

EAST BAY OFFICE MARKET

Q1 2023

OFFICE MARKET DEMAND REMAINS DIM BUT VC FUNDING IMPROVES

Overall economic conditions in the East Bay area are strong but softening. The unemployment rate rose modestly to 3.8% in February, though it remained below 4.0% from one year ago and well below the long-term average. While the pace of job growth gradually slowed throughout 2022, the East Bay economy still expanded by 33,800 jobs – a 2.9% annual growth rate, which exceeds pre-pandemic levels and compares with a national rate of 2.9%.

Hybrid work, tech layoffs and higher interest rates have led to more vacant space in an already struggling San Francisco Bay Area office market. In the first quarter, East Bay vacancy remained nearly unchanged, parked at a near-record 20.3%. Net absorption was slightly negative with 51,850 SF of space returned to the market and a deep pool of sublet space continued to grow. Venture capital funding, which feeds office demand in the tech-heavy Bay Area market, rose on a quarterly basis for the first time in six quarters despite volatility in capital markets.

While supply and demand fundamentals look bleak, there are winners and losers. As tenants adjust to new working patterns and get rid of underutilized space, the supply of available space will continue to grow, presenting opportunities in 2023 for tenants looking for higher-quality spaces that align with their cost containment goals. Older buildings with fewer amenities, however, will have a challenging time attracting new tenants. Office properties that become obsolete will provide opportunities for demolition or conversions.

TRENDLINES

	Q1 2023	Q1 2022	CHANGE	FIVE-YEAR AVERAGE
Nonfarm Jobs (Thous.)	1,189	1,155	2.9%	1,154
Office-Using Jobs (Thous.)	268	269	-0.2%	270
Kastle Barometer - Occupancy (%)	43.3	31.2	38.8%	--
Sublease Availability (%)	4.8	4.5	30 bps	3.6
Net Absorption (Thous. SF)	-52	-516	90.0%	-157
Overall Vacancy Rate	20.3	19.3	100 bps	16.5
Class A Office Rent (\$/SF)	3.83	3.82	0.2%	3.97
Under Construction (Mil. SF)	0.1	0.3	-74.6%	0.7
Investment Volume (\$ Mil.)	38.8	472.3	-91.8%	548
Venture Capital Funding (\$ Bil.)	21.5	48.2	-55.3%	31.6

Source: Transwestern, CA EDD, RealPage, Kastle Systems, Real Capital Analytics, Pitchbook, Q1 2023.

Note: Employment figures as of February 2023. Data not seasonally adjusted.



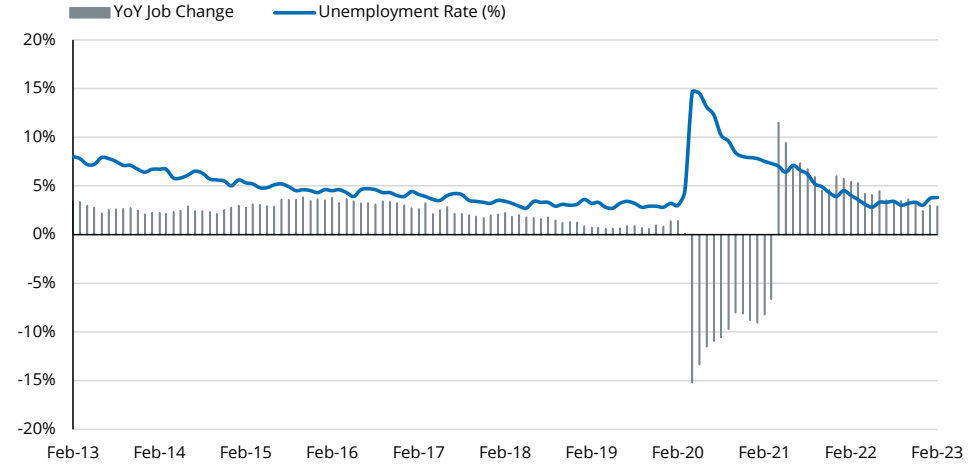
ECONOMY

Annual Job Growth Moderates to 2.9%

- The unemployment rate in the East Bay edged up to 3.8% in February from one of the lowest rates in history, but was down from 4.0% one year ago and 14.6% at the onset of the pandemic.
- The regional labor market has showed signs of strength despite cooling from a blistering pace over the last two years. Employers added 33,800 jobs annually, or 2.9% year over year, similar to a national rate of 2.9%.
- Jobs gains were driven by a 12.3% increase in Leisure and Hospitality employment, the hardest hit sector during the pandemic. Professional and Business Services, the region’s largest sector, ticked up 0.2% from one year ago. Office-using industries lost 500 jobs, edging down 0.2% from last year.

