

3Q23

Tri Valley Office and R&D Market Overview

NEWMARK

Market Observations

Economy

- While the East Bay’s labor market remains historically strong amid shifting macroeconomic conditions, recent layoffs in office-using employment sectors resulted in a small increase in the unemployment rate. August’s 4.5% unemployment rate was slightly higher than the U.S. average of 3.8%.
- Year-over-year, job gains have been most pronounced in the construction and leisure and hospitality sectors. The information sector saw the largest decrease year-over-year, and professional and business services also experienced negative growth.
- Technology firms are continuing to adjust labor needs. Locally, employment growth across all office-occupying sectors has slowed substantially.

Major Transactions

- The largest transactions in the third quarter were direct leases in Pleasanton and Livermore, with four being over 10,000 square feet.
- Vector Atomic leased 34,670 SF in Pleasanton.
- Acosta, Inc. leased 18,922 SF in Livermore
- PureRed leased 12,542 SF in Pleasanton.
- BKF Engineers leased 12,238 SF in Pleasanton.

Leasing Market Fundamentals

- The vacancy in Tri Valley remained the same 21.7% in the third quarter of 2023. As the market continues to recalibrate, vacancy is expected to rise with employers continuing to downsize.
- Asking rates have remained flat over the last three years, but they have slowly been decreasing in class A buildings
- Tenant demand has dropped over the last year, however there are 11 tenants in the market looking for over 10,000 square feet in Tri Valley.
- Tenants will continue to be drawn to buildings with better amenities, and unlike the height of the pandemic, the more activity in a building and the surrounding neighborhood, the greater the draw to the space.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Leasing for the third quarter continued to be slow like the first half of the year, and it is expected that it will remain slow in the fourth quarter.
- Market vacancy will increase further as more tenants recalibrate their space needs with current hybrid reality.
- As leasing activity remains dormant, it is expected that asking rents will continue to decrease as landlords try to attract new tenants.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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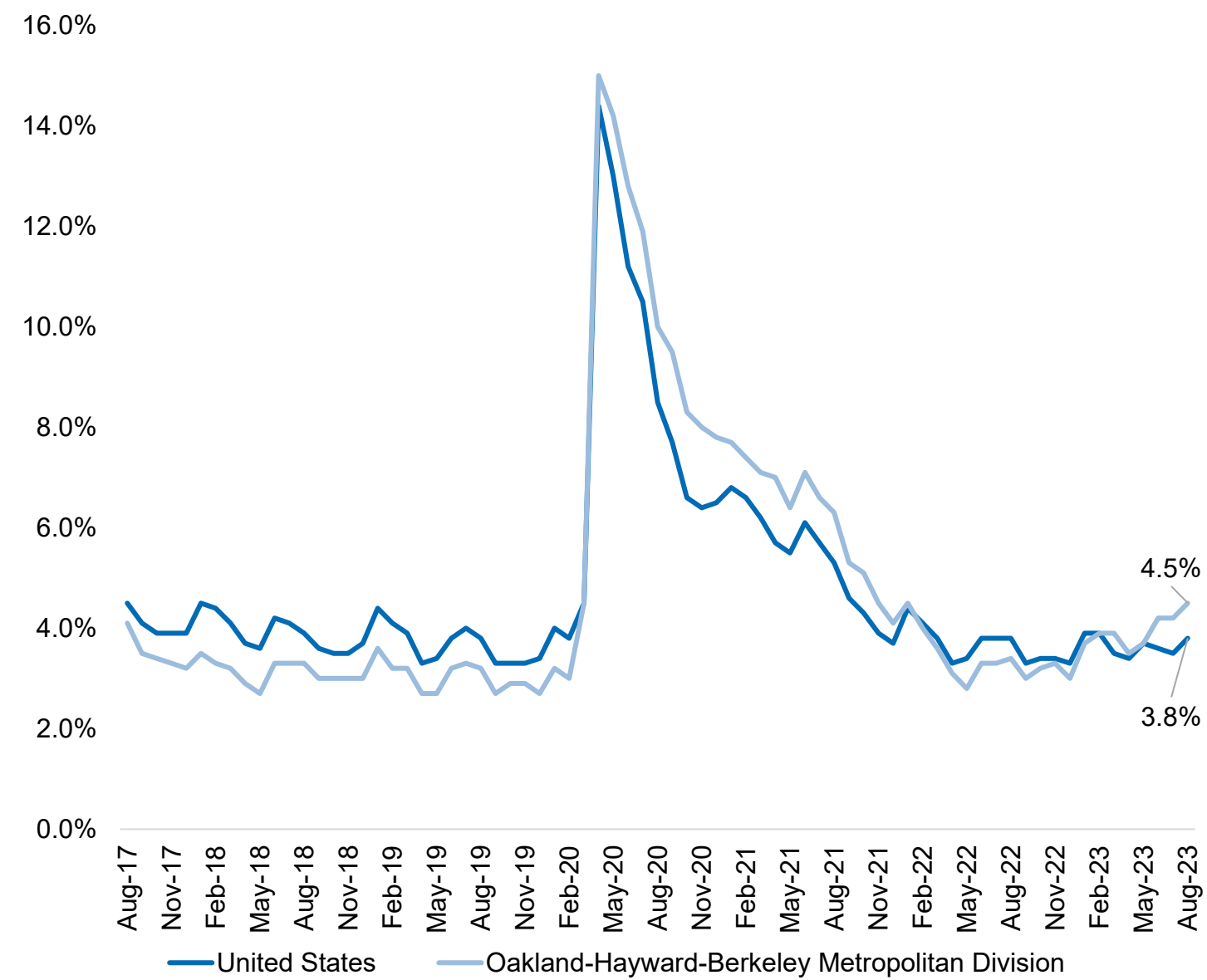
Economy



