MARKETBEAT

EAST BAY OAKLAND

Office Q4 2019

	YoY Chg	12-Mo. Forecast
10.8% Vacancy Rate	▲	▲
65K Net Absorption, SF	▼	▲
$4.36 Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
1.21M East Bay Oakland Employment	▲	▲
2.8% East Bay Oakland Unemployment Rate	▼	▲
3.6% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2019Q4 data are based in the latest available data

ECONOMY: More Jobs, More Housing

The East Bay, encompassing Alameda and Contra Costa counties, recorded positive job growth with nearly 22,000 jobs (+1.8%) added year-over-year (YOY), bringing regional employment to just over 1.21 million. This growth corresponded with the unemployment rate declining 20 basis points (bps) to 2.8%, comfortably below the national average of 3.6%. In recent years, Oakland has evolved into the cultural heart of the East Bay. With a centralized Bay Area location regarding public transportation hubs, housing demand has skyrocketed in Oakland as well as the East Bay at large. To pick up the slack between supply and demand, 1,441 apartment units have been delivered since 2017, while an additional 5,241 units are under construction and 2,168 proposed.

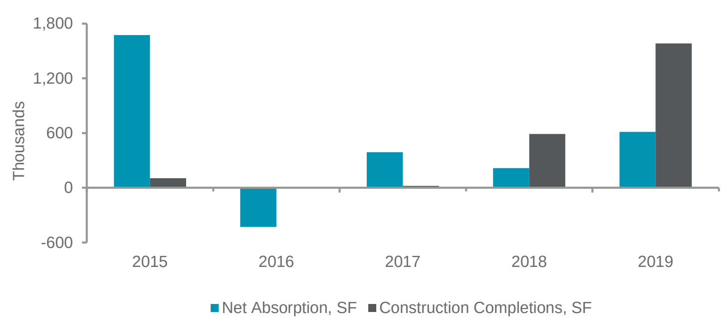
SUPPLY: New Construction Drives Vacancy Growth

The vacancy rate in the East Bay Oakland office market was 10.8% at the end of the quarter, recording no change from the previous quarter though up 190 bps from this time last year. The delivery of 601 City Center drove a significant portion of this increase with 300,000 square feet (sf) currently available in the project. Despite the pronounced increase, there are now six times as many CBD listings over 20,000 sf than at this time last year, giving larger tenants in the market flexibility in their space needs. The purchase of 2150 Webster Street by BART removed 244,000 sf from vacancy statistics in the fourth quarter, though the sale was somewhat offset by Square's decision to put 150,000 sf of sublease space on the market at Uptown Station.

PRICING: 2019 Gains Continue in Fourth Quarter

Rents continued to ascend in the fourth quarter, closing at $4.36 per square foot (psf) on a monthly full-service basis, representing a strong $0.66 increase YOY. The increase was particularly pronounced in the Lake Merritt CBD submarket, mainly due to the Square sublease. At an asking rate of $7.17 psf, this space represents the new high watermark for asking rents across the market by a comfortable margin. Growth in the past several years has been driven by record breaking sale prices in the CBD, forcing the underwriting of higher rents, while deliveries of modern speculative product have driven the rise specifically in the last 12 months. Rents are expected to continue rising in 2020, though with no major completions on the horizon, growth will be at a more measured clip than seen in the past several years.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT

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Demand: East Bay Oakland Ends the Year in the Black

The fourth quarter marked the fifth consecutive quarter of occupancy growth in the East Bay Oakland market, with net absorption totaling positive 64,982 sf and positive 612,430 sf for the year. Growth in 2019 was driven by preleasing activity at 601 City Center and Uptown Station, while the delivery of 1100 Broadway—preleased to Credit Karma and UC Office of the President and slated for April 2020 delivery—will help continue the rally into 2020. Occupancy growth in recent years has been fueled by tenant migrations from San Francisco, indicating that not only does the East Bay still offer comparable value to other Bay Area markets, but also that employers are choosing to relocate closer to where many of their employees live.

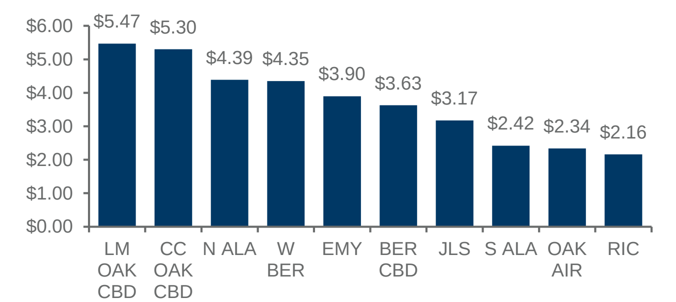
New Construction, Conversions, and Proposals

Construction completions ramped up in 2019, with 1.6 million square feet (msf) of new office and flex product delivered throughout the market. In addition, 5300 Chiron Way, previously owned and occupied by Novartis and sold to BioMed Realty in the first quarter, was leased by Zymergen and the building was thus added to office statistics. At 285,000 sf, this marks the largest lease of 2019 and speaks to the growing importance of the medical and life science sectors in the East Bay Oakland market. Additionally, Exelixis leased a 300,000 sf build-to-suit life science project in Alameda, with the delivery date to be determined. The Zymergen and Exelixis deals follow Penumbra's leasing of a 135,000 sf build-to-suit life science project also in Alameda, slated for fourth quarter 2020 delivery. Despite strong demand, there is a scant supply of available life science space in the market. A proposed conversion of the former Wind River campus in Alameda may deliver nearly 270,000 sf of speculative life science space, but other projects will be necessary to pick up the slack between supply and demand and attract new enterprise life science firms to the market.

