

# Tri Valley Office and R&D Market Overview

# 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. November’s unemployment rate was 4.5% which remained slightly higher than the U.S. national average of 3.7%.
- The construction, leisure, hospitality, and other services sectors showed the largest employment growth in the fourth quarter of 2023. The information sector saw the largest decrease year-over-year. The business, professional services and the financial activities sectors experienced negative growth.
- Technology firms are continuing to adjust labor needs. Locally, employment growth across all office-occupying sectors has slowed substantially.

## Major Transactions

- Robert Half downsized and relocated to 73,000 SF in San Ramon.
- Natera, Inc. leased 16,319 SF in Pleasanton.
- Shea Homes leased 14,569 SF in Pleasanton

## Leasing Market Fundamentals

- The Tri Valley market experienced a relatively flat net absorption of 33,564 square feet for the fourth quarter, largely due to positive absorption of the flex market.
- Asking rates remain flat for office product over the quarter, whereas they have increased slightly in the office-flex, R&D and industrial sectors.
- There has been a slight uptick in tenant demand over the last half of 2023, but it remains historically low.
- Tenants continue to be drawn to buildings with better amenities and shared spaces.

## 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 fourth quarter continued to be slow, and it is expected that it will remain slow moving into the first quarter of the new year.
- Market vacancy decreased slightly, no scalable movement. Tenants continue to recalibrate their space needs with current hybrid work trends.

