

South Peninsula Office Market

Leasing Activity Slows to Close out the Year

The South Peninsula office market took a dramatic turn in the fourth quarter of 2022 against the strong overall leasing activity experienced in the first three quarters of the year. The previous quarter posted 119 transactions and approximately 110 transactions just a year ago; this quarter, only 49 total lease transactions, the lowest transaction volume since the fourth quarter of 2020 during the height of the pandemic. Gross absorption totaled approximately 245,000 square feet, representing a 60.0% drop when compared to the average of the previous seven quarters. In each of the previous two quarters, the South Peninsula posted over 800,000 square feet of gross absorption. Net absorption continued to dip for the third quarter in a row, totaling negative 501,373 square feet. The South Peninsula market totals approximately 39.0 million square feet of office space, with an availability of approximately 6.6 million square feet, representing an overall availability percentage of over 17.0%. This number increased every quarter of 2022 and is up from 13.0% in the first quarter of 2022. Another approximately 670,000 square feet of available square footage was added to the South Peninsula market this quarter. 89.0% of the 670,000 square feet of available space added is categorized as sublease.

Current Conditions

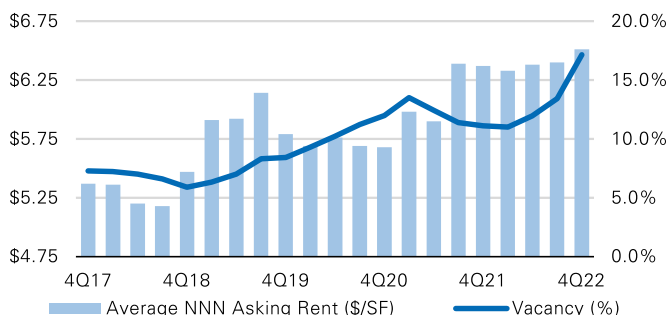
- Leasing activity in the fourth quarter of 2022 dropped significantly over the previous quarter.
- Demand for office space has remained tepid as technology companies battle decreased revenues and valuations.
- Both vacancy rates and availability rates jump for the fourth straight quarter.
- Sublease availability accounts for 89.0% of the total square footage added to the market in the fourth quarter of 2022.

Market Summary

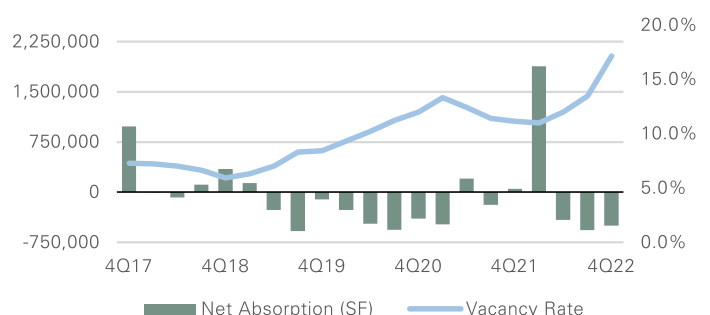
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	38.6M	38.6M	36.3M	→
Vacancy Rate	14.8%	13.4%	11.1%	↑
Qtr Net Abs (SF)	-501,373	-568,764	47,738	→
Avg NNN Ask Rent/SF	\$6.51/SF	\$6.40/SF	\$6.37/SF	↓
Under Const (SF)	1.5M	1.4M	2.5M	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF)



Significant increases in availability and vacancy are troubling. Over the course of 2022, the South Peninsula market has added upwards of 2.6 million square feet of availability between approximately 140 different spaces. Comparatively, in 2021 just shy of 1.2 million square feet of availability was added. Over 65.0% of the total availability added to the market in 2022 is categorized as sublease space. In 2021, that percentage was just around 20.0%.

The South Peninsula transacted over 10,000 square feet five times this quarter, with the largest transaction of the quarter being the Laceworks one-year lease of 40,000 square feet at San Antonio Station in Mountain View, a sublease from WeWork.

With an incredibly high amount of availability and tepid demand from all sectors in the near term, look for lease economics to soften throughout the first half of 2023. As companies slow hiring and growth, there will be a transition period to assess necessary

square footage needs and develop new and improved commercial real estate strategies. Expect an even greater desire for Class A office space and new construction. Companies will be more particular about the quality, image and location of office space, in part to motivate their employee bases to spend more time in the office.

