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3Q23

# North Peninsula Office Market Overview



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# Market Observations

## Economy

- The region’s labor market remained strong amid shifting macroeconomic conditions. August’s 3.5% unemployment rate was significantly lower than the 4.5% 10-year historical average.
- Year over year, job gains have been most pronounced in the services industry, which is still making up for lost ground during the pandemic. Leisure/hospitality led all sectors in job gains during the past 12 months.
- Technology firms are continuing to adjust labor needs. Locally, the information sector was the only office-using sector to see negative employment growth over the past 12 months.

## Major Transactions

- Robinhood completed the largest deal of the quarter, extending past the expiration of its current 65,435-square-foot sublease at 275 Middlefield Rd. in Menlo Park.
- Sequoia Capital completed the second-largest deal of the quarter, expanding into an additional 37,673 square feet at 2882 Sand Hill Rd. in Menlo Park.
- The largest sale of the quarter was made by North East Medical Services, which acquired 1710 Gilbreth Rd. in Burlingame from the California Society of CPAs for \$15.1 million, or \$438/SF. North East Medical will occupy the building and utilize the space for its own use.

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## Leasing Market Fundamentals

- Across all North Peninsula markets, net absorption for the quarter was recorded at negative 119,000 square feet, up from negative 1.0 million square feet in the previous quarter.
- Tenant demand increased to 2.63 million square feet this quarter, up from 660,000 square feet in the previous quarter and up from 2.1 million square feet one year ago.
- The 916,000-square-foot construction pipeline trended downwards in the third quarter of 2023 upon deceleration in new ground breakings.
- Market-wide vacancy increased to 15.8% this quarter, up from 15.3% in the previous quarter and up from 11.2% one year ago. On the sublease front, vacancy counted for 4.5% of the total inventory and 28.5% of the total vacancy this quarter, compared with 4.7% of the total inventory and 30.5% of the total vacancy in the previous quarter.

## Outlook

- Ownership groups are expected to continue capitalizing on the uptick in tenant demand by lowering asking rates in distressed assets.
- Spending on construction is expected to remain moderate to end the year and throughout 2024.
- Peak interest rates and the pullback in venture capital funding will continue to cause uncertainty for occupiers in the immediate future.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables