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# Economy

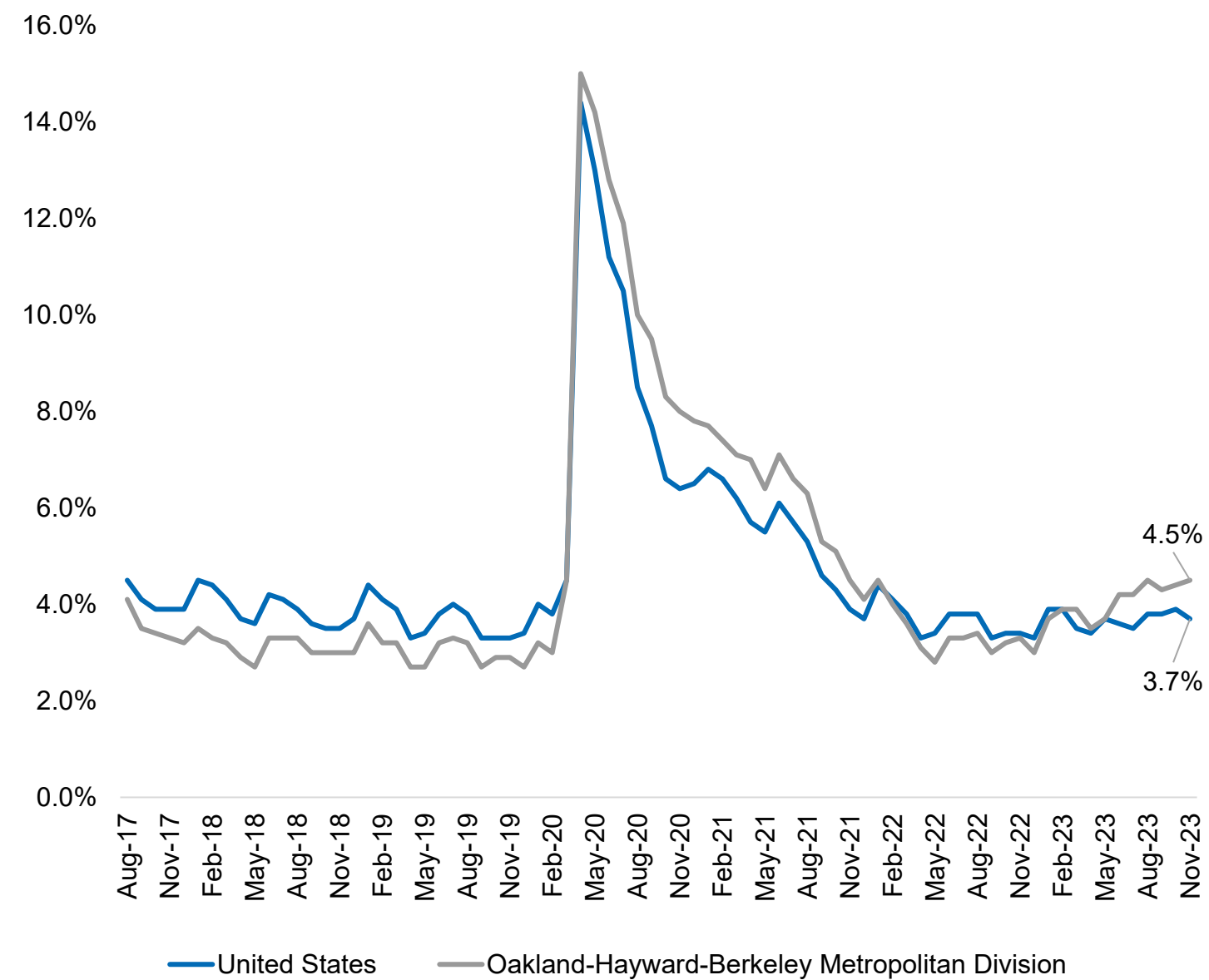




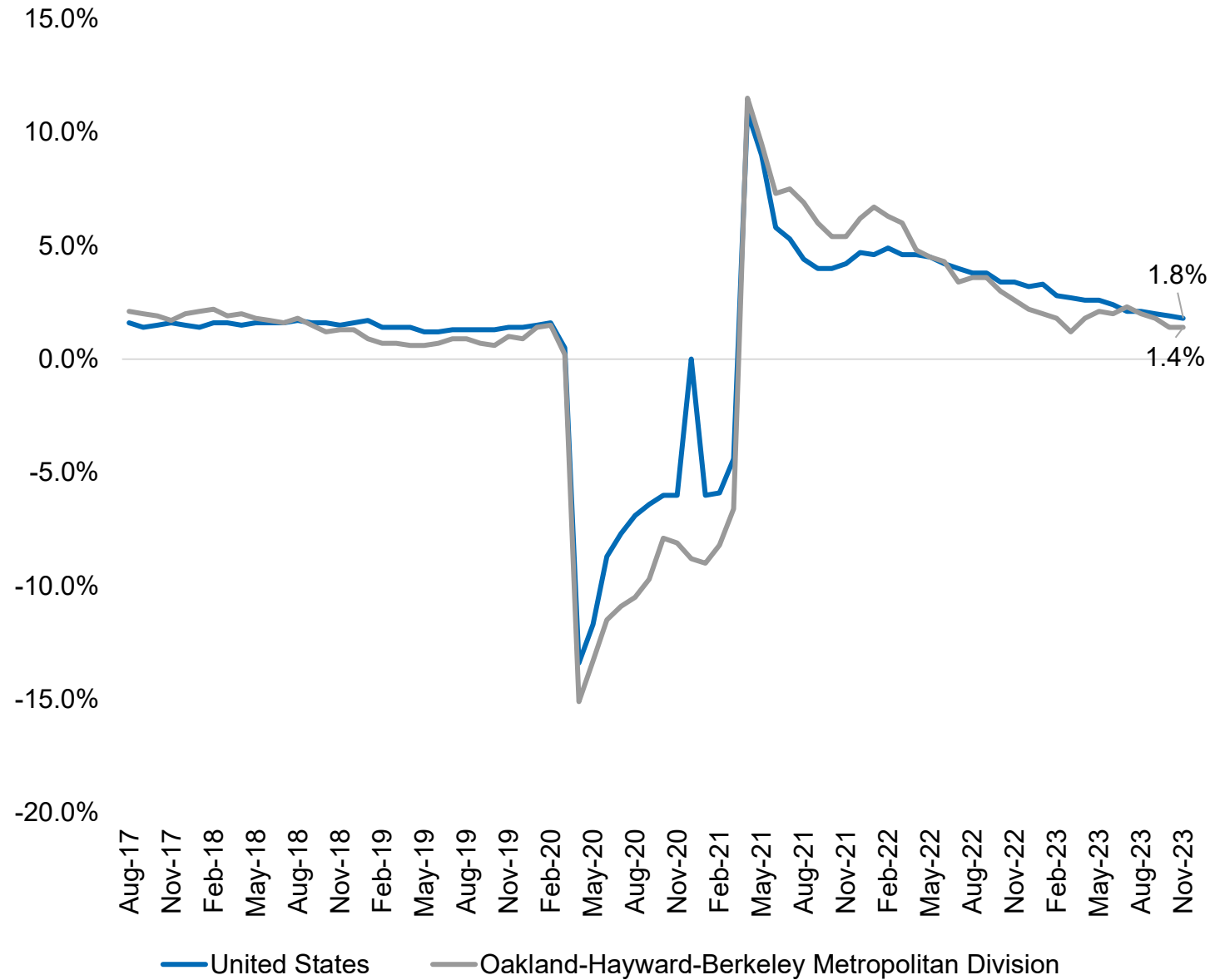
# Metro Employment Trends Signal A Slowing Economy

The current unemployment rate for the East Bay Area is 150 basis points higher than it was