

Peninsula Industrial

Market Forecast

Industrial

Trends

Vacancy



Absorption



Rental Rate



New Construction



The San Francisco Peninsula industrial market continued to build off a strong 2015 as the first quarter experienced 821,212 s.f. of positive gross absorption and 322,016 s.f. of positive net absorption. As a result of the market's robust activity, rental rates continued to increase as the amount of available space becomes increasingly limited.

Notable Lease Transactions

Undisclosed

3745 Bayshore Hwy, Brisbane
270,000 s.f.

Undisclosed

437 Rozzi Pl, S San Francisco
60,573 s.f.

Goodwill

405 S Airport Blvd, S San Francisco
57,516 s.f.

Alliance Analytical

570-586 Eccles Ave, S San Francisco
36,822 s.f.

Notable Sales Transactions

Kizan International, Inc.

100 Utah Ave, S San Francisco
124,100 s.f. | \$11.8M

Olsen Real Estate Group, Inc.

595 Industrial Rd &
810-850 E San Carlos Ave, San Carlos
71,520 s.f. | \$13.69M (3 bldg portfolio)

Sobrato Organization

1205 Chrysler Dr, Menlo Park
39,500 s.f. | \$12M

*R&M Properties

155 Jefferson Dr, Menlo Park
32,466 s.f. | \$10.6M

Vacancy and Rental Rates

The overall vacancy rate declined 1%, quarter-over-quarter, to a record low of 2.8%. South San Francisco experienced significant activity to finish with 76,154 s.f. of positive net absorption, however most of the Peninsula's activity occurred in the southern region as the submarkets of Belmont, San Carlos, Redwood City, and Menlo Park combined for 204,610 s.f. of positive net absorption. Steady activity over the past year has pushed every submarkets vacancy rate below 5%, creating fewer options for tenants. Despite these restrictions, activity is expected to remain strong for the near future. The Bay Area Council's Economic Institute recently reported the Bay Area is poised to "lead an emerging transformation in global manufacturing with high-tech advances". This includes 3-D printing, pharmaceutical, and medical equipment and supplies. San Mateo County will remain a highly desirable location as the industrial market continues to feed off the support of the tech and biotech industries.

The average rental rate rose 2.3% to \$1.31/s.f. NNN as available space becomes increasingly limited. Rental rates in south San Mateo County experienced higher increases due to below average vacancy rates, which was led by the San Carlos and Redwood City submarkets, with rates pushing close to \$2/s.f., NNN.

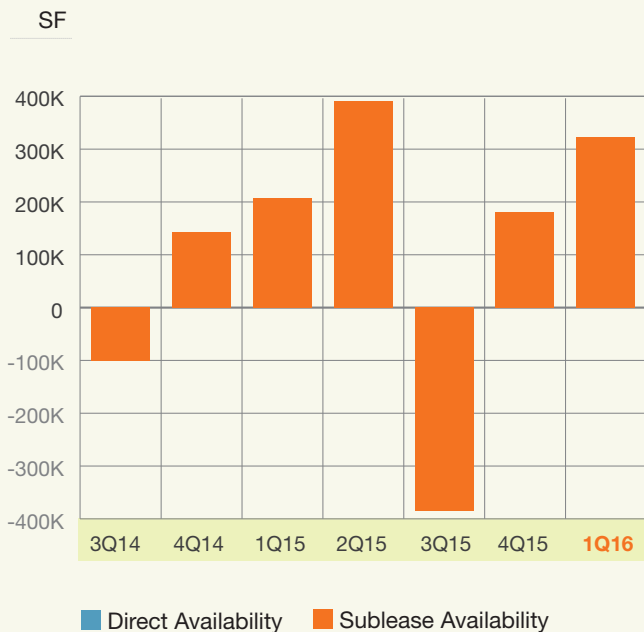
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Area Review

