

# East Bay Office

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



Under Construction



## Notable Lease Transactions

### WeWork

1111 Broadway, Oakland  
81,452 s.f. Leased

### Solar Mosaic

300 Lakeside Drive, Oakland  
29,299 s.f. Leased

### Oracle

1330 Broadway, Oakland  
16,088 s.f. Leased

## Notable Sale Transactions

### Harvest Properties

180 Grand Avenue, Oakland  
278,596 s.f.  
Purchased for \$119.25M or \$428/s.f.

### Legacy Property Management

1451 Harbor Bay Parkway, Alameda  
86,055 s.f.  
Purchased for \$20M or \$232/s.f.

### HP Investors/LNG Management

1700 Broadway, Oakland  
30,000 s.f.  
Purchased for \$13.3M or \$443/s.f.

After reaching historically low vacancies in 2016, the East Bay office real estate market has paused to catch its breath during the first half of this year, finding a better balance between demand and supply. East Bay office properties reported 324,551 square feet of negative net absorption during the second quarter, and the vacancy rate increased to 7.1% in Oakland CBD and 8.8% marketwide. Those levels are consistent with a healthy economy and office market, and demand remains strong, particularly for creative spaces and midsize offices in the 10,000-25,000 square foot range. Asking rents marketwide were up 17% year over year, to an average of \$2.84, fully serviced, while many Class A spaces in Oakland CBD were being marketed at \$4.50 or higher. More than 1.4 million square feet of future office space was under construction at quarter's end, nearly double the largest volume of construction activity seen at any previous point this cycle, as anchor tenant commitments and rising rents convinced developers of the market's long-term viability.

This quarter's 324,551 square feet of negative net absorption brought the marketwide vacancy rate up to 8.8%, roughly in line with levels seen during the second half of 2015, before an imbalance between demand and supply caused significant tightening last year. The largest contiguous vacant space in Oakland CBD, which reported 136,208 square feet of negative net absorption this quarter, is 72,759 square feet at 1333 Broadway, formerly occupied by AECOM, which is consolidating its Bay Area offices at 300 Lakeside Drive. This quarter, Ask Jeeves left 23,889 square feet at 555 12th Street in Oakland, and multiple move-outs produced 27,219 square feet of negative absorption at 2000 Powell Street in Emeryville, though the newly vacated spaces there have been re-leased. There is ample demand in the market for quality space in the 10,000-25,000 square foot range, so midsize vacancies figure to be refilled quickly. Landlords marketing smaller, traditional offices, on the other hand, could be pressed to pay for significant tenant improvements or see those spaces sit empty for longer stretches.

Vacancies have trended upward in most East Bay cities since the beginning of 2016, but demand for office space in the market remains robust, and landlords with desirable availabilities are generally able to find replacement tenants. The Oakland CBD vacancy rate increased to 7.1% this quarter, up from 5.1% over the last six months, rebounding to a healthier level after becoming exceedingly tight in 2016. Meanwhile, Berkeley was one of the few inner East Bay submarkets to report a decline in its vacancy rate in the second quarter, from 4.0% to 3.6%, amid an influx of nonprofit and other tenants that have recently been

