Competition Soars: Investors Seek to Dominate Oakland's Skyline

JLL predicts Oakland to be increasingly landlord-friendly landscape

OAKLAND, **March 19, 2014** – "Game on" seems to be the sentiment of buyers aggressively seeking office properties across the skyline markets of the United States. From local High Net Worth Investors (HNWIs) to international sovereign wealth funds (SWFs), competition is fierce for those planting their stake in iconic properties towering over American cities. While still in neutral mode compared to its cross-Bay neighbour San Francisco, Oakland is beginning to see office tenants crossing the Bay in search of affordable rents and also to take advantage of the city's flourishing arts and entertainment sector and residential housing.

In short: it's a good time to be a landlord in Oakland. Thanks to intense capital demand, rents among Trophy assets are soaring, even more so than rising leasing demand, according to JLL's Spring 2014 U.S. Skyline Review.

"Landlords of Skyline buildings in downtown Oakland may not have seen the huge rental growth experienced by properties across the Bay in 2013, but strong job growth and a dwindling supply of large blocks of iconic office space could give Oakland landlords much increased leverage in 2014 and beyond," said Sam Swan, a Managing Director in the Oakland office of JLL.

JLL's proprietary Skyline report identifies and tracks micro-segments of 43 city centers across the nation. The Skyline features Trophy and Class A buildings where tenants and investors alike focus demand for office space in a flight to quality and efficiency. Check out the themes that shape the U.S. skyline.

Competition for office properties across skyline cities in 2013 propelled vacancy levels to an average 13.4 percent and 170 basis points below the U.S. office sector.

In spite of tightening market fundamentals, construction remains limited. Ten Skylines have vacancy levels below 10 percent, with seven showing no current development and two seeing just one proposed project.

The constrained development pipeline has led to climbing rents: over the past three years, rates in the skylines increased 17.1 percent compared to the 9.8 percent increase seen by the broader market.

"The lack of development is causing a space crunch on each end of the spectrum," said John Sikaitis, Managing Director of Research at JLL. "Trophy properties are far outperforming the broader market with respect to occupancy levels and rents and a similar tightening exists in value-add properties. This squeeze from both ends is expected to have a significant impact on the properties in the middle as tenants are being priced out of their former go-to options."

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Contact: ANDREW NEILLY
Phone: +1 925 930 9848
Email: Andrew@gallen.com