



February 2017

What's next for the Bay Area office market?

Economic and real estate outlook for 2017

U.S. economy expected to outpace 2016 growth; Bay Area poised for another solid year

1.

U.S. economy will record another strong year, perhaps outpace 2016

- Full employment will drive wage growth
- Fed will temper inflation with interest rate increases

2.

New administration's impact will be a mixed bag

- Infrastructure spending and deregulation will boost economic growth
- Immigration and trade reform are top concerns for Bay Area economy

3.

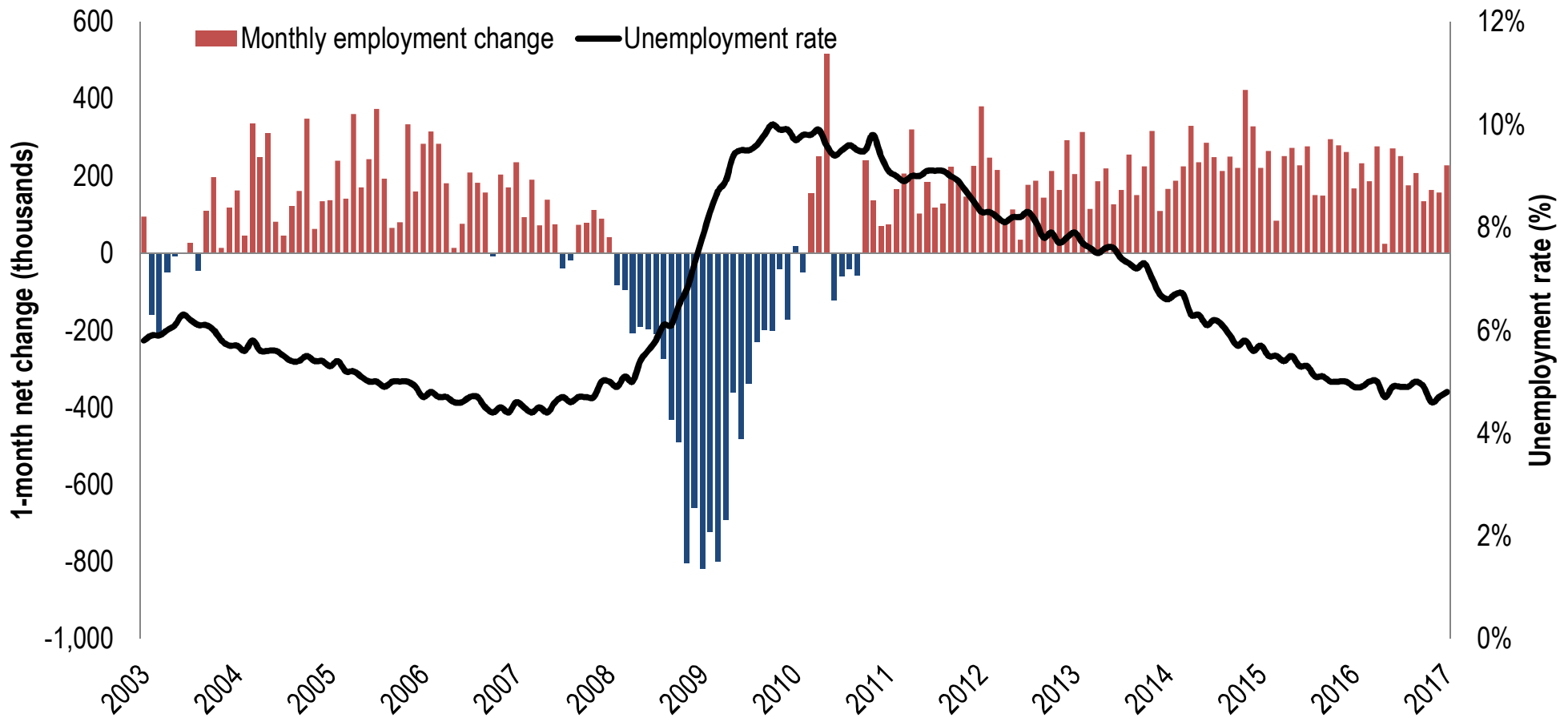
Bay Area growth cooling to more sustainable levels

- Housing market flattening, providing some relief, but still unaffordable for most
- Fundamentals on solid footing in each major market, but tempered growth ahead

A photograph of a red brick building facade, showing a corner and a horizontal concrete ledge. The bricks are arranged in a standard running bond pattern. A black rectangular box with a fine grid pattern is overlaid on the upper left portion of the image, containing white text.

*Macroeconomic trends
and the impact of the
new administration*

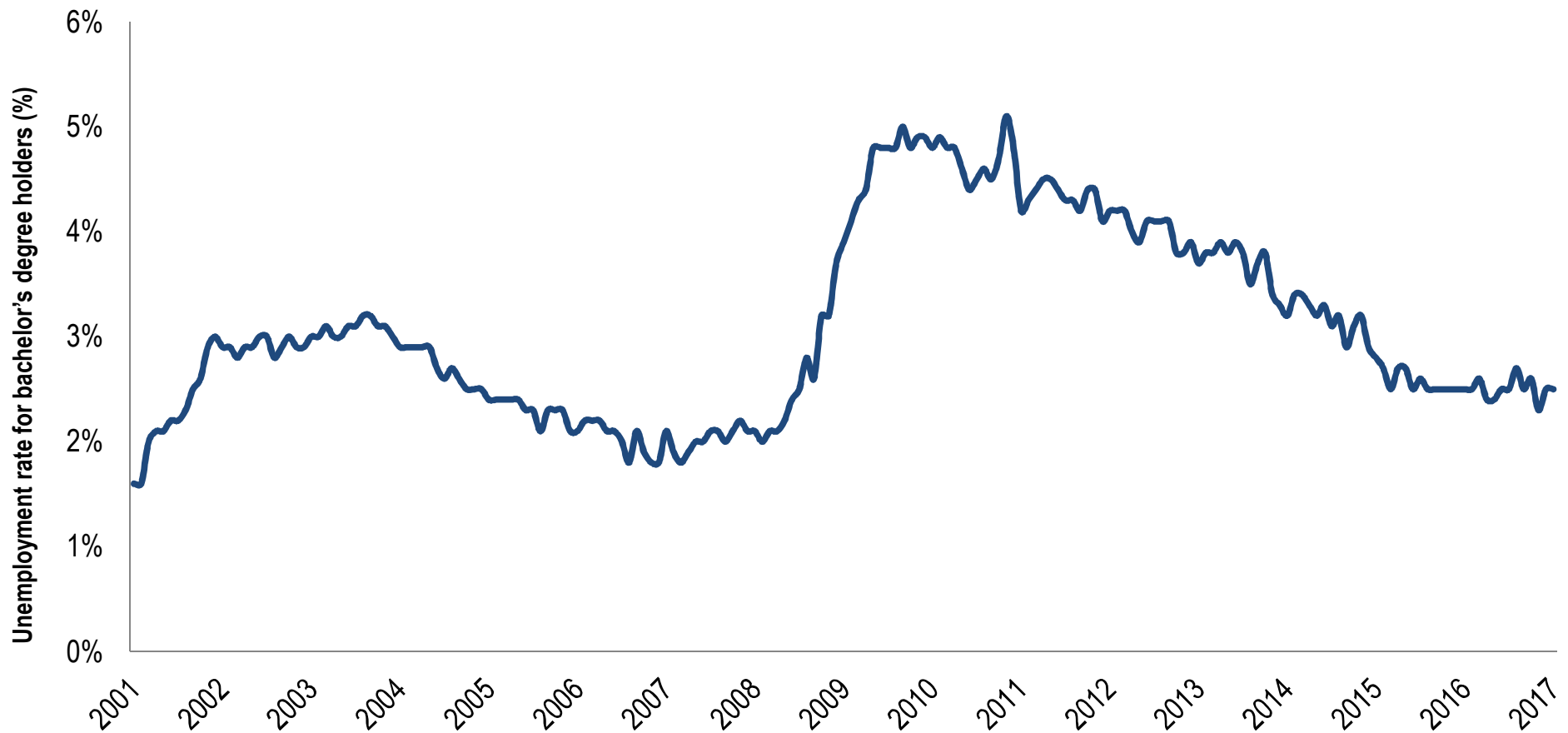
For the second consecutive month, unemployment rose on the back of increasing participation; now stands at 4.8 percent



Source: JLL Research, Bureau of Labor Statistics



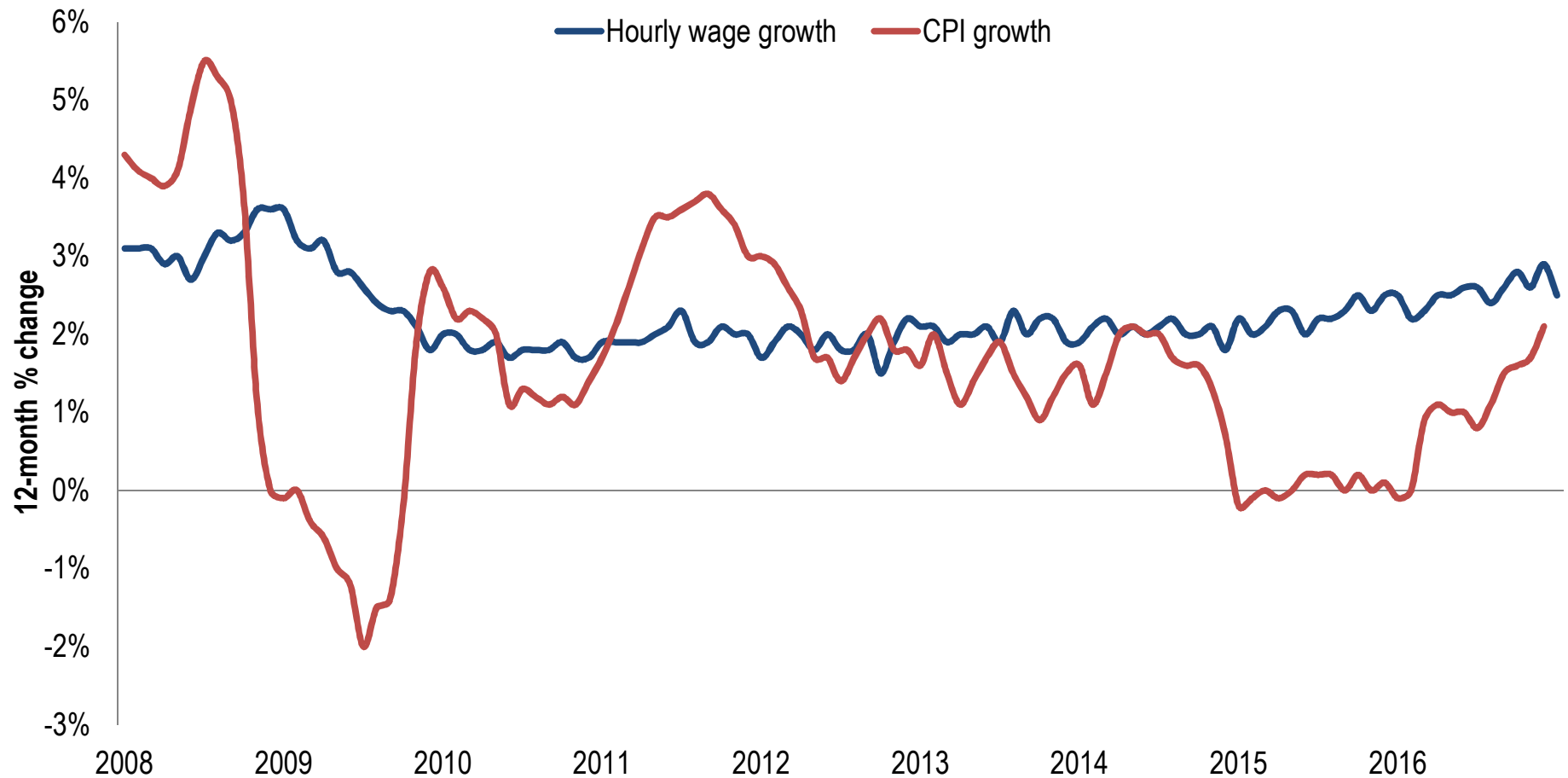
Unemployment for bachelor's degree holders remains at a cyclical low of 2.5 percent



Source: JLL Research, Bureau of Labor Statistics

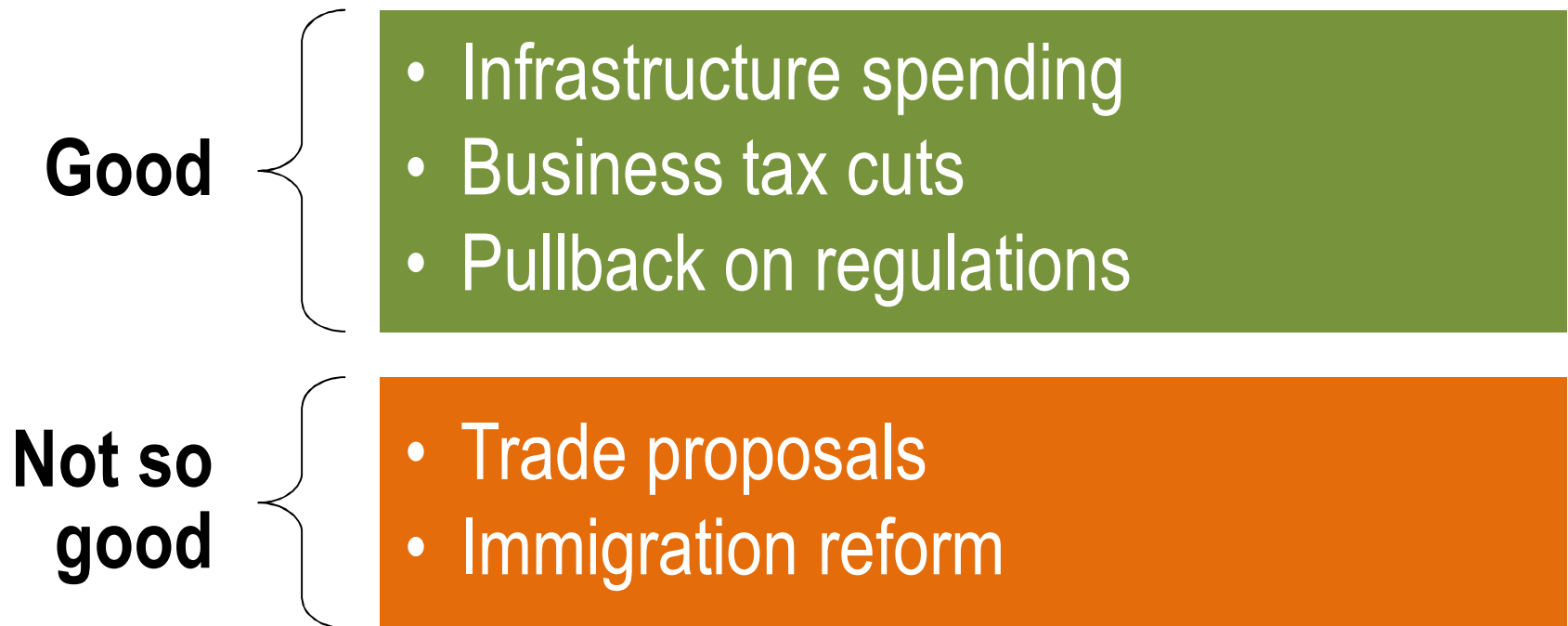


Wage growth dipped to 2.5 percent from a cycle high of 2.8 percent in December, but continues to outpace rising inflation



Source: JLL Research, Bureau of Labor Statistics

The “Trump Bump”^{*} - what should you know?



