

EAST BAY OAKLAND



Office Q3 2023

20.3%
Vacancy Rate



-205K
Net Absorption, SF



\$4.25
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2023

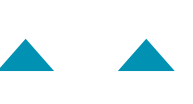
1.2M
East Bay Oakland Employment



3.9%
East Bay Oakland Unemployment Rate



3.7%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics.
2023 Q3 data are based on latest available data.

Economy: Tech Layoffs Weigh on Office

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 28,100 jobs added year-over-year (YOY), bringing regional employment to 1.21 million. Despite the growth in positions, the unemployment rate rose 80 basis points (bps) YOY, closing the third quarter at 3.9%. Over the past year, the Bay Area experienced widespread layoffs within the technology companies that had previously been a driving force behind occupancy growth and while Covid-19 concerns have faded for many employers, new macroeconomic uncertainties are weighing heavily on industries beyond tech, stifling growth and the demand for office space.

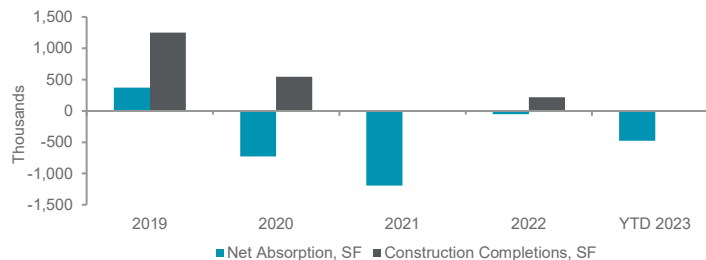
Supply: Vacancy Rises

The overall vacancy rate in the East Bay Oakland office market was 20.3% at the close of the third quarter, an 80-bps increase from the prior quarter, and up 270 bps YOY. Net absorption for the quarter was negative 205,351 square feet (sf), the fifth consecutive quarter of more than 100,000 sf in occupancy decline. The persistence of hybrid-work models has made it difficult for occupiers to establish the correct footprint and has led to a dramatic rise in sublease space over the past 12 months, reaching 1.13 msf in the third quarter, the highest level since the start of the pandemic. Despite a 31% YOY increase, the quarter-over-quarter rise in sublease space slowed this quarter, as the leases began to expire on sublease availabilities that have been on the market for much of the pandemic. While a space's transition from sublease to direct will not move the needle on overall vacancy, it does raise the pressure on landlords who throughout the pandemic were still collecting rent on these vacancies. Vacancy in Oakland's CBD remained the highest in the Oakland Metro Area at 28.7%, up 110 bps from the second quarter. Home to the majority of the market's high rises and large blocks of space, CBD Oakland has been the most dramatically impacted by large tenants shedding space. By comparison, the submarkets of Jack London Square and the Oakland Airport, which cater to smaller tenants and offer lower cost options, have outperformed not just the CBD but the greater Bay Area, with vacancy below 10% in both submarkets

Pricing: Asking Rates Begin to Adjust

The overall asking rate closed the third quarter at \$4.25 per square foot (psf) on a monthly full-service basis, down \$0.24 YOY and \$0.09 from the prior quarter. After holding relatively level over the past three years, despite rising vacancy, the market is beginning to see a repricing as landlords look to capture limited tenant demand, with several properties already returned to their lenders. The overall asking rate for Oakland's CBD was down 15% from its pre-pandemic high to \$4.63 psf in the third quarter. In the CBD, the delta between Class A and Class B rental rates has grown dramatically, with the average asking rate for Class B falling \$0.80 psf YOY while Class A was down just \$0.11 psf. In the years leading up to the pandemic, scant vacancy and tenant demand for creative office space drove Class B rates to within 10% of Class A.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



EAST BAY OAKLAND



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Now, as demand wanes and vacancy rises, Class B properties are experiencing the most dramatic repricing and that gap has increased to 27%. This divergence is expected to continue as the market experiences a flight to quality and commodity space struggles to compete. To draw employees back to the office, tenants look to the highest quality spaces, and as many choose to downsize their footprint, they become less price sensitive on a psf basis.

Demand: Market Waits for Large Tenants

The East Bay Oakland office market recorded 176,541 sf of leasing activity in the third quarter of 2023, up slightly from the second quarter but a small fraction of pre-pandemic levels, where quarterly activity rarely fell below 600,000 sf. While Covid-19 cases have fallen, remote and hybrid work models persist, making it difficult for employers to predict their long-term need for space. Additionally, the rising cost of capital and cracks in the economy have led to cautious decision making among tenants, weighing heavily on demand. While activity overall was muted, there were two new leases of note. Delta Dental, already a tenant at 1333 Broadway, expanded into an additional 24,511 sf for the largest lease of the quarter. Additionally, East Bay Community Energy leased a full floor, 20,977 sf of sublease space, at 1999 Harrison, along with a direct deal with the landlord to remain in the space after the sublease expires. Leasing velocity is not expected to recover in the near term, with active office requirements totaling less than 400,000 sf at the close of the quarter, compared to a 10-year average of over 1.0 msf.

