Q3 2019 / Quarterly Industrial Market Report

San Mateo County

Market Facts

2.2%
Overall Vacancy

$1.67 NNN
Average Monthly Asking Rate

34,851,259 SF
Building Base

84,737 SF
Q3 2019 Net Absorption

San Mateo County's industrial market remained steady during the third quarter of 2019. Tenants are consistently facing a limited amount of product paired with exponentially rising rents, making it hard to stay within San Mateo County. However, those issues are not affecting the job market since, as of August 2019, San Mateo County recorded the lowest unemployment rate in the entire state of California at just 2.1%.

Vacancy

The total amount of industrial space along the Peninsula has stayed relatively consistent over the quarters. This market hasn't seen a vacancy rate higher than 5.0% for over seven years. At the close of Q3, San Mateo County recorded 774,193 square feet of available industrial space, translating to a 2.2% vacancy rate. The constant demand for larger spaces and the limited availability is forcing tenants to look elsewhere along the Bay Area, with many companies relocating to the Silicon Valley or the East Bay.

Asking Rates

Overall asking rates within San Mateo County are hitting record highs. The industrial market ended the quarter with an average asking rate of $1.67 per square foot (psf), NNN, which is a 47.8% increase from the $1.13 rate recorded three years ago. Menlo Park continues to command the highest rent ending the quarter with a high average asking rate of $2.97 psf, NNN.

Demand

Although the total amount of activity has decreased since last quarter, the industrial market performed well, ending Q3 with a positive net absorption of 84,737 square feet. Year to date, San Mateo County recorded an occupancy loss of 53,873 square feet, while the total leasing activity totaled 943,493 square feet, down 30% from this same time last year. With no new inventory in the pipeline, tenants remain frustrated and concerned with the lack of industrial inventory within San Mateo County.

Investment Activity

+26%

The interest in industrial product within San Mateo County remained high during the third quarter. Total sale transactions totaled $91.9M, up 26% from the $70.0M recorded last quarter.

Trends to Watch

Conversion

Biotech developers continue to demolish industrial buildings leaving a virtually nonexistent industrial market.

Relocation

Due to the low availability and high rents, tenants have been relocating their companies elsewhere in the Bay Area.

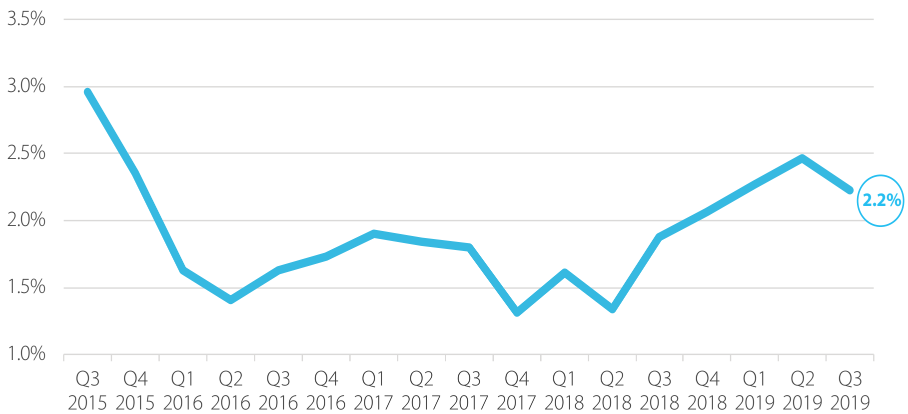
Housing

Despite new residential developments, the demand for housing is much higher than the currently available supply.

1.2 MILLION SQUARE FEET

demolished over the past 5 years for new R&D developments

Historical Vacancy



Sublease Space

Industrial tenants along the Peninsula are finding it hard to find any available space. This issue has caused a severe lack of sublease space, making up only 0.2% of the total industrial market within San Mateo County.

South San Francisco

The North County, consisting of Brisbane, Daly City, South San Francisco, San Bruno, Burlingame, and Millbrae, continues to host the most amount of industrial product, accounting for 83% of the total available space within San Mateo County. The most significant submarket was South San Francisco, which ended the quarter with 409,149 square feet of vacant space, translating to 58% of the total available space within the industrial market.

