Q3 2018 / Quarterly Office Market Report

San Mateo County

Market Facts

8.7%
Class A Vacancy

9.1%
Class B Vacancy

$4.99 FS
Class A Average Asking Rate

$4.21 FS
Class B Average Asking Rate

Market Overview

At the close of the third quarter, San Mateo County's office market recorded an occupancy gain totaling 219,063 square feet. The is now the fourth consecutive quarter that occupancy levels have increased, totaling 731,857 square feet of positive net absorption over the 12-month period.

Total vacant space in the San Mateo County office market measured a decrease quarter over quarter, falling to 3.2 million square feet from 3.3 million square feet the prior quarter. This amount of space translates to a vacancy rate of 8.4%, down from 8.8% measured during the second quarter. Vacant sublease space accounted for just over 22% of total vacant space at the close of the third quarter, while it accounted for 27.1% of all available supply. These spaces offer tenants attractive alternatives at discounted rates and will likely be reabsorbed in the coming quarters.

Average asking rates in San Mateo County measured an increase in the third quarter as available supply diminished during the period. Quarter over quarter, asking rates climbed 1.1%, ending the third quarter at $4.82 per square foot, full service. Going into the fourth quarter of the year, asking rates may stabilize due to competition from the available sublease space, as it makes up a large percentage of total available supply. The South County submarkets command the highest premium in rates as demand for space in these submarkets remains strong. South County, which includes Menlo Park, Redwood City, Belmont and San Carlos recorded average asking rates 24.6 percent higher than the average asking rate throughout the San Mateo County, at $6.01 per square foot full service.

More than 3.0 million square feet of new office construction was underway in the San Mateo County at the close of the third quarter. More than half the office space underway is spoken for in the form of preleases or build to suits. Projects breaking ground in the third quarter included 855 Main Street, a 95,000 square foot project in the heart of downtown Redwood City as well as the second building at Station 1300 in Menlo Park..

The San Mateo County office market is expected to remain strong throughout the remainder of 2018. The region continues to measure economic growth despite having been in an expansion mode since early 2011. San Mateo County boasts an unemployment rate of just 2.3%, down from 2.9% measured one year earlier. Job growth in the region is felt throughout the San Mateo County office market with increasing tenant demand.

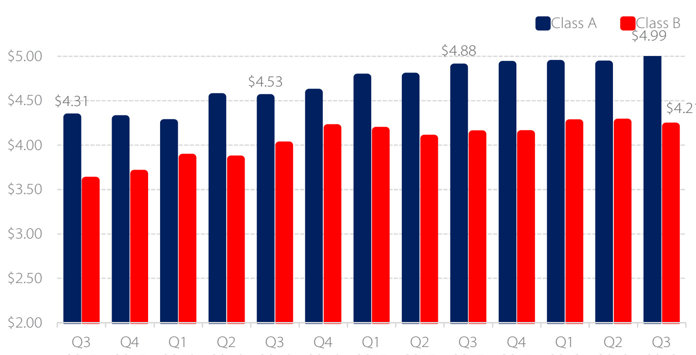
Market Snapshot

Tenant demand remains strong in the San Mateo County as many tenants are actively looking for space in the region. More than 2.0 million square feet of requirements are being tracked, from both large established companies and small start-ups, demonstrating that the San Mateo office market will measure continued growth through the end of the year.

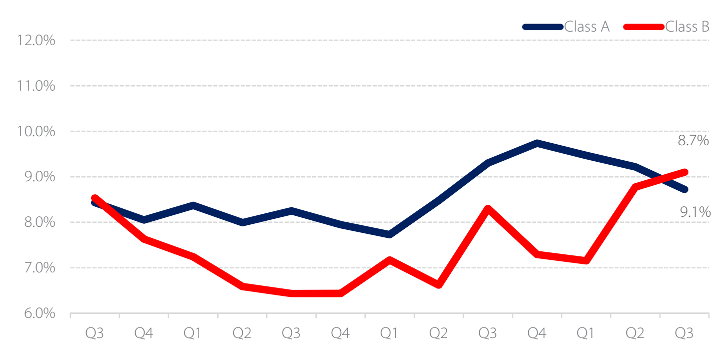
Market Inventory	Overall Vacancy Rate	Net Absorption	Under Construction	Average Asking Rate
↗	↙	↙	↙	↗
38,132,257 SF	8.4% (8.8%*)	219,063 SF	3,045,570 SF	$4.82 PSF ($4.77*)

*Compared to previous quarter

Historical Asking Rental Rate (FSG)



