

Walnut Creek

Industrial Q2 2021



	YoY Chg	12-Mo. Forecast
4.5% Vacancy Rate	▲	▲
-138K Net Absorption, SF	▼	▼
\$0.94 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2021

	YoY Chg	12-Mo. Forecast
1.1M East Bay Employment	▲	▲
6.3% East Bay Unemployment Rate	▼	▼
5.9% National Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics.
2021Q2 data are based on latest available data.

ECONOMY: California Reopening Commences

The East Bay, consisting of Alameda and Contra Costa counties, recorded an increase in job growth with 68,600 jobs (+6.7%) added year-over-year (YOY) bringing regional employment to nearly 1.10 million. After five quarters of annual employment losses, this increase indicates the region is well on the way to full economic recovery in the aftermath of the COVID-19 pandemic, though there are still hurdles to overcome on the path to full pre-pandemic employment levels of 1.21 million. With this increase, the unemployment rate correspondingly declined -760 basis points (bps) to 6.3%; slightly above the national rate of 5.9%. 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, the commercial real estate market saw a decline in office occupancy levels due to government shelter-in place orders, while the warehousing and distribution sectors recorded consistent growth due to increased consumer reliance on online marketplaces. With the advent of reliable vaccines in early 2021, the road to full recovery has come into focus and California began fully reopening its economy in June of 2021.

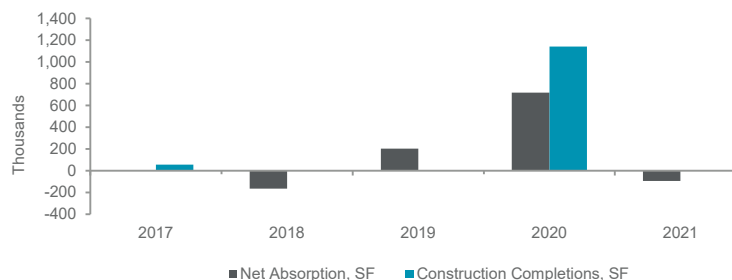
Supply: Vacancy Rises Due to New Product on Market

The vacancy rate in the East Bay Walnut Creek industrial market was a miniscule 4.5% at the end of the second quarter, edging up 70 bps from the first quarter, and also up 210 bps from this time last year. Compared to the East Bay Oakland market where vacancy stands at 5.0%, 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 small speculative construction pipeline—though there were 1.1 million square feet (msf) of deliveries in 2020, these were preleased build-to-suits in the relatively small Oakley submarket. 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 36% increase in sublease vacancy since the first quarter of 2020, just prior to the COVID-19 pandemic affecting market conditions in a tangible way, to 1.0 msf in the second quarter of 2021. Vacancy is expected to tick up over the next twelve months due to the completion Building 2 at Contra Costa Logistics Center in Oakley.

PRICING: Rents Dip Down; Will Rise Soon

Corresponding with the uptick in vacancy, rents dipped, closing the second quarter at \$0.94 per square foot (psf) on a monthly triple-net basis, down \$0.02 from the previous quarter though up \$0.05 from this time last year. 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



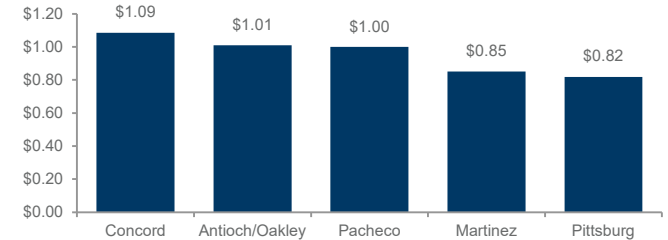
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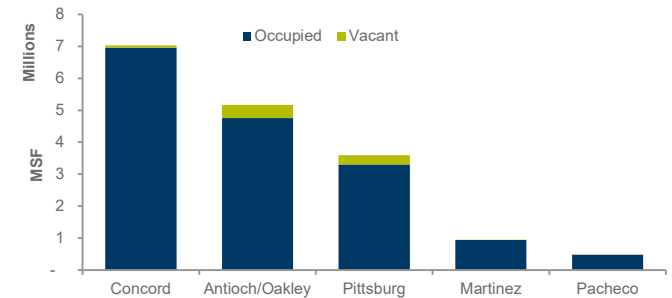
DEMAND: Occupancy Declines Following 2020 Rally

After a phenomenal 2020 showing, in which net absorption totaled positive 716,855 square feet (sf) due to the delivery of preleased new construction in the Antioch/Oakley submarket, occupancy growth was in the red in the second quarter, totaling negative 137,682, and negative 93,820 sf so far in 2021. The decline was entirely concentrated in the Pittsburg and Antioch/Oakley submarkets where 146,082 sf of vacant space was added in the second quarter. 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 expected to decrease slightly.

