

	YoY Chg	12-Mo. Forecast
4.0% Vacancy Rate	▲	▲
-1.2M Net Absorption, SF	▼	▲
\$1.39 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

**ECONOMIC INDICATORS
Q3 2023**

	YoY Chg	12-Mo. Forecast
1.2M East Bay Oakland Employment	▲	▲
3.9% East Bay Oakland Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics.
2023Q3 data are based on latest available data.

Economy: Growth Facing Headwinds

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 28,100 jobs added year-over-year (YOY), bringing regional employment to 1.2 million. Despite the growth in positions, the unemployment rate has risen 80 basis points (bps) YOY, closing the third quarter at 3.9%. As hybrid work models weigh on office occupancy, industrial occupiers, for which remote work was never a viable option, expanded throughout the pandemic. However, while market fundamentals are holding, global supply chain issues, soaring fuel costs, and inflation all present major headwinds to the tenants that have been driving growth. In the East Bay Oakland, these challenges come as new construction hits the market, placing upward pressure on vacancy.

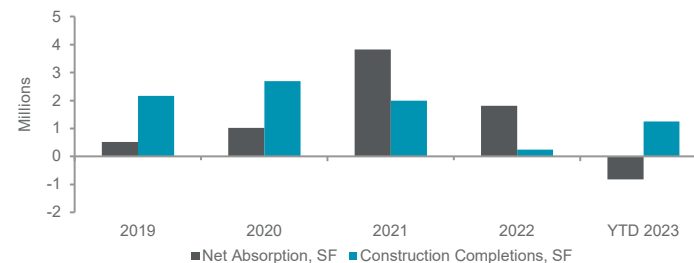
Supply: Vacancy Slides Into The Red

The East Bay Oakland industrial market closed the third quarter with a vacancy rate of 4.0%, up 70 bps from the prior quarter and the result of 1.2 million square feet (msf) of negative net absorption. This is the second consecutive quarter of occupancy decline after net absorption fell slightly into the red last quarter for the first time since late 2019. In the prior quarter, it was vacancies within the small to mid-size range of 10,000 to 50,000 sf that drove the market's negative net absorption, with the number of spaces rising 34% in the second quarter. While this trend continued, it was large block spaces in existing inventory that drove the rise in vacancy this quarter. There were 18 vacancies over 100,000 sf in the market, up from 12 in the prior quarter. However, this jump did not come as a surprise, as many of these spaces had been on the market in prior quarters, with tenants signaling their pullback in the market prior to vacating in Q3. The submarket of Richmond recorded the most dramatic rise in vacancy with three notable tenants vacating this quarter and the vacancy rate for warehouse space rising 590 bps to 6.5%. The rise of vacancy in existing inventory comes at a time when the region's appetite for new construction is going to be tested, with an additional 2.2 msf under construction, the majority of which is speculative. While new construction will continue to deliver through 2024, the pipeline may begin to shrink as developers begin to pull back on construction starts, giving the market time to absorb the current cycle, while also waiting for the cost of capital to come down. A symptom of this pull back has been a decline in both volume and pricing of land sales over the past 12 months. Fortunately for developers, tenants continue to demonstrate demand for quality product, with a disproportionate number of large tenants inking leases for new construction.

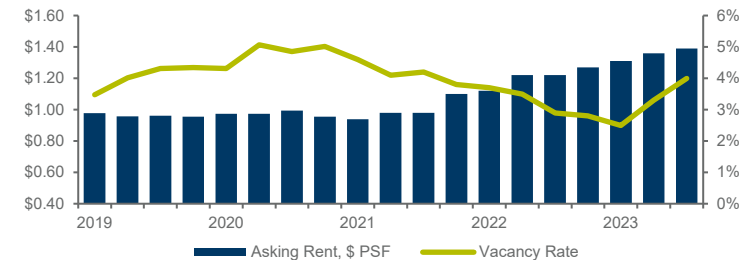
Demand: Tenants Tightening Belts

The East Bay Oakland industrial market recorded just over 2.3 msf of gross leasing activity in the third quarter, down approximately 27% from the same quarter last year and the lowest level of leasing activity since the start of the pandemic. While layoffs in big tech have made headlines as they relate to office markets, many tenants in technology and advanced manufacturing maintain a sizeable footprint in the East Bay industrial market. As interest rates rose and venture capital funding fell, some of these companies were forced to tighten their belts, pulling back on expansion and in some cases, putting space on the market for sublease.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



