
1Q24

Tri Valley Office and R&D Market Overview



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Market Observations

Economy

- The East Bay’s labor market remains strong amid shifting macroeconomic conditions. Recent layoffs in the office-using employment sector resulted in a small increase in the local unemployment rate. February’s unemployment rate was 5.0% which remained slightly higher than the U.S. national average of 3.9%.
- Job growth year-over-year was highest in the education and health, other services, and leisure and hospitality industries. The information, financial services, and manufacturing sectors showed the largest decreases in employment.
- Technology firms are continuing to adjust labor needs. Locally, employment growth across all office-occupying sectors has slowed substantially.

Major Transactions

- WFG National Title subleased 9,964 SF in Dublin.
- K&A Engineering Consulting leased 8,659 SF in Pleasanton.
- AT&T reoccupied sublease space at Bishop Ranch 2600 which it had put on the market in 2020, resulting in 262,272 square feet of positive absorption.

Leasing Market Fundamentals

- The Tri Valley market experienced a positive absorption of 158,167 square feet for the first quarter of 2024 mainly due to the reoccupied space by AT&T at 2600 Bishop Ranch.
- Asking rental rates remained steady for all types of product in Tri Valley for the first quarter of 2024, including office, office-flex, R&D and industrial sectors while transaction starting rates decreased.
- There has been a slight downturn in tenant demand compared to the fourth quarter of 2023, and it remains historically low.
- Tenants continue to be drawn to buildings with better amenities and shared spaces.

Outlook

- The macroeconomic future remains uncertain, prompting both occupiers and investors to approach deals with increased caution, ultimately influencing leasing and investment activity.
- Leasing activity for the first quarter was the slowest it has been in years, and it is expected that it will remain slow moving into the second quarter of 2024.
- Market vacancy continued to decrease slightly, no scalable movement. Tenants continue to recalibrate their space needs with current hybrid work trends.
- For the first time since the pandemic, there was a noteworthy amount of positive absorption.

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2. Leasing Market Fundamentals
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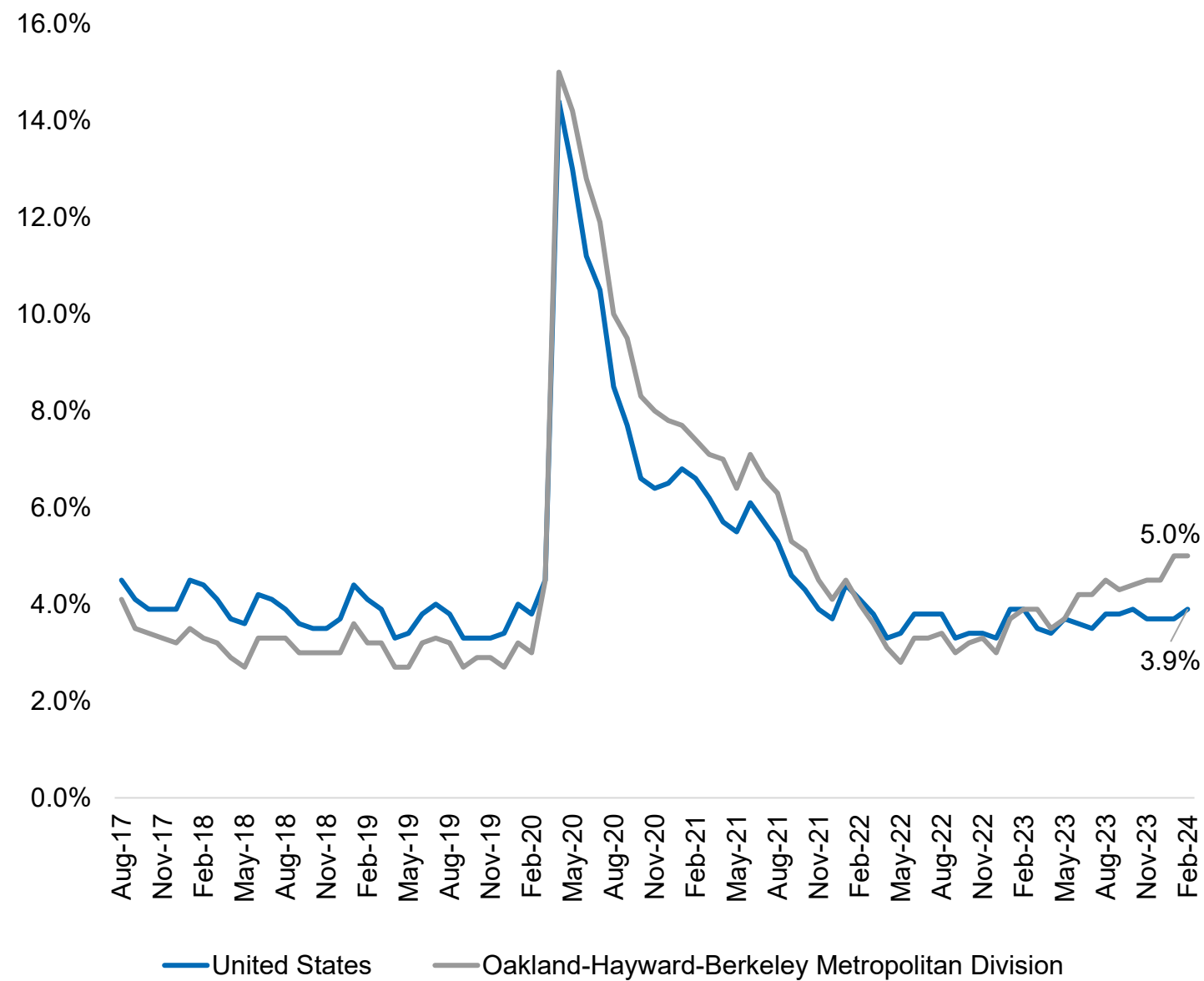
Economy



