

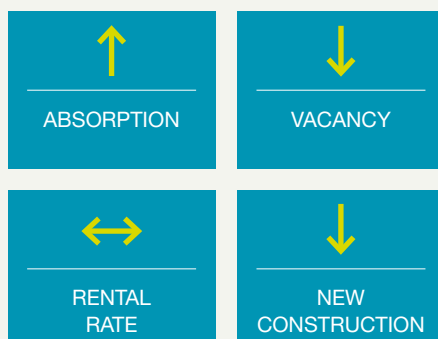
Real Estate Market Review

Peninsula Office

The Peninsula office market continued to experience significant leasing activity after finishing the third quarter with 787,602 square feet of gross absorption and 90,312 square feet of positive net absorption. This marked the sixth consecutive quarter with positive gains, and brings the year-to-date total to 505,220 square feet. Positive leasing activity led to a marginal decline in the overall vacancy rate, which currently sits at 8.3%. The most notable lease transactions occurred in the mid and south county regions as companies renew or relocate to the lower-priced submarkets on the outskirts of Silicon Valley. Rental rates remained relatively unchanged since the previous quarter, while the amount of available sublease space increased 0.2% to 1,322,996 square feet. Despite this marginal increase, several market indicators continue to point towards a stabilized market as 2017 comes to a close.

There were two notable deliveries of office product during the third quarter. San Mateo's 400/450 Concar project completed its buildout and delivered 305,000 square feet, however 210,000 square feet was pre-leased to Medallia. Station 3 at San Mateo's Bay Meadows delivered

174,000 square feet, but 62% of the building was pre-leased to Open Text. No new developments broke ground as 1.9 million square feet of office space remains under construction, but approximately 43% of it has already been pre-leased.

Market Forecast Trends

Notable Lease Transactions

Facebook
100 Independence Drive, Menlo Park
205,224 s.f.

DLA Piper LLP
2000 University Avenue, East Palo Alto
118,167 s.f.

Oportun
2 Circle Star Way, San Carlos
103,904 s.f. (renewal)

Notable Sales Transactions

Bridge Commercial Real Estate
1900, 1950, 2000 Alameda de las Pulgas
San Mateo
\$82M | \$307/s.f.

Allianz Real Estate of America LLC
1900, 1950, 2000 University Avenue
East Palo Alto
\$121.5M | \$1,197/s.f. (22.5% interest)

Area Review

Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Vacancy	Sublease Vacancy	Q3 Net Absorption	Direct Vacant Rate	Average Direct Rental Rate
Daly City	41	1,305,294	168,794	6,392	25,585	12.90%	\$3.52
Brisbane	14	1,013,756	201,927	20,116	0	19.90%	\$3.70
South San Francisco	91	5,450,429	305,259	27,258	57,131	5.60%	\$3.48
San Bruno/Millbrae	49	1,712,839	20,654	0	6,498	1.20%	\$3.16
Burlingame	82	2,764,011	220,340	16,456	23,911	8.00%	\$3.45
North County Totals	277	12,246,329	916,974	70,222	113,125	9.52%	\$3.45
San Mateo	176	8,253,679	981,035	250,171	(62,796)	11.90%	\$4.58
Foster City	35	2,703,967	452,378	20,699	(11,393)	16.70%	\$4.96
Central County Totals	211	10,957,646	1,433,413	270,870	(74,189)	14.30%	\$4.67
Redwood Shores	48	2,980,691	343,499	28,985	49,735	11.50%	\$4.97
Belmont/San Carlos	45	1,369,360	30,239	155,544	(4,109)	2.20%	\$4.72
Redwood City	164	5,458,480	213,676	20,481	(47,113)	3.90%	\$5.21
Menlo Park	178	5,402,950	245,417	64,994	22,613	4.50%	\$6.59
South County Totals	435	15,211,481	832,831	270,004	21,126	5.53%	\$5.61
Totals	923	38,415,456	3,183,218	611,096	90,312	8.30%	\$4.65

