

4Q23

North Peninsula Office Market Overview



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Market Observations

Economy

- The region’s labor market remained strong amid shifting macroeconomic conditions. November’s 3.3% unemployment rate remained lower than the 4.1% five-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 and education/health led all sectors in job gains, while construction experienced the largest drop over the last 12 months.

Major Transactions

- SamTrans completed the largest deal of the quarter, signing a 146-month lease at the Gateway at Millbrae Station, totaling 157,694 SF transacted.
- Law firm Davis Polk & Wardwell LLP. completed the second largest deal of the quarter, leasing 51,000 SF on the second and third floors at 900 Middlefield Rd. in Downtown Redwood City.
- The largest sale of the quarter was made by Len Galant, who acquired the 2,438-SF medical office building located at 1275 California Dr. in Burlingame from Stephen Gould for \$2.25 million, or \$933/SF.

Leasing Market Fundamentals

- The region experienced its seventh consecutive quarter of negative net absorption and ended at negative 895,000 SF this quarter, bringing the yearly total to negative 2.5 million SF. It is worth noting that omitting Menlo Park net absorption numbers from the total in the fourth quarter of 2023 would have resulted in positive 20,000 SF for the region.
- Market-wide vacancy increased to 18.5% this quarter, up from 15.8% in the previous quarter and 12.2% one year ago. On the sublease front, vacancy counted for 6.8% of the total inventory and 36.9% of the total vacancy this quarter, compared with 4.5% of the total inventory and 28.5% of the total vacancy in the previous quarter.
- Market-wide availability rose to 20.5% this quarter, up from 18.9% in the previous quarter. For historical reference, availability for the region peaked at 28.6% during the dot-com bubble and 19.8% during the Global Financial Crisis.

Outlook

- Projects in the development pipeline are expected to be put on hold for more favorable market conditions. Acquisition activity is expected to remain tempered heading into 2024; however, regional investors are expected to step in to capitalize on lagging sales prices as market conditions improve.
- Uncertainty for occupiers in the immediate future is expected to linger into early 2024 after a tough 2023 in which venture capital deals and fundraising all decelerated. Factors that would contribute to a rebound in activity and demand in the latter half of 2024 are predicated on emerging markets, the stock market’s performance and interest rates.

