TRANSWESTERN

EAST BAY OFFICE MARKET

Q4 2023

RISE IN VACANCY SLOWS AND INVESTMENT PICKS UP

Despite high borrowing costs for businesses and consumers, economic conditions in the East Bay metropolitan area remain strong and stable. The unemployment rate was 4.5% in November, unchanged from 4.5% three months ago and remains at historically low levels. The pace of job growth softened to 1.4% year over year as 17,000 jobs were added.

The local labor market remains strong, but hybrid work has led to more vacant space in the East Bay office market. In the fourth 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 251,800 SF of space returned to the market. Consequently, average starting rents fell 3.1% over the quarter to $3.29 PSF. Class A rents dipped 4.0% to $3.82 PSF.

TRENDLINES

	Q4 2023	Q4 2022	CHANGE	FIVE-YEAR AVERAGE
Nonfarm Jobs (Thous.)	1,216	1,168	4.1%	1,159
Office-Using Jobs (Thous.)	266	276	-3.6%	269
Kastle Barometer - Occupancy (%)	46.7	42.5	4.2%	--
Sublease Availability (%)	3.2	3.7	-50	3.0
Net Absorption (Thous. SF)	-252	8	-3113.3%	-219
Overall Vacancy Rate (%)	17.0	14.2	280	12.9
Class A Direct Rents ($/SF)	3.82	3.93	-2.8%	4.06
Under Construction (Mil. SF)	0.0	0.0	0.0%	0.5
12-Mo. Investment Volume ($ Mil.)	397	1,646	-75.9%	2,009
Venture Capital Funding ($ Mil.)	920	1,290	-28.7%	1,689

Source: Transwestern, CA EDD, Kastle Systems, MSCI Real Assets, Pitchbook, CoStar, Q4 2023.
Note: Employment figures as of November 2023. Data not seasonally adjusted.

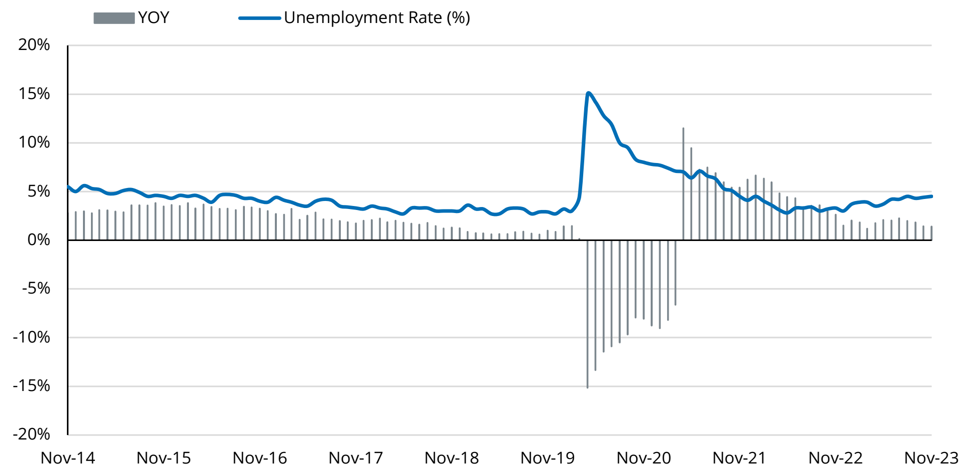
ECONOMY

Job Growth Softens to 1.6% YOY

- The November unemployment rate in the East Bay metro area remained unchanged from three months ago at 4.5%. Though up from 3.3% one year ago, it has been under 5% for nearly two years. It remains a tight labor market but with softening job gains as businesses and consumers facing high borrowing costs.
- With the rise of interest rates cutting back at profits, hiring has gradually slowed over the past two years. In Q4, employers added 17,000 jobs annually, a 1.4% gain over the year.
- Jobs gains were driven by a year-over-year increase of 9.5% in Education and Health Services employment (+9,500 jobs). Construction also made a significant contribution, growing 9.4% and adding 7,100 jobs. Office-using industries lost 10,000 jobs, down 3.6% from one year ago.

