MARKETBEAT

East Bay Oakland

R&D Q3 2019

CUSHMAN & WAKEFIELD

EAST BAY OAKLAND R&D

Economics Indicators

	Q3 18	Q3 19*	12-Month Forecast
East Bay Employment	1.18M	1.20M	▲
East Bay Unemployment Rate	2.9%	3.0%	▲
U.S. Unemployment Rate	3.8%	3.7%	▲

*2019 Q3 data are based on latest available data

Source: BLS, Moody's Analytics, C&W Research

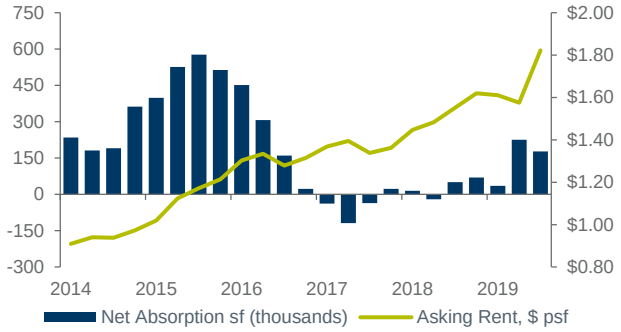
Market Indicators

	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	7.3%	9.4%	▼
Overall Net Absorption (SF)	500k	310k	▲
Under Construction (SF)	0	0	▬
Average Asking Rent*	$1.55	$1.82	▲

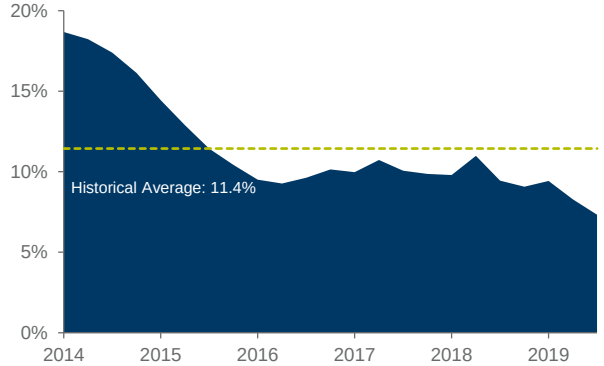
*Rental rates reflect NNN asking $PSF/month

Overall Net Absorption/Asking Rent (NNN)

4-QTR TRAILING AVERAGE



Overall Vacancy



Fremont Drives Market Activity

The East Bay, composed of Alameda and Contra Costa counties, recorded positive job growth with nearly 22,000 jobs (+1.8%) added year-over-year (YOY), bringing regional employment to just over 1.2 million. The labor force increased slightly in the same period, corresponding with the unemployment rate rising 10 basis points (bps) to 3.0%, still well below the national average of 3.7%. Demand for modern housing remains very strong with 9,577 multi-family units currently planned or under construction helping to alleviate existing supply constraints; 4,821 units have been delivered since 2017.

Vacancy in the East Bay Oakland R&D market closed out at 7.3%, representing a YOY decline of 200 bps. Supply of available space is expected to continue constricting from what is currently the tightest vacancy the market has seen in nearly 20 years. Fluctuations in the vacancy rate have historically been driven by activity in the Fremont submarket—which accounts for 63% of the East Bay Oakland R&D inventory—and the third quarter was no different: Fremont posted a 7.9% vacancy rate, marking a YOY decline of 210 bps. With this decline there were corresponding gains to occupancy growth with net absorption totaling positive 124,114 square feet (sf) for the quarter, the majority of this growth occurred in midrange spaces between 10,000 and 100,000 sf. Net absorption has been solidly in the black over the past year, with occupancy increasing by over 1 million square feet (msf) , punctuated by several high-profile deals, such as Lucid Motors' leasing of 300,000 sf in Newark and Facebooks leasing of 750,000 sf in Fremont. With a growing list of R&D tenant requirements, and no large move-outs expected, net absorption is expected to remain in the black in the coming quarters. While the forecast is cautiously optimistic, occupancy growth at the levels seen during the dot-com boom will be difficult given a lack of speculative projects in the construction pipeline and a shortage of large blocks of modern, existing space. To that point, there are only six blocks of existing space greater than 100,000 sf despite strong and consistent demand in that size range. With the region nearing full employment, hiring challenges may become the limiting factor that curbs demand for space, though the recent surge in multifamily housing may improve access to labor.

Gross absorption totaled 400,222 sf in the third quarter, marking four consecutive quarters of decreasing activity. A scant supply of large blocks of space has been the main culprit in these depressed activity levels, rather than a drop off in demand. Recent growth in the market has been driven by the electric and autonomous vehicle industry, though there has recently been an influx of software and cloud computing tenants, such as Facebook. There has also been an increase in the number of requirements coming from micro-mobility companies such as Lime and Bird, whose scooter-sharing model has taken Oakland and the East Bay by storm.

