



VACANCY DECREASES WHILE LEASING ACTIVITY STALLS

- Overall rents have risen 9.9% over the past year to \$4.64/SF.
- Sublease availability continues to increase in the county.

The amount of available sublease space on the market in San Mateo County has increased by 288,908 square feet since the end of 2015, representing a 28.8% increase. The excess amount of available space means that companies leased more space than needed and that growth was unsustainable. While this could signify an economic slowdown, an increase in sublease availability is not entirely negative, especially for tenants seeking spaces with affordable rents. The second quarter of 2016 saw total availability decrease in nine out of the 12 major cities in the county, pushing countywide total availability down to 10.7% from 11.8% one year ago. So far, leasing activity in 2016 has put a substantial dent in overall tenant demand, which has contracted 37.7% since the beginning of the year. The year began with approximately 3.2 million square feet of overall tenant demand, an amount that has since decreased to about 1.7 million square feet.

San Mateo and Downtown San Mateo Office Submarket

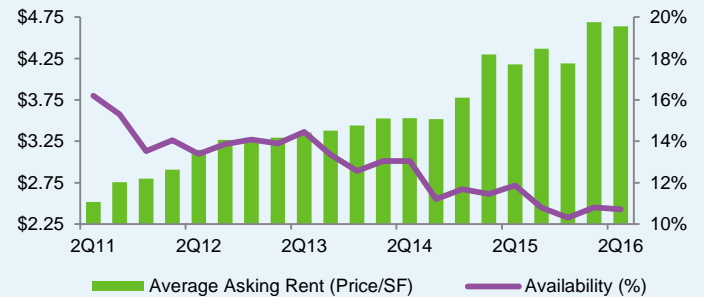
The summer slowdown in leasing activity was especially evident in San Mateo during second-quarter 2016. San Mateo is widely recognized as the largest office market between Brisbane and Menlo Park and customarily demonstrates high leasing velocity. However, this was not the case in second-quarter 2016. Gross absorption in this submarket totaled 237,760 square feet, one of the lowest marks in recent years. The downtown core of San Mateo, however, demonstrated heightened activity between the first and second quarters of 2016. Total availability for Downtown San Mateo is now 4.56%, down from 7.68% in the previous quarter. Downtown San Mateo Class A availability was recorded at 3.84%, down from 7.99% in the previous quarter. Overall rents for Downtown San Mateo rose by 10.2% over the quarter to \$5.29/SF, while Class A rents rose 1.9% to \$5.89/SF.

Notable Lease and Sales Transactions

The North Peninsula office market leveled off in the second quarter of 2016. Whereas several lease transactions in the first quarter eclipsed the 50,000-square-foot mark, the second quarter saw the market lose much of its momentum. Similar to one year ago in second-quarter 2015, there were no lease transactions this quarter involving more than 50,000 square feet. The largest transaction in second-quarter 2016 was made by Meta Company, which subleased 48,266 square feet from GoPro at 2855 Campus Drive in San Mateo. The second-largest transaction in second-quarter 2016 was made by ABS-CBN International Inc., which inked a five-year, 44,503-square-foot lease at 2001 Junipero Serra Boulevard in Daly City. The third-largest transaction of the quarter was made by Delphix Corp., which subleased 44,465 square feet from Pacific Data Images, LLC at 1400 Seaport Boulevard in Redwood City.

