

MARKET REPORT

Retail
Oakland Metro Area

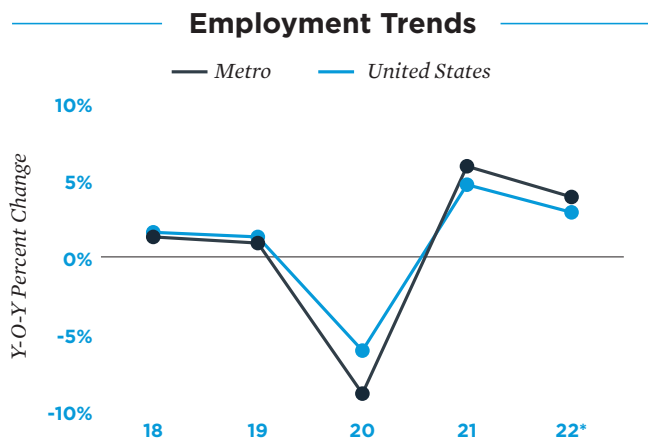
IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2Q/22

Lower Living Costs Aid Household Counts; Leasing Activity Returning

Lifted restrictions spark recovery in hard-hit industries. With mask mandates and gathering rules largely recalled, the metro is recording several positive indicators for future performance. The recent employment growth in Oakland has been strongest within the leisure and hospitality segment, with restaurants and gyms being some of the most active space fillers of late. At the same time, a mild construction pipeline that is mostly built-to-suit will nudge expanding businesses into existing properties. Despite national narratives surrounding flight from coastal areas, Oakland has grown its population since the start of COVID-19, and has lifted its household count at a quicker rate than San Francisco or San Jose. As housing costs rise, more people from the other Bay Area metros could move to Oakland, with the cost of living being significantly lower here.

Optimistic outlook for high-income portions of Alameda County. Areas south of downtown, like Alameda Island and San Leandro down to Fremont, have recorded rising absorption recently. Vacancy here slipped to 3.8 percent, the lowest in the East Bay entering April. Inland areas of Alameda County have also recorded performance climbs, with vacancy shedding 70 basis points in Dublin-Pleasanton-Livermore, the largest year-over-year drop in the metro. These locales record median household incomes far ahead of Oakland proper and Contra Costa County. Single-tenant performance is strongest along the coast, while multi-tenant properties farther inland have been most successful in adding and retaining tenants.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**45,000
JOBS**
will be created

EMPLOYMENT:

While a 3.9 percent rate of job creation is a slowdown from 2021, this pace is still faster than pre-pandemic years. New employment opportunities will bring metro payrolls just under 3,000 jobs shy of the high recorded in February 2020.



**150,000
SQ. FT.**
will be completed

CONSTRUCTION:

Development diminishes relative to 2021 and remains below the five-year trailing average of 413,000 square feet. Developers will expand inventory by just 0.1 percent this year, with much of the pipeline built-to-suit or pre-leased.



**20
BASIS POINT**
decrease in vacancy

VACANCY:

Vacancy in Oakland is set to record its first annual decline since 2018, reaching 5.5 percent by the end of this year. This rate remains elevated from 2019 levels, but the start of a downward trend is positive for asset owners.

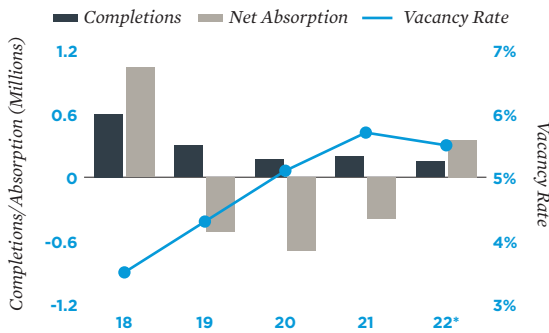


**9.1%
INCREASE**
in asking rent

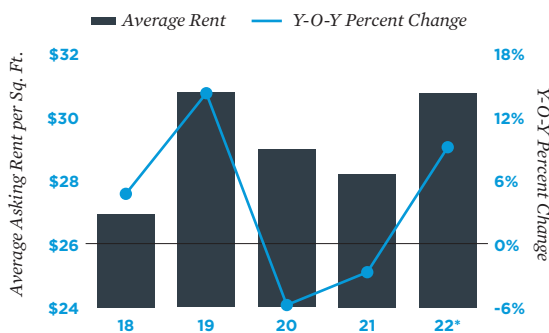
RENT:

After falling more than 2.5 percent each of the last two years, marketed rates should rise sharply this year. Asking rent growth of this magnitude is ahead of what is forecast in the rest of the Bay Area, bringing the rental cost to \$30.70 per square foot.

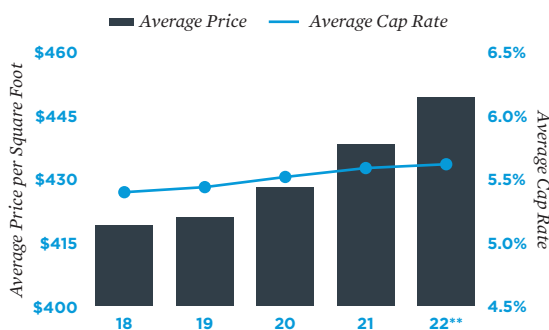
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

173,000 sq. ft. completed

- Builders have less than 200,000 square feet of retail space in the pipeline as of April, suggesting annual totals will stay beneath pre-pandemic norms in the near term, when 400,000 square feet annually was typical.
- The majority of completions made in the 12 months preceding April were built-to-suit, mainly in Contra Costa County and Inland Alameda County.



VACANCY

0 basis point change in vacancy Y-O-Y

- Positive net absorption during three quarters of 2021 helped the metro record flat vacancy year-over-year in March. This is the first time vacancy has not risen on an annual basis since the fourth quarter of 2018.
- Vacancy in Oakland proper is the second lowest in the metro at 4.9 percent in March, trailing only the 880 Corridor submarket to its south.



RENT

12.6% increase in the average asking rent Y-O-Y

- The average asking rent climbed to \$30.64 per square foot in Oakland in March, bolstered by an 8.7 percent leap in the first quarter of 2022.
- The metrowide pace of rent growth is largely carried by exceptional advances in the 80 Corridor and 680 Corridor South submarkets, where asking rents advanced over 20 percent last year.

Investment Highlights

- Sales volume rose in the 12-month period ended in March when compared to the previous year, but transaction velocity still trails pre-pandemic levels narrowly. A rising number of trades involve redevelopment opportunities, highlighted by the sale of Hilltop Mall in the Richmond-San Pablo area, which is in planning to become a mixed-use building.
- Notably, a similar number of single-tenant properties changed hands during the 12-month period ended in March as the 2019 level. Cap rates for these assets have been rising steadily since 2018, reaching 5.6 percent during the past year. Entry costs are around \$520 per square foot on average, but can be as high as \$1,000 per square foot in the 880 Corridor submarket, with cap rates near 4.5 percent usually.
- Multi-tenant sales velocity is rising but still lags behind pre-pandemic norms. Nonetheless, average pricing rose to \$397 per square foot, with mean first-year returns at 5.6 percent on multi-tenant trades in the metro.
- While entry costs are growing, sales pricing remains significantly below San Jose and San Francisco, suggesting more investors looking to establish a retail footprint in the Bay Area will acquire assets in Oakland.

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