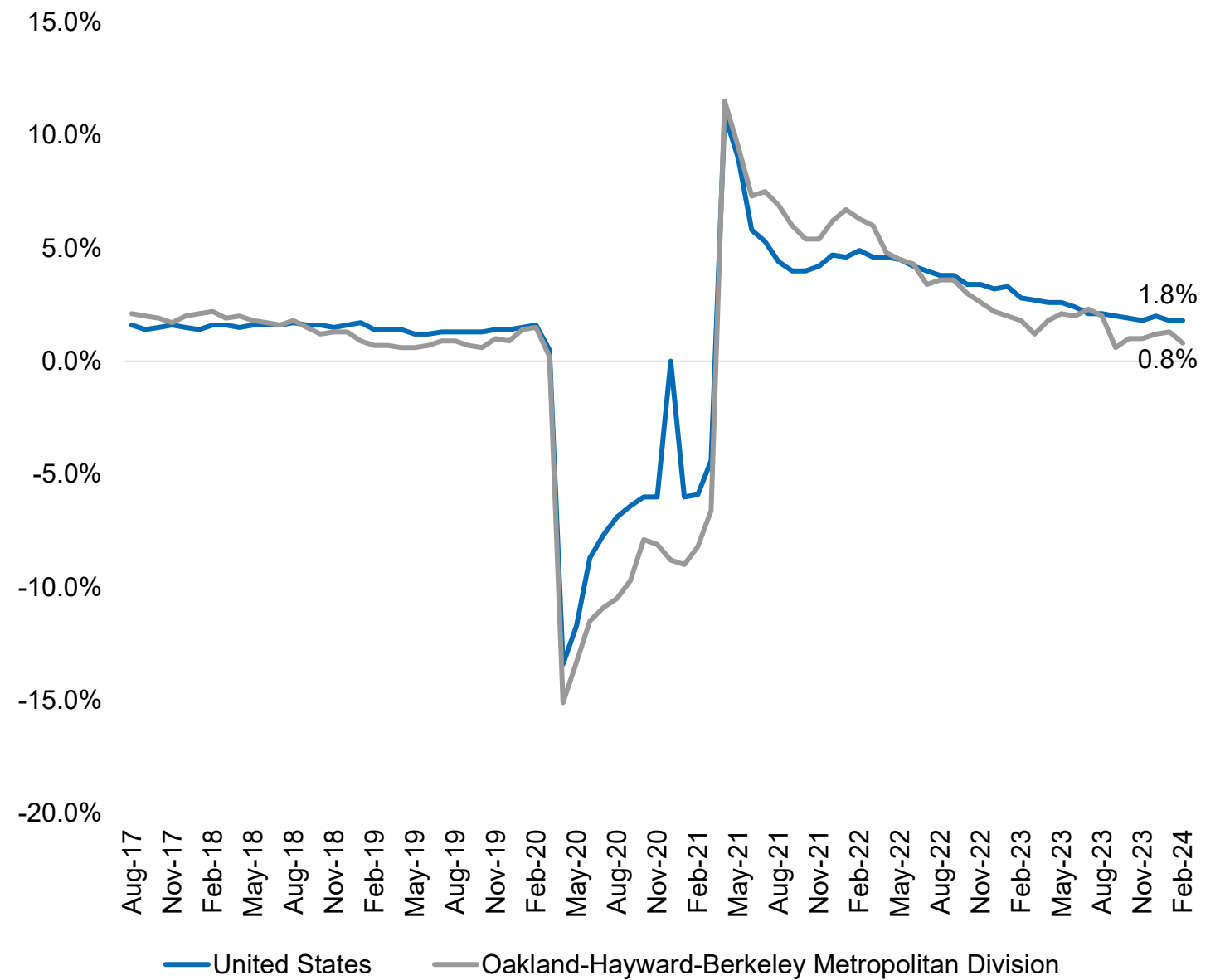
Metro Employment Trends Signal A Slowing Economy

The current unemployment rate for the East Bay Area is 50 basis points higher than it was at the end of 2023, and at 5.0% is 110 basis points higher than the national average.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

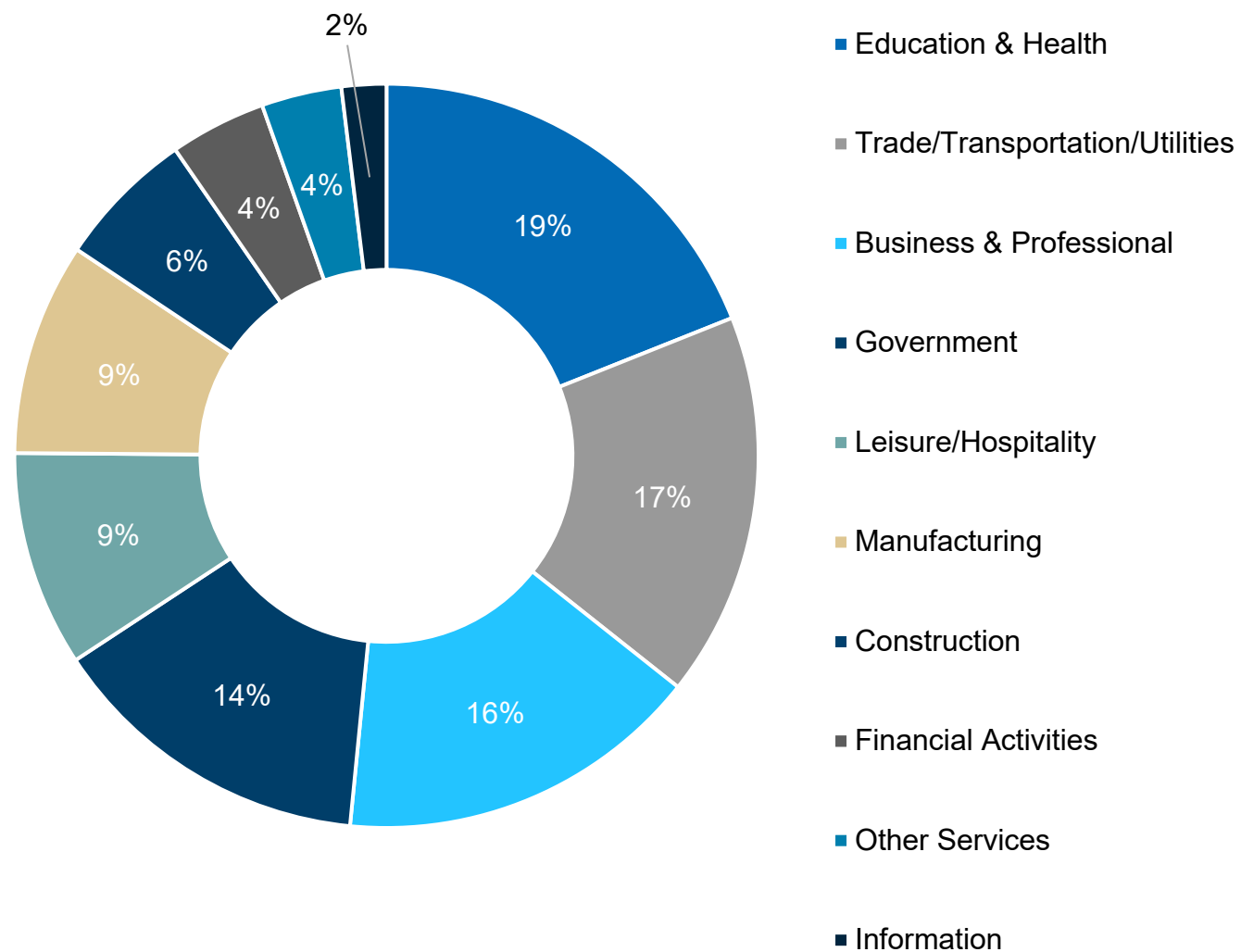


Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties)

