

EAST BAY OAKLAND

R&D Q3 2020

9.5%

Vacancy Rate

YoY Chg



12-Mo. Forecast



-23K

Net Absorption, SF



\$1.72

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2020

1.0M

East Bay Oakland Employment

YoY Chg



12-Mo. Forecast



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 (-11.8%) 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](#).

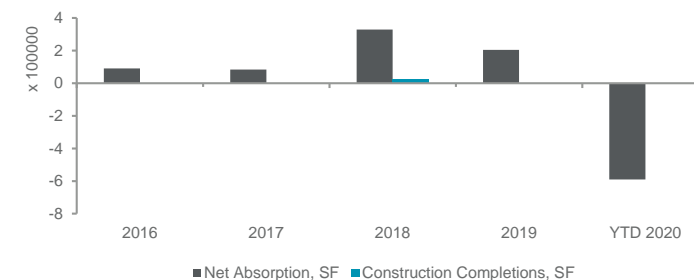
SUPPLY: Sublease Market Remains Comparatively Tight

The East Bay Oakland R&D market closed out the quarter at a 9.5% vacancy rate, up 10 bps from the end of the second quarter and up 240 bps from this time last year. With a non-existent construction pipeline, no new deliveries, and generally depressed activity levels due to the ongoing pandemic, the rise was manifested in givebacks of existing space, especially in the sub-50,000 square foot (sf) size segment, of which there is little demand. Though sublease space continues to hit the market, totaling 613,046 sf at the end of the third quarter, there has only been an 8% increase in that metric YOY, compared to the nearly 230% increase in the East Bay Oakland office market. Almost all the space given back in the third quarter was in Berkeley and Hayward. Vacancy is expected to increase in the coming quarters, though the magnitude of the increase will hinge on efforts to reopen the local and national economies.

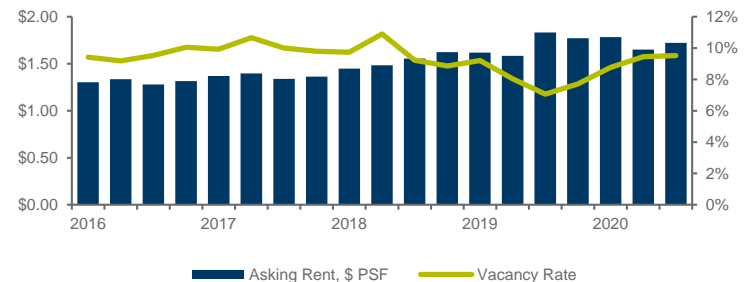
PRICING: Sublease Rents Continue to Command Premium

Asking rents closed the third quarter at \$1.72 per square foot (psf) on a monthly triple-net basis, up \$0.07 from the second quarter though down \$0.11 from this time last year. Contrary to typical market trends, sublease asking rents command a 13% premium over direct rents, though they have declined by \$0.68 over the past year. The premium is due in no small part to Lucid Motors' giveback of 127,000 sf of automotive manufacturing space in Newark and other large blocks of sublease space with modern amenities, particularly in the South 880 Corridor. While the East Bay Oakland R&D market continues to be considerably less expensive than Silicon Valley or San Mateo County, rents are expected to continue decreasing as the pandemic-related slowdown continues—though declines will be buffered by demand for modern life sciences space.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DEMAND: Second Quarter Losses Somewhat Tempered in Third Quarter

Occupancy decreased by 23,395 sf in the third quarter, with net absorption totaling negative 589,814 sf so far in 2020. The drop can largely be attributed to continued shelter-in-place orders with the givebacks concentrated in the aforementioned sub-50,000 sf size segment. Despite the losses, roughly 16% of the East Bay R&D inventory has built out lab and life sciences space, for which demand has been steadily increasing as the race to develop a COVID-19 vaccine continues in addition to the rising focus on the sector. While the forecast is cautiously optimistic on the laboratory front, occupancy is still expected to decline in the coming months due to givebacks coming from other sectors.

