BAY AREA OFFICE MARKET

Yardi® Matrix

Market Analysis

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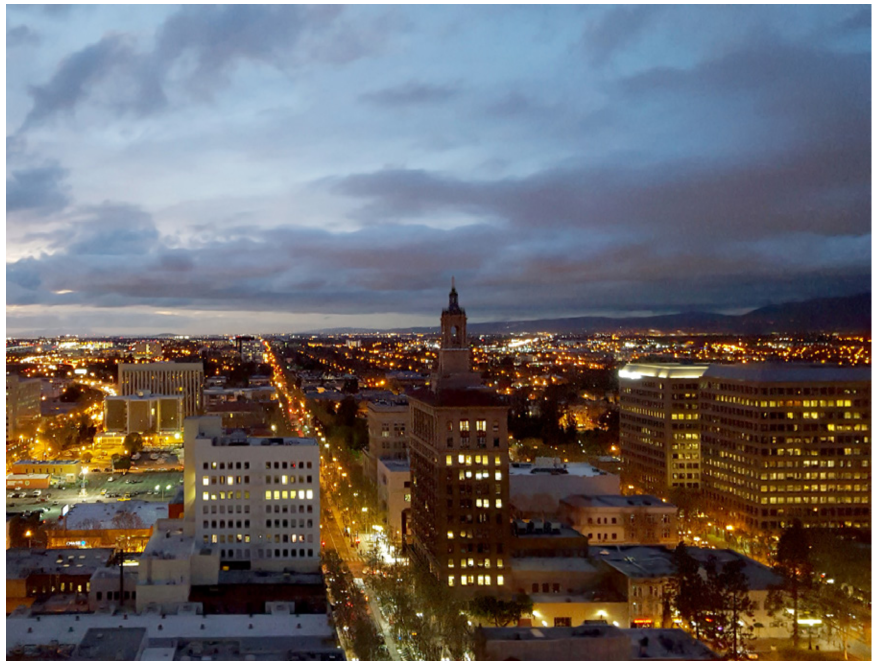
Banner Year for Office Sector



The Bay Area's office market continues to expand, bolstered by a large number of tech giants, a highly qualified employment pool and a booming economy. The metro's economy is the third strongest in the country, following Greater New York City and Los Angeles, according to a ranking by the Bay Area Council Economic Institute. Seen as the mecca for startups, the Bay Area became coworking firms' darling. The presence of Regus and WeWork, the largest players in the shared-workspace business, continues to attract major tech firms. For example, Airbnb is set to open its first South Bay office at WeWork's Riverpark Tower I location.

More than 35,000 jobs were added in the metro in the 12 months ending in October 2018, fueled by strong employment gains in information, professional and business services, and education and health services—which added a combined 27,400 jobs. Spurred by heightened development activity, the mining, logging and construction sector added 500 jobs, a 1.0% year-over-year increase.

Despite two consecutive years of record deliveries, the metro's office vacancy rate continues to decline. On average, Class A properties were 15% vacant at the end of 2018, while Class B assets had a vacancy rate of 15.8%. Although more than 6 million square feet was under construction as of December—with year-end completion dates set for all developments—expect the metro's vacancy rate to continue to decline over the upcoming quarters, as most projects underway are at least partially pre-leased.

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