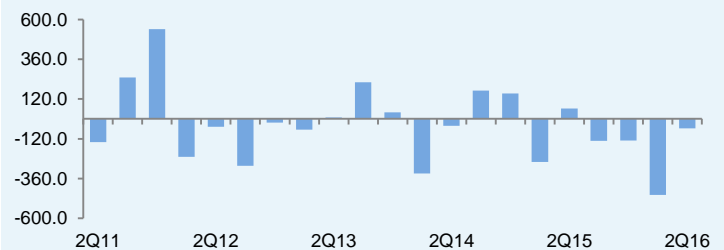
Current Conditions

Asking Rent and Availability



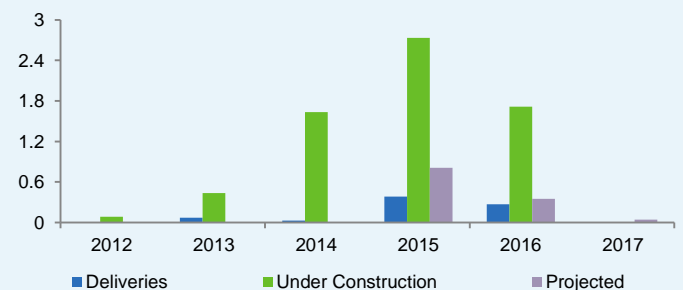
Net Absorption

Square Feet, Thousands



Construction & Deliveries

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	37.5M	37.5M	36.9M	↑
Availability Rate	10.70%	10.81%	11.97%	↓
Quarterly Net Abs. (SF)	-57,675	-458,528	62,876	↑
Average FS Asking Rent	\$4.64	\$4.69	\$4.18	↓
Under Construction (SF)	1.71M	2.48M	2.52M	↓
Deliveries (SF)	0	270,614	0	↑



**NORTH PENINSULA
2Q16 OFFICE MARKET**

Beacon Capital Partners Closes the Quarter with the Acquisition of The Crossroads in San Mateo

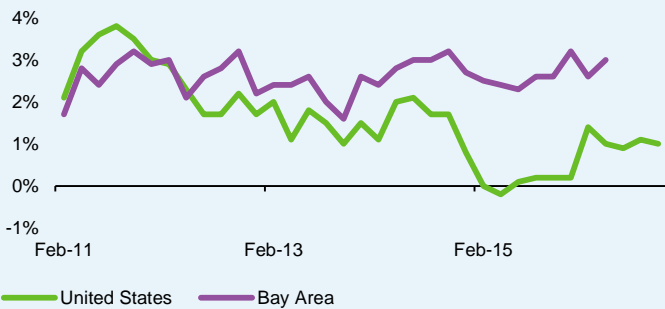
The sale highlight of the quarter was the acquisition of the three Class A office buildings totaling 394,109 square feet, located on 1825-1875 Grant Street, in San Mateo, by Beacon Capital Partners, from Crossroads Associates. Beacon Capital Partners purchased the office portfolio for \$165.8 million, or \$421/SF. The second most notable sale of the quarter was the acquisition of One Bay Plaza in Burlingame, which sold for \$53.4 million, or \$273/SF. Harvest Properties purchased the 195,739-square-foot, Class A office tower from Hudson Pacific Properties, which had acquired the asset in first-quarter 2015 for \$48.6 million, or \$242/SF. The Burlingame submarket, which is generally recognized as a quiet office market, has experienced an increase in

tenant activity over the years. Office owners and developers have taken note of this heightened submarket activity, especially in the downtown core.

The appeal of the downtown submarkets, especially those close to Caltrain stations, has continued to stir up competition between tenants seeking optimal space. In turn, landlords will continue to capitalize on profits by feeding off of tenants' willingness to pay premium rents for these desirable locations. The second quarter of 2016 did not produce as many transactions as hoped for after an active first quarter. Expect overall availability to dip slightly in the third quarter, while leasing activity will remain relatively flat.

Consumer Price Index (CPI)

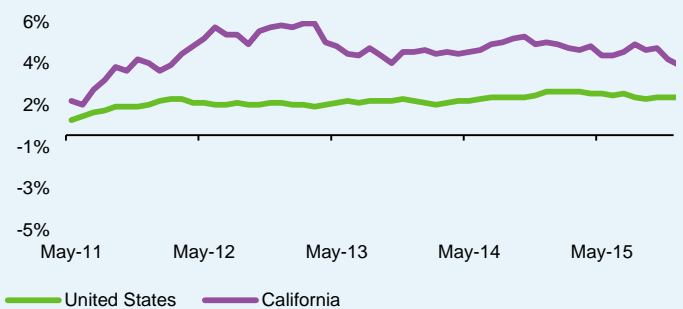
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

Payroll Employment

Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

Select Lease/Owner User Transactions

Tenant	Building	Submarket	Type	Square Feet
Meta Company	2855 Campus Drive	San Mateo	Sublease	48,266
ABS-CBN International, Inc.	2001 Junipero Serra Blvd	Daly City	Direct Lease	44,503
Delphix Corp.	1400 Seaport Blvd	Redwood City	Sublease	44,465
BrightEdge	989 Hillsdale Blvd (E)	Foster City	Direct Lease	36,542
Kilpatrick Townsend & Stocktown, LLP.	1080 Marsh Rd	Menlo Park	Renewal	34,350
XenoPort	2000 Seaport Blvd	Redwood City	Direct Lease	34,329