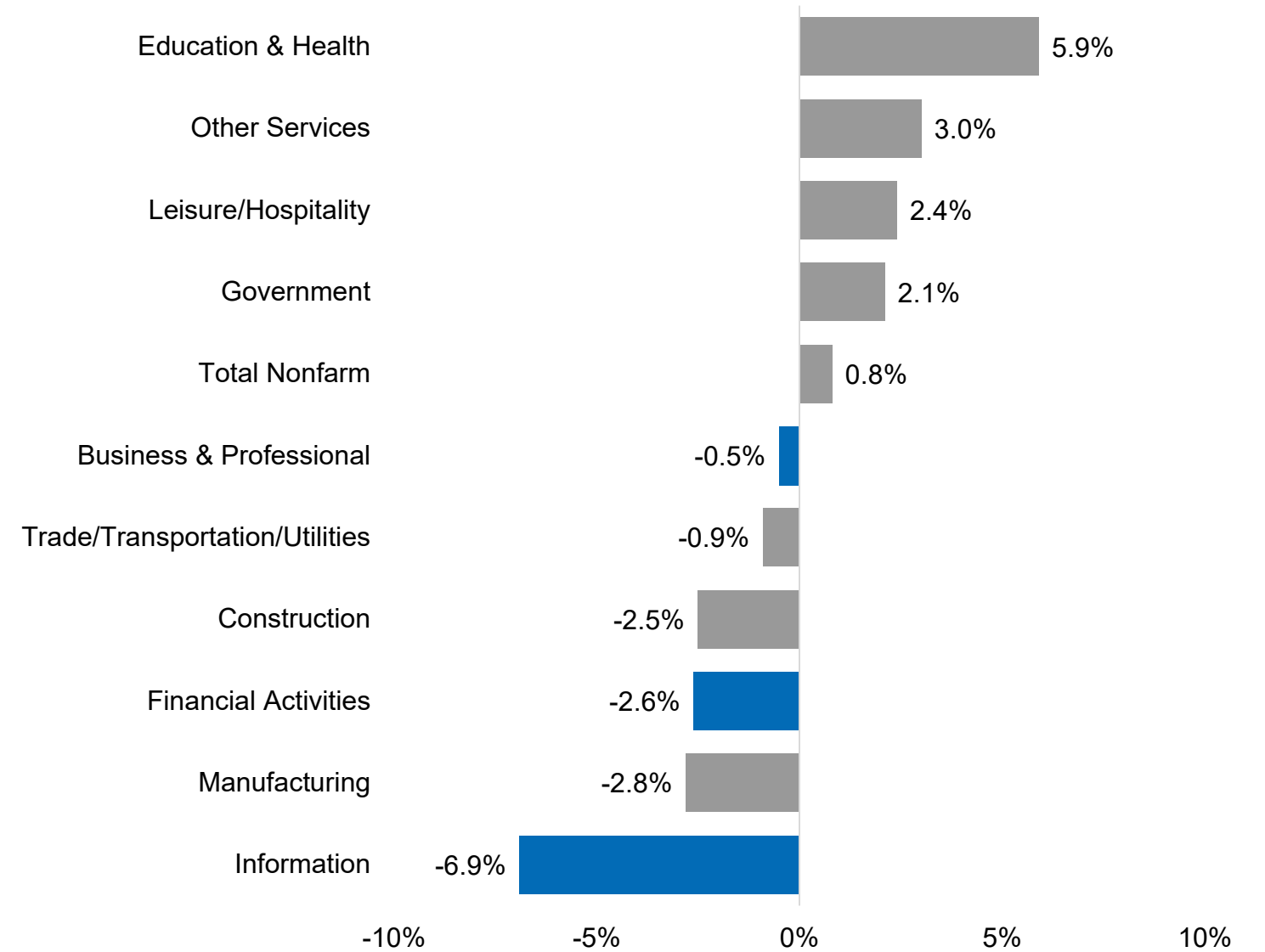
Office-Using Employment Down

All three office using sectors (Financial Activities, Information, and Business & Professional Services) have experienced job loss over the past twelve months due to the significant number of layoffs in these sectors throughout the course of 2023.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

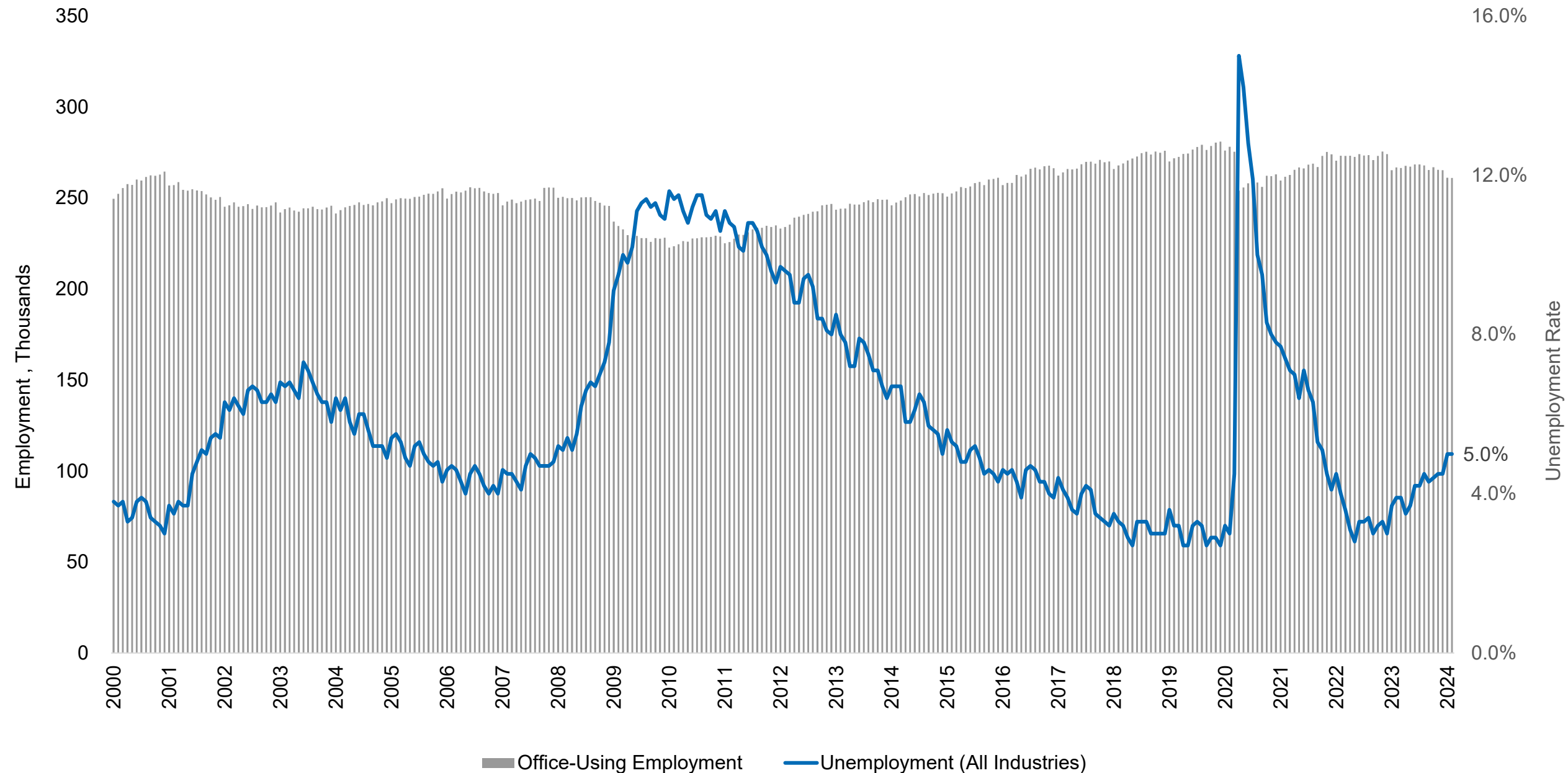


Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties)

