



Office Q3 2021

17.9%

Vacancy Rate

YoY  
Chg12-Mo.  
Forecast

-361K

Net Absorption, SF



\$4.47

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS  
Q3 2021

1.1M

East Bay Oakland  
EmploymentYoY  
Chg12-Mo.  
Forecast

6.1%

East Bay Oakland  
Unemployment Rate

5.2%

U.S.  
Unemployment RateSource: BLS, Moody's Analytics.  
2021Q3 data are based on latest available data.

## Economy: California Reopening Stumbles

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 35,000 jobs added year-over-year (YOY), bringing regional employment to nearly 1.10 million. This translated to an unemployment rate of 6.1%, a decline of 450 basis points (bps) from the same period in 2020. Widespread vaccinations led to California reopening in June of 2021, with local governments easing shelter-in-place orders, mask mandates, and social distancing. However, a summer surge in cases driven by the new Delta variant led to the reintroduction of mask mandates and additional safety measures across much of the country. In the East Bay, this has caused many employers to rethink their return to office plans and continues to weigh on office occupancy levels. Looking ahead, the outlook is once again improving with the rise in cases seen in July subsiding and vaccination rates in the East Bay significantly above state and national averages.

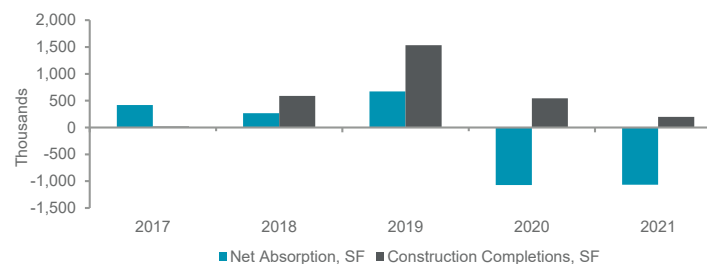
## Supply: CBD Space Continues to Hit Market

The vacancy rate in the East Bay Oakland office market was 17.9% at the close of the third quarter, up 110 bps from the previous quarter and 520 bps YOY. The bulk of new vacancy continues to come from existing inventory in the Oakland CBD, where vacancy has more than doubled since the beginning of the pandemic. Oakland CBD recorded 249,399 square feet (sf) of negative net absorption in the third quarter, and nearly 1.0 million sf (msf) year to date (YTD). This rise can largely be attributed to office tenants downsizing, while the pipeline of large office tenants that drove absorption for much of the past decade is no longer robust enough to backfill. There are however some positive signs. Sublease availabilities in the Oakland CBD declined in the third quarter for the first time since 2019. This is a positive indicator that tenants may be beginning to stabilize. In some submarkets, vacancy rates have yet to catch up with strong leasing activity. Alameda had a vacancy rate in the third quarter of 25.6%, but over 250,000 sf of that vacant space has been leased and will be absorbed in the coming quarters as new tenants occupy. Net absorption in Alameda is positive year to date, and the submarket is anticipated to continue shedding vacancy.

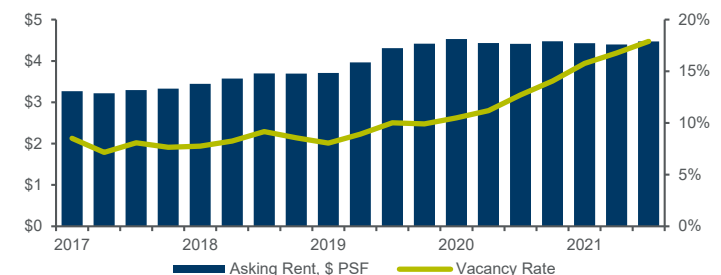
## Pricing: Class A Spaces Skew Average Asking Rents

