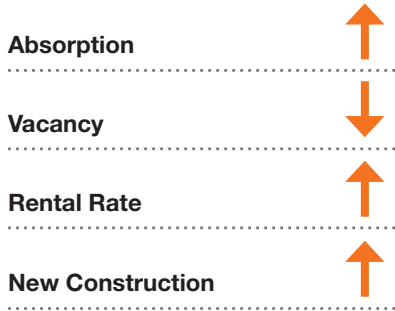


Peninsula Office

Market Forecast

Trends



Notable Lease Transactions

ABS-CBN
2001 Junipero Serra Blvd, Daly City
44,503 s.f.

Bright Edge
989 E Hillsdale Blvd, Foster City
36,542 s.f.

Rakuten
800 Concar Dr, San Mateo
29,282 s.f.

***Helix**
1 Circle Star Way, San Carlos
27,239 s.f.

**sublease*

Notable Sale Transactions

Beacon Capital Partners
1825, 1855, 1875 S Grant St, San Mateo
394,042 s.f. | \$173.38 million

Blackstone Real Estate Partners
900 & 2000 Alameda de las Pulgas
San Mateo
241,950 s.f. | \$ N/A
(part of 7 building portfolio sale)

New York Life Investments
1350 Bayshore Hwy, Burlingame
195,739 s.f. | \$53.4 million

The Peninsula office market rebounded in the second quarter with 327,926 s.f. of positive net absorption, which cut the vacancy rate to 9.1%. The northern and southern regions of San Mateo County experienced the majority of activity as they combined for 370,992 s.f. of positive net absorption. Leasing activity for the first half of 2016 has now seen a 16% increase compared to the first half of 2015. The Peninsula has experienced 2.4 million s.f. of positive net absorption since the third quarter of 2011, with 1.5 million s.f. coming in the last two years. Despite a tightening market and record rental rates, the Peninsula market continues to experience strong demand. Absorption and rental rates are expected to remain stable for the rest of 2016, but relief for rental rates may be in sight.

Rental rates for the Peninsula may be nearing this cycle's peak as the average asking rate rose a marginal 0.4% since the previous quarter to \$4.44/s.f., FS. South San Francisco witnessed the highest quarter-over-quarter rent increase as it grew 2.7% to \$3.36/s.f., FS. This increase is primarily attributed to the life science sector's growing demand for office space, as well as spillover from San Francisco companies seeking rent relief while remaining in the northern region of the Peninsula. Many of the remaining submarkets encountered unwavering or marginal rent increases, with Menlo Park being the exception after it saw a 1.3% reduction in average asking rents. This is likely the result of a 0.7% increase in vacancy, which stands at 11.5%, making this the fifth consecutive quarter in which Menlo Park's vacancy rate has increased. Leasing activity continues to be strong as rental rates remain considerably lower than those of Palo Alto, Mountain View, and San Francisco.

Net absorption was positive 327,926 s.f. during the second quarter, making it the sixteenth positive quarter in the last five years. Daly City was home to the most notable lease transaction after ABS-CBN acquired 44,503 s.f. at the newly renovated 2001 DC Station building. Among Peninsula submarkets, Redwood City led the way with 106,891 s.f. of positive net absorption after continued leasing from the life science sector, as Karius, Inc. absorbed 25,250 s.f. at 975 Island Drive. Menlo Park followed up with 86,286 s.f., while Brisbane rounded out the top three submarkets with an additional 68,575 s.f. The only submarket to experience a significant loss in absorption was San Mateo, which shed

