

# MARKETBEAT EAST BAY OAKLAND

## INDUSTRIAL Q3 2024



### MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
<b>6.3%</b> Vacancy Rate	▲	▲
<b>-1.4M</b> Net Absorption, SF	▼	▲
<b>\$1.29</b> Asking Rent, PSF <i>(Overall, Net Asking Rent)</i>	▼	—

### ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
<b>1.2M</b> East Bay Oakland Employment	▲	▲
<b>4.7%</b> East Bay Oakland Unemployment Rate	▲	▼
<b>4.1%</b> U.S. Unemployment Rate	▲	▲

*Source: BLS*

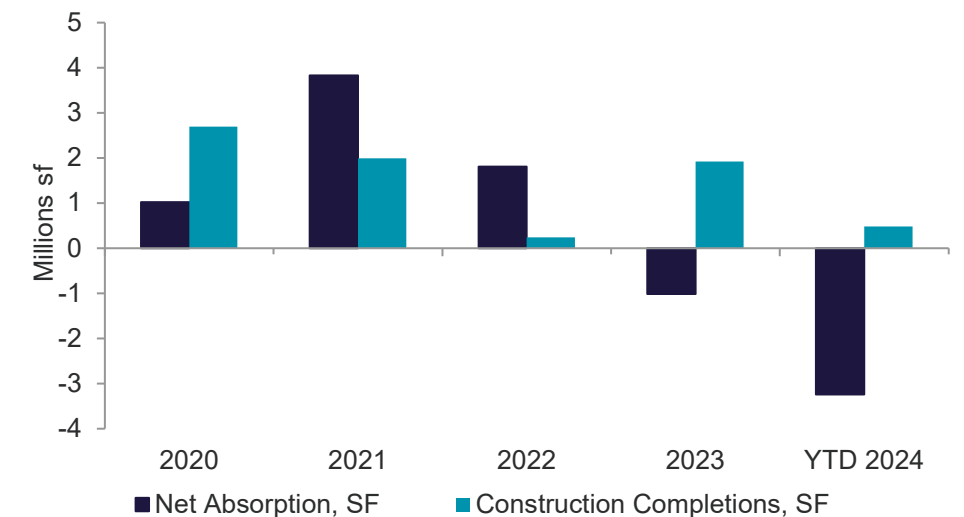
### Economy: Headwinds Eroding Growth

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 13,100 jobs added year-over-year (YOY), bringing regional employment to 1.20 million. Despite the growth in positions, workforce changes led to a rise in the unemployment rate of 40 basis points (bps) YOY, closing the third quarter at 4.7%. While industrial market fundamentals held into 2023, over the past year, global supply chain issues, elevated fuel costs, and interest rates have all presented major headwinds to the tenants that had been driving growth throughout the pandemic. In the East Bay Oakland, these challenges have weighed heavily on demand in 2024, all while the current cycle of new construction continues to deliver, placing upward pressure on vacancy.