Historical Vacancy

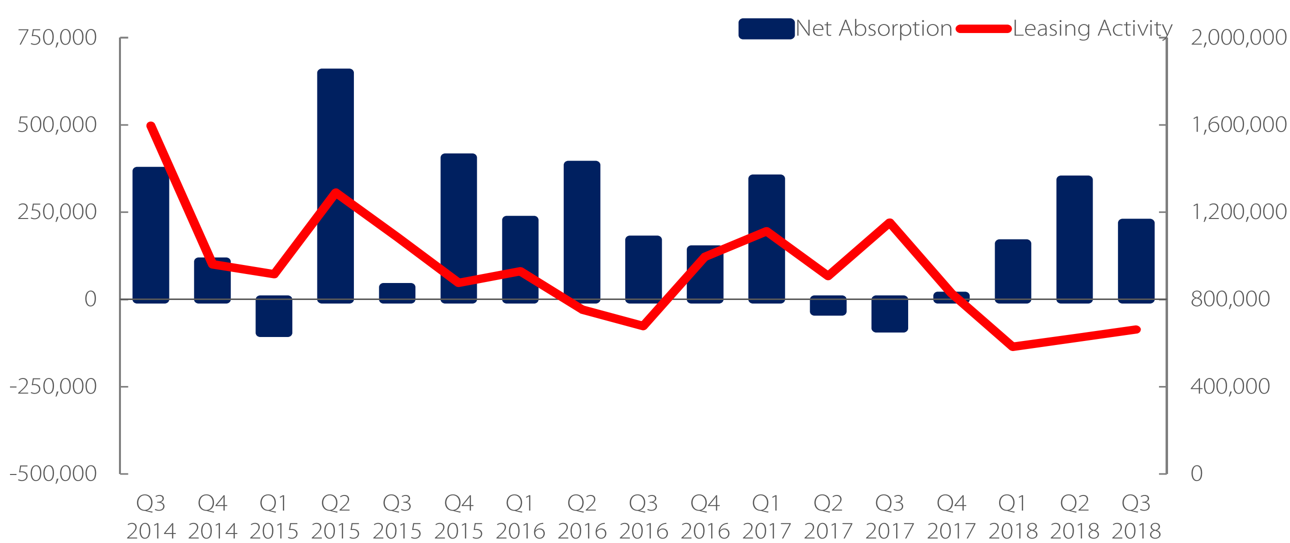


Market By The Numbers

SUBMARKET	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate Class A	Vacancy Rate Class B	Direct Avail Space (SF)	Sublet Avail Space (SF)	Avail Rate Class A	Avail Rate Class B	Net Absorp. (SF)	Under Construction	Average Asking Rent Total	Average Asking Rent Class A	Average Asking Rent Class B
Daly City	1,106,240	76,320	0	8.5%	6.6%	118,700	0	14.4%	7.8%	-5,404	0	$3.67	$4.21	$1.90
Brisbane	749,856	9,364	8,427	2.5%	2.3%	70,396	22,116	20.3%	1.8%	-14,133	0	$3.88	$4.44	$3.72
South San Francisco	2,304,126	234,096	80,296	14.4%	13.0%	240,853	28,836	11.0%	15.1%	-86,842	721,605	$3.47	$3.55	$3.44
San Bruno/ Millbrae	1,778,912	13,191	2,000	0.2%	0.0%	9,425	27,262	0.0%	8.5%	-9,048	0	$2.82	$4.08	$3.95
Burlingame	2,429,720	216,966	46,715	37.1%	7.4%	204,472	27,362	18.0%	7.5%	-40,055	786,462	$3.86	$4.11	$3.55
North County	**8,368,854**	**549,937**	**137,438**	**11.2%**	**6.9%**	**643,846**	**105,576**	**10.3%**	**8.6%**	**-155,482**	**1,508,067**	**$3.63**	**$3.86**	**$3.35**
San Mateo	8,265,598	656,770	382,310	9.7%	17.2%	891,301	556,330	16.4%	16.2%	146,606	493,380	$4.72	$5.11	$4.15
Foster City	3,317,053	579,682	23,298	19.3%	8.4%	654,139	64,610	21.1%	6.6%	3,859	0	$5.27	$5.28	$4.94
Redwood Shores	5,363,005	435,916	43,255	8.7%	13.9%	498,435	87,682	12.2%	13.6%	134,923	0	$5.19	$5.25	$4.42
Central County	**16,945,656**	**1,672,368**	**448,863**	**11.6%**	**16.1%**	**2,043,875**	**708,622**	**15.8%**	**15.1%**	**285,388**	**493,380**	**$4.98**	**$5.22**	**$4.21**
Belmont/San Carlos	1,460,038	70,161	1,850	7.8%	3.4%	81,879	66,986	7.8%	13.6%	-6,140	29,233	$4.55	$4.64	$4.36
Redwood City*	4,469,695	64,625	78,671	2.4%	2.3%	217,555	228,113	10.0%	5.5%	55,411	256,306	$5.86	$5.94	$6.63
Menlo Park	6,888,014	138,902	47,101	2.4%	3.2%	306,612	136,445	5.1%	8.5%	39,886	758,584	$6.69	$6.48	$5.74
South County	**12,817,747**	**273,688**	**127,622**	**2.8%**	**2.8%**	**299,434**	**295,099**	**6.8%**	**8.1%**	**89,157**	**1,044,123**	**$6.01**	**$5.96**	**$5.73**
San Mateo Co. Total	**38,132,257**	**2,495,993**	**713,923**	**8.7%**	**9.1%**	**2,987,155**	**1,109,297**	**12.0%**	**11.0%**	**219,063**	**3,045,570**	**$4.82**	**$4.99**	**$4.21**

