

Walnut Creek

Office Q3 2022



	YoY Chg	12-Mo. Forecast
21.2% Vacancy Rate	▲	▲
-170K Net Absorption, SF	▼	▲
\$3.24 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
1.2M East Bay Employment	▲	▲
3.0% East Bay Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2022Q3 data are based in the latest available data

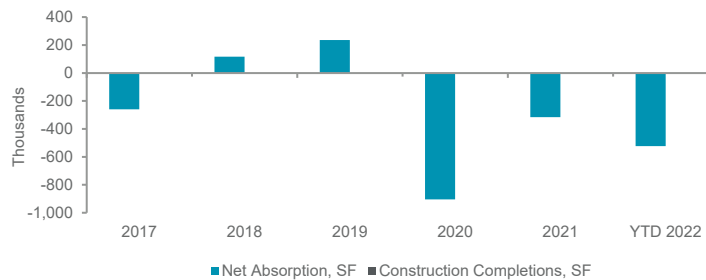
ECONOMY: Ongoing & Future Headwinds

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 42,500 jobs added year-over-year (YOY), bringing regional employment to nearly 1.18 million. This translated to an unemployment rate of 3.0%, a decline of 290 basis points (bps) from the same period in 2021. Although unemployment levels are at historical lows, the positive outlook on the economy is beginning to turn due to the lingering impacts of COVID-19 and other economic headwinds. The Russia-Ukraine War, volatile financial markets, and central banks shifting their economic policy to an unaccommodating stance have all put pressure on Global Markets. Economic indicators, both domestically and internationally, are flashing warning signs of cracks – alluding to a global recession that some argue is already here. Subsequently, the United States has printed two successive quarters of negative GDP; the snowball of economic uncertainty continued to put downward pressure on activity in the East Bay Walnut Creek office market.

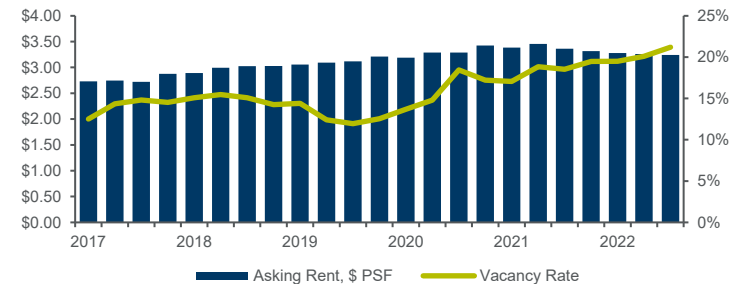
SUPPLY AND DEMAND: Persistent Increase in Vacancy & Stagnant Leasing Activity

The East Bay Walnut Creek office market vacancy increased to 21.2% in the third quarter of 2022. This translated to a rise of 120 bps quarter-over-quarter (QOQ) and 400 bps YOY. At the close of the quarter, there were 2.9 million square feet (msf) of vacancies in the market, up 22.9% YOY. Vacancy for Class B has risen significantly faster than Class A, up 41.2% YOY. Overall net absorption was -169,569 square feet (sf), the fourth consecutive quarter of negative net absorption. Of the -169,569 sf of overall net absorption, 42.8% came from Class A and 57.2% came from Class B. The office market is experiencing a flight to quality with Class A buildings benefiting from more activity and a slower increase in overall vacancy when compared to Class B buildings. Leasing activity slowed down in the third quarter with just 38,211 sf transacted compared to 188,676 sf in quarter two – a QOQ percentage decrease of 79.7%. The most notable transaction was LCA Architect's renewal at 590 Ygnacio Valley Rd in Walnut Creek for approximately 9,400 sf. Other transactions included Terracon Consultant's 3,747 sf lease at 2190 Meridian Park Blvd in Concord and Esco and Associates' 1,694 sf lease at 1277 Treat Blvd in Walnut Creek. Class A buildings have recorded most of the leasing activity in the past several quarters. With Work-From-Home becoming an apparent sticky cultural shift among many companies, there has been a decrease in demand for whole floor spaces, and downsizing has become the norm for many tenants, across industries. As they downsize, occupiers have become less price-sensitive giving rise to an increase in flexibility of options and overall negotiating power.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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PRICING: Asking Rents Dip

