

# MARKETBEAT

## East Bay Oakland

### Office Q2 2019



#### EAST BAY OAKLAND OFFICE

##### Economics Indicators

	Q2 18	Q2 19*	12-Month Forecast
East Bay Employment	1.18M	1.20M	▲
East Bay Unemployment Rate	3.1%	3.2%	▼
U.S. Unemployment Rate	3.9%	3.6%	▼

\*2019 Q2 data are based on latest available data  
Source: BLS, Moody's Analytics, C&W Research

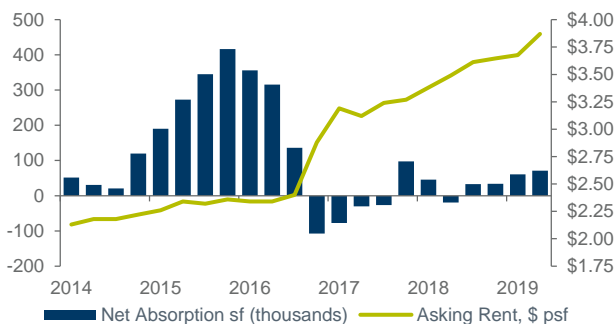
##### Market Indicators

	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	8.9%	10.5%	▲
Overall Net Absorption (SF)	160k	201k	▲
Under Construction (SF)	1.7m	1.1m	▼
Average Asking Rent*	\$3.49	\$3.87	▲

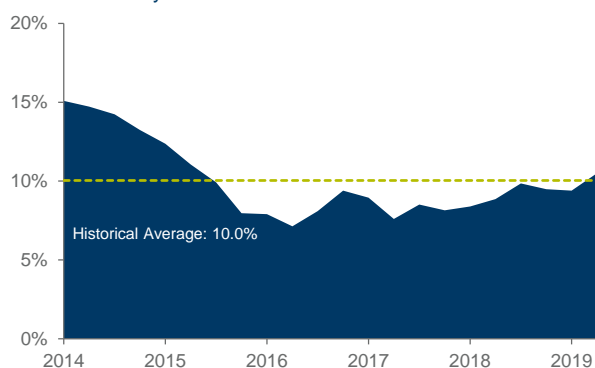
\*Rental rates reflect full service asking \$PSF/month

##### Overall Net Absorption/Asking Rent (Full Service)

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



### Big Tech Moves In While Construction Pipeline Swells

The East Bay, composed of Alameda and Contra Costa counties, recorded positive job growth with 20,000 jobs (+1.7%) added year-over-year (YOY), bringing regional employment to nearly 1.2 million. The labor force increased slightly in the same period, corresponding with the unemployment rate increasing 10 basis points (bps) to 3.2%, still well below the national average of 3.6%. Demand for modern housing remains strong with 5,898 multifamily units currently under construction to help alleviate existing supply constraints; 1,951 units have been delivered since 2017.

The vacancy rate in the East Bay Oakland office market was 10.5% at the end of the second quarter, representing a 160 bps YOY increase, largely driven up by the delivery of the 244,000 square foot (sf) 2150 Webster Street, which remains unleased. Vacancy in the Oakland CBD was 10.3%, the first time the submarket saw vacancy over 10% since the third quarter of 2014. Despite the rise, there were significant gains to net absorption, with 443,594 sf of occupancy growth over the past year. Gross absorption totaled to 606,318 in the second quarter, with roughly 66% of this activity concentrated in the Oakland CBD.

In addition to these gains, the quarter was bookended by two major announcements. In April, San Francisco-based Credit Karma announced they would be occupying 110,000 sf at the under construction 1100 Broadway, bringing preleasing at the project to 82%, and proving Oakland's viability for large tech users looking to migrate from the increasingly cramped San Francisco and Silicon Valley markets. Credit Karma will follow Square, another large San Francisco tech user, which leased 356,000 sf at Uptown Station in the fourth quarter of 2018.

In June, Kaiser Permanente announced its plan to purchase the Eastline site located at 2100 Telegraph Avenue from the City of Oakland, relocating 7,200 East Bay employees and physicians to the proposed building. At 1.6 million sf (msf) the Kaiser Permanente Thrive Center—as the project is now known—will be the second largest corporate campus in the Bay Area, behind the 2.8 msf Apple Park in Cupertino, while beating out the 1.4 msf Salesforce Tower in San Francisco. This news will have far-reaching consequences for Oakland and the East Bay at large. The Thrive Center will be the first new high-rise office construction to break ground in Oakland since 1100 Broadway started construction in January 2018. This is a pure consolidation play as Kaiser will vacate roughly 1.5 msf in five buildings in the Oakland CBD which will be returned to market, alleviating continued supply constraints in larger size ranges. The ultimate effect of this surplus of space hitting the market remains to be seen, though it will certainly create new opportunities for any national-credit tenants who have large requirements with near-term timing. Regardless of the forecast, this project will surely establish

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Oakland as a destination for regional corporate campuses on par with San Francisco and Silicon Valley.

