

# East Bay Office

## Market Forecast

Trends

Absorption	↑
Vacancy	↓
Rental Rate	↓
Construction Deliveries	↔
Under Construction	↔

## Notable Transactions

GT Nexus, Inc.  
1111 Broadway, Oakland  
23,951 s.f. Leased

Mills General  
1545 Willow Street, Oakland  
20,281 s.f. Leased

Nvidia  
2001-2015 Broadway, Oakland  
11,947 s.f. Leased

Cycle-low vacancies and stagnant supply cramped the East Bay office real estate market in the third quarter of 2016, as employment grew and demand remained strong. This quarter's 84,357 square feet of positive net absorption shaved market-wide vacancies to 7.0%, but downtown Oakland reported a cycle-low 3.1% vacancy rate and Class A spaces were down to 3.6%. Asking rental rates throughout the East Bay ticked down to \$2.58 per square foot, fully serviced, but Oakland CBD asks jumped to \$3.55 overall and \$4.54 for Class A offerings. Despite extremely tight market conditions, the East Bay is a relatively affordable alternative to San Francisco, and its BART accessibility appeals to a variety of users. However, unyielding demand pressure and a lack of new construction have combined to fill virtually all of the remaining large blocks of space in Oakland CBD, where vacancies are considerably lower than across the Bay Bridge. A handful of newly available full-floor listings should provide a hint of relief to this constrained market during the fourth quarter, but demand continues to outpace supply, keeping rental rates high and vacancies low.

This quarter's 84,357 square feet of positive net absorption marked the East Bay market's 12th quarterly increase in occupied office space over the last 13 periods. Downtown Oakland saw a 46,857-square-foot gain, as the Chicago-based global law firm Sonnenschein Nath & Rosenthal moved into 27,573 square feet on the 12th and 13th floors of Lake Merritt Plaza, but a 47,472-square-foot loss in the Jack London Square submarket left the CBD virtually unchanged on balance. Alameda led all East Bay submarkets with 118,491 square feet of positive net absorption this quarter, stemming from Cost Plus World Markets' occupancy at 1151-1201 Marina Village Parkway. Emeryville gained 8,022 square feet despite a notable move-out, as Jamba Juice relocated its headquarters from 6475 Christie Avenue to Frisco, Texas.

Vacancies were at or near cycle lows throughout the East Bay. Empty spaces were especially scant in Oakland CBD, where they have declined by two full percentage points year over year, from 5.8% in the third quarter of 2015 to 3.8% this quarter. Class A buildings reported 3.6% vacancy marketwide, a 4.2-percentage-point plunge from

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# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q3 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Oakland - Downtown	17,492,304	2.90%	3.10%	7.30%	46,857	243,165	135,276	715,534	\$3.71
Oakland - Jack London Sq	1,694,499	10.60%	11.00%	11.20%	(47,472)	(60,512)	9,798	33,859	\$2.33
Oakland CBD	19,186,803	3.50%	3.80%	7.60%	(615)	182,653	145,074	749,393	\$3.55
Greater Oakland	9,414,333	7.90%	7.90%	8.50%	30,498	76,291	60,926	277,841	\$1.91
West Contra Costa	2,618,766	7.80%	7.80%	8.90%	(50,540)	16,464	8,976	22,666	\$1.67
Berkeley	5,153,016	3.40%	3.40%	4.20%	7,727	40,170	48,005	135,540	\$2.79
Emeryville	4,662,931	6.90%	8.40%	14.90%	8,022	(64,306)	91,415	246,941	\$3.20
Alameda	3,838,342	12.80%	13.10%	16.60%	118,491	122,957	16,996	139,329	\$2.07
San Leandro/San Lorenzo	1,897,697	11.40%	11.40%	15.60%	(68,625)	(81,596)	21,082	45,892	\$1.72
Hayward/Castro Valley	3,754,199	16.80%	16.80%	18.50%	1,604	17,874	5,642	18,442	\$1.45
Union City	300,751	3.70%	3.70%	6.00%	(9,677)	(4,331)	0	6,834	\$2.06
<b>Total</b>	<b>49,132,339</b>	<b>6.70%</b>	<b>7.00%</b>	<b>9.90%</b>	<b>84,357</b>	<b>414,084</b>	<b>388,318</b>	<b>1,626,986</b>	<b>\$2.58</b>

