INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

RETAIL

Oakland Metro Area

2019

Affordability Draws Retailers, Investors to East Bay; Pricing Arbitrage Underpins Economic Strength

Development falls to five-year low amid consistent space absorption. Robust employment growth throughout the Bay Area has triggered exceptional housing demand in Oakland. As residents seek out affordable rentals, they are drawn to Oakland, where accommodations can be found below the broader regional average. Retailers have followed suit, pushing vacancy to the lowest point in over a decade. Despite the tightening conditions, construction activity is on pace to slow to a five-year low, even as net absorption has consistently surpassed completions annually in five of the past six years. The diminishing pipeline will be underpinned by the Shoppes at Livermore and Sciortino Ranch in Brentwood. While the former represents more than 120,000 square feet of retail space near the existing Livermore Premium Outlet Center, the latter highlights the retail portion of a massive 60-acre mixed-use development that will include roughly 85,000 square feet of retail space and more than 325 single-family homes. These projects will do little to slow the pace of absorption, fueling a moderate drop in vacancy and continued rent growth.

National and regional capital competes with local investors for assets. Fueled by relatively higher cap rates and lower rents than the rest of the Bay Area, buyers from throughout the nation have flocked to Oakland assets in search of robust returns. Initial returns that can reach the low- to mid-5 percent range offer investors a significant premium to the other Bay Area metros. While institutions will typically target the urban core of Oakland and Berkeley, private investors have ventured farther into the suburbs, where competition for assets is typically less heated. As a result, deal flow has broadly reflected this shift, with average transaction prices falling as dollar volume surges. Properties along the I-880 and southern stretches of the I-680 have drawn considerable attention from investors due to the rapidly expanding population bases and consistent commuter traffic, boosting rates of return in the near future.

2019 Market Forecast

Employment up 1.8% — Oakland organizations will create 22,000 jobs this year, boosting total employment. Last year, 23,300 positions were added, mostly led by office-using firms.

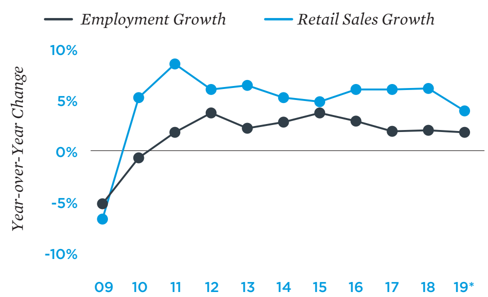
Construction 290,000 sq. ft. — Development will fall by roughly 50 percent, with builders primarily focused on southern portions of the I-680 corridor.

Vacancy down 20 bps — Slowing development and strong absorption will contract vacancy to 3.1 percent. Last year, vacancy fell 50 basis points.

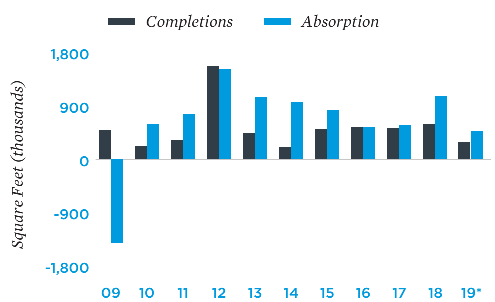
Rent up 3.4% — Following a 5.5 percent climb in 2018, rent growth remains robust this year, rising to $29.50 per square foot.

Investment — Properties located off exits along Highway 4 are drawing greater interest from buyers seeking assets that have yet to undergo significant rent growth or price appreciation despite robust operational performance, particularly in Antioch and Brentwood.

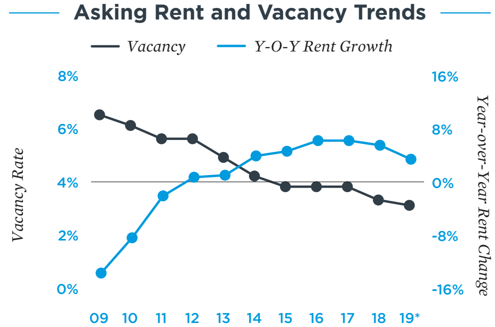
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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