

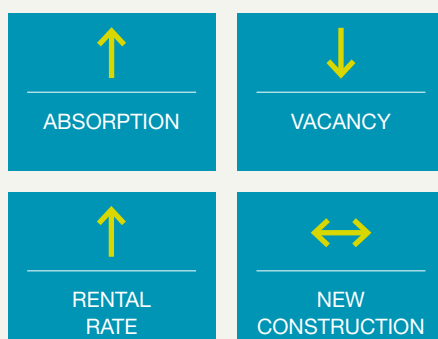
**Real Estate Market Review**

# Peninsula Office

The Peninsula office market stayed strong in the fourth quarter, with growing demand driving 230,270 s.f. of positive net absorption and lowering the vacancy rate by 60 basis point, to 9.8%. A lack of availabilities limited leasing activity to 564,894 s.f. San Mateo continues to attract tenants, as companies look to relocate from high-priced markets in San Francisco and Silicon Valley. Asking rental rates are up by about 3.7% from a year ago to an average of \$4.78/s.f. With continued strong demand from a variety of companies, the Peninsula market is poised to enjoy a strong 2018.

No new office buildings were delivered in the fourth quarter, leading to a decline in leasing activity from the previous quarter in the Peninsula. The Menlo Gateway Project is being built in two phases with the first containing 252,000 s.f. at 100 Independence Drive and the second adding another 521,000 s.f. at 125-135 Constitution Drive; the office portion is fully leased to Facebook. In Burlingame, the four building project at 300 Airport Boulevard has 767,000 s.f. being built, with a targeted completion of early 2019 and no leasing commitments.

Leasing activity this quarter totaled 116 transactions for 564,894 s.f., bringing the yearly lease total to 3,119,591 s.f. San Mateo led the Peninsula with 145,601 s.f. of leasing activity, as California Casualty Management Company relocated to 36,326 s.f. at 1875 S. Grant Street. The stock trading platform Robin committed to 38,667 s.f. at 80 Willow Road, Menlo Park. Finally, the Chan Zuckerberg Initiative leased the second and third floors at 550 Allerton Street, Redwood City for 29,772 s.f., which is under construction and will be delivered early 2018.

**Market Forecast Trends**

**Notable Lease Transactions**

**Amazon**  
2100 University Avenue, East Palo Alto  
214,052 s.f.

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

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

**Notable Sales Transactions**

**Rakuten**  
700, 800, 900 Concar Drive, San Mateo  
\$179M | \$841/s.f.

**600 Clipper Operating LLC**  
500-600 Clipper Drive, Belmont  
\$89M | \$569/s.f.

**DivcoWest**  
101 S Ellsworth Avenue, San Mateo  
\$73M | \$839/s.f.

# Area Review

## Submarket Statistics

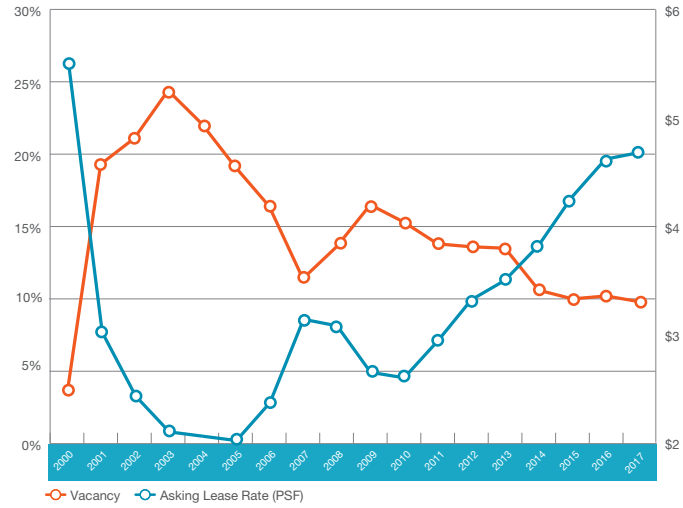
Submarket	Total Inventory	Direct Vacancy	Total Vacancy	Total Availability	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Avg Direct Rental Rate
Daly City	1,298,121	10.90%	10.90%	10.40%	41,301	87,333	19,878	102,032	\$3.52
Brisbane	1,000,019	18.40%	20.50%	12.00%	32,123	81,271	107,116	185,344	\$3.73
South San Francisco	5,113,513	5.60%	5.80%	5.10%	25,501	184,256	59,863	353,007	\$3.48
San Bruno/Millbrae	1,752,505	1.10%	1.10%	2.30%	1,064	56,649	6,791	40,295	\$3.22
Burlingame	2,754,315	7.90%	8.60%	9.70%	(4,843)	(53,402)	42,241	189,866	\$3.45
North County Totals	12,135,465	7.00%	7.40%	7.00%	103,221	383,447	235,889	884,066	\$3.47
San Mateo	8,202,508	10.40%	13.90%	16.80%	158,120	272,075	145,601	784,145	\$4.74
Foster City	2,703,967	20.50%	22.20%	24.30%	(26,538)	(250,675)	18,001	88,705	\$4.96
Redwood Shores	3,031,635	15.90%	17.20%	22.50%	(10,124)	(95,247)	13,794	310,856	\$4.98
Central County Totals	13,932,089	13.70%	16.30%	19.50%	114,374	(76,925)	177,396	1,155,399	\$5.00
Belmont/San Carlos	1,432,081	2.40%	4.60%	14.10%	99,653	70,581	9,432	175,389	\$4.72
Redwood City	5,398,380	3.10%	4.90%	7.50%	(91,137)	(43,980)	65,494	180,309	\$5.21
Menlo Park	6,206,878	4.20%	5.30%	7.40%	4,159	362,454	76,683	600,120	\$6.93
South County Totals	13,037,339	3.60%	5.10%	8.20%	12,675	389,055	151,609	1,080,126	\$6.02
<b>Total</b>	<b>39,104,893</b>	<b>8.20%</b>	<b>9.80%</b>	<b>11.80%</b>	<b>230,270</b>	<b>695,577</b>	<b>564,894</b>	<b>3,119,591</b>	<b>\$4.78</b>
Class A	17,779,666	12.00%	13.60%	14.70%	36,602	27,851	38,592	30,438	\$4.72
Class B	15,577,962	5.70%	7.80%	10.50%	(35,029)	(35,029)	28,992	28,992	\$5.05
Class C	5,735,403	3.20%	3.50%	3.70%	12,061	12,061	884	884	\$3.69

