

# East Bay Pleasanton

Office R&amp;D Q4 2019



CUSHMAN &amp; WAKEFIELD

13.7%

Vacancy Rate

YoY  
Chg12-Mo.  
Forecast

-226K

Net Absorption, SF



\$2.75

Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q4 2019

1.21M

East Bay  
EmploymentYoY  
Chg12-Mo.  
Forecast

2.8%

East Bay  
Unemployment Rate

3.6%

U.S.  
Unemployment Rate

Source: BLS, Moody's Analytics  
2019Q4 data are based in the latest available data

## ECONOMY

The East Bay, composed of Alameda and Contra Costa counties, recorded positive job growth with nearly 22,000 jobs (+1.83%) added year-over-year (YOY), keeping regional employment at slightly over 1.2 million. The labor force increased slightly, but the unemployment rate decreased by 20 basis points (bps) to 2.8%, still well below the national average of 3.6%. Demand for newly constructed housing remains very strong with 14,875 multi-family units currently planned or under construction to help alleviate existing supply constraints; while 7,774 units have been delivered since 2017.

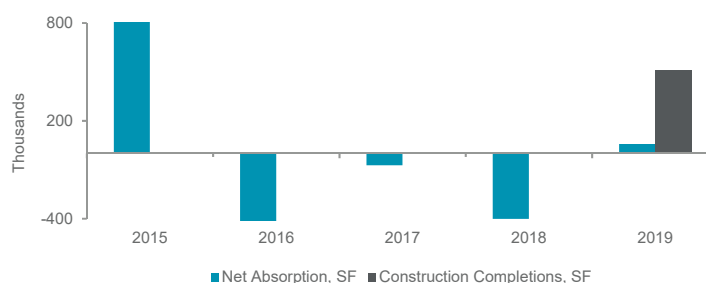
## SUPPLY : Leasing Diminishes After Strong 2018

Overall net absorption was in the red for the quarter, totaling negative 225,687 square feet (sf), though occupancy has grown by 86,471 sf over the previous 12 months. Workday's occupancy of its new 430,000 sf headquarters in the second quarter was responsible for most of this annual growth. Fourth quarter losses were largely due to three large blocks of space hitting the San Ramon and Pleasanton markets at 2600 Camino Ramon and 5050 Hopyard Road—supplemented by a host of smaller spaces. The net absorption in the R&D market in the fourth quarter totaled negative 166,464 sf with the majority of the givebacks occurring in Livermore and Pleasanton. With 41,601 sf of leased space to be occupied in the first quarter of 2020 as well as 80,731 sf to be vacated, it is anticipated that net absorption will struggle to move back into the black in the coming quarters.

## PRICING: Asking Rents Remain Stagnant

Asking rents in East Bay Pleasanton experienced a slight uptick in the fourth quarter, closing at \$2.75 per square foot (psf) on a monthly full-service basis, up \$0.02 from the previous quarter and down \$0.06 YOY. Livermore saw the only decline, posting rents of \$1.80 psf at the end of the fourth quarter, representing a 17.6% quarter-over-quarter (QOQ) decrease. The Livermore submarket accounts for only about 14% of the market's total building base; thus, fluctuations in asking rents are not incredibly influential on overall market averages. Despite minor fluctuations, 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 available space will likely keep asking rates flat or will drop slightly over the next few quarters.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



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## Vacancy

East Bay Pleasanton Office/R&D market vacancy increased to 13.7% in the fourth quarter of 2019, marking the highest vacancy in the market since 2012. This translates to an increase of 70 bps QOQ while up 120 bps YOY. The rise in vacancy can be attributed to large blocks of Class A office space becoming available for lease and sublease, especially in Pleasanton 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 1,013,484 sf currently available, an increase of 83% in just the last 12 months. The abundance of sublease space and direct space becoming available is evidence that companies are downsizing and consolidating to compensate for sluggish business activity. General Electric experienced a major downsize in the end of the third quarter and put 185,016 sf available for sublease at 2623 Camino Ramon. Comcast also went through consolidations at their 3077 Comcast Place office, giving 73,580 sf of sublease back to the market.

