

Switching Gears

- > Office Inventory: 16,926,446 square feet
- > Vacancy: 14 percent
- > Net absorption: (562,879) square feet, year to date

While San Francisco and Oakland are the primary hotbeds for commercial real estate activity, the North I-680 Corridor's demand for Class A office investments remains strong. Vacancy has jumped to 14.0 percent, an increase of 3.1 percent from the year prior. Although the vacancy rate is gradually increasing, rental rates are undeterred and continue to push higher.

Rents remain strong along the North I-680 Corridor. Class A rents are at \$3.25 per square foot, from \$3.19 the previous year. Class B rents have increased to \$2.25 per square foot, an increase from \$2.19 over the same period. Overall average asking rents increased to \$2.78 per square foot, an increase of \$0.23 year over year. With Class A rents and Class B rents having an average difference of \$1.00 per square foot, it's no surprise that the Class A inventory had the most negative absorption.

Market Indicators

Unemployment Rate
North I-680 Corridor

10-Year Nominal
Interest Rate

Consumer
Confidence



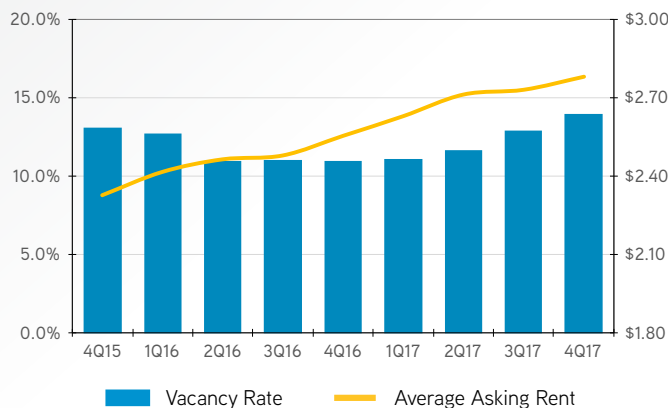
Market Trends

| Relative to prior period | Q4 2017 | Q1 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 increase in 4Q17, rising to 14.0 percent from 12.9 percent the previous quarter. Asking rental rates in the region continue their growth to \$2.78 per square foot.

Summary Statistics

Q4 Walnut Creek Office Market

| | Previous Quarter | Current Quarter |
|---------------------------|------------------|-----------------|
| Overall Vacancy Rate | 12.9% | 14% |
| Net Absorption | (212,768) | (181,933) |
| Overall Asking Rents | \$2.73 | \$2.78 |
| Class A Asking Rents | \$3.25 | \$3.25 |
| Class B Asking Rents | \$2.22 | \$2.25 |
| Class C/Flex Asking Rents | \$1.61 | \$1.79 |

*Asking Rents Reported Monthly

U.S. Market Economic Indicators

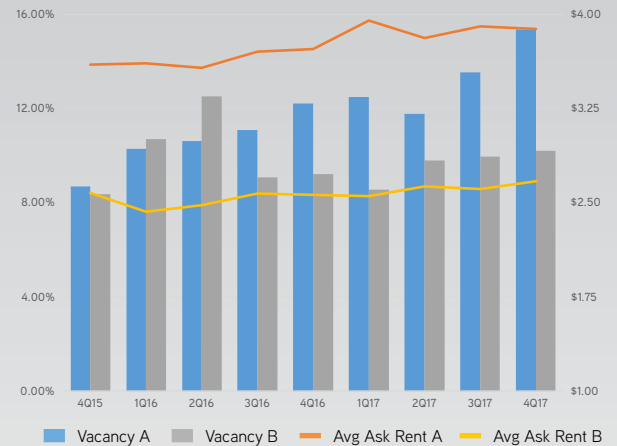
| | Q4 2017 | Q1 2018 |
|--------------------------------|---------|---------|
| Unemployment Rate (N I-680) | 3.9% | 2.6% |
| Labor Force Participation Rate | 62.9% | 62.7% |
| Consumer Price Index | 2.46% | 2.47% |
| Interest Rate - 10 Yr Treasury | 2.33% | 2.40% |
| Business Confidence Index | 101.6 | 101.1 |
| Consumer Confidence Index | 119.8 | 122.1 |