The Peninsula's average asking rate increased to \$4.78/s.f. Menlo Park posted the highest rental rate at \$6.93/s.f., while San Bruno and Millbrae had the lowest at \$3.22/s.f. New developments continue to see strong pre-leasing activity, keeping rents on a slight upwards trajectory. Tenant demand continues to increase as large users consider campuses on the Peninsula instead of higher priced alternatives in San Francisco and Santa Clara counties.

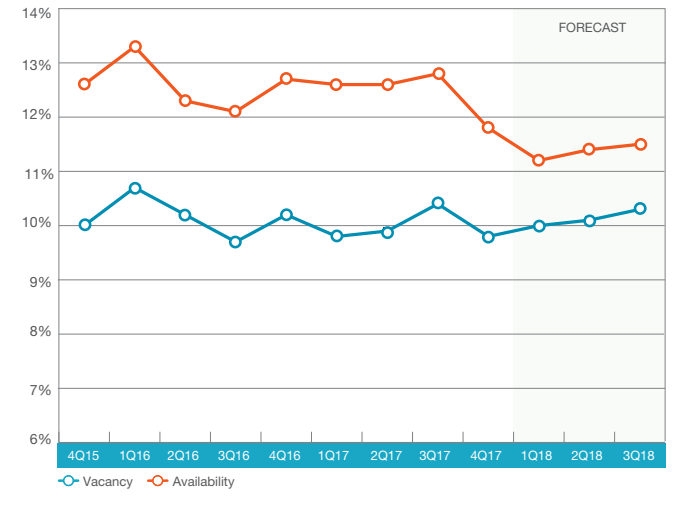
Ten investment transactions were completed in the fourth quarter as 278,485 s.f. of Peninsula office real estate

changed hands at an average price of \$534/s.f. The largest transaction was a partial interest transfer in which Alexandria Real Estate Equities acquired an 18% stake in the Menlo Gateway Project for \$78 million or \$561/s.f. The three building portfolio is being built by Bohannon Development Company and is fully leased to Facebook. 600 Clipper Operating LLC purchased 500-600 Clipper Drive in Belmont for \$89 million, or \$570/s.f. The 160,000 s.f. building is fully leased to Volkswagen.

