

EAST BAY OFFICE MARKET

SECOND QUARTER 2016

East Bay Picks Up Steam

Landlords begin to raise rents as leasing activity gains momentum

In the second quarter landlords felt more confident in elevating rents. The East Bay office market saw the largest increase in asking rents (9%) this quarter than in the past 10 years. The I-80/880 market showed the largest increase of rents by 19%. Vacancy has been on a steady decline and absorption has remained positive for the last eight quarters.

Wells Fargo, Captricity and AMR all signed large leases in the second quarter. Even though most office development projects are in the proposal stage, CIM group and Shorenstein made progress on their speculative developments, while others remain tied up with multifamily projects currently under construction.

ECONOMY

Positive job growth continues

The Oakland-Hayward-Berkeley metro increased by 6,300 jobs between April and May of 2016. Construction led the month-over gains as development, especially in the multifamily sector, continues to pick up steam. Private educational and health services led the year-over gains, adding 6,900 jobs. Healthcare and social assistance accounted for most of the gain with an increase of 5,900 jobs. In May, total unemployment rate for Alameda County was 3.8 percent and Contra Costa County was 4.0 percent, respectively.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

VACANCY



10.4%

Vacancy falls to 10.4%

ABSORPTION



345,327 SF

Absorption surge led by cross-bay migration

RENTAL RATE



\$2.73 PSF

\$2.73 PSF rents increase with demand uptick

UNDER CONSTRUCTION

0 SF

No new construction but proposals on horizon

JOB GROWTH



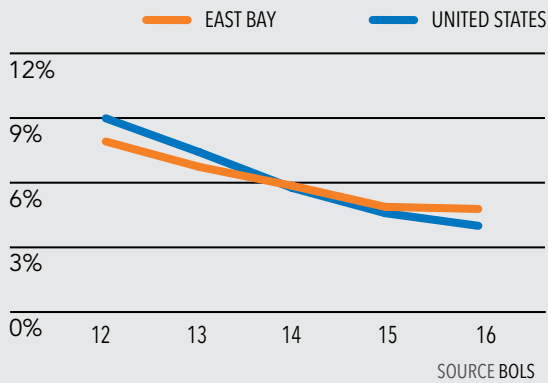
5.1%

East Bay employment continues to grow

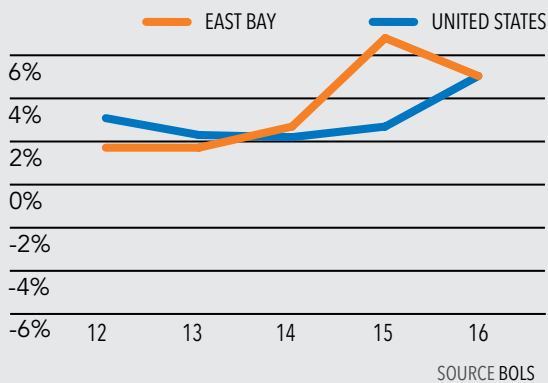
EAST BAY OFFICE MARKET

SECOND QUARTER 2016

UNEMPLOYMENT RATE



JOB GROWTH



SUPPLY AND DEVELOPMENT

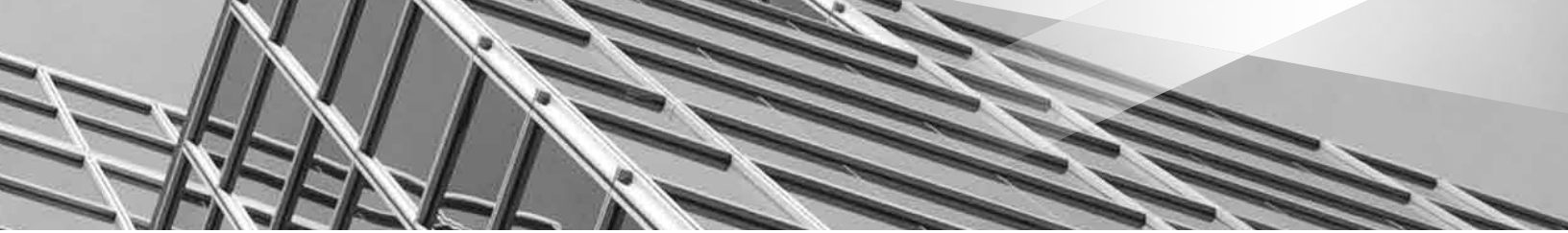
Oakland may finally see a new office tower