## Sales

Investment activity was nearly muted in the fourth quarter, with only two significant transactions signed. Black Creek Diversified Property Fund purchased 203,938 sf for \$78.3 million or \$384 psf at 1 Park Pl. in Dublin. ANSYS, Inc. purchased 39,860 sf at 7350-7374 Las Positas Road in Livermore – which is 100% leased– for \$9.5 million or \$238 psf.

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.

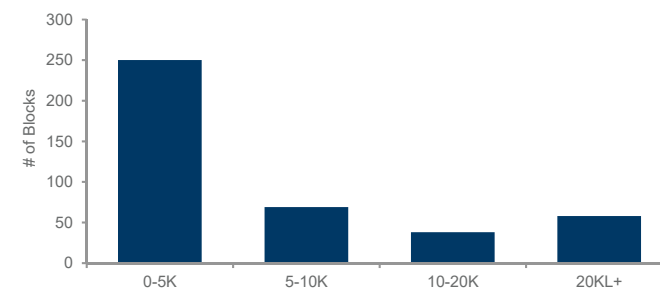
## Outlook

- Asking rents closed the quarter at \$2.75 psf, edging up from \$2.73 in the third quarter. Rents are expected to level out in the next twelve months as activity continues at a sluggish pace.
- Vacancy was 13.7% at the close of the quarter and will increase in the next year as more sublease space hits the market.
- Leasing activity is expected to remain sluggish in 2020, similar to what was recorded in 2019.

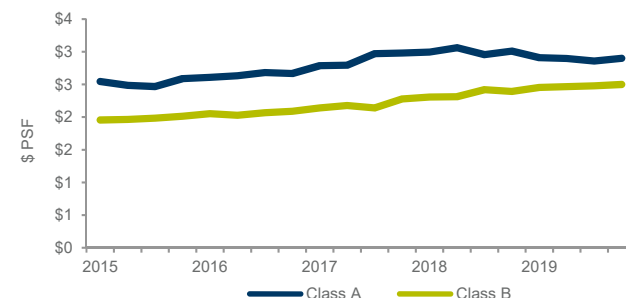
## SUBMARKET ASKING RENT



## AVAILABILITY BY SEGMENT SIZE



## AVERAGE ASKING RENT BY CLASS (FULL SERVICE)



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## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Dublin	3,262,353	29,804	396,767	13.10%	52,222	-2,808	91,858	0	\$2.55	\$2.60
San Ramon	8,792,972	353,462	1,008,631	15.50%	15,855	2,212	321,238	0	\$3.02	\$3.04
Pleasanton	13,172,655	516,420	1,452,922	13.20%	-221,597	142,178	508,088	0	\$2.76	\$2.84
Livermore	4,166,403	113,798	168,261	6.80%	-72,167	-71,544	27,935	0	\$1.80	\$2.90
CLASS BREAKDOWN										
Class A	15,564,732	769,916	1,901,335	17.20%	-26,433	401,983	680,691	0	\$2.90	-
Class B	5,208,603	61,770	571,742	12.20%	-29,058	38,470	-	0	\$2.49	-
Office / Flex	7,155,038	171,996	509,881	9.50%	-166,464	-358,381	123,586	0	\$1.59	-
TOTALS	29,394,383	1,013,484	3,026,581	13.7%	-225,687	70,038	949,119	0	\$2.75	-

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTION Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2600 Camino Ramon	San Ramon	SAP	56,488	Direct
12647 Alcosta Blvd.	San Ramon	24 Hour Fitness	53,000	Direct
5720 Stoneridge Dr.	Pleasanton	Inscripta	29,467	Direct
12647 Alcosta Blvd.	San Ramon	8x8	12,128	Direct

