

Real Estate Market Review

SF Peninsula Industrial

The Peninsula industrial market continues to perform well, as nearly 385,000 s.f. was leased this quarter, bringing the yearly total to 1,044,921 s.f. Direct vacancy rates rose slightly to 2.3%, contributing to a negative net absorption of 190,397 s.f. Asking rates decreased slightly to \$1.50/s.f. NNN, a 1.3% decline from the previous quarter. R&D asking rates climbed to \$4.32/s.f. NNN, as a shortage of product and high tenant demand have affected this market.

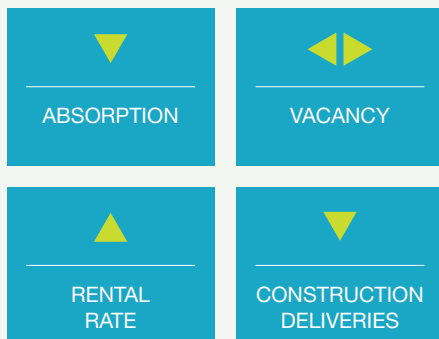
Leasing activity on the Peninsula continues to be very active, as 382,832 s.f. of space was leased. The Brisbane/Daly City submarket posted the largest amount of activity at 134,210 s.f., with South San Francisco close behind at 120,956 s.f. South San Francisco was home to the largest lease transaction of the quarter, with indoor farming startup Plenty leasing 102,500 s.f. at 570 Eccles Avenue. In a private deal, OMNI Products agreed to a 79,300 s.f. lease at 240 Valley Drive in Brisbane. Lastly, Alpha Flight occupied the entire 54,910 s.f. industrial property at 100 W Hill Drive in Brisbane. Further down the Peninsula, Tatcha Skincare agreed to 30,000 s.f. at 1744 Rollins Road in Burlingame, while an undisclosed tenant leased 24,481 s.f. at 860 Charter Street in Redwood City, contributing to a positive net absorption of 50,531 s.f. in this submarket.

San Mateo County experienced 190,397 s.f. of negative net absorption, primarily driven by South San Francisco placing 264,732 s.f. of vacant space on the market. This provides some tenant relief for those seeking opportunities in this submarket. Direct vacancy rates increased 30 basis points this quarter, sitting at 2.3%, but remained stable year over year. The submarkets of South San Francisco and Brisbane/Daly City reported the highest total vacancy rates on the Peninsula, at 3.8% and 3.1%, respectively. With diminishing product on the Peninsula, prospective tenants, especially those searching for large-sized spaces, often look to the East Bay market due to a higher product inventory and lower rents.

Asking rates declined marginally this quarter by 1.3%, now standing at \$1.50/s.f. NNN. Rates in the North County have

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Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Lease Transactions

- Plenty**
 570 Eccles Avenue, South San Francisco
 102,500 s.f.
- OMNI Products**
 240 Valley Drive, Brisbane
 79,300 s.f.
- Alpha Flight US, Inc.**
 100 W Hill Place, Brisbane
 54,910 s.f.