the same time last year, though availabilities increased to 9.0% as large sublease listings came on the market at 1333 Broadway, where AECOM is giving up 72,259 square feet as it moves to 300 Lakeside, and 555 12th Street, where Ask.com is leaving 23,790 square feet on the fifth floor. Emeryville showed 8.4% vacancy this quarter, down one percentage point year over year, while Alameda was down to a cycle-low 13.1% after a 3.5-point drop from the third quarter of 2015. At 16.8%, Hayward/Castro Valley had the highest vacancy rate in the East Bay at quarter's end; downtown Oakland had the lowest, at 3.1%.

The East Bay economy continued to strengthen this quarter, as unemployment fell to 4.7%, with some areas enjoying lows unseen since the dot-com boom. Total employment is up by approximately 25,900 jobs from this time a year ago. Educational and Health Services accounted for 6,600 of those new jobs, a 3.7% growth rate in the region's third-largest sector. Leisure and Hospitality firms added 5,900 jobs while construction companies hired 5,300 additional workers, making the latter the East Bay's fastest-growing industry with an 8.4% year-over-year gain in employment. Ongoing employment growth in office-based sectors is fueling the demand for space in the East Bay market. Absent a corresponding increase in supply, this will continue to put upward pressure on rental rates, which have trended upward for 11 consecutive quarters.

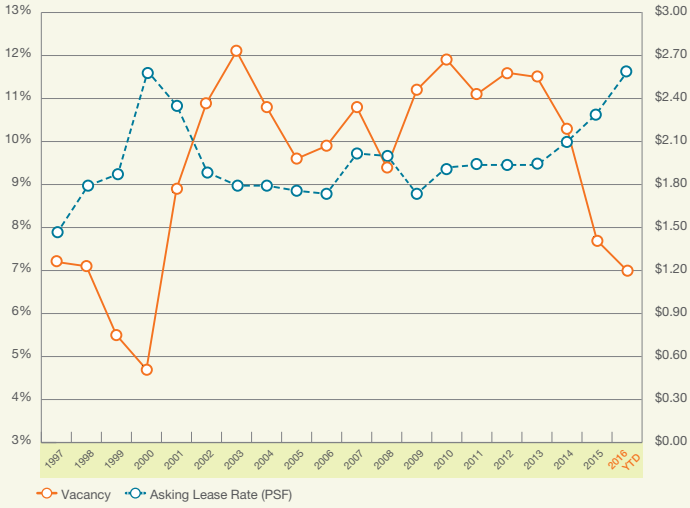
Leasing activity dipped this quarter, to 124 transactions covering 388,318 square feet, but should pick up again by year's end following a late-third-quarter increase in availabilities. While demand for space in the inner East Bay remains robust, a paucity

of large-block availabilities has recently forced big users to look beyond the Caldecott Tunnel to outer East Bay alternatives like Walnut Creek. Average deal size dropped to 3,132 square feet during the third quarter, compared to 4,021 square feet in the previous three months, reflecting the smaller spaces available for lease in the inner East Bay. Only nine of the 124 deals signed this quarter eclipsed 10,000 square feet. The largest was by GT Nexus, Inc., a cloud-based supply chain management software provider. GT Nexus was acquired by Infor, Inc. for \$675 million in August 2015, which grabbed 23,951 square feet on the seventh floor of 1111 Broadway. Full-floor spaces in that Class A property were being marketed for \$4.67, fully serviced, at quarter's end.