Outlook

- Sublease availability continues to mount up as tech opts for smaller footprints.
- Overall sense of urgency still eludes the market as a multitude of uncertainties face all sectors.
- Stable, non-tech companies trend more towards rightsizing in highly-amenitized new construction, mostly along the transit line.

Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Laceworks	391 San Antonio Rd	Mountain View – El Camino Corridor	Sublease	40,000
Menlo Medical Clinic	1300 Crane St	Menlo Park – Downtown	Lease Extension	38,006
Ashvattha Therapeutics	1235 Radio Rd	Redwood Shores	Renewal/Expansion	22,875
STG Partners	1300 El Camino Real	Menlo Park – Downtown	Lease Expansion	11,973
Aptos	735 Emerson St	Palo Alto – Downtown	Sublease	11,250
Felicitis Ventures Management Company	2460 Sand Hill Rd	Menlo Park – Sand Hill Road	Lease Extension	10,280

Overall Submarket Statistics									
	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)	Class A NNN Asking Rent (Price/SF)
Los Altos	1,105,297	173,102	11,867	15.66%	17.22%	21,126	-2,011	\$4.38	\$5.30
Downtown	509,664	103,193	9,424	20.25%	22.84%	15,373	-3,723	\$5.00	\$5.30
El Camino Corridor	526,951	67,589	2,443	12.83%	13.59%	5,753	1,712	\$3.52	-
Foothill Corridor	68,682	2,320	0	3.38%	3.38%	0	0	\$3.31	-
Menlo Park	6,516,468	819,035	360,760	12.57%	15.84%	36,124	-69,680	\$8.41	\$8.76
Downtown	1,306,949	198,883	69,342	15.22%	18.40%	18,286	1,791	\$8.16	\$9.02
Sand Hill Road	1,211,006	209,308	67,722	17.28%	17.28%	13,810	-27,633	\$10.78	\$10.78
Middlefield Road	957,404	202,828	141,939	21.19%	35.36%	1,340	-73	\$7.28	\$7.60
Highway 101	3,041,109	208,016	81,757	6.84%	8.01%	2,688	-43,765	\$6.15	\$6.29
Mountain View	10,998,040	1,811,192	901,481	16.47%	17.83%	67,742	-239,370	\$6.40	\$7.05
Downtown	1,671,065	588,589	336,219	35.22%	35.61%	13,632	-138,982	\$7.47	\$7.77
Central	408,834	82,383	12,517	20.15%	20.15%	0	-1,250	\$4.56	\$7.95
Shoreline	2,927,692	16,828	0	0.57%	0.57%	0	0	\$1.95	-
South Middlefield	4,509,431	443,603	10,040	9.84%	13.01%	6,647	-95,986	\$5.47	\$5.60
El Camino Corridor	1,481,018	679,789	542,705	45.90%	45.90%	47,463	-3,152	\$5.23	\$5.67
Palo Alto	9,125,845	1,588,026	469,687	17.40%	20.72%	55,419	-131,304	\$7.10	\$7.69
Downtown	2,617,931	415,020	132,754	15.85%	17.09%	24,810	-56,671	\$9.13	\$9.63
East Palo Alto	669,216	212,111	26,913	31.70%	56.89%	0	0	\$7.47	\$7.47
Stanford Research Park	3,241,788	519,889	204,293	16.04%	18.78%	13,593	-31,424	\$7.06	\$7.06
California Avenue	1,268,157	255,960	64,040	20.18%	21.10%	17,016	-10,024	\$5.40	\$5.99
Bayshore	1,328,753	185,046	41,687	13.93%	14.03%	0	-35,185	\$3.96	\$4.13
Redwood City	6,117,861	888,150	220,585	14.52%	17.47%	17,805	-44,554	\$5.52	\$6.19
Downtown	2,905,556	624,739	105,419	21.50%	27.41%	3,162	-36,030	\$6.30	\$6.99
Seaport	1,834,503	214,735	114,019	11.71%	12.06%	0	-12,292	\$2.72	\$2.50
Southern Area	1,377,802	48,676	1,147	3.53%	3.72%	14,643	3,768	\$3.92	-
Redwood Shores	4,699,134	429,510	161,869	9.14%	9.91%	47,123	-14,454	\$4.43	\$4.45
SOUTH PENINSULA	38,562,645	5,709,015	2,126,249	14.80%	17.14%	245,339	-501,373	\$6.51	\$7.05

