1Q25

North Peninsula Office Market Overview

Market Observations

Economy

- The Peninsula's labor market took a step back in the first quarter of 2025, with the unemployment rate increasing to 3.8%, rising from 3.6% in December.
- The most recent U.S. Consumer Price Index (CPI) inflation rate registered at 2.4%—its lowest level since 2020.
- A volatile start to 2025 has cast uncertainty over the broader economy, driven by tariff-related tensions, persistent inflation, and an unpredictable new administration. Within commercial real estate, this uncertainty has prompted more tenants to focus on renewals rather than expansions.
- Looking ahead, the market anticipates the Federal Reserve will hold interest rates steady through mid-2025 to reduce the risk of tariff-driven inflation, with a possible cut of another half percentage point by year-end.

Major Transactions

- Zoox, an Amazon subsidiary focused on autonomous vehicle technology, completed the largest deal of the quarter, subleasing 200,000 SF from Illumina at The Campus at Lincoln Centre in Foster City.
- Multinational law firm Latham & Watkins signed the second-largest lease of the quarter, securing 79,897 SF at 801 Jefferson Avenue in Downtown Redwood City.
- The quarter's most notable property sale involved IDIS Americas acquiring 350 Marine Parkway in Redwood Shores from The Pollock Financial Group for $12.9 million, or $366/SF.

Leasing Market Fundamentals

- The region recorded its second consecutive quarter of negative absorption, with 366,000 SF in the first quarter of 2025—driven primarily by Snowflake placing its former 210,000-SF San Mateo headquarters on the sublease market.
- Gross absorption totaled 724,000 SF, marking a 49.0% decline quarter-over-quarter and a 25.0% drop year-over-year. Until transaction volume stabilizes, landlords may face challenges in achieving higher asking rents.
- Market-wide vacancy increased to 19.5%, up from 18.5% the previous quarter. Sublease vacancy edged up to 4.0% from 3.8% over the same period.
- The total average asking rate closed the quarter at $6.02/SF Full Service, down from $6.13/SF in the prior quarter and $6.18/SF one year earlier.

Outlook

- Despite economic uncertainty and subdued demand, landlords remain focused on filling space, giving tenants continued leverage in negotiations.
- A growing divide is emerging across asset classes—high-quality properties are capturing stronger demand, higher rents and better occupancy, while lower-tier assets face mounting challenges.
- The absence of new ground-up construction should support faster absorption of existing vacancies once demand begins to rebound.
- Market conditions are expected to improve for the North Peninsula office sector in 2025, though progress will largely depend on return-to-office trends, labor market shifts and federal policy developments.

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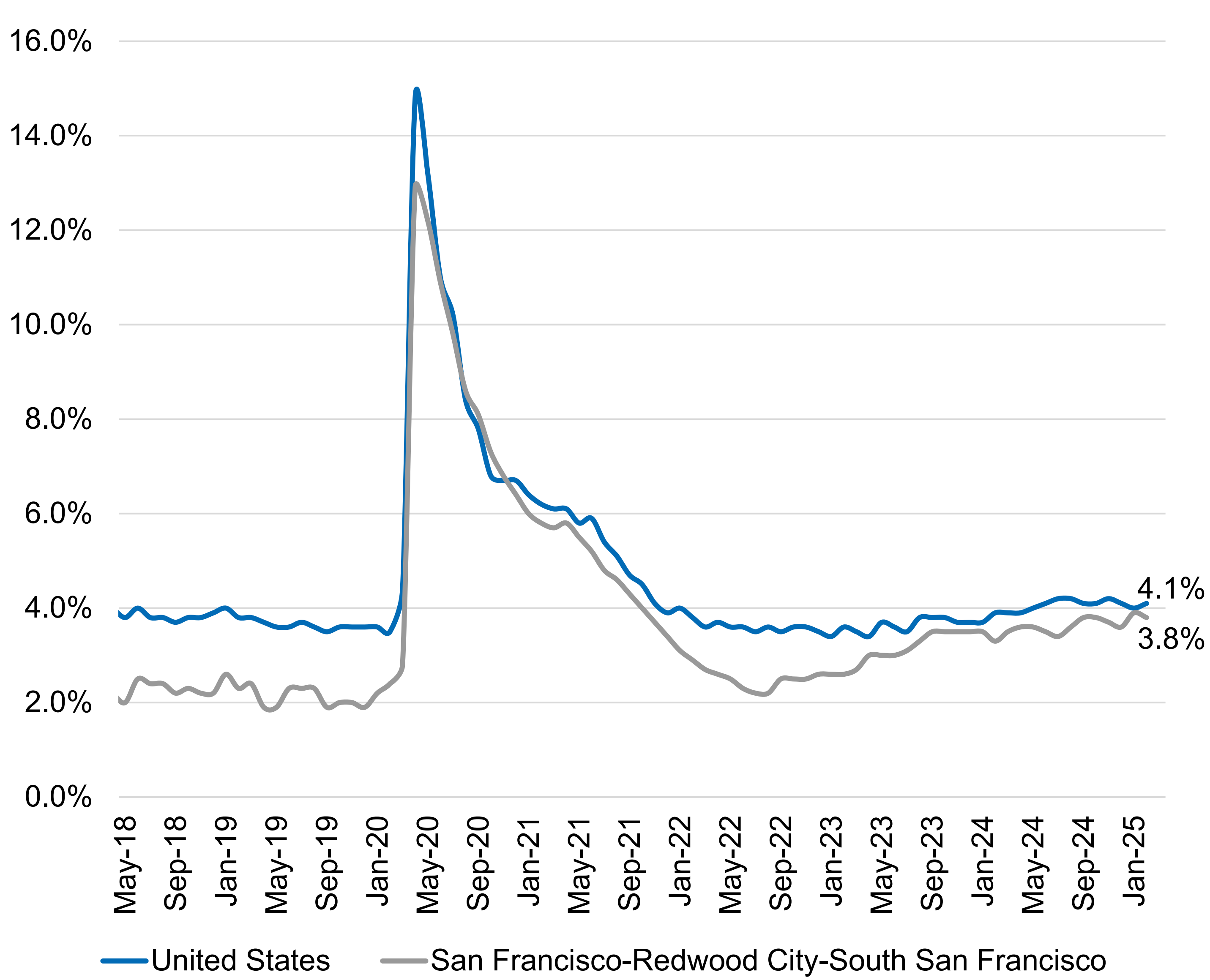
Economy

