



TRANSWESTERN

# EAST BAY OFFICE MARKET

Q2 2023

## VACANCY RATE SURGES BUT VC FUNDING REMAINS STEADY

Despite higher borrowing costs for businesses and consumers, economic conditions in the East Bay metropolitan area remain strong, though moderating. The unemployment rate in May was down from three months ago at 3.7%. While the pace of job growth has slowed over the past year, the East Bay economy still expanded by 25,700 jobs - a 2.2% annual growth rate but below the national rate of 2.6%.

The labor market remains on sound footing, but hybrid work and recessionary fears have led to more vacant space in an already struggling East Bay office market. In the second quarter, the total amount of office space available for lease climbed to a record high of 18 million square feet. The vacancy rate surged 160 basis points (bps) on a quarterly basis to an all-time high of 16.8%. Net absorption was negative with 1.5 million SF of space returned to the market. Average rents ticked down 0.3% year over year. While supply and demand fundamentals look bleak, venture capital funding in the broader Bay Area bottomed out two quarters ago and posted \$25.0 billion in Q2 2023, reverting toward pre-pandemic levels.

### TRENDLINES

	Q2 2023	Q2 2022	CHANGE	FIVE-YEAR AVERAGE
Nonfarm Jobs (Thous.)	1,205	1,180	2.2%	1,157
Office-Using Jobs (Thous.)	268	273	-1.7%	270
Kastle Barometer - Occupancy (%)	45.4	34.7	10.7%	--
Sublease Availability (%)	3.6	2.9	70 bps	2.8
Net Absorption (Thous. SF)	-1,486	-464	-220.3%	-211
Overall Vacancy Rate	16.8	15.2	160 bps	12.5
Class A Office Rent (\$/SF)	47.04	46.59	1.0%	49.24
Under Construction (Mil. SF)	0.1	0.1	-57.7%	0.6
Investment Volume (\$ Mil.)	32	520	-93.9%	527
Venture Capital Funding (\$ Bil.)	25.0	33.0	-24.3%	31.6

Source: Transwestern, CA EDD, RealPage, Kastle Systems, MSCI RCA, Pitchbook, Q2 2023.

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



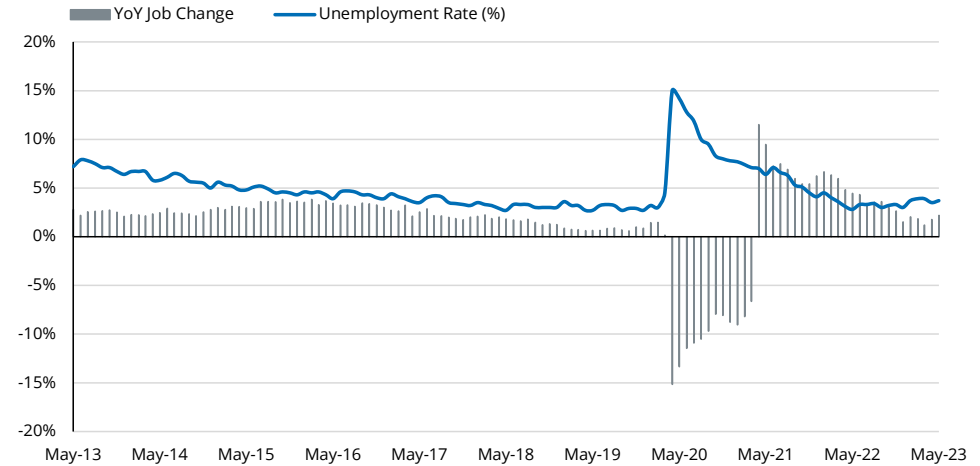
### ECONOMY

#### Annual Job Growth Moderates to 2.2%

- The May unemployment rate in the East Bay metro area budged down from three months ago to 3.7%. While it is up from 2.8% one year ago, it remains a tight labor market with strong job gains despite businesses and consumers facing higher borrowing costs.
- The regional economy showed pockets of strength despite cooling from a blistering pace last year. Employers added 25,700 jobs annually, or 2.2% year over year, compared to a national rate of 2.6%.
- Jobs gains were driven by a year-over-year increase of 6.3% in Education and Health Services employment (+12,900 jobs). Construction also made a significant contribution, growing 7.1% and adding 5,300 jobs. Office-using industries lost 4,700 jobs, down 1.7% from last year.

