



BAKERSFIELD

Office Market Trends

2023

YEAR END

“Rental rates are increasing, length of the average lease is being extended and tenants, more aware of the increased costs, are in some instances willing to participate for the benefit higher quality office space.”



2023 In Review ...

For the second consecutive year, the Bakersfield Office Market squeezed availability of office space downward. The market absorbed over 90,000 square feet of offices space in 2023 despite the limited development of new projects. Vacancy rates dropped 33 basis points year over year. While not a huge drop in the vacancy rate, the 8.47% vacancy rate overall is reflective of a very tight market. Our office market is stabilized, yet still absorbing space. The University Centre Submarket actually increased vacancy by 206 basis points. This is reflective of one office building becoming vacant which we understand has a pending lease. Due to leasing activity and negotiations during late 2023, we anticipate vacancies in the submarket to approach historical lows under 5%. The Southwest Submarket experienced the largest reduction of its vacancy situation over the last year. Vacancy rates for the submarket overall decreased 217 basis points with the most dramatic improvement in the Class A sector seeing a reduction of a whopping 409 basis points! Leasing activity in both the Central Submarket and the Northwest Submarket was moderate, in fact both submarkets had modest increases in vacancy during the calendar year.

Historically, two consecutive years of declining vacancy at rates under 10% would trigger new development and plans would be announced for preleasing of new office projects. More recently, similar conditions would offer opportunities for speculative developers to begin construction on projects to attempt to capture the growing tenant demand or the maturing firm searching for upgrades to their office environments. Could 2024 be the year that new projects are announced? **Consider the factors that have stymied new office development since the pandemic in 2020:**

- Higher interest rates place downward pressure on borrowing power for developers and owner/users.
- Dramatic increases in pricing of construction materials and construction labor costs over a 2+ year period.
- Delays in availability of critical materials in commercial constructions such as switch gear.

In 2024, we expect to see modifications to each of these factors. Interest rates appear to have peaked in the 3rd quarter of 2023 and some economists feel that slowing inflation could lead to decreasing interest rates later in the year. Slowly, construction costs have leveled off, while not decreasing, potentially establishing a new normal for the cost of construction. The supply pipelines are filling up once again and products are being delivered on schedule, for the most part. If there are delays in delivery, they are not as dramatic as the experiences from 2020 through early 2023. The concept of working from home took hold for many office users during the pandemic.

Things have changed as reflected in the office market statistics in 2022 and 2023. Users are back in the office even if they are implementing a partial hybrid strategy of blended office and work from home schedules.

Another factor affecting the market is that the buildings located at 1200 Truxtun Avenue, 901 Tower Way, 1001 Tower Way and 1400 Forum Way ranging from 26,000 square feet to 45,000 square feet were sold to users during 2023. While the building on Forum Way sold from user to user, the other sales will have an impact on direct vacancy for the foreseeable future as those buildings will reduce any available space for lease while occupied by the owners.



Recent trends indicate increases in offering rental rates that will spur higher contract rates. The first signs are in the University Centre Submarket that will eventually trickle down to the other submarkets. The impact of increased operating costs and the leveled off and still all-time expensive tenant improvement costs leave building owners no choice but to push rental rates. We have seen inflationary pressure in all aspects of life over the last few years and now we will see it further affect the Bakersfield Office Market. The market forces appear to be trending upward locally. Rental rates are increasing, length of the average lease is being extended and tenants, aware of the increased costs, are in some instances willing to participate for the benefit higher quality office space. Should these trends continue well into 2024, we expect opportunistic developers to return to the market with plans for new projects that will provide relief to a market that is poised to absorb it.