UNEMPLOYMENT RATE AND OFFICE-USING JOBS

East Bay MD

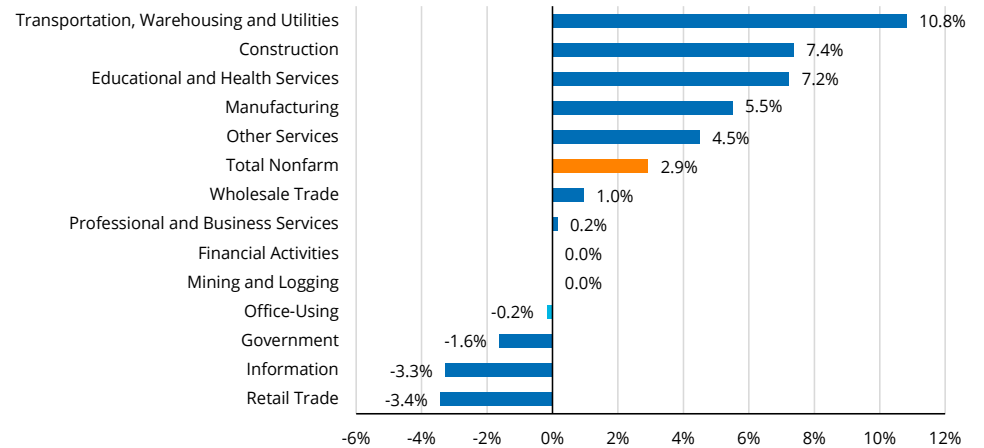


Source: Transwestern, CA EDD, February 2023.

Note: Data not seasonally adjusted.

YOY EMPLOYMENT CHANGE BY INDUSTRY

East Bay MD



Source: Transwestern, CA EDD, February 2023.

Note: Data not seasonally adjusted.

