

# Walnut Creek

Office Q1 2022

	YoY Chg	12-Mo. Forecast
<b>19.5%</b> Vacancy Rate	▲	▬
<b>-163K</b> Net Absorption, SF	▼	▲
<b>\$3.28</b> Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
<b>1.2M</b> East Bay Employment	▲	▲
<b>4.6%</b> East Bay Unemployment Rate	▼	▼
<b>3.6%</b> U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics  
2022Q1 data are based in the latest available data

## ECONOMY

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 55,100 jobs added year-over-year (YOY), bringing regional employment to nearly 1.16 million. This translated to an unemployment rate of 4.6%, a decline of 240 basis points (bps) from the same period in 2021. After a spike in cases late in the fourth quarter of 2021 threatened to derail the Bay Area's recovery, the first quarter of 2022 brought significant improvement. In the East Bay, the majority of mask and social distancing mandates were dropped and major occupiers began returning to the office. While Covid-19 cases fell, employees' desire to work from home lingered, prompting many employers to continue rethinking their need for office space and weighing on occupancy levels.

## SUPPLY AND DEMAND: Leasing Activity Ticks Up

The East Bay Walnut Creek office market vacancy increased to 19.5% in the first quarter of 2022. This translated to a rise of 120 bps quarter-over-quarter (QOQ) and 290 bps YOY. At the close of the quarter 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 first quarter, totaling negative -163,385 sf with the rise in Class B vacancy outpacing Class A for the first time since 2018. Despite this quarter's rise, Class B office has proven relatively resilient throughout the pandemic, with vacancy just 12.4% in the first quarter, compared to 24.4% for Class A. Leasing activity recorded a significant YOY increase, with over 207,000 sf inked in the first quarter. The largest transaction was the GSA's new lease at 1855 Gateway Boulevard in Concord for 72,811 sf. With occupancy expected to occur in the first quarter of next year, this transaction improved the forecast for future net absorption. Another significant transaction was HDR Engineering's 28,375-sf lease at 3003 Oak Road in Walnut Creek. While the market's Class A inventory has recorded the steepest rise in vacancy, it has also recorded the vast majority of leasing activity in the past several quarters. All five of the quarter's largest new leases were in Class A buildings and as employers reevaluate their office needs, a flight to quality is becoming very apparent. As many occupiers downsize their physical office space, they become less price sensitive and more concerned with landing in a suite that will tempt employees back into the office.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



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## PRICING: Asking Rents Hold

Asking rents in East Bay Walnut Creek closed the first quarter at \$3.28 per square foot (psf) on a monthly full-service basis, level with the previous quarter and down \$0.10 YOY. Overall asking rates for Class A continued their gradual decline, down \$0.02 QOQ and \$0.14 from their market high in the fourth quarter of 2020. 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. Additionally, rising material and labor costs have made tenant improvements, which most occupiers have come to expect, prohibitively expensive at discounted rates. Downtown Walnut Creek continued to have the highest direct Class A asking rent at \$4.86 psf. Given the level of vacancy on the market, rental rates are expected to see a correction in the coming quarters, although whether that is reflected in asking rates or a rising delta between asking and transacting remains to be seen.

## Sales

Investment activity had a slow start to 2022 in the East Bay Walnut Creek market. After an uptick of activity in the fourth quarter of 2021, only one property over 10,000 sf traded hands this quarter. That sale was Hall Equities' disposition of 1855 Olympic Boulevard in Walnut Creek. The 37,910-sf office building was purchased by Christian Church Homes for \$10 million or \$264 psf. The buyer plans on occupying a portion of the property. Investment activity for the rest of the year will hinge on tenants returning to the office and vacancy stabilizing, particularly for larger Class A buildings.

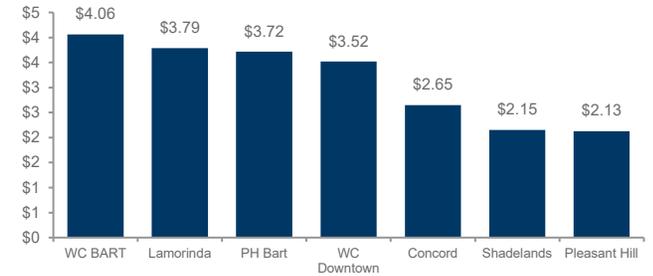
## Look Ahead

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 \$3.28 psf, holding flat this 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 fourth 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.