While most developers remained on the sidelines with proposed projects around the East Bay, the CIM Group and Shorenstein progressed forward with their respective projects. Earlier in the quarter Shorenstein had plans to obtain new entitlements for 601 City Center, a project in the works for over 10 years. Pacific Union began construction on its 26,000 square foot Class A office at 1630 San Pablo in the Oakland submarket. The site will include ground floor retail that is already preleased. The project is expected to deliver in the fourth quarter of 2016.

Rental rates are just beginning to move towards the justification of new construction and pre-leasing has already begun on most, some seeking upwards of \$4.00 NNN. So far projects have no signed commitments for space.

East Bay Office Market Indicators

PROPERTY CLASS	INVENTORY	QTR NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE VACANCY	TOTAL VACANCY	AVERAGE RATE PSF
Class A	29,313,524	673,101	953,270	8.0%	0.3%	8.3%	\$3.14
Class B	25,326,346	(270,390)	(70,796)	12.6%	0.7%	13.3%	\$2.39
Class C	7,668,524	(57,384)	26,117	8.4%	0.2%	8.6%	\$1.83
East Bay Office Total	62,308,394	345,327	908,591	9.9%	0.4%	10.4%	\$2.73



DEMAND

Rents pick up steam pushing demand further east

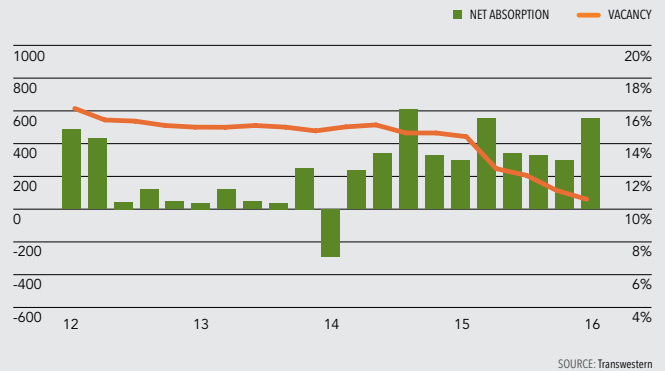
As demand percolates in Oakland and landlords continue to raise rents, the migration has continued to move further east this quarter. Wells Fargo consolidated its operations, vacating approximately 81,000 square feet in Oakland, moving into two buildings at the former Bank of America Technology Center in Concord. Wells took approximately 280,000 square feet at the two buildings. 2015 was record breaking for positive net absorption at just over 2 million square feet. Year-to-date absorption for 2016 is currently 91,687-square-feet, on par to mirror last year's numbers if momentum continues.

VACANCY

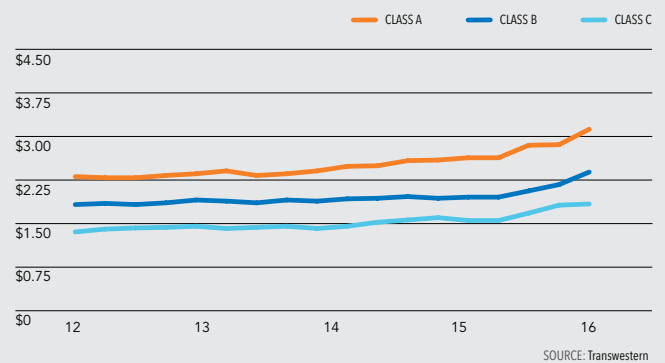
Vacancy continues to decline towards single digits

The East Bay vacancy rate continued to move closer to single digits in the second quarter of 2016 at 10.4%. The total vacant square feet is over 2.5 million less than it was a year ago. Various expansions among FIRE (financial, insurance, real estate and engineering) tenants helped chip away the vacancy block. Uber also accounted for a large chunk of that space. Sublease space remains nonexistent at 0.4%.