RESEARCH 4Q 2022

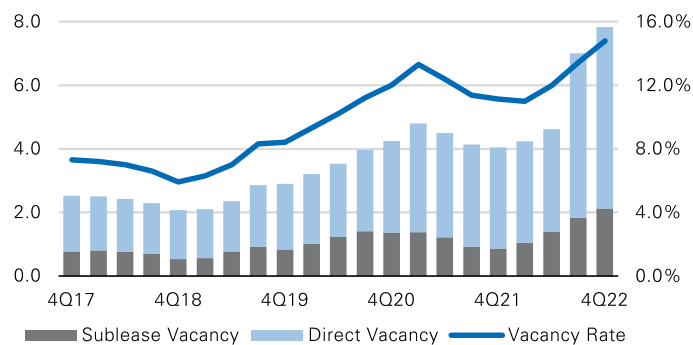
Class A Submarket Statistics									
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	NNN Asking Rent (Price/SF)
Los Altos	465,337	0	84,803	6,944	18.22%	21.94%	16,639	6,084	\$5.30
Downtown	324,654	0	84,803	6,944	26.12%	30.20%	12,918	2,363	\$5.30
El Camino Corridor	140,683	0	0	0	0.00%	2.88%	3,721	3,721	-
Foothill Corridor	0	0	0	0	0.00%	0.00%	0	0	-
Menlo Park	5,103,672	0	690,904	288,116	13.54%	16.71%	29,225	-72,666	\$8.76
Downtown	828,086	0	141,702	48,638	17.11%	17.47%	12,727	-1,268	\$9.02
Sand Hill Road	1,211,006	0	209,308	67,722	17.28%	17.28%	13,810	-27,633	\$10.78
Middlefield Road	411,486	0	138,400	89,999	33.63%	66.61%	0	0	\$7.60
Highway 101	2,653,094	0	201,494	81,757	7.59%	8.48%	2,688	-43,765	\$6.29
Mountain View	8,667,399	1,033,543	1,613,130	838,441	18.61%	20.34%	55,032	-242,763	\$7.05
Downtown	1,163,715	0	535,991	318,311	46.06%	46.62%	9,382	-136,734	\$7.77
Central	146,721	0	23,347	0	15.91%	15.91%	0	0	\$7.95
Shoreline	2,289,084	233,543	0	0	0.00%	0.00%	0	0	-
South Middlefield	4,140,328	800,000	419,008	10,040	10.12%	13.58%	5,650	-95,414	\$5.60
El Camino Corridor	927,551	0	634,784	510,090	68.44%	68.44%	40,000	-10,615	\$5.67
Palo Alto	6,032,164	21,407	1,040,497	358,224	17.25%	21.92%	26,187	-44,261	\$7.69
Downtown	1,590,474	21,407	263,605	113,083	16.57%	18.10%	2,792	-45,087	\$9.63
East Palo Alto	669,216	0	212,111	26,913	31.70%	56.89%	0	0	\$7.47
Stanford Research Park	3,106,410	0	478,702	172,885	15.41%	18.27%	13,593	-16	\$7.06
California Avenue	467,830	0	79,606	45,343	17.02%	17.02%	9,802	1,192	\$5.99
Bayshore	198,234	0	6,473	0	3.27%	3.27%	0	-350	\$4.13
Redwood City	4,147,773	432,000	453,673	165,400	10.94%	15.08%	0	-14,220	\$6.19
Downtown	1,687,851	432,000	302,096	52,111	17.90%	27.68%	0	-14,220	\$6.99
Seaport	1,507,343	0	151,577	113,289	10.06%	10.49%	0	0	\$2.50
Southern Area	952,579	0	0	0	0.00%	0.00%	0	0	-
Redwood Shores	4,313,830	0	426,088	161,869	9.88%	10.71%	21,549	-16,264	\$4.45
SOUTH PENINSULA	28,730,175	1,486,950	4,309,095	1,818,994	15.00%	17.85%	148,632	-384,090	\$7.05

