



# North I-680 Office Market

## 2020 Overview

There is just no other way to describe it: 2020 was the strangest year that any of us have ever lived through. Not to make light of what was/is a very serious situation, but you almost have to in order to keep your sanity. It was like living Cat Stevens' famous song, it's a "Wild World". We are now familiar with a few phrases that would've seemed particularly foreign in 2019: "shelter-in-place", "wear your mask", "keep your distance", "eat outside", "don't travel". These are unprecedented times.

The North I-680 office market followed suit in these extraordinary times. The Class A Walnut Creek Driver Markets (Walnut Creek BART/Walnut Creek Downtown/Pleasant Hill BART) experienced their worst year on record, surpassing what they experienced in the Great Recession of 2008/2009 by far. The secondary markets of Concord, Pleasant Hill and Walnut Creek Shadelands also saw near-historically high vacancy rates.

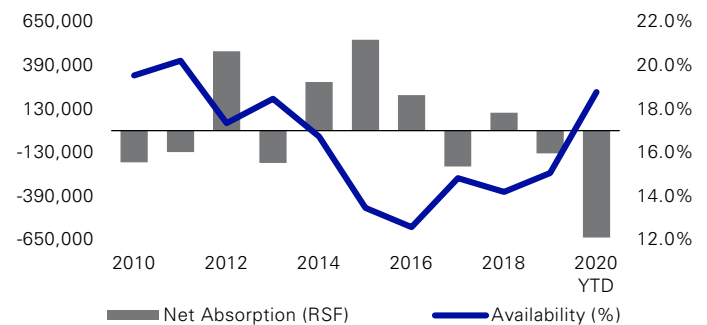
The main culprit of the increase in vacancy and negative absorption is that many companies, as a result of revenue challenges or adopting some sort of "remote work model" as a result of the pandemic, have considered (or are considering) downsizing/rightsizing. Notwithstanding all the negative news, there is hope on the way: the vaccine. We feel strongly that as we progress into 2021 firms will bring employees back to work, start to hire and look to the future as a time for growth and recovery. The market will rebound and with this recovery will come opportunities. For the North I-680 market in particular, there

### Market Summary

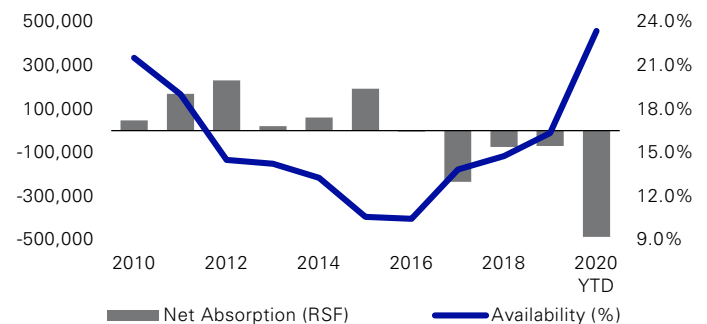
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	17.1M	17.1M	17.1M	→
Total Avail Rate	18.8%	17.6%	15.1%	↑
Sublease Avail Rate	3.0%	2.6%	2.2%	↑
Qtr Net Abs (SF)	-204K	-321K	-65K	↓
Dir FS Ask Rent/SF	\$2.94	\$2.94	\$2.94	→

### Net Absorption & Availability

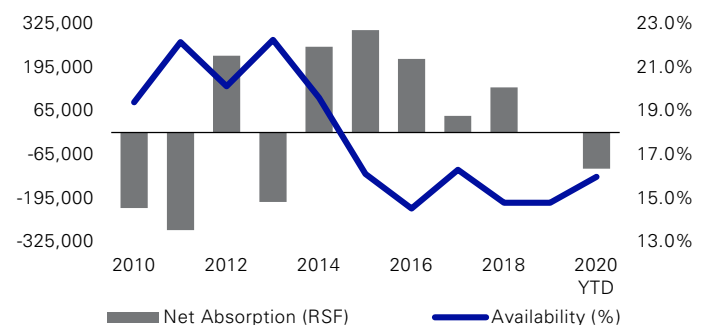
#### OVERALL NORTH I-680



#### WALNUT CREEK DOWNTOWN, WC & PLEASANT HILL BART



#### CONCORD, PLEASANT HILL, WALNUT CREEK SHADELANDS



## RESEARCH 4Q 2020

is a potential need for large corporations to consider satellite locations in the East Bay/North I-680 Corridor in order to accommodate the partial work-from-home model and reduce commutes for employees. This will likely bring some stability to the North I-680 Market in 2021.

### Statistical Overview

The Overall North I-680 Corridor market experienced 204,029 square feet of negative net absorption in the fourth quarter of 2020, bringing year-to-date negative net absorption to 638,042 square feet. The total vacancy rate stands at 18.78% for year-end 2020. This is the most significant loss of space in one calendar year on record in the North I-680. In particular, Class A product suffered the most, with 466,839 square feet of negative net absorption YTD for 2020. Again, the most negative absorption on record for one full calendar year. The most notable increase was in the sublease category as companies purged excess space, an effort to redefine their work models. The total available sublease space rose by 170,998 square feet year over year, with 512,631 square feet of sublease space currently available. This is the second largest amount of sublease space ever available in the market and represents 15.9% of the total available space.