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

4Q23

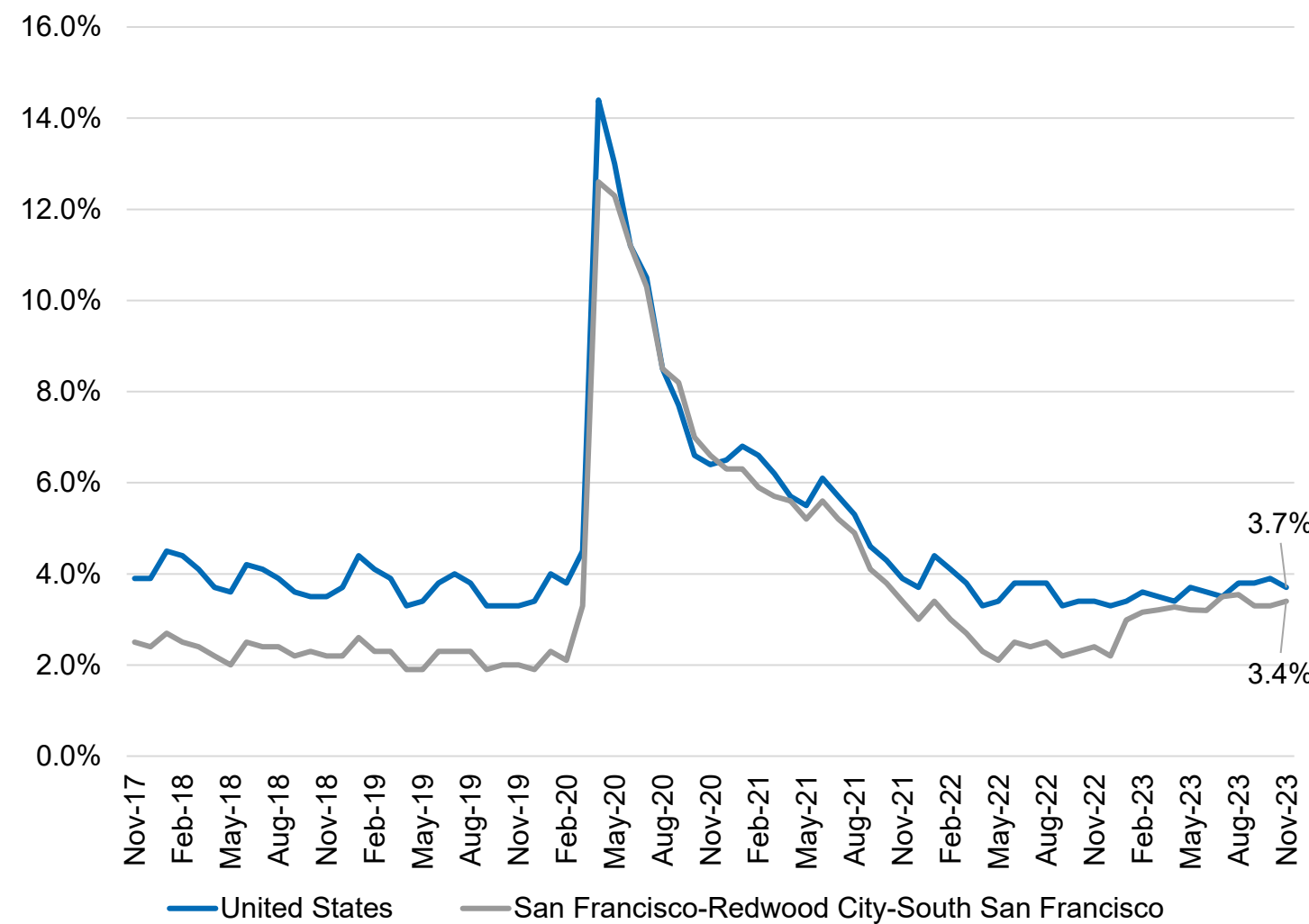
Economy



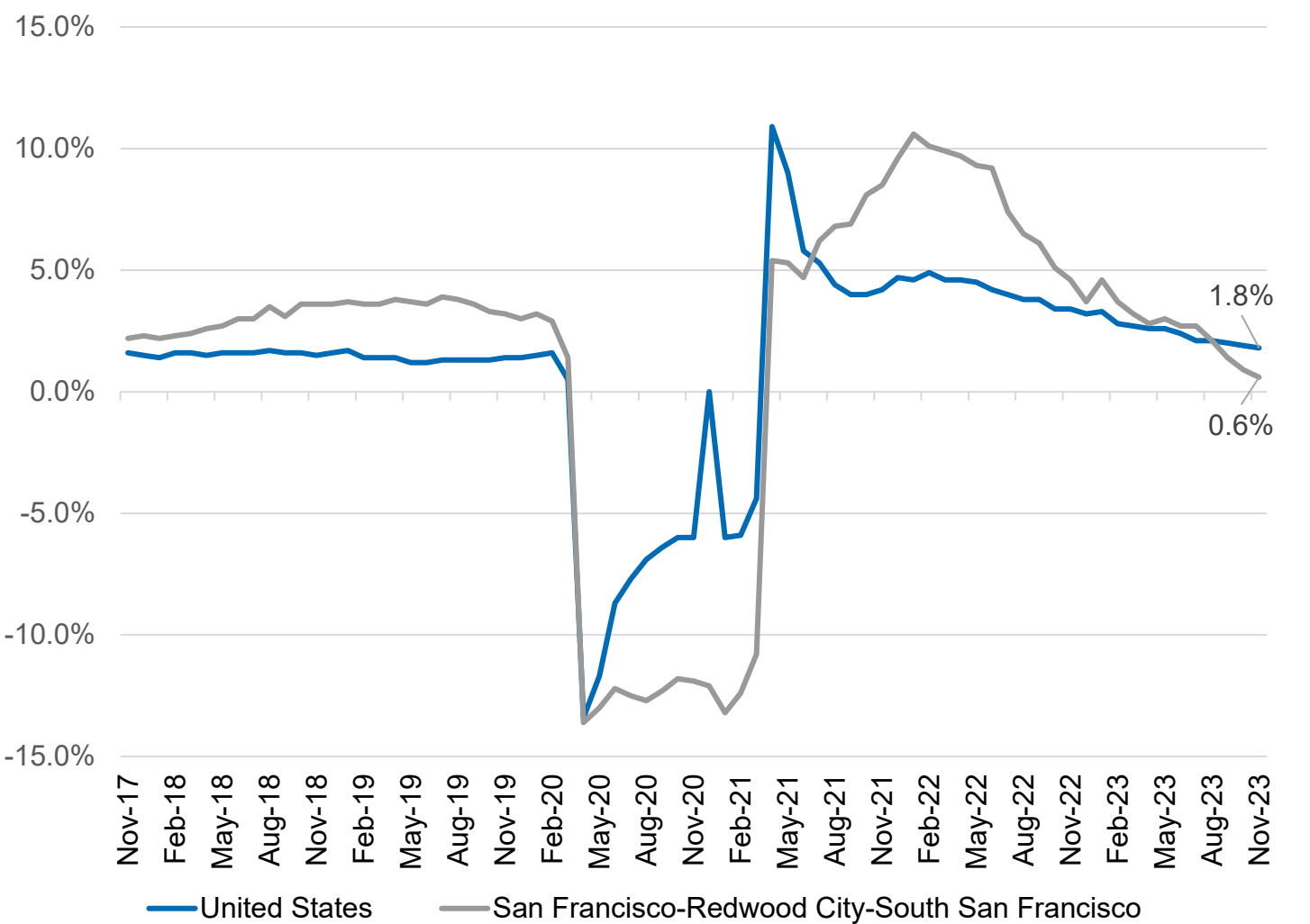
Metro Employment Trends Signal a Slowing, Tighter Economy