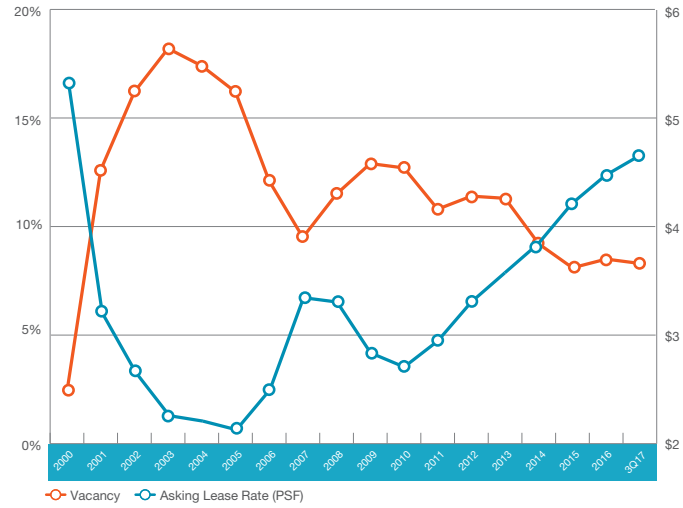
The mid and south county regions were home to the Peninsula's six most notable lease transactions, which were led by Facebook as they leased the entire 205,224 square foot phase-one building at Bohannon Development's Menlo Gateway project, which will be ready for occupancy in first quarter 2018. Law firm DLA Piper LLP followed up with a 118,167 square foot renewal at East Palo Alto's University Circle, which will keep the office campus close to full occupancy. In the third and final major transaction, financial company Oportun subleased 103,904 square feet in San Carlos. The Redwood Shores and Redwood City submarkets rounded out the next three transactions as Poshmark, Storm8, and SendGrid combined for 65,192 square feet.

The Peninsula's average asking rate increased marginally to \$4.65/square foot, fully serviced (FS) as rental rates remained fairly stable. Redwood City encountered the largest quarter-over-quarter increase as the average rate grew 1.4% to \$5.21/square foot, FS. Overall, rental rates have continued their sluggish rise throughout 2017 as

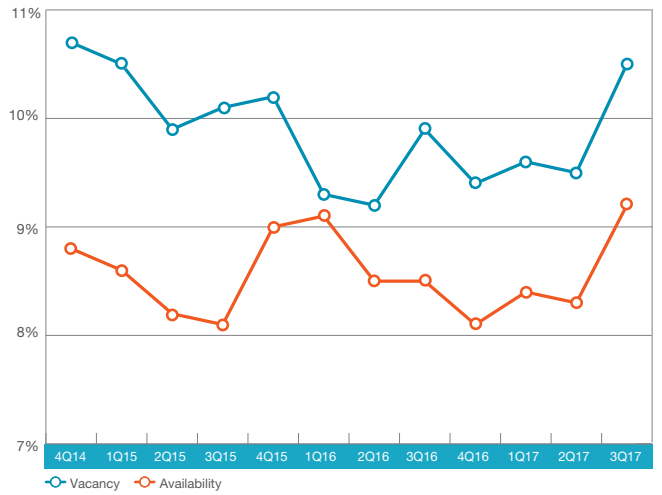
availabilities remain relatively limited, particularly among new developments that continue to experience pre-leasing activity. Marginal rent increases are expected to continue as 2017 comes to a close as tenant demands remain stable.

There were three investment transactions covering six buildings during the third quarter. Bridge Commercial Real Estate led the way when they obtained the three-building California Casualty Plaza office complex in San Mateo for \$82 million, or \$307/square foot. The Utah-based company has been extremely active as this marks their third Bay Area acquisition in the last six months, with the other two properties located in San Jose and Concord. The second major investment formed a joint venture as Allianz Real Estate of America LLC purchased a 22.5% stake in Columbia Property Trust's 451,000 square foot University Circle office complex, which was valued at \$1,197/square foot. Lastly, Ehikian & Company purchased 1048 El Camino Real in Redwood City for \$5.8 million, or \$760/square foot. The property could eventually be redeveloped, but future plans are currently unknown.

