

East Bay Pleasanton

Office R&D Q3 2021

	YoY Chg	12-Mo. Forecast
15.4% Vacancy Rate	▲	▲
208K Net Absorption, SF	▼	▼
\$2.76 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
1.1M East Bay Employment	▲	▲
6.1% East Bay Unemployment Rate	▼	▼
5.2% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2021Q3 data are based in the latest available data

ECONOMY

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with over 35,000 jobs (+3.9%) obtained year-over-year (YOY), bringing regional employment to just under 1.10 million. With this growth, the unemployment rate correspondingly dropped 450 basis points (bps) to 6.1%, above the national rate of 5.2%. 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.

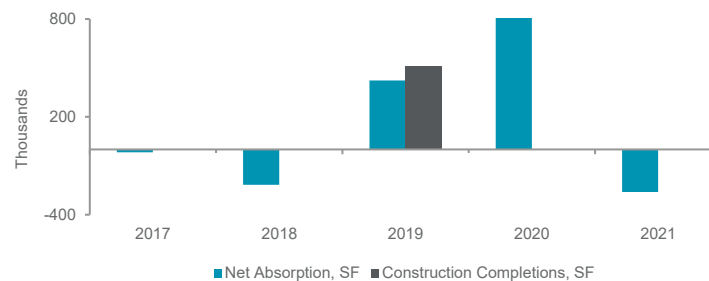
DEMAND : Leasing Activity Shows Signs of Recovery

Overall combined office/R&D net absorption was in the black for the quarter, totaling 207,580 square feet (sf), while being in the red by a negative 1,054,265 sf over the past 12 months. Leasing, meanwhile, experienced a slight decline with 144,229 sf of activity in the third quarter. Net absorption in the R&D market in the third quarter totaled negative 44,132 sf with most of the givebacks occurring in the Dublin & Pleasanton submarkets. At this point, 126,321 sf of leased office and R&D space is expected to be occupied in the fourth quarter of 2021 with 368,286 sf likely to be vacated; however, these numbers could change significantly due to the ongoing economic issues. In any case, it is anticipated that net absorption will slowly improve in the coming quarters.

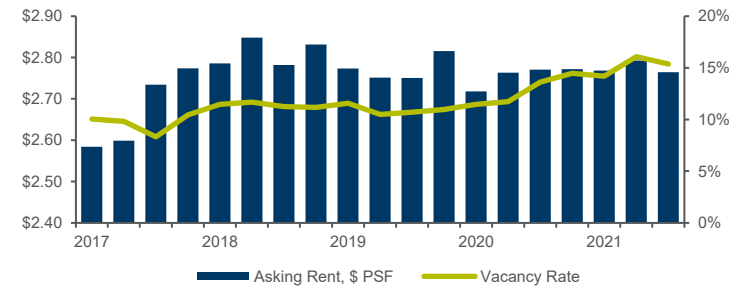
SUPPLY: Vacancy Remains Stagnant

East Bay Pleasanton office/R&D market vacancy decreased to 15.4% in the third quarter of 2021, a decrease of 70 bps quarter-over-quarter (QOQ) while still up 180 bps year-over-year (YOY). The decrease in vacancy can be attributed to the 350,573 sf being occupied in San Ramon in the third quarter. The YOY decrease has been driven by a decrease in sublease space, with 1,192,854 sf currently available, a decrease of 7.1% in just the last 12 months. An abundance of sublease space and direct space available remains on the market though the recent decline in the vacancy rate is a likely sign that the road to recovery has begun in earnest.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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PRICING: Asking Rents See Slight Downtick

Asking rents in East Bay Pleasanton experienced a slight decline in the third quarter, closing at \$2.76 per square foot (psf) on a monthly full-service basis, down \$0.03 QOQ and down \$0.01 YOY. Livermore recorded the largest increase in asking rents, closing at \$2.01 psf at the end of the third quarter, representing an 8.0% QOQ increase. Dublin recorded the largest decrease in asking rents, closing at \$2.38, representing a 3.3% QOQ decrease. The Dublin submarket accounts for about 15% 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 there remain near the high watermark of \$2.84 psf set in the second quarter of 2018. That said, limited leasing activity and elevated available space will likely cause asking rents to remain flat or drop slightly over the next few quarters.

Sales

Investment activity experienced quiet sales activity in the third quarter, with three major transactions signed. Bay Area Association of SMCNA purchased 13,098 sf for \$4.8 million or \$366 psf at 6685 – 6689 Owens Dr in Pleasanton; NSBK LLC purchased a 13,200 sf building at 3174 Constitution Dr for \$3.6 million or \$273 psf; and Westco Concannon LLC also purchased 9,042 sf building at 1062 – 1080 Concannon Blvd for \$3.1 million or \$343 psf.