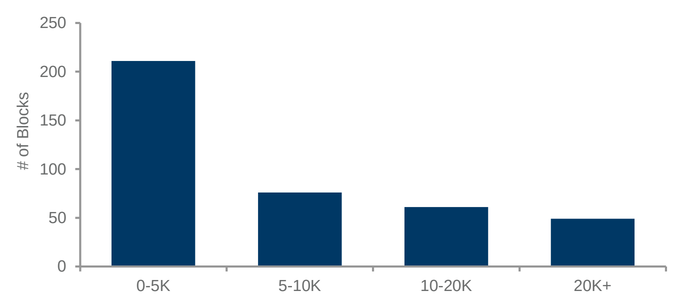
Outlook

- Net absorption totaled positive 64,982 sf in the fourth quarter and 612,430 sf for the year. The close of 2019 marks three consecutive years of occupancy growth, totaling to positive 1.22 msf. Net absorption is expected to continue this rally in 2020 as 1100 Broadway delivers preleased and other large blocks of vacant space are occupied.
- In recent years, East Bay Oakland has captured a growing share of demand from San Francisco, including recent high profile migrations such as Blue Shield, Square, and Credit Karma. Touring activity from San Francisco tenants looking to expand in the market is expected to ramp up in 2020.
- The life science market dominated headlines in 2019. Zymergen acquired 285,000 sf in Emeryville, while Abbott Diabetes Care (buyer of former the VF Outdoors campus) and Penumbra (who acquired a 135,000 sf build-to-suit) continue to expand in Alameda. With a growing number of life science and medical requirements tracked in the market, activity in this sector is expected to heat up in 2020.

AVERAGE ASKING BY SUBMARKET (FULL SERVICE)



AVAILABILITIES BY SIZE SEGMENT



AVERAGE ASKING RATE BY CLASS (FULL SERVICE)

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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	19,166	226,891	9.0%	14,057	3,218	6,641	0	$2.16	$2.09
West Berkeley	1,283,295	0	34,067	2.7%	0	26,015	85,720	0	$4.35	N/A
Berkeley CBD	2,517,148	9,722	107,873	4.7%	4,800	37,471	178,027	0	$3.63	$4.50
Emeryville	4,682,259	34,185	450,886	10.4%	240,339	392,500	824,907	0	$3.90	$4.44
City Center Oakland CBD	5,825,224	50,214	919,686	16.7%	-74,783	26,783	719,623	334,500	$5.30	$5.46
Lake Merritt Oakland CBD	7,249,448	189,006	393,706	8.0%	-134,380	285,448	543,567	0	$5.47	$5.19
Jack London Square	1,738,426	46,563	84,941	7.6%	6,137	-2,566	88,445	0	$3.17	$3.75
Oakland Coliseum	2,055,859	24,874	144,627	8.2%	-7,608	-2,134	108,213	0	$2.34	$2.82
Northern Alameda	1,754,433	128,586	377,138	28.8%	6,949	-147,442	109,722	0	$4.39	$4.64
Southern Alameda	2,009,452	8,008	186,701	9.7%	9,471	-6,863	219,866	100,077	$2.42	$2.74
CLASS BREAKDOWN										
Class A	15,697,039	286,889	1,518,105	11.5%	16	776,161	1,736,056	334,500	$4.99	
Class B	12,885,787	188,423	1,082,605	9.9%	10,816	-225,856	867,873	0	$3.88	
Office/Flex	3,267,361	35,012	325,806	11.0%	288,702	62,125	280,802	100,077	$2.77	
TOTALS	**31,850,187**	**510,324**	**2,926,516**	**10.8%**	**64,982**	**612,430**	**2,884,731**	**434,577**	**$4.36**	**$4.99**

**Rental rates reflect full service asking*

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
5300 Chiron Way	Emeryville	Zymergen	285,000	Sale-Leaseback
Harbor Bay Parkway	Northern Alameda	Exelixis	220,000	Build-To-Suit
2910 7th St	Berkeley	Pivot Bio	45,389	New Lease
1545 Park Ave	Emeryville	Perfect Day	25,000	New Lease
1999 Harrison St	Lake Merritt Oakland CBD	Simpson Gumpertz	20,776	New Lease

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
1740-1750 Loop Rd N	Southern Alameda	Ascentris LLC / Hillwood Development Corporation	385,967	$113.8M/$295
2150 Webster Street	Lake Merritt Oakland CBD	Walton Street Capital / Bay Area Rapid Transit (BART)	244,000	$140.0M/$577
1400 65th St	Emeryville	Clarion Partners / The Blackstone Group	228,110	$126.5M/$555
Dreyer's Corporate Center	North Oakland*	Dreyers' Grand Ice Creame Holdings, Inc. / Libitzky Holdings	90,000	$41.0M/$456

**Submarket not included in statistics*

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OFFICE SUBMARKETS

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