

East Bay Pleasanton

Office R&D Q2 2022

15.3%
Vacancy Rate



-5.7K
Net Absorption, SF



\$2.74
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2022

1.2M
East Bay Employment



3.6%
East Bay Unemployment Rate



3.6%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2022Q2 data are based in the latest available data

Economy:

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 47,200 jobs added year-over-year (YOY), bringing regional employment to nearly 1.17 million. This translated to an unemployment rate of 3.6%, a decline of 320 basis points (bps) from the same period in 2021. After a spike in cases late in the fourth quarter of 2021 threatened to derail the Bay Area's recovery, the majority of mask and social distancing mandates were dropped in the East Bay in the first half of 2022. While the COVID-19 landscape has improved, rising inflation and economic uncertainties have presented new challenges for many office using industries. Additionally, despite cases falling, employees' desire to work from home has lingered, prompting many employers to continue rethinking their need for office space and weighing on occupancy levels.

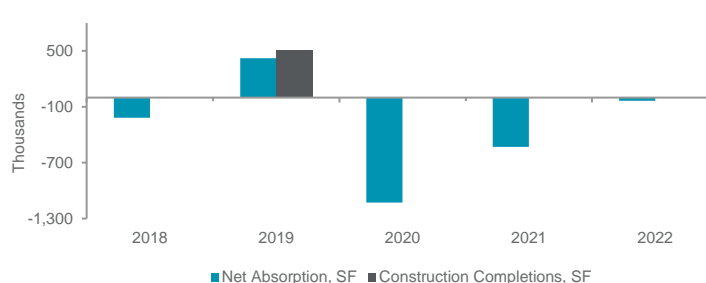
Supply: Vacancy Holds Level

Vacancy in the East Bay Pleasanton market, known as the Tri-Valley, closed the second quarter at 15.3%, approximately level with the prior quarter, the result of just 5,660 square feet (sf) of negative net absorption. Class A vacancy remained the highest by product type, at 20.6%. By comparison, vacancy was a scant 6.7% for the R&D product type, an increase of just 30 bps from its pre-pandemic level. Across the Bay Area, R&D/flex space has outperformed office space, a factor of many R&D users being unable to transition their work to remote models. This gives tenants in these industries more clarity and confidence in leasing space than traditional office users. Large block suburban office space, a significant portion of the Tri-Valley's inventory, has struggled to attract employees back into the office through much of the pandemic. However, an uptick in leasing in the second quarter could slow the persistent rise in vacancy recorded over the past two years.

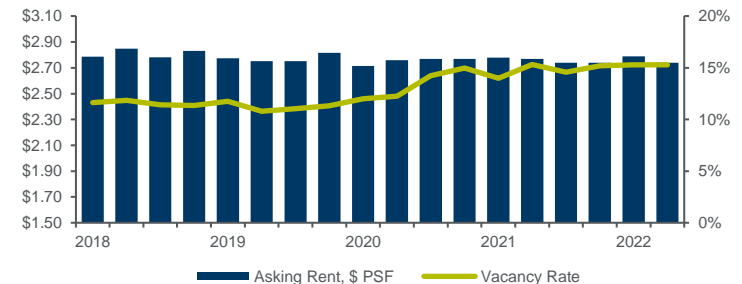
Demand: Leasing Gets a Boost

Leasing activity in the second quarter reached its highest level since the first quarter of 2020, totaling just over 385,434. The region recorded two leases over 100,000 sf, marking two of the largest transactions to occur in the greater East Bay since the beginning of the pandemic. The first was the cloud-based data storage and analytics company Snowflake, which leased 114,000 sf at 4140 Dublin Boulevard in Dublin, expanding its existing 40,000-sf footprint to occupy the entire 154,000-sf Class A building. The second was software company Vagaro, which absorbed three floors totaling 106,000 sf of sublease space at Rosewood Commons in Pleasanton. These transactions are an exciting example of suburban office growth, with tenants choosing to forgo major metros to be closer to their employee base.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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The Tri-Valley benefits from a combination of both access to public transport and significant parking, allowing employees commute flexibility. In markets like Oakland and San Francisco, heavy reliance on public transport has been a major bottleneck in getting employees to return to work, given concerns about COVID-19.

Pricing: Slight Decline in Asking Rents

Asking rents in East Bay Pleasanton experienced a slight dip in the second quarter, closing at \$2.74 per square foot (psf) on a monthly full-service basis, down \$0.05 from the prior quarter. Class A properties continued to command a significant premium, with an overall asking rate of \$3.02 psf, 34% higher than Class B. Despite a rise in vacancy, rates across the Tri-Valley have held firm throughout the pandemic as they already offer a relative discount to the neighboring Oakland and Walnut Creek submarkets.

