



South Peninsula R&D Market

Leasing Activity Remains Flat from Previous Quarter; Pushes South Peninsula to Negative Net Absorption for Only Second Time in Last Six Quarters

In the third quarter of 2022, the South Peninsula’s overall gross absorption was slightly lower than the previous quarter but equal in transaction volume; however, the leasing activity for the first three quarters of 2022 is approximately 50.0% less square footage than what was leased in the last three quarters of 2021. The South Peninsula market saw approximately 450,000 square feet of total leasing and pushed the region to negative net absorption of approximately 283,000 square feet for only the second time in the last six quarters.

As the third quarter of 2022 concludes, there are some questions as to the demand remaining this year for large blocks of R&D availability, especially as it relates to the Stanford Research Park, where the vacancy rate increased for the second straight quarter. The public markets have beat up companies in the tech, life science and automotive sectors, where most have suffered tremendous declines in valuations. Not surprisingly, this has had a direct effect on their ability and willingness to make long-term commitments to significant amounts of square footage. Growth will be slow for the near term as hiring slowdowns, hiring freezes and layoffs hit even some of the region’s highest-caliber tenants

Current Conditions

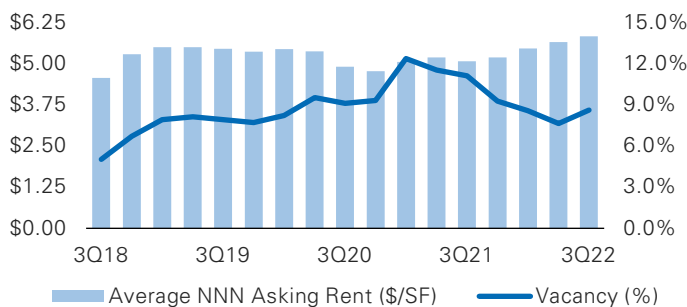
- The South Peninsula leasing activity is buoyed by lease expansions and renewals.
- The market loses some large R&D requirements as concerns grow about surrounding economic headwinds.

Market Summary

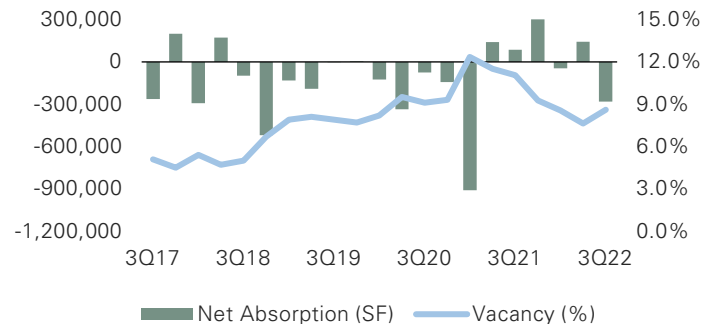
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	27.3M	27.3M	26.9M	→
Vacancy Rate	8.6%	7.6%	11.5%	↑
Qtr Net Abs (SF)	-283K SF	142K SF	141K SF	↓
Avg NNN Ask Rent/SF	\$5.82/SF	\$5.65/SF	5.18/SF	↓
Under Const (SF)	623K SF	22K SF	0 SF	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH 3Q 2022

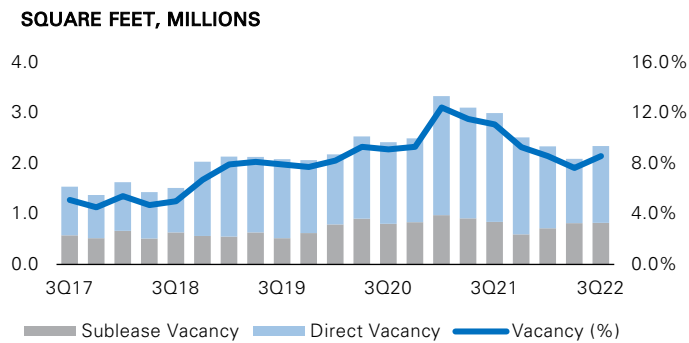
The Palo Alto submarket had 182,000 square feet of leasing, the most on the South Peninsula for the third quarter of 2022. That number is largely attributed to Tesla's continued expansion in the Stanford Research Park. It continued to expand at 1501 Page Mill Rd. with an additional 125,000 square feet leased at that location, the largest R&D transaction of the quarter. The South Peninsula accumulated 24 total transactions in the third quarter of 2022, and 10 of those transactions were above 12,000 square feet. In addition to Tesla's expansion in the Stanford Research Park, Altos Labs continues to expand at Longfellow's Redwood Life project with a 92,000-square-foot transaction this quarter.

