

Walnut Creek

Industrial Q4 2020

2.2%
Vacancy Rate



21K
Net Absorption, SF



\$0.92
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2020

1.1M
East Bay Employment



7.3%
East Bay Unemployment Rate



6.7%
East Bay Unemployment Rate



Source: BLS, Moody's Analytics.
2020Q4 data are based on latest available data.

ECONOMY: Slow Road to Pandemic Recovery

The East Bay, encompassing Alameda and Contra Costa counties, recorded negative job growth with over 116,000 jobs (-9.9 %) lost year-over-year (YOY), bringing regional employment to just under 1.07 million. With this decline, the unemployment correspondingly rose by +450 basis points (bps) to 7.3%, above the national rate of 6.7%. Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. While the market has begun to turn the corner, until there is a public health resolution and full access to vaccinations, full recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident.

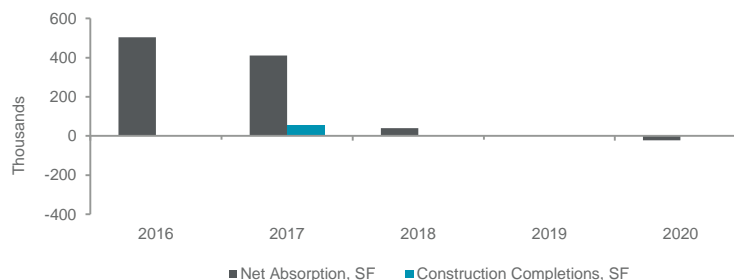
SUPPLY: Market Remains Tight Despite Ongoing Pandemic

The vacancy rate in the East Bay Walnut Creek industrial market was 2.2% at the end of the fourth quarter, edging down 10 bps from the previous quarter though up a scant 60 bps from this time last year. Compared to the East Bay Oakland market where vacancy stands at 5.7%, as well as national industrial trends, East Bay Walnut Creek has historically seen tight vacancy, having not risen above 5.0% since the third quarter of 2016. Several factors have affected this trend but the driving force has been a lack of new construction in the market—only 100,000 square feet (sf) of new product has been delivered since 2010. Contrary to trends in other markets during the ongoing pandemic, sublease availability continues to be virtually non-existent, with just 10,400 sf of manufacturing product currently on the market, of which there is little demand. This in stark contrast to the East Bay Oakland market, which has seen a 106% increase in sublease vacancy in the past year to 1.5 million sf (msf) in the fourth quarter, the highest total in that market in nearly 20 years. With a lack of new construction, vacancy is expected to tick up very slightly over the next twelve months as a minuscule number of small-block spaces come to market.

PRICING: Lack of Pricing Data Props Up Asking Rents

The East Bay Walnut Creek overall asking rent closed the fourth quarter at \$0.92 per square foot (psf) on a monthly triple-net basis, having recorded no change from the previous quarter and up \$0.05 from this time last year. While the market has seen consistent rent growth over the past five years, it is important to note that with such tight vacancy, individual listings will have a significant impact on any fluctuations in asking rent. Furthermore, listings in East Bay Walnut Creek tend to go to market unpriced meaning a small subset of vacant spaces are used to calculate the market-wide average asking rent. Due to these trends, rents are expected to increase over the next year at a measured clip.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Walnut Creek

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DEMAND: Occupancy Declines in 2020 Despite Fourth Quarter Gains

After two quarters of losses at the beginning of the year, net absorption returned to the black in the back half of 2020, with net absorption totaling positive 20,773 sf in the fourth quarter, though occupancy ultimately declined by 95,898 sf over the course of 2020. Most of the annual givebacks occurred in spaces between 10,000 and 25,000 sf, which has historically been the “sweet-spot” for activity due to the majority of industrial buildings in this market being in that size range. Demand for traditional, small-block industrial space has tapered off in recent months, as requirements in this size range are typically local or regional credit tenants, who have been generally more affected by the ongoing COVID-19 pandemic than larger users. Nationally, there has been sharp increase in demand from the e-commerce sector, but due to the small-block nature of the East Bay Walnut Creek inventory, these requirements tend to not migrate to the market. With the vacancy rate forecasted to increase slightly in the coming year, net absorption is correspondingly expected to decrease slightly.

