

# Walnut Creek

Office Q4 2021

	YoY Chg	12-Mo. Forecast
<b>19.5%</b> Vacancy Rate	▲	▲
<b>-133K</b> Net Absorption, SF	▼	▲
<b>\$3.32</b> Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
<b>1.1M</b> East Bay Employment	▲	▲
<b>5.8%</b> East Bay Unemployment Rate	▼	▼
<b>4.2%</b> U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics  
2021Q4 data are based in the latest available data

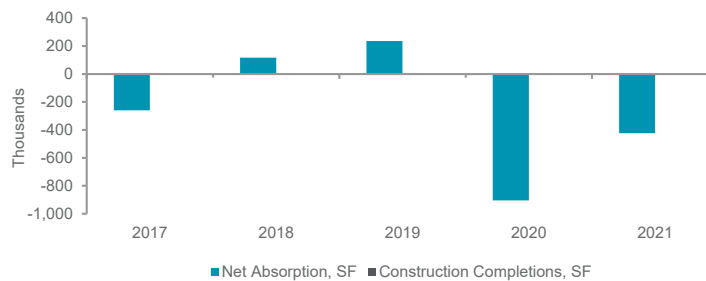
## ECONOMY

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 31,000 jobs added year-over-year (YOY), bringing regional employment to nearly 1.11 million. This translated to an unemployment rate of 5.8%, a decline of 210 basis points (bps) from the same period in 2020. Widespread vaccinations led to California reopening in June of 2021, with local governments easing shelter-in-place orders, mask mandates, and social distancing. However, a spike in cases late in the fourth quarter, driven by the new Omicron variant, has led to the reintroduction of mask mandates and additional safety measures across much of the country. In the East Bay, this has caused many employers to rethink their return to office plans and continued to weigh on office occupancy levels. Despite vaccination rates in the East Bay being significantly above state and national averages, the prolonged effects of COVID-19 on demand are uncertain.

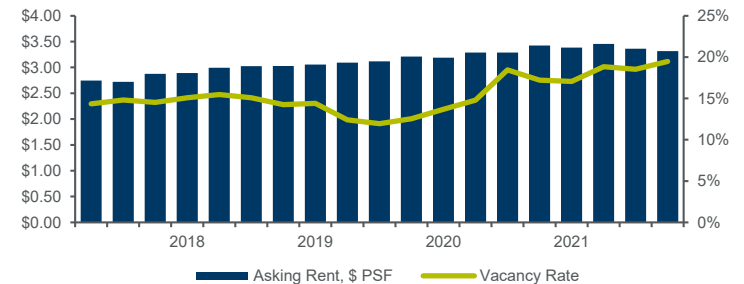
## SUPPLY AND DEMAND: Quiet Leasing Activity

The East Bay Walnut Creek office market vacancy increased to 19.5% in the fourth quarter of 2021. This translates to a rise of 100 bps quarter-over-quarter (QOQ) and 230 bps YOY. At the close of 2021, there was 2.7 million square feet (msf) of vacancy in the market, up 58% from the first quarter of 2020. Overall net absorption was in the red in the fourth quarter, totaling negative 133,081 sf. This negative absorption occurred in both the Class A and B segments of the market, a departure from prior quarters where Class B inventory had proved relatively resilient. Class B vacancy was just 12.0% in the fourth quarter, compared to 24.7% for Class A. Leasing activity remains muted in the market, as major employers continue to evaluate their need for office space. This is a trend seen across the Bay Area, where despite widespread vaccination rates, leasing activity has yet to catch up with pre-pandemic levels. A bright spot for the Walnut Creek market has been a relatively stable number of availabilities over 20,000 sf in the past three quarters. Vacancy has risen in the smaller size segments of the market, which cater to a much broader tenant base. As demand returns to the market, these availabilities in the 5,000-10,000-sf range are more likely to lease than larger floorplates.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



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## PRICING: Asking Rents Decrease

Asking rents in East Bay Walnut Creek declined slightly for the second consecutive quarter, closing at \$3.32 per square foot (psf) on a monthly full-service basis, down \$0.04 from the previous quarter and down \$0.10 YOY. After rising for much of the past two years, Class A asking rents for the market recorded a decline, closing at \$3.46 psf, down \$0.02 from the third quarter. Despite rising vacancy, the market has yet to record a significant change in pricing. Landlords have been hesitant to drop asking rates and instead have increased concessions like free rent to entice tenants without lowering their basis. Downtown Walnut Creek continued to have the highest direct Class A asking rent at \$4.98 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 picked up in the East Bay Walnut Creek market, with the most notable sale this quarter being Maximus' sale of Montego Ridge, a three building, 123,000-sf office campus. Henghou Investment Holding purchased the vacant office buildings for \$20 million or \$163 psf. An additional five properties over 10,000 sf traded hands this quarter, marking a significant uptick from the prior quarter. Investment activity in 2022, particularly for larger Class A buildings, will hinge on tenants returning to the office and vacancy stabilizing.

