

**Real Estate Market Review**

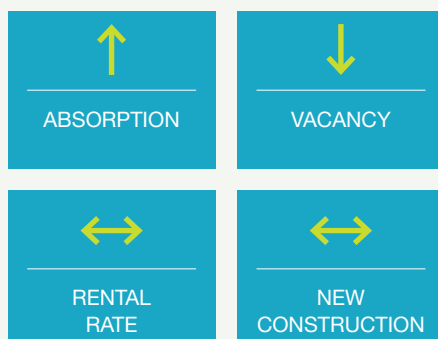
# Peninsula Industrial

The Peninsula industrial market ended the year on a high note, reporting 294,592 s.f. of positive net absorption in the fourth quarter. Vacancy rates in industrial properties fell by 60 basis points to 2.2% this quarter, while R&D product showed a 3.2% vacancy rate marketwide. The tight market is keeping rental rates relatively stable, at an average of \$1.37 NNN for industrial space and \$2.50 NNN for R&D offerings. The North County submarkets remain a strong region for logistics and warehouse centers, driving tenant demand in this portion of the Peninsula. Moving into 2018, tight conditions are likely to preserve low vacancies and firm rental rates, while leasing activity and absorption will be constrained by the lack of spaces available to new and expanding tenants.

With 84 deals completed this quarter, the Peninsula's leasing activity totaled 537,666 s.f., adding up to a yearly lease total of 2,786,043 s.f. Among the Peninsula submarkets, South San Francisco led the way with 146,894 s.f. of leasing activity this quarter. Burlingame followed behind with 100,215 s.f. of leasing activity, as Forest Restaurant Supply leased 96,795 s.f. at 1625-1635 Rollins Road. The Daly City/Brisbane submarket was quiet this quarter, reporting no major leasing activity. There were no

industrial deliveries this quarter, leading to a decline in inventory within the Peninsula, as existing industrial buildings are demolished for redevelopment or repurposed for other uses.

Average rental rates decreased 0.4% from the previous quarter to \$1.37/s.f. NNN. Menlo Park continues to lead the Peninsula with a \$2.20/s.f. NNN rental rate, while Brisbane/Daly City had the lowest rate at \$1.16/s.f. NNN. Vacancy rates were at or near their cycle

**Market Forecast Trends**

**Notable 2017 Leases**
**Amazon Fresh**

455 Valley Drive, Brisbane  
106,895 s.f. leased

**Forest Restaurant Supply**

1625-1635 Rollins Road, Burlingame  
96,795 s.f. leased

**General Motors**

175 Sylvester Road, South San Francisco  
74,562 s.f. leased

**Notable 2017 Sales**
**Alexandria Real Estate Equities**

960 Industrial Road, San Carlos  
217,000 SF | \$65M or \$299/s.f.

**Centrix Builders**

30-46 Tanforan Avenue, South San Francisco  
149,000 SF | \$34M or \$229/s.f.