UNEMPLOYMENT RATE AND OFFICE-USING JOBS

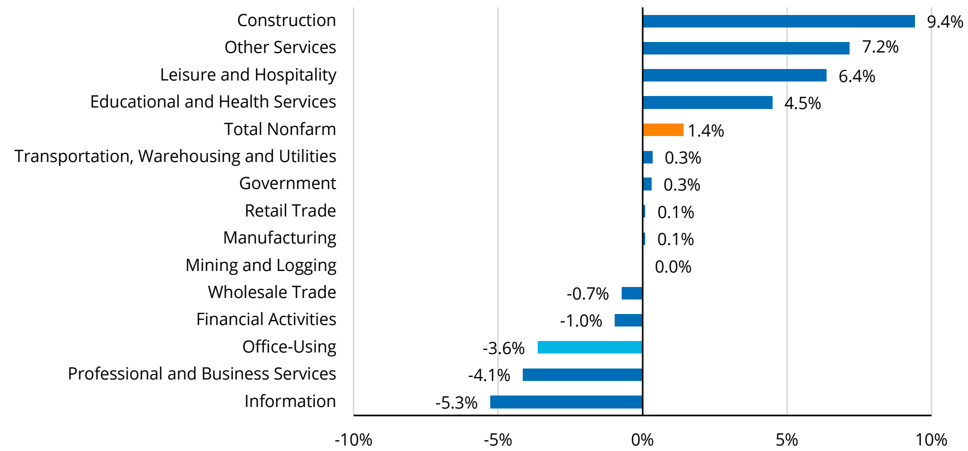
Oakland-Hayward-Berkeley MD



Source: Transwestern, CA EDD, November 2023.
Note: Data not seasonally adjusted.

YOY EMPLOYMENT CHANGE BY INDUSTRY

Oakland-Hayward-Berkeley MD



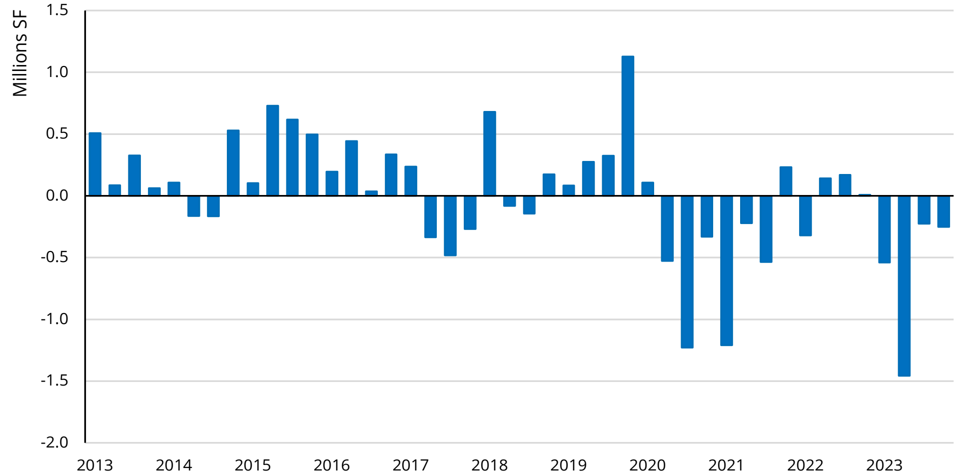
Source: Transwestern, CA EDD, November 2023.
Note: Data not seasonally adjusted.

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 251,800 SF in the fourth 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 6.3 million SF.
- Office occupancy was largely unchanged in Q4 according to data tracked by Kastle Systems, with San Francisco seeing an average of 46.7% of workers swiping into offices for the week of December 13, 2023. San Jose had the lowest of the major metros tracked with a rate of 41.2%, reflecting the Bay Area's large concentration of tech jobs.

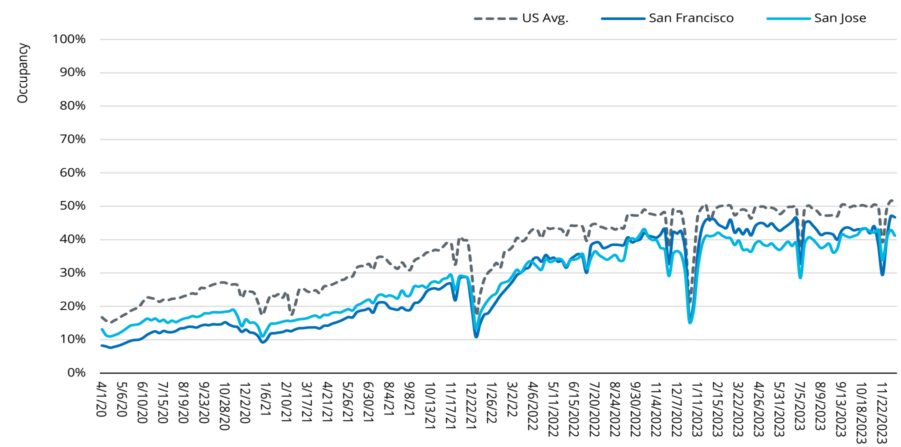
NET ABSORPTION



Source: Transwestern, CoStar, Q4 2023.