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

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

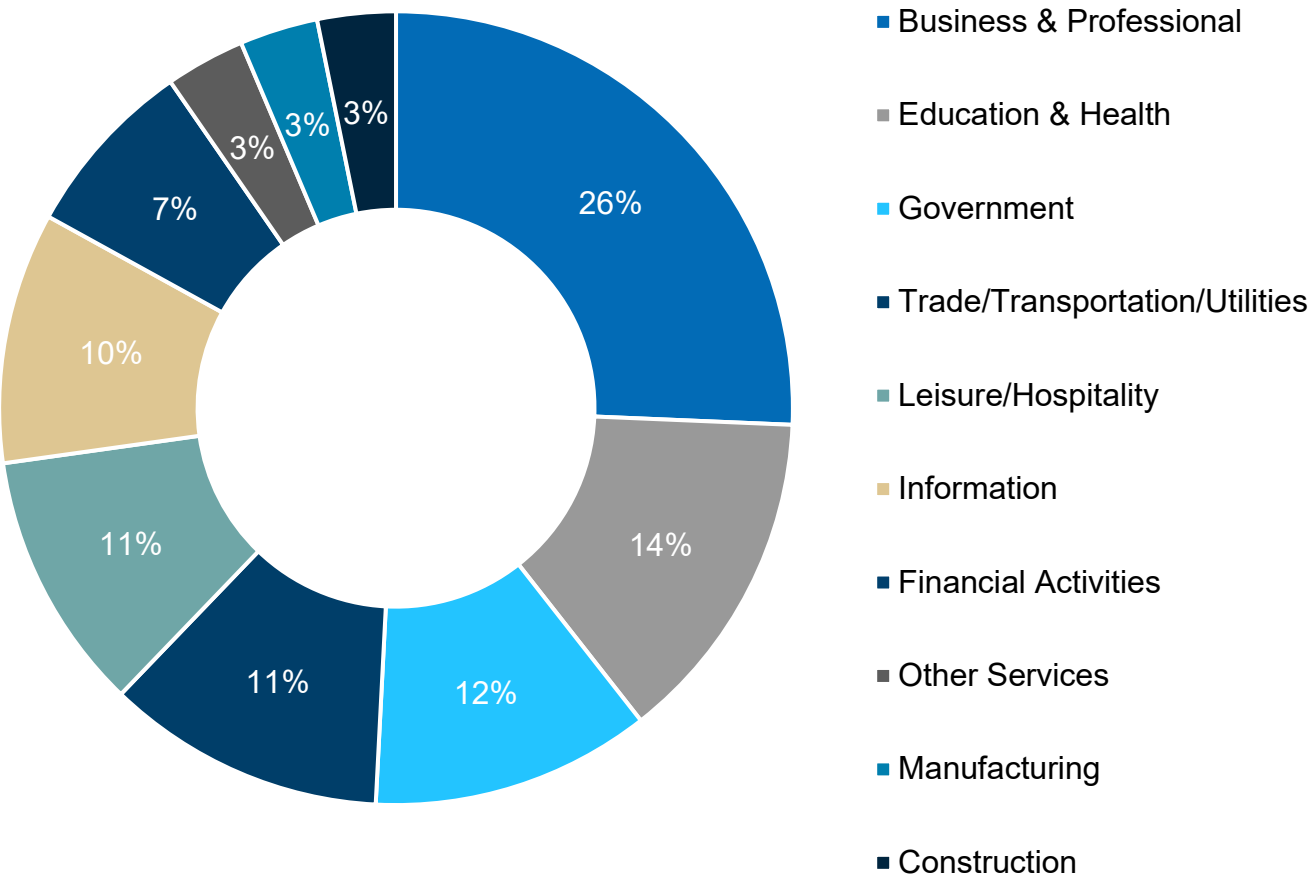


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

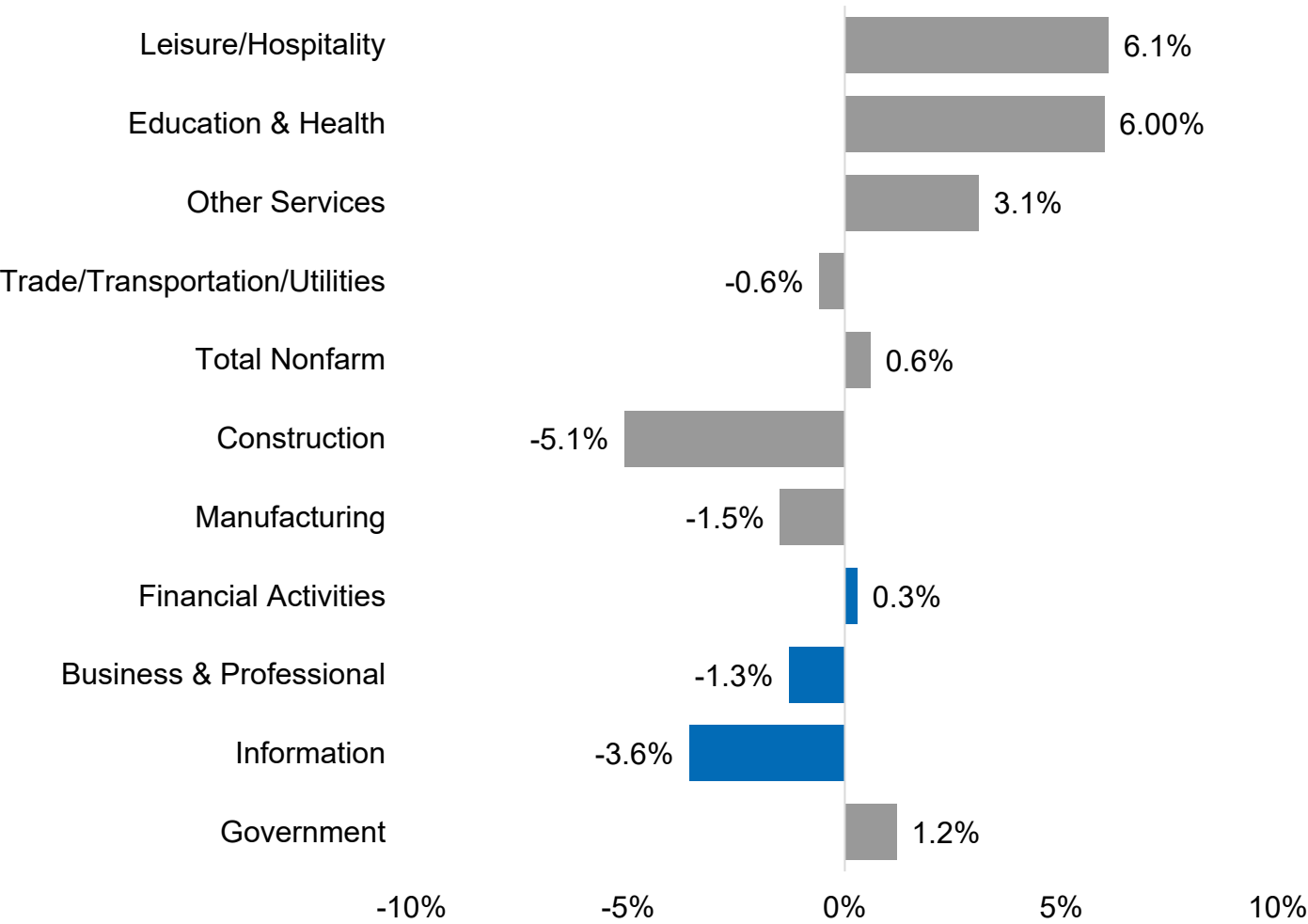
Employment Growth Bolstered by the Hospitality, Education and Health Industries

The education and health and leisure/hospitality sectors led all industries in regional year-over-year job growth, while the information sector had the largest percentage change in employment. The only office-using industry that did not have a year-over-year decline in employment is financial activities.