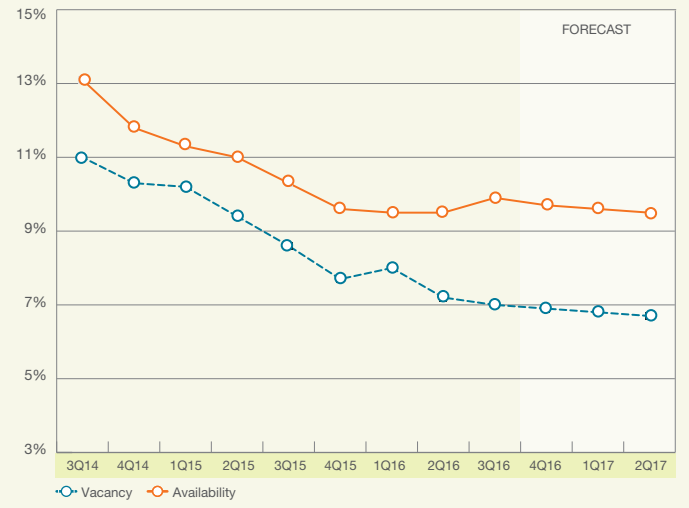
There were no office building deliveries this quarter, and only two buildings totaling 152,000 square feet were under construction at quarter's end, so little relief is on the way for the tight East Bay market. The larger of the two projects that have broken ground is Building A of the future San Leandro Tech Campus, a 132,000-square-foot building that is fully preleased to OSISOFT, LLC, with delivery anticipated in the fourth quarter. In Oakland CBD, construction is underway on 1630 San Pablo Avenue, where the entire 19,800-square-foot office component was being marketed for \$3.75, fully serviced, at the end of the quarter. That structure is also expected to be ready for occupancy by the end of the year.

