

MARKET REPORT

Retail
Oakland Metro Area

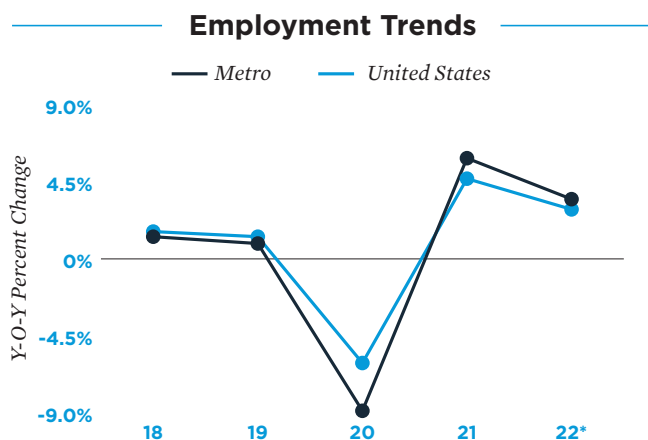
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3Q/22

Retail Space Demand Ramps Up as Construction Activity Falls to a 15-Year Low in the East Bay

Robust hiring attracts retailers. Economic conditions in the East Bay have improved significantly, which has benefited retail fundamentals in the metro. Robust job growth sliced 310 basis points off unemployment during the trailing 12-month period ending in August, lowering the rate to 2.9 percent. The strength of the labor market, coupled with pent-up consumer demand following pandemic lockdowns, led to a rise in retail spending, and leasing activity has ramped up in response. Annual net absorption returned to positive territory entering the second half of 2022 for the first time since the onset of the health crisis. Retailers are actively taking space off the market in neighborhoods along the 880 Corridor and Highway 4, as these locales have recorded strong household formation in recent quarters. Restaurants, discount stores and experiential retailers have been actively leasing space in these submarkets as of late.

Supply additions remain limited. Elevated construction costs, due to inflation and supply chain constraints, have developers in Oakland taking a more disciplined approach. Entering the second half, only 26,900 square feet of space was underway metrowide, equating to less than 0.1 percent of existing inventory. In fact, the East Bay's active pipeline is at least 200,000 square feet less than any other Bay Area metro. The lack of new supply will benefit market conditions in the near- to mid-term, as new and expanding retailers are steered toward the metro's existing stock. As a result, vacancy is projected to compress on an annual basis for the first time since 2018.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**40,000
JOBS**
will be created

EMPLOYMENT:

The addition of 27,000 new positions through the first eight months of 2022 puts employers on pace to expand the total workforce by 3.5 percent this year. Recent job gains have been driven by robust hiring in the leisure and hospitality sector.



**50,000
SQ. FT.**
will be completed

CONSTRUCTION:

Oakland will add the least amount of retail space among all major metros in the U.S. in 2022, as developers expand inventory by less than 0.1 percent. The bulk of the active pipeline is slated for delivery along the 680 Corridor south of Walnut Creek.



**10
BASIS POINT**
decrease in vacancy

VACANCY:

Net absorption more than doubles new supply in 2022, facilitating annual vacancy contraction for the first time in four years. Still, availability will remain more than 100 basis points above the pre-pandemic rate.

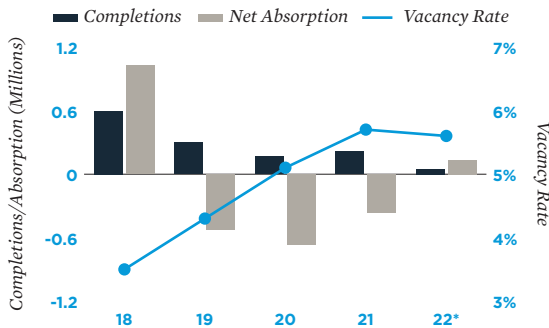


**9.0%
INCREASE**
in asking rent

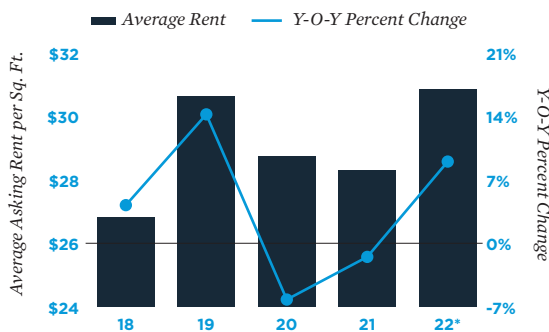
RENT:

Rent growth in Oakland ranks third among all major markets in the U.S. this year, as the average asking rate reaches \$30.85 per square foot. These gains will fully recover all rent declines recorded during the COVID-19 pandemic.

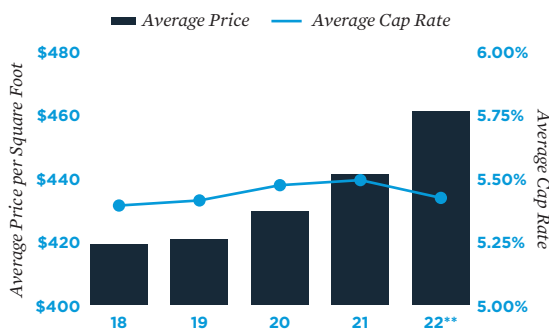
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

40,000 sq. ft. completed

- Supply additions during the trailing 12-month span ending in June was the lowest four-quarter total recorded in the East Bay in more than 15 years, with the bulk of completions occurring in the Highway 4 submarket.
- The largest project in the active pipeline is a 15,720-square-foot building slated for delivery in Dublin later this year.



VACANCY

20 basis point decrease in vacancy Y-O-Y

- Over the past year ending in June, five of Oakland's six submarkets recorded annual vacancy compression of at least 30 basis points, lowering metrowide availability to 5.7 percent.
- Vacancy in the single-tenant sector fell 20 basis points to 5.7 percent, while multi-tenant availability held steady at 5.9 percent.



RENT

14.4% increase in the average asking rent Y-O-Y

- The average asking rate in the East Bay rose to \$31.06 per square foot year-over-year ending in June, with the 680 Corridor South and 80 Corridor submarkets leading the metro in rent gains.
- Both single-tenant and multi-tenant properties observed double-digit rent growth, rising by 14.0 percent and 16.4 percent, respectively.

Investment Highlights

- Robust employment growth and a growing number of households in the East Bay have heightened buyer interest for retail assets in the metro. Transaction velocity in the trailing 12-month period ending in June rose nearly 50 percent relative to the previous yearlong span. However, deal flow remains below levels seen prior to the health crisis.
- Entry costs recorded a 6 percent gain in the past year, rising to \$460 per square foot, while the mean cap rate compressed 10 basis points to 5.4 percent. Still, compared to the San Jose and San Francisco metropolitan areas, pricing for retail assets in Oakland remains at least 30 percent lower, and yields are at least 60 basis points higher on average.
- Auto repair shops and restaurants have been highly sought after by investors targeting single-tenant assets. Transaction activity in this segment has been most pronounced in areas like Berkeley, North Oakland, South Oakland and Antioch-Pittsburg.
- In the multi-tenant sector, grocery-anchored neighborhood and community centers are frequently changing hands in locales along the 880 Corridor, such as Alameda, San Leandro, Fremont and Castro Valley.

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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