

Peninsula Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Open Text
2950 S Delaware St, San Mateo
108,015 s.f.

Chan Zuckerberg Initiative LLC
2075 Broadway, Redwood City
102,079 s.f.

Goodwin Procter
601 Marshall St, Redwood City
101,796 s.f.

Qualys
919 E Hillsdale Blvd, Foster City
75,275 s.f.

Notable Sale Transactions

Deutsche Asset & Wealth Management
275 Middlefield Rd, Menlo Park
\$175.25M | \$1,203/s.f.

The Blackstone Group LP
1900 & 2000 Alameda De Las Pulgas
San Mateo
\$84M | \$331/s.f.

Westlake Realty Group Inc.
1301 Shoreway Rd, Belmont
\$61M | \$416/s.f.

Meridian Property Co.
1000 Marina Blvd, South San Francisco
\$28.6M | \$274/s.f.

The Peninsula office market continued to send mixed signals as the fourth quarter began, but several indicators point towards a healthy market as we head into 2017. Leasing activity for existing space was relatively sluggish, but the county's vacancy rate remained stable as existing tenants and landlords were reluctant to put space back on the market. While speculation of a declining market lingered throughout the year, several fourth quarter pre-leases in Redwood City, San Mateo, and Burlingame suggested that demand for space remains robust. Proximity to public transportation continues to be a high priority as companies look to improve employee commute times and attract the best talent. Leasing activity, including pre-leasing, is expected to continue in the first half of 2017 as demand remains steady, but it'll likely fall short of the unprecedented levels seen in previous years.

Rental rates remained stable as the demand from traditional office tenants and life science companies stayed strong. The average rental rate for San Mateo County increased just 0.5% over the previous quarter to \$4.47/s.f., fully serviced. The San Bruno and Millbrae submarket rent remains, \$2.80/s.f. FS, considerably cheaper than surrounding submarkets, allowing for the highest quarter-over-quarter increase of 1.5%. Menlo Park became the lone submarket to experience a declining average rental rate after a marginal drop to \$6.53/s.f., FS.

There were no building completions in the fourth quarter. The amount of square footage under construction increased slightly to 1.35 million s.f., but roughly 58.6% of this space has already been pre-leased. The second phase of Bay Meadows, which will be delivered in the fourth quarter, saw two floors pre-leased during the fourth quarter. Additionally, Dostart Development agreed to pre-lease four floors at their 601 Marshall Street project, which will be delivered at the end of 2017. Four major projects are also scheduled to break ground in the first half of 2017. Dewey Land Company's 56,000 s.f. building at 225 California Street in Burlingame will begin construction at the end of the first quarter, while Lane Partner's 116,000 s.f. project at 2075 Broadway in Redwood City will break ground during the second quarter. The office space for

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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	1,456,482	229,599	0	32,267	15.80%	\$3.55
Brisbane	14	1,013,756	285,879	0	16,039	28.20%	\$3.57
South San Francisco	90	5,103,279	307,045	0	46,099	6.00%	\$3.39
San Bruno/Millbrae	49	1,708,890	71,239	5,000	(11,828)	4.20%	\$2.80
Burlingame	83	2,824,590	160,884	34,678	38,997	5.70%	\$3.45
North County Totals	277	12,106,997	1,054,646	39,678	121,574	11.98%	\$3.35
San Mateo	170	7,609,534	711,153	130,406	27,946	9.30%	\$4.39
Foster City	34	2,500,285	297,292	52,038	21,369	11.90%	\$4.62
Central County Totals	204	10,109,819	1,008,445	182,444	49,315	10.60%	\$4.45
Redwood Shores	47	2,930,775	270,332	70,764	16,510	9.20%	\$4.70
Belmont/San Carlos	44	1,222,134	9,445	111,589	44,200	0.80%	\$4.58
Redwood City	164	5,440,740	200,272	26,430	190,345	3.70%	\$4.78
Menlo Park	179	5,411,089	403,031	27,115	(55,300)	7.40%	\$6.53
South County Totals	434	15,004,738	883,080	235,898	195,755	5.28%	\$5.38
Total	915	37,221,554	2,946,171	458,020	366,644	7.90%	\$4.47

