

Real Estate Market Review

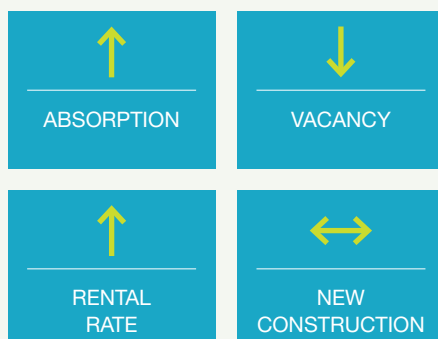
SF Peninsula Industrial

The San Francisco Peninsula industrial market experienced a healthy first quarter, ending with 255,324 s.f. of leasing activity and 151,156 s.f. of negative absorption. Vacancy dipped slightly to 2.1% for industrial properties, while R&D rates rose to 4.9%. Average rental rates in the industrial market increased to \$1.47/s.f. NNN, which can be attributed to a tight market. However, R&D rental rates remained unchanged this quarter at \$2.50/s.f. NNN. Despite limited product and rising rental rates, tenant demand remains steady on the Peninsula.

San Mateo County experienced 255,324 s.f. of leasing activity this quarter, compared to last quarter's 537,666 s.f. of activity. South San Francisco continues to anchor the Peninsula, as it hosted 121,463 s.f. of leasing activity and ended the quarter with 41,856 s.f. of negative absorption. Yusen Logistics completed their renewal of 41,634 s.f. of warehouse space at 405 Victory Avenue in South San Francisco, followed by Flying Foods occupying 33,726 s.f. of space at 1220 San Mateo Avenue. The largest deal of the quarter was DHL Express's renewal of 76,375 s.f. at 99 S. Hill Drive in Brisbane, contributing to 33,955 s.f. of negative absorption in the submarkets of Brisbane/Daly City. Finally, Floor and Decor

Outlets of America leased the entire 70,173 s.f. industrial building at 1541 Adrian Road in Burlingame. Closing out the first quarter, the county's vacancy sits at 2.1%, down 10 basis points from the previous quarter.

Average asking rates on the Peninsula increased to \$1.47/s.f. NNN, compared to \$1.37/s.f. NNN from the prior quarter. Menlo Park posted the highest rate of this quarter at \$2.10/s.f. NNN, declining 4.5% over the previous quarter. South San Francisco recorded a 4.8% jump in asking rates to \$1.31/s.f. NNN. Supply in the region remains tight, as existing buildings are demolished and redeveloped for other uses.

Market Forecast

Notable Leases Transactions

Facebook
220 Jefferson Drive, Menlo Park
100,000 s.f. leased (R&D)

DHL Express
99 S. Hill Drive, Brisbane
76,375 s.f. leased (renewal)

Floor and Decor Outlets of America, Inc.
1541 Adrian Road, Burlingame
70,173 s.f. leased

Notable Sale Transactions

PCCP LLC & Lift Partners
100 Utah Avenue, South San Francisco
117,500 s.f. | \$28M or \$238/s.f.

Walnut Hill Group
1021 Howard Avenue & 1360 & 1390
Bayport Avenue, San Carlos (3 bldg portfolio)
45,800 s.f. | \$20.7M or \$452/s.f. (R&D)

LBA Realty
160 Beacon Street, South San Francisco
59,000 s.f. | \$13.1M or \$222/s.f.

