

East Bay Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



Under Construction



Notable Lease Transactions

Blue Shield
601 City Center
230,000 s.f. Leased

UCOP
1100 Broadway
107,896 s.f. Leased

Wells Fargo Bank
555 12th Street
13,121 s.f. Leased

Notable Sale Transactions

Lionstone Investments
2118-2120 University Ave, Berkeley
47,664 s.f.
Purchased for \$22.25M or \$467/s.f.

Maia Holdings LLC
2001 Addison Street, Berkeley
28,805 s.f.
Purchased for \$4.395M or \$153/s.f.

Grand Venture, LLC
3640 Grand Avenue, Oakland
11,306 s.f.
Purchased for \$3.7M or \$327/s.f.

The East Bay office real estate market made headlines throughout the first quarter, as strong demand spurred a new wave of development activity and kept rental rates on an upward trajectory. Developers will soon break ground on two office towers in Downtown Oakland, the CBD's first large-scale deliveries of the cycle, after securing anchor tenants in Blue Shield and the University of California's Office of the President. Those projects will add large-block availabilities that could attract technology sector tenants to Oakland, as will the Uptown Station renovation, initially targeted for Uber, which pulled back from its commitment as it builds a campus in San Francisco's Mission Bay. Vacancies increased to 7.9% marketwide this quarter, after 141,243 square feet of negative net absorption, but should revert toward cycle lows as those spaces are backfilled. Rental rates increased to a marketwide average of \$2.78 fully serviced, but Class A properties in the CBD were asking \$4.50 or higher, and rents overall are up by more than 25% year over year. Significant demand pressure coupled with a lack of existing availabilities and a strong economy is likely to keep vacancies low and rates rising into the coming quarters.

This quarter's 141,243 square feet of negative net absorption came on the heels of a 70,066 square foot loss in the fourth quarter, but the East Bay remains well ahead year over year, after gaining more than 570,000 square feet of occupied office space during the middle quarters of 2016. Oakland CBD registered 220,523 square feet of negative net absorption over the past three months, as AECOM continued its move out of 1333 Broadway and 333 Lakeside Drive. By contrast, Greater Oakland added 38,280 square feet, with Edgewater Consultants' occupancy of 45,000 square feet at 7700 Edgewater Drive in the Airport submarket. Strong demand for space in the East Bay, particularly for the large blocks that are seldom available in Downtown Oakland, portends a return to positive marketwide absorption in the coming quarters.

After several East Bay submarkets set new vacancy lows for the cycle last quarter, the overall rate for the East Bay increased from 7.6% to 7.9% during the first three months of 2017. Oakland CBD vacancies jumped a full 90 basis points, from 4.8% to 5.7%, with AECOM's givebacks, but are expected to trend downward as those spaces are reabsorbed. Alameda has enjoyed a sharp decline in its vacancy rate over the past two years, going from 16.9% in

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q1 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Oakland - Downtown	17,878,095	5.20%	5.60%	8.60%	(186,340)	(186,340)	442,903	442,903	\$3.86
Oakland - Jack London Sq	1,677,383	11.70%	12.60%	12.40%	(34,183)	(34,183)	18,814	18,814	\$2.46
Oakland CBD	19,555,478	5.70%	6.20%	8.90%	(220,523)	(220,523)	461,717	461,717	\$3.74
Greater Oakland	7,703,525	6.20%	6.20%	6.20%	38,280	38,280	108,372	108,372	\$2.01
West Contra Costa	2,451,197	6.50%	6.50%	8.70%	1,460	1,460	11,407	11,407	\$1.68
Berkeley	5,119,266	3.00%	3.20%	5.10%	12,766	12,766	41,715	41,715	\$2.79
Emeryville	5,173,144	12.90%	13.30%	24.10%	(5,846)	(5,846)	99,338	99,338	\$3.21
Alameda	3,838,811	10.90%	11.00%	15.30%	19,399	19,399	25,000	25,000	\$1.90
San Leandro/San Lorenzo	2,023,756	9.70%	9.70%	12.50%	(1,935)	(1,935)	35,749	35,749	\$1.85
Hayward/Castro Valley	3,587,963	16.90%	17.20%	18.60%	13,351	13,351	20,363	20,363	\$1.55
Union City	609,560	4.10%	4.10%	2.80%	(4,724)	(4,724)	8,787	8,787	\$1.75
Total	49,874,109	7.60%	7.90%	10.90%	(141,243)	(141,243)	811,448	811,448	\$2.78
Class A	11,069,510	4.80%	5.60%	12.30%	(95,936)	(95,936)	386,038	386,038	\$4.08
Class B	24,770,413	10.40%	10.60%	12.70%	84,995	84,995	320,676	320,676	\$2.47
Class C	14,034,186	5.10%	5.10%	6.60%	(130,302)	(130,302)	104,734	104,734	\$2.01