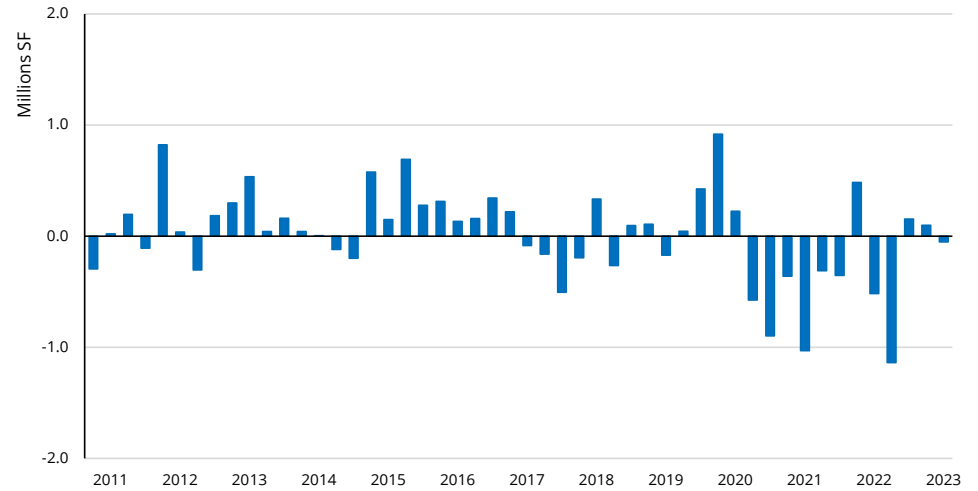


SUPPLY AND DEMAND FUNDAMENTALS

Office Attendance Stabilizes as Hybrid Working Model Gains Clarity

- Net absorption was negative for the first time in three quarters, totalling negative 51,850 SF in Q1. Companies continued to downsize, relocate or give up space altogether. Total net absorption since the start of 2020 stands at negative 4.5 million SF.
- A shift to a hybrid-based work model combined with growing tech layoffs has taken a large bite out of occupancy levels in the East Bay. In neighboring San Francisco in Q1, Meta added 435k SF of space to the sublease market, Salesforce shed 125k SF at the Salesforce Tower, Pinterest announced a downsizing of 150k SF, and Trulia and Autodesk reduced their footprints as well. In the East Bay Tri-Valley region, Ross listed 74k SF at its headquarters and Rimini Street, a software company, shed 70k SF of space. This follows other downsizings from major companies in recent quarters, including Oracle and Chevron.
- Office occupancy was steady in Q1 according to data tracked by Kastle Systems, a security company, with San Francisco seeing an average of 43.3% of workers swiping into offices for the week of March 22, up from 31.2% one year ago.

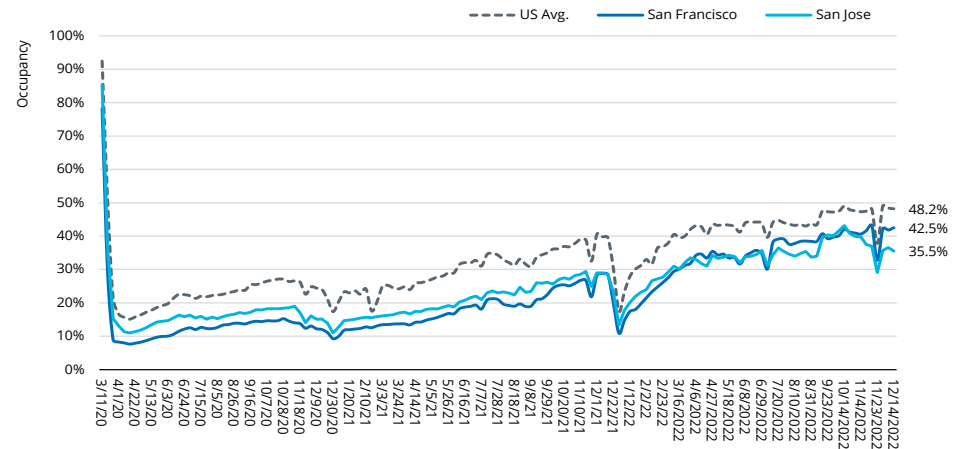
NET ABSORPTION



Source: Transwestern, CoStar, Q1 2023.

BACK TO WORK BAROMETER

Office Occupancy %



Source: Transwestern, Kastle Systems, March 2023.

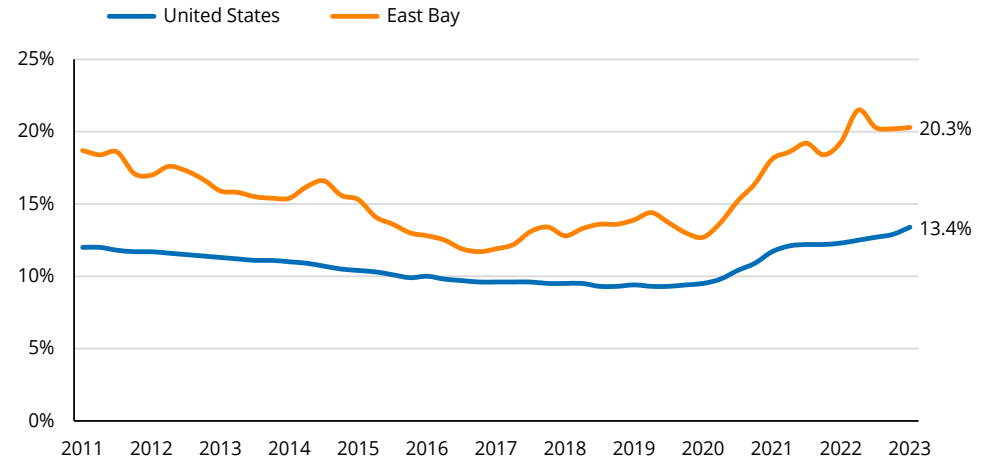


SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate Remains Stubbornly High

- In Q1, the overall vacancy rate parked at a near-record 20.3% and remained nearly unchanged for the third consecutive quarter.
- Class A vacancy tightened from 23.2% in Q4 to 23.1% in Q1 while Class B vacancy rose slightly, by 10 bps to end the quarter at 19.5%. As leasing activity continues to trail well behind pre-pandemic activity, companies are being strategic in securing high-quality spaces that will attract workers to the office.
- In Q1, there was 2.8 million SF of available sublet space, or 4.8% of total stock, which is more than double pre-pandemic levels. The sublease availability rate is up 30 bps from 4.5% one year ago as companies shed more space despite the market's deeply discounted sublet rates.

