

MARKET TRENDS | **EAST BAY**

# OFFICE

**4TH QUARTER**  
**2019**

▼ **ABSORPTION** | ▲ **VACANCY** | ▲ **RENTAL RATE** | ◀▶ **CONSTRUCTION DELIVERIES**

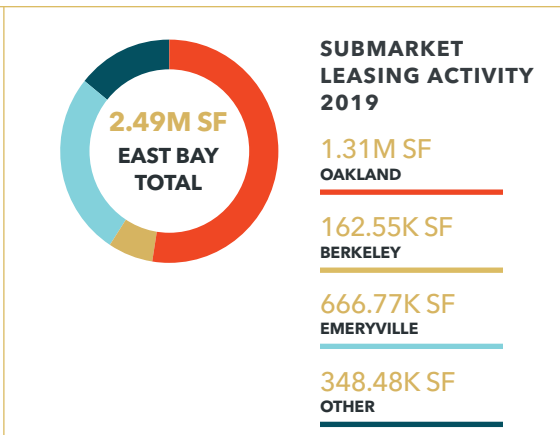
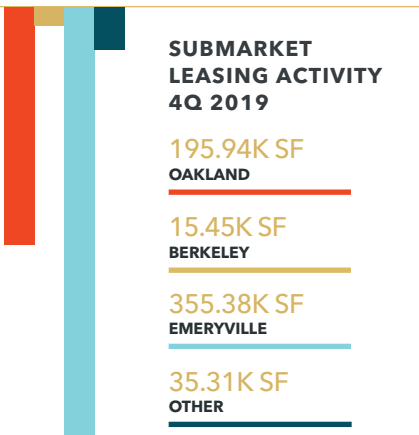
The East Bay experienced a solid performance year, with over 2.4 million s.f. in leasing activity and 631,000 s.f. of positive net absorption. Rental rates have remained on the rise, averaging \$4.06/s.f. full service (a 5.7% increase from 2018), with Oakland boasting a high \$4.53/s.f. rate. Sale volume was the highest amount in the last 10 years, ending 2019 with \$1.43 billion. However, development activity has been greatly reduced, with two buildings currently under construction.

\$4.53/s.f. full service at the end of 2019, with CBD rates standing at a high \$4.93/s.f. full service. Nearby Emeryville experienced a 3.7% increase of rates YOY to close out 2019 at \$4.16/s.f. full service. Hayward offered the most affordable option for tenants, posting an average of \$1.53/s.f. full service. With the arrival of Class A properties in the East Bay, Class A rates have risen modestly to \$5.03/s.f. full service.

Market-wide net absorption stood at positive 631,765 s.f., compared to 865,522 s.f. in the prior year. Oakland led all major submarkets with the highest absorption gain of 437,291 s.f., largely driven by the completion of 601 City Center and Square’s 355,000 s.f. move-in at 1955 Broadway. On the other hand, Hayward and Alameda reported losses of 82,655 s.f. and 35,575 s.f. of absorption, respectively. In particular, Class A properties experienced nearly 425,000 s.f. of positive net absorption, attributing to the continued interest of tenants desiring Class A spaces. Market-wide direct vacancy rates fell 20 basis points to stand at 7.2%. Emeryville currently holds the highest rate at 11.4%, while Union City stands at a low 0.4%.

Leasing activity fell nearly 15% from the prior year, ending 2019 with 2.49 million s.f. in activity. Oakland led all the submarkets with the highest amount of leasing activity for the year, standing at 1.31 million s.f. Particularly, the CBD area totaled 1.19 million s.f. of activity. Emeryville followed closely behind with 666,770 s.f. of leases. Class B properties in all submarkets reported the most leasing activity, with just over 1 million s.f. signed. Several notable leases occurred in 2019, beginning with Credit Karma pre-leasing 160,600 s.f. at the under construction project at 1100 Broadway in Oakland, set to deliver in

Growing demand and the arrival of newer, high-quality office spaces have caused East Bay rental rates to jump to an average of \$4.06/s.f. full service, up 5.7% year-over-year (YOY). Although not as high-priced as neighboring San Francisco, Oakland rates averaged



**2019 MARKET HIGHLIGHTS**

- DIRECT VACANCY** fell 20 basis points from 2018 to 7.2%
- NET ABSORPTION** was positive with 631,765 s.f. of absorption gains
- AVERAGE ASKING** direct lease rates rose 5.7% from 2018
- LEASING ACTIVITY** fell 14% YOY to 2.49 million s.f.

