


An aerial photograph of the East Bay/Oakland area in Oakland, California. The image shows several large office buildings, including a prominent curved skyscraper in the center. To the left is a tall, rectangular building. In the background, Lake Merritt is visible, surrounded by greenery and residential areas. The sky is clear and blue.

AVISON  
YOUNG

# East Bay/Oakland Office Insight Report

Q3 2021

**AVANT**  
by AVISON YOUNG

 KAISER PERMANENTE

# Key takeaways



## Economic conditions

- The East Bay/Oakland unemployment rate continues to decline from a high of 14.6 percent in April 2020 to **6.4 percent** now.
- Office-using job in this market have declined by **4.5 percent** during the pandemic. This recession's impact on the office-using labor market has been less severe than the global financial crisis.
- The Delta variant has pushed back the return-to-office for many businesses. As work-from-home continues in many forms, we are only beginning to see the detrimental effects on employees.



## Recovery rate

- There is a significant dichotomy between East Bay/Oakland return-to-work efforts and activity levels across other representative areas of interest. Office visitor volumes are **-88.5 percent**, while education (**-2.8 percent**) and transit (**-10.4 percent**) are closer to pre-COVID levels.



## Office demand

- Leasing activity mildly improved during Q3 after a slow first half of 2021. Closed deals totaled **423,186 sf** in Q3 2021, up from a quarterly average of 285,585 sf in Q1 and Q2 2021.
- Despite the traditional “summer slowdown”, media and tech companies ascended to lead leasing activity. Callisto Media subleased 78,070 sf from Square and Twitter leased 66,600 sf in downtown Oakland as well.

# Key takeaways



## Office supply

- Vacancy rates remain at historical highs. Total vacancy increased 219 basis points from the beginning of the year to **15.9 percent**, driven by an uptick in Oakland's CBD
- Sublease vacancy totaled **779,116 sf** at the end of Q3.
- Multiple office buildings are in the planning stages but none are expected to break ground over the short term. Lab and biotech demand will drive the next wave of construction in this market.



## Pricing trends

- East Bay/Oakland Class A average asking rents have declined by **3.4 percent** from peak 2020 levels.
- Concessions packages have become more generous in recent months, indicating continued tenant-favorable market conditions.



## Capital markets

- Swift Real Estate Partners closed on 1111 Broadway, a class A office asset in downtown Oakland, for \$580 psf. Historic buildings are also generating interest among buyers. 1625 Clay Street, a class B office asset built in 1922, sold to FH1 Investments, a local investor, for \$346 psf.



# 01.

## Economic and demographic trends

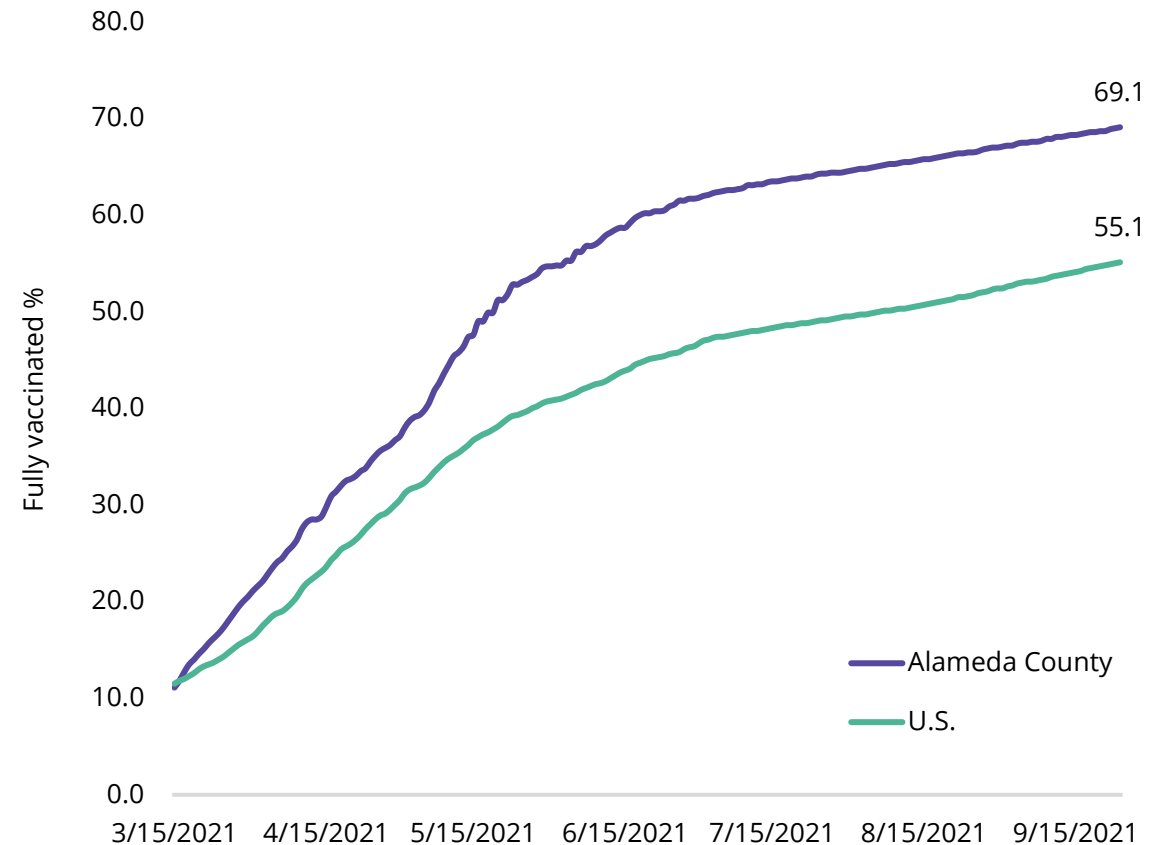
The pandemic has hampered the East Bay/Oakland economy but incremental signs of recovery are spreading across the region.

