

NORTH I-680 CORRIDOR | OFFICE

Q1 2018

Accelerating success.

Changing of the Guard

- > Office Inventory: 16,931,340 square feet
- > Vacancy: 14.5 percent
- > Net absorption: (88,606) square feet year-to-date

While the Oakland and San Francisco office markets have performed extremely well with continued high rents and low vacancy, the North I-680 Corridor has recently surrendered more available square footage. Vacancy has increased to 14.5 percent, an increase of 3.4 percentage points over the year prior. With the gradual vacancy rate increase, we project a decrease in both asking and effective rental rates over the next two quarters.

Class A rents remain historically high in Downtown Walnut Creek, ranging from \$3.50 - \$4.95 per square foot but almost all leasing activity has been achieved below \$4.00 per square foot; while Class B rents have increased to \$2.75 - \$3.25 per square foot. With the recent increase in vacancy, new owners are re-measuring to increase the building square footage rather than push proforma rents.

Market Indicators

Unemployment Rate N. I-680 Corridor 10-Year Nominal Interest Rate Consumer Confidence



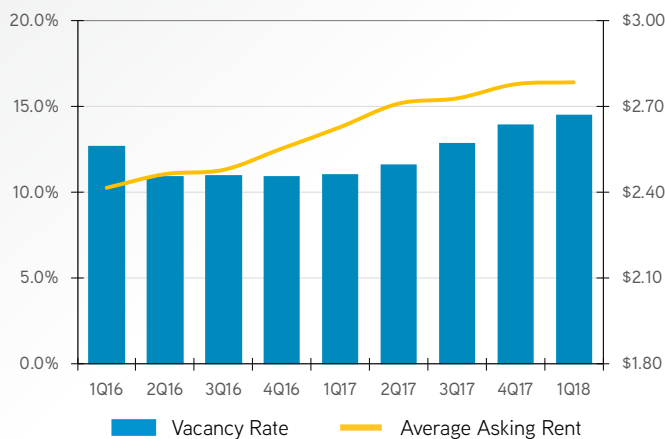
Market Trends

Relative to prior period	Q1 2017	Q2 2018*
Vacancy	↑	↓
Net Absorption	↓	↑
Construction	↔	↔
Rental Rate	↔	↓

*Projected

Vacancy vs. Average Asking Rental Rates

I-680 / Highway 4 Corridor | All Classes



Vacancy rates in the North I-680 Corridor continued to decrease in 1Q18, increasing to 14.5 percent from 14.0 percent the previous quarter. Asking rental rates in the region remained flat at \$2.78 per square foot.

Summary Statistics

Q1 Walnut Creek Office Market	Previous Quarter	Current Quarter
Overall Vacancy Rate	14%	14.5%
Net Absorption	(181,933)	(88,606)
Overall Asking Rents	\$2.78	\$2.78
Class A Asking Rents	\$3.25	\$3.24
Class B Asking Rents	\$2.25	\$2.30
Class C/Flex Asking Rents	\$1.79	\$1.79

*Asking Rents Reported Monthly

U.S. Market Economic Indicators

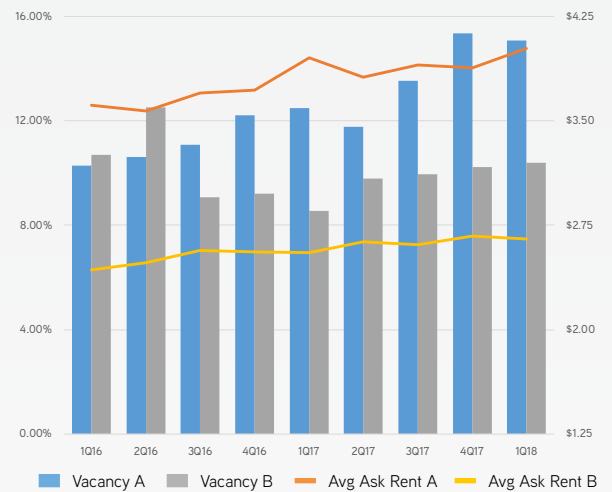
Unemployment Rate (N.I-680)	2.6%	3.0%
Labor Force Participation Rate	62.7%	63.0%
Consumer Price Index	2.47%	2.48%
Interest Rate - 10 Yr Treasury	2.40%	2.74%
Business Confidence Index	101.1	101.5
Consumer Confidence Index	122.1	127.7

The North I-680 Corridor continued its increase in vacancy, registering an overall vacancy rate of 14.5 percent, an increase from 14.0 percent the previous quarter; resulting in a negative net absorption of 98,883 square feet there. The reason for the sudden increase is due to roughly 200,000 square feet being made available at 2001 Clayton Road. Absorption in the region continues to decrease, making it five consecutive quarters of negative absorption. Despite this, investors have remained eager to acquire core office properties.

