

East Bay Pleasanton

Industrial Q2 2021

	YoY Chg	12-Mo. Forecast
8.1% Vacancy Rate	▲	▼
103K Net Absorption, SF	▲	▲
\$0.85 Asking Rent, PSF	▼	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2021

	YoY Chg	12-Mo. Forecast
1.1M East Bay Employment	▲	▲
6.3% East Bay Unemployment Rate	▼	▼
5.9% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2021Q2 data are based in the latest available data

ECONOMY: The COVID-19 Impact

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with over 68,000 jobs (+6.7%) obtained year-over-year (YOY), bringing regional employment to just over 1.08 almost 1.10 million. With this growth, the unemployment rate correspondingly dropped 760 basis points (bps) to 6.3%, slightly above the national rate of 5.9%. Upon the arrival of COVID-19 in the U.S., the economy entered a historically unprecedented recession in March of 2020. In the East Bay, consumer services industries were severely impacted, particularly the restaurant and retail sectors. The commercial real estate market saw a decline in office occupancy levels due to government shelter-in place orders, while the warehousing and distribution sector recorded consistent growth due to increasing consumer reliance on online marketplaces. The recovery began in the late Spring of 2020 at a slow clip because of uncertainty regarding a vaccine timeline for the novel disease. With the advent of reliable vaccines in early 2021, the road to full recovery has become clearer and California has begun the reopening of the economy.

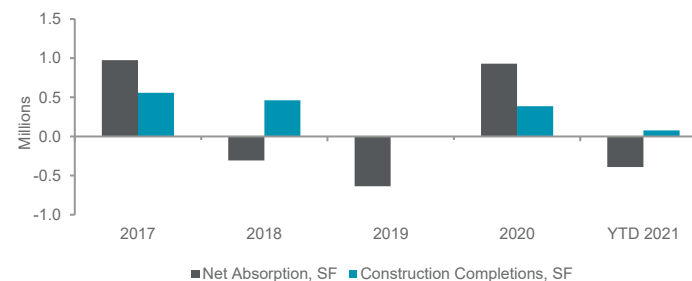
DEMAND: Second Quarter Moves Into the Black

The East Bay Pleasanton market experienced a modestly positive second quarter with net absorption moving into the black by 102,940 square feet (sf), with most of the move-ins occurring in Livermore. With minimal givebacks this quarter, existing large blocks were still relatively scarce. Historically, the East Bay Pleasanton tenant mix has been composed of large-block corporate users and with just five listings over 100,000 sf available for immediate occupancy, there is limited inventory available to satisfy demand in that larger size range. This has created a bottleneck for tenants that might look to migrate to or expand in the market thus leading to a shrinking list of active tenant requirements over the last several quarters. Moreover, there has been an increasing supply of large-block availabilities in East Bay Oakland which, with flattening rents there, has corresponded to a decline in industrial users from that market searching for space in East Bay Pleasanton.

SUPPLY: Vacancy Sees Slight Downtick

Vacancy in the East Bay Pleasanton industrial market was 8.1% at the end of the second quarter, having decreased 40 bps from the first quarter though up 180 bps YOY. The decline quarter-over -quarter (QOQ) was attributed to Livermore—which constitutes 80% of the industrial market's inventory – with its vacancy rate seeing a drop of 60 bps QOQ. With only one significant giveback in the second quarter, the vacancy decrease was supplemented by a total of 94,963 sf of positive occupancy growth.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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PRICING: Asking Rents Remain Stagnant

Asking rents at the close of the first second quarter were \$0.85 per square foot (psf) on a monthly triple-net basis, which has remained flat from the first quarter and was up \$0.05 YOY. Asking rents averaged annual increases of 11.6% between 2013 and 2017, peaking at \$1.08 psf in the third quarter of 2017 and have plateaued due to relatively stable leasing activity and occupancy. In previous years, East Bay Pleasanton has attracted spillover demand from the nearby East Bay Oakland market, where rent growth has been more pronounced. As rents are beginning to level off in that market, there are no significant relocation or expansion requirements currently being tracked. With vacancy forecasted to remain relatively constant in the coming year, average asking rental rates should follow a similar path.