The South Peninsula average asking rate continues to increase. At \$5.82/SF, it is the highest rate since late in the year 2000.

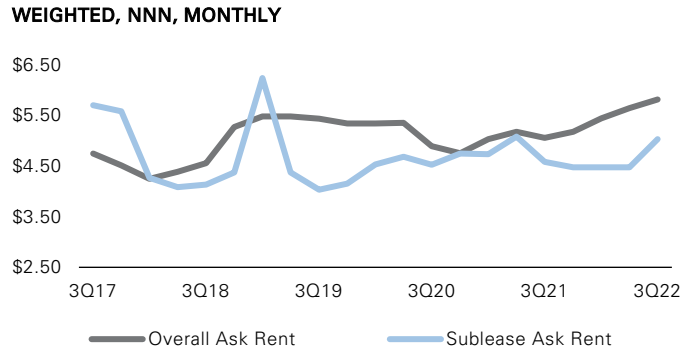
Outlook

As companies hit the reset button, reevaluate their real estate holdings and look for more certain times in the future, slowing growth will continue to be the norm. The return of the sense of urgency towards transacting only occurs with stability in the broader economic markets. The Bay Area is facing some near-term challenges that were unexpected at the start of the year. The current environment makes it extremely hard to predict, but the hope is the market will see increased demand as mid-next year approaches.

Vacancy Breakdown



Average Asking Rents



Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Tesla	1501 Page Mill Rd	Palo Alto - Stanford Research Park	Direct Lease	125,000
Altos Labs	2000 Bridge Pkwy	Redwood Shores	Renewal/Expansion	91,645
Databricks	381 E Evelyn Ave	Mountain View - South Middlefield	Sublease	47,853
SyntheKine, Inc	1505 O'Brien Dr	Menlo Park - Hwy 101 Industrial	Renewal/Expansion	34,509
EverCharge	450 Lambert Ave	Palo Alto - California Ave	Direct Lease	20,975
Undisclosed	2000 Bridge Pkwy	Redwood Shores	Direct Lease	15,110

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
1066 E Meadow Cir	Palo Alto - Bayshore	\$23,800,000	\$1,273	18,690

Overall Submarket Statistics									
	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
Menlo Park	3,536,803	88,973	35,897	2.52%	3.71%	44,702	-33,478	-1,926	\$4.44
Middlefield Road	257,981	17,338	6,238	6.72%	6.72%	0	-4,238	-6,238	\$4.50
Highway 101	3,278,822	71,635	29,659	2.18%	3.47%	44,702	-29,240	4,312	\$4.43
Mountain View	10,819,928	830,811	146,453	7.68%	8.12%	86,726	-125,520	-21,335	\$4.85
Central Expressway	1,787,067	96,217	19,080	5.38%	5.38%	3,106	-4,633	69,201	\$4.32
Shoreline	4,405,432	23,899	13,776	0.54%	0.54%	1,875	-125	4,799	\$3.04
South Middlefield	4,627,429	710,695	113,597	15.36%	16.39%	81,745	-120,762	-95,335	\$4.97
Palo Alto	9,469,134	1,141,881	509,396	12.06%	13.99%	182,050	-42,795	-87,922	\$6.36
Bayshore	2,081,076	49,453	19,453	2.38%	3.48%	21,674	-6,013	9,138	\$3.67
California Avenue	369,086	52,438	34,876	14.21%	14.21%	20,975	12,555	22,176	\$6.50
Stanford Research Park	7,018,972	1,039,990	455,067	14.82%	17.10%	139,401	-49,337	-119,236	\$6.48
Redwood City	2,504,085	113,870	51,121	4.55%	5.52%	1,850	-28,678	-37,221	\$4.90
Downtown	61,192	1,650	0	2.70%	2.70%	1,850	1,850	1,850	\$2.25
Seaport	1,433,571	46,643	30,528	3.25%	3.25%	0	-30,528	-33,528	\$6.00
Southern Area	1,009,322	65,577	20,593	6.50%	8.90%	0	0	-5,543	\$4.74
Redwood Shores	1,011,533	165,220	78,373	16.33%	17.79%	132,696	-52,432	-37,591	\$7.13
SOUTH PENINSULA	27,341,483	2,340,755	821,240	8.56%	9.70%	448,024	-282,903	-185,995	\$5.82

