

EAST BAY OAKLAND

Industrial Q2 2024

5.6%
Vacancy Rate



-1.0M
Net Absorption, SF



\$1.37
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2024

1.2M
East Bay Oakland Employment



4.8%
East Bay Oakland Unemployment Rate



4.1%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics.
2024Q2 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 10,300 jobs added year-over-year (YOY), bringing regional employment to 1.2 million. Despite the growth in positions, the unemployment rate rose 100 basis points (bps) YOY, closing the second quarter at 4.8%. 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.

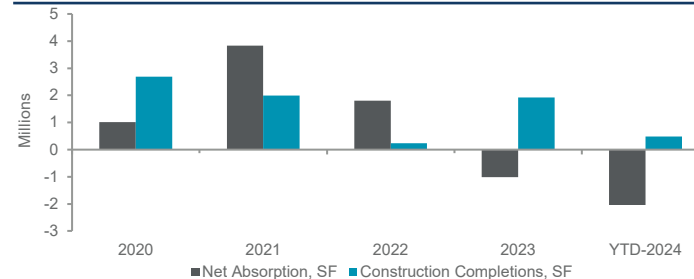
Supply: Vacancy Stays In The Red

The East Bay Oakland industrial market closed the second quarter with a vacancy rate of 5.6%, up 60 bps from the prior quarter after recording a decline in occupancy of over 1.0 million square feet (msf) for the second consecutive quarter. Net absorption has now been in the red for five consecutive quarters, and vacancy is at its highest point since late 2013. Warehouse vacancy has outpaced manufacturing, rising from 2.7% in early 2023 to 7.3% in the current quarter versus a rise from 2.0% to 4.0% for the latter. New construction has been the driving force behind this rising delta, with 2.4 msf delivered since the start of 2023, the majority of which was speculative warehouse product. This pace of deliveries did little to move the needle on vacancy in the early years of the pandemic when the lag time between delivery and lease up was often just one quarter. Today however, tenant demand has cooled and speculative projects are taking longer to lease, putting upward pressure on vacancy. Unlike some prior cycles, this pullback in demand has not been limited to a particular tenant size or industry, as macro-economic trends weigh on sectors across the country. 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 a year prior. In the East Bay, this has translated to the number of vacancies more than doubling since the beginning of 2023. That rise has been felt across size ranges with spaces from 10,000-50,000 sf up 139% and vacancies over 100,000 sf up 136%. Fortunately, the market may 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. As construction activity slows, one symptom has been a decline in both the volume and pricing of land sales over the past 18 months.

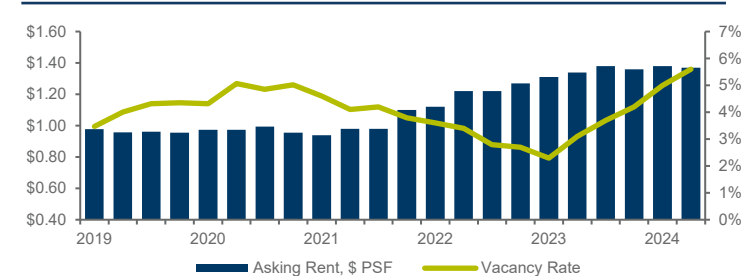
Demand: Tenants Tightening Belts

The East Bay Oakland industrial market recorded just shy of 1.9 msf of gross leasing activity in the second quarter, down 4.7% from the prior quarter and 28.5% 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, activity year-to-date (YTD) is on pace to be well short of pre-pandemic levels.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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. There were six leases signed in the second quarter over 100,000 sf, however five of the six were renewals, with just one new lease. This marked the first new 100,000-sf lease signed this year compared to six at the halfway point of 2023 and nine in 2022. While renewals are 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 second quarter at \$1.37 per square foot (psf) on a monthly triple net basis, down \$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 limited vacancy allowed landlords to push asking rates on existing inventory. While vacant new construction continues to exert upward pressure on rates, the rise in vacancy over the past five quarters has tempered rent growth for existing inventory. For older buildings with low clear or difficult staging, rental rates may begin to soften in the latter half of 2024 as landlords look to compete amidst rising vacancy.

