



TRANSWESTERN

EAST BAY OFFICE MARKET

Q3 2023



RISE IN VACANCY SLOWS AND RENTS GROW FOR FIRST TIME IN THREE YEARS

Despite higher borrowing costs for businesses and consumers, economic conditions in the East Bay remain strong, though moderating. The unemployment rate was 4.5% in August, up 80 bps from three months ago but still at historically low levels. While the pace of job growth has slowed over the past year, the East Bay economy still expanded by 24,800 jobs - a 2.1% annual growth rate and outpacing the national rate of 2.0%.

The labor market remains on sound footing, but hybrid work and recessionary fears have led to more vacant space in an already weakened East Bay office market. In the third quarter, the total amount of office space available for lease climbed to a record high of 18.2 million square feet. The vacancy rate rose 30 basis points (bps) on a quarterly basis to an all-time high of 17.0%. Net absorption was negative with 222,800 SF of space returned to the market. Average rents modestly rose 1.6% year over year, the first positive reading since Q2 2020.

TRENDLINES

	Q3 2023	Q3 2022	CHANGE	FIVE-YEAR AVERAGE
Nonfarm Jobs (Thous.)	1,205	1,180	2.1%	1,158
Office-Using Jobs (Thous.)	268,800	273,500	-1.7%	269,869
Kastle Barometer - Occupancy (%)	43.6	39.2	4.4%	--
Sublease Availability (%)	3.5	2.9	60 bps	3.0
Net Absorption (Thous. SF)	-1,455	152	1056.8%	-212
Overall Vacancy Rate	16.7	14.5	220 bps	12.7
Class A Office Rent (\$/SF)	46.68	46.29	0.8%	48.89
Under Construction (Mil. SF)	0.1	0.1	-57.7%	0.5
Investment Volume (\$ Mil.)	69	520	-86.8%	477
Venture Capital Funding (\$ Bil.)	18.7	24.7	-24.5%	31.7

Source: Transwestern, CA EDD, Kastle Systems, MSCI Real Assets, Pitchbook, Q3 2023.

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



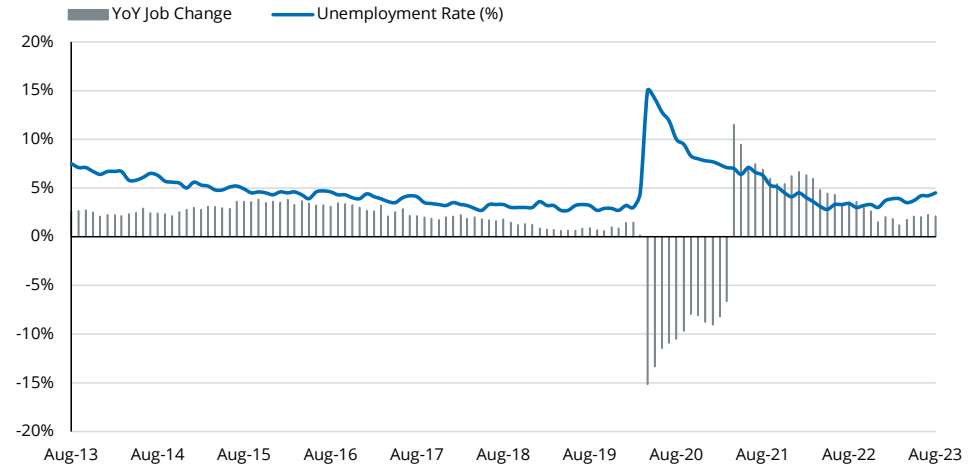
ECONOMY

Annual Job Growth Moderates to 2.1%

- The August unemployment rate in the East Bay metro rose from three months ago to 4.5%. While it is up from 3.4% one year ago, it remains a tight labor market with strong job gains despite business and consumers facing higher borrowing costs.
- The regional economy showed pockets of strength despite cooling from a blistering pace last year. Employers added 24,800 jobs annually, or 2.1% year over year, compared to a national rate of 2.0%.
- Jobs gains were driven by a year-over-year increase of 5.2% in Education and Health Services employment (+10,600 jobs). Construction also made a significant contribution, growing 9.7% and adding 7,400 jobs. Office-using industries lost 4,700 jobs, down 1.7% from last year.