# Vaccination rates

# 69.1%

**Share of total Alameda County population that is fully vaccinated**

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



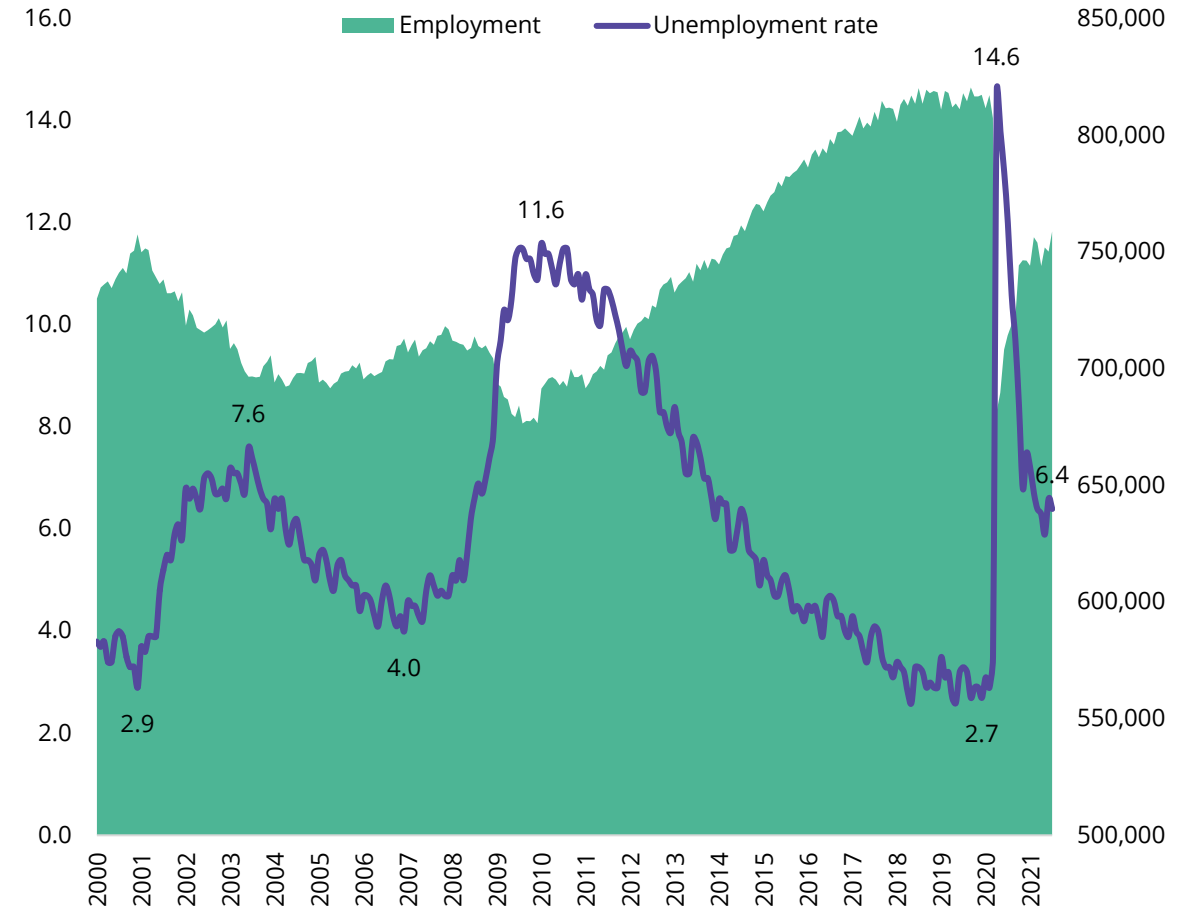
Source: CDC

# Employment and unemployment rate

# 6.4%

**Alameda County's unemployment rate as of July 2021, dipping below the height of the financial crisis**

Historically tight 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 76,918 jobs since April 2020.



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

# Office-using job gains and losses

# -4.5%

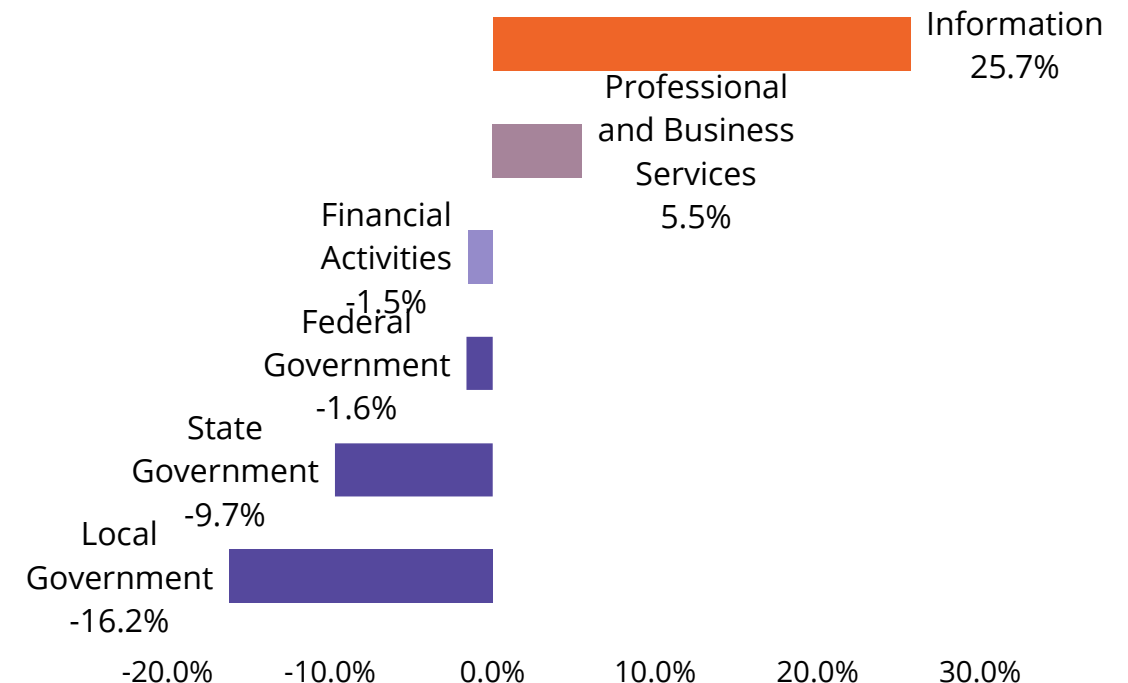
## Change in office-using employment during the pandemic

San Francisco-Oakland MSA job losses have declined by 7.2% since the start of the pandemic, though office-using jobs contracted by just 4.5%. 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 11.2% compared to losses of 3.2% today.

