

South Peninsula Office Market

South Peninsula Office Market Sees Positive Net Absorption for the First Time in Two Years

For the first time in eight quarters, the South Peninsula office market saw positive net absorption, while gross absorption rebounded to close to pre-pandemic levels. With over 60% of America receiving at least one vaccination shot and over 50% of the California population now vaccinated, companies set expectations towards an imminent return to office. Subsequently, the shift led directly towards increased leasing activity.

The second quarter of 2021 closed with positive net absorption of 201,434 square feet and gross absorption of 677,122 square feet, compared with -482,681 square feet and 396,604 square feet in first-quarter 2021 in both those categories, respectively. There were 107 transactions this quarter, nearly triple the number of transactions one year ago. Of the 107 transactions, 16 are greater than 10,000 square feet, compared to eight last quarter. Spaces of 10,000 square feet and under was a sector of saturation during the pandemic on the South Peninsula. There was a tremendous rebound over the last quarter, with the number of transactions under 10,000 square feet increasing from 68 in first-quarter 2021 to 91 in the current quarter.

In the previous quarter, the most significant transactions were in the professional service sector. This quarter, the tech industry

Current Conditions

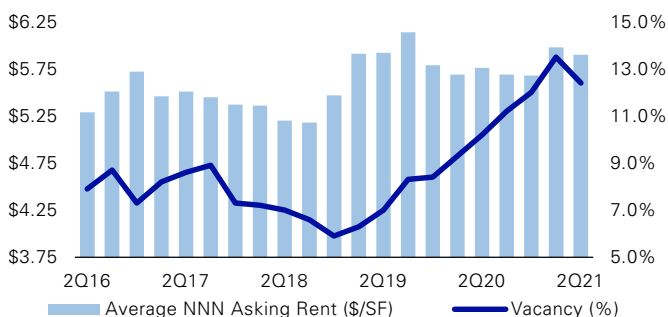
- Leasing activity rebounds after a sluggish start to 2021.
- Gross absorption for the quarter edges up against pre-pandemic levels.
- The tremendous increase in the deployment of COVID-19 vaccines increases confidence for a continued societal and economic normalization.

Market Summary

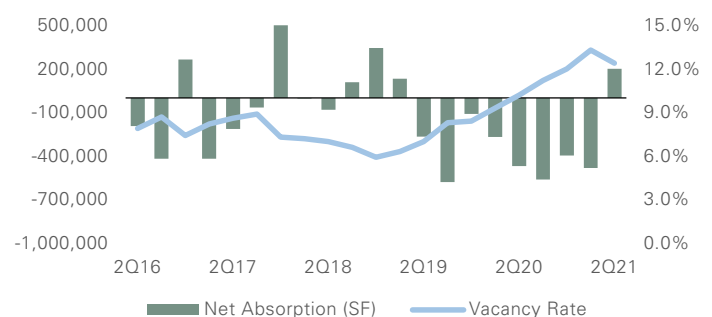
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	36.3M	36.2M	34.7M	→
Vacancy Rate	12.4%	13.3%	10.2%	↓
Qtr Net Abs (SF)	201K	-482K	-471K	↑
Avg NNN Ask Rent/SF	\$5.90/SF	\$5.98/SF	\$5.76/SF	→
Under Const (SF)	2.5M	4.9M	4.9M	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF)



RESEARCH 2Q 2021

topped the charts with the most notable transactions. Snap Inc. subleased 45,000 square feet of office space in Palo Alto's Stanford Research Park, while Tinder subleased 17,000 square feet of space in Downtown Palo Alto. IMVU expanded and extended at 901 Marshall Street in downtown Redwood City for almost 26,000 square feet. Grail signed a 34,000-square-foot sublease and Robinhood signed a 21,000-square-foot direct lease, both in Menlo Park.

With a higher transaction volume this quarter, overall vacancy decreased by 100 basis points since last quarter, to 12.4%. Asking rents decreased only slightly to \$5.90/SF but still higher than the average asking rent for the same time a year ago. With most of the leasing activity taking place on the desirable, well-located, higher-end Class A product, the slight decrease in average asking rents is expected, and the trend may continue as the less desirable, less expensive product remains on the market.

Over 60% of all leasing in the current quarter took place in the Class A sector.

Look for continued demand for high-quality spaces from the professional service sector and the continued return of tech demand in the second half of 2021.