Overall Office-Using Employment Still Lower than Pre-Pandemic

The number of office jobs in the East Bay has yet to recover to pre-pandemic levels, with about 10 thousand fewer office-using jobs. Office-using employment is currently just below early-2017 levels.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties). Note: August 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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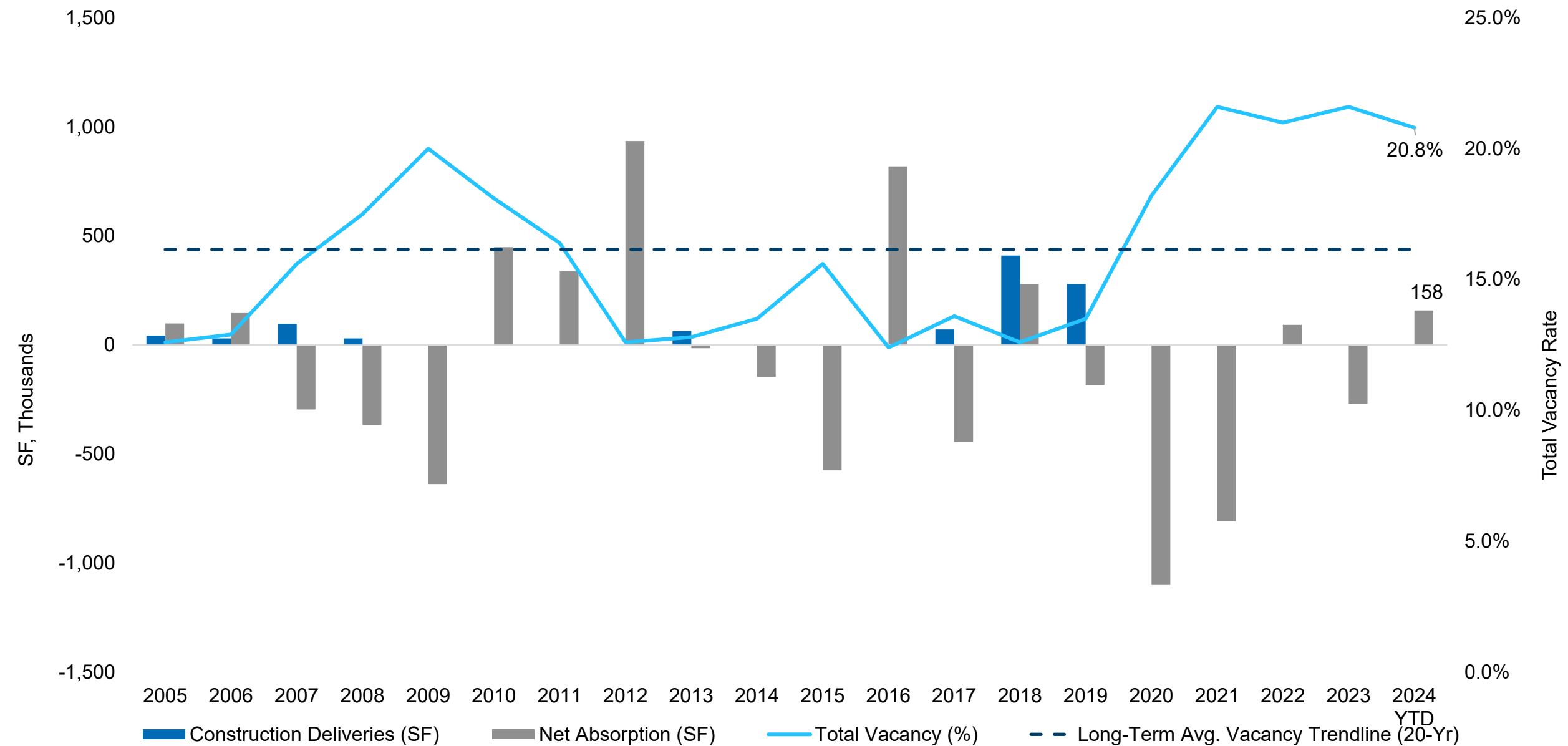
Leasing Market Fundamentals



Tri Valley Office Vacancy Sees A Slight Decrease

The overall vacancy rate decreased in the first quarter by 80 basis points, as the market logged 158,000 square feet of positive absorption. Overall vacancy rate of 20.8% proves to be the lowest in the past year. There is no new office construction in the pipeline.

Historical Construction Deliveries, Net Absorption, and Vacancy

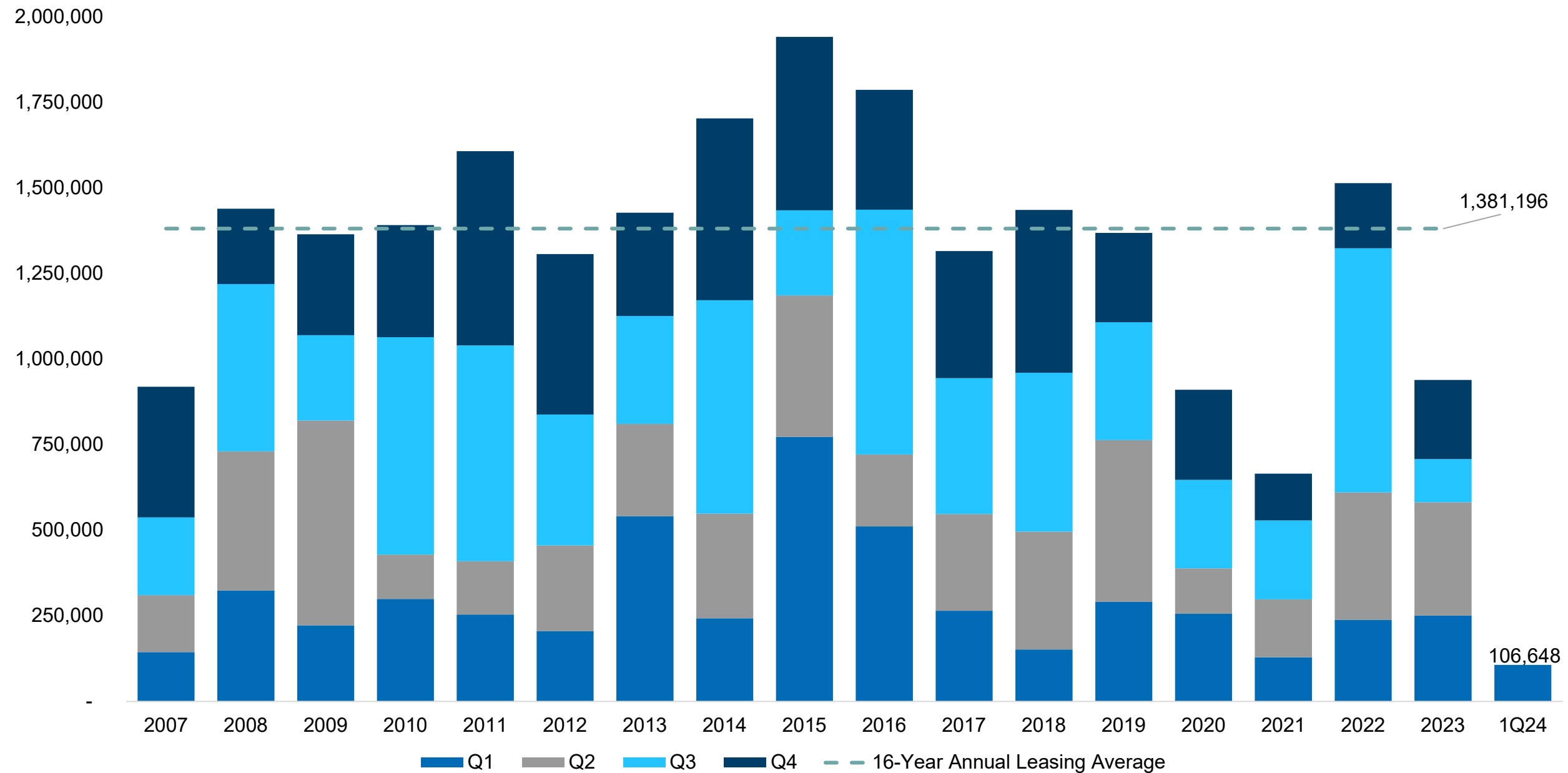


Source: Newmark Research, CoStar

Tri Valley Office Leasing Activity Pace Has Slowed

Office leasing decreased in the first quarter compared to the beginning of last year, with 106,648 square feet being leased in Tri-Valley. This is a similar start to the year that office leasing had in 2021.

