

Northern California Office Market

As a result of the inactivity of the COVID-19 pandemic, the Northern California office market posted 6.1 million square feet of negative absorption, 36.0% of which occurred in San Francisco. The availability rate rose 1.4 percentage points to 13.7%. Due to many California business not qualifying as “essential,” and therefore being unable to send employees into the office, companies are beginning to rethink their office footprints, which is causing a surge in sublease space on the market. Nearly 30.0% of the total available space is sublease space and 47.0% of that space is in San Francisco. Overall average asking rent stayed relatively flat at \$4.74/SF while Class A average asking rent decreased slightly to \$5.35/SF. Asking rents are expected to drop further as subleases typically have lower rates and as building-owners must now be more competitive to draw tenants away from attractive subleases. While the Northern California office market entered this period of uncertainty with strong underlying fundamentals, and has historically bounced back faster than other markets, it is unclear when the rebound will start, nor the speed in which that rebound will occur.

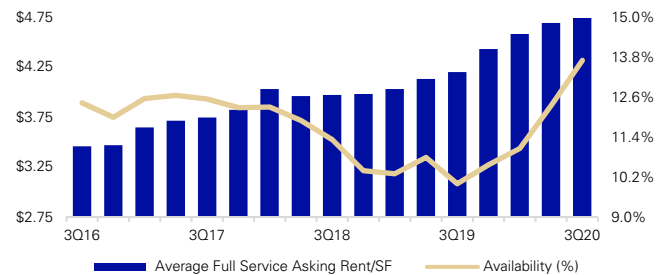
In the largest direct deal of the quarter, Five9 signed a 104,253-square-foot deal at 3001 Bishop Drive in San Ramon’s Bishop Ranch Business Park, where the company already occupies 90,000 square feet. The cloud-based software company is planning to establish its new corporate headquarters within the business park.

San Francisco

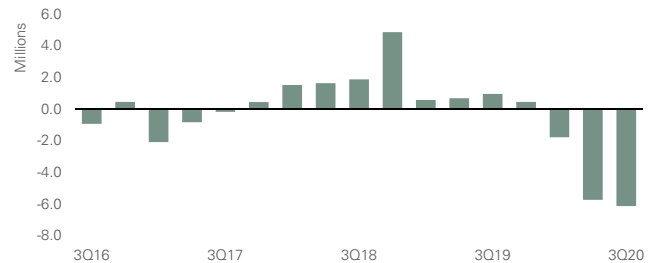
Overall vacancy increased by 750 basis points year-over-year to 10.3% while availability increased to 17.7%. Absorption was negative 2.2 million square feet, for a year-to-date total of negative 5.9 million square feet. Surprisingly, the increase in available space came with only a small decrease in overall asking rents, which ended the quarter at \$6.75/SF Full Service. At 7.5 million square feet, sublease availability has increased more than five-fold over the last year and is expected to increase further in coming months. To date, 2020 leasing is at 26.0% of the leasing volume over the same period in 2019; however, tenant demand increased by 10.0% during the third quarter.

Market Analysis

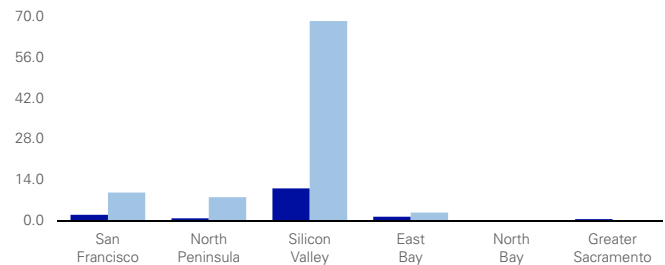
ASKING RENT AND AVAILABILITY RATE



NET ABSORPTION (SF, MILLIONS)



CONSTRUCTION PIPELINE (SF, MILLIONS)