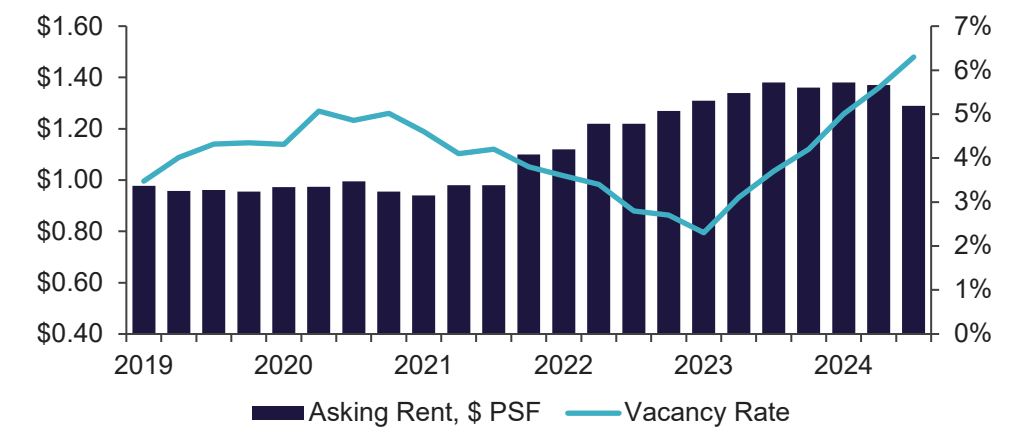
### Supply: Vacancy Stays In The Red

The East Bay Oakland industrial market closed the third quarter with a vacancy rate of 6.3%, up 80 bps from the prior quarter as net absorption fell to negative 1.4 million square feet (msf). Net absorption has now been in the red for six consecutive quarters, and vacancy is at its highest rate since late 2013. Warehouse vacancy has outpaced manufacturing, up from 2.7% in early 2023 to 8.4% in the current quarter, versus a rise from 2.0% to 4.2% for the latter. Vacant new construction has been a driving force behind this increasing delta, with 2.3 msf of warehouse space delivered in the past 18 months, predominately on a speculative basis. Fortunately, the market may have some time to continue absorbing recent supply as the pipeline shrinks, with developers pulling back on construction starts. The recent pace of new supply is not unprecedented, but tenant demand has cooled significantly in recent quarters and speculative projects are taking longer to lease, putting upward pressure on vacancy. The decrease in demand has not been limited to a particular tenant size or industry, as macro-economic trends weigh on sectors across the board. A further sign of this broader pullback has been a persistent rise in sublease space, which now accounts for nearly 30.0% of overall vacancy. Sublessors range from traditional 3PL companies that may have lost a contract, to technology firms that are cost cutting amidst constrained access to capital. The largest new vacancy of the quarter was a 267,500-sf warehouse sublease in Richmond that was vacated by a subsidiary of Reyes Beverage Group, as they shift operations into a nearby warehouse they purchased in 2023.