Other News:

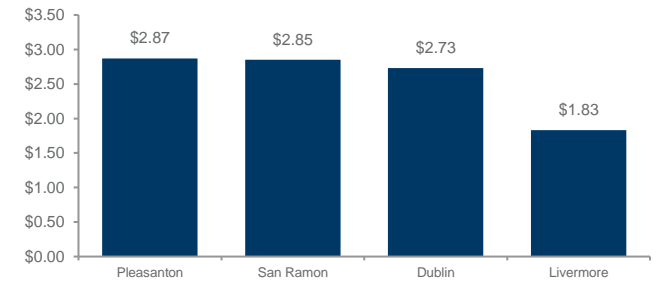
In the second quarter, Chevron, one of the region's largest employers, announced plans to sell its corporate campus in San Ramon. They plan on disposing of the 1.4 million square feet (msf) of office and downsizing their footprint while shifting a portion of their workforce to Houston. It is likely that a portion of the site will be redeveloped into other property types, but the move could place upward pressure on vacancy.

As the market tests tenants' appetite for large block suburban office, redevelopment is becoming an increasingly common play for developers. Over 500,000 sf of office in San Ramon's Bishop Ranch was demolished to build housing in early 2022, part of a larger housing boom across the market. The only new office/R&D under construction is the first phase of 10X Genomics' build-to-suit campus in Pleasanton. Approximately 150,000 sf is currently under construction.

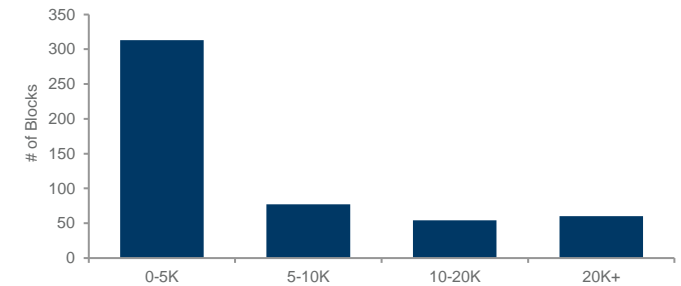
Outlook

- Rents are expected to hold relatively stable, while the market waits for full demand to return.
- Vacancy is expected to increase slightly as office users continue to evaluate their need for space.
- Office leasing activity is expected to remain below pre-pandemic levels for the near future but could see a bump from additional large tenants.

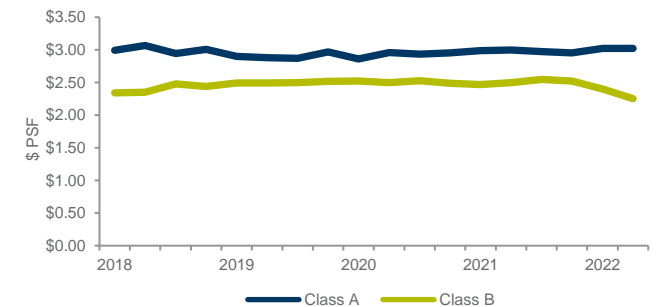
SUBMARKET ASKING RENT



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 | 3,235,611 | 205,672 | 210,978 | 12.9% | -76,972 | -57,816 | 170,504 | 0 | \$2.73 | \$3.11 |
| San Ramon | 8,061,569 | 395,164 | 1,153,039 | 19.2% | -74,513 | -98,131 | 34,009 | 0 | \$2.85 | \$3.00 |
| Pleasanton | 12,042,164 | 393,314 | 1,392,692 | 14.8% | 116,194 | 122,060 | 353,280 | 150,000 | \$2.87 | \$3.05 |
| Livermore | 4,194,280 | 94,457 | 362,820 | 10.9% | 29,631 | -879 | 62,496 | 0 | \$1.83 | \$2.60 |
| CLASS BREAKDOWN | | | | | | | | | | |
| Class A | 13,722,921 | 820,327 | 2,004,598 | 20.6% | -93,636 | -161,596 | - | 0 | \$3.02 | - |
| Class B | 5,158,783 | 166,545 | 692,620 | 16.7% | 26,261 | -20,951 | - | 0 | \$2.25 | - |
| Office / Flex | 7,185,910 | 101,735 | 378,059 | 6.7% | 60,490 | 148,120 | - | 150,000 | \$1.72 | - |
| TOTALS | 27,533,624 | 1,088,607 | 3,119,529 | 15.3% | -5,660 | -34,766 | 620,289 | 150,000 | \$2.74 | \$3.02 |

*Rental rates reflect full service asking

KEY LEASE TRANSACTION Q2 2022

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|---------------------------------|------------|-----------|---------|--------------------|
| 4140 Dublin Blvd | Dublin | Snowflake | 113,570 | Direct (Expansion) |
| 4430 Rosewood Dr – Bldg 3 | Pleasanton | Vagaro | 106,017 | Sublease |
| 5673-5675 Gibraltar Dr – Bldg B | Pleasanton | Prosomnus | 32,219 | Direct |