This is not to say that demand has left the region, gross activity for this quarter remained within 17% of the market's five-year average and there were a significant number of large transactions. The largest deal of the quarter was the leasing of 25810 Clawiter Road, building three at Hayward Exchange @ 92, for a total of 219,371 square feet. For the second consecutive quarter, the top lease occurred within new construction, as modern occupiers continued to gravitate towards the high clear heights, dock door ratios, and general quality found in new inventory. A second transaction of note was RK Logistics' renewal for 190,080 sf at 41707 Christy Street in Fremont.

Pricing: Rents Continue to Rise

The average asking rate for East Bay industrial closed the third quarter at \$1.39 per square foot (psf) on a monthly triple net basis, setting a new market high and up \$0.17 YOY. Manufacturing space continued to draw a premium at \$1.50 psf compared to \$1.32 psf for warehouse. However, much of this premium has been due to increasing manufacturing vacancy in Fremont and Newark, two of the region's most expensive submarkets. In the third quarter, a new sublease for a 225,000-sf, highly improved food facility at Morton Commerce Center, pushed the asking rate in Newark above \$2.10 psf. The recent rise in warehouse rate has been expected as new construction delivered throughout the year, with projects currently under construction being built at a much higher basis than prior cycles. Additionally, tight vacancy, as low as 2.5% at the start of the year, allowed landlords to push asking rates on dated, existing inventory. However, the climb in vacancy over the past two quarters may be enough to begin slowing asking rent growth, particularly for challenging product.

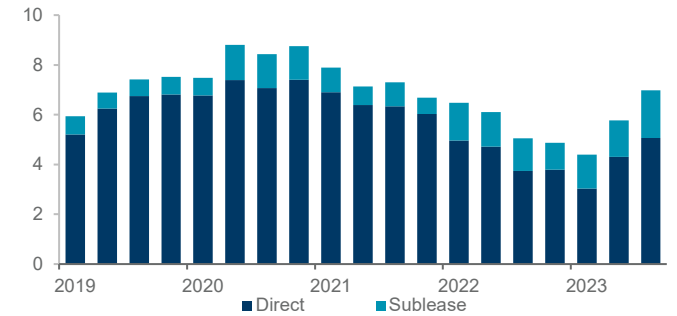
Capital Markets:

Rising interest rates have weighed heavily on sale transactions across the country and the East Bay has been no exception. The largest transaction of the quarter was the sale of 48350 Fremont Boulevard, a 245,000-sf warehouse, purchased by Prologis in part of a larger portfolio sale from Blackstone. The property traded for approximately \$351 psf. While larger investors have struggled to make investments pencil amidst elevated interest rates, smaller all-cash buyers and owner-users remain active in the market with numerous transactions for product between 15,000 and 45,000 sf.

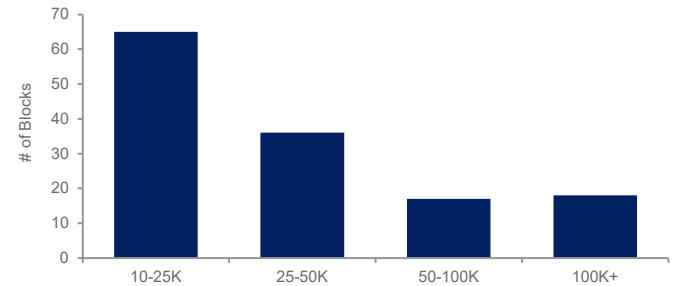
Outlook

- Looking forward, rental growth may begin to slow, but new construction will continue to apply upward pressure.
- There is just over 2.2 msf currently under construction, the majority of which is available. This pipeline will likely create temporary spikes in vacancy.
- Rising interest rates present a significant headwind to investment activity.