→ Continued, page 2

Area Review

Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Vacancy	Sublease Vacancy	Net Absorption YTD	Direct Vacant Rate	Direct Avg Rate
Daly City	41	1,456,775	267,388	2,659	8,527	18.40%	\$3.55
Brisbane	14	993,809	270,770	18,552	68,575	27.20%	\$3.53
South San Francisco	90	5,301,866	542,021	105,290	(600)	10.20%	\$3.36
San Bruno/Millbrae	49	1,714,582	93,368	640	24,423	5.40%	\$2.76
Burlingame	83	2,812,070	136,829	5,887	29,272	4.90%	\$3.41
North County Totals	277	12,279,102	1,310,376	133,028	130,197	13.22%	\$3.32
San Mateo	167	7,441,891	648,512	71,715	(71,792)	8.70%	\$4.33
Foster City	34	2,500,256	328,141	59,365	27,385	13.10%	\$4.58
Central County Totals	201	9,942,147	976,653	131,080	(44,407)	10.90%	\$4.46
Redwood Shores	48	3,012,344	216,052	26,023	106,891	7.20%	\$4.65
Belmont/San Carlos	47	1,424,934	88,779	88,392	17,874	6.20%	\$4.58
Redwood City	161	5,389,868	184,417	24,710	29,744	3.40%	\$4.77
Menlo Park	179	5,411,422	624,660	26,276	86,286	11.50%	\$6.55
South County Totals	435	15,238,568	1,113,908	165,401	240,795	7.08%	\$5.14
Total	913	37,459,817	3,400,937	429,509	327,926	9.10%	\$4.44

71,792 s.f. This was the first time since the second and third quarters of 2012 that San Mateo experienced back-to-back quarters with negative absorption.

Available sublease space remained relatively unchanged since the previous quarter as a total of 930,280 s.f. remains available. This is generally seen as a positive indication of the market's health, but it should be noted that the submarkets of San Mateo and Redwood City encountered a significant increase in available sublease space. San Mateo saw its sublease space surge 34% to 227,439 s.f., while Redwood City's sublease availability skyrocketed 38% to 247,217 s.f. Much of this is attributed to large companies placing "big-block" space back on the market as they bank space for future growth. SunEdison listed 53,508 s.f. in Belmont at 500-600 Clipper Drive, followed by another 52,038 s.f. that was listed at 1051 E Hillsdale Boulevard in Foster City. Saba Software is also looking to unload 48,384 s.f. at 2400 Bridge Parkway in Redwood City. In addition to "big-block" subleases being added to the market, there is the addition of tech spaces under 7,000 s.f. This is a result of lower levels of funding from venture capitalists. With investors allocating more money towards established companies who are considered a safer investment, newer startups have been unable to fulfill new rounds of funding and can no longer fulfill their lease obligations.

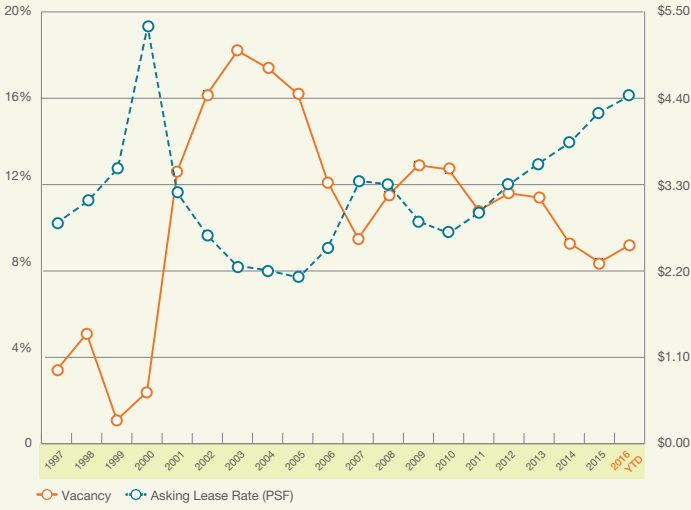
There were six investment sales during the second quarter, with the mid-Peninsula experiencing significant investment activity. Altogether, there were nine buildings and 917,721 s.f. that changed hands. Beacon Capital Partners carried out the largest transaction as they acquired The Crossroads, a three-building Class A campus in San Mateo totaling 394,042 s.f., for \$173.38 million (\$440/s.f.). Blackstone Real Estate Partners followed up by purchasing seven West Coast properties from Hines REIT, which included 241,950 s.f. of Class B space at 1900-2000 Alameda de las Pulgas in San Mateo. The third major sale included the 195,739 s.f. One Bay Plaza,

located at 1350 Bayshore Highway in Burlingame. New York Life Investments acquired the Class A property from Hudson Pacific Properties for \$53.4 million (\$273/s.f.), and plans to invest an additional \$5 million in renovations. As companies continue to expand north of Silicon Valley, investors have been looking to capitalize on the increased demand within the mid-Peninsula market. This is further emphasized by H&Q Asia's procurement of 555-557 Airport Boulevard in Burlingame at the end of 2015, and Genzon's proposed Burlingame Point office development, which would provide an additional 767,000 s.f.