Market Summary

| | Current Quarter | Prior Quarter | Prior Year |
|-------------------------------|-----------------|---------------|------------|
| Total Inventory (SF) | 385M | 384M | 382M |
| Availability Rate | 13.7% | 12.3% | 10.0% |
| Quarterly Net Absorption (SF) | -6.1M | -5.7M | 968K |
| Average Asking Rent | \$4.74 | \$4.72 | \$4.20 |
| Average Class A Asking Rent | \$5.35 | \$5.41 | \$4.78 |
| Under Construction (SF) | 15.4M | 15.3M | 17.0M |

North Peninsula Asking Rents Remain Stable Despite Rising Vacancy and Declining Absorption

Overall, the North Peninsula office market has remained relatively resilient to the slowing economy due to COVID-19. While neighboring office markets in San Francisco and Silicon Valley have shown significant increases in sublease space, the North Peninsula market possesses mostly smaller subleases that have come to market. However, total vacancy continued to rise from cyclical lows in the North Peninsula in the third quarter, ending at a 14.3%, up from 13.7% in the previous quarter and up from 10.9% one year ago. Overall asking rents in the North Peninsula rose slightly this quarter to \$4.91/SF Full Service, up from \$4.89/SF in the previous quarter. Though asking rents have remained somewhat stable year to date, rental rate reductions are already being exhibited and will continue to be primarily driven by subleasing discounts. As the heightened economic uncertainty, fueled by the pandemic, continues to plague the region, landlords will undoubtedly consider their ability and willingness to lower rates to avoid vacancy. The most crucial and unpredictable element in the marketplace in the coming months will be the return of tenant demand. At a minimum, demand-driven opportunism will fuel the market, as prospective tenants will have the ability to pursue higher-quality options with more leverage in negotiations.

South Peninsula Absorption Continues a Downward Trend; Paradigm Shift in Demand

The South Peninsula market is seeing an increase in supply for the fourth straight quarter, particularly sublease spaces. In the third quarter, about half of the newly added 5,000+ square foot spaces are subleases. Since March, there has been a 25% increase in sublease spaces. Rental rates have remained relatively flat. For downtown markets, rates have decreased due to the influx of sublease spaces asking lower rents. In several non-downtown markets, asking rents have increased due to spaces with lower asking rents being leased. The outlook for the coming year is that tenants will be pushing for shorter leases, preferring lower rents away from Downtown locations.

Another Slow Quarter for South Bay

The South Bay office market saw another increasingly slow quarter as the ongoing pandemic has hampered companies' ability and desire to make real estate decisions. While a number of companies are still signing deals as their leases end, not many of the large real estate moves that the South Bay has become accustomed to in recent history are being seen. Throughout the last three quarters, the overall vacancy rate has remained relatively steady, only rising

1.8 percentage points. Even the current vacancy rate is lower than what it was through 2017 and early 2018. Additionally, office rents have held up strong despite decreased demand, and still remain among the highest average rents the South Bay has ever recorded. While absorption has fallen dramatically, strong rents and steady vacancy show the South Bay's strength relative to other markets.

Large Amount of New Space Coming to the Greater Oakland Market

The Greater Oakland market has come to a halt for most office tenants. Deals which were in the works prior to the COVID-19 pandemic have now hit the pause button and are not expected to pick up activity until 2021. Several tenants have opted into a short-term lease with landlords giving them flexibility while the market settles into a new normal. Direct asking rates have remained steady across the market throughout the pandemic, although deals are ready to be made at a much lower rate. The Downtown Oakland market has shifted into the tenants favor and will have a great pick of the litter for available space once things turnaround.

COVID-19 Continues and Tri-Valley Market Remains Stunted

Statistically, the third quarter closed with a slightly higher vacancy. Overall net absorption totaled negative 469,012 square feet, bringing the overall year-to-date negative absorption to 688,858 square feet. For reference, the first six months of the 2007 recession brought on 437,363 square feet of negative absorption, and the same time period for the start of the dot-com recession brought 226,134 square feet of negative absorption. Apart from two large downsizes contributing to the majority of negative absorption for the quarter, activity has been slow and relatively unchanged.

