

# MARKETBEAT

## Bakersfield, CA

### Office/Medical Q4 2016

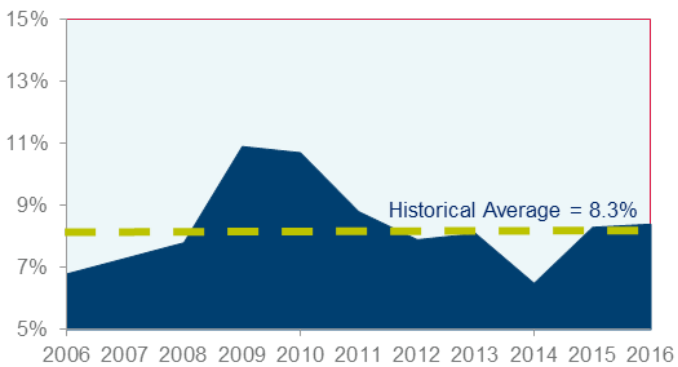


#### BAKERSFIELD, CA OFFICE/MOB

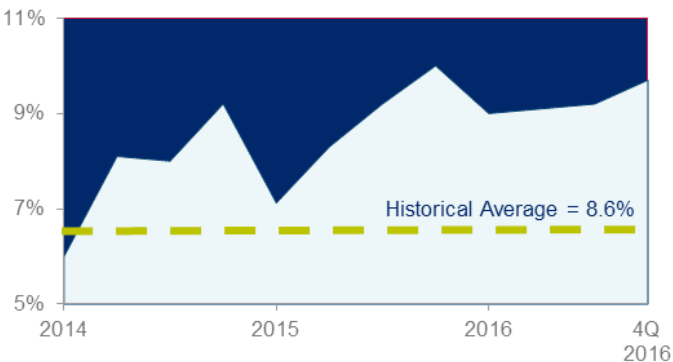
#### Vacancy Stats On The Go

|                          | Q4 15 | Q4 16 | Y-T-Y | 12-Month Forecast |
|--------------------------|-------|-------|-------|-------------------|
| Overall Vacancy (Office) | 8.3%  | 8.4%  | 1.0%  | ▼                 |
| Overall Vacancy (MOB)    | 10.0% | 9.0%  | 10.0% | ▼                 |

#### Overall Office Vacancy



#### Overall MOB Vacancy



#### 2016 Office Vacancy

Recovery at last! 2016 has been a whirlwind year. Price of oil dropped to the lowest it has been since the 2009 Great Recession coupled with a divided & contentious presidential election. Bakersfield office vacancies reached the highest levels with Class A peaking at 10.5% in Q1 2016 and Class B at 9.6% in Q4 2015. Since then, both Class A and Class B have been heading in the right direction with Class A dropping to 9.0% in Q4 2016 (14% reduction from peak), and Class B dropping to 8.9% in Q4 2016 (7% reduction from peak). The two sub-markets to watch are the California Corridor (CC) and the University Corridor (UC). The CC vacancies peaked in 1Q 2016 with Class A being the worst at 24%, and Class B with a healthy 6.5%. Ending 2016, CC Class B dropped slightly to a still healthier 6.4%, but Class A dropped to 18.2% (24% reduction from peak). The UC was in the “direct impact zone” this year since a large portion of the UC is occupied by oil companies. UC Class A vacancies peaked in 3Q 2016 at 3%, which is still healthy but an increase from its normal 1% to 2% range. UC Class B peaked in Q4 2015 at 10.6%. Rounding up the end of the year, UC Class A vacancies have decreased slightly to a healthy 2.9%, and Class B decreased to 7.5% (29% reduction from peak). But more importantly, sublease vacancies have risen dramatically in the UC in 2016. Ending 2015, there were virtually no sub-lease spaces in the UC. A year later ending 2016, UC sub-lease vacancies have risen to approximately 92,000 SF, which is 5% of the entire 1.87MM UC office market. Combining the UC sub-lease vacancy with direct UC vacancy, we see a total of 7.7% Class A UC vacancy and 9.6% Class B UC vacancy. With that said, we know heading into 1Q 2017 approximately 20K to 30K of this UC sub-lease space is going to be absorbed. So the the market seems to be heading in the right direction with office vacancies decreasing and the price of oil rising to north of \$50/BRL.