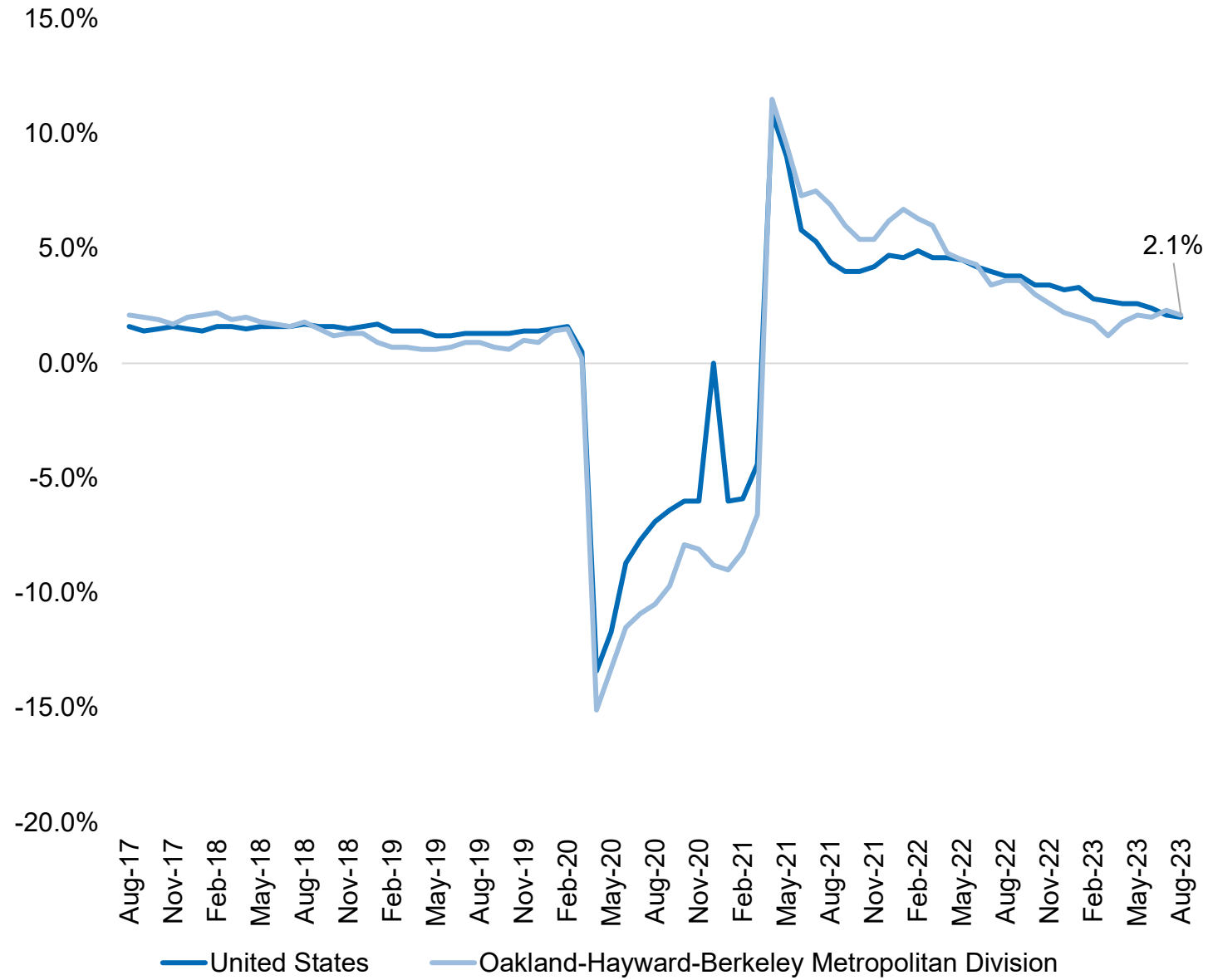
Metro Employment Trends Signal A Slowing Economy

The current unemployment rate for the East Bay Area is 150 basis points higher than it was in February of 2020, and has been slowly rising over the course 2023.

