



AVISON
YOUNG

East Bay/Oakland Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the East Bay/Oakland unemployment rate to rebound from a high of 14.6 percent in April 2020 to **6.3 percent** now.
- Office-using job losses in this market have totaled **3.7 percent** during the pandemic. Employers are starting to expand their workforce with numerous job postings flooding the market, further solidifying the foothold of a recovery.



Recovery rate

- Tenant confidence and cost containment will be significant keys to recovery.
- Office demand has incrementally grown regionally and within this market since the beginning of 2021. Tenants are entertaining relocations or opening hubs closer to where their employees live.
- This uptick in demand and tour activity could equate to a leveling of new office vacancy while stemming the duration of subleases remaining on the market.



Office demand

- Leasing activity has paused, decreasing by **48.4 percent** compared with long-term historical averages.
- The “flight to quality” trend is growing, with the Class A office segment accounting for **76.2 percent** share of 2Q21 leasing activity.
- Tech tenants are leading the recovery in this market. Twitter is close to signing an 80,000 sf lease and Zendesk expanded into this market while the recent FiveTran lease was an expansion and flight to quality within downtown Oakland.

Key takeaways



Office supply

- Direct and sublease vacancy have achieved levels approaching all-time highs, totaling **14.8 percent**.
- The sublease market continues to drag aggregate fundamentals, accounting for **939,900 sf** of vacant space. Demand has had little effect on sublease space as tenants are leaving their subleases on the market to see if prospective tenants will bite.
- Speculative construction paused during the pandemic. Significant preleasing will be the driver of new office construction in this market.



Pricing trends

- During most of 2020, landlords remained bullish on asking rents while adding more concessions. Recently lease deals reinforce this trend with asking rents flattening while concessions have trended upward.
- Oakland CBD Class A direct average asking rents decreased by only **3.5 percent** from 2Q20 through 2Q21.



Capital markets

- Asset pricing has grown by **38.4 percent** from November 2019 to present. Interest in this market, coupled with abundant capital and no new inventory, should sustain this growth.
- Technology and lab-related office properties are generating strong interest from institutional buyers during the pandemic.
- Swift Real Estate Partners is in contract to buy 1111 Broadway, a trophy class A office asset, in downtown Oakland. Pricing could reach as high as \$570 psf.

01.

Economic and demographic trends

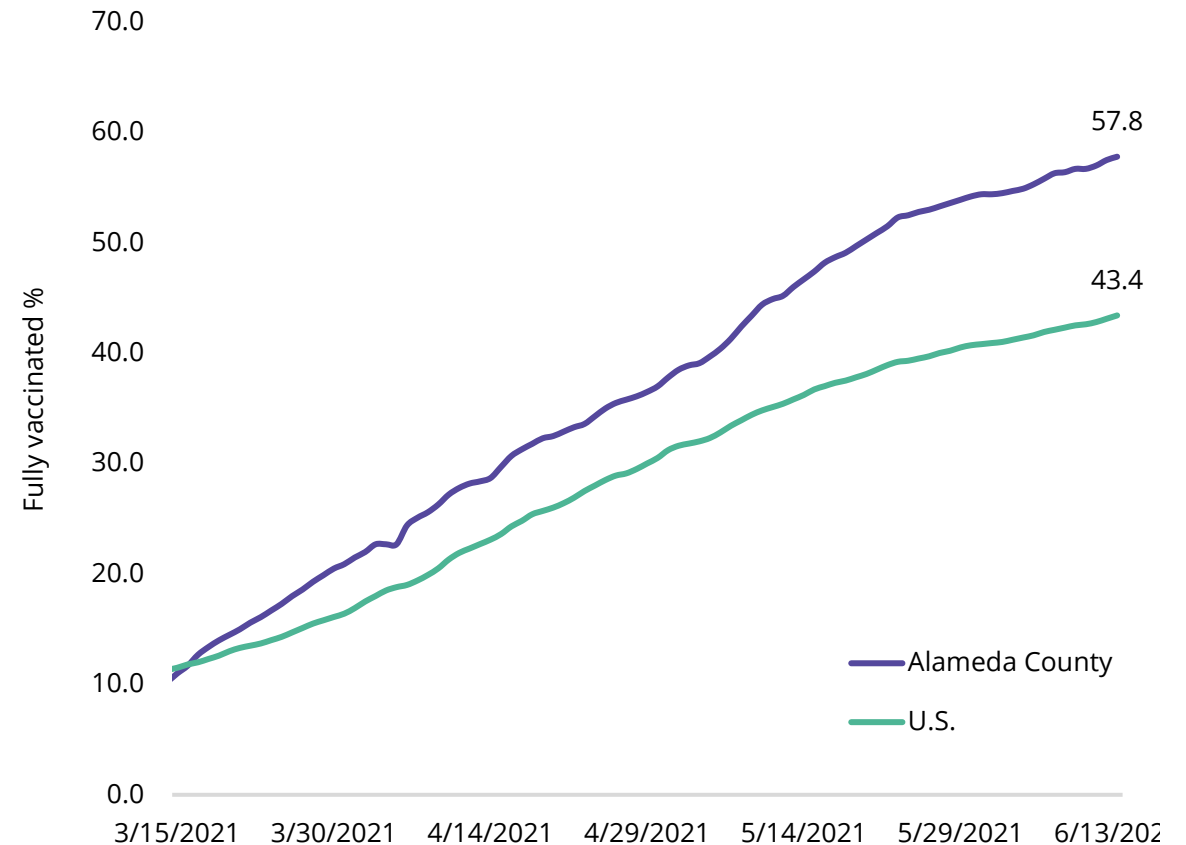
The pandemic immediately shocked the East Bay/Oakland economy, though there have been incremental signs of a recovery as the region reopens.