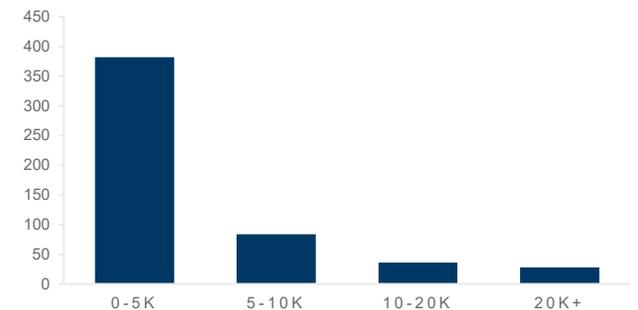
## SUBMARKET ASKING RENT



## 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	108,555	694,451	17.8%	-64,020	-64,020	124,256	0	\$2.65	\$2.69
Pleasant Hill	551,356	21,164	29,174	9.1%	-1,636	-1,636	275	0	\$2.13	\$1.99
WC Pleasant Hill BART	1,676,561	157,984	329,459	29.1%	11,751	11,751	28,375	0	\$3.72	\$3.81
WC Downtown	1,905,551	0	260,103	13.6%	-26,428	-26,428	29,199	0	\$3.52	\$4.86
WC BART Area	2,349,008	50,635	647,664	29.7%	-56,397	-56,397	9,712	0	\$4.06	\$4.11
WC Shadelands	1,741,328	6,232	272,042	16.0%	8,850	8,850	5,067	0	\$2.15	\$2.25
Lamorinda	1,160,114	36,051	96,033	11.4%	-35,505	-35,505	10,569	0	\$3.79	\$3.50
<b>Walnut Creek Totals</b>	<b>13,902,203</b>	<b>380,621</b>	<b>2,328,926</b>	<b>19.5%</b>	<b>-163,385</b>	<b>-163,385</b>	<b>207,453</b>	<b>0</b>	<b>\$3.28</b>	<b>\$3.41</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1855 Gateway Blvd	Concord	GSA: Office of Immigration Review	72,811	New Lease
3003 Oak Rd	Walnut Creek	HDR Engineering	28,375	New Lease
1220 Concord Ave	Concord	Terracon	16,456	New Lease
1333 California Blvd	Walnut Creek	Keyence	11,737	New Lease

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q1 2022

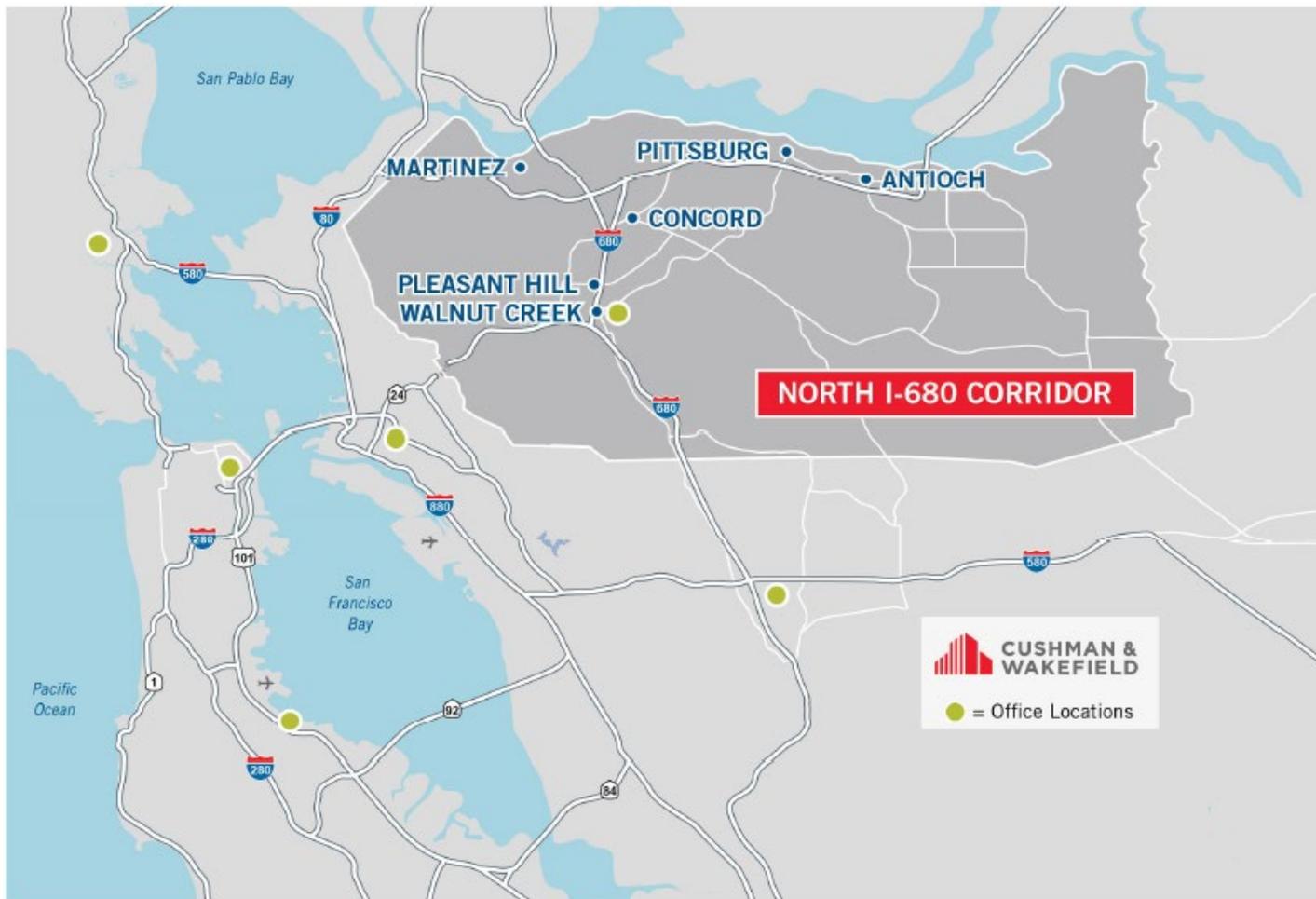
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1855 Olympic Blvd	Walnut Creek	Hall Equities Group / Christian Church Homes	37,910	\$10.0M / \$264

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## OFFICE SUBMARKETS



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