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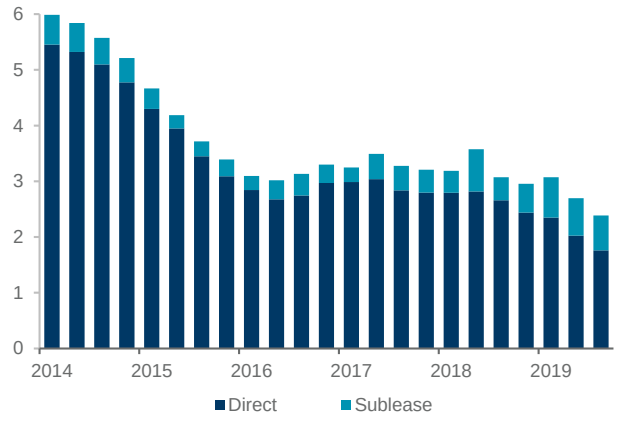
Asking rents closed out the third quarter at $1.82 per square foot (psf) on a monthly triple-net basis, a marked jump from $1.58 psf in the previous quarter. Rent growth, particularly in 2019, has been the result of a rise in sublease asking rents, which closed the third quarter at $2.69 psf. Sublease rents have outpaced direct rents for the three previous quarters, thanks primarily to Tesla and Lucid's giveback of 350,000 sf of modern automotive manufacturing space in Newark and Fremont. The East Bay Oakland R&D market continues to be a considerably less expensive market than Silicon Valley or San Mateo County. As rents across the Bay Area continue to rise, East Bay Oakland will attract more tenants seeking affordable pricing, but this will hinge on an increase in larger blocks of space to accommodate them.

AS RENTS ACROSS THE BAY AREA CONTINUE TO RISE, EAST BAY OAKLAND WILL ATTRACT MORE TENANTS SEEKING AFFORDABLE PRICING…

Investment activity dipped down in the third quarter, with 179,646 sf traded in three transactions, down from the 571,003 sf in the second quarter. Of note was Exelitas Technologies' sale of its 88,246 sf property in Fremont to Dermody Properties for $18,625,000, or $211 psf in a sale-leaseback transaction. Though investment activity was sluggish, investors remain confident in the market due to strong fundamentals and strong demand.

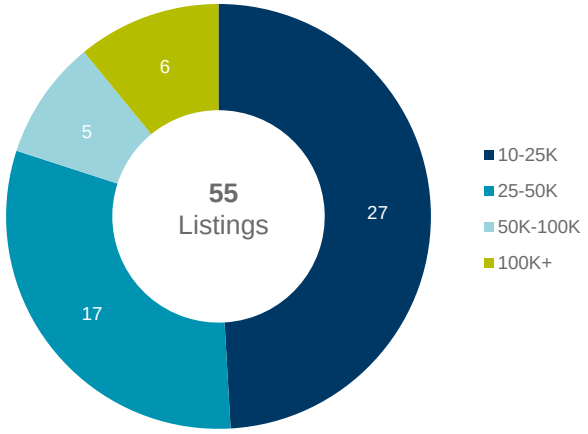
Direct & Sublease Available Space

DIRECT AND SUBLEASE VACANCY TIGHTENS



Availabilities by Size Segment

LARGE BLOCK SUPPLY TIGHTENS

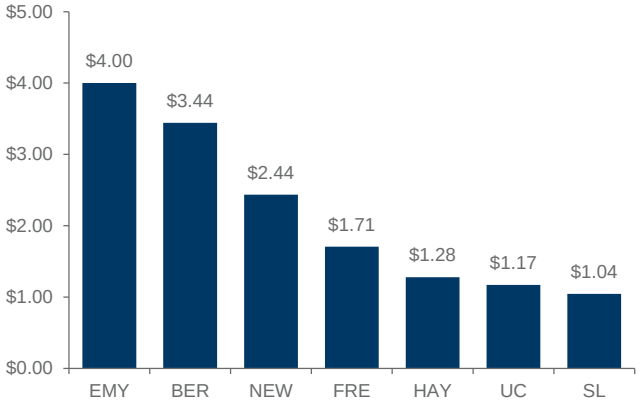


Outlook

- Vacancy is currently 7.3% and is expected to decrease over the next year as several large leased availabilities become occupied.
- Gross absorption totaled to 400,222 sf in the third quarter, while net absorption totaled 124,114 sf. We expect continued positive net absorption in the coming quarters.
- Rents closed the quarter at $1.82 psf on a monthly triple-net basis, and are expected to continue on an upward trajectory over the next year as vacancy tightens and demand remains strong.

Overall Average Asking Rate by Submarket (NNN)

EMERYVILLE 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*
Berkeley	1,382,958	0	120,457	8.7%	-17,000	-23,931	0	$3.44
Emeryville	1,747,755	0	1,440	0.1%	1,200	-1,440	0	$4.00
San Leandro	907,890	13,704	57,186	7.8%	-9,435	-2,791	0	$1.04
Hayward	3,888,435	67,753	233,707	7.8%	-16,294	-69,493	0	$1.28
Union City	958,970	8,539	20,611	3.0%	25,904	19,066	0	$1.17
Newark	3,047,855	199,078	32,334	7.6%	11,064	328,840	0	$2.44
Fremont	20,630,141	338,403	1,293,822	7.9%	128,675	131,189	0	$1.71
TOTAL	32,564,004	627,477	1,759,557	7.3%	124,114	381,440	0	$1.82

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

Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
6500 Kaiser Drive	66,653	Soraa Laser Diode	BioMed Realty Trust	New Lease	Fremont
48041-48097 Fremont Blvd	40,300	Ark Diagnostics	PLD	Renewal	Fremont
47923-47963 Warm Springs Blvd	32,115	XO Communications	Balch Enterprises	Renewal	Fremont
45700 Northport Loop E	22,847	Solaria Corp	Sufi Start Up Labs	New Lease	Fremont
47801-47857 Fremont Blvd	22,000	All Quality & Services Inc	PLD	New Lease	Fremont

Key Sale Transactions Q3 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	MARKET
44370 Christy St	88,246	Dermody Properties	Excelitas Technologies	$18,625,000/ $211	Fremont
4050 Starboard Dr	52,232	Deerfield Realty	DRA/ Local Capital	$13,760,000/ $263	Fremont
2211-2215 Warm Springs Ct	39,168	Rajneesh Salwan Trust	Freal Partners	$9,400,320/$240	Fremont

R&D Submarkets
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