[VIEW DASHBOARD](#)

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

February 2020 to July 2021



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

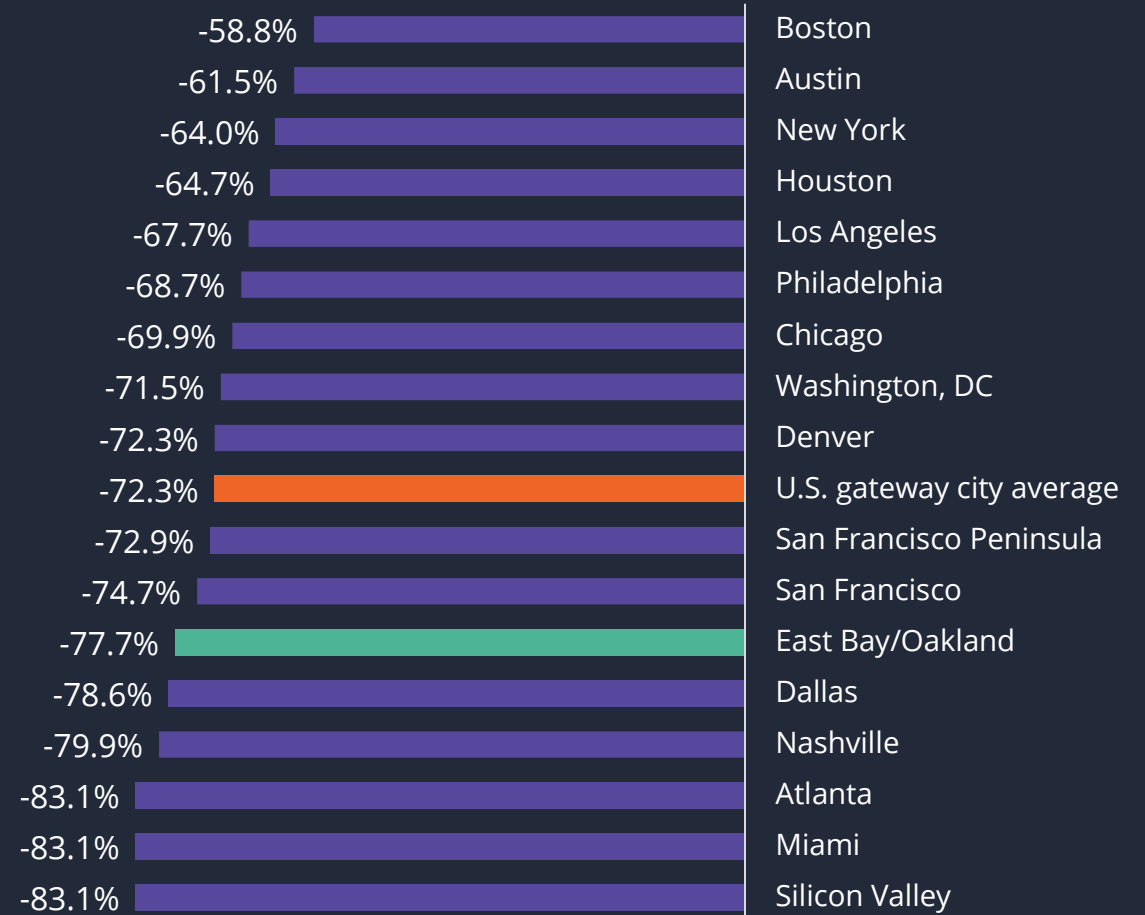
# U.S. return-to-work rates since start of COVID

# -72.3%

Average office visitor volumes across  
U.S. gateway cities, March 2, 2020 vs.  
September 20, 2021

Return-to-work efforts across cities have been influenced  
by governmental regulations (informed by infection and  
vaccination rates), office-using industry composition and  
employees' reliance on mass transit.

[VIEW VITALITY INDEX](#)



Note: Representative full-building office occupiers only.  
Weekdays only. Data as of September 20, 2021.  
Source: Orbital Insight, AVANT by Avison Young



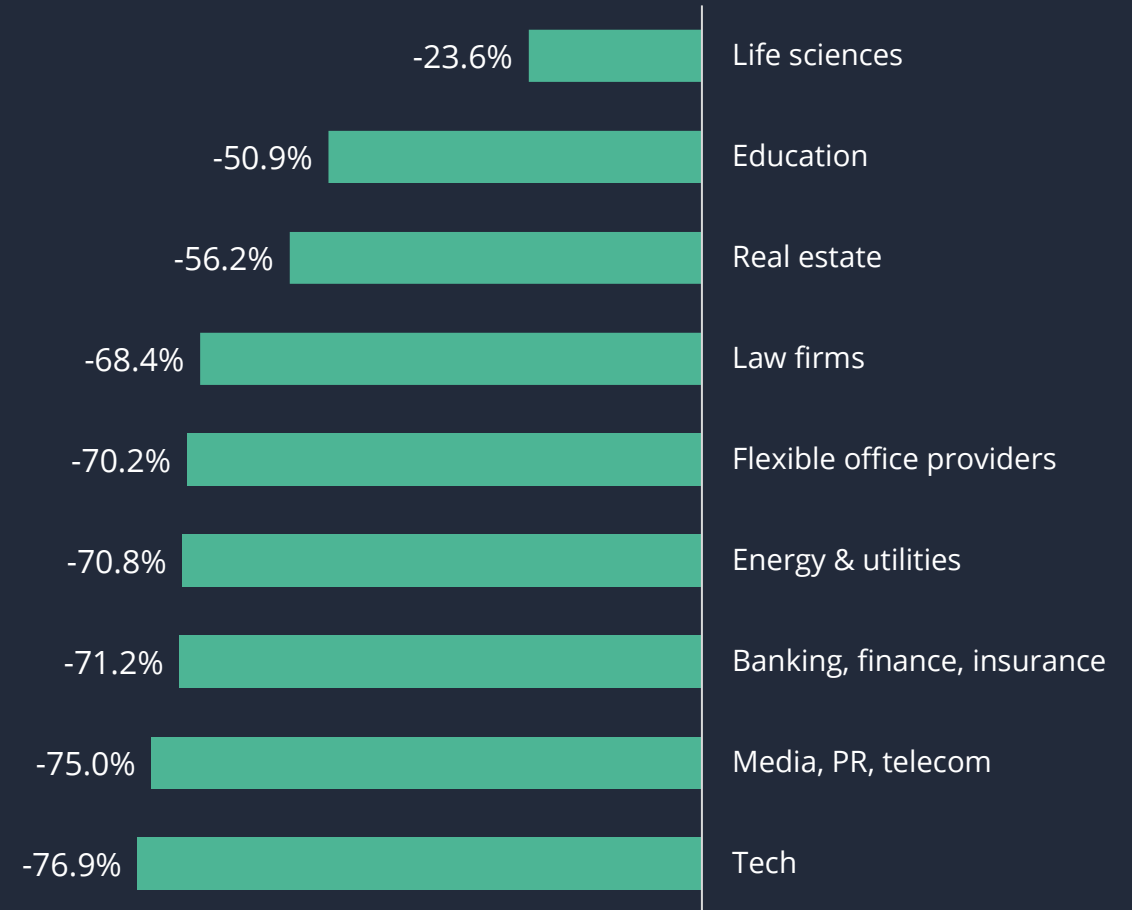
# U.S. return-to-work rates since start of COVID