at the end of 2022, and at 4.5% is 80 basis points higher than the National average.

Unemployment Rate, Non-Seasonally Adjusted



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

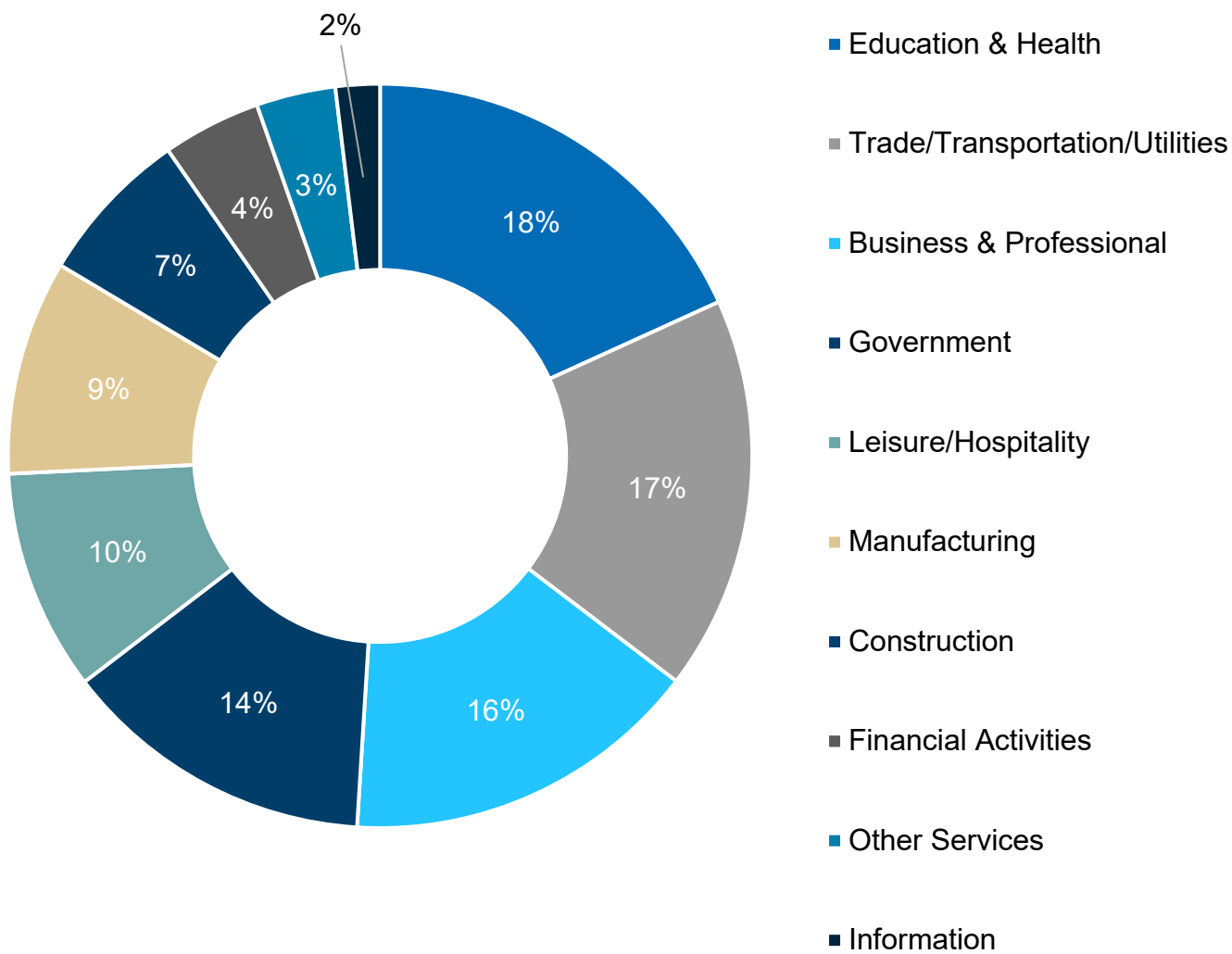


Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties)

