

Walnut Creek

Industrial Q1 2021

1.9%
Vacancy Rate



54K
Net Absorption, SF



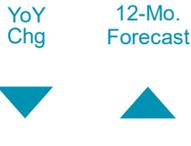
\$0.91
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2021

1.1M
East Bay Employment



7.2%
East Bay Unemployment Rate



6.0%
East Bay Unemployment Rate



Source: BLS, Moody's Analytics.
2021Q1 data are based on latest available data.

ECONOMY: Path to Recovery Comes Into Focus

The East Bay, consisting of Alameda and Contra Costa counties, recorded a decline in job growth with nearly 113,000 jobs (-9.4%) lost year-over-year (YOY), bringing regional employment to just over 1.08 million. With this loss, the unemployment rate correspondingly rose +410 basis points (bps) to 7.2%, significantly above the national rate of 6.0%. Upon the arrival of COVID-19 in the U.S., the economy entered a historically unprecedented recession in March of 2020. In the East Bay, consumer services industries were severely impacted, particularly the restaurant and retail sectors. The commercial real estate market saw a decline in office occupancy levels due to government shelter-in place orders, while the warehousing and distribution sector recorded consistent growth due to increasing consumer reliance on online marketplaces. The recovery began in the late Spring of 2020 at a slow clip because of uncertainty regarding a vaccine timeline for the novel disease. With the advent of reliable vaccines in early 2021, the road to full recovery has become clearer and California is expected to fully reopen by June of 2021.

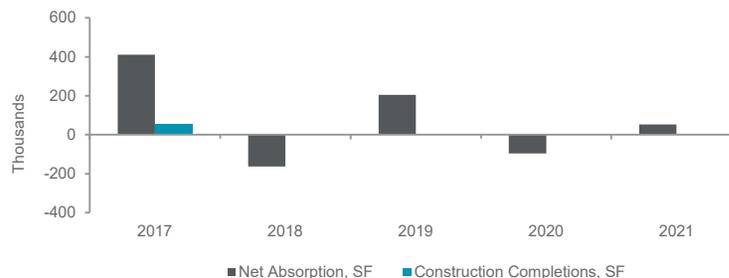
Supply: Market Near Historically Low Vacancy Levels

The vacancy rate in the East Bay Walnut Creek industrial market was a miniscule 1.9% at the end of the first quarter, dipping down 30 bps from the end of 2020, and also down 30 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 demand resulting in a miniscule construction pipeline—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 listings continue to be virtually non-existent, with just 6,200 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 64% increase in sublease vacancy in the past year to 1.3 million sf (msf) in the first 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 minimal number of small-block spaces come to market.

PRICING: Rents Skewed Up Due to Small Sample Size

Corresponding with tightening vacancy, rents continued to climb, closing the first quarter at \$0.91 per square foot (psf) on a monthly triple-net basis, up \$0.05 from this time last year though down \$0.01 from the end of the fourth quarter. While the market has seen sustained 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 twelve months at a steady pace.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



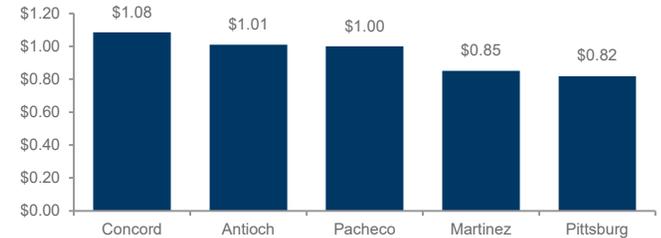
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DEMAND: Occupancy Increases After 2020 Losses

After a 2020 showing in which net absorption totaled negative 95,898 square feet (sf), occupancy growth began to claw back in the first quarter, with net absorption totaling positive 53,462 sf due to a handful of tenants moving into small manufacturing spaces in the first quarter. These smaller spaces, for the most part between 10,000 and 25,000 sf, 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.

RENT BY MARKET (\$ PSF, NNN)



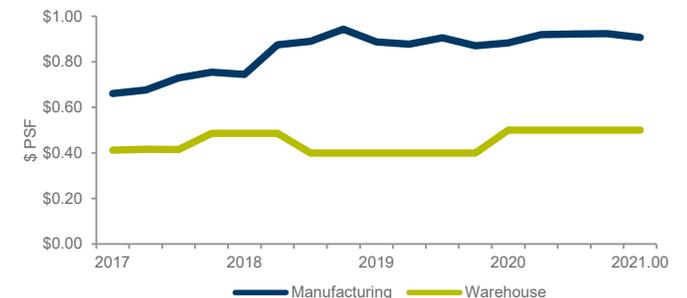
SUBMARKET COMPARISON



Outlook

- Asking rents closed the first quarter at \$0.91 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 1.9% at the end of the first quarter and has not risen above 5.0% since the third quarter of 2016. Vacancy is expected to tick up slightly over the next year as several small-block spaces come to market.
- Net absorption totaled positive 53,462 sf in the first quarter, following occupancy declines of negative 95,898 sf in 2020. With the forecasted vacancy rise, net absorption will dip in the coming quarters.