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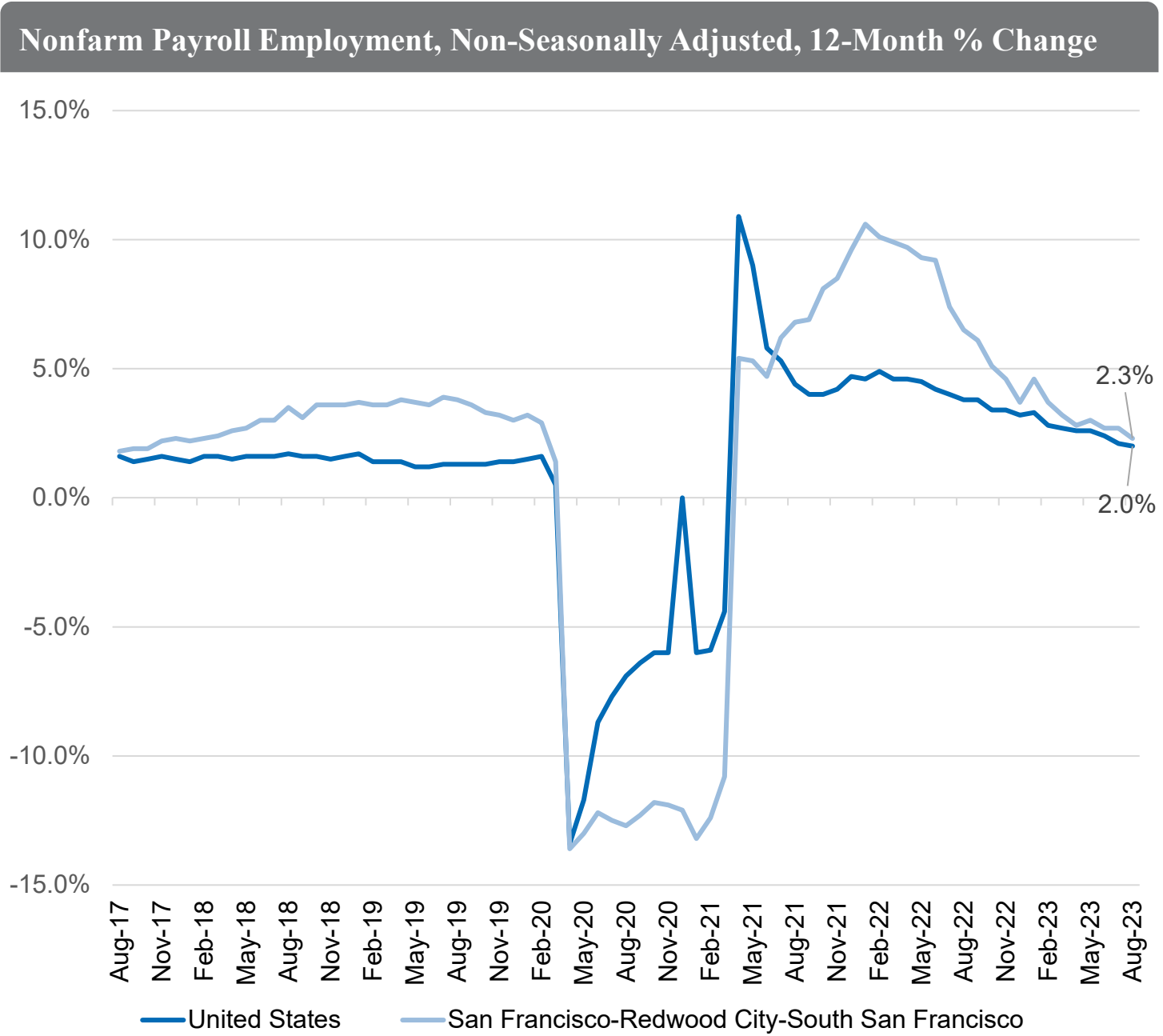
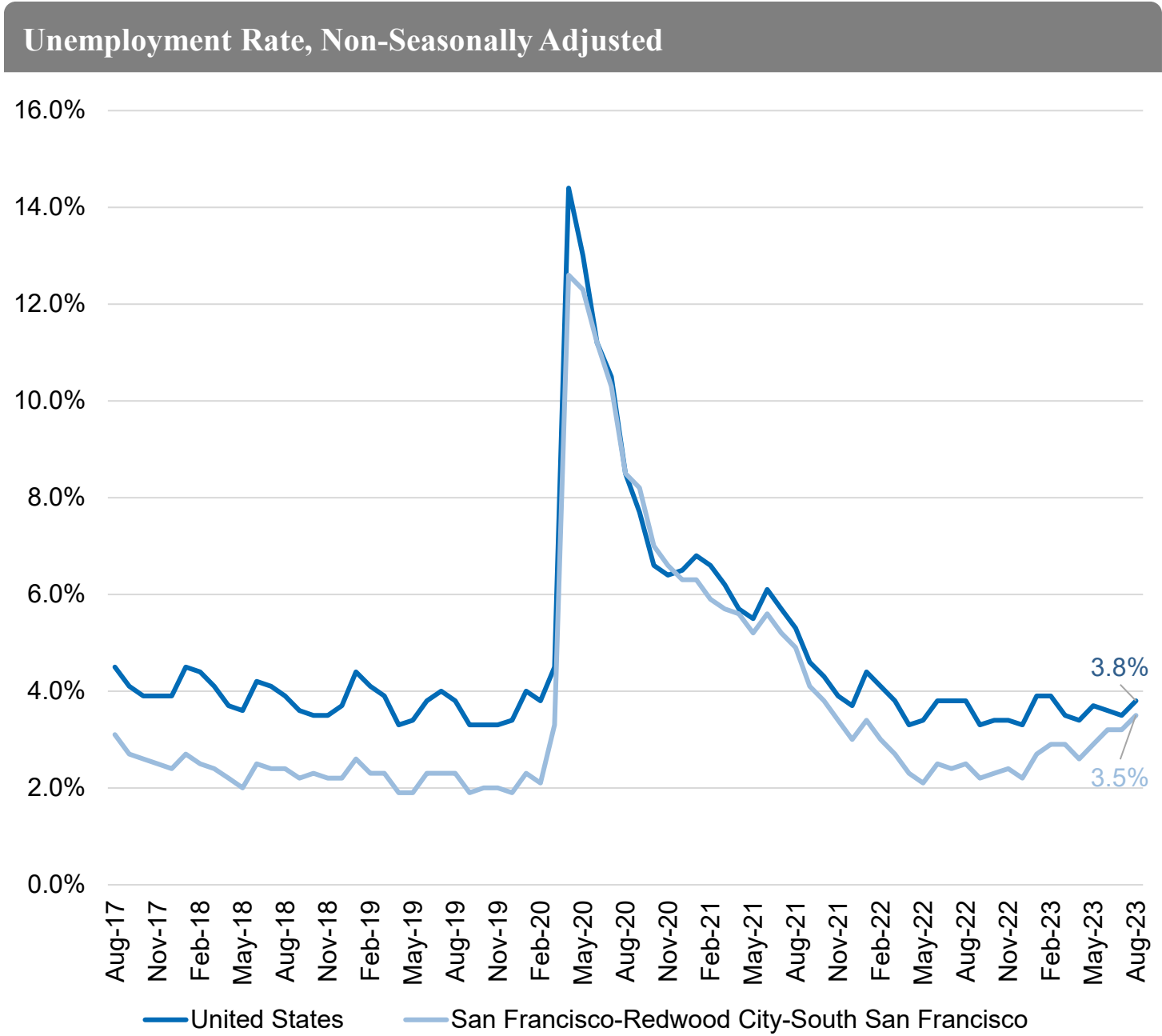
# Economy





# Metro Employment Trends Signal a Slowing, Tighter Economy

The region's labor market remains on relatively solid footing, while the annual job growth rate has slowed to near the national average.

