

Real Estate Market Review

East Bay Office

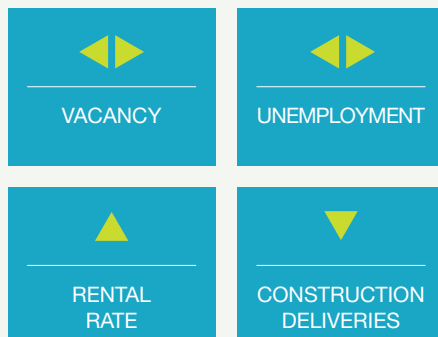
After a stellar 2018, the East Bay office real estate market mostly maintained the gains in occupancy and continued to see increased rental rates at the end of 1Q 2019. Since 2010, rental rates have continuously increased year-over-year, and this year promises to be no different. New deliveries have slowed after a year of deliveries not seen since 2001, but the development pipeline remains robust with over 1.6 million s.f. still under construction. Sales volume jumped to a level not seen in a single quarter since the end of 2015, with average sales price per s.f. increasing 17.37% quarter-over-quarter. 2018 ended strong for this market, and indications from 1Q 2019 appear to show that trend staying strong.

Absorption was very strong in 2018, but took a step back at the end of the first quarter, with net absorption in negative territory. Alameda had the highest level of negative net absorption this quarter, but is expected to move into positive territory, as some significant leases begin in 2Q. Emeryville easily led all other submarkets in net absorption with 69,029 s.f. of positive net absorption. Both Class A and B buildings experienced negative net absorption, while Class C was surprisingly positive this quarter. Move-ins for next quarter are forecasted to jump significantly, and as a result will easily push the year-to-date net absorption comfortably into positive territory by the end of 2Q.

East Bay direct rental rates have seen quarter-over-quarter increases since 4Q 2015, ending 1Q 2019 2.13% higher quarter-over-quarter. Year-over-year direct rental rates are up 10.83%, while total rental rates finished 1Q up 7.37% year-over-year. Most submarkets were relatively stable quarter-over-quarter, with some exceptions. San Pablo had the highest increase in direct asking lease rates, surging up 33.54% quarter-over-quarter. Richmond experienced the next steepest increase in rental rates quarter-over-quarter jumping 20.31%. Rental rates for East Bay office property have had an impressive run-up this cycle and all signs point to this trend continuing next quarter.

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Market Forecast Trends



YEAR-TO-YEAR BASIS

1Q 2019 Market Highlights

Sales Price

Average price per s.f. increased 17.37% quarter-over-quarter, and 56.86% year-over-year.

Sales Volume

Office property sales dollar volume increased over 375% year-over-year.

Rental Rates

Average asking direct lease rates increased 10.83% on an annual basis, and increased 2.13% quarter-over-quarter.

Construction Deliveries

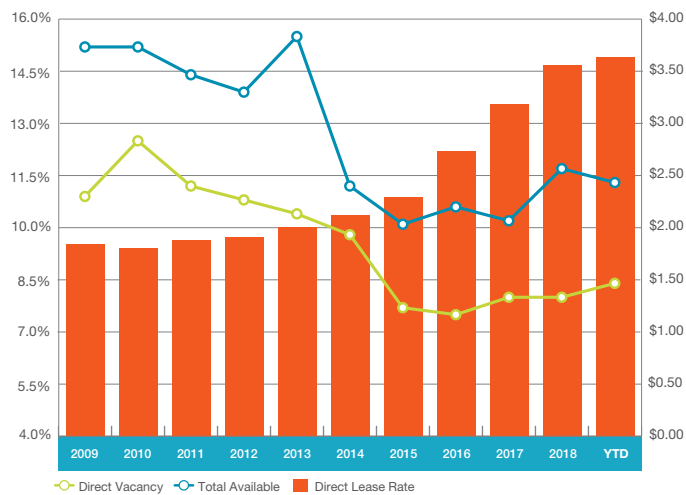
At the close of 1Q 2019 there were 8 buildings under construction for a total of over 1.6M s.f.