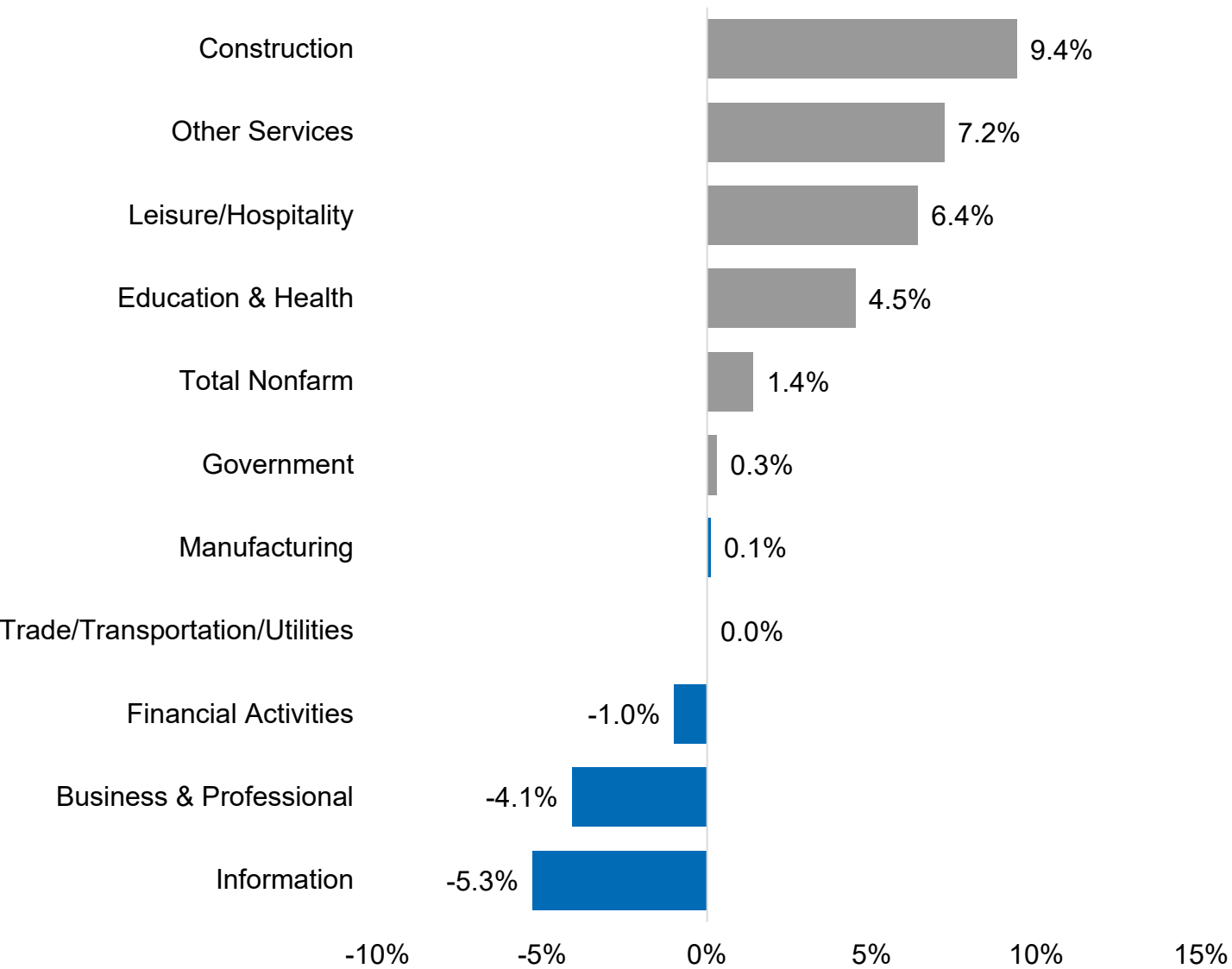
# Office-Using Employment Down

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, November 2023



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

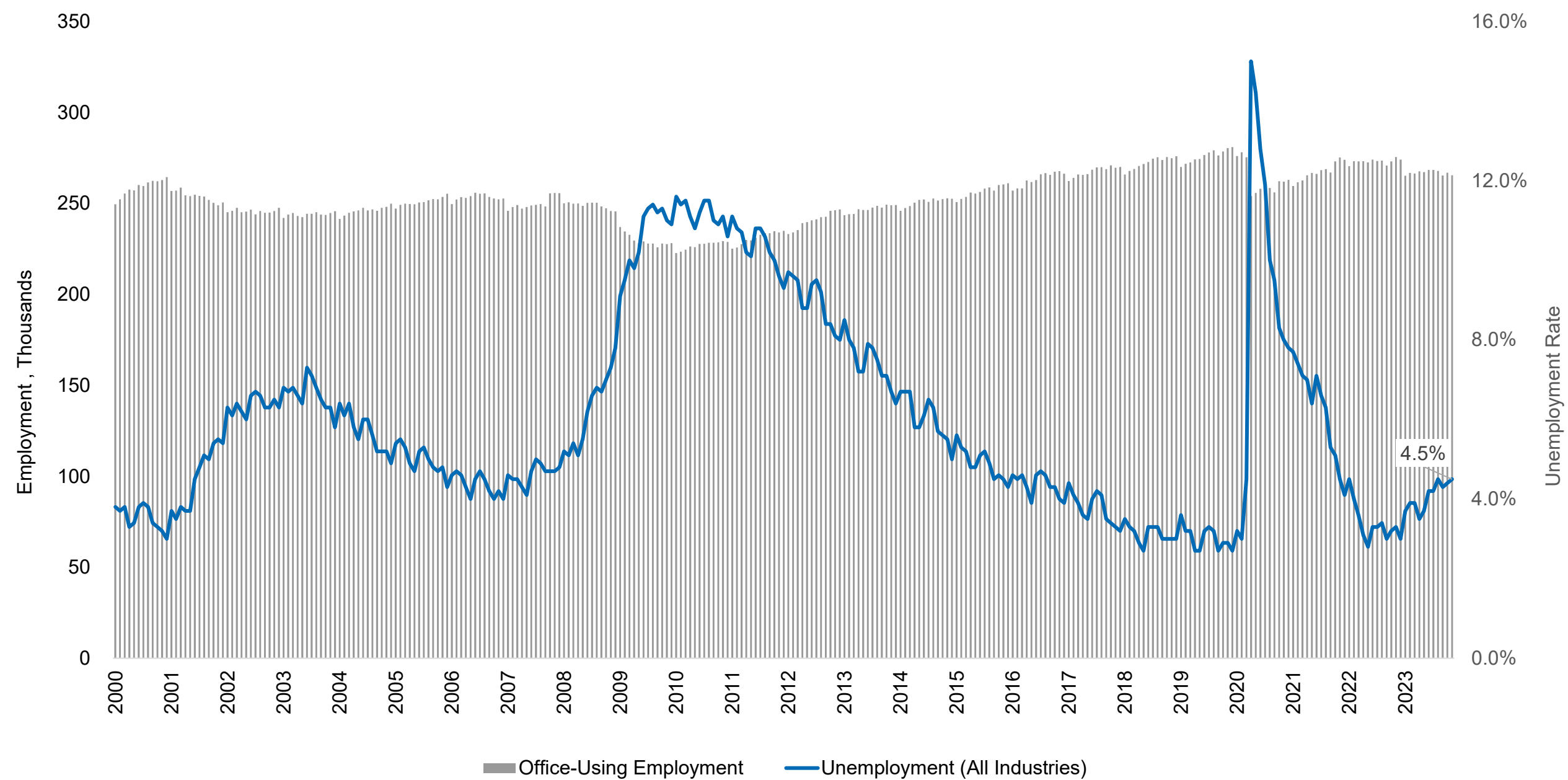


Source: U.S. Bureau of Labor Statistics, Oakland-Hayward-Berkeley Metropolitan Division (comprised of Alameda and Contra Costa Counties)

# 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. Office-using employment is