Q1 2020. This was followed by Adobe renewing 55,975 s.f. at 1250 53rd Street in Emeryville, while Lawrence Berkeley Laboratories also renewed their 41,447 s.f. space at 415 20th Street in Oakland.

A sharp decrease in under construction activity occurred in 2019, falling 64% YOY. Only two office developments are currently in the East Bay pipeline, the largest being Ellis Partners' The Key at 12th project in Downtown Oakland. This 345,300 s.f. Class A office building is entirely pre-leased to Credit Karma and the University of California Office of the President and is scheduled to arrive in Q1 2020. Next, 2120 Berkeley Way in Berkeley is anticipated to deliver 36,537 s.f. in Q1 2020 and is pre-leased to co-working company WeWork. The past year saw a slight uptick in office deliveries, with nearly 735,000 s.f. arriving on the market. The largest completion was Shorenstein Properties' 601 City Center in Downtown Oakland in late Q4 2019. This 600,000 s.f. Class A building was around 50% pre-leased upon arrival, with anchor tenant Blue Shield occupying 250,000 s.f. on floors 16-24. This was followed by the renovation of 519 17th Street in Oakland, a seven-story building offering 63,000 s.f. of office space.

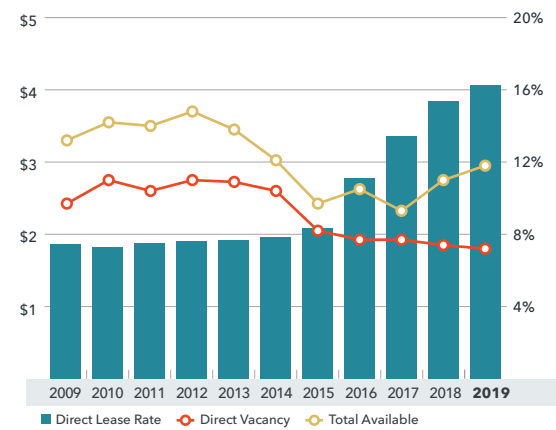
Investment activity surged 46% in the East Bay within the past year, ending at \$1.43 billion. The average price per square foot stood at \$376, with cap rates rising 30 basis points YOY to 5.5%. Institutional demand remains strong in the office market and is expected to continue in the coming year. The largest sale this year was Starwood Capital Group's portfolio acquisition of three office buildings and a parking garage in Oakland for \$512 million, or \$430/s.f. Next, DRA Advisors purchased the Marina Village in Alameda, a 27-office campus, for \$267 million, or \$263/s.f. DRA Advisors intends to convert part of the campus into life science space, strengthening Alameda as a biotech destination. Finally, AXA Investment Management acquired from Harvest Properties the 280,000 s.f. Class A office building at 180 Grand Avenue in Oakland for \$175 million, or \$628/s.f. The building was around 96% occupied at the time of the sale and included tenants such as Marqeta and Wood Group.