EAST BAY OFFICE MARKET NET ABSORPTION AND VACANCY THOUSAND SF



EAST BAY OFFICE MARKET MONTHLY ASKING RENTS



East Bay Office Lease Activity

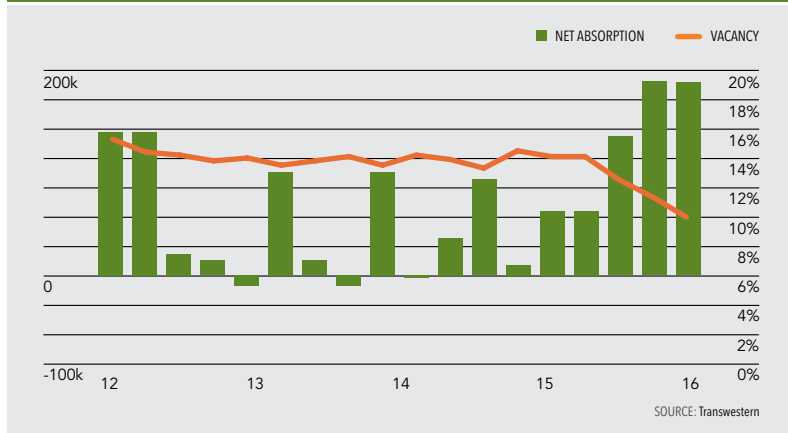
PROPERTY	TENANT	SF	TYPE	SUBMARKET
1655 & 1755 Grant Avenue	Wells Fargo	280,000	Class A	Concord
1221 Broadway	Brown & Toland Medical Group	59,514	Class A	Oakland
6870 Koll Center Parkway	Unchained Labs	34,670	Class B	Pleasanton

EAST BAY OFFICE MARKET

SECOND QUARTER 2016



NORTH I-680 CORRIDOR NET ABSORPTION AND VACANCY THOUSAND SF



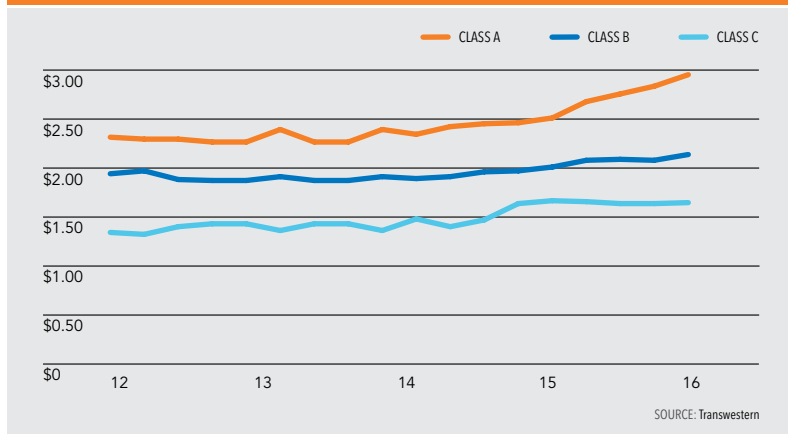
NORTH I-680 CORRIDOR

Wells Fargo takes large block at former BofA Technology Center

Vacancy fell 1.4% this quarter for the North I-680 market. The market had 200,500 SF of net absorption. Average asking rents increased 19% to \$2.96 PSF, FS. Class A rents increased the greatest percentage at 4% to \$2.98 PSF, FS.