Asking rents in East Bay Walnut Creek closed the third quarter at \$3.24 per square foot (psf) on a monthly full-service basis, a slight decrease of \$0.03 from the previous quarter and down \$0.08 YOY. Overall asking rates for Class A have held stronger than class B, down \$0.01 QOQ whereas class B overall asking rates dropped \$0.04 over the same period. The story is similar when looking at the YOY change with class A only declining \$0.03 and Class B declining \$0.07, almost double. This aligns with the narrative of tenants looking to Class A inventory over Class B so landlords of lower quality product must lower their asking rents by a larger percentage to remain competitive. The overall environment of economic uncertainty and Work-From-Home has had broad ramifications negatively influencing vacancy and asking rents; yet, rising inflation has spurred an increase in operating expenses and tenant improvements. This “push-pull” of market dynamics has contributed to a marginal decrease in rents as landlords balance competitiveness with protection of their cost basis. The future of asking rates is expected to accelerate to the downside in the coming quarters with well-located submarkets experiencing less of an impact, such as WC Bart when compared to Shadelands – which continued to have the lowest asking rates.

SALES: Outlying in Strength

Where there was lackluster leasing activity, sales picked up with three substantial transactions in the third quarter. The largest transaction by price and square footage sold was Eagle Canyon Management’s Terraces at 2300 Contra Costa Blvd in Pleasant Hill. The 134,759-sf property was purchased by California Capital and Investment Group for \$38.5 million or \$286 psf. Another noteworthy transaction, the second largest sold in the third quarter at 85,512 sf, was Workspace Property Trust’s and GIC Real Estate’s Orchard Park at 401 Lennon Ln in Walnut Creek. This property was part of a portfolio purchase by Griffin Realty Trust for \$17.4 million or \$204 psf. The third noteworthy sale was Scannell Property’s disposition of an office building at 2055 Meridian Park Blvd in Concord to Fred Kunik for roughly \$20.0 million. The 25,141-sf building was the highest price paid on a psf basis at \$796.

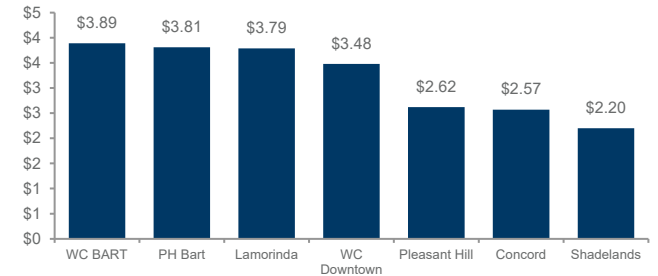
LOOK AHEAD

The East Bay Walnut Creek market is facing multiple headwinds from economic turbulence and high-interest rates to cultural shifts in the way people work with the Work-From-Home movement. All these factors are contributing to landlords making more concessions as transactions, both lease and sale, risk falling through. Many investors and occupiers alike have chosen to not risk going out on the market due to economic uncertainty and ever-changing market conditions. The flight to quality narrative continued to find strength; demand will be for prime locations, among Class A product with exceptional improvements and amenities.

