

## MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
<b>23.4%</b> Vacancy Rate	▲	▲
<b>-169K</b> Net Absorption, SF	▲	▲
<b>\$4.01</b> Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▼	▼

## ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
<b>1.2M</b> East Bay Employment	▲	▲
<b>4.7%</b> East Bay Unemployment Rate	▲	▼
<b>4.1%</b> Country Unemployment Rate	▲	▼

Source: BLS

### ECONOMY: TECH LAYOFFS WEIGH ON OFFICE

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 13,100 jobs added year-over-year (YOY), bringing regional employment to 1.20 million. Despite the growth in positions, workforce changes led to a rise in the unemployment rate of 40 basis points (bps) YOY, closing the third quarter at 4.7%. For over a year, the Bay Area has experienced widespread layoffs within the technology sector that had previously been a driving force behind occupancy growth. Additionally, new social and macroeconomic uncertainties, coupled with persistent remote work trends are weighing heavily on industries beyond tech, stifling growth and the demand for office space.

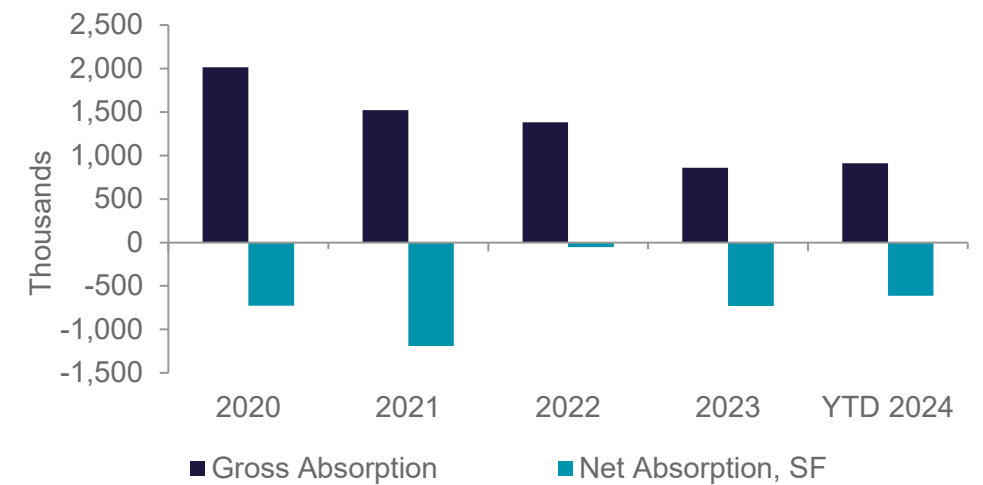
### SUPPLY: VACANCY RISES

The overall vacancy rate in the East Bay Oakland office market was 23.4% at the close of the third quarter, a 60-bps increase from the prior quarter, and up 310 bps YOY. Net absorption for the quarter was negative 168,773 square feet (sf), the ninth consecutive quarter of more than 100,000 sf in occupancy decline. Space givebacks remained concentrated in Oakland's Central Business District (CBD), where vacancy reached 31.8% due to 120,162 sf of negative absorption in the third quarter. Oakland's CBD has driven occupancy loss for the region since the beginning of the pandemic, but as Covid-19 concerns have faded, new vacancies speak to additional headwinds for the market. Oakland is facing a crisis of perception, where headlines regarding crime and safety have stifled new demand and pushed some existing tenants to neighboring markets, from Emeryville to Walnut Creek and the Tri-Valley. On a positive note, efforts to shake this reputation have come both from the public sector and some of the larger corporate tenants that call Oakland home, although these efforts have not yet been able to generate significant new demand. In past cycles, Oakland has served as a release valve for pent up demand in neighboring San Francisco, but as vacancy there has continued to climb, demand from across the Bay has been limited. Compared to Oakland's CBD, the submarkets of Jack London Square and the Oakland Airport, which cater to smaller tenants and offer lower cost options, continued to outperform not just the CBD but the greater Bay Area, with vacancy below 13% in both submarkets.