UNEMPLOYMENT RATE AND OFFICE-USING JOBS

Oakland-Hayward-Berkeley MD

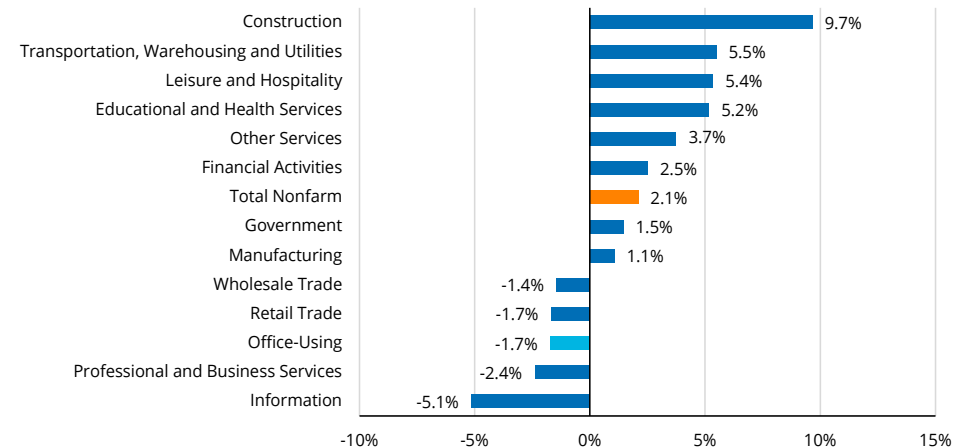


Source: Transwestern, CA EDD, August 2023.

Note: Data not seasonally adjusted.

YOY EMPLOYMENT CHANGE BY INDUSTRY

Oakland-Hayward-Berkeley MD



Source: Transwestern, CA EDD, August 2023.

Note: Data not seasonally adjusted.

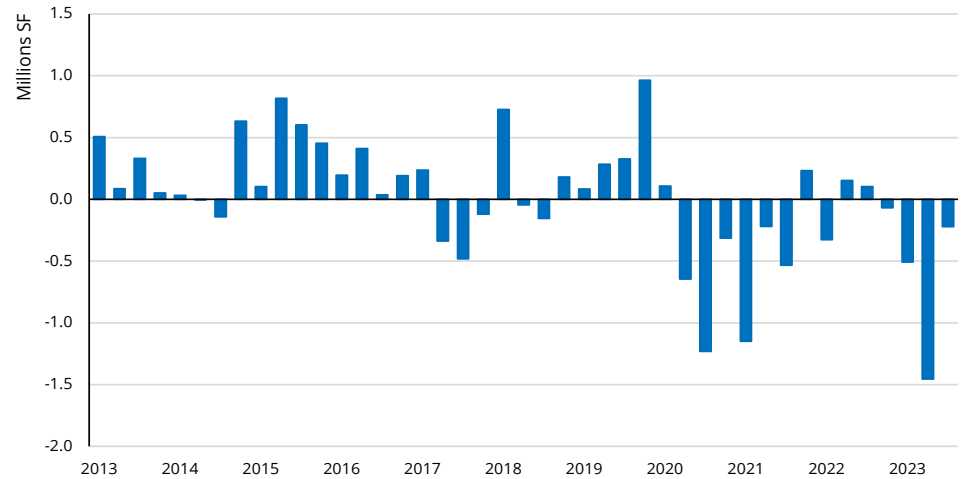


SUPPLY AND DEMAND FUNDAMENTALS

Negative Absorption Continues; Office Occupancy Remains Steady

- 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 222,800 SF in the third quarter, the fourth consecutive quarter in red territory as companies continued to downsize, relocate or give up space altogether. Total net absorption since the start of 2020 stands at negative 6.2 million SF.
- Office occupancy was largely unchanged in Q3 according to data tracked by Kastle Systems, with San Francisco seeing an average of 43.6% of workers swiping into offices for the week of September 20, 2023. San Jose had the lowest of the major metros tracked with a rate of 41.1%, reflecting the Bay Area’s large concentration of tech jobs.