Activity on Pause in The North I-680

As the pandemic enters its seventh month in the US, companies are still grappling with how/when to reenter the office and how remote work will continue to be a part of corporate culture. This has had profound effects on this market, consisting of the following: Some companies in the marketplace with expiring leases have done short-term extensions or even taken the draconian measure of vacating office and putting furniture in storage as they take a wait-and-see approach as to how to occupy/utilize space post-COVID-19. Others have downsized in longer-term renewals, and some companies with term remaining have opted to market space for sublease. Leasing and tour activity was slow as pandemic-related uncertainty continued.

North Bay's Office Inventory Well-Suited To Occupancy in a Social Distancing Environment

Uncertainty about future market conditions and the post-COVID-19 office environment has caused many tenants to put off making decisions regarding office space. Leasing and investment sales activity are at a fraction of normal, both on a quarterly and year-to-date basis. Asking rents remain comparatively stable but landlords are offering increased concessions to get the attention of the few tenants in the market.

Some tenants have found that employees have been productive while telecommuting but generally see the need to maintain an office to get employees together. Other, mainly professional services firms are finding that younger employees are missing the opportunities to learn at the side of a mentor. San Francisco

brokers have been looking at Marin County availability with increased frequency, reflecting a trend of San Francisco tenants looking at suburban markets to establish satellite offices.

Sacramento Office Market Shows Slight Increase In Vacancy But Market is Still Healthy

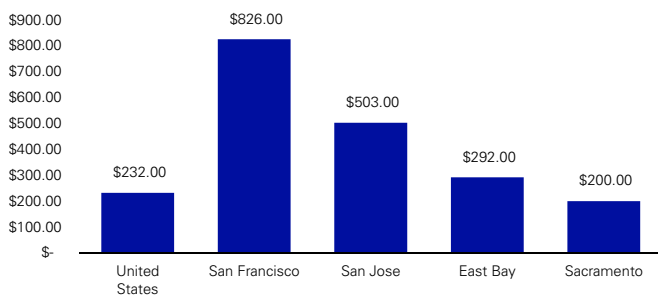
The office market posted a slight increase in vacancy to 10.1% and a negative net absorption total of 158,881 square feet which was mainly due to the addition of new sublease space. The positive net absorption streak lasted 20 quarters. The sales market remained steady. Overall, the office market is still in good shape. As the second half of this unusual year comes to a close, most companies are continuing to figure out/implementing their plan for a new normal which will likely keep the market fairly stagnant until there is more clarity.

Northern California Select Sale Transactions

| Buyer | Seller | Building/Project | City | Market | Sale Price \$/SF | Square Feet |
|----------------------------|---------------------------|---------------------------------|----------------|---------------|--------------------|-------------|
| IKEA | Alexandria/TMG | 901 Market Street 9 (Mixed Use) | San Francisco | San Francisco | \$198M \$750 | 264,000 |
| Miramar Capital | Colony Capital | 4300 Stevens Creek Boulevard | San Jose | South Bay | \$54.5M \$326 | 167,000 |
| CBRE Global Investors | Manchester Capital Mgmt | 123 Townsend Street | San Francisco | San Francisco | \$140M \$1,010 | 138,740 |
| Boyd Watterson Asset Mgmt | DJM Capital Partners Inc. | 300-500 Elinwood Way | Pleasant Hill | North I-680 | \$54.5M \$397 | 137,232 |
| Sac 660 Owners LLC | Sacramento King LP | 660 J Street | Sacramento | Sacramento | \$20.2M \$164 | 123,500 |
| Omninet Capital | Cal Ctr Office Bldgs LLC | 8800 & 8810 Cal Center Drive | Sacramento | Sacramento | \$22.4M \$193 | 116,346 |
| KB Property Advisors | Barker Pacific Group | 2901 Douglas Boulevard | Roseville | Sacramento | \$30M \$271 | 110,791 |
| Pinnacle Capital Mgmt Svcs | GK Real Estate | 2700 Ygnacio Valley Road | Walnut Creek | North I-680 | \$15.7M \$147 | 107,146 |
| The Wonderful Company | RREEF Management | 3241 Kilgore Road | Rancho Cordova | Sacramento | \$20M \$190 | 105,000 |
| Davies-Torrance Trust | Carlsen Investments | 11919 Foundation Place | Gold River | Sacramento | \$14.3M \$226 | 63,355 |

