

Industrial Q3 2022

3.3%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

485K

Net Absorption, SF

\$1.20

Asking Rent, PSF

Overall, Net Asking Rent

ECONOMIC INDICATORS
Q3 2022

1.2M

East Bay Oakland
Employment

3.0%

East Bay Oakland
Unemployment Rate

3.5%

U.S.
Unemployment RateSource: BLS, Moody's Analytics.
2022Q3 data are based on latest available data.

Economy: California Reopening Gains Momentum

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 42,500 jobs added year-over-year (YOY), bringing regional employment to 1.2 million. This translated to an unemployment rate of 3.0%, a decline of 290 basis points (bps) from the same period in 2021. As Covid-19 cases declined, the office sector has yet to see occupancy recover as employees continued to push for hybrid work models. Meanwhile, industrial occupiers, for which remote-work was never a viable option, have continued to expand, driving down vacancy and pushing asking rates higher. However, while market fundamentals are holding, global supply chain issues, soaring fuel costs and rising inflation could all present major headwinds to the tenants that have been driving this growth.

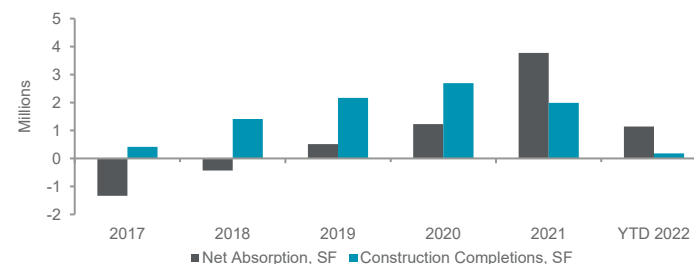
Supply: Manufacturing Falls, New Space on Horizon

The vacancy rate in the East Bay Oakland industrial market was just 3.3% at the close of the third quarter, down 90 bps YOY and 20 bps from the prior quarter. The vacancy rate for manufacturing space plummeted 100 bps throughout the third quarter to a scant 2.3%. Several significant leases commenced, with virtually no large spaces hitting the market. This left just eight manufacturing availabilities over 50,000 square feet (sf) on the market, down from 14 in the prior quarter. Warehouse vacancy ticked up in the third quarter to 4.4%, its first quarter of negative net absorption in over two years; the result of a handful of new, large block vacancies. These were concentrated in the Oakland and San Leandro submarkets, while the Richmond, Hayward, and Fremont submarkets continued to shed vacancy. Despite the rise this quarter, warehouse vacancy remained down YOY, even with 665,000 sf of speculative construction delivered over the same period. Looking ahead, construction deliveries are going to accelerate rapidly, with over 2.3 msf under construction at the close of the quarter. This will likely create a temporary spike in vacancy, although leasing activity this quarter demonstrated that there is strong demand for this new product.

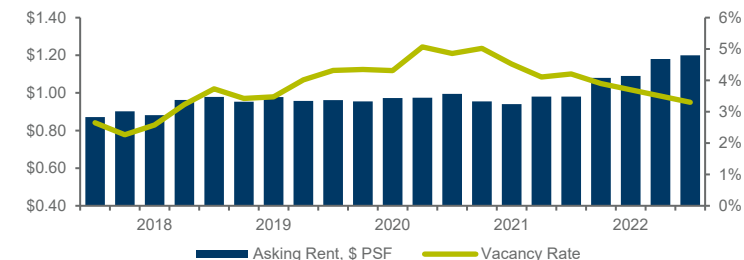
Demand: Big Tenants Taking Space

The East Bay industrial market recorded its ninth consecutive quarter of positive net absorption, with gross activity of just over 2.7 msf in the third quarter. Manufacturing tenants absorbed 900,000-sf, with major new leases signed and occupied by tenants including beverage distributor, Matagrano, for 160,000 sf in Hayward and Moxion Power for 130,000 sf at Ford Point in Richmond. Rivian signed the largest lease of the quarter, preleasing both buildings at Dermody's LogistiCenter @ Hwy 92. The project totals 353,653 SF and is expected to deliver in the third quarter of 2023. Ceva Logistics signed a lease for all 157,725 sf at 24493 Clawiter Road in Hayward, a new warehouse currently under construction, further propelling preleasing activity. This rise in pre-leasing is a shift for the market, which had historically seen a one to two quarter lag time between delivering and leasing. With a significant rise in inventory on the horizon, early demand for these spaces can help moderate short term increases in vacancy.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Industrial Q3 2022

