

# South Peninsula Office Market

## Bay Area businesses remain strong through 2020; leasing activity poised to rebound in 2021

The South Peninsula office market finishes the year with a rebound in gross absorption and stable average asking rents. Absorption levels are still off the latest cycle's average by 50.0%. Large block leases from Waymo, Ascendis Pharma and Rivian Automotive increased leasing activity by five times over the previous quarter. There is some concern over the outmigration of some large corporate technology companies, with recent announcements from Oracle, Tesla and HPE about moving headquarters out of California. The announcements are largely tax-related and headline-grabbers, while the presence and occupancy of these companies will be little changed. The impact could slow growth for these companies in the years to come but also alleviate some barriers to entry for younger and mid-cap tech companies. Barriers to entry include supply constraints, high living and CRE costs and a tight labor market.

The most difficult variable in the market remains office demand. A significant increase in the spread of COVID-19 has led to a return of the more restrictive shelter-in-place orders from earlier in the year. This of course has further stymied office demand in the entire region. With a medical solution in place and actively being distributed, there is light at the end of the tunnel. The effects of the heightened uncertainty in the fourth quarter will likely lag and be felt in first-quarter 2021. A decrease in leasing activity close to third-quarter 2020 numbers is expected, given the lack of demand in the fourth quarter.

### Current Conditions

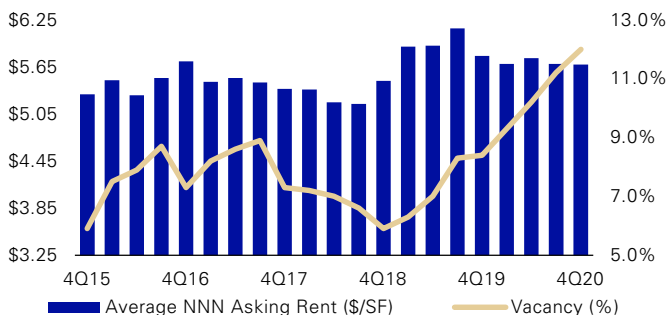
- Gross absorption rebounds by five times in the fourth quarter of 2020.
- A return to restrictive stay-at-home orders in the fourth quarter set the South Peninsula up for a slow start to 2021.
- On the cusp of medical solution for COVID-19, optimism returns to the market in anticipation of a strong second half of 2021.

### Market Summary

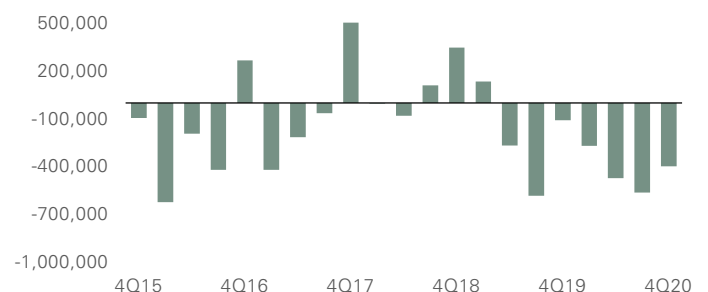
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	35.4M	35.4M	34.1M	→
Vacancy Rate	12.0%	11.2%	8.5%	↑
Qtr Net Abs (SF)	-397K	-562K	-109K	→
Avg NNN Ask Rent/SF	\$5.68	\$5.69	\$5.79	↓
Under Const (SF)	4.8M	4.8M	4.9M	→

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION (SF)



## RESEARCH 4Q 2020

Bay Area companies continue to plan returns to the office. Most South Peninsula occupiers are targeting July, while others are slightly behind but no later than October. This is great news, suggesting the area is on the cusp of the return of demand into the marketplace. As more requirements trickle into the market during the next three months, expect gross absorption and transaction volume levels to be at about 50% of pre-COVID-19 levels by mid-year. By year end, expect close to 80% of pre-COVID-19 volume levels.

