

Peninsula Industrial

Market Forecast

Industrial

Trends

Vacancy



Absorption



Rental Rate



New Construction



Notable Lease Transactions

Williams-Sonoma
435-440 Valley Dr, Brisbane
194,334 s.f.

SanRio, Inc.
584 Eccles Ave, S San Francisco
95,759 s.f.

Autobahn, Inc.
930-1030 Brittan Ave, San Carlos
75,500 s.f.

See Jane Farm
582 Eccles Ave, S San Francisco
49,956 s.f.

Notable Sales Transactions

Greenland USA
375-389 Oyster Point Blvd, S San Francisco
\$171 M | \$437/s.f.

***The Pillar Group**
951-985 Industrial Rd, San Carlos
\$61.1 M | \$358/s.f.

***Greystar Real Estate Partners**
204 Franklin St, Redwood City
\$15 M | \$1,617/s.f.

Exponent Realty
160 Jefferson Dr, Menlo Park
\$8.25M | \$296/s.f.

The Peninsula industrial market enjoyed 126,864 s.f. of positive net absorption during the third quarter, despite record-low vacancy rates. Vacancies were idle at 2.4% as space was added to the market, but the third quarter marked the 10th positive absorption quarter in the last three years. Unrelenting activity has stirred 692,913 s.f. of positive net absorption on the Peninsula since the beginning of 2016, and the area continues to be led by the South San Francisco submarket. Strong tenant demand is expected to guide a positive finish to 2016, but limited supply and lack of new construction will provide challenges for tenants in the market.

Vacancy and Rental Rates

The northern region of the Peninsula continued to experience the bulk of the third quarter's leasing activity, as it remains a prized geographic location for logistics and distribution uses. The most notable transaction occurred in Brisbane, where Williams-Sonoma renewed their lease for 194,334 s.f. at 435-440 Valley Drive. South San Francisco followed with two of the four largest quarterly transactions, which occurred at the same warehouse and distribution complex. SanRio, Inc. occupied 95,759 s.f. at 584 Eccles Avenue, while See Jane Farm landed 49,956 s.f. at 582 Eccles Avenue. The north county's healthy activity allowed the region's vacancy rate to drop 60 basis points from the previous quarter. The only major transaction to occur outside of the north county region was in San Carlos, where Autobahn Inc. procured 75,500 s.f. of land at 930-1030 Brittan Avenue.

San Mateo County's average rental rate experienced a significant increase, jumping to \$1.39/s.f. NNN, a 7.8% surge over the previous quarter, and a 13.9% year-over-year increase. The Foster City/Redwood Shores submarket has become the Peninsula's costliest on a triple-net basis with an average rate of \$2.68/s.f., followed by \$2.51/s.f. in Menlo Park and \$2.35/s.f. in Redwood City. As rental rates progressively increase in correlation to a tightening market, tenants will gradually find it more challenging to secure a location that suits their requirements. Additionally, the Peninsula's inventory will progressively decline as older industrial buildings are demolished for redevelopment.

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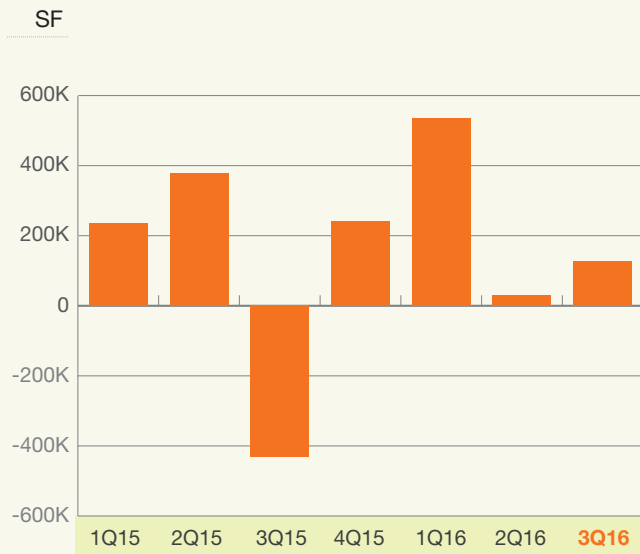
*R&D deals