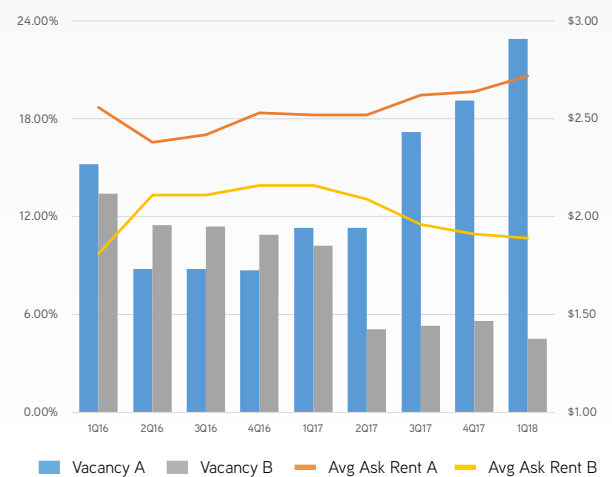
Growers Square in Downtown Walnut Creek, sold for \$88,000,000, or \$458 per square foot to Rockwood Capital LLC. This per square foot sales price is a Class A office record for the North I-680 market. 3736-3746 Mt. Diablo Boulevard in Lafayette was purchased for \$9,898,000, or \$210 per square foot by Oak Hill Grove LLC. 150-190 North Wiget Lane, a Class B office building, sold for \$6,700,000, or \$124 per square foot to KMAC LLC. In regards to leasing, Cerus leased 65,384 square feet at 1220 Concord Avenue in Concord. UBS leased 24,401 square feet at 1255 Treat Boulevard in Walnut Creek. Lastly, Anka Behavioral Health leased 20,154 square feet at 3480 Buskirk Avenue in Pleasant Hill.

Although the North I-680 Corridor has experienced increases in rents for the past several years, the trend seems to have stalled as we begin 2018. For the past year vacancy has been increasing, from 11.1 percent to 14.5 percent currently. With stalling rental rates and a quietly increasing vacancy rate, we are looking forward to a resurgence as we progress into 2018.

Vacancy vs. Average Asking Rental Rates Downtown Walnut Creek



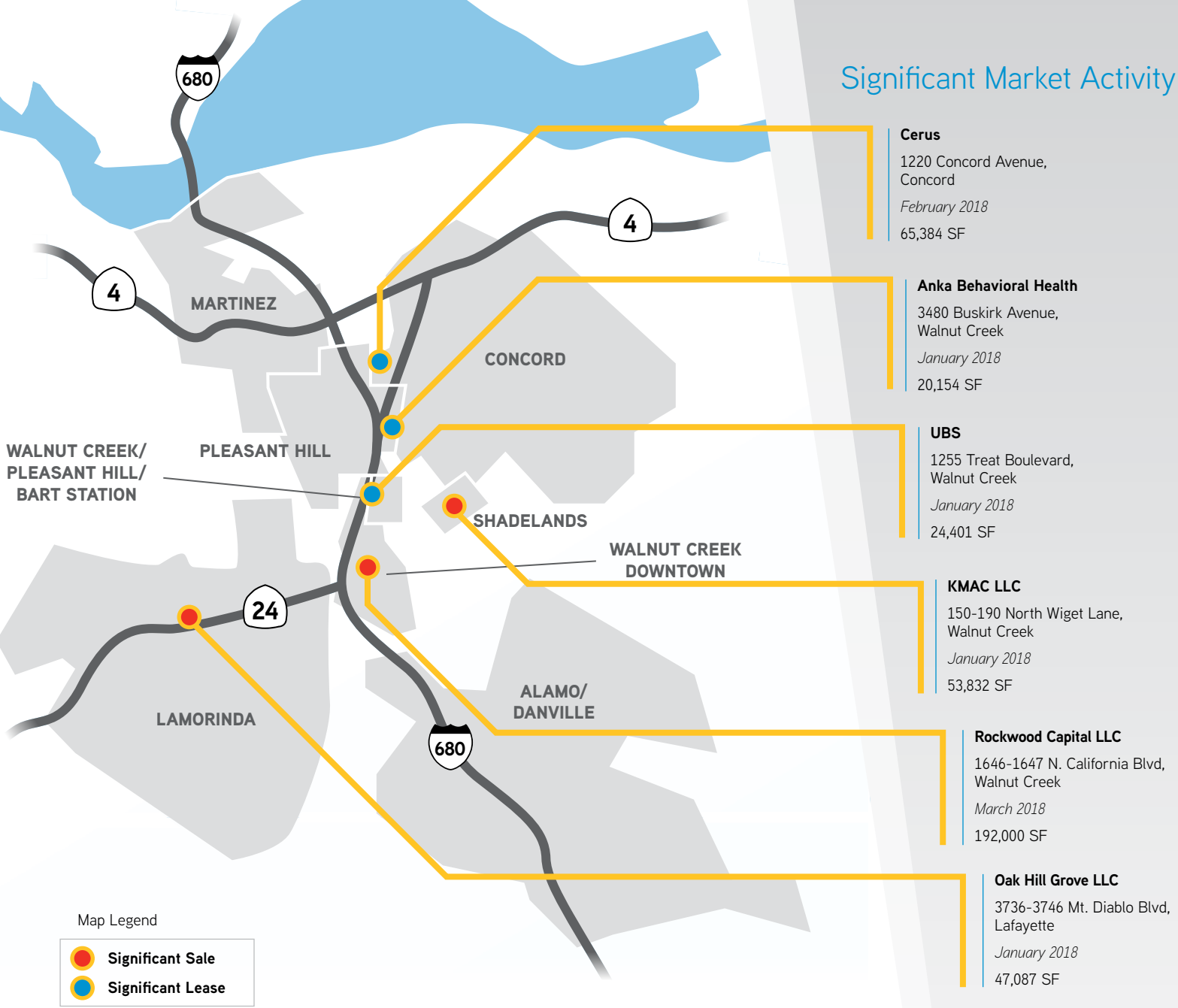
Vacancy vs. Average Asking Rental Rates Concord