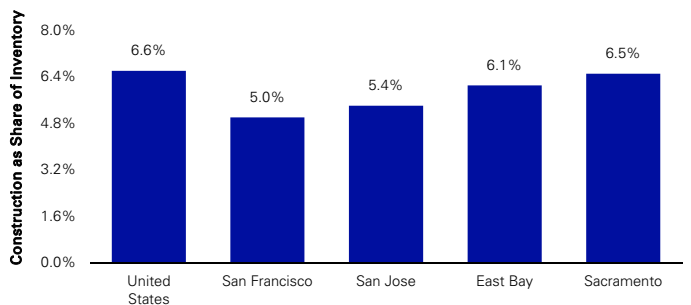
Average 3Q20 Sale Price/SF

SOURCE: REAL CAPITAL ANALYTICS



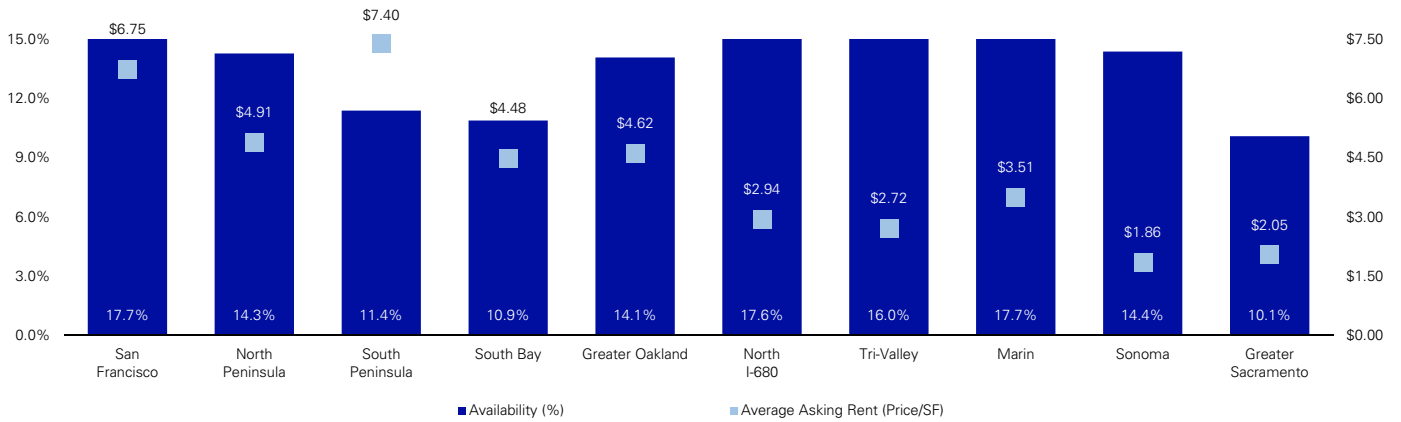
Average 3Q20 Cap Rate

SOURCE: REAL CAPITAL ANALYTICS

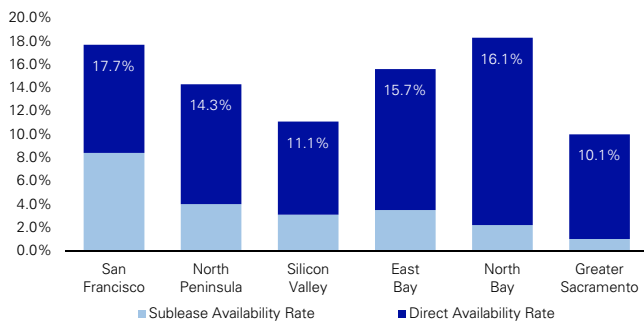


Northern California Submarket Analysis

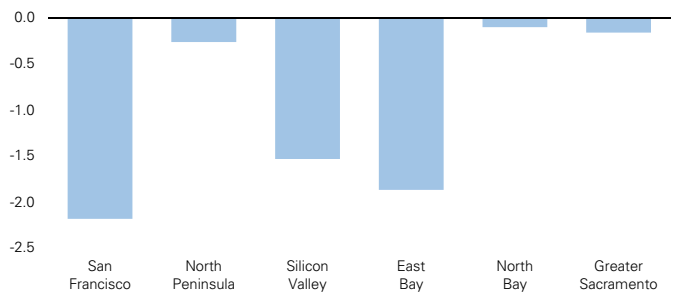
VACANCY RATE (%) & AVERAGE FULL SERVICE ASKING RENTS (\$/SF)



AVAILABILITY RATES (%)



NET ABSORPTION (SF, MILLIONS)



Northern California Submarket Definitions

| | Submarket | Inventory (SF) | Cities Included |
|----------------|-----------------|----------------|--|
| Silicon Valley | San Francisco | 85,487,679 | San Francisco |
| | North Peninsula | 24,452,463 | Belmont, Brisbane, Burlingame, Daly City, Foster City, San Bruno, San Carlos, San Mateo, South San Francisco |
| | South Peninsula | 35,411,352 | Los Altos, Menlo Park, Mountain View, Palo Alto, Redwood City, Redwood Shores |
| | South Bay | 79,318,507 | Campbell, Cupertino, Los Gatos, Milpitas, San Jose, Santa Clara, Saratoga, Sunnyvale |
| East Bay | Greater Oakland | 28,804,017 | Alameda, Berkeley, Emeryville, Oakland, Richmond |
| | North I-680 | 17,127,284 | Concord, Lafayette, Moraga, Orinda, Pleasant Hill, Walnut Creek |
| | Tri-Valley | 29,890,527 | Alamo, Danville, Dublin, Livermore, Pleasanton, San Ramon |
| North Bay | Marin | 7,293,506 | Corte Madera, Greenbrae, Larkspur, Mill Valley, Novato, San Anselmo, San Rafael, Sausalito, Tiburon |
| | Sonoma | 7,260,761 | Petaluma, Rohnert Park, Santa Rosa |