Total Leasing Activity (sf)



Source: Newmark Research, CoStar

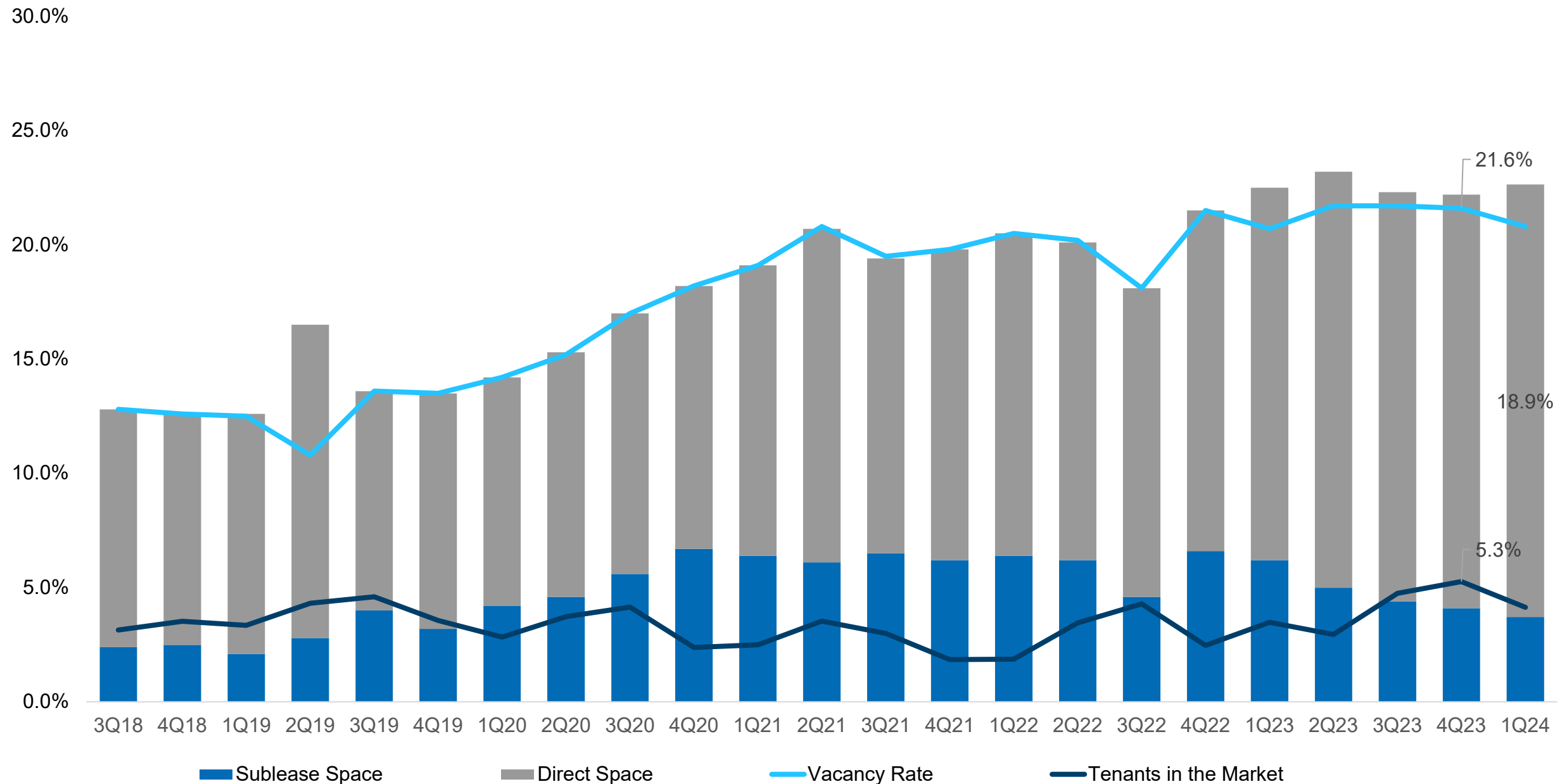


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Availability Increases While Tenant Demand Decreases

While the amount of sublease space on the market continues to slowly drop, much of the change is due to lease expirations. Availability in the first quarter decreased by 40 basis points for sublease space while simultaneously increasing by 80 basis points for direct space. There are currently around 17 tenants in the market currently looking for more than 10,000 square feet.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research, CoStar

