

Industrial Q4 2021

	YoY Chg	12-Mo. Forecast
4.0% Vacancy Rate	▼	▼
862K Net Absorption, SF	▲	■
\$1.06 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
1.1M East Bay Oakland Employment	▲	▲
5.8% East Bay Oakland Unemployment Rate	▼	▼
4.2% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics.
2021Q4 data are based on latest available data.

ECONOMY: California Reopening Stumbles, Industrial Does Not

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 31,000 jobs added year-over-year (YOY), bringing regional employment to nearly 1.11 million. This translated to an unemployment rate of 5.8%, a decline of 210 basis points (bps) from the same period in 2020. Widespread vaccinations led to California reopening in June of 2021, with local governments easing shelter-in-place orders, mask mandates, and social distancing. However, a spike in cases late in the fourth quarter, driven by the new Omicron variant, has led to the reintroduction of mask mandates and additional safety measures across much of the country. In the East Bay, industrial property markets have been largely unaffected by the pandemic pressures that have weighed so heavily on the office and retail sectors. In fact, the market recorded its strongest year of leasing activity since 2016 with vacancy down and asking rates at a market high.

SUPPLY: Vacancy Hinges on New Construction

The vacancy rate in the East Bay Oakland industrial market was just 4.0% at the close of 2021, down 100 bps YOY despite over 2.4 million square feet (msf) of new construction, the majority of which delivered on a speculative basis. Vacancy for manufacturing space was a scant 3.2% in the fourth quarter as a lack of new inventory has placed significant downward pressure on vacancy. By comparison, the market for warehouse space is closer to reaching an equilibrium with vacancy for this product type level with the first quarter of 2021. Strong tenant demand is contending with a robust development pipeline, which has recorded minimal preleasing activity. 13.5% of vacant industrial space was accounted for in just two recently delivered properties. However, new construction does not sit vacant for long as tenants desire the elevated clear heights, high dock door ratio and well configured truck courts that can be hard to find in existing inventory. As the market for large block space fluctuated with new construction, availability in the smaller size ranges continued to tighten. The number of availabilities between 10,000 and 100,000 sf was down 45% from this time last year as a growing tenant base competed for space.

PRICING: Demand Drives Higher Rents

The average asking rate for East Bay industrial closed the fourth quarter at \$1.06 per square foot (psf) on a monthly triple net basis, an increase of \$0.07 psf from the prior quarter and \$0.11 YOY. This significant jump in pricing can be attributed to several factors. The first is the rising proportion of new construction as a percentage of total vacancy. The Richmond submarket saw vacancy rise 280 bps and the asking rent jump to a market high of \$1.14 psf with just shy of 700,000 sf of new construction delivered over the course of 2021. While new construction has pulled up rents, there has also been a sustained increase in pricing for existing inventory. Strong demand for traditional warehouse space has allowed landlords to push rates across the I-880 corridor with average asking rate up YOY for every submarket but Emeryville (which has the market's smallest inventory). The submarkets of Newark and Fremont have recorded particularly steep increases in asking rents, closing the fourth quarter at \$1.31 and \$1.34 psf, respectively. These submarkets, given their proximity to both the East and South Bay, are increasingly popular for advanced manufacturing uses that have driven rental growth in that product type. Amidst strong tenant demand and a significant development pipeline, asking rates are expected to hold at market highs.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DEMAND: Despite Pandemic, Market Continues to Grow

The East Bay industrial market recorded its sixth consecutive quarter of positive net absorption, bringing total net absorption for 2021 to 4.2 msf, or 2.3% of total industrial inventory. This net absorption has been driven by strong leasing, with full year gross absorption totaling 12.4 msf, the highest level in five years. The fourth quarter was particularly strong with 12 leases inked for over 100,000 sf. Cushman & Wakefield was tracking over 5.7 msf of industrial requirements at the end of 2021, demand which is anticipated to keep absorption in the black moving into 2022.

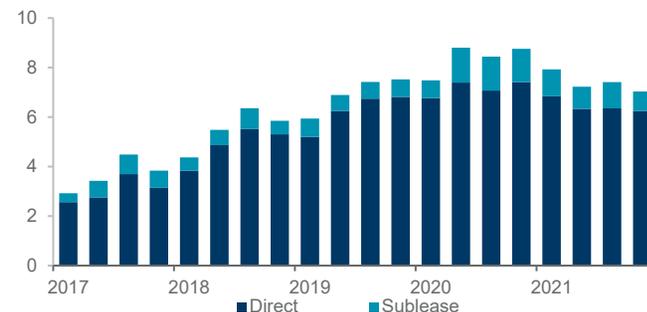
CAPITAL MARKETS: East Bay Industrial Attracts Investors

Strong market fundamentals continue to draw significant investment in the region. Of note this quarter was Fortress Investment Group's acquisition of 47550 Kato Road in Fremont. The 254,737-sf warehouse was purchased for \$80 million in a sale-leaseback from Homelegance Incorporated. Also of note was the sale of 41119 Boyce Road in Fremont, a 208,180-sf manufacturing facility purchased by CenterPoint for \$86 million. Excess land pushed the price on building square footage to \$413. As developable land becomes increasingly scarce and rental rates continue to climb, heightened investment activity is expected to carry into 2022.

