

San Mateo County

Market Facts

6.5%

Class A Vacancy

8.4%

Class B Vacancy

\$5.48 FS

Class A
Average Asking Rate

\$4.85 FS

Class B
Average Asking Rate

Leasing Activity in The Peninsula Drops 78% as Tenant Demand softens in the wake of COVID-19

- Implications of COVID-19 on the commercial real estate market within San Mateo County have begun to surface as the crisis continues to affect the Bay Area economy. Many businesses have continued to operate with very strict restrictions and numerous social distancing protocols. Some companies have chosen to have all employees work remotely for the near future, while other companies have plans in place on how to return to the workplace, safely and efficiently.
- Despite a small dip in the first quarter of 2020, average asking rents have returned to their record high rates ending the second quarter with a \$5.38 per square foot (psf), full service asking rate. This is a 4% increase from last quarter's \$5.19 psf, full service asking rate and a 6% increase year-over-year.
- The largest investment sale during the second quarter was the \$106 million acquisition of Waters Technology Park in San Mateo by Pulte Group, Inc. Strada Investment Group sold the three-building office portfolio totaling 163,809 square feet as a redevelopment project.
- As many expected, vacancy levels have increased across San Mateo County. At the close of the second quarter, there was 3.4 million square feet (sf) of vacant space on the market, translating to a 7.0% vacancy rate, with roughly 634,227 sf of sublease space available.
- Leasing activity measured a steep decline during the second quarter of 2020. New leasing within San Mateo County's office sector only measured 166,960 sf, a 78% decrease from the 752,485 sf of activity recorded last quarter and an 86% decrease year-over-year. The decline in activity can largely be attributed to the uncertainty of the COVID-19 pandemic.
- Many notable projects currently under construction have expected completion dates within the next few quarters; however, due to the current pandemic, construction delivery dates have been pushed out, forcing tenants to wait even longer before returning to their offices.

Trends to Watch



Floor Plans

As companies begin to return to the workplace, they are required to reconfigure their floor plans to conform to COVID-19 social distancing protocols.



Construction

Despite the go-ahead to continue construction, delivery dates are still being pushed out due to the current restrictions and labor shortages.



Demand

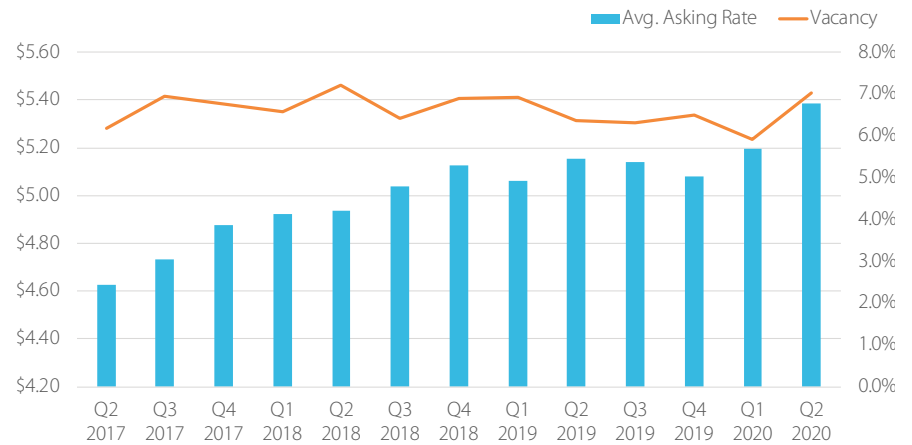
A pause in overall tenant demand is likely to continue as tenants put a hold on requirements until some restrictions have been lifted.

The spread of COVID-19 and the containment policies throughout California and the U.S. continue to change rapidly. While information in this report is current as of the date written, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. We are committed to you, our clients, and remain available for discussions and advice as your partners and to offer our latest insights.

Looking Forward

San Mateo County's office market has started to show some effects of the COVID-19 pandemic. Leasing and sales activity may soften as companies try to find realistic ways to return to the workplace safely during the new orders. Investors will likely continue to wait on the sidelines until the impacts on commercial real estate become clearer and some of the shelter in place orders have been lifted. Construction should continue to press forward, albeit at a slower pace than in recent years.

Historical Asking Rates vs. Vacancy Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Equinix	1 Lagoon Drive	Redwood City	124,934	Renewal
Model N	777 Mariners Boulevard	San Mateo	33,981	New Lease
Robinhood	68 Willow Road	Menlo Park	23,000	New Lease
Kiewit	1301 Shoreway Road	Belmont	13,065	New Lease

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
Waters Technology Park	Pulte Group, Inc.	San Mateo	163,809	\$106,000,000	\$219
1820 Ogden Drive	Sierra Investments	Burlingame	15,246	\$6,000,000	\$394