Despite the consistent rise in vacancy, average asking rents in the third quarter increased YOY to \$4.47 per square foot (psf) on a monthly full-service basis. This rise is the result of a disproportionate amount of negative absorption in the region's most expensive submarkets. Over 85.0% of negative net absorption YTD has been in the Oakland CBD where the average asking rate is \$4.98 psf. This has pulled the total market average up, despite rents holding flat or softening on the property level. The asking rent for Oakland CBD has fallen from \$5.43 in the first quarter of 2020. Alameda has seen asking rates increase YOY to \$4.00 psf, an increase driven by a booming life science market. Asking rents are anticipated to hold relatively flat, despite the level of vacancy. Rather than drop asking rates, there will likely be an increase in concessions as landlords, in a bid to draw tenants, are more willing to give free rent and build out allowance than soften rent.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY &amp; ASKING RENT



## EAST BAY OAKLAND

Office Q3 2021



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**Demand: Signs of Life in Traditional Office**

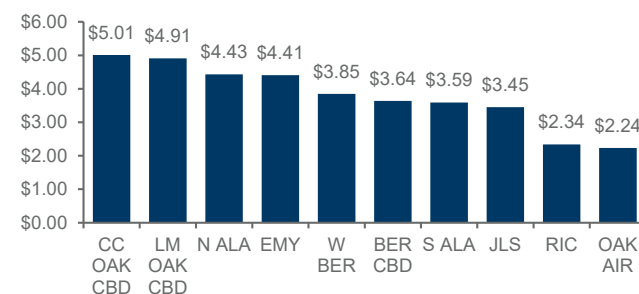
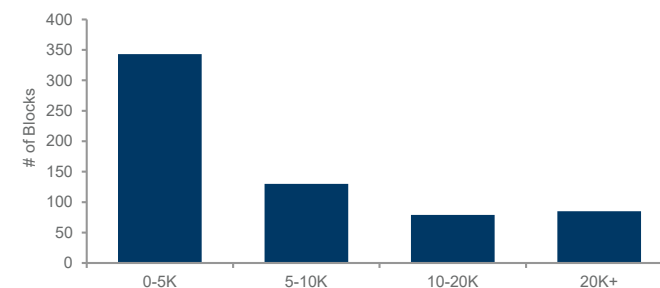
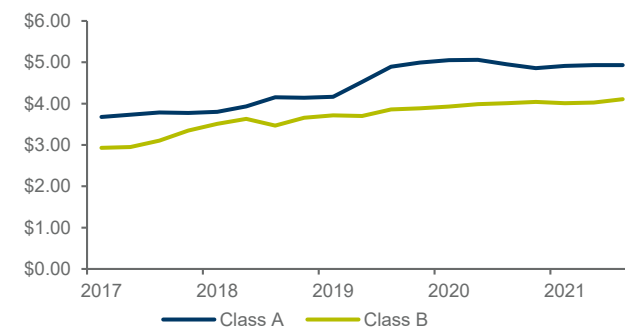
The East Bay Oakland office market saw occupancy decline by over 830,000 sf in 2020 and net absorption has continued to be in the red in 2021, totaling just over 1.0 msf of new vacancy YTD. As previously mentioned, much of this has come from the Oakland CBD, but leasing activity has been increasing in that market. Gross absorption for Oakland CBD was 356,510 sf, the highest activity recorded since the third quarter of 2019, apart from PG&E's 753,000-sf lease in late 2020. The largest transaction of the quarter was Callisto Media inking a 78,070-sf sublease at 1945 Broadway. Also, of note was Twitter's 66,600-sf lease at 1330 Broadway. This lease is particularly exciting as it is an example of the hub-and-spoke system of office, where major employers look to decentralize their office footprint across additional markets. The success of this trend would generate increased demand across the East Bay from companies in other major markets. Additionally, demand for life science space continues to increase, with current tenant requirements totaling over 292,000 sf.

**In Other News: Strong Investment Activity and Life Science Construction Pipeline**

The largest sale transaction of the quarter was Swift Realty's purchase of 1111 Broadway from the University of California for \$327.5 million or \$580 psf. This sale demonstrates that demand is still there for well located, quality office product. Outside of the CBD, investor interest has been almost entirely focused on life science projects or office buildings with conversion potential. The same is true of the construction pipeline with two life science projects currently under way for a total of 344,000 sf. The first, 220,000 sf at 1951 Harbor Bay in Alameda is nearing completion and is 100% pre-leased to Exelixis. The second is a conversion project at 6475 Christie Ave in Emeryville, pivoting the 123,322-sf office building to lab. Looking ahead, life science product is anticipated to make up an increasing percentage of inventory with several million-sf proposed over the next several years throughout the W. Berkeley, Emeryville, and Alameda markets.

