

Walnut Creek

Office Q1 2021

YoY Chg 12-Mo. Forecast

19.0%
Vacancy Rate ▲ ▲

89K
Net Absorption, SF ▼ ▲

\$3.30
Asking Rent, PSF ▲ ▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2021

YoY Chg 12-Mo. Forecast

1.1M
East Bay Employment ▼ ▲

7.3%
East Bay Unemployment Rate ▲ ▼

6.0%
U.S. Unemployment Rate ▲ ▼

Source: BLS, Moody's Analytics
2021Q1 data are based in the latest available data

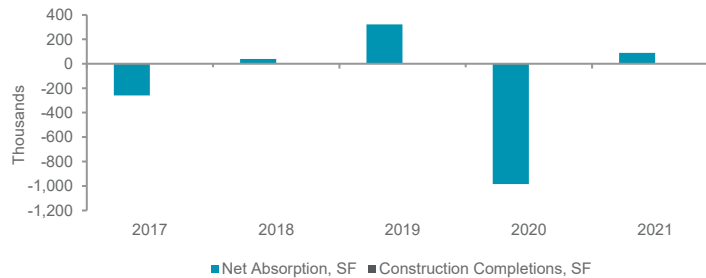
ECONOMY

The East Bay, consisting of Alameda and Contra Costa counties, recorded a decline in job growth with over 113,000 jobs (-9.5%) lost year-over-year (YOY), bringing regional employment to just over 1.08 million. With this loss, the unemployment rate correspondingly rose +420 basis points (bps) to 7.3%, 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.

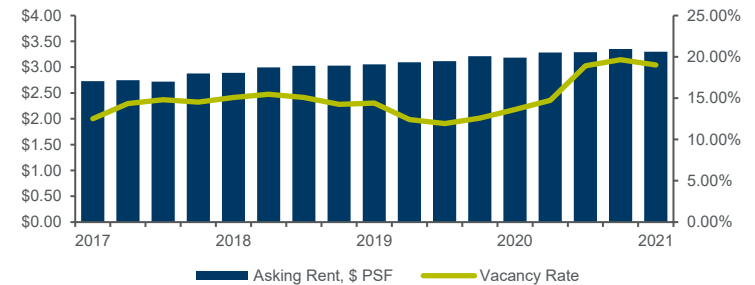
SUPPLY OR DEMAND: Leasing Decreases, Vacancy Increases

East Bay Walnut Creek office market vacancy decreased to 19.0% in the first quarter of 2021. This translates to a decline of 70 bps quarter-over-quarter while up 540 bps year-over-year (YOY). The first quarter recorded 2,642,201 square feet (sf) of vacancies, an increase of 39.6% in just the last 12 months. Overall net absorption was in the black for the first quarter, totaling 89,185 sf, a big change of pace from the previous quarters. The first quarter experienced sluggish market activity with only 29,292 sf leased in gross leasing activity. Gross leasing activity experienced a decrease of 62.8% quarter-over-quarter, and 90.9% year-over-year. The biggest direct space that came to the market this quarter was 14,908 sf at 1220 Concord Ave in Concord. There will most likely be flat to negative absorption for the greater market moving forward in 2021. This lack of activity can be heavily attributed to COVID-19 and the ripples the pandemic has created across the economy.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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PRICING: Asking Rents Increase

Asking rents in East Bay Walnut Creek decreased slightly in the first quarter, closing at \$3.30 per square foot (psf) on a monthly full-service basis, down \$0.05 from the previous quarter and up \$0.12 YOY. Class A asking rents for the market saw a slight downtick, closing at \$3.48 psf, down \$0.02 from the fourth quarter. This change was influenced by the \$1.59 decrease in Class A asking rents in the Walnut Creek submarket. The overall direct Class A asking rent for the first quarter increased \$0.01 from the previous quarter, closing at \$3.38 psf for the entire market. Downtown Walnut Creek continues to have the highest Class A direct asking rent at \$4.70 psf. With limited leasing activity expected over the next few quarters, asking rents for Walnut Creek are expected to remain flat or move slightly lower.

Sales

Investment activity was quiet in the East Bay Walnut Creek market, with only two notable sales this quarter. Total Validation Services purchased 4,885 sf at 1024 Country Club Dr from BND Properties for \$1.3 million or \$274.31 psf. Also, Cadaiya LLC purchased 1,331 sf at 1808 San Miguel Dr in Walnut Creek for \$690,000 or \$582.28 psf.

