

MARKETBEAT

East Bay Pleasanton Industrial Q2 2019



EAST BAY PLEASANTON INDUSTRIAL

Economics Indicators

	Q2 18	Q2 19*	12-Month Forecast
East Bay Employment	1.18M	1.20M	▲
East Bay Unemployment	3.1%	3.2%	▼
U.S. Unemployment	3.9%	3.6%	▼

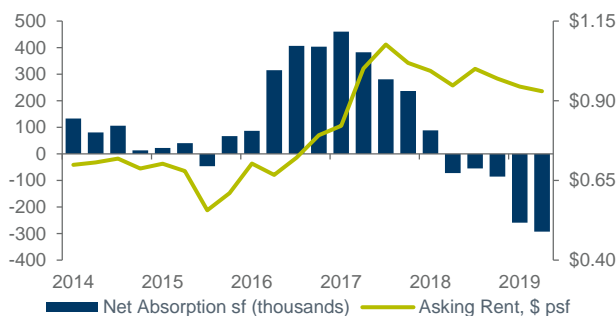
*2019 Q2 data are based on latest available data
Source: BLS, Moody's Analytics, C&W Research

Market Indicators

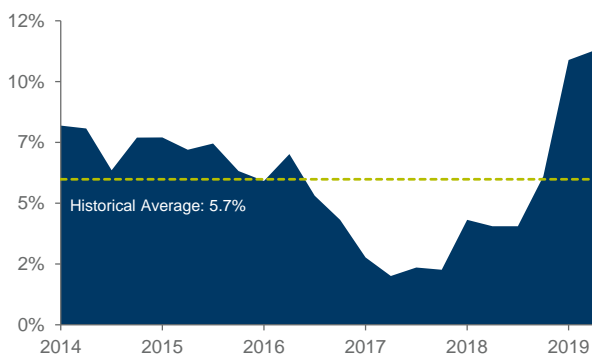
	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	4.0%	10.8%	▼
Overall Net Absorption (SF)	53k	-81k	▲
Under Construction (SF)	0	0	■
Average Asking Rent*	\$0.95	\$0.93	▼

*Rental rates reflect NNN asking \$PSF/month

Overall Net Absorption/Asking Rent (NNN) 4-QTR TRAILING AVERAGE



Overall Vacancy



Slow Start to Year Continues into Second Quarter

The East Bay, composed of Alameda and Contra Costa counties, recorded positive job growth with 20,000 jobs (+1.7%) added year-over-year (YOY), bringing regional employment to nearly 1.2 million. The labor force increased slightly in the same period, corresponding with the unemployment rate increasing 10 basis points (bps) to 3.2%, still well below the national average of 3.6%. Demand for modern housing remains strong with 5,898 multifamily units currently under construction to help alleviate existing supply constraints; 1,951 units have been delivered since 2017.

Vacancy in the East Bay Pleasanton industrial market was 10.8% at the end of the second quarter, having ticked up 30 bps from the first quarter and up 690 bps YOY. The increase was concentrated in Livermore—which constitutes 80% of the market's industrial inventory—partially due to the delivery of 460,000 square feet (sf) in three projects in 2018, all of which are vacant and available. Givebacks of existing space have also contributed to the rise, with 1.2 million square feet (msf) returned to the market in the past year. The Pleasanton submarket experienced the most significant increase, with a vacancy rate of 19.5%, representing a 1,450 bps increase YOY. A 394,000 square foot (sf) giveback of warehouse space at 4225 Hacienda Drive drove the entirety of this increase, as this single space constitutes 15% of the submarket's total industrial inventory. While 126,000 sf of this block was also leased in the first quarter, the transaction will not count towards net absorption until the space is occupied in the third quarter. With a lack of significant move-ins in the second quarter, net absorption was in the red, totaling negative 80,623 sf, with most of these givebacks occurring in Livermore. After four consecutive years of positive occupancy growth between 2014 and 2017, net absorption totaled negative 341,400 sf in 2018 and looks on track to be in the red in 2019, currently standing at negative 1.1 msf. Despite the givebacks and deliveries, existing large blocks are still relatively scarce. Historically, the East Bay Pleasanton tenant mix has been composed of large-block corporate users and with only four listings over 100,000 sf available for immediate occupancy, there is little inventory available to satisfy demand in this size range. This has created a bottleneck for tenants looking to migrate into or expand in the market and has led to a shrinking list of active tenant requirements over the last several quarters. Moreover, with rents flattening in East Bay Oakland as well as an increasing supply of large-block availabilities, there has been a decline in industrial users from that market relocating to East Bay Pleasanton. However, while there are few additional large blocks of space scheduled to hit the market in the

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next year, these four spaces have the potential to generate increased activity and satisfy the needs of larger users.