→ Continued, page 2

# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q2 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Oakland - Downtown	17,907,308	6.00%	6.50%	9.60%	(127,769)	(323,833)	228,139	610,504	\$4.13
Oakland - Jack London Sq	1,677,383	13.10%	13.10%	13.80%	(8,439)	(42,622)	28,688	58,996	\$2.58
Oakland CBD	19,584,691	6.60%	7.10%	10.00%	(136,208)	(366,455)	256,827	669,500	\$3.97
Greater Oakland	7,743,140	6.00%	6.00%	6.00%	614	50,467	50,223	109,594	\$2.09
West Contra Costa	2,451,197	6.20%	6.30%	4.70%	7,581	7,341	51,996	65,651	\$1.40
Berkeley	5,115,260	3.10%	3.60%	6.90%	(2,077)	(28,010)	29,286	55,968	\$2.99
Emeryville	5,174,661	18.10%	18.10%	21.00%	(157,193)	(267,335)	282,267	361,589	\$3.26
Alameda	3,838,811	12.10%	12.10%	13.10%	(42,192)	(23,129)	136,602	136,602	\$1.88
San Leandro/San Lorenzo	2,024,481	9.40%	9.40%	17.30%	5,247	3,312	6,394	17,943	\$2.00
Hayward/Castro Valley	3,601,760	17.20%	17.50%	19.50%	(10,544)	2,807	5,661	26,024	\$1.54
Union City	609,560	3.00%	3.00%	3.00%	6,377	1,653	4,341	13,128	\$1.74
<b>Total</b>	<b>49,954,970</b>	<b>8.60%</b>	<b>8.80%</b>	<b>11.10%</b>	<b>(324,551)</b>	<b>(608,976)</b>	<b>821,947</b>	<b>1,453,349</b>	<b>\$2.84</b>
Class A	11,061,902	7.20%	8.00%	13.90%	(262,426)	(374,202)	306,805	605,128	\$4.25
Class B	24,815,680	11.20%	11.40%	12.40%	(54,017)	(119,746)	434,466	710,077	\$2.64
Class C	14,066,238	4.90%	4.90%	6.30%	3,042	3,042	80,676	80,676	\$1.94

priced out of Oakland. Across the East Bay, the Class A vacancy rate was 8.0%, while Class B buildings were at 11.4%, and Class C properties reported 4.9%.

While no 100,000 square foot leases were signed in the East Bay during the second quarter, midsize tenants in the 10,000-50,000 square foot range found more suitable availabilities, comprising the bulk of the period's 821,947 square feet of leasing activity. Consequently, the average deal size increased to 6,850 square feet, after hovering around 4,000 square feet for most of the past two years. WeWork turned in the largest individual deal, taking 81,452 square feet on the second through fifth floors of 1111 Broadway. That space will mark the fast-growing co-working firm's first Oakland location, second in the East Bay, and 13th in the Bay Area when it opens later this year. Solar Mosaic, which offers residential solar panel loans and raised \$220 million in a funding round last summer, leased a 29,299 square foot space at 300 Lakeside Drive. Oracle continued its expansion in the East Bay with a 16,088 square foot hitch at 1330 Broadway, enhancing Oakland's roster of tech tenants. Strong demand coupled with an uptick in availabilities should yield more leasing activity during the second half of 2017.

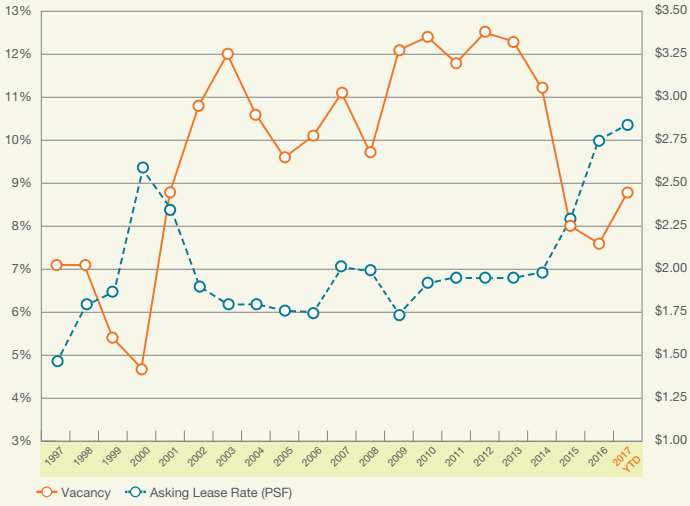
After a quiet first quarter, investment activity bounced back modestly over the past three months, totaling \$226 million in dollar volume. Among the 39 transactions recorded, the average price per square foot was \$293 and the average cap rate was 6.1%, excluding outliers. Emeryville-based Harvest Properties acquired 180 Grand Avenue in Oakland from San Francisco's Ellis Partners for \$119.25 million or \$428/sf, by far the quarter's priciest buy. Ellis Partners made significant capital improvements to the 278,596 square foot asset after purchasing it from CBRE Global Investors for \$61.3 million in December of 2014, nearly doubling its original investment after 30

months. HP Investors continued a three-year Oakland shopping spree with the purchase of 1700 Broadway, a 32,000 square foot office building, for \$13.3 million or \$443/sf. HP Investors and its partner, LNG Management, view the 100% leased asset as a value-add opportunity because the existing tenants are paying in the \$20s per square foot, or about 50% of the current market rent. The largest sale outside of Oakland CBD involved 1451 Harbor Bay Parkway in Alameda; the 86,055 square foot Class B building, fully leased by Kaiser Permanente, went to Legacy Property Management for \$20 million or \$232/sf.

