



South Peninsula Office Market

South Peninsula Leasing Activity Is Steady to End 2021's Rebound

The South Peninsula office market achieved net positive leasing absorption for only the second time in the last 11 quarters. Overall leasing activity showed a slight drop from a gross absorption perspective. The drop is likely due to the rise of uncertainty caused by the rise of a new COVID variant. However, vacancy rates continued to decrease, a trend that held steady through every quarter throughout the year. With now close to 65% of Americans fully vaccinated, almost 68% of the California population fully vaccinated, and 85% receiving at least one dose, companies are increasingly setting expectations towards an imminent return to office; case in point, Google's purchase of an additional 4.6 acres near its headquarters in Mountain View, with plans to build an additional 3.0 million square feet of office in a mixed-use development.

The fourth quarter of 2021 closed with a total gross absorption number of approximately 700,000 square feet, bringing the total to approximately 2.7 million square feet of leasing for the year. The total represents an increase of approximately 28% over the total for 2020. There were 107 transactions this quarter, almost triple the number of transactions from one year ago. Of the 107 transactions, 18 are greater than 10,000 square feet, compared to nine a year ago. As it relates to the leasing activity during the quarter, Downtown Palo Alto is the bright spot on the South Peninsula.

Current Conditions

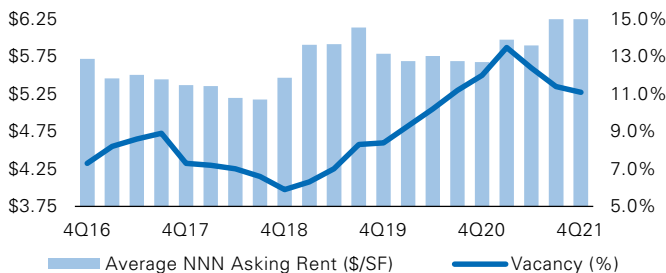
- Leasing activity in the fourth quarter of 2021 produces net positive absorption
- Downtown Palo Alto vacancy rate decreased significantly
- Omicron disruption was minimal and leasing market continues to show signs of strength for positive 2022 outlook

Market Summary

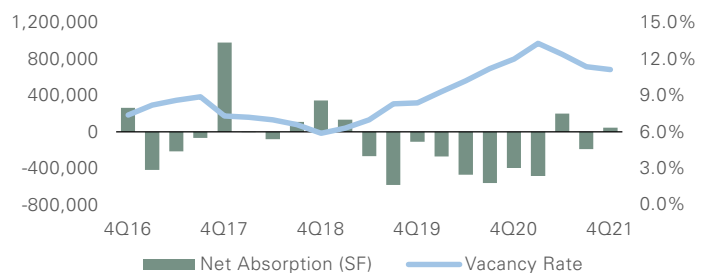
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	36.3M	36.3M	35.5M	➔
Vacancy Rate	11.1%	11.4%	11.98%	⬇
Qtr Net Abs (SF)	48K	-189K	-397K	⬆
Avg NNN Ask Rent/SF	\$6.37/SF	\$6.39/SF	\$5.68/SF	➔
Under Const (SF)	2.5M	3.0M	5.0M	⬆

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF)



RESEARCH 4Q 2021

The greater than 125,000 square feet of gross absorption is the highest number in at least the previous 15 quarters. This is only the second time in the previous 13 quarters Downtown Palo Alto achieved positive net absorption. There was 82,000 square feet of positive net absorption, a significant number in a submarket with little overall inventory.

Most of the significant transactions during the pandemic were in the professional service sector. This quarter, great diversity is on display, with legal, financial, and tech all showing significant activity amongst the transaction volume. Pinterest's sublease renewal was finally completed at 395 Page Mill Rd., totaling close to 60,000 square feet. Other notable transactions above 20,000 square feet include: Pubmatic (35,000 square feet); Kramer Levin Naftalis & Frankel, LLP (28,000 square feet); Baker Botts (30,000 square feet); and Moloco (25,500 square feet).

Even with a slight decrease in overall absorption, vacancy decreased over the last quarter from 11.4% to 11.1%. This year's trend of decreasing vacancy will continue into 2022. The expectation will be that the South Peninsula will be back to a single-digit vacancy number by mid-2022, which will be the first time since the first quarter of 2020. Notably, Palo Alto's historically high vacancy rate showed the most significant decrease in the market going from over 17.0% down to 13.6%.