Current Conditions



Two consecutive years of declining vacancy



Continued shifting away from the "work from home" phenomenon



Construction costs appear to be leveling off in the second half of 2023

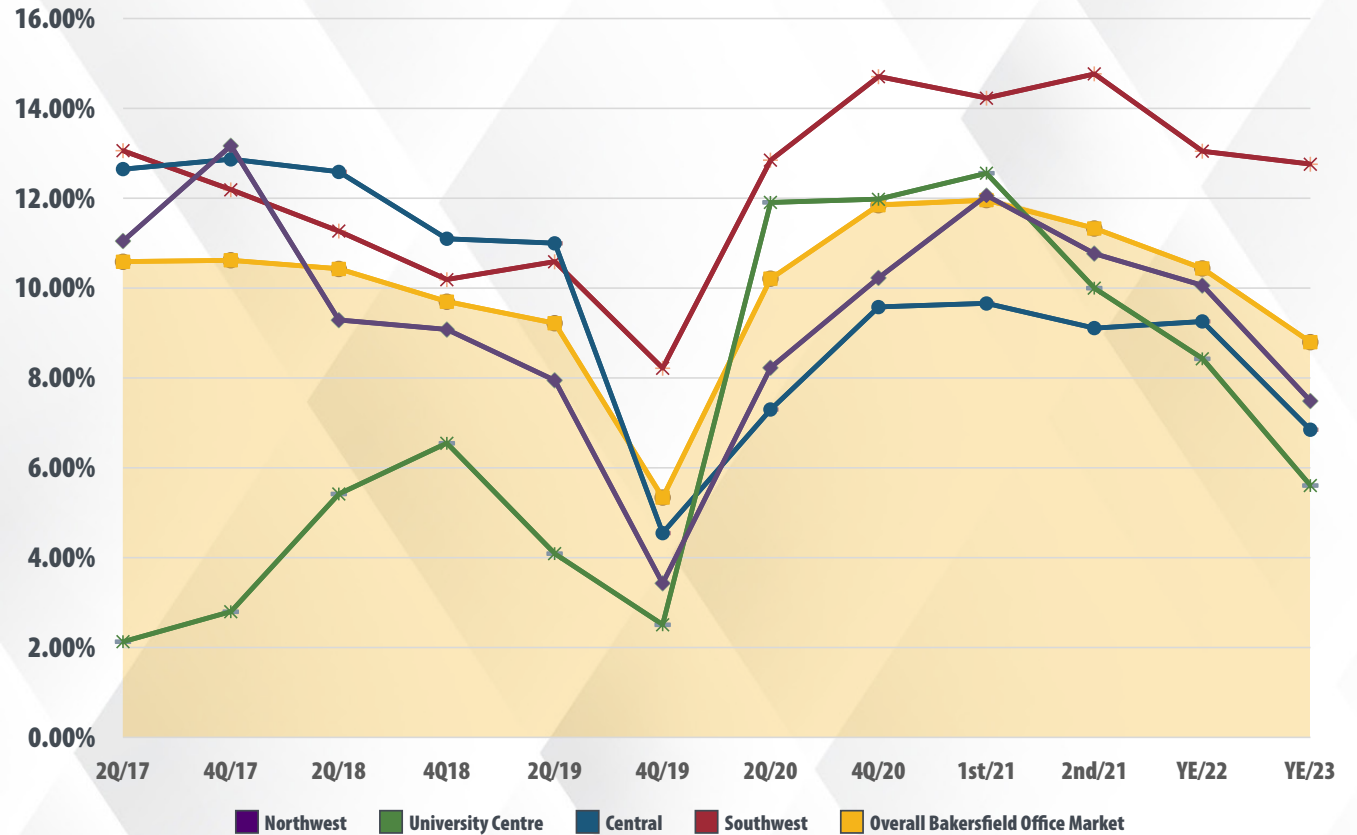


Increase in the average length of lease, especially in the University Centre Submarket



Projecting market wide increases in both offering rental rates and contract rental rates

Vacancy Statistics Chart



- Represented the Landlord in the leasing of 26,752 SF of office/warehouse space at **2823 Gibson Street**.
- Represented the Tenant in leasing 3,413 SF at **1100 Mohawk Street**.
- Leased 2,149 SF of space at **9100 Ming Avenue** while representing both parties.
- Represented the Landlord in the renewal of a lease for 5,153 SF at **5151 Stockdale Highway**.
- Leased 7,107 SF at **4200 Truxtun Avenue** for the benefit of the Landlord.
- Represented the Landlord in renewing a lease for 18,122 SF at **4200 Truxtun Avenue**.
- Represented the Landlord in the extension of a lease for 46,00 SF at **1200 Discovery Drive**.
- Leased 13,659 SF at **11001 River Run Boulevard** for the Landlord.
- Sublet 5,306 SF at **Ming Office Park** for the Master Tenant.
- Represented the Tenant in the leasing of 20,000 SF of warehouse space at **1201 Citation Way**.
- Represented the Landlord and Tenant in leasing 1,941 SF at **5201 California Avenue**.
- Represented the Landlord in leasing 9,396 SF of office space to the Judicial Council of California at **1430 Truxtun Avenue**.
- Represented the Landlord and Tenant in leasing 2,123 SF of office space at **5555 California Avenue**.
- Represented the Landlord in leasing 4,819 SF of office/warehouse space at **6906 McCutchen Road**.
- Represented the Landlord and Tenant in leasing 5,125 SF of office/warehouse space at **6906 McCutchen Road**.
- Represented the Landlord and Tenant in leasing 3,430 of retail/office space at **810 Brundage Lane**.
- Represented the Tenant in leasing 2,215 SF of office space at **1401 Commercial Way**.
- Represented the Landlord and Tenant in Leasing nearly 15,000 SF of office space at **4800 Corporate Court**.
- Negotiated a renewal on behalf of the Landlord and Tenant for 11,000 SF of office/warehouse space at **12556 Jomani Drive**.
- Negotiated a renewal on behalf of the Landlord for 9,600 SF of office/warehouse space at **4824 Rosedale Lane**.
- Represented the Landlord in leasing 9,600 SF of office/warehouse space to Caliber Collision at **4856 Rosedale Lane**.
- Represented the Tenant in leasing 1,398 SF of office space at **2100 F Street**.
- Negotiated a renewal on behalf of the Landlord for 9,342 SF of medical office space at **4500 Morning Drive**.
- Negotiated a renewal on behalf of the Landlord and Tenant for 7,994 SF of office space at **9201 Camino Media**.
- Represented the Landlord and Tenant in leasing 5,000 SF of office/warehouse space at **2334 Perseus Court**.
- Represented the Landlord in leasing 1,399 SF of retail/office space at **2720 Calloway Drive**.