Outlook

- Continued struggle between executives and employees as it relates to push to return to office.
- Tenant improvements will outpace construction cost increase; triple-digit tenant improvement allowances remain.
- Continued focus on the distribution of the vaccine and the positive effect this will have, increasing confidence in second half of 2021.

Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Equinix	529 Bryant Street	Palo Alto – Downtown	Lease Renewal	45,319
Snap Inc.	395 Page Mill Road	Palo Alto – Stanford Research Park	Sublease	45,113
Grail	1020 Marsh Road	Menlo Park – Highway 101	Sublease	34,464
IMVU	901 Marshall Street	Redwood City – Downtown	Renewal/Expansion	25,464
Rivian	850 Hansen Way	Palo Alto – Stanford Research Park	Direct Lease	22,478
Robinhood	8 Homewood Place	Menlo Park – Middlefield	Direct Lease	21,102
Flex Logix	2440 El Camino Real	Mountain View – El Camino Corridor	Direct Lease	19,541
Tinder	151 University Avenue	Palo Alto – Downtown	Sublease	16,699
Instabase	855 Oak Grove Avenue	Menlo Park – Downtown	Sublease	12,321
Esperanto Technologies	800 El Camino Real	Mountain View – Downtown	Sublease	11,100

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
2475 Hanover Street	Palo Alto	\$74,445,000	\$851	83,982
445 Sherman Avenue	Palo Alto	\$33,800,000	\$1,456	23,215
1201 & 1235 Radio Road	Redwood Shores	\$30,100,000	\$338	89,147
2055 Woodside Road	Redwood City	\$19,550,000	\$686	28,500
2225 E Bayshore Road	Palo Alto	\$14,900,000	\$446	33,408
4139 El Camino Way	Palo Alto	\$9,000,000	\$526	17,107
541 Jefferson Avenue	Redwood City	\$8,600,000	\$771	11,600
558 Brewster Avenue	Redwood City	\$4,500,000	\$806	5,580

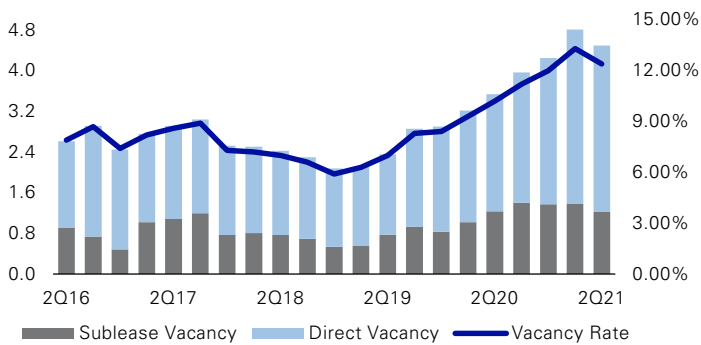
Overall Submarket Statistics									
	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)	Class A NNN Asking Rent (Price/SF)
Los Altos	1,074,867	134,442	12,287	12.51%	13.10%	17,881	5,731	\$5.09	\$6.39
Downtown	508,958	60,193	0	11.83%	11.83%	8,914	8,914	\$5.75	\$6.34
El Camino Corridor	497,227	70,335	12,287	14.15%	15.42%	8,967	197	\$4.52	\$6.50
Foothill Corridor	68,682	3,914	0	5.70%	5.70%	0	-3,380	\$3.68	-
Menlo Park	6,579,180	770,690	69,915	11.71%	12.66%	139,139	80,185	\$7.94	\$8.48
Downtown	1,401,183	390,444	21,719	27.87%	28.16%	54,203	7,288	\$8.08	\$8.68
Sand Hill Road	1,210,812	174,931	44,804	14.45%	14.45%	11,220	502	\$10.37	\$10.37
Middlefield Road	944,446	61,369	0	6.50%	6.50%	29,993	28,672	\$7.77	\$7.77
Highway 101	3,022,739	143,946	3,392	4.76%	6.69%	43,723	43,723	\$5.16	\$5.52
Mountain View	8,733,770	755,773	359,591	8.65%	8.78%	127,465	37,743	\$5.31	\$5.56
Downtown	1,652,613	321,338	186,998	19.44%	20.09%	33,393	-16,472	\$6.91	\$7.23
Central	352,210	29,690	0	8.43%	8.43%	18,156	18,156	\$3.40	-
Shoreline	2,927,692	14,835	0	0.51%	0.51%	3,588	1,716	\$2.83	-
South Middlefield	2,338,468	204,829	148,825	8.76%	8.76%	10,401	-5,827	\$3.33	\$2.83
El Camino Corridor	1,462,787	185,081	23,768	12.65%	12.65%	61,927	40,170	\$5.40	\$5.64
Palo Alto	9,072,907	1,572,001	430,748	17.33%	18.83%	274,890	40,652	\$6.88	\$7.30
Downtown	2,580,471	444,213	165,615	17.21%	18.20%	112,122	20,661	\$8.23	\$8.69
East Palo Alto	668,279	211,327	25,285	31.62%	31.62%	0	0	\$7.32	\$7.32
Stanford Research Park	3,230,695	451,022	114,862	13.96%	17.14%	99,073	57,596	\$7.02	\$7.14
California Avenue	1,210,960	224,386	42,833	18.53%	18.53%	23,630	-33,259	\$6.08	\$6.47
Bayshore	1,382,502	241,053	82,153	17.44%	18.02%	40,065	-4,346	\$3.70	\$3.65
Redwood City	6,111,876	659,157	232,862	10.78%	17.00%	48,910	9,537	\$4.68	\$4.67
Downtown	2,846,747	487,282	181,237	17.12%	20.35%	39,772	12,966	\$5.98	\$7.25
Seaport	1,847,399	125,270	40,000	6.78%	22.10%	9,138	6,612	\$3.31	\$3.47
Southern Area	1,417,730	46,605	11,625	3.29%	3.62%	0	-10,041	\$3.70	\$2.45
Redwood Shores	4,699,134	603,485	111,292	12.84%	12.88%	68,837	27,586	\$3.53	\$3.57
SOUTH PENINSULA	36,271,734	4,495,548	1,216,695	12.39%	14.04%	677,122	201,434	\$5.90	\$6.21