*Excluding Redwood Shores

Historical Net Absorption & Leasing Activity



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Myokardia	Sierra Point Parkway, Bldg B	Brisbane	135,202	New
WeWork	400 Concar Drive	San Mateo	96,000	New
Adverum	700 & 800 Saginaw Drive	Redwood City	83,330	New
Allogene	210 East Grand Avenue	South San Francisco	67,800	New

Top Sales

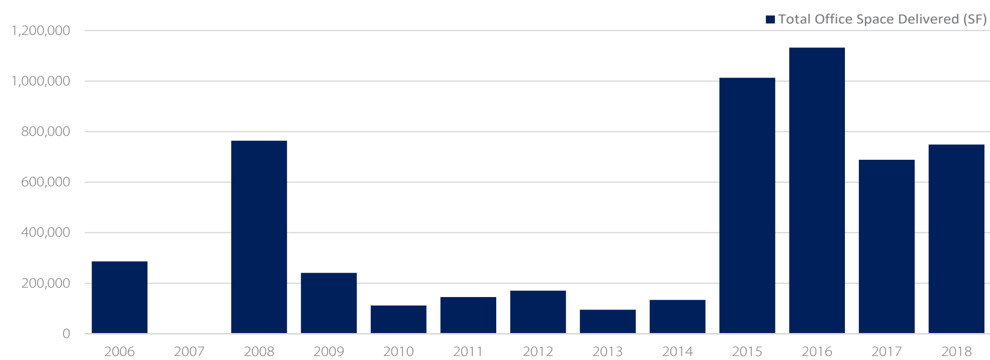
Building	Buyer	Submarket	Square Feet	Sale Price
Peninsula Office Park	Harvest Properties	San Mateo	447,000	$210,000,000
620-660 East Grand Avenue	Genentech	South San Francisco	334,000	$269,452,000
2555 Flores Street	Movassate Family Trust	San Mateo	25,000	$6,800,000

Under Construction

Building	Developer	Submarket	Square Feet	% Leased	Status
Burlingame Point	Kylli	Burlingame	767,000	100%	Q3/19
Menlo Gateway Phase II	Bohannon	Menlo Park	521,000	100%	Q3/19
1 Franklin Parkway	Franklin Templeton Investments	San Mateo	241,936	100%	Q1/20
Bay Meadows - Station 2	Federal Realty	San Mateo	189,103	100%	Q4/18
Broadway Station	Lane Partners	Redwood City	114,859	100%	Q4/19

*Phase I (252,000 sf complete Q1 2018)

New Construction Delivery (Historical)



AY San Mateo Team

Office Group

Randy Keller, Managing Director / Principal	650.425.6425
Lloyd Bakan, Principal	650.425.6418
Phil Fletcher, Associate	650.425.6421
Jon Geary, Associate	650.425.6415
Wendy Leung, Vice President	650.425.6416
Todd Campbell, Vice President	650.425.6412
Cheryl Simpson, Operations Manager	650.425.6420
Raquel Ledesma, Graphic Designer	415.322.5057
Erika Kim, Vice President, Marketing	415.349.3400
Jennifer Vaux, Vice President, Research	408.913.6902

Property Management / Lease Administration

Deanna Drake-Copelan, West Coast Director, Property Management	415.322.5060
Tom Greenfield, CPM® LEED®, Property Manager	510.534.4700
Angela Salso, General Manager	415.392.4114
Linda Yang, Senior Property Accountant	415.392.4114
Stan Yoshihara, Managing Director / Principal, Property Management	213.471.7019

Project / Construction Management

David Gonzales, Managing Director / Principal	415.322.5065
Shannon Dupler, Manager, Financial Reporting	415.349.3399
Clare Friel, Project Manager	415.349.3406
David Skarlanic, Project Manager	415.322.5066
Nicole de la Rosa, Assistant Project Manager	510.254.4268

AVISON YOUNG

Intelligent Real Estate Solutions

avisonyoung.com

Avison Young - Northern California, Ltd.
950 Tower Lane, Suite 120
Foster City, CA 94404
T 650.425.6413 F 650.425.6413