

Peninsula Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Coupa
1855 S Grant Street, San Mateo
69,220 s.f. (renewal & expansion)

IXL Learning
777 Mariners Island Boulevard, San Mateo
66,544 s.f. (renewal & expansion)

Course Hero
2000 Seaport Boulevard, Redwood City
40,209 s.f.

Undisclosed Tenant
601 Marshall Street, Redwood City
34,500 s.f.

Notable Sale Transactions

DivcoWest
101 S Ellsworth Avenue, San Mateo
Purchased for \$73.5M or \$840/s.f.

Rees Properties
1450 Veterans Boulevard, Redwood City
Purchased for \$32.25M or \$608/s.f.

**Strada Investment Group/
Angelo, Gordon & Co.**
1-3 Waters Park Drive, San Mateo
(3 building portfolio)
Purchased for \$45.7M or \$279/s.f.

Robert Wheatley Properties
855 Oak Grove Avenue, Menlo Park
Purchased for \$15.5M or \$1,148/s.f.

The Peninsula office market slowed down during the second quarter, but continued to see steady leasing activity, which produced 50,987 square feet of positive net absorption. San Mateo and Redwood City continue to attract tenants from overpriced markets in San Francisco and Silicon Valley, keeping the county's vacancy rate stable. Rental rates also remain firm as steady tenant demand preserves a healthy market. The amount of available sublease space, which is often used as a barometer for the markets condition, actually declined over the previous quarter. The market could potentially soften by the end of 2017, but several indicators currently point towards a stabilized market.

No new developments broke ground during the second quarter, while Village Properties' Clocktower at 221 project in San Mateo was the only development to be delivered in shell condition. Regus, which rents out fully functional workspace, agreed to terms earlier this year to lease the entire 28,787 s.f. office portion. There is currently 1.77 million square feet of office space under construction, with 27.7% of it having already been pre-leased, including approximately 52% of the roughly 723,000 s.f. that will be delivered in the second half of 2017.

San Mateo and Redwood City anchored the Peninsula's activity, helping the market to finish with 50,987 s.f. of positive net absorption. Both cities, which are serviced by Caltrain's Baby Bullet train, have been committed to revitalizing their downtown cores with new development and housing. Their ability to offer high-end products at a lower rate than San Francisco and Silicon Valley enabled them to host the Peninsula's 10 largest transactions during the second quarter. The software company Coupa led the way by renewing and expanding their footprint to 69,220 s.f. at The Crossroads in San Mateo. IXL Learning followed a similar path

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Area Review

Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Vacancy	Sublease Vacancy	Q2 Net Absorption	Direct Vacant Rate	Average Direct Rental Rate
Daly City	41	1,458,326	194,379	6,392	13,140	13.30	\$3.60
Brisbane	14	1,013,756	201,927	20,116	12,789	19.90	\$3.67
South San Francisco	90	5,446,740	348,868	40,780	33,307	6.40	\$3.42
San Bruno/Millbrae	49	1,708,890	27,152	0	(13,409)	1.60	\$3.18
Burlingame	83	2,821,792	245,666	15,041	(50,323)	8.70	\$3.45
North County Totals	277	12,449,504	1,017,992	82,329	(4,496)	9.98	\$3.44
San Mateo	174	8,045,314	843,899	121,511	212,122	10.50	\$4.56
Foster City	35	2,703,967	461,684	0	(96,392)	17.10	\$4.91
Central County Totals	209	10,749,281	1,305,583	121,511	115,730	13.80	\$4.65
Redwood Shores	48	3,012,614	395,518	26,701	(62,089)	13.10	\$4.98
Belmont/San Carlos	45	1,369,360	41,106	140,568	(112,471)	3.00	\$4.68
Redwood City	163	5,434,032	178,937	8,107	127,596	3.30	\$5.14
Menlo Park	178	5,402,950	277,911	55,113	16,967	5.10	\$6.55
South County Totals	434	15,218,956	893,472	230,489	(29,997)	6.13	\$5.56
Total	920	38,417,741	3,217,047	434,329	50,987	8.40	\$4.62

as they renewed and expanded to 66,544 s.f. at 777 Mariners Island Boulevard. The online learning platform Course Hero agreed to terms for 40,209 s.f. at 2000 Seaport Center in Redwood Shores, while an undisclosed tenant will occupy the remaining 34,500 s.f. at 601 Marshall Street when the downtown Redwood City project is delivered at years end.

