

East Bay Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Unknown Tenant
850 Marina Village Parkway, Alameda
23,819 s.f. lease

Capricity
1999 Harrison, Oakland
20,755 s.f. sublease

Blue Bottle Coffee
472-480 9th Street, Oakland
10,647 s.f. lease

The East Bay office market picked up steam in the second quarter of 2016, with 345,428 square feet of positive net absorption shaving the vacancy rate to 7.4%. Leasing activity increased from the previous quarter to 186 transactions covering 707,841 square feet. Market-wide asking rental rates rose to \$2.51 per square foot, up 20% year-over-year, and Class A rents in the Oakland CBD jumped by more than 30% from the second quarter of 2015, clearing \$4.20 per square foot, fully serviced, for the first time. Despite the tightening market, the East Bay remains more affordable than San Francisco, and its lower rents and BART accessibility continue to attract office tenants priced out across the Bay. However, this increased demand pressure and a lack of new construction have combined to fill virtually all of the remaining large blocks of space in Downtown Oakland, where the vacancy rate is now lower than that reported in San Francisco. Surrounding East Bay submarkets, such as Berkeley and Emeryville, are increasingly seeing spillover demand from Oakland CBD, with rental rates rising rapidly as a result.

Absorption was positive across all product classes in nearly all East Bay submarkets this quarter, with a total of 345,428 square feet of occupied office space gained during the past three months. Class A product reported 210,220 square feet of positive net absorption, that submarket's second quarter in excess of 200,000 square feet this cycle, trailing only the third quarter of 2015. Oakland CBD was the best performing geographic submarket, adding 188,068 square feet, followed by Alameda, which picked up 86,335 square feet. Emeryville was the lone key submarket in the red this quarter, shedding 84,895 square feet after recording a 108,708 square foot gain in the fourth quarter of last year. Innovative Interfaces Inc. moved out of 57,100 square feet at 5850 Shellmound Street, previously its world headquarters, accounting for the bulk of the city's loss this quarter.

Vacancies were at or near cycle lows across the East Bay, and were particularly sparse in Oakland CBD, which came in at 3.7%, a 3.3 percentage point year-over-

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Area Review

Submarket Statistics

Submarket	# of Buildings	Total Inventory	Direct Available	Sublease Available	Total Vacancy	Direct Availability Rate	Sublease Availability Rate	Total Vacancy Rate	Q2 Net Absorption
West Contra Costa	124	2,447,089	154,103	0	112,757	6.30%	0.00%	4.60%	68,148
Berkeley	211	5,169,300	132,950	25,884	186,226	2.60%	0.50%	3.60%	41,588
Emeryville	64	4,752,977	664,553	109,920	421,939	14.00%	2.30%	8.90%	(84,985)
Oakland CBD	234	17,096,167	1,038,637	120,019	633,584	6.10%	0.70%	3.70%	188,068
Greater Oakland	380	9,425,845	823,521	77,071	816,253	8.70%	0.80%	8.70%	36,349
Alameda	123	3,821,636	599,875	62,050	648,404	15.70%	1.60%	17.00%	86,335
San Leandro/San Lorenzo	98	1,829,731	191,930	0	128,928	10.50%	0.00%	7.00%	(8,142)
Hayward/Castro Valley	155	3,595,548	692,613	302	644,917	19.30%	0.00%	17.90%	11,233
Union City	29	607,898	12,912	0	6,088	2.10%	0.00%	1.00%	6,834
Total	1,418	48,746,191	4,311,094	395,246	3,599,096	8.80%	0.80%	7.40%	345,428

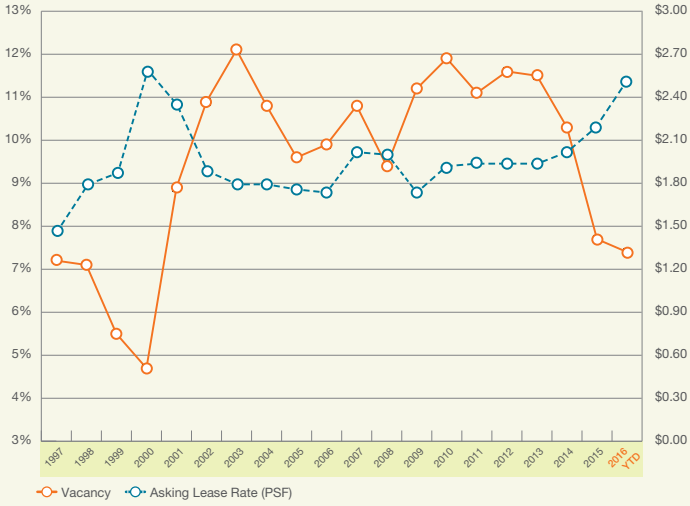
year drop. Hayward/Castro Valley was the area's loosest office market, with a 17.9% vacancy rate at quarter's end, but that figure represents a 4.8-point drop from this time a year ago. Union City remains both the smallest and tightest office submarket in the East Bay, with just 6,088 square feet of vacant space, or 1.0% of its 608,000 square foot stock. The northernmost West Contra Costa submarket, which includes the cities of Richmond, Albany, San Pablo, and El Cerrito, registered a cycle-low vacancy rate of 4.6%. Class A vacancies were at 4.1% this quarter, down 2.0 percentage points in just the last six months, as office users flocked to the few remaining spaces in Downtown Oakland.

