

Oakland Coming Into Its Own

- > Leasing activity is 1,500,796 square feet year to date.
- > Vacancy this quarter was 6.4 percent compared to 7.4 percent last quarter
- > Net absorption (current quarter) is positive 361,807 square feet

Nine months into Trump's presidency, unexpected political gridlock has prevented a significant revision in outlook on the course of the US economy, which continues to expand at a moderate, steady pace.

The labor market is closing in on full employment, stock markets continue to hit record highs, and consumer confidence remains strong. A recent Reuter's poll of 57 economists uncovered familiar sentiments about the current economic expansion: most think it has more than two years to go, while a minority think it has one to two years left. Should any of the anticipated policy changes or geopolitical tensions actualize, outlook could change dramatically, quickly.

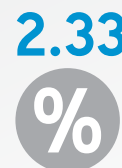
The national office market is heavily influenced by labor markets, so key economic indicators will be very important to monitor. Another set of challenges are shifting demands in office space due to a rise in co-working, cloud computing, and a growing obsolescence of paper filing

Market Indicators

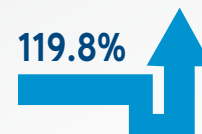
United States
Unemployment Rate



10-Year Nominal
Interest Rate



Consumer
Confidence



Market Trends

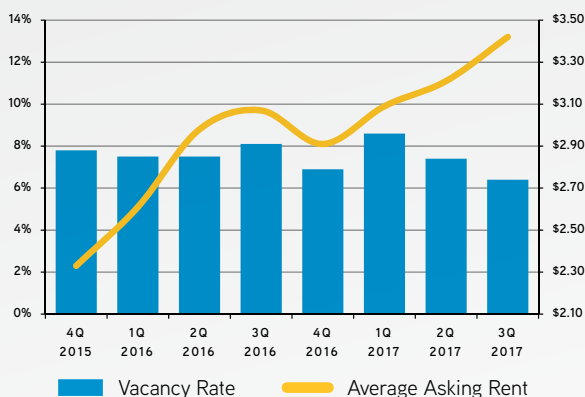
Relative to prior period

	Q3 2017	Q4 2017*
Vacancy	↓	↔
Rental Rate	↑	↔
Net Absorption	↓	↑
Construction	↔	↑

*Projected

Vacancy vs. Asking Full Service Rental Rates

Oakland Metropolitan Area | All Classes



Overall vacancy decreased by 1.0% in the third quarter of 2017; rental rates increased from \$3.21 to \$3.42. Following the increase from second quarter to third 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

Q3 2017 Oakland Metropolitan Area
Office Market

	Previous Quarter	Current Quarter
Overall Vacancy	7.4%	6.4%
Net Absorption	414,212	361,807
Construction Completed	21,227	-
Under Construction	1,261,504	860,000
Overall Asking Rents	\$3.21	\$3.42
Class A Asking Rents	\$4.23	\$4.24
Class B/C Flex Asking Rents	\$2.77	\$2.97

U.S. National Economic Indicators

U.S. Unemployment Rate	4.4%	4.2%
California Unemployment Rate	4.7%	5.1%
Alameda County Unemployment Rate	3.3%	4.4%
Contra Costa Unemployment Rate	3.5%	4.5%
U.S. Labor Force Participation Rate	62.8%	63.1%
U.S. Consumer Price Index	2.44%	1.90%
U.S. Interest Rate - 10 Yr Treasury	2.31%	2.33%
U.S. Business Confidence Index	103.6	103.0
U.S. Consumer Confidence Index	118.9	119.8

Oakland Metropolitan Area

and space devoted to servers and computers. For the time being, the US office market seems to be bearing these headwinds and remains strong and stable. Thankfully, what we are seeing in the Oakland metropolitan office is a similar trend.

The year to date gross absorption of 1.5 million square feet is the highest seen in any recent year with the exception of 2016. Granted, the 500,000 square feet of gross absorption this quarter is dwarfed by the same figures in the third quarters of 2015 and 2016, reflecting uncharacteristically low activity for this time of year. What insight we can deduce from this may not be clear until we have a better reading of what happens in the fourth quarter. The larger and more definitive narrative arising from absorption numbers has been one of organic growth in the city of Oakland. According to Colliers' data, since 2014, tenants organically expanding into Oakland took more square footage of space than those moving to Oakland as a result of spillover from San Francisco. This is a good sign for Oakland, as organic growth seems to be edging out spillover even as spillover is still occurring – this quarter, for example, Delta Dental signed a 81,977 square foot deal at 1333 Broadway to accommodate its San Francisco employees living in the East Bay.

At \$3.42 per square foot per month, asking full-service (FS) rates are at an all-time high, jumping up by 6.5 percent from the previous quarter. Landlords are pushing up the face rate of leases while offering more concessions, with deals nearing \$5.00 signed at 555 12th Street and 1100 Broadway and a deal at \$5.00 signed in Old Oakland. According to a recent BisNow article, Oakland's skyline rents are the eighth most expensive in the country. Class B/C product have had a record breaking quarter of their own, with \$4.28 per square foot per month asking rates nearly neck and neck with Class A rates.

