

Peninsula Industrial

Market Forecast

Industrial	Trends
Vacancy	↑
Absorption	↓
Rental Rate	↑
New Construction	↔

Notable Lease Transactions

Uber Technologies, Inc.
30 Tanforan Avenue, S. San Francisco
129,000 s.f.

Amazon Fresh
455 Valley Drive, Brisbane
106,895 s.f.

Balfour Beatty Infrastructure
100 E Grand Avenue, S. San Francisco
70,728 s.f.

A&G World Transport
238 Lawrence Avenue, S. San Francisco
40,420 s.f.

ShipBob
405 Victory Avenue, S. San Francisco
28,600 s.f.

Gate Gourmet, Inc.
233 Utah Avenue, S. San Francisco
27,157 s.f.

Eagle Pitcher Technologies*
865 Hinckley Road, Burlingame
20,822 s.f.

Notable Sale Transactions

Alexandria Real Estate Equities*
821-887 Industrial Road, San Carlos
\$85M (6-building portfolio)

Alexandria Real Estate Equities
960 Industrial Road, San Carlos
\$65M

The Peninsula industrial market experienced a healthy 515,059 s.f. of gross absorption, but finished in the red for the second consecutive quarter with 329,543 s.f. of negative net absorption. The net loss can be attributed to larger blocks of space being placed on the market, but this isn't time to panic as tenant demand remains strong and recent availabilities will provide new opportunities. The market continues to be constricted in spite of the second quarter's rise in vacancy, which led to another increase in the Peninsula's average rental rate. Leasing activity is expected to persist throughout the year with the north county region being a primary target for distribution and logistics purposes.

South San Francisco continues to be an industrial hotspot as it hosted 65% of the second quarter's overall leasing activity. Five of the six largest transactions occurred in the south city submarket, with Uber Technologies leading the way. The ride-sharing tech company leased 129,000 s.f. of warehouse and land at 30 Tanforan Avenue, while Balfour Beatty Infrastructure agreed to 70,728 s.f. of warehouse space at 100 East Grand Avenue. Brisbane had a relatively quiet quarter as a whole, but the submarket managed to secure the second largest transaction when Amazon Fresh subleased 106,895 s.f. at 455 Valley Drive.

The Peninsula's vacancy rate increased 80 basis points over the previous quarter to 3.4% after 329,453 s.f. of space was added to the market. This marks the highest vacancy rate since the fourth quarter of 2015, however the

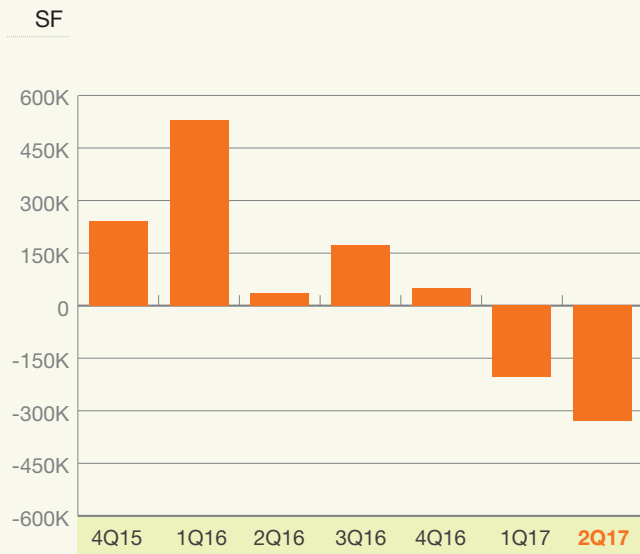
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Area Review