Overall asking rent in the South Peninsula remains relatively flat at \$5.68/SF, compared with \$5.69/SF last quarter, a \$0.01/SF delta. Compared to one year ago, the average asking rent decreased by approximately 1.9%, or \$0.11/SF. Rents are holding, despite almost historic vacancy rates. It is noted that the increase in vacancy rate this quarter is largely due to the delivery of 220,000 square feet of Class A office space at the Springline project located in Downtown Menlo Park. Just under 200,000 square feet is available for lease.

The net absorption this quarter is negative 397,234 square feet, and almost half of it is accounted by new construction deliverables with a gross absorption of 541,353 square feet in the fourth quarter, the second highest in any quarter of this year.

There has been some traction in the sublease market, particularly for large block spaces. Sublease vacancy in the fourth quarter is 3.85%, a mild decrease from 3.87% in the third quarter. This quarter, approximately 411,000 square feet were added to the market, while 436,000 square feet were removed from the market, a positive net absorption of 24,000 square feet, compared to negative net sublease absorption of 353,000 square feet in the third quarter. Of the

436,000 square feet that was removed from the market, 50.0% were subleased, 26.0% of the space will be re-occupied by the sublessor and 24.0% expired, most likely hitting the market as direct space in the upcoming quarter.

There were 15 transactions greater than 5,000 square feet this quarter, compared to eight transactions in the previous quarter. This quarter's most notable transactions include Waymo's takeover of the Synopsis' 170,823-square-foot sublease in Mountain View and Ascendis Pharma's 75,000-square-foot direct lease of the last building at 1050 Page Mill, Palo Alto. Rivian Automotive leased a combined 55,805 square feet at 630 and 660 Hansen Way in Palo Alto. Symphony Tech Group is the first tenant to pre-lease space at Springline, mentioned above. Robinhood is staying put in Menlo Park, restructuring and extending its lease as its sublease approaches expiration in 2021. Newmark also signed a lease, occupying a 10,300-square-foot standalone building in Downtown Palo Alto, not far from its current location.

### Outlook

- Tenants are returning to the market, either with new requirements or back into their offices.
- Tenant improvements will outpace construction cost increase, and triple-digit tenant improvement allowance have become expected.
- Continued focus on the distribution of the vaccine and the positive effect this will have, increasing confidence as the year goes on.

### Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Waymo	680 E. Middlefield Road	Mountain View (S Middlefield)	Sublease	170,823
Ascendis Pharma	1050 Page Mill Road	Palo Alto (SRP)	Direct Lease	75,000
Rivian Automotive	630 & 660 Hansen Way	Palo Alto (SRP)	Direct Lease	55,805
Seiler LLP	3 Lagoon Drive	Redwood Shores	Lease Extension	32,007
Frank Rimerman	1801 Page Mill Road	Palo Alto (SRP)	Lease Extension	24,968
STG	1300 El Camino Real	Menlo Park (Downtown)	Direct Lease	21,000
SVB Financial Group	2770 Sand Hill Road	Menlo Park (SHR)	Direct Lease	17,590
Mainspring Energy, Inc.	171 Constitution Drive	Menlo Park (Hwy 101)	Direct Lease	13,840
Genpact	3300 Hillview Avenue	Palo Alto (SRP)	Lease Renewal	10,517
Robinhood	100 Middlefield Road	Menlo Park (Middlefield)	Lease Restructure	10,341
Newmark	258 High Street	Palo Alto (Downtown)	Direct Lease	10,300

