

Industrial Q1 2024

	YoY Chg	12-Mo. Forecast
4.9% Vacancy Rate	▲	▲
-1.0M Net Absorption, SF	▼	▲
\$1.37 Asking Rent, PSF	▲	▬

Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
1.2M East Bay Oakland Employment	▲	▲
4.7% East Bay Oakland Unemployment Rate	▲	▼
3.8% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics.
2024Q1 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 12,400 jobs added year-over-year (YOY), bringing regional employment to 1.2 million. Despite the growth in positions, the unemployment rate rose 120 basis points (bps) YOY, closing the first quarter at 4.7%. As shifting 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 were holding into 2023, global supply chain issues, elevated fuel costs, and interest rates have all presented major headwinds to the tenants that had been driving growth. In the East Bay Oakland, these challenges have weighed heavily on demand, all while the current cycle of new construction continues to deliver, placing upward pressure on vacancy.

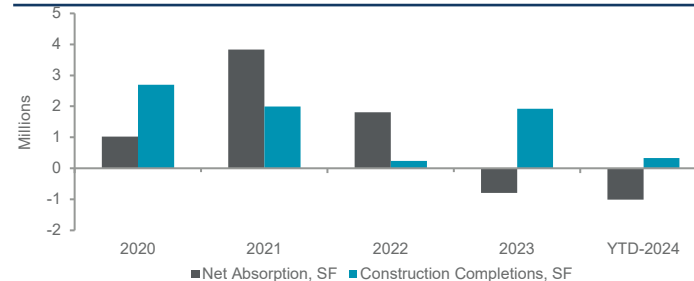
Supply: Vacancy Stays In The Red

The East Bay Oakland industrial market closed the first quarter with a vacancy rate of 4.9%, up 70 bps from the prior quarter, the result of 1.0 million square feet (msf) of negative net absorption. This was the fourth consecutive quarter of occupancy decline, pushing vacancy to its highest level since 2020. The number of vacant spaces has more than doubled YOY, recording a 115.9% increase, with the most dramatic uptick occurring in the 25,000-50,000-sf size range. Historically a sweet spot for local tenants, the number of vacancies in this size range has ballooned from 19 to 52 over the past year. Sublease space was a driving force behind new vacancy this quarter, making up approximately half of the market's negative net absorption and accounting for 27.1% of overall vacancy. New construction continued to deliver with Scannell Properties completing their second building in Richmond, a speculative 121,733-sf warehouse at 155 Parr Boulevard. Link Logistics finished their new 209,916-sf warehouse at 47020 Kato Road in Fremont. The property had been preleased by RK Logistics last year and helped Fremont record its 138,000 sf of positive net absorption this quarter, the only major submarket to finish in the black. While the majority of the 1.9 msf that delivered in 2023 was built on a speculative basis, new construction through 2024 is expected to have a lesser effect on vacancy, with nearly 50% of 2024 deliveries already preleased. The market may also have some time to continue absorbing recent supply as the pipeline shrinks, with developers pulling back on construction starts 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 18 months.

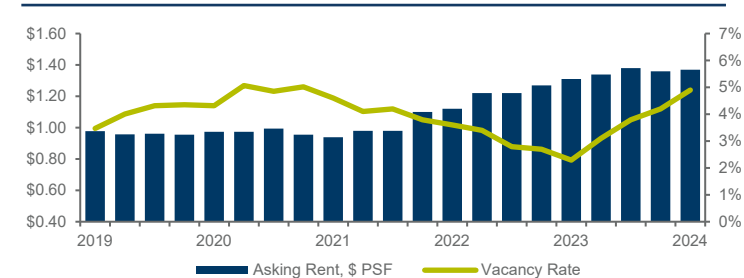
Demand: Tenants Tightening Belts

The East Bay Oakland industrial market recorded just over 1.6 msf of gross leasing activity in the first quarter, down 19.8% from the prior quarter and 41.0% YOY. Activity began to record a modest pullback in late 2022, as the record-breaking leasing seen in the first two years of the Pandemic reverted to standard market levels. However, the prior two QOQ declines have been more dramatic, signaling a potential shift in the market. Elevated interest rates and reduced access to capital are stifling demand for a broad tenant base, contributing to market softness across size ranges.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Whether it be a manufacturing tenant looking for financing to expand or a construction supply firm waiting for projects to break ground again, occupiers in the region are not growing at the same rate they were just one year prior. 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 coming quarters. The largest lease of the quarter was signed by Newco Distributors, which renewed their 134,391-sf facility at 2242 Davis Court in Hayward. There were just three lease transactions completed over 100,000 sf in the first quarter and all of them were renewals. While it is an encouraging sign that large tenants remain committed to the region, it is going to take new leases to shift momentum and begin to combat vacancy.

