

East Bay Office

Market Forecast

Trends

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

Notable Lease Transactions

AECOM
300 Lakeside Drive
97,593 s.f. Leased

Edgewater Consultants
7700 Edgewater Drive, Oakland
45,000 s.f. Leased

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

Notable Sale Transactions

Clarion Partners
Lake Merritt Plaza (1999 Harrison Street)
Oakland | 490,049 s.f.
Purchased for \$224.75M or \$459/s.f.

Principal Financial Group
Oakland City Center (555 12th Street)
Oakland | 485,039 s.f.
Purchased for \$208M or \$429/s.f.

Rockpoint Group
Lakeside Tower (300 Lakeside Drive) and
Kaiser Center II (344 Thomas L Berkley Way)
Oakland | 128,872 s.f.
Purchased for \$23.7M or \$245/s.f.

The East Bay office real estate market continued to tighten in the fourth quarter of 2016, as the regional unemployment rate fell to 4%, fueling demand for space that is hard to come by in preferred submarkets. Vacancies marketwide fell to 6.9% amid 67,993 square feet of positive net absorption, but Oakland CBD (4.8%) and Berkeley (3.4%) were both well below the East Bay average. Asking rental rates increased to \$2.69, fully serviced, throughout the East Bay, and Oakland CBD asks were much higher, at \$3.84 overall and \$4.65 for some upper-floor Class A offerings. Despite extremely tight market conditions, the East Bay remains a relatively affordable alternative to San Francisco for companies that are able to find suitable spaces. A handful of new full-floor listings should provide a hint of relief to the severely constrained market, but many large-block users are looking even farther eastward to satisfy their needs. The combination of unyielding demand pressure and limited new construction has brought vacancies to cycle lows, increased rental rates, and enhanced appeal of well-located inner East Bay assets to investors, bringing in new landlords from around the country.

This quarter's 67,993 square feet of positive net absorption upped the market's year-to-date gain to 591,126 square feet. San Leandro/San Lorenzo was the best-performing submarket to close the year, adding 156,728 square feet after three straight periods of negative absorption to begin 2016. Oakland CBD dropped 195,664 square feet, but is expected to recover most of that loss when several substantial tenants move in next quarter. Alameda led the East Bay in year-long absorption gains, tacking on 185,644 square feet of occupied office space, including 34,014 square feet in the fourth quarter.

Vacancies hovered near their cycle lows around the East Bay to close 2016. Oakland CBD saw its vacancy rate dip to 3.8% midyear, but finished 2016 at 4.8%, unchanged from the fourth quarter of 2015. By contrast, Alameda tightened considerably over the past 12 months, witnessing a 490-basis-point decline in vacancy, to 11.5%. Greater Oakland, which includes all submarkets besides Downtown and Jack London Square, had its vacancy rate sliced from 9.1% to 6.7% year over year. Hayward/Castro Valley had the highest vacancy rate in the East Bay, showing 17.6% at quarter's end, while

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Oakland - Downtown	17,505,512	3.90%	4.30%	8.20%	(194,378)	47,433	128,562	881,178	\$3.92
Oakland - Jack London Sq	1,686,699	10.40%	10.90%	12.10%	(1,286)	(59,450)	2,727	39,337	\$3.05
Oakland CBD	19,192,211	4.50%	4.80%	8.50%	(195,664)	(12,017)	131,289	920,515	\$3.84
Greater Oakland	7,707,293	6.60%	6.70%	6.50%	15,226	179,911	88,472	381,976	\$1.86
West Contra Costa	2,438,111	6.40%	6.40%	7.80%	18,434	84,839	36,562	62,071	\$1.52
Berkeley	5,180,961	3.40%	3.40%	4.20%	2,009	38,767	38,120	184,612	\$2.88
Emeryville	4,771,764	6.80%	7.20%	18.70%	33,261	4,121	97,742	354,517	\$3.28
Alameda	3,821,454	11.50%	11.50%	15.20%	34,014	185,644	29,547	186,682	\$2.18
San Leandro/San Lorenzo	2,031,703	9.60%	9.60%	12.50%	156,728	68,525	2,113	65,300	\$1.57
Hayward/Castro Valley	3,591,118	17.30%	17.60%	19.30%	8,489	38,259	25,017	59,218	\$1.45
Union City	609,560	3.50%	3.50%	7.90%	(2,505)	(9,662)	3,541	10,375	\$2.01
Total	49,155,584	6.70%	6.90%	10.20%	67,993	591,126	450,404	2,236,067	\$2.69
Class A	11,068,703	3.70%	4.10%	9.90%	65,271	358,505	155,924	802,424	\$4.22
Class B	23,989,888	9.60%	9.80%	12.70%	(63,387)	23,831	230,481	1,039,220	\$2.38
Class C	14,096,993	4.30%	4.30%	6.00%	66,109	208,790	63,999	394,423	\$1.90