Market Breakdown

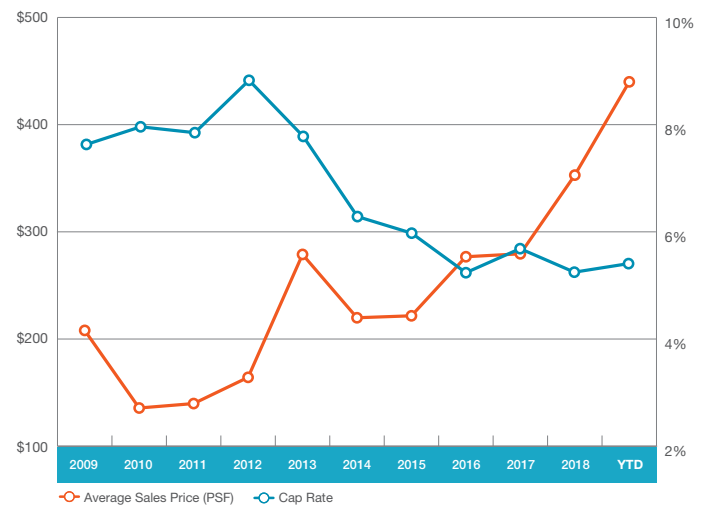
	1Q19	4Q18	1Q18	Annual % Change
New Construction	60,260	132,000	325,000	N/A
Under Construction	1,671,534	1,731,794	2,110,745	-20.81%
Vacancy Rate	8.4%	8.0%	7.5%	12.00%
Availability Rate	11.3%	11.7%	11.0%	2.73%
Asking Lease Rate	\$3.63	\$3.56	\$3.28	10.83%
Leased SF	738,437	1,114,164	774,899	-4.71%
Sold SF	1,394,284	1,208,450	476,489	192.62%
Net Absorption	-204,768	144,924	629,097	N/A

East Bay Office Charts

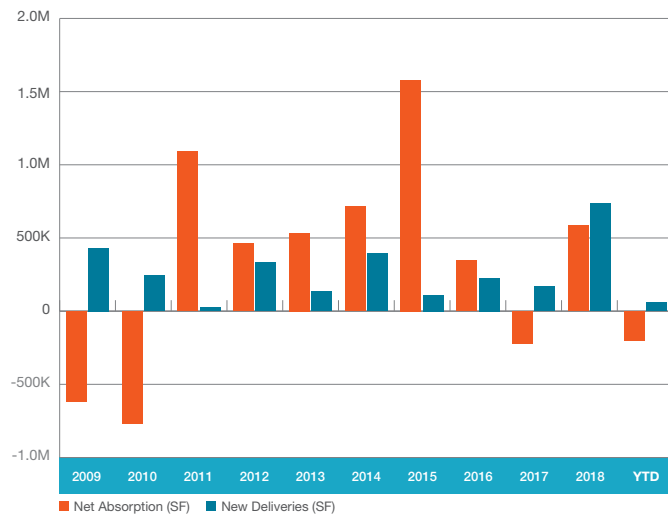
VACANCY, AVAILABILITY & LEASE RATE



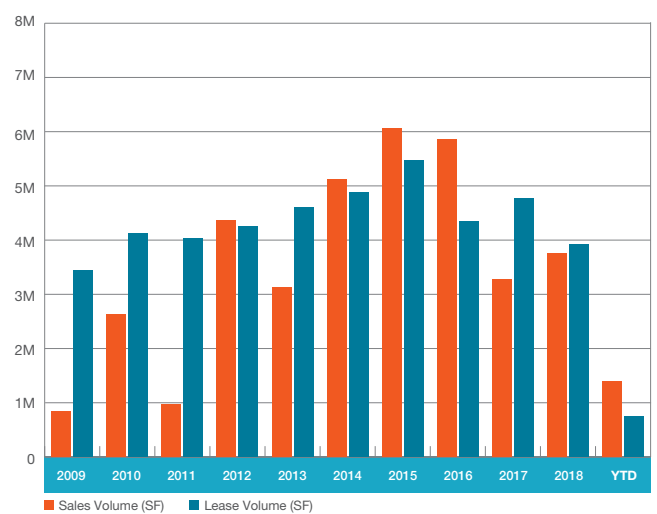
AVERAGE SALES PRICE & CAPITALIZATION RATES