both of those projects was fully pre-leased during the past quarter. Phase 3 Properties is expected to break ground on their 400,000 s.f. office and lab building at 2 Tower Place in South San Francisco, which will be known as the Genesis North Tower. The final project to break ground in the second quarter 2017 will be Windy Hill Property Venture's mixed-use redevelopment at 405 4th Avenue in San Mateo, which will include 56,000 s.f. of office space. With regard to future developments, Jay Paul's proposed Harbor View Plaza redevelopment site in Redwood City was downsized to less than 900,000 s.f. after the city's planning department rejected the original proposal for 1.3 million s.f.

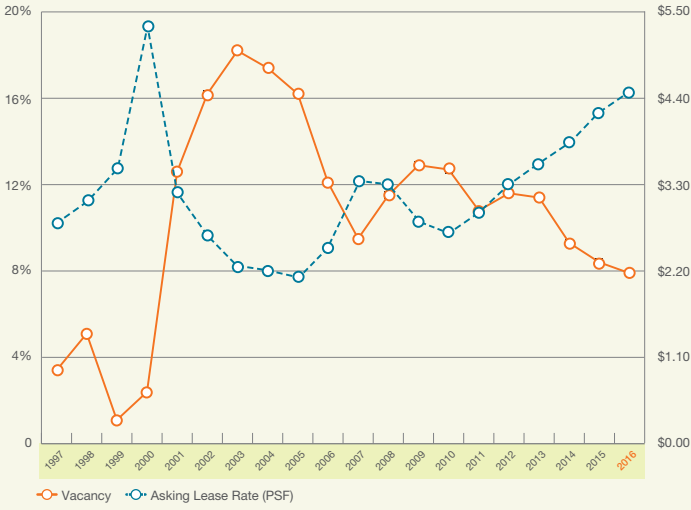
The Peninsula market finished 2016 on a high note with 366,644 s.f. of positive net absorption, which capped a vigorous year that witnessed just over 1 million s.f. of total net absorption. San Mateo was home to the most notable lease transaction after Open Text agreed to pre-lease 108,015 s.f. at Bay Meadows. Redwood City also encountered significant pre-leasing, which allowed it to be the most active submarket with 190,345 s.f. of positive net absorption. The Chan Zuckerberg Initiative pre-leased 102,079 s.f. at 2075 Broadway, while law firm Goodwin Proctor agreed to occupy 101,796 at 601 Marshall Street. The last major pre-lease was executed in Burlingame and carried out by Stanford University, who will occupy 56,000 s.f. at 225 California Street. The most notable transaction for existing space was struck by the network security company Qualys, which will occupy 75,275 s.f. at 919 E Hillsdale Boulevard in Foster City. In a notable Redwood City development, Rocket Fuel opted to downsize their leasing footprint by terminating their 141,180 s.f. lease with Google at 1900 Seaport Boulevard, and agreed to occupy 35,000 s.f. next door at 2000 Seaport Boulevard.

Sublease activity was relatively quiet in the fourth quarter. The amount of vacant sublet space increased by merely 17,000 s.f. over the previous quarter, while the amount of total available sublet space increased by less than 3,000 s.f. The most notable space to be placed on the market was GoPro's 49,856 s.f. building at 3155 Clearview Way in San Mateo. Meanwhile, on the subleasing front, the video game company Trion Worlds led the way by taking 23,694 s.f. from Saba Software at 2400 Bridge Parkway in Redwood City. The balance of available sublet space continues to suggest a healthy market, but San Mateo County will likely see an uptick in activity as venture capital funding becomes increasingly limited.