| | Sacramento | 70,118,170 | Auburn, Carmichael, Citrus Heights, Davis, El Dorado Hills, Elk Grove, Fair Oaks, Folsom, Gold River, Granite Bay, Lincoln, Loomis, Mather, McClellan, Newcastle, North Highlands, Orangevale, Rancho Cordova, Rocklin, Roseville, Sacramento, West Sacramento, Woodland |

San Francisco / North Peninsula Select Lease Transactions

| Tenant | Building | City | Type | Square Feet |
|-------------------------|--------------------|---------------|---------------|-------------|
| Open AI | 575 Florida Street | San Francisco | Direct Lease | 96,960 |
| Ring Central | 20 Davis Street | Belmont | Lease Renewal | 84,148 |
| Castle Global | 575 Market Street | San Francisco | Sublease | 24,218 |
| Chubb | 1 Post Street | San Francisco | Sublease | 23,544 |
| Aryaka Networks | 1850 Gateway Drive | San Mateo | Direct Lease | 21,737 |
| Camico Mutual Insurance | 1800 Gateway Drive | San Mateo | Lease Renewal | 17,283 |

Silicon Valley Select Lease Transactions

| Tenant | Building | City | Type | Square Feet |
|-----------------------------------|------------------------|---------------|---------------|-------------|
| Santa Clara Valley Medical Center | 2400 Moorpark Avenue | San Jose | Lease Renewal | 70,376 |
| KPMG | 3975 Freedom Circle | Santa Clara | Lease Renewal | 59,078 |
| Fandango Media | 2440 El Camino Real | Mountain View | Sublease | 20,344 |
| Northeastern University | 4 Second Street | San Jose | Direct Lease | 17,459 |
| FINDING | 225 Santa Clara Street | San Jose | Direct Lease | 16,311 |
| Sophos Inc. | 3945 Freedom Circle | Santa Clara | Lease Renewal | 14,578 |