Berkeley had the lowest, at 3.4%. Marketwide, Class A vacancies were down 210 basis points from the fourth quarter of last year, to 4.1%, while Class B increased slightly, from 9.5% to 9.8%.

Leasing activity this quarter totaled 450,404 square feet in 151 transactions, as availabilities inched up to 10.2%. More than one-third of the space leased was in Oakland CBD, where 131,289 square feet came off the market in the last three months. The largest fourth-quarter downtown pact was signed by Southern Wine and Spirits, which grabbed 16,086 square feet on the fourth floor of 1300 Clay Street. In Emeryville, the computer training school Coding Dojo signed on for 15,605 square feet at 6001 Shellmound Street. A lack of large-block availabilities has tempered leasing volume in the inner East Bay submarkets over the past year, resulting in a 37.1% decline in square footage taken year over year. However, the East Bay's unemployment rate fell to 4% during the fourth quarter, its lowest point since 2001, and ongoing growth in office-based sectors indicates that demand for space has not waned. The decrease in leasing activity is therefore attributable to a lack of the supply needed to accommodate larger tenants, who are instead looking to outer East Bay alternatives such as Bishop Ranch and Walnut Creek.

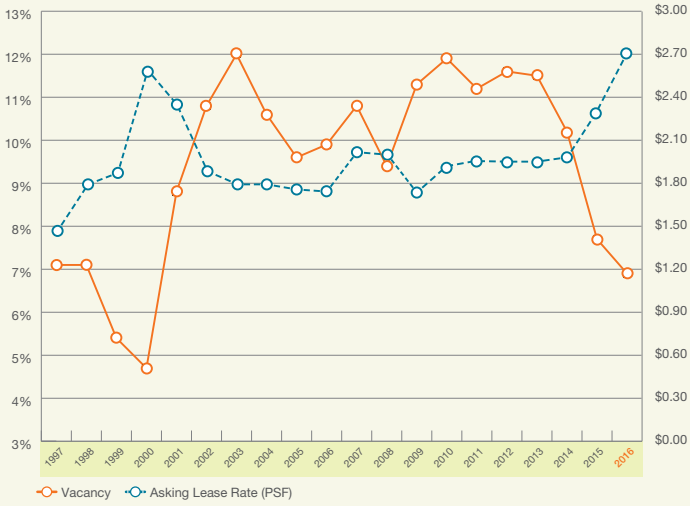
Thirty-seven East Bay office assets changed hands in the final three months of 2016, summing to 1,349,590 square feet and more than \$281 million in dollar volume. Stagnant supply coupled with robust demand has made investing in East Bay properties a worthwhile venture for buyers from throughout the United States.

This quarter's largest investment sale involved the Latham Square Building at 1601 Telegraph Avenue in Downtown Oakland, which went from Contrarian Capital Management in Connecticut to locally based Bentall Kennedy for \$47 million or \$405 per square foot, underwritten at a 4.7% cap rate. In Berkeley, The WeWork Building at 2118 University Avenue traded as the year came to a close, from San Francisco's SOMA Capital Partners to Lionstone Investments, out of Houston, for \$22.25 million or \$467 per square foot. Sub-5.0% cap rates are now par for the course for well-located East Bay office assets with stable tenants, and several Oakland CBD properties, including Lake Merritt Plaza and the Lakeside Tower, traded for well over \$400 per square foot earlier in the year.