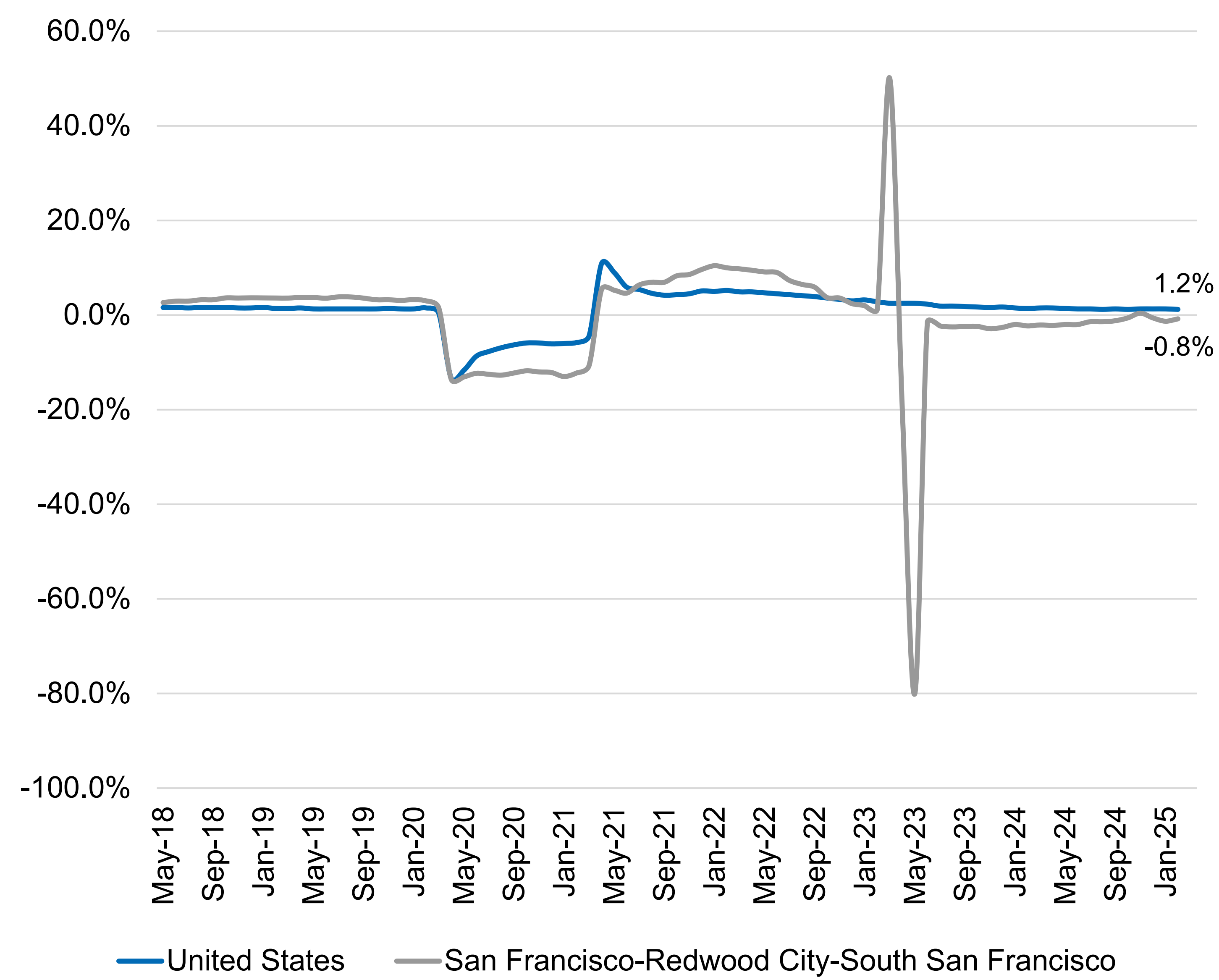
Regional Unemployment Remains Below National Level

The region's unemployment rate, at 3.8%, is 30 basis points below the national average. Nonfarm employment in the region declined marginally while the growth nationally continued to slow.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

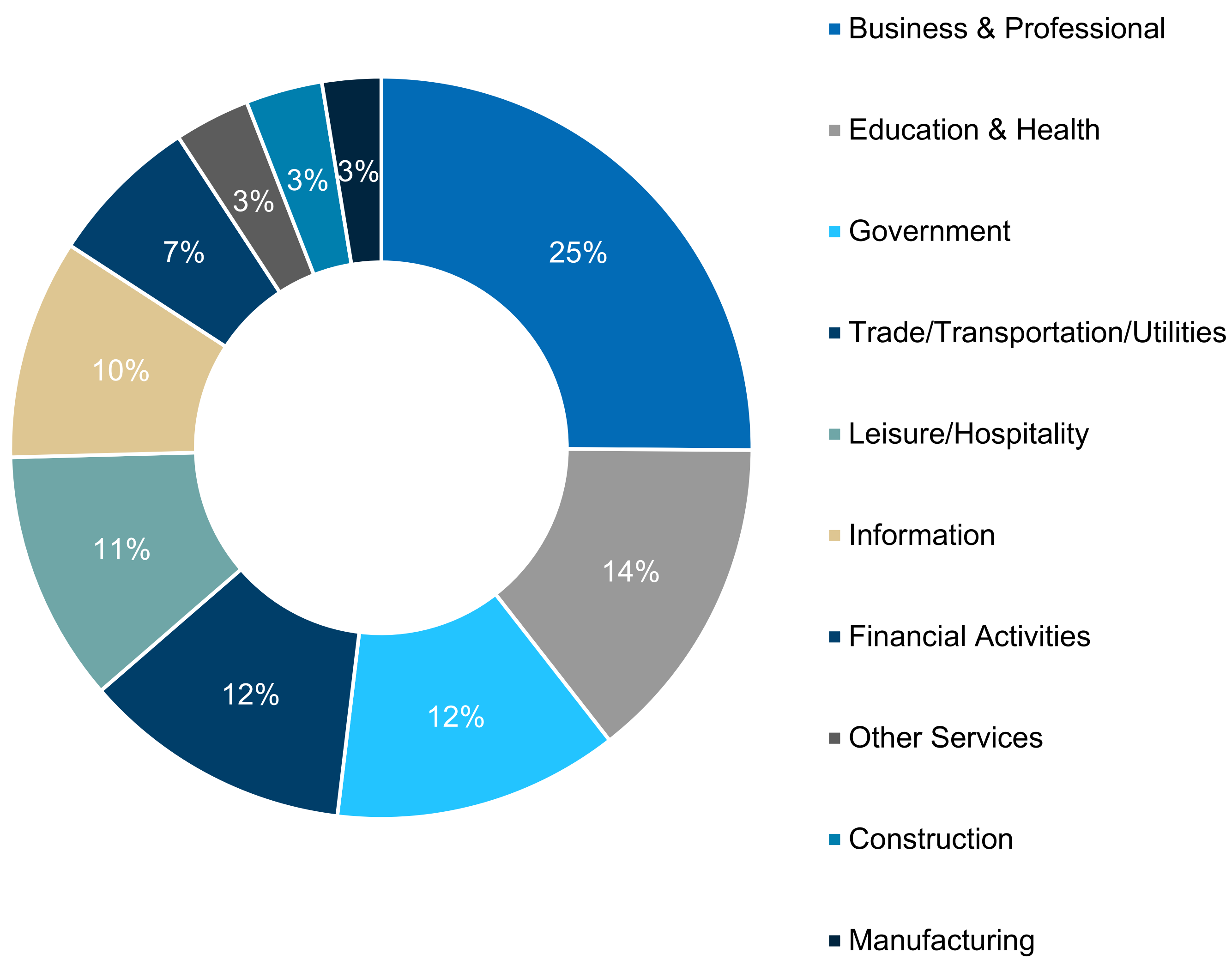


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

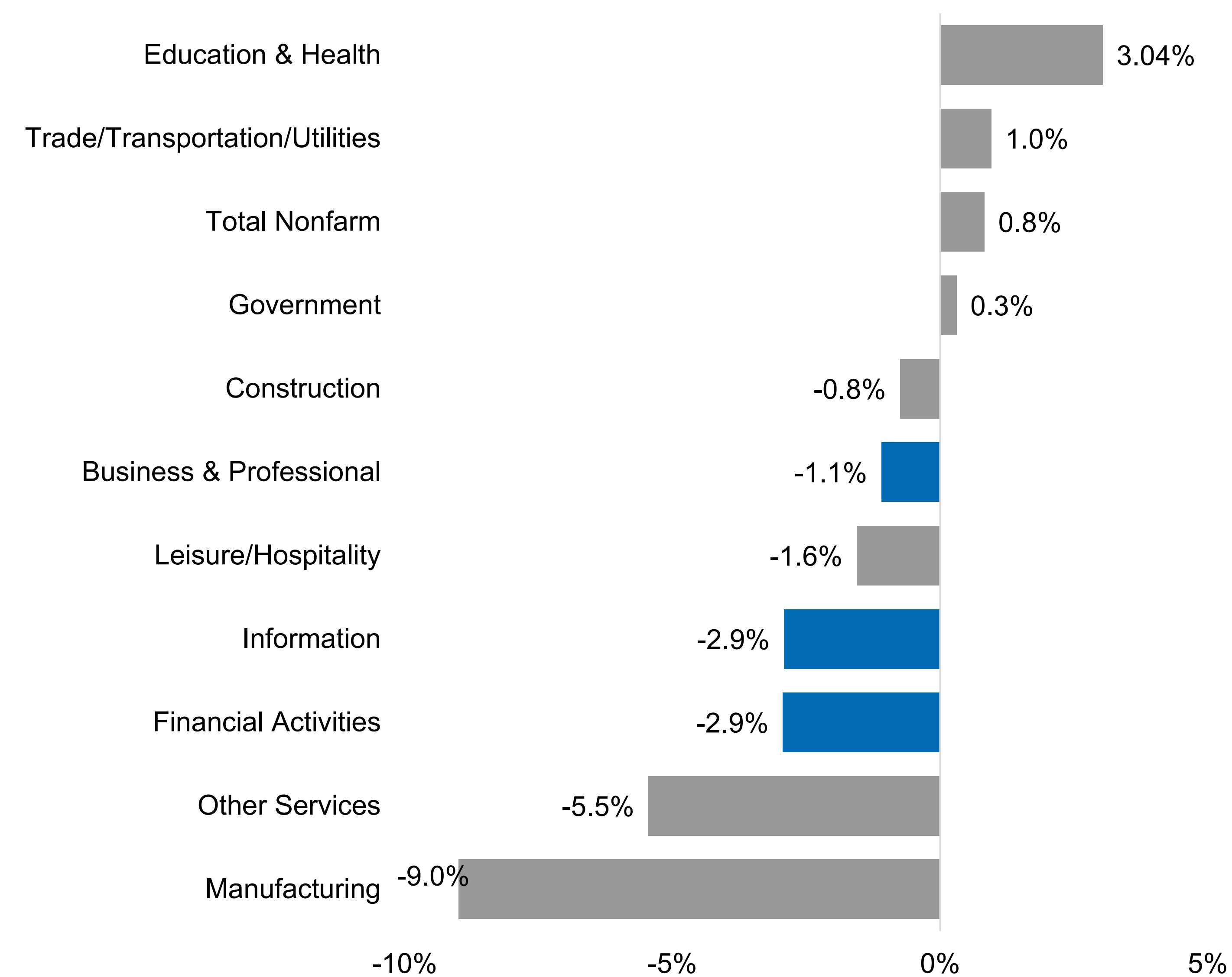
Office Using Employment Down 1.8% Year-Over-Year

