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4Q23

# East Bay Industrial Market Overview

**NEWMARK**

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# Economy



# Market Observations

## Economy

- The East Bay continues to experience slowly rising unemployment rates, primarily due to layoffs in the information and technology sectors.
- The construction sector leads all industries in job growth over the past 12 months, rising 940 basis points over the last year..
- Technology firms are continuing to adjust labor needs throughout the Bay Area.

## Major Transactions

- The largest lease transaction of the quarter was the Torani pre-lease of the 200,584 SF new development at 1919 Williams Street in San Leandro. The building is set to break ground in early 2024.
- The largest portfolio sale of the quarter was Hines purchase of 48603/48633 Warm Springs Blvd in the Mission South Submarket of Fremont from Seagate Properties. The building portfolio totaled 141,500 SF and sold for \$40.4 million or \$285/SF.
- Tech tenants shed even more space this quarter, with Meta fully vacating 115,945 SF at 6900 Dumbarton Circle in the Fremont.

## Leasing Market Fundamentals

- The market experienced positive net absorption in the fourth quarter amounting to 360,499 SF. The positive absorption helped balance out the year, and annual net absorption was stable at negative 32,004 SF, or just 0.02% of the market.
- Vacancy rates increased to 5.5% in the East Bay, largely driven by higher vacancy rates in R&D/Flex buildings. General Industrial and Warehousing markets continued to see below average vacancy rates in the fourth quarter at 3.5% and 4.6%, respectively.
- Overall availability rates were 7.2%, following the same trends as vacancy rates. As of the end of the year, warehouse/distribution availability was 6.5% while general industrial was 4.3%.
- There were 2.5 MSF of industrial construction deliveries in 2023. Availability for this space at the end of the fourth quarter was 51.9%.

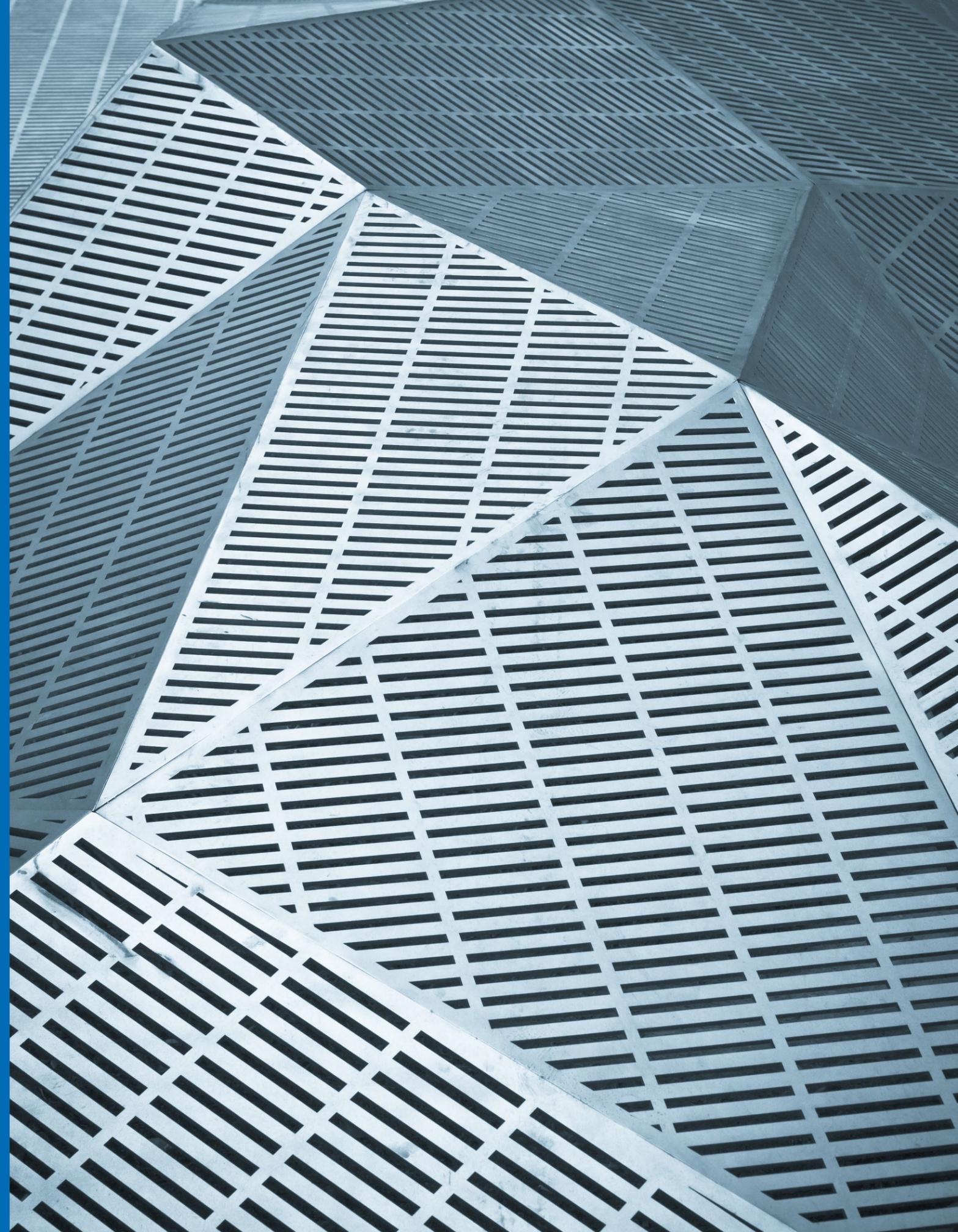
## Outlook

- The market saw an increase of rents, with an uptick in market leasing activity.
- Sales activity continues to be sporadic as interest rates remain high. Fremont continued to see the majority of sales activity in the East Bay market.

