



KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑	↑
Vacant Space	→	↓	↑
Construction Levels	↓↓↓	↓↓↓	↓↓↓
Leasing Volume	↑	→	↑
Investment Volume	↑	↑	↑

current preleasing in under construction product shrinks.

The retail market has benefitted from a multitude of positive factors. Strong consumer confidence, positive economic fundamentals, East Bay population growth, and rising wages have boosted consumption of goods and services. Vacancy rates are projected to continue their downward trend in 2020, due in part to limited new retail supply in the coming year. Conversely, rent growth is forecast to remain subdued while some retail sectors weaken due to e-commerce and one-day delivery growth.

Investors remain bullish on the investment outlook for this market. 2019 reflected a remarkable year for investment in the greater East Bay market. The abundance of capital has, and will continue to compress yields and keep cap rates low. Buoyed by e-commerce distribution demand over the foreseeable future, total returns on industrial investment lead all property types. The deep buyer pool for core office, industrial, and multi-family will inflate average pricing for next year.

All indications point to another healthy year for East Bay property fundamentals. New tenants will continue to feel pressure to finalize leases as competition for space continues. Landlords will be advised to lock in income from credit tenants and will look for longer lease terms

as a possible downturn looms. The abundance of multi-family construction in downtown Oakland will taper off as the majority of projects come on line in early 2020. The effects of a lingering trade war between the U.S. and China could trickle down to the industrial market affecting Oakland Airport and Port of Oakland shipping volume. Despite the rising risk of recession, confidence in the fundamentals and strength of this market will persist throughout all product types into 2020.

EXECUTIVE SUMMARY

- Downtown Oakland and many other East Bay office markets continue to record strong leasing activity with increasing rental rates.
- Downtown Oakland is seeing the highest office rental rates ever recorded, being fuelled by overflow from the expensive San Francisco office market and strong local growth from the existing tenant base.
- Property values continue to set records in the East Bay, especially in downtown Oakland, which now attracts significant national investment players.
- Very little sublease space is expected to come back to the market, across all property types, during 2020, keeping occupancy high and rent growth steady.
- Investors, emboldened by large volumes of capital and high rental rates, will continue to compete for the small number of properties for sale in 2020.

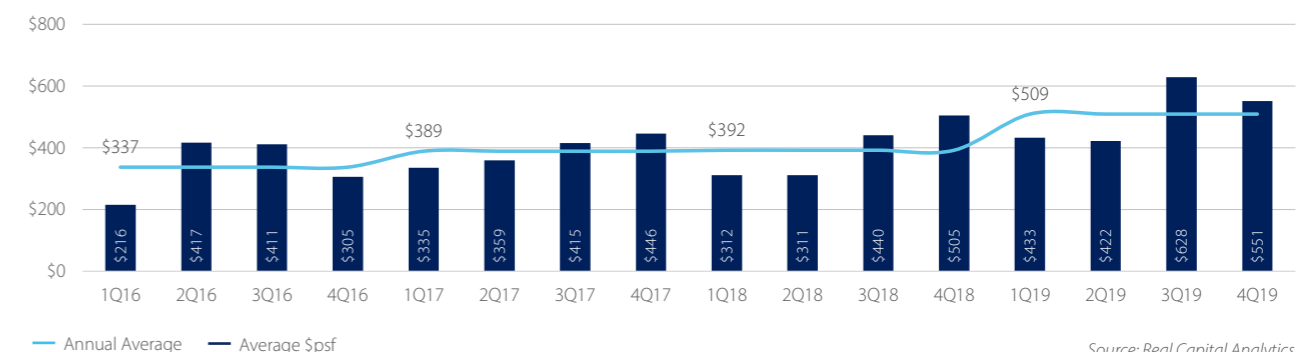
The East Bay has emerged from San Francisco’s shadow to become one of the strongest commercial real estate markets in the country. Current economic indicators reflect a positive outlook for 2020 in the East Bay. As of October 2019, the unemployment rate for Alameda County was 2.6%, one of the lowest on record. The national economy is forecast to slow during 2020 but we anticipate the East Bay submarkets to remain strong.

Office tenant migration from San Francisco to Oakland and the greater East Bay continues a trend as tenants are facing steep rental rate hikes. Vacancy will remain low in San Francisco and demand is still at historic highs, so expect more deals to land in the Oakland office market. Organic growth of companies within downtown Oakland and the other East Bay submarkets also continues to fuel rent growth and strong leasing activity. Office construction in downtown Oakland will expand in 2020 with TMG breaking ground on an 875,000 square foot (sf) office tower followed by the massive 1.6 million square foot (msf) Kaiser Permanente headquarters. Rent growth is expected to continue at a moderate pace over the next year.

Industrial optimism is thriving in the East Bay/Oakland market. Supply is keeping up with demand, creating a more balanced market. Renewal activity is expected to increase in 2020 as tight industrial vacancy force tenants to stay in place. Rental rate growth will continue albeit at a slower pace than in previous years. E-commerce and cold storage demand continue to grow in line with local and regional customer needs. Advanced manufacturing and creative industrial make up the majority of new construction and are likely to measure a slight uptick in vacancy for 2020 as

The sizable uptick in the Oakland CBD office average sale price per square foot for 2019 (up 30% from 2018 to \$509 psf) should be sustained well into 2020. Current office properties for sale, and the prices they are commanding, will keep the average sale prices elevated while access to investment funding and debt keeps volume elevated.

OAKLAND CBD OFFICE SALES HISTORY



Source: Real Capital Analytics