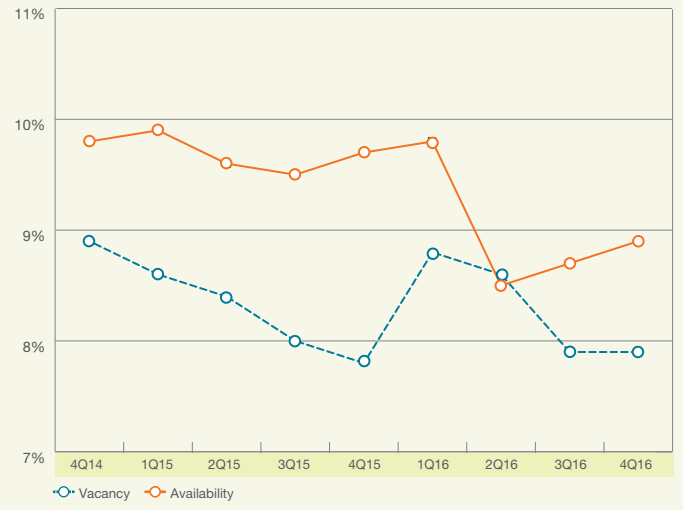
Investment activity remained healthy, with seven buildings changing hands across six transactions for a total of \$380.85 million. Deutsche Asset & Wealth Management led the way by acquiring 275 Middlefield Road in Menlo Park for \$175.25 million (\$1,203/s.f.), a building that houses the law firm McDermott Will & Emery and the biopharmaceutical firm Dermira. The central county region witnessed The Blackstone Group's \$84 million (\$331/s.f.) purchase of 1900 and 2000 Alameda De Las Pulgas in San Mateo, along with Westlake Realty Group's \$61 million (\$416/s.f.) acquisition of 1301 Shoreway Road in Belmont. In the north county region, Meridian Property Co. acquired 1000 Marina Boulevard for \$28.6 million (\$274/s.f.), while Victor Lo bought a medical office property located at 1720 El Camino Real in Burlingame for \$28.5 million (\$273/s.f.).

