

SAN MATEO

EXECUTIVE SUMMARY

- Overall activity in San Mateo County's commercial real estate market is expected to maintain momentum going into 2020.
- Average asking rates have been on an upward climb for the past couple of years with signs pointing to an expected slowdown in year-over-year growth.
- Limited supply and preleased developments will continue to keep vacancy rates below 10% for all product types.
- The demand for placemaking within San Mateo County has been encouraging developers to enrich their plans with more lavish amenities and inviting outdoor areas.
- Alexandria Real Estate Equities proposes to create a new biotech district for research and development within San Carlos.
- San Mateo County continues to boast one of the strongest job markets in the area and the lowest unemployment rate in the state of California at 1.8% as of November 2019.

The commercial real estate market in San Mateo County will continue moving forward at a steady pace in 2020. Vacancy is expected to remain below 10% continuing to put upward pressure on average asking rates. The local economy will also continue to thrive as a result of one of the strongest job markets in the country. San Mateo County continues to measure the lowest unemployment rate in the entire state of California at just 1.8%, as of November 2019 according to the California Labor Market.

Overall vacancy rates for office, flex, and industrial products have been proving that there is still a strong amount of activity along the Peninsula. Due to the high amount of developments currently under construction, office and flex space should see moderate increases to their overall inventory and available space over the next year. However, limited supply since no new construction is viable, paired with a steady demand has constrained the industrial market to vacancy rates less than 5.0%.

The lack of supply and overwhelming need for space has allowed all average asking rents to rise over the past couple of years with office rents growing by 4.0% and industrial rents increasing by more than 12% from just two years ago. Premium class A rents within the office sector are averaging around \$8.10 fully serviced, per square foot (psf), compared to the overall office sector which recently noted rents at \$5.08 psf. Industrial rents have recently hit an all-time high record of \$1.65 NNN with no signs of slowing down. The dwindling supply of large blocks of industrial space have allowed landlords to increase rents to levels not previously seen within San Mateo County.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	→	↑
Vacant Space	↑	↑	↑
Construction Levels	↓	↓	↑↑
Leasing Volume	→	→	↑
Investment Volume	↓	↓	↓

The demand for placemaking has been driving developer decisions to create more lavish developments and as a result of this constant need for new office space and current land constraints among the Peninsula, the industrial inventory has seen a reduction each year. Placemaking is an increasing trend within new construction, where employees are now looking for more than just a fancy workspace. They want an entire environment built out for them where they can work, live, and play simultaneously, while also enjoying other related benefits such as the possible ease of their commute to and from work.

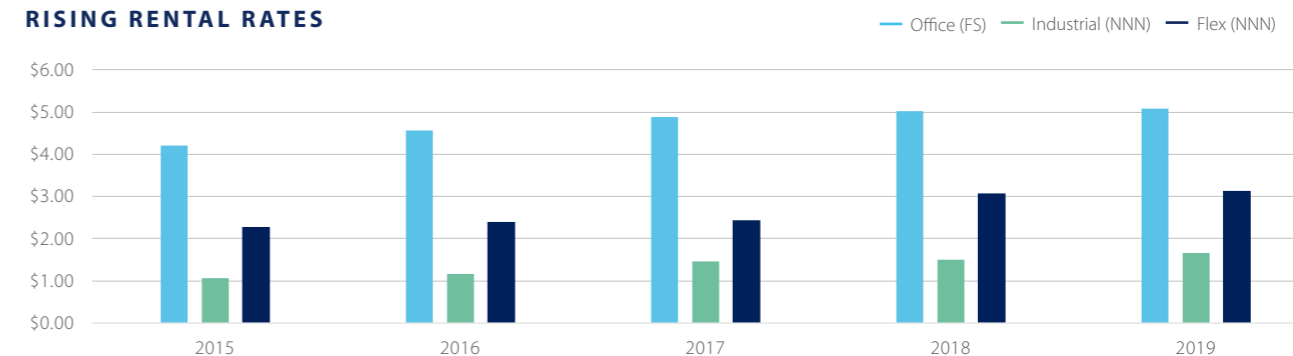
Placemaking has been driving demand for new development within Central San Mateo County due to its' centralized location along the Peninsula and quick access to the San Mateo Bridge for an easy connection to the East Bay. As an example, one of the larger developers in the area, Alexandria Real Estate Equities, has decided to finally push the biotech

industry into the center of the Peninsula. Alexandria currently has over 500,000 square feet of flex space under construction within San Carlos in addition to their recently submitted plans to build out a 1.6 million square foot campus, all being referred to as the new Alexandria District for Science & Technology. Alexandria hopes that this campus will be an enticing new destination for biotech companies that are seeking expansion opportunities within San Mateo County.

Overall, the commercial real estate market should remain strong going into 2020. Vacancy rates should remain low while asking rates will stay relatively the same. The amount of new construction expected next year should bring some new opportunities for existing tenants, while leasing activity is expected to remain the same. All in all, the commercial real estate market within San Mateo County should continue to prove its strength within the Bay Area.

All products within San Mateo County have seen an upswing in average asking rents. Since 2015, office rents have increased by 21%, flex rents have increased by 38% and industrial rents have more than doubled. Even though rents are expected to slow their year-over-year growth, we should still expect rates to remain high over the next couple of years due to the continued demand along the Peninsula.

RIISING RENTAL RATES



Source: Avison Young and CoStar Realty Information, Inc.