

East Bay Pleasanton

Office R&D Q4 2020



CUSHMAN & WAKEFIELD

14.6%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

-120K

Net Absorption, SF



\$2.78

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2020

1.1M

East Bay
EmploymentYoY
Chg12-Mo.
Forecast

7.3%

East Bay
Unemployment Rate

6.7%

U.S.
Unemployment Rate

Source: BLS, Moody's Analytics
2020Q4 data are based in the latest available data

ECONOMY

The East Bay, composed of Alameda and Contra Costa counties, recorded negative job growth with nearly 124,000 jobs (-10.44%) lost year-over-year (YOY), bringing regional employment to just over 1.06 million. The labor force increased slightly, and the unemployment rate increased by 450 basis points (bps) to 7.3%, above the national average of 6.7%. The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on market fundamentals for the remainder of the year. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent research on CRE and the state of economy [here](#).

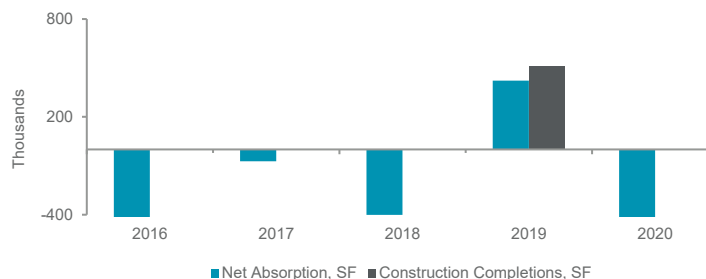
DEMAND : Leasing Diminishes After Strong 2019

Overall combined office/R&D net absorption was in the red for the quarter, totaling negative 119,805 square feet (sf), while occupancy shrank by 954,282 sf over the past 12 months. Leasing has also diminished significantly with only 171,672 sf of activity in the fourth quarter. This sharp drop can be attributed to ongoing shelter in place orders across the East Bay. Fourth quarter losses in occupancy were largely due to three major blocks of space hitting the San Ramon market at 2600 Camino Ramon – supplemented by a host of smaller spaces. The net absorption in the R&D market in the fourth quarter totaled negative 12,699 sf with most of the givebacks occurring in the Dublin & Pleasanton submarkets. At this point, 174,960 sf of leased space is expected to be occupied in the first quarter of 2021 with 201,328 sf likely to be vacated; however, these numbers could change significantly due to ongoing economic issues. In any case, it is anticipated that net absorption will struggle to move back into the black in the coming quarters.

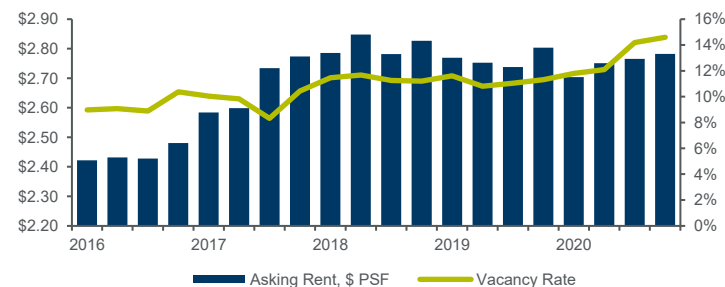
SUPPLY: Vacancy Continues to Rise

East Bay Pleasanton office/R&D market vacancy increased to 14.6% in the fourth quarter of 2020, an uptick of 40 bps quarter-over-quarter (QOQ) while up 330 bps year-over-year (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 quiet leasing activity. Overall vacancy is up sharply for the year driven by sublease space that continues to hit the market, with 1,430,693 sf currently available, an increase of 71% in just the last 12 months. The abundance of sublease space and direct space becoming available is evidence that companies are less because they are closing more due to the uncertainty of the future space requirements in a post-pandemic world.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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PRICING: Asking Rents See Slight Uptick

Asking rents in East Bay Pleasanton experienced a slight uptick in the fourth quarter, closing at \$2.78 per square foot (psf) on a monthly full-service basis, up \$0.01 QOQ and down \$0.02 YOY. Dublin recorded the largest increase in asking rents, closing at \$2.48 psf at the end of the fourth quarter, representing a 1.6% QOQ increase. The Dublin submarket accounts for about 11% of the market's total building base; thus, fluctuations in its asking rents can be 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 cause asking rents to remain flat or drop slightly over the next few quarters.

