

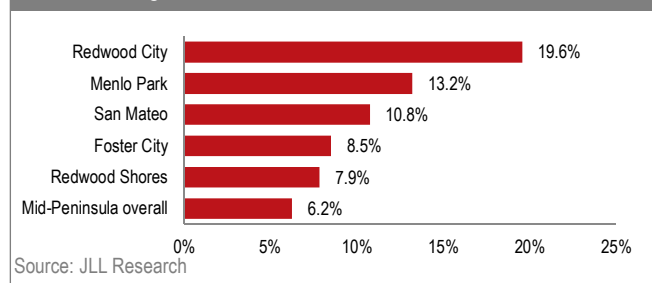


Demand and development spill into Peninsula

South County hot with activity

Google's acquisition and Box.com's lease in the fourth quarter of 2014 signaled to the market that there is still pent-up demand for space. Single-floor users continue to carve away at vacancy, especially within campus-style projects. Nevro secured a sizeable amount of space this quarter at Bayshore Tech Park, taking the largest availability in the project off the market while Boingo Wireless signed a deal for one building at Seaport Center in Redwood Shores. The rise in demand has created heated market conditions for prime submarkets, and landlords have responded by raising asking prices for well-located space.

Y-o-Y % change in rent for core Mid-Peninsula submarkets



Developers push to get shovels in the ground

With the demand for large blocks of space outpacing supply, developers are rushing to get new development off the ground. Taking cues from Kilroy, Sobrato broke ground on his project in Menlo Park and already has EMC in tow to take one of the two, 135,000-square-foot Class A office buildings. Meanwhile, Stockbridge and Hines started on their projects at Bay Meadows and Concar Drive, respectively, in San Mateo. There is approximately 1.1 million square feet of new construction underway in the Mid-Peninsula, the most that the market has seen since the dot.com era. The sight of cranes and steel is expected to prompt tenant demand and additional spec development over the next 12 months.

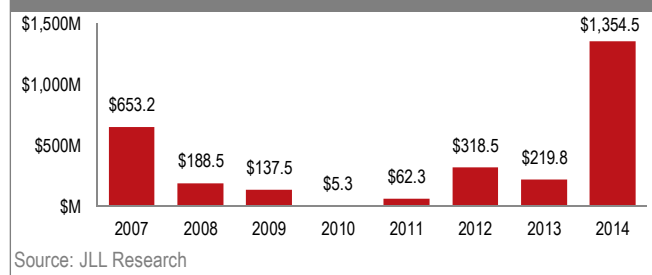
New development to pick up in 2015



Sales activity expected to maintain velocity

Acquisition activity continues to be a bright spot for sellers in the Mid-Peninsula as investors chase prime assets in core submarkets. During the first quarter of 2015, there were several headline transactions, including 700-900 Concar in San Mateo, which sold for ±\$600 per square foot to DivcoWest from JP Morgan. The rise in tenant activity is attracting the attention of more buyers in the market and many owners are preparing to launch offerings. Currently, there are more than \$400 million of sales offerings on the market and multiple deals are expected to hit the market over the next six months.

Mid-Peninsula historical sales volume



13.9%

Total vacancy

54,661

YTD net absorption (s.f.)

6.2%

12-month rent growth

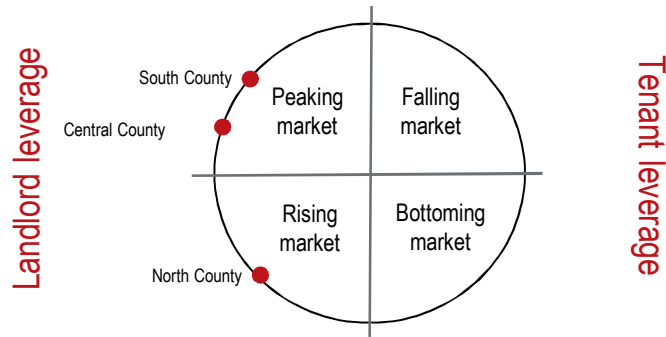
1,108,439

Total under construction (s.f.)

