

Oakland Metropolitan Area Office Equilibrium Continues

- > Vacancy remained low at 6.2%
- > Net Absorption was positive 86,404 square feet in the third quarter
- > Total asking rates slid only \$0.04 in the third quarter

The Oakland Metropolitan Area's office market surged forward in the third quarter, as vacancy and asking rates continue to regain momentum throughout the submarkets. The national economic environment remains steady and strong, with Gross Domestic Product (GDP) growth forecasted to settle lower at 4.1 percent for the third quarter, primarily fueled by the effect from tariffs and the waning of the pre-tariff rush on tariff-targeted commodities. Capital markets continue to set historic records, despite a number of institutional firms turning bearish on the long-term outlook. The shift in Wall Street's ongoing confidence could propel Oakland's Metropolitan commercial real estate market even further, as investors seeking to diversify accept a premium on asking prices in exchange for stable and secure assets. National unemployment dropped from 4.2 percent to 3.7 percent in the third quarter, almost a record low, and a milestone not seen in the modern economy since 1968.

Market Indicators

United States
Unemployment Rate

10-Year Nominal
Interest Rate

Consumer
Confidence



Market Trends

Relative to prior period

Q3 2018

Q4 2018*

Vacancy



Rental Rate



Net Absorption



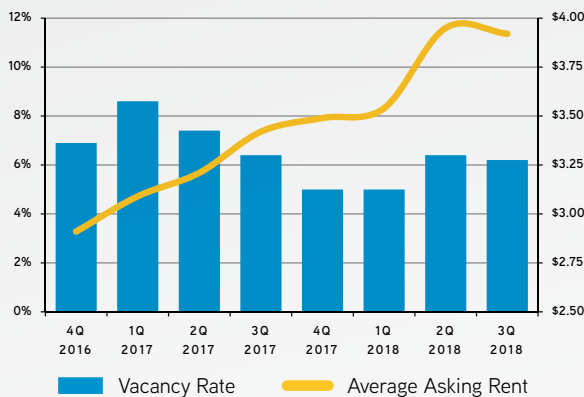
Construction



*Projected

Vacancy vs. Asking Full Service Rental Rates

Oakland Metropolitan Area | All Classes



Overall vacancy decreased from 6.4% in Q2 to 6.2% in Q3. Overall Asking rates decreased slightly from \$3.95 in Q2 to \$3.92 in Q3. Depicting a stable market, experiencing a state of equilibrium.

Summary Statistics

Q3 2018 Oakland Metropolitan Area
Office Market

Previous
Quarter

Current
Quarter

Overall Vacancy

6.4%

6.2%

Net Absorption

76,543

86,404

Construction Completed

986,500

986,500

Under Construction

1,002,266

1,010,266

Overall Asking Rents

\$3.95

\$3.92

Class A Asking Rents

\$4.59

\$4.60

Class B/C Flex Asking Rents

\$3.49

\$3.46

U.S. National Economic Indicators

U.S. Unemployment Rate

4.2%

3.7%

Oakland Unemployment Rate

3.20%

3.10%

California Unemployment Rate

4.20%

4.15%

Contra Costa Unemployment Rate

3.22%

3.18%

U.S. Labor Force Participation Rate

62.7%

62.7%

U.S. Consumer Price Index

2.47%

2.90%

U.S. Interest Rate - 10 Yr Treasury

2.89%

3.16%

U.S. Business Confidence Index

101.1

101.5

U.S. Consumer Confidence Index

123.1

126.8

Oakland Metropolitan Area

The Oakland Metropolitan Area in particular, experienced another decrease in unemployment as well, from 3.2 percent in the previous quarter to 3.1 percent in the third quarter; compounded by approximately 4,800 new jobs added in August alone. Co-working spaces throughout the Oakland Metropolitan Area continue to gain popularity amongst smaller tenants seeking flexible terms, as the number of start-ups based within the region continues to grow rapidly. According to the latest Urban Land Institute report, East Bay venture capital firms are deploying record amounts of capital this year, and a 12.0 percent increase over last quarter--totaling close to \$3.2 billion year-to-date.