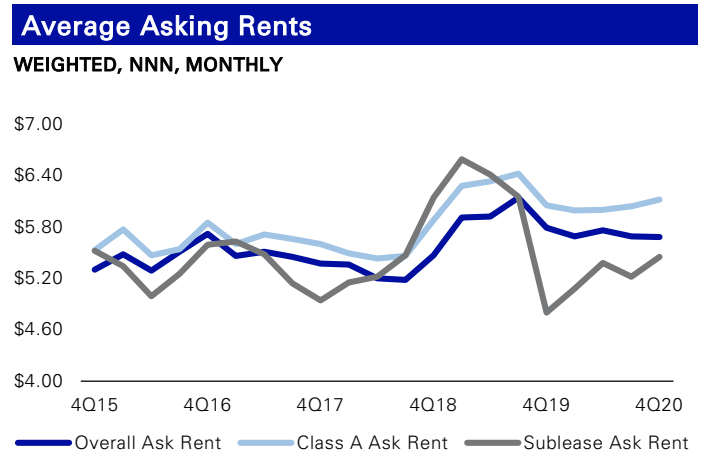
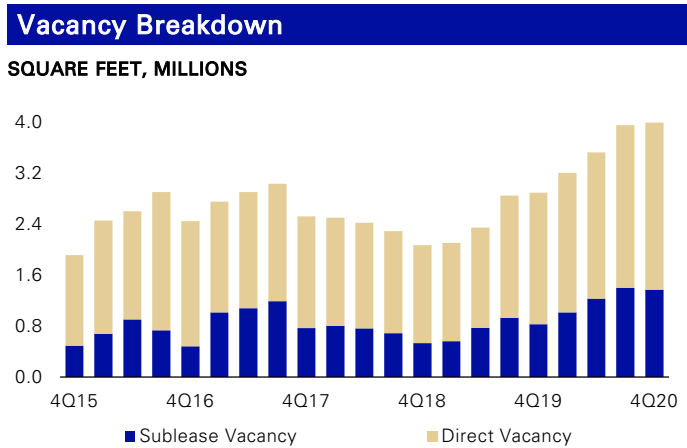
### Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
2100 El Camino Real	Palo Alto (Cal Ave)	\$103,600,000	\$1,338	77,449
1900 Embarcadero Road	Palo Alto (Bayshore)	\$72,725,000	\$821	88,562
870 Santa Cruz Avenue	Menlo Park (Downtown)	\$18,100,000	\$804	22,500

Overall Submarket Statistics								
	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)	Class A NNN Asking Rent (Price/SF)
<b>Los Altos</b>	1,155,274	164,188	19,318	14.21%	4,005	-43,120	\$4.27	\$6.42
Downtown	519,215	67,046	6,399	12.91%	2,558	-21,093	\$5.78	\$6.38
El Camino Corridor	567,377	97,142	12,919	17.12%	0	-22,027	\$3.25	\$6.50
Foothill Corridor	68,682	0	0	0.00%	1,447	0	-	-
<b>Menlo Park</b>	5,964,875	879,574	204,516	14.75%	95,128	-233,274	\$7.38	\$7.81
Downtown	1,237,167	380,091	30,687	30.72%	30,285	-215,829	\$7.86	\$8.46
Sand Hill Road	1,210,502	184,159	72,720	15.21%	28,981	-3,774	\$10.13	\$10.13
Middlefield Road	943,967	104,658	32,689	11.09%	10,341	-29,891	\$7.21	\$7.21
Highway 101	2,573,239	210,666	68,420	8.19%	25,521	16,220	\$4.98	\$5.32
<b>Mountain View</b>	8,725,315	712,821	320,891	8.17%	186,013	109,623	\$5.23	\$5.46
Downtown	1,644,158	261,239	156,393	15.89%	10,400	-41,251	\$7.01	\$7.39
Central	352,210	33,002	0	9.37%	0	0	\$3.88	-
Shoreline	2,927,692	18,617	3,585	0.64%	0	-6,268	\$2.37	-
South Middlefield	2,338,468	183,471	131,725	7.85%	170,823	169,254	\$3.18	\$2.45
El Camino Corridor	1,462,787	216,492	29,188	14.80%	4,790	-12,112	\$5.41	\$5.68
<b>Palo Alto</b>	8,946,246	1,273,571	479,488	14.24%	198,707	-61,159	\$6.63	\$7.48
Downtown	2,538,820	409,894	198,165	16.15%	11,800	-88,203	\$8.10	\$8.77
East Palo Alto	668,279	119,122	25,285	17.83%	2,259	0	\$7.15	\$7.15
Stanford Research Park	3,154,298	364,557	170,089	11.56%	180,995	135,635	\$7.14	\$7.39
California Avenue	1,192,368	175,067	43,855	14.68%	1,269	-41,929	\$5.84	\$6.99
Bayshore	1,392,481	204,931	42,094	14.72%	2,384	-66,662	\$3.44	\$3.78
<b>Redwood City</b>	5,988,250	547,234	204,131	9.14%	9,507	-135,707	\$4.86	\$6.06
Downtown	2,707,631	414,158	176,945	15.30%	1,080	-121,133	\$5.66	\$7.11
Seaport	1,847,399	84,203	24,300	4.56%	4,295	-18,706	\$2.20	\$1.50
South	1,433,220	48,873	2,886	3.41%	4,132	4,132	\$4.68	\$3.50
<b>Redwood Shores</b>	4,699,134	671,275	143,431	14.29%	47,993	-33,597	\$3.57	\$3.64
<b>SOUTH PENINSULA</b>	35,479,094	4,248,663	1,371,775	11.98%	541,353	-397,234	\$5.68	\$6.12