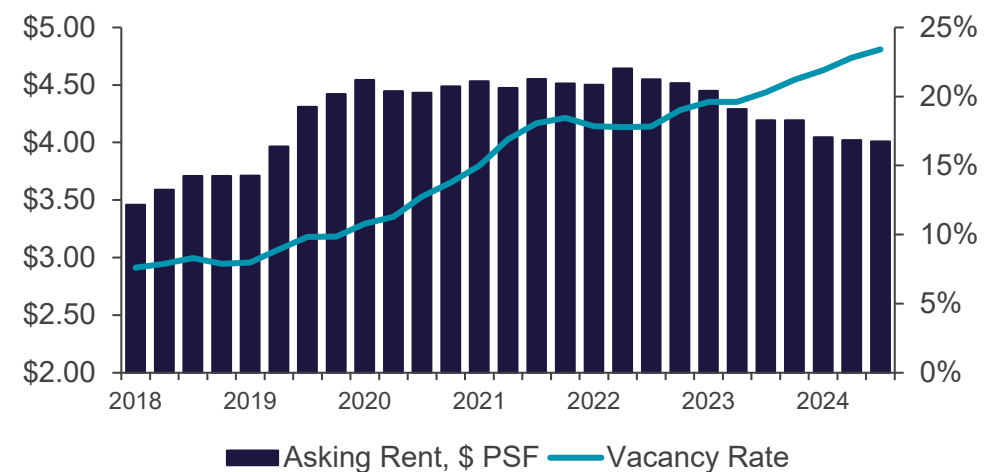
### PRICING: ASKING RATES BEGIN TO ADJUST

The overall asking rate closed the third quarter at \$4.01 per square foot (psf) on a monthly full-service basis, down \$0.01 from the prior quarter and \$0.18 psf YOY. Having held near historic highs through much of the Pandemic, despite rising vacancy, 2023 saw the market begin to re-price as landlords looked to capture limited tenant demand in the face of looming loan maturities.