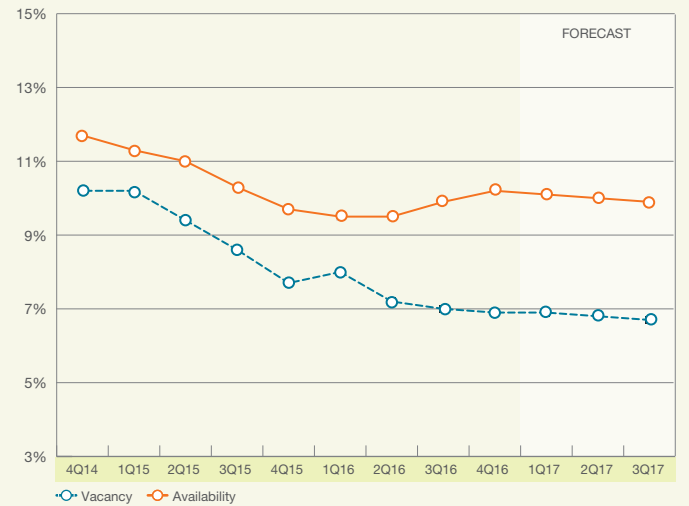
The only office construction delivery of the quarter was Building A of the San Leandro Tech Campus, a 132,000-square-foot structure at 1333 Martinez Street. Developed and owned by Westlake Realty Group, the building was fully preleased to OSISOFT, LLC, so the added supply provided no relief to the constrained market. Two other developments were under construction at the end of the year, but the larger of them, the 260,000-square-foot EmeryStation West Transit Center in Emeryville, is being developed to accommodate life-science tenants. The other is 1630 San Pablo Avenue in Oakland, a 19,800-square-foot midrise that has 16,000 square feet of office space on four floors, all listed as available for \$3.75, fully serviced, with delivery scheduled for early 2017.