currently close to 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

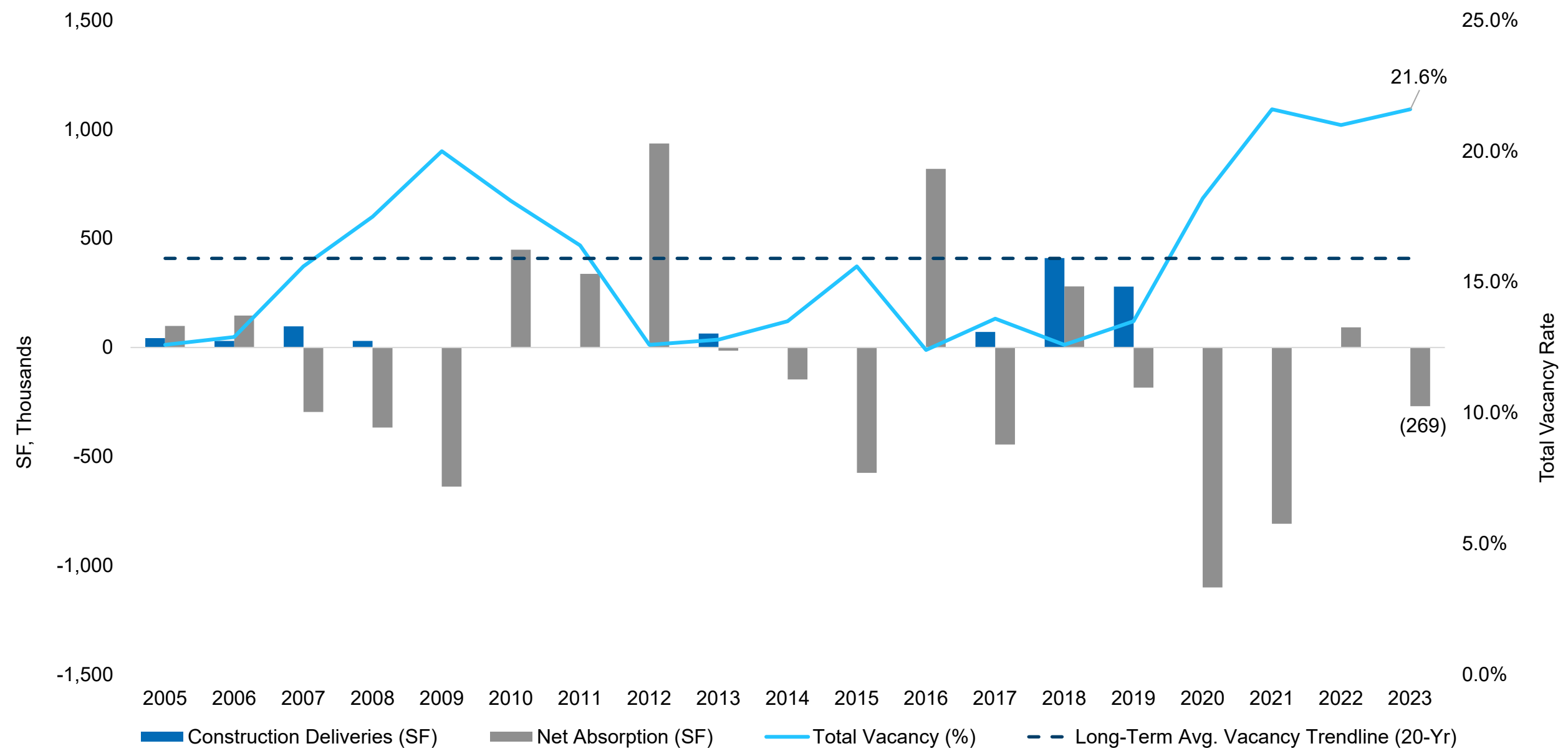




# Tri Valley Office Vacancy Remained Steady in the Fourth Quarter

The overall vacancy rate increased by 490 basis points year-over-year, as the market logged 269K square feet of negative absorption. However, office vacancy in Tri Valley decreased by 10 basis points in the fourth quarter. There is no new office construction in the pipeline.