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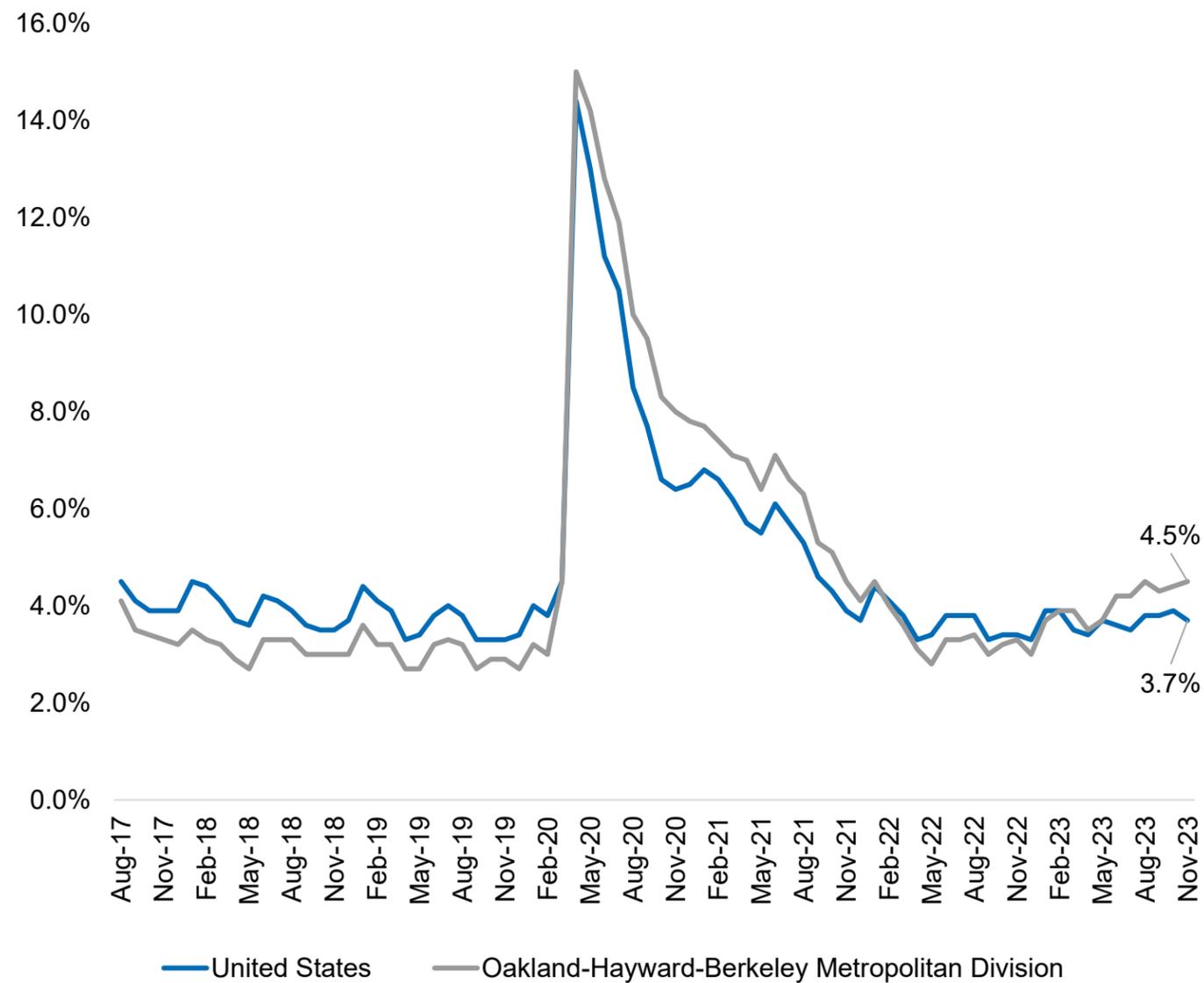
# Economy



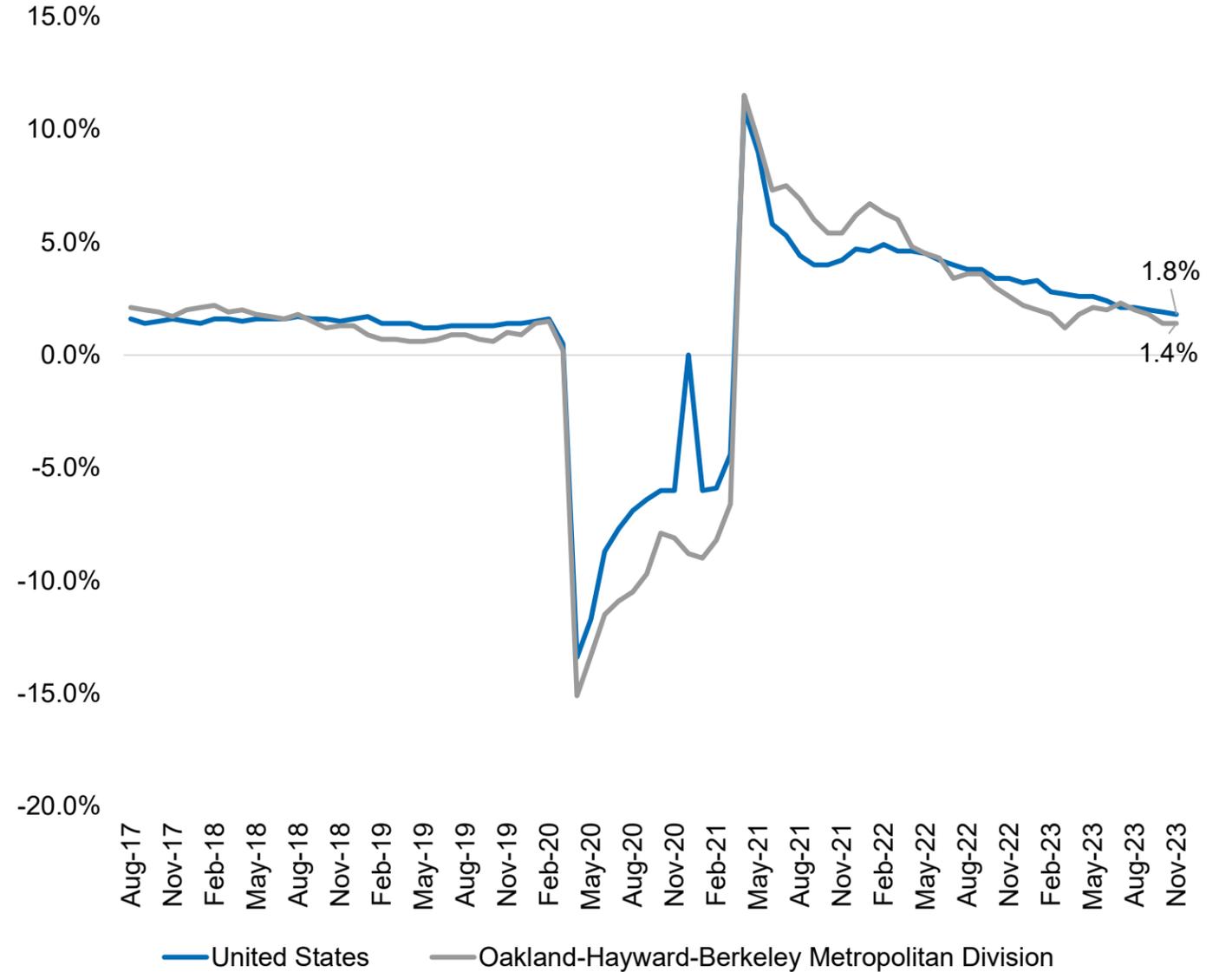
# Metro Employment Trends Signal A Slowing Economy

The current unemployment rate for the East Bay Area is 150 basis points higher than it was at the end of 2022, and at 4.5% is 80 basis points higher than the National average.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

