

EAST BAY OAKLAND

Industrial Q4 2023

4.4%
Vacancy Rate



-139.1K
Net Absorption, SF



\$1.34
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2023

1.2M
East Bay Oakland
Employment



4.2%
East Bay Oakland
Unemployment Rate



3.7%
U.S.
Unemployment Rate



Source: BLS, Moody's Analytics.
2023Q4 data are based on latest available data.

Economy: Headwinds Eroding Growth

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 18,900 jobs added year-over-year (YOY), bringing regional employment to 1.21 million. Despite the growth in positions, the unemployment rate has risen 90 basis points (bps) YOY, closing the fourth quarter at 4.2%. 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 held through much of 2023, global supply chain issues, elevated fuel costs, and interest rates all present major headwinds to the tenants that have been driving growth. In the East Bay Oakland, these challenges began to weigh on demand, as new construction hit the market, placing upward pressure on vacancy.

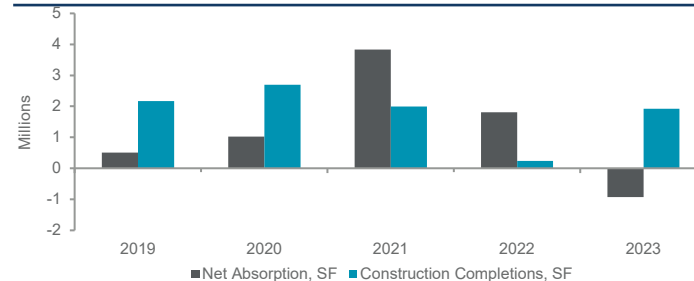
Supply: Vacancy Slides Into The Red

The East Bay Oakland industrial market closed the fourth quarter with a vacancy rate of 4.4%, up 50 bps from the prior quarter due to a combination of vacant new construction and 139,000 square feet (sf) of negative net absorption. This was the third consecutive quarter of occupancy decline and brought the year-end total to 923,000 sf of negative net absorption. The number of vacant spaces rose 83.5% YOY with the most dramatic uptick occurring in the 25,000-50,000-sf size range. Sublease space made up 23.4% of overall vacancy, and nearly one-third of vacant manufacturing space, with over 700,000-sf of sublease space hitting the market in 2023. Subleases accounted for the majority of the year's negative net absorption, with the rise in direct vacancy primarily driven by new construction, with only a modest occupancy decline. There was 1.9 million sf (msf) of new construction delivered in 2023, the majority of which was built on a speculative basis. While tenants have demonstrated demand for quality new construction, projects have continued to deliver vacant, including Dermody's two building project in Hayward which added 353,653 sf of vacancy to the market this quarter. New construction will continue to deliver through 2024 but will have a lesser effect on vacancy, with approximately 50% of projects delivering in 2024 already preleased. The pipeline is also beginning to shrink as developers pull back on construction starts, giving the market time to absorb current projects and potentially waiting for the cost of capital to come down. A symptom of this pull back has been a decline in both the volume and pricing of land sales over the past 12 months.

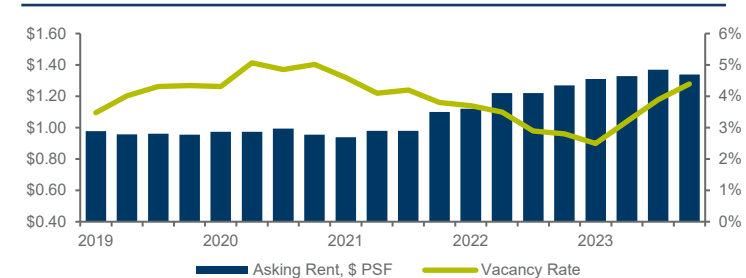
Demand: Tenants Tightening Belts

The East Bay Oakland industrial market recorded just under 1.5 msf of gross leasing activity in the fourth quarter, down 45.8% from the same quarter last year and the lowest level of leasing activity since the start of the pandemic. This brought total activity for 2023 to 9.3 msf, a decline from the prior three years, but on par with 2019. While activity began to record a modest pullback in each of the first three quarters of the year, the drop from the third to fourth quarter was more dramatic, potentially signaling a shift in the market. Elevated interest rates and reduced access to capital have made headlines in relation to technology firms, but now these

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



issues are stifling demand across a broader tenant base, whether it be a manufacturing tenant looking for financing to expand or a construction supply firm waiting for projects to break ground again. This is not to say that demand has left the region, but the current economic climate has translated to a more cautious leasing environment, which will likely keep absorption in the red in early 2024. The largest deal of the quarter was signed by Torani for a new, 200,584-sf build-to-suit with Prologis at 1919 Williams Street in San Leandro. This is the third consecutive quarter that the top lease went to new construction, as modern occupiers continued to gravitate toward the clear heights, dock door ratios, and general quality found in new inventory. A second transaction of note was Lansum International taking 128,168 sf at 650 85th Avenue in Oakland.