RENT BY MARKET (\$ PSF, NNN)



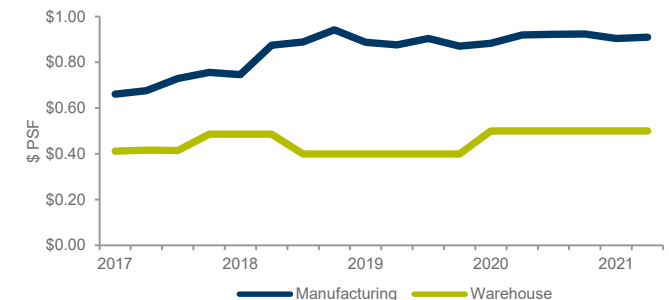
SUBMARKET COMPARISON



Outlook

- Asking rents closed the second quarter at \$0.94 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 4.5% at the end of the second 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 negative 137,682 sf in the second quarter, following occupancy increases of positive 716,855 sf in 2020 due primarily to delivery of preleased new construction in Oakley. 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%	0	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	288,345	8.0%	-92,956	-94,094	0	0	\$0.82	\$0.40	\$0.82
Concord	7,027,836	71,117	1.0%	8,400	40,975	0	0	\$1.09	\$0.90	\$1.09
Antioch/Oakley	5,164,347	408,974	7.9%	-53,126	-42,459	0	0	\$1.01	\$0.50	\$1.01
TOTAL	17,213,347	773,591	4.5%	-137,682	-93,820	0	0	\$0.91	\$0.50	\$0.94

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
4100 Wilbur Avenue	Oakley	Paramount Can Company	50,000	New Lease
1910 Mark Court	Concord	Electric Tech	20,239	Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3240 Monument Way	Concord	HV Enterprises LLC / Weir Vannorsdall	7,700	\$1.2M / \$157
408-414 O Street	Antioch	Albert Cianfichi / Undisclosed	7,108	\$0.9M / \$120
701 Fulton Shipyard Road	Antioch	John Freschi / Mehran Sefidi	7,000	\$1.1M / \$161

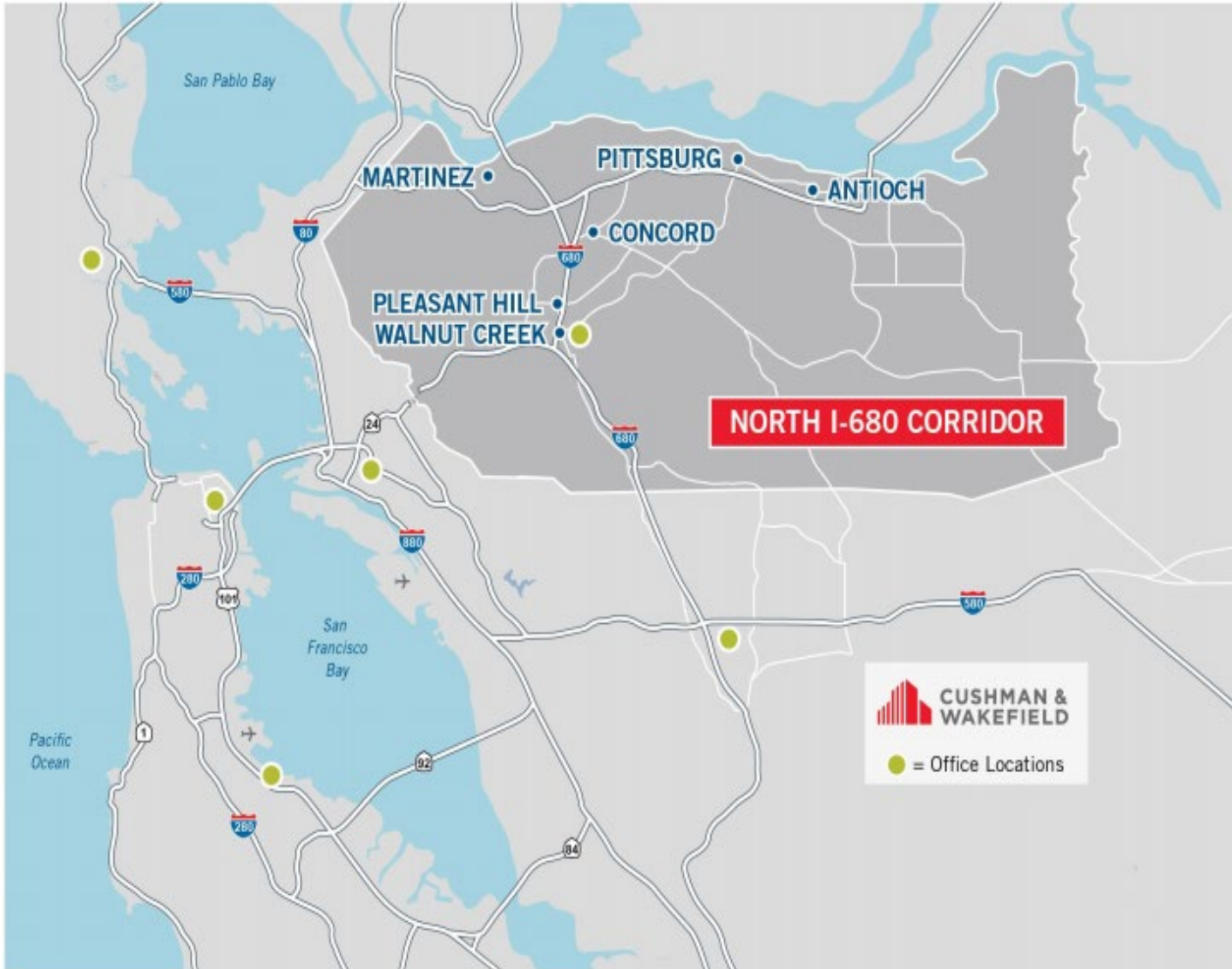
KEY CONSTRUCTION PROJECTS

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Contra Costa Logistics Center	Oakley	N/A	2,200,000	NorthPoint Development

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INDUSTRIAL SUBMARKETS



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