

San Mateo County



Market Facts

3.5%

Overall Vacancy

\$3.14 FS

Average Monthly Asking Rate

6,318 SF

Q3 2019 Net Absorption

2,512,633 SF

Under Construction

San Mateo County remains the central biotech hub within the Bay Area. South San Francisco, in particular, is expanding at an exponential rate with over 2 million square feet of developments under construction. The demand is so high for research and development (R&D) space that over 44% of projects currently under construction are preleased. R&D development does not appear to be slowing down any time soon.

Vacancy

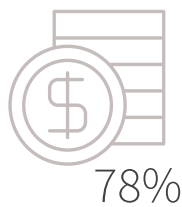
San Mateo County measured 555,427 square feet of available R&D space at the close of the third quarter, translating to a 3.5% overall vacancy rate. Over the past four years, the vacancy rate has remained below 5% due to the high influx of biotech tenants and the increasing demand for new space along the Peninsula. Although there is just over 2.5 million square feet of development slated for delivery within the next couple of years, vacancy rates should remain low due to the high number of already preleased space.

Asking Rates

Overall asking rates within the R&D sector in San Mateo County continue to rise. The market recorded a \$3.14 psf, full service asking rate at the end of the third quarter, which is 35% higher than the rate from two years ago. Menlo Park and South San Francisco command the two highest rents within the Peninsula, ending the quarter at \$4.72 and \$3.30 psf, full service, respectively.

Demand

Total leasing activity for the R&D market measured 461,336 square feet at the end of the third quarter, which is a 48% increase from last quarter. Nevertheless, the amount of space from tenants moving in almost matched the amount of space that tenants are giving up, resulting in positive net absorption of 6,318 square feet. Year to date, San Mateo County's R&D market has recorded an overall occupancy gain of 550,938 square feet, with lease transactions totaling 1,080,000 square feet.



Investment Activity

One significant sale transaction, which occurred at 500 Forbes Boulevard in South San Francisco, accounted for 78% of the total sales volume for the third quarter of 2019.

Trends to Watch



Opportunities

Preleased developments are leaving little room for other tenants to expand.



Labor

High labor costs and low labor availability are slowing down expected delivery dates.



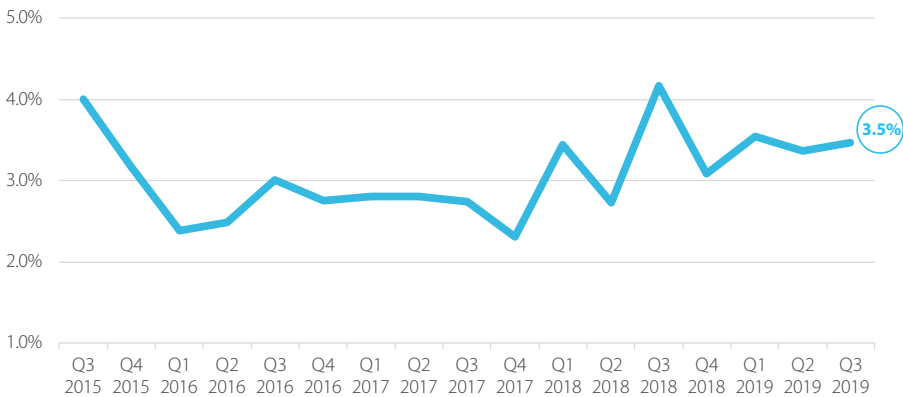
Housing

Despite new residential developments, the demand for housing is much higher than the available supply.

2.5 MILLION SQUARE FEET

to be delivered in the next two years, with 44% preleased

Historical Vacancy



Sublease Space

The demand for any R&D product along the Peninsula has been so high lately that sublease space is at a minimum. At the end of the quarter, sublease space only recorded a 0.4% vacancy rate, totaling just under 75,000 square feet.



Construction

San Mateo County has a long list of R&D projects in the development pipeline. Just over 5 million square feet of developments are proposed up and down the Peninsula with expected completion dates in the next ten years. There are five main R&D projects, located in Brisbane and South San Francisco, that are under construction within San Mateo County, totaling just over 2.5 million square feet. Four of those projects have phases expected to complete construction within the first half of 2020, with 58% of those projects already preleased.