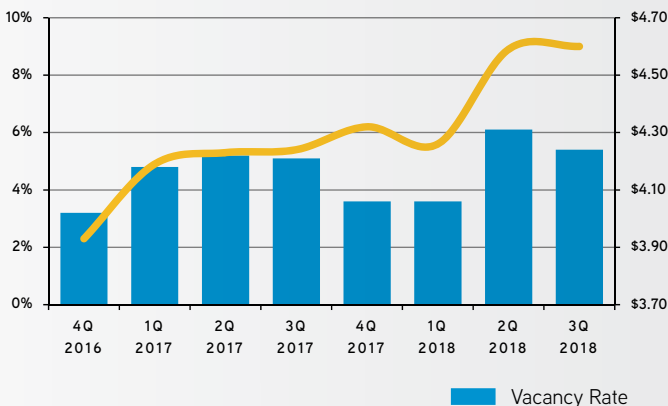
The office market has regained its equilibrium after last quarter's vacancy spike that was caused by the large number of completed office developments within the Oakland Metropolitan Area submarkets. During the third quarter, seventy-four percent of the submarkets in the Oakland Metropolitan market experienced a decrease in vacancy. Oakland's Downtown territory continues to report a decrease in overall office vacancy, falling from 3.8 percent in the second quarter to 3.2 percent in the third quarter. This quarter, Oakland's Class A outperformed Class B/C and Flex, driven by continued tenant migration from San Francisco. Downtown Berkeley's Class A market reported a noteworthy drop in vacancy, falling from 5.0 percent in the second quarter to 4.1 percent in the third quarter--the result of a large number of smaller lease transactions. University of California Berkley officially occupied 244,000 square feet at the newly constructed 1919 Shattuck Avenue, which is owned by the university and is a noteworthy addition to the submarket.

Asking prices across the Oakland Metropolitan markets diminished slightly, though all of Oakland submarket's Class A asking rates did increase from \$4.57 in the second quarter to \$4.73 in the third quarter. This trend of increasing asking rates for Oakland Class A indicates that tenant appetite for Class A remains robust. The continued single digit vacancy rates within the Oakland Metropolitan Area continue to propel construction throughout the Central Business District and Downtown areas. Asking rates across our submarkets encompassing Class B/C and Flex space dipped partially due to a greater number of Class C properties being leased, which weighed down average asking rates slightly for the quarter.

The office market's gross absorption rose in the third quarter and totaled 340,864 square feet, an increase of 94,278 square feet from the second quarter. Net absorption during the third quarter jumped to 926,153 square feet, a prominent change from the two preceding quarters. Going forward, net absorption may pull back given the limitations in inventory. The CIM project Uptown Station, which includes 365,000 square feet of Class A office space is located at 1955 Broadway Avenue and is expected to be delivered during the fourth quarter. The project is a much anticipated addition to the Downtown Oakland office inventory.

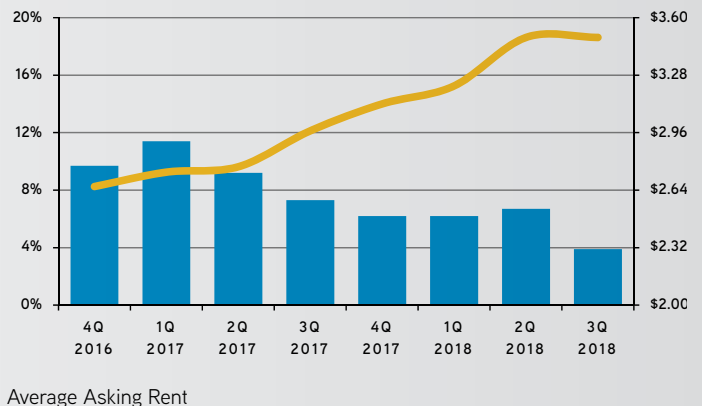
Vacancy vs. Asking Full Service Rental Rates