Select Investment Sale Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
The Crossroads	San Mateo	\$165,820,500	\$421	394,109
1350 Bayshore Highway	Burlingame	\$53,400,000	\$273	195,739
1818 Gilbreth Rd	Burlingame	\$13,358,400	\$254	52,800
1000 Marshall St	Redwood City	\$7,773,000	\$881	8,824


**NORTH PENINSULA
2Q16 OFFICE MARKET**
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Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Availability (SF)	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Average Asking Rent (Price/SF)	Average Class A Asking Rent (Price/SF)
Belmont	1,046,092	0	10,587	1.01%	1,212	1,212	\$4.75	\$4.95
Brisbane	753,161	0	226,692	30.10%	55,246	2,762	\$3.58	\$3.67
Burlingame	2,708,849	0	219,549	8.10%	56,377	22,514	\$3.02	\$3.26
Daly City	1,272,602	0	209,052	16.43%	52,363	49,441	\$3.36	\$4.00
Foster City	3,570,848	563,000	367,135	10.28%	146,859	34,833	\$4.55	\$4.58
Menlo Park	5,447,975	0	536,906	9.86%	128,404	9,421	\$7.64	\$7.92
Redwood City	5,136,984	152,215	652,450	12.70%	107,585	-134,102	\$5.04	\$5.05
Redwood Shores	4,246,880	0	344,703	8.12%	52,392	19,093	\$4.98	\$5.01
San Bruno	1,692,949	0	131,626	7.77%	18,776	11,784	\$3.43	\$3.54
San Carlos	964,917	19,000	51,003	5.29%	30,742	18,464	\$2.98	\$4.30
San Mateo	8,229,746	921,800	885,942	10.73%	237,760	-93,154	\$4.27	\$4.48
Downtown San Mateo	1,286,810	57,800	58,628	4.56%	54,048	33,077	\$5.29	\$5.89
South San Francisco	2,437,491	0	382,142	15.68%	30,978	57	\$3.24	\$3.47
North Peninsula Total	37,508,494	1,713,815	4,017,787	10.71%	918,694	-57,675	\$4.64	\$4.87



NORTH PENINSULA MARKET

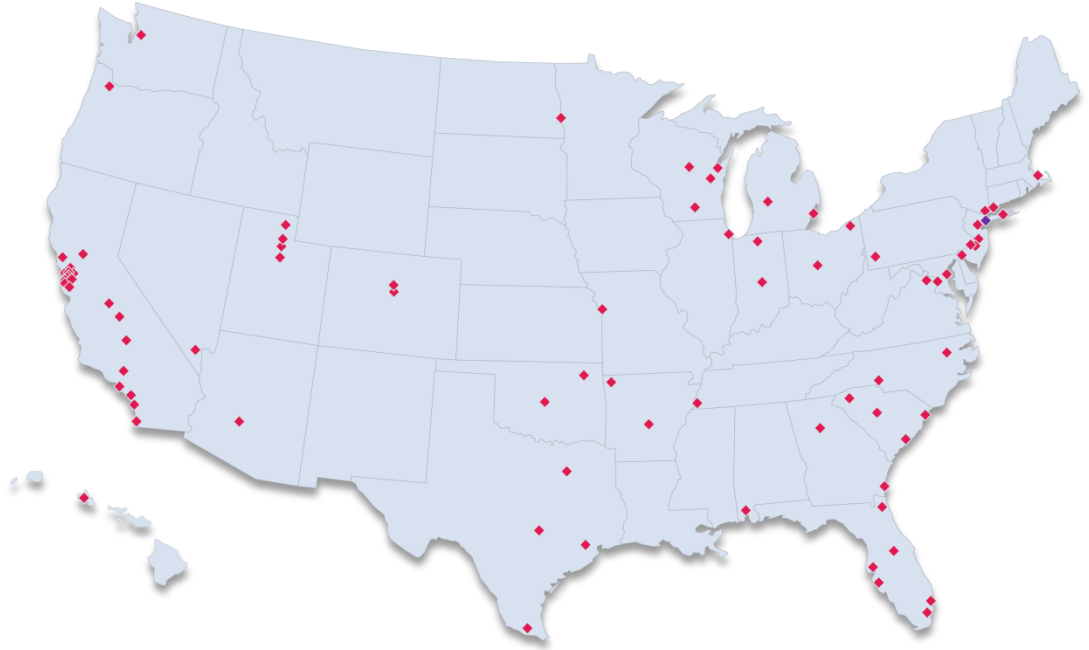
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Newmark Grubb Knight Frank United States Office Locations



Newmark Grubb Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

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