Source: CoStar, SF Business Times

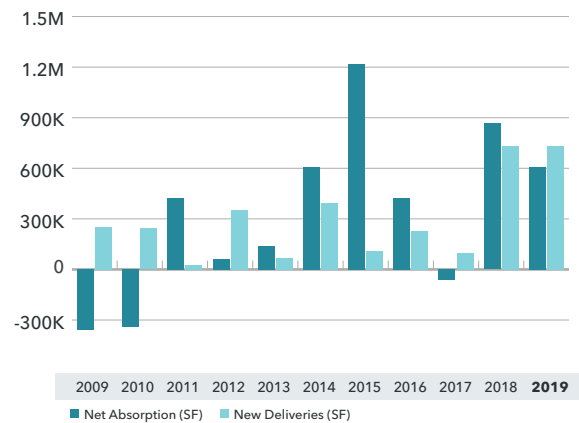
## Market Breakdown

	2019	2018	2017	Annual % Change
<b>New Construction</b>	734,720	732,332	95,870	<b>0.33%</b>
<b>Under Construction</b>	396,725	1,109,445	1,452,783	<b>-64.24%</b>
<b>Direct Vacancy Rate</b>	7.2%	7.4%	7.7%	<b>-2.70%</b>
<b>Availability Rate</b>	11.8%	11.0%	9.3%	<b>7.27%</b>
<b>Direct Asking Leasing Rents</b>	\$4.06	\$3.84	\$3.36	<b>5.73%</b>
<b>Leased SF</b>	2,490,773	2,901,595	3,377,712	<b>-14.16%</b>
<b>Sold SF</b>	4,119,275	2,390,403	2,651,533	<b>72.33%</b>
<b>Net Absorption</b>	631,765	865,522	-64,412	<b>N/A</b>

