

MARKET TRENDS | PENINSULA OFFICE

3RD QUARTER
2019

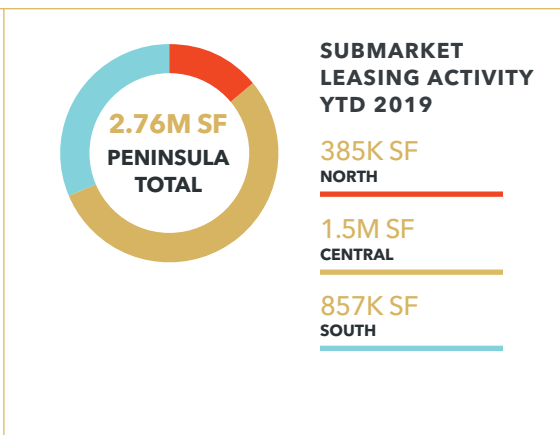
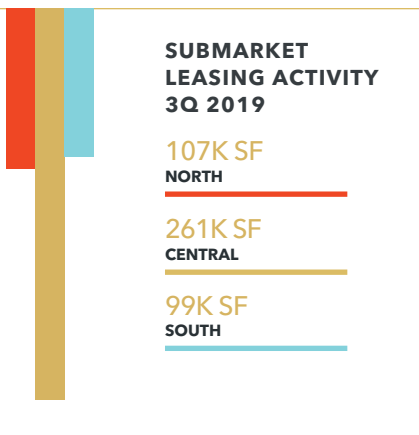
▲ ABSORPTION | ▼ VACANCY | ▲ RENTAL RATE | ▼ CONSTRUCTION DELIVERIES

The Peninsula continues to benefit from a strong economy, as unemployment rates stand at 2.1%, compared to the national rate of 3.5%. Established and fast-growing companies ranging from a variety of disciplines seek a presence in this market, with its close proximity to transportation services such as Caltrain and BART. Asking rental rates continue to rise in the region, standing at an average of \$6.18/s.f. fully serviced. A common trend among tenants in the non-professional sector is the flexibility for shorter term leases. Additionally, landlords are investing more capital into their spaces to present them market-ready in all size ranges to meet immediate tenant needs.

At the end of the third quarter, average direct asking rates stood at \$6.18/s.f. fully serviced, a high 16% jump from the prior quarter. On a YOY basis, rates have increased by about 22%. Consistent with prior quarters, Menlo Park commanded the highest asking rate on the Peninsula, standing at an average of \$10.60/s.f. fully serviced. This is attributed to high Sand Hill Road rates combined with newer construction availabilities along the Caltrain corridor. Notably this quarter, Redwood Shores rates rose to \$5.56/s.f. fully serviced, due to increased demand for higher-quality spaces and higher tenant improvement costs. Most of the demand coming into the Redwood Shores market stems from higher-priced markets, such as Redwood City and Menlo Park.

Market wide direct vacancy rates fell 30 basis points quarter-over-quarter to 7.6% in Q3 2019. San Mateo posted an 8.8% direct vacancy this quarter, down from 9.5% in Q2 2019. Sublease vacancy rates rose slightly to 2.1% this quarter, a mere 10 basis points increase from the prior quarter. In addition, market-wide availability fell moderately from 13.7% to 11.7% year-over-year. Redwood Shores recorded a 17.8% availability rate, with Host Analytics placing 35,006 s.f. of office space on the market at 555 Twin Dolphin Drive.

Leasing activity slowed down this quarter, posting just over 460,000 s.f. on the Peninsula and contributing to a YTD figure of 2,763,592 s.f. On a year-over-year basis, activity fell by 56%. The Central County accounted for 56% of leases this quarter, with San Mateo



3Q 2019 MARKET HIGHLIGHTS

VACANCY rates stand at 7.6%, down 30 basis points from the prior quarter

RENTAL RATES climbed to \$6.18/s.f. fully serviced, nearly a 22% increase YOY

INVESTMENT ACTIVITY slowed down to \$91 million in volume, a 78% decline from 2Q 2019

recording the largest third quarter leases. The majority of leases executed this quarter were within the sublease market. Enterprise security camera company Verkada subleased the entire 62,341 s.f. under construction office building at 405 E. 4th Avenue in San Mateo from Snowflake Computing. Over on the East side of Hwy 101, co-working giant WeWork leased 37,390 s.f. at 1840 Gateway Drive in San Mateo. This adds to their presence on the Peninsula, totaling nearly 170,000 s.f. of space. Finally, cloud monitoring service company SignalFX subleased 34,240 s.f. from Survey Monkey at Station 4 at 3050 S. Delaware Street in San Mateo.

