

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
19.4% Vacancy Rate	▲	▲
287K YTD Net Absorption, SF	▲	▼
\$5.81 Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▼	▼

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.2M San Francisco Metro Employment	▲	▲
3.4% San Francisco Metro Unemployment Rate	▬	▼
4.1% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY: Calming Venture Capital Funding

Total non-farm employment in the San Francisco metro division (MD) was nearly unchanged year-over-year (YOY) at 1.155 million (M) jobs. In conjunction, the unemployment rate flattened out YOY with the most recent figure at 3.4%. Venture capital (VC) funding into start-up companies headquartered in San Mateo County nose-dived in the third quarter, with capital investment totaling \$1.8 billion (B), down from \$7.8B in the second quarter and \$8.2B in the first quarter due to the lack of blockbuster deals like xAI and Stripe totaling a combined \$12.9B. San Mateo County-based companies captured 14.7% and 4.6% of the total funding to Bay Area and U.S. companies respectively in the third quarter. South San Francisco based drug discovery company ArsenalBio, with a \$325M funding round, secured the top deal in the county and third largest in the Bay Area.

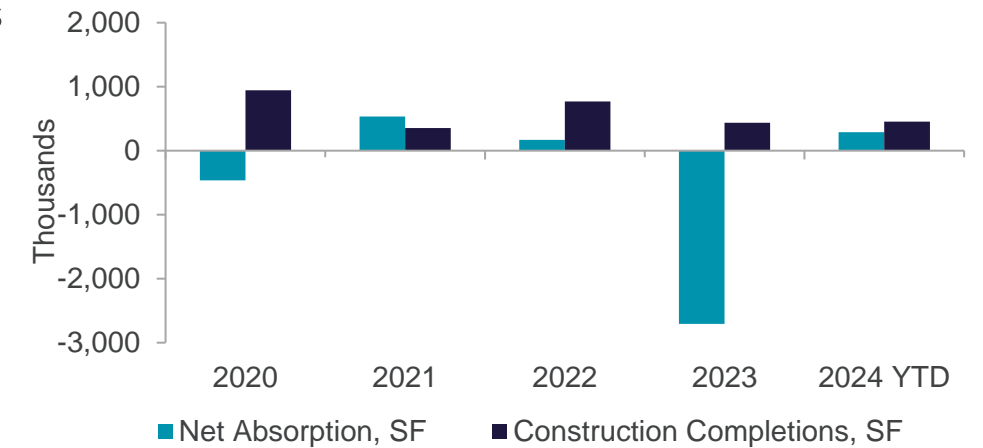
SUPPLY: Vacancy Momentarily Took a Step Back

The San Mateo County combined office and R&D vacancy rate stepped on the gas in the third quarter dropping 90 basis points (bps) quarter-over-quarter (QOQ) to 19.4%. That said, it remained up 210 bps year-over-year (YOY). For office space, which accounts for 96.3% of all available space, the vacancy rate closed the quarter at 21.4%, with 15.1% direct and 6.4% sublease. The largest direct office block to hit the market this quarter was 34,350 square feet (sf) at 1020 Marsh Rd in Menlo Park followed by a 27,500-sf sublease by Robinhood at 68 Willow Rd in Menlo Park. R&D vacancy which accounts for only 3.7% of total vacancy, decreased 30 bps from the previous quarter to 287,643 sf with much of that being direct space in Southern San Mateo County.