Sales

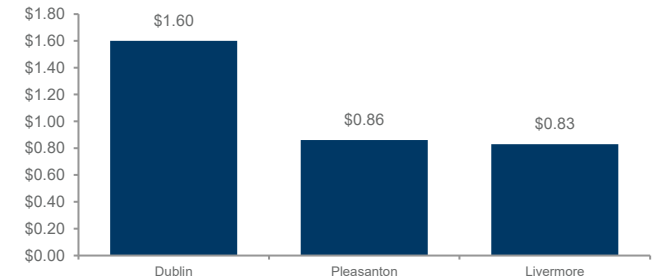
The investment market recorded rather strong activity in the second quarter, with three significant transactions signed. Ellion Partners purchased 393,931 sf for \$97.3 million or \$247 psf at 4225 Hacienda Dr in Livermore from Dermody Properties. Stockbridge Capital purchased 111,172 sf at 6013 Las Positas Rd in Livermore \$23.9 million or \$215 psf. Lastly, Steve Novenstein purchased 21,568 sf at 5593 La Ribera from Freels & Padilla Real Estate for \$3.2 million or \$148 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 even with additional availability there at rents that have flattened, prices remain steeper in those nearby markets thus the more price sensitive East Bay tenants may focus their future attention on less costly East Bay Pleasanton. E-Commerce and various distribution facilities, like in almost all industrial markets, will continue to drive any demand.

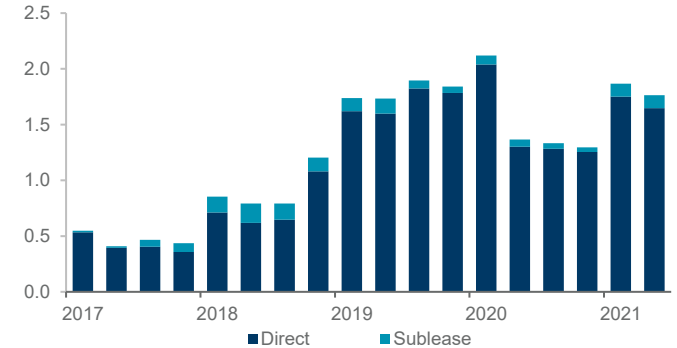
Outlook

- Current vacancy is 8.1% in the East Bay Pleasanton industrial market and is expected to remain at its current rate or decrease slightly as the market adjusts to a post-pandemic economy.
- Leasing activity is expected to bounce back in the remainder of 2021 as industrial requirements continue to be strong.
- Rents closed the quarter at \$0.85 psf and are expected to remain relatively flat to slightly elevated over the next twelve months.

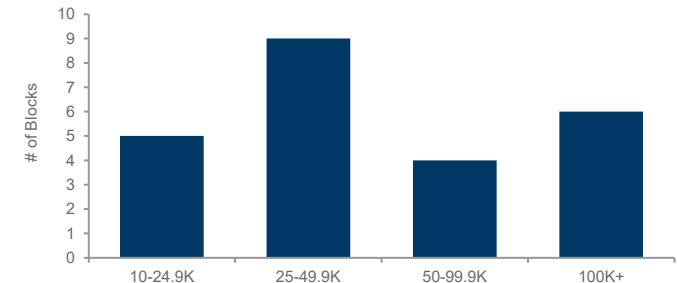
SUBMARKET ASKING RENT



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



AVAILABILITIES BY SEGMENT SIZE



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 WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL AVG ASKING RENT
Dublin	1,758,840	22,882	1.3%	1,671	12,625	0	0	\$1.60	\$1.53	\$1.60
Pleasanton	2,639,934	356,392	13.5%	6,834	-80,119	0	0	\$1.43	\$0.85	\$0.86
Livermore	17,505,361	1,384,928	7.9%	94,963	-323,117	0	0	\$0.90	\$0.82	\$0.83
Total	21,904,135	1,764,202	8.1%	102,940	-391,139	0	0	\$1.11	\$0.83	\$0.85

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
7364 Marathon Dr.	Livermore	Undisclosed	191,952	Direct
6909 Las Positas	Livermore	Undisclosed	46,080	Direct
7650 Marathon Dr.	Livermore	Undisclosed	25,344	Direct