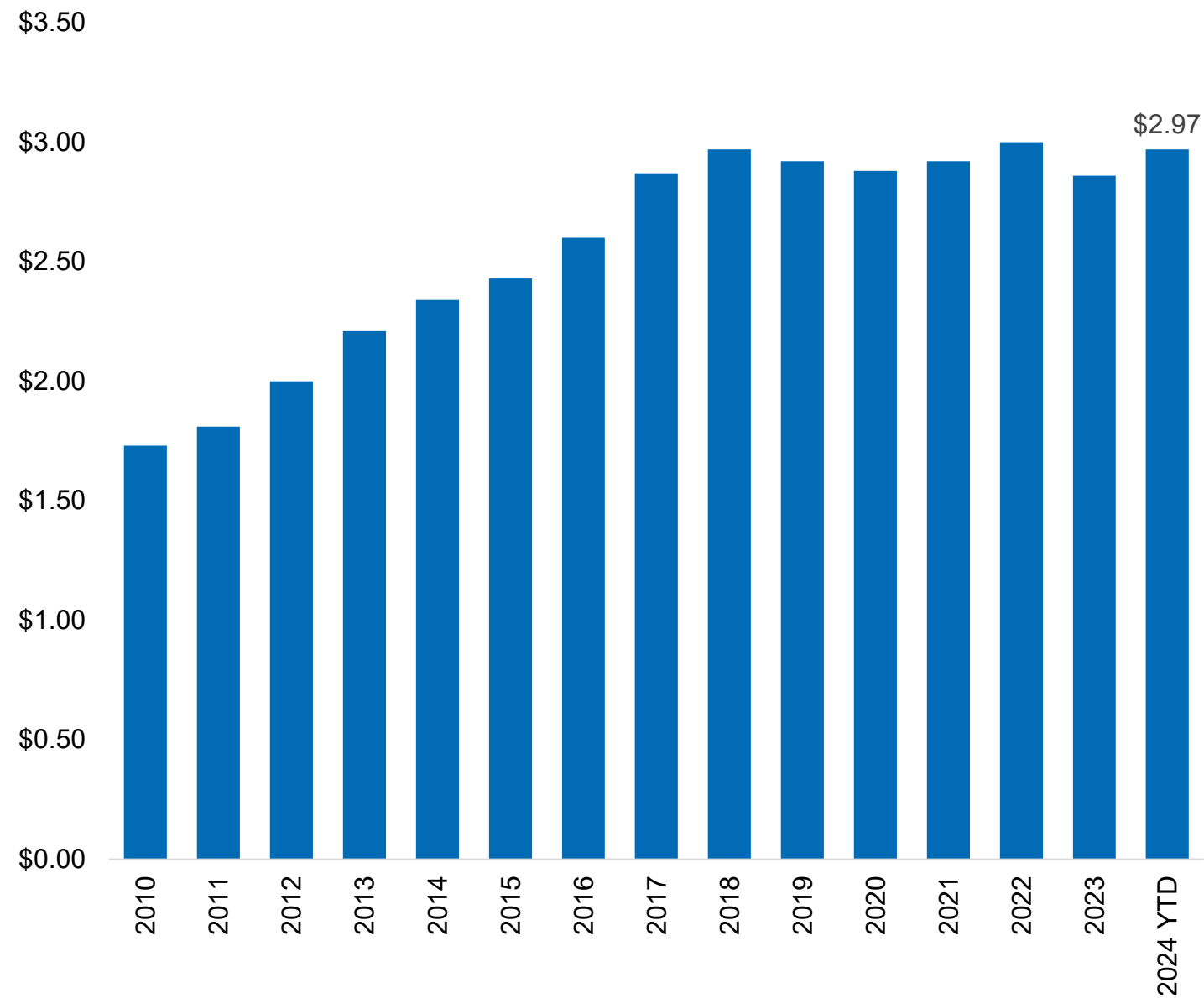


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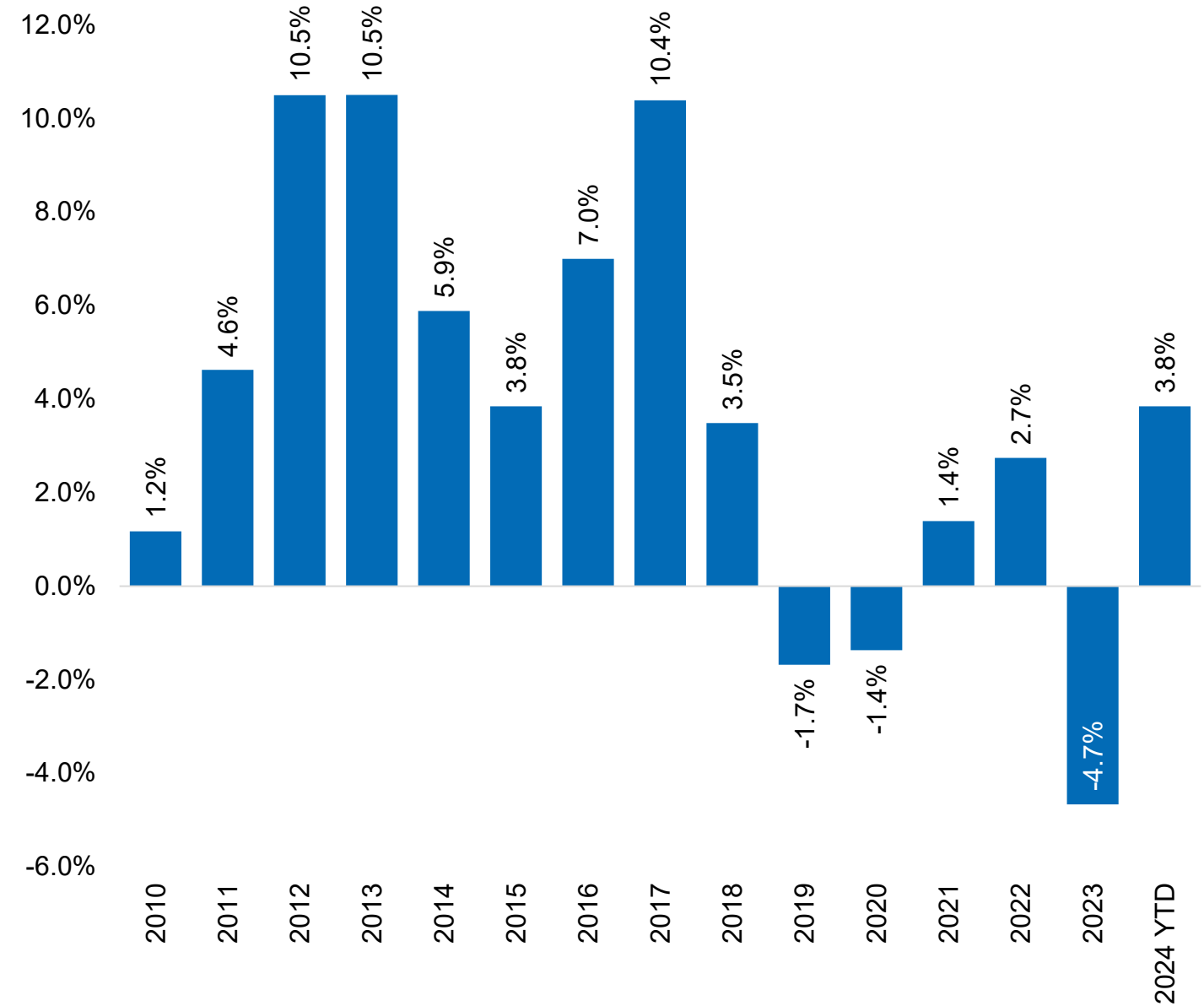
Office Asking Rents Stay Consistent

While overall asking rates appear to have gone up slightly, the increase is due to an increase in the amount of Class A space in the market in relation to lower-priced Class B and Class C space. Asking rents remained stable quarter-over-quarter, with the exception of a slight increase at one property in Bishop Ranch. Overall, there has been no significant change to asking rates.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