Leasing activity was sluggish in the second quarter, with gross absorption totaling 58,919 sf, down from 183,142 sf in the first quarter. However, the majority of space leased in the first quarter was at 4225 Hacienda Drive. Leasing activity has floundered over the past year mainly due to the markets' tightness in larger size ranges. Gross absorption will increase in the coming year, though the magnitude will necessarily depend on activity on the four vacant blocks over 100,000 sf, as well as whether or not any other spaces become available that are not currently tracked in our pipeline.

LEASING ACTIVITY HAS FLOUNDERED OVER THE PAST YEAR DUE TO THE MARKET'S TIGHTNESS AT LARGER SIZE RANGES...

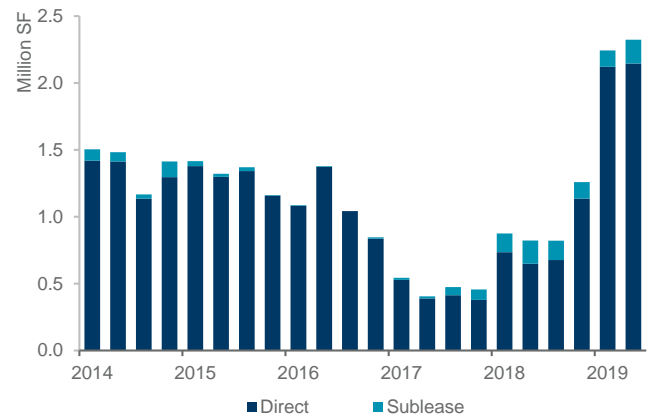
Asking rents at the close of the second quarter were \$0.93 per square foot (psf) on a monthly triple-net basis, down from \$0.94 psf in the first quarter and also down from \$0.95 psf one year ago. Asking rents have averaged annual increases of 11.6% between 2013 and 2017, peaking at \$1.08 psf in the third quarter of 2017 and are now trending down due to an overall lack of activity in the market. In previous years, East Bay Pleasanton has attracted spillover demand from the nearby East Bay Oakland market, where rent growth has been more pronounced. As rents are beginning to level off in that market, there are no significant relocation or expansion requirements currently being tracked. With vacancy forecasted to tick up over the coming year, we expect corresponding further declines to asking rents.

Outlook

- Current vacancy is 10.8% in the East Bay Pleasanton industrial market, and is expected to increase in the next year as several large blocks hit the market.
- 58,979 sf of gross absorption was recorded in the second quarter, while net absorption was -80,623 sf. Slow velocity is mainly due to limited supply of larger blocks of space.
- Rents closed the quarter at \$0.93 psf and are expected to remain relatively flat over the next twelve months.

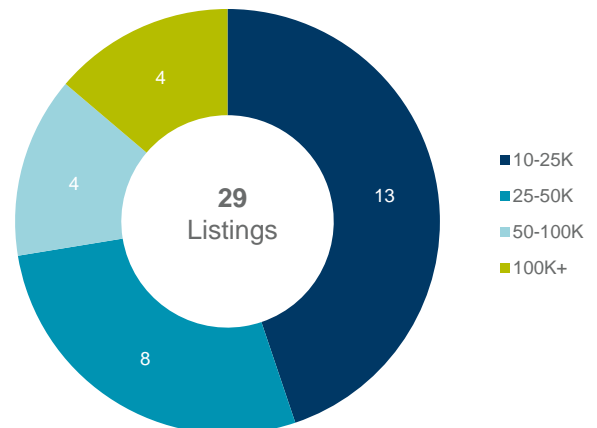
Direct & Sublease Available Space

LARGE UPTICK IN VACANCY AT THE START OF 2019



Availabilities by Size Segment

MARKET CONSTRAINED BY LIMITED LARGE-BLOCK AVAILABILITY



Overall Average Asking Rate by Submarket (NNN)

DUBLIN COMMANDS HIGHEST RENTS IN MARKET



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVERAGE ASKING RENT*
Dublin	1,758,840	25,163	24,539	2.8%	-9,080	-7,680	0	\$1.21
Pleasanton	2,639,736	6,287	508,772	19.5%	-2,094	-668,986	0	\$1.00
Livermore	17,063,422	147,053	1,611,761	10.3%	-69,449	-388,594	0	\$0.91
Warehouse	12,145,156	116,617	1,387,589	15.6%	-50,709	-1,028,470	0	\$0.84
Manufacturing	9,316,842	61,886	363,483	4.6%	-29,914	-36,790	0	\$1.21
TOTAL	21,461,998	178,503	1,751,072	10.8%	-80,623	-1,065,260	0	\$0.93

