



19.6%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

-189K

Net Absorption, SF



\$3.28

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS
Q4 2019

1.21M

East Bay
EmploymentYoY
Chg12-Mo.
Forecast

2.8%

East Bay
Unemployment Rate

3.6%

U.S.
Unemployment RateSource: BLS, Moody's Analytics
2019Q4 data are based in the latest available data

ECONOMY: Unemployment continues to Decrease

Alameda and Contra Costa counties, collectively known as the East Bay, continue their positive employment growth adding 21,600 non-farm payroll positions (+1.8%) year-over-year (YoY), bringing total employment to 1.21 million jobs. With the increase in employment and marginal labor force, the unemployment rate ticked down slightly from 3.0% to 2.8% YoY, well below the national average of 3.6%. The continued decrease in the unemployment rate in the East Bay is at least partially due to its close proximity to San Francisco's thriving labor market, which now has one of the lowest unemployment rates in the country at 2.1%. In recent years, the East Bay has enjoyed an influx of employers migrating from San Francisco, seeking affordable rents and access to the East Bay talent pool. The East Bay Walnut Creek office market continues to be a center of smaller footprint legal and professional services firms.

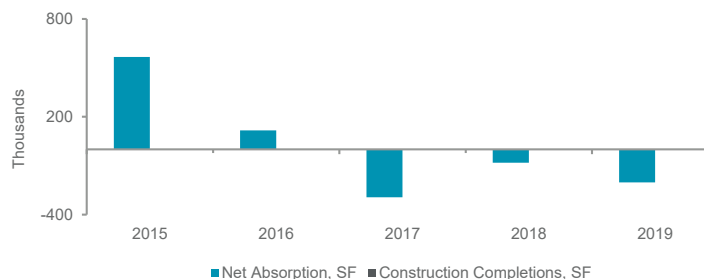
SUPPLY: Vacancy Increases in Q4 2019

Vacancy in the fourth quarter of 2019 increased to 17.0%, up 270 bps from 14.3% at the end of the third quarter. This rise is largely due to the 284,853 square feet (sf) of direct space and 86,388 of sublease spaces added to vacancy this quarter. This is the highest vacancy rate since the first quarter of 2015 when it climbed to 17.3%. Large blocks of space continue to represent a large portion of vacancy, with the number of listings over 10,000 sf making up 14% of availabilities in the market. Even though vacant spaces were spending slightly less time on the market, 24.8 months in third quarter of 2019 and 22.8 months in the fourth quarter of 2019, there were more of them available. The spaces will likely remain vacant until larger tenants migrate from the San Francisco and Oakland markets, where rents command a higher premium.

PRICING: Asking Rents Remain Stagnant

Rents in the fourth quarter ticked up to \$3.09 per square foot (psf) on a monthly full-service basis from \$3.08 psf in the third quarter, representing the high watermark for the East Bay Walnut Creek market. This continues the trend that East Bay Walnut Creek rents have witnessed, defying expectations with rents trending higher alongside rising vacancy. The explanation for this is many Class A buildings, including the Treat Towers in October 2019, have been sold and investors are seeking a return on their investment. These investors seem to be pricing assets in Walnut Creek similar to surrounding markets. The Class A rents in Walnut Creek, however recorded a decline to \$3.29 in the fourth quarter of 2019 from \$3.34 in third quarter of 2019, revealing that Class A rents may start to decrease and thus represent a discount over equivalent space in nearby markets.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Walnut Creek

Office Q4 2019



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Net Absorption Decreases Significantly in Q4 2019

The East Bay Walnut Creek market recorded negative absorption of 371,191 sf in the fourth quarter of 2019, a major decrease from the positive 59,910 sf in the third quarter. Occupancy growth will be challenging in the coming quarters due to the slowdown in gross absorption (leasing). Overall leasing activity was low for the fourth quarter with Calpine signing the largest new lease of the quarter for 21,826 sf at 3003 Oak Road. Because the Walnut Creek market tends to cater to businesses looking for smaller blocks of space, the larger ones have remained on the market for an extended period. The number of available spaces over 20,000 sf increased 15% from third quarter of 2019 to fourth quarter of 2019.