At the end of Q3, San Mateo County experienced a gain of 257,639 s.f. of positive net absorption, adding to a YTD total of just over 445,000 s.f. of positive absorption. Net absorption was concentrated in the Central County this quarter, with San Mateo recording a gain of 247,235 s.f. Cloud data warehouse company Snowflake Computing moved into 102,000 s.f. at 450 Concar Drive, relocating from their previous space at 100 S. Ellsworth Avenue in San Mateo. Foster City posted a loss of 63,000 s.f. of net absorption, largely due to space vacated at 1001-1051 E. Hillsdale Blvd.

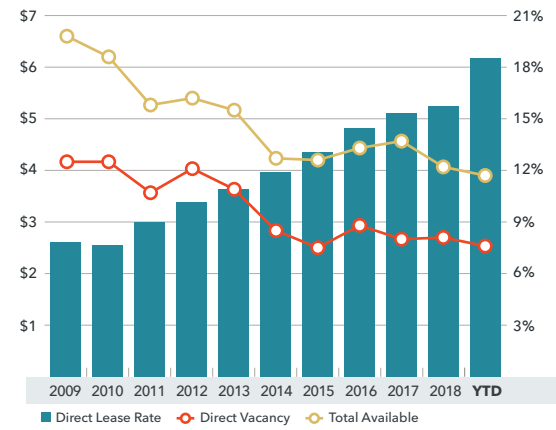
Office deliveries slowed down this quarter, with only one small development added on the Peninsula. Prometheus completed construction on the second building on their Depot at Trestle project in San Carlos, adding 21,551 s.f. to this submarket. Consulting firm Simon Kucher & Partners moved into 10,797 s.f. on the 2nd floor at this building. A remaining 10,754 s.f. of office space remains available on the 1st floor.

Just over 3.7 million s.f. of office space is currently under construction on the Peninsula, of which 86% is pre-leased. Windy Hill's 405 E. 4th Avenue is nearing completion and will deliver 62,000 s.f. of Class A office space to the downtown area in San Mateo by the end of the year. Lane Partners' Broadway Station is anticipated to arrive in the heart of downtown Redwood City by Q4 2019. This 4-story, 116,000 s.f. building is fully leased to The Chan Zuckerberg Initiative. Looking ahead, Greenheart Land Company's Station 1300, a mixed-use development with 200,000 s.f. of office space, is scheduled to deliver at the end of Q2 2020, with no leasing commitments yet. Tenant demand for high-quality space remains strong on the Peninsula, especially near transit-oriented areas.

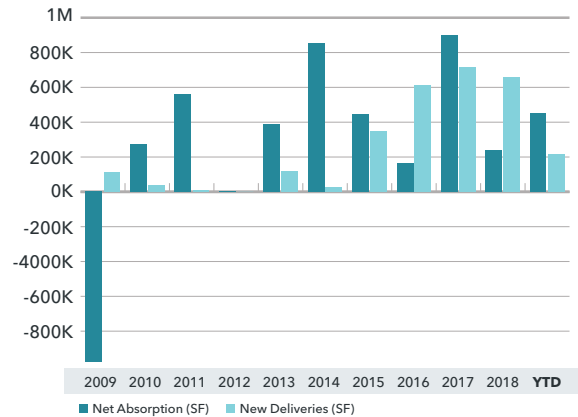
The sales market for the Peninsula slowed down this quarter, reaching \$91 million in volume and contributing to a YTD volume of \$574 million. Notably this quarter, Woodstock Developments & Investments acquired 1350 Bayshore Hwy in Burlingame for \$75.3 million, or \$384/s.f. This 196,000 s.f. Class A office was close to 81% leased at the time of the sale and will be undergoing capital improvements in the near-future. Looking ahead, Kidder Mathews expects to see more product hit the market in the next two quarters.

Source: CoStar, Federal Reserve Bank of St. Louis

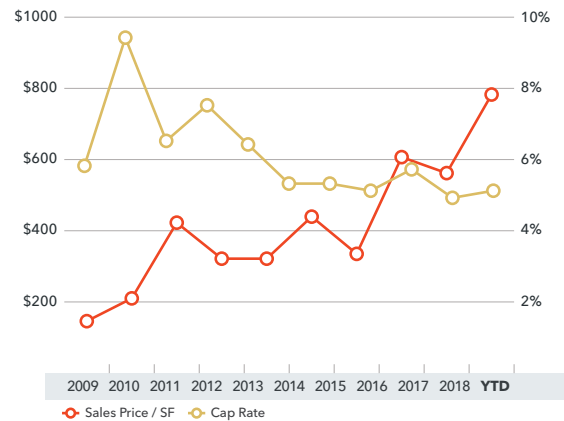
LEASE RATE, VACANCY & AVAILABILITY



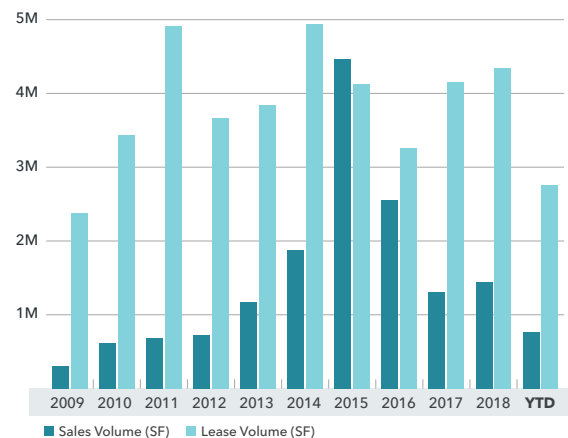
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES