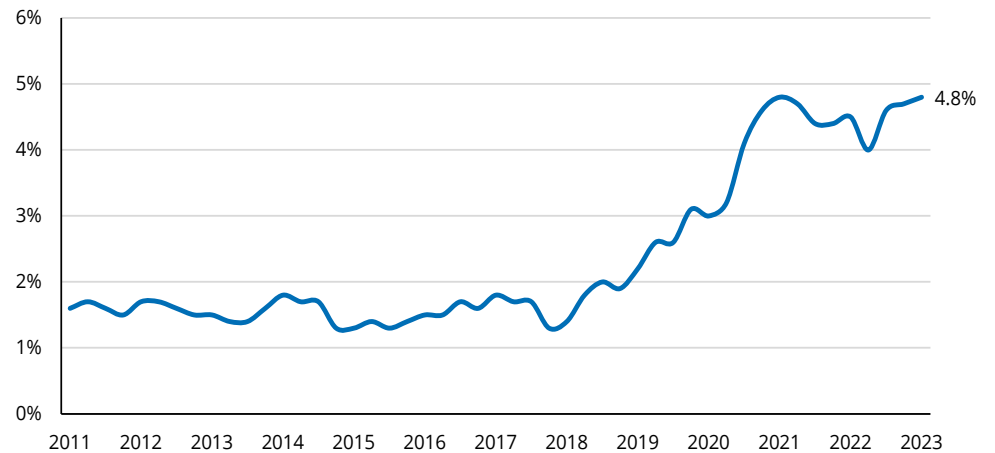
VACANCY RATE



Source: Transwestern, CoStar, Q1 2023.

SUBLEASE AVAILABILITY RATE

SF as % of Inventory



Source: Transwestern, CoStar, Q1 2023.