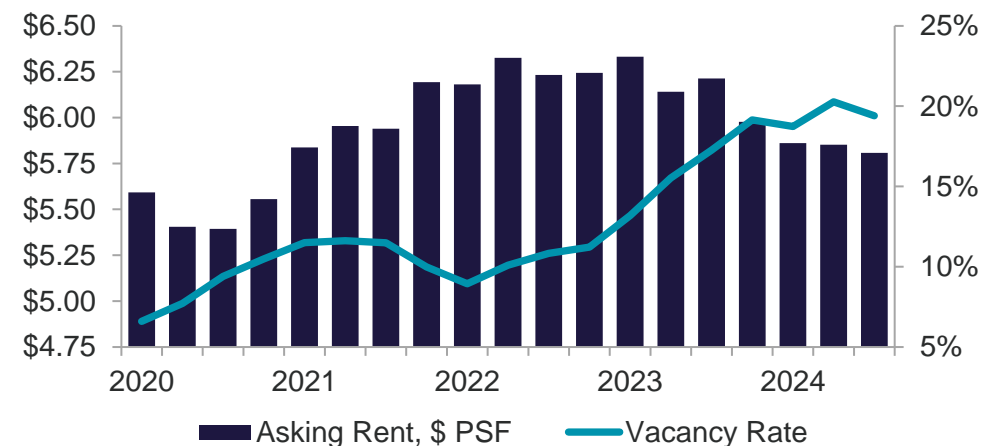
PRICING: Class A Rents Remain Elevated

The San Mateo County overall asking rent dipped in the third quarter at \$5.81 per square foot (psf) on a monthly, full-service basis, from \$5.85 psf the previous quarter and \$0.52 below the peak \$6.33 psf in the first quarter 2023. Burlingame retained the top spot above historical leader Menlo Park at \$6.96 psf due to premium new construction. Class A complexes continued to command elevated direct rents in the market at \$6.63 psf while the Menlo Park Class A direct asking rent reigned supreme at \$10.15 psf.

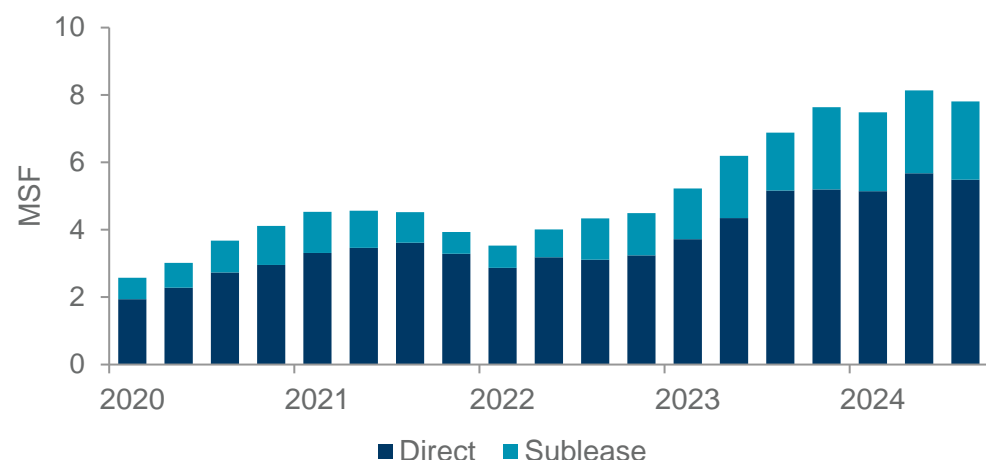
SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



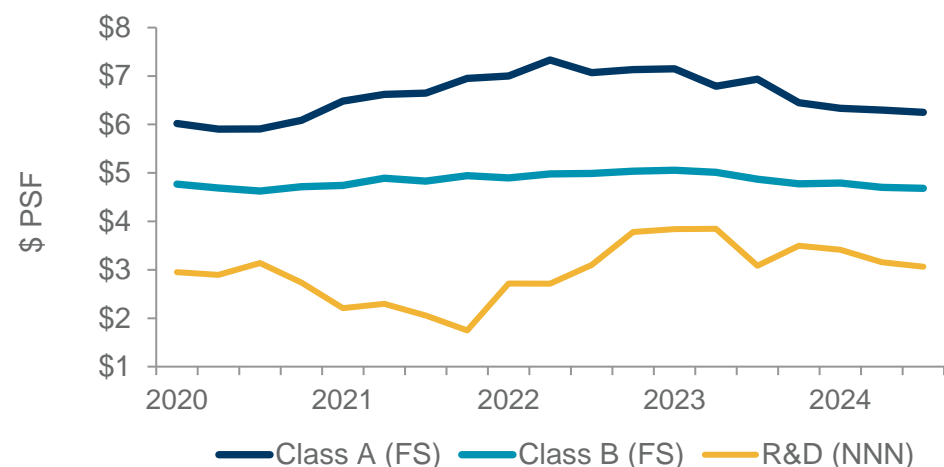
DIRECT VS. SUBLEASE VACANT SPACE COMPARISON



LEASING ACTIVITY



OVERALL ASKING RENT COMPARISON



CONSTRUCTION: Pipeline to Deliver by 2025

Two projects in Redwood City totaling 548,000 sf are currently under construction, with 100% of the total square footage available; both projects are expected to deliver in 2025. The latest major deliveries this year were 220 Park Road, located in the heart of downtown Burlingame, and Burlingame Bay Center fully leased to Meta.