Class A Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Class A NNN Asking Rent (Price/SF)
<b>Los Altos</b>	501,695	0	81,985	11,974	16.34%	1,221	-22,619	\$6.42
Downtown	323,948	0	51,633	5,151	15.94%	1,221	-15,796	\$6.38
El Camino Corridor	177,747	0	30,352	6,823	17.08%	0	-6,823	\$6.50
Foothill Corridor	0	0	0	0	0.00%	0	0	-
<b>Menlo Park</b>	4,723,044	935,924	771,535	183,296	16.78%	80,558	-216,961	\$7.81
Downtown	818,399	473,438	335,018	20,426	40.94%	29,555	-206,676	\$8.46
Sand Hill Road	1,210,502	0	184,159	72,720	15.21%	28,981	-3,774	\$10.13
Middlefield Road	490,549	0	83,368	32,689	16.99%	10,341	-8,891	\$7.21
Highway 101	2,203,594	462,486	168,990	57,461	8.62%	11,681	2,380	\$5.32
<b>Mountain View</b>	6,463,955	2,212,474	524,102	286,181	8.27%	186,013	128,390	\$5.46
Downtown	1,154,623	0	203,295	133,941	18.53%	10,400	-31,221	\$7.39
Central	123,374	0	0	0	0.00%	0	0	-
Shoreline	2,289,084	1,990,474	0	0	0.00%	0	0	-
South Middlefield	1,969,365	222,000	137,475	131,725	6.98%	170,823	170,823	\$2.45
El Camino Corridor	927,509	0	183,332	20,515	19.77%	4,790	-11,212	\$5.68
<b>Palo Alto</b>	6,157,812	72,662	787,586	311,837	13.76%	184,754	54,872	\$7.48
Downtown	1,576,697	0	215,051	112,479	14.05%	1,500	-73,252	\$8.77
East Palo Alto	668,279	72,662	119,122	25,285	17.83%	2,259	0	\$7.15
Stanford Research Park	3,085,380	0	349,796	155,328	13.07%	180,995	135,635	\$7.39
California Avenue	528,182	0	70,671	15,624	13.38%	0	-4,390	\$6.99
Bayshore	299,274	0	32,946	3,121	11.01%	0	-3,121	\$3.78
<b>Redwood City</b>	4,043,364	1,588,817	206,255	99,057	5.10%	0	-93,670	\$6.06
Downtown	1,562,003	696,217	164,816	79,057	10.55%	0	-73,670	\$7.11
Seaport	1,507,343	0	20,000	20,000	1.33%	0	-20,000	\$1.50
South	974,018	892,600	21,439	0	2.20%	0	0	\$3.50
<b>Redwood Shores</b>	4,313,830	0	637,563	130,553	14.78%	47,993	-28,597	\$3.64
<b>SOUTH PENINSULA</b>	26,203,700	4,809,877	3,009,026	1,022,898	11.83%	500,539	-178,585	\$6.12

