

OAKLAND METROPOLITAN AREA RETAIL Q3 2017

Retail Transforming in Oakland and Berkeley

E-commerce and changes in consumer spending behavior continue to shake up traditional brick-and-mortar retail.

Amazon's acquisition of Whole Foods for \$13.7 billion in August sent the latest shockwaves, and will likely affect not just retail grocers that will have to compete with lower Whole Foods prices, but also non-grocery retailers that could lose consumers who increasingly migrate to Amazon, grocery delivery services that will have to compete with the growing convenience of grocery shopping on Amazon, and meal-kit companies that could be seriously challenged by Amazon's foray into their sector. Even pop-in restaurants that rely on foot traffic and consumers shopping offline to "pop into" their establishments might be negatively affected. Walmart, which currently has the biggest market share in the US grocery business, has responded by aggressively expanding its in store and online grocery business by adding more organic produce, testing grocery-



Market Indicators

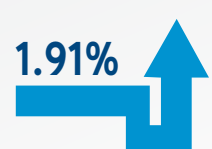
California Retail
Employment



California
Taxable Sales



California
Labor Force



* Data Source: EDD Labor Market Information Division

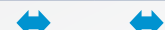
Market Trends

Relative to prior period

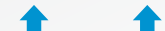
Q3 2017

Q4 2017*

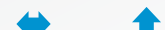
Vacancy



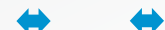
Rental Rate



Net Absorption



Construction



*Projected

U.S. National Economic Indicators

Unemployment Rate	4.4%	4.2%
Labor Force Participation Rate	62.8%	63.1%
Consumer Price Index	2.44%	1.90%
Interest Rate - 10 Yr Treasury	2.31%	2.33%
Business Confidence	103.6	103.0
Consumer Confidence	118.9	119.8

* Data Source: EDD Labor Market Information Division

to-fridge delivery in Silicon Valley, and expanding curbside grocery pickup at hundreds of stores. Other sectors like fashion, bookstores, and electronics are struggling to find an answer to e-commerce.

Retail in the different neighborhoods in Oakland are facing different challenges. In Chinatown, retailers are relatively less hampered by construction and are able to rely on steady foot traffic from residents and tourists. In Old Oakland, Jack London Square, and the Central Business District (CBD), more has to be done until retail thrives. Laurel Book Stores, which has been in downtown Oakland since 2014, has faced significant roadblocks from not only the surging popularity of e-books (which are forecast to make up a quarter of global book sales in 2018), but also from a host of local factors, including lack of daytime foot traffic, street closures and reduced pedestrian access stemming from construction. From Jack London Square to the Broadway Valdez District, there are more than 3500 multifamily units under construction, with roughly 800 units under construction in the CBD. “Commuter tunnel vision,” in which commuters leave retail surrounding their workplaces unexplored, is another factor. Apparel and home goods stores in Downtown Oakland are facing similar challenges.

Efforts are underway to improve conditions. Several retailers in the CBD have come together to work with the Oakland Chamber of Commerce to come up with a marketing strategy to attract the employee base from major employers, including Kaiser and Pandora. In addition, the city has implemented the Broadway Valdez District Specific Plan (BVDSP), which is intended to transform the Broadway Valdez District into a vibrant retail and housing destination. Currently, 128,000 square feet of retail and 1337 residential units are under construction in the district, with another 129,000 square feet of retail and 1390 residential units in the development pipeline. A growing population in Oakland will also help bars and restaurants continue their success.

Berkeley has several new exciting retail developments. Tender Greens, which has over a dozen chef-led kitchens in Los Angeles, opened its first location in Berkeley on University Avenue in February 2017. Indoor cycling studio CycleBar, which has over 100 locations across the US, opened in Berkeley late 2016 on University Avenue. Entrepreneur and chef Charlie Hallowell is planning to open a Boots & Shoe Service restaurant at 2286 Shattuck Avenue, the former site of Build Pizzeria. Organic beverage bar Project Juice opened in August in West Berkeley’s Fourth Street retail district, and Los Angeles-based fast casual chain Lemonade is slated to open next door in the near future. Amazon has continued to move into brick-and-mortar retail by opening its sixth instant pick-up facility, designed for faster delivery of daily essentials, on the UC Berkeley campus, and has plans to continue to add additional sites by year end. As both the wider retail industry and local retail and residential landscapes continue to evolve, market observers are eager to witness how Oakland and Berkeley respond in the fourth quarter.





Market Comparisons

RETAIL MARKET

LOCATION	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	AVG ASKING NNN
OAKLAND CBD	336	2,394,428	242,012	10.1%	-	0.0%	242,012	10.1%	\$3.00 - \$3.50
BERKELEY	631	3,541,614	80,443	2.3%	-	0.0%	80,443	2.3%	\$3.04

MARKET TOTAL

TOTAL	967	5,936,042	322,455	5.4%	-	0.0%	322,455	5.4%	\$3.20
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QUARTERLY COMPARISON AND TOTALS

Q3-17	967	5,936,042	322,455	5.4%	-	0.0%	322,455	5.4%	\$3.20
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