

# Peninsula Office

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



## Notable Lease Transactions

**Versartis**  
1020-1060 Marsh Road, Menlo Park  
51,694 s.f.

**Gunderson Dettmer**  
550 Allerton Street, Redwood City  
46,887 s.f.

**Ten-X**  
3050 S Delaware Street, San Mateo  
33,581 s.f.

**The Home Depot USA Inc.**  
4000 E Third Avenue, Foster City  
24,375 s.f. (renewal)

**Siemens**  
4000 E Third Avenue, Foster City  
24,337 s.f. (renewal)

## Notable Sale Transactions

**Rakuten, Inc.**  
700-900 Concar Drive, San Mateo  
\$179,500,000 | \$841/s.f.

**Ellis Partners**  
411 Borel Avenue, San Mateo  
\$16,500,000 | \$117/s.f.

**Black Mountain Properties**  
2400 Broadway, Redwood City  
\$10,217,000 | \$681/s.f.

The Peninsula office market remained active during the first quarter as strong leasing activity led to 408,289 s.f. of positive net absorption. The Peninsula's lower rates are attracting tenants from the overpriced markets of San Francisco and Silicon Valley, which will likely continue throughout the year. Increased development within San Mateo and Redwood City's downtown cores have made the Peninsula a more desirable location for companies to relocate to, while an influx of multifamily properties have allowed companies to retain and recruit new talent. Stabilized vacancies and rental rates continue to make the Peninsula an attractive market, and moderate leasing activity is expected throughout the remainder of 2017. However, larger blocks of sublease space are expected to simultaneously be placed on the market as the year progresses, which will potentially lead to softening rates in higher priced submarkets.

Construction activity was very active during the first quarter. Hines' 305,000 s.f. 400/450 Concar project in San Mateo was delivered in shell condition, which has 95,000 s.f. available as Medallia has pre-leased 210,000 s.f. East Palo Alto is not included in our data as it's an unincorporated part of San Mateo County, but it's important to note Sobrato's 214,052 s.f. University Plaza project that was also delivered in shell condition. Amazon is expected to occupy the building in late-2017 after agreeing to lease the entire project. Two additional projects broke ground in Burlingame during the first quarter. First was Dewey Land Company's 56,000 s.f. building at 225 California Drive, which has been pre-leased by Stanford and will be delivered at years end. Genzon Property Group broke ground on their 767,000 s.f. Burlingame Point campus, which was formerly the Burlingame Drive-In Theater. The four-building campus will be completed in phases, with the first phase being delivered during the second half of 2018. Out of the 1.71 million s.f. of product currently under construction, 25.9% of it has been pre-leased.

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# Area Review

## Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Vacancy	Sublease Vacancy	Q1 Net Absorption	Direct Vacant Rate	Average Direct Rental Rate
Daly City	41	1,458,844	215,264	6,392	7,686	14.80%	\$3.60
Brisbane	14	1,013,756	200,028	0	85,851	19.70%	\$3.65
South San Francisco	91	5,453,740	384,095	16,211	106,317	7.00%	\$3.42
San Bruno/Millbrae	49	1,708,890	13,743	0	62,496	0.80%	\$3.21
Burlingame	83	2,821,792	175,376	10,606	9,580	6.20%	\$3.45
North County Totals	278	12,457,022	988,506	33,209	271,930	9.70%	\$3.44
San Mateo	172	7,914,721	800,810	260,886	72,636	10.10%	\$4.54
Foster City	35	2,703,592	313,254	52,038	(16,982)	11.60%	\$4.91
Central County Totals	207	10,618,313	1,114,064	312,924	55,654	10.85%	\$4.63
Redwood Shores	48	3,012,614	329,164	36,078	67,067	10.90%	\$4.99
Belmont/San Carlos	45	1,369,404	37,625	31,578	67,446	2.70%	\$4.67
Redwood City	164	5,440,817	348,247	16,705	(141,000)	6.40%	\$5.13
Menlo Park	178	5,406,089	288,493	52,741	87,192	5.30%	\$6.53
South County Totals	435	15,228,924	1,003,529	137,102	80,705	6.33%	\$5.56
<b>Total</b>	<b>920</b>	<b>38,304,259</b>	<b>3,106,099</b>	<b>483,235</b>	<b>408,289</b>	<b>8.10%</b>	<b>\$4.61</b>

The first quarter of 2017 finished with 408,289 s.f. of positive net absorption. The active quarter led to a 0.4% decline in vacancy rate, which currently sits at 8.1%. Life science company Versartis executed the most notable transaction after taking 51,694 s.f. at 1020-1060 Marsh Road in Menlo Park, which will become the company's office headquarters. Law firm Gunderson Dettmer carried out the second largest transaction as they pre-leased 46,887 s.f. at Premia Capital's 550 Allerton Street project in Redwood City, which will be delivered at the end of the third quarter. Ten-X, an online real estate platform, completed the third largest transaction by subleasing 33,581 s.f. from SurveyMonkey at their new Bay Meadows office in San Mateo. Home Depot U.S.A. and Siemens also renewed their leases at 4000 E Third Avenue in Foster City to retain 24,375 s.f. and 20,228 s.f., respectively.

