	9.53%	86,659	(93,572)	\$5.90	\$5.93
San Bruno	1,713,151	0	3.03%	3.54%	965	(18,094)	\$4.24	-
San Carlos	1,011,571	32,611	24.30%	46.86%	6,613	3,564	\$4.51	\$4.75
San Mateo	9,207,148	512,126	13.17%	16.22%	169,350	(139,935)	\$5.38	\$6.05
Downtown San Mateo	1,692,714	293,572	14.02%	16.30%	51,501	(797)	\$6.23	\$7.69
South San Francisco	2,267,148	0	9.11%	12.60%	46,452	20,358	\$4.01	\$4.30
NORTH PENINSULA	41,186,875	1,623,280	11.19%	13.88%	740,935	(369,067)	\$6.18	\$7.02

For more information:

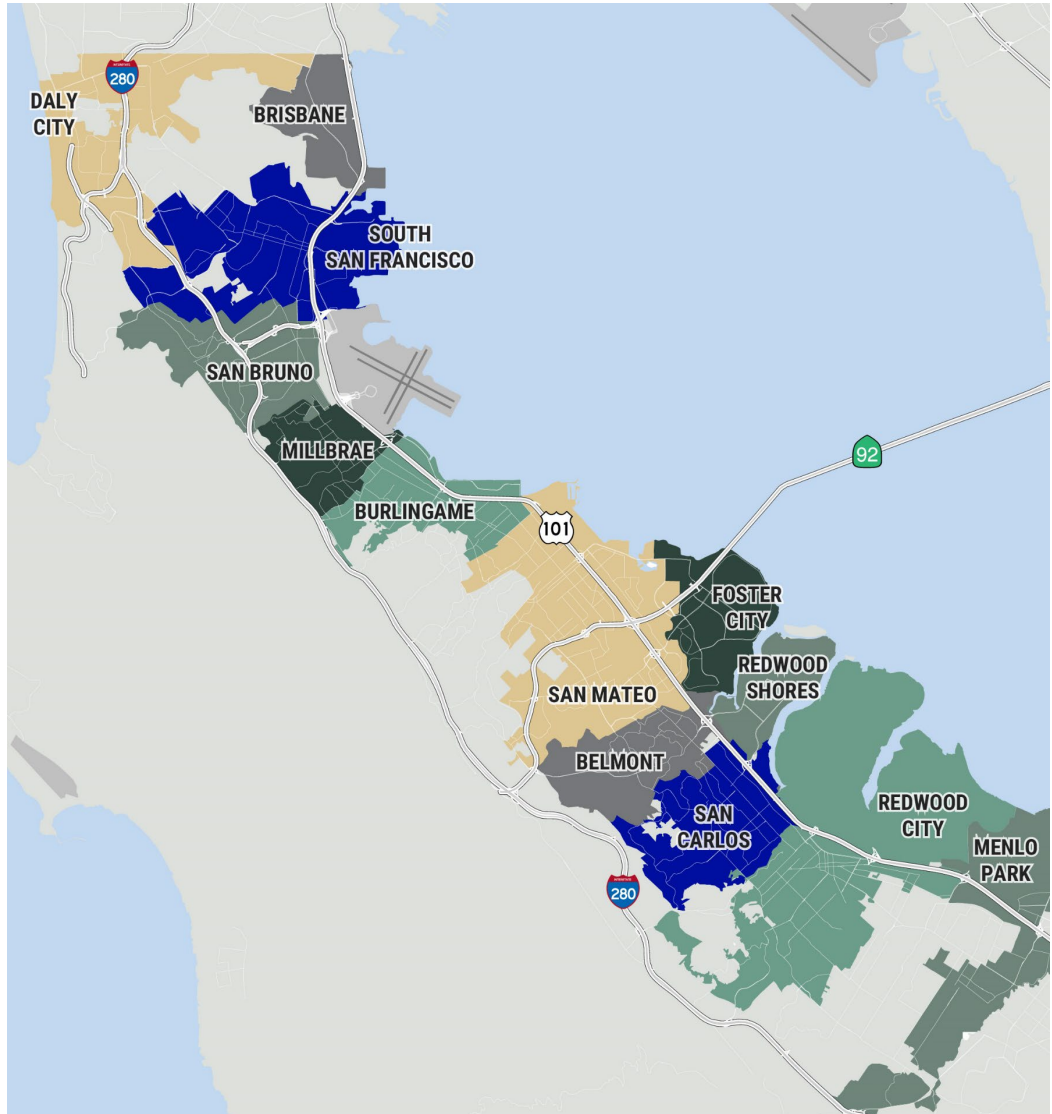
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