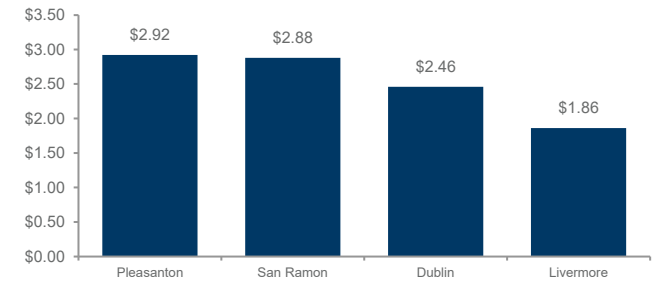
Look Ahead

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 for employers to open satellite offices. To compliment this, more companies are implementing remote work policies which may, in turn, entice tenants to have more accessible part-time offices for their employees.

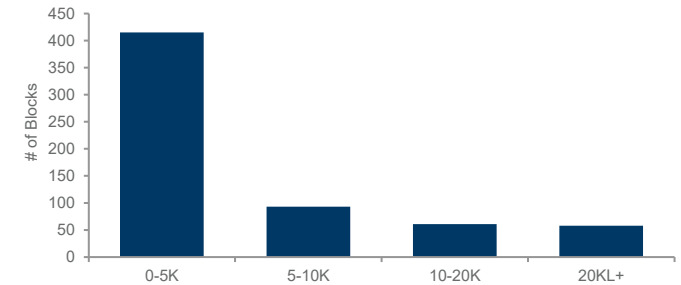
Outlook

- Rents are expected to level out or decline slightly in the next twelve months.
- Vacancy experienced a slight downtick in the third quarter and will likely remain somewhat flat in the near-term as the market adjusts to a post-pandemic economy.
- Leasing activity will remain sluggish through at least mid to late year 2021 the remainder of the year.

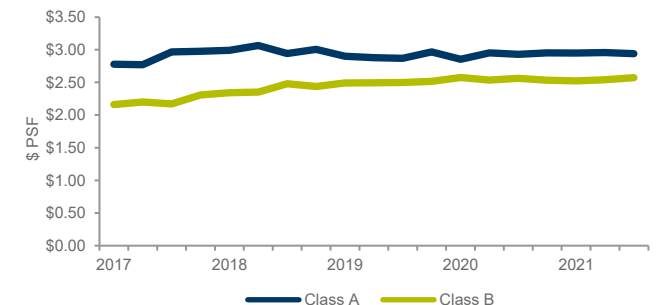
SUBMARKET ASKING RENT



AVAILABILITY BY SEGMENT SIZE



AVERAGE ASKING RENT BY CLASS (FULL SERVICE)



East Bay Pleasanton

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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	179,429	147,255	10.0%	951	21,666	39,871	0	\$2.38	\$2.39
San Ramon	8,596,972	404,287	1,298,895	19.8%	350,573	33,623	107,825	0	\$2.88	\$2.94
Pleasanton	12,941,340	511,981	1,514,786	15.7%	-78,713	-252,023	359,670	0	\$2.88	\$3.06
Livermore	4,194,280	97,157	301,746	9.5%	-65,231	-64,874	21,890	0	\$2.01	\$2.73
CLASS BREAKDOWN										
Class A	15,190,296	941,223	2,022,942	19.5%	345,678	-71,196	-	0	\$2.94	-
Class B	5,158,783	166,149	643,543	15.5%	-94,076	-134,191	-	0	\$2.57	-
Office / Flex	7,182,195	85,482	562,107	9.0%	-44,132	-58,241	-	0	\$1.72	-
TOTALS	28,998,004	1,192,854	3,262,682	15.4%	207,580	-261,608	529,256	0	\$2.76	\$2.94

*Rental rates reflect full service asking

KEY LEASE TRANSACTION Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6200 Stoneridge Dr.	Pleasanton	Undisclosed	21,196	Direct
4160 Dublin Blvd.	Dublin	Undisclosed	16,400	Direct
1410-1418 Stealth St.	Livermore	Undisclosed	15,970	Direct
6200 Stoneridge Mall Rd.	Pleasanton	Collaborative Solutions	13,836	Direct

