

North Peninsula Office Market

Expected negative absorption, lower asking rates, rising vacancy rates, but a slight uptick in deal velocity to close out the year

In response to COVID-19, the North Peninsula office market posted large negative absorption numbers for the fourth consecutive quarter, recording negative 570,556 square feet of occupancy losses for the quarter. Tenant demand for the quarter remained steady at 2.27 million square feet, up slightly from 2.24 million in the previous quarter but down slightly from 2.38 million one year ago. Despite relatively stable demand, lack of deal activity and continued uncertainty in the market caused by the pandemic has put downward pressure on average asking rents and resulted in 2.45 million square feet of negative net absorption year-to-date, pushing overall vacancy up to 14.2%, which is up from 12.6% in the previous quarter. The North Peninsula average asking rate was recorded at \$5.56/SF Full Service, down from \$5.61/SF in the previous quarter, while average rates decreased or remained stagnant in ten out of the 12 major submarkets. The pandemic has upset the tenant dynamic, not only on the North Peninsula but the entire San Francisco Bay Area over the last 10 months. Demand for new space has substantially decreased as companies continue to reevaluate not only their needs for additional space but also the space they were already occupying. As a result, tenants have saturated the market with sublease

Current Conditions

- North Peninsula tenants leased 381,131 square feet this quarter, an increase of 31.2% from 290,525 square feet in the previous quarter.
- The quarter's average Class B and Class C asking rents were recorded at \$5.06/SF and \$3.79/SF, Full Service respectively.
- Tenant demand increased 1.4% to 2.27 million square feet this quarter.
- Sublease vacancy was recorded at 4.1%, up from 3.4% in the prior quarter.

Market Summary

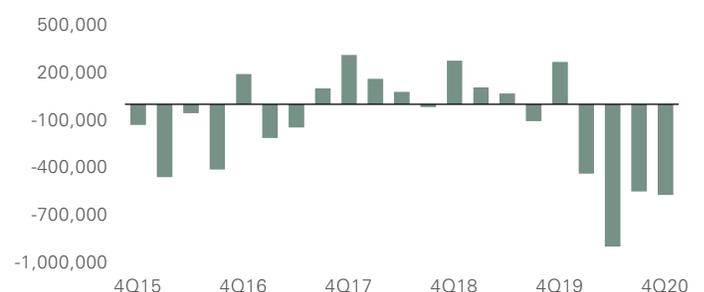
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|----------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 41.1M | 41.0M | 39.4M | ↑ |
| Vacancy Rate | 14.2% | 12.6% | 9.05% | ↑ |
| Qtr Net Abs (SF) | -570K | -548K | 265K | ↓ |
| Avg FS Ask Rent/SF | \$5.56 | \$5.61 | \$5.41 | ↑ |
| Under Const (SF) | 4.0M | 4.0M | 3.6M | ↓ |
| Deliveries (SF) | 0 SF | 0 SF | 20k SF | ↓ |

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH 4Q 2020

availability due to downsizing, which consequently has caused downward pressure on average rents from the discounted space. On the sublease front, vacancy counted for 4.1% of the total inventory and 28.7% of the total vacancy, compared with 3.4% of the total inventory and 26.9% of the total vacancy in the previous quarter. As the work-from-home trend carries over into 2021, increased sublease vacancy and downward pressure on average rents is expected as tenants continue to reevaluate their requirements. However, the silver lining going into next year is that two FDA-approved COVID-19 vaccines have already begun distribution to essential workers, which will undoubtedly be readily available for the general public in due time. In addition, the national unemployment rate was recorded at 6.7% at the end of the fourth quarter of 2020, down from the peak of 14.7% when Bay Area lockdowns had been initiated back in March.

The COVID-19 Perspective on Market Deal Activity

Overall deal velocity rose in the fourth-quarter 2020 even in the face of the ongoing pandemic, recording 381,13 square feet of space leased by tenants, signifying a 31.2% increase from the previous quarter, but falling 69.1% behind the pace set in fourth-quarter 2019. Renewals accounted for 45.3% of total leasing from March through December 2020, significantly more than the 23.9% figure from the same timeframe in the previous year. There were four lease transactions greater than 20,000 square feet executed this quarter compared with two in the previous quarter. The largest transaction of the quarter was completed by financial advisory firm Seiler, LLP., renewing its 32,007-square-foot lease on the fourth floor at 3 Lagoon Drive in Redwood Shores through the end of November 2031.