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	5,155	0.5%	1,758	1,758	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	185,789	5.2%	8,462	8,462	0	0	\$0.82	\$0.40	\$0.82
Concord	7,027,836	80,197	1.1%	32,575	32,575	0	0	\$1.09	\$0.90	\$1.09
Antioch	3,835,047	25,128	0.7%	10,667	10,667	0	0	\$1.01	\$0.50	\$1.01
TOTAL	15,884,047	290,069	1.9%	53,462	53,462	0	0	\$0.91	\$0.50	\$0.91

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1910 Mark Court	Concord	NuWest Textile	27,761	Renewal*
331-401 Sunset Drive	Antioch	ICR Electric	7,800	Renewal*
331-401 Sunset Drive	Antioch	Apex Services	5,300	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2260 Via De Mercados	Concord	Arthur & Kimberly Cook / Michael Rose	29,481	\$1.9M / \$64
521 Wilbur Avenue	Antioch	Evans Family Trust / Capital Rivers Comm'l	22,674	\$2.1M / \$93

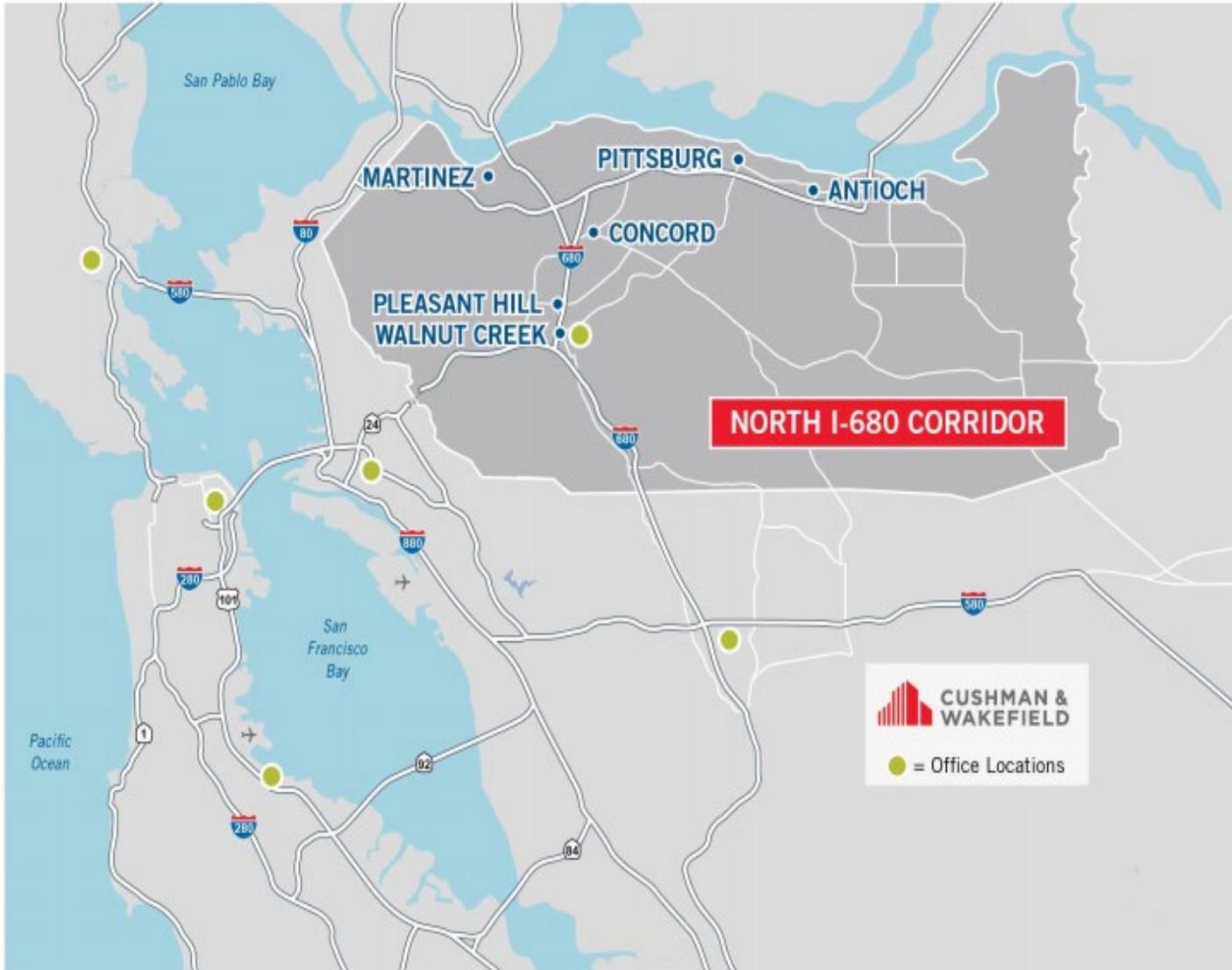
KEY CONSTRUCTION PROJECTS

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



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