### UNEMPLOYMENT RATE AND OFFICE-USING JOBS

#### Oakland-Hayward-Berkeley MD

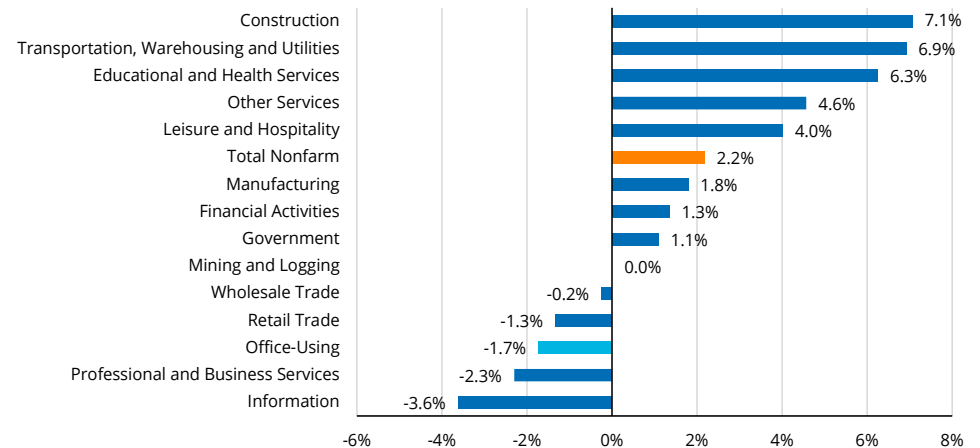


Source: Transwestern, CA EDD, May 2023.

Note: Data not seasonally adjusted.

### YOY EMPLOYMENT CHANGE BY INDUSTRY

#### Oakland-Hayward-Berkeley MD



Source: Transwestern, CA EDD, May 2023.

Note: Data not seasonally adjusted.