The North I-680 Corridor continued its slow climb in vacancy. Overall, the North I-680 Corridor's vacancy rate is at 14.0 percent, an increase from 10.9 percent the previous year. Class A Shadelands experienced the largest increase in vacancy from 4.9 percent the previous quarter to 24.2 percent currently. The reason for the sudden increase is due to roughly 33,000 square feet being made available at 2700 Ygnacio Valley Road. Absorption in the region has been negative for the past five quarters, but this has not deterred the high sales velocity of the region.

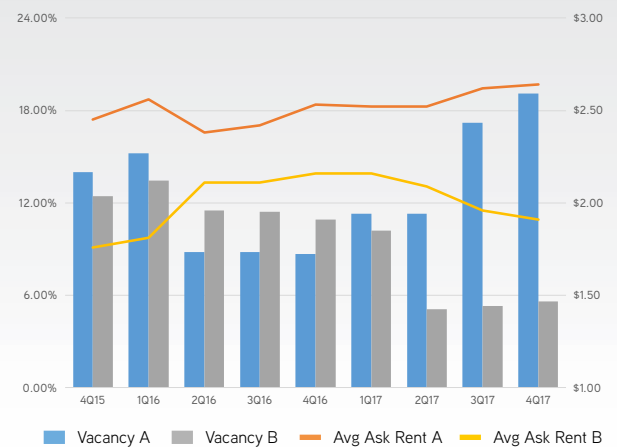
A number of large transaction occurred during the last quarter of 2017. 2175-2185 North California Boulevard, a Class A office building in Walnut Creek, sold for \$117,000,000, or \$360 per square foot to Swift Real Estate Partners. 1320-1390 Willow Pass Road in Concord, another Class A asset, was purchased for \$63,500,000, or \$183 per square foot by Harbert Management Corporation. 2151 Salvio Street in Concord, a Class B office building, sold for \$24,500,000, or \$204 per square foot to Autumn Wood 1 LP and Pinewood Condominiums LP. In regards to leasing, Black and Veatch leased 11,626 square feet at 2999 Oak Road in Walnut Creek. Keller Williams leased 10,324 square feet at 201 North Civic Drive in Walnut Creek. Lastly, MCE Clean Energy leased 9,738 square feet at 2300 Clayton Road in Concord.

Despite negative net absorption in the North I-680 Corridor, rental rates have continued to increase due to new ownership profiles and increased tenant improvement costs. While Class A assets continue to trade, the expectation is that rents will continue to increase, provoking a few to look elsewhere in the region that may be more economically feasible. With record highs in rents and a cautiously increasing vacancy rate, we are optimistic for growth as we begin 2018.