NET ABSORPTION & NEW DELIVERIES



SALES VOLUME VS. LEASE VOLUME



Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q19 Total Net Absorption	4Q18 Total Net Absorption	1Q19 Leasing Activity	4Q18 Leasing Activity	Direct Rental Rate
Oakland - Downtown	17,732,529	948,167	7.20%	7.60%	15.2%	-31,256	-23,199	176,406	293,983	\$4.81
Oakland - Jack London Square	1,611,384	-	11.00%	11.50%	12.20%	9,874	-9,986	56,707	23,419	\$3.78
Oakland CBD	19,343,913	948,167	7.52%	7.90%	15.68%	-21,382	-33,185	233,113	317,402	\$4.72
Alameda	3,855,230	6,213	11.90%	12.20%	19.70%	-102,166	2,917	25,379	15,316	\$2.75
Albany	130,166	-	1.30%	1.30%	2.10%	-194	743	1,745	1,323	\$3.07
Berkeley	5,397,220	44,575	3.50%	4.20%	4.70%	6,155	37,192	35,284	91,756	\$3.23
Castro Valley	507,833	-	3.10%	3.10%	2.80%	3,414	-1,598	5,117	1,165	\$2.10
Dublin	2,490,295	220,000	15.40%	15.50%	10.90%	-10,130	-17,538	8,590	45,009	\$3.14
El Cerrito	145,082	-	1.60%	1.60%	1.60%	0	4,640	0	0	\$1.68
Emeryville	5,570,234	-	13.70%	14.60%	11.20%	69,029	-22,396	198,073	115,414	\$3.76
Hayward	2,711,431	-	2.00%	2.00%	3.70%	-9,590	7,675	7,860	26,558	\$1.50
Oakland	26,891,034	959,367	6.80%	7.10%	12.50%	-36,589	11,143	274,147	368,293	\$4.42
Pleasanton	10,737,067	409,998	9.80%	10.20%	13.20%	-70,036	76,530	90,188	131,280	\$2.82
Richmond	1,921,910	-	2.40%	2.60%	2.60%	-12,862	1,552	2,741	2,497	\$1.54
San Leandro / San Lorenzo	2,059,763	-	11.90%	11.90%	11.90%	-7,873	29,778	1,451	29,057	\$3.15
San Pablo	276,944	-	11.70%	11.70%	15.60%	266	727	266	1,491	\$2.19
San Ramon	9,982,128	-	10.80%	11.70%	12.00%	-34,192	14,977	86,958	284,034	\$2.32
Union City	539,426	31,381	0.40%	0.40%	0.40%	0	-1,418	638	971	\$1.53
East Bay Total	73,215,763	1,671,534	8.40%	8.80%	11.40%	-204,768	144,924	738,437	1,114,164	\$3.63
Class A	22,063,251	1,275,559	10.80%	11.50%	15.70%	-49,183	-10,535	280,474	496,844	\$4.22
Class B	36,475,538	395,975	8.60%	9.00%	11.20%	-159,879	56,639	335,355	520,550	\$3.42
Class C	14,531,983	-	4.20%	4.50%	5.20%	4,294	98,820	122,608	96,770	\$2.33

Notable Lease Transactions



SPACES

66 Franklin Street
Oakland
45,661 s.f.



OAKLAND UNIFIED SCHOOL DISTRICT

1000 Broadway
Oakland
25,973 s.f.



BLUE SHIELD

601 City Center
Oakland
24,784 s.f.

Notable Sale Transactions



STARWOOD CAPITAL GROUP

3-Building Portfolio
Oakland
11,888,011 s.f.
\$512M or \$431/s.f.