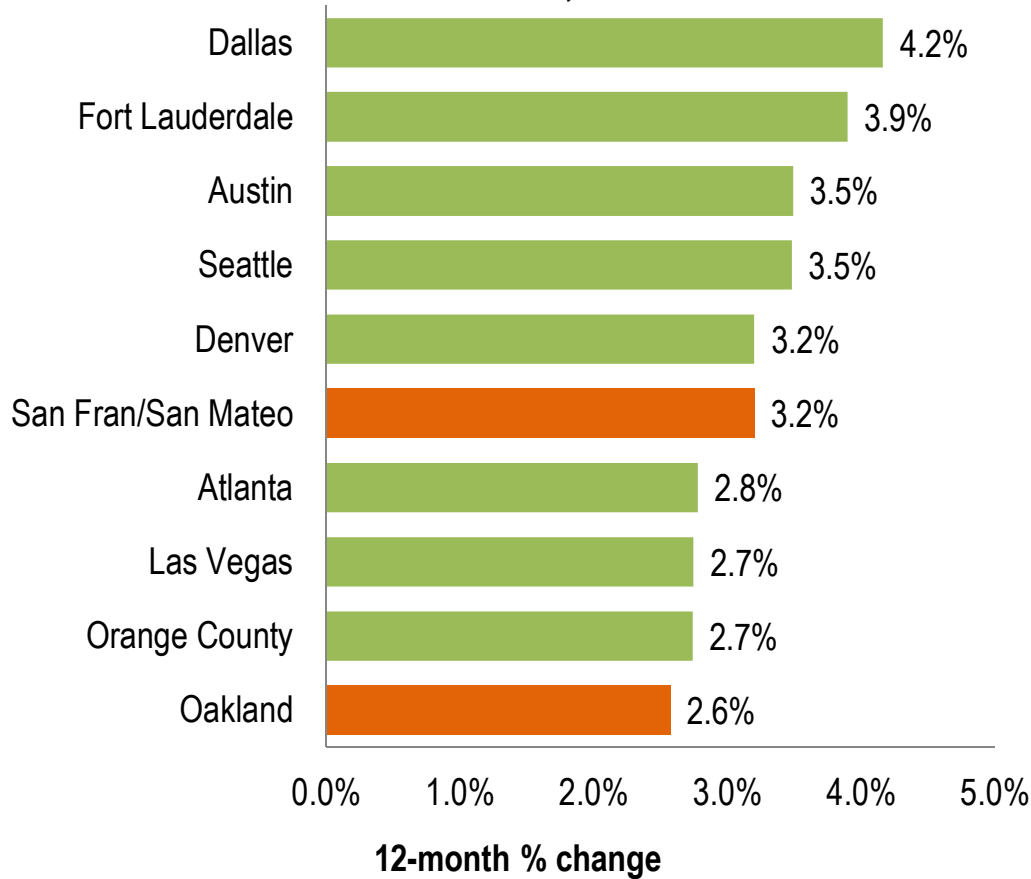
^{*}coined by Ken Rosen, Chairman of the Fisher Center for Real Estate and Urban Economics

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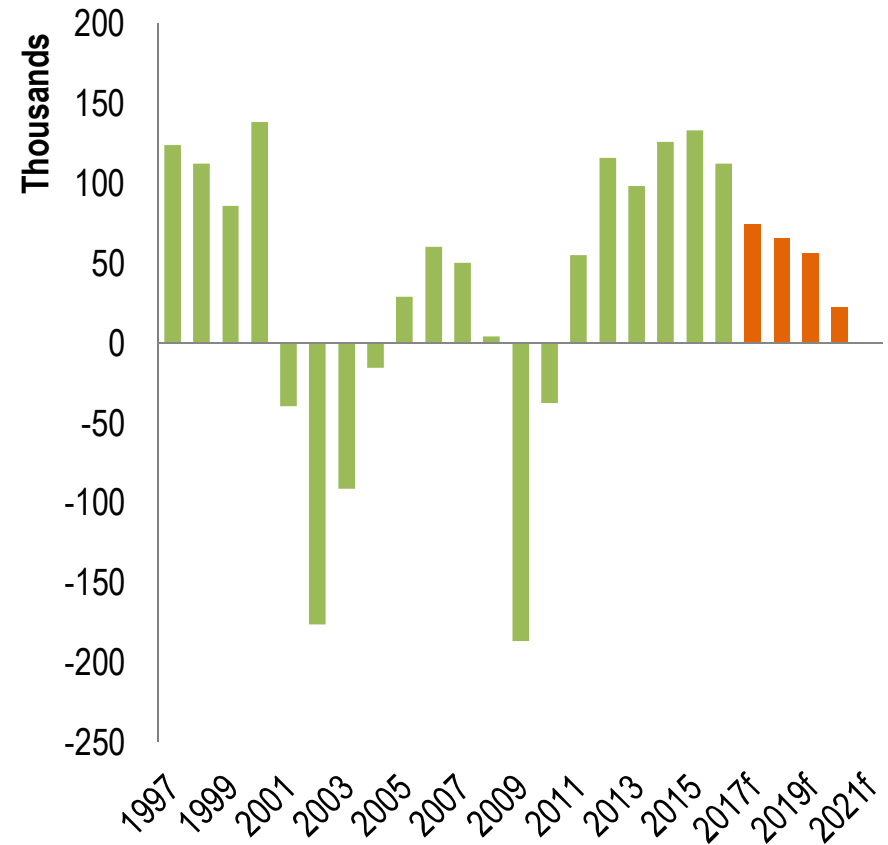
*Bay Area economic,
demographic and
housing trends*

Bay Area's robust employment gains will taper through 2021

Bay Area slips from top 10 employment growth markets, 2016



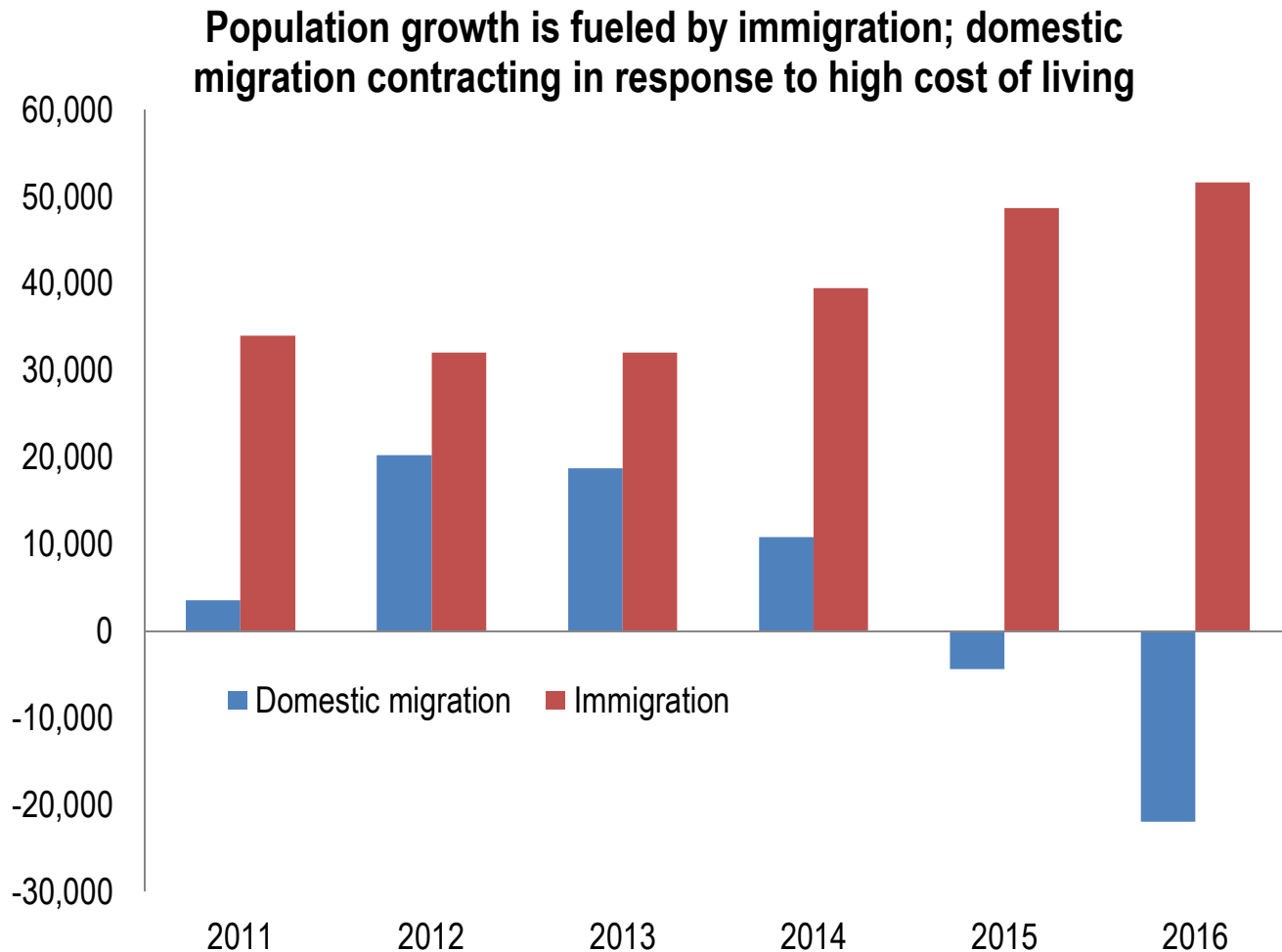
Bay Area expected to add 65,000 jobs annually through 2019, slowing to 11,000 annually in 2020-21



Source: JLL Research, Bureau of Labor Statistics, Moody's



Bay Area net migration boosted by immigration patterns



An average of **86** people moved into the **Bay Area** each day in **2016**

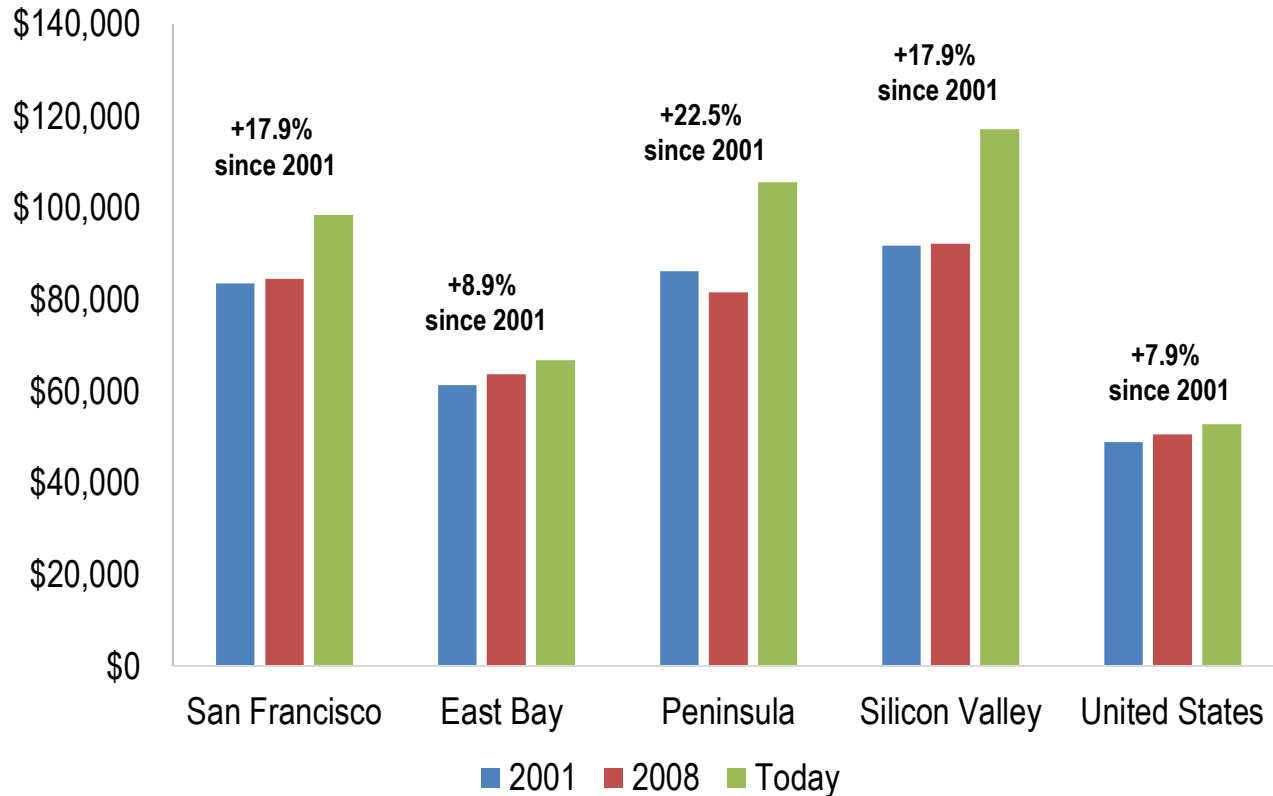
*This is down from **121** per day in 2015 and a high of **143** per day in 2012*