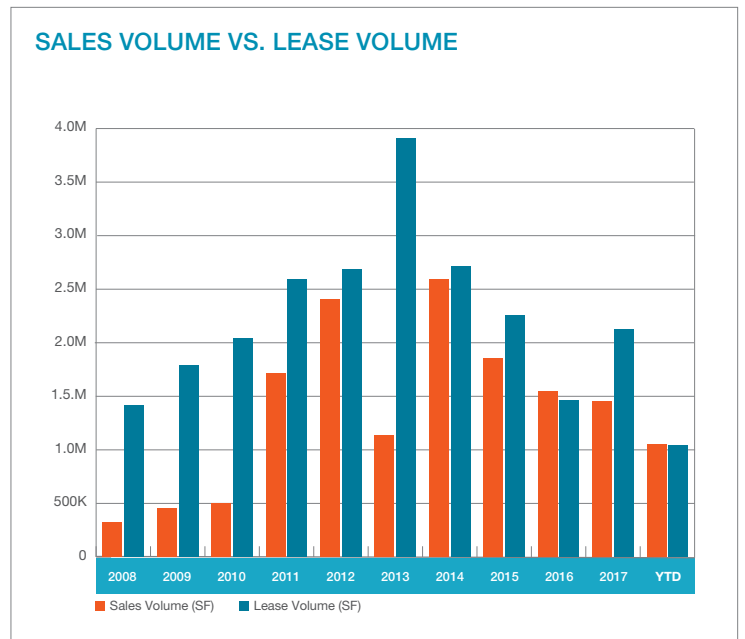
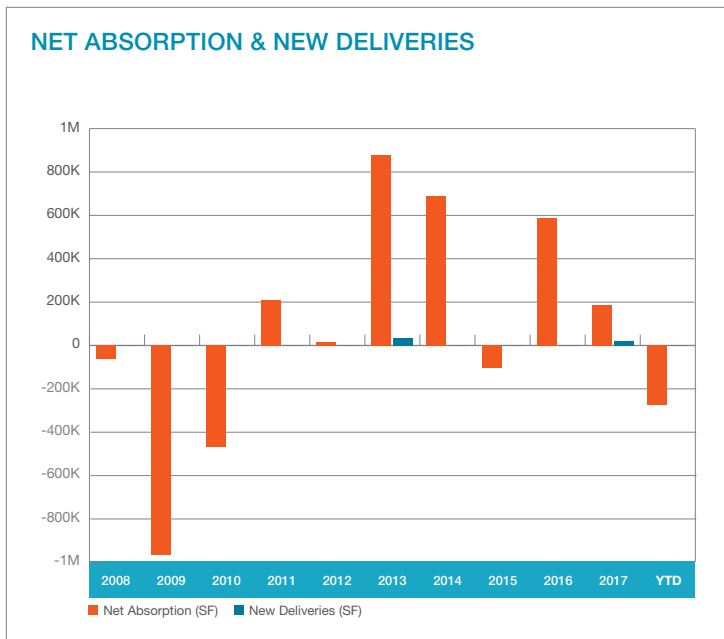
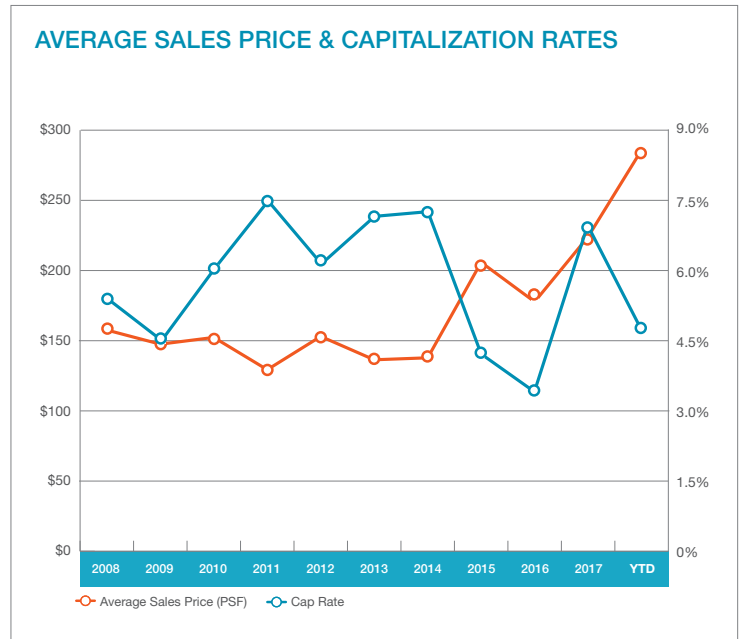
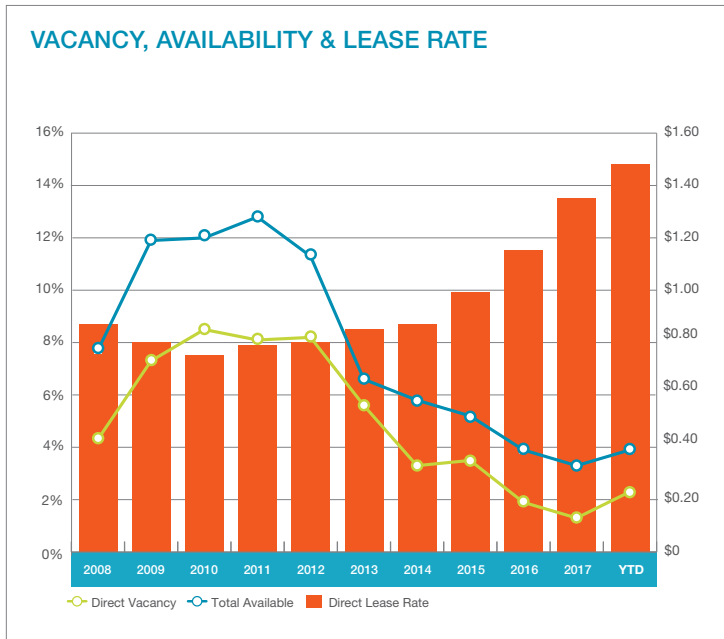
Notable Sale Transactions