### Walnut Creek Driver Markets

Vacancy in the Walnut Creek Driver Markets (Walnut Creek BART/Walnut Creek Downtown/Pleasant Hill BART) are the highest they have been in recorded history. Much ground was lost in 2020, with 486,795 square feet of negative net absorption, bringing the total vacancy to 23.37%. The Class A Driver Market was hit hardest and experienced record high vacancy, ending the year with a total of 374,920 square feet of negative net absorption and a vacancy rate of 25.7%.

### Concord / Pleasant Hill / Walnut Creek Shadelands

The secondary markets (Concord/Pleasant Hill/Walnut Creek Shadelands) ended with 68,813 square feet of negative net absorption in the fourth quarter, bringing YTD negative net absorption to 108,023 square feet and a vacancy rate of 15.96%. The diversification of industry types in these markets over the last 12 years helped cushion the fall that occurred in the Great Recession as a result of large blocks of space occupied by large mortgage/banking users.

Concord overall market experienced 60,649 square feet of negative net absorption in the fourth quarter, bringing YTD negative absorption to 119,819 square feet. Vacancy rate now stands at 16.44% overall for Concord. Once again Class A space was the main contributor to the negative statistics with 29,383 square feet of negative absorption, bringing the YTD negative to 103,706 square feet and vacancy rate to 21.66%.

### Investment Review

As vacancy rates continued to rise into the fourth quarter, office building sale activity remains tepid. With two regional stay-at-home orders issued over the past year, the long-term effects of the pandemic on office space utility remain to be seen. Owners are reluctant to sell into a down market; while opportunistic capital abounds, buyers are understandably cautious in underwriting deals with so much leasing market uncertainty.

Only one significant sale occurred in the quarter: Caddis Healthcare Group, an operator of medical leased assets, purchased 2625 Shadelands Drive, the 60,000-square-foot medical office building in the Walnut Creek Shadelands. The building was fully leased to Stanford Health, John Muir Health and Muir Ortho at the time of sale.

The vaccine rollout in 2021 will likely improve COVID-19 statistics and encourage increased office space utilization. Interest rates are still at historically low levels, and pent-up demand from buyers should result in increased transactional velocity once leasing fundamentals begin to normalize.

### Looking Forward

As stay-at-home orders continue to be extended, pain will be felt well into 2021. Many of the questions asked previously still remain unanswered: When will companies and their employees begin the return to work? Will the hub-and-spoke model come to fruition? When will herd immunity be achieved, allowing for employees to return to work? There will likely be a fundamental change in how people work and how companies provide work environments for their employees. This impact remains to be seen. Hope is on the horizon and one thing is for certain: many of us are anxious to enjoy a space other than our own homes.

### Select Lease/User Transactions

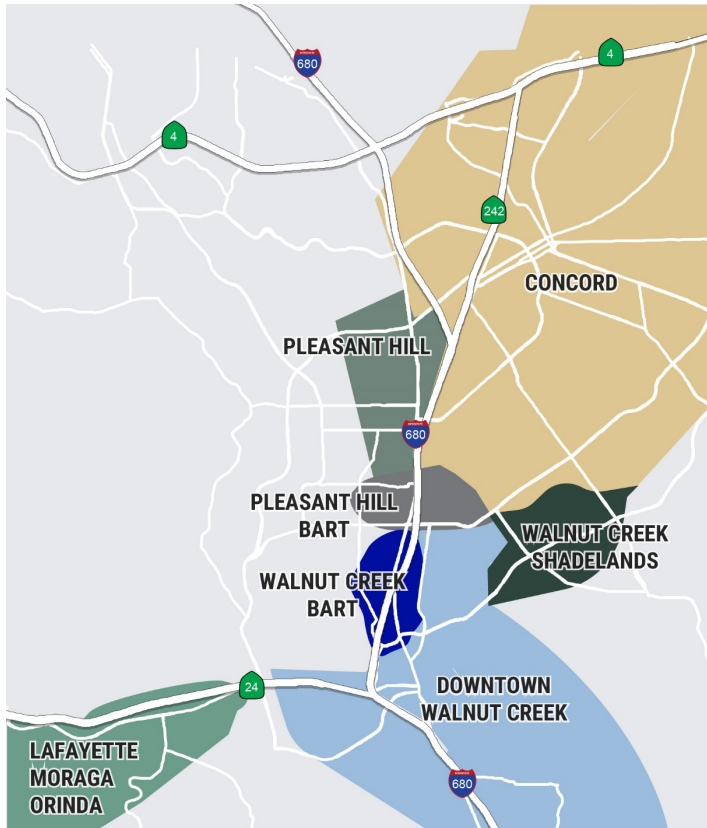
Tenant	Building(s)	Submarket	Type	Square Feet
Wells Fargo	2033 N. Main Street	Walnut Creek BART	Renewal	37,255
Regus	1255 Treat Blvd	Pleasant Hill BART	Renewal	19,557
Finance of America	1390 Willow Pass Road	Concord	Renewal	16,432

### Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
2625 Shadelands Drive	Walnut Creek Shadelands	\$23,200,000	\$387	131,378

Overall Submarket Statistics								
	Total Inventory (SF)	Total Availability* (SF)	Sublease Availability* (SF)	Total Availability* Rate	Sublease Availability* Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Direct FS Asking Rent (Price/SF)
<b>Concord</b>	<b>5,726,768</b>	<b>941,327</b>	<b>148,176</b>	<b>16.44%</b>	<b>2.59%</b>	<b>-60,649</b>	<b>-119,819</b>	<b>\$2.56</b>
Class A	3,325,642	720,392	104,518	21.66%	3.14%	-29,383	-103,706	\$2.73
Class B	894,363	99,521	10,268	11.13%	1.15%	2,646	-8,356	\$2.07
Class C	562,680	64,786	0	11.51%	0.00%	-508	-9,661	\$2.01
Flex	944,083	56,628	33,390	6.00%	3.54%	-33,404	1,904	\$1.82
<b>Pleasant Hill</b>	<b>1,135,055</b>	<b>129,445</b>	<b>32,733</b>	<b>11.40%</b>	<b>2.88%</b>	<b>-6,868</b>	<b>-9,734</b>	<b>\$2.60</b>
Class A	341,555	58,754	29,608	17.20%	8.67%	-6,947	5,927	\$2.95
Class B	546,033	17,264	3,125	3.16%	0.57%	-2,931	-8,552	\$2.24
Class C	247,467	53,427	0	21.59%	0.00%	3,010	-7,109	\$2.00
<b>Pleasant Hill BART</b>	<b>1,946,210</b>	<b>498,618</b>	<b>156,709</b>	<b>25.62%</b>	<b>8.05%</b>	<b>-15,787</b>	<b>-164,805</b>	<b>\$3.73</b>
Class A	1,789,006	474,377	156,709	26.52%	8.76%	-13,225	-168,336	\$3.95
Class B	157,204	24,241	0	15.42%	0.00%	-2,562	3,531	\$2.85
<b>Walnut Creek BART</b>	<b>2,073,401</b>	<b>585,544</b>	<b>132,197</b>	<b>28.24%</b>	<b>6.38%</b>	<b>-39,433</b>	<b>-149,345</b>	<b>\$3.96</b>
Class A	1,905,609	564,578	125,186	29.63%	6.57%	-41,493	-141,777	\$4.20
Class B	167,792	20,966	7,011	12.50%	4.18%	2,060	-7,568	\$3.05
<b>Walnut Creek Downtown</b>	<b>2,919,819</b>	<b>537,431</b>	<b>38,164</b>	<b>18.41%</b>	<b>1.31%</b>	<b>-71,792</b>	<b>-172,645</b>	<b>\$3.85</b>
Class A	1,121,560	198,936	33,571	17.74%	2.99%	-6,863	-64,807	\$5.00
Class B	1,449,667	297,043	4,593	20.49%	0.32%	-58,377	-84,735	\$3.05
Class C	348,592	41,452	0	11.89%	0.00%	-6,552	-23,103	\$2.46
<b>Walnut Creek Shadelands</b>	<b>2,237,648</b>	<b>381,103</b>	<b>3,039</b>	<b>17.03%</b>	<b>0.14%</b>	<b>-1,296</b>	<b>21,530</b>	<b>\$2.08</b>
Class A	697,829	274,309	0	39.31%	0.00%	-393	38,874	\$2.10
Class B	917,400	96,335	3,039	10.50%	0.33%	-123	-16,924	\$2.05
Class C	315,360	10,459	0	3.32%	0.00%	-780	-420	\$1.97
Flex	307,059	0	0	0.00%	0.00%	0	0	\$0.00
<b>Lafayette/Moraga/Orinda</b>	<b>1,088,383</b>	<b>143,370</b>	<b>1,613</b>	<b>13.17%</b>	<b>0.15%</b>	<b>-8,204</b>	<b>-43,224</b>	<b>\$3.54</b>
Class A	612,393	106,235	1,613	17.35%	0.26%	-6,543	-33,014	\$4.00
Class B	351,127	27,617	0	7.87%	0.00%	-1,661	-7,656	\$3.20
Class C	124,863	9,518	0	7.62%	0.00%	0	-2,554	\$2.50
<b>NORTH I-680</b>	<b>17,127,284</b>	<b>3,216,838</b>	<b>512,631</b>	<b>18.78%</b>	<b>2.99%</b>	<b>-204,029</b>	<b>-638,042</b>	<b>\$2.94</b>
Class A	9,793,594	2,397,581	451,205	24.48%	4.61%	-104,847	-466,839	\$3.17
Class B	4,483,586	582,987	28,036	13.00%	0.63%	-60,948	-130,260	\$2.60
Class C	1,598,962	179,642	0	11.23%	0.00%	-4,830	-42,847	\$2.10
Flex	1,251,142	56,628	33,390	4.53%	2.67%	-33,404	1,904	\$1.82

\*Note: Total Availability is space marketed for lease regardless of whether the space is vacant or occupied



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