Vaccination rates

57.8%

Share of total Alameda County population that is fully vaccinated

Alameda County proportionate vaccination rates have far surpassed U.S. averages, an important metric that has allowed the city to loosen restrictions.



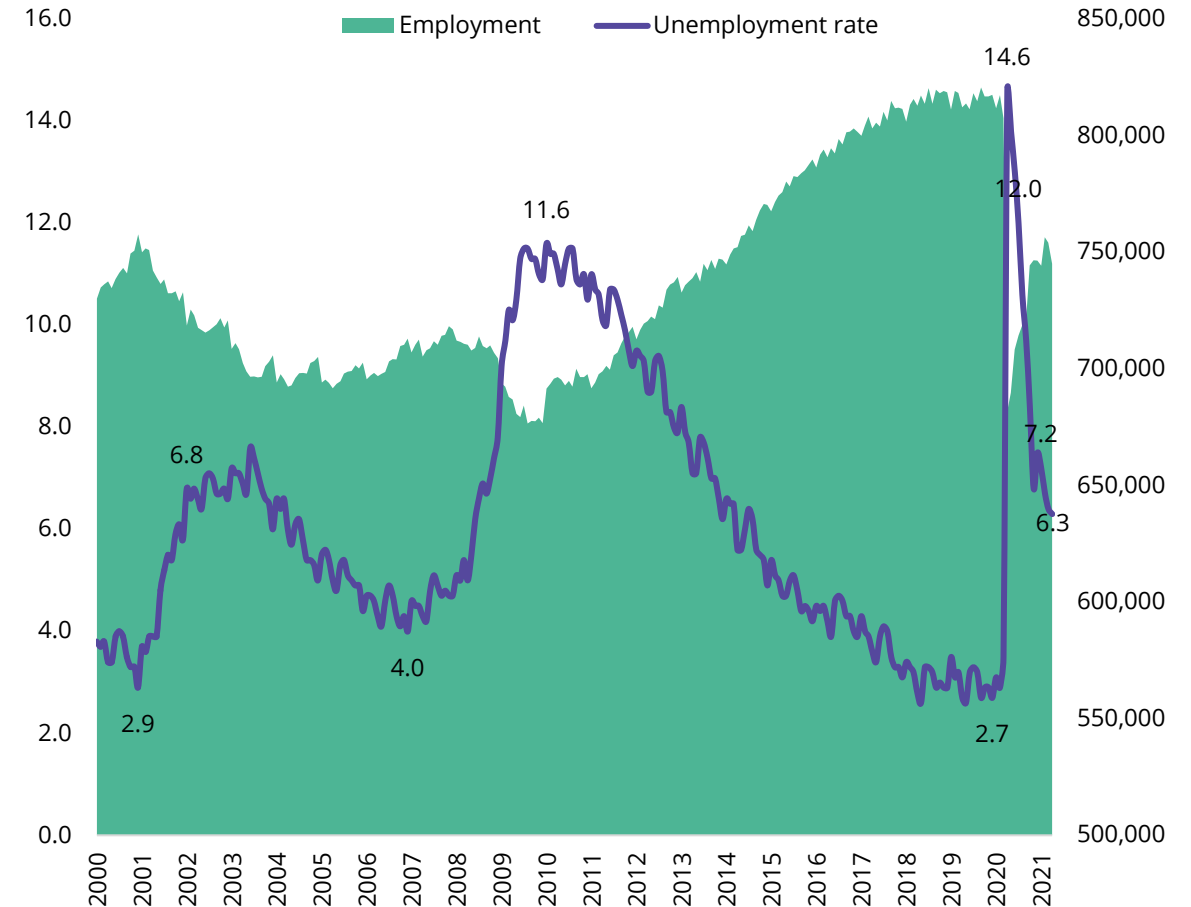
Source: CDC

Employment and unemployment rate

6.3%

Alameda County unemployment rate as of April 2021, dipping below the height of the financial crisis

Historically tightened labor market conditions were halted by the pandemic with 135,394 job losses between February and April 2020. However, reopening efforts enabled the economy to add 9.2% more jobs since April 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-3.7%

