

Real Estate Market Review

SF Peninsula Industrial

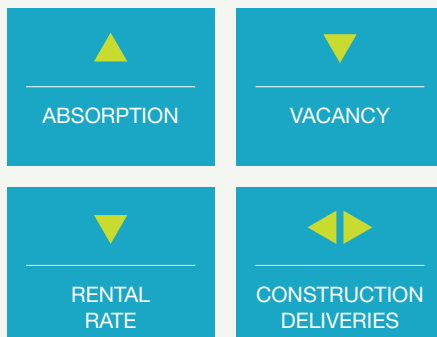
At the end of the second quarter, the vacancy rate for industrial spaces rose to 2.2%, a slight increase from the prior quarter's rate of 2.1%. Larger-sized industrial spaces ranging from 25,000 s.f. upward are highly sought after among users amidst a tight market. Asking rates on the Peninsula climbed to \$1.52/s.f. NNN, a 3.4% increase from the last quarter. R&D rates rose sharply from \$2.50/s.f. NNN to \$3.34/s.f. Strong demand for R&D spaces, most especially in the South County, is expected to continue throughout the year.

Leasing activity dipped slightly this quarter to 245,732 s.f., compared to the previous quarter's 255,324 s.f. South San Francisco remains the dominant location for tenant demand, as it closed out with 128,409 s.f. of leasing activity. This submarket hosted the largest deal of the quarter with contracting company C4 Building LLC occupying the entire 50,000 s.f. industrial warehouse at 274 Wattis Way. An undisclosed tenant subleased 18,650 s.f. at 3775-3785 Bayshore Boulevard in Brisbane, while Lawrence Fine Arts leased 15,000 s.f. at 221-231 Michelle Court in South San Francisco.

The South County also remained active this quarter, totaling 59,928 s.f. of leasing activity, with San Carlos leading the way. The Peninsula experienced 34,238 s.f. of negative net absorption, with Brisbane/Daly City posting the largest loss of space at 89,857 s.f. Vacancy rose slightly to 2.2%, up 10 basis points (bps) from the previous quarter, but down 120 bps year-over-year.

With limited product on the market and strong competition for space, asking rental rates increased to \$1.52/s.f. NNN. This marks a 3.4% increase from the prior quarter and a 13.4% increase year-over-year. Belmont recorded a jump

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Market Forecast Trends


YEAR-TO-YEAR BASIS

Notable Lease Transactions

C4 Building LLC
 274 Wattis Way, South San Francisco
 50,000 s.f.

Undisclosed Tenant
 3775-3785 Bayshore Boulevard, Brisbane
 18,650 s.f. sublease

Lawrence Fine Arts
 221-231 Michelle Court
 South San Francisco
 15,000 s.f.

Notable Sale Transactions

Lane Partners
 160 S Linden Avenue, South San Francisco
 61,105 s.f. | \$48.0M or \$785/s.f.