**LaSalle Investment Mgmt./Harvest Properties**

1149 Chess Drive, Foster City  
126,345 SF | \$36M or \$285/s.f. (R&D)

# Area Review

## Submarket Statistics - Industrial

| Submarket                  | Total Inventory   | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | Q4 Net Absorption | YTD Net Absorption | Quarterly Leasing Activity | YTD Leasing Activity | Rental Rate   |
|----------------------------|-------------------|---------------------|--------------------|----------------------|-------------------|--------------------|----------------------------|----------------------|---------------|
| Brisbane/Daly City         | 4,694,799         | 0.0%                | 1.0%               | 4.9%                 | 128,645           | (45,345)           | 0                          | 266,230              | \$1.16        |
| South San Francisco        | 13,121,925        | 1.3%                | 1.6%               | 3.5%                 | 70,946            | 195,929            | 146,894                    | 1,026,291            | \$1.25        |
| San Bruno/Millbrae         | 587,288           | 1.3%                | 1.3%               | 4.6%                 | 12,500            | 38,846             | 12,500                     | 45,266               | \$1.44        |
| Burlingame                 | 3,291,217         | 5.7%                | 5.7%               | 2.7%                 | 21,913            | (135,990)          | 100,215                    | 303,890              | \$1.50        |
| San Mateo                  | 757,000           | 0.6%                | 0.6%               | 0.6%                 | 2,391             | 15,415             | 4,285                      | 28,435               | \$1.55        |
| Foster City/Redwood Shores | 218,291           | 0.0%                | 0.0%               | 0.0%                 | 0                 | 15,254             | 0                          | 0                    | \$1.50        |
| Belmont                    | 904,654           | 0.5%                | 0.5%               | 0.5%                 | (1,396)           | (1,092)            | 21,406                     | 32,738               | \$1.40        |
| San Carlos                 | 2,962,533         | 2.3%                | 2.3%               | 3.1%                 | (26,388)          | (29,906)           | 21,046                     | 115,460              | \$1.58        |
| Redwood City               | 3,112,865         | 1.5%                | 1.5%               | 1.7%                 | 10,000            | (3,334)            | 29,989                     | 105,183              | \$1.50        |
| Menlo Park                 | 2,309,967         | 1.8%                | 2.3%               | 2.8%                 | (82)              | (24,222)           | 5,000                      | 24,482               | \$2.20        |
| San Francisco              | 19,439,767        | 2.5%                | 2.7%               | 4.0%                 | 76,063            | 138,057            | 196,331                    | 838,068              | \$1.65        |
| <b>Total</b>               | <b>51,400,306</b> | <b>2.0%</b>         | <b>2.2%</b>        | <b>3.5%</b>          | <b>294,592</b>    | <b>124,766</b>     | <b>537,666</b>             | <b>2,786,043</b>     | <b>\$1.37</b> |

## Submarket Statistics - R&D

| Submarket                  | Total Inventory   | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | Q4 Net Absorption | YTD Net Absorption | Quarterly Leasing Activity | YTD Leasing Activity | Rental Rate   |
|----------------------------|-------------------|---------------------|--------------------|----------------------|-------------------|--------------------|----------------------------|----------------------|---------------|
| Brisbane/Daly City         | 288,682           | 2.6%                | 2.6%               | 15.5%                | (7,444)           | (7,444)            | 0                          | 0                    | N/A           |
| South San Francisco        | 3,467,293         | 1.6%                | 2.2%               | 7.0%                 | 18,816            | (23,428)           | 21,716                     | 121,574              | \$2.51        |
| San Bruno/Millbrae         | 233,535           | 0.0%                | 0.0%               | 3.3%                 | 0                 | 7,680              | 0                          | 12,605               | \$1.25        |
| Burlingame                 | 829,931           | 4.2%                | 4.2%               | 3.7%                 | 6,590             | (15,821)           | 25,819                     | 32,550               | \$1.81        |
| San Mateo                  | 172,903           | 0.0%                | 0.0%               | 0.0%                 | 2,600             | 0                  | 0                          | 0                    | \$2.15        |
| Foster City/Redwood Shores | 592,866           | 0.0%                | 1.0%               | 3.3%                 | 0                 | 18,942             | 0                          | 32,528               | \$2.95        |
| Belmont                    | 630,210           | 1.2%                | 1.4%               | 1.4%                 | (1,040)           | (1,040)            | 0                          | 10,500               | \$2.50        |
| San Carlos                 | 1,250,958         | 6.3%                | 6.3%               | 5.8%                 | (8,012)           | (28,706)           | 10,370                     | 62,600               | \$2.66        |
| Redwood City               | 1,790,341         | 4.0%                | 6.8%               | 6.4%                 | (50,981)          | (27,225)           | 49,610                     | 203,742              | \$2.50        |
| Menlo Park                 | 3,168,056         | 1.2%                | 2.2%               | 4.1%                 | (21,421)          | (4,044)            | 4,100                      | 104,138              | \$2.75        |
| <b>Total</b>               | <b>12,424,775</b> | <b>2.4%</b>         | <b>3.2%</b>        | <b>5.4%</b>          | <b>(60,892)</b>   | <b>(81,086)</b>    | <b>111,615</b>             | <b>580,137</b>       | <b>\$2.50</b> |

lows throughout the market, leaving only 1,795,810 s.f. of available industrial space at the end of the year.

