

Life Science

Notable Transactions

Zymergen

1650 65th St, Emeryville
125,150 s.f.

Exelixis

1751, 1801, 1851 Harbor Way Pkwy, Alameda
110,783 s.f.

Calico Life Sciences

1170 Veterans Blvd, South San Francisco
66,300 s.f. (renewal & expansion)

Zosano Pharma

34790 Ardentech Ct, Fremont
55,588 s.f. (renewal)

Confidential

1605 Adams Dr, Menlo Park
47,547 s.f.

VIR Biotechnology

499 Illinois St, San Francisco
43,625 s.f.

Auris Surgical Robotics

130 Shoreline Dr, Redwood City
26,967 s.f.

Encoded Genomics

343 Oyster Point Blvd, South San Francisco
24,900 s.f.

Alkahest

75 Shoreway Rd, San Carlos
18,000 s.f. (renewal & expansion)

MacroGenics

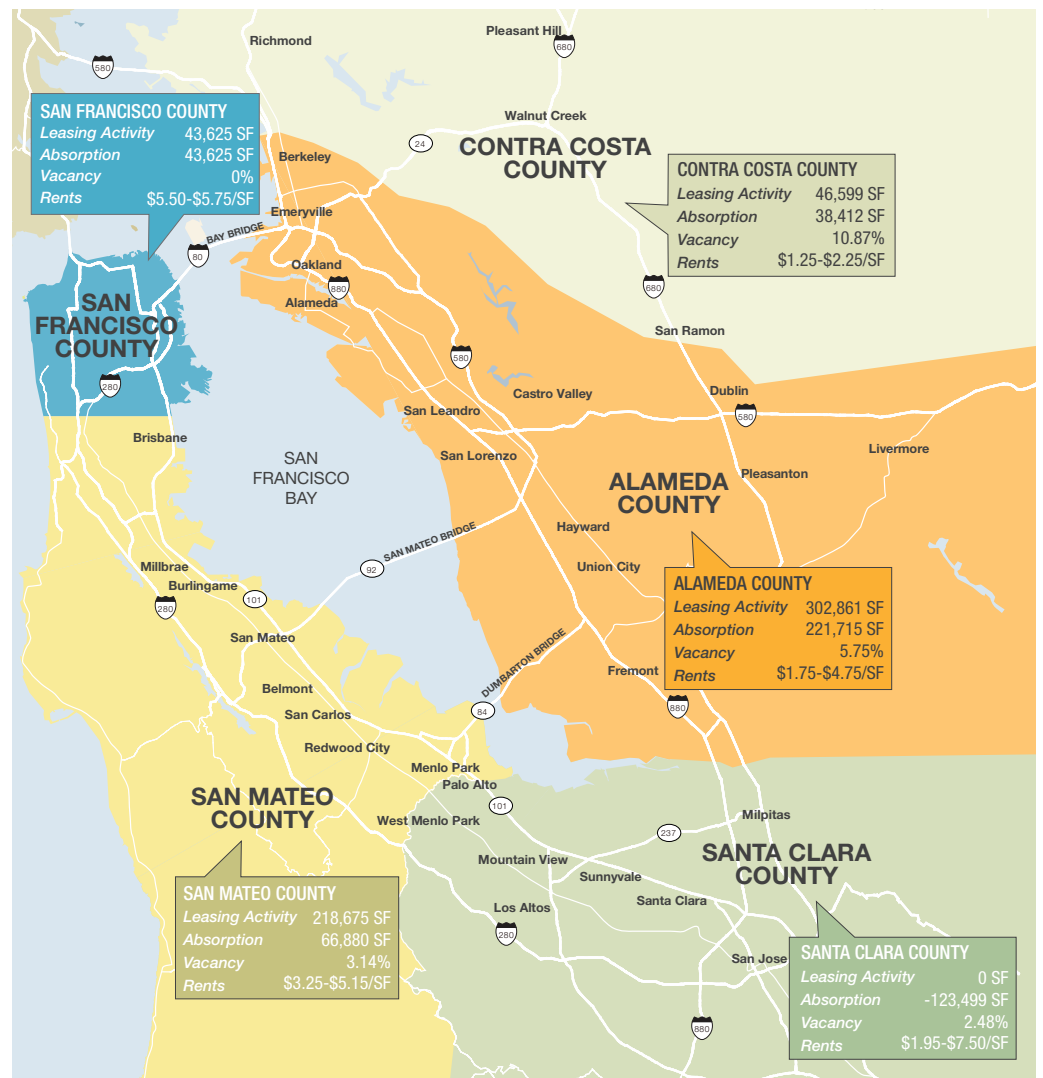
3280 Bayshore Blvd, Brisbane
17,531 s.f.

