



Is Oakland the hottest market in the United States? ...



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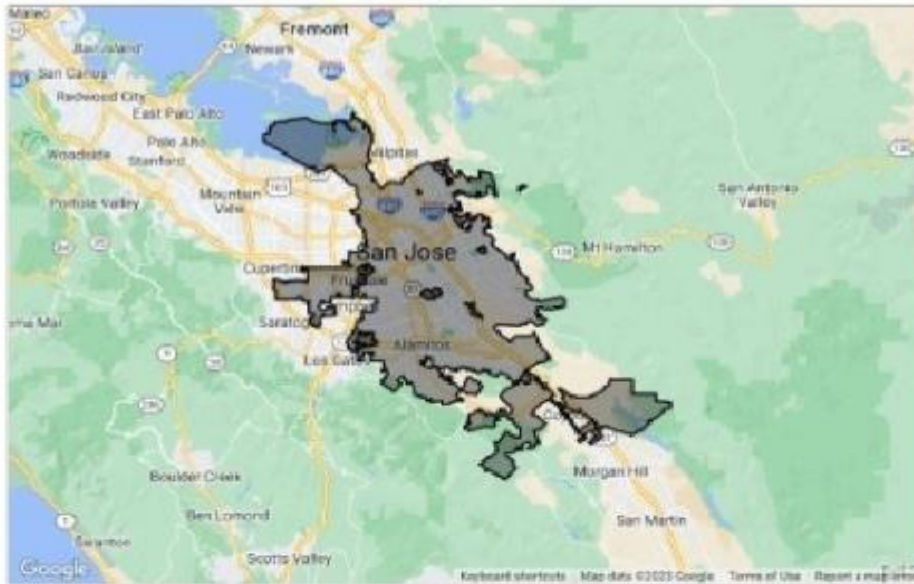
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Just last month, it was reported that [Oakland rents dropped faster than anywhere](#) else in the nation. However, I was sent [this article recently](#) that made the hottest claim. In synopsis, in the article the author Cynthia Bowman explains, "The median sales price of a home in Oakland is \$925K, up 8.8% year over year. Especially notable is that the median number of days an Oakland home is on the market is just 19 with 72% of the homes selling for above asking price." I can honestly say I think the rest of the article was fantastic as far as explaining several of the reasons Oakland California is a great town to invest in residential real estate. Let's review these data assertions from a regional perspective.

Most of these data points are great indicators of market strength.

The first problem with this article is that we don't get told when. When was the median price \$925k, median days 19 etc? Last week? Not last month, this month to date? What point in time is the year over year comparison? When I look at last month's data, which I shared a few weeks ago - San Jose looks to have appreciated more year over year at 10.12%.

San Jose, California



Market Snapshot: Sales Price



About this data: The Metrics displayed here reflect median sales price for All Residential Properties using MLS listing data.

While Oakland outperformed San Jose Month over Month and Quarter over Quarter, that wasn't the assertion made in the article. I will also acknowledge that the article's data may correlate with some different point of time this year, or some other valid data set besides the data I am showing.

Oakland, California



Market Snapshot: Sales Price



About this data: The Metrics displayed here reflect median sales price for All Residential Properties using MLS listing data.

A main problem I have with the assertion is that the Median sales price of a home is in my opinion a clumsy way to judge price appreciation for an area. Rather than averaging the prices of all the sales, just picking the one in the middle allows for a lot of value to be overlooked. There can be a lot of space between sales prices, and average prices can suggest very different trends. The median can go up while the average goes down, and the average factors in every price. What if the top of the market goes up dramatically or the bottom dramatically goes down while the middle stays the same? The median would not move to reflect the change, the average would.

As an indicator, median days on market suffers from similar blindness including to the changes of data on the extremes. We might better be served to compare average days on the market, or median days at similar price points or narrow price ranges across different cities or regions.

Days on Market Month to date (11/1/23-11/27/23)

	Oakland	San Jose	San Francisco	Berkeley
Median	16	12	29	14
Average	32	19	39	17

It would look like San Jose wins again from my data. Watch out for Berkeley though. Seriously.