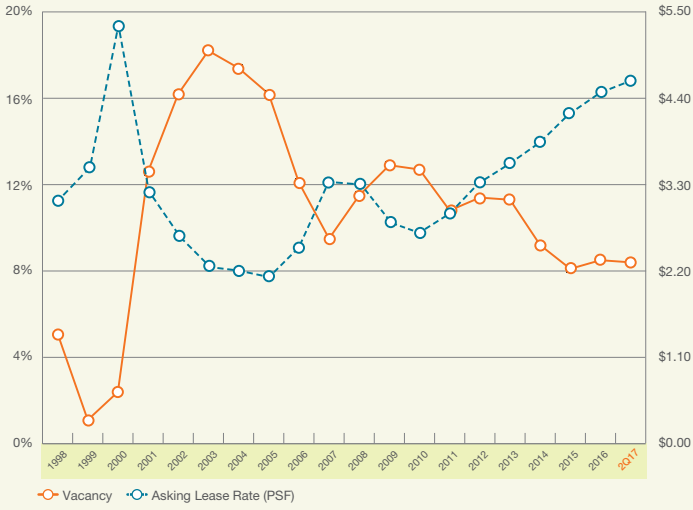
The Peninsula's average asking rate held firm at \$4.62/s.f., fully serviced (FS) as rental rates fluctuated negligibly across the county. Menlo Park's leading asking rate increased 0.3% to \$6.55/s.f., FS, while the San Bruno/Millbrae submarket experienced a 0.9% decrease to \$3.18/s.f., FS, marking the county's most notable decline. Rental rates have remained relatively stable over the past few quarters as leasing activity persists, but a marginal decline by year's end would not be a surprise, as this would represent a healthy correction. The Peninsula's available sublease space declined by roughly 130,000 s.f. during the second quarter to 1.2 million square feet. However, this was largely due to Salesforce withdrawing their 114,268 s.f. sublease at 900 Concar Drive following Rakuten's purchase of the office complex.

Investment activity was moderate as six buildings changed hands. The total dollar volume of \$166.95 million was the

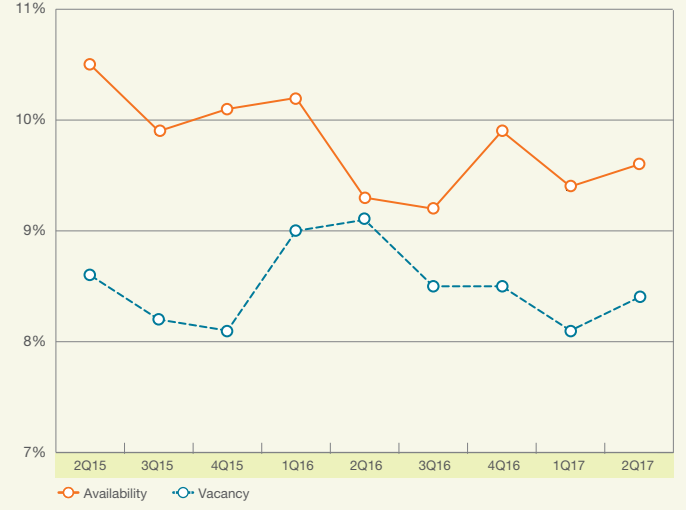
lowest dollar volume since the first quarter of 2016, but the average price per square foot was a staggering \$525.30. DivcoWest carried out the largest transaction when they acquired 101 S Ellsworth Avenue in downtown San Mateo for \$73.5 million (\$839.96/s.f.) in an off-market transaction. Rees Properties conducted the second largest transaction by procuring 1450 Veterans Boulevard in Redwood City, which serves as the headquarters for DPR Construction, for \$32.25 million (\$608.45/s.f.). Strada Investment Group and Angelo, Gordon & Co. partnered to acquire three buildings at Waters Technology Park in San Mateo. 1 and 2 Waters Park Drive were purchased from TA Realty for \$29 million (\$286.11/s.f.), while 3 Waters Park Drive was acquired from Cornerstone Properties for \$16.7 million (\$267.41/s.f.). Robert Wheatley Properties closed out the second quarter by purchasing 855 Oak Grove Avenue in downtown Menlo Park for \$15.5 million, or \$1,148.15/s.f. There are a handful of sellers still looking to capitalize on the back end of a peak market, but investment activity should continue to recede as softening rental rates limit the cash flow desired by investors.