Area Review

Submarket Statistics - Industrial

Submarket	Total Inventory	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Total Available Rate	Quarterly Net Absorption	Quarterly Leasing Activity	Rental Rate
Brisbane/Daly City	4,863,287	1.6%	0.0%	1.6%	4.20%	(33,955)	76,375	\$1.20
South San Francisco	13,159,094	1.6%	0.4%	2.0%	4.30%	(41,856)	121,463	\$1.31
San Bruno/Millbrae	587,288	1.3%	0.0%	1.3%	3.80%	0	5,000	\$1.44
Burlingame	3,291,217	2.9%	0.0%	2.9%	6.20%	(6,744)	4,371	\$1.47
San Mateo	778,853	1.9%	0.0%	1.9%	7.00%	(14,596)	0	\$1.25
Foster City/Redwood Shores	218,291	0.0%	0.0%	0.0%	0.00%	0	0	\$1.95
Belmont	904,654	0.2%	0.0%	0.2%	0.10%	3,450	6,830	\$1.56
San Carlos	2,946,353	2.9%	0.0%	2.9%	4.60%	(18,180)	14,627	\$2.05
Redwood City	3,133,059	2.1%	0.1%	2.2%	2.50%	(21,959)	11,554	\$2.04
Menlo Park	2,309,967	2.6%	0.5%	3.1%	2.70%	(17,316)	15,104	\$2.10
San Francisco	19,314,942	2.0%	0.1%	2.1%	3.60%	95,071	159,368	\$1.56
Total	32,192,063	1.9%	0.2%	2.1%	4.10%	(151,156)	255,324	\$1.47

Submarket Statistics - R&D

Submarket	Total Inventory	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Total Available Rate	Quarterly Net Absorption	Quarterly Leasing Activity	Rental Rate
Brisbane/Daly City	123,682	34.1%	0.0%	34.1%	36.1%	(34,769)	0	\$1.75
South San Francisco	3,470,785	6.2%	0.5%	6.7%	8.9%	(158,415)	9,174	\$3.14
San Bruno/Millbrae	233,535	0.0%	0.0%	0.0%	0.0%	0	7,680	\$1.25
Burlingame	829,931	3.5%	0.0%	3.5%	4.7%	5,157	3,636	\$1.81
San Mateo	172,903	0.0%	0.0%	0.0%	0.0%	0	3,800	\$2.15
Foster City/Redwood Shores	592,866	1.3%	0.0%	1.3%	1.3%	(2,014)	11,572	\$2.95
Belmont	630,210	4.9%	0.2%	5.1%	5.1%	(23,375)	0	\$2.04
San Carlos	1,250,958	4.7%	0.0%	4.7%	5.1%	19,990	20,383	\$2.61
Redwood City	1,908,997	4.4%	1.3%	5.7%	6.3%	12,346	0	\$2.00
Menlo Park	2,524,350	1.0%	1.2%	2.2%	5.1%	13,931	100,000	\$2.70
San Francisco	19,314,942	2.0%	0.1%	2.1%	3.60%	95,071	159,368	\$1.56
Total	11,738,217	4.2%	0.7%	4.9%	6.3%	(167,149)	156,245	\$2.50

The first quarter of 2018 saw 18 transactions, with 325,250 s.f. trading at an average of \$180/s.f. Investors PCCP LLC & Lift Partners acquired 100 Utah Avenue in South San Francisco for \$28M, or \$238/s.f., marking it as the largest sale of the quarter. The property's value more than doubled in the last two years. LBA Realty purchased 160 Beacon Street, South San Francisco from Deerfield Realty for \$13.1M, or \$222/s.f. The 59,000 warehouse building was occupied by go-kart company K1 Speed at the time of the sale. The third-largest investment of the quarter was made by Aralon Investments, LLC, which bought 493 Forbes Boulevard in South San Francisco for \$9.8M, or \$184/s.f.