Even with the increase in vacancy rate, rental rates in the North I-680 Corridor are still performing strong. For the first time in four years, rental growth has stalled at \$2.78 per square foot for all classes.

Class A Office, Concord Gateway
1850 & 1855 Gateway Blvd, Concord

Significant Market Activity



Significant Sales

PROPERTY ADDRESS	SALE DATE	SIZE	BUYER	TYPE
1646-1676 N. California Boulevard, Walnut Creek	March 2018	192,000	Rockwood Capital LLC	Investment
150-190 North Wiget Lane, Walnut Creek	January 2018	53,832	KMAC LLC	Investment
3736-3746 Mt. Diablo Boulevard, Lafayette	January 2018	47,087	Oak Hill Grove LLC	Investment
2325 Clayton Road	February 2018	26,720	Salmon Run LLC	Investment

Significant Leases

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
1220 Concord Avenue, Concord	February 2018	65,384	Cerus	Direct
1255 Treat Boulevard, Walnut Creek	January 2018	24,401	UBS	Direct
3480 Buskirk Avenue, Pleasant Hill	January 2018	20,154	Anka Behavioral Health	Direct

Market Comparisons – Walnut Creek

OFFICE MARKET

TYPE	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	COMPLETED CURRENT QTR SF	UNDER CONSTRUCTION SF	WEIGHTED AVG ASKING RENTAL RATE
WALNUT CREEK DOWNTOWN														
A	20	2,745,998	369,477	13.5%	44,547	1.6%	414,024	15.1%	15.3%	7,406	7,406	-	-	\$4.02
B	53	1,494,337	153,123	10.2%	2,000	0.1%	155,123	10.4%	10.2%	(2,509)	(2,509)	-	-	\$2.65
C	20	437,751	24,327	5.6%	5,153	1.2%	29,480	6.7%	8.1%	6,125	6,125	-	-	\$2.31
Total	93	4,678,086	546,927	11.7%	51,700	1.1%	598,627	12.8%	13.0%	11,022	11,022	-	-	\$3.58
WALNUT CREEK PH BART														
A	9	1,540,420	126,812	8.2%	16,412	1.1%	143,224	9.3%	14.1%	73,324	73,324	-	-	\$3.80
B	4	164,226	29,372	17.9%	4,674	2.8%	34,046	20.7%	14.7%	(9,881)	(9,881)	-	-	\$2.93
Total	13	1,704,646	156,184	9.2%	21,086	1.2%	177,270	10.4%	14.1%	63,443	63,443	-	-	\$3.63
CONCORD														
A	16	3,349,938	724,825	21.6%	43,741	1.3%	768,566	22.9%	19.1%	(110,708)	(110,708)	-	-	\$2.72
B	37	1,081,716	47,571	4.4%	1,533	0.1%	49,104	4.5%	5.6%	11,292	11,292	-	-	\$1.89
C	34	925,403	74,970	8.1%	3,969	0.4%	78,939	8.5%	8.6%	533	533	-	-	\$1.68
Total	87	5,357,057	847,366	15.8%	49,243	0.9%	896,609	16.7%	14.6%	(98,883)	(98,883)	-	-	\$2.58
PLEASANT HILL														
A	2	188,131	32,187	17.1%	3,354	1.8%	35,541	18.9%	18.9%	-	-	-	-	\$3.16
B	16	752,263	55,819	7.4%	5,832	0.8%	61,651	8.2%	7.0%	17,779	17,779	-	-	\$2.34
C	14	240,671	39,707	16.5%	-	0.0%	39,707	16.5%	15.4%	(2,583)	(2,583)	-	-	\$1.58