Sales Transactions

- Represented the Buyer in the acquisition of the 27,000 SF office building at **1200 Truxtun Avenue**.
- Represented the Buyer in the acquisition of the 26,600 SF office building at **901 Tower Way**.
- Represented the Buyer in the acquisition of the 30,600 SF office building at **1001 Tower Way**.
- Represented the Seller in selling a 3,288 SF office building at **4664 American Avenue**.
- Sold 60 acres of land at **Pioneer Drive and Edison Road** for the Seller.
- Represented the Seller in the disposition of a 15,200 SF retail building at **3600 Stine Road**.
- Represented the Seller in the sale of a 5,933 office/warehouse building at **3405 East Tulare Street, Fresno, CA**
- Represented the Buyer in the purchase of a 35,512 SF office/warehouse building at **100 Sycamore Road, Arvin, CA**.
- Negotiated the sale of a 15,200 SF retail building at **3600 Stine Road** on behalf of the Seller.
- Sold the multi-tenant office building located at **601 High Street in Delano** consisting of 9,931 SF.
- Sold the 4,583 SF office building at **300 Truxtun Avenue**.



Submarket Aerial Map

Northwest University Centre Central Southwest

Northwest

Size **916,874 SF**
Vacancy **6.89%**
12-Mo. Change **↓ 60 basis points**

Central

Size **3,808,781 SF**
Vacancy **7.29%**
12-Mo. Change **↓ 44 basis points**

Southwest

Size **3,242,479 SF**
Vacancy **10.59%**
12-Mo. Change **↓ 217 basis points**

University Centre

Size **1,375,987 SF**
Vacancy **7.67%**
12-Mo. Change **↑ 206 basis points**



Submarket Summary

Submarkets	RBA	Avail SF	Vac %	Avg Rent	Absorption
Southwest A	1,153,736	166,745	14.45%	2.00	47,211
Southwest B	1,282,723	138,097	10.77%	1.89	28,143
Southwest C	806,000	38,559	4.78%	1.52	4,243
Southwest Totals	3,242,479	343,401	10.59%	1.84	79,597
Central A	1,524,371	56,669	3.72%	2.03	7,811
Central B	1,189,840	54,263	4.56%	1.90	11,224
Central C	1,094,570	166,884	15.25%	1.55	(6,745)
Central Totals	3,808,781	277,816	7.29%	1.88	12,290
University Centre A	1,114,026	37,300	3.35%	2.56	20,925
University Centre B	261,961	68,232	26.05%	2.42	(44,826)
Uni. Centre Totals	1,375,987	105,532	7.67%	2.54	(23,901)
Northwest	816,874	56,249	6.89%	2.31	22,526
Northwest Totals	816,874	56,249	6.89%	2.31	22,529
Grand Total	9,244,121	782,998	8.47%	2.05	90,512
Overall A	4,609,007	316,963	6.88%	2.24	98,473
Overall B	2,734,524	260,592	9.53%	1.94	(5,459)
Overall C	1,900,590	205,443	10.81%	1.54	(2,502)

* Absorption square footage and percentage are compared to previous quarter

**Average Rent is Full Service Gross



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- ASU Commercial is a full services office brokerage team with more than 70 years of combined experience in the local Bakersfield market to assist you with your real estate needs. Our group provides representation and consultation services for both landlords and tenants. We also actively represent buyers and sellers of both commercial office investment properties and owner/user office facilities.
 - Success can be measured by many things, however, we believe the best measurement is the duration of our relationships with our clients. Ultimately, our success can only come through their success.
- ASU Commercial is dedicated to establishing long-lasting client relationships and maintaining a strong commitment to our growing community.
- For more information regarding our services, please contact the Office Services Group at 661.862.5454.
 - The information contained herein may have been obtained from sources other than ASU Commercial. We have not verified such information and make no guarantees, warranties or representations about such information. It is your responsibility to independently confirm its accuracy and completeness prior to purchasing/leasing the property.



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