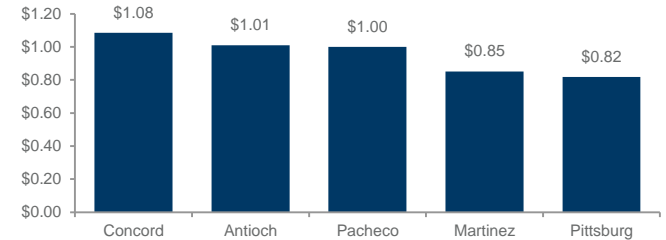
SALES: Fourth Quarter Slowdown in Investment Activity

Investment activity totaled 512,224 sf in 11 transactions in 2020, with the most notable transaction being Blackstone Group’s February sale of the 141,792-sf property at 5750 Imhoff Drive in Concord to BKM Capital Partners for \$22.51 million, or \$159 psf. Due in part to the general slowdown associated with the COVID-19 pandemic, investment activity dipped drastically in the fourth quarter, with just 16,250 sf traded in a single transaction. While sales activity might look sluggish heading into the final quarter of the year, there remain great opportunities available in the East Bay Walnut Creek area for industrial product for sale.

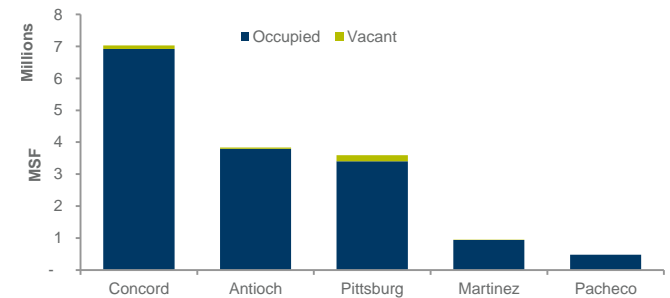
Outlook

- Asking rents closed the fourth quarter at \$0.92 psf, recording an increase of \$0.05 from this time last year. With tight vacancy and a lack of pricing information on the scant amount of listings on the market, rents are expected to increase slightly in the next year.
- The vacancy rate was 2.2% at the end of the fourth quarter and has not risen above 5.0% since the third quarter of 2016. Vacancy is expected to tick up slightly over the next years as several small-block spaces come to market.
- Net absorption totaled positive 20,773 sf in the fourth quarter, though occupancy ultimately declined by 22,046 sf over the course of 2020. With the forecasted vacancy rise, net absorption will dip in the coming quarters.

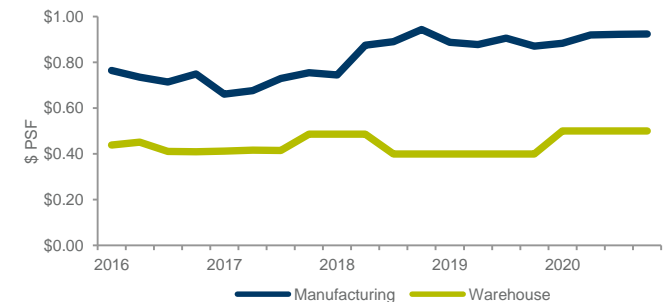
RENT BY MARKET (\$ PSF, NNN)



SUBMARKET COMPARISON



ASKING RENT COMPARISON



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 (MF) | OVERALL WEIGHTED AVG NET RENT (W/D) | OVERALL WEIGHTED AVG NET RENT |
|--------------|-------------------|---------------------|----------------------|---|---------------------------------|------------------|-------------------------|------------------------------------|-------------------------------------|-------------------------------|
| Martinez | 945,986 | 6,913 | 0.7% | -2,183 | 22,599 | 0 | 0 | \$0.85 | \$0.73 | \$0.85 |
| Pacheco | 479,897 | 0 | 0.0% | 0 | 0 | 0 | 0 | \$1.00 | \$0.00 | \$1.00 |
| Pittsburg | 3,595,281 | 194,251 | 5.4% | 9,299 | -57,500 | 0 | 0 | \$0.82 | \$0.40 | \$0.82 |
| Concord | 7,027,836 | 102,372 | 1.6% | 13,657 | -36,417 | 0 | 0 | \$1.08 | \$0.90 | \$1.08 |
| Antioch | 3,835,047 | 37,795 | 0.9% | 0 | -24,580 | 0 | 0 | \$1.01 | \$0.50 | \$1.01 |
| TOTAL | 15,884,047 | 347,731 | 2.2% | 20,773 | -95,898 | 0 | 0 | \$0.92 | \$0.50 | \$0.92 |

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q4 2020

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|------------------------|----------------------|--------------------------|---------|-----------|
| 4100 Wilbur Avenue | Oakley (Out of Area) | Pacific Pride | 110,271 | New Lease |
| 2510 Dean Leshar Drive | Concord | RedBull Distribution | 20,270 | Renewal* |
| 2301 Arnold Way | Concord | Innersense Beauty Supply | 17,555 | New Lease |

