

MARKETBEAT EAST BAY OAKLAND



Office Q3 2022

	YoY Chg	12-Mo. Forecast
17.3% Vacancy Rate	▲	▲
-269K Net Absorption, SF	▲	▲
\$4.66 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
1.2M East Bay Oakland Employment	▲	▲
3.0% East Bay Oakland Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics.
2022 Q3 data are based on latest available data.

Economy: California Reopening, Economy Uncertain

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 42,500 jobs added year-over-year (YOY), bringing regional employment to 1.18 million. This translated to an unemployment rate of 3.0%, a decline of 290 basis points (bps) from the same period in 2021. While Covid-19 cases recorded a steady decline throughout the third quarter, a consistent return to the office has been slower than anticipated, causing employers to reevaluate their office space needs. The result is that many companies are downsizing, with some even shifting to fully remote workforces. Covid-19 aside, inflationary pressure and macroeconomic uncertainties have presented new challenges for many industries, which has extended to fairly cautious decision-making.

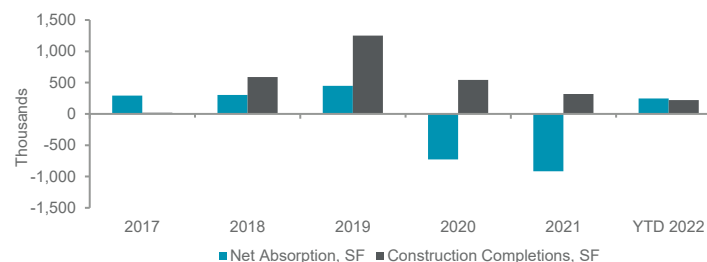
Supply: Vacancy Rises

The overall vacancy rate in the East Bay Oakland office market was 17.3% at the close of the third quarter, an 80-bps increase from the prior quarter, but just 10 bps above the same period in 2021. The market recorded -269,000 square feet (sf) of net absorption, the first quarter of negative net absorption this year. The first half of 2022 recorded significant occupancy growth as major leases signed throughout 2021, commenced. However, as leasing activity cooled over the past four quarters, the market has slipped back into the red. The Alameda submarket continued to record occupancy growth, shedding 90 basis points of vacancy in the third quarter, bringing year-to-date (YTD) net absorption to over 490,000 sf. A hot bed for the East Bay's growing life science tenant base, Alameda has been the elusive bright spot as other markets struggle to absorb traditional office space. The submarket of Emeryville recorded a spike in sublease space in the third quarter that drove overall vacancy to 22.1%, the highest level since the pandemic began. Among new availabilities were multiple subleases put on the market by Zymergen (now Ginko Bioworks), one of the region's largest life science occupiers. Of note, Class A direct vacancy declined in Emeryville for the second consecutive quarter, as traditional office users looked beyond the Oakland CBD. Vacancy continued to rise in Oakland's CBD, up 80 bps to 23.3% in the third quarter, more than double the pre-pandemic figure. Leasing activity has yet to regain momentum downtown and vacancy is expected to continue rising into 2023.

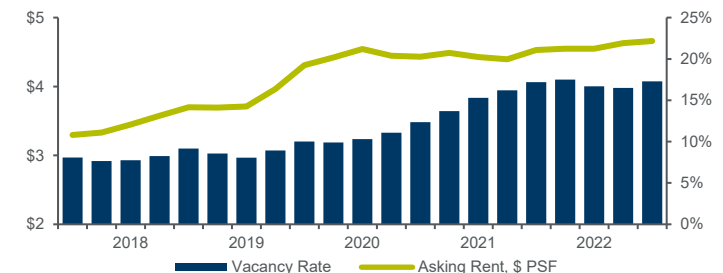
Pricing: R&D Spaces Lift Average Asking Rents