DEMAND: Leasing Activity Slowed

Leasing activity continued its downward trend, finishing at 488,099 sf, with office capturing 450,077 sf of transactions. New leasing captured 64% of all deals, led by Vera Therapeutics subleasing 40,232 sf at 2000 Sierra Point Pkwy in Brisbane. The IXL Learning renewal and expansion was the largest deal in the third quarter totaling 93,000 sf at 777 Mariners Island Blvd in San Mateo followed by Course Hero’s 40,209 sf renewal at 2000 Seaport Blvd in Redwood City. 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 negative 466,098 sf to this quarters positive 563,316 sf. The bulk of positive absorption came from Meta’s move-in into Burlingame Bay Center and Corcept Therapeutics move-in into 101 Redwood Shores Pkwy. For the year, San Mateo County was positive at 286,915 sf while South County is the only region experiencing negative net absorption at 173,764 sf. Net absorption remains vulnerable to both vacant space outpacing move-ins and slowing leasing activity across office buildings.

SALES: Two Office Parks Trade Hands

In the third quarter of 2024, there were two transactions recorded in San Mateo County, closing for a total of \$76.9 million (M). The sales included San Mateo Gateway (\$34.9M) a three-building park in San Mateo that was 60% occupied at the time of sale and BridgePointe Office Park (\$42.0M) a two-building complex in San Mateo that is being purchased by an owner/user, the County of San Mateo. Both transactions sold at a significant discount to their pre-pandemic values, with nearly all transactions this year occurring at prices below \$320 psf. Recent sales transactions have been in assets with a history of strong leasing, secured pre-leasing or owner/user. As interest rates decline, anticipate a marked increase in investment sales activity or re-financing.

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 2.8 msf of office and R&D tenants in the market, a decrease from the 3.0 msf last quarter. The largest office demand segment is technology at 1.4 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 1.7 msf.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Daly City	582,150	0	29,280	5.0%	0	-256	9,344	0	\$3.26	N/A
Brisbane	495,595	80,464	48,659	26.1%	57,512	-31,919	102,783	0	\$4.09	\$4.09
S. San Francisco	1,953,395	53,982	284,318	17.3%	26,029	-39,197	58,747	0	\$4.29	\$4.45
San Bruno/Millbrae	1,944,890	0	218,607	11.2%	6,598	-11,681	19,458	0	\$4.14	N/A
Burlingame	3,596,582	26,513	352,011	10.5%	278,152	296,988	139,330	0	\$6.96	\$9.13
NORTH COUNTY TOTALS	8,572,612	160,959	932,875	12.8%	368,291	213,935	329,662	0	\$5.43	\$6.36
San Mateo	7,890,252	267,979	1,478,146	22.1%	75,714	201,139	618,011	0	\$5.34	\$6.01
Foster City	2,587,479	110,860	225,901	13.0%	-21,366	-16,792	130,866	0	\$5.63	\$5.72
Redwood Shores	4,802,799	97,997	811,430	18.9%	140,079	62,397	200,751	0	\$5.01	\$5.23
CENTRAL COUNTY TOTALS	15,280,530	476,836	2,515,477	19.6%	194,427	246,744	949,628	0	\$5.27	\$5.69
Belmont/San Carlos	1,660,188	130,960	219,905	21.1%	2,650	-21,294	45,065	0	\$5.95	\$6.33
Redwood City	5,956,255	284,367	1,089,762	23.1%	33,873	-68,478	169,507	548,000	\$5.85	\$6.21
Menlo Park	8,788,201	1,269,526	729,470	22.7%	-35,925	-83,992	254,378	0	\$6.78	\$6.93
SOUTH COUNTY TOTALS	16,404,644	1,684,853	2,039,137	22.7%	598	-173,764	468,950	548,000	\$6.36	\$6.65
SAN MATEO COUNTY TOTALS	40,257,786	2,322,648	5,487,489	19.4%	563,316	286,915	1,748,240	548,000	\$5.81	\$6.25

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
777 Mariners Island Blvd	San Mateo	IXL Learning	93,000	Renewal/Expansion
2000 Sierra Point Pkwy	Brisbane	Vera Therapeutics	40,232	Sublease
2000 Seaport Blvd	Redwood City	Course Hero	40,209	Renewal
149 Commonwealth	Menlo Park	Regus	23,809	New Lease
312 Chestnut St	Redwood City	Middleby Residential	20,593	New Lease