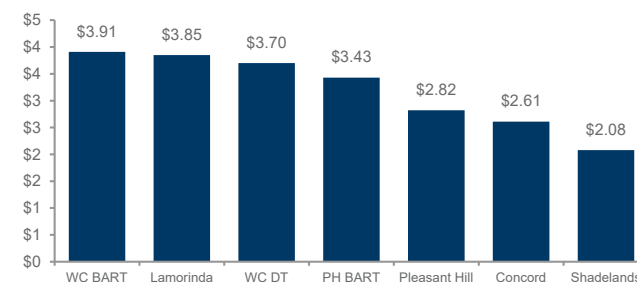
Sales

Investment activity in the fourth quarter continued the sluggish trends of the third quarter with 415,713 sf sold for the Walnut Creek market. Of note was the sale of 378,000 sf Treat Towers in Walnut Creek, one of the few Class A assets in the Walnut Creek- Pleasant Hill BART submarket and which constitutes 22% of the inventory there. The buildings were acquired by Metlife from Rockpoint group selling for (\$187.2 million or \$495 psf). The sale of this asset, despite many of the other lethargic real estate metrics, represents investors longer-term confidence in the market.

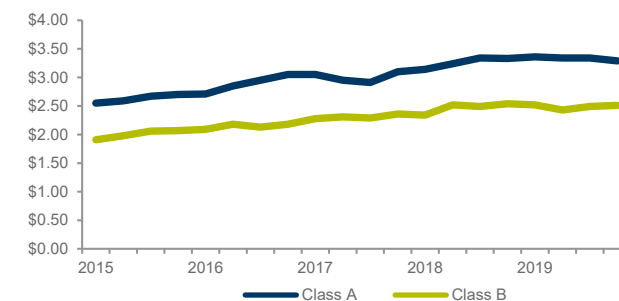
Outlook

- Average rents will continue to increase into 2020 and beyond.
- Sales will steadily increase in the first quarter of 2020.
- Leasing activity may continue to struggle as gross absorption was down 71.3% from fourth quarter 2018.

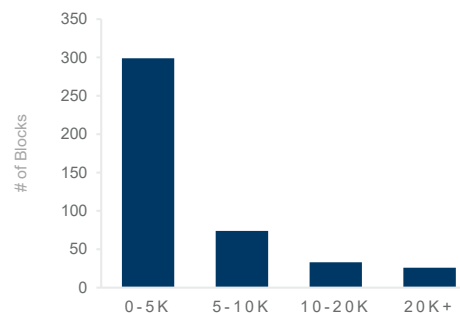
SUBMARKET ASKING RENT



ASKING RENT COMPARISON



Availabilities by Size Segment



Walnut Creek

Office Q4 2019



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Concord	4,518,312	120,888	593,676	15.8%	-33,956	-189,232	257,281	0	\$2.61	\$2.63
Pleasant Hill	553,572	11,099	43,361	9.8%	-15,016	-11,592	17,962	0	\$2.82	\$3.00
Lamorinda	1,121,196	1,413	87,099	7.9%	-12,958	-30,303	13,436	0	\$3.85	\$4.50
WC Downtown	1,904,293	4,263	178,028	9.6%	4,371	4	147,114	0	\$3.70	\$4.77
WC Pleasant Hill BART	1,673,423	138,768	240,549	22.7%	-87,332	13,436	90,878	0	\$3.43	\$3.52
WC BART Area	2,311,234	58,508	485,721	23.5%	-178,035	-30,303	149,057	0	\$3.91	\$3.96
WC Shadelands	1,741,328	1,078	389,499	22.4%	-48,265	0	82,777	0	\$2.08	\$2.05
Walnut Creek Totals	7,630,278	202,617	1,293,797	19.6%	-309,261	-189,232	758,505	0	\$3.28	\$3.70
CLASS BREAKDOWN										
Class A	8,187,778	320,273	1,404,615	21.1%	-338,025	-742,217	236,635	0	\$3.29	\$3.29
Class B	5,635,580	15,744	613,318	11.2%	-33,166	165,015	521,870	0	\$2.51	N/A
Total	13,823,358	336,017	2,017,933	17.0%	-371,191	-202,446	758,505	0	\$3.09	\$3.29

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3003 Oak Road	WC-Pleasant Hill BART	Calpine	21,926	New Lease
100 Pringle Avenue	WC-BART	CompeWest Insurance	4,051	New Lease
4071 Port Chicago Highway	Concord	Rubicon Programs	2,741	New Lease