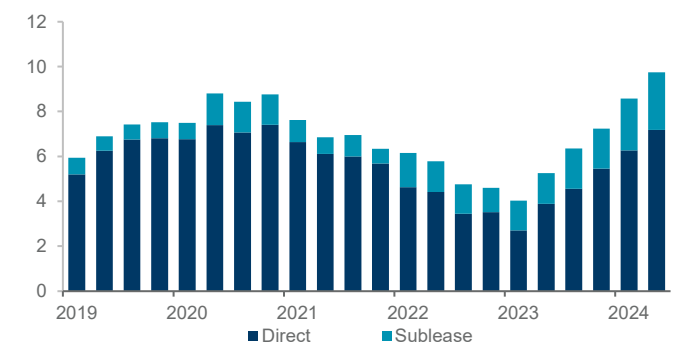
Capital Markets: Sales Creep Up

Rising interest rates have weighed heavily on sale transactions across the country, but as rates have plateaued, investment sales are gaining momentum in the East Bay. The largest single transaction of the second quarter was Link Logistics’ sale of Pinole Point Business Park, a three-property industrial development totaling 475,693 sf. Fully leased at the time of sale, GLP Capital Partners paid \$129.0 million or \$271 psf for the project. GLP Capital Partners also purchased 3129 Corporate Place, a 332,951-sf warehouse in Hayward, from Clarion Partners for \$75.6M or \$227 psf. Adding to the notable individual sales, several East Bay industrial parks traded hands this quarter as part of larger multi-market portfolios. Institutional interest in the market this quarter was a departure from much of the past year when sales activity had been driven by owner-users and smaller individual investors. Despite the recent rise in vacancy, the core East Bay remains an attractive long-term investment given its proximity to major metros and relatively constrained inventory.

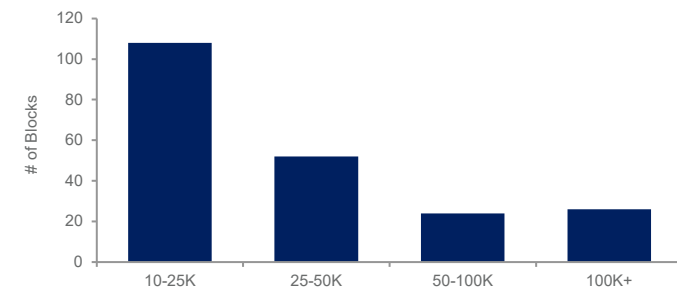
Outlook

- 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 new starts have slowed which will likely mitigate temporary spikes in vacancy.
- Investors will continue to look to the East Bay as an opportunity to transact in the current high-rate environment.

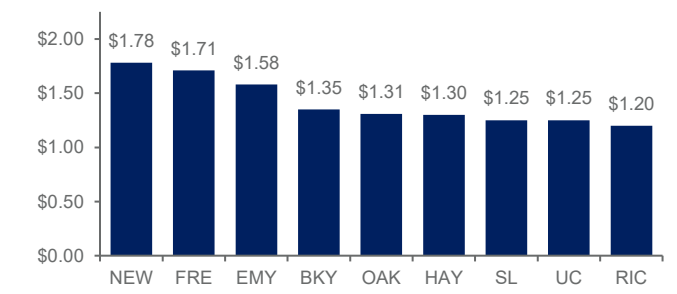
DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q2 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	14,327,379	871,886	6.1%	72,244	14,983	299,515	153,747	\$1.34	\$0.80	\$1.20
Berkeley	5,927,227	168,419	2.8%	-32,472	-108,193	0	0	-	\$1.35	\$1.35
Emeryville	2,524,731	159,593	6.3%	-8,961	15,008	0	0	\$1.69	\$1.52	\$1.58
Oakland	37,246,171	2,590,284	7.0%	-311,664	-723,427	0	0	\$1.35	\$1.24	\$1.31
San Leandro	26,960,346	1,309,042	4.9%	-124,625	-279,554	467,224	0	\$1.23	\$1.32	\$1.25
Hayward	39,580,864	2,009,016	5.1%	-155,931	-290,408	219,583	0	\$1.39	\$1.11	\$1.30
Union City	13,472,085	865,102	6.4%	-231,690	-460,527	0	0	\$1.23	\$1.29	\$1.24
Newark	9,876,818	756,271	7.7%	-78,293	-168,773	0	0	\$1.53	\$1.88	\$1.78
Fremont	23,195,069	1,012,382	4.4%	-141,709	-35,898	662,325	0	\$1.54	\$1.76	\$1.71
EAST BAY OAKLAND TOTALS	173,110,690	9,741,995	5.6%	-1,013,101	-2,036,789	1,648,647	153,747	\$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 Q2 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
8350 Pardee Drive	Oakland	Benjamin Moore	141,844	Renewal
3363-3373 Arden Road	Hayward	Confidential	129,920	New Lease
650 85 th Avenue	Oakland	Lansum International	128,168	Renewal
14500 Washington Avenue	San Leandro	UPS	121,643	Renewal
6120 Stewart Avenue	Fremont	GXO Logistics	114,948	Renewal
33400 Dowe Avenue	Union City	Penske	100,000	Renewal