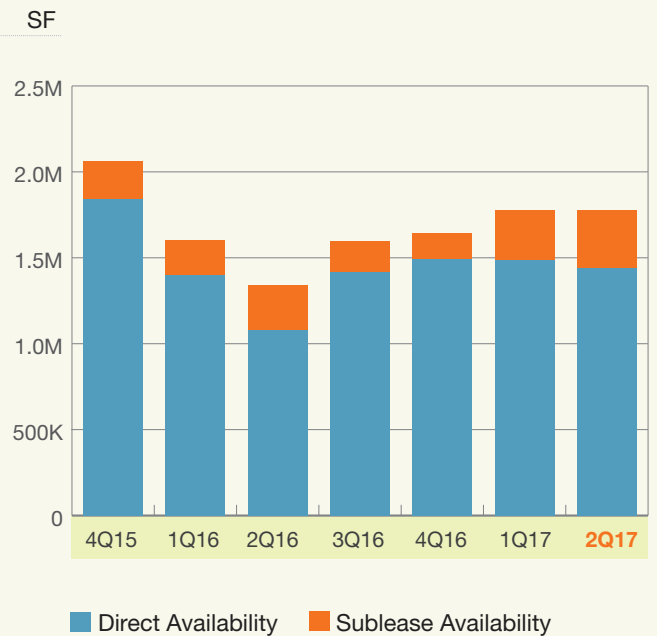
Industrial Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Available	Total Available Rate	Total Vacancy Rate	2Q Net Absorption
Brisbane / Daly City	85	4,735,396	159,142	28,170	187,312	4%	4.9%	(125,395)
South San Francisco	376	16,338,136	586,200	189,100	775,300	4.7%	3.4%	(31,478)
San Bruno / Millbrae	19	452,873	24,625	0	24,625	5.4%	0%	(38,846)
Burlingame	147	3,902,705	205,582	0	205,582	5.3%	3.4%	(91,698)
San Mateo	43	707,114	16,454	0	16,454	2.3%	2.2%	4,280
Foster City / Redwood Shores	32	794,365	15,254	0	15,254	1.9%	1.9%	20,228
Belmont	44	906,431	13,784	0	13,784	1.5%	1.5%	10,602
San Carlos	172	4,179,881	131,020	49,658	180,678	4.3%	2.2%	1,719
Redwood City	162	4,079,542	154,536	58,515	213,051	5.2%	5.7%	(82,973)
Menlo Park	131	5,236,566	150,425	10,000	160,425	3.1%	1.9%	4,018
Totals	1,211	41,333,009	1,457,022	335,443	1,792,465	4.3%	3.4%	(329,543)

Total Industrial Net Absorption



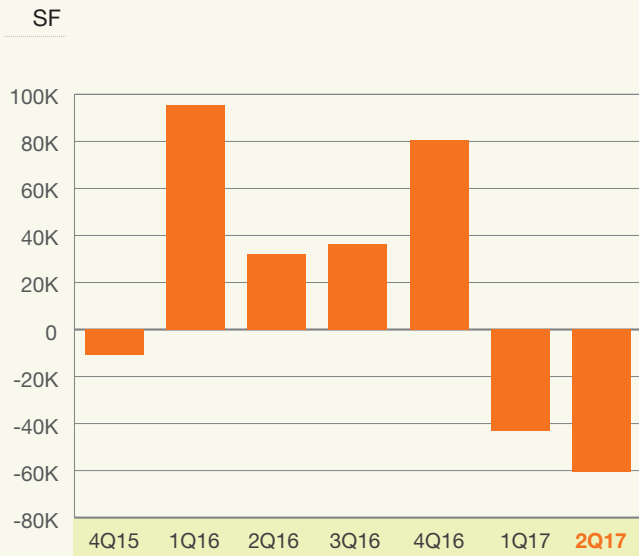
Available Industrial Space: Direct vs. Sublease



