

Walnut Creek

Office Q3 2021

	YoY Chg	12-Mo. Forecast
21.4% Vacancy Rate	▲	▲
-113K Net Absorption, SF	▲	▲
\$3.39 Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2021

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

Source: BLS, Moody's Analytics
2021Q3 data are based in the latest available data

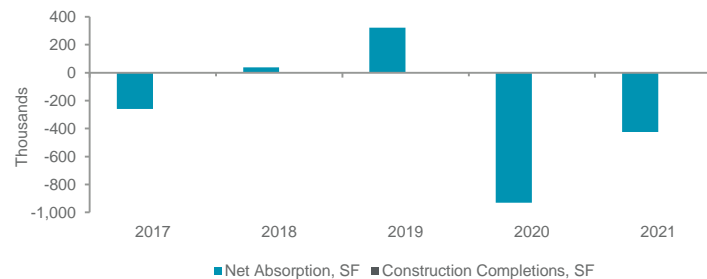
ECONOMY

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with over 35,000 jobs (+3.9%) obtained year-over-year (YOY), bringing regional employment to almost 1.10 million. With this growth, the unemployment rate correspondingly dropped 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, 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 has begun the reopening of the economy.

SUPPLY AND DEMAND: Leasing Decreases, Vacancy Rises

The Walnut Creek office market vacancy increased to 21.4% in the third quarter of 2021. This translates to an increase of 80 bps quarter-over-quarter (QOQ) while up 380 bps YOY. In the third quarter 2,975,603 square feet (sf) of vacancy was available, an increase of 21.6% in the last 12 months. Overall net absorption was in the red for the third quarter, totaling negative 113,323 sf, an increase from the previous quarter. The largest direct space that came to the market this quarter was 24,408 sf on the seventh floor in Swift Plaza in Concord. There will most likely be flat to negative absorption for the greater market for the remainder of the year. This lack of activity can be heavily attributed to COVID-19 and the ripples the pandemic has created across the economy. The third quarter experienced a drop in market activity with 67,487 sf leased, a decrease of 52.2% QOQ, and a decrease of 47.9% YOY.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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PRICING: Rents Remain Flat

Asking rents in East Bay Walnut Creek held flat in the third quarter, closing at \$3.39 per square foot (psf) on a monthly full-service basis, though up \$0.06 YOY. Class A asking rents for the market recorded a slight dip, closing at \$3.52 psf, down \$0.02 from the second quarter. This change was influenced by a 17.0% decrease QOQ in the Shadelands submarket. The market wide direct Class A asking rent for the third quarter decreased \$0.02 from the previous quarter, closing at \$3.35 psf. Downtown Walnut Creek continued to have the highest direct Class A asking rent at \$5.02 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 standard for the Walnut Creek market with a couple notable sales in the quarter. Purcell International bought 800 Ellinwood Way, a 17,735 sf office building, in Pleasant Hill from Boy Scouts of America's Mount Diablo Council for \$3.26 million or \$206.86 psf. A private individual sold 1030 Country Club Dr in Moraga, a 5,508 sf office building, to another private individual for \$1.8M or \$326.68 psf.

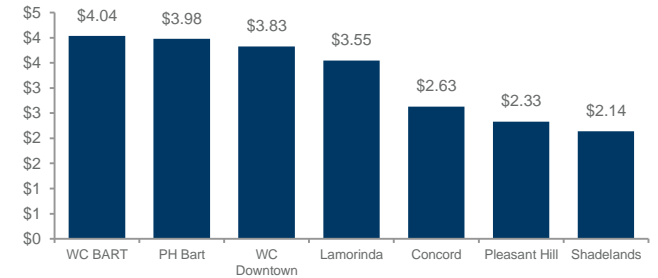
Look Ahead

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 for office space, near where many of their employees live. The trend of working remotely 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.

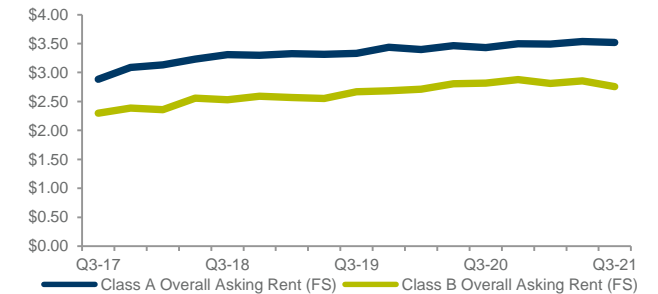
Outlook

- Rents ended at \$3.39, remaining unchanged through the quarter. They are likely to remain flat over the remainder of the year as the market continues in recovery mode.
- Vacancy saw a slight decrease over the third quarter to close at 21.4%; expect it to remain elevated, along with sluggish leasing activity.
- Walnut Creek has the potential to benefit from companies moving some operations from San Francisco and Oakland due to the remote work policies they are implementing as there is a desire to have strategic offices to accommodate those suburban-based employees.