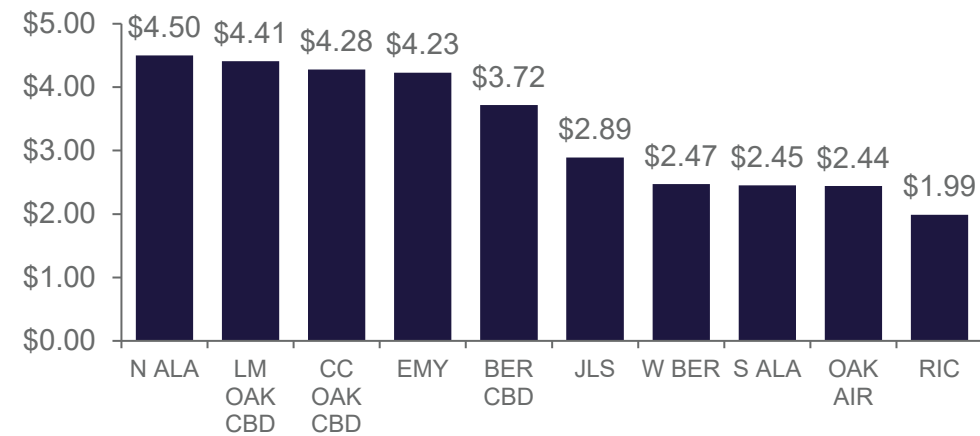
## SPACE DEMAND / ABSORPTION



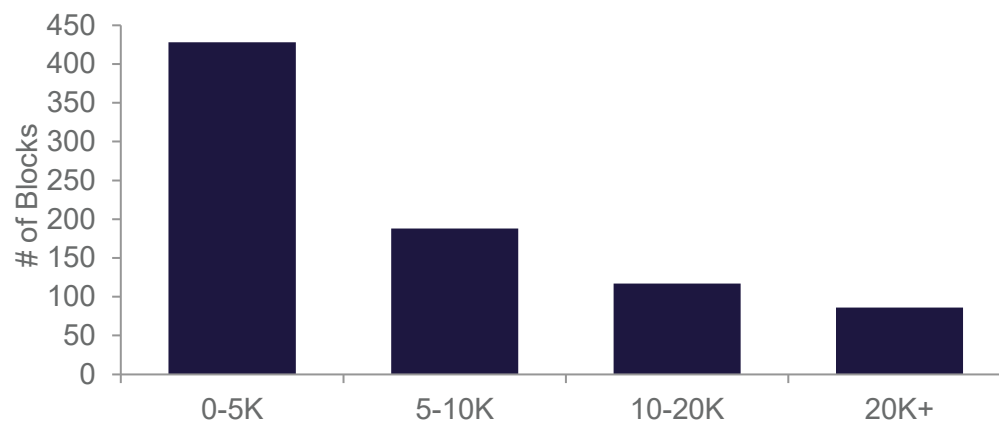
## OVERALL VACANCY & ASKING RENT



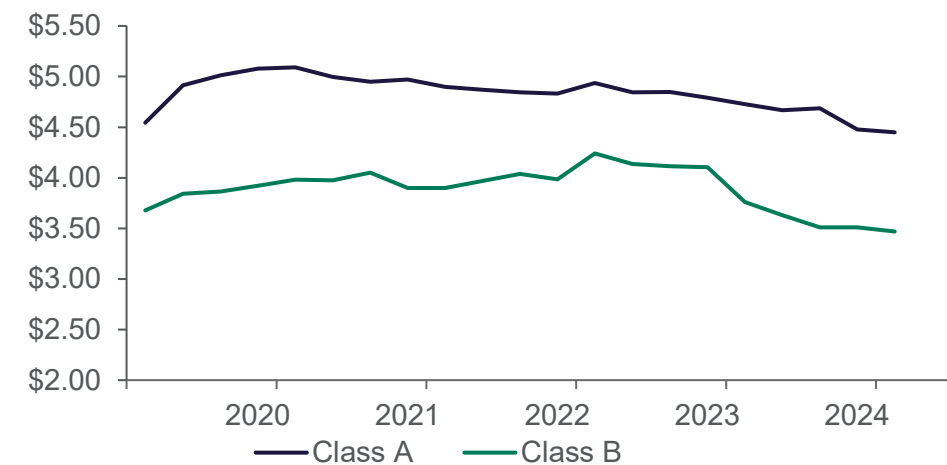
**AVERAGE ASKING RATE BY SUBMARKET(FULL SERVICE)**



**AVAILABILITIES BY SIZE SEGMENT**



**AVERAGE ASKING RATE BY CLASS (FULL SERVICE)**



This trend has only accelerated through 2024, with the overall asking rate for Oakland’s CBD down 20% from its pre-pandemic high to \$4.33 psf in the third quarter. A wave of refinancing and sales activity in the years before Covid-19 left many landlords at a basis where they were unable to materially lower rental rates and still make their investments pencil and/or meet their loan covenants. However, as these loans begin to mature, the market has seen several properties go back to their lenders, drastically lowering their cost basis and creating the potential for rental rates to adjust more dynamically to elevated vacancy.

**Demand: Existing Tenants Drive Demand**

The East Bay Oakland office market recorded 208,128 sf of leasing activity in the third quarter of 2024, down 49.5% from the prior quarter and approximately level YOY. This pullback in activity marks a major shift in momentum for the market, with activity that had accelerated through the first half of 2024. Year-to-date (YTD) leasing activity was 933,280 sf, already surpassing the full year total for 2023. On pace to break 1.0 million sf this year, activity has remained just a fraction of pre-pandemic levels which averaged 2.9 million sf in the five years leading up to the pandemic. A significant number of new leases were signed during the quarter in the small to mid-size segment of the market, between 3,000-10,000 sf. This aligns with the trend that tenants are continuing to “right size” within the market, shedding larger suites for new locations that better accommodate hybrid work models. No new full floor leases were signed in Oakland’s CBD this quarter, a fact that will continue to weigh on net absorption for future quarters. Large office tenant requirements have yet to resurface, although demand is up from the prior quarter with Cushman & Wakefield tracking approximately 608,000 sf of requirements at the end of Q3. This remains down when compared to a 10-year average of over 1.0 msf. Existing demand must also be taken with a grain of salt, as many of these tenants already exist in the market and are exploring their options before potentially executing renewals or downsizing. The market will require an uptick of in-migration or existing tenant expansions before tracked demand will have a meaningful effect on vacancy.