Unity Biotechnology

3280 Bayshore Blvd, Brisbane
11,514 s.f.

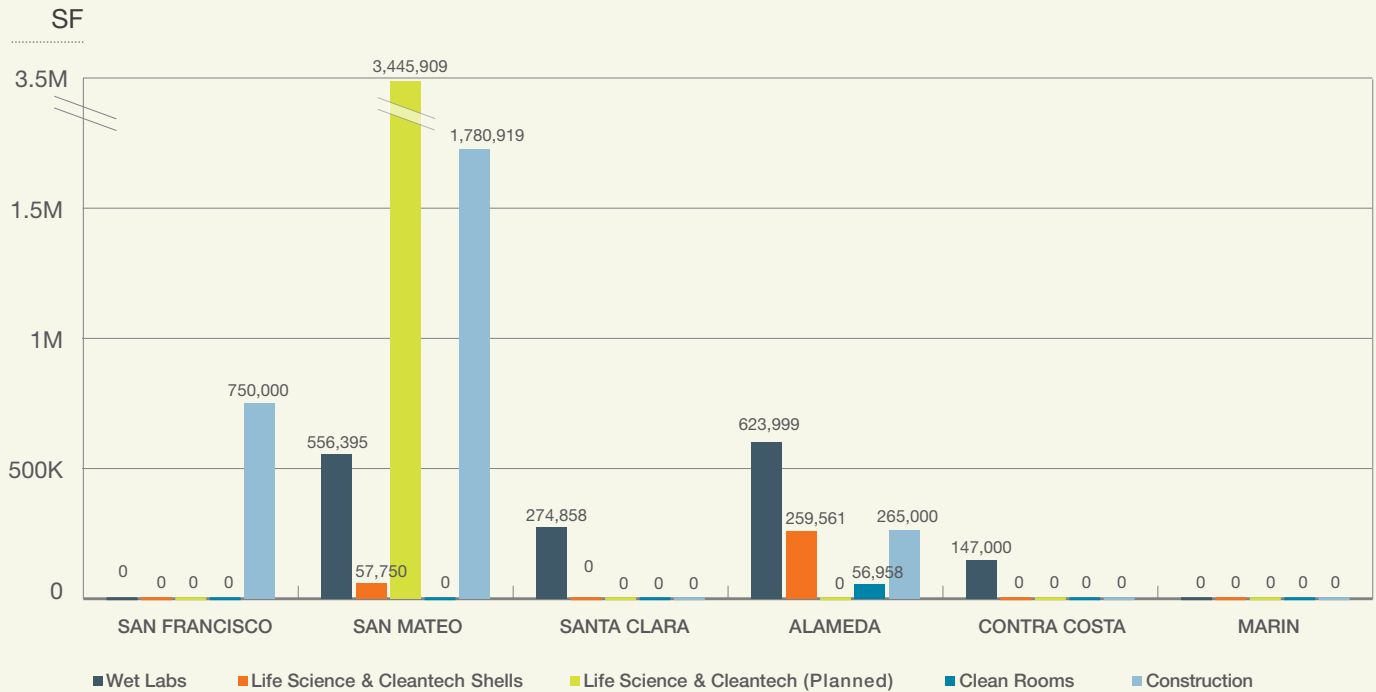
Leasing activity continues to be robust within the Bay Area's life science market as the second quarter finished with 611,760 square feet (s.f.) of gross absorption and 247,133 s.f. of positive net absorption. San Mateo County and Alameda County remain dominant locations as they accounted for 85% of the Bay Area's leasing activity. This contributed to a 0.3%

