

## Has The Office Market Reached A Peak?

- > Vacancy remained low at 5.0%
- > Net Absorption was positive 8,399 in the first quarter
- > Gross Absorption was 291,219 square feet this quarter

The economy started this year strong as GDP grew at an annualized rate of 2.8 percent in the first quarter of 2018, while the unemployment rate remained at a record low 4.1 percent. Lower corporate and individual tax rates helped to boost consumer income this quarter, which in turn brought about higher consumer spending. Additionally, corporate demand for capital equipment is the highest it has been in twenty years. These factors along with the current environment of deregulation contribute to the continued optimism throughout the country.

The "Tech" sector is the primary driver of job growth in the Bay Area. The East Bay's proximity to Silicon Valley has pushed migration from the west to the east and has accounted for 57 percent of the growth in the local population since 2011. The median cost of housing is up 9 percent from its' pre-housing crisis peak in the East Bay and unemployment is at a record low of 3.3 percent.

### Market Indicators

United States  
Unemployment Rate



10-Year Nominal  
Interest Rate



Consumer  
Confidence



### Market Trends

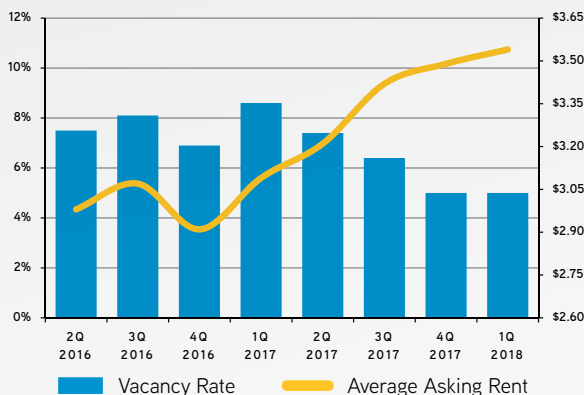
Relative to prior period

	Q1 2018	Q2 2018*
Vacancy	↔	↔
Rental Rate	↑	↔
Net Absorption	↓	↑
Construction	↔	↑

\*Projected

### Vacancy vs. Asking Full Service Rental Rates

Oakland Metropolitan Area | All Classes



Overall vacancy stayed the same at 5.0% in the first quarter of 2018; rental rates increased from \$3.49 to \$3.54. Following the increase from fourth quarter to first quarter, we expect rents to stabilize with the potential for a moderate increase. Overall vacancy rate should remain low and stable, as has been the trend for the past several quarters.

### Summary Statistics

Q1 2018 Oakland Metropolitan Area  
Office Market

	Previous Quarter	Current Quarter
Overall Vacancy	5.0%	5.0%
Net Absorption	365,990	8,399
Construction Completed	-	-
Under Construction	941,504	941,504
Overall Asking Rents	\$3.49	\$3.54
Class A Asking Rents	\$4.32	\$4.26
Class B/C Flex Asking Rents	\$3.12	\$3.22

### U.S. National Economic Indicators

U.S. Unemployment Rate	4.1%	4.1%
California Unemployment Rate	4.6%	4.3%
Alameda County Unemployment Rate	2.9%	3.2%
Contra Costa Unemployment Rate	3.1%	3.4%
U.S. Labor Force Participation Rate	62.7%	62.9%
U.S. Consumer Price Index	2.47%	2.49%
U.S. Interest Rate - 10 Yr Treasury	2.40%	2.74%
U.S. Business Confidence Index	101.1	101.5
U.S. Consumer Confidence Index	122.1	127.7

# Oakland Metropolitan Area

Cranes are now a common site in Downtown Oakland, with over 6,800 new apartment units under construction as developers seek to relieve the pressure on regional housing shortages. Sites near transit are diminishing as the race to solve this regional challenge continues.

During the first quarter of 2018 overall full service (“FS”) asking rents increased 1.4 percent to \$3.54 per square foot. Class B, C, and flex FS asking rents rose 3.2 percent to \$3.22 this quarter, while Class A declined 1.4 percent to \$4.26 per square foot. While quarter to quarter growth rents have slowed recently, we do not believe this is indicative of where the market is heading. We attribute the slowdown in rent growth simply to a general lack of supply, especially for large blocks of space. With just under one million square feet of Class A office property under construction or renovation in Downtown Oakland, we anticipate rates to continue to climb as demand for office space in the region is driven by new inventory, new housing stock, quality of life and the ability for “tech” users to grow in the region.