*Renewals not included in leasing statistics

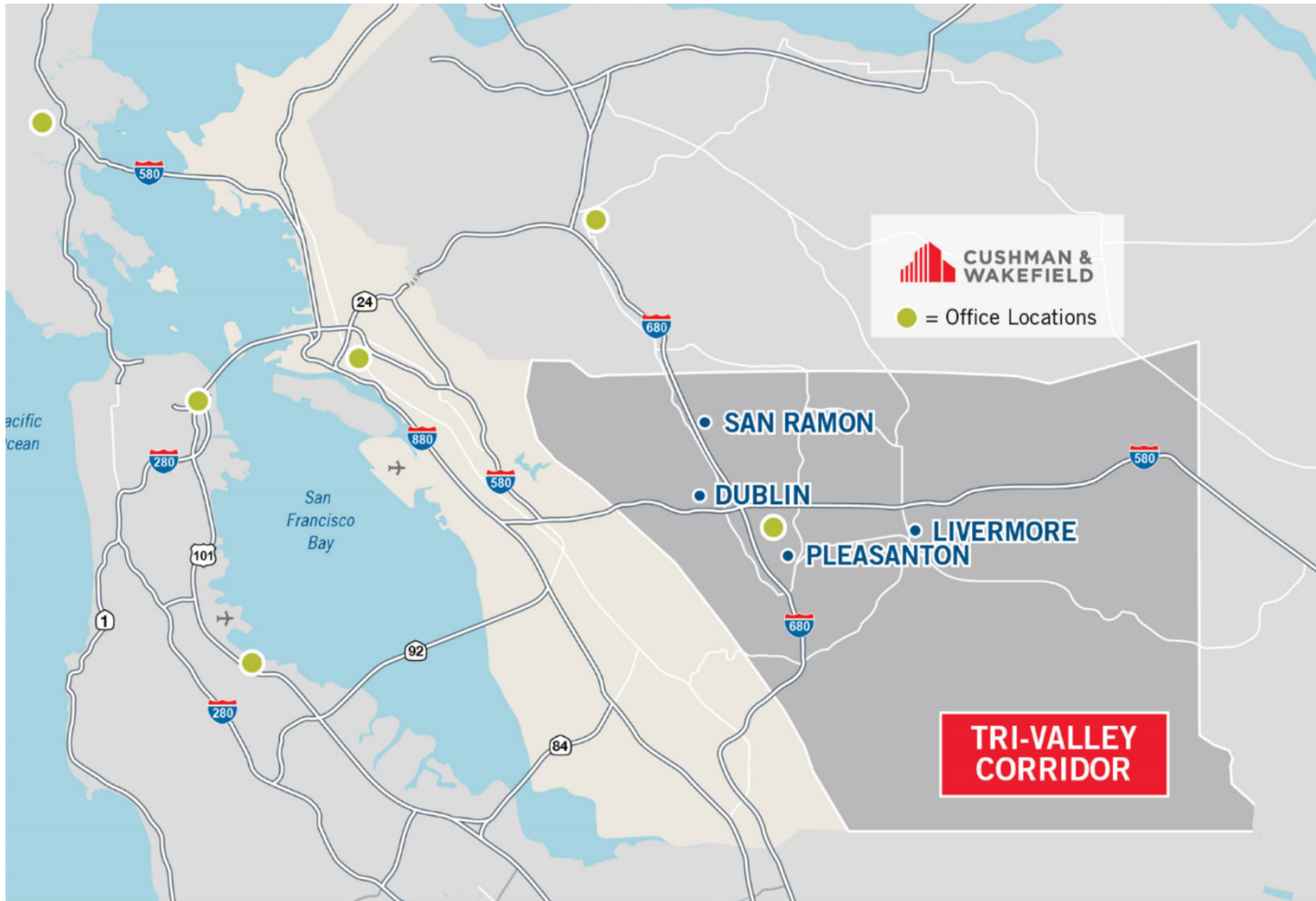
KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
6685-6689 Owens Dr.	Pleasanton	PCCR LLC / Bay Area Association of SMACNA	31,834	\$4.8M/\$369
3174 Constitution Dr	Livermore	Redwood Property Investors / NSBK LLC	13,200	\$3.7M/\$275
1062-1080 Concannon Blvd.	Livermore	Quinn Family Trust / Westco Concannon LLC	9,042	\$3.1M/\$343

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OFFICE SUBMARKETS



Brandon Bissada

Research Analyst

Tel: +1 510 891 5807

Brandon.Bissada@cushwake.com

Wescott Owen

Research Manager

Tel: +1 415 451 2418

Wescott.Owen@cushwake.com

CUSHMAN & WAKEFIELD

1333 N California Blvd

Suite 500

Walnut Creek, CA 94596

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