## -76.9%

Average tech office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

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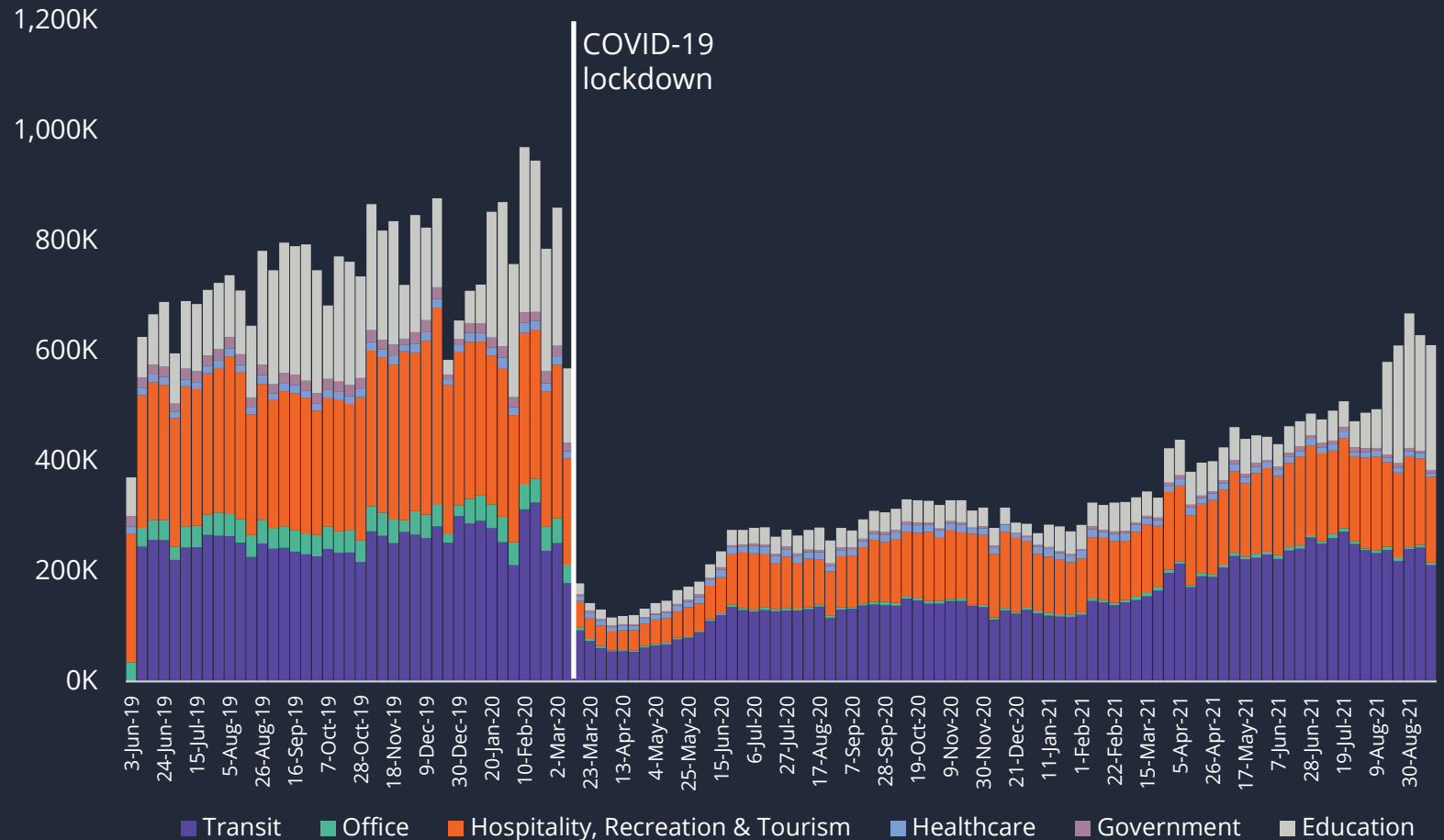
Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

# Local historical visitor volumes

# -22.8%

Total visitor volume,  
September 13, 2021 vs.  
September 16, 2020

Education (-2.8%) and transit  
(-10.4%) are approaching pre-COVID  
activity levels, while office  
(-88.5%) has lagged all property types.



Note: Representative areas of interest. Weekdays only.  
Weekly visitor volumes referenced above.  
Source: Orbital Insight, AVANT by Avison Young

# Change in local activity levels, 2019 vs. 2021

**-88.5%**

Office

**-21.0%**

Retail

**-10.4%**

Transit

**-56.7%**

Healthcare

**-2.8%**

Education

**-68.5%**

Government

**-37.3%**

Hospitality &  
Tourism

Note: Select, representative areas of interest only. Weekdays only.  
Week of September 16, 2019 vs. week of September 20, 2021.  
Source: Orbital Insight, AVANT by Avison Young

# 02.

## Office occupier conditions

Tenants and landlords continue to navigate an evolving return-to-work and work-from-home environment, causing leasing demand to sputter.