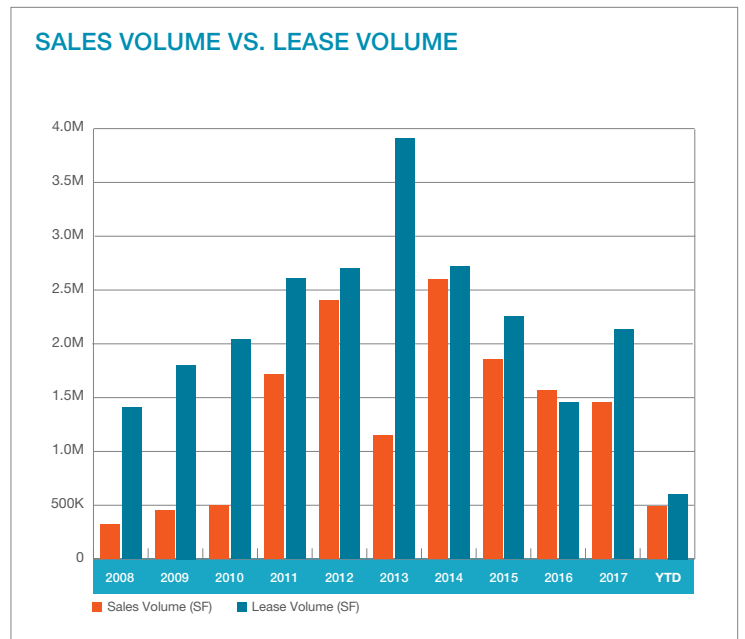
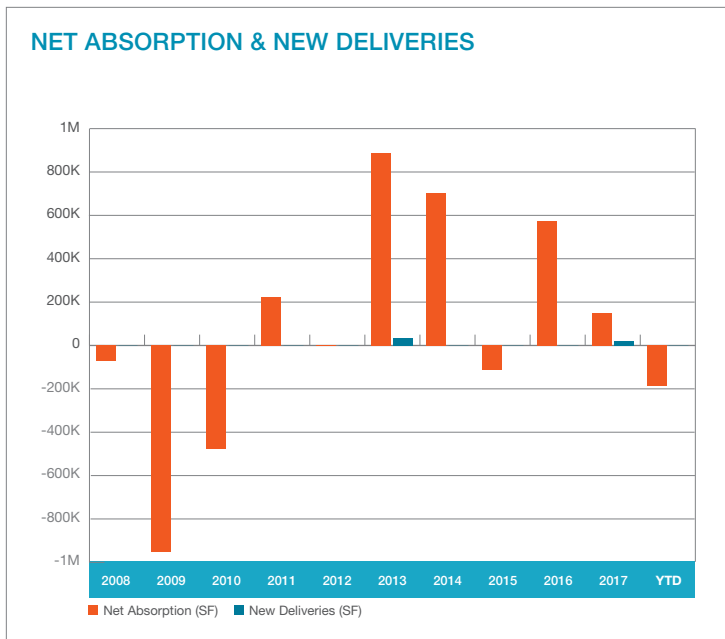
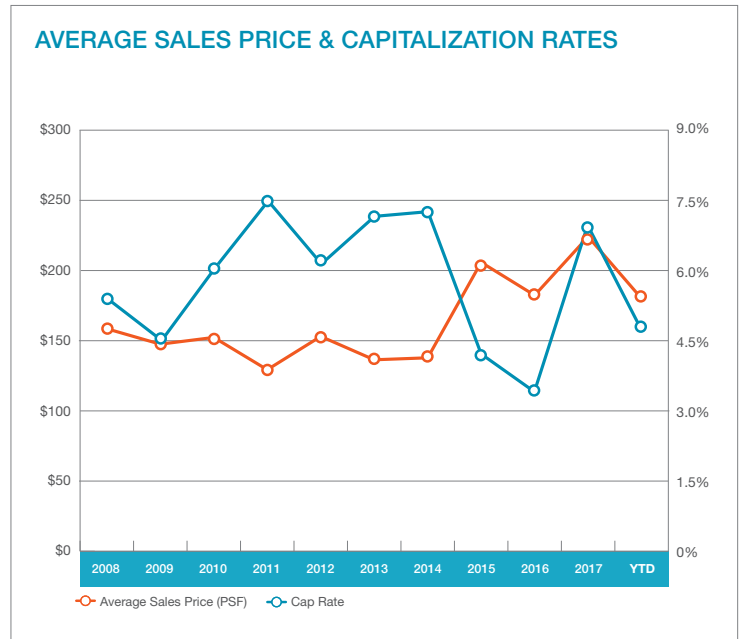
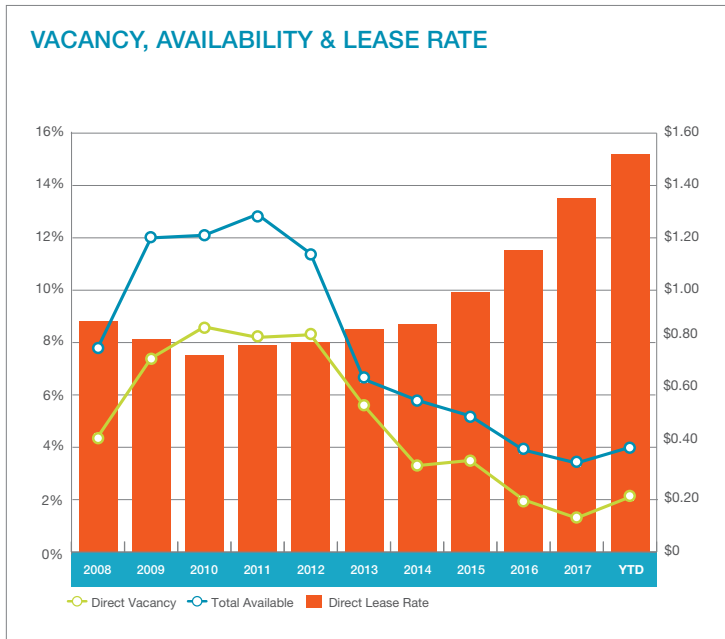
PSAI Realty Partners
 800-890 Dubuque Avenue
 South San Francisco
 112,384 s.f. | \$47.4M or \$422/s.f. (R&D)

Lane Partners
 54 Tanforan Avenue, South San Francisco
 26,500 s.f. | \$14.5M or \$547/s.f.

Market Breakdown

	2Q 2018	1Q 2018	2Q 2017	Annual % Change
Direct Vacancy Rate	2.10%	1.90%	2.70%	-22.20%
Availability Rate	4.00%	4.10%	4.30%	-6.98%
Asking Lease Rate	\$1.52	\$1.47	\$1.34	13.43%
Leased SF	245,732	255,324	685,755	-64.17%
Sold SF	157,885	325,250	261,379	-39.60%
Net Absorption	-34,238	-151,156	-329,543	N/A