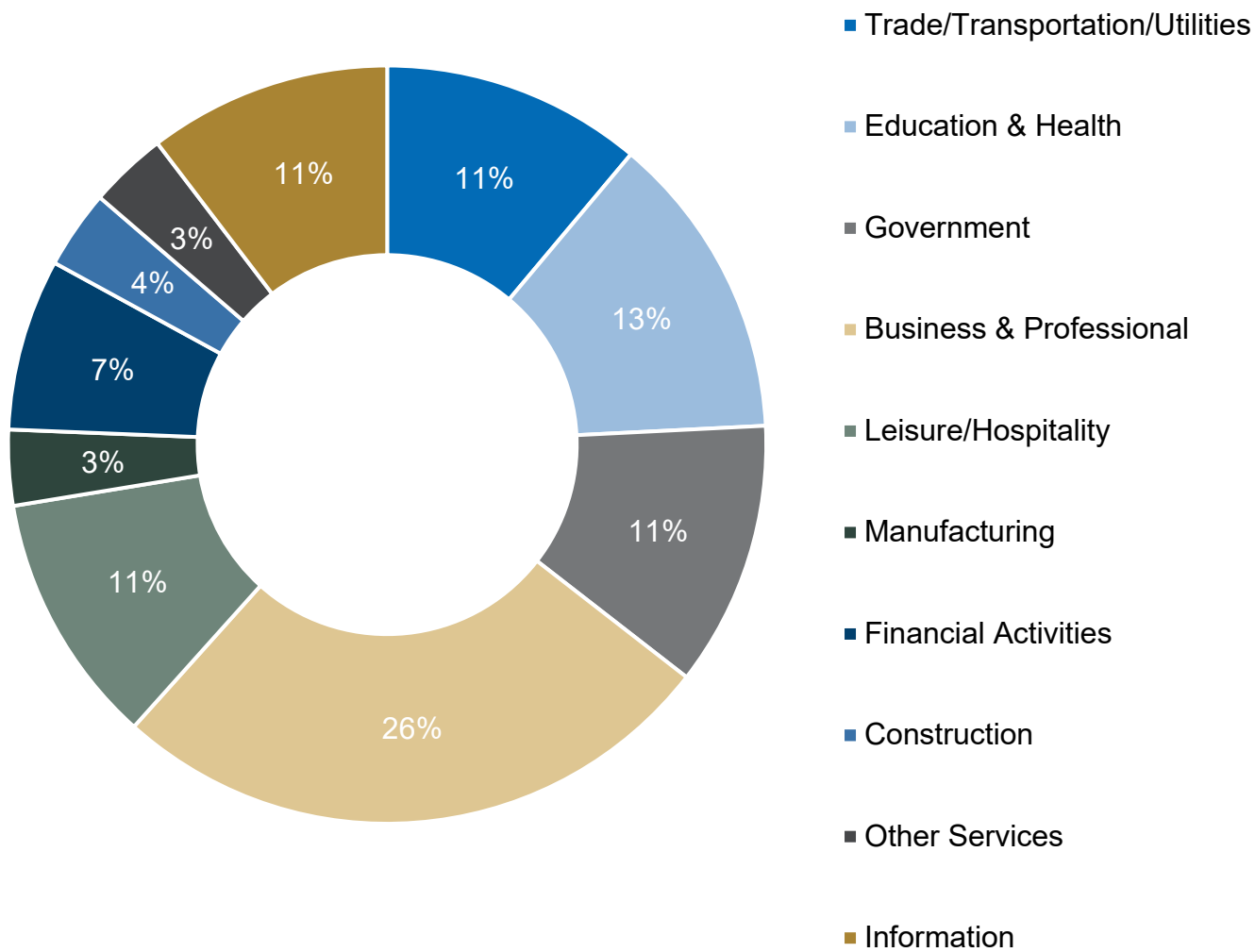


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

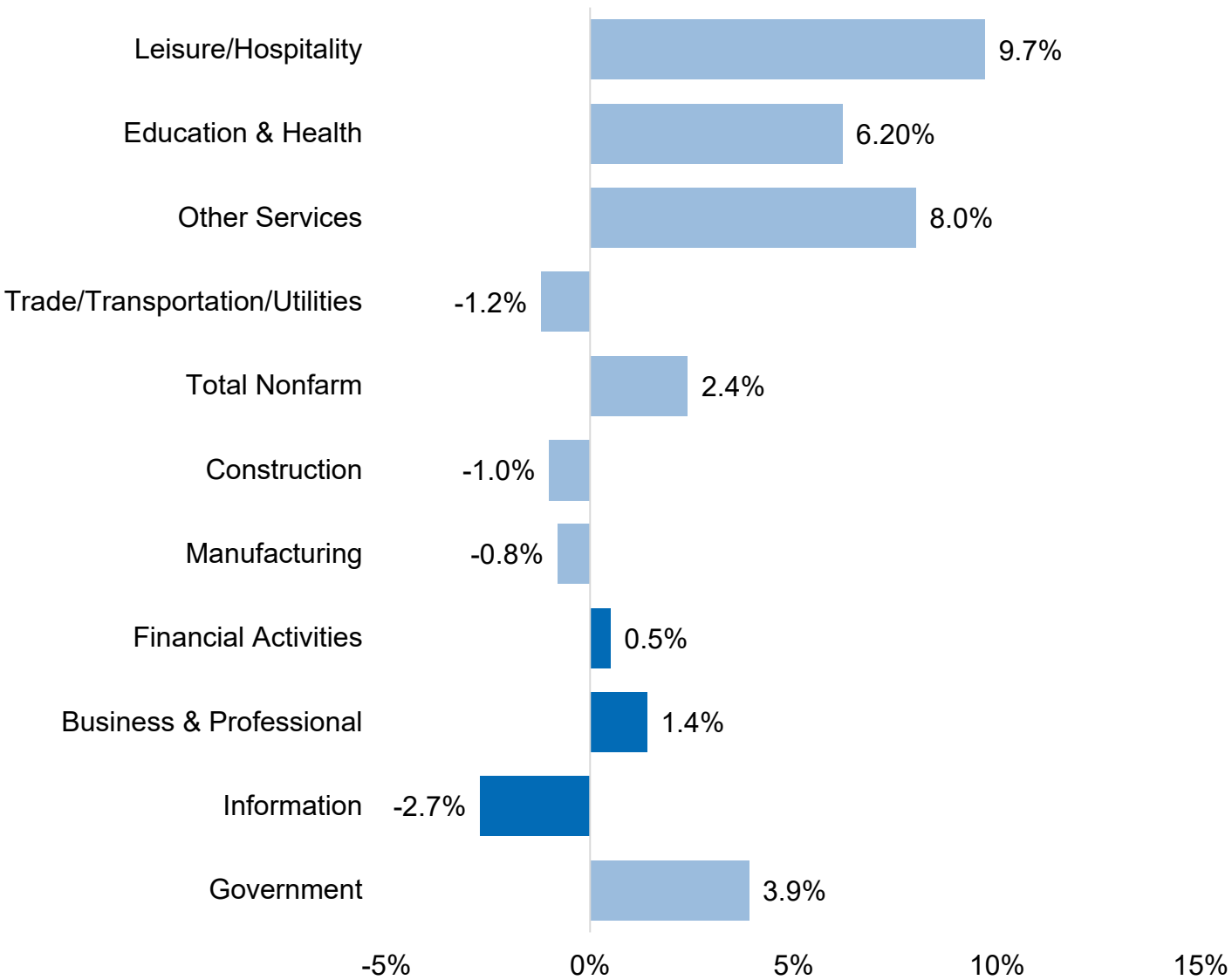
# Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth, underlining an industry still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services. Office-occupying or adjacent industries all saw annual job gains, except for the information sector.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