There was 625,000 sf of office product delivered in the second quarter—Uptown Station and 2150 Webster Street—marking the first major deliveries in the Oakland CBD since 2007. Though Uptown Station is delivering 100 percent preleased to Square, the company plans to sublet 150,000 sf on two floors upon completion of tenant improvements. Interestingly, Square plans to build out this space as a coworking concept targeting smaller tenants and individuals. Indeed, the coworking concept has taken off in the East Bay with WeWork, for example, expanding its footprint in the East Bay by 225,000 sf in the last two years. Meanwhile, 2150 Webster Street, at 244,000 sf, is the largest existing block of space market-wide, though will be overshadowed by the 300,000 sf of available space at 601 City Center when that project delivers in August. With these high quality large blocks hitting the market, Oakland is now an attractive alternative to San Francisco, where large blocks of space are scarce.

**WITH THESE HIGH QUALITY LARGE BLOCKS HITTING THE MARKET, OAKLAND IS NOW AN ATTRACTIVE ALTERNATIVE TO SAN FRANCISCO, WHERE LARGE BLOCKS ARE SCARCE...**

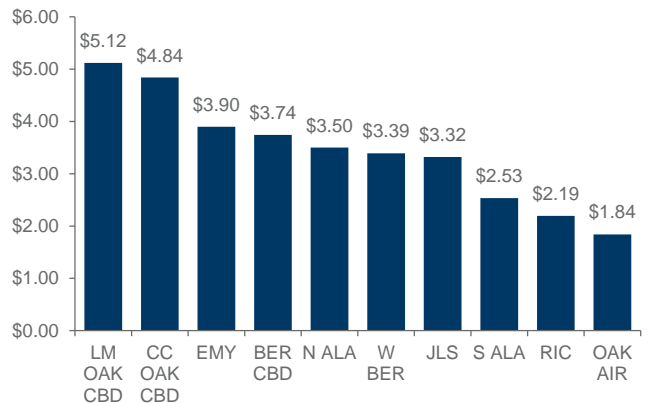
Rents continued climbing in the second quarter, closing at \$3.87 per square foot (psf) on a monthly full-service basis, representing a 10.8% YOY increase. Though we are tracking a historically high number of tenant requirements, rent growth in the past several years has been driven mostly by record breaking sale prices especially in the CBD, forcing a new generation of landlords to underwrite ever-increasing rents. Rents will continue climbing in the coming quarters as new modern product delivers and high-profile tenant migrations generate new interest from out of the market.

### Outlook

- Kaiser Permanente announced the purchase of the Eastline site at 2100 Telegraph Avenue in Oakland, where they will construct a 1.6 msf office tower, which will become the second largest corporate campus in the Bay Area
- There is currently 1.1 msf of office/flex product under construction, 600,000 sf of which is set to complete 2019, with the remainder scheduled for 2020 delivery
- Net absorption totaled to 201,200 sf, and was mainly concentrated in Downtown Oakland where the 380,000 sf Uptown Station project delivered preleased to Square

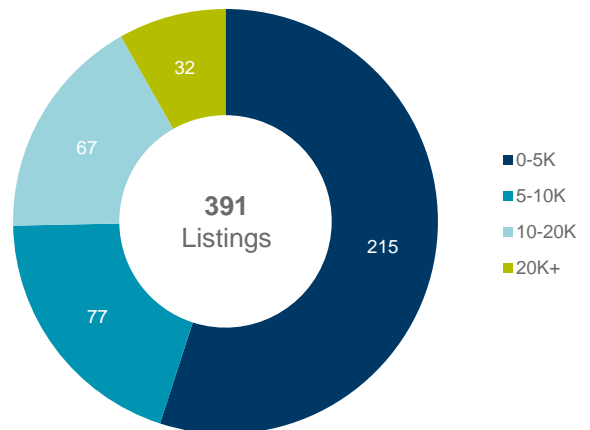
### Average Asking Rate by Submarket (Full Service)