Employment by Industry, November 2023



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

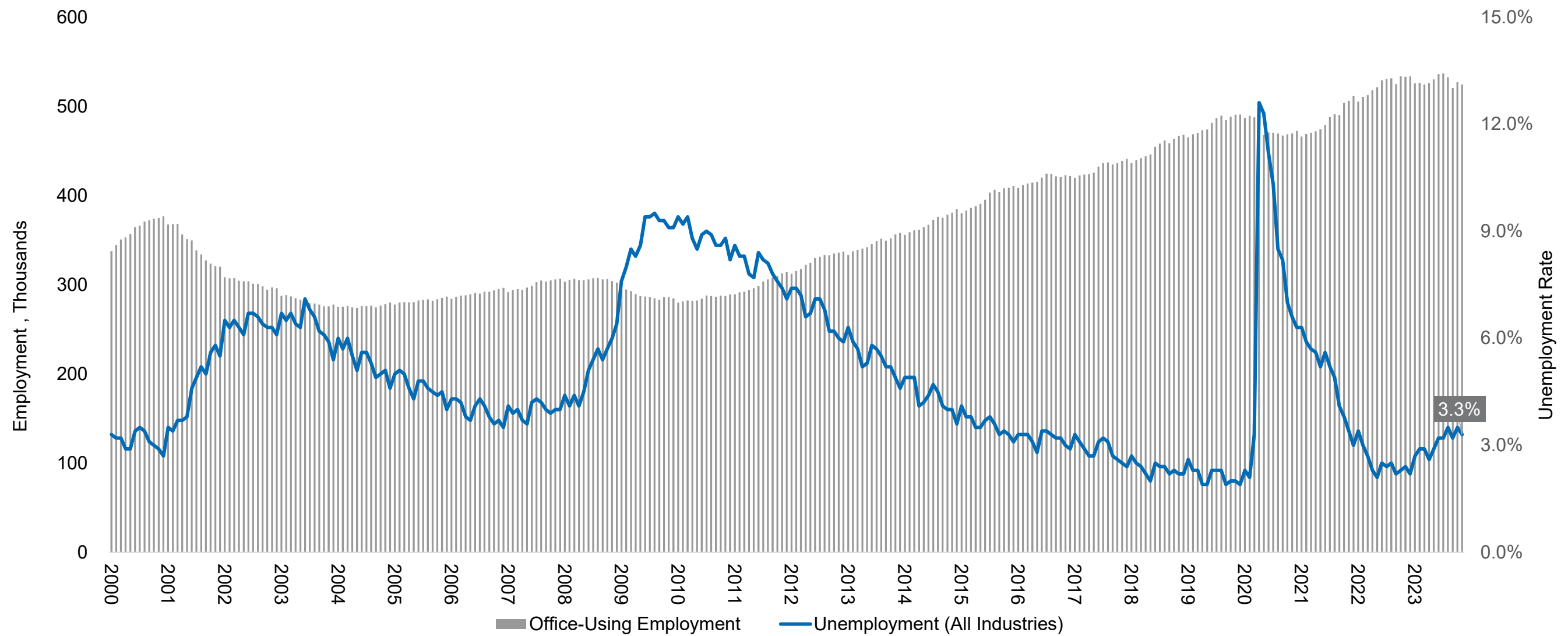


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

Overall Office-Using Employment Continues to Rebound Post Pandemic

The number of office jobs continues to rebound to above pre-pandemic levels, while the overall unemployment rate remains above the pre-pandemic mark. Companies located on the North Peninsula continue to adjust to reduced space requirements.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco
Note: November 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