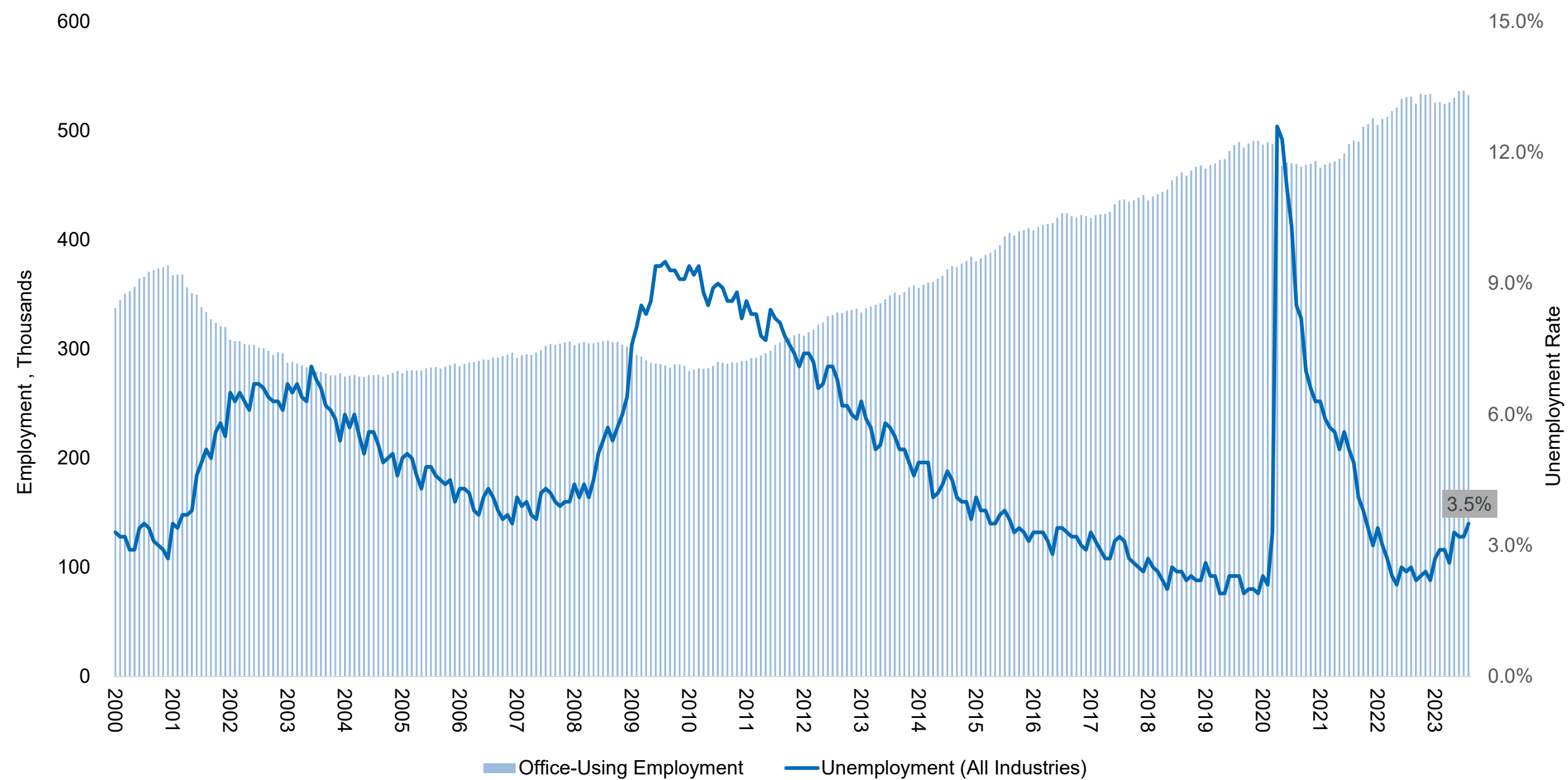


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

# Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded to above pre-pandemic levels, while the overall unemployment rate remains just above the pre-pandemic mark. It's a sign that the office-using sector is stronger than ever; however, workers are in the office only a fraction of the time they were pre-pandemic.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco  
Note: August 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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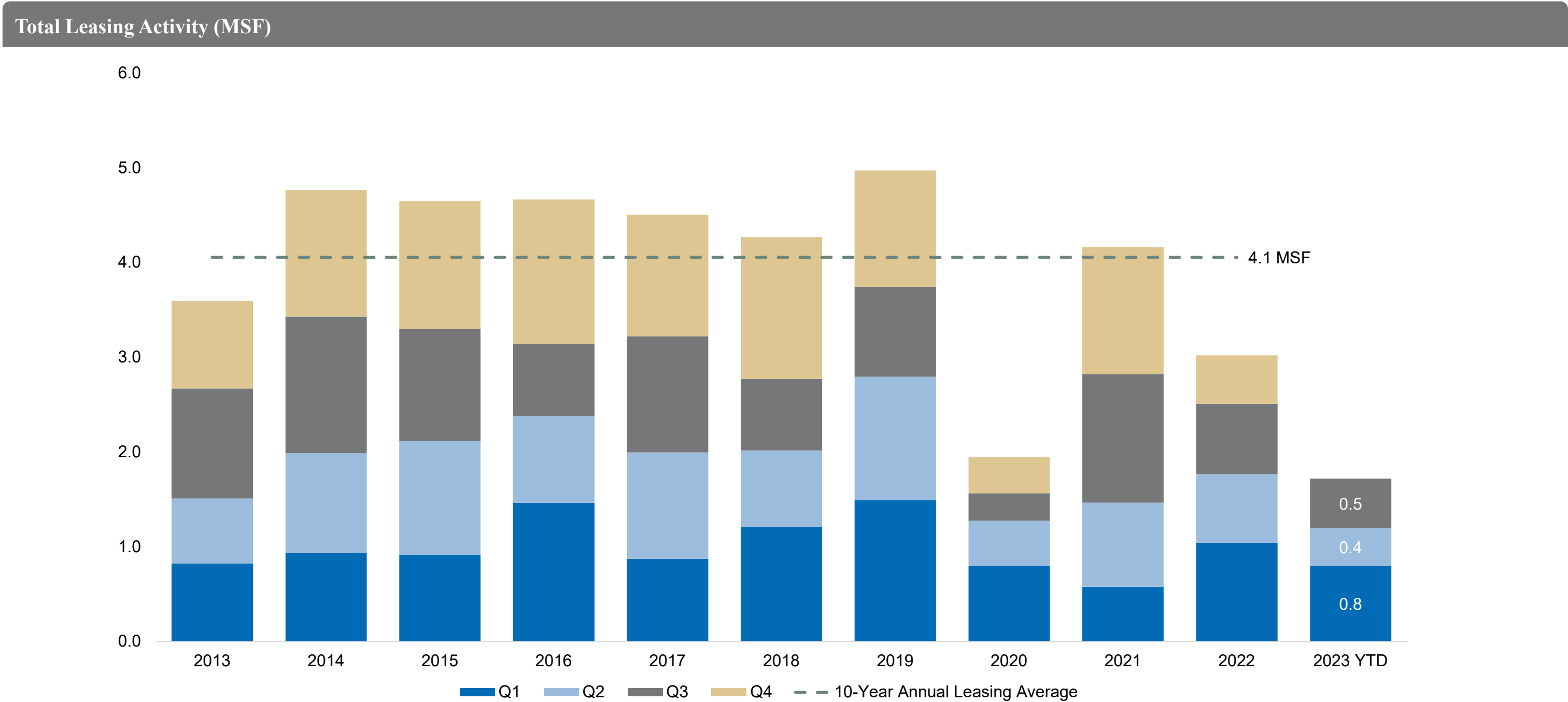
# Leasing Market Fundamentals





