INVESTMENT FORECAST

OFFICE

Oakland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2019

Robust Bay Area Inspires Oakland Rental Arbitrage; Investors Chase Cap Rates and Demand

Absorption pacing cycle-high construction. Strong Bay Area economic growth continues to drive demand for Oakland/East Bay office space. The relatively affordable rents are 20 percent lower than the San Jose and San Francisco markets, supporting net absorption that has steadily outpaced construction. The positive supply/demand balance has underpinned steady rent gains that nearly doubled over the past five years, providing exceptional performance trends for well-positioned assets. While construction has continually pressed higher, with a cycle-high expected this year, active pre-leasing has reduced the impact of new supply. Last year's square footage delivery, the highest pace of completions in over a decade, produced little more than a marginal bump in available space. Meanwhile, rent appreciation has approached or exceeded double-digit gains in each of the past four years, with similar conditions in 2019 likely to produce another outstanding year of NOI growth.

Core Oakland, Walnut Creek top targets; market liquidity escalating. Oakland carries the highest cap rates and the fastest rent growth in the Bay Area, and buyers have flocked to its office assets, pushing market liquidity above $1.7 billion for three straight years. Class B and C properties in Oakland and Walnut Creek dominate activity, prompting average cap rates in the mid- to high-5 percent range. Farther from the premier office corridors, valuations become much more attractive, with first-year returns approaching the mid-6 percent range in some cases. Further outperformance can be obtained through site improvements and property management, but a focus on these assets in recent quarters has greatly diminished the opportunity set. Those remaining typically involve large capital infusions or more speculative locations, reducing the attractiveness.

2019 Market Forecast

Employment up 1.8% — Oakland employers will create 22,000 new jobs this year, down moderately from the 24,000 added in 2018.

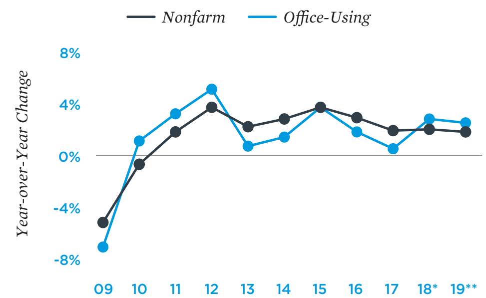
Construction 1.2 million sq. ft. — Deliveries remain unchanged. Oakland City Center at nearly 600,000 square feet represents the largest project.

Vacancy up 10 bps — The vacancy rate ticks up 10 basis points to 11.4 percent as cycle-high development moderately outpaces net absorption of nearly 1 million square feet.

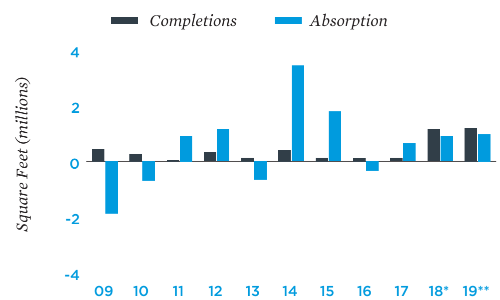
Rent up 7.5% — The average asking rent will soar to $43.00 per square foot. Despite rapid gains, rents remain below other Bay Area locations.

Investment — The average price per square foot trades in Oakland 35 percent lower than San Francisco or San Jose with first-year yields averaging 100 basis points higher in the low-6 percent area. .

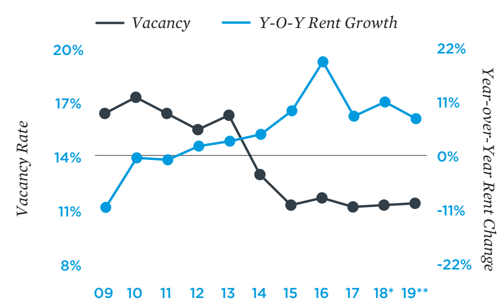
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Estimate; ** Forecast;
Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.