Pricing: Rents Slow Rise

The average asking rate for East Bay industrial closed the first quarter at \$1.37 per square foot (psf) on a monthly triple net basis, up \$0.01 from the prior quarter and the second highest rate on record. Manufacturing space continued to draw a premium at \$1.42 psf compared to \$1.34 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 exert upward pressure on rates, the rise in vacancy over the past four 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.

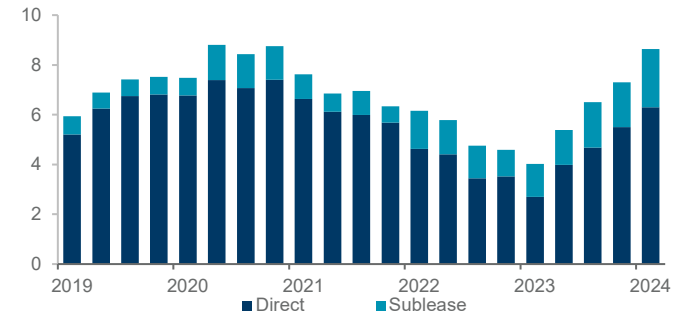
Capital Markets: Sales Creep Up

Rising interest rates have weighed heavily on sale transactions across the country, but as rates have plateaued, investment sales are beginning to reappear in the East Bay. The largest transaction of the first quarter was Dermody Properties' sale of LogistiCenter @ Highway 92, a two-property warehouse development totaling 353,653 sf. Built in 2023, the vacant project was purchased by PGIM, Inc. for \$103.0 million or \$291 psf. Having driven activity for much of the past year, owner-users remained active in the market, with Royal Coffee purchasing a 130,513-sf warehouse from CenterPoint Properties for \$31.7 million or \$243 psf.

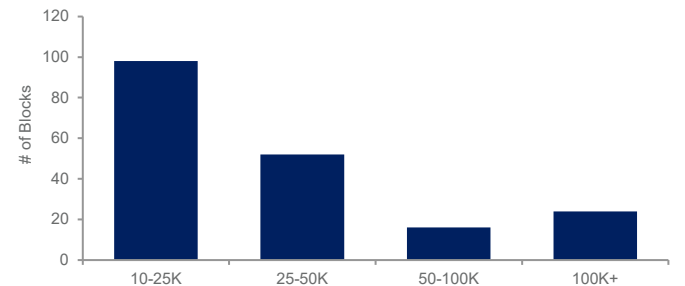
Outlook

- Looking forward, rental growth will slow for existing inventory, but new construction will continue to apply upward pressure.
- There are just over 1.5 msf currently under construction, but an increasing percentage is preleased. This will likely mitigate temporary spikes in vacancy.
- High interest rates present a significant headwind to investment activity.

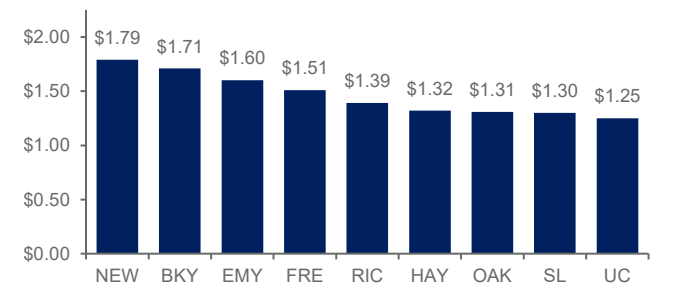
DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q1 2024

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	14,173,632	810,233	5.7%	-57,261	-57,261	453,262	121,733	\$1.36	\$1.54	\$1.39
Berkeley	6,012,273	156,783	2.6%	-75,721	-75,721	0	0	\$2.83	\$1.54	\$1.71
Emeryville	2,524,731	150,632	6.0%	23,969	23,969	0	0	\$1.69	\$1.52	\$1.60
Oakland	37,781,448	2,366,344	6.3%	-421,763	-421,763	0	0	\$1.32	\$1.29	\$1.31
San Leandro	27,301,876	1,195,514	4.4%	-160,393	-160,393	200,584	0	\$1.29	\$1.33	\$1.30
Hayward	39,703,932	1,757,181	4.4%	-134,477	-134,477	219,583	0	\$1.41	\$1.12	\$1.32
Union City	13,460,659	671,432	5.0%	-228,837	-228,837	0	0	\$1.26	\$1.23	\$1.25
Newark	9,976,230	683,139	6.8%	-90,480	-90,480	0	0	\$1.55	\$1.86	\$1.79
Fremont	23,585,793	842,483	3.6%	138,001	138,001	662,325	209,916	\$1.54	1.50	\$1.51
EAST BAY OAKLAND TOTALS	174,520,574	8,633,741	4.9%	-1,006,962	-1,006,962	1,535,754	331,649	\$1.34	\$1.42	\$1.37