Data Source: CoStar

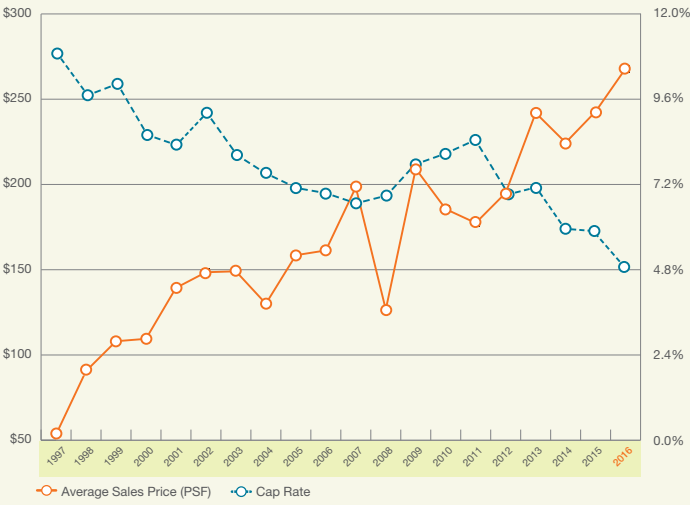
VACANCY VS ASKING LEASE RATE



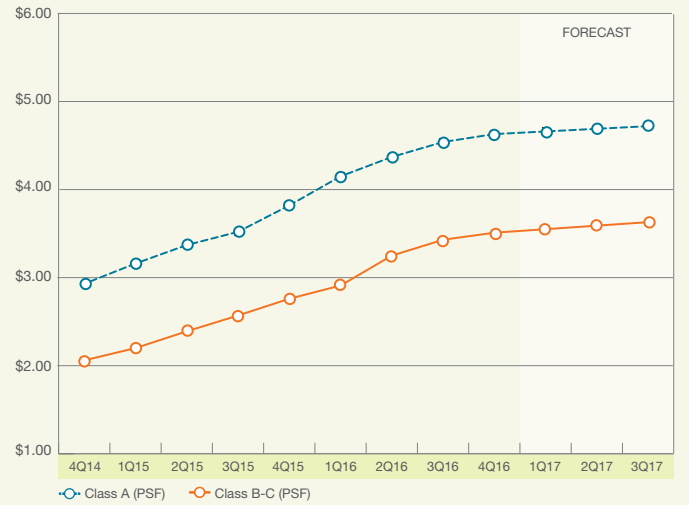
VACANCY VS AVAILABILITY



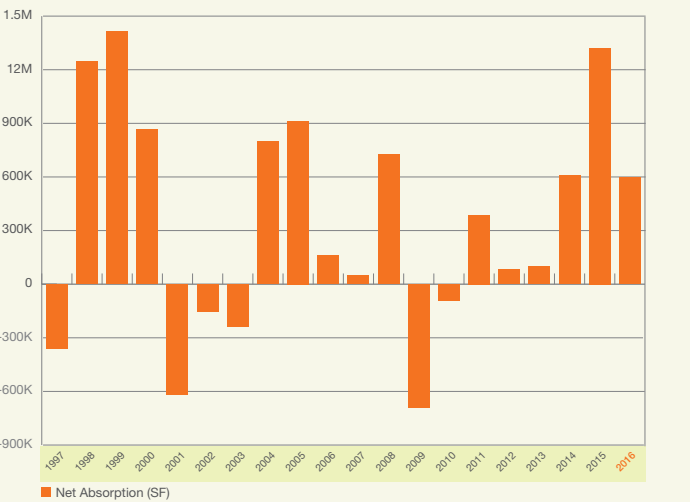
AVERAGE SALES PRICE & CAPITALIZATION RATES



