

# Life Science

## Notable Transactions

**Merck & Co.**  
213 E Grand Ave, South San Francisco  
294,000 s.f.

**UCSF**  
185 Berry St, San Francisco  
125,000 s.f. (renewal)

**Five Prime Therapeutics**  
111 Oyster Point Blvd, South San Francisco  
115,466 s.f.

**Impossible Foods**  
400 Saginaw Dr, Redwood City  
60,841 s.f.

**Celgene**  
1500 Owens St, San Francisco  
56,000 s.f. (renewal)

**Auris Surgical Robotics**  
150 Shoreline Dr, Redwood City  
54,602 s.f.

**23andMe**  
349 Oyster Point Blvd, South San Francisco  
34,097 s.f.

**Refuge Biotechnologies Inc.**  
1505 Adams Dr, Menlo Park  
17,195 s.f.

**NICE America**  
2091 Stierlin Ct, Mountain View  
14,448 s.f.

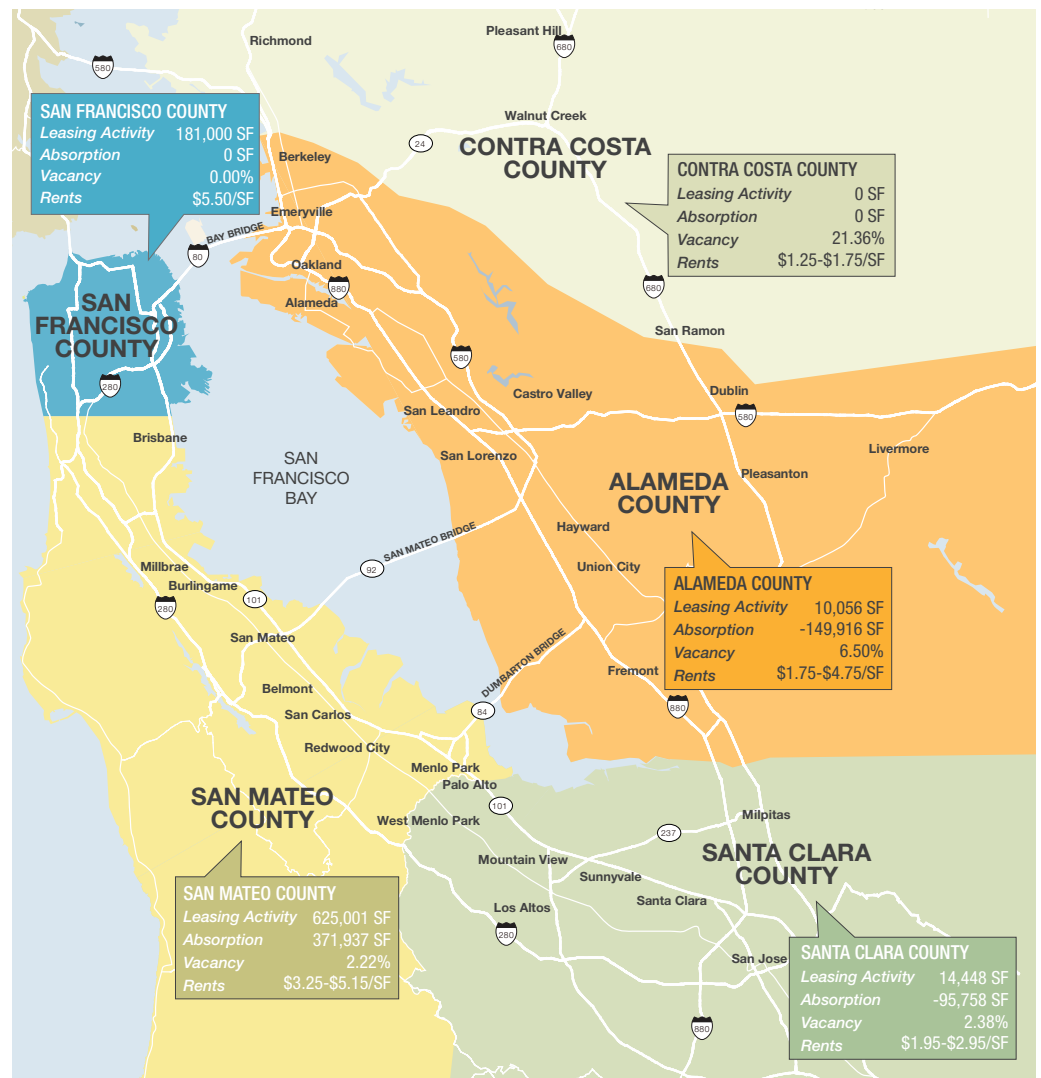
**Perlara**  
6000 Shoreline Ct, South San Francisco  
13,772 s.f.