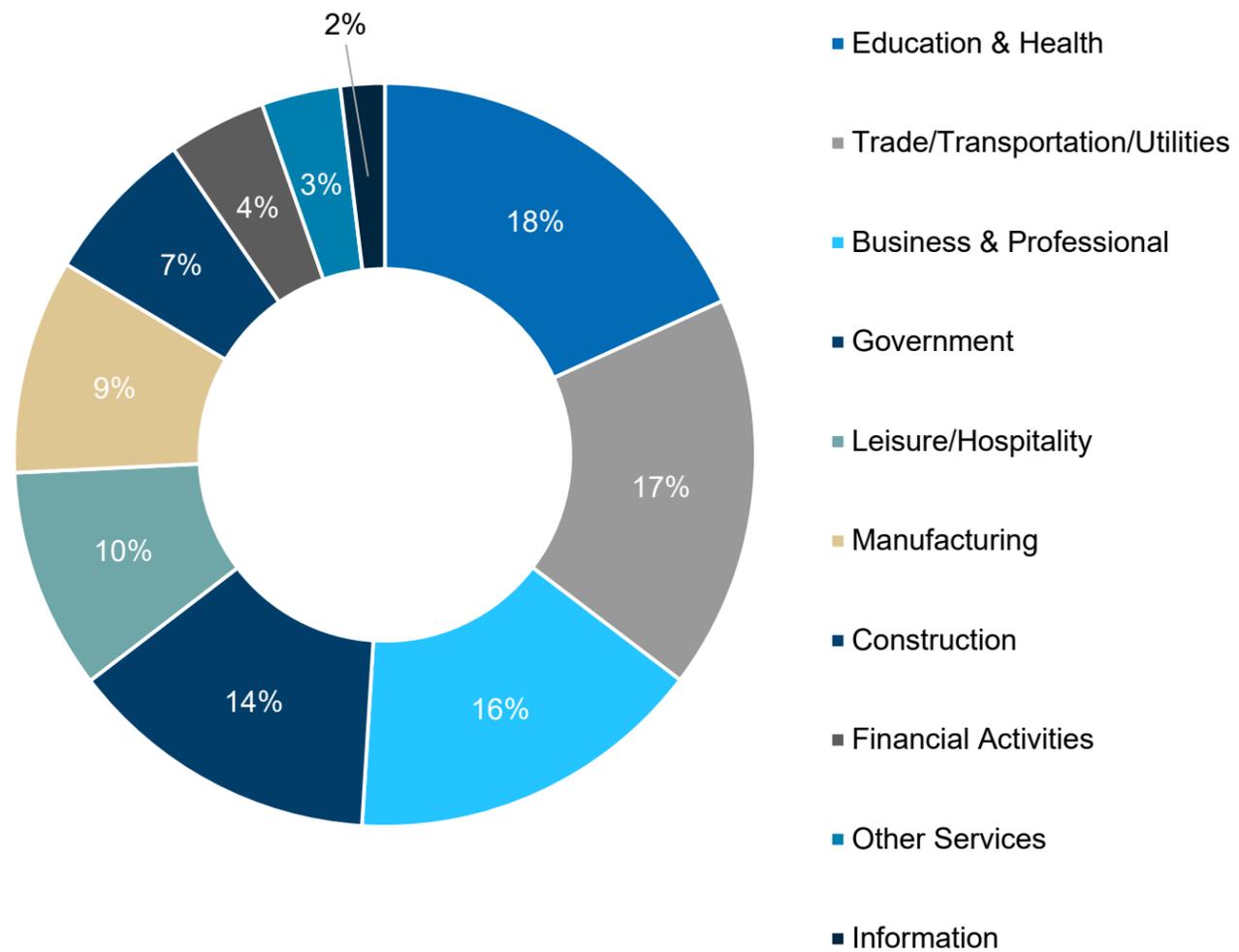


Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties)

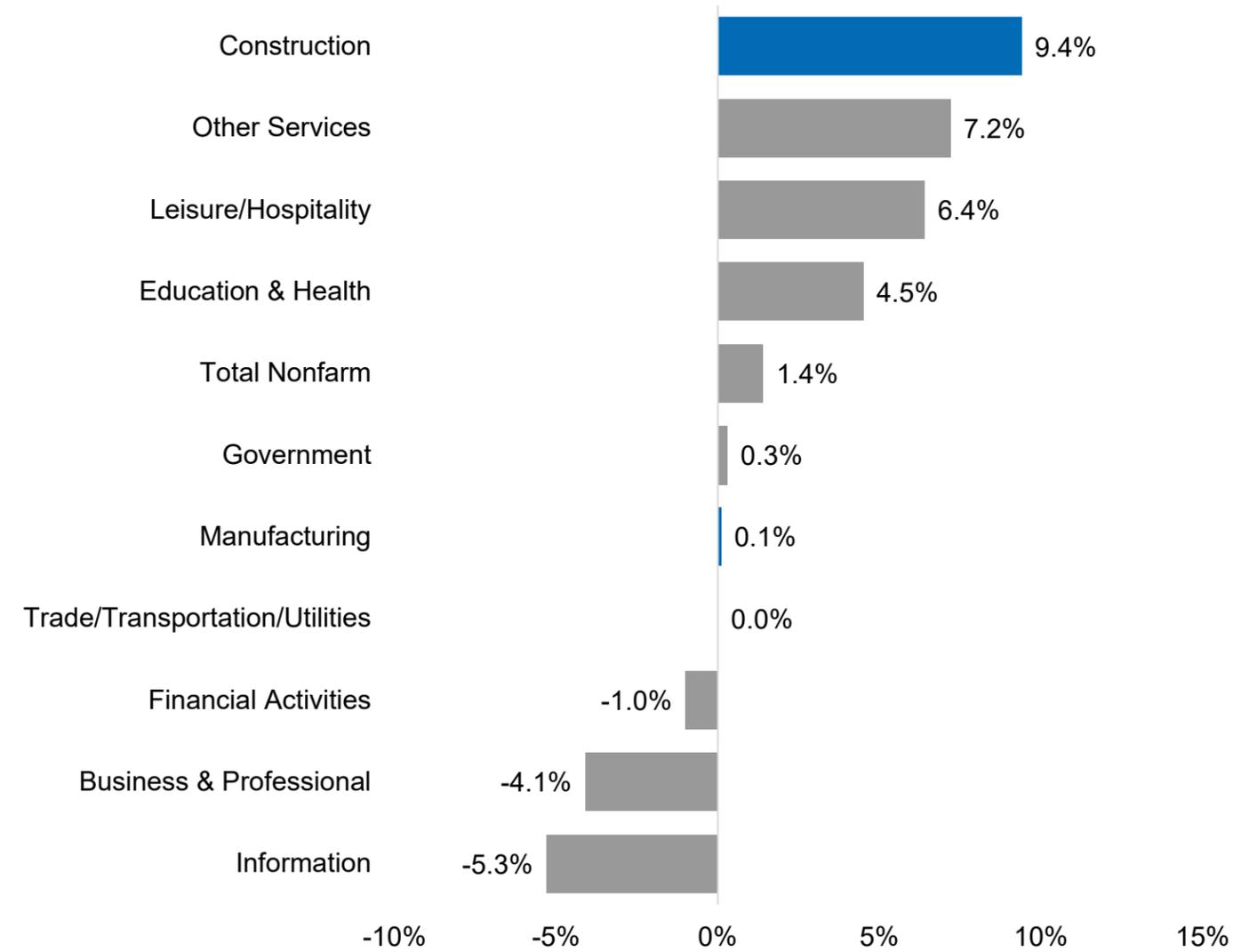
# Construction Leads East Bay Job Growth

The construction sector leads all industries in job growth over the past 12 months, rising 940 basis points over the last year. Both the Manufacturing and Trade/Transport/Utilities sectors had stagnant job growth year-over-year.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023

