

Real Estate Market Review

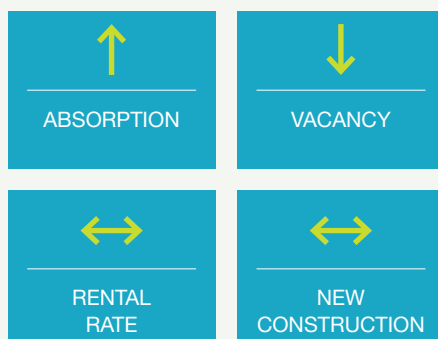
Peninsula Industrial

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
Total	51,400,306	2.0%	2.2%	3.5%	294,592	124,766	537,666	2,786,043	\$1.37

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
Total	12,424,775	2.4%	3.2%	5.4%	(60,892)	(81,086)	111,615	580,137	\$2.50

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.

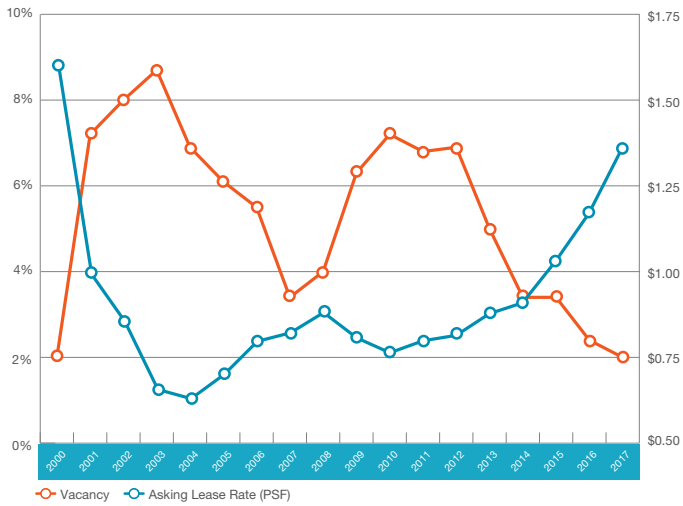
R&D

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.

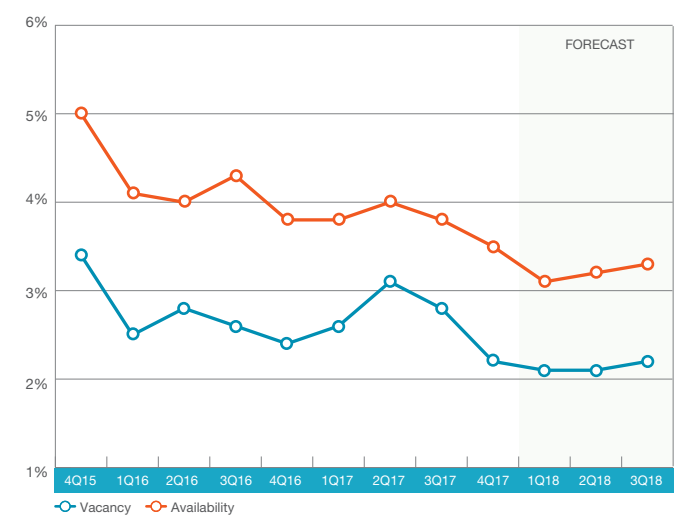
The Peninsula R&D market closed off the quarter with 60,892 s.f. of negative net absorption, despite 116,143 s.f. of positive gross absorption. Redwood City experienced the most leasing activity with 49,610 s.f., although the lag between move-outs and occupancies resulted in 50,981 s.f. of negative net 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.