BACK TO WORK BAROMETER

Office Occupancy %



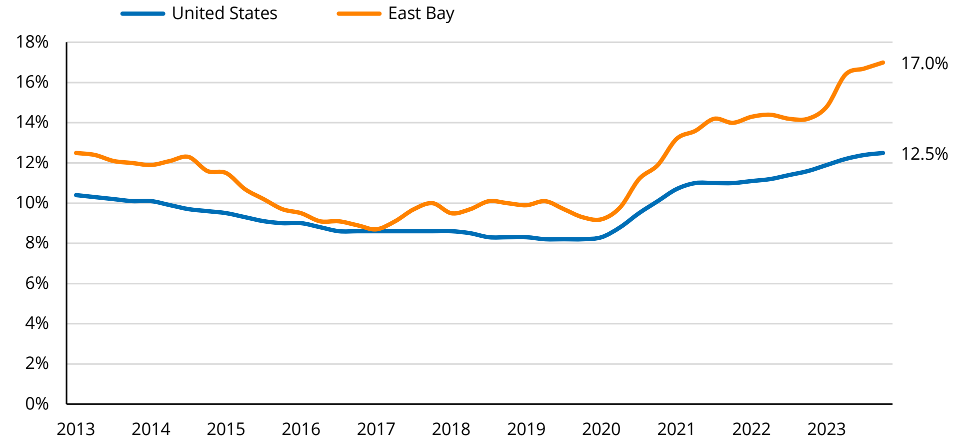
Source: Transwestern, Kastlye Systems, December 2023.

SUPPLY AND DEMAND FUNDAMENTALS

Rise in Vacancy Rate Slows

- In Q4, the overall vacancy rate rose 30 bps on a quarterly basis to 17.0%, the highest level on record.
- Class A vacancy increased 80 bps to 26.1% in Q4 while Class B vacancy remained unchanged at 14.5%.
- There was roughly 2.9 million SF of available sublet space, or 3.2% of total inventory. The sublease availability rate is down 50 bps from 3.7% one year ago, reflecting a stabilizing sublease market.

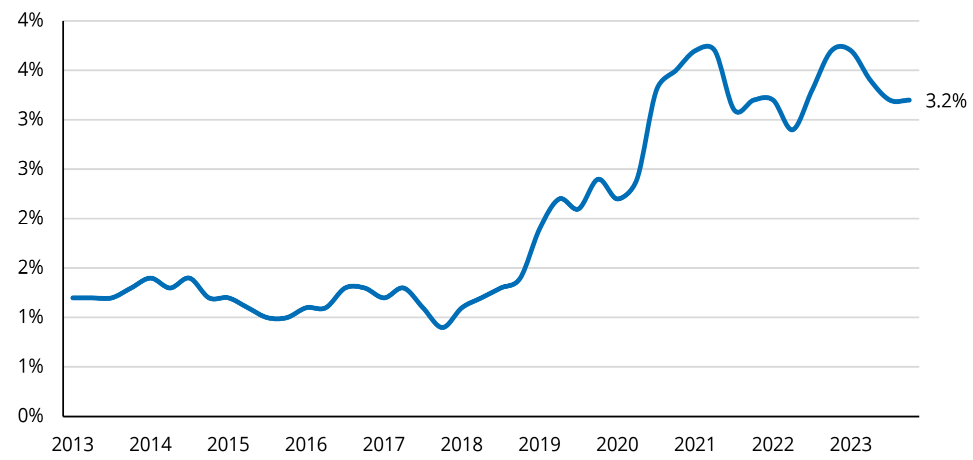
VACANCY RATE



Source: Transwestern, CoStar, Q4 2023.