Other Services and Trade/Transportations/Utilities were the sectors with the largest year-over-year increases in employment. All three of the office-using industries shrank in size over the last year, with a combined contraction of 1.8%.

Employment by Industry, Feb 2025



Employment Growth by Industry, 12-Month % Change, Feb 2025

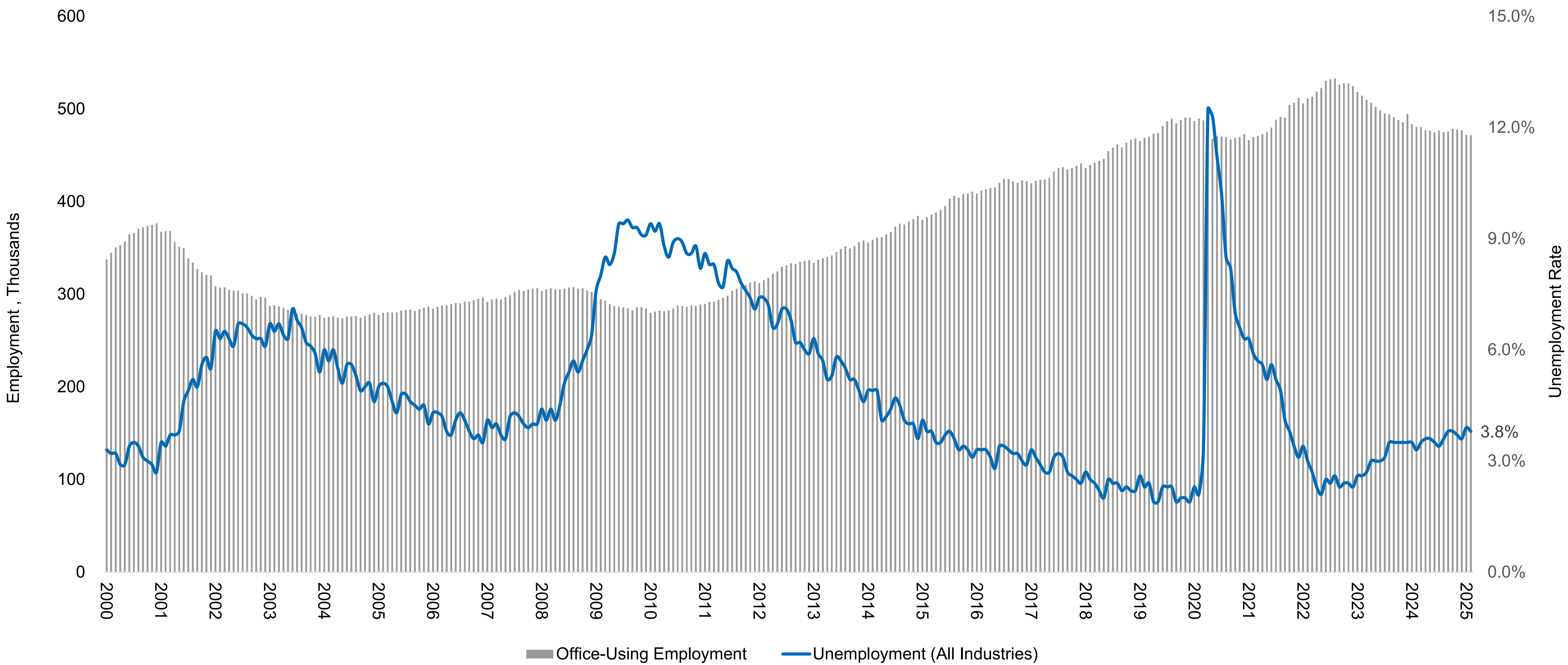


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco November Data is Preliminary

Unemployment Rate Below National Average

The overall unemployment rate of 3.8% remains below the national rate of 4.1%, but there has been an 11.5% decrease in office-using employment since the height of hiring in 2022. Overall office-using employment is down 1.8% year-over-year, having dropped by approximately 5,350 jobs since the end of 2024.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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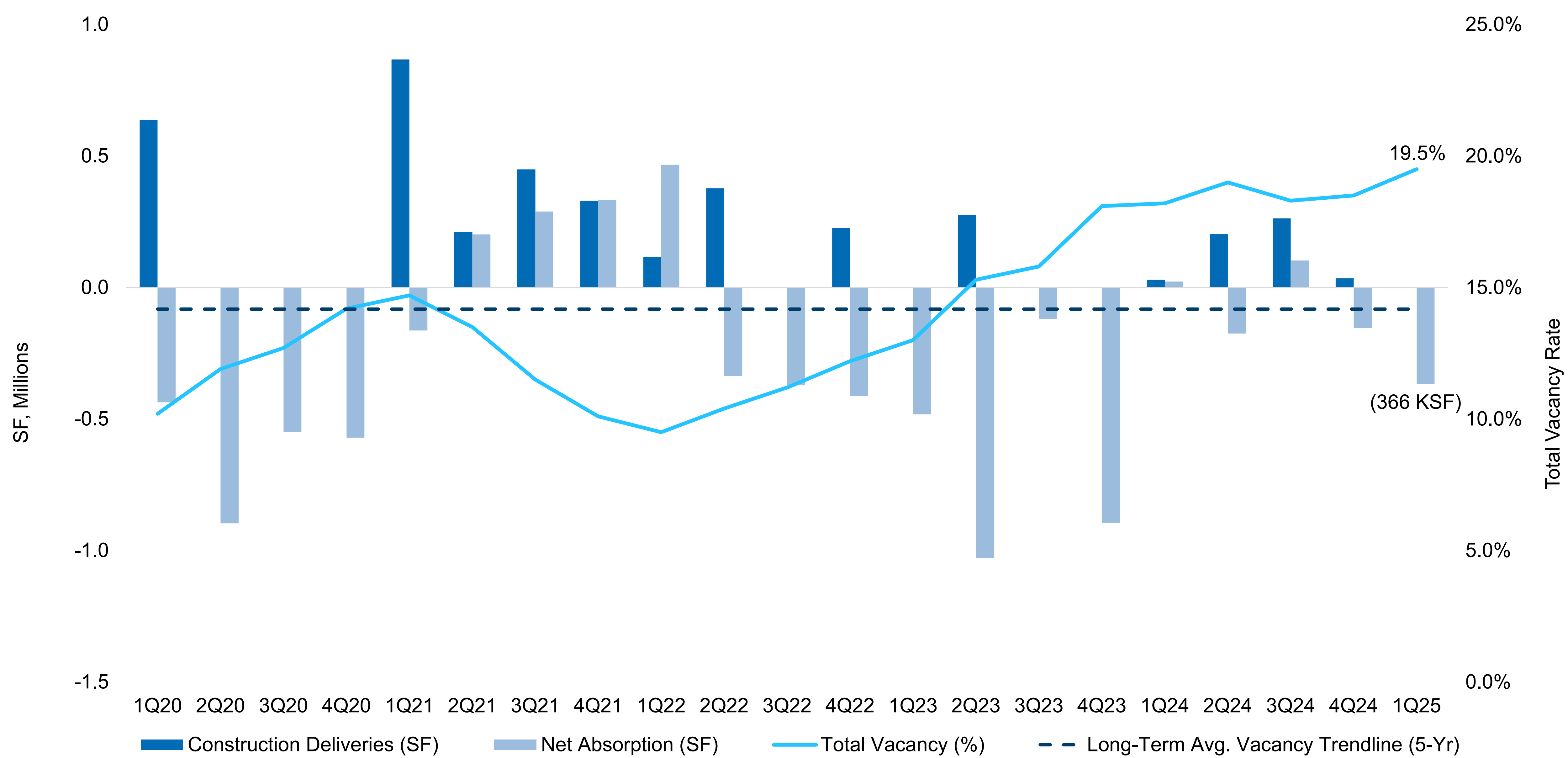
Leasing Market Fundamentals