R&D

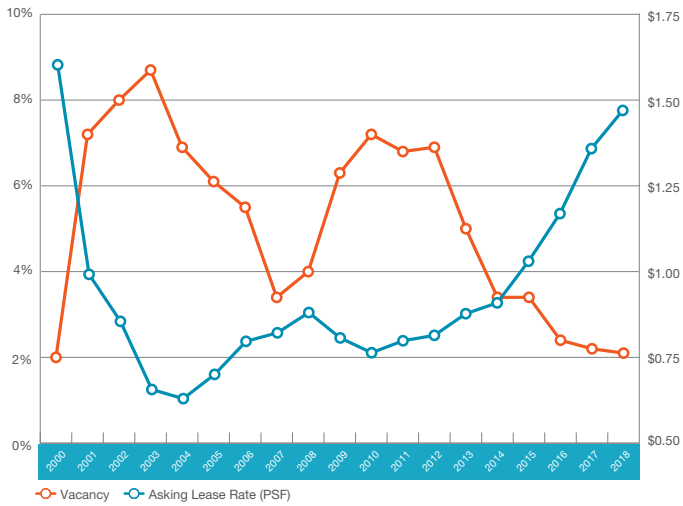
R&D leasing activity this quarter totaled 156,245 s.f., with 167,149 s.f. of negative net absorption. Menlo Park was home to the largest deal on the Peninsula as Facebook leased 100,000 s.f. at 220 Jefferson Drive. San Carlos followed behind with 20,383 s.f. of leasing activity and 19,990 s.f. of positive net absorption. Vacancy increased 170 basis points to 4.9%, as compared to 3.2% last quarter. Although R&D supply remains limited, strong interest continues to attract tenants to the area.

Rental rates remained steady at \$2.50/s.f. NNN this quarter. South San Francisco saw the most notable increase of 25.1%, to \$3.14/s.f. NNN, marking it the highest rental rate on the Peninsula. The south county experienced the most decline among rental rates, with Belmont at \$2.04/s.f. NNN, down from \$2.50/s.f. last quarter, and Redwood City sitting at \$2.00/s.f. NNN, as compared to \$2.50/s.f. in the prior quarter. Rent growth is expected to continue in the region, as tenant demand continues to exceed the available inventory.

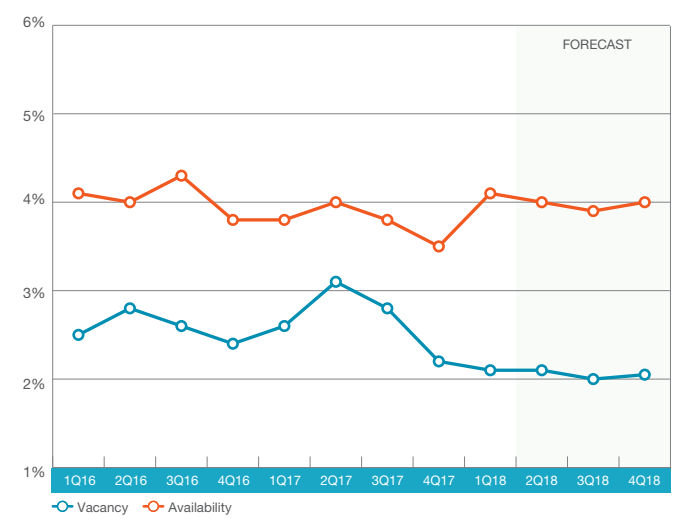
Investment activity remained strong this quarter, with 95,340 s.f. changing hands at an average price of \$604.95/s.f. The Walnut Hill Group purchased the San Carlos Technology Park, located at 1021 Howard Avenue and 1360 & 1390 Bayport Avenue in San Carlos, from Black Mountain Properties, LLC for \$20.7M, or \$452/s.f. The three buildings, totaling 45,800 s.f., were fully occupied at the time of the sale. Lastly, 2 Davis Court, LLC acquired the 23,030 s.f. building at 2 Davis Drive in Belmont for \$7.3M, or \$315/s.f.