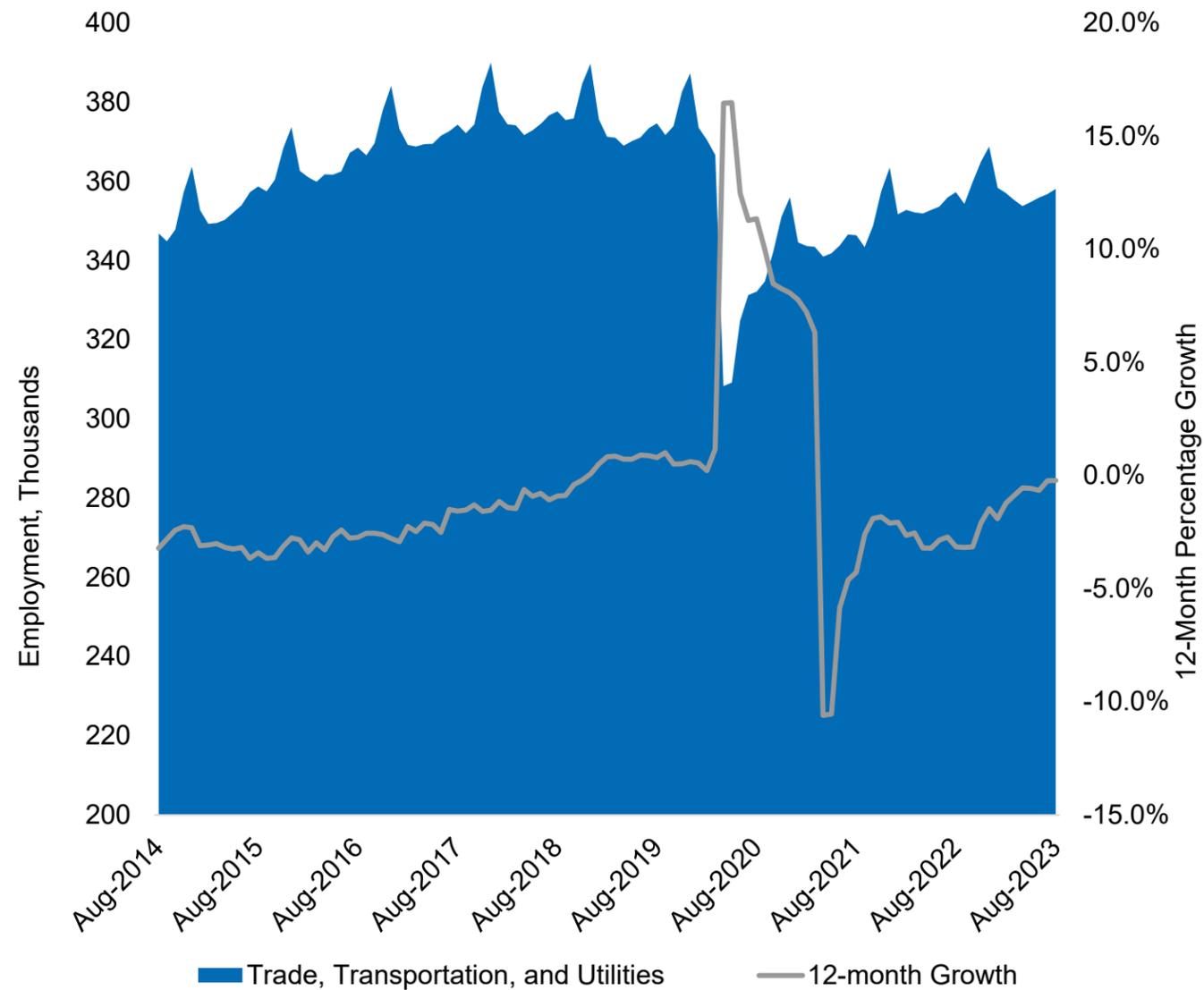


Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties)

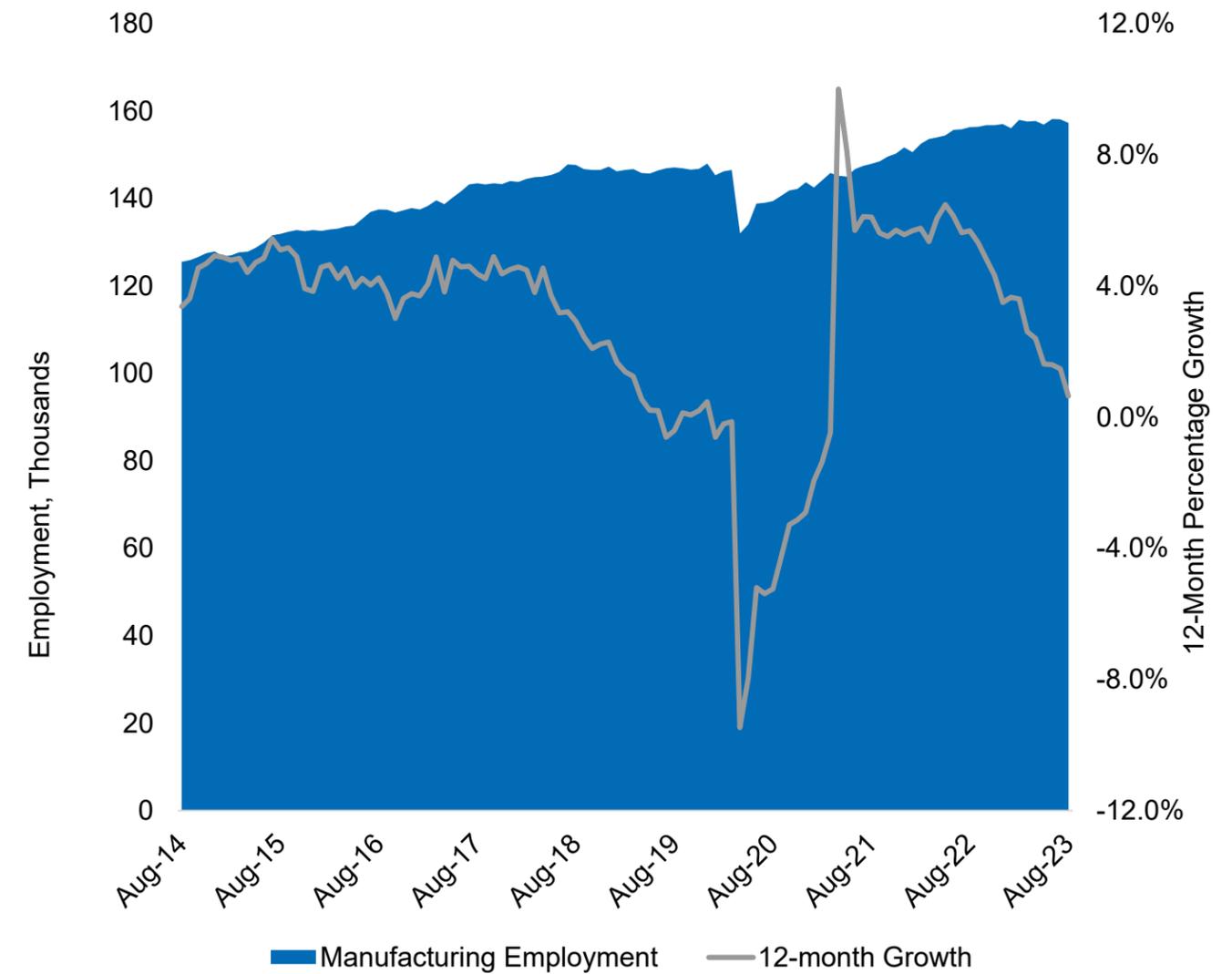
# Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs; however, competition for labor is still a challenge for many occupiers in the market.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, San Francisco-Oakland-Hayward

