

# MARKETBEAT

## OFFICE SNAPSHOT



### BAKERSFIELD, CA

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Q4 2015



#### ECONOMIC OVERVIEW / Q3 TO Q4

The 2015 Q3 to Q4 overall office market vacancy experienced a percentage point increase the last quarter of the year, UP from 7.32% to 8.34% adding 100,000+ RSF to market vacancy. Class A Sublease and Class B space were the contributors (before accounting to computation adjustments made to the Q-to-Q surveys). While Class A vacancy dropped a ¼% percentage point, Class A Sublease nearly quadrupling from 6,290 RSF to 28,000 RSF. Other Q3 to Q4 vacancy came from the Class B market, adding nearly 35K RSF and jumping from a 8% to a 9.6% vacancy rate. Rental rates also softened from Q3 to Q4 in all Classes of space with the overall market rate average falling from \$1.65 to \$1.57. The Medical Office Building (MOB) market experienced a Q3 to Q4 vacancy increase too, from 9.2% to 10% with most coming from Class B MOB's.

#### 2015 YEAR IN REVIEW – OFFICE LEASING

The year that went from EOY Q4 2014 to EOY Q4 2015 offered stark contrasts when comparing year-to-year ending vacancies and overall market changes. Q4 2014 overall vacancy posted a 7.08% rate versus a 2015 Q4 of 8.34%. Contributing significantly was the shedding of excess Class A space by major Oil as they looked to downsizing measures in an effort to maintain stockholder dividends in the wake of spiraling worldwide crude oil price drops. Class A vacancy went UP from 5.8% in 2014 to 9.97% Q4 2015 representing a year-to-year Class A availability increasing from 172K RSF to 317K RSF. One building in particular contributed as much as 41% to the 145K RSF increased vacant space as a major Oil tenant vacated 60K RSF on the California corridor. There was year-to-year Class B absorption as the Q4 2014 availability of 198K RSF increased only slightly to 200K RSF by Q4 2015 (this is in contrast to the 2015 Q3 to Q4 Class B vacancy jump discussed above). Class A rental rates dropped 6% during the year to a Q4 2015 average of \$1.75, down from \$1.85 Q4 2014. Overall Class B rates increased in the market from \$1.61 Q4 2014 to \$1.72 EOY 2015. Migration of tenants from Class A space to Class B over the preceding years could be a factor in the increase. Year-to-year changes in the overall MOB market were almost as dramatic, with vacancy rates increasing from 8.18% in 2014 to 10% in 2015. And while year-to-year Class B MOB posted nearly a 100% increase in vacancy from 3.8% to 7.41%, giving the appearance of softness in the MOB Class B market, the fact is there were new buildings and availability added causing the overall MOB and Class B MOB markets to look worse than in actuality. One space category to watch closely in 2016 will be the Sublease market. Between 2014 and 2015, overall Sublease vacancy increased by more than 700% (5,206 RSF to 37,539 RSF). Sublease availability will likely double in 2016.

#### 2015 YEAR IN REVIEW – VACANCY / ABSORPTION

Although the overall office market boasts a total of approximately 8.5Million RSF of Gross Lease Area (GLA = constructed space), there were only 7.77Million RSF (Net Occupied) of space actually leased by tenants at the end of 2015. With 7.71Million RSF of space leased by tenants at the end of 2014, the total Net Absorption in 2015 was only 61,589 RSF. This represents a paltry .79% absorption rate with only 5100 RSF being leased off market, per month (does not include MOB or Sublease space). Absorption rates have remained flat (as in 2014) or negative, over the past three years. New building

construction can be attributed in part flat, or negative, absorption rates as increases in GLA can affect absorption rates in slower markets.

#### 2015 YEAR IN REVIEW – OFFICE BUILDING SALES

Office sales doubled in volume between 2014 and 2015 with over 162K RSF sold in 2015, as compared to 81K sold in 2014. Dollar volume wise the total sold in 2015 was almost \$28Million, again more than doubling the dollar volume in 2014 at \$14 Million. The high office building sale was \$5.56Million and the high per square foot value was \$305/psf. Average CAP rates came in at 7.07%, with a high of 8.25% and a low CAP of 5.38%; but this is somewhat misleading as the low CAP sale was calculated against a building that also sold with the lowest price per square foot - \$72psf. Not having the benefit of seeing this sales cash flows and expenses, it appears the sale benefitted from some form of net operating income manipulation lowering the CAP. Still, the market is a long ways away from the 2007 watershed year where 600K RSF was sold for a total dollar sales volume of \$105Million.