# Leasing Activity Bounces from the Yearly Low

Total leasing activity for the quarter measured 521,000 square feet, marking a 30.0% increase quarter over quarter but 29.9% decline year over year. Class A leasing accounted for 67.5% of the total amount of square feet transacted this quarter, followed by Class B at 23.0% and Class C at 9.5%. This follows a quarter in which Class A leasing accounted for 47.1% of the total amount of space transacted, followed by Class B at 40.9% and Class C at 12.0%.



Source: Newmark Research, CoStar

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## Downtown Peninsula Markets Are A Mixed Bag

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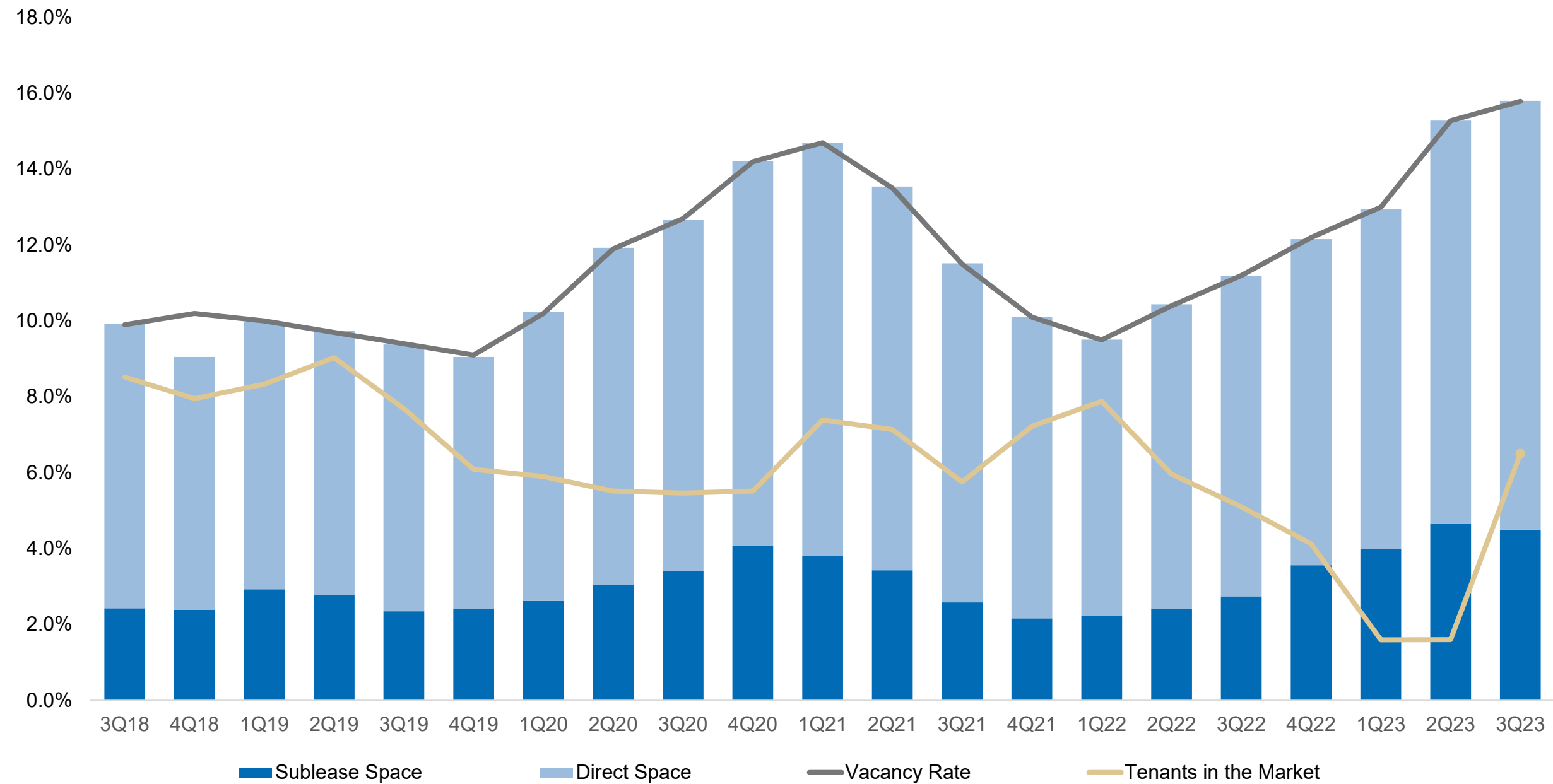
## Leasing in the Financial Industry Continues to Grow While Tech Remains Flat

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# Active Tenant Demand Rebounds While Vacancy Continues to Rise

Tenant demand increased by 300.0% to 2.6 million square feet this quarter, up from 660,000 square feet in the previous quarter. Widespread vacancy has set the rent bar lower and has caused several ownership groups to lower asking rates to remain competitive with heavily discounted sublet space.

