

NORTH I-680 CORRIDOR | OFFICE

Q3 2018

Accelerating success.

Surging Rents Carry the North I-680 Corridor

- > Office Inventory: 16,967,009 Square Feet
- > Vacancy: 15.4 percent
- > Net absorption: (103,748) Square Feet Year-To-Date

For the past several quarters, the North I-680 Corridor has experienced extraordinary growth. Rents hit all-time highs this quarter, and with the exception of the previous quarter, rents have been increasing for nearly five years. On the other hand, demand may be slowing down as vacancy increased to 15.4 percent and 40,769 square feet of sublease space came on the market this past quarter. Although the vacancy rate is slowly increasing, investment activity in the region is still quite the draw.

Rents continue performing extremely well in the North I-680 Corridor. Class A rents are at \$3.40 per square foot, a \$0.20 increase from the previous quarter. Class B rents have increased to \$2.44 per square foot, an increase from \$2.36 over the same period. Overall average asking rents increased to \$2.90 per square foot, a \$0.14 increase from last quarter.

Market Indicators

Unemployment Rate
North I-680 Corridor

10-Year Nominal
Interest Rate

Consumer
Confidence



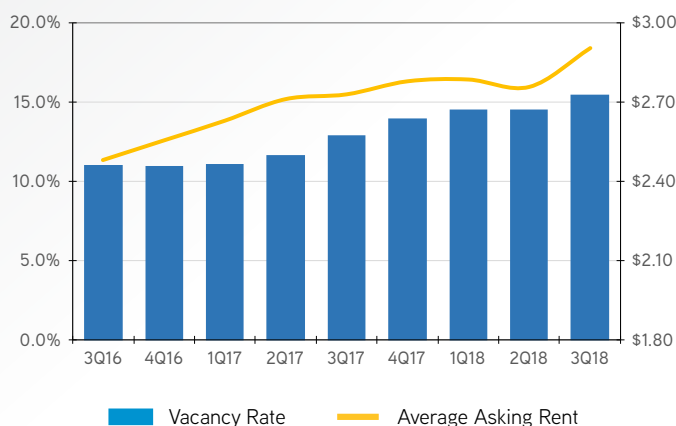
Market Trends

Relative to prior period	Q3 2018	Q4 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 increased in 3Q18 to 15.4 percent. Asking rental rates in the region also increased to \$2.90 per square foot.

Summary Statistics

Q3 Walnut Creek Office Market

	Previous Quarter	Current Quarter
Overall Vacancy Rate	14.5	15.4
Net Absorption	113,867	(128,775)
Overall Asking Rents	\$2.76	\$2.9
Class A Asking Rents	\$3.20	\$3.40
Class B Asking Rents	\$2.36	\$2.44
Class C/Flex Asking Rents	\$1.81	\$1.85

*Asking Rents Reported Monthly

U.S. Market Economic Indicators

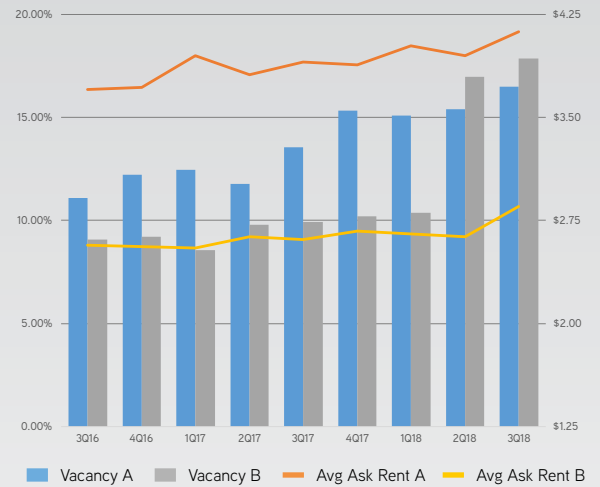
	Q3 2018	Q4 2018
Unemployment Rate (N.I-680)	2.3%	2.7%
Labor Force Participation Rate	62.9%	62.7%
Consumer Price Index	2.52%	2.52%
Interest Rate - 10 Yr Treasury	2.85%	3.05%
Business Confidence Index	101.36	101.47
Consumer Confidence Index	126.4	138.4

Although the region's asking rents are doing well, the vacancy rate is increasing. Overall, the North I-680 Corridor's vacancy rate measures 15.4 percent, an increase of 0.9 percent from the previous quarter. Net absorption during the quarter was negative 128,775 square feet, with the Walnut Creek Pleasant Hill BART region responsible for negative 105,763 square feet of net absorption. Downtown Walnut Creek, Walnut Creek Pleasant Hill BART and the Shadelands submarkets each experienced negative absorption of more than 10,000 square feet during this past quarter.