Vacancy vs. Average Asking Rental Rates Downtown Walnut Creek



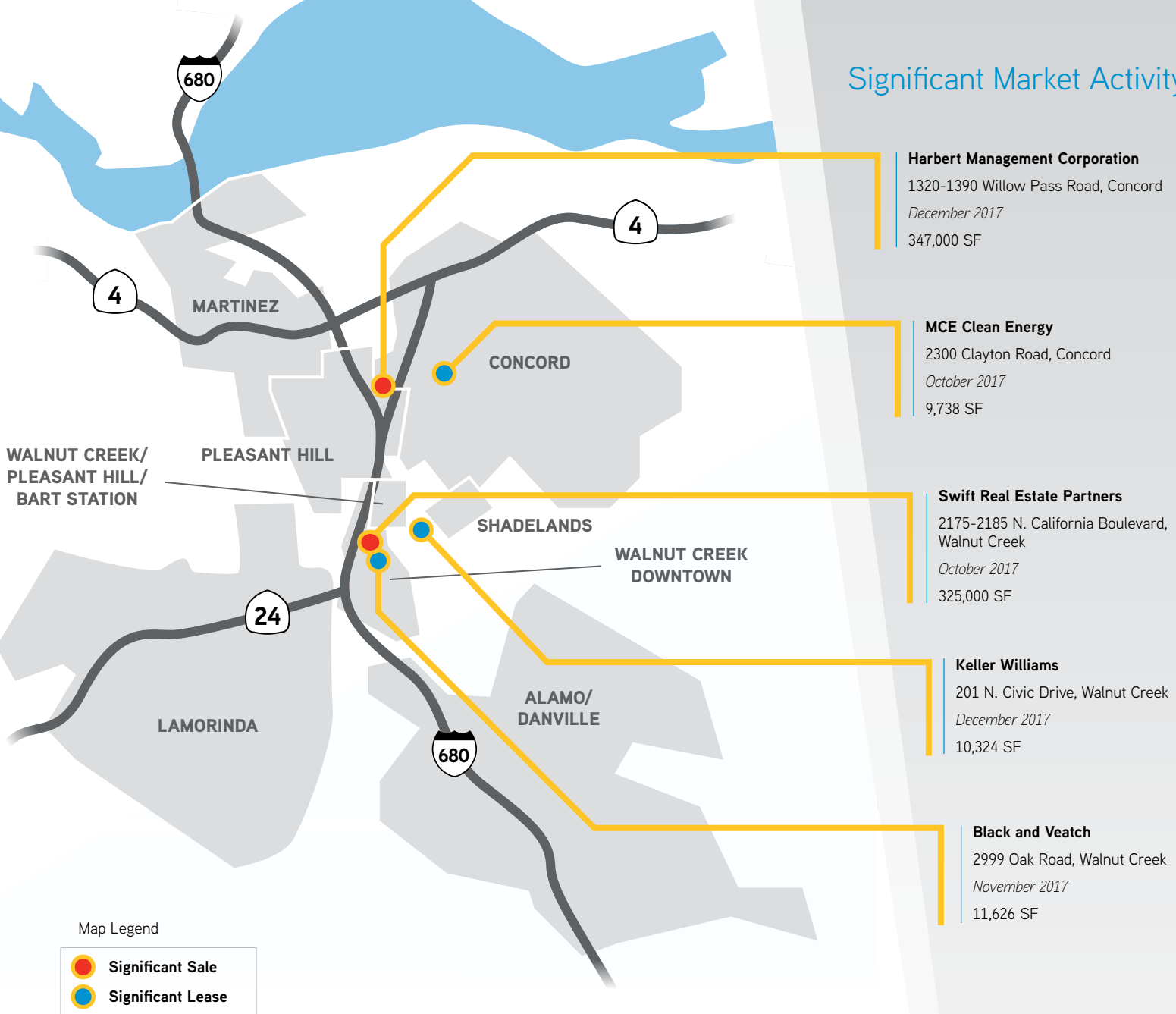
Vacancy vs. Average Asking Rental Rates Concord



Even with the increase in vacancy rate, rental rates in the North I-680 Corridor continue to increase. Overall rental rates in our region have increased for four consecutive years, giving us another all-time high for average rents.

**1850 Mt. Diablo Boulevard,
Walnut Creek, California**

Significant Market Activity



Significant Sales

| PROPERTY ADDRESS | SALE DATE | SIZE | BUYER | TYPE |
|-------------------------------------------------|---------------|---------|--------------------------------------------|------------|
| 1320-1390 Willow Pass Road, Concord | December 2017 | 347,000 | Harbert Management Corporation | Investment |
| 2175-2185 N. California Boulevard, Walnut Creek | October 2017 | 325,000 | Swift Real Estate Partners | Investment |
| 2151 Salvio Street, Concord | December 2017 | 120,250 | Autumn Wood 1 LP, Pinewood Condominiums LP | Investment |
| 3100 Oak Road, Walnut Creek | November 2017 | 49,500 | Lane Partners LLC | Investment |