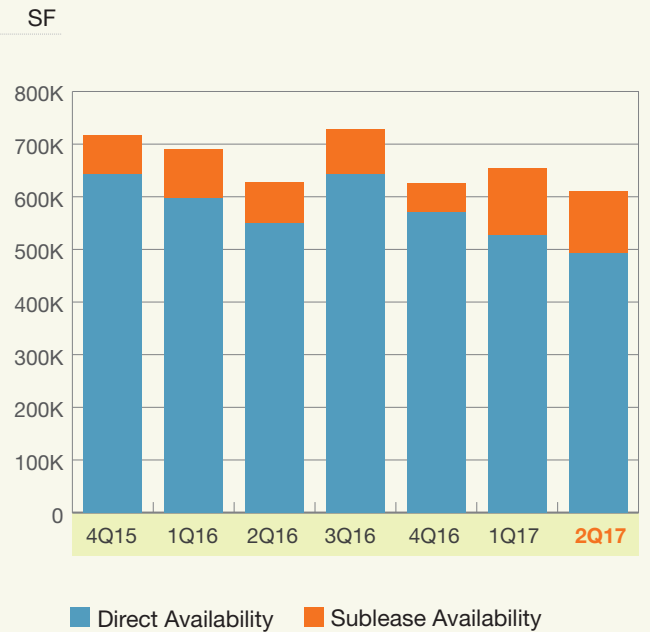
R&D Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Available	Total Available Rate	Total Vacancy Rate	2Q Net Absorption
Brisbane / Daly City	8	275,699	0	0	0	0.0%	0.0%	0
South San Francisco	76	3,941,271	96,459	29,923	126,382	3.2%	4.8%	41,565
San Bruno / Millbrae	6	231,212	7,470	0	7,470	3.2%	0.0%	0
Burlingame	40	1,184,146	121,651	0	121,651	10.3%	6.5%	(39,666)
San Mateo	11	259,902	0	0	0	0.0%	0.0%	0
Foster City / Redwood Shores	34	1,077,039	0	0	0	0.0%	0.0%	20,228
Belmont	14	434,076	17,500	0	17,500	4.0%	4.0%	500
San Carlos	46	1,472,902	56,914	27,143	84,057	5.7%	2.8%	8,907
Redwood City	49	1,829,614	89,992	50,515	140,507	7.7%	9.6%	(59,549)
Menlo Park	71	3,544,341	102,745	10,000	112,745	3.2%	2.1%	9,998
Totals	350	14,098,091	492,731	117,581	610,312	4.3%	4.1%	(18,017)

Total R&D Net Absorption



Available R&D Space: Direct vs. Sublease



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region continues to be constricted. Healthy tenant demand continues to outweigh the Peninsula's limited supply, which led to the Peninsula's average rental rate increasing 5.7% quarter-over-quarter to a record high of \$1.68/s.f., NNN. Menlo Park's average rate declined 4.4% over the previous quarter, but continues to set the high water mark at \$2.60/s.f., NNN. South San Francisco experienced a 16.7% quarter-over-quarter increase to \$1.47/s.f., NNN, marking the quarter's most notable increase.

Alexandria Real Estate Equities (ARE) executed both investment transactions during the second quarter, both of which were located in San Carlos and will eventually contribute to the Peninsula's depleting inventory. ARE first acquired 960 Industrial Road for \$64.96 million (\$299/s.f.) and plans to lease back the 217,000 s.f. manufacturing building to L-3 Communications until the entitlements for an office redevelopment have been secured. ARE quickly followed up with the procurement of six flex buildings at 821-881 Industrial Road, which will also be redeveloped once the entitlements have been secured.

R&D

The Peninsula R&D market saw a spike in leasing activity over the previous quarter after experiencing 264,214 s.f. of gross absorption, but overall activity continued to slip marginally as the second quarter concluded with 18,017 s.f. of negative net absorption. Burlingame was home to the most notable transaction as Eagle Pitcher Technologies leased 20,822 s.f. at 865 Hinckley Road. Despite this transaction, Burlingame, along with Redwood City, were

the only two submarkets to finish in the red. The Peninsula's vacancy rate increased a staggering 110 basis points over the previous quarter to 4.1% as a result of 200,000 s.f. of product being placed on the market. Similar to the industrial market, the increase in availabilities will provide new opportunities for tenants seeking R&D space in a market with a scarce inventory.

Leasing activity and tenant demand led to a 3.6% increase in the average rental rate, which currently stands at \$2.61/s.f., NNN. The average rate is a small discount compared to the fourth quarter of 2016, but it's a staggering 59.2% increase since the second quarter of 2014. Menlo Park continues to be one the most desired submarkets with rental rates averaging \$2.64/s.f., NNN, while another prized market in South San Francisco commands an average rate of \$2.80/s.f., NNN. Rental rates will likely hold firm throughout the year as tenant demand remains stable, which continues to be supported by life science and medical device companies completing successful rounds of venture capital funding.

ARE acquired 134,000 s.f. at 821-881 Industrial Road for \$85 million (\$634/s.f.), which is primarily dedicated for R&D use. The acquisition will lead to the continuous trend of older R&D buildings being scrapped for redevelopment. Existing plans call for the 560,000 s.f. Meridian25 office complex, which will begin construction once ARE secures the entitlements. Investment activity will likely be limited during the second half 2017, but it wouldn't be shocking to see properties change hands as R&D space becomes more scarce.