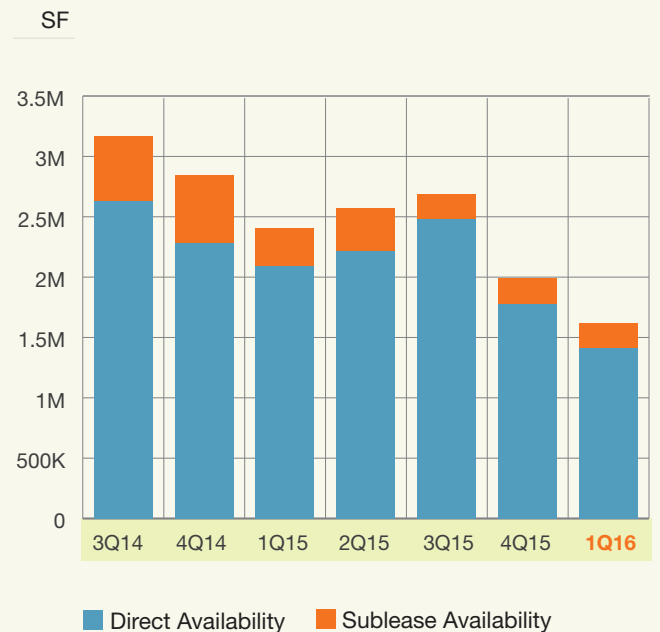
Industrial Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Available	Total Available Rate	Total Vacancy Rate	1Q Net Absorption
Belmont	85	4,722,031	23,190	0	23,190	0.5%	0.5%	(1,010)
Brisbane/Daly City	373	15,942,292	625,329	159,761	785,090	3.9%	3.8%	76,154
South San Francisco	20	477,635	23,055	0	23,055	4.8%	4.4%	(21,099)
Burlingame	142	3,747,998	228,522	1,000	229,522	6.1%	2.9%	66,347
Foster City/Redwood Shores	44	723,771	28,584	0	28,584	3.9%	3.9%	(2,986)
San Bruno/Millbrae	33	914,825	33,907	0	33,907	3.7%	1.8%	0
San Mateo	45	921,362	23,565	0	23,565	2.6%	2.6%	26,986
San Carlos	175	4,196,807	190,838	3,825	194,663	4.5%	4.6%	40,789
Redwood City	167	4,161,147	141,651	29,250	170,901	3.4%	1.4%	80,656
Menlo Park	133	5,241,693	95,492	11,200	106,692	1.8%	1.8%	56,179
Totals	1,217	41,049,561	1,414,133	205,036	1,619,169	3.4%	2.8%	322,016

Total Industrial Net Absorption



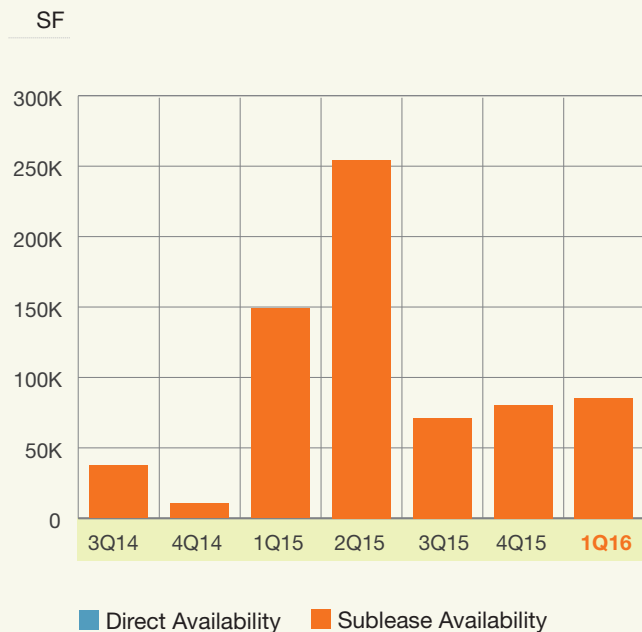
Available Industrial Space: Direct vs. Sublease



