

MARKET TRENDS

# I-680 CORRIDOR / TRI-VALLEY OFFICE



*2022 was a challenging year in the Tri-Valley to own and lease office buildings with a dearth of users re-occupying office space.*

The year passed with just a few large deals inked and relatively no small tenant activity from 1,000 to 10,000 square feet. These users are not yet back in the market and without their return to the office, the core Tri-Valley multi-tenant office market will continue to languish. The narrative of 2022 portends to an ominous 2023 as it relates to multi-tenant office in the Tri-Valley. Contrary to office, 2022 was a continuation of a healthy office/flex market with rents trending

upward and vacancy remaining tight. That said, this sector slowed a bit in the fourth quarter 2022 and there is evidence of abating demand with increased vacancy.

It has been nearly three years since the onset of Covid19 and that disastrous phenomena has fundamentally changed companies' approach to office space needs both current needs and projected future needs. There is not just one strategy in approaching office needs and certainly, generally speaking, that strategy is a moving target. Caution in both over commitment of square footage and lease term being the prevailing themes. A return to "normal" will not soon be the "2019 normal" but hopefully will involve a drive to bring employees back to the office in 2023.

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## NOTABLE SALE TRANSACTIONS

The Paul & Eleanor Sade 1985 Trust purchased 5775 W Las Positas Blvd, Pleasanton from Briggs Development Coporation 39,436 SF | \$21M or \$532.51/SF

American Home Health Care purchased 7031 Koll Center Pkwy, in Pleasanton from Westmar I 7031, LLC & ACRE Nodar 7031, LLC 7,570 SF | \$2.7M or \$350/SF

Antonio Accardo purchased 301-325 Ray St, Pleasanton from Nelda Matheny & James Clark 2,613 SF | \$1.6M or \$621.89/SF

University Avenue Partners purchased 2551 San Ramon Valley Blvd, San Ramon from Link Logistics Real Estate 52,149 SF | \$11.3M or \$215.73/SF

## NOTABLE LEASE TRANSACTIONS

Pac 12 Enterprises LLC leased 12647 Alcosta Blvd, San Ramon 42,090 SF (Office)

Tailor Brands leased 5601 Arnold Rd, Dublin 31,796 SF (Office) subleased

Pulte Home Company leased 4511 Willow Rd, Pleasanton 25,560 SF (Office/Flex) renewal

Sharp Business Systems leased 5700 Stoneridge Dr, Pleasanton 18,900SF (Office/Flex) renewal

Kinetic Systems leased 4309 Hacienda Dr, Pleasanton 7,996 SF (Office)

At the close of 2019, the fourth quarter statistics for multi-tenant Tri-Valley office space reflected Class A weighted average asking rents at \$3.21 per sq. ft. per month Full-Service rents. That weighted average today is \$3.01 and we expect that to be 5% to 10% lower by year end 2023. Direct vacancy in multi-tenant Class A Tri-Valley office in Q4 2019, prior to the onset of Covid19, was at 15.09% and today is at 23.98% that does not include 1,101,400 sq. ft of market sublease space in the sector or an additional 10.36%.

The fourth quarter 2022 was highlighted by two Tri-Valley users offering direct space for lease in their owner/user properties. Ross Stores put two floor plates (1st and 4th floors) on the market (72,750 sq. ft.) at Emerald Point in Dublin, 5130 Hacienda Drive. Similarly in Pleasanton, Oracle has commenced marketing one of their two user buildings for lease on a direct basis. This offering is for a full building at 174,024 sq. ft at 5805 Owens Drive. In addition to these new availabilities, rumors circulate that State Compensation Insurance Fund may offer direct space in one of their two owner/user properties on Owens Drive, Pleasanton (5880 and 5890 Owens Drive). On the sublease front, Rimini Street put their HQ building at Sycamore Terrace (6601 Koll Center Parkway, Pleasanton) out for sublease at 69,588 sq. ft.

On a positive note, for the Tri-Valley multi-tenant office sector, Bishop Ranch inked the biggest deal of the quarter in landing Pac 12 Enterprises at Bishop

Ranch 15 (42,090 sq. ft, 12647 Alcosta Blvd., Suites 410 and 500, San Ramon) in their relocation from San Francisco. Tailor Brands, relocating from Fremont, subleased 31,796 sq. ft at 5601 Arnold Road, Dublin. They will also sublease 17,416 sq. ft of office/flex space at Dublin Technology Park.

The office/flex sector was active in large lease renewals. Office/flex rents are at \$2.24 per sq. ft. per month adjusted to Full-Service rents and vacancy in the class is at just 5.01%. With limited competitive relocation properties on the market, office/flex renewals transact with landlord leverage verse the office sector where tenants hold the upper hand. Pulte Home Company renewed their lease at Diablo Tech (4511 Willow Road, Pleasanton), in maintaining their 25,560 sq. ft at the property. Sharp Business Solutions, also within the Hacienda Business Park at Britannia Business Center II) renewed in their 18,900 sq ft. Similarly, Convergint renewed and expanded their leasehold at The Arbor, 5860 W. Las Positas, Pleasanton. Their footprint is now 25,061 sq ft of office/flex space in the Hacienda Business Park.