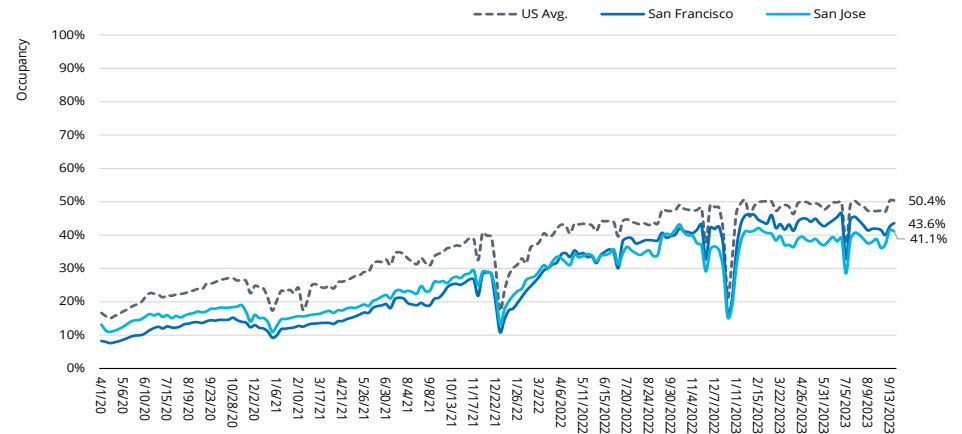
NET ABSORPTION



Source: Transwestern, CoStar, Q3 2023.

BACK TO WORK BAROMETER

Office Occupancy %



Source: Transwestern, Kastle Systems, September 2023.

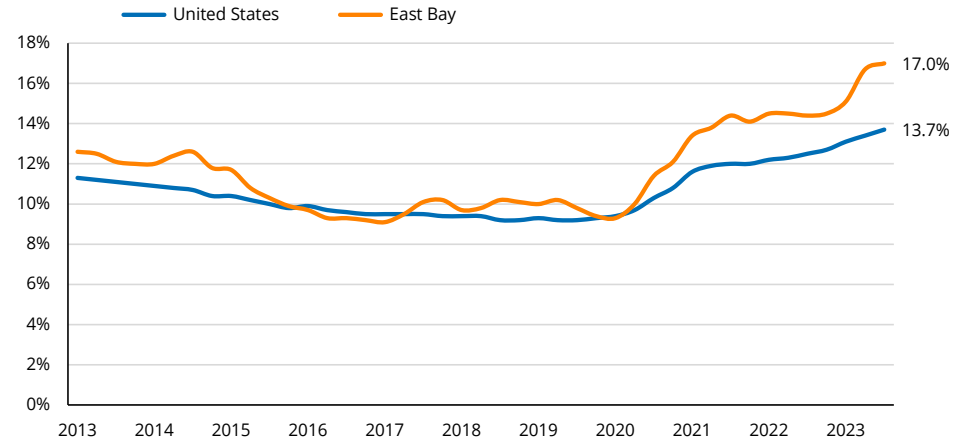


SUPPLY AND DEMAND FUNDAMENTALS

Rise in Vacancy Rate Slows

- In Q3, the overall vacancy rate rose 30 bps on a quarterly basis to 17.0%, the highest level on record.
- Class A vacancy increased 20 bps to 25.9% in Q3 while Class B vacancy rose by 30 bps to end the quarter at a lower rate of 14.7%.
- There was roughly 3.0 million SF of available sublet space, or 3.2% of total inventory. The sublease availability rate is unchanged from one year ago at 3.4% as companies shed more space despite the market's deeply discounted sublet rates.