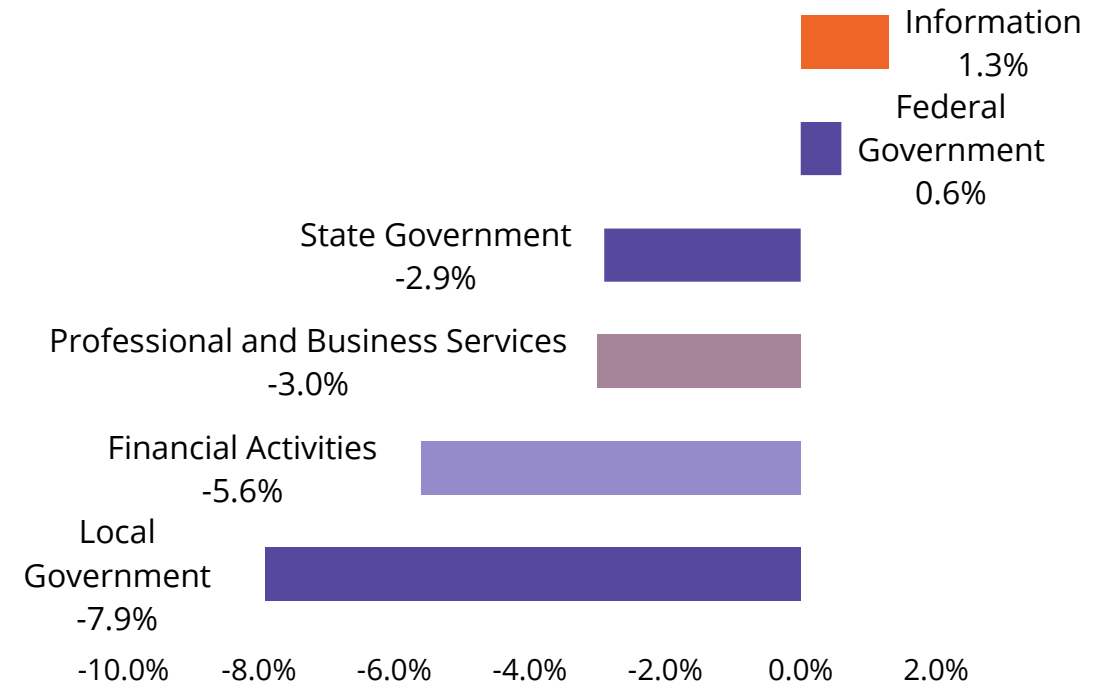
Change in office-using employment during the pandemic

San Francisco-Oakland MSA job losses have declined by 8.9% since the start of the pandemic, though office-using jobs contracted by just 3.7%. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when Financial Activities job losses totaled 11.6% compared to 5.6% today.

[VIEW DASHBOARD](#)

Total change in San Francisco-Oakland MSA* job gains/(losses)

February 2020 to April 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

02.

Office occupier conditions

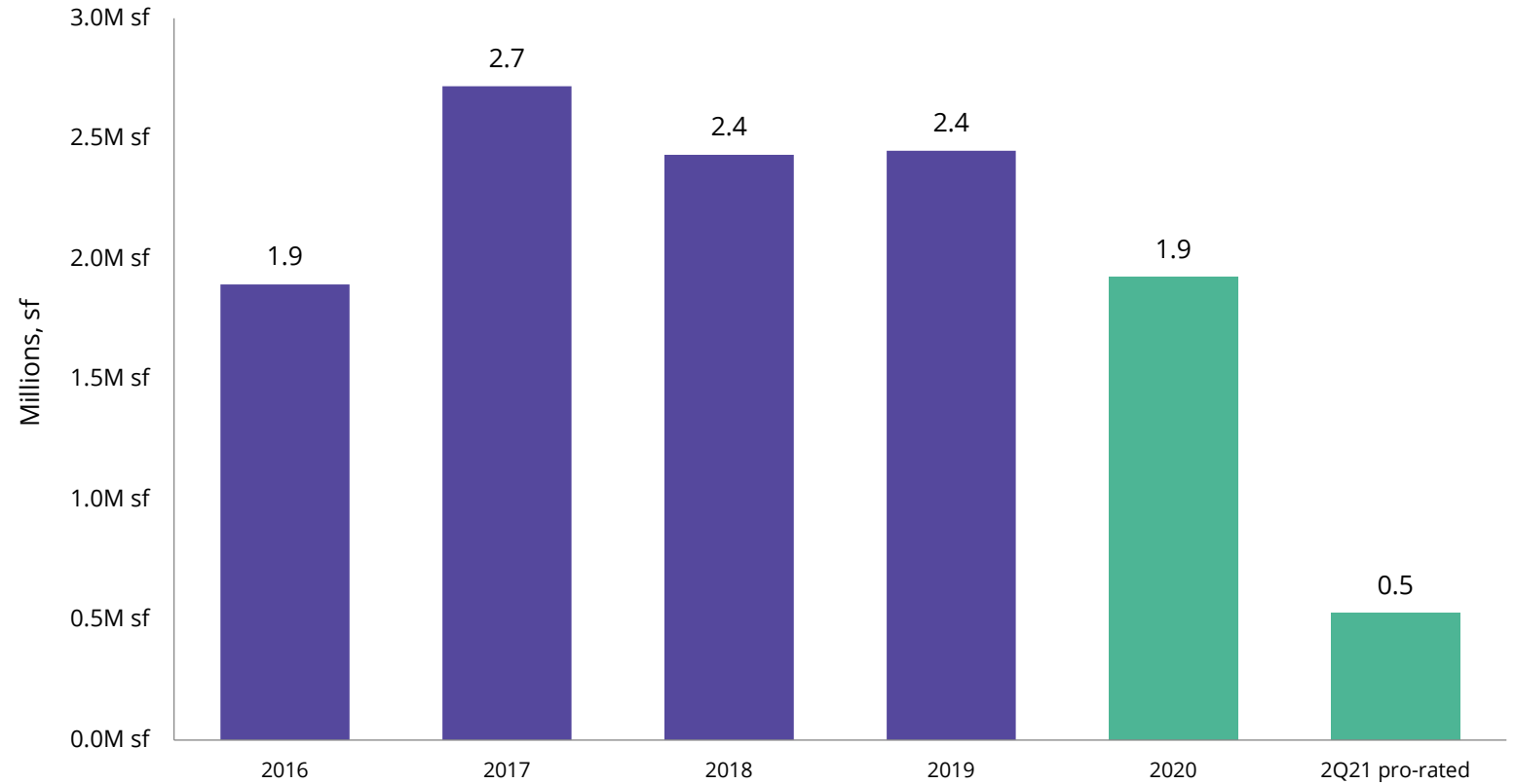
Demand temporarily paused, allowing supply to reach record levels. Tenants are navigating the market with more conviction, indicating a potential recovery in select market segments.