**BioCardia Inc.**  
125 Shoreway Rd, San Carlos  
13,718 s.f. (renewal)

**Confidential**  
4000 Shoreline Ct, South San Francisco  
13,522 s.f.

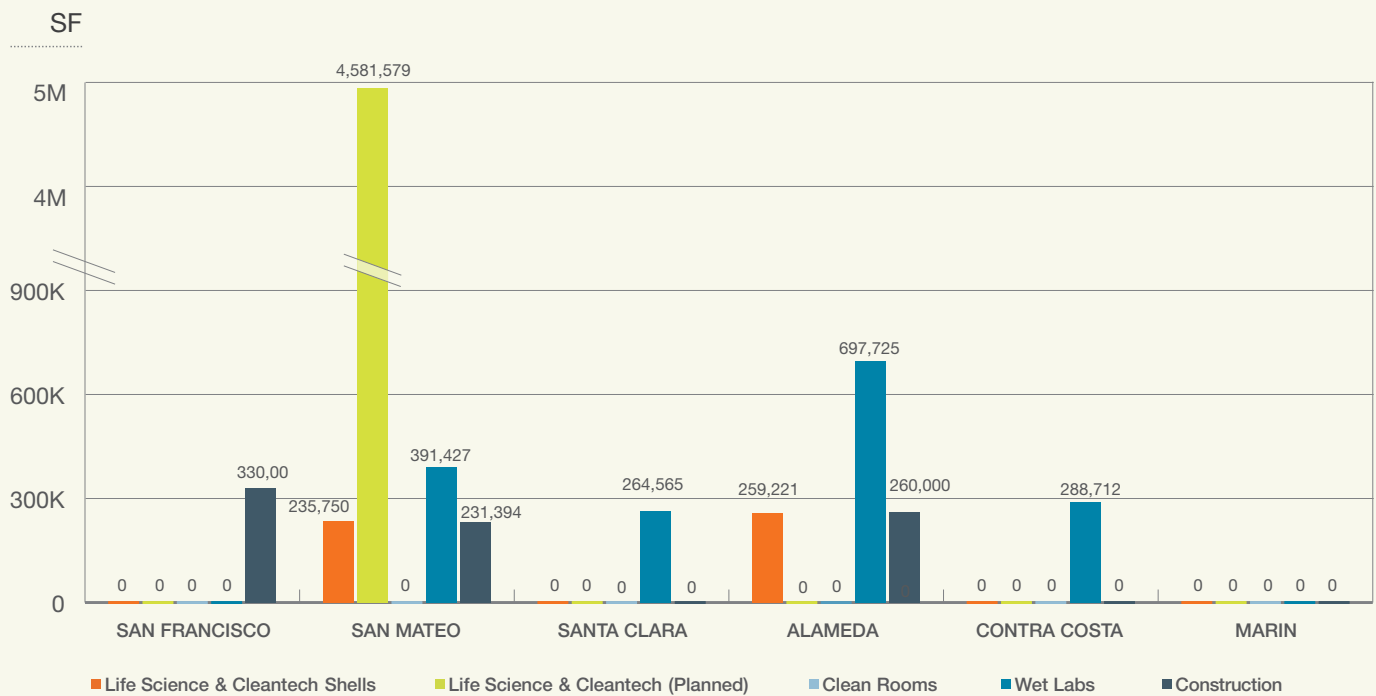
The Bay Area life science market closed the year with a moderately positive fourth quarter, finishing the year with 1,471,569 square feet (s.f.) of positive net absorption. Gross absorption was a strong 830,505 s.f. during the fourth quarter, but new availabilities and expanding tenants vacating their former spaces kept the net gain in occupied life science

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# Area Review

## Availability by County



space to a somewhat modest 126,263 s.f. Despite a reasonably positive quarter, the Bay Area's overall vacancy rate increased slightly, by 41 basis points, to 3.82%, as a result of new supply coming on line. Although the fourth quarter witnessed minor vacancy relief, the Bay Area market remains very tight, forcing some tenants to compromise on the location, size, and configuration of their spaces. Leasing activity is expected to remain stable and positive in 2017, as Kidder Mathews is currently tracking 40 tenants requiring 2.8 million square feet of life science space.

## SUBMARKET REVIEW

### San Francisco County

San Francisco experienced two renewals in the fourth quarter as UCSF retained its 125,000 s.f. of clinical and radiology labs in China Basin Landing and Celgene kept its 56,000 s.f. at 1500 Owens in Mission Bay. The vacancy rate stayed at 0%, but relief is on the horizon with Kilroy Realty's The Exchange on 16th Street project. The 750,000 s.f. development can support life science space throughout its four interconnected buildings, which will sharply increase San Francisco's life science inventory. The project will be weather-tight and ready for tenant improvements during the third and fourth quarters of 2017, with completion set for early to mid-2018. Additional inventory is coming available in first quarter 2017 with the 43,000 s.f. Medivation space at 499 Illinois Street, which will be offered for sublease as a result of their acquisition by Pfizer. The county's asking rental rate remained firm at \$5.50/s.f., NNN.