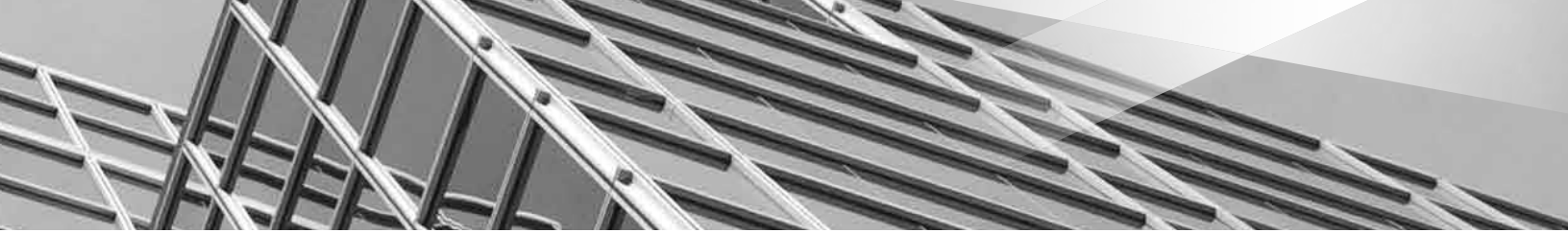
Wells Fargo took approximately 282,310 square feet at the former BofA Technology Center at 1655 & 1755 Grant Avenue in Concord. Wells Fargo is consolidating some Bay Area operations into Concord, vacating more than 81,000 square feet of space in downtown Oakland as a result.

NORTH I-680 CORRIDOR MONTHLY ASKING RENTS



North I-680 Corridor Market Indicators

PROPERTY CLASS	INVENTORY	QTR NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE VACANCY	TOTAL VACANCY	AVERAGE RATE PSF
Class A	7,880,434	301,006	416,020	8.0%	0.5%	8.5%	\$2.98
Class B	5,914,768	(44,716)	(6,082)	13.3%	0.0%	13.3%	\$2.15
Class C	2,177,208	(55,790)	(7,754)	10.3%	0.1%	10.4%	\$1.65
N I-680 Total	15,972,410	200,500	402,184	10.3%	0.3%	10.5%	\$2.44