Despite global headwinds, the market was still experiencing healthy demand with Cushman & Wakefield tracking 41 industrial tenants for a total of 4.4 msf at the end of the quarter.

Pricing: Demand Drives Higher Rents

The average asking rate for East Bay industrial closed the third quarter at a record \$1.20 per square foot (psf) on a monthly triple net basis, up \$0.02 from the prior quarter and \$0.22 YOY. The asking rate for manufacturing space jumped to \$1.31 psf in the third quarter, as net absorption was strongest in the market's lower priced submarkets. This left a higher portion of vacant inventory in the Fremont and Newark submarkets which had average manufacturing rates of \$1.55 and \$1.70 psf, respectively. Warehouse asking rates recorded a slight decline from the prior quarter, but at \$1.14 psf, remain up \$0.21 YOY. Warehouse rates are expected to rise as new construction delivers, with projects currently under construction at a much higher basis than prior cycles. As a result, well located, Class A distribution space is asking and transacting upwards of \$1.35 psf. Strong demand has also been a driver of pricing, allowing landlords to push asking rates on dated, existing inventory. While asking rates varied by product type and submarket, a major trend across the East Bay has been an increase in annual rental escalations. A growing portion of new leases have escalations above 3%, which had long been the market standard. As rental rates continue to rise and inflation hits a record high, landlords are looking to sign leases today that will not fall behind the market.

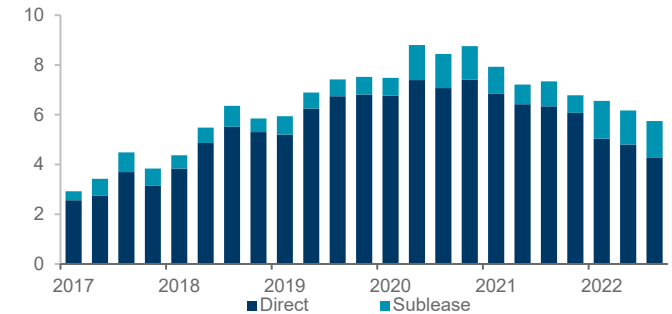
CAPITAL MARKETS: East Bay Industrial Investment Slows

Rising interest rates are influencing investment activity in the East Bay, with transaction activity down from the prior quarter. Additionally, higher construction and financing costs, and higher terminal cap rates, have put downward pressure on land values. That said, the scarcity of developable land and strong market fundamentals continued to draw investment. The largest transaction of the quarter was Ark Row's purchase of two adjacent buildings on Merced Street in San Leandro, paying \$42.9 million for the combined 135,150 sf. Also of note was EverWest's purchase of 2480 Baumann from Custom Freight Systems. EverWest paid \$34.8 million or \$286 psf for the 121,686-sf warehouse property. Despite activity slowing, investors have capital to deploy, and the East Bay industrial market remains an attractive option.