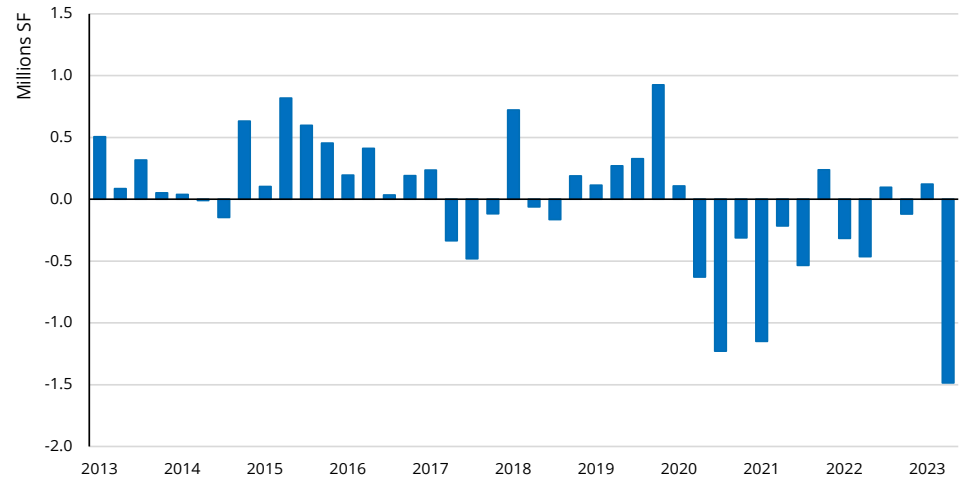


### SUPPLY AND DEMAND FUNDAMENTALS

#### Companies Continue to Reduce Space

- A shift to a hybrid-based work model combined with recessionary fears have taken a large bite out of occupancy levels in the East Bay. Net absorption was negative 1.5 million SF in the second quarter, marking it the worst quarter since CoStar recordkeeping began in 1997 as companies continued to downsize, relocate or give up space altogether. Total net absorption since the start of 2020 stands at negative 6 million SF.
- Office occupancy plateaued in Q2 according to data tracked by Kastle Systems, with San Francisco seeing an average of 45.4% of workers swiping into offices for the week of June 21, 2023. San Jose had the lowest of the major metros tracked with a rate of 38.1%, reflecting the Bay Area's large concentration of tech jobs.

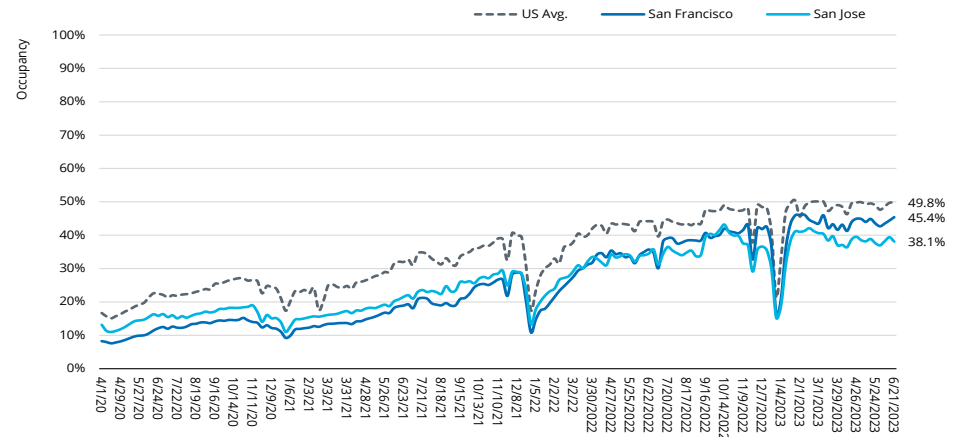
### NET ABSORPTION



Source: Transwestern, CoStar, Q2 2023.

### BACK TO WORK BAROMETER

#### Office Occupancy %



Source: Transwestern, Kastle Systems, June 2023.

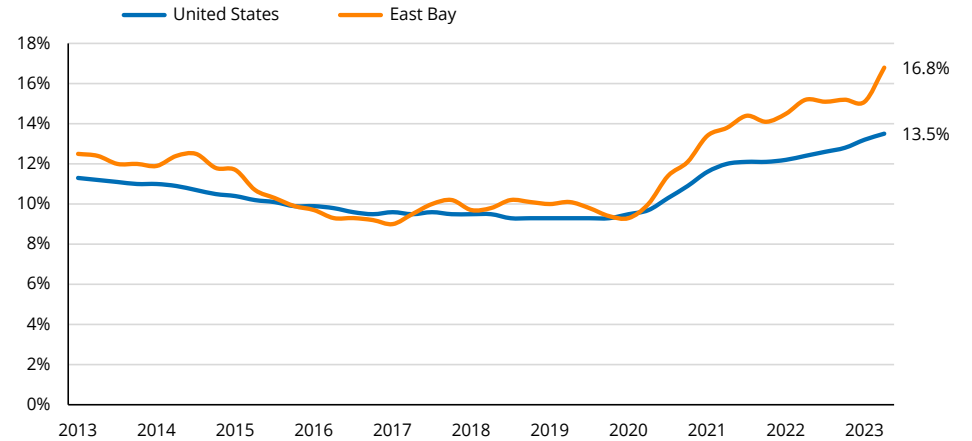


### SUPPLY AND DEMAND FUNDAMENTALS

#### Vacancy Rate Continues Upward Ascent

- In Q2, the overall vacancy rate surged 160 bps on a quarterly basis to 16.8%, the highest level on record. This was the largest jump since 2001 as numerous companies gave up space.
- Class A vacancy increased 450 bps to 25.4% in Q2 while Class B vacancy rose less sharply, by 50 bps to end the quarter at a lower rate of 14.8%.
- In Q2, there was roughly 3.2 million SF of available sublet space, or 3.6% of total inventory. The sublease availability rate is up 70 bps from 2.9% one year ago as companies shed more space despite the market’s deeply discounted sublet rates.