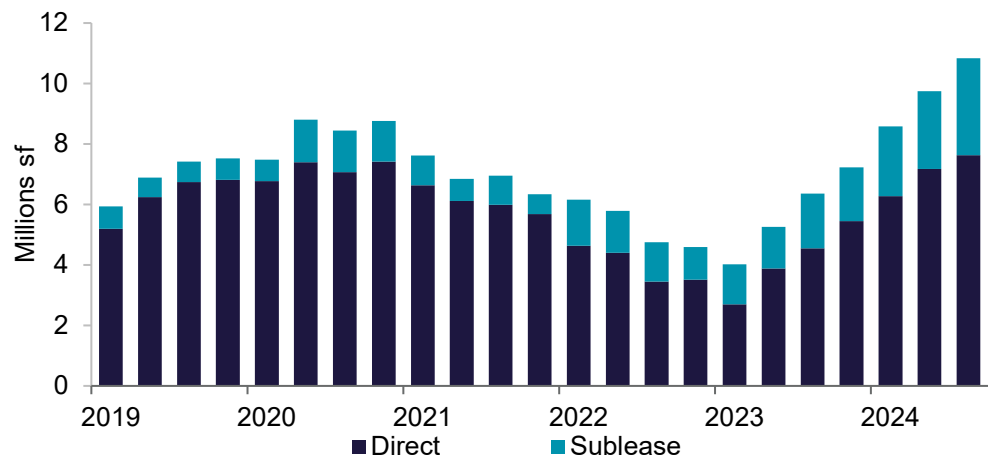
### SPACE DEMAND / DELIVERIES



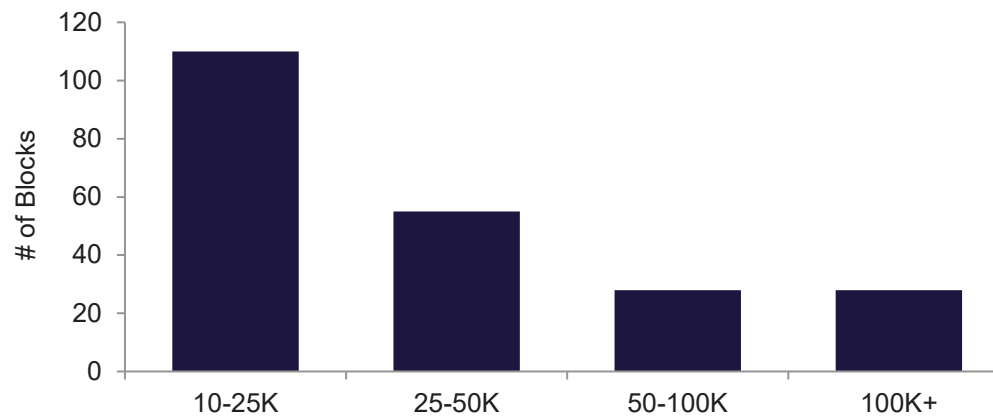
### OVERALL VACANCY & ASKING RENT



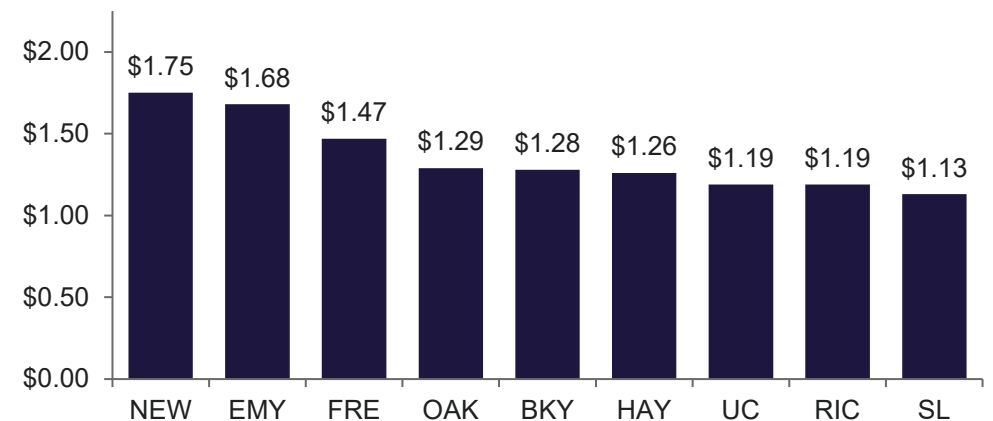
**DIRECT AND SUBLEASE AVAILABLE SPACE**



**AVAILABILITIES BY SIZE SEGMENT**



**OVERALL ASKING RATE BY SUBMARKET (NNN)**



**Demand: Tenants Tightening Belts**

The East Bay Oakland industrial market recorded 1.7 msf of gross leasing activity in the third quarter, down 15.0% from the prior quarter and 29.1% YOY. Activity began to 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 even pre-pandemic levels. This is not to say that demand has entirely left the region, but the current economic climate has led to a more cautious leasing environment, which will likely keep absorption in the red in coming quarters. In positive news for the market, there were two new leases signed greater than 100,000 sf in the third quarter, an uptick from the one new lease over 100,000 sf signed in the first half of the year. Three new leases in this size segment remains well below prior years, where new leases through the third quarters of 2022 and 2023 were 15 and nine, respectively. With nearly 30 vacancies on the market over 100,000 sf, the region will need to see tenant demand for larger spaces reaccelerate to levels seen in 2022 before it can expect a meaningful decline in vacancy.

**Pricing: Rents Slowly Adjust**

The average asking rate for East Bay industrial closed the third quarter at \$1.29 per square foot (psf) on a monthly triple net basis, down \$0.06 from the prior quarter and \$0.09 YOY. Asking rates had held at or near record highs for much of the past year, despite the rise in vacancy, a discrepancy that could partially be accounted for by new construction, which buoyed asking rates. Now in the third quarter, as the pipeline thinned and vacancy continued to rise, the market began to see pricing adjust. Rates may hold for certain product, but for older buildings with low clear heights or difficult staging, rental rates are beginning to soften as landlords look to compete for occupancy. Another factor weighing on rental rates is the rise in sublease vacancy that is often offered at a steep discount to direct space, as sublessors look to land a tenant quickly. On a direct basis, the East Bay asking rate was \$1.32 psf at the close of the third quarter.