Unemployment Rate, Non-Seasonally Adjusted



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

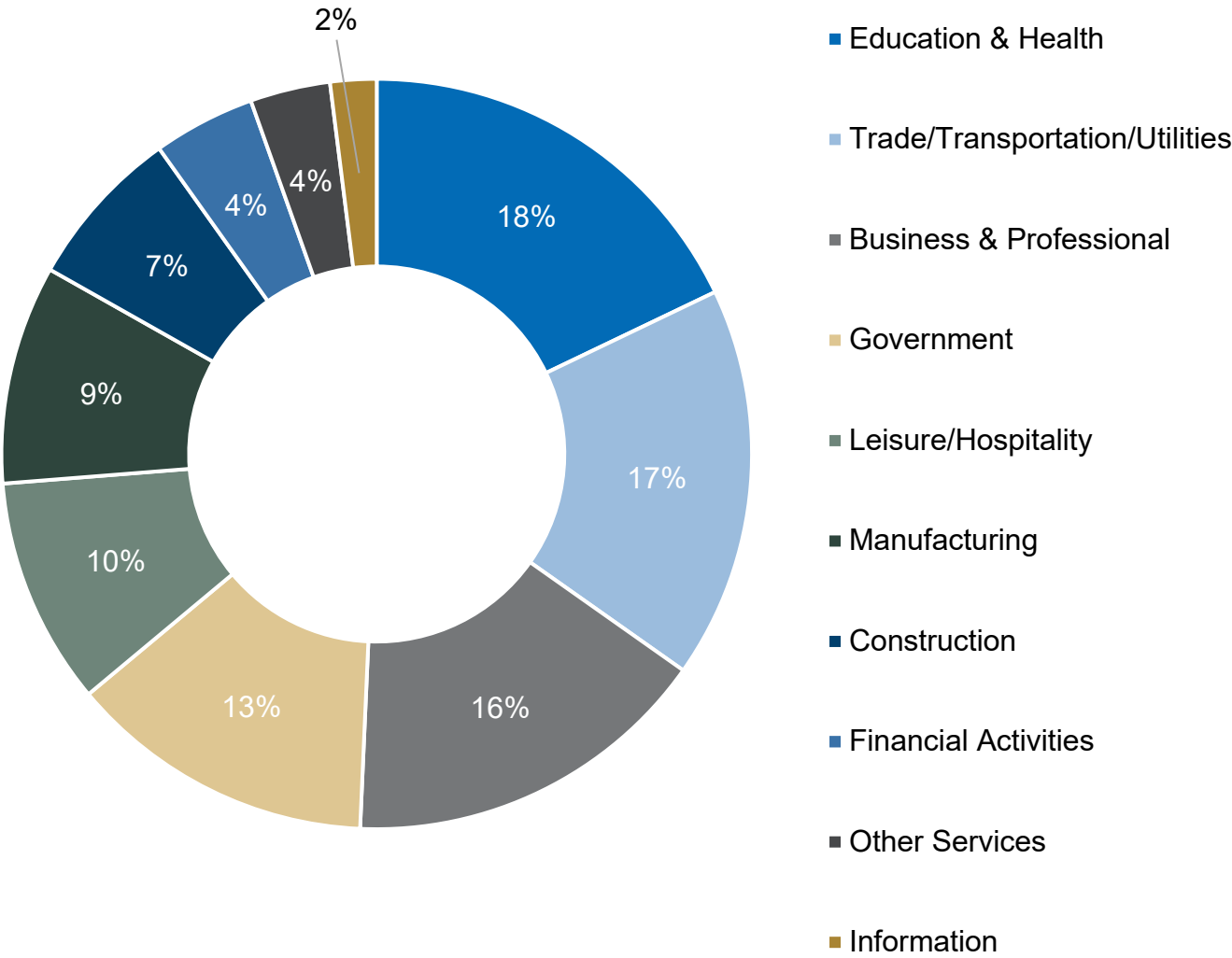


Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties)

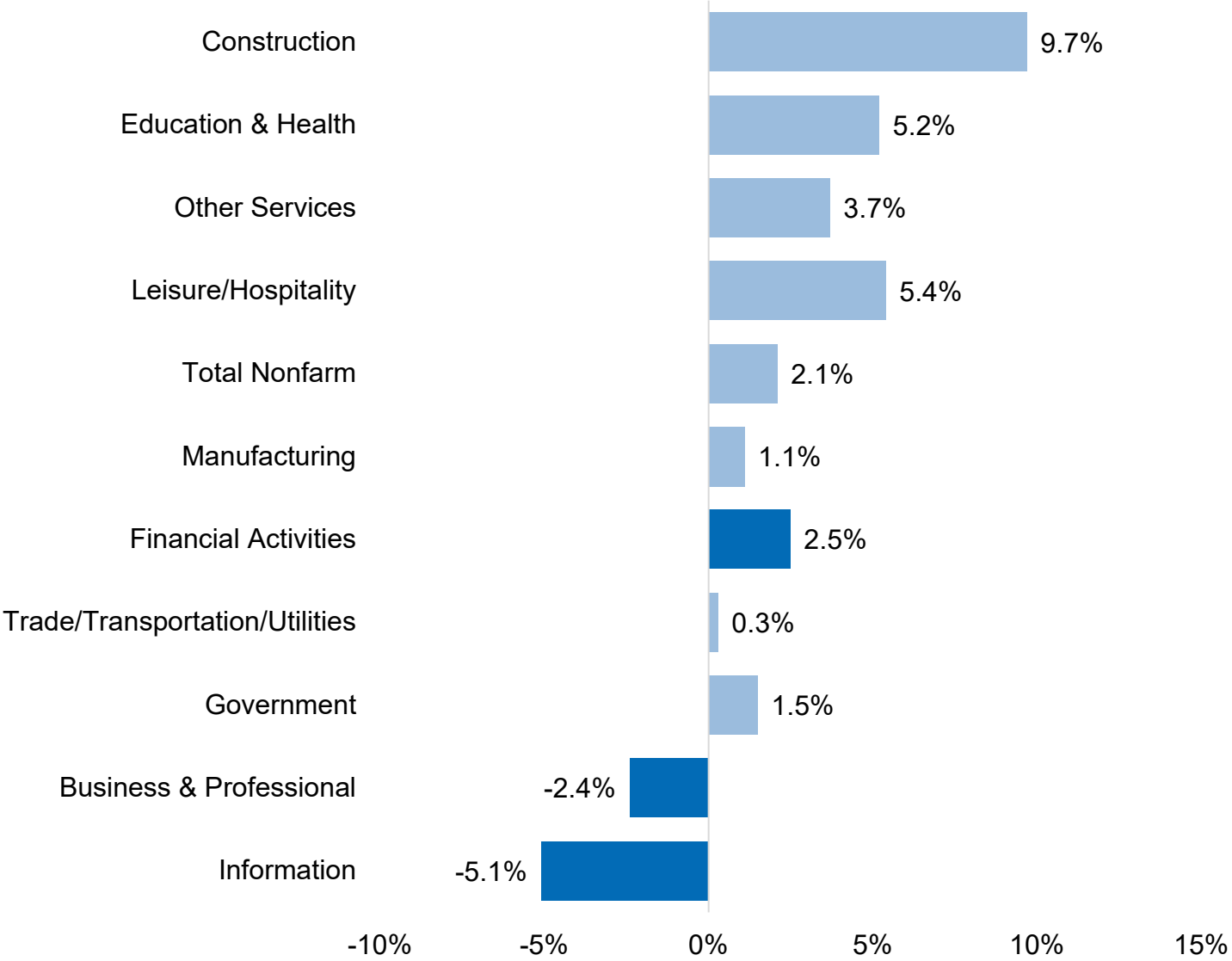
Office-Using Employment Down

The Information and Business & Professional Services sectors have experienced the largest job loss over the past twelve months, declining 240 basis points and 510 basis points, respectively.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

