

Walnut Creek

Industrial Q3 2021

	YoY Chg	12-Mo. Forecast
3.5% Vacancy Rate	▲	▲
-69,430 Net Absorption, SF	▼	▼
\$0.93 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
1.1M East Bay Employment	▲	▲
6.1% East Bay Unemployment Rate	▼	▼
5.2% National Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics.
2021Q3 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 450 basis points (bps) to 6.1%; above the national rate of 5.2%. 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. After an uptick in cases over the summer due to the Delta variant, the outlook is once again improving with the rise in cases again subsiding and vaccination rates in the East Bay significantly above state and national averages.

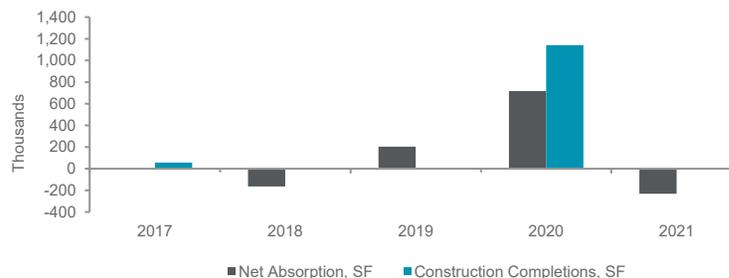
Supply: Vacancy Remains Minimal

The vacancy rate in the East Bay Walnut Creek industrial market was a miniscule 3.5% at the end of the third quarter, up 40 bps from the second quarter and up 120 bps YOY. East Bay Walnut Creek has historically seen tight vacancy, not rising above 5.0% since the third quarter of 2016. Several factors have affected this trend, but the driving force has been an outsized growth in demand relative to supply. Vacancy could rise temporarily due to the completion of Building 2 at Contra Costa Logistics Center in Oakley, but supply remains relatively static, in contrast to a pandemic-sustained lift in demand for leased industrial spaces.

PRICING: Rents Edge Higher

Corresponding with diminished vacancy, rents rose. The third quarter closed at an average of \$0.93 per square foot (psf) on a monthly triple-net basis. This is up \$.03 from the previous quarter and \$0.01 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

The third quarter posted an improved absorption figure though it did remain in the red, moving from negative 137,682 sf in the second quarter to negative 69,490 sf in the third quarter. On the year, occupancy change has been negative 160,330 sf. Over the past 12 months, occupancy has grown 386,717 sf, with positive growth in two of the last four quarters. 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 alongside supply chain issues that have driven up domestic rents nationwide. Even though Walnut Creek is small-block in nature and e-commerce requirements tend to not migrate to the market, Walnut Creek’s rising rents show how these national trends are mirrored by a market on the periphery.

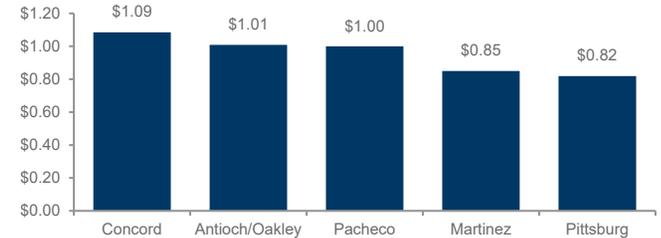
Sales: A Seller’s Market

Third quarter sales showed confidence in the market with three considerable sales of industrial buildings. Gar G. Bailey sold 2501 Annalisa Dr in Concord, a 17,500 sf building in Concord, to ACCO Engineered Systems for \$4.05M, or about \$231 psf. The final price was \$100,000 over asking price – evidence of a strong seller’s market. 559 Garcia Ave in Pittsburg, a 18,333 sf building was sold to 559 Garcia LLC by A&S Enterprises for \$190 psf, or \$3.48M total. A three-building 28,545 sf portfolio on Sunrise Dr sold to Bryant & Welsh LLC for \$7.3M total for an average of \$257 psf. All three sales are fully leased, and both 2501 Annalisa Dr and 559 Garcia Ave were bought by owner-users. With these three strong sales of sub-30,000 sf buildings, it’s clear that Walnut Creek is attracting quality buyers of smaller product that are willing to pay high prices – a similar thing to large markets currently. And given the sale above asking price at 2501 Annalisa Dr, the East Bay Walnut Creek market is having a seller’s moment.

Outlook

- Asking rents closed the third quarter at \$0.93 psf, recording an increase of \$0.01 from this time last year. With tight vacancy and new supply expected to be minimal, rents are forecast to increase slightly in the next year.
- The vacancy rate was 3.5% at the end of the third quarter, not rising above 5.0% since the third quarter of 2016. Vacancy is expected to tick up slightly over the next year with one major building delivery.
- Net absorption, though negative in the second quarter, was positive over the past year, due primarily to delivery of preleased new construction in Oakley. There is likely to be some ebb and flow for 2022 with a new delivery next year temporarily causing the market to see red again.

