

MARKETBEAT

East Bay Pleasanton

Office/R&D Q3 2019



EAST BAY PLEASANTON OFFICE/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%	▲

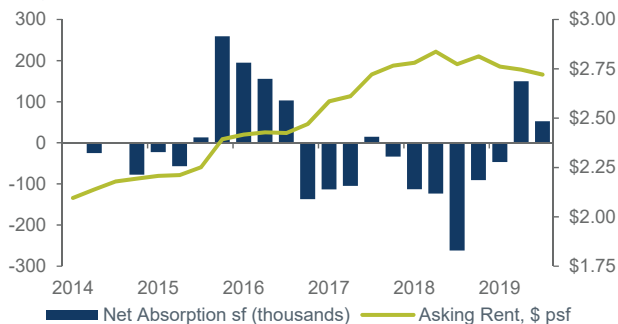
*2019 Q3 data are based on latest available data
Source: BLS, Moody's Analytics, C&W Research

Market Indicators

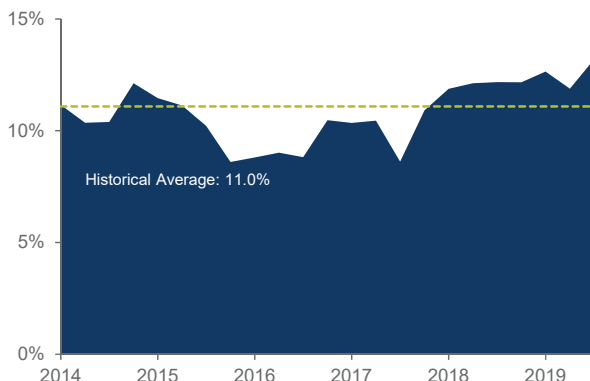
	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	12.4%	13.2%	▲
Overall Net Absorption (SF)	-16k	-405k	▼
Under Construction (SF)	0k	0k	■
Average Asking Rent*	\$2.77	\$2.72	▼

*Rental rates reflect full service asking \$PSF/month

Overall Net Absorption/Asking Rent -Full Service 4-QTR TRAILING AVERAGE



Overall Vacancy



Increase in Available Spaces and Dropping Rents in Third Quarter

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 slightly over 1.2 million. The labor force increased slightly, but the unemployment rate decreased by 20 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 to help alleviate existing supply constraints; while 4,821 units have been delivered since 2017.

East Bay Pleasanton Office/R&D market vacancy increased to 13.2% in the third quarter of 2019, marking the highest vacancy the market has experienced since 2012. This translates to an increase of 140 bps quarter over quarter (QOQ) while up 80 bps YOY. The rise in vacancy can be attributed to large blocks of Class A office space becoming available for sublease, especially in Dublin and San Ramon, complimented with relatively quiet leasing activity. Overall vacancy is up for the year driven by sublease space that continues to hit the market, with 973,258 square feet (sf) currently available, an increase of 107% in just the last 12 months. Callidus Cloud and General Electric are the largest contributors to the influx of sublease space – totaling 329,868 sf—hitting the market this quarter.

Overall net absorption was in the red for the quarter, totaling negative 405,487 sf, though occupancy has grown by 193,167 sf over the previous 12 months. Workday's occupancy of its new 430,000 sf headquarters in the second quarter has been responsible for most of this annual growth. Third quarter losses were largely due to eight large blocks of space hitting the market complimented by a host of smaller spaces. The net absorption in the R&D market totaled negative 136,076 sf with the majority of the givebacks occurring in Dublin. With 154,427 sf of leased space to be occupied in the fourth quarter as well as 238,168 sf to be vacated, it is anticipated that net absorption will struggle to move back into the black by the end of the year.