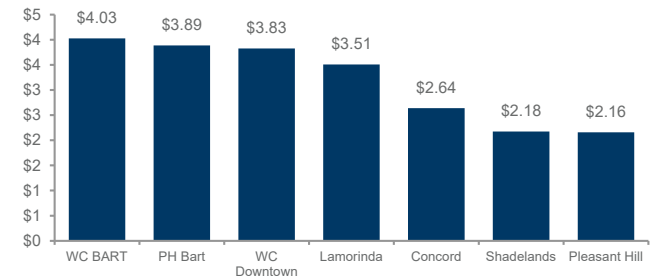
## Look Ahead

The East Bay Walnut Creek market has been overshadowed over the past decade by larger metros like Oakland and San Francisco. However, with many employees becoming wary of public transit and shedding commute times to work from home, there is an opportunity for suburban markets to capture new tenant demand. Companies may look to suburban areas such as Walnut Creek for office space closer to where many of their employees live. This idea of a decentralized hub and spoke office system offers increased convenience to would be commuters, while still providing a collaborative, in-person office experience. Widespread adoption of this trend would have a positive impact on the East Bay Walnut Creek market, which tends to cater to smaller requirements under 20,000 sf.

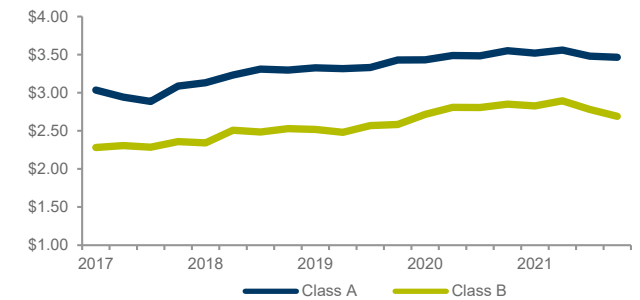
## Outlook

- Rents closed at \$3.32 psf, declining by \$0.04 during the quarter. They are likely to remain flat or decline modestly into 2022 as the market moves into recovery mode.
- Vacancy saw a rise over the third quarter to close at 19.5% and is expected to remain elevated, alongside sluggish leasing activity.
- Walnut Creek has the potential to benefit from companies moving some operations from San Francisco and Oakland as there is a desire to have strategic offices to accommodate suburban-based employees.

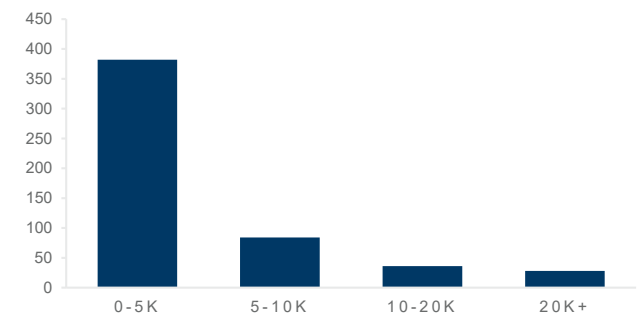
## SUBMARKET ASKING RENT



## 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	122,783	650,471	17.1%	-60,836	-178,318	121,522	0	\$2.64	\$2.68
Pleasant Hill	553,572	25,199	43,283	12.4%	-26,439	-11,689	9,555	0	\$2.16	\$2.08
WC Pleasant Hill BART	1,676,561	143,244	332,921	28.4%	-7,121	-30,568	54,537	0	\$3.89	\$4.00
WC Downtown	1,905,551	0	279,026	14.6%	-22,374	-37,479	180,668	0	\$3.83	\$4.98
WC BART Area	2,343,146	76,545	631,467	30.2%	-13,916	-28,132	188,905	0	\$4.03	\$4.06
WC Shadelands	1,741,328	10,941	284,668	17.0%	-6,249	-28,997	27,775	0	\$2.18	\$2.25
Lamorinda	1,160,114	8,876	97,908	9.2%	3,854	-222	31,252	0	\$3.51	\$3.50
<b>Walnut Creek Totals</b>	<b>13,898,584</b>	<b>387,588</b>	<b>2,319,744</b>	<b>19.5%</b>	<b>-133,081</b>	<b>-315,405</b>	<b>614,214</b>	<b>0</b>	<b>\$3.32</b>	<b>\$3.46</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1340 Treat Blvd.	Walnut Creek	Undisclosed	22,743	New Lease
2121 N. California Blvd.	Walnut Creek	Kinders	17,000	New Lease
2175 N. California Blvd.	Walnut Creek	Moffatt & Nichol	12,114	New Lease
2033 N. Main St.	Walnut Creek	Bremer Whyte Brown O'Meara	7,184	New Lease