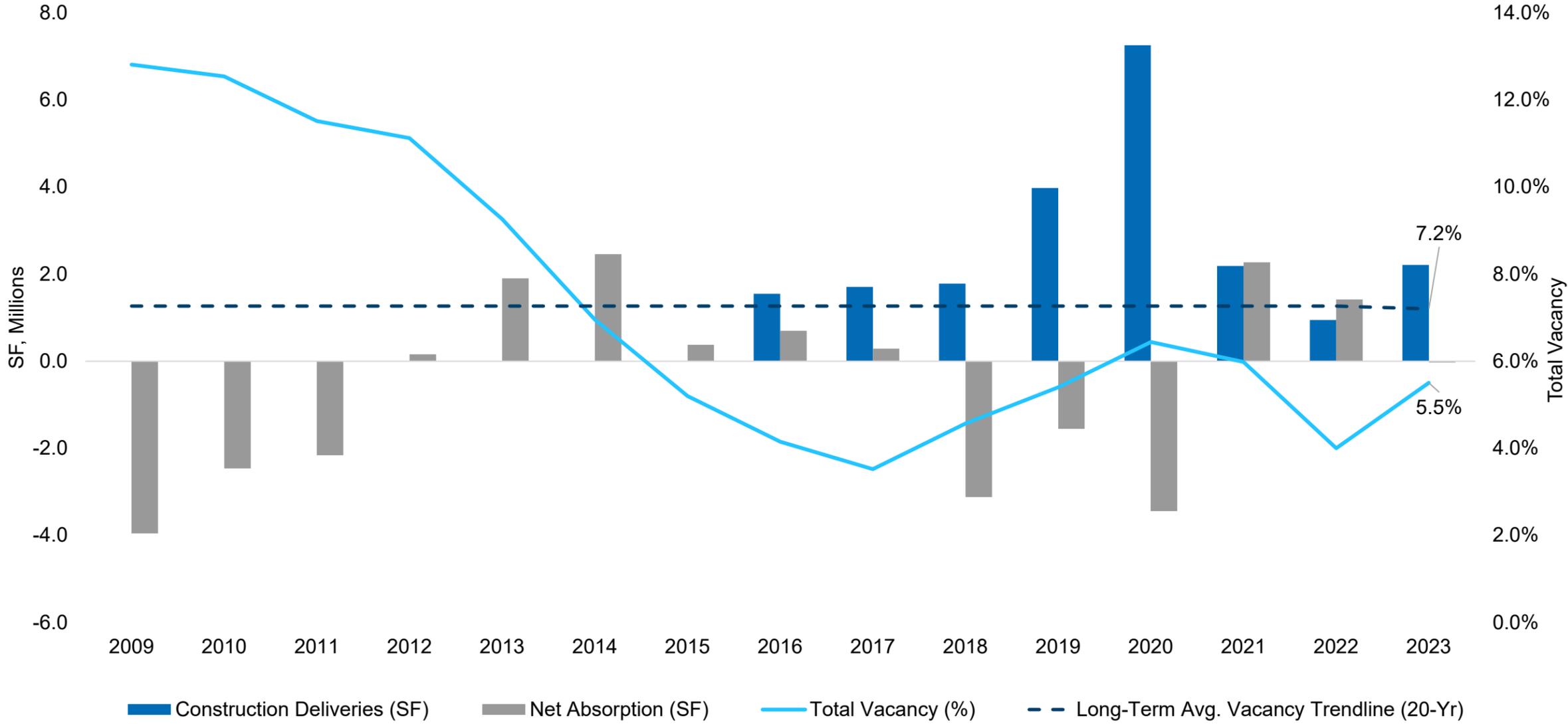
# Leasing Market Fundamentals



# Vacancy Remains Stable

Vacancy rates in the East Bay increased 150 basis points which was largely due to larger floor plate vacancies. There were 2.2 MSF of new construction delivered in 2023, of which 1.1 MSF was delivered in the fourth quarter.

## Historical Construction Deliveries, Net Absorption, and Vacancy

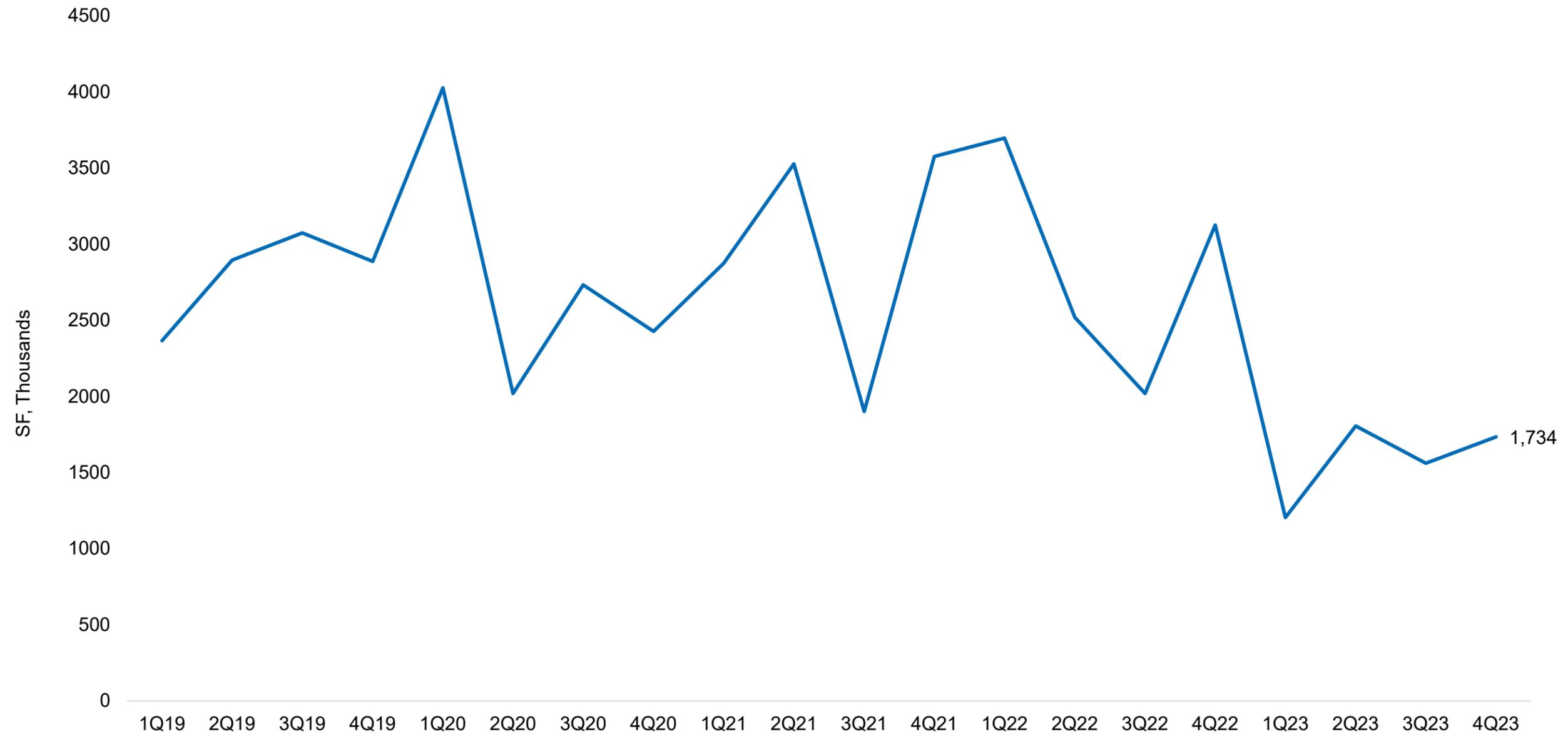


Source: Newmark Research

# Industrial Leasing Activity Remains Flat

While there was a slight uptick in leasing activity in the fourth quarter, overall leasing has been relatively flat since the second quarter of 2023. Contraction in the technology and life science sectors has impacted R&D/Flex leasing activity.