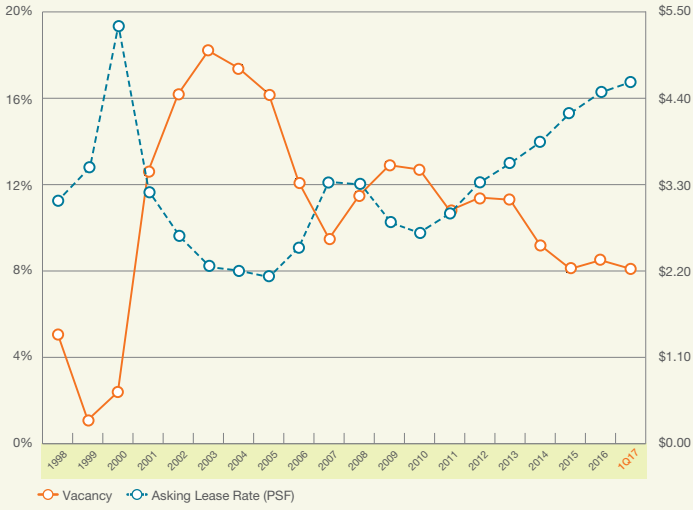
The average asking rate is currently \$4.61/s.f., fully serviced (FS), a 3.1% increase over the previous quarter. Menlo Park continues to set the high water mark at \$6.53/s.f., FS. Healthy leasing activity allowed the Peninsula's average rental rate to defy the increase in sublease space, which soared 36% over the previous quarter to 1,263,926 s.f. San Mateo experienced the largest influx of sublease space, which was driven by Salesforce's 114,268 s.f. at 900 Concar Drive.

Available sublease space is expected to increase throughout the year, which could have an impact on direct Class-A space, particularly among larger spaces. However, sublease space will also be acquired by tenants looking to enter the Peninsula market at a discounted rate with shorter lease terms.

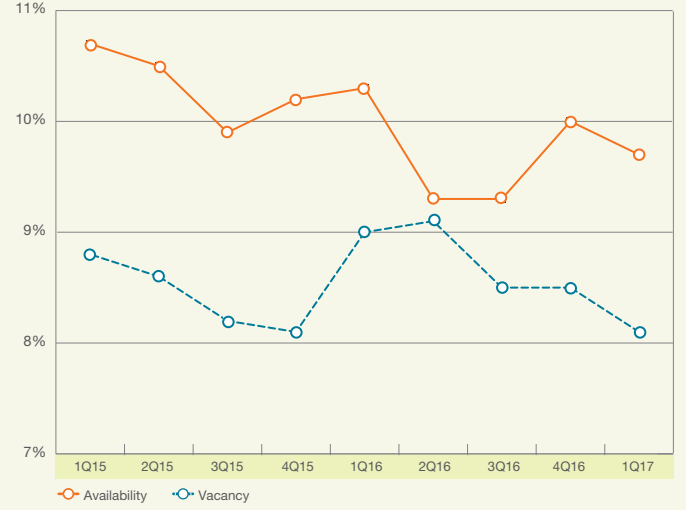
Investment activity has progressively slowed over the past few quarters as rental rates have plateaued. Rakuten Inc. anchored the first quarter's investment activity after acquiring 700-900 Concar Drive in San Mateo, which is comprised of two five-story office buildings and a small single-story office building. The Japanese internet and e-commerce company purchased the three buildings for \$179.5 million, or \$841/s.f. Ellis Partners carried out the second largest transaction as they paid \$16.5 million, or \$117/s.f., for 411 Borel Avenue in San Mateo. Ellis Partners acquired the property from Interland on a short term ground lease. Lastly, Black Mountain Properties purchased 2400 Broadway in downtown Redwood City for roughly \$10.2 million, or \$681/s.f. Investment activity is expected to decrease throughout 2017 as the five year outlook for rental rate escalations limits the increased cash flow desired by investors.