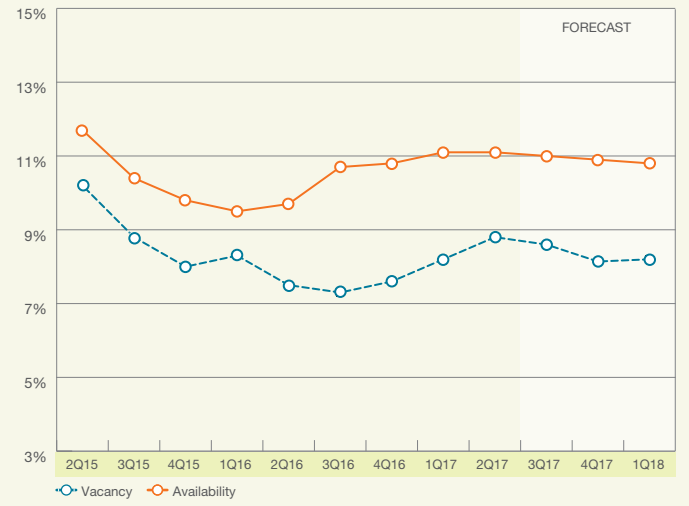
Only 422,734 square feet of office space has been added to the East Bay inventory over the past four years, but a wave of new construction began to rise during the second quarter. Seven developments totaling more than 1.4 million square feet were under construction at quarter's end, or nearly double the highest volume of office projects underway at any other point in the current cycle. 601 City Center, a 596,767 square foot Class A tower, is the largest development in the market, with Shorestein starting construction after securing Blue Shield as its anchor tenant last quarter. Approximately 400,000 square feet of office space is still available in the building, set to be delivered during the first quarter of 2019, and the asking rent is \$5.25/sf on a modified gross basis. Another 124,916 square feet is available at Building B of the San Leandro Tech Campus at 1600 Alvarado Street in San Leandro, where Westlake Realty Group anticipates completion of the six-story structure in the second quarter of next year. Finally, the 320,000 square foot 1100 Broadway tower in Oakland is expected to break ground in October, after the UC Office of the President signed on for 107,896 square feet in February.

