

# INVESTMENT FORECAST

Office  
Oakland

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS






2022

## Class B/C Properties Outperform in Wake of Health Crisis; Investors Optimistic on Mid-Tier Assets

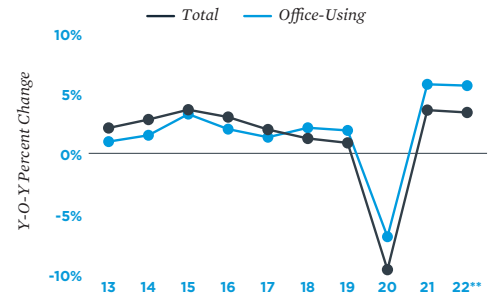
**Bifurcated performance in the East Bay.** Many of the lower-tier office tenants who take advantage of less-expensive rates in the market have held onto their space through the downturn, keeping conditions relatively tight. Entering this year, vacancy at Class B/C properties was hovering in the mid-12 percent range, compared to 22 percent for Class A buildings. An added challenge for top-tier space comes from the prevalence of available leases across the Bay Bridge. Prior to the downturn, Class A space in the two-county region was leased at a 30 percent discount relative to San Francisco. Now, that gap has narrowed to about 20 percent, heightening competition throughout the Bay Area for the tenants actively seeking high-end office footprints. On a positive note, construction is very light in the East Bay as just a handful of properties will come online this year. Furthermore, nearly all of the space scheduled to be completed in 2022 has leasing commitments. Nonetheless, it will take at least another year to absorb excess Class A space.

**Investors increase activity ahead of more vigorous recovery.** Buyers are seizing opportunities to expand their portfolios in the East Bay. Class B properties are particularly attractive, as deal flow tripled between 2020 and 2021. Both ends of the 680 corridor draw mid-tier investors, though assets closer to Walnut Creek and Concord are slightly favored. Both Class B and C properties in core areas also appeal to buyers, especially in a narrow band stretching from downtown Oakland to Berkeley. Class A properties change hands infrequently. Interested capital for buildings with a significant vacancy component is gravitating to San Francisco or the South Bay while stabilized buildings are not often listed, as many owners are hesitant to join the large pool of buyers attempting to place 1031 proceeds. The average cap rate in the East Bay is in the high-5 percent range entering this year, approximately 70 basis points above San Jose and 90 basis points more than the mean in San Francisco.

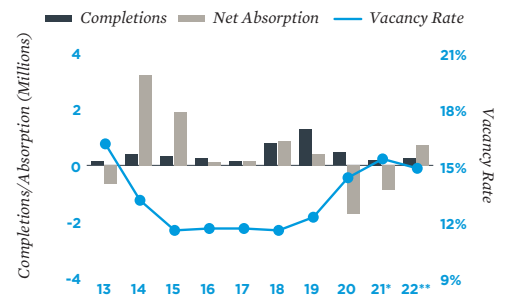
## 2022 Market Forecast

- Employment** up 3.4%  Office-using sectors will surpass pre-recession highs this year as 15,500 spots are created.
- Construction** 250,000 sq. ft.  Few properties are projected to finalize this year, limiting the increase in office stock to a paltry 0.2 percent. Last year, only 180,000 square feet was completed.
- Vacancy** down 50 bps  The vacancy rate tightens to 14.9 percent by the end of 2022, reversing course from the 100-basis-point rise last year. The rate was 12.5 percent prior to the health crisis.
- Rent** up 3.8%  After retreating 2.7 percent in 2021, the average asking rent is projected to climb to \$39.68 per square foot. Much of the rise can be attributed to the percentage of Class A space available.
- Investment**  Class B and C listings will attract investors looking for stabilized assets at attractive price points. As more top-tier properties are stabilized, some owners may begin to divest.

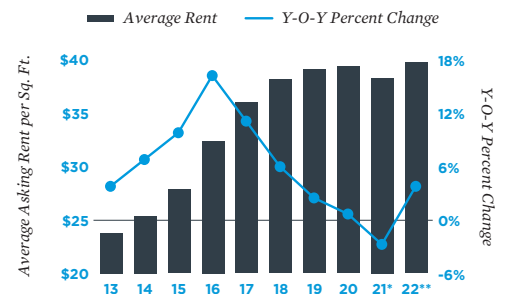
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.