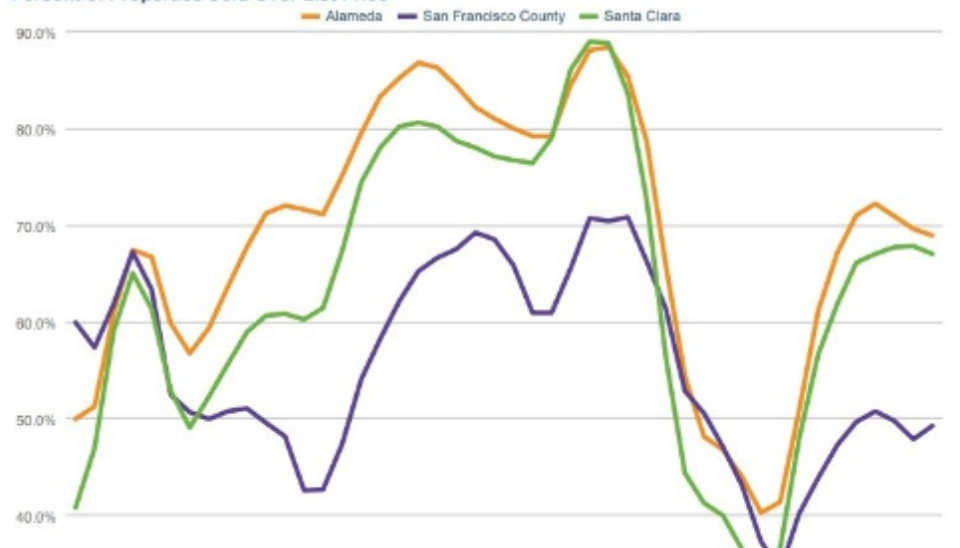
72% of homes selling over asking price certainly implies a hot market with more buyers than sellers bidding up the prices. It suggests that prices are rising as well. A suggestion, or an implication is not a fact, underpricing is commonly held as best practice across hot local markets where I work like Oakland, among residential real estate agents. The fact of this practice is the only thing solidly confirmed although multiple buyers bidding is fairly certain and a fact in my experience as far as the hot markets in question are concerned as well.

Over asking Month to date

	Oakland	San Jose	San Francisco	Berkeley
% of homes	69.54	56.74	50.18	90
% over (avg)	110	103	101	119

Besides wondering "when" was the metric like this, we might also ask if this trend is holding, improving or deteriorating. Also, how much over asking are these homes selling for? What does that trend look like over time? The snapshot we have from the article is pretty good but will not necessarily reveal how hot a market has been, or will be moving forward when used across markets that could turn on a dime if that's a pun.

Percent of Properties Sold Over List Price



In conclusion, I would not say that I refuted the article. Even if I would challenge individual data assertions, as I would do so other assertions would emerge. The graph above is county level data, and shows more homes sell over asking in Alameda county where Oakland is. The article was correct to point out that Oakland is a hot market - but did not prove it is the hottest market in the country. I recently noted that rents in Oakland have dropped **faster than anywhere else** in the country: how can it simultaneously be the hottest market for buyers or sellers and the softest for tenants? If The Town can manage its struggles with crime, tenants, emergency services, and professional sports franchises effectively it will be the hottest because each of these issues represents opportunities for growth, or if you prefer, "heat!"

It is that future movement that reveals the strength of a market, we can only hope that some of the data points we analyzed serve as effective leading indicators, and in my experience they will not always predict tomorrow the way we wish.

OAKLAND STRUCTURES

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A FLIGHT TO QUALITY

There's a divide coming to the Oakland office market: Call it the have-amenities and the have-nots

BY HANNAH KANIK
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The first “truly postpandemic” high-rise office. ¶ That’s how James Ellis, of San Francisco-based developer Ellis Partners, described the office project for which he recently gained entitlements in downtown Oakland. The property, located at 1919 Webster St., will one day be home to a 17-story, 380,000-square-foot building decked out with the features that today’s tenants are now looking for – like double-height terraces, indoor-outdoor space and a giant roof deck.

While Ellis, who purchased the site for \$23.4 million in 2021 with long-term capital partner Intercontinental Real Estate Corp., is waiting for tenant demand to come back to Oakland before beginning construction, he’s confident that the building Ellis Partners designed with Gensler Architects will be fit for the needs of a post-Covid workforce.

“We learned that ... amenities are critical. We’ve been able to design those amenities in – including a huge roof deck that covers the entire top of the building,” Ellis said. “This is a truly unique building, and it’s going to be heavily dif-

ferentiated from any other office building in downtown Oakland.”

1919 Webster is just one example of what the future of office buildings could look like in Oakland, as the small number of tenants still on the market seek more unique, high-end features to attract their employees into the office. Observers say as more tenants slowly reenter the market, this trend will likely continue – and there will be a division between buildings that can offer those features and those that cannot.

Demand for office space in what was once the tightest market in the country plummeted during

the pandemic, and has been slow to recover with a more hesitant return to office than expected and high crime activity. Industry leaders say the office market feels “frozen.”