**In Other News: Owner-Users Drive Sales**

Investment sales activity has been slow to return to the Oakland Metro Area as a combination of reduced access to capital and challenging market fundamentals have kept many investors on the sidelines. However, activity picked up in the third quarter with one major investment and several owner-user purchases. The largest sale by square footage was Kaiser Permanente’s disposition of 1950 Franklin Street in the Lake Merritt submarket, a 446,000-sf office building they had owned and occupied for 40 years. The buyer, Behring Companies paid \$14.4 million or \$32 psf, reflecting the lowest per foot price paid for an office building in Oakland in several decades. Behring, a local multi-family developer, has not yet announced plans for the building. Also of note, an investment group closed on the senior note behind 180 Grand, a Class A office tower in Oakland’s CBD. The pricing was rumored to be around \$107 psf and should the group execute a deed in lieu foreclosure, this would be another data point for investment sales in Oakland. It was also an active quarter for user buyers, with four new transactions over 20,000 SF. The largest user purchase was BART Police’s acquisition of 2000 Broadway, an 86,000-sf office building and adjacent parking lot, for \$25.5 million or \$297 psf. Kaiser was again the seller. Owner-users have been the most active player in building sales throughout the pandemic, but as interest rates begin to decline and investors gain confidence in their understanding of new market dynamics, the East Bay Oakland office market may begin to draw investment once more. The lingering question remains, at what discount?

**OUTLOOK**

- Asking rents are expected to decline as pricing slowly adjusts to elevated vacancy and lower demand.
- Investment activity may start to build momentum in late 2024 as interest rates begin to fall and debt maturity places pressure on properties to trade.
- Vacancy will continue rising into 2025 until new demand returns from outside of the market. Current leasing activity has been driven by tenants already in the market.

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	2,577,176	9,604	298,877	12.0%	-19,682	-73,732	32,450	0	\$1.99	\$2.25
West Berkeley	780,888	16,290	92,993	14.0%	-2,854	-50,099	8,379	0	\$2.47	-
Berkeley CBD	2,407,660	86,494	198,020	11.8%	-38,337	-35,994	42,880	0	\$3.72	\$3.95
Emeryville	3,199,572	286,431	714,060	31.3%	21,384	-54,697	103,901	0	\$4.23	\$4.41
City Center Oakland CBD	6,206,583	376,185	2,066,540	39.3%	37,840	-78,967	314,639	0	\$4.28	\$4.44
Lake Merritt Oakland CBD	6,848,953	284,373	1,430,076	25.0%	-158,002	-260,792	273,068	0	\$4.41	\$4.81
<b>Oakland CBD Total</b>	<b>13,055,536</b>	<b>660,558</b>	<b>3,496,616</b>	<b>31.8%</b>	<b>-120,162</b>	<b>-339,759</b>	<b>587,707</b>	<b>0</b>	<b>\$4.33</b>	<b>\$4.58</b>
Jack London Square	1,580,283	23,274	194,495	12.3%	11,558	-10,532	50,374	0	\$2.89	\$4.25
Oakland Coliseum	2,051,067	2,714	190,677	10.0%	-14,396	4,480	-12,187	0	\$2.44	\$3.00
Northern Alameda	1,224,394	16,604	198,671	17.6%	-16,604	-24,074	75,918	0	\$4.50	\$4.31
Southern Alameda	1,152,631	0	76,671	6.7%	10,320	-10,831	28,000	0	\$2.45	\$2.61
<b>CLASS BREAKDOWN</b>										
Class A	13,686,488	963,880	3,038,977	29.2%	-141,063	-352,526	577,531	0	\$4.46	
Class B	11,786,326	138,089	2,167,884	19.6%	-10,261	-177,042	317,100	0	\$3.45	
Office/Flex	2,434,783	0	225,297	9.3%	-17,449	-82,337	38,649	0	\$1.82	
<b>TOTALS</b>	<b>27,907,597</b>	<b>1,101,969</b>	<b>5,432,158</b>	<b>23.4%</b>	<b>-168,773</b>	<b>-611,905</b>	<b>933,280</b>	<b>0</b>	<b>\$4.01</b>	<b>\$4.46</b>

