

MARKETBEAT

San Mateo County

Industrial Q2 2019



SAN MATEO COUNTY INDUSTRIAL

Economic Indicators

	Q2 18	Q2 19*	12-Month Forecast
SF Peninsula Employment	1.1M	1.2M	■
SF Peninsula Unemployment	2.3%	2.3%	■
U.S. Unemployment	3.9%	3.6%	▼

*Q2 19 data based on the latest available data.
Source: BLS, Moody's Analytics, Cushman & Wakefield Research

Market Indicators (Overall, All Product Types)

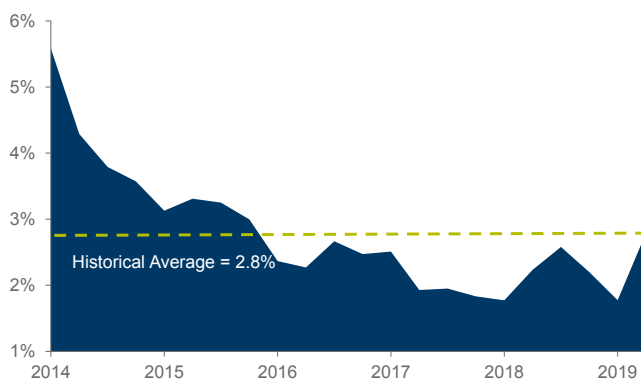
	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	2.2%	2.8%	■
Net Absorption (sf)	-220k	-446k	▼
Under Construction (sf)	0	0	■
Average Asking Rent*	\$1.36	\$1.51	▲

*Rental rates reflect NNN asking \$psf/month

Overall Net Absorption/Overall Asking Rent (NNN) 4-QTR TRAILING AVERAGE



Overall Vacancy



New Opportunities Coming to Market

The unemployment rate for the core Bay Area markets increased slightly year-over-year (YOY) rising 10 basis points (bps) to 2.8% from 2.7%. With that said, there are over 3.7 million gainfully employed workers, and the region continues to record economic growth despite being almost a decade into this expansion. Meanwhile, the San Francisco Metropolitan Division (San Francisco and San Mateo counties) has outperformed the broader Bay Area with the latest unemployment rate recorded at just 2.3%.

At the close of the second quarter of 2019, San Mateo County's industrial vacancy rose to 2.8%, a 100 bps increase from last quarter's reading of 1.8%. Over the last few years, this market has been near full capacity. The addition of space coming back to the market would seem to be great news for potential tenants looking to lease space. That said, there are only 31 listings over 10,000 square feet (sf) and no listings ready for occupancy over 100,000 sf. However, it was just announced that a full building opportunity with over 200,000 sf of availability will be ready for occupancy in the fourth quarter of 2019. Although new opportunities are appearing, much of the remaining product is older and, in some cases, functionally obsolete. Tenants looking for modern high cube space often have to look to neighboring markets. These larger tenants typically end up going to the East Bay or Silicon Valley. When quality space does come back on the market it is leased relatively quickly. This has given rise to landlords putting capital into existing spaces to make them more practical for the modern user.

The average asking rate in San Mateo County remains near its historical high thanks to the scarcity of available space. At the close of the second quarter of 2019 the average asking rate was \$1.51 per square foot (psf), on a monthly basis, triple net, a slight decrease from last quarter's reading of \$1.53 psf. Most landlords are not pushing existing rates on older product that has been difficult to lease. However, given the extreme supply shortage, asking rates on new listings have more ability to grow exponentially. The average rate for manufacturing and light industrial product was recorded at \$1.79 psf while warehouse product reached \$1.43 psf. On average, markets that contain more available manufacturing appear to have higher asking rates than markets with more warehouse product.

Net absorption was in the red this quarter to the tune of negative 446,000 sf, mostly due to the increase in available listings. There was 24,000 sf of industrial product converted to R&D this quarter which contributed to this negative figure. At the very least, an additional 52,000 sf will count towards positive net absorption in the third quarter of 2019 due to a lease signed with a future occupancy date. Looking ahead, net absorption (or occupancy growth) will be

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minimal until new construction is completed since there are few existing options remaining.

The industrial development pipeline in San Mateo County has been bone dry now for almost twenty years. What development projects have been approved go towards office, lab or residential due to the steeper rental prices they can command. Additionally, those product types are able to be built upwards requiring less

FUTURE LARGE BLOCK OPPORTUNITIES ON THE HORIZON

land – a rare commodity on the Peninsula - while industrial has historically been able to only go horizontal. Not only is there a lack of new product in the making, but the county has begun losing inventory at a faster rate. In fact, three significant industrial projects are being demolished for new mixed used developments very soon. Over 134,000 sf at Tanklage Square in San Carlos has already made room for Alexandria's 556,000 square foot "Alexandria District" science and technology development. Almost 400,000 sf at Oyster Point Business Park will be replaced with Kilroy's Landing at Oyster Point, which will be a mix of office and lab totaling over 1.5 million square feet (msf). And another 617,000 sf will be removed for Facebook's expansions in Menlo Park.