“There’s just really no activity in the market in Oakland right now ...It’s as slow as I’ve ever seen it,” said Ben Jones, a principal at real estate firm Lee and Associates. “It’s almost a perfect storm of things happening that are a challenge for the office market.”

The vacancy rate in Oakland’s central business district remains

Ellis Partners’ proposed office tower at 1919 Webster will incorporate indoor-outdoor living concepts.

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high, reaching 28.7% in the third quarter, per data from Cushman & Wakefield. Several major office projects have stalled, sold or moved to consider expensive conversions.

What's more, a differentiator that long fueled Oakland's office market and spurred development — space that was cheaper than San Francisco — is no longer as potent, with San Francisco office rents having fallen precipitously. Oakland lured a few major tenants from over the Bay Bridge in the last few years, including PG&E, which relocated its headquarters to 300 Lakeside, and Blue Shield at 601 City Center. But that flow has slowed to a trickle.

Meanwhile, office investors who bought into Oakland's downtown during the boom years leading up to 2020 are often tied down by weighty commercial mortgages that can limit how much of a discount they're able to offer prospective tenants.

There are other factors in the equation as well.

"The value proposition of San Francisco versus Oakland is improving now, because we're seeing rents coming down as well in San Francisco," Ellis said. "I think that San Francisco is feeling a little safer than Oakland right now, and that certainly doesn't help when companies are making decisions."

Still, industry leaders have faith that Oakland's office market will rebound — though it will likely come later, perhaps after less attractive buildings get sent back to their lenders.

"I think there's absolutely going to be a comeback," said Amber Merrigan, senior vice president at Colliers. "It's going to take time, it's going to take patience. But I think the city's ... got incredible bones and culture and all of those things."

Hard times for Class B?

Industry leaders across the board are anticipating a bifurcation of Oakland's existing office buildings — particularly between Class A and Class B space. Amenity-rich Class A buildings are faring better than Class B, as tenants simultaneously downsize their office footprint and seek higher-quality space to attract their workforce back to the office.

1111 Broadway, a recently renovated Class A office building in downtown Oakland, has occupancy rates in the high 80s or low 90s, said Chris Peatross, founder and CEO of Swift Real Estate Partners, which owns the property. Ellis Partners' Class A space



SPENCER A BROWN | SF8T

at 1100 Broadway is close to 100% occupancy, thanks to two large tenants: the University of California's Office of the President and Credit Karma.

"Class B office buildings are going to have a really hard time... unless they can really offer a value proposition," Merrigan said.

Landlords that can offer low rents while investing capital into the improvements that attract tenants could survive the challenging market conditions, while those that can't will likely "bleed out" and be sent back to their lenders, Merrigan said.

One Class B property, 1625 Clay St., was able to do just that. The landlord, Sausalito-based Lincoln Village Offices, opted to renovate the building's lobby and offer highly discounted rent to its tenants. The building lifted its occupancy from 45% to 90% in the span of four months, Merrigan said.

However, not all buildings will have the ability to lower their rents and remain in good standing with their lenders.

Data from JLL shared with the Business Times showed approximately 70% of Oakland's office buildings were purchased or refinanced since 2015 — and while not all of those properties are in trouble, they are more likely to be at risk.

"Those that bought in the last five to seven years, they really need to hit those high rent numbers, to see those returns, given the price that they bought the building at," Merrigan said.

San Francisco investor Tidewater Capital returned the 10-story office tower at 1440 Broadway it purchased in 2018 to its lender, BrightSpire Capital, earlier this year. Another property in Oakland's core business district, 360 22nd St., was sent back to its lender CIT Group this year. Both lenders opted to lease the building in lieu of trying to sell it, at least for now.

"I would have thought foreclosures would have already started, but ... if the lender takes the building back, they're just taking on their ... lender's problem,"

Class A space like 1111 Broadway continues to enjoy high occupancy.

Jones said. "So I do suspect there will be, in 2024 and 2025, more foreclosures."

With supply so high and demand so low, some office projects are getting scrapped entirely. Signature Development dropped its plans for an 11-story office tower in Uptown Oakland earlier this month, selling the project site to a nonprofit, the East Bay Times reported. The project, which was located at 2406 Webster St. near Lake Merritt, would have totaled roughly 157,000 square feet and 10,000 square feet of downstairs retail.

Oakland-based Monarg was among the first developers to consider converting its high-rise office building at 1624 Franklin St. into a hotel. The 700,000 square-foot, 14-story, Class B building is roughly 65% occupied and developers are still in the preliminary phase to see if the project will pencil.


