

FIGURES | SAN FRANCISCO PENINSULA | Q2 2023

San Francisco Peninsula Industrial Figures

▲ 2.6%

Vacancy Rate

▼ (105K)

SF Net Absorption

► 0M

SF Under Construction

▲ \$1.72

NNN / Lease Rate
Existing Properties

▲ 82K

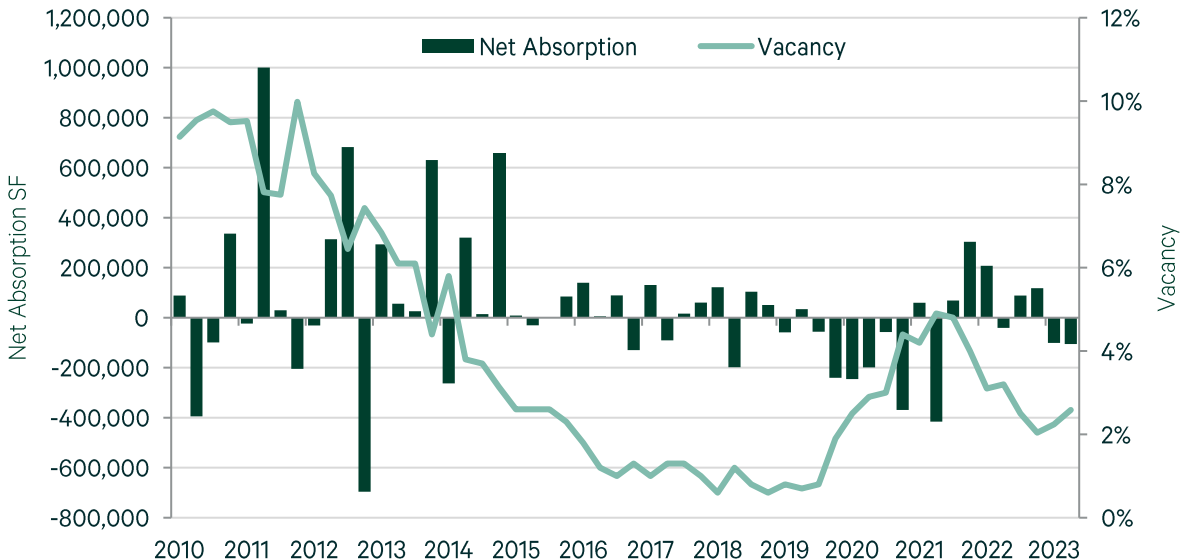
Industrial Using Employment
San Mateo County

Note: Arrows indicate change from previous quarter.

MARKET HIGHLIGHTS

- San Mateo County's labor force stood at 455,000 with 435,500 employed at the close of Q2 2023. The unemployment rate closed the quarter at 2.1%, a 42-basis-point (bps) reduction year-over-year (YoY), but 12 bps higher than the previous quarter.
- The San Francisco Peninsula industrial market closed Q2 2023 with -105,125 sq. ft. of net absorption. Overall gross absorption increased by 44% from Q1 2023 totaling 488,124 sq. ft. in Q2 2023.
- Vacancy and availability increased from Q1 2023 to 2.6% and 4.1% respectively.
- Tenant demand reached 779,560 sq. ft at the end of the quarter, with the automotive industry in the market for the most space and warehouse space in highest demand.
- The average direct asking rate along the San Francisco Peninsula increased by 1.9% YoY reaching \$1.72 per sq. ft on a monthly basis (NNN) in Q2 2023. The already limited and continuously diminishing supply has kept rents relatively elevated and stable.
- Nine sale transactions were recorded during the quarter driven by about a 50% split among institutional buyers and individual investors or owner/users.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

INDUSTRIAL OVERVIEW

The San Francisco Peninsula industrial market-wide availability increased by 60 bps from the previous quarter to 4.1% at the end of Q2 2023. This corresponded to the 35 bps increase in the market-wide vacancy rate from Q1 2023 to 2.6%. The largest contributing factor to the negative absorption and increase in vacancy was due to the 32,761 sq. ft. vacant warehouse space that hit the market at 50 Broderick Road in Burlingame.

As there were no construction deliveries in the first half of 2023 nor any projects on the horizon, the lack of functional industrial space persisted along the Peninsula. New Class A life science, technology, and residential developments continue to be favored as industrial properties continue to be redeveloped. As a result, the industrial inventory declined by roughly 320,000 sq. ft. from a year ago, a 1% reduction in total inventory.