Vacancy remained stable for the second consecutive quarter at 5.0 percent. The Alameda-Marina Village submarket vacancy dropped from 7.3 percent in the previous quarter to 3.6 percent this quarter. Despite that significant drop in this submarket, the overall market remained static. Rumor has it that a large publicly-traded Oakland-based company will be announcing a large lease deal that will take up a significant part of Class A office inventory in Oakland sometime in the second quarter of this year. If this rumor proves true, it could lead to a rebound for Class A office FS asking rents. In the Berkeley market the demand for office space continues to be red-hot as full service asking rents for Class A office increased despite vacancy jumping by almost 2.0 percent from the previous quarter.

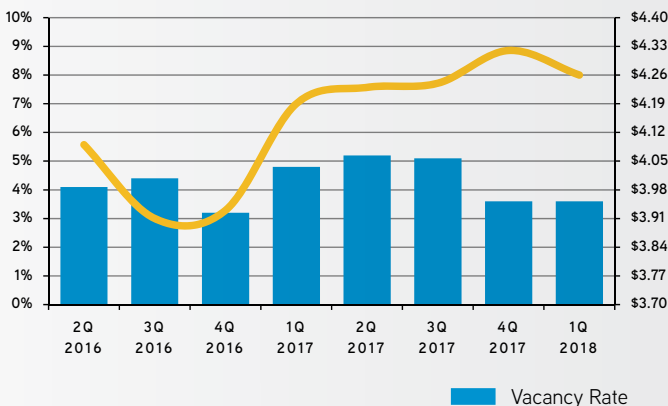
Unlike last year which began with negative net absorption, 2018 started the year at positive 8,399 square feet this quarter. There were three significant transactions that contributed to positive net absorption. Adamas Pharmaceuticals’ lease of two floors consisting of 37,626 square feet in Emeryville’s Watergate Office Complex, Colliers’ client Premier Nutrition Corporation lease of 49,429 square feet of office space in Berkeley, and Thor Equities purchase of the 48,038 square foot “Aquatic Garden” building in Berkeley.

This quarter’s overall gross absorption was 291,219 square feet and was down 37.1 percent from the prior quarter. The 1 million+ square feet of construction scheduled for completion this year is expected to boost gross absorption at a faster pace than in 2017.

While 2017 vacancy rates consistently decreased and FS asking rents consistently increased every quarter, 2018 has begun with a static quarter-over-quarter vacancy rate and a relatively smaller increase in FS asking rents. The market is unlikely to replicate the rapid growth of 2017, but should continue to grow in 2018. The Oakland Metro office market is not peaking yet, and the future continues to look bright for office property owners and investors.

## Vacancy vs. Asking Full Service Rental Rates

Oakland Metropolitan Area | Class A



## Vacancy vs. Asking Full Service Rental Rates

Oakland Metropolitan Area | Class B



## Significant Lease Activity



## Significant Sale Activity

PROPERTY ADDRESS	SALE DATE	SIZE	BUYER	TYPE
600-630 Bancroft Way, Berkeley	Feb-2018	48,038	Thor Equities	Investment

