

Real Estate Market Review

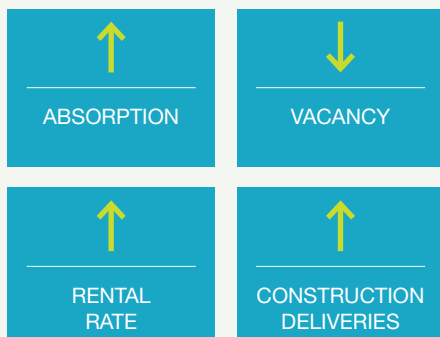
East Bay Office

The inner East Bay office real estate market held its own during the third quarter, as 99,870 square feet of positive net absorption ticked the vacancy rate down to 7.7%. While rental rates have plateaued across the Bay Bridge in San Francisco, Oakland and other BART-served markets in the East Bay continue to experience asking rent growth, to an average of \$3.23 FS marketwide and over \$4.75 for Class A space in Oakland CBD. Institutional investors have largely tapped out the value-add opportunities in San Francisco and are becoming more active in the inner East Bay, where properties with below-market rents and renovation upside are still relatively abundant. With more than 1.3 million square feet of office space under construction, developers are betting on the sustained strength of the East Bay market, which is well positioned to benefit from trends in the region’s technology sector. While employment growth in Silicon Valley and San Francisco has recently been by the region’s soaring housing costs, Oakland and the East Bay have enjoyed continued workforce expansion because of their relative affordability. Tech firms are increasingly eyeing relocation or back-office opportunities in the East Bay to be closer to their workers.

Inner East Bay office properties reported 99,870 square feet of positive net absorption this quarter, led by a 155,134 square foot increase in occupied office space in Oakland CBD. Several midsize tenants moved into downtown Oakland offices during the past three months: GT Nexus took over 23,951 square feet at 1111 Broadway, Oracle occupied 16,000 square feet at 1330 Broadway, and the Make-A-Wish Foundation’s greater Bay Area chapter moved over from San Francisco into 15,195 square feet at 1333 Broadway. Outside of the CBD area, 8000 Edgewater Drive in the Oakland

Airport submarket welcomed Type A Machines, a 3D printing company, to the Circuit Launch hardware startup space, which is in 32,409 square feet. On the move-out front, Pandora listed the fourth floor at 2100 Franklin Street in Oakland for sublease, vacating 25,261 square feet in its headquarters building. Strong demand for quality midsize spaces between 10,000-25,000 square feet remains a key driver of absorption and leasing activity in the Inner East Bay, so vacancies such as the Pandora sublease are often refilled more swiftly than smaller, traditional offerings in the 2,000-5,000 square foot range.

Market Forecast Trends



Notable Lease Transactions

- Delta Dental**
1333 Broadway, Oakland
72,759 s.f. leased
- Confidential Tenant**
55 Harrison Street, Oakland
39,639 s.f. leased
- Flexera**
1901 Harrison Street, Oakland
18,125 s.f. leased

Notable Sale Transactions

- KBS**
1300 Clay Street & 505 14th Street, Oakland
367,357 s.f. | \$155M or \$422/s.f.
- Lionstone Investments**
300-600 Wind River Way, Alameda
273,446 s.f. | \$60.45M or \$221/s.f.
- HighBridge Properties**
401-405 14th Street, Oakland
90,000 s.f. | \$33.25M or \$369/s.f.