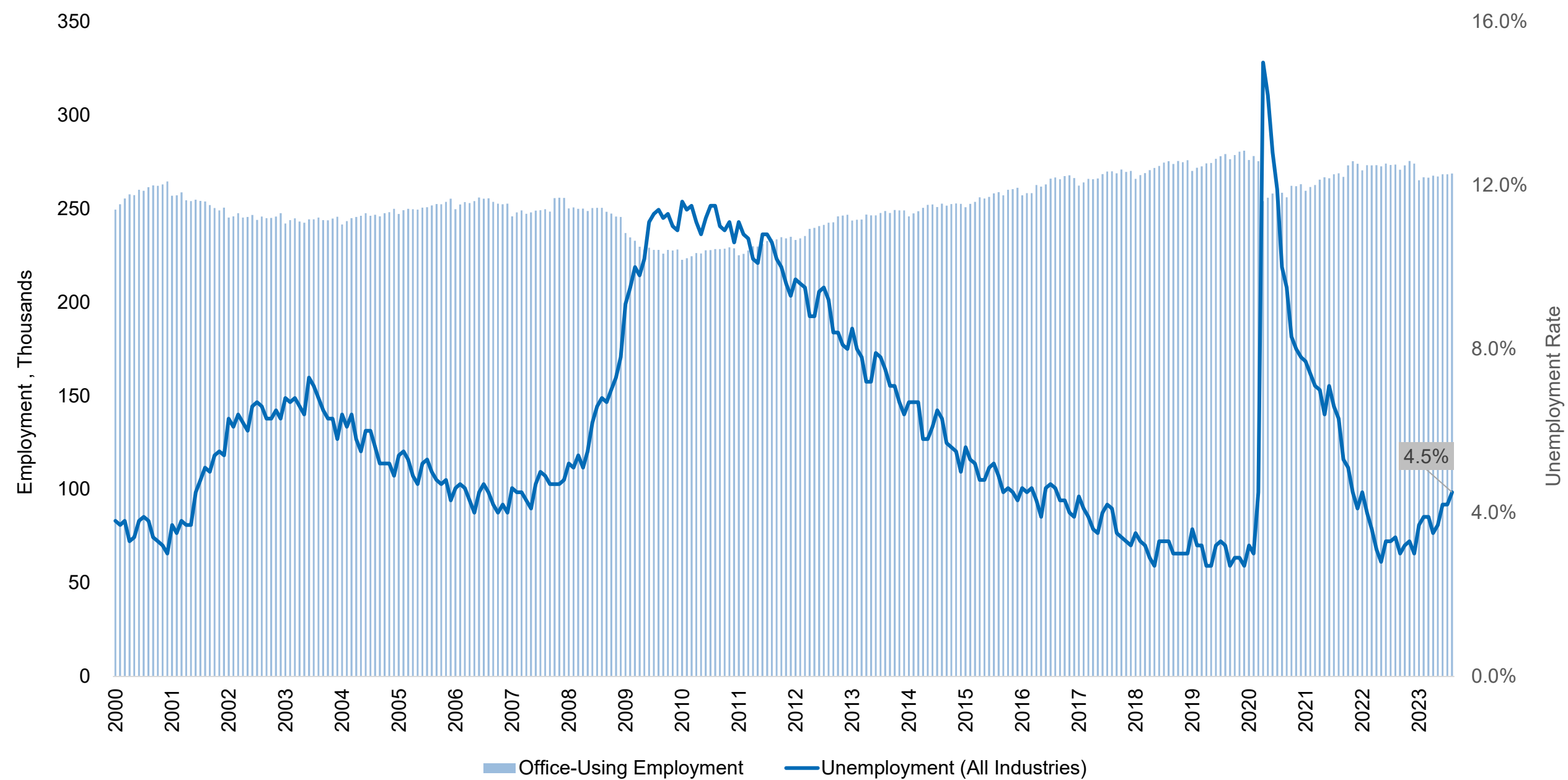


Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties)

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. The East Bay region is still experiencing lower numbers in office employment due to the significant number of layoffs in the Information and Business Services sectors in the first quarter of 2023.

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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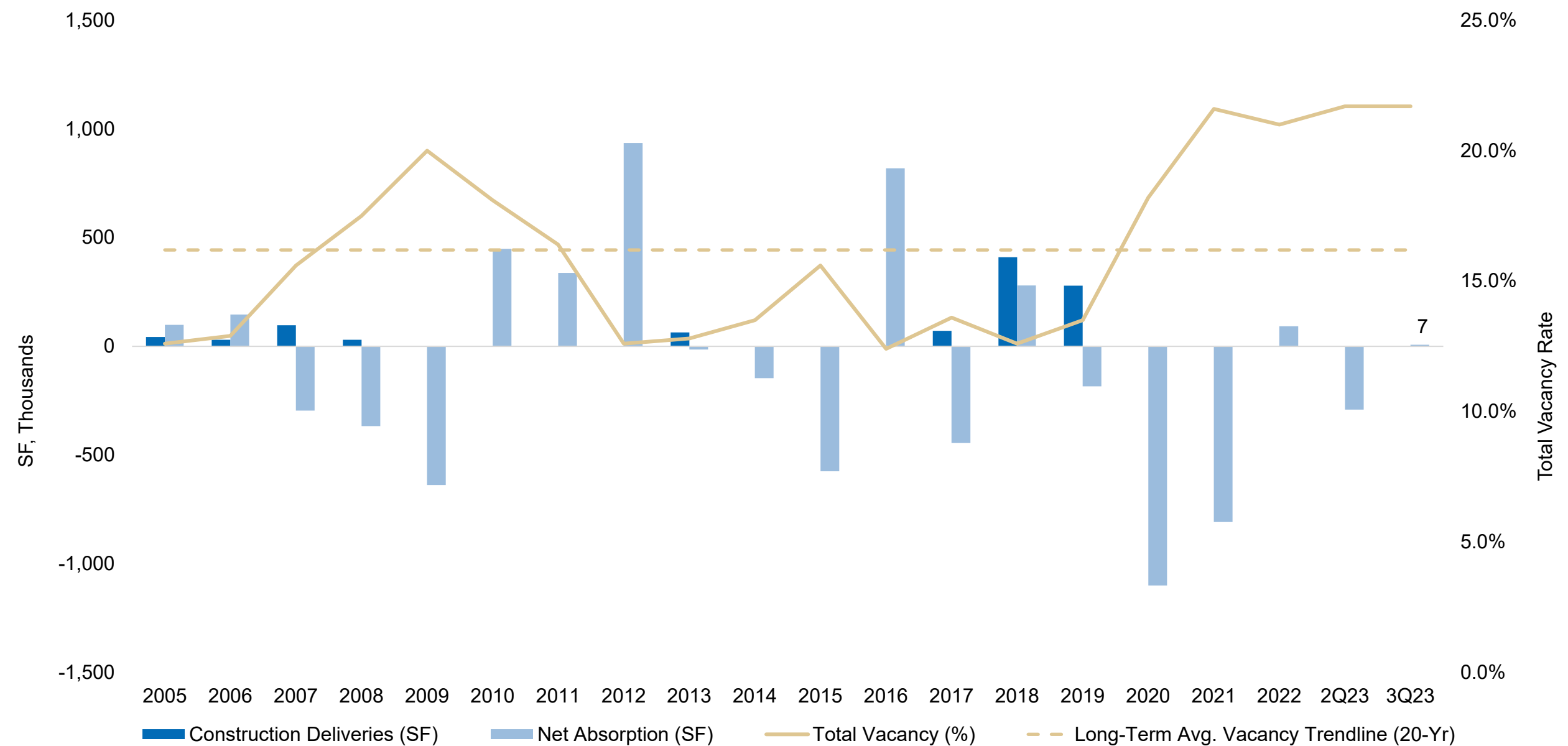
Leasing Market Fundamentals



Office Vacancy Remained Steady in Third Quarter

The vacancy rate remained the same at 21.7% in the third quarter of 2023. The market is recalibrating with vacancy expected to continue to rise over the next few quarters as the economy slows and tenants continue to right-size. There is no new construction currently in the pipeline.