- LMT Home Corporation**
 150 Charter Street, Redwood City
 \$12,000,000 | \$857/s.f.
- Twixie Cookie LLC**
 1222 - 1300 S Amphlett Boulevard
 San Mateo
 \$5,000,000 | \$338/s.f. (R&D)
- Jesus Acevedo & Minu Gonzalez**
 152 Utah Avenue, South San Francisco
 \$4,500,000 | \$296/s.f.

Market Breakdown

| | 3Q 2018 | 2Q 2018 | 3Q 2017 | Annual % Change |
|---------------------|----------|---------|---------|-----------------|
| Direct Vacancy Rate | 2.30% | 2.00% | 2.30% | 0.00% |
| Availability Rate | 3.90% | 3.90% | 3.50% | 11.43% |
| Asking Lease Rate | \$1.50 | \$1.52 | \$1.35 | 11.11% |
| Leased SF | 382,832 | 303,360 | 475,364 | -19.47% |
| Sold SF | 249,906 | 350,465 | 113,444 | 120.29% |
| Net Absorption | -190,397 | -30,726 | 145,704 | N/A |

SF Peninsula Industrial Charts



Industrial Submarket Statistics

| Submarket | Total Inventory | Direct Vacancy Rate | Sublease Vacancy Rate | Total Vacancy Rate | Total Available Rate | 3Q Direct Net Absorption | 3Q Leasing Activity | Avg Rental Rate |
|------------------------------|-------------------|---------------------|-----------------------|--------------------|----------------------|--------------------------|---------------------|-----------------|
| Brisbane / Daly City | 4,863,287 | 3.1% | 0.0% | 3.1% | 3.1% | 18,650 | 134,210 | \$1.25 |
| South San Francisco | 13,118,078 | 2.9% | 0.9% | 3.8% | 5.2% | (264,732) | 120,956 | \$1.33 |
| San Bruno / Millbrae | 713,707 | 0.2% | 0.0% | 0.2% | 0.2% | 0 | 0 | \$1.46 |
| Burlingame | 3,291,417 | 0.9% | 0.1% | 1.0% | 3.1% | (4,414) | 36,321 | \$1.50 |
| San Mateo | 801,239 | 2.0% | 0.6% | 2.6% | 5.5% | (8,229) | 2,500 | \$1.25 |
| Foster City / Redwood Shores | 218,291 | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | \$1.95 |
| Belmont | 929,103 | 0.8% | 0.0% | 0.8% | 0.8% | (3,854) | 0 | \$1.75 |
| San Carlos | 3,109,315 | 2.3% | 0.0% | 2.3% | 5.9% | (10,549) | 21,293 | \$2.10 |
| Redwood City | 3,121,592 | 1.5% | 0.0% | 1.5% | 2.8% | 50,531 | 43,204 | \$2.07 |
| Menlo Park | 2,323,595 | 1.4% | 0.0% | 1.5% | 0.8% | 32,200 | 24,348 | \$2.15 |
| San Francisco | 19,568,935 | 2.4% | 0.2% | 2.5% | 3.7% | (5,323) | 121,481 | \$2.31 |
| SF Peninsula Total | 32,489,624 | 2.3% | 0.4% | 2.7% | 3.9% | (190,397) | 382,832 | \$1.50 |