The overall average asking rate for industrial product along the Peninsula experienced a marginal increase of \$0.04 from Q1 2023 to \$1.72 NNN. The primary contributing factor to the increase in weighted average asking rate was the 54% increase of Class A warehouse availability during the quarter.

The largest lease signed during Q2 2023 was at 325 Valley Dr in Brisbane. Trimark, a restaurant supply company, signed a 131,120 sq. ft. lease renewal for the entire warehouse. The food & beverage industry led leasing volume in Q2 2023, represent 29% of the top 15 deals. While the average deal size in Q2 2023 was approximately 16,832 sq. ft., new deals accounted for 31% of the total leasing along the Peninsula.

The Peninsula recorded over \$165 million in sale volume during Q2 2023. The most notable sale of the quarter was a 56,000 sq. ft warehouse acquired by the Hanover Company at 1845-1855 Rollins Road in Burlingame. The sale closed after a long escrow during which entitlements were secured for 420 residential units. The slowdown in institutional interest and conservative approach in deploying capital has driven more owner-user sales and private investor activity in recent quarters.

The Federal Reserve increased interest rates by 325 bps over the last year, resulting in an increase in the 10-year treasury bill from 2.98% a year ago to 3.81% (June 30, 2023). The current 5.08% Federal Reserve Funds rate is finally starting to level off but there is potential for more rate hikes by the end of 2023. The interest rate hikes and changing economic conditions are creating a slower market in both leasing and sales.

FIGURE 2: Submarket Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Asking Lease Rate (\$)		Q2 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	2.4%	2.4%	1.55	1.68	0	(107,184)
South San Francisco	15,382,794	3.1%	5.2%	1.55	1.57	(16,677)	21,925
San Bruno	316,342	2.7%	2.7%	1.68	1.71	0	(8,460)
Millbrae	110,582	19.6%	19.6%	1.68	1.71	(21,691)	(21,691)
Burlingame	3,938,800	2.7%	4.8%	1.85	1.75	(44,481)	(17,116)
North County	25,404,644	2.9%	4.4%	1.55	1.61	(82,849)	(132,526)
San Mateo	607,706	2.4%	4.6%	1.92	1.92	4,725	0
Belmont	399,878	1.3%	1.3%	2.05	2.05	0	(3,100)
San Carlos	2,583,834	1.4%	2.0%	2.15	2.05	(6,131)	(25,158)
Redwood City	2,988,904	2.6%	4.3%	1.95	1.96	(7,690)	(9,783)
Central County	6,580,322	2.0%	3.2%	2.03	1.97	(9,096)	(38,041)
Menlo Park	1,769,798	0.7%	0.7%	2.25	2.08	(3,000)	3,252
Palo Alto/East PA	1,271,427	2.8%	5.4%	2.65	2.05	(10,180)	(10,180)
South County	3,041,225	1.6%	2.7%	2.64	2.03	(13,180)	(6,928)
Total Market	35,026,191	2.6%	4.1%	1.72		(105,125)	(177,495)
Manufacturing	5,686,570	2.2%	3.1%	2.17	N/A	(15,340)	30,292
Warehouse	29,339,621	2.7%	4.3%	N/A	1.65	(89,785)	(207,787)

Source: CBRE Research

FIGURE 3: Notable Lease Transactions Q2 2023

Tenant	City	SF Leased	Type
Trimark	325 Valley Dr, Brisbane	131,120	Extension
Bright Event Rentals	145 Park Ln, Brisbane	58,000	Extension
Pacific Bell	222 Littlefield Ave, South San Francisco	51,432	Renewal
Zipline	570 586 Eccles Ave, South San Francisco	51,048	New Lease
Bright Event Rentals	105 115 Park Ln, Brisbane	25,528	Extension