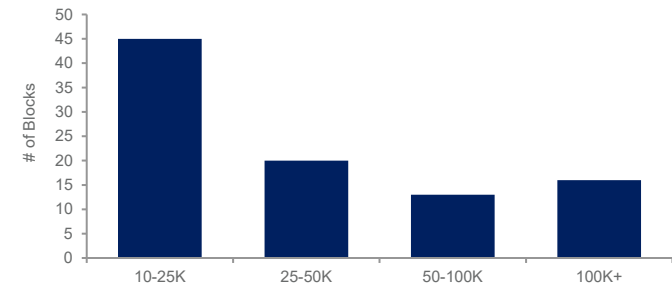
Outlook

- Asking rents at the end of the third quarter were \$1.20 psf. Looking forward, rent growth will likely slow, although new construction could place upward pressure on pricing.
- There is just over 2.3 msf currently under construction, the majority of which is available. This pipeline will likely create temporary spikes in vacancy, but strong preleasing demand can offset some of the vacant deliveries.
- Rising interest rates present a significant headwind to investment, but the East Bay Oakland market is expected to continue drawing investment activity.

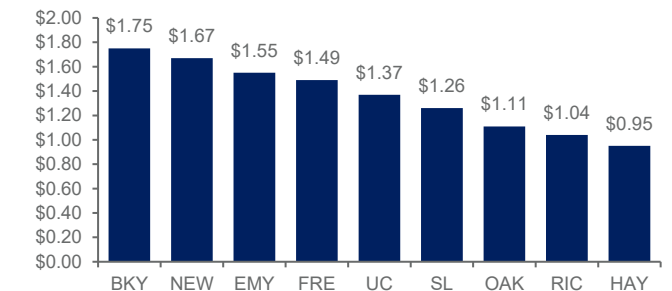
DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)





Industrial Q3 2022

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	13,728,959	704,907	5.1%	234,479	456,952	517,153	0	\$1.00	\$1.16	\$1.04
Berkeley	6,344,936	69,409	1.1%	-18,248	33,090	0	0	\$2.83	\$1.49	\$1.75
Emeryville	2,612,223	90,088	3.4%	0	-73,003	0	0	\$1.56	\$1.52	\$1.55
Oakland	38,132,104	1,525,749	4.0%	-120,703	13,401	534,208	58,530	\$1.15	\$1.02	\$1.11
San Leandro	28,325,245	1,210,254	4.3%	-129,690	72,604	0	0	\$1.23	\$1.30	\$1.26
Hayward	39,298,618	1,064,968	2.7%	253,343	257,604	901,186	0	\$0.91	\$1.22	\$0.95
Union City	13,664,513	198,426	1.5%	70,101	178,833	0	0	\$1.35	\$1.48	\$1.37
Newark	9,793,927	175,475	1.8%	121,680	184,283	0	0	\$1.52	\$1.70	\$1.67
Fremont	23,280,236	707,654	3.0%	74,412	16,672	379,520	0	\$1.35	\$1.55	\$1.49
EAST BAY OAKLAND TOTALS	175,180,761	5,746,930	3.3%	485,374	1,140,436	2,332,067	58,530	\$1.14	\$1.31	\$1.20

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

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
LogistiCenter @ Hwy 92: Buildings 1 & 2	Hayward	Rivian	353,653	New Lease
2900 Atlas Road	Richmond	Restoration Hardware	200,000	Renewal
25858 Clawiter Road	Hayward	Matagrano	160,000	New Lease
24493 Clawiter Road	Hayward	Ceva Logistics	157,725	New Lease
Ford Point	Richmond	Moxion Power	130,204	New Lease
6065 Giant Highway	Richmond	GoPuff	124,050	New Lease

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
2701-2831 Merced Street (Portfolio)	San Leandro	Lowenberg Corporation / Ark Row Industrial Partners	135,150	\$42.9M / \$317
2480 Baumann Avenue	San Lorenzo	Custom Freight Systems / EverWest	121,686	\$34.8M / \$286
1551 Atlantic Street (Excess Land)	Union City	DWS / Fortinet	58,714	\$65.0M / \$1,107
2939 Alvarado Street	San Leandro	Alvarado Street LLC / Fortress	53,805	\$12.3M / \$228
1750 Abram Court	San Leandro	Sheet Metal Workers' Local Union / Chio Saelee	39,507	\$10.1M / \$256



INDUSTRIAL SUBMARKETS

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