

# MARKETBEAT OFFICE SNAPSHOT

## BAKERSFIELD, CA

A Cushman & Wakefield Research Publication



**PACIFIC**  
COMMERCIAL REALTY ADVISORS  
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Q1 2015



### ECONOMIC OVERVIEW

As predicted in the Bakersfield, CA MARKETBEAT Office Snapshot from Q4 2014, and in direct relationship to the plunge in world crude oil pricing, major oil producers in Kern County have begun consolidating their office space needs. The typical strength of Bakersfield's office market bolstered by big oil, and to a lesser extent big Ag, has begun to soften as indicated in the newly released Q1 2015 office market results. The Kern County oil industry employs thousands, but with crude oil prices at 50% of this time last year, oil employment counts have begun to drop. Most big oil downsizing has so far occurred through attrition (natural reduction in employee count through hiring freezes; not back filling vacated positions lost to retirement; and, by other means). However, big oil also creates many jobs through contracts with oilfield service and supply companies, and job loss in this sector too has contributed to the slipping demand for quality office space. On the bright side, there are some independent oil companies that experience growth in a down market and will seize the opportunity to acquire smaller producers together with larger office space. More importantly, it seems big oil planned for this event so wholesale layoffs don't appear to be anywhere on the horizon. The overall sentiment is positive and expectations are that oil prices will begin to rise and stabilize. Bakersfield's total office vacancy however increased from Q4 2014 to Q1 2015 from 6.5% to 8.27%. This 28% increase in office market vacancy, quarter-to-quarter, is greater than the 24% increase experienced all of last year (Q4 2013 to Q4 2014). The increase can be attributed, in large part, to Chevron Oil USA's planned employee relocation coming June 30<sup>th</sup>. Chevron is vacating 60K SF of Class A office space in the California Corridor submarket and relocating to surplus space in their owned campus building(s) in the University submarket. Although lease rates across the overall market stayed even quarter to quarter, Class A rates dropped from \$23.00 (Q4 2014) to \$20.40 (Q1 2015).

In the Medical Office Building market (MOB) the Q1 2015 results posted a decrease in vacancy at 7.12% (from 8.89% in Q4 2014); however, rates softened slightly from \$21.36 (Q4 2014) to \$20.40. This reflects reaction to continued changes in the national healthcare system as medical groups seek partnership opportunities with larger medical groups; and, as medical providers, in general, seek to own versus lease. Locally, the MOB market can be characterized as approaching a stabilized state

wherein demand slows, and existing, older MOB lease inventory stagnates as demonstrated in the Q1 2015 results.

### OUTLOOK

Overall office market vacancy rates may slip a percentage point, or more, as we continue through 2015, but will most likely stabilize by year end. Increasing Class A office vacancy, within select submarkets, will provide the greatest challenge as demand will slow, and inventory accumulate, fuelled by continued big oil and related consolidation. Class A vacancy now at 9.26%, and which realized an almost 60% increase over Q4 2014, will most likely break well into double digit vacancy numbers. The University submarket, with an almost imperceptible 0.67% vacancy will again be the big winner as oil office demand continues to consolidate within this prime submarket. There will likely be new construction in the University submarket as there seems to be no issue here with the slowing demand or increasing vacancies found in most other submarkets. Also likely will be newly constructed MOB growth in the University submarket as the local medical industry looks to modernize and reposition within the changing healthcare environment.

### SUMMARY OF Q1 2015 MARKET AVG. VACANCIES / RATES

<b>GENERAL OFFICE MARKET:</b>	±8,300,000 RSF	[8.27%]	\$1.53/SF/Mo MG
CLASS A:	±2,900,000 RSF	[9.62%]	\$1.70/SF/Mo MG
CLASS B:	±2,100,000 RSF	[7.56%]	\$1.92/SF/Mo MG
CLASS C:	±2,400,000 RSF	[6.0%]	\$1.44/SF/Mo MG
CLASS D:	±780,000 RSF	[13.38%]	\$1.22/SF/Mo MG
<b>MEDICAL OFFICE MARKET:</b>	±2,133,000 RSF	[7.12%]	\$1.70/SF/Mo MG
CLASS A:	±454,000 RSF	[9.7%]	\$2.23/SF/Mo MG
CLASS B:	±893,000 RSF	[3.8%]	\$1.85/SF/Mo MG
CLASS C:	±621,000 RSF	[21.4%]	\$1.33/SF/Mo MG
CLASS D:	±164,000 RSF	[10.1%]	\$1.46/SF/Mo MG