Immigration reform would have a substantial impact on the Bay Area economy and slow demand for housing

Source: JLL Research, CA Department of Finance, Census

Advanced employment industries driving wealth creation, yet single family homes prices are well beyond reach for most

Inflation-adjusted average annual wages are up significantly in the Bay Area, outpacing U.S. in all markets



Least-affordable housing markets in 2016

San Francisco, CA	19.3%
Honolulu, HI	19.5%
Salinas, CA	19.6%
San Jose, CA	22.3%
Santa Barbara, CA	22.4%
Orange County, CA	23.5%
Santa Rosa, CA	26.4%
San Diego, CA	27.1%
Los Angeles, CA	27.8%
Ventura, CA	29.7%
Oakland, CA	30.3%
New York, NY	32.1%
Seattle, WA	40.5%
Miami, FL	42.7%
Fort Lauderdale, FL	44.4%
Vallejo, CA	45.2%
Denver, CO	46.5%
West Palm Beach, FL	46.6%
Inland Empire, CA	46.6%
Portland, OR	47.3%

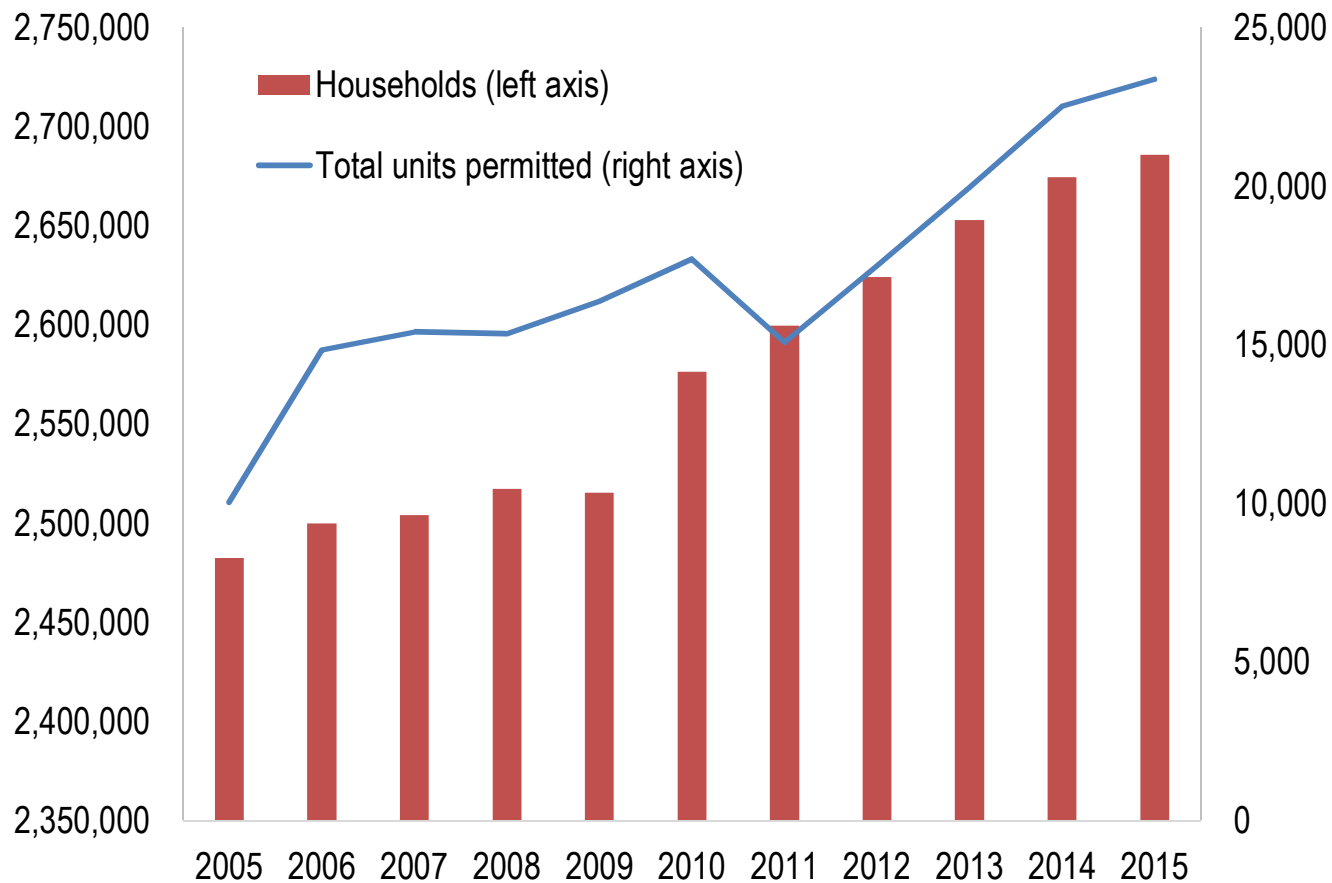
Average wages include all benefits, stock options, and meals provided; inflation adjusted using annual change in CPI

Affordability is the share of households able to afford a median-priced single family home assuming 20% down, current mortgage rates, and allocating no more than 35% of total income to housing costs.

Source: JLL Research, BLS QCEW survey, Rosen Consulting Group

Bay Area household formation levelling off, permits pick up

Permitting activity is struggling to keep pace with new household formation



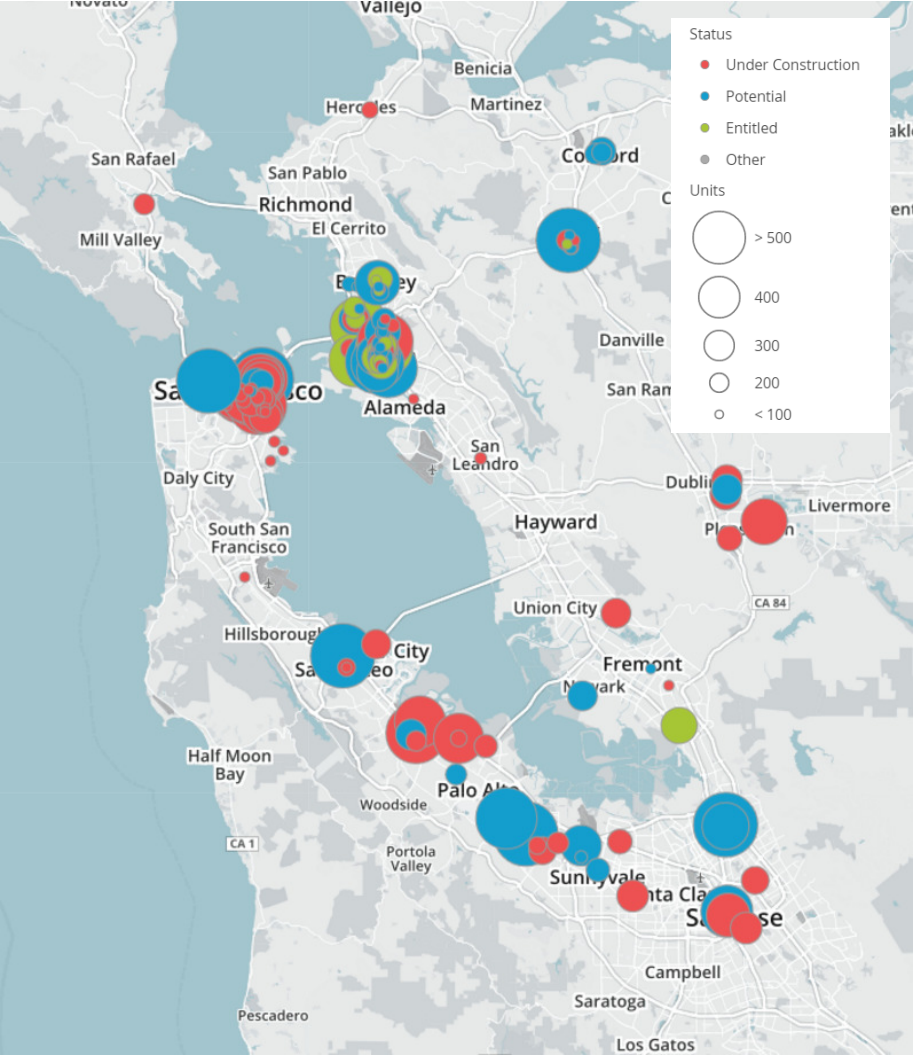
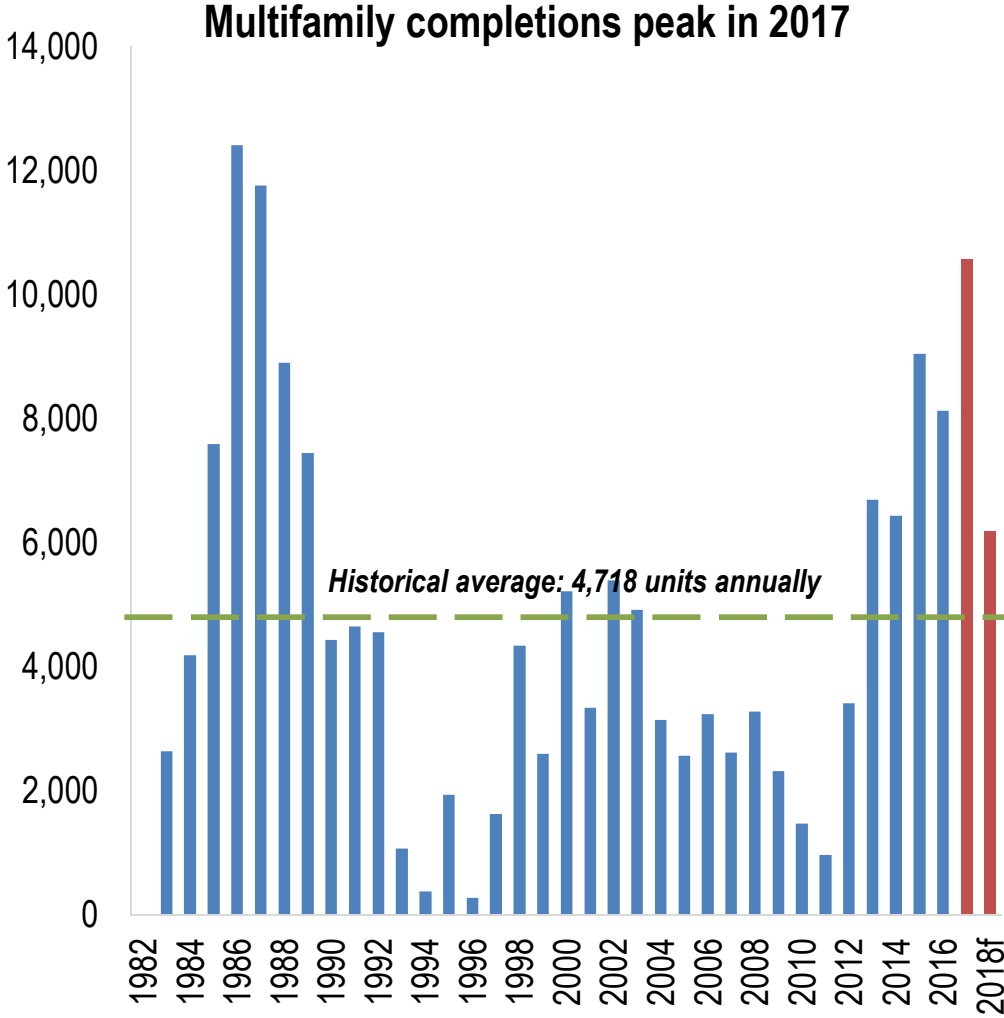
194,040
New Bay Area HHs 2010-15

133,068
New residential permits 2010-15

3:5
Only three residential permits have been pulled for every 5 households formed in the last five years

