

Industrial Q3 2020

	YoY Chg	12-Mo. Forecast
5.7% Vacancy Rate	▲	▲
-449K Net Absorption, SF	▼	▲
\$1.00 Asking Rent, PSF	▲	▼

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
1.0M East Bay Oakland Employment	▼	▲
10.7% East Bay Oakland Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics.
2020Q3 data are based on latest available data.

ECONOMY: COVID-19 Recovery Remains Uphill Battle

The East Bay, encompassing Alameda and Contra Costa counties, recorded negative job growth with over 146,000 jobs (-12.3%) lost year-over-year (YOY), bringing regional employment to just over 1.04 million. With this decline, the unemployment correspondingly rose by +780 basis points (bps) to 10.7%, significantly above the national 8.8%. Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

SUPPLY: South 880 Corridor Drives Growth in Sublease Vacancy

At the end of the third quarter, the East Bay Oakland industrial market recorded a 5.7% vacancy rate, reflecting an increase of 30 bps from the second quarter, and up 120 bps YOY. Though delivery of new vacant product—particularly in Newark and Fremont—was responsible for some of this increase, 67% of the 2.2 million square feet (msf) of new availabilities added to the market in the past year has been in givebacks of existing space. Large swaths of sublease space have also hit the market in the past year, with nearly 1.6 msf currently available—a marked 95% increase from this time last year and the highest total in nearly 20 years. The South 880 Corridor—Hayward to Fremont—has recorded the highest rise in sublease space, and hosts 55% of the sublease space currently available. The majority of space that hit the market in the past year has been in spaces between 10,000 and 50,000 sf, indicating occupiers in this size segment have been more affected by the ongoing lull in activity caused by COVID-19 pandemic.

PRICING: Asking Rents Growth Finally Slows

While direct and sublease space continued to hit the market in the third quarter, rents barely budged, closing at \$1.00 per square foot (psf) on a monthly triple-net basis, inching up \$0.01 from the second quarter and up \$0.04 YOY. Rent growth in this business cycle has been driven by strong demand and low vacancy, buoyed by the delivery of large blocks of modern manufacturing and warehouse space. In recent months, there has been a pronounced increase in demand from the e-commerce sector due in no small part to increasing consumer reliance on online shopping and delivery services as the COVID-19 pandemic continues. Growth has flattened after the significant gains realized between 2012 and 2017, when asking rates averaged 12.3% annual increases. Though demand from large, national-credit e-commerce users is expected to remain strong, tempered demand from more traditional and smaller users will likely have the effect of decreasing rents in the coming quarters. The magnitude of this change will hinge on ongoing efforts to reopen the local and national economies.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DEMAND: Third Quarter Occupancy Decline, E-Commerce to Drive Future Gains

After a red-letter start to the year, in which occupancy grew by 1.4 msf—driven by the delivery of preleased new construction in the South 880 Corridor—occupancy growth slumped into the red in the second and third quarters, with third quarter net absorption totaling negative 448,574 square feet (sf). However, it is important to note that occupancy has only recorded a slight decline over the course of the year, to the tune of negative 58,169 sf so far in 2020. While the decline can be largely attributed to continued shelter-in-place orders, it is important to note that there is currently over 700,000 sf of preleased product under construction slated for delivery in the next year which will help offset forecasted givebacks of existing space. Leasing activity was fairly healthy in the third quarter, with gross absorption totaling 2.2 msf for the quarter and 8.7 msf so far in 2020, putting the market well on track to generate the same level of activity as in 2019, when gross absorption totaled 9.5 msf. While the volume of tenants in the marketplace has tapered off in recent months, demand for industrial space has not fallen as sharply as in other sectors: Notably, we are tracking 3.7 msf of warehousing and logistics requirements. The comparable health of the warehouse market can be attributed to the rise in e-commerce requirements—due to increasing consumer reliance on meal and grocery delivery as shelter-in-place orders continue. While the lasting effects of the COVID-19 pandemic on the East Bay Oakland market remain to be seen, the combination of preleased new construction and strong e-commerce demand will help dampen occupancy losses in the coming months.

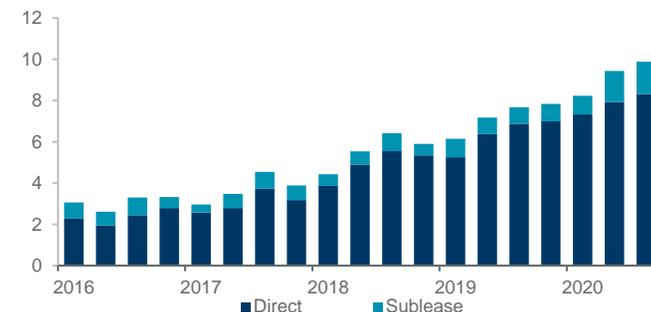
Capital Markets: Flurry of Activity in Third Quarter

Investment activity heated up in the third quarter, with 1.3 msf traded in 12 transactions—a strong indicator of investor confidence in the market despite, or perhaps due to, the ongoing COVID-19 pandemic. Of particular note was LDK Capital's sale of 2995 Atlas Road in Richmond to Centerpoint Properties for \$153 million. The 707,000 sf building was delivered in the third quarter of 2018 and is currently 100% occupied by Amazon on a long-term lease. This asset type has piqued capital markets interest in recent months due to the minimal risk profile associated with a large-block asset leased to a national e-commerce user. We expect investment activity to remain strong in the coming quarter due to solid market fundamentals and the changing structure of the market's tenant mix.