Asking rents in East Bay Pleasanton continued dropping for the fourth consecutive quarter, closing at \$2.72 per square foot (psf) on a monthly full-service basis, down \$0.02 from the previous quarter and down \$0.05 YOY. Dublin saw the most drastic decline, posting rents of \$2.44 psf at the end of the third quarter, representing a 17.6% YOY decrease. The Dublin submarket accounts for about 14.8% of the market's available space; thus, fluctuations in asking rents are not incredibly influential on overall market averages.

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Despite the decline, average rents remain near the high watermark of \$2.84 psf set in the second quarter of 2018. That said, limited leasing activity and the rise of sublease space should keep asking rates flat to slightly lower over the next few quarters.

Gross leasing activity in the third quarter totaled 175,018 sf, down from 330,745 sf in the previous quarter and 703,036 in the third quarter of 2018. Year to date (YTD) gross absorption stands at 771,487 sf, which is well below the ten-year historical average through the third quarter of the year. Despite the value and multiple size options within East Bay Pleasanton, establishing further demand from tenants has been a challenge. Competition from new construction and renovation projects in a more convenient transit-oriented market such as Oakland has been rising even with the higher asking rents. Nonetheless, this market is still very attractive for companies looking for affordable spaces of all sizes. Striking Distance Studios signed for the largest block of space in the third quarter, totaling 25,466 sf, at 6111 Bollinger Canyon Rd. As the demand pipeline shrinks, leasing activity will remain relatively cool over the next year.

DESPITE THE VALUE AND MULTIPLE SIZE OPTIONS, ESTABLISHING FURTHER DEMAND FROM TENANTS HAS BEEN A CHALLENGE...

Investment activity was sluggish in the third quarter, with only two significant transactions signed. SMART purchased 22,800 SF for \$7,224,000 at 3102-3278 Constitution Dr. in Livermore. Blue Oaks Church purchased 19,679 SF at 7139 Koll Center Pkwy in Pleasanton – which is over 80% leased.

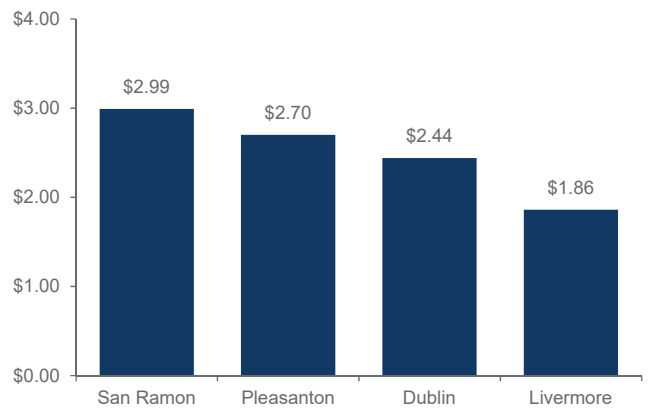
The East Bay Pleasanton market has been overshadowed of late by the more convenient transit-oriented markets such as Oakland and Walnut Creek. But prices are rising at a more rapid pace in those nearby markets and the more price sensitive East Bay tenants will focus on less costly alternatives. The likely source of any office growth for East Bay Pleasanton will come from those companies that are more concerned with price and less concerned with mass transit in addition to already having a location on the sunny side of the Bay.

Outlook

- Asking rents closed the quarter at \$2.72 psf, edging down from \$2.74 in the second quarter. Rents are expected to level out in the next twelve months as activity continues at a sluggish pace.
- Vacancy was 13.2% at the close of the quarter and will increase in the next year as more sublease space hits the market..
- Leasing activity was sluggish in the third quarter, with a total of 175,018 sf in gross absorption, less than half of the 10-year average at the midpoint of the year.