Source: CoStar

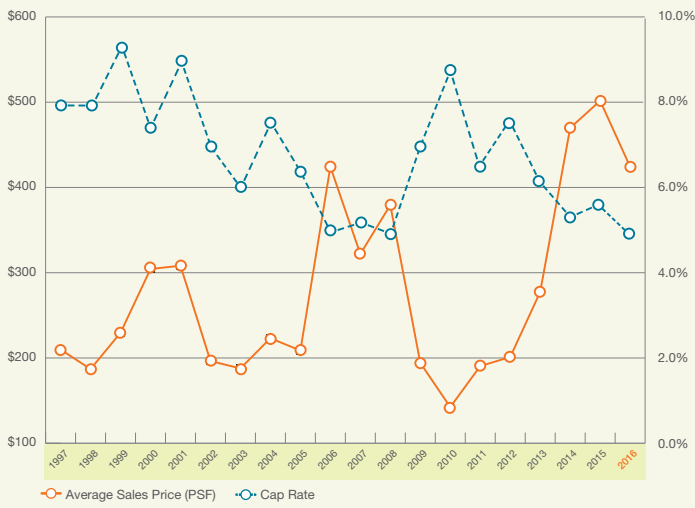
VACANCY VS ASKING LEASE RATE



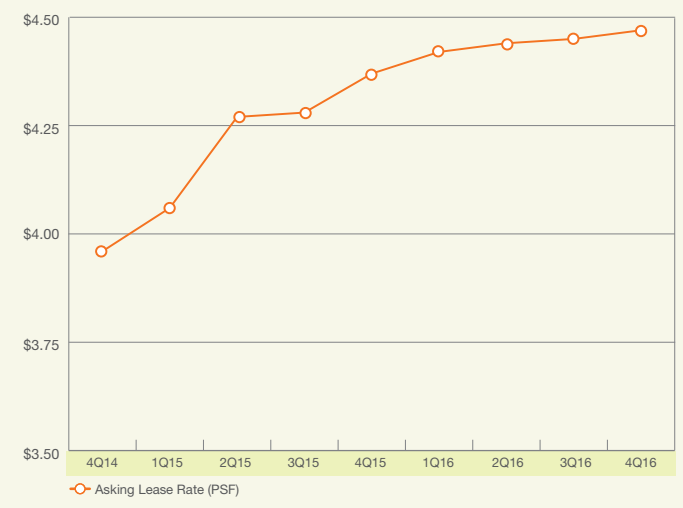
VACANCY VS AVAILABILITY



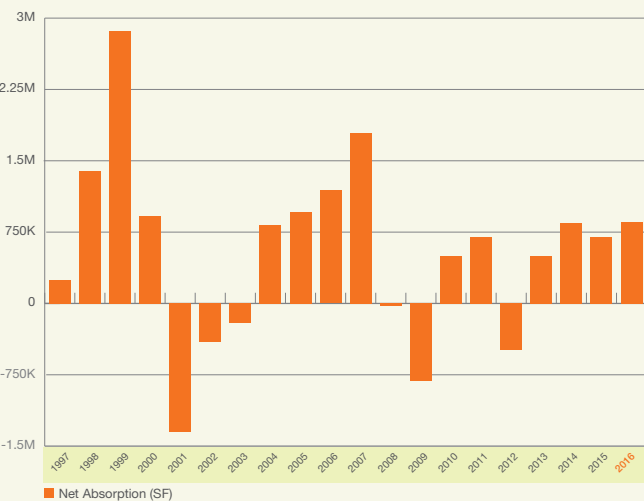
AVERAGE SALES PRICE & CAPITALIZATION RATES