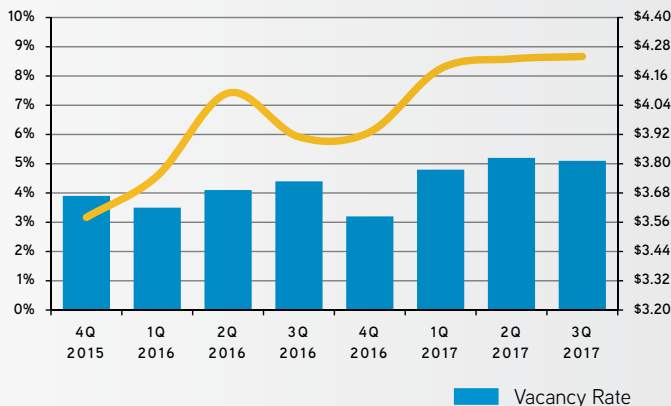
Sale side activity for B/C product is also high, with institutional money aggressively scouring the market. Notable deals this quarter include Brickman Real Estate's acquisition of 360 22nd Street in Oakland for \$44 million and Highbridge's purchase of 405 14th Street in Oakland for \$33,575,000. KBS also snapped up 505 14th Street and 1300 Clay, Class A buildings that have sold three times in the past four years, from Rubicon Point Partners for around \$158 million.

Overall vacancy is at its lowest since 2000 at 6.4 percent, with sub-10 percent vacancy across all submarkets besides West Berkeley. With 2.1 million square feet of vacant space in the market spread out between large contiguous blocks of space, a variety of sub-15,000 square feet spaces, and creative spaces under 10,000 square feet, options are not yet lacking. A general lack of new supply in the short term will likely prevent a dramatic rise in vacancies this year.

The Oakland metropolitan market continues and will continue to evolve. With Uber's exit from 1955 Broadway, more office space is anticipated to come on the market upon completion of building renovation in 2018, with even more followed shortly thereafter by the completion of 601 City Center. Contributing even more feet on the ground in the future will be the new Oakland Athletics stadium by Laney College, as well as over 3,000 multifamily units currently under construction in the city of Oakland.

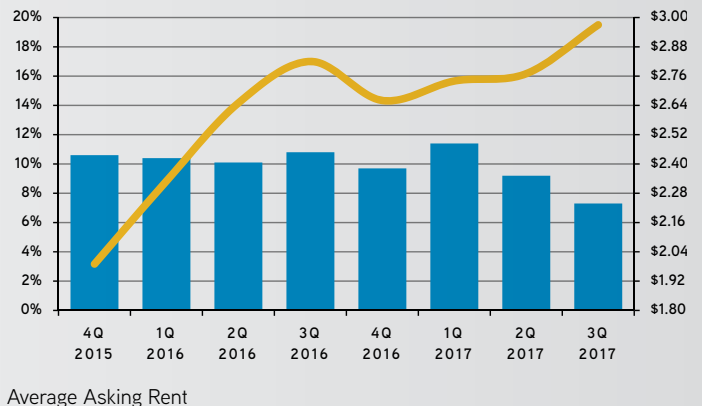
Vacancy vs. Asking Full Service Rental Rates

