

MARKETBEAT EAST BAY OAKLAND



Office Q4 2020

15.7%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



-470K

Net Absorption, SF



\$4.44

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2020

1.1M

East Bay Oakland
Employment

YoY
Chg



12-Mo.
Forecast



7.3%

East Bay Oakland
Unemployment Rate



6.7%

U.S.
Unemployment Rate



Source: BLS, Moody's Analytics.
2020Q4 data are based on latest available data.

ECONOMY: Slow Road to Pandemic Recovery

The East Bay, encompassing Alameda and Contra Costa counties, recorded negative job growth with over 123,000 jobs (-10.4%) lost year-over-year (YOY), bringing regional employment to just over 1.06 million. With this decline, the unemployment correspondingly rose by +520 basis points (bps) to 7.3%, above the national rate of 6.7%. Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June of 2020. But, until there is a public health resolution to the pandemic and vaccinations become widely available, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident.

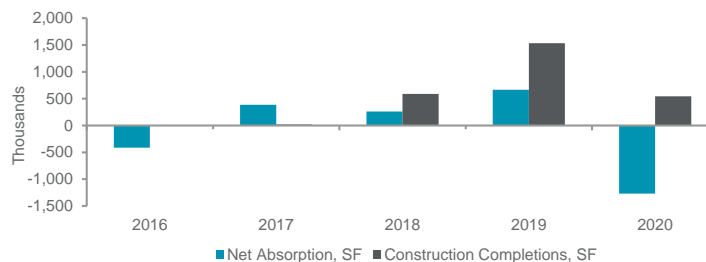
SUPPLY: Vacancy Rise Concentrated in Smaller Blocks

The vacancy rate in the East Bay Oakland office market was 15.7% at the end of the year, up 150 bps from the previous quarter and up a substantial 540 bps from this time last year. While new construction and renovation projects accounted for some of this increase, the vast majority of the 1.8 million square feet (msf) added to the market in the past year were givebacks of existing space. Givebacks were concentrated in blocks under 5,000 square feet (sf), with 133 spaces in that size segment vacated in the past year. Continuing the trend that began in the first quarter—which was precipitated by the ongoing COVID-19 pandemic—sublease space continued to flood the market, with nearly 1.1 msf currently available, reaching levels not seen since the Dot-Com Recession. These space returns were concentrated in the Oakland CBD, where there is 628,172 sf presently available, marking a nearly 190 percent increase from this time last year. Vacancy is expected to continue rising in the coming year, and with no major projects in the pipeline delivering in the next year, this rise will be manifested exclusively in givebacks of existing space.

PRICING: Rents Continue Rising Despite Givebacks

Though space continued flooding the market, rents nevertheless ticked up, closing the year at \$4.44 per square foot (psf) on a monthly full-service basis, up \$0.05 from this time last year. Rent growth was driven by activity in periphery markets, as the Oakland CBD saw rents fall to \$5.19 psf in the fourth quarter, down \$0.20 from the start of the year. Rents continue to be propped up by several blocks of sublease space with top-of-the-market pricing: The Square sublease, totaling 134,000 sf in Downtown Oakland, is the most expensive pure office space on the market with an asking rate of \$6.25 psf on a monthly industrial-gross basis. Despite the overall rise, rents are expected to decline as adjustments typically take several quarters to respond to a market correction as we have seen with the pandemic-induced vacancy increase. The magnitude of this decline will hinge on ongoing efforts to reopen the local and national economies.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



EAST BAY OAKLAND

Office Q4 2020



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DEMAND: 2020 Losses Erase Three Years of Occupancy Gains

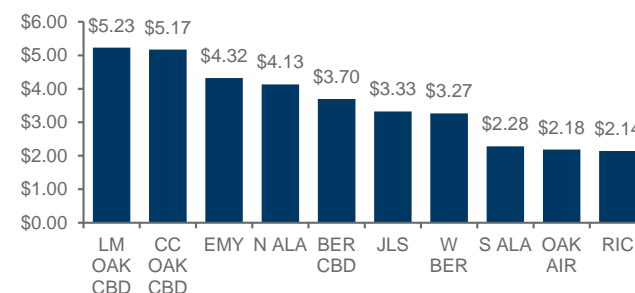
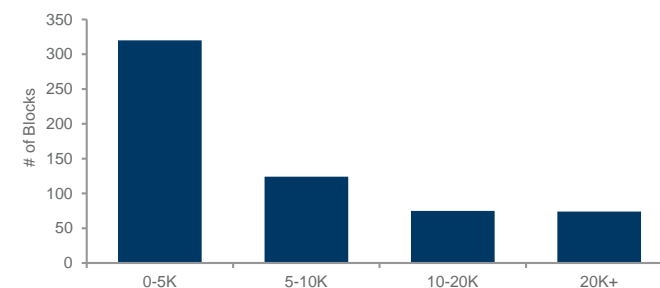
Echoing trends seen throughout the year, occupancy losses continued in the fourth quarter, with net absorption totaling negative 470,346 sf. Net absorption for the year totaled negative 1.3 msf, nearly erasing the occupancy gains of the previous three years. While the decline can be attributed to depressed activity as the market responds to the ongoing pandemic, it is important to note that potential 2020 losses were offset by the delivery of 1100 Broadway in the third quarter, totaling 335,000 sf and 100 percent preleased upon delivery. While there has been a decrease in traditional office demand, life sciences demand has steadily grown over the course of 2020, and of the 1.1 msf of requirements we are tracking in the marketplace, roughly 35 percent are life-science users, indicating a potential structural change to the East Bay tenant mix in the near future. In recent quarters, the East Bay has captured a growing number of food-tech requirements in the life sciences sector, and we expect this trend to continue going into 2021.

