

MARKETBEAT

EAST BAY WALNUT CREEK

OFFICE Q3 2024



MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
25.8% Vacancy Rate	▲	▲
-34.7K Net Absorption, SF	▲	▼
\$3.15 Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▲	▼

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.2M East Bay Employment	▲	▲
4.7% East Bay Unemployment Rate	▲	▼
4.1% Country Unemployment Rate	▲	▼

Source: BLS

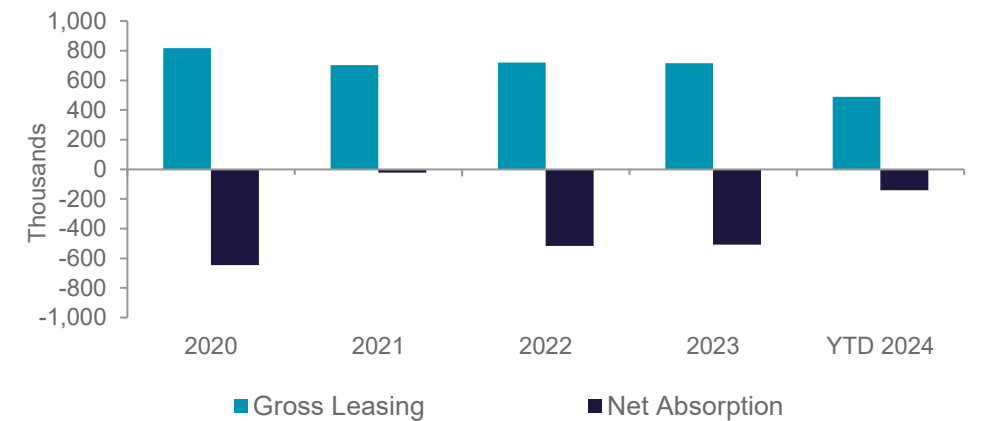
ECONOMY: UNSTEADY

The East Bay, consisting of Alameda and Contra Costa counties, closed the third quarter with regional employment totaling 1.20 million, an increase of 13,100 jobs year-over-year (YOY). Despite this growth in positions, the unemployment rate crept up 40 basis points (bps) over the same period to 4.7%. For over a year, the Bay Area has experienced widespread layoffs within the technology sector, an industry that had previously been a driving force behind occupancy growth in the region. While Covid-19 concerns have largely faded for many employers, new social and macroeconomic uncertainties, coupled with remote work trends, are weighing heavily on industries beyond tech, stifling growth and the demand for office space. The East Bay Walnut Creek office market has not been immune to these larger challenges, recording a sustained rise in vacancy amidst weakened tenant demand.

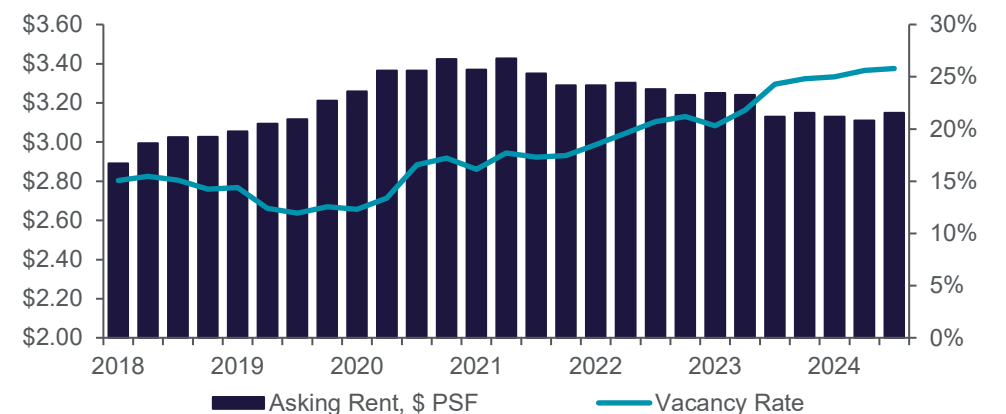
SUPPLY AND DEMAND: VACANCY - STEADY UPTREND