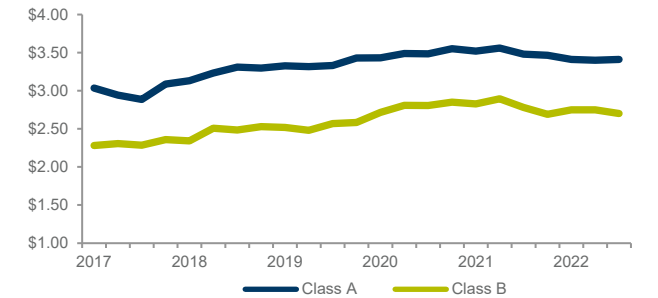
OUTLOOK

- Rents closed at \$3.24 psf, a slight decline this quarter when compared to previous quarters. They are likely to decline modestly into the end of 2022 as market uncertainty persists.
- Vacancy saw a rise over the third quarter and closed at 21.2%. The expectation is vacancy is to remain elevated, alongside sluggish leasing activity.
- Walnut Creek will find a continued demand for Class A product as Class B and lesser quality product will struggle the most with ongoing and future headwinds.

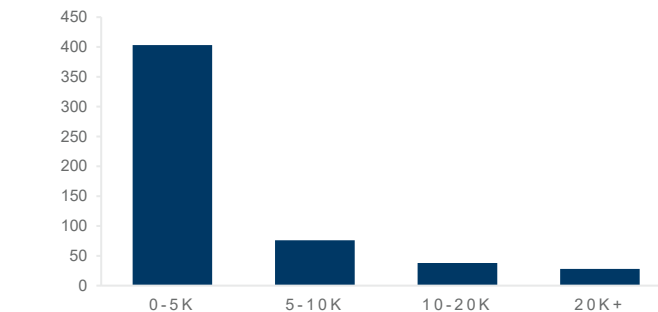
SUBMARKET ASKING RENT



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	733,919	18.0%	383	-85,909	170,872	0	\$2.57	\$2.62
Pleasant Hill	551,356	21,164	28,182	8.9%	-7,623	-10,083	525	0	\$2.62	\$3.25
WC Pleasant Hill BART	1,676,561	158,512	325,446	28.9%	22,543	-44,599	80,152	0	\$3.81	\$3.85
WC Downtown	1,894,756	34,130	289,922	17.1%	-33,831	-90,377	53,522	0	\$3.48	\$4.84
WC BART Area	2,349,008	35,148	759,415	33.8%	-71,992	-183,514	126,405	0	\$3.89	\$3.94
WC Shadelands	1,743,904	6,232	340,055	19.9%	-68,590	-73,740	10,395	0	\$2.20	\$2.35
Lamorinda	1,159,294	34,971	94,833	11.2%	-10,459	-34,515	13,231	0	\$3.79	\$3.50
Walnut Creek Totals	13,893,191	370,770	2,571,772	21.2%	-169,569	-522,737	455,102	0	\$3.24	\$3.41

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
590 Ygnacio Valley Rd	Walnut Creek	LCA Architects Inc.	9,414	Renewal
2190 Meridian Park Blvd	Concord	Terracon Consultants	3,747	New Lease
1277 Treat Blvd	Walnut Creek	Esco and Associates	1,694	New Lease