**Outlook**

- Net absorption is just over 1.0 msf so far in 2021 and is expected to remain in the red into 2022. The decline is expected to be more muted as absorption in some markets catches up with strong leasing activity.
- Asking rents have held at the market level, despite increases in vacancy. At the property level, rents are expected to decline modestly in coming quarters as pricing adjusts to increased vacancy.
- Life sciences requirements make up an increasing share of total demand and will likely continue to grow 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

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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	0	156,919	5.7%	45,017	57,433	12,470	0	\$2.34	\$2.09
West Berkeley	1,283,295	15,191	55,630	5.5%	-32,575	-52,266	4,768	0	\$3.85	\$6.25
Berkeley CBD	2,517,148	39,077	123,757	6.5%	-12,452	-29,530	38,931	0	\$3.64	\$3.83
Emeryville	4,306,299	269,151	618,296	20.6%	-93,493	-119,931	179,336	123,322	\$4.41	\$4.58
City Center Oakland CBD	6,202,323	348,206	1,621,870	31.8%	-245,168	-576,253	315,462	0	\$5.01	\$5.14
Lake Merritt Oakland CBD	7,295,969	364,396	828,931	16.4%	-4,231	-375,707	330,610	0	\$4.91	\$5.00
Jack London Square	1,738,426	6,700	119,840	7.3%	-1,075	10,721	43,192	0	\$3.45	\$2.85
Oakland Coliseum	2,055,859	19,649	130,449	7.3%	-9,928	710	31,158	0	\$2.24	\$2.84
Northern Alameda	1,789,957	121,962	432,183	31.0%	-12,324	9,193	245,745	0	\$4.43	\$4.18
Southern Alameda	2,296,666	2,293	491,177	21.5%	5,245	9,367	105,670	220,710	\$3.59	\$3.69
CLASS BREAKDOWN										
Class A	15,725,867	739,131	2,675,208	21.7%	-252,077	-910,165	835,809	0	\$4.83	
Class B	12,940,084	403,494	1,337,867	13.5%	-127,709	-198,727	231,787	0	\$4.00	
Office/Flex	3,554,634	44,000	565,977	17.2%	18,802	42,629	239,746	0	\$3.49	
<b>TOTALS</b>	<b>32,220,585</b>	<b>1,186,625</b>	<b>4,579,052</b>	<b>17.9%</b>	<b>-360,984</b>	<b>-1,066,263</b>	<b>1,307,342</b>	<b>344,032</b>	<b>\$4.47</b>	<b>\$4.83</b>

\*Rental rates reflect full service asking

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

## KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1945 Broadway	Oakland CBD Lake Merritt	Callisto Media	78,070	Sublease
1330 Broadway	Oakland CBD City Center	Twitter	66,600	New Lease
1001 Marina Village Parkway	Alameda North	S&C Electric	19,023	New Lease
601 12 <sup>th</sup> Street	Oakland CBD City Center	Degenkolb Engineers	14,556	New Lease
1100 Marina Village Parkway	Alameda North	Scribe Therapeutics	14,255	Expansion

## KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1111 Broadway	Oakland CBD City Center	University of California / Swift Real Estate Partners	564,745	\$327.5M / \$580
1321 & 1351 Harbor Bay Parkway	Alameda South	Dollinger Properties / Paceline Investors	157,770	\$60.5M / \$383
1310 Harbor Bay Parkway	Alameda South	SRM Ernst / Nome Capital Partners	126,700	\$79.5M / \$627
1625 Clay Street	Oakland CBD City Center	McGrath Properties / FH1 Investments	40,000	\$14M / \$350



# EAST BAY OAKLAND

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