As expected, the overall asking rate remained flat. However, a \$7.00/SF overall average asking rate in the Class A sector still represents a historical high for the region. Higher-end leasing still proves to be the most active as companies continue to chase Class A office and new construction options in amenitized and transit-oriented submarkets along the peninsula; 72.0% of the office space leased over 5,000 square feet were classified as Class A.

Look for continued demand for high-quality spaces from all business sectors and the continued return of tech demand throughout 2022.

Outlook

- Continued struggle between executives and managers wanting to return to office and resistance from the employee base.
- Tenant improvements will outpace construction cost increase; triple-digit tenant improvement allowances are here to stay.
- With the dramatic decrease in the amount of COVID-19 cases, hospitalizations and deaths, look for a true return to "normal." It is likely the effects of pent-up demand will finally be seen as companies, large and small, get off the sidelines and return to the leasing market.

Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Pinterest	395 Page Mill Road	Palo Alto – Stanford Research Park	Sublease Renewal	57,703
Pubmatic	601 Marshall Street	Redwood City – Downtown	Sublease	34,229
Baker Botts	1001 Page Mill Road	Palo Alto – Stanford Research Park	Lease Renewal	29,661
Kramer Levin Naftalis & Frankel	333 Twin Dolphin Drive	Redwood Shores	Direct Lease	27,447
Moloco	601 Marshall Street	Redwood City – Downtown	Sub-sublease	25,240
Twilio	399 El Camino Real	Mountain View – El Camino Corridor	Lease Extension	24,865
Ladder Financial	715 Alma Street	Palo Alto – Downtown	Direct Lease	20,629
Open Text	2440 Sand Hill Road	Menlo Park – Sand Hill Road	Direct Lease	16,157
Hopkins & Carley	555 Twin Dolphin Drive	Redwood Shores	Direct Lease	15,805
Snorkel AI	49 Perry Street	Redwood City – Downtown	Direct Lease	15,658

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
10 Twin Dolphin Drive	Redwood Shores	\$164,000,000	\$624	262,620
1665 Charleston Road*	Mountain View	\$73,500,000		
Elco Yards Development*	Redwood City	\$42,784,000		
5150 El Camino Real	Los Altos	\$48,000,000	\$684	70,150

*Sold for land value

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)	Total NNN Asking Rent (Price/SF)	Class A NNN Asking Rent (Price/SF)
Los Altos	1,075,573	184,050	16,385	17.11%	17.47%	11,863	-9,335	\$5.02	\$6.04
Downtown	509,664	94,184	1,100	18.48%	18.48%	9,496	-3,434	\$5.57	\$5.92
El Camino Corridor	497,227	85,952	15,285	17.29%	18.07%	2,367	-5,901	\$4.41	\$6.50
Foothill Corridor	68,682	3,914	0	5.70%	5.70%	0	0	\$3.68	-
Menlo Park	6,585,581	613,469	45,504	9.32%	10.95%	112,621	53,443	\$7.88	\$8.44
Downtown	1,401,334	251,070	9,858	17.92%	18.40%	27,494	8,991	\$8.39	\$9.17
Sand Hill Road	1,210,812	141,269	23,490	11.67%	12.64%	56,383	29,086	\$10.30	\$10.30
Middlefield Road	944,446	73,745	0	7.81%	8.45%	4,614	0	\$7.77	\$7.77
Highway 101	3,028,989	147,385	12,156	4.87%	7.61%	24,130	15,366	\$5.35	\$5.71
Mountain View	8,797,585	1,008,222	198,666	11.46%	14.96%	62,488	-117,139	\$6.13	\$6.68
Downtown	1,665,822	359,454	137,833	21.58%	25.48%	17,624	-64,532	\$7.16	\$7.48
Central	377,353	75,801	0	20.09%	20.09%	0	-36,604	\$4.95	\$7.00
Shoreline	2,927,692	28,452	2,580	0.97%	0.97%	0	-9,793	\$2.76	-
South Middlefield	2,363,931	368,331	14,612	15.58%	25.87%	10,845	9,929	\$5.53	\$5.60
El Camino Corridor	1,462,787	176,184	43,641	12.04%	12.04%	34,019	-16,139	\$5.51	\$5.74
Palo Alto	9,111,801	1,392,741	376,145	15.29%	17.85%	295,678	81,224	\$6.98	\$7.44
Downtown	2,622,655	355,300	160,412	13.55%	18.37%	125,925	82,073	\$8.73	\$9.13
East Palo Alto	668,279	205,057	33,519	30.68%	30.68%	0	0	\$7.19	\$7.19
Stanford Research Park	3,230,695	419,185	76,126	12.98%	15.09%	138,164	-4,009	\$6.94	\$7.12
California Avenue	1,219,670	205,088	32,423	16.82%	17.00%	25,924	11,458	\$5.76	\$6.36
Bayshore	1,370,502	208,111	73,665	15.19%	17.85%	5,665	-8,298	\$4.03	\$4.02
Redwood City	6,075,349	539,684	143,192	8.88%	10.57%	94,534	-10,760	\$4.71	\$4.96
Downtown	2,828,233	409,086	95,578	14.46%	17.99%	87,436	2,526	\$5.41	\$6.78
Seaport	1,836,286	81,857	38,875	4.46%	4.46%	7,098	-7,444	\$2.65	\$2.50
Southern Area	1,410,830	48,741	8,739	3.45%	3.64%	0	-5,842	\$3.86	\$2.45
Redwood Shores	4,699,134	305,119	88,125	6.49%	6.49%	96,540	50,305	\$3.86	\$3.91
SOUTH PENINSULA	36,345,023	4,043,285	868,017	11.12%	13.20%	673,724	47,738	\$6.37	\$6.95