the second quarter of 2014 to a cycle-low 11% this quarter. Hayward/Castro Valley remains the East Bay's loosest submarket, with 16.9% total vacancy at quarter's end, while Berkeley is the tightest, at 3.2%.

Two major, anchor-tenant commitments in Downtown Oakland projects dominated leasing headlines during the first quarter and should generate the first large-scale CBD development activity this cycle. The insurance giant Blue Shield signed on for 230,000 square feet in 601 City Center, a joint venture development by Shorenstein Partners and MetLife, Inc., which has been on ice since the 2008 recession and has another 370,000 square feet still available. Blue Shield will relocate its headquarters from San Francisco into the top seven floors of the 24-story trophy upon its delivery, and ground-breaking on the project is scheduled for May. Nearby, the University of California's Office of the President inked a 107,896 square foot lease to take the first seven floors of 1100 Broadway, a 20-story development that had 212,000 square feet available at quarter's end. Ellis Partners and Intercontinental Partners will start construction on the project in October. Together, the buildings will infuse nearly 1 million square feet of new office space into the Oakland CBD inventory, which has remained virtually untouched at under 20 million square feet since the recession.

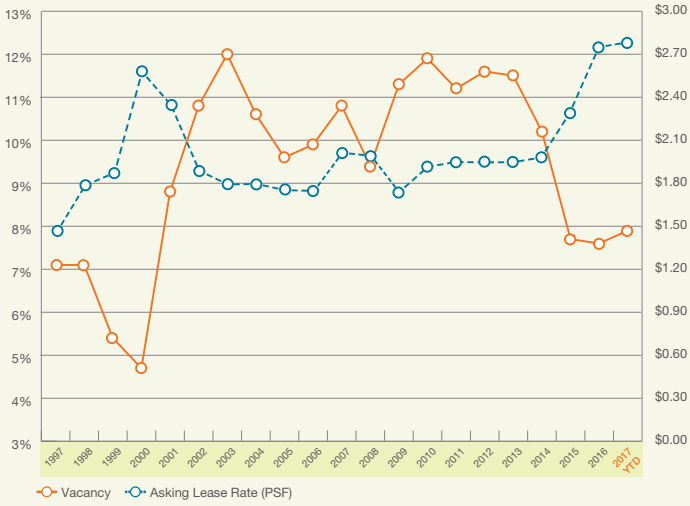
First-quarter investment activity was largely confined to smaller sales outside of Oakland CBD, after several downtown assets changed hands toward the end of 2016. All told, there were 32 transactions covering 312,321 square feet and achieving \$42.1 million in dollar volume. The average price per square foot dipped to \$237, because most of the activity took place in suburban submarkets, after CBD assets traded for more than \$400/sf in the second half of last year.

Berkeley played host to the two largest sales this quarter. The WeWork Building, at 2118-2120 University Avenue, went from San Francisco's Soma Capital Partners to Houston-based Lionstone Investments for \$22.25 million or \$467/sf, underwritten at a 6.25% cap rate. The coworking giant, WeWork, is the building's anchor tenant, secured after Soma purchased the building for about \$10 million in 2013 and poured \$2.5 million into renovations, earning an 82.6% return on its overall investment in 38 months. Also in Berkeley, Maia Holdings LLC bought the 28,805 square foot Class B property at 2001 Addison Street for just under \$4.4 million or \$153/sf.