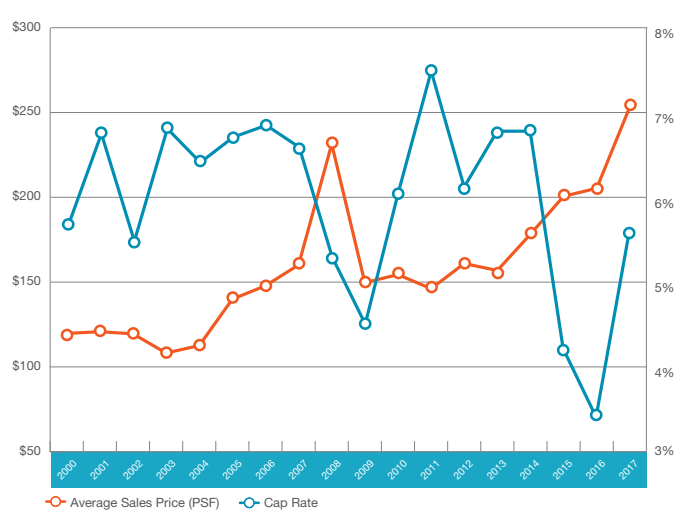
VACANCY VS ASKING LEASE RATE



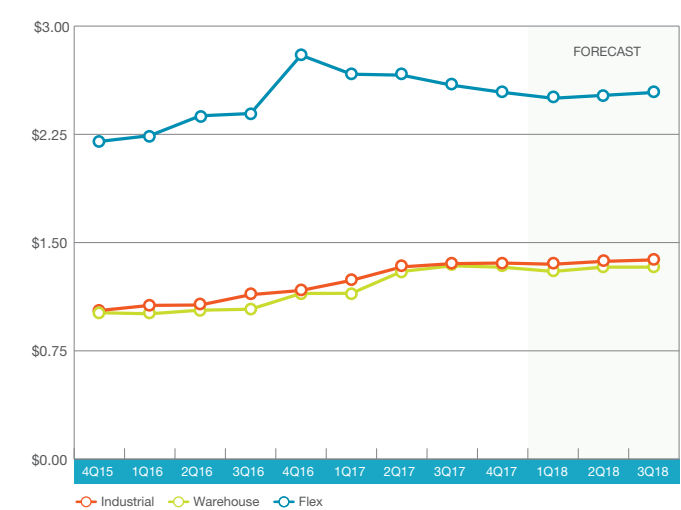
VACANCY VS AVAILABILITY



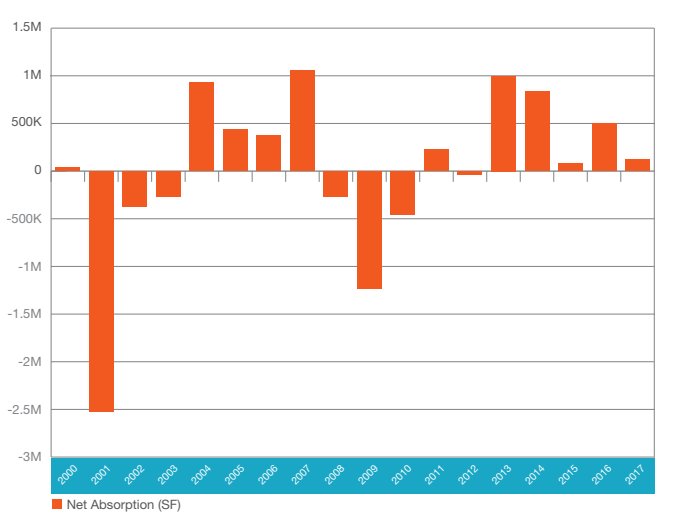
AVERAGE SALES PRICE & CAPITALIZATION RATES