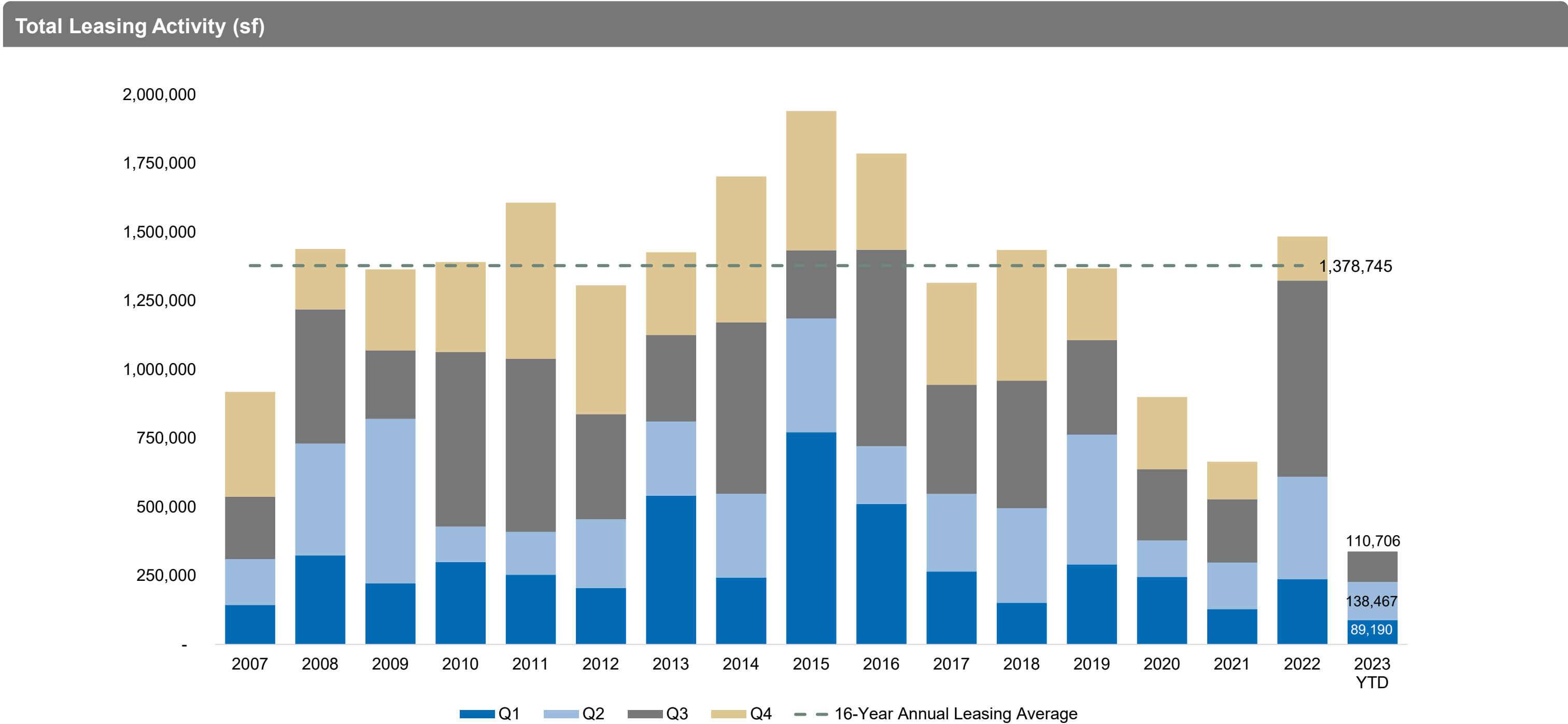
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Office Leasing Activity Pace Has Slowed

Office leasing was slow again in the third quarter of 2023, with only 110,706 square feet being leased in Tri-Valley.