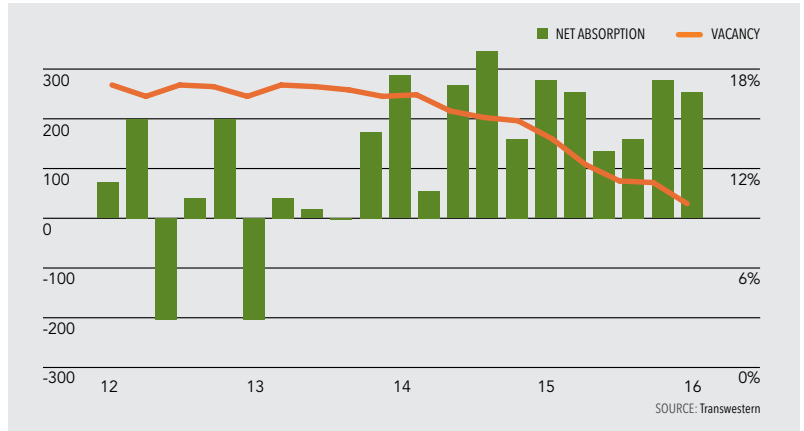
I-80/880 CORRIDOR

Rental rates skyrocket 19%

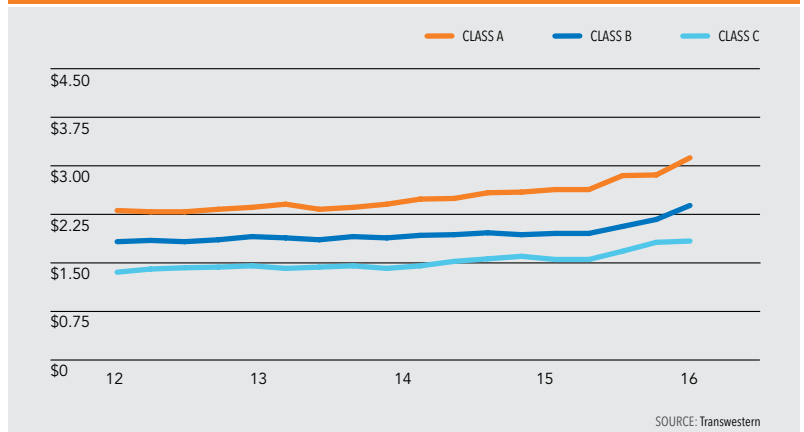
Net absorption for the quarter was 137,584 SF. Vacancy declined to 10% and average asking rents skyrocketed for Class A space by 16% to \$3.82 PSF FS, over \$.60. Class B increased 17% to \$2.43 PSF FS. As tenants continue to tour the market, and interest continues to surround the Oakland market, landlords are gaining more confidence.

Sierra Club leased 24,611 square feet at 2101 Webster Street in Oakland, committing to a 9-year term. Capricity leased 20,755 square feet at 1999 Harrison Street in Oakland for 2 years.

I-80/880 CORRIDOR NET ABSORPTION AND VACANCY THOUSAND SF



I-80/880 CORRIDOR MONTHLY ASKING RENTS

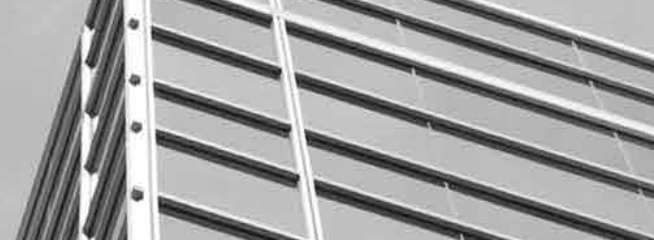


I-80/880 Corridor Market Indicators

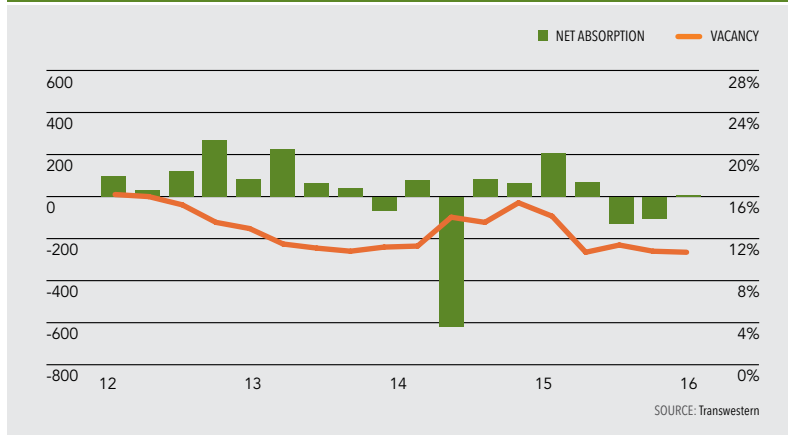
PROPERTY CLASS	INVENTORY	QTR NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE VACANCY	TOTAL VACANCY	AVERAGE RATE PSF
Class A	12,388,599	245,149	400,781	5.8%	0.1%	5.9%	\$3.82
Class B	13,002,663	-118,970	-29,541	14.0%	0.6%	14.5%	\$2.43
Class C	3,830,679	11,405	21,889	7.6%	0.3%	7.9%	\$2.14
I-80/880 Total	29,221,941	137,584	393,129	9.7%	0.3%	10.0%	\$2.96