A new type of office

The sublease market also swelled to 1.13 million square feet in the third quarter of 2023, the highest since the start of the pandemic, as hybrid work models made it difficult for employers to determine the right amount of space for their company, according to research from Cushman & Wakefield.

As tenants downsized their space, they became less price sensitive on a per square foot basis. Brokers told me their tenants are looking for top-quality, magnetizing buildings with a resort-level slew of amenities and significant building security. Features ranging from gyms and restaurants to concierge services and speakases are starting to make some buildings stand out among the staggering supply in the market.

While Oakland has yet to see a wave of high-end renovations, San Francisco has seen office towers like One Sansome and the Cove at 525 Market St. adding unique features to attract tenants.

Sustainability and access to the outdoors has been another feature attractive to employers, Ellis said. Their design for 1919 Webster St. includes 600-square-foot balconies on every other floor, all-electric power, fresh air systems, potable tank systems and solar panels.

"When there's as much vacancy as there is, tenants have a lot of choices. And there's usually going to be a flight to quality in these types of markets, and I think we're seeing that," Peatross said. 

OAKLAND'S GENERATION NEXT

Three new high-rise buildings are scheduled to land early next year

BY HANNAH KANIK
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Oakland's apartment market is set to grow by 1,000 new units in the next few months.

The city swelled with thousands of new residential units over the past seven years, with more than 15 buildings springing up across downtown and Uptown. Now that the supply has increased, landlords are having to out bid each other with rent promotions and incentives to land tenants.

Three more large projects were due to hit the market by the end of 2023. The only hitch? The developers behind them are now estimating deliveries in early 2024. They join another seven apartment developments that are in the pipeline across the greater Oakland area, another 734 units expected to deliver in 2024.

"We see robust activity in the Oakland/East Bay apartment market and anticipate rent growth there once the influx of new supply is absorbed, employment continues to grow and net-migration recovers," said Kate Zeller, a senior research analyst with JLL.

The 200-foot apartment tower at 1510 Webster, developed by Oakland-based oWow, will be wrapping up construction by the end of the year and is on track to get a temporary certificate of occupancy in January.

Andy Ball, president of oWow, said landing a TCO in 12 months is "amazingly fast." The floor plans for the units evolved during construction to be more in line with a "post-pandemic" design, adding more counter space in kitchens and increasing the size of bedrooms.

The builder also reoriented the units to have bedrooms at opposite ends of the unit for more privacy. Ball said the building's wood floors, opposed to concrete, gave them the flexibility to redesign the project.

A massive 39-story tower at 1900 Broadway from San Ramon-based developer Behring Cos. start-

A rendering of 1510 Webster St. as it would be seen from Webster Street. Developer oWOW intends to use mass timber on the project, which would make it the west coast's tallest wooden building.



OWOW DESIGN LLC

ed construction in the fall of 2021. The project includes 452 units and 50,000 square-foot of commercial space and 6,700 square-foot of ground floor residential space.

Colin Behring, CEO of Behring, said he anticipates delivering the units for rent in late January. The project faced delays partly from the pandemic, as well as changes to the building's design and budget. In 2021 Behring was aiming for a delivery date of the summer of 2023. Behring did not comment on the latest delay in the project.

1900 Broadway will also be the first of Behring's StakSite brand, a work-play-live model offering co-working spaces with memberships that offer tenants access to a fleet of Teslas, business-class

printing, and virtual office service.

The building also will offer tenants a 24-hour concierge, sky-deck terraces and community spaces like a lounge with poker and card-deck room, a deck with fire pits and a 250-square-foot "cocktail pool" and a penthouse lounge with a cocktail bar and warming kitchen.

The 16-story apartment tower at 24th and Waverly pushed back its delivery to the summer of 2024. Developer Holland Residential did not provide more details on the delay.

The project will bring 330 units near downtown Oakland, and 13,200 square feet of ground-floor commercial space, a 7,359-square-foot public plaza and 215 parking

spaces. It will also dedicate 5% of its units to individuals making between 30% and 50% of area median income, earning it a density bonus.

Holland has been one of the most active developers in downtown Oakland in recent years, delivering 277 27th St., 1717 Webster and 226 13th St., among others, totaling nearly 1,500 units.

This year alone, four apartment projects wrapped construction across Oakland totaling 538 units. Caspian in Brooklyn Basin, the largest of the bunch, brought 371 units. Another 167 units came from East Peralta-based Arthaus Six, Arthaus Magnolia in West Oakland, and Momentum Apartments in downtown. ■