Data Source: CoStar

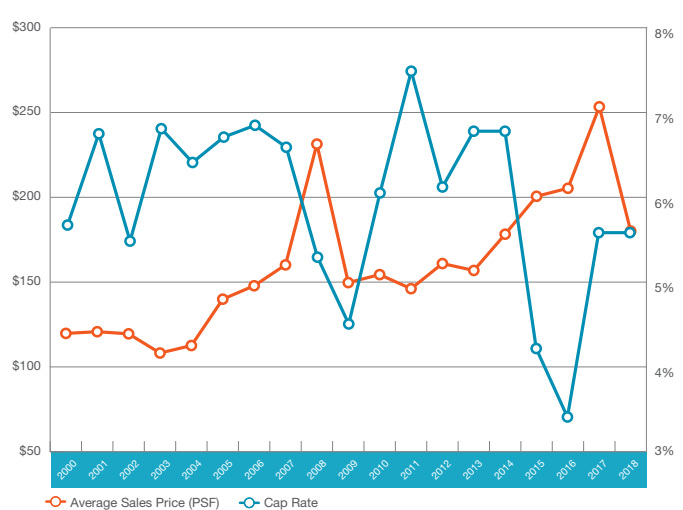
VACANCY VS ASKING LEASE RATE



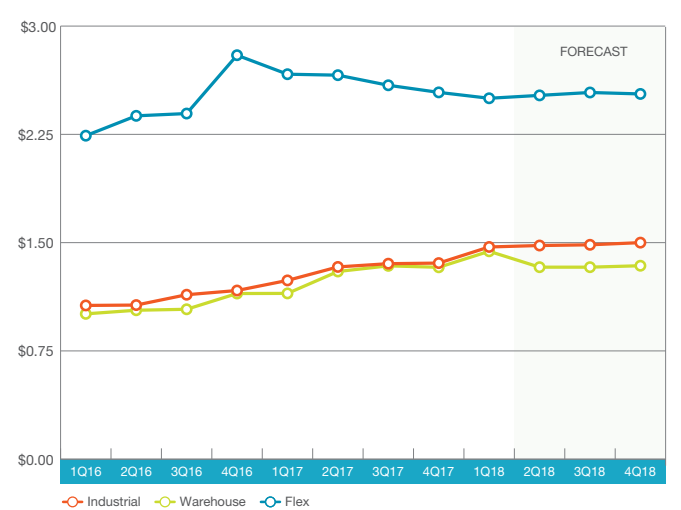
VACANCY VS AVAILABILITY



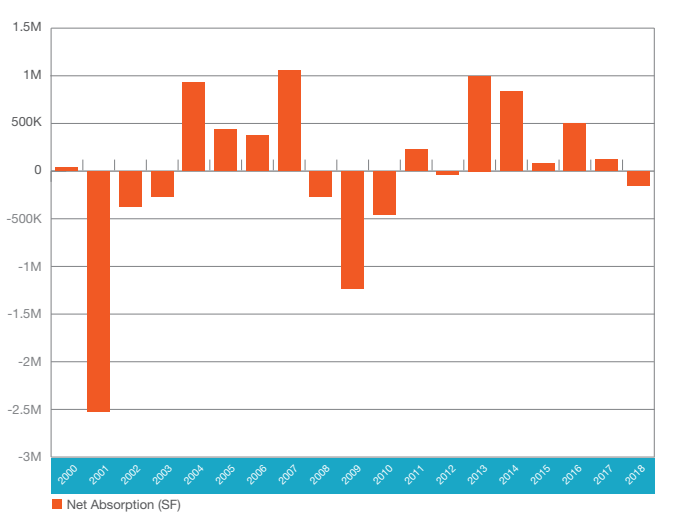
AVERAGE SALES PRICE & CAPITALIZATION RATES



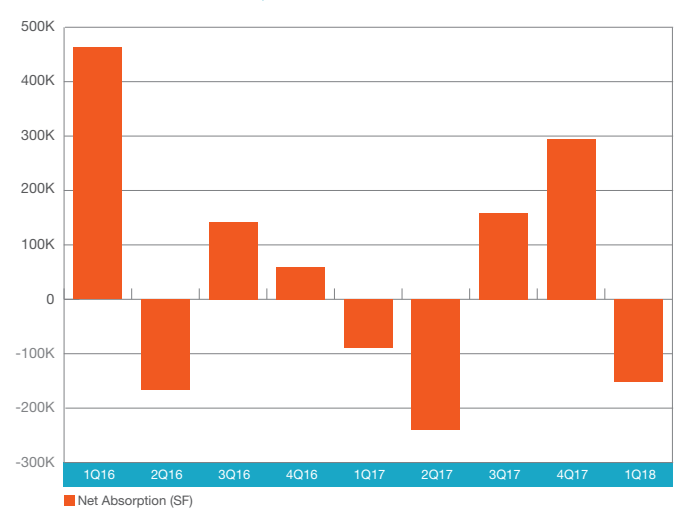
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