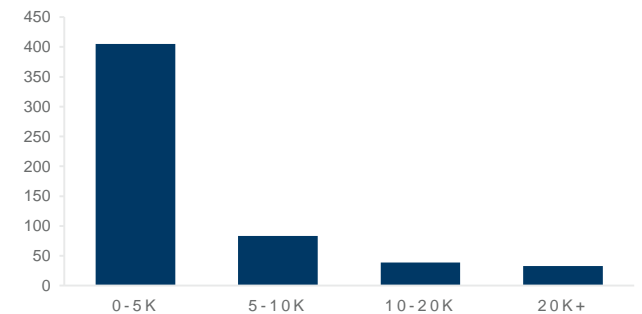
SUBMARKET ASKING RENT



ASKING RENT COMPARISON



AVAILABILITIES BY SIZE SEGMENT



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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	125,833	658,381	17.4%	-7,826	-124,672	99,824	0	\$2.63	\$2.66
Pleasant Hill	553,572	31,608	27,335	10.6%	1,544	13,473	13,473	0	\$2.33	\$2.08
WC Pleasant Hill BART	1,676,561	154,127	408,256	33.5%	-35,128	-117,376	24,476	0	\$3.98	\$4.04
WC Downtown	1,905,551	6,539	306,619	16.4%	-9,114	-53,080	86,628	0	\$3.83	\$4.95
WC BART Area	2,343,146	148,904	691,524	35.9%	-29,391	-100,159	50,566	0	\$4.04	\$4.07
WC Shadelands	1,741,328	9,271	285,698	16.9%	-12,291	-27,783	22,158	0	\$2.14	\$2.15
Lamorinda	1,160,114	9,631	111,877	10.5%	-21,117	-13,644	9,266	0	\$3.55	\$3.50
Walnut Creek Totals	13,895,446	485,913	2,489,690	21.4%	-348,695	-423,241	170,961	0	\$3.39	\$3.52

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1777 Botelho Dr.	Walnut Creek	Undisclosed	11,778	New Lease
250 Wiget Ln.	Walnut Creek	Mission Church	6,932	New Lease
3490 Buskirk Ave.	Pleasant Hill	Undisclosed	6,256	Sublease
1855 Gateway	Concord	Undisclosed	5,482	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2021

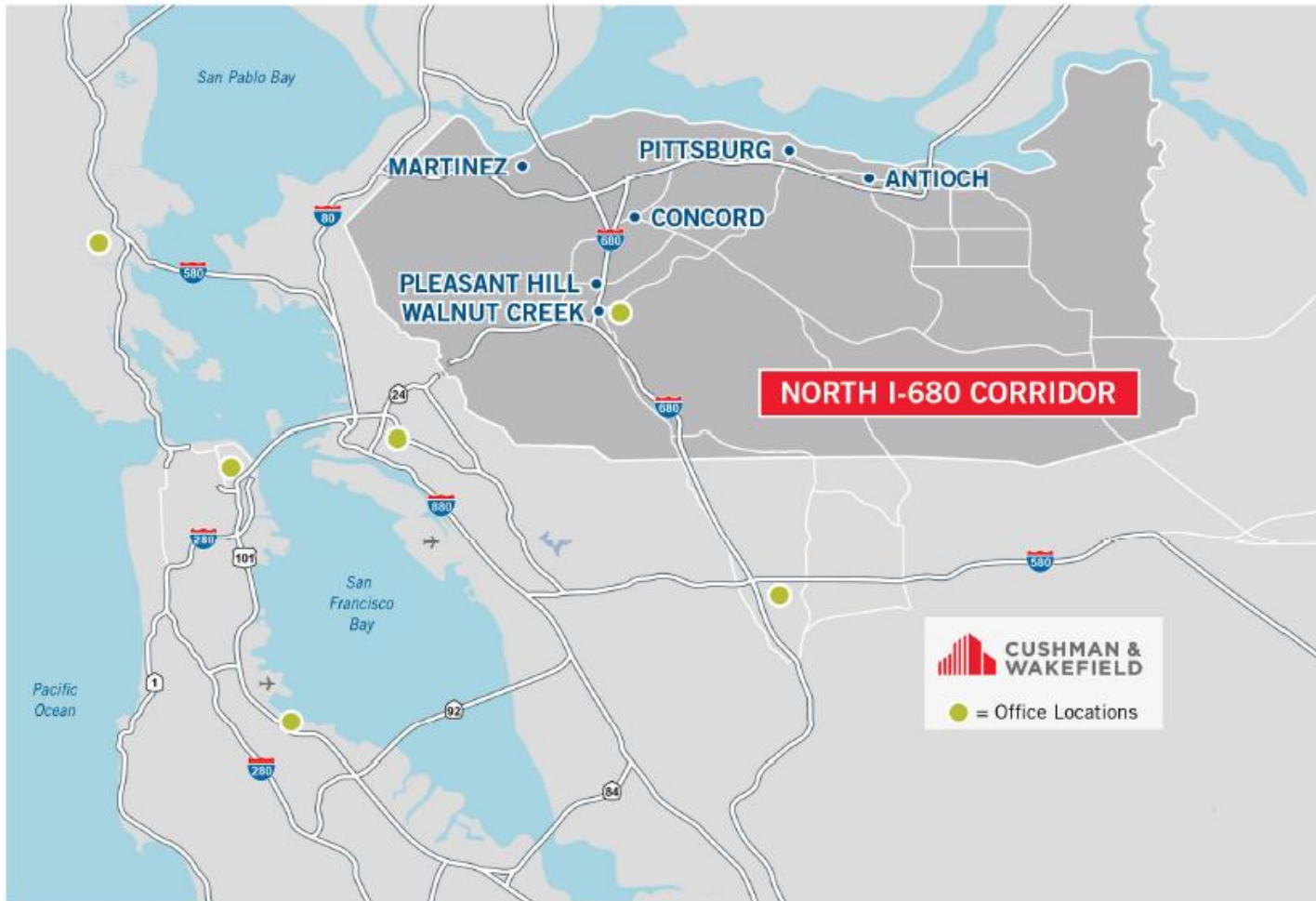
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
800 Ellinwood Way	Pleasant Hill	Mount Diablo Council Boy Scouts of America Inc / Purcell Holdings LLC	15,735	\$3.26M/\$206
1030 Country Club Dr.	Lamorinda	Private Individual / Private Individual	5,508	\$1.8M/\$326

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