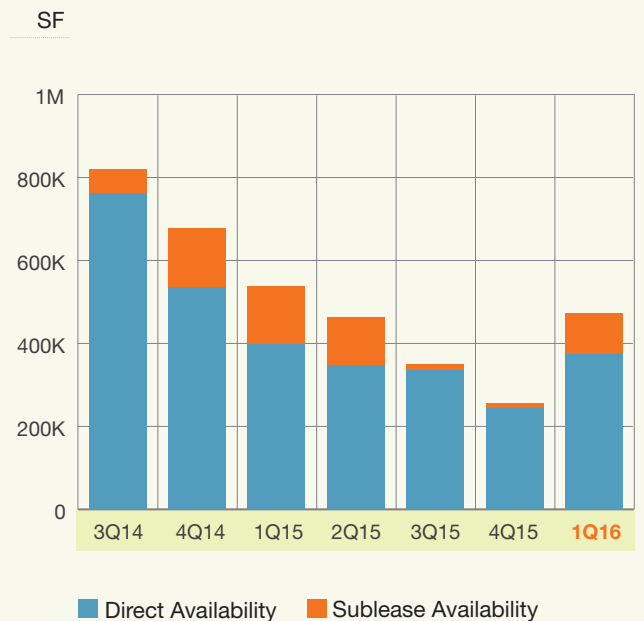
R&D Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Available	Total Available Rate	Total Vacancy Rate	1Q Net Absorption
Belmont	13	376,652	1,210	0	1,210	0.3%	0.3%	0
Brisbane/Daly City	6	246,113	1,010	0	1,010	0.4%	0.4%	(1,010)
South San Francisco	73	3,691,377	22,886	58,793	81,679	2.2%	1.9%	(3,302)
Burlingame	36	1,026,014	48,102	1,000	49,102	4.8%	2.9%	35,031
Foster City/Redwood Shores	35	1,197,499	18,653	0	18,653	1.6%	0.1%	0
San Bruno/Millbrae	6	231,212	23,055	0	23,055	10.0%	9.1%	(21,099)
San Mateo	11	259,902	0	0	0	0.0%	0.0%	0
San Carlos	45	1,465,798	69,783	3,825	73,608	5.0%	2.0%	61,167
Redwood City	49	1,837,527	90,231	22,750	112,981	6.1%	2.6%	0
Menlo Park	71	3,544,372	99,492	11,200	110,692	3.1%	2.6%	14,747
Totals	345	13,876,466	374,422	97,568	471,990	3.4%	2.1%	85,534

Total R&D Net Absorption



Available R&D Space: Direct vs. Sublease



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Sales Activity

Investors continued to be active in the first quarter of 2016, but there was a decline from the previous quarter in the overall money exchanged. The largest monetary investment was a 3 building sale located at 595 Industrial Road and 810-850 E San Carlos Road, San Carlos, which was completed by Olsen Real Estate Group for \$13.69 million (\$191.42/s.f.). The Sobrato Organization also procured 54,000 s.f. between two properties in Menlo Park for a total of \$21.25 million, or \$393.52/s.f. Overall, the average price per square foot increased 3.5%, quarter-over-quarter, to \$293/sf. This also resulted in the average cap rate declining to 3.9%. Rising sale prices continue to make it harder for new owners to recoup their investments, but we'll continue to see new investments as the market remains healthy.

R&D

The Peninsula remained active with 85,534 s.f. of positive net absorption, making this the eighth consecutive quarter with positive absorption. San Carlos experienced the majority of leasing activity as it procured 61,167 s.f. of positive net absorption. Burlingame and Menlo Park were home to 53,031 and 14,747 s.f. of positive net absorption, respectively. As San Mateo County remains a highly desirable location, tenants will continue to cope with rising rental rates and maintain steady leasing activity.

Vacancy and Rental Rates

The vacancy rate dropped 0.7% to a record low of 2.1% after another strong quarter. Limited availability continues to push rental rates as they increased 5.4%, quarter-over-quarter, to \$2.23/s.f., NNN. The submarket of San Bruno/Millbrae continues to host the lowest average rental rate at \$0.93/s.f.,

NNN, while Redwood City has become the county's priciest location with an average rate of \$2.64/s.f., NNN. Rental rates will continue to grow as the demand persists with limited availabilities.

Sales Activity

Investment activity slowed down since the previous quarter as there were only two R&D investment transactions. Both transactions occurred in Menlo Park as R&M Properties and The Sobrato Organization executed a direct exchange. R&M Properties acquired 155 Jefferson Drive from The Sobrato Organization for \$10.6 million, or \$326.50/s.f., while The Sobrato Organization purchased 127 Independence Drive from R&M Properties for \$9.25 million, or \$637.93/s.f. Despite increasing sale costs and a decline in investment transactions, R&D space will remain in high demand as it continues to be significantly supported by the tech and biotech industries.

Outlook

Vacancy rates are expected to remain tight with a continued shortage of new construction. Owners continue to convert old industrial warehouses into R&D space, but vacancy has yet to be relieved as older R&D space is simultaneously demolished for redevelopment. Stanford's 1.5 million square foot satellite campus in Redwood City remains the only approved project containing R&D space. It's set to break ground in the third quarter of 2016, but will not be ready for occupancy until after 2019. Due to the high demand, the market will remain constricted until new construction is approved and completed.