

# Walnut Creek

Office Q2 2022



|                                    | YoY Chg | 12-Mo. Forecast |
|------------------------------------|---------|-----------------|
| <b>20.1%</b><br>Vacancy Rate       | ▲       | ▬               |
| <b>-193K</b><br>Net Absorption, SF | ▼       | ▲               |
| <b>\$3.26</b><br>Asking Rent, PSF  | ▼       | ▼               |

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2022

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

Source: BLS, Moody's Analytics  
2022Q2 data are based in the latest available data

## ECONOMY: Ongoing & Future Headwinds

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 47,100 jobs added year-over-year (YOY), bringing regional employment to nearly 1.17 million. This translated to an unemployment rate of 3.6%, a decline of 320 basis points (bps) from the same period in 2021. The positive outlook on the economy is beginning to turn with COVID-19 and its impacts still lingering along with other economic headwinds. Worldwide supply chain issues, prompted by lockdowns and the Russia-Ukraine War, and a liquidity crisis in global markets as the Federal Reserve and other central banks shift their economic policy to an unaccommodating stance have put additional pressure on Global Markets. Subsequently, the United States' economy declined at an annual rate of 1.6% in the first quarter of 2022, and based on the Federal Reserve's GDPNow Tracker, quarter two is on the brink of producing a negative print as well. Two successive quarters of negative GDP would satisfy the commonly accepted definition of a recession. COVID-19, the destruction of liquidity, and broader economic uncertainty have all put continued pressure on activity in the East Bay Walnut Creek office market.

## SUPPLY AND DEMAND: Persistent Increase in Vacancy & Stagnant Leasing Activity

The East Bay Walnut Creek office market vacancy increased to 20.1% in the second quarter of 2022. This translated to a rise of 140 bps quarter-over-quarter (QOQ) and 240 bps YOY. At the close of the quarter, there were 2.8 million square feet (msf) of vacancies in the market, up 50.25% from the second quarter of 2020. Overall net absorption was in the red in the second quarter, totaling negative -192,912 sf with the rise in Class A vacancy outpacing Class B. Class B office has proven relatively resilient throughout the pandemic, with vacancy just 12.9% in the second quarter, compared to 25.1% for Class A. Leasing activity recorded a YOY increase with 139,052 sf inked in the second quarter. The most notable transaction was First Republic Bank's new lease at 2121 N. California Blvd in Walnut Creek for approximately 88,000 sf. Occupancy is expected in several quarters, softening the forecast for future negative absorption. Other transactions included Team Fast Agent's 11,466-sf sublease at 2890 N. Main St in Walnut Creek and Flatiron Construction Corp's 9,150-sf lease at 1200 Concord Ave in Concord. 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. Employers continue to reevaluate their office needs with a flight to quality 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 \$3.26 per square foot (psf) on a monthly full-service basis, a slight increase of \$0.01 from the previous quarter and down \$0.05 YOY. Overall asking rates for Class A slowed their gradual decline, up \$0.02 QOQ but down \$0.15 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 \$4.90 psf. Given the level of vacancy in 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

Underwhelming investment activity continued into 2022 in the East Bay Walnut Creek market. After an uptick of activity in the fourth quarter of 2021, only three properties over 10,000 sf have traded hands in 2022; one in the first quarter and two that were part of a portfolio purchase in the second quarter. The second quarter's largest transaction was the sale of Cortese Investment Company's 975-985 Moraga Rd and 53-57 Lafayette Cir in Walnut Creek. The 22,000-sf and 11,448-sf office buildings were part of a portfolio purchase by SITE Centers Corp for \$10.3 million or \$466 psf and \$5.0 million or \$437 psf respectively. 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.

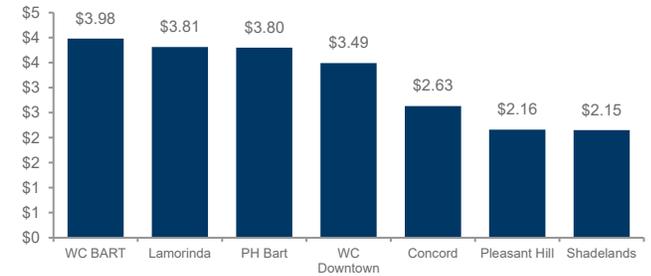
## Look Ahead

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. The First Republic Bank transaction supports this theory, as other 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 \$3.26 psf, holding flat this quarter. They are likely to remain flat or decline modestly into 2022 as market uncertainty persists.
- Vacancy saw a rise over the fourth quarter to close at 20.1% 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.