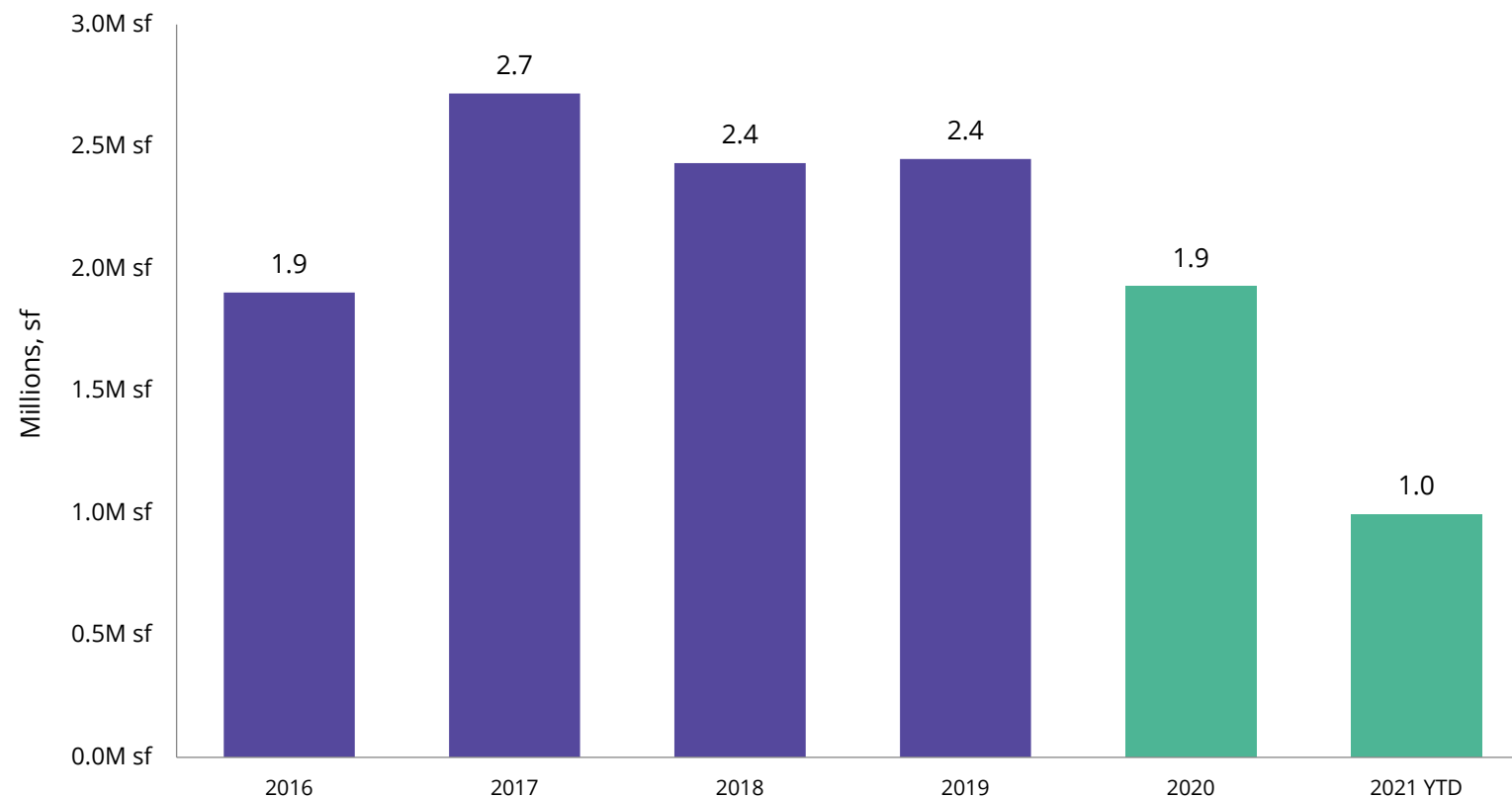


# Office leasing activity

# -38.5%

**2020-3Q 2021 annual  
average leasing activity  
vs. 2016-2019**

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.



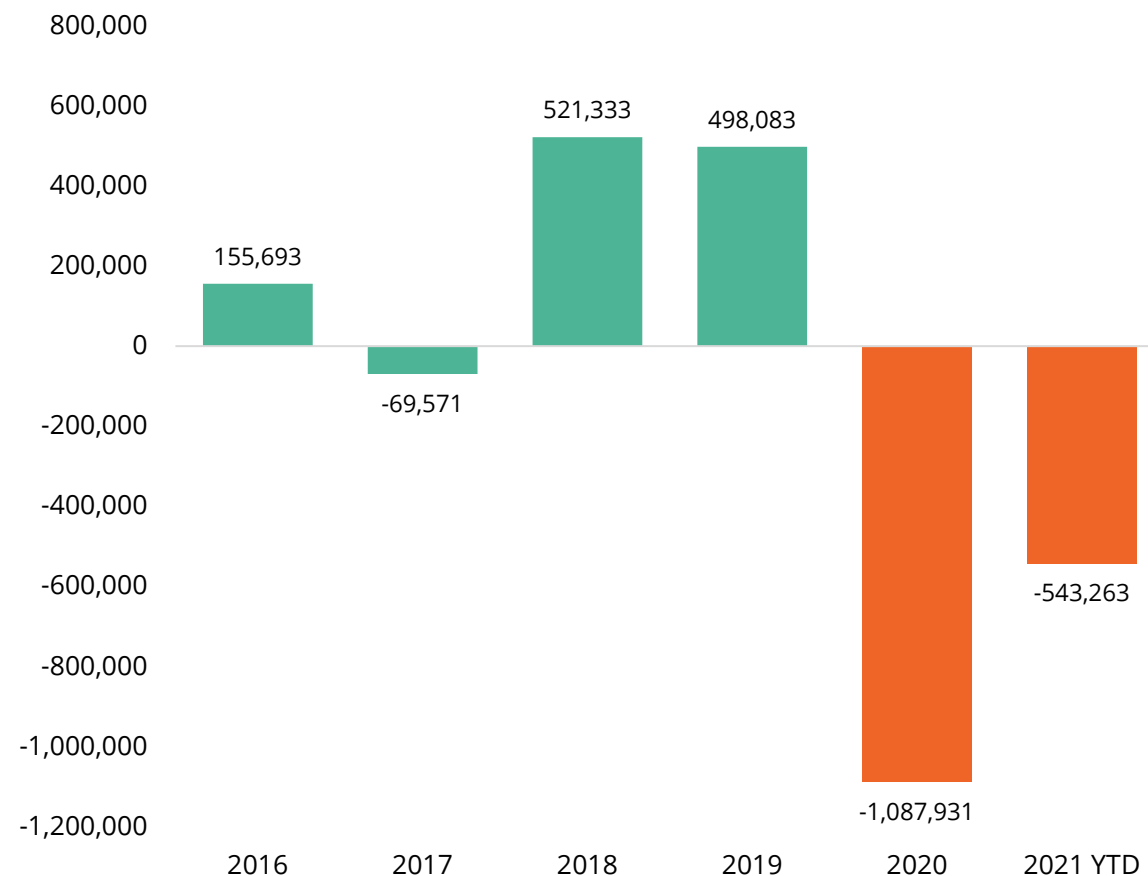
Source: AVANT by Avison Young

# Absorption

# -1.63M

**Net absorption from  
2020 through Q3 2021**

Occupancy losses from 2020 to 3Q21 have totaled 1.63 million sf, or 4.8% of the existing stock. These losses surpass the losses of the early 2000's recession and global financial crisis.