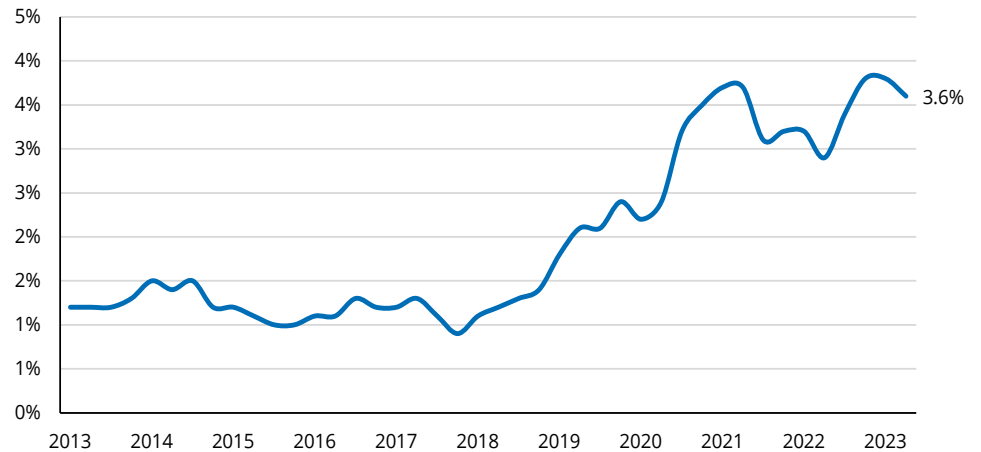
### VACANCY RATE



Source: Transwestern, CoStar, Q2 2023.

### SUBLEASE AVAILABILITY RATE

#### SF as % of Inventory



Source: Transwestern, CoStar, Q2 2023.