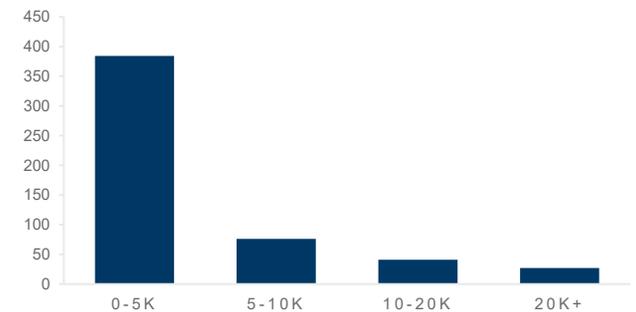
## SUBMARKET ASKING RENT



## 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         | 80,613             | 757,307            | 18.5%                | -43,052                            | -107,166                    | 165,381                   | 0                | \$2.63                                 | \$2.68                             |
| Pleasant Hill              | 551,356           | 21,164             | 32,111             | 9.7%                 | -2,932                             | -4,568                      | 525                       | 0                | \$2.16                                 | \$1.99                             |
| WC Pleasant Hill BART      | 1,676,561         | 150,714            | 328,028            | 28.6%                | 9,026                              | -38,663                     | 39,841                    | 0                | \$3.80                                 | \$3.83                             |
| WC Downtown                | 1,905,551         | 21,881             | 265,419            | 15.1%                | -27,273                            | -53,625                     | 37,854                    | 0                | \$3.49                                 | \$4.90                             |
| WC BART Area               | 2,349,008         | 50,635             | 677,018            | 31.0%                | -113,612                           | -116,454                    | 104,474                   | 0                | \$3.98                                 | \$4.02                             |
| WC Shadelands              | 1,741,328         | 6,232              | 286,042            | 16.8%                | -14,000                            | -5,150                      | 5,067                     | 0                | \$2.15                                 | \$2.25                             |
| Lamorinda                  | 1,159,294         | 34,971             | 84,198             | 10.3%                | -1,069                             | -24,056                     | 13,231                    | 0                | \$3.81                                 | \$3.50                             |
| <b>Walnut Creek Totals</b> | <b>13,901,410</b> | <b>366,210</b>     | <b>2,430,123</b>   | <b>20.1%</b>         | <b>-192,912</b>                    | <b>-349,682</b>             | <b>366,373</b>            | <b>0</b>         | <b>\$3.26</b>                          | <b>\$3.40</b>                      |

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2022

| PROPERTY               | SUBMARKET    | TENANT                              | RSF    | TYPE      |
|------------------------|--------------|-------------------------------------|--------|-----------|
| 2121 California Blvd N | Walnut Creek | First Republic Bank                 | 88,000 | New Lease |
| 2890 Main St N         | Walnut Creek | Team Fast Agent                     | 11,466 | Sublease  |
| 1200 Concord Ave       | Concord      | Flatiron Construction Corp          | 9,153  | New Lease |
| 100 Pringle Ave        | Walnut Creek | First-Citizens Bank & Trust Company | 6,114  | New Lease |