Twenty-four investment and owner-use sale transactions were executed this quarter, with 431,119 s.f. trading at an average price of \$133/s.f. Bluepoint Studios Trends purchased 344-352 Shaw Road in South San Francisco for \$9.5 million (\$78.51/s.f.), while WL Butler Investment Corp. acquired 860 Charter Street in Redwood City for \$7.3 million (\$297.96/s.f.). With vacancy rates decreasing and tenant demand remaining steady, the Peninsula is an attractive market for investors, but buyers are hindered by limited opportunities to acquire assets in the area.

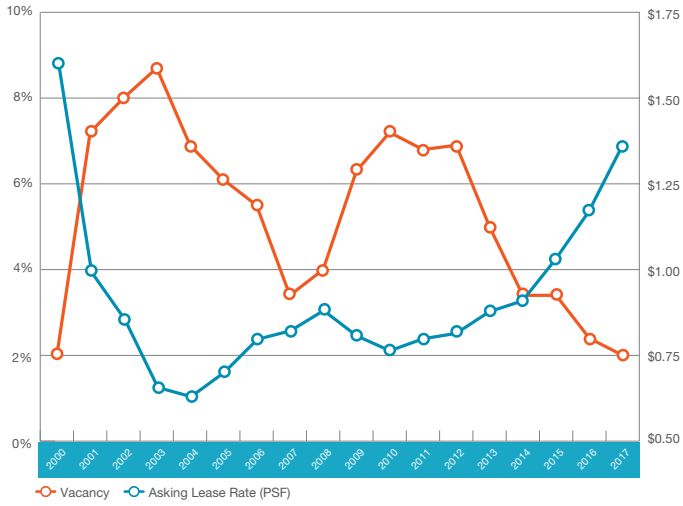
### R&D

R&D leasing activity was up in the fourth quarter, with 111,615 s.f. coming off the market in deals signed over the past three months. Vacancies increased 40 basis points to 3.2% this quarter, with Redwood City holding the highest rate at 6.8%. This city took the biggest hit with a negative net absorption of 50,981 s.f. Despite limited inventory, interest in the R&D market remains strong and conditions are extremely tight.

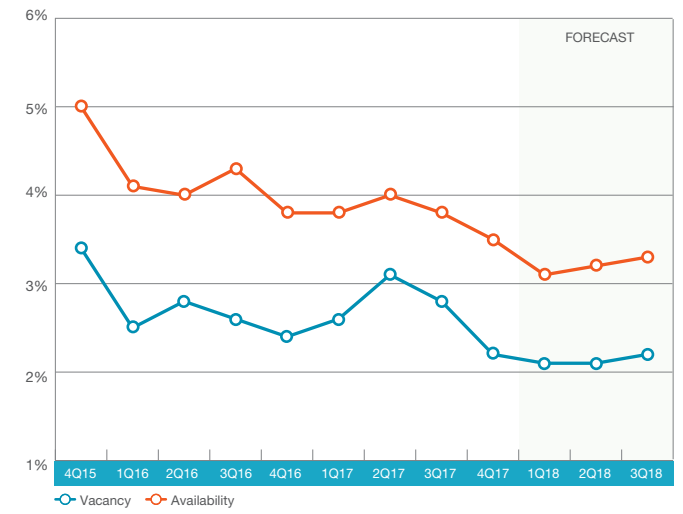
The Peninsula R&D market closed off the quarter with 60,892 s.f. of negative net absorption, despite 116,143 s.f. of positive gross absorption. Redwood City experienced the most leasing activity with 49,610 s.f., although the lag between move-outs and occupancies resulted in 50,981 s.f. of negative net absorption this quarter. San Bruno/Millbrae markets held the lowest rental rate, averaging to \$1.25/s.f. NNN, while Foster City/Redwood Shores topped the Peninsula with an average asking rate of \$2.95/s.f. NNN. Steady tenant demand should foster low vacancy rates and firm rents in the Peninsula into the new year.

There were four R&D sales this quarter, the largest of which involved 101 and 111 S. Hill Drive in Brisbane, where 34,769 s.f. sold for \$12.65 million or \$364/s.f. Limited inventory in the Peninsula will cause the market to remain tight throughout 2018, as landlords hold onto their properties. However, some investment activity is expected to carry over in 2018, with steady demand supporting low vacancy rates and attracting buyers to the market.