RESEARCH 3Q 2022

Historical Vacancy Rates								
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
South Peninsula	9.28%	12.35%	11.52%	11.06%	9.30%	8.54%	7.62%	8.56%
Menlo Park	3.03%	4.54%	4.48%	2.67%	1.74%	1.68%	1.56%	2.52%
Mountain View	7.77%	8.79%	8.57%	9.88%	9.03%	8.75%	6.90%	7.68%
Palo Alto	13.17%	18.66%	18.03%	17.44%	14.17%	11.77%	11.56%	12.06%
Redwood City	3.54%	6.04%	1.67%	1.67%	1.65%	4.01%	3.53%	4.55%
Redwood Shores	24.24%	32.99%	29.97%	15.99%	11.66%	11.14%	9.82%	16.33%

Historical NNN Asking Rents								
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
South Peninsula	\$4.76	\$5.04	\$5.18	\$5.06	\$5.18	\$5.45	\$5.65	\$5.82
Menlo Park	\$3.11	\$3.39	\$3.40	\$3.34	\$3.61	\$4.15	\$4.46	\$4.44
Mountain View	\$4.41	\$4.41	\$4.62	\$4.41	\$4.41	\$4.42	\$4.50	\$4.85
Palo Alto	\$5.28	\$5.52	\$5.49	\$5.49	\$5.86	\$6.05	\$6.34	\$6.36
Redwood City	\$2.25	\$4.72	\$4.83	\$4.34	\$4.45	\$4.67	\$4.85	\$4.90
Redwood Shores	\$4.88	\$5.76	\$6.35	\$6.50	\$6.33	\$7.30	\$7.31	\$7.13

Historical Net Absorption								
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
South Peninsula	-143,595	-909,844	140,958	85,939	411,834	-45,271	142,179	-282,903
Menlo Park	15,445	-53,349	2,156	26,441	30,612	20,490	11,062	-33,478
Mountain View	2,382	-150,114	14,244	-98,632	65,690	-27,067	131,252	-125,520
Palo Alto	-125,111	-557,794	5,844	17,727	302,223	-19,778	-25,349	-42,795
Redwood City	-44,092	-44,065	93,112	0	0	-20,593	12,050	-28,678
Redwood Shores	7,781	-104,522	25,602	140,403	13,309	1,677	13,164	-52,432

Historical Gross Absorption								
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
South Peninsula	205,871	451,652	948,475	1,103,012	760,370	386,516	491,454	448,024
Menlo Park	125,557	2,538	23,700	96,899	41,712	59,998	47,871	44,702
Mountain View	30,362	114,755	587,034	336,162	113,857	262,375	149,821	86,726
Palo Alto	3,088	296,859	132,502	241,180	410,825	21,136	213,726	182,050
Redwood City	39,083	0	179,637	180,125	102,361	29,121	15,050	1,850
Redwood Shores	7,781	37,500	25,602	248,646	91,615	13,886	64,986	132,696