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	17,916,058	7.40%	7.60%	10.60%	190,253	(137,403)	200,212	823,865	\$4.47
Oakland - Jack London Sq	1,677,383	14.60%	14.70%	14.30%	(35,119)	(69,162)	44,773	106,937	\$2.78
Oakland CBD	19,593,441	8.00%	8.10%	10.90%	155,134	(206,565)	244,985	930,802	\$4.36
Greater Oakland	7,972,376	5.40%	5.40%	5.60%	10,393	101,223	97,972	259,142	\$2.03
West Contra Costa	2,453,562	4.30%	5.50%	4.20%	17,625	19,966	4,768	76,845	\$1.41
Berkeley	5,100,332	3.50%	3.10%	7.20%	(2,979)	(31,472)	13,028	68,996	\$2.94
Emeryville	5,182,281	13.40%	10.60%	16.80%	(60,042)	65,117	121,399	537,094	\$3.03
Alameda	3,839,441	12.70%	12.70%	14.30%	(24,652)	(47,781)	26,419	169,481	\$1.95
San Leandro/San Lorenzo	3,839,441	12.70%	12.70%	14.30%	(24,652)	(47,781)	26,419	169,481	\$1.95
Hayward/Castro Valley	3,265,760	8.80%	8.80%	10.20%	7,310	7,997	23,921	48,706	\$1.58
Union City	609,560	2.60%	2.60%	2.60%	1,248	4,084	0	15,559	\$1.75
Class A	11,061,902	6.30%	7.20%	13.70%	42,181	(264,567)	142,694	805,212	\$4.74
Class B	24,782,055	9.50%	9.70%	11.10%	85,146	318,892	360,835	1,135,189	\$3.00
Class C	13,950,839	4.70%	5.00%	6.00%	(27,457)	(124,203)	59,137	224,036	\$2.00
Total	49,805,946	7.30%	7.70%	10.30%	99,870	(81,028)	562,666	2,164,437	\$3.23

Marketwide, vacancies are virtually unchanged year over year, holding at 7.7%. While downtown Oakland has seen a temporary rise in vacancy, suburban submarkets have tightened in recent quarters, balancing out the inner East Bay on the whole. West Contra Costa County—which includes Richmond, El Cerrito, San Pablo, and Albany—has experienced a 160 basis point decline in its vacancy rate since the third quarter of 2016, from 7.1% to 5.5%. Oakland CBD reported 8.1% vacancy this quarter, a healthy rate that reflects both strong demand and opportunities for growing companies to expand in the market. Across the inner East Bay, the Class A vacancy rate was 8%, Class B buildings were at 10.5%, and Class C properties were at 5%.

Leasing activity in the East Bay slowed to 114 transactions covering 562,666 square feet, consistent with levels seen in recent summers that have preceded more vigorous fourth quarters. Delta Dental signed this quarter's largest deal, securing 72,759 square feet on the seventh through 10th floors of 1333 Broadway in a sublease from AECOM. The biggest direct deal was struck at 55 Harrison Street in Jack London Square, where a confidential tenant took 39,639 square feet on the third floor. On the tech-sector front, the software company Flexera leased the 17th floor of 1901 Harrison Street, an 18,125 square foot hitch through March of 2025. The deal marks a relocation and modest downsizing for Flexera, which is currently headquartered in a 24,518 square foot office in San Jose. Several other smaller technology firms are rumored to be considering moving from Silicon Valley to the East Bay, where housing costs remain more affordable, providing a larger pool of potential employees.

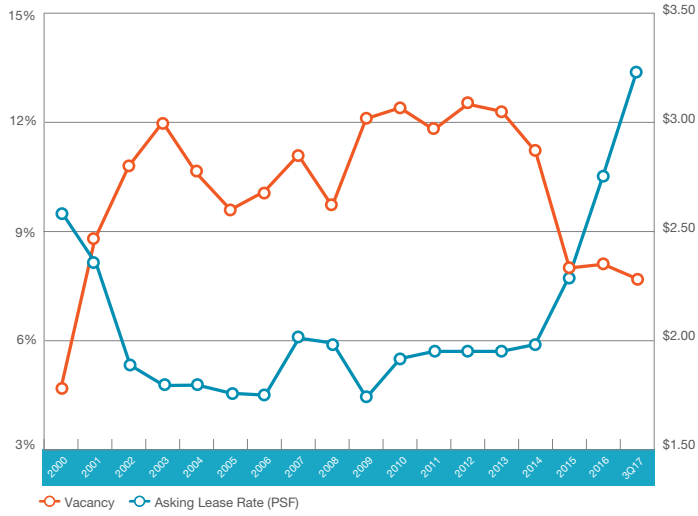
As value-add opportunities in the San Francisco market are virtually exhausted, institutional investors have looked to Oakland in recent quarters, in search of properties with below-market rents and renovation potential. Short-term buyers have played hot potato with the two-building Oakland City Center (1300 Clay Street and 505 14th Street), which traded for the third time in four years this summer. Valued at \$65.7 million in the summer of 2013, when Strada Investment Group acquired the complex from CBRE Global

