

MARKET REPORT

Office
Oakland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

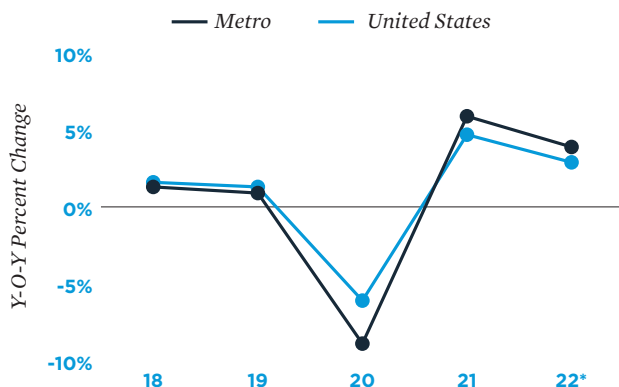
2Q/22

Oakland's Performance Leads the Bay Area; Muted Supply Growth Boosts Outlook

Pandemic-era shifts aid the East Bay. Throughout the health crisis, the East Bay's high proportion of life science-related employers has helped the metro maintain more sound fundamentals than its Bay Area counterparts, as these jobs are often unable to be performed remotely. Entering April, office vacancy in the Oakland metro rested at 15.8 percent, 390 basis points lower than San Francisco and 10 basis points below San Jose. Since the onset of the health crisis, Bay Area office tenants have exhibited a growing preference for space closer to residents, another factor aiding the East Bay. Recent in-migration to Oakland suggests leasing velocity may further rise in the near term if this trend persists. Additionally, builders have slowed down office construction in the metro, a factor that will nudge expanding firms into existing properties with available space.

Bay Area's lowest rents drive leasing. Regionally discounted asking rents are also aiding the performance of Oakland's office sector. At the onset of the second quarter, the metro's average asking rent was more than 70 percent below mean marketed rates in other Bay Area metros. Furthermore, asking rents in Downtown Oakland are roughly 80 percent lower than recordings in Downtown San Francisco and Palo Alto. This situation is motivating some Bay Area firms to relocate physical operations to the East Bay. Last year, Eat Just, Inc. moved its headquarters from San Francisco to a 117,000-square-foot office park in Alameda. Additionally, Carvana, Callisto Media, Gensler and PG&E all inked commitments in Downtown Oakland.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**45,000
JOBS**
will be created

EMPLOYMENT:

Local employers expanding payrolls by 3.9 percent this year places the metro's job count roughly 3,000 positions ahead of the year-end 2019 mark. At the same time, traditionally office-using employment will cross the pre-pandemic mark this year.



**325,000
SQ. FT.**
will be completed

CONSTRUCTION:

Building in the East Bay has been suppressed since the health crisis began. The metro is home to just 5.0 percent of the space being completed in the Bay Area this year. This is also the third straight year with less than 500,000 square feet finalizing.



**20
BASIS POINT**
increase in vacancy

VACANCY:

The metro notches the smallest increase among Bay Area metros this year, as vacancy rises to 15.4 percent. Oakland's vacancy climb has been muted in comparison to San Francisco and San Jose each year since the onset of COVID-19.

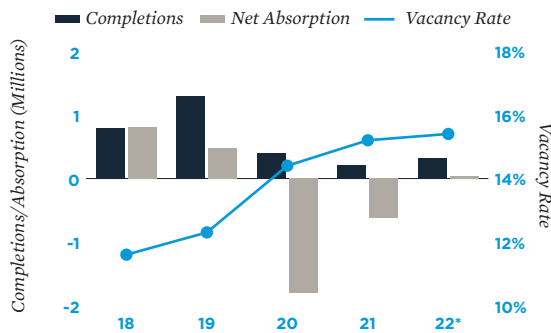


**0.4%
INCREASE**
in asking rent

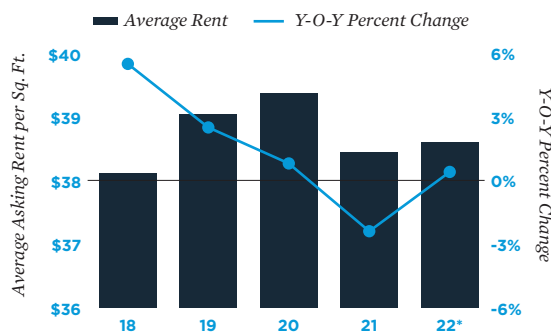
RENT:

The mean marketed rent will rise to \$38.60 per square foot by the end of 2022, following a 2.4 percent decrease registered last year. By the end of December, the average asking rent will be just 1.2 percent below the pre-pandemic level.

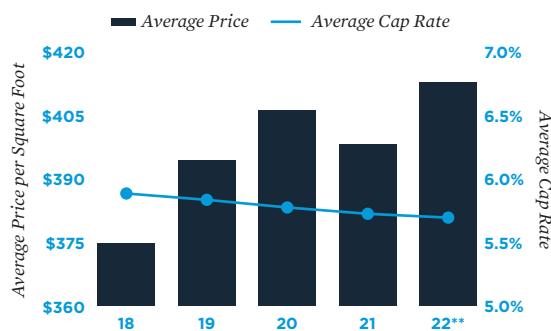
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

170,000 sq. ft. completed

- Builders expanded inventory by just 0.2 percent in the 12 months preceding April. This number is likely to climb in the next yearlong stretch, as developers had roughly 350,000 square feet under construction in June.
- The space that is arriving has been located primarily in the 880 Corridor, specifically the Bay Farm Island area of the Alameda submarket.



VACANCY

30 basis point increase in vacancy Y-O-Y

- Availability reached 15.8 percent in March, despite vacancy of 8.7 percent in the 880 Corridor, 290 basis points below the local pre-pandemic level.
- Despite sizable leasing activity downtown, vacancy rose 120 basis points year-over-year to 15.7 percent entering April. Availability outside the CBD eased 10 basis points during the same interval to 15.8 percent.



RENT

2.3% decrease in the average asking rent Y-O-Y

- Owners have responded to higher vacancy by raising concession usage, dropping the mean marketed rent to \$38.23 per square foot in March.
- Entering the second quarter of 2022, only one of the metro's six submarkets – the 680 Corridor South – had an average asking rent that exceeded its 2019 level.

Investment Highlights

- Transaction velocity in Oakland rose sharply over the last year ended in March, as the number of assets that changed hands grew 75 percent above the prior yearlong recording. Sales volume also reached its highest annual level since 2018, largely due to an increase in trades above \$10 million.
- Renewed investor confidence and the corresponding rise in deal flow contributed to a 2 percent rise in average entry costs to \$413 per square foot. The mean cap rate in Oakland fell to 5.7 percent. However, the rate has been in the high-5 percent area since the end of 2017. Discounted pricing and higher yields than those available in San Francisco or San Jose have the potential to bring additional investors to the East Bay moving forward.
- Institutions and international buyers are targeting large and fully-leased assets downtown, and properties in high-profile business parks. These buildings trade for an average of \$500 per square foot. However, pricing can climb to \$1,000 per square foot for assets with diverse tenant rosters.
- Local investors are active throughout the metro, particularly in areas east of Interstate 680, like Pleasanton. Pricing here is around \$220 per square foot on average, but can drop well below this threshold for older buildings.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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