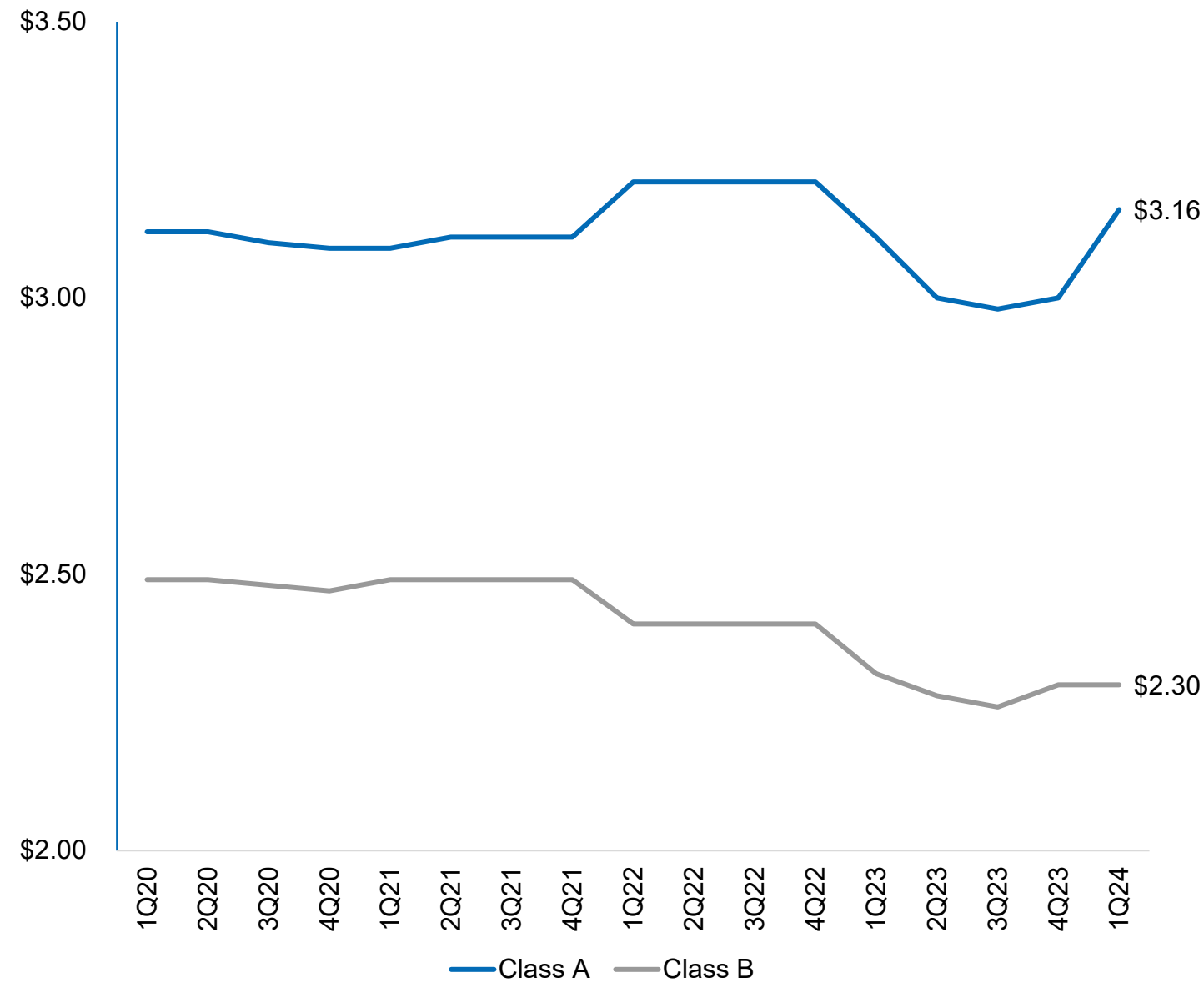


Source: Newmark Research, CoStar

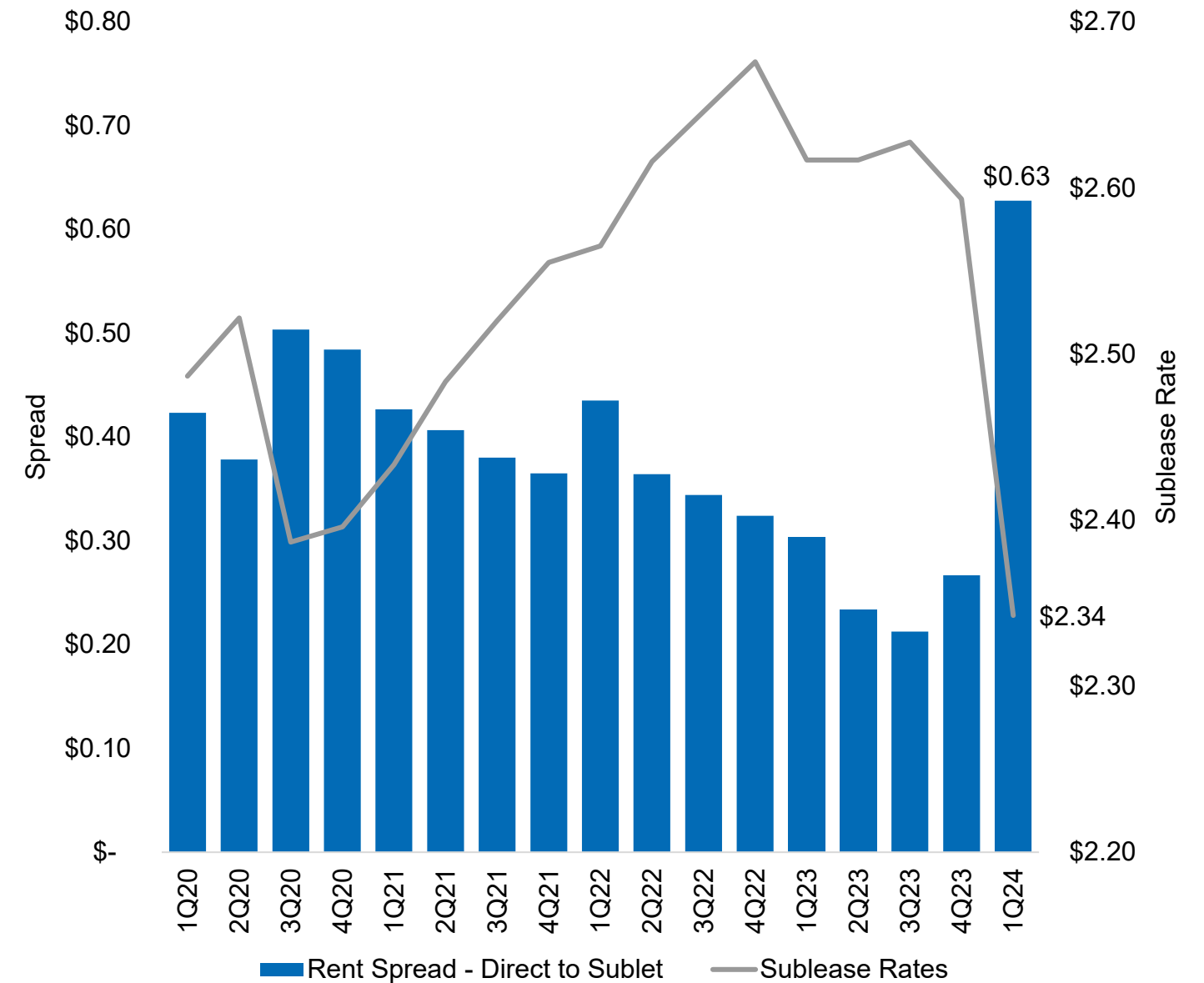
Office Sublease Rates Drop

Class A rents saw an increase in the first quarter, while overall sublease rates dropped. A large decrease in sublease rates in the first quarter, caused a significant increase in the spread between direct and sublease rents.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