Vacant Space and Active Tenant Demand as Percent of Overall Market



Source: Newmark Research



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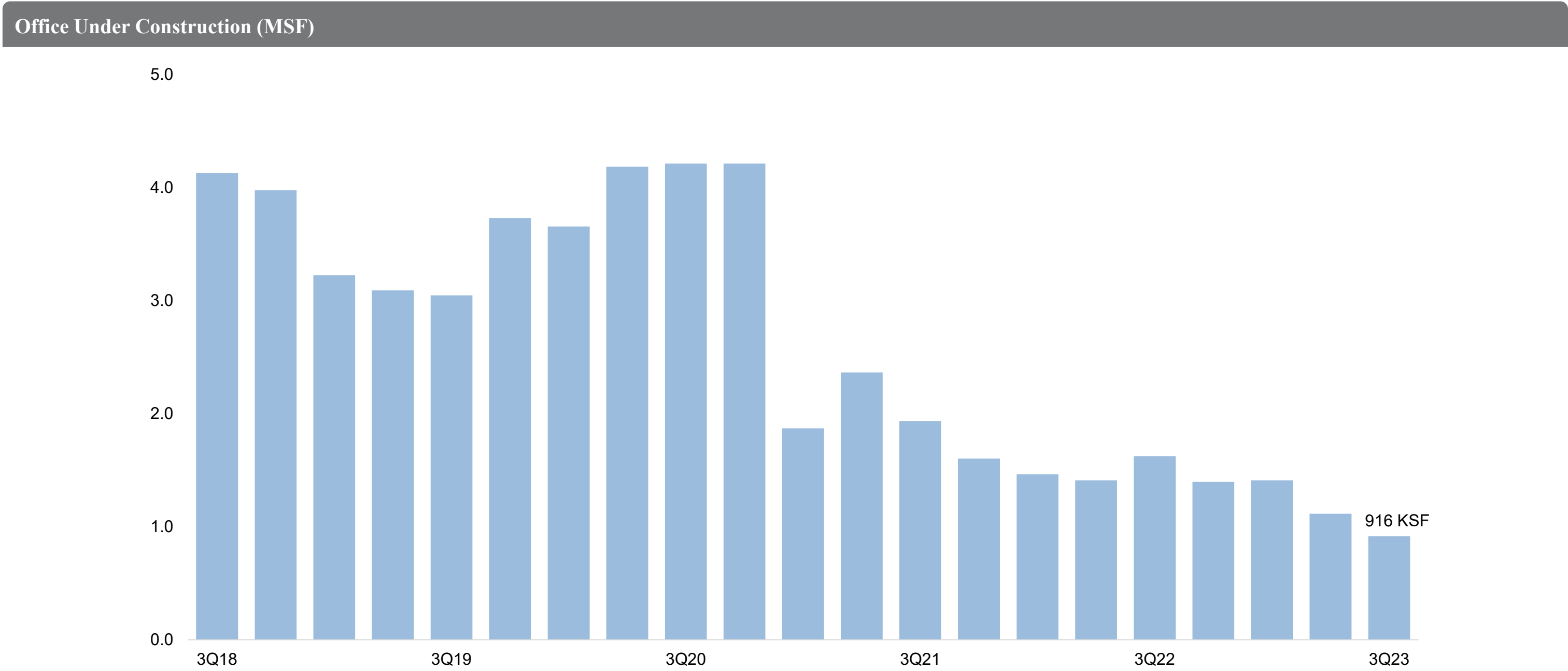
## Consolidation in Downtown Cores



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# Construction Continues to Cool in the Face of Inflation and Unpredictable Demand

The total volume of under-construction product in the North Peninsula market continued to decrease in the third quarter of 2023 and was recorded as 916,000 square feet, with 28.7% of that under-construction figure already preleased. Development remains historically low, with 71.0% of ongoing construction located in Downtown submarkets. On the delivery side, there were no projects completed to report this quarter.