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)	Class A NNN Asking Rent (Price/SF)
Los Altos	501,695	0	80,446	12,287	16.03%	16.81%	14,118	8,654	\$6.39
Downtown	323,948	0	44,865	0	13.85%	13.85%	5,151	5,151	\$6.34
El Camino Corridor	177,747	0	35,581	12,287	20.02%	22.20%	8,967	3,503	\$6.50
Foothill Corridor	0	0	0	0	0.00%	0.00%	0	0	-
Menlo Park	5,337,349	681,503	653,949	67,104	12.25%	13.40%	89,788	59,228	\$8.48
Downtown	982,415	232,003	318,060	18,908	32.38%	32.70%	25,954	6,112	\$8.68
Sand Hill Road	1,210,812	0	174,931	44,804	14.45%	14.45%	11,220	502	\$10.37
Middlefield Road	491,028	0	58,688	0	11.95%	11.95%	8,891	8,891	\$7.77
Highway 101	2,653,094	449,500	102,270	3,392	3.85%	6.05%	43,723	43,723	\$5.52
Mountain View	6,463,955	1,100,000	571,226	332,591	8.84%	9.00%	68,297	21,927	\$5.56
Downtown	1,154,623	0	258,775	163,251	22.41%	23.33%	28,061	-6,904	\$7.23
Central	123,374	0	0	0	0.00%	0.00%	0	0	-
Shoreline	2,289,084	0	0	0	0.00%	0.00%	0	0	-
South Middlefield	1,969,365	1,100,000	159,590	148,825	8.10%	8.10%	1,500	-5,015	\$2.83
El Camino Corridor	927,509	0	152,861	20,515	16.48%	16.48%	38,736	33,846	\$5.64
Palo Alto	6,185,405	0	1,007,997	247,107	16.30%	18.15%	131,872	50,309	\$7.30
Downtown	1,589,977	0	254,520	103,998	16.01%	16.53%	12,347	-4,449	\$8.69
East Palo Alto	668,279	0	211,327	25,285	31.62%	31.62%	0	0	\$7.32
Stanford Research Park	3,099,693	0	436,261	100,101	14.07%	17.39%	99,073	57,596	\$7.14
California Avenue	528,182	0	81,792	14,602	15.49%	15.49%	14,306	-3,696	\$6.47
Bayshore	299,274	0	24,097	3,121	8.05%	9.27%	6,146	858	\$3.65
Redwood City	4,176,900	696,217	278,395	155,890	6.67%	15.56%	28,464	22,860	\$4.67
Downtown	1,695,539	696,217	178,668	115,890	10.54%	15.75%	28,464	22,860	\$7.25
Seaport	1,507,343	0	78,288	40,000	5.19%	23.97%	0	0	\$3.47
Southern Area	974,018	0	21,439	0	2.20%	2.20%	0	0	\$2.45
Redwood Shores	4,313,830	0	576,953	106,292	13.37%	13.41%	68,837	27,586	\$3.57
SOUTH PENINSULA	26,979,134	2,477,720	3,168,966	921,271	11.75%	13.83%	401,376	190,564	\$6.21