Investors, the 367,357 square foot asset soared to \$114.5 million in October of 2015, when it went from Strada to Canyon Partners, and to \$155 million in the most recent sale, from Canyon Partners to KBS. The August buy comes out to \$422/sf, underwritten at a 4.7% cap rate, and is viewed as a value-add play for the Southern California-based REIT, with numerous tenants paying rents in the high-\$30s while the market's Class A downtown average is over \$55. Beyond Oakland CBD, Houston-based Lionstone Investments bought the Intel Corporation campus at 300-600 Wind River Way for \$60.45 million or \$221/sf. Intel is leasing back two of the four buildings from Lionstone, and the other two were vacant at sale. Overall, the average price per square foot jumped to \$316 this quarter, as cap rates for high-end assets in Oakland CBD hovered between 5-6%.

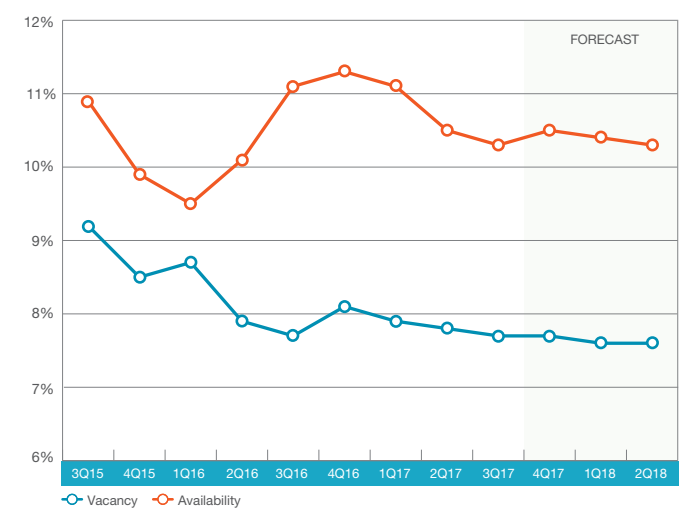
The East Bay office market has seen just 422,734 square feet of new office space added to its stock over the past four years, but supply relief is on the way with 1,361,920 square feet under construction at quarter's end. Developers in the East Bay generally seek anchor tenant commitments before breaking ground on high-rise projects, which was the case with the two largest developments currently rising. Shorenstein's 569,767 square foot 601 City Center tower, set for delivery in early 2019, will be home to Blue Shield, which took approximately 200,000 square feet in the building during the first quarter, leaving 396,548 square feet available at an average asking rent of \$5.25 MG. The 1100 Broadway development, a 320,000 square foot project, will begin construction during the fourth quarter. The UC Office of the President took 107,896 square feet to spur developers Ellis Partners and SKS Investments, who have 212,104 square feet left for lease. Outside of Oakland, the Berkeley Way West project at 1919 Shattuck Avenue, spearheaded by The Regents of the University of California, will tack 325,000 square feet onto the city's inventory next spring. Approximately 81,000 square feet is being marketed for lease on the top three floors of the building, and the large floorplates could appeal to creative users.