#### Medical Office Building (MOB) Vacancy

2016 saw Class A and B Medical Office Building (MOB) vacancies decrease while Class C and D MOB vacancies increase. The total MOB vacancies decreased from 10% to 9.2% in the last 12 months, which represents an 8% decrease. Class A MOB vacancies ended 2015 at a healthy 4.9%, and now ending 2016 at 4.1% which is a 16% reduction. Class B MOB vacancies saw a significant drop from 7.4% to 4.1% in the last 12 months; a 45% reduction! On the other side, Class C MOB vacancies rose from 16.7% to 18.7% in the last 12 months, which is a 12% increase. And Class D MOB vacancies rose from 14% to 18%, which is a 29% increase. So what does this mean? Basically, newer MOB's in thriving areas are out performing older MOB's in less popular areas. And since nearly 100% of Class C and D MOB's are east of Highway 99; it is fair to say there is not much demand for medical tenants to go east of Highway 99.

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#### Summary of Q4 2016 Market Avg. Vacancies / Rates

|                        | INVENTORY (RSF) | OVERALL VACANCY RATE | DIRECT AVERAGE ASKING RENT* |
|------------------------|-----------------|----------------------|-----------------------------|
| General Office Market: | 8,600,000       | 8.4%                 | \$1.60/SF/Mo MG             |
| Class A                | 3,260,000       | 9.0%                 | \$1.79/SF/Mo MG             |
| Class B                | 2,200,000       | 8.9%                 | \$1.78/SF/Mo MG             |
| Class C                | 2,400,000       | 7.7%                 | \$1.43/SF/Mo MG             |
| Class D                | 730,000         | 6.1%                 | \$1.06/SF/Mo MG             |

|                        | INVENTORY (RSF) | OVERALL VACANCY RATE | DIRECT AVERAGE ASKING RENT* |
|------------------------|-----------------|----------------------|-----------------------------|
| Medical Office Market: | 2,230,000       | 9.0%                 | \$1.76/SF/Mo MG             |
| Class A                | 488,000         | 4.7%                 | \$2.26/SF/Mo MG             |
| Class B                | 966,000         | 4.9%                 | \$2.14/SF/Mo MG             |
| Class C                | 621,000         | 16.4%                | \$1.43/SF/Mo MG             |
| Class D                | 165,000         | 17.8%                | \$1.38/SF/Mo MG             |

\*Vacancy rates are rounded to the first decimal. Net lease rates are converted to modified gross using an average net of \$0.50/SF/Mo, some nets may actually be higher or lower than stated.

#### 2017 Forecast

We are optimistic about the 2017 local office and MOB market. Interest rates will rise which is likely to slow purchasing for investors and owner-users towards 3Q 2017 to 4Q 2017 and leading into 2018. BUT rising interest rates typically result in rising lease rates, so we see lease rates increasing which is good for Landlords. And with oil making a recovery with oil prices ending 2016 around \$50/BRL, we see the office market continuing to recover with lower vacancies. And we are predicting large absorption of Class A office space in the California Corridor. For the MOB market; we see the owner-user market slowing slightly due to rising interest rates and a lack of supply. As we know, Class A and B MOB's are already fairly healthy. But as the Class A and B MOB vacancies decrease, and MOB rental rates increase as a result of rising interest rates, medical tenants will start to lease Class C & D MOB options in the marketplace. We also anticipate seeing more out of the area medical providers opening secondary locations in Bakersfield as there continues to be more medical demand in the area. Also, changes to Obamacare seem to be on the horizon. And if those changes result in higher insurance reimbursements for medical providers, we could see a lot more MOB demand.

