

East Bay Pleasanton

Office R&D Q3 2022

	YoY Chg	12-Mo. Forecast
16.1% Vacancy Rate	▲	▲
-217K Net Absorption, SF	▼	▲
\$2.76 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
1.2M East Bay Employment	▲	▲
3.0% East Bay Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2022Q3 data are based in the latest available data

Economy:

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 1.18 million. This translated to an unemployment rate of 3.0%, a decline of 290 basis points (bps) from the same period in 2021. While Covid-19 cases recorded a steady decline throughout the third quarter, a consistent return to the office has been slower than anticipated, causing employers to reevaluate their office space needs. The result is that many companies are downsizing, with some even shifting to fully remote workforces. Covid-19 aside, inflationary pressure and macroeconomic uncertainties have presented new challenges for many industries, which has extended to fairly cautious decision-making.

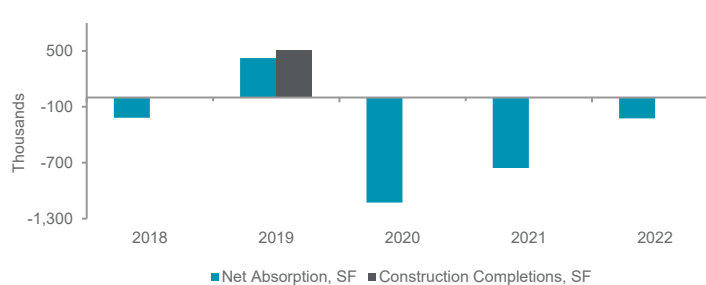
Supply: Vacancy Driven by Sublease

Vacancy in the East Bay Pleasanton market, known as the Tri-Valley, closed the third quarter at 16.1%, an 80-bps increase from the prior quarter, the result of 216,788 square feet (sf) of negative net absorption. Driving this rise in the third quarter was AT&T placing 262,000 sf of their space at BR 2600 on the market for sublease. Class A vacancy remained the highest by product type, at 23.4%. By comparison, vacancy was a scant 6.9% for the R&D product type, down 10 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 has given 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, the second consecutive quarter of strong leasing activity could help slow the rise in vacancy in future quarters.

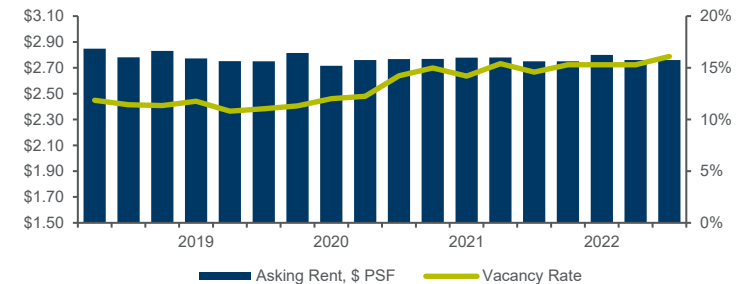
Demand: Large Users Buoy Activity

Leasing activity in the third quarter reached its highest level since 2018, totaling over 710,000 sf. Year-to-date (YTD) leasing activity at the end of the third quarter had already surpassed the full year totals of 2019, 2020, and 2021. The largest lease of the quarter was signed by Chevron for approximately 400,000 sf at BR 2600 in San Ramon. Chevron leased the space after selling their longtime corporate campus, as the company reduces its presence in San Ramon and moves some of its headcount to Texas. The second largest transaction was Unchained Labs leasing 124,000 sf at 4747 Willow Road in Pleasanton. This represented a significant expansion for the company and came with the ability to build additional buildings on the site.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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These transactions represent exciting momentum in a market that is seeing more activity than neighboring Oakland and Walnut Creek. Companies appear to be growing closer to where their employees live, with the Tri-Valley inventory benefiting from the combination of both public transport and significant onsite parking. 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: Asking Rents Hold

Asking rents in East Bay Pleasanton closed the third quarter at \$2.76 per square foot (psf) on a monthly full-service basis, level with the prior quarter. Class A properties continued to command a significant premium, with an overall asking rate of \$3.03 psf, 36% 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:

The largest sale of the quarter was Chevron’s disposition of their 1.5 msf campus in San Ramon to Sunset Development Company. Sunset paid \$174.5 million which equates to \$118 psf or \$44 psf on a land basis, as it is likely some or all of the site will be demolished in favor of housing. As the market tests tenants’ appetite for large block suburban office, redevelopment is becoming an increasingly common play for developers, including Sunset Development Company which earlier this year demolished 500,000 sf at Bishop Ranch to build housing. Another notable sale transaction was Stanford Health Care’s purchase of Hacienda Lakes, a five-building park in Pleasanton. Totalling 206,100 sf, Stanford paid \$58.4 million or \$283 psf with the intention of occupying the property. 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.

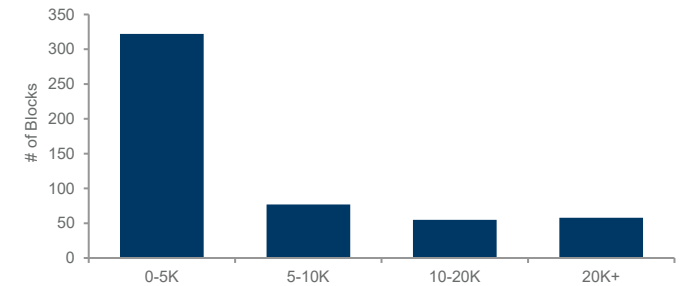
Outlook

- Rents are expected to hold relatively stable, while the market waits for full demand to return.
- Vacancy is expected to increase slightly in the long term as office users continue to evaluate their need for space. However, strong activity in the past two quarters could slow this rise.
- Overall, office leasing activity is expected to hold below pandemic levels for the near future, despite the recent bump in activity from several large tenants.

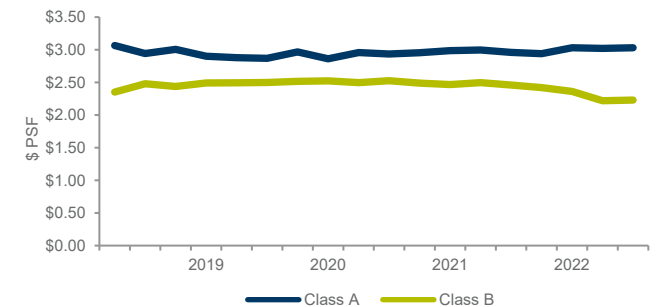
SUBMARKET ASKING RENT



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	190,427	209,449	12.4%	20,269	-37,547	196,968	0	\$2.56	\$3.04
San Ramon	8,061,569	591,772	1,195,851	22.2%	-232,817	-335,526	461,134	0	\$2.83	\$2.96
Pleasanton	11,845,709	380,003	1,423,347	15.2%	-23,536	107,510	610,906	150,000	\$2.96	\$3.13
Livermore	4,194,280	90,083	329,900	10.0%	19,296	41,771	107,985	0	\$1.87	\$2.61
CLASS BREAKDOWN										
Class A	13,722,921	1,025,192	2,186,662	23.4%	-251,375	-409,003	-	0	\$3.03	-
Class B	4,956,372	121,863	528,343	13.1%	73,630	76,473	-	0	\$2.23	-
Office / Flex	7,191,866	101,735	395,137	6.9%	-34,890	113,230	-	150,000	\$1.70	-
TOTALS	27,337,169	1,252,285	3,158,547	16.1%	-216,788	-223,792	1,376,993	150,000	\$2.76	\$3.03

*Rental rates reflect full service asking

KEY LEASE TRANSACTION Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
5001 Executive Pky – BR 2600	San Ramon	Chevron	400,000	Direct
4747 Willow Rd.	Pleasanton	Unchained Labs	123,750	Direct
4160 Dublin Blvd.	Dublin	SavvyMoney	18,740	Sublease
5700 Stoneridge Dr.	Pleasanton	Sharp Business Systems	18,000	Renewal

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
6001 Bollinger Canyon Rd – Chevron Park*	San Ramon	Chevron / Sunset Development Company	1,477,869	\$174.5M / \$118
Hacienda Lakes	Pleasanton	Schnitzer Investment Corp / Stanford Health Care	206,100	\$58.4M / \$283
2501 Collier Canyon Rd	Livermore	White Mountain Enterprise LLC / Fremont Bank Corporation	36,400	\$11.0M / \$301