51.5%

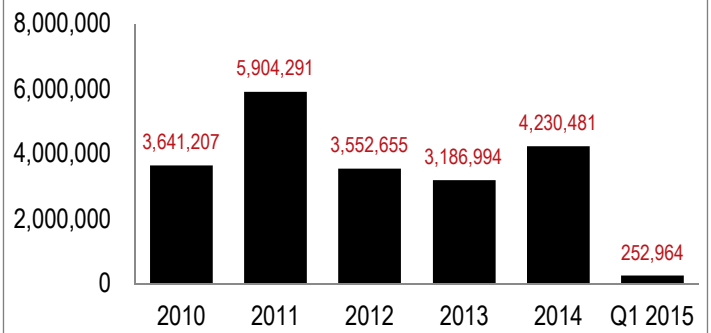
Total preleased

Current conditions – market and submarket



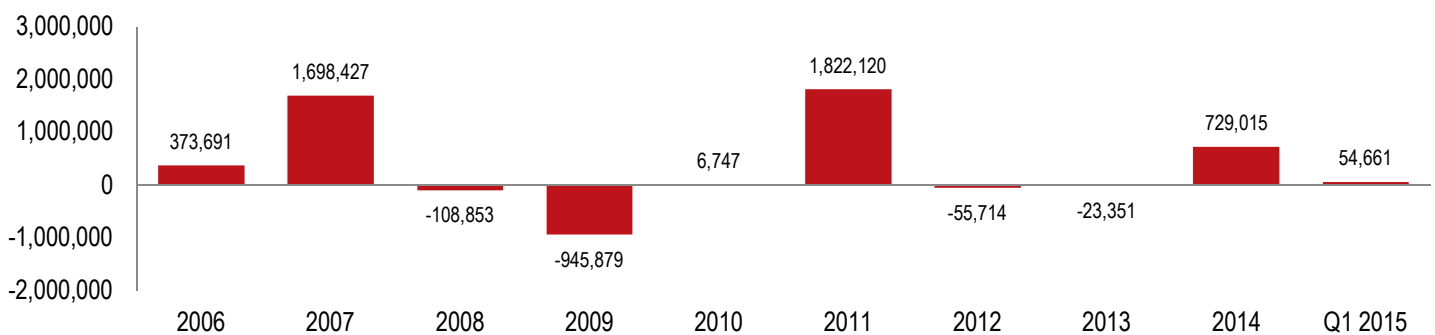
Source: JLL Research

Historical leasing activity



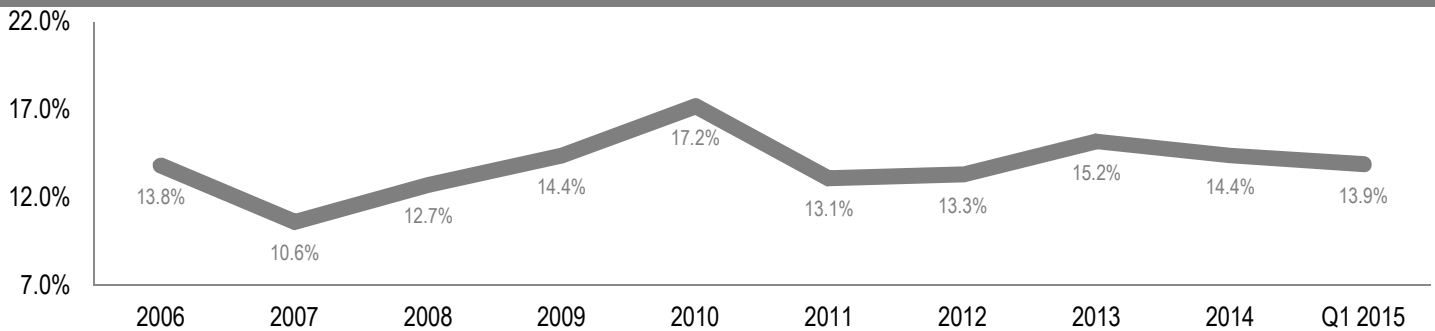
Source: JLL Research

Total net absorption (s.f.)



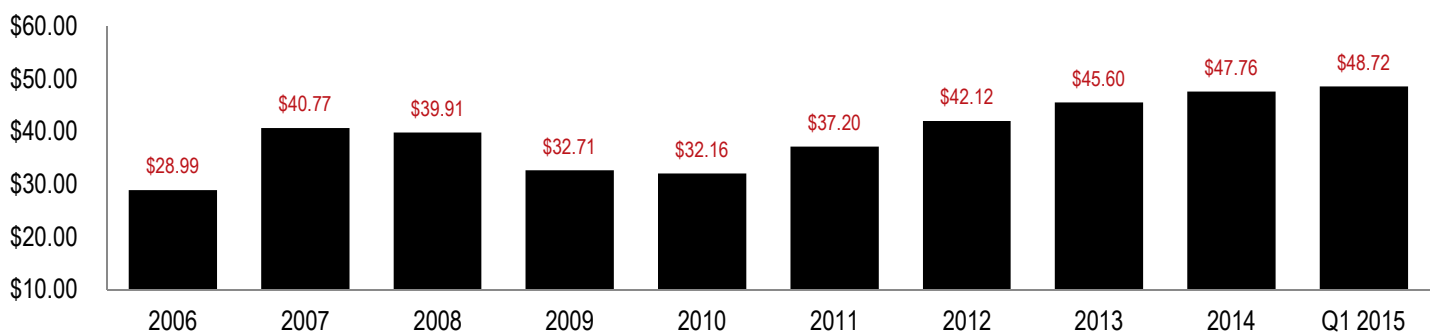
Source: JLL Research

Total vacancy rate



Source: JLL Research

Direct average asking rent (\$ p.s.f.)



Source: JLL Research