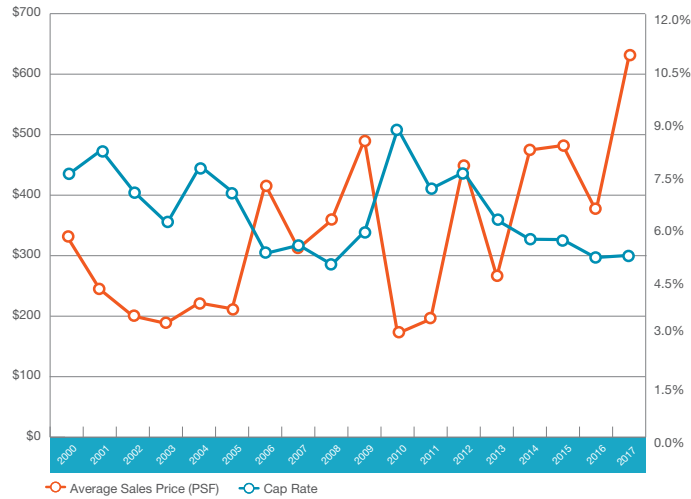
### VACANCY VS ASKING LEASE RATE



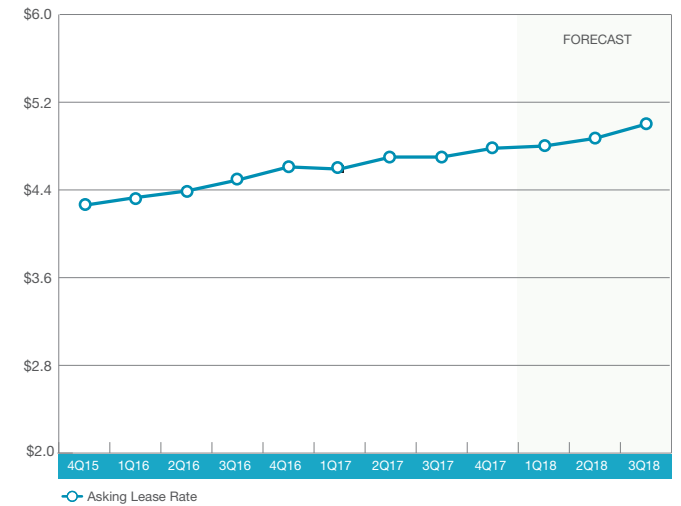
### VACANCY VS AVAILABILITY



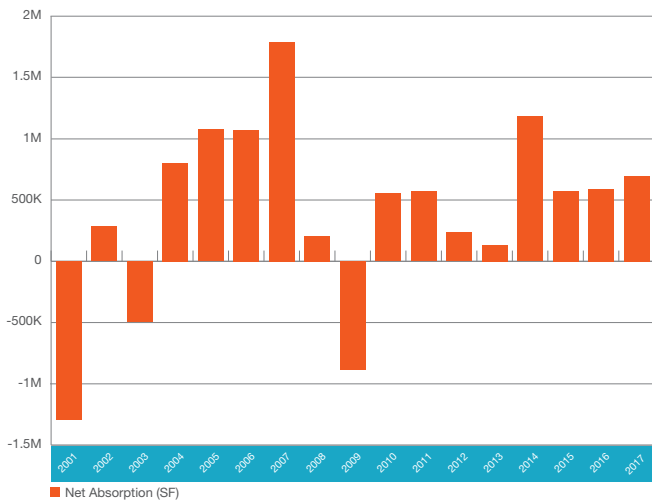
### AVERAGE SALES PRICE & CAPITALIZATION RATES