R&D Submarket Statistics

| Submarket | Total Inventory | Direct Vacancy Rate | Sublease Vacancy Rate | Total Vacancy Rate | Total Available Rate | 3Q Direct Net Absorption | 3Q Leasing Activity | Avg Rental Rate |
|------------------------------|------------------|---------------------|-----------------------|--------------------|----------------------|--------------------------|---------------------|-----------------|
| South San Francisco | 2,151,898 | 10.0% | 0.3% | 10.3% | 34.9% | 410,013 | 652,055 | \$4.36 |
| San Bruno / Millbrae | 0 | 0.00% | 0.0% | 0.0% | 0.0% | 0 | 0 | N/A |
| Burlingame | 263,013 | 0.0% | 0.0% | 0.0% | 0.0% | 2,080 | 0 | N/A |
| San Mateo | 15,300 | 24.8% | 0.0% | 24.8% | 24.8% | (3,800) | 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 | 455,826 | 6.2% | 4.4% | 10.6% | 14.5% | (18,315) | 4,846 | \$3.25 |
| Redwood City | 807,958 | 11.5% | 0.0% | 11.5% | 12.8% | 81,412 | 81,412 | \$3.75 |
| Menlo Park | 1,300,384 | 0.8% | 0.1% | 0.9% | 1.4% | 19,358 | 24,100 | \$4.45 |
| SF Peninsula Total | 5,600,382 | 6.4% | 0.5% | 6.9% | 19.4% | 490,748 | 762,413 | \$4.32 |

remained stable, with South San Francisco maintaining an asking rate of \$1.33/s.f. NNN. The San Carlos submarket recorded a slight jump from \$2.05/s.f. to \$2.10/s.f. NNN. This is partially attributed to increasing demand for space amidst a tight market and the lack of available product. No construction deliveries occurred in the third quarter, and no development projects are in the planning process. As more industrial product becomes re-purposed for office, life science, or residential developments, supply will shrink on the Peninsula. One notable example is the redevelopment of nearly 140,000 s.f. of industrial space at Tanklage Square in San Carlos for Alexandria's District for Science & Technology campus, a 556,000 s.f. office complex.

Investment activity in San Mateo County reached \$27.5 million in sales volume with an average price of \$343/s.f. This brings a year-to-date total of \$171.6 million, with the majority of sales occurring in the North County. LMT Home Corp. purchased a 14,000 s.f. industrial warehouse at 150 Charter Street in Redwood City for \$12 million, or \$857/s.f. This was followed by the sale of 152 Utah Avenue, a 15,000 s.f. property, in South San Francisco for \$4.5 million, or \$296/s.f. Logistics real estate company Prologis completed its stock purchase of DCT Industrial Trust for \$8.5 billion, acquiring its national portfolio. This included nine industrial properties in Brisbane, as well as one in Burlingame, adding to their strong presence in the Bay Area.

R&D

At the end of the third quarter, the R&D market reported 762,413 s.f. of leasing activity and 490,748 s.f. of positive net absorption.

The South San Francisco submarket experienced the majority of this positive absorption at 410,013 s.f., driven by strong activity in the biotech market. This trend was carried into the South County, as Redwood City added 81,412 s.f. of absorption and Menlo Park contributed 19,358 s.f. of absorption. Direct vacancy rates rose to 6.4%, compared to the prior quarter's rate of 4.3%. This is primarily due to existing product becoming available, especially in the South San Francisco submarket. Several R&D projects, totaling over 1.5 million s.f., are currently under construction, all concentrated in the South San Francisco submarket. Phase 3 of HCP's The Cove will add 335,000 s.f. of R&D/biotech product to the market, although both buildings have been pre-leased to tenants such as Alector and Denali Therapeutics.

Asking rates increased from \$3.34/s.f. NNN market wide to \$4.32/s.f. NNN this quarter. South County rates grew, especially in the Redwood City and Menlo Park submarkets. Redwood City currently holds an average asking rate of \$3.75/s.f. NNN, and Menlo Park commands \$4.45/s.f. NNN. Demand for high-quality spaces remains high, especially for Silicon Valley startups looking to establish their presence on the Peninsula.

R&D sale activity reached \$180 million this quarter, bringing a year-to-date total of \$200 million. Landlords are holding onto their properties as the Peninsula's tight market increases their value. Investment activity is expected to continue into the fourth quarter, as buyer demand remains high within this market.

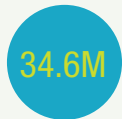
Source: CoStar

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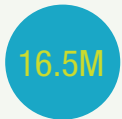
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