EAST BAY OFFICE MARKET

SECOND QUARTER 2016



TRI-VALLEY NET ABSORPTION AND VACANCY THOUSAND SF



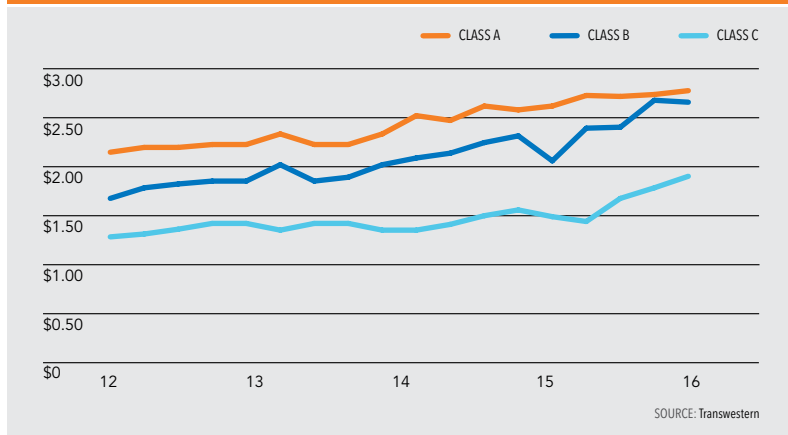
TRI-VALLEY

Market remains stagnant despite other East Bay momentum

Average asking rents in the Tri-Valley remained relatively flat this quarter increasing only 1%. The largest increase was for Class C which was up 6% to \$1.91 PSF FS. Vacancy decreased 0.1% to 10.8%. Net absorption was minimal, but positive at 7,243 square feet.

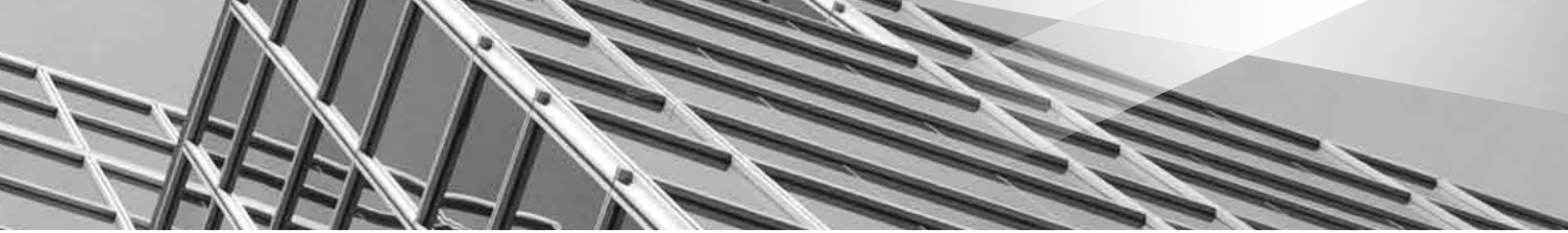
Unchained Labs expanded into 34,670 square feet of space at 6870 Koll Center Parkway in Pleasanton. They received \$55 PSF in tenant improvements and signed for 7 years.

TRI-VALLEY MONTHLY ASKING RENTS



Tri-Valley Corridor Market Indicators

PROPERTY CLASS	INVENTORY	QTR NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE VACANCY	TOTAL VACANCY	AVERAGE RATE PSF
Class A	9,044,491	126,946	136,469	11.0%	0.3%	11.4%	\$2.80
Class B	6,408,915	-106,704	-35,173	9.3%	0.7%	10.8%	\$2.68
Class C	1,660,637	-12,999	11,982	7.7%	0.2%	7.8%	\$1.91
Tri-Valley Total	17,114,043	7,243	113,278	10.1%	0.4%	10.8%	\$2.74