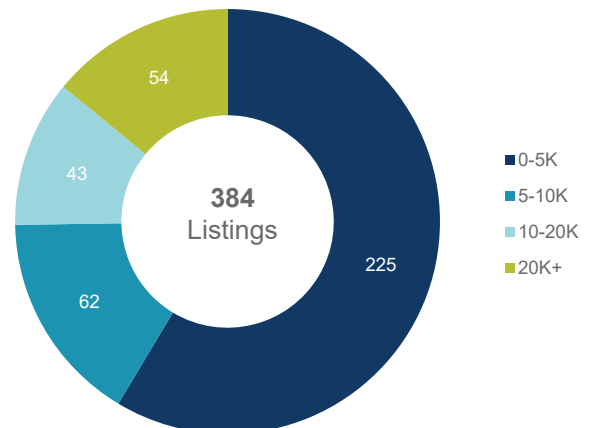
Average Asking Rate by Submarket -Full Service

SAN RAMON COMMANDS HIGHEST RENTS IN MARKET



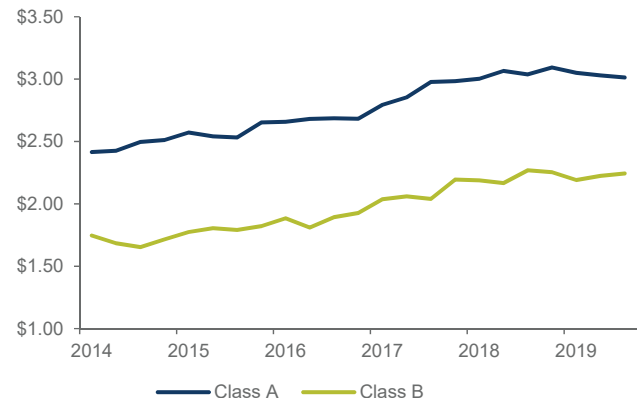
Availabilities by Size Segment

SUPPLY OF SMALL-SIZED SPACE CONTINUES TO GROW



Average Asking Rate by Class -Full Service

CLASS A RENTS TICK DOWN



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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 AVERAGE ASKING RENT* (ALL CLASSES)	OVERALL AVERAGE ASKING RENT* (CLASS A)
Dublin	3,257,431	437,892	138,448	10.3%	-237,818	-152,577	0	\$2.44	\$2.46
San Ramon	8,792,972	1,049,671	351,678	15.5%	-125,467	-45,939	0	\$2.99	\$3.02
Pleasanton	13,177,694	1,239,484	447,532	13.2%	-34,449	405,607	0	\$2.70	\$2.79
Livermore	4,166,403	176,094	35,600	5.1%	7,207	-7,753	0	\$1.86	\$2.90
CLASS BREAKDOWN									
Class A	15,564,760	802,286	1,851,658	17.1%	-260,457	568,747	0	\$2.89	
Class B	5,208,692	63,882	491,391	10.7%	-944	79,451	0	\$2.46	
Flex	7,155,038	100,800	528,295	8.8%	-136,076	-281,110	0	\$1.67	
TOTAL	29,394,500	973,258	2,903,141	13.2%	-405,487	193,167	0	\$2.72	\$2.86

*Rental rates reflect full service asking \$PSF/month

Key Lease Transactions Q3 2019

Property	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
6111 Bollinger Canyon Rd	25,466	Striking Distance Studios	Sunset Development Company	New Lease	San Ramon
5860 Owens Dr	24,500	CLPCCD	John Muir Health	New Lease	Pleasanton
4120 Dublin Blvd	19,796	Ericcson	Hines	New Lease	Dublin
5667 Gibraltar Dr	19,782	Ritchie Bros. Auctioneers	Bio-Rad	New Lease	Pleasanton

Key Sale Transactions Q3 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	MARKET
3108-3278 Constitution Dr	22,800	SMART	Redwood Property Investors	\$7,224,000 / \$316	Livermore
7139 Koll Center Pkwy	19,679	Blue Oaks Church	Willow Ridge Associates	\$5,200,000 / \$264.24	Pleasanton