SUBLEASE AVAILABILITY RATE

SF as % of Inventory



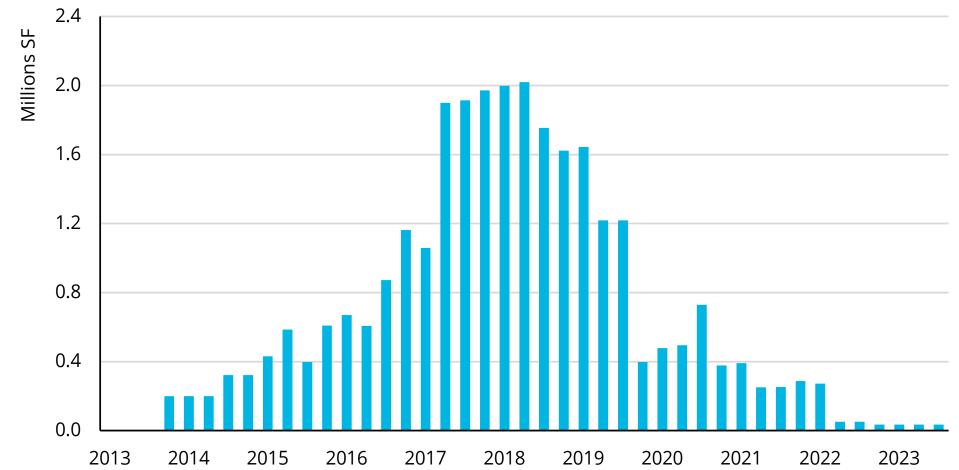
Source: Transwestern, CoStar, Q4 2023.

SUPPLY AND DEMAND FUNDAMENTALS

Rent Growth Remains Steady

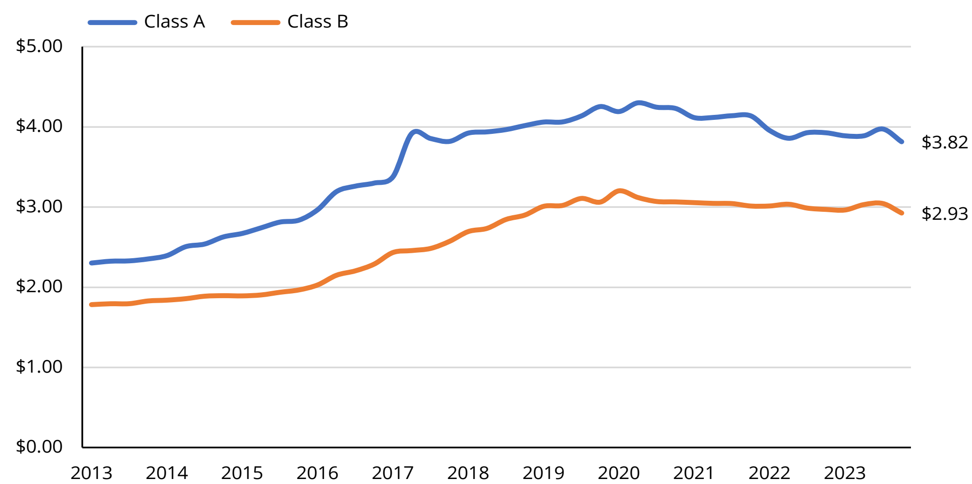
- The current development pipeline is nearly empty. New office construction has moderated over the last several years and there was only 34,900 SF underway during Q4. New construction typically slows when supply exceeds demand. As the market becomes increasingly saturated with vacant space, development will continue to be muted throughout 2024.
- With weak office demand, rents remained under pressure. Overall rents decreased by 3.1% from Q3 to finish the quarter at a monthly average rate of $3.29 PSF. This compares with a pre-pandemic high of $3.56 PSF.
- By class segment, Class A rent growth was down by 4.0% to end the quarter at $3.82 PSF while Class B rents dipped 3.1% to $2.93 PSF. Pre-pandemic peak rents were $4.26 PSF and $3.20 PSF for the two segments, respectively.

UNDER CONSTRUCTION



Source: Transwestern, CoStar, Q4 2023.

MONTHLY RENTS, $/SF



Source: Transwestern, CoStar, Q4 2023.