Despite the rise in vacancy throughout the pandemic, the overall asking rate remains elevated, closing the third quarter at \$4.66 per square foot (psf) on a monthly full-service basis. This is an increase of \$0.13 YOY and \$0.03 from the prior quarter. The first factor pushing rents continued to be robust growth in the office flex/R&D product type. Often geared toward life science tenants with technical build outs and massive tenant improvement allowances, the average asking rent for this product type was \$4.06 psf, up \$0.48 YOY. Submarkets with the largest office flex/lab inventory recorded the most significant rental growth over the past year, with the overall asking rate in Alameda up 13.4% YOY to \$4.58 psf. In Emeryville, several new life science availabilities asking approximately \$7.00 psf on a triple net basis have pushed rates in that submarket to new heights. The Oakland CBD however, whose inventory is pure office space, has seen rents slip slightly, down 8.0% from their pre-pandemic high to \$5.00 psf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



EAST BAY OAKLAND

Office Q3 2022



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Given that vacancy in the CBD has more than doubled over the same period, it is surprising that the pricing adjustment has not been more significant, particularly within the Class B and commodity Class A product types. The first factor holding up rents has been a notable flight to quality. To draw employees back to the office, tenants are drawn to the highest quality spaces, and as they often downsize their footprint, they become less price sensitive. The other is landlords' inability or unwillingness to drop rates. A wave of refinancing and sale activity in the years before Covid-19 have left many landlords at a basis where they are unable to lower rates and still make their investments pencil, even in the face of rising vacancy. This is something we will be monitoring closely over the coming years.

Demand: Office Leasing Slows

The East Bay Oakland office market recorded approximately 356,000 sf of leasing activity in the third quarter of 2022, roughly level with the prior quarter but less than half the activity seen in the third quarter of last year. It is also well below pre-pandemic levels where quarterly activity rarely fell below 600,000 sf. While Covid-19 cases have fallen, remote and hybrid work models are persisting, making it difficult for major employers to predict their long term need for space. Tenant demand is down slightly from the prior quarter, with Cushman & Wakefield currently tracking 565,000 sf of office requirements in the market. Government and Education users make up some of the larger requirements, but the market is seeing a growing number of small to mid-size professional services touring as well. This is in addition to just under 800,000 sf of life science users currently active in the East Bay. The four largest leases of the third quarter were all signed by traditional office users, a reversal of several consecutive quarters of life science users dominating the list. Major leases included Regus absorbing two full floors at 1900 Powell in Emeryville for approximately 38,000 sf and Everlaw inking a full floor expansion for 24,236 sf at 2101 Webster in the Oakland CBD.

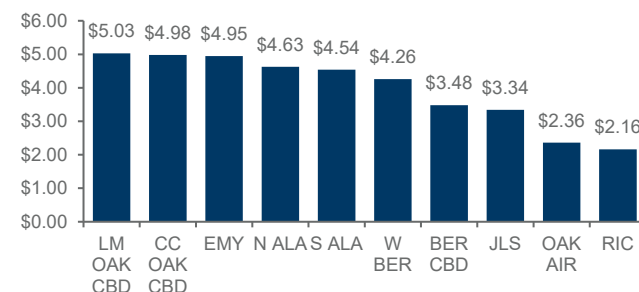
In Other News:

The largest sale transaction of the quarter was HP Investors' purchase of Edgewater Park Plaza, a two building, 206,000-sf office property in the Oakland Coliseum submarket. They purchased the property from California Capital and Investment Group for \$35.7 million or \$173 psf. This is the second quarter of non-CBD properties dominating the major sales list. Amidst rising interest rates, periphery markets that have historically traded at higher cap rates may see an influx of investment.

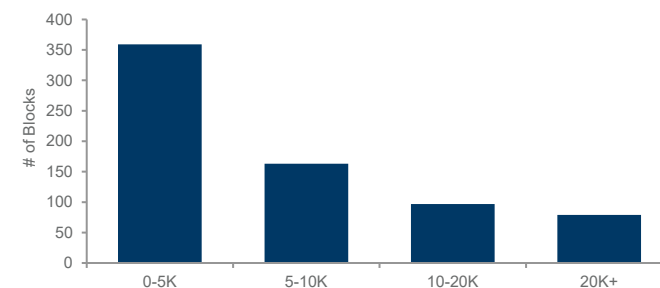
Outlook

- Net absorption is expected to remain in the red into 2023 as tenants continue to evaluate their need for space and increasingly choose to downsize.
- Asking rents are expected to hold relatively flat at the market level, despite increases in vacancy. At the property level, some rents may decline modestly in coming quarters.
- Life science requirements make up an increasing share of total demand and will likely continue to do so in the coming quarters.