Source: CoStar

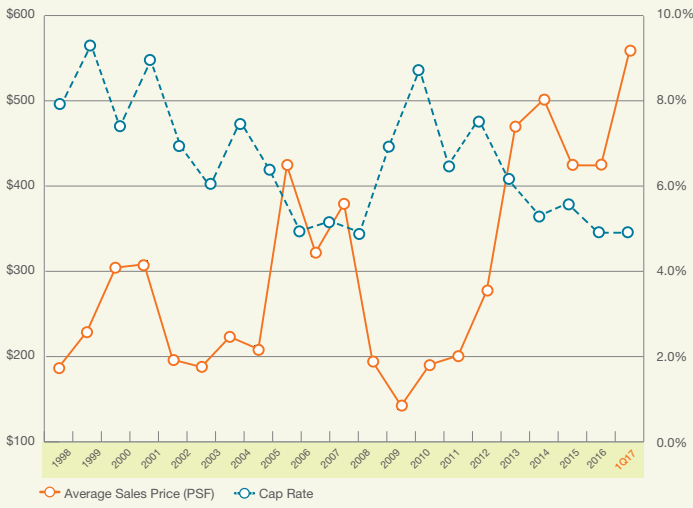
### VACANCY VS ASKING LEASE RATE



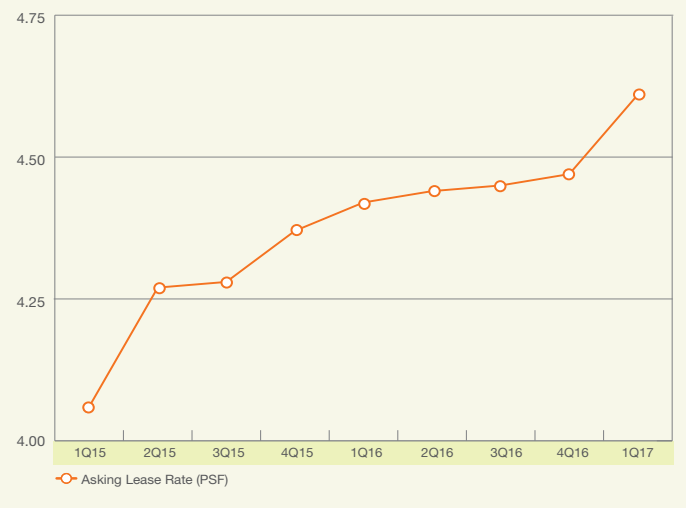
### VACANCY VS AVAILABILITY



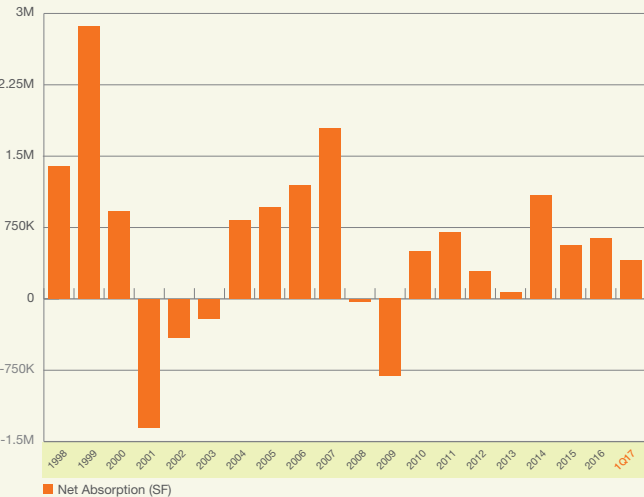
### AVERAGE SALES PRICE & CAPITALIZATION RATES