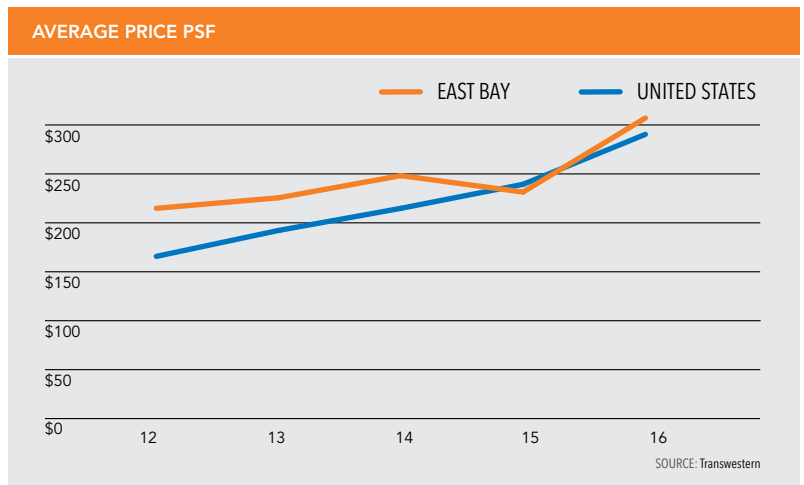
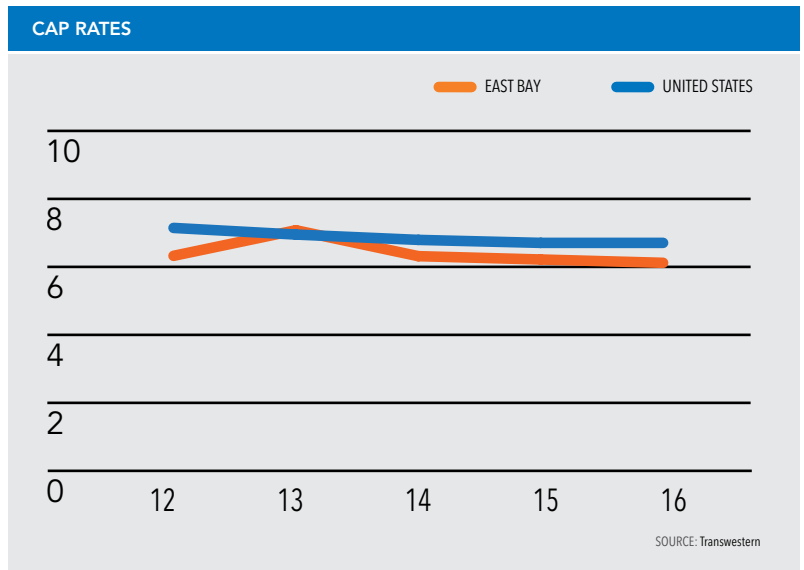


INVESTMENT

Brexit concerns loom, little effect to Bay Area

Even though investment volume decreased this quarter by 19%, the average price per square foot increased by 12%. Announced on June 23rd, referendum by British voters to exit the European Union caused the British pound to fall to its lowest level in decades. Uncertainty in Europe likely has tabled investment plans temporarily, however economists predict it will have little effect on Bay Area. The East Bay cap rates (6.1%) are over 60 basis points lower than the national average of 6.7%. The average price per square foot is \$293.

Notable deals done this quarter were Watergate Office Tower at 2100 Powell Street in Emeryville for \$116.3 million to Blackstone. Principal Financial purchased 555 12th Street in Oakland for \$208 million. Tri Valley Technology Campus in Livermore sold to private ownership for \$59 million.