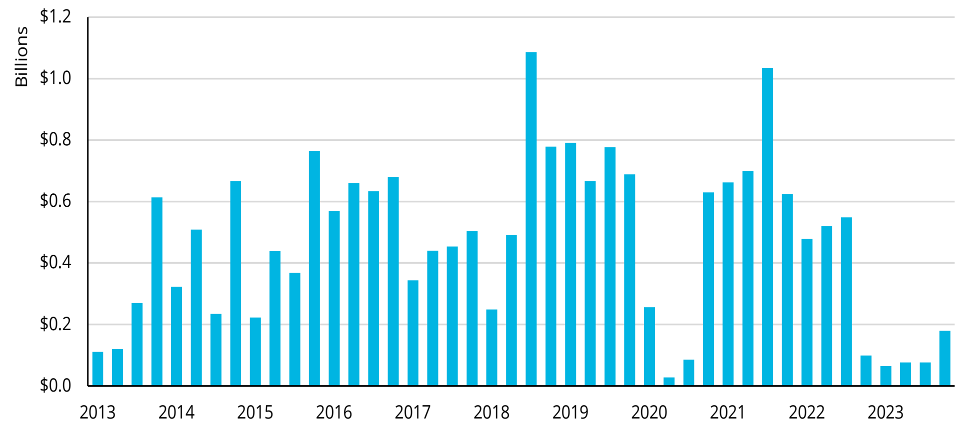
CAPITAL MARKETS

Investment Stalls; VC Funding Returns to Pre-Pandemic Levels

- The office sector recorded $179 million in Q4 deal volume in a market that frequently experienced over $500 million in quarterly investment during pre-pandemic years. Though investment was comparatively weak, it was the strongest performance in five quarters and there were a few notable deals in which buyers and sellers agreed on reduced pricing.
- 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

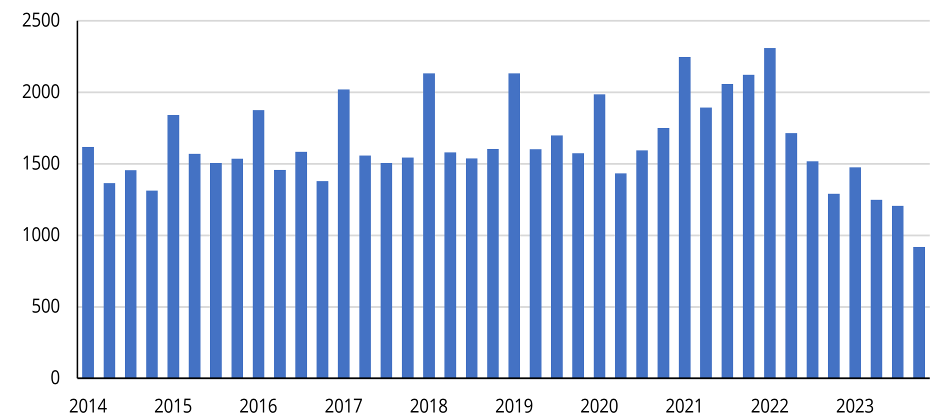
East Bay



Source: Transwestern, MSCI RCA, Q4 2023.

VENTURE CAPITAL FUNDING

San Francisco Bay Area



Source: Transwestern, Pitchbook, Q4 2023.

TOP LEASES

TENANT	ADDRESS	CITY	SF LEASED
CYMABAY THERAPEUTICS, INC	7601 Bumbarton Cir	Fremont	52,416
GSA	1855 Gateway Blvd	Concord	23,907
UNKNOWN	4309 Hacienda Dr	Pleasanton	14,569
UNKNOWN	6111 Bollinger Canyon Rd	San Ramon	12,882
SUTTER BAY MEDICAL FOUNDATION	7683 Southfront Rd	Livermore	12,350