East Bay Select Lease Transactions

| Tenant | Building | City | Type | Square Feet |
|----------------------------------|-----------------------------|--------------|-------------------------|-------------|
| Comcast of California | 3011 & 3055 Comcast Place | Livermore | Lease Renewal, Downsize | 145,536 |
| Five9 | 3001 Bishop Drive | San Ramon | Direct Lease | 104,253 |
| Central Garden & Pet | 1340 Treat Boulevard | Walnut Creek | Lease Renewal | 40,912 |
| Factory Mutual Insurance Company | 1333 N California Boulevard | Walnut Creek | Lease Renewal | 37,652 |
| Revance | 6220 Stoneridge Mall Road | Pleasanton | Sublease | 30,772 |
| Nissan Motor Corporation | 455 N Canyons Parkway | Livermore | Lease Renewal | 22,762 |

North Bay Select Lease Transactions

| Tenant | Building | City | Type | Square Feet |
|-------------------------|----------------------------------|------------|-----------------|-------------|
| Miyoko's Kitchen | 2090 Marina Avenue | Petaluma | Lease Expansion | 19,531 |
| County of Marin | 88 Rowland Way | Novato | Direct Lease | 10,213 |
| RBC | 300 Drakes Landing Road | Greenbrae | Direct Lease | 7,804 |
| O'Brien Watters & Davis | 1550 Airport Boulevard | Santa Rosa | Direct Lease | 7,304 |
| Keegin Harrison | 1000 Fourth Street | San Rafael | Direct Lease | 6,193 |
| Wells Fargo Home Loan | 80 E Sir Francis Drake Boulevard | Larkspur | Direct Lease | 3,043 |

Sacramento Select Lease Transactions

| Tenant | Building | City | Type | Square Feet |
|---------------------------------------|---------------------------|----------------|---------------|-------------|
| County of Sacramento | 3636 American River Drive | Sacramento | Direct Lease | 45,086 |
| Sacramento Municipal Utility District | 15 Business Park Way | Sacramento | Direct Lease | 43,000 |
| California Mobility Service | 15 Business Park Way | Sacramento | Sublease | 25,000 |
| County of Sacramento | 4510 Orange Grove Avenue | Sacramento | Direct Lease | 20,387 |
| State of California | 160 Promenade Circle | Sacramento | Lease Renewal | 17,433 |
| US Army Corp of Engineers | 10911 White Rock Road | Rancho Cordova | Direct Lease | 12,000 |

| Total Submarket Statistics | | | | | | | |
|----------------------------|----------------------|-------------------------|-------------------------|----------------------------|-------------------------|-------------------------|-----------------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Availability Rate | Sublease Availability Rate | Qtr Net Absorption (SF) | YTD Net Absorption (SF) | Overall FS Asking Rent (Price/SF) |
| San Francisco | 85,487,679 | 1,996,986 | 17.7% | 8.4% | -2,182,531 | -5,863,588 | \$6.75 |
| North Peninsula | 24,452,463 | 837,541 | 14.3% | 4.0% | -260,958 | -1,145,926 | \$4.91 |
| Silicon Valley | 114,729,859 | 11,183,627 | 11.1% | 3.1% | -1,533,182 | -3,279,087 | \$5.39 |
| South Peninsula | 35,411,352 | 5,299,519 | 11.4% | 4.0% | -562,216 | -1,301,549 | \$7.40 |
| South Bay | 79,318,507 | 5,884,108 | 10.9% | 2.7% | -970,966 | -1,977,538 | \$4.48 |
| East Bay | 75,821,828 | 746,400 | 15.7% | 3.5% | -1,867,438 | -3,111,003 | \$3.43 |
| Greater Oakland | 28,804,017 | 336,400 | 14.1% | 3.1% | -1,077,105 | -1,715,444 | \$4.62 |
| North I-680 | 17,127,284 | 0 | 17.6% | 2.6% | -321,321 | -434,013 | \$2.94 |
| Tri-Valley | 29,890,527 | 410,000 | 16.0% | 4.5% | -469,012 | -961,546 | \$2.72 |
| North Bay | 14,554,267 | 130,000 | 16.1% | 2.2% | -100,316 | -431,218 | \$2.77 |
| Marin | 7,293,506 | 0 | 17.7% | 2.8% | -42,186 | -238,549 | \$3.51 |
| Sonoma | 7,260,761 | 130,000 | 14.4% | 1.7% | -58,130 | -192,669 | \$1.86 |
| Bay Area Total | 315,046,096 | 14,894,554 | 14.5% | 4.0% | -5,944,425 | -13,830,822 | \$5.16 |
| Greater Sacramento | 70,118,170 | 551,800 | 10.1% | 1.0% | -158,881 | 247,283 | \$2.05 |
| Northern CA Total | 385,164,266 | 15,446,354 | 13.7% | 4.0% | -6,103,306 | -13,583,539 | \$4.74 |