Unemployment in the East Bay stayed on a downward trajectory this quarter, falling to 4.2%, down half a percentage point from the second quarter of 2015, with some submarkets enjoying lows unseen since the dot-com boom. Total employment is up by approximately 25,000 jobs from this time a year ago. The Construction sector has led the way in job growth over the past year, tacking on 4,700 employees for a 7.8% jump. Leisure and Hospitality employment has increased by 4.2% year-over-year, while the Information sector is up 4.1% and the Educational and Health Services sector has grown by 3.8%. Ongoing employment growth in office-based sectors continues to fuel the demand for space in the East Bay market. Absent a corresponding increase in supply, this will put upward pressure on rental rates, which have now trended upward for ten consecutive quarters and have jumped by 20% market wide, year-over-year.

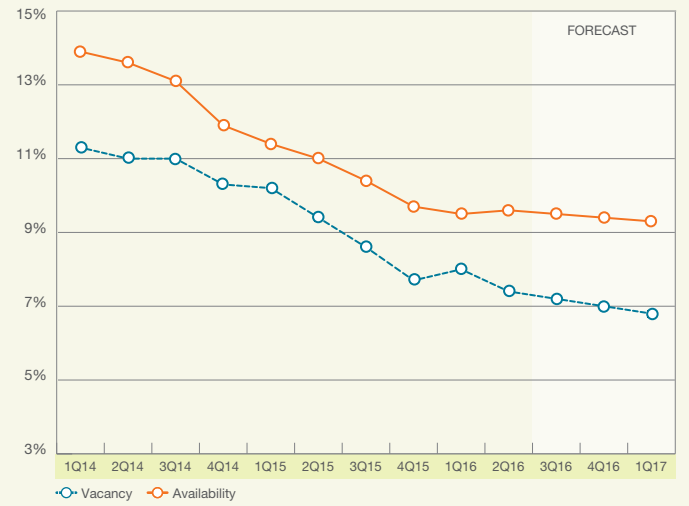
Leasing activity increased slightly this quarter, to 707,841 square feet over 186 transactions, but was substantially lower than the 1.09 million square feet of office space taken during the second quarter of 2015. The scarcity of available space, not waning demand, is likely behind the relatively slow leasing in recent quarters. Average deal size grew to a mean of 4,021 square feet this quarter, compared to 3,141 square feet in the first quarter of 2016, but remains well below the 5,000-plus square foot average recorded earlier this decade. The lower average stems in part from the absence of large-scale leases but is also a reflection of the types of users coming from across the Bay. Startups, smaller tech companies, and nonprofits comprise the bulk of the demand in the East Bay market, escaping San Francisco's skyrocketing rents while still reaping the agglomeration benefits of working alongside other fledgling firms. The per-lease average in Downtown Oakland was a cycle-low 2,668 square feet this quarter, and only 13 of the 186 deals signed marketwide over the past three months eclipsed 10,000 square feet.

There were no office building deliveries this quarter, and only two buildings totaling 152,000 square feet were under construction at quarter's end. The larger of the two is the 132,000 square foot Building A of the future San Leandro Tech Campus. This Class A structure is fully preleased to OS/soft, LLC, with delivery expected later this year. In Oakland CBD, construction is underway on the 20,000 square foot 1630 San Pablo Avenue, all of which is currently available for lease, with delivery anticipated in late 2016.