Historical Vacancy Rates

	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
South Peninsula	12.0%	13.3%	12.4%	11.4%	11.1%	11.0%	12.0%	13.4%	14.8%
Los Altos	14.2%	13.5%	12.5%	16.3%	17.1%	15.2%	13.7%	15.7%	15.7%
Menlo Park	14.8%	14.0%	11.7%	10.1%	9.3%	9.6%	10.9%	11.6%	12.3%
Mountain View	8.2%	9.1%	8.7%	10.4%	11.5%	11.1%	12.5%	14.3%	16.5%
Palo Alto	14.2%	17.7%	17.3%	16.3%	15.3%	14.1%	14.2%	15.6%	17.4%
Redwood City	9.1%	11.5%	10.8%	8.9%	8.9%	10.4%	12.7%	13.6%	14.5%
Redwood Shores	14.3%	13.6%	12.8%	7.7%	6.5%	6.5%	6.8%	8.8%	9.1%

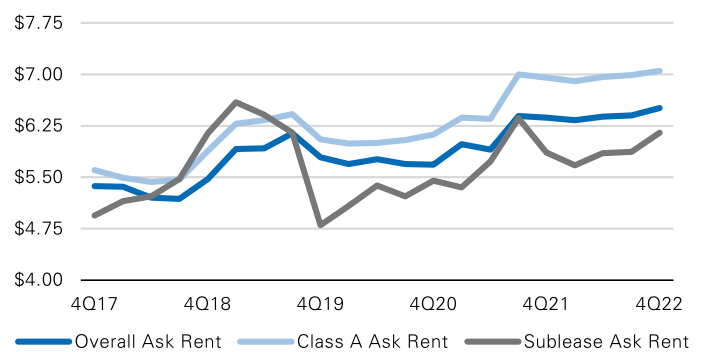
Vacancy Breakdown

SQUARE FEET, MILLIONS



Average Asking Rents

WEIGHTED, NNN, MONTHLY



Historical NNN Asking Rents

	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
South Peninsula	\$5.68	\$5.98	\$5.90	\$6.39	\$6.37	\$6.33	\$6.38	\$6.40	\$6.51
Los Altos	\$4.27	\$5.25	\$5.09	\$5.26	\$5.02	\$4.98	\$4.93	\$4.87	\$4.38
Menlo Park	\$7.38	\$7.79	\$7.94	\$7.88	\$7.88	\$7.83	\$8.33	\$8.53	\$8.41
Mountain View	\$5.23	\$5.30	\$5.31	\$5.85	\$6.13	\$6.08	\$6.23	\$6.27	\$6.40
Palo Alto	\$6.63	\$6.63	\$6.88	\$6.96	\$6.98	\$7.01	\$6.92	\$6.90	\$7.10
Redwood City	\$4.86	\$5.23	\$4.68	\$5.13	\$4.71	\$5.29	\$5.42	\$5.20	\$5.52
Redwood Shores	\$3.57	\$3.57	\$3.53	\$3.90	\$3.86	\$4.34	\$4.22	\$4.40	\$4.43

RESEARCH 4Q 2022

Historical Gross Absorption									
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
South Peninsula	523,763	396,604	677,122	886,579	673,724	2,863,673	850,700	800,074	245,339
Los Altos	4,005	9,840	17,881	23,081	11,863	15,251	118,707	27,946	21,126
Menlo Park	77,538	120,900	139,139	168,951	112,621	111,775	118,218	246,102	36,124
Mountain View	186,013	19,986	127,465	95,229	62,488	2,273,269	221,365	120,704	67,742
Palo Alto	198,707	84,623	274,890	159,313	295,678	356,882	263,356	245,070	55,419
Redwood City	9,507	109,102	48,910	425,844	94,534	32,524	84,330	73,593	17,805
Redwood Shores	47,993	52,153	68,837	14,161	66,540	73,972	44,724	86,659	47,123

Historical Net Absorption									
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
South Peninsula	-397,234	-482,681	201,434	-188,670	47,738	1,880,742	-417,460	-568,764	-501,373
Los Altos	-43,120	-24,517	5,731	-42,001	-9,335	6,279	7,848	-20,867	-2,011
Menlo Park	-233,274	-9,019	80,185	85,688	53,443	-20,359	-88,966	-4,022	-69,680
Mountain View	109,623	-90,536	37,743	-277,721	-117,139	1,946,189	-167,487	-205,826	-239,370
Palo Alto	-61,159	-281,258	40,652	45,103	81,224	16,162	-32,697	-172,062	-131,304
Redwood City	-135,707	-79,519	9,537	46,778	-10,760	-49,427	-126,750	-72,415	-44,554
Redwood Shores	-33,597	2,168	27,586	-46,517	96,540	-18,102	-9,408	-93,572	-14,454