*Data Source: CoStar*

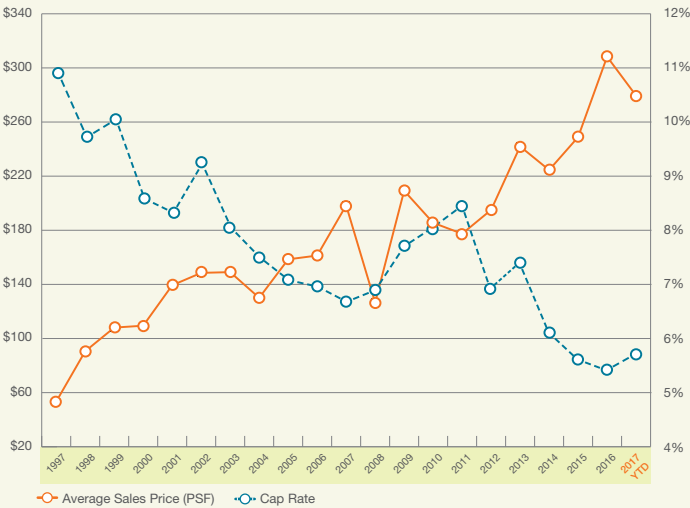
### VACANCY VS ASKING LEASE RATE



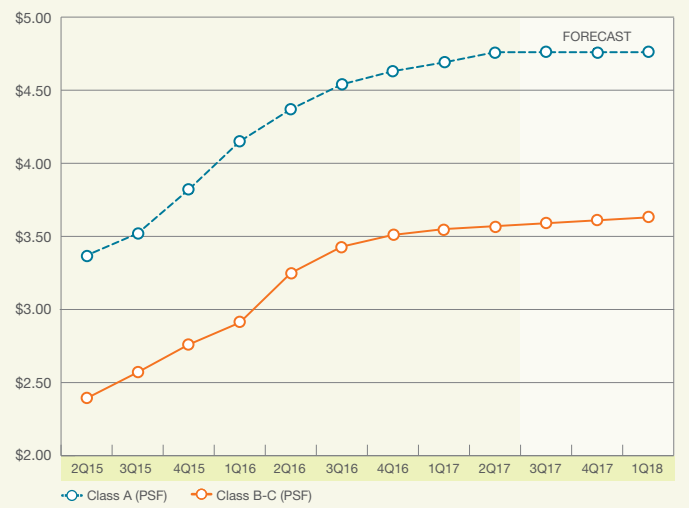
### VACANCY VS AVAILABILITY



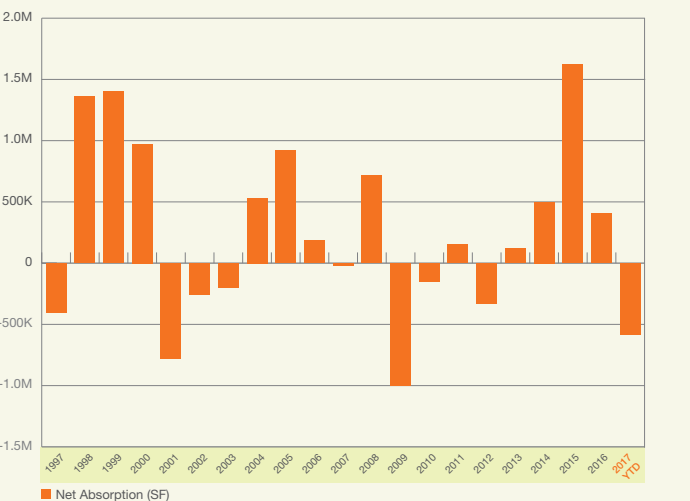
### AVERAGE SALES PRICE & CAPITALIZATION RATES