KEY SALES TRANSACTIONS Q2 2022

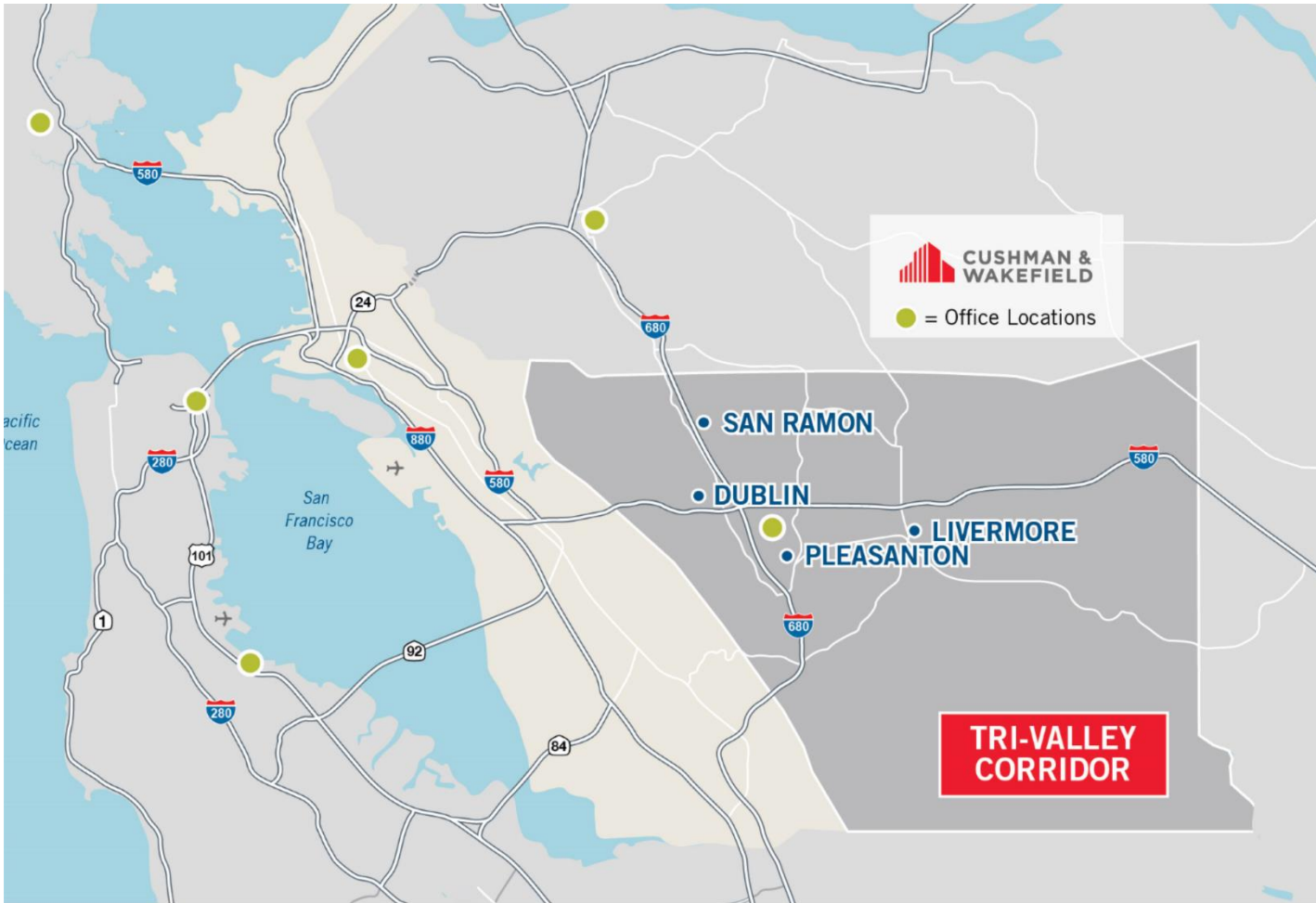
| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/\$ PSF |
|-------------------|------------|-----------------------------------------------|--------|---------------|
| 5860 Owens Dr | Pleasanton | Tenet Healthcare / Welltower Inc. | 92,075 | \$35M/\$380 |
| 4480 Willow Rd | Pleasanton | Signature Homes / REALM | 63,202 | \$13.5M/\$213 |
| 11711 Dublin Blvd | Dublin | Hexcel Corporation / Overton Moore Properties | 62,715 | \$22M/\$351 |

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OFFICE SUBMARKETS



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