| Class A Submarket Statistics | | | | | | | |
|------------------------------|----------------------|-------------------------|-------------------------|----------------------------|-------------------------|-------------------------|-----------------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Availability Rate | Sublease Availability Rate | Qtr Net Absorption (SF) | YTD Net Absorption (SF) | Overall FS Asking Rent (Price/SF) |
| San Francisco | 58,894,106 | 1,996,986 | 15.9% | 8.3% | -1,220,149 | -4,129,388 | \$7.27 |
| North Peninsula | 14,869,694 | 837,541 | 17.4% | 5.2% | -163,533 | -825,223 | \$5.19 |
| Silicon Valley | 82,306,489 | 11,183,627 | 11.1% | 3.6% | -1,181,464 | -2,397,516 | \$5.74 |
| South Peninsula | 26,010,138 | 5,299,519 | 11.6% | 4.2% | -377,474 | -982,758 | \$7.77 |
| South Bay | 56,296,351 | 5,884,108 | 10.9% | 3.2% | -803,990 | -1,414,758 | \$4.75 |
| East Bay | 41,642,969 | 746,400 | 18.4% | 5.0% | -1,274,031 | -2,157,487 | \$3.65 |
| Greater Oakland | 16,071,981 | 336,400 | 15.0% | 3.3% | -658,322 | -1,098,099 | \$4.78 |
| North I-680 | 9,793,594 | 0 | 23.4% | 4.2% | -222,382 | -361,992 | \$3.17 |
| Tri-Valley | 15,777,394 | 410,000 | 18.8% | 7.3% | -393,327 | -697,396 | \$3.11 |
| North Bay | 8,472,554 | 130,000 | 18.6% | 3.4% | -72,937 | -254,716 | \$3.08 |
| Marin | 4,869,242 | 0 | 20.5% | 3.8% | -31,863 | -169,258 | \$3.74 |
| Sonoma | 3,603,312 | 130,000 | 16.2% | 2.9% | -41,074 | -85,458 | \$1.95 |
| Bay Area Total | 206,185,812 | 14,894,554 | 14.7% | 5.3% | -3,912,114 | -9,764,330 | \$5.50 |
| Greater Sacramento | 18,988,649 | 511,800 | 6.8% | 1.2% | -149,574 | -50,402 | \$2.56 |
| Northern CA Total | 225,174,461 | 15,406,354 | 14.1% | 5.0% | -4,061,688 | -9,814,732 | \$5.38 |

For more information:

Bonnie Readd
NORTHERN CALIFORNIA
breadd@ngkf.com

Andrea Arata
SAN FRANCISCO
aarata@ngkf.com

Chris Teranishi
NORTH PENINSULA
cteranishi@ngkf.com

Manny Tran
SOUTH PENINSULA
manny.tran@ngkf.com

Wing Lee
SAN JOSE
wclee@ngkf.com

Mickey Moran
SAN JOSE
mickey.moran@ngkf.com

Miles Whittemore
SAN JOSE
miles.whittemore@ngkf.com

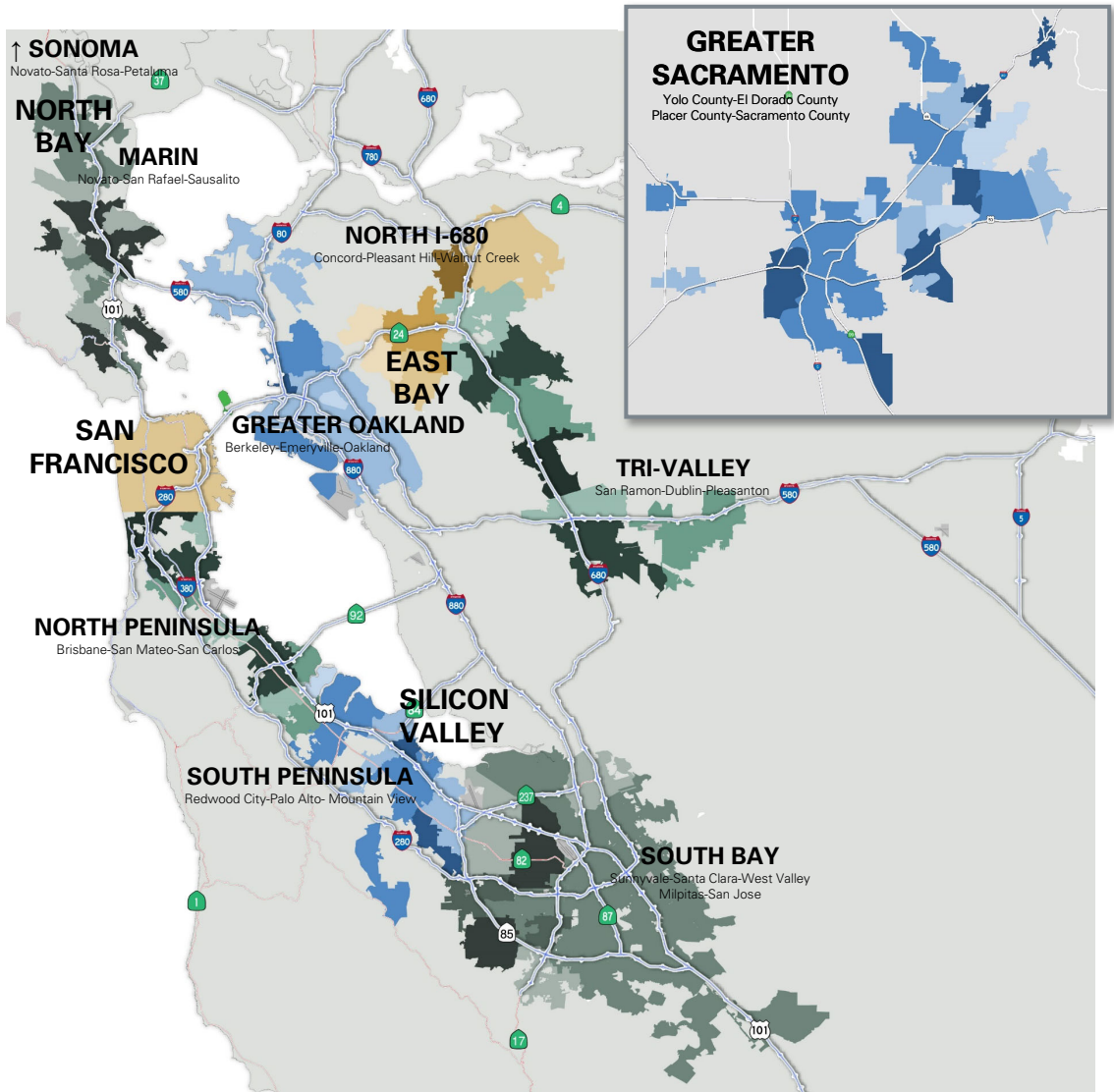
Kyle Phillips
OAKLAND
kyle.phillips@ngkf.com

Jacob Molloy
OAKLAND
jacob.molloy@ngkf.com

Max Gunari
NORTH I-680 & TRI-VALLEY
max.gunari@ngkf.com

Kelly Dong
SACRAMENTO
aarata@ngkf.com

nmrk.com



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