## KEY SALES TRANSACTIONS Q2 2022

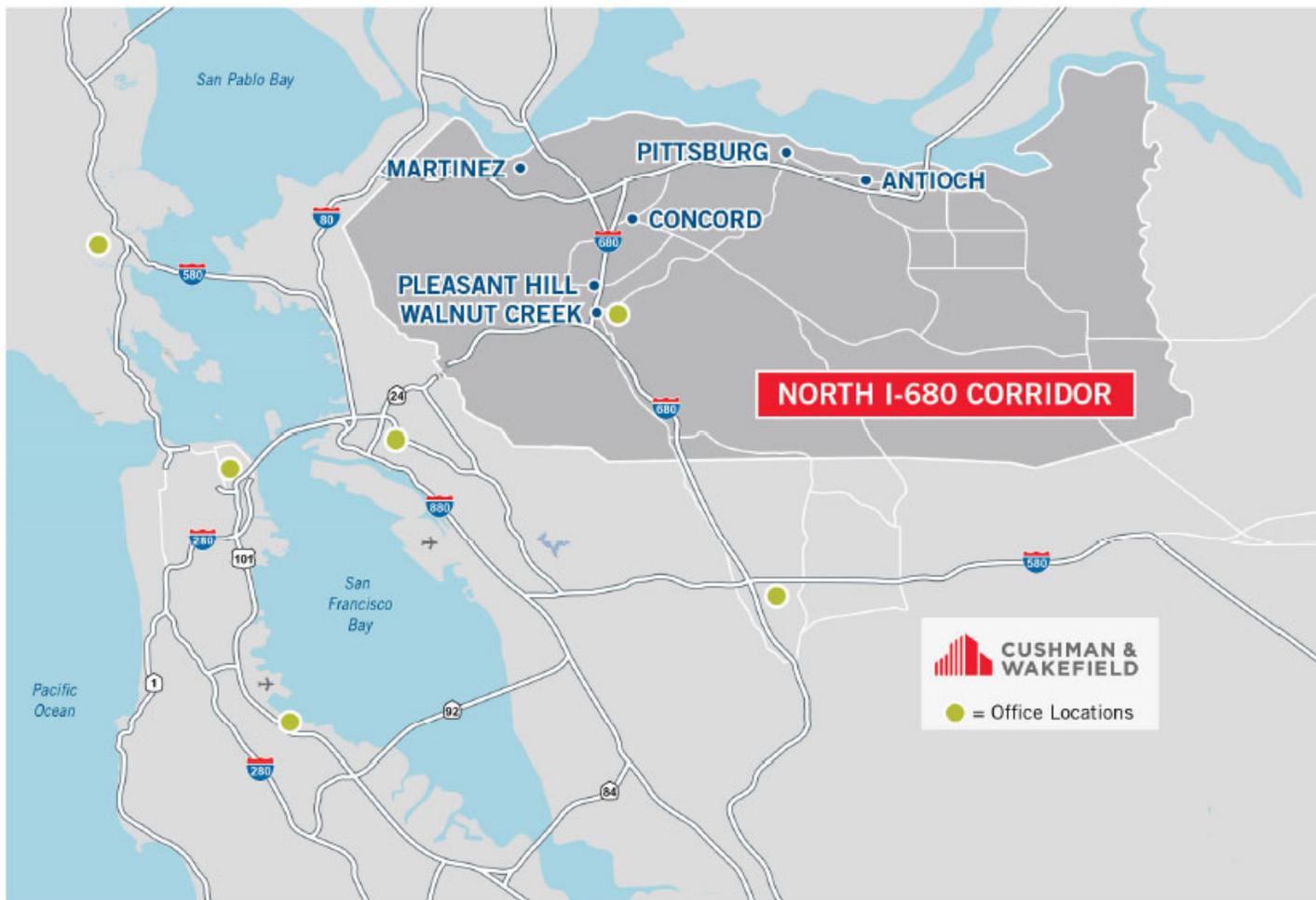
| PROPERTY                        | SUBMARKET    | SELLER / BUYER                                 | SF     | PRICE/\$ PSF    |
|---------------------------------|--------------|--|--------|-----------------|
| 975-985 Moraga Rd (Portfolio)   | Walnut Creek | Cortese Investment Company / SITE Centers Corp | 22,000 | \$10.3M / \$466 |
| 53-57 Lafayette Cir (Portfolio) | Walnut Creek | Cortese Investment Company / SITE Centers Corp | 11,448 | \$5.0M / \$437  |
| 2440 Stanwell Dr                | Concord      | Safety Training Seminars / Open House Center   | 11,250 | \$2.9M / \$260  |
| 4415 Cowell Rd                  | Concord      | Harmony Concord LLC / Sumtra Properties LLC    | 10,803 | \$2.2M / \$201  |

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## OFFICE SUBMARKETS



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