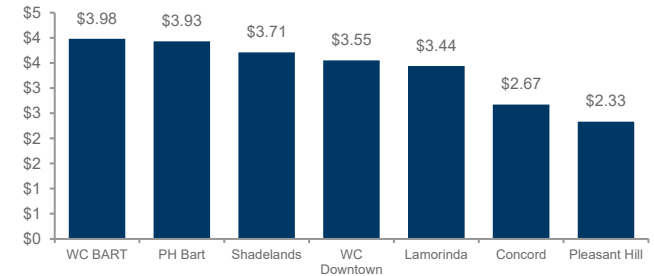
Look Ahead

The East Bay Walnut Creek market has been overshadowed over the past decade by the more convenient transit-oriented markets such as Oakland and San Francisco. With commuters becoming aware of the issues around public transit during this time, more companies may look to the suburban areas such as East Bay Walnut Creek market for office space, near where many of their employees live. The work-from-home policy in effect now and into the foreseeable future may further increase the need to at least have a small “spoke” office nearby. This would, no doubt, have a positive impact on the East Bay Walnut Creek market, which tends to cater to smaller requirements under 20,000 sf.

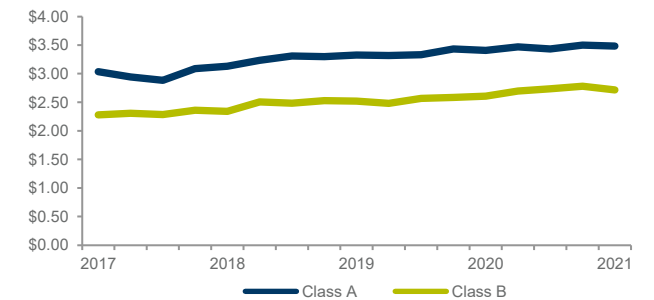
Outlook

- Rents ended at \$3.30, decreasing by \$0.05. They are likely to remain stagnant over the next 12 months as the market moves into recovery mode.
- Vacancy saw a slight dip QOQ to close at 19.0% as leasing decreased from the previous quarter. Expect the vacancy rate to remain elevated, along with sluggish leasing activity.
- Walnut Creek has the potential to benefit from companies moving operations from San Francisco and Oakland due to the new work-from-home policies companies are implementing and the desire to have strategic offices to accommodate for workers avoiding public transportation and/or long commutes.

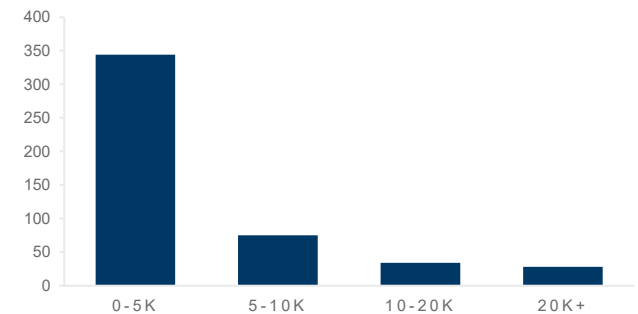
SUBMARKET ASKING RENT



ASKING RENT COMPARISON



AVAILABILITIES BY SIZE SEGMENT



Walnut Creek

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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	120,167	550,484	14.8%	32,967	32,967	1,841	0	\$2.67	\$2.70
Pleasant Hill	553,572	32,455	28,547	11.0%	11,414	11,414	1,792	0	\$2.33	\$1.99
Lamorinda	1,160,114	1,613	109,369	9.6%	-3,118	-3,118	5,097	0	\$3.44	\$3.50
WC Downtown	1,905,551	34,905	238,865	14.4%	-1,429	-1,429	7,555	0	\$3.55	\$4.70
WC Pleasant Hill BART	1,673,423	173,245	260,123	25.9%	1,263	1,263	0	0	\$3.93	\$4.00
WC BART Area	2,343,146	130,258	593,900	30.9%	-29,506	-29,506	13,007	0	\$3.98	\$4.00
WC Shadelands	1,741,328	3,039	365,231	21.1%	-1,146	-1,146	0	0	\$2.31	\$2.56
Walnut Creek Totals	13,895,446	495,682	2,146,519	19.0%	89,185	89,185	29,292	0	\$3.30	\$3.48

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
500 Ygnacio Valley Rd.	Walnut Creek	Principal Life Insurance	9,622	New Lease
1850 Mt. Diablo Blvd.	Walnut Creek	Undisclosed	4,322	New Lease
1981 Broadway	Walnut Creek	Undisclosed	3,385	New Lease
3470 Mt. Diablo Blvd.	Lamorinda	Undisclosed	3,271	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1024 Country Club Dr.	Lamorinda	BND Properties /Total Validation Services	4,885	\$1.3M/\$274
1808 San Miguel Dr.	Walnut Creek	Undisclosed / Cadaiya LLC	1,331	\$690K/\$528