SALES VOLUME VS. LEASE VOLUME



PENINSULA SUBMARKET STATISTICS

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Total Net Absorption	YTD Total Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Rental Rate
Daly City	832,054	0	6.7%	6.9%	10.0%	24,045	(40,362)	2,999	39,393	\$3.71
Brisbane	565,519	0	2.0%	15.3%	25.5%	(3,866)	(18,349)	2,718	6,376	\$4.15
South San Francisco	1,712,545	0	11.4%	13.2%	18.5%	6,395	28,730	40,331	134,056	\$3.64
San Bruno/Millbrae	1,363,270	0	1.7%	1.8%	1.7%	32,751	8,181	6,426	57,409	\$3.44
Burlingame	2,831,755	840,894	8.8%	10.2%	10.1%	10,261	32,049	54,792	148,088	\$4.92
North County Totals	7,305,143	840,894	6.8%	8.7%	10.6%	69,586	10,249	107,266	385,322	\$4.15
San Mateo	8,142,523	307,541	8.8%	12.2%	13.2%	247,235	415,854	180,122	731,170	\$5.09
Foster City	2,424,400	0	17.6%	18.3%	15.1%	(63,026)	(8,945)	6,835	283,215	\$5.24
Redwood Shores	3,239,803	0	16.2%	21.3%	17.8%	4,444	(36,397)	73,745	506,950	\$5.56
Central County Totals	13,806,726	307,541	12.2%	15.5%	14.7%	188,653	370,512	260,702	1,521,335	\$5.23
Belmont/San Carlos	1,629,218	0	7.2%	9.1%	21.4%	(11,502)	(22,057)	27,133	350,665	\$4.78
Redwood City	5,454,904	1,784,183	2.3%	2.9%	5.1%	25,356	13,419	9,731	105,224	\$6.59
Menlo Park	6,329,567	795,975	2.8%	3.9%	8.3%	(14,454)	74,048	62,355	401,046	\$10.60
South County Totals	13,413,689	2,580,158	3.1%	4.1%	9.0%	(600)	65,410	99,219	856,935	\$8.26
Peninsula Total	34,525,558	3,728,593	7.6%	9.7%	11.7%	257,639	446,171	467,187	2,763,592	\$6.18
Class A	15,804,203	3,728,593	9.0%	11.8%	12.3%	167,156	402,290	151,293	1,374,934	\$5.58
Class B	13,158,877	0	6.5%	8.0%	13.1%	121,344	83,774	290,670	1,267,703	\$4.95
Class C	5,562,478	0	3.0%	3.5%	3.8%	(30,861)	(39,893)	25,224	120,955	\$3.99

Notable Sale Transactions

WOODSTOCK DEVELOPMENTS & INVESTMENTS 1350 Bayshore Hwy, Burlingame
196,000 s.f. | \$75.3M or \$384/s.f.

THE FEIRMAN CORPORATION 558 Brewster Avenue, Redwood City
5,580 s.f. | \$6.13M or \$1,097/s.f.

SARES-REGIS GROUP 208 Miller Avenue, South San Francisco
13,226 s.f. | \$6M or \$453/s.f.

Notable Lease Transactions

VERKADA INC. 405 E. 4th Avenue, San Mateo
62,341 s.f. (sublease)

WEWORK 1840 Gateway Drive, San Mateo
37,390 s.f.

SIGNALFX 3050 S. Delaware Street, San Mateo
34,240 s.f. (sublease)

Market Breakdown

	3Q19	2Q19	3Q18	Annual % Change
Direct Vacancy Rate	7.6%	7.9%	8.2%	-7.32%
Availability Rate	11.7%	12.7%	13.7%	-14.60%
Asking Lease Rate	\$6.18	\$5.32	\$5.05	22.33%
Leased SF	467,187	1,141,096	1,050,891	-55.54%
Sold SF	242,214	445,723	36,429	564.89%
Net Absorption	257,639	244,470	-17,924	N/A

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 800 real estate professionals and staff in 22 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

COMMERCIAL BROKERAGE

20M
ANNUAL SALES SF

40M
ANNUAL LEASING SF

420+
NO. OF BROKERS

\$9B
ANNUAL TRANSACTION VOLUME

VALUATION ADVISORY

1,600+
APPRAISALS ANNUALLY

39/24
TOTAL NO. APPRAISERS/MAI'S

PROPERTY MANAGEMENT

70M+
MANAGEMENT PORTFOLIO SF

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