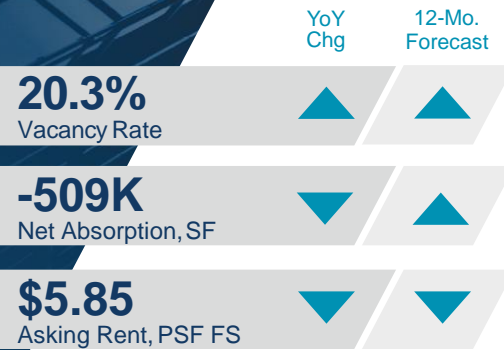


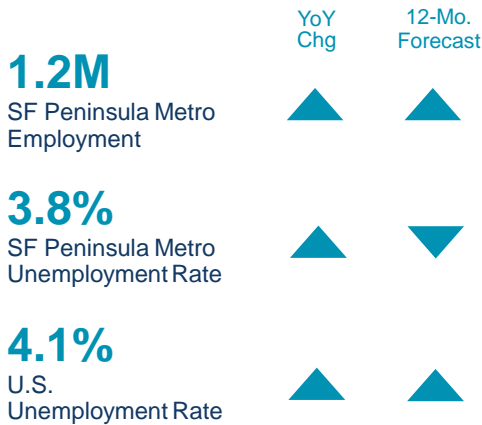
# SAN MATEO COUNTY

Office & R&D Q2 2024



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2024



Source: BLS, Moody's Analytics  
2024 Q2 data are based on latest available data

## ECONOMY: xAI Leads Venture Capital Funding

Total non-farm employment in the San Francisco metro division (MD) decreased by 0.5%, or 6,300 jobs year-over-year (YOY), while office jobs have fallen 2.5% below the pre-pandemic peak, largely because of a series of tech layoffs announced since the beginning of 2023. Subsequently, the unemployment rate has climbed 90 basis points (bps) YOY with the most recent figure at 3.8%. Venture capital (VC) funding into start-up companies headquartered in San Mateo County remained at a healthy level in the second quarter, with capital investment totaling \$7.8 billion (B), down from \$8.7B in the first quarter. San Mateo County-based companies captured 13.8% of the total funding to U.S. companies in the second quarter, with Burlingame based artificial intelligence company xAI at \$6.0B being the top deal in the Bay Area and second largest in the U.S.

## SUPPLY: Vacancy Set a New High

The San Mateo County combined office and R&D vacancy rate set a new high of 20.3% at the close of the second quarter of 2024. Vacancy increased 160 basis points (bps) quarter-over-quarter (QOQ) and 490 bps year-over-year (YOY). For office space, which accounts for 96% of all available space, the vacancy rate closed the quarter at 22.4%, with 15.6% direct and 6.8% sublease. The largest direct office block to hit the market this quarter was 129,353 square feet (sf) at 1 Franklin Pkwy in San Mateo followed by a 44,371-sf sublease block by SoftBank at Middle Plaza in Menlo Park. R&D vacancy which accounts for only 4.0% of total availabilities, increased 90 bps from the previous quarter to 326,438 sf with much of that being direct space in Southern San Mateo County. There remains uncertainty in the market due to ongoing tech layoffs and the fact that many software positions continue to be remote or hybrid.

## PRICING: Class A Rents Remain Elevated

The San Mateo County overall asking rent remained relatively flat in the second quarter at \$5.85 per square foot (psf) on a monthly, full-service basis, from \$5.86 psf the previous quarter and \$0.48 below the peak \$6.33 psf in the first quarter 2023. Burlingame surpassed Menlo Park for the first time at \$6.88 psf due to the delivery of 220 Park Road in the heart of its Downtown market. Class A complexes continue to command elevated direct rents in the market at \$6.69 psf while the Menlo Park Class A direct asking rent still reigns supreme at \$10.65 psf.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# SAN MATEO COUNTY

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## CONSTRUCTION: Pipeline to Deliver by 2025

A total of 789,054 sf is currently under construction, with 30.5% of the total square footage preleased; all projects are expected to deliver in 2025. Redwood City will gain two new buildings totaling 548,000 sf followed by Burlingame at 241,054 sf. The latest major delivery this quarter was 220 Park Road, located in the heart of downtown Burlingame; the project includes 170,000 sf of office and 15,000 sf of retail; Skyknight Capital kicked off leasing by occupying 9,220 sf. Downtowns along the Peninsula have been more successful in attracting workers back to the office thanks to an abundant mix of retail, entertainment, and proximity to CalTrain.