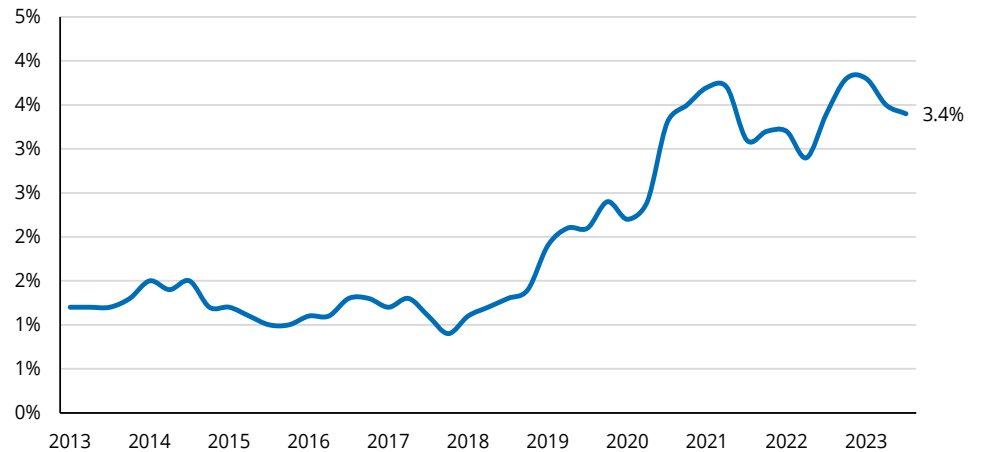
VACANCY RATE



Source: Transwestern, CoStar, Q3 2023.

SUBLEASE AVAILABILITY RATE

SF as % of Inventory



Source: Transwestern, CoStar, Q3 2023.