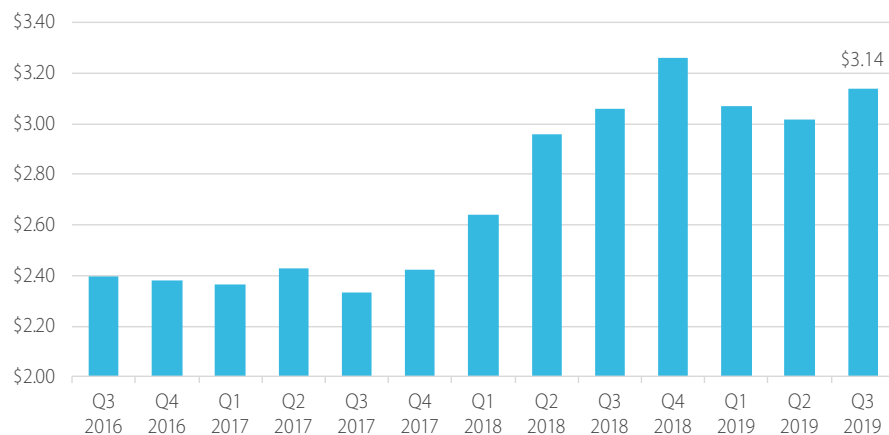
Deliveries

Kilroy Realty's massive Oyster Point project in South San Francisco landed its' first tenant this quarter. Cytokinetics, Inc. preleased one building, totaling 234,892 square feet, in the first phase of the 2.5 million square foot project. Although the site's completion is not estimated for a couple of years, we can expect that every inch of the new project will be fully leased by the time it is finally delivered.

Looking Forward

The R&D market within San Mateo County will continue to flourish. Asking rates will likely continue rising while the vacancy is expected to remain low. With numerous projects already in the works, San Mateo County should see even more R&D activity within the next few years. The north county will probably continue to be the central hub within San Mateo County; however, some projects are beginning to develop a little further south into San Carlos and Menlo Park.

Historical Asking Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Cytokinetics, Inc.	Kilroy Oyster Point, Phase I, Bldg 1	South San Francisco	234,892	Direct Lease
Atreca Bio	450 Jamie Court	South San Francisco	74,788	Renewal
Fluidigm Corporation	2 Tower Place	South San Francisco	67,750	Direct Lease
Tricida, Inc.	7000 Shoreline Court	South San Francisco	46,074	Renewal
Mispro Biotech Services	1 Corporate Drive	South San Francisco	31,917	Direct Lease
23andMe	349 Oyster Point	South San Francisco	31,500	Expansion

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
500 Forbes Boulevard	Clarion Partners	South San Francisco	163,181	\$155,000,000	\$950
1021 Howard Avenue	Hamilton Investors	San Carlos	45,800	\$28,800,000	\$629
686-690 Broadway Street	DiNapoli Investments	Redwood City	19,000	\$8,400,000	\$442
2385 Bay Road	2385 Bay Road Partners LLC	Redwood City	15,000	\$7,500,000	\$500
1160 Industrial Road, Unit 16	Pacific Rubber and Packing, Inc	San Carlos	3,000	\$1,150,000	\$384
574-580 Kelly Street, Unit 574	Glenn Allen Mitchell	Half Moon Bay	2,077	\$1,175,000	\$566