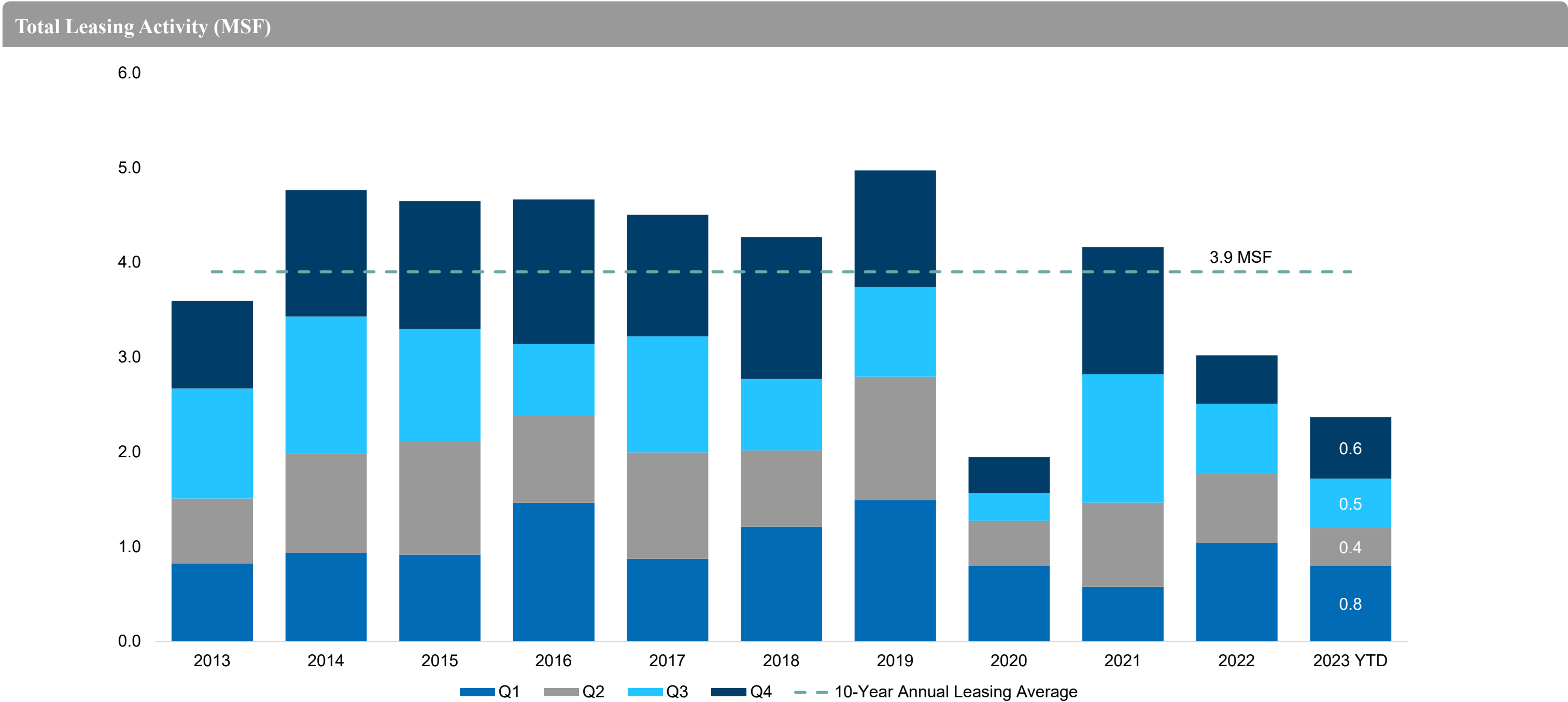
4Q23

Leasing Market Fundamentals



Leasing Activity Continues to Rebound from the Yearly Low

Total leasing activity for the quarter measured 650,000 SF, marking a 24.5% increase quarter over quarter and 27.0% increase year over year. Class A leasing accounted for 80% of the total amount of SF transacted this quarter, followed by Class B at 13% and Class C at 7%. This follows a quarter in which Class A leasing accounted for 68% of the total amount of space transacted, followed by Class B at 23% and Class C at 9%.



Source: Newmark Research, CoStar

A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of steel beams and girders forming a grid-like pattern. Large glass panels are visible, reflecting the sky and other parts of the structure. The perspective creates a sense of height and architectural scale. A solid blue horizontal band is superimposed over the middle of the image, containing white text.