OAKLAND CBD COMMANDS HIGHEST RENTS IN MARKET



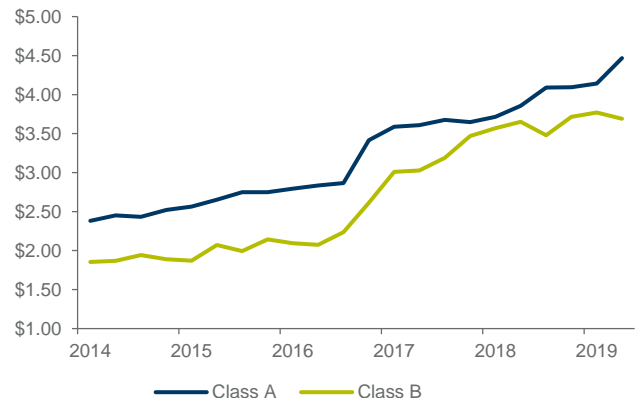
### Availabilities by Size Segment

BIG BLOCKS STILL RELATIVELY SCARCE



### Average Asking Rate by Class (Full Service)

CLASS A RENTS CONTINUE TICKING UP



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT* (ALL CLASSES)	OVERALL AVERAGE ASKING RENT* (CLASS A)
Richmond	2,684,637	14,875	364,379	14.1%	-26,354	-20,647	0	\$2.19	\$2.00
West Berkeley	1,283,295	22,451	21,896	3.5%	0	15,735	0	\$3.39	N/A
Berkeley CBD	2,517,148	1,873	173,171	7.0%	-3,695	-15,332	0	\$3.74	\$4.50
Emeryville	4,372,259	176,660	348,106	12.0%	-11,520	105,409	25,000	\$3.90	\$4.59
City Center Oakland CBD	5,225,224	78,192	434,022	9.8%	-33,336	-110,156	934,500	\$4.79	\$4.92
Lake Merritt Oakland CBD	7,494,403	70,554	724,792	10.6%	336,270	324,402	0	\$5.12	\$5.34
Jack London Square	1,738,426	24,292	120,234	8.3%	-25,870	-15,582	0	\$3.32	\$3.75
Oakland Coliseum	2,055,859	6,343	150,017	7.6%	-14,247	7	0	\$1.84	\$2.80
Northern Alameda	1,738,047	132,598	316,239	25.8%	-57,971	-90,651	0	\$3.50	\$3.75
Southern Alameda	1,961,542	0	97,155	5.0%	2,006	43,125	149,100	\$2.53	\$2.48
<b>CLASS BREAKDOWN</b>									
Class A	15,095,769	308,533	1,223,882	10.2%	357,732	501,371	934,500	\$4.47	
Class B	12,755,620	190,514	1,093,078	10.1%	-122,260	-285,250	25,000	\$3.69	
Office/Flex	3,219,451	28,791	433,051	14.3%	-22,124	20,189	149,100	\$2.38	
<b>TOTAL</b>	<b>31,070,840</b>	<b>527,838</b>	<b>2,750,011</b>	<b>10.5%</b>	<b>201,200</b>	<b>236,310</b>	<b>1,108,600</b>	<b>\$3.88</b>	<b>\$4.47</b>

\*Rental rates reflect full service asking \$PSF/month

\*\*Entries not reflective of U.S. MarketBeat table

### Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
The Key @ 12th	110,000	Credit Karma	Ellis Partners	New Construction	Oakland CBD City Center
2101 Webster	48,000	Everlaw, Inc.	Starwood Capital Group	New Lease	Oakland CBD Lake Merritt
The Waterfront	37,544	Exelixis	Amstar Group	New Lease	Alameda South
601 City Center	27,831	CRA International, Inc.	The Shorenstein Properties	New Construction	Oakland CBD City Center
Berkeley Way West	27,000	Microsoft	UC Regents	New Lease	Berkeley CBD

### Key Sale Transactions Q2 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	MARKET
Marina Village Portfolio	1,011,396	DRA Advisors	Brookfield Asset Management	\$267,000,000 / \$264	North Alameda
1333 Broadway	238,394	Swift Real Estate Partners	CIM	\$115,000,000 / \$482	Oakland CBD City Center
1515 Webster Street	64,420	HBO Webster Street LLC	Weinstein Comm'l Investments	\$19,250,000 / \$253	Oakland CBD City Center

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Office Submarkets  
East Bay Oakland



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### About Cushman & Wakefield

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