SF Peninsula Industrial Charts



Industrial Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Direct Net Absorption	2Q Leasing Activity	Avg Rental Rate
Brisbane / Daly City	4,863,287	3.1%	0.4%	3.5%	3.90%	(89,857)	18,650	\$1.25
South San Francisco	13,022,094	1.8%	0.3%	2.0%	5.00%	(8,399)	128,409	\$1.33
San Bruno / Millbrae	587,288	1.6%	0.0%	1.6%	1.60%	(1675)	14,542	\$1.46
Burlingame	3,291,417	0.9%	0.0%	0.9%	3.90%	66,531	15,352	\$1.50
San Mateo	779,001	1.0%	0.3%	1.3%	2.10%	4,145	8,851	\$1.25
Foster City / Redwood Shores	218,291	0.0%	0.0%	0.0%	0.00%	0	0	\$1.95
Belmont	674,433	0.5%	0.0%	0.5%	0.50%	(2,196)	534	\$1.75
San Carlos	3,111,936	2.0%	0.0%	2.0%	3.70%	24,395	24,549	\$2.05
Redwood City	3,138,779	3.2%	0.0%	3.2%	4.60%	(31,779)	10,845	\$2.04
Menlo Park	2,277,013	2.9%	0.0%	2.9%	2.40%	4,597	24,000	\$2.10
San Francisco	19,492,745	2.0%	0.1%	2.1%	3.20%	(15,488)	217,252	\$1.47
SF Peninsula Total	31,963,539	2.1%	0.2%	2.2%	4.0%	(34,238)	245,732	\$1.52

R&D Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Direct Net Absorption	2Q Leasing Activity	Avg Rental Rate
Brisbane / Daly City	13,500	0.0%	0.0%	0.0%	0.0%	0	0	N/A
South San Francisco	2,151,898	9.7%	0.0%	9.7%	13.8%	0	0	\$4.36
San Bruno / Millbrae	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Burlingame	263,013	0.8%	0.0%	0.8%	0.0%	(1,540)	12,388	N/A
San Mateo	15,300	0.0%	0.0%	0.0%	0.0%	0	0	N/A
Foster City / Redwood Shores	291,889	0.0%	0.0%	0.0%	0.0%	0	0	N/A
Belmont	314,114	2.8%	0.0%	2.8%	2.8%	0	0	\$2.75
San Carlos	416,795	7.1%	0.0%	7.1%	11.6%	(2,241)	3,399	\$2.75
Redwood City	800,458	6.7%	0.0%	6.7%	12.2%	24,982	11,894	\$3.09
Menlo Park	1,279,222	0.8%	1.6%	2.4%	0.8%	0	20,858	\$3.06
SF Peninsula Total	5,546,189	5.7%	0.4%	6.0%	8.3%	21,201	48,539	\$3.34

from \$1.56/s.f. NNN last quarter to \$1.75/s.f. NNN, as 20,000 s.f. spaces have driven asking rates higher in this submarket. With no construction deliveries this quarter and existing inventory becoming redeveloped for other uses, supply remains constrained on the Peninsula.

The investment market cooled down this quarter, as 157,885 s.f. traded at an average price of \$165.82/s.f. with a 4.75% cap rate. Lane Partners was active in South San Francisco, acquiring 160 S Linden Avenue for \$48 million (\$785/s.f.) and 54 Tanforan Avenue for \$14.5 million (\$547/s.f.).

R&D

The R&D market experienced a dip in leasing activity this quarter, as the Peninsula witnessed 48,539 s.f. of leasing activity and 21,201 s.f. of positive net absorption. Menlo Park reported the highest amount of activity of the quarter with 20,858 s.f. Vacancy increased 110 bps to 6.0%, with sublease vacancy at a low 0.4%. R&D spaces, most especially in the South County, remain a desirable location among Silicon Valley startups.

Asking rental rates jumped to \$3.34/s.f. NNN market wide this quarter, compared to \$2.50/s.f. last quarter. South San Francisco's rate rose to \$4.36/s.f. NNN, due to the high

asking rates for neighboring biotech spaces. South County rates also increased as demand continues to exceed the available inventory. Belmont and San Carlos felt the most notable jumps, both standing at \$2.75/s.f. NNN.

R&D sale volume amassed slightly over \$45 million at an average price of \$422/s.f. PSAI Realty Partners purchased the South San Francisco Business Center from Buchanan Street Partners for \$47.4 million (\$422/s.f.). The park's value increased more than 80% since its prior sale in May 2015 at the price of \$25.8 million.

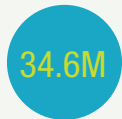
Source: CoStar

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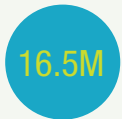
COMMERCIAL BROKERAGE



ANNUAL
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ANNUAL
LEASING SF



ANNUAL
SALES SF



BROKERS

PROPERTY MANAGEMENT



MANAGEMENT
PORTFOLIO

VALUATION ADVISORY



ASSIGNMENTS
ANNUALLY



TOTAL #
APPRAISERS/MAI'S

Contact

Jerry Holdner
Director of Research
949.557.5050
jholdner@kiddermathews.com

Brian Hatcher
Executive VP, Brokerage
650.769.3600
bhatcher@kiddermathews.com

Designated Broker
Mark Read | LIC # 00572743

kiddermathews.com



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