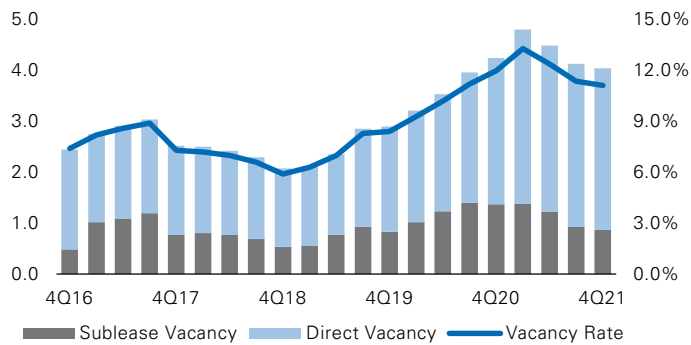
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Class A Submarket Statistics									
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Class A NNN Asking Rent (Price/SF)
Los Altos	502,401	0	114,619	13,942	22.81%	23.59%	11,863	-905	\$6.04
Downtown	324,654	0	78,483	1,100	24.17%	24.17%	9,496	-905	\$5.92
El Camino Corridor	177,747	0	36,136	12,842	20.33%	22.51%	2,367	0	\$6.50
Foothill Corridor	0	0	0	0	0.00%	0.00%	0	0	-
Menlo Park	5,337,500	202,003	509,666	45,504	9.55%	11.54%	102,793	57,374	\$8.44
Downtown	982,566	202,003	196,237	9,858	19.97%	20.53%	17,666	12,922	\$9.17
Sand Hill Road	1,210,812	0	141,269	23,490	11.67%	12.64%	56,383	29,086	\$10.30
Middlefield Road	491,028	0	66,451	0	13.53%	14.76%	4,614	0	\$7.77
Highway 101	2,653,094	0	105,709	12,156	3.98%	7.12%	24,130	15,366	\$5.71
Mountain View	6,516,614	1,863,397	803,833	178,268	12.34%	16.98%	30,365	-78,305	\$6.68
Downtown	1,158,472	0	305,413	137,833	26.36%	31.51%	5,500	-49,650	\$7.48
Central	146,721	0	23,347	0	15.91%	15.91%	0	-23,347	\$7.00
Shoreline	2,289,084	0	0	0	0.00%	0.00%	0	0	-
South Middlefield	1,994,828	1,863,397	331,141	14,612	16.60%	28.79%	0	0	\$5.60
El Camino Corridor	927,509	0	143,932	25,823	15.52%	15.52%	24,865	-5,308	\$5.74
Palo Alto	6,185,405	21,407	919,213	246,803	14.86%	16.59%	186,614	25,764	\$7.44
Downtown	1,589,977	21,407	226,045	118,786	14.22%	16.43%	39,417	27,499	\$9.13
East Palo Alto	668,279	0	205,057	33,519	30.68%	30.68%	0	0	\$7.19
Stanford Research Park	3,099,693	0	399,197	76,126	12.88%	15.08%	138,164	-4,009	\$7.12
California Avenue	528,182	0	68,623	15,251	12.99%	12.99%	9,033	9,033	\$6.36
Bayshore	299,274	0	20,291	3,121	6.78%	7.82%	0	-6,759	\$4.02
Redwood City	4,182,784	702,085	203,785	100,666	4.87%	6.99%	78,509	16,646	\$4.96
Downtown	1,701,423	702,085	146,783	61,791	8.63%	13.82%	78,509	16,646	\$6.78
Seaport	1,507,343	0	38,875	38,875	2.58%	2.58%	0	0	\$2.50
Southern Area	974,018	0	18,127	0	1.86%	1.86%	0	0	\$2.45
Redwood Shores	4,313,830	220,000	289,622	83,125	6.71%	6.71%	96,540	50,305	\$3.91
SOUTH PENINSULA	27,038,534	3,008,892	2,840,738	668,308	10.51%	12.76%	506,684	70,879	\$6.95