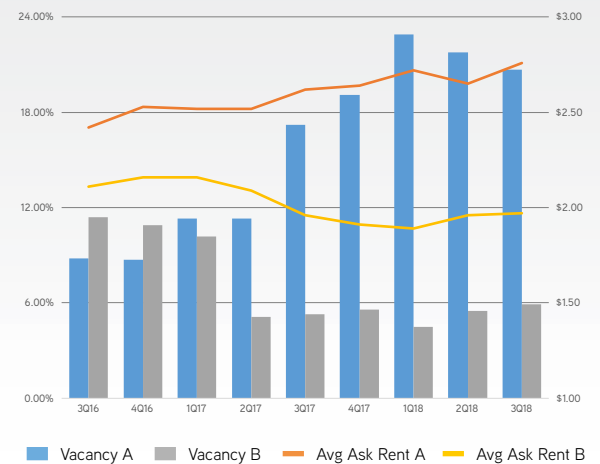
Investment activity in the region is still quite active. 2000-2001 Clayton Road, two Class A buildings in Concord totaling 557,501 square feet sold to Jamestown for \$110,547,500. 1655-1755 Grant Street, two Class A buildings in Concord totaling 480,000 square feet sold for \$194,766,666 to Partners Group LLC. 165-255 Lennon Lane, a group of six Class B buildings totaling 199,728 square feet in Walnut Creek sold for \$21,000,000 to AG Strada Centre Pointe Owner LLC. In regards to leasing, T-Mobile renewed their 56,772 square foot space at 1855 Gateway Boulevard in Concord. Cubic Transportation also renewed 22,422 square feet at 1800 Sutter Street in Concord. Lastly, Jensen Hughes leased 14,908 square feet at 1220 Concord Avenue in Concord.

As we move into the final quarter of 2018, rental rates are experiencing another surge to all-time highs. In light of this, effective Class A rental rates have plateaued and fallen slightly as current tenant demand is more driven by cost savings. Sublease space is also increasing and competing with the existing Class A inventory. Downsizing tenants are also increasing the overall vacancy rate as companies adjust to denser and more open layouts. Even though the vacancy rate has increased to 15.4 percent, there is still an abundance of investment activity and deals being done in the region. As asking rents continue to perform well alongside a cautiously growing vacancy rate, we are optimistic that 2018 will finish with another flurry of activity.

Vacancy vs. Average Asking Rental Rates Downtown Walnut Creek



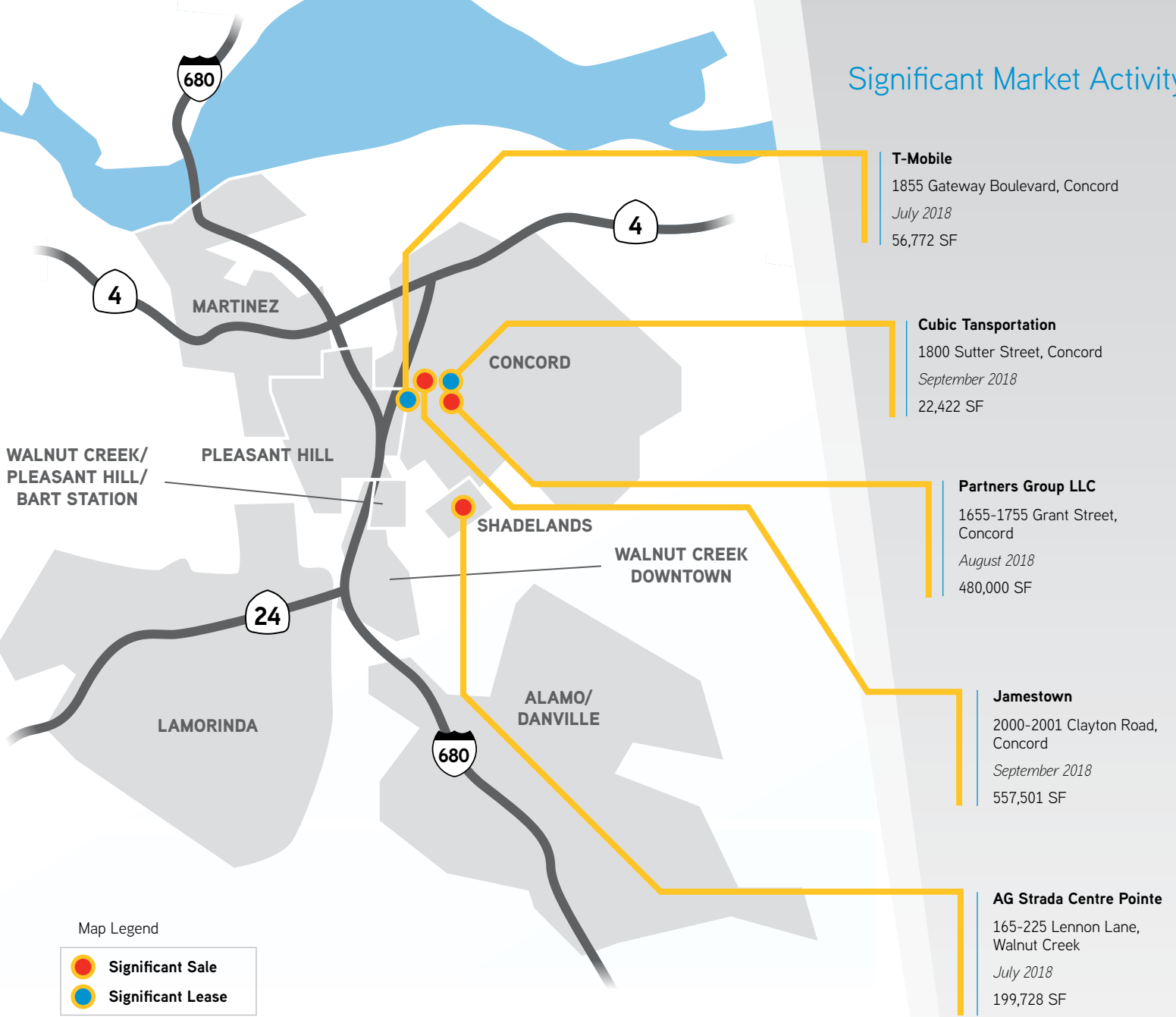
Vacancy vs. Average Asking Rental Rates Concord