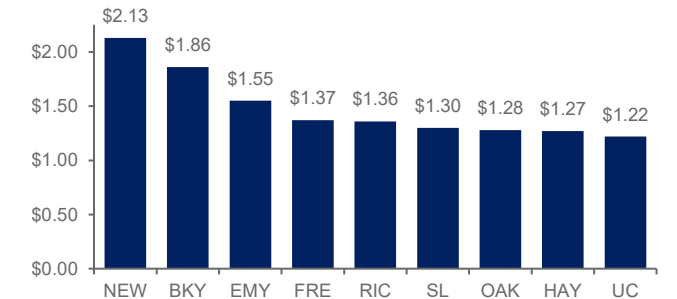
DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q3 2023

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	14,000,479	590,499	4.2%	-482,920	158,641	608,848	0	\$1.39	\$0.97	\$1.35
Berkeley	6,010,165	84,187	1.4%	-51,526	-8,865	0	0	\$2.83	\$1.50	\$1.86
Emeryville	2,572,871	115,179	4.5%	-49,355	-49,355	0	0	\$1.56	\$1.52	\$1.55
Oakland	38,414,224	1,824,905	4.8%	-289,304	-62,999	0	0	\$1.25	\$1.35	\$1.28
San Leandro	27,597,836	1,096,199	4.0%	160,306	-81,921	0	0	\$1.27	\$1.36	\$1.30
Hayward	39,290,130	1,451,515	3.7%	-258,778	-374,825	994,124	37,000	\$1.37	\$1.12	\$1.27
Union City	13,458,882	412,641	3.1%	-64,379	-104,338	0	0	\$1.19	\$1.50	\$1.22
Newark	9,781,449	754,322	7.7%	-401,198	-644,882	0	0	\$1.63	\$2.19	\$2.13
Fremont	23,655,060	653,012	2.8%	262,032	317,711	605,041	0	\$1.47	\$1.33	\$1.37
EAST BAY OAKLAND TOTALS	174,781,096	6,982,459	4.0%	-1,175,122	-850,833	2,208,013	37,000	\$1.32	\$1.50	\$1.39

*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 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Hayward Exchange @ 92: Building 3	Hayward	Confidential	219,371	New Lease
41707 Christy Street	Fremont	RK Logistics	190,080	Renewal
5567 Cushing Parkway	Fremont	Quanta Manufacturing	163,193	New Lease
3525 Arden Road	Hayward	Airport Home Appliance	151,389	Renewal
2700 Merced Street	San Leandro	L3Harris	148,000	Renewal
7395 Morton Avenue	Newark	Verdagy	123,348	Sublease