\*Renewals not included in leasing statistics

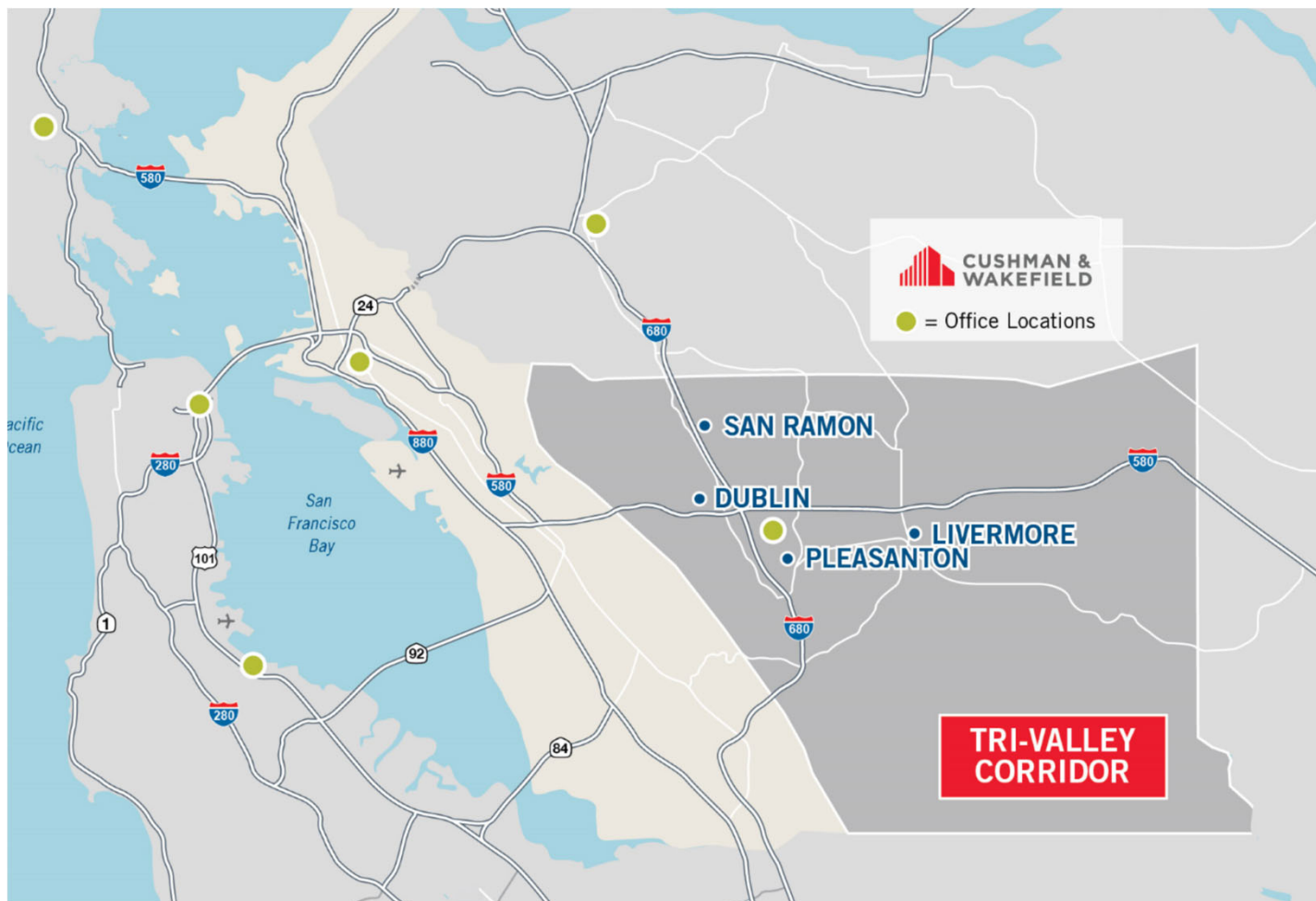
## KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1 Park Pl.	Dublin	Artemis Real Estate & Ellis Partners / Black Creek Diversified Property Fund	203,938	\$78.3M/\$384
7350-7374 Las Positas Rd.	Livermore	ANSYS, Inc. / John O Hallquist	39,860	\$9.5M/\$238



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