Significant Leases

| PROPERTY ADDRESS | LEASE DATE | SIZE | TENANT | TYPE |
|-------------------------------------|---------------|--------|------------------|--------|
| 2999 Oak Road, Walnut Creek | November 2017 | 11,626 | Black and Veatch | Direct |
| 201 North Civic Drive, Walnut Creek | December 2017 | 10,324 | Keller Williams | Direct |
| 2300 Clayton Road, Concord | October 2017 | 9,738 | MCE Clean Energy | 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 | 370,881 | 13.5% | 50,315 | 1.8% | 421,196 | 15.3% | 13.5% | (49,458) | (85,853) | - | - | \$3.88 |
| B | 53 | 1,494,337 | 138,417 | 9.3% | 14,197 | 1.0% | 152,614 | 10.2% | 9.9% | (4,039) | (16,175) | - | - | \$2.67 |
| C | 20 | 437,751 | 30,452 | 7.0% | 5,153 | 1.2% | 35,605 | 8.1% | 9.4% | 5,326 | (10,585) | - | - | \$2.28 |
| Total | 93 | 4,678,086 | 539,750 | 11.5% | 69,665 | 1.5% | 609,415 | 13.0% | 12.0% | (48,171) | (112,613) | - | - | \$3.48 |
| WALNUT CREEK PH BART | | | | | | | | | | | | | | |
| A | 9 | 1,540,420 | 87,898 | 5.7% | 128,650 | 8.4% | 216,548 | 14.1% | 13.5% | (8,200) | (96,967) | - | - | \$3.85 |
| B | 4 | 164,226 | 19,491 | 11.9% | 4,674 | 2.8% | 24,165 | 14.7% | 14.7% | - | 7,027 | - | - | \$2.50 |
| Total | 13 | 1,704,646 | 107,389 | 6.3% | 133,324 | 7.8% | 240,713 | 14.1% | 13.6% | (8,200) | (89,940) | - | - | \$3.71 |
| CONCORD | | | | | | | | | | | | | | |
| A | 16 | 3,328,553 | 564,875 | 17.0% | 71,598 | 2.2% | 636,473 | 19.1% | 17.2% | (62,456) | (299,027) | - | - | \$2.64 |
| B | 37 | 1,081,716 | 58,863 | 5.4% | 1,533 | 0.1% | 60,396 | 5.6% | 5.3% | (2,998) | 57,443 | - | - | \$1.91 |
| C | 34 | 925,403 | 79,220 | 8.6% | 252 | 0.0% | 79,472 | 8.6% | 7.2% | (12,785) | 60,168 | - | - | \$1.66 |
| Total | 87 | 5,335,672 | 702,958 | 13.2% | 73,383 | 1.4% | 776,341 | 14.6% | 13.1% | (78,239) | (181,416) | - | - | \$2.48 |
| PLEASANT HILL | | | | | | | | | | | | | | |
| A | 2 | 188,131 | 32,187 | 17.1% | 3,354 | 1.8% | 35,541 | 18.9% | 23.4% | 8,403 | (9,926) | - | - | \$3.00 |
| B | 15 | 723,846 | 47,197 | 6.5% | 3,816 | 0.5% | 51,013 | 7.0% | 6.8% | (2,088) | 10,728 | - | - | \$2.15 |
| C | 14 | 240,671 | 37,124 | 15.4% | - | 0.0% | 37,124 | 15.4% | 17.5% | 5,001 | (18,474) | - | - | \$1.62 |
| Total | 31 | 1,152,648 | 116,508 | 10.1% | 7,170 | 0.6% | 123,678 | 10.7% | 11.7% | 11,316 | (17,672) | - | - | \$2.24 |
| SHADELANDS | | | | | | | | | | | | | | |
| A | 2 | 174,807 | 27,447 | 15.7% | 14,842 | 8.5% | 42,289 | 24.2% | 4.9% | (33,725) | (11,064) | - | - | \$2.25 |
| B | 27 | 1,159,503 | 306,477 | 26.4% | 7,654 | 0.7% | 314,131 | 27.1% | 26.0% | (12,159) | (143,440) | - | - | \$2.02 |