For more information:

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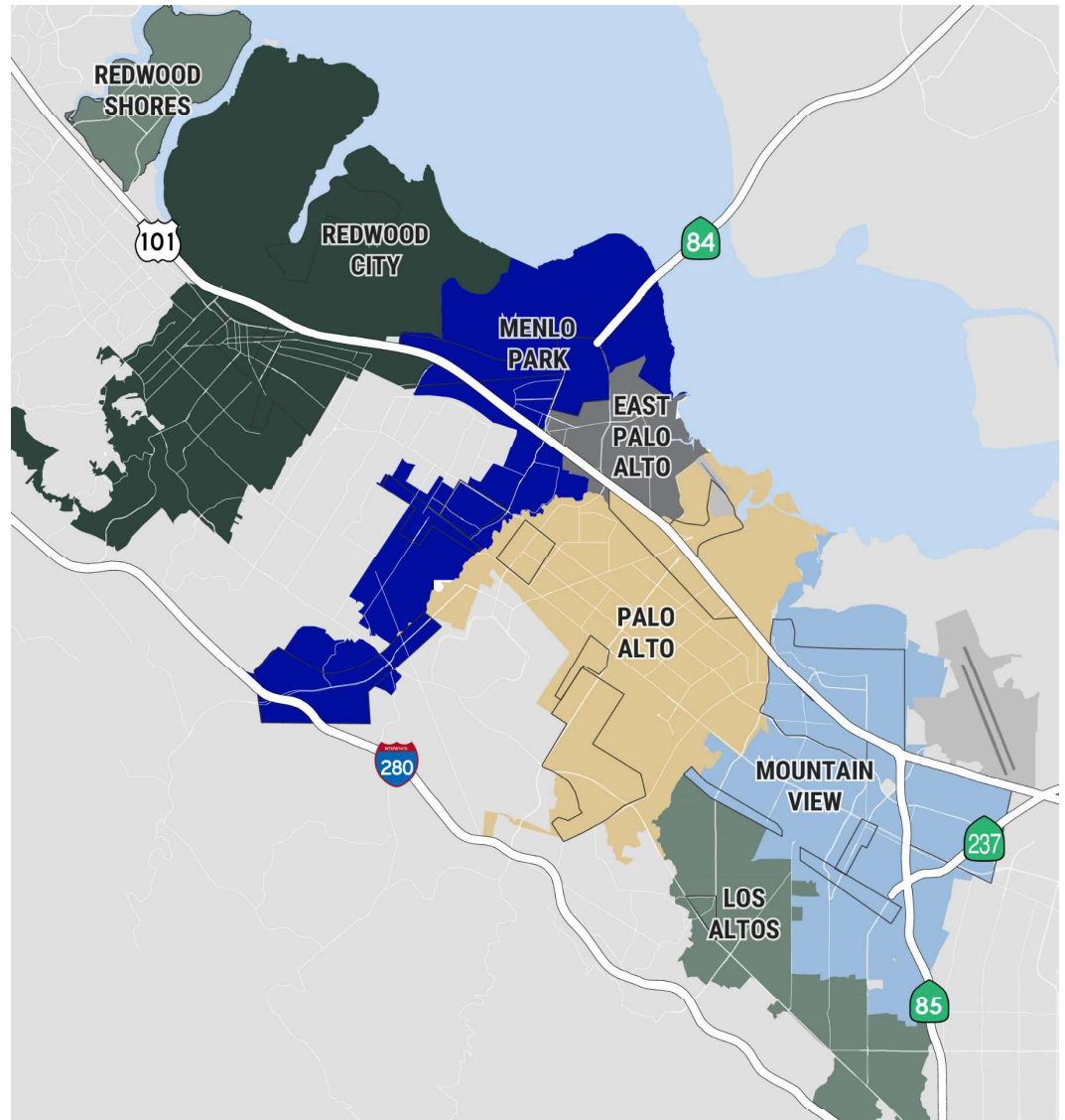
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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