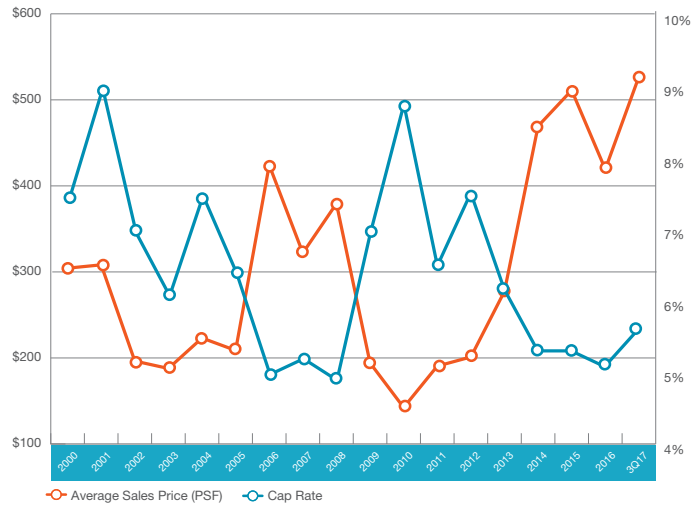
VACANCY VS ASKING LEASE RATE



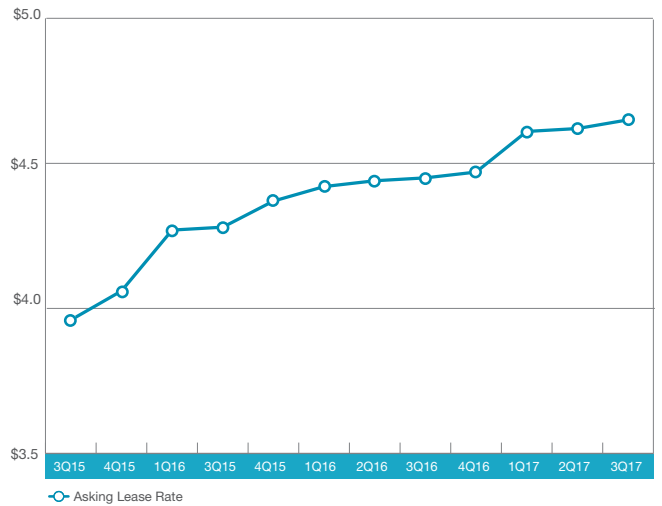
VACANCY VS AVAILABILITY



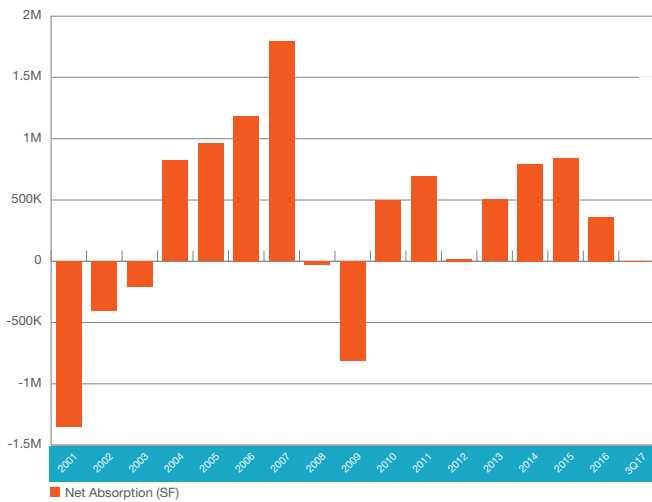
AVERAGE SALES PRICE & CAPITALIZATION RATES