Moving forward, San Mateo County's industrial market will struggle to produce high levels of growth despite the strong demand until more product is added which is, quite frankly, looking unlikely. Despite all this, San Mateo County's industrial market is chock-full of tenants and demand remains high as any quality space is absorbed as soon as it hits the market.

Outlook

- Many industrial projects are being demolished or even converted into alternative property types. There are zero planned projects for industrial use and hasn't been any for some time. This has created a significant supply shortage. Growth has been deterred by the supply shortage but the market remains at near full occupancy.
- Vacancy, despite some significant listing additions in the current quarter, remains at 2.8%. Future listings are on the horizon but will likely be absorbed quickly.
- Asking rates will continue to climb with the most recent average asking rate being recorded at \$1.51 NNN, psf.

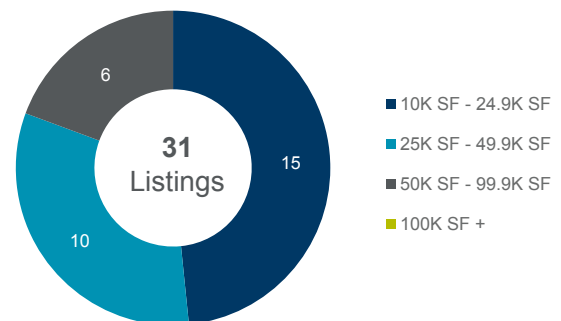
Direct & Sublease Available Space

SUPPLY SHORTAGE HAS KEPT MARKET EXTREMELY TIGHT



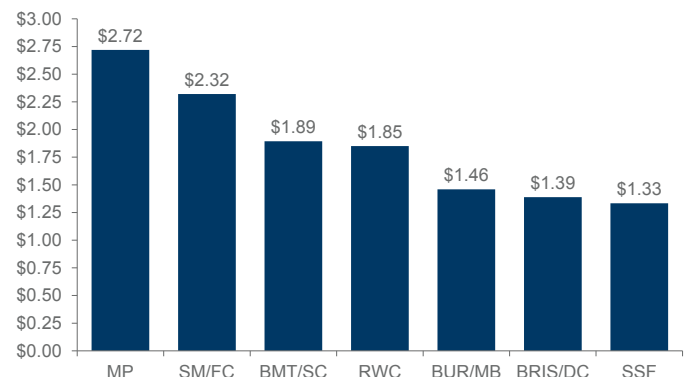
Availabilities by Size Segment

LARGE BLOCKS OF AVAILABLE SPACE IN HIGH DEMAND



Average Asking Rate by Submarket (NNN)

MANUFACTURING RATES AFFECTING HIGHEST PRICED SUBMARKETS



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL WEIGHTED AVERAGE ASKING RENT*
Brisbane/Daly City	5,582,841	79,300	78,509	2.8%	-121,423	-86,602	0	\$1.39
S. San Francisco/San Bruno	17,416,213	250,741	312,438	3.2%	-324,060	-185,115	0	\$1.33
Burlingame/Millbrae	4,429,053	52,150	111,303	3.7%	582	-6,961	0	\$1.46
NORTH COUNTY	27,428,107	382,191	502,250	3.2%	-444,901	-278,678	0	\$1.37
San Mateo/Foster City	1,296,188	5,000	21,505	2.0%	0	33,775	0	\$2.32
Belmont/San Carlos	6,974,150	73,636	70,411	2.1%	6,963	-292,085	0	\$1.85
Redwood City	3,861,719	0	80,696	2.1%	5,229	-12,363	0	\$1.89
Menlo Park	1,901,003	0	22,025	1.2%	-12,800	-13,800	0	\$2.72
TOTAL	41,461,167	460,827	696,887	2.8%	-445,509	-563,151	0	\$1.51

*Rental rates reflect asking \$psf/month converted to Triple Net

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
100 W Hill Dr.	54,910	Alpha Flight Group	Ashford Kelton I LLC	New Lease	Brisbane/Daly City
30 Tanforan Ave.	51,774	All West Container Co.	Lane Partners	Sublease	S. San Francisco/San Bruno
2225 Spring St.	41,290	U.S. Bank	Del-Camp Investments	New Lease	Redwood City
610 Quarry Rd.	40,064	CellLink Corporation	MM&H Properties	New Lease	Belmont/San Carlos
405 Eccles Ave.	28,880	Team Worldwide	Blake Properties	Renewal	S. San Francisco/San Bruno

Key Sale Transactions Q2 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	SUBMARKET
355-369 Adrian Rd.	39,511	GEMISYS Financial Services	John Hansen Trust	\$13,000,000 / \$329	Burlingame/Millbrae
2415 Bay Rd.	21,556	2415 Bay Road Partners LLC	Wantin Living Trust	\$11,000,000 / \$510	Redwood City
1337 N. Carolan Ave.	11,500	Ironstone Metal Works	Gann D Ho	\$4,500,000 / \$391	Burlingame/Millbrae
1500 Industrial Way	11,430	Ernie & Andria Giotinis	Time Advertising	\$2,490,000 / \$218	Redwood City

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Industrial Submarkets San Mateo County



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