Total Vacancy Reached Record High

Total vacancy for the North Peninsula rose to a new high in the first quarter, reaching 19.5%, up from 18.5% in the previous quarter. While still elevated compared to the long-term average of 14.2%, the shift toward positive absorption over the past year—though modest—signals that tenants are gradually returning to the market following recent volatility.

Historical Construction Deliveries, Net Absorption, and Total Vacancy

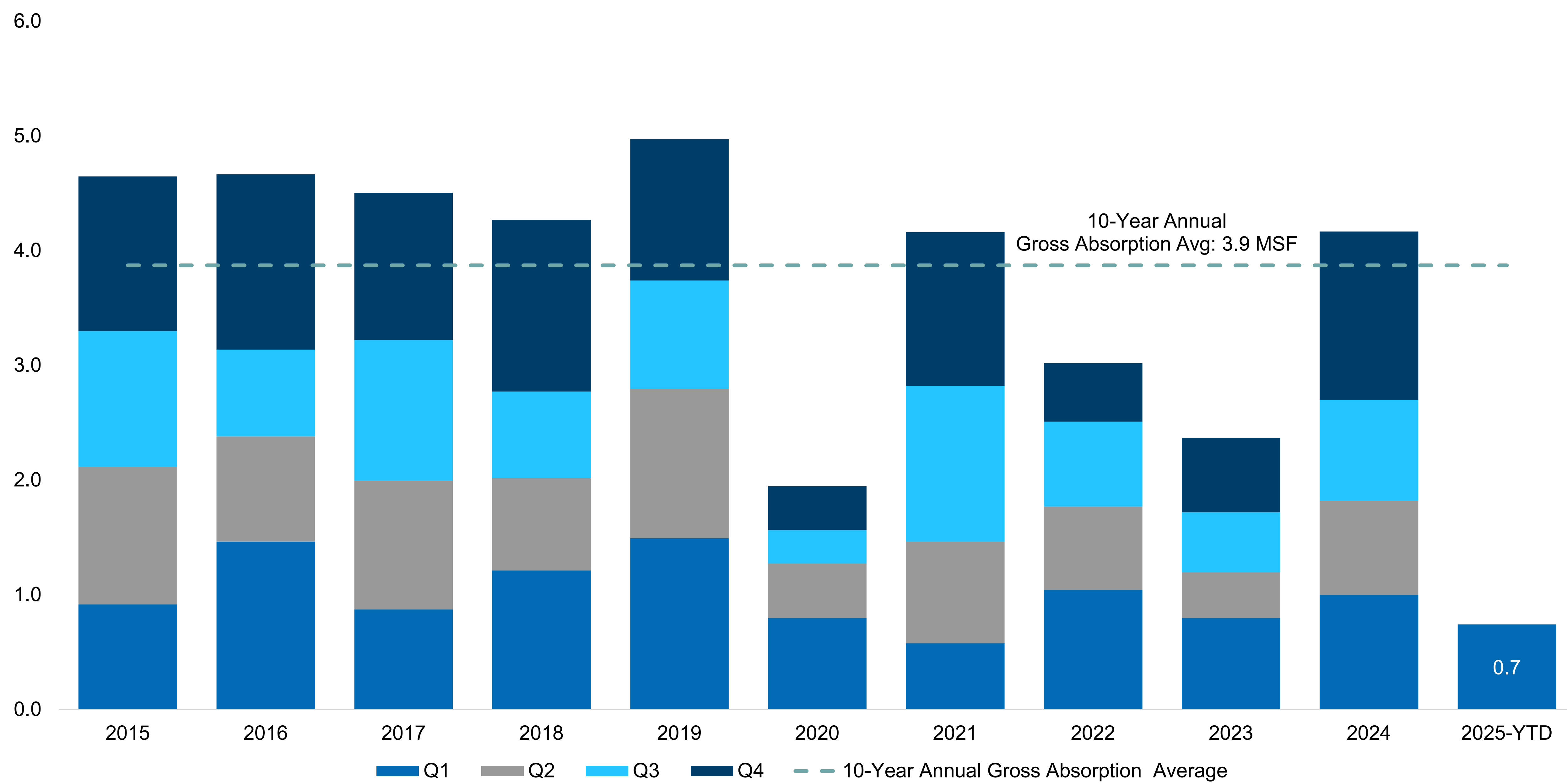


Source: Newmark Research

Deal Velocity Slowed to Start Year

Total gross absorption for the quarter reached 724,000 SF, representing a 49.0% decline quarter-over-quarter and a 25.0% drop year-over-year. Class A properties accounted for 71.0% of total square footage transacted, with Class B at 27.0% and Class C at 2.0%. This reflects a notable shift from the previous quarter, when Class A made up 91.0% of gross absorption, compared to 7.0% for Class B and 2.0% for Class C.

Total Gross Absorption (MSF)

