MARKETBEAT
INDUSTRIAL SNAPSHOT

SAN FRANCISCO PENINSULA, CA
A Cushman & Wakefield Research Publication

Q2 2014

ECONOMIC OVERVIEW

San Mateo County's market fundamentals continue to strengthen as the employment base expands at a healthy pace. Tech employment has been especially strong, driven by the expanding biotech companies in the region. Of the more than 7,600 total nonfarm jobs added in the past twelve months, 46.2% were high tech jobs and 5.4% were manufacturing jobs, according to Moody's Analytics. The manufacturing employment base has been improving with 1.8% employment growth over the past year; however, the total number of jobs lost during the recession has not yet been recovered.

OVERALL VACANCY NEARS RECORD LOW

The overall vacancy rate for industrial space plummeted 100 basis points during the second quarter and 180 basis points year-over-year to 3.7%. As market conditions continued to tighten, upward pressure was applied to asking rates, resulting in a 13.2% increase from the previous quarter and 52.2% higher than one year ago to end at $1.72 per square foot per month (psf/mo). Year-to-date leasing activity was slightly less than this time last year, however, it is likely the result of limited options hampering leasing figures, which we expect will continue in the short term. Net absorption, often a key barometer used to gauge the health of the market, reflects strong occupancy gains of 282,775 square feet (sf) recorded in the first half of the year. Tenants are finding the benefits in renewing existing leases as relocation within the market becomes increasingly challenging given the lack of available options coupled with strong rent appreciation.

The thriving biotech and medical device industries continues to fuel this market. As companies successfully move through the FDA approval process and receive venture backed funding, high tech expansion requirements will likely increase in the second half of the year.

There are only two projects currently under construction, both were preleased by strong credit tenants and scheduled to be complete in the fourth quarter of 2014. At the end of 2013, Theranos, Inc. preleased the 111,135-sf two-building high tech campus currently under construction in the Stanford Research Park. Onyx Pharmaceuticals preleased the 135,000-sf high tech building under construction and a 135,000-sf proposed building which will add a fifth building to the Alexandria Technology Campus upon completion.

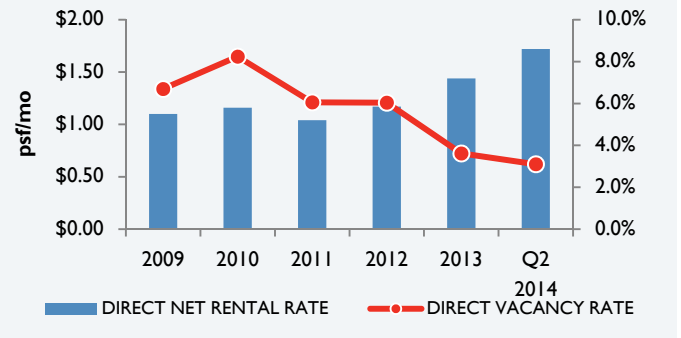
OUTLOOK

Local high tech employment growth is poised to surpass state and national projections through the next two years, increasing by 2.7% through the rest of the year 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.

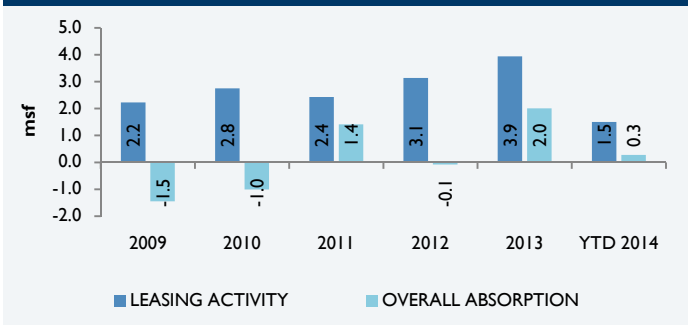
STATS ON THE GO

	Q2 2013	Q2 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	5.5%	3.7%	-180 bps	▼
Direct Asking Rents (psf/mo)	$1.13	$1.72	52.2%	▲
YTD Leasing Activity (sf)	1,839,186	1,501,124	-18.4%	▲

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY VS. OVERALL ABSORPTION



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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	21,657,887	2.5%	416,917	0	135,000	0	24,990	49,746	$1.36	$1.20	$0.73
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	247,928	0.0%	19,657	0	0	0	0	0	$0.00	$0.00	$0.00
Burlingame	4,646,746	2.9%	52,143	0	0	0	(2,529)	11,323	$0.00	$0.00	$0.82
Brisbane	4,399,346	2.6%	264,844	0	0	0	143,249	143,249	$0.00	$0.00	$0.82
San Mateo	568,050	7.1%	12,300	0	0	0	(6,000)	(6,000)	$0.00	$0.85	$0.00
Foster City	2,508,875	0.8%	0	124,293	0	0	(40)	(40)	$2.00	$0.00	$1.18
Belmont	1,927,794	8.2%	0	0	0	0	(20,220)	(20,220)	$1.16	$0.00	$0.68
San Carlos	4,855,771	2.4%	54,855	61,520	0	0	38,420	29,706	$1.20	$0.98	$1.02
Redwood City	5,789,885	3.9%	92,698	0	0	0	610	7,099	$1.81	$0.00	$1.07
Menlo Park	7,255,072	6.4%	247,886	0	0	0	121,868	150,424	$1.66	$0.00	$0.55
Palo Alto (Non-SRP)	3,405,158	2.0%	58,203	29,701	0	0	(10,528)	(3,813)	$1.50	$1.44	$0.00
Palo Alto (SRP)	6,446,475	8.6%	269,686	0	111,135	0	(72,647)	(82,299)	$5.39	$0.00	$0.00
Redwood Shores	265,402	0.0%	0	0	0	0	0	0	$0.00	$0.00	$0.00
TOTALS	**65,219,628**	**3.7%**	**1,501,124**	**215,514**	**246,135**	**0**	**220,773**	**282,775**	**$2.75**	**$1.16**	**$0.77**

* RENTAL RATES REFLECT ASKING $PSF/MONTH HT= HIGH TECH MF = MANUFACTURING W/D = WAREHOUSE/DISTRIBUTION

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
3400 Hillview Avenue	Palo Alto (SRP)	Nest Labs (Google)	High Technology	207,587
455 Valley Drive	Brisbane	Confidential	Warehouse/Distribution	105,600
285 East Grand Avenue	South San Francisco	Genentech, Inc.	High Technology	62,655

SIGNIFICANT Q2 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / $PSF	SQUARE FEET
Edgewater Business Park (6 bldgs)	South San Francisco	The Carlyle Group	$48,599,862 / $288	168,814
3175 Hanover Street	Palo Alto (SRP)	Sand Hill Property Company	$140,000,000 / $1,080	129,678
485 Campbell Avenue	Menlo Park	Goldman Sachs	$47,170,400 / $800	58,963

SIGNIFICANT Q2 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)
269 East Grand Avenue	South San Francisco	Onyx Pharmaceuticals, Inc.	Q4 2014	135,000 (100.0%)
1701 Page Mill Road, Bldg 1 & 2	Palo Alto (SRP)	Theranos, Inc.	Q4 2014	111,135 (100.0%)

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