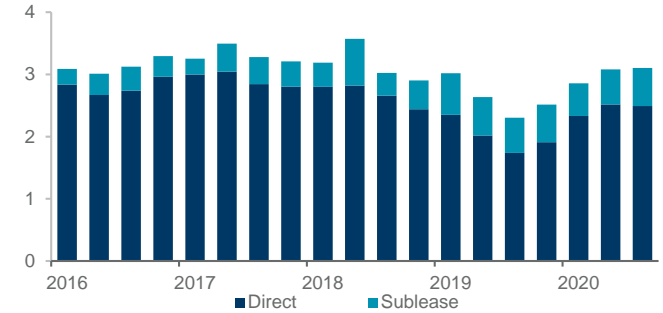
INVESTMENT ACTIVITY: Third Quarter Lull in Activity

As expected to the general slowdown, investment activity was lukewarm in the third quarter, with 41,000 sf traded in just one transaction—Bellomo Construction Company’s sale of its 41,000 sf R&D building in San Leandro Arow Marina LLC. The building was 100% leased at the time of sale. Though investment activity is expected to remain stagnant for several quarters, investors remain confident due to solid long-term market fundamentals and the robust life sciences inventory.

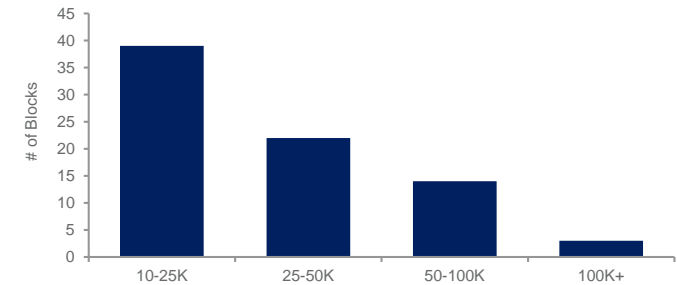
Outlook

- Asking rents increased in the third quarter, closing at \$1.72 psf, up \$0.07 from the second quarter. Though the market commands a healthy discount over Silicon Valley and San Mateo County, rents are expected to fall further as the general slowdown continues.
- After enjoying ten years of consecutive occupancy growth, the market finally began seeing losses in 2020 with net absorption totaling negative 589,814 sf for the year. Despite demand from life sciences, occupancy is expected to fall due to givebacks in other sectors.
- In recent years, cloud computing companies such as Facebook, and micro-mobility start-ups such as Lime and Bird, have made up an increasing share of the tenants shopping the market. These trends are likely to continue and be bolstered by a rising number of life sciences requirements.

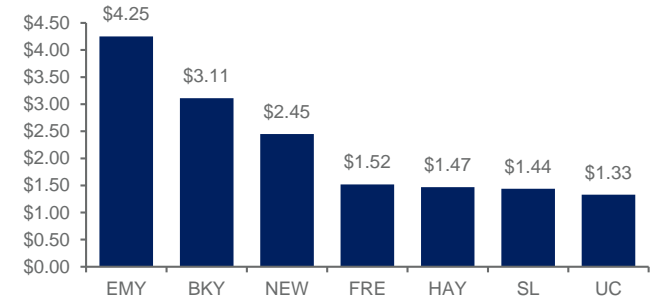
DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



R&D Q3 2020

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)*
Berkeley	1,382,958	0	158,227	11.4%	-68,075	-51,075	0	0	\$3.11
Emeryville	1,747,755	0	70,000	4.0%	0	-70,000	0	0	\$4.25
San Leandro	907,568	0	40,701	4.5%	8,620	203	25,856	0	\$1.44
Hayward	3,898,879	126,710	345,119	12.1%	-48,482	-167,386	35,382	0	\$1.47
Union City	958,970	0	57,923	6.0%	0	-9,642	10,741	0	\$1.33
Newark	3,047,685	194,196	117,195	10.2%	13,800	-31,557	164,667	0	\$2.45
Fremont	20,685,146	292,140	1,702,011	9.6%	70,742	-260,357	1,073,360	0	\$1.52
TOTALS	32,628,961	613,046	2,491,176	9.5%	-23,395	-589,814	1,310,006	0	\$1.72

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

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6700 Dumbarton Cir.	Fremont	Facebook	111,465	New Lease
401 Kato Terrace - Bldg B	Fremont	Hyundai	72,536	New Lease
47621-47633 Westinghouse Dr	Fremont	EnerVenue	25,835	New Lease
46417-46457 Landing Pkwy, Bldg E	Fremont	Chart	19,598	Renewal*
37100-37920 Central Ct	Newark	California Brazing	17,228	Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
575 Marina Blvd	San Leandro	Bellomo Constr. Co. / Arow Marina LLC	41,000	\$17.4/\$425

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INDUSTRIAL SUBMARKETS



KEITH REICHERT

Senior Research Analyst

Tel: +1 510 267 6059

keith.reichert@cushwake.com

CUSHMAN & WAKEFIELD

555 12th St

Suite 1400

Oakland, CA 94607

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