Data Source: CoStar

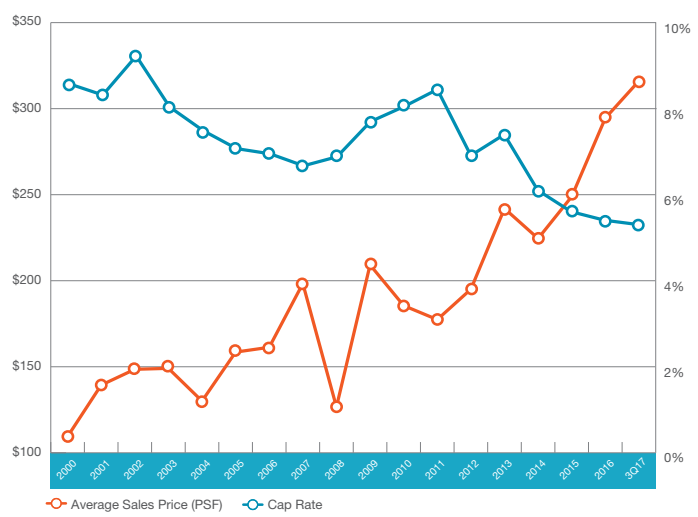
VACANCY VS ASKING LEASE RATE



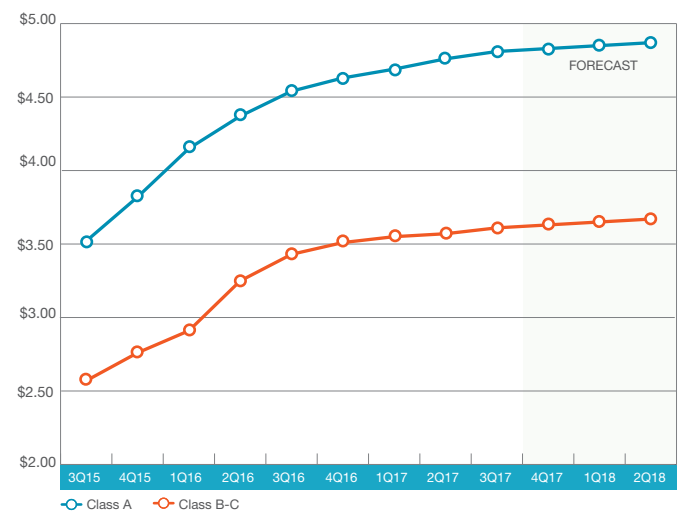
VACANCY VS AVAILABILITY



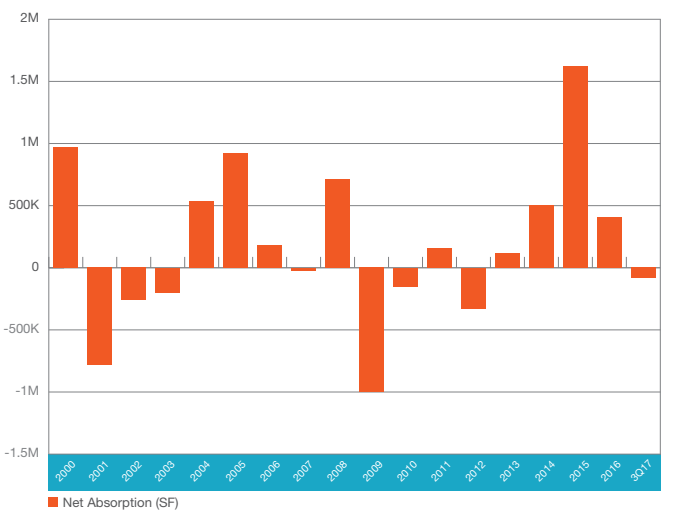
AVERAGE SALES PRICE & CAPITALIZATION RATES