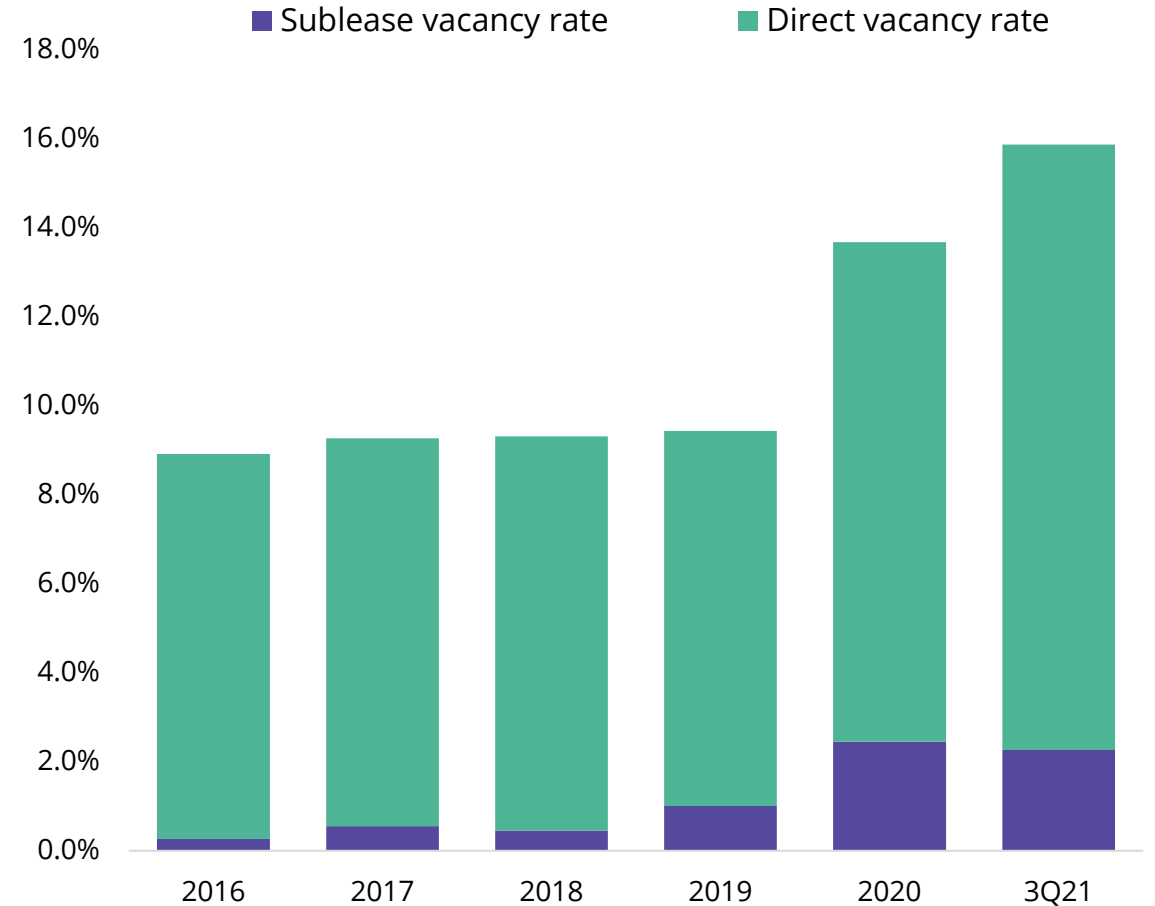
Source: AVANT by Avison Young

# Vacancy rate

# 15.9%

## Record high East Bay/Oakland vacancy as of Q3 2021

The Q3 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 of 14.3% and 13.7%, respectively.



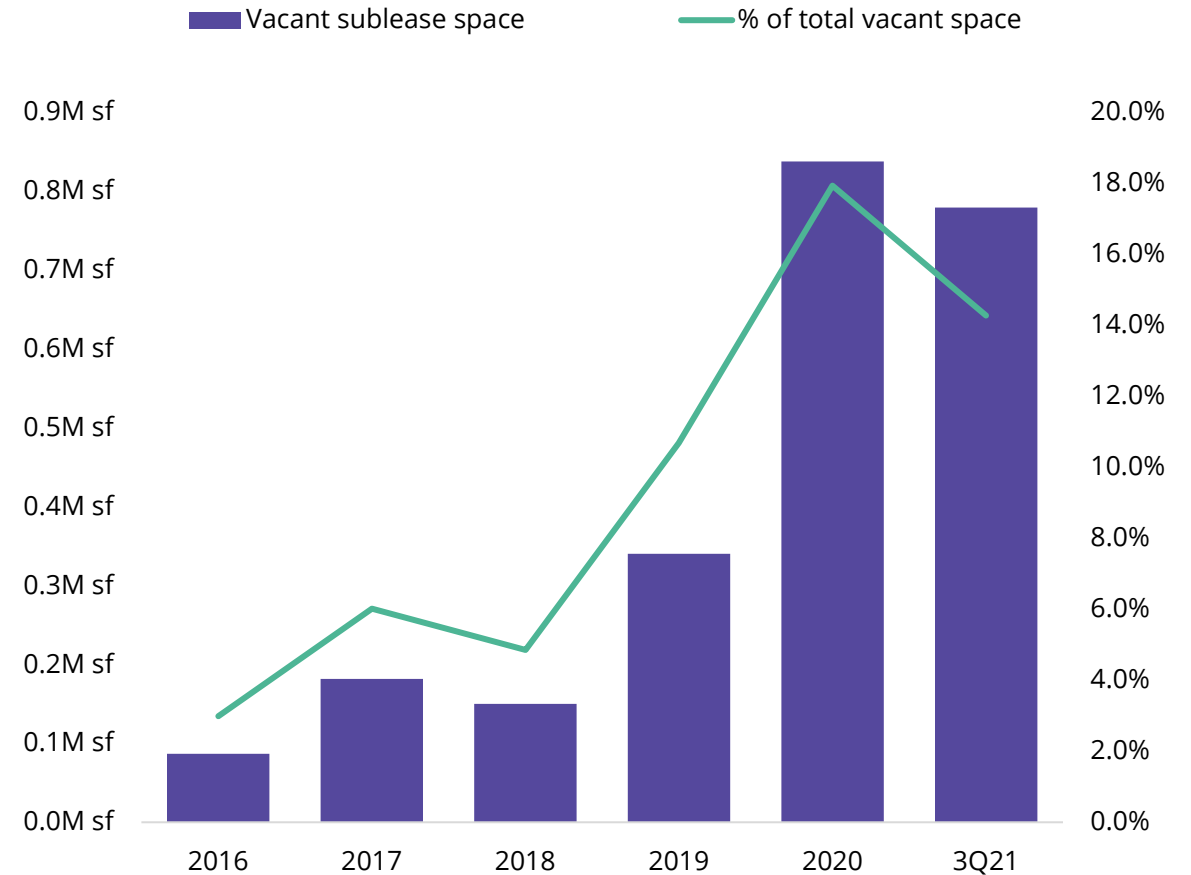
Source: AVANT by Avison Young

# Vacant sublease space

# 779,116 sf

## Vacant sublease space

The share of sublease-to-total vacant space decreased to 14.3%. Sublease space is slowly being absorbed in this market but elevated levels are still a lingering concern.