For more information:

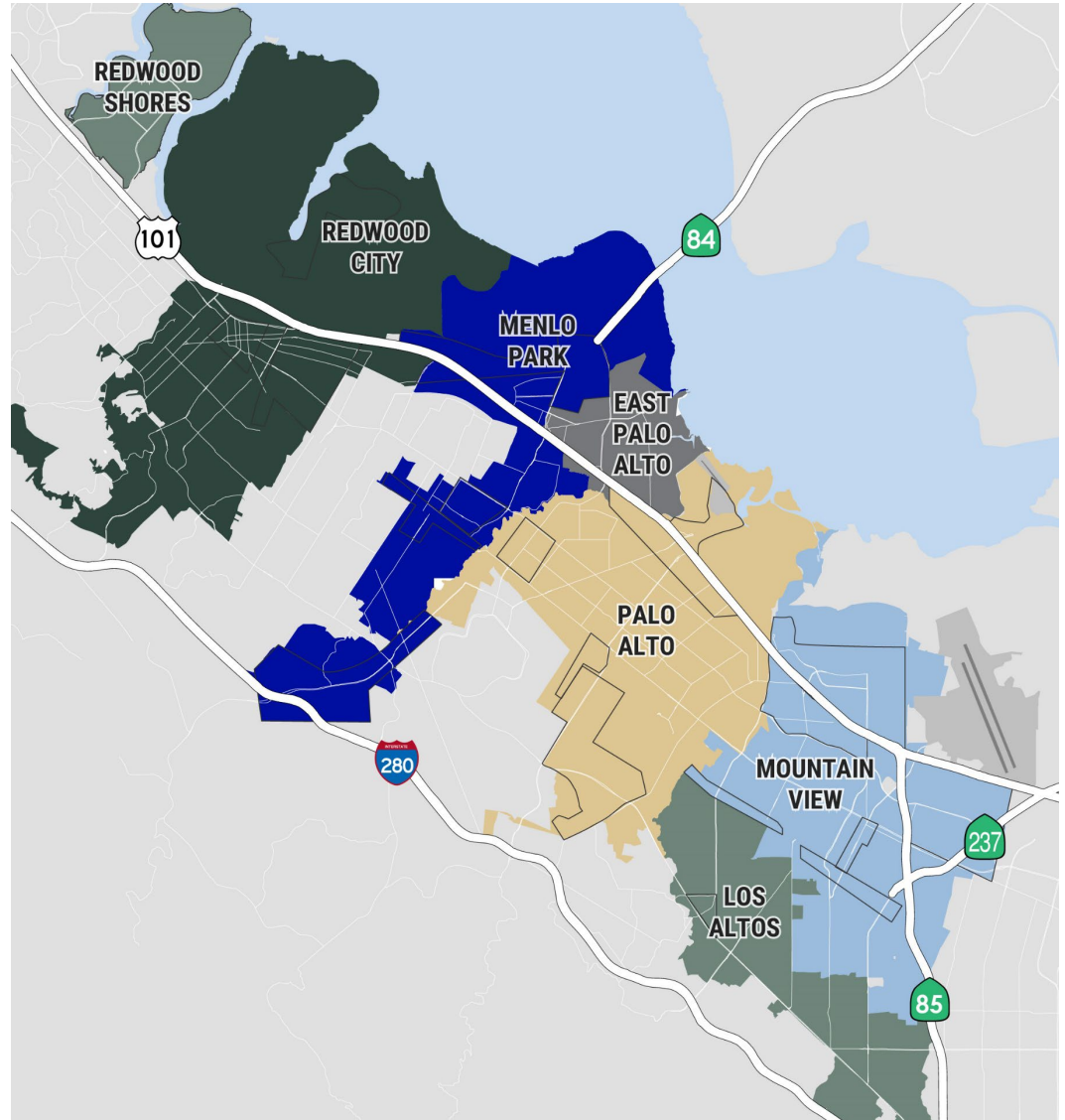
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