Construction Pipeline

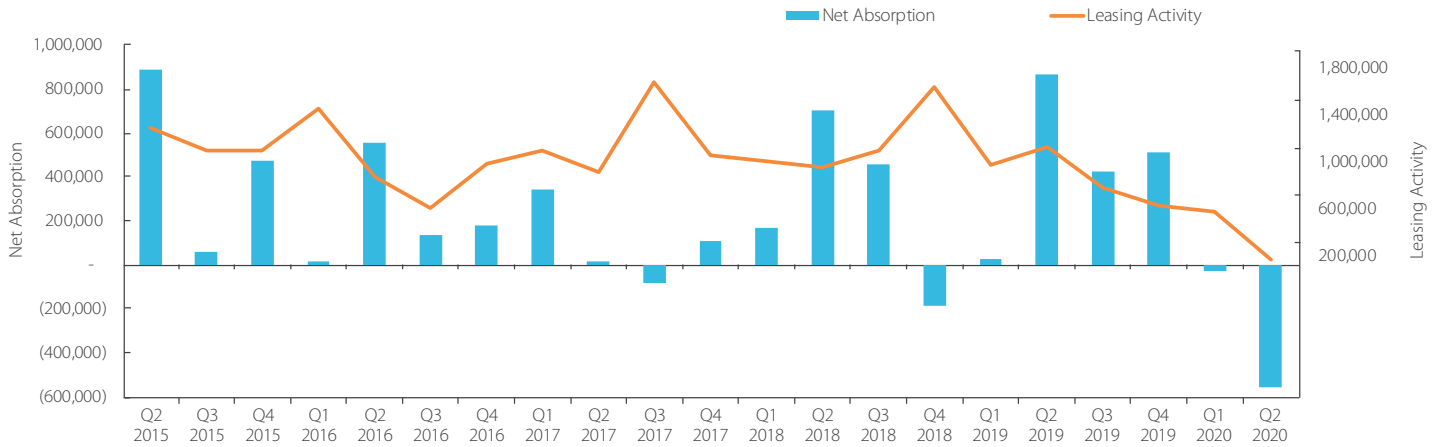
Building	Developer	Submarket	Square Feet	% Leased	Delivery
Burlingame Point	Kylli	Burlingame	803,088	100%	Q4 2020
Alexandria District	Alexandria Real Estate Equities, Inc	San Carlos	526,178	50%	Q2 2021
Menlo Gateway	Bohannon Development Company	Menlo Park	520,988	100%	Q3 2020
Facebook @ Menlo Park	Facebook	Menlo Park	449,500	100%	Q2 2022
Bay Meadows	Wilson Meany	San Mateo	433,000	0%	Q4 2021
Station 1300	Greenheart Land Company	Menlo Park	222,162	0%	Q3 2020
Middle Plaza	Stanford	Menlo Park	172,840	100%	Q4 2021
Gateway at Millbrae Station	Republic Urban Properties	Millbrae	173,000	0%	Q4 2021
1180-1190 Main Street	Premia Capital	Redwood City	118,136	100%	Q2 2022
855 Main Street	The Acclaim Companies	Redwood City	93,506	0%	Q1 2021
610 Walnut Street	Windy Hill	Redwood City	69,104	0%	Q1 2021
1540 El Camino Real	Four Corners Properties	Menlo Park	47,799	0%	Q4 2020
Santa Cruz & Merrill Street	Prince Street Partners	Menlo Park	44,636	58%	Q4 2020
250 California Drive	Dewey Land Company	Burlingame	44,605	28%	Q3 2021

Market By The Numbers

Submarket	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate Total	Class A	Class B	Net Absorp (SF)	Net Absorp YTD (SF)	Under Construction (SF)	Avg. Asking Rent (F\$) Total	Class A	Class B
Daly City	797,174	43,535	1,592	5.7%	8.0%	1.7%	-313	28,582	-	\$4.28	\$4.48	\$2.63
Brisbane	955,379	43,102	65,205	11.3%	13.9%	1.6%	8,856	-27,721	-	\$4.19	\$4.21	\$3.50
South San Francisco	7,194,313	365,299	21,820	5.4%	5.7%	5.1%	-53,145	-87,622	420,872	\$3.63	\$3.71	\$2.41
San Bruno/Millbrae	1,926,542	34,444	8,683	2.2%	1.1%	5.5%	-10,450	-11,290	173,000	\$6.94	\$7.24	\$2.96
Burlingame	2,580,776	237,311	59,807	11.5%	21.0%	5.3%	-61,649	-59,416	847,693	\$4.81	\$5.07	\$3.05
North County	13,454,184	723,691	157,107	6.5%	7.3%	4.7%	-116,701	-157,467	1,441,565	\$4.29	\$4.31	\$2.67
San Mateo	8,882,633	815,622	230,855	11.8%	8.8%	15.3%	-134,393	-92,098	433,000	\$5.99	\$6.92	\$5.12
Foster City	3,829,723	304,713	2,936	8.0%	8.1%	8.7%	-935	22,350	-	\$5.48	\$5.59	\$5.16
Redwood Shores	8,181,666	603,554	63,804	8.2%	9.0%	6.3%	-291,156	-264,182	-	\$4.93	\$4.96	\$4.84
Central County	20,894,022	1,723,889	297,595	9.7%	8.7%	11.7%	-426,484	-333,930	433,000	\$5.56	\$5.73	\$5.08
Belmont/San Carlos	1,778,515	11,840	73,506	4.8%	4.7%	5.5%	364	-17,904	526,178	\$4.37	\$4.15	\$4.74
Redwood City*	5,729,030	110,295	28,301	2.4%	0.3%	4.8%	59,333	178,260	296,404	\$6.72	\$7.36	\$6.05
Menlo Park	7,661,931	277,482	77,718	4.6%	3.6%	7.3%	-71,497	-117,943	1,316,405	\$6.80	\$7.77	\$5.38
South County	15,169,476	399,617	179,525	3.8%	2.7%	5.8%	-11,800	42,413	2,138,987	\$6.42	\$7.33	\$5.50
San Mateo County Total	49,517,682	2,847,197	634,227	7.0%	6.5%	8.4%	-554,985	-448,984	4,013,552	\$5.38	\$5.48	\$4.85

*Does not include Redwood Shores

Historical Leasing vs Net Absorption



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