Source: AVANT by Avison Young

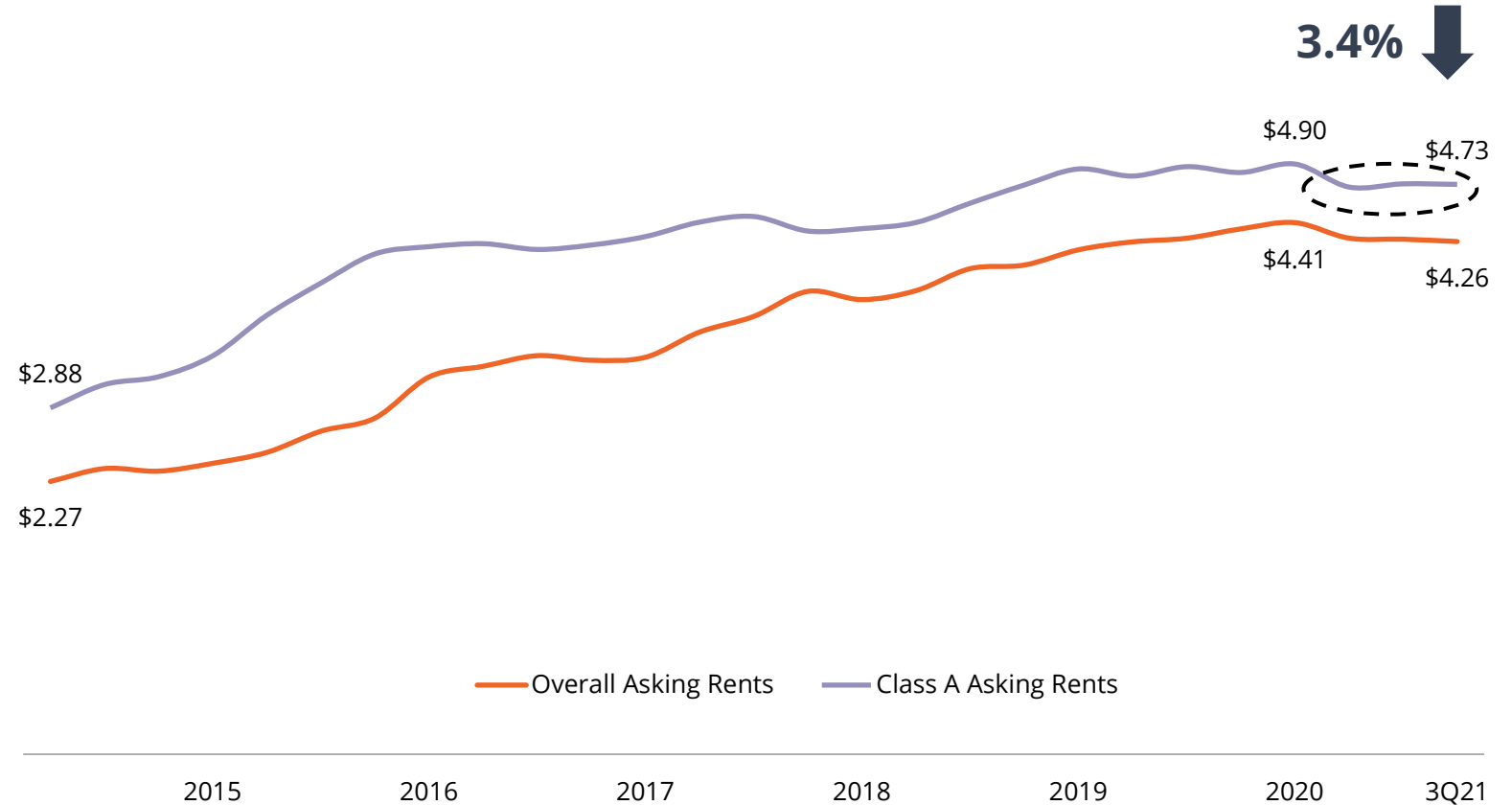


# Asking rents

# -3.4%

## Year-to-date change in East Bay/Oakland Class A asking rents

With leasing activity slowly improving, asking rents are expected to remain stable. Rent fluctuations have been mild in 2021 as landlords have been in a holding pattern regarding their asking rents.



Source: AVANT by Avison Young, CoStar

# East Bay/Oakland Construction Pipeline

**21 properties**

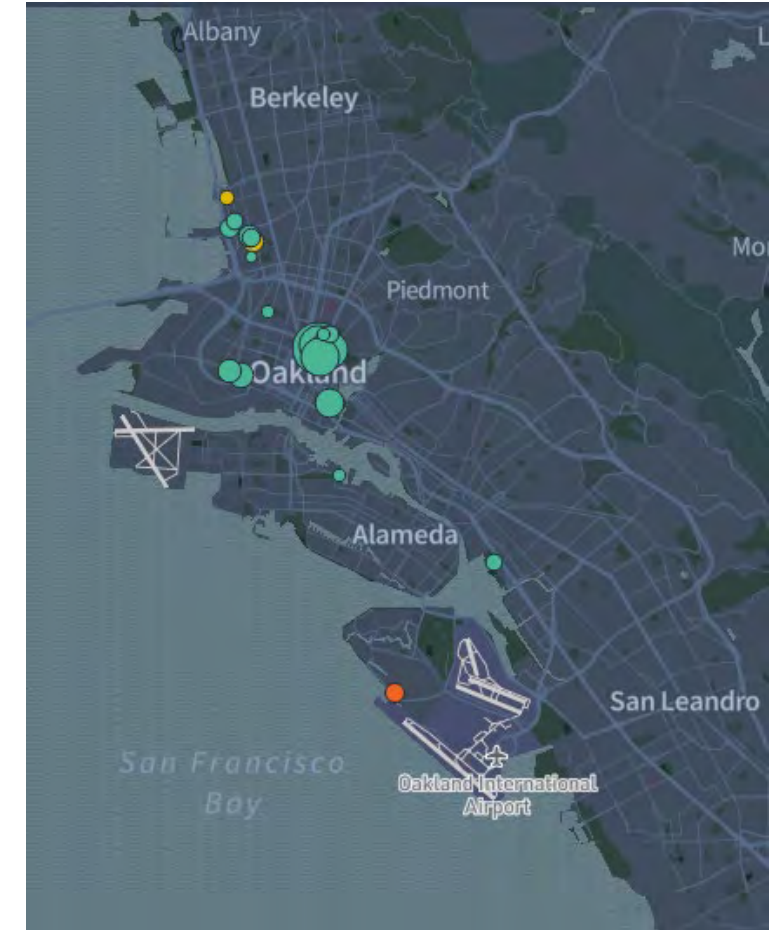
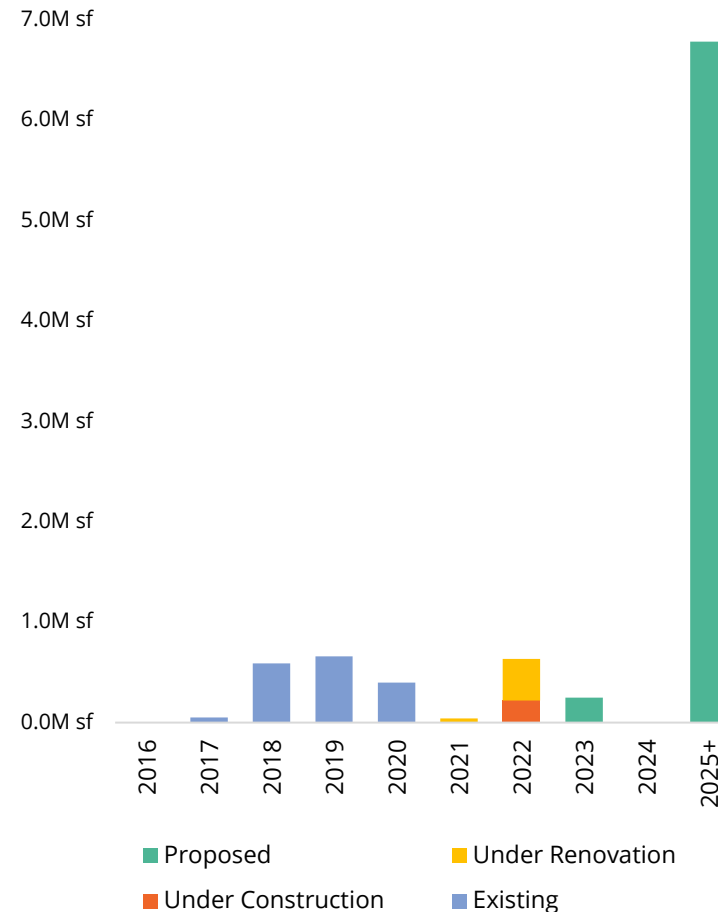
proposed, under renovation,  
or under construction