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
505 14th St & 1300 Clay Street, Oakland	Aug-2017	363,889	KBS Capital Advisors	Investment
360 22nd Street, Oakland	Aug-2017	120,061	Brickman	Investment
405 14th Street, Oakland	Jul-2017	85,000	Highbridge	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
CBD SECTION												
OAKLAND - DOWNTOWN												
A	32	10,545,872	335,104	3.2%	151,326	1.4%	486,430	4.6%	4.3%	(34,799)	60,703	\$4.34
B/C & Flex	114	5,079,302	364,938	7.2%	8,886	0.2%	373,824	7.4%	6.7%	(32,640)	(330,460)	\$4.28
Total	146	15,625,174	700,042	4.5%	160,212	1.0%	860,254	5.5%	5.1%	(67,439)	(269,757)	\$4.31
OAKLAND - JACK LONDON SQUARE												
A	4	355,600	9,391	2.6%	-	0.0%	9,391	2.6%	13.8%	39,639	40,410	\$3.75
B/C & Flex	41	1,285,539	93,577	7.3%	11,565	0.9%	105,142	8.2%	7.8%	(4,728)	(26,345)	\$3.45
Total	45	1,641,139	102,968	6.3%	11,565	0.7%	114,533	7.0%	9.1%	34,911	14,065	\$3.47
CBD TOTAL												
A	36	10,901,472	344,495	3.2%	151,326	1.4%	495,821	4.5%	4.6%	4,840	101,113	\$4.32
B/C & Flex	155	6,364,841	458,515	7.2%	20,451	0.3%	478,966	7.5%	6.9%	(37,368)	(356,805)	\$4.10
Total	191	17,266,313	803,010	4.7%	171,777	1.0%	974,787	5.6%	5.5%	(32,528)	(255,692)	\$4.21
SUBURBAN SECTION												
RICHMOND												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	98	3,480,353	65,116	1.9%	-	0.0%	65,116	1.9%	4.2%	79,349	77,348	\$1.55
Total	98	3,480,353	65,116	1.9%	-	0.0%	65,116	1.9%	4.2%	79,349	77,348	\$1.55
BERKELEY - DOWNTOWN												
A	9	558,882	9,535	1.7%	-	0.0%	9,535	1.7%	0.5%	(6,935)	(1,302)	\$4.12
B/C & Flex	28	974,473	53,742	5.5%	-	0.0%	53,742	5.5%	3.1%	(23,289)	(40,055)	\$2.87
Total	37	1,533,355	63,277	4.1%	-	0.0%	63,277	4.1%	2.2%	(30,224)	(41,357)	\$3.06
BERKELEY - WEST												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	42	1,527,846	156,313	10.2%	50,289	3.3%	206,602	13.5%	20.3%	104,116	115,108	\$2.97
Total	42	1,527,846	156,313	10.2%	50,289	3.3%	206,602	13.5%	20.3%	104,116	115,108	\$2.97
EMERYVILLE												
A	15	2,668,348	197,030	7.4%	39,653	1.5%	236,683	8.9%	9.4%	14,954	(70,755)	\$4.11
B/C & Flex	44	1,683,088	98,801	5.9%	67,170	4.0%	165,971	9.9%	12.1%	38,288	33,993	\$2.48
Total	59	4,351,436	295,831	6.8%	106,823	2.5%	402,654	9.3%	10.5%	53,242	(36,762)	\$3.44
ALAMEDA - MARINA VILLAGE												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	51	1,600,673	61,904	3.9%	55,602	3.5%	117,506	7.3%	13.6%	100,677	75,844	\$2.49
Total	51	1,600,673	61,904	3.9%	55,602	3.5%	117,506	7.3%	13.6%	100,677	75,844	\$2.49
ALAMEDA - HARBOR BAY												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	28	1,684,784	159,337	9.5%	-	0.0%	159,337	9.5%	9.8%	5,282	204,388	\$2.17
Total	28	1,684,784	159,337	9.5%	-	0.0%	159,337	9.5%	9.8%	5,282	204,388	\$2.17
OAKLAND - AIRPORT												
A	2	455,697	3,503	0.8%	2,445	0.5%	5,948	1.3%	0.8%	(2,445)	13,530	\$2.25
B/C & Flex	34	1,576,808	133,718	8.5%	-	0.0%	133,718	8.5%	13.8%	84,338	62,574	\$1.68
Total	36	2,032,505	137,221	6.8%	2,445	0.1%	139,666	6.9%	10.9%	81,893	76,104	\$1.70
SUBURBAN TOTAL												
A	26	3,682,927	210,068	5.7%	42,098	1.1%	252,166	6.8%	7.0%	5,574	(58,527)	\$4.07
B/C & Flex	325	12,528,025	728,931	5.8%	173,061	1.4%	901,992	7.2%	10.3%	388,761	529,200	\$2.38
Total	351	16,210,952	938,999	5.8%	215,159	1.3%	1,154,158	7.1%	9.6%	394,335	470,673	\$2.75
MARKET TOTAL												
A	62	14,584,399	554,563	3.8%	193,424	1.3%	747,987	5.1%	5.2%	10,414	42,586	\$4.24
B/C & Flex	480	18,892,866	1,187,446	6.3%	193,512	1.0%	1,380,958	7.3%	9.2%	351,393	172,395	\$2.97
TOTAL	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
QUARTERLY COMPARISON AND TOTALS												
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%	-	(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
Q4-16	539	33,456,038	2,002,622	6.0%	320,077	1.0%	2,322,699	6.9%	8.1%	-	299,177	\$2.91
Q3-16	539	33,456,038	2,483,226	7.4%	223,830	0.7%	2,707,056	8.1%	7.5%	-	(133,024)	\$3.07

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

396 offices in 68 countries on 6 continents

United States: **153**

Canada: **29**

Latin America: **24**

Asia: **79**

EMEA: **111**

\$2.6

billion in
annual revenue*

2.0

billion square feet
under management

15,000

professionals
and staff

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*All statistics are for 2017 and include affiliates

COLLIERS INTERNATIONAL | OAKLAND

1999 Harrison Street, Suite 1750
Oakland, CA 94612 | United States

+1 510 986 6770

MARKET CONTACT:

Ken Meyersieck
Executive Vice President
Managing Director | Oakland
+1 510 433 5802
ken.meyersieck@colliers.com
CA License No. 00939525

Russell Chang, CPRC
Senior Research Analyst | Oakland
+1 510 433 5836
russell.chang@colliers.com

William Chui
Research Analyst I | Oakland
+1 510 433 5838
william.chui@colliers.com



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