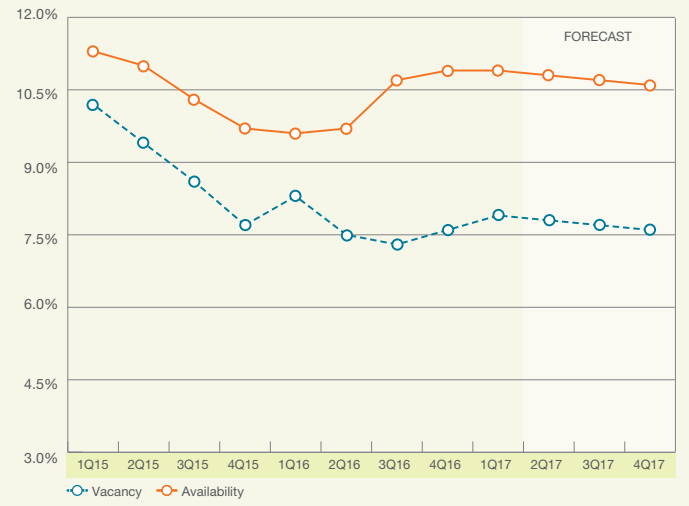
No new office buildings were delivered in the East Bay this quarter, but the preleasing of the proposed 601 City Center and 1100 Broadway developments could be a harbinger of more cranes to come. Four projects were active at quarter's end, with a total of 658,800 square feet of future office space rising out of the ground, though the ongoing developments may not have much impact on the tight East Bay market. Half of the space under construction, 325,000 square feet at 2150 Berkeley Way in Berkeley, will be occupied upon delivery by the University of California, an owner/user, and much of the 260,000 square feet being built in the EmeryStation West Transit Center in Emeryville could become biotech or life-science space. The largest Oakland CBD project underway is a 54,000 square foot Class B development at 420 13th Street, spearheaded speculatively by TMG Partners, with delivery anticipated in the second quarter of 2018. Another 19,800 square feet is on the way at 1630 San Pablo Avenue in Oakland, a five-story Class B building that should be ready for occupancy next quarter.