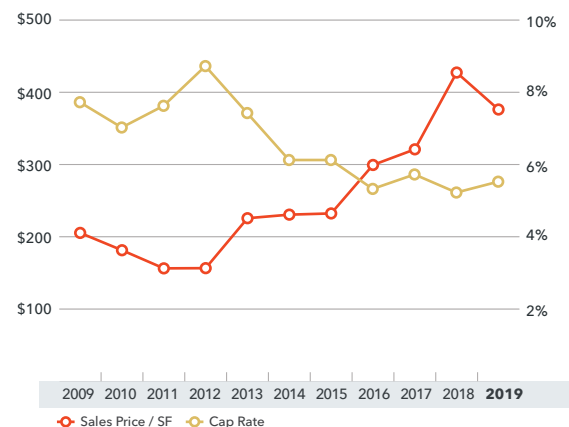
## LEASE RATE, VACANCY & AVAILABILITY



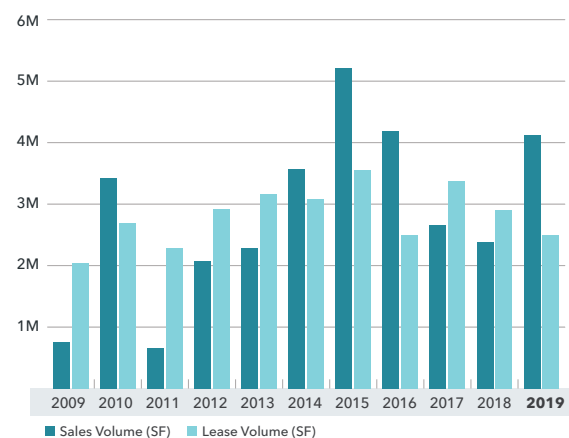
## NET ABSORPTION & NEW DELIVERIES



## AVERAGE SALE PRICE & CAP RATES

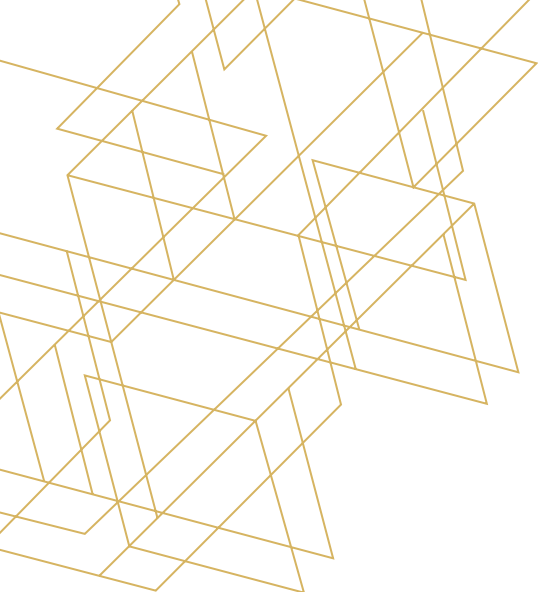


## SALES VOLUME VS. LEASE VOLUME



## EAST BAY SUBMARKET STATISTICS

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q 2019 Total Net Absorption	2019 Total Net Absorption	4Q 2019 Leasing Activity	2019 Leasing Activity	Direct Rental Rate
Oakland - Downtown	18,886,518	351,400	8.90%	10.30%	17.1%	416,596	335,862	168,501	1,058,446	\$5.04
Oakland - Jack London Sq	1,758,590		6.40%	7.10%	7.40%	-5,627	58,646	10,254	132,715	\$3.70
<b>Oakland CBD</b>	<b>20,645,108</b>	<b>351,400</b>	<b>8.64%</b>	<b>10.00%</b>	<b>16.58%</b>	<b>410,969</b>	<b>394,508</b>	<b>178,755</b>	<b>1,191,161</b>	<b>\$4.93</b>
Alameda	3,910,598		10.20%	10.50%	22.70%	-26,313	-35,575	851	204,418	\$2.85
Albany	147,151		4.60%	4.60%	3.90%	-2,691	-5,250	1,854	5,007	\$2.50
Berkeley	5,427,198	45,325	2.50%	2.60%	3.80%	21,063	89,928	15,445	162,545	\$3.39
Castro Valley	509,734		0.90%	0.90%	1.10%	843	14,410	0	9,830	\$2.10
El Cerrito	140,082		5.30%	5.30%	5.30%	0	-5,184	0	0	\$1.62
Emeryville	5,614,043		11.40%	11.60%	14.50%	1,711	168,227	355,377	666,770	\$4.16
Hayward	2,778,132		4.50%	4.60%	4.70%	-14,175	-82,655	24,489	72,111	\$1.53
Oakland	28,262,144		7.50%	8.60%	13.50%	396,099	437,291	195,941	1,312,974	\$4.53
Richmond	1,942,119		1.90%	2.70%	4.00%	-846	-14,881	2,338	20,388	\$1.96
San Leandro/San Lorenzo	2,066,593		10.79%	11.03%	11.96%	-3,315	2,938	3,402	30,472	\$3.27
San Pablo	256,863		0.60%	0.60%	4.80%	25,610	31,135	0	3,231	\$2.25
Union City	570,807		0.40%	0.40%	0.00%	31,381	31,381	2,389	3,027	\$1.75
<b>East Bay Total</b>	<b>51,625,464</b>	<b>396,725</b>	<b>7.20%</b>	<b>7.90%</b>	<b>11.80%</b>	<b>429,367</b>	<b>631,765</b>	<b>602,086</b>	<b>2,490,773</b>	<b>\$4.06</b>
Class A	12,508,983		9.40%	10.00%	19.10%	252,460	423,223	144,333	814,729	\$5.03
Class B	25,529,493		7.90%	9.00%	12.10%	180,718	160,392	117,463	1,033,516	\$3.79
Class C	13,586,988		3.60%	3.70%	5.10%	-3,811	48,150	340,290	642,528	\$2.37



## Notable Sale Transactions

**2101 WEBSTER/1901 HARRISON /2100 FRANKLIN ST /2353 WEBSTER ST**  
Oakland-Downtown, Starwood Capital Group  
1,188,011 s.f. | \$512M or \$430.99/s.f.

**MARINA VILLAGE PORTFOLIO** Alameda, DRA Advisors LLC  
1,012,288 s.f. | \$267M or \$263.76/s.f.

**180 GRAND AVE** Oakland-Downtown, AXA Investment Management  
278,596 s.f. | \$175M or \$628.15/s.f.

## Notable Lease Transactions

**1100 BROADWAY** Oakland-Downtown, Credit Karma  
160,600 s.f.

**1250 53RD ST** Emeryville, Adobe (Renewal)  
55,975 s.f.

**415 20TH ST** Oakland-Downtown, Lawrence Berkeley Laboratories  
(Renewal)  
41,447 s.f.



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The information in this report was composed by the Kidder Mathews Research Group.

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### COMMERCIAL BROKERAGE

<b>20M</b>	<b>ANNUAL SALES SF</b>	<b>420+</b>	<b>NO. OF BROKERS</b>
<b>\$9B</b>	<b>ANNUAL TRANSACTION VOLUME</b>	<b>40M</b>	<b>ANNUAL LEASING SF</b>

### VALUATION ADVISORY

<b>1,600+</b>	<b>APPRAISALS ANNUALLY</b>	<b>36/23</b>	<b>TOTAL NO. APPRAISERS/MAI'S</b>
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### PROPERTY MANAGEMENT

<b>70M+</b>	<b>MANAGEMENT PORTFOLIO SF</b>	<b>\$9.4B</b>	<b>IN ASSETS UNDER MANAGEMENT</b>
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