## Total Leasing Activity (SF)

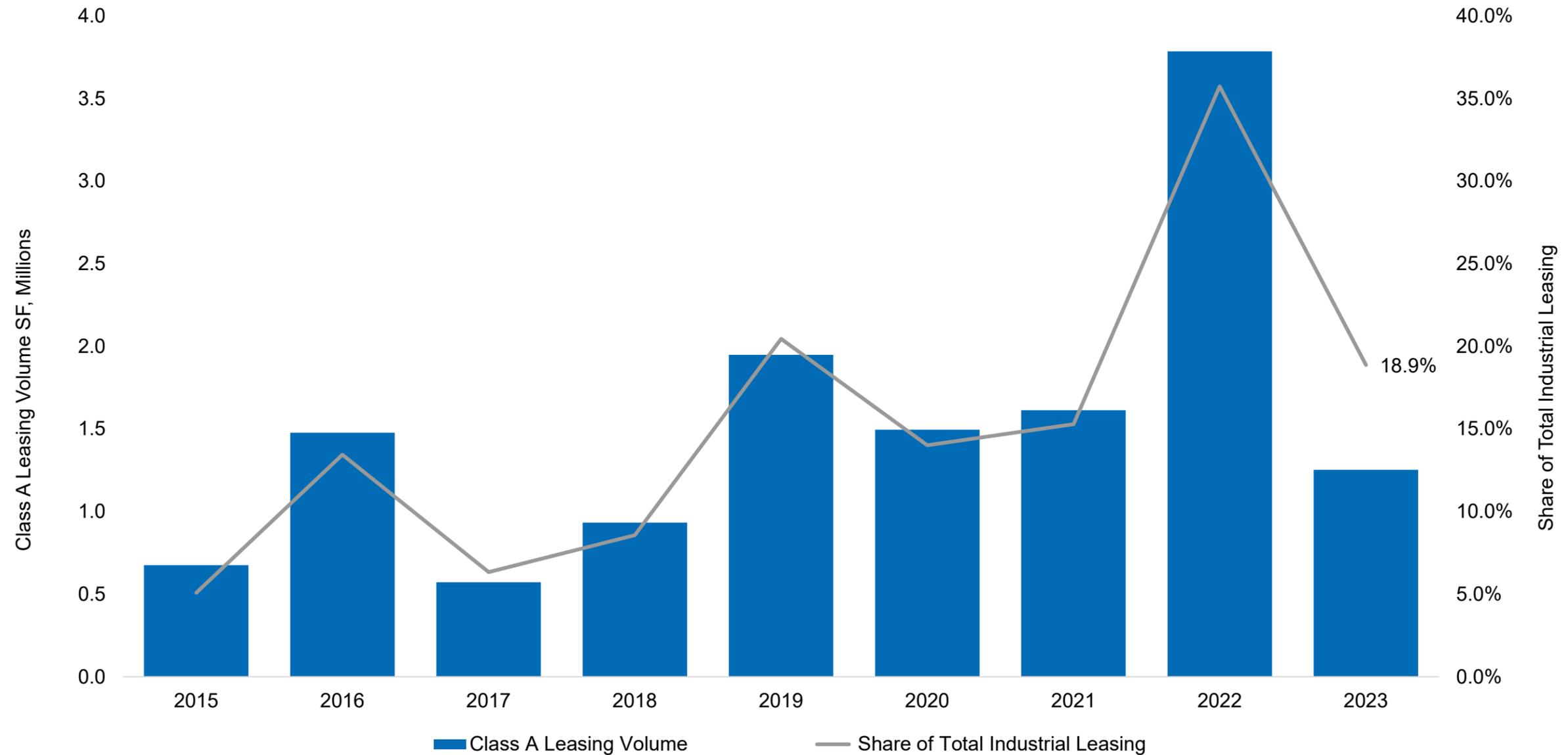


Source: Newmark Research, CoStar

# Class A Warehouse Leasing Above Long-Term Average

While overall warehouse/distribution and general industrial leasing rates in 2023 dropped to their lowest rates since 2007 (prior to what's shown on the chart below), Class A warehouse leasing was stronger than the long-term average of 15.3% of total space leased.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