Pricing: Rents Slow Rise

The average asking rate for East Bay industrial closed the fourth quarter at \$1.34 per square foot (psf) on a monthly triple net basis, down \$0.03 from the prior quarter and the second highest rate on record. Manufacturing space continued to draw a premium at \$1.43 psf compared to \$1.28 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. The warehouse rate had been rising steadily as both new construction delivered, and tight vacancy allowed landlords to push asking rates on existing inventory. While new construction will continue to put upward pressure on rates, the rise in vacancy over the past three quarters has tempered rent growth for existing inventory. For older buildings with low clear or difficult staging, recent rental growth may slow into 2024 as landlords look to compete amidst rising vacancy.

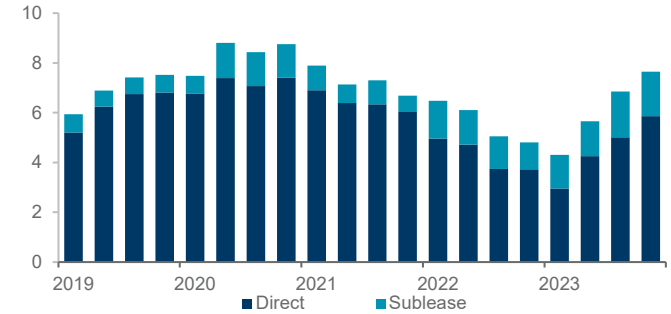
Capital Markets: Waiting for Investors

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 fourth quarter was the sale of 37580 Filbert, an 84,482-sf warehouse in Newark. Bridge Logistics paid \$14.1 million to Vital Records Control in a sale leaseback, marking one of the only investor purchases of the quarter. 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. Looking ahead, a plateau in interest rates will hopefully give investors more confidence in 2024 and lead to increased transaction activity.

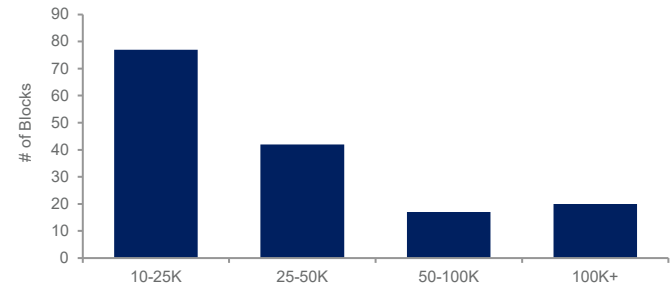
Outlook

- Looking forward, rental growth will slow for existing inventory, but new construction will continue to apply upward pressure.
- There are just over 1.6 msf currently under construction, but an increasing percentage is preleased. This will likely mitigate temporary spikes in vacancy.
- Rising interest rates present a significant headwind to investment activity.

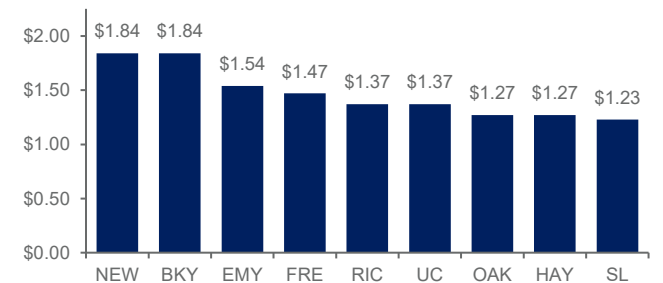
DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q4 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	14,034,332	633,966	4.5%	20,640	149,027	574,995	33,853	\$1.35	\$1.54	\$1.37
Berkeley	6,010,165	81,062	1.3%	1,875	-6,990	0	0	\$2.83	\$1.50	\$1.84
Emeryville	2,548,731	174,601	6.9%	-55,860	-108,777	0	0	\$1.56	\$1.52	\$1.52
Oakland	38,332,684	1,990,383	5.2%	-176,878	-239,877	0	0	\$1.24	\$1.34	\$1.27
San Leandro	27,595,246	1,280,974	4.6%	-184,775	-266,696	200,584	0	\$1.15	\$1.38	\$1.23
Hayward	39,945,011	1,658,778	4.2%	360,894	46,611	219,583	633,499	\$1.34	\$1.16	\$1.27
Union City	13,458,882	479,063	3.6%	-117,110	-221,448	0	0	\$1.35	\$1.46	\$1.37
Newark	9,966,090	592,659	5.9%	129,983	-483,219	0	0	\$1.59	\$1.88	\$1.84
Fremont	23,661,839	761,859	3.2%	-117,847	208,864	605,041	0	\$1.49	\$1.46	\$1.47
EAST BAY OAKLAND TOTALS	175,552,980	7,653,345	4.4%	-139,078	-922,505	1,600,203	667,352	\$1.28	\$1.44	\$1.34