Office leasing activity

-48.4%

**2020-2Q 2021 annual
average leasing activity**

There is no modern precedent for the post-COVID slowdown in leasing activity due to the sudden change in office occupiers' future workplace strategies and the 2020 recession.



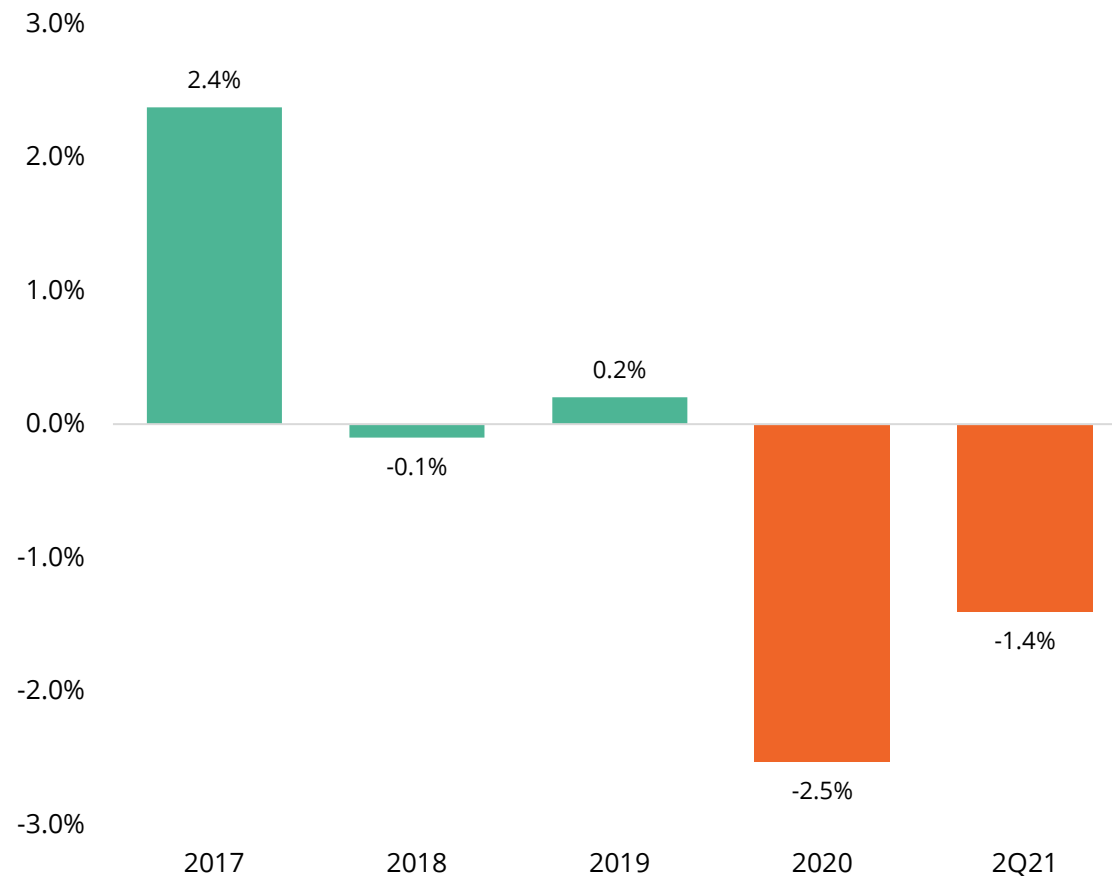
Source: AVANT by Avison Young

Absorption

-3.9%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to 2Q21 has totaled 1.35 million sf, totaling -3.9% of the existing stock. This negative absorption significantly surpasses the lows of the early 2000's recession and global financial crisis.