The East Bay Walnut Creek office market closed the third quarter with a vacancy rate of 25.8%, up a modest 20 bps from the prior quarter and 150 bps YOY. Net absorption for the quarter was negative 34,669 square feet (sf), its sixth consecutive quarter in the red as the vacancy rate further eclipsed its pre-pandemic peak of 22.2% in 2011, following the Great Recession. While the region continues to grapple with rising vacancy, green shoots are emerging in certain submarkets as changes in workplace strategy benefit some areas. Vacancy in the Walnut Creek Downtown submarket was down YOY, with a vacancy rate of just 14.7%. The hub-and-spoke approach to office space has begun to take effect, as occupiers look to bring workplaces closer to where employees live, benefiting suburban downtowns at the cost of larger central business districts in Oakland and San Francisco. Employees benefit from shorter commutes, without sacrificing walkable amenities and the social interactions of in person work. Walnut Creek Pleasant Hill BART had the market's highest vacancy rate of 34.3% at the close of the third quarter. This submarket's proximity to its namesake BART station had long been a selling point to potential occupiers, but as public transit ridership struggles to recover from the pandemic, so too has this market. Despite its predominantly Class A inventory, the quality of its buildings have struggled to compete with quality of location in neighboring Walnut Creek Downtown. Gross leasing activity for the quarter was 159,337 sf, down approximately 27.8% quarter-over-quarter (QOQ), and relatively level YOY. Activity year-to-date (YTD) was 490,904 sf, slightly off pace to match the three prior years' annual totals which have hovered around approximately 710,000 sf.

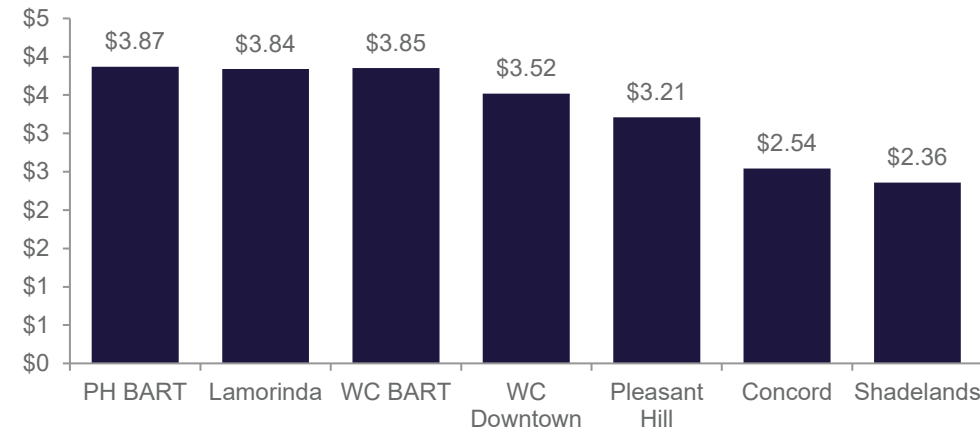
SPACE DEMAND / ABSORPTION



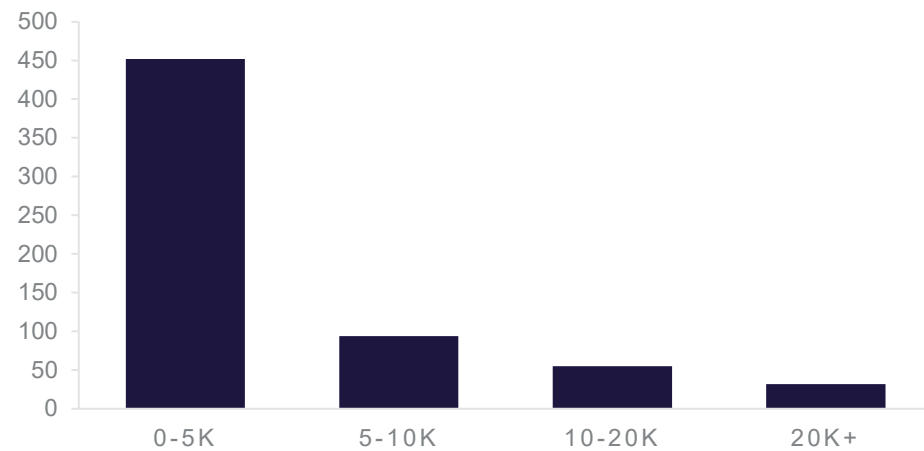
OVERALL VACANCY & ASKING RENT



AVERAGE ASKING RATE BY SUBMARKET(FULL SERVICE)



AVAILABILITIES BY SIZE SEGMENT



AVERAGE ASKING RATE BY CLASS (FULL SERVICE)



While activity may have declined, the top lease of the quarter was a direct new deal, representing growth in a time where leasing activity had been driven by tenants renewing or downsizing in the market. The GSA signed a new lease for The Office of the Principal Legal Advisor for 24,093 sf at 1855 Gateway Boulevard in Concord. New leases were also signed by Black and Veatch and Turner Construction for 21,445 sf and 12,000 sf, respectively.