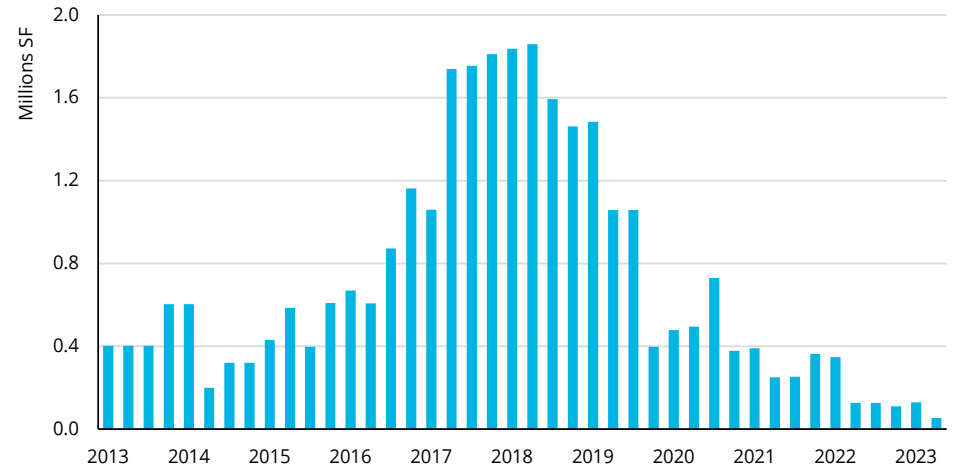


### SUPPLY AND DEMAND FUNDAMENTALS

#### Rent Growth Slows as More Space Hits the Market

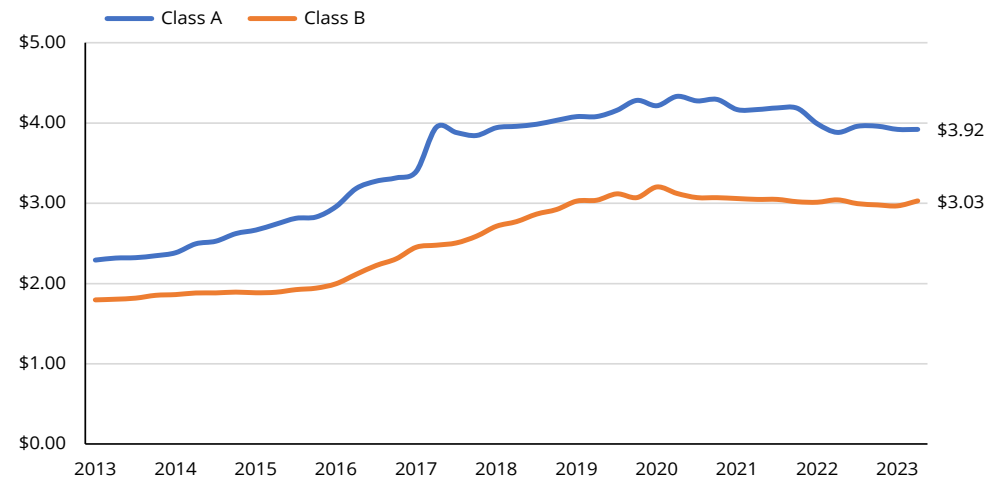
- The current development pipeline is nearly empty. New office construction has moderated over the last several years and there was only 53,700 SF underway during Q2. New construction typically slows when supply exceeds demand. As the market becomes increasingly saturated with vacant space, development will continue to be muted for the remainder of 2023 and beyond.
- With office demand waning, rents remained under pressure. Overall rents were up by a marginal 0.8% from Q1 to finish the quarter at a monthly average rate of \$3.35 PSF. By class segment, Class A rent growth was flat while Class B rents rose 2.1%. 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, Q2 2023.

### MONTHLY RENTS, \$/SF



Source: Transwestern, CoStar, Q2 2023.



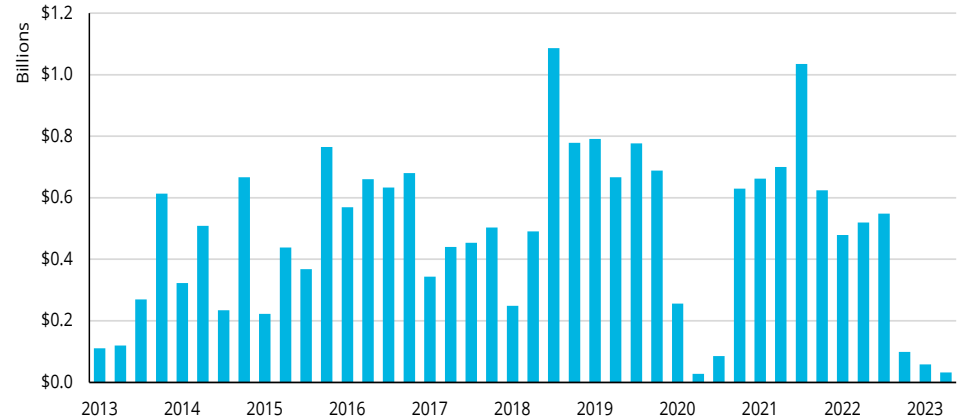
### CAPITAL MARKETS

#### Investment Volume Subdued but Venture Capital Funding Improves

- Office deal volume in Q2 was at a standstill as many banks have stopped issuing loans to office buildings. Volume was just \$31.8 million in a market that typically experienced over \$500 million in quarterly investment during pre-pandemic years.
- 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