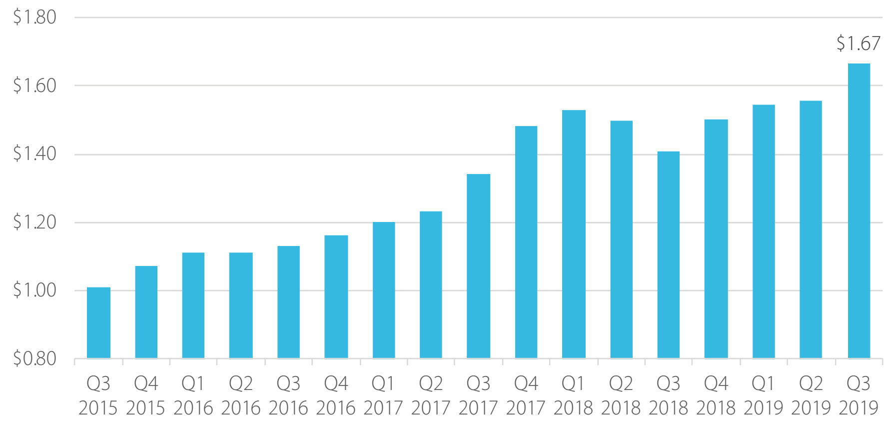
Development Pipeline

Although neighboring counties may see a fair amount of industrial construction, San Mateo County's development pipeline is empty. Developers are having a hard time seeing the upside in building a new warehouse, fulfillment, or distribution center in an area where the land value is so high. Rising labor costs, low labor availability, and a limited amount of space have also become issues for this market.

Looking Forward

With numerous companies shifting their business into Silicon Valley or the East Bay, we may see higher vacancy rates and absorption over the next few quarters. However, any vacant industrial space won't be available for long as current tenants along the Peninsula will already be looking for any chance of expansion. Due to the extremely limited supply of industrial product, asking rates are expected to continue climbing, possibly nearing the $2.00 psf, NNN threshold in the next few years..

Historical Asking Rates (NNN)



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
DBI Beverage	245 S Spruce Avenue	South San Francisco	180,000	Renewal
Flying Food Group	200-204 Littlefield Avenue	South San Francisco	63,700	Direct Lease
Unipart Services America, Inc	422 Valley Drive	Brisbane	49,435	Renewal
CAV Distributing Corporation	389 Oyster Point Boulevard	South San Francisco	33,662	Direct Lease
Sulfil	901 Shasta Street	Redwood City	23,000	Direct Lease
Ewing Irrigation Products	926 Bransten Road	San Carlos	21,000	Direct Lease
Impossible Foods	2490 Middlefield Road	Redwood City	15,751	Direct Lease

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
155 S Hill Drive	Leemah Electronics, Inc	Brisbane	87,000	$13,050,000	$150
333 Corey Way	Pacific Realty	South San Francisco	43,116	$11,050,000	$256
1990 Bay Road	Harvest Properties	East Palo Alto	33,450	$12,700,500	$380
900 Indusrial Road	Gemn Industrial LLC	San Carlos	30,958	$13,500,000	$436
2385 Bay Road	Gibson Dunn	Redwood City	24,693	$7,500,000	$304
860 Charter Street	Sherman N Tran Trust	Redwood City	24,500	$16,000,000	$653
870 Mahler Road	James Jintang Tan & Vincent Jie Ma	Burlingame	23,700	$8,550,000	$361