Rental rates in the North I-680 Corridor continued their ascent, prompting relocations to the Concord area. Overall rental rates in our region have consistently increased for several years, providing new all time highs in rents.

Class A Office, Sutter Square
1800 Sutter Street, Concord

Significant Market Activity



Significant Leases

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
1855 Gateway Boulevard, Concord	July 2018	56,772	T-Mobile	Renewal
1800 Sutter Street, Concord	September 2018	22,422	Cubic Tansportation	Renewal
1220 Concord Avenue, Concord	August 2018	14,908	Jensen Hughes	Direct
1390 Willow Pass Road, Concord	July 2018	12,831	Regional CTV	Direct

Significant Sales

PROPERTY ADDRESS	SALE DATE	SIZE	BUYER	TYPE
2000-2001 Clayton Road, Concord	September 2018	557,501	Jamestown	Investment
1655-1755 Grant Street, Concord	August 2018	480,000	Partners Group LLC	Investment
165-225 Lennon Lane, Walnut Creek	July 2018	199,728	AG Strada Centre Pointe Owner LLC	Owner/User
2033 North Main Street, Walnut Creek	July 2018	183,405	I&G Ygnacio Land Inc	Investment

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	408,531	14.9%	43,823	1.6%	452,354	16.5%	15.4%	(30,069)	(31,158)	-	-	\$4.12
B	55	1,616,529	285,232	17.6%	3,425	0.2%	288,657	17.9%	17.0%	(14,609)	(13,851)	-	-	\$2.85
C	20	437,751	30,352	6.9%	1,100	0.3%	31,452	7.2%	6.2%	(4,428)	4,153	-	-	\$2.26
Total	95	4,800,278	724,115	15.1%	48,348	1.0%	772,463	16.1%	15.1%	(49,106)	(40,856)	-	-	\$3.57
WALNUT CREEK PH BART														
A	9	1,540,420	160,262	10.4%	65,726	4.3%	225,988	14.7%	7.8%	(105,763)	(9,440)	-	-	\$3.96
B	3	107,034	39,167	36.6%	3,194	3.0%	42,361	39.6%	35.4%	(4,433)	(18,196)	-	-	\$2.65
Total	12	1,647,454	199,429	12.1%	68,920	4.2%	268,349	16.3%	9.6%	(110,196)	(27,636)	-	-	\$3.75
CONCORD														
A	16	3,351,886	664,797	19.8%	28,517	0.9%	693,314	20.7%	21.8%	36,127	(33,508)	-	-	\$2.76
B	37	1,081,716	63,415	5.9%	-	0.0%	63,415	5.9%	5.5%	(4,095)	(3,019)	-	-	\$1.97
C	34	925,403	100,286	10.8%	3,717	0.4%	104,003	11.2%	9.6%	(15,134)	(24,531)	-	-	\$1.90
Total	87	5,359,005	828,498	15.5%	32,234	0.6%	860,732	16.1%	16.4%	16,898	(61,058)	-	-	\$2.60
PLEASANT HILL														
A	2	188,131	30,147	16.0%	-	0.0%	30,147	16.0%	16.0%	-	5,394	-	-	\$3.18
B	16	752,263	26,616	3.5%	2,016	0.3%	28,632	3.8%	4.3%	3,715	50,798	-	-	\$2.53