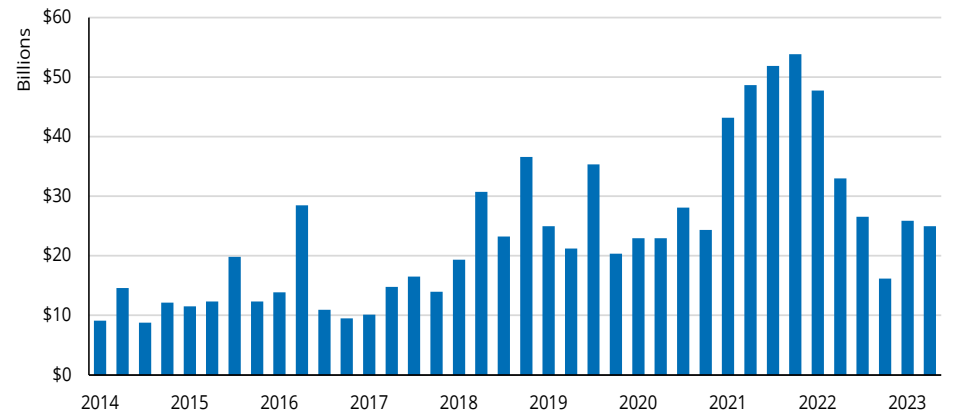
#### East Bay



Source: Transwestern, MSCI RCA, Q2 2023.

### VENTURE CAPITAL FUNDING

#### San Francisco Bay Area



Source: Transwestern, Pitchbook, Q2 2023.



## TOP LEASES

TENANT	ADDRESS	CITY	SF LEASED
VACO	2623 Camino Ramon	San Ramon	50,000
UNKNOWN	3240 W Stone Valley Rd	Alamo	17,856
UNKNOWN	2033 N Main St	Walnut Creek	16,785
PACIFIC WORKPLACES	3478 Buskirk Ave	Pleasant Hill	14,090
UNKNOWN	7000 Bancroft Ave	Oakland	12,577

## TOP SALES

ADDRESS	CITY	PRICE (\$ MIL.)	BUILDING SF	BUYER	SELLER
880 HARBOUR WAY S	Richmond	\$13.9	57,800	Berkeley Partners	A & F Properties LLC
2531 9TH ST	Berkeley	\$9.6	31,900	Berkeley Unified School District	Mike A Brodsky
3620 HAPPY VALLEY RD	Lafayette	\$9.5	24,600	Consolidated Partnership LLC	350 Harbor Way Associates
25375 CLAWITER RD	Hayward	\$9.3	69,192	New York Life	Fremont Bank
2600 CROW CANYON RD	San Ramon	\$4.4	10,944	Barry S Hoch	Wachter Ents LLC