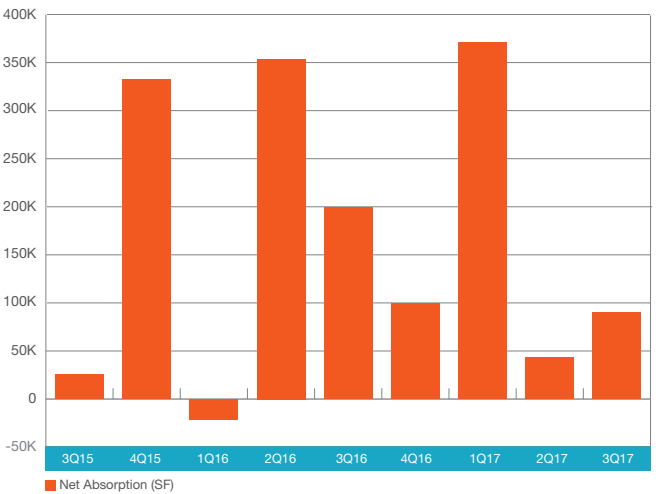
ASKING LEASE RATE



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

Commerce
323.727.1144

Long Beach
562.472.0071

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

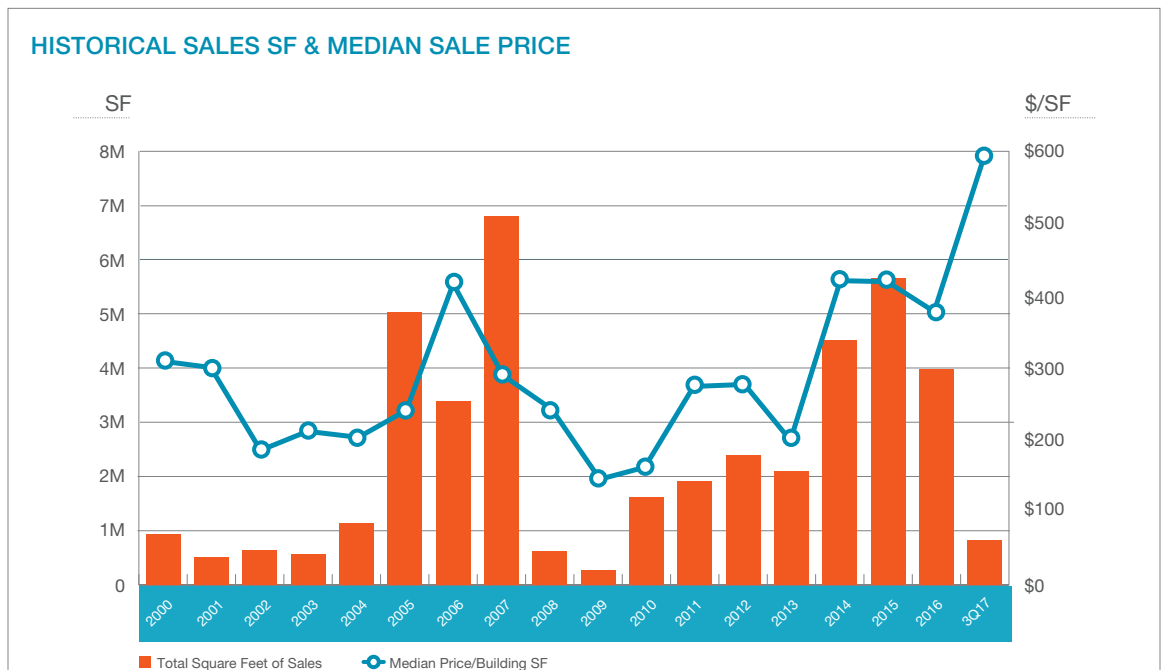
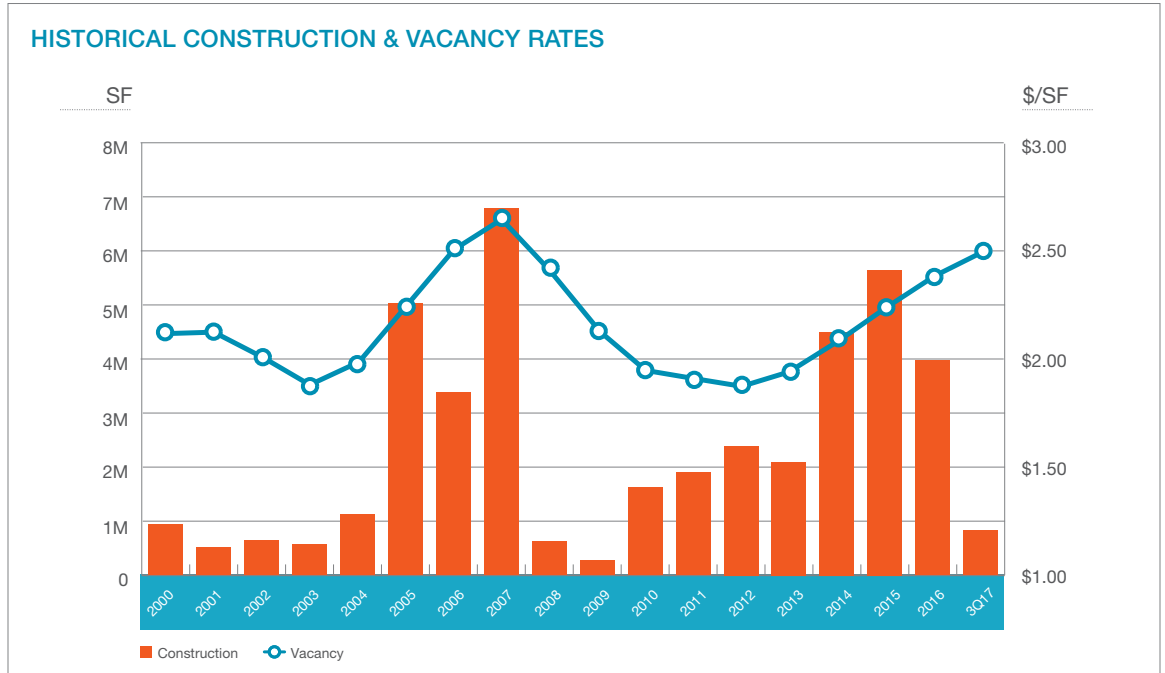
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Market Breakdown

	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	8.3%	8.4%	8.5%	1.2%
Availability Rate	12.9%	12.8%	11.7%	10.3%
Asking Lease Rate	\$4.65	\$4.62	\$4.45	4.5%
Leased SF	787,602	1,017,431	718,351	9.6%
Sold SF	274,643	336,739	1,087,935	-74.8%
Net Absorption	90,312	43,678	198,936	-54.6%



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