C	14	240,671	42,221	17.5%	-	0.0%	42,221	17.5%	16.5%	(2,514)	(5,097)	-	-	\$1.58
Total	32	1,181,065	98,984	8.4%	2,016	0.2%	101,000	8.6%	8.7%	1,201	51,095	-	-	\$2.33
SHADELANDS														
A	2	174,807	23,897	13.7%	4,087	2.3%	27,984	16.0%	14.6%	(2,415)	14,305	-	-	\$2.25
B	28	1,116,321	331,540	29.7%	-	0.0%	331,540	29.7%	27.6%	(21,837)	(60,591)	-	-	\$2.07
C	17	310,783	22,052	7.1%	428	0.1%	22,480	7.2%	10.4%	10,229	2,572	-	-	\$1.93
Total	47	1,601,911	377,489	23.6%	4,515	0.3%	382,004	23.8%	22.8%	(14,023)	(43,714)	-	-	\$2.07
MARTINEZ														
B	8	258,326	10,333	4.0%	-	0.0%	10,333	4.0%	3.9%	(375)	1,073	-	-	\$1.75
C	9	266,864	77,504	29.0%	-	0.0%	77,504	29.0%	29.0%	-	4,990	-	-	\$1.65
Total	17	525,190	87,837	16.7%	-	0.0%	87,837	16.7%	16.7%	(375)	6,063	-	-	\$1.66
LAMORINDA														
A	6	248,205	28,710	11.6%	4,046	1.6%	32,756	13.2%	16.9%	9,311	2,727	-	-	\$4.12
B	24	550,017	17,748	3.2%	5,676	1.0%	23,424	4.3%	3.1%	(4,711)	8,583	-	-	\$2.69
C	5	128,454	20,227	15.7%	1,300	1.0%	21,527	16.8%	15.9%	(1,129)	(4,428)	-	-	\$2.35
Total	35	926,676	66,685	7.2%	11,022	1.2%	77,707	8.4%	8.3%	3,471	6,882	-	-	\$3.20
ALAMO/DANVILLE														
A	3	129,469	1,992	1.5%	-	0.0%	1,992	1.5%	1.5%	-	-	-	-	\$3.09
B	30	572,992	38,850	6.8%	2,688	0.5%	41,538	7.2%	8.2%	5,439	(8,178)	-	-	\$3.00
C	16	222,969	25,468	11.4%	538	0.2%	26,006	11.7%	12.2%	17,916	13,654	-	-	\$1.76
Total	49	925,430	66,310	7.2%	3,226	0.3%	69,536	7.5%	8.1%	23,355	5,476	-	-	\$2.54
MARKET TOTAL														
A	58	8,378,916	1,318,336	15.7%	146,199	1.7%	1,464,535	17.5%	16.4%	(92,809)	(51,680)	-	-	\$3.40
B	201	6,055,198	812,901	13.4%	16,999	0.3%	829,900	13.7%	12.9%	(40,906)	(43,381)	-	-	\$2.44
C	115	2,532,895	318,110	12.6%	7,083	0.3%	325,193	12.8%	12.4%	4,940	(8,687)	-	-	\$1.85
Total	374	16,967,009	2,449,347	14.4%	170,281	1.0%	2,619,628	15.4%	14.5%	(128,775)	(103,748)	-	-	\$2.90
QUARTERLY COMPARISON AND TOTALS														
3Q-18	374	16,967,009	2,449,347	14.4%	170,281	1.0%	2,619,628	15.4%	14.5%	(128,775)	(103,748)	-	-	\$2.90
2Q-18	366	16,998,288	2,339,263	13.8%	129,512	0.8%	2,468,775	14.5%	14.5%	113,867	25,027	-	-	\$2.76
1Q-18	365	16,931,340	2,297,084	13.6%	161,418	1.0%	2,458,502	14.5%	14.0%	(88,840)	(88,840)	-	-	\$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

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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