

MARKET REPORT

Office
Oakland Metro Area

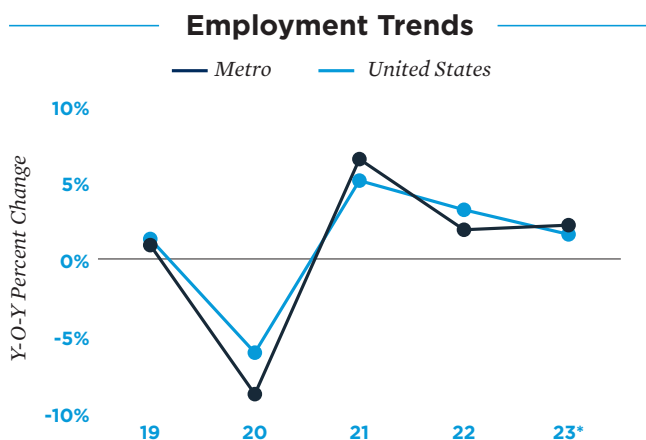
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4Q/23

Pockets of Encouraging Demand Emerge, Despite East Bay's Macro Challenges

Several submarkets buck the broader trend. East Bay office vacancy has reached an all-time high, with historically elevated rates apparent in Oakland proper and along the 680 Corridor. Despite this daunting reality, pockets of the metro are registering regionally impressive levels of demand. At 10.1 percent in June, the 880 Corridor claimed the second-lowest vacancy rate among the 17 Bay Area submarkets with at least 10 million square feet of inventory. Home to primarily Class B/C space, the aforementioned area benefits from its bridge access to Silicon Valley, along with an average asking rent that is lower than all major East Bay submarkets. To the north, the 80 Corridor noted positive absorption in each of the past two quarters, with vacancy declining 10 basis points during the first half. Similar to the 880 Corridor, the majority of space here is of mid- and lower-tier quality, signaling demand among cost-conscious firms.

Niche segment stands out. The medical office sector is another example of local outperformance, as vacancy fell 40 basis points to 8.8 percent over the 12-month span ending in June. The metro's record health services job count, a byproduct of a growing 55-year-old-plus cohort, is to credit for the level of demand that exists for space suitable for outpatient care and screenings. However, the segment is not without its challenges. Kaiser Permanente will shift 1,000 Oakland workers to its Pleasanton campus in early 2024, indicating a significant chunk of the provider's downtown space may be vacated.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**26,000
JOBS**

will be created

EMPLOYMENT:

Government, health services and construction-related hiring will offset an expected decline in traditionally office-using jobs during 2023. This dynamic translates to a 2.2 percent annual rate of employment growth.



**129,000
SQ. FT.**

will be completed

CONSTRUCTION:

The East Bay will record its smallest inventory increase, 0.1 percent, in the past 10 years. Among major U.S. office markets, only New Haven-Fairfield County is expected to add less space.



**240
BASIS POINT**

increase in vacancy

VACANCY:

Amid a period of extremely minimal supply-side pressure, the metro notes its fourth straight year of rising vacancy. However, at 18.8 percent, Oakland's year-end rate will be 120 basis points below that of San Jose.



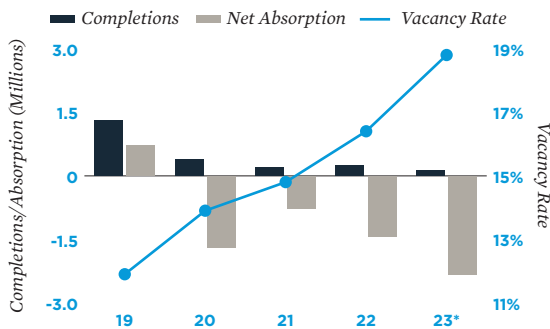
**0.7%
DECREASE**

in asking rent

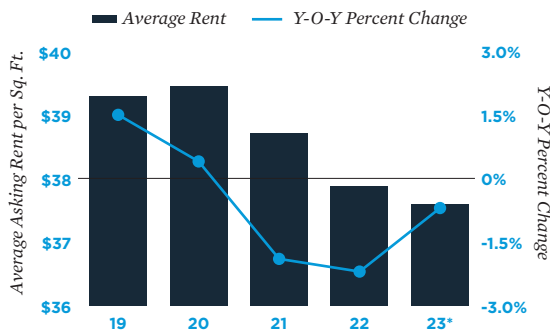
RENT:

Oakland's mean asking rent will decline in 2023, albeit at a less severe pace than its Bay Area counterparts. At \$37.60 per square foot, the metro's year-end rate will trail its prior peak by nearly 5 percent.

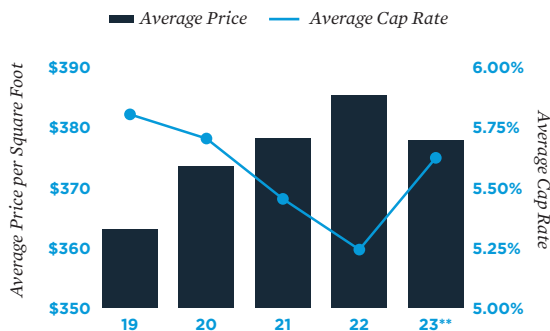
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

92,000 sq. ft. completed

- The delivery of the LAB Emeryville, a 75,000-square-foot life science-oriented property, accounted for most of the space added to inventory over the 12-month interval ending in June.
- The East Bay will continue to lack supply additions over the near term, as just 54,000 square feet was underway as of early September.



VACANCY

190 basis point increase in vacancy Y-O-Y

- The local vacant stock increased by nearly 2 million square feet over the recent four-quarter span, lifting the metro's rate to 17.8 percent.
- At 27.8 percent in June, Oakland's Class A vacancy tied with Chicago as the second highest among major U.S. markets. In contrast, the East Bay's 13.6 percent Class B/C rate was lower than five other California markets.



RENT

0.8% decrease in the average asking rent Y-O-Y

- The average asking rent declined moderately in 12 of the last 13 quarters, resting at \$38.17 per square foot in June. This figure represents a more than \$13 per square foot discount to San Francisco and San Jose.
- Despite elevated upper-tier vacancy, the mean Class A marketed rate rose slightly. Meanwhile, the average Class B/C asking rent dipped 1.7 percent.

Investment Highlights

- While a sizable gap between Oakland's average pricing and its Bay Area counterparts remains in place, it has not aided local deal flow. Instead, record-high vacancy and elevated debt costs hindered sales activity over the past 12 months. The pullback in trading was most apparent over the first half of 2023, with activity retreating back to levels recorded during the 2010-2012 period. Of the traditional office buildings that recently changed hands, many were smaller pre-1990s-built properties along either the 680 Corridor or in Oakland proper. Pricing for these assets rarely exceeded \$400 per square foot.
- Sales involving Class B and C medical office buildings accounted for one-third of first half trading. Among all office transactions, these assets commanded the highest price points, with several deals in the Berkeley area reaching more than \$900 per square foot.
- Preliminary data for the third quarter is highlighted by the closing of a sizable Class A property in Concord. This deal is significant for the East Bay, as it represents the first upper-tier asset to trade in more than two years. Also of importance, the distressed asset sold for just \$105 per square foot.

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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