Select Lease/User Transactions

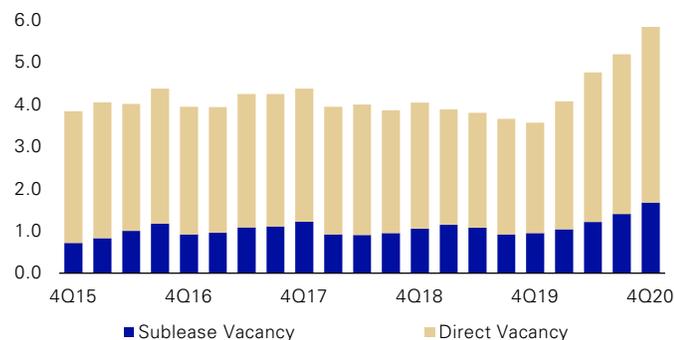
| Tenant | Building(s) | Submarket | Type | Square Feet |
|-----------------------|-------------------------|---------------------|-------------------|-------------|
| Seiler, LLP. | 3 Lagoon Dr | Redwood Shores | Lease Renewal | 32,007 |
| Kaiser Foundation | 1011 Sneath Lane | San Bruno | Lease Renewal | 28,562 |
| Konica Minolta | 1051 Hillsdale Blvd (E) | Foster City | Renewal/Expansion | 27,775 |
| Symphony Tech Group | 1300 El Camino Real | Menlo Park | Direct Lease | 21,000 |
| SVB Financial Group | 2770 Sand Hill Rd | Menlo Park | Direct Lease | 17,280 |
| Mainspring Energy | 171 Constitution Dr | Menlo Park | Direct Lease | 13,840 |
| Atara Biotherapeutics | 611 Gateway Blvd | South San Francisco | Lease Renewal | 13,670 |

Select Investment Sale Transactions

| Building(s) | Market | Sale Price | \$/SF | Square Feet |
|--------------------------|---------------------|-------------|-------|-------------|
| 409 Spruce Ave (S) | South San Francisco | \$4,300,000 | \$529 | 8,132 |
| 6644 Mission St | Daly City | \$3,600,000 | \$447 | 8,059 |
| 2488 Junipero Serra Blvd | Daly City | \$2,450,000 | \$564 | 4,345 |

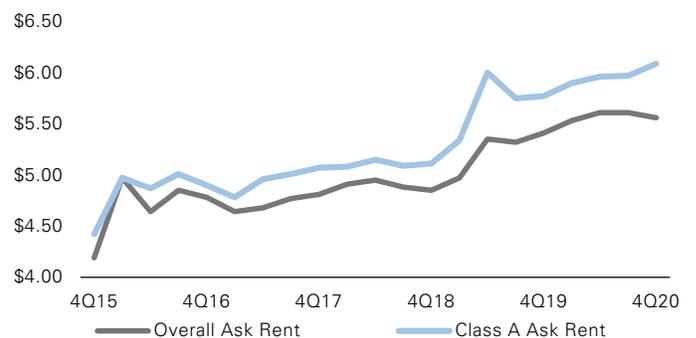
Vacancy Breakdown

SQUARE FEET, MILLIONS



Average Asking Rents

WEIGHTED, FULL SERVICE, MONTHLY



| Submarket Statistics | | | | | | | |
|----------------------------|----------------------|-------------------------|--------------------|---------------------------|-------------------------|---------------------------------|-----------------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Gross Absorption (SF) | Qtr Net Absorption (SF) | Total FS Asking Rent (Price/SF) | Class A FS Asking Rent (Price/SF) |
| Belmont | 946,830 | 0 | 16.38% | 0 | -21,475 | \$4.15 | \$4.17 |
| Brisbane | 568,265 | 0 | 20.47% | 9,051 | 0 | \$4.16 | \$4.16 |
| Burlingame | 3,713,831 | 847,442 | 13.89% | 52,973 | -6,369 | \$4.95 | \$5.62 |
| Downtown Burlingame | 549,320 | 44,605 | 25.29% | 0 | -4,690 | \$7.80 | \$8.12 |
| Daly City | 1,287,321 | 0 | 8.39% | 0 | -25,514 | \$3.84 | \$4.65 |
| Foster City | 3,519,740 | 0 | 11.09% | 43,799 | 5,861 | \$5.46 | \$5.50 |
| Menlo Park | 5,964,875 | 935,924 | 14.75% | 95,128 | -233,274 | \$9.34 | \$9.79 |
| Redwood City | 5,988,250 | 1,588,817 | 9.14% | 9,507 | -135,707 | \$6.47 | \$7.88 |
| Redwood Shores | 4,699,134 | 0 | 14.29% | 47,993 | -33,597 | \$5.07 | \$5.14 |
| San Bruno | 1,713,151 | 0 | 1.54% | 30,583 | -1,850 | \$4.13 | \$4.26 |
| San Carlos | 984,458 | 0 | 22.32% | 0 | -75,885 | \$4.47 | \$4.70 |
| San Mateo | 9,066,178 | 680,700 | 19.64% | 70,295 | -42,878 | \$5.29 | \$5.53 |
| Downtown San Mateo | 1,481,204 | 208,353 | 23.46% | 6,400 | -11,253 | \$6.25 | \$7.34 |
| South San Francisco | 2,693,548 | 0 | 16.13% | 21,802 | 132 | \$3.55 | \$3.97 |
| NORTH PENINSULA | 41,145,581 | 4,052,883 | 14.2% | 381,131 | -570,556 | \$5.56 | \$6.09 |