Future PG&E HQ Trades, Market Continues Pivot Towards Life Sciences

Construction deliveries totaled 543,664 sf in 2020 and included notable projects such as 1100 Broadway in the Oakland CBD, totaling 335,000 sf and 100% leased, and the 138,000-sf North Loop 3 flex project in Alameda. In investment news, 300 Lakeside Drive—totaling over 900,000 sf—was sold by Swig Partners and Rockpoint Group to TMG Partners in the fourth quarter for \$450 million, or \$472 psf. In the second quarter, PG&E announced plans to migrate their San Francisco headquarters to the property and consolidate their East Bay operations there. In their proposal, PG&E would take the entire office portion of the property, making them one of the largest office tenants in the market and would necessitate further negotiations as Kaiser Permanente occupies 100,000 sf in the building. In the fourth quarter, this lease was finalized, marking one of the largest transactions in the market's history. In the second quarter, Steelwave announced plans for a 145,000-sf speculative life sciences conversion in West Berkeley. Considering the ongoing pandemic, the life sciences sector is highly active, and we expect demand to continue rising in the coming quarters, while the construction pipeline will likely fill with a growing number of life sciences projects to solve for the scant amount of space within that segment currently on the market.

Outlook

- Net absorption totaled negative 470,346 sf in the fourth quarter, and negative 1.3 msf for the year, essentially erasing the previous three years of occupancy gains. Decline is expected to be more muted in coming quarters, though still negative.
- Despite rising vacancy, average asking rents closed out the third quarter at \$4.44 psf, having increased \$0.05 YOY. Rents will likely decline in the coming quarters, though will remain propped up by high-end blocks of recently renovated sublease space.
- Life sciences requirements currently make up 35% of the total volume of tracked demand and will likely account for a greater share in the coming quarters.

AVERAGE ASKING RATE BY SUBMARKET (FULL SERVICE)**AVAILABILITIES BY SIZE SEGMENT****AVERAGE ASKING RATE BY CLASS (FULL SERVICE)**

EAST BAY OAKLAND

Office Q4 2020



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Richmond	2,734,643	17,762	246,198	9.7%	12,041	-17,903	5,543	0	\$2.14	\$2.14
West Berkeley	1,283,295	0	38,313	3.0%	67,716	-12,960	114,013	0	\$3.27	\$6.25
Berkeley CBD	2,517,148	34,057	104,050	5.5%	-3,646	-19,094	13,612	0	\$3.70	\$3.40
Emeryville	4,718,299	269,947	645,300	19.4%	-150,985	-404,912	290,231	0	\$4.32	\$4.57
City Center Oakland CBD	6,159,724	327,031	1,235,092	25.4%	-174,965	-315,686	157,391	0	\$5.17	\$5.30
Lake Merritt Oakland CBD	7,295,969	301,141	719,224	14.0%	-113,418	-436,719	1,004,618	0	\$5.23	\$5.46
Jack London Square	1,738,426	30,033	124,931	8.9%	-3,390	-33,909	36,837	0	\$3.33	\$2.85
Oakland Coliseum	2,055,859	19,649	114,286	6.5%	-1,118	26,118	40,012	0	\$2.18	\$2.84
Northern Alameda	1,761,664	87,650	459,030	31.0%	-62,259	-62,748	175,748	0	\$4.13	\$4.05
Southern Alameda	2,099,666	2,293	318,410	15.3%	-40,322	9,557	45,246	197,000	\$2.28	\$3.00
CLASS BREAKDOWN										
Class A	16,074,810	658,309	2,131,007	17.4%	-288,340	-622,408	1,498,865	0	\$4.94	
Class B	12,932,308	426,029	1,401,136	14.1%	-146,126	-635,833	246,767	0	\$4.01	
Office/Flex	3,357,575	5,225	472,691	14.2%	-35,880	-10,015	137,799	197,000	\$2.62	
TOTALS	32,364,693	1,089,563	4,004,834	15.7%	-470,346	-1,268,256	1,883,431	197,000	\$4.44	\$4.94