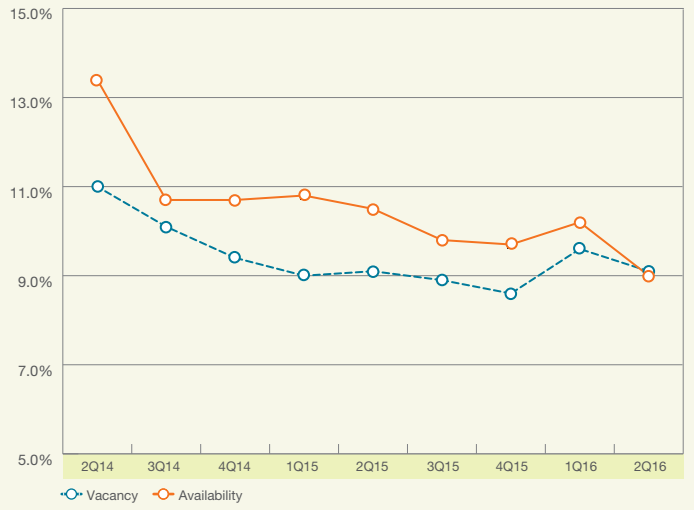
There was no new office development delivered this quarter, but the newest project to begin construction was Dostart Development's 133,000 s.f. project located at 601 Marshall Street in Redwood City. Situated in the downtown core just two blocks away from Caltrain, 601 Marshall is in a highly sought after location which recently increased its asking rate to \$6.50/NNN. The project will not be ready for occupancy until the end of 2017, but it will provide much needed relief to the downtown Redwood City market, which has a vacancy rate near 3.5%. An additional 1.12 million s.f. remains under construction throughout the Peninsula, but nearly half of that space has been pre-leased to companies such as Medallia, SurveyMonkey, GoPro, and Motif. The second phase of Bay Meadows in San Mateo is the last remaining project set for a 2016 delivery that has not been pre-leased, and it will provide 174,000 s.f. As for newly approved projects, San Carlos' City Council approved the 560,000 s.f. Class A office complex proposed by Windy Hill Property Venture's, which will continue the transformation of Industrial Road. The Meridian25 project is hoping to capture a major tech tenant, while bringing an identity and stability to the smaller San Carlos office market that consists of only 1.4 million s.f.