→ Continued, page 2



Area Review

Availability by County



decline in the overall vacancy rate, which currently stands at 3.71%. Tenant demand remains abundant as there are currently 38 tenants in the market requiring 3.41 million square feet of life science space. Although venture capital funding declined 15.9% over the previous quarter, it remains quite strong as the second quarter experienced 28 successful rounds totaling \$1.9 billion. The average deal volume declined 9.9% to \$68 million. No new life science product was delivered during the second quarter, but the amount of space under construction increased to 2.8 million square feet. The majority of product set to be delivered in 2017 remains pre-leased or in negotiations, and limited availabilities will continue to create challenges for tenants seeking product suitable to their requirements. Strong tenant demand and competition is expected to generate healthy leasing activity during the second half of 2017, but overall activity will likely be hindered by the limited availabilities.

SUBMARKET REVIEW

San Francisco County

San Francisco completed a single major transaction as recently established VIR Biotechnology acquired Medivation's former space at 499 Illinois Street in Mission Bay. The 43,625 s.f. space ended up being acquired on a direct basis after it was listed for sublease following Pfizer's acquisition of Medivation. The transaction brings San Francisco's vacancy rate back to 0%, leaving Kilroy Realty's 750,000 s.f. Exchange on 16th Street project as the only space expected to come to market in the near future. The project will be ready for tenant improvements during the third and fourth quarters of 2017, and move-in ready during the summer and fall of 2018. The county's asking rental rate continues to lead the Bay Area as it ranges between \$5.50 and \$5.75/s.f., NNN.

San Mateo County

Although more modest than recent quarters, leasing continued to be active throughout San Mateo County as it finished with 218,675 s.f. of

gross absorption and 66,880 s.f. of positive net absorption. The county's vacancy rate subsequently declined 0.26% to an extraordinary 3.14%. South San Francisco led the way with Calico Life Sciences being the most notable transaction. The Google-backed company renewed 56,000 s.f. and expanded into an additional 9,300 s.f. at 1170 Veterans Boulevard. Encoded Genomics also agreed to terms for Calithera's 24,900 s.f. sublease at 343 Oyster Point Boulevard. Menlo Park followed up with a confidential tenant securing 47,547 s.f. at 1605 Adams Drive, while Brisbane concluded two transactions at 3280 Bayshore Boulevard. MacroGenics first procured 17,531 s.f., while Unity Biotechnology expanded into an additional 11,514 s.f. Redwood City also remained active with Auris Surgical Robotics expanding into the remaining 26,967 s.f. at 130-150 Shoreline Drive, which comes shortly after the company occupied 54,602 s.f. during the fourth quarter of 2016. Alkahest conducted the Peninsula's final transaction when they renewed 12,763 s.f. and expanded by roughly 5,237 s.f. at 75 Shoreway Road in San Carlos.

The amount of life science product under construction increased to 1.78 million square feet, but the county will remain constricted for the foreseeable future. Of the 556,395 s.f. of available existing product, only 64% is immediately available. Phase two of HCP's The Cove will deliver 215,027 s.f. at year end, but both buildings have been pre-leased by AstraZeneca and Five Prime Therapeutics. The next delivery won't occur until the third quarter of 2018 when phase three of The Cove delivers two more buildings totaling 335,670 s.f. Phase 3 Properties will then deliver their 420,000 s.f. Genesis North Tower during the first quarter of 2019. Alexandria Real Estate will correspondingly deliver 293,855 s.f. at 213 East Grand Avenue during the first quarter of 2019, but Merck is fully committed to the project. The final scheduled delivery is BioMed Realty's phase one of the Gateway of Pacific project, which broke ground this quarter and will deliver 500,000 s.f. during the third quarter of 2019. Alexandria Real Estate completed the second quarter with an \$85 million transaction for a six-building, eight-acre property in San Carlos. The

property will eventually be redeveloped for the 560,000 s.f. Meridian25 project, but it's unclear if life science use will be secured. Asking rental rates in San Mateo County continue to vary between \$3.25 and \$5.15/s.f., NNN.

