

FIGURES | SAN FRANCISCO PENINSULA | Q4 2022

# San Francisco Peninsula Office Figures

▲ 14.1%

Vacancy Rate

▲ (328K)

SF Net Absorption

▼ 1.7M

SF Under Construction

▼ \$7.07

Full-Service Gross / Lease Rate Existing Properties

▼ 175K

Office and R&D Using Employment San Mateo County

Note: Arrows indicate change from previous quarter.

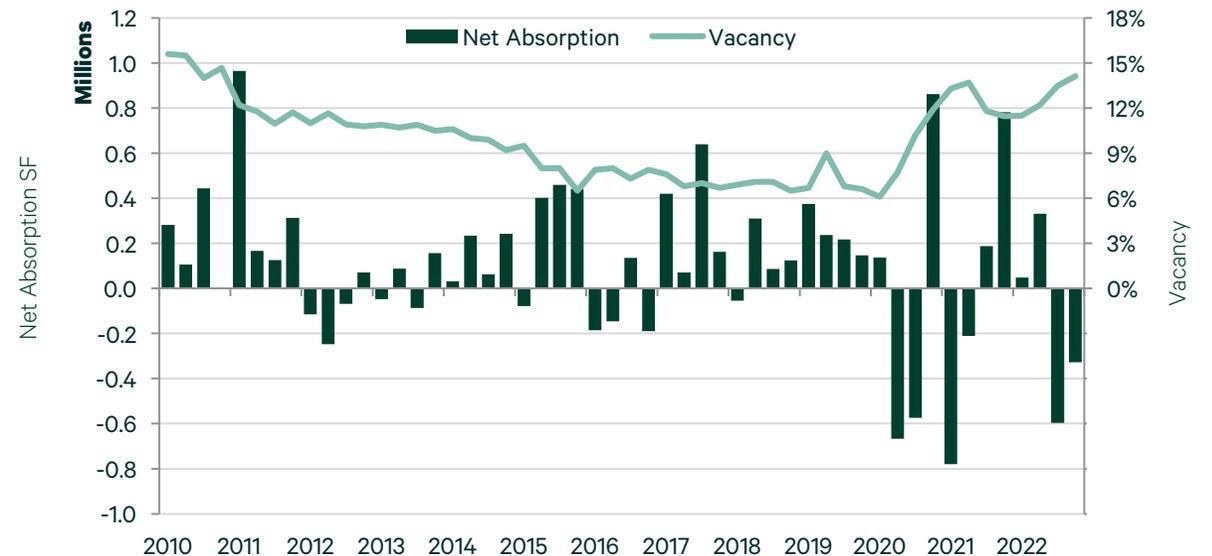
## SAN FRANCISCO PENINSULA EMPLOYMENT

The San Francisco Peninsula is primarily comprised of San Mateo County and is home to 744,400 residents with a labor force of 455,400. At the close of Q4 2022, the total resident employment was 444,900—a 4.8% increase from Q4 2021. 15,800 San Francisco Peninsula employed residents commute out of the county, decreasing the employment base total to 429,100. The unemployment rate for the San Francisco Peninsula resident population in Q4 2022 remained stagnant at 2.3%. This is a 99 basis-point (bps) reduction from a year ago in Q4 2021. The number of Office and R&D sector jobs in the San Mateo County, inclusive of in-market employment decreased by 1,700 jobs since Q3 2022 to 175,200 jobs in Q4 2022.

## OFFICE OVERVIEW

The San Francisco Peninsula office market experienced a slowdown during the second half of 2022. Net absorption in Q4 2022 totaled negative 327,747 sq. ft., bringing the year-ending total to negative 544,793 sq. ft. Leasing activity and demand continues to fluctuate with both direct and sublease availability on the rise as remote and hybrid work continue to impede office occupancy. As companies exhibited some caution leading into 2023 and a high probability of a global recession the current macroeconomic uncertainty has preempted some corporate layoffs, resulting in a pull-back in office demand.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

**OFFICE OVERVIEW (continued)**

The San Francisco Peninsula Office Market recorded 522,375 sq. ft. of gross leasing volume in Q4 2022—an 18% decline from Q3 2022. New leases accounted for roughly 84% of the leasing volume in Q4. Many tenants are hesitant to make any long-term, large commitments, but office tenant demand ended Q4 2022 with over 1.4 million sq. ft. of requirements throughout the Peninsula.