Data Source: CoStar

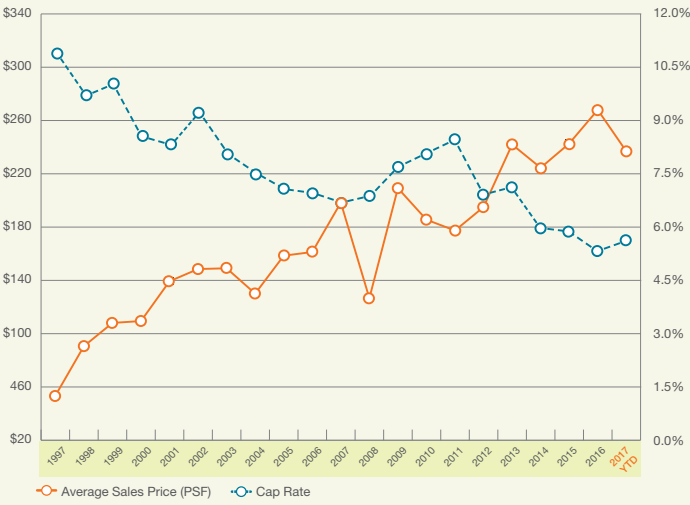
VACANCY VS ASKING LEASE RATE



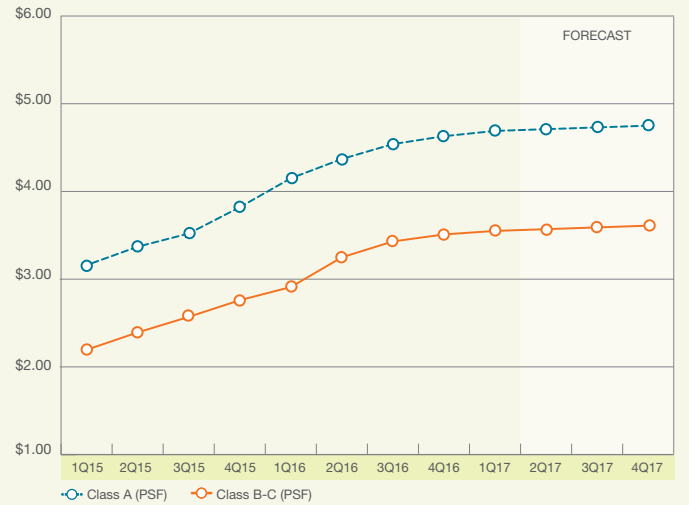
VACANCY VS AVAILABILITY



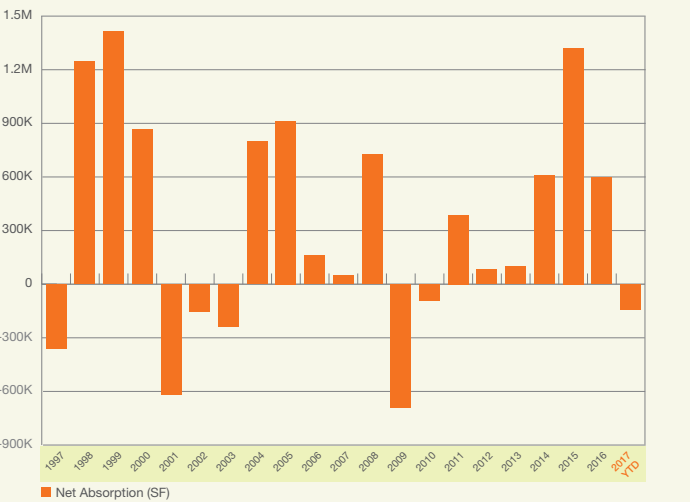
AVERAGE SALES PRICE & CAPITALIZATION RATES