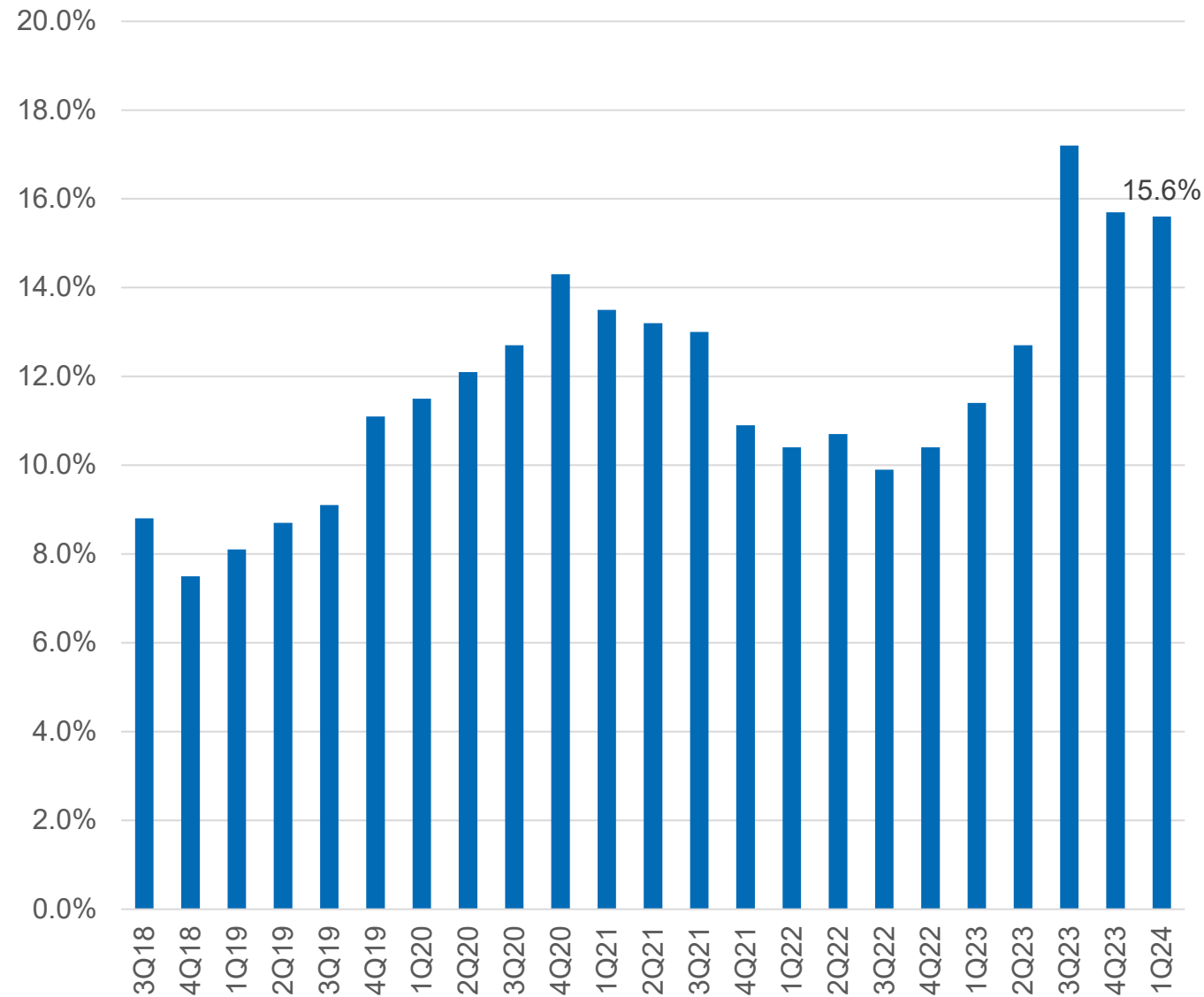


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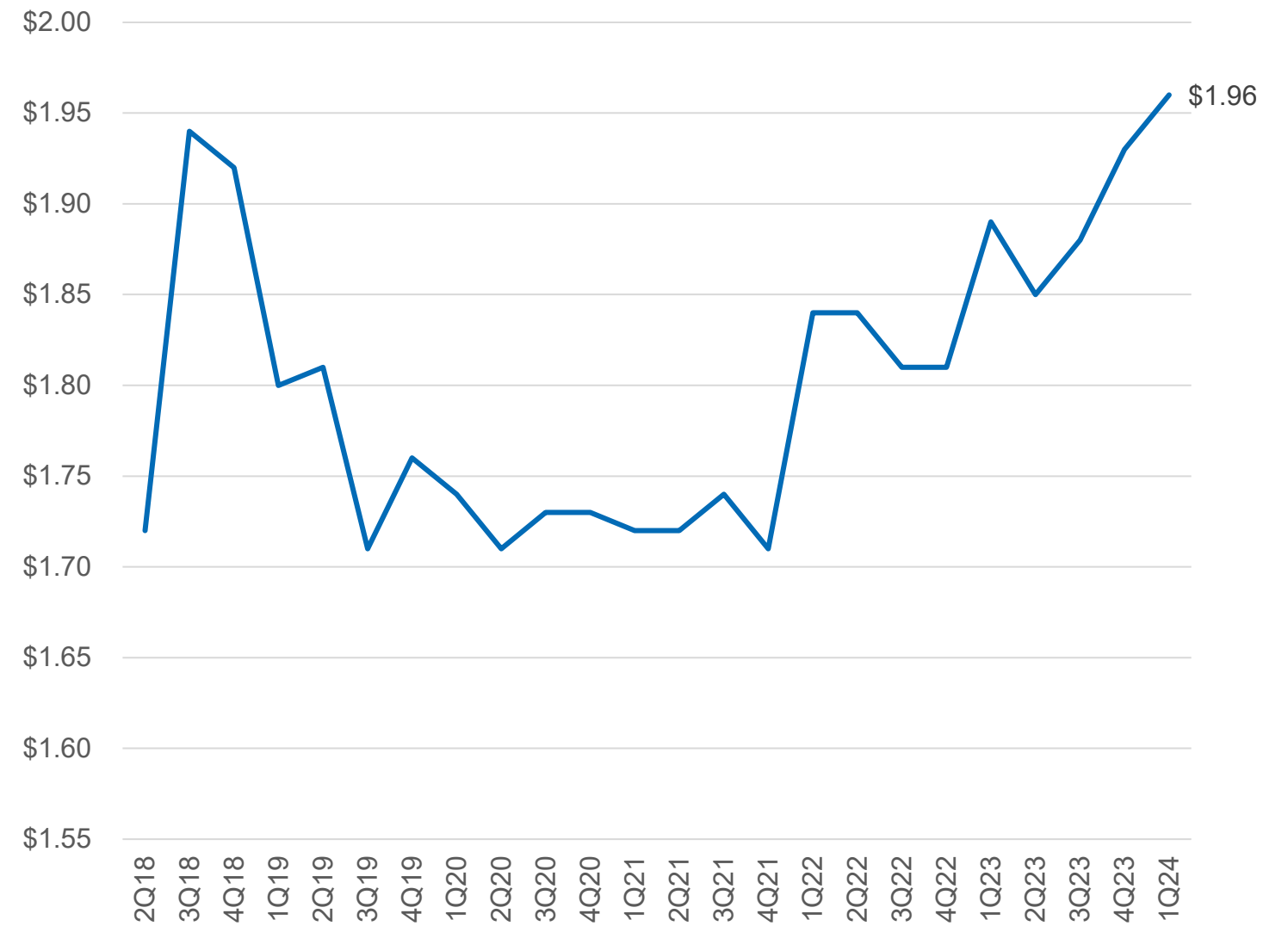
Flex Market Overall Availability and Asking Rent

Flex availability stayed relatively steady in the first quarter, with 68,055 square feet of positive absorption in the Tri-Valley submarket, heavily concentrated in Pleasanton. Overall net absorption for the year was negative 355,408 square feet. With availability slowly decreasing we see the increase in rents slowing down as well, only going from \$1.93/SF to \$1.96/SF.

Flex Space Overall Availability



Flex Rate Direct Asking Rent



Source: Newmark Research, CoStar



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First Quarter Lease Transactions

Leasing in the first quarter of 2024 was slow, the largest notable lease transaction was a sublease of 9,964 square feet in Dublin.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
WFG National Title	4160 Dublin Blvd	Dublin -- Dublin	Sublease	9,964
K&A Engineering Consulting	4637 Chabot Drive	Pleasanton – Hacienda Business Park	Direct lease	8,659

Appendix





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