

# MARKETBEAT INDUSTRIAL SNAPSHOT



## SAN FRANCISCO PENINSULA, CA A Cushman & Wakefield Research Publication

Q1 2014



### ECONOMIC OVERVIEW

San Mateo County's high technology employment sector continued to add jobs at a pace of 2.2% through the year ending in March, according to Moody's Analytics. This healthy growth is an improvement from the 2.0% state-wide average and well above the 1.6% national average recorded during the same time period. Meanwhile, the local manufacturing employment base expanded by 2.5%, a strong performance following three straight years of job losses.

### VACANCY: HOW LOW CAN IT GO

The overall vacancy rate for industrial space in the San Francisco Peninsula market is approaching historical lows at 4.7%, down 1.0 percentage points from this time last year and inching closer to the 4.1% recorded on the eve of the dotcom bust in 2001. There is currently no new speculative supply in the pipeline and we are tracking a number of industrial requirements expected to land during the next three quarters. As much of the quality space was first to go, remaining available options are less attractive and available for a premium price. We are watching to see how low vacancies will go before developers move forward with proposed speculative construction.

Tight market conditions led to continued rent appreciation through the first quarter of the year at \$1.52 per square foot per month (psf/mo), a 5.6% increase from year-end and 31.0% higher year-over-year. This overall increase was led by landlords raising the rent for available high tech space through the first quarter resulting in a market-wide average of \$2.61 psf/mo, a 14.0% increase from year-end and 41.1% higher than this time last year. High tech rent figures have surpassed the previous high-water mark of \$2.27 psf/mo recorded at the end of 2008.

Leasing activity started the year at a much slower pace than the elevated figures recorded in 2013 with only 252,913 square feet (sf) leased. While this figure is 70.0% lower than this time last year, a slower pace of leasing is expected amongst extremely tight market conditions as there are limited options for tenants. Sluggish leasing during the quarter coupled with notable vacated spaces resulted in occupancy loss of nearly the same amount that was leased: 278,955 sf. The new space that was placed on the market will likely be absorbed quickly as these new availabilities are located in highly sought after submarkets of Palo Alto, Menlo Park and South San Francisco.

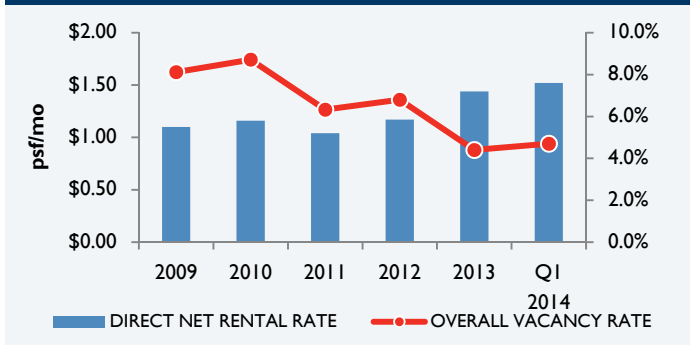
### OUTLOOK

High tech employment growth in this market is poised to surpass state and national projections through the next two years, increasing by 2.7% through the next three quarters and maintaining a strong growth rate of 2.5% in 2015 according to Moody's Analytics. Extremely tight market conditions coupled with a limited amount of supply in the pipeline will cause further upward pressure on asking rents as vacancy rates are expected to continue to trend downward.

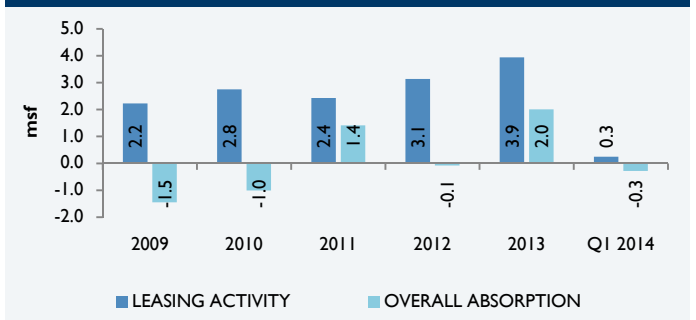
### STATS ON THE GO

	Q1 2013	Q1 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	5.7%	4.7%	-1.0pp	▼
Direct Asking Rents (psf/mo)	\$1.16	\$1.52	31.0%	▲
YTD Leasing Activity (sf)	842,733	252,913	-70.0%	▲