*Property not included in inventory

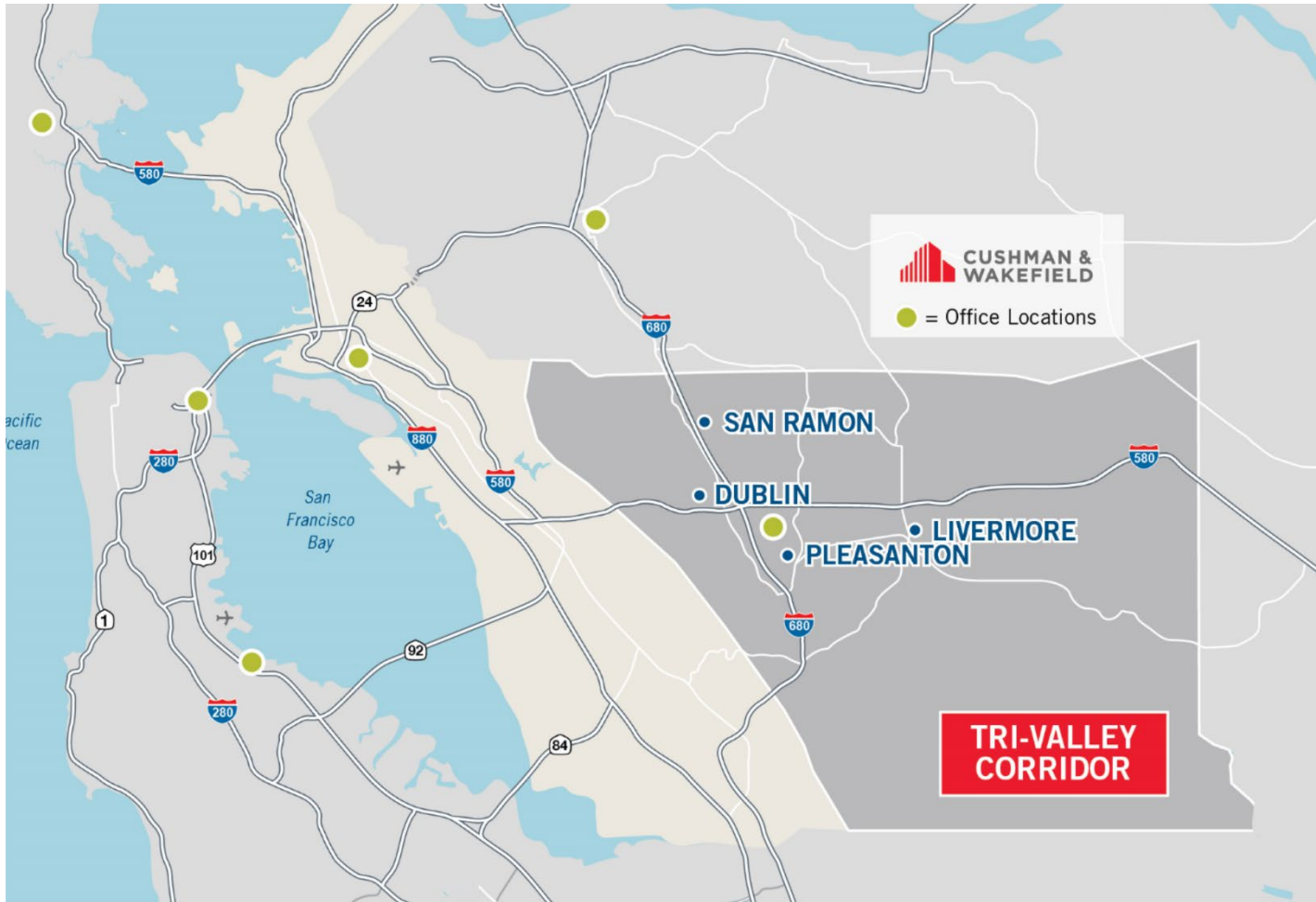
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