East Bay Office Sale Activity

PROPERTY	SF	PRICE	PRICE PSF	BUYER
Watergate Office Tower, Emeryville	344,433	\$116,300,000	\$338	Blackstone
Oakland City Center, Oakland	485,039	\$208,000,000	\$429	Principal Financial
Tri Valley Technology Campus, Livermore	223,000	\$59,000,000	\$265	Chadorchi/Balducci

EAST BAY OFFICE MARKET

SECOND QUARTER 2016

Metro East Bay Office Market Indicators

SUBMARKET	INVENTORY	UNDER CONSTRUCTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	QTR NET ABSORPTION	YTD NET ABSORPTION	AVERAGE RATE PSF
Martinez	142,535	0	12.2%	0.4%	12.6%	(6,759)	785	\$1.38
Concord	4,690,131	0	8.0%	0.5%	8.5%	318,199	363,774	\$1.96
Pleasant Hill	1,069,155	0	5.9%	0.0%	5.9%	10,072	14,787	\$2.05
Pleasant Hill Bart	1,646,331	0	7.4%	1.1%	8.5%	(27,043)	34,778	\$3.24
Shadelands	1,638,393	0	24.8%	0.0%	24.8%	7,359	14,522	\$1.93
Downtown Walnut Creek	4,449,208	0	9.6%	0.0%	9.6%	(52,657)	(3,595)	\$3.08
Lamorinda	911,416	0	6.0%	0.0%	6.0%	(21,342)	(5,416)	\$2.86
Alamo/Danville	769,636	0	4.8%	0.4%	5.2%	(3,923)	4,500	\$2.38
East Contra Costa County	655,605	0	20.7%	0.0%	20.7%	(23,406)	(21,951)	\$1.10
North I-680 Corridor Subtotal	15,972,410	0	10.3%	0.3%	10.5%	200,500	402,184	\$2.44
Richmond	886,431	0	13.5%	0.0%	13.5%	2,868	(9,158)	\$2.30
Berkeley	3,530,292	0	2.3%	0.0%	2.4%	(30,228)	(7,927)	\$2.95
Emeryville	3,601,563	0	12.6%	1.6%	14.3%	(172,375)	(128,028)	\$3.71
Oakland	3,857,643	0	12.6%	0.1%	12.6%	100,752	106,290	\$1.96
Downtown Oakland	11,346,929	0	4.4%	0.2%	4.6%	165,890	230,868	\$4.17
Jack London Square	947,938	0	13.6%	0.3%	13.9%	(16,978)	(1,631)	\$3.22
Marina Village	1,236,447	0	17.4%	0.0%	17.4%	18,326	179,164	\$2.58
Harbor Bay	1,086,721	0	22.6%	0.4%	22.9%	31,788	(18,126)	\$1.79
San Leandro	895,581	0	6.8%	0.0%	6.8%	(11,120)	(19,079)	\$1.60
Hayward	1,628,581	0	32.8%	0.0%	32.8%	46,427	55,410	\$1.52
Union City	203,815	0	3.0%	0.0%	3.0%	2,234	5,346	\$1.25
I-80/880 Corridor Subtotal	29,221,941	0	9.7%	0.3%	10.0%	137,584	393,129	\$2.96
San Ramon	7,544,168	0	8.6%	0.2%	8.8%	11,686	67,354	\$2.38
Dublin	1,608,956	0	5.4%	2.6%	8.0%	11,309	25,274	\$2.71
Pleasanton	7,048,405	0	11.4%	1.1%	12.5%	(12,988)	23,414	\$2.82
Livermore	912,514	0	20.0%	0.1%	20.1%	(2,764)	(2,764)	\$1.94
Tri-Valley Subtotal	17,114,043	0	10.1%	0.8%	10.8%	7,243	113,278	\$2.74
Class A	29,313,524	0	8.0%	0.3%	8.3%	673,101	953,270	\$3.14
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East Bay Office Market Total	62,308,394	0	9.9%	0.4%	10.4%	345,327	908,591	\$2.73

CONTACT

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Bay Area. Transwestern obtained the information from a variety of primary and secondary sources including Costar. This report includes single-tenant and multi-tenant office properties 10,000 sq. ft. or larger, excluding office condominiums, medical office facilities, flex and owner-occupied properties.



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