Source: Newmark Research, CoStar

Office Leasing Pace Slower in 2023

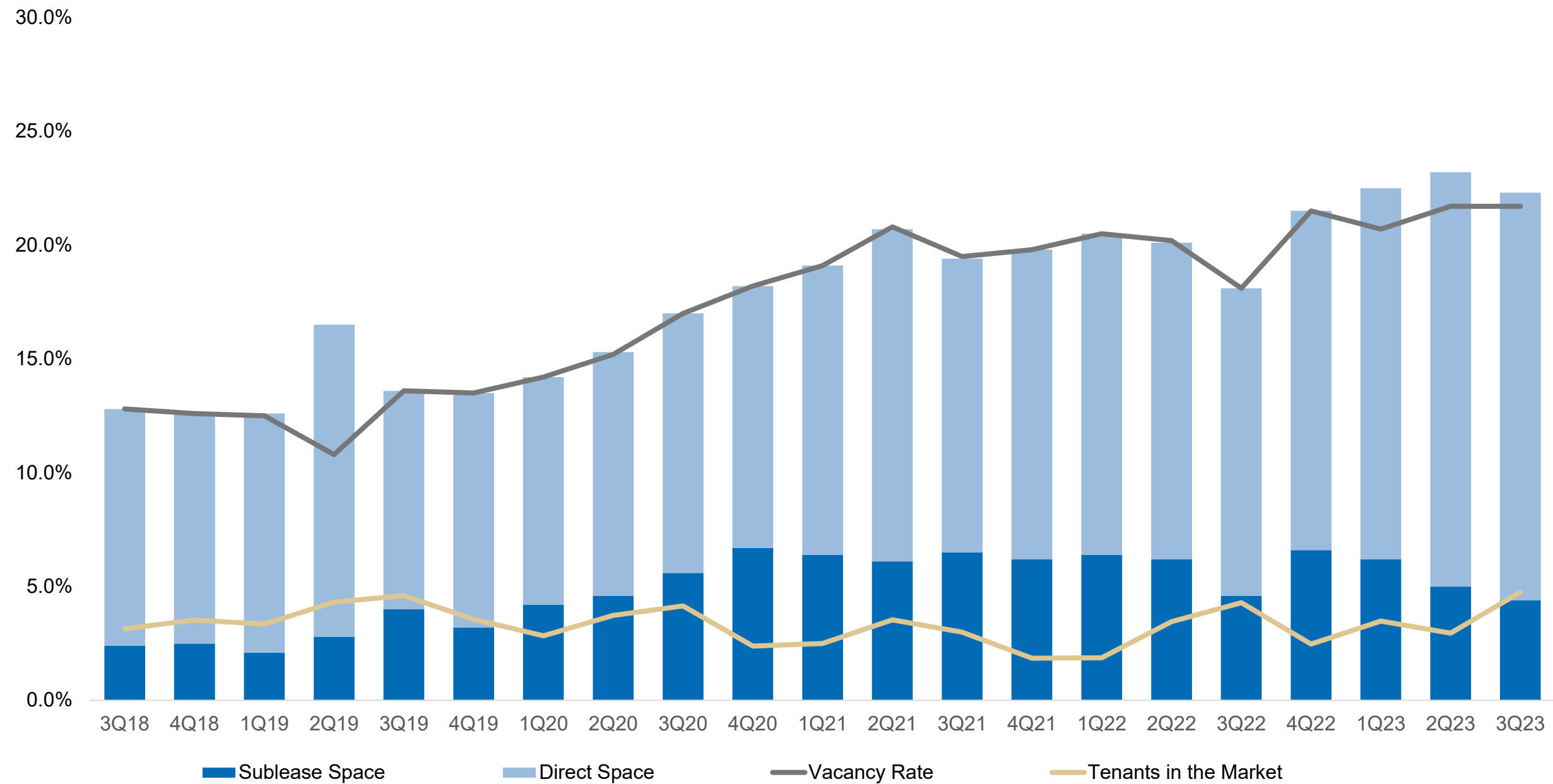


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Availability Lessens as Tenant Demand Ticks Up

While the amount of sublease space on the market is slowly dropping, much of the change is due to lease expirations. The availability in Tri-Valley decreased by 60 basis points for sublease space, and by 30 basis points for direct space in the third quarter of 2023. There are 11 tenants in the market currently looking above 10,000 square feet.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