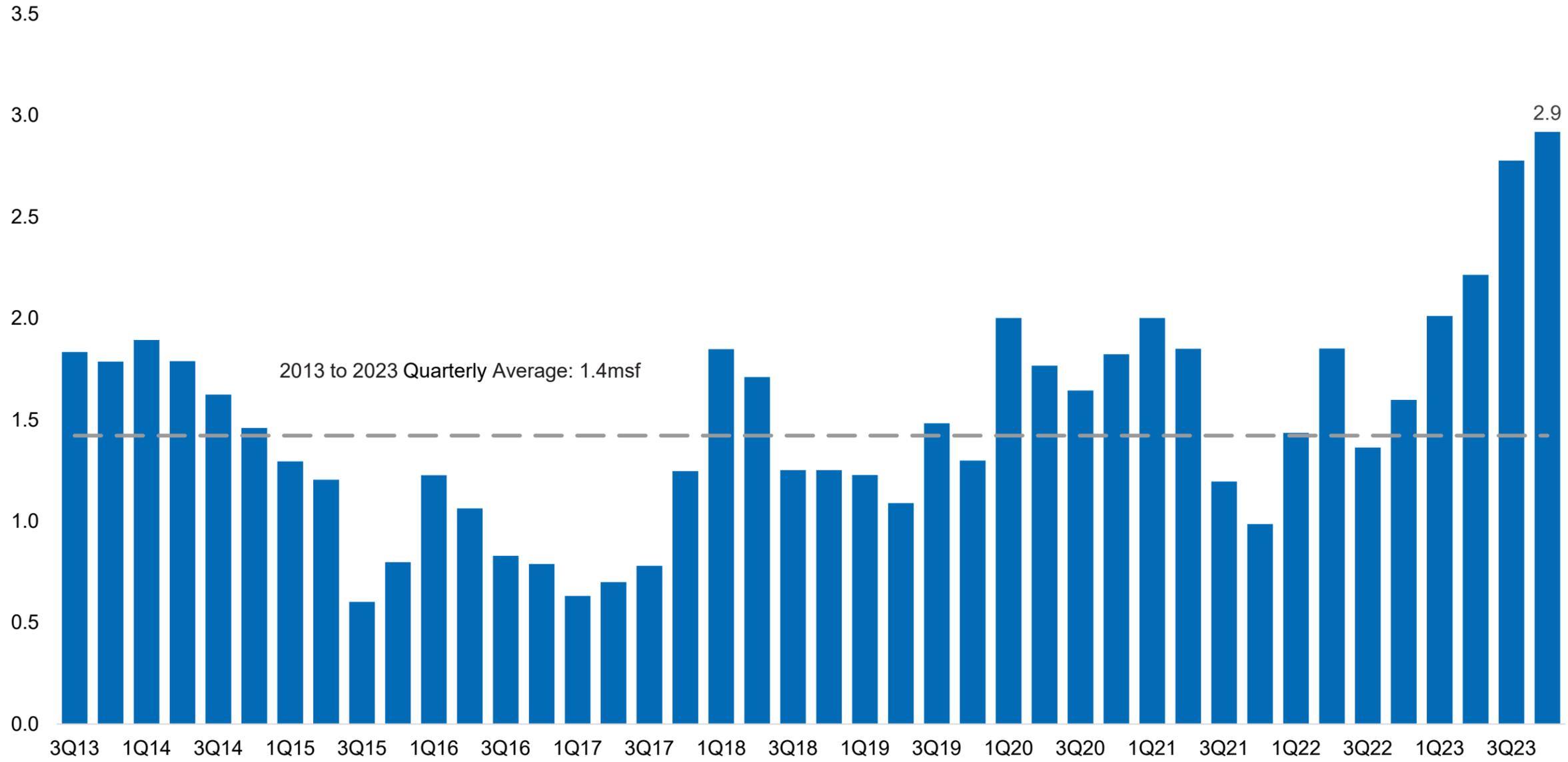


Source: Newmark Research, CoStar

# Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

Many markets across the country saw an increase in sublease space in 2023. In the East Bay, sublease space increased to 2.9 MSF across the East Bay industrial market in the fourth quarter, nearly tripling the amount of sublease space on the market at the end of 2021.

Available Industrial Sublease Volume (msf)

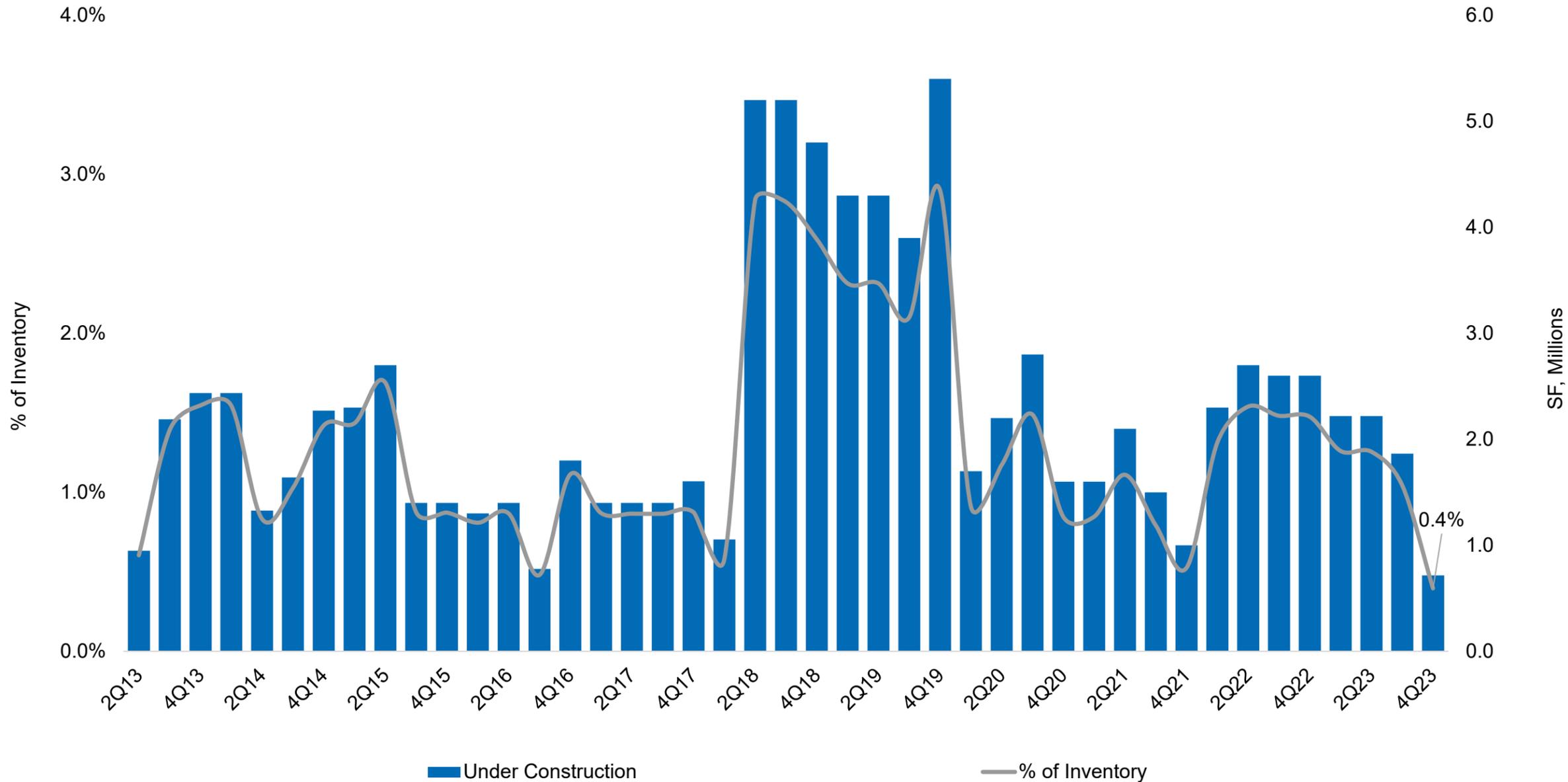


Source: CoStar

# Industrial Supply Pipeline Slows

As projects have been delivered, the new construction pipeline has slowed. As of the end of 2023, there was just over 700K sf of active construction in the market, but additional projects were expected to break ground in the first half of 2024.