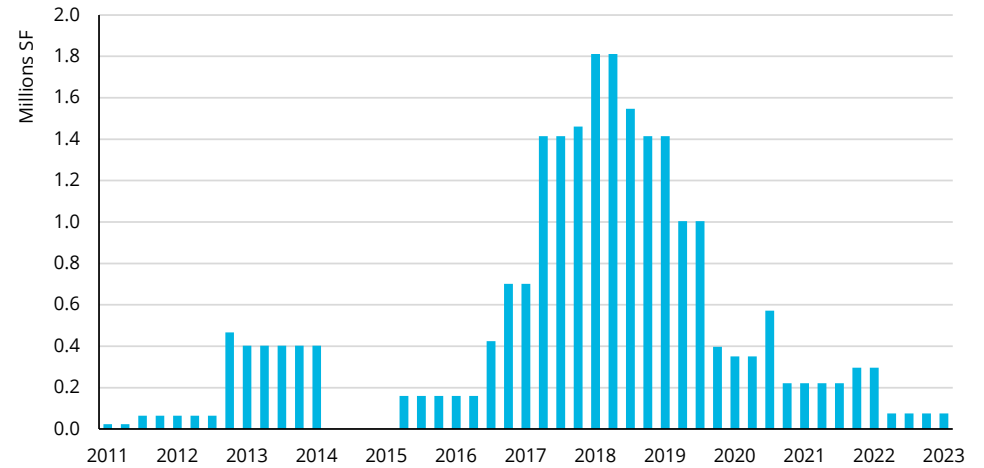


SUPPLY AND DEMAND FUNDAMENTALS

Companies Continue to Reduce Real Estate Footprints

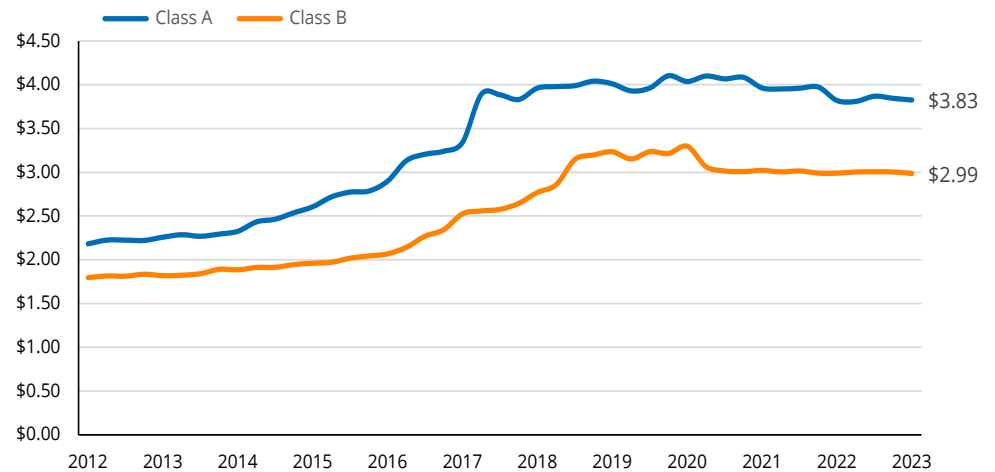
- The current development pipeline is nearly empty. New office construction has moderated over the last several years and there was only 75,200 SF underway during Q1. New construction typically slows when supply exceeds demand. As the market becomes increasingly saturated with vacant office space, more attention will be given to conversions to highest and best use.
- With office demand waning, especially for traditional office spaces, rents remained under pressure. Overall rents were unchanged from Q4 to finish the quarter at a monthly rate of \$3.35 PSF. By class segment, Class A rents experienced a 0.5% quarterly decline while Class B rents fell 0.6%. Companies are being strategic about securing high-quality spaces that will encourage a return to the office as occupancy levels remain stagnant.

UNDER CONSTRUCTION



Source: Transwestern, CoStar, Q1 2023.

MONTHLY RENTS, \$/SF



Source: Transwestern, CoStar, Q1 2023.



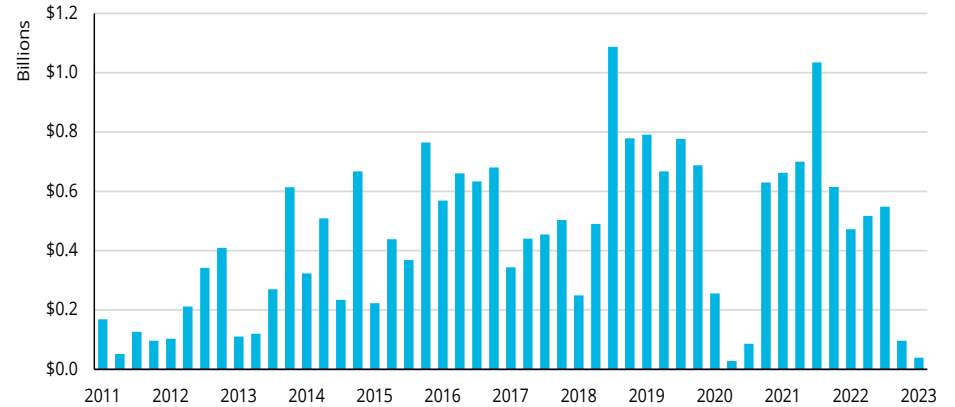
CAPITAL MARKETS

Investment Volume Subdued but Venture Capital Funding Improves

- Office deal volume remained subdued in Q1 with roughly \$39 million trading hands. The four-quarter total fell year-over-year by 57.5% to \$1.2 billion. Financing acquisitions became difficult due to rising interest rates. Concerns over future demand of office space also slowed deal activity, and concerns over turmoil in the banking industry. The majority of commercial mortgages are held by smaller banks (less than \$250 billion) and a record amount of commercial mortgages are expiring this year.
- Venture capital funding, an important source of office demand in the tech-heavy San Francisco Bay Area, reached \$21.5 billion during Q1, a quarterly rise of 29.1% and a return back to pre-pandemic levels. The four-quarter total of \$97.6 billion in capital invested was also back in line with pre-pandemic levels.
- VC funding in the first quarter was slightly skewed upward due to a megadeal in which Stripe, a financial software firm, raised \$6.5 billion.
- Artificial intelligence-related companies accounted for \$3.1 billion of the quarterly total, or 14.5%. While AI accounted for some of the larger deals (i.e. Adept raised \$350 million and Anthropic raised \$300 million), the share of VC funding last quarter was higher -- at 19.7%