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q4 2021

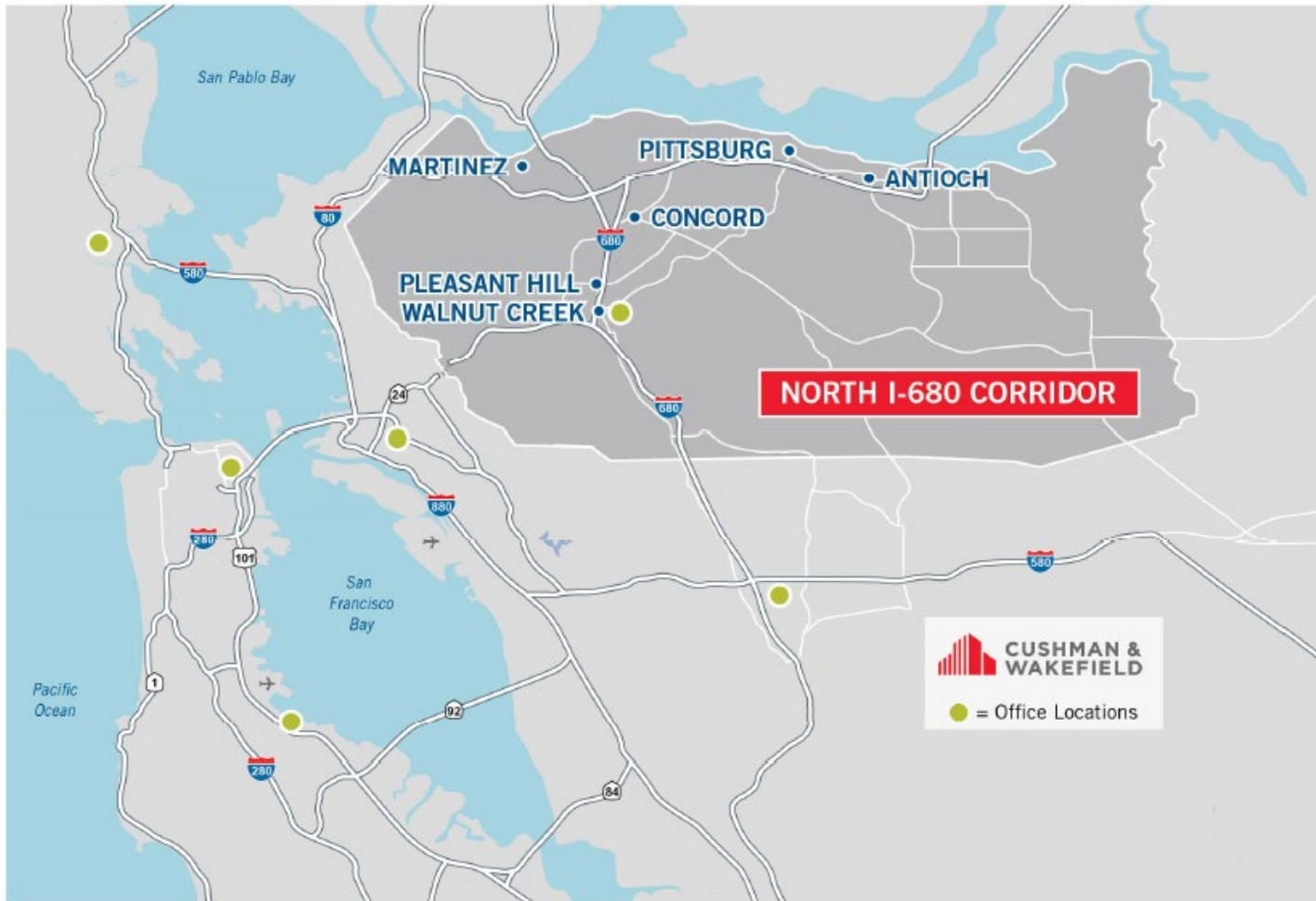
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Montego Ridge	Walnut Creek	Maximus / Henghou Investment Holding	122,821	\$20.0M / \$163
3100 Oak Road	Walnut Creek	Lane Partners / Ridge Capital Investors	50,000	\$9.5M / \$190
2300 Stanwell Drive	Concord	Lawrence Jacobs / Douglas Manful	21,600	\$5.6M / \$257

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## OFFICE SUBMARKETS



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