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

El Segundo
310.807.0880

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

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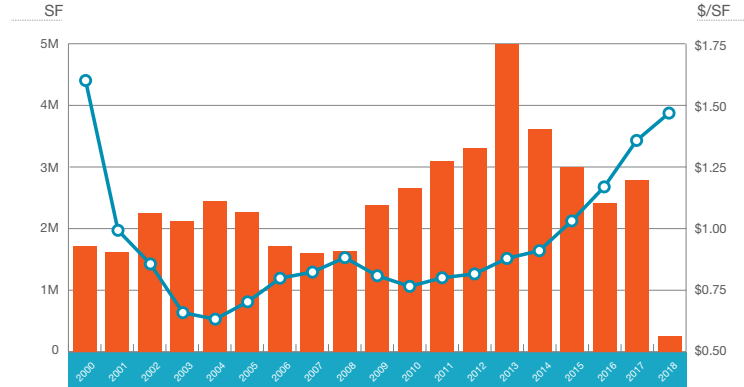
Designated Broker
Mark Read | LIC #00572743

Market Breakdown

	1Q18	4Q17	1Q17	Annual % Change
Vacancy Rate	2.10%	2.20%	2.60%	-19.20%
Availability Rate	4.10%	3.50%	4.30%	-4.70%
Asking Lease Rate	\$1.47	\$1.37	\$1.59	-7.50%
Leased SF	255,324	537,666	546,176	-53.30%
Sold SF	325,250	431,119	399,704	-18.60%
Net Absorption	-151,156	294,592	-255,781	N/A

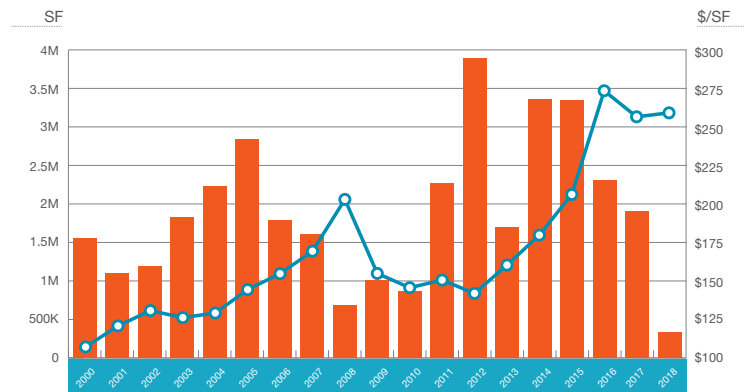
HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

■ Leasing Activity
○ Asking Lease Rate



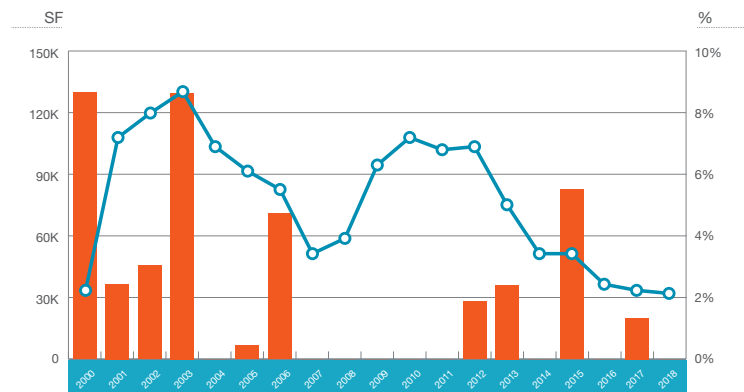
HISTORICAL SALES ACTIVITY & MEDIAN SALES PRICE

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



HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Deliveries
○ Vacancy



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