PRICING: STEADY DOWNTREND

Asking rental rates in the East Bay Walnut Creek closed the third quarter at \$3.15 per square foot (psf) on a monthly full-service basis, an increase of \$0.02 psf YOY. Overall asking rates peaked in quarter four of 2020 at \$3.42 psf and have been slowly trending downward since. Minor fluctuations over the past year occurred as vacancy rose and fell across certain submarkets but overall, rental rates are beginning to adjust to an oversupply of vacancy. The delta between Class A and B asking rates was \$0.40 psf at the close of the third quarter. The relative premium for Class A space supports the underlying thesis of a flight to quality as companies place increasing value on the quality of space to attract workers back into the office. It is also important to note that there is a real and growing difference between asking and effective rates. Landlords have continued to protect their cost basis, offering increased concessions such as free rent to entice tenants without softening on base rates. Walnut Creek Shadelands holds the lowest overall asking rental rate at \$2.36 psf. Conversely, Walnut Creek - Pleasant Hill BART came in with the highest overall asking rate at \$3.87 psf. A handful of projects in the region continued to transact at or near pre-pandemic rental rates as the flight to quality benefitted well-located submarkets, resulting in less of an impact on rates.

SALES: MUTED

Sales activity in the East Bay Walnut Creek has been muted for much of the past two years, with investors struggling to navigate shifting office trends, elevated vacancy and constrained access to capital. What few transactions there have been were dominated by small, private cash buyers and owner users. As interest rates plateaued in the back half of 2023 there was a brief surge of institutional investor activity with two notable transactions: the 369,000-sf, One Concord Center for approximately \$113 psf and the portfolio purchase of 1320 and 1390 Willow Pass Rd - 1 and 2 Corporate Centre for \$58 psf. As we enter the fourth quarter of 2024 there has yet to be any “follow through” from that brief uptick. The largest transaction this quarter was the sale of 2290 Diamond Boulevard in Concord, a 10,730-sf office building that sold for \$2.5 million or \$232 psf. The largest sale YTD remains Jiva Health’s purchase of 215 Lennon Lane in the Shadelands, a 29,353-sf medical office building that the buyer plans on occupying.

OUTLOOK

- Rents closed at \$3.15 psf, down from their peak in 2020, and are expected to continue to decline modestly into 2025.
- Vacancy is expected to increase into 2025 as supply persistently hits the market amidst tenant downsizing and limited new demand.
- Premium Class A office space in favorable locations will continue to draw the majority of the region’s limited new demand.

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	4,589,594	109,273	1,348,670	31.8%	6,464	8,420	123,260	0	\$2.54	\$2.57
Pleasant Hill	551,356	0	80,386	14.6%	8,095	4,169	32,659	0	\$3.21	\$3.27
WC Pleasant Hill BART	1,676,561	125,742	449,024	34.3%	17,767	-52,145	79,576	0	\$3.85	\$4.03
WC Downtown	1,885,260	36,007	240,523	14.7%	1,034	-12,488	126,676	0	\$3.50	\$4.84
WC BART Area	2,351,447	42,771	766,868	32.6%	-89,386	-76,128	75,214	0	\$3.85	\$3.96
WC Shadelands	1,748,466	14,483	308,389	17.6%	29,217	-4,331	34,479	0	\$2.37	\$2.85
WALNUT CREEK TOTALS	7,661,734	219,003	1,707,550	25.1%	-41,368	-145,092	315,945	0	\$3.55	\$3.99
Lamorinda	1,139,996	27,175	135,942	11.9%	-7,860	-7,727	18,202	0	\$3.84	\$3.95
CLASS BREAKDOWN										
Class A	8,233,341	310,331	2,390,999	32.8%	-66,984	-90,824	-	0	\$3.25	-
Class B	5,709,339	45,120	854,374	15.8%	32,315	-49,406	-	0	\$2.85	-
TOTALS	13,942,680	355,451	3,245,373	25.8%	-34,669	-140,230	307,389	0	\$3.15	-