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2020

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/\$ PSF |
|------------------------|-----------|--------------------------------------|--------|----------------|
| 1806-1836 Arnold Place | Concord | Perez Enterprises / Forza Properties | 16,250 | \$2.8M / \$170 |

KEY CONSTRUCTION PROJECTS

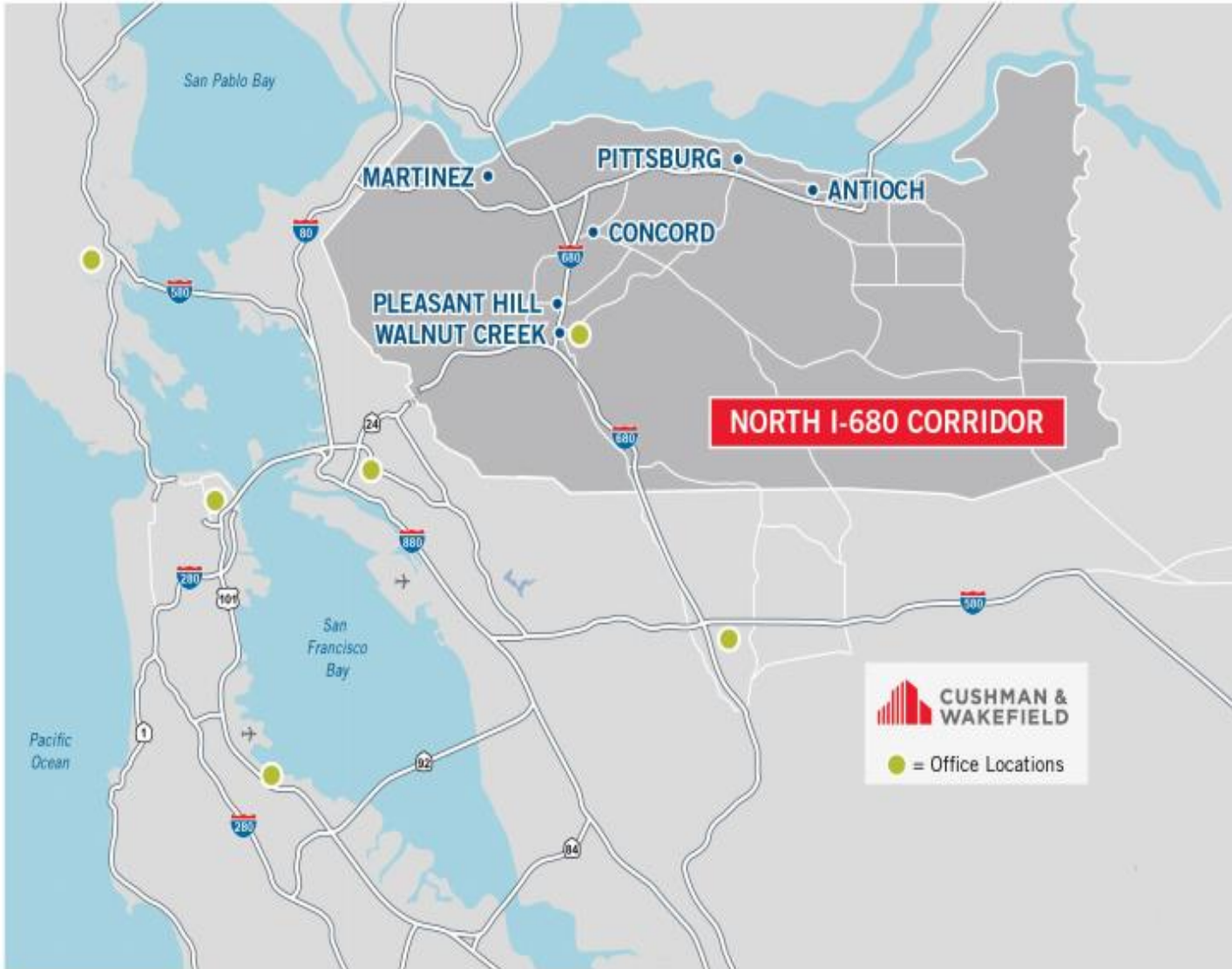
| PROPERTY | SUBMARKET | MAJOR TENANT | SF | OWNER/DEVELOPER |
|-------------------------------|----------------------|--------------|-----------|------------------------|
| Contra Costa Logistics Center | Oakley (Out of Area) | N/A | 2,200,000 | NorthPoint Development |

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OFFICE SUBMARKETS



Keith Reichert
Senior Research Analyst
Tel: +1 510 267 6059
Keith.Reichert@cushwake.com

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