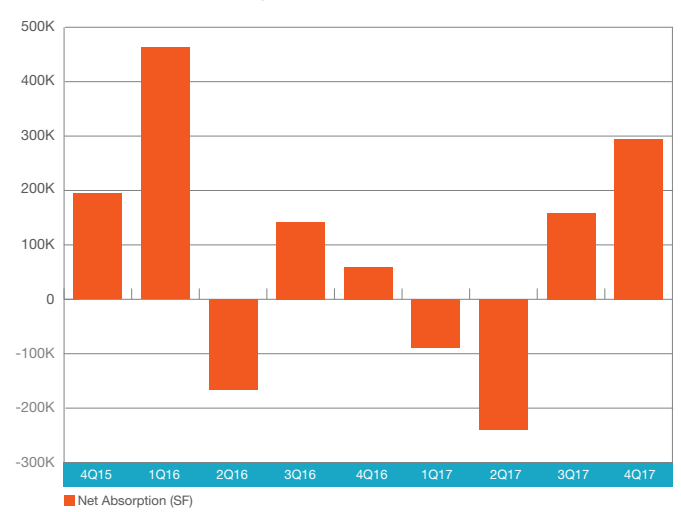
ASKING LEASE RATE



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

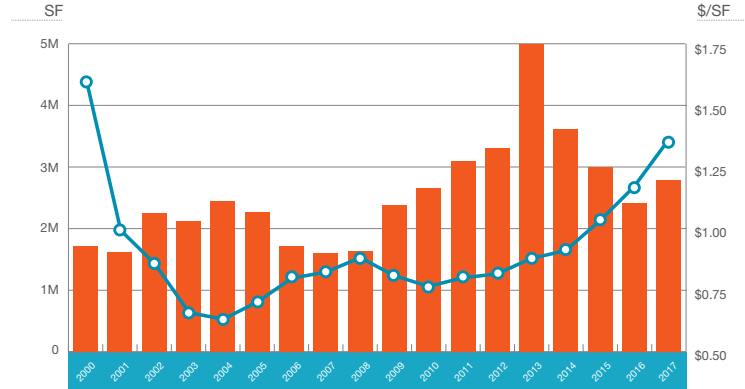
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	2017	2016	2015	Annual % Change
Vacancy Rate	2.20%	2.40%	3.40%	-8.33%
Availability Rate	3.50%	3.80%	5.00%	-7.89%
Asking Lease Rate	\$1.37	\$1.17	\$1.01	17.10%
Leased SF	2,786,043	2,414,222	2,991,186	15.40%
Sold SF	1,906,754	2,302,555	3,347,523	-17.20%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

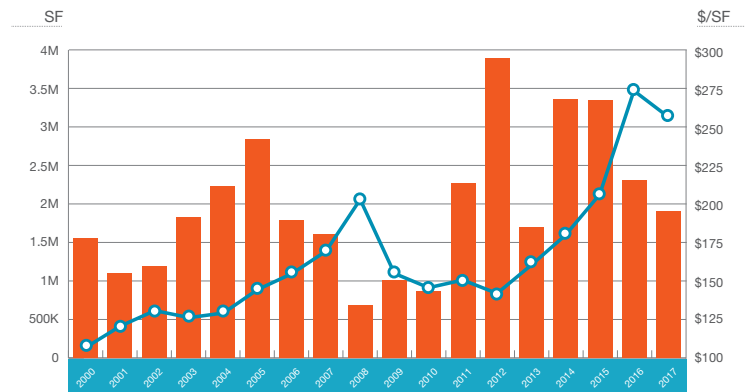
HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

■ Leasing Activity
○ Asking Lease Rate



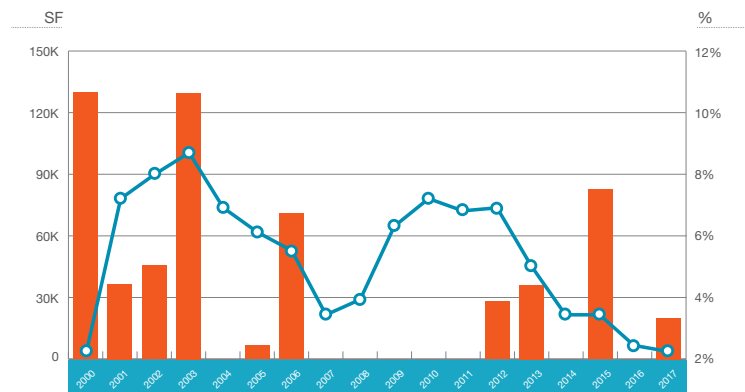
HISTORICAL SALES ACTIVITY & MEDIAN SALES PRICE

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



HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Deliveries
○ Vacancy



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