INVESTMENT VOLUME

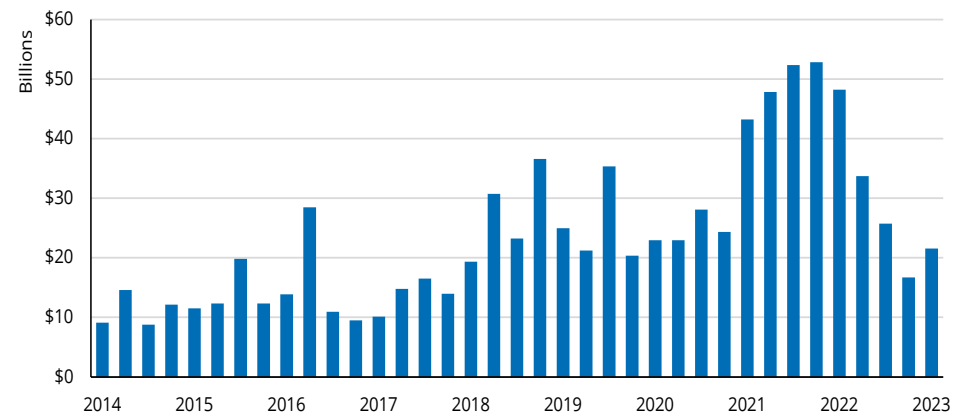
East Bay



Source: Transwestern, Real Capital Analytics, Q1 2023.

VENTURE CAPITAL FUNDING

San Francisco Bay Area



Source: Transwestern, Pitchbook, Q1 2023.



TOP LEASES

TENANT	ADDRESS	CITY	SF LEASED
GLYPHIC BIOTECHNOLOGIES	3100 San Pablo Ave	Berkeley	31,075
UNKNOWN	2121 N California Blvd	Walnut Creek	28,000
UNSPUN	6655 Hollis Street	Emeryville	21,050
EKO HEALTH	2100 Powell St	Emeryville	16,620
REGENTS OF UNIV. OF CALIFORNIA	2150 Shattuck Ave	Berkeley	10,325

TOP SALES

ADDRESS	CITY	PRICE (\$ MIL.)	BUILDING SF	BUYER	SELLER
25 ORINDA WAY	Orinda	\$12.8	25,430	Volwood Properties	Long Market Prop Ptnrs
1010 MURRIETA BLVD	Livermore	\$11.3	22,150	Seren Ethos LLC	Michael & Susan Becker Trust
2037 KALA BAGAI WY	Berkeley	\$8.0	20,670	Okada Brothers	Farhad Ahmadi
2161 YGNACIO VALLEY RD	Walnut Creek	\$4.2	12,820	Zaka Jamal J & Safoora	Levy John R & Beverly M
1494 WASHINGTON BLVD	Concord	\$2.5	6,850	Mehran Haidari	Rossi Alves Micsan & Slino General Partnership