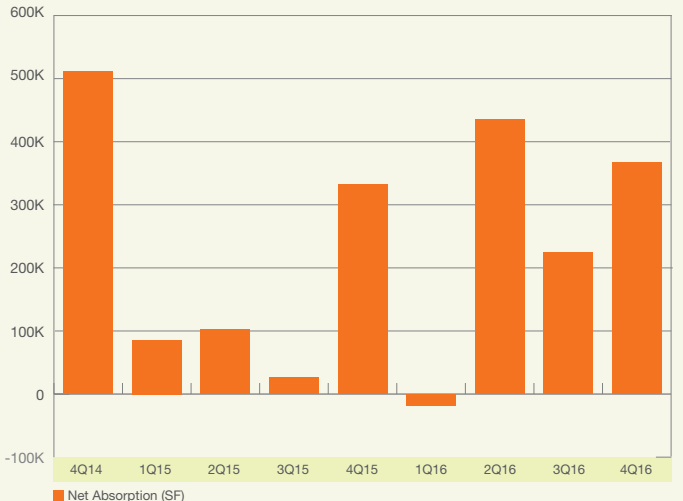
DIRECT ASKING LEASE RATE



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
916.970.9700

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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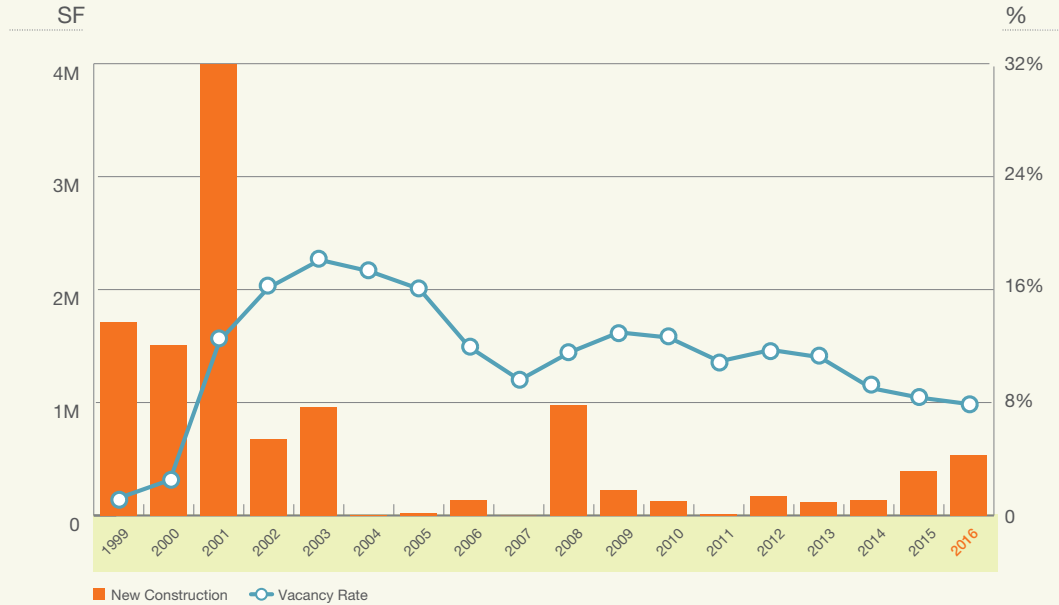
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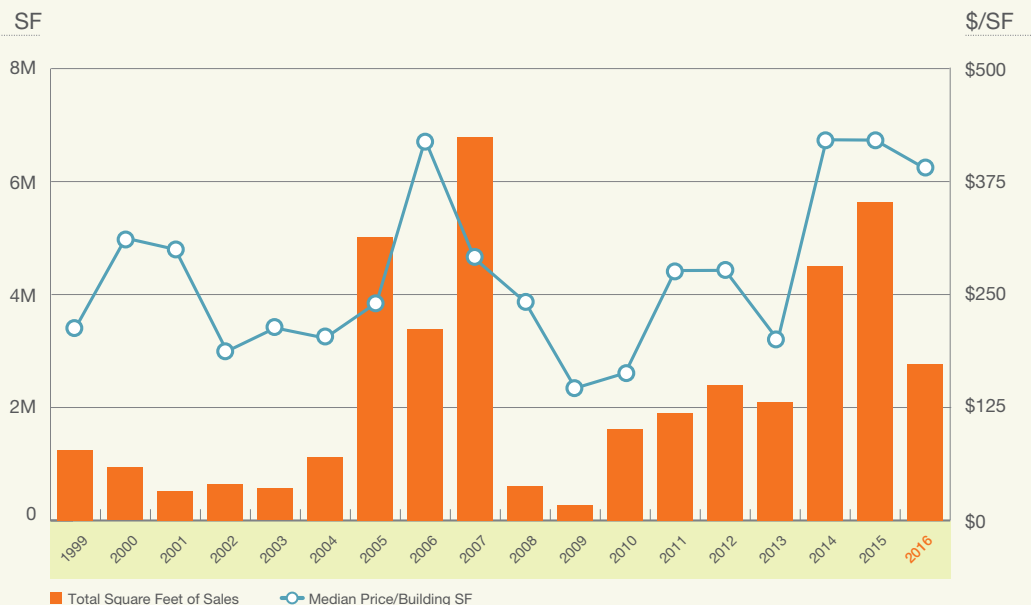
Market Breakdown

	4Q 2016	3Q 2016	4Q 2015	Annual % Change
Vacancy Rate	7.9%	7.9%	7.8%	1.2%
Availability Rate	11.2%	11.0%	11.8%	-5.4%
Asking Lease Rate	\$4.47	\$4.45	\$4.37	0.5%
Sold SF	786,544	989,919	717,635	9.6%
Net Absorption	366,644	224,435	331,986	10.4%

HISTORICAL NEW CONSTRUCTION & VACANCY RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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