Market-wide vacancy increased by 63 bps from Q3 2022, reaching 14.1% this quarter. Availability followed suit with a 147-bps increase in Q4 to 18.3%. Sublease space contributed a majority of the new additional space, increasing quarter-over-quarter by 19% and adding 345,772 sq. ft. this quarter.

Market-wide office average asking rates dropped by \$0.12 quarter-over-quarter to \$7.07 full-service gross (FSG) on a monthly basis. While deal rates are down and concessions are increasing, landlords have not dropped their asking rates significantly, betting on a near-term recovery and that price adjustments won't drive additional demand.

The largest deal of the quarter was at 950 Tower Ln in Foster City. Coupa Software signed a new multi-floor lease totaling 100,637 sq. ft. of space. Overall, the market registered an increase in short-term leases and smaller transactions. 73% of deals in Q4 were below 5,000 sq. ft. Leasing activity in the San Francisco Peninsula was driven by the software and internet sectors. Eight of the top 25 transactions were signed by software and internet tenants.

The most notable sale of the quarter was 1828 El Camino Real in Burlingame. Gemini Rosemont Commercial Real Estate purchased the 65,804 sq. ft. office for \$59 million. Capital markets activity has grinded to a halt as liquidity in the market has dried up and investors are becoming increasingly risk-averse. The Federal Reserve has increased interest rates by 425 bps since the start of 2022 and is expected to continue some degree of increases through the first half of 2023. As a result, the first half of 2023 is expected to see lower trading volume until the debt market stabilizes.

The only construction completion this quarter in the San Francisco Peninsula was 250 California Dr. in Burlingame. The 44,605-sq. ft. office building was delivered 55% pre-leased to both Altos Ventures and Insight Venture Partners. The Peninsula office development pipeline remains active with just under 1.7 million sq. ft. currently under construction and was 29% pre-leased at the close of Q4 2022.

FIGURE 2: Submarket Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Direct Asking Rate (\$)	Q4 Net Absorption	YTD Net Absorption
Daly City/Brisbane	1,057,758	9.4	13.2	4.13	(16,852)	76,163
Class A	536,361	9.9	14.4	4.85	0	96,923
South San Francisco	2,005,208	10.4	11.7	3.84	37,014	42,027
Class A	1,262,474	9.9	11.9	4.25	15,700	15,559
San Bruno/Millbrae	1,557,615	13.6	15.4	5.72	(2,110)	(9,954)
Class A	634,511	24.9	24.9	6.63	0	0
Burlingame	3,461,103	9.4	12.2	4.03	17,747	(14,572)
Class A	1,268,142	5.2	5.5	8.00	32,240	46,282
<b>North County</b>	<b>8,081,684</b>	<b>10.5</b>	<b>12.8</b>	<b>4.46</b>	<b>35,799</b>	<b>93,664</b>
San Mateo	8,554,958	15.9	18.9	6.16	(95,742)	(87,546)
Class A	5,127,217	13.5	16.2	7.75	(70,983)	(11,299)
Foster City	2,554,072	6.7	9.7	5.89	31,056	4,163
Class A	2,134,397	7.5	11.2	6.00	32,698	5,805
Belmont/San Carlos	1,321,493	26.7	36.0	5.58	(62,198)	(107,890)
Class A	730,904	42.8	59.7	5.83	(52,191)	(81,663)
Redwood City/Redwood Shores	7,179,072	17.9	21.8	7.22	(150,112)	(494,247)
Class A	4,631,408	16.5	21.1	8.10	(42,824)	(409,229)
<b>Central County</b>	<b>19,609,595</b>	<b>16.2</b>	<b>19.9</b>	<b>6.51</b>	<b>(276,996)</b>	<b>(685,520)</b>
Menlo Park	5,450,701	11.1	15.4	9.33	(11,044)	134,602
Class A	3,456,982	11.4	13.7	12.50	(21,804)	119,432
Palo Alto/East Palo Alto	8,278,663	14.9	21.8	8.90	(75,506)	(87,539)
Class A	4,729,463	14.3	23.2	9.70	(33,799)	(15,119)
<b>South County</b>	<b>13,729,364</b>	<b>13.4</b>	<b>19.3</b>	<b>9.02</b>	<b>(86,550)</b>	<b>47,063</b>
<b>Total Market</b>	<b>41,420,643</b>	<b>14.1</b>	<b>18.3</b>	<b>7.07</b>	<b>(327,747)</b>	<b>(544,793)</b>
<b>Class A</b>	<b>24,511,859</b>	<b>13.9</b>	<b>18.4</b>	<b>8.34</b>	<b>(140,963)</b>	<b>(233,309)</b>