Office Availability by Submarket

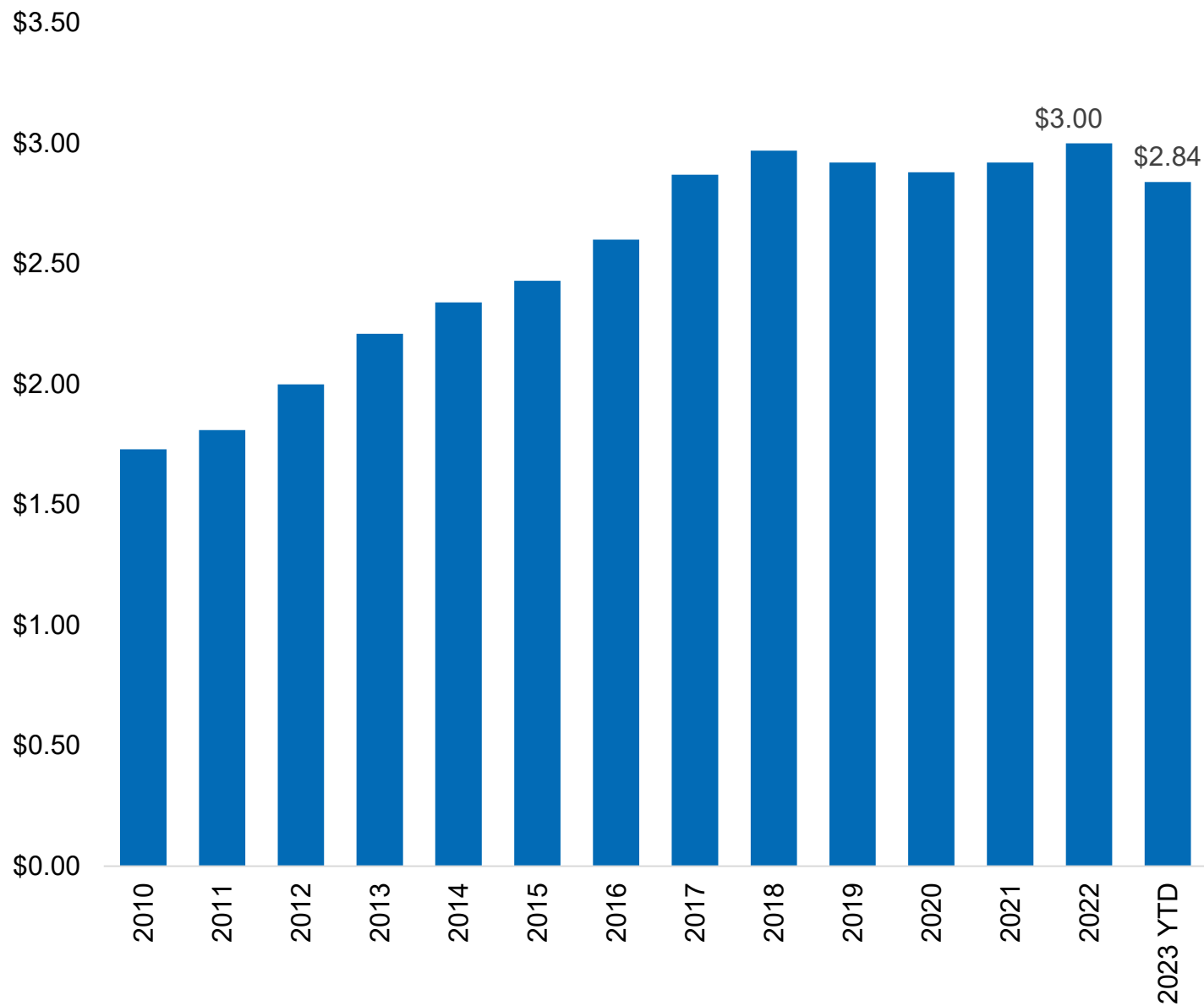


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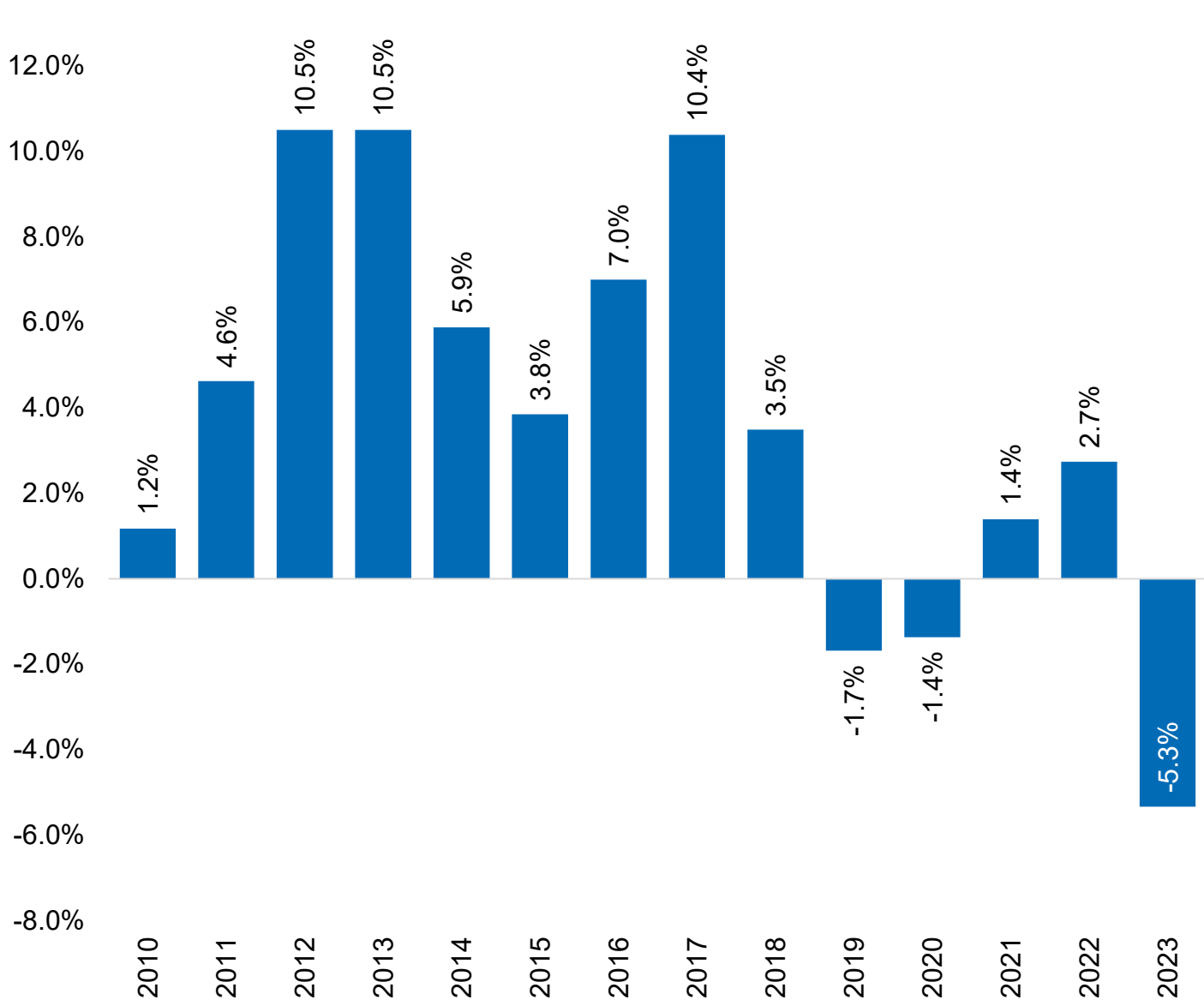
Office Asking Rents Stay Consistent

Direct asking rates remained the same in the third quarter of 2023. Class A rental rates experienced a minimal decline, lowering from \$3.00/SF to \$2.98/SF. While overall asking rates did not change much in the third quarter, the market is expected to reset as landlords continue to face liquidity constraints.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