Source: CoStar

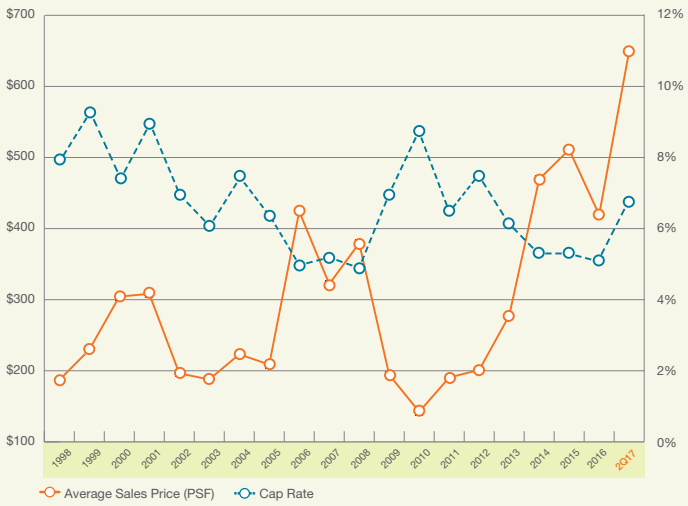
VACANCY VS ASKING LEASE RATE



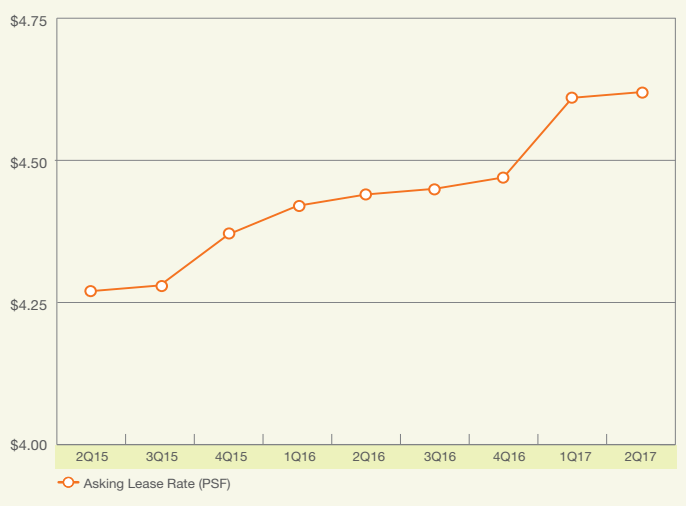
VACANCY VS AVAILABILITY



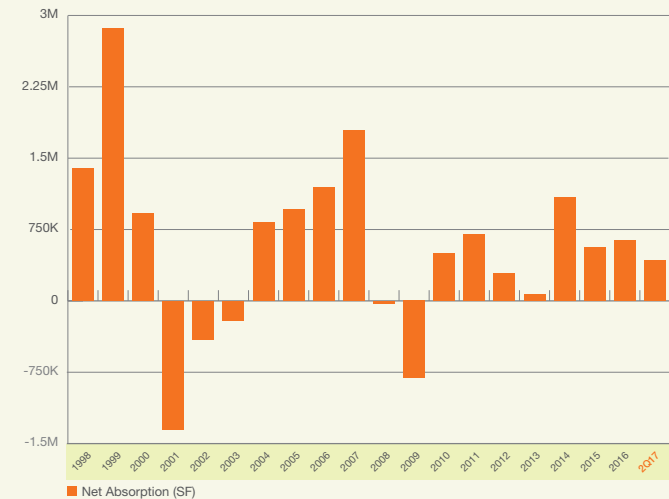
AVERAGE SALES PRICE & CAPITALIZATION RATES



