JLL

News Release

Mind the Gap: Oakland's Trophy Office Rental Rates Near Historic Highs

Demand for Trophy buildings remains high but tightening fundamentals could draw attention to other asset classes, according to JLL's 2015 Skyline Review

OAKLAND, June 15, 2015 – There's no space like Trophy space. The premiere office towers that make up Oakland's skyline boast—by far—the most expensive office space to rent, garnering [8.4 percent] more than non-Skyline buildings, according to JLL's 2015 Digital Skyline. Average rates in the eleven buildings considered by JLL to be Oakland's skyline assets in the first quarter of 2015 were $38.64 per square foot compared to $35.64 per square foot in downtown Oakland overall.

"Many companies are beginning to recognize that the amenities available to them and their employees in Oakland are comparable with those in San Francisco and tech employees being priced out of San Francisco are fuelling a residential boom throughout the city. This has led to more businesses crossing the bay in the last 12 to 18 months, resulting in upward pressure on rents. In the first quarter, skyline rents in Oakland increased by 11.8 percent," said Amber Schiada, vice president, JLL Research.

Skyline tenants can expect little relief in rental rates in the near future. There are currently no skyline office buildings under construction in the city and the last major office development in Oakland was completed in 2008.   This, along with a steady economic recovery in the Bay Area has led Oakland's downtown office vacancy to its lowest level (10.1 percent) in seven years. Within the almost five million square feet that comprises Oakland's Skyline set, there is only one large block of space (over 50,000 s.f.) available today.

JLL's proprietary 2015 Digital Skyline identifies and tracks micro-segments of 47 city centers across North America. 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.

A diminishing "home-team" advantage

One of the key national trends having an impact on U.S. Skyline properties is investment sales. Economic growth, business expansion and improving market fundamentals have resulted in heightened investor interest and Oakland has been a recipient of this trend posting two solid years of sales activity in 2013 and 2014. While domestic institutional investors have dominated activity in Oakland to date, investment by more foreign entities could be just around the corner. Of the $35.3 billion transacted over the past five quarters across the U.S., 34.6 percent was driven by international buyers. In Houston and Seattle, every office deal transacted during this time period had a foreign buyer, while in Washington, D.C., Boston and New York, offshore capital led more than 50 percent of office purchases. San Francisco has seen its share of foreign investment in the same period, and while offshore investors continue to covet the city's Skyline assets, Oakland is growing in appeal.   High prices and low yields in San Francisco and Silicon Valley are also leading some investors to look harder at Oakland's attractive core-plus investment opportunities.

“International capital is making a long-term impression on the U.S. Skyline and we predict foreign buyers to invest $50 billion into U.S. commercial real estate in 2015. This combined with significant liquidity at home will mean domestic institutional investors will be forced to evolve their strategies, increasingly partnering with foreign investors and diversifying into non-core and non-CBD assets,” said Robert Hielscher, managing director, JLL Capital Markets. “In the Bay Area, investor appetite for product in Oakland will continue to increase as high pricing and low yields in San Francisco and Silicon Valley position Oakland as an increasingly attractive investment,” Hielscher added.

A redefined Skyline

As investors begin to diversify beyond the Trophies for investment opportunities, a growing segment of tenants are also turning away from Skyline buildings in favor of non-core Class A and Class B buildings, inside and outside of traditional Central Business Districts (CBDs). The perception of an “address” has been replaced by the desire for highly customized office space, particularly among fast growing tech and other creative companies.

But the trend does not stop there: today, many companies are trying to mimic tech whether through business strategy, people strategy or even real estate strategy. The growing millennial workforce and their employers are increasingly drawn to architecturally significant Class B buildings located in dense neighborhoods packed with amenities, properties which Oakland has in relative abundance. Among scientific and technical companies over the past three quarters, Class B office leasing nationally surged above Trophy leasing, representing 25 percent of total office leases over 20,000 square feet. Those same companies only leased six percent of Trophy space during that same time period.

“Creative firms want unique space and they’re mostly indifferent to building quality as long as they are able to design attractive, creative environments for their employees,” said Sam Swan, managing director with JLL’s Agency Leasing in Oakland and the East Bay. “They have shown a preference in recent years for leasing lower-cost space in well-located historic buildings or converted warehouses because they can spend more on their space’s interior and less on rent. It allows them to create their own identity.”

Swan added, “A lot of these B-buildings are on the perimeter of the traditional high-rise CBDs in areas that have more of a neighborhood feel. In turn, they like the idea of adaptive reuse and contributing to neighborhood revitalization. As the gap between Trophy and non-Trophy space continues to grow over the short-term, we actually could be reaching a peak inflection point based on future demand patterns favoring space over building.”

About the Skyline Review

For the first time, investors and tenants alike can now access JLL’s Skyline Review via a digital platform. The fully interactive website will feature JLL’s proprietary market insights regarding office supply, demand, rents, leverage and investment into 47 markets across the United States and Canada, with the ability to compare and contrast individual markets or multiples of markets. In addition, the site will offer videos and infographics. All information will also be available via mobile access. Users can also directly access information about Oakland’s Skyline.

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About JLL

JLL (NYSE: JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. A Fortune 500 company with annual fee revenue of $4.7 billion and gross revenue of $5.4 billion, JLL has more than 230 corporate offices, operates in 80 countries and has a global workforce of approximately 58,000. On behalf of its clients, the firm provides management and real estate outsourcing services for a property portfolio of 3.4 billion square feet, or 316 million square meters, and completed $118 billion in sales, acquisitions and finance transactions in 2014. Its investment management business, LaSalle Investment Management, has $55.3 billion of real estate assets under management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit www.jll.com.

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