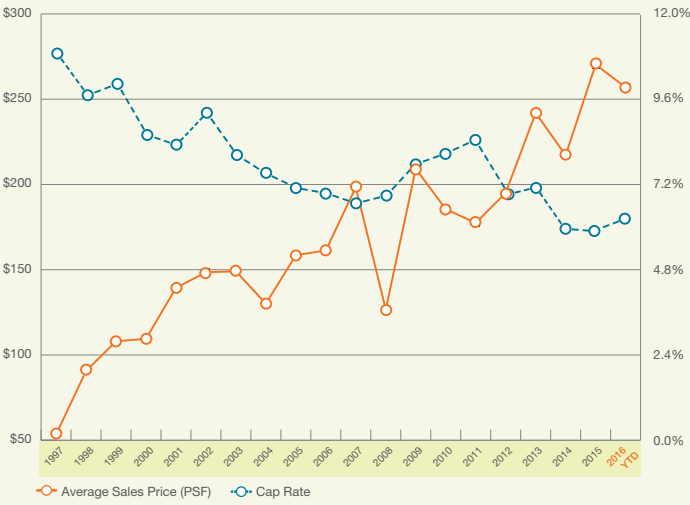
VACANCY VS ASKING LEASE RATE



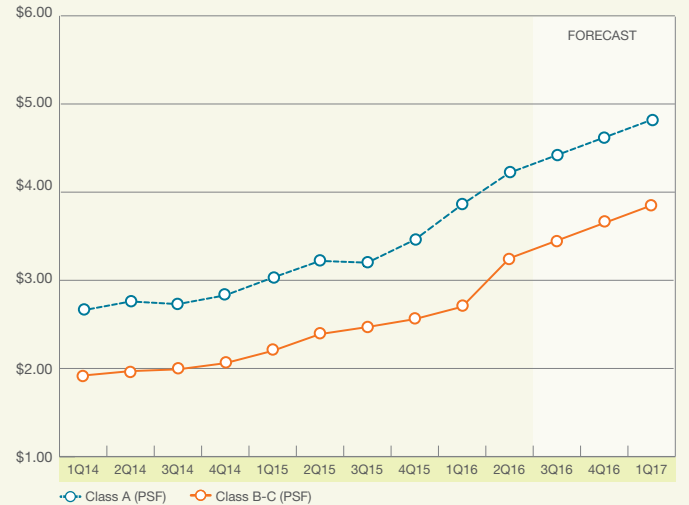
VACANCY VS AVAILABILITY



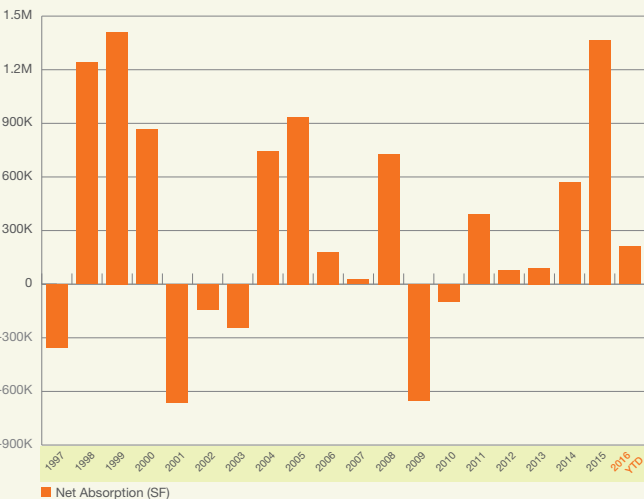
AVERAGE SALES PRICE & CAPITALIZATION RATES



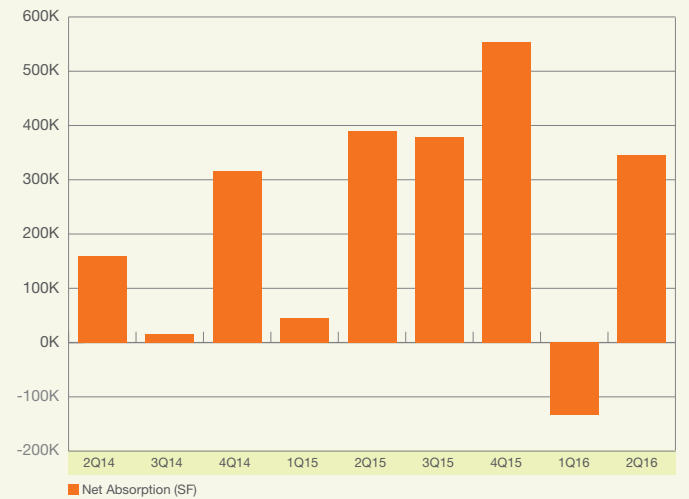
ASKING LEASE RATE - OAKLAND CBD



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
916.751.3600
- San Diego
858.509.1200
- Orange County
949.557.5000
- Phoenix
602.513.5200
- Reno
775.301.1300