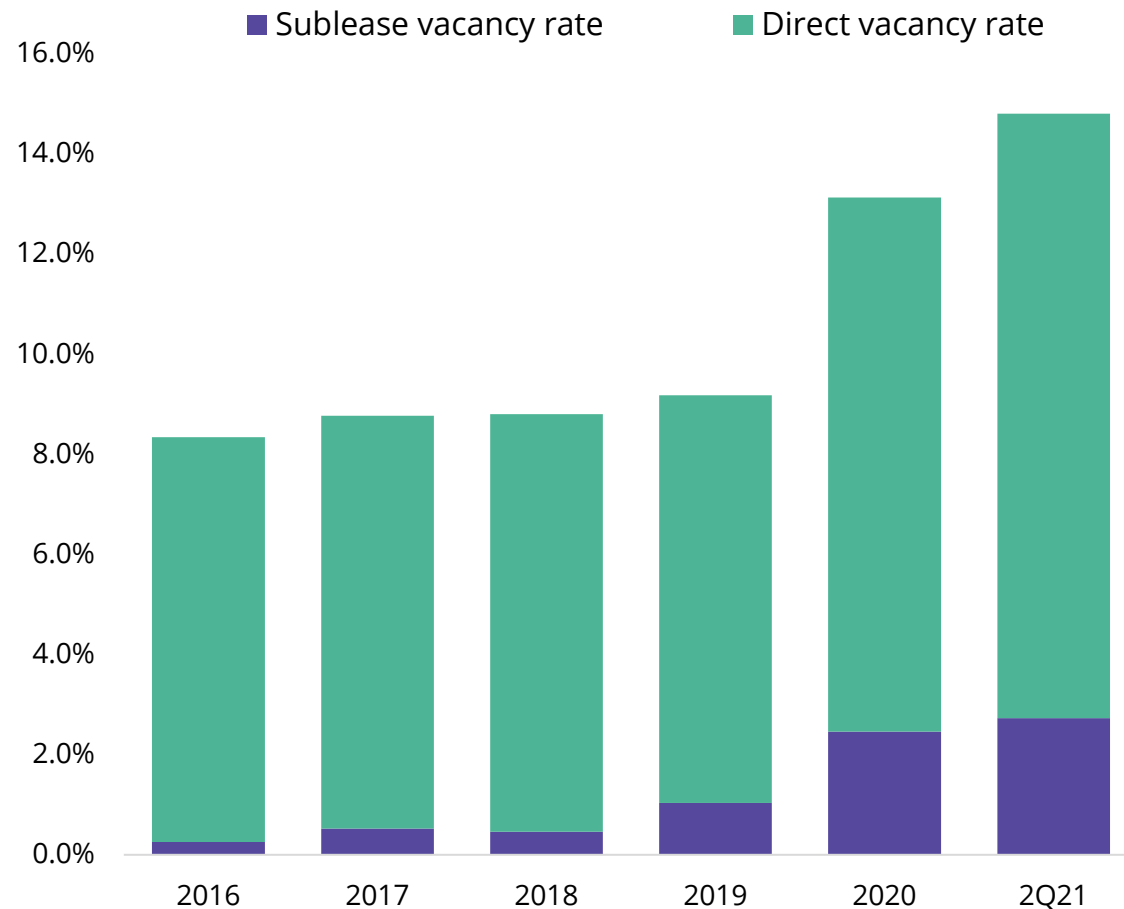
Source: AVANT by Avison Young

Vacancy rate

14.8%

Record high East Bay/Oakland vacancy as of Q2 2021

The Q2 2021 vacancy rate is a record high in terms of sublease, direct and total percentages. The previous two recessions of the Dot-com bubble and the Great Recession both had milder levels of vacancy with 14.3% and 13.7% respectively.