Future development of life science space in San Francisco is very limited, with no proposed projects currently in planning other than Forest City's Pier 70 development. This project is undergoing an environmental review, and the specific uses for the 28-acre mixed-use commercial development are still unclear.

### San Mateo County

San Mateo County continued its relentless leasing pace, leading all Bay Area counties by a wide margin with 625,001 s.f. of gross absorption and 371,937 s.f. of net absorption. The South San Francisco submarket remains a hotbed for the life science industry with 470,857 s.f. of gross absorption in fourth quarter, which was 57% of the Bay Area's total leasing activity. In the most notable transaction, Merck agreed to terms with Alexandria Real Estate to lease a future 294,000 s.f. development at 213 E Grand Avenue in South San Francisco. Merck currently occupies 100,563 s.f. next door at 630-650 Gateway Boulevard, but will vacate the site after transitioning to their new facility in the first half of 2019. The second major lease of the quarter was executed at HCP's The Cove at Oyster Point, where Five Prime Therapeutics pre-leased the entire 115,466 s.f. building at 111 Oyster Point Boulevard. Similar to Merck's relocation, Five Prime will vacate 81,235 s.f. at 2 Corporate Drive after phase two of The Cove is delivered at the end of 2017. Redwood City also saw two sizeable transactions, as Impossible Foods secured 60,841 s.f. at 400 Saginaw Drive, and Auris Surgical Robotics leased 54,602 s.f. at 150 Shoreline Drive. Additionally, BioCardia renewed 13,718 s.f. in San Carlos, while Refuge Bio and Accuragen leased 17,195 s.f. and 7,788 s.f., respectively, in Menlo Park.

The county's vacancy rate remains miniscule at 2.22%. There were no deliveries of new product during the fourth quarter, but Phase 3 Properties' 200,000 s.f. renovation at the Genesis South Tower in South San Francisco will be completed at the end of the first quarter. Phase 3 Properties also plans to break ground on the 420,000 s.f. North Tower during the second quarter. Phase two of HCP's The Cove at Oyster Point will deliver two buildings totaling 231,394 s.f. during the third quarter of 2017, but both buildings have been pre-leased by AstraZeneca and Five Prime. HCP will break ground on phase three during the first quarter of 2017, delivering two more buildings totaling 335,670 s.f. in 2018. Asking rental rates for San Mateo County have stabilized between \$3.25 and \$5.15/s.f., NNN.

A major sale occurred during the fourth quarter when Genentech exercised options to purchase four office and lab buildings it was leasing from HCP, Inc. at 455-475 East Grand Avenue in South San Francisco. Genentech paid just over \$311 million, or \$735/s.f., which also includes two parking garages. Genentech has occupied these buildings since 2006, and will reportedly acquire four additional buildings from HCP, Inc. in 2018 for roughly \$270 million.

### Santa Clara County

Leasing activity in Santa Clara County continues to be scarce, with just 14,448 s.f. of gross absorption and 95,758 s.f. of negative net absorption during the fourth quarter. As a result, the county's vacancy rate increased 78 basis points to 2.38%. The county's lone notable transaction was NICE America's sublet deal for 14,448 s.f. at 2091 Stierlin Court in Mountain View. Sunnyvale was home to the majority of the newly listed space, as listings on North Pastoria Avenue and Oakmead Parkway combined for 70,856 s.f. Asking rental rates remain relatively affordable in comparison to the Peninsula and East Bay, varying between \$1.95 and \$2.95/s.f., NNN, but tenant interest is limited. There are no specific plans to develop new space for life science use, but a variety of existing and future "flex" projects have the potential to accommodate tenant demand.

### Alameda County

Alameda County's leasing activity in fourth quarter 2016 was limited, mainly due to a lack of available space in the key Emeryville and Berkeley submarkets. The most notable transaction was Cell Design Labs 10,056 s.f. lease at 5858 Horton Street in Emeryville. Net absorption was negative 149,916 s.f., due to several new availabilities including 83,620 s.f. of dated Grifols lab space at 6455 Christie Street in Emeryville. However, this space will not be available until year end 2018. Vacancy in Alameda County is now 6.50%, an 81 basis point increase over the previous quarter. Wareham Development's 260,000 s.f. EmeryStation West project, which is scheduled to be closed in and ready for tenant improvements in third quarter 2017, is the biggest development currently under construction. This prime Class-A development will provide welcomed supply to a tight market with pent-up demand. Despite some new availabilities, asking rental rates continue to range between \$1.75 and \$4.75/s.f., NNN.