Area Review

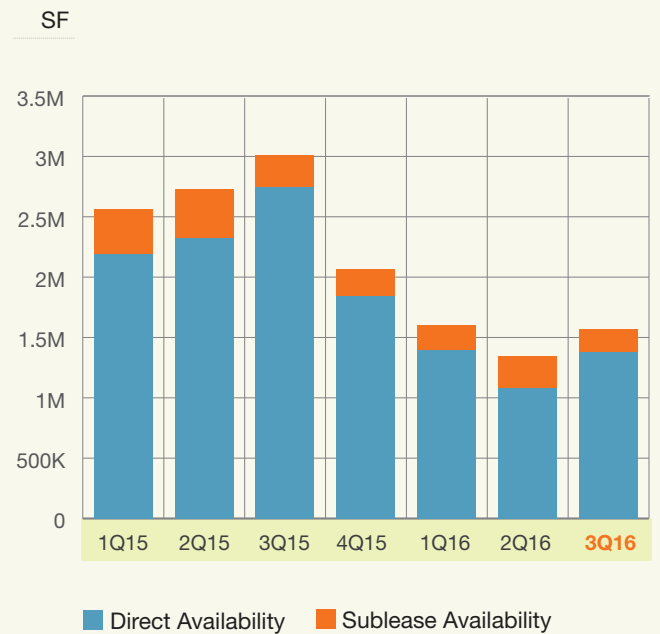
Industrial Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Available	Total Available Rate	Total Vacancy Rate	3Q Net Absorption
Brisbane/Daly City	85	4,738,021	116,895	4,000	120,895	2.6%	0.4%	1,680
South San Francisco	375	16,450,242	653,468	155,780	809,248	4.9%	3.2%	76,531
San Bruno/Millbrae	20	477,629	31,591	0	31,591	6.6%	3.5%	(2,730)
Burlingame	142	3,747,998	98,715	0	98,715	2.6%	2.0%	(3,099)
San Mateo	44	723,771	37,069	0	37,069	5.1%	5.4%	(4,325)
Foster City/Redwood Shores	33	920,524	39,482	0	39,482	4.3%	5.3%	0
Belmont	44	899,007	4,652	0	4,652	0.5%	0.2%	(1,018)
San Carlos	173	4,193,596	103,253	0	103,253	2.5%	1.6%	17,070
Redwood City	165	4,143,370	150,260	16,867	167,127	4.0%	3.3%	31,065
Menlo Park	133	5,260,826	156,124	14,965	171,089	3.3%	1.4%	11,690
Totals	1,214	41,554,984	1,391,509	191,612	1,583,121	3.8%	2.4%	126,864

Total Industrial Net Absorption



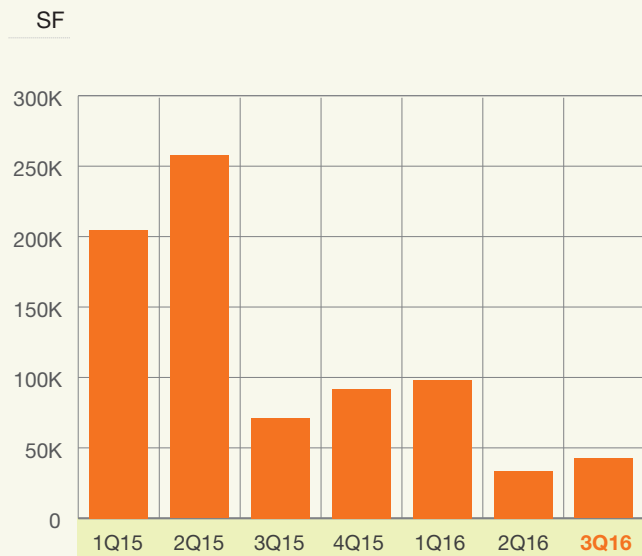
Available Industrial Space: Direct vs. Sublease