*Renewals not included in leasing statistics

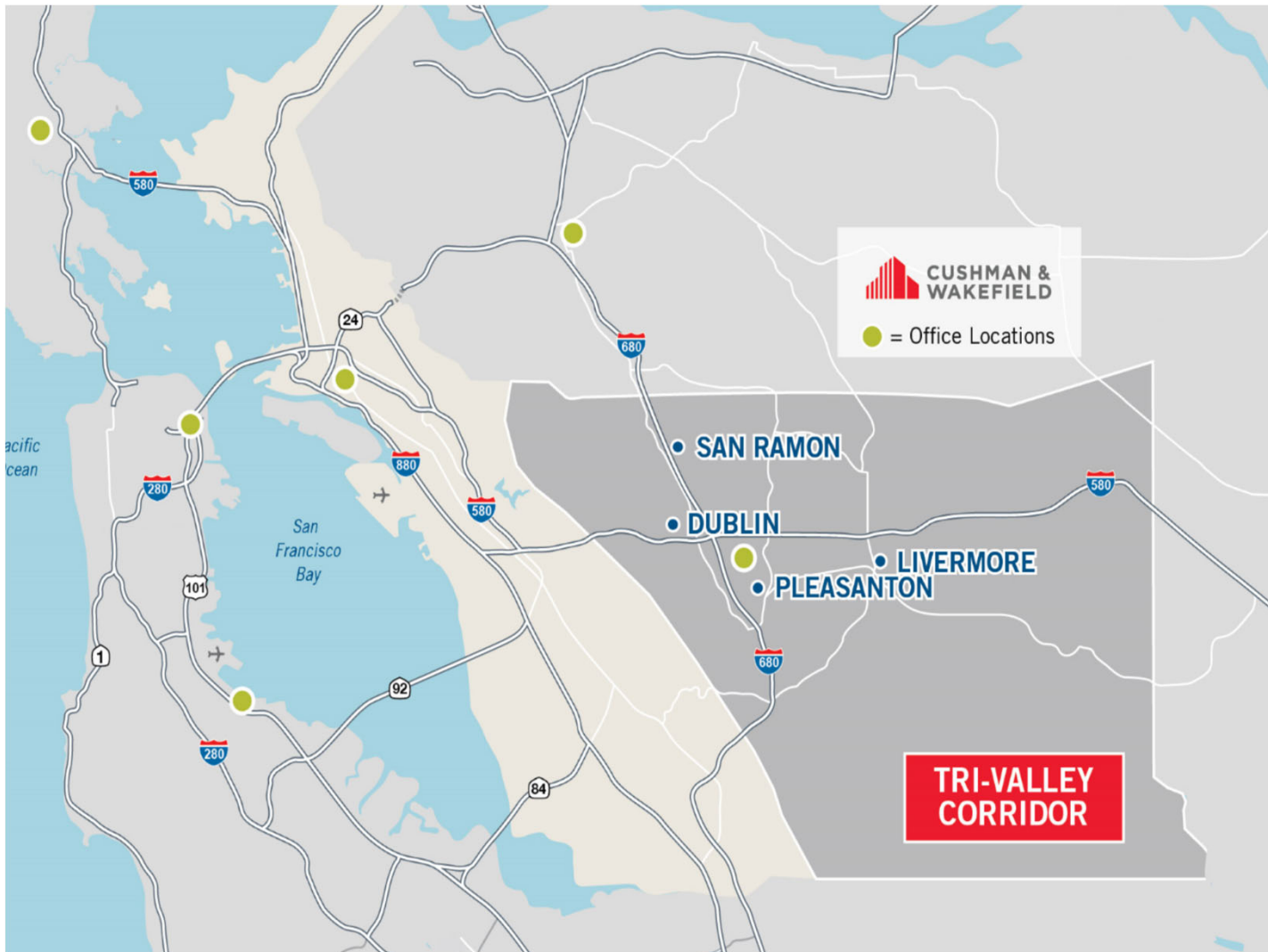
KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
4225 Hacienda Dr.	Pleasanton	Dermody Properties / Ellion Partners	393,931	\$97.3M / \$247
6013 Las Positas Rd.	Livermore	Scannell Properties / Stockbridge Capital	111,172	\$23.9M / \$215
5593 La Ribera St.	Livermore	Back Country Holdings / Steve Novenstein	21,568	\$5.8M / \$267

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INDUSTRIAL SUBMARKETS



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