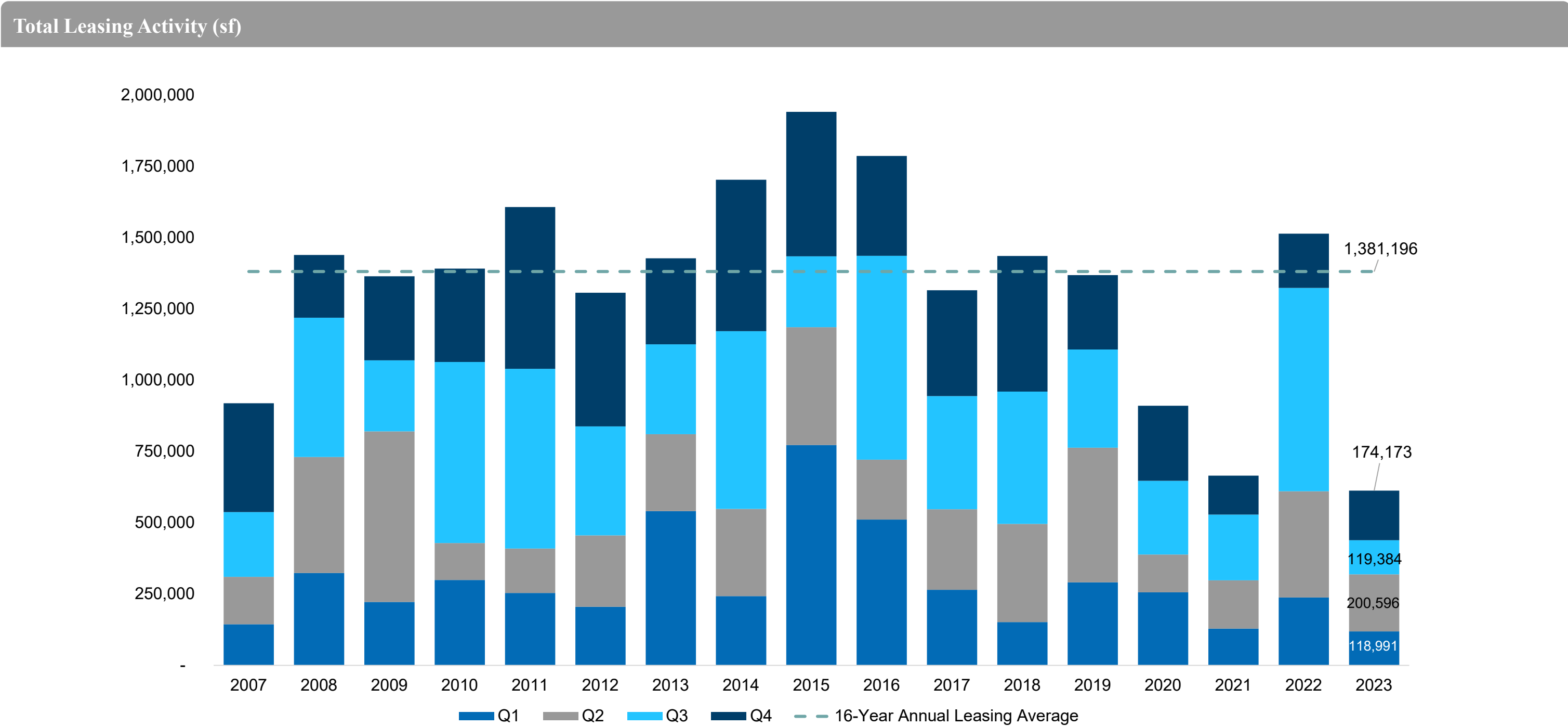
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

# Tri Valley Office Leasing Activity Pace Has Slowed

Office leasing increased slightly in the fourth quarter of 2023 compared to the beginning of the year, with 174,173 square feet being leased in Tri-Valley. However, overall office leasing for the year was just 44% of the long-term average.



Source: Newmark Research, CoStar





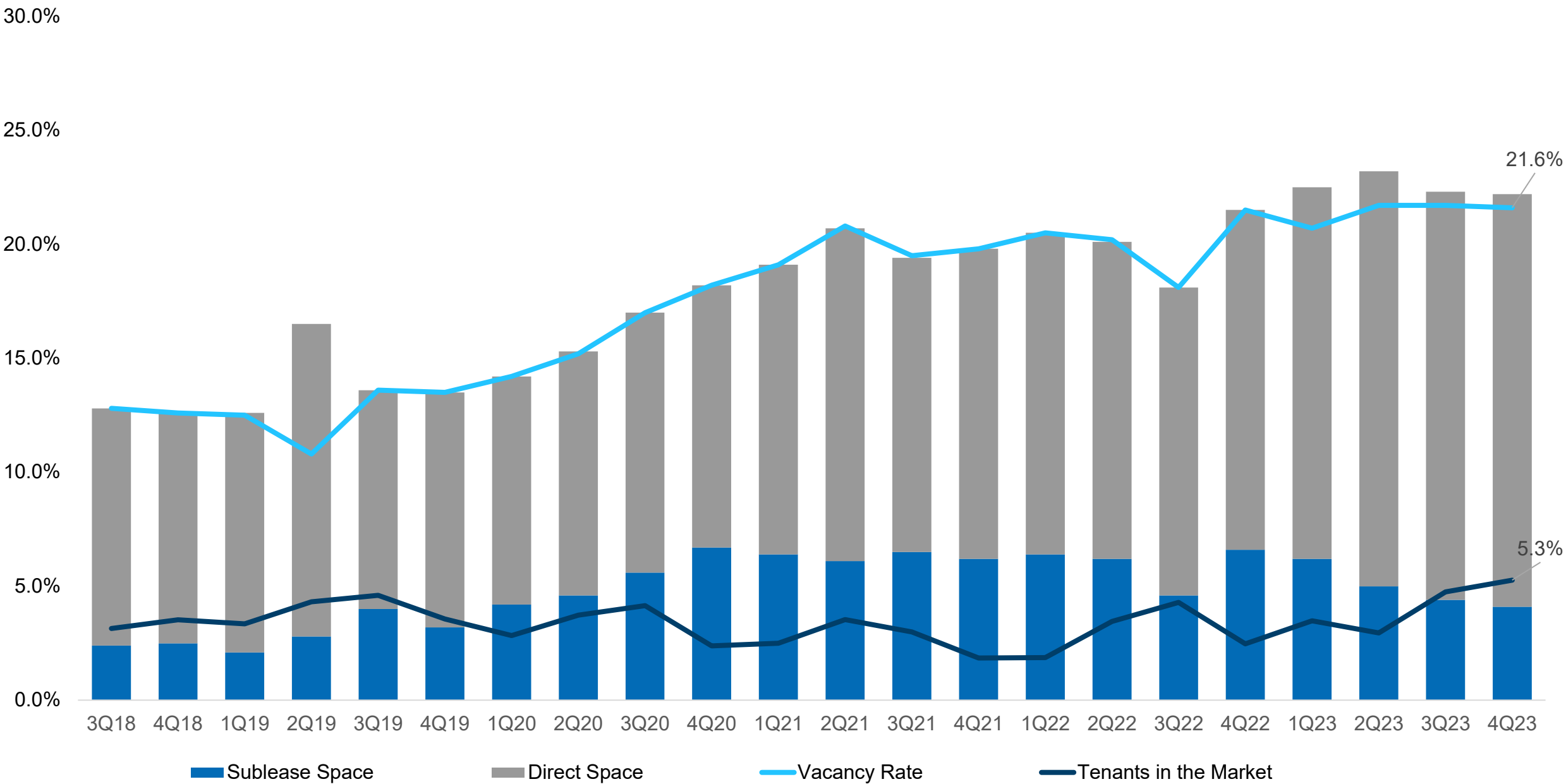
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# Availability Lessens as Tenant Demand Continues to Tick Up