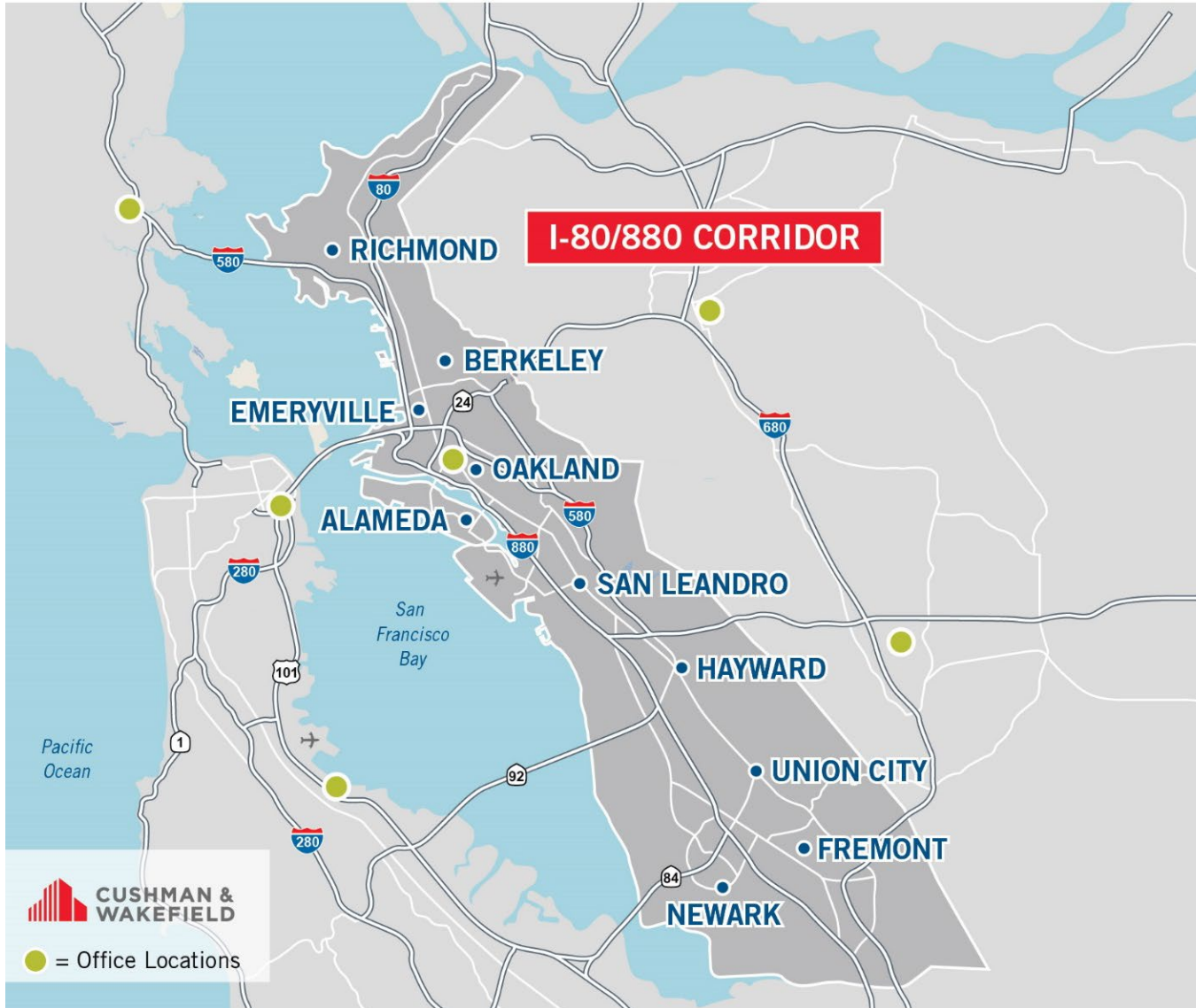
KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
48350 Fremont Boulevard (Part of Portfolio)	Fremont	Blackstone / Prologis	246,500	\$86.6M / \$351
37955 Central Court	Newark	Mandel Capital / Bruce Bender	43,557	\$13.0M / \$298
47900 Fremont Boulevard	Fremont	SNB, LLC / OmegaX LLC	33,161	\$12.7M / \$383
700 Bradford Way	Union City	Nick Sciola / Bradford Business Properties LLC	28,136	\$7.3M / \$260
2348 Industrial Parkway	Hayward	UPS / Layline LLC	25,108 (6.6 Acre Site)	\$20.1M / \$801 (\$70 PSF Land)

EAST BAY OAKLAND

Industrial Q3 2023

INDUSTRIAL SUBMARKETS



Wescott Owen

Research Manager

Tel: +1 415 451 2418

Wescott.Owen@cushwake.com

Jordan Howell

Research Analyst

Tel: +1 510 264 7962

Jordan.Howell@cushwake.com

CUSHMAN & WAKEFIELD

555 12th St

Suite 1400

Oakland, CA 94607

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