| C | 13 | 310,329 | 24,598 | 7.9% | - | 0.0% | 24,598 | 7.9% | 7.4% | (1,483) | 6,900 | - | - | \$1.90 |
| Total | 42 | 1,644,639 | 358,522 | 21.8% | 22,496 | 1.4% | 381,018 | 23.2% | 20.3% | (47,367) | (147,604) | - | - | \$2.04 |
| MARTINEZ | | | | | | | | | | | | | | |
| B | 8 | 258,326 | 11,406 | 4.4% | - | 0.0% | 11,406 | 4.4% | 2.5% | (5,000) | (11,406) | - | - | \$1.85 |
| C | 9 | 266,864 | 82,494 | 30.9% | - | 0.0% | 82,494 | 30.9% | 30.9% | - | 14,761 | - | - | \$1.65 |
| Total | 17 | 525,190 | 93,900 | 17.9% | - | 0.0% | 93,900 | 17.9% | 16.9% | (5,000) | 3,355 | - | - | \$1.67 |
| LAMORINDA | | | | | | | | | | | | | | |
| A | 6 | 248,205 | 24,323 | 9.8% | 11,160 | 4.5% | 35,483 | 14.3% | 14.2% | (225) | (18,906) | - | - | \$4.20 |
| B | 25 | 602,532 | 31,165 | 5.2% | - | 0.0% | 31,165 | 5.2% | 5.1% | (405) | 8,786 | - | - | \$2.75 |
| C | 5 | 128,454 | 15,799 | 12.3% | 1,300 | 1.0% | 17,099 | 13.3% | 13.3% | - | (205) | - | - | \$2.25 |
| Total | 36 | 979,191 | 71,287 | 7.3% | 12,460 | 1.3% | 83,747 | 8.6% | 8.5% | (630) | (10,325) | - | - | \$3.26 |
| ALAMO/DANVILLE | | | | | | | | | | | | | | |
| A | 3 | 129,469 | 1,992 | 1.5% | - | 0.0% | 1,992 | 1.5% | 1.5% | - | - | - | - | \$3.00 |
| B | 30 | 572,992 | 30,672 | 5.4% | 2,688 | 0.5% | 33,360 | 5.8% | 4.8% | (5,642) | (10,758) | - | - | \$2.72 |
| C | 12 | 203,913 | 19,444 | 9.5% | 1,160 | 0.6% | 20,604 | 10.1% | 10.1% | - | 4,094 | - | - | \$1.76 |
| Total | 45 | 906,374 | 52,108 | 5.7% | 3,848 | 0.4% | 55,956 | 6.2% | 5.6% | (5,642) | (6,664) | - | - | \$2.38 |
| MARKET TOTAL | | | | | | | | | | | | | | |
| A | 58 | 8,355,583 | 1,109,603 | 13.3% | 279,919 | 3.4% | 1,389,522 | 16.6% | 14.9% | (145,661) | (521,743) | - | - | \$3.25 |
| B | 199 | 6,057,478 | 643,688 | 10.6% | 34,562 | 0.6% | 678,250 | 11.2% | 10.7% | (32,331) | (97,795) | - | - | \$2.25 |
| C | 107 | 2,513,385 | 289,131 | 11.5% | 7,865 | 0.3% | 296,996 | 11.8% | 11.7% | (3,941) | 56,659 | - | - | \$1.79 |
| Total | 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 |
| QUARTERLY COMPARISON AND TOTALS | | | | | | | | | | | | | | |
| 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 |
| 4Q-16 | 367 | 17,623,918 | 1,710,299 | 9.7% | 218,470 | 1.2% | 1,928,769 | 10.9% | 11.0% | 6,998 | 388,379 | - | - | \$2.55 |

396 offices in 68 countries on 6 continents

United States: **153**

Canada: **29**

Latin America: **24**

Asia Pacific: **36**

EMEA: **111**

ANZ: **43**

\$2.6

billion in
annual revenue

2.0

billion square feet
under management

15,000

professionals
and staff

*All statistics are for 2016 and include affiliates

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