*Rental rates reflect asking \$psf/month converted to Triple Net

**Entries not reflective of U.S. MarketBeat table

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
7650 Marathon Dr	19,108	Blazona Concrete Construction	Principal Financial	Renewal	Livermore
6398 Sierra Ct	5,500	A1 Party Rentals	N/A	New Lease	Dublin
1233-1257 Quarry Ln	4,059	Vector Atomic, Inc.	N/A	New Lease	Pleasanton

Key Sale Transactions Q2 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	MARKET
111 Lindbergh	8,963	Beretta Property Management	Allgress, Inc.	\$2,000,000 / \$223.14	Livermore
5902-5948 Las Positas Rd	6,928	Courtney Trust	AMS.NET	\$1,669,648 / \$241	Livermore

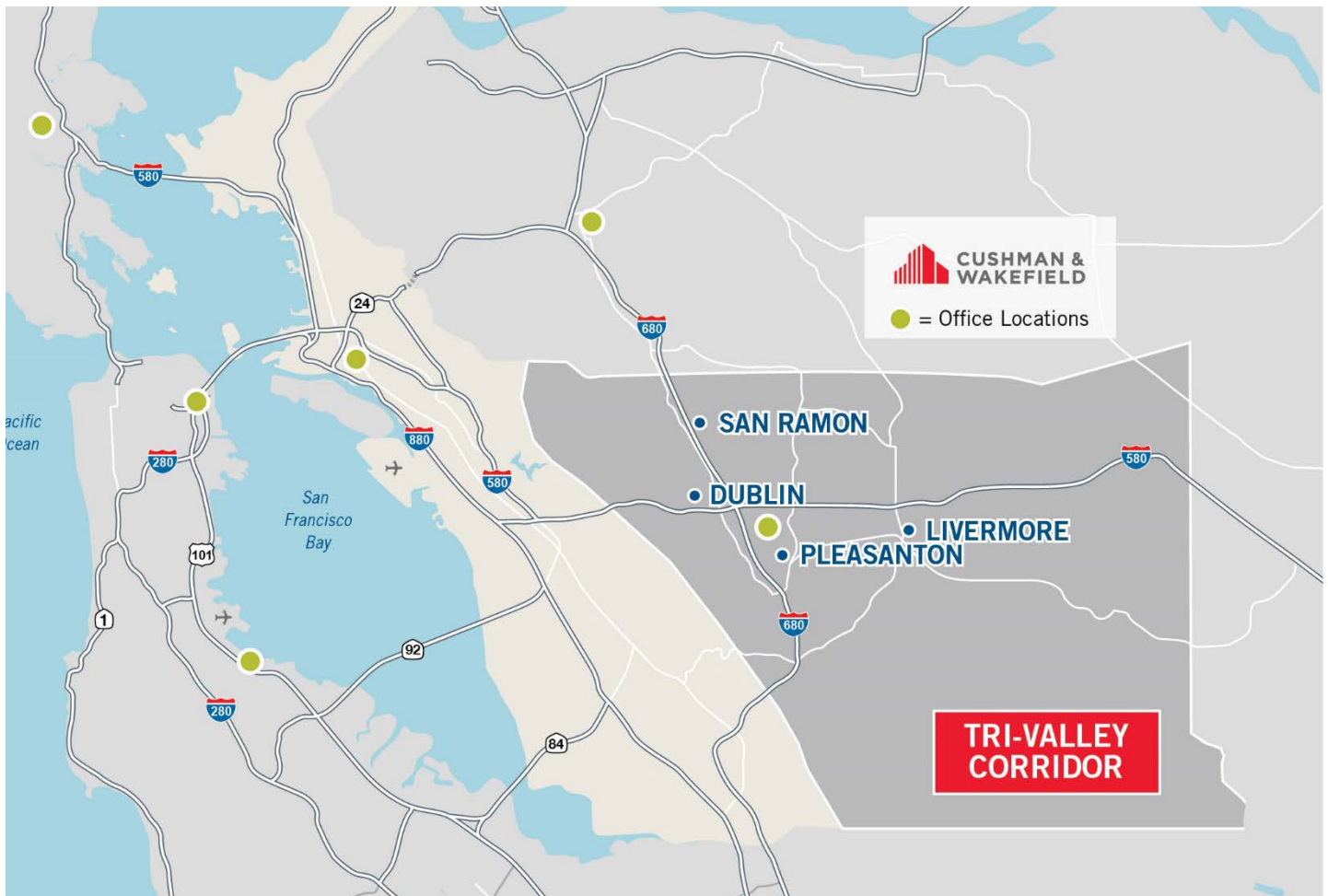
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Industrial Submarkets East Bay Pleasanton



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