### Contra Costa County

Contra Costa County saw minimal activity as roughly 288,000 s.f. remains vacant, which equates to a vacancy rate of 21.36%. Asking rental rates currently fall between \$1.25 and \$1.75/s.f., NNN, but tenant interest remains limited despite this lower pricing relative to the rest of the region.

### Q4 Venture Capital Financing

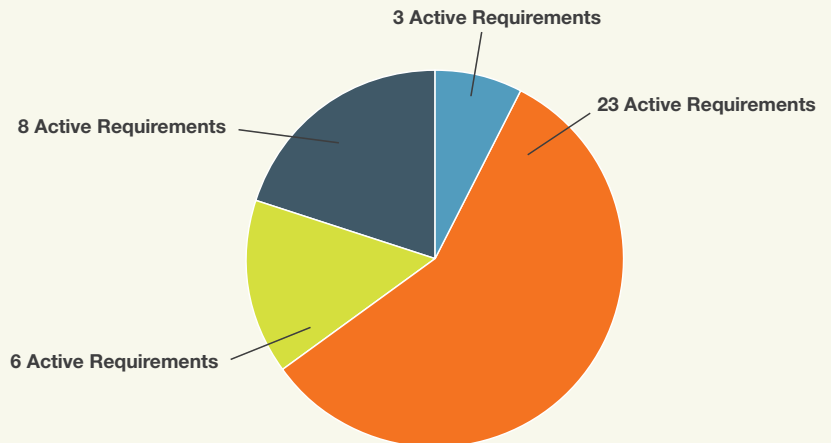
Series Type	\$ Funded
Seed Stage	\$0
Series A	\$107,900,000
Series B	\$44,900,000
Series C	\$45,000,000
Series D	\$81,000,000
Series E	\$0
Series F	\$0
Series G	\$0
Undisclosed	\$1,019,700,000
Mezzanine	\$0
Corporate Partnership	\$145,000,000
Debt/Equity Financing	\$0
IPO	\$0
<b>Total</b>	<b>\$1,443,500,000</b>

Month Funded	# of Companies
October	10
November	5
December	7
<b>Total</b>	<b>22</b>

### Demand for Life Science Space

- 0 -9,999 SF
- 10,000 - 49,999 SF
- 50,000 - 99,999 SF
- 100,000 - 800,000 SF

TOTAL SQUARE FOOTAGE IN DEMAND  
2,815,000 SF



## 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

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

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Designated Broker  
Reed Payne | LIC #00818935

## Kidder Mathews Life Science A COMMITMENT TO EXCELLENCE

Kidder Mathews is a corporate real estate advisory and brokerage firm. Our Life Sciences real estate practice specializes in the unique requirements of companies within this industry sector. We partner with our clients to define and refine an acquisition strategy and then develop a real estate solution that best fits the company's business model and growth. Kidder Mathews' superior market knowledge delivers more options to our clients, which have enabled them to achieve better transaction economics, and a reduction of capital costs while minimizing their out of pocket expense.

Key strategic real estate decisions focus on:

- The type of facilities required
- The timing of the requirement
- How to acquire the real estate and the occupancy costs
- How to finance the tenant improvements

The Kidder Mathews Life Science advantage:

- Strategic real estate planning
- Real estate acquisition services
- Financial analysis
- Real estate disposition services
- Specialized LABS database

Our objective is to assist our clients in developing real estate strategies and solutions to support overall business objectives and to enhance shareholder value.

Strategic Advantage – Increases our client's leverage during the negotiation process.

Strategic Advantage – The strategic planning process results in optimal real estate occupancy cost savings.

A well conceived real estate strategy becomes the blueprint for a successful real estate transaction. This is where Kidder Mathews positions the client to continue its development and growth without the company's real estate becoming a physical or financial constraint.

We have developed the most comprehensive life science database in the commercial real estate industry. Kidder Mathews' specialized database provides clients with the following key strategic advantages:

- Tracks current available wet laboratory spaces
- Tracks wet laboratory spaces that will be coming on-line over the next twenty-four (24) month period
- Tracks lease expiration dates of current life science tenants
- Tracks current life science requirements in the market
- Tracks companies that are getting funded
- Tracks companies that are in the midst of re-structuring and M&A discussions

Kidder Mathews' Life Science real estate practice has a combined experience of 90 years in executing complex real estate solutions that meet our clients' real estate needs. Kidder Mathews would like to be your real estate and facilities strategic partner. Let us handle all of your real estate and facilities needs while you remain focused on driving your company's success.

## Kidder Mathews Services

Kidder Mathews realizes that a lease transaction is only part of a larger process, and that life science tenants require a wide range of other high quality specialized service providers. To assist our clients, we have relationships with experts in all of the required disciplines: corporate business strategizing, project/construction management, licensing, permits, and code compliance, furniture and equipment, manufacturing systems advisory, third party improvement financing, legal, recruitment, moving, telecommunications, and architecture.