*Rental rates reflect full service asking

**Stats are not reflective of U.S. Overview Tables

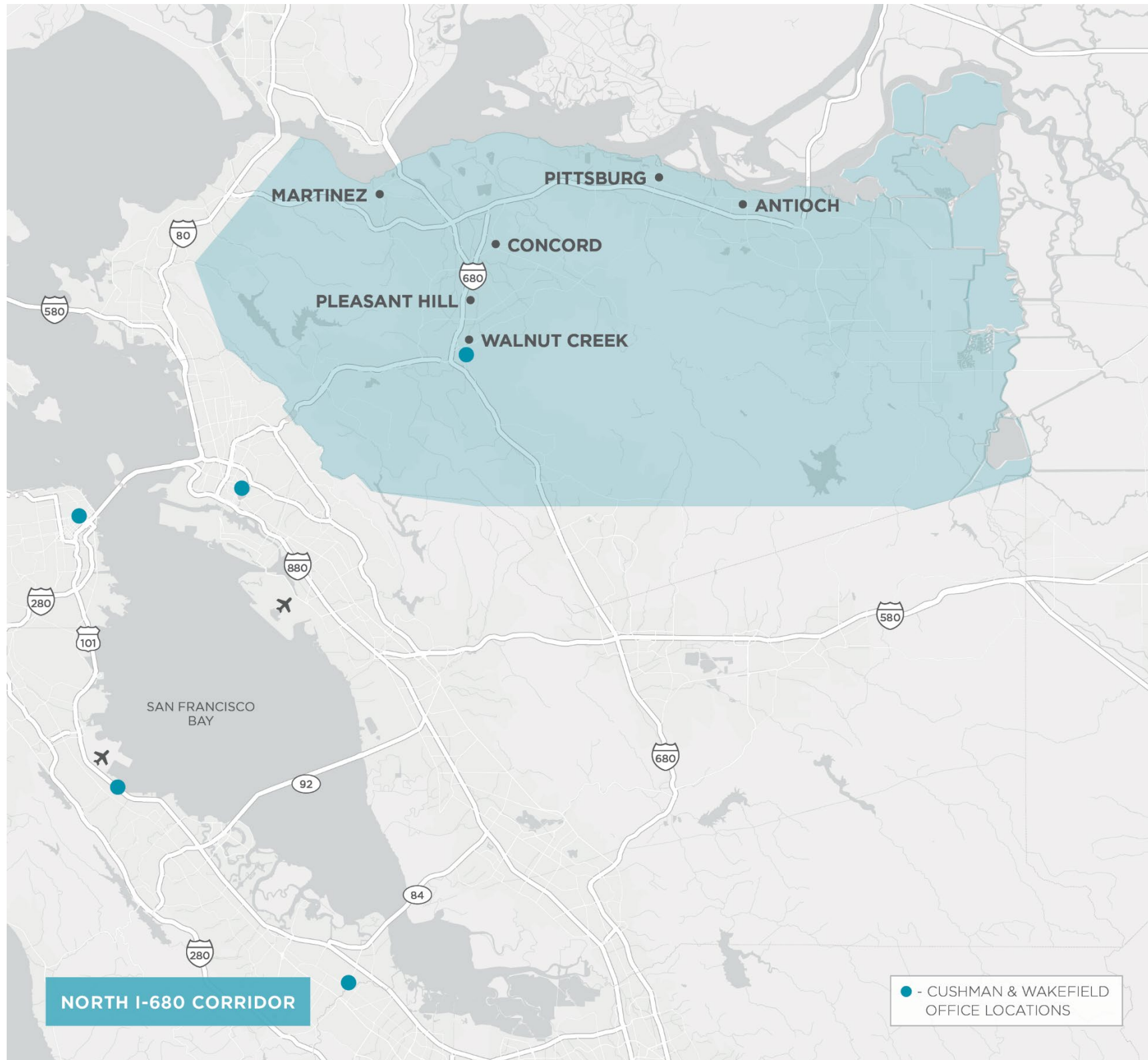
KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1855 Gateway Blvd	Concord	Office of the Principal Legal Advisor	24,093	Direct
2999 Oak Rd	WC- Pleasant Hill BART	Black and Veatch	21,445	Direct
100 Pringle Ave	WC BART Area	Turner Construction	12,000	Direct

KEY SALES TRANSACTIONS YTD 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
215 Lennon Ln	WC Shadelands	TPG Angelo Gordon & Co., L.P. / Jiva Health	29,353	\$3.7M / \$127
1904 Olympic Blvd	WC Downtown	Cranbrook Group, Inc. / Celo Investments, LLC	26,315	\$5.0M / \$190
2290 Diamond Blvd	Concord	Frank C. Bellecci / 2290 Diamond Blvd LLC	10,730	\$2.5M / \$233
93 Moraga Way	Lamorinda	M&M Family Trust / Chen, MD	9,709	\$5.6M / \$577

OFFICE SUBMARKETS



WESCOTT OWEN
Research Manager
Tel: +1 415 451 2418
Wescott.Owen@cushwake.com

ALEXANDER BRANDT
Research Analyst
Tel: +1 510 267 6096
Alexander.Brandt@cushwake.com

CUSHMAN & WAKEFIELD
555 12th St
Suite 100
Oakland, CA 94607

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