New supply concentrated near transit and urban centers

36,054 units are either planned or under construction throughout the Bay Area

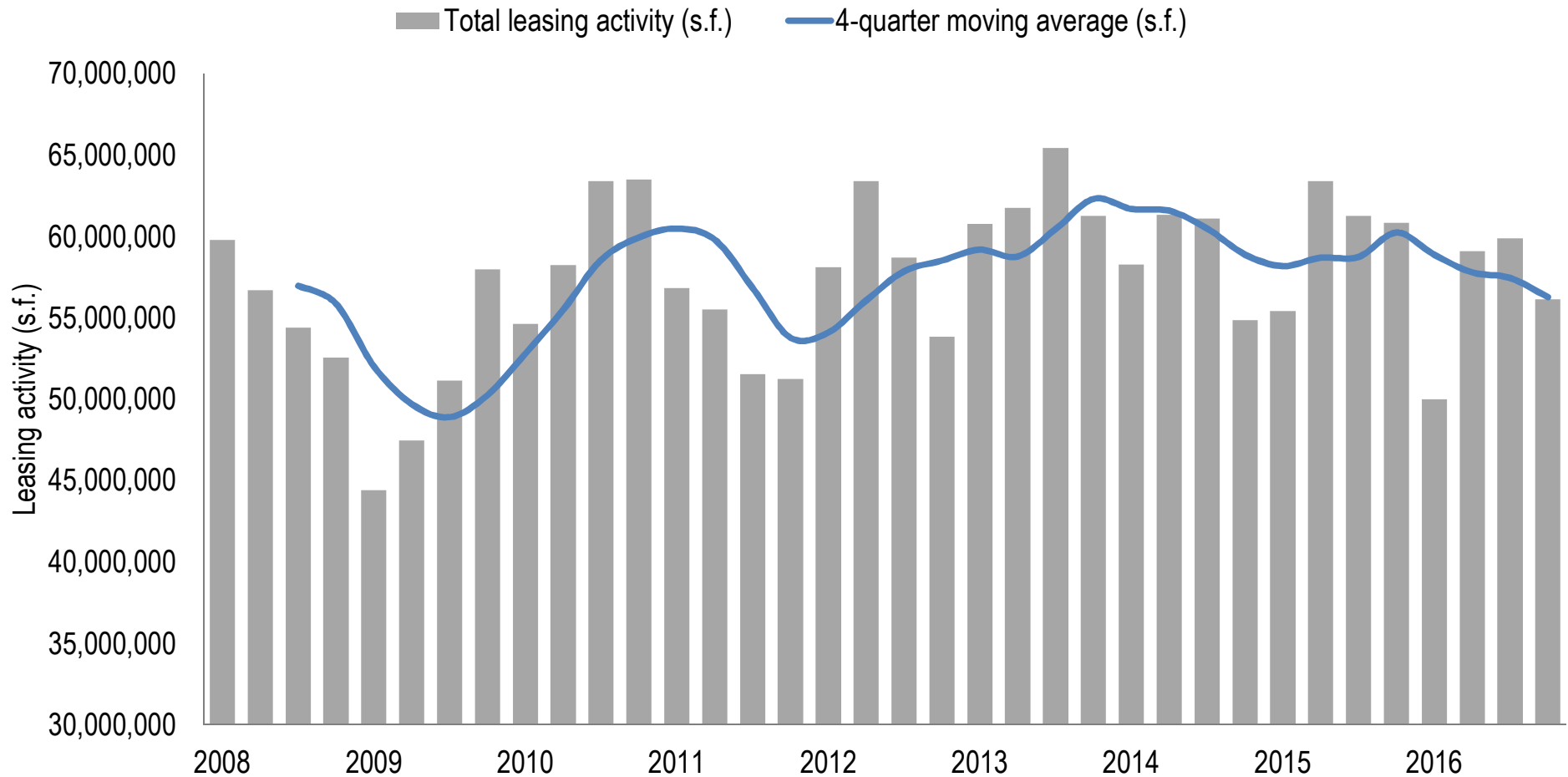




*U.S. office market
trends*

U.S. leasing activity dips, but still healthy

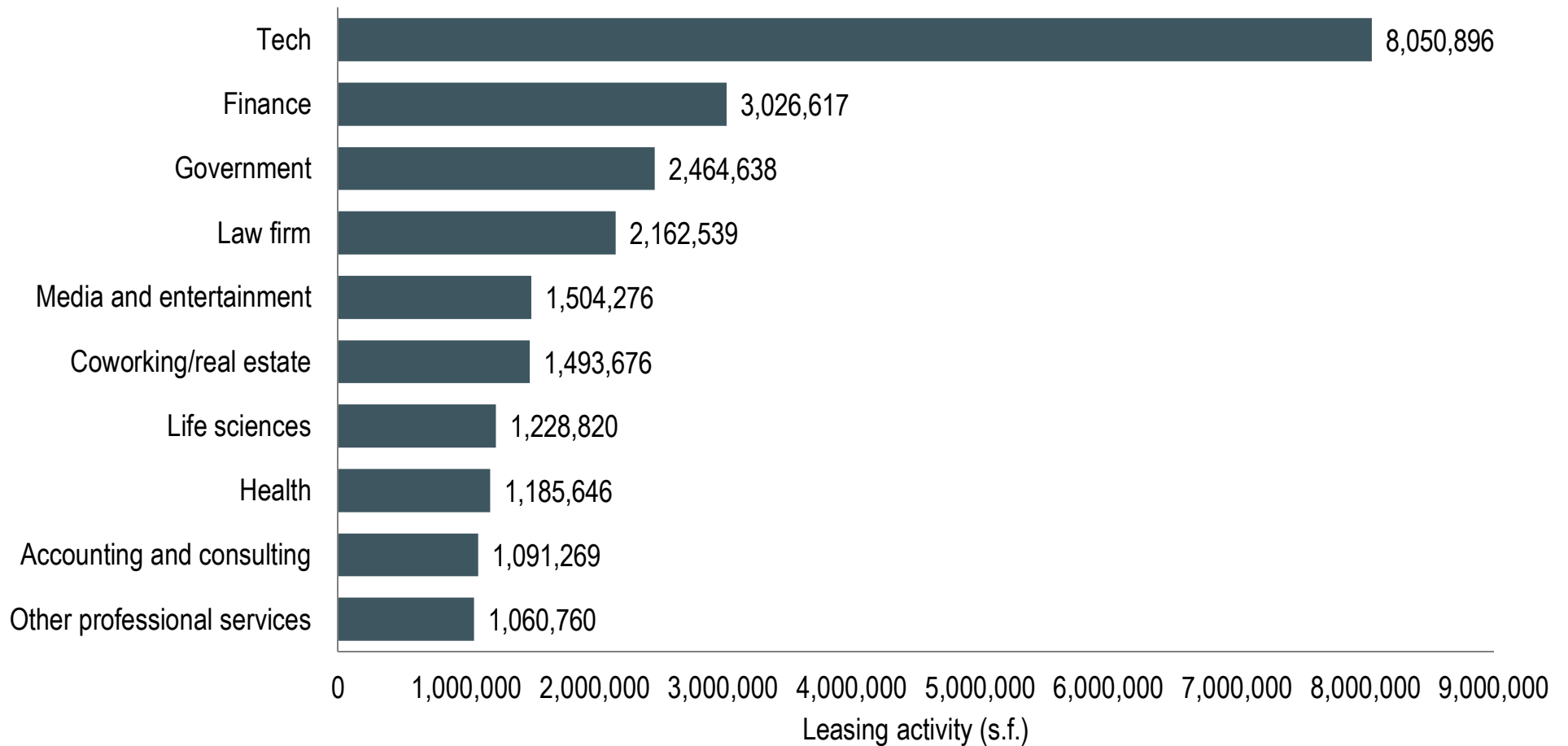
Although slightly slower than Q2 and Q3, Q4 saw a healthy 56.1 m.s.f. of leasing activity



Source: JLL Research

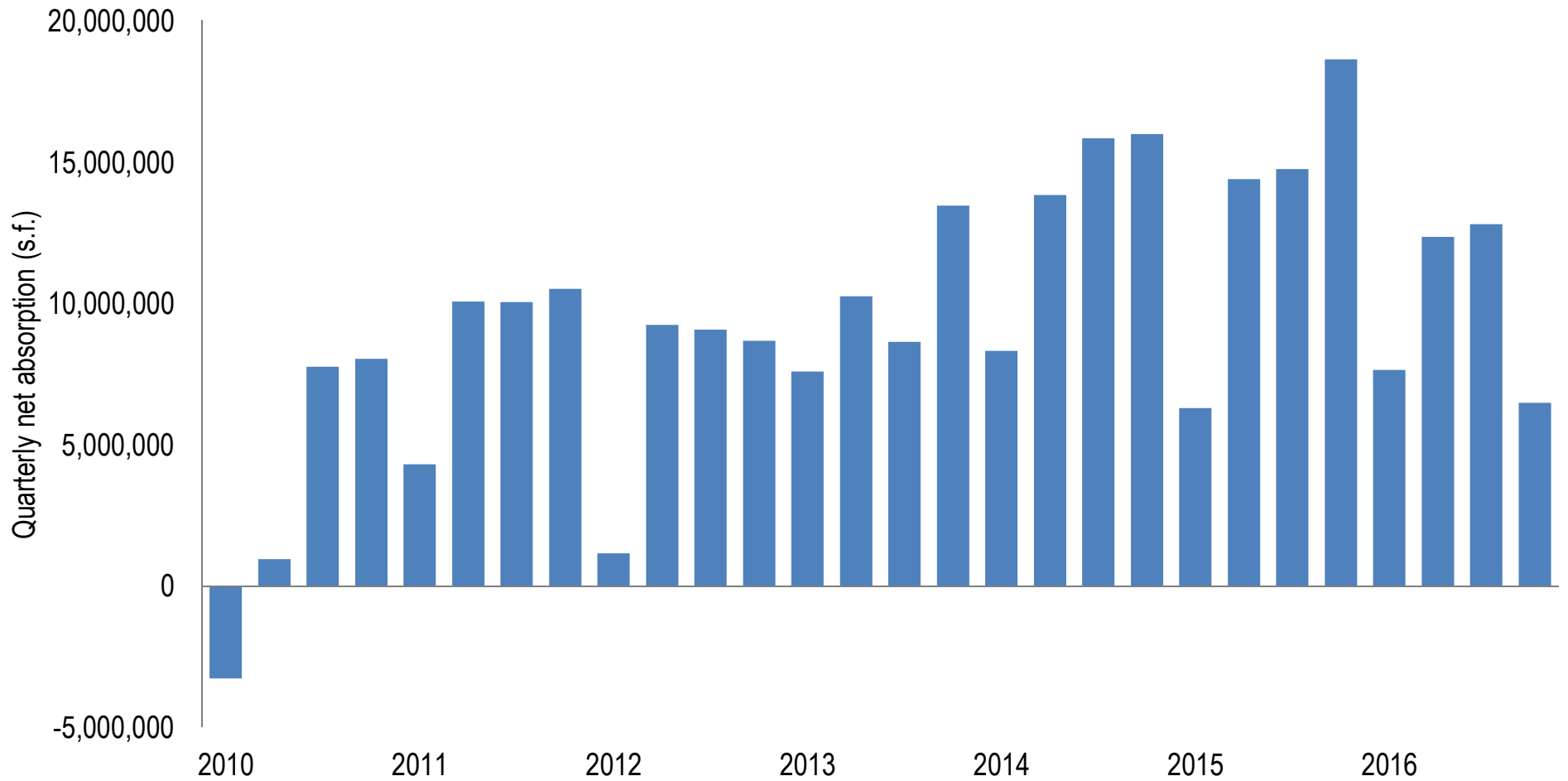


Tech remains the leader in total U.S. leasing activity in Q4, even as the industry faces a talent shortage



Source: JLL Research – leasing activity > 20,000 s.f.

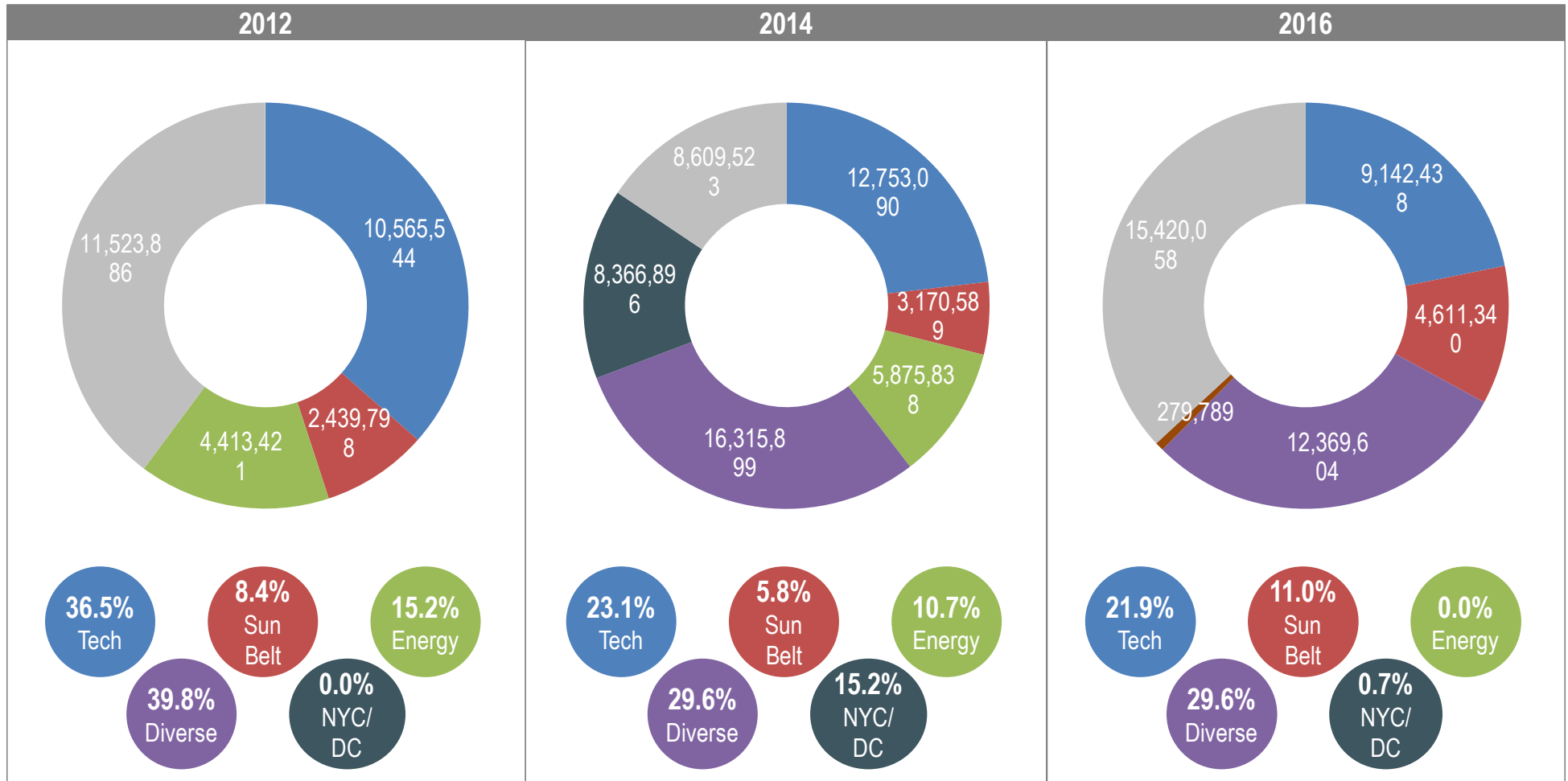
Slower leasing and give-backs as a result of relocations to new supply pushed down U.S. net absorption in Q4