Historical Vacancy Rates								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
South Peninsula	8.3%	8.5%	9.3%	10.2%	11.2%	12.0%	13.3%	12.4%
Los Altos	8.1%	7.8%	7.6%	7.7%	10.8%	14.2%	13.5%	12.5%
Menlo Park	9.0%	7.6%	8.6%	10.2%	11.1%	14.8%	14.0%	11.7%
Mountain View	8.0%	9.2%	7.5%	9.9%	10.1%	8.2%	9.1%	8.7%
Palo Alto	11.0%	10.8%	12.6%	12.6%	14.1%	14.2%	17.7%	17.3%
Redwood City	5.3%	6.4%	5.2%	5.7%	6.8%	9.1%	11.5%	10.8%
Redwood Shores	6.5%	6.1%	12.3%	12.1%	13.6%	14.3%	13.6%	12.8%

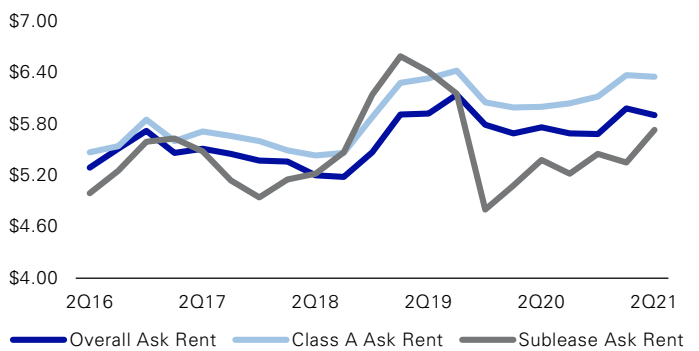
Vacancy Breakdown

SQUARE FEET, MILLIONS



Average Asking Rents

WEIGHTED, NNN, MONTHLY



Historical NNN Asking Rents

	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
South Peninsula	\$6.14	\$5.79	\$5.69	\$5.76	\$5.69	\$5.68	\$5.98	\$5.90
Los Altos	\$4.61	\$5.31	\$4.72	\$4.80	\$4.30	\$4.27	\$5.25	\$5.09
Menlo Park	\$6.22	\$6.23	\$6.73	\$7.42	\$7.55	\$7.38	\$7.79	\$7.94
Mountain View	\$6.05	\$5.55	\$4.95	\$4.73	\$4.83	\$5.23	\$5.30	\$5.31
Palo Alto	\$7.06	\$6.93	\$6.99	\$6.89	\$6.72	\$6.63	\$6.63	\$6.88
Redwood City	\$5.39	\$4.84	\$4.50	\$4.97	\$4.96	\$4.86	\$5.23	\$4.68
Redwood Shores	\$4.29	\$3.54	\$3.99	\$3.61	\$3.59	\$3.57	\$3.57	\$3.53

RESEARCH 2Q 2021

Historical Gross Absorption								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
South Peninsula	747,197	770,731	887,379	575,256	111,924	523,763	396,604	677,122
Los Altos	13,333	19,085	52,819	6,100	789	4,005	9,840	17,881
Menlo Park	165,797	109,002	85,041	54,399	43,568	77,538	120,900	139,139
Mountain View	168,564	83,716	312,333	60,991	31,629	186,013	19,986	127,465
Palo Alto	146,521	260,291	187,426	243,916	13,133	198,707	84,623	274,890
Redwood City	131,878	192,344	214,723	37,028	9,257	9,507	109,102	48,910
Redwood Shores	121,104	106,293	35,037	172,822	13,548	47,993	52,153	68,837

Historical Net Absorption								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
South Peninsula	-580,777	-109,413	-268,382	-470,951	-562,216	-397,234	-482,681	201,434
Los Altos	-18,576	-328	2,129	-3,869	-32,913	-43,120	-24,517	5,731
Menlo Park	-43,625	36,855	-48,874	-98,188	-100,124	-233,274	-9,019	80,185
Mountain View	-260,433	-114,322	161,820	-219,194	-44,603	109,623	-90,536	37,743
Palo Alto	-226,510	33,925	-208,420	-23,869	-197,070	-61,159	-281,258	40,652
Redwood City	-42,271	-73,811	146,356	-94,998	-109,705	-135,707	-79,519	9,537
Redwood Shores	10,638	8,268	-321,393	-13,696	-77,801	-33,597	2,168	27,586