Total	32	1,181,065	127,713	10.8%	9,186	0.8%	136,899	11.6%	10.7%	15,196	15,196	-	-	\$2.33
SHADELANDS														
A	2	174,807	25,238	14.4%	14,842	8.5%	40,080	22.9%	24.2%	2,209	2,209	-	-	\$2.25
B	27	1,113,753	322,875	29.0%	4,427	0.4%	327,302	29.4%	27.1%	(58,921)	(58,921)	-	-	\$2.02
C	13	310,329	25,964	8.4%	-	0.0%	25,964	8.4%	7.9%	(1,366)	(1,366)	-	-	\$1.90
Total	42	1,598,889	374,077	23.4%	19,269	1.2%	393,346	24.6%	23.2%	(58,078)	(58,078)	-	-	\$2.04
MARTINEZ														
B	8	258,326	11,628	4.5%	-	0.0%	11,628	4.5%	4.4%	(222)	(222)	-	-	\$1.85
C	9	266,864	85,994	32.2%	-	0.0%	85,994	32.2%	30.9%	(3,500)	(3,500)	-	-	\$1.65
Total	17	525,190	97,622	18.6%	-	0.0%	97,622	18.6%	17.9%	(3,722)	(3,722)	-	-	\$1.67
LAMORINDA														
A	6	248,205	29,185	11.8%	6,408	2.6%	35,593	14.3%	14.3%	(110)	(110)	-	-	\$4.20
B	25	603,374	27,957	4.6%	-	0.0%	27,957	4.6%	5.2%	4,050	4,050	-	-	\$2.66
C	5	128,454	23,305	18.1%	1,300	1.0%	24,605	19.2%	13.3%	(7,506)	(7,506)	-	-	\$2.25
Total	36	980,033	80,447	8.2%	7,708	0.8%	88,155	9.0%	8.6%	(3,566)	(3,566)	-	-	\$3.17
ALAMO/DANVILLE														
A	3	129,469	1,992	1.5%	-	0.0%	1,992	1.5%	1.5%	-	-	-	-	\$3.00
B	30	572,992	40,428	7.1%	2,688	0.5%	43,116	7.5%	5.8%	(9,756)	(9,756)	-	-	\$2.90
C	12	203,913	24,328	11.9%	538	0.3%	24,866	12.2%	10.1%	(4,262)	(4,262)	-	-	\$1.76
Total	45	906,374	66,748	7.4%	3,226	0.4%	69,974	7.7%	6.2%	(14,018)	(14,018)	-	-	\$2.50

MARKET TOTAL

A	58	8,376,968	1,309,716	15.6%	129,304	1.5%	1,439,020	17.2%	16.6%	(27,879)	(27,879)	-	-	\$3.24
B	200	6,040,987	688,773	11.4%	21,154	0.4%	709,927	11.8%	11.2%	(48,168)	(48,168)	-	-	\$2.30
C	107	2,513,385	298,595	11.9%	10,960	0.4%	309,555	12.3%	11.8%	(12,559)	(12,559)	-	-	\$1.79
Total	365	16,931,340	2,297,084	13.6%	161,418	1.0%	2,458,502	14.5%	14.0%	(88,606)	(88,606)	-	-	\$2.78

QUARTERLY COMPARISON AND TOTALS

1Q-18	365	16,931,340	2,297,084	13.6%	161,418	1.0%	2,458,502	14.5%	14.0%	(88,606)	(88,606)	-	-	\$2.78
4Q-17	364	16,926,446	2,042,422	12.1%	322,346	1.9%	2,364,768	14.0%	12.9%	(181,933)	(562,879)	-	-	\$2.78
3Q-17	364	16,926,446	1,920,560	11.3%	262,275	1.5%	2,182,835	12.9%	11.6%	(212,768)	(380,946)	-	-	\$2.73
2Q-17	364	16,926,446	1,651,422	9.8%	319,645	1.9%	1,971,067	11.6%	11.1%	(97,974)	(168,178)	-	-	\$2.71
1Q-17	364	16,926,446	1,670,677	9.9%	201,406	1.2%	1,872,083	11.1%	10.9%	(70,204)	(70,204)	-	-	\$2.63

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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