Historical Vacancy Rates								
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
South Peninsula	9.3%	10.2%	11.2%	12.0%	13.3%	12.4%	11.4%	11.1%
Los Altos	7.6%	7.7%	10.8%	14.2%	13.5%	12.5%	16.3%	17.1%
Menlo Park	8.6%	10.2%	11.1%	14.8%	14.0%	11.7%	10.1%	9.3%
Mountain View	7.5%	9.9%	10.1%	8.2%	9.1%	8.7%	10.4%	11.5%
Palo Alto	12.6%	12.6%	14.1%	14.2%	17.7%	17.3%	16.3%	15.3%
Redwood City	5.2%	5.7%	6.8%	9.1%	11.5%	10.8%	8.9%	8.9%
Redwood Shores	12.3%	12.1%	13.6%	14.3%	13.6%	12.8%	7.7%	6.5%

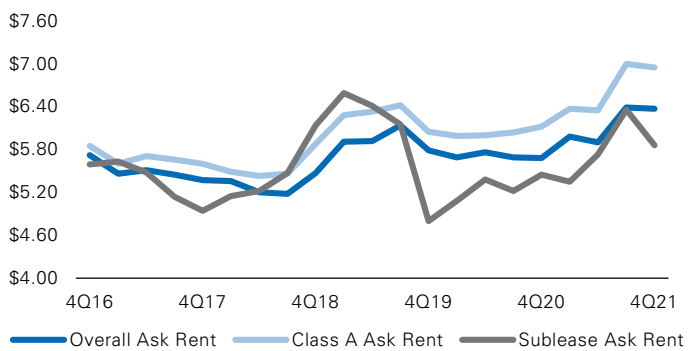
Vacancy Breakdown

SQUARE FEET, MILLIONS



Average Asking Rents

WEIGHTED, NNN, MONTHLY



Historical NNN Asking Rents

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
South Peninsula	\$5.69	\$5.76	\$5.69	\$5.68	\$5.98	\$5.90	\$6.39	\$6.37
Los Altos	\$4.72	\$4.80	\$4.30	\$4.27	\$5.25	\$5.09	\$5.26	\$5.02
Menlo Park	\$6.73	\$7.42	\$7.55	\$7.38	\$7.79	\$7.94	\$7.88	\$7.88
Mountain View	\$4.95	\$4.73	\$4.83	\$5.23	\$5.30	\$5.31	\$5.85	\$6.13
Palo Alto	\$6.99	\$6.89	\$6.72	\$6.63	\$6.63	\$6.88	\$6.96	\$6.98
Redwood City	\$4.50	\$4.97	\$4.96	\$4.86	\$5.23	\$4.68	\$5.13	\$4.71
Redwood Shores	\$3.99	\$3.61	\$3.59	\$3.57	\$3.57	\$3.53	\$3.90	\$3.86

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Historical Gross Absorption								
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
South Peninsula	887,379	575,256	111,924	523,763	396,604	677,122	886,579	673,724
Los Altos	52,819	6,100	789	4,005	9,840	17,881	23,081	11,863
Menlo Park	85,041	54,399	43,568	77,538	120,900	139,139	168,951	112,621
Mountain View	312,333	60,991	31,629	186,013	19,986	127,465	95,229	62,488
Palo Alto	187,426	243,916	13,133	198,707	84,623	274,890	159,313	295,678
Redwood City	214,723	37,028	9,257	9,507	109,102	48,910	425,844	94,534
Redwood Shores	35,037	172,822	13,548	47,993	52,153	68,837	14,161	66,540

