

# MARKET REPORT

OFFICE

Oakland /East Bay Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

4Q/21

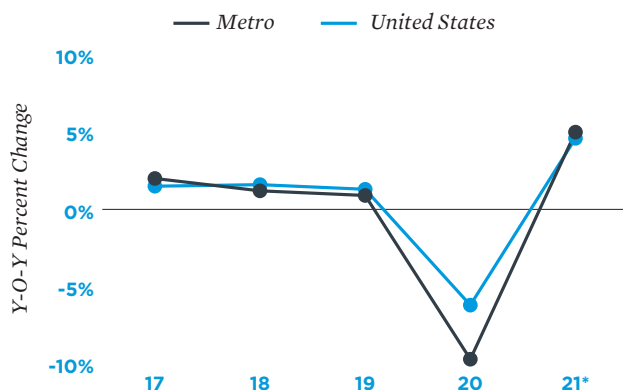
## East Bay Office Market Steady Relative to San Francisco and the South Bay

### Diversified employment market shapes office performance.

Although the impact of the health crisis has hamstrung the office market in the Bay Area, the East Bay has remained more resilient than its adjacent counterparts. Many firms that were priced out of the city and South Bay sought space across the Bay Bridge, boosting demand during the most recent economic expansion. Due to the essential nature of these industries, several of these companies were unable to transition to a work-from-home model, which kept office fundamentals from declining more significantly. However, the recovery in the East Bay may take longer as these industries are more steady, but the long-term health of the office market is bright.

**Construction muted, preventing competition.** Builders have focused on other areas during the most recent expansion as development restrictions were relaxed. Most developers targeted the high-priced areas within the city or in the South Bay, where tech companies were willing to pay premium rents and commit to large leases years in advance. At the same time, new supply in the East Bay is relatively low, and firms that did not have the same requirements as tech firms absorbed the local inventory. Pacific Gas and Electric, for instance, is moving its headquarters to Oakland and selling its office space in San Francisco. Furthermore, several research facilities are located in the East Bay, buoying the local employment market.

### Employment Trends



\* Forecast  
Sources: BLS; CoStar Group, Inc.

## Office 2021 Outlook



**54,000  
JOBS**

*will be created*

### EMPLOYMENT:

Local employers are expected to expand headcounts by 5.0 percent this year, though payrolls will remain more than 60,000 spots below the fourth quarter of 2019. Office-using sectors to increase 3.6 percent.



**55,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Barring an early completion currently scheduled for 2022, additions to supply are done for the year. Nearly all future projects are build-to-suit or otherwise have leasing commitments.



**180  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Despite the lack of competition from developers, vacancy will finish the year at 16.1 percent. Last year, the rate climbed 210 basis points as mostly Class A tenants reevaluated their space needs in light of the health crisis.



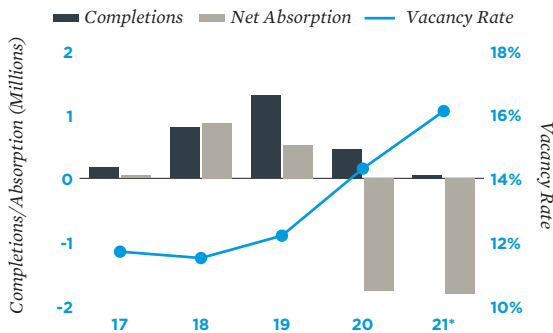
**3.7%  
DECREASE**

*in asking rent*

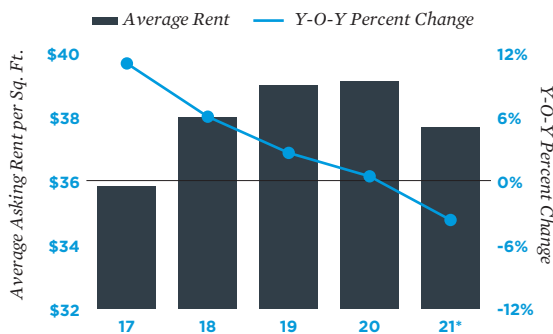
### RENT:

After inching up 0.4 percent during 2020, the average asking rent is expected to fall to \$37.68 per square foot this year. Class A space locally will compete with the large available supply elsewhere in the Bay Area, promoting some discounting.

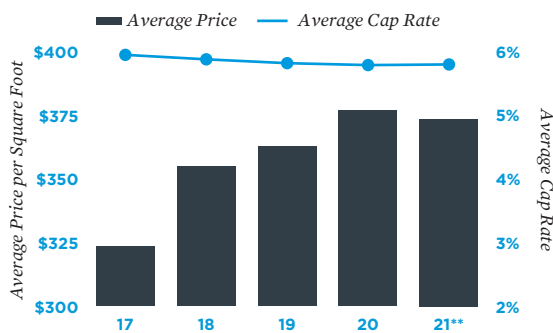
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q  
Sources: CoStar Group, Inc.; Real Capital Analytics

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## 2Q21 – 12-Month Period

**CONSTRUCTION**  
**406,000 sq. ft. completed**

- Development has slowed considerably in the East Bay as stock inched up just 0.4 percent during the 12 months ending in June.
- Construction will not have much impact on fundamentals moving forward. Just 260,000 square feet of space is currently underway and nearly all of it has leasing commitments.

**VACANCY**  
**270 basis point increase in vacancy Y-O-Y**

- The lack of new construction and prevalence of traditional office companies that are unable to transition to remote work limited the pace of vacancy erosion. In the second quarter, the rate was 15.6 percent.
- Class A vacancy jumped 400 basis points to 23 percent over the four-quarter period that ended at midyear.

**RENT**  
**2.0% decrease in the average asking rent Y-O-Y**

- The average asking rent slipped modestly to \$38.54 per square foot in this year's spring period.
- The top-tier average asking rent retreated 2.7 percent annually to \$47.66 per square foot while Class B/C asking rates remained more resilient, declining 1.7 percent to \$34.91 per square foot on average.

## Investment Highlights

- Deal flow remained light during the most recent 12-month period though investors are interested in the local office market. Unlike the more tech-heavy areas of the Bay Area, which are recalling employees in early 2022, the pace of the East Bay is expected to be measured.
- The average price of a local office building ticked up 1 percent during the most recent 12-month period as investors targeted more stabilized properties. Buyers paid an average of \$373 per square foot during the year, indicative of the resilience of the local office market. Investors are likely to expand their search criteria in the coming months as the local recovery gains traction.
- First-year returns have been stable at 5.8 percent since 2019 as a return floor has been realized. An increase in interest rates could put upward pressure on average cap rates, or a rise in available listings in the other Bay Area markets, though neither situation is expected before the end of this year.