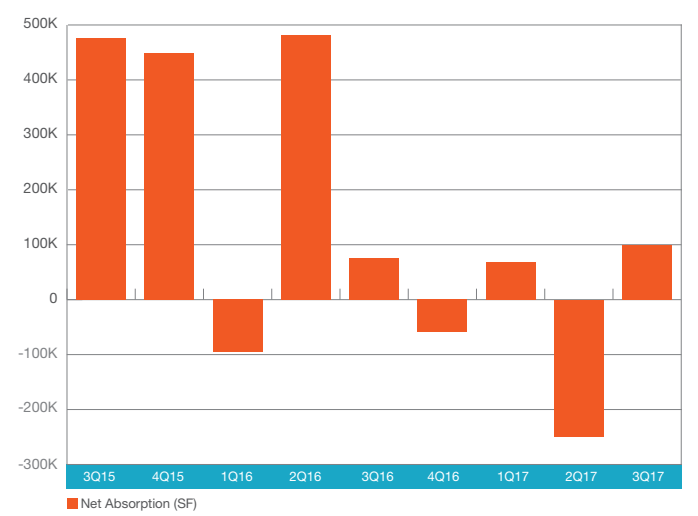
ASKING LEASE RATE - OAKLAND CBD



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

Commerce
323.727.1144

Long Beach
562.472.0071

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

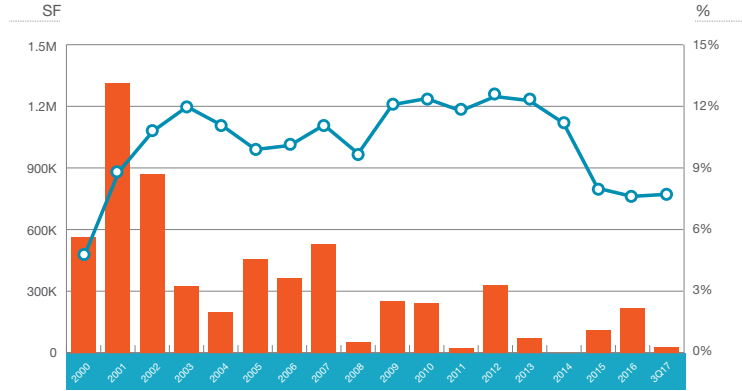
Designated Broker
Mark Read | LIC #00572743

Market Breakdown

	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	7.7%	7.8%	7.7%	0.0%
Availability Rate	10.3%	10.5%	11.1%	-7.2%
Asking Lease Rate	\$3.23	\$3.20	\$2.49	29.7%
Leased SF	562,666	951,634	493,323	14.1%
Sold SF	952,736	722,103	1,007,350	-5.4%
Net Absorption	99,870	-249,367	75,847	N/A

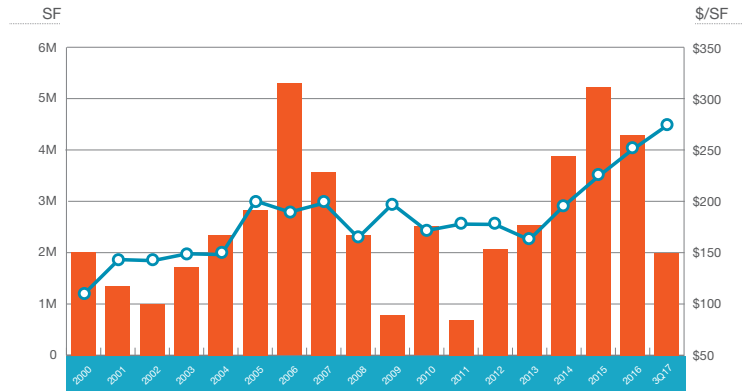
HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Deliveries
○ Vacancy Rate



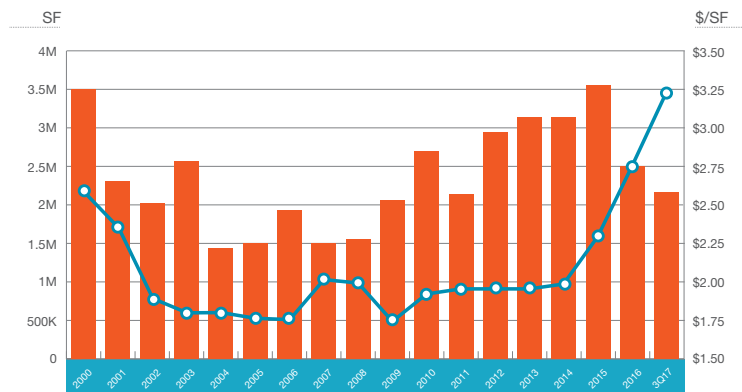
HISTORICAL SALES ACTIVITY & MEDIAN SALES PRICE

■ Total Square Feet of Sales
○ Median Price/Building SF



HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

■ Leasing Activity
○ Asking Lease Rate



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.