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 fourth quarter decreased by 30 basis points for sublease space while simultaneously increasing by 30 basis points for direct space. There are 19 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





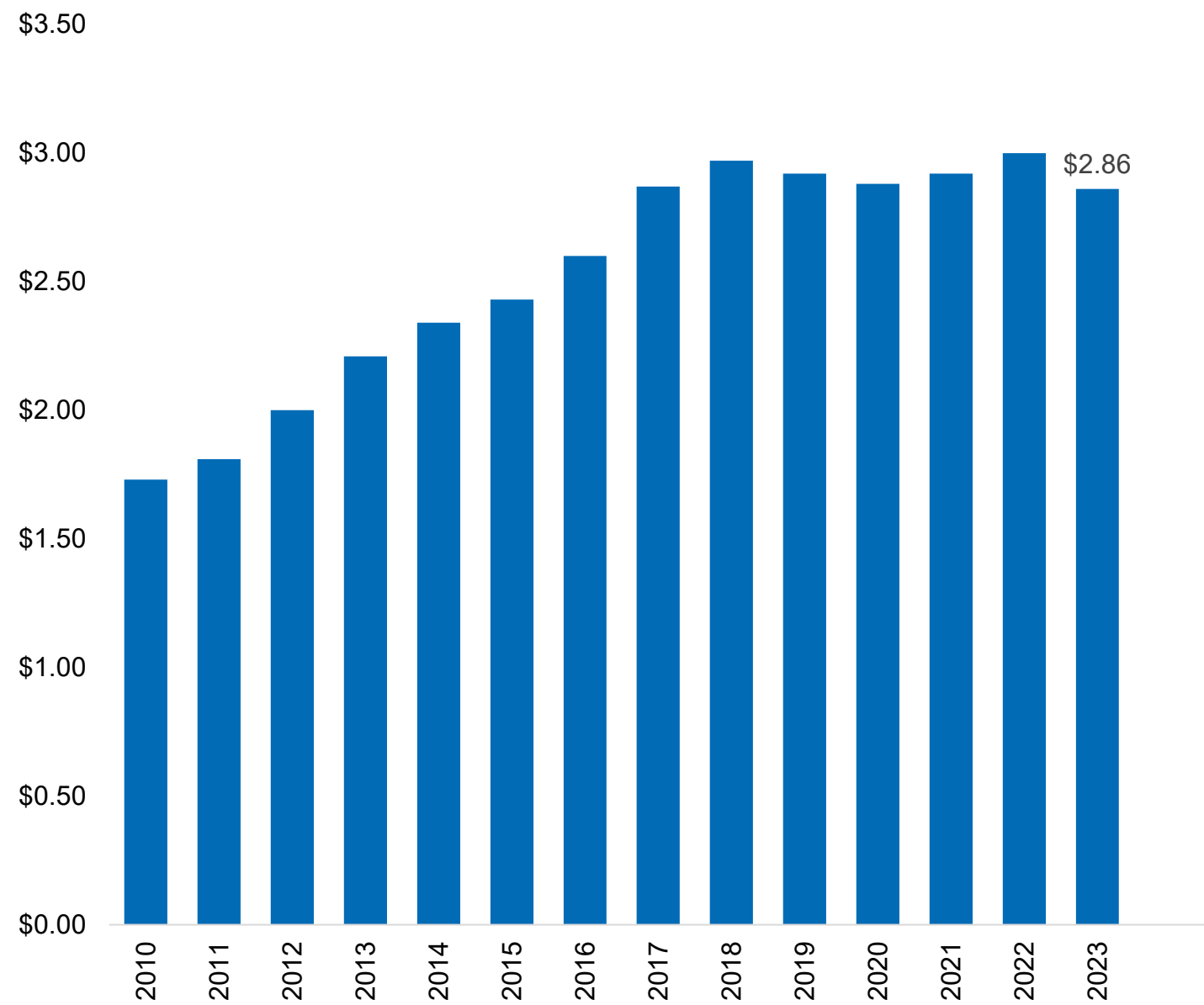
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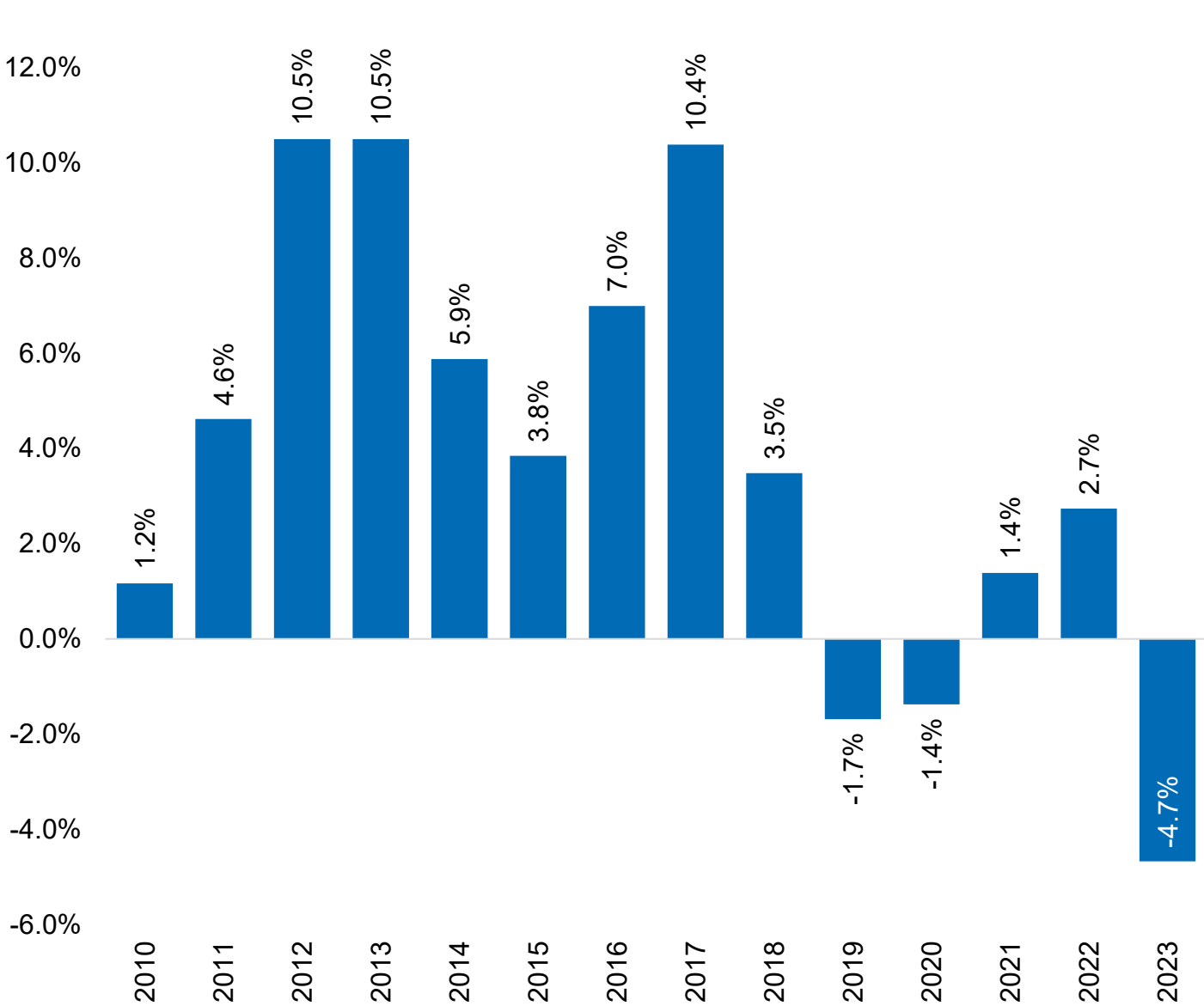
# Office Asking Rents Stay Consistent