# Market Comparisons – Oakland

## OFFICE MARKET

CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	AVG ASKING FULL SERVICE
<b>CBD SECTION</b>												
<b>OAKLAND - DOWNTOWN</b>												
A	32	10,545,872	291,077	2.8%	52,532	0.5%	343,609	3.3%	3.0%	(26,639)	(26,639)	\$4.40
B/C & Flex	114	5,079,302	349,796	6.9%	7,772	0.2%	357,568	7.0%	6.4%	(31,390)	(31,390)	\$4.31
Total	146	15,625,174	640,873	4.1%	60,304	0.4%	701,177	4.5%	4.1%	(58,029)	(58,029)	\$4.35
<b>OAKLAND - JACK LONDON SQUARE</b>												
A	3	325,600	9,391	2.9%	-	0.0%	9,391	2.9%	2.9%	-	-	\$3.75
B/C & Flex	41	1,285,539	86,750	6.7%	16,288	1.3%	103,038	8.0%	7.1%	(12,219)	(12,219)	\$3.32
Total	44	1,611,139	96,141	6.0%	16,288	1.0%	112,429	7.0%	6.2%	(12,219)	(12,219)	\$3.36
<b>CBD TOTAL</b>												
A	35	10,871,472	300,468	2.8%	52,532	0.5%	353,000	3.2%	3.0%	(26,639)	(26,639)	\$4.38
B/C & Flex	155	6,364,841	436,546	6.9%	24,060	0.4%	460,606	7.2%	6.6%	(43,609)	(43,609)	\$4.09
Total	190	17,236,313	737,014	4.3%	76,592	0.4%	813,606	4.7%	4.3%	(70,248)	(70,248)	\$4.22
<b>SUBURBAN SECTION</b>												
<b>RICHMOND</b>												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	98	3,480,353	52,066	1.5%	-	0.0%	52,066	1.5%	1.5%	276	276	\$1.98
Total	98	3,480,353	52,066	1.5%	-	0.0%	52,066	1.5%	1.5%	276	276	\$1.98
<b>BERKELEY - DOWNTOWN</b>												
A	9	558,882	24,838	4.4%	-	0.0%	24,838	4.4%	2.7%	(9,645)	(9,645)	\$4.17
B/C & Flex	28	974,473	59,969	6.2%	-	0.0%	59,969	6.2%	4.1%	(19,706)	(19,706)	\$3.21
Total	37	1,533,355	84,807	5.5%	-	0.0%	84,807	5.5%	3.6%	(29,351)	(29,351)	\$3.49
<b>BERKELEY - WEST</b>												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	42	1,527,846	115,065	7.5%	43,759	2.9%	158,824	10.4%	12.6%	33,770	33,770	\$3.19
Total	42	1,527,846	115,065	7.5%	43,759	2.9%	158,824	10.4%	12.6%	33,770	33,770	\$3.19
<b>EMERYVILLE</b>												
A	15	2,668,348	102,777	3.9%	32,810	1.2%	135,587	5.1%	6.4%	36,142	36,142	\$4.04
B/C & Flex	44	1,683,088	113,385	6.7%	3,390	0.2%	116,775	6.9%	5.8%	(19,194)	(19,194)	\$3.31
Total	59	4,351,436	216,162	5.0%	36,200	0.8%	252,362	5.8%	6.2%	16,948	16,948	\$3.70
<b>ALAMEDA - MARINA VILLAGE</b>												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	51	1,600,673	57,793	3.6%	-	0.0%	57,793	3.6%	7.3%	59,713	59,713	\$2.68
Total	51	1,600,673	57,793	3.6%	-	0.0%	57,793	3.6%	7.3%	59,713	59,713	\$2.68
<b>ALAMEDA - HARBOR BAY</b>												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	28	1,684,784	132,261	7.9%	-	0.0%	132,261	7.9%	7.9%	557	557	\$2.29
Total	28	1,684,784	132,261	7.9%	-	0.0%	132,261	7.9%	7.9%	557	557	\$2.29
<b>OAKLAND - AIRPORT</b>												
A	2	455,697	3,503	0.8%	1,150	0.3%	4,653	1.0%	0.8%	(1,150)	(1,150)	\$2.39
B/C & Flex	34	1,576,808	124,021	7.9%	-	0.0%	124,021	7.9%	7.7%	(2,116)	(2,116)	\$1.71
Total	36	2,032,505	127,524	6.3%	1,150	0.1%	128,674	6.3%	6.2%	(3,266)	(3,266)	\$1.73
<b>SUBURBAN TOTAL</b>												
A	26	3,682,927	131,118	3.6%	33,960	0.9%	165,078	4.5%	5.2%	25,347	25,347	\$4.01
B/C & Flex	325	12,528,025	654,560	5.2%	47,149	0.4%	701,709	5.6%	6.0%	53,300	53,300	\$2.65
Total	351	16,210,952	785,678	4.8%	81,109	0.5%	866,787	5.3%	5.8%	78,647	78,647	\$2.91
<b>MARKET TOTAL</b>												
A	61	14,554,399	431,586	3.0%	86,492	0.6%	518,078	3.6%	3.6%	(1,292)	(1,292)	\$4.26
B/C & Flex	480	18,892,866	1,091,106	5.8%	71,209	0.4%	1,162,315	6.2%	6.2%	9,691	9,691	\$3.22
TOTAL	541	33,447,265	1,522,692	4.6%	157,701	0.5%	1,680,393	5.0%	5.0%	8,399	8,399	\$3.54

## QUARTERLY COMPARISON AND TOTALS

Q1-18	541	33,447,265	1,522,692	4.6%	157,701	0.5%	1,680,393	5.0%	5.0%	8,399	8,399	\$3.54
Q4-17	541	33,447,265	1,491,870	4.5%	196,922	0.6%	1,688,792	5.0%	6.4%	410,153	655,134	\$3.49
Q3-17	542	33,477,265	1,742,009	5.2%	386,936	1.2%	2,128,945	6.4%	7.4%	361,807	214,981	\$3.42
Q2-17	542	33,477,265	2,080,133	6.2%	410,619	1.2%	2,490,752	7.4%	8.6%	414,212	(146,826)	\$3.21
Q1-17	540	33,456,038	2,454,340	7.3%	429,397	1.3%	2,883,737	8.6%	6.9%	(609,324)	(609,324)	\$3.09

\*Net absorption for Downtown Oakland B/C is higher than our numbers suggest due to reclassification of buildings

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# 69 countries

## \$2.7

billion in  
annual revenue

## 2.0

billion square feet  
under management

## 15,400

professionals  
and staff

## \$116

billion in  
total transaction value

\*All statistics are for 2017, are in U.S. dollars and include affiliates.

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