#### Key Lease Transactions Q1 2016 To Q4 2016

| PROPERTY               | SF     | TENANT               | TRANSACTION TYPE                          | SUBMARKET                     |
|------------------------|--------|----------------------|---|-------------------------------|
| 200 New Stine Road     | 23,209 | Parson's Engineering | Renewal / C&W Represented Tenant          | Class B / California Corridor |
| 5201 Truxtun Avenue    | 51,928 | Linn Energy          | Renewal / C&W Represented Tenant          | Class A / California Corridor |
| 4900 California Avenue | 9,566  | Aspiranet            | Lease / C&W Represented Tenant & Landlord | Class A / California Corridor |

#### Key Sales Transactions Q1 2016 To Q4 2016

| PROPERTY               | SF      | SELLER/BUYER  | PRICE / \$PSF          | SUBMARKET                     |
|------------------------|---------|---|------------------------|-------------------------------|
| 5060 California Avenue | 193,524 | LBUBS 2004-C6 Stockdale office Limited Partnership / DP Tower I, LP | Price Undisclosed      | Class A / California Corridor |
| 5080 California Avenue | 100,000 | 5080 California Associates, LLC / DP Tower II, LP                   | Price Undisclosed      | Class A / California Corridor |
| 4100 Truxtun Avenue    | 30,000  | Emerald Equities, LLC / Truxtun Psychiatric Medical Group L.P       | \$5,650,000 / \$188.33 | Class B / California Corridor |
| 5555 Business Park S   | 15,000  | CTT, LLC / CRC Valley, LLC  | \$2,300,000 / \$153.33 | Class B / California Corridor |
| 3612-3616 Coffee Road  | 12,500  | Coffee Road Center, LLC / Bakersfield Land and Cattle Company, LLC  | \$2,125,000 / \$170.00 | Class B / Northwest Corridor  |

\*Cushman & Wakefield Pacific Commercial Realty Advisors was involved in the sale of all the above transactions.

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## CORRIDOR BREAKDOWN SUMMARY (OFFICE)

| Office              | 8,606,393 | 722,953          | 8.4%  |                                | 106,206               | 9.6%                             |
|---------------------|-----------|------------------|-------|--------------------------------|-----------------------|----------------------------------|
|                     |           | Direct Vacant SF |       | Direct Vacancy Avg<br>Rent -MG | Sublease Vacant<br>SF | Sublease + Direct<br>Vacancy (%) |
| California Corridor | 2,801,000 | 278,223          | 9.9%  | \$1.56                         | 13,528                | 10.4%                            |
| Class A             | 1,116,840 | 203,217          | 18.2% | \$1.71                         | 9,832                 | 19.1%                            |
| Class B             | 1,035,872 | 65,848           | 6.4%  | \$1.53                         | 3,696                 | 6.7%                             |
| Class C             | 495,545   | 7,356            | 1.5%  | \$1.42                         | 0                     | 1.5%                             |
| Class D             | 152,743   | 1,802            | 1.2%  | \$1.12                         | 0                     | 1.2%                             |
| NW                  | 482,306   | 54,866           | 11.4% | \$1.93                         | 0                     | 11.4%                            |
| Class A             | 0         | 0                | 0.0%  |                                | 0                     |                                  |
| Class B             | 471,686   | 51,944           | 11.0% | \$1.99                         | 0                     | 11.0%                            |
| Class C             | 10,620    | 2,922            | 27.5% | \$1.50                         | 0                     | 27.5%                            |
| Class D             | 0         | 0                | 0.0%  |                                | 0                     |                                  |
| SW                  | 505,780   | 20,769           | 4.1%  | \$1.45                         | 0                     | 4.1%                             |
| Class A             | 0         | 0                | 0.0%  |                                | 0                     |                                  |
| Class B             | 169,736   | 11,904           | 7.0%  | \$2.65                         | 0                     | 7.0%                             |
| Class C             | 298,565   | 8,170            | 2.7%  | \$1.13                         | 0                     | 2.7%                             |
| Class D             | 38,479    | 695              | 1.8%  | \$1.22                         | 0                     | 1.8%                             |
| University Center   | 1,870,050 | 54,893           | 2.9%  | \$2.30                         | 91,676                | 7.8%                             |
| Class A             | 1,690,168 | 41,426           | 2.5%  | \$2.43                         | 87,936                | 7.7%                             |
| Class B             | 179,882   | 13,467           | 7.5%  | \$2.10                         | 3,740                 | 9.6%                             |
| Class C             | 0         | 0                | 0.0%  |                                | 0                     |                                  |
| Class D             | 0         | 0                | 0.0%  |                                | 0                     |                                  |
| DT                  | 2,851,224 | 291,847          | 10.2% | \$1.47                         | 1,002                 | 10.3%                            |
| Class A             | 452,822   | 47,858           | 10.6% | \$1.59                         | 1,002                 | 10.8%                            |
| Class B             | 356,809   | 54,029           | 15.1% | \$1.98                         | 0                     | 15.1%                            |
| Class C             | 1,603,051 | 170,540          | 10.6% | \$1.50                         | 0                     | 10.6%                            |
| Class D             | 438,542   | 19,420           | 4.4%  | \$0.97                         | 0                     | 4.4%                             |
| Memorial Corridor   | 97,000    | 22,355           | 23.0% | \$1.08                         | 0                     | 23.0%                            |
| Class A             | 0         | 0                | 0.0%  |                                | 0                     |                                  |
| Class B             | 0         | 0                | 0.0%  |                                | 0                     |                                  |
| Class C             | 0         | 0                | 0.0%  |                                | 0                     |                                  |
| Class D             | 97,000    | 22,355           | 23.0% | \$1.08                         | 0                     | 23.0%                            |