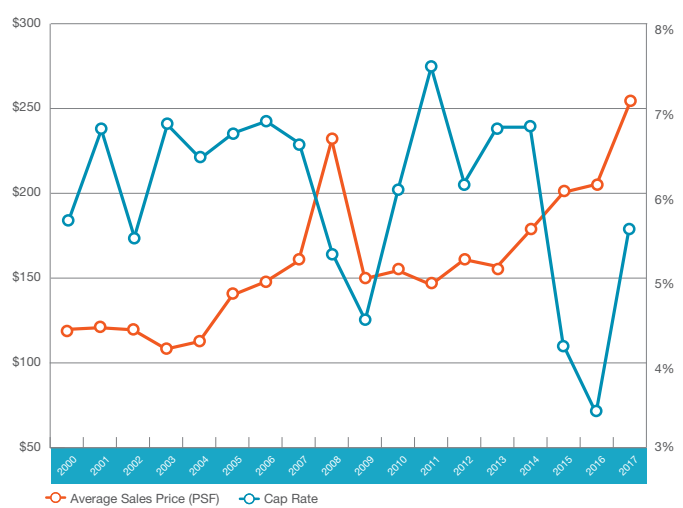
### VACANCY VS ASKING LEASE RATE



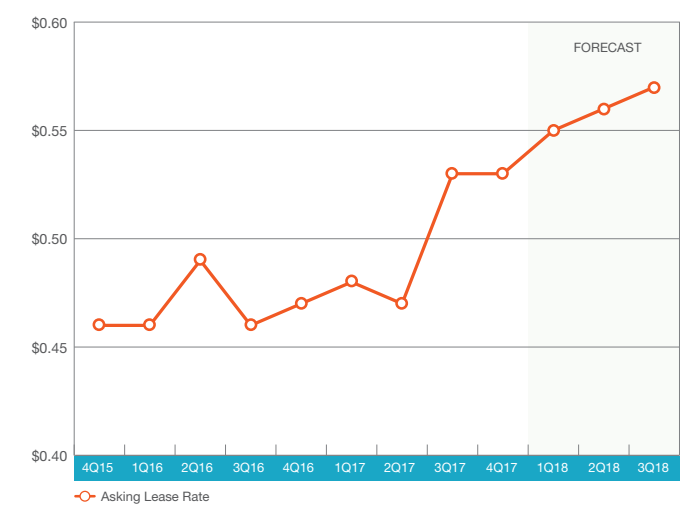
### VACANCY VS AVAILABILITY



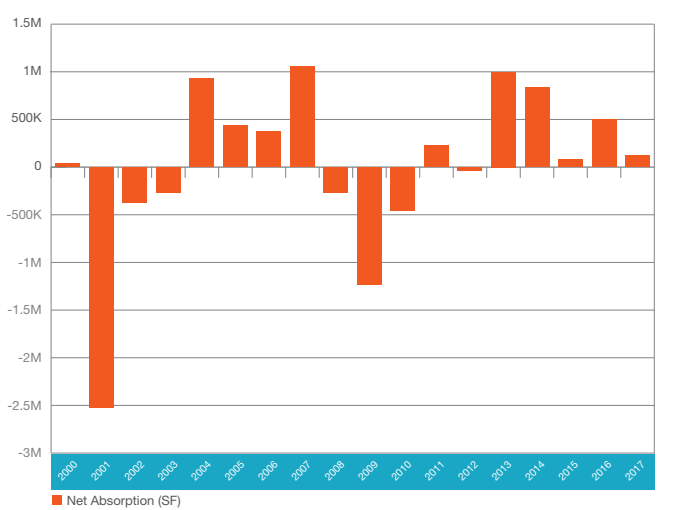
### AVERAGE SALES PRICE & CAPITALIZATION RATES