Source: CBRE Research

FIGURE 3: Notable Lease Transactions Q4 2022

Tenant	Address	SF Leased	Type
Coupa Software	950 Tower Ln, Foster City	100,637	New Lease
Moloco	601 Marshall St, Redwood City	25,450	New Lease
Gurnick Academy of the Medical Arts	2121 S El Camino Real, San Mateo	23,575	Extension
Aryaka Networks	1850 Gateway Dr, San Mateo	21,737	Extension
Apple Tree Partners	651 Gateway Blvd, South San Francisco	20,325	New Lease

Source: CBRE Research

FIGURE 4: Notable Sale Transactions Q4 2022

Buyer	City	SF Sold	Sale Price
Gemini Rosemont Commercial	1828 El Camino Real, Burlingame	65,804	\$59M
Dewey Land Company	990 Industrial Rd, San Carlos	23,703	\$22M

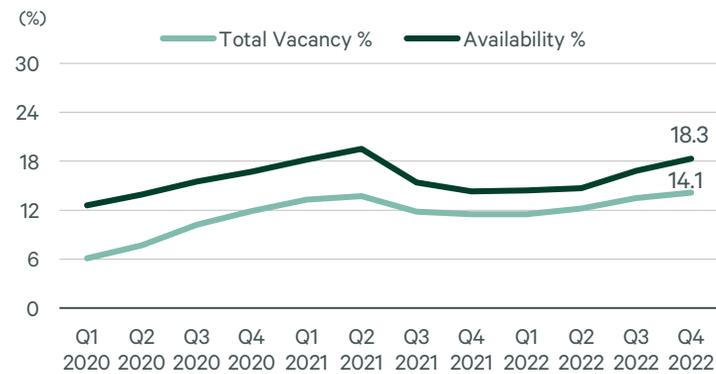
Source: CBRE Research

FIGURE 5: Lease Rates



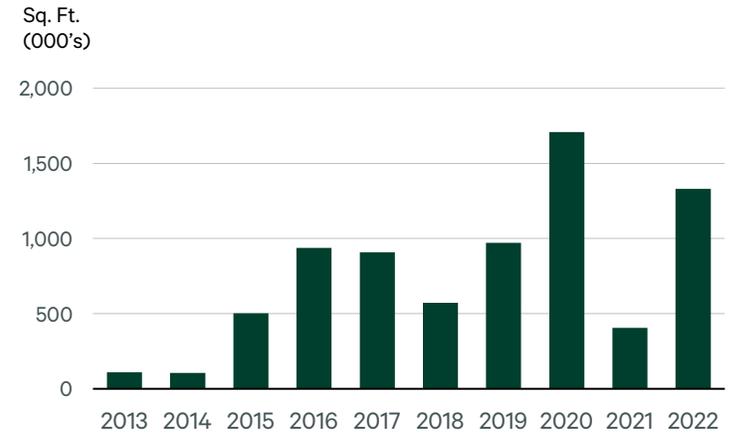
Source: CBRE Research

FIGURE 6: Vacancy & Availability



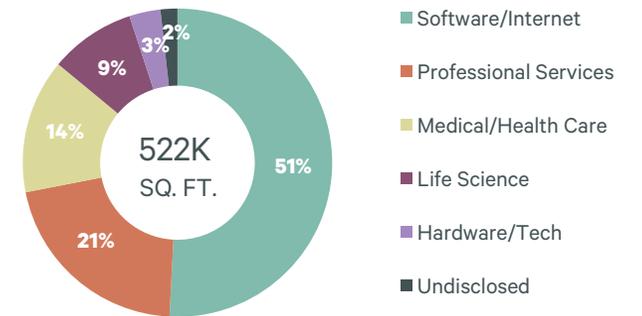
Source: CBRE Research

FIGURE 7: Construction Completions