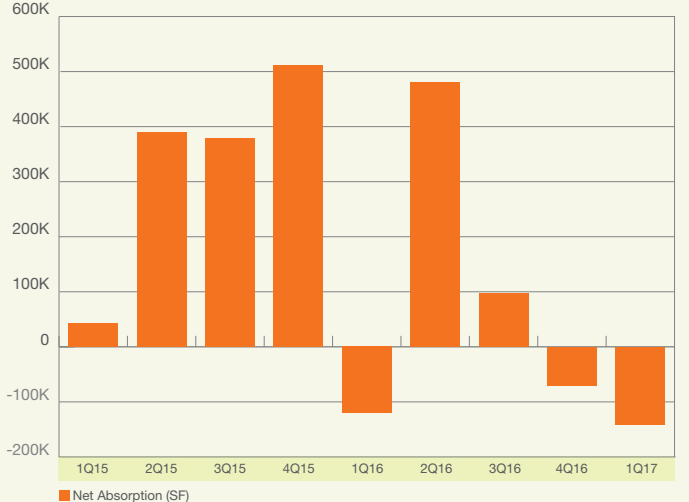
ASKING LEASE RATE - OAKLAND CBD



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

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

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

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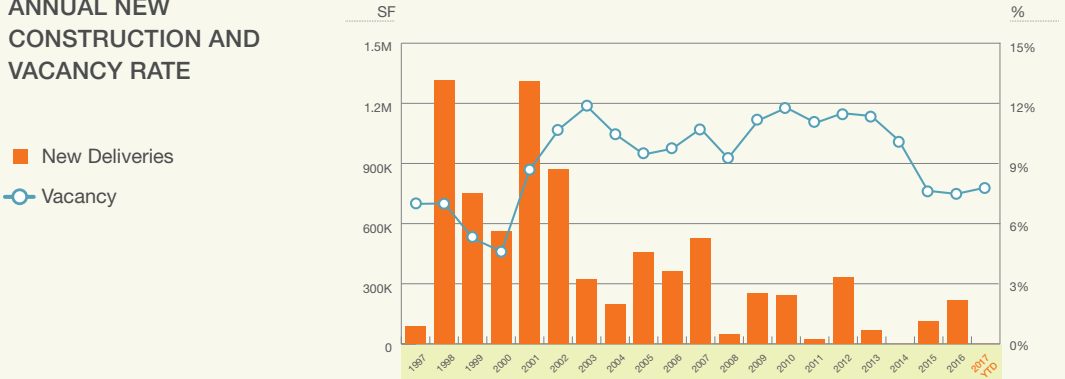
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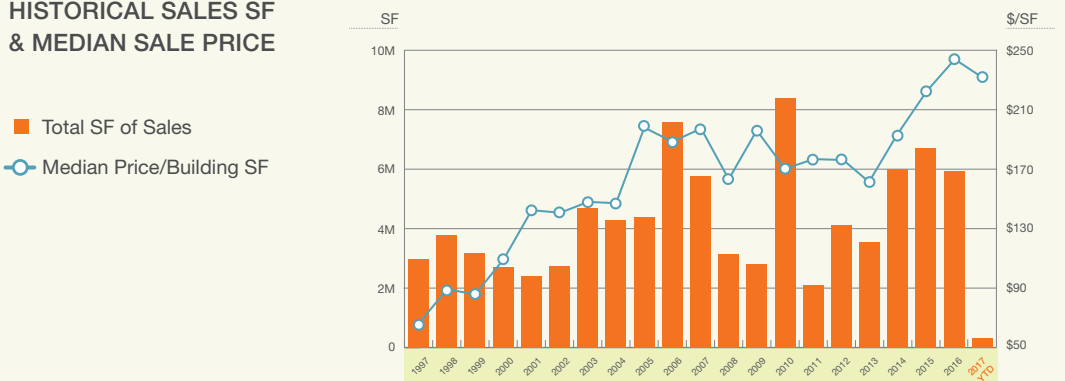
Market Breakdown

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	7.9%	7.6%	8.3%	-10.40%
Availability Rate	10.9%	10.9%	9.6%	5.20%
Asking Lease Rate	\$2.78	\$2.75	\$2.10	17.90%
Leased SF	811,448	642,615	722,944	-12.24%
Sold SF	312,321	815,507	357,290	-11.30%
Net Absorption	-141,243	-70,066	-120,238	N/A

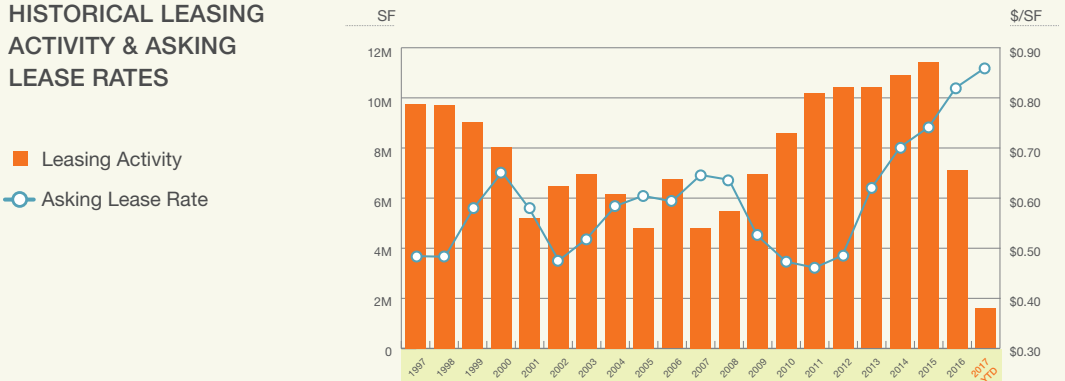
ANNUAL NEW CONSTRUCTION AND VACANCY RATE



HISTORICAL SALES SF & MEDIAN SALE PRICE



HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



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