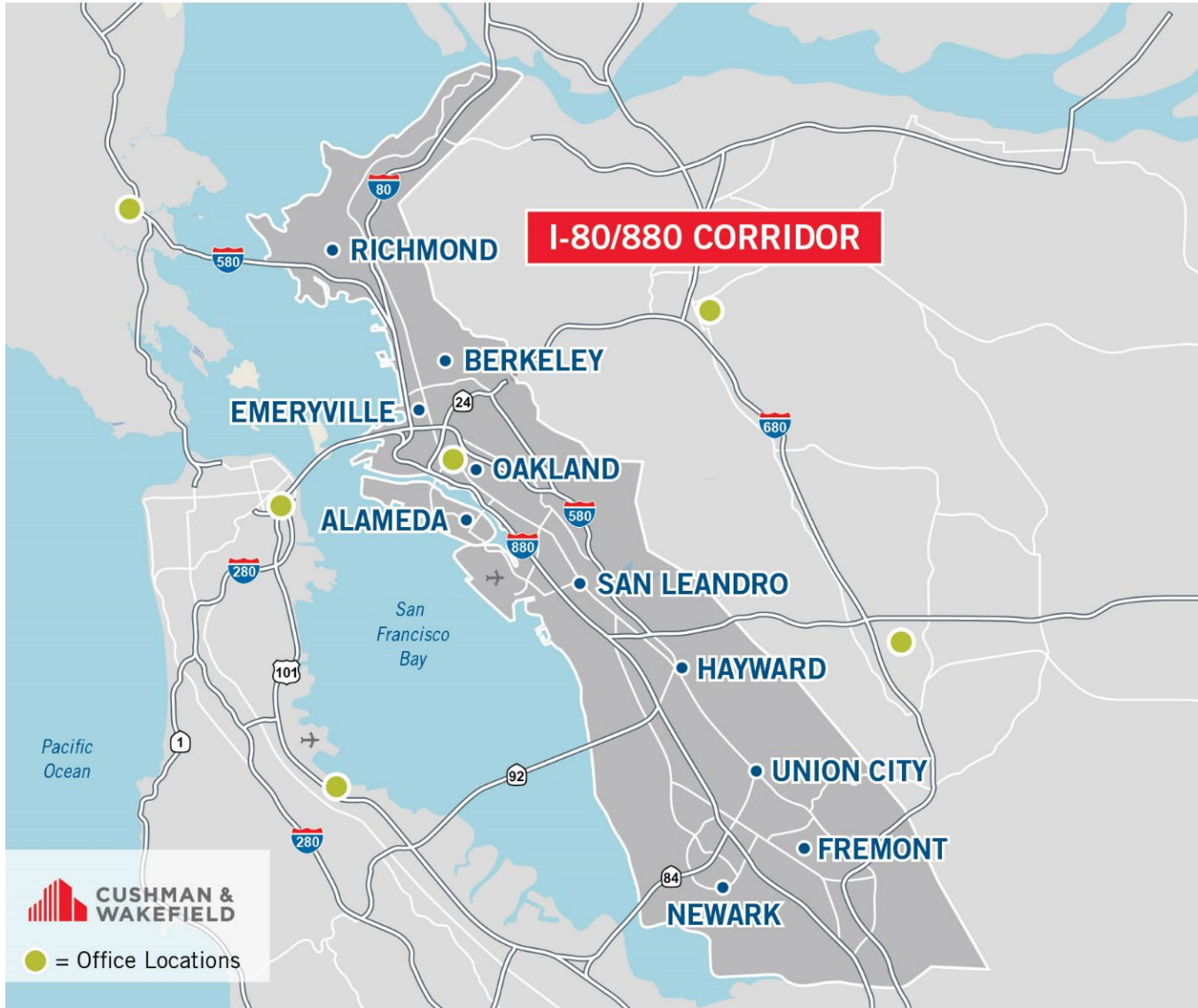
KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
Pinole Point Business Park (Three Buildings)	Richmond	Link Logistics Real Estate / GLP Capital Partners	475,693	\$129.0M / \$271
Fremont Commerce Center (Part of Larger Portfolio)	Fremont	Link Logistics Real Estate / DRA Advisors	335,337	\$81.0M / \$242
3129 Corporate Place	Hayward	Clarion Partners / GLP Capital Partners	332,951	\$75.6M / \$227
7303-7307 Edgewater Drive (Part of Larger Portfolio)	Oakland	Link Logistics Real Estate / DRA Advisors	200,557	\$52.0M / \$259
43800 Osgood Road	Fremont	Wardenclyffe, LP / Sterling Organization	143,795	\$35.7M / \$248
1602-1608 Whipple Road	Union City	Miller International / Marathon Packing	121,450	\$30.0M / \$247

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INDUSTRIAL SUBMARKETS



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