Source: JLL Research

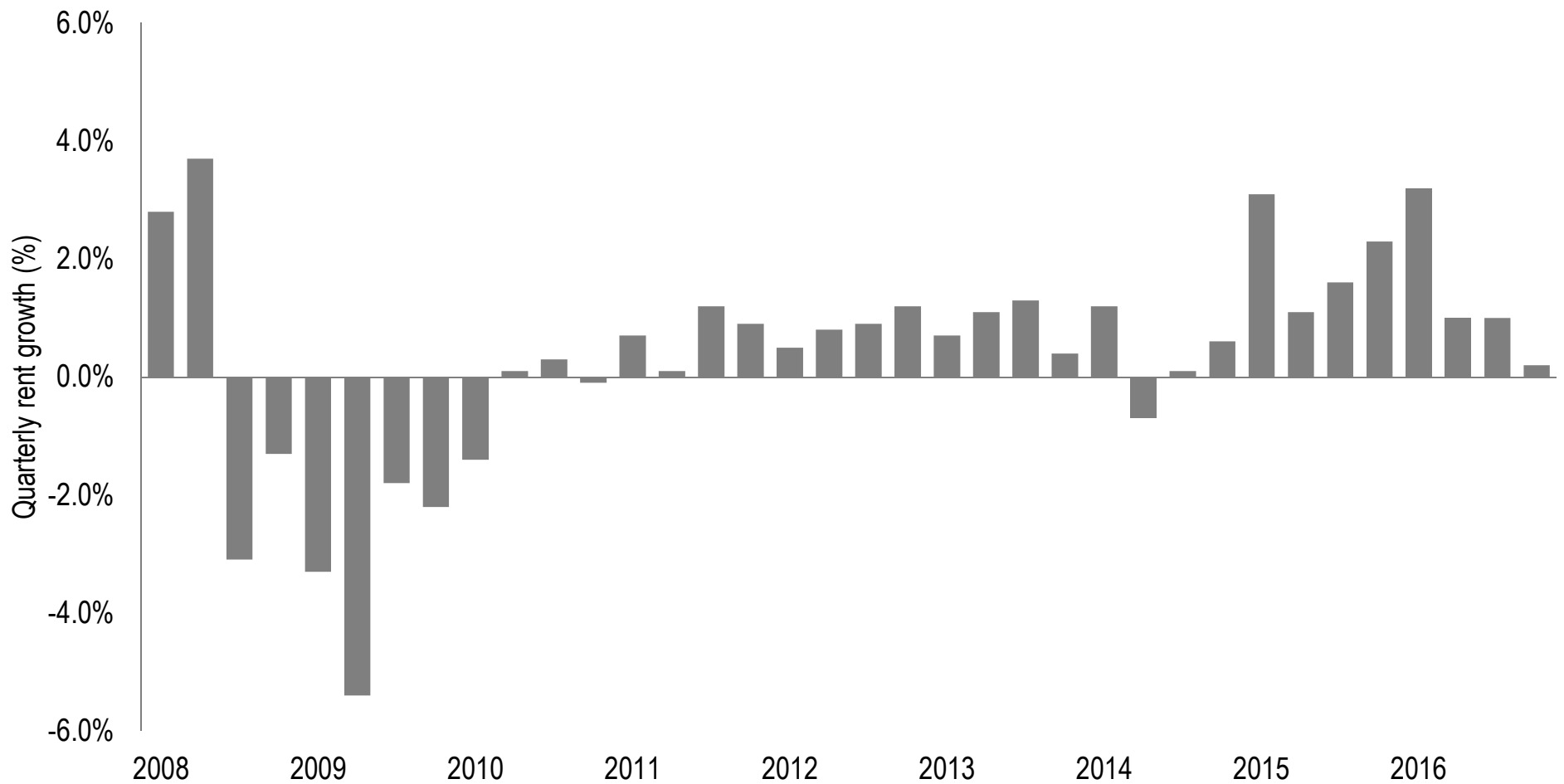


Net absorption by market over time: Sun Belt markets taking absorption share from tech markets



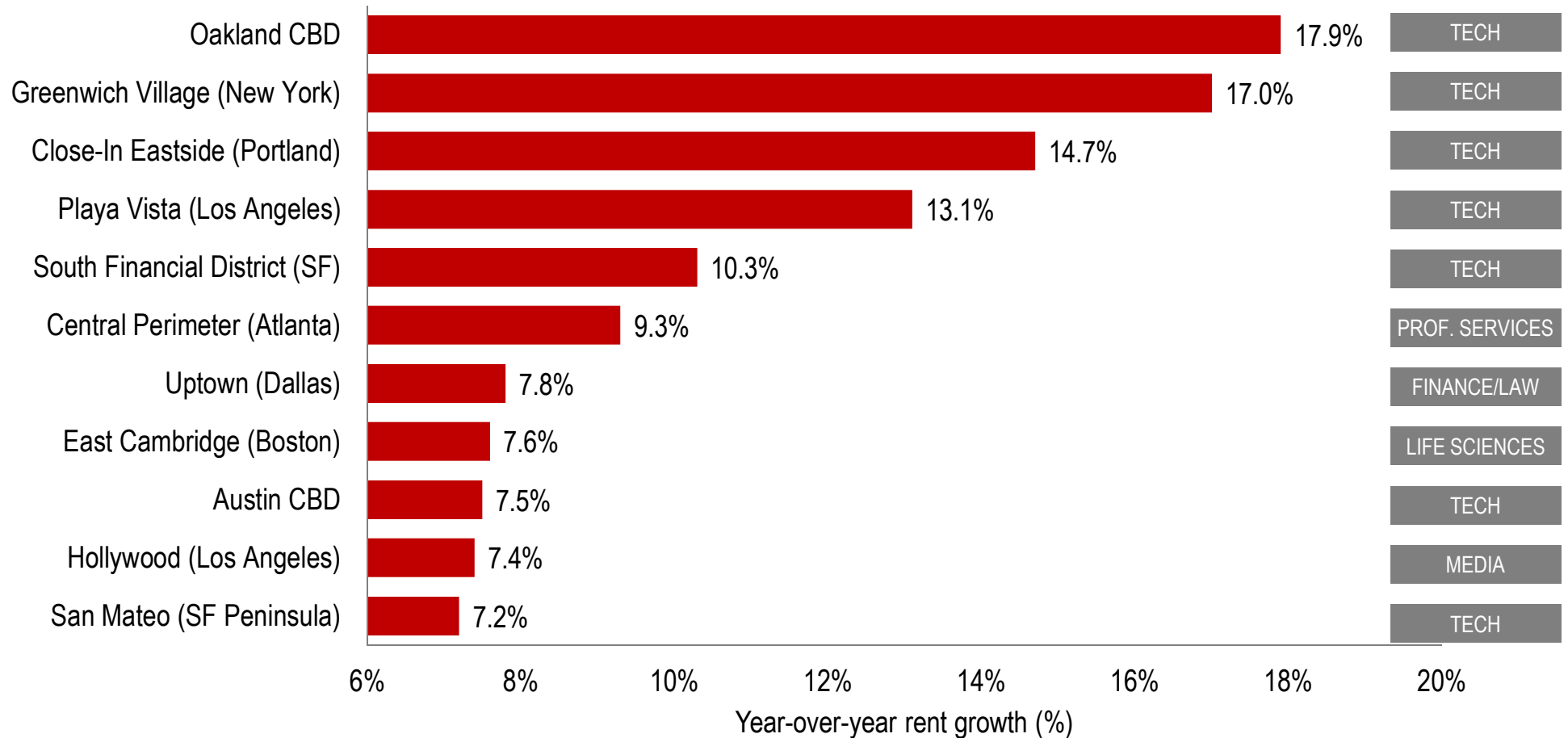
Source: JLL Research – light grey represents remaining markets

Despite slowing, U.S. overall rent growth will remain positive as high-priced blocks come to the market this year



Source: JLL Research

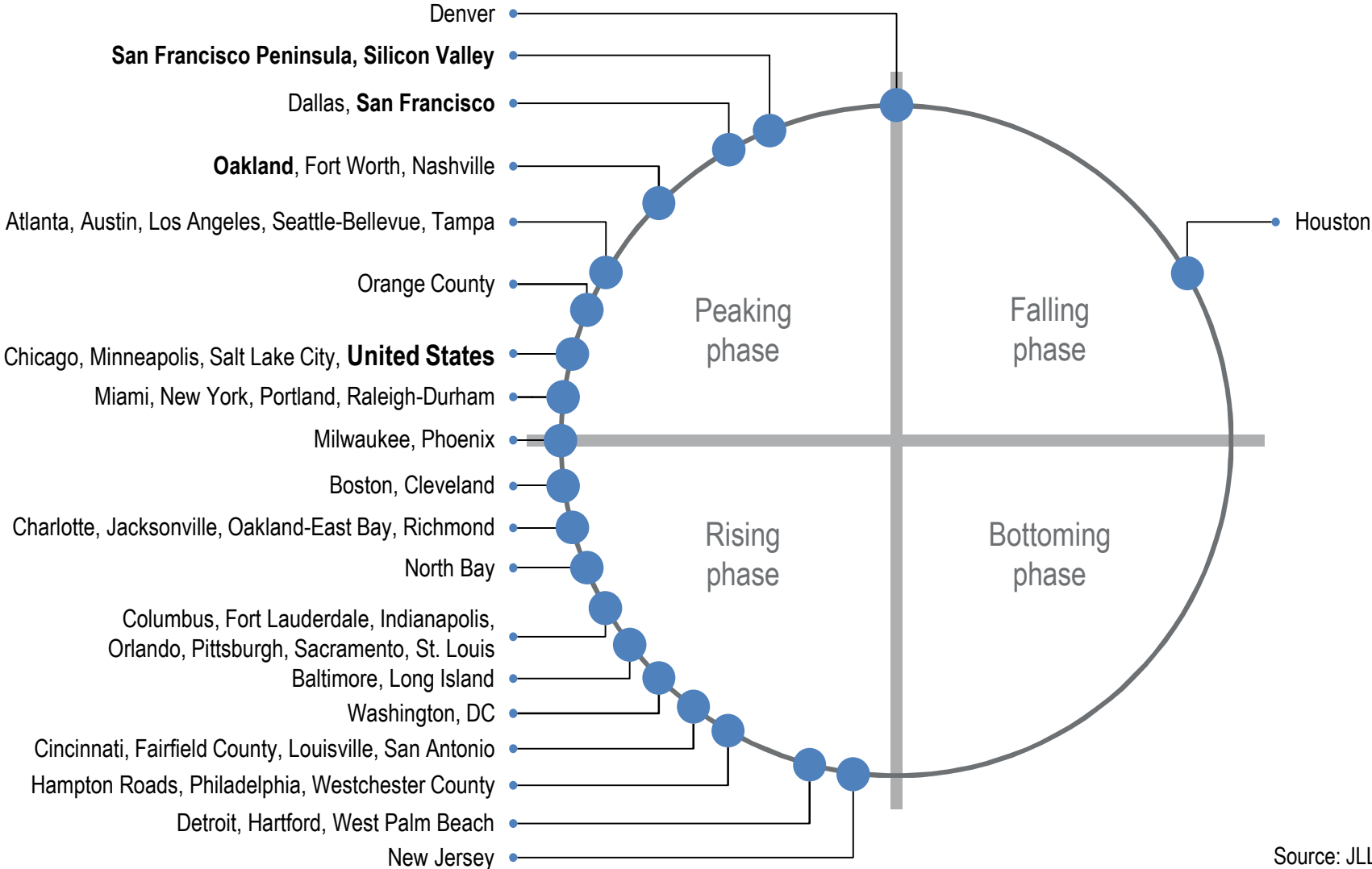
Industry hubs continue to surpass the U.S. market as a whole in terms of rent growth



Source: JLL Research



Consistent rental growth and increasing volumes of new supply are moving markets along the cycle



Source: JLL Research



A photograph of a red brick building facade. The image shows a corner of the building with a prominent horizontal concrete ledge. The brickwork is a uniform reddish-brown color. A black rectangular box is overlaid on the upper left portion of the image, containing white text.

*Bay Area office market
trends*

San Francisco – Q4 2016 market profile

76.3 million s.f.
Inventory

5,879,830 s.f.
Under construction

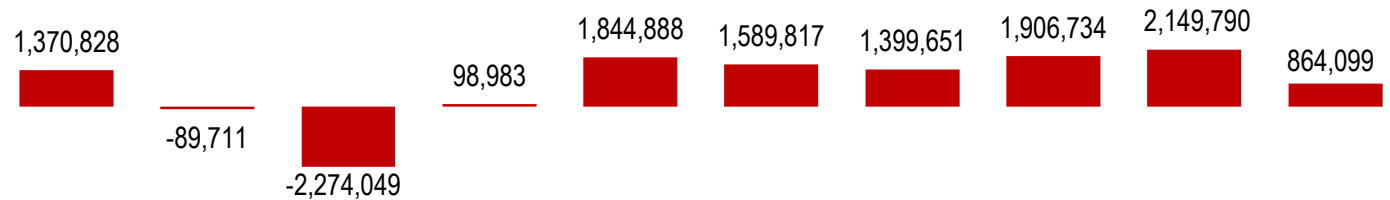
\$75.69
Class A average direct asking rate

\$68.97
Class B average direct asking rate

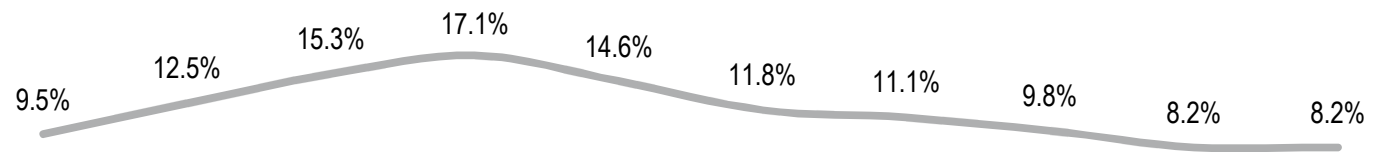
16
Buildings with vacant blocks
greater than 50,000 s.f.

31
Active tenant requirements
greater than 50,000 s.f.

Total net absorption



Total vacancy rate



Direct average asking rent (\$ p.s.f.)