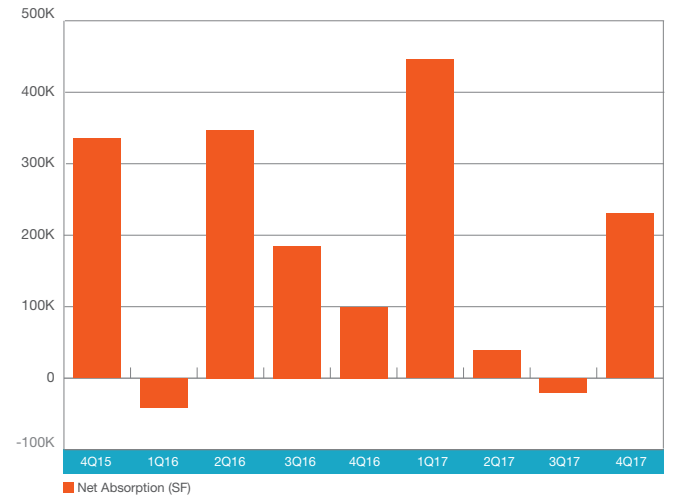
### ASKING LEASE RATE



### 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

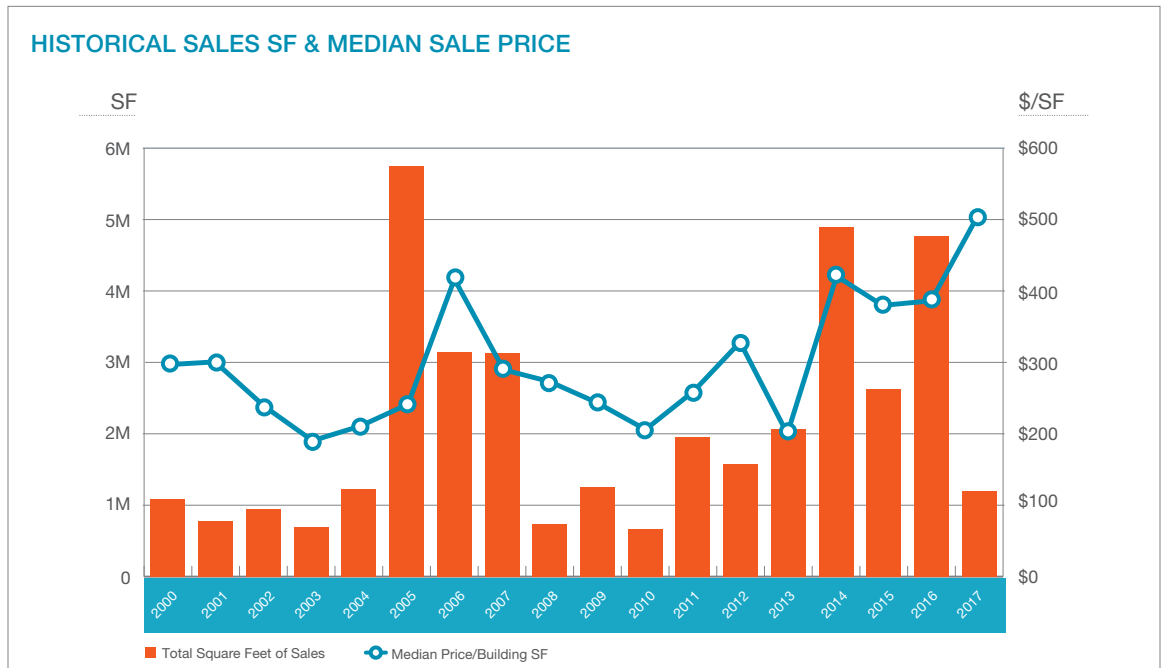
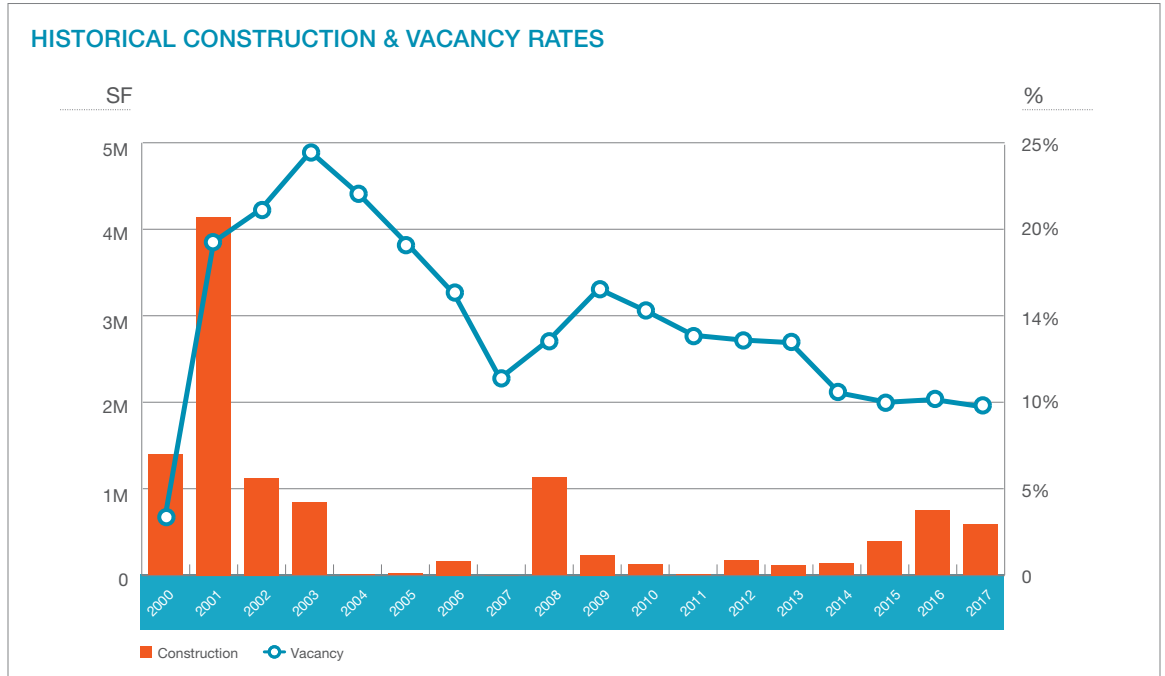
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**Market Breakdown**

	2017	2016	2015	Annual % Change
Vacancy Rate	9.8%	10.2%	10%	-3.9%
Availability Rate	11.8%	12.7%	12.6%	-7.1%
Asking Lease Rate	\$4.78	\$4.61	\$4.26	3.7%
Leased SF	3,119,591	4,087,638	4,652,795	-23.7%
Sold SF	1,200,539	4,763,530	2,629,056	-74.8%
Net Absorption	695,577	590,283	573,396	N/A



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