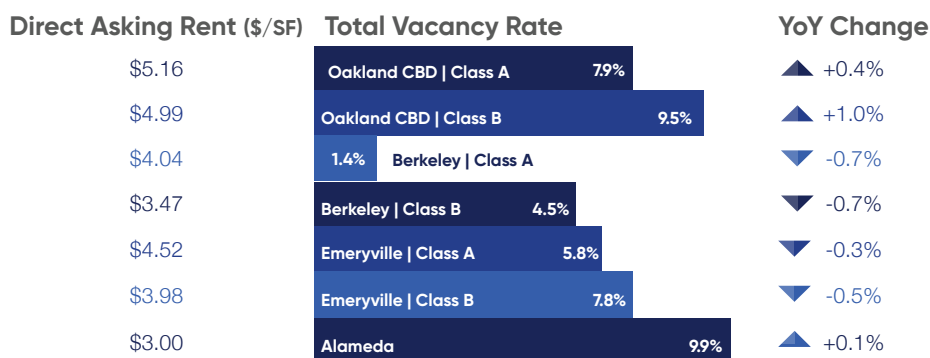


# Occupier's Guide

The East Bay commercial real estate market had significant activity this quarter. San Francisco-based Credit Karma made a major decision to lease over 100,000 SF of space in Oakland, following mobile payment giant Square's decision to prelease 100% of Oakland's Uptown Station. The fifth largest transaction of the quarter was by Amazon's Whole Foods, with the premium grocery store leasing nearly 40,000 SF of space in Emeryville. Oakland's CBD experienced somewhat of an anomaly where vacancy rates and rental rates both increased, with the main reason being the withholding of large contiguous blocks, driving up competition for other spaces. The overall US economy is healthy, but not without market concerns: the Fed implemented a 0.25% rate cut, equity markets suffer from volatility, and trade concerns are increasing demand for the US 10Y and other safe-haven assets. Notwithstanding these concerns, GDP remains expansionary, unemployment remains low, and consumer confidence remains high.



## Rental and Vacancy Rates



## Recent Transactions

	Tenant	Submarket	Type	Size	Sector
1	Credit Karma	Oakland CBD	New Construction	110,000 RSF	Finance
2	Everlaw	Oakland CBD	New Lease	49,000 RSF	Legal
3	Lawrence Berkeley Laboratories	Oakland CBD	Renewal	41,000 RSF	Scientific Research
4	Regents of The University of California	Oakland CBD	Renewal	41,000 RSF	Education
5	Amazon (Whole Foods)	Emeryville	New Lease	38,000 RSF	E-Commerce

## Tenant's Perspective

↑ Vacancy rates and rental rates are usually inversely correlated: lower vacancy rates lead to higher rental rates, with the inverse also holding true. In Q2 2019, Oakland CBD defied this law by experiencing a 1.0% marginal increase in average vacancy rates with a corresponding 1.7% increase in average rents. Vacant large blocks, coupled with high demand, are responsible for this deviation from the norm.

↑ With expansion options limited in San Francisco, many of the city's technology companies are viewing Oakland as a viable option. With Credit Karma this quarter signing one of Oakland's largest leases in the past few years, the San Francisco tech industry's affinity towards Oakland is becoming increasingly clear.

↑ Shorenstein's 601 City Center tower is expected to deliver in August 2019, bringing 300,000 SF of space to the market. Lane Partners' 2150 Webster Street, and Uptown Station (100% preleased to Square), delivered over 600,000 SF of space this quarter.

## Market Trends

The Bay Area's unemployment rate remains low at 2.7%, below the national rate of 3.8%. US GDP growth slowed from 3.1% in Q1 to 2.1% in Q2, but the Federal Reserve implemented a 0.25% reduction in the Fed Funds Target Rate, the rate at which interbank lending occurs. This coupled with the Fed's halting of balance sheet reduction implies a continuation of US economic expansion and low costs of capital, ceteris paribus.

Construction of Kaiser's Thrive Center in Oakland is expected to be complete in 2023, and as such Kaiser is expected to vacate some of its currently occupied space in Oakland to occupy the Thrive Center. The Center will be one of the largest corporate campuses in the Greater Bay Area, and will solidify Oakland as a corporate destination rivaling San Francisco and Silicon Valley.

The US - China trade war continues to intensify, with institutional capital flowing into the Japanese Yen, government bonds, and other safe-haven assets. The VIX reached its highest levels since mid-May, indicating a volatile equity market. Given the rental market's close correlation with the equity market's performance, these indicators are important to consider.