Sales

Investment activity managed more movement in the fourth quarter, with four significant transactions signed. Blackstone Real Estate purchased 329,714 sf for \$83 million or \$252 psf at 6933 Preston Ave in Livermore. Cybernoor holdings purchased 6,607 sf building at 5502 Sunol Blvd for \$2.8 million or \$416 psf. AXHG Infinity purchased 4,908 sf at 2270 Camino Ramon for \$1.8 million or \$369 psf from the Gresham Family Trust. Lastly, First Class Signing Services purchased 4,800 sf at 3156 Constitution Dr for \$1.6 million from Redwood Property Investors.

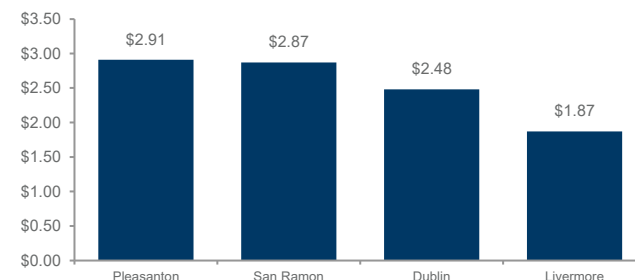
Look Ahead

The East Bay Pleasanton market has been overshadowed of late by the more convenient transit-oriented markets such as Oakland and Walnut Creek. As public transit becomes less viable for commuters, at least in the near-term, suburban markets can become strategic areas to occupy office space. To compliment this; more companies are implementing work-from-home policies which will entice tenants to have more accessible offices for their employees.

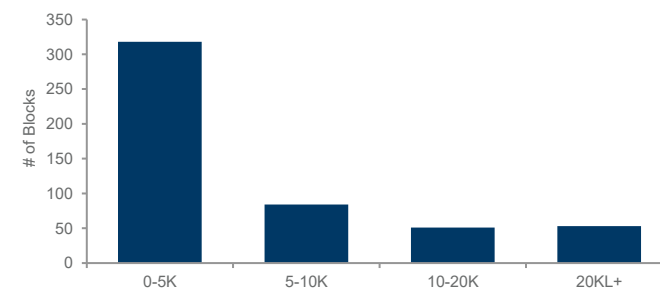
Outlook

- Rents are expected to level out or pull-back in the next twelve months as activity continues at a sluggish pace.
- Vacancy was elevated in the third quarter and will likely remain that way in the near-term as the market adjusts to the economic effects of COVID-19.
- Leasing activity will remain sluggish in the fourth quarter and into early 2021.

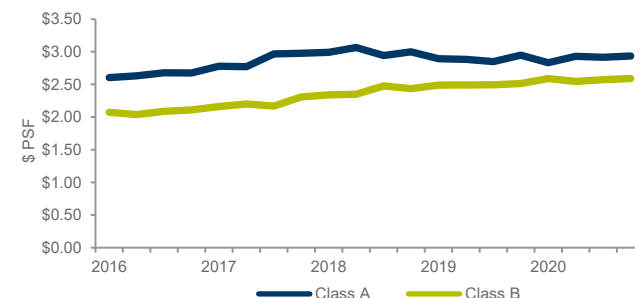
SUBMARKET ASKING RENT



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	3,265,412	180,232	249,600	13.24%	-53,095	-23,097	136,195	0	\$2.48	\$2.50
San Ramon	8,596,972	738,381	1,004,365	20.3%	-367,875	-505,632	257,219	0	\$2.87	\$2.94
Pleasanton	12,939,210	475,745	1,320,053	13.9%	-176,700	-404,707	487,799	0	\$2.91	\$3.06
Livermore	4,194,280	36,335	230,338	6.4%	74,533	-20,846	177,114	0	\$1.87	\$2.62
CLASS BREAKDOWN										
Class A	15,190,296	1,307,407	1,728,261	20.0%	-97,193	-597,747	603,045	0	\$2.94	-
Class B	5,156,653	46,234	566,801	11.9%	-7,541	-109,784	-	0	\$2.59	-
Office / Flex	7,182,195	76,249	464,987	7.5%	-12,699	-37,011	217,026	0	\$1.70	-
TOTALS	28,995,874	1,430,693	2,804,356	14.6%	-119,805	-954,282	1,058,327	0	\$2.78	\$2.93

*Rental rates reflect full service asking

KEY LEASE TRANSACTION Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6210 Stoneridge Mall Rd.	Pleasanton	Undisclosed	89,846	Direct
7401-7555 Southfront Rd.	Livermore	Undisclosed	26,924	Direct
5601 Arnold Rd.	Dublin	Therapeutic Pathways	13,455	Direct
7901 Stoneridge Dr.	Pleasanton	Henry Schein	4,350	Direct