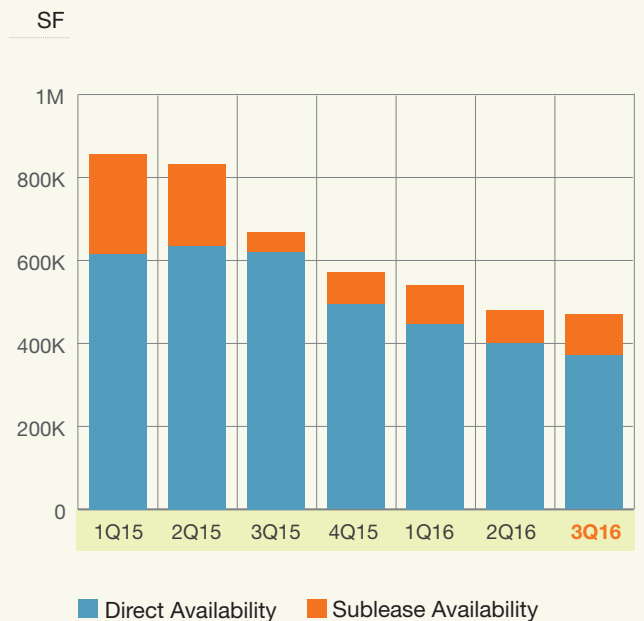
R&D Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Available	Total Available Rate	Total Vacancy Rate	3Q Net Absorption
Brisbane/Daly City	6	246,113	0	0	0	0.0%	0.0%	0
South San Francisco	74	3,861,524	21,596	81,417	103,013	2.7%	0.6%	64,162
San Bruno/Millbrae	6	231,212	9,900	0	9,900	4.3%	7.2%	(2,730)
Burlingame	36	1,026,014	40,838	0	40,838	4.0%	2.1%	(9,912)
San Mateo	11	259,902	0	0	0	0.0%	0.0%	0
Foster City/Redwood Shores	35	1,203,198	20,228	0	20,228	1.7%	2.8%	0
Belmont	13	376,652	0	0	0	0.0%	0.0%	0
San Carlos	47	1,498,341	40,446	0	40,446	2.7%	1.4%	(2,249)
Redwood City	49	1,837,527	86,179	4,267	90,446	4.9%	4.8%	(26,816)
Menlo Park	71	3,544,505	151,724	14,965	166,689	4.7%	2.0%	20,090
Totals	342	13,779,830	370,911	100,649	471,560	3.4%	2.0%	42,545

Total R&D Net Absorption



Available R&D Space: Direct vs. Sublease



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Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
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Greenland USA's acquisition of 375-389 Oyster Point Boulevard in South San Francisco, which will replace nearly 400,000 s.f. of industrial space with a biotech and life science campus, is the most recent sale in that vein. This comes two months after the Meridian25 project was approved by San Carlos' City Council; that development will trade 134,000 s.f. of industrial space for 560,000 s.f. of Class-A office space.

Investment sales had mixed results as 10 buildings changed hands across six transactions for a combined \$206 million. While the overall numbers are positive, they were primarily anchored by Greenland USA's five-building acquisition in Oyster Point for \$171 million (\$437/s.f.). The Chinese developer will redevelop the 42-acre site into 2.25 million-square-feet of biotech and life science space, with phase one expected to break ground in the latter half of 2018. As a result of Greenland USA's major investment, the average price per square foot more than doubled since the previous quarter to \$259/s.f. Investment activity should remain stable as we close out 2016, as vacancy rates hold near record lows and tenant demand stays steady.

R&D

The R&D market was up and down during the third quarter, but overall the market remained positive as the Peninsula finished with 42,545 s.f. of net absorption. This is the 10th consecutive quarter with positive net absorption, but leasing activity was solely anchored by two submarkets. South San Francisco continues to be the primary submarket, finishing with 64,162 s.f. of net absorption, while Menlo Park added 20,090 s.f.. On the other hand, Redwood City encountered the most significant loss with 26,816 s.f. of negative net absorption, while three other submarkets experienced negligible losses.

The number of lease transactions continues to be limited as vacancy rates remain historically

low. Eight submarkets continue to report sub-3% vacancies, while the overall Peninsula market holds a 2% vacancy rate. As a result of the constricted market, the amount of lease transactions declined by one over the previous quarter, and by 15 compared to a year ago. The shortage of available space and lack of new development will continue to challenge tenants attempting to find desirable space.

Rental rates experienced a 6.6% increase over the previous quarter as landlords took advantage of the tightening market. The average rental rate now stands at \$2.44/s.f. NNN, with the Redwood City submarket maintaining the high-water mark at \$2.98/s.f. NNN. Additionally, the average Peninsula rate has surged nearly 50% over the course of 10 consecutive quarters with positive net absorption. With healthy demand outpacing the available supply, rental rates are expected to progressively rise.

Investment activity saw a minor uptick after eight buildings changed hands through two separate sales. Leading the activity was The Pillar Group's seven-building portfolio acquisition at 951-985 Industrial Road in San Carlos. The R&D portfolio, which is located next to Windy Hill Property Venture's recently-approved Meridian25 office project, was acquired for \$61.1 million (\$358/s.f.). The second transaction occurred at 204 Franklin Street in Redwood City, for which Greystar Real Estate Partners paid \$15 million (\$1,617/s.f.). The multi-family company is set to redevelop the property into multi-family housing, which will remove nearly 10,000 s.f. of R&D space from the Peninsula's inventory. Although the Peninsula R&D market has encountered only a handful of investment sales in 2016, more activity is expected as low vacancy rates are protected by healthy demand.