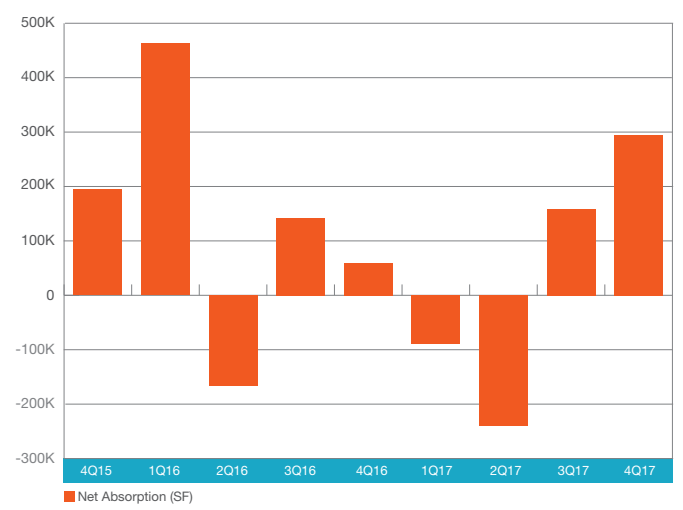
### ASKING LEASE RATE



### NET ABSORPTION - HISTORICAL



### NET ABSORPTION - QUARTERLY



## Market Breakdown

### 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

Los Angeles  
213.880.5250

Commerce  
323.727.1144

Long Beach  
562.472.0071

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

### Contact

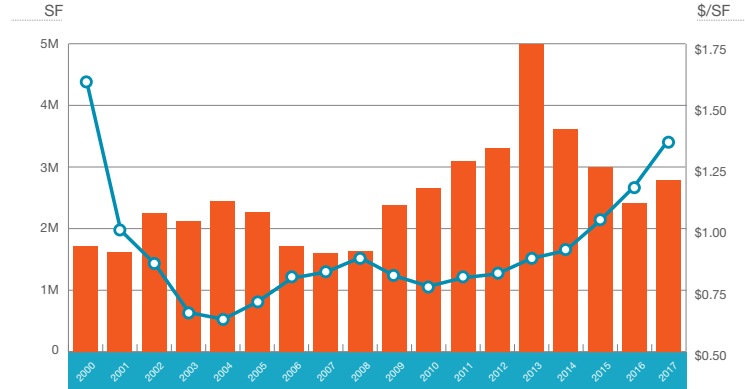
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|                   | 2017      | 2016      | 2015      | Annual % Change |
|-------------------|-----------|-----------|-----------|-----------------|
| Vacancy Rate      | 2.20%     | 2.40%     | 3.40%     | -8.33%          |
| Availability Rate | 3.50%     | 3.80%     | 5.00%     | -7.89%          |
| Asking Lease Rate | \$1.37    | \$1.17    | \$1.01    | 17.10%          |
| Leased SF         | 2,786,043 | 2,414,222 | 2,991,186 | 15.40%          |
| Sold SF           | 1,906,754 | 2,302,555 | 3,347,523 | -17.20%         |
| Net Absorption    | 124,766   | 497,586   | 77,218    | N/A             |

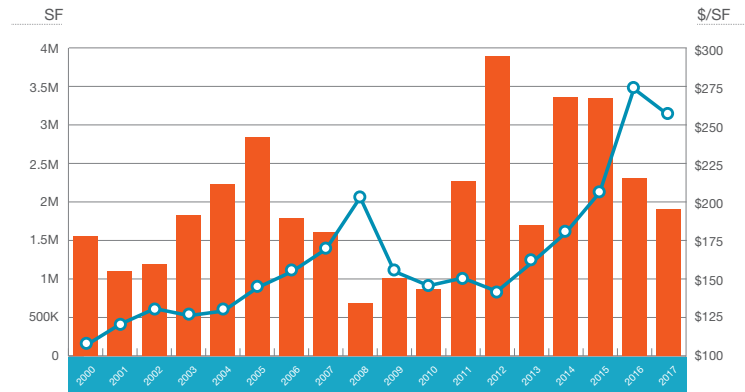
### HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

■ Leasing Activity  
○ Asking Lease Rate



### HISTORICAL SALES ACTIVITY & MEDIAN SALES PRICE

■ Total Square Feet of Sales  
○ Median Price/Building SF



### HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Deliveries  
○ Vacancy

