INVESTMENT FORECAST

Retail

Oakland

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Bay Area's Highest Returns Attract Investors as East Bay Retail Market Retains Momentum

Retail fundamentals continue gradual recovery. The bottom of the market occurred in the middle of last year and improved during each of the last two quarters. Those gains will be furthered in 2022 as economic prospects increase. Absolute job growth is expected to nearly keep pace with 2021. While vacancy is declining and should finish the year 70 basis points below the recessionary peak, there is a limitation to tightening. Moveouts by big-box tenants will be challenging to backfill and likely need to be repurposed. During the 18-month span including 2020 and the first half of 2021, nearly 1.5 million square feet of single-tenant space was returned to the market. Meanwhile, multi-tenant properties absorbed approximately 200,000 square feet. The Interstate 80 Corridor, where vacancy is near 10 percent, faces the highest hurdle filling empty single-tenant space. Fortunately, nearly all new space demand will be funneled into existing vacancies, as only a handful of pre-leased properties will be completed metrowide this year.

Divide between single and multi-tenant investments narrows. Buyers will remain active in the single-tenant area where there is price clarity. These assets still trade at a discount to those in the rest of the Bay Area, even when occupied by a national credit tenant. The bondlike nature of net-leased properties buttressed investor confidence following the initial shock of the health crisis, though some retrenching occurred as buyers shifted focus to storefronts. Going into 2022, a broader range of assets are expected to change hands due to cap rates in the high-5 percent area, 100 basis points above adjacent markets. In the multi-tenant sector, sales velocity remains significantly below pre-recession levels, as buyers take a risk-averse position and owners with performing properties are hesitant to list. These positions could loosen as the year progresses, as upward pressure on the cost of capital mounts, encouraging more aggressiveness. First-year returns are in the mid-5 percent area at the beginning of the year.

2022 Market Forecast

Employment up 3.4% — Employment gains remain brisk this year, as 38,000 spots are created, down from 38,800 in 2021.

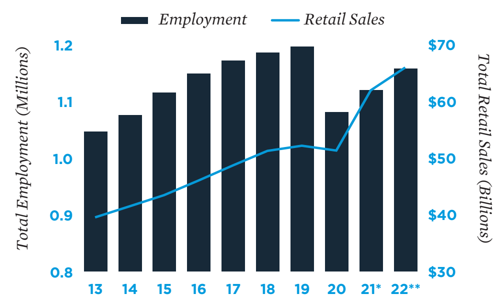
Construction 180,000 sq. ft. — Stock will only increase by 0.2 percent in 2022, and most of that space has leasing commitments. Developers added a paltry 200,000 square feet last year.

Vacancy down 40 bps — Vacancy continues the downward trend that began in the middle of last year, falling to 5.3 percent. The rate will remain 80 basis points above the level in the first quarter of 2020.

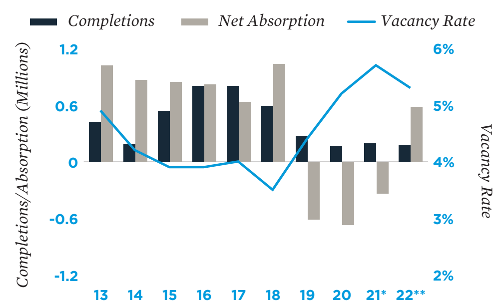
Rent up 1.3% — Reversing a two-year trend of declining asking rents, the mean marketed rate will tick up to $28.08 per square foot. In 2021, the average rate retreated 4.8 percent.

Investment — Buyers will search for more assets in east Contra Costa County, where many of the metro's new homes have been constructed, complementing activity in the Interstate 880 Corridor.

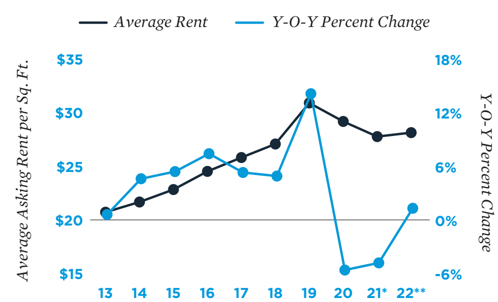
Economic Trends



Supply and Demand



Rent Trends



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

Daniel Taub
Senior Vice President
Director IPA Retail
Tel: (212) 430-5100 | dtaub@ipausa.com