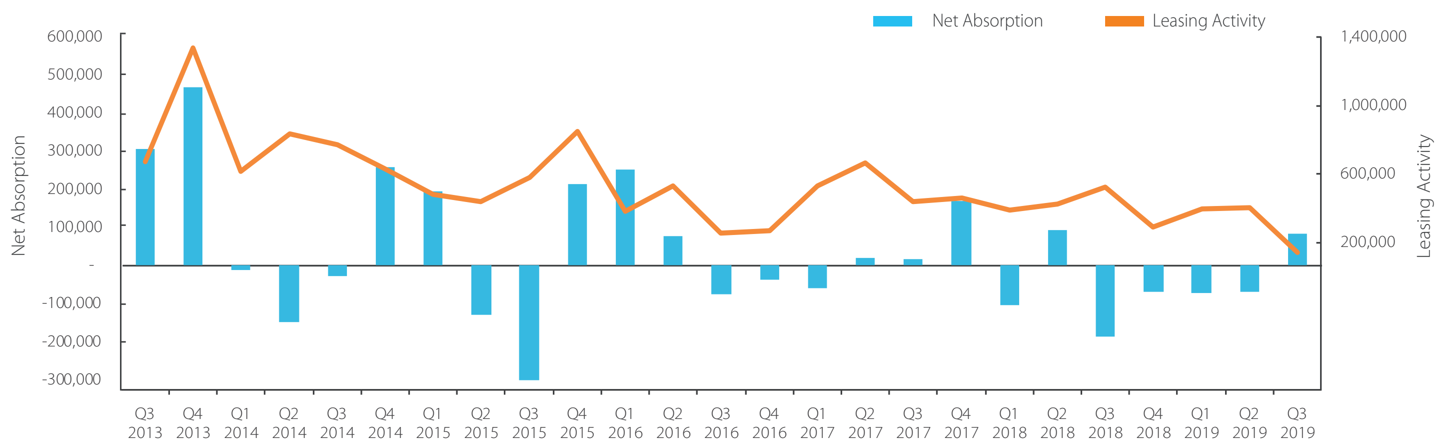
Largest Available Spaces

Building	Landlord	Submarket	Square Feet	Type
530-540 Forbes Boulevard	Genentech, Inc.	South San Francisco	240,660	Direct Lease
2600 Geneva Avenue	State of California	Daly City	82,000	Direct Lease
240-246 Valley Drive	Prologis, Inc.	Brisbane	79,300	Sublease
960-980 Industrial Road	Alexandria Real Estate Equities, Inc.	San Carlos	62,000	Sublease
233 E Harris Avenue	Irwin Eskanos	South San Francisco	60,000	Direct Lease
810 Malcolm Road	MTI Properties	Burlingame	55,000	Direct Lease
320 Corey Way	Team Best Properties LLC	South San Francisco	27,259	Direct or Sublease

Market By The Numbers

Submarket	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate Q2'19	Vacancy Rate Q3'19	Net Absorp (SF)	Net Absorp YTD (SF)	Avg. Asking Rent (NNN) Q2'19	Avg. Asking Rent (NNN) Q3'19
Daly City / Brisbane	5,282,773	97,258	-	0.4%	1.8%	-74,550	28,859	$1.37	$1.44
South San Francisco / San Bruno	15,207,677	409,149	7,531	3.4%	2.7%	103,993	-180,813	$1.37	$1.59
Burlingame/Millbrae	3,759,138	81,299	-	1.5%	2.2%	-25,512	-44,953	$1.56	$1.61
North County	**24,249,588**	**587,706**	**7,531**	**2.5%**	**2.5%**	**3,931**	**-196,907**	**$1.39**	**$1.57**
San Mateo / Foster City	816,392	-	-	1.5%	-	12,500	37,035	$2.16	$2.26
Belmont / San Carlos	4,388,892	46,221	62,000	3.1%	2.5%	27,028	14,584	$1.79	$1.88
Redwood City	3,192,993	53,900	-	2.4%	1.7%	22,683	4,971	$1.92	$1.91
Menlo Park	2,203,394	16,835	-	1.6%	0.8%	18,595	22,744	$2.54	$2.97
South County	**10,601,671**	**116,956**	**62,000**	**2.5%**	**1.7%**	**80,806**	**79,334**	**$1.95**	**$1.99**
San Mateo County Total	**34,851,259**	**704,662**	**69,531**	**2.5%**	**2.2%**	**84,737**	**-117,573**	**$1.56**	**$1.67**

Historical Leasing vs Net Absorption



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