Construction Pipeline

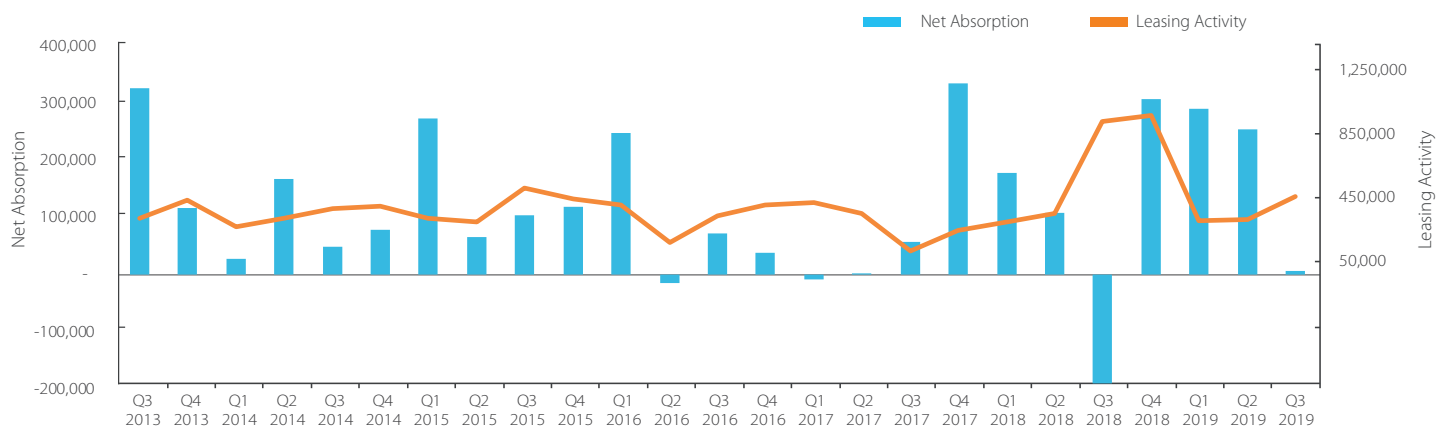
Building	Developer	Submarket	Square Feet	% Leased	Delivery
Gateway of Pacific, Phase I & II	BioMed Realty L.P.	South San Francisco	942,000	51%	Q2 2020
Kilroy Oyster Point, Phase I	Kilroy Realty Corporation	South San Francisco	595,000	39%	Q2 2020
201 Haskins Way	Alexandria Real Estate Equities, Inc.	South San Francisco	315,000	0%	Q1 2021
The Shore at Sierra Point, Phase II	HCP, Inc.	Brisbane	270,404	0%	Q1 2021
The Shore at Sierra Point, Phase I	HCP, Inc.	Brisbane	226,079	100%	Q2 2020
The Cove at Oyster Point, Bldg 5	HCP, Inc.	South San Francisco	164,150	100%	Q4 2019

Market By The Numbers

Submarket	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate Q2'19	Vacancy Rate Q3'19	Net Absorp (SF)	Net Absorp YTD (SF)	Under Construction (SF)	Avg. Asking Rent (FS) Q2'19	Avg. Asking Rent (FS) Q3'19
Daly City / Brisbane	229,882	-	-	-	-	-	-	496,483	-	-
South San Francisco	5,743,362	308,681	15,551	5.5%	5.6%	14,244	516,401	2,016,150	\$3.10	\$3.30
San Bruno / Millbrae	136,825	10,424	-	2.6%	7.6%	-6,825	-10,424	-	\$1.50	\$1.50
Burlingame	1,058,545	11,727	9,588	2.6%	2.0%	6,473	-12,182	-	\$2.20	\$2.21
North County	7,168,614	330,832	25,139	4.9%	5.0%	13,892	493,795	2,512,633	\$3.01	\$3.18
San Mateo / Foster City	1,644,753	-	-	-	-	-	-	-	-	-
Redwood Shores	1,486,054	16,186	11,388	-	1.9%	-27,574	29,231	-	-	\$3.15
Central County	3,130,807	16,186	11,388	-	0.9%	-27,574	29,231	-	-	\$3.15
Belmont/San Carlos	2,011,450	63,456	22,519	4.9%	4.3%	12,755	-2,425	-	\$2.58	\$2.59
Redwood City*	813,371	48,567	12,407	5.9%	7.5%	-13,017	12,906	-	\$2.95	\$3.03
Menlo Park	2,915,310	24,933	-	1.6%	0.9%	20,262	17,431	-	\$4.09	\$4.72
South County	5,740,131	136,956	34,926	3.3%	3.0%	20,000	27,912	-	\$3.03	\$3.06
San Mateo County Total	16,039,552	483,974	71,453	3.4%	3.5%	6,318	550,938	2,512,633	\$3.02	\$3.14

*Does not include Redwood Shores

Historical Leasing vs Net Absorption


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