*Rental rates reflect full service asking

**Stats are not reflective of U.S. Overview Tables

KEY LEASE TRANSACTIONS Q4 2020

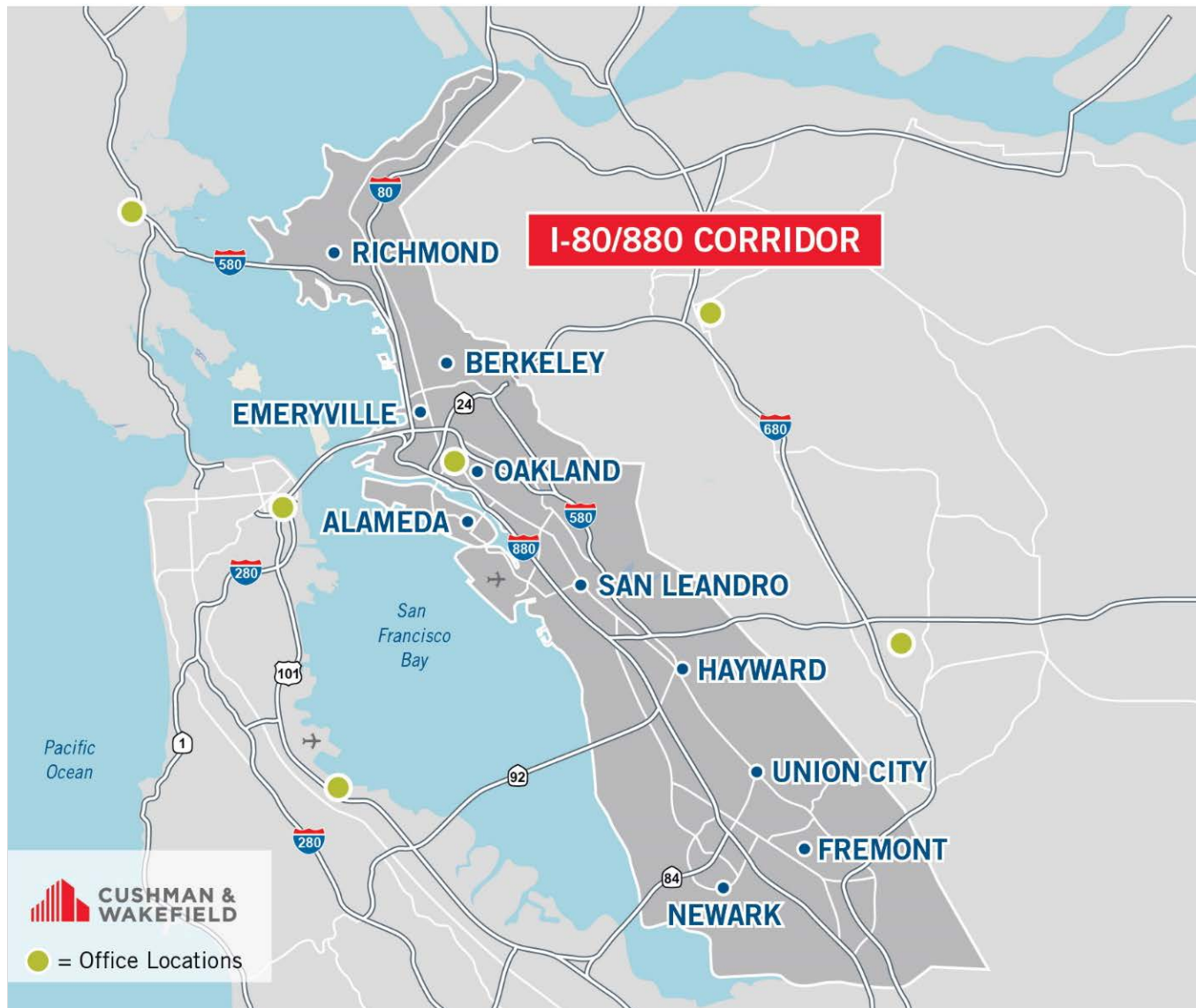
PROPERTY	SUBMARKET	TENANT	RSF	TYPE
300 Lakeside Drive	Lake Merritt Oakland CBD	PG&E	753,000	New Lease
6455 Christie Avenue	Emeryville	Agenus	83,620	New Lease
555 12 th Street	City Center Oakland CBD	Dictionary.Com	8,739	New Lease
1440 Broadway	City Center Oakland CBD	Select Quote	8,623	New Lease
980 Atlantic Avenue	Alameda South	Terviva	7,824	New Lease

KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
300 Lakeside Dr	Lake Merritt Oakland CBD	Swig Partners & Rockpoint / TMG Partners	953,341	\$450.0M / \$472

EAST BAY OAKLAND

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