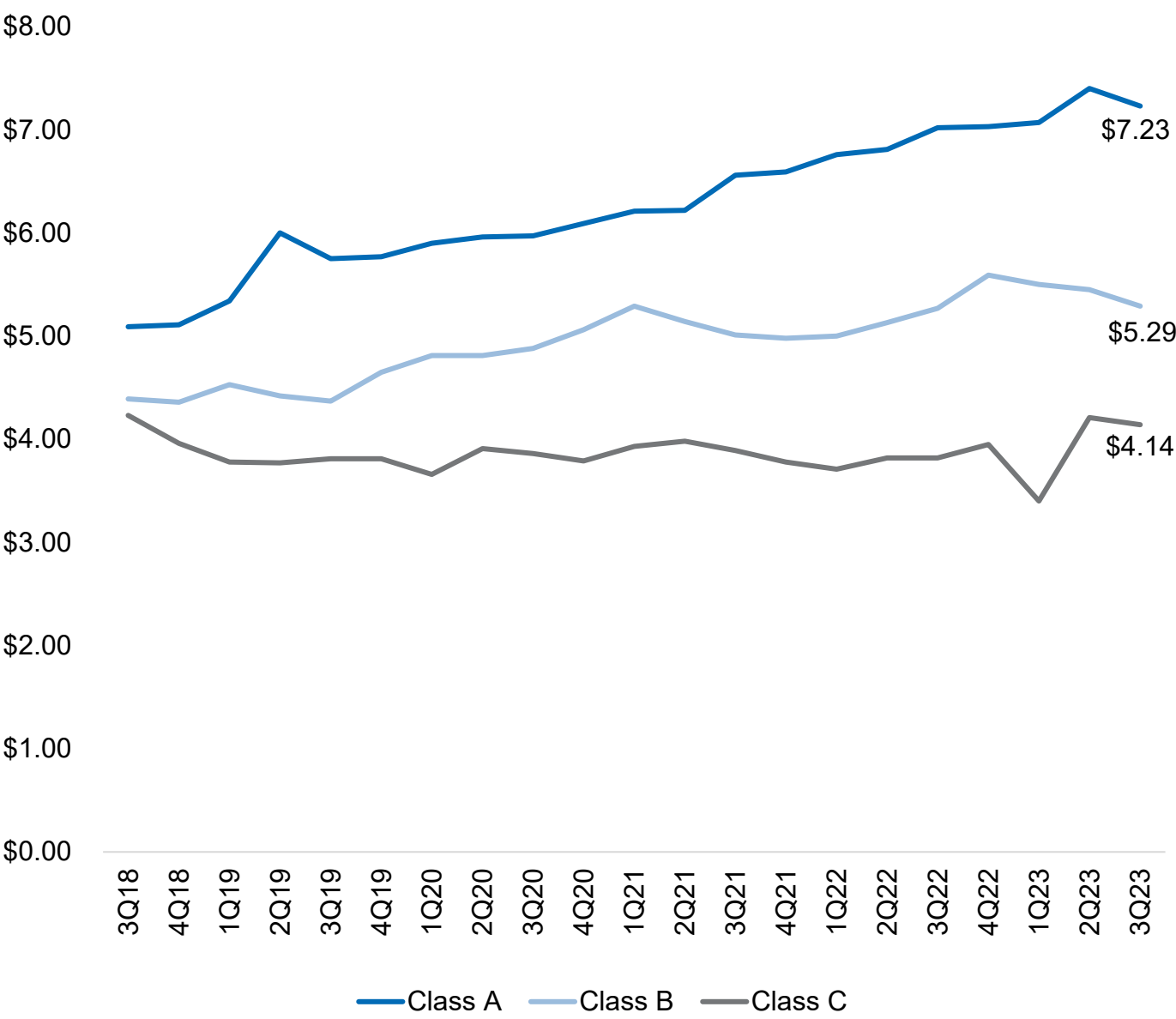
Source: Newmark Research



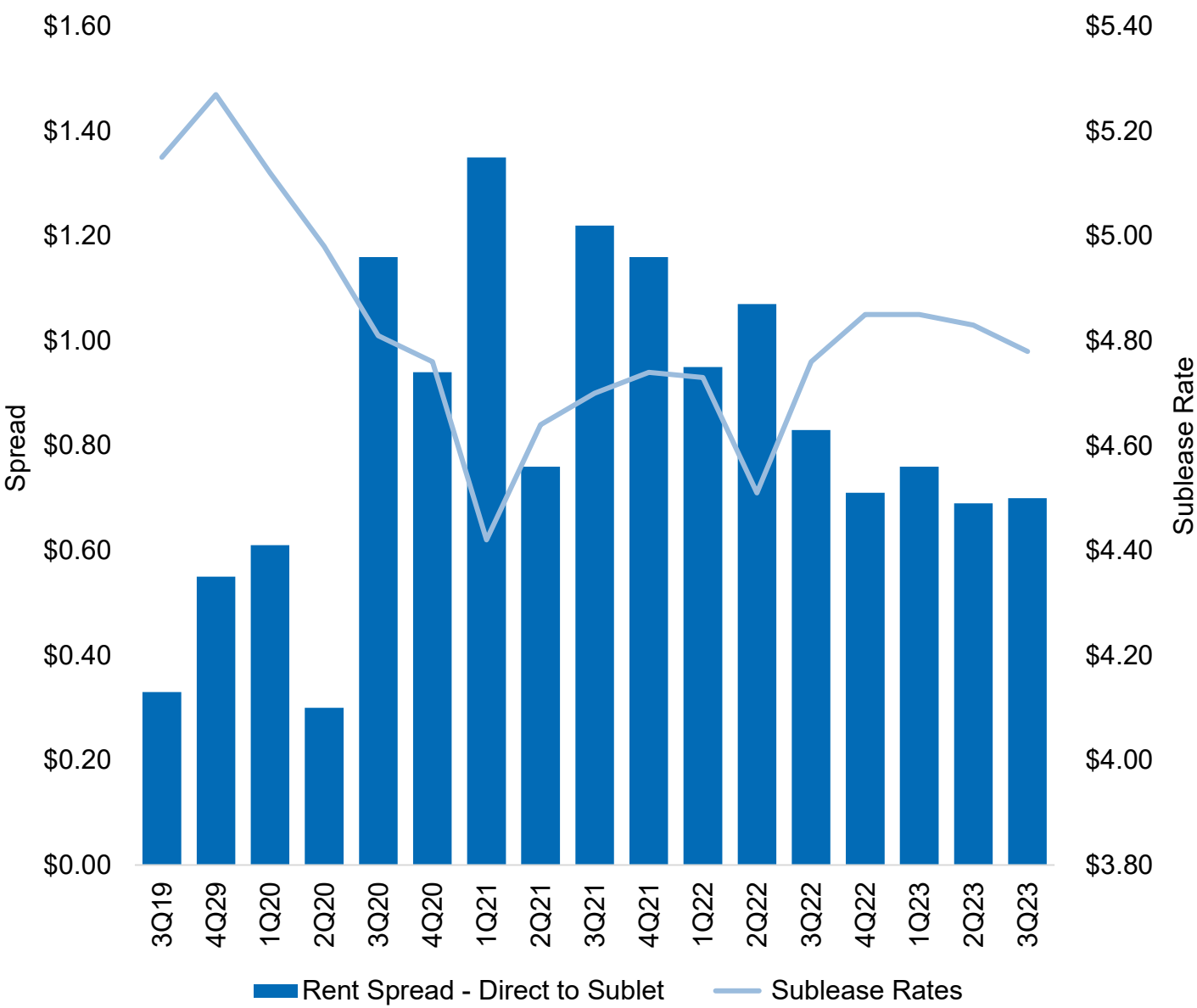
# Average Rates Across All Classes Decrease

The quarter’s average Class A, Class B and Class C asking rents were recorded at \$7.23/SF, \$5.29/SF and \$4.14/SF, respectively. This follows the previous quarter, where Class A, Class B and Class C asking rents were recorded at \$7.40/SF, \$5.45/SF and \$4.21/SF, respectively.