On the sales front, and most notably, the Pleasanton Unified School District ("PUSD") purchased 5758-5794 W. Las Positas Blvd., Pleasanton from Embarcadero Capital Partners. This 113,638 sq. ft. two building project sold for \$23.5MM (\$206/sf). The property offers nearly 75,000 sq. ft available for the PUSD's use with Gatan Inc. occupying the balance.

At this juncture it is difficult to predict a robust leasing year for Tri-Valley multi-tenant office properties. That said, we do expect a mild return to the office as Covid19 moves off page one of the news with layoffs and a potential pending recession being the driver for employees to want to return to the office for "face time" or to demonstrate their value in looking to hold their jobs and collaborate to turn any tides of slowing business. Similarly, look to decision makers to urge their troops back into the office to rally into the next business cycle. We do expect erosion of asking rents and increasing vacancy as users continue to downsize and right size into a more efficient space plan that accommodate continue work from home for a segment of their employees.

The reflected office statistics are exclusive to competitive, multi-tenant Class A and B office projects as well as multi-tenant office-flex properties and is exclusive of single tenant or owner user buildings:

### TRI-VALLEY OFFICE MARKET

|                              | Class A    | Class B   | Total      | Flex      |
|------------------------------|------------|-----------|------------|-----------|
| Market Inventory (SF)        | 10,636,400 | 4,521,070 | 15,157,470 | 4,753,811 |
| Weighted Average Asking Rent | \$3.19     | \$2.59    | \$3.01     | \$2.24    |
| Vacancy                      | 23.98%     | 17.83%    | 22.14%     | 5.01%     |
| Marketed Sub-Lease Space     | 1,101,400  | 133,657   | 1,235,057  | 168,299   |

### PLEASANTON

|                              | Class A   | Class B   | Flex      |
|------------------------------|-----------|-----------|-----------|
| Market Inventory (SF)        | 3,748,812 | 1,365,427 | 1,500,846 |
| Weighted Average Asking Rent | \$3.16    | \$2.59    | \$2.86    |
| Vacancy                      | 28.93%    | 15.20%    | 11.60%    |
| Marketed Sub-Lease Space     | 431,875   | 52,504    | 79,045    |

### DUBLIN

|                              | Class A   | Class B | Flex    |
|------------------------------|-----------|---------|---------|
| Market Inventory (SF)        | 1,267,209 | 533,196 | 976,098 |
| Weighted Average Asking Rent | \$3.34    | \$2.18  | \$2.39  |
| Vacancy                      | 18.51%    | 10.89%  | 1.74%   |
| Marketed Sub-Lease Space     | 111,857   | 0       | 10,887  |

### SAN RAMON

|                              | Class A   | Class B | Flex    |
|------------------------------|-----------|---------|---------|
| Market Inventory (SF)        | 5,620,379 | 594,350 | 222,217 |
| Weighted Average Asking Rent | \$3.29    | \$2.42  | \$2.27  |
| Vacancy                      | 21.90%    | 19.34%  | 5.08%   |
| Marketed Sub-Lease Space     | 557,668   | 2,351   | 48,931  |

### LIVERMORE

|                              | Class A | Class B | Flex      |
|------------------------------|---------|---------|-----------|
| Market Inventory (SF)        | 0       | 860,190 | 2,054,650 |
| Weighted Average Asking Rent | N/A     | \$2.02  | \$1.72    |
| Vacancy                      | N/A     | 33.31%  | 1.74%     |
| Marketed Sub-Lease Space     | 0       | 71,161  | 29,436    |

### DANVILLE/ALAMO

|                              | Total     |
|------------------------------|-----------|
| Market Inventory (SF)        | 1,167,907 |
| Weighted Average Asking Rent | \$3.27    |
| Vacancy                      | 13.48%    |
| Marketed Sub-Lease Space     | 7,641     |

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### COMMERCIAL BROKERAGE

|                 |                             |
|-----------------|-----------------------------|
| <b>49.7M</b>    | <b>43.7M</b>                |
| ANNUAL SALES SF | ANNUAL LEASING SF           |
| <b>470+</b>     | <b>\$10.9B</b>              |
| NO. OF BROKERS  | TRANSACTION VOLUME ANNUALLY |

### ASSET SERVICES

|                         |                         |
|-------------------------|-------------------------|
| <b>52M</b>              | <b>875+</b>             |
| MANAGEMENT PORTFOLIO SF | ASSETS UNDER MANAGEMENT |

### VALUATION ADVISORY

|                      |                           |
|----------------------|---------------------------|
| <b>2,600+</b>        | <b>48/25</b>              |
| ASSIGNMENTS ANNUALLY | TOTAL NO APPRAISERS/MAI'S |

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