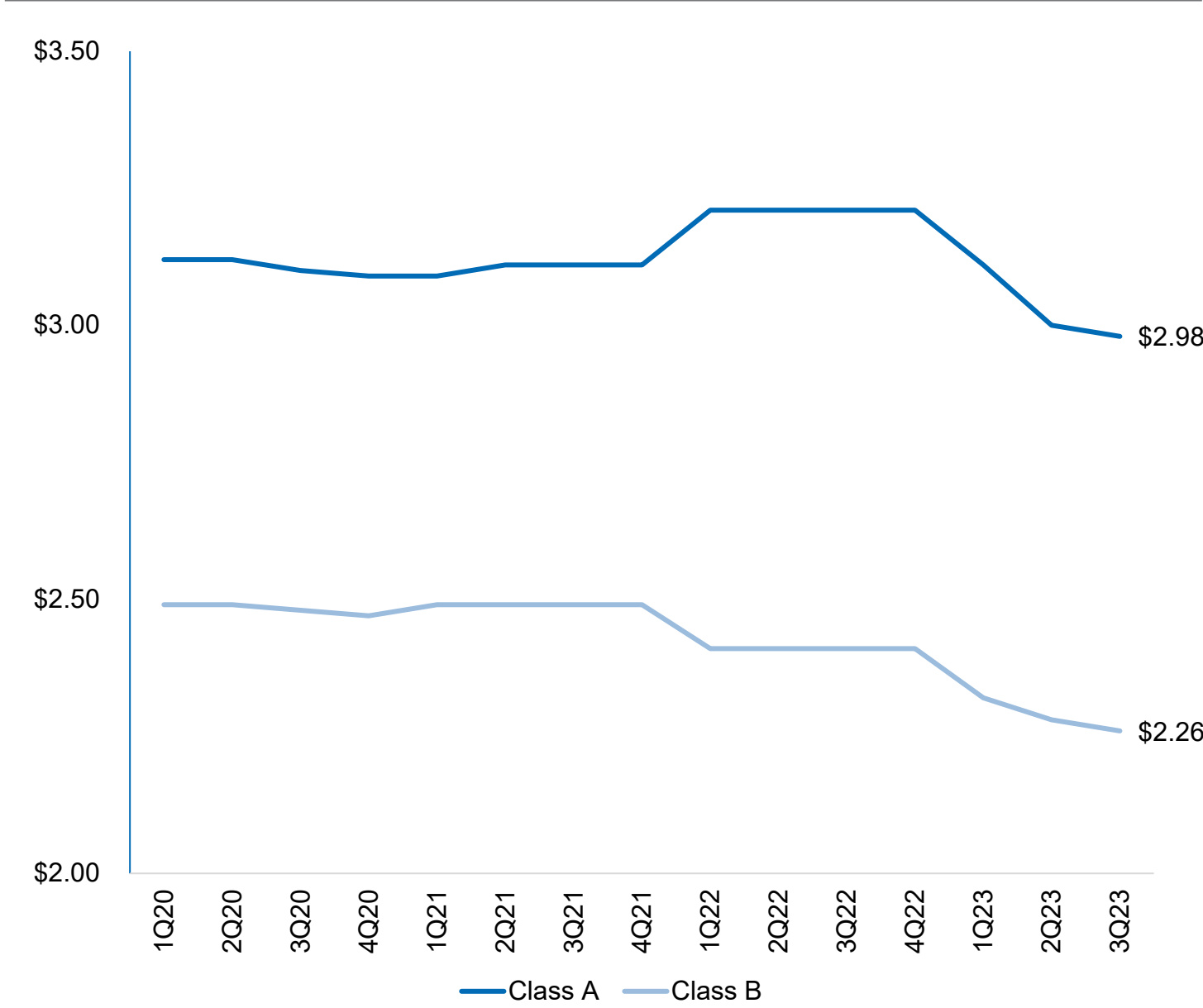


Source: Newmark Research, CoStar

Office Sublease Rates Are Stabilizing

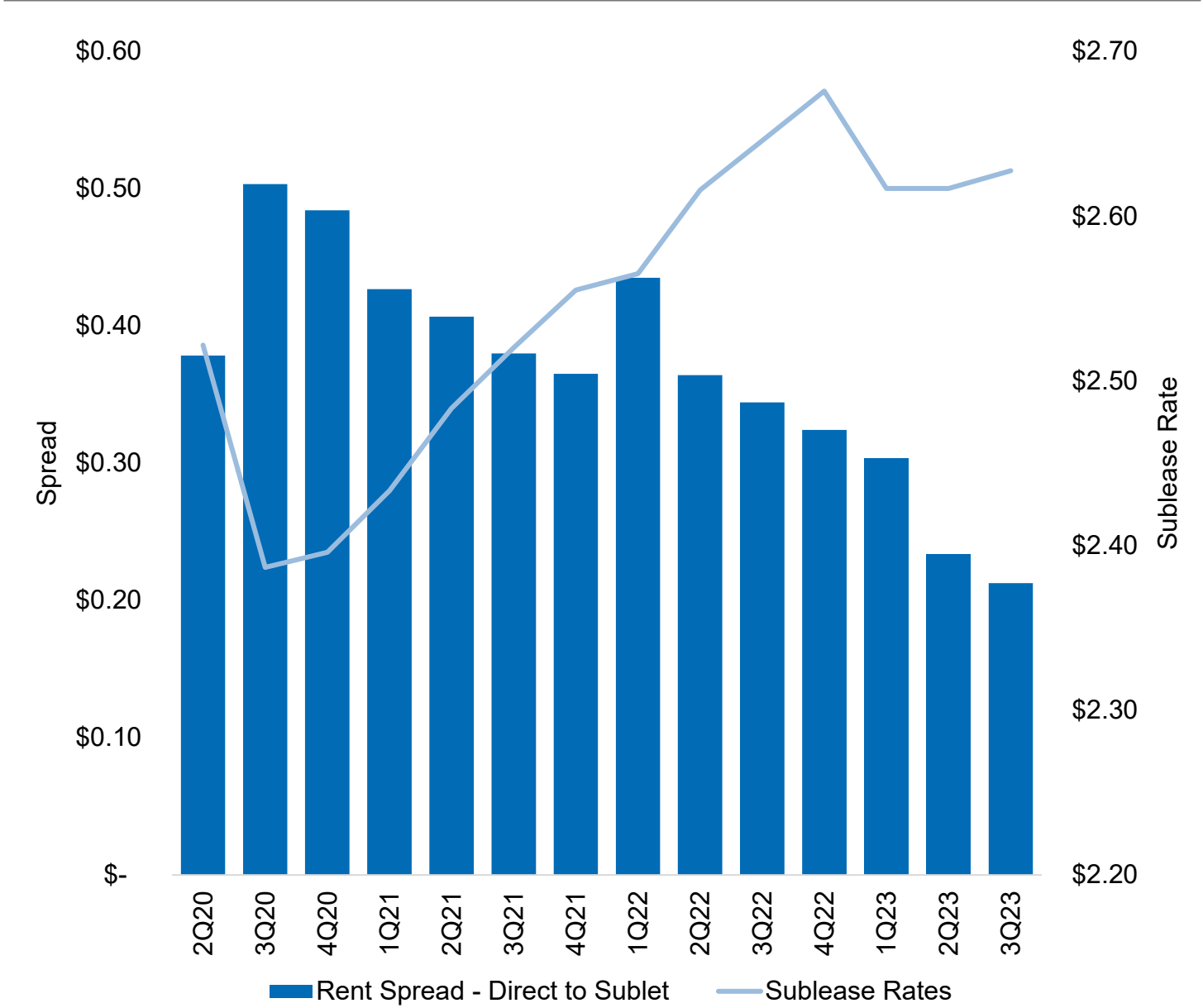
Sublease rents experienced a slight increase in the third quarter as sublease availability rates dropped 60 basis points from 5.0% to 4.4%.

Class A and Class B Asking Rents



Source: Newmark Research, CoStar

Sublease Rates



Decrease in Office Asking Rents Occurring Slowly



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Flex Market Overall Availability and Asking Rent

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Flex Market Availability and Asking Rent by Submarket

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Third Quarter Lease Transactions

The majority of leasing activity in the third quarter were direct leases, with three being over 10,000 square feet.

Notable 3Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Vector Atomic	6870 Koll Center Parkway	Pleasanton – Bernal Corporate Park	Direct Lease	34,670
Acosta, Inc	3083 Independence Drive	Livermore	Direct Lease	18,922
PureRed	5735 W Las Positas Boulevard	Pleasanton – Hacienda Business Park	Direct Lease	12,542
BKF Engineers	7901 Stoneridge Drive	Pleasanton – Stoneridge Mall	Direct Lease	12,238

Source: Newmark Research

Appendix



Tri-Valley Market Statistics

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