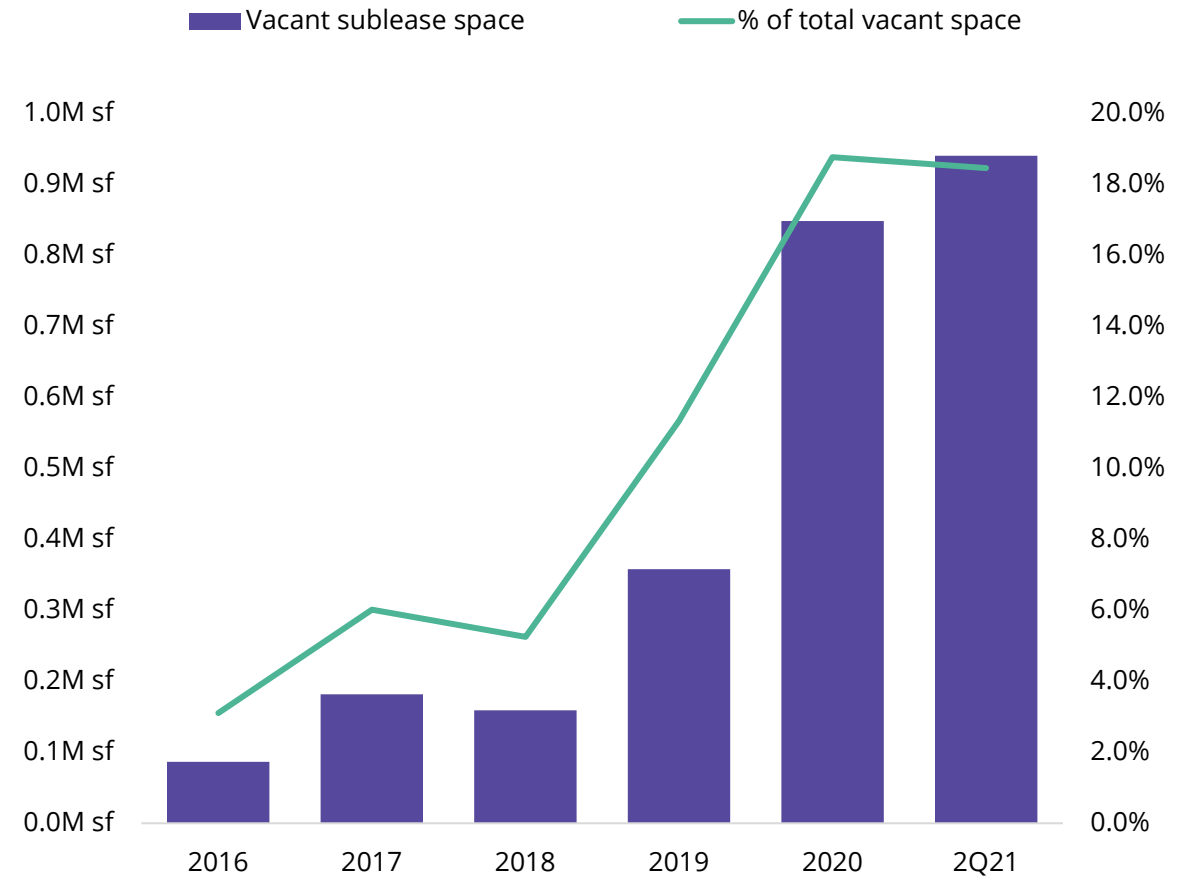
Source: AVANT by Avison Young

Vacant sublease space

939,900 sf

Record levels of sublease vacant space

The share of sublease-to-total vacant space was 18.4%.
This market has not seen this level vacant sublease space since 2Q02 where 1.1m sf dominated the market.



Source: AVANT by Avison Young

East Bay/Oakland Construction Pipeline

16 properties

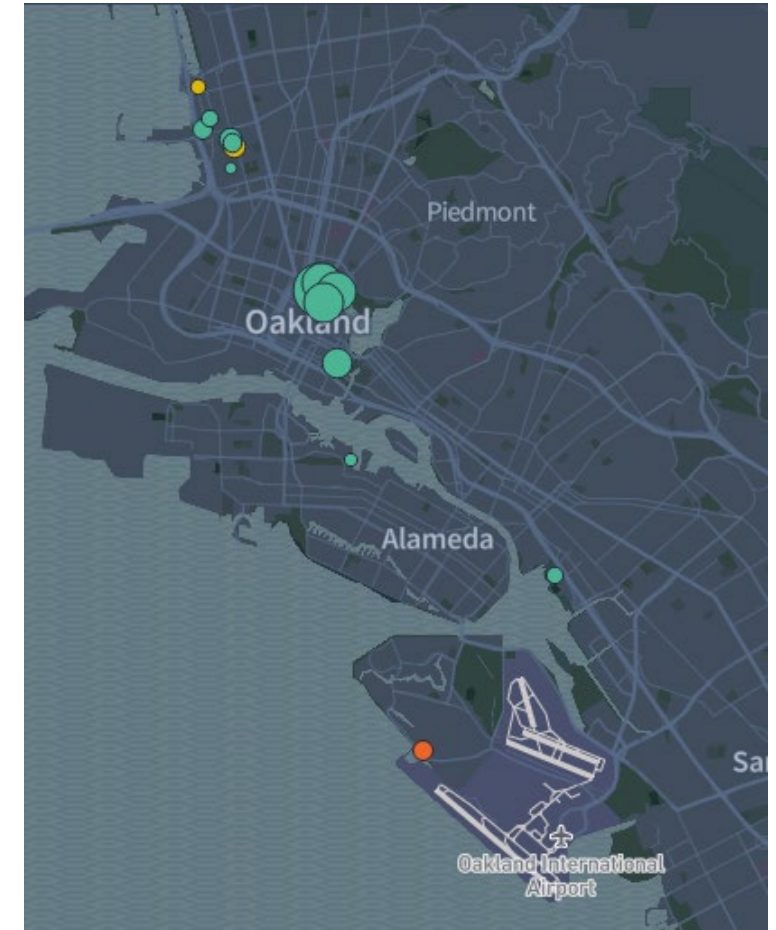
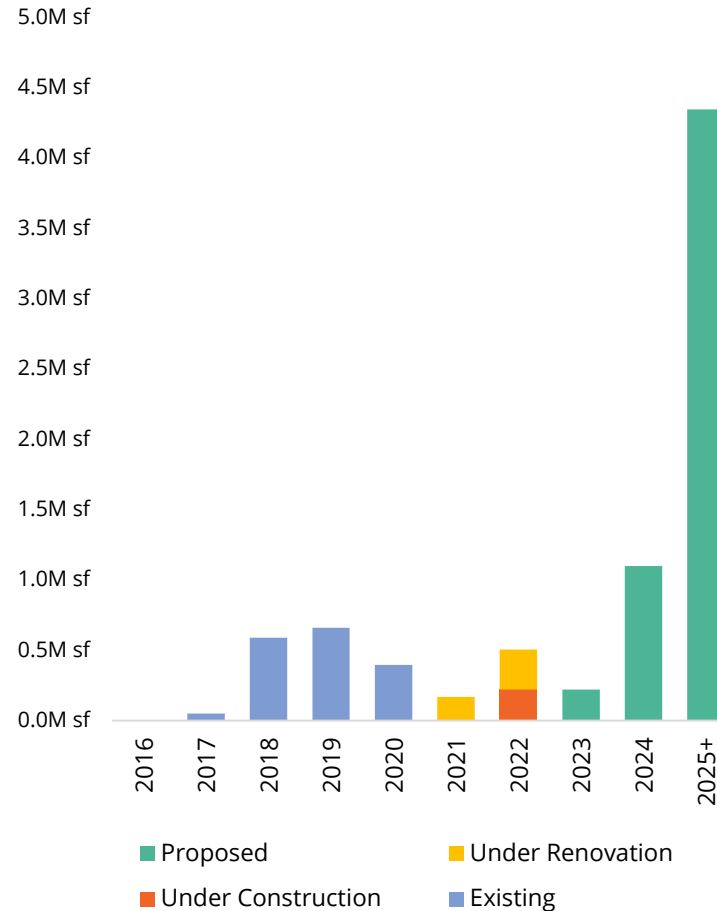
proposed, under
construction