**Capital Markets: Sales Creep Up**

Interest rates had weighed heavily on sale transactions across the country, but as those rates plateaued and are now beginning to decline, investment sales in the East Bay are regaining some momentum in 2024. The largest sale of the quarter was 47020 Kato Road in Fremont, a 209,916-sf, new construction warehouse that KKR purchased from Link Logistics as part of a six property, multi-state portfolio. The property was valued at \$79.5 million or \$379 psf and was fully leased at the time of sale. While investment sales have made the headlines this year, owner-users have continued to generate significant activity, particularly in the 10,000-40,000-sf size range. Despite the deterioration of some market fundamentals, the core East Bay remains an attractive long-term investment given its proximity to major metros and relatively constrained inventory.

**OUTLOOK**

- Looking ahead, rental rates may begin to decline 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 in the future.
- Investors will continue to look to the East Bay as an opportunity to transact in the current high-rate environment.

MARKET STATISTICS

SUBMARKET	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	1,206,075	8.4%	-334,189	-319,206	299,515	0	\$1.34	\$0.71	\$1.19
Berkeley	5,927,227	144,199	2.4%	24,220	-83,973	0	0	-	\$1.28	\$1.28
Emeryville	2,524,731	202,683	8.0%	-13,090	1,918	0	0	\$1.69	\$1.68	\$1.68
Oakland	37,220,096	2,938,722	7.9%	-311,664	-1,099,485	0	0	\$1.31	\$1.24	\$1.29
San Leandro	26,959,266	1,323,060	4.9%	-14,018	-293,572	467,224	0	\$1.18	\$1.02	\$1.13
Hayward	39,580,864	2,217,127	5.6%	-274,921	-501,801	219,583	0	\$1.34	\$1.07	\$1.26
Union City	13,471,229	930,017	6.9%	-102,971	-527,650	0	0	\$1.17	\$1.41	\$1.19
Newark	9,876,818	845,450	8.6%	-84,597	-257,952	0	0	\$1.53	\$1.83	\$1.75
Fremont	23,289,208	1,023,534	4.4%	-150,002	-159,788	662,325	0	\$1.54	\$1.40	\$1.47
<b>TOTALS</b>	<b>173,176,818</b>	<b>10,830,867</b>	<b>6.3%</b>	<b>-1,367,277</b>	<b>-3,241,509</b>	<b>1,648,647</b>	<b>0</b>	<b>\$1.30</b>	<b>\$1.29</b>	<b>\$1.29</b>

\*Rental rates reflect weighted net asking \$psf/year

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6600 Stevenson Blvd	Fremont	Quanta	127,452	New Lease
30300-30310 Whipple Rd	Union City	Chetak	126,456	New Lease
1901-1991 Denison St	Oakland	Veronica Foods	125,232	Renewal
26534-26538 Danti Ct	Hayward	Nippon Express	112,800	Renewal
31101 Wiegman Rd	Hayward	OTM	71,600	Renewal