For more information:

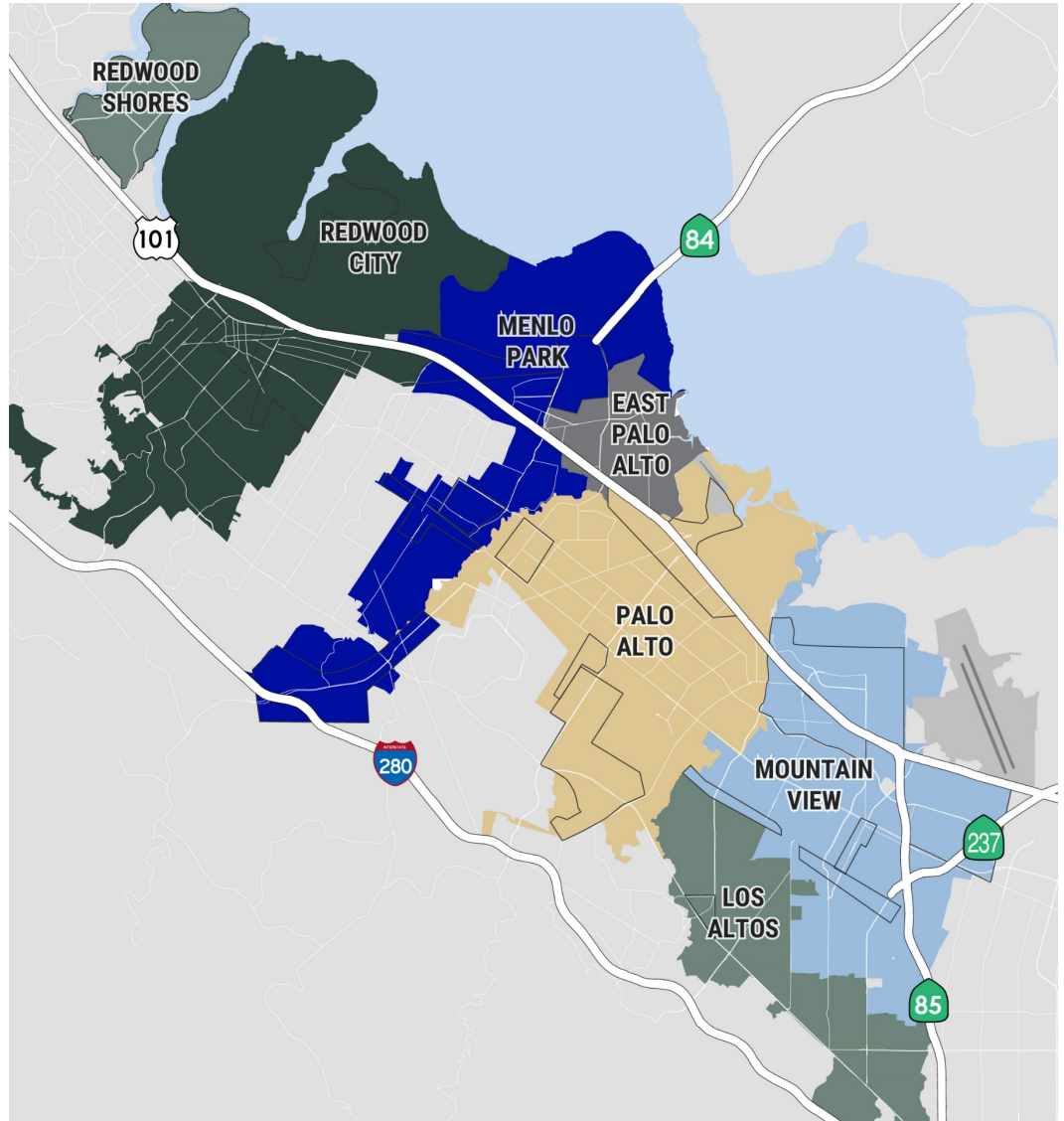
Newmark

245 Lytton Avenue, Suite 150
Palo Alto, CA 94301
t 650-322-2600
Corporate CA RE #: 00832933

Manny Tran

Research Analyst
manny.tran@nmrk.com

nmrk.com



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.

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.