### DIRECT RENTAL VS. VACANCY RATES



### LEASING ACTIVITY VS. OVERALL ABSORPTION



## SAN FRANCISCO PENINSULA, CA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	YTD USER SALES ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE		
									HT	MF	W/D
South San Francisco	21,594,030	3.8%	55,012	0	0	0	(189,081)	(189,081)	\$1.37	\$0.85	\$0.66
San Bruno	459,899	0.0%	11,935	0	0	0	3,600	3,600	\$0.00	\$0.00	\$0.00
Daly City	785,340	0.0%	0	0	0	0	0	0	\$0.00	\$0.00	\$0.00
Milbrae	246,271	0.0%	0	0	0	0	0	0	\$0.00	\$0.00	\$0.00
Burlingame	4,646,746	2.9%	16,676	0	0	0	13,330	13,330	\$0.00	\$0.00	\$0.79
Brisbane	4,399,346	5.1%	11,800	0	0	0	34,565	34,565	\$0.89	\$0.00	\$0.76
San Mateo	568,050	8.2%	0	0	0	0	(12,300)	(12,300)	\$0.00	\$0.58	\$0.97
Foster City	2,508,875	0.7%	0	124,293	0	0	3,060	3,060	\$2.20	\$0.00	\$0.00
Belmont	1,927,794	8.2%	0	0	0	0	(20,000)	(20,000)	\$1.17	\$0.00	\$0.67
San Carlos	4,863,121	2.6%	24,908	0	0	0	22,783	20,528	\$1.16	\$0.98	\$0.83
Redwood City	5,790,637	3.8%	23,132	0	0	0	18,121	18,121	\$1.85	\$0.00	\$0.72
Menlo Park	7,197,445	9.8%	46,673	0	0	0	(78,824)	(69,139)	\$1.84	\$0.00	\$0.51
Palo Alto (Non-SRP)	3,403,158	1.6%	49,052	29,701	0	0	(1,679)	9,021	\$1.62	\$1.67	\$0.00
Palo Alto (SRP)	6,446,193	8.7%	13,725	0	111,135	0	(81,008)	(90,660)	\$5.25	\$0.00	\$0.00
Redwood Shores	265,402	0.0%	0	0	0	0	0	0	\$0.00	\$0.00	\$0.00
<b>TOTALS</b>	<b>65,102,307</b>	<b>4.7%</b>	<b>252,913</b>	<b>153,994</b>	<b>111,135</b>	<b>0</b>	<b>(287,433)</b>	<b>(278,955)</b>	<b>\$2.61</b>	<b>\$1.06</b>	<b>\$0.68</b>

\* RENTAL RATES REFLECT ASKING \$PSF/MONTH

HT= HIGH TECH MF = MANUFACTURING W/D = WAREHOUSE/DISTRIBUTION

## MARKET HIGHLIGHTS

### SIGNIFICANT Q1 2014 LEASE TRANSACTIONS

SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET	
210-380 Portage Avenue	Palo Alto (Non-SRP)	Groupon, Inc.	Manufacturing	27,443
377 Oyster Point Boulevard, Bldg. B	South San Francisco	City Pick Up & Trucking	Warehouse/Distribution	14,830
4400 Bohannon Drive	Menlo Park	Avasdi	High Technology	13,685

### SIGNIFICANT Q1 2014 SALE TRANSACTIONS

SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET	
1117 California Avenue	Palo Alto (SRP)	Morgan Stanley Real Estate	\$65,000,000 / \$858	75,785
501 Airport Boulevard South	South San Francisco	Robert E. Simms	Confidential	38,000
333-353 Hatch Drive	Foster City	Gray Peak Fork LLC	\$6,500,000 / \$196	33,228

### SIGNIFICANT Q1 2014 CONSTRUCTION COMPLETIONS

SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A			

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)	
1701 Page Mill Road, Bldg 1 & 2	Palo Alto (SRP)	Theranos, Inc.	Q4 2014	111,135 (100.0%)