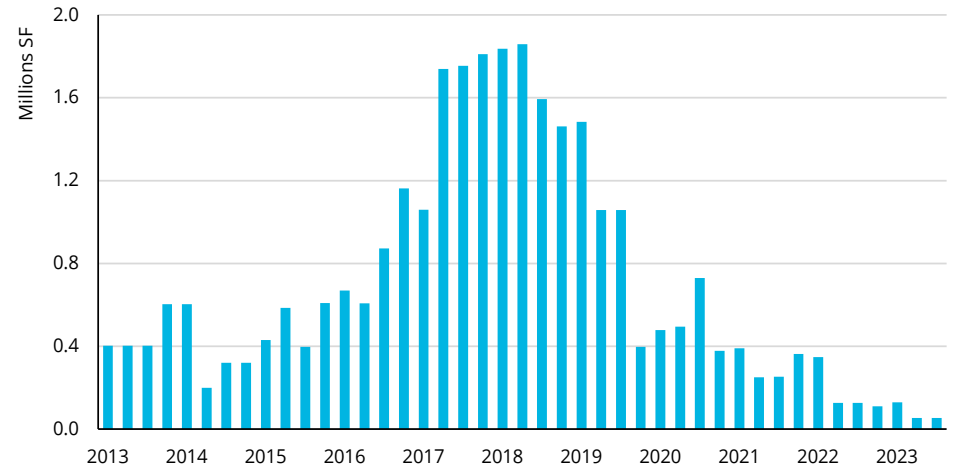


SUPPLY AND DEMAND FUNDAMENTALS

Rent Growth Positive for First Time in Three Years

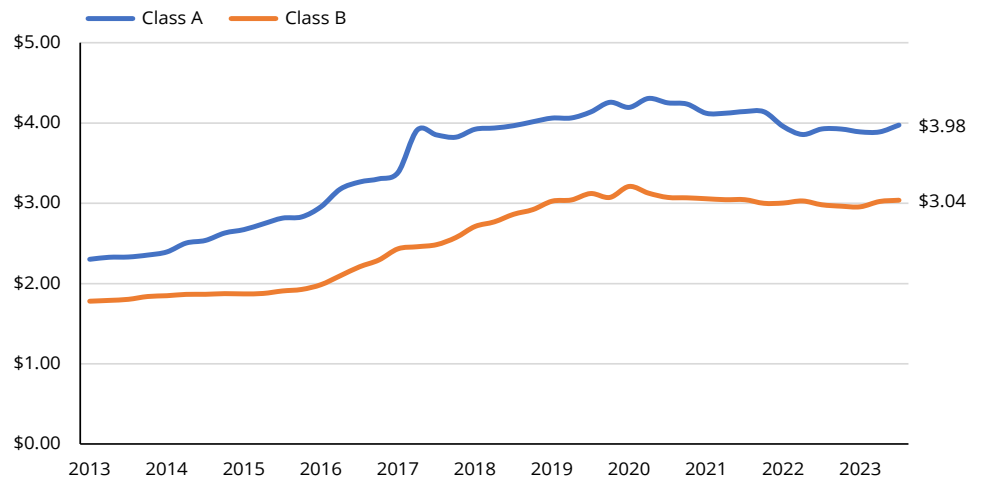
- The current development pipeline is nearly empty. New office construction has moderated over the last several years and there was only 53,700 SF underway during Q3. New construction typically slows when supply exceeds demand. As the market becomes increasingly saturated with vacant space, development will continue to be muted for the remainder of 2023 and beyond.
- With weak office demand, rents remained under pressure. Overall rents grew by 1.6% from Q3 to finish the quarter at a monthly average rate of \$3.39 PSF, the first positive reading since Q2 2020. This compares with a pre-pandemic high of \$3.57.
- By class segment, Class A rent growth was up by 1.2% to end the quarter at \$3.98 PSF while Class B rents rose 1.9% to \$3.04. 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, Q3 2023.

MONTHLY RENTS, \$/SF



Source: Transwestern, CoStar, Q3 2023.



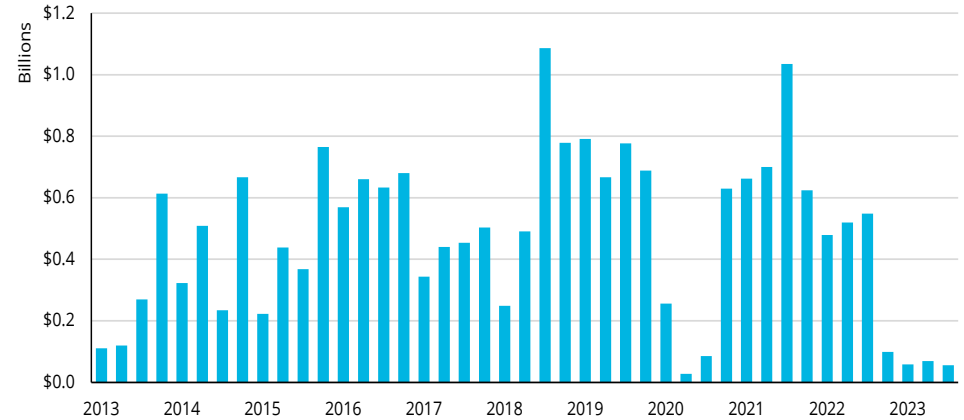
CAPITAL MARKETS

Investment Volume Subdued but Venture Capital Funding Improves

- Office deal volume in Q3 was at a standstill as many banks have stopped issuing loans to office buildings. Volume was just \$55.2 million in a market that typically experienced over \$500 million in quarterly investment during pre-pandemic years.
- Venture capital funding, a driving source of office demand in the tech-heavy San Francisco Bay Area, reached \$18.7 billion during Q3, a 13.6% increase from last quarter's \$16.4 billion. While funding has fallen from pandemic-fueled highs, capital is active and just above of the 2015-2019 quarterly average of \$18.5 billion.