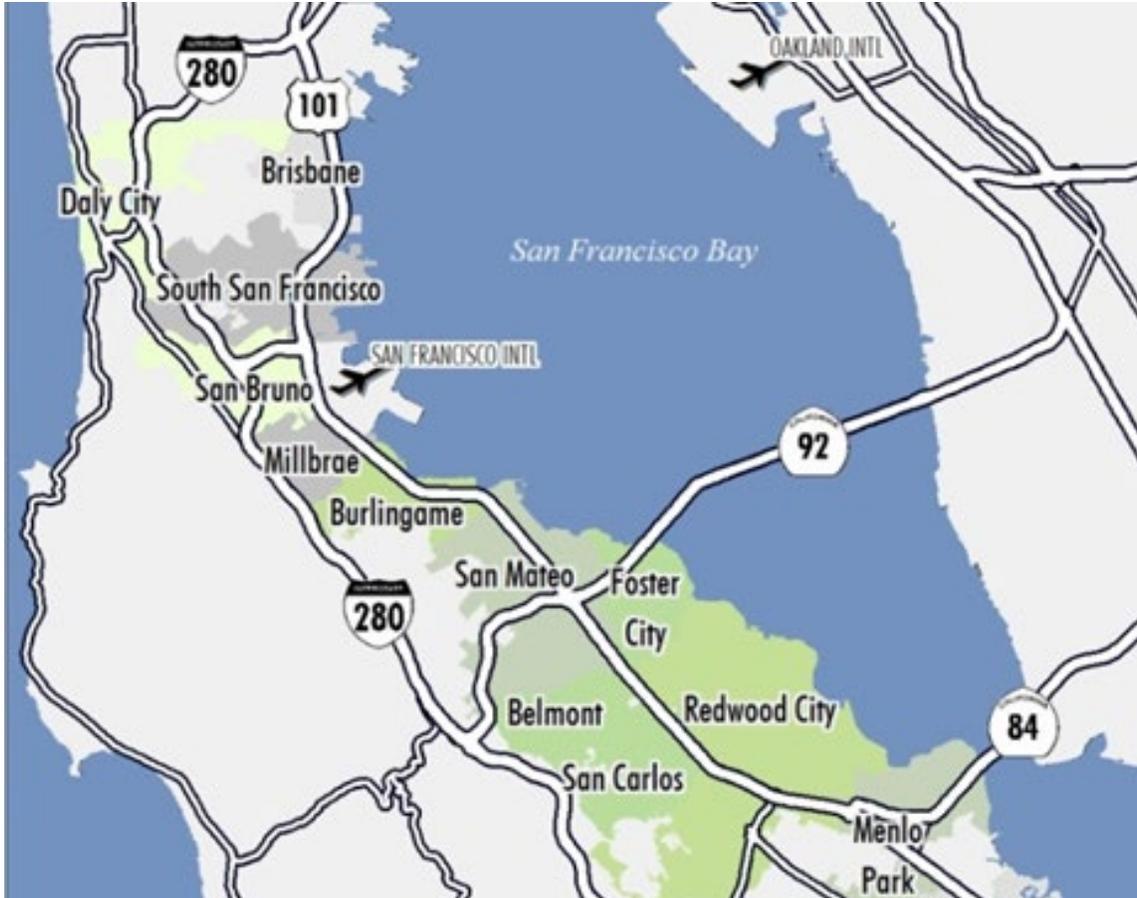
Source: CBRE Research

FIGURE 8: Top 25 Leases of the Quarter by Industry



Source: CBRE Research

**Submarket Map**



Source: CBRE Research, Location Intelligence

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**Definitions**

Average Asking Rate Direct Annual Lease Rates, Full Service Gross. Availability All existing space being marketed for lease. Total Vacancy Rate Direct Vacancy + Sublease Vacancy. CBD Central Business District; consists of Financial District and South Financial District submarkets.

CBRE's market report analyzes existing single- and multi-tenant office buildings that total 10,000+ sq. ft. in downtown San Francisco, excluding owner-occupied buildings. CBRE assembles all information through telephone canvassing, third-party vendors, and listings received from owners, tenants and members of the commercial real estate brokerage community.

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