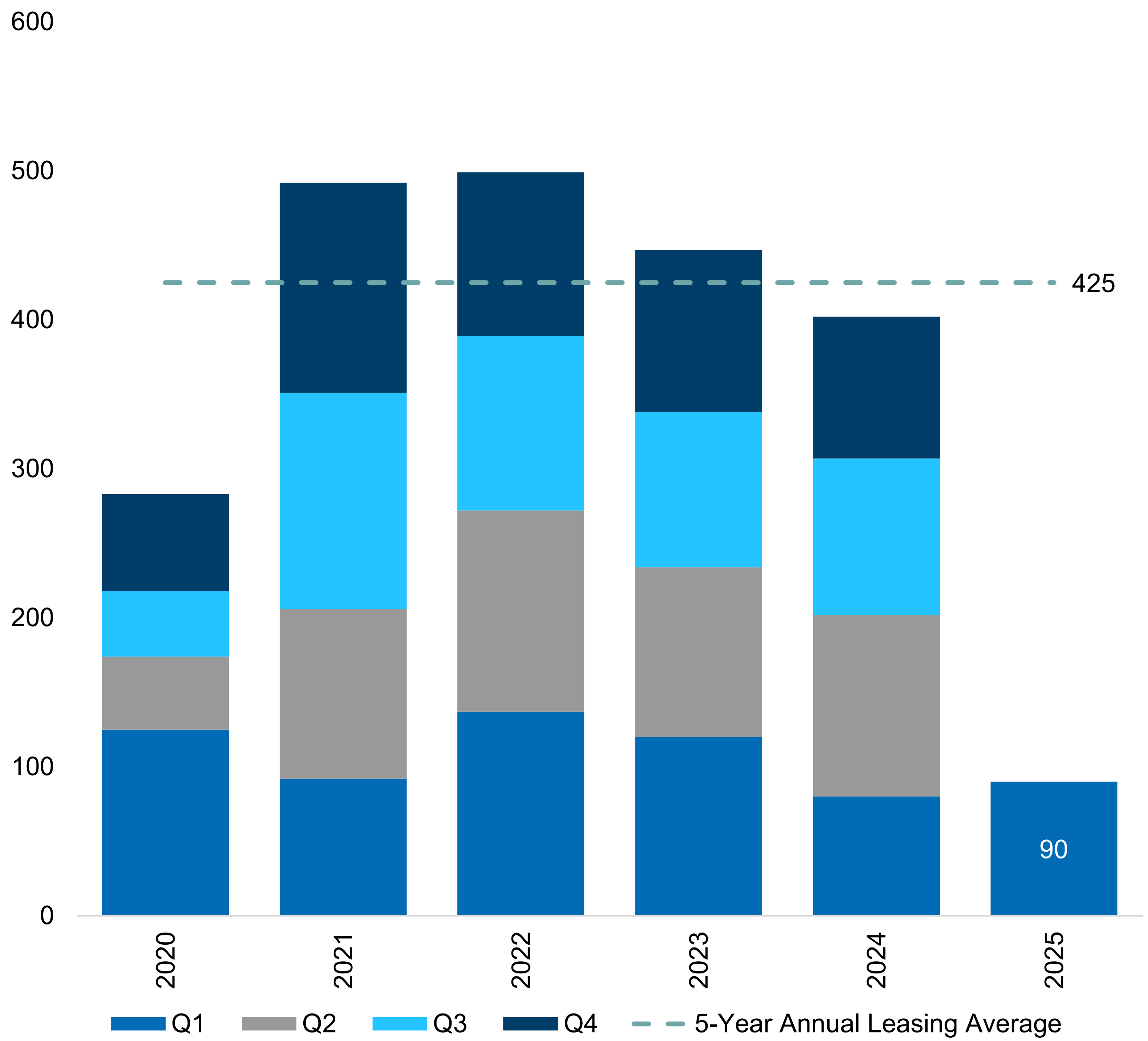


Source: Newmark Research, CoStar

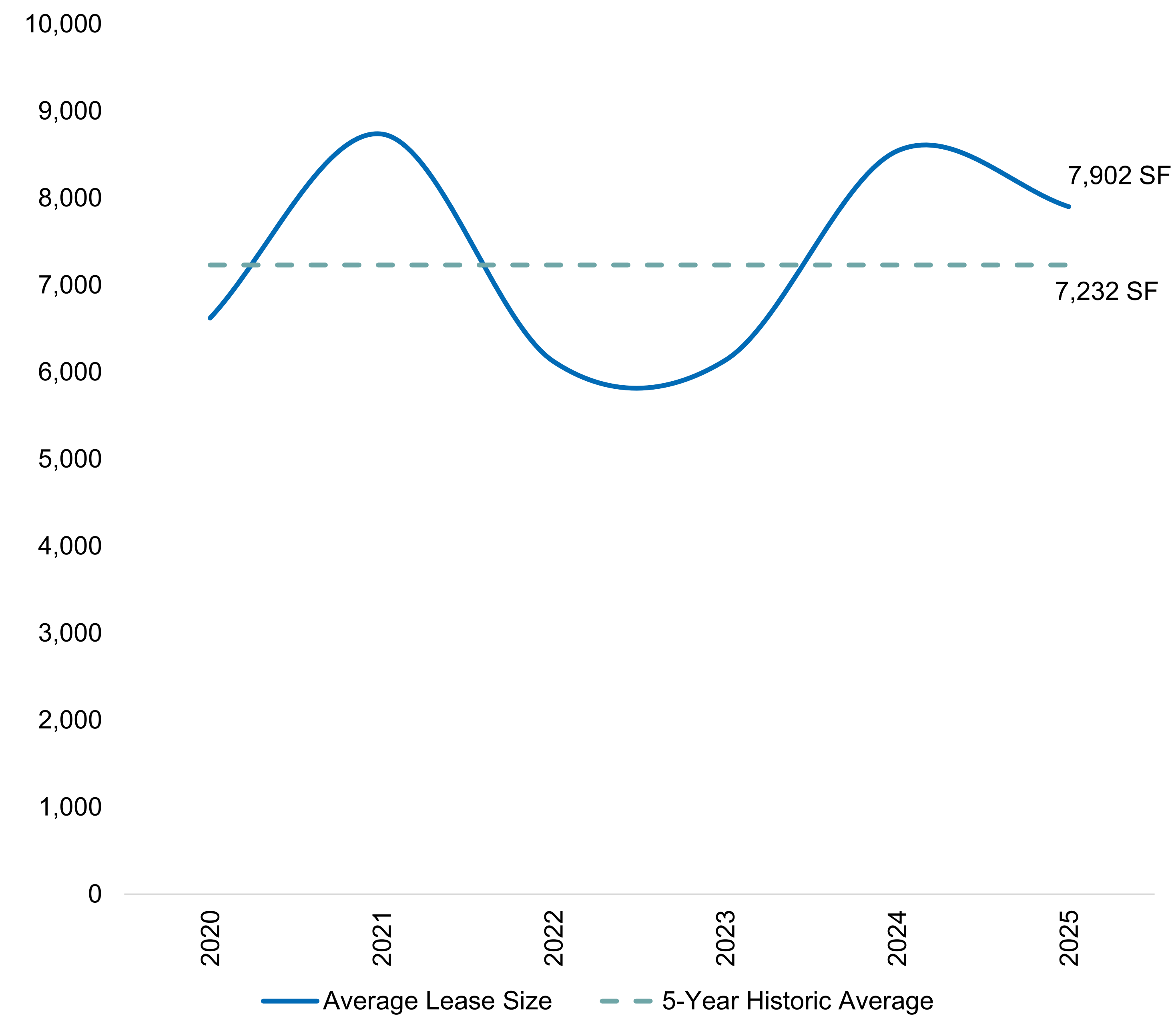
Average Lease Size Above 5-Year Average

The average lease size in the first quarter of 2025 was 7,902 SF, 9.0% above the 5-year historical average of 7,232 SF. The quarter also marked an approximate 29.0% increase compared to the 2022 trough, when average lease size fell to 15.0% below the 5-year average.

Number of Leases Signed



Average Lease Size (SF)