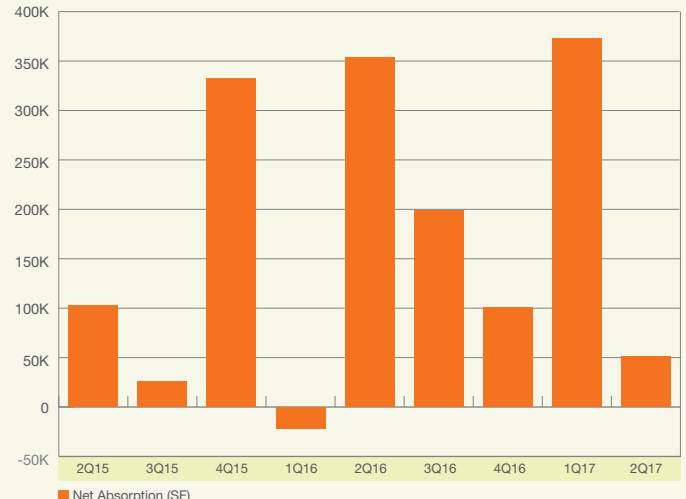
DIRECT ASKING LEASE RATE



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

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

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

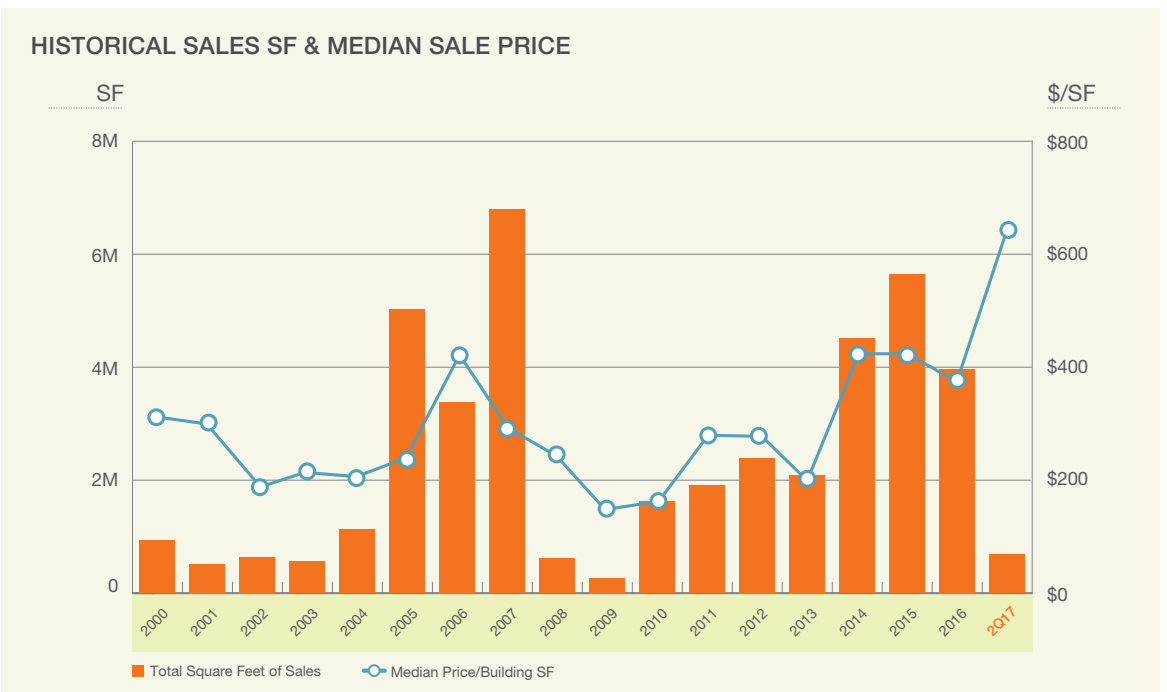
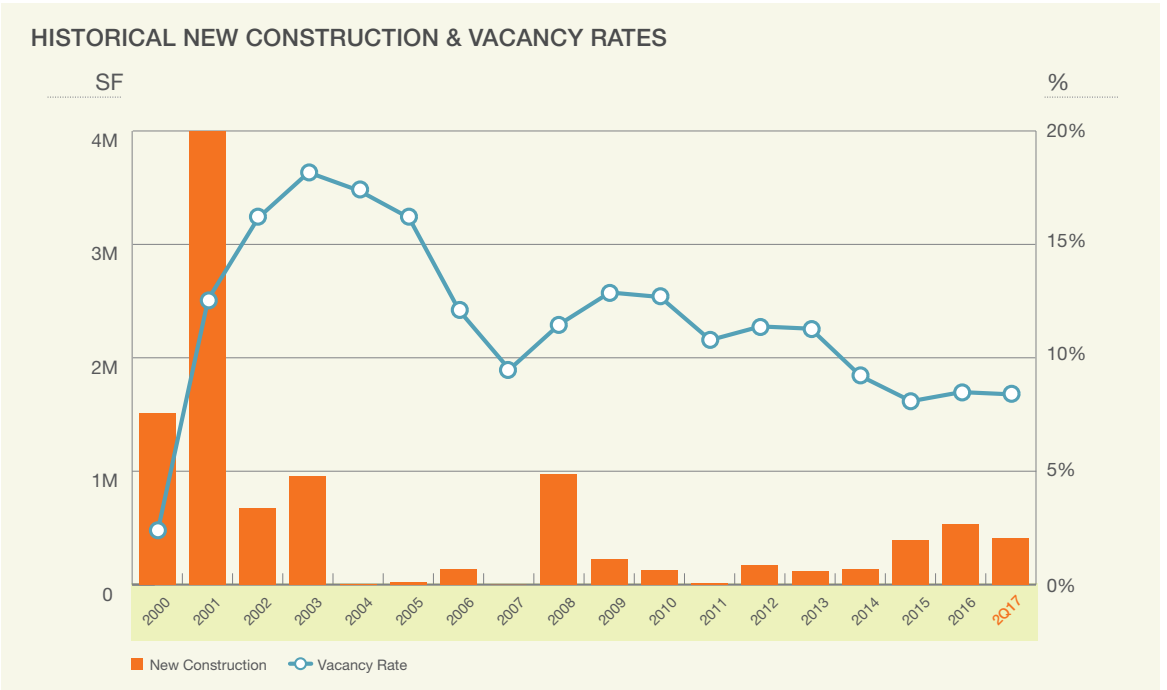
Contact

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Market Breakdown

	Q2 2017	Q1 2017	Q2 2016	Annual % Change
Vacancy Rate	8.4%	8.1%	9.1%	-7.7%
Availability Rate	12.7%	12.9%	12.0%	5.8%
Asking Lease Rate	\$4.62	\$4.61	\$4.44	4.1%
Sold SF	317,813	361,226	675,435	-53.0%
Net Absorption	50,987	372,459	353,451	-85.6%



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