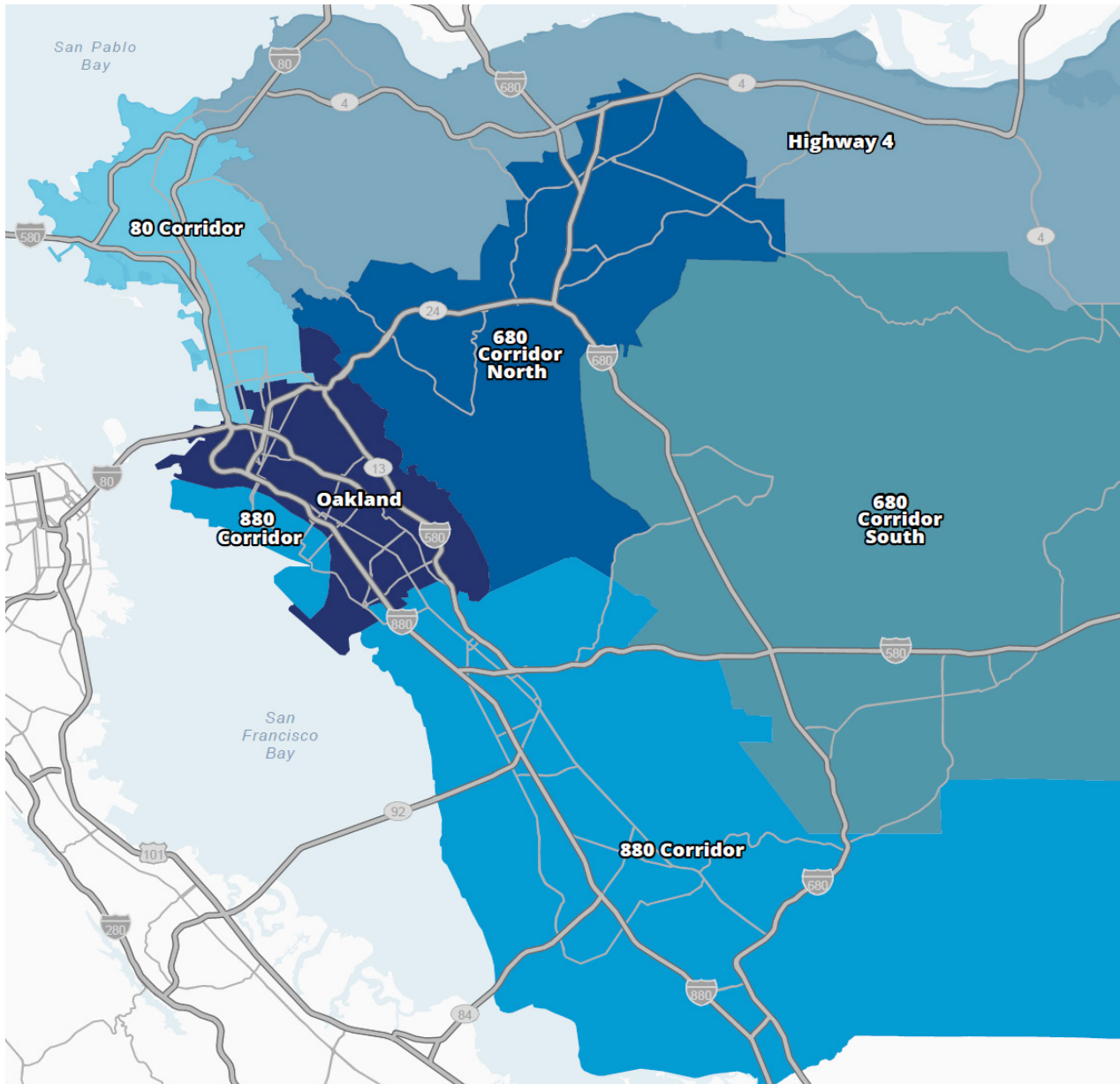
## SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY SF	LEASING ACTIVITY SF	VACANCY RATE	QUARTERLY NET ABSORPTION SF	12-MO. NET ABSORPTION SF	UNDER CONSTRUCTION SF	DIRECT RENT \$/SF	FULL SERVICE RENT \$/SF
680 CORRIDOR NORTH	17,397,672	99,509	21.6%	-713,241	-423,598	0	\$3.10	\$4.03
680 CORRIDOR SOUTH	23,519,013	137,112	18.1%	-541,993	-445,562	0	\$3.05	\$2.84
80 CORRIDOR	10,895,324	34,646	14.5%	71,529	-81,438	0	\$3.59	\$2.84
880 CORRIDOR	12,935,089	41,199	9.5%	-218,281	-257,024	34,905	\$2.56	\$4.03
HIGHWAY 4	2,490,203	11,026	8.3%	-26,788	-7,499	0	\$2.32	\$2.84
OAKLAND	23,267,037	97,782	17.8%	-57,567	-113,904	18,825	\$4.27	\$2.84
<b>TOTAL</b>	<b>90,658,636</b>	<b>412,934</b>	<b>16.8%</b>	<b>-1,486,341</b>	<b>-1,385,188</b>	<b>53,730</b>	<b>\$3.34</b>	<b>\$3.35</b>

Source: Transwestern, CoStar, MSCI RCA, Q2 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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