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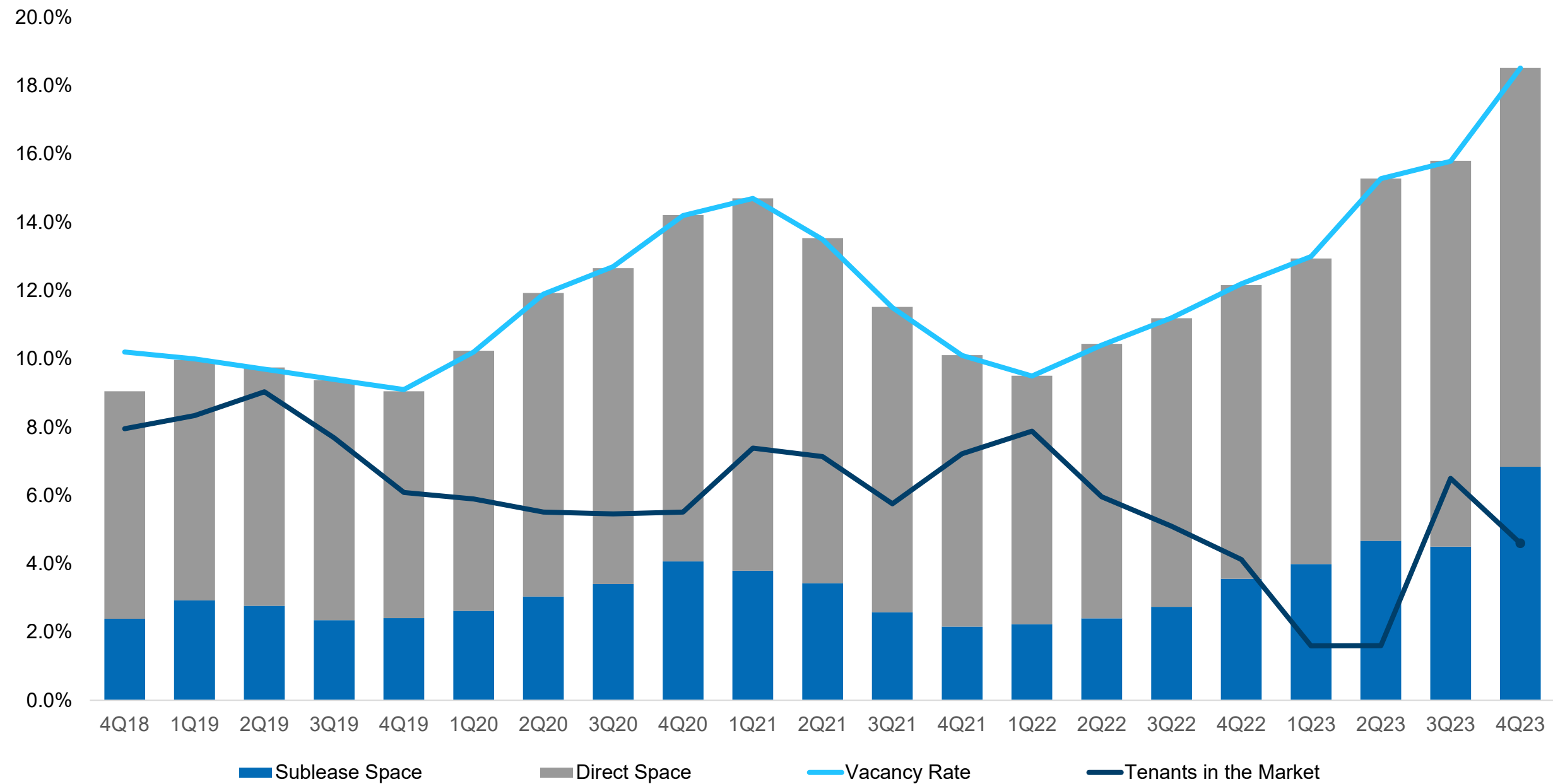


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Active Tenant Demand Down for the Quarter but Up Over Last 12 Months

Tenant demand decreased to 1.84 million SF this quarter, down from 2.63 million in the previous quarter but up from 1.70 million SF one year ago.