Controlled VC investment continues, totals \$1.73B in Q3 2016

Local impact:

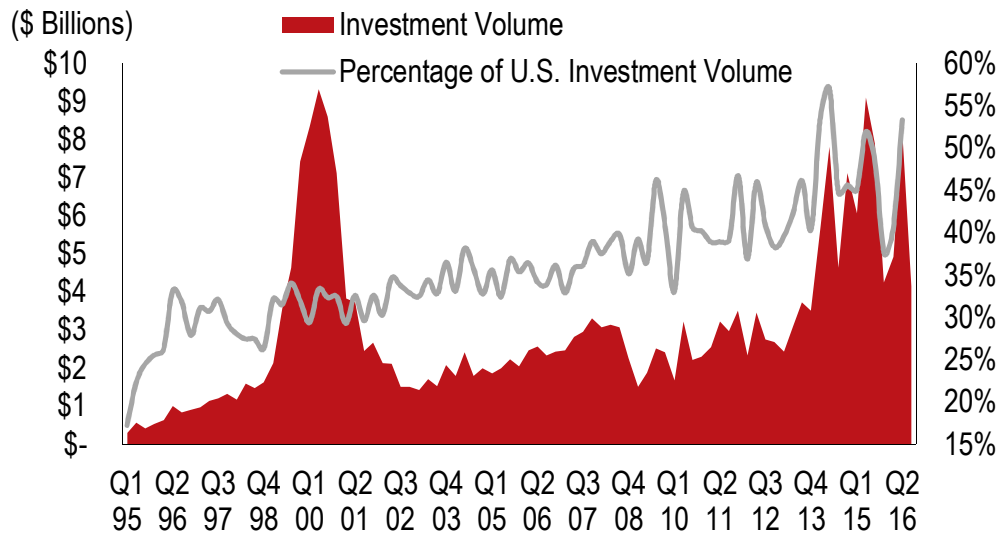
Venture capital funding creates new jobs, which creates new demand for office space



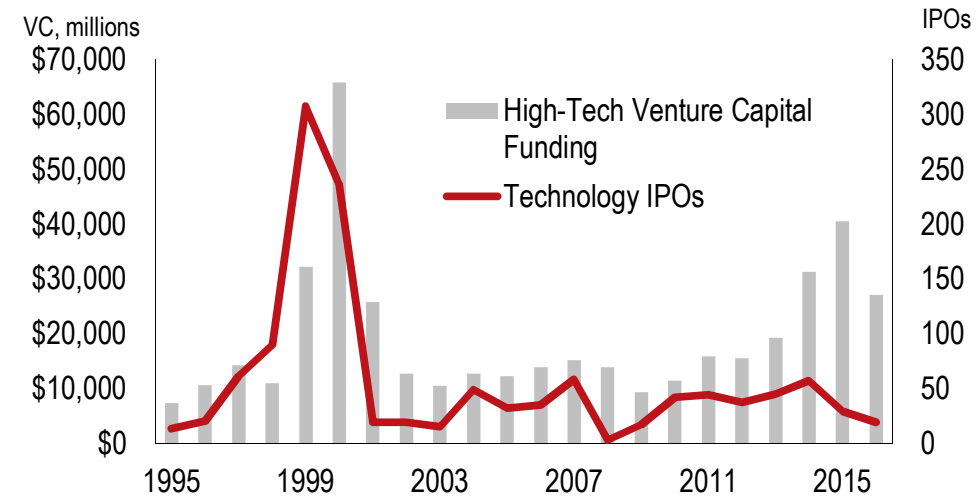
Recent Bay Area IPOs:



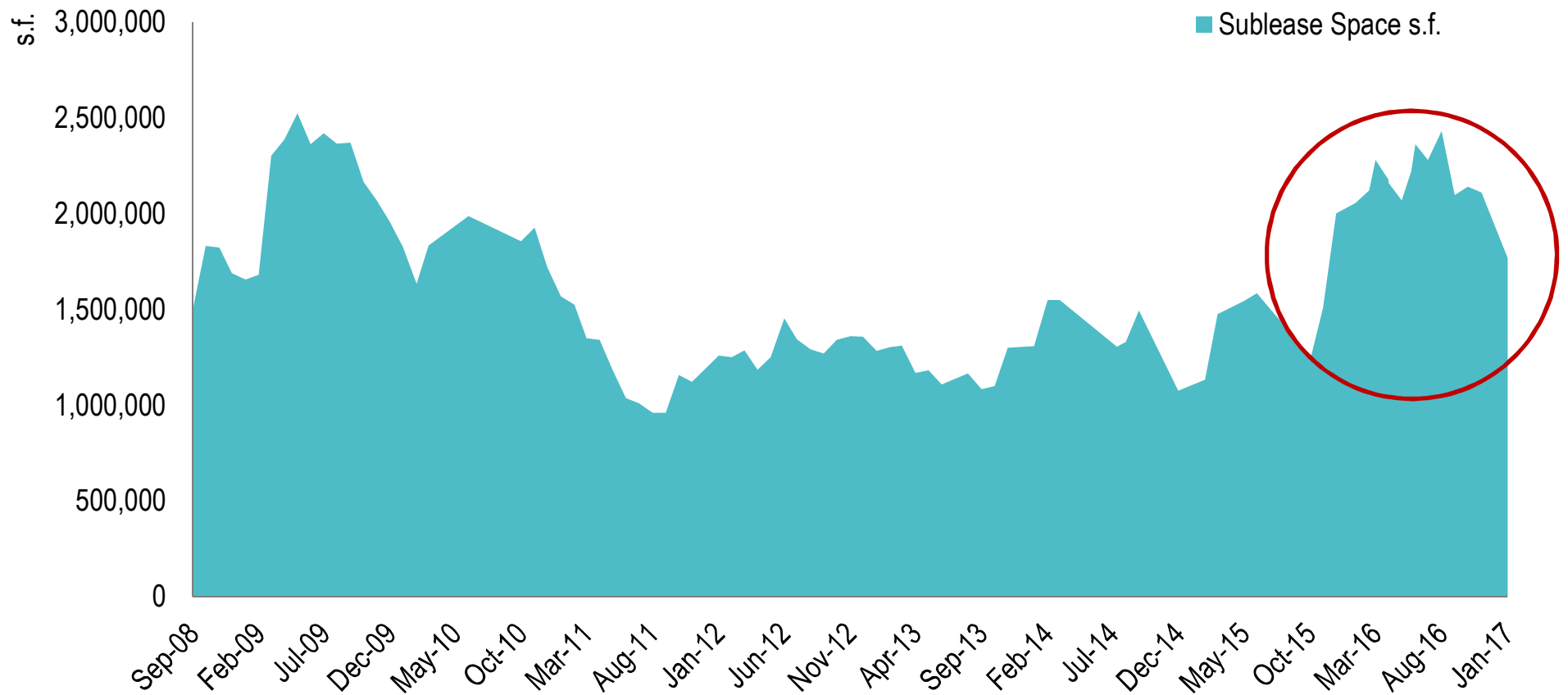
Bay Area captures 38 percent of US investment but activity slows



US Tech VC funding and IPOs

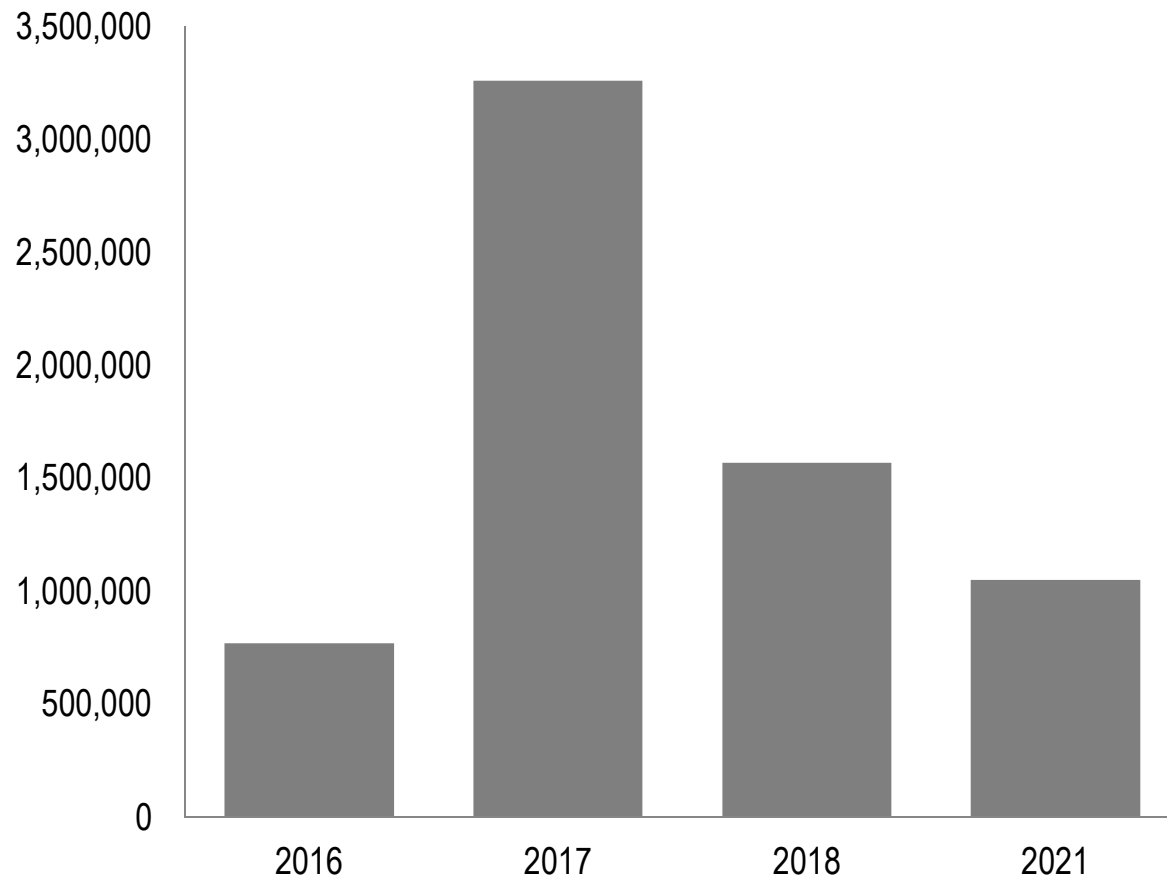


Sublease availabilities decline amidst targeted leasing activity throughout 2016



Source: JLL Research

Future development pipeline mitigates current risk of significant over supply

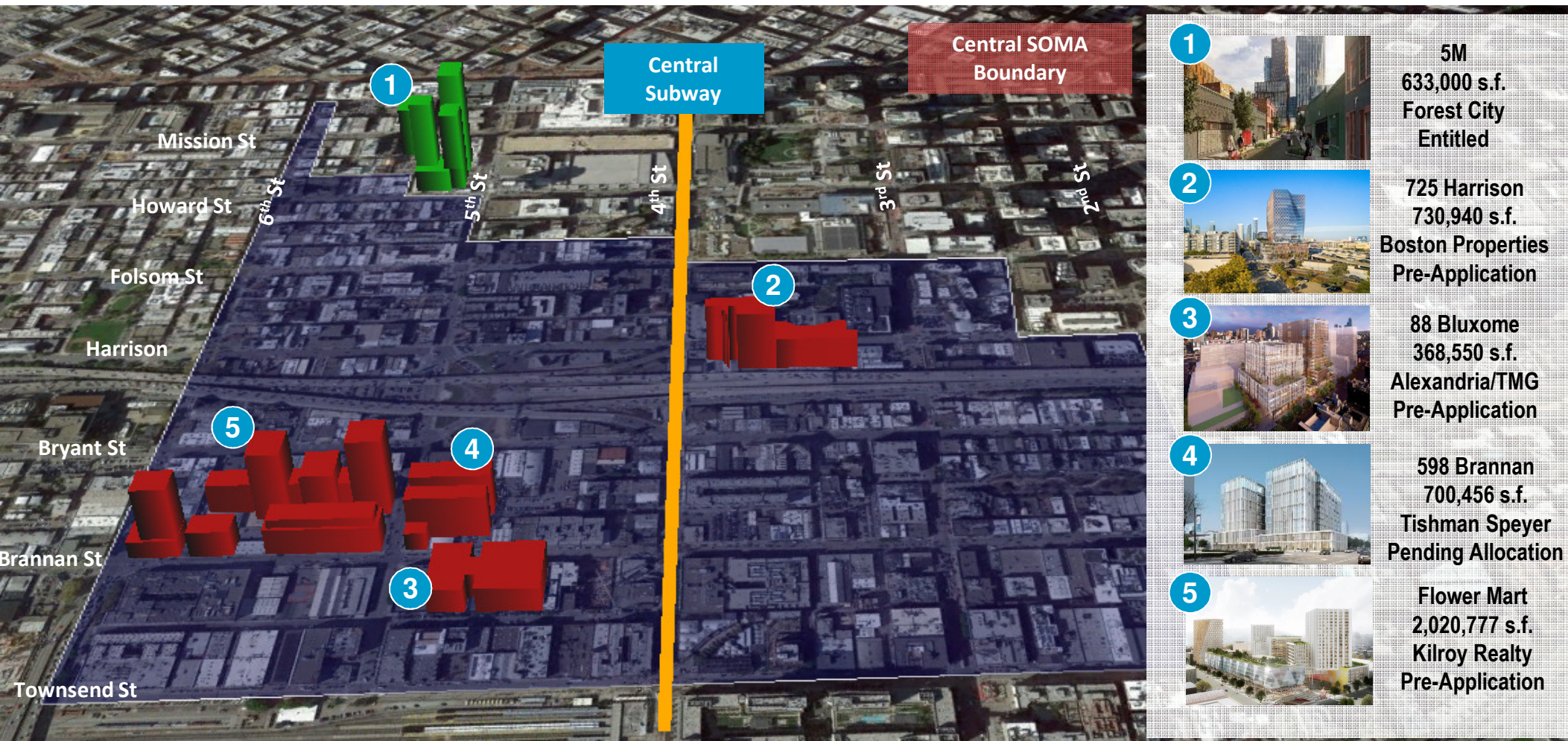


86%

of 100,000 square feet
availabilities are on
new construction

Source: JLL Research

Central SOMA redevelopment zone will usher in the next wave

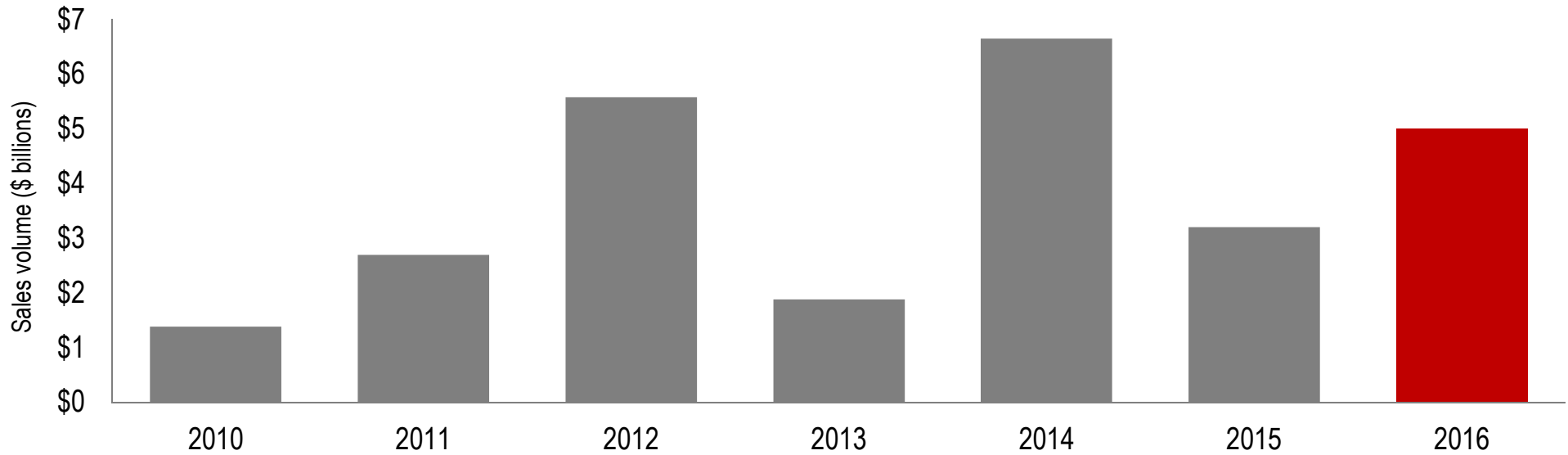


The zoning and land use changes will increase the amount of potential development for residential, commercial and office development. The existing growth versus estimated potential growth is outlined below:

	Residential (s.f.)	Jobs
Existing	2,500	10,000
Potential under Plan	5,000	35,000
Total Growth potential	2,500	25,000



Sales volumes surpass 2015, totaling almost \$5 billion



High Watermark 2016 Sales



Foundry III
 Buyer: ARA
 Seller: Tishman
 Price p.s.f.: \$1,202
 Price: \$350,000,000



760 Market
 Buyer: Patrick Hotung
 Seller: Thor Equities
 Price p.s.f.: \$1,255
 Price: \$374,000,000



The Piers
 Buyer: Invesco
 Seller: Waterfront Partners
 Price p.s.f.: \$1,100
 Price: \$90,800,000

Source: JLL Research

Silicon Valley – Q4 2016 market profile

69.8 million s.f.
Inventory

7,972,955 s.f.
Under construction

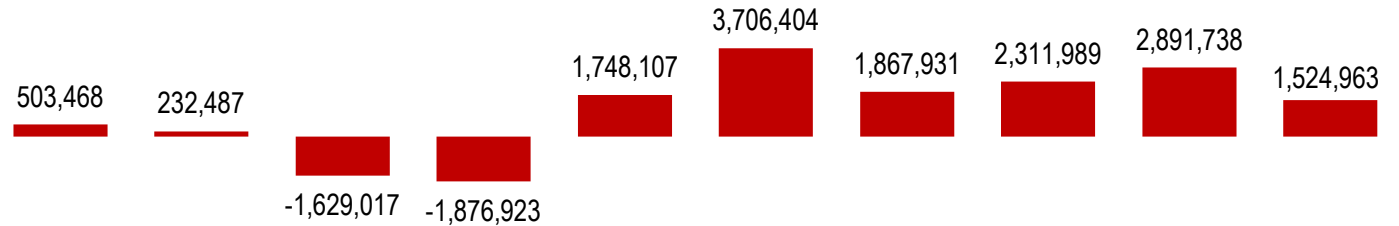
\$51.04
Class A average direct asking rate

\$42.71
Class B average direct asking rate

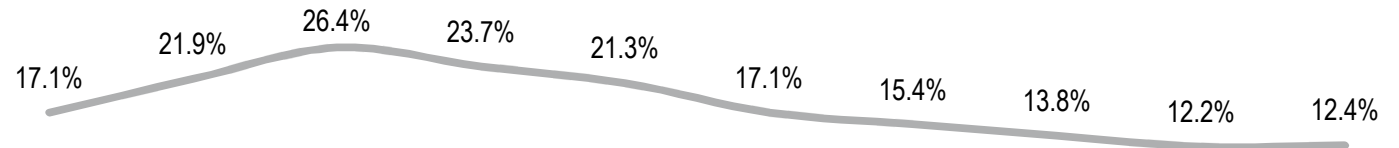
39
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29
Active tenant requirements
greater than 50,000 s.f.

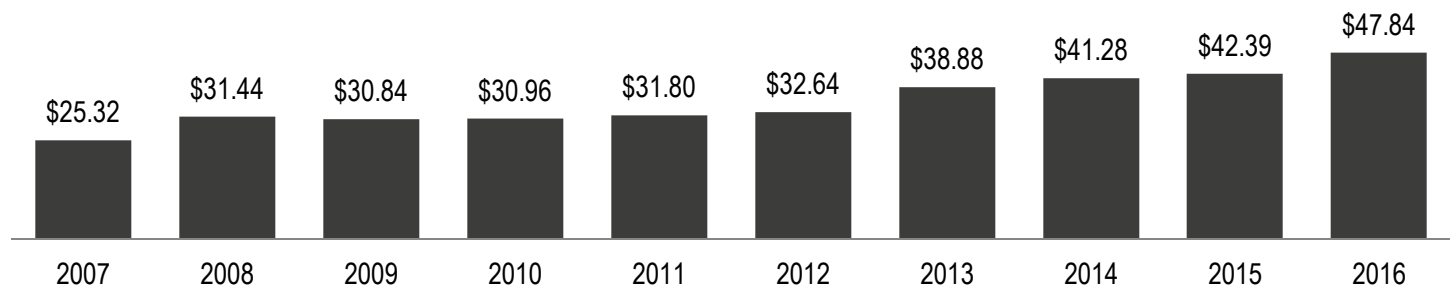
Total net absorption



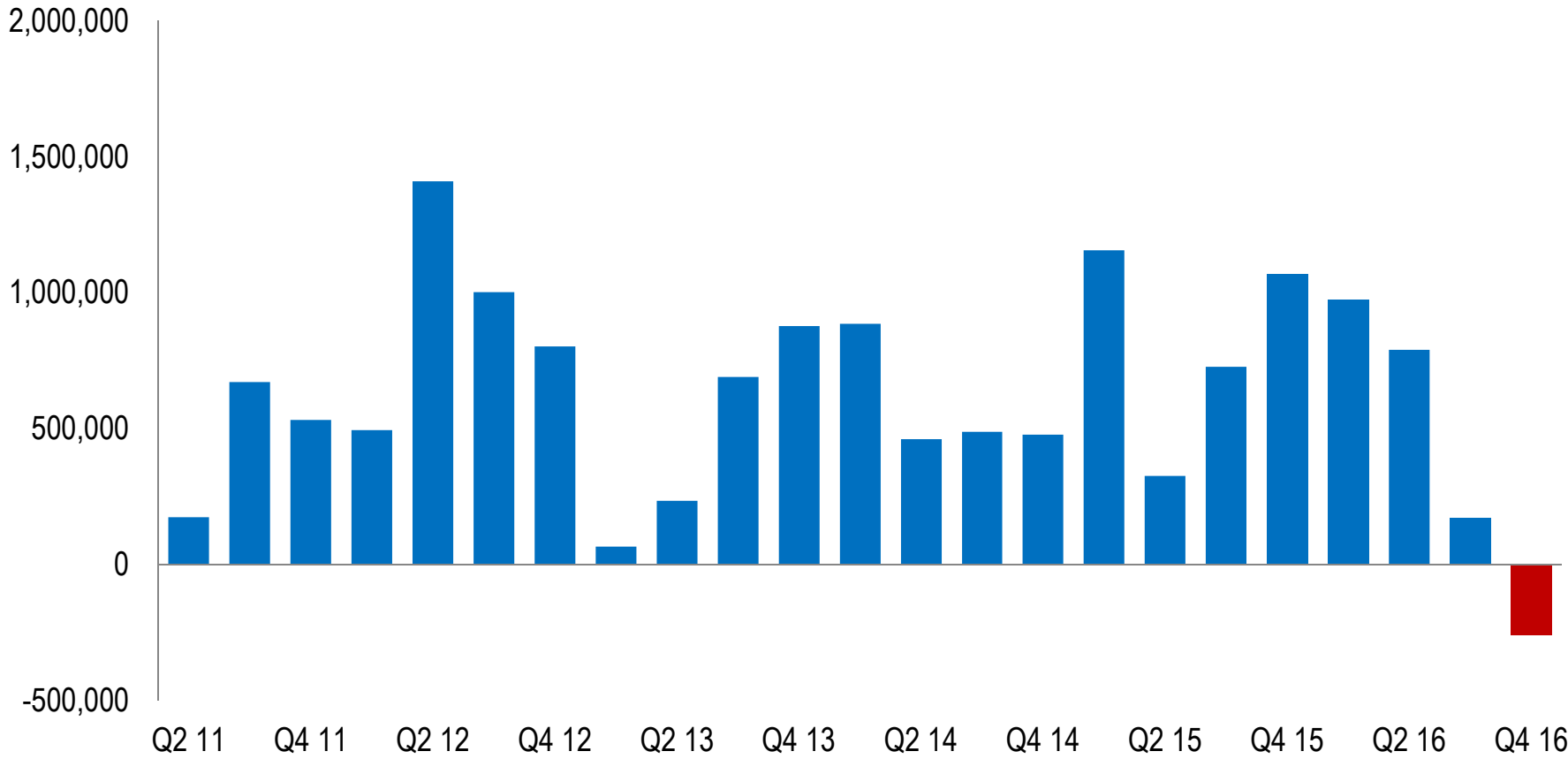
Total vacancy rate



Direct average asking rent (\$ p.s.f.)



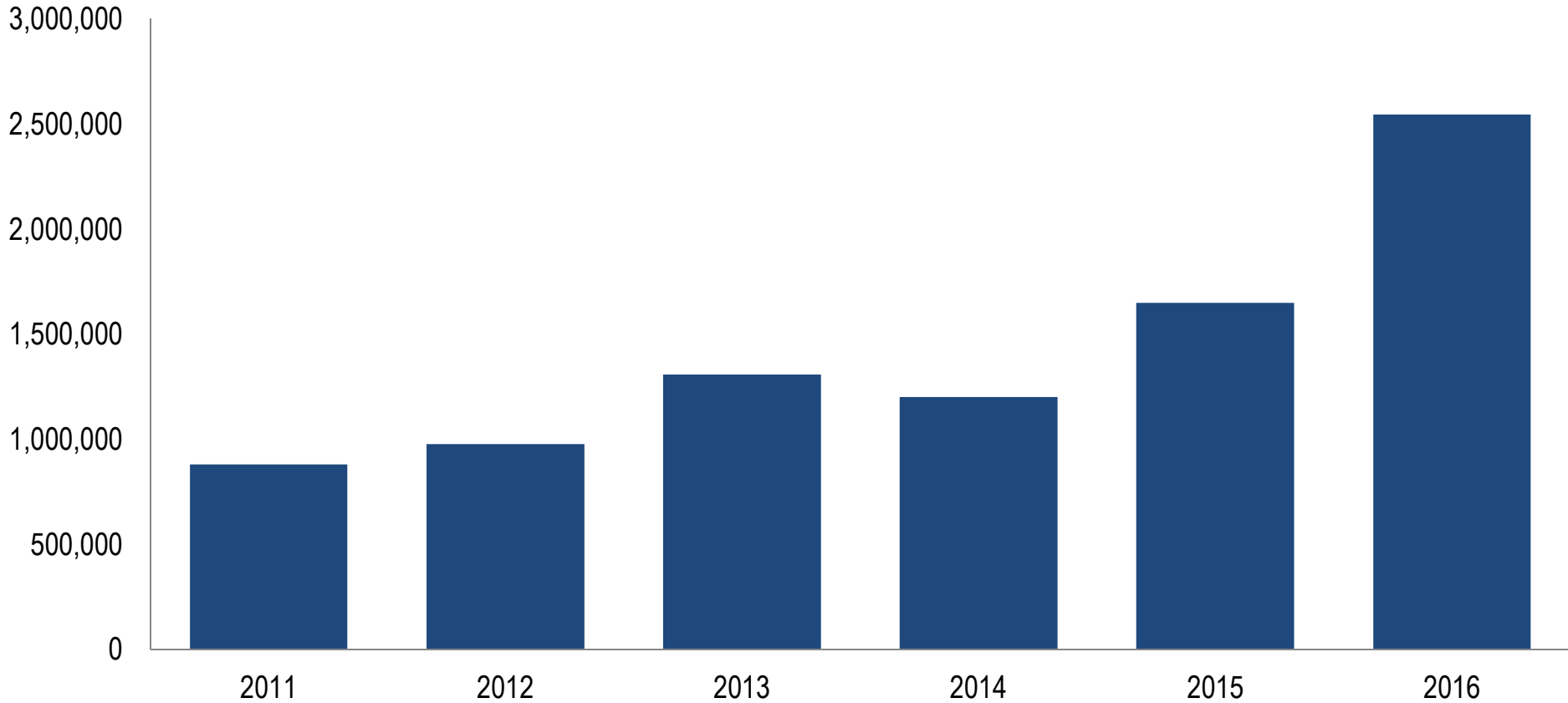
Quarterly absorption negative for first time in 23 quarters, but future move-ins will boost trend in 2017