Data Source: CoStar

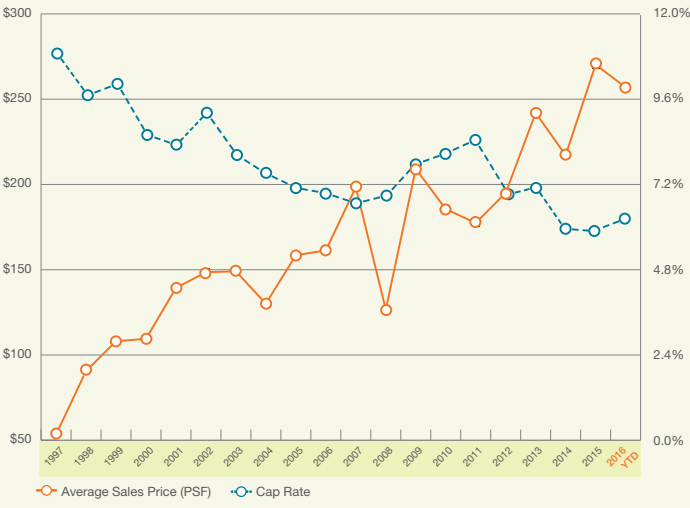
### VACANCY VS ASKING LEASE RATE



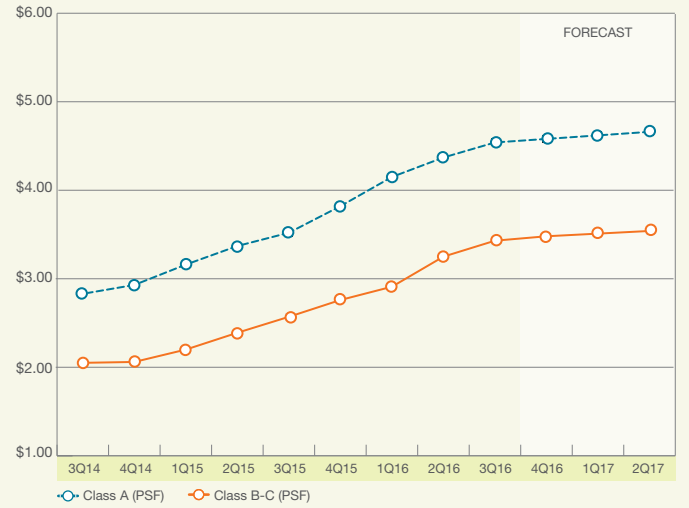
### VACANCY VS AVAILABILITY



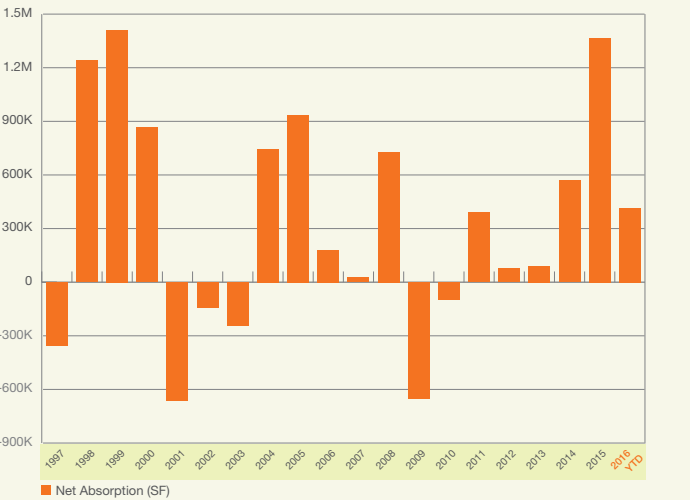
### AVERAGE SALES PRICE & CAPITALIZATION RATES