#### OUTLOOK

We have been here before, rapidly declining oil prices followed by major Oil cutbacks and layoffs. The sentiment to date however is this one is by far NOT the worst downturn to have been experienced, but the pain is felt nonetheless. The Office market will continue to see rental rate softening in the Class A and Class B sectors. And although not discussed, certain submarkets, such as the University corridor with an almost historically low current vacancy rate of 1.59%, may see vacancy rates get pushed way up. But certainly the hardest hit will take the longest to make it back up such as the California corridor's Class A submarket with a current vacancy rate of 23%. Until oil rebounds expect the overall office market, especially the Class A market, to struggle.

#### SUMMARY OF Q4 2015 MARKET AVG. VACANCIES / RATES

|                               |                |          |                 |
|-------------------------------|----------------|----------|-----------------|
| <b>GENERAL OFFICE MARKET:</b> | 8,478,000 RSF  | [8.34%]  | \$1.57/SF/Mo MG |
| CLASS A:                      | ±3,183,000 RSF | [9.97%]  | \$1.75/SF/Mo MG |
| CLASS B:                      | ±2,100,000 RSF | [9.55%]  | \$1.72/SF/Mo MG |
| CLASS C:                      | ±2,500,000 RSF | [6.5%]   | \$1.44/SF/Mo MG |
| CLASS D:                      | ±734,000 RSF   | [3.91%]  | \$1.09/SF/Mo MG |
| <b>MEDICAL OFFICE MARKET:</b> | ±2,240,000 RSF | [10%]    | \$1.78/SF/Mo MG |
| CLASS A:                      | ±488,000 RSF   | [4.89%]  | \$2.13/SF/Mo MG |
| CLASS B:                      | ±941,000 RSF   | [7.41%]  | \$2.13/SF/Mo MG |
| CLASS C:                      | ±645,000 RSF   | [16.65%] | \$1.44/SF/Mo MG |
| CLASS D:                      | ±165,000 RSF   | [13.97%] | \$1.26/SF/M MG  |

#### STATS ON THE GO

|                          | Q4 2014 | Q4 2015 | Y-T-Y CHANGE | 12 MONTH FORECAST |
|--------------------------|---------|---------|--------------|-------------------|
| Overall Vacancy (Office) | 7.08%   | 8.34%   | +1.26%       | ▲                 |
| Overall Vacancy (MOB)    | 8.18%   | 10%     | +1.82%       | ▲                 |

## CORRIDOR BREAKDOWN SUMMARY (OFFICE)

| TOTAL OFFICE MARKET            | TOTAL SF<br>8,487,912 | TOTAL<br>VACANCY<br>707,641 | VACANCY (%)<br>8.34% | DIRECT VACANCY<br>AVG RENT - MG |
|--------------------------------|-----------------------|-----------------------------|----------------------|---------------------------------|
| <b>CALIFORNIA<br/>CORRIDOR</b> | <b>2,735,498</b>      | <b>317,208</b>              | <b>11.52%</b>        | <b>\$1.57</b>                   |
| Class A                        | 1,074,018             | 249,160                     | 23.2%                | \$1.78                          |
| Class B                        | 947,995               | 65,114                      | 6.87%                | \$1.59                          |
| Class C                        | 574,098               | 24,999                      | 4.53%                | \$1.50                          |
| Class D                        | 157,396               | 1,800                       | 1.14%                | \$1.20                          |
| <b>NW</b>                      | <b>455,306</b>        | <b>30,325</b>               | <b>6.66%</b>         | <b>\$1.63</b>                   |
| Class A                        | 0                     | 0                           | 0.00%                | 0                               |
| Class B                        | 444,686               | 27,403                      | 6.16%                | \$1.57                          |
| Class C                        | 10,620                | 2,922                       | 27.51%               | \$1.50                          |
| Class D                        | 0                     | 0                           | 0.00%                | 0                               |
| <b>SW</b>                      | <b>498,067</b>        | <b>17,095</b>               | <b>3.43%</b>         | <b>\$1.67</b>                   |
| Class A                        | 0                     | 0                           | 0.00%                | 0                               |
| Class B                        | 169,736               | 11,904                      | 7.01%                | \$2.65                          |
| Class C                        | 290,852               | 4,146                       | 1.43%                | \$1.20                          |
| Class D                        | 37,479                | 695                         | 1.85%                | \$1.15                          |
| <b>UNIVERSITY<br/>CORRIDOR</b> | <b>1,842,633</b>      | <b>29,281</b>               | <b>1.59%</b>         | <b>\$2.13</b>                   |
| Class A                        | 1,662,968             | 10,285                      | 0.62%                | \$2.25                          |
| Class B                        | 179,665               | 18,996                      | 10.57%               | \$2.08                          |
| Class C                        | 0                     | 0                           | 0.00%                | 0                               |
| Class D                        | 0                     | 0                           | 0.00%                | 0                               |
| <b>DT</b>                      | <b>2,841,108</b>      | <b>289,876</b>              | <b>10.2%</b>         | <b>\$1.40</b>                   |
| Class A                        | 445,522               | 57,763                      | 12.97%               | \$1.40                          |
| Class B                        | 356,809               | 76,959                      | 21.57%               | \$1.88                          |
| Class C                        | 1,596,802             | 129,272                     | 8.10%                | \$1.41                          |
| Class D                        | 442,275               | 25,873                      | 5.85%                | \$1.04                          |
| <b>MEMORIAL<br/>CORRIDOR</b>   | <b>97,000</b>         | <b>0</b>                    | <b>0.00%</b>         | <b>0</b>                        |
| Class A                        | 0                     | 0                           | 0.00%                | 0                               |
| Class B                        | 0                     | 0                           | 0.00%                | 0                               |
| Class C                        | 0                     | 0                           | 0.00%                | 0                               |
| Class D                        | 97,000                | 0                           | 0.00%                | 0                               |