Source: Newmark Research, CoStar

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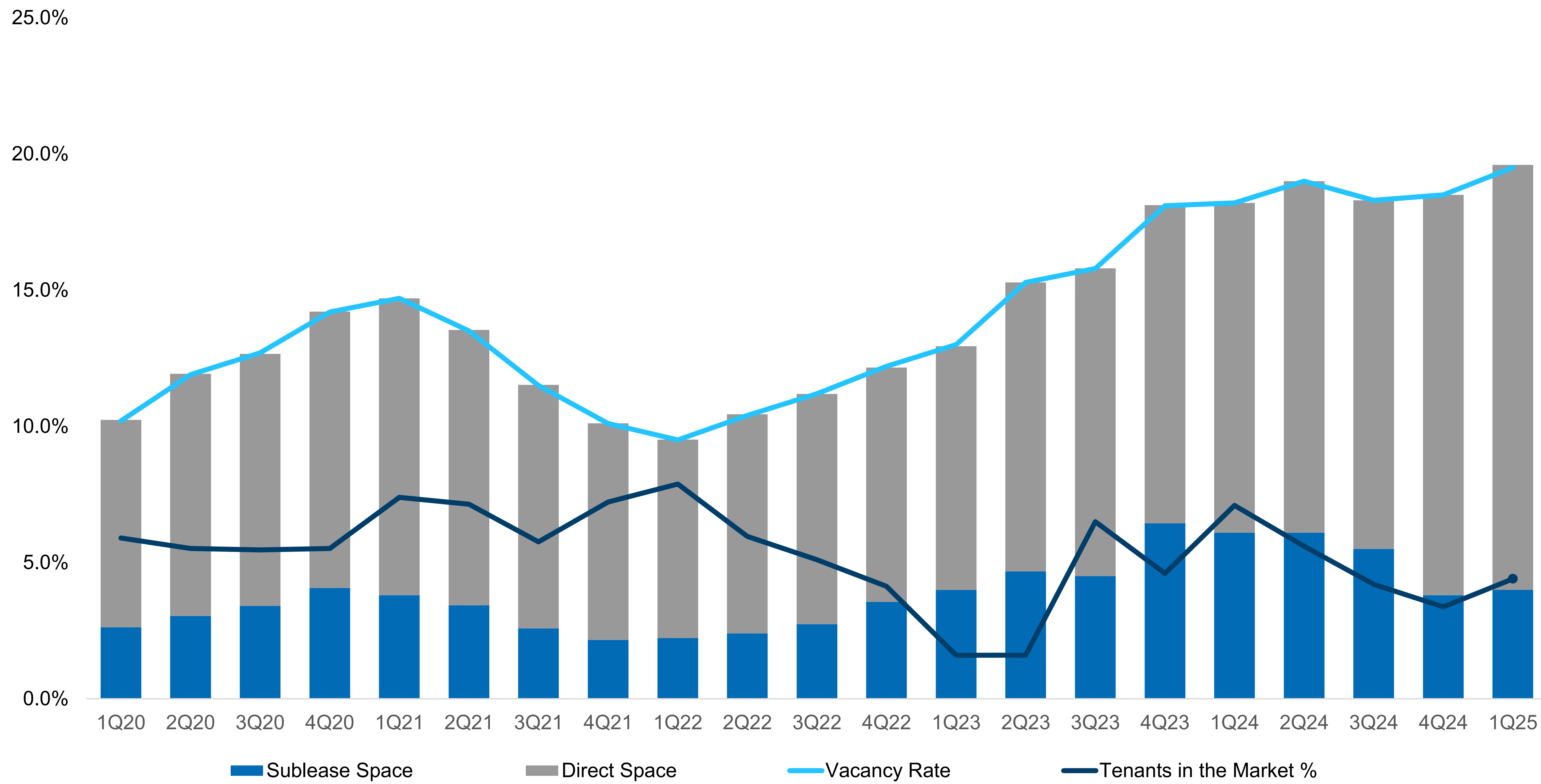
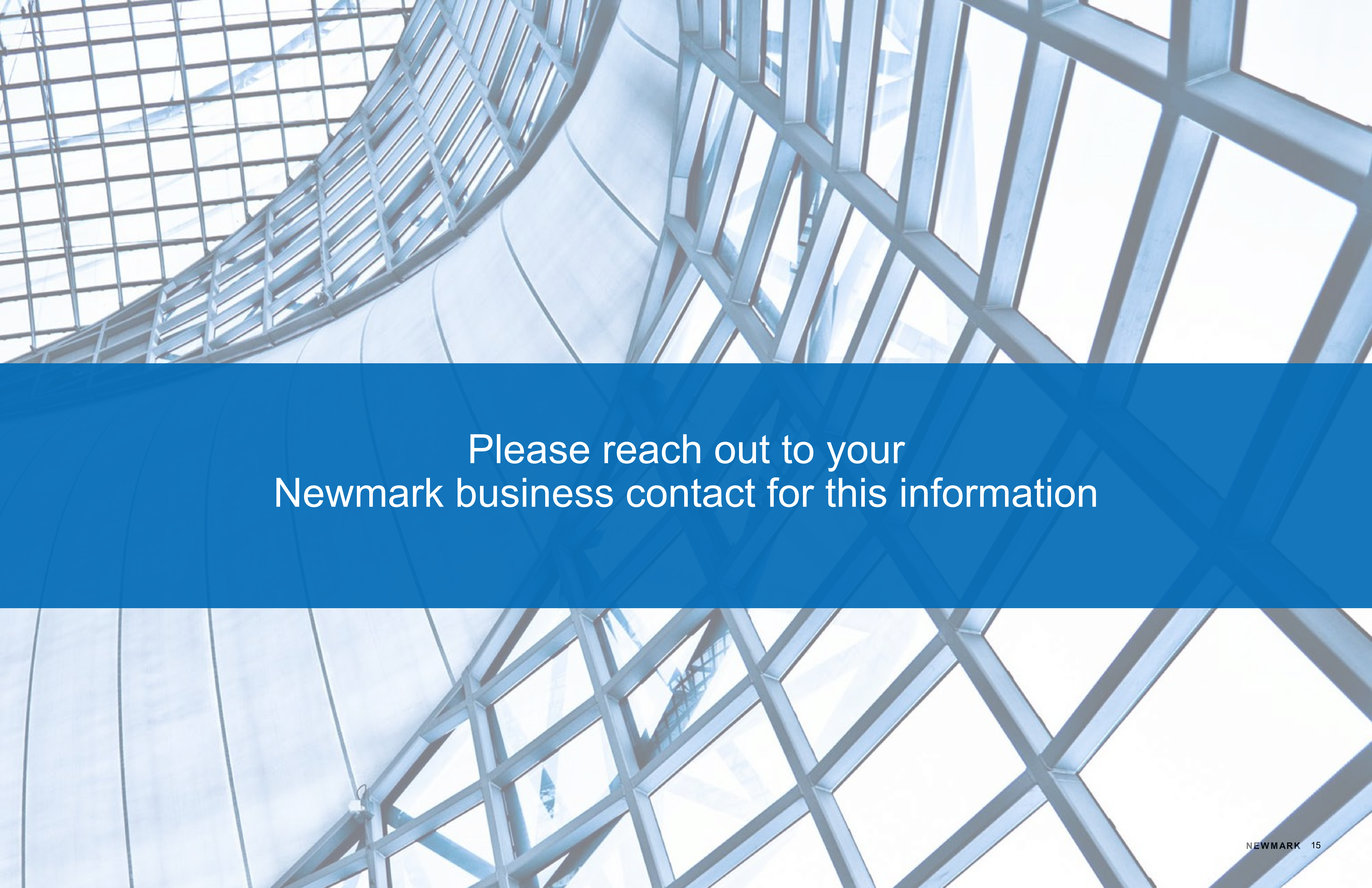
Tenant Demand Rose as Sublease Vacancy Narrowed

Recorded tenant demand rose to 1.8 million SF this quarter, up from 1.4 million SF in the previous quarter but down from 2.8 million SF year-over-year. Vacant sublease space has declined over the same period, from 2.4 million SF to 1.5 million SF. Despite the reduction, large blocks remain available, offering prospective tenants a wide range of options and continued negotiating leverage.