## Industrial Under Construction and % of Inventory

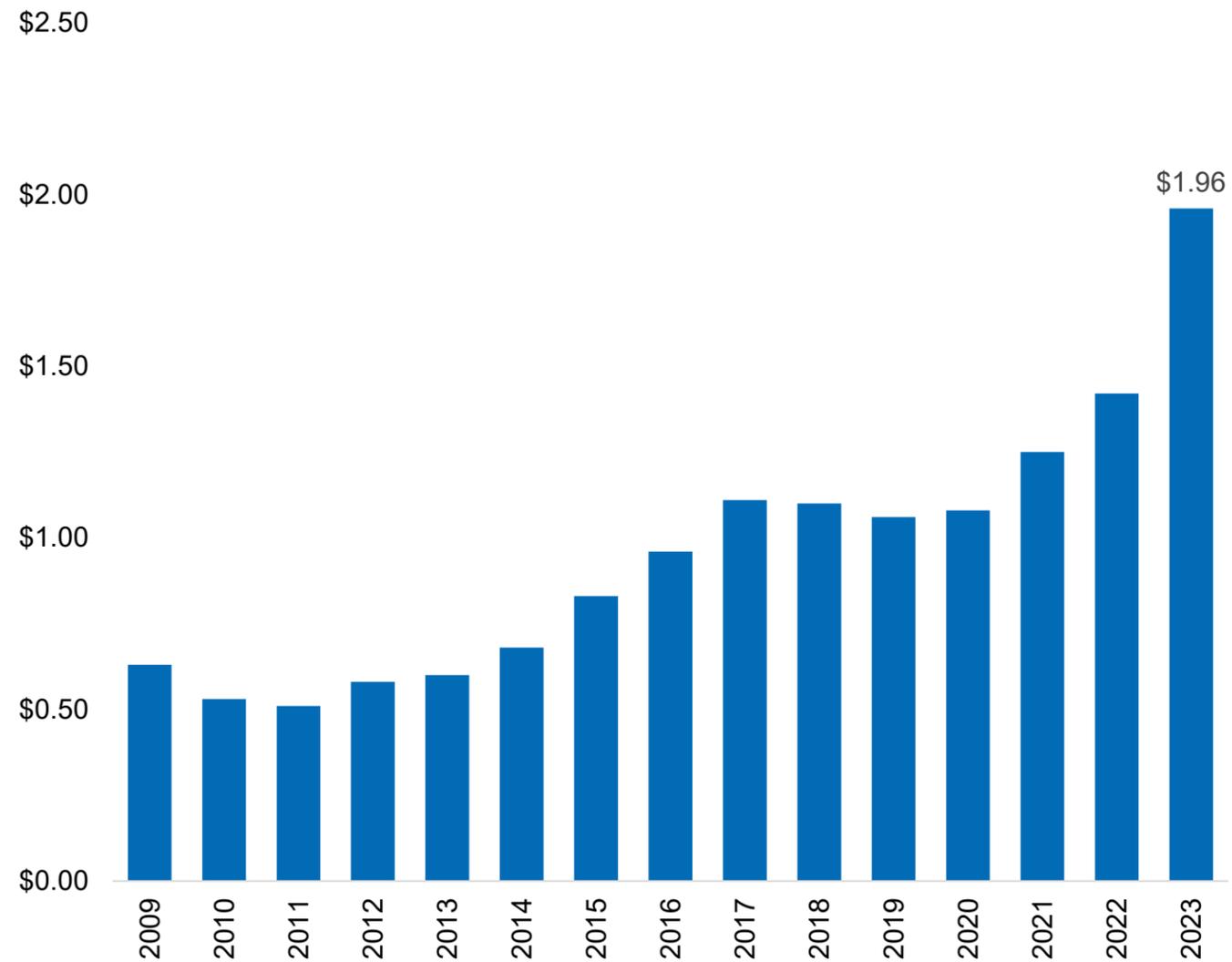


Source: Newmark Research, CoStar

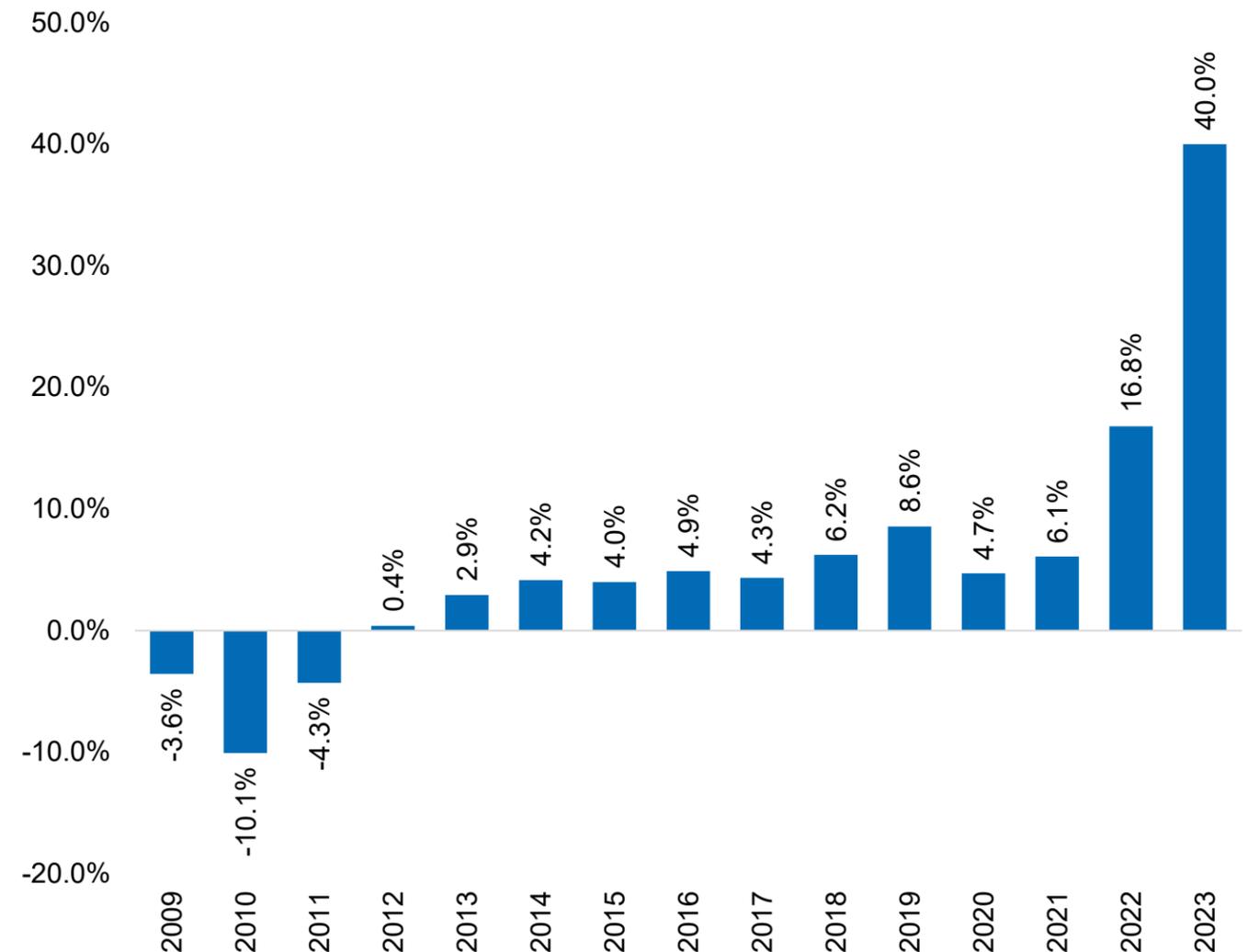
# Record-High Industrial Asking Rent Growth Continues in 2023

Industrial average asking rents saw an increase over the fourth quarter of 2023, rising 140 basis points to \$1.96/SF. Much of the recent increase was due to a premium placed on life science space and to a lesser degree Class A new construction.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

# Notable 4Q23 Lease Transactions

While leasing activity has continued to slow in the fourth quarter of 2023, there was healthy leasing activity in San Leandro and Hayward. Sales in the East Bay continue to slow as interest rates rise.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Torani	1919 Williams Street	San Leandro – West	Direct Lease	200,584
Verdagy	7395 Morton Avenue	Newark - Newark	Sublease	123,000
Galaxy Desserts	1100 S Marina Way	Richmond - Richmond	Lease Renewal	104,000
All Freight Trucking, Inc.	750 139 <sup>th</sup> Avenue	San Leandro - East	Lease Expansion	102,425
Yangfeng Automotive Interiors	31500 Hayman Street	Hayward - South	Direct Lease	93,515

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# Appendix





Please reach out to your  
Newmark business contact for this information

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*For more information:*

**Jack Baughman**

*Research Analyst  
East Bay Research*

Jack.Baughman@nmrk.com

**Reed Watson**

*Research Analyst  
East Bay Research*

Reed.Watson@nmrk.com

**Greater Oakland**

1111 Broadway, Suite 100  
Oakland, CA 94607  
t 510-923-6200

**New York Headquarters**

125 Park Ave.  
New York, NY 10017  
t 212-372-2000

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