Source: CoStar

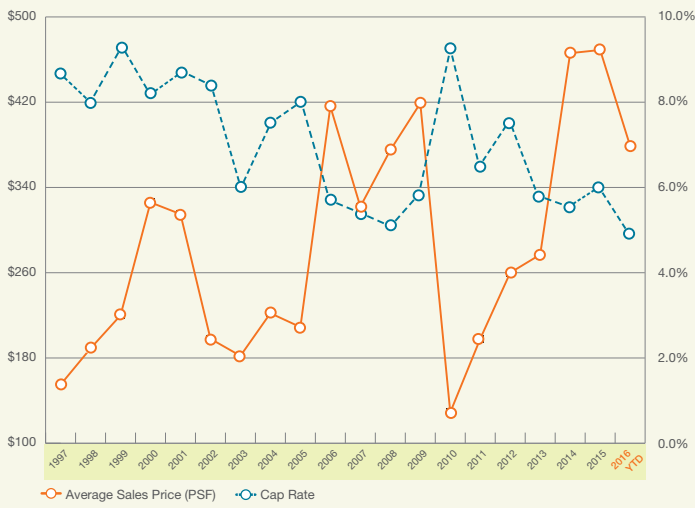
VACANCY VS ASKING LEASE RATE



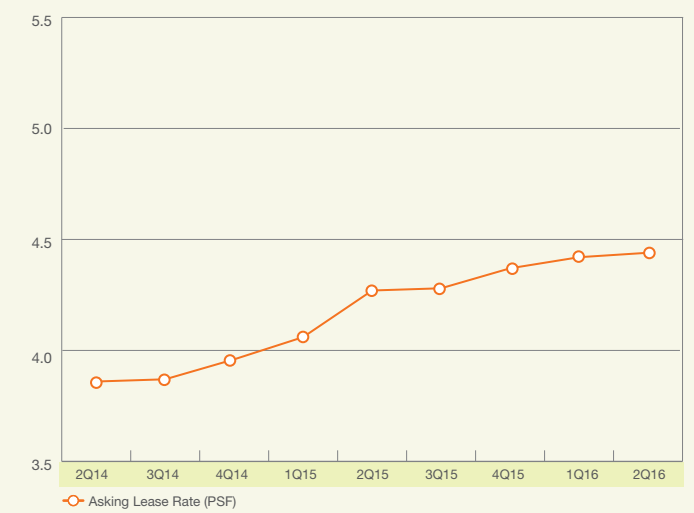
VACANCY VS AVAILABILITY



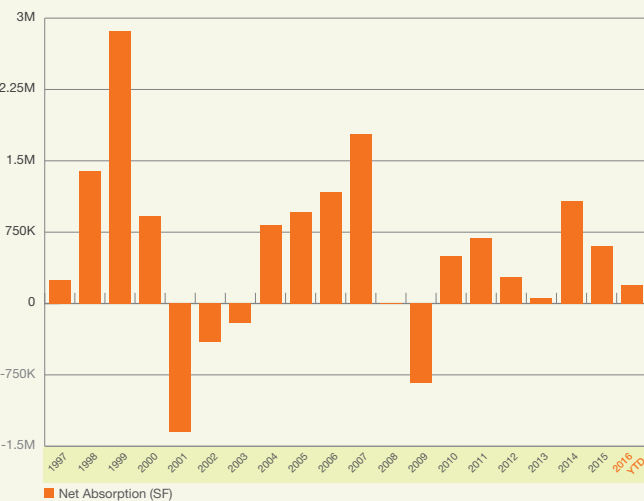
AVERAGE SALES PRICE & CAPITALIZATION RATES