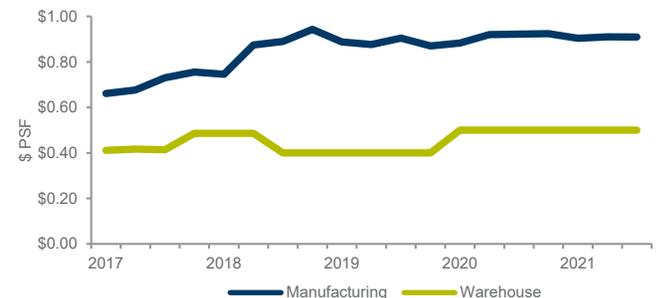
RENT BY MARKET (\$ PSF, NNN)



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%	-1,758	0	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%	0	-94,094	0	0	\$0.82	\$0.40	\$0.82
Concord	6,926,916	78,257	1.1%	-12,000	31,955	0	0	\$1.09	\$0.90	\$1.09
Antioch/Oakley	4,617,324	204,360	4.4%	-55,732	-98,191	0	0	\$1.04	\$0.50	\$1.04
TOTAL	16,576,876	577,875	3.5%	-69,490	-160,330	0	0	\$0.92	\$0.50	\$0.93

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2200 Courage Dr	Fairfield	Santa Clara Warehouse	226,892	New Lease
6500-6550 Goodyear Rd	Benicia	Undisclosed	21,080	Sublease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2501 Annalisa Dr	Concord	Gar G Bailey / ACCO Engineered Systems	17,500	\$4M / \$231
559 Garcia Ave	Pittsburg	A & S Enterprises LLC / 559 Garcia LLC	18,333	\$3.48M / \$190
4851-4871 Sunrise Dr (3 Building Sale)	Martinez	Sunrise Storage Partners / Bryant & Welsh	28,545	\$7.3 M / \$257

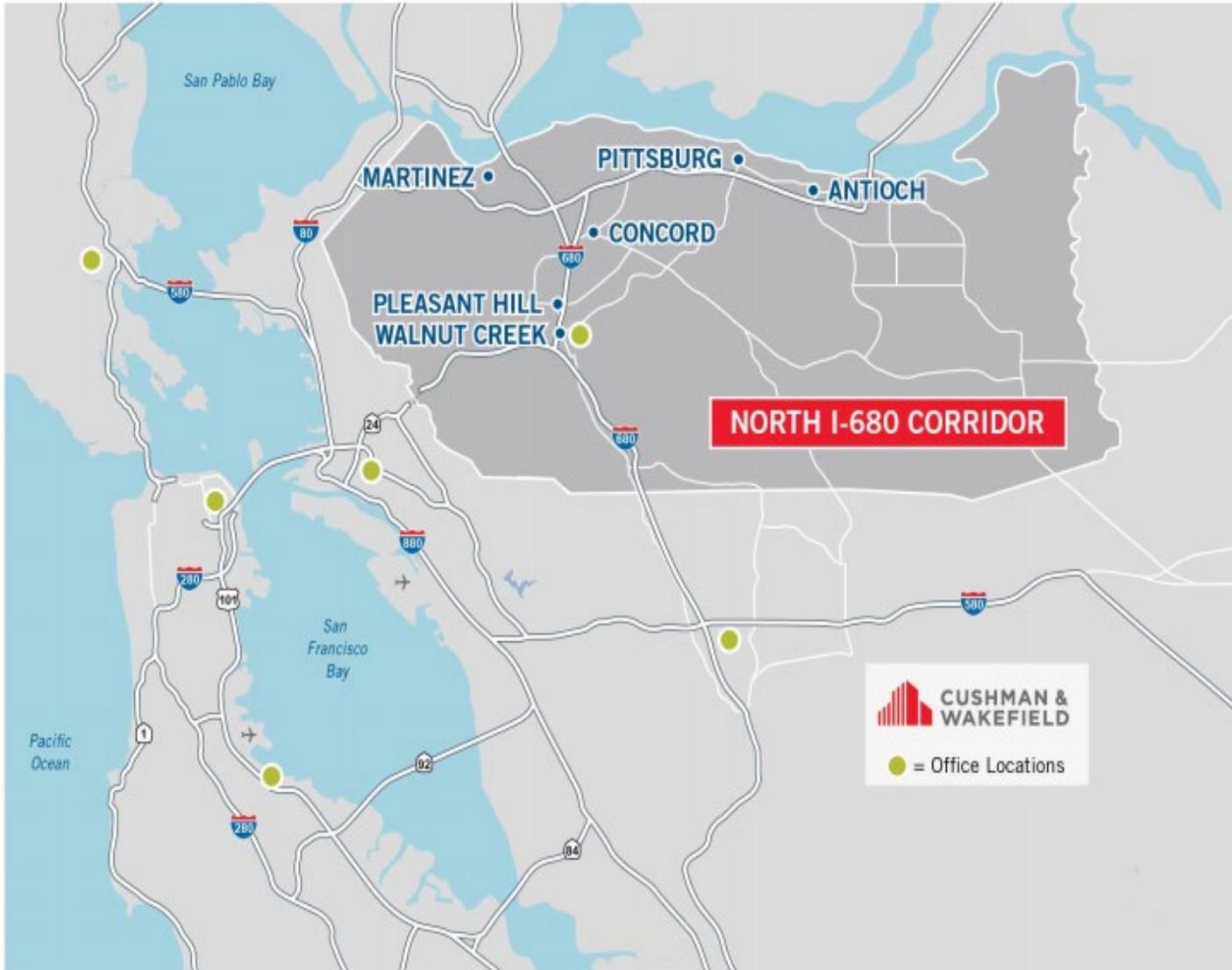
KEY CONSTRUCTION PROJECTS

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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