TOP SALES

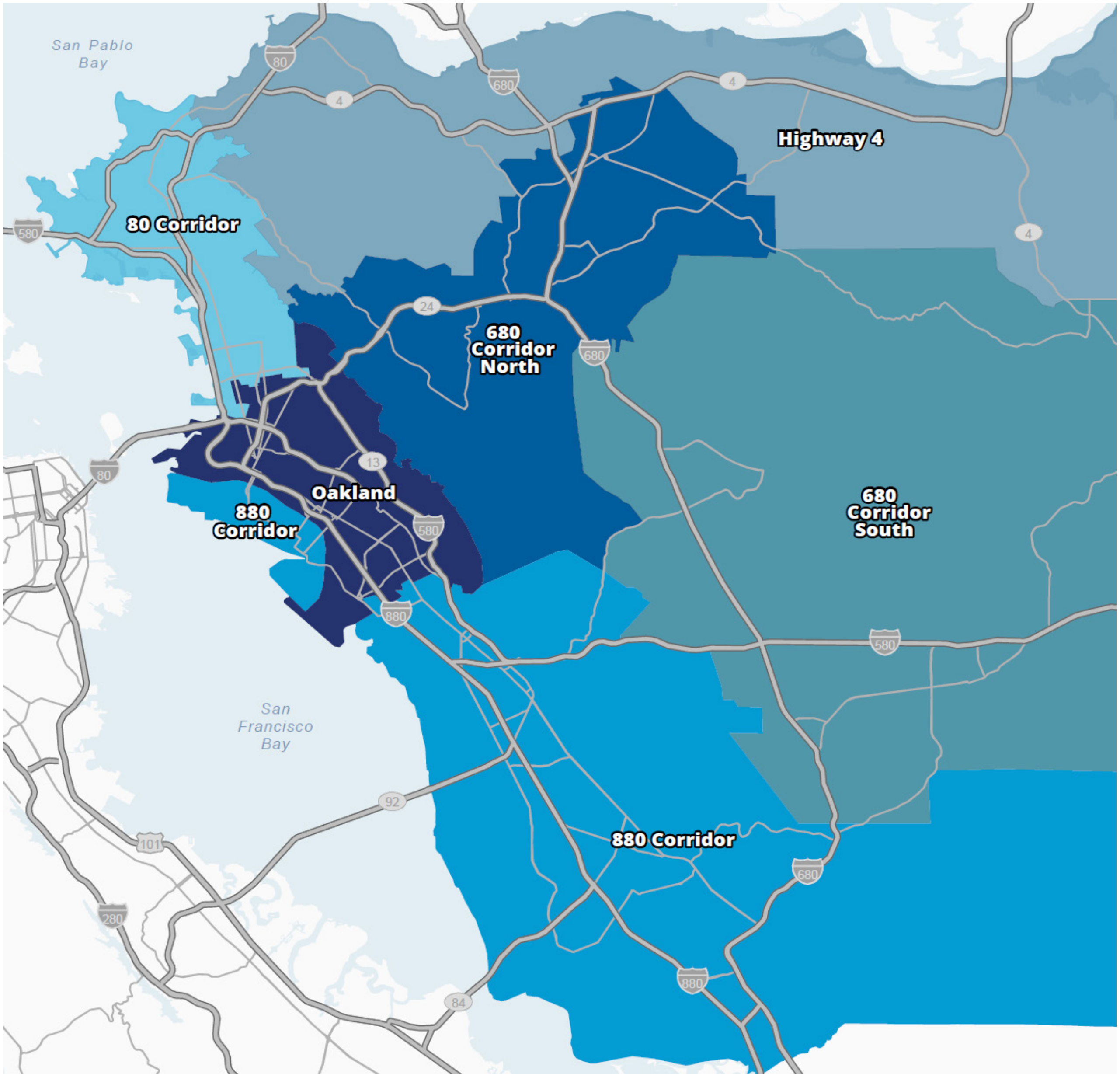
ADDRESS	CITY	PRICE ($ MIL.)	BUILDING SF	BUYER	SELLER
48611 WARM SPRINGS BLVD	Fremont	$40.4	140,980	Hines Interests Limited Partnership	Seagate Properties
1 PORTOLA AVE	Livermore	$35.0	121,735	Lam Research	BNP Paribas
2000 BROADWAY	Oakland	$26.0	105,000	Bay Area Rapid Transit	Kaiser Permanente
1390 WILLOW PASS RD	Concord	$20.0	347,129	Sierra Pacific Props	Harbert Management Corp
101 PORTOLA DR	Livermore	$19.2	246,118	Lam Research	BNP Paribas

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	17,285,564	117,347	22.4%	-187,636	-767,198	0	$2.91	$4.03
680 CORRIDOR SOUTH	23,528,793	129,306	18.2%	7,644	-679,271	0	$3.07	$2.84
80 CORRIDOR	10,316,610	37,905	12.8%	-54,463	-40,992	0	$4.05	$2.84
880 CORRIDOR	12,997,229	108,009	8.5%	42,678	-47,200	34,905	$2.47	$4.03
HIGHWAY 4	2,520,180	12,496	7.3%	421	-13,864	0	$2.43	$2.84
OAKLAND	23,438,143	78,298	19.3%	-60,468	-925,403	0	$4.25	$2.84
TOTAL	**90,086,519**	**474,215**	**17.0%**	**-251,824**	**-2,473,928**	**34,905**	**$3.40**	**$3.35**

Source: Transwestern, CoStar, MSCI Real Assets, Q4 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.

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.