INVESTMENT FORECAST

OFFICE

Oakland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2020

Spillover Demand Driving Rent Growth and Promoting Myriad of Investment Strategies in the East Bay

Oakland/East Bay office properties realize outsized benefits during mature economic cycles. In addition to a fairly robust local office foundation, the East Bay has long served as a destination for spillover demand in the Bay Area. That trend will persist this year after both San Francisco and San Jose record cyclical-low vacancy, encouraging tenants with rollover leases to explore more affordable options while remaining within arm's length of their high-profile clients. Office-users seeking larger footprints may also defect to the East Bay in the coming months. The average rent for available floor plans with at least 200,000 square feet is 33 percent lower than across the Bay Bridge, potentially nudging tenants facing sticker shock as leases expire. Blue Shield, for instance, opened a new headquarters in Oakland after spending the previous 80 years in San Francisco. Payment processor Square, meanwhile, recently moved into 356,000 square feet of space in Oakland's Uptown Station, though the firm retained its San Francisco offices as well.

Office listings near major thoroughfares attract several bids. Although activity has dipped each of the past two years, office buyers remain lively in the East Bay. Properties near Interstates 680 and 880 are particularly appealing to investors, including those migrating capital from San Francisco, the South Bay and out of state. Assets with a sizable vacancy component are becoming scarcer, forcing buyers seeking to expand their presence in the East Bay to reconsider their long-term motivation. Repositioning plays have gained in popularity in recent quarters due to a relatively thin pipeline and belief that upgrading office space to attract technology companies will still leave a generous discount relative to nearby markets. Another strategy is to position local office properties as an alternative to high-cost space sought by tech firms. More traditional office users that lack the deep cash reserves of tech firms feel the pinch of high rents and may be easier to poach to the East Bay.

2020 Market Forecast

Employment up 1.1% — Office-using sectors will contribute 4,300 spots this year, representing a 1.5 percent gain. Total employment grows by 13,300 positions in 2020.

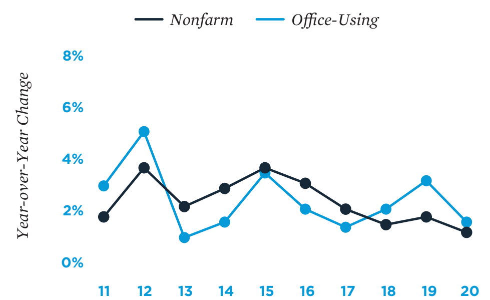
Construction 350,000 sq. ft. — Nearly all of the 350,000 square feet slated for delivery this year has an inked leasing commitment. Last year, 1.4 million square feet was completed.

Vacancy down 130 bps — Vacancy plunges to 11 percent as demand migrates to the East Bay and new supply has a nominal impact on available space.

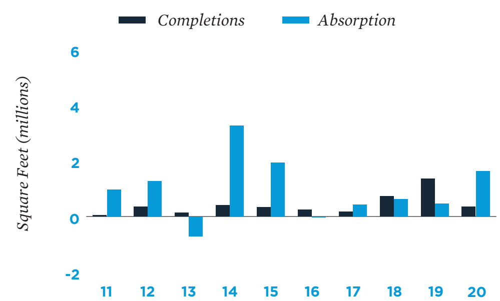
Rent up 8.0% — The average office asking rent soars to $43.22 per square foot in 2020, significantly outpacing the 4.2 percent rise last year.

Investment — Cycle-low vacancy in the nearby Bay Area markets opens several opportunities for local investors as cost-conscious tech firms and rent-squeezed traditional office users migrate into available dark space.

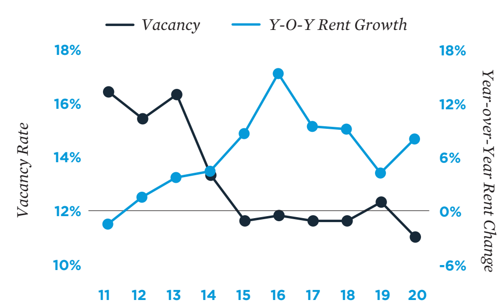
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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