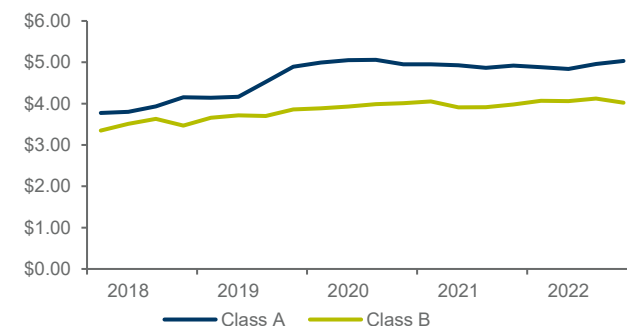
AVERAGE ASKING RATE BY SUBMARKET (FULL SERVICE)



AVAILABILITIES BY SIZE SEGMENT



AVERAGE ASKING RATE BY CLASS (FULL SERVICE)



EAST BAY OAKLAND

Office Q3 2022

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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	2,736,553	0	195,090	7.1%	-8,785	14,441	2,986	0	\$2.16	\$2.12
West Berkeley	1,401,662	28,038	122,451	10.7%	19,292	-7,993	61,683	0	\$4.26	\$7.50
Berkeley CBD	2,545,965	15,037	209,221	8.8%	13,220	-27,880	24,133	0	\$3.48	\$3.50
Emeryville	4,594,102	426,810	587,704	22.1%	-214,514	-99,068	260,357	275,000	\$4.95	\$5.25
City Center Oakland CBD	6,282,954	404,843	1,674,837	33.1%	-90,551	-123,210	202,192	0	\$4.98	\$5.01
Lake Merritt Oakland CBD	7,358,350	129,147	969,303	14.9%	-20,461	-743	254,538	0	\$5.03	\$5.17
Jack London Square	1,738,426	14,600	134,896	8.6%	-12,081	210	17,507	0	\$3.34	\$4.25
Oakland Coliseum	2,050,957	11,222	133,666	7.1%	-4,815	-461	50,044	0	\$2.36	\$2.85
Northern Alameda	1,823,397	0	315,900	17.3%	9,939	104,996	108,119	0	\$4.63	\$4.95
Southern Alameda	2,689,728	2,293	365,126	13.7%	39,627	386,123	146,139	0	\$4.54	\$3.82
CLASS BREAKDOWN										
Class A	16,350,222	814,097	2,540,882	20.5%	-292,196	210,980	650,020	275,000	\$4.90	
Class B	13,179,267	217,893	1,776,176	15.1%	-59,444	-178,661	332,348	0	\$4.12	
Office/Flex	3,692,605	0	391,136	10.6%	82,511	214,096	155,330	0	\$4.10	
TOTALS	33,222,094	1,031,990	4,708,194	17.3%	-269,129	246,415	1,137,698	275,000	\$4.66	\$5.03

*Rental rates reflect full service asking

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

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
San Leandro Tech Campus	San Leandro	Ariat International	80,700	New Lease
1900 Powell St.	Emeryville	Regus	37,714	New Lease
1111 Broadway	City Center Oakland CBD	Geosyntec Consultants	24,271	Renewal
2101 Webster St.	Lake Merritt Oakland CBD	Everlaw	24,236	Expansion
950 Marina Village Pkwy.	Northern Alameda	Sepion Technologies	24,078	New Lease

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Edgewater Park Plaza	Oakland Coliseum	California Capital and Investment Group / HP Investors	206,000	\$35.7M / \$173
1387-1401 S. Marina Way	Richmond	Virtual Development Corp. / Berkeley Partners	64,800	\$14.8M / \$228
8480 Enterprise Way	Oakland Coliseum	Douglas Motor Service / Chareonsri Mah	12,800	\$4.0M / \$313

