

# Walnut Creek

Office Q4 2022



	YoY Chg	12-Mo. Forecast
<b>21.7%</b> Vacancy Rate	▲	▲
<b>-45.2K</b> Net Absorption, SF	▼	▼
<b>\$3.23</b> Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
<b>1.2M</b> East Bay Employment	▲	▲
<b>3.1%</b> East Bay Unemployment Rate	▼	▲
<b>3.7%</b> U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics  
2022Q4 data are based in the latest available data

## ECONOMY: Persistent Headwinds

The East Bay, consisting of Alameda and Contra Costa counties, recorded positive job growth with 37,100 jobs added year-over-year (YOY), bringing regional employment to nearly 1.18 million. This translated to an unemployment rate of 3.1%, a decline of 190 basis points (bps) from the same period in 2021. Global markets were riddled with turbulence in 2022; lingering COVID-19 impacts, supply chain challenges, the Russia-Ukraine War, historically high inflation, and central banks shifting their economic policy to an unaccommodating stance, all contributed to uncertain market conditions. Numerous economic indicators, both domestically and internationally, continued to deteriorate in the latter part of 2022 – alluding to a weakening economy producing conditions for a potential global recession in 2023. The broader market volatility and economic uncertainty put downward pressure on activity in the East Bay Walnut Creek office market throughout 2022, and quarter four was no exception.

## SUPPLY AND DEMAND: Rise in Vacancy & Sluggish Leasing Activity

The East Bay Walnut Creek office market vacancy increased to 21.7% in the fourth quarter of 2022. This translated to a rise of 40 bps quarter-over-quarter (QOQ) and 430 bps YOY. At the close of the quarter, there were 3.0 million square feet (msf) of vacancies in the market, up 24.7% YOY. Class B vacancy has risen significantly when compared to Class A on a YOY basis, increasing 46.9% and 17.4% respectively. Overall net absorption was -45,204 square feet (sf), the fifth consecutive quarter of negative net absorption, but a significant decrease from the recent peak of -219,884 sf in the second quarter of 2022. The negative net absorption this quarter was attributed to Class B; whereas Class A eked out a positive net absorption of 663 sf as the office market experiences a flight to quality and Class A buildings benefiting from more activity. Leasing activity slightly increased QOQ from 77,197 to 91,798 sf, a percentage increase of 18.9%, but was still down from a recent high of 238,991 sf in quarter four of 2021. There were two notable transactions in quarter four: Marsh McLennan's 11,932 sf lease at 1255 Treat Blvd, and Southland Industries' 11,626 sf renewal at 2999 Oak Rd. Both transactions occurred in Walnut Creek Pleasant Hill BART supporting the apparent flight to quality among Class A product which has recorded most of the leasing activity in the past several quarters. Work-From-Home has become a cultural shift among many companies leading to downsizing and the use of less sf for many occupiers. The savings in rent that was once allocated to needed sf has allowed occupiers to spend more on premiums such as new construction, location, and amenities that will further entice employees to work in-person. Although remote work has proven its feasibility, pandemic fears have waned, recession fears have escalated, and subsequently, in-person attendance has increased throughout 2022 – a “glass half-full” fact heading into 2023.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# Walnut Creek

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## PRICING: Asking Rents Steady

Asking rents in East Bay Walnut Creek closed the fourth quarter at \$3.23 per square foot (psf) on a monthly full-service basis, a slight decrease of \$0.03 QOQ and \$0.04 YOY. Overall asking rates peaked in quarter two of 2021 at \$3.42, a decline of \$0.19. Over the same period, Class A declined \$0.14, whereas Class B declined \$0.19. The combination of the market environment due to economic uncertainty, and Work-From-Home have had broad ramifications negatively influencing vacancy and asking rents; yet, rising inflation has spurred an increase in operating expenses and tenant improvement costs. This market dynamic has had a “push-pull” effect that 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 2023 as the likelihood of a recession increases. Appropriately, well-located submarkets will experience less of an impact; PH Bart, Lamorinda, and W/C BART, when compared to Shadelands or Concord – which continued to have the lowest asking rates. Moreover, within well-located submarkets, Class A inventory will hold the most resilience as flight to quality persist.

## SALES: Lackluster

The increase and volatility in interest rates have taken a toll on sales in Walnut Creek and the broader United States Market. Quarter four of 2022 was lackluster, but overall YTD activity had a few noteworthy transactions; specifically, quarter three. The most notable YTD sale was the portfolio purchase of Rialto Capital Management & The Koll Company’s Walnut Creek Executive Park in quarter three; the largest transaction in terms of price and sf. California Capital and Investment Group paid \$48.6 million, \$108 psf, for the 12 office buildings, totaling 450,096 sf. The U.S Lending Volume in the second half of 2022 was roughly \$136 billion in September; -16.0% decline from the 2017-2019 average, according to Real Capital Analytics. This was a decrease from the year to date (YTD) high in June from about \$221 billion. Sales volume is unlikely to increase until vacancy stabilizes, volatility in interest rates decreases, and market clarity returns.