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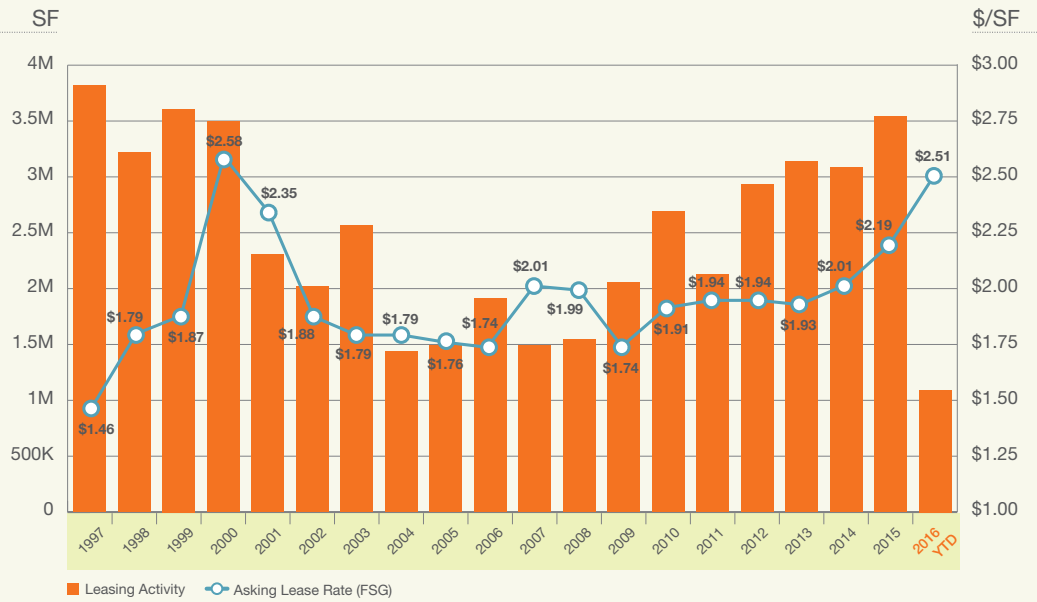
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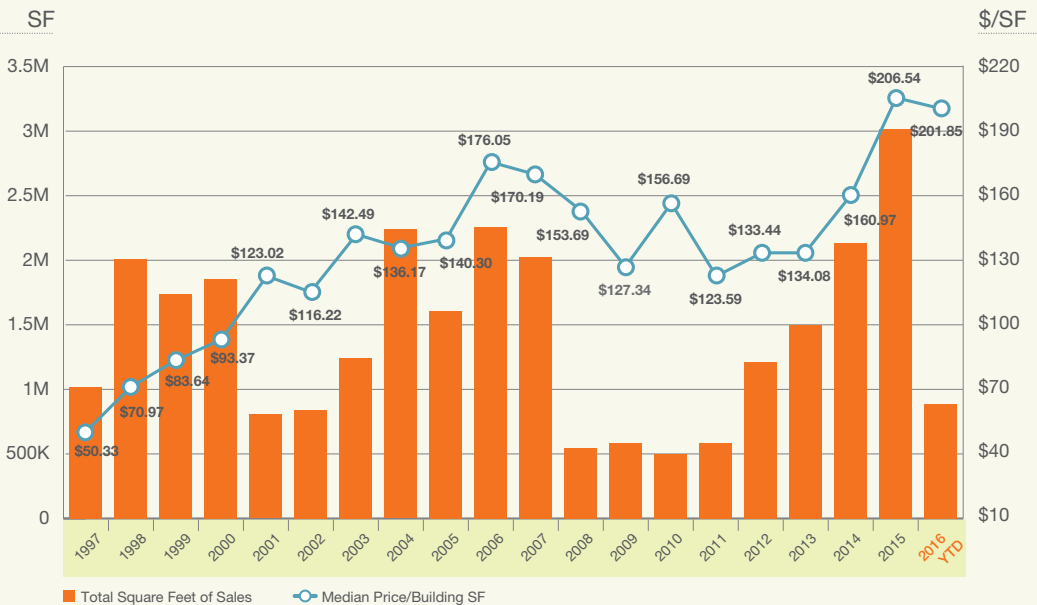
Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	7.4%	8.0%	9.4%	-21.28%
Availability Rate	9.6%	9.5%	11.0%	-12.72%
Asking Lease Rate	\$2.51	\$2.24	\$2.16	16.2%
Leased SF	707,841	674,274	1,091,930	-45.06%
Sold SF	594,018	386,234	697,855	-35.12%
Net Absorption	345,428	-133,600	389,549	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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