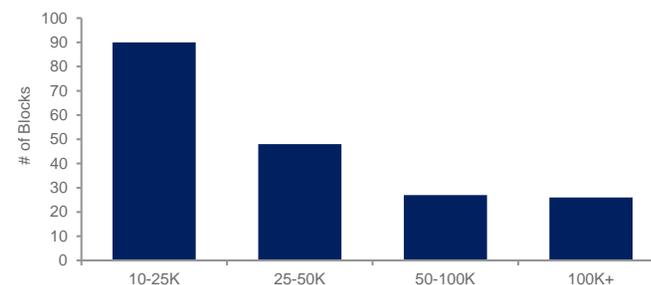
Outlook

- Asking rents at the end of the third quarter were \$1.00 psf, up \$0.04 from this time last year. Looking forward, rents will begin declining due to the glut of product on the market and a tapering-off of demand, though losses will be tempered by continued demand from the e-commerce sector.
- Though there were no deliveries in the third quarter, 3.2 msf of product under construction scheduled for delivery in the next 12 months. Of this total, 700,000 sf is preleased which will help dampen occupancy losses in the coming quarters.
- Investment activity totaled 1.3 msf in the third quarter, signaling investor confidence in the market. Activity is expected to heat up in the coming year, particularly in large block, single tenant leased investments, a popular asset type particularly during the ongoing COVID-19 pandemic.

DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q3 2020

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION(SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTEDAVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Richmond	12,988,446	683,387	5.3%	-175,813	484,916	686,155	0	\$0.87	\$0.65	\$0.81
Berkeley	6,416,596	139,117	2.2%	-79,655	-64,127	0	0	\$1.08	\$1.45	\$1.59
Emeryville	2,661,124	135,041	5.1%	-21,737	-38,737	0	0	\$1.08	\$1.35	\$1.48
Oakland	38,552,542	1,780,504	4.6%	-16,576	-331,749	974,781	0	\$1.13	\$0.95	\$0.96
San Leandro	28,682,821	1,859,895	6.5%	-329,796	-607,087	154,619	0	\$0.85	\$0.94	\$0.89
Hayward	39,822,408	1,699,672	4.3%	333,304	450,077	0	0	\$0.87	\$1.10	\$1.09
Union City	13,658,287	1,058,085	7.7%	-196,424	-454,248	0	0	\$0.85	\$0.75	\$1.10
Newark	9,261,754	629,054	6.8%	202,354	405,747	604,796	0	\$0.91	\$1.21	\$1.21
Fremont	22,685,836	1,896,822	8.4%	-164,231	97,039	790,545	0	\$0.96	\$1.23	\$1.25
EAST BAY OAKLAND TOTALS	174,729,814	9,881,577	5.7%	-448,574	-58,169	3,210,896	0	\$0.92	\$1.09	\$1.00

*Rental rates reflect weighted net asking \$psf/month

**Stats are not reflective of U.S. Overview Tables

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
211-213 Cutting Blvd, W.	Richmond	Nutiva	142,708	Renewal*
30525-30535 Huntwood Ave	Hayward	General Logistics Systems US, Inc	139,400	New Lease
6600 Stevenson Blvd	Fremont	OnCore Manufacturing Services, Inc.	127,452	Renewal*
860 81st Ave	Oakland	United Cold Storage	124,630	New Lease
7447 Morton Ave	Newark	Temco Logistics	105,797	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Bay Area Logistics Center	Richmond	LDK Capital / Centerpoint Properties	707,820	\$153.0M/\$216
955 Kennedy St & 1905-1991 Dennison St	Oakland	Hagar Pacific Properties / Duke Realty	287,489	\$55.0M/\$191
860 & 940 81st Ave	Oakland	Oaktree Capital Mgmt / Provender Partners	162,281	\$26.0/\$160
45531-45551 Northport Loop E	Fremont	Contract Metal Products / Dermody Properties	71,260	Undisclosed
1620 18th St & 1800-1840 Campbell St	Oakland	LCTC Properties LLC / SRM Development	43,760	\$7.0M/\$160

EAST BAY OAKLAND

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INDUSTRIAL SUBMARKETS



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