Direct asking rates decreased by 4.7% in 2023, dropping by only \$0.14/SF year-over-year. While direct asking rates remained relatively stable in the fourth 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



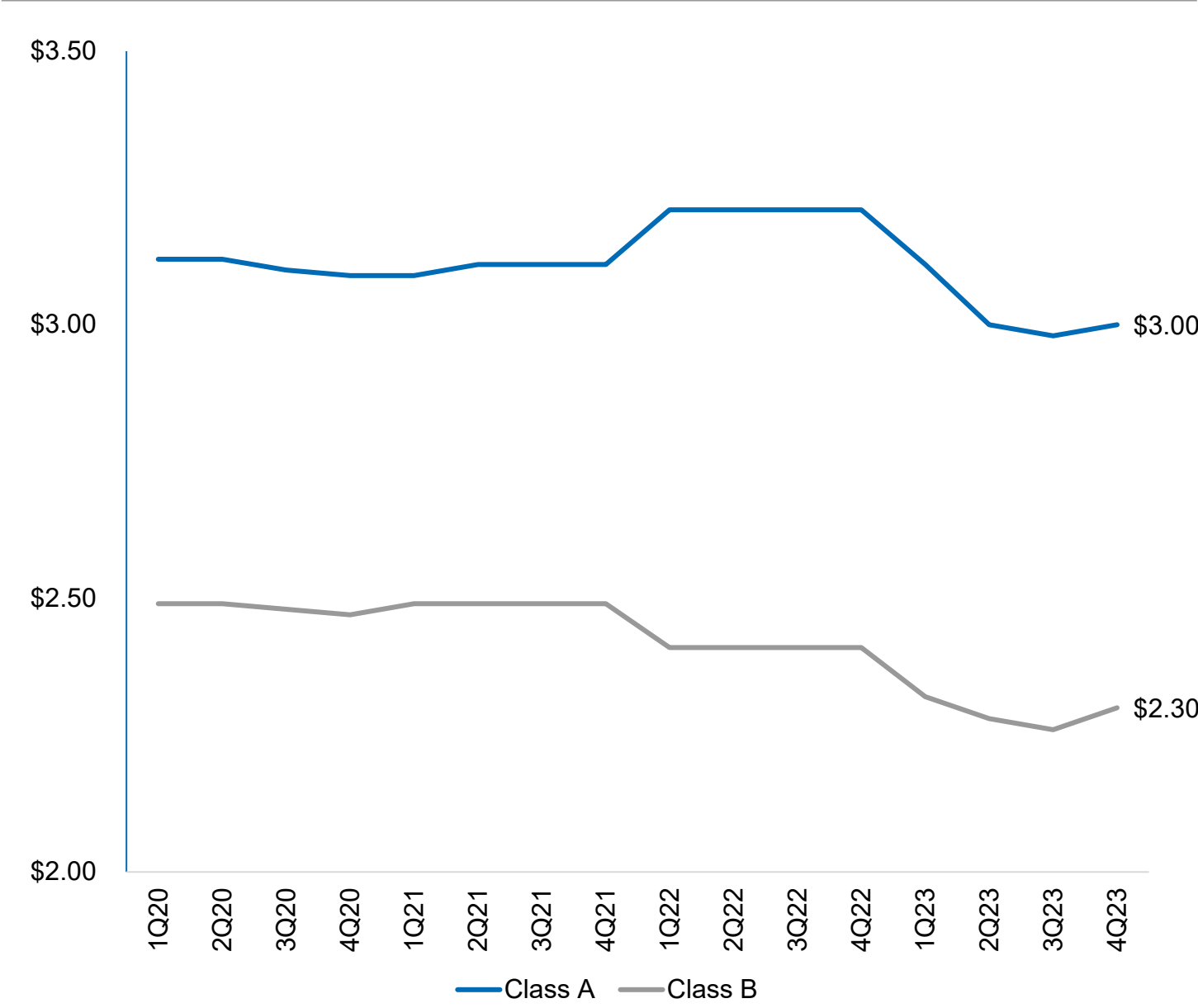
Source: Newmark Research, CoStar



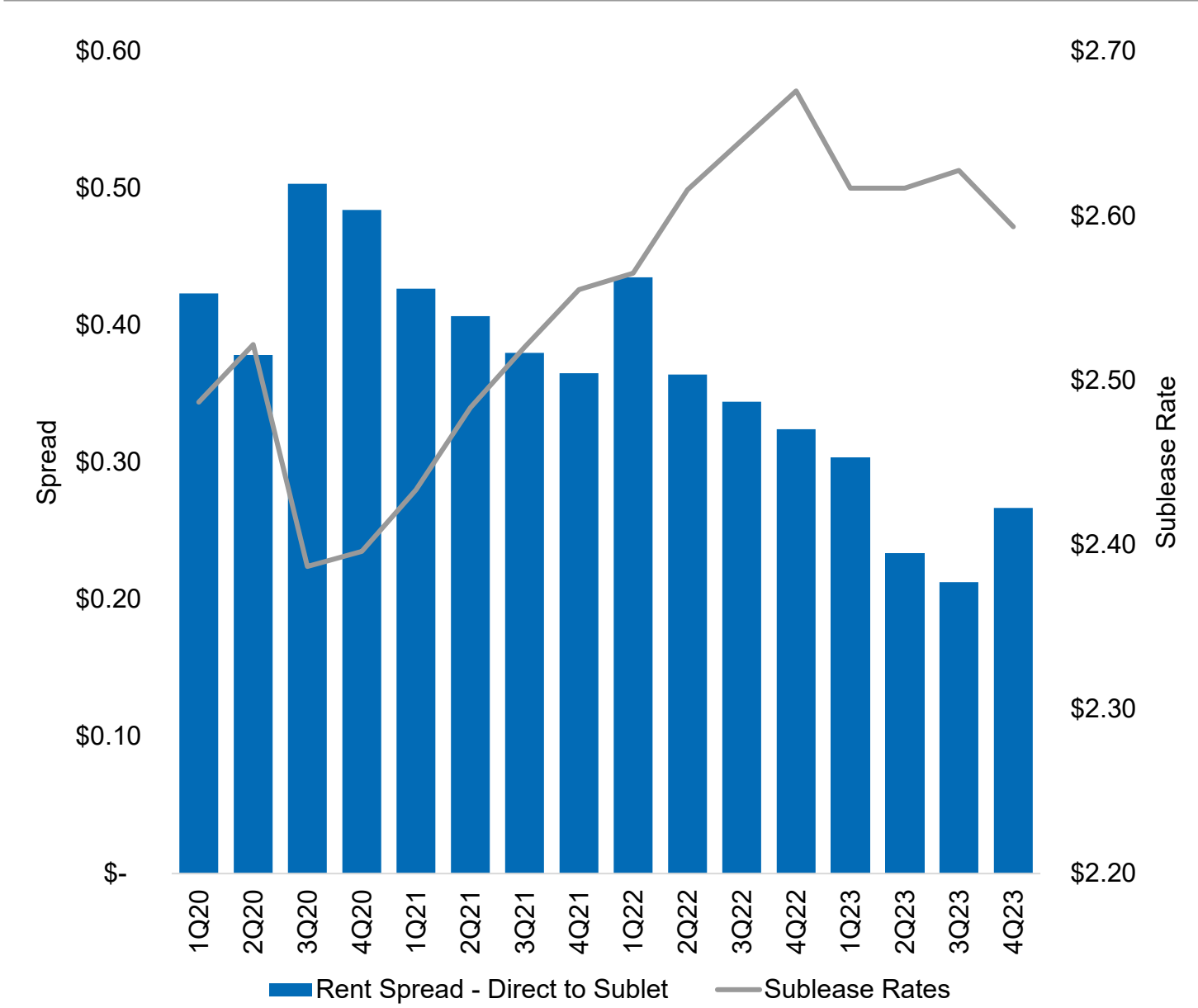
# Office Sublease Rates Are Stabilizing

There was a very slight uptick in rents in the fourth quarter, while lease rates dropped year-over-year. Sublease rents experienced a slight decrease in the fourth quarter, causing an 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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# Fourth Quarter Lease Transactions

The majority of leasing activity in the fourth quarter were direct leases, with two being over 15,000 square feet.

Notable 4Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Robert Half	5001 Executive Parkway	San Ramon – Bishop Ranch	Direct Lease	73,000
Natera, Inc.	5100 Franklin Drive	Pleasanton – Other	Direct Lease	16,319
Shea Homes	4309 Hacienda Drive	Pleasanton – Hacienda Business Park	Direct Lease	14,569
Clapp, Maroney, Vucinich, Beeman & Scheley	5860 Owens Drive	Pleasanton – Hacienda Business Park	Downsizing	11,757
DNJ Property Management Services	12647 Alcosta Blvd	San Ramon – Bishop Ranch	Direct Lease	10,877

Source: Newmark Research



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# Appendix







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