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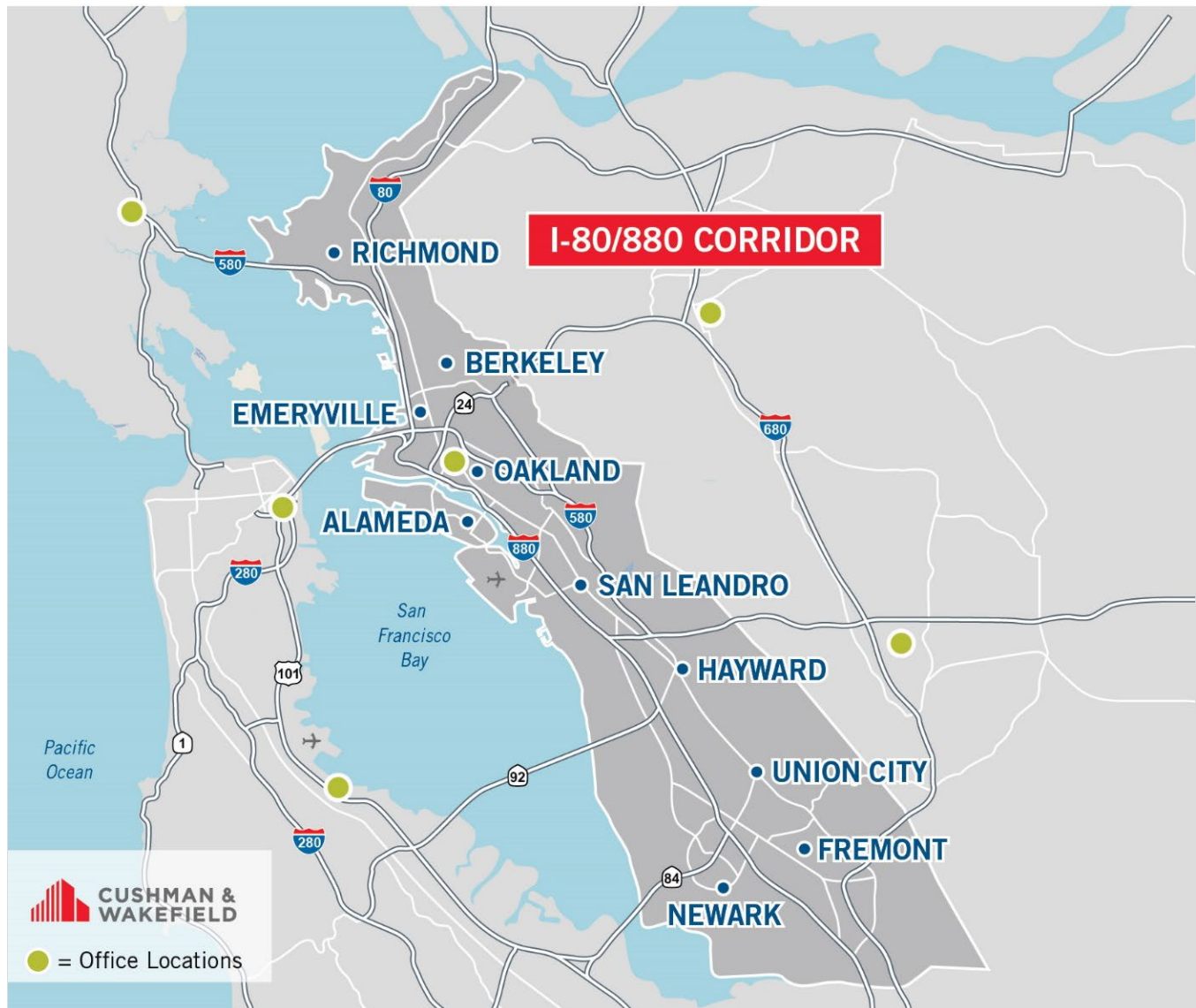
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