\* ALL VACANCY SQUARE FOOTAGES DO NOT INCLUDE SUBLEASE SPACE ON THE MARKET

## CORRIDOR BREAKDOWN SUMMARY (MOB)

| TOTAL MOB MARKET               | TOTAL SF<br>2,240,415 | TOTAL<br>VACANCY<br>224,153 | VACANCY (%)<br>10% | DIRECT VACANCY<br>AVG RENT - MG |
|--------------------------------|-----------------------|-----------------------------|--------------------|---------------------------------|
| <b>CALIFORNIA<br/>CORRIDOR</b> | 509,447               | 15,566                      | 3.06%              | \$2.05                          |
| Class A                        | 0                     | 0                           | 0.00%              | 0                               |
| Class B                        | 436,227               | 15,566                      | 3.57%              | \$2.05                          |
| Class C                        | 73,220                | 0                           | 0.00%              | 0                               |
| Class D                        | 0                     | 0                           | 0.00%              | 0                               |
| <b>NW</b>                      | 277,443               | 41,133                      | 14.83%             | \$1.81                          |
| Class A                        | 0                     | 0                           | 0.00%              | 0                               |
| Class B                        | 277,443               | 41,133                      | 14.83%             | \$1.81                          |
| Class C                        | 0                     | 0                           | 0.00%              | 0                               |
| Class D                        | 0                     | 0                           | 0.00%              | 0                               |
| <b>SW</b>                      | 2,097                 | 2,097                       | 100.00%            | 0                               |
| Class A                        | 0                     | 0                           | 0.00%              | 0                               |
| Class B                        | 0                     | 0                           | 0.00%              | 0                               |
| Class C                        | 2,097                 | 2,097                       | 100.00%            | 0                               |
| Class D                        | 0                     | 0                           | 0.00%              | 0                               |
| <b>UNIVERSITY<br/>CORRIDOR</b> | 515,830               | 28,504                      | 5.53%              | \$2.19                          |
| Class A                        | 319,837               | 23,863                      | 7.46%              | \$2.15                          |
| Class B                        | 195,993               | 4,641                       | 2.37%              | \$2.35                          |
| Class C                        | 0                     | 0                           | 0.00%              | 0                               |
| Class D                        | 0                     | 0                           | 0.00%              | 0                               |
| <b>DT</b>                      | 557,978               | 65,937                      | 11.82%             | \$1.68                          |
| Class A                        | 78,653                | 0                           | 0.00%              | 0                               |
| Class B                        | 31,926                | 8,426                       | 26.39%             | \$2.40                          |
| Class C                        | 422,578               | 55,649                      | 13.17%             | \$1.57                          |
| Class D                        | 24,821                | 1,862                       | 7.50%              | \$0.80                          |
| <b>MEMORIAL<br/>CORRIDOR</b>   | 377,620               | 73,013                      | 19.34%             | \$1.32                          |
| Class A                        | 90,000                | 0                           | 0.00%              | 0                               |
| Class B                        | 0                     | 0                           | 0.00%              | 0                               |
| Class C                        | 147,735               | 51,862                      | 35.10%             | \$1.28                          |
| Class D                        | 137,384               | 21,151                      | 15.12%             | \$1.35                          |

\* \*\*ALL VACANCY SQUARE FOOTAGES DO NOT INCLUDE SUBLEASE SPACE ON THE MARKET