Santa Clara County

Santa Clara County was inactive for the second consecutive quarter. The county's vacancy rate increased 0.51% to 2.48%, which was mostly attributed to Theranos placing 1701 Page Mill Road in Palo Alto on the market for sublease. The 116,172 s.f. building served as the company's headquarters. Asking rental rates generally remain inexpensive relative to the surrounding markets as they fall between \$1.95 and \$7.50/s.f., NNN, but tenant interest remains limited. There are no major development plans for life science use, but existing and future "flex" space could potentially accommodate interested tenants. One of these accommodations could potentially come from Alexandria Real Estate's \$85 million acquisition of 1450 Page Mill Road in Palo Alto. Tech company Infosys is currently listing the 77,634 s.f. building for sublease, but the building was never occupied and remains in shell condition. It's unclear if life science use would be a viable option.

Alameda County

Alameda County experienced a vigorous quarter as it hosted the Bay Area's two largest transactions and finished with 302,861 s.f. of gross absorption and 221,715 s.f. of positive net absorption. Zymergen executed the Bay Area's largest transaction when they leased 125,150 s.f. at 1650 65th Street in Emeryville, which will be used for manufacturing and processing. Exelixis' relocation from South San Francisco led to the second largest transaction as the company committed to 110,783 s.f. in Alameda. Zosano followed up with a 55,588 s.f. renewal at 34790 Ardentech Court in Fremont, while Advanced Cell Diagnostics expanded into another 11,340 s.f. at Newark's Pacific Research Center. The county remains fairly constricted with a 5.75% vacancy rate, but minor vacancy relief is on the horizon as Wareham Development's EmeryStation West project will deliver 265,000 s.f. of warm shell product during the third quarter of 2017. Asking rental rates held steady between \$1.75 and \$4.75/s.f., NNN.

Contra Costa County

Contra Costa County continued to see activity within the JOINN Innovation Park in Richmond. Approximately 20,000 s.f. was leased in Building B, while an additional 26,599 s.f. in Building C will be occupied by a Contract Research Organization affiliated with the ownership. Richmond's leasing activity led to a 7.16% decline in the county's overall vacancy rate, which currently stands at 10.87%. Asking rental rates continue to be a bargain as they vary between \$1.25 and \$2.25/s.f., NNN.

Q2 Venture Capital Financing

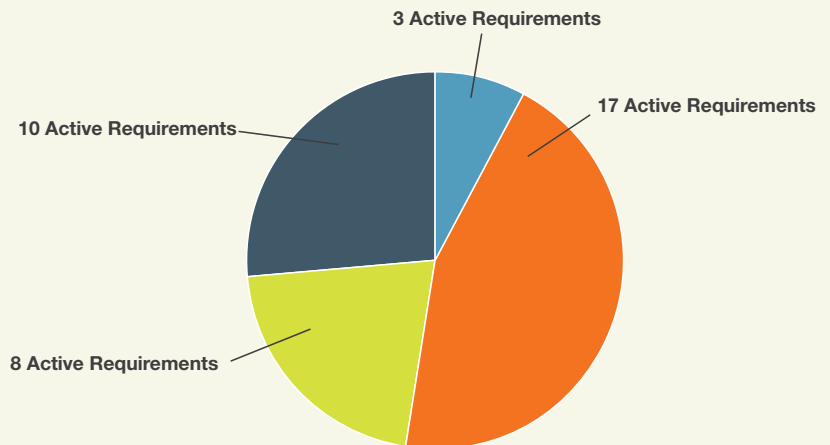
Series Type	\$ Funded
Seed Stage	\$0
Series A	\$58,200,000
Series B	\$115,000,000
Series C	\$121,000,000
Series D	\$40,000,000
Series E	\$0
Series F	\$0
Series G	\$0
Undisclosed	\$1,169,100,000
Mezzanine	\$0
Corporate Partnership	\$0
Debt/Equity Financing	\$0
IPO	\$0
Acquisition	\$400,000,000
Total	\$1,903,300,000

Month Funded	# of Companies
April	3
May	11
June	14
Total	28

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
3,410,000 SF



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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.