## DEMAND: Leasing Activity Slowed

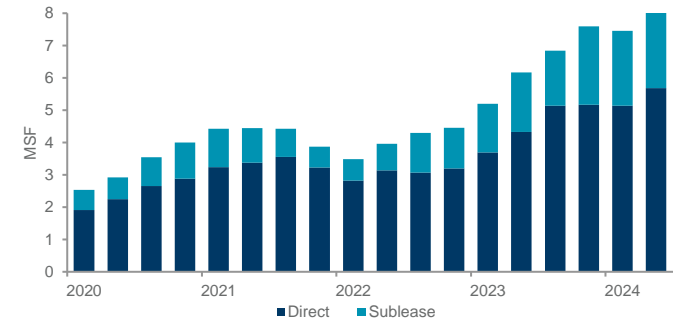
Leasing activity has recently been on the decline, finishing at 376,889 sf, with office capturing 323,070 sf of transactions. This was the least activity since the second quarter of 2023 at 309,514 sf. Over the past year, quarterly leasing activity averaged 515,551 sf, compared to the pre-pandemic 2019 quarterly average of 1.1 msf. The Corcept Therapeutics sublease from Zoura was the largest deal in the second quarter totaling 50,632 sf at 101 Redwood Shores Parkway in Redwood Shores followed by BeiGene's 37,390 sf coworking turned direct deal at 1840 Gateway Drive in San Mateo. The limited demand for large blocks of space coupled with major tenants offloading space has impacted leasing velocity.

Net absorption flipped from last quarter's positive 165,422 sf to this quarters negative 509,242 sf. The bulk of negative absorption came from Class A office buildings at negative 533,359 sf with Central San Mateo markets capturing negative 337,692 sf. Foster City was the only market with positive absorption at 59,550 sf. Net absorption remains vulnerable to both vacant space outpacing move-ins and slowing leasing activity across office buildings.

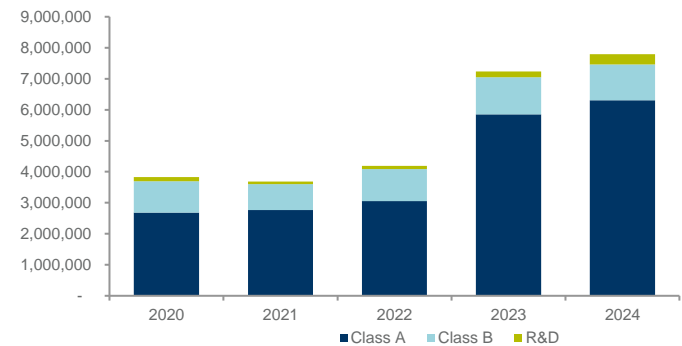
## OUTLOOK

- Vacancy rates could continue to rise incrementally in select markets with the tech sector continuing to shed space due to additional layoffs and positions remaining remote or hybrid.
- There will be a continued decrease in asking rents due to additional sublease space at discounted rates and direct spaces sitting longer; trophy class A pricing will likely be the exception thanks to the ongoing flight to quality.
- There is currently 3.0 msf of office and R&D tenants in the market, an increase from the 2.3 msf last quarter. The largest office demand segment is technology at 1.7 sf. The office and R&D markets will continue to benefit from being associated with life sciences with that sector the second largest demand driver at 1.5 msf.