Total Vacant Space and Active Tenant Demand as Percent of Overall Market



Source: Newmark Research



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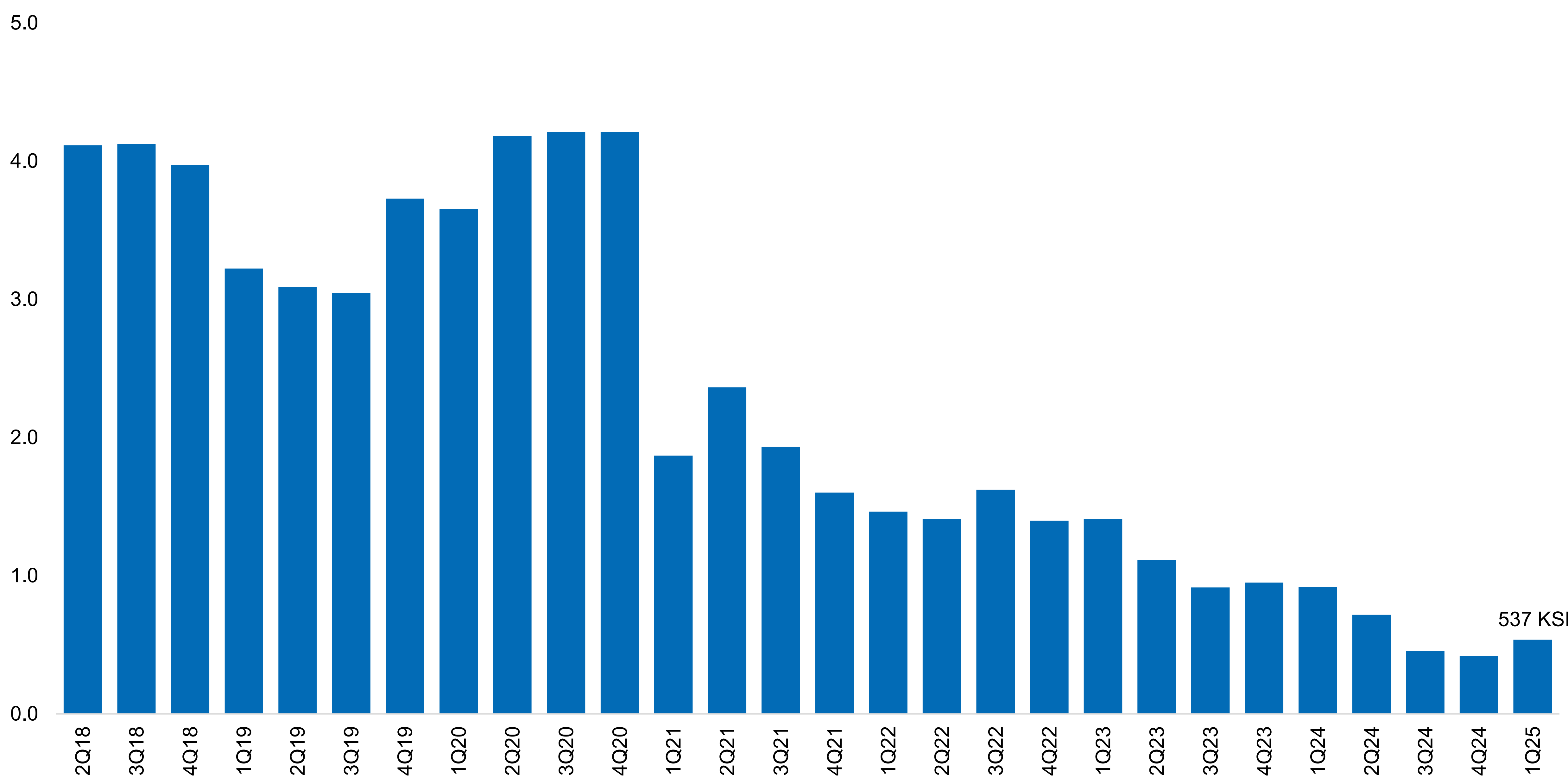
Construction Activity Remained Near Historic Low

With just 537,000 SF currently underway, the office construction pipeline remains at its lowest level since early 2014. The limited amount of new development is expected to support a gradual reduction in the overall vacancy rate over the long term.

Office Under Construction (MSF)