6.6 msf

proposed or under
construction

17.5%

share of office
inventory



Source: AVANT by Avison Young

03.

Capital market conditions

Investor activity is tenacious as buyers clamor for a dwindling supply of office product for sale prompting an increase in the number of unsolicited offers market wide.

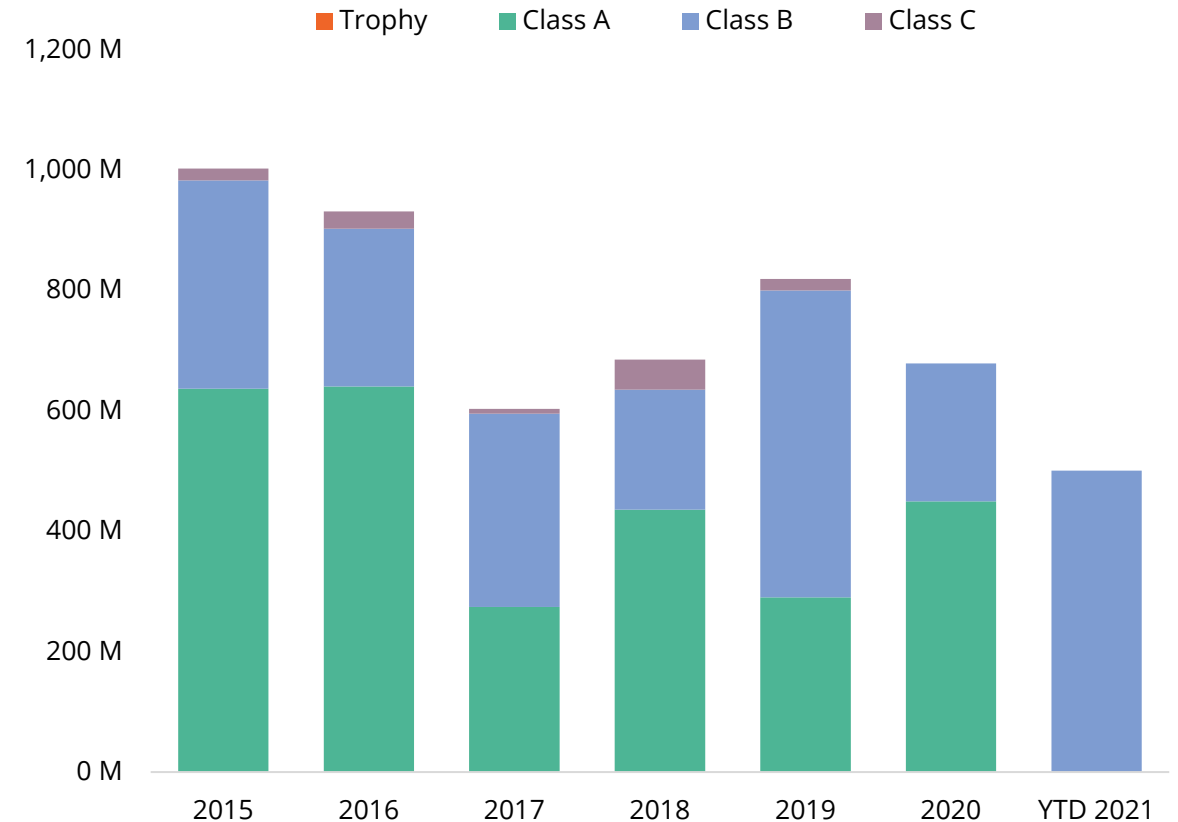
Office investment dollar volume

\$1.18B

East Bay/Oakland office dollar volume

2020 to present

Office sales activity was only slightly affected during the risk-pricing crisis, decreasing by an annualized rate of 2.7% compared with the prior five-year average dollar volume.