KEY SALES TRANSACTIONS Q3 2022

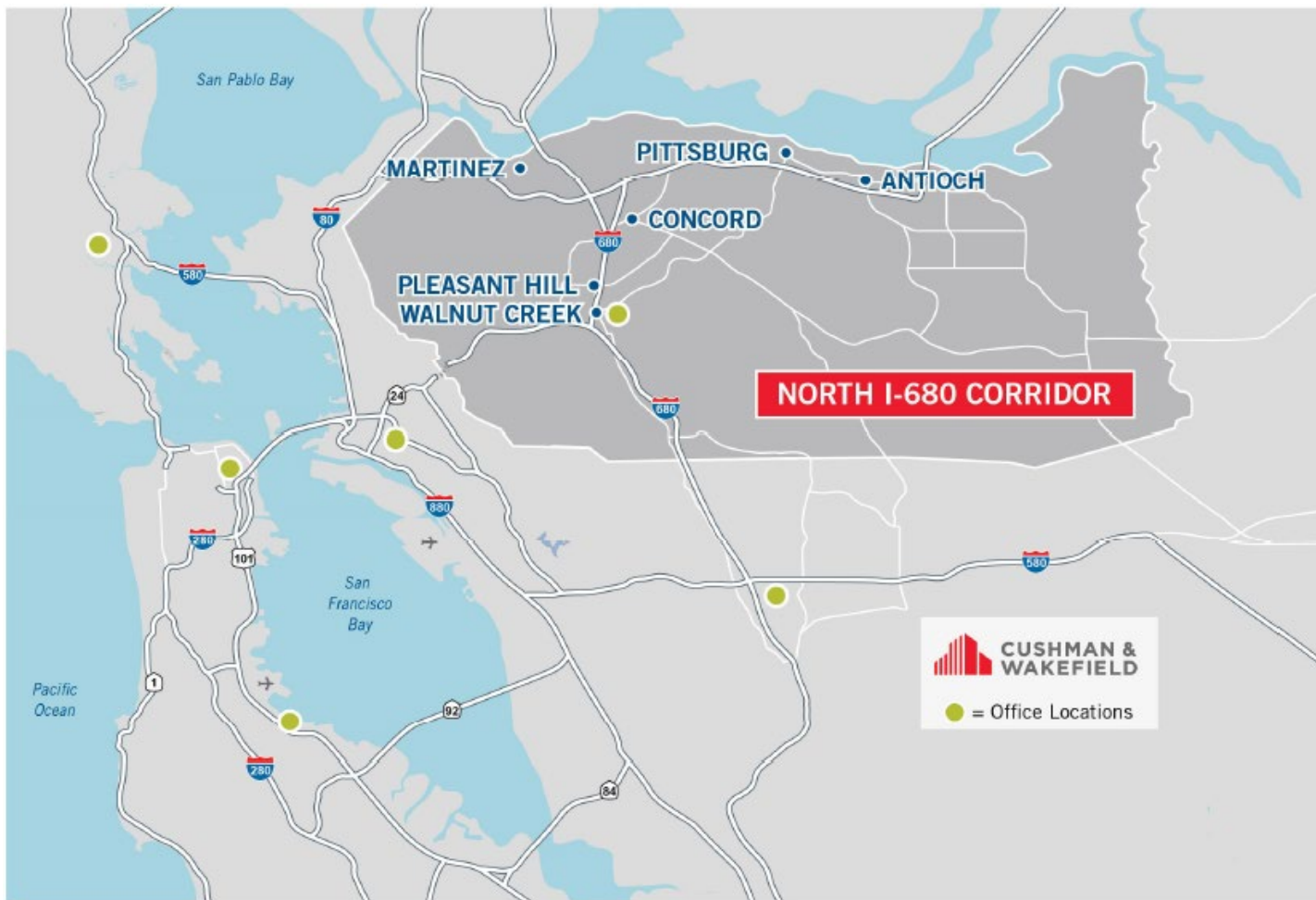
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2300 Contra Costa Blvd - The Terraces	Pleasant Hill	Eagle Canyon Management LLC / California Capital and Investment Group	134,759	\$38.5M / \$286
401 Lennon Ln - Orchard Park (Part of a Portfolio)	Walnut Creek	Griffin Realty Trust / Workspace Property Trust & GIC Real Estate	85,512	\$17.4M / \$204
2125 Oak Grove Rd - Walnut Creek Executive Park 12 (Part of a Portfolio)	Walnut Creek	Rialto Capital Management & The Koll Company / California Capital and Investment Group	75,782	\$7.72M / \$102
2730 Shadelands Dr - Walnut Creek Executive Park 10 (Part of a Portfolio)	Walnut Creek	Rialto Capital Management & The Koll Company / California Capital and Investment Group	35,720	\$4.69M / \$131
2055 Meridian Park Blvd	Concord	Scannell Properties / Fred Kunik	25,141	\$20.0M / \$796

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