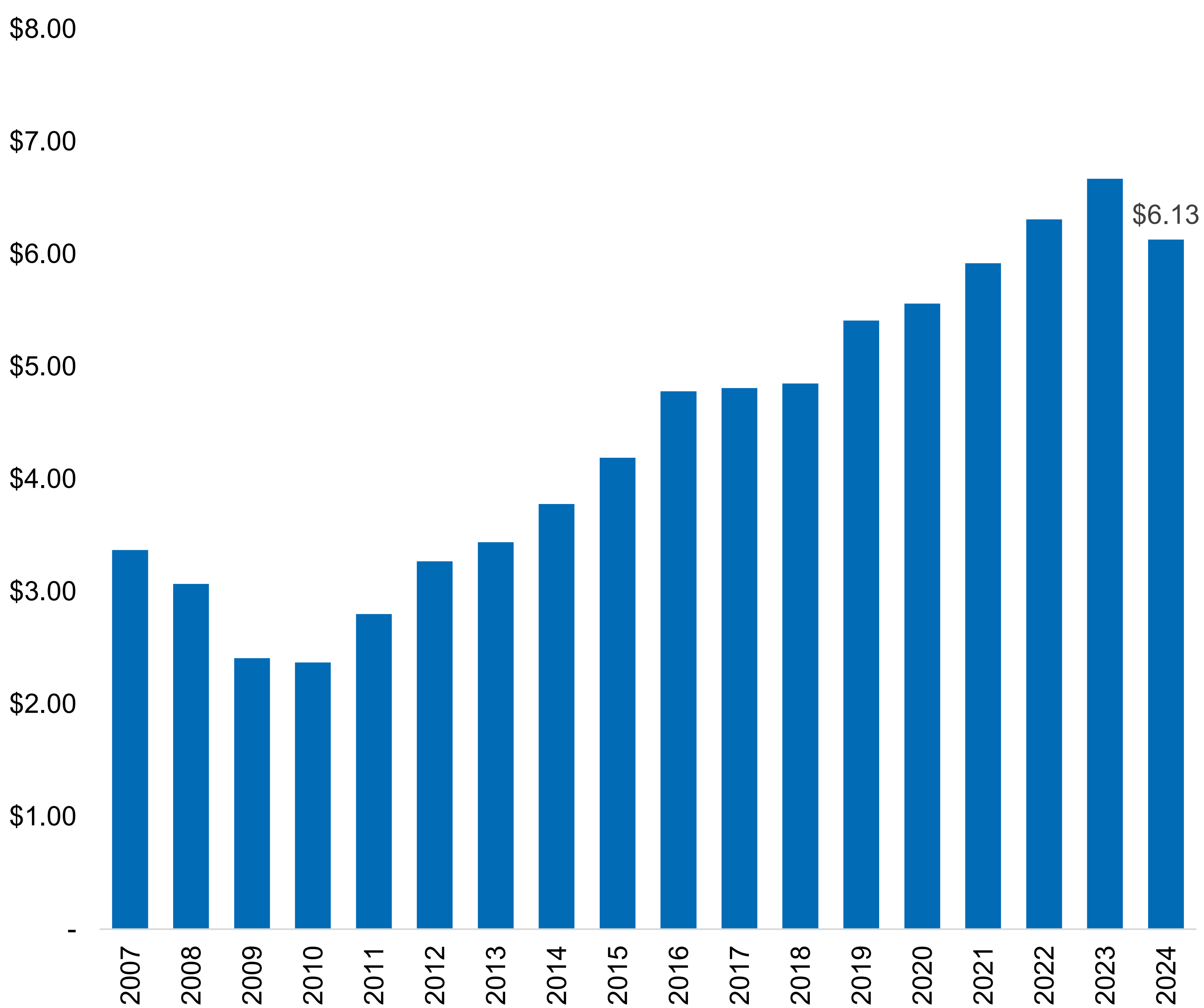


Source: Newmark Research

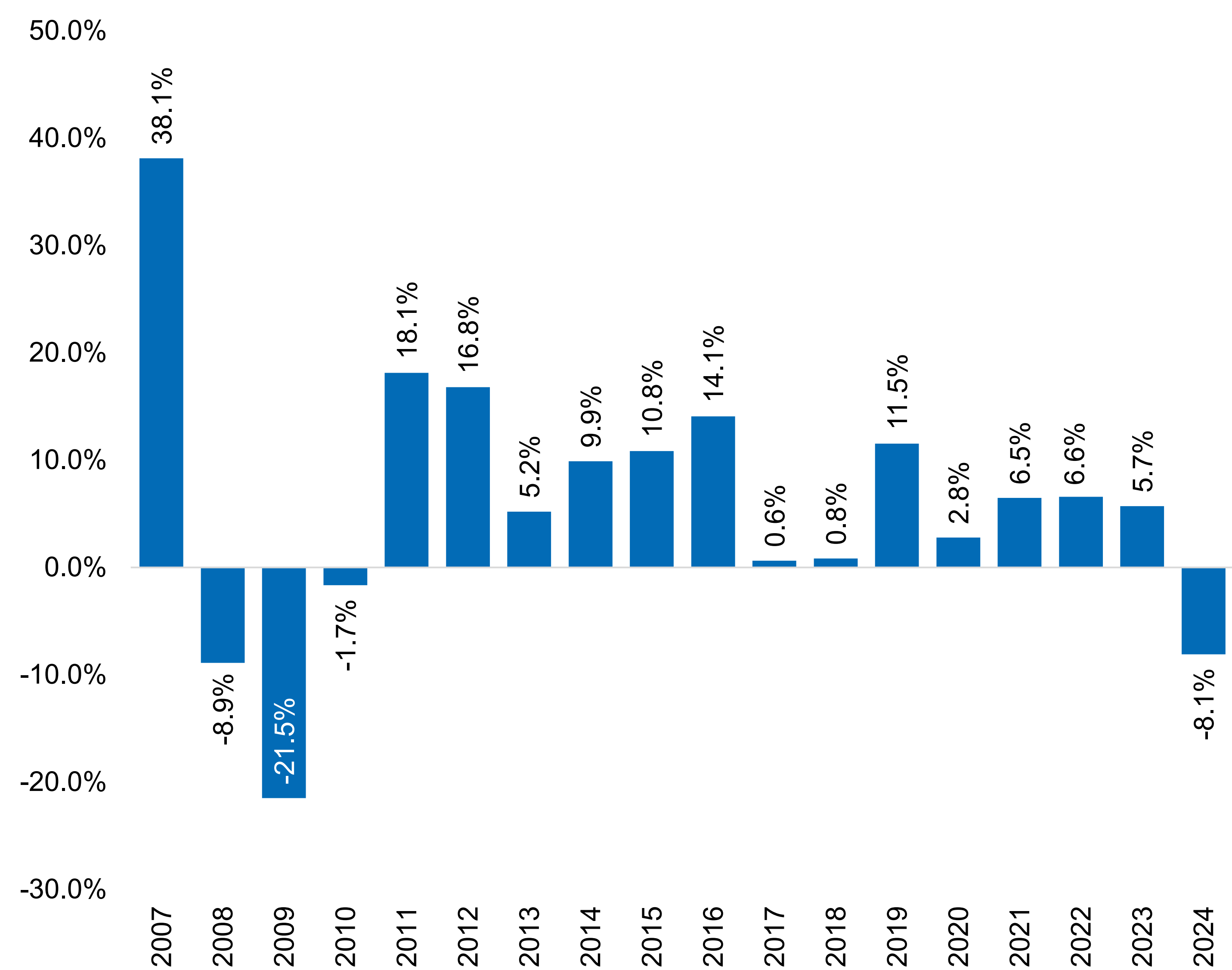
Average Asking Rents Post First Year-Over-Year Decline Since 2010

After peaking in 2023, average asking rents declined to $6.13/SF Full Service by the end of 2024, down from $6.67/SF the year prior, reflecting market adjustments in landlord asset pricing.

Total Office Average Asking Rent, $/SF, FS



Year-over-Year Total Asking Rent Growth Rate



Source: Newmark Research, CoStar

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1Q25 Market Activity

Eight transactions of 20,000 SF or more were completed this quarter, up from five in the previous quarter but down from 12 during the same period last year.

Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Zoox	The Campus at Lincoln Centre 300 & 500 Lincoln Centre Dr.	Foster City	Sublease	200,000
Zoox, an Amazon subsidiary that develops autonomous vehicles, completed the largest deal of the quarter, subleasing 200,000 square feet from Illumina at The Campus at Lincoln Centre.				
Latham & Watkins, LLP.	801 Jefferson Ave	Redwood City	Direct Lease	79,897
Multinational law firm Latham & Watkins completed the second-largest deal of the quarter, leasing 79,897 square feet at 801 Jefferson Ave in Downtown Redwood City.				
Essex Property Trust	1100 Park Place	San Mateo	Lease Renewal	37,871
Essex completed the third-largest deal of the quarter, renewing its lease on the second floor at 1100 Park Place for 37,871 square feet.				
Confidential Tenant	1440 Chapin Ave	Burlingame	Direct Lease	26,522
A confidential tenant which signed an NDA to remain nameless completed the fourth-largest deal of the quarter, leasing 26,522 square feet at 1440 Chapin Ave in Downtown Burlingame.				
Notable Health	101 S. Ellsworth Ave	San Mateo	Sublease	23,979
AI-powered healthcare company Notable Health completed the fifth-largest deal of the quarter, subleasing 23,979 square feet from Luminary Cloud on the fifth and sixth floors at 101 S. Ellsworth in Downtown San Mateo.				

Source: Newmark Research

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Appendix

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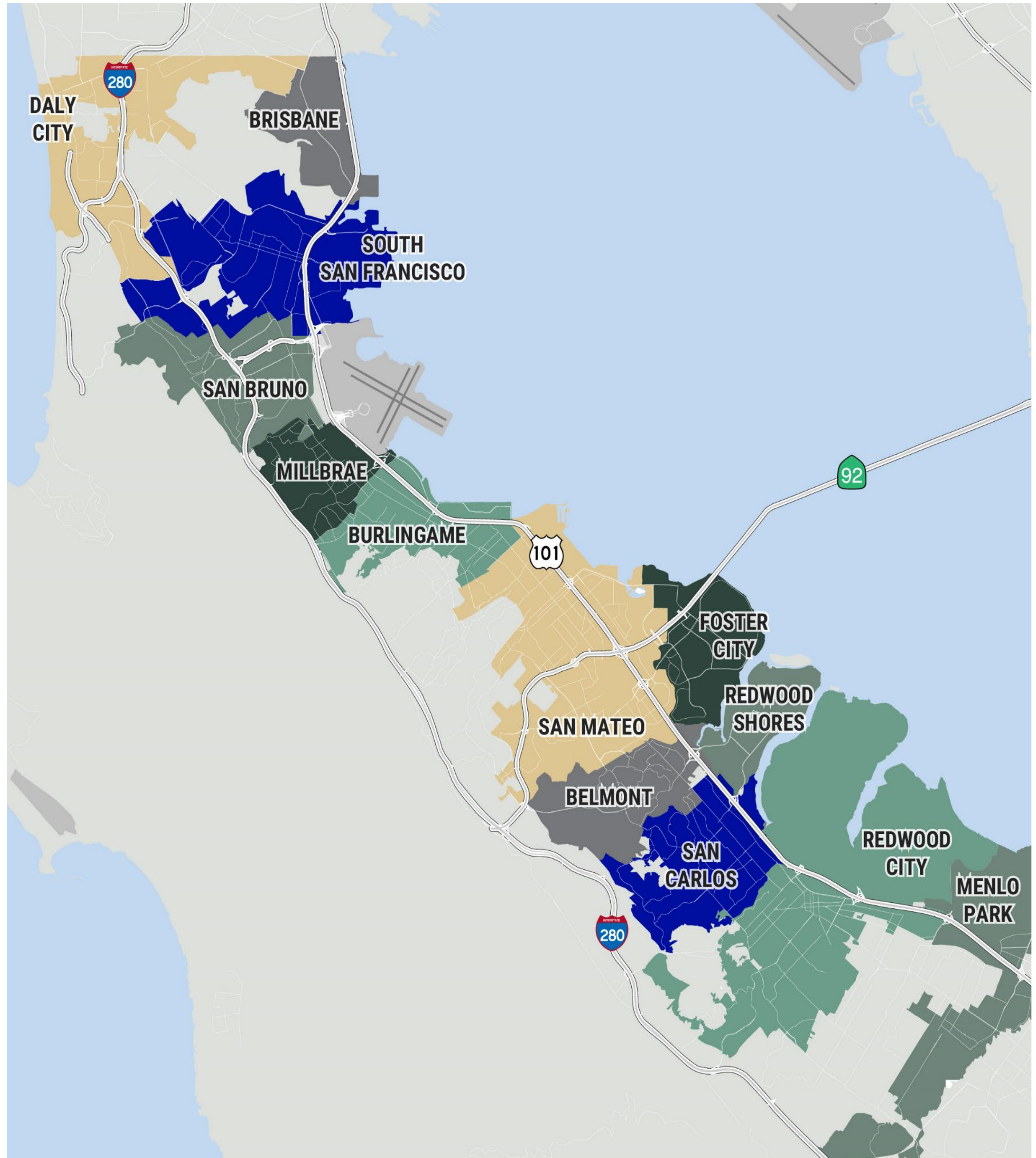
North Peninsula- Submarket Map



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