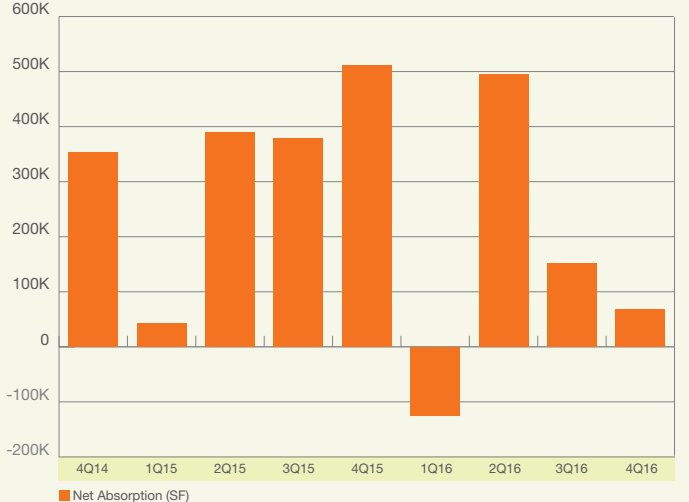
ASKING LEASE RATE - OAKLAND CBD



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

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

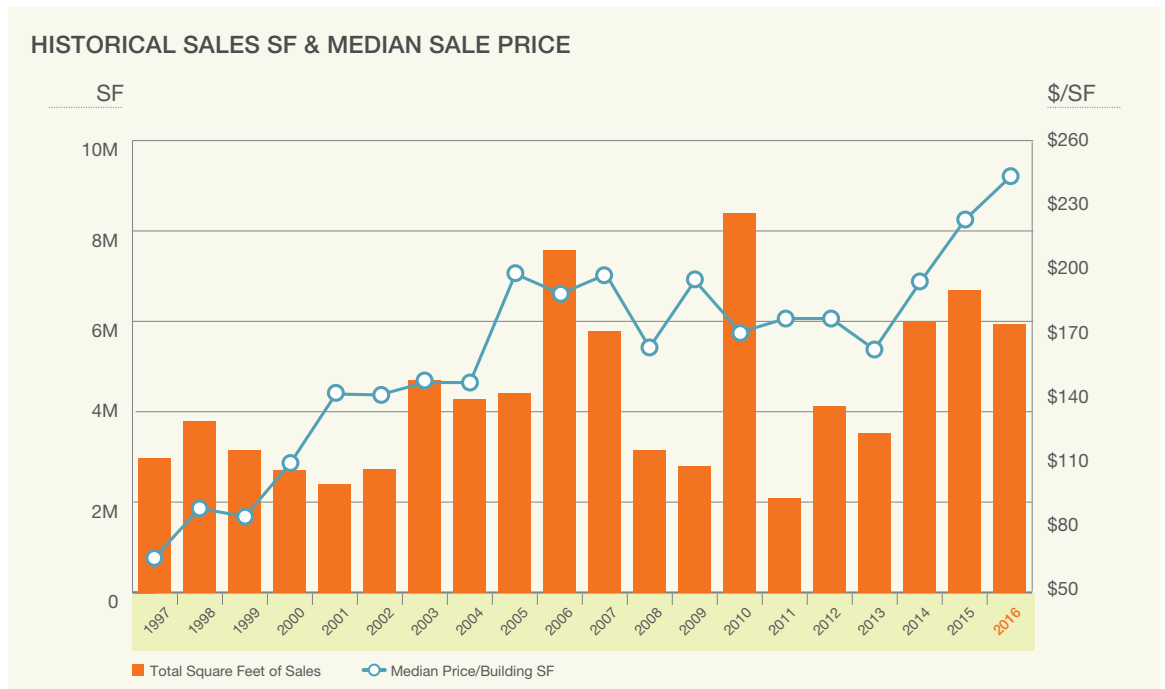
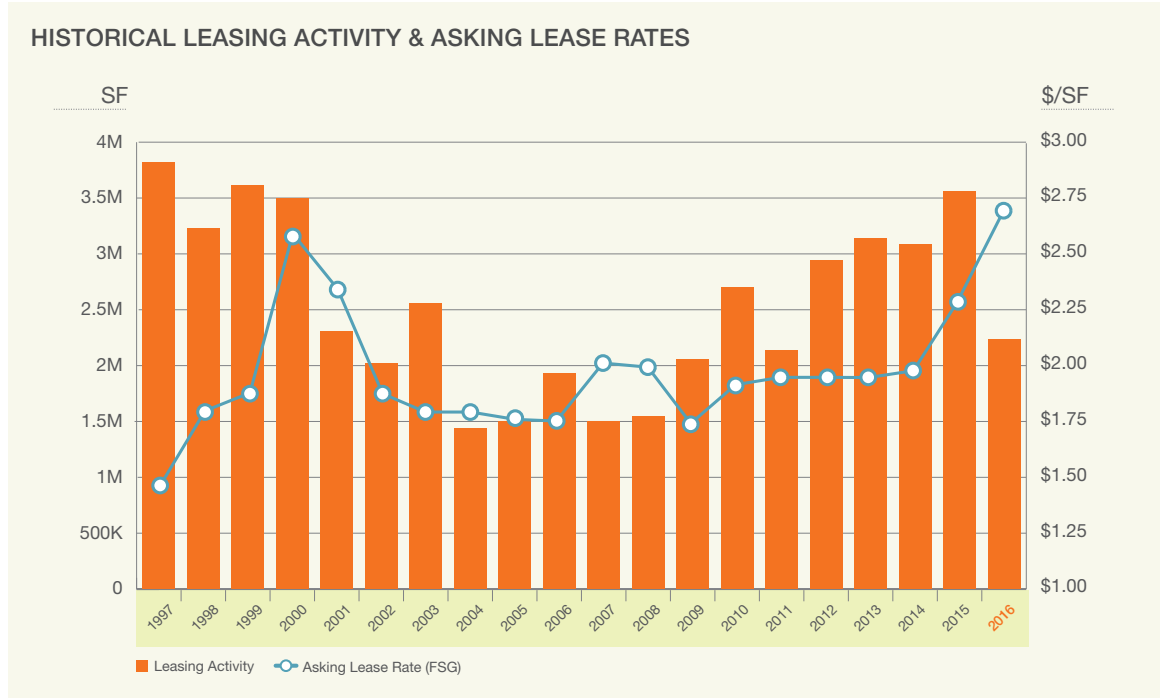
Contact

Reed Payne
Executive VP, Brokerage
Northern California
415.229.8888
rpayne@kiddermathews.com

Designated Broker
Reed Payne | LIC #00818935

Market Breakdown

	2016	2015	2014	Annual % Change
Vacancy Rate	6.9%	7.7%	10.2%	-10.4%
Availability Rate	10.2%	9.7%	11.7%	5.2%
Asking Lease Rate	\$2.69	\$2.29	\$1.98	17.5%
Leased SF	2,236,067	3,557,111	3,081,221	-37.1%
Sold SF	5,944,760	6,702,281	6,011,172	-11.3%
Net Absorption	591,126	1,322,190	609,722	N/A



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