

FIGURES | SAN FRANCISCO PENINSULA INDUSTRIAL | Q4 2023

Vacancy increases as industrial occupiers favor smaller space

▲ 3.7%

Vacancy Rate

▲ (149K)

SF Net Absorption

► 0M

SF Under Construction

▲ \$1.87

NNN / Lease Rate
Existing Properties

▼ 80K

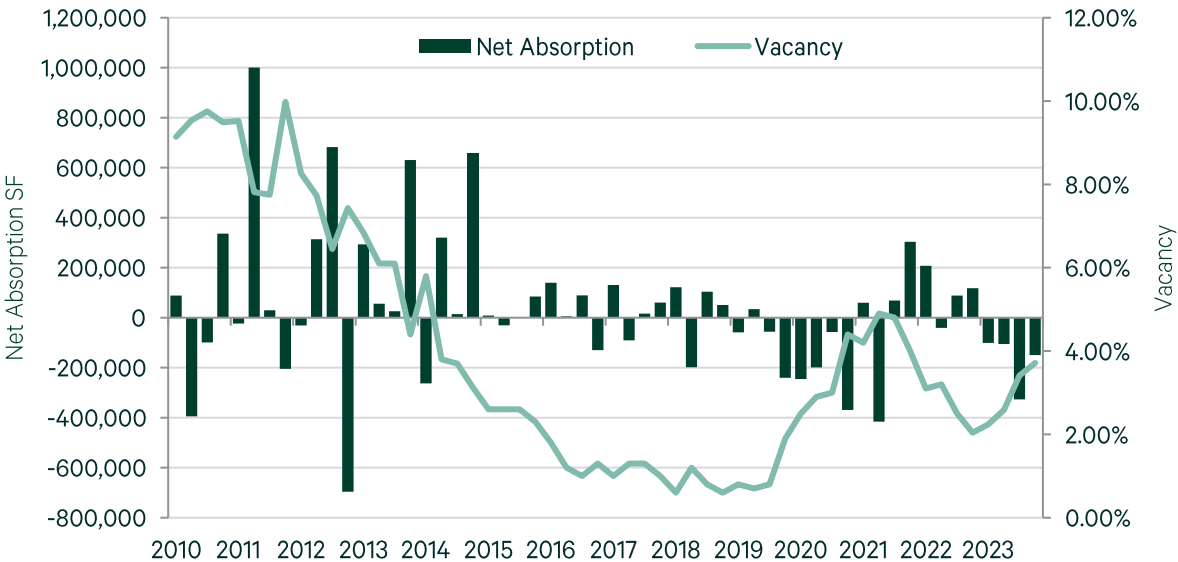
Industrial Using Employment
San Mateo County

Note: Arrows indicate change from previous quarter.

MARKET HIGHLIGHTS

- San Mateo County's labor force stood at 442,000 with 437,000 employed at the close of Q4 2023. The unemployment rate closed the quarter at 3.2%, a 100-basis-point (bps) increase year-over-year (YoY), and a 60 bps increase from Q3 2023.
- The San Francisco Peninsula industrial market closed 2023 with negative 149,217 square feet (sq. ft.) of net absorption, a 54.3% increase from Q3 2023.
- The average direct asking rate along the San Francisco Peninsula increased by 12.5% YoY ending 2023 at \$1.87 on a monthly, Net Net Net (NNN), direct basis.
- Industrial tenants in the market closed Q4 2023 at just over 650,000 sq. ft. of active demand. Nearly 90.0% of current requirements were under 100,00 sq. ft with many tenants focused on smaller spaces. The majority of the requirements comprised of the automotive industry and the highest property type in demand was warehouse spaces.
- Capital markets was hit the hardest in 2023 with sales volume still down in Q4. The market was driven by owner-users with just two notable transactions closing in Q4 2023.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research, Q4 2023

INDUSTRIAL OVERVIEW

The San Francisco Peninsula industrial market’s availability rate increased by 27 bps from Q3 2023 to 5.0% at the end of Q4 2023. Comparatively, the vacancy rate increased 31 bps quarter-over-quarter to 3.7%.

Q4 2023 marked the fourth consecutive quarter of occupancy losses. South San Francisco warehouse space contributed the most negative net absorption during the quarter due to multiple spaces becoming vacant. Overall gross absorption increased by 37.6% from Q3 2023 totaling approximately 280,200 sq. ft. in Q4 2023. Renewals accounted for roughly 50.2% of the total leasing during the quarter. The average lease signed decreased in size to 11,675 sq. ft. in Q4 2023. Transaction size has continued to reduce over the year, leaving larger spaces remaining on the market for extended periods of time.

The largest lease signed in Q4 2023 was at 220 Shaw Rd in South San Francisco. SIXT Rent a Car signed a new lease for the 70,328-sq. ft. warehouse. The consumer product and service industry led leasing volume in Q4 2023, representing 36.9% of the top 15 deals.

There have not been any new construction deliveries in over 10 years and there are no new industrial projects on the San Francisco Peninsula pipeline. The continued focus on redevelopment to new product types such as life science, office, and mixed-use properties has contributed to the diminishing supply of industrial inventory.