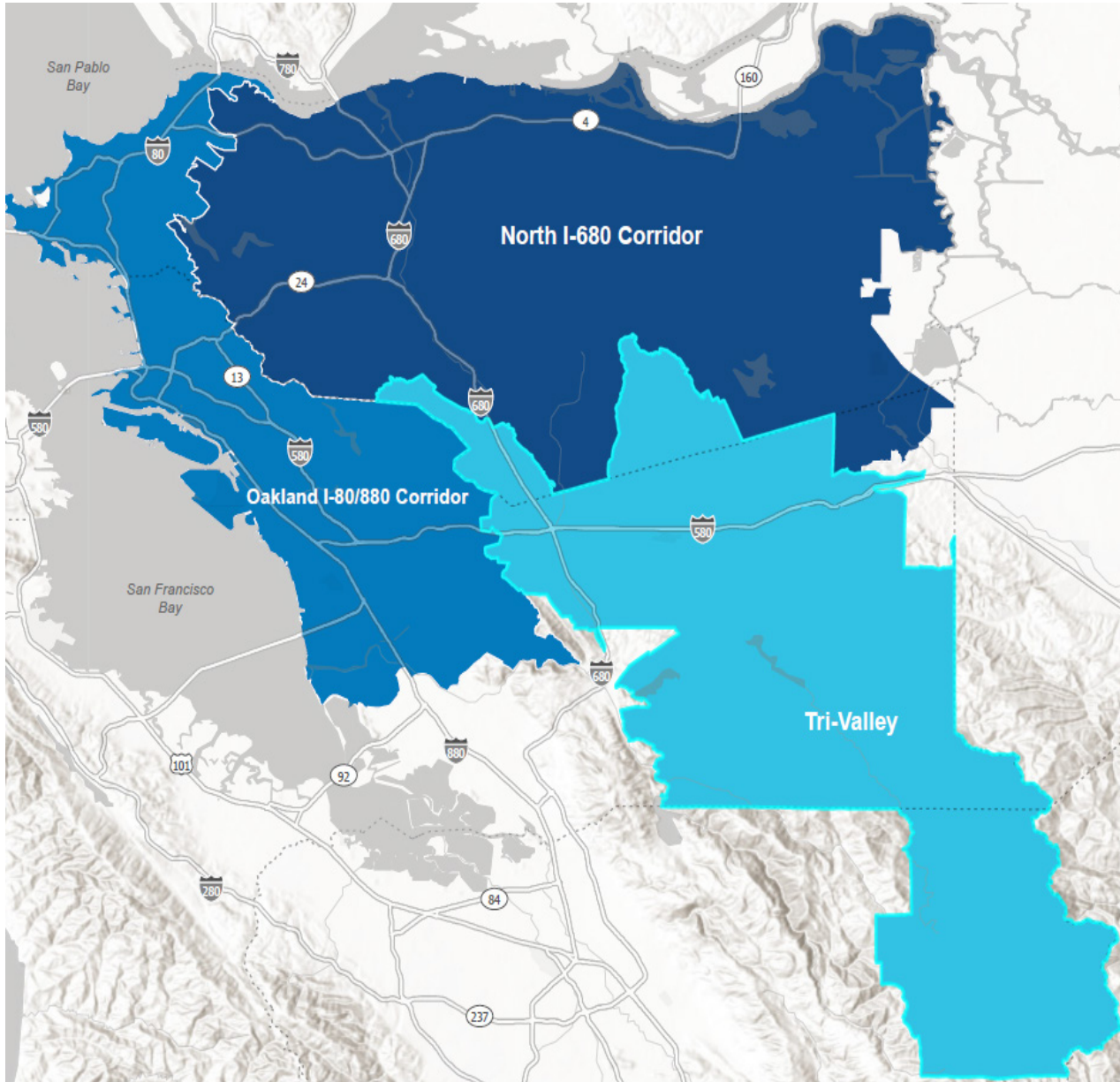
SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY SF	LEASING ACTIVITY SF	TOTAL VACANCY RATE	SUBLEASE AVAILABILITY RATE	QUARTERLY NET ABSORPTION SF	12-MO. NET ABSORPTION SF	UNDER CONSTRUCTION SF	FULL SERVICE RENT \$/SF
OAKLAND I-80/880 CORRIDOR	28,645,362	222,720	19.1%	4.2%	84,186	-122,859	75,240	\$4.03
NORTH I-680 CORRIDOR	15,178,186	164,771	19.9%	2.8%	-36,093	-70,352	0	\$2.84
TRI-VALLEY	13,958,302	68,522	23.1%	8.2%	-99,945	-744,990	0	\$2.84
TOTAL	57,781,850	456,013	20.3%	4.8%	-51,852	-938,201	75,240	\$3.35

Source: Transwestern, CoStar, Real Capital Analytics, Q1 2023.



SUBMARKET MAP



FOR MORE INFORMATION

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RESEARCH METHODOLOGY

The information in this report is a compilation of single- and multi-tenant office properties 10,000 SF and larger located in the East Bay area. Medical offices and government-owned buildings are excluded from analysis.

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