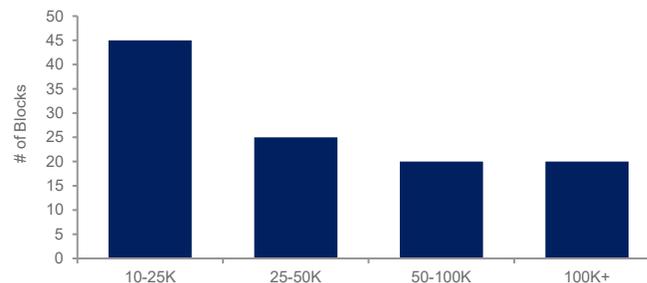
Outlook

- Asking rents at the end of the first quarter were \$1.06 psf, up \$0.07 from the third quarter of 2021. Looking forward, rent growth will continue modestly, given strong demand and new construction.
- There is over 1.5 msf currently under construction, the majority of which is available. This pipeline could create temporary spikes in vacancy, but robust tenant requirements are expected to absorb the space as it delivers throughout 2022.
- The vacancy rate was 4.0% at the end of fourth quarter, having ticked down 20 bps from the third quarter, and down 100 bps from this time last year. Vacancy is expected to hold or decline modestly into 2022 as tenant demand contends with the delivery of new construction.

DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q4 2021

MARKET STATISTICS

SUBMARKETS	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 (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Richmond	13,739,537	1,058,122	7.7%	-5,641	263,037	453,603	482,655	\$1.15	\$1.12	\$1.14
Berkeley	6,426,004	102,499	1.6%	38,466	26,244	0	0	\$1.08	\$1.49	\$1.37
Emeryville	2,661,124	114,479	4.3%	-13,090	20,739	0	0	\$1.08	\$1.03	\$1.03
Oakland	39,045,722	1,526,022	3.9%	369,350	1,144,873	534,208	0	\$1.07	\$0.83	\$0.99
San Leandro	28,575,400	1,313,825	4.6%	-158,156	-72,797	0	0	\$1.03	\$1.13	\$1.08
Hayward	39,775,744	1,402,348	3.5%	122,897	406,140	583,242	0	\$0.90	\$0.89	\$0.90
Union City	13,663,705	364,313	2.7%	188,548	419,115	0	0	\$0.90	\$1.02	\$1.00
Newark	9,707,306	371,105	3.8%	172,305	587,276	0	0	\$1.52	\$1.25	\$1.31
Fremont	23,264,564	779,561	3.4%	147,487	1,362,085	0	0	\$1.25	\$1.40	\$1.34
EAST BAY OAKLAND TOTALS	176,859,106	7,032,274	4.0%	862,166	4,156,712	1,571,053	0	\$1.03	\$1.10	\$1.06

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

MF = Manufacturing W/D = Warehouse/Distribution

*These values not reflective of the U.S. MarketBeat Tables

KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
8511 Blaine Street	Oakland	Manheim Investments Inc.	217,953	New Lease
33300 Dowe Avenue	Union City	Omni Logistics	191,868	Renewal
25509 Industrial Boulevard	Hayward	HWH Corporation	152,000	New Lease
25509 Industrial Boulevard	Hayward	Ready Spaces	144,900	New Lease
30736 - 30760 Wiegman Road	Hayward	Plastikon	142,029	New Lease
2000 Maritime Street	Oakland	Shift	116,415	New Lease

KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
2900 Main Street	Alameda	FISC Properties LLC / Swire Properties	364,378	\$41.9M / \$115
47550 Kato Road	Fremont	Homelegance, Inc. / Fortress Investment Group	254,737	\$80.0M / \$314
41095 - 41119 Boyce Road	Fremont	Mana Group / CenterPoint Properties	208,180	\$86.0M / \$413
3600 Alameda Avenue	Oakland	Owens-Brockway Glass Container / Duke Realty	116,682	\$34.4M / \$295
47951 Westinghouse Drive	Fremont	Sharp Development / Landmark Exchange Management	82,408	\$29.6M / \$359

EAST BAY OAKLAND

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INDUSTRIAL SUBMARKETS



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