The overall average asking rate for industrial product along the Peninsula in Q4 2023 was \$1.87 NNN on a monthly, direct basis. Warehouse and manufacturing product averaged \$1.83 and \$2.14 respectively. Despite the uptick in availability, landlords have not reduced their asking rates. Instead, there has been additional flexibility in lease negotiations.

The Peninsula recorded just over \$30 million in sales volume during Q4 2023. The most notable sale of the quarter was an owner-user purchase of a 40,000-sq. ft. manufacturing building acquired by Genentech at 333 Point San Bruno Blvd in South San Francisco, which is adjacent to their current campus. Owner-user sales contributed to 100% of the total transacted volume during the quarter. The Federal Reserve has increased rates by 100 bps over the last year but has halted increases for now. The current rate of 5.3% has been held steady with no changes from Q3 2023. The 10-year treasury yield has fallen back down to the previous year rate of 3.9% (December 30, 2022). The interest rate hold has boosted capital market moral and real estate financing projections for a positive recovery in 2024.

FIGURE 2: Submarket Statistics

| Submarket | Net Rentable Area | Total Vacancy (%) | Total Availability (%) | Average Asking Lease Rate (\$) | | Q4 Net Absorption | YTD Net Absorption |
|---------------------|-------------------|-------------------|------------------------|--------------------------------|------|-------------------|--------------------|
| | | | | Mfg. | Whs. | | |
| Daly City | 1,188,901 | 0.0% | 0.0% | 1.55 | 1.57 | 0 | 0 |
| Brisbane | 4,467,225 | 5.7% | 5.7% | 1.55 | 1.89 | 0 | (252,328) |
| South San Francisco | 15,476,150 | 3.8% | 5.6% | 1.70 | 1.71 | (86,725) | (87,817) |
| San Bruno | 316,342 | 0.3% | 0.3% | 1.88 | 1.90 | (800) | (800) |
| Millbrae | 110,582 | 19.6% | 19.6% | 1.88 | 1.90 | 0 | (21,691) |
| Burlingame | 3,938,800 | 3.6% | 6.0% | 1.88 | 1.92 | 5,225 | (67,796) |
| North County | 25,498,000 | 3.9% | 5.4% | 1.70 | 1.79 | (82,300) | (430,432) |
| San Mateo | 618,880 | 5.5% | 5.5% | 1.92 | 1.92 | (19,254) | (19,254) |
| Belmont | 399,878 | 1.3% | 1.3% | 2.05 | 2.05 | 0 | (3,100) |
| San Carlos | 2,583,834 | 1.3% | 1.9% | 2.20 | 2.15 | 0 | (19,114) |
| Redwood City | 3,003,904 | 4.6% | 4.8% | 2.05 | 2.11 | (29,675) | (72,033) |
| Central County | 6,606,496 | 3.2% | 3.5% | 2.08 | 2.11 | (48,929) | (113,501) |
| Menlo Park | 1,739,798 | 0.3% | 2.5% | 2.25 | 2.18 | 0 | 752 |
| Palo Alto/East PA | 1,318,677 | 6.6% | 6.6% | 2.35 | 2.05 | (18,088) | (60,888) |
| South County | 3,058,475 | 3.0% | 4.3% | 2.31 | 2.08 | (18,088) | (60,136) |
| Total Market | 35,162,971 | 3.7% | 5.0% | \$1.87 | | (149,317) | (604,069) |
| Manufacturing | 5,733,820 | 2.8% | 3.8% | 2.14 | N/A | (17,574) | (14,308) |
| Warehouse | 29,429,151 | 3.9% | 5.2% | N/A | 1.83 | (131,743) | (589,761) |

Source: CBRE Research, Q4 2023

FIGURE 3: Notable Lease Transactions Q4 2023

| Tenant | City | SF Leased | Type |
|--------------------------|--------------------------------------|-----------|-----------|
| SIXT Rent a Car | 220 Shaw Rd, South San Francisco | 70,328 | New Lease |
| CableCom | 137 Utah Ave, South San Francisco | 40,000 | Renewal |
| Design and Customize | 320 340 Beach Rd, Burlingame | 21,800 | Renewal |
| Saga Musical Instruments | 306 S Maple Ave, South San Francisco | 18,900 | New Lease |
| Burlingame Soccer Club | 1862 1864 Rollins Rd, Burlingame | 18,400 | Renewal |