*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 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1919 Williams Street	San Leandro	Torani	200,584	New Lease
650 85 th Avenue	Oakland	Lansum International	128,168	New Lease
Confidential	-	Confidential	128,000	Renewal
950 Tower Avenue	Alameda	PYKA, Inc.	106,000	New Lease
1100 S. Marina Way	Richmond	Galaxy Desserts	104,000	Renewal
31500 Hayman Street	Hayward	Yangfeng Automotive Interiors	94,710	New Lease

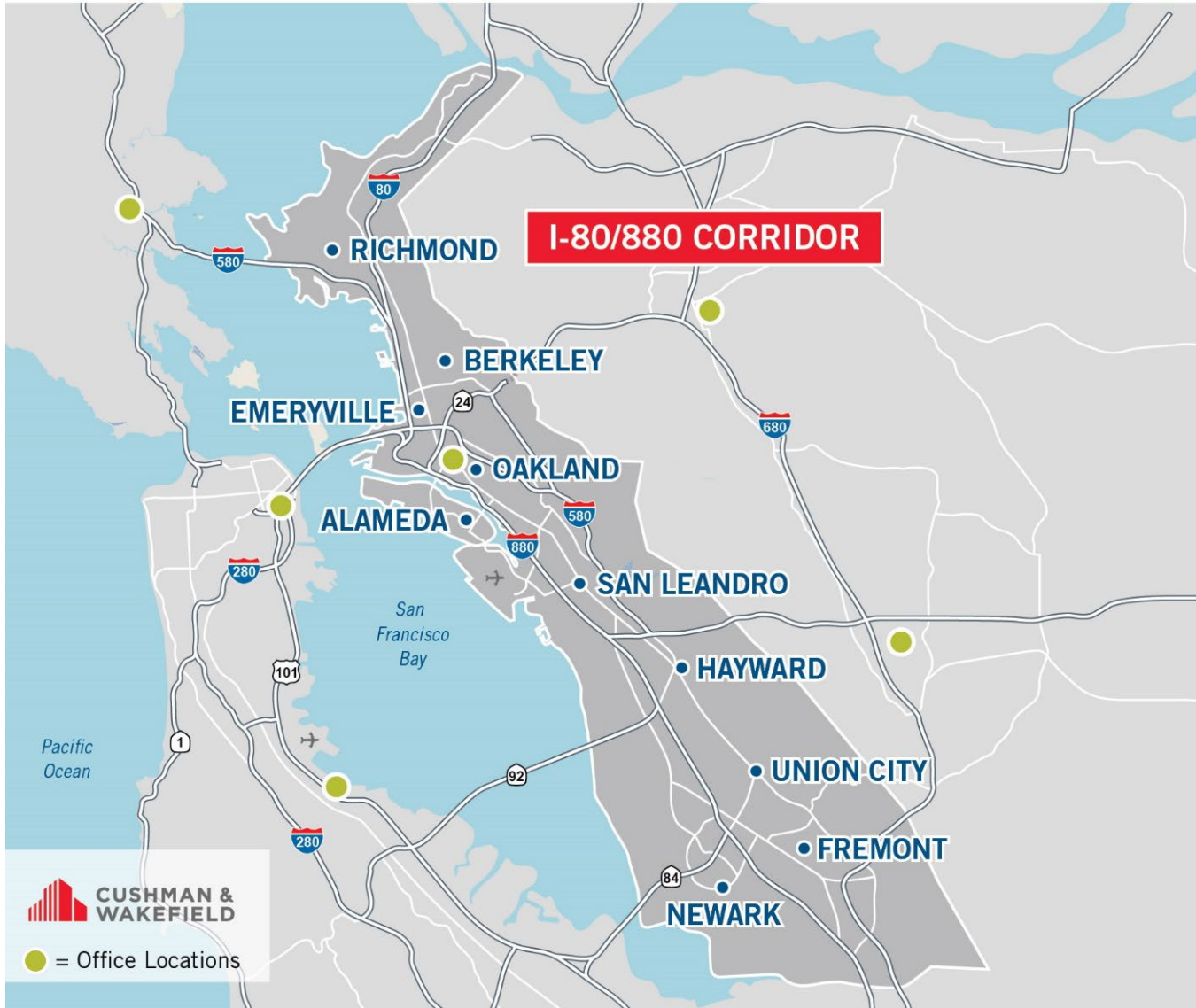
KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
37580 Filbert Street	Newark	Vital Records Control / Bridge Logistics Properties	84,482	\$14.1M / \$166
635 Gilman Street	Berkeley	Garello Properties / Hall Equities	28,885	\$6.3M / \$217
3400-3428 Ettie Street	Oakland	EastGroup Properties / AAA	26,200	\$12.2M / \$466 (\$122 PSF Land)
500-560 B Street	Richmond	Ron Holthuysen / Kent Brown	19,398	\$4.1M / \$213

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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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