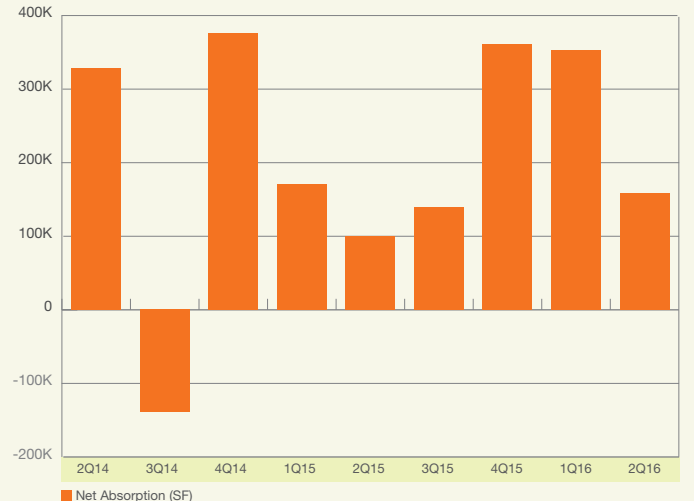
DIRECT ASKING LEASE RATE



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
916.751.3600

San Diego
858.509.1200

Orange County
949.557.5000

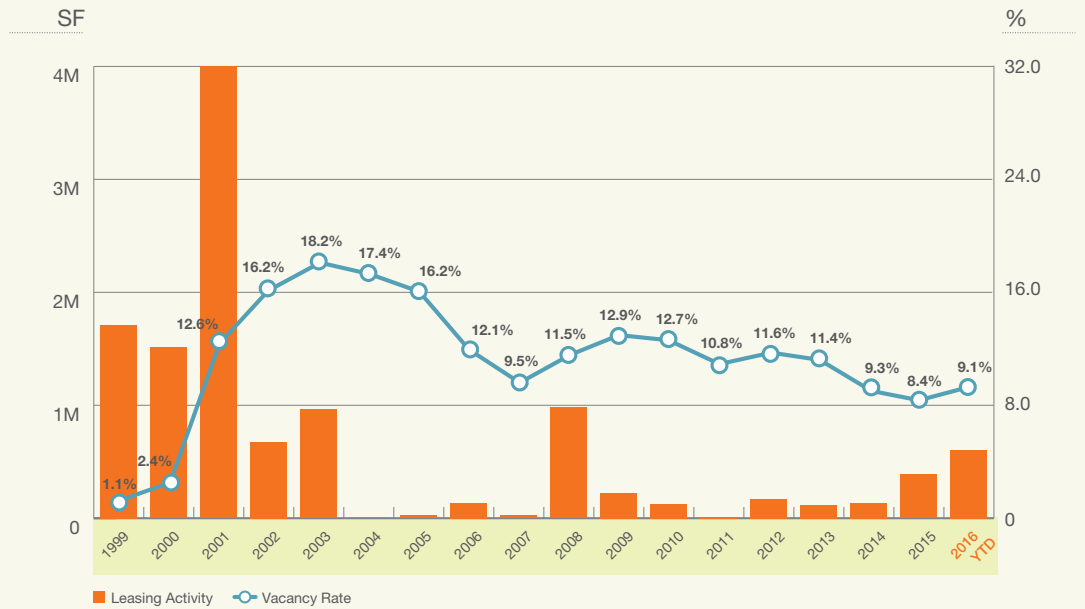
Phoenix
602.513.5200

Reno
775.301.1300

Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	9.1%	9.6%	9.1%	0.0%
Availability Rate	9.4%	10.5%	10.3%	-8.7%
Asking Lease Rate	\$4.44	\$4.42	\$4.27	4.0%
Sold SF	985,075	3,459,080	3,890,592	-74.7%
Net Absorption	327,926	-134,676	21,722	N/A

HISTORICAL NEW CONSTRUCTION & VACANCY RATES

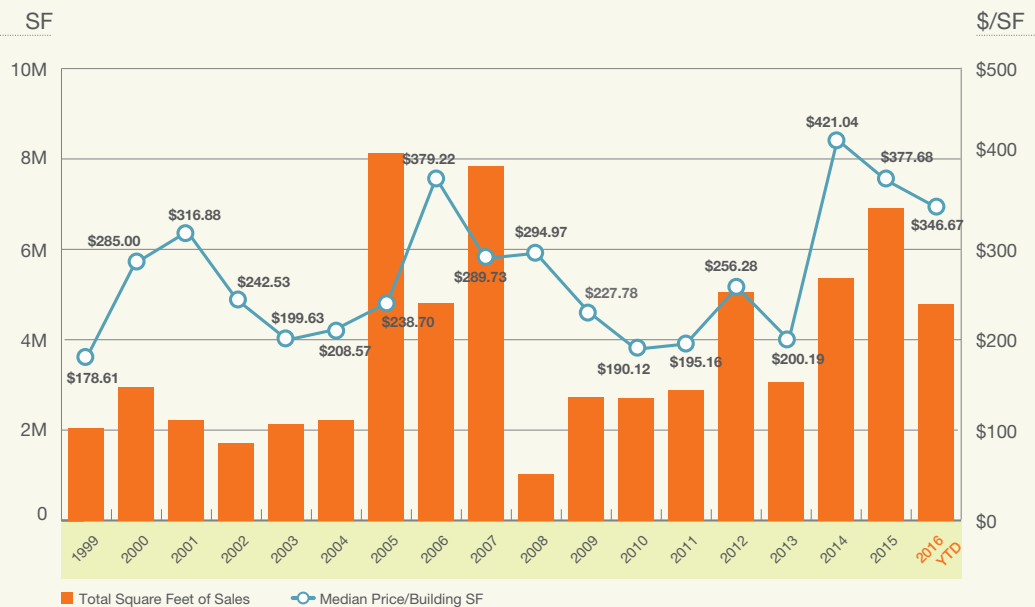


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