\*Rental rates reflect full service asking

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

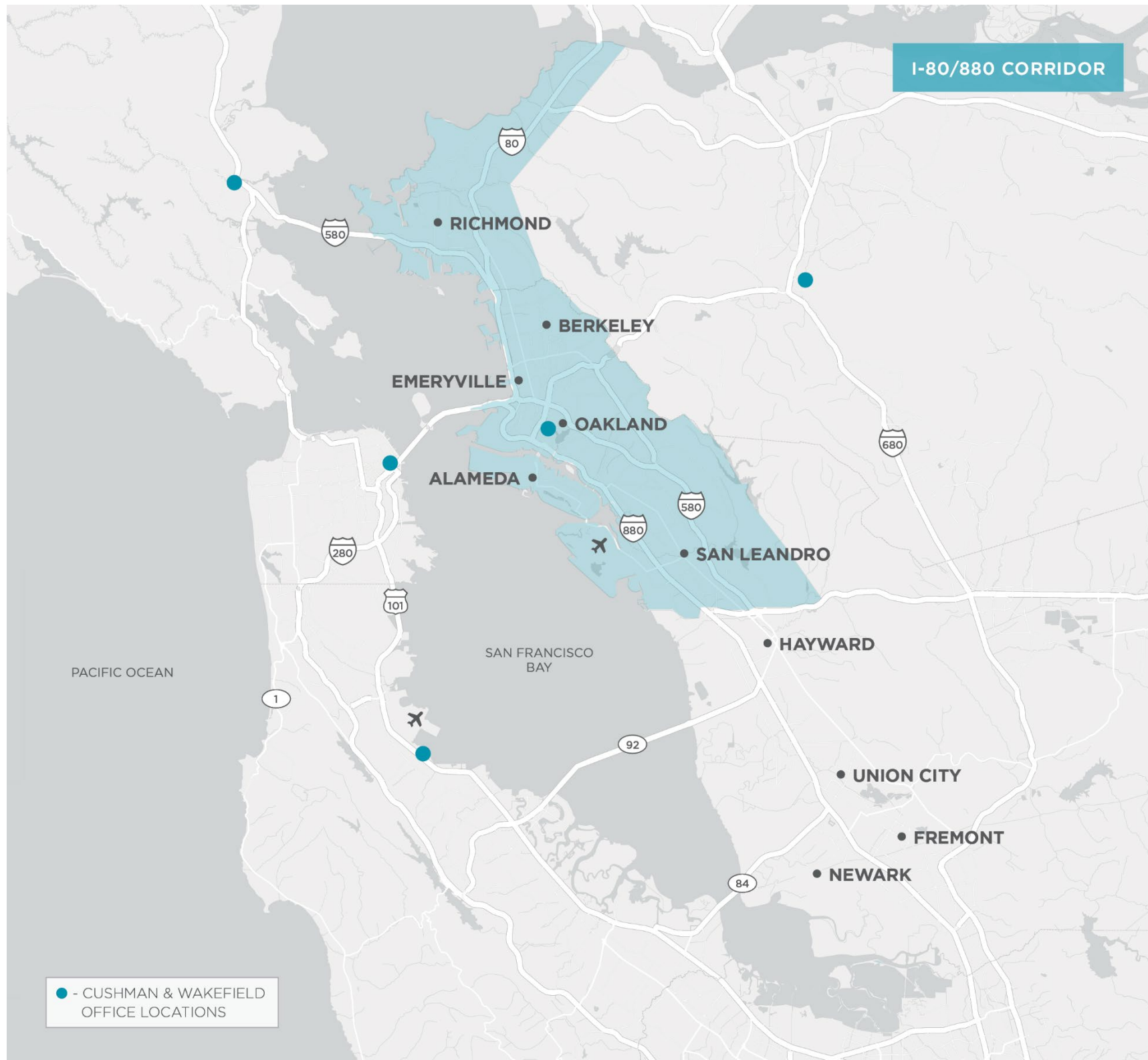
KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1480 64 <sup>th</sup> Street	Emeryville	Profluent	17,000	New Lease
106-156 Linden Street	Jack London Square	Lincoln Families	13,996	New Lease
300 Frank H. Ogawa Plaza	Oakland City Center CBD	The Norton Law Firm	10,035	New Lease
1212 Broadway Street	Oakland City Center CBD	Asian Pacific Environmental Network	8,450	New Lease

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1950 Franklin Street	Oakland Lake Merritt CBD	Kaiser Permanente / Behring Companies	445,914	\$14.6M / \$32
2000 Broadway	Oakland Lake Merritt CBD	Kaiser Permanente / BART	86,000	\$25.5M / \$297

OFFICE SUBMARKETS



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