### STATS ON THE GO

	Q4 2014	Q1 2015	Q-T-Q CHANGE	12 MONTH FORECAST
Overall Vacancy (Office)	6.45%	8.27%	28%	▲
Overall Vacancy (MOB)	8.89%	7.12%	(20%)	▼

## CORRIDOR BREAKDOWN SUMMARY (OFFICE)

TOTAL OFFICE MARKET	TOTAL SF 8,263,536	TOTAL VACANCY 683,279	VACANCY (%) 8.27%	DIRECT VACANCY AVG RENT - MG
<b>CALIFORNIA CORRIDOR</b>	<b>2,839,244</b>	<b>346,868</b>	<b>12.22%</b>	<b>\$1.53</b>
Class A	1,074,018	203,635	18.96%	\$1.74
Class B	976,932	94,333	9.66%	\$1.32
Class C	579,374	32,735	5.65%	\$1.47
Class D	202,920	16,165	7.97%	\$1.36
<b>NW</b>	<b>453,670</b>	<b>35,851</b>	<b>7.90%</b>	<b>\$1.79</b>
Class A	0	0	0.00%	0
Class B	453,670	35,851	7.90%	\$1.79
Class C	0	0	0.00%	0
Class D	0	0	0.00%	0
<b>SW</b>	<b>498,067</b>	<b>23,206</b>	<b>4.66%</b>	<b>\$1.70</b>
Class A	0	0	0.00%	0
Class B	169,706	11,904	7.01%	\$2.75
Class C	290,852	12,707	4.37%	\$1.20
Class D	37,479	695	1.85%	\$1.15
<b>UNIVERSITY CORRIDOR</b>	<b>1,624,401</b>	<b>10,927</b>	<b>0.67%</b>	<b>\$2.15</b>
Class A	1,442,715	6,338	0.44%	\$2.25
Class B	181,686	4,589	2.53%	\$2.10
Class C	0	0	0.00%	0
Class D	0	0	0.00%	0
<b>DT</b>	<b>2,751,154</b>	<b>214,778</b>	<b>7.81%</b>	<b>\$1.32</b>
Class A	444,522	64,373	14.45%	\$1.60
Class B	300,985	10,774	3.58%	\$1.65
Class C	1,562,300	103,783	6.64%	\$1.29
Class D	442,275	35,848	8.11%	\$1.14
<b>MEMORIAL CORRIDOR</b>	<b>97,000</b>	<b>51,649</b>	<b>53.25%</b>	<b>\$1.08</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	51,649	53.25%	\$1.08

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

## CORRIDOR BREAKDOWN SUMMARY (MOB)

TOTAL MOB MARKET	TOTAL SF 2,130,680	TOTAL VACANCY 151,777	VACANCY (%) 7.12%	DIRECT VACANCY AVG RENT - MG
<b>CALIFORNIA CORRIDOR</b>	509,447	6,115	1.20%	\$1.65
Class A	0	0	0.00%	0
Class B	436,227	6,115	1.40%	\$1.65
Class C	73,220	0	0.00%	0
Class D	0	0	0.00%	0
<b>NW</b>	241,059	2,977	1.23%	\$1.70
Class A	0	0	0.00%	0
Class B	241,059	2,977	1.23%	\$1.70
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 CORRIDOR</b>	481,992	53,470	11.09%	\$2.23
Class A	285,999	28,598	10.00%	\$2.21
Class B	195,993	24,872	12.69%	\$2.25
Class C	0	0	0.00%	0
Class D	0	0	0.00%	0
<b>DT</b>	519,996	39,344	14.64%	\$1.35
Class A	78,653	0	0.00%	0
Class B	20,000	0	0.00%	0
Class C	398,354	39,444	14.68%	\$1.35
Class D	22,959	0	0.00%	0
<b>MEMORIAL CORRIDOR</b>	375,119	47,774	12.74%	\$1.41
Class A	90,000	0	0.00%	0
Class B	0	0	0.00%	0
Class C	147,735	39,577	26.79%	\$1.30
Class D	137,384	9,197	6.69%	\$1.46

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