Historical Net Absorption								
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
South Peninsula	-268,382	-470,951	-562,216	-397,234	-482,681	201,434	-188,670	47,738
Los Altos	2,129	-3,869	-32,913	-43,120	-24,517	5,731	-42,001	-9,335
Menlo Park	-48,874	-98,188	-100,124	-233,274	-9,019	80,185	85,688	53,443
Mountain View	161,820	-219,194	-44,603	109,623	-90,536	37,743	-277,721	-117,139
Palo Alto	-208,420	-23,869	-197,070	-61,159	-281,258	40,652	45,103	81,224
Redwood City	146,356	-94,998	-109,705	-135,707	-79,519	9,537	46,778	-10,760
Redwood Shores	-321,393	-13,696	-77,801	-33,597	2,168	27,586	-46,517	96,540

For more information:

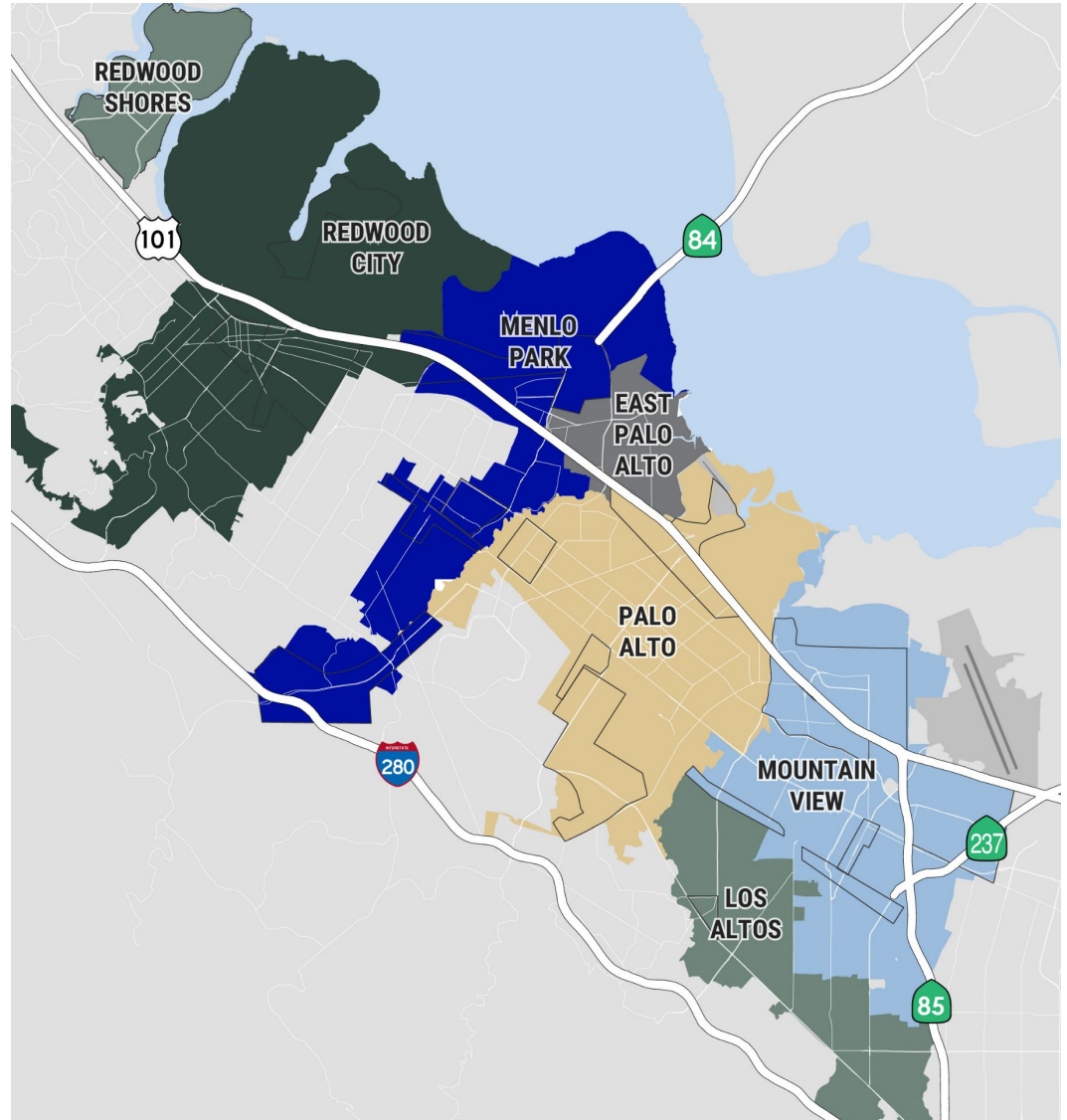
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective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

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