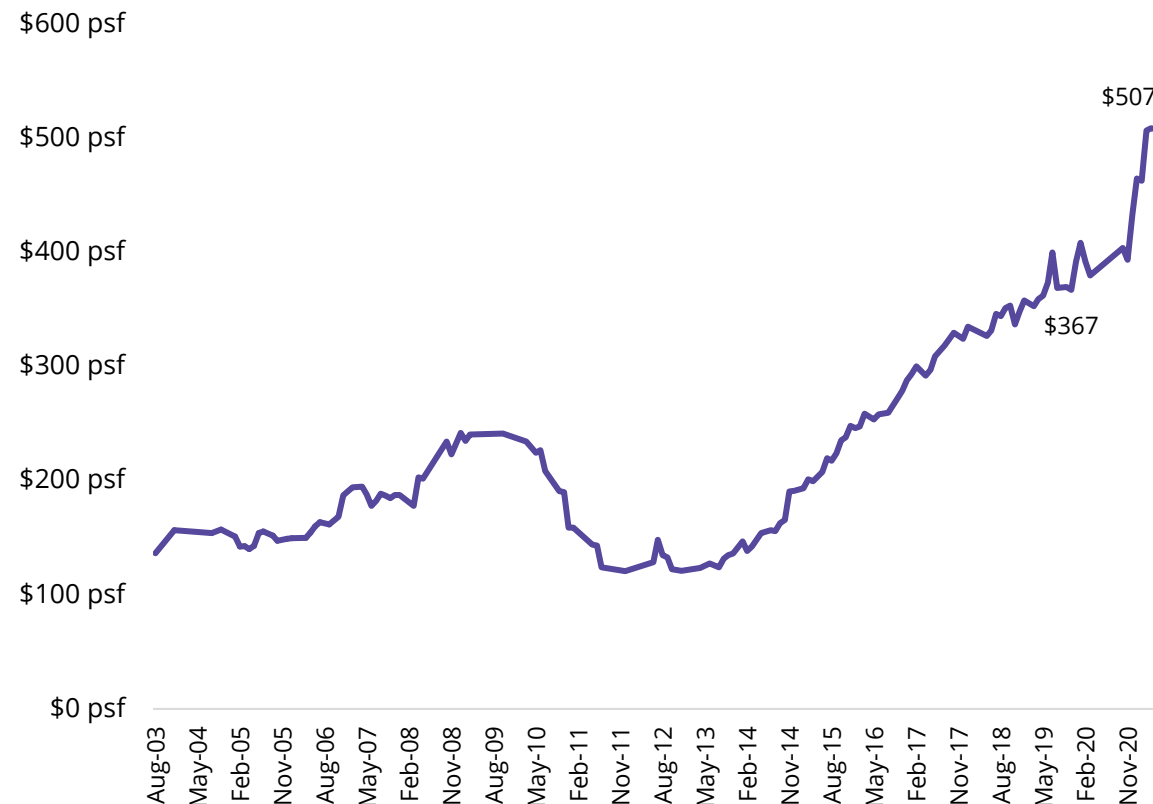
Source: AVANT by Avison Young, RCA

Office asset pricing

+38.4%

East Bay/Oakland office pricing from November 2019 to present

Pricing grew during the pandemic despite investors adopting more conservative underwriting approaches, increasing from \$379 psf in March 2020 to \$507 psf. Asset pricing has trended incrementally upward in recent months, indicating stabilization in this market.



Source: AVANT by Avison Young (12-month moving average)

Looking forward



Here's what we can expect

- The East Bay/Oakland vacancy is made up mostly smaller size ranges (under 20,000 sf) but **the number of full-floor availabilities has been on the upswing**. A few sizeable leases would help to bring vacancy back down to historical averages.
- Demand has been similar pre and post COVID. It is still early in the return to office process and companies have yet to make solid real estate decisions. The **shakeout may lead to more subleases coming to the market** during the second half of 2021.
- **Renewals have become more common**, accounting for a growing percentage of post-COVID activity. More renewals are expected in the short term as tenants solidify their return to office policy.
- **Asset pricing is poised to remain steady** based on an overall lack of product for sale. As occupancy in class A & B office grows with employees coming back to the office, interest in well-leased assets will grow.



Get in touch



Charlie Allen

Principal, Managing Director
+1 510 333 8477
charlie.allen@avisonyoung.com



Paul Magoria

Senior Data Analyst
+1 510 254 4266
paul.magoria@avisonyoung.com



AVISON
YOUNG

Let's talk

© Avison Young - Northern California, Ltd. All rights reserved. E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.

AVANT
by AVISON YOUNG