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
1330 Broadway, Oakland	Jul-2018	320,209	KKR	Investment
1904 Franklin Street, Oakland	Aug-2018	48,387	Graham Street Realty	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	279,398	2.6%	61,188	0.6%	340,586	3.2%	3.8%	63,565	(23,616)	\$4.73
B/C & Flex	114	5,079,302	395,660	7.8%	41,726	0.8%	437,386	8.6%	8.5%	(3,285)	(111,208)	\$4.37
Total	146	15,625,174	675,058	4.3%	102,914	0.7%	777,972	5.0%	5.4%	60,280	(134,824)	\$4.53
OAKLAND - JACK LONDON SQUARE												
A	3	325,600	1,750	0.5%	2,595	0.8%	4,345	1.3%	1.8%	1,438	5,046	\$4.50
B/C & Flex	41	1,285,539	102,776	8.0%	7,927	0.6%	110,703	8.6%	9.0%	5,123	(19,884)	\$4.14
Total	44	1,611,139	104,526	6.5%	10,522	0.7%	115,048	7.1%	7.5%	6,561	(14,838)	\$4.15
CBD TOTAL												
A	35	10,871,472	281,148	2.6%	63,783	0.6%	344,931	3.2%	3.8%	65,003	(18,570)	\$4.73
B/C & Flex	155	6,364,841	498,436	7.8%	49,653	0.8%	548,089	8.6%	8.6%	1,838	(131,092)	\$4.32
Total	190	17,236,313	779,584	4.5%	113,436	0.7%	893,020	5.2%	5.6%	66,841	(149,662)	\$4.48
SUBURBAN SECTION												
RICHMOND												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	98	3,480,353	56,250	1.6%	1,404	0.0%	57,654	1.7%	1.4%	(8,779)	(5,312)	\$2.13
Total	98	3,480,353	56,250	1.6%	1,404	0.0%	57,654	1.7%	1.4%	(8,779)	(5,312)	\$2.13
BERKELEY - DOWNTOWN												
A	10	883,882	34,863	3.9%	1,405	0.2%	36,268	4.1%	5.0%	7,898	303,925	\$3.74
B/C & Flex	28	974,473	53,868	5.5%	-	0.0%	53,868	5.5%	4.7%	(8,207)	(13,605)	\$3.61
Total	38	1,858,355	88,731	4.8%	1,405	0.1%	90,136	4.9%	4.8%	(309)	290,320	\$3.66
BERKELEY - WEST												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	42	1,527,846	89,226	5.8%	43,759	2.9%	132,985	8.7%	9.0%	4,055	59,609	\$3.37
Total	42	1,527,846	89,226	5.8%	43,759	2.9%	132,985	8.7%	9.0%	4,055	59,609	\$3.37
EMERYVILLE												
A	16	2,928,348	391,200	13.4%	44,291	1.5%	435,491	14.9%	15.7%	24,371	(3,762)	\$4.60
B/C & Flex	44	1,683,088	153,092	9.1%	43,472	2.6%	196,564	11.7%	9.8%	(32,098)	(98,983)	\$3.25
Total	60	4,611,436	544,292	11.8%	87,763	1.9%	632,055	13.7%	13.5%	(7,727)	(102,745)	\$4.18
ALAMEDA - MARINA VILLAGE												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	51	1,600,673	99,599	6.2%	26,697	1.7%	126,296	7.9%	6.7%	(19,384)	(8,790)	\$2.69
Total	51	1,600,673	99,599	6.2%	26,697	1.7%	126,296	7.9%	6.7%	(19,384)	(8,790)	\$2.69
ALAMEDA - HARBOR BAY												
A	-	-	-	-	-	-	-	-	-	-	-	-
B/C & Flex	28	1,684,784	105,261	6.2%	-	0.0%	105,261	6.2%	7.5%	21,018	27,557	\$2.49
Total	28	1,684,784	105,261	6.2%	-	0.0%	105,261	6.2%	7.5%	21,018	27,557	\$2.49
OAKLAND - AIRPORT												
A	2	455,697	4,832	1.1%	-	0.0%	4,832	1.1%	1.4%	1,585	(1,329)	\$2.80
B/C & Flex	34	1,576,808	82,830	5.3%	-	0.0%	82,830	5.3%	5.7%	6,481	39,075	\$2.09
Total	36	2,032,505	87,662	4.3%	-	0.0%	87,662	4.3%	4.7%	8,066	37,746	\$2.13
SUBURBAN TOTAL												
A	28	4,267,927	430,895	10.1%	45,696	1.1%	476,591	11.2%	12.0%	33,854	298,834	\$4.52
B/C & Flex	325	12,528,025	640,126	5.1%	115,332	0.9%	755,458	6.0%	5.7%	(36,914)	(449)	\$2.88
Total	353	16,795,952	1,071,021	6.4%	161,028	1.0%	1,232,049	7.3%	7.3%	(3,060)	298,385	\$3.52
MARKET TOTAL												
A	63	15,139,399	712,043	4.7%	109,479	0.7%	821,522	5.4%	6.1%	98,857	280,264	\$4.60
B/C & Flex	480	18,892,866	1,138,562	6.0%	164,985	0.9%	1,303,547	6.9%	6.7%	(35,076)	(131,541)	\$3.49
TOTAL	543	34,032,265	1,850,605	5.4%	274,464	0.8%	2,125,069	6.2%	6.4%	63,781	148,723	\$3.92
QUARTERLY COMPARISON AND TOTALS												
Q3-18	543	34,032,265	1,850,605	5.4%	274,464	0.8%	2,125,069	6.2%	6.4%	63,781	148,723	\$3.92
Q2-18	543	34,032,265	1,923,116	5.7%	265,734	0.8%	2,188,850	6.4%	5.0%	73,543	84,942	\$3.95
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

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

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 2018, are in U.S. dollars and include affiliates.

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