Vacant Space and Active Tenant Demand as Percent of Overall Market



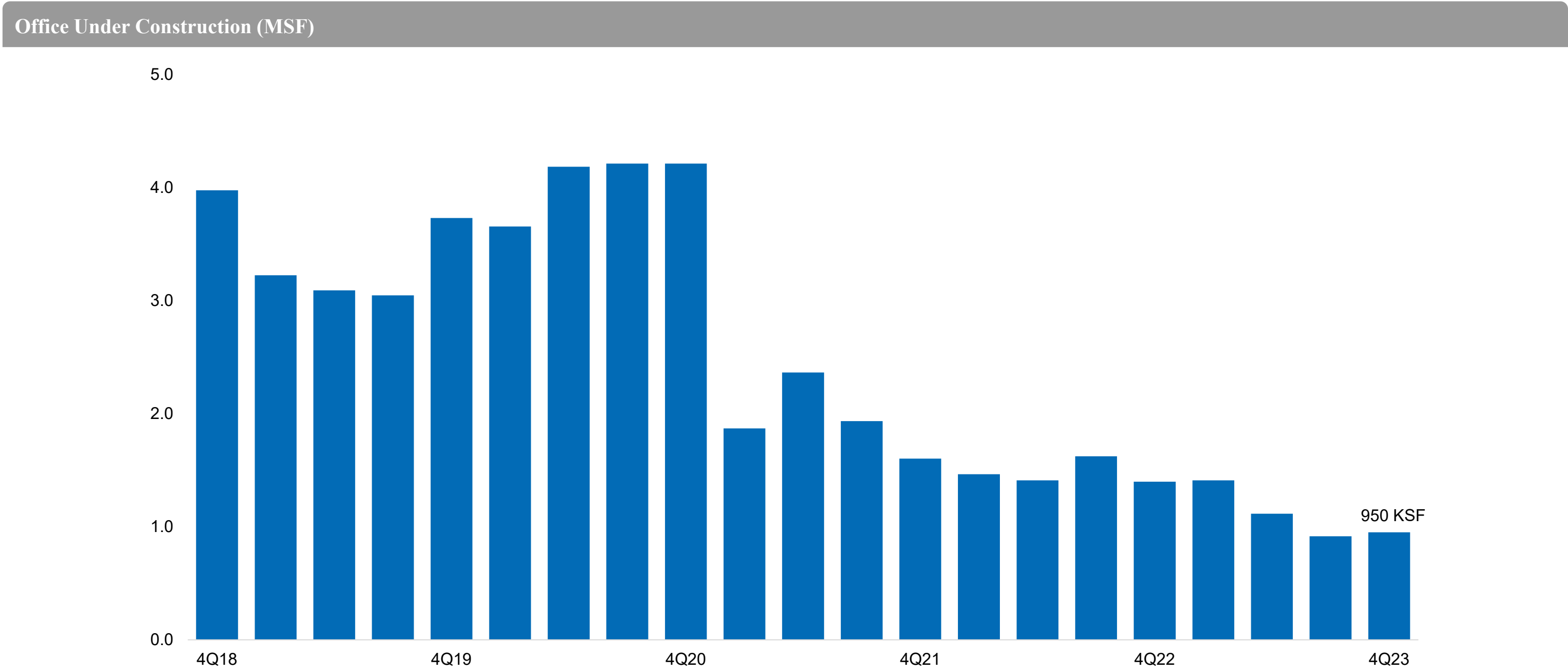
Source: Newmark Research



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Construction Activity Remains Tempered to Close Out the Year

The total volume of under-construction product in the North Peninsula market increased in the fourth quarter of 2023 and was recorded as 950,000 SF, with 27.7% of that under-construction figure already preleased. Development remains historically low, with 66.8% of ongoing construction located in Downtown submarkets. On the delivery side, there were no projects completed to report this quarter.



Source: Newmark Research



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Market Activity

There were five transactions greater than 20,000 SF executed this quarter, on par with the previous quarter and compared with four one year ago.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
SamTrans	166 N. Rollins Rd	Millbrae	Direct Lease	157,694
SamTrans completed the largest deal of the quarter, signing a 146-month lease at the Gateway at Millbrae Station.				
Davis Polk & Wardwell LLP.	900 Middlefield Rd	Redwood City	Direct Lease	51,000
International law firm Davis Polk & Wardwell LLP. completed the second-largest deal of the quarter, leasing 51,000 SF on the second and third floor at 900 Middlefield Road.				
Coherus Biosciences	333 Twin Dolphin Dr	Redwood Shores	Lease Renewal	27,532
Coherus Biosciences completed the third-largest deal of the quarter, renewing their 27,532-square foot lease on the sixth floor at 333 Twin Dolphin Drive.				
Apixio	1850 Gateway Dr	San Mateo	Lease Renewal	21,441
Healthcare AI company Apixio completed the fourth-largest deal of the quarter, renewing their 21,441-square foot lease on the third floor at 1850 Gateway Drive.				
Check Point Software Technologies	100 Oracle Parkway	Redwood Shores	Direct Lease	20,967
Check Point Software Technologies completed the fifth-deal of the quarter, leasing 20,967 SF on the eighth floor at 100 Oracle Parkway.				

Source: Newmark Research

4Q23

Appendix





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