

MARKET REPORT

Office
Oakland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/22

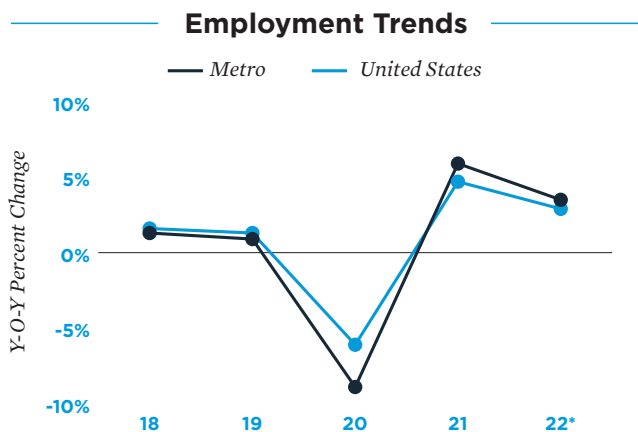
Interstate 680 Corridor South's Downward Vacancy Trend is a Bright Spot Amid a Market Transition

Companies begin inking larger-scale commitments in suburbs.

As of August, the East Bay had seen three major leases — totaling 330,000 square feet — signed in the Interstate 680 Corridor South submarket. Availability here compressed 150 basis points in the trailing 12 months ended in June. Snowflake, a cloud-based computing company, and Vagaro, an online scheduling startup, both made commitments in May, contributing to the drastic vacancy compression in the metro's second-largest submarket. The market's southeastern neighborhoods have some of the tightest apartment vacancy rates and offer attractive commutes, making them a prime target for employers seeking access to the local talent pool. With a sparse number of office projects currently in the construction pipeline here, vacancy is poised to tighten further if additional companies pursue longer-term commitments in the area.

Recently vacated floorplans benefit from limited construction.

Among the three Bay Area metros, Oakland has noted the smallest construction pipeline. Minimal completions last year and this year are poised to direct companies expanding in-person operations into existing space. High metro vacancy may additionally stall some projects in the proposal stage, supporting this trend. Oakland proper, which registered a record-high vacancy rate in the second quarter, has nearly no new projects underway. As the mean asking rent in the submarket decreases and leasing velocity renews, limited deliveries will aid long-term vacancy compression at existing offices here.



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



40,000
JOBS
will be created

EMPLOYMENT:

Aided by the addition of 27,000 positions in the first eight months of the year, total employment will grow by 3.5 percent during 2022. The job tally across traditional office-using sectors is expected to expand by 1.5 percent.



310,000
SQ. FT.
will be completed

CONSTRUCTION:

Inventory will grow by 0.3 percent this year, just below the trailing five-year average. Deliveries will predominantly occur along the Interstate 880 and 80 Corridors, and around Highway 4.



90
BASIS POINT
increase in vacancy

VACANCY:

Availability will continue its upward climb, reaching 16.0 percent by year-end. Net absorption will be negative; however, space coming back on the market will be similar to the 600,000 square feet vacated in 2021.

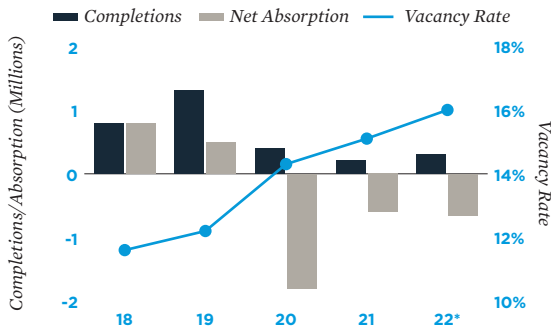


0.4%
DECREASE
in asking rent

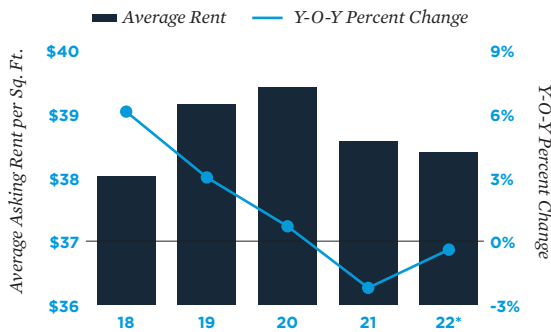
RENT:

The average asking rent will decrease for the second year in a row to \$38.40 per square foot, which is 3.7 percent below the metro high recorded in 2020. Marketed rates in Oakland remain at least \$15 per square foot below the other two Bay Area metros.

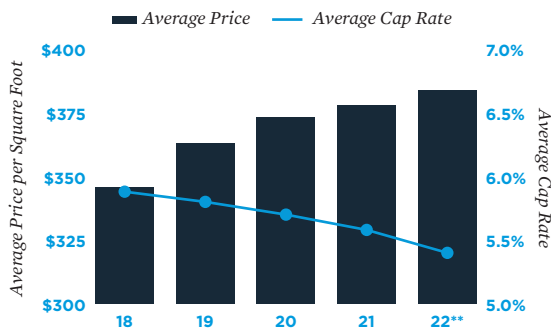
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

2Q 2022 - 12-Month Period



CONSTRUCTION

250,000 sq. ft. completed

- Metro stock expanded by 0.2 percent in the trailing 12 months ended in June. The majority of completions came online in the first half of 2022.
- The I-880 Corridor recorded the largest office delivery during the period, with a roughly 220,000-square-foot headquarters for biotech firm Exelixis in the city of Alameda.



VACANCY

60 basis point increase in vacancy Y-O-Y

- Metro vacancy rose to 16.2 percent in the second quarter, following three years of annual increases in vacancy.
- Availability increased year-over-year in five of Oakland's six submarkets entering July. The Interstate 680 Corridor North and the city of Oakland saw the greatest rise, with 250- and 130-basis-point rises, respectively.



RENT

1.7% decrease in the average asking rent Y-O-Y

- Oakland's average asking rent continued to decrease in the yearlong period preceding July, falling to \$38.19 per square foot in June.
- The mean asking rate in the CBD declined by only 0.7 percent year-over-year, holding above the \$50 per square foot threshold. Meanwhile, suburban marketed rents compressed faster by 2.2 percent.

Investment Highlights

- Transaction velocity in the trailing 12 months ended in June rose by 40 percent, as the second quarter noted the third-highest number of transactions in any three-month period since at least 2000. During this stretch, the East Bay's mean price per square foot rose to \$384, and the average cap rate compressed to 5.4 percent. This pricing is still nearly half of the mean reported in San Francisco and San Jose, with Oakland's first-year return at least 60 basis points higher.
- Trades in Oakland proper rose during the trailing yearlong period preceding July, as investors targeted the downtown area after leaving the locale largely untouched for the past few years. Most sales in this area sat below the \$15 million threshold, with average pricing hovering in the mid-\$400 per square foot range. These trades predominantly involved Class B properties with smaller floorplans built in the early 1900s.
- Medical office deal flow returned to pre-pandemic levels in the 12-month interval. Most of these transactions involved Class B properties, as investors targeted prices in the high-\$100 to mid-\$200 per square foot range along the I-680 Corridor North. This sector has largely outperformed traditional office assets in recent years, drawing new investors.