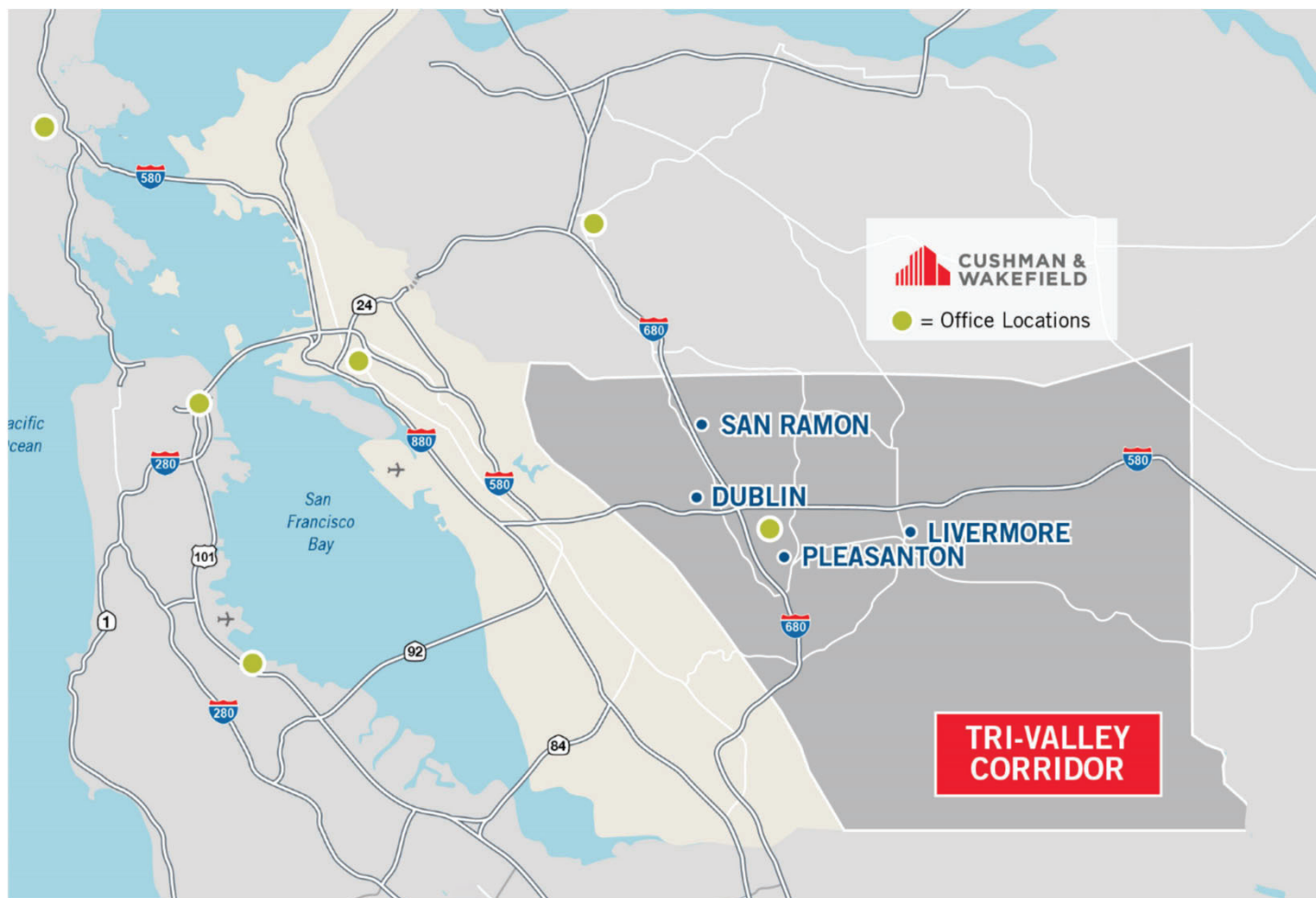
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Office Submarkets East Bay Pleasanton



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