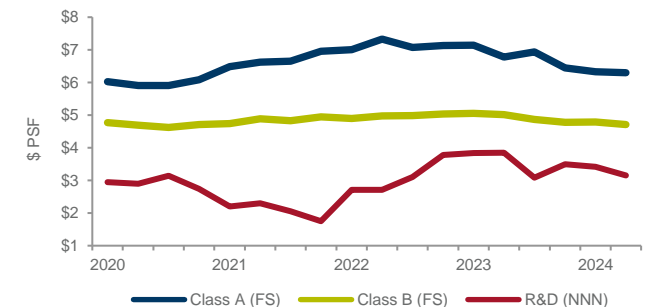
## Direct vs. Sublease Space Available Comparison



## Vacant Space by Product Type



## Asking Rent Comparison



## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERA AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Daly City	582,150	0	29,280	5.0%	-1,410	-256	4,087	0	\$3.26	N/A
Brisbane	495,595	80,464	106,171	37.7%	-55,309	-89,431	62,551	0	\$4.21	\$4.21
S. San Francisco	1,953,395	67,925	296,404	18.7%	-97,573	-65,226	31,544	0	\$4.31	\$4.45
San Bruno/Millbrae	1,944,890	0	225,205	11.6%	-19,221	-18,279	19,458	0	\$4.11	N/A
Burlingame	3,355,528	26,513	390,794	12.4%	9,072	6,930	99,009	241,054	\$6.88	\$9.22
<b>NORTH COUNTY TOTALS</b>	<b>8,331,558</b>	<b>174,902</b>	<b>1,047,854</b>	<b>14.7%</b>	<b>-164,441</b>	<b>-166,262</b>	<b>216,649</b>	<b>241,054</b>	<b>\$5.36</b>	<b>\$6.23</b>
San Mateo	8,019,042	289,559	1,543,327	22.9%	-203,078	136,714	428,253	0	\$5.46	\$6.12
Foster City	2,587,479	110,860	204,535	12.2%	59,550	4,574	114,020	0	\$5.63	\$5.73
Redwood Shores	4,802,799	250,924	813,013	22.2%	-115,669	-92,113	147,357	0	\$5.09	\$5.30
<b>CENTRAL COUNTY TOTALS</b>	<b>15,409,320</b>	<b>651,343</b>	<b>2,560,875</b>	<b>20.8%</b>	<b>-259,197</b>	<b>49,175</b>	<b>689,630</b>	<b>0</b>	<b>\$5.36</b>	<b>\$5.76</b>
Belmont/San Carlos	1,657,712	147,955	203,084	21.2%	0	-44,484	20,331	0	\$6.00	\$6.45
Redwood City	5,953,077	243,904	1,164,098	23.7%	-17,466	-119,995	63,288	548,000	\$5.97	\$6.38
Menlo Park	8,803,705	1,253,304	709,013	22.3%	-68,138	-62,254	195,684	0	\$6.84	\$6.99
<b>SOUTH COUNTY TOTALS</b>	<b>16,414,494</b>	<b>1,645,163</b>	<b>2,076,195</b>	<b>22.7%</b>	<b>-85,604</b>	<b>-226,733</b>	<b>279,303</b>	<b>548,000</b>	<b>\$6.43</b>	<b>\$6.74</b>
<b>SAN MATEO COUNTY TOTALS</b>	<b>40,155,372</b>	<b>2,471,408</b>	<b>5,684,924</b>	<b>20.3%</b>	<b>-509,242</b>	<b>-343,820</b>	<b>1,185,582</b>	<b>789,054</b>	<b>\$5.85</b>	<b>\$6.30</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
101 Redwood Shores	Redwood Shores	Corcept Therapeutics	50,632	Sublease
1840 Gateway Dr	San Mateo	BeiGene	37,390	New Lease
2400-2450 Sand Hill Rd	Menlo Park	Andreessen Horowitz	34,390	New Lease
3601 Haven Ave	Menlo Park	MainSpring Energy	20,216	Renewal
64 Willow Pl	Menlo Park	UBS Financial Services	14,979	Renewal

## KEY SALE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
Gateway at Millbrae Station	Millbrae	Republic Urban Properties / Swift Real Estate Partners	180,161	\$47.7M / \$265

## KEY CONSTRUCTION COMPLETIONS YTD 2024

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
220 Park Rd	Burlingame	Skyknight Capital	185,000	Dostart Development Co.& Sares-Regis Group
300 Ellsworth Ave, S.	San Mateo	N/A	26,500	Lane Partners
993 Laurel St	San Carlos	N/A	16,609	JMS Development Partners

# SAN MATEO COUNTY

Office & R&D Q2 2024



OFFICE SUBMARKETS



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