## LOOK AHEAD

The East Bay Walnut Creek market continues to face multiple headwinds. Broader market turbulence, high inflation, unfavorable geo-political conditions, and unaccommodating central banks have ultimately led to a weakening economy and a rise in recession fears. Furthermore, cultural shifts in the way people work have reduced demand for sf in office product since the pandemic. The extreme uncertainty and volatile conditions created a complex environment for investors and occupiers alike; impeding most activity in leasing and sales for the better part of 2022. Resilience will be found in quality product, and as confidence revamps with market clarity and favorable conditions – 2022 and 2023 will be seen as an opportunistic time.

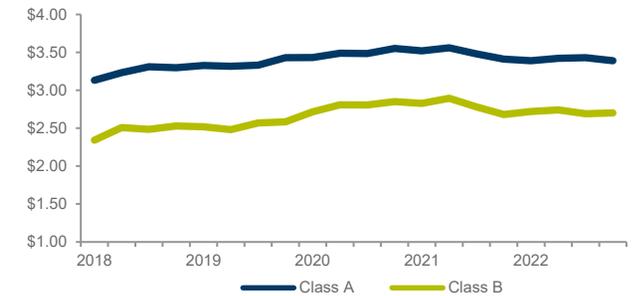
## OUTLOOK

- Rents closed at \$3.23 psf, a slight decline this quarter, but an overall marginal change for Class A and B inventory on a YOY basis. Rents are likely to decline modestly as recession probabilities increase into 2023.
- Vacancy saw a rise over the fourth quarter and closed at 21.7%. The expectation is vacancy will remain elevated, alongside muted leasing activity.
- Walnut Creek will find a continued demand for Class A office space as Class B and lesser quality inventory will struggle the most with future headwinds.

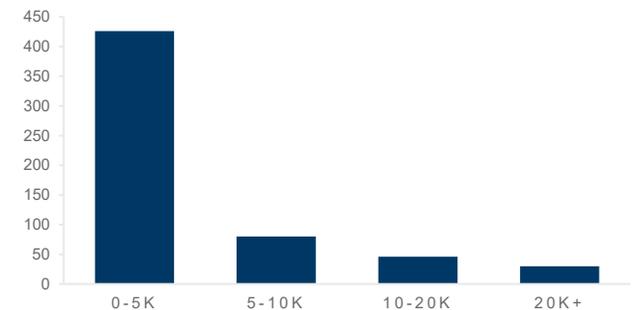
## SUBMARKET ASKING RENT



## ASKING RENT COMPARISON



## AVAILABILITIES BY SIZE SEGMENT



## 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	4,539,159	122,124	737,305	18.9%	-78,142	-130,806	207,138	0	\$2.52	\$2.57
Pleasant Hill	551,356	21,164	42,666	11.6%	-14,268	-24,480	525	0	\$2.74	\$3.25
WC Pleasant Hill BART	1,676,561	146,580	367,183	30.6%	27,303	-75,021	109,940	0	\$3.88	\$3.93
WC Downtown	1,885,260	41,517	316,347	19.0%	-28,572	-124,189	82,238	0	\$3.45	\$4.85
WC BART Area	2,349,008	41,356	685,809	31.0%	59,123	-116,116	160,534	0	\$3.84	\$3.89
WC Shadelands	1,743,904	20,715	332,541	20.3%	7,514	-80,709	28,076	0	\$2.33	\$2.53
Lamorinda	1,178,914	42,783	98,191	12.0%	-18,162	-45,685	32,821	0	\$3.87	\$3.50
<b>Walnut Creek Totals</b>	<b>13,924,162</b>	<b>436,239</b>	<b>2,580,042</b>	<b>21.7%</b>	<b>-45,204</b>	<b>-597,006</b>	<b>621,272</b>	<b>0</b>	<b>\$3.23</b>	<b>\$3.39</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1255 Treat Blvd - Treat Towers	WC Pleasant Hill BART	Marsh McLennan	11,932	Direct
2999 Oak Rd	WC Pleasant Hill BART	Southland Industries	11,626	Renewal
1255 Treat Blvd - Treat Towers	WC Pleasant Hill BART	Destination Wealth Management	7,625	Renewal
230-268 Wiget Ln N	WC Shadelands	Mission Church	6,685	Renewal

## KEY SALES TRANSACTIONS YTD 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Walnut Creek Executive Park Portfolio (12 Office Properties)	WC Shadelands	Rialto Capital Management & The Koll Company / California Capital and Investment Group	450,096	\$48.6M / \$108
2300 Contra Costa Blvd - The Terraces	Pleasant Hill	Eagle Canyon Management LLC / California Capital and Investment Group	134,759	\$38.5M / \$286
1855 Olympic Blvd	WC Downtown	Hall Equities Group / Christian Church Homes	37,910	\$10.0M / \$264
3000 Clayton Rd	Concord	Virginia Lampson / Operating Engineers Local Union No. 3	30,206	\$7.2M / \$238