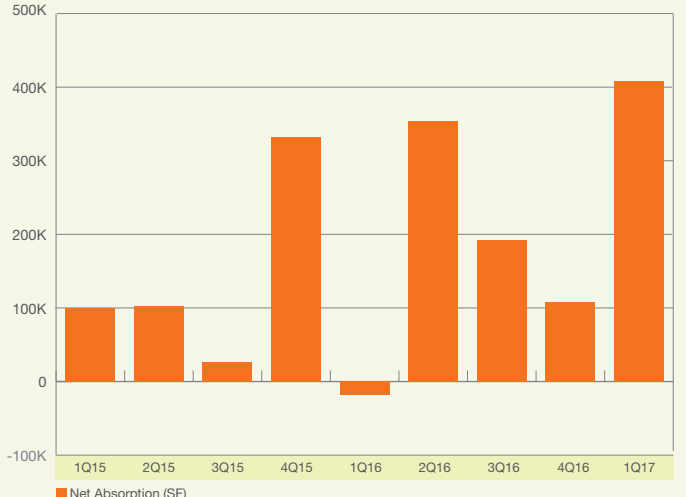
### DIRECT ASKING LEASE RATE



### 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**

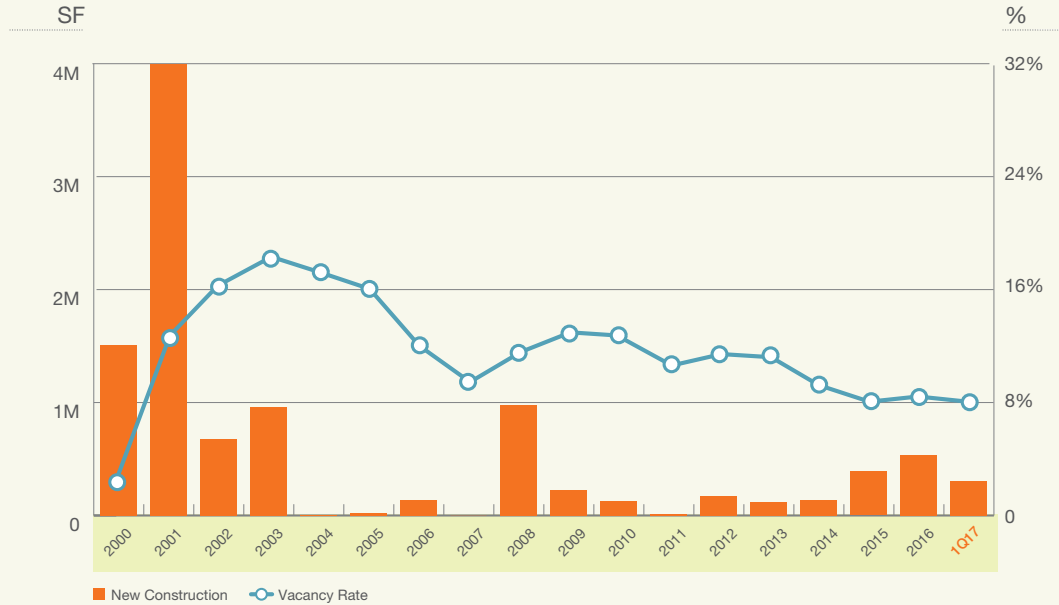
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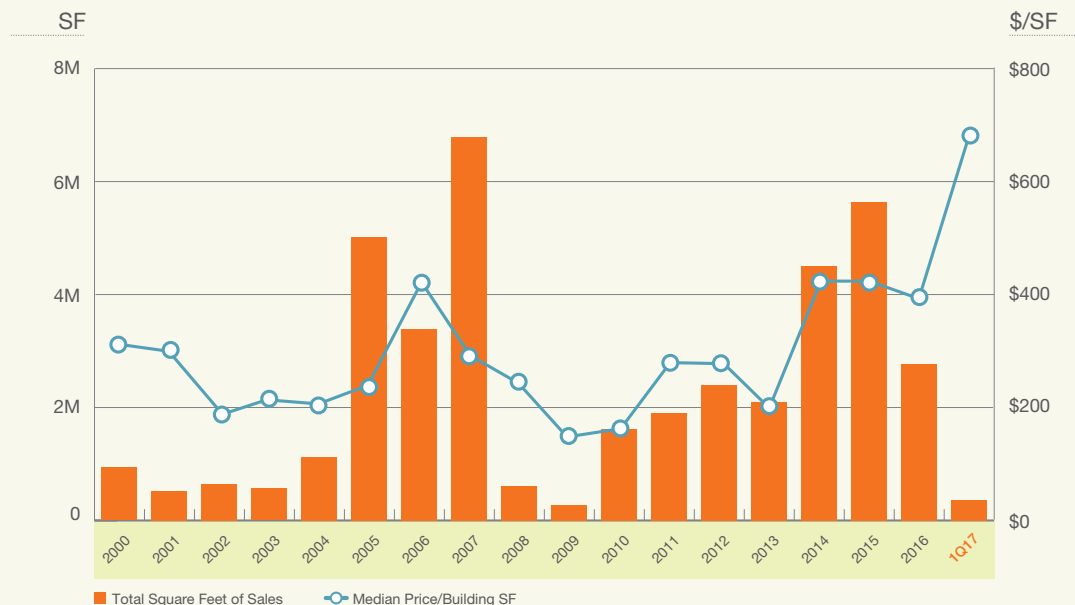
**Market Breakdown**

	Q1 2017	Q4 2016	Q1 2016	Annual % Change
Vacancy Rate	8.1%	8.5%	9.0%	-0.9%
Availability Rate	13.0%	12.4%	12.9%	0.1%
Asking Lease Rate	\$4.61	\$4.47	\$4.42	4.3%
Sold SF	366,146	821,261	1,243,791	-70.6%
Net Absorption	408,289	108,624	-18,335	N/A

**HISTORICAL NEW CONSTRUCTION & VACANCY RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



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