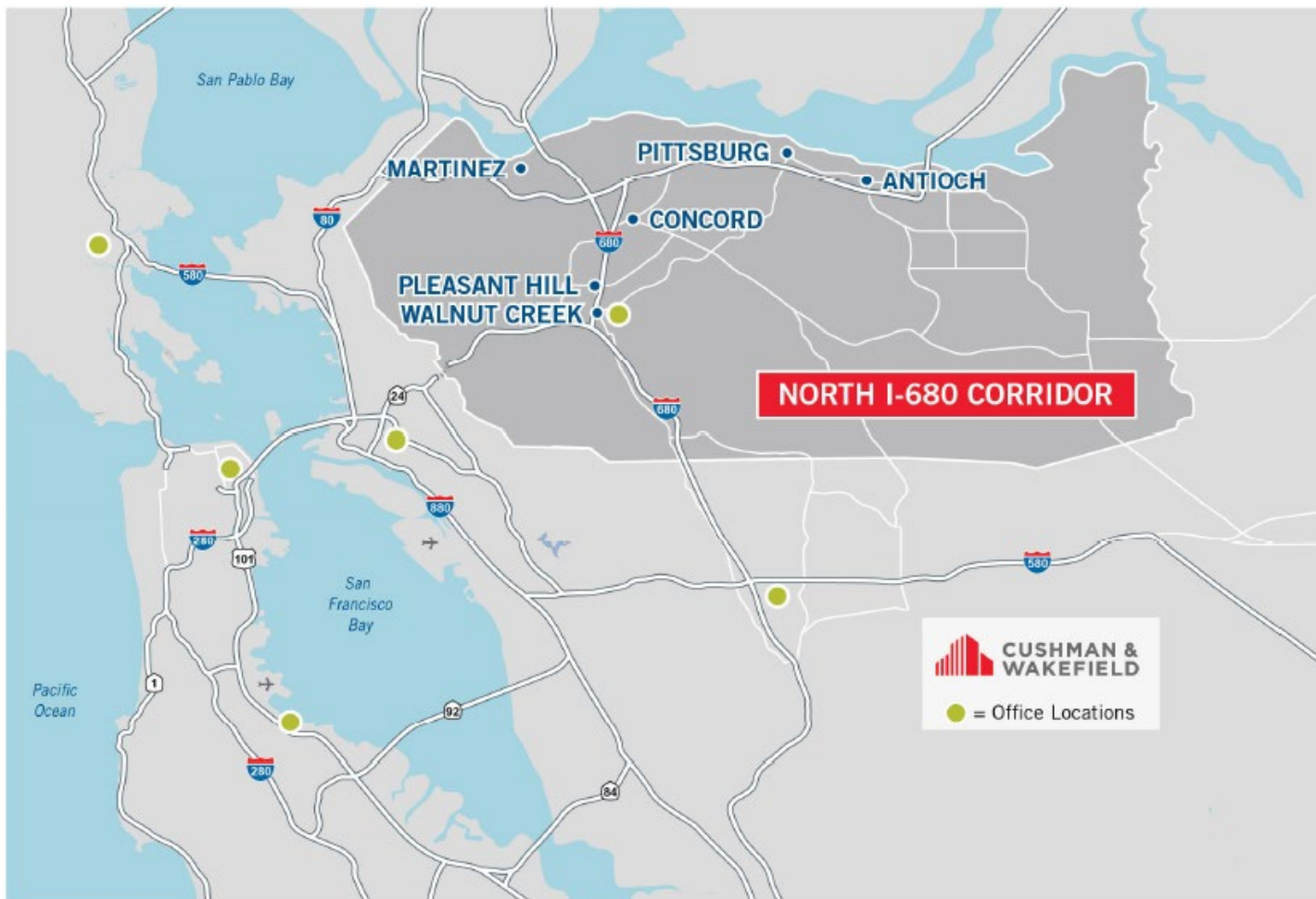
*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1255-1277 Treat Blvd.	WC-Pleasant Hill BART	Metlife / Rockpoint Group	378,000	\$188.3M/\$513
2121 Ygnacio Valley Road	WC-Shadelands	Hiebovy Family Living Trust/ Robert & Arteta Harrell	12,600	\$5.0M/\$393

Walnut Creek

Office Q4 2019

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