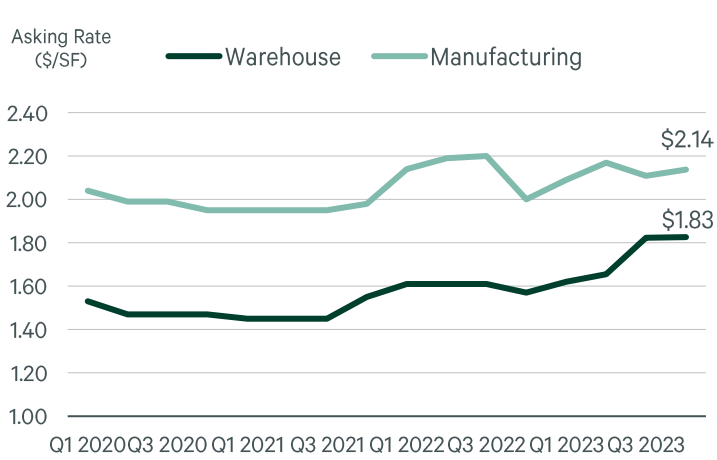
Source: CBRE Research, Q4 2023

FIGURE 4: Notable Sale Transactions Q4 2023

| Buyer | City | Bldg. SF | Acres | Sale Price |
|-----------------------|--------------------------------------|----------|-------|------------|
| Genentech | 333 Point San Bruno Blvd, San Carlos | 40,000 | 1.9 | \$25M |
| Ironstone Metal Works | 1323 1335 Rollins Rd, Burlingame | 13,680 | 0.4 | \$5.8M |

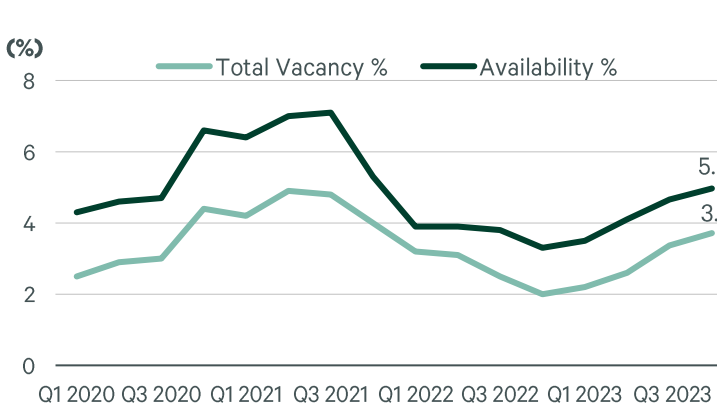
Source: CBRE Research, Q4 2023

FIGURE 5: Lease Rates



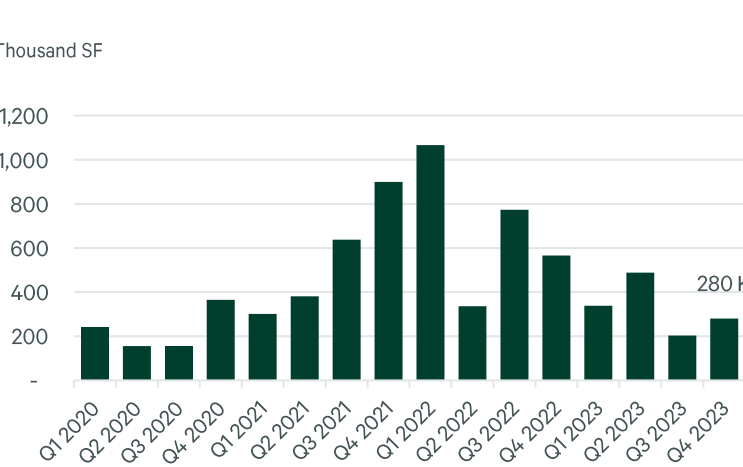
Source: CBRE Research, Q4 2023

FIGURE 6: Vacancy & Availability



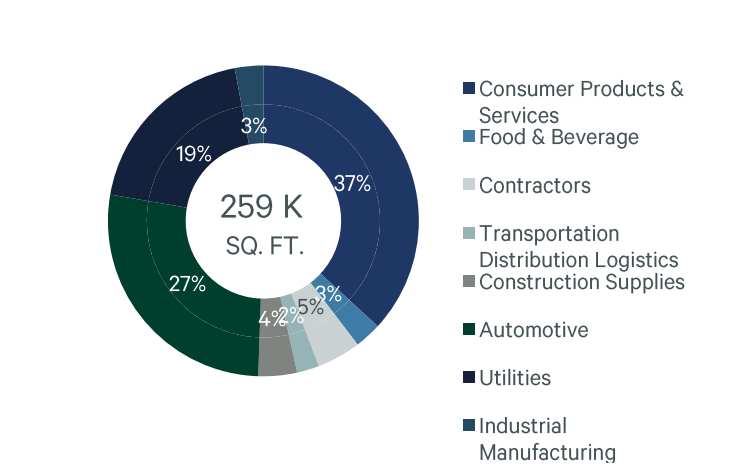
Source: CBRE Research, Q4 2023

FIGURE 7: Gross Absorption



Source: CBRE Research, Q4 2023

FIGURE 8: Top 15 Leases of the Quarter by Industry



Source: CBRE Research, Q4 2023

Submarket Map



Source: CBRE Research, Location Intelligence

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Definitions

Average Asking Rate Direct Monthly Lease Rates., Triple Net (NNN). Availability All existing space being marketed for lease. Total Vacancy Rate Direct Vacancy + Sublease Vacancy.

CBRE's market report analyzes existing single- and multi-tenant industrial buildings that total 5,000+ sq. ft. within defined submarkets, including 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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