\*Vacancy rates are rounded to the first decimal. Net lease rates are converted to modified gross using an average net of \$0.50/SF/Mo, some nets may actually be higher or lower than stated.

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## CORRIDOR BREAKDOWN SUMMARY (MOB)

|                     |           |                  |        | Direct Vacancy Avg<br>Rent -MG | Sublease Vacant<br>SF | Sublease + Direct<br>Vacancy (%) |
|---------------------|-----------|------------------|--------|--------------------------------|-----------------------|----------------------------------|
|                     |           | Direct Vacant SF |        | Direct Vacancy Avg<br>Rent -MG |                       |                                  |
| Medical             | 2,241,552 | 202,192          | 9.0%   |                                |                       |                                  |
| California Corridor | 509,447   | 1,254            | 0.2%   | \$2.00                         | 6,613                 | 1.5%                             |
| Class A             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| Class B             | 436,227   | 1,254            | 0.3%   | \$2.00                         | 0                     | 0.3%                             |
| Class C             | 73,220    | 0                | 0.0%   |                                | 6,613                 | 9.0%                             |
| Class D             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| NW                  | 302,804   | 37,268           | 12.3%  | \$2.11                         | 9,282                 | 15.4%                            |
| Class A             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| Class B             | 302,804   | 37,268           | 12.3%  | \$2.11                         | 0                     | 12.3%                            |
| Class C             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| Class D             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| SW                  | 2,097     | 2,097            | 100.0% |                                | 0                     | 100.0%                           |
| Class A             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| Class B             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| Class C             | 2,097     | 2,097            | 100.0% |                                | 0                     | 100.0%                           |
| Class D             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| University Center   | 515,830   | 25,467           | 4.9%   | \$2.28                         | 0                     | 4.9%                             |
| Class A             | 319,837   | 23,024           | 7.2%   | \$2.26                         | 0                     | 7.2%                             |
| Class B             | 195,993   | 2,443            | 1.2%   | \$2.30                         | 0                     | 1.2%                             |
| Class C             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| Class D             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| DT                  | 533,754   | 79,075           | 14.8%  | \$1.43                         | 0                     | 14.8%                            |
| Class A             | 78,653    | 0                | 0.0%   |                                | 0                     | 0.0%                             |
| Class B             | 31,926    | 6,676            | 20.9%  | NA                             | 0                     | 20.9%                            |
| Class C             | 398,354   | 69,704           | 17.5%  | \$1.52                         | 0                     | 17.5%                            |
| Class D             | 24,821    | 2,695            | 10.9%  | \$1.10                         | 0                     | 10.9%                            |
| Memorial Corridor   | 377,620   | 59,128           | 15.7%  | \$1.39                         | 0                     | 15.7%                            |
| Class A             | 90,000    | 0                | 0.0%   |                                | 0                     | 0.0%                             |
| Class B             | 0         | 0                | 0.0%   |                                | 0                     |                                  |
| Class C             | 147,735   | 32,465           | 22.0%  | \$1.32                         | 0                     | 22.0%                            |
| Class D             | 139,885   | 2,663            | 1.9%   | \$1.41                         | 0                     | 1.9%                             |

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