Class A, B, and C Full Service Asking Rents



Sublease Rates



Source: Newmark Research

# Market Activity

There were five transactions greater than 20,000 square feet executed this quarter, compared with one in the previous quarter and 10 one year ago.

## Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Robinhood Markets	275 Middlefield Rd	Menlo Park - Middlefield	Lease Renewal	65,435
Robinhood completed the largest deal of the quarter, extending past the expiration of their current sublease at 275 Middlefield Road.				
Sequoia Capital Operations	2882 Sand Hill Rd	Menlo Park - Sand Hill Road	Lease Expansion	37,673
Sequoia Capital completed the second-largest deal of the quarter, expanding into an additional 37,673 square feet at 2882 Sand Hill Road.				
Patient Square Capital	2882 Sand Hill Rd	Menlo Park - Sand Hill Road	Lease Expansion	25,099
Healthcare investment firm Patient Square Capital completed a lease expansion at 2882 Sand Hill Road for the third-largest deal of the quarter.				
Backblaze	201 Baldwin Ave	San Mateo - Downtown	Sublease	23,671
Backblaze subleased the entire 23,671-square foot building at 201 Baldwin Ave in Downtown San Mateo from Ipsy for the third-largest deal of the quarter.				
Verkada	333 S. B Street & 360 S. Railroad Ave	San Mateo - Downtown	Direct Lease	22,158
In the fourth-largest deal of the quarter, Verkada leased 17,642 square feet at 333 S. B Street and all of 360 S. Railroad Ave in Downtown San Mateo for a total of 22,158 square feet transacted.				

Source: Newmark Research



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# Appendix / Tables



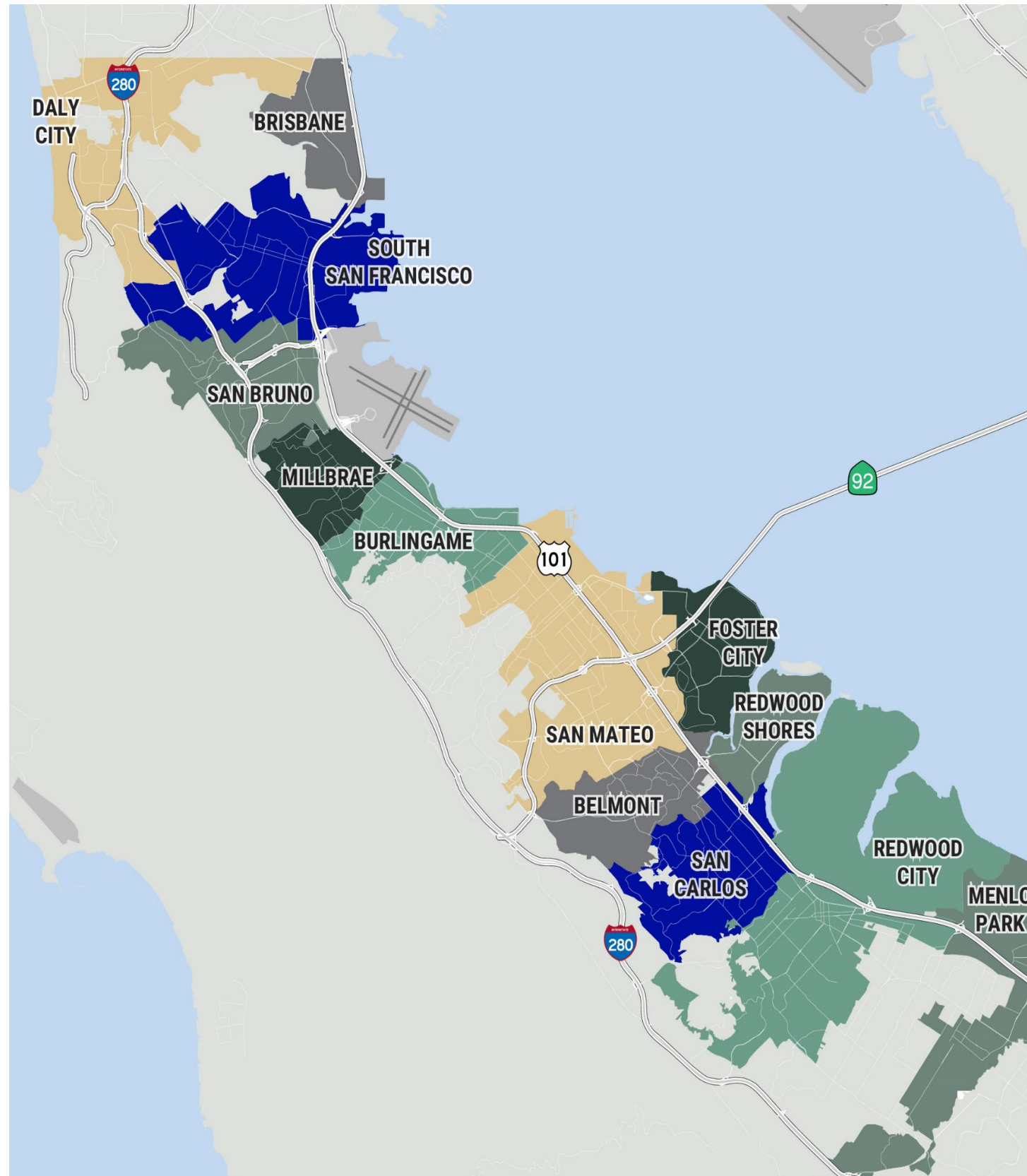


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## North Peninsula Stats Overview

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# North Peninsula- Submarket Map





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