Historical Vacancy Rates								
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
<b>South Peninsula</b>	<b>6.3%</b>	<b>7.0%</b>	<b>8.3%</b>	<b>8.5%</b>	<b>9.3%</b>	<b>10.2%</b>	<b>11.2%</b>	<b>12.0%</b>
Los Altos	7.0%	6.6%	8.1%	7.8%	7.6%	7.7%	10.8%	14.2%
Menlo Park	7.0%	8.4%	9.0%	7.6%	8.6%	10.2%	11.1%	14.8%
Mountain View	4.9%	5.1%	8.0%	9.2%	7.5%	9.9%	10.1%	8.2%
Palo Alto	6.9%	9.0%	11.0%	10.8%	12.6%	12.6%	14.1%	14.2%
Redwood City	5.1%	5.3%	5.3%	6.4%	5.2%	5.7%	6.8%	9.1%
Redwood Shores	8.1%	6.7%	6.5%	6.1%	12.3%	12.1%	13.6%	14.3%



Historical NNN Asking Rents								
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
<b>South Peninsula</b>	<b>\$5.91</b>	<b>\$5.92</b>	<b>\$6.14</b>	<b>\$5.79</b>	<b>\$5.69</b>	<b>\$5.76</b>	<b>\$5.69</b>	<b>\$5.68</b>
Los Altos	\$5.72	\$5.53	\$4.61	\$5.31	\$4.72	\$4.80	\$4.30	\$4.27
Menlo Park	\$6.65	\$6.61	\$6.22	\$6.23	\$6.73	\$7.42	\$7.55	\$7.38
Mountain View	\$6.40	\$5.86	\$6.05	\$5.55	\$4.95	\$4.73	\$4.83	\$5.23
Palo Alto	\$6.49	\$6.45	\$7.06	\$6.93	\$6.99	\$6.89	\$6.72	\$6.63
Redwood City	\$5.16	\$5.31	\$5.39	\$4.84	\$4.50	\$4.97	\$4.96	\$4.86
Redwood Shores	\$4.09	\$4.12	\$4.29	\$3.54	\$3.99	\$3.61	\$3.59	\$3.57

RESEARCH 4Q 2020

<b>Historical Gross Absorption</b>								
	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>
<b>South Peninsula</b>	<b>1,083,182</b>	<b>914,128</b>	<b>747,197</b>	<b>770,731</b>	<b>887,379</b>	<b>575,256</b>	<b>111,924</b>	<b>523,763</b>
Los Altos	10,657	27,973	13,333	19,085	52,819	6,100	789	4,005
Menlo Park	161,758	260,900	165,797	109,002	85,041	54,399	43,568	77,538
Mountain View	395,435	225,847	168,564	83,716	312,333	60,991	31,629	186,013
Palo Alto	241,501	170,630	146,521	260,291	187,426	243,916	13,133	198,707
Redwood City	49,984	74,163	131,878	192,344	214,723	37,028	9,257	9,507
Redwood Shores	223,847	154,615	121,104	106,293	35,037	172,822	13,548	47,993

<b>Historical Net Absorption</b>								
	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>
<b>South Peninsula</b>	<b>133,122</b>	<b>-267,547</b>	<b>-580,777</b>	<b>-109,413</b>	<b>-268,382</b>	<b>-470,951</b>	<b>-562,216</b>	<b>-397,234</b>
Los Altos	-43,815	-1,278	-18,576	-328	2,129	-3,869	-32,913	-43,120
Menlo Park	-46,531	-53,983	-43,625	36,855	-48,874	-98,188	-100,124	-233,274
Mountain View	95,142	-36,980	-260,433	-114,322	161,820	-219,194	-44,603	109,623
Palo Alto	-44,921	-212,574	-226,510	33,925	-208,420	-23,869	-197,070	-61,159
Redwood City	-32,606	-8,924	-42,271	-73,811	146,356	-94,998	-109,705	-135,707
Redwood Shores	205,853	46,192	10,638	8,268	-321,393	-13,696	-77,801	-33,597