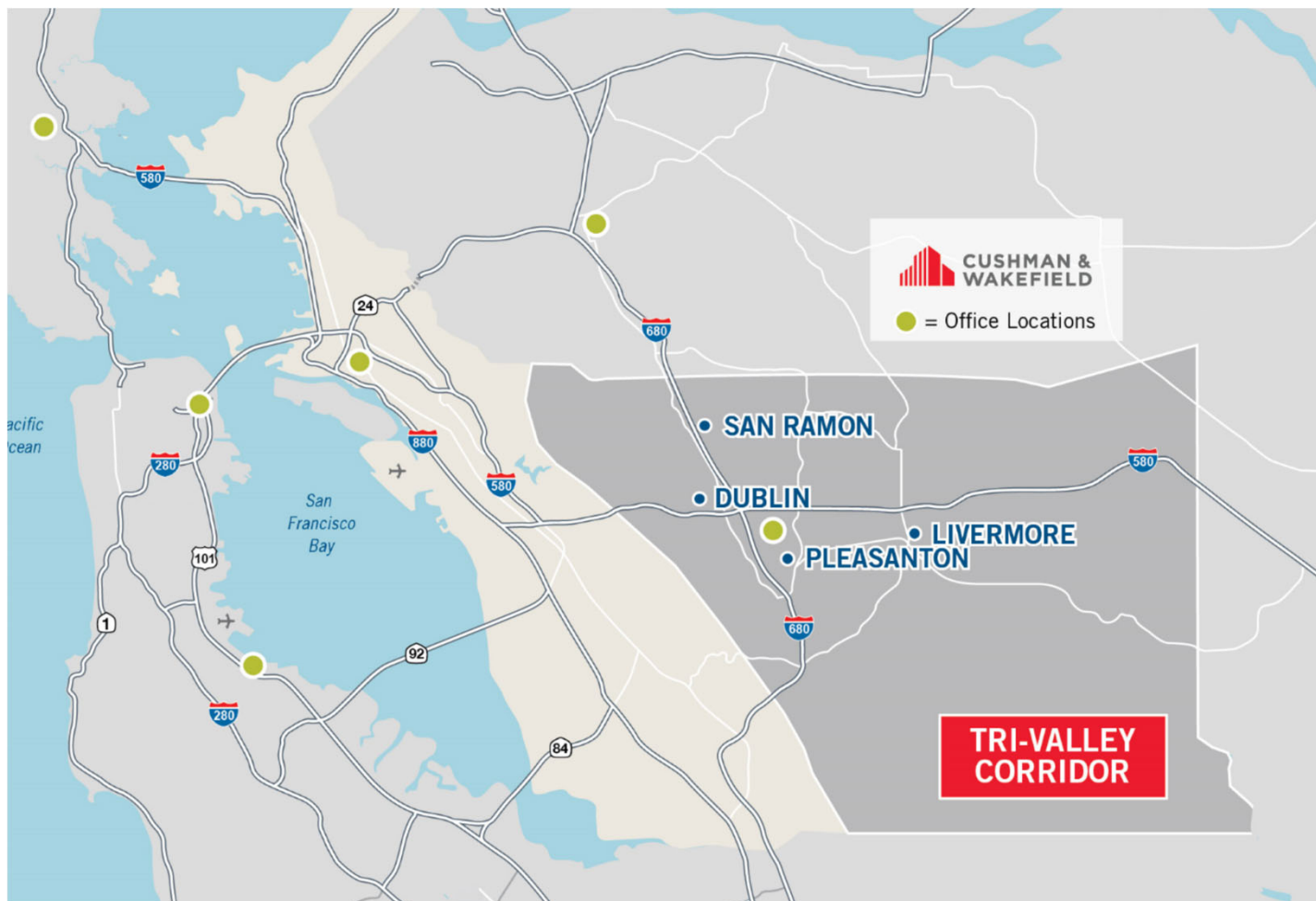
*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
6933 Preston Ave	Livermore	Iron Mountain Inc. / Blackrock Real Estate	329,714	\$83.1M/\$252
5502 Sunol Blvd.	Pleasanton	Elizabeth R Spitters / Cybernoor Holdings	6,607	\$2.8M/\$416
2270 Camino Ramon	San Ramon	Gresham Family Trust / AXHG Infinity	4,908	\$1.8M/\$369

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