*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 Q1 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2242 Davis Court	Hayward	Newco Distributors	134,391	Renewal
41893-41929 Christy Street	Fremont	Quanta Computer	120,960	Renewal
21001 Cabot Boulevard	Hayward	PODS	118,820	Renewal
2225 Grant Avenue	San Leandro	Sparme LLC	80,308	New Lease
1525 Alvarado Street	San Leandro	Anchor Distributing	62,761	Renewal
2975 Volpey Way	Union City	Imperial Bag & Paper	60,080	Renewal

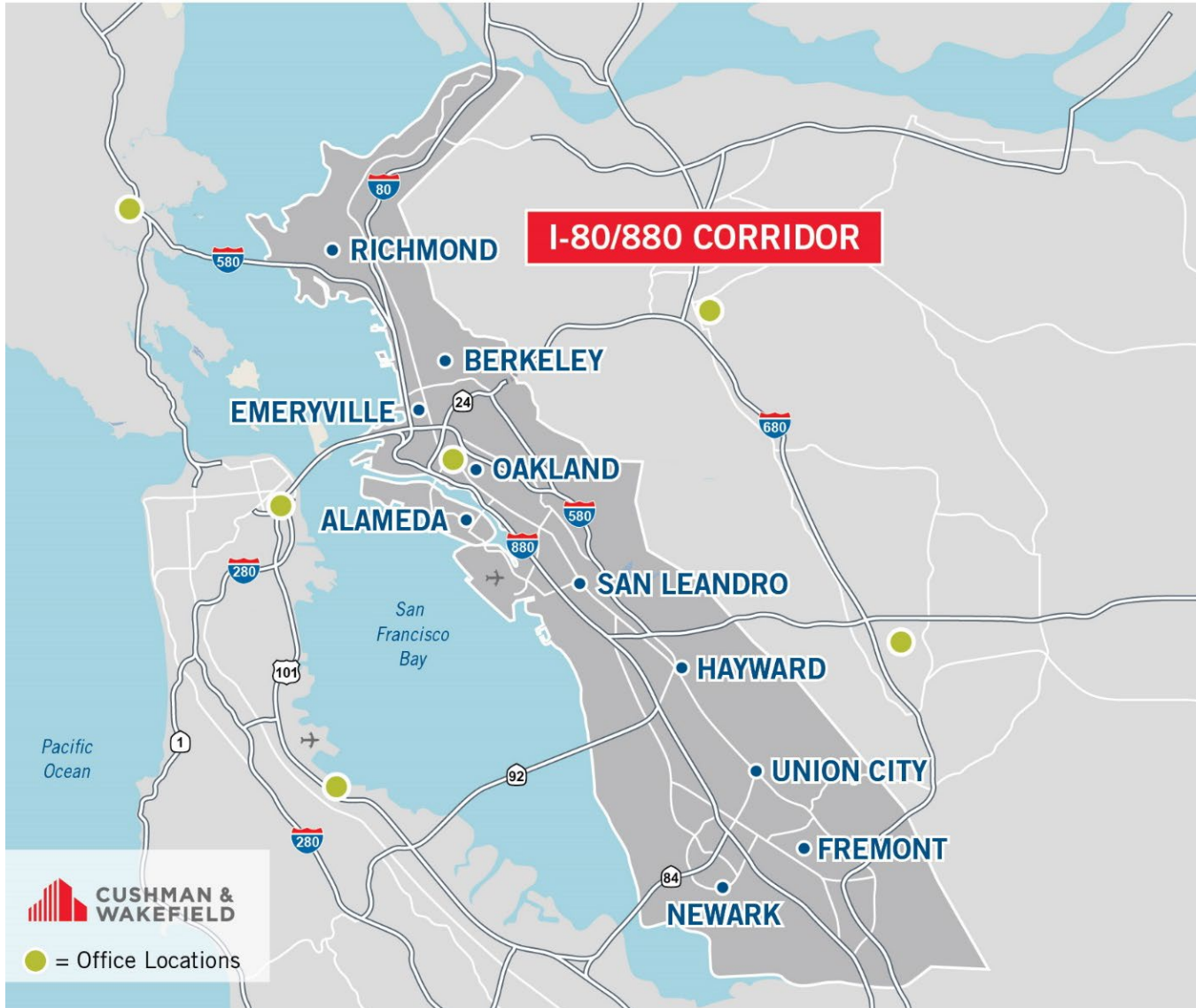
KEY SALES TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
LogistiCenter @ Highway 92 (Two Properties)	Hayward	Dermody Properties / PGIM, Inc.	353,653	\$103.0M / \$291
5901 San Leandro Street	Oakland	CenterPoint Properties / Royal Coffee Inc.	130,513	\$31.7M / \$243
40737 Encyclopedia Circle	Fremont	Nuveen / Arc Capital Partners & Artisan Ventures	81,485	\$25.3M / \$310
1550 Atlantic Street	Union City	Northwood Design Partners / Fortinet, Inc.	53,939	\$14.8M / \$273

EAST BAY OAKLAND

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INDUSTRIAL SUBMARKETS



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