INVESTMENT VOLUME

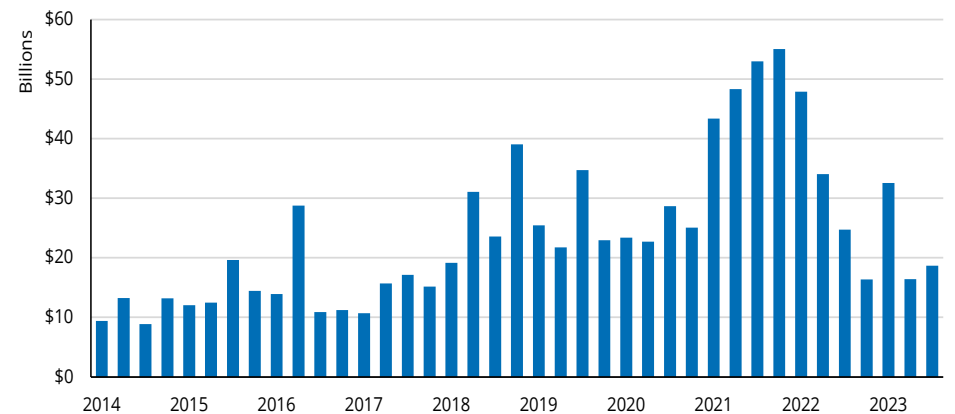
East Bay



Source: Transwestern, MSCI RCA, Q3 2023.

VENTURE CAPITAL FUNDING

San Francisco Bay Area



Source: Transwestern, Pitchbook, Q3 2023.



TOP LEASES

TENANT	ADDRESS	CITY	SF LEASED
DELTA DENTAL PLANS ASSOCIATION	1333 Broadway	Oakland	25,000
BKF ENGINEERS	7901 Stoneridge Dr	Pleasanton	12,238
UNKNOWN	4301 Hacienda Dr	Pleasanton	12,106
UNKNOWN	12647 Alcost Blvd	San Ramon	12,042
FOXIT SOFTWARE INCORPORATION	39355 California St	Fremont	10,603

TOP SALES

ADDRESS	CITY	PRICE (\$ MIL.)	BUILDING SF	BUYER	SELLER
2300 CLAYTON RD	Concord	\$38.2	359,488	California Group	Bridge Investment Grp
39180 LIBERTY ST	Fremont	\$6.5	23,000	Fremont City Council	Robert B Gordon and Marilyn J Gordon Declaration of Trust
2044 VINE ST	Berkeley	\$6.0	12,320	Kristen Todeschini	Hefter & Murphy LLC
51 MORAGA WAY	Orinda	\$5.4	9,308	Mash Petroleum Inc	TRH Holdings LLC
1148 ALPINE RD	Walnut Creek	\$3.1	6,649	Jack & Sylvia Dudum	Schmicker Trust