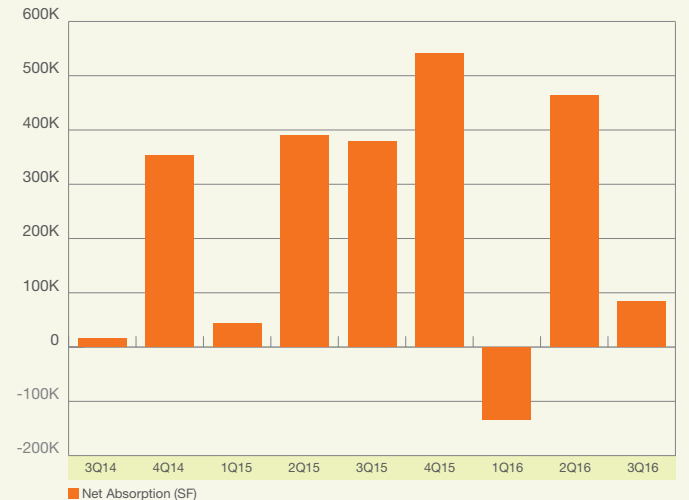
### ASKING LEASE RATE - OAKLAND CBD



### NET ABSORPTION - HISTORICAL



### NET ABSORPTION - QUARTERLY



**Offices**

Seattle  
206.296.9600

Bellevue  
425.454.7040

South Seattle  
206.248.7300

Tacoma  
253.722.1400

Olympia  
360.705.2800

Portland  
503.221.9900

San Francisco  
415.229.8888

Redwood Shores  
650.769.3600

Silicon Valley  
408.970.9400

Sacramento  
916.970.9700

Roseville  
916.751.3600

Orange County  
949.557.5000

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

**Contact**

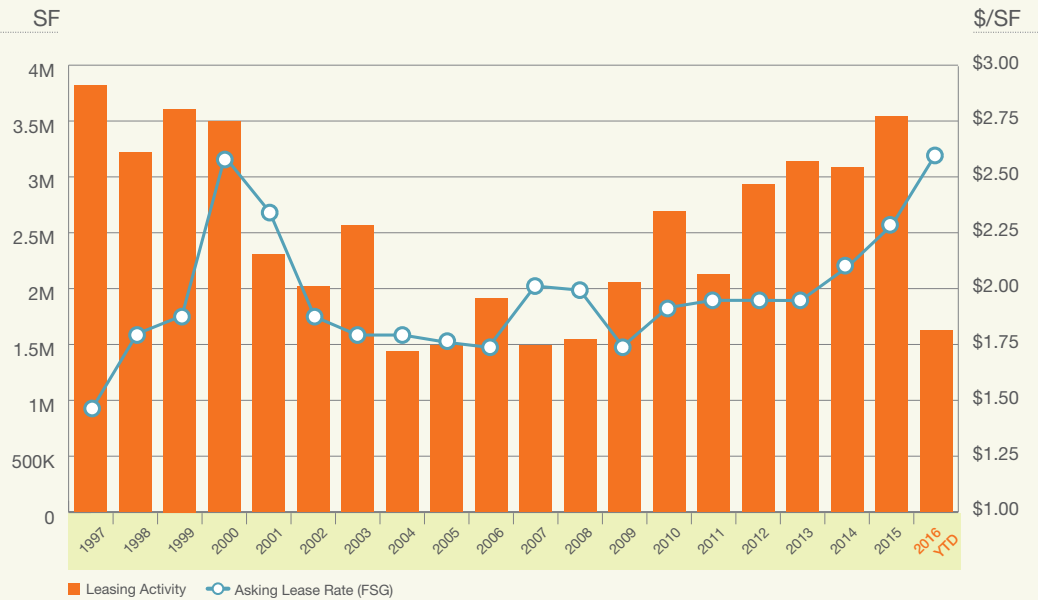
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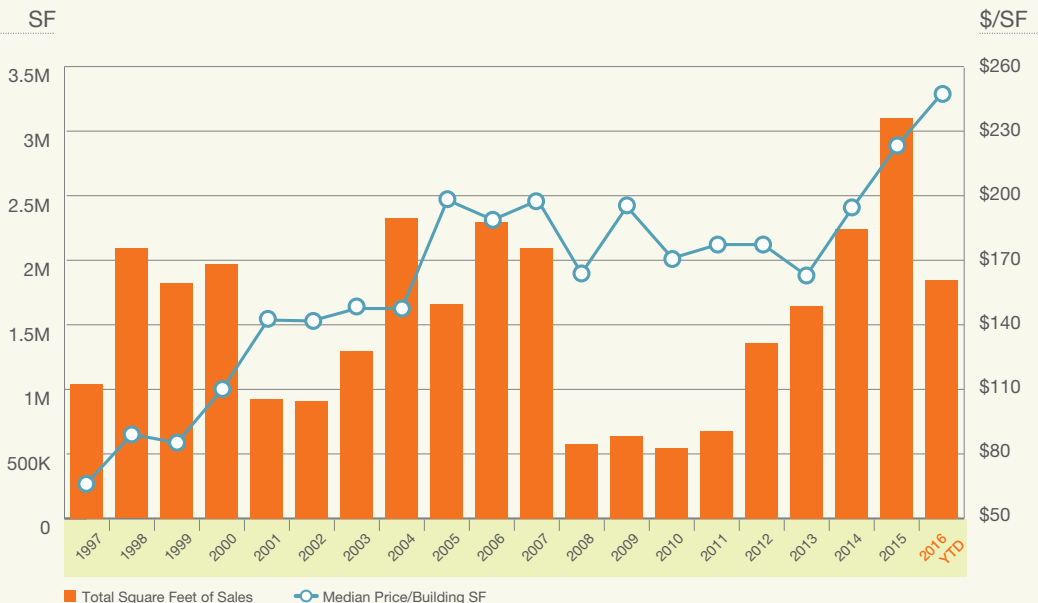
**Market Breakdown**

	3Q 2016	2Q 2016	3Q 2015	Annual % Change
Vacancy Rate	7.00%	7.20%	8.60%	-18.60%
Availability Rate	9.90%	9.50%	10.30%	-3.88%
Asking Lease Rate	\$2.58	\$2.60	\$2.22	16.22%
Leased SF	388,318	563,412	887,296	-56.23%
Sold SF	880,054	624,974	910,789	-3.37%
Net Absorption	84,357	463,632	378,613	N/A

**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



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