**7.7 msf**

proposed, under renovation,  
or under construction

**18.4%**

share of office  
inventory that is proposed,  
under renovation, or under  
construction



Source: AVANT by Avison Young

# 03.

## Capital market conditions

Investor activity is trending upward. 2021 YTD investment dollar volume has eclipsed 2020 totals as a number of office properties come to the market.

# Office investment dollar volume

# \$1.53B

## East Bay/Oakland office dollar volume

### 2020 to present

Office sales activity was moderately affected during the risk-pricing crisis since 2020, decreasing by an annualized rate of 17.7% compared with the prior five-year average dollar volume.



Source: AVANT by Avison Young, RCA

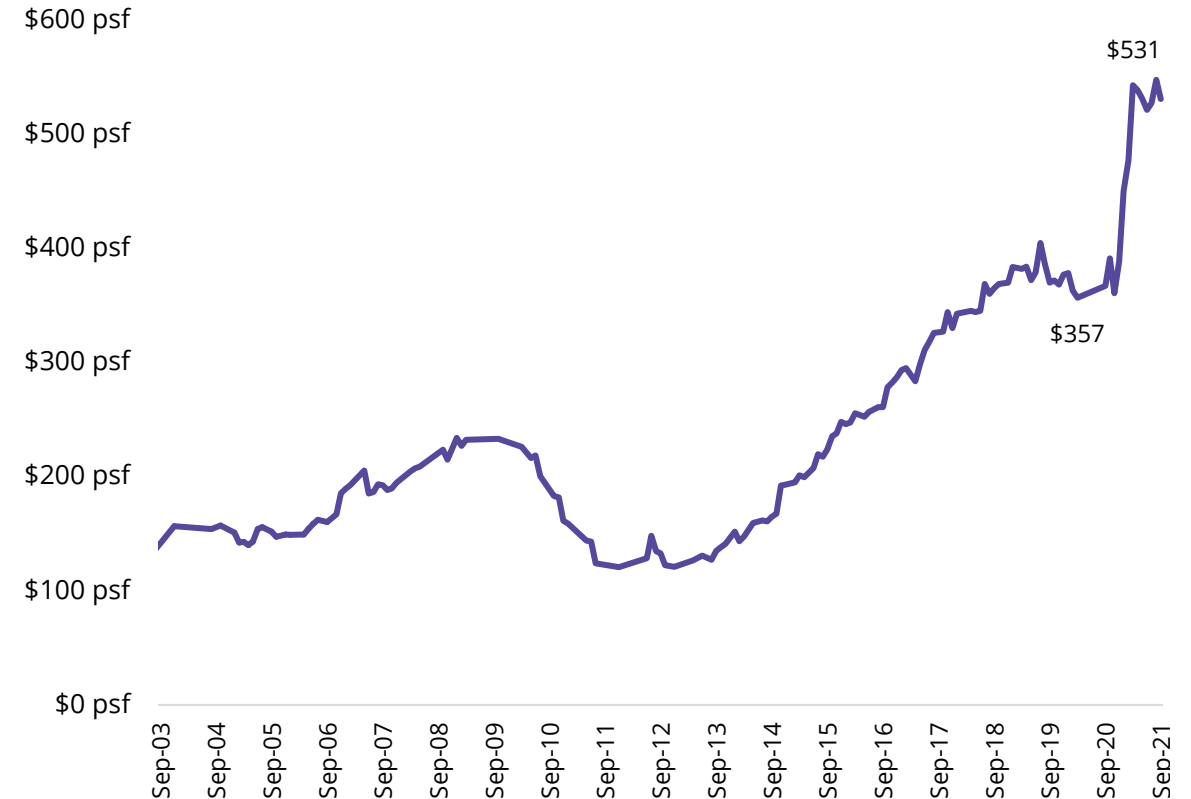


# Office asset pricing

# +48.8%

## East Bay/Oakland office pricing from March 2020 to present

Pricing grew during the pandemic despite investors adopting more conservative underwriting approaches, increasing from \$357 psf in March 2020 to \$531 psf in September 2021. Asset pricing has remained above \$500 psf over the last 7 months.



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

# Looking forward



## Here's what we can expect

- The right-sizing of this market will come when the long-term occupancy plans of many businesses come into better focus. This timeframe will likely take place 2022 as the downside of remote work accumulates.
- Further complicating any return-to-work scenarios is the increase in number of job listings coupled with the spike in quit rates. The war for talent is growing and the office is no longer a key attraction for employees.
- Vacancy remains elevated as tenants continue to assess their return-to-office strategy, but tour activity and investment sales are increasing, leading to a growing sense of optimism in the office market.
- Technology and lab-related office properties will continue to generate strong interest from developers, institutional investors, and owner-users over the foreseeable future.



# Get in touch



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# Let's talk

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