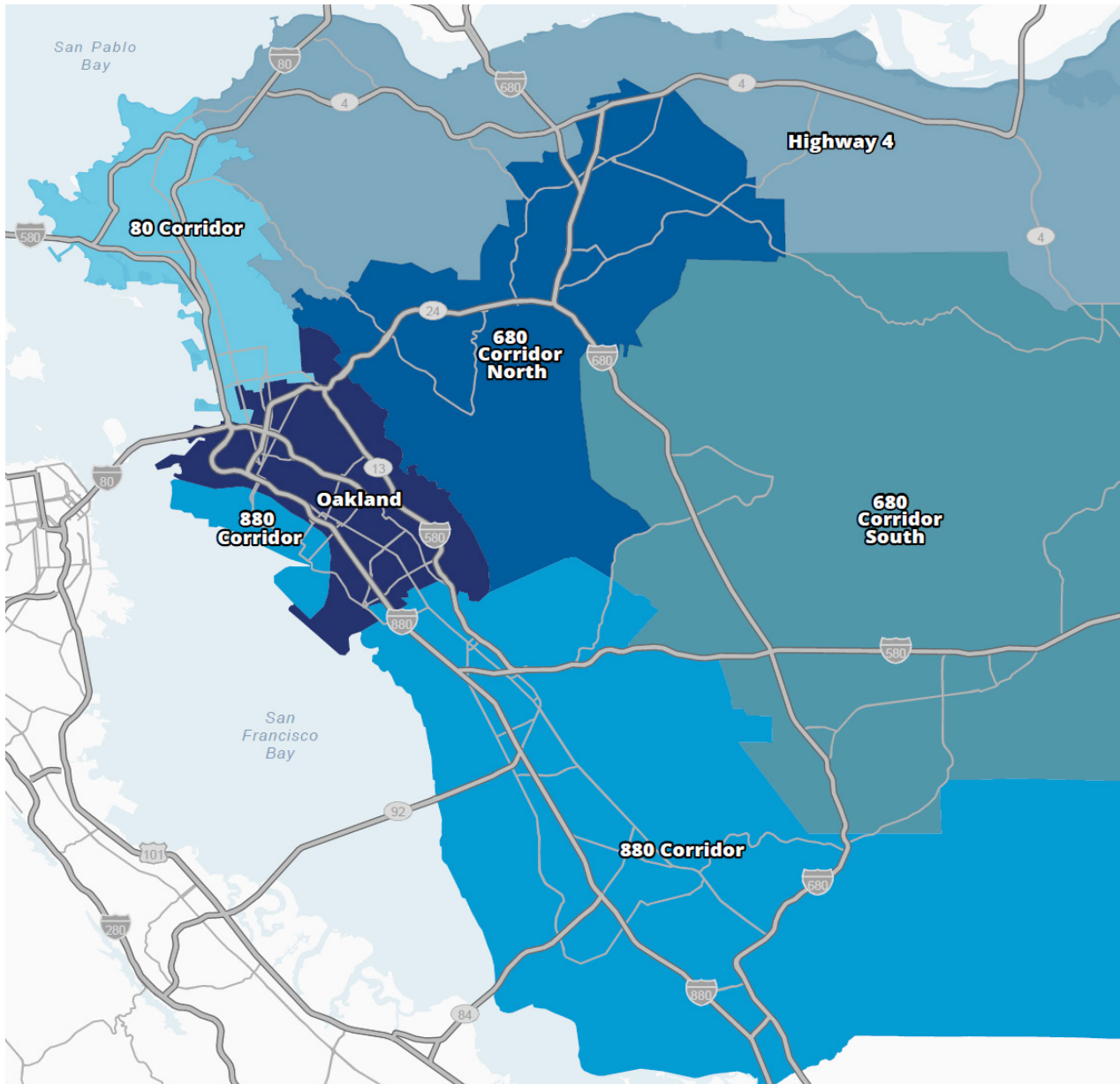
SUBMARKET FUNDAMENTALS

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	17,302,553	58,255	21.3%	59,081	-357,226	0	\$3.11	\$4.03
680 CORRIDOR SOUTH	23,646,074	136,051	18.2%	-29,811	-802,760	0	\$3.05	\$2.84
80 CORRIDOR	10,943,423	64,520	14.7%	-22,377	-35,425	0	\$3.56	\$2.84
880 CORRIDOR	12,959,462	59,030	8.8%	88,721	-264,933	34,905	\$2.51	\$4.03
HIGHWAY 4	2,479,948	10,618	7.1%	20,852	7,298	0	\$2.40	\$2.84
OAKLAND	23,248,156	89,819	19.2%	-339,268	-802,467	18,825	\$4.38	\$2.84
TOTAL	90,579,616	418,293	17.0%	-222,802	-2,255,513	53,730	\$3.39	\$3.35

Source: Transwestern, CoStar, MSCI Real Assets, Q3 2023.



SUBMARKET MAP



FOR MORE INFORMATION

George Entis

Senior Research Manager
george.entis@transwestern.com
415 489 1759

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.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with fresh ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. office, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com.