*For more information:*

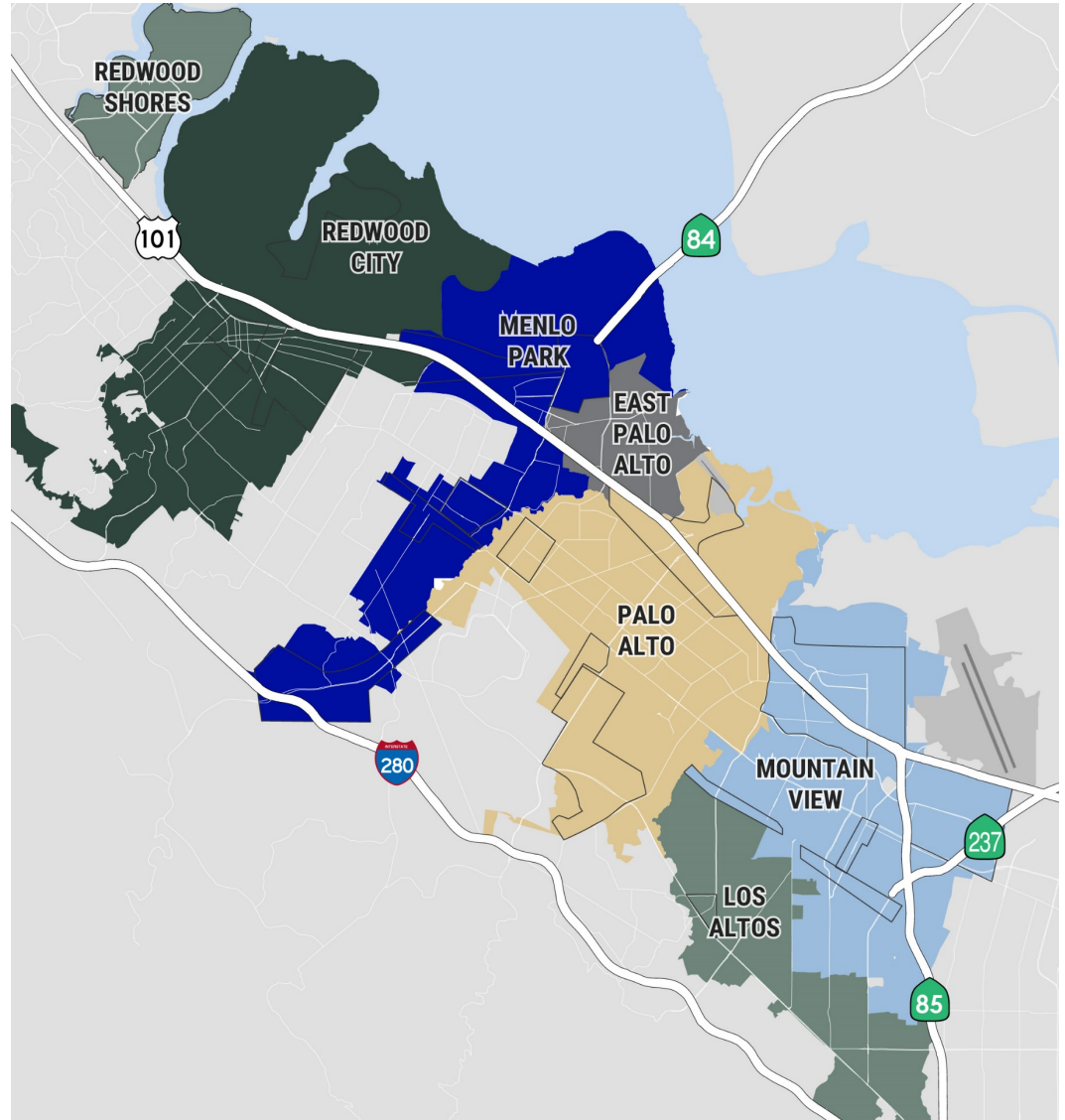
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective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

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