BIOMED REALTY

5300 Chiron Way
Emeryville
250,000 s.f.
\$135M or \$540/s.f.



HIGHBRIDGE EQUITY PARTNERS

Tribune Tower
Oakland
95,353 s.f.
\$48M or \$503/s.f.

Total leasing activity remained solid, but was down only slightly quarter-over-quarter. Leasing activity is likely to pick up as the year progresses. A large development pipeline of high-quality office product may be causing some prospective tenants to wait for more deliveries before committing to leases. Despite the slow quarter there were some very significant leases executed. Spaces made a splash in the Jack London Square submarket when they took 45,661 s.f. at 66 Franklin Street in January, which was the largest lease of the quarter. The second and third largest leases were both in the Downtown Oakland submarket with Oakland Unified School District taking 25,973 s.f. at 1000 Broadway and Blue Shield preleasing 24,784 s.f. at 601 City Center.

This quarter was remarkable for investment in the East Bay office market, as sales dollar volume hit over \$608 million, which is 50.9% of the total sale volume for all of 2018 combined. Office property sales dollar volume year-over-year skyrocketed by over 375%. The square footage sold was up over 192% year-over-year, despite the same amount of deals done, which suggests bigger deals are becoming more common in this market. The average price per s.f. increased 17.37% quarter-over-quarter, and 56.86% year-over-year to set a new market high of \$439.93. Historically robust markets such as San Francisco and Silicon Valley are becoming too expensive for many investors, which is benefitting the East Bay's office market tremendously. The incredible quarter for office property sales included some very notable deals. The largest deal of the quarter was the purchase of 2101 Webster Street, 1901 Harrison Street, and 2100 Franklin

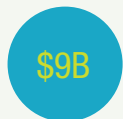
Street by Starwood Capital Group, who paid CIM Commercial Trust Corp. \$512,016,483 (\$430.99/s.f.) for the Downtown Oakland property portfolio. Coming in second was the Biomed Realty L.P. purchase of 5300 Chiron Way in Emeryville from Novartis Vaccines & Diagnostics, Inc. for \$135,000,000 (\$540.00/s.f.). Rounding out the top three transactions was Highbridge Equity's purchase of the historic Tribune Tower at 409 13th Street in Downtown Oakland from Harvest Properties for \$48,000,000.

Last year new construction deliveries hit a level not seen since 2003, so a quarter-over-quarter and year-over-year drop in deliveries was expected. Only one office property was delivered this quarter in January, which was a 60,260 s.f. office building in Downtown Oakland at 519 17th Street. The development pipeline remains very robust with 1,671,534 s.f. under construction, with 76.31% of that pipeline expected to deliver sometime this year. Furthermore, 81.25% of the space under construction will be Class A property, further upgrading the quality of office inventory in the East Bay. Downtown Oakland is looking forward to the delivery of 601 City Center in 3Q 2019, which still remains the largest office property currently under construction in the East Bay. The Workday building is the second largest property in the pipeline and is expected to add over 400,000 s.f. of space to the office inventory in Pleasanton. The East Bay office market continued its strong run this quarter, even after a very strong 2018. Robust development as well as solid fundamentals in rent growth, sales growth, and vacancy bode well for the near future of the East Bay office market.

Source: CoStar

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COMMERCIAL BROKERAGE



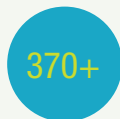
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BROKERS

PROPERTY MANAGEMENT

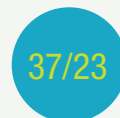


MANAGEMENT
PORTFOLIO

VALUATION ADVISORY



ASSIGNMENTS
ANNUALLY



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