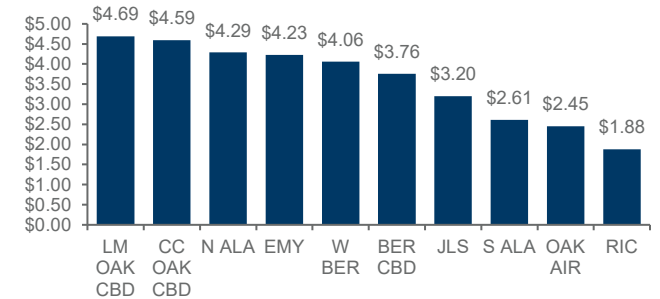
In Other News:

Investment sales activity has yet to return to the Oakland Metro Area, as a combination of elevated interest rates and challenging market fundamentals have kept the majority of investors on the sidelines. The largest sale of the quarter was 624 14th Street in Oakland, a 16,784-sf building that was purchased by Kingdom Builders Transitional Housing Program, a nonprofit that that will utilize the site. They purchased the building from Volunteers of America for \$6.8 million or \$402 psf. Owner-users have been responsible for the majority of office purchases in the East Bay year-to-date but, across the bay in San Francisco, several notable investor purchases this quarter signaled that capital may be returning to the region. Over the past year, investors have struggled to price office properties across the Bay Area, but these recent sales, at bargain prices, begin to provide pricing guidance and establish the discount to pre-pandemic values required for large multi-tenanted buildings to trade.

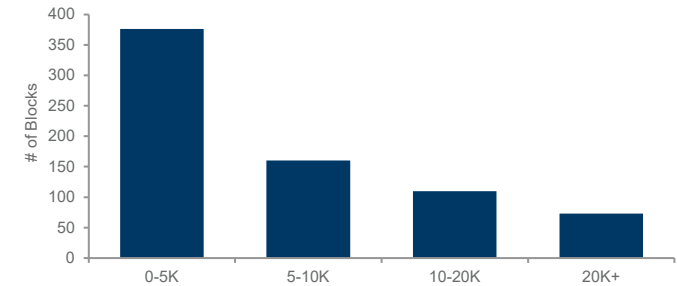
Outlook

- Net absorption is expected to remain in the red through 2023 as tenants continue to evaluate their need for space and increasingly choose to downsize.
- Asking rents are expected to decline as pricing slowly adjusts to elevated vacancy and lower demand.

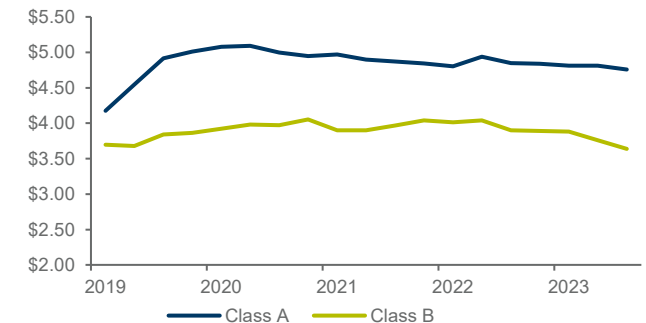
AVERAGE ASKING RATE BY SUBMARKET (FULL SERVICE)



AVAILABILITIES BY SIZE SEGMENT



AVERAGE ASKING RATE BY CLASS (FULL SERVICE)





Office Q3 2023

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	2,577,567	19,935	256,709	10.7%	-21,654	-25,032	26,697	0	\$1.88	\$2.25
West Berkeley	801,492	20,008	41,799	7.7%	0	60,269	12,185	0	\$4.06	-
Berkeley CBD	2,327,660	48,719	174,284	9.6%	14,901	19,861	66,631	0	\$3.76	\$4.30
Emeryville	3,242,797	335,895	483,503	25.3%	-38,548	-128,351	68,328	0	\$4.23	\$4.44
City Center Oakland CBD	6,258,511	372,439	1,982,403	37.6%	-117,824	-154,387	152,421	0	\$4.59	\$4.86
Lake Merritt Oakland CBD	6,875,964	313,539	1,102,795	20.6%	-26,217	-278,768	104,419	0	\$4.69	\$5.09
Oakland CBD Total	13,134,475	685,978	3,085,198	28.7%	-144,041	-433,155	256,840	0	\$4.63	\$4.94
Jack London Square	1,741,898	17,168	129,311	8.4%	-7,423	-8,893	41,492	0	\$3.20	\$4.25
Oakland Coliseum	2,050,957	0	170,449	8.3%	-8,586	-10,748	43,657	0	\$2.45	\$3.00
Northern Alameda	1,224,394	0	192,101	15.7%	0	63,669	5,309	0	\$4.29	\$4.21
Southern Alameda	1,152,631	0	62,338	5.4%	0	18,797	5,084	0	\$2.61	\$2.61
CLASS BREAKDOWN										
Class A	13,728,098	940,302	2,604,340	25.8%	-92,784	-389,996	309,016	0	\$4.76	
Class B	12,090,599	167,466	1,819,647	16.4%	-94,222	-43,422	206,814	0	\$3.64	
Office/Flex	2,435,174	19,935	171,705	7.9%	-18,345	-47,759	10,393	0	\$1.78	
TOTALS	28,253,871	1,127,703	4,595,692	20.3%	-205,351	-481,177	526,223	0	\$4.25	\$4.76

*Rental rates reflect full service asking

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

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1333 Broadway	City Center Oakland CBD	Delta Dental	24,511	New Lease (Expansion)
1999 Harrison Street	Lake Merritt Oakland CBD	East Bay Community Energy	20,977	Sublease/Direct Renewal
1625 Shattuck Avenue	Berkeley CBD	Postman	6,872	New Lease
555 12 th Street	City Center Oakland CBD	The Barnes Firm Injury Attorneys	6,752	Renewal

KEY SALE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
624 14 th Street	City Center Oakland CBD	Volunteers of America / Kingdom Builders Transitional Housing Program	16,784	\$6.8M / \$402
401 15 th Street	City Center Oakland CBD	Lincoln University / One University Network Inc.	14,400	\$6.1M / \$424

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OFFICE SUBMARKETS



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