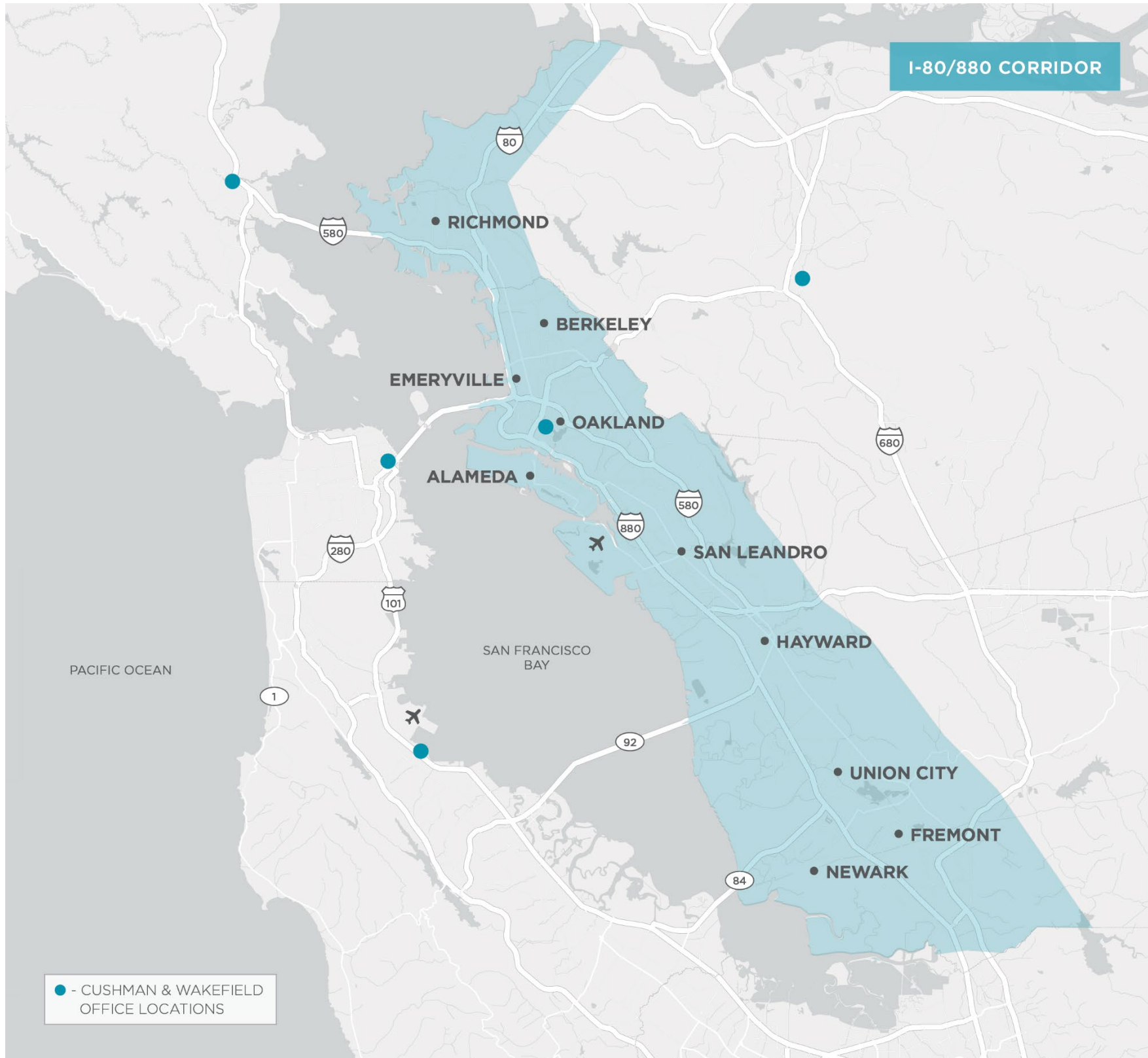
\*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
47020 Kato Road	Fremont	Link Logistics Real Estate / KKR	209,961	\$79.5M / \$379
2376 Davis Ave	Hayward	CenterPoint Properties / US Trading Co	132,742	\$35.2M / \$265
2718 Prune Ave	Fremont	JMS Family Limited Partnership / Longpoint Realty Partners	122,168	\$31.5M / \$258
38875-38997 Cherry Street	Newark	BKM Capital Partners / InvestCorp	97,762	\$32.4M / \$332
North Cabot Industrial Park	Hayward	Woodlawn Foundation / BKM Capital Partners	52,992	\$10.5M / \$198
33372-33378 Transit Ave	Union City	Ares Management Corp / Fortinet	52,500	\$16.3M / \$311



INDUSTRIAL SUBMARKETS



**WESCOTT OWEN**  
Research Manager  
Tel: +1 415 451 2418  
[Wescott.Owen@cushwake.com](mailto:Wescott.Owen@cushwake.com)

**ALEXANDER BRANDT**  
Research Analyst  
Tel: +1 510 267 6096  
[Alexander.Brandt@cushwake.com](mailto:Alexander.Brandt@cushwake.com)

**CUSHMAN & WAKEFIELD**  
555 12<sup>th</sup> St  
Suite 100  
Oakland, CA 94607

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