Source: JLL Research



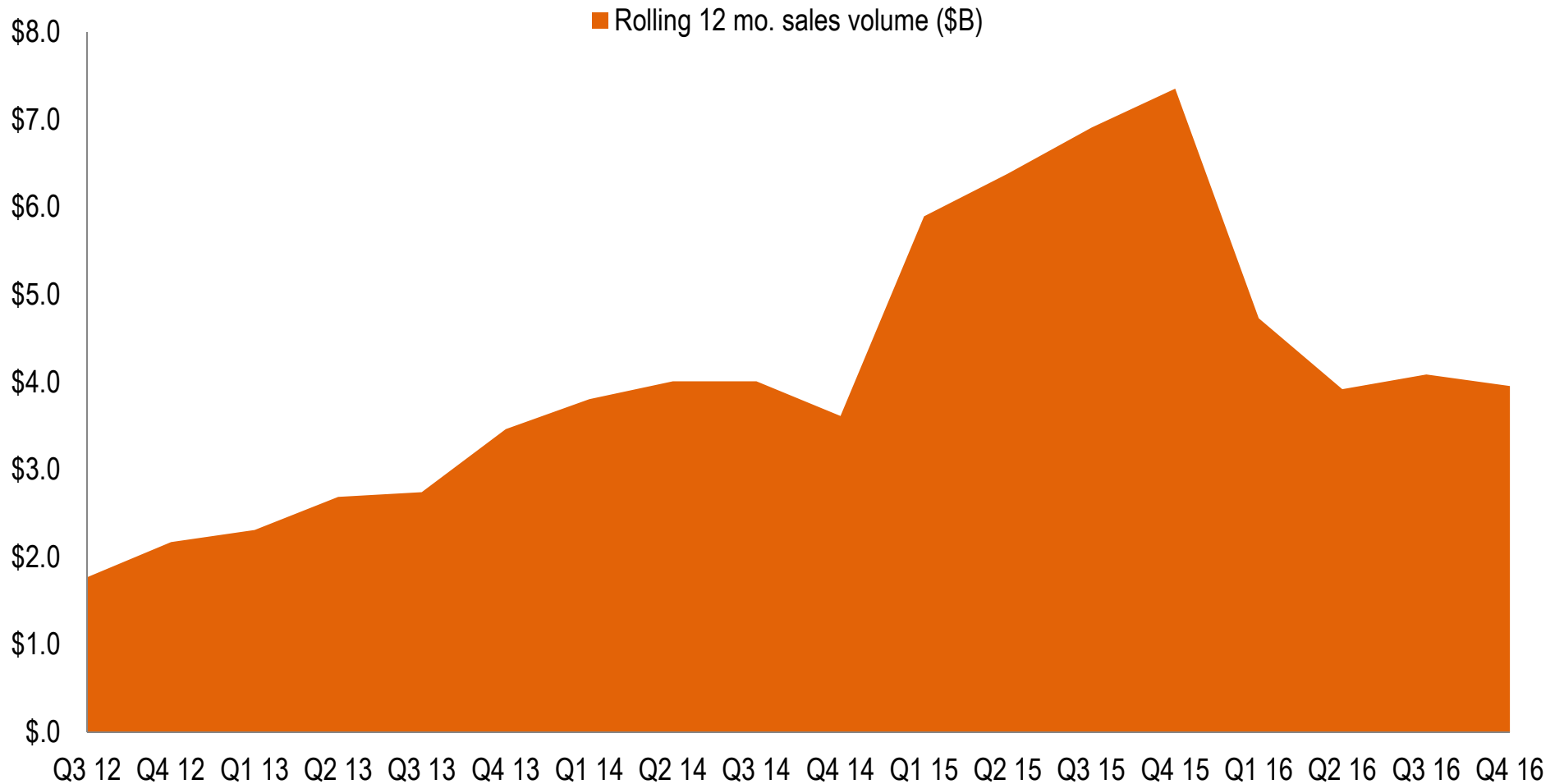
Sublease starting to creep up in Silicon Valley, driven by M&A and movement into new construction



Source: JLL Research



Office investment cooled but increase expected in 2017



Source: JLL Research



Oakland Metro– Q4 2016 market profile

24,496,701 s.f.

Inventory

260,000 s.f.

Under construction

\$55.04

CBD Class A direct asking rate

\$49.67

CBD Class B direct asking rate

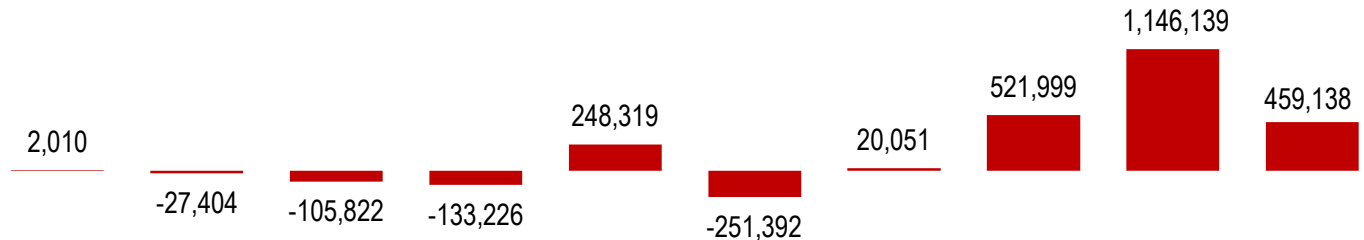
8

Buildings with vacant blocks greater than 50,000 s.f.

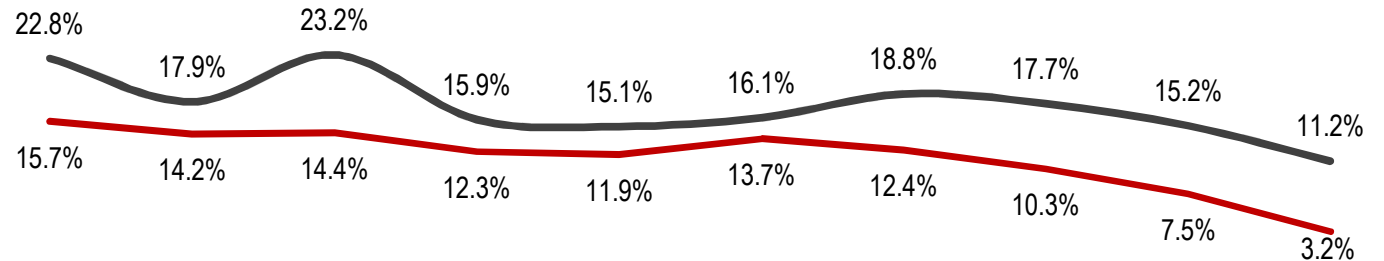
4

Active tenant requirements greater than 50,000 s.f.

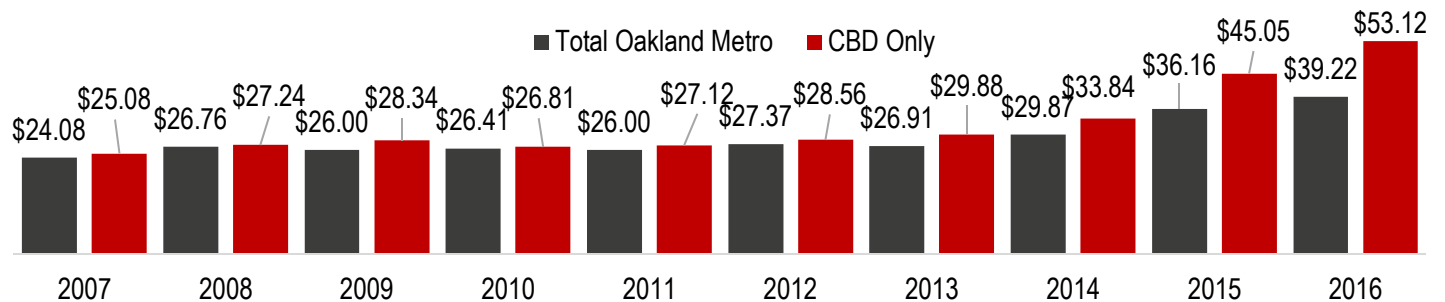
Total net absorption



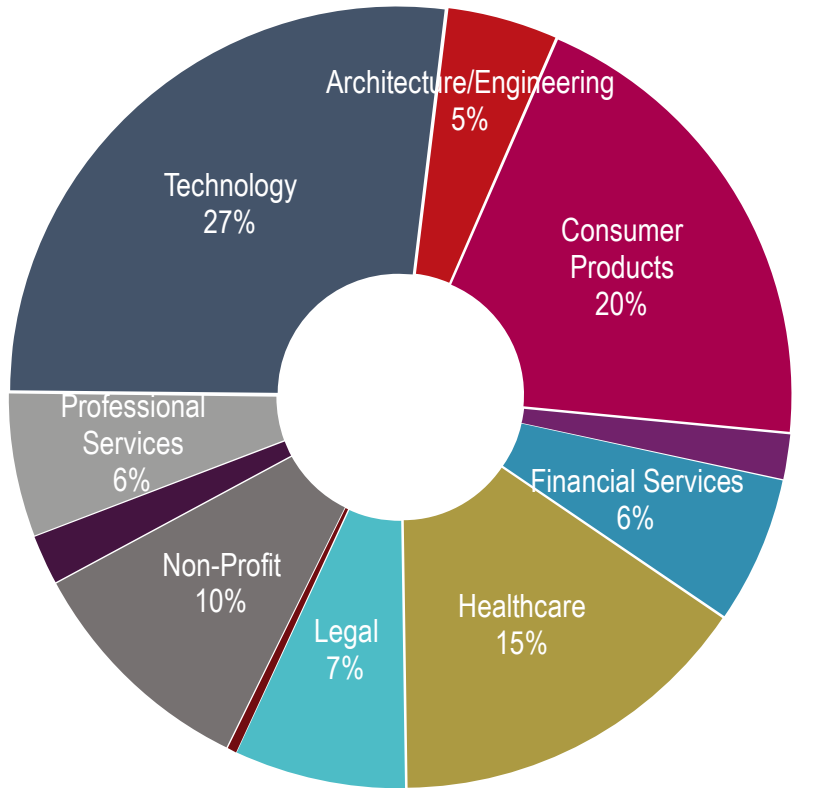
Total vacancy rate



Direct average asking rent (\$ p.s.f.)



Tenants look to the sunny side of the bay for rent relief

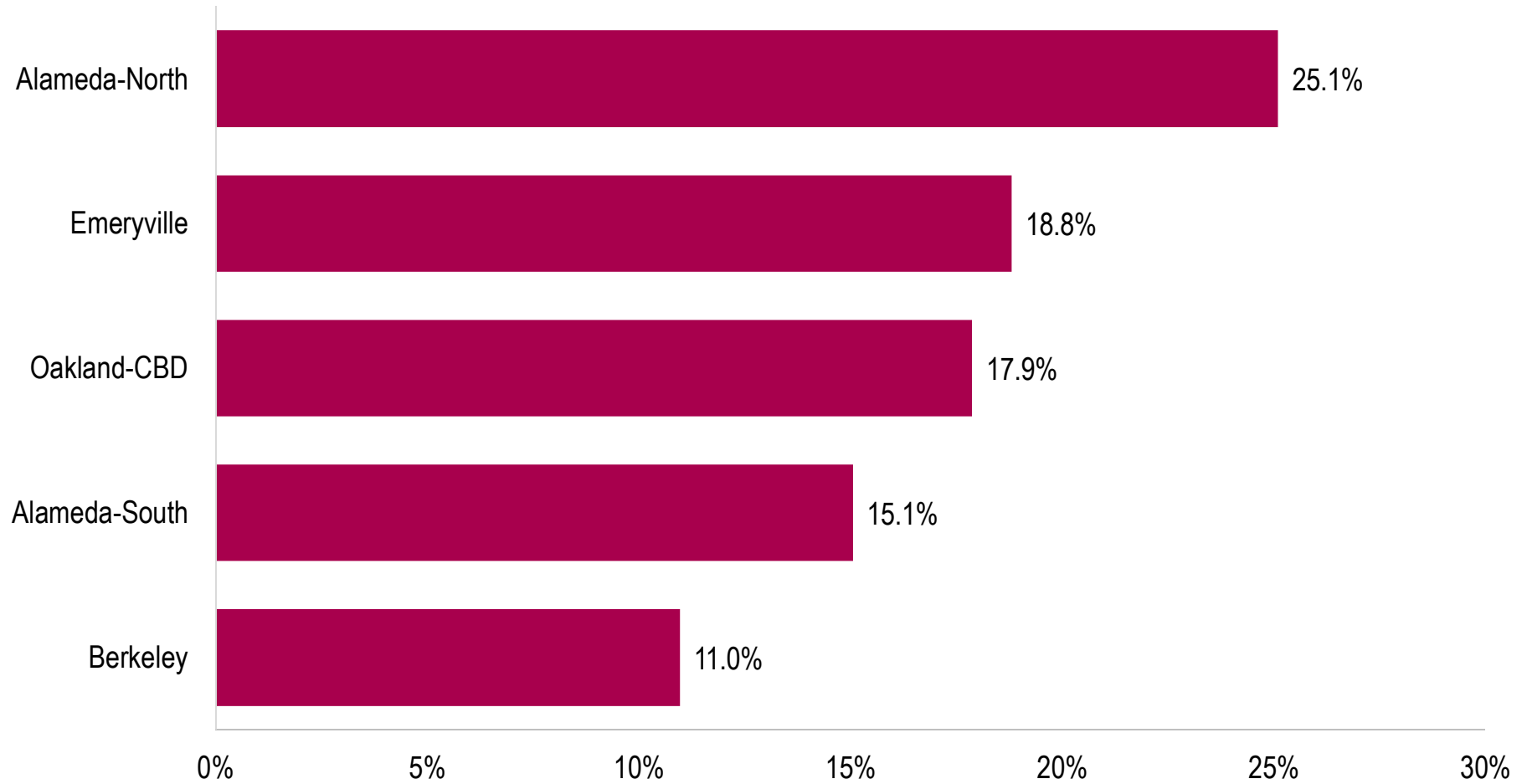


- Architecture/Engineering
- Consumer Products
- Education
- Financial Services
- Healthcare
- Legal
- Manufacturing/Construction
- Non-Profit
- Other
- Professional Services
- Technology

Tenant relocations or expansions into Oakland

Tenant	Size (SF)	Former market	New Address
Uber Technologies	330,000	San Francisco	1955 Broadway
The Gap	180,000	San Francisco	Rosewood Commons
Brown & Toland	60,000	San Francisco	1221 Broadway
Tcho Chocolates	50,000	San Francisco	3100 San Pablo Ave
WCIRB	41,000	San Francisco	1221 Broadway
Sierra Club	38,776	San Francisco	2101 Webster
Del Monte Foods	27,000	San Francisco	3003 Oak Rd
Gensler	24,500	San Francisco	2101 Webster
Gordon & Rees	24,200	San Francisco	1111 Broadway
State of CA	24,000	San Francisco	1111 Broadway

Spillover demand driving rent growth in CBD-adjacent markets



Source: JLL Research

Robust investment activity drove new high watermark in 2016



Source: JLL Research





Thank you!