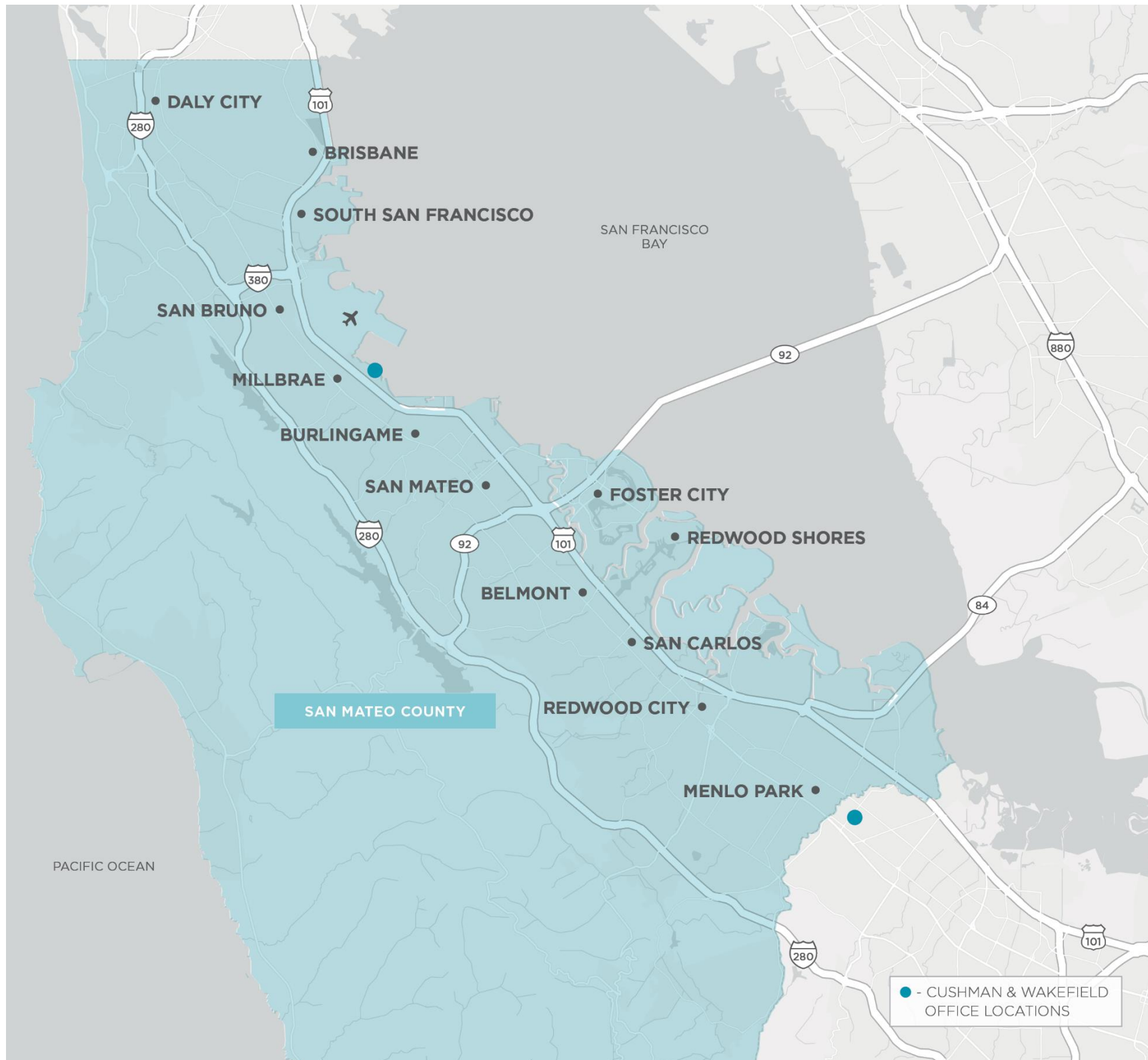
KEY SALE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
San Mateo Gateway	San Mateo	Kennedy Wilson / SC Properties	235,000	\$34.9M / \$148
BridgePointe Office Park	San Mateo	The Related Companies / County of San Mateo	132,900	\$42.0M / \$316

KEY CONSTRUCTION COMPLETIONS YTD 2024

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Burlingame Bay Center	Burlingame	Meta	241,054	Barings Real Estate Advisors/Lane Partners
220 Park Rd	Burlingame	Skyknight Capital	170,000	Dostart Development Co./Sares Regis Group

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