For more information:

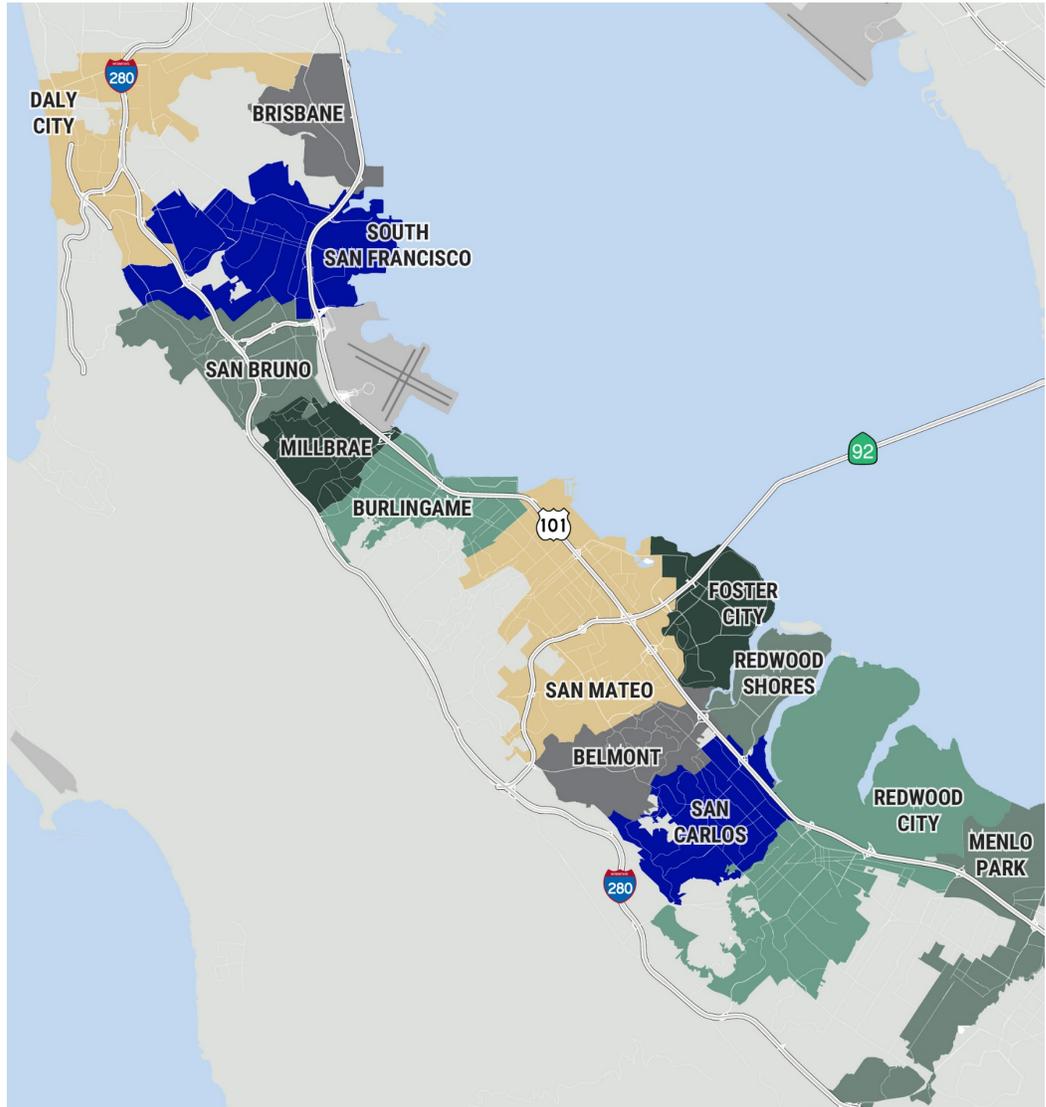
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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