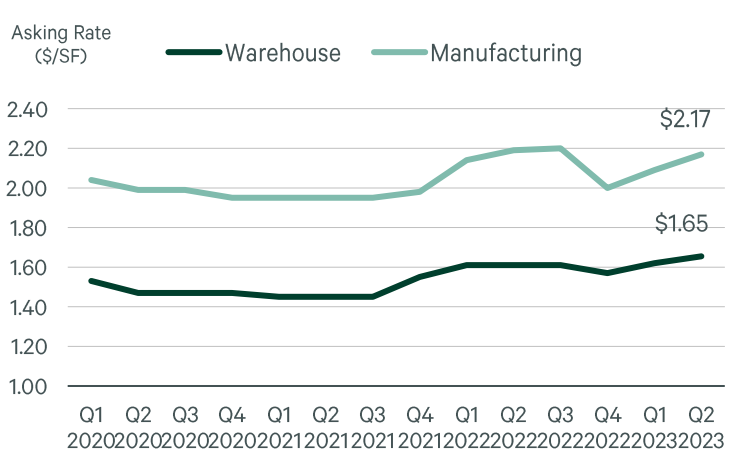
Source: CBRE Research

FIGURE 4: Notable Sale Transactions Q2 2023

Buyer	City	Bldg. SF	Acres	Sale Price
The Hanover Company	1845 1855 Rollins Rd, Burlingame	56,000	2.0	\$24.9M
DiNapoli Family	314 Harbor Way, South San Francisco	31,478	1.0	\$9.3M
Feltsberg LLC	350 Harbor Way, South San Francisco	24,600	1.1	\$9.5M
Maple Bay Investments	260 264 S Maple Ave, South San Francisco	24,291	0.8	\$8.6M
SSF East Grand Venture	129 Sylvester Rd, South San Francisco	23,000	0.8	\$18.3M

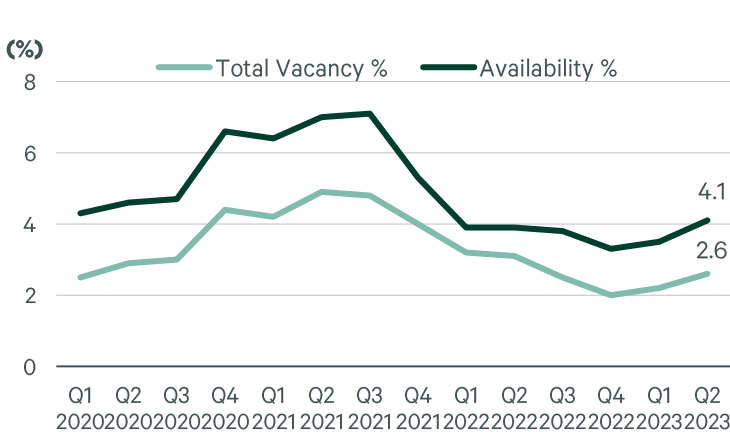
Source: CBRE Research

FIGURE 5: Lease Rates



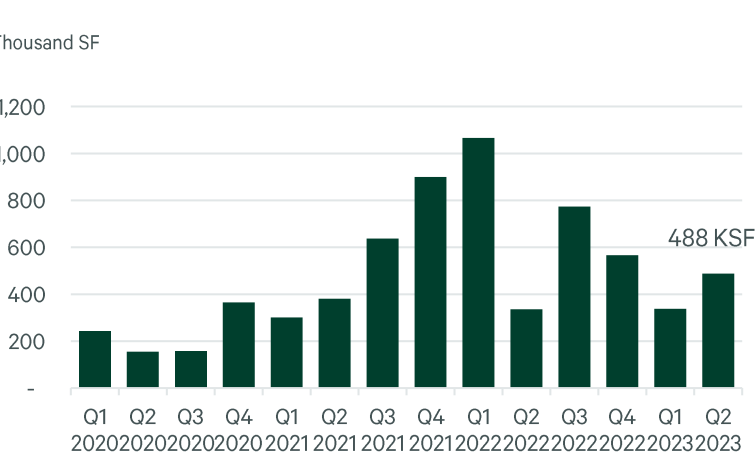
Source: CBRE Research

FIGURE 6: Vacancy & Availability



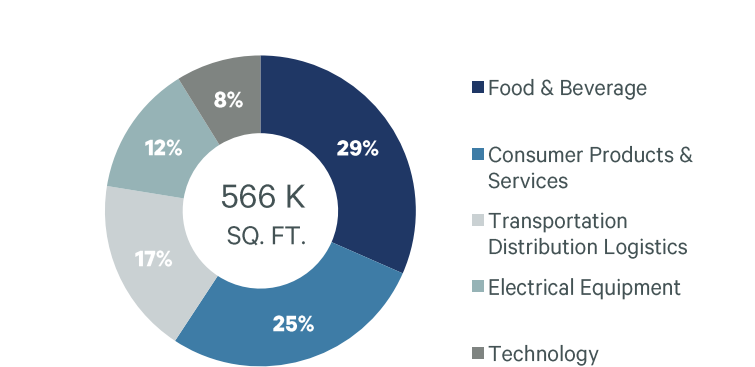
Source: CBRE Research

FIGURE 7: Gross Absorption



Source: CBRE Research

FIGURE 8: Top 15 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 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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