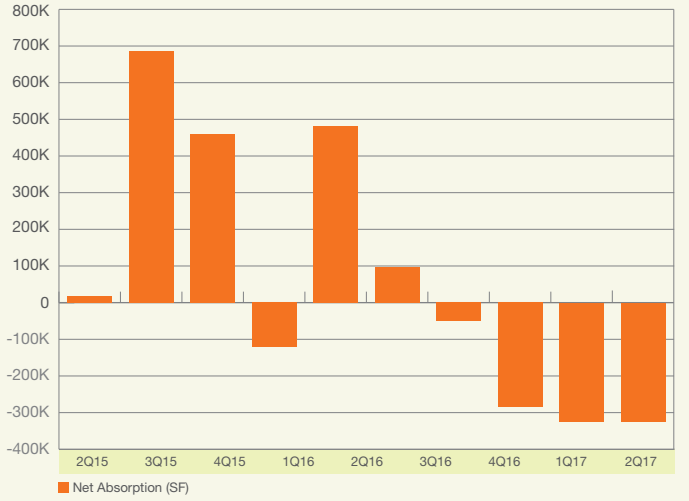
### ASKING LEASE RATE - OAKLAND CBD



### 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

**Contact**

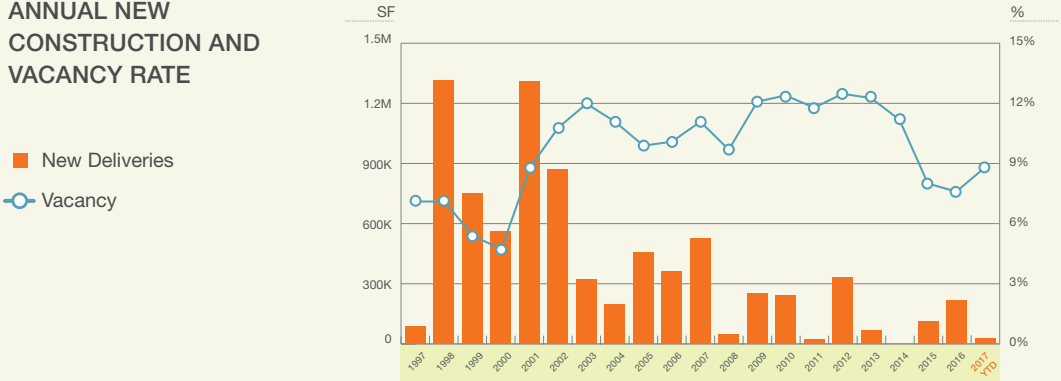
**Mark Read**  
Executive VP, Brokerage  
Northern California  
415.229.8888  
mread@kiddermathews.com

Designated Broker  
Mark Read | LIC #00572743

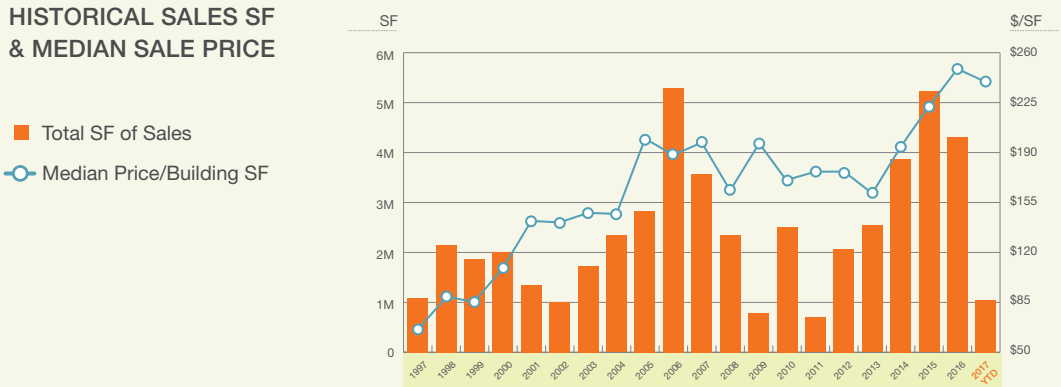
**Market Breakdown**

	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	8.8%	8.2%	7.5%	17.3%
Availability Rate	11.1%	11.1%	9.7%	14.4%
Asking Lease Rate	\$2.84	\$2.82	\$2.43	16.9%
Leased SF	825,098	631,402	614,665	34.2%
Sold SF	944,893	402,742	629,212	50.2%
Net Absorption	-302,121	-284,425	481,240	N/A

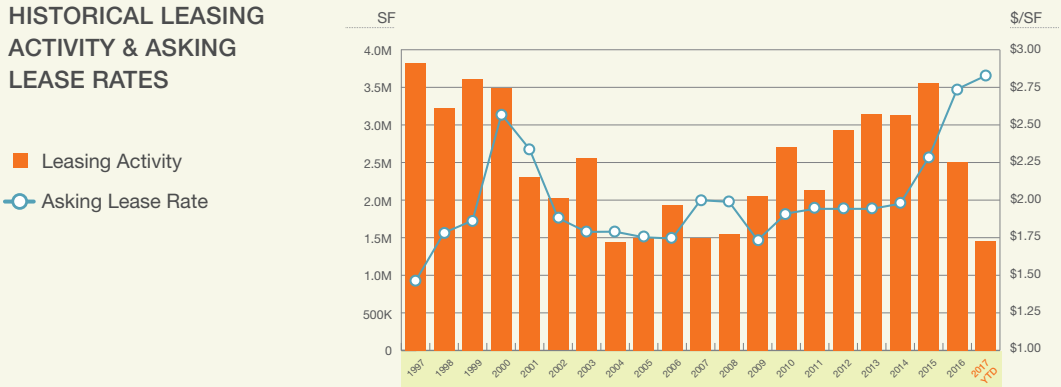
**ANNUAL NEW CONSTRUCTION AND VACANCY RATE**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES**



This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.